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December 22, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Bolivia—Staff Report for the 1999 Article IV Consultation and Request for Second Annual Arrangement Under the Poverty Reduction and Growth Facility**

Attached for consideration by the Executive Board is the staff report for the 1999 Article IV consultation with Bolivia and its request for the second annual arrangement under the Poverty Reduction and Growth Facility. A draft decision appears on page 19. This subject, together with the interim poverty reduction strategy paper for Bolivia (to be issued shortly), will be brought to the agenda for discussion on a date to be announced.

Mr. Terrier (ext. 38620) and Mr. D. Dunn (ext. 38609) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Pursuant to the authorities' decision to participate in the pilot project for the voluntary release of Article IV consultation staff reports and in accordance with Executive Board Decision No. 11973-(99/58), adopted June 3, 1999, the attached report shall be published after the Executive Board completes its discussion of the report.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 3, 2000; and to the European Commission, the European Investment Bank, and the Inter-American Development Bank, following its consideration by the Executive Board.

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BOLIVIA

Staff Report for the 1999 Article IV Consultation and Request for Second Annual Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Western Hemisphere Department

(In consultation with other departments)

Approved by Claudio M. Loser and Jesús Seade

December 21, 1999

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EXECUTIVE SUMMARY

Recent developments

- Largely reflecting the slowdown in Latin America, **real GDP** growth is estimated to have fallen by about half to some 2 percent in 1999, while **CPI inflation** has declined to about 3 percent. The **external current account** deficit is projected to narrow from 7.9 percent of GDP in 1998 to 6.3 percent in 1999, partly due to the slowdown in domestic demand. In the capital account, foreign direct investment has remained strong, but there were partly offsetting private flows in the form of repayment of bank short-term credits. In the **public sector**, the slowdown in economic activity led to a significant tax revenue shortfall, which was offset by higher nontax revenue together with spending restraint. **All the end-September financial benchmarks of the program were met.**
- Key **structural reforms** have continued to be implemented in 1999, although in some cases there were delays. A new customs law was issued in July, establishing an autonomous customs administration with its own budget and resources. In the area of privatization, the sale of the refineries of the state petroleum company YPF was completed in mid-November, and that of the state smelting company Vinto took place in December 1999.

Policy discussions

- The proposed **program for 2000** aims at containing inflation within a range of 4–4.5 percent and achieving a small increase in net official international reserves, while allowing for some widening in the external current account deficit. Output growth is expected to pick up to about 4 percent.
- The overall **combined public sector deficit** is projected to decline from 4.2 percent of GDP in 1999 to 3.7 percent in 2000. Increased tax revenue is expected to be generated by the ongoing reform of customs and a strengthening in the legal base for tax enforcement. The authorities have requested FAD technical assistance to modernize the domestic tax system.
- In 2000 the authorities plan to continue depreciating the currency with a view to improving external competitiveness. They intend to deepen **structural reforms**, complete their privatization program, and introduce more flexibility in labor regulations.
- The authorities intend to significantly **strengthen their anti-poverty efforts** in 2000. They plan to conduct a national dialogue with civil society during the first quarter, which will serve to define their poverty reduction strategy. They intend to request additional debt relief under the enhanced HIPC Initiative next year.

I. INTRODUCTION

1. A staff mission¹ visited La Paz and Santa Cruz during October 12–30, 1999 to conduct the Article IV consultation discussions, collect information for a new debt sustainability analysis for the enhanced HIPC Initiative, and negotiate the program for the second annual PRGF arrangement (described in the attached Memorandum of Economic and Financial Policies). The mission met with the Vice President of the Republic; the Ministers of Finance, Agriculture, Economic Development, Justice, Labor, the Presidency, and Trade; the President of the Central Bank; representatives of foreign donors, the private sector, and the banking community; and members of civil society, including officials of the Catholic church and representatives of trade unions and nongovernment organizations.
2. Bolivia is on the 12-month consultation cycle. At the conclusion of the last **Article IV consultation** on September 18, 1998 (EBM/98/100), Directors commended the authorities for their solid track record since 1985 and welcomed the shift in priorities of their structural reform program, with emphasis given to strengthening education and health reform, managing fiscal decentralization better, and improving governance. Directors expressed concern, however, that, despite the strong economic performance, little progress had been made in alleviating poverty and improving social conditions. Bolivia has accepted the obligations of Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement.
3. The current three-year **PRGF arrangement**, in an amount of SDR 100.96 million (80 percent of quota), was approved by the Executive Board on September 18, 1998, and the midterm review under the first annual arrangement was completed on June 16, 1999 (relations with the Fund are presented in Appendix I). In September 1998 Bolivia reached the completion point under the HIPC Initiative, and the net present value (NPV) of its end-1997 public and publicly guaranteed external debt was reduced by US\$448 million, thus lowering the ratio of NPV to exports to 218 percent, compared with an estimated 252 percent without relief.

II. BACKGROUND AND PERFORMANCE UNDER THE PROGRAM

4. The **program supported by the current three-year PRGF arrangement** sets out an overall medium-term strategy aimed at achieving high economic growth and distributing the benefits of growth more equitably. Public savings are to rise gradually, as the government phases in measures to cover the fiscal costs of structural reforms (including pensions) and

¹The staff team consisted of Messrs. Terrier (Head-WHD), Bannister (PDR), Coelho (FAD), and Dunn, Ms. Gutierrez (both WHD), and Ms. Zacho (MAE). Mr. Kreis, the Fund Senior Resident Representative in La Paz and Mr. Budnevich, MAE Consultant, assisted the mission. Mr. González (IDA) and Ms. Rubio (IDB) overlapped with the mission, and Ms. Carvalho (Research Assistant-PDR) and Mr. Alfandari (IDA) helped prepare the debt sustainability analysis.

progressively returns the fiscal deficit to a level that can be entirely financed by external resources by 2002. For 1999, the program initially aimed at limiting inflation to 5.5 percent and narrowing the external current account deficit to 7.2 percent of GDP (from 7.9 percent in 1998), under the assumption of real GDP growth of 4½–5 percent. The overall deficit of the combined public sector was projected to remain broadly unchanged from its level in 1998 (3.9 percent of GDP), and the rate of crawl of the exchange rate was to be stepped-up to achieve a modest depreciation of the boliviano in real effective terms.

5. With Latin America suffering the impact of the financial crisis, the rate of economic growth in Bolivia has slowed significantly in 1999. Following an average annual rate of growth of 4½ percent during 1996–98, real GDP is estimated to have grown by only 1½ percent in the first half of 1999 (compared with the same period of 1998), as output declined in the mining, hydrocarbon, and construction sectors. In the agricultural sector, traditional crop output recovered from the impact in 1998 of *El Niño* while the production of export crops (primarily in the Santa Cruz region) declined, reflecting lower export prices and competition from Brazil. The economy is thought to have been gathering some momentum in the second half of this year, and is estimated to grow by about 2 percent for 1999 as a whole. **Inflation** has been lower than anticipated, in part because of falling food prices, as agricultural output recovered from last year's effects of *El Niño*. The 12-month rise in the CPI moderated from 4.4 percent in December 1998 to 2.5 percent in November 1999, and is expected to be 3 percent at year-end (Table 1 and Figure 1).

6. The external current account deficit is estimated to narrow to 6.3 percent of GDP in 1999 (1 percentage point of GDP below the level projected in the program). During the first three quarters of 1999, export receipts in U.S. dollar terms fell 8 percent below their level one year earlier due to lower prices for mining and agricultural products and soft demand from trading partners in the region (Latin America accounts for about half of Bolivia's exports). The value of imports (excluding one-time imports in 1998 for the construction of a gas pipeline) also fell by about 8 percent, reflecting lower domestic demand and a decline in the price of imports from Brazil. In the capital account, foreign direct investment remained strong, though below the levels in 1998, but there were partly offsetting private sector flows in the form of repayments (about US\$190 million) of bank short-term credits. The net foreign assets position of the central bank deteriorated by about US\$30 million through end-September, or somewhat less than anticipated in the program.

7. In the public sector, the authorities maintained fiscal discipline, even though tax revenue fell substantially short of program projections, owing to the slowdown in economic activity. Tax receipts in January–September grew by 2½ percent, broadly unchanged in real terms from their level in the same period of 1998, whereas the program had assumed a real increase of 15 percent, mostly reflecting a higher rate of economic growth and the implementation of the customs reform. This shortfall was largely compensated by an increase in nontax revenue which, together with restraint on current spending, made possible meeting the program's deficit limits at end-September. The authorities successful control of current expenditure ensured that over 90 percent of the investment program was executed, despite a US\$64 million shortfall in external disbursements.

8. **In the monetary area, all the end-September financial benchmarks were met** (Table 2). The stock of domestic currency declined significantly (12 percent) during the 12-month period ended in September reflecting, in the context of the highly dollarized Bolivian economy, a stronger preference for the dollar associated with some volatility in domestic market sentiment during the second quarter.² This required careful management by the central bank of its net domestic asset position, to ensure meeting the net international reserves (NIR) target, as it extended credit to the banking system in the course of resolving a failed medium-sized bank (4 percent of total bank assets). In response to pressure from the agricultural sector, faced with a shortfall in export receipts, the authorities also agreed to provide up to US\$40 million for the restructuring over a 10-year period of loans from commercial banks. Compliance with the NIR target was made possible in part by a higher than anticipated increase in public sector deposits with the central bank. The interest rate on U.S. dollar denominated government paper traded in the open market has recently moved up, from 8.1 percent in early September to 8.6 percent in late November.

9. **The economic slowdown contributed to a sharp decline in the growth of bank credit and a weakening in the quality of banks' portfolio.** From end-1998 through September 1999, private sector deposits remained broadly unchanged and, in contrast with the sharp increase recorded in 1998 (24 percent), credit to the private sector registered a small decline. The proportion of nonperforming loans to total loans rose to 7.6 percent in September 1998, from 6.0 percent a year earlier, and banks have become more cautious in their lending policy. The authorities have continued to strengthen financial sector regulations: in January 1999 improved risk assessment requirements became effective, and in September the first stage of regulations aimed at tripling provisioning requirements over a five-year period was implemented (bank provisions, equivalent to only slightly over 40 percent of commercial banks' nonperforming loans, are still relatively low). During 1999, the authorities also eased temporarily provisioning requirements for bank refinancing of loans to the sectors of the economy affected by the slowdown in activity.

10. **The authorities have continued to depreciate the boliviano in the daily foreign exchange auction** (Bolsin), which is closely managed by the central bank. In nominal terms, the boliviano depreciated by close to 6 percent against the U.S. dollar during January–November. In real effective terms, however, it appreciated by 2½ percent during the first three quarters of 1999, reflecting mainly the impact of the depreciation of the Brazilian real (Brazil has an 8 percent trade weight in the computation of Bolivia's real effective exchange rate).

²In May, the Superintendency of Banks intervened a medium-sized bank and, in early June, some capital outflows took place, prompted by unfounded rumors of imminent changes in the foreign exchange system.

11. **Key structural reforms have continued to be adopted in 1999, though there were delays in the implementation of the program** (Table 3). A new customs law, aimed at enhancing transparency and efficiency, was issued in July. It establishes an autonomous customs administration, with its own budget and resources, headed by a president appointed for a five-year period. In the area of privatization, the sale of the refineries of the state petroleum company YPFB was completed in mid-November. The privatization of the state smelting company Vinto, which had been postponed to resolve pending legal issues with employees, was completed on December 21, 1999. Both sales were prior actions for Board consideration of the second annual arrangement under the PRGF.

III. POLICY DISCUSSIONS AND THE ECONOMIC PROGRAM FOR 2000

12. **The discussions took place in an environment characterized by some improvement in the economic outlook.** The authorities noted that, under the circumstances of the regional economic slowdown and the devaluation of the Brazilian real early in 1999, economic management during the first half of 1999 had been particularly difficult. The private sector had exerted strong pressure on the government, calling for large increases in external protection and relief on tax and interest obligations. More recently, however, such pressures have moderated, with early indications that the economic outlook was slowly improving. The authorities were hopeful that improvements in world commodity prices, together with the expected pickup in economic activity in the Latin America region, would support and help strengthen the recovery. The staff and the authorities agreed that output growth could be expected to pick up to 4 percent in 2000, while recognizing that significant downside risks existed.

13. **The proposed program for 2000** aims at containing inflation within a range of 4–4.5 percent and achieving a small increase (US\$15 million) in net official international reserves, while allowing for a modest widening of the external current account deficit (to 6.8 percent of GDP), as the economy recovers and imports increase. In 2000 the authorities are aiming at completing the privatization program, modernizing the tax system, flexibilizing labor regulations, and strengthening Bolivia's external competitiveness. In the forthcoming **Interim Poverty Reduction Strategy Paper (PRSP)**, the authorities lay out their plans for developing a comprehensive poverty reduction strategy in the context of a national dialogue with civil society, to be held during the first quarter of next year. As a follow-up to the national dialogue, they plan to prepare a comprehensive PRSP, which will serve as a basis for Bolivia's presentation of a request for the completion point under the enhanced HIPC Initiative. The PRSP will also serve as support for the Consultative Group Meeting with foreign donors, expected to take place by mid-2000.

A. Macroeconomic Policies

14. In the discussions, **the staff commended the authorities' strenuous efforts to restrain expenditure** in the first three quarters of 1999, and stressed the importance of sustaining this effort. The authorities stated that they remained firmly committed to fiscal

discipline. They were hopeful that tax revenue would improve during the last quarter of 1999, as the reform of customs was being progressively implemented. They expressed confidence that they would meet the overall combined public sector deficit target for 1999,³ but noted that net foreign disbursements would be lower than initially envisaged under the program (by close to US\$80 million). The staff recognized that the shortfall was partly beyond the control of the authorities, and agreed to recommend a modest revision (about half of the shortfall) in the year-end benchmarks on the ceiling of the net domestic financing of the combined public sector and the target for the NIR of the central bank.⁴

15. **The overall deficit of the combined public sector (after grants) is projected to narrow from 4.2 percent of GDP in 1999 to 3.7 percent in 2000** (Table 4). The fiscal program aims at a slight improvement in the revenue-to-GDP ratio of the general government, despite the revenue loss arising from the completion of the legalization program of cars previously imported as contraband.⁵ Achievement of the fiscal objective for next year will require significant efforts on both the revenue and the expenditure sides:

- The ongoing **reform of customs** is projected to help boost value-added tax (VAT) and import duty receipts by ½ percent of GDP in 2000. Important steps have been taken in recent months, but attainment of the revenue objectives for 2000 will require further steady progress. In particular, there is a need to move forcefully with the establishment of a professional staff at customs, coordinate better the provision of foreign technical assistance, and implement promptly the computerized control system. In addition, it is important to issue the implementing regulations of the customs law early next year, as scheduled.
- As regards **domestic taxes**, the authorities plan to adopt during the first quarter of next year the new tax procedures code that strengthens the legal base for tax enforcement. They also intend to take steps in 2000 to introduce a career civil service to depoliticize the staff and reorganize the Internal Revenue Service while granting it financial autonomy.

³Relative to GDP, however, the 1999 overall combined public sector deficit would be higher (4.2 percent instead of 3.9 percent) due to a lower nominal GDP than contemplated in the program.

⁴Given that the Bolivian banking system is highly dollarized, the authorities anticipate that the demand for U.S. dollar banknotes will rise significantly by year-end because of the year 2000 problem. Thus, it is proposed that the measurement of performance under the NIR and net domestic assets of the central bank be moved from end-December 1999 to end-January 2000, adjusted for customary seasonal factors.

⁵This program generated revenue equivalent to 1.0 percent of GDP in 1998 and 0.5 percent in 1999.

- To ensure achievement of the program targets for 2000, a tight lid will continue to be required on **current expenditure**, including the wage bill. The mission noted that it would be prudent to wait until the customs reform has begun to generate additional revenue before agreeing on a wage increase for 2000. The authorities believed that delays in agreeing on the wage increase (generally granted at the beginning of each year) would disrupt social peace, and stated that they would aim at keeping the general wage increase below 4 percent.
- Finally, it will be important to closely monitor developments in **local and regional governments**, particularly in view of the recent experience of debt and debt-servicing limits established by the treasury having been exceeded by large margins in some municipalities. To ensure better enforcement, in October the Bolivian Congress approved a law reducing local government current outlays from 60 percent to 40 percent of their own revenue. The process of fiscal decentralization is expected to be reassessed in the context of a World Bank loan presently under preparation.

16. The **monetary program for 2000** assumes that currency issued will grow broadly in line with nominal GDP, and contemplates a small increase in the net domestic assets of the central bank, consistent with the inflation and NIR objectives of the program (Table 5). Within the context of the monetary program, the authorities expect to provide up to US\$25 million for the restructuring of bank loans, mostly to the agricultural sector. The program includes a downward adjustment in the NIR target (up to US\$35 million) in the event of further weakness in the behavior of domestic currency (measured by the difference with program assumptions).

17. In the discussion about the **financial position of the banking system** (Table 6 and Figure 2), the authorities remarked that most of the recent deterioration in the ratio of nonperforming loans to total loans had taken place during the first half of 1999, and that the ratio had remained broadly stable in the most recent months. There was agreement that particularly strong prudential ratios were needed in the Bolivian banking system, given its high degree of dollarization.⁶ Although banks generally maintain a long position in foreign-denominated net assets, most customers are not hedged: about two-thirds of credit in foreign currency is estimated to have been extended to borrowers with no regular source of income in foreign currency. Therefore, it would be prudent over time to raise provisioning requirements on these loans above the requirements that apply to other loans. In any event, the authorities were confident that steady implementation of the five-year program initiated in September 1999 to raise provisioning requirements on all loans will go a long way toward strengthening the banking system. To consolidate the banking system further, the authorities have introduced in congress a draft financial sector law, aimed at establishing a

⁶Dollarization in Bolivia has remained high since the hyperinflation period of the 1980s. Currently, deposits in foreign currency account for about 93 percent of total deposits in the banking system, and credit in foreign currency accounts for 92 percent of total credit.

comprehensive bank resolution framework and a deposit insurance scheme covering deposits up to US\$10,000. This proposed legislation is expected to be enacted by March 2000.

18. The authorities intend to continue **depreciating the boliviano** against the U.S. dollar in 2000, with a view to reversing the small real effective appreciation that has occurred this year (Figure 3) and achieving an additional 3 percent real effective depreciation. The authorities noted that the high degree of dollarization of the economy limits the effectiveness of exchange rate policy as an instrument for improving external competitiveness. They are also concerned that too rapid a pace of depreciation would adversely affect the financial position of the banking system. The authorities concurred with the staff that flexibility in wage determination was essential to help the economy adjust to macroeconomic shocks, particularly in the context of Bolivia's present crawling peg regime, and to that effect they intend to proceed with a reform of labor regulations in 2000 (see below). The staff also noted that it was important to refrain from granting large increases in the minimum wage (in recent years, the minimum wage has been raised by 10 percent a year on average).

19. On **external trade policy**, the staff commended the authorities for firmly resisting the calls for increased protection that mounted in the wake of the devaluation of the Brazilian real. Bolivia maintains an open exchange and trade system, with tariffs of 5 percent on capital goods and 10 percent on all other goods, and virtually no nontariff barriers. It has a rating of 4 on the Fund's Index of Aggregate Trade Restrictiveness (the index ranges from 1 to 10, with 10 for the most restrictive countries). The main impediment to a more transparent trading system has been the existence of cumbersome customs administration procedures, and the ongoing reform is expected to significantly help improve the flow of goods through customs. Bolivia is a member of the Andean Group and an associate member of MERCOSUR, although it does not apply the common external tariff of either of these trading arrangements.

B. Structural Reforms and Poverty Reduction Strategy

20. **The authorities are committed to deepening their structural reforms in 2000.** The main reforms to be undertaken involve completing the privatization program, modernizing the tax system, introducing more flexibility in labor regulations, and improving transparency as follows:

- **Completing the privatization program.** Following the sale of the YPFB refineries in November 1999, the government intends to privatize the remaining assets of YPFB, including the storage and distribution facilities and the service stations, during 2000. It also plans to sell its small remaining assets in the electricity, mining, and food processing sectors. As noted, the sale of the state smelting company Vinto was completed in December 1999, and the program also includes benchmarks for further privatization in 2000.
- **Modernizing the domestic tax system.** In line with the recommendations of FAD technical assistance, the authorities intend to introduce a personal income tax, with

two rates and broad coverage (minimum income threshold set at about four times the minimum wage); eliminate the cascading transaction tax; raise the nominal VAT rate by 2–3 percentage points from its present level of 13 percent; and establish a tax on gross assets creditable against the corporate income tax. The authorities intend to request additional FAD technical assistance to help design and implement the reform, including in the drafting of the tax bill and regulations. The draft reform law is expected to be introduced in congress in October 2000 for implementation by January 1, 2001.

- **Making labor regulations more flexible.** The authorities intend to submit new draft labor legislation to congress by October 2000. The new law will aim at modernizing labor regulations, which currently are excessively complex; increase the cost of labor through high hiring and separation costs, excessive mandatory overtime pay, and lack of flexibility in the use of fixed-term contract; and discriminate against women.
- **Improving transparency.** Several actions are being implemented to improve transparency and reduce corruption. The ongoing reform of customs is expected to go a long way toward reducing political patronage and introducing greater transparency in that area. Also, in October 1999, congress approved a new statute of the civil servant aimed at promoting professionalism, including through the establishment of a *recruitment and promotion system based on merit, and discouraging absenteeism*. Further progress is also being made in the reform of the judicial system, as described in paragraph 26 of the memorandum of economic and financial policies.

21. **The authorities recognized that, although they had intensified their efforts in the fight against poverty in recent years, much remained to be done in this area, and therefore indicated their intention to strengthen and re-focus their strategy (Box 1). The discussions centered on the following points:**

- Despite tight budget constraints, **social spending has risen in recent years** (from 12½ percent of GDP in 1995 to over 16 percent in 1999) and is projected to rise further in 2000 (Table 7). However, the authorities recognized that a significant part of the increase registered in recent years reflected the rise in pension outlays, and that other categories of social spending had risen only moderately (from 11 percent of GDP in 1995 to 12½ percent in 1999).
- Progress has been made under the **social indicators agreed upon in the context of the HIPC Initiative**. Preliminary data indicate that in 1998 the outcomes under half of the social indicators were met, and there was progress toward most of the others (Table 8). The authorities noted that some of the indicators had been poorly defined, and they made suggestions for changes, which are expected to be incorporated in the design of the indicators under the enhanced HIPC Initiative.

Box 1. Bolivia: Poverty Assessment

Despite the steady implementation of macroeconomic stabilization and structural adjustment programs since 1985, poverty remains widespread in Bolivia.

- Household surveys conducted in 1993 and 1995 showed that 70 percent of the population was living under poverty conditions (with monthly income of less than US\$56 per person), with 50 percent living under extreme poverty conditions. This represented some improvement compared with 1976, when a census indicated that 86 percent of the population lived in poverty conditions. A new survey is being conducted to assess progress in recent years, and its results are expected to become available in January 2000.
- The poverty situation is particularly severe in rural areas, which account for three-fifths of the country's poor (nearly 90 percent of the population living below the poverty line and 80 percent living in extreme poverty). The large majority of the poor rural population belongs to indigenous groups.
- Income distribution is highly skewed, with the top 20 percent income group accounting for 53 percent of total income and the bottom 20 percent accounting for just 5 percent in 1997, only a slight improvement from 1990.

The causes for high poverty rates include still relatively low real GDP growth, low levels of education, and a lack of redistributive public policies.

- Although annual real GDP growth averaged 4.2 percent over the past decade, the average annual per capita real GDP growth rate was only 1.8 percent. Insufficient infrastructure and labor market flexibility have hindered competitiveness and dampened private sector investment. Investment rates remained low during 1986–96 (14½ percent of GDP on average), but have risen to about 20 percent in recent years, reflecting foreign direct investment in the newly capitalized state enterprises and in the mining and energy sectors.
- High poverty rates coincide with low levels of education. Only about half of entering students complete the full primary cycle. Adult illiteracy remains high by regional standards, especially in rural areas. Substandard levels of education and high drop-out rates perpetuate low labor skills and low productivity.
- Public policy has done little to smooth income distribution. The tax system lacks progressivity (there is no personal income tax in Bolivia) and much of government social spending fails to reach the poorest groups of society. A disproportionate share of public spending on education goes to universities. The government's present policy agenda (*Plan Operativo de Acción 1997–2002*), however, places greater emphasis on poverty reduction.

Movements in a variety of social indicators suggest that some progress has been achieved in poverty reduction in recent years.

- Between 1994 and 1998, infant and child mortality rates fell by 10 percent and 20 percent, respectively, with the implementation of programs aimed at providing basic care at birth, early childhood vaccinations, and treatment for respiratory disease.
- Primary and secondary school enrollment rates have been rising in recent years (gross enrollment in primary and secondary schools rose from 76.9 percent in 1990 to 89.7 percent in 1998), as well as the share of homes with access to electricity and basic sanitary services.
- Spending on education has roughly doubled as a share of GDP during the 1990s, mainly reflecting increased teachers' salaries, and now compares favorably with regional standards. However, a disproportionate share (one-fourth) is still directed toward universities.

Over the near to medium term, the higher investment to GDP ratios should help foster stronger economic growth and reduce poverty. Also, with the ongoing migration to urban centers, the costs of providing social services should be lowered, as the provision of social services in rural areas is costly, particularly in the *Altiplano*, where habitat is very dispersed.

- In 2000 and over the medium term, the authorities intend to **step up the fight against poverty**. One of the challenges is to ensure a budgetary reallocation away from tertiary education and toward primary and secondary education, which will require raising the tuition fees charged by universities. The authorities also intend to adopt policies specifically aimed at reducing poverty in the *Altiplano* and other poverty-stricken areas of the country, including in the form of programs for alternative crop development in areas formerly under coca cultivation.⁷ The authorities believe that, to reinforce the fight against poverty, emphasis needs to be placed inter alia on road building and maintenance, to ensure better transportation links between the various parts of the country and with neighboring countries, thus facilitating export growth and economic development. As stated in the most recent Public Expenditure Review of the World Bank, there is also a need for an internal reorganization and a sustained increase in resources allocated to health care.
- To ensure a more targeted fight against poverty, a household **survey is being conducted** with World Bank support, the results of which are expected to become available in January 2000. This information would help the authorities better define priorities, in the context of the national dialogue they plan to conduct with civil society in early 2000.

C. Balance of Payments and Medium-Term Outlook

22. As noted, the external current account deficit is projected to widen to 6.8 percent of GDP in 2000 (Table 9). This is based on an increase in imports of 7 percent, as economic activity and domestic demand pickup. Exports in U.S. dollar terms would rise by over 10 percent, mainly due to an increase in the volume of gas exports to Brazil as the pipeline comes into full operation, and to an increase in the price of gas under existing contracts with Brazilian importers. Net factor income outflows are projected to rise in 2000, reflecting the repatriation of profits on investments undertaken in recent years. In the capital account, foreign direct investment inflows are expected to continue at levels comparable to those in 1999, and would be related mainly to commitments for investment projects in the petroleum and mining sectors.

23. Medium-term projections prepared by the staff, which assume the **maintenance of prudent financial and macroeconomic policies**, point to a strengthening external current account position (Table 10). The overall position of the combined public sector is projected to improve over the medium term, to help free resources for the private sector and thus contribute to the development of private sector activity and of the domestic capital market. This will require improving civil service efficiency while modestly raising general

⁷The authorities have been recognized for their success in reducing the acreage planted with coca trees. Since 1997, the acreage planted is estimated to have been reduced by about half, and drug production to have fallen by one-third.

government revenue over the medium term, to help accommodate new social expenditure and the costs associated with the reform of the civil service undertaken with World Bank assistance.

24. The external current account deficit could be expected to decline to about 5½ percent of GDP by 2003 and to remain at this level in subsequent years, broadly in line with the path presented in the last staff report (EBS/99/56, Supplement 1). With real GDP growing in the range of 5–6 percent a year on average, import volume growth could be expected to go up gradually toward a yearly rate of 6½–7 percent, or slightly faster than GDP (reflecting additional FDI-related imports). Export volumes would grow faster, in response to the development of several energy and mining projects (including a major one in lead, zinc, and silver) and progressively fuller use of the gas pipeline to Brazil. Nontraditional exports also would grow at around 7 percent a year, as the process of export diversification is aided by the improvements in external competitiveness. With commodity prices continuing to recover in line with WEO projections, Bolivia's terms of trade would improve. Gross reserves would remain at the equivalent of six months of imports of goods and services over the medium term.

25. Private capital inflows are expected to continue to be dominated by foreign direct investment. Over the medium term, these flows are projected to decline slightly in U.S. dollar terms, with the completion of the committed investment by capitalized enterprises. Investments will remain concentrated in mining and petroleum, but significant new investments are also likely in electricity generation (for export to Brazil) and in the services sector. In the outer years of the projection, the external current account deficit would be higher than foreign direct investment inflows, with the difference financed by net public and private borrowing.

26. Although declining, external debt indicators would remain relatively high over the medium term, and additional relief under the enhanced HIPC Initiative would help Bolivia meet its social needs. On the basis of end-1998 medium- and long-term public and publicly guaranteed debt and assumptions on new borrowing consistent with the balance of payments projections, debt outstanding after the initial HIPC relief would fall from 53.4 percent of GDP in 1998 to 45.7 percent in 2006, while debt service after HIPC assistance would decline from 28.3 percent of current year exports of goods and services in 1998 to 17.7 percent in 2006 (Tables 11 and 12). Reducing the ratio of NPV of debt to exports (at end-1998) from 214 percent to 150 percent, as called for under the enhanced HIPC Initiative, would lower these ratios and assist the public sector in its transition to nonconcessional financing, as Bolivia graduates from access to IDA resources within the next few years. The program for 2000 sets limits on net disbursements of nonconcessional loans to the public sector, to safeguard against sudden increases in debt service ratios.

27. The Bolivian program is subject to risks, including those associated with a possible erosion in popular support if the current slowdown in economic activity in Bolivia and the region were to persist. Also, the external current account deficit would remain relatively high in coming years. However, a large proportion of the deficit is the counterpart of foreign

direct investment, and Bolivia's other indicators of external vulnerability appear relatively favorable: the level of gross reserves, at the equivalent of six months of imports of goods and services, is comfortable and covers one-third of broad money; the short-term foreign debt of the combined public sector is virtually nil; and the external debt burden, projected to improve over the medium term under current assumptions, would be even more favorable if additional relief is provided under the enhanced HIPC.

28. Given the outlook for the external sector and the authorities' commitment to maintaining prudent financial and macroeconomic policies, **Bolivia should be able to meet its obligations to the Fund in a timely manner** (Table 13). Gross financing from the Fund would cover 3½ percent of Bolivia's public sector's recourse to foreign borrowing on average over the period of the arrangement. Debt service due to the Fund would constitute a small proportion of Bolivia's exports of goods and services and gross official reserves.

IV. DATA AND TECHNICAL ASSISTANCE ISSUES

29. **The timeliness and coverage of the economic database is generally good**, though there are weaknesses in some areas. The authorities are working toward participating in the GDDS in 2000. Ongoing work toward improving the national accounts data, including on the expenditure side, and the generation of quarterly GDP data is expected to be completed before year-end. The authorities provided assurances that adequate preparations have been made to meet the Y2K challenge and were confident that no major difficulties should arise in the key sectors of the economy.

30. **As part of the technical consultation, the mission discussed with the authorities their views on the effectiveness of recent past technical assistance and on new technical assistance needs.** In recent years, the Fund has been providing considerable technical assistance to Bolivia, including by MAE under a project funded by Switzerland (Appendix VI). The authorities were pleased with the assistance that has been provided, and thought it effective. They mentioned in particular the design and implementation of new monetary instruments, such as the introduction of banks' liquid assets ratios; measures to strengthen tax administration; and the reform of customs, although they recognized that FAD recommendations had been implemented only in part, because of the organizational change at customs. With respect to future needs, they expressed interest primarily in assistance from FAD and LEG for the reform of the tax system in 2000, for which they wanted the Fund to play a major coordinating role, and in continued support at customs. In the monetary area, they were interested in continuing to receive assistance under the Swiss-financed project.

V. PERFORMANCE CRITERIA AND REVIEWS

31. The second annual arrangement includes **quarterly financial benchmarks** through end-June 2000 (with the financial benchmarks for end-March 2000 being performance criteria as well) and indicative performance criteria for end-September and indicative

financial benchmarks for end-December 2000. The definitions and adjusters for the financial benchmarks and performance criteria, described in the tables attached to the Memorandum of Economic Policies, will apply to the same variables as in the first annual arrangement.⁸ The program would also provide for a downward adjustment in the NIR targets (up to a maximum amount of US\$35 million), in the event that currency issued is lower than envisaged under the program. Two structural performance criteria have been set, on the submission to congress of the draft amendments to the tax code (by March 2000) and of the draft legislation for the reform of the tax system (October 2000). There are structural benchmarks in the areas of public sector reforms, privatization, the labor market, the financial sector, social reform, legal and judicial reform, and roads and transportation.

32. The program will have a first semi-annual review to be completed by April 2000, which will set benchmarks and performance criteria for the second half of 2000, and a second semi-annual review to be completed by October 2000. Disbursements will be made available in three equal installments, one at the time of Board approval of the second annual arrangement, and the other two based on observance of performance criteria at end-March and end-September 2000 and the completion of the respective reviews.

VI. STAFF APPRAISAL

33. **Although output growth slowed in 1999, Bolivia has weathered relatively well the downturn in the Latin America region.** The authorities' skilled management of the economy at this critical juncture has been crucial. They reacted appropriately to a revenue shortfall by cutting current outlays from budgeted levels, maintained a prudent monetary policy stance, and firmly and effectively resisted strong pressures from the private sector to raise external protection and to introduce relief on tax and interest obligations.

34. **The continued implementation of prudent financial policies is essential to the success of the program.** The program is based on the expectation that the pace of economic activity will pick up in 2000, and its success will depend importantly on the economy actually gaining strength. Other risks to the program relate to the public finances, which should be addressed through the resolute implementation of the measures aimed at reducing tax evasion (including through the steadfast implementation of the customs reform and the reorganization of the Internal Revenue Service) and the exercise of firm restraint on expenditure, particularly with respect to the wage bill. These risks are mitigated by the authorities' commitment to take steps to ensure that the fiscal program remains on track through tightening expenditure, if needed.

⁸ Financial benchmarks include limits on the deficit of the combined public sector with sublimits on domestic financing; limits on the net domestic assets and ceilings on the net international reserves of the central bank; and limits on the variation in nonconcessional external public debt with subceilings on borrowing of less than one year.

35. **The reform of the tax system**, which aims at adapting tax laws and regulations to a modern economy and creating a more efficient and fairer tax system, including the establishment of a personal income tax, is a central building block of the program for 2000. It will be important to ensure that political considerations do not derail this reform, and that it is fully implemented before the next electoral cycle begins in 2001.

36. The program pays attention to the need to **improve external competitiveness and create the conditions for strong growth**. In 2000 the exchange rate policy stance, together with the modernization of labor regulations and infrastructure improvements, are expected to help create better conditions for the export sector. With respect to labor regulations, it will be important for the authorities to adhere to the agreed upon calendar, to ensure that the new labor law and related regulations are in place by end-2000.

37. **The strengthening of the banking system remains a priority**. Steady implementation over the next few years of the program to progressively tighten provisioning requirements, the establishment of a deposit guarantee scheme, and the adoption of a more comprehensive bank resolution framework are all steps in the right direction. Also, prudential norms must be adapted over time to ensure that banks are protected from insufficiently hedged borrowers in foreign currency, e.g. by establishing higher provisioning requirements on loans in foreign currency to borrowers with no regular flow of income in foreign currency.

38. **Fiscal consolidation will continue to be required over the medium term**. Reducing the borrowing requirement of the combined public sector to a level at which it can be entirely covered by foreign resources will help free resources for the private sector, thus contributing to the development of a healthy market-based economy, with a well-functioning domestic capital market. Over the medium term, a strong revenue performance will be needed to help the authorities face rising pension liabilities as well as the costs associated with the reform of the civil service. There will be a need also to develop a comprehensive framework for the financial management of local governments.

39. **With the envisaged recovery in economic activity, the external current account deficit is projected to rise somewhat next year**. Taking into account the projected increase in foreign investment, including in the mining and energy sectors, Bolivia is not expected to face financial difficulties. However, the persistence of a relatively high external current account deficit leaves the country vulnerable to external shocks. If the external environment turned out to be more adverse than now envisaged, the authorities would need to react promptly by tightening financial policies while continuing to exercise exchange rate flexibility.

40. **In Bolivia's circumstances, the authorities' intentions to strengthen and re-focus their anti-poverty program is clearly in order**. There is no doubt that poverty in Bolivia needs to be addressed through a comprehensive strategy. The national dialogue that the authorities intend to conduct early next year with a broad spectrum of participants from civil society will constitute an important step to better assess the needs of the poor and design promising avenues to meet such needs. Within the next few years, Bolivia is expected to

graduate from the use of IDA resources, and debt relief under the enhanced HIPC Initiative will help ease Bolivia's transition from concessional to nonconcessional sources of external financing for the public sector.

41. In sum, and in line with the track record of more than a decade, under the first year of the program covered by the current PRGF arrangement, the authorities have made significant progress toward consolidating Bolivia's financial position and creating the conditions for sustainable growth. The staff believes that the macroeconomic and structural reform program described in the authorities' memorandum is appropriate, and that the second year program under the PRGF merits Fund support.

42. It is recommended that the next Article IV consultation with Bolivia be held on the standard 12-month cycle.

VII. PROPOSED DECISION

1. Bolivia has requested the second annual arrangement under the current three-year arrangement for Bolivia under the Poverty Reduction and Growth Facility (PRGF).
2. The Fund has appraised the progress of Bolivia in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the Interim Poverty Reduction Strategy Paper (EBD/--)
3. The Fund approves the arrangement set forth in EBS/99/235.

Table 1. Bolivia: Selected Economic and Financial Indicators

	Average 1990-95	1996	1997	Prel. 1998	1999 EBS/99/56	Proj. 2000	Proj. 2000
(Annual percentage change)							
Income and prices							
Real GDP	4.2	4.4	4.4	4.7	5.0	2-2.5	4.0
Real GDP per capita	1.7	2.0	2.0	2.2	0.1	1.6	3.3
Real gross domestic demand	3.9	5.4	9.0	6.6	...	0.2	4.4
GDP deflator	12.2	11.6	6.8	7.8	5.7	2.7	4.8
CPI inflation (period average)	13.0	12.4	4.7	7.7	3.9	2.2	4.2
CPI inflation (end-of-period)	12.4	8.0	6.7	4.4	5.5	3.0	4-4.5
(In percent of GDP)							
Investment and savings							
Gross domestic investment	15.2	16.2	19.8	20.0	20.4	18.4	19.7
Public	8.6	7.3	6.6	5.7	6.5	6.1	6.3
Private, including stocks	6.6	9.0	13.2	14.2	14.0	12.3	13.4
Gross national savings 1/	9.8	11.0	12.9	12.1	13.2	12.1	12.9
Public	4.7	6.1	3.0	1.6	2.5	1.8	2.7
Private	5.1	4.9	9.9	10.4	10.8	10.3	10.3
Combined public sector							
Nonpension balance	-3.7	-0.7	-0.8	-0.1	0.3	-0.2	0.2
Pension-related balance	-0.3	-1.2	-2.5	-3.9	-4.2	-3.9	-3.9
Overall balance	-4.0	-1.9	-3.3	-4.0	-3.9	-4.2	-3.7
Foreign financing	3.7	2.5	2.7	2.8	2.9	2.5	2.4
Domestic financing	0.3	-0.6	0.5	1.2	1.0	1.7	1.3
(Annual percentage change, unless otherwise stated)							
Money and credit							
M3 growth	34.7	25.0	17.3	13.7	13.6	5.8	10.6
Credit to private sector	35.1	13.6	19.4	23.8	13.9	6.4	9.3
Interest rates (percent, end-of-period)							
Yield on treasury bills in local currency	22.7	16.5	11.2	13.4	...	...	...
Yield on treasury bills in U.S. dollars	9.8	7.6	8.2	8.6	...	...	...
External sector (US\$ million)							
Current account balance 1/2/	-308	-389	-554	-675	-645	-537	-591
(percent of GDP)	-5.4	-5.3	-7.0	-7.9	-7.2	-6.3	-6.8
Of which: trade balance	-298	-450	-685	-878	-792	-639	-671
Capital account balance	241	731	657	777	521	360	522
Of which: foreign direct investment	93	426	599	870	705	746	785
Overall balance	-67	342	103	102	-124	-177	-69
International trade							
Merchandise export volume	6.7	4.9	5.0	2.7	5.0	-4.3	7.2
Merchandise import volume	6.2	16.6	22.2	12.9	-5.7	-15.4	6.4
Terms of trade (deterioration -)	-1.8	1.0	3.0	-3.8	-6.2	-2.7	0.9
Gross official reserves							
(months of imports of goods and services) 3/	4.6	6.5	5.7	7.5	6.0	6.3	6.1
Public sector external debt (US\$ billion) 4/5/	4.3	4.6	4.5	4.6	4.7	4.7	4.9
(percent of GDP) 4/5/	75.3	62.6	56.4	53.4	52.8	54.9	55.7
Debt-service ratio 4/6/	44.1	25.4	26.5	29.9	21.9	24.2	23.6
End-of-period exchange rates							
Bolivianos/U.S. dollar	4.21	5.19	5.37	5.65	...	...	...
NEER (percentage change) 7/	25.8	-1.7	1.7	-2.8	...	...	...
REER (percentage change) 7/	-3.4	1.2	4.7	-1.3	...	...	...

Sources: Central Bank of Bolivia; Ministry of Finance; and Bank/Fund staff estimates.

1/ The recording of inward transfers in the external current account (and foreign savings) was improved starting in 1997. It is not possible to compare trends in these variables before and after 1997.

2/ Excludes grants to finance debt-reduction operations.

3/ In months of imports of goods and services in the following year.

4/ Debt and debt service reflect HIPC assistance, which became available beginning in 1998.

5/ Includes obligations to the Fund and debt with public guarantee.

6/ On public sector medium- and long-term external debt (including payments to the Fund) in percent of exports of goods and services.

7/ New weights based on average trade, excluding trade related to natural gas, in 1996-97.

Table 2. Bolivia: Financial Benchmarks and Performance Criteria:
Performance Under the First Annual Arrangement Under the PRGF 1/

	1998 December 2/	1999 March	June	September
(In millions of bolivianos)				
Deficit of the combined public sector				
Unadjusted limit	1,937	338	754	1,075
Adjusted limit	1,977	362	766	1,066
Actual	1,888	141	382	878
Margin	89	221	384	189
Domestic financing of the combined public sector				
Unadjusted limit	716	91	43	49
Adjusted limit	713	197	198	209
Actual	588	-58	28	185
Margin	125	256	170	23
Net domestic assets of the central bank				
Unadjusted limit	316	206	274	213
Actual	1,425	3	137	-327
Adjusted actual	-837	3	137	-327
Margin	1,153	203	137	540
(In millions of U.S. dollars)				
Net international reserves of the central bank				
Target	0	-90	-60	-50
Actual	-212	-74	-100	-31
Adjusted actual	200	-74	-100	-31
Margin	200	16	-40	19
Nonconcessional external debt 3/				
Limit	-10	10	10	10
Actual	-75	-27	-33	-38
Margin	65	37	43	48
External debt with maturities up to one year 3/				
Limit	0	10	10	10
Actual	0	0	0	0
Margin	0	10	10	10
(In millions of bolivianos)				
Memorandum item:				
Adjustor for:				
Net proceeds from sale of assets 4/	0	0	0	0
Severance payments 5/	3	0	5	0
External disbursements shortfall 6/	0	106	160	160
New reserve requirement 7/	2,261	0	0	0
New reserve requirement (in millions of U.S. dollars) 7/	411	0	0	0
Debt relief HIPC 4/	43	24	17	-8

Source: Data provided by the Bolivian authorities.

1/ Program limits and targets adjustable for net proceeds from the sale of assets in excess of US\$45 million, for the difference between programmed cash outlays for severance payments and actual cash outlays, and for the difference between actual interest relief from HIPC over projected interest relief.

2/ Performance criteria.

3/ Net disbursements of public and publicly-guaranteed external debt.

4/ In excess of programmed amount.

5/ Less than programmed amount.

6/ Shortfall of net external disbursements in relation to programmed amounts, maximum of Bs 160 million.

7/ Difference between calculated total bank and nonbank financial institutions required reserves using the previous reserve requirements system and actual required reserves under the system introduced in 1998.

Table 3. Bolivia: Structural Benchmarks

Status of Implementation of Selected Structural Policy Measures in 1999

Policy Measures	Programmed time table for implementation	Status
<i>Public Sector Institutional Reform</i>		
Develop a plan for further strengthening of fiscal decentralization based on Fiscal Affairs Department recommendations	October 1998	Some actions have been introduced, including the establishment of borrowing limits for local governments. An overall strategy on fiscal federalism and decentralization is being developed with World Bank assistance.
Develop a plan for domestic tax administration reform, based on the recommendations from a Fiscal Affairs Department technical assistance mission	March 1999	In the process of being developed.
Submit to Congress draft amendment to the tax code that will strengthen the tax authorities' ability to enforce tax laws	June 1999	The draft amendment has been prepared, and is expected to be submitted to Congress by March 2000.
Begin the implementation of the short term action plan to improve customs administration	June 1999	Implementation began in September 1999.
Passage of a new customs law and required regulations	June 1999	The law was approved and published in July 1999. Three supreme decrees regulating the law are expected to be issued by February 2000.
Develop a plan and secure resources for a new information system	June 1999	A plan for adopting SOFIX information system was developed in July 1999. However, the choice of system is being reevaluated and a final decision is expected to be made in December 1999.
Implement a new strategy of control, including the creation of a unit to perform ex-post verification	June 1999	The authorities are working toward the establishment of controls a posteriori.
Implement new customs information system fully	December 2000	The implementation will begin with a pilot project in the first quarter of 2000.
Complete all planned infrastructure projects	December 2000	Infrastructure projects in progress.
<i>Privatization</i>		
Publication of the bids for the privatization of the refineries of YPFB	February 1999	Implemented in May 1999.
Offer the state smelting company, Vinto, for sale	October 1998	The first publication of the bidding rules took place in June 1999, and a small part of the company was sold. The sale of the rest was completed in December 1999, following the resolution of pending legal issues with employees.
Complete privatization of the natural gas network, jet fuel stations and natural gas bottling plants	March 1999	Most parts are ready for sale in 1999, and the process is expected to be fully completed by March 2000.
Prepare a plan of action to reduce excess employment in the residual YPFB (incl. headquarters)	June 1999	Implemented in July 1999. Employment in YPFB has been reduced by 50% since mid-1997.

Table 3. Bolivia: Structural Benchmarks (Concluded)

Status of Implementation of Selected Structural Policy Measures in 1999

Policy Measures	Programmed time table for implementation	Status
Privatization of the refineries of YPFB	June 1999	Implemented in November 1999.
<i>Roads</i>		
Design a master plan for the national road system	December 1998	Implemented in April 1999.
Transfer 70 percent of toll revenues (on existing national roads) to the National Road System, SNC	January 1999	A supreme decree transferring toll revenues was passed in August 1999.
Complete an evaluation of the costs of maintaining the road system	March 1999	Completed in April 1999. It was concluded that current resources are insufficient to guarantee adequate maintenance of the road system.
<i>Financial Sector</i>		
Submit to Congress a draft law to establish a deposit insurance system and to strengthen the resolution mechanism for problem banks	June 1999	Submitted in September 1999.
<i>Judicial Reform</i>		
Submit to Congress a draft law on administrative procedures	September 1999	Submitted in June 1999.
Submit to Congress revisions to the penal and civil code procedures	December 1999	Penal code procedures were approved by Congress in March 1999, and are expected to be fully effective by March 2001. The civil code is expected to be submitted to Congress before end-1999.
Submit to Congress revisions to the commercial code	December 2000	A proposal for a revised code is currently being prepared.
<i>Labor market modernization</i>		
Prepare draft proposal to serve as basis for discussions with trade unions, business representatives, and opposition political parties.	December 1998	A draft proposal has been developed, but has yet to be discussed.
Submit to Congress new draft labor law	December 1999	There has not been much progress in this area during the last year.

Table 4. Bolivia: Operations of the Combined Public Sector 1/

(In percent of GDP)

	1995	1996	1997	Prel. 1998	1999 EBS/99/56	Proj. 1999	Proj. 2000
Balance excluding pensions (deficit -)	-1.2	-0.7	-0.8	-0.1	0.3	-0.2	0.2
Current revenue	22.7	22.3	21.3	22.9	22.7	22.4	23.1
General government	19.9	20.4	20.2	22.8	22.5	22.4	22.8
Taxes	17.5	17.7	17.5	19.4	19.5	18.5	19.4
Hydrocarbon	5.3	5.7	4.4	5.4	5.4	5.1	5.3
Other	12.2	12.0	13.1	14.0	14.1	13.4	14.1
Nontax revenue	2.4	2.7	2.7	3.4	2.9	3.9	3.4
Public sector enterprises operating balance	2.0	1.3	0.5	-0.6	-0.1	-0.2	0.1
Central bank operating balance	0.8	0.6	0.7	0.7	0.3	0.3	0.2
Current expenditure of general government	18.2	17.4	17.3	18.6	17.9	17.5	17.9
Wages	8.3	8.1	8.2	8.2	8.0	8.2	8.1
Interest	2.9	2.8	2.0	2.0	1.6	1.7	1.8
Of which: HIPC interest relief	...	...	...	...	-0.4	-0.2	-0.4
Other	7.0	6.6	7.0	8.4	8.4	7.5	8.1
Official grants	1.7	2.4	1.4	1.3	1.9	0.9	1.4
Capital revenue (privatization)	0.8	0.1	1.0	0.7	0.1	0.6	0.5
Capital expenditure	8.2	8.2	7.2	6.3	6.5	6.7	6.9
General government	6.1	6.5	6.6	6.0	6.2	6.4	6.8
Central government	0.0	1.9	2.6	1.3	...	3.5	3.4
Local governments	0.0	4.5	3.9	4.7	...	2.9	3.4
Public enterprises	2.2	1.7	0.7	0.3	0.2	0.3	0.2
Pension-related balance (deficit -)	-0.6	-1.2	-2.5	-3.9	-4.2	-3.9	-3.9
Revenue	0.7	0.9	0.9	0.0	0.0	0.0	0.0
Expenditure	1.3	2.1	3.4	3.9	4.2	3.9	3.9
Pensions	1.3	2.1	3.2	3.6	3.8	3.6	3.6
General government employer contributions	0.0	0.0	0.2	0.4	0.4	0.4	0.3
Overall balance (deficit -)	-1.8	-1.9	-3.3	-4.0	-3.9	-4.2	-3.7
Financing	1.8	1.9	3.3	4.0	3.9	4.2	3.7
External	3.6	2.5	2.7	2.8	2.9	2.5	2.4
Domestic	-1.8	-0.6	0.5	1.2	1.0	1.7	1.3
Central bank	-2.5	-1.9	-1.0	-0.6	-0.1	-1.1	0.1
Commercial banks	0.4	1.0	0.7	-0.8	0.0	0.1	0.0
Pension funds	0.0	0.0	0.9	1.5	1.2	1.5	1.2
Other	0.3	0.3	-0.2	1.2	0.0	1.2	0.0
Memorandum items:							
Current balance before grants 2/	4.6	4.9	4.0	4.3	4.8	4.9	5.2
Current balance after grants 2/	6.2	7.3	5.4	5.6	6.6	5.9	6.6
Overall balance before grants (deficit -)	-3.5	-4.3	-4.7	-5.3	-5.8	-5.1	-5.2
Primary deficit (-)	1.1	0.9	-1.2	-2.0	-2.3	-2.4	-2.0
Savings	5.7	6.1	3.0	1.6	2.5	1.9	2.7
Military expenditure	2.2	2.1	2.2	2.4	...	2.2	...
GDP (in billions of bolivianos)	32.2	37.5	41.9	47.2	52.4	49.7	54.2

Sources: Ministry of Finance; Central Bank of Bolivia; and Fund staff estimates.

1/ In January 1998, coverage was enlarged to include 65 provincial municipalities (the 10 largest cities had already been included) and the operating outlays of *Fondo de Desarrollo Regional* and the Viceministry for Public Investment.

2/ Not including pension related revenue and expenditure.

Table 5. Bolivia: Monetary Survey

	1995	1996	1997	Prel. 1998	1999 EBS/99/56	Proj. 1999	Proj. 2000
(Stocks in millions of bolivianos) 1/							
I. Central Bank							
Net international reserves	2,890	4,806	5,584	5,704	5,765	5,473	5,928
Net domestic assets	-1,155	-2,923	-3,426	-3,286	-3,033	-3,143	-3,370
Combined public sector	271	-120	47	66	434	-77	-13
Banking system 2/	1,135	305	285	1,593	2,271	2,539	2,138
Medium- and long-term foreign liabilities	-3,315	-3,550	-3,460	-2,833	-2,832	-2,816	-2,723
Other	754	442	-298	-2,111	-2,906	-2,789	-2,772
Currency issued	1,735	1,883	2,157	2,419	2,732	2,330	2,557
II. Financial System 2/							
Net international reserves	1,417	3,191	3,589	4,634	4,925	5,449	5,778
Net domestic assets	11,316	12,754	15,114	16,401	18,966	16,794	18,981
Combined public sector	424	417	945	600	993	582	689
Private sector	15,325	17,448	20,832	25,422	28,954	27,026	29,561
Medium- and long-term foreign liabilities	-3,985	-4,206	-4,605	-4,608	-5,029	-4,679	-4,861
Other	-448	-905	-2,059	-5,013	-5,952	-6,134	-6,408
Liabilities to the private sector (M3) 3/	12,733	15,944	18,702	21,035	23,891	22,243	24,759
Liabilities in bolivianos (M2)	2,520	2,931	3,464	3,701	4,123	3,488	3,827
Foreign currency deposits	10,134	13,010	15,237	17,183	19,499	18,504	20,772
CDDs	79	3	2	151	268	251	160
(End-period stock at current exchange rates in percent of GDP)							
Liabilities to the private sector (M3) 3/	39.5	42.2	45.1	45.5	46.6	45.8	46.9
Foreign currency deposits	31.5	34.5	36.8	37.3	38.2	38.2	39.5
Liabilities in bolivianos (M2)	7.7	7.7	8.3	7.8	7.9	7.0	7.1
Currency issued	5.3	4.9	5.1	5.1	5.2	4.7	4.7
Dollarization (in percent of total deposits/credit)							
Foreign currency deposits	92.6	92.2	91.7	92.1	..	92.6	92.5
Foreign currency credit	84.2	85.4	89.3	91.7	...	92.3	92.3
(Percentage change over preceding 12 months; at current exchange rates)							
Credit to the private sector	12.6	13.6	19.4	23.8	13.9	6.4	9.3
Liabilities to the private sector (M3) 3/	9.5	25.0	17.3	13.7	13.6	5.8	10.6
Foreign currency deposits	6.7	28.0	17.2	14.2	13.5	7.9	12.7
Liabilities in bolivianos (M2)	18.2	16.3	18.2	6.8	11.4	-5.8	9.7
Currency issued	20.8	8.5	14.6	12.1	13.0	-3.7	9.8
(Percent annually at end of period)							
Interest rates							
Central bank open market instruments 4/	14.8	7.6	8.2	8.6	...	..	...
Foreign currency bank deposits 5/	11.3	9.0	8.3	8.3	...	...	...
Foreign currency bank loans 5/	17.8	17.2	16.2	15.6	...	..	...
U.S. Treasury bills (one-year maturity)	5.7	5.2	5.4	4.3	...	...	...

Sources: Central Bank of Bolivia, and Fund staff estimates.

1/ Stocks measured at each year's accounting exchange rate.

2/ Includes *Nacional Financiera Boliviana*.

3/ M3 includes special certificates of deposits (CDD) held by the depositors of two banks closed in November 1994, and credit to the private sector includes that of two liquidated banks. Since 1998, M3 includes CDDs and loan portfolio from the bank liquidated in December 1997

4/ Weighted average; on U.S. dollar instruments.

5/ Denominated in U.S. dollars, which account for more than 90 percent of bank deposits and loans to the private sector.

Table 6. Bolivia: Commercial Bank Performance Indicators

(In percent)

	1994	1995	1996	1997	Prel. 1998	January-September	
						1998	1999
Profitability ratios							
<i>Ratios to total assets (period average)</i>							
Operating income	4.5	4.6	5.0	5.0	5.1	5.5	4.7
Profit before tax	1.4	0.7	1.5	1.4	1.2	1.7	1.1
Profit after tax	0.9	0.2	0.9	1.0	0.7	1.2	0.7
Net interest margin	3.5	4.4	4.3	4.8	5.6	5.4	5.4
Noninterest income	0.9	1.0	1.0	0.9	0.9	1.0	0.7
Overhead expenses	3.6	4.3	4.1	3.9	4.2	4.2	4.0
<i>Ratios to equity capital (period average)</i>							
Profit before tax	20.5	10.4	22.1	21.4	15.8	22.2	13.0
Profit after tax	14.1	2.8	13.6	14.4	9.5	15.6	8.4
Assets quality ratios							
<i>Ratios to total loans (end-of-period)</i>							
Nonperforming loans	3.6	6.2	4.7	4.4	4.6	6.0	7.6
Nonperforming loans net of provisions	2.5	4.8	2.9	2.5	1.9	4.0	4.3
Liquidity ratios							
<i>Ratios to total deposits (end-of-period)</i>							
Total loans	114.2	112.8	99.1	110.9	119.4	112.6	112.7
Total liquid assets	24.4	24.8	29.7	33.5	25.5	26.7	29.7
Capital adequacy ratio							
Ratio of qualifying capital to total risk-adjusted assets (end-of-period)	11.6	9.7	10.6	10.9	11.6	10.9	11.8

Source: Superintendency of Banks.

Table 7. Bolivia: Social Spending 1/

	1995	1996	1997	Prel. 1998	Proj. 1999	2000
(In millions of bolivianos)						
Total social spending	4,000	5,211	6,356	7,350	8,025	8,924
Current spending	2,881	3,736	4,729	5,459	5,843	6,434
Health	886	1,082	1,227	1,348	1,320	1,440
Administration	410	466	515	557	598	652
Hospitals and clinics	473	575	650	710	631	682
Local and regional governments	3	41	62	81	91	106
Education	1,530	1,812	2,101	2,330	2,561	2,776
Administration and basic education	1,123	1,310	1,489	1,666	1,715	1,849
Of which: primary education 2/	...	906	974	1,050	1,187	...
Universities	400	475	563	572	738	797
Transfers from treasury	227	257	310	291	323	330
Earmarked tax revenues	165	210	242	271	264	330
Other, including own resources	8	8	11	10	151	137
Local and regional governments	7	27	49	92	108	130
Pensions	424	792	1,345	1,686	1,784	1,961
Other 3/	41	50	56	95	178	257
Capital spending	1,119	1,475	1,627	1,891	2,182	2,490
Health	126	160	174	192	246	308
Education	179	325	405	353	447	548
Basic sanitary infrastructure	222	430	423	454	613	602
Urban development	367	310	307	350	298	363
Rural development	225	249	319	543	579	668
Of which: feeder roads	58	100	123	183	219	252
(In percent of GDP)						
Total social spending	12.4	13.9	15.2	15.6	16.1	16.5
Current spending	8.9	10.0	11.3	11.6	11.7	11.9
Capital spending	3.5	3.9	3.9	4.0	4.4	4.6
By function						
Health	3.1	3.3	3.3	3.3	3.1	3.2
Education	5.3	5.7	6.0	5.7	6.0	6.1
Of which: primary education	...	2.4	2.3	2.2	2.4	...
universities	1.2	1.3	1.3	1.2	1.5	1.5
Basic sanitary infrastructure	0.7	1.1	1.0	1.0	1.2	1.1
Urban development	1.1	0.8	0.7	0.7	0.6	0.7
Rural development	0.7	0.7	0.8	1.1	1.2	1.2
Of which: feeder roads	0.2	0.3	0.3	0.4	0.4	0.5
Pensions	1.3	2.1	3.2	3.6	3.6	3.6
Other 3/	0.1	0.1	0.1	0.2	0.4	0.5

Source: Ministry of Finance.

1/ Includes public expenditure on education, health, rural development, basic infrastructure, and pensions.

2/ Teachers' salaries.

3/ Includes government contributions to the National Housing Fund and private pension funds, and social spending by regional governments.

Table 8. Bolivia: Selected HIPC Social Policy Actions and Outcome Indicators, 1997-2000

(In percent, unless otherwise indicated)

	Base 1996	1997		1998		HIPC Targets 1/	
		Target	Estimate	Target	Estimate	1999	2000
Education							
Total expenditures on primary and secondary education (in percent of GDP)	3.1	3.3	3.3	3.5	3.3	3.9	3.9
Rural coverage-males	66.0	67.0	68.0	69.0	81.0	72.0	74.0
Rural coverage-females	54.0	56.0	56.7	60.0	77.0	64.0	68.0
Number of children completing 5th grade							
In urban areas	86,000	88,000	87,000	91,000	92,000	94,000	98,000
In rural areas	60,000	63,000	63,000	66,000	68,000	70,000	75,000
Number of girls completing 5th grade							
In urban areas	41,000	43,000	43,000	46,000	46,000	47,000	47,000
In rural areas	29,000	30,000	30,000	32,000	31,000	34,000	36,000
Cumulative number of beneficiary schools in quality improvement programs (such as PASE, PIME, and PIE)	...	9,000	4,431	15,221	...	20,310	26,558
Number of children (age 6 or under) enrolled in early childhood development programs	43,667	50,000	43,013	80,000	47,051	100,000	120,000
Health							
Share of births attended by health professionals 2/	30.0	45.0	43.8	56.0	49.0	63.0	69.0
Share of children (age 5 or under)							
Treated for							
Acute respiratory infections (IRA) 2/	25.0	43.0	69.0	50.0	69.0	60.0	70.0
Acute diarrhea (EDA) 2/	25.0	25.0	26.2	36.0	29.0	46.0	56.0
Receiving complete vaccinations 3/	78.0	80.0	86.5	82.0	80.0	83.0	85.0
In endemic areas							
Share of pregnant women having Chagas tests 2/	0.0	13.0	...	40.0	...	45.0	50.0
Share of households protected from Chagas	8.0	14.0	13.4	25.0	16.0	35.0	40.0
Inhabitants, in areas with malaria, participating in the annual parasite index (IPA)	...	35,200	15,300	20,000	21,700	15,000	8,000
Rural development and poverty alleviation							
Number of beneficiaries of basic water and sanitation projects in rural and peri-urban areas	132,000	132,000	186,052	132,000	216,662	132,000	132,000
Investment in rural road improvement/rehabilitation (in millions of U.S. dollars)	32.0	32.0	39.4	42.0	33.0	48.0	55.0
Number of hectares subject to cadastre and titling regulations (in millions)	0.3	1.6	1.6	3.5	3.5	4.0	4.0

Source: *Unidad de Análisis Política Económica*.

1/ All targets for 1997-2000 were established in September 1997, at the time of the decision point for the initial HIPC initiative.

2/ In the framework of the Mother and Childhood National Insurance Program (SNMN).

3/ Mostly vaccinations for polio, DPT, measles, and BCG.

Table 9. Bolivia: Summary Balance of Payments, 1995-2000

	1995	1996	1997	Prel. 1998	1999 EBS/99/56	Proj.	Proj. 2000
(In millions of U.S. dollars, unless otherwise noted)							
Current account	-335	-389	-554	-675	-645	-537	-591
Trade balance	-301	-450	-685	-878	-792	-639	-671
Exports, f.o.b.	1,075	1,128	1,166	1,105	1,099	1,013	1,120
Of which: gas	92	95	69	57	60	37	90
Imports, c.i.f.	-1,376	-1,578	-1,851	-1,983	-1,892	-1,652	-1,790
Of which: from capitalization	-5	-201	-319	-377	-315	-347	-257
Factor income, (net)	-221	-169	-196	-160	-213	-221	-265
Of which: interest due	-222	-179	-209	-203	-211	-211	-216
investment income (net)	-24	-38	-56	-44	...	-60	-105
Official transfers 1/	202	225	187	198	185	160	160
Other 2/	-15	6	140	166	175	163	184
Capital account	257	731	657	777	521	360	522
Capital transfers	11	45	25	10	0	0	0
Public sector loans	79	239	205	87	204	126	123
Disbursements	379	395	371	315	383	300	322
Amortization	-301	-155	-146	-169	-159	-153	-177
Amortization due by capitalized enterprises	0	0	-20	-59	-20	-20	-21
Private sector	250	393	684	910	602	362	399
Net private debt	30	18	221	125	78	-38	0
Direct investment	177	426	599	870	705	746	785
Of which: net investment from capitalization	5	262	436	676	413	434	322
Other 3/	44	-51	-136	-84	-181	-346	-386
Errors and omissions	-82	53	-258	-230	-285	-128	0
Overall balance	-79	342	103	102	-124	-177	-69
Exceptional financing	202	0	0	26	74	77	85
Of which: initial HIPC initiative	0	0	0	26	74	77	85
Net international reserves (increase -)	-123	-342	-103	-128	50	100	-15
Memorandum items:							
Gross reserves (end-of-period)	737	1,123	1,048	1,172	1,140	1,063	1,088
(In months of imports of goods and services) 4/	5.0	6.5	5.7	7.5	6.0	6.3	6.1
(Ratio to short-term debt by remaining maturity)	1.1	2.0	1.6	1.7	...	1.5	1.4
(In percent)							
Export volume growth	10.8	4.9	5.0	2.7	5.0	-4.3	7.2
Import volume growth	-0.3	16.6	22.2	12.9	-5.7	-15.4	6.4
Terms of trade change	-9.1	1.0	3.0	-3.8	-6.2	-2.7	0.9
(In percent of GDP)							
Current account deficit	-5.0	-5.3	-7.0	-7.9	-7.2	-6.3	-6.8
Merchandise exports	16.0	15.3	14.6	12.9	12.2	11.9	12.8
Merchandise imports	20.5	21.4	23.3	23.2	21.1	19.4	20.5
Of which: capitalization and pipeline	0.1	2.7	5.3	7.1	3.5	4.1	3.0
Grants and loans 5/	8.7	8.4	7.0	6.0	6.3	5.4	5.5

Sources: Central Bank of Bolivia; and Fund staff estimates.

1/ Excludes grants for debt reduction operations.

2/ Includes private transfers and other services. Beginning in 1997, includes communication services for which data were previously not available.

3/ Includes portfolio investments, commercial bank short-term capital flows, and other private capital flows.

4/ In months of imports of goods and services in the following year.

5/ Official transfers and loans to public sector, excluding HIPC debt relief.

Table 10. Bolivia: Medium-Term Balance of Payments, 1998-2006

	Prel. 1998	Projections							
	1999	2000	2001	2002	2003	2004	2005	2006	
(In millions of U.S. dollars, unless otherwise noted)									
Current account	-675	-537	-591	-594	-579	-590	-634	-678	-719
Trade balance	-878	-639	-671	-647	-610	-583	-598	-625	-675
Exports, f.o.b.	1,105	1,013	1,120	1,245	1,392	1,587	1,730	1,902	2,035
Of which: gas	57	37	90	174	267	326	341	375	401
Imports, c.i.f.	-1,983	-1,652	-1,790	-1,892	-2,002	-2,170	-2,328	-2,527	-2,710
Of which: from capitalization	-377	-347	-257	-202	-67	-40	0	0	0
Factor income, (net)	-160	-221	-265	-289	-320	-348	-377	-413	-398
Of which: interest due	-203	-211	-216	-220	-230	-240	-255	-271	-257
investment income (net)	-44	-60	-105	-132	-153	-176	-197	-214	-212
Official transfers 1/	198	160	160	146	135	110	100	100	116
Other 2/	166	163	184	196	216	231	241	260	239
Capital account	777	360	522	553	645	667	745	758	792
Capital transfers	10	0	0	0	0	0	0	0	0
Public sector loans	87	126	123	130	141	145	136	114	155
Disbursements	315	300	322	338	367	380	376	370	411
Amortization	-169	-153	-177	-192	-208	-221	-227	-246	-249
Amortization due by capitalized enterprises	-59	-20	-21	-17	-17	-15	-14	-10	-6
Private sector	910	362	399	423	503	522	609	645	636
Net private debt	125	-38	0	56	60	70	90	100	94
Direct investment	870	746	785	781	702	648	628	638	673
Of which: net investment from capitalization	676	434	322	253	83	47	0	0	0
Other 3/	-84	-346	-386	-413	-258	-195	-108	-93	-131
Errors and omissions	-230	-128	0	0	0	0	0	0	0
Overall balance	102	-177	-69	-41	65	77	110	80	73
Exceptional financing	26	77	85	70	55	41	36	33	23
Of which: initial HIPC initiative	26	77	85	70	55	41	36	33	23
Net international reserves (increase -)	-128	100	-15	-29	-120	-118	-146	-113	-96
Memorandum items:									
Gross reserves (end-of-period)	1,172	1,063	1,088	1,140	1,233	1,323	1,433	1,512	1,582
(In months of imports of goods and services) 4/	7.5	6.3	6.1	6.0	6.0	6.0	6.0	6.0	6.0
(Ratio to short-term debt by remaining maturity)	1.7	1.5	1.4	1.4	1.4	1.4	1.5	1.5	1.5
(In percent)									
Export volume growth	2.7	-4.3	7.2	9.2	8.8	11.9	7.0	7.9	8.0
Import volume growth	12.9	-15.4	6.4	3.6	3.5	6.5	7.5	7.1	7.2
Terms of trade change	-3.8	-2.7	0.9	-0.3	0.2	1.1	2.4	0.8	-0.7
(In percent of GDP)									
Current account deficit	-7.9	-6.3	-6.8	-6.6	-6.0	-5.7	-5.7	-5.6	-5.5
Merchandise exports	12.9	11.9	12.8	13.8	14.4	15.3	15.4	15.7	15.7
Merchandise imports	23.2	19.4	20.5	20.9	20.8	20.9	20.8	20.9	20.9
Of which: capitalization and pipeline	7.1	4.1	3.0	2.2	0.7	0.4	0.0	0.0	0.0
Grants and loans 5/	6.0	5.4	5.5	5.4	5.2	4.7	4.3	3.9	4.1

Sources: Central Bank of Bolivia; and Fund staff estimates.

1/ Excludes grants for debt reduction operations.

2/ Includes private transfers and other services.

3/ Includes portfolio investments, commercial bank short-term capital flows, and other private capital flows.

4/ In months of imports of goods and services in the following year.

5/ Official transfers and loans to public sector, excluding HIPC debt relief.

Table 11. Bolivia: Indicators of Medium- and Long-Term External Public and Publicly Guaranteed Debt and Debt Service, 1998-2006

	Prel. 1998	1999	2000	2001	Projections				
					2002	2003	2004	2005	2006
(In millions of U.S. dollars)									
Debt outstanding									
Nominal (after HIPC assistance)	4,571	4,686	4,854	5,029	5,170	5,350	5,557	5,756	5,941
Of which: publicly guaranteed	315	280	246	213	185	164	144	129	123
NPV before HIPC assistance	3,521	3,563	3,641	3,720	3,810	3,969	4,186	4,437	4,674
NPV after HIPC assistance	2,907	2,989	3,114	3,235	3,353	3,530	3,764	4,028	4,273
(In percent of exports of goods and services)									
Debt outstanding 1/									
Nominal (after HIPC assistance)	335.9	348.1	361.8	358.4	332.5	308.0	288.2	271.0	259.8
Of which: publicly guaranteed	23.2	20.8	18.4	15.2	11.9	9.4	7.5	6.1	5.4
NPV before HIPC assistance	258.7	264.7	271.4	265.1	245.0	228.5	217.2	208.9	204.4
NPV after HIPC assistance	213.6	222.1	232.1	230.5	215.6	203.2	195.2	189.6	186.9
Debt service due 2/	30.3	26.9	26.4	24.7	22.9	20.8	20.1	19.2	18.7
Of which: multilaterals	25.0	21.5	20.9	19.0	17.8	15.5	15.0	14.5	14.2
Of which: publicly guaranteed	3.6	3.2	2.8	2.3	1.7	1.2	0.9	0.6	0.6
Debt service due after HIPC assistance	28.4	20.9	20.3	20.2	19.8	18.8	18.4	17.8	17.7
(In percent of GDP)									
Debt outstanding									
Nominal (after HIPC assistance)	53.4	54.9	55.7	55.6	53.6	51.4	49.6	47.6	45.7
Of which: publicly guaranteed	3.7	3.3	2.8	2.4	1.9	1.6	1.3	1.1	0.9
NPV before HIPC assistance	41.2	41.8	41.8	41.1	39.5	38.2	37.4	36.7	36.0
NPV after HIPC assistance	34.0	35.0	35.7	35.8	34.8	33.9	33.6	33.3	32.9
Debt service due	4.8	4.0	4.2	4.2	4.1	3.9	3.8	3.7	3.5
Of which: multilaterals	4.0	3.2	3.4	3.2	3.2	2.9	2.8	2.8	2.7
Of which: publicly guaranteed	0.6	0.5	0.5	0.4	0.3	0.2	0.2	0.1	0.1
Debt service due after HIPC	4.5	3.1	3.3	3.4	3.5	3.5	3.5	3.4	3.3
(In millions of U.S. dollars)									
Memorandum items:									
Exports of goods and services									
Current year	1,356	1,270	1,399	1,541	1,725	1,945	2,114	2,313	2,433
Simple three-year moving average	1,361	1,346	1,342	1,403	1,555	1,737	1,928	2,124	2,287
GDP	8,555	8,531	8,715	9,043	9,645	10,399	11,200	12,103	12,996

Sources: Central Bank of Bolivia; and Fund staff estimates.

1/ In percent of three year historical average export of goods and services.

2/ In percent of current year exports of goods and services.

Table 12. Bolivia: Scheduled Debt Service on Medium- and Long-Term External Public and Publicly Guaranteed Debt, 1998-2006

(In millions of U.S. dollars)

	Prel.	Projections							
	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt service due 1/	410.7	342.1	368.8	381.3	395.6	405.4	424.0	444.2	454.2
Principal	268.5	207.4	228.2	241.0	255.1	263.8	277.8	290.6	283.5
Multilateral	244.5	178.4	196.7	201.1	213.7	205.6	216.8	225.5	218.3
IMF	40.6	34.1	31.0	32.0	29.8	30.2	38.1	33.8	26.5
World Bank	16.8	18.8	18.2	13.0	15.3	17.0	19.1	23.3	25.4
IDB	105.1	66.5	88.0	87.8	89.3	89.5	90.0	92.6	90.3
CAF	53.0	45.5	46.5	55.4	66.3	54.9	56.4	60.7	61.9
Other	29.0	13.4	13.0	12.9	12.9	14.0	13.2	15.2	14.2
Official bilateral	22.9	25.7	27.4	35.2	38.3	49.2	50.0	50.8	51.4
Paris Club	19.8	22.7	22.4	30.2	34.3	40.2	39.0	38.8	38.4
Pre-cutoff date debt	0.0	0.7	1.4	2.8	4.5	5.2	6.0	6.4	7.4
Non-Naples	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0
Naples	0.2	0.7	1.2	2.6	4.3	5.0	5.8	6.4	7.4
Post-cutoff date debt	19.8	22.0	21.0	27.4	29.8	35.0	33.0	32.4	31.0
Non-Paris Club	3.1	3.0	5.0	5.0	4.0	9.0	11.0	12.0	13.0
Other	1.1	3.3	4.0	4.7	3.1	9.0	11.0	14.2	13.8
Interest	142.2	134.7	140.6	140.3	140.5	141.6	146.2	153.7	170.8
Multilateral	94.3	95.0	95.5	92.1	93.2	95.3	100.3	110.7	128.0
IMF	1.0	0.9	0.9	0.7	0.6	0.5	0.4	0.3	0.2
World Bank	11.7	12.4	12.0	10.5	11.4	11.8	12.4	12.8	24.2
IDB	62.6	61.6	58.5	56.6	57.7	60.4	64.7	70.0	71.7
CAF	17.0	15.7	18.7	19.0	17.5	15.9	16.2	17.6	19.3
Other	2.0	4.3	5.5	5.2	6.0	6.5	6.6	9.8	12.7
Official bilateral	46.5	38.7	43.2	47.3	46.9	46.3	45.9	43.0	42.8
Paris Club	29.5	26.0	31.7	39.1	38.2	37.3	36.3	35.2	32.6
Pre-cutoff date debt	25.5	21.2	25.7	26.3	26.2	26.1	25.9	25.6	23.8
Non-Naples	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Naples	25.4	21.1	25.6	26.3	26.2	26.1	25.9	25.6	23.8
Post-cutoff date debt	4.0	4.8	6.0	12.8	12.0	11.3	10.4	9.6	8.7
Non-Paris Club	17.0	12.8	11.5	8.2	8.7	9.0	9.6	7.8	10.3
Other	1.4	1.0	1.9	0.9	0.3	0.0	0.0	0.0	0.0
Memorandum item:									
HIPC relief	26.0	77.2	84.6	70.0	54.6	40.6	35.6	32.6	23.0
Principal	23.6	38.1	38.5	27.6	20.4	10.8	8.1	7.4	5.0
Interest	2.4	39.1	46.1	42.4	34.2	29.8	27.5	25.2	18.0

Sources: Central Bank of Bolivia; and Fund staff estimates.

1/ After the full implementation of the debt relief provided in the stock-of-debt operation by Paris Club creditors, and comparable action by other bilateral and private creditors.

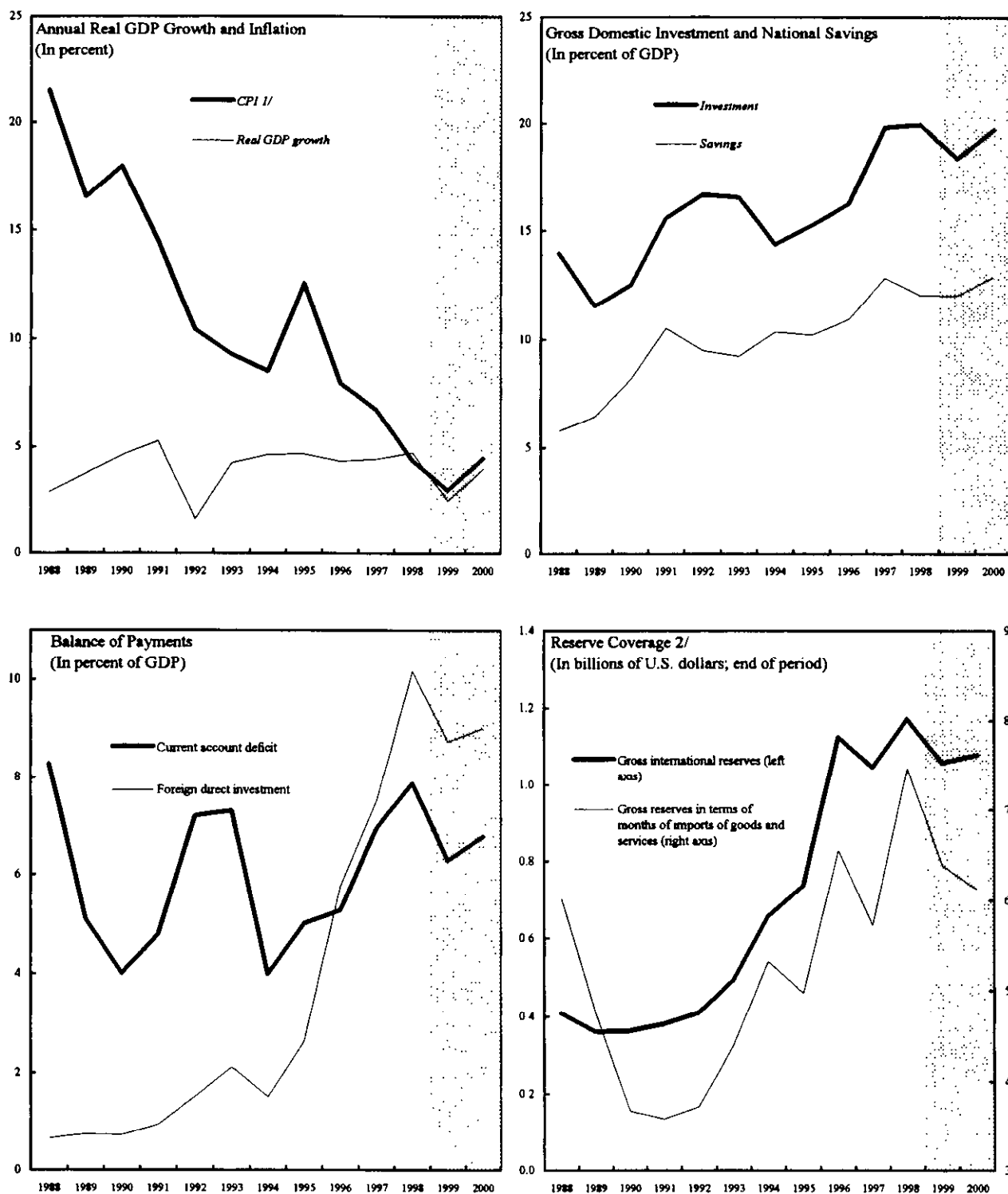
Table 13. Bolivia: Indicators of Fund Credit, 1998-2006

	Prel. 1998	Projections							
		1999	2000	2001	2002	2003	2004	2005	2006
Outstanding Fund credit									
In millions of SDRs	187.6	179.5	190.7	201.5	180.3	159.0	132.4	108.9	90.4
In percent of quota	148.7	104.7	111.2	117.5	105.1	92.7	77.2	63.5	52.7
In percent of GDP	3.0	2.9	3.0	3.1	2.6	2.2	1.7	1.3	1.0
In percent of exports of goods and services	18.8	19.3	18.9	18.2	14.7	11.6	9.0	6.7	5.3
Debt service due to the Fund									
In millions of U.S. dollars	40.6	34.1	31.0	32.0	29.8	30.2	38.1	33.8	26.5
In percent of quota	43.6	27.2	25.1	26.0	24.5	25.0	31.9	28.2	22.2
In percent of exports of goods and services	3.0	2.7	2.2	2.1	1.7	1.6	1.8	1.5	1.1
In percent of gross service due	9.9	9.5	8.4	8.4	7.6	7.4	8.8	7.6	5.7
In percent of gross official reserves	3.5	3.2	2.9	2.8	2.4	2.3	2.7	2.2	1.7
Gross Fund financing									
In millions of U.S. dollars	45.6	23.0	46.6	47.0	0.0	0.0	0.0	0.0	0.0
In percent of Bolivia's gross financing needs 1/	6.7	2.8	4.0	3.9	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
Quota (in millions of SDRs)	126.2	171.5	171.5	171.5	171.5	171.5	171.5	171.5	171.5

Sources: Central Bank of Bolivia; International Monetary Fund; Treasurer's Department; and Fund staff projections.

1/ Gross financing needs are defined as the sum of the external current account deficit, scheduled amortization, repayments to the fund, changes in gross international reserves of the central bank, change in arrears, and net private capital flows.

Figure 1. Bolivia:
Selected Economic Indicators, 1988 - 2000

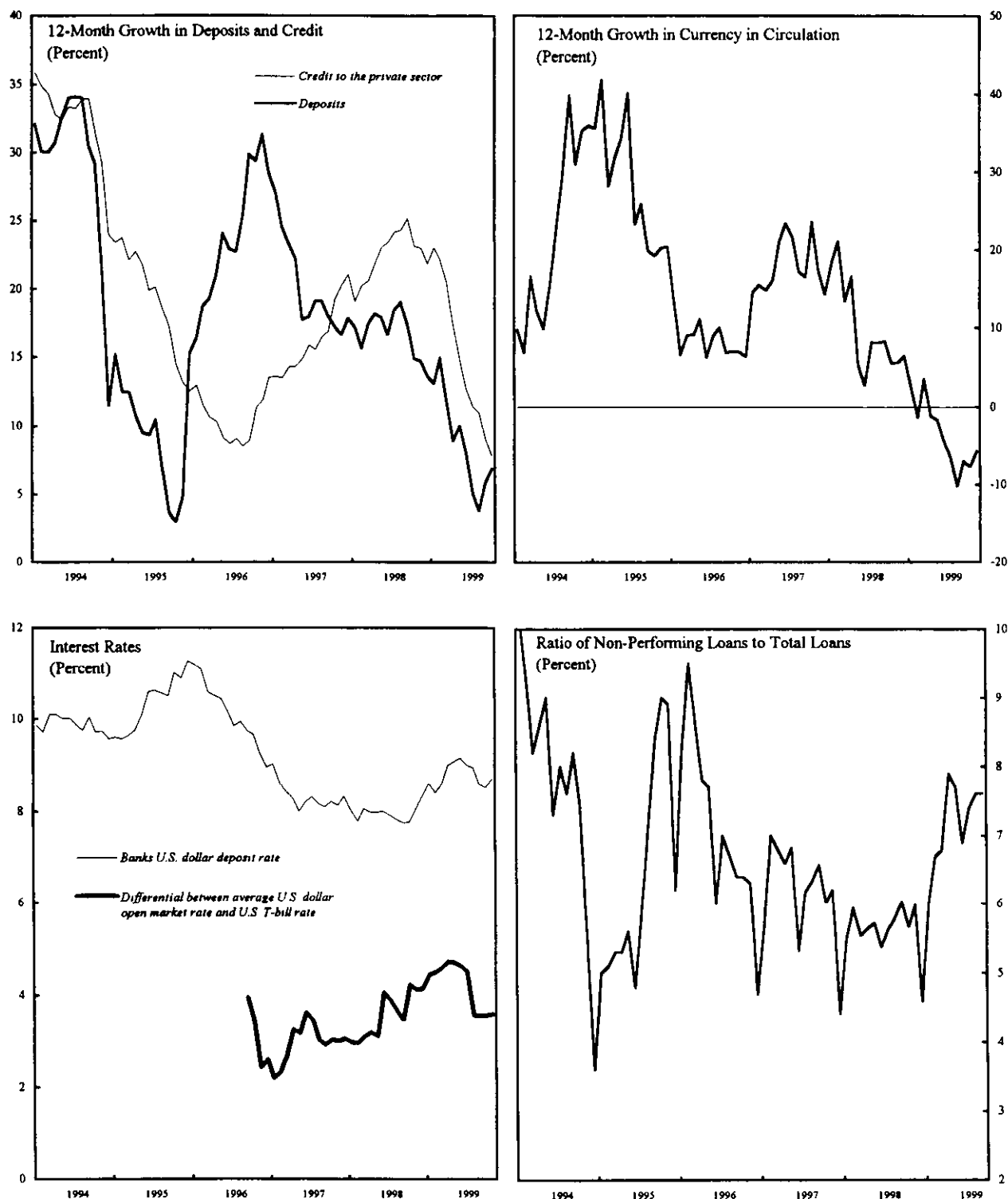


Sources: Central Bank of Bolivia; Ministry of Finance; and Fund staff estimates.

1/ December over December.

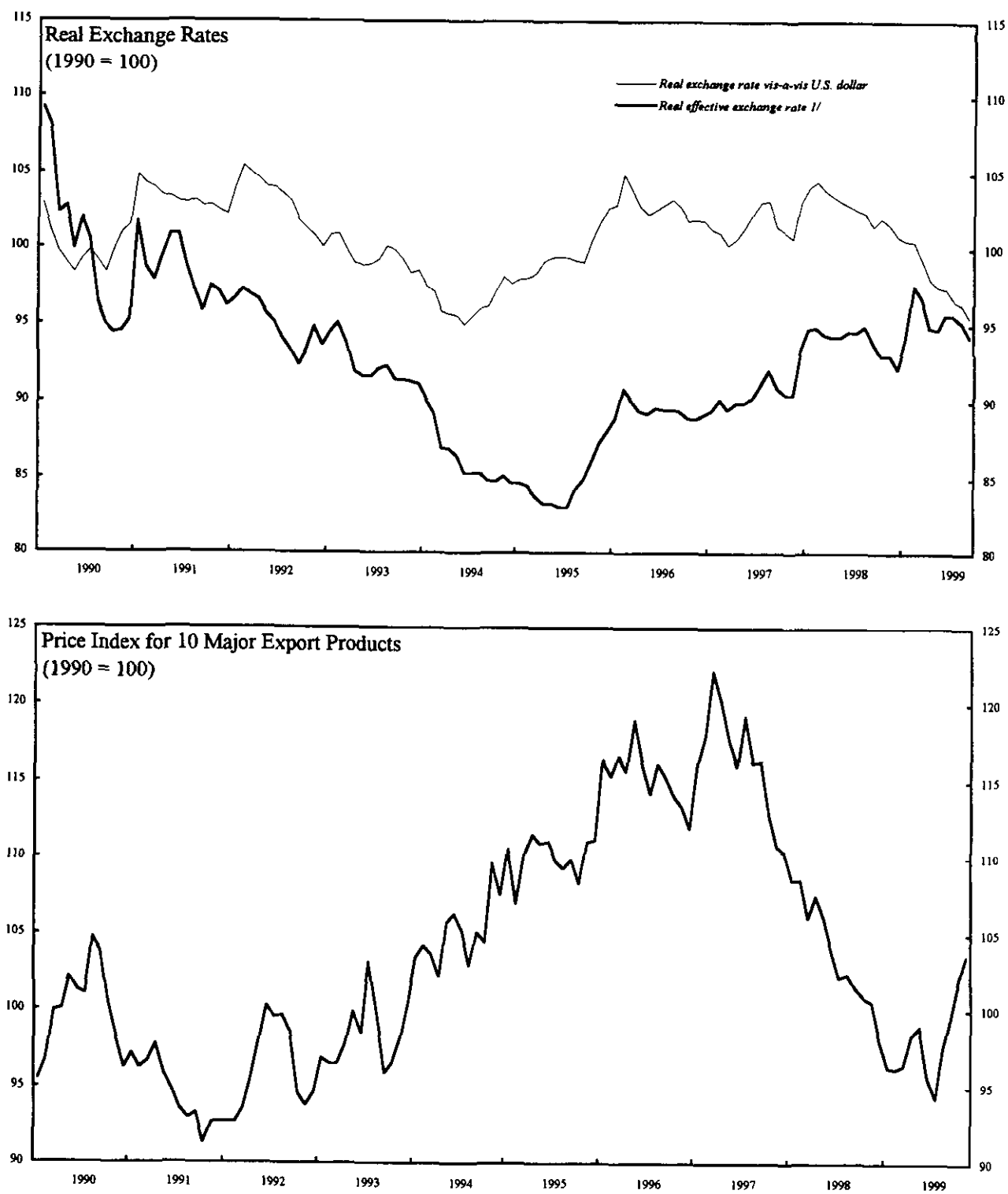
2/ Since 1997, includes gold re-valuation from US\$250 per troy ounce and new bank reserve requirement.

Figure 2. Bolivia:
Monetary and Financial Sector Indicators, 1994-1999



Sources: International Financial Statistics and Central Bank of Bolivia.

Figure 3. Bolivia:
Indicators of External Vulnerability, 1990 - 1999



Source: International Financial Statistics and Fund staff estimates.

1/ New weights, based on trade 1996-98.

BOLIVIA: FUND RELATIONS
(As of November 30, 1999)

I. Membership Status: Joined: 12/27/1945; Article VIII.

II. General Resources Account:	SDR Million	% Quota
Quota	171.50	100.0
Fund holdings of currency	162.64	94.8
Reserve position in Fund	8.87	5.2

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	26.70	100.0
Holdings	26.80	100.4

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
ESAF arrangements	184.5	107.6

V. Financial Arrangements:

Type of Arrangement	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	09/18/98	9/17/01	100.96	33.65
ESAF	12/19/94	9/09/98	100.96	100.96
ESAF	7/27/88	5/31/94	163.26	163.26

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	10/31/1999	Forthcoming				
		1999	2000	2001	2002	2003
Total	0.0	4.9	23.3	23.6	21.8	21.7
Principal	0.0	4.5	22.4	22.9	21.2	21.2
Charges/interest	0.0	0.4	0.9	0.7	0.6	0.5

VII. Exchange Rate Arrangement: The Bolivian currency is the boliviano. The central bank holds a daily foreign exchange auction, accepting all bids that are at least equal to the central bank's minimum price. If acceptable bids exceed the amount offered for auction, the lowest acceptable bids are prorated so as to exhaust the amount offered. The minimum price is adjusted from time to time in light of the evaluation of Bolivia's real exchange rate with respect to Bolivia's key trading partners. The administration of the system has resulted in spreads between the maximum and

minimum bids of less than 2 percent. On November 30, 1999, the official buying rate was Bs 5.96= US\$1 and the buying rate in the parallel market was Bs 5.96 = US\$1.

VIII. Article IV Consultation: The previous Article IV consultation was concluded by the Executive Board on September 18, 1998 (EBS/98/153, SM/98/225). Bolivia is on the standard 12-month consultation cycle.

IX. Technical Assistance:

Department	Purpose	Time
FAD	Mission to advise on local government debt management issues	April 1997
MAE	Expert to help prepare central bank regulations and advise on bank supervision	May 1997
MAE	Advisor at the central bank to coordinate Swiss-financed project	October 1997, ongoing
MAE/LEG	Mission to help improve prudential regulations	December 1997
MAE	Mission to advise the authorities in the areas of monetary and foreign exchange operations, bank supervision, payment systems, and central bank organization and management	January, June 1998
STA	Mission to help improve money and banking statistics	February 1998, January 1999
FAD	Mission to advise on modernization of customs administration	January, June 1998, June 1999
STA	Expert to review the quality of price statistics	February 1998
FAD	Fiscal decentralization	September 1998
FAD	Mission to review the status of the tax administration	October 1998, May 1999
FAD	Mission to advise on tax policy	January 1999
MAE	Mission to review Swiss-financed project which aims at strengthening central bank operations and develop domestic capital markets.	February, June 1999, ongoing
STA	Mission to advise on balance of payments statistics	August 1999
MAE	Mission to assess the vulnerability of the banking system	October 1999

X. Resident Representative: Mr. Eliahu Kreis, since August 1997.

Bolivia: Relations with the World Bank Group
(As of November 30, 1999)

The Bank's lending program for Bolivia is designed to support government efforts to reorient the role of the public sector toward provision of social services and infrastructure and improving efficiency in the provision of services to alleviate poverty and develop human capital.

Proposed operations for the period FY 1999-FY 2001 will consist of 12 IDA operations for the total of US\$392 million, including projects to expand and improve the quality of health and education, services, rationalize the role of the state, increase and maintain physical infrastructure, and develop public sector institutions, including strengthening the capacities of departmental and municipal administrations and the judiciary. The lending program for FY 2000-01 is currently under review with government and might change.

The status of World Bank loans, IDA credits and IFC investments are shown in the following tables:

Bolivia: IBRD and IDA Lending by Sector
(As of November 30, 1999)
(In millions of U.S. dollars, unless otherwise indicated)

	Number of Loans	Approved 1/	Amount Disbursed	Undisbursed 2/
Disbursed	70	1,135.6	1,176.6	2.2
Current	17	639.7	227.3	420.4
Environment, Industry, and Mining		11.0	1.7	8.6
Judicial Reform		11.0	8.1	2.3
Integrated Child Development		30.7	12.7	17.4
Road Maintenance		80.0	69.3	13.3
Municipal Development		42.0	35.3	6.7
Education Reform		40.0	21.0	20.2
Financed Decentralization and Accountability		15.0	5.0	9.9
Land Administration		20.4	14.7	4.2
Rural Water and Sanitation		20.0	11.2	7.3
Participatory Rural Investments		62.8	5.8	58.8
Education Quality		75.0	8.9	68.4
Regulatory Reform T.A.		20.0	1.1	19.6
El Nino Emergency		25.0	10.2	15.5
Regulatory Reform Adjustment (including IDA reflow)		41.8	22.3	20.3
Institutional Reform		32.0	0.0	33.1
Health Sector Reform		25.0	0.0	24.8
Abapo-Camiri Road		88.0	0.0	90.0
Total (net of cancellations)	87	1,775.3	1,403.9	422.6
<i>Of which : repaid</i>			305.9	

1/ Amount approved less cancellations.

2/ Not always equal to the difference between the amounts approved and disbursed because of changes in valuation.

Bolivia: Proposed World Bank Lending Program, FY 1999-2001

(In millions of U.S. dollars, unless otherwise indicated)

	Fiscal Year				Share of Total (In percent)
	1999	2000	2001	1999-2001	
Number of projects	4	5	3	12	
Total Loan Amount	187	110	95	392	100.0
Infrastructure	128	45	80	253	64.6
Abapo-Camiri Highway	88	0	0	88	
Regulatory Reform Adjustment	40	0	0	40	
Hydrocarbon Environmental Management	0	5	0	5	
Third Road Maintenance	0	40	0	40	
San Jose-Puerto Suarez Highway	0	0	65	65	
Yucuno-San Borja Highway	0	0	15	15	
Social Sectors	25	5	15	45	11.5
Health Sector Reform	25	0	0	25	
Secondary and Higher Education Reform	0	0	15	15	
Indigenous People Development	0	5	0	5	
Institutional Framework	32	60	0	92	23.5
Institutional Reform	32	0	0	32	
Support to the Judicial Sector	0	20	0	20	
Decentralization	0	40	0	40	
IDA Reflows	2	0	0	2	0.5

* The lending program for FY 2000-01 is currently under review with the government and might change.

Bolivia: IFC Investment
(As of August 31, 1999)

(In millions of U.S. dollars)

	Loan	Equity	Quasi	Partic.	Total
Total commitments	27	9	12	22	69
Total disbursed	23	6	12	15	57
Total undisbursed	3	2	0	7	12

BOLIVIA: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Background

As of December 1, 1999, the Inter-American Development Bank (IDB) approved loans to Bolivia amounted to US\$ 2.6 billion, of which cumulative disbursements amounted to US\$2 billion. Bolivia's outstanding debt to the IDB was US\$1.5 billion.

The lending program

The IDB's lending program for Bolivia is designed to support the government's efforts to reduce poverty by promoting sustained growth and increased employment opportunities in the productive infrastructure sectors, microenterprise, and rural development; by supporting direct actions to improve access to the basic social services; and by helping to consolidate the reform process. In infrastructure, the Bank-financed projects focus on roads, in particular, trade corridors that facilitate economic integration with neighboring countries. In the social area, the Bank is supporting reforms in health, education, and housing including water supply and sanitation projects in urban areas. In addition, the IDB participates in the HIPC initiative with the IMF and the World Bank.

The proposed IDB lending program for Bolivia in 1999–2001 is subject to the availability of concessional funds. It consists of 14 loans for a total of US\$350.3 million, of which about 37 percent are targeted for the social sectors and 32 percent for infrastructure. US\$150.3 million will be approved during 1999, whereas for the period 2000–01 the IDB Board will probably assign a total of US\$200 million (US\$100 million each year).

Recent economic and sector work

During 1998, several missions visited La Paz to review the Bank's lending program and its lending portfolio. The Country Paper for Bolivia, which outlines the Bank's strategy for Bolivia, was approved by the Board of Directors in June 9, 1999. The IDB also prepared several documents covering its lending program in support of the private sector as well as documents studying the constraints to private saving and investment in Bolivia and public sector reform. A study on the decentralization process is currently being prepared.

IDB nonreimbursable technical cooperation and small projects

The IDB portfolio also includes active projects for US\$53 million in nonreimbursable technical cooperation, and US\$2.3 million in nonreimbursable small projects.

Bolivia: Relations with the Inter-American Development Bank
(In millions of U.S. dollars)

Number	Projects	Number of Loans	Approved	Disbursed	Undisbursed
I. Statement of IDB loans (as of December 1, 1999)					
Totally Disbursed (less cancellations)			1,389	1,389	--
Sectors		39	1,112	581	531
Roads		6	232	130	102
549/OC	Confital-Caihuasi		33	25	8
698/OC	Rio Seco-Desaguadero		55	27	28
893/SF	Cotopata-Santa Barbara		40	32	8
840/SF	Patacamaya-Tambo Quemado		51	46	5
1039/SF	Ventilla-Tarapaya		52	0	52
1030/SF	PPF: Ventilla-Tarapaya		2	0	1
Energy		1	80	67	13
598/OC	Electricity		80	67	13
Agriculture		4	57	19	38
901/SF	Small rural projects		13	11	1
929/SF	Protection of environment		19	3	16
964/SF	Irrigation and drainage		26	5	21
1012/SF	FPP: Servicios Agropecuarios		0	0	0
Sanitation		3	134	75	59
777/OC	Sewerage-water supply		57	57	0
914/SF	Environment		7	5	2
987/SF	Saneamiento Básico Urbano		70	13	57
Social sectors		11	355	115	240
931/SF	Education reform		80	13	67
858/SF	Basic health service		34	29	5
950/SF	Social investment fund		60	50	10
982/SF	Social management		3	0	3
963/SF	Housing sector reform		1	1	0
995/SF	Programa de Atención al Menor		20	1	19
1006/SF &	Apoyo a Política de Vivienda		60	1	59
1011/SF			1	0	1
1019/SF	Ajuste Fiscal y gasto Social		50	20	30
1031/SF &	Escudo Epidemiológico y Reforma		45	0	45
1033/SF	Sector Salud		1	0	1
Institutional Strengthening		10	54	23	31
976/SF	Governability		12	3	9
954/SF	National register (RUN)		12	7	5
888/SF &			6	5	1
880/SF	Ministry of Planning		3	3	0
993/SF	Descentralización SNIPPRE		7	1	6
992/SF	FPP: SNIPPRE		0	0	0
924/SF	Ctr. Apoyo Gestión Tributaria		3	3	0
961/SF	Prest. Ct. Apoyo al Sector Turismo		5	1	4
1038/SF	Prest. CT Soc. Civil y Acceso Justicia		3	0	3
1043/SF	Fortalecimiento Serv. Nac. Impuestos		3	0	3
Multisectoral Lending		3	185	152	33
629/OC	Private sector enterprises		80	80	0
939/SF	Recapitalization of commercial banks		70	69	1
1020/SF	Micro and Small Enterprises		35	3	32
Private Sector		1	15	0	15
1151/OC	Aguas de Illimani		15	0	15
Technical assistance And other		70	53	26	27
Total Repaid			2,554	1,996	558
Outstanding				1,469	

Bolivia: Relations with the Inter-American Development Bank

	1999	2000-01	Amount	In percent of Total
II. Proposed IDB Lending Program 1999-2001				
Number of loans	6	8	14	
(In millions of U.S. dollars)				
Total loan amount	150	200	350	100.0
Social sectors	85	45	130	37.1
Health	45	0	45	12.8
Sanitation Small Municipalities	40	0	40	11.4
Urban Development and Sanitation	0	45	45	12.8
Infrastructure	52	60	112	32.0
Transport (Ventilla-Tarapaya)	52	0	52	14.9
Pailón-San José	0	60	60	17.1
Other	13	95	108	30.9
National Census	7	0	7	2.1
Agricultural services	0	35	35	10.0
Rural services (FDC)	0	35	35	10.0
Justice program	3	0	3	0.7
Tax System (SNII)	3	0	3	0.9
Custom System	0	5	5	1.4
Preinvestment	0	10	10	2.9
Eco-tourism	0	10	10	2.9

Source: Inter-American Development Bank.

Bolivia: Social and Demographic Indicators

Total area (in thousand square kilometers)	1,099
Agricultural land (potential use in percent of total area)	26.4
Population and vital statistics	
Population in millions (1998)	7.9
Population density per square km. of agricultural land (1998)	27
Percentage of population 14 years old or younger (1998)	40
Average annual population growth rate (1990-98)	2.4
Life expectancy at birth in years (1995-1999)	62
Female	63
Male	60
Infant (under 1 year of age) mortality per 1,000 live births (1998)	67
Child (under 5 years of age) mortality per 1,000 live births (1998)	92
Maternal mortality per 10,000 live births (1999)	39
Fertility rate (births per woman) (1999)	4.2
Food and nutrition	
Per capita food production index in 1996 (1988=100)	110
Per capita supply of calories per day (1994)	2,046
Per capita protein intake in grams per day (1994)	46
Percentage of malnourished children under 3 years of age (1998)	24
Health and health care	
Population per physician (1998)	3,106
Population per hospital bed (1998)	670
Access to services (in percent) (1998)	
Households with access to safe water	75
Urban	93
Rural	44
Households with access to piped water	66
Urban	87
Rural	30
Households equipped with sanitation	29
Urban	45
Rural	2
Households with access to electricity	71
Urban	96
Rural	29
Education	
Primary school enrollment (gross enrollment rates) (1997)	102
Secondary school enrollment (gross enrollment rates) (1997)	53
Students per teacher ratio (1997)	22
Students reaching grade 4 (percent of cohort) (1997)	73
Illiteracy rate of population over 15 years of age (percent) (1998)	13.8
Income distribution in cities (1995)	
Percentage of private income received by:	
Richest 20 percent of all households	57
Poorest 20 percent of all households	4
Poorest 40 percent of all households	12

Sources: National Statistical Institute; National Demographic and Health Survey 1994 and 1998; Ministry of Agriculture; Ministry of and UDAPE.

BOLIVIA: STATISTICAL ISSUES

The timeliness and coverage of economic statistics in Bolivia is generally good. The Fund's Statistics Department (STA) has provided extensive technical assistance on national accounts, consumer prices, external trade indices, and money and banking statistics. However, some data sources remain weak and additional work is needed, i.e., data on wages and unemployment have very limited coverage and lack timeliness, while price indices although methodologically correct are becoming outdated. The authorities provide data to the Fund, mainly through the resident representative office, in a timely manner. Bolivia has several statistical publications, but there is no fully articulated publication policy.

In recent contact with the authorities, the Fund's Statistics Department (STA) discussed the authorities' internal work plan for documenting Bolivia's current data dissemination practices covering statistics in money and banking, balance of payments, government finance, and the real sector. The January 1999 money and banking statistics mission also discussed the needed steps to meet the requirements of the General Data Dissemination Standard (GDDS), and the authorities participated in the regional training for GDDS in Mexico in May 1999.

National accounts

Annual national accounts data are prepared by National Statistics Institute (INE). Drawing on technical assistance from STA, INE has recently revised its national income accounts to bring its methodology closer to international standards and developed better estimates of the contribution of informal activities to GDP. Still, some of the data sources remain weak and there is a possibility that growth, especially in the new capitalized enterprises, may be understated. In 1999 INE developed quarterly national accounts statistics for real GDP going back to 1990, but has yet to publish this information. Also, INE has yet to revise its preliminary national accounts statistics for 1998.

Prices

The price statistics mission of February 1998 found that both the consumer price index (CPI) and producer price index (PPI) were due for revision. For the CPI, a new household budget survey is needed so that the basket of items, their weights, and the sample of outlets covered can be updated (the current index is based on 1990 expenditure data). The mission has approached the World Bank for funding for such a survey. The manufacturing PPI is based on 1990 output data, and is compiled quarterly but published only annually due to lack of resources. The INE intends to revise the PPI once 1997 industrial statistics are available, putting the index on a base of 1998=100, updating the sample of producers, and improving price collection methods. Ideally, indices will also be established for the mining, gas, energy and water industries. The mission found that the unit value indices of external trade are based on very small samples and thus potentially unreliable, although the forthcoming Fund-supported reform of the customs authorities should help to improve this.

Public finances

Monthly data on revenues, current and investment expenditures, and the financing for the general government (central government and decentralized entities), public enterprises and the central bank, with appropriate disaggregation, are provided with a relatively short lag. The Ministry of Finance also provides the staff with data on certain revenue accruing to the military, which finances spending that is not captured in the budget.

The national secretariat of finance provides annual data to STA on the operations of the consolidated central government, and regional and local governments for publication in the *Government Finance Statistics Yearbook*. However, these data do not cover all operations of decentralized agencies and of operations channeled through special funds.

Balance of payments statistics

Bolivia adopted the standards of BPM5 in 1998, and balance of payments statistics for 1997 and 1998 have been reported using the BPM5 methodology. However, the coverage of Bolivia's balance of payments statistics is still quite narrow, particularly as regards services and financial transactions of the private sector. These weaknesses can be traced mainly to (a) the lack of a defined strategy in the Balance of Payments Department of the Central Bank that has hindered the implementation of enterprise surveys, and (b) the fact that data reported by financial institutions do not distinguish transactions between residents and nonresidents. The balance of payments mission that visited Bolivia in August 1999, reported its finding to the authorities and a two-stage action plan was developed with a view to alleviate major constraints and strengthen the balance of payments data base.

Monetary statistics

Monetary data for publication in *IFS* are provided for the central bank and the rest of the banking system on a timely basis. The coverage of banks in the monetary survey is comprehensive, and in 1995 the central bank also started to compile and provide the staff with data on the operations of other banking institutions.

The central bank also provides data on key variables such as net foreign assets, currency, and credit to the nonfinancial public sector to the resident representative office on a weekly basis. The January 1999 STA mission reviewed the progress by the authorities in implementing the recommendations of the money and banking statistics mission of January–February 1998, which had resulted in an improvement of the coverage and quality of the monetary data of the central bank, and assisted in further strengthening its central monetary database. The coverage of monetary aggregates was expanded by including the operations of mutual funds, cooperatives and financial funds. The mission also analyzed the possibility of introducing a new accounting structure in the central bank, which will facilitate the derivation of monetary statistics.

As a result, starting July 1999, the Central Bank has shifted to a new accounting structure and will run the accounts in parallel for several months.

With regard to the other depository corporations, there are still large inconsistencies in the interbank accounts, and the plan of accounts and supplementary information for commercial banks and other banking institutions need to be improved regarding residency and sectorization by economic sector.

A follow-up mission has been scheduled for the first quarter of FY 2001, with the objective of reviewing the monetary accounts compiled under the new plan of accounts introduced by the central bank in July 1999, and under the modified plan of accounts of the other banking institutions.

Survey of Reporting of Main Statistical Indicators
(as of November 31, 1999)

Country: **Bolivia**

	Exchange Rate	International reserves	Reserve/ Base Money	Central Bank balance sheet	Broad money	Interest Rates	Consumer Price Index	Exports/ imports	Current account balance	Overall government balance	GDP/ GNP	External Debt Service
Date of latest observation	Nov. 99	Nov. 99	Nov. 99	Sept. 99	Sept. 99	Nov. 99	10/31/99	Jan-Sept 99	Q3 99	Jan-Sept.99	1998 (preliminary)	Q3 99
Date received	Nov. 99	Nov. 99	Nov. 99	Oct. 99	Oct. 99	Nov. 99	11/1/99	10/30/99	10/30/99	10/5/99	3/30/99	10/30/99
Frequency Of data 1/	D	W	W	M	M	W	M	M	Q	W prel.; M	A	Q
Frequency Of reporting 1/	W	W	W	M	M	W	M	M	Q	W prel.; M	A	Q
Source Of data 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	C	C	C	C	C	C	C	C	C	C	C	C
Confidentiality 4/	C	C	C	A	C	C	C	C	B	B	C	B

1/ D-daily, W-weekly, M-monthly, Q-quarterly, and A-annually.

2/ A-direct reporting by Central Bank, Ministry of Finance, or other official agency.

3/ C-cable or facsimile, and O-other (diplomatic pouch).

4/ A-for use of staff only, B-for use of staff and the Executive Board, C-for unrestricted use.

BOLIVIA: TECHNICAL ASSISTANCE CONSULTATION

I. FISCAL AFFAIRS DEPARTMENT

In recent years FAD has provided extensive technical assistance to Bolivia in the areas of tax and customs administration, tax policy, public debt, and intergovernmental financial relations. To assist with the implementation of the customs reform project, a long-term advisor has been assigned and is currently stationed in La Paz. In the provision of technical assistance (TA), FAD coordinates closely with other donors, especially the World Bank and the IDB.

Assessment of technical assistance effectiveness

Tax policy: in January 1999, a mission recommended a far-reaching tax reform, aimed at simplifying the system, increasing revenue through the widening of tax bases (mostly through the elimination of loopholes), and reducing current distortions. Suggested measures included eliminating the cascading transactions tax by incorporating it into the value-added tax, consolidating schedular income taxes into an individual income tax, introducing a tax on assets as a minimum tax on profits, and eliminating many tax exemptions. The authorities were receptive and made public their intention to act on the recommendations.

Tax administration: the TA missions of October 1998 and May 1999 made detailed recommendations for reform of the tax administration. The authorities have made progress in the development of audit techniques and other procedures. However, these efforts have yet to translate fully into higher collection. There is a need to deepen administrative reform by addressing the core problems, including the professionalization of staff and the adoption of a new functional structure. In October 1999 congress approved a new civil service law, aimed at establishing career profiles and promoting professionalization in the civil service.

Customs administration: FAD assisted in the design of a comprehensive reform program to help overcome the severe weaknesses in the customs area, which persist after two failed reform attempts. This program is being financed by several bilateral and multilateral sources. In early 1999 a long-term customs advisor was assigned by FAD to assist in the coordination of the customs reform program (an initial appointment of six months, followed by a six-month extension). A new Customs Law was adopted in July 1999, giving large autonomy to customs. A five-member Directorate was selected by Congress and a new customs director was appointed for a five-year period. However, some of the recommendations made by FAD, including the choice of computerized system and the implementation of a short-term anti-smuggling program, are being reconsidered, and delays in changes of personnel have been longer than anticipated. The authorities attributed such delays to the need for the newly appointed customs management assess the situation and make well informed decisions. In the context of a World Bank-funded public institution reforms, authorities have announced their intention to hire a private company to assess the situation and prepare a new customs reform program. In this context, FAD assistance is being reviewed.

Public expenditure management: An FAD mission in September 1998 identified, among the causes of weak financial coordination, an inadequate information system on the operations of sub-national governments available to the central government. The mission recommended the adoption of an information reporting system to monitor public finances at the sub-national level, which should be harmonized with the central government system, and stressed the need for a better system to provide timely and accurate information about budget execution and to assist Ministry of Finance officials in taking decisions on budget and financial matters. A large public expenditure management project is being revamped with World Bank support and reoriented to better meet the need of economic ministries, especially the Ministry of Finance.

Fiscal federalism and decentralization: FAD has provided TA for the financial strengthening of municipal governments and an efficient control of indebtedness by regional and local governments. To reconcile the desire of decentralization with sound economic management, FAD TA reviewed intergovernmental financial relations and made recommendations aimed at (a) clarifying the assignment of fiscal responsibilities, (b) improving municipal tax effort, (c) revising the revenue sharing formulas, (d) enforcing reasonable limits on the indebtedness of local governments while putting regional projections of the central government on a balanced budget basis, and (e) improving budgetary, monitoring, and reporting systems. In line with these suggestions, the authorities have put in place limits on borrowing by sub-national governments which has helped to inhibit excessive new borrowing. A Law on Municipalities was adopted by Congress in October 1999, but its coverage is incomplete and leaves aside such important issues as grants, local taxes, indebtedness, budgeting, accounting, and financial control. FAD has proposed adopting a Law on Municipal Finances to include those matters.

Current TA needs

Bolivia has requested TA for redesigning taxes along the recommendations made by the January 1999 FAD mission. In the customs area, Bolivia will need substantial TA until reforms are solidly in place, and the participation of FAD in this project is being reviewed as noted above. To improve the quality and timeliness of the data available for macromanagement, technical assistance is needed to strengthen the system of financial management, including the preparation of a new budget classification and a new accounting plan for sub-national governments and improvements in reporting. TA will be needed for improving fiscal federalism arrangements and for the preparation of a law on municipal finances.

II. MONETARY AND EXCHANGE AFFAIRS DEPARTMENT

Recent MAE technical assistance to Bolivia has been channeled through a large Swiss financed two-year project to strengthen the financial sector, started in March 1998. Assistance is delivered through the presence of a long-term monetary advisor and project coordinator, stationed in La Paz since November 1997, as well as technical assistance

missions and staff/expert visits. A midterm review of the project was held in February 1999, including a preliminary assessment of the Financial Sector of Bolivia.

The purpose of the project is to contribute to the improvement of the safety and soundness of the Bolivian financial system, while facilitating the development of domestic markets. More specifically, the project aims at improving monetary and foreign exchange operations of the Central Bank of Bolivia (CBB); strengthening the capability of CBB to monitor the soundness of financial institutions; improving the payments system as an important element toward the development of the domestic capital markets; and modernizing the organizational structure of the CBB. Project activities have covered virtually all aspects of central banking. In particular, advice has been given in information technology (IT); development of a new accounting system; research; open market operations; international reserve management; foreign exchange operations; surveillance of financial sector; and modernization of the payment systems.

Assessment of technical assistance effectiveness

The CBB has achieved significant progress in moving toward the fulfillment of the project's objectives. This has resulted from the strong support and direct ownership of the project by the CBB's top management, with the project's activities and objectives closely aligned to the CBB's five-year strategic plan. The main results have been:

Monetary and Forex operations: reduction of number of issues of government securities, elimination of sales through CBB window, increase of bid/ask spread for Forex operations, new investment guidelines for international reserves, introduction of security-back lending operations, and creation of a middle office for surveillance of CBB foreign investments. In addition, the CBB is currently assessing the framework for monetary policy recommended by the February 1999 mission.

Financial system surveillance: creation of general and bank-specific indicators, increased organization of data produced, streamlining of reports to top management of CBB;

Payments system: creation of a National Payments Committee and operative subcommittees to guide the reform process of the Bolivian payment system, draft regulations for the Check Clearing house, and preliminary designs of a real-time gross settlement system and a book entry system for government securities. The in-house development of the book-entry and RTGS systems is expected to take longer than originally planned, in part because Y2k-related issues have forced the CBB to devote important resources to making its systems compatible.

CBB organization: reorganization of the IT Department, partial centralization of IT resources, partial implementation of new policies regarding data base administration, IT security and network administration, reorganization of economic research activities, and in-house development of the new accounting system.

Current TA needs

Current TA needs are largely concentrated on organizational development, particularly in the IT area, and payments system reform. In addition, assistance will also be needed in the in-house development of the RTGS and the book entry systems. Project activities planned for the remainder of 1999 and the first quarter of 2000 have taken this into consideration. Expert visits dealing with these issues are planned for the fourth quarter of 1999 and first quarter of 2000, pending progress by the CBB on agreed-upon action plans for this period. Follow-up technical assistance needs might arise after the Project ends (in March 2000) to ensure full implementation of these systems.

III. STATISTICS DEPARTMENT

In recent years the Fund's Statistics Department (STA) has provided extensive technical assistance to Bolivia in the areas of national accounts, balance of payments, consumer prices, external trade indices, and money and banking statistics. However, some data sources remain weak, and additional work is needed.

Assessment of technical assistance effectiveness

Balance of payments: the August 1999 mission performed a comprehensive review of the existing methodology and compilation practices followed by the CBB in presenting Bolivia's balance of payments statistics. The mission focused on helping the CBB to implement procedures for the compilation of the balance of payments statistics, in accordance with the guidelines established in the fifth edition of the *Balance of Payments Manual* (BPM5).

The mission recommended implementation of some reclassifications, the coordination with the statistical office to introduce new enterprise surveys, and the close monitoring of ongoing surveys on travel and transportation by end-1999. Furthermore, an evaluation of data compiled from different surveys on services, an analysis of data available through the bank report forms, an evaluation of data from the Superintendency of Equity and Insurance, and the implementation of an exploratory survey on resident direct investment abroad, to be implemented during the first semester of 2000.

Money and Banking: there have been two Money and Banking Statistics missions to Bolivia, in January–February 1998 and in January 1999. The last mission found that the plan of accounts of banks and financial institutions was still unsuitable for the compilation of comprehensive monetary statistics, mainly because of the lack of a clear distinction of resident and nonresident accounts for credits and deposits, and an inadequate breakdown of the public and financial sectors accounts. Part of the problem has been temporarily alleviated by the additional information collected by the Superintendency of Banks and Financial Entities (SBFE). However, inconsistencies in interbank accounts remain large.

The mission strongly advised that the SBFE supplementary information on the sectorization of the accounts be fully incorporated into the plan of accounts. For this purpose, the CBB has

developed an adjusted nomenclature with additional details for the plan of accounts. Also, the mission recommended that CBB staff working in the monetary department be directly involved in the establishment of a new accounting system for the CBB.

National Accounts: the national accounts missions found that the GDP estimate from the production side was overestimated, owing to unreliable data sources. The mission advised the authorities to use the results of the manufacturing census data and those of the recently concluded household expenditure survey. Accordingly, the authorities revised the GDP estimates downward for 1988–92. The mission advised the authorities that further improvements in the quality of the national accounts statistics could come about only through the continued development of high quality basic data sources.

Prices: the price statistics mission found that the consumer price index (CPI) is well designed and well maintained. However, the index relies on outdated 1990 weights. The mission recommended that the CPI be revised on the basis of a new household survey, which should be conducted as soon as resources permit. The mission found several problems with the PPI including outdated weights, inadequate coverage of activities and use of inaccurate basic price data, and advised the authorities to revise the index using the data from the 1997 industrial survey, extend its coverage to include the mining and energy sectors and precisely define the price data to be collected in the report forms. In the area of external trade indices, the mission found that the quality was doubtful, in particular the import unit value index.

Current TA needs

The results of the technical assistance in balance of payment statistics could be evaluated by the area department staff around the end of 2000, and any follow-up TA on balance of payments statistics could be defined at that time in case the need arise. A follow-up mission in money and banking statistics to the January 1999 mission is desirable, and could take place in the first quarter of FY 2001. The main objective will be to review the monetary accounts compiled under the new plan of accounts introduced by the CBB in July 1999, and under the modified plan of accounts of the other banking institutions. A follow-up mission on National Accounts should only be undertaken after the authorities have taken decisive steps in the development of higher quality basic data sources. Finally, a follow-up mission in the area of prices would be desirable to take place in the first quarter of FY 2001. The main objective will be to review the progress in revising the CPI, PPI, and foreign trade unit value indices, and to advise the authorities on how to further improve these statistics.

**BOLIVIA: SECOND ANNUAL ARRANGEMENT UNDER THREE-YEAR ARRANGEMENT
UNDER THE POVERTY REDUCTION AND GROWTH FACILITY**

Attached hereto is a letter (the letter), with an annexed Memorandum of Economic Policies and tables (the Memorandum), dated December 20, 1999 from the Minister of Finance and the President of the Central Bank of Bolivia requesting from the International Monetary Fund as Trustee (the Trustee) of the Poverty Reduction and Growth Facility Trust (PRGF Trust) the second annual arrangement under the three-year arrangement for Bolivia under the Poverty Reduction and Growth Facility (PRGF) approved on September 18, 1998, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Trustee approves the second annual arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the PRGF Trust.

1. The amount of the second annual arrangement will be for the equivalent of SDR 33.653 million made available in three loans:

(i) the first loan, in an amount equivalent to SDR 11.21 million, will be available on the first availability date after approval of this arrangement at the request of Bolivia;

(ii) the second loan, in an amount equivalent to SDR 11.21 million, will be available on May 15, 2000 at the request of Bolivia and subject to paragraph 2 below; and

(iii) the third loan, in an amount equivalent to SDR 11.233 million, will be made available on November 15, 2000.

2. Bolivia will not request disbursement of the second and third loans specified in paragraph 1(ii) and 1(iii) above:

(a) if the Managing Director of the Trustee finds that the data as of March 31, 2000, with respect to the second loan, and as of September 30, 2000, with respect to the third loan, indicate that:

(i) the limits on the cumulative deficit of the combined public sector and the cumulative domestic financing of the combined public sector specified in Table 1 attached to the Memorandum; or

(ii) the target for the minimum gain of the net international reserves of the Central Bank of Bolivia specified in Table 4 attached to the Memorandum; or

(iii) the limit on the changes in net domestic assets of the Central Bank of Bolivia specified in Table 5 attached to the Memorandum; or

(iv) the limits on the increase of public and publicly guaranteed external debt specified in Table 7 of the attached Memorandum, was not observed; or

(b) if Bolivia has not carried out its intentions with regard to the structural performance criteria relating to the submission to Congress of draft amendments to the tax code strengthening the tax authorities' to enforce tax laws, and draft legislation to reform the tax system as specified in paragraphs 12 and 20 of the Memorandum, respectively; or

(c) if Bolivia:

- (i) has imposed or intensified restrictions on payments and transfers for current international transactions; or
- (ii) has introduced or modified multiple currency practices; or
- (iii) has concluded bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) has imposed or intensified import restrictions for balance of payments reasons; or
- (v) has incurred any new external payments arrears by the public sector; or

(d) with respect to the second loan, until the Trustee has determined that the first review of Bolivia's program referred to in paragraph 2 of the letter has been completed; or

(e) with respect to the third loan, until the Trustee has determined that the second review of Bolivia's program referred to in paragraph 2 of the letter has been completed.

If the Managing Director of the Trustee finds that any of the performance clauses that have been established in or under this paragraph 2 has not been met with respect to the second or third loan specified in paragraphs 1(ii) and 1(iii) above, such loan may be made available only after consultation has taken place between the Trustee and Bolivia, and understandings have been reached regarding the circumstances in which Bolivia may request that second or third loan.

3. Before approving the third annual arrangement, the Trustee will appraise the progress of Bolivia in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators and structural benchmarks specified in Tables 1, 2, 4, 5, 6 and 7 to the Memorandum;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII;

(e) imposition or intensification of import restrictions for balance of payments reasons;

(f) incurrence of any external payments arrears by the public sector.

4. In accordance with paragraph 2 of the attached letter, during the period of the second annual arrangement, Bolivia will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of the second annual arrangement and while Bolivia has outstanding financial obligations to the Trustee arising from loans under that arrangement, Bolivia will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on Bolivia's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Bolivia or of representatives of Bolivia to the Fund.

Attachments (2)

La Paz, Bolivia
December 20, 1999

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. The attached Memorandum of Economic Policies reviews progress so far under the three-year PRGF arrangement approved by the Executive Board of the Fund on September 18, 1998, and describes the objectives and policies that the government intends to pursue during the remainder of 1999 and in 2000.
2. We believe that the policies and measures set forth in this memorandum are adequate to achieve the objectives of our program, but will take any other measures necessary for this purpose. During the period of the arrangement, the government will consult with the Managing Director, on its own initiative or at the request of the Managing Director, concerning the adoption of appropriate measures. Bolivia will conduct with the Fund two reviews of the second year of the program supported by the arrangement, to be completed no later than April 30, 2000 and October 30, 2000, respectively. The macroeconomic framework will be reviewed in the context of the reviews of the program, to take into account the impact of additional debt relief that may be granted under the enhanced HIPC Initiative. Moreover, while Bolivia has outstanding financial obligations to the Fund arising from loans under the arrangement, Bolivia will consult with the Fund from time to time, at the initiative of the government or whenever the Managing Director requests consultations on Bolivia's economic and financial policies.
3. On this basis, we are requesting the second annual arrangement under the PRGF in an amount equivalent to SDR 33.6 million, with three equal disbursements of SDR 11.2 million each, of which the first one is to be made available after approval of this arrangement and the subsequent ones upon observance of performance criteria at end-March 2000 and end-September 2000.
4. To facilitate a wider distribution of the Interim Poverty Reduction Strategy Paper within the donor community, the Government of Bolivia authorizes its transmittal by the Fund staff to any international organization that requests it for the exclusive use of the organization.

Sincerely yours,

_____/s/
Herbert Müller
Minister of Finance

_____/s/
Juan Antonio Morales
President
Central Bank of Bolivia

Attachment

BOLIVIA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. **This memorandum provides an update of our economic policy memorandum of August 27, 1998 which set out Bolivia's economic program for 1998–2001.** This memorandum reviews economic developments so far in 1999 and explains the government's economic program for the remainder of 1999 and in 2000.
2. **Since 1985, Bolivia has achieved a considerable degree of macroeconomic stability, and the steadfast implementation of structural reforms has helped remove most of the distortions that adversely affected the economy in the early 1980s.** This strategy has been anchored by a strong fiscal policy, designed to avoid central bank financing of the combined public sector, and a comprehensive program of structural reforms aimed at dismantling the extensive state intervention in economic activity that had been built prior to 1985. As a result, foreign direct investment has surged, economic growth averaged 4.2 percent a year over the past decade, and the 12-month rate of inflation fell from 18 percent during 1990 to 4.4 percent during 1998. Gross official foreign reserves rose from the equivalent of 3.7 months of imports of goods and services at end-1990 to 7½ months at end-1998, while Bolivia's public sector external debt declined substantially over the same period, from the equivalent of 82 percent of GDP to 54 percent.
3. **Bolivia's economic program for 1999–2001, supported by the current three-year Poverty Reduction and Growth Facility, aims at promoting high and sustainable growth and reducing poverty.** Fiscal policy has been designed to stay on a medium-term path designed to gradually offset the sharp rise in the cost of structural reforms since 1996 and to reduce the fiscal deficit to a level that can be financed entirely with external credit by 2002, thus freeing up domestic resources to finance private sector activity and stimulate economic growth. The Government of Bolivia attaches very high priority to strengthening education and health reform and rural development programs, particularly with the support of the Inter-American Development Bank (IDB) and the World Bank. Other key structural reforms include making fiscal decentralization more effective, privatizing remaining public enterprises, improving road construction and maintenance, strengthening the financial sector, and reforming labor market legislation. The program also includes weeding out corruption through ongoing judicial reform, a complete restructuring of customs, and greater transparency of government operations.

II. DEVELOPMENTS UNDER THE 1999 PROGRAM

4. **Despite a more difficult external environment than envisaged initially, significant progress has been achieved under the 1999 program.** The program for 1999 initially aimed at achieving economic growth of 4½–5 percent, limiting inflation to 5.5 percent, and narrowing the external current account deficit to 7.2 percent of GDP while allowing for a modest loss of reserves (US\$50 million). However, the regional slowdown

arising from the international financial crisis and the sharp drop in world mineral and agricultural prices have dampened economic activity in Bolivia. For 1999 as a whole, the economy is estimated to grow by 2–2.5 percent, a rate higher than in most neighboring countries, but significantly lower than envisaged in the program. So far this year, inflationary pressures have been lower than anticipated, as the 12-month rate of increase in the consumer price index declined from 4.4 percent in December 1998 to 2.3 percent in October. During the first three quarters of 1999, the net international reserves of the central bank declined somewhat, but gross reserves remained at a comfortable level, at the equivalent of 6½ months of imports of goods and services at end-September. All the end-September financial benchmarks of the program have been met.

5. The slowdown in economic activity has placed strong pressures on the consolidated accounts of the combined public sector. Tax collections during the first three quarters of 1999 have been lower than anticipated, reflecting a slowdown in domestic demand. Under these circumstances, the government has been compensating part of the tax shortfall with specific revenue actions, including the regularization of cars previously imported as contraband, and strictly limiting expenditure growth. In the area of petroleum products, the government has continued to adhere to the policy defined in 1997, and increases in world oil prices have been reflected in matching increases at the consumer level. During the last quarter of this year, the government will continue to keep a tight lid on expenditure, in order to ensure compliance with the program limit on the 1999 overall deficit of the combined public sector. However, net foreign disbursements to the combined public sector are expected to be lower than initially envisaged, which will require a larger use of domestic financing. We are thus requesting an increase of Bs. 274 million (0.6 percent of GDP) in the end-December 1999 program ceiling on the net domestic financing of the combined public sector.

6. In the financial sector, the economic slowdown contributed to a deceleration in both money demand and credit to the private sector. Private sector deposits declined during the first half of 1999, before recovering significantly during the third quarter. The central bank has been providing additional liquidity to the banking system, including as part of the resolution process of a medium-sized bank that was intervened by the Superintendency of Banks in May. During the first three quarters of 1999, the demand for domestic currency declined and, to avoid a sharp tightening in monetary policy which may threaten the incipient recovery in economic activity, the Government of Bolivia is requesting a modest relaxation (US\$50 million) in the end-December 1999 net international reserves target of the program. This will leave gross reserves at the equivalent of 6½ months of imports of goods and services.

7. Key structural reforms are being implemented under the 1999 program. A new Customs Law, which replaces the old law dating back to 1929, was approved by Congress in July. This new law emphasizes accountability and enforcement through the establishment of a Customs Board, the appointment of an independent president of customs for a five-year period, and the replacement of politically-related personnel with highly qualified staff. Following the appointment of the new president in August, the customs department has been

reorganized around five regional directions, the units for the repression of contraband have become operational since late October, and politically-related staff are being replaced. In the area of privatization, the public shareholdings in the cement company FANCESA were sold in September, the sale of the refineries of the state petroleum company YPFB was completed in November, and that of the state smelting company Vinto is expected to be completed in early January 2000. Financial sector regulations have continued to be strengthened, with improved risk assessment requirements in effect since the beginning of 1999 for classification of new loans and the implementation in September 1999 of the first stage of the December 1998 regulation aimed at tripling provisioning requirements over a five-year period.

III. ECONOMIC PROGRAM FOR 2000

8. **The key aim of our economic program is to create the conditions for a higher rate of economic growth and a significant reduction in poverty.** Important efforts have been made in recent years, including through a substantial increase in public sector social spending in relation to GDP and improvements in the quality of social programs. A series of restructurings of external debt, including the debt relief received by Bolivia in September 1998 under the Highly Indebted Poor Countries (HIPC) Initiative, have helped lower the stock of external debt and free resources for social programs. The government believes that the enhanced HIPC Initiative will help bring further improvements in the living standards of the poorest segments of the population. Policies directly aimed at reducing poverty will be enhanced, and the Government of Bolivia intends to organize, during the first half of 2000, a national dialogue aimed at defining a national strategy in that area. Improvements will be measured by several indicators, including extreme poverty indices, the poverty gap, child and maternal mortality, and child malnutrition.

9. **To ensure achievement of these goals, the government intends first to preserve macroeconomic stability and implement a well-targeted structural reform program.** Consistent with economic growth of 4–4.5 percent, the program for 2000 aims at limiting inflation to 4–4.5 percent and containing the external current account deficit to the equivalent of 6.8 percent of GDP (entirely financed by foreign direct investment), with a modest gain in net official international reserves. Fiscal policy will contribute to an increase in national savings to help finance the expected growth in private investment and keep the external current account deficit on a sustainable path. The central bank will continue to control the expansion of its net domestic credit and maintain an exchange rate policy stance consistent with a steady improvement in external competitiveness.

A. Fiscal Policy

10. **The Government of Bolivia places high priority on fiscal consolidation.** The combined public sector overall deficit (after grants) will be contained at 4.2 percent of GDP in 1999, and reduced to 3.7 percent in 2000. General government current revenue is projected to increase from 22.4 percent of GDP in 1999 to 22.8 percent in 2000, as revenue efforts are being stepped up. Tax revenue is projected to improve by 1 percentage point of GDP,

reflecting in part a rise in hydrocarbon royalties based on higher exports of gas to Brazil and improvements in tax administration, particularly in the customs area. These revenue gains are expected to offset moderate declines in nontax revenue and central bank operating profits in relation to GDP. Net external financing is projected to cover two-thirds of the combined public sector financing requirement in 2000, mostly in the form of concessional external resources from multilateral and bilateral creditors. Net domestic financing will not exceed Bs 723 million (1.3 percent of GDP), a level somewhat lower than the resources that the private pension funds are expected to accumulate in 2000. The fiscal targets of the program will be monitored on the basis of quarterly ceilings on the overall deficit and the net domestic financing of the combined public sector, as presented in the attached Tables 1 and 2.

11. **The implementation of the reform of customs will help boost revenue.** In 2000, customs revenue and VAT receipts on imports are projected to grow by close to 23 percent, taking into account both the projected recovery in imports and improvements in tax collections. Building on the progress made so far, further steps are being implemented in that area. An automated international transit control system with magnetic cards will be progressively implemented beginning in November 1999, to become fully operational on the entire territory by July 2000. Implementation of the computerized control system, which will be selected by mid-December 1999, will begin in early 2000. The regulations for implementation of the Customs Law, including those dealing with administrative procedures and tax violations, will be issued by end-February 2000. The establishment of a professional career stream and selection based on merit and open recruitment is being undertaken, and a system of customs control a posteriori for imports will be established during 2000.

12. **Tax administration is being strengthened.** The regulations for implementation of the law on the civil servant status approved in October 1999, aiming at promoting professionalism and continuity in the civil service, will be issued by end-March 2000. The draft tax procedures code, which aims at strengthening the enforcement power of the tax and customs administration, will be introduced to congress no later than end-March 2000; this measure will be a structural performance criterion under the program. In the internal revenue service, during the first half of 2000 all employees will have to pass a competency examination as a precondition to becoming permanent staff. A new tax administration law, aimed at restructuring the internal revenue service into an autonomous agency with its own resources, will be submitted to congress during the first half of 2000. The draft law will also aim at removing political influence in the selection of staff and establishing a career system for professionalized staff recruited on the basis of merit.

13. **To ensure attainment of the overall deficit targets for 1999 and 2000, the government will continue to strictly control the growth of nonpension current spending while making room for social outlays.** In 2000, nonpension current outlays are projected to rise only slightly faster than nominal GDP, reflecting in part a prudent wage policy. Specific provisions have been made for annual wage increases and, overall, the general government wage bill will be reduced in relation to GDP. In 2000, net pension costs are estimated to amount to 4 percent of GDP, broadly unchanged from 1999. To contain expenditure growth, the limits on the indebtedness of local governments have been tightened since early 1999.

14. **In 2000, capital expenditure by the general government is projected to rise to the equivalent of 6.8 percent of GDP.** Emphasis will be placed on roads and social sectors, while investment by public enterprises will decline, reflecting the sale to the private sector of the main assets of the state petroleum company YPFB. The government will continue to enhance the implementation of public investment by ensuring that adequate domestic counterpart funds are available for projects approved in the budget. Both in 1999 and in 2000, the program allows for privatization proceeds from the sale of public enterprises to be spent on public investment, up to a maximum of US\$45 million; privatization proceeds in excess of that amount will be used to lower the deficit of the overall combined public sector.

15. **Expenditure on social sectors and infrastructure will increase in 2000.** In line with the recommendations of the Public Expenditure Review of the World Bank, expenditure on health will be increased; spending on the distribution of water and sanitation will be raised while refraining from extending new public subsidies; and steps will be taken to reorient education expenditure toward primary and secondary education. Outlays on social reforms, including pensions, are projected to amount to about 3.1 percent of GDP in 1999–2000 (Table 3). The program also provides for additional outlays designed to alleviate poverty, including in social sectors and infrastructure, in amounts equivalent to the additional relief that may be provided under the enhanced HIPC Initiative during 2000.

B. Monetary, Credit, and Exchange Rate Policies

16. **During 1999–2000, the central bank of Bolivia will continue to promote the objective of keeping inflation at a low level.** To that effect, the central bank will keep developments in the money market under close review. For 2000, the growth in net domestic assets will be somewhat less than the expansion in currency issue (projected to grow broadly in line with nominal GDP) to secure a modest gain in net international reserves. Broad money is projected to grow by about 6 percent in 1999 and close to 11 percent in 2000. Bank credit to the private sector, which has slowed significantly this year, is expected to recover in 2000. To monitor the monetary program, quarterly targets on the net international reserves and ceilings on the net domestic assets of the central bank have been established, as presented in attached Tables 4 and 5.

17. **The prudential ratios of financial intermediaries will continue to be strengthened.** Under the timetable that became effective in September 1999, provisioning requirement will be raised twice in 2000, in March and September. A draft financial sector law, aimed at establishing a comprehensive bank resolution framework, including a deposit insurance scheme based on fair premia, has been introduced in congress for approval by March 2000. The draft law aims at reinforcing the role of the Superintendency in early bank intervention, strengthening accountability for bank managers and directors, and bringing capital adequacy risks weights for mortgage loans in line with Basle requirements. Also, norms will be issued to strengthen internal controls, auditing, and rating agencies for the financial sector, and bring consolidated supervision in line with Basle core principles.

18. **The government will continue implementing an exchange rate policy aimed at improving Bolivia's external competitiveness.** The Government of Bolivia believes that the current exchange rate system, by which the central bank manages the boliviano in the daily foreign exchange auctions, has served the country well. The central bank will continue to monitor developments in the foreign exchange market closely.

C. Poverty Reduction and Structural Reforms

19. **The program of social policies will be carried out in accordance with the strategy described in the Interim Poverty Reduction Strategy Paper (PRSP).** The government believes that the strategy of the fight against poverty should be broad encompassing, and include improving the road network, as the poor quality of the network keeps transportation costs high and limits the potential for economic growth. The government will take steps to improve existing mechanisms for managing, rehabilitating, and expanding the network. The key policy actions to carry out social and structural reforms are presented in Table 6 of this Memorandum, including two structural performance criteria, on the submission to congress of the tax procedure code by end-March 2000 and the introduction of the comprehensive tax reform in congress in October 2000.

20. **The government intends to take major steps to modernize the domestic tax system.** During 2000 the special tax regimes in the commercial and transportation sectors will be modified, so that the relatively few large taxpayers in these sectors, who have often been avoiding taxation, can be incorporated in the general tax regime. A comprehensive reform of the tax system will be elaborated and implemented in several steps during 2000, with the objective of making the tax system more progressive and efficient, based on the recommendations of the Fund's Fiscal Affairs Department. The reform is scheduled to be adopted before year-end, for full implementation by January 1, 2001. It will aim at replacing distortive taxes, such as the cascading transactions tax, with alternative revenue sources, either by increasing existing tax rates or by introducing new, more equitable, taxes. Submission of the draft tax reform law to congress by October 2000 is a structural performance criterion under the program.

21. The government will initiate the necessary technical and legal actions for the development and implementation during 2002 of a **unified system of accounts for the private enterprises**, which will allow for standardization of their accounting systems. Regulatory supervision will thus be facilitated, as well as tax administration. Also, this unified system of accounts will allow for better risk assessments, thus contributing to the development of the market for securities.

22. **The Government of Bolivia intends to complete its privatization program by the end of 2000.** Following the privatization in 1999 of the refineries of the state petroleum company YPFB and the sale of its service stations to the company's employees, the government will privatize its remaining assets, including the oil storage facilities, the natural gas distribution networks, the airport jet fuel stations, and the natural gas bottling plants during the first half of 2000. The government also intends to offer for sale in 2000 the

electricity distribution company of Tarija (SETAR), the electricity generation and distribution company of Potosi (SEPSA), and the electricity generation company of Trinidad. During 2000, the government plans to offer in concession to the private sector the operation of the postal service company ECOBOL.

23. During 1999 and 2000 the government will deepen the reform of the pension system initiated in recent years. In the public pension system, steps will be taken in 2000 to prepare for the payment of compensatory pensions to those who contributed to the public pension regime and have now transferred to the private system. A norm will be issued in the first half of next year to specify the computation of such pension rights. With regard to the funds accumulated under the capitalization program, work on the National Identification System (RIN) aimed at identifying beneficiaries, will continue during 2000, for completion by 2001.

24. During 2000, the government intends to continue improving decentralization and financial management in the public sector. To improve public sector cash management, a financial management system has been developed since March 1999, aimed at providing daily information on the financial position of public sector entities, and enhancing public expenditure control. A pilot version of the system will be in place by June 2000 in five ministries, including the ministry of finance, generalized to the other ministries by the end of the year, and subsequently extended to regional and local governments. During the first quarter of 2000, regulations for the implementation of the October 1999 law of local governments, which aims at limiting their current spending to 40 percent of their own recurrent income, will be issued. Also, during 2000 the budgetary and accounting classification, standards, and practices of all levels of government will be harmonized and a generalized accounting plan will be adopted for local governments, consistent with that used by the central government. A plan for further reform on fiscal decentralization will be formulated with the assistance of the Fund's Fiscal Affairs Department.

25. The Government of Bolivia believes that current labor regulations are excessively complex and intricate, and it intends to introduce in congress in 2000 a draft law aimed at modernizing them. Some flexibility was introduced in working hours in all sectors of the economy in May 1999, and a law aimed at protecting the rights of children and preventing child labor exploitation was approved by congress in September 1999. The new labor law, prepared in consultation with all economic and social agents, will be introduced in congress in October 2000, for approval by year-end. It will aim at modernizing the labor market and at bringing Bolivian labor regulations in line with the norms of the International Labor Organization, particularly with respect to equality of treatment among genders and labor safety. The government also intends to introduce in congress a law aimed at promoting employment generation, with special emphasis on microenterprises, which account for two-thirds of employment in Bolivia.

26. During 2000, the government will continue implementing its comprehensive program aimed at reforming and strengthening the judicial system. During the year, the

government will submit to congress a new civil code, a law on administrative procedures, and an industrial property law. Work on the preparation of a commercial code, a law on conflict resolution in local communities, and one on public access to justice will proceed during 2000, for adoption in 2001. Training for judges will be strengthened with the creation in 2001 of a Training Institute, while professionalism will be promoted with the development of a career stream in the judiciary.

27. The government is aware that improvements are still required in the quality of monetary statistics, and the recommendations of the Fund's January 1999 technical assistance mission in that area are being implemented. All necessary steps are being taken to ensure that Bolivia joins the **General Data Dissemination Standard** of the Fund during 2000.

D. External Sector

28. **The external current account deficit, which is estimated to decline from 7.9 percent of GDP in 1998 to 6.3 percent in 1999, is projected to rise to 6.8 percent in 2000.** In 1999, a weakening in export performance associated mainly with lower export prices is being more than offset by a decline in imports reflecting the slowdown in economic activity. Imports of capital goods are estimated to remain high because of large investments undertaken by capitalized enterprises and in the mining and energy sectors. In 2000, exports are projected to recover significantly, reflecting higher prices for mineral and agricultural products, while imports would grow somewhat faster than GDP. Over the medium-term, the current account deficit will fall gradually to about 5½ percent of GDP as new exports come on line. Taking into account envisaged capital disbursements, the central bank will be able to maintain the international reserve cushion at the equivalent of six months of imports of goods and services. During the period of the program, Bolivia will keep the current account of the balance of payments free of restrictions and will refrain from increasing external tariffs or introducing nontariff barriers for balance of payments purposes.

29. **The Government of Bolivia views the medium-term outlook for foreign direct investment as a signal that Bolivia's reforms are yielding significant gains.** The investment projects in export sectors, such as oil and gas exploration, electric energy, and mining, are expected to contribute to a vigorous growth in exports and economic activity over the medium term. Nonetheless, this outlook depends in part on the environment in the region, and the Bolivian authorities stand ready to adjust, if necessary, their policies to ensure attainment of these medium-term objectives.

30. **The programs for 1999 and 2000 are fully financed, and the Government of Bolivia would like to express its gratitude to Bolivia's official creditors for the relief already granted under the HIPC Initiative.** The assistance received since September 1998 has helped reduce the external debt burden to a more manageable level and covers the fiscal costs of structural reforms without compromising social expenditure. Poverty remains widespread in Bolivia, and the government intends to ask official creditors in 2000 to consider favorably a further reduction in the net present value of its external debt, from close

to 214 percent currently to 150 percent, in line with the recommendations of the enhanced HIPC Initiative. The Government of Bolivia will continue to improve the structure of its external debt in order to maximize the benefits that would accrue to it under the HIPC Initiative. In this respect, Bolivia's nonconcessional external public debt is projected to remain unchanged both in 1999 and in 2000 (Table 7). Bolivia does not have any external payments arrears, and will not incur any new external payments arrears at any time during the arrangement.

Attachments

Table 1. Bolivia: Limits on the Deficit of the Combined Public Sector 1/2/
and Domestic Financing of the Combined Public Sector 1/3/

Date	Limits
(Cumulative amounts in millions of bolivianos from January 1, 1999)	
I. Deficit of the Combined Public Sector 4/	
December 31, 1999	-2,066
II. Domestic Financing of the Combined Public Sector 4/5/	
December 31, 1999	821
(Cumulative amounts in millions of bolivianos from January 1, 2000)	
I. Deficit of the Combined Public Sector 4/	
March 31, 2000 (performance criterion)	-311
June 30, 2000	-475
September 30, 2000 (performance criterion--indicative)	-1,040
December 31, 2000 (indicative)	-2,029
II. Domestic Financing of the Combined Public Sector 4/5/6/	
March 31, 2000 (performance criterion)	138
June 30, 2000	-28
September 30, 2000 (performance criterion--indicative)	230
December 31, 2000 (indicative)	723

1/ Quarterly benchmarks for the remainder of the first annual program of the three-year PRGF arrangement, covering calendar year 1999, and quarterly benchmarks and performance criteria for the second annual program, covering calendar year 2000.

2/ The combined deficit is the sum of domestic and external financing of the nonfinancial public sector, and the cash operating results of the central bank. The nonfinancial public sector comprises the central administration, public sector social security institutions, the local governments, other decentralized agencies, and the public enterprises.

3/ Defined as the sum of: (i) the increase in the net claims of the domestic financial system and the nonfinancial private sector on the nonfinancial public sector; (ii) the net increase in floating debt and fiscal certificates; less (iii) the cash operating profits of the central bank.

4/ These limits will be adjusted downward by the full amount of: (i) net proceeds from the sale of assets in excess of Bs 265 million during 1999 and Bs 280 million during 2000; and (ii) the difference in 1999 between programmed cumulative cash outlays for severance payments to workers of public enterprises of Bs 70 million and actual cash outlays to workers of public enterprises excluding those related to the privatization of YPFB.

5/ These limits will be adjusted downward by the full amount of: (i) any overdue obligations to foreign official creditors; and (ii) the difference in 1999 between the programmed cumulative cash outlays for severance payments listed in footnote above and actual cash outlays.

6/ These limits will be adjusted upward in 2000 by the full amount of the difference between projected cumulative net external financing to the nonfinancial public sector and actual cumulative net external financing, with a maximum upward adjustment of Bs 160 million.

Table 2. Bolivia: Fiscal Indicators

(In percent of GDP)

	1998	1999		2000
		Program	Revised	Program
Nonpension balance	-0.1	0.3	-0.2	0.2
Revenue and grants	24.9	24.7	24.0	25.1
<i>Of which:</i>				
Current revenue	22.9	22.7	22.4	23.1
Expenditure	24.9	24.4	24.2	24.9
Current	18.6	17.9	17.5	17.9
Capital	6.3	6.5	6.7	6.9
Pension costs (net)	3.9	4.2	3.9	3.9
Overall deficit	4.0	3.9	4.2	3.7
Net external financing	2.8	2.9	2.5	2.4
Net domestic financing	1.2	1.0	1.7	1.3

Sources: Ministry of Finance; and Fund staff estimates.

Table 3. Bolivia: Annual Fiscal Cost of Structural Reforms

(In percent of GDP)

	1995	1996	1997	Prel. 1998	Est. 1999	Proj. 2000
Total costs	1.0	1.5	3.0	5.6	5.0	5.0
One-time costs	0.8	1.3	0.7	1.0	0.6	0.4
Recurrent costs	0.3	0.2	2.3	4.6	4.4	4.6
<i>By program</i>						
Pension reform (incremental cost from 1996)	0.0	0.0	1.3	2.8	2.7	2.7
YPFB capitalization	0.0	0.0	0.7	1.1	1.1	1.1
Balance of YPFB	0.0	0.0	0.4	0.7	0.7	0.7
Change in royalties	0.0	0.0	0.2	0.4	0.4	0.4
Severance payments	0.4	0.7	0.5	0.7	0.4	0.2
General government	0.2	0.4	0.2	0.1	0.2	0.2
Enterprises	0.2	0.2	0.3	0.6	0.3	0.0
Cost of increased remuneration for bank reserves	0.0	0.0	0.0	0.2	0.2	0.2
Judiciary reform and governance	0.0	0.0	0.0	0.1	0.1	0.1
Customs administration reform	0.0	0.0	0.0	0.0	0.0	0.1
Investment in education (gross capital formation)	0.2	0.2	0.1	0.2	0.1	0.1
Other	0.4	0.6	0.4	0.5	0.5	0.4
Education reform (training)	0.0	0.0	0.0	0.1	0.1	0.1
Wages (extraordinary increases and new positions)	0.1	0.1	0.2	0.2	0.1	0.1
Education	0.1	0.1	0.1	0.1	0.1	0.1
Civil service	0.0	0.0	0.1	0.1	0.1	0.1
Capitalization	0.2	0.4	0.1	0.0	0.0	0.0
Of which: studies	0.1	0.3	0.0	0.0	0.0	0.0
Goods and services	0.1	0.1	0.1	0.2	0.1	0.1
Education	0.1	0.0	0.1	0.1	0.1	0.1
Children development program	0.0	0.0	0.0	0.1	0.0	0.1
Foregone interest payments on capitalized enterprises	0.0	0.1	0.0	0.0	0.0	0.0
Sectoral reforms	0.0	0.0	0.0	0.1	0.0	0.0
Memorandum item:						
Social sector	0.4	0.3	1.6	3.4	3.1	3.2

Sources: Ministry of Finance; and Fund staff estimates.

Table 4. Bolivia: Minimum Gain of Net International Reserves
of the Central Bank of Bolivia 1/2/3/4/5/

(Cumulative amounts in millions of U.S. dollars from January 1, 1999)

Date	Targets
January 31, 2000 6/	-146
March 31, 2000 (performance criterion)	-185
June 30, 2000	-155
September 30, 2000 (performance criterion--indicative)	-120
December 31, 2000 (indicative)	-85

1/ Quarterly benchmark for the remainder of the first annual program of the three-year PRGF arrangement, covering calendar year 1999, and quarterly benchmarks and performance criteria for the second annual program, covering calendar year 2000.

2/ Defined as central bank foreign assets, less all liabilities to nonresidents with an original maturity of up to and including one year, plus outstanding purchases and disbursements from the Fund (excluding disbursements from the Trust Fund), net liabilities to the Latin American Reserve Fund, and any other balance of payments loans, including bridging loans and those obtained by pledging the gold of the central bank.

3/ The net international reserve flows will be measured by the difference in stocks.

4/ These targets will be adjusted upward by the full amount of: (i) any overdue obligations to foreign official creditors; and (ii) net proceeds from the sale of assets in excess of the amount indicated in footnote 4 of Table 1, valued at the accounting exchange rate of the corresponding period.

5/ If currency issued is less than envisaged in the program, the targets for 2000 will be adjusted downward by the difference between projected cumulative currency issued and actual cumulative currency issued, up to a maximum amount equivalent to US\$35 million.

6/ Target evaluated at the end of January because of the expected increase in the demand for foreign currency banknotes associated with the year 2000 problem at the end of December 1999.

Table 5. Bolivia: Limits on the Changes in Net Domestic
Assets of the Central Bank of Bolivia 1/2/3/4/

(Cumulative amounts in millions of bolivianos from January 1, 1999)

Time Period	Limits
January 31, 2000 5/	482
March 31, 2000 (performance criterion)	639
June 30, 2000	653
September 30, 2000 (performance criterion--indicative)	488
December 31, 2000 (indicative)	629

1/ Quarterly benchmark for the remainder of the first annual program of the three-year PRGF arrangement, covering calendar year 1999, and quarterly benchmarks and performance criteria for the second annual program, covering calendar year 2000.

2/ Defined as the difference between changes in currency issued and changes in net international reserves of the central bank evaluated at the corresponding exchange rate.

3/ The net international reserve flows will be measured by the difference in stocks.

4/ These limits will be adjusted downward by the full amount of: (i) any overdue obligations to foreign official creditors; and (ii) net proceeds from the sale of assets in excess of the amount indicated in footnote 4 Table 1.

5/ Limit evaluated at the end of January because of the expected increase in the demand for foreign currency banknotes associated with the year 2000 problem at the end of December 1999.

Table 6: Structural Benchmarks and Performance Criteria, 1999–2000

Performance criteria/benchmark	Policy Measure	Timetable for Implementation
<i>Public Sector Institutional Reform</i>		
Performance criteria	Submit to Congress draft amendments to the tax code that will strengthen the tax authorities' ability to enforce tax laws.	March 2000
Benchmark	Submit to Congress new draft tax administration law that will restructure the Internal Revenue Service, giving it more autonomy.	April 2000
Benchmark	Enactment of tax code and tax administration laws.	June 2000
Benchmark	Reach decision on new computerized control system to be adopted by customs and begin implementation.	December 1999
Benchmark	Issue implementing decrees on customs procedures and penalties.	February 2000
Benchmark	Automated international customs transit control system to be fully operational.	July 2000
Benchmark	Establishment of controls a posteriori in the Customs Administration.	September 2000
<i>Privatization</i>		
Prior Action	Offer the state smelting company Vinto for sale.	December 1999
Prior Action	Complete the bidding process for the privatization of the refineries of YPFB.	November 1999
Benchmark	Complete privatization of the residual assets of YPFB, including the natural gas network, jet fuel stations, and natural gas bottling plants.	June 2000
Benchmark	Complete the privatization process fully, including the dairy product company Milka, the electricity companies SEPSA, SETAR, and the electricity generation of Trinidad.	December 2000
<i>Tax System reform</i>		
Benchmark	Modify the simplified and integrated tax regimes (involving tax exemption of small traders and inclusion of the largest ones in the general tax regime).	December 31, 2000
Benchmark	Elaborate and implement a comprehensive reform of the tax system in several steps with the objective of making the tax system more progressive and fair.	During 2000
Performance Criteria	Submit to Congress the draft legislation for the reform of the tax system.	October 2000

Performance criteria/benchmark	Policy Measure	Time Table for Implementation
<i>Labor market modernization</i>		
Benchmark	Initiate consultation on labor reform.	January 2000
Benchmark	Submit to Congress a new draft labor legislation.	October 2000
<i>Financial sector and capital markets</i>		
Benchmark	Publication of the law establishing a comprehensive bank resolution framework, including a deposit insurance scheme.	March 2000
Benchmark	Issue norms for consolidated supervision of financial conglomerates, in line with the core principles established by the Basle Committee on Banking Supervision.	June 2000
Benchmark	Issue norms on credit risk to ensure a more precise definition of risk weights for mortgages and on the strengthening of internal and external audits.	June 2000
Benchmark	Complete and implement new regulations on securitization and develop plans for the establishment of a secondary housing mortgage market.	March 2000
<i>Social reforms</i>		
Benchmark	Health: Implement the basic Health Insurance System, designed to provide a basket of basic health services free to the entire population.	October 2000
Benchmark	Education: Develop a reform proposal for higher education in order to reduce the share of public resources for higher education.	September 2000
<i>Legal and judicial reforms</i>		
Benchmark	Submit to Congress revisions to the civil code procedures.	October 2000
Benchmark	Submit to Congress revisions to the commercial code.	December 2000
<i>Roads and Transportation</i>		
Benchmark	Submit a new transport law, with corresponding regulation, to promote competition in the transport sector.	June 2000

Table 7. Bolivia: Limits on the Net Increase of Public
and Publicly Guaranteed External Debt 1/

Date	Short Term 2/	Maturities of More than One Year 3/
(Cumulative amounts in millions of U.S. dollars from January 1, 1999)		
December 31, 1999	0	0
(Cumulative amounts in millions of U.S. dollars from January 1, 2000)		
March 31, 2000 (performance criterion)	10	10
June 30, 2000	10	10
September 30, 2000 (performance criterion--indicative)	10	10
December 31, 2000 (indicative)	0	0

1/ Quarterly benchmark for the remainder of the first annual program of the three-year PRGF arrangement, covering calendar year 1999, and quarterly benchmarks and performance criteria for the second annual program, covering calendar year 2000.

2/ Excludes normal import credits.

3/ Excludes: (i) concessional loans with a grant element of 35 percent or more using the most recent OECD commercial interest reference rates (CIRRs); (ii) changes in central bank liabilities defined in Table 5 as part of the net international reserves; and (iii) debt renegotiation with official creditors. Includes total outstanding external debt of: (i) the nonfinancial public sector as defined in footnote 2 of Table 1; (ii) the central bank; and (iii) the private sector with official guarantee.

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EBS/99/235
Supplement 1

CONFIDENTIAL

February 10, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Bolivia—Poverty Reduction and Growth Facility—Second Annual
Arrangement**

Attached for the records of Executive Directors is the text of the second annual arrangement for Bolivia under the Poverty Reduction and Growth Facility, as agreed at Executive Board Meeting 00/13 (2/7/00).

Att: (1)

Other Distribution:
Department Heads

**BOLIVIA: SECOND ANNUAL ARRANGEMENT UNDER THREE-YEAR ARRANGEMENT
UNDER THE POVERTY REDUCTION AND GROWTH FACILITY**

Attached hereto* is a letter (the letter), with an annexed Memorandum of Economic Policies and tables (the Memorandum), dated December 20, 1999 from the Minister of Finance and the President of the Central Bank of Bolivia requesting from the International Monetary Fund as Trustee (the Trustee) of the Poverty Reduction and Growth Facility Trust (PRGF Trust) the second annual arrangement under the three-year arrangement for Bolivia under the Poverty Reduction and Growth Facility (PRGF) approved on September 18, 1998, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Trustee approves the second annual arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the PRGF Trust.

1. The amount of the second annual arrangement will be for the equivalent of SDR 33.653 million made available in three loans:

(i) the first loan, in an amount equivalent to SDR 11.21 million, will be available on the first availability date after approval of this arrangement at the request of Bolivia;

(ii) the second loan, in an amount equivalent to SDR 11.21 million, will be available on May 15, 2000 at the request of Bolivia and subject to paragraph 2 below; and

(iii) the third loan, in an amount equivalent to SDR 11.233 million, will be made available on November 15, 2000.

2. Bolivia will not request disbursement of the second and third loans specified in paragraph 1(ii) and 1(iii) above:

(a) if the Managing Director of the Trustee finds that the data as of March 31, 2000, with respect to the second loan, and as of September 30, 2000, with respect to the third loan, indicate that:

(i) the limits on the cumulative deficit of the combined public sector and the cumulative domestic financing of the combined public sector specified in Table 1 attached to the Memorandum; or

(ii) the target for the minimum gain of the net international reserves of the Central Bank of Bolivia specified in Table 4 attached to the Memorandum; or

(iii) the limit on the changes in net domestic assets of the Central Bank of Bolivia specified in Table 5 attached to the Memorandum; or

* See EBS/99/235 (12/22/99)

(iv) the limits on the increase of public and publicly guaranteed external debt specified in Table 7 of the attached Memorandum, was not observed; or

(b) if Bolivia has not carried out its intentions with regard to the structural performance criteria relating to the submission to Congress of draft amendments to the tax code strengthening the tax authorities' to enforce tax laws, and draft legislation to reform the tax system as specified in paragraphs 12 and 20 of the Memorandum, respectively; or

(c) if Bolivia:

(i) has imposed or intensified restrictions on payments and transfers for current international transactions; or

(ii) has introduced or modified multiple currency practices; or

(iii) has concluded bilateral payments agreements which are inconsistent with Article VIII; or

(iv) has imposed or intensified import restrictions for balance of payments reasons; or

(v) has incurred any new external payments arrears by the public sector; or

(d) with respect to the second loan, until the Trustee has determined that the first review of Bolivia's program referred to in paragraph 2 of the letter has been completed; or

(e) with respect to the third loan, until the Trustee has determined that the second review of Bolivia's program referred to in paragraph 2 of the letter has been completed.

If the Managing Director of the Trustee finds that any of the performance clauses that have been established in or under this paragraph 2 has not been met with respect to the second or third loan specified in paragraphs 1(ii) and 1(iii) above, such loan may be made available only after consultation has taken place between the Trustee and Bolivia, and understandings have been reached regarding the circumstances in which Bolivia may request that second or third loan.

3. Before approving the third annual arrangement, the Trustee will appraise the progress of Bolivia in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators and structural benchmarks specified in Tables 1, 2, 4, 5, 6 and 7 to the Memorandum;

- (b) imposition or intensification of restrictions on payments and transfers for current international transactions;
- (c) introduction or modification of multiple currency practices;
- (d) conclusion of bilateral payments agreements which are inconsistent with Article VIII;
- (e) imposition or intensification of import restrictions for balance of payments reasons;
- (f) incurrence of any external payments arrears by the public sector.

4. In accordance with paragraph 2 of the attached letter, during the period of the second annual arrangement, Bolivia will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of the second annual arrangement and while Bolivia has outstanding financial obligations to the Trustee arising from loans under that arrangement, Bolivia will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on Bolivia's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Bolivia or of representatives of Bolivia to the Fund.

