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December 28, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Staff Report for the 1993 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with Bolivia, which is tentatively scheduled for discussion on Wednesday, January 19, 1994.

Ms. Brenner (ext. 38500) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation 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 GATT Secretariat and the Inter-American Development Bank (IDB), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

BOLIVIA

Staff Report for the 1993 Article IV Consultation

Prepared by the Staff Representatives for the  
1993 Consultation with Bolivia

Approved by S. T. Beza and Joaquin Pujol

December 23, 1993

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## I. Introduction

The discussions for the 1993 Article IV consultation with Bolivia were held in La Paz during October 19-November 14, 1993, in conjunction with discussions on an economic program for the remainder of 1993 and for 1994. The Bolivian representatives included the Ministers for Finance and Economic Development, Human Development, Sustainable Development and the Environment, and Labor; the President of the Central Bank; and other senior officials. The mission comprised Ms. Brenner (Head), Messrs. Fernández, Gudac, and Cortés, Ms. Farahbaksh (all WHD), Mr. Gruenwald (PDR), and Ms. Ruiz-Galindo (Assistant-WHD). The mission was assisted by Mr. Lewis, the Fund's resident representative in La Paz.

On September 11, 1992 the Executive Board concluded the 1992 Article IV consultation with Bolivia and approved an additional annual arrangement under the ESAF in an amount equivalent to SDR 27.2 million (21.6 percent of new quota). <sup>1/</sup> Directors noted that macroeconomic policies and structural reforms had resulted in the resumption of growth in real per capita GDP, lower inflation, and significant progress toward external viability. They observed, however, that Bolivia's economy remained vulnerable to external developments, thus underscoring the importance of continued structural reforms. Directors also noted that the fiscal stance had weakened in the first half of 1992, and urged the authorities to proceed without delay with the measures envisaged in the program to restore fiscal discipline.

The review of the additional annual arrangement that originally was to take place by April 1993 has not been completed because of slippages in fiscal performance and deviations from the benchmarks for credit and international reserves, particularly in the period leading up to the presidential election in June 1993. In addition, there have been delays in certain structural measures. To allow time to bring the program back on track, in September 1993 the Executive Board approved an extension of the additional ESAF arrangement to March 31, 1994 (EBS/93/148).

The attached Memorandum of Economic Policies describes the policies and objectives of the economic and financial program that are intended to provide the basis for completion of the review in March 1994. The program includes monthly targets for key macroeconomic variables from November 1993 through March 1994. The authorities raised the issue of a financial arrangement from the Fund to help consolidate the adjustment effort following the expiration of the current ESAF arrangement. An arrangement with the Fund would be expected for a new rescheduling by the Paris Club (including a possible stock of debt operation in 1995). The mission indicated that

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<sup>1/</sup> A delay notice in concluding the 1993 Article IV consultation (EBD/93/179) was issued to the Executive Board on December 1, 1993.

discussions on a follow-on arrangement--possibly under the successor facility to the ESAF--could begin at the time of the mission for the review of the current arrangement in late January 1994.

In the period July 1988 to September 1992 Bolivia obtained all disbursements available under three annual ESAF arrangements (SDR 136 million or 150 percent of old quota). The first disbursement of SDR 13.6 million under the additional annual arrangement was made following Board approval of the arrangement in September 1992. Outstanding Fund credit to Bolivia at end-November 1993 was SDR 162.4 million (128.7 percent of quota). Bolivia has accepted the obligations of Article VIII, Sections 2, 3, and 4. Bolivia's relations with the Fund are described in Appendix I and relations with the World Bank Group are described in Appendix II.

## II. Background and Performance Under the Additional ESAF Arrangement

### 1. Outturn for 1992

Real GDP grew by 2.7 percent in 1992 compared with 4.1 percent in 1991 (and 3.5 percent in the program), reflecting the adverse impact of flooding on agricultural production and a decline in mining output because of weakening export prices (Tables 1 and 2). Domestic demand was generally buoyant and there was rapid growth of both public and private investment. Inflation (CPI) declined from 14 1/2 percent during 1991 to 10 1/2 percent in 1992--in line with the program--as strong demand spilled over into imports.

The program targeted a deficit of the combined public sector of 3.7 percent of GDP in 1992, compared with 4.6 percent of GDP in 1991, notwithstanding an anticipated loss of fiscal revenue from natural gas exports of about 1.7 percent of GDP (Table 3). 1/ In the event, the deficit rose to 4.7 percent of GDP in 1992. Expenditure exceeded the program by about 3 percentage points of GDP, reflecting higher investment spending and an increase in the public sector wage bill of 27 percent compared with 15 percent in the program. 2/

The expansion of central bank credit was within the adjusted program limits in the second half of 1992, as external financing for the public sector was higher than projected (Table 4). Total banking system

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1/ A sharp drop in the price of natural gas exports occurred in mid-1992 following the deregulation of the energy sector in Argentina and the expiration of a 20-year export contract to Argentina. To smooth the adjustment to lower gas earnings, Argentina agreed to make special temporary payments to Bolivia totaling US\$110 million (2.1 percent of GDP). These payments originally were expected to begin in August 1992, but in the event began in March 1993. For further details see EBS/92/82.

2/ Public investment in 1992 may be overstated because of the misclassification of some current expenditure as capital expenditure.

liabilities and credit to the private sector expanded by more than envisaged in the program (Table 5). Interest rates fell slightly during 1992, but continued to be high relative to international rates and inflation.

The external current account deficit increased to about US\$470 million in 1992 or 9 percent of GDP (compared with 7.2 percent in the program), but the overall balance of payments was stronger than envisaged (Table 6). Non-traditional exports suffered from adverse weather conditions, while higher imports reflected increased financing for the private sector from both external sources and local banks. In the capital account, concessional loan disbursements to the public sector exceeded projections by almost 2 percent of GDP. Net international reserves increased by US\$30 million in 1992, compared with a gain of US\$2 million in the program. <sup>1/</sup>

A number of structural reforms have been adopted under the additional ESAF arrangement, although implementation has fallen short of the program in some areas (Table 7). Measures to eliminate the quasi-fiscal losses of the Central Bank were adopted in late 1992. The reconciliation of the accounts of the Central Bank with the public sector entities was completed (with MAE technical assistance) and the Central Bank was recapitalized.

As programmed, the publicly owned Banco del Estado was closed in December 1992 and its operations were taken over by private commercial banks. Also a new banking law was passed by Congress in April 1993. However, certain provisions of the legislation were not consistent with staff recommendations relating to central bank autonomy and the effectiveness of reserve requirement policy, and the Government is considering revisions to the legislation to correct these shortcomings (see below). In the area of customs reform, six (of twelve) customs houses covering about 85 percent of foreign trade have been turned over to the private sector. Finally, some 33 small public enterprises were offered for sale or subjected to liquidation proceedings by December 1992.

## 2. Estimates for 1993

Real GDP growth is projected to pick up to 3.2 percent in 1993, led by favorable agricultural conditions and a strong growth of exports. Inflation, which had declined to 7 1/2 percent during the 12 months ended April 1993, subsequently picked up and is expected to be only slightly less than 10 percent during 1993 (7 1/2 percent in the program).

The fiscal program supported by the additional ESAF arrangement called for a reduction in the fiscal deficit to 3.2 percent of GDP in 1993. However, current and capital expenditure increased in the run-up to the presidential election in June 1993, and the deficit rose to 6.6 percent of GDP in the year ended June 1993. The public sector wage bill initially was

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<sup>1/</sup> After adjusting for delays in gas-related payments by Argentina of US\$70 million.

programmed to increase by 7 1/2 percent in 1993, but it is estimated to have risen by 15 1/2 percent (excluding severance payments) as a result of higher than envisaged public sector wage agreements in the first half of the year.

Shortly after the election in June, a government decree was issued to slow public sector expenditure during the period until the new government assumed office in August, and the new authorities took additional steps to curtail expenditure, particularly of the Treasury. Nevertheless, the deficit for the year ended in September remained around 6 1/2 percent of GDP.

The 12-month growth of credit to the private sector declined from 46 percent in December 1992 to 32 percent in October 1993. This reflected stepped-up open-market operations and a reduction in the on-lending of funds to the private sector from credits extended by the IDB and the Andean Development Corporation (CAF). Interest rates on U.S. dollar-denominated CDs rose sharply in the first eight months of 1993. However, they subsequently declined, possibly reflecting reduced uncertainty as the new government laid out its economic program, as well as recent efforts to restrain the fiscal deficit (see below).

Preliminary data indicate that the external current account recorded a deficit of about US\$400 million in the first three quarters of 1993 (7.6 percent of GDP), compared with a deficit of US\$350 million in the same period of 1992. Exports were adversely affected in 1993 by a sharp weakening in the world prices of tin and zinc; official transfers also have declined somewhat, particularly cash disbursements related to coca eradication. However, both official and private capital inflows continued to exceed projections, Argentina began to make exceptional payments related to gas imports from Bolivia, and net international reserves increased by US\$98 million in the first 11 months of 1993. 1/ Following a real appreciation of 3.3 percent in 1991, the boliviano depreciated in real effective terms by 2.5 percent in 1992 and by a further 2.6 percent in the first nine months of 1993 (Chart 1).

### III. Summary of Discussions and the Program for 1993-94

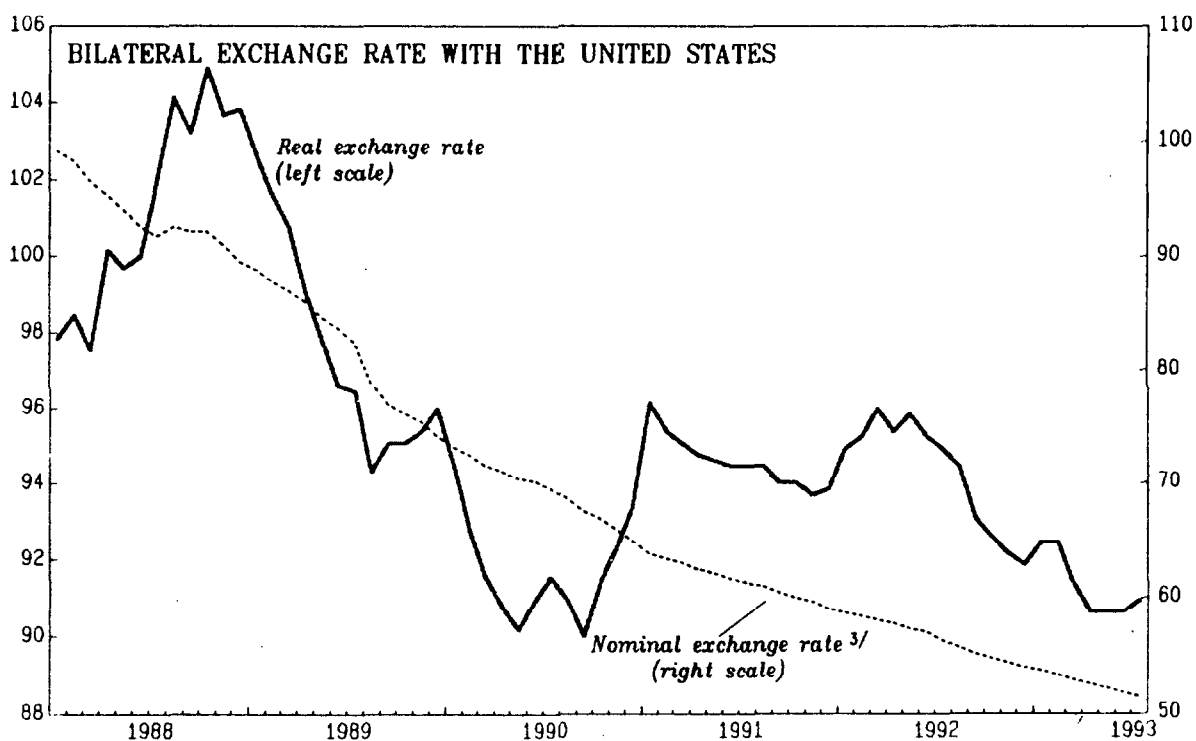
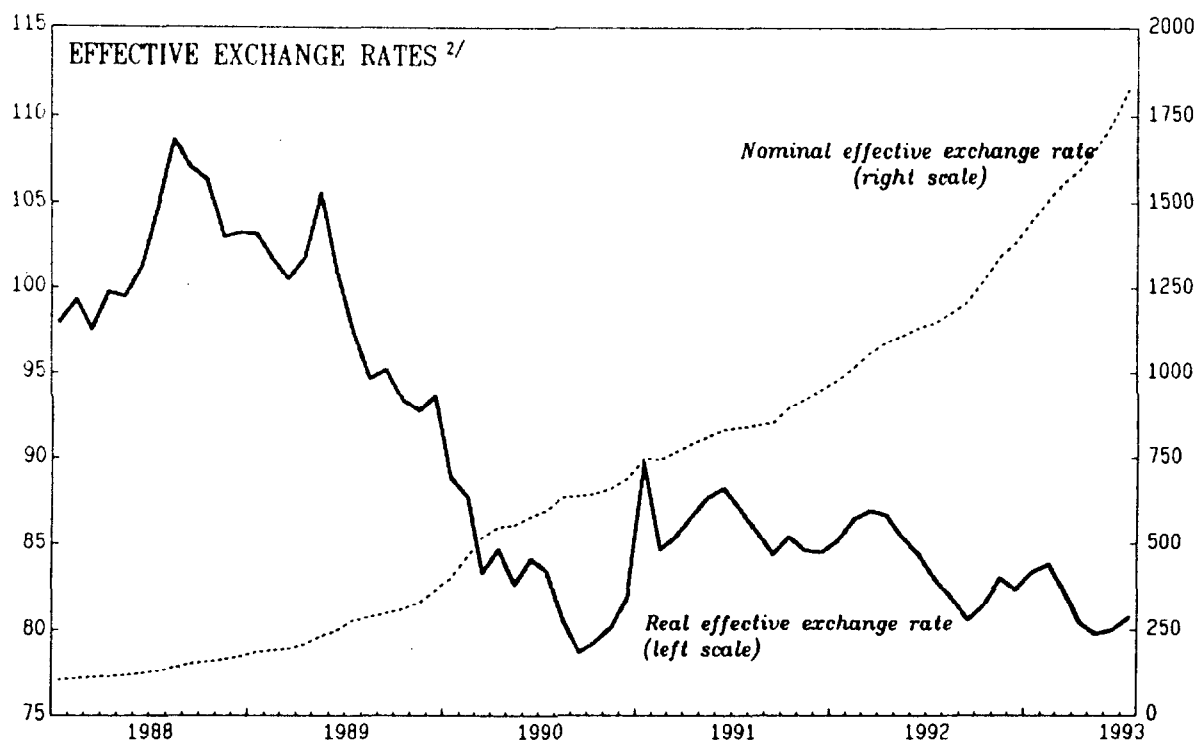
The authorities' program for the remainder of 1993 and 1994 aims at reducing inflation from 10 percent during 1993 to 7.5 percent during 1994. The external current account deficit is projected to decline somewhat while net international reserves would increase by US\$110 million in 1993 and US\$20 million in 1994. Real GDP growth is assumed to pick up to about 4 percent in 1994, led by private investment and exports.

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1/ The exceptional payments from Argentina have been made at the rate of US\$10 million a month beginning in March 1993. Also, Argentina cleared unpaid bills for earlier gas imports by March 1993.



CHART 1  
BOLIVIA  
EXCHANGE RATE DEVELOPMENTS <sup>1/</sup>  
(December 1987=100)



Sources: Central Bank of Bolivia; IMF International Financial Statistics; and IMF Information Notice System.

<sup>1/</sup> Increase (decrease) indicates appreciation (depreciation).

<sup>2/</sup> Based on 15-currency basket.

<sup>3/</sup> Index of US\$ per boliviano.



1. Fiscal policy

The authorities indicated that the combined public sector deficit would be limited to about 4.4 percent of GDP in the fourth quarter of 1993 (excluding severance payments for the employment reduction program described below). Public investment was to be reduced by 35 percent compared with the average for the first three quarters of the year, and discretionary expenditures (i.e., excluding wages, interest payments, and transfers) were to be reduced by 7 percent. For the year as a whole, the deficit (excluding severance payments) was projected to amount to 5.3 percent of GDP (3.2 percent of GDP in the program).

In addition, the Government expects to incur severance payments in the latter part of the year that would raise the deficit in 1993 to 6.6 percent of GDP. The employment reduction plan aimed to reduce public employment by about 9,000 positions (4 percent of total public employment) in the fourth quarter of the year. About two thirds of the positions to be eliminated are in the public enterprises, which is seen as an important step toward making the enterprises attractive to private investment.

The fiscal program envisages a reduction of the deficit to 3 percent of GDP in 1994. It is estimated that a deficit of this magnitude, which is the same level as foreseen for 1994 in the 1992 PFP, could be covered by prospective external financing.

Current revenue of the combined public sector is projected to increase from 24.9 percent of GDP in 1993 to 25.6 percent in 1994. This increase is more than explained by a projected improvement in the operating surpluses of public enterprises, whose expenses will decline because severance payments undertaken in 1993 will not be repeated in 1994. In addition, it is envisaged that the state mining company (COMIBOL) will be converted to a small holding company with the sole responsibility of overseeing joint ventures with private mining companies, and is expected to record a small operating surplus in 1994 compared with a loss in 1993.

Tax revenue is projected to decline slightly in 1994 (relative to GDP). The duty on capital goods imports is to be eliminated in early 1994, with the revenue loss of about 0.3 percent of GDP expected to be largely offset by a gain in the efficiency of domestic tax collections. The authorities intend to improve the efficiency of tax collection through better auditing and enforcement procedures. Computerized cross-checking of VAT submissions resulted in a substantial increase in VAT collections in the second half of 1993. The fiscal projections assume an average increase in domestic petroleum prices of about 8 percent in early 1994, which would keep fiscal revenues from this source about unchanged in real terms between 1993 and

1994. The privatization of certain public corporations in 1993 and 1994 is projected to reduce general government nontax current revenue. <sup>1/</sup>

Current expenditure of the general government is targeted to decline from 23.6 percent of GDP in 1993 to 22 percent in 1994 as a result of restraint on public sector wages, the reduction in public sector employment beginning in late 1993, and a series of measures to improve expenditure control. The authorities indicated their commitment to limit the average public sector wage increase to 7.5 percent in 1994, in line with projected inflation. This, in combination with the reduction in public employment, would lower the public sector wage bill from 11.5 percent of GDP in 1993 (excluding severance payments) to 10.6 percent of GDP in 1994.

Capital expenditure is programmed to decline from 9.4 percent of GDP in 1993 to 8.3 percent of GDP in 1994. The reduction is expected to affect particularly the regional development corporations, where some previous capital expenditure was more in the nature of current expenditure or aimed at temporary employment creation, while the investment program of the Government will emphasize physical infrastructure and the social sectors, especially health and education. Capital spending by the public enterprises also will be restrained pending their possible transfer to the private sector beginning in 1995.

To improve the control of expenditure, the National Secretariat for Finance has been given responsibility for overseeing the public investment program, all external financing of the nonfinancial public sector, and the allocation of domestic counterpart funds. In addition, a committee comprising the Undersecretaries for Public Investment, the Budget and the Treasury is being established to ensure adherence to the Government's expenditure priorities. Beginning with the first quarter of 1994, this committee is to establish detailed quarterly limits on expenditure commitments and monthly limits on expenditure accruals.

## 2. Credit policy

The targets for the net domestic assets of the Central Bank will be based on a growth in currency issue in line with the increase in nominal GDP and the balance of payments objectives of the program. The growth of broad money is projected to slow from 34 percent in 1993 to 22 percent in 1994, but the monetization of the economy would continue as further progress is made in lowering inflation. The elimination of the domestic borrowing requirement of the public sector is expected to make room for a substantial real increase in credit to the private sector and some further easing of interest rates.

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<sup>1/</sup> In the ESAF program, sales of goods and services by the enterprises of the regional development corporations have been included in general government nontax revenue.

Auctions of one-month U.S. dollar-denominated CDs would continue to be the main monetary instrument of the Central Bank in 1994. However, the authorities intend to begin auctions of treasury bills in late 1993. The process of replacing central bank certificates of deposit with treasury notes will be gradual, starting with the placement of three-month treasury bills. Once these auctions are well established, the Central Bank will be in a position to avoid direct financing of the treasury deficit.

### 3. External policies

#### a. Balance of payments and external financing

The external current account deficit is projected to decline from US\$495 million in 1993 (9.4 percent of GDP) to US\$439 million in 1994. A modest recovery of the terms of trade is projected for 1994 and the pickup of export volumes that began in 1993 is expected to continue. Particularly strong volume growth is projected for soybeans where the area planted is expanding considerably to supply new markets in Latin America, and for gold, reflecting the full-year output of a mine that started production in April 1993. As a result of the tightening of financial policies in 1994, import volumes are projected to rise by only 2 percent.

The capital account surplus is projected at US\$334 million in 1994, about the same as in 1993. Disbursements of external loans to the public sector are expected to increase somewhat, reflecting additional disbursements from the IDB and CAF, while net private inflows would decline. Direct foreign investment is expected to increase slightly, but this would be more than offset by reduced short-term inflows reflecting the expected decline in interest rates in Bolivia.

The deficit of the overall balance of payments is projected to decline from about US\$170 million in 1993 to US\$105 million in 1994. Taking into account the targeted reserve gain of US\$20 million and exceptional financing already agreed, a financing gap of US\$101 million would remain. In January 1992, the Paris Club granted debt rescheduling under enhanced concessions, provided that an appropriate arrangement from the Fund remained in place; the rescheduling has been extended through March 1994. The financing gap in the last three quarters of 1994 could be covered by additional concessional assistance or further debt rescheduling.

In April 1993 Bolivia completed operations to address the problem of overdue debt to external commercial banks. Bank claims in the amount of US\$170 million (out of a total of US\$173 million outstanding) were tendered under three options: US\$77 million in claims were extinguished through a cash buyback at US\$0.16 per U.S. dollar; US\$33 million were exchanged for a fully collateralized 30-year noninterest-bearing bond; and US\$60 million were exchanged for short-term bonds to be used for social and environmental projects. These operations with a cash value of US\$26 million were financed by grants from the IDA Debt Reduction Facility and bilateral donors. The

legitimacy of the remaining external claims of US\$2.6 million has been challenged by the Bolivian Government and the claims are under litigation.

b. Exchange rate policy and the exchange and trade system

Since 1985 Bolivia has pursued a flexible exchange rate policy with the exchange rate determined by central bank auctions. The authorities believe that with Bolivia's continued vulnerability to external shocks it is desirable to maintain the present system.

Bolivia maintains an open trade system. In October 1992 the remaining import licensing requirement (on sugar) was abolished. Also, the 5 percent import tariff on capital goods is to be eliminated on January 1, 1994. With the elimination of arrears to external bank creditors noted above, Bolivia maintains a system that is free of restrictions on payments and transfers for current international transactions. Bolivia does not restrict capital transfers.

4. Structural reforms

The new government confirmed its intention to implement the structural measures that are benchmarks under the additional annual ESAF arrangement and has set out a program of additional structural reforms.

As noted above, a new Law on Banks and Other Financial Institutions was passed by Congress in April 1993. This legislation tightened prudential requirements and eased requirements for the establishment of new banks. It also extended the application of reserve requirements to nonbank financial institutions and provided the basis for the gradual reduction of reserve requirements. The intended date for the full implementation of the legislation is May 1994 and the Central Bank plans to move gradually to reduce reserve requirements to avoid a sudden expansion of liquidity.

The revised draft of the Central Bank Law will be submitted to Congress in mid-January 1994. The new law would grant the Central Bank autonomy in the conduct of monetary policy and prohibit direct central bank financing of the Treasury. Passage of a Central Bank Law along these lines has been a structural benchmark since January 1993. To ensure the consistency of other legislation in the financial area with the new Central Bank Law, the Government likely will submit simultaneously proposals of amendments to the Banking Law and to the laws on Superintendency of Banks, insurance companies, and the securities market.

With the assistance of an MAE consultant, the authorities have developed a plan for the reorganization of the Central Bank in line with the functions specified in the new Central Bank Law. Initial steps, including the contracting of an outside agency to help assess qualifications of the existing staff, are in progress. In the second half of 1994 it is planned to transfer the activities of the Development Department (which on-lends

funds from external credit lines to the private sector) to a separate bank that will be created for that purpose.

A central element of the Government's program in the medium-term is the transfer of control of the largest public enterprises (including the telecommunications, electricity, railway, and oil companies) to the private sector through capitalization. Under this plan, private investors would contribute capital and technology to the public enterprises in exchange for up to 50 percent of the equity of the enterprise; the remainder of the shares of the enterprises would be distributed among adult Bolivian citizens. A capitalization law is under preparation, together with legislation that would improve the regulatory framework for the telecommunications, electricity, and hydrocarbons sectors and make these sectors more attractive to private investors.

The fiscal impact of the capitalization plan will depend on the extent to which investors assume enterprise liabilities, including severance payments to enterprise employees. No operations are anticipated before 1995, and the program for 1994 assumes no impact from these operations. The staff will discuss with the authorities the impact of capitalization as the modalities are defined more clearly in the course of 1994.

The Government also has announced its intention to reform the pension system. The main purpose of the reform would be to replace the present "pay-as-you-go" system by individual capitalization accounts to be administered by private companies. The reform would not be initiated until 1995 as additional preparatory work is needed, and the authorities intend to link pension reform to the capitalization program for public enterprises.

The Government is committed to a comprehensive program to reduce poverty, with emphasis on education reform and better targeting of health services to the poorest groups. The main objective of the education reform, which is being supported by a loan from the World Bank, is to raise average education levels and to eliminate functional illiteracy by shifting expenditure toward primary schools and by extending basic education to rural areas. With respect to health, the primary goals are to reduce infant mortality and to improve maternal and child health by increasing the coverage of basic services and extending safe water and sanitation facilities to rural areas. As part of the overall economic development policy, the new Ministry of Sustainable Development and the Environment, created in September 1993, will oversee a national environmental program intended to encourage the preservation of nonrenewable resources in Bolivia.

##### 5. Monitoring the 1993-94 macroeconomic framework

The Fund staff will assist the authorities in monitoring the macroeconomic framework for 1993/94. For this purpose, understandings were reached during the Article IV consultation mission on monthly indicators for the period November 1993 through March 1994, with quarterly indicators for June, September, and December 1994 (Table 8). Understandings also were

reached on structural measures to be implemented prior to completion of the review under the ESAF arrangement (see Table 7, part B), which could be completed by March 1994.

More specifically, the authorities will implement mechanisms of public expenditure control and present to Congress a budget for 1994 consistent with a fiscal deficit of no more than 3 percent of projected GDP. They will also: secure passage of legislation establishing an autonomous Central Bank; reduce significantly the number of customs employees on the basis of competitive examinations; and provide plans of action for the liquidation of the assets of the closed state banks and for the reorganization of the Central Bank. The review also will assess progress in the implementation of customs and other financial sector reforms.

#### IV. The Medium-Term Framework

The program that is now being implemented envisages a substantial reduction in the fiscal deficit in 1994, a lowering of inflation, and further progress toward balance of payments viability. In addition, the Government is considering a program of capitalization of the major public enterprises that could result in a substantial increase in private investment in sectors previously reserved for the public sector, together with increased efficiency of resource use. In the meantime, external financing has proven to be higher than envisaged earlier, particularly from the IDB and CAF. Against this background, the staff considers that potential real GDP growth could be raised to 4 to 4.5 percent a year in the medium term, compared with 3.5 percent projected previously.

The staff has prepared a medium-term scenario in which total investment would increase from less than 16 percent of GDP in 1993 to 18 percent in 1998. National savings would rise from about 6 percent of GDP to almost 11.5 percent, while reliance on foreign savings--starting from a higher base in 1993 than envisaged previously--would decline by almost four percentage points of GDP to around 5 to 6 percent of GDP at the end of the projection period (Table 9). Public sector investment is expected to decline from 9 1/2 percent of GDP in 1993 to 6 1/2 percent in 1998 (concentrated in infrastructure and the social sectors) while private investment would increase from 6 percent of GDP to 11 1/2 percent.

The medium-term balance of payments projections (Table 10) assume an unchanged volume of natural gas exports. <sup>1/</sup> For other exports, it is assumed that increased private investment, encouraged by legislation to open up activities to the private sector, will make possible some increase in

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<sup>1/</sup> In the past several years, public and private sector investors have suggested various projects to export natural gas to Brazil. The medium-term projections do not take account of such projects, as the possible sources of financing (which could amount to US\$3-4 billion) have not been identified.



export market shares over the medium term. The volume of imports is projected to increase by about 2 percent in 1994, reflecting the tightening of fiscal policy, before growing in line with real GDP in subsequent years. The terms of trade are projected to improve modestly after a fall of over 20 percent in 1992-93.

The projections assume that total disbursements of official loans and grants would decline from over 10 percent of GDP in 1993 to under 8 percent in 2001, and that Bolivia would continue to obtain most external financing on concessional terms. As a result of the increased investment opportunities in hydrocarbons, electricity, and telecommunications, it is assumed that direct foreign investment will grow by about 3 percent a year in U.S. dollar terms beginning in 1995, and that there will be a gradual decline in short-term capital inflows.

The overall balance of payments would record modest surpluses in the medium term. The import coverage of gross international reserves would, as in the previous projection, reach about three months of imports in 2000.

The projections suggest that if financing gaps in 1994-96 would be covered on terms similar to those of the 1992 Paris Club rescheduling (a 50 percent reduction in net present value terms on debt service falling due to official bilateral creditors over the period), it might be possible for Bolivia to eliminate its external financing gaps from 1997 onward. External debt in relation to GDP would decline from 74 percent in 1993 to about 62 percent in 2001 and the debt service ratio would fall from about 54 percent of exports to 28 percent over this period (Table 11).

Nevertheless, Bolivia's balance of payments remains sensitive to changes in key external variables. If metal export prices were to differ by 5 percent from the baseline scenario, the yearly financing gaps would change by about US\$20 million in 1994-96 and by over US\$30 million at the end of the projection period (Table 12). If the volume growth of nontraditional exports were 20 percent lower, the yearly financing gaps would increase by about US\$12 million in 1994-96 and by over US\$50 million in later years.

Also, Bolivia's debt service burden would remain high and Bolivia continues to be among the poorer countries in the Western Hemisphere, with population growth of over 2 percent a year. Prospects for a more rapid rate of output growth and the reduction of poverty would be improved considerably by the availability of additional concessional financial resources.

The Agreed Minute of the January 1992 Paris Club rescheduling included the possibility of a stock of debt operation in 1995 under certain circumstances. For illustrative purposes, an alternative scenario has been prepared covering a possible stock of debt reduction in 1995 by Paris Club and non-Paris Club bilateral creditors. It has been assumed that debt service on pre-cutoff date debt falling due through end-1994 is rescheduled and that the same menu of options would be applied at the beginning of 1995 providing for a 50 percent reduction in terms of net present value of the

stock of pre-cutoff date debt (including debt arising from the Paris Club reschedulings of 1986 and 1988). The debt service profile generated under this scenario would be consistent with the elimination of financing gaps from 1995 onward while allowing for increased availability of external resources that could be used to build up international reserves and support higher investment and a faster growth of output over the medium term (see Table 12).

The authorities have established a good track record of payments to the Fund over a number of years. Projected debt service to the Fund is shown in Table 13.

#### V. Staff Appraisal

After several years of good economic performance under three annual programs supported by ESAF arrangements beginning in mid-1988, government expenditure increased rapidly in the second half of 1992 and the fiscal objectives of the program for 1992 were not observed. In the six months preceding the presidential election in June 1993, the deficit widened further and other benchmarks under the arrangement were not observed. There also were delays in implementing structural reforms including in the area of public expenditure controls, enactment of legislation to provide for an autonomous Central Bank, and customs administration. As a result, completion of the midterm review under the additional ESAF arrangement approved in September 1992 has been delayed.

The Government that took office in August 1993 has affirmed its commitment to the objectives of the ESAF-supported program. To this end, the authorities have established a program for the remainder of 1993 and 1994 that is intended to provide the basis--after a period of performance--for completing the review. Output growth is projected at 4 percent in 1994, while inflation is targeted to decline to 7 1/2 percent.

The programmed reduction of the public sector imbalance is a key feature of the adjustment effort. The Government will need to ensure passage of the 1994 budget and to monitor expenditures closely to avoid slippages in fiscal performance. In addition, it is essential that the authorities exercise restraint on public sector wages and that the reduction in public sector employment in 1993 be sustained. Domestic tax collections have responded well to efforts to improve tax administration and reduce tax evasion. The authorities should vigorously pursue these efforts in 1994.

The conduct of monetary policy in Bolivia has been affected in 1992-93 by large capital inflows from abroad and slippages in the implementation of fiscal policy. The programmed tightening of the fiscal position in 1994 is expected to help ease the pressures on monetary policy. The staff welcomes the efforts made by the authorities to eliminate the operational losses of the Central Bank through the capitalization of the Bank in December 1992, and it will be important to follow these actions with passage of legislation

to ensure the autonomy of the Central Bank. The staff also encourages the Central Bank to proceed with the development of the market for treasury bills, to replace central bank bills in the conduct of monetary policy.

The medium-term external outlook for Bolivia shows the need for economic adjustment together with concessional financing and debt relief for some years to come. This implies the need for continued Fund and World Bank assistance to Bolivia, including the provision of financing on concessional terms. A stock of debt operation by the Paris Club would support a further improvement in growth in Bolivia and a more rapid alleviation of poverty.

The staff supports the view of the authorities that the current exchange system has provided the flexibility needed to adapt to changing external circumstances (including sharp declines in the terms of trade in the past few years). After a decline in export volumes in 1992 owing to a poor agricultural harvest and weakening external demand, export volumes have increased strongly in 1993 and appear set to grow further in 1994. Sustained export growth with low inflation will require the pursuit of restrained fiscal, credit and wage policies.

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

Table 1. Bolivia: Macroeconomic Flows, 1988-94

	1988	1989	1990	1991	1992 EBS/92/137	Actual	1993 EBS/92/137	Proj.	Proj. 1994
<u>(Annual percentage growth)</u>									
Real GDP growth	3.0	2.8	2.6	4.1	3.5	2.7	3.5	3.2	4.0
Consumer prices (period average)	16.0	15.2	17.1	21.4	11.8	12.1	7.4	8.4	8.6
Consumer prices (end of period)	21.5	16.6	18.0	14.5	10.4	10.5	7.5	9.8	7.5
<u>I. Balance of Payments</u>									
<u>(Percent of GDP)</u>									
Current account balance <sup>1/</sup>	-8.3	-5.6	-5.0	-6.4	-7.2	-9.0	-7.1	-9.4	-7.9
Net exports of goods and nonfactor services	-5.5	-3.5	-3.5	-5.2	-7.0	-10.0	-6.6	-9.8	-8.4
Net factor payments (net)	-5.9	-5.6	-5.5	-5.0	-3.8	-3.7	-3.7	-3.8	-3.6
Other services and transfers	3.1	3.5	4.0	3.7	3.6	4.7	3.2	4.2	4.1
Financing	8.3	5.6	5.0	6.4	7.2	9.0	7.1	9.4	7.9
Nonfinancial public sector	4.5	2.1	2.7	3.5	5.0	4.6	4.3	5.7	3.4
Other capital <sup>2/</sup>	3.1	0.3	4.5	4.7	3.7	4.9	3.5	5.8	4.9
Net international reserves (increase -)	0.7	3.1	-2.3	-1.8	-1.5	-0.6	-0.7	-2.1	-0.4
<u>II. Combined Public Sector</u>									
Nonfinancial public sector									
Current revenue	19.9	21.1	24.1	25.9	23.8	25.5	23.2	24.8	25.6
Current expenditure	19.3	19.4	21.8	22.9	20.5	22.3	19.4	23.5	22.0
Savings (before transfers)	0.6	1.3	3.0	3.7	3.3	3.2	3.8	1.3	3.6
Transfers from abroad	1.0	1.6	2.0	1.9	1.7	2.9	1.7	1.5	1.7
Investment	8.1	8.9	9.2	9.5	8.7	10.9	8.8	9.4	8.3
Deficit of the nonfinancial public sector	-6.5	-5.6	-4.1	-3.9	-3.7	-4.7	-3.2	-6.6	-3.0
Central bank losses <sup>3/</sup>	-0.2	-0.4	-0.7	-0.7	--	--	--	--	--
Combined public sector deficit	-6.7	-6.0	-4.8	-4.6	-3.7	-4.7	-3.2	-6.6	-3.0
Financing	6.7	6.0	4.8	4.6	3.7	4.7	3.2	6.6	3.0
Foreign financing	4.5	2.1	2.7	3.5	5.0	4.6	4.4	5.7	3.4
Domestic financing	2.2	3.9	2.1	1.1	-1.3	0.1	-1.1	0.9	-0.4
<u>III. Savings and Investment</u>									
Investment	12.1	12.1	13.1	14.1	14.1	16.2	15.0	15.6	15.8
Public sector	8.1	8.9	9.2	9.5	8.7	10.9	8.7	9.4	8.3
Private sector	4.0	3.3	3.9	4.6	5.4	5.3	6.3	6.2	7.5
Savings	12.1	12.1	13.1	14.1	14.1	16.2	15.0	15.6	15.8
External savings	8.3	5.6	5.0	6.4	7.2	9.0	7.1	9.4	7.9
Domestic savings	3.8	6.5	8.1	7.7	6.9	7.2	7.9	6.2	7.9
Combined public sector	1.3	2.9	4.3	5.1	5.0	6.1	5.5	2.8	5.3
Private sector	2.5	3.7	3.8	2.6	1.9	1.1	2.4	3.4	2.6

Sources: National Institute of Statistics; and Fund staff estimates.

<sup>1/</sup> Excludes official donations to finance the buyback of commercial bank debt.

<sup>2/</sup> Includes net borrowing by the financial public sector, nonofficial reserve movements, direct foreign investment and net errors and omissions.

<sup>3/</sup> As of 1992, central bank losses are covered by the Treasury and included in general government expenditure.

Table 2. Bolivia: Selected Economic and Financial Indicators

	1989	1990	1991	1992	1993 Prog. 1/ EBS/92/137	Rev. Proj.	Proj. 1994
(Annual percentage change, unless otherwise stated)							
<b>Income and prices</b>							
Real GDP	2.8	2.6	4.1	2.7	3.5	3.2	4.0
Real GDP per capita	0.8	0.6	2.1	0.6	1.5	1.1	2.0
Real consumption per capita	-3.9	-4.0	2.5	2.8	-0.9	0.4	-0.3
GDP deflator	12.4	12.8	21.0	13.0	6.2	7.1	7.7
Consumer prices (end of period)	16.6	18.0	14.5	10.5	7.5	9.8	7.5
Consumer prices (period average)	15.2	17.1	21.4	12.1	7.4	8.4	8.6
<b>External sector</b> (in terms of U.S. dollars)							
Merchandise exports (f.o.b.)	33.4	14.8	-8.5	-20.0	9.1	4.0	14.2
Nongas exports	57.4	18.5	-14.0	-6.5	16.7	11.1	16.3
Merchandise imports (c.i.f.)	12.2	11.7	3.1	12.5	5.3	1.3	3.9
Export volume	26.4	18.0	-0.7	-6.0	10.0	8.9	10.0
Import volume	11.0	9.5	3.0	11.2	2.0	1.9	1.8
Terms of trade (deterioration -)	3.5	-4.6	-7.9	-16.9	-3.9	-3.9	1.7
Real effective exchange rate (depreciation -)							
End of period	-9.6	-12.5	3.3	-2.5	...	-0.5 2/	...
Period average	-4.1	-15.7	3.3	-2.6	...	-3.8 3/	...
<b>Nonfinancial public sector</b> 4/							
Revenue and grants	26.1	29.8	35.3	14.2	7.4	7.6	15.6
Total expenditure	19.6	21.6	32.3	12.6	5.8	16.9	4.5
<b>Money and credit</b>							
Net domestic assets 5/	32.6	24.8	36.3	28.3	8.3	20.7	16.6
Liabilities to private sector (M3) 2/	19.6	35.9	44.1	27.8	15.0	25.3	17.5
Interest rates (percent per annum, end of period)							
Yield on CDs in local currency	45.9	49.7	25.7	22.1	...	20.1 6/	...
Yield on CDs in U.S. dollars	18.6	17.0	9.2	7.9	...	6.8 6/	...
Liabilities to private sector (M3) 2/	33.4	48.7	54.9	37.2	19.4	34.0	22.2
Broad money (M2) 8/	-4.4	27.5	22.7	14.0	16.1	10.4	16.8
U.S. dollar-denominated deposits 2/	67.7	59.7	68.2	44.2	20.7	39.6	23.2
(In percent of GDP)							
<b>Combined public sector</b>							
Savings before transfers	0.9	2.3	3.0	3.2	3.8	1.3	3.6
Overall deficit	-6.0	-4.8	-4.6	-4.7	-3.2	-6.6	-3.0
Nonfinancial public sector deficit 4/	-3.6	-4.2	-3.9	-4.7	-3.2	-6.6	-3.0
Central bank losses (-)	-0.4	-0.7	-0.7	--	--	--	--
<b>Investment and savings</b>							
Gross domestic investment	12.1	13.1	14.1	16.2	15.0	15.6	15.8
Public sector	8.9	9.2	9.5	10.9	8.7	9.4	8.3
Private sector	3.3	3.9	4.6	5.3	6.3	6.2	7.5
Gross national savings	6.5	8.1	7.7	7.2	7.9	6.2	7.9
Combined public sector 4/	2.9	4.3	5.1	6.1	5.5	2.8	5.3
Private sector	3.7	3.8	2.6	1.1	2.4	3.4	2.6
External current account deficit 9/ (Before official transfers)	5.6	5.0	6.4	9.0	7.1	9.4	7.9
Public sector external debt 10/	83.0	91.9	79.3	77.2	71.2	74.0	73.3
Debt service due 11/	45.8	47.1	50.6	56.6	48.2	53.6	46.3
Debt service paid 11/	24.9	28.9	27.6	32.4	31.0	33.6	32.3
Banking system liabilities to private sector	18.7	24.0	29.5	33.5	34.9	35.9	36.0
(In millions of U.S. dollars)							
Change in net official reserves	-139.8	98.9	89.8	30.5	110.0	110.0	20.0
Gross official reserves (months of imports)	4.9	4.5	4.6	4.4	5.3	4.8	4.9
Public sector external debt (in billions of U.S. dollars)	3.7	4.0	3.9	4.0	3.9	3.9	4.1

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

1/ Program data adjusted for delayed payments by Argentina.

2/ 12 months to September 1993.

3/ First three quarters of 1993.

4/ Gas export revenues and interest outlays on a payments due basis.

5/ Changes in percent of liabilities to private sector at beginning of year, at accounting exchange rates.

6/ November 10, 1993.

7/ Percentage change; deposits valued at end-period exchange rates.

8/ Currency in circulation plus local currency deposits.

9/ Excludes grants to finance debt reduction operations.

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

11/ On public sector medium- and long-term external debt, including payments to the Fund, in percent of exports of goods and nonfactor services.

Table 3. Bolivia: Summary Operations of the Combined Public Sector <sup>1/</sup>  
(In percent of GDP)

	1990	1991	1992		1993		Proj. 1994
			EBS/92/137	Prel.	EBS/92/137	Proj.	
<u>Current revenue</u>	23.5	25.0	24.9	24.7	24.3	24.9	25.6
General government <sup>2/</sup>	21.0	22.3	22.1	22.2	21.6	23.8	23.0
Of which: hydrocarbon taxes <sup>3/</sup>	8.9	9.5	7.6	7.6	7.8	7.3	7.1
other taxes	7.9	8.2	9.5	10.2	9.8	11.2	11.1
Operating surplus of public enterprises <sup>4/</sup>	2.4	2.7	2.8	2.5	2.7	1.1	2.6
<u>Current expenditure</u> <sup>5/</sup>	21.2	22.0	21.6	21.5	20.5	23.6	22.0
General government	20.5	21.3	21.6	21.5	20.5	23.6	22.0
Central bank losses <sup>6/</sup>	0.7	0.7	...	...	...	...	...
<u>Consolidated current surplus before grants</u>	2.3	3.0	3.3	3.2	3.8	1.3	3.6
Official grants	2.0	1.9	1.7	2.9	1.7	1.5	1.7
<u>Consolidated current surplus after grants</u>	4.3	4.8	5.0	6.1	5.5	2.8	5.3
Capital expenditure	9.2	9.5	8.7	10.9	8.8	9.4	8.3
<u>Overall balance of combined public sector</u>	-4.8	-4.6	-3.7	-4.7	-3.2	-6.6	-3.0
<u>Financing</u>	4.8	4.6	3.7	4.7	3.2	6.6	3.0
External	2.7	3.5	5.0	4.6	4.4	5.7	3.4
Domestic	2.1	1.1	-1.3	0.1	-1.1	0.9	-0.4
Central Bank	2.3	1.1	-0.9	0.3	-0.9	0.8	-0.1
Credit to nonfinancial public sector	1.6	0.4	...	...	...	...	...
Central bank losses <sup>6/</sup>	0.7	0.7	...	...	...	...	...
Other <sup>7/</sup>	-0.2	--	-0.5	-0.2	-0.2	0.1	-0.4
<u>Memorandum items</u>							
Primary surplus of the nonfinancial public sector <sup>8/</sup>	-0.8	-0.6	0.1	-1.3	0.3	-3.1	0.5
Hydrocarbon revenues	13.4	14.6	12.2	12.2	11.3	10.6	10.7
VAT and IT from YPFB	1.1	1.1	1.3	1.3	1.4	1.3	1.3
Transfers from public enterprises to the general government (net)	0.3	0.2	0.2	0.3	--	-0.2	0.1
Wages, salaries, and severance payments	11.3	11.2	10.9	12.2	10.7	13.5	11.4
Of which: severance payments	0.5	0.5	0.5	0.6	0.4	1.3	0.2
Military expenditure <sup>9/</sup>	3.4	3.6	...	3.3	...	3.0	...

Sources: Ministry of Finance; Integrated System of Financial Administration and Government Control (SAFCO); Economic Policy Unit (UDAPE); Central Bank of Bolivia; and Fund staff estimates.

<sup>1/</sup> Includes the nonfinancial public sector and the operating balance of the Central Bank. Program numbers for 1992 and 1993 have been adjusted to reflect a change in reporting sales of enterprises.

<sup>2/</sup> Excludes transfers from nonfinancial public enterprises.

<sup>3/</sup> Includes VAT and transaction taxes paid by the national oil company (YPFB), and a gross sales tax ("regalias") also paid by YPFB. In this last item, the classification differs from previous tables.

<sup>4/</sup> Gas exports to Argentina are recorded on a payments due basis, net of all taxes paid by YPFB.

<sup>5/</sup> Interest on external debt on a payments due basis.

<sup>6/</sup> As of 1992, the central bank operating balance is included in general government expenditure. From 1992 central bank losses are estimated at 0.2 percent of GDP. The Central Bank is projected to show a surplus of 0.3 percent of GDP in 1993 and of 0.2 percent of GDP in 1994.

<sup>7/</sup> Includes floating debt, change in arrears to foreign oil companies in Bolivia, and net financing from the rest of the financial system.

<sup>8/</sup> Data for 1990-92 are not strictly comparable to 1993 onwards because the stock of domestic debt of the nonfinancial sector was reconciled only in late 1992.

<sup>9/</sup> Includes estimated military grants that are not recorded in the public sector accounts.

Table 4. Bolivia: Financial Benchmarks and Quantitative Performance Criteria - Additional Annual Arrangement Under the ESAF 1/

(Cumulative change from June 30, 1992 to end of period)

	1992 June 2/	1992 September	1992 December	1993 March	1993 June	1993 September
(In millions of bolivianos)						
Net domestic assets of the Central Bank						
Unadjusted target	-547.0	59.3	246.6	120.7	87.8	-9.9
Adjusted target	-599.1	160.7	519.3 3/	300.5	186.7	124.3
Actual	-653.3	49.8	455.3	392.1	413.4	229.8
Margin	54.2	110.9	64.0	-91.6	-226.7	-105.5
Central Bank credit to nonfinancial public sector						
Unadjusted target	-269.0	-17.5	183.2	118.1	60.2	-132.7
Adjusted target	-321.1	83.9	455.9 3/	297.9	166.5	1.5
Actual	-300.5	28.8	365.6	529.2	568.3	566.3
Margin	-20.6	55.1	90.3	-231.3	-401.8	-564.8
Combined deficit of public sector (cumulative deficit)						
Target	1,001.2	62.9	436.3 3/	636.2	889.2	859.3
Actual	1,102.8	153.0	624.3	929.2	1,407.6	1,620.2
Margin	-101.6	-90.1	-188.0	-192.2	-518.4	-760.9
(In millions of U.S. dollars)						
Net international reserves of the Central Bank						
Unadjusted target	173.0	-15.0	-31.9	-21.9	3.1	28.1
Adjusted target	186.4	-41.1	-102.0 3/	-69.4	-24.7	-8.3
Actual	200.0	-17.8	-73.9	-74.1	-64.3	-25.5
Margin	13.6	23.3	28.1	-4.7	-39.6	-17.2
External debt with 1-10 years' maturity 4/						
Limit	10.0	10.0	10.0 3/	10.0	10.0	10.0
Actual	-32.8	-22.6	-41.2	-48.4	-53.9	-53.7
Margin	42.8	32.6	51.2	58.4	63.9	63.7
External debt with maturities up to one year 3/						
Limit	--	--	-- 3/	--	--	--
Actual	--	--	--	--	--	--
Margin	--	--	--	--	--	--
(In millions of U.S. dollars)						
Memorandum items						
Arrears of the public sector	13.4	--	--	2.5	8.7	--
Delays in gas related payments by Argentina	--	26.1	70.1	50.0	36.5	37.5

Sources: EBS/92/137; and data provided by the Bolivian authorities.

1/ Program targets adjustable for delays in gas related payments by Argentina and for external arrears to official creditors.

2/ Cumulative change from December 31, 1990, under the third annual arrangement.

3/ Performance criterion.

4/ Public and publicly guaranteed external debt (net disbursements).

Table 5. Bolivia: Selected Monetary Indicators

	1990	1991	1992		1993		Proj.
			Prog.1/	Actual	Prog.1/	Proj.	1994
(Change in percent of liabilities to private sector at beginning of period) 2/							
I. Central Bank							
Net international reserves	59.3	47.8	4.2	15.3	51.1	48.7	8.5
Net domestic assets	-33.3	-31.8	10.1	4.8	-39.8	-34.1	3.3
Credit to nonfinancial public sector	43.1	9.3	12.0	7.6	-55.4	18.5	-1.4
Credit to banking system 3/	-16.8	-42.5	20.8	30.4	26.5	-21.4	35.9
Medium- and long-term foreign liabilities (increase -) 4/	-40.2	-35.1	-18.2	-43.5	-16.3	-40.6	-35.9
Other	-19.4	36.5	-4.5	10.3	5.4	9.4	4.7
Currency issue	26.0	16.1	14.3	20.1	11.3	14.6	11.8
II. Banking System							
Net international reserves	11.1	7.8	1.7	-0.5	6.8	4.6	0.9
Net domestic assets	24.7	36.3	19.7	28.3	8.3	20.7	16.6
Credit to nonfinancial public sector	9.7	2.6	1.8	1.0	-7.3	2.3	-0.2
Credit to private sector	29.2	38.8	23.2	36.0	17.4	27.8	20.2
Medium- and long-term foreign liabilities (increase -) 4/	-8.8	-10.2	-3.1	-6.8	-2.5	-6.4	-3.9
Other	-5.3	5.0	-2.2	-1.9	0.7	-3.0	0.5
Liabilities to the private sector (M3)	35.9	44.0	20.4	27.8	15.0	25.3	17.5
Broad money (M2)	8.9	6.4	4.5	3.1	3.4	2.0	2.6
Foreign currency deposits	26.9	37.6	15.9	24.7	11.6	23.3	14.9
(End-period stock at current exchange rates in percent of annual GDP)							
Liabilities to the private sector (M3)	24.0	29.5	32.0	34.9	34.9	42.3	46.1
Broad money (M2)	6.9	6.8	7.0	6.7	7.4	6.7	7.0
Foreign currency deposits	17.1	22.7	25.0	28.2	27.5	35.6	39.1
Memorandum items							
Percentage change in real terms 5/							
Liabilities to the private sector (M3)	26.0	35.3	15.4	24.2	11.3	21.8	13.5
Broad money (M2)	8.0	7.2	8.6	3.2	8.0	0.4	8.7
Foreign currency deposits	35.3	46.9	17.4	30.5	12.3	26.9	14.6
Credit to the private sector	19.6	29.1	18.2	31.9	14.0	21.8	15.3
Holdings of central bank CDs, end-period, in US\$ millions							
Banks	106.1	117.6	...	50.7	...	86.5 6/	...
Nonbanks	37.0	39.0	...	16.8	...	21.0 6/	...
Real interest rates (percent per annum) 7/							
Domestic currency deposits	2.1	3.9	...	12.2	...	9.8	...
Foreign currency deposits	10.6	7.3	...	10.6	...	10.2	...
Domestic currency loans	17.7	20.4	...	43.7	...	43.4	...
Foreign currency loans	18.2	14.7	...	17.4	...	17.4	...

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

1/ Program data have been adjusted for public sector external arrears and delayed payments from Argentina.

2/ Flow measured at each year's accounting exchange rate; central bank flows in relation to currency issue.

3/ Excludes vault cash in banks which is included in currency issue.

4/ Gross medium- and long-term foreign liabilities (excludes collateral for bonds and other medium- and long-term assets).

5/ Change over 12 months ending in December.

6/ September 1993.

7/ Rates for December (1990-92) and September (1993) based on exchanges in the CPI and exchange rate over preceding 12 months.



Table 6. Bolivia: Summary Balance of Payments, 1990-94

	1990	1991	1992		1993		Proj. 1994
			EBS/92/137	Prel.	EBS/92/137	Proj.	
(In millions of U.S. dollars)							
<u>Current account</u>	<u>-218</u>	<u>-313</u>	<u>-381</u>	<u>-468</u>	<u>-388</u>	<u>-495</u>	<u>-439</u>
Trade balance	-132	-232	-346	-508	-339	-498	-453
Exports, f.o.b.	831	760	666	608	726	633	722
Of which: natural gas	225	233	123	123	98	92	94
Imports, c.i.f.	-963	-992	-1,011	-1,117	-1,065	-1,131	-1,175
Factor income (net) 1/	-241	-243	-201	-193	-202	-200	-198
Of which: interest due	-206	-211	-195	-188	-193	-188	-192
Official transfers 2/	153	160	166	224	149	198	204
Other	2	1	--	9	5	6	9
<u>Capital account</u>	<u>186</u>	<u>216</u>	<u>217</u>	<u>319</u>	<u>223</u>	<u>327</u>	<u>334</u>
Public sector	101	78	44	150	64	107	141
Disbursements	335	300	283	383	294	340	375
Amortization	-234	-222	-238	-233	-231	-233	-234
Private capital and other 3/	85	138	172	169	160	220	193
<u>Overall balance</u>	<u>-32</u>	<u>-97</u>	<u>-164</u>	<u>-149</u>	<u>-165</u>	<u>-168</u>	<u>-105</u>
<u>Exceptional financing</u>	<u>131</u>	<u>188</u>	<u>243</u>	<u>180</u>	<u>147</u>	<u>279</u>	<u>24</u>
Agreed debt relief 4/	291	187	168	173	85	146	16
Change in arrears (net) 5/	-160	1	35	7	--	30	--
Argentina (exceptional payment)	--	--	41	--	62	103	8
Net international reserves (increase -)	-99	-90	-78	-31	-40	-110	-20
Financing gap 6/	--	--	--	--	57	--	101
<u>Memorandum items</u>							
Gross reserves (end of period)	364	381	451	410	480	463	487
(In months of imports)	4.5	4.6	5.2	4.4	5.3	4.8	4.9
Gas export price (US\$/1000 cu.ft)	2.89	3.03	1.64	1.64	1.23	1.23	1.25
(In percent)							
Export volume growth	18.0	-0.7	-1.3	-6.0	10.0	8.9	10.0
Import volume growth	9.5	3.0	--	9.9	2.0	1.9	1.8
Terms of trade	-4.6	-7.9	-13.0	-16.9	-3.9	-3.9	1.7
(In percent of GDP)							
Current account deficit	-5.0	-6.2	-7.2	-9.0	-7.1	-9.4	-7.9
Current account deficit:							
Before official transfers	-8.5	-9.4	-10.3	-13.3	-9.8	-13.2	-11.6
Excluding gas export receipts	-10.1	-10.9	-9.5	-11.3	-8.9	-11.1	-9.6
Merchandise exports	19.0	15.1	12.6	11.7	13.3	12.0	13.1
Merchandise imports	22.0	19.8	19.1	21.4	19.5	21.5	21.2
Grants and loans 7/	11.1	9.2	8.5	11.6	8.1	10.2	10.5

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

1/ Includes interest on the financing gap.

2/ Excludes grants for debt reduction operations.

3/ Includes direct investment and errors and omissions.

4/ Incorporates terms of the January 1992 Paris Club rescheduling for the period January 1992-March 1994 and the debt repayment agreement with Brazil.

5/ In 1989-90, this includes the debt cancellation agreement with Argentina.

6/ Assumed to be filled with reschedulings with an average interest rate of 4 percent a year.

7/ Official transfers and loans to public sector.

Table 7. Bolivia: Structural Policy Measures

Policy Measures	Timetable for Measures	Comments
<b>A. <u>Benchmarks and Performance Criteria--Additional Annual Arrangement Under the ESAF</u></b>		
<b><u>Public sector reform</u></b>		
<b>Public sector budget</b>		
--Send the 1993 budget proposal to Congress with budget figures for revenue and expenditure integrated with the fiscal program.	December 1992 <u>1/</u>	The 1993 budget proposal was sent to Congress on January 12, 1993 but the reconciliation of the budget data with the Government's fiscal program was completed only during the staff mission in March 1993.
--Implement supporting mechanisms of expenditure control.	January 1993	Adequate mechanisms were not in place by this date.
<b>Privatization or liquidation of public enterprises.</b>		
--Offer for sale or begin to liquidate 31 enterprises.	December 1992 <u>1/</u>	33 public enterprises were offered for sale or subjected to liquidation proceedings.
--For 20 of these enterprises, sale has been awarded or enterprise has been closed.	January 1993	14 enterprises were privatized and 6 liquidated by that time.
<b><u>Financial sector reform</u></b>		
Central Bank Law and Banking System Law approved by Congress.	December 1992	Banking System Law approved in April 1993; see below for revised expected date for approval of the Central Bank Law.
Complete liquidation of the Bolivian Agricultural Bank, the Bolivian Mining Bank, and the National Mining Exploration Fund.	December 1992	Delays experienced in completing documentation and selling assets; a revised program to be completed in 1994.
Curtail operations of Banco del Estado, (BANEST).	December 1992	BANEST ceased operations in December 1992.
--Regularize overdue loans and liquidate or sell two hotels belonging to BANEST.	December 1992	The two hotels sold; BANEST branches in places served by private banks closed down and commercial banks took over operations formerly carried out by BANEST.
Complete reconciliation of accounts and recapitalization of Central Bank.	December 1992 <u>1/</u>	The reconciliation of accounts was formally agreed on December 21, 1992; the supreme decree authorizing the recapitalization was issued on December 29, 1992; the treasury securities were issued to the Central Bank as of December 31, 1992.
<b><u>Customs and trade reform</u></b>		
Privatize the operation of 12 customs houses.	January 1993	Six customs houses (accounting for about 85 percent of registered foreign trade) are privately operated; see below for revised expected dates for measures on customs reform.

Table 7 (Concluded). Bolivia: Structural Policy Measures

Policy Measures	Timetable for Measures	Comments
<b>B. <u>Measures to be Implemented Prior to the Completion of Review</u></b>		
<u>Policy measures</u>	<u>Timetable for measures</u>	
--Send the 1994 budget proposal to Congress with the projected deficit of the public sector and revenues and expenditures of the same order of magnitude as in the Government's fiscal program.	January 1994	
--Implement supporting mechanisms of expenditure control.	January 1994	
--Implement measures to offset any increase in the deficit that might result from changes in the approved 1994 budget in relation to the budget proposal. <u>2/</u>	February 1994	
<u>Financial sector</u>		
--Send revised Central Bank Law to Congress.	January 1994	
--Approval of the Central Bank Law by Congress. <u>2/</u>	February 1994	
--Initiate treasury bills auctions.	December 1993	
--Adopt a plan of action and a timetable for restructuring the Central Bank.	December 1993	
<u>Customs reform</u>		
--Recruit or confirm in their positions at least 200 customs officials through a competitive process; reduce the total number of employees from 595 on November 10, 1993 to 500.	January 1994	
--Complete construction of three customs houses on the border with Chile.	December 1993	

Sources: Memorandum on Economic and Financial Policies (EBS/92/137, Attachment III, Table 5), and Memorandum of Economic Policies, November 14, 1993 (Attachment 1).

- 1/ Structural performance criteria; other measures are benchmarks.  
2/ Prior action for completing review.

Table 8. Bolivia: Monitoring Indicators of the 1993-94 Economic Program

	1993		1994					
	Nov. 30	Dec. 31	Jan. 31	Feb. 28	Mar. 31	June 30	Sept. 30	Dec. 31
(Cumulative change from September 30, 1993 in millions of bolivianos)								
Net domestic assets of the Central Bank <u>1/ 2/</u>	-162.9	-91.7	-151.8	-104.3	-87.6	-196.8	-253.3	-56.9
Central bank credit to the nonfinancial public sector <u>2/</u>	4.1	-65.7	-92.4	-9.2	24.7	-132.9	-295.7	-80.7
Combined deficit of the public sector <u>3/</u>	205.7	451.3	442.4	558.4	639.7	735.1	752.1	1,208.8
(Cumulative change from September 30, 1993 in millions of U.S. dollars)								
Net international reserves of the Central Bank <u>4/</u>	48.5	61.9	51.9	46.9	46.9	81.9	96.9	81.9
Public and publicly guaranteed external debt with 1-10 years' maturity (net disbursements)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Public and publicly guaranteed external debt with maturities up to one year (net disbursements)	--	--	--	--	--	--	--	--

1/ Net domestic assets are defined as the difference between currency issue and net international reserves.

2/ In the event that Bolivia falls behind in its payments to foreign official creditors, these limits will be decreased by the full amount of the overdue obligations. These limits will be increased by the amount of any delay in gas-related payments by Argentina. These limits will be adjusted downward by the amount of net proceeds from the sale of public sector assets under the Government's privatization program.

3/ These limits will be adjusted downward by the amount of net proceeds from the sale of public sector assets under the Government's privatization program.

4/ In the event that Bolivia falls behind in its payments to foreign official creditors, these targets will be increased by the full amount of the overdue obligations. These targets will be reduced by the amount of any delay in gas-related payments by Argentina. These targets will be adjusted upward by the amount of disbursements from a prospective new IDB multisectoral credit to the public sector (earmarked for onlending as development credit) that has not yet been onlent to the private sector.

Table 9. Bolivia: Medium-Term Framework

	1992		1993		Proj.	Projections			
	Prog.	Actual	Prog.	Proj.	1994	1995	1996	1997	1998
	EBS/92/137		EBS/92/137						
(Annual percentage growth)									
Real GDP	3.5	2.7	3.5	3.2	4.0	4.0	4.2	4.3	4.5
Consumption per capita	2.0	2.8	-0.9	0.4	-0.3	1.1	1.6	1.8	2.0
Consumer prices (period average)	11.8	12.1	7.4	8.4	8.6	6.3	5.0	5.0	5.0
Consumer prices (end of period)	10.4	10.5	7.5	9.8	7.5	5.0	5.0	5.0	5.0
(In percent of GDP)									
I. Balance of Payments									
Current account balance 1/	-7.2	-9.0	-7.1	-9.4	-7.9	-7.3	-7.0	-6.6	-6.3
Net exports of goods and nonfactors services	-7.0	-10.0	-6.6	-9.8	-8.4	-7.7	-7.5	-7.2	-6.9
Net factor payments	-3.8	-3.7	-3.7	-3.8	-3.6	-3.3	-3.2	-3.1	-2.9
Other services and transfers	3.6	4.7	3.2	4.2	4.1	3.7	3.7	3.7	3.5
Capital account	8.7	9.6	7.8	11.5	8.3	7.9	7.5	6.9	6.7
Nonfinancial public sector 2/	5.0	4.6	4.3	5.7	3.4	2.6	2.2	1.6	1.6
Financial public sector	0.4	1.8	0.6	1.6	1.4	1.4	1.4	1.5	1.4
Private capital 3/	3.3	3.2	2.9	4.2	3.5	3.9	3.9	3.8	3.7
Change in net international reserves (increase -)	-1.5	-0.6	-0.7	-2.1	-0.4	-0.6	-0.5	-0.2	-0.4
II. Combined Public Sector									
Nonfinancial public sector savings 4/	3.3	3.2	3.8	1.3	3.6	3.2	1.8	2.0	2.2
Official grants	1.7	2.9	1.7	1.5	1.7	1.6	1.6	1.6	1.6
Capital expenditure	8.7	10.9	8.7	9.4	8.3	7.7	6.2	6.3	6.4
Overall deficit	-3.7	-4.7	-3.2	-6.6	-3.0	-2.9	-2.8	-2.7	-2.6
Net foreign financing 2/	5.0	4.6	4.4	5.7	3.4	3.1	2.9	3.0	2.8
Net domestic financing	-1.3	0.1	-1.1	0.9	-0.4	-0.2	-0.1	-0.3	-0.2
III. Savings and Investment									
Investment	14.1	16.2	15.0	15.6	15.8	16.5	17.0	17.5	18.0
Nonfinancial public sector	8.7	10.9	8.7	9.4	8.3	7.7	6.2	6.3	6.4
Private sector	5.4	5.3	6.3	6.2	7.5	8.7	10.8	11.2	11.6
Savings	14.1	16.2	15.0	15.6	15.8	16.5	17.0	17.5	18.0
External savings	7.2	9.0	7.1	9.4	7.9	7.3	7.0	6.6	6.3
National savings 5/	6.9	7.2	7.9	6.2	7.9	9.1	10.0	10.9	11.7
Combined public sector	5.0	6.1	5.5	2.8	5.3	4.8	3.4	3.6	3.8
Private sector	1.9	1.1	2.4	3.4	2.6	4.3	6.6	7.3	7.9

Sources: Bolivian authorities; and Fund staff estimates.

- 1/ Excludes official transfers for debt reduction operations.
- 2/ Includes unidentified financing beginning April 1994.
- 3/ Includes direct foreign investment and errors and omissions.
- 4/ Gas exports on payments due basis.
- 5/ Includes foreign grants.

Table 10. Bolivia: Medium-Term Balance of Payments Projections

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
						Projections				

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

<sup>1/</sup> Includes interest on debt incurred to cover financing gaps.

<sup>2/</sup> Excludes grants for debt reduction operations.

<sup>3/</sup> Includes direct investment and errors and omissions.

<sup>4/</sup> Incorporates terms of the January 1992 Paris Club rescheduling for the period January 1992-March 1994 and the debt repayment agreement with Brazil.

<sup>5/</sup> Assumed to be covered by reschedulings with an average interest rate of 4 percent a year.

<sup>6/</sup> Official transfers and loans to public sector.

Table 11. Bolivia: Medium-Term External Debt Projection

	1990	1991	Prel. 1992	Projections						
	1993	1994	1995	1996	1997	1998	2001			
(In millions of U.S. dollars)										
Debt outstanding 1/	4,027	3,878	4,021	3,897	4,057	4,154	4,283	4,455	4,627	5,213
Multilateral institutions	1,962	2,085	2,197	2,299	2,503	2,665	2,829	3,005	3,188	3,790
Of which: IMF	257	245	247	219	223	199	169	135	94	15
Bilateral creditors	1,798	1,525	1,587	1,539	1,501	1,442	1,412	1,410	1,401	1,390
Commercial banks	209	200	180	3	--	--	--	--	--	--
Other creditors	58	69	57	57	52	47	43	40	38	33
Debt service due 2/	461	465	442	434	425	457	431	408	417	417
Principal	276	268	270	262	249	283	253	227	235	218
Of which: IMF	42	46	37	29	14	24	30	34	41	20
other multilaterals	99	82	89	103	112	102	102	95	88	95
Interest	185	197	172	173	176	174	177	181	182	199
Of which: IMF	16	13	7	4	3	3	3	2	2	2
other multilaterals	78	82	87	91	102	95	100	104	107	128
Debt service paid 3/	283	254	253	272	295	288	303	309	323	366
Principal	155	137	144	151	149	155	160	157	166	183
Interest	104	117	105	121	146	132	143	152	157	183
Arrears	24	--	4	--	--	--	--	--	--	--
(In percent of exports of goods and services)										
Debt outstanding	411.6	421.7	514.5	481.0	444.3	422.0	407.8	395.3	382.4	355.5
Debt service due	47.1	50.6	56.6	53.6	46.5	46.4	41.0	36.2	34.5	28.4
Debt service paid	28.9	27.6	32.4	33.6	32.3	29.2	28.8	27.4	26.7	25.0
(In percent of GDP)										
Debt outstanding	91.9	77.2	77.2	74.0	73.3	71.2	69.6	68.4	67.1	62.3
Debt service due	10.5	9.3	8.5	8.2	7.7	7.8	7.0	6.3	6.0	5.0
Of which: IMF	0.4	0.3	0.1	0.1	0.1	--	--	--	--	--
Debt service paid	6.5	5.1	4.9	5.2	5.3	4.9	4.9	4.7	4.7	4.4

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

1/ Stock of medium- and long-term public and publicly guaranteed debt at the end of the period.

2/ Debt service includes interest on short-term debt.

3/ Projections are of debt service after debt relief, assuming that financing gaps beginning in the second half of 1992 are covered through rescheduling with an average interest rate of about 4 percent a year.

Table 12. Bolivia: Alternative Medium-term  
External Scenarios and Sensitivity Analysis 1993-2001

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

	Projections Prog. 1993	1994	1995	1996	1997	1998	1999	2000	2001
<u>Baseline scenario</u>									
<u>Current account</u>	-495	-439	-424	-431	-431	-431	-442	-455	-466
Natural gas exports	92	94	96	98	100	102	104	106	108
Merchandise imports	-1131	-1175	-1230	-1305	-1384	-1470	-1561	-1658	-1761
Interest payments	-188	-192	-193	-196	-200	-201	-206	-213	-218
Nonfactor services (net)	-16	-12	-7	-6	-4	-2	-1	--	1
<u>Capital account</u>	329	334	330	385	446	461	467	485	486
Disbursements to public sector	340	375	361	372	395	404	412	414	416
Amortization by public sector	-233	-234	-259	-223	-193	-194	-201	-191	-198
Financing gap	--	-101	-120	-72	--	--	--	--	--
<u>Memorandum items:</u>									
Gross international reserves	463	487	498	498	479	468	460	464	464
Public sector external debt	3,897	4,057	4,154	4,283	4,455	4,627	4,809	5,011	5,213
Public sector external debt 1/	74.0	73.3	71.2	69.6	68.4	67.1	65.8	64.0	62.3
Current account deficit 1/	-9.4	-7.9	-7.3	-7.0	-6.6	-6.3	-6.0	-5.8	-5.6
Debt service due 2/	53.6	46.5	46.4	41.0	36.2	34.4	32.6	29.8	28.4
<u>Stock of debt reduction by bilateral creditors</u>									
<u>Current account</u>	-495	-439	-394	-404	-406	-410	-425	-441	-453
Interest payments	-188	-192	-163	-169	-175	-180	-189	-199	-206
<u>Capital account</u>	329	334	437	465	509	523	500	491	488
Amortization by public sector	-233	-234	-152	-143	-130	-133	-167	-185	-195
Financing gap	--	-101	--	--	--	--	--	--	--
<u>Memorandum items:</u>									
Gross international reserves	463	487	515	551	620	691	733	757	772
Public sector external debt	3,897	4,057	3,837	3,894	4,066	4,237	4,419	4,621	4,824
Public sector external debt 1/	73.0	72.4	64.3	61.1	59.7	59.2	58.8	58.5	58.1
Current account deficit 1/	-9.4	-7.9	-6.7	-6.6	-6.2	-5.9	-5.8	-5.6	-5.4
Debt service due 2/	53.6	46.5	32.5	30.7	28.4	27.6	28.7	28.3	27.4
<u>Sensitivity analysis</u>									
Export shortfall implied by:									
Lower metal export prices 3/	--	18.6	20.7	22.6	24.6	26.9	28.8	30.7	32.8
Slower growth of nontraditional exports 4/	--	7.2	11.9	17.2	23.2	29.9	37.6	46.4	56.6

Source: Fund staff calculations.

1/ In percent of GDP.

2/ In percent of exports of goods and nonfactor services.

3/ Assumes that metal export prices are 5 percent lower than in the baseline scenario.

4/ Assumes that nontraditional export growth is 20 percent slower than in the baseline scenario.



Table 13. Bolivia: Indicators of Fund Credit and Sensitivity Analysis

	1993	1994	1995	1996	1997	1998	1999	2000	2001
<u>Outstanding Fund credit</u>									
In millions of SDRs	160.6	163.8	146.5	124.8	99.9	70.0	45.5	26.5	12.0
In percent of quota	127.3	129.8	116.1	98.9	79.1	55.5	36.0	21.0	9.5
In percent of GDP	4.3	4.1	3.5	2.8	2.1	1.4	0.9	0.5	0.2
In percent of exports of goods and nonfactor services	27.7	24.9	20.6	16.4	12.2	7.9	4.8	2.6	1.1
<u>Baseline scenario</u>									
Debt service due to the Fund									
In millions of U.S. dollars	32.9	17.4	26.6	32.6	36.6	43.1	35.6	27.9	21.6
In percent of quota	18.7	9.9	15.2	18.8	21.2	25.0	20.6	16.2	12.5
In percent of exports of goods and nonfactor services	4.1	1.9	2.7	3.1	3.2	3.6	2.8	2.0	1.5
In percent of gross service due	7.6	4.1	5.8	7.6	9.0	10.3	8.5	6.8	5.2
In percent of gross official reserves	7.1	3.6	5.3	6.5	7.6	9.2	7.7	6.0	4.7
Gross Fund financing									
In millions of U.S. dollars	--	18.9	--	--	--	--	--	--	--
In percent of Bolivia's gross financing needs <sup>1/</sup>	--	2.8	--	--	--	--	--	--	--
<u>Alternative scenarios <sup>2/</sup></u>									
Stock of debt reduction by bilateral creditors									
Debt service due to the Fund									
In percent of gross official reserves	7.1	3.6	5.2	5.9	5.9	6.2	4.9	3.7	2.8
Lower metal export prices									
Debt service due to the Fund									
In percent of exports of goods and nonfactor services	4.1	1.9	2.8	3.2	3.3	3.6	2.8	2.1	1.5
In percent of gross official reserves	7.1	3.7	5.8	7.5	9.3	12.2	11.2	9.6	8.4
Slower growth of nontraditional exports									
Debt service due to the Fund									
In percent of exports of goods and nonfactor services	4.1	1.9	2.7	3.2	3.3	3.7	2.8	2.1	1.5
In percent of gross official reserves	7.1	3.6	5.5	7.1	8.7	11.4	10.7	9.6	9.3

Sources: Treasurer's Department; and Fund staff estimates.

<sup>1/</sup> Gross financing need is defined as the sum of the current account deficit, medium- and long-term debt amortization, miscellaneous capital outflows, and Fund repurchases and repayments.

<sup>2/</sup> Alternative scenarios as defined in Table 12.

Bolivia--Fund Relations  
(As of November 30, 1993)

- I. Membership Status: Joined December 27, 1945; Article VIII.
- II. General Resources Account:
- |                           | <u>SDR Million</u> | <u>% Quota</u> |
|---------------------------|--------------------|----------------|
| Quota                     | 126.20             | 100.0          |
| Fund holdings of currency | 117.34             | 93.0           |
| Reserve position in Fund  | 8.88               | 7.0            |
- III. SDR Department:
- |                           | <u>SDR Million</u> | <u>% Allocation</u> |
|---------------------------|--------------------|---------------------|
| Net cumulative allocation | 26.70              | 100.0               |
| Holdings                  | 0.19               | 0.7                 |
- IV. Outstanding Purchases and Loans:
- |                   | <u>SDR Million</u> | <u>% Quota</u> |
|-------------------|--------------------|----------------|
| SAF arrangements  | 12.70              | 10.1           |
| ESAF arrangements | 149.66             | 118.6          |
- V. Financial Arrangements:
- | <u>Type of Arrangement</u> | <u>Approval Date</u> | <u>Expiration Date</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|----------------------------|----------------------|------------------------|--------------------------------------|-----------------------------------|
| ESAF                       | 7/27/88              | 3/31/94                | 163.26                               | 149.66                            |
| SAF                        | 12/15/86             | 7/26/88                | 57.59                                | 18.14                             |
| Stand-by                   | 6/19/86              | 7/20/87                | 50.00                                | 32.70                             |
- VI. Projected Obligations to Fund (SDR Million; based on existing use of resources only):
- |                  | <u>Overdue</u><br><u>8/31/93</u> | <u>Forthcoming</u> |             |             |             |             |
|------------------|----------------------------------|--------------------|-------------|-------------|-------------|-------------|
|                  |                                  | <u>1993</u>        | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> |
| Principal        |                                  | 1.8                | 10.4        | 17.2        | 21.8        | 24.9        |
| Charges/Interest |                                  | 0.4                | 1.9         | 1.8         | 1.7         | 1.6         |
| Total            |                                  | 2.2                | 12.3        | 19.0        | 23.5        | 26.5        |
- VII. Exchange Rate Arrangement: The Bolivian currency is the boliviano. The Central Bank sells foreign exchange daily by 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, which constitutes the official exchange rate for all exchange surrenders and debt service payments by the public sector, is adjusted from time to time. The administration of the system has resulted in spreads between the maximum and minimum bids of less than 2 percent. On October 30, 1993 the official buying rate and the buying rate in the parallel market were both Bs 4.38 = US\$1.

VIII. Article IV Consultation: The previous Article IV consultation discussions were held in July, 1992 and the consultation was completed by the Executive Board on September 11, 1992 (EBS/92/137). Bolivia is on the standard 12-month consultation cycle.

IX. Technical Assistance:

<u>Department</u>	<u>Purpose</u>	<u>Time</u>
Fiscal Affairs Department (FAD)	Fiscal expert, to assist with implementation of FAD recommendations on tax administration	August 1990 - February 1992, September 1992, and March 1993
Monetary and Exchange Affairs Department (MAE)	Advisor to Central Bank, to assist in reorganization of its Financial Sector Department and reconciliation of its accounts	One year, starting October 1991; extended to November 1992; November 1993
MAE and LEG	Mission, to evaluate monetary policy operations and central bank losses and to review draft banking legislation.	March 1992
FAD	An expert, to assess compliance with the value added tax	April 1992
FAD	Mission, to recommend improvements in budget management and expenditure control.	May 1992
MAE	Mission on open operations, central bank losses and banking legislation	September 1992
FAD	Mission, to review the authorities' proposal for reform of the pension system	November 1992
MAE	An expert, to follow up on implementation of the recapitalization of the Central Bank	December 1992
MAE	An expert, to help prepare regulations for treasury bill auctions	May 1993

MAE	Experts, to advise on the administrative reform of the Central Bank	November-December 1992, March 1993, and December 1993
MAE	Mission to advise on central bank legislation and monetary instruments	November 1993
FAD	Experts, to advise on tax administration	November 1993

X. Resident Representative: Mr. Wayne Lewis, since August 1992.

Bolivia--Relations with the World Bank Group

The Bank's lending program for Bolivia is designed to support the Government's efforts to deepen structural reforms and foster growth led by the private sector; reorient the role of the public sector toward provision of social services and infrastructure, and improve the capacity to deliver them more efficiently; and address issues of poverty alleviation and management of the environment.

The proposed operations program for the period FY 1994-97 comprises 14 IDA operations for a total of US\$317 million centered on infrastructure, rationalizing the role of the State, including public enterprise reform; municipal development and educational reform; poverty reduction and human resource management; and natural resource management. These are also the areas where the Bank's analytical work on Bolivia is likely to concentrate.

The status of World Bank loans, IDA credits, and IFC investments is shown in Tables 1, 2, and 3.

Table 1. Bolivia: IBRD and IDA Lending by  
Sector (as of September 30, 1993)

(In millions of U.S. dollars)

	Number of Projects	Amount Disbursed	Undisbursed	Approved
<u>Disbursed</u>	16 loans and 4 credits	<u>633.6</u>	<u>0.2</u>	<u>633.8</u>
<u>Current</u>	<u>19</u>	<u>163.1</u>	<u>373.2</u>	<u>535.9</u>
Power Sector Rehabilitation		5.3	0.5	6.8
La Paz Municipal Development		12.9	2.1	15.0
Economic Management Strengthening		9.5	0.2	9.7
Export Corridors		24.2	12.8	37.0
Mining Sector		6.7	28.3	35.0
Integrated Health Development		7.4	12.6	20.0
Eastern Lowlands		15.7	19.3	35.0
Social Investment Development Fund		15.1	4.9	20.0
Private Enterprise Development		2.4	13.7	16.1
Financial Sector - C		14.5	--	14.5
Water Supply and Sewerage		8.6	26.4	35.0
Technology Development		7.0	14.9	21.0
Public Finance Management		2.7	8.6	11.3
Structural Adjustment Credit II		26.2	35.3	61.5
Agro-Export Development		1.9	20.6	22.5
Road Maintenance		--	80.4	80.0
Environmental, TA Project		1.6	3.2	4.8
Integrated Child Development		0.8	49.9	50.7
Social Investment Fund II		0.6	39.4	40.0
<u>Total</u>		<u>796.7</u>	<u>373.4</u>	<u>1,169.7</u>
Of which repaid:		199.5		

Table 2. Bolivia: IFC Investment (as of September 30, 1993)

(In millions of U.S. dollars)

	Loan	Equity	Total
Total gross commitments	75.6	11.6	87.3
Less cancellations, terminations, repayments, and sales	15.2	1.2	16.4
Total commitments now held by IFC	60.7	10.4	71.2
Total undisbursed	2.7	3.2	6.0

Table 3. Bolivia: Proposed World Bank Lending Program, FY 1994-97

(In millions of U.S. dollars)

	FY 94	FY 95	FY 96	FY 97	<u>Total</u> FY 94-97	In Percent
<u>Number of projects approved</u>	<u>3</u>	<u>6</u>	<u>3</u>	<u>2</u>	<u>14</u>	
<u>Total loan amounts</u>	<u>95</u>	<u>122</u>	<u>55</u>	<u>45</u>	<u>317</u>	<u>100</u>
<u>Purpose:</u>						
Rationalizing the Role of the State	95	92	55	--	242	76
Educational Reform <u>1/</u>	40					
Municipal Development <u>1/</u>	40					
Civil Service Reform	15					
Public Enterprise Reform		50				
Hydrocarbon Deregulation		20				
Regulatory/Judicial Reform		12				
Power Sector Rehabilitation		10				
Land Administration <u>1/</u>			20			
Primary Education			20			
Social Security Reform			15			
Poverty and Human Resource Development		30		30	60	19
Rural Water and Sanitation <u>1/</u>		20				
Rural Development <u>1/</u>		10		30		
Natural resource management Environment, Mining, and Industry				15	15	5

1/ Projects with substantial potential to reduce poverty.



Bolivia--Social and Demographic Indicators

<u>Total area</u> (in thousand square kilometers)	1,099
Agricultural land (in percent of total area)	27.4
<u>Population and vital statistics</u>	
Population in millions <sup>1/</sup>	6.4
Population density per square km. of agricultural land (1992)	20
Percentage of population under 15 years of age (1992)	41.2
Average annual population growth rate (1976-92)	2.1
Households speaking native language (1988)	52
Percentage of urban households	36
Percentage of rural households	68
Life expectancy at birth in years (1992)	60
Female	61
Male	59
Infant (under 1 year of age) mortality per 1,000 live births (1992)	75
Child (under 5 years of age) mortality per 1,000 live births (1991)	118
Maternal mortality per 10,000 live births (1988)	48
Fertility rate (births per woman) (1992)	5.0
<u>Food and nutrition</u>	
Per capita food production index in 1989-90 (1979-81=100)	109
Per capita supply of calories per day (1989)	1,916
Per capita protein intake in grams per day (1988)	57
Percentage of malnourished children under 5 years of age (1990)	36
<u>Health and health care</u> (1988)	
Population per physician	1,530
Population per nurse	2,470
<u>Access to services</u> (1992)	
Percent of population with access to safe water	56
Percent of urban population	81
Percent of rural population	29
Percent of population with access to piped water	61
Percent of urban population	90
Percent of rural population	31
Percent of households equipped with sanitation	43
Percent of urban households	63
Percent of rural households	7
Percent of households with access to electricity	60
Percent of urban households	87
Percent of rural households	17
<u>Education</u> (1992)	
Primary school enrollment (percent of age group)	80
Secondary school enrollment (percent of age group)	30
Primary school student/teacher ratio	16
Students reaching grade 4 (percent of cohort) (1989)	59
Illiteracy rate of population over 15 years of age (percent)	20
<u>Income distribution</u> (1973)	
Percentage of private income received by:	
Richest 20 percent of all households	59
Poorest 20 percent of all households	4
Poorest 40 percent of all households	13

Sources: UDAPSO, Indicadores Sociales; National Statistical Institute; and Fund staff estimates.

<sup>1/</sup> Based on preliminary results of the 1992 census.

Bolivia--Basic Economic Data

GDP (1992)

 SDR 3,649 million  
 US\$5,209 million  
 Bs 20,340 million

GDP per capita (1992) 1/

 SDR 570  
 US\$814

	1988	1989	1990	1991	1992	Proj. 1993
<u>Origin of GDP (1980 prices)</u>						
	(in percent of GDP)					
Agriculture	22.9	22.0	21.0	21.5	20.1	20.3
Mining	13.1	14.6	13.3	13.4	13.6	13.6
Manufacturing	13.1	13.2	13.6	13.8	13.6	13.4
Construction	2.7	2.8	2.8	2.7	2.7	2.7
Transport and communications	8.7	8.7	8.6	8.6	8.7	8.7
Government	9.0	8.9	9.0	8.8	8.8	8.6
Other services	30.5	29.8	29.7	29.1	30.5	30.7
Exports of goods and nonfactor services	15.2	19.5	22.3	18.8	15.0	16.1
Imports of goods and nonfactor services	20.7	23.0	23.8	24.0	25.0	26.9
External public debt	97.9	83.0	91.9	79.3	77.2	74.0
Combined public sector						
Revenue and grants	20.8	22.7	26.1	27.8	28.4	26.3
Expenditure	27.4	28.2	31.0	32.4	33.2	32.9
Central bank losses (-)	-0.2	-0.4	-0.7	-0.7	...	...
Overall deficit (-)	-6.7	-6.0	-4.8	-4.6	-4.7	-6.6
Savings (including grants)	1.6	2.9	4.3	5.1	6.1	2.8
National savings	3.8	6.5	8.1	7.7	7.2	6.2
Gross domestic investment	12.1	12.1	13.1	14.1	16.2	13.6
Balance of payments current account 2/	-8.3	-5.6	-5.0	-6.4	-9.0	-9.4
Banking system liabilities to private sector (stock) 3/	16.2	18.7	24.0	29.5	34.9	42.3
<u>Annual changes</u>						
	(in percent)					
Real GDP per capita	0.9	0.8	0.6	2.1	0.6	1.1
Real GDP	3.0	2.8	2.6	4.1	2.7	3.2
GDP at current prices	17.4	15.6	15.7	25.9	16.0	10.5
Consumer prices (annual average)	16.0	15.2	17.1	21.4	12.1	8.4
Nonfinancial public sector revenue and grants	54.4	26.1	29.8	35.3	14.2	7.6
Nonfinancial public sector expenditure	36.6	19.6	21.6	32.3	12.6	16.9
Banking system liabilities to private sector 4/	43.4	33.4	48.7	54.9	37.2	34.0
Broad money (M2)	25.4	-4.4	27.5	22.7	14.0	10.4
Foreign currency deposits	64.8	67.7	59.7	68.2	44.2	39.6
Net domestic assets 5/	42.8	43.5	61.5	63.5	48.6	37.8
Of which: credit to nonfinancial public sector 6/	21.1	32.4	8.1	3.9	8.2	4.6
Credit to private sector 6/	36.6	46.2	48.2	43.8	48.5	38.3
Merchandise exports f.o.b. (in U.S. dollars)	4.6	33.4	14.8	-8.5	-20.0	4.0
Merchandise imports c.i.f. (in U.S. dollars)	0.1	12.2	11.7	3.1	12.5	1.3
<u>Combined public sector</u>						
	(in millions of bolivianos)					
Revenue and grants	2,167.0	2,738.1	3,639.3	4,865.3	5,774.5	5,913.8
Expenditure	2,843.3	3,406.7	4,313.9	5,679.8	6,734.6	7,398.3
Central bank losses (-)	-24.2	-668.4	-96.2	-131.4	...	...
Overall deficit (-)	-700.5	-720.1	-674.6	-814.5	-960.1	-1,484.5
Current account balance (including grants)	-163.4	395.3	679.3	845.4	1,246.8	620.6
External financing (net)	472.6	257.8	378.1	621.9	942.8	1,288.9
Domestic financing (net)	203.7	462.3	296.5	192.6	17.4	195.5
<u>Balance of payments</u>						
	(in millions of U.S. dollars)					
Merchandise exports	542.4	723.5	830.8	760.3	608.4	632.6
Merchandise imports	-767.7	-861.7	-962.7	-992.4	-1,116.5	-1,131.0
Factor income	-260.0	-249.3	-241.1	-242.5	-193.0	-200.0
Other services and transfers (net) 2/	118.7	136.8	155.1	161.1	232.9	203.7
Current account balance 2/	-366.6	-250.7	-217.9	-313.5	-468.2	-495.1
Public sector medium- and long-term capital 7/	143.2	147.4	101.2	77.5	149.9	107.0
Short-term capital and other 8/	192.1	-126.4	85.0	138.1	169.0	221.5
Overall balance	-208.1	-229.7	-31.7	-97.7	-149.3	-166.6
Unpaid debt service 9/	189.0	175.0	149.5	191.1	172.1	144.5
Arrears on gas exports (increase -)	-10.7	-85.1	-18.9	0.0	0.0	0.0
Change in net international reserves (increase -)	29.8	139.8	-98.9	-89.8	-30.5	-110.0
<u>International reserves (end of period)</u>						
	(in millions of SDRs)					
Central Bank (gross)	303.8	274.8	255.8	266.5	300.2	329.7
Central Bank (net)	130.6	27.4	72.2	134.6	162.2	235.6
Rest of banking system (net)	-10.0	31.6	17.4	7.2	-20.0	-69.8

1/ Based on preliminary results of the 1992 census.

2/ Excludes official transfers for the buyback of commercial bank debt.

3/ End-of-year stocks.

4/ Percentage change in stocks, with dollar deposits valued at end of period exchange rates.

5/ Includes medium- and long-term foreign liabilities.

6/ Percentage change in relation to liabilities to the private sector at the beginning of the period; foreign currency components of net domestic assets valued at end of period exchange rates.

7/ Disbursements and amortization due before debt relief.

8/ Includes direct foreign investment and errors and omissions.

9/ Public sector.

La Paz, Bolivia  
November 14, 1993

Memorandum of Economic Policies

1. This memorandum describes the policies and objectives of the Government's economic and financial program that are intended to provide the basis for completion of the review of the ESAF arrangement for Bolivia (Sections A, B and C below).

2. The Government has begun a series of structural reforms aimed at achieving a fundamental improvement in the allocation of human and economic resources in the private and public sectors. Six components of this strategy are (i) the capitalization of the large public enterprises and the privatization or liquidation of the smaller public enterprises, through which effective control over most of the public sector's productive activity will be transferred to the private sector; (ii) a reform of the Government's central administration aimed at reducing the size and increasing the efficiency of government; (iii) institutional changes in the area of fiscal policy management for better coordination and more effective expenditure control; (iv) a deepening of reforms in the administration of customs and domestic taxes; (v) formulation and implementation of a restrained public sector wage policy; and (vi) the establishment of an autonomous central bank.

3. The Government has established an economic program for the rest of 1993 and 1994 that takes into account the impact of a number of structural changes (including a substantial reduction in the number of public sector employees and the implementation of strict mechanisms of expenditure control) within the nonfinancial public sector. The planned fiscal adjustment is a prerequisite for the Government's structural reforms to contribute to sustained growth in the medium-term.

A. Financial program for the rest of 1993 and 1994

4. The Government has established an economic program that aims at increasing the growth of real GDP from 3.2 percent in 1993 to 4.0 percent in 1994, and at achieving a decline in the 12-month rate of inflation from 10 percent in December 1993 to 7.5 percent in December 1994. We understand that the completion of the review of the ESAF arrangement would require that the financial monitoring indicators shown in Table 1 (attached) be observed for each month from November until the review is completed. (The cumulative monitoring indicators are expressed as flows from September 30, 1993). The financial program incorporates monthly projections through June 1994 and quarterly projections through end-1994.

5. Fiscal program

The Government has established a fiscal policy program for the remainder of 1993 and 1994 that is projected to result in a substantial reduction of public expenditure relative to GDP. The deficit of the combined public sector will be limited to Bs 451 million in the fourth quarter of 1993 (equivalent to 2 percent of annual GDP--the lowest fourth-quarter deficit in five years--even including severance payments of 1 percent of annual GDP in the fourth quarter of 1993 arising from the removal of some 11,000 persons from the public payroll). The deficit for 1993 is projected at Bs 1,485 million, or 6.6 percent of GDP, and for 1994 will be reduced to Bs 757 million (3.0 percent of GDP). In line with these targets, the Government has established cumulative monthly limits on the combined public sector deficit, beginning November 1993, as indicated in Table 1.

6. Monetary program

Monetary policy will be geared to achieving the growth, inflation and balance of payments objectives of the program. The net domestic assets of the Central Bank are projected to decline by amounts consistent with an accumulation of net international reserves in the fourth quarter of 1993 of US\$62 million (resulting in a reserve increase of US\$110 million for the year) and a further increase in reserves of US\$20 million in 1994. Limits on the net domestic assets of the Central Bank, subceilings on central bank credit to the nonfinancial public sector and targets for international reserves have been established as indicated in Table 1.

7. External policy targets

The external current account deficit is projected to increase from 9.0 percent of GDP in 1992 to 9.4 percent in 1993 before declining to 7.9 percent in 1994. Export receipts have been adversely affected by lower prices (particularly for tin and zinc) in 1993. A modest recovery of the terms of trade and strong export volume growth (particularly of soybeans and gold) is projected for 1994. With these assumptions, it is expected that strong official and private capital inflows, together with a new Paris Club rescheduling in the spring of 1994, will be sufficient to cover the current account deficits and provide for the targeted accumulation of net international reserves for 1993-94.

8. To continue improving its debt service profile, the Government will avoid borrowing at commercial terms and with short maturity. The Government has established limits on the increase in the external indebtedness of the public sector with an original maturity of more than one year and up to ten years, as set out in Table 1. The Government does not intend to increase its external obligations of up to one year's maturity other than normal import credits.

B. Fiscal policy undertakings

9. Public sector wage policy

The Government intends to implement a restrained wage policy in 1994. For both the General Government and the public enterprises, the public sector wage increase in 1994 will be limited to 7.5 percent, in line with projected inflation. As a result of the reduction in the number of public sector employees in 1993, the increase in the wage bill in 1994 will be considerably less than the average wage increase, and the public sector wage bill is projected to decline by almost 1 percentage point of GDP.

10. To avoid wage drift, the Government will issue norms to guarantee the implementation of a uniform wage policy across all entities of the nonfinancial public sector. These norms will include the elimination of all bonuses not prescribed by law and the establishment of clear rules to determine seniority payments and overtime remuneration. This policy will help ensure that wage ceilings will not be surpassed. In addition, the budget bill will stipulate that the public sector wage bill can be increased only by congressional decision.

11. Public sector budget proposal

The Government will propose to Congress a budget that is based on the economic program for 1994 (real GDP growth of 4 percent, a 7.5 percent increase in the consumer price index during 1994, and a public sector wage policy as described in paragraph 9). This budget proposal will be consistent with the Government's fiscal program. This means that for 1994 the budget as translated in terms of fiscal program definitions will imply the same deficit of the combined public sector, and revenues and expenditures of the same order of magnitude, as indicated in the fiscal program table.

12. Presentation and approval of budget

The budget proposal, as described above, will be sent to Congress by mid-January 1994. If congressional decisions on the budget should imply a higher deficit than that envisaged in the fiscal program for 1994, the authorities would take offsetting measures affecting revenue, expenditure or both.

13. Expenditure control

The reorganization of the Executive Branch in 1993 provides the basis for better control and monitoring of public sector expenditure. First, control over expenditure and financing has been centralized in the Secretariat for Finance, including responsibility for the public investment program, all external financing, and the allocation of domestic counterpart funds. With effect from November 1993, all foreign grant and loan disbursements to the public sector must be approved by the National Secretary of Finance. Second, a finance committee has been formed (comprising the undersecretaries for public investment, the budget, and the

Treasury) to ensure implementation of the public sector budget consistent with the Government's expenditure priorities and fiscal program. Beginning with the first quarter of 1994, this committee will establish detailed quarterly limits on expenditure commitments and monthly limits on expenditure accruals. Third, an improved coordination among government entities providing similar services will reduce the duplication of expenditure.

14. Other measures to improve expenditure control in 1994 will include the elimination of the possibility to reallocate budgetary funds between other expenditure items and wages; and a requirement that all expenditure of the Central Administration be reported to the Government Accounting Office. Moreover, standardized accounting norms will be established to facilitate the ex-post auditing of expenditures.

15. Domestic tax administration.

In the area of domestic taxes, the authorities intend to improve the efficiency of tax collection through better auditing and prosecution procedures and through the intensification of the inspection efforts in areas outside La Paz, especially Cochabamba and Santa Cruz. Computerized cross-checking of debits and credits already has begun to result in more efficient collection, and VAT revenue is projected to increase by 27 percent in the last six months of 1993 compared with the same period a year earlier. The authorities will increase efforts to secure compliance by small and medium-size businesses while at the same time intensifying efforts to ensure compliance by some 1,600 of the largest businesses.

16. Customs reform

By end-December 1993 the Customs Administration will recruit at least 200 customs officials through a process of selection based on competitive exams administered by the UNDP and will release existing officials unable to qualify for their positions. As a result of this process, the total number of customs officials will be reduced from 595 as of November 10, 1993 to 500 by January 31, 1994.

17. Customs houses

The six customs houses planned for border locations are to be completed and placed under private sector management according to the timetable presented to the Fund staff.

C. Financial sector measures

18. Central bank reorganization

Qualifying examinations have been administered on a trial basis to all current employees in one department of the Central Bank and will be administered to the employees of at least one more department by the end of December 1993. By the end of December 1993 the central bank authorities will develop a plan of action based on recommendations by the Fund's

consultant on this issue, that includes a statement of the authorities' objectives in carrying out a restructuring of the Central Bank, and establishes a timetable for key phases of the reform (timing for administering qualifying exams for existing personnel, etc.). The plan of action for restructuring the Central Bank will be agreed with the Fund staff by end-December 1993.

19. Central bank law

A revised central bank law will be presented to Congress by end-January 1994 as legislation to which the Executive Branch attaches high priority.

20. Liquidation of BAB, BAMIN, FONEM

The authorities will agree with the Fund staff by end-December 1993 on a revised timetable for completing the liquidation of Banco Agrícola, Banco Minero and Fondo Nacional de Exploración Minera.

21. Treasury bill auctions

Weekly auctions of treasury bills will begin before the end of December 1993.

Attachments: Table 1

/S/

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Fernando Illanes  
Minister of Finance and  
Economic Development

/S/

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Fernando Candia  
President, Central Bank of Bolivia

/S/

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Fernando Cossío  
National Secretary of Finance

Table 1. Bolivia: Monitoring Indicators of the 1993-94 Economic Program

	1993		1994					
	Nov. 30	Dec. 31	Jan. 31	Feb. 28	Mar. 31	June 30	Sept. 30	Dec. 31
(Cumulative change from September 30, 1993 in millions of bolivianos)								
Net domestic assets of the Central Bank <u>1/ 2/</u>	-162.9	-91.7	-151.8	-104.3	-87.6	-196.8	-253.3	-56.9
Central bank credit to the nonfinancial public sector <u>2/</u>	4.1	-65.7	-92.4	-9.2	24.7	-132.9	-295.7	-80.7
Combined deficit of the public sector <u>3/</u>	205.7	451.3	442.4	558.4	639.7	735.1	752.1	1,208.8
(Cumulative change from September 30, 1993 in millions of U.S. dollars)								
Net international reserves of the Central Bank <u>4/</u>	48.5	61.9	51.9	46.9	46.9	81.9	96.9	81.9
Public and publicly guaranteed external debt with 1-10 years' maturity (net disbursements)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Public and publicly guaranteed external debt with maturities up to one year (net disbursements)	--	--	--	--	--	--	--	--

1/ Net domestic assets are defined as the difference between currency issue and net international reserves.

2/ In the event that Bolivia falls behind in its payments to foreign official creditors, these limits will be decreased by the full amount of the overdue obligations. These limits will be increased by the amount of any delay in gas-related payments by Argentina. These limits will be adjusted downward by the amount of net proceeds from the sale of public sector assets under the Government's privatization program.

3/ These limits will be adjusted downward by the amount of net proceeds from the sale of public sector assets under the Government's privatization program.

4/ In the event that Bolivia falls behind in its payments to foreign official creditors, these targets will be increased by the full amount of the overdue obligations. These targets will be reduced by the amount of any delay in gas-related payments by Argentina. These targets will be adjusted upward by the amount of disbursements from a prospective new IDB multisectoral credit to the public sector (earmarked for onlending as development credit) that has not yet been onlent to the private sector.