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March 6, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Staff Report for the Midterm Review Under the
First Annual Arrangement Under the Enhanced Structural
Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the midterm review under the first annual arrangement under the enhanced structural adjustment facility for Bolivia. Draft decisions appear on pages 20 and 21.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Flickenschild (ext. 6692) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

BOLIVIA

Staff Report for the Midterm Review of the First Annual
Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the Western Hemisphere and the
Exchange and Trade Relations Departments

(In consultation with the Fiscal Affairs,
Legal, and Treasurer's Departments)

Approved by S.T. Beza and S. Kanesa-Thasan

March 3, 1989

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I. Introduction

A staff mission ^{1/} visited La Paz during November 22-December 14, 1988 to conduct the midterm review of the first annual arrangement under the enhanced structural adjustment facility (ESAF) and reach understandings with the authorities on financial benchmarks for the final quarter of the first program year that ends on March 31, 1989.

In a letter to the Managing Director dated March 1, 1989 and an accompanying policy memorandum (Attachments I and II), the Bolivian authorities review developments and policy implementation since the start of the program in April 1988 and describe the policies and targets that they will be pursuing for the remainder of the first ESAF program year (March 31, 1989). The financial benchmarks for March 31, 1989, which are not performance criteria, were established in the context of a preliminary appraisal of the outlook for 1989. The policies and targets for the remainder of 1989 will be discussed with a Fund staff mission that will negotiate the second year program of the ESAF arrangement.

On July 27, 1988 the Executive Board concluded the 1988 Article IV consultation with Bolivia and approved a three-year arrangement under the ESAF for SDR 136.05 million (150 percent of quota). Bolivia received the first disbursement of SDR 22.675 million following Board approval. The second disbursement, also of SDR 22.675 million, is subject to observance of certain financial benchmarks for September 30, 1988 and completion of this review.

As of January 31, 1989 outstanding Fund credit to Bolivia (including ESAF Trust loans) amounted to SDR 148.8 million (164.1 percent of quota), of which SDR 75.3 million (83 percent of quota) corresponded to purchases under the Compensatory Financing Facility (Table 1). If all disbursements under the ESAF are made, Fund credit to Bolivia would increase to SDR 218.1 million (240.4 percent of quota) at the end of the program period in March 1991. Bolivia has accepted the obligations of Article VIII of the Articles of Agreement. Additional information on Bolivia's relations with the Fund is presented in Appendix I, and its relations with the World Bank group are summarized in Appendix II.

^{1/} The mission consisted of Messrs. Flickenschild (Head), Duran-Downing and Martelino (all WHD), Mr. Amieva-Huerta (EP-BUR), Ms. Carkovic (ETR), and Mrs. Lee (Secretary-WHD). The Bolivian representatives included the Ministers of Planning and Finance, the President of the Central Bank, and other senior officials. Mr. Gil-Diaz, the Fund representative in La Paz, assisted the mission, which also cooperated closely with an overlapping World Bank mission.

Table 1. Bolivia: Projection of Fund Position During the Period
January 1989-March 1991

	December 31, 1988	1989 Jan.- Mar.	1989/90 1/ Apr.- Oct.- Sept. Mar.		1990/91 1/ Apr.- Oct.- Sept. Mar.	
<u>(In millions of SDRs)</u>						
Transactions under tranche policies		—	-1.92	-7.09	-8.18	-8.17
Purchases		—	—	—	—	—
Repurchases <u>2/</u>		—	1.92	7.09	8.18	8.17
Transactions under CFF		—	—	-3.75	-7.50	-7.50
Purchases		—	—	—	—	—
Repurchases		—	—	3.75	7.50	7.50
Disbursements under ESAF		22.67	22.68	22.67	22.68	22.67
Total Fund credit outstanding <u>3/</u>	148.79	171.47	192.22	204.05	211.05	218.05
Under tranche policies	32.70	32.70	30.78	23.68	15.51	7.33
Under CFF	75.28	75.28	75.28	71.53	64.03	56.53
Under SAF/ESAF	40.81	63.49	86.16	108.84	131.51	154.19
<u>(In percent of quota)</u>						
Total Fund credit outstanding <u>3/</u>	164.05	189.05	211.92	224.97	232.69	240.41
Under tranche policies	36.05	36.05	33.93	26.11	17.10	8.09
Under CFF	83.00	83.00	83.00	78.86	70.60	62.33
Under SAF/ESAF	44.99	70.00	94.99	120.00	144.99	170.00
<u>(In millions of SDRs)</u>						
<u>Memorandum item</u>						
Trust Fund						
Repayments		1.43	2.07	2.07	0.63	0.14
Amount outstanding <u>3/</u>	6.34	4.91	2.84	0.77	0.14	—

Source: IMF Treasurer's Department.

1/ Program years beginning April 1.

2/ All repurchase commitments correspond to ordinary resources.

3/ End of period.

II. Background and Economic Developments in 1988

Since August 1985 Bolivia has been implementing an economic program aimed at reducing inflation and restoring economic growth on a sustained basis. In 1985-87 the Government's efforts met with considerable success despite unfavorable external developments. The 12-month rate of inflation was reduced to 10 1/2 percent in late 1987 and growth resumed, although at a modest pace. In the context of a medium-term framework that envisaged a steady acceleration of growth, the program for 1988 continued these efforts with the aim of achieving real GDP growth of 2.5 percent and containing inflation on an end-of-period basis to 12.5 percent.

To achieve these objectives the program called for cautious fiscal and credit policies, continued implementation of structural reforms and a gradual real depreciation of the currency to improve Bolivia's competitiveness. The overall deficit of the nonfinancial public sector was to be limited to 6.7 percent of GDP (compared with 7.4 percent a year earlier) and to be financed mostly by external resources; the external current account deficit was expected to widen somewhat to about 10 percent of GDP; and credit to the private sector was projected to expand by about 27 percent of the stock of liabilities to the private sector at the end of 1987.

Real GDP increased by about 2.8 percent in 1988, compared with 2.5 percent envisaged in the program (Table 2). Manufacturing, construction, and private mining were more buoyant than expected but the resumption of activities by the state mining company (COMIBOL) was less rapid than anticipated and a drought adversely affected agricultural output. On the demand side the expansion of economic activity reflected particularly strong public sector investment.

Inflation was higher than projected in the program, particularly during the second and third quarters of 1988, and by December 1988 the 12-month rate of inflation was 21 1/2 percent, compared with 12 1/2 percent assumed in the program (Chart 1). The three-month moving average of the consumer price index accelerated from an annual rate of 7 percent in January 1988 to 37 percent in August 1988. In an attempt to change expectations and reduce inflation, the authorities froze key public prices and the exchange rate in August 1988, resuming exchange rate depreciation only in early November. As a result the increase in the three-month moving average of consumer prices slowed down to an annual rate of 12 percent in December 1988.

The program had contemplated gradual adjustments in the exchange rate that would have resulted in a real effective depreciation of about 6 percent during 1988. In the event, the boliviano was allowed to depreciate against the U.S. dollar by an average of 1.2 percent a month (compared with an average monthly rate of domestic inflation of 2.1 percent) through July 1988 but, as already mentioned, the depreciation was

Table 2. Bolivia: Selected Economic and Financial Indicators

	1986	1987	1988		Prog. 1989
			Prog. 1/	Est.	
(Annual percent changes, unless otherwise stated)					
Income and prices					
GDP at constant prices	-2.9	2.1	2.5	2.3	3.5
GDP deflator	246.3	16.3	16.0	15.6	16.5
Consumer prices (end-of-period)	66.0	10.7	12.5	21.5	10.0
Consumer prices (period average)	276.4	14.6	11.6	16.0	15.7
External sector (on the basis of					
U.S. dollars)					
Exports (f.o.b.)	-4.1	-11.3	8.8	1.5	3.9
Nonhydrocarbon exports (f.o.b.)	6.0	3.0	24.9	17.2	8.0
Imports (c.i.f.)	24.3	7.7	9.6	-9.6	11.9
Export volume	13.9	-8.2	12.6	3.5	4.9
Import volume	17.5	2.3	2.0	-17.0	8.3
Terms of trade (deterioration -)	-20.7	-8.7	-10.1	-10.2	-4.1
Real effective exchange rate (depreciation-)					
End-of-period	22.0	-14.3	-5.9	3.1	...
Period average	-70.4	-3.8	-7.2	-5.1	...
General government 2/					
Revenue and grants	499.2	9.0	32.3	27.0	23.8
Total expenditure	220.1	21.4	23.9	20.4	31.9
Money and credit 3/					
Net domestic assets	79.7	63.7	29.3	33.6	9.8
Credit to public sector	-59.2	20.0	12.5	19.6	1.0
Credit to private sector	108.1	37.2	27.1	32.1	19.7
Broad money	125.4	32.4	18.0	23.4	11.5
Interest rate on local currency deposits					
(end-of-period; percent per annum)	33.4	32.7	...	27.8	...
(Percent of GDP)					
Nonfinancial public sector savings 2/	-0.7	-1.7	0.1	0.2	2.0
Nonfinancial public sector deficit 2/	-4.3	-7.4	-6.7	-6.5	-4.3
External financing	5.5	2.4	5.4	4.8	7.2
Domestic financing	-1.2	5.0	1.3	1.7	-2.8
Gross domestic investment	3.0	10.1	12.7	9.7	13.1
Gross national savings	-1.2	0.7	2.6	2.9	3.9
External current account deficit	9.2	9.4	10.1	6.8	9.2
Public sector external debt 4/	100.2	101.0	91.8	96.9	91.9
Debt service paid 5/	36.5	36.0	48.3	40.1	38.4
(Millions of U.S. dollars)					
Change in net official reserves	110.4	-78.4	-71.8	-44.4	36.4
Gross official reserves (months of					
imports, c.i.f.)	8.5	6.5	5.8	7.2	7.9
of which freely disposable reserves 6/	4.7	2.6	3.3	4.2	...
Public sector external debt (in billions					
of U.S. dollars) 4/	3.84	4.28	3.93	4.28	4.38

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

1/ Program targets have been adjusted for the nonpayment of US\$101.4 million of arrears by Argentina. The balance of payments targets have been adjusted to reflect a revision in the methodology to calculate freight and refining costs of mineral exports.

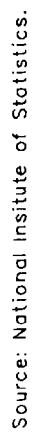
2/ Gas export receipts and interest payments on a payments due basis.

3/ Effective flows at each year's accounting exchange rate as a percentage of stock of liabilities to private sector at the beginning of the year.

4/ Includes debt with public guarantee.

5/ Payments on public sector medium- and long-term external debt in percent of exports of goods and nonfactor services.

6/ Excludes gold and amounts held in a special account in the Central Bank of Argentina.



stopped in August. In real effective terms the boliviano appreciated by 10 1/2 percent during January-August 1988, reflecting differential inflation and the appreciation of the U.S. dollar in international markets (Chart 2). However, with the subsequent weakening of the U.S. dollar and the resumption of small depreciations in November, the real effective appreciation of the boliviano eased to 3 percent during the year ended December 1988. 1/

The overall deficit and the current account of the nonfinancial public sector are estimated to have been in line with the program (Table 3). General government current revenue was lower than expected, reflecting the adverse effects of the low level of imports on customs revenue and delays in the implementation of taxes on rural land holdings, automobiles, and household appliances. General government current expenditure also was lower than programmed, reflecting lower outlays for both wages and goods and services. Moreover, there was an overperformance in the operating result of public enterprises owing to substantial price adjustments prior to the price freeze in August 1988 and a reduction in outlays as a result of reorganization. Although investment expenditures increased substantially with respect to 1987, they are estimated to have been somewhat below the program target of 7.8 percent of GDP because of a shortfall in disbursements of foreign loans, which in part was offset by a higher than envisaged use of internal resources.

Net external financing is estimated to have been lower than programmed as the shortfall in disbursements of foreign loans and the failure by Argentina to make all current payments for gas imports in the last quarter of 1988 were only partially offset by higher than programmed unpaid interest on external debt. There was a corresponding excess in domestic financing, with credit from the Central Bank substituting for foreign financing and being used for a larger than anticipated reduction of domestic debt (mostly on account of a more rapid reduction of arrears to foreign-owned petroleum companies 2/).

The growth of financial system liabilities to the private sector, estimated at 28 percent during 1988, was considerably higher than envisaged in the program (18 percent), and so was the growth of the net

1/ On average, the boliviano was 5 percent more depreciated in 1988 than in 1987, compared with an average real effective depreciation of some 7 percent sought under the program.

2/ In May 1988 Bolivia reached agreement with the companies, which are Bolivian residents, to settle some US\$180 million of arrears on payments for purchases of hydrocarbons. The companies were given letters of credit drawn against a nonconvertible U.S. dollar account maintained by Bolivia with the Central Bank of Argentina into which Argentina makes part of its payments for imports of natural gas from Bolivia. The companies used these letters of credit more rapidly than envisaged in the program, to make payments for goods procured in Argentina.

Table 3. Bolivia: Nonfinancial Public Sector Operations

(In percent of GDP)

	1986	1987	1988		1989
			Prog.	Est.	Prog.
<u>Current revenue 1/</u>	18.4	17.5	20.2	18.9	20.2
General government	18.4	17.0	20.2	18.2	18.6
Operating surplus of state enterprises	--	0.5	--	0.7	1.6
<u>Current expenditure 2/</u>	19.1	19.2	20.1	18.7	18.2
General government	18.9	19.2	19.8	18.7	18.2
Operating deficit of state enterprises	0.2	--	0.3	--	--
<u>Current surplus or deficit (-)</u>	<u>-0.7</u>	<u>-1.7</u>	<u>0.1</u>	<u>0.2</u>	<u>2.0</u>
Capital revenue	1.2	0.5	1.0	0.5	0.8
Capital expenditure	4.8	6.2	7.8	7.2	7.2
<u>Overall surplus or deficit (-) 1/2/</u>	<u>-4.3</u>	<u>-7.4</u>	<u>-6.7</u>	<u>-6.5</u>	<u>-4.3</u>
<u>Financing</u>	4.3	7.4	6.7	6.5	4.3
External	5.5	2.4	5.4 <u>3/</u>	4.8	7.2
Net disbursements	...	2.0	4.1 <u>4/</u>	1.9 <u>4/</u>	3.0
Interest due but not paid	...	2.7	0.9	2.9	1.4
Argentine gas arrears	...	-2.3	0.4	-0.1	2.7
Internal	-1.2	5.0	1.3 <u>3/</u>	1.7	-2.8
Banking system	-3.4	2.6	1.7	3.2	0.2
Other <u>5/</u>	2.2	2.4	-0.4	-1.5	-2.9
<u>Memorandum items</u>					
Hydrocarbon revenues <u>1/</u>	15.8	12.2	12.3	12.1	11.4
Wages and salaries	8.7	9.4	9.8	9.7	9.2

Sources: Ministry of Finance; Integrated System of Financial Administration and Government Control (SAFCO); and Fund staff estimates.

1/ Gas exports to Argentina on a payments due basis.

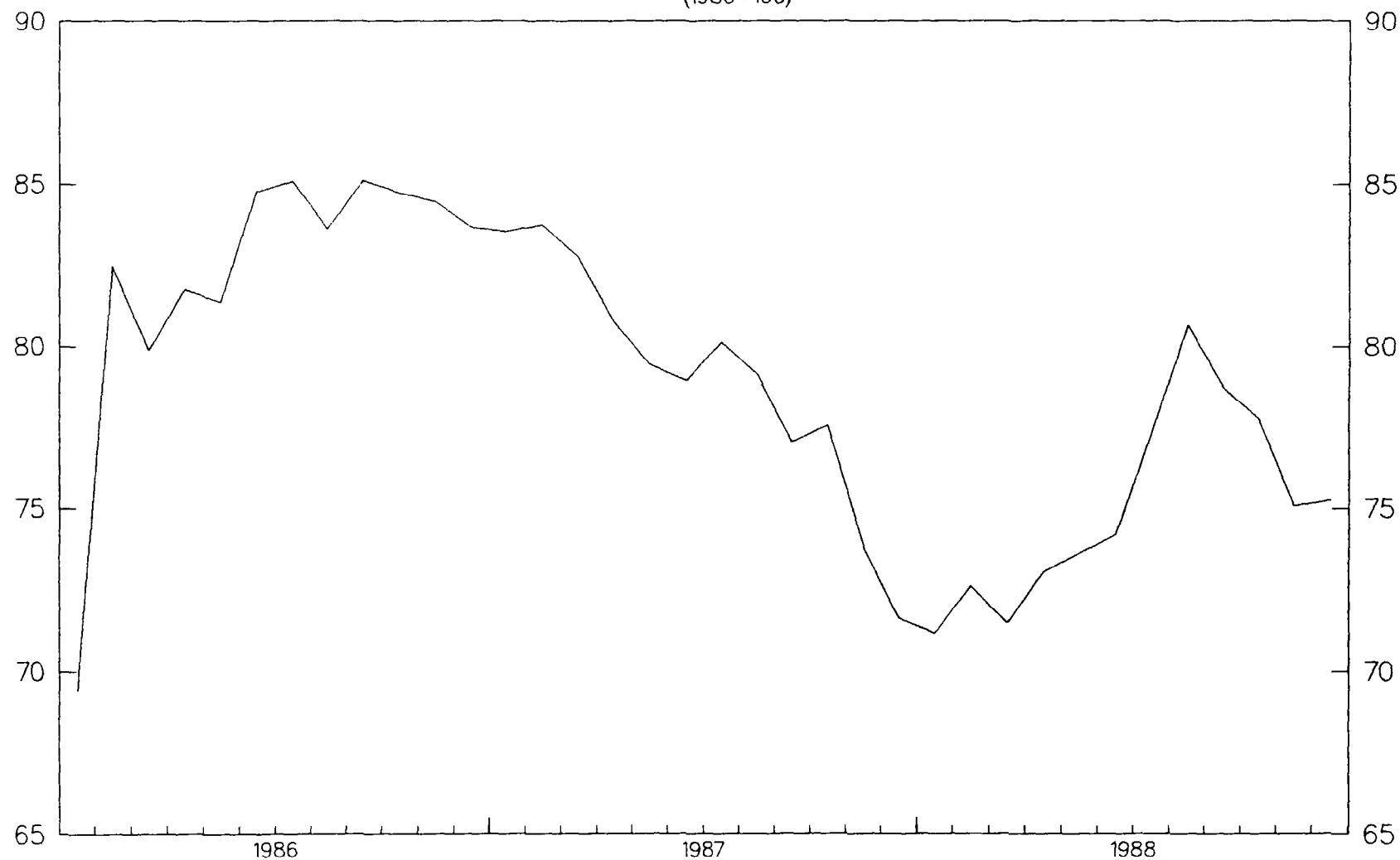
2/ Interest on external debt on a payments due basis.

3/ Adjusted for nonpayment of US\$101.4 million of gas export arrears by Argentina.

4/ Includes payments of debt service arrears accumulated during 1987.

5/ Includes floating debt and net arrears payments to foreign owned petroleum companies.

CHART 2
BOLIVIA
REAL EFFECTIVE EXCHANGE RATE ¹
(1980=100)



— 6a —

Source: Information Notice System.

¹Trade weighted index of nominal effective exchange rate deflated by consumer prices; increase means appreciation.

domestic assets of the banking system (Table 4). The net domestic assets of the Central Bank also increased more than programmed, but this was more than matched by an increase in currency issue, and the loss in net international reserves was lower than programmed. Interest rates, which are market determined, continued to decline during 1988. The interest rate on time deposits in local currency fell from 33 percent to 28 percent a year and the average interest rate for local currency loans declined from 43 percent to 40 percent a year. In view of the increase in inflation, real interest rates declined even faster but remained positive. The share of foreign currency deposits in money and quasi-money rose from 46 percent to an estimated 55 percent during 1988, notwithstanding a concurrent decline from 9 percent to 7 percent in the premium of the interest rate on U.S. dollar deposits over LIBOR.

Rather than widening as programmed, the external current account deficit is estimated to have narrowed from about US\$400 million (9.4 percent of GDP) in 1987 to about US\$300 million (6.8 percent of GDP) in 1988 (Table 5). Exports were about US\$40 million (7 percent) less than projected, with lower nontraditional and gas exports partly offset by higher mining exports. Imports are estimated to have been about US\$155 million (18 percent) lower than programmed, perhaps reflecting past overstocking. The capital account is estimated to have been weaker than programmed because of lower loan disbursements to the public sector and net private capital outflows (including net errors and omissions) of some US\$80 million instead of net inflows of some US\$35 million assumed in the program. ^{1/} However, higher exceptional financing kept the net international reserve loss below program assumptions and gross official reserves amounted to more than seven months of imports at the end of 1988, compared with less than six months under the program.

On November 14, 1988, Bolivia reached an agreement with official creditors participating in the Paris Club on the rescheduling of arrears outstanding as of September 1988 and maturities falling due through December 1989 (EBS/88/242, 11/29/88). The authorities expect to complete the bilateral agreements before the deadline of April 30, 1989. The terms of this rescheduling were more favorable than had been assumed in the program because it included interest obligations (including those in arrears) on previously rescheduled debt. Total debt relief under the Paris Club agreement is estimated at US\$243 million in 1988 and US\$148 million in 1989, compared with US\$203 million and US\$106 million assumed in the program. Additional exceptional financing resulted from the nonpayment of some US\$55 million of interest due to Argentina on the debt rescheduled under an agreement reached in September 1987. ^{2/} The Government is seeking agreement with Argentina

^{1/} This outcome may reflect some underreporting of imports.

^{2/} Bolivia has given instructions to the Central Bank of Argentina to debit its account with the Central Bank for this purpose but Argentina has not done so.

Table 4. Bolivia: Selected Monetary Indicators

	1986	1987	1988		Prog.
			Prog.	Est.	1989
(Percentage change) 1/					
I. Central Bank					
Net international reserves	114.6	-52.1 2/	-41.3 3/	-25.5	17.6
Net domestic assets	-47.9	86.6	51.2	56.3	-5.2
Nonfinancial public sector	-136.3	65.3 2/	41.9 3/	79.1	3.9
Banking system	89.2	37.7	43.1	25.8	27.3
Medium- and long-term foreign liabilities	-32.7	-58.3	-55.6	-68.7	-41.8
Other	31.9	41.9	21.8	20.1	5.4
Liabilities to private sector	66.7	34.5	9.9	30.9	12.4
II. Financial System					
Net international reserves	51.5	-10.3 2/	-11.3 3/	-5.9	4.6
Net domestic assets	79.7	63.7	29.3	33.6	9.8
Nonfinancial public sector	-59.2	20.0 2/	11.5 3/	19.6	1.0
Private sector	108.1	37.2	27.1	32.1	19.7
Medium- and long-term foreign liabilities	-12.2	-2.3	-15.2	-15.6	-10.5
Other	43.0	8.8	5.9	-2.5	-0.4
Liabilities to private sector	131.2	53.4	18.0	27.7	14.4
Currency	29.8	11.0	2.7	7.9	3.2
Deposits	95.6	21.4	15.3	15.5	8.3
Capital and surplus	5.8	21.0	--	4.3	2.9
Memorandum items					
(Flow in millions of U.S. dollars)					
Net international reserves					
Central Bank	110.4	-78.4 2/	-71.8	-44.4	36.4
Financial system	113.0	-58.7 2/	-71.8	-40.2	36.4
Medium- and long-term foreign liabilities					
Central Bank	-31.5	-87.2	-96.7	-119.5	-86.5
Financial system	-26.8	-11.0	-96.7	-106.7	-83.1
(In percent)					
Share of foreign currency deposits in total broad money 4/	38.5	45.7	...	55.0	...

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

1/ Flows measured at each year's accounting exchange rate, in percent of liabilities to the private sector at the beginning of each year.

2/ Includes the rescheduling of US\$61 million of short-term obligations to medium-term obligations of the nonfinancial public sector.

3/ After adjustment for nonpayment of arrears by Argentina of US\$101.4 million.

4/ Foreign currency deposits valued at end of period exchange rates.

Table 5. Bolivia: Balance of Payments

(in millions of U.S. dollars)

	1986	1987	1988		Prog. 1989
			Prog. 1/	Est.	
<u>Current account</u>	-352	-399	-432	-298	-436
Trade balance	-117	-242	-280	-161	-222
Exports, f.o.b.	594	524	570	532	553
Of which: gas	(329)	(249)	(226)	(213)	(199)
metals	(157)	(163)	(205)	(215)	(244)
Imports, c.i.f.	-712	-766	-850	-693	-775
Factor income (net)	-309	-259	-271	-256	-352
Of which: interest due	(-281)	(-260)	(-276)	(-272)	(-295)
Other services and transfers (net)	74	102 2/	119 2/	119 2/	138
<u>Capital account</u>	82	32	213	64	202
Medium- and long-term					
public sector	-124	-68	179	146	146
Disbursements	233	212	340	314	302
Amortization	-357	-281	-161	-168	-155
Short-term and other 3/	206	100	34	-82	56
<u>Exceptional financing</u>	383	385	129	194	147
Rescheduling	454	166	216	247	207
Official creditors	454	60	207	243	203 4/
Commercial banks	--	106	9	4	4
Net change in arrears	-210	90	-87	-108	-5
Cash	123	90	-13	-17	-5
Rescheduling	-333	--	-74	-91	--
Argentina	139 5/	129 6/	--	55 4/	-55 4/
<u>Overdue gas export receipts</u> (increase -)	-3	-96	18	-4	123
<u>Net international reserves</u> (increase-)	-110	78	72	44	-36
<u>Memorandum items</u>					
Current account deficit (as percent of GDP)	9.2	9.4	10.1	6.8	9.2
Debt service paid (as percent of GDP) 7/	5.1	3.8	6.0	4.3	4.9
Gross official reserves (in months of imports)	8.5	6.5	5.8	7.2	7.9
Terms of trade (percentage change)	-20.7	-8.7	-10.1	-10.2	-4.1
Stock of overdue obligations (end of period, in millions of U.S. dollars)	877	113	--	61	--

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

1/ The program targets have been adjusted to reflect (i) the nonpayment of US\$101.4 million of arrears by Argentina, and (ii) a revision in the methodology to calculate freight and refining costs of mineral exports.

2/ Excludes grants for the buyback of commercial bank debt.

3/ Includes short-term debt, direct foreign investment, and errors and omissions.

4/ Corresponds to unpaid interest to Argentina on debt restructured in September 1987, which is assumed to be rescheduled in 1989.

5/ Includes amounts rescheduled on Paris Club terms.

6/ Includes the rescheduling of US\$68 million of current maturities due to Argentina and US\$61 million of refinanced reserve liabilities but it excludes the refinancing of US\$109 million of arrears and US\$448 million of unmatured principal owed to Argentina.

7/ Public sector, medium and long term.

on the rescheduling of this amount in line with the terms of the Agreed Minute of the Paris Club. With respect to the debt with commercial banks, the debt buyback and debt conversion have been completed and negotiations are continuing on how to address the remainder of the debt.

III. Performance Under the ESAF

The program assumed that in 1988 Argentina would settle overdue obligations for gas imports from Bolivia amounting to US\$119.6 million (2.9 percent of GDP) and that these payments would be used to rebuild Bolivia's net international reserves. However, the program provided for the automatic adjustment of relevant performance criteria in the case of less than full payment by Argentina of these obligations. With this adjustment, the reserve target for 1988 ranged from a potential loss of US\$90 million in the event of no reduction in arrears to a gain of US\$29.6 million in the event of full payment by Argentina. The limit on net domestic assets and the sublimit on public sector credit were to be adjusted correspondingly. These three benchmarks were also to be adjusted if the settlement of arrears to foreign-owned petroleum companies was to fall short of US\$10 million in September and US\$40 million in December 1988.

All performance criteria, adjusted for nonpayment of most of Argentine arrears, as of September 30, 1988 were met (Table 6). However, reflecting mainly an increase in arrears to official creditors, the financial benchmark on external arrears was not observed. Moreover, some US\$55 million of interest due to Argentina, which is not considered in arrears, remained unpaid as of September 30, 1988. Nonpayment of these obligations contributed to the observance of certain of the performance criteria as of September 1988 which, in their present format, are not adjustable for external debt due but not paid. ^{1/} Most of the arrears in excess of the September benchmark were rescheduled in the Paris Club meeting of November 14, 1988, and arrears to other creditors were reduced by about US\$10 million through cash payments by the end of 1988.

Preliminary information indicates that the financial benchmarks for net international reserves and the public sector deficit were observed on December 31, 1988. However, the public sector resorted to substantially more central bank credit than envisaged under the program, reflecting lower net foreign financing, the renewed accumulation of

^{1/} For purposes of the program, the arrears ceiling excludes arrears on the as yet unrestructured part of the commercial bank debt.

Table 6. Bolivia: Financial Benchmarks and Quantitative Performance Criteria

	1988			
	June 30	Sept. 30	Prel. Dec. 31	1989 Mar. 31 1/
(Cumulative change in millions of bolivianos from December 31, 1987)				
<u>Net domestic assets of the Central Bank</u>				
Adjusted limit	80.3	130.2 2/	211.7	
Limit	-175.5	-111.1	-29.6	-40.4
Adjustment	255.8	241.3	241.3	
Actual	4.2	-9.0	233.4	
Margin	76.1	139.2	-21.7	
<u>Central bank credit to the nonfinancial public sector</u>				
Adjusted limit	65.6	93.4 2/	173.4	
Limit	-190.2	-147.9	-67.9	-0.9
Adjustment	255.8	241.3	241.3	
Actual	-9.2	-31.9	327.7	
Margin	74.8	125.3	-154.3	
<u>Indebtedness of the non- financial public sector</u>				
Limit	320.6	482.5 2/	681.2	783.8
Actual	251.4	431.6	675.2	
Margin	69.2	50.9	6.0	
(Cumulative change in millions of U.S. dollars from December 31, 1987)				
<u>Net international reserves of the Central Bank</u>				
Adjusted target	-46.5	-58.8 2/	-71.8	
Target	51.0	42.6	29.6	8.5
Adjustment	-107.5	-101.4	-101.4	
Actual	-16.2	-4.1	-44.4	
Margin	30.3	54.7	27.4	
<u>Public and publicly guaranteed external debt with 1-10 year maturity</u>				
Limit	20.0	30.0	40.0	40.0
Actual	3.4	0.6	...	
Margin	16.6	29.4	...	
(Stock in millions of U.S. dollars)				
<u>External payments arrears</u>				
Limit	22.7	6.5	--	--
Actual	30.6 3/	41.8 3/	5.3 3/	
Margin	-7.9	-35.3	-5.3 3/	

Source: Data provided by the Bolivian authorities.

^{1/} Proposed benchmarks; adjustable in accordance with paragraph 16 of the Memorandum on the Economic and Financial Policies Through the End of the First ESAF Program Year on March 31, 1989 (Attachment II).

^{2/} Performance criterion.

^{3/} Excludes US\$27.6 million in June and US\$55.3 million in September and December of unpaid interest to Argentina and includes US\$26.5 million in June and US\$26.2 million in September of debt service eligible for rescheduling under the November 1988 Paris Club agreement.

arrears by Argentina, 1/ and a larger than projected reduction of domestic arrears (including those to petroleum companies). The benchmark on net domestic assets of the Central Bank was exceeded by a small margin, even though credit to the rest of the banking system was less than had been projected. The benchmark on external arrears also was exceeded by a small margin.

The authorities implemented on schedule the structural benchmarks for September 1988 relating to the compilation of an external public debt inventory and the implementation of a computerized tax collection system (Table 7). Regarding the reorganization of the state petroleum company (YPFB), the establishment of profit centers has been delayed because of resistance by professional staff, but the authorities are determined to implement this measure by March 31, 1989. The fourth structural benchmark for September 1988 (the issuance of norms for the preparation of the public sector budget) was not observed because of delays in obtaining lender approval for the Government's selection of the consulting firm that was to elaborate the norms. The firm began operations on November 15, 1988 and the norms were prepared by December 1988. The authorities expect the norms to be approved and issued by March 31, 1989.

Concerning the benchmarks for December 31, 1988, the centralization of drilling and pipeline operations by YPFB was implemented ahead of schedule. The budget for 1989 was sent to Congress in December 1988 and was approved in late January 1989. The reduction of employment in YPFB by at least 550 workers, which is a structural benchmark for March 31, 1989, has already been accomplished. Finally, because the design and implementation of a comprehensive reform of the customs administration would take a long time, the authorities decided not to initiate such a program before the presidential elections in May 1989. However, the authorities will take measures to strengthen the collection of custom duties before March 31, 1989.

IV. Policies for the Remainder of the First ESAF Program Year

1. Program for 1989

The financial benchmarks for March 1989 (the last quarter of the first program year) have been set in the context of a preliminary program for 1989 which seeks to attain economic growth of 3.5 percent

1/ Argentina began to incur new arrears on its gas imports in the last quarter of 1988 and the total stock of its arrears amounted to US\$123.3 million at the end of 1988, compared with US\$119.6 million at the end of 1987.

Table 7. Bolivia: Structural Benchmarks

Policy Measures	Program Timetable	Comments
1. <u>Reorganization of the State</u> <u>Petroleum Company (YPFB)</u>		
a. Creation of profit centers	September 1988	To be completed by March 1989.
b. Centralization of the administration of pipelines and drilling operations	December 1988	Completed by September 1988.
c. Reduction of staff by 550	March 1989	Completed by September 1988.
2. <u>Establishment of a comprehensive</u> <u>system of financial management</u> <u>and control (SAFCO)</u>		
a. Preparation of norms for the public sector budget	September 1988	Norms prepared by December 1988. To be approved by March 1989.
b. Preparation of a public sector budget for 1989	December 1988	Budget sent to Congress in December 1988 and approved in late January 1989.
3. <u>Improvements of the tax and</u> <u>customs administration</u>		
a. Implementation of a new computerized tax collection system	September 1988	Completed in August 1988.
b. Adoption and start of implementation of an action plan to strengthen customs administration	December 1988	A FAD technical assistance mission gave its preliminary recommendations in December 1988 and the benchmark is now expected to be met in March 1989.
c. Creation of special directorates to control large taxpayers subject to value added and special consumption taxes in La Paz, Cochabamba, and Santa Cruz	March 1989	Implemented in La Paz in March 1988. To be implemented in Cochabamba and Santa Cruz as scheduled.
4. <u>Reorganization of the external debt</u> <u>department of the Central Bank</u>		
a. Compilation of a comprehensive inventory of external public debt	September 1988	Completed in September 1988.
b. Creation of a system to produce comprehensive quarterly statistics on external public debt flows	March 1989	To be completed as scheduled.

Source: Information provided by the Bolivian authorities.

(in line with the original ESAF program), a reduction in the 12-month rate of inflation from 21 1/2 percent at the end of 1988 to 10 percent at the end of 1989 (compared with a reduction from 12 1/2 percent to just below 9 percent in the original ESAF program) and a net international reserve gain of US\$36 million (compared with a decrease of US\$65 million in the original ESAF program, before the payment of arrears of US\$101 million by Argentina, which is now projected to occur in 1989). These objectives and the policies for 1989 as a whole are tentative as the authorities' focus of attention is on policy implementation up to the elections in May 1989; they will be reviewed in the context of the negotiations for the second year of the ESAF program.

2. Fiscal policy

The authorities' fiscal plans for 1989 are somewhat more ambitious than those envisaged in the original ESAF program, in terms of both public sector savings and investment. Based on efforts to raise tax revenue, restrain current spending and improve the financial position of the state enterprises, the fiscal plan for 1989 calls for public sector savings of 2.0 percent of GDP, compared with an estimated 0.2 percent of GDP in 1988 and 0.8 percent of GDP in the original ESAF program. Given the improved implementation capacity and the enhanced availability of external financing, the authorities will seek to maintain public investment at 7.2 percent of GDP in 1989, compared with 6.2 percent of GDP in the original ESAF program. As a result, the overall deficit of the nonfinancial public sector is projected to decline to 4.3 percent of GDP in 1989, compared with an estimated 6.5 percent of GDP in 1988 and 4.4 percent of GDP in the original ESAF program.

The overall deficit is projected to be more than financed by net external resources, including the settlement of overdue obligations by Argentina and the Paris Club rescheduling of maturities falling due in 1989. Domestic financing is projected to be negative, with settlement by Bolivia of arrears to petroleum companies to be partially offset by a modest expansion of central bank credit.

Current revenue (including the net operational balance of the state enterprises) is projected to increase from 18.9 percent of GDP in 1988 to 20.2 percent of GDP in 1989. In support of this objective, the Government obtained legislative approval in early 1989 for (a) an increase in the tax on beer from 30 to 45 percent; (b) an increase in the presumptive tax on corporate profits from 2 percent to 2.5 percent of net worth; (c) a new tax on softdrinks of 20 percent; and (d) a surcharge of 18.5 percent on commercial and residential electricity consumption exceeding 120 k.w.h. a month. In addition the Government started implementing the rural property tax; extended the value added tax to cover large agricultural and livestock producers; and began enforcing the selective consumption tax on automobiles and household appliances. The special bureaus to monitor large taxpayers in Cochabamba and Santa Cruz will start operations by end-March 1989, and steps will be taken to reduce evasion of custom duties and value added

and selected consumption taxes. To bolster customs revenue, the planned reduction of the customs tariff on all but specified capital goods has been suspended indefinitely ^{1/} and the tariff exemption for food grants for resale has been eliminated.

The authorities plan to raise domestic prices of petroleum products to a level consistent with an average annual price of US\$45.5 a barrel (US\$1.08 a gallon), from US\$44 a barrel in late 1988. Other public prices and tariffs will be adjusted so as to restore them to the real levels attained before the imposition of the price freeze in August 1988. These price adjustments will be made in March 1989 concurrently with a 15 percent public sector wage increase.

Current expenditure is projected to decline from 18.7 percent of GDP in 1988 to 18.2 percent of GDP in 1989. Apart from the aforementioned wage policy, which would slightly reduce the public sector wage bill in real terms, the authorities intend to keep expenditure on goods and services at the 1988 level in real terms. Their efforts to exercise stricter control over current expenditure of major public entities are expected to benefit from an improved flow of information that has resulted from the operation of the Integrated System of Financial Administration and Government Control (SAFCO). The authorities attach special importance to maintaining the momentum of public sector investment in 1989 to support economic growth. In implementing their investment program, they intend to select projects with a view to maximizing the use of external resources, keeping the average use of domestic financing to 25 percent of investment outlays.

3. Monetary management and credit program

The monetary program for 1989 has been designed to be consistent with a slowing of the 12-month rate of inflation to 10 percent by the end of the year and a net international reserve gain of US\$36 million. Total liabilities to the private sector are projected to increase broadly in line with nominal GDP, and the program allows for an expansion of 20 percent in credit to the private sector (in relation to the stock of liabilities to the private sector at the end of 1988).

The program aims at a small reduction of the stock of net domestic assets of the Central Bank. In reflection of the projected settlement of arrears by Argentina, the growth of the net credit to the nonfinancial public sector would be reduced from 79 percent in 1988 to 4 percent in 1989, while the net expansion of central bank credit to the rest of the financial system would remain about unchanged at 27 percent. Net disbursements of foreign loans channeled through the Central Bank are estimated at US\$87 million, including the balance of US\$25 million under

^{1/} The import tariff is now 10 percent for selected capital goods and 17 percent for all other goods. The intention had been to lower the higher tariff gradually to a uniform tariff rate of 10 percent.

the financial sector adjustment credit from the International Development Association in the first quarter of 1989.

The Central Bank has taken a number of measures to reduce its operational losses from an estimated 1 percent of GDP in 1988 to 0.2 percent of GDP in 1989. In particular, the authorities (a) discontinued purchases of domestically produced gold at a premium over the world price; (b) discontinued payment of interest on certificates of deposit held in fulfillment of legal reserve requirements; (c) began charging a commission of Bs. 0.01 per US\$1 on the sale of foreign exchange and charging commissions to all customers for its financial services; and (d) increased the rate of interest on development loans from LIBOR to LIBOR plus 1 percentage point.

Interest rates will continue to be determined without official intervention, with the exception of the extension of development loans by commercial banks that are financed with external resources and intermediated by the Central Bank, whose maximum interest rate was raised by one percentage point to LIBOR plus 6 percentage points in conjunction with the increase in the Central Bank's lending rate. The authorities intend to begin open market operations in 1989 through the placement of central bank certificates of deposit at auction-determined rates, on the basis of regulations approved in early February 1989.

The authorities plan to continue implementing structural reforms to strengthen the financial system. The reorganization of the Banco Agrícola and the Banco Minero is scheduled to be completed in the first quarter of 1989. A legislative proposal to reorganize the Banco del Estado could not be acted upon before the recess of Congress in February 1989 but is expected to be resubmitted after the elections in May 1989. The authorities also will continue to improve the statistical information required from commercial banks for monitoring purposes.

4. External policies

The authorities intend to pursue a flexible exchange rate policy during 1989 through periodic adjustments of the boliviano's exchange rate vis-a-vis the U.S. dollar, with the aim of reversing gradually the real appreciation of 3 percent that occurred during 1988 and improving competitiveness somewhat. While this policy is somewhat less active than that envisaged in the original ESAF program, the authorities were of the view that a faster depreciation would have adverse consequences for their efforts to curb inflation, especially in the period leading to the elections of May 1989. Therefore, to achieve the program objectives in 1989, the authorities had developed a fiscal plan aimed at higher public sector savings and investment than had been envisaged in the original ESAF program. The authorities indicated that, in the case of unforeseen adverse developments, they would be prepared to tighten financial policies further in an effort to achieve the program objectives. They also were of the view that nontraditional exports would be

helped in 1989 by the introduction of a 10 percent import duty rebate in late 1988. 1/

The external current account deficit is expected to widen from about US\$300 million (6.8 percent of GDP) in 1988 to US\$436 million (9.2 percent of GDP) in 1989, 2/ mostly reflecting the recovery of imports from the unexpectedly low level in 1988, allowing some rebuilding of inventories and consistent with the authorities' public sector investment program. Net capital inflows are projected to increase from about US\$65 million in 1988 to about US\$200 million in 1989 as a result of higher direct foreign investment and other private capital inflows. Taking into account the agreed rescheduling of maturities falling due in 1989 and assuming that overdue obligations to Argentina can also be rescheduled, the net international reserves of the Central Bank are projected to increase by US\$36 million and the level of gross reserves would increase slightly, to the equivalent to 7.7 months of imports at the end of 1989.

The medium-term outlook for Bolivia's balance of payments remains fundamentally unchanged from the last staff report. The outlook will be updated in the context of the negotiations of the second year of the ESAF program and the updating of the policy framework paper (PFP).

5. Financial and structural benchmarks

As a modification of their original definition, the financial benchmarks for March 31, 1989 for net international reserves, net domestic assets, and net credit to the nonfinancial public sector are now to be adjusted for the change in Bolivia's overdue external obligations in the period January-March 1989. As before, the same three benchmarks also are to be adjusted by the amounts by which Argentina's settlement of arrears for past gas imports and Bolivia's payments of arrears to foreign petroleum companies fall short of program assumptions (US\$101.4 million and US\$75 million, respectively). The sequence for the achievement of the structural benchmark on the reorganization of YPFB has been revised to reflect the early accomplishment of two benchmarks and the delay of the third one to March 1989.

V. Staff Appraisal

In 1988 Bolivia made progress in achieving the medium-term objectives contained in the ESAF program. The economic recovery that began in 1987 gained momentum and the structural reforms implemented in key

1/ The granting of this rebate on the basis of exchange surrender constitutes a multiple currency practice that has been approved by the Fund until July 15, 1989 or the next Article IV consultation with Bolivia, whichever is earlier.

2/ US\$487 million in the original ESAF program.

areas have helped to strengthen the basis for the continued expansion of output and employment over the medium term. The overall fiscal deficit was kept in line with program projections, the external current account improved significantly, and gross international reserves rose in relation to imports. Bolivia made progress toward reestablishing its relations with external creditors by rescheduling with official bilateral creditors, reducing the outstanding stock of debt to commercial banks, and reducing other external arrears through cash payments. In addition, internal arrears to petroleum companies were reduced. At the same time, however, there was an acceleration of inflation.

In late 1988 the authorities developed policies for the period through the end of the first year of the ESAF program in March 1989 in the context of a tentative policy framework for 1989 as a whole. The policies and targets for 1989 are to be reviewed and articulated further during discussions expected to be held shortly on the second ESAF program year. The program assumes that Argentina will settle its past and current obligations on gas imports and that arrears to external creditors and foreign-owned petroleum companies operating in Bolivia will be eliminated.

The staff welcomes the recent congressional approval of the package of tax measures proposed by the Government. However, it would stress that effective implementation of these measures and further improvements in tax administration will be needed in order to achieve the planned improvement in the operations of the general government in 1989. Moreover, prices of public goods and services will have to be adjusted soon as envisaged in the program and be kept under close review thereafter with a view to maintaining their real levels. The authorities also will need to continue to exercise utmost restraint on expenditure.

Achievement of the authorities' objective of reducing inflation in 1989 will require a tightening of monetary policy. The recent action by the Central Bank aimed at reducing its operational losses is an important step in this direction. The staff also attaches importance to the Central Bank's decision to strengthen its control over credit by initiating open market operations at auction-determined interest rates. Maintenance of the present policy of letting interest rates be determined by market forces, in combination with continuing efforts to reduce fiscal pressures, may be expected to lead to further reductions in real rates as confidence strengthens. Efforts to improve the monitoring of developments in the financial system through better and more timely statistics are welcome.

The authorities intend to pursue in 1989 an exchange rate policy that is less active than that originally envisaged in the ESAF arrangement, on the grounds that more rapid depreciation would fuel inflationary expectations, especially in view of the uncertainties that may be associated with the May 1989 presidential elections. The authorities have opted instead for a greater public sector savings effort while bringing the overall fiscal deficit slightly below the level envisaged

in the original ESAF program. While acknowledging the positive aspects of the strengthened public sector savings effort, the staff would note that there is a risk that the less active exchange rate policy may involve over time costs in terms of slower economic growth and may jeopardize the authorities' objective of export diversification and balance of payments viability. Therefore, the authorities should be prepared to reconsider their strategy in light of developments, particularly in regard to the evolution of nontraditional exports and private capital flows. In any event, the appropriateness of Bolivia's competitive position will need to be re-examined during the forthcoming discussions on the program for the second year of the ESAF arrangement.

The payment of import duty rebates for nontraditional exports on the basis of exchange surrender constitutes a multiple currency practice that has been approved by the Fund until July 15, 1989 or the next Article IV consultation with Bolivia, whichever is earlier. The staff would encourage the authorities to eliminate this practice and to provide export incentives through the exchange rate. Pending the completion of implementing agreements with official bilateral creditors and of the negotiations with commercial banks, Bolivia maintains exchange restrictions evidenced by external payments arrears which are subject to Fund approval. The staff recommends the temporary approval of these restrictions in view of Bolivia's program to eliminate them. The staff would encourage the Bolivian authorities to continue the negotiations to deal with the remaining debt with commercial banks and the efforts to reconcile and settle bilateral claims between Argentina and Bolivia. The close cooperation of Argentina is obviously important in the latter regard.

Overall, the Bolivian authorities have achieved substantial progress in implementing the adjustment program supported by the arrangement under the ESAF. Nevertheless the rise in the rate of price increase during 1988 is a source of concern. Against this background the measures taken recently to strengthen fiscal and credit policies have to be viewed as an important step forward and as reflecting the authorities' commitment to the program. In this respect, it should be noted that the authorities will shortly hold further discussions with the staff on the policies for the second annual program under the ESAF. In these circumstances, the staff recommends conclusion of the review contemplated in the first annual arrangement under the ESAF.

VI. Proposed Decisions

The following decisions are proposed for adoption by the Executive Board:

I. Review Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

1. The Fund determines that the midterm review specified in paragraph 2(c) of the three-year and first annual arrangements under the enhanced structural adjustment facility (EBS/88/131, Sup. 2, 8/2/88) has been completed.
2. The letter of the Minister of Planning and Coordination, the Minister of Finance, and the President of the Central Bank of Bolivia dated March 1, 1989, and the Memorandum on the Economic and Financial Policies Through the End of the First ESAF Program Year on March 31, 1989 annexed thereto, shall be attached to the ESAF arrangements for Bolivia, and the letter dated June 30, 1988 attached to that arrangement shall be read as supplemented and modified by the letter dated March 1, 1989.
3. Accordingly, the indicators referred to in paragraph 2(a) of the first annual arrangement under the ESAF for Bolivia shall include the benchmarks for March 1989 set out in the table annexed to the Memorandum on the Economic and Financial Policies Through the End of the First ESAF Program Year on March 31, 1989 annexed to the letter dated March 1, 1989.

II. Exchange system

Bolivia maintains restrictions evidenced by payments arrears from state enterprises to foreign commercial banks, and

restrictions remaining pending the conclusion of bilateral rescheduling agreements with several official creditors, all subject to approval under Article VIII, Section 2(a). In view of Bolivia's program to eliminate its payment arrears, the Fund grants approval of these restrictions until the earlier of July 31, 1989, or the conclusion of the 1989 Article IV Consultation with Bolivia.

Bolivia--Fund Relations
(As of January 31, 1989)

I. Membership Status

- (a) Date of membership: December 1945
(b) Status: Article VIII

A. Financial Relations

II. General Department

- (a) Quota: SDR 90.7 million

	<u>(In millions of SDRs)</u>	<u>(In percent of quota)</u>
(b) Total Fund holdings of bolivianos:	198.70	219.07
(c) Fund credit to Bolivia: <u>1/</u>		
<u>Total</u>	<u>139.73</u>	<u>154.05</u>
General Resources Account	107.98	119.05
Credit tranches	32.70	36.05
Compensatory financing facility	75.28	83.00
Special Disbursement Account	31.75	35.00
Structural adjustment facility	18.14	20.00
Enhanced structural adjustment facility	13.61	15.00
(d) Reserve tranche position:	-- <u>2/</u>	--

III. Stand-by Arrangements and Special Facilities in the Last Ten Years

- (a) Stand-by arrangements:

- (i) Duration: June 1986 to July 1987
(ii) Amount: SDR 50 million
(iii) Utilization: SDR 32.7 million
- (i) Duration: February 1980 to January 1981
(ii) Amount: SDR 66.38 million
(iii) Utilization: SDR 53.38 million

1/ For ESAF Trust loans, see Administered Accounts below.
2/ SDR 4,394.

(b) Compensatory financing facility:

- (i) Approval: July 1988
- (ii) Amount: SDR 45.28 million
- (i) Approval: December 1986
- (ii) Amount: SDR 64.1 million 1/
- (i) Approval: January 1983
- (ii) Amount: SDR 17.9 million

(c) Buffer stock financing facility (Tin):

- (i) Approval: June 1982
- (ii) Amount: SDR 24.5 million

IV. Structural Adjustment Facility

- (i) Duration: December 1986 to December 1989
- (ii) Committed under three-year arrangement: SDR 57.59 million
- (iii) Disbursed: SDR 18.14 million
- (iv) Amount subsumed under ESAF: SDR 39.45 million

V. Enhanced Structural Adjustment Facility

- (i) Duration: July 1988 to July 1991
- (ii) Committed under three-year arrangement: SDR 136.05 million
- (iii) Disbursed: SDR 22.675 million
- (iv) Remaining amount: SDR 113.375 million

VI. Administered Accounts

(a) Trust Fund loans:

- (i) Disbursed: SDR 36.2 million
- (ii) Outstanding: SDR 6.3 million

(b) SFF subsidy account:

Payments by the Fund: SDR 3.9 million

(c) ESAF Trust loans:

- (i) Disbursed: SDR 9.07 million
- (ii) Outstanding: SDR 9.07 million

1/ Of which SDR 34.1 million was repurchased in July 1988.

VII. SDR Department

(a) Net cumulative allocation: SDR 26.7 million

(b) Holdings: SDR 0.02 million

VIII. Financial Obligations Due to the Fund ^{1/}

Type of Obligation	1989	1990	1991	1992	1993	Total Through 1993 ^{2/}
(In millions of SDRs)						
Principal	9.1	33.6	32.2	26.3	20.6	121.7
Repurchases	4.9	31.4	32.1	22.6	17.0	108.0
SAF and Trust Fund repayments	4.1	2.2	0.1	3.6	3.6	13.6
Charges and interest	11.3	10.2	7.7	5.0	2.7	37.1
Total ^{2/}	20.4	43.8	39.9	31.2	23.1	158.8

^{1/} On the basis of Bolivia's present use of Fund credit, Trust Fund loans outstanding, position in the SDR Department and disbursements under the ESAF. Charges are projected on the basis of current rates of charge.

^{2/} Totals may not add due to rounding.

B. Nonfinancial Relations

VIII. 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. On January 31, 1989 the official rate and the buying rate in the parallel market were both Bs 2.49 = US\$1.

IX. Last Consultation: The 1988 Article IV consultation was concluded on July 27, 1988 with the adoption of the following decision:

1. The Fund takes this decision relating to Bolivia's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1988 Article IV consultation with Bolivia conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended ("Surveillance over Exchange Rate Policies").
 2. Bolivia maintains an exchange restriction evidenced by external payments arrears that is subject to approval under Article VIII, section 2(a). In addition, the decision to grant import duty rebates for nontraditional exports on the basis of exchange surrender will give rise to a multiple currency practice once it is implemented. The Fund welcomes Bolivia's intention to eliminate its external arrears in 1988 and urges the early elimination of the import duty rebate scheme. In the meantime, the Fund grants approval of the exchange restriction until December 30, 1988 and the multiple currency practice until July 15, 1989 or the next Article IV consultation with Bolivia, whichever is earlier.
- X. Technical Assistance: Bolivia has received a substantial amount of technical assistance in the recent past. Since the implementation of the stabilization program in late August 1985 technical assistance has consisted of the following:
- (a) Bureau of Statistics: A staff member of the Bureau provided technical assistance in balance of payments statistics in March 1986, July 1986, and February 1988. A staff member of the Bureau provided technical assistance in money and banking statistics in August 1988. Two staff members of the Bureau provided technical assistance in external debt statistics in early November 1988.
 - (b) Central Banking Department: An expert in external debt statistics completed a ten-month assignment in November 1985 and returned for a follow-up visit in July 1986. Another expert was posted as a research advisor from February 1986 to February 1987. A successor took up his duties (with particular emphasis on financial programming) in February 1988; his assignment has been extended until January 1990. A third expert began a one-year assignment to revamp the Central Bank's accounting system in June 1986. His assignment has been extended until June 1989. A two-man mission provided advice on banking legislation and the Central Bank reorganization in March 1987.

- (c) Fiscal Affairs Department: A three-man mission assisted the authorities in November 1985 in preparing, executing, and controlling the budget for 1986. A staff member of the Department and an outside expert returned in January 1986 to continue that work. Another expert returned for three months in March 1986 and for another six months in December 1986 to continue that work and to assist with the preparation of the 1987 budget. His assignment was extended twice until early 1989. A staff member of the Department returned in July 1986, November 1986, and March 1988 to assess the progress of this project. In June 1987, a consultant to the department visited La Paz to examine progress in implementing the tax reform and made recommendations in tax administration. The consultant returned to La Paz in April 1988. Two experts visited La Paz in November 1988 to provide technical assistance in customs administration.
 - (d) IMF Institute: A staff member from the Institute conducted a workshop on financial programming in La Paz in November 1988.
 - (e) Western Hemisphere Department: A staff member of the Department provided advice on the operational aspects of an auction-based exchange rate system in August-September 1985.
- XI. Resident Representative: Mr. José Gil-Díaz has been posted as resident representative in La Paz since June 1987. His assignment was extended by one year to June 1989.
- XII. Statistical Data: Generally not adequate because of conceptual and methodological problems in all areas. These problems have been aggravated in recent years because of the high turnover and the deteriorating quality of supervisory and technical staff. The Central Bank was fundamentally reorganized in the period February-March 1987.

Bolivia—Status of World Bank Group Operations

1. Statement of World Bank loans and IDA credits (as of December 31, 1988)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount (less cancellations)			Total
				Disbursed		Undis- bursed	
				Bank	IDA		
<u>(In millions of U.S. dollars)</u>							
Thirteen loans and fourteen credits fully disbursed				274.9	104.8	—	379.7
1703	1986	Bolivia	Reconstruction				
			Import Credit I	—	44.1	18.9	63.0 <u>1/</u>
1719	1986	Bolivia	Vuelta Grande Gas				
			Recycling Project	—	12.6	4.1	16.7 <u>1/</u>
1809	1987	Bolivia	Public Financial				
			Management	—	4.1	8.2	12.3 <u>1/</u>
1818	1987	Bolivia	Power Sector Reha-				
			bilitation	—	0.7	6.4	7.1 <u>1/</u>
1828	1987	Bolivia	Reconstruction				
			Import Credit II	—	14.3	33.9	48.2 <u>1/</u>
1829	1987	Bolivia	Emergency Social				
			Fund I	—	9.8	0.7	10.5 <u>1/</u>
1842	1988	Bolivia	La Paz Municipality				
			Development	—	6.5	9.2	15.7 <u>1/</u>
1882	1988	Bolivia	Emergency Social				
			Fund II	—	13.7	11.6	25.3 <u>1/</u>
1925	1988	Bolivia	Financial Sector				
			Adjustment Credit	—	43.3	25.0	68.3 <u>1/</u>
1977	1988	Bolivia	Economic Management				
			Strengthening				
			Operation	—	—	9.7	9.7
<u>Total</u>				<u>274.9</u>	<u>253.9</u>	<u>127.7</u>	<u>656.5</u>
Of which: has been repaid				<u>109.2</u>	<u>7.6</u>	<u>—</u>	<u>116.8</u>
<u>Total now outstanding</u>				<u>165.7</u>	<u>246.3</u>	<u>127.7</u>	<u>539.7</u>
<u>Total now held by Bank and IDA</u>				<u>165.7</u>	<u>246.3</u>	<u>—</u>	<u>412.0</u>
<u>Total undisbursed</u>						<u>127.7</u>	<u>127.7</u>

1/ Because of variations in SDR exchange rate, present amount is different from original amount.

2. Statement of IFC investment (as of December 31, 1988)

	Loan	Equity	Total
(In millions of U.S. dollars)			
<u>Total gross commitments</u>	<u>19.6</u>	<u>0.9</u>	<u>20.5</u>
Less cancellations, terminations, repayments, and sales	8.6	0.8	9.4
<u>Total commitments now held by IFC</u>	<u>11.0</u>	<u>0.1</u>	<u>11.1</u>
<u>Total undisbursed</u>	<u>5.0</u>	<u>--</u>	<u>5.0</u>

3. Recent economic and sector missions

- (a) Mission to follow up on preparations for the Consultative Group Meeting - April 1988.
- (b) Mission to prepare health and social sector project - June 1988.
- (c) Mission to review progress on the Emergency Social Fund - June 1988.
- (d) Mission to appraise a project to rehabilitate the mining sector - June 1988
- (e) Mission to prepare a project to strengthen private sector development - July 1988.
- (f) Mission to carry out preliminary work on macroeconomic studies - July 1988.
- (g) Mission to review debt reporting system - July 1988.
- (h) Mission to prepare health project - September/October 1988.
- (i) Mission to review progress on the Vuelta Grande project - September 1988.
- (j) Mission for general policy discussions - September 1988.
- (k) Mission to review progress on a power sector rehabilitation project - September 1988.

- (l) Mission to prepare first phase of the Eastern Lowlands project - September 1988.
- (m) Mission to review progress of the Urban Development project - October 1988.
- (n) Mission to discuss cofinancing for the Emergency Social Fund and prepare public sector expenditure review - November 1988.
- (o) Mission to assist in preparation of the agricultural development project - October 1988.
- (p) Mission to prepare the public sector expenditure review and country economic memorandum - November/December 1988
- (q) *Mission to prepare private enterprise development project - November/December 1988.*
- (r) Mission to appraise export corridors project - December 1988.
- (s) Mission to follow up on preparation of proposed integrated health sector project - December 1988.
- (t) Mission to post-appraise the mining sector project - December 1988.
- (u) Mission to review progress on the Financial Sector Adjustment Credit - December 1988.

4. Recent and prospective IDA institutional development support

The IDA is financing specific institutional development components in some of its ongoing development projects. It has previously assisted in the improvement of investment planning and programming as well as external debt reporting. Assistance in the area of institutional reorganization and development was given to the state petroleum company (YPFB) and the state mining company (COMIBOL). A project is now underway to improve financial administration and control of public expenditures, support the Government's tax reform program, and provide technical assistance to efforts to reorganize the Central Bank and to restructure major public banks. In addition, a project was recently approved to improve economic management, including strengthening of the public sector investment program, assisting in the collection of economic and social data, and support to decentralization efforts.

5. IBRD views on the investment program

The Government has made remarkable progress in reducing bottlenecks to the disbursement of external loans and in increasing the information available on the public sector investment program. A comprehensive review of development strategies has been carried out, which should improve the planning of investment. IBRD sector specialists have reviewed the core investment program for the major sectors, and it appears to be consistent with the Government's strategy as outlined in the Policy Framework Paper.

6. Enhanced structural adjustment facility

The Fund and World Bank staffs are cooperating with the Bolivian authorities in the preparation of a policy framework paper for the second year of the ESAF program.

La Paz, Bolivia
March 1, 1989

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

Dear Mr. Camdessus:

1. The economic policies that the Government of Bolivia intends to pursue in the four-year period 1988-91 are set forth in a policy framework paper that was sent to you and the President of the World Bank on June 17, 1988. In a subsequent letter dated June 30, 1988, and in the Memorandum on the Economic and Financial Policies of Bolivia attached thereto, the Government set forth the macroeconomic and structural adjustment policies which it intends to pursue in the three-year period April 1, 1988-March 31, 1991 and described in detail the objectives, policies and measures for the first year of this period. In support of the three-year program, the Fund's Executive Board on July 27, 1988 approved a three-year structural adjustment arrangement for Bolivia under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR136.05 million, or 150 percent of Bolivia's quota, and the first annual arrangement thereunder.

2. The attached Memorandum on the Economic and Financial Policies Through the End of the First ESAF Program Year on March 31, 1989 ("The Policy Memorandum") reviews the developments and policy implementation based on the policy framework paper referred to above since the start of the program in April 1988. The Policy Memorandum also describes the policies and targets for the remainder of the first ESAF program year and contains financial benchmarks for March 31, 1989, which were established in the context of a preliminary appraisal of the outlook for 1989.

3. Bolivia will provide the Fund with such information as the Fund requests in connection with its progress in implementing the policies and measures and achieving the objectives of the program.

4. The Government believes that the policies and measures set forth in the attached Policy Memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. Bolivia will consult with the Managing Director on the adoption of any measures that may be appropriate, at the

initiative of Bolivia or whenever the Managing Director requests such consultation. The policies and benchmarks for all of 1989 will be discussed early in 1989 with a Fund staff mission that will negotiate the second year program of the structural adjustment arrangement under the ESAF.

Sincerely yours,

Fernando Romero
Minister of Planning and
Coordination

Ramiro Cabezas
Minister of Finance

Jacques Trigo
President
Central Bank of Bolivia

Attachment: Memorandum of the Economic and Financial Policies Through
the End of the First ESAF Program Year on March 31, 1989

Memorandum on the Economic and Financial Policies
Through the End of the First ESAF Program Year
on March 31, 1989

1. Economic activity in Bolivia in 1988 was characterized by strong growth in manufacturing, construction and private mining. The three sectors grew much faster than projected, but output in the state mining company (COMIBOL) recovered less rapidly than anticipated and a recent drought had an adverse impact on agriculture. In light of these developments, real GDP growth in 1988 is now estimated at 2.8 percent, compared with the program target of 2.5 percent. The performance of inflation was, however, worse than anticipated; the 12-month rate of consumer prices increased from 7 1/2 percent in January 1988 to 21 1/2 percent in December 1988, compared with a program objective of 12 1/2 percent.
2. The conduct of financial policies was complicated by recurrent difficulties in obtaining payments from Argentina for its gas imports from Bolivia. Until September 1988, Argentina paid its current gas bills with sporadic delays and reduced its gas arrears by US\$18.2 million, compared with a reduction of US\$119.6 million assumed under the program. In the final quarter of 1988 Argentina paid only US\$30.4 million and arrears accumulated to US\$123.3 million (2.8 percent of GDP) by end December 1988. The suspension of payments has brought heavy pressure on the balance of payments and the fiscal position, which remain heavily dependent on gas export revenues. In an attempt to cope with the delay of gas payments, the Government froze the deposits of the state enterprises as an emergency measure aimed at reducing public expenditure and turned down demands by the producing regions to finance the delay of gas royalty payments. The Government considers, however, that this situation cannot be maintained much longer and that full adjustment to the abrupt cut in gas revenue is impossible.
3. In the face of these adversities and lower than expected current revenue, the Government managed to restrain current spending and expects to have achieved the public savings target of 0.1 percent of GDP in 1988. Investment, although increasing from 6.2 percent of GDP in 1987 to an estimated 7.2 percent of GDP in 1988, was somewhat short of program objectives and the overall deficit is expected to have been somewhat lower than the program target of 6.7 percent of GDP. From the financing side, higher refinancing of external debt service almost compensated for lower foreign loan disbursements, but the failure by Argentina to pay its arrears and a more rapid reduction of domestic arrears forced the nonfinancial public sector to use domestic bank financing equivalent to 3.2 percent of GDP, instead of reducing its indebtedness by 0.7 percent of GDP as programmed. The current account deficit of the balance of payments is expected to have been significantly below projections in 1988, as slightly lower than expected exports were more than offset by much lower imports. However, this improvement itself was more than compensated by the absence of arrears

payments by Argentina, lower foreign loan disbursements and a reversal in private capital flows, and the higher than projected overall deficit had to be financed by a reserve drawdown estimated at US\$44 million, instead of an expected reserve gain of US\$30 million under the program. Credit to the private sector expanded considerably faster than programmed in 1988, reflecting more rapid deposit growth and larger net disbursements of foreign loans.

4. In the light of these developments, the Government's economic program for 1989 envisages economic growth of 3.5 percent, a reduction of inflation to 10 percent by year-end, and a net international reserve gain of US\$36 million. An important assumption of the Government's program is the prompt payment by Argentina of its overdue gas bills and the timely payment of all its gas bills falling due in 1989. The program targets are consistent with those of the second year of the Government's medium-term program for the period 1988-91 and the policies and measures for their attainment will be articulated further in the next few months. In the meantime, the Government has adopted specific actions to attain the targets for the first calendar quarter of 1989.

5. Continued fiscal adjustment is crucial to the attainment of the program objectives. The Government's efforts in this area will focus on raising tax revenue, restraining current expenditure and improving the finances of the state enterprises. Notwithstanding the approaching elections, structural reforms will continue in several state enterprises, including the state petroleum company (YPFB) and COMIBOL. The Government will seek legislative approval, when Congress reconvenes later this year, for the sale of some small enterprises belonging to regional development corporations.

6. Collections of internal taxes and customs duties fell short of expectations in 1988, especially in the second half of the year, reflecting mainly lower imports. Moreover, there were delays in implementing the rural property tax and the selective consumption tax on automobiles and household appliances, and in establishing special units to monitor large taxpayers, as well as weaknesses in the tax and customs revenue administrations in general. The Government remains committed to raise tax and customs revenue substantially over the medium term. To that effect, Congress approved legislation in January 1989 to increase the beer tax from 30 percent to 45 percent and the tax on presumptive corporate income from 2 percent to 2.5 percent of net worth and to levy new taxes on softdrinks of 20 percent and on commercial and residential electricity consumption that exceeds 120 k.w.h./month of 18.5 percent. In addition, the rural property tax has been implemented from March , 1989, the value added tax has been extended to cover the production of large agricultural and livestock producers, the selective consumption tax on automobiles and household appliances is being enforced, and special directorates to monitor large taxpayers will begin operating in Cochabamba and Santa Cruz by the end of March 1989 along with the one already established in La Paz. Because of the short period remaining until the elections, the Government has postponed the reorganization of

the customs administration. However, immediate steps will be taken to reduce the evasion of customs duties and value added and selective consumption taxes on imports by cross checking shipping documents and import policies and by collecting duties and taxes on the basis of a single form (formulario unico). The quarterly reductions of the customs tariff on all but specified capital goods will remain suspended in 1989 and the tariff exemption for food grants for resale will be eliminated. As a result of these measures, collections from taxes and customs duties are expected to increase from 7.9 percent of GDP in 1988 to 8.7 percent of GDP in 1989.

7. The Government will keep the pricing policy of the state enterprises under continuous review. In particular, the price of petroleum products sold in the domestic market during 1989 will be increased so as to achieve an average annual level of US\$45.50 per composite barrel; price adjustments will start not later than March 1989. As a general rule, the prices of other public goods and services will be raised to the real levels attained before the imposition of the freeze in August 1988. Notwithstanding a small decline in revenue from gas exports, total gross current revenue, including taxes and customs duties, is expected to increase from 24.3 percent of GDP in 1988 to 26.4 percent of GDP in 1989.

8. The Government intends to improve the public savings performance substantially from the level achieved in 1988. To this effect, strict control will be exercised over current spending with the assistance of the newly formed Integrated System of Financial Administration and Government Control (SAFCO). As part of a major reorganization of the Ministry of Finance, expenditure authorizations and cash operations of the Treasury were made the responsibility of the same Undersecretary as of January 1989. The emergency program of SAFCO became operational in 1988 and the Government will use the improved information flow on major public sector entities and enterprises actively in 1989 to ensure that the expenditure targets are observed. The budget foresees a wage increase in the public sector of 15 percent on average from March 1989, and no further wage increases will be granted in 1989. Expenditures on goods and services are programmed to remain constant in real terms in 1989. The Government expects to restrain gross current expenditures to 24.4 percent of GDP in 1989, compared with 24.2 percent of GDP in 1988. As a result, public savings would increase from about 0.1 percent of GDP in 1988 to 2.0 percent of GDP in 1989.

9. Major progress was made in 1988 in improving the execution capacity for public investment. Nonetheless, delays in obtaining disbursements from foreign lenders and donors led to the extensive use of domestic financing. The Government intends to reduce the use of domestic financing in 1989 and is reviewing through the Economic Planning Council (CONEPLAN) the execution and financing conditions of investment projects with a view to keeping the use of local counterpart funds to 25 percent on average. The administrative process preceding the startup of investment projects has been improved, and the Government expects to maintain

public investment at 7.2 percent of GDP in 1989. The overall deficit of the nonfinancial public sector is expected to decline from about 6.7 percent of GDP in 1988 to 4.3 percent of GDP in 1989. In line with this target, the Government has established a limit on the increase in the indebtedness of the nonfinancial public sector in the 15 months ending March 31, 1989, as set forth in Table 1.

10. The Central Bank's credit policy will support the price and balance of payments objectives for 1989. To this effect, the monetary authorities have established a limit on the expansion of the net domestic assets of the Central Bank through March 31, 1989, with a sublimit on credit to the nonfinancial public sector, as set forth in Table 1. The limit and sublimit will be adjusted in accordance with the provisions set forth in paragraph 16 below. On the basis of a projected expansion of 14 1/2 percent in the financial system's liabilities to the private sector and large net disbursements of foreign loans for onlending, the Government expects that credit to the private sector could expand by 3 1/4 percent of GDP in 1989, compared with an estimated 5 percent of GDP in 1988. Part of the room for credit to the private sector would be generated through a major effort to reduce the Central Bank's losses in 1989. To this effect the Central Bank has ceased to buy domestically produced gold at a premium and to pay interest on certificates of deposit held in fulfillment of legal reserve requirements, has begun to charge a commission of Bs 0.01 per US\$1 on the sale of foreign exchange and to charge all customers for its financial services, and has raised the interest rate on its development loans from LIBOR to LIBOR plus 1 percentage point. To facilitate monitoring of the credit program, and the prompt adoption of measures to compensate for any deviations, the Central Bank has taken steps to obtain statistical information on the financial system on a timely basis.

11. Interest rates in the financial system will remain market determined. The Central Bank will shortly begin to auction certificates of deposit rather than offer them at a predetermined rate. Interest rates on loans intermediated through the Central Bank have been raised from a maximum of LIBOR plus 5 percentage points to a maximum of LIBOR plus 6 percentage points.

12. As part of a bill regulating the administration and control of the public sector which has been submitted to Congress, the Central Bank will gain greater independence. In particular, the Central Bank will have the right to refuse credit to the public sector in excess of the limits established in the monetary program. Also, all public sector entities will have to effect their operations with the Central Bank through the Treasury. The Banco del Estado will be reorganized. These measures are part of a bill that was approved by the Senate before its recess in February 1989. The Government expects that this bill will be approved by the Chamber of Deputies later this year. The remaining state banks (Banco Agrícola and Banco Minero) are expected to be reorganized in the first quarter of 1989.

13. The Government is aware that Bolivia's competitiveness declined during 1988 and it intends to reverse this decline gradually during 1989 through a more flexible exchange rate policy. Additionally, nontraditional exports will benefit from a 10 percent customs duty rebate, which began to be paid in late 1988. Foreign exchange will continue to be sold to the public in daily auctions without restrictions. Foreign exchange operations will be conducted in such a way as to achieve an improvement in the net international reserves position of US\$36 million in 1989. The minimum reserve target for March 31, 1989 is set forth in Table 1. This target will be adjusted in accordance with the provisions of paragraph 16 below.

14. Bolivia will not introduce any new trade or payments restrictions or multiple currency practices in 1989. The list of capital goods subject to the 10 percent tariff was amplified in August 1988. The planned reduction of the import tariff for all other items has been suspended and its rate will be maintained at 17 percent during 1989. A number of tariff exemptions has been eliminated and the Government intends to reduce the scope of exemptions further. In particular, the Government intends to subject imports of donated wheat to the regular customs tariff as soon as wheat donated by the United States and Canada can be sold at opportunity prices. Arrears on external debt service are being eliminated, as described in paragraph 15 below.

15. In November 1988 the Paris Club agreed to reschedule arrears and debt service to bilateral official creditors falling due through the end of 1989. Negotiations are underway to conclude bilateral agreements under the terms of the Agreed Minute with participating countries and other bilateral creditors by April 30, 1989. The Government attaches particular importance to reaching such an agreement with Argentina. Following the buyback or exchange into deeply discounted bonds of more than half of Bolivia's debt to foreign commercial banks, the Government is negotiating with its remaining bank creditors the restructuring of the balance of the bank debt. Arrears to other foreign creditors were reduced to US\$5.3 million at the end of 1988 and the Government intends to eliminate those arrears by March 31, 1989 and not to incur any new arrears during the remainder of the program period. In contracting new debt, the Government will endeavor to obtain concessional terms and avoid debts with short maturities. To the latter effect, a limit has been established on the increase in the public sector's external indebtedness (including loans with public sector guarantee) with an original maturity of more than one year and up to and including ten years, as set forth in Table 1. The Government does not intend to incur any external obligations of up to one year's maturity.

16. The program for 1988 assumed that Bolivia would use gas payments by Argentina that had not been paid as originally scheduled as of the end of 1987 (US\$119.6 million) to rebuild the Central Bank's reserves. Argentina paid US\$18.2 million of these arrears during 1988. The program for 1989 is based on the assumption that Argentina pays its remaining overdue obligations corresponding to 1987 (US\$101.4 million)

and the remaining bill for current exports in 1988 (US\$21.9 million). The amounts received as payment of overdue obligations of 1987 are to be used to rebuild the Central Bank's international reserves. To the extent that Argentina were to delay further the payment of the 1987 obligations (US\$101.4 million), the limit and sublimit in paragraph 10 and the target in paragraph 13 will be adjusted. Bolivia reached an agreement in May 1988 with two foreign-owned petroleum companies operating in Bolivia to settle arrears on their sales to YPF. As a result of this agreement, it is expected that US\$180 million in arrears will be paid to these companies from September 1988 through the end of 1989. The limit and sublimit in paragraph 10 and the target in paragraph 13 will be adjusted to the extent that Bolivia pays less than a cumulative amount of US\$75 million by March 31, 1989 to reduce its arrears to the petroleum companies. In addition, the limit, sublimit and target will be adjusted by any change that may occur in 1989 in the overdue obligations by Bolivia to foreign creditors.

Table 1. Bolivia: Financial Benchmarks for March 31, 1989 1/

(Cumulative flows in millions of bolivianos from December 31, 1987)

Limit on the increase in the indebtedness of the nonfinancial public sector <u>2/</u>	783.8
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Limit on the increase in the net domestic assets of the Central Bank <u>3/</u>	-40.4
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Sublimit on the increase in the net position of the nonfinancial public sector in the Central Bank <u>2/</u>	-0.9
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(Cumulative flows in millions of U.S. dollars from December 31, 1987)

Minimum target for the net international reserves of the Central Bank <u>4/</u>	8.5
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Limit on the increase in public and publicly guaranteed external debt with original maturities of more than one year and up to ten years <u>5/</u>	40.0
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(Stock in millions of U.S. dollars)

External payments arrears <u>6/</u>	--
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1/ Benchmarks adjustable in accordance with paragraph 16 of the policy memorandum.

2/ Nonfinancial public sector defined as the Central Administration, the social security institutions, other decentralized agencies, the regional development corporations, prefectures, municipalities, and the state enterprises (excluding the mixed-enterprise national airline and the Central Bank of Bolivia and other state-owned financial institutions).

3/ Defined as the difference between changes in currency issue and changes in net international reserves.

4/ Defined as central bank foreign assets less liabilities with a maturity of up to one year but including liabilities to the Andean Reserve Fund and to the International Monetary Fund, excluding those arising from loans from the IMF Trust Fund.

5/ Includes debt with unknown original maturity. Excludes (i) changes in those central bank liabilities defined as part of the net international reserves, (ii) the refinancing of reserve liabilities as medium- and long-term debt, (iii) the reduction of debt covered by the limits through its repurchase by Bolivia or through its exchange for exit bonds, and (iv) the restructuring of debt service obligations of the public sector.

6/ Excluding amounts due on loans for which Bolivia has formally requested rescheduling from (a) official bilateral lenders, (b) private lenders with official bilateral guarantee, and (c) foreign commercial banks.

