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EBS/86/120

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June 2, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Bolivia for a stand-by arrangement equivalent to SDR 50 million. Draft decisions appear on page 31.

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

Mr. Flickenschild (ext. 8621) or Mr. Sol-Pérez (ext. 8627) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

BOLIVIA

Request for Stand-by Arrangement

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 E. Wiesner and Manuel Guitián

June 2, 1986

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I. Introduction

Discussions on an economic program that could form the basis of the request for a stand-by arrangement were held in La Paz in two stages in the periods November 20-December 12, 1985 and February 19-March 16, 1986. The Bolivian team in the discussions was headed by the Minister of Planning and Coordination and included the Minister of Finance, the Central Bank President, and senior officials of these three institutions. The staff representatives in the discussions were Mr. Flickenschild (Head-WHD), Ms. Atkinson (ETR), Messrs. Ayales (STAT), Gudac, Kohnert (both WHD), Sheehy (ETR), Sol Pérez (WHD), and Mr. Spencer (SEC) and Ms. Ulmschneider (WHD) as secretaries. They were assisted by Mr. Hoelscher, the Fund's resident representative in La Paz. The discussions were concluded at Fund headquarters on the basis of two visits by the Minister of Finance and the Central Bank President in the period April 9-15, 1986 and by the Minister of Planning and Coordination and the Minister of Finance in the period May 27-29, 1986.

In the attached letter the Bolivian authorities have requested a one-year stand-by arrangement in an amount equivalent to SDR 50 million, or 55.1 percent of quota (Attachment II). Purchases under the proposed stand-by arrangement would be made entirely from ordinary resources. After an initial purchase equivalent to the balance available in the first credit tranche, the remaining purchases would be phased quarterly in four equal amounts, as set out in Table 1. Full utilization of the stand-by arrangement would raise the Fund's holdings of Bolivian pesos under tranche policies to the equivalent of 56.1 percent of quota.

Bolivia has had 13 previous stand-by arrangements from the Fund, the last of which expired in January 1981. Since then Bolivia has made purchases under the buffer stock financing facility in 1982 to finance stocks constituted under the 5th International Tin Agreement and under the compensatory financing facility in 1983. Bolivia is on the list of countries eligible to borrow resources from the special disbursement account under the structural adjustment facility. The 1985 Article IV consultation was concluded on September 23, 1985 (SUR/85/108). The status of Fund relations with Bolivia is summarized in Appendix I.

II. Background 1/

Amidst growing social unrest and political turmoil, economic activity in Bolivia contracted sharply in recent years. The economic deterioration was accompanied by increasing external and internal imbalances. To a very large extent, these imbalances--manifested most

1/ As noted in Appendix I, Section X, economic and financial data in Bolivia are of poor quality and are generally produced with a considerable time lag. A summary of statistical issues outstanding is presented in SM/85/233, Attachment II.

Table 1. Bolivia: Fund Position During Period of Proposed Arrangement

	Outstanding at Beginning of Arrangement (6/20/86)	1986 June 21-30	1986 July-Sept.	1986 Oct.-Dec.	1987 Jan.-March	1987 April-June
	(In millions of SDRs)					
Transactions under tranche policies (net) 1/		15.40	6.41	7.70	6.41	7.70
Purchases		15.40 2/	8.65	8.65	8.65	8.65
Ordinary resources		15.40	8.65	8.65	8.65	8.65
Enlarged access resources		--	--	--	--	--
Repurchases		--	2.24	0.95	2.24	0.95
Ordinary resources		--	--	--	--	--
Enlarged access resources		--	2.24	0.95	2.24	0.95
Transactions under Compensatory Financing Facility (net)		--	-2.24	-2.24	-2.24	-2.24
Purchases		--	--	--	--	--
Repurchases		--	2.24	2.24	2.24	2.24
Transactions under Buffer Stock Facility (net)		--	-3.06	-3.06	-3.06	-3.06
Purchases		--	--	--	--	--
Repurchases		--	3.06	3.06	3.06	3.06
Total Fund credit outstanding (end of period)	35.17	50.57	51.68	54.08	55.19	57.59
Under tranche policies 1/	7.27	22.67	29.08	36.78	43.19	50.89
Under Compensatory Financing Facility	15.66	15.66	13.42	11.18	8.94	6.70
Under Buffer Stock Facility	12.24 3/	12.24	9.18	6.12	3.06	--
	(In percent of quota)					
Total Fund credit outstanding (end of period)	38.8	55.8	57.0	59.6	60.8	63.5
Under tranche policies 1/	8.0	25.0	32.1	40.6	47.6	56.1
Under Compensatory Financing Facility	17.3	17.3	14.8	12.3	9.9	7.4
Under Buffer Stock Facility	13.5	13.5	10.1	6.7	3.4	--

Source: Fund staff projections.

1/ Ordinary and enlarged access resources.
2/ Bolivia will be entitled to purchase this amount without phasing in order to bring outstanding credit under tranche policies to 25 percent of quota.
3/ Amount outstanding after a scheduled repurchase of SDR 3.06 million on June 20, 1986.

prominently by the highest inflation rate recorded among Fund member countries in the recent past--were attributable to the continuous widening of the deficit of the nonfinancial public sector, which was financed increasingly with credit from the Central Bank. Six stabilization attempts in the period November 1982-May 1985 ended in failure because key elements, such as tax measures and wage restraint, were missing or diluted by political or labor opposition.

Output in the formal sector has slumped and investment and savings have weakened (Statistical Appendix Table 9). Real GDP declined each year since 1980, and in 1985 it was 18 percent below its 1980 level; in per capita terms, the drop of output since 1980 approached 30 percent (Table 2). While output was falling, aggregate demand was fueled by the expansionary stance of fiscal policy. As foreign financing dried up and usable foreign exchange reserves became depleted, inflationary pressures mounted. The La Paz consumer price index rose at an accelerating pace until its 12-month rate of increase peaked at almost 24,000 percent in September 1985 (Chart 1).

The deficit of the nonfinancial public sector widened from 8 percent of GDP in 1981 to almost 30 percent of GDP in 1984 (Chart 2 and Table 3). The weakening of the public finances was most pronounced in the Central Administration, with tax collections plummeting from almost 9 percent of GDP in 1981 to 3 percent in 1984 as a result of the inelasticity of the tax system and a continued weakening of tax administration (Chart 2 and Table 4). The state enterprises all but stopped paying taxes or transferring to the Treasury taxes collected on its behalf. At the same time, wage increases and recruitment raised the Government's labor costs to the point where current revenues covered only 41 percent of outlays for labor compensation in 1984. Despite their failure to comply with existing tax regulations, the financial position of the state enterprises also worsened because of currency overvaluation; controlled domestic prices; output losses stemming from supply difficulties and strikes; high labor costs due to wage increases and overstaffing; deficiencies in management; and the long-term effects of low levels of investment and exploration activity.

The growing deficits of the nonfinancial public sector were financed increasingly by the Central Bank. Credit to the nonfinancial public sector expanded very rapidly until it accounted for more than two thirds of total credit extended by the financial system at the end of 1984. The large expansion of credit was accompanied by a rapid increase in currency issue, which jumped by nearly 2,200 percent in 1984. At the same time, increasingly negative real interest rates and mounting uncertainty discouraged the formation of domestic financial savings and led to a sharp increase in velocity (Table 5). As a result, real money and quasi-money fell by 60 percent in the period 1982-84, while holdings of U.S. currency of unknown proportions were accumulated outside the domestic financial system.

Table 2. Bolivia: Selected Economic Indicators

(In percent)

	Average 1976-78	Average 1979-81	1982	1983	1984	Prel. 1985	Prog. 1986
	I. Annual Rates of Growth						
Real GDP (at factor cost)	4.6	0.8	-4.8	-7.3	-3.2	-3.1	—
Of which: agriculture	2.1	2.4	10.4	-27.6	15.8	2.5	--
mining	-2.5	-3.6	-3.9	-1.0	-13.9	-5.7	-0.7
manufacturing	6.6	-1.6	-12.8	-3.4	-15.2	-11.6	-5.0
GDP per capita	1.7	-1.9	-7.4	-9.8	-5.8	-5.7	-2.7
Prices							
GDP deflator	10.1	27.5	169.2	275.6	1,299.0	13,520.9	290.0
Consumer prices (average)	7.7	33.0	123.5	275.7	1,281.2	11,741.0	291.6
Consumer prices (end-of-period)	9.8	31.5	296.5	328.5	2,177.2	8,159.7	84.3
	II. Ratios to GDP						
Consumption	82.0	86.6	86.4	93.6	91.6	96.2	91.3
Gross domestic investment	20.7	14.7	9.8	3.5	4.9	2.9	10.5
Exports of goods and nonfactor services	21.0	18.6	15.6	14.4	13.2	13.1	14.6
Imports of goods and nonfactor services	-23.6	-19.9	-11.7	-11.6	-9.7	-12.2	-16.4
External saving	4.9	7.5	3.9	3.6	3.0	6.5	7.9
National saving	15.9	7.4	5.9	-0.1	1.9	-3.6	2.6
Nonfinancial public sector	3.1	-0.5	-9.0	-18.0	-25.3	-10.9	-0.4
Private sector	12.8	7.9	14.9	17.9	27.2	7.3	3.0

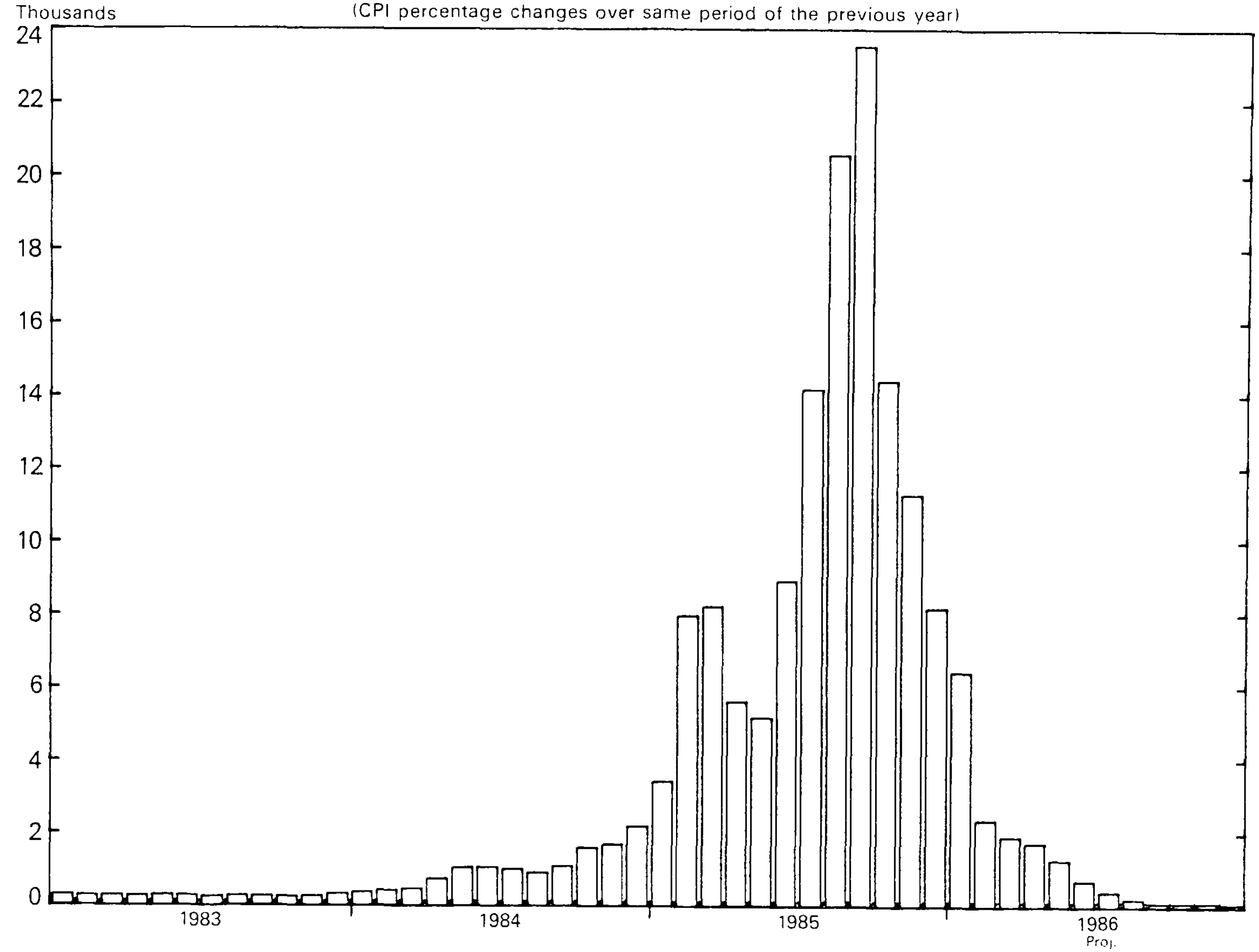
Sources: Ministry of Finance, Central Bank of Bolivia, and Fund staff estimates.

CHART 1

BOLIVIA

INFLATION

(CPI percentage changes over same period of the previous year)



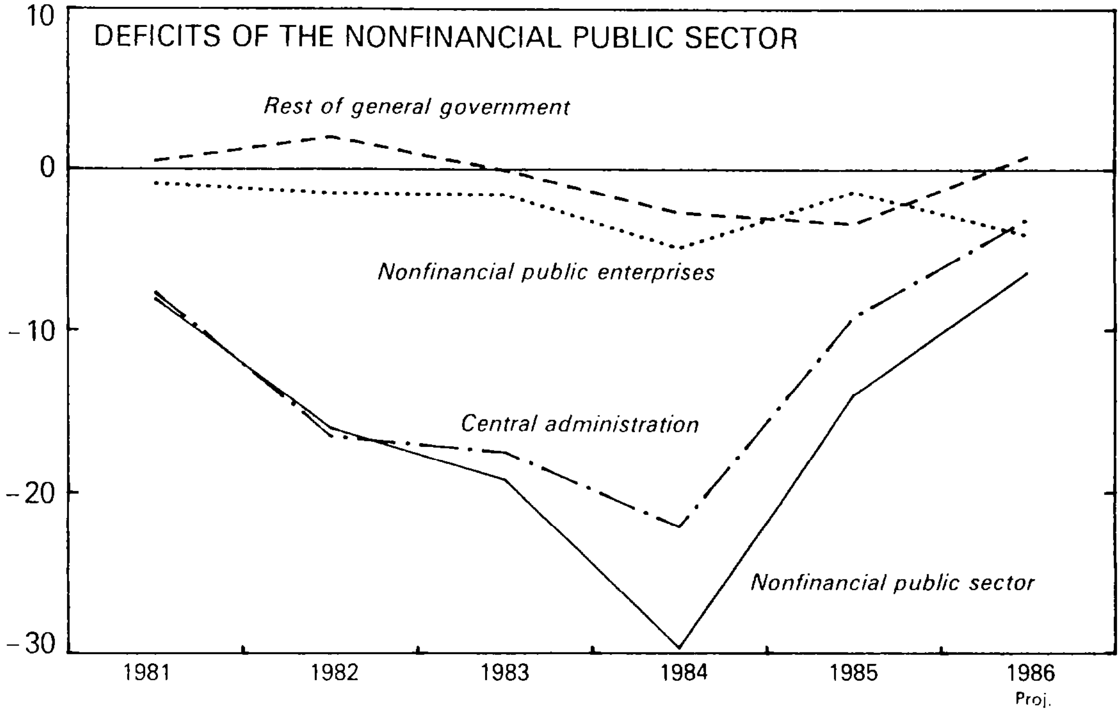
Source: Central Bank of Bolivia; and Fund staff estimates.

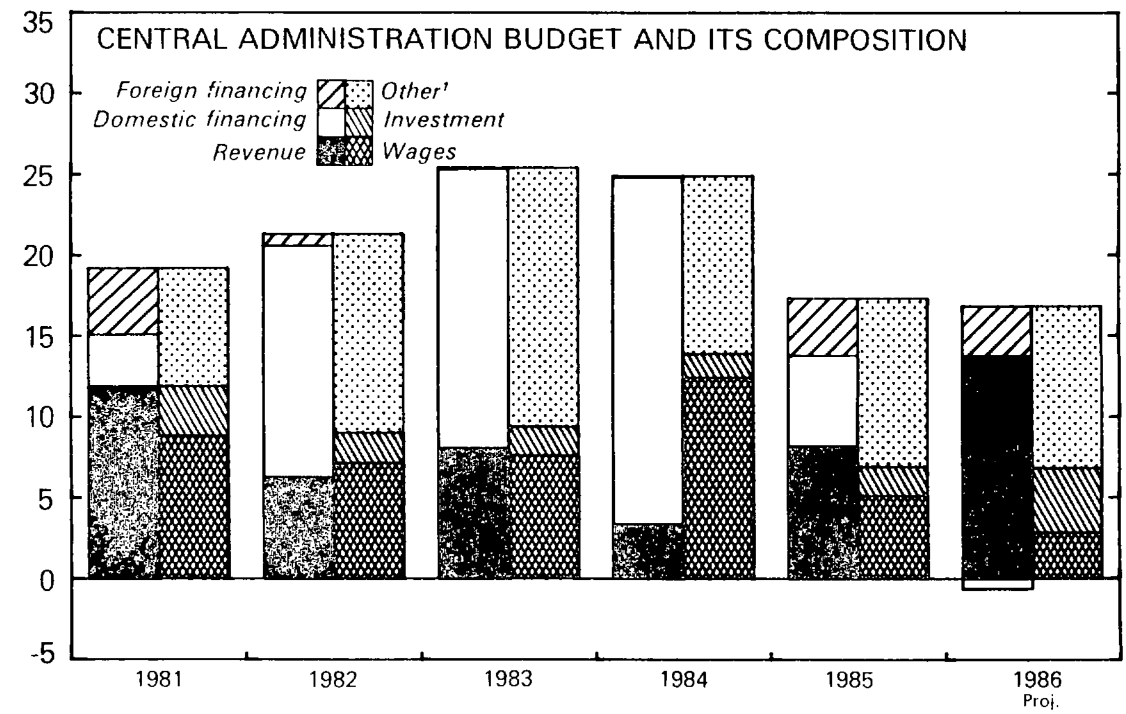
CHART 2

BOLIVIA

NONFINANCIAL PUBLIC SECTOR OPERATIONS

(In percent of GDP)





Source: Ministry of Finance; and Fund staff estimates.

[1] Includes unknown amounts of unclassified expenditures for wages.

Table 3. Bolivia: Summary of Nonfinancial Public Sector Operations 1/

(In percent of GDP)

	1982	1983	1984	Prel. 1985	Prog. 1986
Total nonfinancial public sector revenue	14.6	12.7	5.3	9.3	17.7
General Government (total)	11.5	11.3	5.1	9.2	17.3
Current revenue	10.9	6.9	4.9	9.0	16.3
Of which: transfers from state enterprises	4.1	2.3	2.6	6.6	10.5
Capital revenue and foreign grants	0.6	4.4	0.2	0.2	1.0
Nonfinancial state enterprises (total)	3.1	1.4	0.2	0.1	0.4
Operating surplus	3.0	1.3	--	--	--
Capital revenue and foreign grants	0.1	0.2	0.2	0.1	0.4
Total nonfinancial public sector expenditure	29.3	31.8	34.5	20.1	24.1
General Government (total)	24.7	28.8	29.4	18.6	19.4
Current expenditure	21.5	26.0	27.0	16.7	15.4
Capital expenditure	3.0	2.8	2.4	1.9	4.0
Net lending	0.2	--	--	--	--
Nonfinancial state enterprises (total)	4.6	3.0	5.1	1.5	4.7
Operating deficit	--	--	2.5	0.1	1.4
Capital expenditure	4.6	3.0	2.6	1.4	3.3
Consolidated nonfinancial public sector overall surplus or deficit (-)	-14.7	-19.1	-29.2	-10.8	-6.4
Financing	14.7	19.1	29.2	10.8	6.4
External financing (net)	-1.9	-1.6	2.4	0.4	5.4 2/
Internal financing (net)	16.6	20.7	26.7	10.4	1.0
Memorandum items:					
Consolidated nonfinancial public sector savings	-7.7	-17.9	-24.6	-7.8	-0.4
Consolidated nonfinancial public sector deficit including unpaid interest	-16.0	-19.2	-29.7	-14.0	-6.4

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

1/ On a cash basis and net of intrasectoral transfers; details may not add up to totals because of rounding.

2/ The external financing of the 1986 deficit includes US$315.8 million (or 7.1 percent of GDP) of debt service obligations still to be restructured. Of this amount, US$83.0 million (or 1.9 percent of GDP) corresponds to interest to be refinanced.

Table 4. Bolivia: Summary of Central Administration Operations 1/

(As percent of GDP)

	1982	1983	1984	Prel. 1985	Prog. 1986
Total revenue	6.2	7.9	3.3	8.1	13.5
Current revenue	5.7	3.6	3.2	8.0	12.5
Tax revenue	4.9	2.8	3.0	7.7	11.9
Internal revenue	2.0	1.5	0.8	0.9	2.2
Property taxes	--	--	--	--	--
Taxes on goods and services	1.3	0.5	0.4	5.5	8.6
YPFB (petroleum and gas)	1.2	0.4	0.3	5.5	8.6
Production tax	1.1	0.3	0.3	5.1	3.3
Sales tax on refined petroleum	0.1	0.1	--	0.4	1.1
Monopoly tax	0.1	--	--	--	4.2
Taxes on banking credits	--	0.1	--	--	--
Taxes on international trade and transactions	1.7	0.8	1.8	1.3	1.1
Import duties	1.1	0.5	0.8	1.0	1.1
Customs duties	1.0	0.4	0.7	0.9	1.0
Consular fees	0.1	0.1	0.1	0.1	--
Tax on mining exports	0.5	0.1	0.7	0.2	--
On state mining	0.4	--	0.4	--	--
COMIBOL	--	--	--	--	--
ENAF	0.4	--	0.4	--	--
On other mining	0.1	0.1	0.3	0.2	--
Tax on agricultural exports	--	--	--	--	--
Ad valorem export taxes	--	--	--	--	--
COMIBOL (direct)	--	--	--	--	--
YPFB	--	--	--	--	--
Other	--	--	--	--	--
Foreign exchange tax	0.1	0.2	0.4	--	--
Nontax revenue	0.8	0.8	0.2	0.3	0.6
Postal and communication fees	--	--	--	--	--
Other revenue	0.7	0.8	0.2	0.1	0.6
Fund for local counterparts (FFAL)	--	--	--	0.2	--
Payments to sinking fund (external debt)	0.1	--	--	--	--
Capital revenue and grants	0.5	4.4	0.1	0.1	1.0
Total expenditure	21.4	25.4	24.9	14.1	16.5
Current expenditure	19.4	23.6	23.4	12.3	12.5
Wages and salaries	5.6	5.4	8.2	5.1	2.5
Purchase of goods and services	0.9	1.2	1.4	1.2	3.0
Interest payments	1.7	2.1	1.7	0.7	4.2
Internal debt	--	--	0.2	--	0.1
External debt	1.7	2.1	1.5	0.6	4.1
Current transfers	2.4	3.3	5.6	2.5	1.0
Private sector	1.1	1.7	2.3	0.9	0.5
To international organizations	--	--	--	--	--
To specialized banks	0.1	--	--	--	--
To social security entities	0.4	0.5	1.9	0.5	0.5
To rest of nonfinancial public sector	0.9	1.1	1.4	1.1	--
Other expenditure	8.7	11.6	6.5	2.8	1.8
Capital expenditure	1.9	1.8	1.5	1.8	4.0
Capital formation	1.8	1.6	1.3	1.8	4.0
Capital transfers	0.1	0.1	0.2	--	--
Overall surplus or deficit (-) 2/	-15.2	-17.5	-21.6	-6.0	-3.0
Financing	15.2	17.5	21.6	6.0	3.0
External (net)	0.7	0.1	0.1	0.3	3.6
Internal (net)	14.5	17.4	21.5	5.7	-0.6
Memorandum item:					
Central administration savings	-13.7	-20.0	-20.2	-4.4	--

Sources: Statistical Appendix Tables 9 and 11.

1/ Details may not add up to totals because of rounding.
2/ Deficit on a cash basis; does not include unpaid interest on external debt except in 1986.

Table 5. Bolivia: Selected Monetary Indicators

	1982	1983	1984	Prel. 1985	Prog. 1986
	(Annual rates of change)				
Credit to nonfinancial public sector					
Nominal	635	287	1,166	17,029	28
Real	85	-10	-44	107	-30
In relation to liabilities to private sector 1/	488	539	2,724	31,438	89
Credit to private sector					
Nominal	304	119	1,405	15,066	104
Real	2	-49	-34	84	11
In relation to liabilities to private sector 1/	288	138	1,151	12,361	129
	(End of period stock in billions of Bolivian pesos)				
Money	58	177	3,359	208,800	367,700
Quasi-money	31	78	529	76,900	149,000
	(End of period stock in billions of 1980 Bolivian pesos)				
Money	12	8	7	5	5
Quasi-money	6	4	1	2	2
	(GDP/liabilities to private sector)				
Velocity 2/	6.9	8.1	17.8	26.5	15.8

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

1/ Beginning of the year.
2/ Liabilities to private sector measured as an average of monthly observations.

The expansionary stance of domestic policies, currency overvaluation, and the sharply reduced access to foreign financing gave rise to serious balance of payments pressures in recent years (Chart 3 and Table 6). As recorded exports declined steadily and trade and payments restrictions were intensified, the exchange rate premium in the parallel market widened to a ratio of 20:1 in August 1985 (Chart 4). The foreign exchange scarcity became very acute in 1982-83 when Argentina fell behind on its payments for gas imports from Bolivia. While Bolivia managed to obtain some relief in 1983 through the medium-term refinancing of international reserve liabilities, the overall balance of payments deficits were financed mainly by the accumulation of arrears on external debt service payments, which were approaching US$1 billion in August 1985. Throughout the period 1982-84 imports were severely constrained by the decline in foreign loan disbursements, the disappearance of trade financing, and the intensification of trade and payments restrictions.

III. Developments Since August 1985

The Government that assumed office on August 6, 1985 was confronted with the immediate need to combat hyperinflation and an unsustainable external payments situation while seeking a reversal in the long downward trend in investment and national savings. In late August, the new authorities embarked upon a basic reorientation of economic policy.

The authorities proceeded immediately to implement measures to make the economy more responsive to market forces. 1/ The overvalued fixed exchange rate was abandoned in favor of a foreign exchange auction system, which led to an immediate depreciation of the peso of 93.5 percent. The prices of petroleum products, electricity, telecommunications, and transportation were raised substantially--in the case of gasoline from the equivalent of US$0.04 per liter to initially close to US$0.30 per liter. All other prices and interest rates were set free. Most bonuses received by employees in the public and private sectors were consolidated into a basic annual salary and subsidized company stores in the public sector were abolished. A hiring freeze was imposed in the public sector and both the public and the private sectors were allowed to lay off employees, which had not been the case previously. Import tariffs were lowered and made more uniform and the trade and payments system was completely liberalized, except for the continued existence and further accumulation of arrears on external debt service

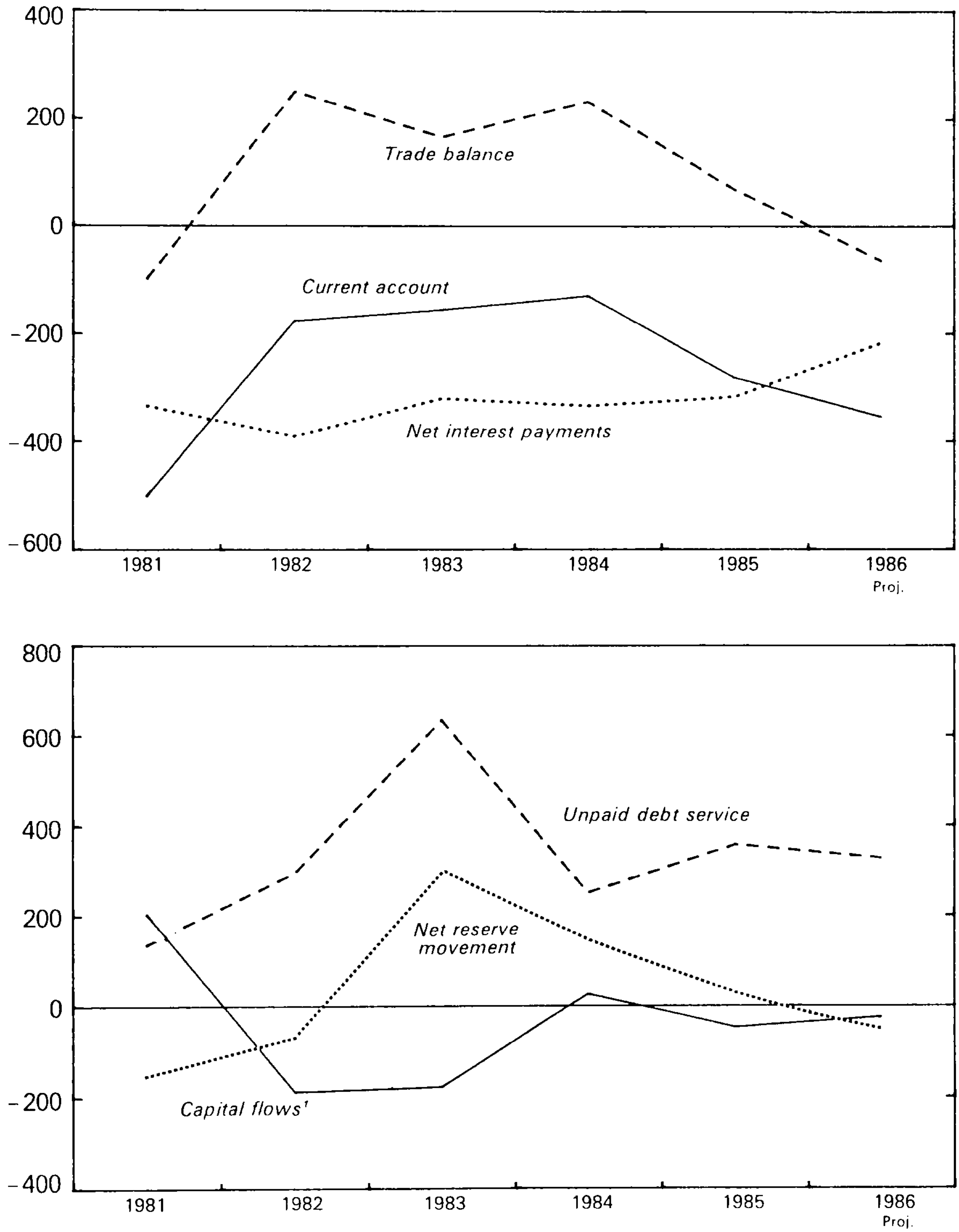
1/ The measures taken are described in detail in SM/85/233, Sup. 1 (9/18/85).

CHART 3

BOLIVIA

SELECTED BALANCE OF PAYMENTS FLOWS

(In millions of U.S. dollars)



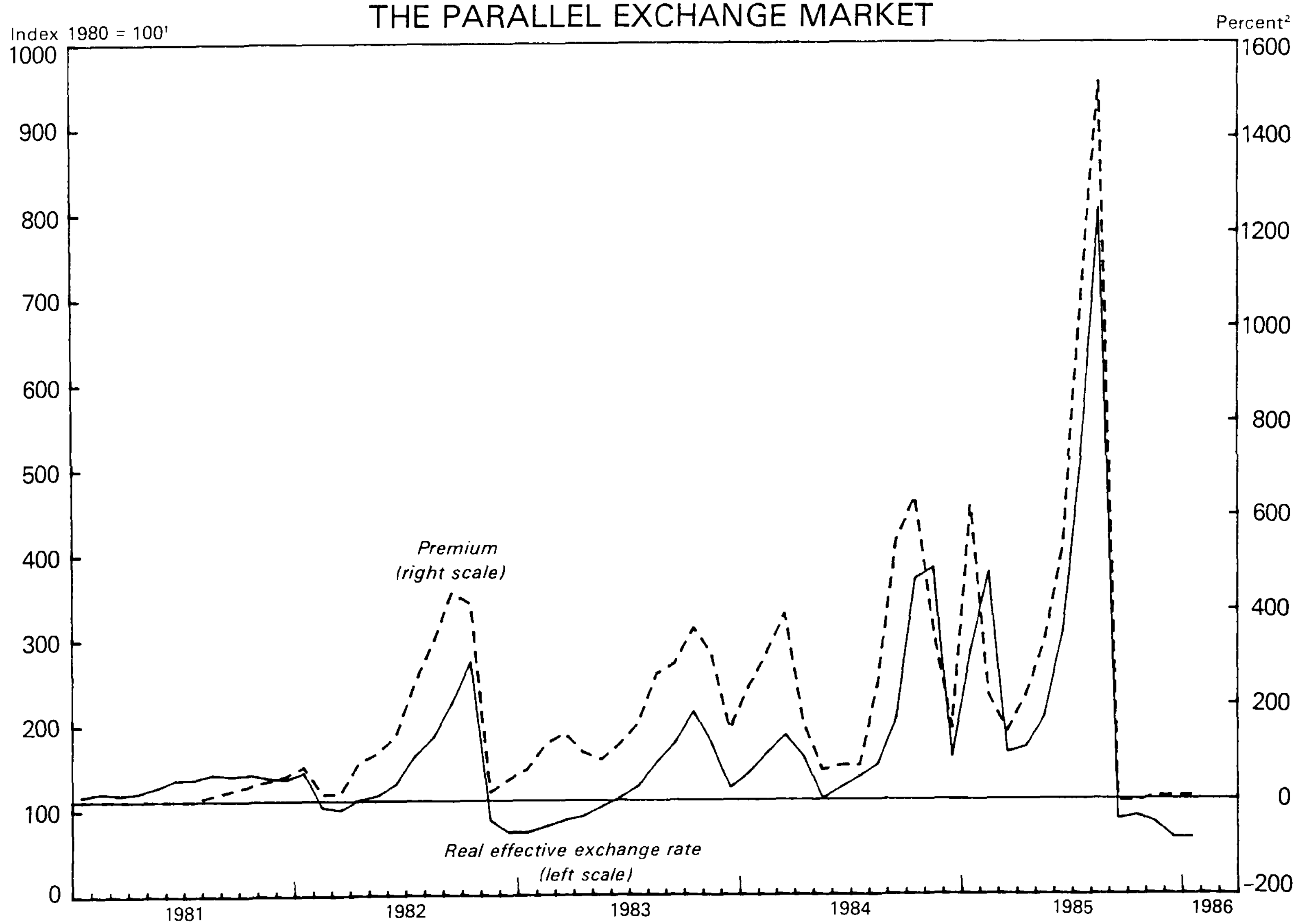
Source: Central Bank of Bolivia; and Fund staff estimates.

[1] Includes unpaid amortization.

CHART 4

BOLIVIA

REAL EFFECTIVE EXCHANGE RATE AND PREMIUM IN THE PARALLEL EXCHANGE MARKET



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

[1] Increase means appreciation.

[2] Premium as a percentage of the official exchange rate.

Table 6. Bolivia: Summary Balance of Payments

(In millions of U.S. dollars)

	1982	1983	1984	Prel. 1985	Prog. 1986
Current account	-176	-155	-129	-281	-354
Exports f.o.b.	828	755	724	621	544
Imports c.i.f.	-578	-589	-492	-552	-611
Interest, net	-391	-320	-334	-317	-268
Other services, net	-81	-107	-116	-113	-124
Transfers, net	46	106	89	80	105
Capital account	-189	-178	25	-48	-27
Nonfinancial public sector 1/	-71	-223	-172	-181	-75
Disbursements	207 2/	92	104	82	190
Amortization	-278	-315	-276	-263	-265
Banking system 3/	-51	-14	-7	-61	7
Private sector 4/	78	157	16	139	41
Overdue receipts for gas exports to Argentina	-145	-98	188	55	—
Allocation of SDRs and gold monetization	2	1	1	—	2
Overall balance	-363	-332	-103	-329	-379
Unpaid debt service (changes)	295	634	251	359	328
Arrears and deferred debt	177	150	251	359	-1,071
Rescheduling	118	484 5/	—	—	1,399
Net official reserves (increase -)	68	-302 5/	-148	-30	51
Memorandum items:					
Current account 6/	-4.0	-3.6	-3.0	-6.5	-7.9
Exports, f.o.b. 6/	18.6	17.6	16.9	14.4	12.1
Imports, c.i.f. 6/	-13.0	-13.8	-11.4	-12.8	-13.6
Gross official reserves (in millions of U.S. dollars)	182	175	286	270	250
(in months of imports, c.i.f.)	3.8	3.6	7.0	5.9	4.9
Official exchange rate (period average, $b per U.S. dollar)	67	230	2,981	446,215	2,108,800
Terms of trade (percentage change)	-1.4	3.6	1.7	-1.7	-23.8
Stock of external payments arrears, end of period (in millions of U.S. dollars) 7/	312	462	713	1,071	—

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

1/ Includes short-term debt; excludes balance of payments support loans, forced financing of gas exports to Argentina, and impact of rescheduling.
2/ Includes assumption of US$19 million of short-term bank debt of the financial public sector under the April 1981 financing agreement.
3/ Includes contributions to international organizations, and due but unpaid amortization of banking system.
4/ Includes errors and omissions.
5/ Includes rescheduling of US$370 million of unpaid short-term debt of the Central Bank.
6/ In percent of dollar GDP, calculated using real growth and U.S. inflation with a 1986 base.
7/ Includes deferred debt service payments in 1982-83.

obligations. The implementation of certain other measures announced in late August required more time because technical details and a political consensus needed to be worked out. 1/

The immediate response of the economy to the announcement of the new economic policy and to the adoption of the initial set of measures was favorable. Retail prices began to fall, and goods became available again. The exchange rate in the newly established auction market fluctuated in a narrow band, the previously large premium in the parallel exchange market disappeared, and the Central Bank was able to purchase foreign exchange on a net basis. At the same time, currency issue and bank deposits rose rapidly as the public began to reconstitute its depleted real balances. In late November the authorities complemented the early stabilization measures with the adoption of a tight wage policy that granted a retroactive increase to August 1985 but froze wages in the public sector until May 1986. 2/

However, the early success of the stabilization effort was threatened in late 1985 and early 1986 by slippages in policy implementation and adverse exogenous events, including a heavy terms of trade loss and severe weather conditions. The relaxation of expenditure control in the Central Administration and the untimely extension of credit to agriculture led to an increase in currency issue by more than 50 percent in December 1985. The large monetary expansion created immediate pressure on prices and the exchange rate. Consumer prices, which had remained virtually unchanged in October-November 1985, increased by 17 percent in December and by 33 percent in January. Led by a depreciation in the parallel market from $b 1.6 million per US$1 in mid-December to $b 2.8 million per US$1 in mid-January, the peso began to depreciate rapidly in the official exchange market. The resurgence of inflationary pressures triggered demands for wage increases.

The prospects for successful external and fiscal adjustment were affected adversely by the collapse of the international prices for tin and petroleum, which dropped by about 50 percent between late 1985 and early 1986. In 1985 tin and natural gas accounted for about 85 percent of Bolivia's exports and 56 percent of nonfinancial public sector revenue. The tin price collapse is expected to result in a significant loss

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1/ The measures still to be taken at the time included the adoption of an appropriately restrainted public sector wage policy, additional action to raise central administration revenue, decentralization and reorganization of state enterprises, currency reform, institutional reform in the financial sector, the restructuring of the external debt, and the arrangement of new external financing.

2/ The freeze period was subsequently extended until June 1986. The wage policy is described in Section IV. 1.b. below.

of output in 1986. 1/ Also, the prospects for an economic recovery in 1986 were dimmed further by heavy rainfalls early this year that were causing extensive flooding, damaging crops, disrupting transportation, and necessitating emergency assistance.

In an effort to maintain the restrictive public sector wage policy while continuing the search for appropriate stabilization and adjustment measures, the Government decided in mid-January 1986 to reverse the depreciation of the peso that had occurred since mid-December 1985 by stepping up foreign exchange sales in the auction market and restricting the public sector's access to that market. At the same time, the Government froze the deposits of the Treasury and the state enterprises, thereby limiting their spending to their ability to collect revenue. These measures succeeded in mopping up part of the previous expansion of currency issue, reversing most of the above mentioned depreciation of the peso, eliminating the premium of the exchange rate in the parallel market, and stabilizing the price level. However, the measures also resulted in the further accumulation of public sector arrears, a liquidity shortage in the private sector, the partial reversal of the early gains in external competitiveness, and declines of output and employment.

As a result of these measures, currency issue contracted by 8 percent in the first quarter of 1986. The peso appreciated in the official exchange market from $b 2,519,000 in mid-January to $b 1,830,000 in mid-February, ending the quarter at $b 1,900,000 per US$1. The real effective exchange rate, which had depreciated by 91 percent in U.S. dollar terms in the period August-December 1985 to a level that had only been reached in late 1982 and early 1983 (see Chart 4), appreciated by 9 1/2 percent in the first quarter of 1986. After the steep increase in consumer prices in January 1986, the consumer price index remained virtually unchanged from late January 1986 to mid-May 1986.

IV. The Economic Program for 1986

Achievement of an improved performance in respect of inflation is a key objective of the Bolivian Government for 1986 and for the program period (April 1986-March 1987). At the same time, the authorities want to lay the basis for a sustained reactivation of the economy after five years of decline, without a major loss in net international reserves.

1/ The depressed price of tin will lead to the temporary closing of mines in the private sector and the definitive closing of the most unproductive mines in the public sector. The volume of gas output will remain unaffected by the price reduction negotiated with Argentina. Secondary output effects are expected to be limited in 1986 because the overwhelming part of the revenue loss will be borne by the public sector, which has set its expenditure level in the 1986 budget.

For these purposes, the authorities are counting on a major increase in the commitment of long-term external resources, a process in which they expect the World Bank to play a leading role.

The economic program outlined below is expected to achieve the authorities' immediate objectives by lowering the rate of inflation, as measured by the 12-month variation of the La Paz consumer price index, from over 8,000 percent in December 1985 to below 85 percent in December 1986, and below 40 percent at the end of the program period (see Chart 1 and Attachment III). The adoption of growth oriented policies, the protection of the private sector's access to domestic credit, and the arrangement of an adequate amount of external financing are expected to permit the resumption of modest economic growth after mid-1986, mainly as a result of a recovery in agriculture from the setback in early 1986, a resurgence of mining output other than tin in the private sector, and some reversal of the long-term decline in construction. In terms of expenditure components, the program aims at containing consumption (particularly by cutting its public sector component) while stimulating both investment and exports. Because of the high investment requirements and the sharp deterioration in the terms of trade, the current account deficit will widen in 1986. With the expected external financing arrangements, however, the net international reserve loss is to be limited to US$51.4 million in 1986.

The key element of the adjustment effort is a substantial improvement in the public finances, with the deficit of the nonfinancial public sector declining from 14 percent of GDP in 1985 to no more than 6.4 percent of GDP in 1986. Public sector revenue is to be strengthened by the large depreciation of the Bolivian peso, the adjustments to prices of goods and services sold by the state enterprises, and the implementation later this year of the tax reform package that was recently approved by the Bolivian Congress. Public sector expenditure is to be contained by a tight wage policy and the transfer of the bulk of the sharply higher revenue from the sale of hydrocarbons by the state petroleum company to the Central Administration as a means of controlling expenditure. However, the program recognizes the need for a recovery, from the previous depressed levels, in outlays for high priority investment projects with a fast, high rate of return in an effort to promote exports and economic growth. On the basis of increased disbursements of foreign loans to finance this investment and the expected refinancing of most external debt service payments falling due in 1986, net foreign financing is expected to cover most of the program deficit; thus, central bank financing for the nonfinancial public sector is to be limited to no more than 1 percent of GDP.

Under the program, the authorities will continue to give broad room to market forces in the allocation of resources. This applies in particular to the domestic financial market and the determination of the exchange rate. Also, except for the exchange practices described in Section IV. 3.b, the trade and payments regime is to be free of restrictions. With these policies and the removal of barriers to investment in strategic sectors, the authorities hope to encourage private investment. 1/

1. Fiscal policy

The principal objective of the authorities' fiscal policy is to reduce sharply the overall deficit and recourse to central bank credit, which they view as the main cause of the very high rate of inflation in the past. This requires measures to raise revenue and contain expenditure so as to reduce the deficit of the consolidated nonfinancial public sector to a level that, in the main, can be financed from external resources. In obtaining the necessary external resources, the authorities are seeking to reduce their reliance on financing with commercial terms and to obtain long-term loans from multilateral development banks and official bilateral lenders. The sharp curtailment of the public sector's need to borrow on a net basis in domestic markets will create room for the expansion of private investment.

a. Revenue

The authorities expect to bring about a sharp reversal in the adverse trend in revenue in recent years, raising total revenue of the nonfinancial public sector from less than 9 1/2 percent of GDP in 1985 to more than 17 1/2 percent in 1986 (see Table 3). The major beneficiaries of the revenue increase would be the Central Administration, the regional development corporations, and the municipalities. Current revenue in the Central Administration, which already recovered vigorously in late 1985, is expected to rise from 8 percent of GDP in 1985 to about 12 1/2 percent of GDP in 1986 (see Table 4). Most of this increase will be the consequence of much higher Treasury receipts deriving from the production and sale of hydrocarbons. The increase of receipts from this source by more than 50 percent, to about 8 1/2 percent of GDP, is mainly the result of increased transfer requirements placed upon the state petroleum company, which is experiencing a dramatic expansion of revenue stemming from a large increase in the domestic sales prices of petroleum products, which were fixed in terms of the U.S. dollar, and the large real depreciation of the peso since August 1985. In contrast to previous years, the Treasury can count on full compliance by the petroleum company with its obligations arising from a number of taxes on the production and sale of hydrocarbons. Since early 1986, the Government has established transfer ratios of 59 percent of the value of exports and 65 percent of the value of domestic sales, thereby more than covering the tax payment obligations under the existing taxes; the excess of transfers over taxes due also is being retained by the Treasury.

The Government is committed to adjust the domestic prices of petroleum products in such a way that the price of the composite liter

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1/ A summary of the program is contained in Appendix IV.

remains at no less than the equivalent of US$0.23. 1/ The requisite price adjustments will be made in the middle and at the end of each month to reflect the change, if any, in the average official exchange rate during the immediately preceding half-month period. Beyond this, the Government will raise the U.S. dollar price of the composite liter above US$0.23 if attainment of its fiscal objectives makes this necessary, e.g. in the event of a shortfall of revenue collections from the tax reform package described below or of wage increases in the second half of 1986 over and above the increase currently envisaged (see section IV. 1.b below). At any rate, the authorities will not permit the price of the composite liter to fall below the equivalent of US$0.23 until the central administration's arrears have been reduced to the normal float level and the revenue flow from the new taxes makes this possible.

On May 20, 1986, a special session of Congress approved a tax reform package that includes a 1 percent tax on most transactions and excise taxes of 30 percent on alcoholic beverages and perfumes and of 50 percent on tobacco products and jewelry. In addition, the authorities plan to change the customs tariff to a uniform rate of 20 percent and to rescind temporary tariff exemptions for agriculture and mining. These measures and efforts to rebuild tax administration are expected to raise collections from customs duties and internal revenue taxes from under 2 percent of GDP in 1985 to more than 3 percent of GDP in 1986. Other taxes included in the tax reform package are a 10 percent value-added tax (replacing a selective 5 percent sales tax) and property and wealth taxes of generally 1 to 3 percent. Although the authorities intend to begin to implement these other taxes after July 1, 1986, the revenue projections count on receipts from these sources only by the equivalent of 1/2 percent of GDP in 1986. To prevent a loss of revenue, existing taxes are to be withdrawn only as the new taxes replacing them are being implemented. However, revenue will be adversely affected in 1986 by the collapse of the international tin price and depressed prices for other metals, which have all but eliminated the mining sector as a potential source of revenue.

The tax reform envisages the elimination of revenue earmarking provisions and their replacement by direct budgetary allocations for the entities previously benefiting from them--with the exception of the municipalities and the universities, which are to receive 10 percent and 5 percent, respectively, of the revenue deriving from the tax reform package. The regional development corporations also will participate directly in these revenue proceeds if their receipts from mining and hydrocarbon royalties--the latter amounting to 11 percent of the value of gas exports and the production of hydrocarbons for domestic sale--do not reach 10 percent of the collections under the tax reform package.

1/ The composite liter is the weighted average of the projected volumes of sales of the individual products in the domestic market in 1986.

b. Wage and employment policy

Before September 1985, the Treasury's outlays for wages (including transfers to social security and retirees) were equivalent to about four times tax collections. In view of the size of this imbalance and the chronic overstaffing in the state enterprises, a tight wage and employment policy is crucial for the plan to reduce the public sector deficit. The authorities have designed a policy to address this problem and have been applying it retroactively since August 1985.

Under the new wage policy, the payment of most bonuses and additional monthly salaries was discontinued in exchange for a more transparent system limiting annual payments to 13 (instead of up to 22) monthly salaries, the seniority bonus (frozen at its July 1985 level), a 20 percent frontier bonus for workers employed within 50 kilometers of the border, and an annual premium for workers in state enterprises operating with profits. In accordance with this policy, monthly wage bills have been established for each Ministry and decentralized agency dependent on the Treasury, for veterans and pensioners, and for the major state enterprises. Generally, the wage bills reflect the salary level and seniority bonuses prevailing in July 1985 plus 25 percent.

As a result of the consolidation and wage adjustment, the overall monthly wage bill for the public sector units referred to above increased by 71 percent over the corresponding wage bill in July 1985. In real terms, this represents a decline in the aggregate wage bill since July 1985 of 44 percent by December 1985 and of about two thirds by the end of the freeze period in June 1986. Within the allowed monthly wage bill, each public sector entity or enterprise determines wage payments to individuals on the basis of approved pay scales. The authorities believe that the drop in real wages will be mitigated by the provision that any savings resulting from layoffs or resignations may be used in full in the case of the Central Administration, or up to 50 percent in the case of the state enterprises, to raise proportionately the wages of the remaining workers. Since there have been reductions in the employment levels of the state mining company and elsewhere in the public sector in recent months, real wages have fallen by less than indicated by the decline in the real wage bill.

As in the private sector, public sector employers may again lay off workers while recruitment is being kept in check by a hiring freeze. The authorities are particularly interested in reducing the heavy losses in the state mining company by closing its most unprofitable mines and laying off surplus labor in that enterprise and elsewhere in the public sector. For this reason, the program for 1986 contains the provision of $b 52.5 trillion, or 0.6 percent of GDP, for severance pay and retirement benefits to laid-off public sector workers. It is estimated that this amount will permit the reduction of employment by about 10,000 persons. The Government is seeking additional funds, especially in the form of foreign grants, to finance additional dismissals.

In mid-April 1986 the authorities settled a protracted wage dispute with the teachers by granting wage increases amounting to the equivalent of 0.9 percent of GDP in 1986. Because this settlement, which constitutes an exception to the wage bill freeze, had not been contemplated in the proposed program, a one-time tax on the revaluation gains on fixed assets was introduced to finance the additional expenditure in 1986. The authorities plan to announce shortly a general wage increase to take effect in July 1986, in accordance with the provisions made in the program.

c. Investment plan

The authorities' program for 1986 envisages public sector investment outlays equivalent to 9 percent of GDP. More than 80 percent of the planned investment is expected to be effected in the nonfinancial public sector, thus increasing investment in that sector from 3.3 percent of GDP in 1985 to 7.3 percent of GDP in 1986. The World Bank staff has given its provisional endorsement to the investment program (see Appendix II). Although the authorities will continue to review the investment program with technical assistance from the World Bank, it is unlikely that the current project list with its focus on petroleum and gas, mining, agriculture, and transportation will undergo major modifications. In its review, the World Bank will seek that projects given priority be export oriented, with short gestation periods, high rates of return, and identified concessional external sources of financing. Most projects in the list are to be financed by multilateral development banks or official bilateral lenders. The local financing requirements of the projects in the nonfinancial public sector are estimated at about two fifths of project value, or almost 3 percent of GDP.

d. Other expenditure policies

As the amount of interest due on the public debt is outside the control of the authorities in the short term, 1/ they are focusing their efforts on restraining current spending on goods and nonlabor services. In the General Government, this type of expenditure is budgeted to fall from over 11 percent of GDP in 1985 to less than 9 percent in 1986, despite the provisioning in the latter year of expenditure equivalent to 1.1 percent of GDP that is earmarked for a reduction of public sector arrears and for the costs associated with the reduction of employment in the public sector. The budgets of the state enterprises also have been designed so as to compress discretionary current expenditure. In the case of the petroleum company, the above mentioned requirement to transfer the bulk of its sales proceeds to the Treasury will reinforce expenditure restraint.

For the first time in many years, expenditure will be executed on the basis of a congressionally approved budget. Two units have been

1/ Interest falling due in 1986 on the nonfinancial public sector's external debt amounts to the equivalent of 4.2 percent of GDP.

created in the Ministry of Finance with technical assistance from the Fund's Fiscal Affairs Department to follow the execution of the budget and monitor the cash flow of the nonfinancial public sector.

2. Financial sector policies

The monetary program is consistent with the balance of payments and domestic price level objectives; also, it is consistent with improved access to credit on the part of the private sector in light of the strengthening of the public finances. On the basis of the interest rate and exchange rate policies outlined below, the authorities expect demand for domestic financial assets to grow in line with nominal income. This growth would allow an expansion of credit to the private sector by about 100 percent, or about 5 percent of GDP. The authorities consider this expansion, which includes the onlending of US$9 million of net disbursements of foreign loans, adequate to cover the priority needs of agriculture and to provide resources for a newly established export financing facility. The net domestic asset ceiling has been designed so as not to constrain the Central Bank's use of medium- and long-term foreign lines of credit and would therefore accommodate net disbursements in excess of US$9 million. 1/ The limitation of the nonfinancial public sector's access to central bank credit in 1986, which is a performance criterion, is intended to ensure that sufficient room will be available for the expansion of private sector credit.

The authorities intend to maintain the flexible interest rate policy that was initiated in late August 1985. An initial decline of nominal interest rates was partially reversed with the resurgence of inflation in December 1985. The Central Bank allowed banks in early May 1986 to start an interbank market, in which the Central Bank may participate from time to time to influence the level of interest rates. Bank deposits grew rapidly in the period September-December 1985 but--at a level equivalent to about 1 1/2 percent of GDP at year-end--they amounted to only about one tenth of the amount outstanding at the end of 1981. It is expected that the demand for currency, which had expanded in relative terms in the hyperinflationary period with its frequent banking strikes, will recede somewhat during the program period in favor of deposit growth.

Concerned about the large spread between deposit and lending rates of about 10 percent a month in early 1986, the authorities have reduced the tax on interest on bank loans from 7 percent to 1 percent. However, the reserve requirement ratios, which contribute importantly to the size of the spread, are expected to remain unchanged during the program period. As the deposit base continues to grow with the return of confidence in the financial system and positive real interest rates, it is likely that competitive pressure will result in a gradual reduction of

1/ Higher than programmed disbursements to the financial public sector, however, would need to be compatible with the external debt disbursement ceiling (see Section IV. 3.c. below).

the interest rate spread. This tendency should be reinforced by the elimination of the labor stability rules, which had made labor a fixed cost in recent years. The balance sheet position of the financial institutions, which had weakened considerably in the wake of the dedollarization measure of November 1982 1/ and the subsequent large devaluations of the peso, has been strengthened by the revaluation of their fixed assets on the basis of values on December 31, 1985.

To simplify transactions and accounting and to strengthen the confidence in the new economic policy, the authorities plan to introduce a new currency during 1986 at a rate of 1 new unit=$b 1,000,000.

3. External sector policies

The authorities aim at securing external financing to achieve a level of imports that is consistent with their investment and growth objective while, in conjunction with appropriate domestic policies, limiting the loss of net official reserves to no more than US$51.4 million in 1986. 2/ Net use of Fund resources and the receipt of a loan from the Andean Reserve Fund will lead to a decline of about US$20 million in gross official reserves (see Table 6). Despite a substantial increase in the volume of exports other than tin, the U.S. dollar value of exports is expected to decline by 12 1/2 percent in 1986, reflecting mainly lower prices for natural gas and tin and a drop in shipments of tin. The prospect of a 24 percent deterioration of the terms of trade in 1986, along with the need to raise imports, will result in a widening of the current account deficit from about US$280 million (6 1/2 percent of GDP) in 1985 to about US$355 million (8 percent of projected GDP) in 1986.

a. Exchange rate policy

The authorities realize that a competitive exchange rate is crucial for the attainment of their balance of payments, growth and public sector revenue objectives. For this reason, they intend to continue during 1986 with the flexible exchange rate policy that was introduced in September 1985. In pursuing this policy, the authorities will ensure free access to the exchange market for the private and public sectors, within the limits budgeted in the case of the latter, and they will not

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1/ The dedollarization measure abolished the extension of foreign currency-denominated loans between residents and permitted domestic borrowers to repay their outstanding bank loans at a preferential exchange rate. The banks' liabilities in foreign currency to nonresidents remained unaffected by this measure, which inflicted heavy balance sheet losses on the banks with each subsequent devaluation. For details see SM/85/253, p. 36.

2/ Provisional data indicate that, with the restrictions placed on public sector access to foreign exchange, the net international reserve position of the Central Bank improved by about US$24 million in the first quarter of 1986.

intervene in the exchange market on a sustained basis. At any rate, the amount of net sales of foreign exchange during 1986 will not exceed US$51.4 million in accordance with the net official reserves target.

The exchange rate system implemented since September 1985 has generally operated well, e.g., by facilitating the economy's adjustment to the tin price collapse in late 1985. Accordingly, following the reopening of access for the public sector, the auction market for foreign exchange sales to the general public and to the public sector for purposes other than debt service payments will be maintained in its present form. As bidders have become more familiar with the operations of the auction system, spreads between maximum and minimum bids have narrowed and generally do not exceed 2 percent. To improve the functioning of the auction system, the Central Bank intends to prepare cash-flow projections that are consistent with the balance of payments outlook for 1986. These projections will assist the authorities in determining the amounts of foreign exchange to be offered for auction.

The authorities also intend to ensure that the nonfinancial public sector will accumulate deposits reflecting the payments due under the anticipated new debt service schedules and that the Central Bank will increase the quarterly international reserve targets by the U.S. dollar equivalent of the deposit accumulations, if the expected external debt restructuring agreements have not been reached by the end of June 1986. The authorities will monitor closely the functioning of the auction market with a view to adapting its operations to changing circumstances, as necessary. In doing so, they will reduce the amount of foreign exchange offered for auction whenever the exchange rate premium in the parallel market--as measured by the moving average of premia of the buying rates for U.S. dollar currency notes by the exchange houses over a period of five consecutive business days--exceeds 5 percent. In any event, a thorough review of the system will be made with the Fund before November 15, 1986.

b. <u>External trade and payments policy</u>

Following the broad liberalization in late August 1985, the trade system has remained free of restrictions. After the customs reform that the authorities expect to introduce shortly, domestic economic activity will be protected by a uniform tariff of 20 percent. The authorities are aware that prohibitions or higher and more differentiated import duties are difficult to enforce in Bolivia's circumstances. Existing temporary exemptions for agriculture and mining will be terminated and requests for new tariff exemptions will not be granted because of their adverse consequences for revenue collection. Under the new customs regime, exporters will benefit from a duty drawback system, in addition to pre- and post-shipment financing offered by the Central Bank since early 1986.

With the exception of the temporary restraint imposed on the public sector, foreign exchange has been provided without restrictions since

September 1985 for all payments and transfers abroad. Restrictive exchange practices in the form of a tax on profit remittances, prior deposit requirements on exports and on exchange purchases in the auction market, and an exchange subsidy on export surrenders were eliminated in late 1985 and early 1986. Under the program, the authorities intend to eliminate all external payments arrears, which amounted to US$1,071 million at the end of 1985, by early 1987, either through cash payments or through debt rescheduling (see below). Multiple currency practices may, however, arise occasionally from the sale of foreign exchange in the official market by means of the Dutch auction system, under which successful bidders pay the prices submitted in their bids, and from the operation of a parallel exchange market, in which the proceeds from nonmerchandise exports may be surrendered. The authorities are determined to avoid recourse to exchange restrictions so as to prevent the reappearance of a large premium of the exchange rate in the parallel market and the decline of exchange surrenders in the official market.

c. External debt policy

The large amount of arrears on external debt service and a substantial current account deficit in 1986 make it necessary for the authorities to seek better terms for the existing debt and to limit new borrowing to concessional loans, in particular from multilateral development banks.

Multilateral lenders are expected to step up significantly their level of commitments and disbursements in 1986. Disbursements are projected to amount to more than US$150 million, compared with US$72 million in 1985. The expected increase is attributable to higher disbursements from the Inter-American Development Bank, the World Bank (which approved a US$55 million reconstruction import credit--its first lending operation for Bolivia since 1980--on May 20, 1986), the Andean Development Corporation, and the Fund of the River Plate. A Consultative Group meeting being organized by the World Bank is expected to result in additional commitments from multilateral and bilateral official lenders, although it is unlikely to have a significant effect on disbursements in 1986. Disbursements from bilateral sources, including a small amount of unguaranteed suppliers' credits, are estimated to more than double to nearly US$100 million in 1986.

Bolivia has approached its major creditor groups for debt relief. No debt service payments have been made to commercial banks since March 1984 and arrears to the banks amounted to almost US$730 million at the end of 1985. A meeting was held in late April 1986 between representatives of Bolivia and the coordinating committee of the banks to restructure these arrears and about US$100 million of debt service falling due in 1986. Although a formal agreement has not been reached yet, it is expected that no amortization to banks will need to be made in 1986 and that payments to banks will be limited to interest on the restructured debt and on the US$87 million of unrescheduled principal falling due after 1986. Also, these payments could be offset in part by a short-term trade facility provided by the banks. The balance of payments projection for 1986 includes a provision for net cash payments to the commercial banks along these lines. A meeting with the Paris Club has been scheduled for June 1986 to consider Bolivia's request to reschedule an estimated US$143 million of debt service in arrears at the end of 1985 and about US$104 million of debt service falling due in 1986. Argentina and Brazil, Bolivia's largest and third largest official bilateral creditors (Statistical Appendix Table 19), are expected to participate in that meeting. Bolivia is seeking debt relief from the socialist countries and private creditors on terms comparable to those to be granted by the Paris Club.

As already mentioned, the understandings to be reached shortly with the creditors are expected to permit Bolivia to eliminate its arrears by early 1987. The authorities are determined not to extend any public sector guarantees to private debtors. Although short-term external indebtedness is currently very low, the Central Bank is setting up a reporting system for the contracting or guaranteeing of such debt by the public sector. If technically feasible, a ceiling on such debt will be set at the time of the mid-term review to limit the rise of short-term indebtedness after Bolivia's creditworthiness improves.

4. Structural and institutional reforms

Upon embarking on their new economic policy in August 1985, the authorities announced several measures to overcome structural rigidities and stimulate private investment and growth. They intend to continue with the implementation of these measures during the program period.

In the financial system, the authorities are planning to give more independence to the superintendency of banking by converting it from a department of the Central Bank to an autonomous entity directly responsible either to the Central Bank's board of directors or to the President of the Republic. The authorities also plan to remove development banking functions from the Central Bank and to set up a separate development bank to channel external lines of credit to the commercial banks and to the specialized banks (if it can be shown that the latter should be maintained). To provide the institutional setting for the development of a domestic financial market, the authorities are studying the feasibility of creating a national stock exchange.

Structural changes are being introduced in the state enterprise sector. The petroleum company and the mining company are being reorganized and decentralized with technical assistance from the World Bank. Prior to the reorganization, the assets of the smelting company (ENAF) and the lead-silver smelter (SCMK) were transferred to the mining company. Also, the assets of the enterprises fully owned by the development corporation (CBF) and the road transport company (ENTA) were transferred to regional and local bodies. Private sector concessionaires were invited to take over the local distribution of petroleum products.

Within the context of encouraging fixed capital formation in the private sector, direct foreign investment is welcomed by the authorities. To this effect, the vast exclusive exploration and exploitation rights of the state companies in the mining and hydrocarbons sector have been curtailed significantly. The previously mentioned elimination of the tax on profit remittances abroad and the recent liberalization of rules restricting foreign investment from, and profit remittances to, countries outside the Andean region also should help to improve the investment climate. In addition, the authorities are reviewing the relevant legislation and institutional arrangements governing private investment. Finally, an agreement with the U.S. Overseas Private Investment Corporation (OPIC) was signed in late 1985, and Bolivia signed the convention establishing the Multilateral Investment Guarantee Agency (MIGA) in early May 1986.

With the abolition of the labor stability regulations, employers in the private and public sectors are free to lay off workers for economic reasons. The Government does not intend to intervene in the wage determination process in the private sector, except that the minimum wage (currently at $b 30 million a month) also applies to the private sector. Finally, the number of paid holidays has been reduced substantially.

The authorities have requested technical assistance from the Fund and other international organizations to help them in their efforts to rebuild institutions, strengthen administrative procedures, and improve the statistical data base. 1/

5. Performance criteria and mid-term review

To monitor the implementation of the program, the proposed stand-by arrangement relies on the following performance criteria: (i) limits on the borrowing requirement of the nonfinancial public sector, to be verified quarterly; (ii) ceilings on the net domestic assets of the Central Bank and subceilings on the net debtor position of the nonfinancial public sector, to be verified continuously; (iii) targets for the net international reserves of the Central Bank, to be verified quarterly; (iv) ceilings on external arrears, to be verified quarterly; (v) ceilings on external public and publicly guaranteed debt disbursed and outstanding in the one- to ten-year maturity range, to be verified quarterly; and (vi) the operation of the foreign exchange auction system during the program period in such a way that the premium of the exchange rate in the parallel market over the official exchange rate will not exceed 5 percent. In addition, the proposed arrangement contains the customary provisions on the exchange and trade system. The authorities are in the process of establishing a reporting and monitoring system for short-term public debt, which may be subjected to a ceiling at the time of the mid-term review, to be completed by November 15, 1986 as an

1/ Technical assistance provided by the Fund is described in Appendix I.

additional performance criterion. In view of the large uncertainties adhering to financial programming in Bolivia's circumstances and, in particular, the difficulty in assessing the impact of the tax reform package, the limits and targets corresponding to criteria (i) through (v) now are indicative beyond September 30, 1986; limits and targets for the remaining period of the stand-by arrangement will be established at the time of the mid-term review.

The mid-term review will focus on the progress made in the implementation of the program in general--especially on the expected improvement of collections of import duties and internal revenue taxes--and on the implementation of the tax reform package and of the investment program, which is undergoing a detailed review by the World Bank. In conducting the mid-term review, particular attention also will be given to policies with regard to the exchange rate, interest rates, wages, and state enterprise pricing, including the prices of petroleum products.

V. Medium-Term Balance of Payments and External Debt Scenarios

The authorities recognize that--even with the very substantial adjustment now being undertaken and the continued pursuit of restrained domestic financial policies--the medium-term outlook for the balance of payments remains difficult. On the basis of the limited scope for an expansion in export earnings in the near term and given the still considerable debt service burden, a financing gap would remain for a number of years after the program period (Table 7). Successive restructuring agreements would seem to be required to close this gap.

The balance of payments projection assumes that the volume of exports will increase substantially during 1987 and 1988, as the volumes of mining and nontraditional exports return to the levels reached at the beginning of the decade. Exports would continue to grow at a moderate pace in subsequent years, on the strength of some further growth in volumes and a modest recovery in major metal prices from their current low levels. In addition, it is assumed that the marked increase in disbursements expected for 1986 from multilateral development banks (in particular the World Bank and the Inter-American Development Bank) and official bilateral creditors will be maintained during 1987-91. As relations with the major creditors are normalized, it also is expected that there would be an upturn in suppliers' credits, particularly in the later years of the period. Net inflows of foreign direct investment also are projected to increase. Under these relatively favorable assumptions, the financing gap would narrow gradually over time.

The size of the projected financing gap is particularly uncertain for the period after 1988, when debt service obligations begin to fall due on the 1986 debt restructuring and on the debt incurred to close the financing gap in 1987-88. The projection foresees a decline in debt service obligations to US$575 million until 1988, followed by an

Table 7. Bolivia: Medium-Term Balance of Payments Projections

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991
Current account	-354	-329	-311	-335	-377	-407
Merchandise trade	-64	-11	22	44	61	66
Exports, f.o.b.	544	606	674	735	792	855
Imports, c.i.f.	-611	-620	-655	-694	-734	-793
Interest, net	-268 1/	-271	-281	-326	-382	-413
Other services and transfers	-19	-44	-49	-50	-53	-56
Capital account	-26	29	81	160	224	366
Direct investment	25	30	33	36	40	44
Long-term capital (public sector)	-66	-26	23	99	159	297
Disbursements	246	277	300	332	386	490
Amortization	-312 2/	-303	-277	-233	-227	-193
Short-term and other 3/	15	25	25	25	25	25
Overall balance	-380	-300	-230	-175	-153	-41
Exceptional financing	328	270	230	175	163	61
Net official reserves	51	30	—	—	-10	-20
Memorandum items:						
As percent of GDP						
Current account	-7.9	-6.9	-6.1	-6.1	-6.4	-6.4
Exports, f.o.b.	12.1	12.7	13.1	13.3	13.4	13.5
Imports, c.i.f.	-13.6	-12.9	-12.7	-12.6	-12.5	-12.6
Principal assumptions (in percent)						
Real GDP growth	—	3.5	3.5	3.5	3.5	3.5
World inflation	3.5	3.2	3.7	3.7	3.7	3.7
LIBOR interest rate 4/	7.5	7.5	7.5	7.5	7.5	7.5

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

1/ Includes unpaid interest.
2/ Includes unpaid amortization.
3/ Includes contributions to international organizations, gold monetization, and changes in commercial bank reserves.
4/ WEO projection.

increase to US$625 million in 1991. 1/ However, the debt service ratio is projected to continue to decline from 92 percent of exports of goods and services in 1985 to below 60 percent at the end of the projection period (Table 8). The decline is largely attributable to lower scheduled amortization payments, which in turn reflect the slowdown in loan disbursements in recent years. As Bolivia refinances its external payments arrears and takes on new external debt in the coming years, amortization obligations will begin to rise again in the early 1990s. The projection emphasizes the need for careful evaluation of the expenditure being financed by new debt so as to ensure that it contributes to an increase in debt service capacity. It also is clear that Bolivia will need the maximum amount of support on concessional terms to facilitate a return to economic growth without adding unduly to its already heavy debt burden.

The poor medium-term outlook could be further complicated by the periodic renegotiation of the terms of the agreement on gas exports to Argentina, which is due to expire in 1992 in any event. Under the agreement, Argentina is committed to pay Bolivia for a minimum quantity of gas at a mutually agreed price. The price reduction recently negotiated for 1986 falls short of the drop of the petroleum price in world markets. The terms of the agreement are of special importance for Bolivia because exports under this agreement currently amount to more than 50 percent of total exports and each reduction of 10 percent in the annual value of such exports means a loss of some US$35 million in export receipts or the equivalent of 0.9 percent of GDP. As recent discoveries of gas deposits in Argentina indicate that Argentina may not need to import gas after the expiration of the current contract in 1992, the Bolivian authorities are pursuing negotiations on an export arrangement with Brazil.

VI. Staff Appraisal

When it assumed office in early August 1985, the present Government inherited a situation characterized by rampant inflation, depleted international reserves and large external payments arrears, and depressed levels of economic activity and employment. In late August 1985, the new authorities announced a package of measures aimed at dealing with the severe external and internal imbalances.

The authorities proceeded to implement a flexible exchange rate policy and raise the prices of petroleum products and other goods and services produced by the state enterprises, to free other prices and interest rates, and to liberalize the trade and payments regime. In the months since taking the initial measures, the world market prices of tin and petroleum, which directly or indirectly determined the unit value of

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1/ The projections were based on a LIBOR of 7.5 percent. Each variation of LIBOR by one percentage point is equivalent to about US$10 million in interest payments on an annual basis.

Table 8. Bolivia: Medium-Term External Debt Projections 1/

(In millions of U.S. dollars)

	Prel. 1985	1986	1987	1988	1989	1990	1991
Total external debt	3,350	2/3,652	3,896	4,149	4,423	4,745	5,103
Medium- and long-term	3,271	3,623	3,867	4,120	4,394	4,716	5,074
Short-term	79	29	29	29	29	29	29
Total debt service due	678	600	593	577	578	629	626
Principal	344	312	303	277	233	227	193
Interest 3/	334	288	290	300	345	402	433
Memorandum items:							
As percent of exports of goods and services							
Total external debt	454.5	534.7	515.3	497.5	487.7	485.7	484.6
Total debt service due	92.0	87.8	78.4	69.2	63.7	64.4	59.4
Principal	46.7	45.7	40.1	33.2	25.7	23.2	18.3
Interest	45.3	42.1	38.3	36.0	38.0	41.2	41.1
As percent of GDP							
Total external debt	77.6	81.6	81.5	80.8	80.3	80.2	80.4
Total debt service due	15.7	13.4	12.3	11.2	10.5	10.7	9.9
Principal	8.0	7.0	6.3	5.4	4.2	3.8	3.0
Interest	7.7	6.4	6.0	5.8	6.3	6.9	6.9

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

1/ Public and publicly guaranteed external debt.
2/ *Excludes an estimated US$311 million of interest in arrears.*
3/ Includes private sector interest payments estimated at US$58 million in 1985 and US$55 million per year during 1986-91.

85 percent of Bolivia's export proceeds in 1985, have fallen sharply and adverse weather conditions have caused widespread floods that endanger in particular agricultural output. Although these events have created further obstacles to successful adjustment, the authorities have made considerable progress in putting into place additional elements of their policy package, and on that basis they have formulated an economic program for the period April 1986-March 1987, in support of which they are requesting a stand-by arrangement from the Fund.

The principal objective of the program is a reduction of inflation from over 8,000 percent in 1985 to less than 85 percent in 1986 and less than 40 percent in the program period. The authorities also aim at reactivating the economy after five years of decline; the program envisages that a moderate rate of growth can be achieved toward the end of the period of the arrangement. The external current account will not improve in 1986 because of the large terms of trade deterioration and because the recovery in investment requires an increase in capital goods imports, but the loss of net international reserves of the Central Bank is to be limited to around US$50 million.

The key element of the authorities' adjustment effort is the reduction of the deficit of the nonfinancial public sector to a level that can be largely financed with an assured flow of foreign resources and with little recourse to domestic financing. The staff agrees with the authorities that determined action on the public finances is crucial for the attainment of their inflation and balance of payments objectives while leaving sufficient room for the expansion of credit to the private sector. The substantial improvement expected in the public finances is to result from three main policy adjustments: the depreciation of the exchange rate since August 1985 and the maintenance in terms of U.S. dollars of the prices of petroleum products sold in the domestic market; a tax reform package together with improvements in tax administration; and a restrained wage policy. The staff would urge the authorities to monitor very closely the implementation of these crucially important policies so as to eliminate at an early stage any weaknesses that might emerge.

To redress the financial situation of the public sector, it is important that exchange rate policy and pricing policy in the state enterprises be conducted in such a way as to ensure revenues consistent with the efficient operation of the enterprises and with the provision of the requisite flow of taxes and transfers to the Central Administration. In addition, it is urgent that the authorities act to improve tax administration. Although the short-term need to boost revenue left no other choice but to seek additional resources from the hydrocarbon sector, the staff is concerned about this very heavy dependence on one source of revenue. The staff would, therefore, urge the authorities to redouble their efforts to find alternative sources of revenue, and in particular to implement in full the tax reform package. In this connection, it is important that the authorities implement the new taxes in such a way that existing taxes are not withdrawn before their replacements have begun to produce revenue.

The authorities have been pursuing a restrictive wage policy. They regard the recent wage increase for teachers as an exception and are determined to resist demands from other groups, limiting wage action to a moderate across-the-board adjustment for public employees at midyear. Through the end of June 1986, flexibility for wage increases is provided only through reductions in public sector employment. An eventual reduction of public sector employment to the level prevailing at the beginning of this decade would permit an increase in average wages by about 30 percent without affecting the public sector wage bill. Employment opportunities in the private sector should open up as a result of the provision of improved incentives and encouragement being given to private sector investment.

The public sector investment program for 1986, which has been given broad approval by the World Bank staff, relies heavily on concessional financing from multilateral development banks and official bilateral sources. The poor medium-term outlook for the Bolivian economy makes the pursuit of growth oriented investment and the search for export diversification indispensable. The authorities expect to be able, with the assistance of the multilateral development banks, to formulate a medium-term investment program that relies on generally medium-sized, short-gestation projects in the hydrocarbon, mining, transportation, and agricultural sectors and that will be financed externally on favorable terms within the framework of a Consultative Group organized by the World Bank.

For the first time in several years, the Government's spending plans have found their expression in a budget that has obtained congressional approval. To ensure its proper execution and to monitor compliance with the fiscal performance criteria, active use will have to be made of the units for budgetary control and cash transactions that have recently been established with technical assistance from the Fiscal Affairs Department.

Since Bolivia's financial system remains weak and financial savings in the economy continue to be low, the staff welcomes the liberalization of interest rates as a prerequisite for the strengthening of savings and the improvement of its allocation. Over the program period, the Central Bank's ability to pursue an active interest rate policy should be enhanced by the reduced domestic financing requirements of the nonfinancial public sector, the strict enforcement of the minimum reserve requirement regulations, and the recent introduction of an interbank market with possible central bank participation. Beyond this, competitive pressures among the relatively large number of banks should contribute to a further reduction in the spread between deposit and lending rates and to a general lowering of market interest rates. In implementing their credit policy, the authorities should make every effort to consolidate the progress achieved thus far on the inflation front. It should be noted that prices have been virtually stable since late January 1986, and in these circumstances the authorities would be well advised to keep credit developments under close scrutiny in order to determine whether margins should be maintained under the credit program in the light of the recent favorable price performance.

The staff commends the authorities for their decision to let the exchange rate of the peso find its own level. As recent events have shown, such flexibility is necessary in the face of sudden shifts in the terms of trade and other exogenous events. The continued pursuit of a flexible exchange rate policy is crucial in Bolivia's current circumstances for a satisfactory balance of payments, an adequate level of public sector revenues, and the resumption of economic growth. The staff believes that the auction market system for the determination of the exchange rate of the peso has functioned reasonably well and should be maintained for the time being, subject to any modifications that may become necessary in the light of developments. Finally, the staff would stress the importance of open access to the official exchange market and of avoiding intervention to counter the effect of market forces on the exchange rate.

The authorities have made progress toward reaching agreement with Bolivia's major creditors and creditor groups to secure the external financing flows required under the program. The multilateral development banks have provided assurances that commitments of fast disbursing loans are being stepped up sufficiently to result in a more than doubling of disbursements in 1986. A meeting with the Paris Club, with the participation of Argentina and Brazil, is expected to follow the Executive Board's consideration of the present stand-by request to take up Bolivia's request for restructuring arrears and maturities falling due in 1986. Bolivia hopes to conclude soon its negotiations with the coordinating committee of the banks so as to obtain the restructuring of arrears and debt service falling due in 1986. In the meantime, the balance of payments projection has made some assumptions on cash payments to commerical banks and official bilateral creditors on account of arrears and rescheduled debt service. In view of the precarious medium-term balance of payments outlook, it is likely that Bolivia will have to seek debt relief in each of the next few years. Both debt relief and new loans will need to be on terms that avoid further increases in the debt service burden.

The authorities are committed to maintaining a liberal trade and payments system. Exchange practices subject to Fund approval under Article VIII are limited to (i) a multiple currency practice that may arise from the operation of the auction market, in which each successful bidder acquires foreign exchange at the price indicated in the bid; (ii) a multiple currency practice that may arise from a premium of the exchange rate in the parallel market, in which nonmerchandise export proceeds may be surrendered; and (iii) arrears on external debt service payments pending the finalization of restructuring agreements or their payment in cash. The authorities' adjustment program is designed in such a way as to render unlikely the emergence of exchange rate spreads and premia that are either large or protracted and to eliminate the arrears during the program period; therefore, the staff proposes their approval on a temporary basis.

In sum, the Bolivian authorities have embarked upon a bold adjustment effort, which has already produced progress toward the elimination of the country's severe imbalances. It is important now that the authorities sustain this effort while pursuing policies geared to the strengthening of capital formation. The reorganization and decentralization of the large state enterprises and the opening up of the economy should contribute importantly to the resumption of economic growth and the absorption of labor set free in the public sector. It must be recognized that, after many years of social and political turmoil and economic and financial deterioration, successful implementation of the present adjustment program is faced with many risks. Given the difficult medium-term situation and the debilitated institutional base, the Fund will need to be involved with Bolivia in the years ahead, through the provision of policy advice, technical assistance and financial support, including the timely access to the structural adjustment facility. Beyond this, Bolivia will need the stepped-up support of the international financial community for many years to come.

VII. Proposed Decisions

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

1. Stand-by arrangement

1. The Government of Bolivia has requested a stand-by arrangement for the period June , 1986-June , 1987 in an amount equivalent to SDR 50 million.

2. The Fund approves the stand-by arrangement attached to EBS/86/120.

2. Exchange system

1. Bolivia maintains an exchange restriction evidenced by external payments arrears. In addition, a multiple currency practice may arise from the operation of Bolivia's exchange markets, as described in EBS/86/120. The Fund approves the exchange restriction and the multiple currency practice described above until November 15, 1986 or the next Article IV consultation with Bolivia, whichever is earlier

Bolivia--Fund Relations
(As of March 31, 1986)

I. Membership Status

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

A. Financial Relations

II. General Department

(a) Quota: SDR 90.70 million.

(b) Total Fund holdings of Bolivian pesos: SDR 132.14 million, equivalent to 145.69 percent of quota

(c) Fund credit to Bolivia SDR 41.41 million, equivalent to 45.66 percent of quota:

	Millions of SDRs	Percent of Quota
Credit tranche	8.22	9.07
Ordinary resources	(--)	(--)
Supplementary financing	(8.22)	(9.07)
Compensatory financing	17.90	19.74
Buffer stock	15.29	16.86

III. Stand-by Arrangements, Special Facilities, and Trust Fund Loans:

(a) No current arrangement.

(b) Previous stand-by arrangements: Bolivia has had two stand-by arrangements since 1973. The last one, approved in February 1980 for SDR 66.38 million, expired in January 1981 with an undrawn balance of SDR 13 million.

(c) Special facilities: A purchase of SDR 24.47 million under the buffer stock financing facility was made in June 1982. Bolivia purchased SDR 17.90 million under the compensatory financing facility in January 1983.

(d) Trust Fund loans: Bolivia received two loans in 1978 and 1980 totaling SDR 36.16 million.

IV. SDR Department:

(a) Net cumulative allocation:	SDR 26.7 million.
(b) Holdings:	SDR 0.04 million or 0.14 percent of net cumulative allocation.

V. Administered Accounts:

(a) Trust Fund

Disbursed:	SDR 36.16 million
Outstanding:	SDR 24.97 million

(b) SFF Subsidy Account

Payments by the Fund	SDR 3.59 million

B. Nonfinancial Relations

VI. Exchange Rate Arrangement: The Bolivian currency is the peso. Since early September 1985, the exchange rate of the peso in terms of the U.S. dollar is being determined by means of foreign exchange auctions, which are held at least twice a week by the Central Bank. Successful bidders are charged the prices submitted in their bids (Dutch auction system) and the official exchange rate--which remains in effect until the next auction for all surrenders of foreign exchange and public sector external debt service payments--is the weighted average of the successful bids. On April 30, 1986, the official exchange rate was $b 1,900,000 per U.S. dollar, compared with a buying rate of $b 1,910,000 per U.S. dollar in the parallel market.

VII. Last Consultation: The 1985 Article IV consultation was concluded on September 23, 1985.

VIII. Technical Assistance and External Training: Bolivia has received a substantial amount of technical assistance in the recent past. Staff members from the Bureau of Statistics provided technical assistance in monetary statistics on two missions in 1984 and one mission in 1985. Another staff member of the Bureau of Statistics traveled to La Paz in March 1986 to give technical assistance in the area of balance of payments statistics. A Central Banking Department expert was on a ten-month assignment in the area of external debt statistics in Bolivia until November 1985. Two Central Banking Department experts recently took up their duties in the Central Bank of Bolivia as Research Advisor and Accounting Advisor, respectively. A request for technical assistance from the Central Banking Department is still pending in the area of organization and methods. The Fiscal Affairs Department sent a staff member to La Paz for six weeks in April-May 1985 to aid in budget preparation and control and a three-man mission to assist the authorities in preparing, executing and controlling the 1986 budget visited La Paz in November 1985. A staff member from the Fiscal Affairs Department and an outside expert returned to La Paz in January 1986 to continue that work. Another expert returned to La Paz for three months starting mid-March 1986 to continue that work. A staff member of the Western Hemisphere Department advised the Central Bank on the operational aspects of an auction-based exchange rate system in the period August 31-September 6, 1985. In addition, the IMF Institute organized a one-week seminar on financial programming in La Paz in July 1984 with assistance from the Western Hemisphere Department.

IX. Resident Representative: Mr. David Hoelscher has been posted as resident representative in La Paz since January 1985. His assignment has been extended for a second year until January 1987.

X. Current 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.

Bolivia--Status of World Bank Group Operations

1. Statement of World Bank loans and IDA credits (as of March 31, 1986)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount (less cancellations) Bank	IDA	Undisbursed
				(In millions of U.S. dollars)		
Ten loans and twelve credits fully disbursed				220.3	89.9	
933	1979	Bolivia	Omasuyos-Los Andes Rural Development		3.0	1.3
940	1979	Bolivia	National Mineral Exploration Fund		7.5	5.8
948	1979	Bolivia	Santa Cruz Water Supply and Sewerage		9.0	2.5
1404	1977	Bolivia	Education and Vocational Training	12.0		1.4
1489	1977	Bolivia	Urban Development	17.0		1.5
1510	1978	Bolivia	Ulla Ulla Development	9.0		5.6
1587	1978	Bolivia	Highway Maintenance	25.0		1.9
Total				283.2	109.4	
Of which has been repaid				65.1	4.4	
Total now outstanding				218.1	105.0	
Amount sold				0.05		
Of which has been repaid				(0.05)		
Total now held by Bank and IDA				218.1	105.0	
Total undisbursed						20.0

2. Statement of IFC investment (as of March 31, 1986)

	Loan	Equity	Total
	(In millions of U.S. dollars)		
Total gross commitments	8.3	1.0	9.3
Less cancellations, terminations, repayments, and sales	7.3	0.4	7.7
Total commitments now held by IFC	1.0	0.6	1.6
Total undisbursed	--	--	--

3. Recent and prospective IBRD technical assistance

The IBRD is financing specific technical assistance components in some of its on-going development projects, and has previously contributed some technical assistance for the improvement of investment planning and programing as well as external debt reporting in Bolivia. Technical assistance in the area of decentralization is currently being given to the state petroleum company (YPFB) and the state mining company (COMIBOL). Preparation for a public sector management project--focused on public financial sector restructuring--will be discussed with the authorities by the mission mentioned in 6.f below.

4. IBRD views on the investment program

In the absence of a program prepared by the Bolivian authorities, the Fund staff--in close cooperation with various ministries and state enterprises and with multilateral and official bilateral lenders--compiled a public sector investment program for 1986 with emphasis on projects in the hydrocarbons, mining, transportation, and agricultural sectors. Pending a detailed project-by-project review of that program (see point 6.e below), the World Bank staff has given its qualified endorsement to the investment program. The World Bank staff considers the increase in the size of the investment program desirable, but is somewhat concerned about possible bottlenecks in the local implementing agencies, in particular in the agricultural sector. In general, though, the Bank staff believes that the sectoral composition of the plan is in line with Bolivia's priorities, as seen by the World Bank. As to individual projects, the Bank staff has questions with regard to the Bolívar mine and the Karachipampa lead-tin smelter. The former has been identified in the past by the World Bank as high priority, but the Bank staff needs to study the specific procurement and financing arrangements to ascertain its cost efficiency. With regard to Karachipampa, to which the Bank staff had previously objected on technical and economic grounds, the Bank staff would be prepared to endorse the additional outlay planned for 1986, if it is for the provision of working capital for the start-up of the smelter, which was technically completed in January 1984 without having been put into commercial operation so far.

5. Baker initiative and structural adjustment facility

The World Bank staff is currently preparing a workout paper to be completed by September 1986. Also, the Fund and World Bank staffs have initiated contacts on the preparation of a policy framework paper that would form the basis for an eventual first-year disbursement under the structural adjustment facility.

6. Recent and prospective economic and sector missions

(a) Mission to discuss draft 1985 Economic Report - June 1985.

(b) Mission to appraise a reconstruction import credit operation for agriculture, energy, mining, and transportation and to discuss technical assistance needs in the area of public financial sector restructuring - November 1985.

(c) Mission to lay the groundwork for a Consultative Group meeting January 1986.

(d) Mission to review the public sector investment program - March 1986 (see point 4, above)

(e) Mission to discuss specific requirements for the preparation of the Government's medium-term development program and the planned Consultative Group meeting - May 1986.

(f) Mission to prepare the proposed public sector management project for the improvement of public financial management and control - May 1986.

(g) Mission to launch the start of implementation of the reconstruction import credit operation - July 1986.

BOLIVIA--Basic Data

APPENDIX III

Area and population	1984	Prel. 1985	Prog. 1986
Area (square kilometers)			1,098,000
Population (in millions, 1986 est.)			6.6
Annual rate of population increase (1976-86)			2.78
GDP per capita, SDR (Proj. 1986)			594
Origin of real GDP (Proj. 1986)			
Agriculture			21.5
Mining			15.0
Manufacturing			10.3
Construction			3.9
Transport and communications			6.2
Government			12.8
Other services			30.3
Ratios to GDP (Proj. 1986)			
Exports of goods and nonfactor services			14.6
Imports of goods and nonfactor services			16.4
Central administration revenues			13.5
Central administration expenditures			16.5
External public debt (end of year)			81.0
National savings			2.6
Gross domestic investment			10.5
Money and quasi-money 1/			5.5
Annual changes in selected economic indicators			
Real GDP per capita	-5.8	-5.7	-2.7
Real GDP	-3.2	-3.1	--
GDP at current prices	1,252.5	13,098.3	290.0
Domestic expenditures (at current prices)	1,243.3	13,460.7	300.6
Investment	(1,769.7)	(8,736.7)	(1,147.3)
Consumption	(1,223.3)	(13,713.5)	(271.6)
GDP deflator	1,299.0	13,520.9	290.0
Cost of living (annual averages)	1,281.2	11,471.0	291.6
Central administration total revenues	463.6	32,261.8	548.4
Central administration total expenditures	1,227.6	7,367.3	355.6
Money and quasi-money	1,424.7	7,246.7	80.9
Money	(1,979.8)	(6,115.1)	(76.1)
Quasi-money	(578.2)	(14,431.9)	(93.8)
Net domestic bank assets 2/	2,631.8	19,734.1	193.4
Credit to nonfinancial public sector	(2,601.2)	(31,535.9)	(122.7)
Credit to private sector	(1,167.8)	(12,401.2)	(177.4)
Central administration finances	(Trillions of Bolivian pesos)		
Total revenues	0.6	196.1	1,271.5
Total expenditures	4.6	341.7	1,556.8
Current account surplus or deficit (-)	-3.7	-105.5	4.3
Overall deficit (-)	-4.0	-145.6	-285.3
External financing (net)	--	7.2	340.3
Internal financing (net)	4.0	138.4	-55.0
Balance of Payments	(Millions of U.S. dollars)		
Merchandise exports (f.o.b.)	725	621	544
Merchandise imports (c.i.f.)	-492	-552	-611
Factor income (net)	-432	-407	-373
Other services and transfers (net)	71	57	86
Current account balance	-129	-281	-354
Nonfinancial public sector 3/	4	--	158
Unpaid amortization 4/	-175	-181	-233
Banking system n.i.e. (net)	--	-69	34
Private capital (net) 5/	8	148	13
Arrears on gas exports	189	55	--
Allocation of SDRs and gold monetization	1	--	2
Overall balance	-103	-328	-380
Exceptional financing 6/	251	359	328
Change in official net international reserves (increase -)	-148	-30	51
International reserve position	(Millions of SDRs)		
Central Bank (gross)	291.6	245.7	219.3
Central Bank (net)	109.2	124.9	56.1 7/
Rest of banking system (net)	-50.8	-40.6	...

1/ Average end-of-month stocks.
2/ In relation to the stock of money and quasi-money at the beginning of the period.
3/ Includes regular disbursements, assumption of restructured debt, amortization paid, and short-term capital.
4/ Public sector.
5/ Includes net errors and omissions.
6/ Includes balance of payments support loans and total unpaid debt service (arrears, deferments and restructuring).
7/ Includes medium-term liabilities to the Andean Reserve Fund.

Bolivia--Summary of the Economic Program for 1986

I. Major Assumptions

1. Real GDP is expected to remain constant, with a minor contraction in the first half of 1986 offset by some recovery in the second half. While nontin mining activity is expected to grow by about 60 percent, tin output is assumed to decline by more than 25 percent, leading to a small contraction in total mining output. Agriculture and livestock output are assumed to remain unchanged after overcoming a weather-induced setback in the first half of 1986. After many years of decline, construction activity is expected to grow by 15 percent, but output in manufacturing and government services is expected to decline by 5 percent and 8 percent, respectively.

2. Export volume is assumed to grow by some 11 percent, largely reflecting the rebound in nontin mining output. Tin exports are projected to fall to 12,000 tons, from 16,100 tons in 1985. The largest relative increases in the export volumes of other metals are expected for silver, lead, and gold. The volume of natural gas exports is likely to remain at the level achieved in the last three years. In response to the domestic pricing policy and some recent discoveries, an exportable surplus of liquids has re-emerged, resulting in a one-time export of one million barrels of refined products to be followed by a flow of 1,000 barrels of refined products a day. Finally, the value of nontraditional exports (mostly coffee, sugar, and timber) is assumed to double to US$60 million, but it would still amount to only 40 percent of the record level registered in 1980.

3. The price of tin is forecast to be US$2.80 per pound, which would be some 50 percent lower than in 1985. At US$3.70 per one million BTU, the negotiated price of natural gas is 13 percent lower than in 1985. The corresponding price per thousand cubic feet (after the inclusion of condensates) is US$4.16. On the basis of these projections and a rise of 3 1/2 percent in the unit values of nontraditional exports and imports, the terms of trade are forecast to deteriorate by about 24 percent in 1986.

4. Financial system assets held by the general public are projected to remain constant in real terms in 1986. At the same time, it is assumed that there will be a decline in the heretofore very high ratio of currency to total financial assets.

II. Targets

1. The rate of inflation, as measured by the 12-month change in the La Paz consumer price index, is expected to decline from over 8,160 percent in 1985 to 84 percent in 1986. Despite the low rates of inflation in most months since September 1985, this would still leave the average price level in 1986 292 percent over the average level of consumer prices in 1985. Nonetheless, the declining trend would reduce

the annualized inflation rate to 20 percent in the final quarter of 1986.

2. The deficit of the overall balance of payments, as measured by the loss of net international reserves of the Central Bank, is not to exceed US$51.4 million. This would lead to a loss of about US$20 million of gross official reserves, after all repurchases due to the Fund and the disbursement of a loan from the Andean Reserve Fund. Gross international reserves would decline from about six months of imports to about five months of imports.

3. The external current account deficit is expected to increase to about US$355 million, representing almost 8 percent of projected 1986 GDP. A decrease in the value of exports and an increase in the value of imports would result in a trade deficit of about 1 1/2 percent of GDP.

III. Principal Elements of the Program

1. Exchange rate policy

a. The authorities are committed to pursue a flexible exchange rate policy. Intervention in the foreign exchange market through net sales of official reserves in the auction market is limited to the amount indicated as the overall balance of payments target (subsection II. 2. above). Moreover, the rate of foreign exchange sales in the auction market will need to be reduced whenever the premium of the exchange rate in the parallel market exceeds 5 percent over a period of five consecutive business days. On the assumption that market forces cause the exchange rate to move in line with domestic price developments after March 1986, the average exchange rate should experience a depreciation of about 79 percent in U.S. dollar terms in 1986.

b. The auction market for foreign exchange sales to the general public and to the public sector for purposes other than debt service payments will be maintained in its present form. The operation of the auction market will be reviewed before November 15, 1986.

2. Fiscal policy

a. The borrowing requirement of the nonfinancial public sector is to be reduced sharply to 6.4 percent of GDP. Net foreign financing, as measured by loan disbursements plus restructured interest obligations less amortization payments, is expected to amount to 5.4 percent of GDP. The Central Bank will provide the remaining 1.0 percent of GDP in financing.

b. Revenue of the Central Administration is expected to increase by about two thirds in relation to GDP. The bulk of the improvement comes from stepped-up collections from the hydrocarbons sector, which has been subjected to higher transfer ratios on the basis of increased revenue in the wake of the devaluation and the indexation of the domestic sales prices of petroleum products to the U.S. dollar. Revenue also will benefit from higher import duty collections and from the implementation of a tax package that was recently approved by the Congress of Bolivia.

c. Expenditure of the Central Administration and of the state enterprises will be curtailed by a very restrictive wage policy that reduces the number of bonuses and monthly wage payments and keeps the monthly wage bills of the public sector entities and enterprises frozen through the end of June 1986. Thereafter, a partial cost of living adjustment will be given in the light of the evolution of the public sector's financial situation. A hiring freeze is in effect, and individual wage increases can be granted only to the extent that the number of employees is reduced. The budget provides for outlays equivalent to 1.1 percent of GDP to retire workers and reduce public sector arrears. Other current expenditure is to be reduced in relation to GDP while investment outlays are programmed to increase substantially in both the Central Administration and the state enterprises.

d. Control over the operations of the state enterprises has been strengthened by the enforcement of the existing requirement that the enterprises deposit all their liquid funds with the Central Bank. The pricing policy of the enterprises will be kept under close review to ensure that the enterprises are able to generate current account savings large enough at the consolidated level to finance at least the local counterparts of their approved investment programs. This applies in particular to the state petroleum company (see section III. 2. b above).

3. Monetary policy

a. Given the targeted net international reserves loss, the assumed growth of money and quasi-money, and the envisaged expansion of central bank credit to the nonfinancial public sector, credit to the private sector (after an estimated US$9 million of net medium- and long-term loan disbursements from abroad) is expected to expand by about 100 percent, or by about 5 percent of GDP. If the monetary authorities succeed in obtaining foreign lines of credit beyond the amount foreseen, these can be used for additional lending to the private sector provided that the limit mentioned in section III. 4.b below permits such financing.

b. The monetary authorities will refrain from fixing interest rates. Since the appropriate level of domestic interest rates depends on both price and exchange rate developments, the authorities intend to ensure that interest rates are adapted flexibly to changing circumstances by the domestic banks so that deposit rates remain adequate at all times to stimulate domestic savings and prevent capital flight.

c. The 7 percent tax on interest on bank loans was reduced to 1 percent in January 1986 so as to lower the spread between lending and deposit rates.

d. The balance sheet position of the financial institutions has been strengthened by the revaluation of their fixed assets on the basis of values on December 31, 1985.

e. It is planned to introduce a new currency during 1986 at a rate of 1 new unit = $b 1,000,000.

4. External debt policy

a. The Government has initiated discussions with its major creditors and creditor groups in order to arrange the external financing for its 1986 economic program. Disbursements from multilateral development institutions will more than double from 1985 to 1986 as a result of stepped up use of the loan pipeline and new commitments that emphasize import financing with low local counterpart financing requirements. In line with the emphasis on seeking concessional financing, the plan envisages no new loans from commercial banks, but banks' exposure is expected to increase in connection with the restructuring agreement currently being negotiated. The Paris Club will meet in June 1986 to examine Bolivia's request to restructure on generous terms debt service in arrears and falling due in 1986. Debt restructuring on similar terms is being sought from socialist countries and private creditors without official guarantee. All arrears to foreign creditors are to be eliminated by early 1987.

b. There is a limit on the increase in net disbursements of external public debt in the one-to-ten year maturity range.

c. A reporting system to monitor the short-term external debt position of the public sector is being set up in the Central Bank.

d. Official guarantees on private external debt will not be provided under the program.

5. External trade and payments policy

a. The trade system is scheduled to remain open and protection against imports will be provided by a modest, uniform tariff level with limited duty exemptions.

b. The number of restrictive exchange practices has been reduced by the elimination of the tax on profit remittances, the prior deposit requirements on exports and on exchange purchases in the auction market, and the reimbursement for export surrenders. The remaining external payments arrears are to be eliminated by early 1987. Multiple currency practices may, however, arise occasionally from the operation of the Dutch auction system and the surrender of nonmerchandise export proceeds in the parallel exchange market.

c. The authorities' determination to resist recourse to exchange and trade restrictions is reflected in the standard performance clause on the introduction of restrictions on payments and transfers for current international transactions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII, and import restrictions for balance of payments reasons.

6. Structural and institutional reforms

a. In the financial system, the authorities are planning to create a more independent superintendency of banking and a separate development bank to channel foreign funds through domestic credit institutions. In addition, they are studying the feasibility of creating a national stock exchange.

b. The state petroleum company and the state mining company are being reorganized and decentralized with technical assistance from the World Bank. Prior to the reorganization, the assets of the state smelting company and of the lead-silver smelter were transferred to the mining company. Similarly, the assets of the enterprises fully owned by the state development corporation and the state road transport company were transferred to regional and local bodies. Private sector concessionaires are expected to take over the local distribution of petroleum products.

c. Direct foreign investment is being encouraged, especially in the hydrocarbons and mining sectors. To this effect, most of the vast exclusive exploration and exploitation rights of the state companies have been abolished and the Government is reviewing the relevant legislation and institutional arrangements governing private investment. Also, an agreement with the U.S. Overseas Private Investment Corporation (OPIC) has been signed, and Bolivia has signed the convention establishing the Multilateral Investment Guarantee Agency (MIGA).

d. With the abolition of the employment stability regulations, both the private and the public sectors are free to lay off labor for economic reasons. There will be no government intervention in the wage determination process in the private sector except that the national minimum wage also is applicable in the private sector. The number of paid holidays has been reduced substantially.

e. Technical assistance from the Fund and other international organizations is being requested to help the Government in its effort to rebuild institutions, strengthen administrative procedures, and improve the statistical data base.

Table 9. Bolivia: Macroeconomic Flows

(In percent of GDP)

	1982	1983	1984	Prel. 1985	Prog. 1986
I. Balance of Payments					
Current account	-4.0	-3.6	-3.0	-6.5	-7.9
Trade balance	5.6	3.9	5.4	1.6	-1.5
Factor payments	-10.0	-10.0	-10.1	-9.4	-8.3
Other services and transfers	0.4	2.5	1.6	1.3	1.9
Capital account	2.4	10.6	6.5	7.2	6.8
Nonfinancial public sector	0.1	-3.4	5.6 1/	4.9 2/	5.4
Other capital 3/	2.3	14.1 4/	0.9	2.3	1.4
Change in net official reserve (increase -)	1.5	-7.0	-3.5	-0.7	0.4
II. Nonfinancial public sector					
General Government					
Current account savings 5/	-11.7	-19.2	-22.6	-10.2	0.9
Total revenue	11.5	11.3	5.1	9.2	17.3
Total expenditure	25.7	28.9	30.0	21.1	19.4
Overall surplus or deficit (-)	-14.2	-17.6	-24.9	-11.9	-2.1
Nonfinancial state enterprises					
Current account savings 5/	2.8	1.2	-2.6	-0.7	-1.4
Capital expenditure (net)	4.6	2.8	2.4	1.3	2.9
Overall surplus or deficit (-)	-1.8	-1.6	-5.0	-2.0	-4.2
Consolidated nonfinancial public sector					
Current account savings 5/	-8.9	-18.0	-25.2	-10.9	-0.4
Capital revenue and net lending	0.4	4.4	0.3	0.3	1.4
Capital expenditure	7.5	5.7	4.9	3.3	7.3
Overall deficit 5/	-16.0	-19.2	-29.8	-14.0	-6.4
Net foreign financing 6/	0.1	-3.4	5.6	4.9	5.4
Net domestic financing	15.9	22.6	24.2	9.1	1.0
III. Savings and Investment					
Fixed capital formation	11.6	7.0	4.9	3.3	9.5
Nonfinancial public sector	7.5	5.7	4.9	3.3	7.3
Private sector	4.1	1.4	—	—	2.2
Investment = savings	9.8	3.5	4.9	3.3	10.5
External savings	4.0	3.6	3.0	6.5	7.9
National savings	5.8	-0.1	1.9	-3.2	2.6
Nonfinancial public sector	-9.0	-18.0	-25.3	-10.9	-0.4
Private sector	14.8	17.9	27.2	7.7	3.0
Memorandum items:					
Nominal GDP (in billions of Bolivian pesos)	389	1,357	18,347	2,421,540	9,437,273
Average official exchange rate (b/US1)	67	230	2,981	446,215	2,108,800

Sources: Bolivian authorities; and Fund staff estimates.

1/ Includes the payment by Argentina of US$188 million (or 4.3 percent of GDP) of arrears on gas exports accumulated since 1982.
2/ Includes the payment by Argentina of US$55 million (or 1.3 percent of GDP) of arrears on gas exports.
3/ Includes net borrowing by the financial public sector, nonofficial reserve movements, and net errors and omissions.
4/ Includes the medium-term refinancing of US$405 million (or 9.5 percent of GDP) of central bank reserve liabilities.
5/ Includes unpaid interest.
6/ Includes unpaid debt service.

Table 10. Bolivia: Summary of Public Sector Operations

(In millions of Bolivian pesos)

	1982	1983	1984	Prel. 1985	Prog. 1986
I. Central Administration Operations					
Current revenue	22,096.6	48,476.1	593,412.2	193,194,631.8	1,179,120,357.0
Tax revenue	19,015.0	37,413.0	552,545.4	186,936,710.9	1,122,155,092.5
Of which: current transfers	6,972.2	10,155.3	160,351.9	134,218,356.8	816,526,142.6
From nonfinancial public enterprises	6,926.8	9,857.7	160,060.6	134,218,356.8	816,526,142.6
From local governments	42.8	278.5	243.5	--	--
From decentralized agencies	2.6	19.1	47.8	--	--
Nontax revenue	3,081.6	11,063.1	40,866.8	6,257,920.9	56,965,264.5
Current expenditure	75,502.9	320,228.7	4,295,050.0	298,702,648.1	1,174,812,140.8
Of which: current transfers	9,405.1	44,730.8	1,029,115.9	61,138,712.3	92,599,526.3
To private sector	4,092.3	22,475.8	422,657.7	22,001,677.7	44,262,623.0
To social security institutions	1,592.3	6,232.5	347,610.1	11,971,668.3	46,712,906.3
To decentralized agencies	3,398.2	15,414.1	251,881.9	26,588,417.5	267,868.0
To local governments	--	--	--	--	--
To nonfinancial public enterprises	--	--	1,732.0	92,681.8	--
To international organizations	17.4	169.2	5,066.8	484,267.0	1,356,129.0
To specialized banks	304.9	439.2	167.4	--	--
Current account surplus or deficit (-)	-53,406.3	-271,752.6	-3,701,637.8	-105,508,016.3	4,308,216.2
Capital revenue and grants	1,906.7	59,037.5	12,533.1	2,900,397.5	92,365,429.0
Capital expenditure	7,476.1	24,151.6	277,028.9	43,021,192.0	382,019,300.0
Of which: capital transfers	462.7	1,775.3	37,642.6	88,128.6	--
To social security institutions	--	--	--	--	--
To decentralized agencies	346.7	151.3	34,603.6	--	--
To local governments	--	--	--	--	--
To nonfinancial public enterprises	116.0	1,624.0	3,039.0	88,128.6	--
Net lending	8.6	322.7	4,202.4	--	--
Overall surplus or deficit (-)	-58,984.3	-237,189.4	-3,970.336.0	-145,628,810.8	-285,345,654.8
Financing	58,984.3	237,189.4	3,970,336.0	145,628,810.8	285,345,654.8
External financing (net)	2,954.5	820.6	27,085.9	7,219,758.7	340,300,298.0
Internal financing (net)	56,029.8	236,368.8	3,943,250.1	138,409,052.1	54,954,643.2
Banking system (net)	64,881.0	233,740.0	3,977,329.3	138,409,052.1	54,954,643.2
Other (net)	-8,851.2	2,628.8	-34,079.2	--	--
Short-term foreign loans	--	--	--	--	--
II. Social Security Operations 1/					
Current revenue	8,174.0	21,286.0	371,309.4	22,826,709.5	152,601,806.0
Social security contributions 2/	7,198.3	18,257.0	371,309.4	22,826,709.5	86,582,459.7
From Central Administration	1,592.3	6,232.5	347,610.1	11,971,668.3	46,712,906.3
From decentralized agencies	156.1	44.2	--	--	9,271,962.4
From local governments	379.0	--	--	--	--
From nonfinancial public enterprises	923.5	1,337.3	23,699.3	10,855,041.2	30,597,591.0
From private sector	4,147.4	10,643.0	...	...	...
Other revenue	975.7	3,029.0	...	...	66,019,346.3
Current expenditure	6,044.0	21,444.0	295,927.2	34,031,628.0	108,882,237.0
Of which: current transfers	1,367.0	4,932.0	68,063.0	--	37,744,860.0
To private sector	1,367.0	4,932.0	68,063.0	--	37,744,860.0
To international organizations	--	--	--	--	--
Current account surplus or deficit (-)	2,130.0	-158.0	75,382.2	-11,204,918.5	43,719,569.0
Capital revenue and grants	67.0	--	--	--	--
Of which: capital transfers	--	--	--	--	--
From Central Administration	--	--	--	--	--
From decentralized agencies	--	--	--	--	--
From local governments	67.0	--	--	--	--
From nonfinancial public enterprises	--	--	--	--	--
Capital expenditure	676.0	5,454.0	75,265.2	865,549.8	--
Of which: capital transfers	--	--	--	--	--
Net lending	189.0	117.0	117.0	117.0	--
Overall surplus or deficit (-)	1,332.0	-5,729.0	--	-12,070,585.3	43,719,569.0
Financing	-1,332.0	5,729.0	--	12,070,585.3	-43,719,569.0
External financing (net)	-2.7	-18.7	--	--	--
Internal financing (net)	-1,329.3	5,747.7	--	12,070,585.3	-43,719,569.0
Banking system (net)	-181.3	361.0	--	12,070,585.3	-43,719,569.0
Other (net)	-1,148.0	5,386.7	--	--	--

Table 10. Bolivia: Summary of Public Sector Operations (Continued)

(In millions of Bolivian pesos)

	1982	1983	1984	Prel. 1985	Prog. 1986
III. Other Decentralized Agencies					
Current revenue	6,615.2	22,755.2	251,881.9	26,588,417.5	47,102,372.0
Of which: current transfers	3,398.2	15,414.1	251,881.9	26,588,417.5	267,868.0
From Central Administration	3,398.2	15,414.1	251,881.9	26,588,417.5	267,868.0
From local governments	--	--	--	--	--
From nonfinancial public enterprises	--	--	--	--	--
Current expenditure	3,482.7	18,985.9	497,327.3	57,192,631.5	32,050,535.0
Of which: current transfers	171.6	73.3	47.8	--	9,271,962.4
To private sector	12.9	10.0	--	--	--
To Central Administration	2.6	19.1	47.8	--	--
To social security	156.1	44.2	--	--	9,271,962.4
To local governments	--	--	--	--	--
To nonfinancial public enterprises	--	--	--	--	--
To international organizations	--	--	--	--	--
To specialized banks	--	--	--	--	--
Current account surplus or deficit (-)	3,132.5	3,769.3	-245,445.4	-30,604,214.0	15,051,837.0
Capital revenue and grants	346.7	151.3	36,523.2	--	--
Of which: capital transfers	346.7	151.3	36,523.2	--	--
From Central Administration	346.7	151.3	34,603.6	--	--
From local governments	--	--	1,919.6	--	--
Capital expenditure	536.2	2,624.3	36,215.5	832,959.2	--
Net lending	1.4	14.9	--	--	--
Overall surplus or deficit (-)	2,941.6	1,281.4	-245,137.7	-31,437,173.2	15,051,837.0
Financing	-2,941.6	-1,281.4	245,137.7	31,437,173.2	-15,051,837.0
External financing (net)	-197.9	579.1	8,200.3	727,330.5	--
Internal financing (net)	-2,743.7	-1,860.5	236,937.4	30,709,842.7	-15,051,837.0
Banking system (net)	1,289.6	18,061.0	236,937.5	30,709,842.7	-15,051,837.0
Other (net)	-4,033.3	-19,921.5	-0.1	--	--
IV. Subtotal Central Government Operations)					
Current revenue	31,736.6	70,807.4	617,063.7	204,049,673.0	1,322,571,798.3
Of which: current transfers	8,272.1	11,473.5	184,003.4	145,073,398.0	847,123,733.6
From local governments	421.8	278.5	243.5	--	--
From nonfinancial public enterprises	7,850.3	11,195.0	183,759.9	145,073,398.0	847,123,733.6
Current expenditure	79,880.4	338,948.7	4,488,764.7	351,366,821.8	1,259,492,176.1
Of which: current transfers	5,794.5	28,026.2	497,686.9	22,578,626.5	83,363,612.0
To private sector	5,472.2	27,417.8	490,720.7	22,001,677.7	82,007,483.0
To local governments	--	--	--	--	--
To nonfinancial public enterprises	--	--	1,732.0	92,681.8	--
To international organizations	17.4	169.0	5,066.8	484,267.0	1,356,129.0
To specialized banks	304.9	439.2	167.4	--	--
Current account surplus or deficit (-)	-48,143.8	-268,141.3	-3,871,701.0	-147,317,148.8	63,079,622.2
Capital revenue and grants	1,973.7	59,037.5	14,452.7	2,900,397.5	92,365,429.0
Of which: capital transfers	--	--	1,919.6	--	--
From local governments	--	--	1,919.6	--	--
Capital expenditure	8,341.6	32,078.6	353,906.0	44,719,701.0	382,019,300.0
Of which: capital transfers	116.0	1,624.0	3,039.0	88,128.6	--
To local governments	--	--	--	--	--
To nonfinancial public enterprises	116.0	1,624.0	3,039.0	88,128.6	--
Net lending	199.0	454.6	4,319.4	117.0	--
Overall surplus or deficit (-)	-54,710.7	-241,637.0	-4,215,473.7	-189,136,569.3	-226,574,248.8
Financing	54,710.7	241,637.0	4,215,473.7	189,136,569.3	226,574,248.8
External financing (net)	2,753.9	1,381.0	35,286.2	7,947,089.2	340,300,298.0
Internal financing (net)	51,956.8	240,256.0	4,180,187.5	181,189,480.1	-113,726,049.2
Banking system (net)	65,989.3	252,162.0	4,214,266.8	181,189,480.1	-113,726,049.2
Other (net)	-14,032.5	-11,906.0	-34,079.3	--	--
Short-term foreign loans	--	--	--	--	--

Table 10. Bolivia: Summary of Public Sector Operations (Continued)

(In millions of Bolivian pesos)

	1982	1983	1984	Prel. 1985	Prog. 1986
V. Local Government Operations					
Current revenue	10,950.0	22,599.3	287,682.4	14,094,085.9	217,135,870.3
Of which: current transfers	8,143.4	19,957.6	287,682.4	14,094,085.9	144,431,245.6
From Central Government	--	--	--	--	--
From nonfinancial public enterprises	8,143.4	19,957.6	287,682.4	14,094,085.9	144,431,245.6
Current expenditure	4,360.2	14,304.2	463,449.2	53,296,658.5	193,047,645.0
Of which: current transfers	421.8	278.5	243.5	--	--
To social security institutions	379.0	--	--	--	--
To private sector	--	--	--	--	--
To Central Administration	42.8	278.5	243.5	--	--
To decentralized agencies	--	--	--	--	--
To nonfinancial public enterprises	--	--	--	--	--
Current account surplus or deficit (-)	6,589.8	8,295.1	-175,766.8	-39,202,572.6	24,088,225.3
Capital revenue and grants	319.8	1,179.5	16,276.3	1,871,769.7	--
Of which: capital transfers	--	--	--	--	--
From Central Government	--	--	--	--	--
Capital expenditure	2,903.0	5,776.6	79,717.1	1,833,492.8	--
Of which: capital transfers	--	--	1,919.6	--	--
To Central Government	--	--	1,919.6	--	--
Net lending	518.6	0.1	--	--	--
Overall surplus or deficit (-)	3,488.0	3,697.9	-239,207.6	-39,164,295.7	24,088,225.3
Financing	-3,488.0	-3,697.9	239,207.6	39,164,295.7	-24,088,225.3
External financing (net)	198.2	436.5	10,459.1	-1,044,143.1	--
Internal financing (net)	-3,686.2	-4,134.4	228,748.5	40,208,438.8	-24,088,225.3
Banking system (net)	-1,421.3	2,697.0	228,748.5	40,208,438.8	-24,088,225.3
Other (net)	-2,264.9	-6,831.4	--	--	--
VI. Subtotal General Government Operations)					
Current revenue	42,264.8	93,128.2	904,502.6	218,143,758.9	1,539,707,668.6
Of which: current transfers	15,993.7	31,152.6	471,442.3	159,167,483.9	991,554,979.2
From nonfinancial public enterprises	15,993.7	31,152.6	471,442.3	159,167,483.9	991,554,979.2
Payments to sinking funds	--	--	--	--	--
Current expenditure	83,818.8	352,974.4	4,951,970.4	404,663,480.3	1,452,539,821.1
Of which: current transfers	5,794.5	28,026.2	497,686.9	22,578,626.5	83,363,612.0
To private sector	5,472.2	27,417.8	490,720.7	22,001,677.7	82,007,483.0
To nonfinancial public enterprises	--	--	1,732.0	92,681.8	--
To international organizations	17.4	169.2	5,066.8	484,267.0	1,356,129.0
To specialized banks	304.9	439.2	167.4	--	--
Current account surplus or deficit (-)	-41,554.0	-259,846.2	-4,047,467.8	-186,519,721.4	87,167,847.5
Capital revenue	2,293.5	60,217.0	28,809.4	4,772,167.2	92,365,429.0
Capital expenditure	11,244.6	37,855.2	431,703.5	46,553,193.8	382,019,300.0
Of which: transfers to non-financial public enterprises	116.0	1,624.0	3,039.0	88,128.6	--
Net lending	717.6	454.7	4,319.4	117.0	--
Overall surplus or deficit (-)	-51,222.7	-237,939.1	-4,454,681.3	-228,300,865.0	-202,486,023.5
Financing	51,222.7	237,939.1	4,454,681.3	228,300,865.0	202,486,023.5
External financing (net)	2,952.1	1,817.5	45,745.3	6,902,946.1	340,300,298.0
Internal financing (net)	48,270.6	236,121.6 4,	4,408,936.0	221,397,918.9	-137,814,274.5
Banking system (net)	64,568.0	254,859.0 4,	4,443,015.3	221,397,918.9	-137,814,274.5
Other (net)	-16,297.4	-18,737.4	-34,079.3	--	--
Short-term foreign loans	--	--	--	--	--

Table 10. Bolivia: Summary of Public Sector Operations (Concluded)

(In millions of Bolivian pesos)

	1982	1983	1984	Prel. 1985	Prog. 1986
VII. Operations of Nonfinancial State Enterprises					
Current account surplus or deficit before transfers	27,784.5	48,172.1	13,362.0	156,960,417.2	863,313,018.6
Net transfers to general government	-15,993.7	-31,152.6	-471,442.3	-159,167,483.9	-991,554,979.2
Current account surplus or deficit (-)	11,790.8	17,019.5	-458,080.3	-2,207,066.7	-128,241,960.6
Capital revenue	247.0	2,249.0	32,346.0	1,445,277.0	37,640,219.2
Of which: transfers from general government	116.0	1,624.0	3,039.0	88,128.6	—
Capital expenditure	18,016.7	40,577.1	470,974.8	33,033,338.3	307,467,786.4
Of which: capital transfers to General Government	--	--	--	609.9	—
Net lending	—	—	—	—	--
Overall surplus or deficit (-)	-5,978.9	-21,308.6	-896,709.1	-33,795,737.9	-398,069,527.8
Financing	5,978.9	21,308.6	896,709.1	33,795,737.9	398,069,527.8
External financing (net)	-6,747.4	-23,092.8	401,122.6	2,280,158.7	169,855,253.3
Internal financing (net)	16,150.3	44,401.4	495,586.5	31,515,579.2	228,214,274.5
Banking system (net)	64,446.0	182,021.0	698,704.0	31,515,579.2	228,214,274.5
Other (net)	-48,295.7	-137,619.6	-203,117.5	--	--
Short-term foreign loans	-3,424.0	—	—	—	—
VIII. Operations of the Consolidated Public Sector					
Unadjusted current account surplus or deficit (-)	-29,763.2	-242,826.7	-4,505,548.1	-188,726,788.1	-41,074,113.1
Adjustments for earmarked deposits and sinking funds	—	—	—	—	—
Adjusted current account surplus or deficit (-)	-29,763.2	-242,826.7	-4,505,548.1	188,726,788.1	-41,074,113.1
Capital revenue	2,424.5	60,842.0	58,116.4	6,129,315.6	130,005,648.2
Capital expenditure	29,145.3	76,808.3	899,639.3	79,498,403.5	689,487,086.4
Net lending	717.6	454.7	4,319.4	726.9	--
Overall surplus or deficit (-)	-57,201.6	-259,247.7	-5,351,390.4	-262,096,602.9	-600,555,551.3
Financing	57,201.6	259,247.7	5,351,390.4	262,096,602.9	600,555,551.3
External financing (net)	-3,795.3	-21,275.3	446,867.9	9,183,104.8	510,155,551.3
Internal financing (net)	64,420.9	280,523.0	4,904,522.5	252,913,498.1	90,400,000.0
Banking system (net)	129,014.0	436,880.0	5,141,719.3	252,913,498.1	90,400,000.0
Other (net)	-64,593.1	-156,357.0	-237,196.8	--	--
Short-term foreign loans	-3,424.4	—	—	—	—

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

1/ For 1980-81, data shown are only for CNSS, the major social security fund. However, transfers to social security institutions include data for other social security funds as well as for housing funds because the Bolivian authorities were unable to provide detailed information necesssary for separately identifying such transfers.

2/ Public sector contributions exclude employee contributions of public sector workers which are combined with employer and employee contributions of private sector workers.

Table 11. Bolivia: Central Administration Operations

(In millions of Bolivian pesos)

	1982			1983			1984		
	Treasury Accounts	Other 1/ Accounts	Total	Treasury Accounts	Other 1/ Accounts	Total	Treasury Accounts	Other 1/ Accounts	Total
Current revenue	21,377.5	719.1	22,096.6	43,983.6	4,492.5	48,476.1	586.575.0	6,837.2	593,412.2
Tax revenue	19,015.0	--	19,015.0	37,413.0	--	37,413.0	552,545.4	--	552,545.4
Internal revenue	7,650.0		7,650.0	20,392.3		20,392.3	154,415.0		154,415.0
Property taxes (revaluation of assets tax	--		--	--		--	--		--
Taxes on goods and services	4,882.8		4,882.8	6,132.0		6,132.0	67,576.6		67,576.6
YPFB petroleum and gas	4,738.2		4,738.2	4,949.0		4,949.0	62,763.7		62,763.7
Production taxes	4,186.4		4,186.4	3,510.2		3,510.2	59,215.2		59,215.2
Sales tax on refined petroleum	269.1		269.1	1,438.8		1,438.8	3,548.5		3,548.5
Monopoly tax	282.7		282.7	--		--	--		--
Tax on banking credits	144.6		144.6	1,183.0		1,183.0	4,812.9		4,812.9
Taxes on international trade and transactions	6,482.2		6,482.2	10,888.7		10.888.7	330,553.8		330,553.8
Import duties	4,341.5		4,341.5	6,909.2		6,909.2	139,300.5		139,300.5
Customs duties	3,799.5		3,799.5	5,820.4		5,820.4	122,871.3		122,871.3
Consular fees	542.0		542.0	1,088.8		1,088.8	16,429.2		16,429.2
Tax on mining exports	1,775.5		1,775.5	1,592.3		1,592.3	123,911.1		123,911.1
On state mining	1,460.3		1,460.3	441.7		441.7	69,620.9		69,620.9
COMIBOL	--		--	--		--	--		--
ENAF	1,426.4		1,426.4	441.7		441.7	69,620.9		69,620.9
On other mining	349.1		349.1	1,150.6		1,150.6	54,290.2		54,290.2
Tax on agricultural exports	0.1		0.1	--		--	6.0		6.0
Ad valorem export taxes	65.1		65.1	225.5		225.5	77.4		77.4
COMIBOL (direct)	--		--	--		--	--		--
YPFB	--		--	--		--	--		--
Other	--		--	225.5		225.5	77.4		77.4
Foreign exchange tax	300.0		300.0	2,161.7		2,161.7	67,258.8		67,258.8
Nontax revenue	2,362.5	719.1	3,081.6	6,570.6	4,492.5	11,063.1	34,029.6	6,837.2	40,866.8
Postal and communication fees	77.4	--	77.4	173.0	--	173.0	1,075.0	--	1,075.0
Other revenue	2,061.7	719.1	2,780.8	6,397.6	4,492.5	10,890.1	29,842.8	6,837.2	36,680.0
Fund for local counterparts (FFAL)	--	--	--	--	--	--	3,111.8	--	3,111.8
Payments to sinking funds (external debt)	223.4	--	223.4	--	--	--	--	--	--
Current expenditure	42,041.2	33,461.7	75,502.9	227,780.1	92,448.6	320,228.7	2,661,462.4	1,633,587.6	4,295,050.0
Wages and salaries	21,866.2	--	21,866.2	73,060.6	--	73,060.6	1,503,516.4	--	1,503,516.4
Purchases of goods and services	3,655.8	--	3,655.8	16,039.2	--	16,039.2	256,950.4	--	256,950.4
Interest payments	8,075.7	-1,356.6	6,719.1	80,769.1	-51,845.4	28,923.7	89,193.9	219,073.6	308,267.5
Internal debt	95.7	--	95.7	341.9	--	341.9	27,930.2	--	27,930.2
External debt	7,980.0	-1,356.6	6,623.4	80,427.2	-51,845.4	28,581.8	61,263.7	219,073.6	280,337.3
Current transfers	6,983.8	2,421.3	9,405.1	36,963.9	7,766.9	44,730.8	790,712.5	238,403.4	1,029,115.9
To private sector	4,092.3	--	4,092.3	22,475.8	--	22,475.8	422,657.7	--	422,657.7
To international organizations	17.4	--	17.4	169.2	--	169.2	5,066.8	--	5,066.8
To specialized banks	--	304.9	304.9	--	439.2	439.2	--	167.4	167.4
To social security entities 2/	1,592.3	--	1,592.3	6,232.5	--	6,232.5	212,228.4	135,381.7	347,610.1
To rest of nonfinancial public sector	1,281.8	2,116.4	3,398.2	8,086.4	7,327.7	15,414.1	150,759.6	102,854.3	253,613.9
Other expenditure	1,459.7	32,397.0	33,856.7	20,947.3	136,527.1	157,474.4	21,089.2	1,176,110.6	1,197,199.8

Table 11. Bolivia: Central Administration Operations (Continued)

(In millions of Bolivian pesos)

	1982			1983			1984		
	Treasury Accounts	Other 1/ Accounts	Total	Treasury Accounts	Other 1/ Accounts	Total	Treasury Accounts	Other 1/ Accounts	Total
Current account surplus or deficit (-)	-20,663.7	-32,742.6	-53,406.3	-183,796.5	-87,956.1	-271,752.6	-2,074,887.4	-1,626,750.4	-3,701.637.8
Capital revenue and grants	--	1,906.7	1,906.7	--	59,037.5	59,037.5	--	12,533.1	12,533.1
Capital expenditure	1,557.3	5,918.7	7,476.0	6,169.1	17,982.5	24,151.6	105,617.6	171,411.3	277,028.9
Capital formation	1,557.3	5,456.1	7,013.4	6,169.1	16,207.2	22,376.3	105,617.6	133,768.7	239,386.3
Capital transfers to rest of public sector	--	462.6	462.6	--	1,775.3	1,775.3	--	37,642.6	37,642.6
Net lending	8.6	--	8.6	322.7	--	322.7	4,202.4	--	4,202.4
Overall surplus or deficit (-)	-22,229.6	-36,754.6	-58,984.2	-190,288.3	-46,901.1	-237,189.4	-2,184,707.4	-1,785,628.6	-3,970,336.0
Financing	22,229.6	36,754.6	58,984.2	190,228.3	46,901.1	237,189.4	2,184,707.4	1,785,628.6	3,970,336.0
External financing	-2.2	2,956.7	2,954.5	-114,872.5	115,693.1	820.6	-80,050.7	107,136.6	27,085.9
Drawings	--	6,455.0	6,455.0	--	11,849.0	11,849.0	--	138,075.1	138,075.1
Amortization	-2.2	-3,498.3	-3,500.5	-114,872.5	103,844.1	-11,028.4	-80,050.7	-30,938.5	-110,989.2
Internal financing	22,231.8	34,089.5	56,321.3	305,160.8	-68,792.0	236,368.8	2,264.758.1	1,678,492.0	3,943,250.1
Central Bank (net)	22,548.7	43,257.3	65,806.0	265,616.4	-27,529.4	238,087.0	2,298,837.3	1,678,492.0	3,977,329.3
Change in credit	26,389.2	151,696.8	178,086.0	263,473.2	-130,962.2	132,511.0	2,479,925.2	3,382,811.1	5,862,736.3
Change in deposits (increase -)	-3,840.5	-108,439.5	-112,280.0	2,143.2	103,432.8	105,576.0	-181,087.9	-1,704,319.1	-1,885,407.0
Rest of banking system	--	-925.0	-925.0	--	-4,347.0	-4,437.0	--	--	--
Amortization of internal debt	-316.9	--	-316.9	-11,399.1	--	-11,399.1	-34,079.2	--	-34,079.2
Other	--	-8,242.8	-8,242.8	50,943.5	-36,915.6	14,027.9	--	--	--
Short-term foreign loans	--	--	--	--	--	--	--	--	--
Other external debt operations	--	-291.6	-291.6	--	--	--	--	--	--
Payments	--	-291.6	-291.6	--	--	--	--	--	--
Amortization of refinanced debt	--	-291.6	-291.6	--	--	--	--	--	--
Amortization of debt in arrears	--	--	--	--	--	--	--	--	--
Exceptional financing	--	--	--	--	--	--	--	--	--
Interest in arrears	--	--	--	--	--	--	--	--	--
Amortization on arrears	--	--	--	--	--	--	--	--	--
Memorandum items									
Change in floating debt	14,682.2	--	14,682.2	-13,257.1	--	-13,257.1	53,591.4	--	53,591.4
Payments postponed to following year	15,053.2	--	15,053.2	1,796.1	--	14,574.6	68,166.0	--	68,166.0
Payments of previous years' obligations (-)	-371.0	--	-371.0	-15,053.2	--	-15,053.2	-14,574.6	--	-14,574.6
Total expenditure	43,607.1	39,380.4	82,987.5	234,271.9	110,431.1	344,703.0	2,771,282.4	1,804,998.9	4,576,281.3

Table 11. Bolivia: Central Administration Operations (Continued)

(In millions of Bolivian pesos)

	Prel. 1985			Prog. 1986		
	Treasury Accounts	Other 1/ Accounts	Total	Treasury Accounts	Other 1/ Accounts	Total
Current revenue	193,194,631.8	—	193,194,631.8	1,179,120,357.0	—	1,179,120,357.0
Tax revenue	193,194,631.8	—	93,194,631.8	1,122,155,092.5	—	1,122,155,092.5
Internal revenue	22,531,782.0		22,531,782.0	205,261,659.0		205,261,659.0
Property taxes (revaluation of assets tax)	--		--	--		--
Taxes on goods and services	133,473,755.0		133,473,755.0	816,526,142.6		816,526,142.6
YPFB petroleum and gas	133,248,500.5		133,248,500.5	816,526,142.6		816,526,142.6
Production taxes	122,606,916.5		122,606,916.5	312,136,984.3		312,136,984.3
Sales tax on refined petroleum	10,641,584.0		10,641,584.0	103,571,229.3		103,571,229.3
Monopoly tax	--		--	400,817,929.0		400,817,929.0
Tax on banking credits	225,254.5		225,254.5	--		--
Taxes on international trade and transactions	30,931,173.9		30,931,173.9	100,367,290.9		100,367,290.9
Import duties	24,126,907.8		24,126,907.8	100,367,290.9		100,367,290.9
Customs duties	22,701,758.1		22,701,758.1	96,148,847.4		96,148,847.4
Consular fees	1,425,149.7		1,425,149.7	4,218,443.5		4,218,443.5
Tax on mining exports	5,885,237.6		5,885,237.6	--		--
On state mining	213,643.3		213,643.3	--		--
COMIBOL	--		--	--		--
ENAF	213,643.3		213,643.3	--		--
On other mining	5,671,594.3		5,671,594.3	--		--
Tax on agricultural exports	6.3		6.3	--		--
Ad valorem export taxes	--		--	--		--
COMIBOL (direct)	--		--	--		--
YPFB	--		--	--		--
Other	--		--	--		--
Foreign exchange tax	919,022.2		919,022.2	--		--
Nontax revenue	6,257,920.9	—	6,257,920.9	56,965,264.5	—	56,965,264.5
Postal and communication fees	158,612.6	--	158,612.6	646,495.4	--	646,495.4
Other revenue	2,301.296.9	--	2,301,296.9	56,318,769.1	--	56,318,769.1
Fund for local counterparts (FFAL)	3,798,011.4	--	3,709,011.4	--	--	--
Payments to sinking fund (external debt)	--	--	--	--	--	--
Current expenditure	216,870,139.2	81,832,509.0	298,702,648.2	1,072,817,269.0	101,994,871.9	1,174,812,140.9
Wages and salaries	124,142,556.8	--	124,142,556.8	233,005,095.7	--	233,005,095.7
Purchases of goods and services	29,901,825.0	--	29,901,825.0	282,658,697.0	--	282,658,697.0
Interest payments	12,842,626.3	3,698,422.4	16,541,048.7	397,179,998.0	--	397,179,998.0
Internal debt	803,045.6	--	803,045.6	9,461,435.0	--	9,461,435.0
External debt	12,039,580.7	3,698,422.4	15,738,003.1	387,718,563.0	--	387,718,563.0
Current transfers	48,304,625.7	12,834,086.6	61,138,712.3	92,599,526.3	--	92,599,526.3
To private sector	22,001,677.7	--	22,001,677.7	44,262,623.0	--	44,262,623.0
To international organizations	484,267.0	--	484,267.0	1,356,129.0	--	1,356,129.0
To specialized banks	--	--	--	--	--	--
To social security entities	11,971,668.3	--	11,971,668.3	46,712,906.3	--	46,712,906.3
To rest of nonfinancial public sector	13,847,012.7	12,834,086.6	26,681,099.3	267,868.0	--	267,868.0
Other expenditure	1,678,505.4	65,300,000.0	66,978,505.4	67,373,952.0	101,994,871.9	169,368,823.9

Table 11. Bolivia: Central Administration Operations (Concluded)

(In millions of Bolivian pesos)

	Prel. 1985			Prog. 1986		
	Treasury Accounts	Other 1/ Accounts	Total	Treasury Accounts	Other 1/ Accounts	Total
Current account surplus or deficit (-)	-23,675,507.4	-81,832,509.0	-105,508,016.4	106,303,088.0	-101,994,871.9	4,308,216.2
Capital revenue and grants	—	2,900.397.5	2,900,397.5	—	92,365,429.0	92,365,429.0
Capital expenditure	8,253,233.6	34,767,958.3	43,021,191.9	60,780,933.0	321,238,367.0	382,019,300.0
Capital formation	8,253,233.6	34,679,829.7	42,933,063.3	60,780,933.0	321,238,367.0	382,019,300.0
Capital transfers to rest of public sector	—	88,128.6	88,128.6	--	--	—
Net lending	—	—	—	—	—	—
Overall surplus or deficit (-)	-31,928,741.0	-113,700,069.8	-145,628,810.8	45,522,155.0	-330,867,809.9	-285,345,654.9
Financing	31,928,741.0	113,700,069.8	145,628,810.8	-45,522,155.0	330,867,809.9	285,345,654.9
External financing	—	7,219,758.7	7,219,758.7	-40,992,608.0	232,106,836.0	191,114,228.0
Drawings	--	31,779,432.3	31,779,432.3	--	232,106,836.0	232,106,836.0
Amortization	---	-24,559,673.6	-24,559,673.6	-40,992,608.0	--	-40,992,608.0
Internal financing	31,928,741.0	106,480,311.1	138,409,052.1	-4,529,547.0	-50,425,096.1	-54,954,643.1
Central Bank (net)	31,928,741.1	106,480,311.1	138,409,052.2	34,657,514.8	-50,425,096.1	-15,767,581.3
Change in credit	70,403,947.3	106,480,311.1	176,884,258.4	34,657,514.8	-50,425,096.1	-15,767,581.3
Change in deposits (increase -)	-38,475,206.2	—	-38,475,206.2	--	--	—
Rest of banking system	—	--	--	--	--	--
Amortization of internal debt	—	—	--	-39,187,061.9	--	-39,187,061.9
Other	-0.1	—	-0.1	--	--	--
Short-term foreign loans	—	—	—	—	—	—
Other external debt operations	—	—	—	—	149,186,070.0	149,186,070.0
Payments	—	—	—	—	—	--
Amortization of refinanced debt	—	—	—	--	--	—
Amortization of debt in arrears	—	—	—	—	--	—
Exceptional financing	--	--	--	--	149,186,070.0	149,186,070.0
Interest in arrears	--	--	--	--	149,186,070.0	149,186,070.0
Amortization in arrears	--	--	--	--	--	--
Memorandum items						
Change in floating debt	53,591.4	--	53,591.4	--	--	—
Payments postponed to following year	110,446,494.5	...	110,446,494.5	110,446,494.5	--	110,446,494.5
Payments of previous year's obligation	-68,166.0	--	-68,166.0	-110,446,494.5	--	-110,446.494.5
Total expenditure	225,123,372.8	116,600,467.3	341,723,840.1	1,172,679,474.3	423,233,238.9	1,595,912,713.2

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

1/ Includes the accounts of certain decentralized agencies which cannot be separated out. Negative figures in this column result from adjustments for differences between fiscal, monetary, and external debt data arising out of exchange rate and classification inconsistencies between the Ministry of Finance and Central Bank.

Table 12. Bolivia: State Petroleum Corporation (YPFB) Operations

(In millions of bolivian pesos)

	1982	1983	1984	Prel. 1985	Prog. 1986
Current revenue	37,976.4	110,209.7	1,814,770.0	258,060,045	1,355,127,471
Exports of crude oil	--	--	--	--	18,980,021
Exports of gas	27,569.9	78,009.7	1,533,071.0	154,080,728	691,264,640
Domestic sales	10,024.2	31,837.0	274,879.0	102,954,705	560,915,110
Other revenue	382.3	363.0	6,820.0	1,024,612	83,967,700
Current expenditure	26,964.4	72,167.7	1,820,676.0	230,167,725	1,293,339,178
Labor costs	3,132.0	10,297.0	859,797.0	21,222,255	49,998,892
Wages and salaries	2,099.0	6,899.0	708,055.0	16,517,398	43,531,517
Social benefits	1,033.0	3,398.0	151,742.0	4,704,857	6,467,375
Social security contributions	65.0	720.0	8,499.0	8,231,431	12,879,670
Purchases of goods and services	9,160.0	29,429.0	567,965.6	53,639,408	274,778,532
Interest payments	1,698.3	7,335.0	43,351.3	174,024	--
Tax payments	12,247.3	22,944.2	338,813.0	146,900,607	955,682,084
Central Government	4,738.2	4,949.0	62,763.7	133,248,501	816,526,143
Production tax 1/	4,186.4	3,510.2	59,215.2	122,606,917	312,136,984
Ad valorem export tax	--	--	--	--	--
Tax on petroleum derivatives	269.1	1,438.8	3,548.5	10,641,584	103,571,229
Monopoly tax	282.7	--	--	--	400,817,929
Indirect taxes	--	--	--	--	--
Local governments production tax	7,509.1	17,995.2	276,049.3	13,652,106	139,155,942
Other	421.6	--	--	--	--
Payments to central administration sinking fund	240.2	1,442.5	2,250.1	--	--
Current account surplus or deficit (-) before transfers	23,564.5	63,148.7	343,656.1	183,024,358	1,017,470,377
Net transfers nonfinancial public sector entities	12,312.3	23,664.2	347,312.0	155,132,038	955,682,084
Unadjusted current account surplus or deficit (-)	11,252.2	39,484.5	-3,655.9	27,892,320	61,788,293
Adjustments for earmarked deposits and sinking funds	-240.2	-1,442.5	-2,250.1	--	--
Adjusted current account surplus or deficit (-)	11,012.0	38,042.0	-5,906.0	27,892,320	61,788,293
Capital revenue	--	--	--	--	--
Capital expenditure	8,992.9	12,544.0	191,484.0	24,338,232	129,269,440
Loans	--	--	--	--	--
Overall surplus or deficit (-)	2,019.1	25,498.0	-197,390.0	3,554,088	-67,481,147
Financing	-2,019.1	-25,498.0	197,390.0	-3,554,088	67,481,147
External financing	-8,350.7	-21,952.5	396,461.5	8,763,663	102,930,188
Drawings	1,420.4	2,284.1	4,911.1	798,725	102,930,188
Amortization	-471.9	-1,941.6	-17,161.6	-2,387,250	--
Export credit (increase -)	-9,299.2	-22,295.0	408,712.0	10,352,188	--
Internal financing	8,366.8	-3,545.5	-199,071.5	-12,317,751	-35,449,041
Central Bank (net)	8,565.3	5,658.4	-5,580.0	-12,317,751	-35,449,041
Other	-198.5	-9,203.9	-193,491.5	--	-35,449,041
Other short-term foreign loans	-2,035.2	--	--	--	--
Memorandum items:					
Current surplus before taxes	23,564.5	63,148.7	343,656.1	183,024,358	1,017,470,377
Overall deficit (-) in percent of GDP	0.5	1.9	-1.1	0.1	-0.7

Sources: State Petroleum Corporation; and Fund staff estimates.

1/ Excludes expenditures incurred against tax liability.

Table 13. Bolivia: Bolivian Mining Corporation (COMIBOL) Operations

(In millions of Bolivian pesos)

	1982	1983	1984	Prel. 1985	Prog. 1986
Current revenue	19,052.0	48,853.0	462,522.0	36,102,520	164,970,311
Net revenue from sale of minerals 1/	18,715.9	44,536.0	420,534.0	32,505,238	157,092,104
Other revenue	336.1	4,317.0	41,988.0	3,597,282	7,878,207
Current expenditure	18,160.0	70,823.0	804,937.0	43,201,418	341,276,509
Labor costs 2/	4,097.0	17,538.0	283,059.0	19,803,590	75,583,739
Purchases of goods and services	10,434.2	42,444.0	443,275.5	20,382,857	250,296,672
Interest payments	625.0	1,240.3	11,420.5	490,837	--
Tax payments	2,697.4	7,721.7	64,251.4	2,524,134	15,396,098
Central Government	2,063.1	5,759.3	52,618.3	2,082,154	10,120,794
Export tax (regalias)	--	--	--	--	--
Expenditures against tax liability	--	--	--	--	--
Transfers to ENAF tax (regalias) 3/	1.3	4,474.0	22,393.6	1,325,941	10,120,794
Ad valorem export tax (regalias) 3/	*1,973.3*	*1,013.2*	*9,094.6*	--	--
Of which: paid directly by COMIBOL	--	--	--	--	--
Indirect taxes 4/	88.5	272.1	21,130.1	756,213	--
Local government export tax (regalias)	634.3	1,962.4	11,633.1	441,980	5,275,304
Payments to central administration sinking fund	306.4	1,879.0	2,930.6	--	--
Current account surplus or deficit (-) before transfers to nonfinancial public sector	3,895.8	-12,369.3	-275,233.0	-4,574,764	-160,910,100
Net transfers nonfinancial public sector entities	2,697.4	7,721.7	64,251.4	2,524,134	15,396,098
Unadjusted current account surplus or deficit (-)	1,198.4	-20,091.0	-339,484.4	-7,098,898	-176,306,198
Adjustments for earmarked deposits and sinking fund	-306.4	-1,879.0	-2,930.6	--	--
Adjusted current account surplus or deficit (-)	892.0	-21,970.0	-342,415.0	-7,098,898	-176,306,198
Capital expenditure	1,694.0	385.0	29,912.0	197,080	96,497,408
Of which: transfers	--	--	--	--	--
Overall surplus or deficit (-)	-802.0	-22,355.0	-372,327.0	-7,295,978	-272,803,606
Financing	802.0	22,355.0	372,327.0	7,295,978	272,803,606
External financing	-492.5	-311.2	-300.0	-1,146,773	70,022,016
Drawings	101.0	281.6	2,213.1	8,924	70,022,016
Amortization	-593.5	-592.8	-2,513.1	-1,155,697	--
Internal financing	1,294.5	22,666.2	372,627.0	8,442,751	202,781,590
Central Bank (net)	25,427,9	19,294.3	415,901.0	8,442,751	202,781,590
Other	-24,133.4	-3,371.9	-43,274.0	--	--
Other short-term foreign loans	--	--	--	--	--
Memorandum items:					
Current surplus before taxes	3,895.8	-12,369,3	-275,233.0	-4,574,764	-160,910,100
Overall deficit (-) in percent of GDP	-0.2	-1.6	-2.0	-0.3	-2.9

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

1/ Value of refined minerals, f.o.b.
2/ Includes contributions to Social Security.
3/ The National Smelting Corporation (ENAF) purchases an increasingly larger proportion of COMIBOL's mining output. As part of these operations, ENAF functions as a tax retention agent for the Central Government (Agente de Retencion) in respect of regalias and ad valorem export tax payments due by COMIBOL. Hence, COMIBOL pays a growing share of its tax liabilities to the Treasury and to local governments (18 percent of gross regalias) by way of ENAF.
4/ Import duties and exchange sales tax.

Table 14. Bolivia: Summary Accounts of the Central Bank

(In billions of Bolivian pesos at end-of-period exchange rates)

	December 31					
	1981	1982	1983	1984	Prel. 1985	Proj. 1986
Net international reserves	-6	-64	-24	922	231,984	199,700
Assets	4	39	88	2,454	456,539	...
Liabilities	10	103	112	1,532	224,555	...
Net domestic assets	21	140	430	4,845	345,119	682,000
Net claims on nonfinancial public sector	20	151	570	7,262	1,239,419	1,589,800
Central government (net)	13	79	317	3,024	365,781	...
Rest of general government (net)	--	1	1	104	42,220	...
Nonfinancial public enterprises (net)	7	71	252	4,134	831,418	...
Net credit to banks	-1	-5	-27	1,067	144,009	363,700
Blocked accounts	--	-1	-392	-10,653	-2,137,802	-2,941,900
Net unclassified assets	2	-20	183	7,169	1,099,493	1,670,400
Medium- and long-term foreign assets	-4	-36	-267	-2,349	-393,197	-562,300
Liabilities to private sector	11	40	139	3,418	183,906	319,400
Currency in circulation	11	40	125	2,973	183,590	318,900
Other	--	--	14	445	316	500

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

Table 15. Bolivia: Summary Accounts of the Financial System

(In billions of Bolivian pesos at end-of-year exchange rates)

	December 31					
	1981	1982	1983	1984	Prel. 1985	Prog. 1986
Net international reserves	-7	-78	-54	382	141,409	74,900
Assets	5	44	108	2,741	501,487	...
Liabilities	12	122	162	2,359	360,078	...
Net domestic assets	41	233	627	6,782	774,601	1,327,100
Net claims on the nonfinancial public sector	20	147	569	7,202	1,233,318	1,583,700
Central government (net)	13	78	315	2,879	359,679	...
Rest of general government (net)	--	-2	1	104	42,220	...
Nonfinancial public enterprises (net)	7	71	253	4,219	831,419	...
Credit to private sector	24	97	212	3,190	485,347	992,000
Blocked accounts	--	-1	-396	-10,650	-2,059,821	-2,831,400
Net unclassified assets	-3	-10	242	7,040	1,115,757	1,582,800
Medium- and long-term foreign assets	-9	-66	-318	-3,276	-630,371	-885,300
Money and quasi-money	25	89	255	3,888	285,639	516,700
Currency in circulation	11	40	127	2,973	183,590	318,900
Demand deposits	6	18	50	386	25,175	48,800
Savings deposits	7	19	52)	529	76,874	149,000
Time deposits	1	12	26)			

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

Table 16. Bolivia: Flows of the Financial System

(In billions of Bolivian pesos if not otherwise indicated)

	1982	1983	1984	1985	Prog. 1986
Net international reserves	-71	25	380	35,193	-112,600
(In millions of U.S. dollars)	-87.8	292.6	70.0	20.8	-51.4
Net domestic assets	206	449	6,692	239,300	466,000
Net credit to the nonfinancial public sector	129	441	5,142	252,900	90,400
Net credit to central government	66	256	4,214	139,500	90,400
Net credit to rest of public sector	63	185	928	113,400	—
Credit to private sector	73	114	2,978	121,100	375.6
Blocked accounts	--	-396	-10,253	-61,300	—
Net unclassified assets	4	290	8,825	-73,400	--
Medium- and long-term foreign liabilities	-57	-253	-2,958	-1,454	-21,600
(In millions of U.S. dollars)	-10.9	-299.3	-253.8	-0.9	-9.0
Liabilities to private sector	78	221	4,114	273,039	331,800

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

Table 17. Bolivia: Projection of the Central Bank's Quarterly Accounts

(Flows in trillions of Bolivian pesos)

	1986			
	I	II	III	IV
International reserves	47.3	-77.2	-71.8	-10.9
(In millions of U.S. dollars)	24.3	-38.0	-32.9	-4.8
Net domestic assets	33.2	94.7	97.3	22.8
Credit to nonfinancial public sector	-17.7	30.3	38.9	38.9
Banking system	36.9	72.5	63.6	6.2
Medium- and long-term foreign assets	14.0	-8.1	-5.2	-22.3
(In millions of U.S. dollars)	7.2	-4.0	-2.4	-9.8
Liabilities to private sector	80.5	17.5	25.5	11.9
Currency in circulation	80.5	17.5	25.5	11.9
Other	--	--	--	--
Memorandum item:				
Accounting exchange rate	1,948,200	2,032,333	2,181,333	2,273,333

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

Table 18. Bolivia: Major Exports and Terms of Trade

	1982	1983	1984	Prel. 1985	Prog. 1986
	(In millions of U.S. dollars)				
Total exports, c.i.f.	898.2	817.3	782.1	669.0	601.5
Tin	278.5	207.9	248.0	186.6	74.0
Other metals	140.7	139.3	116.2	76.9	122.9
Natural gas	381.6	378.1	375.6	372.6	325.1
Other	97.4	92.0	42.3	32.9	79.5
BOP adjustment 1/	-70.5	-62.2	-57.6	-48.4	-57.7
Total exports, f.o.b	827.7	755.1	724.5	620.6	543.8
	(As percent of total exports, c.i.f.)				
Tin	31.0	25.4	31.7	27.9	12.3
Other metals	15.7	17.0	14.9	11.5	20.4
Natural gas	42.5	46.3	48.0	55.7	54.0
Other	10.8	11.3	5.4	4.9	13.2
	(1981=100.0)				
Exports, c.i.f.					
Volume	95.5	87.2	82.6	73.2	81.3
Unit value	95.1	95.1	96.2	92.9	73.3
Imports, c.i.f.					
Volume	59.3	62.7	52.6	60.1	64.3
Unit value	96.4	93.0	92.6	91.0	94.2
Terms of trade	98.6	102.2	103.9	102.2	77.8

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

1/ Represents freight, insurance, refining, and smelting charges incurred abroad.

Table 19. Bolivia: Public and Publicly-Guaranteed External Debt by Creditor 1/

(In millions of U.S. dollars)

	1981	1982	1983	1984	Prel. 1985	Prog. 1986
Medium- and long-term	2,752.8	2,803.3	3,176.1	3,208.2	3,271.4	3,623.4
Multilateral	676.9	720.4	814.8	838.7	872.9	1,052.8
Andean Development Corporation	14.9	14.9	13.0	32.6	31.6	59.3
Andean Reserve Fund	--	--	52.5	39.4	21.9	94.4
IBRD	199.5	199.1	192.3	175.5	206.8)	
IDA	78.3	89.7	92.4	93.7	94.4)	325.1
IDB	335.4	370.3	387.6	420.9	470.2	521.5
IMF Trust Fund	42.1	39.9	37.7	32.4	30.9	28.7
Other	6.7	6.5	39.3	44.2	17.1	23.8
Bilateral 2/	641.1	659.0	1,166.4	1,213.3	1,230.2	1,372.1
Argentina	139.2	145.9	396.5	424.5	412.5	437.3
Brazil	49.3	46.8	164.7	187.1	182.3	187.0
United States	294.2	292.5	278.2	286.2	296.0	332.5
Other	158.4	173.8	327.0	315.5	339.4	415.3
Suppliers' credits	242.6	253.9	207.3	224.9	231.2	234.8
Commercial banks	1,132.9	1,125.9	948.1	892.7	899.4	926.9
Bonds and other	59.3	44.1	39.5	38.6	37.7	36.8
IMF	71.2	86.2	89.2	63.6	51.3	72.9 3/
Short-term	520.0 4/	466.5	51.0	72.5	78.5	28.5
Total	3,344.0	3,356.0	3,316.3	3,344.3	3,401.2	3,724.8

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

1/ Excludes unpaid interest.
2/ Excludes suppliers' credits from socialist countries, but includes private loans with government guarantee.
3/ At SDR 1=US$1.14.
4/ Estimated.

Bolivia--Stand-By Arrangement

Attached hereto is a letter with an annexed Memorandum of Understanding on Economic Policy dated May 29, 1986 from the Minister of Planning and Coordination, the Minister of Finance, and the President of the Central Bank of Bolivia requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Bolivia intend to pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from June--, 1986 to June--, 1987, Bolivia will have the right to make purchases from the Fund in an amount equivalent to SDR 50.0 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 15.40 million until August 15, 1986, the equivalent of SDR 24.05 million until November 15, 1986, the equivalent of SDR 32.70 million until February 15, 1987, and the equivalent of SDR 41.35 million until May 15, 1987.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Bolivia's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

4. Bolivia will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Bolivia's currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which

(i) the limit on the net domestic assets of the Central Bank of Bolivia referred to in paragraph 12 and Table 2 of the memorandum annexed to the attached letter; or

(ii) the limit on central bank credit to the nonfinancial public sector referred to in paragraph 12 and Table 2 of the memorandum annexed to the attached letter

is not being observed; or

(b) during any period in which the data at the end of the preceding period indicate that

(i) the limit on the borrowing requirement of the consolidated nonfinancial public sector referred to in paragraph 11 and Table 1 of the memorandum annexed to the attached letter; or

(ii) the limit on losses of net international reserves of the Central Bank of Bolivia referred to in paragraph 15 (b) and Table 3 of the memorandum annexed to the attached letter; or

(iii) the limit on the outstanding level of external payments arrears referred to in paragraph 17 and Table 4 of the memorandum annexed to the attached letter; or

(iv) the limit on the increase in public and publicly guaranteed external debt referred to in paragraph 17 and Table 5 of the memorandum annexed to the attached letter

has not been observed; or

(c) during any period in which the intention of paragraph 15 (c) of the memorandum annexed to the attached letter is not carried out; or

(d) during the period of this stand-by arrangement after November 14, 1986 if understandings have not been reached, as contemplated in paragraph 19 of the memorandum annexed to the attached letter, on the limits referred to in paragraphs 11, 12, 15, and 17 for the period of the arrangement after September 30, 1986 or on policies on taxes, import duties, public sector investment, the exchange rate, interest rates, wages, and public enterprise pricing including petroleum prices, or after such understandings, having been reached, are not observed; or

(e) during the entire period of the stand-by arrangement, if Bolivia

(i) imposes or intensifies restrictions on payments and transfers for current international transactions; or

(ii) introduces or modifies multiple currency practices; or

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

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Bolivia is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Bolivia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Bolivia will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Bolivia's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility or (b) a decision of the Executive Board to suspend transactions either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Bolivia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Bolivia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement will be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Bolivia, the Fund agrees to provide them at the time of the purchase.

8. Bolivia shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Bolivia shall repurchase the outstanding amount of its currency that results from purchases under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Bolivia's balance of payments and reserve position improves.

(b) Any reductions in Bolivia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the stand-by arrangement Bolivia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Bolivia or of representatives of Bolivia to the Fund. Bolivia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Bolivia in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 4 of the attached letter, Bolivia will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Bolivia has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Bolivia's balance of payments policies.

La Paz, Bolivia
May 29, 1986

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. Annexed hereto is a Memorandum of Understanding on Economic Policy describing the economic program that the Government of Bolivia intends to pursue in the 12-month period ending March 31, 1987 and the quantitative targets it expects to achieve in the remainder of 1986. The primary objective of the Government is to lay the basis for a sustainable reactivation of the economy within the context of domestic price stability and a viable balance of payments. To this end, the Government has adopted policies aimed at reducing the nonfinancial public sector deficit and at ensuring an adequate level of external competitiveness. These policies will need to be supported by the restructuring of external debt and the arranging of new financing at concessional terms.

2. In support of this program, the Government of Bolivia requests herewith a stand-by arrangement for 12 months from the International Monetary Fund in an amount equivalent to SDR 50 million.

3. The Government of Bolivia has initiated discussions with the international financial community to secure a restructuring of its external debt and to obtain new external financing. The Government attaches great importance to any assistance the Fund could lend in this effort.

4. The Government of Bolivia believes that the policies set out in the annexed Memorandum of Understanding on Economic Policy are adequate to achieve the objectives of its program but will take any further measures that may become appropriate for this purpose. The Government will discuss with the Fund and reach any suitable understandings on the adoption of any measures that may become appropriate.

Yours sincerely,

Gonzalo Sanchez de Lozada
Minister of Planning and
Coordination

Juan Cariaga
Minister of Finance

Javier Nogales
President
Central Bank of Bolivia

Memorandum of Understanding on Economic Policy

1. In recent years Bolivia has experienced an increasingly critical economic situation accompanied by severe internal and external imbalances. Economic activity in the formal sector slumped, with real GDP contracting by some 18 percent in the four years ended 1985. In per capita terms, the contraction since the beginning of the decade has approached 30 percent. While aggregate supply declined, increasingly lax demand management policies led to pressure on the balance of payments, the accumulation of external payments arrears, an increasingly overvalued currency, and domestic hyperinflation. The sharp deterioration in the financial position and economic performance of Bolivia was attributable mainly to the steady expansion of the deficit of the nonfinancial public sector, which came to be financed almost entirely by central bank credit. As the Central Administration lost control over revenue collection, wage policy, and the operations of the state enterprises, the deficit of the nonfinancial public sector expanded from about 8 percent of GDP in 1981 to almost 30 percent of GDP in 1984. Amidst growing social unrest, the public finances deteriorated further in the first eight months of 1985, and inflation, currency overvaluation, and external payments arrears reached unprecedented levels by August 1985.

2. Faced with a very difficult economic and social situation, the Government of President Paz Estenssoro formulated a program of action to stabilize the economy and to restore government power and control over the operations of the Treasury, the Central Bank, and the state enterprises. The Government's decisions were given effect in Supreme Decree No. 21060, which was promulgated on August 29, 1985. The Government proceeded immediately to implement a flexible exchange rate policy, to move the prices of petroleum products toward international levels, to raise the prices of other goods and services produced by state enterprises, to free all other prices and interest rates, and to liberalize the trade and payments system. The implementation of the remaining measures envisaged in the Supreme Decree--most notably wage policy, additional measures to raise central administration revenue, decentralization and reorganization of state enterprises, currency reform, institutional reform in the financial sector, the restructuring of the external debt and the arrangement of new external financing--required more time because technical details and a political consensus needed to be worked out.

3. The immediate response of the economy to the announcement of the new economic policy and to the adoption of the aforementioned measures was favorable. Retail prices began to fall, and goods became available again. The exchange rate in the newly established auction market fluctuated in a narrow band, the previously large premium in the parallel exchange market disappeared, and the Central Bank was able to purchase foreign exchange on a net basis. At the same time, currency issue and bank deposits rose rapidly as the public began to reconstitute its depleted real balances.

4. The Government's efforts to formulate and adopt the measures necessary to complete the stabilization program suffered a severe setback in late 1985 and early 1986 when the prices of tin and hydrocarbons began to tumble in international markets. In 1985, the two groups of products accounted for about 85 percent of Bolivia's exports and 56 percent of nonfinancial public sector revenue. The severe terms of trade deterioration, as well as an unplanned relaxation of fiscal policy in December 1985, substantially worsened the balance of payments outlook, the prospects for successful fiscal adjustment, and the crisis in the state mining company (COMIBOL). To gain additional time in its search for appropriate stabilization and adjustment measures and to combat a resurgence of inflationary pressures, the Government decided to restrict on a temporary basis the public sector's access to the exchange market while stepping up the sale of foreign exchange to the private sector, and to freeze the deposits of the Treasury and the state enterprises while limiting their spending to their ability to collect revenue. These measures, which have resulted in a further accumulation of public sector arrears, succeeded in containing exchange rate depreciation and domestic price increases in the short run, and the Government was thereby able to protect the tight public sector wage policy in effect since late 1985 that is considered essential for the successful implementation of the stabilization program.

5. The Government has now completed a program which addresses the major policy issues that were left unresolved in the early stages of implementation and which allows it to end its reliance on the stop-gap measures mentioned in the previous paragraph. Under the program, the Government expects a return to modest economic growth in the 12-month period ending March 31, 1987 (the program period), supported by the provision of incentives for production and investment and the arrangement of an adequate amount of foreign financing. It is expected that the policies outlined below will permit the reduction of the 12-month rate of consumer price inflation from over 8,000 percent in 1985 to below 85 percent in 1986 and to below 40 percent in the program period. The Government believes this inflation target to be compatible with a net official reserve loss of no more than US$51.4 million in 1986. The key element of the program is the reduction of the deficit of the nonfinancial public sector from an estimated 14 percent in 1985 to 6.4 percent in 1986 and to below 6 percent of GDP in the program period. The programmed reduction will sharply reduce the need for recourse to central bank financing, thereby contributing to abating inflation without crowding the private sector out of domestic credit markets. To secure the programmed reduction of the nonfinancial public sector deficit, the Government has taken concrete steps, and will continue to make a concerted effort throughout the program period, to raise revenue and reduce expenditure of the General Government, and particularly in the Central Administration. At the same time, it will pursue financial policies in the state enterprises that are adequate to generate the resources necessary for rehabilitation and the domestic counterpart financing for high priority investment projects.

6. (a) Under the program, the Government expects to bring about a sharp reversal of the adverse trend in revenue collection in recent years. Current revenue of the Central Administration should increase from about 8 percent of GDP in 1985 to about 12 percent of GDP in 1986 as a result primarily of the increase by about two thirds in transfers from the state petroleum company (YPFB) to somewhat less than 9 percent of GDP. The surge of these collections, which already grew significantly in the last four months of 1985, reflects the impact on the petroleum company's finances of a large increase in the domestic sales prices of petroleum products and the fixing of these prices in terms of the U.S. dollar, along with the large real depreciation of the peso since August 1985. In February 1986, the Government required the petroleum company to transfer to the Treasury 65 percent and 59 percent of the value of domestic sales and exports, respectively. These transfers are used as an advance for existing taxes on the production, domestic sale, and export of hydrocarbons and the considerable margin left after these deductions also is retained. Central administration revenue has been strengthened further by the abolition of virtually all earmarking provisions on taxes collected by the Central Administration.

(b) While collections from mining royalties have vanished in the wake of the international tin crisis and the generally depressed level of other metal prices, the Government expects to increase the collections of import duties and internal revenue taxes from less than 2 percent of GDP in 1985 to almost 3 percent of GDP in 1986 as a result of improvements in tax administration and the adjustment of tax rates. Customs duty collections began to rise in late 1985 as a result of the large devaluation of the peso, the trade liberalization, the simplification of the customs tariff, and the elimination of exemptions. The customs tariff will shortly be adjusted to a uniform level of 20 percent, and the Government has reorganized the customs administration in an effort to reduce corruption and is now offering customs officials financial incentives for increased duty collections. The increase in internal revenue tax collections will result in part from the updating of specific rates on a number of taxes, including those on beer, other alcoholic beverages, and cigarettes, and the introduction of a 1 percent tax on transactions, which will take effect shortly after the congressional approval of the tax reform package referred to below. Further increases are expected from a reorganization of the internal revenue administration.

(c) Finally, and most importantly, large revenue increases are expected from the tax reform package that was recently approved by the Bolivian Congress. Apart from the two measures mentioned above, a general value added tax of 10 percent will replace the existing selective sales tax of 5 percent in the course of 1986. The value added tax is complemented by a 10 percent income tax, from which value added tax payments may be deducted. In addition, wealth taxes of 1-3 percent will be levied on the updated values of automobiles, dwellings, land holdings, and corporate net worth. The Government is committed to raise, if necessary, the prices for domestically sold petroleum products to the extent required to ensure its fiscal objectives. The Government will ensure adequate revenues from this source until the Central Administration's arrears have been reduced to the normal float level and revenue flows from the new taxes make their reduction possible. Both the value added tax and the wealth taxes have earmarking provisions for regional and local bodies, which should offset the loss from the disappearance of mining royalties on those bodies' finances.

(d) The peso price corresponding to the present U.S. dollar price of US$0.23 per composite liter is determined on the basis of (i) a set of weights representing the projected volumes of sales of the individual products in the domestic market and (ii) the arithmetic average of the official exchange rates (weighted by the number of work days) that were established in the auction market (Bolsin) during the preceding half-month period. The domestic prices for petroleum products will continue to be adjusted on the basis of US$0.23 per composite liter so as to reflect the underlying exchange rate movements immediately after the middle and the end of each month. It is the Government's intention to increase the dollar price for domestically sold petroleum products (composite liter price) mentioned above by the amounts required should it become necessary to strengthen the finances of the nonfinancial public sector in the context of the fiscal targets in the letter of intent, taking into account developments on wages and the yield from the tax reform.

7. In addition to raising revenue, the improvement in general government finances requires a reduction in spending. Total general government spending (including unpaid interest) has already declined from 30 percent of GDP in 1984 to about 21 percent of GDP in 1985, partly in response to the wage policy measures described in the following paragraph. Despite a substantial increase in investment outlays, the Government intends to keep general government spending in 1986 to below 20 percent of GDP, chiefly by limiting noninterest current expenditure of the Central Administration. To this end, a budget for 1986, which incorporates the stipulations of the wage policy adopted by Supreme Decree No. 21137 of November 30, 1985, has been approved by Congress. It includes the provision of $b 52.5 trillion each for the reduction of treasury arrears and for the payment of benefits and severance pay to laid off workers. Institutional arrangements have been made to ensure the proper execution of the budget, and technical assistance from the Fund's Fiscal Affairs Department is being provided to implement effective control mechanisms.

8. The key measure to reduce expenditure in both the General Government and the state enterprises is a tight wage policy. The public sector wage bill will remain frozen until the end of May 1986, at which time the Government will grant a wage increase in the light of its financial situation. The wage policy pursued since late 1985 specifies that, with retroactive effect from August 1, 1985, the payment of most bonuses and additional monthly salaries was abolished in favor of a more transparent system limiting annual payments to 13 (instead of up to 22)

monthly salaries, the seniority bonus (frozen at its July 1985 level), a 20 percent frontier subsidy for workers working within 50 kilometers of the border, and an annual premium for workers in state enterprises operating with profits. Each public sector entity or enterprise is allocated or allowed a nominal monthly wage bill, and wage payments to individual workers are determined on the basis of approved pay scales. Any savings resulting from layoffs or resignations may be used in full (in the case of the Central Administration) or up to 50 percent (in the case of the state enterprises) to raise proportionately the wages of the remaining workers in an effort to retain qualified personnel.

9. The pursuit of a realistic exchange rate policy and the price adjustments effected since August 29, 1985 have already substantially improved the finances of the state enterprises. Their financial position is being strengthened further by the wage policy described in paragraph 8 above. The Government expects that the enterprises' consolidated current account before transfers to the General Government will be in overall surplus of about 10 percent of GDP in 1986. After transfers equivalent to about 11 percent of GDP to the General Government and a modest recovery of investment outlays for high-priority projects that enjoy the endorsement of the World Bank and other multilateral development banks, the state enterprises are expected to show a consolidated deficit of about 4 percent of GDP in 1986. To improve financial control over the enterprises, the Government has required that they deposit all their liquid funds with the Central Bank, and balances held in these accounts were frozen in February 1986. Because of its paramount importance for the success of the Government's program, the state petroleum company (YPFB) is subject to particularly close surveillance. The Government is monitoring its strict compliance with the pricing objectives referred to in paragraph 6(c) above. The company's share in the full local currency proceeds of its natural gas exports to Argentina is credited to its account immediately upon receipt by the Central Bank of the payments from Argentina in the form of both freely usable foreign exchange and U.S. dollar denominated balances in the Central Bank of Argentina, so as to allow the enterprise to meet its budgeted expenditure under the recently tightened cash transfer requirements to the Treasury. The pricing policy of the other enterprises will be kept under close review during the program period so as to ensure that the enterprises adjust their prices flexibly.

10. In an effort to achieve greater efficiency and secure the flow of transfers to the General Government required under the program, the Government is restructuring important segments of the state enterprises. The assets of the smelting company (ENAF) and the lead-silver smelter (SCMK) have been transferred to the mining company (COMIBOL). COMIBOL's labor force is being reduced and the streamlined enterprise and the petroleum company are being reorganized and decentralized with technical assistance from the World Bank. In addition, the assets of the enterprises fully owned by the Bolivian Development Corporation (CBF) and the road transport company (ENTA) have been transferred to

regional and local bodies. These entities will no longer receive financial support from the Treasury and the Central Bank. In all the cases of asset transfers, the Treasury has assumed the medium- and long-term debts of the enterprises being transferred.

11. The measures outlined in the preceding five paragraphs should permit the reduction of the overall deficit of the consolidated nonfinancial public sector to no more than 6.4 percent of GDP in 1986. Consistent with this objective, the Government has set ceilings on the borrowing requirement of the consolidated nonfinancial public sector, as set forth in Table 1. External sources of financing are expected to account for most of the borrowing requirement of the nonfinancial public sector, thus limiting recourse to central bank credit to about 1 percent of GDP. Should the Government be successful in mobilizing additional external resources to increase investment, these ceilings may be adjusted at the time of the review mentioned in paragraph 19 below. Also, should developments in the course of 1986 jeopardize the attainment of the above fiscal target, the Government is committed to take appropriate additional action including, for example, a further increase in the temporary taxes on petroleum products on an emergency basis.

12. The credit policy for 1986 has been designed consistently with the program objectives outlined in paragraph 5 above. The targeted growth of money and quasi-money for the 12 months ending December 1986 is about 84 percent. In accordance with this monetary policy objective, the Government has set continuous ceilings on the net domestic assets of the Central Bank, as set forth in Table 2. In line with the limitation of central bank credit to the nonfinancial public sector mentioned in paragraph 11 above, the monetary program provides room for an expansion of financial system credit to the private sector by about 11 percent in real terms in 1986, or about 5 percent of GDP. Within the credit program for 1986, adequate room has been provided for agricultural credit and a new export credit scheme. To protect the private sector's access to domestic credit, continuous subceilings have been established on central bank credit to the nonfinancial public sector, as set forth in Table 2. The Central Bank has solved previous deficiencies in its balance sheet and is now producing a satisfactory record in order to enable the monitoring of monetary developments in relation to those ceilings.

13. Since August 29, 1985, interest rates have been freed but they have remained high in real terms. The Government expects that the reestablishment of fiscal control and the programmed reduction of domestic arrears will lead to a reduction in real interest rates. The Central Bank will exercise close surveillance over the banks and will use its lending facilities available under the credit program and the recently approved interbank market referred to in paragraph 14 below to ensure that interest rates on time and savings deposits are adequate to stimulate domestic savings and prevent capital flight. In this respect, the monetary authorities are aware that the level of deposit interest rates affects developments in the exchange rate of the peso. An

adequate interest rate policy also would encourage a shift in asset preferences toward bank deposits denominated in pesos. The spread between the banks' lending and deposit rates has remained large, partly because of the banks' high operational costs in relation to their portfolio size. To reduce the spread, the 7 percent tax on bank credit interest has been reduced to 1 percent. With the renewed growth of the deposit base, the banks' operational results should improve and permit the gradual reduction of the spread. The banks' balance sheet position also has been strengthened recently by the revaluation of their fixed assets, which has tended to offset the losses sustained on the banks' net foreign liability position in the wake of the large devaluations in recent years.

14. In order to strengthen the financial system in the medium-term, the monetary authorities are considering the introduction of instruments to deepen the financial markets. As a first step, the Central Bank has recently permitted banks to set up a domestic interbank market, in which it may participate in an attempt to influence domestic interest rates. Several institutional changes also are being contemplated. As part of an effort to reorganize the Central Bank, work is in progress to transform the superintendency of banking from a department of the Central Bank into a more independent entity. A separate development bank may be set up to channel external lines of credit to the specialized and commercial banks. At the same time, the Government is examining the need to retain the specialized state banks in a financial system without subsidized interest rates. During the program period, the Government also plans to study the feasibility of creating a national stock exchange in an effort to provide the institutional setting for the development of a domestic capital market. Plans for the introduction of a new monetary unit are in an advanced stage of preparation. It is hoped that the institutional changes and the currency reform will begin to exercise a beneficial effect on the economy during the program period.

15. (a) Since early September 1985, the Central Bank has been selling foreign exchange in an auction market which determines the official exchange rate for all transactions, including government operations. As a result of the freeing of the exchange rate, the Bolivian peso depreciated initially by about 93 percent and then fluctuated in a narrow band of $b 1,050,000 - 1,150,000 per US$1 in the period September to mid-November 1985. Thereafter, the peso depreciated further to about $b 1,600,000 per US$1 after the collapse of the international price of tin. Following a sharp expansion of currency issue in December 1985 and a resurgence of inflation in December 1985 and January 1986, the exchange rate depreciated further to $b 2,600,000 per US$1 in mid-January. Subsequently, the Central Bank stepped up sales through the auction market while the Government restricted access to that market for the public sector. As a result, the exchange rate appreciated to about $b 1,800,000 - 1,850,000 per US$1 in February 1986.

(b) The Government believes that the depreciation of the peso in real terms since August 1985 has been necessary to restore the international competitiveness of Bolivia and is determined to operate the auction market so that the exchange rate adjusts flexibly to variations in demand and supply of foreign exchange in the economy. In particular, the Government will ensure that the public sector will have unrestricted access to the auction market within the limits of the requirements recognized in the 1986 budget. Moreover, while the Government hopes to reach agreements with its major creditors and creditor groups during the second quarter of 1986 (see paragraph 17 below), it will ensure that the nonfinancial public sector will accumulate deposits reflecting the payments due under the anticipated new debt service schedules and that the Central Bank will increase the quarterly international reserve targets mentioned below by the U.S. dollar equivalent of the deposit accumulations, if any such agreement has not been reached by the end of June 1986. The Government will ensure that these arrangements will result in a satisfactory level of the exchange rate during the program period, as specified below. To improve the functioning of the auction market, the Central Bank has prepared cash flow projections that are consistent with the balance of payments outlook for 1986. The Central Bank will limit the loss of net international reserves to the amounts specified in Table 3.

(c) With respect to exchange rate policy, the authorities regard the level of the official exchange rate satisfactory in the sense of paragraph 15 (b) above as long as the premium of the U.S. dollar in the parallel exchange market does not exceed 5 percent. If this premium--as measured by the moving average of premia of the buying rates for checks in U.S. dollars for five consecutive business days--exceeds 5 percent, the Central Bank will reduce the rate of foreign exchange sales sufficiently to bring the official exchange rate to within 5 percent of the parallel market rate during the next five business days.

16. Bolivia's trade system is virtually free of restrictions. The Government is determined to resist pressures for import restrictions and to pursue a customs policy that relies on a modest and uniform tariff level with a limited number of duty exemptions. In the exchange system, the tax on profit remittances abroad has recently been abolished, as have been the 10 percent deposits on exports and on all foreign exchange purchases in the auction market and a 10 percent reimbursement for export surrenders. As a result, the exchange practices subject to Article VIII of the Fund's Articles of Agreement are currently limited to (i) the multiple exchange rates resulting from the operation of the auction market for foreign exchange, in which each successful bidder pays the price offered, (ii) the operation of the parallel exchange market, in which the proceeds from nonmerchandise exports may be surrendered, and (iii) arrears on certain external debt service payments (see below). There are no other restrictions on either current or capital transactions.

17. The Government is in the process of arranging the foreign financing necessary for the program outlined above. To this end, it is conducting negotiations with its major creditors and creditor groups in an effort to obtain both fresh funds and the restructuring on generous terms of debt service in arrears and falling due during the program period. Progress in securing the foreign financing will be examined at the time of the review mentioned in paragraph 19 below. The Government expects to conclude negotiations, and--by the finalization of the arrangements reached--to eliminate the arrears, with its major creditors and creditor groups in the second quarter of 1986. Any remaining arrears will be eliminated in 1986 through reschedulings on similar terms or eliminated by March 31, 1987 through cash payments in accordance with the limits set forth in Table 4. To prevent the undue burdening of the debt service profile, the Government has established quarterly limits on the increase in medium- and long-term external public debt (including guaranteed debt) disbursed and outstanding with original maturities of up to 10 years during 1986. These limits are set forth in Table 5. The Government is introducing a reporting system to monitor the short-term external debt position of the public sector, and quarterly limits on such debt (excluding the Central Bank) will be established at the time of the review mentioned in paragraph 19.

18. The program outlined above provides for a further recovery of imports in 1986 of about 7 percent in real terms. The external current account deficit is expected to widen from about US$280 million in 1985 to about US$355 million in 1986, as capital inflows to finance investment replace the forced financing achieved in 1985 through the buildup of external payments arrears and the repayment by Argentina of most of its arrears on gas exports from Bolivia. The investment program, which is being reviewed by the World Bank, is designed to support the rehabilitation and restructuring of the productive sector needed in the wake of the recent adjustment of relative prices and the collapse of the international tin market. Moreover, as noted in paragraph 11 above, the Government hopes that it will be possible to arrange financing beyond that envisaged in the program, which would permit a higher level of imports in pursuance of these objectives. At any rate, Bolivia will require considerable amounts of external financing so as to support sustained economic growth over the medium term. The Government recognizes the useful role that foreign private investment can play in this process, especially in the hydrocarbons and mining sectors. An agreement with the Overseas Private Investment Corporation (OPIC) has been signed, as has been the convention establishing the Multilateral Investment Guarantee Agency (MIGA). Restrictions on the foreign ownership of companies and the transfer of profits imposed by the Andean Group have recently been eased. The Government has embarked on a major effort to rebuild institutions and strengthen administrative procedures and the statistical information base. In this respect, it looks forward to receiving technical assistance from the Fund and other international organizations.

19. Bolivia will review with the Fund by November 15, 1986 the progress made in the implementation of the program in order to reach understandings, if necessary, to ensure the attainment of the program's objectives. The review will pay particular attention to the progress made in improving collections of import duties and internal revenue taxes referred to in paragraph 6 above, implementing the tax reform package also referred to in paragraph 6 above, and implementing the investment program in the light of the review being carried out by the World Bank (paragraph 18 above). The review also will cover policies on the exchange rate, interest rates, wages and public enterprise pricing, including petroleum products. In the context of this review, understandings will be reached with the Fund on the limits referred to in paragraphs 11, 12, 15, and 17 for the time of the arrangement after September 30, 1986.

Table 1. Bolivia: Ceilings on the Borrowing Requirement of the Nonfinancial Public Sector 1/

(Cumulative amounts in trillions of Bolivian pesos from March 31, 1986)

Date	Limits
June 30, 1986	144.4
September 30, 1986	314.8
December 31, 1986 2/	540.3

1/ The nonfinancial public sector is defined as the Central Administration, the social security institutions, other decentralized agencies, the regional development corporations, prefectures, municipalities, and the nonfinancial state enterprises.
2/ Indicative limit.

Table 2. Bolivia: Ceiling on the Changes in Net Domestic Assets of the Central Bank of Bolivia and Subceiling on the Changes in the Net Position of the Nonfinancial Public Sector with the Central Bank of Bolivia

(Cumulative amounts in trillions of Bolivian pesos)

Time Period	Limits
1. Cumulative changes in net domestic assets of the Central Bank 1/	
March 31, 1986 - June 30, 1986 2/	94.7
March 31, 1986 - September 30, 1986 2/	198.9
March 31, 1986 - December 31, 1986 2/ 4/	230.1
2. Cumulative changes in the net position of the nonfinancial public sector with the Central Bank of Bolivia 3/	
March 31, 1986 - June 30, 1986 2/	30.3
March 31, 1986 - September 30, 1986 2/	71.4
March 31, 1986 - December 31, 1986 2/ 4/	113.3

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

2/ Accounting rates for cumulative changes:

March 31, 1986 - June 30, 1986	$b 2,032,333/US$1
March 31, 1986 - September 30, 1986	$b 2,181,333/US$1
March 31, 1986 - December 31, 1986	$b 2,273,333/US$1

3/ Excluding changes in the frozen deposits.

4/ Indicative limit.

Table 3. Bolivia: Limits on Losses in the Net International Reserves of the Central Bank of Bolivia 1/

(Cumulative amounts in millions of U.S. dollars from March 31, 1986) 2/

Date	Limits
June 30, 1986	-38.0
September 30, 1986	-70.9
December 31, 1986 3/	-75.7

1/ 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 purchases made under the Trust Fund. Assumes an increase in net international reserves of US$24.3 million in the first quarter of 1986.

2/ Assumes a net international reserve gain of US$24.3 million in the first quarter of 1986.

3/ Indicative limit.

Table 4. Bolivia: Limits on Payments Arrears on Public and Publicly Guaranteed External Debt 1/

(In millions of U.S. dollars)

Date	Limits
June 30, 1986	11.1
September 30, 1986	6.1
December 31, 1986 2/	0.7
March 31, 1987 2/	0.0

1/ Arrears outstanding on external public and publicly guaranteed debt, excluding until December 30, 1986 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) private commercial banks.

2/ Indicative limit.

Table 5. Bolivia: Limits on Increase in Public and Publicly Guaranteed External Debt 1/

(Cummulative amounts in millions of U.S. dollars)

Maturities of more than 1 year and up to 10 years 2/	Limits
March 31-June 30, 1986	25
March 31-September 30, 1986	55
March 31-December 31, 1986 3/	90

1/ Excludes international reserve liabilities of the Central Bank and restructured debt service obligations.
2/ Including debt with unknown original maturity.
3/ Indicative limit.