DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

MASTER FILES
ROOM C-120 01

SM/85/233

CONTAINS CONFIDENTIAL
INFORMATION

August 15, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Bolivia, which is tentatively scheduled for discussion on Monday, September 23, 1985.

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

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

BOLIVIA

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Consultation with Bolivia

Approved by E. Wiesner and Manuel Guitián

August 14, 1985

Contents	Page

I. Introduction

The 1985 Article IV consultation discussions with Bolivia were held in La Paz during the period June 17-July 5, 1985. The Bolivian representatives in these discussions included the Ministers of Planning and Coordination, Finance, Labor, Mining and Metallurgy, Energy and Hydrocarbons, Peasant Affairs and Agriculture, and Industry, Commerce and Tourism; the President and the General Manager of the Central Bank; the Controller General of the Republic; and chief executives and financial managers of the largest state enterprises. The mission also met with the leadership of the Bolivian labor federation and representatives of the private sector. The staff mission consisted of Hans Flickenschild (Head-WHD), Caroline Atkinson (EP-WHD), Edgar Ayales (STAT), Eric Clifton (EP-WHD), Jorge Sol Perez (WHD), and Olivia Carolin (Secretary-TRE) and was assisted by David Hoelscher, the Fund resident representative in La Paz. Mr. Mario Weitz, Advisor to the Executive Director for Bolivia, participated in some of the policy meetings.

The previous consultation papers on Bolivia (SM/84/141 and SM/84/100) were prepared by the staff on the basis of three visits to La Paz in the period January-May 1984, and the consultation was concluded by the Executive Board on July 18, 1984 (SUR/84/74). Bolivia accepted the obligations of Article VIII, sections 2,3, and 4 on June 5, 1967. A summary of Bolivia's relations with the Fund is contained in Attachment I.

II. Economic and Financial Developments 1/

In recent years Bolivia has experienced a worsening economic situation, accompanied by increasingly severe internal and external imbalances. To a very large extent, these imbalances--manifested most prominently by the highest inflation rate recorded among Fund member countries--are attributable to the unrelenting expansion of the deficit of the nonfinancial public sector, which came to be financed almost entirely by central bank credit.

Economic activity in the formal sector has slumped, largely because of price distortions and unresolved social conflicts. The recessionary trend was accentuated in 1983 by adverse weather conditions, when a severe drought in the highlands of the Altiplano coincided with devastating floods in the lowlands. As a result of these factors, real GDP contracted by 17 percent in the period 1982-84 (Table 1), implying a drop of 23 percent in per capita terms. The

---

1/ Official statistics in Bolivia have been unreliable for some time. Their quality and timeliness have suffered further since the last consultation (see Attachment II). Also, with the growth of informal activities, official statistics have become less and less representative of economic developments. Interpretation of these developments is additionally complicated by the sharp acceleration of inflation and the large devaluations in the period 1982-85.

effects on fixed capital formation were even more dramatic, with gross investment dropping from over 12 percent of GDP in 1981 to less than 5 percent of a much smaller GDP in 1984.

Table 1. Bolivia: Selected Economic Indicators

	Average 1973-77	Average 1978-80	1981	1982	1983	Prel. 1984
	(Annual rates of growth)					
Real GDP (at factor cost)	5.8 1/	2.1 1/	0.2	-5.7	-8.7	-3.5
Consumer prices						
Average	21.5	25.7	32.1	123.5	275.6	1,281.3
End of period	19.2	27.6	25.1	296.5	328.5	2,176.8
	(As percent of GDP)1/					
National saving	19.4	11.5	4.2	7.1	1.9	3.5
Domestic investment	21.2	17.1	12.4	9.8	3.6	4.7
Resource gap	1.8	5.6	8.2	2.7	1.7	1.2

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

1/ At market prices.

As domestic demand growth accelerated in nominal terms, severe financial imbalances emerged. The growing overvaluation of the currency led to a rapid deterioration of the net international reserves position while external lines of credit dried up. In addition to a formal tightening of exchange restrictions, there has been a substantial accumulation of external payments arrears. In these conditions, inflationary pressures intensified and the annual rate of increase in the La Paz consumer price index jumped from around 300 percent a year in 1982-83 to nearly 2,200 percent in 1984. By July 1985, consumer prices were almost 15,000 percent higher than one year earlier.

The deficit of the nonfinancial public sector widened from 16 percent of GDP in 1982 to 28 1/2 percent of GDP in 1984 (Table 2). Public sector dissavings rose from close to 9 percent of GDP in 1982 to over 24 percent in 1984, as current revenues slipped and current expenditures grew. At the same time, capital spending by the public sector declined from 7 percent of GDP in 1982 to less than 5 percent of GDP in 1984.

Table 2. Bolivia: Summary of Nonfinancial Public Sector Operations

(As percent of GDP)

	1980	1981	1982	1983	Prel. 1984
General government					
Current revenue	13.1	15.3	10.9	7.0	4.7
Current expenditure	16.5	17.9	21.6	26.5	26.0
Current account surplus or deficit (-)	-3.4	-2.6	-10.7	-19.5	-21.3
Consolidated state enterprises					
Current account surplus or deficit (-)	1.2	2.1	3.0	1.3	-2.4
Consolidated public sector savings	-2.2	-0.6	-7.7	-18.2	-23.7
Capital revenue	0.2	0.5	0.6	4.5	0.3
Capital expenditure	7.0	7.5	7.5	5.8	4.7
Net lending 1/	0.1	0.3	0.2	--	--
Consolidated public sector overall surplus or deficit (-)	-9.1	-7.8	-14.7	-19.5	-28.1
Central administration	-7.5	-7.4	-15.2	-17.8	-20.9
Rest of general government	0.6	0.5	2.0	-0.1	-2.5
State enterprises	-2.2	-0.9	-1.5	-1.6	-4.7
Financing	9.1	7.8	14.7	19.5	28.1
External financing (net)	5.1	4.8	-1.9	-1.6	2.3
Internal financing (net)	4.0	3.0	16.6	21.1	25.8
Memorandum items					
Consolidated public sector, including unpaid external interest					
Current account deficit	-2.2	-0.8	-8.9	-18.3	-24.2
Overall deficit	-9.1	-8.1	-16.0	-19.5	-28.6

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

1/ Outside the nonfinancial public sector.

Tax collections of the Central Administration, which accounts for the bulk of the public sector deficit, fell to below 3 percent of GDP in 1984 because of the shrinkage of the tax base in real terms, the pervasiveness of specific taxes in the Bolivian tax system, and the further weakening of tax administration. Some of the major state enterprises all but stopped paying taxes or transferring to the Treasury taxes collected on its behalf. At the same time, pay increases and recruitment pushed up the Government's wage payments to the point where those payments were equivalent to more than 250 percent of current revenues in 1984. If social security contributions and pensions of war veterans and retirees are added to the wage bill, identified compensation payments represented almost four times current revenues in 1984. In relation to GDP, such payments represented close to 12 percent. At over 6 percent of GDP, unclassified expenditures were the second largest expenditure category. By contrast, identified expenditures for interest and goods and services together amounted to 3 percent of GDP.

Even though state enterprises retained for their own use royalties and other taxes withheld on behalf of the Government, their financial performance also deteriorated in 1984. The small operating surpluses in 1982 and 1983 turned into a deficit of about 2 1/2 percent of GDP in 1984 as a result of a number of adverse factors, including currency overvaluation; inadequate domestic and depressed world market prices; output losses stemming from supply difficulties, technical breakdowns, and strikes; high labor costs due to wage increases and overstaffing; and problems of management.

In the absence of significant sources of foreign and domestic nonbank financing, the growing nonfinancial public sector deficits were financed almost entirely by the Central Bank. In nominal terms, credit to the nonfinancial public sector expanded very rapidly during 1982-84 until such credit accounted for almost 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 (Table 3) and by about another 1,000 percent in the first half of 1985. At the same time, the maintenance until February 1985 of increasingly unrealistic ceilings on interest rates and mounting uncertainty discouraged the formation of financial savings in real terms and led to a sharp increase in velocity. As a result, real money and quasi-money fell by 60 percent in the period 1982-84. The shrinking volume of activity and the effects of the large devaluations on the peso value of the foreign currency liabilities of financial institutions imparted severe losses to the financial system in recent years.

The loss of access to foreign trade financing and the curtailment of loan disbursements from abroad forced an adjustment in the external current account deficit from over 8 percent of GDP in 1981 to over 1 percent of GDP in 1984 (Table 4), including 1/2 percent arising from new interest arrears. Recorded exports in U.S. dollar terms fell each year during 1982-84. The decline in 1984--by about 3 1/2 percent to

US$730 million--was attributable mainly to the substantial overvaluation of the peso during most of the year, and disruptions of productive activity because of labor disputes and supply bottlenecks. Interest payments made dropped off, especially following the suspension of all debt service payments to foreign banks after March 1984, and arrears accumulated on both interest and amortization payments, to US$692 million at the end of 1984.

Table 3. Bolivia: Selected Financial Indicators

	1980	1981	1982	1983	Prel. 1984
(Annual flows as percent of GDP)					
Financial system credit	6.8	6.3	52.0	41.7	42.9
Nonfinancial public sector	4.8	3.3	33.1	33.1	27.3
Private sector	2.0	3.0	18.9	8.6	15.6
(As indicated)					
Currency issue (percentage change)	24.6	14.6	273.3	217.4	2,193.0
Currency in circulation (end of year; as percent of money and quasi-money)	48.5	42.8	44.8	49.4	76.7
Real money and quasi-money (percentage change)	20.4	3.0	-11.5	-33.2	-32.6
Money and quasi-money (end of year; in millions of U.S. dollars at parallel exchange rate)	781	662	312	203	117

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

No balance of payments support loans were obtained after 1981, and disbursements of project loans to the nonfinancial public sector amounted to only US$105 million in 1984--compared with an annual average of US$260 million for such loans during 1980-82--partly because of lack of local counterpart funds and execution capacity, and partly because of the depletion of the loan pipeline. As a consequence of this lack of resources, imports were compressed to US$477 million in 1984, compared with an annual average of US$765 million during 1980-82. Despite the tight balance of payments situation, the net international reserves position improved in 1983 and 1984 because of the medium-term refinancing of reserve liabilities in 1983 and the payment of arrears on Bolivian gas exports by Argentina in 1984.

Table 4. Bolivia: Summary Balance of Payments

(In millions of U.S. dollars)

	1980	1981	1982	1983	Prel. 1984
Current account	-31	-499	-165	-97	-105
Exports, f.o.b.	942	912	838	755	730
Imports, c.i.f.	-707	-1,011	-578	-545	-477
Interest (net)	-247	-332	-382	-296	-313
Other factor income (net)	-44	-61	-31	-70	-48
Other services and transfers (net)	25	-7	-12	59	3
Capital movements	-461	69	-205	-231	38
Nonfinancial public sector 1/	—	141 2/	-150 2/	-223	-160
Banking system	-140	69	-38	7	-77
Private sector 3/	-321	-141	128	82	86
Overdue receipts for gas exports	--	--	-145	-97	189
Allocation of SDRs and gold monetization	8	9	2	1	1
Overall balance	-484	-421	-368	-327	-66
Special financing	385	262	295	633	235
Balance of payments support loans	240	125	--	--	--
Unpaid debt service	145	137	295	633	235
Rescheduling	(--)	(167)	(118)	(484)	(--)
Deferment 4/	(145)	(-65)	(90)	(114)	(-285)
Arrears	(--)	(35)	(87)	(35)	(520)
Net official reserves (increase -)	99	159	73	-306 5/	-169
Memorandum items					
Current account (as percent of GDP)	-0.6	-8.2	-2.7	-1.7	-1.2
Exports, f.o.b. (as percent of GDP)	19.1	14.9	13.8	13.0	8.3
Gross official reserves:					
in millions of U.S. dollars	129	136	182	175	367
in months of imports, c.i.f.	1.5	2.8	4.0	4.4	9.4
Parallel exchange rate relative to official rate (average) 6/	100	114	214	282	352
Terms of trade (percentage change)	19.2	-2.0	-1.7	3.6	2.7

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

1/ Excludes balance of payments support loans and the forced financing of gas exports to Argentina.
2/ Includes assumptions of short-term bank debt of financial public sector under April 1981 refinancing agreement of US$92 million in 1981 and US$19 million in 1982.
3/ Includes errors and omissions.
4/ Debt service, mostly to commercial banks, deferred temporarily by mutual consent pending the conclusion of restructuring agreements.
5/ Includes the rescheduling of US$370 million of principal of short-term debt of the Central Bank (counter-entry: Rescheduling) and excludes decrease of US$25 million due to reclassification of monetary accounts.
6/ Parity=100.

The World Bank has not entered into any new commitments to Bolivia since 1980 when it granted and disbursed a US$50 million structural adjustment loan. The pipeline of existing project loans has since then been drawn down to about US$30 million in mid-1985 (see Attachment IV). Currently, only three project loans totaling about US$64 million are under active consideration. One of them, in the petroleum sector, may be approved shortly, pending the finding of satisfactory arrangements to guarantee debt servicing. Fast disbursing sectoral loans (especially for agriculture) and other project loans would be proposed only after the adoption of satisfactory adjustment policies.

III. Report on the Discussions

The consultation discussions were conducted in an environment of escalating social unrest--including a three week strike by the Central Bank, the third one in the first half of 1985--and heightened political tension in the final weeks before the mid-July nationwide election. In view of the proximity of the election date and the scheduled transfer of power in early August 1985, the Bolivian authorities said they were not in a position to consider the adoption of corrective policy measures. The discussions, therefore, centered on the analysis of the causes for the severe internal and external imbalances of the Bolivian economy. The staff also discussed with the authorities the types of measures that would be required to stabilize the economy.

1. Fiscal policy

The Bolivian authorities readily agreed that lax demand management and serious inefficiencies in the public sector were the principal causes of the emergence of the large financial imbalances and the consequent economic decline in recent years. Since the 1952 revolution, the state has assumed a dominant role in the economy, and by 1984 gross expenditures of the consolidated nonfinancial public sector accounted for 50 percent of GDP. Accordingly, decisions on public sector spending and its financing have become crucial for the stance of overall demand management and the general functioning of the economy.

The widening deficit of the nonfinancial public sector in recent years was attributed to both a large expansion in expenditure and a drop in revenue in relation to GDP. The authorities adopted six stabilization packages in the period October 1982-July 1985 1/ but the measures implemented failed to reduce the deficit because key elements, such as tax measures and expenditure cuts, were either missing or diluted because of political difficulties. Faced with the impossibility of obtaining the cooperation of Congress for tax increases (such as raising outdated specific rates of selective consumption taxes), the authorities tried to protect the real value of tax collections by indexing certain other tax liabilities. In January 1985, they redefined the brackets of the personal income tax as multiples of tax units.

1/ November 1982, November 1983, April 1984, November 1984, February 1985, and May 1985.

Also, in February 1985 overdue tax liabilities became indexed to the consumer price index. Finally, since July 1985 monthly payments for the corporate profits tax--based on sales during the preceding month--have to be made at the average tax rate for the 1984 tax year. At the time of the consultation discussions, it was too early to ascertain whether these measures were succeeding in stopping the inflation-induced erosion of tax revenue, which covered less than one sixth of Treasury expenditure in the first half of 1985. The staff pointed out to the authorities that--to the extent that the lag in tax collections in relation to GDP had been the result of the acceleration of inflation--lower inflation would entail some recovery of tax revenues relative to GDP. However, even if inflation could be brought under control, additional action to strengthen tax administration (especially by combating tax evasion) and to update specific tax rates would be necessary to re-establish fiscal balance.

The size of the Central Administration's deficit indicates that a sustainable position cannot be obtained without further expenditure cuts. The past expansion of government employment and the need to normalize spending for other purposes (including interest payments) point to the necessity to cut compensation payments by reducing government employment. The staff stressed that in order to contribute to a reduction of the overall deficit, savings in the wage bill would have to be achieved without compensatory increases in outlays for retraining, relocation, or severance pay beyond legally stipulated limits.

The financial performance of the state enterprises has deteriorated to the point where, as a group, they were incurring large operating losses. The situation is particularly critical in the mining company, the smelting company, the petroleum company, and several enterprises of the Bolivian Development Corporation (CBF), a state holding company. Although weak external demand and depressed world market prices for metals were mentioned as contributory factors, the authorities recognized that the overvaluation of the peso and inadequate domestic prices were the main causes of the poor revenue performance. Because the requirement to surrender export proceeds at the official exchange rate is effectively enforced in the case of the state enterprises, export oriented enterprises receive comparatively little local currency for their foreign sales.

Since February 1985, the domestic prices of petroleum products were raised each month by US$0.01 per composite liter up to the equivalent--at the official exchange rate--of US$0.31 per composite liter. At the time of the mission, however, the proceeds from sales in the domestic market were equivalent to only US$0.04 per composite liter at the parallel market exchange rate--thus providing strong incentives for contraband to neighboring countries--and the petroleum company was incurring losses on domestic sales.

Many state enterprises could not obtain foreign exchange at the official rate, and thus imported inputs and spare parts have to be acquired at prices reflecting the parallel market exchange rate. Costs also are raised by the payment of up to 22 monthly salaries a year, a variety of bonuses, subsidized company stores, and the hiring of staff at a time of falling output. To a large extent, the fall in output resulted from theft and work stoppages due to strikes, supply shortages, and technical breakdowns. The high turnover of management and political appointments in certain enterprises also had adverse effects on output. Their poor performance has caused many enterprises to stop paying taxes and retain for their own use taxes collected on behalf of the Government. Some enterprises, such as the telephone company, have sought Treasury financing rather than trying to collect receivables. The authorities reported that their control over the operations of the enterprises had weakened to the point where they had resorted to delaying foreign exchange approvals for imports in an attempt to elicit information on wage costs.

2. Monetary policy

The authorities attributed the considerable weakening of the financial system in recent years to progressive disintermediation, excessive loan concentration, and the "dedollarization" measures of November 1982, which made it illegal for financial institutions in Bolivia--with certain exceptions--to hold foreign currency denominated assets. Inflation, coupled until early 1985 with totally inadequate interest rate ceilings, eroded the real value of deposits of the financial system, which, in the case of commercial banks, contracted by 84 percent in the period 1982-84. As deposits continued to fall in real terms in early 1985, the authorities decided to liberalize interest rates. From March 1985, lending rates were freed altogether while deposit rates were subject to a floor of 20 percent a month (or 792 percent a year), which was raised to 25 percent a month (or 1,355 percent a year) in June 1985. Although deposit rates offered by banks have generally stayed close to the floor, thus resulting in negative real rates, deposits have recovered somewhat in real terms from their low point in February 1985. In early July 1985, market-determined lending rates of 45 percent a month, enhanced by front-end commissions of 5 percent, were producing attractive spreads for the banks. However, the authorities pointed out that most banks continued to incur operational losses because of their overhead, which includes most employees because of labor stability legislation.

The shrinking of the deposit base in recent years was accompanied by increased loan concentration. Although the financial system was potentially weakened by the reduction in the number of borrowers, loan losses actually decreased because negative real lending rates facilitated the repayment of loans--often obtained to stockpile metals or other goods in anticipation of a major devaluation--and because banks could be more selective among prospective borrowers in the prevailing excess demand situation. However, financial institutions--in particular commercial banks and savings and loan associations--are sustaining heavy losses on their foreign exchange liabilities as a result of the "dedollarization" of most of their assets. The losses, which accrue each time the peso is devalued in the official market, are temporarily carried in suspense accounts, but each year's loss must be amortized over four years according to central bank regulations. In view of the poor operational prospects, the staff suggested that the amortization period of the exchange valuation losses be stretched out and that their impact on the financial results be mitigated by permitting the timely revaluation of fixed assets. Moreover, it is unlikely that banks will begin to show interest in using external lines of credit—including loans from multilateral development institutions--until they are allowed again to protect themselves against exchange rate losses.

3. Price and wage policy

In recent years, the Government has attempted to protect the purchasing power of workers against inflation by setting the minimum wage and controlling prices of essential food items. This policy, which interfered with sporadic attempts to stimulate production through the establishment of remunerative prices, was pursued in response to union pressure for a fully indexed minimum wage at a "realistic" level and guaranteed supplies of essential items at controlled prices.

The authorities acknowledged that price controls were difficult to enforce at the retail level and that, where successful, the freezing of key prices in Bolivia's highly inflationary circumstances--as had been the case in the periods between the various stabilization attempts--had discouraged production while encouraging black marketing and smuggling abroad. In addition, price controls and the implied subsidies constituted a burden on the financial performance of the state enterprises, widened the deficit of the Central Administration, and increased the need for central bank credit expansion. Based on those considerations, the authorities considered it a success that they had been able to liberalize many agricultural prices since 1983. The prices of unprocessed perishable items are set by agreement between producers and individual municipalities. The authorities viewed this decentralized, rather flexible system as an important reason for the continuing recovery of agricultural output from the severe weather induced setback in 1983. Within the constraints imposed by organized labor, the two ministries responsible for controlling the prices of selected processed agroindustrial goods also have been striving, in concert with the producers concerned, to adjust prices flexibly in an effort to reflect cost developments.

With labor compensation accounting for the bulk of government expenditure and a multiple of its revenue, wage policy has acquired a crucial role in the inflationary process. Upon assuming office in October 1982, the Government introduced a national minimum wage and committed itself to its maintenance in real terms. Accordingly, the minimum wage was adjusted during 1983 and early 1984 whenever the consumer price index rose by over 40 percent. By early 1984, this policy, which implied equal absolute increases for all wage earners, had resulted in a severe compression of pay scales. To restore incentives, the authorities widened wage differentials in April 1984 and initiated a policy of mandating equiproportional wage adjustments every four months. Under union pressure, this policy was abandoned effective November 1984 when the Government acceded to a substantial real increase in the minimum wage and the entire public sector pay scale. As inflation reached record levels in early 1985, further substantial wage adjustments were made in March and May 1985. On the latter occasion, the Government also committed itself to adjust wages monthly.

The authorities expressed their intention to implement the latter agreement restrictively by limiting the monthly adjustment to the cost of living increase attributable to variations of the food component of the index. They also were determined not to give into several other unresolved compensation issues, including the labor federation's demands for the payment of a generalized sixteenth monthly wage and for the payment of the traditional second monthly payment of wages in June (patriotic bonus) on the basis of the June level of wages, instead of the monthly average during the period April-June, as mandated by law.

4. External sector policies

On various occasions since late 1982, the Bolivian authorities had expressed their intention to pursue a more active exchange rate policy in seeking balance of payments adjustment. The authorities also had come to realize that the maintenance of a fixed exchange rate in periods of high inflation had created major distortions and inefficiencies. Yet, because of political considerations and fears of sustained wage pressures, they were unable to implement a flexible exchange rate policy. As a result, the six major devaluations since late 1982 led to only temporary improvements in the level of international competitiveness (Chart 1). At the time of the large devaluation in February 1985, the Central Bank was given the power, within guidelines established by the Government, to adjust the exchange rate of the peso, but this power was used only once, in May 1985, to effect a relatively small devaluation. The sustained and growing overvaluation of the peso has exacerbated the financial difficulties experienced by several large state enterprises and the foreign exchange scarcity in the official market. By contrast, the peso depreciated steadily in the parallel market, to a ratio exceeding 10:1 to the official exchange rate in July 1985.

The authorities' attitude toward the parallel market was ambivalent. While the market is technically illegal, it is used widely in external transactions and as a store of domestic savings. The exchange rate in the parallel market is the most important price signal in Bolivia today. Its influence is pervasive in determining domestic prices, wages, and production costs in general in both the formal and informal sectors of the economy. A number of policy measures and actions taken by the authorities in the recent past have given de facto recognition to the parallel market. These include police action to protect market participants against the circulation of counterfeit foreign currency notes; the payment by the Government of hydrocarbon royalties to the regional departments at the parallel market exchange rate retroactive to 1982; the retention by exporters of part of their exchange proceeds to finance imports; and the tolerated sale of bartered imports at prices that reflect the parallel market exchange rate. This situation has led some of the authorities to consider the parallel market quasi-legal. The staff shares this opinion.

As Bolivia is unable to obtain short-term trade financing in the current situation, all imports must be fully prepaid. As a result, the Central Bank's liquid international reserves tend to be committed for this purpose. The authorities explained that the bulk of the increase in the Central Bank's gross international reserves in late 1984 represented the payment by Argentina of arrears on Bolivian gas exports in the form of an inconvertible account that can be used only for imports from, and debt service payments to, Argentina. The level of liquid reserve assets generally fluctuates in the range of US$50-80 million, and the authorities said they were determined to hand over to the new government liquid reserves amounting to at least US$30-40 million. According to preliminary data, the Central Bank's gross international reserves dropped by about US$200 million in the first half of 1985; US$150 million of this drop was matched by lower reserve liabilities, as the Central Bank made payments to Argentina through the bilateral account.

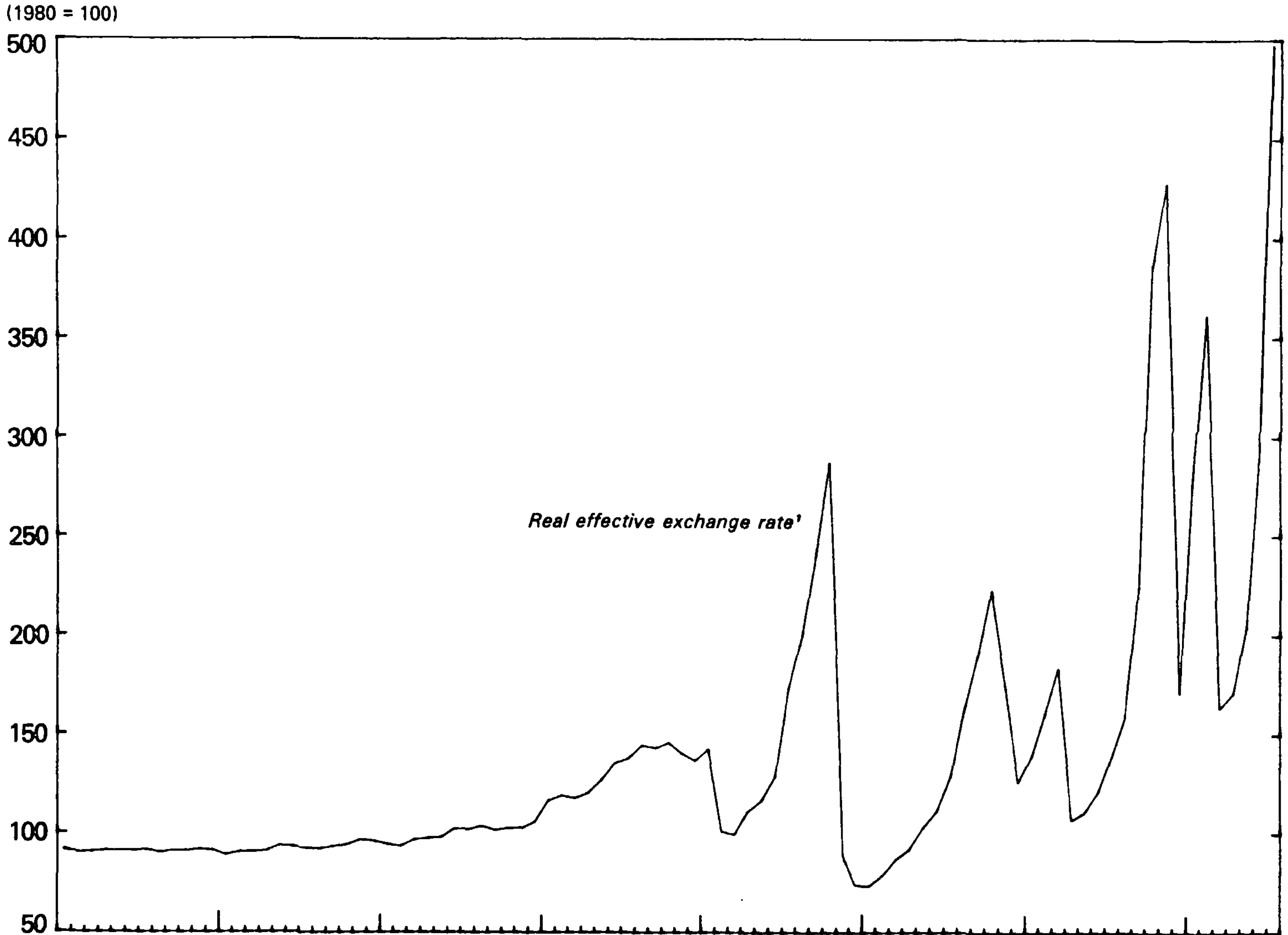
Because of the tight foreign exchange situation and prior demands for debt service (see below), exchange allocations for imports and current invisibles payments were very low in the first half of 1985. The committee in charge of allocating foreign exchange at the official rate did not meet for several months pending the investigation of alleged irregularities in allocation practices.

As the authorities were unable to reach new debt restructuring agreements with foreign creditors in 1984 and the first half of 1985, arrears on external debt service obligations continued to accumulate. Although Bolivia paid 65 percent of public sector debt service falling due in the first quarter of 1985, the arrears on such debt rose from US$692 million at the end of 1984 to US$762 million at the end of March 1985. This total included US$530 million owed to foreign banks, with which Bolivia has continued to meet following the formal suspension of debt service payments in June 1984 without, however, reaching an agreement on their resumption. The authorities said that priority had been given to maintaining debt service current with creditors that were providing a positive resource flow to Bolivia.

CHART 1

BOLIVIA

INDEX OF REAL EFFECTIVE EXCHANGE RATE



Source: Fund staff estimates.

[1] Trade-weighted index of nominal exchange rate deflated by seasonally adjusted relative consumer prices; increases mean appreciation.

5. Medium-term outlook

The staff has prepared a projection of the balance of payments and debt service obligations for the rest of the decade, and has estimated the implications for export and import growth of different assumptions for prices of Bolivia's two major exports, tin and gas (Appendix Tables 7 and 8). The basic scenario assumes that adjustment measures are adopted at the end of 1985, including a major real devaluation that would lead to a sharp increase in the volume of metal exports and of nontraditional exports during 1986-87 as these return to the levels reached at the beginning of the decade. Increased flows of concessional aid from multilateral and bilateral sources, together with renewed access to trade credit, are assumed to benefit the balance of payments and allow for a rebound of imports from their currently very depressed level.

Despite these favorable assumptions, the projected financing gap would remain very large, and it would widen again toward the end of the decade, as debt service obligations on the resources required to close the gap increase. While staff estimates indicate that successive debt restructuring agreements on generous terms with all creditors could close the financing gap in the early part of the period, additional financing--or faster export growth--would be needed by 1989-90 to maintain imports at a level that is about constant in real terms.

While the strike situation did not permit the staff to develop the attached medium-term scenario in the field, it was indicated to the authorities that the already difficult medium-term outlook for Bolivia could be complicated further by the expiration in 1992 of the agreement on gas exports to Argentina. Under the agreement Argentina is obliged to pay Bolivia for a minimum quantity of gas at a mutually agreed price. Bolivian exports under the agreement--currently at prices substantially above world market levels--amount to more than 50 percent of total exports. Recent discoveries of gas deposits in Argentina indicate that Argentina may not need to import gas in the 1990s. As negotiations on an export deal with Brazil have not progressed either, the staff emphasized the urgent need for the adoption by Bolivia of stabilization and adjustment policies that would permit the timely initiation of structural changes to facilitate the domestic use of gas and the growth of alternative exports.

IV. Staff Appraisal

Plagued by severe economic imbalances, the Bolivian economy has entered a phase of hyperinflation. Real GDP has contracted each year since 1981. While aggregate supply was curtailed additionally by the drying up of foreign sources of financing, aggregate demand was being fueled by expansionary fiscal and wage policies. With the virtual cessation of foreign financing, the external current account deficit was reduced sharply and a substantial accumulation of external payments arrears took place. In the period November 1982-May 1985 six attempts by the authorities to stabilize the economy ended in failure, either because key elements in the areas of fiscal and wage policy were missing or because their implementation was not sustained in the face of opposition. Bolivia's financial and economic situation has deteriorated to the point where there is an urgent need for the new Government to take and sustain comprehensive measures, involving a drastic reduction in the deficit of the nonfinancial public sector, a major adjustment of the exchange rate, and enhanced flexibility of prices in general.

The new authorities will need to give high priority to returning to sound public sector finances. In the Central Administration this would require a substantial increase in tax revenue, some of which would be obtained by updating the specific rates of selective consumption taxes and improving tax administration. However, the dimension of the fiscal problem is such that tax increases and the further compression of expenditures other than for wages will not suffice to restore balance to the accounts of the Central Administration. A lasting improvement in the financial performance of the Central Administration will require a reversal of the sizable growth of government employment and steps to improve efficiency. The policies to redress the imbalance in the Central Administration's accounts should be reflected in a realistic budget with strict monitoring procedures.

The Central Administration also will need to take measures to ensure that the state enterprises again generate current account surpluses--after payment of taxes due--to support their outlays for investment. A realistic exchange rate and adequate domestic prices would go a long way toward improving the operating results of the most important state enterprises. In addition, productivity needs to be improved through the elimination of overstaffing and the introduction of output related incentives. Controls at the enterprise level are necessary to reduce waste and misappropriations, and the overseeing ministries would need to regain control over the execution of approved investment projects. Direct access of enterprises to central bank credit should be terminated and any short-term borrowing undertaken by these enterprises should be on commercial terms.

The financial system is in a precarious state. A strong contraction of deposits in real terms and a high proportion of fixed costs are giving rise to heavy operational losses in the financial system despite attractive spreads between deposit and lending rates. The recent freeing of interest rates is a welcome step but it is unlikely to succeed in attracting financial savings back into the financial system in an environment characterized by high and volatile rates of inflation and lack of confidence in economic management. While this situation persists, the authorities should provide breathing space to the financial system by stretching out the period allowed for the depreciation of exchange valuation losses and by permitting the more frequent revaluation of fixed assets. Also, foreign currency indexation of onlending operations would permit the use of external lines of credit currently immobilized because of the dedollarization rules.

In the area of pricing policy, the authorities are to be commended for the liberalization of basic agricultural prices, which has contributed to the continuing recovery of agricultural production. The positive response of output should facilitate decisions to reduce further the scope of price controls in the Bolivian economy. As already noted, the prices of goods and services supplied by state enterprises are in particular need of adjustment and constant review. Past attempts to restore real wages to historical levels have ended in failure and contributed importantly to the sharp acceleration of inflation. Wage policy, therefore, needs to be revised to take account of the economy's capacity to produce and the objective of stabilizing the economy.

The failure of the authorities to pursue a flexible exchange rate policy at a time of high and rising inflation has damaged Bolivia's international competitiveness and distorted resource allocation. This policy has fostered the development of a growing underground economy; depressed the collection of taxes based on foreign trade; contributed to the rapid accumulation of external payments arrears; and created serious financial difficulties for a number of state enterprises. The Executive Board concluded the last consultation with Bolivia by noting that Bolivia needs to adjust its exchange rate to achieve a degree of competitiveness sufficient to protect its balance of payments and to maintain that competitiveness thereafter by frequent adjustments of the exchange rate. That need has become even more urgent since the last consultation.

Even with a drastic revision of exchange rate policy directed to the achievement of external competitiveness, Bolivia's balance of payments situation will remain difficult in the medium term. The staff would therefore encourage the new authorities to enter into substantive discussions with foreign creditors on debt restructuring and on the means for assuring the servicing of the external debt. Such contacts, together with the implementation of a satisfactory adjustment program, would open the way for the renewed use of external credits.

In the recent past, Bolivia has received technical assistance from the Fund in the areas of monetary statistics, budget preparation and control, and external debt management. While the prevailing domestic situation has at times impaired the potential usefulness of the efforts, the staff believes that a positive response to requests by Bolivia for further assistance in the relevant areas would be useful in an effort to provide Bolivia with the prerequisites--including an improved data base and better economic control and management--for the effective implementation of a comprehensive adjustment program.

Bolivia maintains the following exchange practices subject to the Fund's approval jurisdiction under Article VIII: (1) external payments arrears; (2) restrictions on the availability of foreign exchange for imports and current invisible payments; (3) multiple currency practices arising from (a) the maintenance of an excessive spread between the buying and selling rate in the offical exchange market;

(b) the existence of the parallel exchange market; and (c) the creation of two mixing rates as a result of foreign exchange retention privileges that differentiate between traditional and nontraditional exports. The staff urges the Bolivian authorities to implement the policy measures that would enable them to eliminate these multiple currency practices and restrictions on payments and transfers for current international transactions. In the meantime, since there are no assurances on their temporary nature, Fund approval of Bolivia's exchange restrictions and multiple currency practices is not being proposed.

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

Attachments

Fund Relations with Bolivia
(As of July 31, 1985)

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 147.4 million, equivalent to 162.5 percent of quota
(c) Fund credit to Bolivia SDR 56.7 million, equivalent to 62.6 percent of quota:

	Millions of SDRs	Percent of Quota
Credit tranche	14.35	15.83
Ordinary resources	(0.70)	(0.78)
Supplementary resources	(13.65)	(15.05)
Compensatory financing	17.90	19.74
Buffer stock	24.47	26.98

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, was cancelled 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 36.2 million.

IV. SDR Department:

(a) Net cumulative allocation:	SDR 26.7 million.
(b) Holdings:	SDR 17,479, or 0.1 percent of net cumulative allocation.

V. Administered Accounts:

(a) Trust Fund	
Disbursed:	SDR 36.16 million
Outstanding:	SDR 31.56 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. The official exchange rate was devalued from $b 45,000 to $b 67,000 per U.S. dollar (buying) on May 16, 1985. New selling rates of $b 74,330 to commercial banks and the public sector and $b 75,000 to the general public, compared to $b 49,550 and $b 50,000 per U.S. dollar previously, also came into effect then. The 11.9 percent spread between buying and selling rate includes an exchange tax of 4.8 percent and commissions of $b 1,614 for the Treasury, $b 2,500 for the Central Bank, and $b 670 for the commercial banks. Since February 8, 1985, private exporters may retain foreign exchange, and state enterprises may receive dollar-denominated exchange certificates, for the equivalent of 30 percent or 40 percent of net proceeds from traditional and nontraditional exports, respectively. An active parallel market continues to function. At the end of July 1985, the exchange rate in this market was $b 980,000 per U.S. dollar.

VII. Last Consultation: The 1984 Article IV consultation was concluded on July 18, 1984.

VIII. Technical Assistance and External Training: Bolivia has received a substantial amount of technical assistance since the conclusion of the last Article IV consultation. Staff members from the Bureau of Statistics provided technical assistance in monetary statistics on two missions in 1984 and one mission so far in 1985. A Central Banking Department expert is currently working on debt statistics in Bolivia for ten months. 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. Additional requests for technical assistance are pending. 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. Joachim Harnack was stationed as Resident Representative in Bolivia during the period June 1983-January 1985. Mr. David Hoelscher replaced him in January 1985.

X. Current Data: Generally not adequate because of conceptual and methodological problems in all areas. These problems have been aggravated in 1984 and so far in 1985 by reporting and compilation lags resulting from the pervasiveness of strikes (see also Attachment II).

Bolivia - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

The present consumer price index refers to lower and middle income families in La Paz and has 1966 as the base period. The index has a series break between 1983 and 1984 as a result of an increase in the sample size of the housing cost component and in the frequency of its data collection. Apart from the remoteness of its base period and the narrowness of its geographic coverage, the index is affected by the progressive shift of economic activities to the informal sector. The National Statistical Office is working on the compilation of a new consumer price index on a national basis.

b. Government finance

Data published in the 1984 Government Finance Statistics Yearbook are available through 1982 but cover only the budgetary central government. However, in late July 1985 data were received for 1983, which include for the first time social security and some decentralized units (universities). Data on financing and debt also were provided. There remains a need to compile data on the transactions of the External Resources Fund and the remaining decentralized agencies.

c. Monetary accounts

The Central Bank of Bolivia has agreed to implement most of the recommendations made during three previous technical assistance visits, and the new monetary accounts model is in the process of being implemented, albeit slowly because of strikes. When fully implemented, the new model will meet the requirements of both IFS and the Western Hemisphere Department. Certain adjustments to the Central Bank's accounts remain pending, such as a breakdown of the nonfinancial public enterprises sector by major enterprises. Once those adjustments have been made, the work can be extended to cover the rest of the banking system, and a new standard report form can be adopted.

The prevailing situation has, to a certain extent, affected not only the training of the staff involved in the production of the financial data, but also has slowed down the full implementation of the program. During the 1985 Article IV consultation mission, end-of-year data for 1983 and 1984 were generated within the new format, and the

Central Bank staff is producing the data for 1980 through 1982. However, these data refer only to the Central Bank, and an effort should be made to adapt the rest of the banking system to the new scheme.

d. Balance of payments

Revised data for 1983 and preliminary data for 1984 have been received recently and are being processed. They will be shown in the September issue of IFS.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Bolivia in the August 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Bolivia, which during the past year have been provided on an irregular basis.

Status of IFS Data

		Latest Data in August 1985 IFS
Real Sector	-National Accounts	1983
	-Prices	January 1985
	-Production	December 1984
	-Employment	n.a.
	-Earnings	n.a.
Government Finance	-Deficit/Surplus	Q4 1983
	-Financing	Q4 1983
	-Debt	n.a.
Monetary Accounts	-Monetary Authorities	December 1984
	-Deposit Money Banks	December 1984
	-Other Financial Institutions	December 1984
External Sector	Merchandise Trade: Value	December 1984
	Prices	December 1984
	Balance of Payments	Q3 1983
	International Reserves	May 1985
	Exchange Rates	June 1985

Bolivia: Basic Data

Area and population			
Area			1,098,000 square kilometers
Population (1984 est.)			6.3 million
Annual rate of population increase (1976-84)			2.77 percent
GDP per capita (1984)			SDR 668
Origin of real GDP (1984)			(Percent)
Agriculture			20.1
Mining			15.5
Manufacturing			12.2
Construction			3.3
Transport and communications			6.1
Government			14.6
Other services			28.2
Ratios to GDP (1984)			
Exports of goods and nonfactor services			9.4
Imports of goods and nonfactor services			7.5
Central administration revenues			3.2
Central administration expenditures			24.1
External public debt (end of year)			37.1
National saving			3.5
Gross domestic investment			4.7
Money and quasi-money 1/			5.6
Annual changes in selected economic indicators	1982	1983	1984
Real GDP per capita	-9.2	-11.1	-6.4
Real GDP	-5.7	-8.7	-3.5
GDP at current prices	154.2	242.5	1,327.8
Domestic expenditures (at current prices)	140.1	244.4	1,340.4
Investment	(100.8)	(26.4)	(1,769.7)
Consumption	(144.5)	(268.9)	(1,323.9)
GDP deflator	172.3	274.7	1,383.1
Cost of living (annual averages)	123.5	275.6	1,281.3
Central administration total revenues	33.2	347.9	463.6
Central administration total expenditures	182.4	315.4	1,227.6
Money and quasi-money	250.9	187.5	1,434.2
Money	(235.9)	(209.6)	(1,811.4)
Quasi-money	(282.6)	(146.7)	(582.1)
Net domestic bank assets 2/	605.7	547.9	2,814.9
Credit to government (net)	(209.1)	(232.8)	(567.2)
Credit to rest of public sector (net)	(198.6)	(168.5)	(1,005.8)
Credit to private sector	(232.1)	(104.1)	(896.7)

Central administration finances	1982	1983	Prel. 1984
	(billions of Bolivian pesos)		
Revenues	24	108	605
Expenditures	83	345	4,576
Current account surplus or deficit (-)	-53	-271	-3,701
Overall surplus or deficit (-)	-59	-237	-3,970
External financing (net)	3	1	27
Internal financing (net)	56	236	3,943
Balance of payments	(millions of U.S. dollars)		
Merchandise exports (f.o.b.)	838	755	730
Merchandise imports (c.i.f.)	-578	-545	-477
Factor income (net)	-413	-366	-361
Other services and transfers	-12	57	3
Balance on current account	-165	-97	-105
Nonfinancial public sector 3/	50	4	17
Unpaid amortization 4/	-196	-614 5/	-188
Banking system n.i.e. (net)	-42	393 5/	-66
Private capital (net) 6/	129	82	86
Arrears on gas exports	-145	-97	189
Allocation of SDRs and gold monetization	2	1	1
Overall balance	-368	-327	-66
Exceptional financing 7/	295	633 5/	235
Change in net official reserves (increase -)	73	-306 5/	-169
International reserve position	(millions of SDRs)		
Central Bank (gross)	165.0	167.2	374.2
Central Bank (net)	-297.8	-45.5	123.6
Rest of banking system (net)	-66.8	-55.2	-57.1

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 US$370 million of restructured short-term liabilities of the financial public sector.

6/ Includes net errors and omissions.

7/ Includes balance of payments support loans and total unpaid debt service (arrears, deferments and restructuring).

Status of World Bank Group Operations in Bolivia

1. Statement of World Bank loans and IDA credits (as of June 30, 1985)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount (less cancellations) Bank	IDA	Undisbursed
				(In millions of U.S. dollars)		
Eight loans and twelve credits fully disbursed				155.0	89.9	
933	1979	Bolivia	Omasuyos-Los Andes Rural Development		3.0	1.6
940	1979	Bolivia	National Mineral Exploration Fund		7.5	6.0
948	1979	Bolivia	Santa Cruz Water Supply and Sewerage		9.0	3.3
1324	1976	Bolivia	Water Supply and Sewerage	5.2		0.6
1404	1977	Bolivia	Education and Vocational Training	12.0		1.8
1422-5	1977	ENFE	Third Railway	35.0		0.5
1423	1977	AASANA	Aviation	25.0		1.8
1489	1977	Bolivia	Urban Development	17.0		4.3
1510	1978	Bolivia	Ulla Ulla Development	9.0		6.3
1587	1978	Bolivia	Highway Maintenance	25.0		3.6
Total				283.2	109.4	
Of which has been repaid				53.4	3.8	
Total now outstanding				229.8	105.5	
Amount sold			.05			
Of which has been repaid			.05			
Total now held by Bank and IDA				229.8	105.5	
Total undisbursed						29.8

2. Statement of IFC investment (as of June 30, 1985)

	Loan	Equity	Total
	(In millions of U.S. dollars)		
Total gross commitments	8.3	1.0	9.3
Less cancellations, terminations, repayments, and sales	1.6	0.3	1.9
Total commitments now held by IFC	6.7	0.7	7.4
Total undisbursed	5.7	—	5.7

3. Recent IBRD technical assistance

The IBRD is financing specific technical assistance components in some of its on-going development projects, and has previously assisted in a few technical assistance efforts for the improvement of investment planning and programing as well as external debt reporting in Bolivia. A proposed Technical Assistance Loan--focussed on improvement of public sector financial management, information and control--will be discussed with the new Government.

4. Recent economic and sector missions

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

Table 5 . Bolivia: Macroeconomic Flows

(As percent of GDP)

	1980	1981	1982	1983	Prel. 1984
I. Balance of Payments					
Current account balance	-0.6	-8.2	-2.7	-1.7	-1.2
Trade balance	4.8	-1.6	4.3	3.6	2.9
Factor payments	-5.9	-6.5	-6.8	-6.3	-4.1
Other services and transfers	0.5	-0.1	-0.2	1.0	--
Capital account	-1.4	5.6	1.5	7.0	3.1
Nonfinancial public sector	5.1	7.7	-0.3	-1.5	2.8
Private sector 1/	-6.5	-2.1	1.8	8.5 2/	0.3
Change in net official reserves (increases -)	2.0	2.6	1.2	-5.3 2/	-1.9 3/
II. Nonfinancial Public Sector					
General Government					
Current account	-3.4	-2.9	-11.9	-19.6	-21.8
Total revenue	(13.1)	(15.3)	(11.5)	(11.5)	(4.9)
Total expeniture	(20.0)	(22.5)	(25.9)	(29.4)	(28.8)
Overall deficit	-6.9	-7.2	-14.4	-17.9	-23.9
Nonfinancial state enterprises					
Current account	1.2	2.1	3.0	1.3	-2.4
Consolidated nonfinancial public sector					
Current account	-2.2	-0.8	-8.9	-18.3	-24.2
Net lending minus capital revenue	0.1	0.2	0.4	4.5	0.3
Fixed capital formation	7.0	7.5	7.5	5.7	4.7
Overall deficit	-9.1	-8.1	-16.0	-19.5	-28.6
Net foreign financing	5.1	7.7	-0.3	-1.5	2.8
Net domestic financing	4.0	0.4	16.3	21.0	25.8
III. Saving and Investment					
Fixed capital formation	14.3	11.8	11.6	7.1	4.7
Nonfinancial public sector	7.0	7.5	7.5	5.7	4.7
Private sector	7.3	4.3	4.1	1.4	--
Investment = saving	14.1	12.4	9.8	3.6	4.7
External saving	0.6	8.2	2.7	1.7	1.2
National saving	13.5	4.2	7.1	1.9	3.5
Nonfinancial public sector	(-2.2)	(-0.8)	(-8.9)	(-18.3)	(-24.2)
Private sector	(15.7)	(5.0)	(16.0)	(20.2)	(27.7)
Memorandum items					
GDP (billions of pesos)	123.5	153.0	389.0	1,332.4	19,023.8
Average official exchange rate ($b per US$1)	25	25	64	230	2,174

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

1/ Includes net borrowing by the financial public sector, nonofficial reserve movements, and net errors and omissions.
2/ Includes the medium-term refinancing of US$370 million (or 6.4 percent of GDP) of central bank reserve liabilities.
3/ Includes a US$115 million (or 1.3 percent of GDP) increase in inconvertible balances resulting from payments for gas exports by Argentina.

Table 6. Bolivia: External Public Debt Operations 1/

	1980	1981	1982	1983	Prel. 1984
(In millions of U.S. dollars)					
Disbursed debt outstanding 1/	2,312.3	2,752.8	2,803.3	3,176.1	3,244.6
International organizations	605.0	676.9	720.4	814.8	836.9
Government loans	592.3	641.1	659.0	1,215.6	1,248.0
Banks	836.8	1,132.9	1,125.9	898.9	896.2
Of which: private banks	(...)	(...)	(742.1)	(751.1)	(751.3)
consortium banks 2/	(...)	(...)	(685.1)	(681.3)	(685.1)
Suppliers' credits	216.6	242.6	253.9	207.3	224.9
Bonds	61.7	59.1	44.1	39.5	38.6
Debt service obligations 1/	328.6	439.5	563.2	577.9	562.8
Interest	163.6	201.6	256.9	232.7	244.8
Amortization	165.0	237.9	306.3	345.2	318.0
Debt service payments 1/	290.1	295.0	286.6	329.7	327.5
Interest	163.8	186.2	177.3	228.5	197.6
Amortization	126.3	108.8	109.3	101.2	129.9
(Ratios in percent)					
Disbursed debt outstanding/GDP	46.8	45.0	46.1	54.8	37.1
Average interest rate 3/	7.5	8.0	9.2	7.8	7.6
Interest paid/exports 4/	16.0	18.6	19.2	26.6	24.0
Debt service obligations/exports 4/	32.1	44.0	61.1	67.2	68.2
Debt service paid/exports 4/	28.3	29.5	31.1	38.4	39.7
Memorandum items					
Interest and commissions paid on private and public debt 5/					
In millions of U.S. dollars	261.0	331.2	290.5	298.3	283.2
As percent of exports 4/	25.5	33.1	31.5	34.7	34.3
Interest and commissions due on private and public debt 5/					
In millions of U.S. dollars	260.8	346.6	389.5	318.2	330.4
As percent of exports 4/	25.5	34.7	42.3	37.0	40.1

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

1/ Public and publicly guaranteed debt with an original maturity of more than one year. Totals may not add due to rounding.
2/ Private commercial banks involved in 1981 rescheduling agreement.
3/ Interest due as a percentage of average debt outstanding during the year.
4/ Goods and nonfactor services.
5/ Includes interest on short-term debt and IMF charges.

Table 7. Bolivia: Medium-Term Projections, 1985-90

	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)					
Current account 1/	-187	-177	-136	-128	-135	-163
Exports, f.o.b.	674	751	853	932	1,020	1,115
Imports, c.i.f.	-474	-564	-633	-691	-748	-805
Net factor income 1/	-383	-358	-344	-350	-379	-436
Other services and transfers	-4	-5	-12	-20	-28	-37
Capital movements	-159	-106	-134	-119	-159	-158
Direct investment and private loans	7	8	8	9	9	10
Medium- and long-term nonfinancial public sector (net) 2/	-221	-144	-157	-138	-174	-173
Disbursements (including suppliers credits)	(100)	(197)	(169)	(141)	(154)	(168)
Amortization 2/	(-321)	(-341)	(-326)	(-279)	(-328)	(-341)
Short-term capital (including gas financing)	55	30	15	10	5	5
Net official reserves (increase -)	32	-25	-19	-2	--	--
Of which: IMF repurchases (-)	-18	-25	-19	-2	--	--
Financing gap 3/	-313	-308	-289	-250	-294	-321
Arrears outstanding (end-1984)	692					
Total new financing needed	1,005	308	289	250	294	321
	(In percent)					
Memorandum items						
Current account deficit 1/4/	-4.4	-3.8	-2.6	-2.2	-2.1	-2.3
Exports 4/	15.9	16.2	16.3	16.0	15.7	15.5
Imports 4/	-11.2	-12.2	-12.1	-11.9	-11.6	-11.2
Real import growth	3.0	14.5	4.4	1.5	0.8	0.1
Real export growth	-4.9	8.8	9.9	2.6	2.6	2.6
Real GDP growth	-0.5	5.0	5.0	3.5	3.5	3.5
International inflation in U.S. dollar terms	-3.5	4.0	7.5	7.5	7.5	7.5
Interest payments 5/	36.2	30.6	28.2	26.8	27.5	26.2
Total debt service 5/	77.7	64.8	56.9	48.7	51.7	49.5

Source: Fund staff estimates.

1/ Includes interest payments on disbursed debt as originally scheduled, on new debt, and on the financing gap.

2/ Includes amortization on disbursed debt as originally scheduled, on new debt, and on financing gap.

3/ Includes disbursements necessary to finance debt service obligations on the financing gap.

4/ As percentage of dollar GDP, calculated using real growth and U.S. inflation with a 1975 base.

5/ As percentage of exports of goods and nonfactor services.

Table 8. Bolivia: Alternative Medium-Term Scenarios, 1985-90

	1985	1986	1987	1988	1989	1990
Scenario A 1/						
Exports (millions of U.S. dollars)	674	751	853	932	1,020	1,115
Real imports (percent growth)	3.0	14.5	4.4	1.5	0.8	1.2
Scenario B 2/						
Exports (millions of U.S. dollars)	674	775	919	1,004	1,098	1,200
Real imports (percent growth)	3.0	19.4	10.5	1.5	0.8	0.2
Scenario C 3/						
Exports (millions of U.S. dollars)	674	727	787	860	941	1,030
Real imports (percent growth)	3.0	9.6	-2.4	1.5	0.6	--

Source: Fund staff estimates.

1/ Price assumptions for 1985 include US$5.40 per pound of tin and US$4.91 per thousand cubic feet of natural gas. Tin and gas prices increase during the period 1986-89 in line with IMF and World Bank projections for tin (6.5 percent in 1986 and 6 percent a year 1987-90) and oil (4 percent in 1986 and 7.5 percent a year 1987-90).

2/ Assumes tin and gas prices 10 percent higher from 1986 onward than in Scenario A.

3/ Assumes tin and gas prices 10 percent lower from 1986 onward than in Scenario A.