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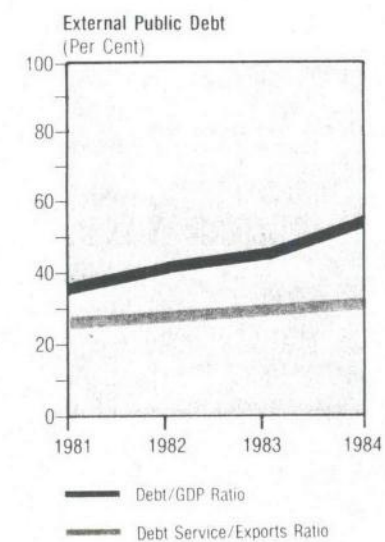
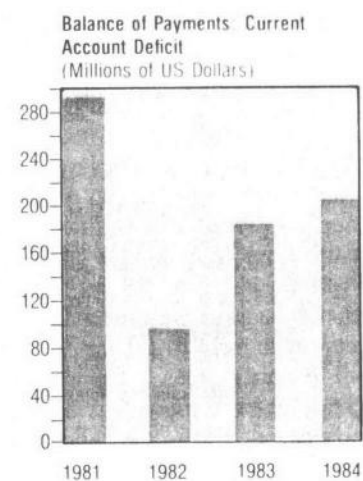
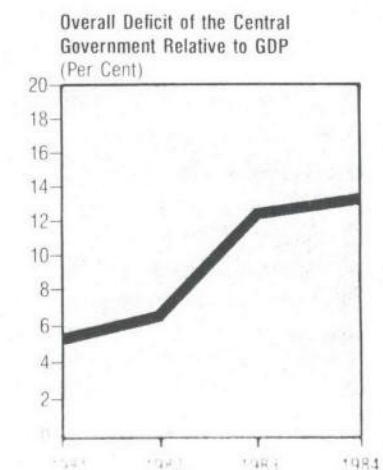
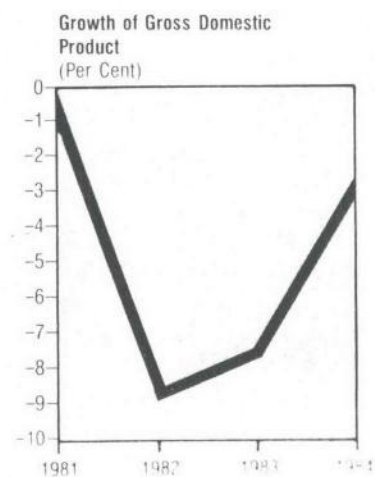
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Economic Adjustment Programs - Bolivia

Bolivia

Bolivia

Economic Indicators



Statistical Profile*

Area (Km ²)	1,098,581		
Total population 1984 (thousands of inhabitants)	6,253		
(Percentage of urban population 47.1; rural 52.9)			
Annual rate of growth of total population	2.7		
Average 1970-84 (percentage)			
Birth rate per 1,000 inhabitants (1984)	43.2		
Mortality per 1,000 inhabitants (1984)	15.4		
Infant mortality per 1,000 live births (1982)	124.4		
Years of life expectancy at birth (1984)	54.0		
Percentage of literacy (1980)	67.7		
Labor force by sector (1980)	(Percentages)		
Agriculture	56.1		
Mining	2.8		
Manufacturing	10.5		
Construction	4.7		
Others	25.9		
	1982	1983	1984**
Real production	(Growth rates)		
Total GDP (market prices)	-8.7	-7.6	-3.0
Agricultural sector	-2.2	-22.0	3.5
Mining sector	-9.4	-0.4	-15.5
Manufacturing sector	-15.3	-7.5	-6.6
Construction sector	-40.0	0.0	-20.2
Central government	(Percentages of GDP)		
Current revenues	7.1	4.9	3.5
Current expenditures	12.0	16.5	15.9
Current savings	-4.9	-11.6	-12.4
Capital expenditures	1.5	0.8	0.8
Deficit or surplus	-6.4	-12.4	-13.2
Domestic financing	5.8	12.4	13.2
Money and prices	(Growth rates)		
Consumer prices	123.5	275.6	1,281.3
Money supply	228.8	207.0	1,889.6
Domestic credit	345.1	171.4	814.5
Public	419.4	217.8	969.8
Private	273.6	104.1	484.8
Exchange rate, average	63.81	229.78	2,174.21
(units of national currency per dollar)			
Balance of payments	(Millions of dollars)		
Merchandise exports (FOB)	779.8	756.9	707.4
Merchandise imports (FOB)	403.9	481.8	422.3
Merchandise balance	375.9	275.1	285.0
Net services	-505.9	-564.2	-574.0
Current account balance	-87.2	-182.5	-203.0
Official capital	221.0	n.a.	n.a.
Private capital	-79.5	n.a.	n.a.
Change in net reserves (- increase)	-29.7	19.1	-111.0
External public debt	(Millions of dollars)		
Total	3,157.7	3,849.0	n.a.
Disbursed	2,554.8	2,968.9	3,131.0
Debt service (interest and amortization)	260.2	266.7	254.0
Debt service as a percentage of exports of goods and non-factor services	28.3	30.5	31.7

* The data in this section have been obtained from the sources listed on page 207. Any clarification or interpretation of the data should be referred directly to the pertinent source.

** Preliminary estimate.

n.a. Not available.

Bolivia

Recent Economic Trends

The serious situation of the Bolivian economy in recent years, which was aggravated by economic policies that were often incomplete or lacked continuity, further worsened in 1984 when the shortage of foreign exchange became more pronounced and access to external financing was reduced. The deep distortions in the productive system this situation caused, accentuated the internal and external disequilibria and led to labor unrest. Repeated changes of the economic authorities hampered the implementation of the economic adjustment programs launched in 1984. The efforts of the Government to maintain the purchasing power of wages and salaries and simultaneously ensure the supply of essential consumer goods at controlled prices failed to achieve their objectives. This failure discouraged production and fueled inflationary expectations. Consequently, the gross domestic product (GDP) fell for the fourth consecutive year, and in 1984 was down 3 per cent from 1983.

In 1984, the downward trend in the output of all the principal economic sectors of Bolivia except agriculture continued. As a result of normal weather conditions and the execution of recovery projects, the contribution of the agricultural sector to GDP was positive and reflected a recovery from the sharp fall in the levels of production in the previous year. Furthermore, factors such as the shortage of raw materials and of machinery and spare parts; limited access to credit; distortions arising from the disarray of the exchange system and the shortage of foreign exchange; the increase in smuggling; the rise in the cost of certain inputs; and the many labor conflicts—both strikes and lock-outs—in 1984 affected the mining, industrial, and construction sectors in varying degrees and were a factor in the low levels of production achieved by those sectors during the year.

The marked financial disequilibrium of the public sector, with its adverse effects on the balance of payments and inflation, became one of the major factors in the deterioration of the economy in 1984. Preliminary data show that, despite significant cutbacks in investment outlays, the overall deficit of the public sector rose to a level equivalent to 21.5 per cent of GDP, substantially more than the 18.2 per cent level achieved in 1983, and basically reflected the sharp increase in public dissaving. The general fall in tax revenue reduced the tax burden to only 2.2 per cent of GDP in 1984, far below its peak of 11.8 per cent in 1976. This decrease was primarily due to the decline in the operating surpluses of the public enterprises, the decrease in collections from

the depressed external trade, and an erosion of the tax base caused by changes in the taxation system.

The increase in the financial requirements of the public sector at a time when access to external financing sources was reduced led to sharp expansion of bank credit in 1984. The maintenance of high legal reserve requirements for demand deposits proved incapable of containing the expansion of the net assets of the banking system. Although 83.2 per cent of bank loans went to the public sector, for the first time in the past seven years the relative share of the private sector in total credit—16.8 percent—represented an increase relative to the previous period.

The maintenance of interest rates at levels much below those of the growth rate of domestic prices helped disrupt the financial market. Thus quasi-money, consisting essentially of time deposits, fell from a level equivalent to 6.8 per cent of GDP in 1983 to 3.6 per cent in 1984. The cash obtained was converted into dollars or into durable goods.

Furthermore, the monetization of the public deficit described above became an important source of inflationary pressure. Indeed, although the rapid rise in the quotation of the dollar on the parallel market primarily reflected the marked shortage of foreign exchange, that increase became extremely sensitive to the monetization of the deficit. Likewise, the growth rate of domestic prices became more closely correlated with changes in the parallel market. In addition, inflation was fueled by the elimination of a large number of subsidies and by the limited availability of imported foodstuffs and inputs. The consumer price index showed an average annual increase of 1,281.3 per cent. In addition, accelerated by hyperinflation, prices rose by 2,177 per cent between December 1983 and December 1984.

In 1984 the demand for Bolivia's exports continued to be depressed. The average prices of some of its principal mineral exports (tin, tungsten, lead and silver) held to levels between 40 and 73 per cent of those of 1980. Furthermore, the average price levels of non-traditional exports were below those of 1980. In addition, the profitability of exports was reduced even more by the maintenance of a fixed exchange rate during periods of accelerated domestic inflation. Together, these factors produced a fall in export value.

The gradual drying up of the habitual sources of external financing, the general slowdown in economic activity, and the delays in payments for gas exported to Argentina largely explain the limited dynamism of imports. The authorities assigned the scanty foreign exchange available to the purchase of raw materials, intermediate inputs, and capital goods in order to prevent an even greater fall in domestic production.

The surplus in the trade account of the balance of payments, which was slightly higher than that in the previous year, was insufficient to offset the greater outlays required for the payment of interest on the external debt. The result was an increase in the current account deficit. Despite the deficit in the capital account, the balance of payments showed an increase in net international reserves because of the positive balance in the special financing account, which includes deferred debts and debts in arrears.

The agreements for the refinancing of the external debt concluded in earlier years were insufficient to ease the burden of the debt service on the scanty earnings generated by exports. Consequently, in July 1984 the Government temporarily suspended payment of the debt contracted with international private banks. Nevertheless, negotiations for achieving a refinancing agreement with private creditors were opened, and the servicing of the debt from official sources was continued. As a result of the above-mentioned suspension of payments, the balance of the medium- and long-term debt due and unpaid as of 31 December 1984 amounted to \$719.3 million. If the total debt service due, including the portion in arrears, had been paid, the service would have been equal to 134.4 per cent of export earnings from goods and non-factor services.

Economic Policies

The difficult situation of the Bolivian economy in 1984 led the Government to adopt an emergency economic program in April and to introduce additional corrective measures in November.

On those two occasions, the prices of certain components of the family basket of basic goods and of petroleum derivatives were sharply increased. In addition, the prices of transportation, telecommunications, and mail services were raised. The emergency program also included a reduction in the subsidies on bread and flour and decontrol of the prices of agricultural and livestock products.

To maintain the purchasing power of wages and salaries and to compensate workers for the price hikes included in the emergency program, the authorities agreed to raise wages and salaries by 100 per cent in March and then by an additional 15 per cent on June 15. In November, an increase in the minimum wage, equivalent to 13.55 times that wage in November 1983 (30,100 pesos), was granted retroactive to the first of the month. An additional increase of 33 per cent in the new minimum wage was also agreed upon as compensation for the rise in the prices of basic necessities.

Among the exchange measures included in the emergency program were continued control by the State of foreign exchange and surrender to the monetary authority of 100 per cent of foreign exchange derived from external trade and external loans. A parallel market for trading the foreign exchange generated by tourism was also legalized; the proceeds were to be used for travel, education and health expenses. Although a flexible exchange rate system was legally instituted, it was not put into practice. After a short period during which two official exchange rates were in operation, the Government reestablished the single exchange rate in November and fixed it at 9,000 pesos to the dollar.

The institutional strengthening measures adopted in April included: the establishment of a Monetary Board as the higher collegial agency responsible for determining and regulating monetary, exchange, credit and fiscal policies and the establishment of the State Agency Inspection and Control Unit,

responsible for the oversight, supervision, inspection, and permanent control of the Central Bank of Bolivia, financial institutions, insurance companies, and financial intermediaries. In addition, public sector agencies were forbidden to contract external debts without the prior and express authorization of the Monetary Board.

Furthermore, in November the National External Trade and Financing Council was established. It comprised eight Ministers of State and the President of the Central Bank. The Council will propose strategies for dealing with the external debt and external trade and will direct the technical studies for organizing the National Foreign Trade and External Financing System.

Outlook

The economic prospects of Bolivia in the immediate future will depend on the decisions adopted by the authorities for reducing the overall deficit of the public sector to a level compatible with a moderate expansion of bank credit and the simultaneous execution of measures designed to improve the external financial situation of the country. They will also continue to be coupled with efforts by the Government to provide a stable political environment that will restore confidence in the peso, encourage domestic savings, and contain capital flight.

Although the indexing of tax balances in arrears in effect since March 1985 and the tax measures adopted in February of that year will help increase revenue, a reduction in the deficit will demand effective control of current expenditures. This control entails the adoption of a wage policy that will enable inflation to be controlled. This policy must be combined with immediate steps to promptly improve the management and finances of the state enterprises, in particular of those producing goods and services for the domestic and the external markets.

The distortions in the structure of domestic prices must also be reduced. Such a reduction means that the exchange rate, interest rates, and administered prices will have to be adjusted to reflect actual conditions in the markets concerned. These adjustments could be achieved through the application of the flexible exchange and interest rates the authorities have provided for on repeated occasions but have not succeeded in implementing. The gradual elimination of price controls would also help achieve those purposes.

Given the acute shortage of foreign exchange the country will continue to face in 1985, the external debt service is another determinant of the short-term economic prospects of Bolivia. In these circumstances, the lightening of the debt service burden will largely depend on the conclusion of a new rescheduling agreement with the private banks and possibly new bilateral agreements with such creditors as Argentina and Brazil. The rescheduling of the debt with the private banks is probably dependent upon the execution of an adjustment program in which the International Monetary Fund (IMF) participates. Presumably, such a program will also be a condition for improving the pos-

sibilities of obtaining the additional foreign financing the country needs if it is to reactivate its economy.

The trade surplus in the balance of payments in 1984 was achieved in part through a decrease in imports. The country can hardly continue to hold its purchases abroad at the levels of this year without affecting the operation of the economy. Social pressures will make it necessary to maintain a minimum of activity in the mining and industrial sectors that use imported inputs and equipment.

Sources of Data in the Statistical Profile:

Area:

Organization of American States, *América en Cifras 1972—Situación Demográfica: Estado y Movimiento de la Población.*

Population:

Information furnished to the IDB by Instituto Nacional de Estadística, May 1985.

Birth Rate:

Information furnished to the IDB by Instituto Nacional de Estadística, May 1985.

General and Infant Mortality Rates:

Information furnished to the IDB by Instituto Nacional de Estadística, May 1985.

Years of Life Expectancy at Birth:

Information furnished to the IDB by Instituto Nacional de Estadística, May 1985.

Literacy Rate:

Information furnished to the IDB by Instituto Nacional de Estadística, May 1985.

Labor Force:

PREALC, International Labor Office, *Mercado del Trabajo en Cifras, 1950-80.*

Real GDP:

1982-83: Information furnished to the IDB by the Banco Central de Bolivia, February 1985.

1984: IDB estimate based on information furnished by the Banco Central de Bolivia, April 1985.

Central Government:

1982-83: Information furnished to the IDB by the Banco Central de Bolivia, February 1985.

1984: IDB estimate based on information furnished by the Banco Central de Bolivia, April 1985.

Money and Prices:

Information furnished to the IDB by Instituto Nacional de Estadística, February 1985.

Exchange Rate:

International Monetary Fund, *Estadísticas Financieras Internacionales*, March 1985.

Balance of Payments:

1982-83: International Monetary Fund, *Balance of Payments Statistics*, (magnetic tapes).

1984: Information furnished to the IDB by the Banco Central de Bolivia, February 1985.

External Public Debt:

Information furnished by the Government of Bolivia and processed by the IBRD and the IDB.

Table
Major Features of Structural Adjustment Programs

	<u>Bolivia</u>	<u>Chile</u>	<u>Ivory Coast</u>		<u>Philippines</u>		<u>Yugoslavia</u>
			I	II	I	II	
I. TRADE POLICY							
Tariff reform and import liberalization		X			X	X	X
Export incentives and improved institutional support		X	X	X	X	X	X
II. RESOURCE MOBILIZATION							
Budget Policy							X
Domestic Savings Policy		X					X
Strengthening of institutional capacity to manage external borrowing	X		X				X
Public enterprise financial performance	X			X			X
III. EFFICIENT USE OF RESOURCES							
Public investment program revision and review of structural priorities	X	X	X	X			X
Pricing Policy:							
- Agriculture	X	X	X	X			X
- Energy	X					X	X
Incentive System:							
- Industry				X	X	X	X
Energy conservation measures						X	X
Energy - Development of indigenous sources		X					
IV. INSTITUTIONAL REFORMS							
Strengthening of institutional capacity to formulate and implement public investment program		X	X	X			
Institutional efficiency of public sector enterprises	X	X	X	X			
Improved institutional support in agriculture (marketing, etc.)		X	X	X			
Institutional improvements in industry and sub-sector programs				X	X	X	

Sources: World Bank, 'Progress Report on Structural Adjustment Lending', 5-23-84, &, various SAL Reports.