July 2004
IMF Country Report No. 04/193

Bolivia: Third Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of Performance Criteria, and Augmentation and Extension of the Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Bolivia

In the context of the third review under the Stand-By Arrangement, request for waiver of nonobservance of performance criteria, and augmentation and extension of the Stand-By Arrangement with Bolivia, the following documents have been released and are included in this package:

- the staff report on the third review under the Stand-By Arrangement, request for waiver of nonobservance of performance criteria, and augmentation and extension of the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on **May 20, 2004,** with the officials of Bolivia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 2, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its June 10, 2004 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Bolivia.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BOLIVIA

Third Review Under the Stand-By Arrangement, Request for Waiver of Nonobservance of Performance Criteria, and Augmentation and Extension of the Stand-By Arrangement

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Caroline Atkinson and Michael Hadjimichael

June 2, 2004

- **Stand-By Arrangement**. The current arrangement was approved on April 2, 2003, for a 12–month period in an amount equivalent to SDR 85.75 million (50 percent of quota), of which SDR 64.32 million (37.5 percent of quota) has been drawn. On October 6, 2003, the Executive Board completed the second review. The arrangement was extended on April 1, 2004, until June 15, 2004, to allow more time to complete the third review.
- **Discussions.** The review discussions were held in La Paz from November 25 to December 11, February 12–24, and May 12–20; and at headquarters during December 15–17, April 19–23, and May 5–10. The mission met with Mr. Javier Cuevas, Minister of Finance; Mr. Juan Antonio Morales, Central Bank President; and other senior officials. The team comprised: M. Piñón (Head), A. Aisen, R. Balakrishnan, and O. Williams, (all WHD), A. Giustiniani, S. Heysen, and L. Jácome, (all MFD); M. Guin-Siu, and P. Medas, (both FAD); and K. Kostial, (PDR). The mission was assisted by S. Cueva (Resident Representative). S. Calvo and C. Mollinedo, (both IBRD) joined the mission. A. Segura (OED) also participated in the discussions.
- **Program**. In the accompanying Letter of Intent and Memorandum of Economic and Financial Policies, the authorities describe their policies and prospects for 2004. An extension of the arrangement until end-year and an increase in access of 25 percent of quota are requested. SDR 10.7 million would become available upon completion of the third review.
- **Economic and policy developments**. Real GDP growth in 2003 was lower than programmed due to the October unrest. The performance criterion (PC) on NIR for end-December was met with a margin but the PCs on the fiscal deficit, domestic financing, central bank financing to the nonfinancial public sector, and NDA of the central bank were not met and the authorities request waivers. Waivers are also requested for nonobserved structural PCs on the tax code, and the action plan for weak banks (both subsequently implemented).

Appendices

Attachments

Annex

EXECUTIVE SUMMARY

Background

Completion of the review has been subject to delays. Discussions were protracted due to the need to reduce implementation risks, and to secure external financing assurances.

Economic activity is gradually picking up. Although the events of October negatively affected economic performance in 2003, economic activity in 2004 is gradually recovering, led by hydrocarbons and soybean exports. Growth in 2004 is projected at 3½ percent, one percentage point higher than in 2003. Inflation remains in low single digits. The strengthening of the external current account in 2003, which registered a small surplus, is expected to continue in 2004 owing to strong export performance.

Several quantitative and structural performance criteria (PCs) were missed. Owing largely to the October events, the end-December 2003 PCs on the fiscal deficit, domestic financing, NDA of the central bank, and central bank credit to the nonfinancial public sector were missed. PCs on NIR of the central bank, nonconcessional external borrowing, and short-term debt were met. Two structural PCs were also not observed, but were subsequently implemented.

Policy discussions

Program discussions focused on appropriate corrective measures and strengthened policies that could support completion of the review and an augmentation and extension of the SBA. Understandings were reached on a four-pronged strategy: (i) a budgetary framework to contain the fiscal deficit to available financing; (ii) securing financing assurances to avoid central bank financing and minimize nonconcessional credits; (iii) measures to strengthen the financial and corporate sectors; and (iv) a process toward implementing a viable hydrocarbons policy.

The fiscal deficit after grants is to be reduced to 6.1 percent of GDP in 2004. This will be achieved by a large tax package (1½ percent of GDP) based on measures introduced in late 2003 and the recently approved financial transactions tax. Nonpriority spending will be reduced through two austerity decrees in order to increase pro-poor spending.

External financing of the program is now in place. Bilateral and multilateral donors have pledged grants and concessional loans in line with programmed external financing needs. Nonconcessional financing is limited to 1.6 percent of GDP.

Monetary policy will aim to strengthen NIR, within the existing crawling peg arrangement. The program targets an accumulation of US$109 million during May–December, limiting the annual decline to US$55 million.

Risks to the program remain substantial. Social and political conditions remain tense, especially ahead of the scheduled July referendum on gas exports, and the government has limited political support in Congress. The fiscal program is subject to spending pressures and domestic debt roll-over risk. The financial system remains highly vulnerable. Finally, uncertainties remain about the future of hydrocarbons policy, which is critical for medium-term sustainability.

I. POLITICAL CONTEXT

1. **A wave of social and political unrest in mid-October 2003 led to the resignation of President Sánchez de Lozada and the death of some 70 civilians**. Protests focused on the use of Bolivia's rich hydrocarbons resources. The unrest was initially triggered by a proposed pipeline project for LNG exports to the U.S. and, in particular, its possible routing through Chile. The disturbances also reflected long-standing tensions, including the social exclusion of large segments of the population, and the generalized perception that oil companies and the wealthy elite have benefited unduly from the exploitation of Bolivia's natural resources. As a result of delays in the approval of the project and continuing domestic divisions on hydrocarbons policies, Bolivia's medium-term prospects suffered a serious setback in December 2004 when the intended U.S. buyer of LNG signed a purchase agreement with another country.

2. **While conditions have been somewhat calmer since Vice-President Mesa assumed the presidency, the new government has faced enormous social pressures.** The president quickly appointed a new cabinet largely viewed as independent of the political establishment and responded to popular grievances by promising to revise the law governing the hydrocarbons sector, hold a referendum on gas exports, and establish a new Constitutional Assembly. The opposition signaled its qualified support for President Mesa, although some radical elements have called for his resignation. In the face of limited support in a fragmented Congress and increased social demands, President Mesa reshuffled the cabinet in April and May 2004 to accelerate policy implementation and facilitate dialogue with civil society and indigenous groups. His popularity remains high, although his support in the political system is fragile.

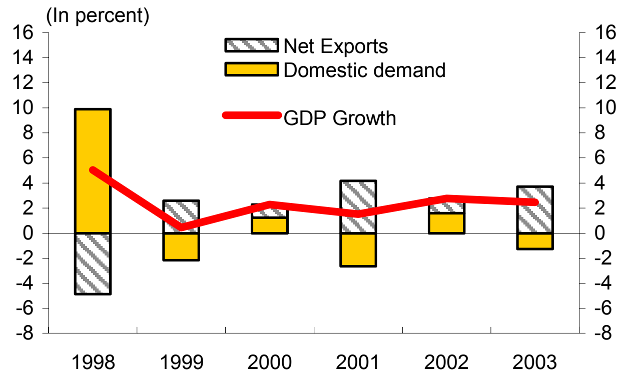
3. **With the recent announcement of the questions for the gas referendum, the government is likely to face a charged social and political environment during the weeks ahead**. The referendum is scheduled for July 18 and deals with the issue of an appropriate framework for hydrocarbons exports, including taxation of the sector and the role of the national oil company. The questions have been subject to different interpretations and are being strongly debated. Initial reactions have been mixed.

II. DEVELOPMENTS UNDER THE PROGRAM

4. **The events in October 2003 impacted negatively on economic performance and, although the macroeconomic situation has stabilized somewhat in recent months, conditions remain fragile.** In particular:

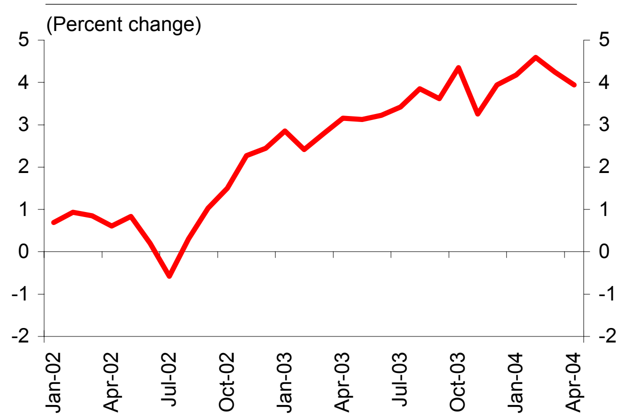
- **Economic activity is gradually picking up, led by exports.** Growth in 2003 was at around 2½ percent of GDP, below the programmed target of close to 3 percent (Table 1 and Figure 1). While growth through end-September was broadly in line with the program─driven mainly by a strong soybean crop and hydrocarbons exports─social unrest in October paralyzed most commercial activity in La Paz and neighboring cities, and it took time for domestic demand to recover. Growth in 2004 is projected at 3½ percent, following a resumption of transportation and construction activities and continued strong exports in the first quarter of 2004.

Figure 1. Contributions to Growth



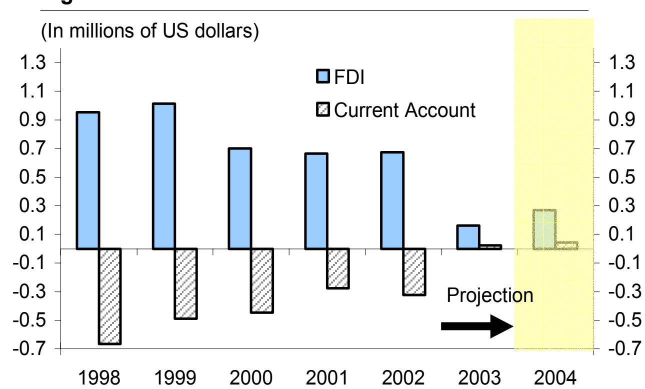
- **Inflation has increased but remains in low single-digits.** As a result of supply disruptions—related to the October events and the collapse of a bridge in early December—12–month inflation ended 2003 at 3.9 percent (higher than the 2.8 percent projected under the program) and peaked at 4.6 percent in February 2004 (Figure 2). As supply gradually returned to normal, inflation declined to 3.9 percent by April.

Figure 2. 12-Month Inflation



- **The external accounts have strengthened.** The current account balance improved markedly in 2003, reaching a surplus of ¼ percent of GDP, compared to a 2 percent of GDP deficit projected under the program (Figure 3). Imports were lower than programmed, because of lower GDP growth, a larger-than-expected real depreciation of the boliviano (Figure 4), and a

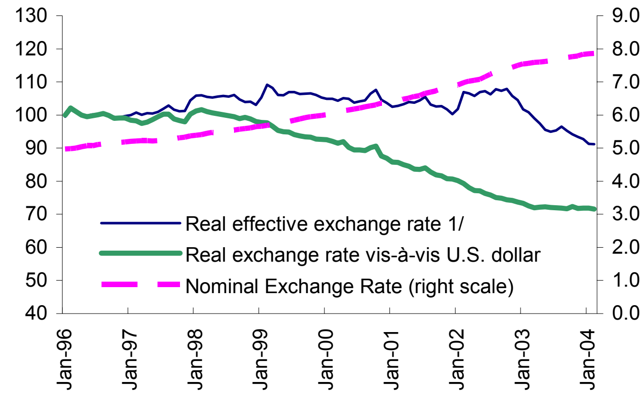
Figure 3. External Current Account and FDI



sharper-than-anticipated decline in FDI owing to political uncertainties. At the same time, exports performed better than expected, boosted by favorable price developments, particularly in metals and hydrocarbons, and strong agricultural export volumes. The strong current account performance has continued in the first quarter of 2004, driven by gas, agricultural, and mineral exports, combined with favorable commodity prices and improving growth in neighboring economies.

Figure 4. Real Exchange Rate

(1990=100, increase = appreciation)



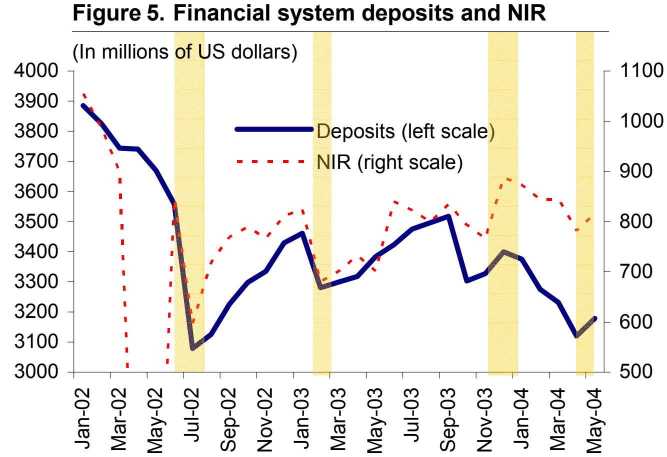
1/ Weights based on trade with ten countries, excluding trade related to natural gas, in 1996-97.

5. **The 2003 fiscal deficit outturn of 8.1 percent of GDP was 1.1 percent of GDP higher than programmed**. Tax revenues were 0.4 percent of GDP lower than expected, mainly as a result of disruptions in tax collection in October, weaker economic activity, and the postponement of the tax regularization scheme (tax amnesty) deadlines. Spending exceeded program targets by 0.7 percent of GDP, mostly owing to higher capital expenditure by municipalities, reflecting in part efforts to reduce social tensions. On the financing side, while higher placements of domestic bonds offset shortfalls in external project disbursements until September, the government was unable to place significant amounts of bonds after the events of October. However, the deficit during the last quarter of 2003 was financed by balance of payments support disbursements during December by the IDB and World Bank totaling US$88 million (just over 1 percent of GDP).

6. **The highly dollarized financial system suffered a renewed deposit run in October 2003, and conditions in the financial sector have remained fragile in 2004** (Figure 5)**.** Deposits in the financial system fell by some US$175 million in the week of October 13 (5 percent of total deposits), as social unrest prompted temporary closures of banks. Following the change of government, deposit levels recovered moderately, ending the year at close to their end–2002 level. From the beginning of 2004 to end-April, there was a steady deposit drain that amounted to nearly US$280 million,

Figure 5. Financial system deposits and NIR

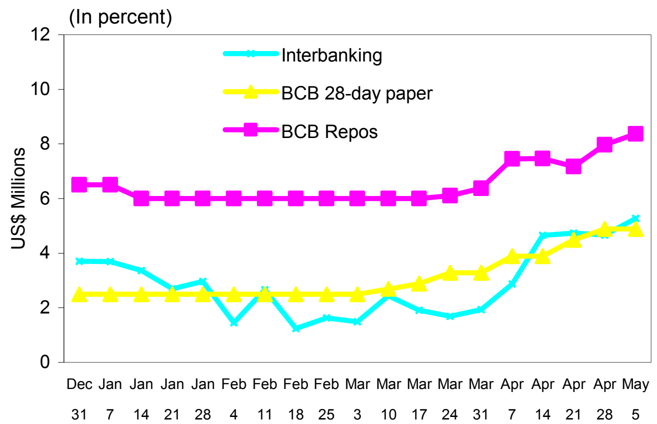
(In millions of US dollars)



or about 8 percent of total deposits. This was initially explained by seasonal factors and the announcement of the financial transaction tax (FTT), but later by increased uncertainties related to economic and political stability. However, conditions stabilized somewhat in May, with an increase in financial system deposits of around US$60 million through May 28.

7. **Political and economic uncertainties have led to difficulties in placing government paper in recent weeks.** During January–March the government was successful in placing higher than expected amounts of domestic paper at 1–2 year maturities. However, domestic financing dried up in mid-March and liquidity conditions tightened in the face of renewed economic uncertainties. The authorities have allowed interest rates to increase in response to liquidity conditions (Figure 6) and have been able to start placing a moderate amount of bonds starting in late May. The central bank of Bolivia (BCB) repo rate in U.S. dollars, the BCB 28-day-paper rate (SEDs), and interbank rates have increased by 2½, 2 and over 3 percentage points, on an annual basis, respectively since mid-March.

Figure 6. Selected Interest Rates



8. **Net international reserves of the central bank (NIR) were higher than programmed at end–2003, but have declined considerably in 2004**. NIR fell substantially after the October events as the central bank provided liquidity credits to the banking system which was facing deposit withdrawals. However, given large exceptional balance of payments support received in December and repayment by banks of most of the expensive liquidity credits, NIR recovered at end–2003. During 2004, the continued deposit drain has resulted in banks withdrawing most of their excess reserve requirements held at the central bank and some temporary use of central bank credit. Reflecting this, NIR declined by over US$170 million through April, reducing disposable reserve coverage of total bank dollar deposits by four percentage points to just over 30 percent. However, in May NIR increased by around US$25 million.

9. **While all quantitative performance criteria (PCs) at end-September 2003 were met, several end-December targets were missed owing to the October events (MEFP Table 1).** As a result of the higher-than-programmed fiscal deficit in 2003, PCs for the deficit and domestic financing of the combined public sector, central bank credit to the nonfinacial public sector (NFPS), and for NDA of the central bank were missed, the latter two by small margins. However, the PC on NIR was met as financial stability was gradually restored after the October unrest. The PCs on nonconcessional external financing, short-term external financing, and nonaccumulation of arrears were also met.

10. **The implementation of the structural agenda also experienced delays in late 2003 as the authorities focused on immediate actions to confront the difficult political and social conditions.** On the fiscal front, after the approval of the tax code in August 2003, the issuance of the tax code regulations (PC for November 2003) was delayed to January as the authorities needed to resist initiatives in Congress that could have weakened the code significantly and reintroduced private pre-shipment customs inspections, which had raised governance concerns in the past. On the financial system, the superintendency of banks took initial steps toward adopting an action plan to deal with weak banks (PC for end-October 2003) by giving an end-October deadline for two weak banks to be recapitalized by their shareholders. However, the deadline was subsequently extended and the plan delayed by a month, as the authorities needed to concentrate on required actions to deal with the severe deposit withdrawals resulting from the political crisis in late October.

III. Policy Discussions

11. **Against the background of continued political tensions, discussions focused on policies for 2004 that would maintain macroeconomic stability and command broad international support.** The authorities have made a renewed effort in recent weeks to reach understandings on a program that could be supported through an extension of the SBA until end–2004. The authorities' strategy, which has strong financial backing from the international community, is based on four main planks: (i) a fiscal deficit limited to available financing; (ii) appropriate financing assurances to minimize nonconcessional credits and avoid inflationary financing; (iii) measures to protect the financial system; and (iv) a viable hydrocarbons strategy. The program extension would also give the authorities time to obtain greater clarity and domestic consensus on appropriate medium-term policies, including most crucially on gas exports and spending priorities, which could pave the way for PRGF discussions later in the year.

12. **Discussions were protracted over several months as critical measures were put in place to assure fiscal adjustment and secure appropriate external financing**. In particular, the authorities needed to broaden support for their program and ensure passage by Congress of key measures, including the FTT. The fiscal effort for 2004 has been strengthened despite continued pressures on the government. Key measures adopted during the first part of 2004 are presented in Box 1 below and described in the appropriate sections.

Box 1. Key Policy Measures Adopted since October 2003

Fiscal Policy

- Issuance of implementing regulations to tax procedures code.
- Issuance of presidential decrees and ministerial resolutions to contain spending.
- Securing support from key congressional leaders for the government's economic program.
- Securing financing assurances for 2004.
- Adoption of revenue measures, including approval by Congress of a financial transactions tax.

Financial Sector:

- Two weak banks were recapitalized.
- Funds for bank and corporate restructuring were established, and principles governing their use were adopted.

A. Fiscal Policy

13. **The authorities aim to reduce the fiscal deficit to 6.1 percent of GDP in 2004.**[1] The authorities have adopted significant fiscal measures during the first part of the year, including: (i) issuing the implementing regulations of the new tax code;[2] (ii) obtaining approval by Congress of the FTT for implementation starting in July; and (iii) restraining spending through two austerity decrees and ministerial resolutions, which set current and capital spending ceilings and eliminated discrepancies between the program and the budget.[3] Performance through end-April was better than programmed, owing to higher gas royalties from sales to Brazil and buoyant collections from the tax regularization scheme (around 0.6 percent of GDP to end-April) which, after being extended by 6 months, has now expired.

14. **The reduction in the deficit is to be achieved through higher revenues, while cuts in nonpriority spending would allow an increase in pro-poor spending of 0.6 percent of GDP.** Key policy commitments include:

- **An increase in tax revenues relative to 2003 (1½ percent of GDP) from a combination of the tax reform of late 2003 and selected temporary measures** (see Box 2). The projection is based on the effective implementation of the tax code and changes in tax law 843 (approved in late 2003), revenues already received from the

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[1] Excluding grants, this would imply an adjustment effort of 1½ percent of GDP.

[2] Following decisions by the Constitutional Tribunal, a new law, which has already been submitted to Congress, is needed to preserve the administrative tax appeal procedures (end-September 2004 PC). The Supreme Court clarified that, while the new law is being considered by Congress, the appeal procedures introduced by the tax code would still apply.

[3] The staff cautioned against further cuts in essential current spending, which could hamper the public sector's ability to fulfill its duties, particularly for regulatory and tax collecting agencies, and efficiently implement the government's plans.

tax regularization scheme and an expected yield of 0.6 percent of GDP in 2004 from the FTT.

- **Total spending is expected to decline moderately with respect to 2003, but its composition will reflect higher priority on pro-poor spending** (¶6 and 8 of the MEFP). Pro-poor spending will increase by 0.6 percent of GDP, as additional teachers and health workers are hired (under the HIPC initiative), and a new fund (Propaís) targets regions with high poverty. Additional pro-poor spending will be implemented to the extent that grants beyond the program assumptions are mobilized. In addition to the austerity decrees, spending increases are to be accommodated by limiting wage increases. The overall wage bill will be reduced by 0.2 percent of GDP.
- **Pressures on spending will arise** from (i) interest payments related to the increase in domestic financing in recent years; (ii) local government spending, particularly ahead of the December 2004 municipal elections; and (iii) the incorporation of all remaining eligible pensioners into the old PAYG system.

15. **The staff advised the authorities that the FTT entails additional risks for the financial system**. With its relatively high rate (0.3 percent on both debit and credits), the FTT could increase financial disintermediation and exacerbate existing financial system vulnerabilities. While acknowledging the risks, the authorities considered that the FTT could rapidly provide revenues and targeted the wealthy. Moreover, alternatives—such as gasoline price increases—were considered too risky in the difficult political and social environment. The tax is scheduled to expire within two years, after which time the authorities intend to replace it with more sustainable sources of tax revenues.

16. **The staff encouraged the authorities to implement a flexible fuels price mechanism, and warned about the risks of not fully reflecting changes in international oil prices and the exchange rate.** The authorities explained that they have implemented gradual price increases and a mechanism that protects tax revenues by sharing the burden of changes in international oil prices with private fuel producers. They also stressed that, in the current political and social context, faster price adjustments could fuel social unrest. While noting that this mechanism could still entail potential fiscal losses in the case of international price increases, the staff agreed to revisit the issue in light of oil price developments in the months ahead.

17. **The authorities expressed commitment to adhering to expenditure limits under the program, although political pressures to spend more are already strong.** The staff pressed for an amended budget in line with the program. The authorities explained that, in line with the responsibilities of the branches of government in Bolivia, the executive had reduced spending within the ceilings approved by Congress through two recent decrees and

Box 2. Fiscal Measures for 2004 and Medium-Term Strategy

The authorities have taken steps toward reforming the tax system, and plan further tax and expenditure reform over the medium term. Some of the revenue measures already taken are expected to have long-term benefits, including the new tax code and the changes to the tax law. Others are expected to boost revenue only temporarily, such as the financial transactions tax (FTT) and a tax regularization scheme (tax amnesty). Looking further ahead, the authorities are preparing reforms on the budget process and expenditure policy, and are considering a broad tax reform, possibly including the introduction of an income tax.

Bolivia: Revenue Measures

	2003		2004 1/
	Prog.	Prel.	Proj.
(In percent of GDP)			
Total measures	0.7	0.6	2.0
Tax code (efficiency effect)	0.03	...	0.3
Modificatiopsn to Tax law 843	0.1	0.1	0.3
Tax regularization scheme	0.6	0.4	0.8
New measures			0.9
Financial transactions tax	...	...	0.6

Sources: Ministry of Finance and staff estimates and projections
1/ yield in 2004.

- **A new tax code was approved in September 2003.** The code allows for stronger enforcement capabilities and prompter resolution of tax disputes. At the same time, the tax law 843 was changed including to broaden the base of hydrocarbons taxation.
- **The tax regularization scheme** accompanying the tax code generated larger than initially expected revenue in 2004, of about 0.8 percent of GDP. However, the repeated adoption of regularization schemes could have a negative impact on future tax collections.
- **The FTT approved in April 2004 is slated to begin in July.** The tax is expected to last 24 months, with a rate of 0.3 percent on both debits and credits, which will be lowered to 0.25 percent in the second year. The projected yield is in line with regional experience.
- **A new hydrocarbons law is intended to be submitted to Congress after the July referendum** for approval by end-September 2004. Its yield could be substantial starting in 2005.
- **The authorities are considering medium-term reforms not only to replace the FTT, but also to increase the revenue to GDP ratio.** These measures could include the introduction of a personal income tax, and strengthening of the VAT.

Beyond steps to contain spending in 2004, the authorities are planning medium-term expenditure reforms based on the findings of a high-level expenditure commission.

- **The government has issued two austerity decrees in 2004** to substantially cut the 2004 budget spending ceilings. The cuts focused on low priority spending on goods and services, but also reduced wages for high level officials.
- **The quality of spending and expenditure management will be improved.** The 2005 budget will incorporate the recommendations of the expenditure commission. The authorities are also working on strengthening the budget process, including by improving revenue projections and setting spending targets; and plan gradually to introduce performance-based budgeting, starting with 3 or 4 pilot agencies in 2005.

ministerial resolutions, bringing it fully in line with the program. In addition, the Ministry of Finance intends to use its discretionary controls of monthly expenditure ceilings by ministry to offset any observed deviations. This mechanism will also be used to offset possible overruns by local governments with cuts in central government spending. The authorities also plan to improve the budget process to reduce the gap between programmed and actual budget execution, and have requested FAD TA on public expenditure management and tax policy issues.

18. **The program is mostly financed by external concessional funds, limiting nonconcessional financing (both external and domestic) to 1.6 percent of GDP** (¶10 of the MEFP). After several meetings during January–May, bilateral donors and IFIs have pledged grants and concessional loans in line with the programmed external financing needs. Timely disbursement will require a concerted effort by the Bolivian authorities and donors. Expected net external concessional disbursements amount to about US$370 million (4½ percent of GDP) and program grants are projected at US$45 million. The exceptional efforts by the international donor community would allow the authorities to limit the use of net domestic financing (mostly bonds) to 1.9 percent of GDP, and to have slightly negative net external nonconcessional financing.[4]

19. **Net central bank financing for 2004 will be limited to a small use of deposits related to external disbursements received at end-December 2003** (¼ percent of GDP).[5] The program is to be financed in an orderly way without excessive recourse to the central bank and assumes that the government is able to sustain its recent return to domestic bond markets. The staff stressed the need for the authorities to take a more proactive stance in placing and rolling over bonds, given the high domestic financing needs of the budget (US$118 million needs to be rolled over in the second half of 2004). The authorities agreed to allow interest rates to be more responsive to changes in domestic liquidity conditions and to signal accordingly to the bond markets. However, they noted that this should be done so as to minimize risks, in light of past experiences with deposit runs triggered by interest rate increases on government paper. The authorities have already started issuing limited amounts of shorter maturity government paper (until recently the shortest maturity was one year).

[4] The program has a PC on net nonconcessional external debt of the public sector, including the financial sector. It assumes additional nonconcessional external borrowing for bank and corporate restructuring of about US$80 million in 2004 (about 1 percent of GDP). This additional debt is not included in the fiscal deficit (the private banking and corporate sectors being the beneficiaries), but is included in the debt sustainability calculations.

[5] Under an agreement between the central bank and the treasury, net central bank credits to the treasury will be limited for the year as a whole to zero, except for liquidity credits backed by the observed buildup of central bank deposits by other public sector entities.

20. **The authorities plan to address the high level and inflexibility of spending starting with the 2005 budget (¶11 of the MEFP).** Current spending exceeds by wide margins the levels observed in other PRGF-eligible countries (see Box 3). Thus, the authorities will soon appoint a commission to study and make recommendations on public expenditure. The recommendations will include policies to reduce the level of spending to specific levels, while improving its poverty-reducing orientation and quality (end-September 2004 PC). The findings of the IDB-World Bank's ongoing public expenditure review and the recent Poverty and Social Impact Analysis will be taken into account.

21. **Measures to improve control of pension costs are being implemented.** The mission encouraged the authorities to continue their efforts to put in place a professional and independent institution to manage the pension system, ensure its effectiveness, and to reduce fraud. The government is incorporating remaining eligible pensioners into the system. The staff emphasized the need for strict discipline in this area given past cost overruns and continuing lobbying from various groups to relax pension eligibility rules. It will also be desirable to reduce the inequality between the benefits under the old and the new system, while reducing the budgetary burden of pensions.

B. Monetary and Exchange Rate Policies

22. **Monetary policy will aim at recovering part of the BCB's loss in international reserves at the beginning of 2004, in the context of low inflation and the existing crawling peg exchange rate**. The program targets an accumulation in NIR of US$109 million during May-December. Given the large reserve losses through end-April, NIR would decline by US$55 million in 2004. This would leave reserve coverage at about 39 percent of projected dollar bank deposits by year-end.

23. **The authorities agreed to stand ready and continue to allow interest rates to reflect credit and monetary conditions.** In particular, while interest rates on central bank repos and 28-day paper have recently increased, the central bank is monitoring closely liquidity conditions and indicated its preparedness to adjust rates, as necessary.

24. **The crawling exchange rate has served Bolivia well, although gradual steps over time toward a more flexible regime could help to reduce medium-term vulnerabilities.** Preliminary findings in a joint BCB/Fund staff study suggest that competitiveness concerns relate more to structural weaknesses than to the level of the exchange rate. The staff encouraged the BCB to stand ready to allow the rate of crawl to adjust appropriately to market conditions and to gradually create conditions for a more flexible exchange rate over the medium term. To this end, the authorities agreed to assess options, including allowing the current foreign exchange sales auction system to also apply to BCB purchases of foreign

Box 3. Public Expenditures—Trends, Composition, and the Way Forward

Bolivia has high public spending levels compared with other PRGF-eligible countries and with the rest of the region. The quality, composition, and efficiency of spending are weak, and there are concerns that a high wage bill is crowding out spending with higher productivity. Well-implemented reforms in a context of national consultations could lead to significant improvements over the medium term. The recent IDB-World Bank public expenditure review (PER) points to the need for reform of wages and employment policies in the education and health sectors, as well as for efforts to reduce pension costs and fraud. More generally, improving the pro-poor and growth-enhancing orientation of public spending would require reprioritization of spending, and improved implementation capacities of municipalities. To this end, the authorities will appoint a commission to study and make recommendations on public spending, taking into account the findings of the PER.

Bolivia has high levels of current spending. While Bolivia's average capital spending of around 8 percent of GDP is broadly in line with other PRGF-eligible countries, its average current spending of 32 percent of GDP exceeds the PRGF average by 8 percentage points of GDP (Table 1)[1]. This is explained mainly by the wage bill, which rose from below 8 percent in early 1990s to 9.3 percent of GDP in 2003, and large pension costs of around 5 percent of GDP. In contrast, spending on goods and services has been severely constrained.

Table 1. Bolivia: Expenditures Under PRGF-supported countries

(percent of GDP)

Data	Pre-Progam 1/	Program Average 2/	Bolivia Average 3/
Total Expenditure and net lending	23.6	24.3	32.2
Current Expenditure	16	16	24.0
Wages and Salaries	5.2	5.1	8.9
Interest	2.1	1.9	2.6
Capital Expenditure and net lending	7.4	8.1	7.9

Source: IMF Occasional Paper 216, though sample size differs for the various expenditures categories.
1/ usually refers to 1999.
2/ refers to fiscal targets in the program not the outturns.
3/ average from 2000–2003.

While pro-poor spending is relatively high, leading to improvements in social indicators in recent years, its effectiveness could be improved. The seemingly high level of pro-poor spending in Bolivia—around 12 percent of GDP compared with a PRGF average of 10 percent—partly reflects Bolivia's broad definition of pro-poor spending. The health and education sectors account for over 70 percent of pro-poor spending (Table 2) with a large share of current spending (80 percent) mostly for wages. As a result, the student-teacher ratio is 25 to 1, significantly lower than in countries of a higher or comparable per capita income. The high education wage bill has crowded out spending on priority current nonwage goods, such as textbooks. Moreover, a significant share of the education budget is directed to universities, which mostly benefits high-income households.

The weak implementation capacity of municipalities has limited increases in capital spending. Structural reforms have resulted in the transfer of substantial resources to municipalities, reflecting an increased share in tax revenue and HIPC debt relief. However, the transfer of responsibilities from the central government to the local levels has been limited, and, with low implementation capacity, most municipalities have accumulated large deposits at the central bank. With some 60 percent of the domestically-financed capital spending to be carried out by the municipalities, which are autonomous, their spending is likely to increase as they develop implementation capacity.

Reducing the wage bill is difficult, given the fragile social conditions and well-organized unions. Given the low level of public employment (2.5 percent of the population relative to 3 percent in Latin America and the Caribbean countries (LAC)), a significant reduction in the number of employees does not appear feasible. At the same time, reducing wages, which are relatively high (the ratio of public to private sector wages is 1.2 relative to an average of 0.9 in LAC), will be difficult due to strong labor unions, particularly in education. Nonetheless, according to the PER, there is some room to eliminate duplication of activities, such as in health. With health and education representing 60 percent of the public sector wage bill, any reform would have to be carefully calibrated to minimize adverse effects on the population.

Table 2. Bolivia: Pro-Poor Spending
(percent of GDP)

	2000	2001	2002	2003	2004
Current expenditure	6.0	6.9	7.3	7.3	7.4
Health	2.4	2.7	2.6	2.8	2.8
Education (excl. university level)	3.6	4.2	4.6	4.5	4.6
ratio of wages to current spending	0.7	0.7	0.7	0.7	0.7
Capital expenditure	4.7	5.5	5.8	4.9	5.3
o/w Health	0.7	0.6	0.7	0.6	0.8
o/w Education	1.0	1.4	1.5	1.3	1.0
Total poverty-reducing spending	**10.7**	**12.4**	**13.1**	**12.2**	**12.8**
Health	3.1	3.3	3.4	3.4	3.6
Education	4.6	5.6	6.1	5.7	5.6
Total non salary poverty-reducing spending	**6.6**	**7.8**	**8.0**	**6.7**	**7.3**
Ratio of current to total expenditure	0.6	0.6	0.6	0.6	0.6

Source: Authorities latest data and projections (May 2004)

High pension costs reflect not only the transition from a PAYG to a privately funded system, but also fraud and generous benefits. The transitional costs were exacerbated by additional benefits given to retirees under the PAYG system at the time of the reform. For example, average pensions at end-2002 were close to US$2,000, more than twice the per capita GDP or three times the minimum wage. While pension costs are likely to remain high for the foreseeable future—including by having to incorporate 23,000 pensions whose payments had been withheld—they can be curtailed over the medium term. To reduce fraud, the government is strengthening, with IDB support, a new independent institution to control pension outlays (SENASIR). Furthermore, a commission will propose options to reduce and finance pension costs by August 2004, including possibly by streamlining benefits under the old PAYG system. Finally, on the basis of an actuarial study, Congress is discussing a law limiting a lump-sum benefit to the elderly (Bonosol) in line with the available resources from the privatization funds.

In the context of the need for a broader national consensus on a sustainable expenditure policy, the authorities will appoint a high-level expenditure commission to offer recommendations on public spending in time for the 2005 budget. In particular, the commission will study and make recommendations (i) to improve the definition of pro-poor spending; (ii) on control and monitoring mechanisms of spending; and (iii) on spending priorities to improve the pro-poor orientation of public expenditures, while limiting them to the authorities program over the medium term. These issues will also be discussed in the ongoing national dialogue on revising the PRSP.

[1]Some of this difference could be explained by a broad coverage of the public sector in Bolivia, which includes all of the nonfinancial public sector. When compared with emerging Latin American countries, capital spending is also high. However, this reflects to a large extent substantial external project assistance (including grants), and the misclassification of some current expenditures under capital spending.

Sources: PER and staff estimates.

exchange. While agreeing to continue adjusting the rate of crawl to preserve competitiveness, the central bank stressed that: (i) the real effective exchange rate was competitive and at its lowest level since 1996 (see Figure 4); and (ii) the recent reserve losses corresponded to deposit withdrawals rather than to current account developments. The authorities also intend to seek technical assistance from the Fund to promote the use of the domestic currency and adopt related regulations by end-October 2004 (¶15 of the MEFP).

25. **The most important safeguard assessment recommendations have been implemented** (¶14 of the MEFP). An updated assessment will need to be conducted before the fourth review owing to the augmentation of the program**.**

C. Financial and Corporate Policies

26. **Most elements of the action plan to deal with weak banks have been put in place** (¶17 of the MEFP)**.** In November 2003, concrete steps were taken to resolve the two capital-deficient banks, without negative effects on the operation of the financial system. One of the weak banks was recapitalized by its private shareholders. In the case of the other bank, (i) shareholders' equity was subject to an initial write-down and subordinated debt to the government was converted into equity;[6] (ii) a new Board of Directors and management was appointed; and (iii) a business plan—including steps to return the bank to the private sector within two years—is being developed by the authorities. In February 2004, with World Bank support, a public fund for strengthening the financial system—by assisting banks in merger and acquisition operations, or in debt-workout processes with the corporate sector—was created under the framework of approved general principles, which avoid direct or indirect bailouts of shareholders or unviable institutions.

27. **With the financial system remaining highly vulnerable, institutions are being closely monitored.** A grandfathering clause allowing nonbank financial institutions to hold lower capital requirements expired in early May, and the triggers for the regularization process for weak banks have been clarified by law. In light of the continued deposit drain through end-April, the short maturity of deposits, and worsening liquidity position of banks, the authorities are (i) closely monitoring liquidity conditions of individual banks, with close to permanent presence in some institutions; and (ii) engaging in discussions with liquidity-deficient banks on possible measures to strengthen their position.

28. **Despite delays, the authorities reaffirmed their commitment to establish a viable framework for corporate restructuring and to assess regularly any impact on banks.** The Superintendency of Enterprises has now been provided with a budget that allows for a stronger and more independent role. The application of the informal workout law to a sample of pilot firms under the auspices of the new corporate restructuring fund, with support from the Andean Development Corporation (CAF) and the IDB, will permit an evaluation of

[6] A due diligence process determined a further write-down of the former shareholders' capital, which is pending on resolving a dispute on the valuation of repossessed properties.

shortcomings of the current restructuring and bankruptcy legal framework. This will allow the authorities to submit a bill to Congress by end-November 2004 (¶18 of the MEFP).

29. **The authorities will continue to implement the FSSA recommendations, reinforcing the independence of the Superintendency of Banks (SBEF) and further strengthening prudential regulation and supervision** (¶19 of the MEFP)**.** The issuance of a decree restoring the capacity of the SBEF to set its expenditure policies should ensure the needed independence of the SBEF. Important recent steps towards the strengthening of the supervisory framework include: (i) new regulations on consolidated supervision; (ii) the development, with Fund assistance, of a system of early warning indicators; and (iii) the introduction of a modern framework for the supervision of credit risk in a dollarized economy.

D. Hydrocarbons Sector

30. **The legal framework for the hydrocarbons sector should strike a careful balance between the population's expectations and the need to maintain an investment friendly environment.** The government made public for consultation a draft law that would introduce among other changes a complementary tax based on volumes (valued at a reference price) with a rate that increases over time and can be offset against corporate income tax. While certain segments of the population have been vocal in pressing for more radical measures including higher taxation, oil companies have warned that the draft bill in its present form could render critical projects unviable and have hinted at the risk of legal action. More recently, Bolivian authorities have said they would seek World Bank input. They have also indicated that they will appoint a commission of internationally known experts to help develop a legal framework consistent with the long-term development of Bolivia's gas resources. The staff welcomed this decision and noted the World Bank's view that it constitutes a positive step in a process to revise the draft hydrocarbons bill before its presentation to Congress and toward developing a viable strategy for the sector. Congressional approval of a hydrocarbons bill is expected after the July 18 referendum (¶21 of the MEFP).

E. PRGF and Medium-Term Issues

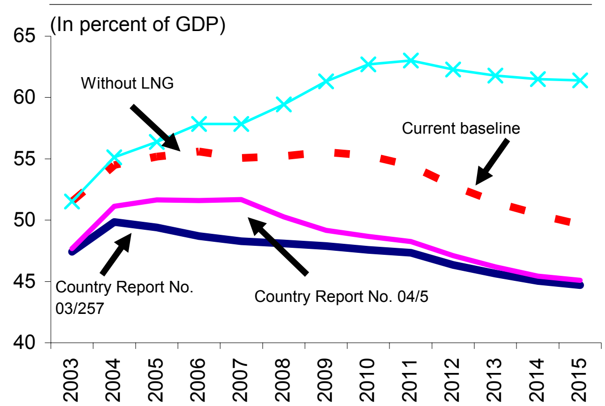
31. **The authorities are hopeful that before year-end they will have developed more clarity on their medium-term policy framework, based on a broader domestic consensus, which would make it possible to have a PRGF arrangement.** Given Bolivia's low income and developmental needs, a medium-term program would involve a sustained effort by the international community. Table 3 shows illustrative balance of payments gaps for which concessional financing would need to be identified. To this end, the authorities: (i) are conducting a dialogue which is to move from the local to the national level and expected to lead to a new PRSP by October 2004 (¶23 of the MEFP); (ii) will adopt by end-October 2004 a strategy on gas exports based on the results of the gas referendum; and (iii) will incorporate into the 2005 budget the recommendations of a high-level commission on how to improve the pro-poor orientation and effectiveness of public expenditures, while maintaining overall spending within the program ceilings.

32. **While acknowledging the high uncertainties at this stage, the staff held preliminary discussions on a possible medium-term framework to promote sustained growth and poverty reduction, while achieving debt sustainability.** The framework takes into account the slower-than-previously envisaged fiscal adjustment in 2003 and 2004, and focused on (i) the scope to which alternative energy projects could replace the export and tax revenues that were previously expected from the LNG project; and (ii) possible fiscal measures, on both revenues and expenditures (see Box 2) to achieve a sustainable fiscal path, promote growth, and better target the most vulnerable groups. Discussions also covered possible reforms to remove structural obstacles to growth and reduce vulnerabilities, including on the exchange rate system, trade regime, and investment climate.

33. **The preliminary medium-term macroeconomic framework assumes the partial substitution of the LNG project that precipitated the October events by other gas-related projects, and significant fiscal adjustment.** Sustained per capita GDP growth of at least 1½-2 percent per year is assumed on this basis (Table 5).[7] The authorities argued that full substitution of the LNG project was possible, given the country's vast gas reserves, the long list of potential projects, and the high demand from Argentina and Brazil. However, they agreed to base the policy discussions on the proposed cautious scenario (see Box 4). In the projection, real GDP would expand by some 3½ percent in 2004 (½ percent on a per capita basis), and gradually increase to a sustained growth rate of 4½ percent from 2006 onward, while inflation would remain subdued at around 3 percent. The external current account would register a small surplus in 2004, go into a large deficit for 2005–09 as imports related to large energy projects increase, and would improve substantially with the start of gas exports in 2009.

34. **Achieving debt sustainability would require significant fiscal adjustment and concessional financing.** As presented in the medium-term scenario above (also see Figure 7), sustainability can be achieved through the appropriate mix of macroeconomic and structural policies. This scenario hinges critically on two assumptions: (i) a steady reduction of the fiscal deficit to 3¼ percent of GDP by 2007 (in part through the implementation of further tax and expenditure reform), and to below 2 percent of GDP in the outer years of the projection (by

Figure 7. Bolivia: NPV of Debt-to-GDP Ratio



[7] The framework will be revised on the basis of the PRSP, including the adoption of a strategy to export gas.

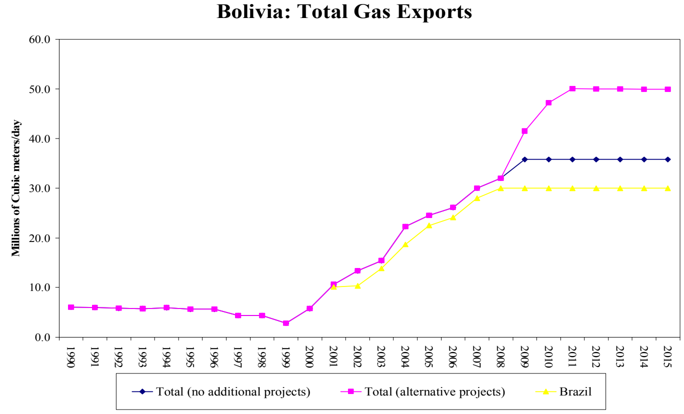
Box 4. Medium Term Scenario for the Hydrocarbons Sector

The recent loss of the LNG project for exports to the U.S. has been a major setback for medium-term prospects. The project had been expected to result in exports of US$600 million per year, once fully operational (around 2009), yielding over 2 percent of GDP in annual tax revenues, and boosting annual GDP growth by almost 1 percent on average over the period 2004—2011. Despite its potential benefits, domestic opposition to the project led initially to delays and, later on, given the uncertainties, to the decision by SEMPRA, the intended buyer for the U.S. market, to buy from Indonesia instead. Opposition to the project is explained by (i) widespread popular distrust of foreign oil companies and of wealthy Bolivians, who are perceived as benefiting unduly from loopholes in tax legislation, and (ii) a proposed pipeline for exports through Chile, with which Bolivia has a territorial dispute.

Bolivia needs to create appropriate conditions for the implementation of alternative projects. With its vast reserves[1], several alternative projects to the LNG could materialize provided that there is: (i) an appropriate legal framework—including a hydrocarbons law acceptable to civil society—that ensures property rights and a business-friendly environment conducive to long-term investments, and (ii) a positive outcome from the gas referendum scheduled for July 18.

In addition to already contracted gas exports to Brazil, the baseline scenario assumes additional projects yielding about half of the gas exports of the previous LNG project. Gas exports to Brazil are projected to reach 1⅓ trains[2] in 2004, rising to slightly more than two trains in 2008. In addition, gas exports are projected to increase by about one additional train through other projects. The projects that are currently being contemplated include the following:

Bolivia: Total Gas Exports



- Gas exports to Argentina of roughly ⅓ of a train starting in 2005 and potentially increasing to about 1½ trains by 2012;
- LNG exports to Mexico of one train starting in 2009 with potential volume increases thereafter;
- Exports from gas-to-liquids (GTL) plants of 10,000 and 50,000 barrels of liquids (diesel, oil and naphta), using roughly one fifth and one train of gas, respectively, starting in 2009; and
- Exports from a petrochemical plant using roughly ¾ of a train of gas, possibly starting in 2009.

While significant uncertainties remain, the authorities believe that the Argentine and Mexican projects are the most likely to be implemented. In this connection:

- Gas exports to Argentina have started in 2004 with an initial volume of ⅓ of a train and there are plans to increase exports substantially in the medium term. However, there is uncertainty regarding future gas sales, as Argentina's high demand might be temporary if Argentina were to exploit its own large gas reserves, which have remained untapped as the result of the low investment in recent years.
- Discussions on possible LNG sales to Mexico are ongoing, including on the volumes needed for the project to be economically viable. However, the project faces possible competition from other countries.

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[1]Bolivia has proven gas reserves of over 55 trillion cubic feet, the second highest level in Latin America.

[2]One train corresponds to 14 millions cubic meters per day (MMm^3/day) of gas exports.

implementing gas projects that generate additional fiscal revenues of about 1 percent of GDP by 2010); and (ii) financing the bulk of the fiscal deficit with concessional resources. On this basis, Bolivia's public debt would increase in net present value terms from 51.5 percent of GDP at end–2003 to nearly 56 percent of GDP by 2009, before declining steadily over the medium term to below 50 percent of GDP by 2015 (compared with 45 percent of GDP in the projections presented during the second SBA review).[8]

F. Program Monitoring

35. **Extension, access, and rephasing.** It is proposed to extend the SBA to December 31, 2004, while rephasing the original purchases to backload disbursements, and augment access by 25 percent of quota (SDR 42.88 million) in light of the longer arrangement. The proposed access is based on Bolivia's objective of accumulating higher reserve coverage of dollar deposits and thus reducing external vulnerabilities. A disbursement of SDR 10.72 million (6¼ percent of quota) would become available at completion of the third review. Undisbursed access under the augmented SBA would then amount to 31.25 percent of quota (SDR 53.59 million), which would be disbursed in equal amounts at the fourth and fifth quarterly reviews (Table 6).

36. **Capacity to repay.** Debt service to the Fund constitutes a small share of Bolivia's exports of goods and services and gross official reserves (Table 7). Moreover, under the proposed increased access, Fund exposure to Bolivia would remain moderate, while the implementation of the proposed measures and reforms—and the additional concessional financing that it would catalyze—would improve Bolivia's fiscal position and repayment capacity. Bolivia would therefore be expected to meet fully and timely its obligations to the Fund. Nevertheless, Fund resources would be at some risk given the fragile social and political situation, and uncertainties about medium-term prospects.

37. **Quantitative performance criteria** have been proposed for end-June 2004 and end-September 2004, and indicative targets for end-December 2004, as shown in Table 1 of the MEFP. New indicative targets on pro-poor spending, and pro-poor spending excluding wages, were added to allow the regular monitoring of the level and composition of spending on the poorest segments of society.

38. **Structural conditionality.** Structural conditionality focuses on fiscal reform, strengthening the financial and corporate sectors, and hydrocarbons policy.

39. **Next Review**. The program does not contain structural PCs for the fourth review, reflecting the fact that several key actions were adopted prior to issuing this report (Box 1). However, the fourth review will focus on the preparation of the 2005 budget, including identifying potential revenue measures and taking into account the expenditure commission.

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[8] The NPV for 2003 is now 3 percent of GDP higher-than-programmed, reflecting the effect of the U.S. dollar depreciation on Euro and Yen denominated debts.

It will also focus on initial steps toward implementing an income tax (MEFP Table 3 on structural conditionality).

40. **World Bank and IDB conditionality**. Structural conditionality of these institutions focuses mainly on strengthening the financial and corporate sectors. Specifically, it includes: (i) laying out the principles governing the use of funds for financial and corporate restructuring; (ii) strengthening prudential norms for the financial system; (iii) issuing procedures to address weakness in financial institutions; (iv) submission to Congress of a law adopting recommendations of the Financial Action Task Force on money laundering (FATF); and (v) issuing resolutions governing eligibility criteria of banks undergoing purchase and assumption operations.

G. Program Risks

41. **The program entails substantial risks mainly associated with the fragile social and political conditions**. In particular:

- **Despite significant efforts made by the authorities to broaden support for their policies, domestic consensus remains weak.** Renewed social unrest is possible, as the gas referendum approaches and other needed measures are adopted. In addition, despite President Mesa's high approval ratings, the government's limited political support in a highly fragmented congress could complicate the implementation of the reform agenda. The choice of fiscal measures and the special effort to mobilize international support on concessional terms was motivated to minimize such risks.

- **The fiscal program for 2004 entails significant risks because of spending pressures and domestic financing difficulties**. Given municipal elections at end-year, and limited central government control over spending by municipalities, there are risks of spending overruns for the rest of the year. Furthermore, if difficulties in placing government paper recur, the government would face the need to adopt difficult corrective measures to avoid recourse to central bank financing.

- **The financial system is vulnerable to renewed deposit runs**. The combination of a highly dollarized financial system with significant shocks in recent years, and the introduction of the FTT, makes for a fragile situation.

- **The authorities will face significant challenges to create the economic conditions for the implementation of large energy projects in the next few years, even with a positive outcome to the gas referendum**. The authorities and Congress are facing significant domestic pressures to nationalize the gas industry and increase royalty rates to levels that are unlikely to attract foreign investment. In addition, a negative outcome of the referendum on gas exports cannot be ruled out.

- **Medium-term debt sustainability will also require significant fiscal adjustment in 2005–06**. There will be a need to compensate for the temporary revenue measures taken in 2004 as well as to further reduce the fiscal deficit. In addition, the adjustment required would be greater if the programmed external concessional support (including grants) does not materialize.

IV. Staff Appraisal

42. **The transition to a new government by constitutional means has given Bolivia a renewed opportunity to address social concerns and to begin laying the basis for sustained growth and poverty reduction.** The determination expressed by the new authorities represents an important opportunity to establish a basis for sustained growth and poverty reduction. The proposed extension of the SBA, and the expected increase in financial assistance by the international community, are aimed at providing crucial support to the authorities as they pursue a difficult agenda of adjustment and reform.

43. **However, there are substantial risks to the program.** The continued fragile social situation and insufficient domestic consensus pose substantial implementation risks, in the context of Bolivia's high economic and financial vulnerabilities.

44. **The government needs to reach out to the Bolivian people through the planned national dialogue, and to protect vulnerable groups.** The staff welcomes the initiation of the process of national dialogue, during which the authorities need to explain their program. The government will also need to intensify efforts to strengthen social safety nets and to better prioritize pro-poor spending.

45. **It is essential that the authorities monitor fiscal developments closely and stand ready to adopt corrective actions promptly.** Although the FTT has been approved, and its projected yield is in line with international experience, there are risks and uncertainties associated with its implementation in a highly dollarized and vulnerable banking system. Moreover, with the municipal elections scheduled for end-year, there is a risk of spending by local authorities, that the government should be ready to offset to avoid a higher-than-programmed deficit of the NFPS.

46. **A sustained recovery in the placement of government bonds will be essential to the successful implementation of the program.** While the staff welcomes the quick policy reaction of the BCB to increase interest rates, demand for treasury bonds has only improved recently. Against this background, the staff supports the authorities' proactive measures of allowing interest rates to be more responsive to changes in liquidity conditions; sending stronger signals to markets of changes in the policy stance; and issuing bonds with different maturities to improve debt management. If the difficulties in placing treasury bonds continue, the authorities should consider additional adjustment measures to avoid the use of central bank financing, which could further undermine market confidence.

47. **While some of the fiscal measures in 2004 are temporary, they should provide breathing space for the government to prepare critical medium-term tax and expenditure reforms.** The authorities should be commended for resisting pressures to water down the tax code, and the recently issued austerity decrees constraining current spending are strong signals of ownership. However, while justified by the fragile social and political situation, two key revenue measures in 2004─the tax amnesty and FTT─do not represent sustainable sources of revenues. Thus, further reductions of the fiscal deficit will require significant measures in 2005–06. To this end, the authorities will need to take steps toward a more comprehensive tax and expenditure reform in the 2005 budget. Implementing the

recommendations of the expenditure commission and further control of pension costs, as social and political conditions improve, would be important.

48. **Early adoption of an appropriate strategy on gas exports is necessary to maintain fiscal sustainability over the medium term, while increasing growth and reducing poverty.** The staff recognized the challenges facing the government in trying to maintain an attractive environment for foreign energy investment, while addressing the concern of large segments of the population that the tax take is low. Nevertheless, the staff notes that foreign investment could rapidly move elsewhere—as illustrated by the loss of the LNG project—unless the government quickly puts in place a legal framework conducive to long-term energy investments.

49. **In light of the economy's vulnerability to real and external shocks, gradual steps toward a more flexible exchange rate regime over the medium-term would be desirable.** While the main competitiveness concerns are not related to the level of the exchange rate, a higher degree of flexibility would over time allow Bolivia gradually to reduce vulnerabilities arising from the highly dollarized banking system.

50. **Steps taken to reduce banking system fragility and to advance initiatives in corporate restructuring are appropriate, but there are still significant risks.** The restructuring of weak banks, together with the authorities' commitment to further strengthen the prudential framework for bank supervision, and revise the regulatory framework for corporate restructuring and bankruptcy, are welcomed developments. However, the authorities need to remain vigilant—especially at the time of the introduction of the FTT— to the health of the financial system and of individual banks. It will also be important to continue with efforts to improve the coordination of the different regulatory agencies overseeing the financial system, including those responsible for corporate restructuring processes; and to continue to act decisively and promptly as problem areas are identified.

Notwithstanding the risks, the staff believes that the program can achieve its goals and pave the way for sustainable adjustment efforts in the period ahead. The staff therefore recommends completion of the third review, and the extension and augmentation of the SBA through end-year. In view of the high risks, the proposed rephasing (Table 6) limits the disbursement on completion of the third review to only one of the two purchases outstanding under the original SBA. The other purchase and the moderate augmented access would be available only after visible signs of further progress under the revised program.

Table 1. Bolivia: Selected Economic and Financial Indicators

	2000	2001	2002	2003 Prog. 1/	2003 Prel.	2004 Proj.
	(Annual percentage change)					
Income and prices						
Real GDP	2.3	1.5	2.8	2.9	2.5	3.6
Real domestic demand	1.2	-2.5	1.6	0.3	-1.3	4.1
GDP deflator	5.3	0.7	2.7	3.4	5.1	5.4
CPI inflation (period average)	4.6	1.6	0.9	2.6	3.3	3.6
CPI inflation (end-of-period)	3.4	0.9	2.4	2.8	3.9	3.5
	(In percent of GDP)					
Investment and savings						
Gross domestic investment	18.3	14.2	14.7	13.0	11.1	13.1
Public	5.2	5.8	5.4	4.6	4.7	4.6
Private, including stockbuilding	13.1	8.5	9.4	8.4	6.4	8.4
Gross national savings	13.0	10.8	10.6	11.0	11.4	13.6
Public	2.8	1.4	-0.4	0.3	0.2	2.0
Private	10.2	9.4	11.0	10.6	11.2	11.5
Combined public sector						
Overall balance	-3.7	-6.9	-8.9	-7.0	-8.1	-6.1
External financing	2.0	3.1	6.1	5.9	5.4	4.3
Domestic financing	1.8	3.9	2.8	1.1	2.7	1.9
Nonpension balance	0.7	-2.1	-3.9	-2.1	-3.2	-1.1
Pension-related balance	-4.5	-4.8	-5.0	-4.9	-4.9	-5.0
Nonfinancial public sector debt	58.6	53.6	61.5	68.0	73.0	76.8
External 2/	47.1	36.0	42.2	46.9	50.3	53.1
Domestic 2/	11.5	17.6	19.3	21.1	22.7	23.7
	(Annual percentage change, unless otherwise stated)					
Money and credit						
Broad money (in U.S. dollars at current exchange rates)	-3.3	-3.1	-11.7	2.8	-3.3	-5.3
Credit to private sector (in U.S dollars at current exchange rates	-9.0	-14.3	-9.4	-1.3	-1.4	-0.8
Interest rates (percent, end-of-period)						
Commercial banks lending rate in U.S. dollars	15.3	13.5	11.9	10.3	11.5	...
Yield on treasury bills in local currency	14.7	12.9	17.2	10.1	10.9	...
Yield on treasury bills in U.S. dollars	9.1	5.6	4.9	3.6	6.2	...
External sector (US$ million)						
Current account	-446	-276	-324	-156	23	41
(Percent of GDP)	-5.3	-3.4	-4.2	-2.0	0.3	0.5
Excluding exceptional imports (in percent of GDP)	-3.4	-1.6	-1.1	-1.3	1.2	2.2
Capital and financial account	408	255	32	205	55	-110
Of which: net foreign direct investment	701	666	674	305	160	240
Overall balance	-39	-21	-293	49	77	-69
Exceptional financing	15	9	17	17	16	14
Merchandise export volume, percent change	13.2	6.0	7.9	1.7	7.5	8.0
Merchandise import volume, percent change	3.1	-3.5	9.1	-11.9	-11.1	7.3
Terms of trade, percent change (deterioration -)	3.6	0.5	-1.4	4.5	10.0	6.0
Gross international reserves 3/						
(Months of imports of goods and services)	8.7	8.0	6.5	6.2	7.0	5.9
(In percent of broad money)	39.7	39.2	34.6	38.6	42.3	43.4
Disposable reserves in percent of dollar deposits 4/	39.5	39.4	31.6	36.7	39.1	39.2
Public sector external debt (US$ billion) 5/	4.5	3.3	3.7	4.2	4.5	4.8
Exchange rates						
Bolivianos/U.S. dollar (end-of-period) 6/	6.40	6.83	7.50	7.69	7.84	7.92
REER (percentage change during year)	-1.6	-3.2	4.4	-11.1	-8.5	...
REER, period average (percentage change)	-1.6	-1.8	3.0	-6.3	-8.6	...

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

1/ SBA (Country Report No. 04/5).

2/ External debt indicators reflect assistance under the original and enhanced HIPC Initiatives, and beyond HIPC relief. Domestic debt is the nonfinancial public sector debt, excluding bonds issued for the recapitalization of the central bank. End-2003 external debt reflects valuation changes.

3/ Equal to central bank's gross official reserves plus commercial banks' liquid asset requirement (RAL) held overseas; excludes reserves from the Latin American Reserve Fund (FLAR).

4/ Ratio of central bank gross disposable reserves (excluding gold holdings) plus commercial banks' liquid asset requirement (RAL) held overseas to dollar deposits in the banking system.

5/ External debt indicators reflect assistance under the original and enhanced HIPC Initiatives, and beyond HIPC relief; includes obligations to the Fund and debt with public guarantee. End-2003 external debt reflects valuation changes.

6/ Official (sell) exchange rate.; May 24, 2003.

Table 2. Bolivia: Operations of the Combined Public Sector

(In percent of GDP)

	2000	2001	2002	Prog. 1/ 2003	Prel. 2003	Proj. 2004
Balance excluding pensions (deficit -)	**0.7**	**-2.1**	**-3.9**	**-2.1**	**-3.2**	**-1.1**
Current revenue	22.8	22.9	22.5	22.2	21.7	23.0
General government	22.3	22.1	21.9	22.1	21.7	22.8
Taxes	18.7	18.1	18.0	18.7	18.3	19.8
Hydrocarbons	5.1	5.1	4.7	4.7	4.7	4.7
Other 2/	13.6	13.0	13.4	13.9	13.6	15.0
Direct taxes	3.8	3.4	3.4	...	3.2	3.3
Corporate income tax	2.1	2.0	1.9	...	1.8	1.9
Indirect taxes	9.7	9.6	10.0	...	10.4	11.7
Of which:						
VAT	5.6	5.7	6.1	...	6.3	6.7
Financial transactions tax	...	...	...	...	...	0.6
Customs duties	1.3	1.1	1.1	...	0.9	0.9
Nontax revenue	3.6	3.9	3.8	3.4	3.4	3.0
Public enterprise operating balance	0.0	0.3	0.1	-0.1	-0.1	0.0
Central bank operating balance	0.5	0.5	0.5	0.3	0.2	0.2
Current expenditure of general government	17.8	19.2	20.2	19.9	19.7	19.5
Wages	8.3	8.8	9.0	9.4	9.3	9.1
Interest	2.3	2.6	2.6	2.9	2.9	3.2
Other	7.2	7.7	8.6	7.6	7.5	7.3
Official grants	2.2	2.5	2.3	2.9	3.0	3.5
Of which: HIPC assistance from grants	0.9	1.1	0.9	0.7	1.0	1.1
Capital revenue	0.6	0.1	0.0	0.0	0.1	0.0
Capital expenditure	7.2	8.5	8.5	7.3	8.3	8.2
General government	6.9	8.3	8.4	7.3	8.2	8.2
Public enterprises	0.2	0.2	0.2	0.1	0.1	0.0
Pension-related balance (deficit -)	**-4.5**	**-4.8**	**-5.0**	**-4.9**	**-4.9**	**-5.0**
Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	4.5	4.8	5.0	4.9	4.9	5.0
Pensions	4.1	4.4	4.6	4.5	4.5	4.6
General government employer contributions	0.3	0.4	0.4	0.4	0.4	0.4
Unidentified measures (deficit-)	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-3.7**	**-6.9**	**-8.9**	**-7.0**	**-8.1**	**-6.1**
without grants	-11.2	-9.4	-11.2	-9.9	-11.1	-9.7
Financing	**3.7**	**6.9**	**8.9**	**7.0**	**8.1**	**6.1**
External	2.0	3.1	6.1	5.9	5.4	4.3
Of which: HIPC assistance from refinancing	0.2	0.1	0.2	0.2	0.2	0.7
Domestic	1.8	3.9	2.8	1.1	2.7	1.9
Central bank	0.4	-0.5	1.7	-0.4	-0.2	-0.1
Commercial banks	0.4	0.9	0.2	0.0	-0.1	0.0
Pension funds	1.7	1.7	1.7	1.8	1.6	1.7
Other	-0.7	1.8	-0.7	-0.3	1.4	0.2
Memorandum items:						
Overall balance before grants (deficit -)	-11.2	-9.4	-11.2	-9.9	-11.1	-9.7
Overall balance excluding grants and hydrocarbons (deficit -)	-15.9	-14.5	-15.9	-14.6	-15.8	-14.4
Primary deficit (-)	-1.5	-4.3	-6.3	-4.1	-5.2	-2.9
Poverty reducing expenditure	10.8	12.1	12.6	12.9	12.1	12.8
Total assistance under the HIPC Initiative	1.0	1.1	1.6	1.7	1.5	1.5
Original HIPC	0.9	0.7	0.5	0.5	0.5	0.4
Enhanced HIPC	0.0	0.3	1.1	1.2	1.0	1.1
HIPC assistance from stock-of-debt reduction	0.1	0.2	0.4	0.5	0.5	0.4
On interest	0.1	0.1	0.2	0.2	0.2	0.2
On amortization	0.0	0.1	0.2	0.3	0.3	0.2
GDP (in billions of bolivianos)	51.9	53.0	55.9	59.5	60.3	65.8

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

1/ SBA (Country Report No. 04/5).

2/ The increase in the taxes include the impact from the measures introduced at end-2003 and early 2004, the tax code, the tax law 843, and the tax amnesty. The first two measures are expected to yield around 0.3 percent of GDP, and the last about 0.8 percent of GDP in 2004.

Table 3. Bolivia: Summary Balance of Payments

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

				Prog. 1/	Prel.	Proj.				
	2000	2001	2002	2003	2003	2004	2005	2006	2007	2008
Current account	**-446**	**-276**	**-324**	**-156**	**23**	**41**	**-305**	**-446**	**-420**	**-408**
Trade balance	-584	-423	-471	-189	-40	71	-176	-314	-243	-185
Exports, f.o.b.	1,246	1,285	1,299	1,452	1,573	1,835	1,886	1,956	2,116	2,237
Of which: gas	122	237	266	359	381	575	600	601	673	704
Imports, c.i.f.	-1,830	-1,708	-1,770	-1,641	-1,613	-1,764	-2,063	-2,270	-2,359	-2,421
Of which: exceptional imports	-161	-153	-235	-55	-69	-140	-358	-470	-469	-445
Services (net)	-24	-36	-18	-89	-67	-108	-134	-149	-167	-185
Income (net)	-226	-210	-205	-280	-302	-360	-400	-395	-414	-432
Of which: interest due on external public sector debt 1/	-130	-115	-98	-104	-106	-114	-126	-137	-144	-152
Of which: investment income (net)	-146	-165	-180	-199	-231	-266	-292	-307	-322	-339
Transfers (net)	387	393	369	400	431	437	405	413	403	394
Of which: HIPC assistance from grants	57	65	80	73	67	75	64	56	50	51
Capital and financial account	**408**	**255**	**32**	**205**	**55**	**-110**	**262**	**426**	**371**	**405**
Capital transfers	0	3	0	0	0	0	0	0	0	0
Direct investment (net)	701	666	674	305	160	240	502	642	641	609
Gross investment	...	...	999	593	511	593	802	942	941	909
Disinvestment and investment abroad	...	...	-325	-288	-351	-353	-300	-300	-300	-300
Portfolio investment (net)	55	-23	-19	-104	-101	-148	-135	-185	-185	-185
Public sector loans	112	189	321	424	380	396	315	216	52	88
Disbursements	292	364	577	758	697	721	568	491	307	351
Amortization 1/	-180	-175	-256	-334	-363	-324	-253	-275	-255	-263
Banks' net foreign assets, excl. liquid asset requirement	-369	-401	16	-100	4	29	0	30	30	30
Nonbank private sector loans	-16	-50	-34	110	45	-65	-25	30	30	30
Other, including errors and omissions	-75	-128	-926	-431	-433	-563	-395	-307	-196	-167
Overall balance	**-39**	**-21**	**-293**	**49**	**77**	**-69**	**-43**	**-20**	**-49**	**-3**
Exceptional financing	**15**	**9**	**17**	**17**	**16**	**14**	**13**	**9**	**8**	**8**
Of which: HIPC assistance from rescheduling	15	9	17	17	16	14	13	9	8	8
GAP						**0**	**140**	**141**	**151**	**120**
Net international reserves (increase -)	**23**	**29**	**275**	**-65**	**-93**	**55**	**-110**	**-130**	**-110**	**-125**
Memorandum items:										
Gross official reserves (end-of-period)	1,162	1,116	854	993	1,057	1,021	1,095	1,174	1,199	1,221
(In months of imports of goods and services) 2/	7.0	6.5	5.2	5.0	5.8	4.9	4.8	4.9	4.8	4.8
Gross international reserves (end-of-period) 3/	1,436	1,375	1,073	1,227	1,268	1,232	1,306	1,386	1,410	1,433
(In months of imports of goods and services) 2/	8.7	8.0	6.5	6.2	7.0	5.9	5.7	5.8	5.7	5.7
Gross Fund Financing	14.6	24.2	0.0	104.6	89.9	94.8	0.0	0.0	0.0	0.0
Total HIPC assistance and beyond HIPC relief	80	99	159	180	160	184	156	139	131	130
Original HIPC framework	79	59	43	38	39	34	31	24	22	22
Of which: assistance from debt reduction	7	8	7	10	10	11	10	10	9	10
Enhanced HIPC framework	1	28	84	91	80	86	75	62	57	58
Of which: assistance from debt reduction	1	5	22	29	26	20	18	12	11	12
Beyond HIPC and other debt relief	0	12	32	51	41	64	50	52	52	50
			(In percent)							
Export volume growth	13.2	6.0	7.9	1.7	7.5	8.0	5.9	7.7	9.2	5.7
Import volume growth	3.1	-3.5	9.1	-11.9	-11.1	7.3	15.5	8.8	2.8	1.4
Nonexceptional import volume growth	22.7	-3.6	4.0	-1.8	-1.9	3.2	3.7	4.4	3.8	3.3
Terms of trade change	3.6	0.5	-1.4	4.5	10.0	6.0	-4.1	-4.8	-2.0	-1.2
			(In percent of GDP)							
Current account	-5.3	-3.4	-4.2	-2.0	0.3	0.5	-3.6	-5.1	-4.6	-4.3
Current account, excluding exceptional imports	-3.4	-1.6	-1.1	-1.3	1.2	2.2	0.6	0.3	0.5	0.4
Current account before HIPC assistance 4/	-6.0	-4.4	-5.5	-3.3	-0.9	-0.7	-4.6	-6.0	-5.4	-5.0
Merchandise exports	14.8	16.0	16.6	18.7	20.0	22.4	22.3	22.3	23.1	23.4
Merchandise imports	21.8	21.3	22.7	21.1	20.5	21.5	24.4	25.8	25.7	25.3
Of which: capitalization and pipeline	1.9	1.7	3.0	0.7	0.9	0.3	0.0	0.0	0.0	0.0
Direct investment (net)	8.3	8.3	8.6	3.9	2.0	2.9	5.9	7.3	7.0	6.4
Grants and loans 5/	5.7	6.8	9.7	12.7	12.8	12.0	11.1	10.0	7.6	7.2
NPV of debt of the NFPS to GNFS exports (3-year backwar	199.3	100.2	118.9	134.9	140.2	141.9	140.5	144.7	145.8	147.2
External debt service to GNFS exports	20.4	18.1	10.9	17.0	15.4	14.7	14.0	14.4	12.8	14.1

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

1/ Revised SBA (Country Report No. 04/5).
2/ In months of imports of goods and services in the following year.
3/ Commercial banks' liquid asset requirement (RAL) held overseas added to central bank gross official reserves.
4/ Before any assistance under the HIPC Initiative.
5/ Official transfers and loans to the public sector, excluding HIPC debt relief.

Table 4. Bolivia: Monetary Survey 1/

	2000	2001	2002	2003 Prog.	2003 Act.	2004 Proj.
			I. Central Bank			
			(In percent of currency issue at beginning of period)			
Net international reserves	-6.0	-7.7	-71.7	16.5	23.7	-12.5
(Flow in millions of U.S. dollars)	-23.4	-28.5	-275.4	65.0	93.0	-55.0
Net domestic assets	6.2	19.1	84.2	-8.1	-7.6	19.5
Net credit to nonfinancial public sector	8.5	-11.1	34.6	-8.5	-15.2	-1.2
Net credit to financial intermediaries	-20.6	4.1	4.0	-1.0	7.6	16.9
Of which: open market operations	16.0	6.7	5.8	-5.7	3.3	-4.3
Medium- and long-term net foreign liabilities	8.7	16.6	39.1	-0.5	1.1	-2.4
(Flow in millions of U.S. dollars, increase -)	33.9	61.0	150.1	-2.1	4.4	-10.4
Other	9.6	9.6	6.4	2.0	-1.1	6.2
Currency issue	0.2	11.4	12.5	8.5	16.0	7.0
			II. Banking System			
			(In percent of broad money at beginning of period)			
Net short-term foreign assets	6.6	9.1	-10.8	5.0	2.9	-3.4
(Flow in millions of U.S. dollars)	244.4	329.3	-379.2	154.2	88.8	-102.4
Net domestic assets	-8.6	-11.1	0.7	-1.3	-5.3	-0.9
Net credit to the public sector	1.7	0.8	4.2	-0.8	-2.2	-0.1
Credit to the private sector	-10.7	-15.2	-9.3	-1.2	-1.4	-0.7
Medium- and long-term net foreign liabilities	3.3	1.5	4.7	0.4	-0.6	1.4
(Flow in millions of U.S. dollars, increase -)	122.7	54.2	164.7	12.7	-19.4	43.2
Other	-2.9	1.8	1.1	0.3	-1.1	-1.5
Broad money	-2.0	-2.0	-10.1	3.7	-2.4	-4.3
			(12-month percentage change)			
Broad money 2/	-2.0	-2.0	-10.1	3.7	-2.4	-4.3
Liabilities in bolivianos (M2)	3.8	13.7	2.6	13.1	17.0	0.1
Foreign currency deposits 3/	-2.6	-4.6	-12.3	1.6	-6.8	-5.5
Credit to private sector	-8.8	-13.4	-9.2	-1.2	-1.3	-0.7
Credit in bolivianos	-2.3	-14.8	-15.4	-1.2	-1.3	-0.7
Foreign currency credit 3/	-9.0	-13.4	-9.1	-1.2	-1.3	-0.7
Memorandum items:						
			(Average stock in percent of GDP)			
Currency issue	3.8	4.0	4.1	4.2	4.4	4.4
Broad money 2/	43.3	43.6	38.8	37.8	35.1	30.8
Credit to private sector	52.3	46.9	42.0	39.0	38.5	35.0
			(In percent of total deposits or credit at current exchange rates)			
Dollarization (end-period stocks)						
Foreign currency deposits 3/	92.6	91.5	91.9	91.3	91.0	92.2
Foreign currency credit 3/	96.3	97.1	97.5	97.6	97.6	97.7
			(12-month percentage change at current exchange rates)			
Broad money 2/	3.4	3.4	-3.0	7.7	1.1	-0.6
Credit to private sector	-2.6	-8.5	-0.5	3.5	3.1	4.2
			(12-month percentage change in U.S. dollars at current exchange rates)			
Broad money 2/	-3.3	-3.1	-11.7	2.8	-3.3	-5.3
Credit to private sector	-9.0	-14.3	-9.4	-1.3	-1.4	-0.8

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

1/ Flows in foreign currency are valued at the accounting exchange rate for the corresponding period. The banking system comprises the central bank, commercial banks, the National Financial Institution of Bolivia and FONDESIF, which are state-owned second-tier banks.

2/ Includes special certficates of deposits (CDDs) issued by the central bank during the liquidation of failed banks.

3/ Includes deposits and credits in bolivianos that are indexed to the U.S. dollar.

Table 5. Bolivia: Medium-Term Macroeconomic Framework

	2000	2001	2002	Prel. 2003	Proj. 2004	Proj. 2005	Proj. 2006	Proj. 2007	Proj. 2008
		(Annual percentage change)							
Economic growth and prices									
Real GDP at market prices	2.3	1.5	2.8	2.5	3.6	4.5	4.7	4.8	4.3
Of which: Excluding hydrocarbons	1.8	1.5	2.6	2.0	2.6	3.7	4.6	4.2	4.1
Real domestic demand	1.2	-2.5	1.6	-1.3	4.1	6.8	4.8	3.0	3.1
GDP deflator	5.3	0.7	2.7	5.1	5.4	2.6	1.8	2.1	2.5
CPI (period average)	4.6	1.6	0.9	3.3	3.6	3.5	3.2	3.0	3.0
CPI (end of period)	3.4	0.9	2.4	3.9	3.5	3.5	3.0	3.0	3.0
		(In percent of nominal GDP)							
Gross investment	**18.3**	**14.2**	**14.7**	**11.1**	**13.1**	**16.6**	**18.9**	**19.3**	**19.8**
Public investment	5.2	5.8	5.4	4.7	4.6	4.7	4.8	4.8	4.8
Private investment, including stockbuilding	13.1	8.5	9.4	6.4	8.4	11.9	14.1	14.5	15.0
Savings	**18.3**	**14.2**	**14.7**	**11.1**	**13.1**	**16.6**	**18.9**	**19.3**	**19.8**
Gross national savings	13.0	10.8	10.6	11.4	13.6	13.0	13.8	14.7	15.6
Public savings	2.8	1.4	-0.4	0.2	2.0	2.9	4.3	5.1	5.7
Private savings	10.2	9.4	11.0	11.2	11.5	10.1	9.5	9.7	9.9
External savings	5.3	3.4	4.2	-0.3	-0.5	3.6	5.1	4.6	4.3
Consolidated public sector									
Non-pension balance	0.7	-2.1	-3.9	-3.2	-1.1	-0.3	0.6	1.1	1.7
Pension-related balance	-4.5	-4.8	-5.0	-4.9	-5.0	-5.1	-4.7	-4.5	-4.5
Overall balance	-3.7	-6.9	-8.9	-8.1	-6.1	-5.4	-4.1	-3.4	-2.8
Net domestic financing	1.8	3.9	2.8	2.7	1.9	0.7	-0.3	0.8	0.2
Net external financing	2.0	3.1	6.1	5.4	4.3	4.7	4.4	2.6	2.6
Primary deficit (-)	-1.5	-4.3	-6.3	-5.2	-2.9	-2.1	-1.0	-0.3	0.2
External sector									
Current account balance	-5.3	-3.4	-4.2	0.3	0.5	-3.6	-5.1	-4.6	-4.3
Excluding exceptional imports	-3.4	-1.5	-1.1	1.2	2.2	0.6	0.3	0.5	0.4
Net foreign direct investment	8.3	8.3	8.6	2.0	2.9	5.9	7.3	7.0	6.4
Memorandum items:									
Nominal GDP (millions of U.S. dollars)	8,405	8,036	7,812	7,877	8,194	8,465	8,783	9,170	9,563

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

Table 6. Bolivia: Schedule of Purchases Under the Extension of the SBA

Date	Amount in US$ millions	Amount in SDR millions	In percent of quota	Conditions
2003	**87.44**	**64.32**	**37.50**	
April 7, 2003	58.29	42.88	25.0	Board approval of SBA (Purchase of first credit tranche)
July 7, 2003	14.57	10.72	6.25	First review, end-March 2003 performance criteria
October 6, 2003	14.57	10.72	6.25	Second review, end-June 2003 performance criteria
Total	**87.44**	**64.32**	**37.50**	
US$/SDR	1.35952			
2004	**93.14**	**64.32**	**37.50**	
June 15, 2004	15.52	10.72	6.25	Third review; and end-December 2003 performance criteria
August 15, 2004	38.81	26.80	15.63	Fourth review; and end-June 2004 performance criteria
November 15, 2004	38.81	26.80	15.63	Fifth review; and end-September 2004 performance criteria
Total	**93.14**	**64.32**	**37.50**	
Quota	248.33	171.5	100.0	
US$/SDR	1.44800			

Source: Fund staff estimates.

Table 7. Bolivia: Indicators of Fund Credit, 1999–2008

					Projections					
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Outstanding Fund credit										
In millions of SDRs	180.0	168.8	164.9	143.7	187.5	224.4	199.8	165.1	107.4	40.7
In percent of quota	104.9	98.4	96.1	83.8	109.3	130.9	116.5	96.3	62.6	23.7
In percent of GDP	3.0	2.6	2.6	2.4	3.3	4.1	3.5	2.8	1.8	0.6
In percent of exports of goods and services	18.8	15.0	13.8	11.9	14.1	15.7	13.6	10.8	6.5	2.3
Debt service due to the Fund 1/										
In millions of SDRs	25.4	23.3	23.8	21.9	23.0	29.8	28.5	38.4	60.6	68.3
In millions of U.S. dollars	34.9	30.4	30.3	28.4	32.2	44.5	42.7	57.6	91.1	102.8
In percent of quota	14.8	13.6	13.9	12.8	13.4	17.4	16.6	22.4	35.3	39.8
In percent of exports of goods and services	2.7	2.1	2.0	1.8	1.7	2.1	1.9	2.5	3.7	3.9
In percent of gross service due	11.9	9.8	10.5	8.2	7.0	11.0	11.9	14.8	24.3	26.4
In percent of gross official reserves	2.9	2.6	2.7	3.3	3.0	4.3	3.9	4.9	7.6	8.4
Gross Fund financing										
In millions of U.S. dollars	23.1	14.6	24.2	0.0	89.9	96.0	0.0	0.0	0.0	0.0
In percent of Bolivia's gross financing needs 2/	3.0	1.5	2.5	0.0	9.0	12.7	0.0	0.0	0.0	0.0
Memorandum item:										
Quota (in millions of SDRs)	171.5	171.5	171.5	171.5	171.5	171.5	171.5	171.5	171.5	171.5

Sources: Central Bank of Bolivia; International Monetary Fund, Treasurer's Department; and Fund staff projections.

1/Projected debt service to the Fund applies to both outstanding credits and prospective drawings.

2/ Gross financing needs are defined as the sum of the external current account deficit, scheduled amortization, repayments to the fund, changes in gross international reserves of the central bank, change in arrears, and net private capital flows.

Table 8. Bolivia: Debt Sustainability Analysis Debt Service Indicators, 2002-15

(In percent)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Country Report No. 04/5														
NPV of debt as a ratio of GDP	44.7	47.7	51.1	51.7	51.6	51.7	50.3	49.2	48.7	48.2	47.1	46.2	45.4	45.1
NPV of debt as a ratio of revenue (excl. grants)	198.4	214.1	220.4	210.6	209.4	206.5	196.4	190.7	183.4	182.3	177.5	174.1	171.3	170.1
Debt service as a ratio of revenue (excl. grants)	34.1	40.6	26.1	31.8	23.0	19.4	15.4	15.7	15.5	18.5	20.4	20.1	19.2	19.2
NPV of external debt as a ratio of exports	119.7	132.7	147.1	153.3	160.0	160.2	152.2	141.2	133.0	130.4	129.3	128.5	127.7	126.7
External debt service as a ratio of exports	10.9	16.0	16.1	16.0	16.8	15.2	15.7	16.0	17.0	16.5	15.4	14.3	14.1	14.8
Revised program														
NPV of debt as a ratio of GDP	44.8	51.5	54.5	55.2	55.6	55.1	55.2	55.5	55.3	54.4	52.8	51.5	50.4	49.6
NPV of debt as a ratio of revenue (excl. grants)	198.9	236.5	237.1	234.7	238.4	234.8	227.3	257.0	214.3	210.3	202.0	196.6	192.9	189.5
Debt service as a ratio of revenue (excl. grants)	34.2	40.8	25.2	27.5	27.5	21.2	18.4	20.5	17.8	20.4	22.8	22.3	21.4	21.0
NPV of external debt as a ratio of exports	118.9	140.2	141.9	140.5	144.7	145.8	147.2	141.8	133.5	124.3	118.5	116.5	116.2	115.9
External debt service as a ratio of exports	10.9	15.4	14.7	14.0	14.4	12.8	14.1	15.2	17.4	16.1	14.8	13.8	13.8	14.6

Source: Fund staff estimates and projections.

Table 9: Bolivia Millenium Development Goals

	1990	1995	2001	2002
1 Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*			
Population below $1 a day (%)	..	..	14.4	..
Poverty gap at $1 a day (%)	..	..	5.4	..
Percentage share of income or consumption held by poorest 20%	..	..	4	..
Prevalence of child malnutrition (% of children under 5)	11.1	14.9	..	..
Population below minimum level of dietary energy consumption (%)	26	..	23	..
2 Achieve universal primary education	*2015 target = net enrollment to 100*			
Net primary enrollment ratio (% of relevant age group)	90.7	..	96.9	..
Percentage of cohort reaching grade 5 (%)	..	..	83	..
Youth literacy rate (% ages 15-24)	92.6	94.4	96.1	96.3
3 Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education (%)	88.9	..	97.5	..
Ratio of young literate females to males (% ages 15-24)	92.5	94.3	95.8	96
Share of women employed in the nonagricultural sector (%)	..	35.9	..	..
Proportion of seats held by women in national parliament (%)	9	7	12	12
4 Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	122	97	77	77
Infant mortality rate (per 1,000 live births)	87	73	60	58
Immunization, measles (% of children under 12 months)	53	58	79	..
5 Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	550	..	..
Births attended by skilled health staff (% of total)	37.8	42.3	..	..
6 Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (% ages 15-24)	..	..	0.1	..
Contraceptive prevalence rate (% of women ages 15-49)	30	46.9	..	..
Number of children orphaned by HIV/AIDS	..	..	1,000.00	..
Incidence of tuberculosis (per 100,000 people)	..	..	230.1	..
Tuberculosis cases detected under DOTS (%)	..	39	75	..
7 Ensure environmental sustainability	*2015 target = various (see notes)*			
Forest area (% of total land area)	50.4	..	48.9	..
Nationally protected areas (% of total land area)	..	14.4	14.4	13.9
GDP per unit of energy use (PPP $ per kg oil equivalent)	4.1	3.9	4	..
CO2 emissions (metric tons per capita)	0.8	1.3	1.4	..
Access to an improved water source (% of population)	71	..	83	..
Access to improved sanitation (% of population)	52	..	70	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development	*2015 target = various (see notes)*			
Youth unemployment rate (% of total labor force ages 15-24)	4.5	6.1	..	..
Fixed line and mobile telephones (per 1,000 people)	30.2	34.6	152.1	..
Personal computers (per 1,000 people)	2.2	3.4	20.5	..
General indicators				
Population (in millions)	6.6	7.4	8.5	8.7
Gross national income (in billions of US dollars)	5	6.5	8.1	7.9
GNI per capita ($)	750	870	950	900
Adult literacy rate (% of people ages 15 and over)	78.1	82.1	86	86.6
Total fertility rate (births per woman)	4.9	4.4	3.8	3.8
Life expectancy at birth (years)	58.3	60.6	63.1	63.6
Aid (% of GNI)	11.8	11	9.4	..
External debt (% of GNI)	92.1	81	60.3	..
Investment (% of GDP)	12.5	15.2	13	..
Trade (% of GDP)	46.7	49.7	42.8	..

Source: ***World Development Indicators database, April 2002***

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

BOLIVIA: FUND RELATIONS
(As of April 30, 2004)

I. **Membership Status:** Joined December 27, 1945; Article VIII.

II. **General Resources Account:**	**SDR Million**	**Percent Quota**
Quota	171.50	100.00
Fund holdings of currency	226.96	132.34
Reserve position in Fund	8.87	5.17

III. **SDR Department:**	**SDR Million**	**Percent Allocation**
Net cumulative allocation	26.70	100.00
Holdings	26.76	100.22

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent Quota**
Stand-by arrangements	64.32	37.50
ESAF/ PRGF arrangements	115.70	67.47

V. **Latest Financial Arrangements:**

Type of Arrangement	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-by	4/02/03	6/15/04	85.75	64.32
PRGF	9/18/98	6/07/02	100.96	63.86
PRGF	12/19/94	9/09/98	100.96	100.96

VI. **Projected Payments to Fund (Expectations Basis)**
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	19.87	36.74	54.81	39.60	14.45
Charges/Interest	1.63	1.82	1.16	0.38	0.11
Total	21.50	38.55	55.97	39.99	14.55

Projected Payments to Fund (Obligations Basis)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	19.87	24.68	34.71	51.66	34.55
Charges/Interest	1.63	1.86	1.70	1.05	0.30
Total	21.50	26.54	36.41	52.72	34.85

VII. Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Sep. 1997	Feb. 2000	
Assistance committed by all creditors (US$ Million) [1/]	448.00	854.00	
Of which: IMF assistance (US$ million)	29.00	55.32	
(SDR equivalent in millions)	21.25	41.14	
Completion point date	Sep. 1998	Jun. 2001	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	21.25	41.14	62.39
Interim assistance	--	--	--
Completion point balance	21.25	41.14	62.39
Additional disbursement of interest income [2/]	--	3.09	3.09
Total disbursements	21.25	44.23	65.48

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Safeguards Assessments: Under the Fund's safeguards assessment policy, the Central Bank of Bolivia (CBB) is subject to a full assessment with respect to the arrangement, which was approved on April 02, 2003 and is scheduled to expire on April 01, 2004. The on-site assessment was completed on June 27, 2003 and found no systemic risks in the safeguards of the CBB. The assessment identified, however, a few anomalies in the CBB's reporting and control system and made recommendations, as reported in Country Report No. 03/257. The majority of the recommendations have been implemented , and the few that remain outstandng continue to be monitored by staff. The previous assessment, which was limited to the external audit assessment, was completed on October 19, 2000.

IX. Exchange Rate Arrangement: The Bolivian currency is the boliviano. The central bank holds a daily foreign exchange auction, accepting all bids that are at least equal to the central bank's minimum price. If acceptable bids exceed the amount offered for auction, the lowest acceptable bids are prorated so as to exhaust the amount offered. The minimum price is adjusted from time to time in light of the evaluation of Bolivia's real exchange rate with respect to Bolivia's key trading partners. The administration of the system has resulted in minimal spreads between the maximum and minimum bids (generally 2 cents of boliviano). On May 17, 2004, the official selling rate was Bs 7.92 per U.S. dollar.

X. Article IV Consultation: The previous Article IV consultation and request for the first review under the Stand-By Arrangement July 7, 2003 (Country Report No. 03/257). Bolivia is on 24-month consultation cycle.

XI. Technical Assistance:

Dept.	**Purpose**	**Time**
FAD	Tax policy	Jan. 1999
FAD	Modernization of customs administration	June 1999
	and follow-up missions including	May 2001, Dec. 2001
FAD	Tax administration	June 1999, Feb. 2000,
		June 2001
FAD	Fiscal decentralization	Dec. 2000
MAE	Central bank operations and domestic capital markets	June 1999
MAE	Vulnerability of the banking system	Oct. 1999, Apr. 2000, Dec. 2000
STA	Money and banking statistics	Jan. 1999, Sep. 2001
STA	Balance of payments statistics	Aug. 1999
MAE	Monetary operations, monetary and exchange rate policy	May 2002
STA	National accounts statistics	Aug. 2002
MAE	FSAP	Nov. 2002, Jan. 2003
FAD	Customs reform	Dec. 2002
FAD	Tax Administration	May. 2003
FAD	Pension Reform	April 2004

XII. Resident Representative: Mr. Símon Cueva, since September 2003.

BOLIVIA: RELATIONS WITH THE WORLD BANK

The World Bank has supported Bolivia extensively, and as Bolivia now faces high risks and uncertainty, the World Bank Group can provide strong support through: a combination of lending tailored to current needs, a comprehensive package of ESW, an IFC program of private sector support, and knowledge-sharing by the WBI to help Bolivia address its problems of exclusion, inequality, poverty, and fiscal imbalance. This support is embodied in the Bolivia CAS that was approved by the World Bank Group Board on February 10, 2004.[9]

Because of particular circumstances in Bolivia—a transitional Presidency that has promised a Constitutional Assembly to modify Bolivia's Constitution—the new Bolivia CAS covers a relatively short period, fiscal years 2004 and 2005. The CAS supports President Mesa's plans that have been formulated to cover two periods: (a) a first phase—from the present to the planned completion of a Constitutional Assembly (expected to take between 14 and 18 months), and (b) a second phase—from the end of the Constitutional Assembly to the end of the constitutional term of the President (that is, until August 6, 2007). By the beginning of the second phase, the government would hope to have: (i) achieved passage of the potentially divisive gas referendum processes and the Constitutional Assembly with sufficient internal cohesion to maintain social peace and to advance solutions to tackle the problems of inequality, exclusion and poverty; (ii) formulated a revised Poverty Reduction Strategy with a heavy focus on achieving Millenium Development Goals (MDGs) harmonized by civil society consultations; (iii) instituted a fiscal pact wherein civil society would acknowledge the difficult fiscal situation, and agree on measures to address it; and (iv) adjusted the portfolio of international assistance so as to make past reforms financially sustainable and so as to be aligned with the revised Poverty Reduction Strategy Paper (PRSP).

IDA/IBRD Strategy. The financial resources to be provided to Bolivia amount to US$100 million a year in the base case scenario, up to US$150 million a year in the high case scenario, both involving IDA and IBRD resources. Approximately US$45 million a year of IDA resources will be available in the low case scenario. The proposed level of assistance in the base case would be sufficient to support an average of four projects and four pieces of Economic and Sector Work (ESW) per year during 2004–05. The composition of the lending program would be 50 percent adjustment and 50 percent investment lending. This support would be aligned closely with the government's program (Chart 1).

Recent and Forthcoming Actions. *In December 2003, the Emergency Economic Recovery Credit (US$14 Million IDA) was approved by the World Bank Board. Shortly thereafter in*

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[9]. Bolivia-Country Assistance Strategy. Report No 26838-BO. January 8, 2004.

February 2004, the First Programmatic Bank and Corporate Sector Restructuring Project (US$15 Million IDA and US$15 Million IBRD), was also approved Both projects were designed to respond to the problems of maintaining macroeconomic stability. One project, the Social Sector Programmatic Credit (US$20 Million IDA), would help maintain progress in health, education and water and sanitation and would accelerate progress towards MDGs by reducing disparities in outcomes across different regions, ethnic groups and income classes. WB Board approval of this project is expected in late FY04.

Five projects are proposed for FY05. Two projects, the Land Reform Project and the Spatial Rural Development/Community-driven Development Project, respond directly to the problems of inequality and to the problems that the poor have in generating income. One project, the possible Second Programmatic Bank and Corporate Restructuring Loan or the Fiscal Adjustment Loan, responds to problems of maintaining macroeconomic stability. One project, the Second Institutional Reform Project, would help the government re-launch its institutional reform and anti-corruption programs, one of the current high priorities. The fifth project, the Secondary Education Project, does not respond to an immediate short-term priority, but is necessary and important to allow the country to continue with its successful ongoing Education Reform program. The Education Reform is one of the few government programs that could be considered truly a state policy, as it has been supported across several different administrations.

In addition to these projects, Economic and Sector Work proposed for FY04 would focus on public sector management (e.g., CFAA), poverty and education. The proposed ESW program for FY05 would concentrate on issues related to growth, especially the problems faced by the poor in generating income. The major piece of ESW would be a Country Economic Memorandum (CEM) focusing on growth recovery and trade. Given that such a high percentage of the economy in Bolivia is informal, the CEM would be complemented by a labor and informal market study. Other pieces of ESW for FY05 include a study on conflict analysis and resolution and an analysis of Bolivia's Social Protection Framework.

IFC Strategy. *In conjunction with the Bank support to growth, IFC will continue to provide support for private sector development over the next CAS period. IFC's support will focus on: (i) monitoring of the existing portfolio to ensure that IFC-financed projects could weather these difficult times, (ii) technical assistance and capacity building through a new regional SME facility to strengthen small and medium enterprises and microenterprises; and (iii) selectively providing financing for viable, high impact projects in such sectors as the hydrocarbons sector, infrastructure including power, the social sectors, the financial market, and mining, provided that there is suitable investment climate in the country and the sector.*

WBI Strategy. *In the next CAS program, there will be a concerted effort to increase the focus of World Bank Institute (WBI) programs compared to how the program was managed in the* *past. It is expected that 80 percent of the WBI program would be focused on the following four priority areas: (i) improving governance, with a focus on anticorruption and enhancement of institutional capacity; (ii) improving voice, accountability and inclusion; (iii) pro-poor growth; and (iv) achieving MDGs. The remaining 20 percent of the WBI program would cover a variety of ongoing regional programs.*

Chart 1. Summary of World Bank Group Support to Six Government Priorities in First Phase

Government Priority	**World Bank Group Support**
Modifying Hydrocarbons Law	Deliver technical assistance to analyze effectiveness of hydrocarbons taxation, revenue management, and regional revenue sharing.
Gas Referendum	Provide financial support for the logistics of consultations through the existing Regulatory Reform TA credit.
Constitutional Assembly	Introduce a program to disseminate information on public expenditure and the PRSP process to Parliament.
Macroeconomic stability	• The WB's additional contribution to financing Bolivia's fiscal deficit gap included: (i) accelerating to December 2003 the pending second tranche of US$10 million of the existing Social Safety Net (SAC); and (ii) disbursing US$14 million Emergency Economic Recovery Credit. • Implementing the First Programmatic Bank and Corporate Sector Restructuring Program loan of US$30 million (US$15 million IDA and US$15 million IBRD) in February 2004 with the CAS. This will be Bolivia's first IBRD loan in many years. • Prepare either a Second Programmatic Bank and Corporate Sector Restructuring Program Loan in FY 05 or support for fiscal adjustment measures if the government prepares a program that includes measures that are progressive rather than regressive. • Work with all donors on meeting projected fiscal deficit gap for 2004. . • Facilitate exchanges between Bolivia and Guatemala so that Bolivia could benefit from Guatemala's experience in enacting a fiscal pact that helped to secure broad-based support for measures to manage fiscal deficit problems. • Reduce temporarily counterpart financing requirements in WB projects. • Roll over unused IDA resources from projects that will be closing in FY04. This is expected to be of the order of US$10–20 million. • Discuss results of Public Expenditure Review (PER) with government to see how high-impact expenditures can be prioritized and lower-impact expenditures cut. Support Poverty and Social Impact Analysis (PSIA) to help government calculate ex ante the likely effects of possible changes to try to restore macroeconomic stability.
High visibility programs that address problems of exclusion, inequality and poverty	The Bank will use a combination of existing projects in its portfolio and new projects to help reduce inequality and exclusion and support policies that will foster the creation of income generating opportunities for the poor. In the existing portfolio, the projects that are most closely associated with these objectives are: ▪ Indigenous People's Development Project ▪ Participatory Rural Investment Project ▪ Social Safety Net Structural Adjustment Credit ▪ Second Health Reform Program (directed to reduce disparities in health outcomes by income, region and ethnicity) ▪ Education Quality and Equity Strengthening Project (allows for customized approaches depending on needs of the communities) ▪ National Land Administration Project In addition, the World Bank will redirect US$5.7 million from existing projects to help address problems in El Alto and La Paz, two cities which largely impacted by the recent social conflicts.

Government Priority	World Bank Group Support
	The new projects in the upcoming 2–year CAS directed to the objectives of reducing inequality and exclusion are: ▪ Social Sector Programmatic Credit (will be designed to accelerate progress towards MDGs, US$20 million) ▪ Spatial Sustainable Development project (a US$21 million IDA) in FY05 to help address wide disparities in ability to generate income and access to services. ▪ Land Reform. Prepare US$15 million IDA program in early FY05. Other actions to be taken by the World Bank are to: • Together with government and limited number of other donors, help lead an implementation review team to ensure that scarce resources are directed to programs with high impact, and that implementation bottlenecks are recognized and addressed. • Introduce a Country Portfolio Performance Review (CPPR) with indigenous groups to review portfolio to see how existing projects could better introduce an indigenous perspective. (There is a precedent in Ecuador for this type of work).
Relaunch Institutional Reform Program and push anticorruption agenda	• Prepare a US$15 million Institutional Reform II Project in FY05, most likely to be jointly financed with other donors.

BOLIVIA: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Background

As of April 30, 2004, the Inter-American Development Bank (IDB) had approved loans to Bolivia amounting to US$3.4 billion, with disbursements totaling US$2.7 billion. Bolivia's outstanding debt to the IDB was US$1.7 billion.

The lending program

The IDB´s lending program for Bolivia is aimed at supporting the government's efforts to reduce poverty and improve governance, and focuses on removing obstacles that impede higher and more equitable growth. The impact of the regional crisis on Bolivia's economic performance since 1999, has weakened growth in labor intensive sectors increasing unemployment and poverty in urban areas. The economic slowdown together with higher than expected pension related fiscal deficit and increased fragility of the financial system, has amplified the exposure of the country to an extended period of economic, social and political distress. In this context, the Bank assistance in 2004-2005 will continue to provide concessional resources to support fiscal sustainability, while protecting investments that are in the critical path to achieve the Millennium Development Goals.

The proposed IDB lending program for Bolivia for 2004-2005 consists of 10 loans for a total of US$145.5 million, of which US$92.0 million will support policies to promote competitiveness and private sector development.

Recent economic and sector work

A new Bank strategy outlining the main areas of activities for the period 2004–2007 will reviewed by the Board in June 2004. Economic studies have been completed on fiscal sustainability, HIPC debt relief and poverty, pension reform and decentralization.

IDB non-reimbursable technical cooperation and small projects

The IDB portfolio also includes active projects for US$26.4 million in nonreimbursable technical cooperation, and US$2.3 million in non-reimbursable small projects.

Bolivia: Relations with the Inter-American Development Bank

(In millions of U.S. dollars)

Reference	Projects	Number of Loans	Approved	Disbursed	Undisbursed
	I. Statement of IDB loans (as of April 30, 2004)				
Loans Totally disbursed (less cancellations)			**2,067.1**		
Sectors		**35**	**1,123.6**	**575.1**	**548.6**
Roads		4	222.0	120.2	101.8
698/OC	Beni-La Paz Peruvian Border Corridor		55.0	54.6	0.4
893/SF	Cotapata - Santa Barbara		40.0	39.9	0.1
1039/SF	Ventilla-Tarapaya Highway/Sector Support		52.0	25.7	26.4
1101/SF	Trade Corridor Sta. Cruz - Puerto Suarez		75.0	0.1	75.0
Tourism		1	10.0	0.5	9.5
1098/SF	Sustainable Tourism Development Program		10.0	0.5	9.5
Agriculture and Envrionment		7	135.8	44.2	91.7
929/SF	Protection of environment		17.2	16.4	0.8
964/SF	Irrigation and drainage		25.6	19.1	6.5
1099/SF	Env-Soc. Protection Santa Cruz - Pto. Suarez		21.0	0.7	20.3
1057/SF	Agricultural Services Program		34.0	8.0	26.0
1116/SF	Emergency Attention Plan: Fire Cordillera Sama-Tarija		2.5	-	2.5
1512/SF	Land Regularization and Legal Cadastre		22.0	-	22.0
1515/SF	Rural Productive Development Support Program		13.5	-	13.5
Sanitation		2	110.0	50.1	59.9
987/SF	Urban Sanitation PRODURSA		70.0	45.3	24.7
1050/SF	Basic Sanitation for Small Municipalities		40.0	4.8	35.2
Social sectors		6	247.0	117.3	129.7
931/SF	Education Reform		80.0	66.9	13.1
995/SF	Integrated Early Chilhood Development Program		20.0	9.0	11.0
1006/SF	Housing Policy Support Program		60.0	22.7	37.3
1031/SF	Epidemiological Shield and Sector Reform		45.0	16.6	28.4
1093/SF	Strengthening Technical Education		6.0	2.1	3.9
1126/SF	Education Reform II		36.0	-	36.0
Institutional strengthening		12	251.8	147.0	104.9
993/SF	Descentralization SNIPPRE		7.0	4.8	2.2
1038/SF	Loan TC Civil Society Access to Justice		2.7	1.7	1.0
1043/SF	Institutional Stregthening National Tax Agency		3.2	2.2	1.0
1046/SF	National Census Preparation Support		7.2	7.2	-
1056/SF	Customs reform and Modernization		5.0	3.5	1.5
1075/SF	Local Development and Fiscal Adjustment		47.0	9.1	37.9
1091/SF	Modernization Municipal Financial Administration		20.0	8.0	12.0
1118/SF	Institutional Support to Strengthen Trade		5.0	-	5.0
1121/SF	Disaster Prevention Program		2.7	-	2.7
1127/SF	Fiscal Sustainability Program		63.0	45.2	17.8
1128/SF	TC Fiscal Sustainability Support Program		2.0	0.1	2.0
1519/SF	Sector Program to Support Competitiveness		87.0	65.2	21.8
Multisectoral onlending		1	35.0	23.9	11.2
1020/SF	Support for Small and Microenterprises		35.0	23.9	11.2
Private Sector		2	112.0	72.0	40.0
1431/OC	Telecomunication Network Redibol		37.0	30.0	7.0
1444/OC	Transredes (Gas)		75.0	42.0	33.0
Technical assistance		**48**	**26.4**	**16.5**	**9.9**
Totals			**3,217.1**	**2,658.6**	**558.5**
Repaid				**935.8**	
Outstanding				**1,706.4**	

Bolivia: Relations with the Inter-American Development Bank (Continued)
(In millions of U.S. dollars)

	Amount	In Percent of Total
II. Proposed IDB Lending Program 2004-2005		
Number of loans	**10**	
Total loan amounts	**145.5**	**100.0**
Efficiency and Transparency of Public Sector	**25.0**	**17.2**
Justice Sector Support	10.0	6.9
National Transparency Program (*)	15.0	10.3
Competitiveness and Private Sector Development	**92.0**	**63.2**
Support to Bolivian Competitiveness System	10.0	6.9
National Plan for Property Rights	20.0	13.7
Reestructuring of Private Enterprises	10.0	6.9
Northern Corridor Highway Program - 1st Stage	22.0	15.1
Rural Electrification	10.0	6.9
National Irrigation Program	10.0	6.9
Rural Infraestructure Program	10.0	6.9
Improve delivery of basic services	**28.5**	**19.6**
Reactivation of the Center of La Paz	28.5	19.6

(*) High Case Scenario.
Source: Inter-American Development Bank.

BOLIVIA: DEBT SUSTAINABILITY ANALYSIS

Bolivia's debt indicators are less favorable than envisaged in the staff report for the second review of the SBA (Country Report No. 04/05), reflecting (1) the loss of the LNG project, which is partly offset by a more rapid fiscal adjustment and the implementation of alternative gas projects; and (2) the depreciation of the U.S. dollar in 2003, which resulted in an increase in the debt stock at end-2003 for €- and ¥-denominated debts.

Medium-term stress tests

The debt path shows similar sensitivities to the stress tests as presented in the last reviews.[1] Debt could become unsustainable in the absence of a fiscal adjustment, but debt indicators are also sensitive to low growth rates, current account adjustments, export prospects (including hydrocarbons), and an exchange rate depreciation.

In the baseline projections, the net present value (NPV) of public debt relative to GDP peaks in 2006, but falls subsequently. The ratio of NPV to exports falls only after gas exports from a new project and its related revenue start in 2009 (Table 8). Stress tests show the following results (Table 2):

- A "GDP shock" (stress test 3), which reduces the growth rate to the historical average of five years (1.9 percent) minus two standard deviations (one standard deviation is 0.9 percent) in 2004 and 2005, has the least impact.

- Under a "fiscal shock" (stress test 4), the fiscal program goes off track by one standard deviation (2.3 percent of GDP) in each year through 2015. In this case, the debt to GDP ratio peaks in 2009 and then decreases slightly, but steadily.

- A large shock to the debt stock would come from the "status quo" stress test (stress test 1) assuming that the real interest rate, the real GDP growth rate, and the primary balance would remain in 2004-15 at their average of the past five years. In this case, public debt becomes explosive, reaching close to 150 percent in 2015.

- In an "exchange rate shock" stress test, the exchange rate depreciates by 30 percent in 2004 (stress test 6). Since 95 percent of public debt is denominated in foreign currency, this shock has a large impact on the debt to GDP ratio, which rises to over

[1] It is assumed that loans of about $80 million are contracted in 2004 to finance bank and corporate restructuring

97 percent in 2005.[2] The ratio subsequently falls, assuming that the program's fiscal adjustment path is achieved, but remains high at 76 percent in 2015.

- A picture similar to that with the "exchange rate shock" emerges from a stress test that assumes that the debt ratio in 2004 would rise by an additional 30 percent of GDP (stress test 7). Although the debt stock would stand at over 105 percent of GDP in 2005, it would decline to close to 80 percent in 2015.

Similar stress tests were applied to the external debt projections (Table 1).

- If natural gas exports remain constant at the level of 2003, rather than expanding as projected in the baseline (stress test 1), the ratio of the NPV of debt to exports would increase from 140 percent in 2003 to over 170 percent in 2010, but would start in 2012 to decline to 162 percent in 2015. The nominal external debt to GDP ratio would increase from 57 percent in 2003 to 64 percent in 2010 (compared with 58 percent in the program), reflecting the impact of lower exports on GDP. The ratio gradually decreases from 2011 onward reaching 54 percent in 2015.

- If interest rates, growth, US dollar inflation, the non-interest current account, and non-debt flows remain during 2004-15 at the average of the past five years (stress test 2), the nominal debt to GDP ratio increases from 57 percent in 2003 to around 84 percent in 2015, with the increase mostly due to the non-adjustment of the current account.

- If real GDP growth in 2004 and 2005 is set to the average of the preceding five years (1.9 percent) minus two standard deviations (one standard deviation is 0.9 percent) (stress test 3), the debt to GDP ratio increases to 65 percent in 2006 but then falls gradually to 53 percent in 2015.

- If the current account deficit excluding interest in 2004-05 is set to the program projection minus two standard deviations (one standard deviation is 2.4 percent of GDP) (stress test 4), the debt to GDP ratio falls from 2007 onward to 57 percent in 2015.

- A 30 percent depreciation in 2004 enlarges the ratio of debt to GDP (stress test 5), peaking at almost 85 percent in 2006, but debt remains sustainable and falls to about 70 percent in 2015.

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[2] The assessment excludes the contingent liabilities related to the impact of a depreciation on the banking system and the exchange rate impact on GDP growth through exports.

Appendix IV Table 1. Bolivia: External Sustainability Framework, 2000-15

		Actual				Projections											
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	I. Baseline Medium-Term Projections																
1	Nominal external debt/Exports of G&NFS	303.4	218.7	238.4	238.9	225.0	231.1	232.8	221.5	216.2	195.4	183.1	175.5	172.1	167.2	160.9	155.2
2	Nominal external debt/GDP 1/	53.1	41.4	47.7	56.5	58.8	60.2	60.8	59.6	58.9	58.4	58.1	57.1	55.7	53.7	51.4	49.3
3	Change in external debt/GDP	-2.0	-11.7	6.3	8.8	2.3	1.5	0.5	-1.1	-0.7	-0.6	-0.3	-1.0	-1.4	-2.0	-2.3	-2.1
4	Net debt-creating external flows/GDP (5+9+12)	-3.6	-3.1	-4.0	-1.3	-6.2	-4.2	-4.4	-5.0	-4.6	-5.0	-5.9	-6.6	-6.1	-6.0	-5.8	-5.5
5	Current account deficit, excluding interest payments/GDP	4.2	2.5	3.4	-1.3	-1.5	2.5	3.8	3.3	3.0	0.6	-0.9	-1.2	-0.7	-0.3	0.0	0.3
6	Deficit in balance of G&NFS/GDP	9.5	7.4	7.4	1.3	1.9	4.9	6.5	5.7	4.8	-5.1	-7.4	-7.9	-7.6	-7.2	-6.8	-6.6
7	Exports of G&NFS/GDP	17.5	18.9	20.0	23.7	26.1	26.1	26.1	26.9	27.3	29.9	31.7	32.5	32.3	32.1	31.9	31.8
8	Imports of G&NFS/GDP	27.0	26.3	27.4	24.9	28.0	31.0	32.6	32.6	32.0	24.7	24.3	24.6	24.8	24.9	25.1	25.2
9	Minus net non-debt creating capital inflows/GDP	-8.3	-8.3	-8.6	-2.0	-2.9	-5.9	-7.3	-7.0	-6.4	-4.9	-4.0	-4.2	-4.2	-4.4	-4.6	-4.7
10	Net foreign direct investment, equity/GDP	8.3	8.3	8.6	2.0	2.9	5.9	7.3	7.0	6.4	4.9	4.0	4.2	4.2	4.4	4.6	4.7
11	Net portfolio investment,equity/GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	(r-g-(ρ+gρ))/(1+g+ρ+gρ))debt/GDP (14/13)	0.6	2.8	1.2	2.0	-1.7	-0.7	-0.9	-1.3	-1.2	-0.7	-1.0	-1.3	-1.3	-1.3	-1.2	-1.1
13	Adjustment factor: 1+g+ρ+gρ	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
14	(r-g-(ρ+gρ))debt/GDP (15+16+17)	0.6	2.7	1.2	2.0	-1.8	-0.8	-1.0	-1.3	-1.2	-0.7	-1.0	-1.3	-1.3	-1.4	-1.3	-1.1
15	r (interest rate) times debt/GDP	1.2	0.9	0.7	1.0	1.1	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
16	minus g (real GDP growth rate) times debt/GDP	-1.3	-0.8	-1.1	-1.2	-2.0	-2.7	-2.9	-2.9	-2.5	-2.8	-2.5	-2.4	-2.3	-2.2	-2.1	-2.1
17	minus (ρ + gρ) (ρ = US dollar value of GDP deflator, growth rate) times debt/GDP	0.7	2.5	1.7	2.1	-0.9	0.7	0.6	0.3	0.0	0.6	0.0	-0.3	-0.4	-0.5	-0.4	-0.4
18	Residual, incl. change in gross foreign assets/GDP (3-4)	1.5	-8.6	10.3	10.1	8.4	5.7	5.0	3.8	3.9	4.4	5.7	5.6	4.7	4.0	3.5	3.5
	Memorandum Items: Key macro and external assumptions																
	Nominal GDP (In billions of Bolivianos)	51.9	53.0	55.9	60.3	65.8	70.6	75.2	80.5	86.1	91.4	97.7	104.8	112.4	120.8	129.8	139.5
	Nominal GDP (In billions of U.S. dollars)	8.4	8.0	7.8	7.9	8.2	8.5	8.8	9.2	9.6	9.9	10.3	10.8	11.3	11.9	12.4	13.0
	Real GDP growth (in percent per year)	2.3	1.5	2.8	2.5	3.6	4.5	4.7	4.8	4.3	4.7	4.3	4.2	4.0	4.0	4.0	4.0
	Nominal GDP deflator (in U.S. dollars, change in percent per year)	-1.3	-4.7	-3.9	-4.4	1.5	-1.2	-0.9	-0.4	0.0	-1.0	0.0	0.4	0.7	0.8	0.8	0.8
	External interest rate (percent per year)	2.1	1.8	1.7	2.1	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.4	2.4	2.4	2.4	2.6
	Growth of exports of G&NFS (U.S. dollar terms, in percent per year)	12.2	3.4	2.7	19.3	14.8	3.1	3.9	7.7	5.6	13.5	10.7	7.3	4.1	4.1	4.3	4.3
	Growth of imports of G&NFS (U.S. dollar terms, in percent per year)	7.2	-6.9	1.4	-8.4	16.7	14.4	9.3	4.4	2.4	-20.0	2.6	5.7	5.6	5.4	5.6	5.0
	NPV of external debt of the NFPS (In billions of U.S. dollars)	2.7	1.4	1.8	2.3	2.6	2.9	3.2	3.4	3.6	3.8	3.9	4.0	4.1	4.3	4.4	4.6
	NPV of NFPS external debt to exports of GNFS (three-year backward moving average)	199.3	100.2	118.9	140.2	141.9	140.5	144.7	145.8	147.2	141.8	133.5	124.3	118.5	116.5	116.2	115.9
	Debt service to exports ratio of the NFPS	20.4	18.1	10.9	15.4	14.7	14.0	14.4	12.8	14.1	15.2	17.4	16.1	14.8	13.8	13.8	14.6
	II. Sensitivity Analysis for Nominal External Debt-to-GDP Ratio																
	1. Natural gas exports remain at the level in 2003					**60.2**	**61.8**	**62.3**	**61.6**	**61.0**	**62.5**	**64.0**	**63.6**	**61.7**	**59.3**	**56.6**	**54.1**
	NPV of external debt of the NFPS to exports (three-year backward moving average)					*147.0*	*150.5*	*160.0*	*162.8*	*166.0*	*168.3*	*170.6*	*171.9*	*169.9*	*167.4*	*164.7*	*162.0*
	2. If interest rate, real GDP growth rate, US$ GDP deflator growth, non-interest current account, and non-debt flows (in percent of GDP) are at average of past 5 years					**61.9**	**64.7**	**66.8**	**68.0**	**69.2**	**71.0**	**74.1**	**77.3**	**79.6**	**81.4**	**82.8**	**84.1**
	NPV of external debt of the NFPS to exports (three-year backward moving average)					*150.2*	*156.4*	*170.1*	*182.0*	*195.1*	*198.1*	*198.0*	*196.2*	*199.3*	*209.2*	*222.6*	*236.7*
	3. If real GDP growth rate in 2004 and 2005 is average minus two standard deviations, others at baseline					**60.7**	**64.9**	**65.3**	**64.1**	**63.3**	**62.7**	**62.4**	**61.2**	**59.7**	**57.7**	**55.3**	**53.1**
	NPV of external debt of the NFPS to exports (three-year backward moving average)					*148.1*	*146.6*	*151.0*	*152.0*	*153.5*	*147.9*	*139.3*	*129.6*	*123.6*	*121.6*	*121.3*	*120.9*
	4. If current account is average plus two standard deviations for two years					**63.6**	**69.8**	**70.2**	**68.9**	**68.0**	**67.3**	**66.9**	**65.7**	**64.1**	**61.9**	**59.5**	**57.2**
	NPV of external debt of the NFPS to exports (three-year backward moving average)					*153.6*	*162.9*	*167.3*	*168.4*	*169.9*	*163.6*	*153.8*	*143.0*	*136.5*	*134.4*	*134.5*	*134.4*
	5. One time 30 percent depreciation in year 2004 (-30% GDP deflator shock), others at baseline.					**83.4**	**84.6**	**84.7**	**83.1**	**81.9**	**81.1**	**80.4**	**78.9**	**77.0**	**74.6**	**71.8**	**69.3**
	NPV of external debt of the NFPS to exports (three-year backward moving average)					*141.9*	*140.5*	*144.7*	*145.8*	*147.2*	*141.8*	*133.5*	*124.3*	*118.5*	*116.5*	*116.2*	*115.9*
	Memorandum Items																
	Current account deficit, excluding interest payments (percent of GDP, average of past 5 years)				2.7												
	Current account deficit, excluding interest payments (percent of GDP, standard deviation of past 5 years)				2.4												
	Net non-debt creating capital inflows (percent of GDP, average of past 5 years)				-7.9												
	Interest rate (average of past 5 years)				1.9												
	Interest rate (standard deviation of past 5 years)				0.2												
	Real GDP growth rate (average of past 5 years)				1.9												
	Real GDP growth rate (standard deviation of past 5 years)				0.9												
	GDP deflator, U.S. dollar terms (average of past 5 years)				-3.6												
	GDP deflator, U.S. dollar terms (standard deviation of past 5 years)				1.4												

1/ Coverage consists of medium- and long-term debt of the public sector. The projection assumes that US$80 million nonconcessional and $10 million concessional borrowing for financial and corporate restructuring takes place in 2004.

Appendix IV Table 2. Bolivia: Public Sector Debt Sustainability Framework, 2000-15

	Actual				Projections											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I. Baseline Medium-Term Projections																
1 Public debt (nominal)/revenues 1/	228.9	210.0	247.7	294.6	289.2	295.3	296.0	291.5	280.8	269.3	228.3	226.0	221.1	216.4	211.8	208.8
2 Public debt (nominal)/GDP 1/	58.6	53.6	61.5	73.0	76.8	78.9	79.6	79.1	78.2	77.7	71.3	69.9	68.4	66.7	64.9	63.2
3 Change in public debt/GDP	-9.2	-5.1	8.0	11.5	3.8	2.1	0.7	-0.5	-0.9	-0.5	-6.4	-1.5	-1.5	-1.7	-1.8	-1.7
4 Net debt-creating flows/GDP (5+6)	-0.6	5.7	7.1	4.7	1.1	-0.4	-1.9	-2.5	-2.7	-3.5	-3.6	-3.4	-3.3	-3.2	-3.2	-3.1
5 Overall deficit, excluding net interest payments/GDP (=primary deficit)	1.5	5.0	6.6	5.5	3.8	3.1	1.8	1.1	0.5	-0.2	-0.6	-0.9	-0.9	-0.8	-0.8	-0.8
Revenue and grants/GDP	25.6	25.5	24.8	24.8	26.6	26.7	26.9	27.1	27.8	28.8	31.2	30.9	30.9	30.8	30.6	30.2
Noninterest expenditure/GDP	27.1	30.5	31.4	30.3	30.4	29.8	28.7	28.2	28.3	28.7	30.6	30.1	30.0	30.0	29.9	29.5
6 $((r - \pi) - g(1+\pi))/(1+g+\pi+g\pi))$debt/GDP (8/7) 2/	-2.1	0.7	0.5	-0.8	-2.7	-3.5	-3.6	-3.6	-3.1	-3.3	-3.0	-2.5	-2.4	-2.4	-2.4	-2.3
7 Adjustment factor: $1+g+\pi+g\pi$	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
8 $((r - \pi) - g(1+\pi))$debt/GDP (9+10)	-2.3	0.7	0.5	-0.9	-2.9	-3.8	-3.9	-3.9	-3.4	-3.6	-3.2	-2.7	-2.6	-2.6	-2.6	-2.5
9 $(r - \pi)$ times debt/GDP	-0.6	1.6	2.0	0.7	-0.2	-0.2	-0.1	0.1	0.1	0.2	0.2	0.4	0.3	0.2	0.1	0.2
10 minus $g(1 + \pi)$ times debt/GDP	-1.6	-0.9	-1.5	-1.6	-2.7	-3.6	-3.9	-3.9	-3.5	-3.8	-3.4	-3.1	-2.9	-2.8	-2.7	-2.7
11 Residual, incl. asset changes and privatization receipts (negative)/GDP (3-4)	-8.6	-10.8	0.9	6.8	2.7	2.6	2.5	2.0	1.7	3.0	-2.8	1.9	1.8	1.5	1.4	1.4
Memorandum Items: Key macro and external assumptions																
Nominal GDP (in billions of Bolivianos)	51.9	53.0	55.9	60.3	65.8	70.6	75.2	80.5	86.1	91	98	105	112	121	130	140
Real GDP growth (in percent per year)	2.3	1.5	2.8	2.5	3.6	4.5	4.7	4.8	4.3	4.7	4.3	4.2	4.0	4.0	4.0	4.0
Exchange rate (Bolivianos per U.S. dollar)	6.4	6.8	7.5	7.8	8.2	8.5	8.7	8.9	9.1	9.4	9.6	9.8	10.1	10.3	10.6	10.9
Nominal appreciation of Boliviano against U.S. dollar	-6.3	-6.3	-8.9	-4.3	-4.8	-2.9	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
CPI (change, in percent per year)	4.6	1.6	0.9	3.3	3.6	3.5	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Average interest rate on public debt (percent per year)	3.7	4.4	4.7	4.4	3.4	3.2	3.1	3.1	3.1	3.2	3.3	3.5	3.5	3.3	3.2	3.3
Average real interest rate (nominal rate minus change in CPI, percent)	-0.9	2.8	3.7	1.1	-0.2	-0.3	-0.1	0.1	0.1	0.2	0.3	0.5	0.5	0.3	0.2	0.3
Growth of revenues (deflated by GDP deflator, in percent per year)	1.2	1.1	0.0	2.2	11.1	5.2	5.4	5.8	6.9	8.4	12.9	3.1	4.1	3.6	3.4	2.7
Growth of noninterest expenditure (deflated by GDP deflator, in percent per year)	0.2	14.3	5.9	-1.2	3.9	2.7	0.7	3.2	4.6	5.9	11.5	2.2	4.0	3.8	3.5	2.6
NPV of debt (in billions of U.S. dollars) 3/	3.7	3.1	3.5	4.1	4.5	4.7	4.9	5.0	5.3	5.5	5.7	5.9	6.0	6.1	6.3	6.5
Budgetary debt service to revenue	24.8	31.6	31.0	35.9	22.1	24.4	24.4	18.8	16.4	18.0	16.4	18.9	21.2	20.8	20.1	19.8
II. Stress Tests																
1. If real interest rate, real GDP growth rate, and primary balance (in percent of GDP) in 2004-2015 are at average of past 5 years					**80.9**	**88.0**	**95.1**	**101.7**	**108.1**	**115.7**	**117.6**	**124.3**	**130.8**	**137.2**	**143.4**	**149.7**
(In NPV terms)					*57.4*	*61.5*	*66.4*	*70.8*	*76.3*	*82.7*	*91.2*	*96.8*	*101.1*	*105.9*	*111.5*	*117.6*
2. If real interest rate in 2004 and 2005 is average plus two standard deviations, others at baseline					**81.3**	**87.4**	**87.6**	**86.8**	**85.6**	**84.7**	**78.1**	**76.4**	**74.7**	**72.8**	**70.7**	**68.8**
3. If real GDP growth rate in 2004 and 2005 is average minus two standard deviations, others at baseline					**80.1**	**85.5**	**85.9**	**85.1**	**84.0**	**83.2**	**76.6**	**75.0**	**73.3**	**71.4**	**69.5**	**67.6**
4. If primary balance (in percent of GDP) in 2004-15 is at baseline plus one standard deviation					**79.9**	**84.2**	**86.9**	**88.4**	**89.4**	**90.7**	**86.2**	**86.5**	**86.8**	**86.7**	**86.5**	**86.3**
5. Combination of 2-4 using one standard deviation shocks					**84.9**	**96.2**	**96.0**	**94.8**	**93.3**	**92.1**	**85.2**	**83.2**	**81.3**	**79.1**	**76.9**	**74.7**
6. One time 30 percent real depreciation in 2004, others at baseline 4/					**96.1**	**97.4**	**97.2**	**95.9**	**94.3**	**93.1**	**86.2**	**84.2**	**82.2**	**80.0**	**77.7**	**75.6**
7. If debt ratio in 2004 rises by (additional) 30 percent of GDP, others at baseline					**104.8**	**105.7**	**105.1**	**103.5**	**101.6**	**100.1**	**92.9**	**90.6**	**88.5**	**86.0**	**83.5**	**81.1**
Memorandum Items																
Primary deficit excluding interest (percent of GDP, average of past 5 years)				4.1												
Primary deficit excluding interest (percent of GDP, standard deviation of past 5 years)				2.3												
Real interest rate (nominal rate minus change in GDP deflator, average of past 4 years)				2.5												
Real interest rate (nominal rate minus change in GDP deflator, standard deviation of past 4 years)				1.3												
Nominal interest rate (average of past 5 years)				4.3												
Nominal interest rate (standard deviation of past 5 years)				0.4												
Real GDP growth rate (average of past 5 years)				1.9												
Real GDP growth rate (standard deviation of past 5 years)				0.9												
GDP deflator (average of past 5 years)				3.2												
GDP deflator (standard deviation of past 5 years)				2.0												

1/ Coverage consists of the nonfinancial public sector including pensions, excluding bonds issued for the recapitalization of the central bank.
2/ Defined as: r = interest rate; π = GDP deflator, growth rate; g = real GDP growth rate.
3/ The NPV of domestic debt at end-2003 is preliminary.
4/ Real appreciation is approximated by nominal appreciation against US dollar plus increase in domestic GDP deflator.

La Paz, Bolivia, June 2, 2004

Ms. Anne Krueger
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Krueger:

Our program supported under a Stand-By Arrangement (SBA) was on track until September 2003 and all September quantitative performance criteria (PCs) were observed. However, the disruptions in October resulted in the nonobservance of some end-December PCs. In particular, we are requesting waivers for the nonobservance of the quantitative PCs on the fiscal deficit, domestic credit, central bank credit to the nonfinancial public sector (NFPS), and NDA. We are also requesting waivers for the non observance of the structural PCs on the adoption of a plan to deal with weak banks and the approval of the implementing regulations of the tax code. Both actions were taken by February 2004 and the macroeconomic program for 2004 includes measures to address the fiscal slippages in 2003.

In support of our policies described in the attached Memorandum of Economic and Financial Policies (MEFP), the Government of Bolivia requests the completion of the third review under the SBA. We also request an extension of the SBA through December 31, 2004, with an increased access level in an amount equivalent to SDR 42.88 million (25 percent of quota), and the rephasing of the available purchases into two disbursements, based on the observance of quantitative PCs for end-June and end-September 2004 and structural PCs (Tables 1 and 3 of the MEFP).

The tragic events of October 2003 highlighted the imperative need to address entrenched social grievances resulting from poverty and income inequality. An overarching objective of the new administration is therefore to foster a national dialogue aimed at reaching a consensus on medium-term reforms critical to enhancing growth and reducing poverty. We are pleased to inform you that the national dialogue on Bolivia's medium-term framework has been proceeding well and we expect to finalize a new PRSP by October 2004.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Bolivia will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/	/s/
Javier Cuevas	Juan Antonio Morales
Minister of Finance	President, Central Bank of Bolivia

Annex: Supplementary Memorandum of Economic and Financial Policies.

Supplementary Memorandum of Economic and Financial Policies of the Government of Bolivia
Third Review and Augmentation and Extension of the Stand-By Arrangement

June 2, 2004

1. Despite difficult social and political conditions, we have made significant progress in the implementation of our economic agenda. Unfortunately, the October events affected negatively economic performance in 2003, which led to several important targets not being observed. However, since the new government took office we have put together and started implementing a solid macroeconomic program, which we describe below. Congress supports our agenda, as recently highlighted in a letter of its President.

2. The program will continue to be guided by the macroeconomic and structural reform policies described in the Memorandum of March 21, 2003, and modified by the Supplementary Memoranda of June 20, 2003 and September 24, 2003.

3. The fourth review will focus on the preparation of the 2005 budget, including the recommendations of an expenditure commission, and steps toward tax reform. Test dates for the fourth and fifth reviews would be end-June and end-September, 2004.

A. Macroeconomic Framework

4. The economy grew by 2½ percent in 2003 and is projected to grow by 3½ percent in 2004, compared with 3 percent and 4½ percent respectively under the program. The downward revision in 2003 reflects the disruptive impact of the October events and lower-than-expected hydrocarbon-related foreign investment. Real growth in 2004 is expected to be driven by exports, reflecting improved regional prospects and higher export prices, but also by some recovery in domestic demand. Inflation rose to 3.9 percent in 2003 reflecting mainly disruptions to supplies, but has started to decline and is expected to be below 3.5 percent by end-2004. The 2003 current account ended with a ¼ percent of GDP surplus as a result of higher exports, particularly soybeans, and lower-than-anticipated imports, owing to slower growth and a depreciation of the real effective exchange rate. For 2004, the external current account is expected to remain in a small surplus, reflecting strong growth in gas, minerals, and agricultural exports, partially offset by a recovery in imports.

B. Fiscal Policy

5. The fiscal deficit of the combined public sector after grants in 2003 was 8.1 percent of GDP (1.1 percent of GDP higher-than-programmed), and 11.1 percent of GDP before grants. This was explained by a deterioration in the last quarter of 2003, largely because of the October events. The higher deficit also resulted in higher-than-programmed net domestic financing and central bank credit. Moreover, we had to delay issuing the implementing regulations of the tax code (November 2003 performance criterion (PC)) to January 2004, as we needed to obtain broader support for its approval.

6. The 2004 program targets a reduction of the fiscal deficit after grants to 6.1 percent of GDP and to 9.7 percent of GDP before grants, while raising the level of pro-poor spending by 0.6 percent of GDP. This fiscal consolidation will be particularly challenging in light of expected increases in several spending categories owing to (i) improved implementation capacity by local governments and upcoming municipal elections (0.4 percent of GDP); (ii) increased interest payments resulting from the buildup of domestic debt since 2001 (0.3 percent of GDP); and (iii) larger pension payments resulting mostly from the incorporation into the system of eligible pensioners that had been postponed by previous administrations (0.1 percent of GDP). Against this background, we are implementing a large revenue package. We are also putting in place strong mechanisms to closely monitor and control expenditure in line with the findings of the IDB-World Bank's ongoing Public Expenditure Review (PER) and a Poverty and Social Impact Analysis (PSIA) jointly conducted with the World Bank.

7. On the revenue side, our strategy is centered on the implementation of a package with an expected yield of around 1½ percent of GDP in 2004, which will also boost revenue in the medium term. In this connection:

- We are implementing the tax measures approved by Congress in late 2003, expected to have an annualized yield of around 1½ percent of GDP. The implementation of the new tax code—with the benefit from the recent approval of its regulations and the planned introduction of a new taxpayer registry and antifraud requirements for invoicing—is projected to yield 0.3 percent of GDP. To preserve the administrative procedures (recurso de alzada and jerarquico) introduced with the tax code, in light of the recent ruling of the Constitutional Tribunal, Congress is expected to approve a law regulating the procedures by end-September 2004 (structural PC). The reform to law 843, which widened the base of oil-related taxes, is estimated to yield 0.3 percent of GDP and the tax regularization scheme 0.8 percent of GDP.

- On April 1, 2004 Congress approved a financial transactions tax (FTT) with a rate of 0.3 percent on both bank debits and credits and an expected yield in 2004 of 0.6 percent of GDP. The tax has a few exemptions aimed at preserving liquidity within the system and promoting the use of local currency, and the rate will be reduced to 0.25 percent in the second half of 2005. We intend to replace the FTT after two years with less distortionary taxes and will request technical assistance from the Fund on tax reform, aiming to have the relevant draft legislation ready by end-2004.

- We will submit to Congress a bill proposing modifications to the hydrocarbons law (see Section E below). While the revenue yield could be significant, starting in 2005, the program conservatively does not assume any revenues in 2004.

- We have put in place a mechanism that, starting in April, gradually adjusts domestic fuel prices to reflect changes in international prices. This mechanism seeks to minimize possible social impacts.

8. At the core of our spending strategy, we intend to cut non-poverty reducing expenditures so as to increase pro-poor spending. These efforts aim to address some of the long-standing issues fueling social unrest and introduce well-targeted programs benefiting cities, regions, and indigenous groups with a high concentration of poverty. To this end, we are taking the following actions:

- Two recently implemented austerity decrees and two Ministerial resolutions cut spending, particularly current expenditure (including salaries of high-level officials), and eliminated discrepancies between the budget and the program.

- The overall wage bill will be reduced by 0.2 percent of GDP. Within this target, we are limiting nominal wage increases to 3 percent while accommodating new positions, mainly for education and health, aimed at advancing toward the Millennium Development Goals.

- With IDB support, we will strengthen controls for pension costs, while beginning to grant benefits to the remaining 23,000 eligible individuals. After completing an actuarial study of pension liabilities, we recently strengthened an independent agency to audit and control pension outlays and detect fraud. We have submitted a law to Congress that would limit bonus payments to the elderly (Bonosol) from dividends available to the privatization fund.

- We are setting up a social protection network, including a new fund (Propaís), aimed at improving the efficiency and targeting of pro-poor spending. Financing for this new initiative has been secured from the Andean Development Cooperation (CAF) and from redirecting IDB funds.

9. We will closely follow fiscal revenues and expenditures of the combined public sector, and central bank financing to the NFPS. We are committed to taking prompt corrective actions, as necessary. In particular, should deviations occur with respect to the monthly ceilings (Table), we intend to further curtail spending by the central government and other public sectors entities, including by strengthening reporting requirements of local governments.

Table. Bolivia: Public Sector Cumulative Monthly Fiscal Targets
(in millions of Bolivianos)

	2004									
	Q1	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Total revenue and grants	4,176	5,722	7,142	8,386	10,038	11,370	12,836	14,299	15,777	17,475
Total expenditure	4,773	6,403	8,080	9,976	11,808	13,513	15,392	17,066	18,866	21,508
Deficit	-597	-680	-939	-1,590	-1,769	-2,143	-2,557	-2,768	-3,089	-4,033
Financing	597	680	939	1,590	1,769	2,143	2,557	2,768	3,089	4,033
Of which: BCB net credit	-288	35	235	138	42	109	-116	-25	-27	104

10. The 2004 fiscal deficit reduction partially reflects exceptional support from the international donor community in the form of grants. The deficit financing relies heavily on the use of external concessional loans, so as to limit the use of net nonconcessional financing

to 1.4 percent of GDP (excluding 0.2 percent of GDP from the use of deposits accumulated through external concessional disbursements received at end-2003). Net central bank credit to the nonfinancial public sector will be limited to 0.2 percent of GDP in 2004. Should by end-June the net credit from the BCB exceed the program target, we stand ready to cut spending to bring financing from the BCB in line with the program.

11. In the context of the ongoing national dialogue, we will appoint a commission of highly respected members of civil society by June 2004 (end-June benchmark) to make recommendations to improve the effectiveness and pro-poor orientation of public spending, within the ceilings of our program (end-September structural benchmark). In particular, the commission will study and make recommendations on (i) the composition, quality, and control mechanisms of public expenditures, taking into account the IDB-World Bank's PER; (ii) improvements to the definition and monitoring of pro-poor spending; and (iii) spending priorities to bring overall spending to a level of 32.1 percent of GDP in 2005, 31.0 percent of GDP in 2006, and 30.4 percent of GDP in 2007. The commission is expected to publish its recommendations by end-September, 2004, in time to incorporate its recommendations into the 2005 budget (performance criterion).

C. Monetary and Exchange Rate Policies

12. We have adopted a proactive stance to deal with the difficult conditions experienced during January-April and we will adopt additional measures, as necessary, to protect the financial system. The BCB continues to stand ready to provide liquidity to the system, with adequate collateral, while letting interest rates reflect market conditions. Interest rates have increased, including the central bank's repo rate in US dollars from 6 percent in mid-March to 8½ in mid-May and the central bank short-term paper from 2½ percent to 5 percent during the same period. Moreover, the Superintendency of Banks and the central bank have intensified the monitoring of banks' liquidity. Finally, a law clarifying triggers for bank resolutions has been approved ahead of schedule, and a clause grandfathering capital requirements for nonbanks expired on May 4.

13. Monetary policy will continue to aim at strengthening BCB's international reserves in the context of the crawling peg while containing inflationary pressures. Reflecting larger-than-programmed currency demand at end-2003, the NDA target was missed by a small margin while the NIR target was met. However, NIR declined by US$164 million during January-April 2004 to US$782 million, reflecting in part seasonal factors and, in April, large bank deposit withdrawals associated with the difficult social conditions. Although in May both deposits and NIR increased reflecting improved confidence, we will continue to closely monitor developments and stand ready to adopt corrective actions, as necessary. We intend to rebuild net international reserves by US$109 million in the last eight months of the year, reducing the loss to US$55 million for 2004. Disposable reserve coverage of banks' dollar deposits would be about 39 percent by end-2004 after additional Fund disbursements. The BCB will continue to provide lender of last resort facilities against appropriate collateral, while preserving its fundamental objective of maintaining price stability.

14. In line with the Safeguards Assessment, we have implemented the most important recommendations: (i) put in place an auditing system to ensure that reported figures to the Fund are consistent with program definitions; (ii) adjusted the definition of data on international reserves; and (iii) signed a memorandum of understanding between the BCB and the Ministry of Finance to set limits on BCB liquidity credits and ensure the operational and budgetary independence of the BCB. In addition, the BCB's financial accounts are being presented in line with IAS, except when otherwise required by Bolivian laws, in which case differences will be adequately highlighted.

15. We intend to preserve recent gains in competitiveness in the context of our crawling peg regime with respect to the U.S. dollar. Preliminary conclusions of a joint BCB/Fund staff study show that concerns over exchange rate competitiveness relate more to institutional weaknesses and non-price factors rather than to exchange rate level. However, we remain committed to reducing the country's vulnerabilities and promoting financial stability, including by creating the conditions for a more flexible exchange rate regime over the medium term. To this end, we are exploring several options to complement the current crawling peg system ("Bolsin") which has served Bolivia well for almost two decades, and enhance its flexibility over time—including enlarging it to cover sales and purchases of foreign currency through auctions. A study detailing recommendations will be completed by end-July; its implementation will start in the second half of the year. Moreover, with Fund technical assistance, we will complete a study to recommend measures to promote the use of the domestic currency by October 31, 2004 (structural benchmark)

16. Current conditions have highlighted shortcomings in the Treasury's liquidity management. In this connection, we have started and will continue to take specific actions to improve our bond auctions by allowing interest rates to be more responsive to changes in domestic liquidity conditions.

D. Bank and Corporate Sector Restructuring

17. A priority of the administration is to strengthen the banking system. While the PC relating to the adoption of an action plan for weak banks by October 2003 was not observed, the objectives of the PC have been achieved through a series of steps:

- On the two capital-deficient banks, private shareholders re-capitalized one of these banks, while the other is being resolved by converting subordinated debt to the government into equity. Shareholders' equity will be written down by September 2004 in line with the results of a due diligence which has been completed. A new Board of Directors and management have been appointed and a business plan, including steps to return the bank to the private sector by December 2005, will be completed by end-September 2004 (benchmark).

- A recent decree set up a public fund for bank restructuring with support from the World Bank. The decree established sound principles to prevent bailing out shareholders or unviable institutions. The operational manual reflecting the guidelines set in this decree will be issued in July.

18. We are setting up a framework for corporate restructuring and continue to regularly assess its impact on banks. A recent decree established a fund and general principles, with IDB and CAF support. Implementing regulations for the fund will be issued in June and contracts with the international firm in charge of the evaluation of restructuring proposals will be signed by July 2004, while a few pilot cases on corporate restructuring have been already initiated. The Superintendency of Enterprises has been provided with an independent budget and we will further work to ensure a sustainable funding source over the medium term. We intend to address possible remaining deficiencies after drawing lessons from a sample of pilot firms and conduct an evaluation of the bankruptcy legislation. This will allow us to propose legislative changes by November 2004 (structural benchmark).

19. We have made progress and intend to further strengthen the prudential framework of financial institutions, with the recently requested TA from the Fund and in line with the FSSA recommendations. We have clarified the banking law triggers for bank resolution and revised the treatment of reprogrammed loans under the framework of the informal workout law to prevent their automatic classification upgrade. We intend to further strengthen the operational and budgetary independence of the Superintendency of Banks and Financial Institutions (SBEF), in the context of the budget approved by Congress and the recently signed memorandum of budgetary independence. We intend to adopt by end-October (benchmark) the following steps: (i) a norm to ensure the effective supervision of financial conglomerates; and (ii) procedures to strengthen early warning indicators and prompt corrective actions. We also intend by end-October to prepare a draft norm on loan classification consistent with international standards for discussion with banks and to submit to Congress anti-money laundering legislation.

E. Medium Term Outlook, Hydrocarbons Policy, and Progress Toward a PRGF Arrangement

20. The overarching objective of the government is to achieve sustained high growth of 4½–5 percent (about 2 percent per capita), leading to a significant reduction in poverty levels. Our policies aim at creating the conditions for private sector-led growth, in the context of a stable social and economic environment. To achieve these goals, we believe that it is essential to increase and better target pro-poor spending, make more room for the private sector by gradually reducing the fiscal deficit toward a sustainable position, and remove structural and institutional barriers to growth.

21. We continue to view the efficient exploitation of Bolivia's rich hydrocarbon resources as vital to sustained growth over the medium term. In this connection:

- The government recently released a draft hydrocarbons bill for discussion with Bolivian civil society that will be submitted to Congress after the referendum on gas exports scheduled for July 18. We are engaging in broad-ranging consultations, aimed at maintaining an appropriate environment for private investment while ensuring that the Bolivian people benefit appropriately from the country's hydrocarbons resources. We are working closely with the World Bank and intend to appoint a commission of internationally-known experts to review the bill and to provide advice on an appropriate strategy for Bolivia's large hydrocarbon reserves.

- Congress is expected to approve the bill by end-September 2004 and a strategy on gas exports will be adopted by end-October 2004 (structural benchmark), based on the results of the national referendum scheduled for mid-July 2004. We will soon start an information campaign on the conditions under which gas would be exploited and its revenues used for the benefit of the Bolivian people.

22. In light of the loss of the LNG project, we have developed a new medium-term macroeconomic framework including possible alternative energy projects and steeper-than-earlier anticipated fiscal adjustment to maintain debt sustainability. Specifically, we intend to reduce the 2005 fiscal deficit (after grants) to 5.4 percent of GDP (the submission to Congress of the 2005 budget law will be a structural benchmark for end-October 2004) and further to below 2 percent of GDP from 2010 onward, while limiting the use of nonconcessional financing.

23. In preparation for a new PRSP, the government launched a national dialogue in November 2003, which involves a participatory process with civil society through October 2004. We also plan to ensure that the PRSP encompasses a broad-based consensus on fiscal issues, by agreeing on sustainable sources of fiscal revenue, well-targeted social safety nets, and clear priorities for national spending. On this basis, we plan to request Fund support for our policies formulated in the PRSP through a new PRGF arrangement before end-2004. We also intend to hold a follow-up Consultative Group meeting by October 2004, which we hope will allow us to mobilize sufficient concessional financing to ensure a sustainable debt path while increasing pro-poor and investment spending.

Table 1. Bolivia: Quantitative Performance Criteria Under the SBA, 2004 1/

	2003		2004			
	Act.	Act.	Act.	Performance Crit.		Ind. Trgt.
	Sep.	Dec.	Mar.	Jun.	Sept.	Dec.
(Cumulative amounts from December 31, 2002 for the 2003 targets and December 31, 2003 for the 2004 targets; in millions of bolivianos)						
Deficit of the combined public sector 2/						
Unadjusted limit	2,950	4,149	…	1,590	2,557	4,033
Adjusted limit	2,960	4,125	…	…	…	…
Actual	2,928	4,880	597	…	…	…
Margin	32	-755	…	…	…	…
Net domestic financing of the combined public sector 3/						
Unadjusted limit	700	652	…	772	831	1,223
Adjusted limit	1,051	837	…	…	…	…
Actual	1,019	1,596	388	…	…	…
Margin	32	-759	…	…	…	…
Central Bank Net Credit to the NPFS						
Unadjusted limit	49	-82	…	138	-116	104
Actual	-332	-15	-288	…	…	…
Margin	381	-67	…	…	…	…
Net domestic assets of the central bank 4/						
Unadjusted limit	-400	-245	…	500	494 6	688
Adjusted limit	-400	-245	…	…	…	…
Actual 4/	-594	-231	3	…	…	…
Margin	194	-14	…	…	…	…
(Cumulative amounts from December 31, 2002 for the 2003 targets and December 31, 2003 for the 2004 targets; in millions of US dollars)						
Net international reserves of the central bank 5/						
Target	0	65	…	-121	-104	-55
Adjusted target	0	65	…	…	…	…
Actual 4/	40	93	-93	…	…	…
Margin	40	28	…	…	…	…
Net nonconcessional external debt 6/						
Limit	100	150	…	-30	34	87
Adjusted limit	65	80	…	…	…	…
Actual	46	64	-17	…	…	…
Margin	19	16	…	…	…	…
External debt with maturities up to one year						
Limit	10	0	…	0	0	0
Actual	0	0	0	…	…	…
Margin	10	0	…	…	…	…
(Cumulative amounts from December 31, 2002 for the 2003 targets and December 31, 2003 for the 2004 targets; in millions of US dollars)						
Adjuster to the nonconcessional external debt limit for financial and corporate restructuring						
WB and CAF nonconcessional financing for financial and corporate restructuring						
Program baseline	...	...	...	0	62	82
Actual	...	...	0	...	...	...
Adjuster to the net domestic financing of the NFPS						
Net external financing of the NFPS 7/						
Program baseline	245	386	...	70	172	289
Actual	200	362	10	...	...	...
Adjuster for the deficit of the SPNF						
Financing through HIPC and beyond-HIPC debt relief (program) 8/						
Program baseline	46	65	...	32	42	61
Actual	47	63	16	...	...	...
External financing for social spending						
Program baseline	70	120	...	0	0	0
Actual	70	137	0	...	...	...
Projected program grants						
Program baseline	...	...	...	2	18	45
Actual	...	...	0	...	...	...
Projected concessional program loans						
Program baseline	...	...	...	54	84	105
Actual	...	...	6	...	...	...
(Cumulative amounts from December 31, 2003 in millions of Bolivianos)						
Maximum adjustment to limit on domestic financing of combined public sector						
Program baseline	500	500	…	500	500	500
Projection	0	185	…	…	…	…
Adjuster for NIR on currency issue						
Currency issue (program)	...	...	-739	-468	-338	246
Maximum adjustment to NIR target	...	...	0	25	50	75
(Cumulative amounts from December 31, 2002 in millions of bolivianos; unless otherwise indicated)						
Memorandum items:						
Adjuster for 2003 program:						
Shortfall in currency issue 4/			0	0		
Shortfall in external financing for social spending			15	0		
Shortfall in net external disbursements			228	585		
Maximum adjustment to limit on domestic financing of combined public sector			150	500		
Excess financing through HIPC debt relief (US$ millions, shortfall negative) 5/			4	3		

Source: Data provided by the Bolivian authorities.

1/ Definitions of the targets and adjusters as in the TMU of March 21, 2003 and the supplementary TMU of June __, 2004. September and December 2003 targets as set in Country Report No. 04/5. For the extension of the SBA, June and September 2004 are proposed PCs and December 2004 indicative targets.

2/ The limits on the deficit of the combined public sector will be adjusted downward by the difference between actual and projected program grants (i.e., grants not earmarked for projects). They will be adjusted downward (upward) by the amount of the shortfall (excess) between actual and projected HIPC debt relief and by the amount of the shortfall between actual and projected external financing for social spending, up to the designated ceilings.

3/ The limits on the net domestic financing of the NFPS will be adjusted upward by the difference between projected and actual net external financing to the NFPS (measured cumulatively over the same period as net domestic financing), excluding HIPC debt relief, up to the designated ceiling; it will be adjusted downward by the amount of any overdue obligations to foreign official creditors.

4/ The limits on the NDA of the BCB will be adjusted downward by the amount of any overdue obligations to foreign official creditors.

5/ The ceiling on NIR will be adjusted upwards by the amount of any overdue obligations to foreign official creditors and adjusted downward by shortfalls relative to the projected currency issue, up to the designated ceiling.

6/ The debt limit will be reduced by the amount, if any, of the shortfall between actual and projected disbursements of loans for financial and corporate restructuring.

7/ Does not include the HIPC debt relief through rescheduling or the amortization component of stock of debt reduction operations under HIPC Initiative and beyond HIPC.

8/ Comprises refinancing and the amortization component of stock of debt reduction operations under the HIPC Initiative and beyond HIPC, both for the financial and nonfinancial public sectors.

Table 2. Bolivia: Update on Status of Structural Conditionality Under Existing Stand-By Arrangement, 2003 1/

Condition	Policy Measure	Date	Timetable and Status of Implementation 1/
Public Sector Reform and Financing			
Performance Criterion	Approval of 2003 budget, which together with the proposed revenue measures described in para. 11 of the TMU is consistent with a combined public sector deficit equal to or less than 6.5 percent of GDP	April 15, 2003	Tax bill was delayed. alternative measures. Waiver granted in first review.
Performance Criterion	Submission to Congress of a tax procedures code consistent with para. 12 of the TMU.	Apr. 30, 2003	Observed.
Benchmark	Approval by Congress of tax procedures code consistent with para. 12 of TMU	Sept. 30, 2003	Observed.
Performance Criterion	Issuance of regulations to the tax procedures code, consistent with para. 12 of TMU	Nov. 5, 2003	Not observed. Implemented on January 12, 2004.Waiver requested in third review.
Financial Sector and Corporate Sector			
Performance Criterion	Issuance of the final regulations for the bank resolution and prompt corrective action mechanisms introduced by the financial sector law of 2001 consistent with para. 14 of the TMU	April 30, 2003	Implemented on May 9, 2003. Waiver granted in first review.
Performance Criterion	Issuance of supreme decree(s) (i) clarifying the roles of the different institutions with oversight over the financial sector (includes ensuring a technical basis for issuing prudential norms), and (ii) defining certain areas of banking regulation that should be determined by the superintendency consistent with para. 13 of the TMU	April 30, 2003	Implemented on May 6, 2003. Waiver granted in first review.
Performance Criterion	Submission to congress of draft bankruptcy law and draft law for corporate debt workout mechanism, prepared in consultation with Fund staff and consistent with paras. 15 and 16 of the TMU	April 30, 2003	Observed
Benchmark	Approval by congress of law on corporate workout mechanism consistent with para. 16 of the TMU	April 30, 2003	Observed
Benchmark	Approval by Congress of law on corporate debt workout mechanism consistent with para. 15 of TMU.	Sept. 30, 2003	Not met. Some elements incorporated in Informal Workout Law. Remaining shortcomings would be addressed by revisions to the law by September 30, 2004.
Performance Criterion	Adopt a plan of action to strengthen weak banks consistent with Fund staff advice and the principles stated in para. 9 of MEP.	Oct. 31, 2003	Not observed. This condition was met after actions were taken to recapitalize two weak banks in November and a decree laying out general principles and establishing a fiduciary fund for bank capitalization (FASF) was issued in February 2004.

1/ References in the table are to the relevant paragraphs of the Technical Memorandum of Understanding (TMU) or to the Supplementary Memorandum of Economic Policies of September 24, 2003.

Table 3. Bolivia: Structural Conditionality For the Extension of the Stand-By Arrangement 2004[1]

Condition	Policy Measure	Date
Performance Criterion	Approval by Congress of the law regulating the procedural requirements of the recursos de alzada and jerárquico before the Tax Superintendency, as required by a Constitutional Tribunal ruling	Sept. 30, 2004
Benchmark	Define terms of reference and appoint high-level commission of respected members of civil society	June 30, 2004
Performance Criterion	Publish high-level commission's report with specific recommendations, including measures to (i) improve the measurement of pro-poor spending; (ii) improve the quality and efficiency of public services; (iii) prioritize spending toward growth-enhancing and pro-poor spending; and (iv) identify spending priorities to bring overall spending to a level of 32.1 percent of GDP in 2005, 31.0 percent of GDP in 2006, and 30.4 percent of GDP in 2007.	Sept.30, 2004
Benchmark	Submit to Congress the 2005 budget law consistent with a deficit target of 5.4 percent of GDP, taking into account the recommendations of the expenditure commission and identified revenue measures.	Oct. 31, 2004
Benchmark	On banks majority-owned by NAFIBO, complete the write-offs of the shareholders capital and approve the implementation of a business plan for the next two years, which shall include re-privatization of the banks by December 2005.	Sept. 30, 2004
Benchmark	Superintendency of Banks and Financial Entities (SBEF) will: (i) issue a norm to ensure the effective supervision of financial conglomerates (in compliance with Basel core principle 20); and (ii) establish procedures to strengthen early warning indicators to identify individual and systemic bank vulnerabilities and apply prompt corrective actions.	Oct. 31, 2004
Benchmark	Drawing upon the implementation of the informal workout law to a sample of firms, prepare, and submit to Congress, draft amendments to existing legislation and draft laws, taking into account the principles stated in paragraph 15 of the March 24, 2003 TMU.	Nov. 30, 2004
Benchmark	Complete study with IMF technical assistance to recommend measures to promote the use of domestic currency.	Oct. 31, 2004
Benchmark	Adopt a strategy on gas exports based on the national referendum and the approval by Congress of a Hydrocarbons Law, regulating the taxation of hydrocarbons and providing an appropriate framework for developing the large hydrocarbon reserves.	Oct. 31, 2004

[1] References in the table are to the relevant paragraphs of the Technical Memorandum of Understanding (TMU) of March 21, 2003, June 20, 2003 and September 24, 2003.

BOLIVIA—SUPPLEMENTARY TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum supplements the technical memorandum of understanding of March 21, 2003. It also sets out the definitions for new indicative targets on pro-poor spending and pro-poor spending without wages under which Bolivia's performance under the program supported by Stand-By-Arrangement will be assessed. Monitoring procedures and reporting requirements for the new performance criterion and the indicative targets are also specified.

V. AMENDMENTS TO EXISTING QUANTITATIVE TARGETS

2. The quantitative targets and limits described in the TMU of March 21, 2003 have been set as performance criteria for June 30, 2004 and September 30, 2004 and as indicative benchmarks for December 31, 2004. They will be measured as cumulative flows from December 31, 2003 (Table 1).

3. **Valuation changes.**

- NIR and external liabilities will be valued at the accounting exchange rate of Bs 8.03 = US$1 in 2004 (¶3 of the TMU of March 21, 2003).

- The amounts of nonconcessional and short-term external debt will be evaluated at the end-2003 U.S. dollar exchange rate of 0.792 Euro = US$1, 107.1 Japanese yen = US$1, and for the other currencies according to the corresponding end-2003 exchange rates published in the IMF's International Financial Statistics (¶4 of the TMU of March 21, 2003).

- In 2004, the BCB assets and liabilities denominated in foreign currencies other than U.S. dollars will be converted to U.S. dollars at the market exchange rates for the respective currencies in effect at the date of measurement except for: (i) gold, to be valued at the accounting rate of US$375 per troy ounce; and (ii) SDR holdings and the net Fund position which will be converted in US$1.486 = SDR 1 (end-2003 exchange rate) (¶5 of the TMU of March 21, 2003).

4. **Adjuster to the ceiling on net nonconcessional foreign debt.** Loans for financial and corporate restructuring for purposes of the adjuster to the limits on net nonconcessional foreign debt indicated in Table 1 and described in the TMU of March 21, 2003, comprise CAF credits of US$62 million and IBRD credits of US$20 million (¶8 of the TMU of March 21, 2003). The ceiling on net nonconcessional foreign debt shall be reduced by the amount of the shortfall between actual and projected external financing for financial and corporate restructuring, up to the designated ceiling (which is equal to the projected financing for financial and corporate restructuring).

5. **The funds for corporate and bank restructuring would be guided by the following principles**: (i) All parties agreed on guideline for the Corporate Restructuring Fund(s) to be structured in accordance to market based principles, consistent with those governing the creation of the fund for supporting the financial system (FASF); (ii) Only viable companies (based on financial fundamentals and future business plans and prospects) with strong restructuring plans are eligible to participate; (iii) The Funds' Boards reaching these decisions must be safeguarded from political influences; (iv) Government to provide safeguards from claims, in case a company ultimately fails; (v) The operation of the funds must be well coordinated with the regulations governing the voluntary workout law; (vi) The provision of funds should not constitute subsidies in the long run; and (vii) The funds are to be managed by international managers with demonstrated expertise.

6. **Adjusters to the deficit of the nonfinancial public sector**.

- **Existing adjuster.** External financing for the adjuster on social spending is projected at US$0 (¶9 of the TMU of March 21, 2003).

New adjuster. If actual grants exceed projected program grants,[13] the limits on the deficit of the nonfinancial public sector will be adjusted downward by the difference between actual and projected program grants (i.e., grants not earmarked for projects or "transferencias de libre disponibilidad"). The adjustment will be limited to the shortfall in actual concessional program loans from the projected concessional program loans.

VI. New Ceilings on the Pro-Poor Spending of the Nonfinancial Public Sector (Indicative Targets)

7. Indicative targets for quarterly pro-poor spending and pro-poor spending without wages of the NFPS have been established for June 30, 2004, September 30, 2004, and December 31, 2004, which are measured cumulatively from December 31, 2003.

8. The **pro-poor spending of the NFPS** includes current and capital spending on health (excluding payments to "beneméritos") and education (excluding universities); and capital spending on basic sanitation, urban development and rural development (including spending on PLANE). It excludes pension outlays.

[13] The EU grant for water and sanitation is classified as a program grant as corresponding spending had already been in the budget.

VII. Reporting Requirements on the New Performance Criterion and Indicative Targets

9. A quarterly estimate of pro-poor spending and pro-poor spending excluding wages of the NFPS will be provided at most 90 calendar days after the end of each quarter. (reporting agency: Fiscal Programming Unit of the Ministry of Finance (UPF)).

Table. Bolivia: Cumulative Pro-Poor Spending Indicative Targets
(In millions of Bolivianos)

	2003	2004			
	Dec.	Mar.	Jun.	Sept.	Dec.
Total pro-poor	7,364	1,767	3,868	5,994	8,438
Pro-poor w/o wages	4,062	916	2,166	3,426	4,873

Press Release No. 04/113
FOR IMMEDIATE RELEASE
June 10, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review of Bolivia's Stand-By Arrangement, Approves US$16 Million Disbursement and Extension of Arrangement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Bolivia's performance under a one-year, SDR 85.75 million (about US$126 million) Stand-By Arrangement that was approved on April 2, 2003 (see Press Release No. 03/46). This decision enables the release of SDR 10.72 million (about US$16 million) to Bolivia, which would bring total disbursements under the program to SDR 75.04 million (about US$110 million).

In completing the review, the Executive Board approved Bolivia's request for waivers for the nonobservance of performance criteria. In addition, the Executive Board approved to extend the Stand-By Arrangement until December 31, 2004, and augmented access to Fund resources by SDR 42.89 million (about US$63 million) to support the government's 2004 economic policies.

Following the Executive Board discussion on Bolivia, Anne Krueger, First Deputy Managing Director and Acting Chair, said:

"Bolivia's economy is gradually picking up, with moderate growth projected for this year and the current account in small surplus, while inflation remains subdued. The macroeconomic and financial situation has also stabilized in recent weeks, as the Bolivian authorities, with strong support from the international community, work to address social and political concerns while pursuing a challenging agenda of adjustment and reform.

"The authorities' program is based on a four-pronged strategy: (i) a budgetary framework to limit the 2004 fiscal deficit to available noninflationary financing; (ii) financing assurances from the international community that would minimize nonconcessional credits and avoid central bank financing of the government; (iii) measures to strengthen the financial sector; and (iv) a process towards implementing a viable hydrocarbons strategy.

"The authorities aim to reduce the fiscal deficit this year through measures already implemented or approved by Congress, and to implement reforms that will permit timely disbursements of concessional funds from bilateral donors and the multilateral institutions. The government is determined to monitor developments closely to assure that fiscal targets are met, so as to preserve hard-won financial stability. While some of the measures are temporary, they should provide breathing space for the government to prepare medium-term tax and expenditure reforms. At the same time, the government plans to continue to increase pro-poor spending and the national dialogue to build domestic consensus for its reform agenda.

"The authorities have made progress in implementing an action plan to address weak banks and reduce financial sector vulnerabilities, and have established funds for both financial and corporate restructuring. Moreover, they have sought to minimize domestic debt roll-over risk by allowing interest rates to be more responsive to market liquidity conditions and have recently begun to place domestic paper in the markets again.

"Looking further ahead, broadening and consolidating the national consensus for policies to support growth and poverty reduction, including through the efficient development of Bolivia's rich hydrocarbon resources, will enable the government to develop a medium-term program that could form the basis for a revised Poverty Reduction Strategy Paper later this year, and a possible Poverty Reduction Growth Facility," Ms. Krueger said.

Statement by Hector Torres, Alternate Executive Director for Bolivia, and Alonso Segura, Advisor to Executive Director
June 9, 2004

Key points

- *As a consequence of the events in October 2003, some targets under the program were missed. Waivers for four QPCs for end-December 2004 and two SPCs, the latter met with delay, are requested. Soon thereafter, the government of President Mesa has been able to maintain the policies in course.*
- *The authorities are requesting an augmentation and extension of the current SBA until the end of 2004. Policies to support the request are concentrated on fiscal issues, the banking and financial sector, and a strategy to develop the hydrocarbons sector.*
- *A core element of the government's strategy is fiscal consolidation. A fiscal adjustment of 2% of GDP is expected for 2004, with further revenue and expenditure reforms in the pipeline to guarantee the continuation of the process in the future.*
- *Financial and corporate restructuring have been started and remain a key part of the conditionality under the program.*
- *The government has initiated a process of direct consultations with the population and civil society in search for consensus. A National Referendum on key issues regarding the hydrocarbons sector has been set for July 18.*
- *The elaboration of a new PRSP based on a national dialogue has proceeded as scheduled, and a request for a PRGF arrangement would be made before the end of the year.*

Background and Overview

1. We thank the staff for their hard and persistent work over the past months, which has resulted in a balanced document brought for today's Board discussion. The government of Bolivia has been able to weather very harsh political and social conditions, which have undoubtedly impacted economic performance and still faces many risks. After having observed all quantitative performance criteria for end-September 2003, the events in October that led to a presidential change, which nevertheless followed Constitutional procedures, resulted in the nonobservance of four end-December 2003 QPCs. Two other SPCs were met, but with delay. For all these nonobservances, our Bolivian authorities request waivers. Nevertheless, the authorities have constantly demonstrated their willingness and ability to resolutely deal with the challenges facing them, within a framework of open dialogue and permanent consultation with the different social actors. With regard to the economic agenda, they have shown strong ownership of economic policies in line with the program objectives, and have repeatedly stood ready to implement any necessary corrective measures to stay in course. The current Stand-By Arrangement with the

Fund has constituted a very important anchor for agents' expectations. In this regard, my authorities regard the conclusion of the third review and the approval of the request for an augmentation and extension of the current arrangement through the end of the year as an essential support for the success of their economic policies.

2. To put things in perspective, we must remember that the current government took office in the midst of the deepest crisis of the country in more than two decades. The full benefits of the reforms implemented since the mid-eighties are still to be reaped, since from the late nineties a series of shocks had subsequently affected economic performance and produced reform fatigue, social discontent, and fragmentation. In this context, the government's efforts to build consensus and maintain fluent communication with the population has been paying off, as evidenced by the high ratings in the popularity of the President and, especially, the capacity to push through with important policy initiatives, although within a constrained degree of maneuver. As a result, the situation is more stable now, although we acknowledge that risks remain high. Given these circumstances, the program designed under the requested extended arrangement seeks to strike a balance between ensuring short-term stabilization and laying the foundations for medium-term policies aimed at supporting sustainable growth and poverty reduction.

Fiscal Policy and Debt Dynamics

3. Fiscal consolidation is the cornerstone of the government's economic policy, and the government has managed to implement significant measures despite sectorial and social pressures. Fiscal policy aims at consistently reducing the overall deficit over the medium-term. It envisages for 2004-06 a reduction of 4% of GDP, half of it in 2004, which would attempt to bring the deficit down from 8.1% of GDP in 2003 to 4.1% in 2006. In this respect, we want to acknowledge our authorities' gratitude to the donor community that has, once again, demonstrated its commitment to support Bolivia's stability, by increasing the amount of grants by 0.5% of Bolivia's GDP with respect to 2003, allowing the government's efforts to be successful in fully financing the program. Still, the reduction of the deficit net of grants for 2004 is equivalent to a sizable 1.4% of GDP.

4. On the revenue side, measures that would raise fiscal revenues by approximately 2% of GDP have already been implemented. A new Tax Code (0.3% of GDP) was approved by Congress in late 2003. A complementary Law to protect administrative procedures introduced by such Law has already been included into the Legislative Agenda; this was a necessary step following a ruling by the Constitutional Court, and its approval is a PC under the program. A revised Tax Bill (Law 843) expanding the coverage of taxes on hydrocarbons was also enacted last year (0.3% of GDP) and the tax regularization scheme (0.8% of DGP) has been instrumental in supporting tax revenues during the first half of the year. Additionally, a financial transactions tax (FTT) with a rate of 0.3% on debits and credits, has been introduced and will be applied starting in July (0.6% of GDP). Given its suspected distortionary effects, the authorities recognize the second-best nature of such a tax and hence it will have a two-year transitory nature at a decreasing rate (0.25% for the second year).

Additional reforms to the tax system are envisioned, aimed at replacing temporary tax measures and further increasing the tax revenue. A personal income tax is one of the options explored, which is why technical assistance has been requested to the Fund. In addition, a new Hydrocarbons Law, depending upon the referendum results, would result in higher taxes starting in 2005.

5. Overall expenditures will be slightly reduced (by 0.2% of GDP), despite expected increased expenses beyond the government's control, for an equivalent to 0.8% of GDP. The wage bill is being reduced by 0.2% of GDP, with wage restraint being a key element. Poverty reduction outlays are being prioritized and would increase by a significant 0.6% of GDP. Strong efforts will be devoted to improving the quality of expenditures in the medium-term, particularly those aimed at poverty reduction, as well as identifying priorities to enable the reduction in overall spending gradually through 2007 (PC). To such end, as part of the consensus building strategy of the government, a high-level commission of members from the civil society will be formed shortly in order to analyze and propose recommendations to such end. Such a commission would use the inputs provided by the recently concluded Public Expenditure Review by the IDB-World Bank.

6. The success of the fiscal program relies significantly not only on the increased amounts of grants and concessional financing pledged by bilateral donors and IFIs after successive rounds of meetings during the year, but also on the timely arrival of such resources, given the tightness of the Treasury cash flow at certain times of the year. Overall non-concessional financing would be limited to 1.6% of GDP, while net domestic financing would be capped at 1.9% of GDP, mainly through Treasury bond placements in the domestic market, which by the way have significantly picked-up in the last weeks, reaching its expected average levels for the year. As indicated in the staff report, net Central Bank financing would be limited, and any recourse to the Central Bank would be of transitory and exceptional. Finally, the authorities will remain attentive to any changes in market sentiment in order to provide the necessary responses to ensure adequate policy flexibility.

7. The analysis on debt sustainability updated by the staff continues to show, under the baseline scenario, a sustainable medium-term path, supported by fiscal consolidation efforts, a continuation of concessional financing, and increased hydrocarbons production either through an LNG or alternative projects. It is important to note, however, that any single shock considered under the stress scenarios would not be sufficiently strong to drive public debt indicators into an unsustainable path. For that to happen, a combination of several negative factors over a protracted period of time would have to take place. Such scenario, considered under Stress Test 1, is highly unlikely, since it would imply no policy reaction throughout the medium-term. Nevertheless, we want to reaffirm that the authorities are aware of the high levels of public debt levels, and therefore, of the importance of adequate policy implementation and prevention to avert undesired consequences.

Structural Reforms, Framework for Hydrocarbons and PRGF Request

8. The Bolivian authorities have continued to focus on the delicate situation of the banking and corporate sectors. With regards to the former, as indicated in the staff report, the action plan to deal with weak banks has been almost fully implemented, and the evolution of institutions is being closely monitored. Only one bank required of action by the government, taken within a sensible framework, including a proper due diligence process to determine the value of the institution, and a clear plan to re-privatize the institution within a two-year time frame. The creation of the public fund to strengthen the financial system, with World Bank support, and under a transparent set of rules will be an important element on the road forward to help preserve confidence in the system and deal with weak institutions in the future. Implementation of the FSSA recommendations has also proceeded smoothly. And, the establishment of a framework for dealing with corporate restructuring has gone forward. The Superintendence of Enterprises has been strengthened and pilot cases to test and improve the current legislation, where necessary, are being prepared in order to submit any proposals to Congress during the fourth quarter of the year, as part of the conditionality of the program.

9. The government has carefully designed a strategy to gain ample support for its hydrocarbons strategy, aimed at developing a fair and sustainable framework for the exploitation of those exhaustible resources in Bolivia. A National Referendum will be held in July 18, where the population will be directly consulted for authorization to proceed with the exploitation and exportation of those resources as well as to the convenience to pass a new hydrocarbons law. This bill would be submitted to Congress after the July referendum, including inputs from a commission of international experts and the World Bank, in order to guarantee the passage of the law that would ensure a sensible development of the Bolivian hydrocarbon resources, including the appropriate taxes to apply to the sector. Finally, on the path towards a PRGF arrangement, my authorities are finalizing a medium-term policy framework to sustain such a request. The national dialogue launched in November 2003 and expected to conclude by October 2004 has been proceeding according to schedule, and would enable to finalize a new Poverty Reduction Strategy Paper (PRSP) before year-end. The definition of the hydrocarbons policy and the results by the commission of experts on how to improve the efficiency of public expenditure are the other key elements conforming such a medium-term framework. My authorities plan to make such a request before the end of the year.