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BOLIVIA

Country Risk / Debt Service

Summary Analysis

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Bolivia
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Summary Analysis

Introduction

Since the beginning of the 1980s, Bolivia has been in a state of severe economic recession and hyperinflation. The civilian Siles government, which came to power in October, 1982 after eighteen years of military rule, presided over three years of falling gross domestic products, averaging about -4%, and the highest inflation rate in the world, which reached more than 20,000% in the twelve-month period ending August 1985. Although the official peso rate was devalued sharply against the dollar on six separate occasions during the Siles regime, the peso remained overvalued, because every reform package was followed by a government-mandated increase in wages. As a result, production declined precipitously in Bolivia's export industries. Bolivia's export position was further worsened by weak international demand for primary products and frequent labor disruptions. The current account was in deficit \$178 million in 1984, a figure which is also due to an increase in imports.

The contraction in economic activity has had a devastating impact on public sector financial operations. The fiscal deficit increased from 6.8% of the GDP in 1982 to 17% in 1985, a result of falling tax revenues and loosely controlled government expenditures. The abysmal economic climate also promoted the development of a strong black market, which was estimated to account for almost 50% of total economic activity. This parallel market included both contraband consumer goods and capital outflows and inflows from the illegal cocaine trade. The unofficial exchange rate stood at 1.2 million pesos to the dollar in 1985 (compared to the official rate of 75,000 pesos to the dollar).

At the end of 1984, the Bolivian government's external debt amounted to \$3.3 billion, while the private sector debt was estimated at \$560 million. Bolivia's foreign exchange earnings, through exports of goods and services, were not sufficient to service the foreign debt. Payments to private banks were halted in 1984.

Rampant corruption and illegal trafficking both in and outside the Bolivian government strained the political system. As unemployment climbed over 13% in 1985 social unrest developed. A new election was called, which brought to power a centrist government under the leadership of Paz Estenssoro. The new government, which took office on August 6, 1985, announced drastic measures to restore public confidence and bring about economic stability. These

measures include a new exchange rate adjustment mechanism (accompanied by a 93.2% devaluation of the Bolivian Peso), the authorization of banks and other financial institutions to offer dollar-denominated loans and deposits, the abolition of old import prohibitions and the replacement of high import tariffs with a flat 10% ad-valorem duty plus a variable duty up to 10% of the formerly prevailing tariff, a new wage and labor policy, price decontrol, and state enterprise decentralization. Although the economic picture has improved somewhat, the recovery is far from complete.

Balance of Payments:

The stringent government controls which maintained an overvalued exchange rate hurt Bolivian exporters. This caused Bolivia's external position to deteriorate drastically over the past six years. Merchandise exports dropped from \$942 million to an estimated \$583.65 million in 1984. A large portion of these exports consisted of natural gas exports to Argentina. Other major Bolivian exports are tin, lead, tungsten, zinc and other metals as well as such agricultural products as sugar, coffee, and timber. Only 4% of Bolivia's exports were finished manufactured goods. Production of most of these items declined in the past six years as the international demand for primary products declined.

The new economic program announced by the government should stimulate exports in 1986. The market for Bolivian exports, however, is rather mixed. Tin prices fell

following the fall of the International Tin Agreement in October 1985, but the recent frost in Brazil has driven up coffee prices substantially. As a result of these adjustments, it is estimated that the f.o.b. values of merchandise exports for 1986 will be \$583.65 million.

With the removal of administrative controls on imports, the level of imports is essentially a function of the level of economic activity. The main aim of the new economic measures is to promote higher levels of output, income, and employment, which should result in merchandise imports, which have been decreasing steadily over the past six years, to pick up. However, this trend has been accompanied by the recent fall in the dollar relative to other world currencies, which produced sharply higher (dollar) prices for Bolivian imports in the second half of 1985. The accumulated impact will result in rising imports in 1986.

In order to produce the expected rate of real growth of 3.5% in 1986, merchandise imports will be \$653.3 million (merchandise and services being estimated at \$1250 million). The current account deficit is likely to reach \$192.8 million in 1986, not a substantial change from the previous two years.

Debt Service:

Of the debt service due in 1985 (apart from arrears from previous years), 26.0% is owed to multilateral institutions, 46.7% to bilateral creditors, 27.3% to private creditors without official guarantees (of which 25.6% is to

foreign commercial bankers). Of the arrears accumulated as of the end of June 1985, 89.3% was owed to private creditors, 3.3% to multilateral institutions, and 7.4% to bilateral donors. To overcome these debt service problems, rescheduling of the loans is required so that Bolivia can repay the loans and still have sufficient import capacity needed for significant growth. Private creditors will clearly have to agree to a long-term rescheduling of current amortization and all principal and interest in arrears.

International Reserves:

Because of the chronic current account deficits experienced during the last years, the level of international reserves has been low, although still within the acceptable range. Due to increased imports in 1986, it is estimated that the reserves will be 4.36 months of imports; reserves equal to or greater than three months of imports are generally considered acceptable.

Inflation and Exchange Rate:

The unwillingness to maintain a reasonable exchange rate or to hold down wages was one of the main reasons that Bolivia's balance of payments deteriorated. Under the exchange system announced by the new government, the official rate is to be adjusted at least twice weekly. This is done through auctioning of its foreign exchange by the Central Bank. In addition to providing for twice weekly adjustments to the official exchange rate, the government's

decree legalized the parallel foreign exchange market. Although, this represents a substantial liberalization of the exchange system, it stops short of eliminating the official exchange rate altogether.

The initial result of this system was to move the official exchange rate from 75,000 pesos to 1.1 million pesos per dollar, a 93.2% devaluation. Inflation has also fallen from a per annum rate of 4,350% in August 1985 to 146% as of January 1986. Prices have stabilized or dropped and the money supply has been reduced from \$115 million to \$88.5 million.

Import Incompressibility:

As an oil producer, Bolivian fuel imports have been very low and are expected to remain so. The food imports, have remained more or less at a constant level and are expected to follow the same pattern, i.e. in the range of 13 to 15% of total imports. Food and fuel imports together constitute about 14 to 15% of Bolivia's total imports.

Summary and Outlook:

With the new government in office and new economic measures being adopted, there is a definite attempt on the part of the government to stabilize the economy and improve its balance of payments. All of the provisions of the new economic program have been implemented or are in the process of implementation, and further public sector wage restraints

have been authorized. The outlook for 1986 through 1989 is given below.

	(In Millions of U.S. \$)			
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Exports	950	1050	1100	1150
Imports	1250	1200	1250	1250
Transfers	107	100	100	100
Current Account	(193)	(50)	(50)	(0)
Debt Service Ratio*				
(a) public	49%	45%	37%	35%
(b) public and private	60%	57%	48%	45%

* Shown debt service ratio after rescheduling.

The government of Bolivia has negotiated a standby arrangement with the IMF and is in the process of negotiating new terms for its outstanding debt with other creditors--the Paris Club and commercial banks. But despite substantial progress, the ultimate success of the Bolivian program remains in question. Lower wages have antagonized public sector workers. The balance of payments continues in deficit. Sharply lower tin prices and volumes, a failure of other minerals to recover, and an expected reduction in natural gas sales given the current oil glut have reduced exports more than \$100 million. While we forecast improvements in the Bolivian economic outlook, we do not anticipate substantial improvement in Bolivia's capability of repaying its debt to occur for three or four years

Therefore, given that AID Housing Guarantee Loans of \$3 million are in arrears, we would recommend that if any additional loans are intended to be given, they ought to (a) be conditional to the repayment of the arrears (b) have a grace period of four to five years. Otherwise these loans may face repayment difficulties in the future.

BOLIVIA

45.50

CURRENT ACCOUNT
(MILLIONS US \$)

YEAR	EXPORTS GOODS & SERVICES	IMPORTS GOODS & SERVICES	TRANSFERS NET S-T	CURR. ACCT. BALANCE	CURR. ACCT./ EXPORTS %
1979	857.50	1267.40	52.00	-357.80	-41.72
1980	1058.60	1232.80	56.00	-118.20	-11.17
1981	1028.60	1354.20	38.60	-287.00	-27.90
1982	921.90	1058.90	44.20	-92.80	-10.07
1983	881.90	1137.90	105.40	-150.60	-17.08
1984 1ST H.	418.55	551.80	43.90	-178.70 (a)	-21.35
1984 2ND H.	418.55	551.80	43.90	-178.70 (a)	-21.35
1984	837.10	1103.60	87.80	-178.70	-21.35
1985 1ST Q.	225.00 (a)	275.00 (a)	24.60 (a)	-101.60 (a)	-11.29
1985 2ND Q.	225.00 (a)	275.00 (a)	24.60 (a)	-101.60 (a)	-11.29
1985 3RD Q.	225.00 (a)	275.00 (a)	24.60 (a)	-101.60 (a)	-11.29
1985 4TH Q.	225.00 (a)	275.00 (a)	24.60 (a)	-101.60 (a)	-11.29
1985	900.00 (a)	1100.00 (a)	98.40 (e)	-101.60 (e)	-11.29
1986 1ST Q.	237.50 (a)	312.50 (a)	26.80 (a)	-192.80 (a)	-20.29
1986 2ND Q.	237.50 (a)	312.50 (a)	26.80 (a)	-192.80 (a)	-20.29
1986 3RD Q.	237.50 (a)	312.50 (a)	26.80 (a)	-192.80 (a)	-20.29
1986 4th Q.	237.50 (a)	312.50 (a)	26.80 (a)	-192.80 (a)	-20.29
1986	950.00 (e)	1250.00 (e)	107.20 (e)	-192.80 (e)	-20.29

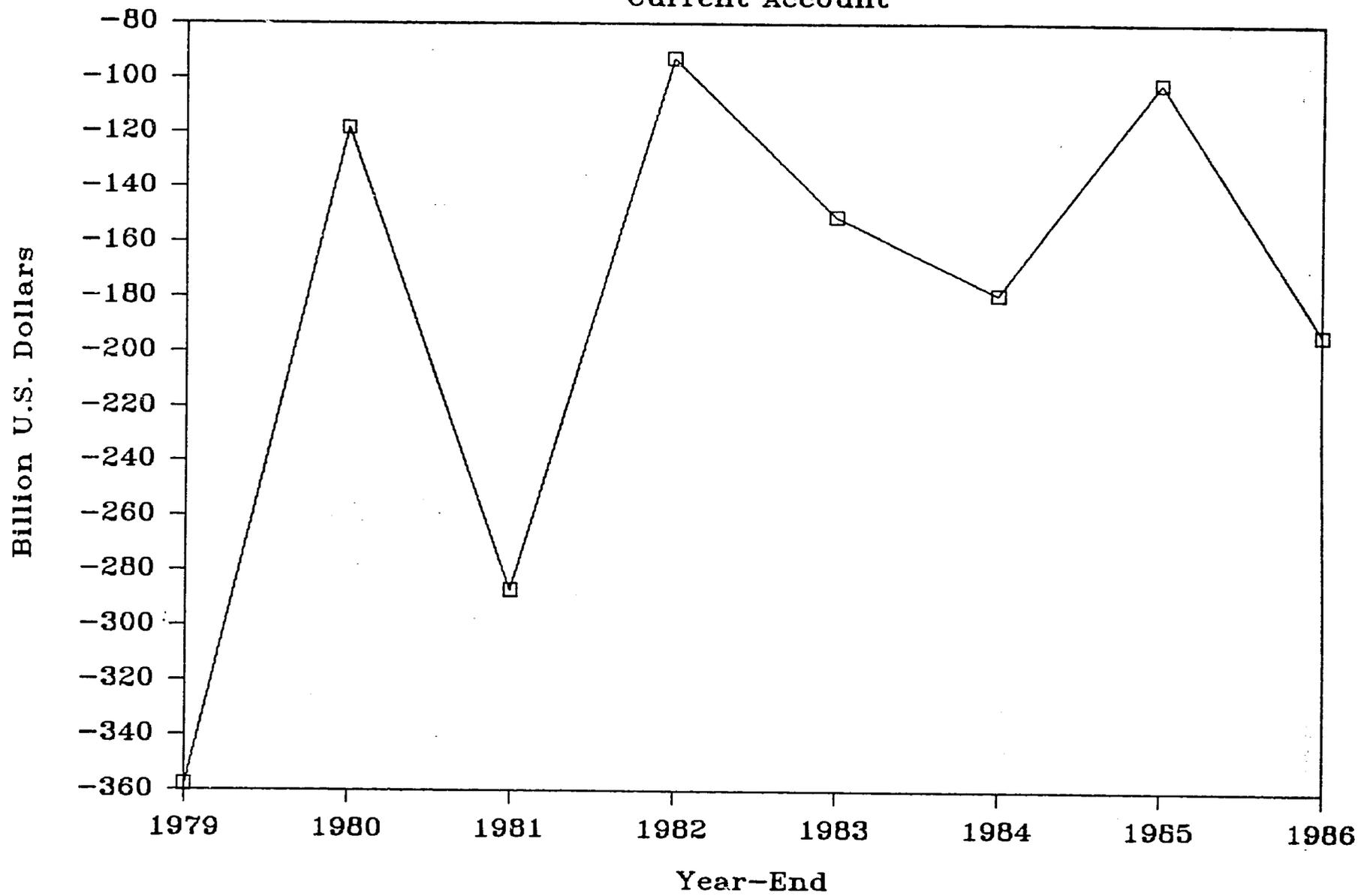
All data from IFS, April 1986.

(e)=estimate

(a)=annualized

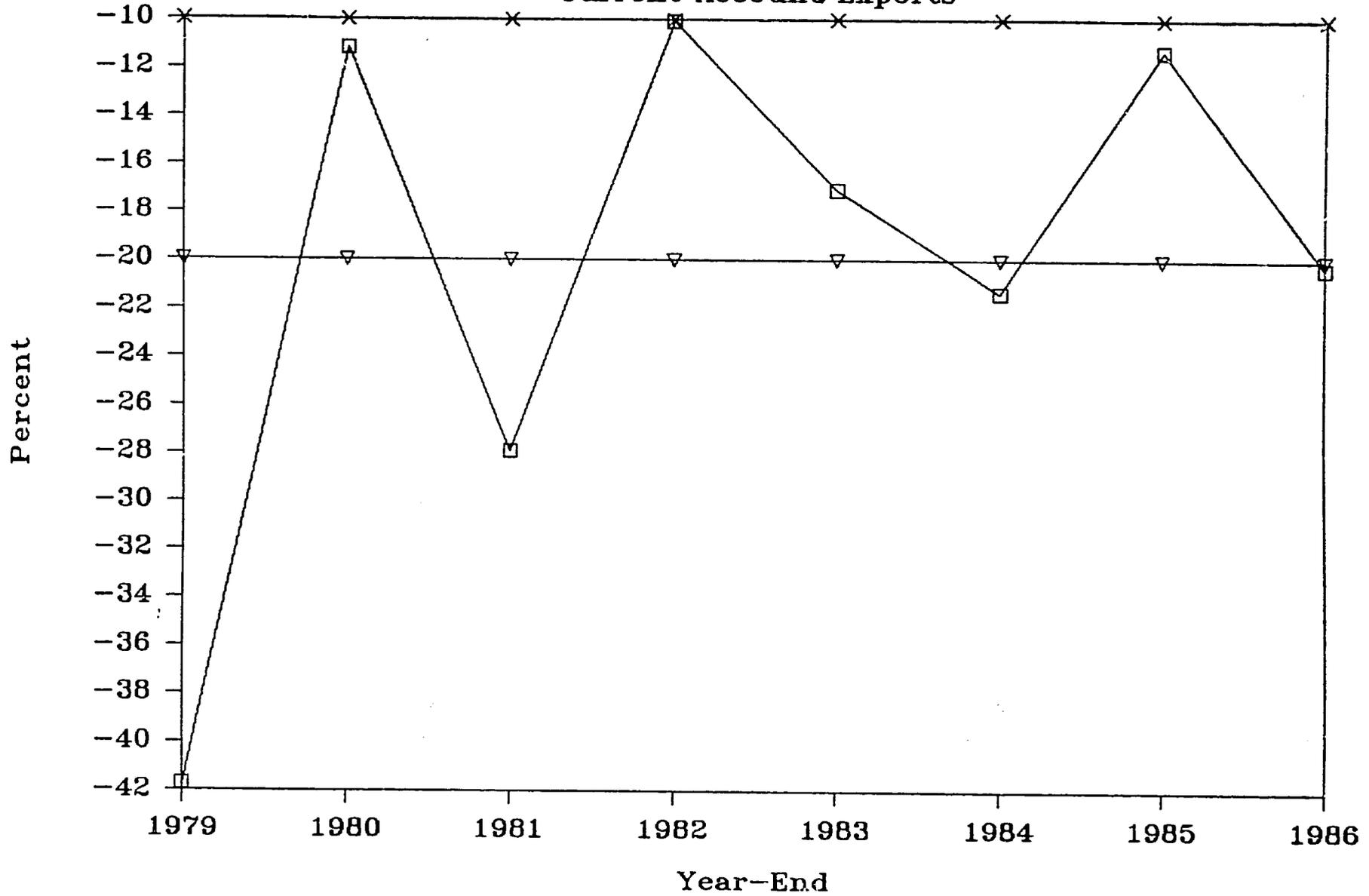
BOLIVIA

Current Account



BOLIVIA

Current Account/Exports



BOLIVIA

YEAR	-PUBLIC ONLY					-PUBLIC AND PRIVATE				
	DEBT PAYMENTS	SERVICE PAYMENTS	RATIO TOTAL DEBT SERVICE	EXPORTS	DEBT SER RATIO	DEBT PAYMENTS	SERVICE PAYMENTS	RATIO TOTAL DEBT SERVICE	EXPORTS	DEBT SERV RATIO
1979	148.00	121.60	269.60	857.60	31.44	180.56	148.35	328.91	957.60	38.35
1980	124.10	163.70	287.80	1058.60	27.19	151.40	199.71	351.12	1058.60	33.17
1981	104.00	166.50	270.50	1028.60	26.30	126.88	203.13	330.01	1028.60	32.03
1982	95.00	165.20	260.20	921.90	28.22	115.90	201.54	317.44	921.90	34.43
1983	101.80	165.10	266.90	881.90	30.26	124.20	201.42	325.62	881.90	36.92
1984 1ST H.	302.75	93.70	396.45	419.55	94.72	369.36	114.31	483.67	419.55	115.56
1984 2ND H.	302.75	93.70	396.45	419.55	94.72	369.36	114.31	483.67	419.55	115.56
1984	605.50	187.40	792.90	837.10	94.72	738.71	228.63	967.34	837.10	115.56
1985 1ST Q.	77.50	36.40	113.90	225.00 (e)	50.62	104.60	44.41	149.01	225.00 (e)	66.23
1985 2ND Q.	77.50	36.40	113.90	225.00 (e)	50.62	104.60	44.41	149.01	225.00 (e)	66.23
1985 3RD Q.	77.50	36.40	113.90	225.00 (e)	50.62	104.60	44.41	149.01	225.00 (e)	66.23
1985 4TH Q.	77.50	36.40	113.90	225.00 (e)	50.62	104.60	44.41	149.01	225.00 (e)	66.23
1985	310.00	145.60	455.60	900.00 (e)	50.62	418.50	177.60	596.10	900.00 (e)	66.23
1986 1ST Q.	82.03	35.13	117.15	237.50 (e)	49.33	102.30	40.30	142.60	237.50 (e)	60.04
1986 2ND Q.	82.03	35.13	117.15	237.50 (e)	49.33	102.30	40.30	142.60	237.50 (e)	60.04
1986 3RD Q.	82.03	35.13	117.15	237.50 (e)	49.33	102.30	40.30	142.60	237.50 (e)	60.04
1986 4th Q.	82.03	35.13	117.15	237.50 (e)	49.33	102.30	40.30	142.60	237.50 (e)	60.04
1986	328.10	140.50	468.60	950.00 (e)	49.33	409.20	161.20	570.40	950.00 (e)	60.04

1979-85 Public Debt Service from World Debt Tables, 1985-86.

1986 public debt service figures are World Debt Table projections.

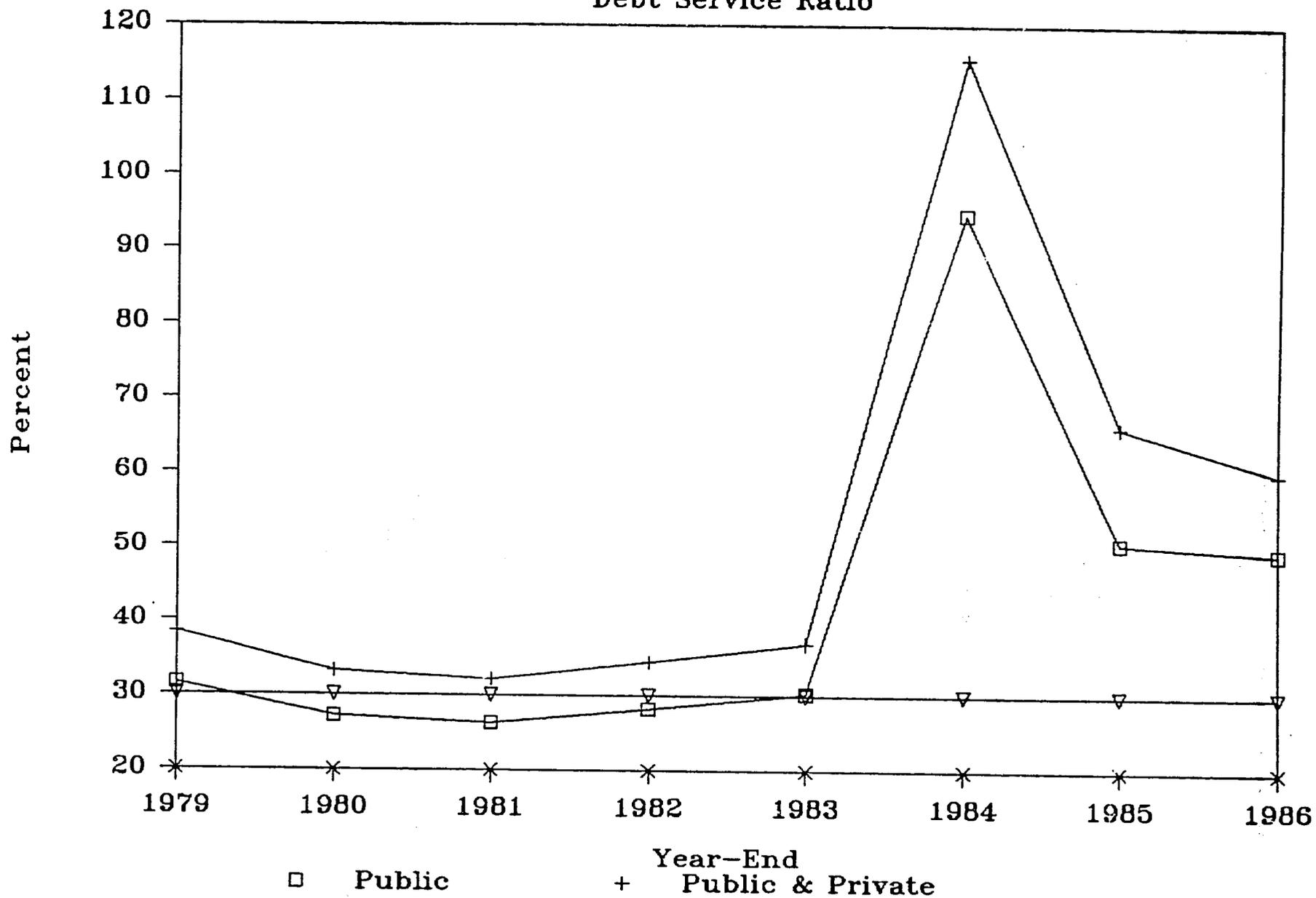
1978-85 private debt service estimates based on Morgan Guaranty data.

(e) = estimate

N.A. = not available

BOLIVIA

Debt Service Ratio



BOLIVIA

RESERVES / IMPORTS
(MILLIONS US \$ END OF PERIOD EXCEPT IMPORTS)

YEAR	RESERVES LESS GOLD	GOLD-MILLION TROY OUNCES	GOLD-MKT PRICE EOP LONDON	GOLD RESERVES	TOTAL RES. INCL. GOLD	IMPORTS	RES. AS % OF IMPORTS	RES. IN MOS OF IMPORTS
1979	178.20	0.89	455.20	310.90	489.10	1267.40	38.59	4.63
1980	106.10	0.76	595.20	451.76	557.86	1232.80	45.25	5.43
1981	99.80	0.83	410.70	340.47	440.27	1354.20	32.51	3.90
1982	155.90	0.89	444.00	395.16	551.06	1059.90	52.04	6.24
1983	160.10	0.91	385.10	351.98	512.08	1137.90	45.00	5.40
1984 1ST H.	212.80	0.93	378.70	353.71	566.51	1103.60 (a)	51.33	6.16
1984 2ND H.	251.60	0.91	309.00	282.12	533.72	1103.60 (a)	48.36	5.80
1984	251.60	0.91	309.00	282.12	533.72	1103.60	48.36	5.80
1985 1ST Q.	176.60	0.89	329.25	294.35	490.95	1100.00 (a)	44.63	5.36
1985 2ND Q.	144.40	0.89	316.25	282.73	427.13	1100.00 (a)	38.83	4.66
1985 3RD Q.	176.10	0.89	329.25	294.35	470.45	1100.00 (a)	42.77	5.13
1985 4TH Q.	200.00	0.89	327.25	292.56	492.56	1100.00 (a)	44.78	5.37
1985	200.00	0.89	327.50	292.79	492.79	1100.00 (e)	44.80	5.38
1986 1ST Q.	150.00 (e)	0.87 (e)	350.00 (e)	304.50	454.50	1250.00 (a)	36.36	4.36
1986 2ND Q.	150.00 (e)	0.87 (e)	350.00 (e)	304.50	454.50	1250.00 (a)	36.36	4.36
1986 3RD Q.	150.00 (e)	0.87 (e)	350.00 (e)	304.50	454.50	1250.00 (a)	36.36	4.36
1986 4th Q.	150.00 (e)	0.87 (e)	350.00 (e)	304.50	454.50	1250.00 (a)	36.36	4.36
1986	150.00 (e)	0.87 (e)	350.00 (e)	304.50	454.50	1250.00 (e)	36.36	4.36

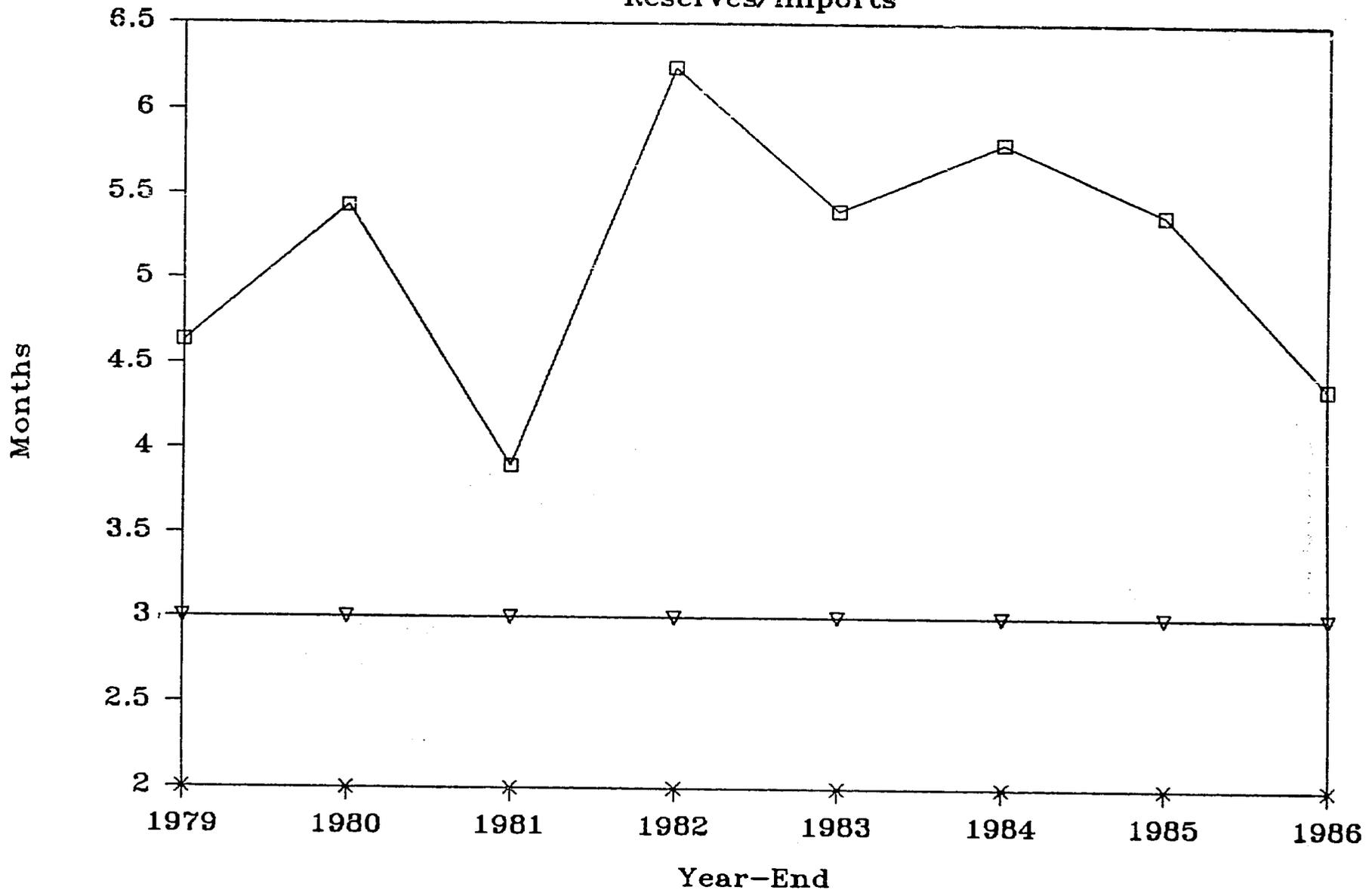
All reserve data from IFS, April 1986.

(e)=estimate

(a)=annualized

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Reserves/Imports



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BOLIVIA

IMPORT INCOMPRESSIBILITY

YEAR	FUEL IMPORTS		FOOD IMPORTS		FOOD AND FUEL AS % OF TOTAL IMPORTS
	% OF IMPORTS	US\$ MILLIONS	% OF IMPORTS	US\$ MILLIONS	
1979	1.45	18.39	12.90	163.49	14.35
1980	1.99	24.41	13.20	162.73	15.18
1981	1.79	24.10	13.10	177.40	14.88
1982	1.60	16.94	12.90	135.54	14.40
1983	1.45	16.50	12.76	145.20	14.21 (e)
1984 1ST H.	1.35 (a)	14.99	12.75 (a)	140.71	14.10 (a)
1984 2ND H.	1.32 (a)	14.57	12.98 (a)	143.25	14.30 (a)
1984	1.34 (e)	14.73	12.87 (e)	141.98	14.20 (e)
1985 1ST Q.	1.32 (a)	14.52	13.30 (a)	146.30	14.62 (a)
1985 2ND Q.	1.29 (a)	14.19	13.20 (a)	145.20	14.49 (a)
1985 3RD Q.	1.28 (a)	14.08	13.40 (a)	147.40	14.68 (a)
1985 4TH Q.	1.20 (a)	13.20	13.40 (a)	147.40	14.60 (a)
1985	1.27 (e)	14.00	13.33 (e)	146.58	14.60 (e)
1986 1ST Q.	1.20 (a)	15.00	13.45 (a)	168.13	14.65 (a)
1986 2ND Q.	1.20 (a)	15.00	13.45 (a)	168.13	14.65 (a)
1986 3RD Q.	1.15 (a)	14.38	13.60 (a)	170.00	14.75 (a)
1986 4th Q.	1.10 (a)	13.75	13.60 (a)	170.00	14.70 (a)
1986	1.16 (e)	14.53	13.53 (e)	169.06	14.69 (e)

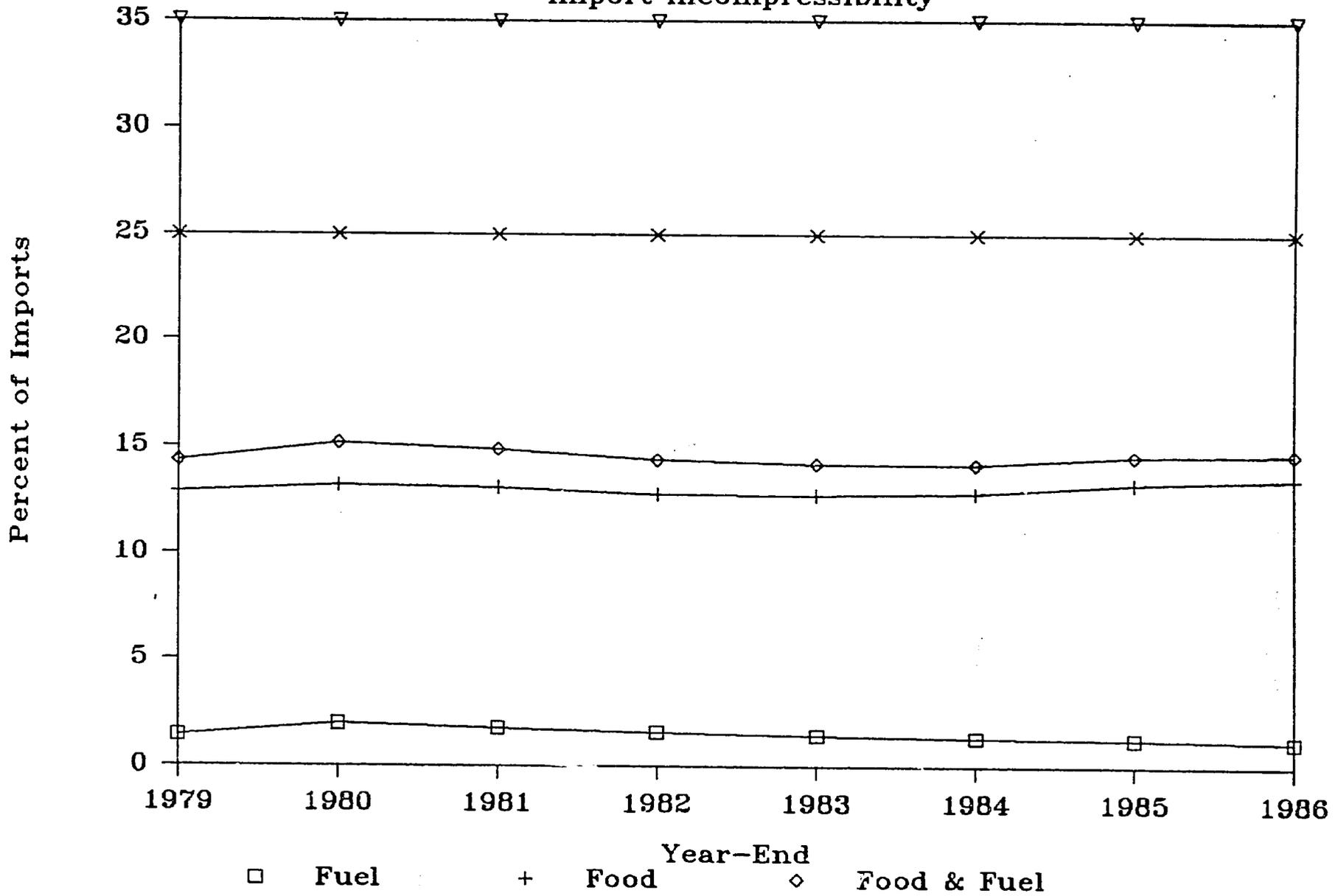
All data except estimates from IMF Supplement on Trade Statistics, 1982.

(e)=estimate

(a)=annualized

BOLIVIA

Import Incompressibility



BOLIVIA

VULNERABILITY INDEX

YEAR	IMPORTS	SHORT-TERM DEBT	RESERVES	EXPORTS	INDEX
1979	1267.40	993.00 (e)	178.20	857.60	241.63
1980	1232.80	983.00 (e)	106.10	1058.50	199.29
1981	1354.20	983.00	99.80	1028.60	217.52
1982	1058.90	983.00	155.90	921.90	204.58
1983	1137.90	983.00	160.10	881.90	222.34
1984 1ST H.	1103.60 (a)	983.00 (a)	212.80	837.10 (a)	223.84
1984 2ND H.	1103.60 (a)	983.00 (a)	251.60	837.10 (a)	219.21
1984	1103.60	983.00	251.60	837.10	219.21
1985 1ST Q.	1100.00 (a)	983.00 (a)	196.60	900.00 (a)	209.60
1985 2ND Q.	1100.00 (a)	983.00 (a)	144.40	900.00 (a)	215.40
1985 3RD Q.	1100.00 (a)	983.00 (a)	176.10	900.00 (a)	211.98
1985 4TH Q.	1100.00 (a)	983.00 (a)	200.00	900.00 (a)	209.22
1985	1100.00 (a)	983.00	200.00	900.00 (e)	209.22
1986 1ST Q.	1250.00 (a)	983.00 (a)	150.00 (e)	950.00 (a)	219.26
1986 2ND Q.	1250.00 (a)	983.00 (a)	150.00 (e)	950.00 (a)	219.26
1986 3RD Q.	1250.00 (a)	983.00 (a)	150.00 (e)	950.00 (a)	219.26
1986 4th Q.	1250.00 (a)	983.00 (a)	150.00 (e)	950.00 (a)	219.26
1986	1250.00 (e)	983.00 (e)	150.00 (e)	950.00 (e)	219.26

All data except short-term debt from IFS, April 1986.

Short-term debt from BIS Maturity Distribution of International Bank Lending.

Reserves do not include gold.

(a)=annualized

(e)=estimate

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Vulnerability Index

