THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

BOLIVIA

Final Document on the Initiative for the Heavily Indebted Poor Countries (HIPC)

Prepared by the Staffs of the Fund and the IDA[1]
In consultation with the Staff of the Inter-American Development Bank

August 27, 1997

I. INTRODUCTION

1. This paper presents a final assessment of Bolivia's eligibility for assistance under the Heavily Indebted Poor Countries (HIPC) Initiative. In the discussions in the IDA and Fund Boards on the preliminary HIPC Initiative documents,[2] Executive Directors agreed that Bolivia was eligible for assistance under the HIPC Initiative and that a decision point could be reached by mid-1997. Directors of the Fund expected that understandings on the third-year annual program under the ESAF would be concluded by the decision point. Most Directors of both institutions supported a completion point of no later than mid-1998, one year after the proposed decision point, with many of them agreeable to end-1997. Some other Directors favored a period of between one and a half to two years between the decision and completion points, and a few favored a period of two years or longer. Directors stressed the importance of specifying critical structural and social policies that would be needed to arrive at the completion point. Most Directors agreed that the target for the net present value (NPV) of Bolivia's external public debt and publicly guaranteed debt should fall in the lower end of the range of 215-235 percent of exports, and several of them could support a target of 200 percent of exports. Some other Directors commented that the debt sustainability target should be in, or possibly above, the upper end of the 215 to 235 percent range.

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[2]The preliminary documents were issued on March 24, 1997 in the Fund as EBS/97/49, and in the IDA as IDA/SECM97-93. Executive Board discussions on Bolivia's case were held in the IDA on April 15, 1997 and in the Fund on April 17, 1997.

2. This paper is organized as follows. Section II presents a brief summary of the debt sustainability analysis (DSA) presented in the preliminary HIPC document. Section III reviews the details of Bolivia's track record under Fund- and IDA-supported programs since 1985. Section IV outlines the major remaining structural reforms to be implemented under Fund- and IDA-supported programs, including social development criteria that would be monitored during the interim period. Section V reports on the consultations with Bolivia's creditors and their commitments to deliver on the intended assistance by the completion point. Section VI presents the recommendations for debt sustainability targets and debt relief. Section VII presents issues for discussion.

II. SUMMARY OF DEBT SUSTAINABILITY ANALYSIS

3. The long-term balance of payments prospects for Bolivia are described in detail in the preliminary HIPC Initiative documents for Bolivia. This section summarizes the key assumptions and conclusions of the DSA.

4. The long-term projections agreed with the authorities are based on the continuation of strong macroeconomic policies and broad-based structural reforms. It was assumed that economic growth would pick up over the 20-year projection period of the DSA, led by higher private investment and exports (Table 1), while inflation would decline to even more moderate levels than at present by the end of this decade. The external current account deficit would rise over the next several years, reflecting a temporary surge in imports associated with foreign direct investment in the recently capitalized/privatized enterprises.[3] Early in the next decade, the deficit would settle at levels that could be financed mostly by sustainable private inflows, as exports would rise by about 6 to 6.5 percent a year and import growth would level off. The combined public sector deficit was assumed to move broadly in line with the

[3]Under capitalization, private investors acquire a 50 percent interest and management control of public enterprises in return for a commitment to undertake capital expenditure equivalent to the enterprise's net worth. The remaining 50 percent of shares are distributed among the population.

availability of net external financing, which was projected to decline steadily from about 3 percent of GDP in 1996 to 1.5 percent of GDP by 2000 and 1 percent of GDP by 2010. The average grant element of this financing was expected to decline considerably over the next five years, and net repayments of concessional external financing would start early next decade.

5. Based on these assumptions and minor data revisions, the NPV of Bolivia's external public and publicly guaranteed debt is projected to fall from 270 percent of the three-year export average at end-1996 to 238 percent by 1999 and to 143 percent of exports in the period 2011-16 (Table 2).[4] The decline in the NPV ratio over the next four years would occur in part because of sizable net amortization payments. Public and publicly guaranteed external debt service in relation to current-year exports would decline from an average of about 26 percent in 1997-98 to 24 percent in 2000, and continue to fall gradually to 16 percent by 2016.

6. Bolivia is among the least vulnerable of a reference group of 24 highly indebted poor countries, but this less vulnerable position partly reflects the fact that Bolivia is among the most advanced of these countries in the reform process. More importantly, the sensitivity exercise presented in the preliminary HIPC document showed that Bolivia's external sector still remains vulnerable to exogenous shocks. For example, metal exports still account for 40 percent of Bolivia's exports, and a repeat of the significant decline in the world price of metals that Bolivia has experienced twice since 1985 would push Bolivia's external debt and debt service outlook back into a worrisome position. Bolivia also has a substantial stock of private nonguaranteed external debt, which makes it more vulnerable to fluctuation in world financial markets than most HIPC countries.

III. BOLIVIA'S TRACK RECORD

7. In the discussion of the preliminary HIPC document in the Fund's Executive Board, several Directors asked that the final HIPC document include a full assessment of Bolivia's track record, in particular the nature of waivers granted under the SAF and ESAF arrangements. In their view, this information would give some basis for determining the length of the second stage, the period between the decision and the completion points, that would be appropriate for Bolivia.

[4] In the preliminary HIPC document, these NPV ratios were 266 percent for 1996, 230 percent for 1999, and 129 percent for 2016.

8. The most important element of the track record has been the complete transformation of the macroeconomic environment and the structure of the economy since 1985. Before the adjustment effort began in September 1985, the state had come to play a central role in the production of most goods and services, particularly in the mining and hydrocarbons sectors, and accounted for 26 percent of nonagricultural employment in 1984. There were highly distortionary pricing policies, centralized wage negotiations, credit rationing and controlled interest rates, and extensive exchange and trade restrictions. Macroeconomic management had become increasingly unstable, with a sharp increase in the overall public sector deficit from 8 percent of GDP in 1981 to 28 percent of GDP in 1984, mostly financed by money creation as net external financing had dried up. By September 1985, inflation reached 23,500 percent, external payments arrears mostly owed to private creditors stood at US$1 billion (20 percent of GDP at the time), external public debt was 540 percent of exports, the spread between the unofficial and official exchange rates was 1,300 percent, and real GDP had declined by a cumulative 10 percent in the preceding five years.

9. Bolivia's economic programs since 1985 have been anchored by strong macro-economic policies designed first to achieve and then maintain macroeconomic stability.[5] Fiscal policy has aimed at avoiding central bank financing of the nonfinancial public sector, by limiting the government deficit to roughly the level of expected concessional external financing. The overall public sector deficit was reduced to 4 percent of GDP in 1986, and by 1995-96, the deficit had declined to less than 2 percent of GDP; over this period revenue rose sharply in relation to GDP while expenditures remained broadly stable (Figure 1). Credit policy was restrained, while exchange rate policy helped preserve external competitiveness.

10. Bolivia has also implemented a comprehensive program of structural reforms (Table 3). These included the lifting of price and interest rate controls; a comprehensive tax reform; public enterprise restructuring; liberalization of the exchange and trade system, including the adoption of a low and uniform external tariff; the closure of all state-owned banks; the elimination of the quasi-fiscal deficit and recapitalization of the central bank; the passage of mining and hydrocarbons and investment laws that permitted joint ventures in

[5] These programs have been supported by Fund arrangements and IDA structural adjustment credits since 1986. The first Fund arrangement was a SBA approved in June 1986, and the first IDA adjustment credit was approved in May 1986. The Fund approved a SAF arrangement for Bolivia in December 1986, followed by its first three-year ESAF arrangement approved in July 1988 and its second three-year ESAF arrangement approved in December 1994. IDA adjustment credits were approved in June 1988, February 1989, September 1991 and July 1995.

these sectors; the capitalization of five of six major public enterprises;[6] the privatization of almost all small public enterprises; popular participation and administrative decentralization;[7] education reform; the establishment of central bank independence; the strengthening of financial system supervision; and the 1996 pension reform that privatized the pension system in mid-1997.

11. These structural measures have been supplemented by policies to improve social conditions in Bolivia. Social spending by the public sector increased substantially in relation to GDP between 1986 and 1996, as the result of several programs. In 1987 the Emergency Social Fund was established to cushion the effect of the stabilization program by generating employment for workers. The education reform that began in 1991 aimed to raise the average education level of the population, and the Ministry of Human Development was reorganized in 1993. In the past year, the government initiated several new social sector programs, including the Mother and Child Insurance Program and the establishment of technical teams to develop a comprehensive health sector reform and a comprehensive policy for early childhood education.

12. Social indicators have generally improved over the past two decades, reflecting these efforts as well as the effect of steady economic growth in the past decade. Despite this progress, most social and poverty indicators in Bolivia remain weaker than the average for

[6] Two of the capitalizations did not involve the entire enterprise. The production, exploration, and transportation units of the state petroleum company (YPFB) were transferred to the private sector, while the refineries and distribution network remained in YPFB. Railroad tracks, railway stations, and considerable other real estate together with remaining employees of the state railway company (ENFE) stay in the public sector. Some units of the state electricity company (ENDE) also remained in the public sector and are to be privatized.

[7] This reform transferred a number of responsibilities, including a significant share of expenditure, from the central to the local governments.

Latin America and are close to the levels observed in Sub-Saharan Africa. Social conditions are especially acute in rural areas, where 90 percent of the population still lives in poverty.

Social Indicators, 1975-96

Indicator	1975	1985	1996
Education			
Overall Illiteracy Rate	40	26	23
Female Illiteracy Rate	...	35	30
Health			
Infant Mortality (per 1,000 live births)	151	102	69
Total Fertility Rate (live births per woman)	6.5	5.5	4.4
Life Expectancy (years)	46.8	51.9	59.0
Population with access to safe water (in percent)	39.0	44.0	55.0

Sources: World Bank; and UNDP.

13. Economic conditions improved markedly since the mid-1980s, and by early 1997 Bolivia had achieved a considerable degree of macroeconomic stability. Inflation had fallen from 18 percent in 1990 to 8 percent in 1996. The external debt burden—while still high—had improved substantially, reflecting a number of debt operations, and the international reserve cushion was more comfortable. The structural reforms of the previous 11.5 years had removed most of the distortions that affected the economy in the early 1980s. Based on recent Fund staff studies for the review of ESAF program, Bolivia has among the best records for many structural performance indicators.[8] Unfortunately, economic growth averaged only 4 percent in the period 1988-96, possibly reflecting a strong decline in the terms of trade and sluggish growth in private investment through 1995. Nonetheless, private investment picked up considerably in 1996, and now that the process of extensive structural reform is nearly complete, the prospects for growth are substantially better.

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[8]See the Review of Experience under ESAF Programs Summary Report (EBS/97/112, 6/23/97) and Supplement 1, 7/2/97. Comparing the outcome of structural reforms across countries is subject to many difficulties, as explained in this report.

14. It is not surprising that over a decade was required to implement such comprehensive reforms, largely because of the need to sequence reforms properly and to build an internal consensus for the reforms. With regard to public enterprise restructuring, for example, public enterprises were first put on a firm financial footing in the late 1980s mainly through price increases and employment cutbacks. Subsequently, laws were changed early this decade to create a climate that was conducive to private investment in those sectors where public enterprises operated, allow the formation of joint ventures between public and private enterprises, and to authorize the sale of public assets. Finally, privatization began in 1992 followed by the capitalization process of 1995-97. In the financial sector, interest rate and credit controls were lifted first, followed by a learning period for banks in allocating credit according to market signals. The government first attempted to reorganize the state banks, but subsequently closed the banks after their problems persisted. There have been two rounds of dealing with financial difficulties in some private banks, as banking supervision strengthened and the sector learned to operate effectively in a freer regulatory environment.

15. Notwithstanding the comprehensiveness of the changes that have been introduced, there have been only occasional pauses in the reform effort. The IDA adjustment credits have not involved any waivers although in some cases tranche releases occurred later than originally envisaged (Table 4). During the 11 years of ESAF arrangements, Bolivia required a total of five waivers of performance criteria and experienced three interruptions of ESAF-supported programs (defined as a gap of six months or more between the end of an annual arrangement and Board approval of the subsequent arrangement) (Tables 5 and 6). All disbursements under the SAF and ESAF arrangements were made and all midterm reviews were completed. In two instances the waivers involved the nonobservance of quantitative performance criteria, and in both cases policies returned to the original program path relatively quickly. The waivers also involved brief delays in adopting structural measures, but these measures eventually were taken as envisaged in the program. The first two ESAF-supported program interruptions were considerably shorter than the average for ESAF programs, and resulted from severe adverse external shocks. Fund staff and the authorities engaged in continuous negotiations during both periods to define the appropriate policy response. Moreover, during these interruptions a number of key fiscal and other policy measures were adopted well in advance of the date of Board approval of the new arrangements. Only the third interruption represented a significant break in the momentum of the policy effort, as the public sector incurred large expenditure overruns in the run up to the June 1993 presidential elections.

IV. POLICY REFORMS AND CONDITIONALITY

16. The HIPC operation is to be based on continued strong macroeconomic and structural policies, and these policies will be monitored through the third annual arrangement under the ESAF arrangement covering the period September 1997-September 1998 and the IDA capitalization program adjustment credit (CPAC). Fund Board approval of the third annual ESAF arrangement would be necessary to reach the decision point. For a completion point in September 1998, Bolivia would need to (i) complete the midterm review under the third annual arrangement and (ii) secure Fund Board approval of a new three-year ESAF arrangement or of a fourth annual arrangement under the current ESAF. For a completion point in September 1999, Bolivia would also need to (i) complete the mid-term review under the new annual arrangement supported by the ESAF and (ii) secure Fund Board approval of another annual arrangement under the ESAF. For any completion point, it would also need to implement the social development policies as envisaged under the HIPC Initiative (see Table 8) and observe the social development targets envisaged under IDA- and IDB-supported credits.

17. Under the third annual ESAF-supported program, Bolivia is expected to maintain strong macroeconomic policies and to complete the structural reforms that currently are under way, especially the capitalization of public enterprises and the strengthening of financial supervision and public sector management. In addition, the scope of structural reforms will be broadened to include the development of a local capital market and improve labor market efficiency. The government that took office on August 6 supported with only very minor modifications the economic program for the third-year annual ESAF arrangement, that was negotiated with the previous government.[9]

18. Based on these policies, economic growth is expected to rise to 5 percent in 1997 and to 5.5 percent in 1999, while inflation would decline to 7 percent in 1997 and to 6 percent in 1999 and international reserves would rise slightly. At the same time, public spending will be redirected to bolster social and antipoverty programs (particularly in rural infrastructure). The projections of external debt indicators are essentially the same as presented in the

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[9]On August 6 Mr. Hugo Banzer of the Acción Democrática Nacionalista (ADN) party became President, after winning a plurality in the general elections on June 1 and winning by a substantial majority the second round election by congress on August 5. Mr. Banzer heads a coalition of four parties, which does not include the previous ruling party. See also Bolivia—Program Report on the Initiative for the Heavily Indebted Poor Countries, the document was issued in the Fund as EBS/97/136, 7/22/97 and the IDA as IDA/SECM-97-357, 7/23/97.

preliminary HIPC document, as the projections of debt, debt service, and exports have been revised only slightly to reflect the most recent information.

19. This section presents the key elements of Bolivia's economic program for the period 1997-99, with an emphasis on the aspects that would be supported by potential relief under the HIPC Initiative. More specifically, it explains the plan to absorb the additional cash outlays associated with the 1996 pension reform, the strengthening of social programs, the role of potential HIPC relief in supporting these reforms, and other key structural changes.

Absorbing the costs of the 1996 pension reform

20. A key objective of the macroeconomic program over the next five years will be the adaptation of fiscal policy to absorb the upfront costs of the 1996 pension reform, which replaced the previous public defined-benefit system with a privately managed defined-contribution system(Annex). The old system comprised a government-run pay-as-you-go (PAYG) basic pension, together with complementary pension funds which were operated by employers, financed by employees, and regulated by the government. While the basic pension system had been running only moderate deficits, its generous retirement benefits, short contribution period, and rapidly declining ratio of workers to retirees would have increased costs very significantly over the long term. Moreover, the old basic pension system covered only a fifth of the formal workforce and suffered from considerable evasion. By 1996 most of the complementary pension funds were insolvent on an actuarial basis. This situation raised the difficult question of whether fiscal measures would be taken to close the pending financing gap or whether the problem of the system would lead to a higher fiscal deficit.

21. The 1996 reform privatized the pension system, mandated a broader coverage of the workforce, and changed the structure of contributions and benefits. Under the new system, in May 1997 all contributors to the PAYG system stopped making social security contributions and began to pay into individual retirement accounts managed by one of two pension-fund administrators. Over the next two years, all workers in the formal workforce will be required to join the new system. At the same time the system was privatized, the retirement age for future retirees was increased from 50 years for women and 55 years for men to 65 years for both men and women. The government will continue to pay the basic pension of current retirees and will reimburse future retirees for the contributions they had made to the old system. In addition, the government agreed to take over the complementary pension funds in late 1996 and has begun to pay the complementary pensions of current retirees.

22. The authorities estimate that the 1996 reform will save the government an estimated US$1.1 billion (12 percent of GDP) in net present value terms, reflecting the increase in the retirement age and the fact that under the old system contributions to the system would not

have matched the pension outlays for current workers. However, the transition to a single private system creates additional net cash outlays for the government of about 2 percent of GDP a year in the near term, because of the loss of social security contributions (about 1 percent of GDP a year) and the payment of the complementary pensions (about 1 percent of GDP a year).

Intensified Social Programs

23. The reduction of poverty is one of the main goals of the government's program and is seen as vital for sustained economic growth and social equity. The government will continue to implement social reforms in key areas, including education and health, and will implement programs to develop rural areas, which are extremely poor.[10] In support of these efforts, the government plans to increase expenditures on social and rural development programs from 8.5 percent of GDP in 1996 to about 9.5 percent of GDP in 1999 (Table 7).

24. The government and the IDA and IDB have agreed on a program of actions in the social sectors. Implementation of these policies will be monitored prior to the completion point, as a condition for relief under the HIPC Initiative. These actions are summarized in Table 8. Table 9 summarizes the consequences these actions are expected to produce. Achievement of the indicators given in Table 9 will be monitored and supported after the completion date in the context of ongoing and new IDA and IDB lending operations as well as a continuing dialogue with the authorities in these areas.

25. The specific actions to be implemented by mid-1998 and monitored prior to the completion point include:

- an increase in public investment in social sectors and rural development;

- an increase in spending on basic education and a more efficient use of these resources to improve the coverage and primary completion ratios, especially in rural areas and for females;

- expediting the education reform program, including implementing quality improvements in beneficiary schools, adapting the reform to popular participation and decentralization, and fully implementing a national education assessment system;

[10]These reforms are discussed in the preliminary HIPC document for Bolivia and in the latest Policy Framework Paper (1997-99). The main issues are highlighted in the present document.

- an increase in resources to develop and begin implementing a new national health strategy that focuses on the provision of basic health services to women and children as well as an action plan to combat endemic diseases, especially chagas and malaria; and

- the establishment of an effective system for monitoring public social expenditures at the central level and monitoring rural development and poverty alleviation.

26. In the area of **education**, the government will continue implementing the comprehensive reform program that began in 1991. To improve the allocation of public expenditure on education, the government will increase the budget for primary and secondary education and limit the growth of expenditure on higher education. In addition, the government will devote additional resources to: (i) achieve an 80 percent primary education completion rate by 2005; (ii) involve the educational community in the development of quality improvement projects at the individual school level; (iii) improve access of females in rural areas to attend primary schools; and (iv) implement a new policy on early childhood education during 1997 to improve the chances that children will succeed in school. Finally, the government will modify the education reform legislation, including adaptation of the system to the laws on Popular Participation and Administrative Decentralization.

27. In the **health** area, the government will strengthen its efforts to improve primary health care services, especially with respect to strengthening maternal and child health programs as well as dealing with endemic diseases in rural areas. The government will also develop a health sector strategy that will include (i) strengthening the management of health facilities in the context of the decentralization process; (ii) improving the financing of the sector to improve sustainability of services and equity; and (iii) seeking ways to integrate the private sector and NGOs more fully into the system.

28. With regard to **rural development**, efforts will be devoted to: (i) establishing a clearer policy and strategy for the social development funds to improve the targeting and efficiency of rural and social investment coupled with the implementation of a new cofinancing policy; (ii) coordinating and clarifying the responsibilities of the various ministries and other public entities for policy making, priority setting, and monitoring and funding of rural development, agriculture, livestock, and natural resource management; and (iii) strengthening the municipalities' administrative capacity to assume their responsibilities defined under Popular Participation. In addition, greater efforts will be made to enforce agricultural reform and environmental legislation. By the end of 1998, it is expected that (i) 90 percent of all municipalities will have Participatory Municipal Development Plans and (ii) the municipal budgets will reflect priorities established in these plans. These measures will lead to a significant increase in rural investment, primarily in basic infrastructure. In coordination with

these efforts, the government plans to establish an institutional framework for micro credit, specifically for rural financing.

Role of potential HIPC relief

29. Fiscal policy over the next five years seeks to strengthen national saving by including measures to absorb fully the additional cash outlays associated with the pension reform and to help cover the increase in social expenditure. Because of the temporary fiscal costs associated with the pension reform, the combined public sector deficit will increase from 1.9 percent of GDP in 1996 to 3.3 percent of GDP in 1997. However, national saving is projected to stay at 11 percent of GDP in 1997, as the decline in public savings would be offset by an increase in private savings resulting from the transfer of social security contributions to the private sector, and the effect of the capitalization of YPFB, which will transfer the operating surplus of the enterprise to the private sector.

30. The deficit excluding pension costs would decline slightly from its historically low level of 0.7 percent of GDP in 1996 to 0.6 percent of GDP in 1997. This moderate improvement in the nonpension balance will reflect restraint of nonpension current expenditures, gains in tax revenues from better tax administration, and some privatization proceeds,[11] which will offset a decline in external grants and a loss of hydrocarbons revenues because domestic petroleum prices were not adjusted in 1997.

31. Net external financing would amount to 2.5 percent of GDP in 1997, implying net domestic financing of 0.8 percent of GDP for the public sector. The authorities plan to issue domestic debt to the new pension funds to cover part of the domestic financing requirement and to help provide a safe asset for the funds at an early stage in the new system. To protect the public sector's debt situation, the authorities will limit the amount of debt issued to approximately 75 percent of the contributions expected to be received by the pension funds.

32. Subsequently, the combined public sector deficit would decline to 3.2 percent of GDP in 1998 and 2.9 percent of GDP in 1999, as the nonpension balance would shift to a moderate surplus by 1999, while net pension costs would rise from 2.5 percent of GDP in 1997 to 3 percent of GDP in 1999. In 1998 the government is expected to adopt budgetary measures estimated at 1.2 percent of GDP and will sell public assets previously owned by the

[11] Consistent with the methodology of annual arrangements under the ESAF since 1992, projected privatization proceeds are recorded as capital revenue above the line, and the deficit target is adjusted downward if actual proceeds exceed the projected amount. This approach was adopted to allow the financial gains from these asset sales, which involve important structural reforms in their own right, to help offset the cost of other structural reforms.

complementary funds valued at about 0.5 percent of GDP to meet the fiscal targets. The government will also pursue a very tight expenditure policy in 1998 and 1999. Current projections indicate that net external borrowing by the nonfinancial public sector would decline to 1.7 percent of GDP by 1999, while the authorities would aim to limit the net domestic financing requirement to 0.4 percent of GDP by 1999, in line with their objective of minimizing the accumulation of domestic public debt and eliminating domestic financing needs by 2002. In this context, the authorities will seek new sources of external financing. Potential relief under the HIPC Initiative starting in 1998 would support the planned expansion in social programs and the cost of structural reforms, while allowing a gradual decline in domestic financing. Without HIPC relief, the government would need to sell more domestic debt, raise taxes by even more than contemplated, slow spending, including on social programs, or relax the anti-inflation effort.

Other structural reforms

33. The government will continue structural reforms in other areas, and the third annual arrangement under the ESAF will include as performance criteria four structural policy measures in the financial sector (Table 10). To strengthen financial supervision further, the central bank will issue several regulations during 1997 to adopt Basle norms for risk weighting of bank assets from mid-1998 and raise the minimum weighted capital requirement ratio from 8 to 10 percent starting in 1999, and to strengthen reserve requirements. To ensure that the new private pension funds can operate effectively as financial intermediaries, the superintendency of pensions that was created in March 1997 will issue necessary regulations, most importantly concerning the minimum quality of services to be provided by the pension managers, prudential guidelines for pension fund portfolios, and minimum liquidity requirements for the funds. Also, a new securities market law has been submitted to congress, and the government will secure passage of the law to establish a secure legal, institutional, and regulatory framework for the securities market.

V. CONSULTATIONS WITH CREDITORS

34. Fund and IDA staff have initiated consultations with Bolivia's multilateral creditors and with the Paris Club regarding the action these creditors would take under the HIPC Initiative for Bolivia. On March 24-25, the IDA organized a meeting with multilateral institutions to explain the methodology, data, and recommendations in the debt sustainability analyses for the first group of HIPC countries, including Bolivia. The Fund and IDA staff worked in close consultation with the staff of the IDB, including on the preparation of the

debt sustainability analysis and have also communicated on several occasions with staff of the Andean Development Corporation (CAF), a multilateral creditor which has claims on Bolivia at commercial terms; IDA staff have contacted all other multilateral creditors.[12] There are no outstanding data reconciliation issues.

35. With regard to multilateral creditors, the IDB is Bolivia's largest creditor, accounting for 34 percent of Bolivia's total external public and publicly guaranteed debt in NPV terms at end-1996, and 53 percent of the debt owed to multilateral creditors (Table 11). In May 1997 the Board of the IDB agreed that Bolivia was eligible for relief under the HIPC Initiative. At that time, a majority of the IDB Board supported a completion point one year after the decision point and a target of 225 percent for the ratio of the NPV of debt to exports. The IDB is still considering the modalities of financing its participation in the HIPC Initiative. The CAF accounted for about 9 percent of the NPV of Bolivia's public and publicly guaranteed debt at end-1996, and about 13 percent of the debt owed to multilaterals. The CAF is disposed to participate in the HIPC Initiative, and is exploring specific modalities that preserve its financial integrity and its relations with its shareholders and international capital markets.

36. At their meeting in June 1997, Paris Club creditors agreed in principle to reopen the existing Naples terms stock-of-debt operation for Bolivia, and to provide an additional reduction up to a total of 80 percent in NPV terms; the coverage of the debt to be reduced would be determined in light of equitable burden sharing among creditors, including multilateral creditors. They agreed that this debt reduction should be implemented at the completion point, once multilaterals have agreed to disburse their assistance under the HIPC Initiative.

[12]These include the Financial Fund for the Development of the Basin of the River Plate (FONPLATA) and the International Fund for Agricultural Development (IFAD).

37. At end-1996, Bolivia's debt to non-Paris Club bilateral creditors stood at US$72 million, equivalent to 4.5 percent of its debt to bilateral creditors.[13] [14] The net present value of this debt, assuming treatment comparable to the 1995 Paris Club stock-of-debt operation agreement on eligible debt, was estimated at US$38 million. Bolivia has contacted Brazil, the only creditor whose claims were assumed eligible for debt relief to negotiate a debt rescheduling on terms comparable to the 1995 Paris Club agreement. The debt to this creditor that is eligible for exceptional action under the HIPC Initiative is estimated at US$9 million in net present value terms.

VI. Debt Sustainability Targets and Debt Relief

38. Bolivia's NPV of external public and publicly guaranteed debt amounted to US$3.3 billion at end-1996, and is projected to rise to US$3.4 billion by end-1997 and to US$3.5 billion by end-1998. At end-1996 multilateral institutions accounted for 64 percent of this debt, while bilateral creditors accounted for 36 percent.

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[13] The creditors involved are China, Taiwan Province of China, and Brazil. The debt to the first two creditors is considered nonreschedulable, while the debt to Brazil represents the unpaid portion of the debt restructured in 1990.

[14] Over the past few years Bolivia has received favorable debt rescheduling agreements from this group of creditors. In August 1989 Bolivia and Argentina agreed to a mutual cancellation of claims that resulted in a US$0.5 billion net reduction of Bolivia's liabilities, entailing a 60 percent nominal reduction. Brazil has granted substantial debt relief to Bolivia in the frameworks of the February 1990 and March 1994 agreements.

39. Based on the IDA and Fund Board discussions on the preliminary HIPC Initiative document, a case could be made for a target of the NPV of Bolivia’s external public and publicly guaranteed debt in the lower half of the range of 215-235 percent of exports, which most Directors believed would provide relief that was consistent with the vulnerability of Bolivia’s external sector and would provide adequate assurances that Bolivia would exit permanently from further debt rescheduling even in the face of adverse shocks. There was a diversity of views with regard to the length of the interim period, with most Directors of both institutions favoring a period of at most one year, (implying a completion point of no later than September 1998) and other Directors supporting a longer interim period of 1.5 to 2 years (suggesting a completion point of end-1998 to mid-1999). At the same time, it is important to take into account the IDB’s decision on the target NPVof debt of 225 percent of exports and an interim period of one year, which is consistent with the recommendation of staff and management in the preliminary HIPC document and the views of many Directors.

40. In this context, the staff and management believe that Bolivia’s policy track record and the program supported by the third-year ESAF and PFP—in particular the fiscal effort to absorb the costs of the pension reform and the planned strengthening of social programs—fully justify a shortening of the interim period to one year, which would imply a completion point of September 1998. As noted above there have been several minor waivers and some program interruptions, including one significant break in policy momentum in 1993. Nonetheless, these difficulties reflect the ambitiousness of the reform effort and the need to build broad domestic consensus for these reforms. In the end, Bolivia has the one of the best records in terms of the implementation of structural reforms of any ESAF country, and has achieved a considerable degree of macroeconomic stability. In the past year, Bolivia avoided the pitfalls of 1993 by maintaining strong economic policies, which are likely to be supported by the Fund and IDA, during the political transition.

41. With regard to the debt sustainability target, staff and management recommend that creditors agree to provide relief to achieve a target NPV of 225 percent of exports, which would suffice to ensure debt sustainability and reflects the views of other major creditors. Staff and management believe that additional financial assistance could further buttress debt sustainability and would make resources available that could enhance Bolivia’s development prospects. Accordingly, staff and management encourage continued and preferably increased concessional aid flows, including those directed to providing further debt relief.

42. To achieve the NPV target of 225 percent in mid-1998, total debt relief is projected to be US$448 million in NPV terms. Based on proportional burden sharing, bilateral and multilateral creditors in aggregate would provide additional NPV relief of 13.3 percent of eligible claims, which would imply NPV relief of US$157 million from bilateral creditors and US$291 million from multilateral creditors. This would be achievable through debt relief on eligible debt from Paris Club creditors (including the effect of the Naples terms debt reduction

granted in December 1995) at or below 80 percent provided some debt reduction is granted on ODA debt.[15] A detailed breakdown of the contributions by the main multilateral creditors would be based on their shares in the NPV of multilateral debt at end-1996, regardless of their share of claims at the completion point. All multilateral creditors would provide assistance equal to 13.5 percent of their claims at end-1996. Expressed in NPV terms, the World Bank contribution would be US$54 million, the Fund contribution would be US$29 million, the IDB contribution would be US$155 million and the CAF contribution would be US$39 million.

43. In the case of Bolivia, the burden of external debt service over the next few years is also high. Total service on public and publicly guaranteed debt (prior to any relief under the HIPC Initiative) is projected to rise from US$334 million (25.4 percent of current-year exports) in 1996 to US$390 million (27.0 percent of current-year exports) in 1998 and to US$399 million (25.5 percent of exports) in 1999. By 1999 roughly 60 percent of these obligations would represent amortization payments, while 12 percent of these obligations would be service on publicly guaranteed debt. The NPV relief should be tailored to reduce debt service obligations to as close to 20 percent of exports (the lower end of the 20-25 percent target range under the HIPC Initiative) as possible, giving Bolivia's external sector an adequate buffer from the effects of possible adverse shocks. Also, in view of the fiscal plan for the period 1997-99 outlined in Section III, potential HIPC relief that reduced amortization by US$25 million in 1998 and US$65 million in 1999 would ensure sufficient external financing of the combined public sector deficit.

44. Assistance provided by the World Bank will help address the high debt-service ratio in the coming years while reducing the NPV debt burden. Since Bolivia's debt service is expected to exceed 20 percent of exports until about 2003, it is proposed that the HIPC Trust Fund provide the bulk of the relief—likely equivalent to about US$47 million in NPV terms—by means of paying Bolivia's IDA debt service as it falls due. Operationally, at the completion point the Trust Fund would establish an Account with the amount of U.S. dollars equivalent to the NPV of debt to be reduced. The resources in the Account would be invested. The Trust Fund would then make payments from the Account to IDA on Bolivia's behalf as IDA debt service fell due, until the Account is exhausted.

[15] Under "Lyon Terms", such debt reduction on ODA debt is at the discretion of the creditor concerned.

45. IDA will also provide grant funding during the interim period. Because the projected NPV debt-to-export ratio at the September 1998 completion point would exceed 250 percent, Bolivia is eligible to receive one third of its IDA program funding in grant form during the interim period. Based on the proposed average annual IDA program set out in the most recent Bolivia Country Assistance Strategy (CAS) paper and the proposed one-year interim period, IDA Management recommends that a total of about US$25 million equivalent of the IDA program in Bolivia be committed as grant funding during the interim period. This channel of relief which would provide debt relief to Bolivia in NPV terms equivalent to US$7 million, and would be counted toward the HIPC IDA relief contribution for Bolivia. IDA grant funding is subject to availability of donor resources under the Eleventh Replenishment of IDA. Approval by the Executive Directors of the provision of IDA grant funding for a specific project will be sought at the time the Executive Directors are requested to approve IDA funding for that project.

46. At the completion point, the Fund will disburse its assistance (in the form of a grant) according to a schedule set in a way that helps bring the debt-service ratio down to close to 20 percent and smooths the debt-service profile, including any humps, either to the Fund or more generally. Since Bolivia's overall debt service ratio is projected to be above 20 percent for several years, it is proposed that, in the context of the front loading of assistance by other multilateral creditors, notably the World Bank, the schedule of Fund assistance would be significantly front loaded. A schedule for the use of assistance for Bolivia, which meets these broad objectives, will be agreed with the Bolivian authorities and proposed for approval by the Fund Board in due course. These funds will be disbursed into a separate account administered by the Trustee of the ESAF-HIPC Trust.

VII. THE AUTHORITIES' VIEWS

47. The authorities appreciated the efforts of each creditor to help Bolivia progress to a decision point relatively quickly. They reiterated their strong belief that Bolivia's external sector remained more vulnerable than suggested by the sensitivity analysis presented in the preliminary HIPC document, because Bolivia often faced a situation where several adverse shocks occurred at the same time. They also remained concerned that a lengthy second stage would prolong the period of uncertainty. For these reasons, they strongly advocated a target NPV of 215 percent of exports and a completion point of end-1997.

VIII. ISSUES FOR DISCUSSION

Executive Directors may wish to focus on the following issues and questions:

48. **Eligibility and decision point**: The staff and management believe that Bolivia is eligible for relief under the HIPC Initiative and recommend approval in principle of a decision point in September 1997, based on the deliberations of the IDA and Fund Boards, staff consultations with multilateral creditors and the Paris Club, and the agreement with the authorities on a third-year program under the ESAF. Are Executive Directors willing to approve a decision in principle that Bolivia is eligible for relief under the HIPC Initiative?

49. **Completion point**: The staff and management believe that Bolivia has put in place a broad range of ambitious structural reforms while achieving macroeconomic stability. In view

of this track record and the strength of the authorities' economic program, they recommend a completion point of one year after the decision point, or in September 1998, provided the Fund Board approves a new three-year ESAF arrangement or a fourth annual arrangement under the current ESAF, and the social development policies as envisaged under the HIPC Initiative are implemented. Do Executive Directors agree with this recommendation?

50. **Debt sustainability target**: The staff and management recommend that creditors agree to provide relief sufficient to meet a target NPV of debt of 225 percent of exports at the completion point and encourage continued and preferably increased concessional aid flows, including those directed to providing for debt relief. Do Executive Directors agree?

51. **Next steps:** The following steps are envisaged: (i) This document will be made available to Bolivia's bilateral and multilateral creditors at the same time it is circulated to Executive Directors; (ii) the staff will inform Directors by way of a supplement or an oral statement at the time of the discussions of this document regarding the reactions of these conditions, and; (iii) assuming agreement on a decision in principle based on a draft to be circulated to Directors, a final decision for approval will be circulated when assurances of commitments are confirmed by other creditors.

ADDENDUM: BOARD DECISIONS

52. The Boards of the IMF and World Bank in September 1997 approved Bolivia's request for assistance under the HIPC Initiative which is to be delivered at the completion point in September 1998, subject to satisfactory assurances of the necessary support from other creditors and continued strong policy implementation. The debt sustainability target for the NPV of debt-to-exports ratio was set at 225 percent, providing total assistance of US$448 million in present value terms at the completion point.

Table 1. Bolivia: Long-term Balance of Payments, 1993-2016
(In millions of U.S. dollars, unless otherwise noted)

				Est.	Prog.	Projections		
	1993	1994	1995	1996	1997	1998	1999	2000
Current account	-419	-219	-335	-385	-597	-658	-535	-445
Trade balance	-444	-279	-301	-447	-554	-631	-508	-383
Exports, f.o.b. 1/	710	998	1,075	1,132	1,190	1,245	1,357	1,456
Of which: gas	90	92	92	95	91	90	120	119
Imports, c.i.f.	-1,154	-1,276	-1,376	-1,578	-1,744	-1,876	-1,865	-1,838
Of which: from capitalization	0	0	-5	-201	-239	-302	-274	-195
Factor income, (net)	-205	-188	-221	-169	-258	-253	-261	-275
Of which: interest due	-192	-184	-222	-179	-248	-231	-231	-224
Official transfers 2/	217	258	202	225	207	213	209	172
Other 1/	13	-10	-15	6	9	13	25	40
Capital account	341	208	257	727	617	702	580	490
Capital transfers	0	0	11	45	13	0	0	0
Public sector loans	90	125	79	239	206	195	119	85
Disbursements	319	360	379	395	363	381	329	302
Amortization	-229	-235	-301	-155	-135	-151	-174	-183
Amortization due by capitalized enterprises	0	0	0	0	-21	-35	-35	-34
Private sector loans	0	26	30	18	155	83	7	-57
Disbursements	0	41	67	52	199	177	146	116
Amortization	0	-15	-37	-33	-44	-94	-139	-173
Private capital and other 3/	251	58	138	424	243	424	454	461
Of which: direct investment	122	90	177	426	456	536	519	446
Of which: net investment from capitalization	0	0	5	262	281	345	314	225
Overall balance	-78	-10	-79	342	20	44	45	45
Exceptional financing	269	134	202	0	0	0	0	0
Agreed debt relief 4/	140	118	202	0	0	0	0	0
Change in arrears (net)	40	-6	0	0	0	0	0	0
Argentina (exceptional payment)	89	21	0	0	0	0	0	0
Net international reserves (increase -)	-139	-123	-123	-342	-20	-44	-45	-45
Memorandum items								
Gross reserves, (end of period)	495	658	737	1,138	1,167	1,191	1,198	1,209
(in months of next year's imports)	4.7	5.7	5.6	7.8	7.5	7.7	7.8	7.6
Debt Relief from Stock of Debt Operation	0	0 --		130	82	97	84	55
Interest Relief	0	0	0	33	6	19	16	14
Amortization Relief	0	0	0	97	76	77	68	41
Gas export price (US$/1000 cu.ft)	1.23	1.20	1.27	1.30	1.31	1.31	1.26	1.14
			(In percent)					
Export volume growth	6.7	16.9	11.2	3.0	6.5	5.4	8.0	6.2
Import volume growth	8.0	4.4	-1.0	17.9	15.7	7.6	-1.0	-2.2
Terms of trade change	2.1	11.1	-10.2	4.6	3.6	-0.9	-0.1	0.0
			(In percent of GDP)					
Current account deficit	-7.3	-3.6	-5.0	-5.1	-7.5	-7.5	-5.7	-4.4
Underlying current account deficit 5/	-7.3	-3.6	-4.9	-2.4	-2.4	-2.2	-1.9	-2.5
Before official transfers	-11.0	-7.9	-7.9	-8.1	-10.0	-10.0	-7.9	-6.1
Excluding gas export receipts	-8.8	-5.2	-6.3	-6.4	-8.6	-8.6	-7.0	-5.6
Merchandise exports	12.3	16.6	15.9	15.1	14.9	14.2	14.5	14.4
Merchandise imports	20.0	21.2	20.3	21.0	21.8	21.5	19.9	18.2
Of which: capitalization and pipeline	0.0	0.0	0.1	2.7	5.0	5.3	3.8	1.9
Grants and loans 6/	9.3	10.3	8.6	8.3	7.1	6.8	5.7	4.7

Table 1. Bolivia: Long-term Balance of Payments, 1993-2016
(In millions of U.S. dollars, unless otherwise noted)

				Projections				
	2001	2002	2003	2004	2005	2006	2007	2008
Current account	-406	-381	-402	-402	-450	-452	-507	-559
Trade balance	-328	-291	-297	-287	-320	-347	-386	-427
Exports, f.o.b. 1/	1,583	1,718	1,858	2,009	2,169	2,341	2,516	2,704
Of which: gas	141	162	182	204	220	237	255	274
Imports, c.i.f.	-1,912	-2,009	-2,155	-2,297	-2,489	-2,688	-2,902	-3,131
Of which: from capitalization	-128	-71	-40	0	0	0	0	0
Factor income, (net)	-276	-285	-297	-315	-340	-326	-355	-379
Of which: interest due	-214	-211	-212	-220	-235	-249	-272	-289
Official transfers 2/	146	132	119	116	116	116	116	116
Other 1/	52	63	73	85	95	106	118	131
Capital account	472	462	486	494	545	542	597	649
Capital transfers	0	0	0	0	0	0	0	0
Public sector loans	101	123	148	175	198	218	230	215
Disbursements	323	362	404	431	449	472	496	506
Amortization	-188	-209	-234	-236	-237	-247	-260	-282
Amortization due by capitalized enterprises	-34	-29	-22	-20	-15	-6	-6	-9
Private sector loans	-72	-44	-24	23	24	23	30	32
Disbursements	124	132	141	151	161	173	186	200
Amortization	-196	-176	-165	-128	-137	-150	-157	-168
Private capital and other 3/	444	383	362	296	323	300	338	402
Of which: direct investment	388	341	323	303	326	352	380	411
Of which: net investment from capitalization	149	83	47	0	0	0	0	0
Overall balance	66	81	84	92	95	90	90	90
Exceptional financing	0	0	0	0	0	0	0	0
Agreed debt relief 4/	0	0	0	0	0	0	0	0
Change in arrears (net)	0	0	0	0	0	0	0	0
Argentina (exceptional payment)	0	0	0	0	0	0	0	0
Net international reserves (increase -)	-66	-81	-84	-92	-95	-90	-90	-90
Memorandum items								
Gross reserves, (end of period)	1,239	1,292	1,356	1,430	1,515	1,602	1,692	1,782
(in months of next year's imports)	7.4	7.2	7.1	6.9	6.8	6.6	6.5	6.3
Debt Relief from Stock of Debt Operation	50	56	54	47	28	26	20	18
Interest Relief	12	10	8	6	5	4	2	1
Amortization Relief	38	45	45	40	23	22	18	17
Gas export price (US$/1000 cu.ft)	1.19	1.21	1.22	1.24	1.26	1.28	1.29	1.31
				(In percent)				
Export volume growth	6.5	6.5	6.4	6.4	6.3	6.3	6.0	6.0
Import volume growth	3.2	4.1	5.8	5.1	6.9	6.5	6.5	6.4
Terms of trade change	1.1	0.8	0.1	0.1	0.0	0.0	0.0	0.0
				(In percent of GDP)				
Current account deficit	-3.7	-3.2	-3.2	-3.0	-3.1	-2.9	-3.0	-3.1
Underlying current account deficit 5/	-2.5	-2.6	-2.9	-3.0	-3.1	-2.9	-3.0	-3.1
Before official transfers	-5.1	-4.3	-4.1	-3.8	-3.9	-3.7	-3.7	-3.8
Excluding gas export receipts	-5.0	-4.6	-4.6	-4.5	-4.6	-4.4	-4.6	-4.6
Merchandise exports	14.5	14.6	14.7	14.9	15.0	15.1	15.1	15.1
Merchandise imports	17.5	17.0	17.1	17.0	17.2	17.3	17.4	17.5
Of which: capitalization and pipeline	1.2	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Grants and loans 6/	4.3	4.2	4.1	4.0	3.9	3.8	3.7	3.5

Table 1. Bolivia: Long-term Balance of Payments, 1993-2016
(In millions of U.S. dollars, unless otherwise noted)

	Projections							
	2009	2010	2011	2012	2013	2014	2015	2016
Current account	-608	-660	-713	-771	-833	-900	-973	-1,047
Trade balance	-462	-500	-541	-586	-634	-685	-741	-801
Exports, f.o.b. 1/	2,906	3,123	3,357	3,607	3,877	4,167	4,478	4,813
Of which: gas	295	317	340	366	393	423	454	488
Imports, c.i.f.	-3,368	-3,624	-3,898	-4,193	-4,511	-4,852	-5,219	-5,613
Of which: from capitalization	0	0	0	0	0	0	0	0
Factor income, (net)	-408	-437	-466	-498	-532	-570	-611	-651
Of which: interest due	-311	-332	-353	-375	-400	-426	-454	-481
Official transfers 2/	116	116	116	116	116	116	116	116
Other 1/	146	161	178	197	217	239	263	288
Capital account	698	750	803	861	923	990	1,063	1,137
Capital transfers	0	0	0	0	0	0	0	0
Public sector loans	211	180	192	207	218	242	255	274
Disbursements	528	526	561	595	631	684	728	781
Amortization	-308	-337	-362	-381	-406	-436	-467	-502
Amortization due by capitalized enterprises	-9	-9	-6	-6	-6	-6	-6	-6
Private sector loans	35	38	40	43	47	50	54	58
Disbursements	215	231	249	267	287	309	332	357
Amortization	-180	-194	-208	-224	-241	-259	-278	-299
Private capital and other 3/	453	533	571	610	658	698	754	805
Of which: direct investment	443	479	517	558	603	651	703	759
Of which: net investment from capitalization	0	0	0	0	0	0	0	0
Overall balance	90	90	90	90	90	90	90	90
Exceptional financing	0	0	0	0	0	0	0	0
Agreed debt relief 4/	0	0	0	0	0	0	0	0
Change in arrears (net)	0	0	0	0	0	0	0	0
Argentina (exceptional payment)	0	0	0	0	0	0	0	0
Net international reserves (increase -)	-90	-90	-90	-90	-90	-90	-90	-90
Memorandum items								
Gross reserves, (end of period)	1,872	1,962	2,052	2,142	2,232	2,322	2,412	2,502
(in months of next year's imports)	6.2	6.0	5.9	5.7	5.5	5.3	5.2	5.0
Debt Relief from Stock of Debt Operation	14	10	7	1	-7	-11	-72	-73
Interest Relief	-1	-3	-5	-8	-9	-8	-26	-23
Amortization Relief	15	13	12	9	3	-3	-47	-50
Gas export price (US$/1000 cu.ft)	1.33	1.35	1.37	1.39	1.41	1.43	1.45	1.47
	(In percent)							
Export volume growth	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Import volume growth	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Terms of trade change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)							
Current account deficit	-3.2	-3.2	-3.2	-3.2	-3.2	-3.3	-3.3	-3.3
Underlying current account deficit 5/	-3.2	-3.2	-3.2	-3.2	-3.2	-3.3	-3.3	-3.3
Before official transfers	-3.8	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.6
Excluding gas export receipts	-4.7	-4.7	-4.7	-4.8	-4.8	-4.8	-4.8	-4.8
Merchandise exports	15.1	15.1	15.1	15.1	15.1	15.1	15.1	15.1
Merchandise imports	17.5	17.5	17.5	17.5	17.5	17.5	17.6	17.6
Of which: capitalization and pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants and loans 6/	3.3	3.1	3.0	3.0	2.9	2.9	2.8	2.8

Sources: Central Bank of Bolivia; and staff estimates.

1/ Compiled according to the fifth edition of the Balance of Payments Manual.
2/ Excludes grants for debt reduction operations.
3/ Includes direct investments, commercial bank short-term capital flows, and errors and omissions.
4/ Granted by Paris Club creditors and Brazil.
5/ Current account deficit excluding all imports related to the capitalized enterprises and the gas pipeline to Brazil.
6/ Official transfers and loans to public sector.

Table 2. Bolivia: Sensitivity of the NPV of Debt/Exports and Debt Service/Exports Ratios, Selected Years
(Period averages)

	Baseline	Lower Metal Prices 1/	Slower Export Growth 2/	More Commercial Borrowing 3/
I. NPV of Debt/Exports 4/				
1996	270.2	270.2	270.2	270.2
1997	259.1	270.8	261.2	259.1
1998	251.2	279.5	257.3	251.3
1999	237.8	279.5	250.4	237.8
2000	223.4	261.5	242.0	223.4
2001-05	190.4	215.0	216.5	190.5
2006-10	165.5	184.7	189.7	165.7
2011-16	143.3	159.9	164.4	143.5
II. Debt Service/Exports 5/				
1996	25.4	25.4	25.4	25.4
1997	27.2	29.8	27.9	27.2
1998	27.0	32.4	28.3	27.1
1999	25.5	32.3	27.6	25.6
2000	24.0	31.9	26.7	24.2
2001-05	20.5	24.6	23.5	21.6
2006-10	17.0	19.0	19.5	20.9
2011-16	16.6	18.6	19.1	22.1

Sources: Bolivian authorities; staff estimates.

1/ Metal export prices are reduced by a cumulative 25 percent over the 1997-98 period. After the initial decline, metal export prices rise as in the baseline. It is assumed that the Government borrows to cover half the shortfall for the first three years.
2/ Export volume growth is lowered by half relative to the baseline scenario during the 1997-2001 period.
3/ Borrowing on commercial terms with a 15-year maturity is reduced by 25 percent, while keeping the net external financing of the nonfinancial public sector unchanged. The implied additional borrowing is undertaken on commercial terms with a 5 year maturity in international capital markets.
4/ In percent of three-year export of goods and services averages.
5/ In percent of current year export of goods and services.

Table 3. Bolivia: Main Structural Reforms, 1985-97

Reforms	Timing 1/	Comments
1. Public Enterprises Reorganization	1986/90	The state petroleum (YPFB) and mining (COMIBOL) companies were decentralized. Unproductive mines were closed, the Bolivian Development Corporation was dissolved and its 23 enterprises transferred to the regional development corporations. Employment in these enterprises was sharply reduced.
Sale of assets	April 1992 1993/96	Congress approved a Privatization Law allowing the sale of most public enterprises. Process started with the sale/liquidation of 50 enterprises owned by the regional development corporations.
Capitalization	March 1994 1995-96	Framework law approved. The private sector investor commits to double the net worth of the company in exchange for 50 percent of the shares. The electricity, railways, telecommunications, national airline, and petroleum companies were capitalized. Investment commitments of US$1.7 billion were obtained.
2. Banking System and Central Bank of Bolivia (CBB) Banking operations	August 1985 May 1986	Operations in foreign currency and with maintenance of value clauses authorized. Development of an interbank market.
Interest rates	August 1985 1990	Freeing of deposit and lending rates in domestic currency, and lending rates in foreign currency. The remaining interest rates were freed, including on development funds on lent by the central bank.
Banking supervision and regulations	1988 April 1993	Creation of an independent Superintendency of Banks. New Law on banks and other financial institutions tightened prudential requirements and extended the application of reserve requirements to nonbank financial institutions.
Reorganization of the Central Bank of Bolivia	March 1992 Dec. 1992 October 1995 Nov. 1996	Reorganization of the Financial System Department to improve coordination with the Superintendency of Banks, and development of plans to provide liquidity assistance to distressed banks. Central Bank of Bolivia recapitalized. Passage of new Central Bank Law, which provided for its independence and a mandate to pursue price stability. Transfer of on-lending operations of development funds to a second-tier institution (NAFIBO).
Restructuring and recapitalization of distressed private banks	Sep. 1995 May 1996-June 1997	Special fund for strengthening financial institutions (FONDESIF) established. Three banks restructured and recapitalized, capital of another four banks strengthened.

Table 3. Bolivia: Main Structural Reforms, 1985-97

State banks	1991/93	Liquidation of the Mining, Agriculture, and state banks, and the Mining Development Fund.
3. Other Reforms Exchange rate system	August 1985	Established unified system with flexible exchange rate determined in auction.
Trade system	August 1985 August 1990	Liberalized with some exceptions for the petroleum industry and wheat. A uniform tariff initially set at 20 percent. Tariff rates were further reduced to 5 percent for capital goods imports, and 10 percent for the rest.
Price system	August 1985	All prices freed, except for the services and products provided by public enterprises. Wage contracts freely negotiable in the private sector.
Investment climate	1986 Sep. 1990 Oct. 1990/ April 1991	Exclusive exploration and development rights of YPFB and COMIBOL removed, opening up areas for private sector investment. New foreign direct investment law providing for the equal treatment of domestic and foreign investors. New hydrocarbons and mining laws allowed joint ventures with public sector enterprises.
Education reform	July 1994 Starting Dec. 1994	Education law passed by congress. Improve coverage and quality of primary education.
Improved governance	April 1994 Nov. 1995	Popular participation law approved by congress. Decentralization law approved by congress. The two laws increased the local governments' funding and responsibilities for projects in education, health, and basic infrastructure.
Pension reform	Dec. 1996	Law provides for replacement of the pay-as-you-go system, by privately managed individual capitalized accounts, and the creation of noncontributory pension with the 50 percent of the shares of capitalized enterprises.
Tax system and administration	May 1986 March 1989	Introduction of VAT (10 percent) and property and wealth taxes. The VAT is now 13 percent. Creation of large taxpayers units to monitor compliance with VAT and special consumption taxes.
Public expenditure and financial control	July 1990	Implementation of SAFCO Law on accounting practices and financial controls.

Source: Fund and IDA Board documents.

1/ Represents the date when key legislation was approved or regulations adopted, or the period over which the bulk of the specified reform was implemented.

Table 4. Bolivia: Reforms Supported by World Bank Adjustment Credits

Credit/Approval Date	Reforms Supported	Waivers of Conditionality
Reconstruction Import Credit I (Cr. 1703-BO; 1986) and Reconstruction Import Credit II (Cr. 1828-BO; 1987)	· Restructure key economic sectors in line with the new role of the state as stated in the New Economic Policy (NEP). · Strengthen public investment programming/management · Help to define appropriate policy response to social problems associated with the adjustment process	None
Financial Sector Adjustment Credit (Cr. 1925-BO; 1988)	· Improve banking regulations and accounting practices · Maintain market-determined interest rates · Reduce the high cost of credit · Establish adequate mechanisms to manage problem banks · Restructure state banks · Strengthen central bank	None
Structural Adjustment Credit (Cr. 2298-BO; 1991);	· Financial Sector Reforms - Reform/liquidation of state banks and funds - Improve regulation and supervision of financial intermediaries - Improve availability of information in the credit market - Improve functioning of the central bank - Develop capital market	None
	· Public Enterprise Reform - Improve efficiency in public enterprises - Increase private sector investments - Implement budgetary/fiscal discipline in public enterprises - Design and implement the privatization program for enterprises controlled by the Regional Development Corporations	None
	· Trade and Registration Procedures Reforms` - Design/implementation of streamlined export procedures - Adoption of duty drawback or temporary admissions scheme	None
Capitalization Program Adjustment Credit (Cr. 2761-BO; 1995)	· Sector Reforms and Capitalization of Public Enterprises - General legislation required for capitalization, establishment of regulatory framework and introduction of corporate income tax - Passage/issuance of legislation/regulations for reform of key sectors (hydrocarbons, telecommunications, mining sector, railways, and electricity) and capitalization of public enterprises that dominated these sectors - Privatization of additional public enterprises	None
	· Institutional Framework Reforms - Improve dispute resolution and modernize judicial sector - Improve functioning of secured transactions system	None
	· Financial Sector Reforms - Establish a secure legal, institutional and regulatory framework for securities markets - Pension system reform, including the establishment of a regulatory agency - Reform insurance sector	Tranche release expected December 1997

Table 5. Bolivia: Waivers Under Fund-Supported Programs

Date Granted	Program	Reason
1. September 1986	1986 SBA	Three-month delay in completing agreement to refinance US$11 million of external arrears.
2. September 1990	1988 ESAF Second year	Nonobservance of all financial performance criteria at end-March 1990. Authorities took measures to bring program back to original path by end-1990.
3. July 1992	1988 ESAF Third year	Delay in observing structural performance criterion for the introduction of simplified export procedures from July 1991 to April 1992.
4. November 1995	1994 ESAF First year	a. Nonobservance of NDA ceiling in March 1995, because of impact of unexpected banking difficulties. Program brought back on track by September 1995. b. Delay in observing structural performance criterion for the capitalization of the state electricity company from March to July 1995 and for the presentation of the new central bank law to congress from March to July 1995.
5. December 1996	1994 ESAF Second year	a. Delay in capitalizing state petroleum company (YPFB) from June to December 1996. b. Nonobservance of structural performance criterion to restructure four problem commercial banks by June 1996. Three banks restructured by May 1996 and fourth bank complied with capital requirement by end-1996.

Table 6. Bolivia: Interruptions of Fund Supported Programs

Length	**Main Factors**
1. 7 months, December 1987-July 1988	Interval between SAF and the first ESAF arrangement. Lengthy negotiations over fiscal response to sharp decline in terms of trade and delays in receipts of natural gas export proceeds.
2. 7 months, November 1990-July 1991	Interval between annual arrangements. Forward looking disagreements. No major policy slippages. Increase in world petroleum prices during Gulf War and delays in receipts of natural gas export proceeds.
3. 12 months, April 1993-April 1994	Substantial deviations from financial program, reflecting expenditure overruns in run up to June 1993 general elections. Structural reforms stalled.

Table 7. Bolivia: Social Sector and Rural Development Government Expenditures, 1992-99

	1992	1993	1994	1995	1996	1997	1998	1999
	(In percent of GDP)							
Total expenditure	6.9	7.7	7.5	7.6	8.5	9.3	9.3	9.5
Education	4.1	4.9	5.1	5.2	5.4	5.2	...	...
Health	2.2	2.2	1.8	1.7	1.8	2.2	...	...
Basic sanitation	0.6	0.6	0.6	0.7	0.8	0.7	...	...
Rural development 1/	...	...	...	...	0.5	1.1	...	...
	(In percent of total expenditure in the social and rural development sector)							
Expenditure on education	59.9	63.2	68.3	69.1	64.0	56.5	…	...
Current expenditure	57.9	61.4	65.0	61.9	55.5	49.3	...	...
Capital expenditure	2.1	1.7	3.3	7.2	8.5	7.2	...	...
Expenditure on health	32.0	29.1	24.0	21.9	21.0	23.5	...	...
Current expenditure	26.1	24.1	18.7	16.8	15.7	15.2	...	...
Capital expenditure	5.9	5.1	5.3	5.1	5.3	8.3	...	...
Expenditure on sanitation	8.1	7.7	7.7	8.9	9.5	7.9	...	...
Expenditure on rural development 1/	...	...	...	..	5.5	12.1	...	...
Memorandum items:								
GDP (In millions of Bolivianos)	22,014	24,622	27,775	32,585	38,174	42,401	...	...
Exchange rate (Bolivianos/US$)	3.90	4.27	4.62	4.82	5.09	5.34	...	...

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

1/ Before 1996, rural development expenditures were categorized under agriculture.

Table 8. Bolivia: Programmed Actions in Social Sectors Under the HIPC Initiative

Action	Verifiable Indicator	Means of Verification[1]
	EDUCATION	
1. Increase public expenditures on basic education, especially non-salary expenditures	· Targets for total expenditures on primary and secondary education/GDP · Establish targets for non-salary basic education expenditures	Actual spending data
2. Develop a plan for reducing expenditures on higher education as a share of total education expenditures	· To be completed by end-1997	SOE and MH
3. Improve coverage of basic education in rural areas, especially for females	· Targets for rural coverage ratios for males and females · Develop by end-1997 and start implementing (mid-1998) a plan to improve access of girls in rural areas to basic education	SOE and UDAPSO
4. Increase number of children that complete primary education	· Targets for number of children that complete 5th grade in urban and rural areas · Targets for number of females that complete 5th grade in urban and rural areas	SOE and UDAPSO
5. Improve quality of basic education	· Targets for number of beneficiary schools implementing quality improvements · Development of an action program for continued implementation of school-level quality improvement programs · Strategy to provide a minimum of textbooks to all students in primary and secondary education to be developed by mid-1998 · Establish national assessment system by end-1997, including an analysis and publication of the results of the baseline	SOE
6. Improve access to early childhood education	· Establish a policy and institutional framework for early childhood development programs · Targets for number of children (age 6 and under) in early childhood development programs	FIS, UDPASO
7. Adapt education reform to popular participation and decentralization	· Enact modifications to education reform regulations by mid-1998	SOE
	HEALTH	
1. Develop a national health strategy in the context of decentralization that among other things improves sector financing	· Strategy to be developed by end-1997 and implementation initiated by mid-1998 · Proposal presented for health system financing mechanism by mid-1998 and implementation of system initiated by end-1998 · Proposal presented for new health care delivery system in all sized municipalities by mid-1998	SOH
2. Increase public expenditures on health	· Establish targets for public expenditures on health	Actual spending data
3. Improve access and coverage of maternal and child health care services	· Targets for share of births attended by trained staff · Targets for children treated for respiratory disease and diarrhea · Targets for children (under 5) completing vaccination cycle	SOH
4. Reduce incidence of endemic diseases, including Chagas and malaria	· Targets for pregnant women in endemic areas undergoing Chagas tests · Targets for number of houses improved/protected against Chagas in endemic areas · Targets for prevalence of malaria in affected areas	SOH
	RURAL DEVELOPMENT AND THE FIGHT AGAINST POVERTY	
1. Improve monitoring of expenditures and outcomes in social sectors and rural development	· Database and monitorable indicators for rural development and poverty alleviation to be developed by mid-1998 · Effective systems to be put in place at the central (end-1997), prefectura (end-1998) and municipal (end-1999) levels for monitoring of public social expenditures · UDAPSO's role in monitoring social expenditures and poverty to be reviewed and strengthened by end-1977	SNPP and UDAPSO MH
2. Establish a clear policy and strategy for social and rural Development Funds	· To be completed by March 1998 and new system introduced thereafter	MOP
3. Provide rural communities with basic services infrastructure	· Targets for number of beneficiaries of rural/peri-urban basic water and sanitation projects · Targets for investments in rural road improvements/ rehabilitation	FIS, SNPP and UDAPSO
4. Strengthen land tenure system, improve land distribution, and improve agricultural research	· Targets for number of hectares subject to catastro and saneamiento · Real Estate Registry Law to be presented to Congress by end-1998 · Competitive agricultural research and extension system to be developed by end-1997	SOA
5. Establish a policy and framework for providing micro-credits and rural finance	· To be established by March 1998 and introduced thereafter	MH

[1] Ministry of Finance (MH), Secretariat of Education (SOE), Social Sector Policy Analysis Unit (UDAPSO), Social Investment Fund (FIS), Secretariat of Health (SOH), Ministry of the Presidency (MOP), Secretariat of Popular Participation (SNPP), Secretariat of Agriculture (SOA).

Table 9. Bolivia: Social Development Performance Indicators

Indicator	Base	1997	1998	1999	2000
Education (in percent)					
· Total expenditures on primary and secondary education/GDP	3.1	3.3	3.5	3.9	3.9
· Rural coverage—males (in percent)	66	67	69	72	74
· Rural coverage—females (in percent)	54	56	60	64	68
· Number of children that complete 5th grade in urban areas (in thousands)	86	88	91	99	98
· Number of girls that complete 5th grade in urban areas (in thousands)	41	43	46	47	47
· Number of children that complete 5th grade in rural areas (in thousands)	60	63	66	70	75
· Number of girls that complete 5th grade in rural areas (in thousands)	29	30	32	34	36
· Cumulative number of beneficiary schools in quality improvement programs (such as PASE, PIME, and PIE)	n.a.	9,000	15,221	20,310	26,558
· Number of children (age 6 and under) in early childhood development programs	43,667	50,000	80,000	100,000	120,000
Health (in percent)					
· Percent of births attended by health professionals in the framework of the Mother and Childhood National Insurance Program (SNMN)	30	45	56	63	69
· Share of children (age 5 or under) treated for acute respiratory infection (IRA) in the framework of SNMN	25	43	50	60	70
· Share of children (age 5 or under) treated for acute diarea (EDA) in the framework of SMMN	25	25	36	46	56
· Percent of children under 5 that have completed the vaccination cycle (such as polio, DPT, measles, BCG) appropriate for their age group	78	80	82	83	85
· Percent of pregnant women in endemic areas having Chagas tests within the framework of the SNMN	0	13	40	45	50
· Share of houses receiving improvements against Chagas in endemic areas	8	14	25	35	40
· Share of annual parasite index (IPA) in malaria areas (*1000 inhabitants)	n.a.	35.2	20.0	15.0	8.0
Rural Development					
· Number of beneficiaries of rural and peri-urban basic water and sanitation projects	132,000	132,000	132,000	132,000	132,000
· Investments in rural road improvements/rehabilitation (US$ millions)	32	32	42	48	55
· Number of hectares subject to cadastre and titling regulations (millions).	.33	1.6	3.5	4.0	4.0

Table 10. Bolivia: Proposed Benchmarks and Performance Criteria for the Implementation of Selected Structural Policy Measures—Third Annual Arrangement Under the ESAF

Policy Measures	Timetable for Measures
Public Sector	
-- Sell transmission company of the national electricity company ENDE	June 1997 (Implemented in July)
-- Introduce personnel registry for general government	June 1997 (Implemented in June)
-- Issue new norm on personnel management	June 1997 (Implemented in June)
-- Issue general budget norm	June 1997 (Implemented in July)
-- Adopt legal framework to limit domestic indebtedness of local governments	July 1997 (Implemented in August)
-- Establish a national unit to cover large taxpayers	December 1997
-- Privatize the national smelting company Vinto	December 1997
-- Develop plan to privatize or otherwise improve efficiency of two refineries and distribution operations of the residual national oil company YPFB	December 1997
-- Sell two electricity companies	December 1997
-- Sell two remaining companies that had belonged to the regional development corporations	December 1997
Financial Sector	
-- Issue regulations to set minimum capital-asset ratio and ask banks to submit plans to meet this new ratio by beginning of 1999	September 1997 1/ Implemented in August
-- Issue regulations setting central bank policy on liquidity support to banks	November 1997
-- Issue regulations on reserve requirements and liquidity requirement	December 1997 1/
-- Passage of security markets law and adoption of regulations	December 1997 1/
-- Superintendent of Pensions issue regulations and operational norms to establish minimum quality of services provided by the pension funds, prudential requirements for their investments, and minimum liquidity requirements	December 1997 1/
-- Submit insurance law to congress	June 1998
Customs Reform	
-- Issue regulations to supervise suspension of import duties, revise the regime for customs agents, and create free-trade zones	December 1997
-- Transfer management of remaining public customs warehouse to private sector	March 1998
-- Submit customs law to congress	March 1998
-- Complete construction of two private customs posts	June 1998
Mining Sector	
-- Complete long-term restructuring of COMIBOL	March 1998

1/ Structural performance criterion.

Table 11. Bolivia: Nominal and Net Present Value of Medium- and Long-Term Public and Publicly Guaranteed Debt at end-1996 1/

	Nominal debt		NPV	
	US$ millions	Percent	US$ millions	Percent
Multilateral Institutions	3,012	100.0	2,151	100.0
IMF	276	9.1	215	10.0
World Bank	913	30.3	402	18.7
IaDB	1,427	47.4	1,146	53.3
Other	396	13.2	388	18.0
of which:				
CAF	278	9.2	289	13.4
FONPLATA	60	2.0	58	2.7
FIDA	35	1.2	25	1.1
OPEC	15	0.5	12	0.6
FND	6	0.2	2	0.1
BIAPE	2	0.1	3	0.1
Bilateral Creditors	1,615	100.0	1,182	100.0
Paris Club	1,543	95.5	1,144	96.8
Pre-cutoff date	883	54.6	689	58.3
of which: ODA	398	24.7	348	29.5
Post-cutoff date	660	40.9	455	38.5
Non-Paris Club	72	4.5	38	3.2
Reschedulable	30	1.9	9	0.8
Non-reschedulable	42	2.6	30	2.5
Commercial	11	100.0	11	100.0
Total	4,639	100.0	3,344	100.0

Memorandum items:

	Share in total NPV of debt (in percent)
End-1996	
Multilateral institutions	64.3
Bilateral creditors	35.4
Commercial creditors	0.3
Mid-1998	
Multilateral institutions	64.3
Bilateral creditors	35.4
Commercial creditors	0.3
Mid-1999	
Multilateral institutions	64.2
Bilateral creditors	35.5
Commercial creditors	0.3

Sources: Bolivan authorities; and staff estimates.

1/ Excludes debt transferred without government guarantees to the capitalized enterprises before January 1, 1997.

Table 12. Bolivia: Assistance, Net Present Value (NPV) of Debt/Exports Targets and Proportional Burden Sharing

(In millions of U.S. dollars in NPV terms at the completion point, unless otherwise indicated)

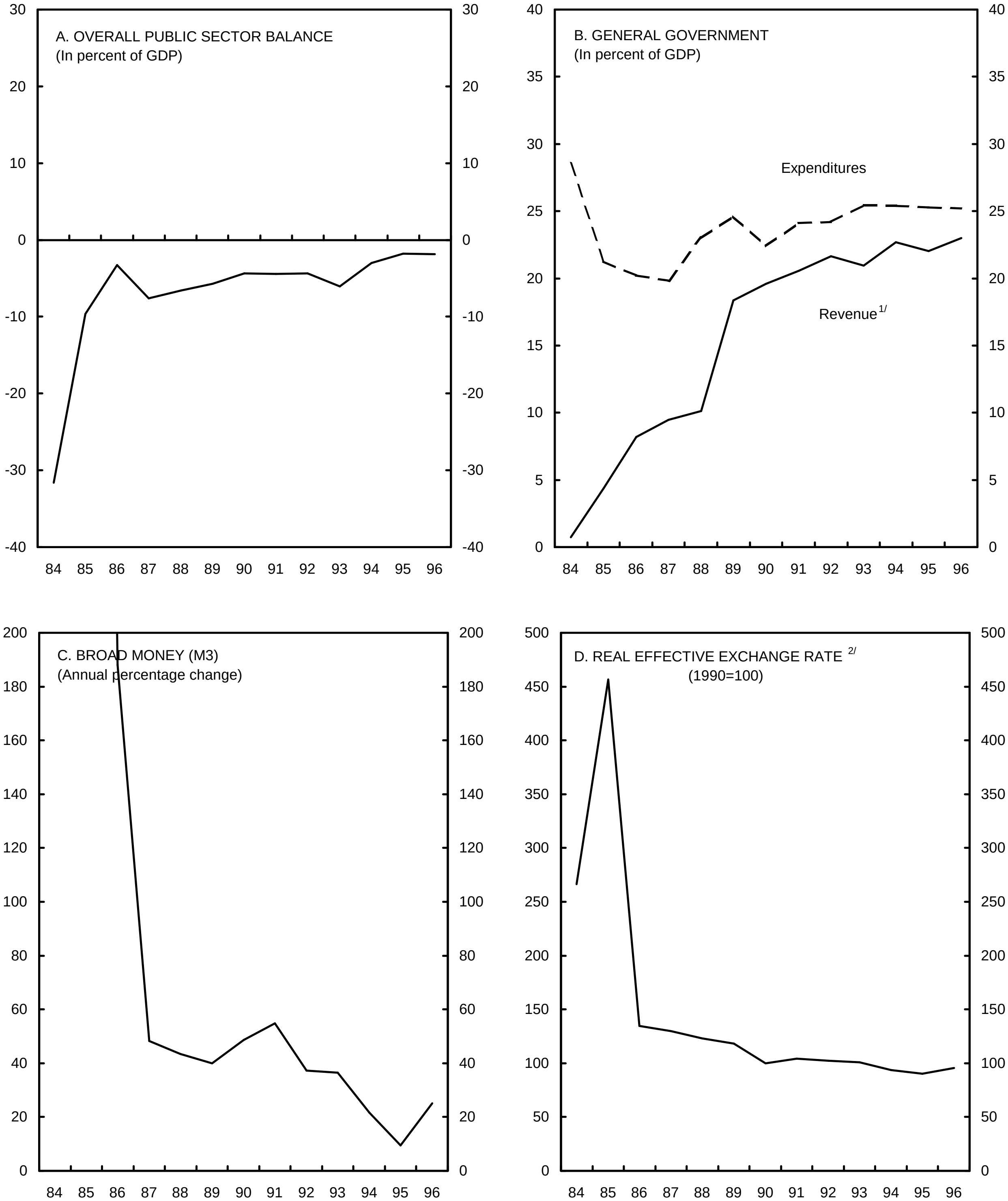
	NPV of debt/ export targets (in percent)	Mid-1998 completion point			Mid-1999 completion point		
Total assistance	215		579			502	
	220		514			433	
	225		448			363	
	230		382			294	
	235		317			225	
Memorandum items:							
		Assistance at completion point	Proportion-nality factor 1/ (in percent)	Common reduc-tion factor at the decision point 2/	Assistance at completion point	Proportion-nality factor 1/ (in percent)	Common reduc-tion factor at the decision point 2/
Multilateral creditors	215	377	17.2	17.5	327	14.6	15.2
	220	334	15.3	15.5	282	12.6	13.1
	225	291	13.3	13.5	237	10.6	11.0
	230	249	11.4	11.6	191	8.6	8.9
	235	206	9.4	9.6	146	6.6	6.8
		Assistance at completion point	Proportion-nality factor 1/ (in percent)		Assistance at completion point	Proportion-nality factor 1/ (in percent)	
Bilateral and commercial creditors							
	215	203	17.2		175	14.6	
	220	180	15.3		151	12.6	
	225	157	13.3		127	10.6	
	230	134	11.4		103	8.6	
	235	111	9.4		79	6.6	
NPV of debt after Naples terms			3,405			3,479	
Multilateral			2,190			2,233	
Bilateral			1,204			1,236	
of which:							
Paris Club pre-cutoff non-ODA			336			338	
Paris Club pre-cutoff ODA			349			349	
Paris Club post-cutoff			474			492	
non-Paris Club non-reschedulable			37			47	
Commercial			11			9	
Exports of goods and services (three year average)			1,314			1,385	

Sources: Bolivian authorities data; and staff estimates.

1/ To calculate the proportionality factor, the non-reschedulable debt to non-Paris Club creditors is excluded from the total NPV of debt. The contribution from commercial creditors is reported jointly with the bilateral creditors'.

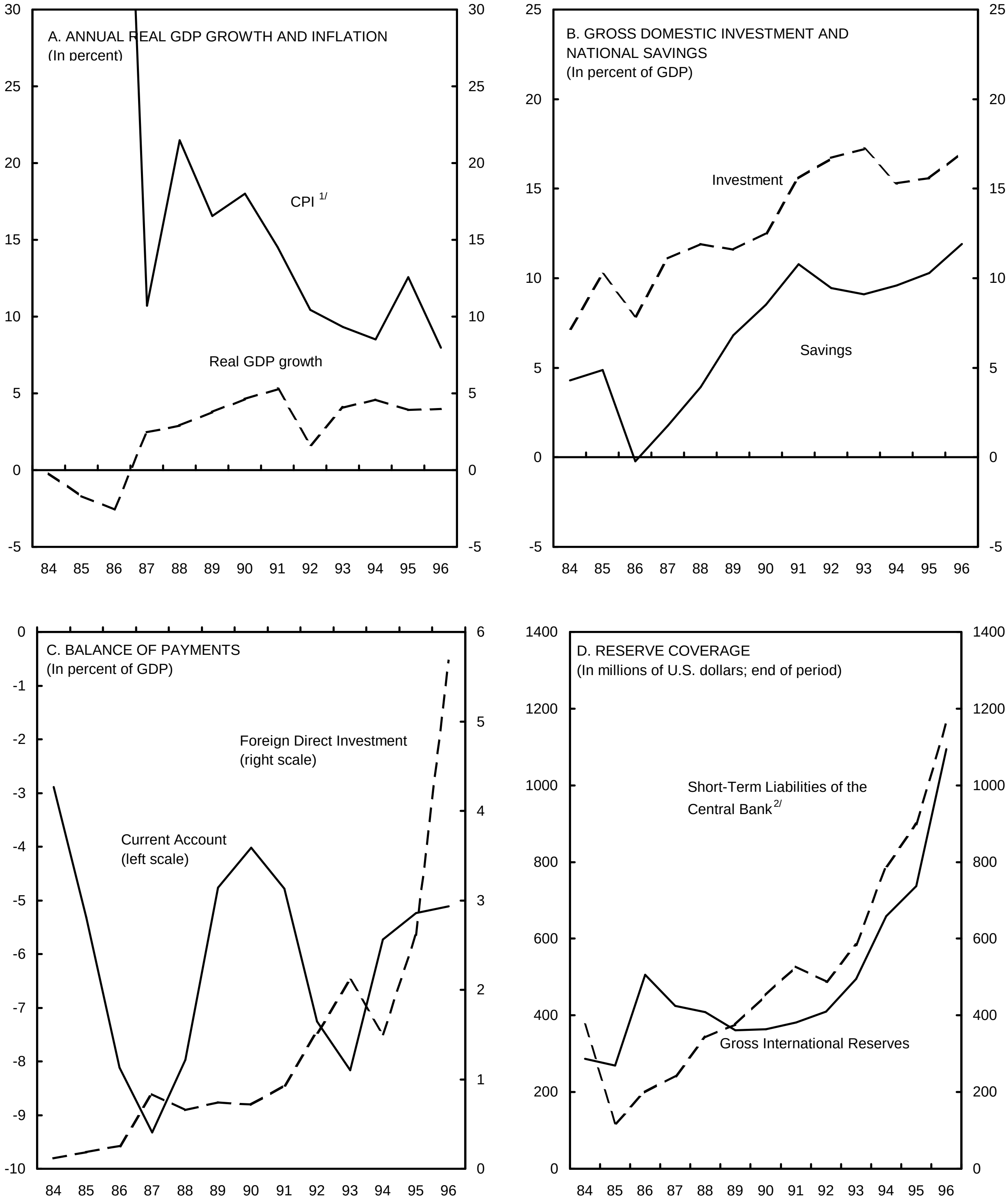
2/ For each NPV of debt target, this is the ratio by which each multilateral commit at the decision point to reduce the NPV of its claims at the completion point. It is calculated as the ratio of assistance from multilaterals at the completion point to the NPV of debt to multilaterals at the decision point.

Figure 1.
Bolivia: Selected Economic Policy Indicators, 1984-1996



Sources: Central Bank of Bolivia; Ministry of Finance; and staff estimates.
1/ Includes official grants.
2/ Increase indicates real appreciation.

Figure 2.
Bolivia: Selected Economic Indicators, 1984-1996



Sources: Central Bank of Bolivia; Ministry of Finance; and staff estimates.
1/ December over December.
2/ Includes monetary base and open market instruments.

Bolivia: Major Elements of 1996 Pension Reform

Old System

Basic Pension

- Contribution of 8.5 percent of wage shared by worker, employer and government.
- Pension of at least 30 percent of base wage (average inflation–adjusted wage during last two working years).
- Benefits guaranteed by government. A pay–as–you–go system.

Complementary Pension

- 26 funds organized by industry, union, and profession.
- Contribution of 6.3 percent (on average) of wage fully paid by employee.
- Pension of at least 40 percent of base wage.
- Prior to November 1996, not guaranteed by government.

Other pensions

- For private banks, state universities, police and army.

Shortcomings of Old System

- Covered only 22 percent of formal sector workers.
- Full retirement at 50 years of age for women, 55 years for men.
- Depleted reserves, unfunded liabilities, and overdue contributions.

New System

Personal Contributory Pension

- Worker contributes 10 percent of wage into individual account.
- Pension funded only from individual account.
- Retirement before 65 possible only if individual account sufficient to cover annual pension of at least 70 percent of base wage (average U.S. dollar–denominated wage during last five working years).

Noncontributory Minimum Pension

- For all citizens at least 65 years old.
- Payment in form of annuity in an amount determined by dividends on shares of capitalized enterprises.
- In 1997 minimum pension total cost at US$[70] million (0.9 percent of GDP).

Private Management of Both Pension Plans

- Two pension fund managers selected in February 1997.

Transition Rules

- Government pays basic and complementary pensions of retirees under existing system and will pay past contributions to current participants when they retire.
- Workers eligible for retirement under existing system may choose to continue to pay contributions to government, which would pay their pension.
- All other workers participating in existing system transferred to the new system when new funds began operation, in May 1997.
- All workers not participating in old system must join the new system within 24 months.