OUTLINE OF THE BOOK

Chapter 1 analyses the main macroeconomic events that took place in Bolivia over the last two and a half decades. The analysis highlights the impact of external shocks and policies on sectoral and macroeconomic adjustment patterns. This chapter evaluates the competing explanations available about macroeconomic performance in Bolivia. Different authors have their own explanation about the very unstable pattern followed by the key macroeconomic variables and the main factors that determined that behaviour. Then, this chapter brings into the discussion the main structural characteristics of the Bolivian economy that ought to be incorporated into the analysis in order to attain a better understanding of how the Bolivian economy works. This in turn will help us to obtain a better interpretation of the country´s most important macroeconomic events. The main conclusion of Chapter 1 is that in order to attain a proper understanding about how the Bolivian economy works, which is crucial for a more subtle policy design in response to external shocks, it is necessary to analyse macroeconomic adjustment within a more disaggregated framework.

Chapter 2 discusses in detail the nature of the external shocks experienced by the Bolivian economy over the last two and a half decades, to give a clear picture of their dimensions. This is important for understanding sectoral adjustments which are discussed in subsequent chapters. Furthermore, this chapter discusses the trends followed by the main macroeconomic variables linked to the external sector, i.e. exchange rates, reserves and trade balances.

Chapter 3 discusses the accumulation balance behaviours over the last two and a half decades, for the most relevant socio-economic groups and non-financial institutions of the Bolivian economy: i.e. households, companies, public enterprises and the government. The key stylised facts about the saving-investment and financial behaviours of each agent are identified. The main conclusion of Chapter 3 is that the accumulation behaviours of the various social groups and institutions have tended to follow essentially different adjusting rules. These rules have also tended to change over time depending on the nature of the external shocks and policy responses. This chapter also puts forwards the foreseen changes in the adjustment behaviour of agents, that will be brought about by the structural reforms introduced after 1993.

Chapter 4 concentrates on the accumulation behaviour of the financial institutions (i.e. the Central Bank and commercial banks). A detailed analysis of how financial institutions adjusted in response to external shocks over the last two and a half decades is carried out in the first part of the chapter. The stylised facts identified are used to define adjustment rules and closures in the balance for each financial institution. Likewise, this chapter discusses the expected changes in the adjustment behaviour of financial institutions that will arise from the reforms implemented during the 1990s

In *chapter 5* the discussion moves to the analysis of the relations between the external shocks and the supply-demand adjustments made by productive sectors. The balances' structure for the main productive sectors and their alternative closures are discussed in light of the observed output and price behaviours over the last two and a half decades. From this analysis, key stylised facts are obtained that are later used in the construction of individual supply-demand adjustment models for each of the sectors. The main findings of Chapter 5 confirm the hypothesis that the various productive sectors have tended to adjust following quite different patterns of response to external shocks, and that these adjustment rules have tended to change over the period.

In *Chapter 6* an attempt is made to develop a more disaggregated analytical framework. A reduced SAM-based model is set up with limited disaggregations of the productive sectors, socio-economic groups and institutions. The reduced model is used to trace the shocks and adjustments in Bolivia in three periods: the 1970s, 1980-85 and 1985-95. The expected sectoral and macroeconomic effects of the alternative adjustment mechanisms for each period are clearly specified in a consistent manner. This chapter places emphasis on (a) clarifying the differences in the adjustment behaviours of each agent; (b) identifying the changing nature of the rules that condition sectoral adjustment over time; and (c) confirming the value of adopting a disaggregated approach to the study of macroeconomic adjustment in an LDC.

Chapter 7 discusses the results obtained from a number of counterfactual exercises on the macroeconomic effects of different external shocks and policy packages. The effects of the shocks such as the terms of trade, international interest rates and capital inflows, are simulated numerically through a real financial computable general equilibrium model (henceforth referred as the RF CGE model). Three policy alternatives are introduced in order to cope with the negative effects of the shocks (i.e. no policy response, an orthodox policy and a heterodox policy). The specific policy measures included within each of these alternative policy packages are clearly specified. The effectiveness of the various policies is judged in terms of different macroeconomic objectives such as economic growth, income distribution, inflation, employment and balance of payments; and the most relevant policy conclusions derived from the simulations are set out. Finally, chapter 7 carries out numerical simulations of the foreseen impacts of the structural reforms carried out after 1993. Their effects on growth, income distribution, domestic savings and investment rates are tested through the RF CGE model. The main findings of this simulation are discussed.

Chapter 8 summarises the most important findings of this book and puts forward the main conclusions.

Finally, this book has two annexes:

Annex A develops and presents the fully-fledged SAM for Bolivia, which links the non-financial and financial sectors of the economy. It includes considerable disaggregation of the productive sector (including the informal sector), of socio-economic groups and institutions, and of financial assets in the accumulation balance for each agent. The financial part of the SAM is set up in terms of stocks, so that portfolio decisions can be incorporated within the CGE model.

Annex B presents the equations of the RF CGE model. All the sectoral models constructed in previous chapters, for the various social sectors and institutions, are linked within the RF CGE model. Closures at the macroeconomic level are also clearly defined.