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potential. Traditional exports were seen as offering rents that could be distributed to other parts of the economy. Nontraditional exports were hindered severely by an inadequate exchange rate policy and by a range of fiscal incentives which really did not have much effect on the margin in the incentives to produce nontraditional exportables. Public investments in the tradable sector, as discussed in the previous chapter, generally were unprofitable and socially costly. They were motivated more by political considerations and easy foreign credit, rather than by a careful cost-benefit analysis. Finally, unwarranted policy hopes were held for export promotion within the context of regional integration schemes, particularly the Andean Pact. These regional schemes proved to be superfluous for Bolivia, not only because the target market remained very small even after integration, but also because the Andean countries almost all descended into deep crisis in the 1980s.

5 Aspects of Foreign Debt Accumulation, 1952–85

As was shown in table 1.8, Bolivia has depended significantly on foreign savings to finance gross capital formation since the late 1950s. The bulk of that foreign financing has come in the form of medium- and long-term (MLT) loans to the public sector, which is the category of capital inflow that we will examine in this chapter. Unfortunately, it is difficult to study the foreign debt of the Bolivian private sector because of a lack of adequate data, though available information suggests that the debt of the public sector is indeed by far the dominant form of external indebtedness.[1] It should be mentioned, however, that private nonguaranteed debt increased very rapidly in the crucial subperiod 1978–82, just preceding the extreme macroeconomic crisis. The measured short-term debt remained fairly constant over time, but the quality of the data on this type of debt prevents us from drawing any firm conclusions. The frequent shifts in the classification of the debt because of reschedulings, arrears, and the assumption of the debt of one sector by another during the past several years makes the analysis even more difficult.

An historical view of Bolivia's borrowing can help to discriminate among the different factors responsible for the debt crisis. Bolivia had access to loans from official multilateral sources and from governments since the final years of the 1950s. These credits had a concessional element, the size of which decreased significantly over time. Already by the first half of the

1960s, Bolivia had a debt-GNP ratio in excess of 30 percent and by 1970, a debt-GNP ratio of over 40 percent, as we see in table 5.1. The innovation in the 1970s was Bolivia's renewed access to financial markets from which it had been cut off after defaulting on its public sector bond debt in 1931. This led to a marked shift in the structure of the debt, as is shown in table 5.2, from official sources to private sources, particularly to banks. The share of bank debt soared from 2.3 percent of the total to 38.9 percent in 1981.

The first incursion of the commercial banks into lending to Bolivia in recent history occurred in 1972 when the government received credits from Citibank, Swiss Bank Corporation, and the Bank of America to compensate foreign owners of those firms nationalized by President Torres (see Ugarteche 1986, 150, and the references therein). Other credits with very expensive borrowing terms followed. There was also a significant rise in suppliers' credits.

In 1977 Bolivia was still in good standing with the international banks, but the spillover effects of problems elsewhere in the developing world had negative repercussions on borrowing terms, resulting in shorter-term loans and higher-risk premiums. By 1980 Bolivia faced a severe debt problem that had not yet been resolved by the end of the 1980s. The problems with the commercial banks are the gravest, but are not the only critical aspect of the debt crisis. In the early 1980s, the military regimes in Argentina and Brazil gave short-term financing to the generals in Bolivia. In 1983 this short-term debt was refinanced into a longer maturity, thereby sharply increasing the MLT public debt. This explains why, while net capital flows were negative in 1983, there was a sharp increase in measured MLT debt.

If one looks at the conventional measures of overall indebtedness (see table 5.1), MLT public debt relative to GDP was already high in the 1960s. Indeed, the ratio of MLT public debt to exports in the 1960s and early 1970s was actually above the average ratio between 1974 and 1977. But, as we should like to stress, this observation neglects the fact that the nature of

Table 5.1 **Debt Indicators, 1970–87 (public and publicly guaranteed debt)**

Year	Debt-GNP Ratio	Debt-Export Ratio
1970	48.2	231.9
1975	48.6	166.6
1980	77.0	214.5
1981	88.0	272.1
1982	93.8	313.4
1983	111.8	367.0
1984	111.9	401.8
1985	107.7	478.7
1986	105.1	596.1
1987	110.8	743.4

Source: World Bank Debt Tables, (New York: Oxford University Press), 1988–89 edition.

Table 5.2 Structure of Medium- and Long-Term Debt, 1970–85 (proportion of total debt outstanding and disbursed)

	1970	1975	1980	1985
Official creditors	56.7	60.0	51.5	59.9
of which:				
Multilateral	5.4	13.8	22.1	21.7
Bilateral	51.3	46.1	29.4	38.2
Private creditors	43.3	40.0	49.5	40.1
of which:				
Commercial banks[a]	17.3	25.6	42.1	37.3
Suppliers	9.8	8.4	6.4	2.8
Other	16.2	6.0	1.0	.0
Total	100.0	100.0	100.0	100.0

Source: World Bank Debt Tables, 1988–89 edition.

[a]This category is "private financial markets," and includes a small amount of bond debt not held by commercial banks.

Bolivia's debt had changed decisively, with a sharp increase in the share of debt owed to foreign commercial banks, a point that can be seen clearly in table 5.2.

In part because of this change, the indicators of debt servicing (as opposed to indicators based on the stock of debt) suffered a persistent deterioration over time, as can be observed in table 5.3. It should be noted that the figures on interest service understate the contractual debt burden because they are based on *actual payments* and not on *payments due*, and since the portion of interest in arrears is very important, especially in the 1982–85 subperiod. The increasing debt-service ratios reflect the change in the nature of indebtedness and, more precisely, the shift from debt with a large concessional element toward debt on market terms, in a situation in which market interest rates were rising sharply. The debt-service indicators relative to export of goods and services worsened progressively in the 1970s, compared to the values at the very beginning of the decade.

In sum, Bolivia's creditworthiness improved very significantly in the first half of the 1970s, if creditworthiness is defined as access to market lending. The extraordinary upsurge of exports (and its effects on real GDP) in the 1970s created an illusion in regard to the long-run economic prospects of a country that had been, before this event, very dependent on foreign aid and loans with highly concessional terms. By 1980, however, that illusion had been shattered. Bolivia's creditworthiness disappeared once again, and Bolivia found itself in a debt-rescheduling exercise with the banks, two years before the outbreak of the global debt crisis.

5.1 The Nature of Borrowing by the Public Sector in the 1970s

The big push for debt accumulation appeared between 1975 and 1980, as can be seen in table 5.4. Who were the beneficiaries of the growing external

Table 5.3 **Debt-Service Indicators, 1970–87 (public and publicly guaranteed debt)**

Year	Debt Service–Export Ratio	Debt Service–GNP Ratio
1970	11.3	2.3
1975	15.3	4.5
1980	27.9	10.0
1981	27.7	8.9
1982	31.5	9.4
1983	32.2	9.8
1984	36.4	10.1
1985	34.2	7.7
1986	23.7	4.2
1987	22.1	3.3

Source: *World Bank Debt Tables,* 1988–89 edition.

Note: The data refer to total debt servicing on medium- and long-term public and publicly guaranteed debt.

Table 5.4 **Debt Outstanding and Disbursed, Medium and Long Term, 1970–85 (in millions of U.S. dollars)**

1970	480
1975	824
1980	2,228
1981	2,765
1982	2,861
1983	3,279
1984	3,386
1985	3,484

Source: *World Bank Debt Tables,* 1988–89 edition.

debt? Among the public enterprises, the state oil company, YPFB, was probably the major recipient, followed by the smelting company, CMK (Complejo Minero Karachipampa), and the state mining company, COMIBOL. Loans contracted by the specialized state banks, with public sector guarantees, were channelled to the private sector producers. The stock of debt owed by the central government also grew very rapidly between 1975 and 1979. The big increase between 1979 and 1981 was caused essentially by a transfer of a debt from COMIBOL (and other less important enterprises) to the TGN.

The important question, of course, is why the Bolivian government increased its indebtedness so rapidly at the end of the 1970s. As was discussed in earlier chapters, the data suggest that most of the debt was related to the rapid growth of public investment projects, which in turn were linked to a complex of political and economic factors. We have identified several of those factors at length in earlier chapters, including (1) the very short time horizon of Bolivian governments; (2) the use of state enterprises as a vehicle for political control; (3) the use of state enterprises as a conduit for channelling public money to favored parts of the private sectors; (4) the soft budget constraint of the state enterprises, which reduced the incentives to monitor investment projects; (5) the overvaluation of the exchange rate, which led to a misallocation of investment spending into highly capital-intensive projects and which increased the budget deficits of the public enterprises; (6) the use of state enterprises as buffers for macroeconomic shocks; and so forth. And as we have seen, the mega-investment projects of the public sector in the end failed to pay the necessary returns.

In addition, there was certainly a misjudgment about the country's true macroeconomic situation, as well as a failure to predict (along with the rest of the world!) the sharp swings that were to take place in the international economy at the end of the 1970s and the early 1980s. One part of the misjudgment came from the fact that Bolivia's strong economic performance in the 1970s reflected a temporary terms-of-trade improvement and the effects of the foreign loans themselves, rather than a true underlying improvement in the economy. The annual average terms of trade of 1976–80 was 22 percent higher than the average in 1971–75. This meant a positive real income effect of terms-of-trade change of 6.2 percent of GDP for the second half relative to the first one. This improvement turned out to be temporary, though the borrowing behavior implicitly assumed that it was permanent.

With respect to the international environment, the low real interest rates on international loans were perceived to be permanent, when of course they turned out to be temporary. As stressed by Morales and Sachs (1989), this change in the interest rate environment helps to account for the fact that overborrowing (and overlending by the banks) was a common feature of the entire world at the end of the 1970s.

5.2 Private Nonguaranteed Debt

In 1985 the private nonguaranteed debt was 8 percent of the total external debt ($314 million, or approximately 8 percent of GDP). While the amount is modest, it grew very rapidly in the late 1970s and early 1980s. Several channels were used by the private sector to contract nonguaranteed debt. Credits were given directly by the international commercial banks to the debtors, or they were intermediated by their local subsidiaries or by the domestic banks. A significant fraction of the nonguaranteed debt is actually suppliers' credit from foreign manufacturers to their authorized domestic agents in Bolivia.

The participation of the domestic banks in the marketing of foreign credits increased, somewhat surprisingly, when a hardening in the borrowing terms occurred and the international banks and their subsidiaries were reducing their direct exposure. The implicit assumption on the part of the Bolivian banks may have been that there were de facto public sector guarantees on the private sector debt.

Unfortunately, there is no available information on the final users of the loans granted by the banks. We can, however, make a strong presumption that a high percentage of the loans were used in the service sector and in other nontradable sectors. The presumption is based on the fact that when depreciation of the peso accelerated, the delinquency rates in the banks increased considerably. In October 1982 it was reported that 40 percent of the banks' portfolios were technically in default (World Bank 1985, 528). In fact, the debt situation is at least partially behind the measure of "dedollarization," to be mentioned in chapter 6, which allowed the private sector to repay at a highly favorable interest rate the dollar-denominated debts incurred by the domestic banking system.[2] Dedollarization and exchange controls also erased the effective distinction between private and public debt after 1982, since the foreign debts of the private banks were to be repaid in pesos to the Central Bank, with the Central Bank then required to honor the international obligations. The foreign debt of the domestic private banks with the international banks continues to be a thorny issue because of several legal and financial disputes between the banks and the government.

No information is available on the service burden of the private nonguaranteed debt.

5.3 Short-Term Debt

The data on short-term debt are particularly poor. With the scant information available, we can obtain only a rough picture of what has happened since 1978. In view of the increasing difficulties of the economy after 1978 and the hardening of terms on long-term bank lending, the governments have increasingly resorted to short-term loans from other central banks in the region and from commercial banks. Balance-of-payments problems (i.e., dwindling reserves as a result of fixed exchange rates, domestic inflation, and large budget deficits) prompted the appeal for swap credits from foreign central banks, while the state-owned Banco del Estado contracted commercial debts to channel them to the private sector.

The worsening of the situation in 1980 caused a delay in payments of short-term commercial credits. This led to a refinancing agreement in April 1981, to which we refer below, that converted about one-third of the public sector's short-term loans into medium-term loans. Unfortunately, the refinancing did not substantially reduce the outstanding short-term debt, since the government made appeals to other sources for more short-term loans: Central Bank swaps and reciprocal trade credits in the context of the economic integration scheme of ALADI. In 1983 a large part of short-term loans owed to Argentina and Brazil were converted to medium-term credits.

In spite of the conversions to MLT debts, the stock of short-term debt continued increasing on account of arrearages. In 1980, short-term debt was 11.1 percent of the total external debt; in 1982, it reached a low of 5.8 percent; and in 1985, the percentage was 8.7 percent. Short-term debt was $347 million in 1985, or almost 9 percent of GDP.

5.4 The Hidden Costs of Easy Credit Availability

Since the early 1960s, the prime focus of official policy had been to increase economic growth. The emphasis on this objective grew even more from 1973 to 1978, both as a product of design and as a result of very favorable external circumstances. The greater availability of foreign credits coincided with, and was in addition spurred by, a substantial increase in export earnings. Any source of financing for capital expansion was welcomed at that point. The government had long tried to cater to foreign direct investors with generous fiscal incentives, but the response was weak outside of the petroleum sector. Thus, as a substitute, it started to court foreign lenders, who obliged as part of the world credit expansion of the 1970s. Banzer's government assured political and monetary stability, and the government offered, after some hesitation, exchange rate guarantees. This, and an ample supply of development projects, however poor in design or implementation, sufficed to induce a very significant flow of external resources. The increase in the contribution of foreign loans to financing domestic investment, had, however, the cost of further impairing the administration of the public sector. The easy recourse to indebtedness weakened the budget constraints and indeed allowed the government more leniency in fiscal policies and on the exchange rate than there would have been otherwise. Moreover, the undemanding fiscal attitude was aggravated when access was gained to commercial bank credits that were not tied to specific projects, in contrast to the case of official loans which almost always were based on specific projects.

The access to loans on relatively easy terms also impeded the design of needed reforms in the financial sector, particularly in the banks. The intermediation of foreign loans, contracted by the government or with its guarantee, was a more important source of profits to the private banks than the lending out of deposits made by domestic wealthholders. The neglect by the financial intermediaries of the local demand for deposits in the banking system likely had a negative longer-term effect on the mobilization of domestic savings.

The foreign loans were channelled to public investment projects and to the private sector through "refinancing" mechanisms. We have noted at length in the previous chapter that poor project design and, especially, poor implementation, led in many cases to results incommensurate with the resources that had been put out. A significant share of the increase in public indebtedness was due to these factors. Loans that were channelled to the private sector did not fare better in regard to results, as they were diverted to speculative uses and, frequently, never repaid. In many notorious cases, private lenders simply defaulted to the state banks that had channelled the external credits, and the government made no attempt to collect on the bad debts. This increased the demand for loans and, ironically, there was a ready supply to match.

A special mention needs to be made regarding exchange rate policies. Overvaluation coupled with punitive taxation in the natural resources sector hampered investment in minerals, hence reducing the future supply of foreign exchange to honor the foreign debt obligations. In addition, overvaluation led to an expansion of imports of consumer durables that was again financed directly and indirectly with foreign debt. Lastly, as the reserves of foreign exchange became precariously low, partly because of the currency overvaluation and the looming budget deficit, there was an increase in capital flight.

Because of the absence of sound macroeconomic policies and the poor administration of the loans intended for investment, many loans simply became consumption loans in 1978–81. Their servicing would later require a drop in consumption, as indeed happened. In the transition, however, more indebtedness was accumulated to refinance old loans and their interest charges.

By 1980 Bolivia was already a highly indebted country, as indicated, for instance, by a debt-to-GDP ratio of 76 percent. It was then subjected to the sharp international interest rate shock. Arrears on amortizations of loans granted by private creditors started to build up. In spite of a debt rescheduling in 1981, the debt situation became aggravated. As seen in table 5.5, from 1982 on, the net foreign resource transfers (net new lending minus interest payments) turned negative and a shift from external sources of finance to internal sources occurred, throwing the country onto the path of hyperinflation.

5.5 Debt Management, 1970–85

In this section, some of the more important institutional features of the debt management are presented. One interesting feature is Article 56 of the

Table 5.5 **Net Foreign Transfers on Medium- and Long-Term Public and Publicly Guaranteed Debt, 1970–87**

Year	Net Resource Transfers ($ million)	NRT as Percentage of GNP
1970	31	3.1
1975	90	5.3
1980	178	6.2
1981	92	2.9
1982	−61	−2.0
1983	−135	−4.6
1984	−102	−3.3
1985	−116	−3.6
1986	184	4.8
1987	72	1.7

Source: World Bank Debt Tables, 1988–89 edition.

Note: Net resource transfers are defined as new lending minus total debt servicing (amortization plus interest). All are measured on a cash-flow basis.

Constitution of the Republic of Bolivia, which requires congressional approval of all loans contracted by the government of Bolivia, the public enterprises, and all public institutions, or on their behalf. Strictly speaking, the loans contracted by unconstitutional governments are also unconstitutional. It should be recalled that during most of the period 1964–82, Bolivia had only de facto governments.[3]

Until 1974, government agencies and public enterprises negotiated foreign credits, which were furnished principally by official lenders and by suppliers of capital equipment. Central government agencies, municipalities, regional development corporations, and committees for public works themselves engaged in the search for foreign credits. The grant element in the official foreign loans was usually so important that the higher levels of the government, cognizant of this, approved and included them in the fiscal budget. In contrast, suppliers' credits were systematically seen as too expensive and frowned upon, but the purchasers of goods with suppliers' credits were usually in a position to overcome the objections of the Ministry of Finance and the Central Bank. In fact, the growth of suppliers' credits led to increasing regulation in the mid-seventies.

The haphazard way in which the borrowing took place before 1974 was such that there are no good records on the state of the public debt and, a fortiori, there was no policy on indebtedness, except the weak objections to suppliers' credits, mainly under the advice of foreign agencies of international cooperation.

This situation, and the large expansion in international credit between 1973 and 1978, led to two important regulatory measures. First, the National Institute for External Financing (INDEF) was created in 1974 as a decentralized government agency to keep track of all indebtedness incurred in the public sector through its financial and nonfinancial institutions, to negotiate new loans, and in specific cases to refinance old loans. INDEF was to be especially active in obtaining general balance-of-payments support loans.

In 1974 a decree was passed establishing the National System of Projects. The objective was to create a set of agencies, in a hierarchical structure, to help in the generation of investment projects, to perform social cost-benefit analysis of them, and to oversee their implementation. The search for sources of financing of the projects was also included among the functions of the system. Large investment projects and their financing required final approval by the National Council of Economic Planning (CONEPLAN), composed of several cabinet members and undersecretaries. Before projects arrived at CONEPLAN, they were to be screened by the National Committee of Projects and its technical secretariats.[4]

Very few investment projects followed the steps spelled out in the 1974 decree. The process of approval was slow and cumbersome, and the technical secretariats lacked competent personnel. Managers of government agencies frequently ignored the guidelines of the National System of Projects. More importantly, vested interests were able to circumvent the procedures and get their projects to CONEPLAN directly. Several reforms of the National System of Projects were proposed between 1976 and 1986, but to no important effect.

INDEF ceased to exist in 1979, and its functions were transferred to the Central Bank, where a division on external finance (FINEX) was created. The general objectives of FINEX were very similar to those of INDEF. FINEX had the advantage of being part of the Central Bank where it could enjoy better information support. Unfortunately, FINEX objectives were not met, as it suffered from acute political interference. The Ministries of Finance and Planning frequently intervened in FINEX negotiations. Very often, debt negotiating committees were formed by making appeals to private Bolivian bankers with international connections and neglecting FINEX (a case in point is the debt rescheduling of April 1981, discussed in sec. 5.6).

The situation worsened during Siles Suazo's administration, when almost everybody in the Cabinet felt obliged to intervene in debt negotiations. For instance, crucial debt reschedulings with Argentina and Brazil were carried out by the Ministers of Defense and Foreign Affairs. A very personalistic and ad hoc style of debt negotiations developed, with a significant loss of institutional memory of past negotiations, which was important since many agreements were verbal. Bolivia, as well as its partners, suffered considerably from the rapid turnover in negotiators.

The need to redress the confusion in the external debt accounts of Bolivia, as well as the need to have updated information on debt negotiations carried out by other countries in the same predicament, called for foreign expertise. Several debt consulting firms and personal consultants were hired.[5] The consultants were, however, less helpful than expected, although it must be said in their behalf that they were contacted at a point when no solution was really in sight.

If the determination of the correct size of the public external debt was a formidable task, keeping track of the foreign debt of the Bolivian private sector was even more difficult. It is worth underscoring that a good knowledge of the size and structure of the private debt was essential for the design of policies aimed at the restoration of external equilibrium. Moreover, although this was not presumed at that time, most of the private debt eventually became "nationalized" with the dedollarization measure of November 1982.

In 1979, ceilings on the stock of short-term debts, both private and public, were set. The obligation to register the debts of the private sector in the Central Bank was also established, but unfortunately this obligation was not tightly fulfilled. The lack of adequate information on the debt of the private sector created needless problems after dedollarization.

5.6 Debt Reschedulings, 1980–85

The debt crisis of the 1980s commenced with a small crisis in 1980, during the government of Luis Garcia Meza. Arrears in amortizations to the commercial banks eventually led to a restructuring of the debt in April 1981, which was crucial for triggering further developments. The eventful years of 1980–81 had also led to an abnormal growth of short-term credit to the generals in Bolivia from the generals in Brazil and especially Argentina. Arrears on those debts were also refinanced in 1983 with important implications.

The chronology of events that led to the April 1981 agreement has been described by Baptista (1985) and Rivas (1986). Bolivia had ceased to make amortization payments after the Garcia Meza coup in July 1980. Because of this, the creditor banks gathered in Caracas in August, formed a consortium, and elected the Bank of America as the leader of a Coordinating Committee formed by the Bank of America, Bankers Trust, Deutsche Südamerikanische Bank, American Express, Crocker National Bank, Libra Bank, Manufacturers Hanover Trust, Texas Commerce Bank, Bank of Nova Scotia, and Irving Trust. The Coordinating Committee represented 128 creditor banks. In the same Caracas meeting, an agreement was reached to reschedule debts with repayments due between 28 August 1980 and 5 January 1981. In January 1981, the government of Bolivia was to meet again with the Coordinating Committee. No agreement was reached in January except on the need to meet again in April 1981. Notwithstanding, Bolivia made some bona fide payments.

After all these postponements, the April 1981 meeting took place in New York. Debts to the consortium amounted to U.S.$722 million (or 19 percent of GDP), of which U.S.$457.3 million were to be rescheduled in four tranches. The April agreement consisted essentially of a conversion of short-term loans in arrears to a medium-term loan and a reprogramming of medium-term loans.[6] The rescheduling called for a 10 percent down payment of the refinanced loans according to the original schedule of maturities.

The April 29th refinancing has been very much criticized within Bolivia. The thrust of the argument is that Bolivia was overcharged, with its costs and conditions well above what other countries obtained at that moment or shortly after. A more telling point is that it was extremely unrealistic that Bolivia would be able to come close to achieving the terms of the agreement. It should also be noted that the agreement called for Bolivia to sign an IMF program which never occurred. The Coordinating Committee routinely asked for the fulfillment of this clause and, as routinely, waived it.

Bolivia was unable to meet the terms of the April 1981 agreement and fell in arrears by September 1982. Several meetings took place to normalize the situation, but to no avail. A semblance of normality prevailed, however, during the term of Minister of Finance Flavio Machicado in 1983, when debt servicing was resumed. Bolivia finally declared a moratorium to the commercial banks in mid-1984.

Bolivia was able to get some debt alleviation more easily with two bilateral creditors: Brazil and Argentina. A total of U.S.$716 million of short-term debt and principal on medium-term debt was refinanced with those countries in 1983 on relatively easy terms: a fixed interest rate of 8 percent, maturities between 8 and 10 years, and grace periods of 3 years. This scheme of refinancing was found acceptable by the Bolivian public and did not provoke the kind of criticism that the rescheduling with the commercial banks had received. The international organizations, on the contrary, objected to the status of "preferred creditor" that Argentina received because it was able to use the natural gas exports of Bolivia as collateral.

5.7 Developments After 1985

In chapter 8 we provide a detailed analysis of Bolivia's debt renegotiations after 1985. The main point that can be mentioned here is that the government under President Paz took a very different approach to negotiations. Having inherited a unilateral suspension of payments on the bank debt from the Siles government, the Paz administration maintained the suspension and began negotiations with the banks addressed to a long-term solution to the crisis instead of another rescheduling. Some results were achieved in 1988 when Bolivia was able to retire approximately one-half of its commercial bank debt at a price of 11 cents per dollar. In 1989, more debt was retired and negotiations continued on the remaining debt that had not yet been repurchased.

6 The Emergence of Hyperinflation, 1982–85

The inflation in Bolivia in 1984 and 1985 was the most rapid in Latin American history up to that date and one of the highest in world history.[1] During the first half of 1985, the inflation surged to an annual rate of about 26,000 percent (approximately 60 percent per month), and it reached an annual rate of 60,000 percent during May–August 1985. As shown in table 6.1, the inflation was brought under control in the second half of 1985, and then after a sharp jump in prices in January 1986, inflation was kept at low