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From: The Secretary

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**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**





# BOLIVIA

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 27, 2021

### KEY ISSUES

**Context.** Following the October 2020 election, the new administration moved to tackle the devastating human and economic effects of the COVID-19 pandemic. The economy shows signs of recovery from its 8.8 percent contraction in 2020. However, fiscal imbalances have increased and international reserves continue to fall. On February 12, Bolivia repurchased the 240.1 million SDR purchase under the Fund's Rapid Financing Instrument (that was approved by the Fund's Executive Board in April 2020).

**Outlook and risks.** The recovery is expected to gather momentum but the large fiscal deficit is a challenge to medium term debt sustainability. Key risks include those emanating from the uncertain course of the pandemic, a deterioration in the terms of trade, and/or a tightening of external financing conditions.

**Policies.** In the near term the authorities should continue to prioritize vaccination of the population and support for public health. Fiscal policy should continue to support the recovery but within a policy framework that ensures a reduction in the deficit and debt-to-GDP ratio over the medium-term. A careful transition to a more flexible exchange rate, embedded within an inflation targeting monetary framework, would increase welfare and resilience to external shocks. In unwinding the COVID-19-related increase in spending, public expenditures should prioritize efforts to protect the vulnerable and build resilience to climate change. There is scope to raise long-run growth by phasing out preferential allocation of bank credit to state-run enterprises, improving the business environment to incentivize private investment in the non-hydrocarbon economy, and strengthening governance of core economic and regulatory institutions.

**Approved By**  
**Nigel Chalk (WHD)**  
**and Bjoern Rother**  
**(SPR)**

A virtual mission consisting of Chris Walker (head), Gregorio Impavido, Christopher Evans (all WHD) and Sergio Cárdenas (local economist) was conducted during April 12-22, 2021.

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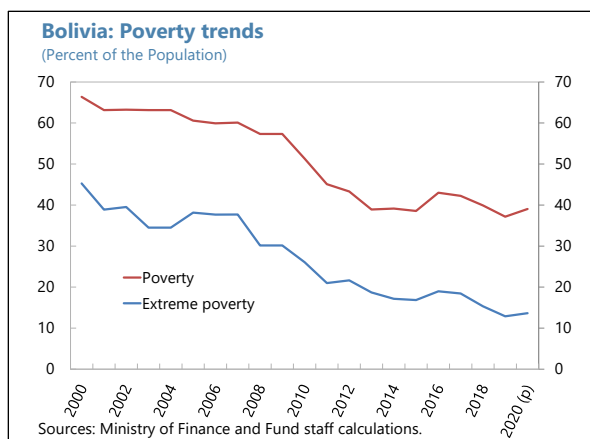
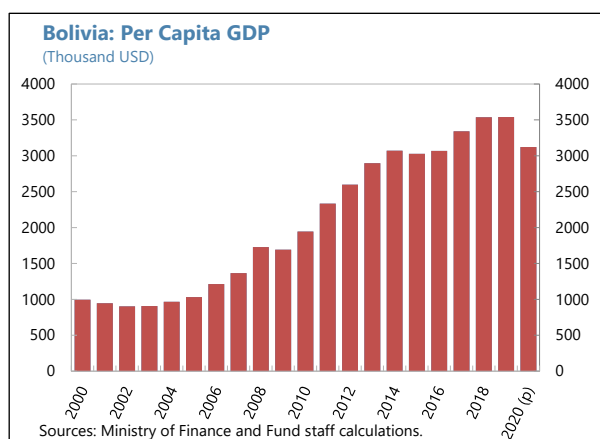
## CONTEXT

1. **On October 18, 2020, Luis Arce of the Movement for Socialism (MAS) party won Bolivia's presidential election with 55 percent of the vote.** Following the annulled October 2019 election, the general election had been postponed several times as a result of COVID. President Arce, a former Minister of Finance in the previous government, was sworn in to a 5-year term on November 8, 2020.
2. **The COVID-19 pandemic has led to unprecedented disruption and a tragic loss of life,** Bolivia was initially spared from the full force of the pandemic but cases rose in July and August, receded, and then surged again toward the end of 2020. Over 12,000 deaths and 250,000 cases have been reported by early May. A health emergency was announced in March 2020 with the government implementing a generalized lockdown (closing businesses, schools, and border crossings). The lockdown was subsequently extended several times before restrictions on business operations and movements were gradually relaxed starting in September. The government has agreements to receive vaccines via COVAX and through other sources, and began its vaccination program in February. As of early June, about [10] percent of the population had been fully vaccinated.

## THE IMPACT OF COVID, OUTLOOK AND RISKS

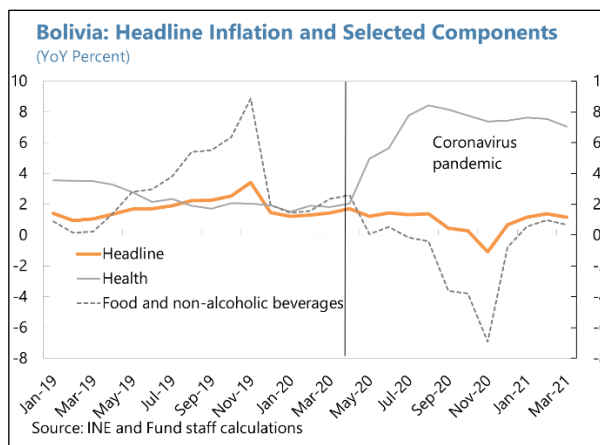
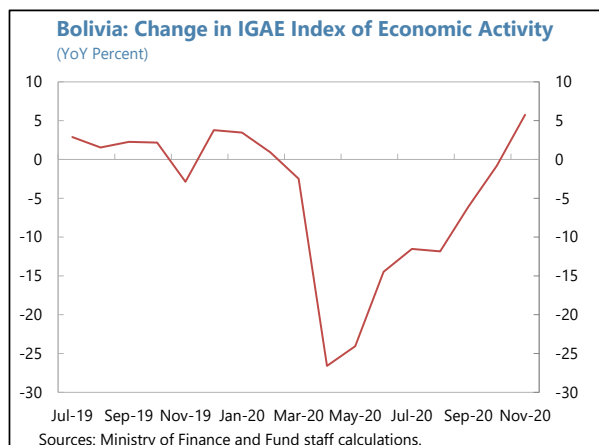
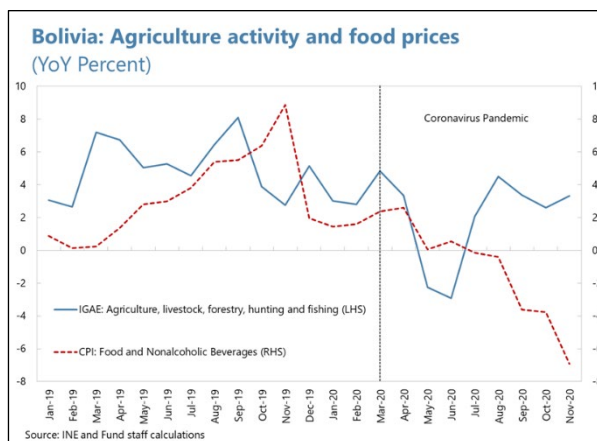
### A. Recent Developments

3. **Before the pandemic, high growth—bolstered by high commodity prices and expansionary fiscal policy—and an expansion in social programs had significantly improved living standards.** From 2000-19, poverty fell from 66.4 percent to 37.2 percent, extreme poverty fell from 45.3 to 12.9 percent, life expectancy rose from 61 to 73 years, and primary school completion increased from 84 to 99 percent.

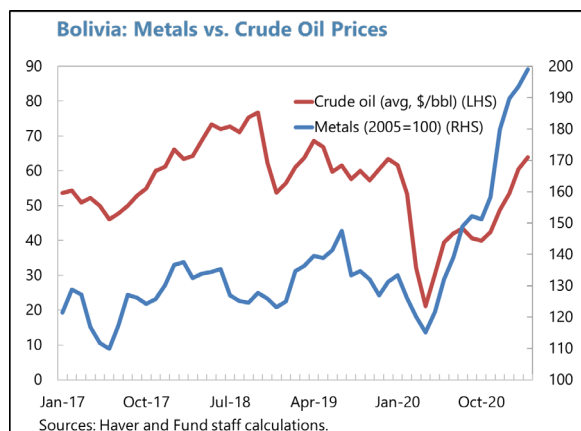


**4. The pandemic caused GDP to contract for the first time in 25 years.** Private domestic demand fell 10.3 percent in 2020. Output contracted 24.6 percent yoy in the second quarter of 2020, coinciding with the strictest quarantine restrictions. A moderate recovery began in mid-2020, with output in the fourth quarter exceeding year-before levels by 1.7 percent (due in part to base effects related to the uncertainty surrounding the annulled October 2019 elections). Consumer price inflation in December 2020 was 0.9 percent year-on-year, below the long-run average.

**5. Lockdowns and the associated impact on demand dampened growth in all sectors except agriculture.** The necessary quarantine imposed in March 2020 restricted mobility and access to work, sharply lowering output in the transport and communication, mining and manufacturing, and construction sectors. Mining was the worst performing sector over 2020, with output coming to a standstill in the second quarter. Agriculture has stayed buoyant, due in part to steady internal demand and to external demand for meat exports.



**6. The decline in domestic demand brought about an improvement in the current account, despite a worsening in the terms of trade for much of 2020.** COVID-19 restrictions dampened demand for intermediate and consumer goods imports, causing the current account deficit to contract by 3 percentage points to ½ percent of GDP; even as weak external demand weighed on hydrocarbon export prices and volumes. The positive change in the current account was supported by the resilience of net



remittances, helped by inflows from Bolivians working abroad, which rose from 2.8 to 2.9 percent of GDP as both the U.S. and Europe saw a recovery in jobs and incomes in the second half of 2020.

**7. The government increased public health outlays and provided support to households and businesses during the pandemic.**

The nonfinancial public sector deficit reached 12.7 percent of GDP in 2020 (Table 3b). Relative to 2019 (text table), overall revenues decreased by 22 percent (7 percent of 2020 GDP) largely driven by a cyclical downturn in indirect taxes like VAT and excises on fuel. Over the same period, current expenditure increased by 13 percent (3.7 percent of GDP), driven mainly by one-off expenditures on direct relief programs (including 1.6 percent of

**Bolivia: Summary Operations of the Combined Public Sector**  
(2019-2020)

	Percent Change	Percentage Points Change of 2020 GDP
<b>Total Revenues</b>	<b>-21.6</b>	<b>-7.0</b>
Tax Revenues	-21.9	-5.5
IDH and royalties	-10.6	-0.4
Indirect Taxes	-21.0	-3.4
o/w VAT	-25.7	-2.1
<b>Total Expenditures</b>	<b>-5.7</b>	<b>-2.3</b>
Current Expenditure	12.6	3.7
Purchases of goods and services	-11.0	-0.5
Social benefits	53.9	3.7
Net acquisition of nonfinancial assets	-54.6	-6.0
<b>Primary Balance</b>	<b>71.9</b>	<b>-4.7</b>
<b>Net lending/borrowing (Fiscal Balance)</b>	<b>57.7</b>	<b>-4.7</b>
<b>Memorandum items:</b>		
Nominal GDP	-10.6	-11.8

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

GDP on the *Bono Contra el Hambre*) and transfer payments to the private sector (Table 1). Current expenditure increases were offset by an 11 percent (½ of 2020 GDP) contraction in spending on goods and services and a 55 percent (6 percent of 2020 GDP) contraction in public investment.

**8. The growing fiscal imbalance, in the context of a fixed exchange rate, has accelerated the fall in international reserves.** Reserves have declined from US\$6.5 billion at end-2019 to US\$4.7 billion at end-March 2021, continuing a trend that began in 2014. The current level of reserves represents 5.2 months of goods and services imports or 61 percent of the Fund's reserve adequacy metric.

**9. Within the constraints of the fixed exchange rate regime, the central bank has provided liquidity to banks and undertaken a range of quasi-fiscal operations.** Collateral requirements for repo operations were loosened, reserve requirements reduced, and the central bank purchased central government debt from pension funds, resulting in an estimated liquidity injection to the banking sector of about 6 percent of GDP. The central bank also provided monetary financing to the central government,<sup>1</sup> with outstanding credit from the BCB to the government increasing by 5 percent of GDP in 2020. Loans to SOEs<sup>2</sup> were, however, left broadly unchanged.

**10. Risks to debt sustainability have risen.** (Annex II). The trajectory of public debt has deteriorated over the past year as a consequence of the COVID-19 induced fiscal expansion, and

<sup>1</sup> Article 22 of BCB law No 1670 prevents the BCB from financing the central government except under exceptional circumstances or to provide short term liquidity to smooth budget cashflow volatility.

<sup>2</sup> Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), Empresa Boliviana de Industrialización de Hidrocarburos (EBIH), Empresa Azucarera San Buenaventura (EASBA), Yacimientos de Lito Bolivianos (YLB), and Empresa Nacional de Electricidad (ENDE).

public debt is now projected to exceed the 70-percent-of-GDP mark by 2026. The weaker prospects for public debt reflect a more moderate pace of fiscal consolidation than previously anticipated, after the necessary accommodation of 2020–21. Gross financing needs are projected to exceed 15 percent of GDP in 2021 and abate thereafter.

**Table 1. Bolivia: Announced Policy Responses to COVID-19**  
(In millions of US dollars and percent of 2020 GDP)

Measure	Cost (US\$ million)	Percent of GDP	Number of Beneficiaries (million)	Abolished by the new government
<b>Targeted cash transfers</b>	<b>1,222.0</b>	<b>3.1</b>	<b>12.6</b>	
- Family Bonus (Bono Familia) for students of public and private schools (initial, primary and secondary)	233.0	0.6	3.2	
- Family Basket (Canasta Familiar) for low income households	70.0	0.2	1.1	
- Universal Bonus (Bono Universal) for people over 18 and below 60 who do not have any type of income from public or private sector and who are not beneficiaries of the other cash transfers.	292.0	0.8	4.0	
- Bonus Against Hunger (Bono Contra el Hambre) for the people who received the Universal Bonus, mothers that received the Bonus Juana Azurduy and people with disabilities.	627.0	1.6	4.3	
<b>Targeted subsidies</b>	<b>71.0</b>	<b>0.2</b>	<b>7.8</b>	
- Government to pay household electricity bills and 50 percent of potable water and gas bills for April, May and June (subsidy inversely proportional to total bill)	71.0	0.2	7.8	
<b>Health spending</b>	<b>497.0</b>	<b>1.3</b>	<b>...</b>	
- Import of respiratory equipment	200.0	0.5	...	
- Increasing of ICU capacity	297.0	0.8	...	
<b>Total above the line</b>	<b>1,790.0</b>	<b>4.6</b>	<b>20.4</b>	
<b>Loans</b>	<b>219.0</b>	<b>0.6</b>	<b>...</b>	
- Loans to private companies of Bs. 8488 per worker, to pay salaries in next two months. This financing will come out of a fund of Bs. 1500 million (USD 219 million) to help small and medium businesses	219.0	0.6	...	
- Portfolio securitization process: In order to grant a financing tool to financial entities, the procedures for the securitization of loan portfolios are enabled.	...	...	...	X
- Deferral of loan payments in the financial system till October, extended to December.	...	...	...	
<b>Liquidity injections</b>	<b>548.0</b>	<b>1.4</b>	<b>...</b>	
- Buying public paper (Bonos del Tesoro) from pension funds, which will invest in fixed-term deposits in the financial system.	...	...	...	
- The central bank created the Fondo para Créditos para la Adquisición de Productos Nacionales y el Pago de Servicios de Origen Nacional (CAPROSEN), in local and foreign currency. These funds are created with the resources released with the decrease of the reserve requirements. The financial institutions can use these funds with the purpose of grant credits in local currency for the acquisition of Bolivian products and services, with a maturity up to 11 months and with an annual interest rate of 3 percent. CAPROSEN also have other contributions from the financial institutions.	548.0	1.4	...	
<b>Total below the line</b>	<b>767.0</b>	<b>2.0</b>	<b>...</b>	
<b>National Reactivation Employment Plan</b>	<b>2,661.0</b>	<b>6.8</b>	<b>...</b>	
- Programa Intensivo de Empleo: This plan is created for the implementation of employment programs and projects in infrastructure rehabilitation works in health, education, water and basic sanitation, and others, in cities, municipalities and departments most economically affected by the spread of the Coronavirus. The objective is to create 50,000 new jobs per month.	14.5	0.0	...	X
- Fondo de reactivación (FORE): The objective of this fund is to partially finance the reprogramming of credits granted to companies in the sectors of tourism, hotels and restaurants, manufacturing, construction, agricultural and forestry, commerce, transport, storage and communications, among others and through the financial intermediation entities.	1,740.0	4.5	...	X
- Fondo de garantía sectorial (FOGASEC): The purpose of this one is to guarantee: a) new loans granted by bank and non-bank EIFs to legally constituted companies; and b) new issues of debt securities of legally constituted companies.	160.0	0.4	...	X
- Fondo de Afianzamiento de las Micro, Pequeñas y Medianas Empresas (FA-BDP): This fund is to guarantee credit operations to micro, small and medium-sized companies.	17.5	0.0	...	X
- Fondo de garantía de vivienda social y solidaria (FOGAVISS): Its objective is to finance housing needs of lower-income sectors and boost the construction sector, within the framework of the social housing	729.0	1.9	...	X
<b>Subnational governments</b>	<b>200.0</b>	<b>0.5</b>	<b>...</b>	
- Release of 12 percent of the IDH tax to help subnational governments (Fondo de Apoyo Covid-19).	200.0	0.5	...	
<b>Tax deferrals</b>	<b>...</b>	<b>...</b>	<b>...</b>	
- Payment of CIT deferred until May.	...	...	...	
- Independent workers permitted to receive tax deductions on health, schooling, food and other	...	...	...	X
<b>Total</b>	<b>5,651.0</b>	<b>12.6</b>	<b>23.6</b>	

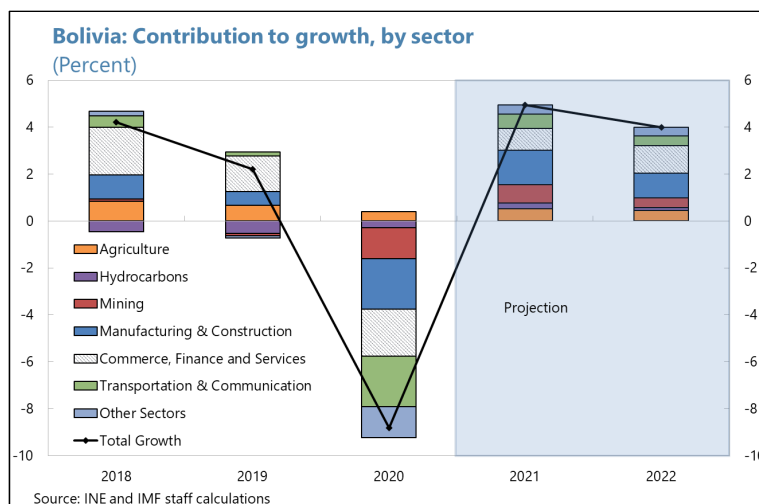
Sources: Ministry of Finance and Fund staff estimates.

**11. The banking sector is liquid but profitability has fallen and deferred loan repayments could put downward pressure on capital.** Liquidity injections helped increase deposits of commercial banks, bringing the loan-to-deposit ratio to 100 percent. At end-October 2020 the average capital adequacy ratio was 13 percent, above the 10 percent minimum requirement. Profitability of commercial banks has, however, continued to decrease, with loan deferrals contributing to declines in average return on assets to 0.4 percent and in return on equity to 6 percent. While nonperforming loans remain low (2 percent), restructured loans have risen to 4 percent of the loan portfolio. Due largely to COVID-19-related forbearance measures, the stock of deferred loan repayments reached 10 percent of GDP by the end of 2020. The recent action to increase the required share of bank lending to qualifying sectors (social housing and sectors deemed productive) from 50 to 60 percent poses an additional challenge to profitability.

**12. On April 17, 2020, in response to the COVID-19 shock, the Board approved an SDR 240.1 million purchase under the Rapid Financing Instrument (RFI) facility.** The purchase amounted to 100 percent of quota and was intended to help Bolivia cover the urgent balance of payments needs arising from the ongoing shift in its terms of trade, slowdown in capital flows, and sudden increase in health care expenditure needs (all of which were precipitated by COVID-19). On February 12, 2021, the government made an early repurchase of the full amount of the RFI.

## B. Outlook and Risks

**13. The economy is expected to grow by 5.0 percent in 2021.** The authorities' program to vaccinate the entire adult population is expected to contribute to the recovery, particularly for services requiring high contact and mobility, even if the program misses the authorities' September target for full coverage. Higher global prices for primary commodities will boost receipts in the mining sector, which continues to recover from stoppages in the first half of 2020, in agriculture, which grew during the pandemic, and to a lesser extent, in hydrocarbons. Direct fiscal support for the economy will remain substantial, though somewhat lower than in 2020, while overall financial conditions are projected to be broadly unchanged.



Higher frequency indicators from early 2021, such as electricity demand, generally support the outlook for moderate recovery. Inflation is expected to return gradually to its pre-pandemic level of around 3 percent by end-2022. As import demand recovers, the current account deficit is expected to return to its recent average of about 4 percent of GDP. While the pandemic has had some persistent effects on the labor market, as evidenced by a still-high unemployment rate of 8 percent, the impact of the pandemic on growth is expected to dissipate by 2022.

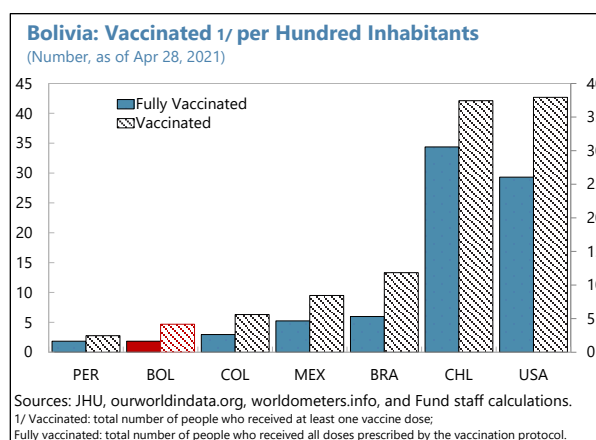
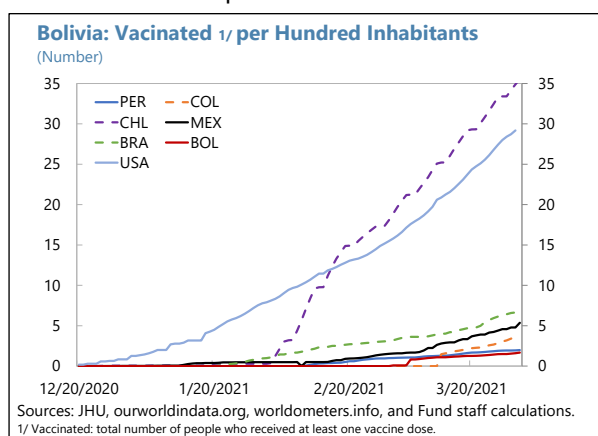
**14. Risks are skewed to the downside** There are two-sided risks linked to the outlook for hydrocarbon prices and to the speed of vaccine rollout. Fiscal deficit overruns—both in the central government and in SOEs—would add to imbalances and erode confidence in the government’s economic plan. The expected reliance on financing from international markets exposes Bolivia to a possible shift in external financing conditions, while COVID-19-related loan payment deferrals pose financial stability risks. Finally, given the high levels of coronavirus infections in the region, Bolivia faces substantial risks of negative intra-regional spillovers, due in part to the reliance on hydrocarbon exports to Brazil and Argentina.

## POLICY ISSUES

*In the short term, Bolivia should continue to accommodate the COVID-19 shock largely through supportive fiscal policies (particularly spending on healthcare and in supporting lower income households). However, this should be couched within a clear medium-term fiscal plan that outlines how future reductions in the fiscal deficit will be achieved. Bolivia would also benefit from a phased move toward greater exchange rate flexibility. To sustain growth and job creation, steps will be needed to safeguard the impressive reductions in poverty seen over the past two decades, catalyze private investment, reinforce climate resilience, incentivize the adoption of green alternatives to hydrocarbons, and strengthen governance of core economic and regulatory institutions.*

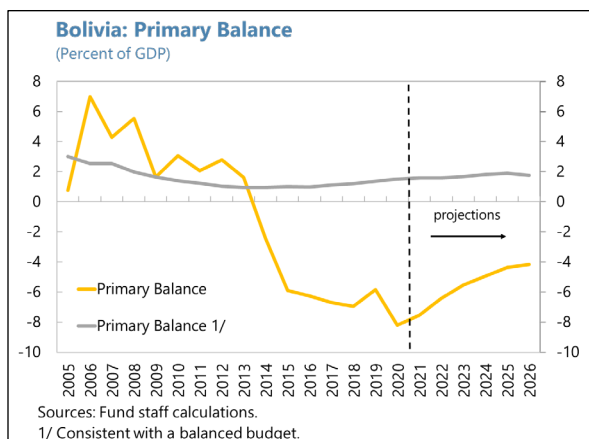
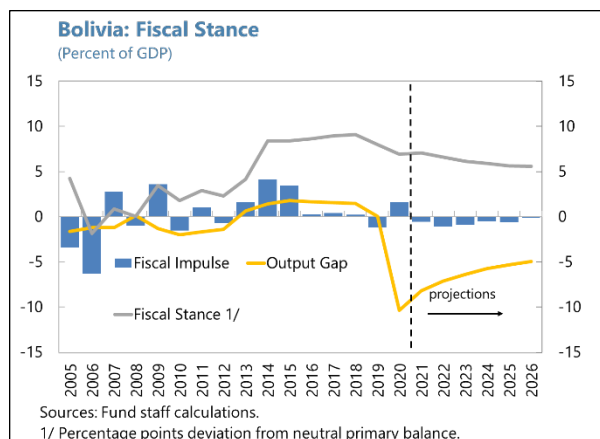
### A. Recovering from the Crisis

**15. The speed of recovery will critically depend on the pace of vaccinations in both Bolivia and in key trading partners.** The authorities have set a target date of end-September for full vaccination of the adult population of 7.6 million. While supply constraints slowed the program initially, by early May 700,000 first doses had been administered, placing Bolivia’s vaccination rate near the regional average. Recovery will also depend, in part, on growth of Bolivia’s main trading partners, including Argentina and Brazil, and on the success of their own vaccination programs. The authorities should maintain the priority on public health by continuing to seek agreement with vaccine producers, including the COVAX multinational agreement. This should be complemented by financial support to vulnerable households that are most affected by the pandemic for as long as the health crisis persists.



## B. Charting a Path Back to Fiscal Sustainability

**16. Since the mid-2000s, a redistributive fiscal policy has helped support an important decline in poverty.** During the commodity boom, savings were built even as the government invested in safety nets and provided public support for growth. This allowed for countercyclical policy to be deployed to support the economy when hydrocarbon prices fell in 2014 and, again, in response to the COVID-19 shock. However, since 2014, the persistent primary deficit (of around 6 percent of GDP) has led to a steady rise in the public debt-to-GDP ratio and an erosion of international reserves as the central bank increased the share of public debt on its balance sheet.



**17. For 2021, the authorities have budgeted a doubling of public investment.** At 7.9 percent of GDP, the budgeted 2021 primary deficit represents a consolidation from the 2020 fiscal stance, of 3.3 percentage points of GDP, and a shift in emphasis from emergency support for households and firms to public investment. Planned investments target infrastructure (36 percent), social sectors like education, health, urban and housing (25 percent), and industries including mining, hydrocarbons, tourism and energy (25 percent). Staff projections reflect the budgeted deficit level, but assume lower public investment and a slower recovery in revenues than projected by the authorities. Most of the positive fiscal adjustment (text table) from 2020 comes from winding down the emergency social support (3.4 percent of GDP) provided during the pandemic, and from higher tax revenues (1 percent of GDP), while the increase in public investment adds 2.0 percent of GDP to the deficit.

Financing is to be provided by the issuance of up to US\$3 billion in sovereign bonds on the international capital markets, subject to market conditions.

<b>Bolivia: Contributions to Fiscal Adjustment 2021-26</b> (Cumulative percentage points of GDP from 2020)						
	Projections					
	2021	2022	2023	2024	2025	2026
<b>Change in Revenues (+ = positive contribution)</b>	<b>1.0</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>1.9</b>	<b>2.0</b>
o/w VAT	0.9	1.7	1.7	1.7	1.7	1.7
o/w Other	0.1	0.7	0.6	0.5	0.2	0.4
<b>Change in Expenditure (+ = negative contribution)</b>	<b>-2.3</b>	<b>-2.4</b>	<b>-3.4</b>	<b>-4.1</b>	<b>-5.0</b>	<b>-5.2</b>
o/w Compensation of employees	-0.7	-1.4	-2.1	-2.8	-3.4	-4.0
o/w Purchases of goods and services	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6
o/w Social benefits	-3.4	-3.7	-3.8	-3.9	-3.9	-4.0
o/w Net acquisition of nonfinancial assets	2.0	3.2	3.3	3.5	3.4	3.9
<b>Change in Primary Balance</b>	<b>3.3</b>	<b>4.8</b>	<b>5.7</b>	<b>6.3</b>	<b>6.9</b>	<b>7.2</b>

**18. Fiscal policy should continue to counter the effects of the pandemic.** The fiscal support provided to vulnerable groups and to the productive sector by the previous and current administrations was appropriate (see section on recent events). Given the uncertainty surrounding the course of the recovery and the pace of vaccinations, fiscal support, including support for vulnerable groups, should be sustained in 2021. The *Bono Contra el Hambre* introduced at the end of 2020 expired in May and no follow-up support payments are included in the 2021 budget. However, the authorities are ready to submit amendments to the budget law to authorize such payments in the event that downward risks materialize. Should this occur, the extra expenditure could be accommodated by adjustments in public investment.

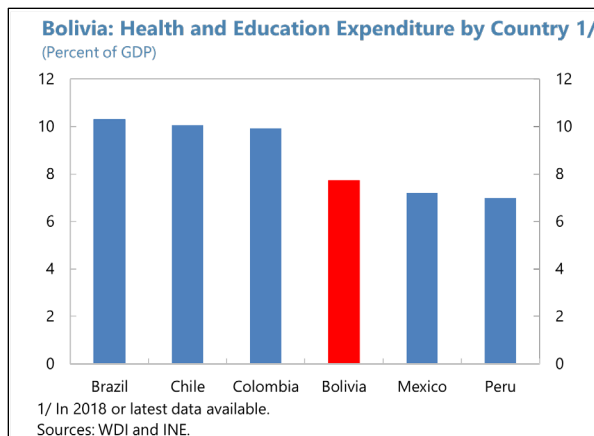
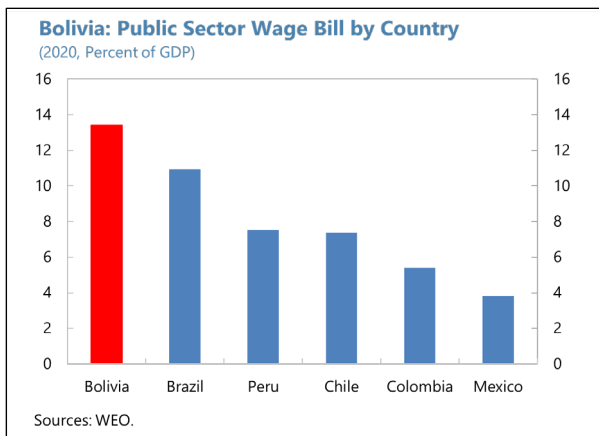
**19. Plans should be announced to reduce the fiscal deficit to restore fiscal and debt sustainability over the medium term.** To build confidence in the sustainability of macroeconomic policies, the authorities should plan and announce a gradual medium-term fiscal consolidation calibrated to stabilize debt, while supporting growth and allowing the output gap to close. Staff estimate a primary fiscal deficit of about 2 percent of GDP would be sustainable over the long term, depending on the exchange rate. This fiscal adjustment will need to be somewhat larger if the government chooses to maintain the current fixed exchange rate regime (see Box 1).<sup>3</sup> Staff projects modest improvements in the fiscal deficit over the next five years, supported by recovering revenues, progressive withdrawal of COVID-19-related one-off expenditure items, and a slowdown in wage growth and spending on goods and services.<sup>4</sup>

**20. A combination of revenue and expenditure measures will be needed.** Revenue reforms should focus on increasing the efficiency and progressivity of the tax system to protect Bolivia's progress in poverty alleviation. Potential measures could include introducing a progressive personal income tax, strengthening the "own-revenues" of local governments (largely through higher property taxes), and improving the effectiveness of the tax and customs administration. Expenditure reform should include rationalization of some spending on goods and services and measures to contain the growth of the public sector wage bill. Additional expenditure measures could include better prioritization of public investment projects, reduction of energy subsidies, and improvements in the efficiency, governance, and monitoring of SOEs. Re-prioritization of public expenditure would provide fiscal resources to improve public access to high quality health and education services. All told, these revenue and expenditure measures would be sufficient to bring the primary deficit from the 2020 level of 11.2 percent of GDP to about 2 percent of GDP by 2026. Measures already incorporated in the baseline (text table) include a cap on growth of the public sector wage bill that reduces the bill as a share of GDP over the medium term, (4.0 percent of GDP), lower spending on goods and services (0.6 percent of GDP), and higher tax revenues (2.0 percent of GDP) (text chart Contributions to Fiscal Adjustment, paragraph 17). Gains beyond those in the baseline (figure: Recommended Fiscal Adjustment) would come from implementation of the personal income

<sup>3</sup> Staff modeling indicates that adoption of an inflation targeting regime would create an additional 0.5 percent of GDP in fiscal space.

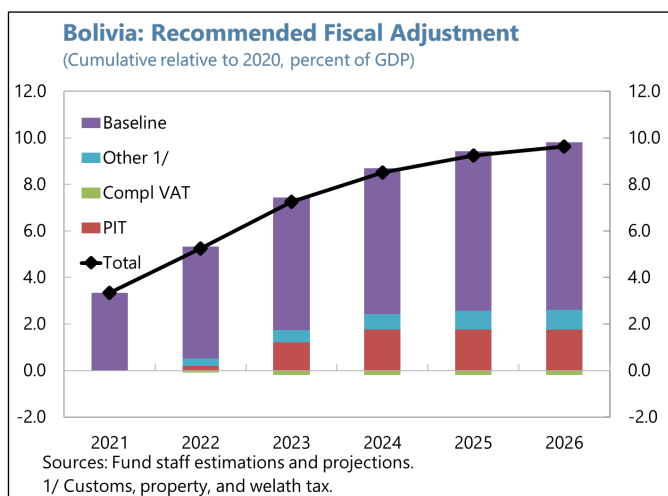
<sup>4</sup> For 2021, the government approved an increase in the national minimum wage of 2 percent, but maintained civil servants' wages unchanged from the previous year (except for those at the minimum wage).

tax (about 1 ½ percent of GDP),<sup>5</sup> with a further 1 percent of GDP from customs reform, enlargement of the wealth tax perimeter, and higher property taxes.<sup>6</sup> The authorities have yet to announce a full medium-term plan; the preceding medium-term projections reflect staff views.



**21. The authorities agree with the need for a gradual fiscal adjustment, but do not necessarily accept either the proposed reform scenario or the baseline projections presented above.**

They see adjustments as occurring at a more gradual pace than advocated by staff, supported by a cyclical return of revenues, more efficient tax collection, and firm control of goods and services expenditure. The authorities' projections of customs revenues, and of tax and royalty receipts from hydrocarbons and mining activity, are somewhat higher than those of staff, based in part on recent collection data. They anticipate that this will create sufficient fiscal space to accommodate a strong increase in public investment in social and productive sectors, which in turn will contribute to higher fiscal revenues over the medium term. They do not see the need to increase the perimeter of the wealth tax or introduce a personal income tax. The authorities fully concur with staff recommendations on prioritizing continuing support for vulnerable households.



<sup>5</sup> Based on the average net yield from PIT in Brazil and Peru.

<sup>6</sup> Staff projections assume a fiscal multiplier of 0.4 for both tax and expenditure measures. In the case of fiscal measures beyond the baseline, it is assumed that the impact on growth of the improved financing terms associated with a stronger-than-expected fiscal consolidation would compensate for multiplier effects.

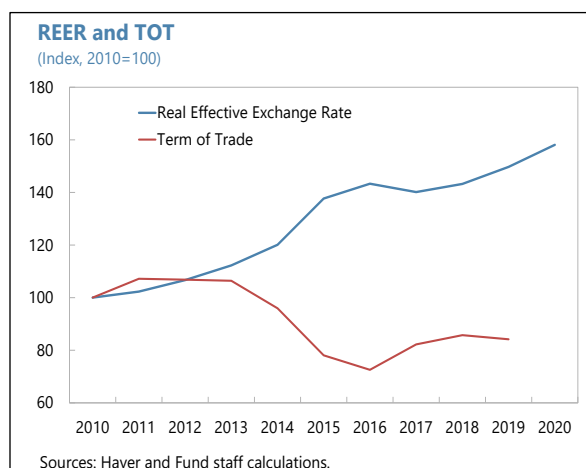
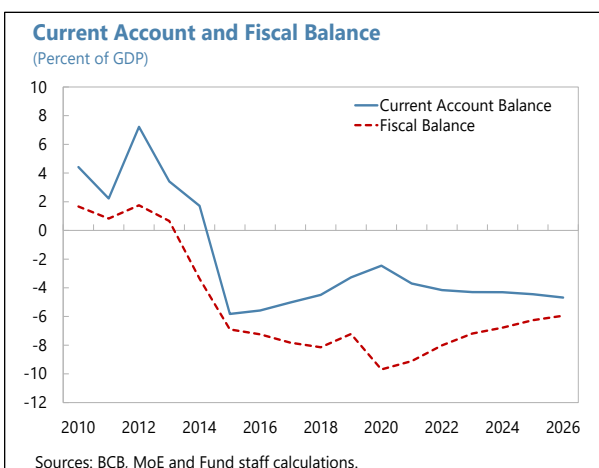
## C. Exchange Rate Policy

### 22. **Bolivia has reaped substantial stability benefits from the fixed exchange rate regime.**

Since November 2011, the fixed exchange rate has resulted in low and stable inflation and a reduction in dollarization. The exchange rate peg is widely recognized by the public as a strong policy anchor.

### 23. **However, Bolivia has also faced balance of payments pressures for much of the period that the exchange rate has been pegged.**

International reserves have fallen (from US\$15.1 billion in 2014 to US\$5.3 billion by end-2020) and the real effective exchange rate has appreciated by 32 percent since 2014. This has occurred during a period where the terms of trade have weakened and the current account has shifted from surplus to deficit. The ESA and staff modeling indicate that the external position is moderately weaker than the level implied by fundamentals and desirable policies, and that the real exchange rate is overvalued by around 10-15 percent (see Annex III and Box 1).



**24. Allowing greater exchange rate flexibility would increase resilience to exogenous shocks and boost welfare.** Maintaining the current peg will necessitate a tighter fiscal policy over the medium term than would be the case under inflation targeting. This will result in larger up-front costs to social welfare. A careful, well-planned, transition to greater exchange rate flexibility would reduce balance of payments imbalances, forestall a further loss of reserves, and cushion the economy against negative shocks. The transition would require significant preparatory work (Box 1) and careful management of liquidity to mitigate potential depreciation pressures. As exchange rate flexibility increases, transfer schemes may be needed to protect lower income households from the impact of exchange rate pass-through to food or transportation prices.

**25. Maintenance of the peg is feasible but would require tradeoffs.** Staff modeling (Box 1) shows that continued adherence to the exchange rate peg would be a feasible policy over the medium term, with a moderate sacrifice in terms of expected welfare, but only if additional adjustments are made elsewhere in the policy framework. Crucially, as compared with inflation

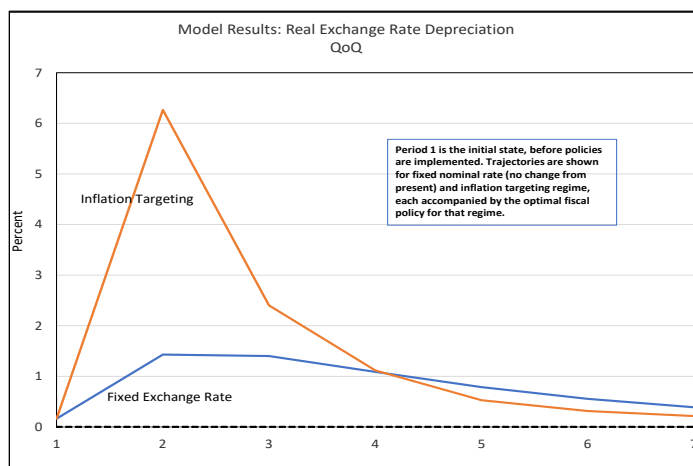
targeting, tighter fiscal policy will be required to preserve policy space to be able to respond to shocks that would otherwise be cushioned by nominal exchange rate changes. If movements in the nominal exchange rate are ruled out (as under a peg), the real exchange rate can only adjust through changes in wages and prices, placing a premium on flexibility in labor and goods markets under a peg. While the peg is a strong policy anchor, this advantage only holds if reserves are high enough to make a commitment to defend the peg credible.

**26. The authorities do not believe that Bolivia would benefit from moving away from the peg.** Noting the substantial preparation and time that would be required to adopt an inflation targeting regime, they are concerned that the process of transition would introduce market uncertainties that could reverse the long-term decline in loan and deposit dollarization and cause inflationary expectations to become unanchored. A move away from the peg could also lead to an overshooting of the nominal exchange rate which would fall most heavily on lower income households dependent on imported goods, including food. The authorities believe that the potential benefits of a flexible currency and real depreciation are overstated and that, as a commodity exporter, Bolivia has relatively low trade elasticities and would consequently not experience a large improvement in its external position with a real depreciation. Accordingly, the authorities do not agree with the ESA assessment that Bolivia's external position is weaker than would be implied by fundamentals and desirable policies.

### Box 1. Bolivia's Choice of Exchange Rate Regime

Eroding the current overvaluation of the real exchange rate would be less economically costly if there were a gradual transition to a more flexible exchange rate regime (especially given downward rigidity in wages and prices). In addition, as a natural resource producer subject to significant swings in global commodity prices, Bolivia would benefit from greater exchange rate flexibility to absorb future shocks to the terms of trade or capital flows.

Many countries, including Chile (1984–99), Israel (1995–2005), Poland (1990–2000), and Russia (2005–2014) have successfully managed a smooth transition to a more flexible exchange rate. In general, they did so before external imbalances built up and while they maintained a healthy level of reserve coverage (thereby avoiding a disorderly exit). They paved the way by increasing the central bank's operational independence, deepening capacity to manage domestic and foreign currency liquidity, and building the analytical machinery to produce structured forecasts of inflation and other macroeconomic variables. They also developed markets for instruments to hedge foreign exchange and domestic interest rate exposures, to allow firms to control market risks before and after the transition. Other key reforms to facilitate the transition to greater exchange rate flexibility have included the adoption of fiscal rules (with escape clauses for large shocks) to relieve currency pressures, and the reinforcement of social safety nets to protect the most vulnerable from



### Box 1. Bolivia's Choice of Exchange Rate Regime (Concluded)

purchasing power losses associated with sudden depreciations. Bolivia currently meets some conditions for a successful transition, such as absence of market turmoil, but would need to address its weak fiscal position and low level of reserves with strong fiscal reforms to make a transition credible.

A detailed DSGE model of the Bolivian economy<sup>1</sup> indicates that maintaining a fixed regime is feasible but would require an up-front fiscal adjustment and the maintenance of a smaller fiscal deficit than with a floating rate. In addition, nominal rigidities would mean the real exchange rate would depreciate more slowly to its equilibrium level (which is estimated to be around 11 percent weaker than current levels).

Inflation targeting, on the other hand, would allow the primary balance to be ½ to 1 percent of GDP looser over the medium term and would improve household welfare relative to the pegged regime. Under a flexible exchange rate regime, the nominal exchange rate would immediately depreciate by 6 percent and continue depreciating until it reaches equilibrium, pushing inflation temporarily above target. The welfare gains from adopting a flexible exchange rate are estimated to be equivalent to around 3 percent of total consumption, reflecting a lower average level of underemployment and a smoother path for consumption.

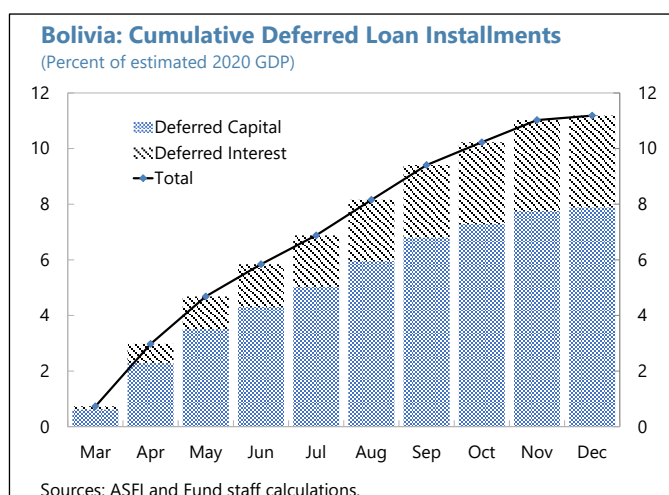
In a “shock” scenario—when market preferences shift suddenly against Bolivian assets—the relative advantage of the inflation targeting regime is even greater, as the flexible exchange rate allows real wages to adjust immediately to the drop in demand caused by the tighter global financial conditions (with GDP falling by around 2 ½ percentage points less, relative to the pegged regime).

<sup>1</sup> See Gonzales, Andres, Etibar Jafarov, Diego Rodriguez, and Chris Walker, “Fix vs. Float: Evaluating the Transition to a Sustainable Equilibrium in Bolivia,” IMF Working Paper (forthcoming).

## D. Financial Sector Policies

### 27. The loan deferral program may result in a deterioration in asset quality.

Cumulatively, the program has reduced interest income to the banking sector by about 3 percent of GDP and delayed loan repayments of around 8 percent of GDP. A sizeable portion of these deferred loans have the potential to become impaired assets, which would worsen banks' capital positions. Profitability has been further eroded by banks' need to increase loan loss provisions by about 155 percent (or 0.3 percent of GDP).



**28. The supervisory authority should implement strengthened monitoring of bank profitability, liquidity and capital for as long as the moratoria are in effect.** To increase the effectiveness of financial intermediation and support profitability, the authorities should phase out lending quotas for designated productive sectors and loosen caps on interest rates. Introduction of a standing facility at the central bank to provide emergency liquidity support against collateral would further enhance financial stability.

**29. The authorities assess the monitoring of bank profitability as adequate.** Due to the increasing share of restructured loans and the fact that banks have already voluntarily provisioned for expected loan losses, they do not regard the stock of deferred loan installments as an important source of credit risk that would lead to insolvency or capital shortfalls. They also regard credit quotas as necessary to achieve a socially desirable distribution of investment in the economy.

## E. Structural Policies to Increase Investment

**30. Low rates of private investment in Bolivia may impede growth.** Private domestic investment and foreign direct investment are both low in Bolivia, with the latter averaging less than one percent of GDP since 2014, well below regional averages. Potential investors attribute this outcome to a difficult regulatory environment and a lack of incentives, as reflected by Bolivia's low ranking in the World Bank's Doing Business survey (150 of 190 countries). The regulatory regime incorporates recently tightened administrative controls over prices, exports, and credit, which constrain profitability and affect investment incentives. For example, soybeans, Bolivia's leading agricultural export, are subject to both price and export restrictions that have caused a large share of the crop to be sold through the black market. Frequent changes in price controls, quotas, and other restrictions raise regulatory uncertainty, an additional disincentive to potential long-term investors.

**31. Bolivia should adopt a program of supply side and governance reforms to underpin stronger growth and job creation.** Specific reforms could include developing a one-stop shop to assist potential foreign investors, strengthening legal protection for investors, providing specific fiscal incentives for green investments, and scaling back state-subsidized credit for SOE's in the hydrocarbon and other sectors. Elimination of existing export limits on soy and other agricultural products and relaxation of domestic price controls would encourage investment in the agricultural sector.<sup>7</sup> Non-hydrocarbon exporters would benefit from greater exchange rate flexibility to facilitate a realignment of the real exchange rate with economic fundamentals and support competitiveness. As highlighted in the 2018 Bolivia Article IV staff report, governance issues including corruption, lack of transparency in procurement and in the operations of SOE's in the hydrocarbon sector, and uncertainty in the regulatory environment, remain meaningful constraints to investment and job creation. Addressing these issues could significantly boost private investment and raise Bolivia's long-term growth potential.

**32. The authorities view the existing regulatory regime as necessary for social equity and inclusive growth.** They regard price and export controls—combined with the fixed exchange rate system—as important tools to protect lower income groups from fluctuations in the prices of food and other basic commodities. Credit quotas are viewed as a means of ensuring that capital is channeled to areas with a high social rate of return. Similarly, while the authorities acknowledge the

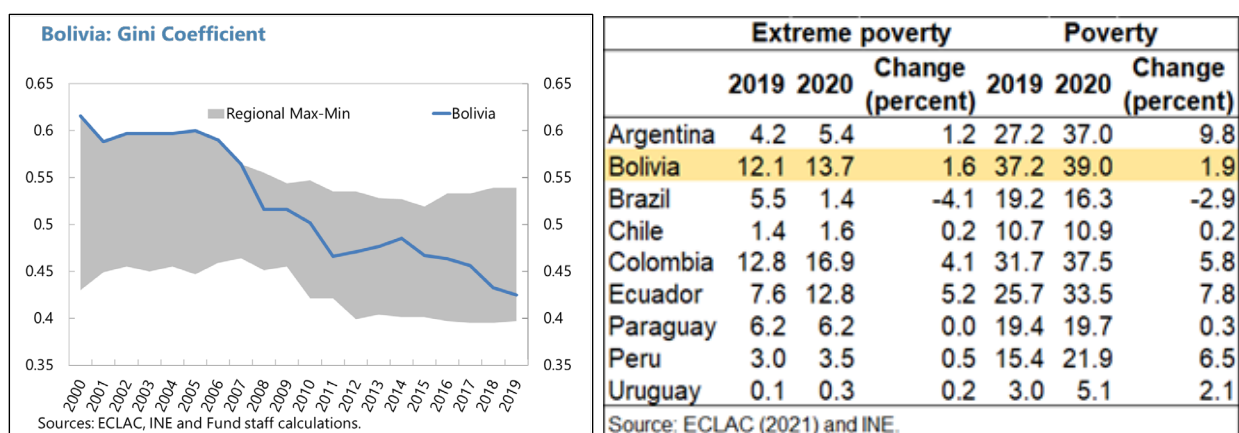
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<sup>7</sup> Export restrictions have been shown to have a negative impact on total production of agricultural products, including the production for the domestic market (Garcia-Lembergman, Rossi and Stucchi, 2018). Evidence on the domestic price effects of export controls is mixed, but some studies show that such controls increase uncertainty and instability, discouraging private investors (Götz, Glauben and Brümmer, 2013).

need for improvements in governance and efficiency in some state-owned enterprises, they view the operations of SOEs as crucial to boosting long-term growth rates and ensuring that investments are socially productive.

## F. Returning to a Declining Path for Poverty

**33. The COVID-19 pandemic interrupted a secular downward trend for poverty and inequality in Bolivia.** The Gini coefficient of 0.45 in 2019 was one of the lowest in South America and poverty has been on a secular downtrend for two decades. Much of the improvement in poverty and inequality measures in Bolivia over this period was attributable to increases in the minimum wage and to a reduction in the relative premium for skilled labor during the commodity boom<sup>8</sup>. In addition, the government endeavored to assure that resources from the commodity boom were used to fund social programs, and other healthcare, and education expenditure. As it did in all other countries in the region, the pandemic caused an increase in the rate of poverty in Bolivia in 2020, by 1.9 percent according to INE estimates. However, ECLAC concludes that, during 2020, Bolivia generally fared better on social indicators relative to other countries in the region.



**34. Premature withdrawal of fiscal support for vulnerable groups should be avoided until the pandemic is over, while expenditure on education and health should be enhanced.** Further progress in poverty alleviation will depend on increasing support for education and health. There is an important complementarity between education and health that contributes directly to poverty alleviation and indirectly to better economic outcomes, with the return to education in terms of health accounting for half of the gains to earnings from education.<sup>9</sup> These gains will be reflected in GDP over the medium term, with positive consequences for fiscal revenues and debt sustainability. To better focus social expenditure, the authorities should expand the existing social registry by connecting databases of individual social programs.

<sup>8</sup> See Vargas, Jose and Santiago Garcia (2015), "Explaining Inequality and Poverty Reduction in Bolivia", IMF Working Paper 15/265.

<sup>9</sup> See Cutler and Lleras-Muney (2006) "Education and health: evaluating theories and evidence." NBER WP 12352.

**35. The authorities indicate that the government intends to continue improving the living standards of the Bolivian people.** The main strategy is to restore economic growth through greater public investment, including increased expenditure on healthcare and education. In this regard, the authorities have committed to maintaining the social programs focused on vulnerable groups (*Bono Juancito Pinto* for school-aged children; *Bono Juana Azurduy* for pregnant women and their infants; and *Renta Dignidad* for the elderly). The high level of informality (eight out of ten workers are in the informal sector) in the economy, and the increase in unemployment with the pandemic constitute important challenges for the authorities' poverty reduction program.

## G. Building a Greener, More Resilient Economy

**36. Bolivia is increasingly exposed to climate-related challenges, especially extreme weather events.** Over the past two decades, the number of natural disasters—including droughts, cold spells, floods, landslides, and storms/cyclones—rose from 15 in 2000–2009 to 25 in 2010–19.<sup>10</sup> In 2019 wildfires related to climate change destroyed more than 1.7 million hectares of mostly protected forest land, with great loss to biodiversity. In the interests of addressing climate change and reducing its exposure to climate-related natural disasters, Bolivia has joined in several global and regional climate initiatives, passed domestic legislation to protect the environment, and elevated the importance of climate and the environment in government.<sup>11</sup>

**37. Investment in structural resilience will help to contain the damage from natural disasters and speed up recovery.** Such investment could be in the form of building resilient infrastructure: road and communication networks, robust water and sewage systems, and the like. While the fiscal space for large infrastructure projects is limited, recent work has shown that the net impact of investment in climate adaptation and resilience on debt-to-GDP ratios becomes positive as climate change intensifies.

**38. In order to strengthen financial protection, Bolivia could consider issuing debt with natural disaster clauses.** Natural disaster clauses, as employed by countries such as Grenada and Barbados, allow for a temporary debt moratorium when countries are hit by natural disasters. The natural disaster clauses are linked to third party catastrophe insurance payouts, thereby limiting *ex post* moral hazard and reducing *ex ante* debt servicing costs. The International Capital Markets Association (ICMA) has drafted a standardized clause that would allow stricken countries to defer all principal and interest payments for three years.

<sup>10</sup> International Disaster Database (www.emdat.be), Université Catholique de Louvain, Brussels, Belgium.

<sup>11</sup> <https://riskmonitor.iadb.org/en/country?country=bo>

**39. Bolivia aims to increase the already-high share of renewable sources in domestic energy consumption.**

The recently inaugurated solar plant in Ouro, with a production capacity of 100 megawatts (about 6 percent of domestic electricity consumption), is central to this diversification strategy. Hydropower is the dominant renewable electricity source in Bolivia, and hydro, wind, and solar power together account for almost 50 percent of total energy consumption in

2021Q1 (text table), while the government is committed to continuing to increase the share of renewable energy in electricity production and consumption. Further improvements in domestic energy consumption could be achieved by gradually removing subsidies for the consumption of hydrocarbons. To overcome political resistance to scaling back energy subsidies and to ensure that any associated price increases do not harm vulnerable populations, fiscal gains from subsidy reductions should be directed to health, education, and direct transfers to low income groups. Bolivia could, in addition, work towards a greener export mix by reducing its reliance on hydrocarbon exports and supporting private investment in other export industries (notably agriculture and lithium).

**Bolivia: Electricity Consumption By Source**  
(Percent)

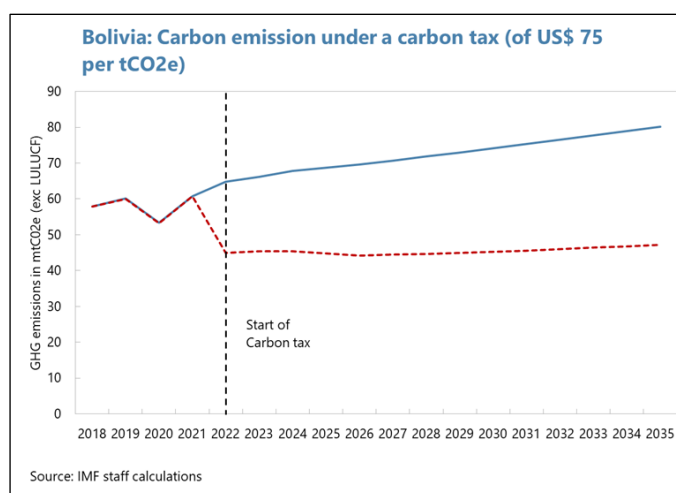
	2020	2021Q1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Hydro	31.9	43.4
Wind	0.7	0.3
Solar	2.6	3.1
Thermal	64.7	53.2

Sources: Bolivia CNDC.

**40. A carbon tax in Bolivia could help contain carbon emissions in the long run.**

Bolivia's greenhouse gas emissions (GHG) in metric tons of carbon dioxide equivalent (mtCO<sub>2</sub>e)<sup>12</sup> are currently projected to increase by a third, from about 60 mtCO<sub>2</sub>e in 2019 to 80 mtCO<sub>2</sub>e in 2035. However, with a carbon tax of US\$75 per tCO<sub>2</sub>e, that increase would become a reduction of 25 percent from 2019 levels.<sup>13</sup> Lower carbon dioxide emissions, would not only reduce environmental damage caused by

climate change, but would also lower morbidity as air pollution dissipates and reduce congestion and road traffic accidents, with positive consequences for productivity and growth. The revenue from the carbon tax can be recycled and used to offset negative growth effects through higher transfers, lower personal income taxes, or higher public investment.



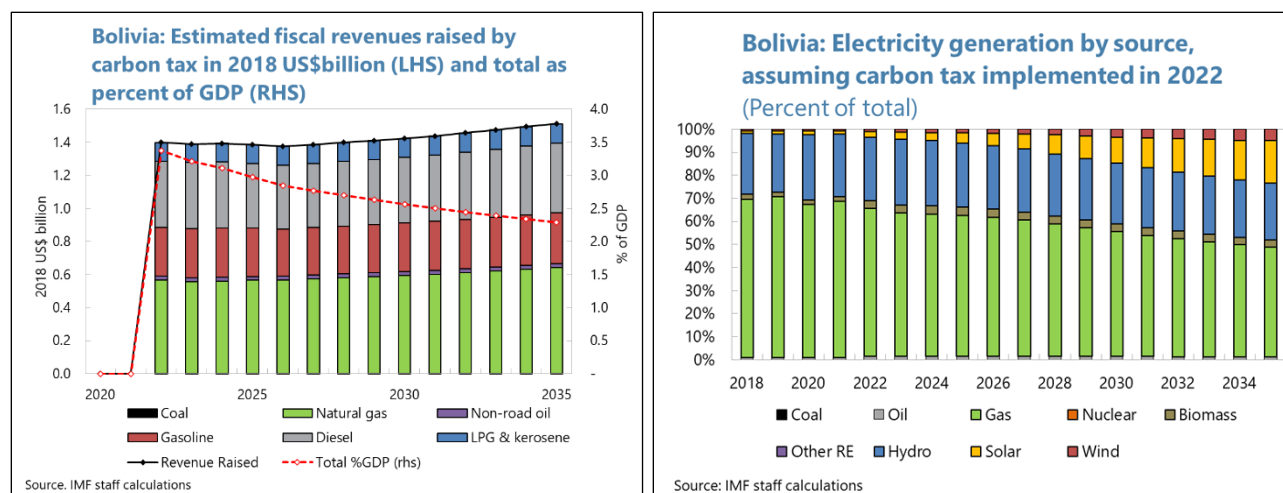
<sup>12</sup> This includes carbon dioxide, methane, nitrous oxide and fluorinated gases and excludes land use, land-use change and forestry

<sup>13</sup> Estimate based on projections using the Fund's Carbon Pricing and Assessment Tool (CPAT).

**41. The authorities agree with the importance of building a greener, more resilient economy.** In particular, they continue to invest in greener sources of energy to further diversify domestic energy consumption away from fossil fuels. There was little appetite, however, for reducing subsidies or increasing taxation on fossil fuel use in the near term, given the negative effects this could have on low income households.

## STAFF APPRAISAL

**42. Since the early 2000's, Bolivia has been successful in dramatically improving living standards, particularly for its most vulnerable citizens.** Bolstered by high commodity prices and an expansionary fiscal policy, per capita GDP has more than tripled in the past 20 years. This growth has been instrumental in reducing the poverty rate (from 66 to 37 percent), in large part because of efforts to ensure the benefits of the commodity boom translated into higher wages and were used to fund social programs, healthcare, and education. As a result of these investments, life expectancy has risen from 61 to 73 years and the primary school completion rate increased from 84 to 99 percent.



**43. The policy response to the global coronavirus pandemic has been proactive.** The government increased public health outlays and provided support to households and businesses during the pandemic resulting in a primary balance accommodation of 4.7 percent of 2020 GDP. The BCB maintained an accommodative stance providing liquidity to the productive, banking and public sectors.

**44. The economy is expected to grow 5 percent in 2021, recovering around half of the output loss experienced last year.** The mining and hydrocarbon sectors are expected to recover, supported by higher commodity prices. The planned increase in public investment will boost output, but will also contribute to financing needs, which are expected to be addressed by the issuance of external debt. As the economy recovers, the current account deficit is expected to rise to around 4 percent of GDP. Inflation is expected to be subdued in the short term, reaching around 2½ percent by end-2021 and well anchored in the medium term by the fixed exchange rate.

### ***Policies for the Near Term***

**45. With the pandemic still a threat to both public health and economic outcomes, policies should remain in place this year to provide assistance to households and firms that are most affected by COVID.** The authorities are to be commended for their strong efforts to import and distribute vaccines, and they are encouraged to continue to explore safe channels to increase vaccine supply. Near-term support should continue to prioritize spending to support the poorest households (including well-targeted transfers) as well as resources for health and education. In addition, the government would be well-served by placing those near-term policy efforts in the context of a medium-term fiscal framework so as to anchor market expectations and provide confidence on the future fiscal path.

**46. The financial sector is facing an important shock associated with the recession and credit quality concerns have increased.** To ensure that loan deferrals do not lead to insolvency or capital shortfalls, the supervisory authority should strengthen risk-based supervision and monitoring of bank profitability, liquidity and capital until moratoria are fully withdrawn. A better understanding of the potential scenarios that banks may face would be provided by a comprehensive stress testing exercise.

### ***Policies for the Medium Term***

**47. Bolivia would benefit from adopting a more sustainable policy mix that would curtail the domestic imbalances manifested as an ongoing depletion of international reserves.** This would involve a progressive reduction in the fiscal deficit, eventually by around 7 percent of GDP, as a means to restore a downward path for the debt-to-GDP ratio. This adjustment could be facilitated by the introduction of progressive taxes that would both raise resources and lessen income inequality, such as a personal income tax with progressive rates and a personal exemption equivalent to the median wage. Similarly, a tax that is levied on the assessed value of property would be progressive, would lessen local authorities' dependence on hydrocarbon revenues, and would facilitate a scaling back of transfers from the central government. On the spending side, public expenditure on goods and services and on the public sector wage bill should be reduced as a share of GDP but the investments that have been made in improving public health and education should be prioritized and preserved. Bonuses for public (and private) sector workers should no longer be linked to achievement of a given GDP growth rate but rather should be based on performance and productivity. Finally, broader public financial management reforms, including those that improve governance and transparency, could help to better prioritize public spending and increase its productivity.

**48. A more flexible exchange rate would, over time, help boost household incomes and increase the fiscal space that can be devoted to the government's fiscal priorities.** The external sector assessment indicates that Bolivia's external position is weaker than the level implied by fundamentals and desirable policies, and the real exchange rate is judged to be overvalued by 10 to 15 percent which is undermining Bolivia's global competitiveness and acting as a headwind to diversifying the economy away from hydrocarbons. Transitioning away from the current pegged

exchange rate would improve Bolivia's resilience to exogenous shocks and help realign the real exchange rate. In doing so, it would reduce the external imbalance, forestall a further loss of reserves, and significantly reduce concerns about future macroeconomic instability. Ultimately this would help boost employment and increase living standards. The transition to a more flexible exchange rate regime, inflation targeting providing the nominal anchor, will require significant preparatory work, including making the BCB operationally independent, improving the monetary tools to actively manage domestic liquidity, deepening the institutional capacity to produce structured forecasts of inflation and other macroeconomic variables, and developing markets to hedge foreign exchange and domestic interest rate exposures. Concomitantly, it will be important to protect lower-income households from any import price increases that may be associated with the transition as relative prices are realigned; this could be achieved by building on the existing system of direct transfers.

**49. Structural reforms are needed to promote inclusive growth, increase private investment, facilitate export diversification, and strengthen governance.** Existing export controls, particularly for potential leading exports such as soy, should be dismantled to encourage increased domestic production. Similarly, price controls can be phased out and, if necessary, replaced with targeted support to vulnerable households. Policy solutions are also needed to both stimulate domestic investment and attract private foreign direct investment including through reforms to simplify and strengthen the regulatory and legal frameworks surrounding investment, level the playing field, and reduce vulnerabilities to corruption.

**50. As a hydrocarbon exporter and a developing country that is susceptible to natural disasters, Bolivia is in a position to make a significant contribution to, and to benefit greatly from, the global fight against climate change.** Public investment has a large role to play in this effort, as demonstrated by the recently-activated large solar power installation at Oruro and by the development of a large plant to produce biodiesel for domestic use. Further steps to reduce the carbon intensity of domestic consumption would include the gradual elimination of subsidies for the consumption of petroleum-based fuels, greater investment in renewable energy sources, and the eventual adoption of a carbon tax. To prepare for the possibility of reduced global reliance on fossil fuels, Bolivia should incentivize the diversification of its exports away from hydrocarbons and towards greener alternatives such as sustainable agriculture and lithium for battery technologies.

**51. Bolivia should continue to emphasize poverty alleviation and the reduction of income inequality.** To preserve and enhance the gains in the fight against poverty going forward and to reduce the dependence of household incomes on the commodity cycle, the authorities should focus policies toward investments in human capital (especially public health and education), particularly for vulnerable households.

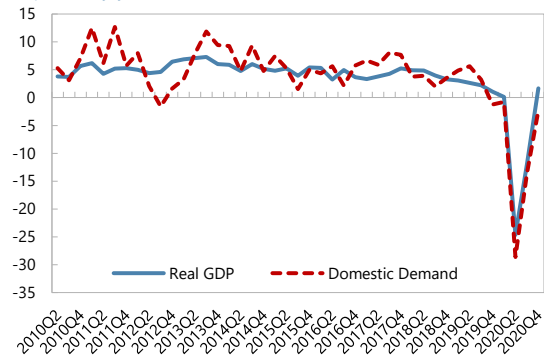
**52. It is proposed that the next Article IV consultation with Bolivia be held on the standard 12 month cycle.**

**Figure 1. Bolivia: Real Sector Developments**

Economic activity fell sharply in 2020...

**Real GDP and Domestic Demand**

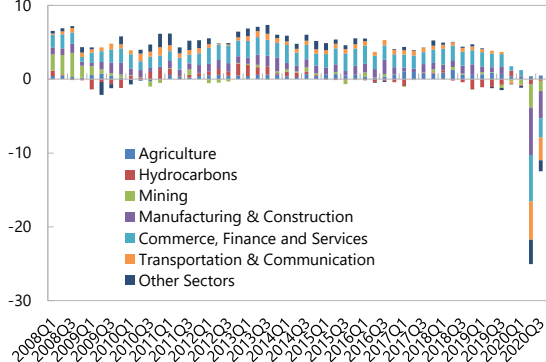
(In percent, y/y)



...with a large contraction especially in the mining and manufacturing sectors...

**Contributions to GDP Growth, Supply Side**

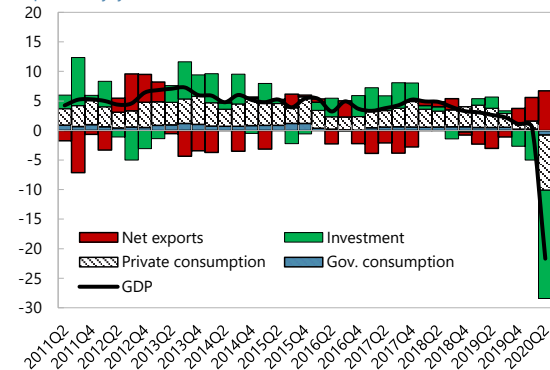
(In percent)



... while net exports increased, as imports compressed ...

**Contributions to Real GDP Growth, Demand Side**

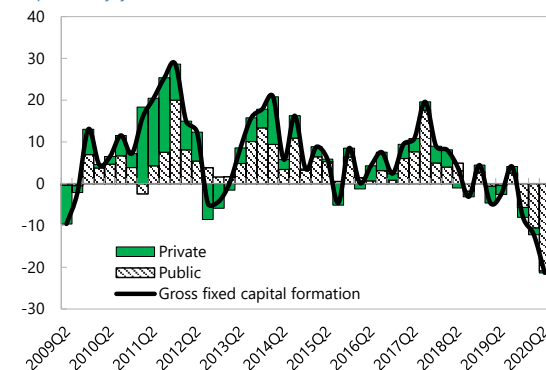
(In percent, y/y)



... and public investment projects slowed.

**Contributions to Real Investment Growth**

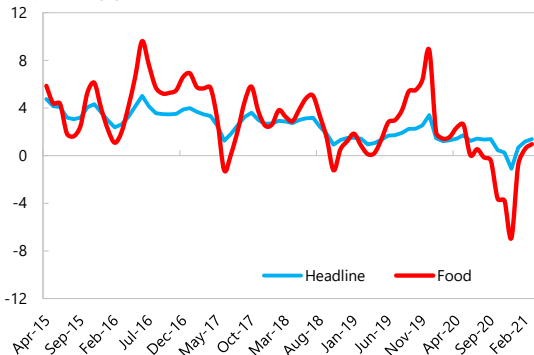
(In percent, y/y)



Headline inflation dipped ...

**CPI Inflation**

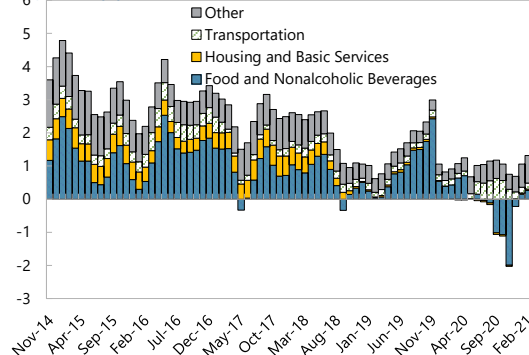
(In percent, y/y)



... as food prices fell at end-2020.

**Contribution to CPI Inflation**

(In percent, y/y)

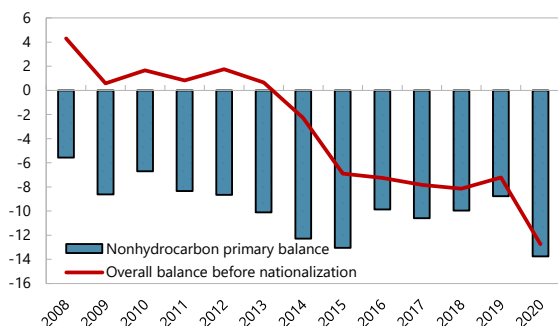


Sources: National Institute of Statistics, Central Bank of Bolivia, Haver Analytics, Inc., SEDLAC, World Bank, and Fund staff calculations.

**Figure 2. Bolivia: Fiscal Sector Developments**

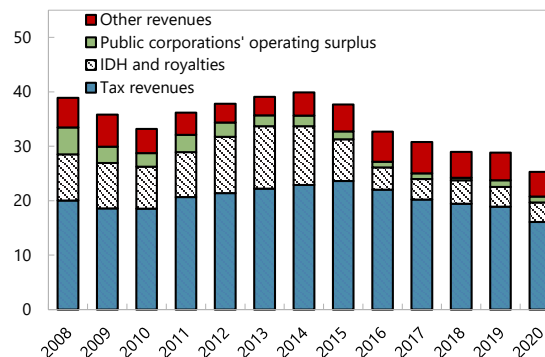
*Bolivia rightly accommodated the COVID-19 shock....*

**Fiscal Balance**  
(In percent of GDP)



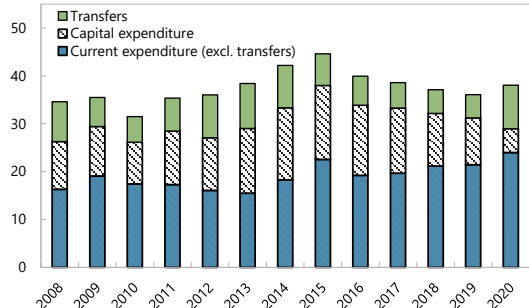
*...on the back of a sharp downturn in revenues.*

**Total Revenue Composition**  
(In percent of GDP)



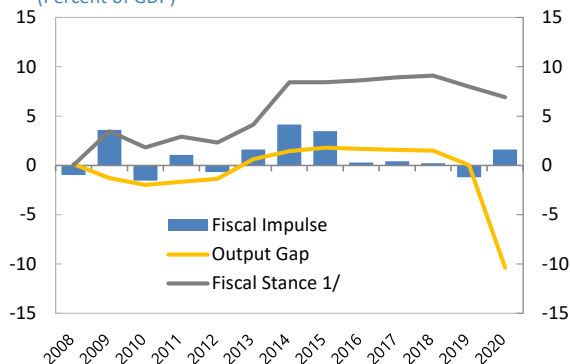
*Capital expenditure was compressed ...*

**Expenditure Composition**  
(In percent of GDP)



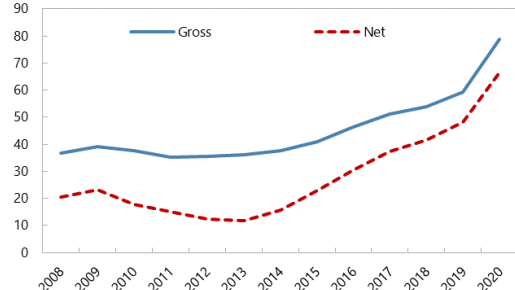
*...while fiscal policy provided countercyclical support to the economy*

**Output Gap and Fiscal Impulse**  
(Percent of GDP)



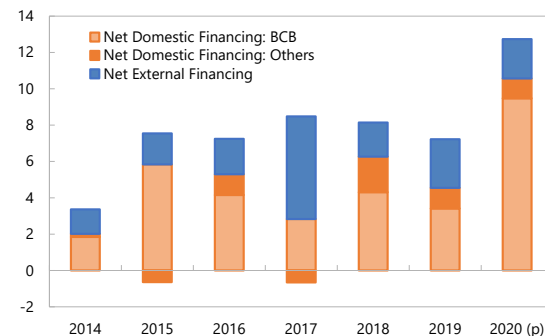
*This contributed to a rapid increase in debt ...*

**Public Sector Debt**  
(In percent of GDP)



*... financed mostly by the central bank*

**Financing**  
(Percent of GDP)



Sources: Ministry of the Economy and Public Finances, Central Bank of Bolivia and Fund staff calculations.

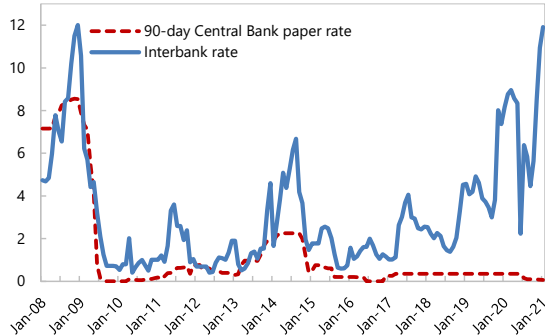
1/ Percentage points deviation from neutral primary balance.

**Figure 3. Bolivia: Monetary Sector Developments**

Monetary policy has remained appropriately

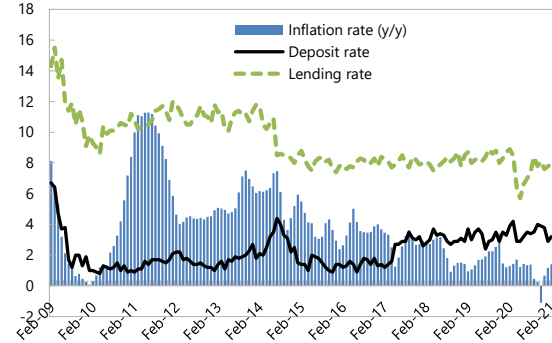
accommodative ...

**Policy Rate and Exchange Rate**  
(In percent)



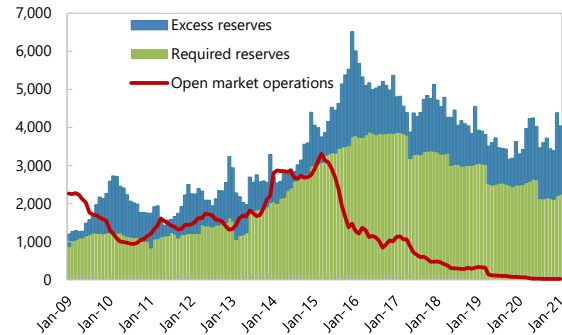
... while inflation is subdued.

**Interest Rates and Inflation**  
(In percent)



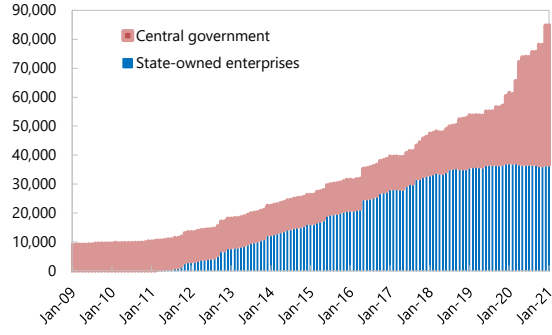
The BCB provided liquidity support by reducing open market operations ...

**Bank Reserves and Open Market Operations**  
(In millions of US dollars)



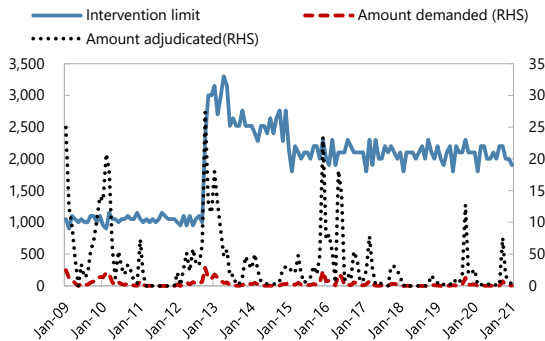
... and providing exceptional loans to the central government and SOEs.

**Central Bank Lending to the Public Sector**  
(In millions of Bolivianos)



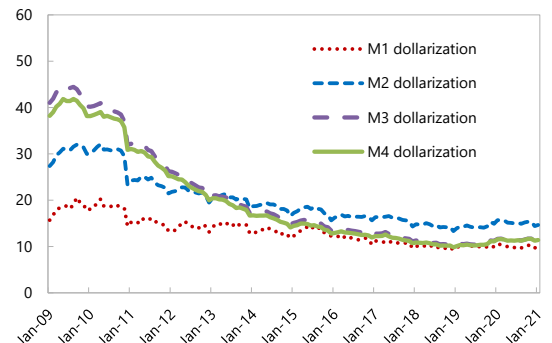
During the pandemic, the FX market remained stable ...

**Central Bank Intervention in FX Market**  
(In millions of US dollars)



... and the process of "bolivianization" continued.

**Monetary Aggregates Dollarization**  
(In percent of monetary aggregate)

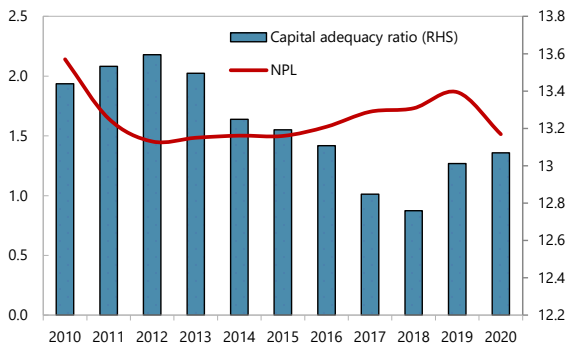


Sources: Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

**Figure 4. Bolivia: Financial Sector Developments**

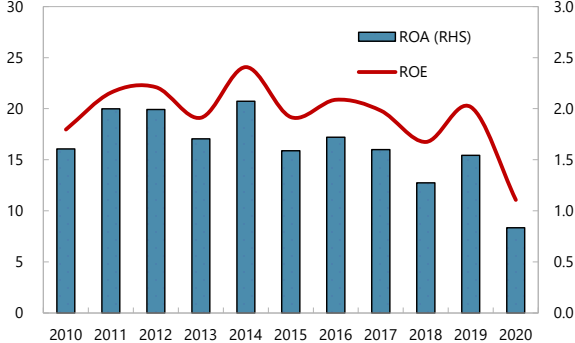
Despite the recession restrictions the NPL ratio remained broadly steady...

**Capital Adequacy Ratio and Nonperforming Loans**  
(In percent)



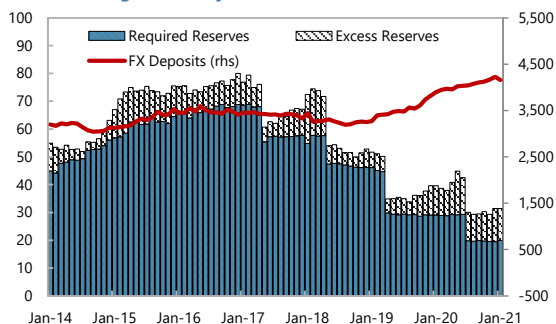
... but returns on equity and assets dropped.

**Rates of Return**  
(In percent)



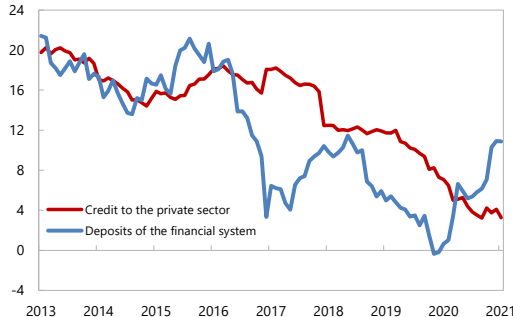
To reduce the cost of funding, the BCB further reduced reserve requirements...

**Bank's Foreign Currency Reserves**



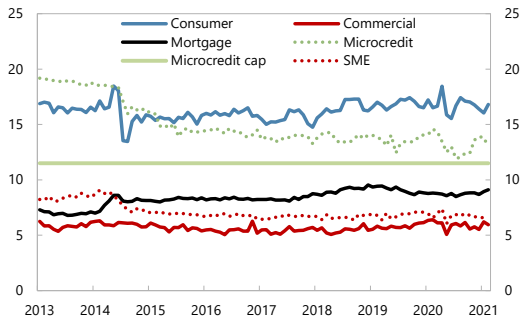
...while the contraction in demand contributed an increase in deposits.

**Deposits and Credit Growth 1/**  
(In percent, y/y)



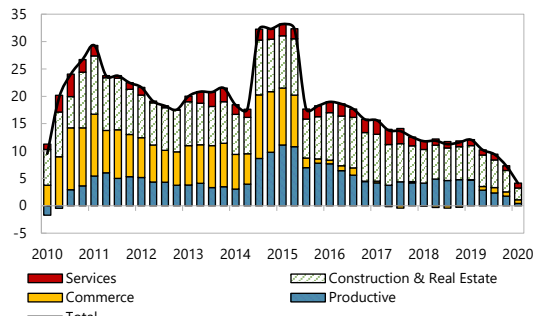
BCB liquidity support resulted in only a minor dip in the lending rate during 2020.

**Bank Lending Rate by Type of Credit 2/**  
(In percent, effective rate)



The contribution to growth from the banking sector diminished further in 2020, from the highs of 2015.

**Contribution to Growth by Sector of Banking System Credit**  
(In percent, 4 quarter percent change)



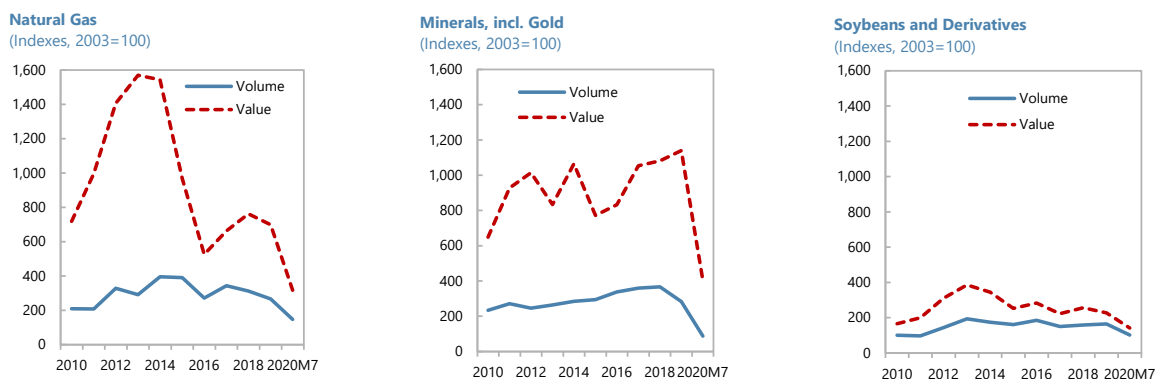
Sources: ASFI and Fund staff calculations.

1/ Licensed institutions only.

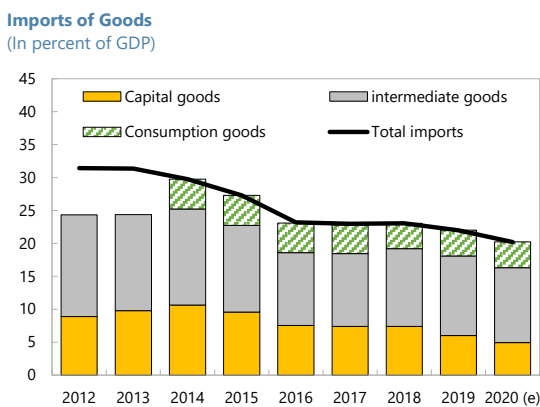
2/ The estimations include credit extended by the addition of new financial institutions created during the period, including development institutions (Instituciones Financieras de Desarrollo).

**Figure 5. Bolivia: External Sector Developments**

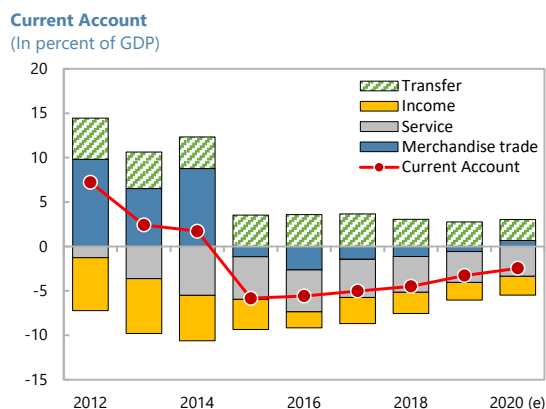
*Value of commodity exports fell in the first half of 2020, owing to supply shocks and lower prices...*



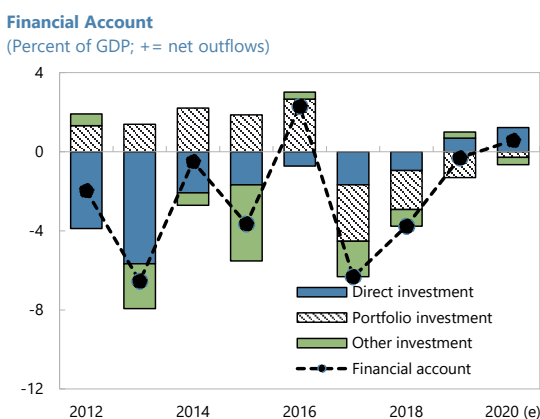
*...while imports were markedly compressed, especially for intermediate and capital goods, ...*



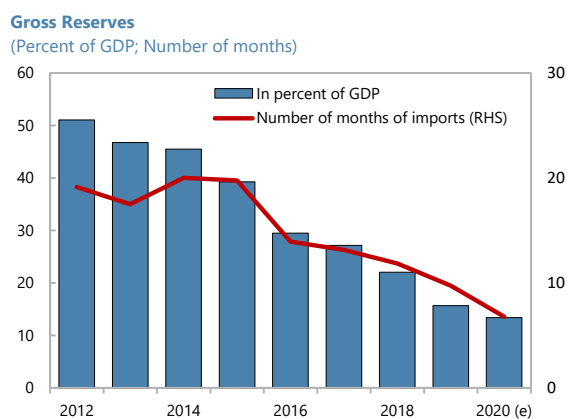
*...contributing to an improvement in the external position.*



*In 2020, the financial account registered a net outflow...*



*... and pressure on reserves increased.*



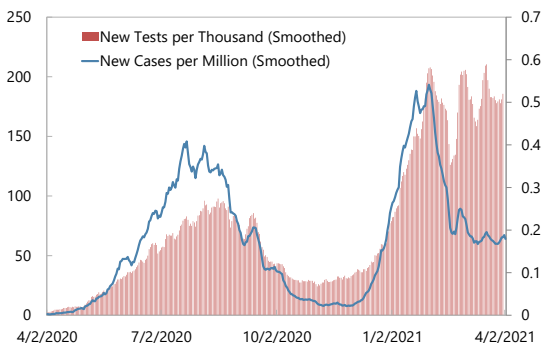
Sources: Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

**Figure 6: Bolivia: COVID-19 Statistics**

Infections have declined from the peak in January and February.

**New Cases vs. New tests**

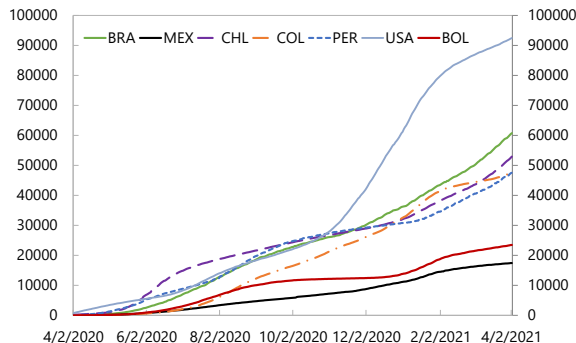
(Cases; Number of tests)



Total infection rates are among the lowest in the region....

**Total Cases per Million Inhabitants**

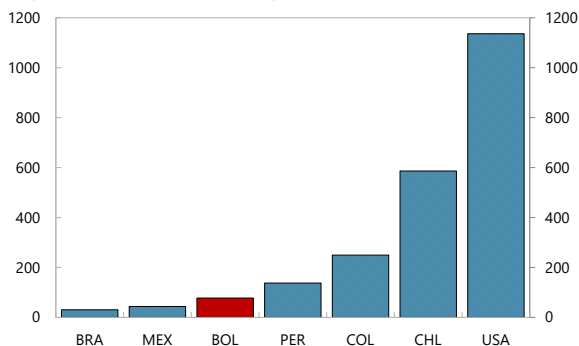
(Cases)



... but testing rates are also on the low side.

**Total Tests per Thousand Inhabitants**

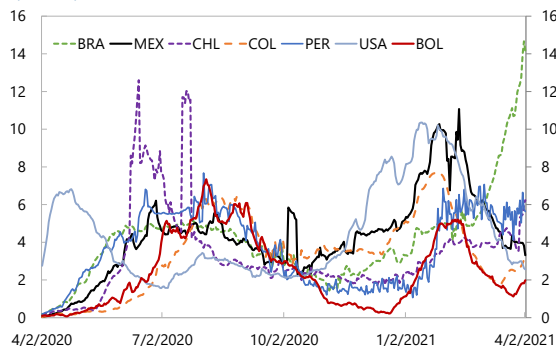
(Number of tests, as of Mar 31, 2021)



Both daily fatality measures....

**Daily Death per Million Inhabitants**

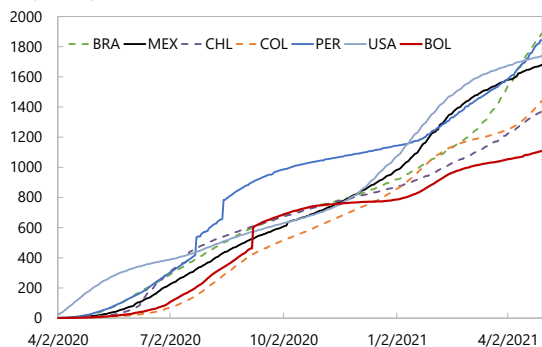
(Number)



...and total fatalities are low among the peers.

**Total Death per Million Inhabitants**

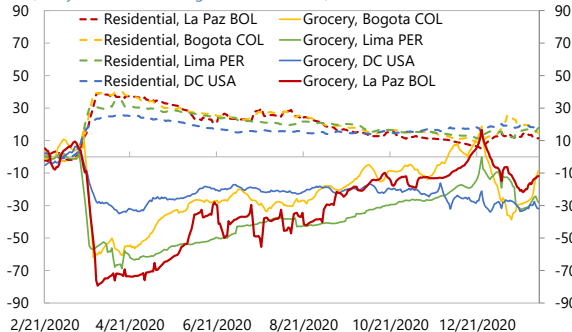
(Number)



Despite signs of recovery in 2020, the pandemic continues to have a negative impact in 2021.

**Mobility Index**

(7-day MA; Percent change from baseline 1/)



Sources: Google Mobility Index and Fund staff calculations.

Source: JHU, ourworldindata.org, worldometers.info, Google Mobility Index and Fund staff calculations.

1/ Baseline is the median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

Table 2. Bolivia: Selected Economic Indicators, 2016–2022

	2016	2017	2018	2019	Est.	Projections	
					2020	2021	2022
<b>Income and prices</b>							
Real GDP	4.3	4.2	4.2	2.2	-8.8	5.0	4.0
Nominal GDP	2.9	10.5	7.4	1.5	-10.6	4.6	5.9
CPI inflation (period average)	3.6	2.8	2.3	1.8	0.9	1.7	2.5
CPI inflation (end of period)	4.0	2.7	1.5	1.5	0.7	2.5	2.8
<b>Investment and savings 1/</b>							
Total investment	21.1	22.2	20.6	19.9	15.8	18.8	19.8
Of which: Public sector	12.9	13.6	11.0	9.8	5.0	7.0	8.0
Gross national savings	15.4	16.1	16.1	14.1	12.4	11.4	11.9
Of which: Public sector	5.7	5.8	2.9	2.6	-7.8	-2.8	-0.1
<b>Combined public sector</b>							
Revenues and grants	32.7	30.8	29.0	28.8	25.3	26.3	27.7
Of which: Hydrocarbon related revenue	5.1	4.8	4.8	4.8	4.7	4.0	4.1
Expenditure	39.9	38.6	37.1	36.1	38.0	36.0	36.1
Current	25.3	25.0	26.1	26.3	33.1	29.0	27.9
Capital 2/	14.7	13.6	11.0	9.8	5.0	7.0	8.2
Net lending/borrowing (overall balance)	-7.2	-7.8	-8.1	-7.2	-12.7	-9.7	-8.4
Of which: Non-hydrocarbon balance	-10.9	-11.7	-11.1	-10.1	-15.3	-11.6	-10.5
Total gross NFPS debt 3/	46.5	51.3	53.8	59.1	78.8	83.4	85.7
<b>External sector</b>							
Current account 1/	-5.6	-5.0	-4.5	-3.4	-0.5	-3.8	-4.1
Exports of goods and services	24.2	25.4	25.5	24.9	20.5	23.3	23.3
Of which: Natural gas	6.0	6.8	7.3	6.6	5.4	5.8	5.6
Imports of goods and services	31.6	31.1	30.7	29.0	22.4	28.4	28.9
Capital account	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.3	-6.3	-3.8	0.3	1.5	-6.8	-2.3
Of which: Direct investment net	-0.7	-1.7	-1.0	0.6	2.6	-0.8	-0.7
Net errors and omissions	-1.1	-1.9	-2.3	-3.2	-2.8	0.0	0.0
Terms of trade index (percent change)	1.0	1.4	-0.7	-0.4	3.0	5.0	-1.0
<b>Central Bank gross foreign reserves 4/ 5/</b>							
In millions of U.S. dollars	10,081	10,261	8,946	6,468	5,276	6,451	5,710
In months of imports of goods and services	10.3	9.9	9.0	9.4	5.8	6.6	5.5
In percent of GDP	29.5	27.2	22.0	15.7	14.3	16.7	14.0
In percent of ARA	174.6	159.6	133.8	95.1	68.6	77.6	63.8
<b>Money and credit</b>							
Credit to the private sector	14.8	12.8	11.2	10.1	9.1	4.6	5.9
Credit to the private sector (percent of GDP)	57.4	58.6	60.7	65.8	80.3	80.3	80.3
Broad money (percent of GDP)	81.5	81.2	79.8	78.4	96.8	100.6	103.3
<b>Memorandum items:</b>							
Nominal GDP (in billions of U.S. dollars)	34.2	37.8	40.6	41.2	36.8	38.5	40.8
Bolivianos/U.S. dollar (end-of-period) 6/	6.9	6.9	6.9	6.9	...	...	...
REER, period average (percent change) 7/	4.1	-2.2	2.2	4.5	...	...	...
Oil prices (in U.S. dollars per barrel)	42.8	52.8	68.3	61.4	41.3	58.5	54.8

Sources: Bolivian authorities (MEFP, Ministry of Planning, BCB, INE, UDAPE); IMF; Fund staff calculations.

1/ The discrepancy between the current account and the savings-investment balance reflects methodological differences. For the projection years, the discrepancy is assumed to remain constant in dollar value.

2/ Includes nationalization costs and net lending.

3/ Public debt includes SOE's borrowing from the BCB (but not from other domestic institutions) and BCB loans to FINPRO and FNDR.

4/ Excludes reserves from the Latin American Reserve Fund (FLAR) and Offshore Liquidity Requirements (RAL).

5/ All foreign assets valued at market prices.

6/ Official (buy) exchange rate.

7/ The REER based on authorities' methodology is different from that of the IMF (see 2018 and 2017 Staff Reports).

**Table 3a. Bolivia: Operations of the Combined Public Sector, 2019–2026 1/**  
(Bs million)

	Est.		Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
<b>Total Revenues</b>	<b>81,512</b>	<b>63,942</b>	<b>69,477</b>	<b>77,479</b>	<b>82,987</b>	<b>88,673</b>	<b>93,894</b>	<b>101,077</b>
Tax Revenues	63,629	49,692	55,402	61,736	66,225	71,196	75,469	80,939
IDH and royalties	10,155	9,076	8,952	9,443	9,058	8,866	8,794	9,606
Indirect Taxes	40,773	32,210	37,227	42,214	46,002	49,973	53,472	57,227
o/w VAT	20,391	15,143	18,273	21,450	23,065	24,719	26,499	28,357
o/w Excise tax on fuel	2,504	2,462	2,708	2,929	3,158	3,403	3,592	3,900
Grants	190	104	94	85	77	67	57	46
Other revenue	17,693	14,145	13,981	15,658	16,685	17,410	18,369	20,092
Nontax revenue	12,533	9,964	11,102	12,165	13,080	14,055	15,093	16,197
Public enterprises operating balance	3,546	2,817	1,514	2,128	2,241	1,990	1,911	2,435
Central bank operating balance	1,613	1,365	1,365	1,365	1,365	1,365	1,365	1,461
<b>Total Expenditures</b>	<b>101,918</b>	<b>96,122</b>	<b>95,227</b>	<b>101,057</b>	<b>105,821</b>	<b>111,872</b>	<b>117,192</b>	<b>124,484</b>
Current Expenditure	74,191	83,529	76,706	78,088	81,053	84,622	88,410	91,658
Compensation of employees	35,125	36,580	36,449	36,612	37,065	37,596	38,135	38,682
Purchases of goods and services	10,798	9,608	9,246	9,594	10,105	10,636	11,194	11,780
Interest	3,883	3,782	4,853	5,592	6,214	7,197	8,209	8,531
Domestic	1,392	1,405	2,169	2,414	2,871	3,586	4,408	4,534
Foreign	2,491	2,378	2,684	3,179	3,343	3,610	3,801	3,996
Energy-related subsidies to SOEs 2/	4,072	4,195	4,368	4,256	4,229	4,279	4,378	4,511
Social benefits 3/	17,150	26,391	18,714	18,795	19,991	21,249	22,573	23,966
Other expense	3,163	2,974	3,075	3,238	3,448	3,666	3,921	4,189
Other	3,162	2,974	3,075	3,238	3,448	3,666	3,921	4,189
Nationalization cost	1	0	0	0	0	0	0	0
Net acquisition of nonfinancial assets 4/	27,728	12,593	18,521	22,969	24,768	27,250	28,781	32,826
o/w Public Enterprises	6,138	2,175	2,828	3,774	4,265	4,648	5,113	5,420
<b>Gross operating balance</b>	<b>7,321</b>	<b>-19,588</b>	<b>-7,228</b>	<b>-609</b>	<b>1,934</b>	<b>4,051</b>	<b>5,484</b>	<b>9,419</b>
<b>Primary Balance</b>	<b>-16,523</b>	<b>-28,398</b>	<b>-20,896</b>	<b>-17,986</b>	<b>-16,620</b>	<b>-16,002</b>	<b>-15,088</b>	<b>-14,876</b>
<b>Net lending/borrowing (Fiscal Balance)</b>	<b>-20,406</b>	<b>-32,181</b>	<b>-25,750</b>	<b>-23,579</b>	<b>-22,834</b>	<b>-23,199</b>	<b>-23,297</b>	<b>-23,407</b>
<b>Net financial transactions</b>	<b>-20,407</b>	<b>-32,181</b>	<b>-25,750</b>	<b>-23,579</b>	<b>-22,834</b>	<b>-23,199</b>	<b>-23,297</b>	<b>-23,407</b>
<b>Net incurrence of liabilities</b>	<b>20,407</b>	<b>32,181</b>	<b>25,750</b>	<b>23,579</b>	<b>22,834</b>	<b>23,199</b>	<b>23,297</b>	<b>23,407</b>
External	7,547	5,470	20,369	6,169	6,306	6,546	6,707	6,498
Disbursements	10,427	8,589	24,588	14,285	15,108	12,748	13,091	13,091
Amortizations	-2,800	-3,119	-4,219	-8,115	-8,801	-6,201	-6,384	-6,593
Other external	-81	0	0	0	0	0	0	0
Domestic	12,860	26,710	5,381	17,409	16,528	16,653	16,590	16,909
Banking system	10,588	24,215	2,885	14,864	13,932	14,107	14,064	14,383
Central Bank	9,640	23,953	2,885	14,864	13,932	14,107	14,064	14,383
Commercial banks	949	262	0	0	0	0	0	0
Pension funds	-1,389	483	483	533	583	533	513	513
Other domestic	3,660	2,012	2,012	2,012	2,012	2,012	2,012	2,012
<b>Memorandum items:</b>								
Hydrocarbon related revenue 5/	13,701	11,893	10,466	11,572	11,299	10,856	10,705	12,041
Nonfinancial public sector gross public debt 6/	167,110	199,222	220,272	239,851	260,385	282,484	305,781	329,188
o/w gross foreign public debt	77,296	83,498	103,867	110,036	116,343	122,889	129,597	136,095
NFPS deposits	31,035	27,635	22,935	18,935	16,635	15,535	15,535	15,535
Nominal GDP (Bs million)	282,587	252,718	264,252	279,904	300,659	322,395	345,368	369,609

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

1/ The operation of mixed-ownership companies, primarily in the telecom, electricity and hydrocarbon sectors, are not included.

2/ Includes incentives for hydrocarbon exploration investments in the projection period.

3/ Includes pensions, cash transfers to households, and social investment programs (previously classified as capital expenditure).

4/ Includes net lending.

5/ Hydrocarbon related revenues are defined as direct hydrocarbon tax (IDH), royalties, and the operating balance of the state oil/gas company (YPFB)

6/ Public debt includes SOE's borrowing from the BCB but not from other domestic institutions.

**Table 3b. Bolivia: Operations of the Combined Public Sector, 2019–2026 1/**  
(Percent of GDP)

	Est.		Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
<b>Total Revenues</b>	<b>28.8</b>	<b>25.3</b>	<b>26.3</b>	<b>27.7</b>	<b>27.6</b>	<b>27.5</b>	<b>27.2</b>	<b>27.3</b>
Tax Revenues	22.5	19.7	21.0	22.1	22.0	22.1	21.9	21.9
IDH and royalties	3.6	3.6	3.4	3.4	3.0	2.8	2.5	2.6
Indirect Taxes	14.4	12.7	14.1	15.1	15.3	15.5	15.5	15.5
o/w VAT	7.2	6.0	6.9	7.7	7.7	7.7	7.7	7.7
o/w Excise tax on fuel	0.9	1.0	1.0	1.0	1.1	1.1	1.0	1.1
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	6.3	5.6	5.3	5.6	5.5	5.4	5.3	5.4
Nontax revenue	4.4	3.9	4.2	4.3	4.4	4.4	4.4	4.4
Public enterprises operating balance	1.3	1.1	0.6	0.8	0.7	0.6	0.6	0.7
Central bank operating balance	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4
<b>Total Expenditures</b>	<b>36.1</b>	<b>38.0</b>	<b>36.0</b>	<b>36.1</b>	<b>35.2</b>	<b>34.7</b>	<b>33.9</b>	<b>33.7</b>
Current Expenditure	26.3	33.1	29.0	27.9	27.0	26.2	25.6	24.8
Compensation of employees	12.4	14.5	13.8	13.1	12.3	11.7	11.0	10.5
Purchases of goods and services	3.8	3.8	3.5	3.4	3.4	3.3	3.2	3.2
Interest	1.4	1.5	1.8	2.0	2.1	2.2	2.4	2.3
Domestic	0.5	0.6	0.8	0.9	1.0	1.1	1.3	1.2
Foreign	0.9	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Energy-related subsidies to SOEs 2/	1.4	1.7	1.7	1.5	1.4	1.3	1.3	1.2
Social benefits 3/	6.1	10.4	7.1	6.7	6.6	6.6	6.5	6.5
Other expense	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.1
Other	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.1
Nationalization cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets 4/	9.8	5.0	7.0	8.2	8.2	8.5	8.3	8.9
o/w Public Enterprises	2.2	0.9	1.1	1.3	1.4	1.4	1.5	1.5
<b>Gross operating balance</b>	<b>2.6</b>	<b>-7.8</b>	<b>-2.7</b>	<b>-0.2</b>	<b>0.6</b>	<b>1.3</b>	<b>1.6</b>	<b>2.5</b>
<b>Primary Balance</b>	<b>-5.8</b>	<b>-11.2</b>	<b>-7.9</b>	<b>-6.4</b>	<b>-5.5</b>	<b>-5.0</b>	<b>-4.4</b>	<b>-4.0</b>
<b>Net lending/borrowing (Fiscal Balance)</b>	<b>-7.2</b>	<b>-12.7</b>	<b>-9.7</b>	<b>-8.4</b>	<b>-7.6</b>	<b>-7.2</b>	<b>-6.7</b>	<b>-6.3</b>
<b>Net financial transactions</b>	<b>-7.2</b>	<b>-12.7</b>	<b>-9.7</b>	<b>-8.4</b>	<b>-7.6</b>	<b>-7.2</b>	<b>-6.7</b>	<b>-6.3</b>
<b>Net incurrence of liabilities</b>	<b>7.2</b>	<b>12.7</b>	<b>9.7</b>	<b>8.4</b>	<b>7.6</b>	<b>7.2</b>	<b>6.7</b>	<b>6.3</b>
External	2.7	2.2	7.7	2.2	2.1	2.0	1.9	1.8
Disbursements	3.7	3.4	9.3	5.1	5.0	4.0	3.8	3.5
Amortizations	-1.0	-1.2	-1.6	-2.9	-2.9	-1.9	-1.8	-1.8
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	4.6	10.6	2.0	6.2	5.5	5.2	4.8	4.6
Banking system	3.7	9.6	1.1	5.3	4.6	4.4	4.1	3.9
Central Bank	3.4	9.5	1.1	5.3	4.6	4.4	4.1	3.9
Commercial banks	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Pension funds	-0.5	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Other domestic	1.3	0.8	0.8	0.7	0.7	0.6	0.6	0.5
<b>Memorandum items:</b>								
Hydrocarbon related revenue 5/	4.8	4.7	4.0	4.1	3.8	3.4	3.1	3.3
Nonfinancial public sector gross public debt 6/	59.1	78.8	83.4	85.7	86.6	87.6	88.5	89.1
o/w gross foreign public debt	27.4	33.0	39.3	39.3	38.7	38.1	37.5	36.8
NFPS deposits	11.0	10.9	8.7	6.8	5.5	4.8	4.5	4.2
Nominal GDP (Bs million)	282,587	252,718	264,252	279,904	300,659	322,395	345,368	369,609

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

1/ The operation of mixed-ownership companies, primarily in the telecom, electricity and hydrocarbon sectors, are not included.

2/ Includes incentives for hydrocarbon exploration investments in the projection period.

3/ Includes pensions, cash transfers to households, and social investment programs (previously classified as capital expenditure).

4/ Includes net lending.

5/ Hydrocarbon related revenues are defined as direct hydrocarbon tax (IDH), royalties, and the operating balance of the state oil/gas company (YPFB)

6/ Public debt includes SOE's borrowing from the BCB but not from other domestic institutions.

Table 4. Bolivia: Non-Financial Public Sector Debt, 2012–2019

	2012	2013	2014	2015	2016	2017	2018	2019
	Bs million							
<b>Internal Debt 1/</b>	<b>29,454</b>	<b>27,881</b>	<b>28,664</b>	<b>28,209</b>	<b>29,645</b>	<b>31,143</b>	<b>37,422</b>	<b>44,277</b>
Public Financial Sector	9,677	9,573	9,484	9,897	9,794	11,234	14,858	17,580
Private Sector	19,717	18,305	19,177	18,311	19,850	19,907	22,563	26,696
Public Non-Financial Sector	60	3	3	1	1	1	1	2
Short Term	67	66	13	11	12	12	12	12
Long Term	29,387	27,815	28,651	28,198	29,633	31,130	37,411	44,266
<b>Foreign debt 2/ 3/</b>	<b>28,783</b>	<b>36,096</b>	<b>39,350</b>	<b>41,567</b>	<b>48,030</b>	<b>62,748</b>	<b>67,994</b>	<b>77,296</b>
Central Government	24,985	32,072	34,590	39,075	43,424	54,058	60,892	69,336
Commercial Banks	0	0	0	0	0	0	0	0
Bilateral	2,956	3,991	4,162	3,865	4,209	4,483	6,249	8,631
Multilateral	18,599	21,221	23,568	28,350	32,355	35,855	40,923	46,986
Private	3,430	6,860	6,860	6,860	6,860	13,720	13,720	13,720
Other	0	0	0	0	0	0	0	0
Other NFPS	3,798	4,024	4,760	2,492	4,606	8,690	7,101	7,959
<b>BCB loans to SOEs</b>	<b>8,005</b>	<b>12,496</b>	<b>16,383</b>	<b>20,974</b>	<b>27,545</b>	<b>33,015</b>	<b>37,474</b>	<b>36,978</b>
<b>BCB loans to FNDR</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>160</b>	<b>892</b>	<b>1,764</b>	<b>2,006</b>	<b>2,587</b>
<b>BCB loans to FINPRO</b>	<b>0</b>	<b>1</b>	<b>1,339</b>	<b>2,366</b>	<b>2,921</b>	<b>4,189</b>	<b>5,015</b>	<b>5,972</b>
<b>Total NFPS Debt</b>	<b>66,242</b>	<b>76,474</b>	<b>85,736</b>	<b>93,275</b>	<b>109,034</b>	<b>132,859</b>	<b>149,911</b>	<b>167,110</b>
	Percent of GDP							
<b>Internal Debt 1/</b>	<b>15.7</b>	<b>13.2</b>	<b>12.6</b>	<b>12.4</b>	<b>12.6</b>	<b>12.0</b>	<b>13.4</b>	<b>15.7</b>
Public Financial Sector	5.2	4.5	4.2	4.3	4.2	4.3	5.3	6.2
Private Sector	10.5	8.6	8.4	8.0	8.5	7.7	8.1	9.4
Public Non-Financial Sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term	15.7	13.1	12.6	12.4	12.6	12.0	13.4	15.7
<b>Foreign debt 1/</b>	<b>15.4</b>	<b>17.0</b>	<b>17.3</b>	<b>18.2</b>	<b>20.5</b>	<b>24.2</b>	<b>24.4</b>	<b>27.4</b>
Central Government	13.4	15.1	15.2	17.1	18.5	20.9	21.9	24.5
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	1.6	1.9	1.8	1.7	1.8	1.7	2.2	3.1
Multilateral	9.9	10.0	10.3	12.4	13.8	13.8	14.7	16.6
Private	1.8	3.2	3.0	3.0	2.9	5.3	4.9	4.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other NFPS	2.0	1.9	2.1	1.1	2.0	3.4	2.6	2.8
<b>BCB loans to SOEs</b>	<b>4.3</b>	<b>5.9</b>	<b>7.2</b>	<b>9.2</b>	<b>11.7</b>	<b>12.7</b>	<b>13.5</b>	<b>13.1</b>
<b>BCB loans to FNDR</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.4</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>
<b>BCB loans to FINPRO</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>1.0</b>	<b>1.2</b>	<b>1.6</b>	<b>1.8</b>	<b>2.1</b>
<b>Total NFPS Debt</b>	<b>35.4</b>	<b>36.1</b>	<b>37.6</b>	<b>40.9</b>	<b>46.5</b>	<b>51.3</b>	<b>53.8</b>	<b>59.1</b>
<b>Memorandum items:</b>								
NFPS Deposits at the BCB (Bs million)	43,339	51,569	50,023	41,354	37,556	36,407	34,112	31,035
NFPS Net Debt (Bs million)	22,903	24,905	35,713	51,921	71,478	96,452	115,799	136,075
Nominal GDP (Bs million)	187,154	211,856	228,004	228,031	234,533	259,185	278,388	282,587

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

1/ Debt in local currency issued by the Treasury.

2/ Including domestic debt in FX held by residents.

3/ Foreign debt is all long term debt.

Table 5. Bolivia: Balance of Payments, 2019–2026

	Est.		Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
	(US\$ million)							
<b>Current account balance</b>	<b>-1,390</b>	<b>-176</b>	<b>-1,451</b>	<b>-1,682</b>	<b>-1,805</b>	<b>-1,875</b>	<b>-2,021</b>	<b>-2,151</b>
Goods and services	-1,685	-717	-1,959	-2,302	-2,596	-2,780	-3,069	-3,259
Goods	-236	450	-634	-966	-1,251	-1,430	-1,720	-1,918
Exports	8,819	6,936	8,243	8,657	8,947	9,209	9,645	10,106
Imports	9,055	6,486	8,877	9,623	10,198	10,639	11,365	12,024
Services	-1,449	-1,167	-1,325	-1,335	-1,346	-1,350	-1,349	-1,341
Credit	1,443	616	744	837	935	1,045	1,165	1,299
Debit	2,893	1,783	2,069	2,172	2,281	2,395	2,515	2,640
Interest Payments, net	-839	-518	-595	-574	-544	-542	-537	-630
Remittances, net	1,134	1,058	1,103	1,194	1,334	1,446	1,585	1,738
<b>Financial account</b>	<b>-125</b>	<b>-563</b>	<b>2,613</b>	<b>928</b>	<b>995</b>	<b>1,022</b>	<b>1,126</b>	<b>1,165</b>
Foreign direct investment, net	-265	-946	323	268	265	277	307	316
Portfolio investment, net	440	635	2,002	218	158	108	108	108
Other investment, net	-300	-252	289	442	572	637	711	740
<b>Net errors and omissions</b>	<b>-1,326</b>	<b>-1,026</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financing</b>	<b>2,841</b>	<b>1,765</b>	<b>-1,162</b>	<b>753</b>	<b>811</b>	<b>853</b>	<b>895</b>	<b>987</b>
Change in reserve assets (increase = -)	2,839	1,752	-1,175	741	798	840	883	974
Capital account	2	13	13	13	13	13	13	13
	(percent of GDP)							
<b>Current account balance</b>	<b>-3.4</b>	<b>-0.5</b>	<b>-3.8</b>	<b>-4.1</b>	<b>-4.1</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-4.0</b>
Goods and services	-4.1	-1.9	-5.1	-5.6	-5.9	-5.9	-6.1	-6.0
Goods	-0.6	1.2	-1.6	-2.4	-2.9	-3.0	-3.4	-3.6
Exports	21.4	18.8	21.4	21.2	20.4	19.6	19.2	18.8
Imports	22.0	17.6	23.0	23.6	23.3	22.6	22.6	22.3
Services	-3.5	-3.2	-3.4	-3.3	-3.1	-2.9	-2.7	-2.5
Credit	3.5	1.7	1.9	2.1	2.1	2.2	2.3	2.4
Debit	7.0	4.8	5.4	5.3	5.2	5.1	5.0	4.9
Interest Payments, net	-2.0	-1.4	-1.5	-1.4	-1.2	-1.2	-1.1	-1.2
Remittances, net	2.8	2.9	2.9	2.9	3.0	3.1	3.1	3.2
<b>Financial account</b>	<b>-0.3</b>	<b>-1.5</b>	<b>6.8</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
Foreign direct investment, net	-0.6	-2.6	0.8	0.7	0.6	0.6	0.6	0.6
Portfolio investment, net	1.1	1.7	5.2	0.5	0.4	0.2	0.2	0.2
Other investment, net	-0.7	-0.7	0.7	1.1	1.3	1.4	1.4	1.4
<b>Net errors and omissions</b>	<b>-3.2</b>	<b>-2.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financing</b>	<b>6.9</b>	<b>4.8</b>	<b>-3.0</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>
Change in reserve assets	6.9	4.8	-3.0	1.8	1.8	1.8	1.8	1.8
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>								
Exports, c.i.f. (in millions of U.S. dollars)	8,819	6,953	8,243	8,657	8,947	9,209	9,645	10,106
o/w Natural gas	2,720	1,989	2,215	2,292	2,256	2,215	2,260	2,305
o/w Minerals	4,208	3,038	3,784	3,923	4,098	4,285	4,486	4,730
o/w Soy-related	716	784	1,040	1,067	1,111	1,167	1,229	1,281
Imports, c.i.f. (in millions of U.S. dollars)	9,785	7,115	9,520	10,270	10,848	11,291	12,021	12,683
Gross BCB international reserves	6,468	5,276	6,451	5,710	4,912	4,072	3,189	2,215
In percent of GDP	15.7	14.3	16.7	14.0	11.2	8.7	6.3	4.1
In months of next year's imports of goods and services	9.4	5.8	6.6	5.5	4.5	3.5	2.6	1.7
In percent of ARA	95.1	68.6	77.6	63.8	51.5	39.9	29.2	19.1
APSP oil prices (U.S. dollars per barrel)	61.4	41.3	58.5	54.8	52.5	51	51	51
Nominal GDP (in millions of U.S. dollars)	41,193.4	36,839.3	38,520.6	40,802.3	43,827.9	46,996	50,345	53,879

Sources: Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

Table 6. Bolivia: Monetary Survey, 2019–2026

	Est.		Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
(Bs million, unless otherwise indicated)								
<b>Central Bank</b>								
Net international reserves	44,316	31,538	39,596	34,515	29,041	23,276	17,221	10,538
Net international reserves (US\$ million)	6,460	4,597	5,772	5,031	4,233	3,393	2,510	1,536
Net domestic assets	29,262	60,682	56,872	67,531	81,287	96,529	112,252	129,806
Net credit to the nonfinancial public sector	21,067	46,708	49,645	63,538	76,346	89,210	101,843	114,657
Net credit to financial intermediaries	16,642	22,702	16,132	13,075	14,184	16,694	19,887	24,627
Other items net	-8,447	-8,728	-8,905	-9,083	-9,242	-9,375	-9,478	-9,478
Net medium and long-term foreign assets	1,588	1,483	1,483	1,483	1,483	1,483	1,483	1,483
Base money	75,166	93,669	97,951	103,529	111,811	121,288	130,956	141,827
Base money (percentage change)	3.5	24.6	4.6	5.7	8.0	8.5	8.0	8.3
Currency in circulation	49,177	53,616	57,213	60,987	65,333	70,056	75,048	80,318
Bank reserves	25,989	40,053	40,738	42,542	46,478	51,232	55,908	61,509
o/w legal reserves	12,917	19,917	15,693	17,251	19,047	20,996	22,912	25,207
<b>Financial System 1/</b>								
Net short-term foreign assets	54,943	40,974	50,853	47,265	43,282	39,096	34,715	29,806
Net short-term foreign assets (US\$ million)	8,009	5,973	7,413	6,890	6,309	5,699	5,060	4,345
Net domestic assets	167,057	204,146	216,921	244,989	276,976	311,395	346,041	385,788
Net credit to the public sector	22,340	48,243	51,180	65,073	77,880	90,745	103,378	116,191
Credit to the private sector	186,050	202,909	212,170	224,737	241,402	258,853	277,299	296,762
Credit to the private sector (percentage change)	10.1	9.1	4.6	5.9	7.4	7.2	7.1	7.0
Other items net	-41,333	-47,006	-46,429	-44,820	-42,306	-38,204	-34,635	-27,165
Net medium and long-term foreign liabilities	471	372	1,949	2,998	4,046	5,095	6,144	7,192
Broad money	221,529	244,748	265,825	289,256	316,211	345,395	374,612	408,403
o/w liabilities in domestic currency	215,821	239,109	259,647	282,465	308,713	337,130	365,593	395,208
o/w foreign currency deposits	5,708	5,639	6,178	6,791	7,498	8,265	9,019	13,195
(Changes in percent of broad money at the beginning of the period)								
Net short-term foreign assets	-9.2	-6.3	4.0	-1.4	-1.4	-1.3	-1.3	-1.3
Net domestic assets	8.8	16.7	5.2	10.6	11.1	10.9	10.0	10.6
Net credit to the public sector	5.2	11.7	1.2	5.2	4.4	4.1	3.7	3.4
Credit to the private sector	7.7	7.6	3.8	4.7	5.8	5.5	5.3	5.2
Other items net	-4.1	-2.6	0.2	0.6	0.9	1.3	1.0	2.0
Net medium and long-term foreign liabilities	-0.1	0.0	0.6	0.4	0.4	0.3	0.3	0.3
Broad money	-0.3	10.5	8.6	8.8	9.3	9.2	8.5	9.0
o/w liabilities in domestic currency	-0.5	10.5	8.4	8.6	9.1	9.0	8.2	7.9
o/w foreign currency deposits	0.2	0.0	0.2	0.2	0.2	0.2	0.2	1.1

Sources: Central Bank of Bolivia, and Fund staff calculations.

1/ The financial system comprises the central bank, commercial banks and nonbanks, and the Banco de Desarrollo Productivo (BDP), which is a state-owned second-tier bank.

**Table 7. Bolivia: Financial Stability Indicators**  
(Percent)

	2015	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3
<b>Capital Adequacy</b>								
Regulatory capital to risk-weighted assets	13.2	13.1	12.8	12.8	13.0	13.4	13.1	13.1
Regulatory Tier 1 capital to risk-weighted assets	11.7	11.2	10.4	10.3	10.6	11.0	10.9	11.0
Capital to assets	7.0	7.3	6.6	6.7	6.9	7.0	7.0	7.0
Nonperforming loans net of provisions to capital	11.6	12.4	14.0	14.7	15.7	18.2	15.6	14.2
Large Exposures to Capital	5.4	3.2	8.9	6.8	11.7	9.5	11.0	9.8
<b>Asset Quality</b>								
Nonperforming loans to total gross loans	1.5	1.6	1.7	1.7	1.9	2.2	1.9	1.7
Loand loss provisions to Nonperforming loans	35.7	34.2	43.8	35.1	31.1	7.4	23.3	41.4
<b>Earnings and Profitability</b>								
Return on Assets	1.6	1.7	1.6	1.3	1.5	1.1	1.0	1.0
Return on Equity	19.2	20.9	19.8	16.7	20.2	13.8	13.1	13.1
Interest margin to gross income	74.4	70.6	68.8	71.6	70.9	74.5	77.1	76.2
<b>Liquidity</b>								
Liquid assets to short-term liabilities	65.3	59.1	56.7	50.4	42.8	48.9	45.6	42.6
Liquid assets to total assets	32.9	27.3	25.2	22.3	16.9	19.3	18.4	16.9
<b>FX Risks</b>								
Net open position in foreign exchange to capital	-4.3	-9.6	-3.0	-8.5	-4.6	-2.8	0.0	4.1
Foreign Currency Loans to Total Loans	4.8	3.0	2.1	1.5	1.2	1.2	1.2	1.1
Foreign Currency Liabilities to Total Liabilities	17.9	16.6	14.1	12.4	12.9	13.0	12.8	12.7

Sources: Central Bank of Bolivia and Fund staff calculations.

Annex I. Global Risk Matrix<sup>1</sup>

Risks	Likelihood
<b>Conjunctural shocks and scenarios</b>	
<p><b>Unexpected shifts in the COVID-19 pandemic.</b></p> <ul style="list-style-type: none"> <li>▪ <b>Asynchronous progress.</b> Limited access to, and longer-than-expected deployment of, vaccines in Bolivia—combined with dwindling policy space—prompt a reassessment of their growth prospects.</li> <li>▪ <b>Prolonged pandemic.</b> The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. As an EM country with limited fiscal space, Bolivia would likely encounter difficulties in providing sufficient policy support. The most effective mitigation strategy would be to continue to strengthen efforts to obtain and distribute vaccines.</li> <li>▪ <b>Faster containment.</b> Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.</li> </ul>	<p>Medium</p> <p>Medium</p> <p>Medium</p>
<p><b>Sharp rise in global risk premia exposes financial and fiscal vulnerabilities.</b> A reassessment of market fundamentals (e.g., in response to adverse COVID-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erodes capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults. To mitigate the impact of a rise in risk premia, an appropriate response would be to obtain a larger share of financing from lower-cost multilateral sources.</p>	<p>Medium</p>
<p><b>Widespread social discontent and political instability.</b> Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship (unemployment, poverty, and shortages and higher prices of essentials—often exacerbating pre-existing inequities), or due to unequal access to vaccines. Growing political polarization and instability weaken policymaking and confidence. Despite the global likelihood rating with the recent landslide victory of the MAS party, this is assessed as low probability in the case of Bolivia.</p>	<p>Medium</p>
<p><b>Oversupply and volatility in the oil market.</b> Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from COVID-19) lead to renewed weakness in energy prices. In Bolivia, this would worsen the current account deficit, require larger BOP financing, and deepen the budget deficit. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility.</p>	<p>Medium</p>
<b>Structural risks</b>	
<p><b>Higher frequency and severity of natural disasters related to climate change</b> causes severe economic damage to Bolivia and accelerates emigration or urbanization (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).</p>	<p>Medium/ Low</p>
<b>Domestic risks</b>	
<p><b>Declining natural gas production from existing fields and failure to discover new fields.</b> Production from the existing fields is declining and the success of ongoing exploration activities is uncertain.</p>	<p>Medium</p>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

## Annex II. Debt Sustainability Analysis

*Public debt is assessed as sustainable, but with high risks. The trajectory of public debt has deteriorated over the past year and public debt is now projected to rise above the 70 percent of GDP during the projection period. The weakening in the prospects for public debt reflects a more moderate pace of fiscal consolidation than previously anticipated, after the necessary accommodation of 2020–21. Because of the short term monetary financing gross financing needs are projected to exceed 15 percent of GDP in 2020–21. The debt profile is largely benign, as external debt is mostly held by multilaterals, most debt is long-term, and average interest rates are low. Risks to the projections include the possibility that the COVID-19 shock will persist longer than expected, uncertainty about the medium term fiscal path, and the possibility of weaker-than-expected demand for Bolivia’s hydrocarbon exports.*

### A. Definitions and Recent Evolution of Public Debt Stock

**1. This annex covers the non-financial public sector (NFPS) fiscal perimeter.** This is derived by adding lending by the BCB to state owned enterprises (SOEs), to the National Fund for Regional Development (FNDR), to the Fund for the Productive Industrial Revolution (FINPRO) to the central government debt published by the BCB.

**2. At the end of 2019, NFPS debt was 59 percent of GDP, or 167 billion bolivianos (US\$24 billion).** (see Table 4 for the decomposition of public debt changes and Figure 1 in this annex for projections). Domestic debt, including lending by BCB, amounts to 90 billion bolivianos (US\$13 billion), or about 54 percent of total NFPS debt. Foreign debt, including domestic debt issued in FX, amounts to US\$11½ billion (77 billion bolivianos), 46 percent of total NFPS debt. Multilateral and bilateral creditors hold 61 and 11 percent of foreign debt, respectively, in the form of loans. The remaining 18 percent, consists of external public bond issuance.

**3. Between 2012 and 2019, the ratio of NFPS debt to GDP increased by about 24 percentage points to 59 percent.** As a share of GDP, domestic debt has increased from 20 to 31 percent, largely due to BCB lending to SOEs and the central government during the pandemic. Foreign debt has risen from 15 to 27 percent of GDP, supported by bilateral, multilateral, and non-bank private sector financing.

### B. Economic Assumptions

**4. The specific assumptions used in this annex are:**

- **Growth and Inflation.** In 2020, GDP is projected to contract by 8.8 percent and average inflation is projected to slow to about 1 percent. Over the medium term, growth is expected to recover slowly, stabilizing to its potential growth while average inflation is expected to return to its long-run average. Staff used conservative assumptions to reduce downside risk to the projections.
- **Primary Balance.** In 2020, the primary balance is projected at minus 12.7 percent of GDP. Subsequently, with the economic recovery, the primary balance is assumed to gradually improve to

minus 4 percent by 2025. The fiscal multiplier used is 1 reflecting the FAD methodology staff's guidance on fiscal multipliers.<sup>1</sup>

- **Debt management strategy.** Over the projection period, the public debt management strategy is assumed to limit expensive financing from the external capital markets and rely mainly on the BCB for domestic financing and multilateral and bilateral creditors for external financing.

## C. Public Debt Projections

**5. The public debt-to-GDP ratio is projected to reach 79 percent of GDP in 2020, rising to 88 percent of GDP by 2025 with risks to debt sustainability notably increased** (Figure 1). In 2020, the debt-to-GDP ratio is projected to increase by 19.7 percentage points. The primary balance during the pandemic contributes about 11 percentage points to the increase, with the contraction in GDP explaining the rest. While the projection indicates that automatic debt dynamics improve after 2020, the public debt ratio continues to rise, reaching 88 percent of GDP in 2025 on the back of a slow fiscal adjustment (Figure 1).

- Local currency debt is projected to increase by 14 percentage points of GDP to 46 percent of GDP by the end of the projection period, mainly driven by BCB lending to SOEs and the central government, especially in 2020. Funding costs on newly issued domestic debt are assumed to remain low, reflecting the mainly intergovernmental nature of domestic funding sources. The implicit interest rate on domestic debt (including BCB lending) is projected to remain at an average 1½ percent.
- Foreign currency debt is projected to increase by 6 percentage points of GDP in 2021 on the back of a US\$2bn foreign bonds issuance assumption<sup>2</sup> and to decrease to 37 percent of GDP by the end of the projection period, reflecting continued limited access to external financing sources. Two-thirds of newly issued debt is assumed to be financed by multilateral with the rest financed by bilateral creditors. The implicit interest rate on external debt is assumed to increase in 2020 by 50bps due to the external bond issuance and to remain constant at 3 percent, reflecting the predominantly multilateral nature of new external funding sources.

## D. Stress Tests and Risks to the Projections

**6. Risks to debt sustainability have increased with the debt level projected above the 70 percent of GDP risk assessment benchmark under all stress scenarios while gross financing needs rise above the 15 percent of GDP benchmark in 2020.**

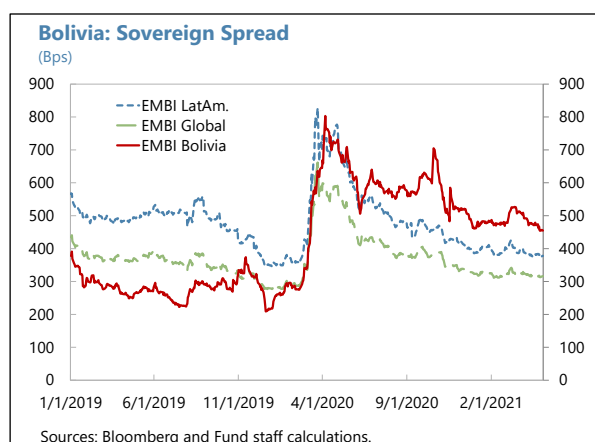
- **Debt remains above the 70 percent of GDP vulnerability benchmark under all stress tests,** reflecting the high and increasing level of debt under the baseline. Under the primary balance

<sup>1</sup> See the staff's methodology guidance note on fiscal multipliers. <https://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf>

<sup>2</sup> The 2021 budget foresees a US\$3 billion issuance.

and GDP shocks, the debt-to-GDP trajectory is expected to be 5 percentage points higher than under the baseline by end-2025. Under the combined macro-fiscal shock,<sup>3</sup> the debt-to-GDP trajectory is projected above 100 percent by end-2025.

- Gross financing needs increase in 2020 climbing above 15 percent of GDP while moderating afterwards.** The short term increase in gross financing needs is due to the large primary deficit and BCB short term financing in 2020. The fiscal consolidation in the medium term and the long term external debt issuance in 2021 reduce gross financing needs going forward. Bolivia benefits both from the long average maturity of much of its financing, which limits amortization payments, and from the low interest rates on much of that financing.
- Debt profile vulnerabilities are low.** The maturity structure poses limited risks: the limited share of short-term debt (less than 4 percent of GDP by the end of the projection period) helps contain gross financing needs. Market perception of external debt risks is relatively favorable: the EMBIG spread is below the benchmark of 600 basis points. External debt held by non-residents and the share of FX debt are lower than the respective risk assessment benchmarks. The share of external debt is expected to decrease over time as debt management strategy is assumed to favor domestic and cheaper external financing sources.



<sup>3</sup> The combined macro-fiscal shock is an extreme shock combining the worst possible realizations of the macro-fiscal variables in the separate primary balance, GDP, interest rate, and real exchange rate shocks.

**Figure 1. Bolivia: Public Debt Sustainability Analysis (DSA)**  
(In percent of GDP, unless otherwise indicated)

	Debt, Economic and Market Indicators <sup>1/</sup>										As of October 11, 2020		
	Actual			Projections									
	2009-2017 <sup>2/</sup>	2018	2019	2020	2021	2022	2023	2024	2025				
Nominal gross public debt	40.0	53.8	59.1	78.8	83.4	85.7	86.6	87.6	88.5	Sovereign Spreads			
Public gross financing needs	5.3	9.7	9.7	16.9	13.3	13.0	12.3	10.8	12.0	EMBIG (bp) 3/ 445			
Real GDP growth (in percent)	4.8	4.2	2.2	-8.8	5.0	4.0	3.7	3.6	3.5	Ratings Foreign Local			
Inflation (GDP deflator, in percent)	4.0	3.1	-0.7	-1.9	0.7	3.3	4.1	3.9	3.7	Moody's B1 Ba3			
Nominal GDP growth (in percent)	9.1	7.4	1.5	-10.6	4.6	5.9	7.4	7.2	7.1	S&Ps BB- BB-			
Effective interest rate (in percent) <sup>4/</sup>	3.3	2.5	2.6	2.3	2.4	2.5	2.6	2.8	2.9	Fitch B+ BB-			

	Contribution to Changes in Public Debt											
	Actual			Projections							cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025			
Change in gross public sector debt	1.6	2.6	5.3	19.7	4.5	2.3	0.9	1.0	0.9	29.4		
Identified debt-creating flows	-1.0	4.6	6.4	19.7	5.5	2.7	1.2	1.0	0.7	30.9		
Primary deficit	1.1	7.0	5.8	11.2	7.9	6.4	5.5	5.0	4.4	40.4		
Primary (noninterest) revenue + grants	35.9	29.0	28.8	25.3	26.3	27.7	27.6	27.5	27.2	161.6		
Primary (noninterest) expenditure	37.0	35.9	34.7	36.5	34.2	34.1	33.1	32.5	31.6	202.0		
Automatic debt dynamics <sup>5/</sup>	-1.9	-2.3	0.6	8.5	-2.4	-3.8	-4.3	-3.9	-3.6	-9.5	-3.6	
Interest rate/growth differential <sup>6/</sup>	-1.9	-2.3	0.6	8.5	-2.4	-3.8	-4.3	-3.9	-3.6	-9.5		
Of which: real interest rate	-0.2	-0.3	1.7	2.6	1.3	-0.7	-1.4	-1.0	-0.8	0.1		
Of which: real GDP growth	-1.7	-2.0	-1.2	5.8	-3.7	-3.1	-2.9	-2.9	-2.9	-9.6		
Exchange rate depreciation <sup>7/</sup>	0.0	0.0	0.0	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Fiscal, Expenditures, Nationalization cost (negative)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes <sup>8/</sup>	2.6	-2.0	-1.1	0.0	-1.0	-0.3	-0.3	0.0	0.2	-1.5		

Source: IMF staff.

1/ Public sector is defined as the consolidated public sector. Public debt includes SOEs' borrowing from the BCB but not from other domestic institutions.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+grt)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

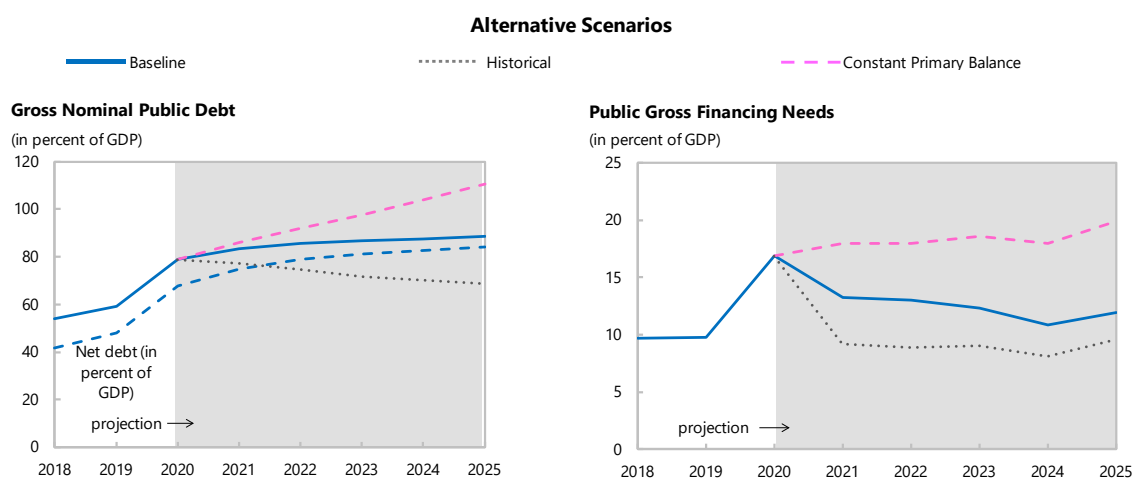
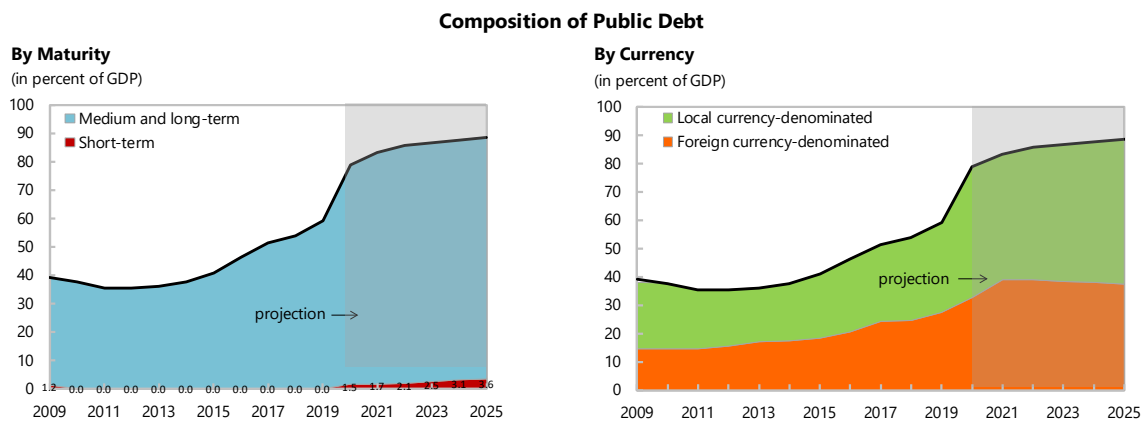
6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

7/ The exchange rate contribution is derived from the numerator in footnote 5 as  $ae(1+r)$ .

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

**Figure 2. Bolivia: Public DSA – Composition of Public Debt and Alternative Scenarios**



### Underlying Assumptions (in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.8	5.0	4.0	3.7	3.6	3.5
Inflation	-1.9	0.7	3.3	4.1	3.9	3.7
Primary Balance	-11.2	-7.9	-6.4	-5.5	-5.0	-4.4
Effective interest rate	2.3	2.4	2.5	2.6	2.8	2.9

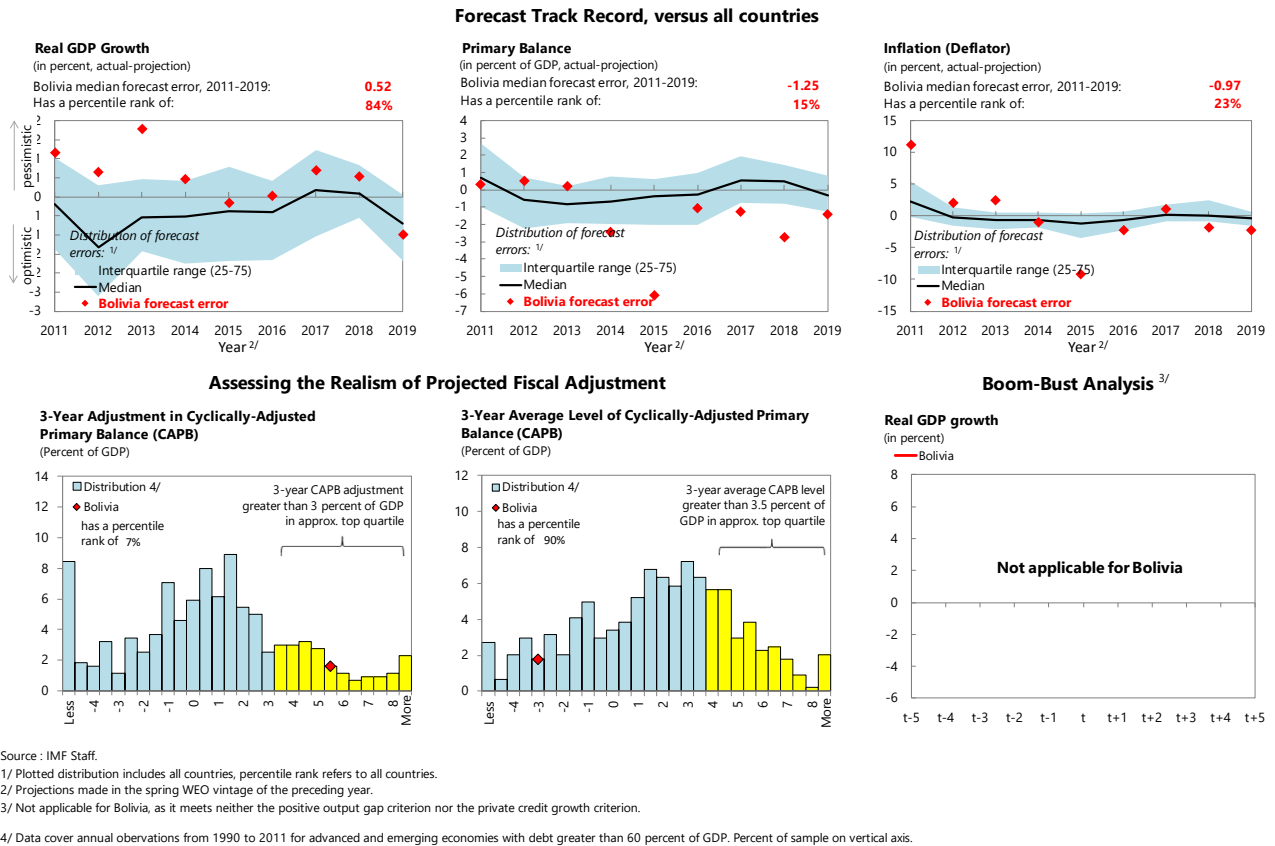
  

Constant Primary Balance Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.8	5.0	4.0	3.7	3.6	3.5
Inflation	-1.9	0.7	3.3	4.1	3.9	3.7
Primary Balance	-11.2	-11.2	-11.2	-11.2	-11.2	-11.2
Effective interest rate	2.3	2.4	2.5	2.5	2.6	2.7

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-8.8	4.6	4.6	4.6	4.6	4.6
Inflation	-1.9	0.7	3.3	4.1	3.9	3.7
Primary Balance	-11.2	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	2.3	2.4	2.6	2.6	2.7	2.8

Source: IMF staff.

**Figure 3. Bolivia: Public DSA – Realism of Baseline Assumptions**



Source : IMF Staff.

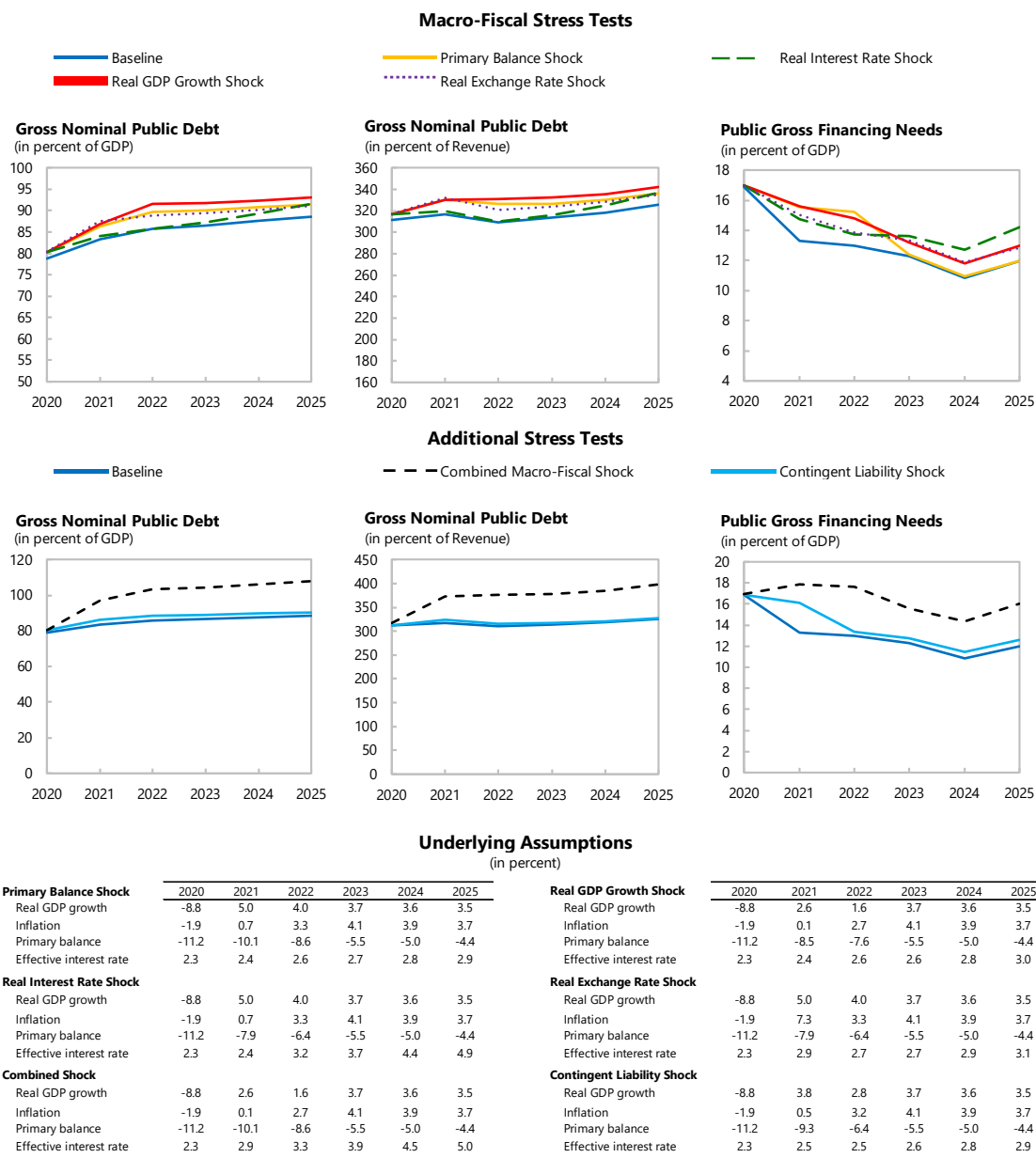
1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Bolivia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

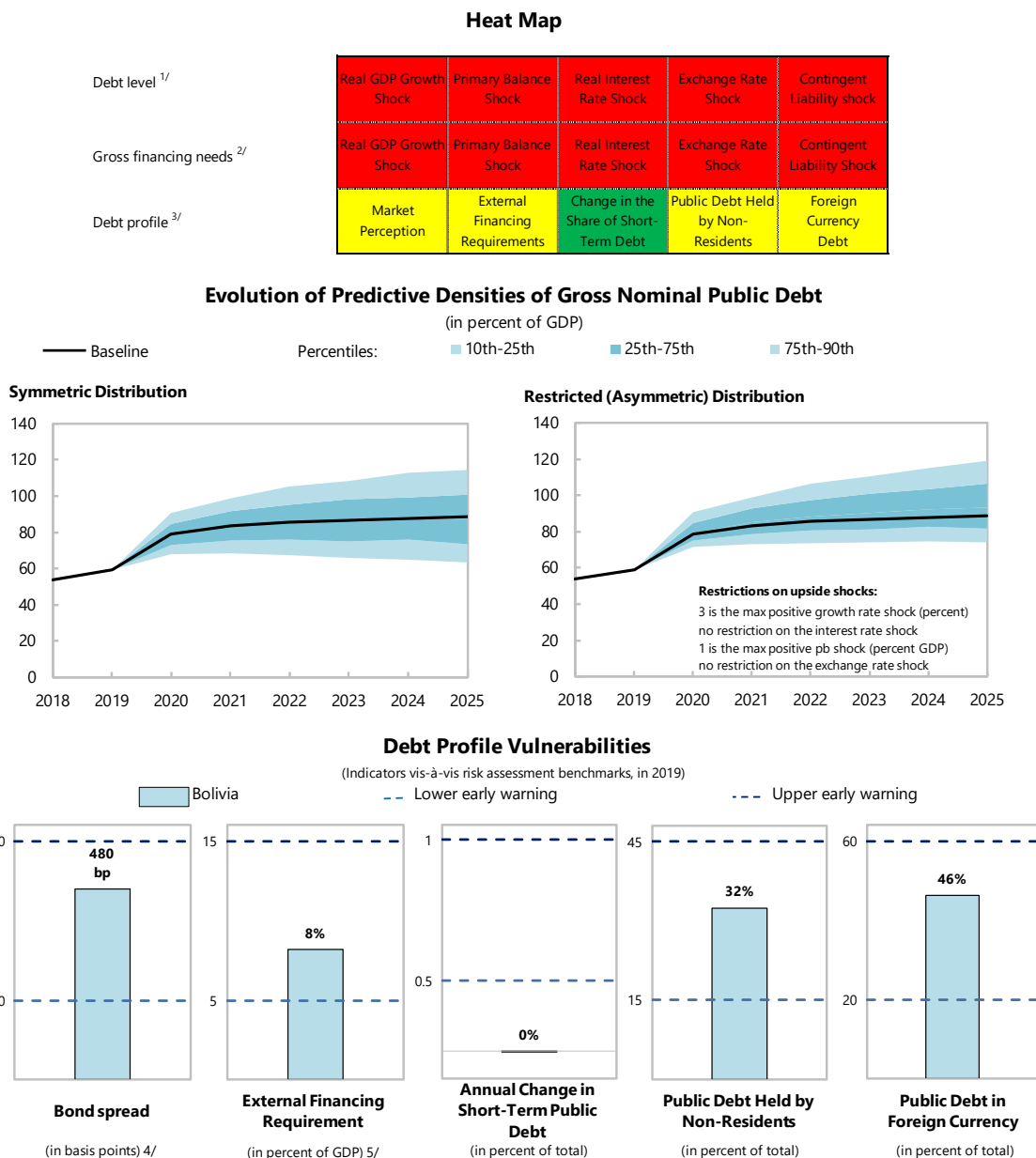
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Bolivia: Public DSA – Stress Tests



Source: IMF staff.

**Figure 5. Bolivia: Public DSA Risk Assessment**



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 13-Jul-20 through 11-Oct-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Annex III. External Sector Assessment

**Overall Assessment:** *The external position in 2020 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.* While the EBA-lite CA model finds that the external position was approximately in line with the level implied by fundamentals and desirable policies, this result is driven by anomalous one-off factors associated with the pandemic, notably significant private sector import compression and constrained public sector demand. With a *de facto* fixed exchange rate regime, Bolivia has run persistent current account deficits, with diminishing international reserves and substantial real exchange rate appreciation since 2015. At end-March reserves fell to US\$4.7 billion, which is 5.2 months of imports or 61 percent of the Fund's 2020 reserve adequacy metric. The outlook for 2021 remains subject to considerable uncertainty around the protracted impact of the COVID-19 pandemic.

**Potential Policy Responses:** The short-term priority should be to provide adequate economic and health measures to combat COVID-19. Over the medium term, there should be a commitment to implement pro-growth and inclusive fiscal reforms and to reinvigorate structural reforms to improve competitiveness. If it opts to preserve the stabilized exchange rate, Bolivia will need to rely on internal adjustments to public and private demand. In this regard, wages should grow in line with the productivity, and the government should implement fiscal reforms to reduce the fiscal deficit, prioritize spending, and protect the most vulnerable.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Bolivia has been a net debtor since 2016Q4. The net international position (NIIP) has weakened from a net surplus of US\$4.5 billion (13.6 percent of GDP) in 2014 to a net deficit of US\$-7.6 billion (-20.7 percent of GDP) at end-2020. The decline in net foreign assets reflects persistent current account deficits, coinciding with the commodity boom-bust cycle (2012 – 2017) and the accompanying fiscal expansion. Over half of foreign liabilities are in the form of loans and debt instruments, with the remaining share in equity, primarily as direct investment. To cover emergency financing needs arising from the COVID-19 pandemic, Bolivia received financial assistance of about \$327 million from the IMF under the Rapid Financing Instrument, which was repaid in February 2021.

**Assessment.** Staff project that in the medium term the NIIP will continue to deteriorate by 2 to 3 percent of GDP per year, owing to sustained current account deficits. To maintain the NIIP at the 2020 level of -20.7 percent of GDP would require a current account balance of -1.0 percent of GDP in 2021, gradually deteriorating to -1.4 percent of GDP by 2025. On the upside, Bolivia's short-term gross financing needs are limited, as much of the external debt is long-term, with favorable financing terms.

2020 (% GDP)	NIIP: -20.7	Gross Assets:44.4	Debt Assets:14.3	Gross Liab.: 65.1	Debt Liab.: 40.1
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### Current Account

**Background.** The current account in Bolivia follows commodity price swings and, relatedly, fiscal policy. With the collapse in commodity prices in 2015 and associated increase in the budget deficit, the current account swung sharply into deficit, after a 10-year period of recurring surpluses. Since 2015, the current

account deficit has averaged 4.1 percent of GDP, and real exports have declined by 31.1 percent while real imports have decreased by 25.9 percent from 2015 to 2020. In 2019 the current account deficit narrowed to 3.4 percent of GDP with a significant decline in capital goods imports offsetting weakness in hydrocarbons and mining exports. Depressed natural gas prices over 2019 and 2020, combined with a shortage of global demand from COVID-19 reduced Bolivian exports over 2020. Although exports have fallen in 2020, the strict quarantine imposed restricted economic activity and greatly depressed imports causing the current account deficit to moderate to 0.5 percent of GDP.

**Assessment.** The cyclically adjusted CA balance stood at -3.0 percent of GDP in 2020. The EBA-lite CA regression estimates a norm of -3.6 percent of GDP, thus implying an CA gap of 0.6 percent. While drawing on the CA model, the overall assessment also considers the inadequate reserves, thus in staff's judgment, the external position as assessed to be moderately weaker. Staff expect the current account to return towards its norm in the medium term as the effects of COVID-19 dissipate.

#### Bolivia: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model	ES model
<b>CA-Actual</b>	<b>-0.5</b>		
Cyclical contributions (from model) (-)	1.4		
COVID-19 adjustor (+) 1/	-0.8		
Additional temporary/statistical factors (+)	0.0		
Natural disasters and conflicts (-)	0.3		
<b>Adjusted CA</b>	<b>-3.0</b>		
<b>CA Norm</b> (from model) 2/	<b>-3.6</b>		
Adjustments to the norm (+)	0.0		
<b>Adjusted CA Norm</b>	<b>-3.6</b>		
<b>CA Gap</b>	<b>0.6</b>	<b>-7.3</b>	<b>-3.2</b>
o/w Relative policy gap	-4.3		
Elasticity	-0.19		
<b>REER Gap (in percent)</b>	<b>-3.2</b>	<b>38.0</b>	<b>16.4</b>
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (0.08 percent of GDP).			
2/ Cyclically adjusted, including multilateral consistency adjustments.			

#### Real Exchange Rate

**Background.** CPI-based real effective exchange rate (REER) has been on an appreciating trend since end-2017. As of end-2020, the REER has appreciated by 55 percent since the boliviano was pegged to the U.S. dollar in 2011. The appreciation largely reflects depreciation of Bolivia's major trading partners, which include Brazil and Argentina, against the U.S. dollar.

**Assessment.** The CA gap implies a REER undervaluation of -3.2 percent (applying an estimated elasticity of 0.19). For 2020, the REER regression model indicates an overvaluation of 38.0 percent while the ES model indicates an overvaluation of 16.4 percent. To realign the exchange rate with fundamentals, policies should focus on fiscal consolidation, improving productivity and competitiveness.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** Bolivia issued external sovereign bonds of \$1 billion (2.6 percent of GDP) in 2017 with a maturity of 10 years at an interest rate of 4.5 percent. To help curtail the financing gap stemming from COVID-19 the IMF, World Bank, IDB and CAF provided funding totaling about \$1.35 billion in 2020. Due to uncertainty and depressed economic activity surrounding COVID-19, net FDI flow is projected at -0.6 percent of GDP compared to a three-year average of 0.6 percent of GDP net inflow. According to the Chinn-Ito index,<sup>1</sup> using data for 2018, Bolivia's capital account is less open than the LAC average.

**Assessment.** The current account deficit has been mainly financed by running down international reserves. Declining reserves, and continued fiscal and current account deficits, expected to raise the cost of external funding, limiting prospects for further external sovereign bond issuances. To support sustainable and durable growth, the authorities need to put in place policies that attract larger FDI inflows to bolster the non-hydrocarbon sector.

### FX Intervention and Reserves Level

**Background.** Bolivia has a stabilized exchange rate regime, with the boliviano pegged at a rate of 6.9 to the U.S. dollar. Net international reserves fell by 47 percent from 8.9 billion at end-2018 to 4.7 billion in March 2021.

**Assessment.** Reserves remain adequate (at 5.2 months of imports or 61 percent of the ARA metric) according to standard Fund metrics. However, reserves have diminished from US\$15 billion to US\$4.7 billion in the last 6 years, and are projected to fall to about 50 percent of the Fund's reserve adequacy metric due to persistent current account deficits. To preserve the stabilized exchange rate, correcting external imbalances will have to rely on internal adjustment, including fiscal consolidation supported by structural reforms.

<sup>1</sup>The Chinn-Ito index (KAOPEN) of Chinn and Ito (2006) is an index measuring a country's degree of capital account openness based on restrictions on cross-border financial transactions quantified in IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER).



## Appendix I. Draft Press Release

# IMF Executive Board Concludes 2021 Article IV Consultation with Bolivia

FOR IMMEDIATE RELEASE

**Washington, DC – June XX, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Bolivia.

The Covid-19 pandemic has had devastating effects in Bolivia, causing unprecedented disruptions and tragic loss of life, with over 13,000 deaths and 300,000 cases reported so far. The necessary quarantine imposed in March 2020 restricted mobility and access to work, and output declined in all sectors except agriculture, leading to an 8.8 percent contraction in GDP in 2020. Dampened import demand brought about an improvement in the current account, which tightened by 3 percentage points to ½ percent of GDP. The slowdown in growth and falling food prices compressed inflation to 0.9 percent in 2020.

To combat the pandemic, the authorities increased public health outlays and provided support to households, businesses, and the financial sector. One-off expenditures on direct relief programs, such as the *Bono Contra el Hambre*, and heightened expenditures on the health sector and social support, helped to mitigate the impact of the pandemic. The cyclical downturn decreased revenues, increasing the public sector deficit to 12.7 percent of GDP in 2020. The fiscal expansion contributed to a fall in international reserves, which declined from US\$6.5 billion at end-2019 to US\$4.7 billion at end-March 2021.

The economy is expected to rebound in 2021, growing by 5.0 percent, supported by the authorities' program to vaccinate the full adult population as quickly as possible. Higher international commodity prices are expected to boost the recovery in the mining and hydrocarbons sectors, while growth in the agricultural sector should remain strong. Modest improvements in the fiscal deficit in 2021 are projected, supported by recovering revenues, progressive withdrawal of COVID-19-related one-off expenditure items, and a slowdown in wage growth and spending on goods and services.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Risks to the outlook include uncertainties over the course of the pandemic and the pace of vaccinations in Bolivia and its main trading partners, and over the projected rise in global commodity prices. Reliance on financing from international markets could expose Bolivia to changes in external financing conditions, while Covid-19-related loan payment deferrals may increase financial stability risks.

## **Executive Board Assessment<sup>2</sup>**

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

## Bolivia: Selected Social and Economic Indicators

	2016	2017	2018	2019	Est.	Projections	
					2020	2021	2022
<b>Income and prices</b>							
Real GDP	4.3	4.2	4.2	2.2	-8.8	5.0	4.0
Nominal GDP	2.9	10.5	7.4	1.5	-10.6	4.6	5.9
CPI inflation (period average)	3.6	2.8	2.3	1.8	0.9	1.7	2.5
CPI inflation (end of period)	4.0	2.7	1.5	1.5	0.7	2.5	2.8
<b>Investment and savings 1/</b>							
Total investment	21.1	22.2	20.6	19.9	15.8	18.8	19.8
Of which: Public sector	12.9	13.6	11.0	9.8	5.0	7.0	8.0
Gross national savings	15.4	16.1	16.1	14.1	12.4	11.4	11.9
Of which: Public sector	5.7	5.8	2.9	2.6	-7.8	-2.8	-0.1
<b>Combined public sector</b>							
Revenues and grants	32.7	30.8	29.0	28.8	25.3	26.3	27.7
Of which: Hydrocarbon related revenue	5.1	4.8	4.8	4.8	4.7	4.0	4.1
Expenditure	39.9	38.6	37.1	36.1	38.0	36.0	36.1
Current	25.3	25.0	26.1	26.3	33.1	29.0	27.9
Capital 2/	14.7	13.6	11.0	9.8	5.0	7.0	8.2
Net lending/borrowing (overall balance)	-7.2	-7.8	-8.1	-7.2	-12.7	-9.7	-8.4
Of which: Non-hydrocarbon balance	-10.9	-11.7	-11.1	-10.1	-15.3	-11.6	-10.5
Total gross NFPS debt 3/	46.5	51.3	53.8	59.1	78.8	83.4	85.7
<b>External sector</b>							
Current account 1/	-5.6	-5.0	-4.5	-3.4	-0.5	-3.8	-4.1
Exports of goods and services	24.2	25.4	25.5	24.9	20.5	23.3	23.3
Of which: Natural gas	6.0	6.8	7.3	6.6	5.4	5.8	5.6
Imports of goods and services	31.6	31.1	30.7	29.0	22.4	28.4	28.9
Capital account	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.3	-6.3	-3.8	0.3	1.5	-6.8	-2.3
Of which: Direct investment net	-0.7	-1.7	-1.0	0.6	2.6	-0.8	-0.7
Net errors and omissions	-1.1	-1.9	-2.3	-3.2	-2.8	0.0	0.0
Terms of trade index (percent change)	1.0	1.4	-0.7	-0.4	3.0	5.0	-1.0
<b>Central Bank gross foreign reserves 4/ 5/</b>							
In millions of U.S. dollars	10,081	10,261	8,946	6,468	5,276	6,451	5,710
In months of imports of goods and services	10.3	9.9	9.0	9.4	5.8	6.6	5.5
In percent of GDP	29.5	27.2	22.0	15.7	14.3	16.7	14.0
In percent of ARA	174.6	159.6	133.8	95.1	68.6	77.6	63.8
<b>Money and credit</b>							
Credit to the private sector	14.8	12.8	11.2	10.1	9.1	4.6	5.9
Credit to the private sector (percent of GDP)	57.4	58.6	60.7	65.8	80.3	80.3	80.3
Broad money (percent of GDP)	81.5	81.2	79.8	78.4	96.8	100.6	103.3
<b>Memorandum items:</b>							
Nominal GDP (in billions of U.S. dollars)	34.2	37.8	40.6	41.2	36.8	38.5	40.8
Bolivianos/U.S. dollar (end-of-period) 6/	6.9	6.9	6.9	6.9	...	...	...
REER, period average (percent change) 7/	4.1	-2.2	2.2	4.5	...	...	...
Oil prices (in U.S. dollars per barrel)	42.8	52.8	68.3	61.4	41.3	58.5	54.8

Sources: Bolivian authorities (MEFP, Ministry of Planning, BCB, INE, UDAPE); IMF; Fund staff calculations.

1/ The discrepancy between the current account and the savings-investment balance reflects methodological differences. For the projection years, the discrepancy is assumed to remain constant in dollar value.

2/ Includes nationalization costs and net lending.

3/ Public debt includes SOE's borrowing from the BCB (but not from other domestic institutions) and BCB loans to FINPRO and FNDR.

4/ Excludes reserves from the Latin American Reserve Fund (FLAR) and Offshore Liquidity Requirements (RAL).

5/ All foreign assets valued at market prices.

6/ Official (buy) exchange rate.

7/ The REER based on authorities' methodology is different from that of the IMF (see 2018 and 2017 Staff Reports).