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June 10, 2021

**Statement by Mr. Pösö and Mr. Damgaard on Bolivia
(Preliminary)
Executive Board Meeting
June 14, 2021**

We thank staff for the interesting report and Mr. Chodos for his informative Buff statement. The Bolivian economy was hit hard by the pandemic due to the strict lockdown measures and the decline in commodity prices in the first half of 2020. The authorities took decisive fiscal actions to support those most affected by the pandemic, and the recovery is now gradually underway, also supported by the rebound in commodity prices. We welcome the authorities' ambitious vaccine plans, which could support the recovery further. At the same time, the pandemic has exacerbated preexisting vulnerabilities, and the authorities will need to develop credible medium-term plans to bring the public debt-to-GDP ratio on a downward path. **We broadly agree with staff's appraisal and offer the following points for emphasis.**

The authorities should strike a delicate balance between crisis-related fiscal support and medium-term fiscal consolidation. Fiscal support should gradually be wound down and become increasingly targeted as the impact from the pandemic abates. We welcome the authorities' focus on public investment in social and productive sectors, but these investments need to be financed by enhanced revenue mobilization and/or other expenditure savings to preserve debt sustainability. We are concerned about the significant rise in the public debt ratio over the past decade and stress the need to address the issue in a preemptive manner.

In the case of Bolivia, we see pros and cons associated with both the fixed exchange regime and a transition to inflation targeting. We agree with the authorities that the fixed exchange rate has served as an important policy anchor and has contributed to keeping inflationary pressures under control. At the same time, we agree with staff that tighter fiscal policy would be required under this regime. Ultimately, the authorities should make their

own decision, but we stress that a fixed exchange rate regime needs to be accompanied by strong fiscal discipline to be successful in the long run. Moreover, foreign reserves will need to be rebuilt to strengthen credibility. *In this context, we note that the Bolivian authorities on February 12 chose to make an early repurchase of the full amount purchased under the Fund's Rapid Financing Instrument last year. Could staff elaborate on the authorities' decision to do so?*

The developments in banks' asset quality should be closely monitored. While we understand the decision to introduce loan moratoria during the crisis, these measures should be phased out as soon as feasible. We note that banks' have already provisioned for expected loan losses on a voluntary basis, and we encourage the authorities to ensure that the provisioning is adequate to avoid a sudden deterioration of asset quality at a later stage. On lending quotas and interest caps, we agree with staff that these measures should be phased out to allow for market-based allocation of capital.

Ambitious structural reforms are necessary to boost the growth potential. In particular, we see a need to remove red tape to make it more attractive to do business and make private investments in Bolivia. We also encourage the authorities to address corruption and increase transparency related to SOEs. We welcome the authorities' commitment to building a greener and more resilient economy that is less dependent on fossil fuels. In this regard, we see merit in staff's proposals to gradually remove subsidies for the consumption of hydrocarbons and introduce a carbon tax. We commend the authorities for their substantial efforts to lift people out of poverty since the 2000s and underscore that the revenues from the climate-related measures could be used to invest in green technologies and to offset the impact on poor households.

With these remarks, we wish the Bolivian authorities every success.