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June 10, 2021

**Statement by Mr. Zhang and Ms. Zhao on Bolivia
(Preliminary)
Executive Board Meeting
June 14, 2021**

We thank staff for the comprehensive reports and Mr. Chodos for his helpful Buff statement. While Bolivia has been struck hard by the pandemic, we take positive note that the recovery is expected to gather momentum. Meanwhile, a large fiscal deficit is a challenge to medium-term debt sustainability, and a credible fiscal plan is needed to ensure debt sustainability in the medium term. While a careful transition to a more flexible exchange rate would benefit the country, significant preparatory work is required for a smooth transition. We broadly agree with staff's appraisal and would like to offer the following comments for emphasis.

On the fiscal front, we commend the authorities for their re-distributive fiscal policy that helped support an important decline in poverty since the mid-2000s. While we welcome the authorities' shift from emergency support to public investment in the 2021 budget, it is also essential to continue supporting the most vulnerable households. In the medium-term, credible fiscal plans are needed to ensure fiscal and debt sustainability. On the revenue side, we take note of the different views between staff and the authorities on the need for a progressive personal income tax(PIT). *Could staff elaborate on whether the current efficiency of the country's tax administration could support an effective progressive PIT?* On the expenditure side, we agree with staff's advice in reducing the energy subsidy and improving the governance of SOEs.

On monetary and financial policy front, we take note of the different views between staff and the authorities on the reform direction of the exchange rate regime. While we agree with staff that a flexible exchange rate would benefit Bolivia through reducing balance of payments imbalances and preserving the continuously-decreasing foreign reserves in the medium term, significant preparation needs to be done before switching to the flexible exchange rate regime. International experiences suggest that low dollarization and well-managed foreign debt are key to tapping the advantage and mitigating the balance sheet effect of a flexible exchange rate. *Could staff share the current estimation of the country's dollarization rate and elaborate on how to mitigate the balance sheet effect given that nearly half of the country's public debt is foreign debt?* On the financial sector, we note that the loan deferral program may result in asset quality deterioration and encourage the authorities to strengthen monitoring banks' profitability and capital.

On the structural policy front, we commend the authorities for their significant efforts in reducing poverty and improving living standards through social programs during the past decades. We support the authorities' strategy to restoring economic growth and returning to a declining path for poverty through greater public investment. To improve the business environment and attract more foreign direct investment, we agree with staff that price and export controls should be gradually lifted. We welcome the authorities' plan to increase the already-high share of renewable resources in domestic energy consumption.

With these remarks, we wish the authorities every success in their policy efforts.