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June 10, 2021

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

1. We thank Staff for a comprehensive report and a helpful Buff statement by Mr. Chodos.
2. We note that Bolivia has been making impressive progress on poverty reduction and per capita income over the past two decades – before COVID. In April 2020, Bolivia was provided financial assistance by IMF under RFI to meet the widening external financing gap due to worsening terms of trade and slowdown in capital flows and to support increased spending on health services to ensure the well-being of its population. However, Bolivia decided to make an early repurchase in February 2021 though it was still not out of the woods. The fiscal deficit has widened substantially; forex reserves have declined in efforts to maintain the fixed exchange rate, and importantly, the improvement in the external balance appears to be only temporary, largely due to the reduction in domestic demand led by containment measures. We note that authorities are proceeding to raise financing by the issuance of sovereign bonds. We would welcome Staff comments on the underlying factors that drove the switch from IMF funding to market borrowings and its implications.
3. We agree with the Staff that fiscal support needs to be continued given the uncertainty associated with the recovery path and the pace of vaccination. We also support Staff's suggestions to implement reforms to reduce the fiscal deficit and attain debt sustainability in the medium term. While expenditure on education and health should be enhanced, we encourage authorities to consider reducing energy subsidies, and improving the efficiency, governance, and monitoring of SOEs.
4. Staff has suggested that "Revenue reforms should focus on increasing the efficiency and progressivity of the tax system to protect Bolivia's progress in poverty alleviation." Bolivia has a flat tax-rate; discussions about "progressivity" of tax

system has to be contextual; in particular, what would happen to compliance if the tax rate were to be made “more progressive”.

Moreover, Staff may like to elaborate on its suggestion about better prioritization of public investment projects.

5. We note that the exchange rate peg has served Bolivia well in maintaining a low and stable inflation and in reduction of dollarization. However, implementing a credible inflation targeting framework with a flexible exchange rate would be a major challenge. If inflation expectations are hit adversely, it may significantly offset the policy space expected from exchange rate flexibility. Probably, a major push to structural reforms to raise productivity may also help offset overvalued exchange rate. We would welcome Staff comments, especially on how an inflation targeting framework has been instrumental in lowering inflation and/or inflation expectations.

6. As regards building a greener economy, we take positive note of authorities’ plans to continue investing in greener energy sources and diversifying domestic energy consumption away from fossil fuels. However, Government has expressed difficulties in implementing a carbon tax, sensing a negative impact on low-income households. Staff may like to comment.

7. We wish the authorities every success in their future endeavors.