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June 10, 2021

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

We thank staff for the helpful report and Mr. Chodos for his valuable Buff statement. We welcome the authorities' strong policy support in response to COVID-19. Moving forward, the authorities face important policy constraints, while implementing measures to close the output gap and alleviate poverty. We offer the following additional comments:

- **The authorities should continue to implement fiscal policies to manage the pandemic and create conditions for the recovery.** We fully support the authorities' increase in public health and direct relief programs outlays, and their ambition to increase the pace of vaccination so that all adult population is inoculated by September. Moving forward, we agree that the authorities should develop a medium-term fiscal strategy to stabilize debt, close the output gap and alleviate poverty. The fiscal strategy should also factor in the impact of fiscal policy on the currency peg, to which the authorities are committed.

- **We appreciated staff's analysis on the trade-offs involved in preserving the peg and on the costs and benefits of moving to a more flexible exchange rate.** We understand the authorities' concerns that a flexible exchange rate could bring about higher inflation and would have a negative impact in lower income households, at least temporarily. At the same time, we are concerned with the gradual erosion of reserves and the sustainability of the peg over the medium term, despite the recent increase in reserves. We reckon that the ideal timing of transition to a flexible exchange rate regime depends crucially on the feasibility to deploy adequate policy measures to ensure low inflation and support the more vulnerable population segments during the adjustment period. Considering these factors in the analysis would have been helpful.

- **The economy would benefit from structural reforms that facilitate more private-sector-led growth.** Like staff suggests, this could be done by improving the business and regulatory environment and by alleviating the administrative controls over prices and quantities, both in the goods and credit markets, which may be distortionary and inefficient. While we share the concern that these reforms may impact negatively the most disadvantaged, we believe that the reforms should be implemented, with social costs mitigated through targeted support.