

The contents of this document are preliminary and subject to change.

GRAY/21/1593

June 10, 2021

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

We thank staff for their comprehensive set of reports and Mr. Chodos for his helpful Buff statement. The COVID-19 pandemic has undercut Bolivia's two decades-long track record of economic growth and risks the gains achieved in reducing inequality. The authorities will need to address the significant structural imbalances of the economy and put the country's finances on a more solid footing to prevent a disorderly adjustment of the exchange rate. **We share the thrust of staff's appraisal and would like to add the following points.**

Tackling the fiscal deficit is key to containing macroeconomic risks and paving the way to sustainable growth. The fiscal deficit has risen sharply from high levels, increasing the already large adjustment required to stabilize the debt-to-GDP ratio over the medium term. While fiscal policy should stay supportive to support the recovery, a credible medium-term fiscal strategy is required that will need to center on raising tax revenue, as well as broadening its base and strengthening expenditure controls. We note the high level of informality in the economy and would see efforts by the authorities to reduce informality as an additional element in support of fiscal consolidation efforts. *Can staff provide more details on the estimated share of informal sector revenues in GDP and to what extent the various price controls contribute to informality?*

The gradual transition to greater exchange rate flexibility would, in principle, be desirable. On balance and in principle, we lean toward staff's recommendation to move toward a more flexible exchange rate as there is a significant risk of a disorderly adjustment given precariously low foreign reserve levels, limited prospects of market access, and should the economic policy adjustment be insufficient. As the economic dislocation could be significant, a switch in the exchange rate regime would need to be accompanied by a Fund-supported program. *As policy options are limited, could staff comment whether a debt restructuring should be considered?*

The implementation of structural reforms is essential to raise competitiveness, increase private sector participation, and diversify the economy. The authorities should accelerate the implementation of structural reforms to enable the shift from dominating extractive industries to industries with higher value added. We encourage the authorities to undertake strong efforts to improve the business climate, reduce regulatory barriers, and develop a transparent legal framework supportive of private sector development. We commend the authorities for their ambitious climate change agenda.