INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/34

BOLIVIA

January 2025

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOLIVIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Bolivia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 22, 2024, consideration of the staff report that concluded the Article IV consultation with Bolivia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 22, 2024, following discussions that ended on February 7, 2024, with the officials of Bolivia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 7, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Bolivia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

© 2025 International Monetary Fund

PRESS RELEASE

PR25/018

IMF Executive Board Concludes 2024 Article IV Consultation with Bolivia

FOR IMMEDIATE RELEASE

Washington, DC – January 31, 2025: On March 22nd, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] for Bolivia. This also included a discussion of the findings of the Financial Sector Assessment Program (FSAP) exercise for Bolivia.[2]

Bolivia's growth momentum moderated in 2023, to 2.5 percent, from declining natural gas production, less public investment, and financial market turmoil. Price controls, food and fuel subsidies, export restrictions, and strong agricultural production held inflation below 2 percent at year-end. However, the combination of lower natural gas exports, high fuel imports, a large fiscal deficit—increasingly financed by the central bank—and an overvalued exchange rate contributed to a wider current account deficit (estimated at 5 percent of GDP for 2023) and near-depletion of international reserves. Public debt increased to nearly 84 percent of GDP by end-2023. Sovereign spreads rose sharply in early 2023 as the foreign exchange (FX) shortage became apparent and a mid-sized bank (Banco Fassil) failed. Consequently, banks were forced to restrict the withdrawal of FX deposits, heightening financial sector stability risks.

Growth is anticipated to decelerate to 1.6 percent in 2024, holding at around 2.2-2.3 percent in the medium term under the continuation of the current policies. Inflation is forecast to reach 4.5 percent in 2024, stabilizing around 4 percent thereafter. The outlook is however predicated on significantly improved access to external financing, without which the risk of disorderly fiscal and/or exchange rate adjustment is elevated. External factors such as reduced demand, intensified global conflicts disrupting trade routes, commodity price volatility, or a renewed tightening of financial conditions could worsen fiscal and external imbalances, impede growth, and destabilize the domestic financial sector.

Additionally, extreme weather events, like the 2023 droughts and recent floods, pose a risk to Bolivia's agricultural sector and critical infrastructure. Domestically, a faster decline in hydrocarbon production, higher inflation due to FX scarcity, or confidence shocks could further impact growth, hurt real incomes and exacerbate financial stability risks. Social unrest stemming from inequality and security concerns remains a concern, as evidenced by the prolonged road blockages of early 2024. On the upside, Bolivia could potentially benefit from

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive and in-depth assessment of a country's financial sector. FSAPs provide input for Article IV consultations and thus enhance Fund surveillance. FSAPs are mandatory for the 47 jurisdictions with systemically important financial sectors and otherwise conducted upon request from member countries. The key findings of an FSAP are summarized in a Financial System Stability Assessment (FSSA).

the global shift towards green energy due to its vast lithium resources, although developing the lithium sector and scaling up domestic production capacity will likely take time.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Bolivia's socioeconomic progress over the past several years but expressed concerns about the difficult financial situation Bolivia currently finds itself in, with low reserves, uncertain fiscal financing, and pressures in parallel exchange markets. Directors stressed the urgency of a shift from current unsustainable policies to avoid a disorderly adjustment that would exert significant social and economic hardship.

Directors called for continued constructive engagement on a sustainable policy mix that is likely to require both fiscal adjustment phased in over the next few years and an up front step devaluation to more quickly address the external imbalance and allow for a build up of reserves. They emphasized the importance of improving the social safety net to shield poorer households from inflation pressures following a realignment of the exchange rate. Directors also emphasized the importance of strengthening fiscal institutions to underpin the credibility of the planned adjustment and to improve central bank governance in support of a shift to a crawling peg and, eventually, to inflation targeting.

Directors recommended a strengthening of the central banks' capacity to conduct sterilization operations and to lift lending rate caps to improve the allocation of capital and enhance monetary policy transmission. They also underscored the need to improve crisis preparedness and contingency planning in line with FSAP recommendations to safeguard financial stability.

Directors recommended a range of supply side reforms to unlock private investment, boost productivity and enhance competitiveness. These should include phasing out export ceilings and price controls and better prioritizing public investment projects. A stronger regulatory framework for hydrocarbon and lithium exploration could be instrumental in increasing investment in those sectors. Directors also called for enhancing AML/CFT framework and ensuring the timely publication of key macroeconomic data.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Bolivia: Selected Economic and Social Indicators, 2022–2026

Population (millions, 2021)	11.8	Poverty rate (percent, 2021)	36.3
Population growth rate (percent, 2021)	1.4	Adult literacy rate (percent, 2021)	94.8
Life expectancy at birth (years, 2021)	72	GDP per capita (US$, 2021)	3,437
Total unemployment rate (2021)	7.0	IMF Quota (SDR, millions)	240.1

	Est. 2022	2023	2024	2025	2026
Income and prices					
Real GDP	3.6	2.5	1.6	2.2	2.2
Nominal GDP	8.9	4.9	6.2	6.5	6.2
CPI inflation (period average)	1.7	2.6	4.5	4.2	3.9
CPI inflation (end of period)	3.1	2.1	4.8	4.0	3.9
Investment and savings 1/					
Total investment	15.1	15.9	16.6	16.3	16.0
Of which: Public sector	5.7	5.0	6.0	6.0	6.0
Gross national savings	12.5	8.6	10.5	10.3	10.5
Of which: Public sector	-1.4	-2.0	-1.9	-1.5	-1.2
Combined public sector					
Revenues and grants	28.9	28.3	27.6	27.4	27.1
Of which: Hydrocarbon related revenue	6.0	5.4	4.3	3.9	3.5
Expenditure	36.0	35.3	35.5	34.8	34.3
Current	30.3	30.3	29.5	28.8	28.3
Capital 2/	5.7	5.0	6.0	6.0	6.0
Net lending/borrowing (overall balance)	-7.1	-7.0	-7.9	-7.5	-7.2
Of which: Non-hydrocarbon balance	-12.8	-12.2	-12.0	-11.2	-10.5
Total gross NFPS debt 3/	80.4	83.6	86.7	88.9	90.9
External sector					
Current account 1/	-0.4	-5.0	-5.7	-5.8	-5.6
Exports of goods and services	32.6	28.5	27.0	26.9	26.5
Of which: Natural gas	6.7	3.8	3.4	3.0	2.7
Imports of goods and services	32.9	34.4	33.6	33.6	32.7
Capital account	0.0	0.0	0.0	0.0	0.0
Financial account (-= net inflow)	-1.5	-0.5	-5.3	-5.8	-5.6
Of which: Direct investment net	-0.8	-0.6	-0.6	-0.9	-0.9
Of which: Other investment, net	-0.3	-0.3	-4.6	-4.7	-5.1
Net errors and omissions	-3.0	0.0	0.0	0.0	0.0
Terms of trade index (percent change)	-1.6	1.2	-0.6	0.0	0.2
Central Bank gross foreign reserves 4/ 5/ 6/					
In millions of U.S. dollars	3,796	1,808	1,653	1,555	1,556
In months of imports of goods and services	2.8	1.3	1.1	1.0	1.0
In percent of GDP	8.6	3.9	3.4	3.0	2.8
In percent of ARA	44.5	20.8	18.2	16.2	15.5
Money and credit					
Credit to the private sector (percent change)	6.3	-0.4	3.0	4.3	5.1
Credit to the private sector (percent of GDP)	74.2	70.5	68.4	67.0	66.3
Broad money (percent of GDP)	85.2	82.8	81.2	80.0	78.9
Memorandum items:					
Nominal GDP (in billions of U.S. dollars)	44.3	46.5	49.3	52.5	55.8
Bolivianos/U.S. dollar (end-of-period) 7/	6.9	6.9	...	...	...
REER, period average (percent change) 8/	-0.9	-1.9	...	...	...
Oil prices (in U.S. dollars per barrel)	96.4	80.6	77.7	73.8	70.9
Energy-related subsidies to SOEs (percent of GDP) 9/	4.4	4.0	3.5	2.7	2.4

Sources: Bolivian authorities (MEFP, Ministry of Planning, BCB, INE, UDAPE); IMF; Fund staff calculations.
1/ The discrepancy between the current account and the savings-investment balance reflects methodological differences. For the projection years, the discrepancy is assumed to remain constant in dollar value.
2/ Includes nationalization costs and net lending.
3/ Public debt includes SOE's borrowing from the BCB (but not from other domestic institutions) and BCB loans to FINPRO and FNDR.
4/ Excludes reserves from the Latin American Reserve Fund (FLAR) and Offshore Liquidity Requirements (RAL).
5/ All foreign assets valued at market prices.
6/ Includes a repurchase line of US$99.2 million maturing in 2025.
7/ Official (buy) exchange rate.
8/ The REER based on authorities' methodology is different from that of the IMF (see 2018 and 2017 Staff Reports).
9/ Includes the cost of subsidy borne by public enterprises and incentives for hydrocarbon exploration investments in the projection period.

INTERNATIONAL MONETARY FUND

BOLIVIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

March 7, 2024

KEY ISSUES

Context. Economic activity has slowed reflecting falling natural gas production, lower public investment execution, financial volatility, and disruptions due to socio-political tensions. Bolivia's inflation rate remains one of the lowest in the region, sustained by price controls and costly subsidies. The combination of sizable fiscal imbalances, declining natural gas exports, a loss of access to international markets, and the ongoing monetization of the deficit in the context of an exchange rate peg have eroded competitiveness, depleted reserves, and left Bolivia in a precarious position.

Outlook and Risks. Near-term growth is expected to remain constrained by elevated uncertainty and unfavorable financial conditions. Current policies will continue to raise public debt and external imbalances, deepen the scarcity of foreign exchange (FX) and result in a rising parallel market premium, further eroding growth prospects. There is a significant risk of disruptive adjustment in the near-term, driven by some combination of a forced depreciation of the exchange rate, a disorderly fiscal contraction, stress in the financial system, and, ultimately, a sharp deceleration in growth. Potential investments in extractive industries could generate new sources of growth and FX over time but these projects will likely take time to bear fruit.

Policy Priorities. Any policy strategy will need to have at its center a credible, multi-year fiscal consolidation plan that incorporates improvements in social assistance programs, a phase-out of fuel subsidies, reductions in the government wage bill, and tax reforms to mobilize non-resource revenues. As many of these changes will take time to be realized, a significant reduction in public investment in the short-term will likely be required to ensure the adjustment is sufficiently front-loaded. A step devaluation of the exchange rate will lessen external pressures and begin a phased transition to an inflation targeting framework. There is an urgent need to invest in crisis management and contingency planning, an important shortcoming that was underscored in Bolivia's Financial Sector Assessment Program (FSAP). This would help manage potential systemic financial stability risks as the economy goes through a painful adjustment. Structural reforms to incentivize foreign investment, improve capital allocation, eliminate credit quotas and interest rate ceilings, expand and diversify the export base, strengthen fiscal and central bank governance, and revamp the regulatory framework will be crucial to eventually guide the economy to a higher medium-term growth path.

Approved By
Nigel Chalk (WHD) and Geremia Palomba (SPR)

Discussions took place during January 25–February 7, 2024, in Santa Cruz and La Paz, Bolivia. The mission team comprised Joana Pereira (head), Goran Amidžić, Chris Evans, Sandra Lizarazo Ruiz (all WHD), and Sergio Cárdenas Rossel (local economist). Gabriel Moura Queiroz, Millena Machado Damasio, and Nomuuntugs Tuvaan (all WHD) provided research and administrative assistance at headquarters. Ms. Ramos Capaquira (OED) participated in public sector meetings.

CONTENTS

CONTEXT 4

A DIFFICULT CONJUNCTURE 5

OUTLOOK AND RISKS 7

UNWINDING MACROECONOMIC IMBALANCES 12
A. Restoring Debt Sustainability 12
B. Protecting the Vulnerable 14
C. Redesigning the Monetary Framework 15
D. Managing the Implications of the Adjustment for Financial Stability 17
E. Removing Supply-Side Impediments to Growth 19
F. Data 20

STAFF APPRAISAL 21

FIGURES

1. Developments in the Natural Gas Industry 4
2. Baseline and Adjustment Scenarios 11
3. Real Sector Developments 24
4. Fiscal Sector Developments 25
5. Monetary Sector Developments 26
6. Financial Sector Developments 27
7. External Sector Developments 28

TABLES

1. Reform Scenario with Fiscal Adjustment 9
2. Reform Scenario with Fiscal and Exchange Rate Adjustments 10
3. Selected Economic and Social Indicators, 2021–29 29
4a. Operations of the Combined Public Sector, 2021–29 30

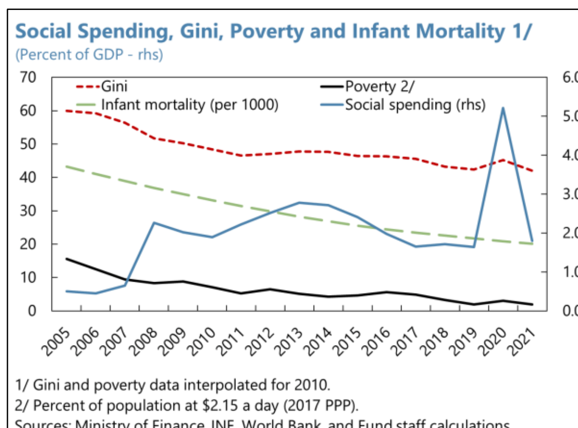
4b. Operations of the Combined Public Sector, 2021–29 ____ 31
5. Non-Financial Public Sector Debt, 2021–29 ____ 32
6. Balance of Payments, 2021–29 ____ 33
7. Monetary Survey, 2021–29 ____ 34
8. Financial Sector Indicators, 2017–23 ____ 35

ANNEXES

I. External Sector Assessment ____ 36
II. Sovereign Risk and Debt Sustainability Analysis ____ 39
III. Risk Assessment Matrix ____ 48
IV. Introducing Medium-Term Fiscal Framework in Bolivia ____ 50
V. Creating an Enabling Environment for the Development of Lithium Resources ____ 53
VI. Implementing Energy Subsidy Reform in Bolivia ____ 59
VII. Fiscal Risks from Lending through Public Credit Fideicomisos ____ 66
VIII. Key 2024 FSAP Recommendations ____ 68

CONTEXT

1. Since the mid-2000s, expansionary and redistributive fiscal policies have led to high growth and impressive progress in reducing poverty. These policies have been funded by sizable natural gas revenues, external borrowing and, more recently, by central bank lending (and a corresponding drawdown of international reserves). Growth has, as a result, been well-above the regional average and poverty reduction has been impressive, resulting in a socioeconomic transformation of the country.



2. Unfortunately, as hydrocarbon production and exports receded over the past decade, this development strategy led to a steady increase in macroeconomic vulnerabilities. Since 2014, proceeds from natural gas exports witnessed a 70 percent decline, both due to lower global prices and waning domestic production, following years of underinvestment (Figure 1). At the same time, fuel imports rose from 4 to 9 percent of GDP as domestic oil production dwindled and price subsidies boosted demand. The decline in the hydrocarbon trade surplus had a parallel in the fiscal accounts, with natural gas revenues falling by almost 3 percent of GDP and energy-related subsidies rising by 2½ percent of GDP. This caused public debt to surpass 80 percent of GDP and international reserves to be nearly depleted. In early 2023, a lack of FX caused banks to suspend convertibility of the boliviano and to restrict FX deposit withdrawals.

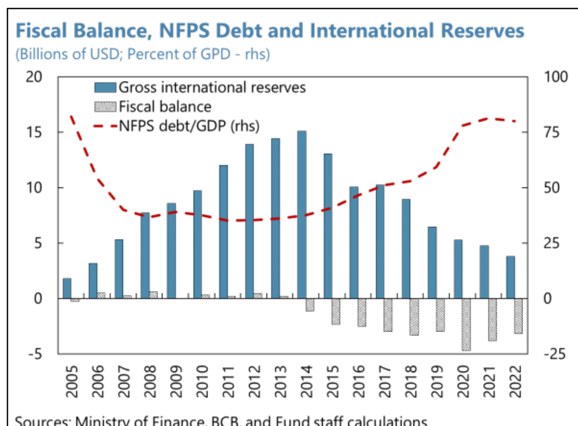
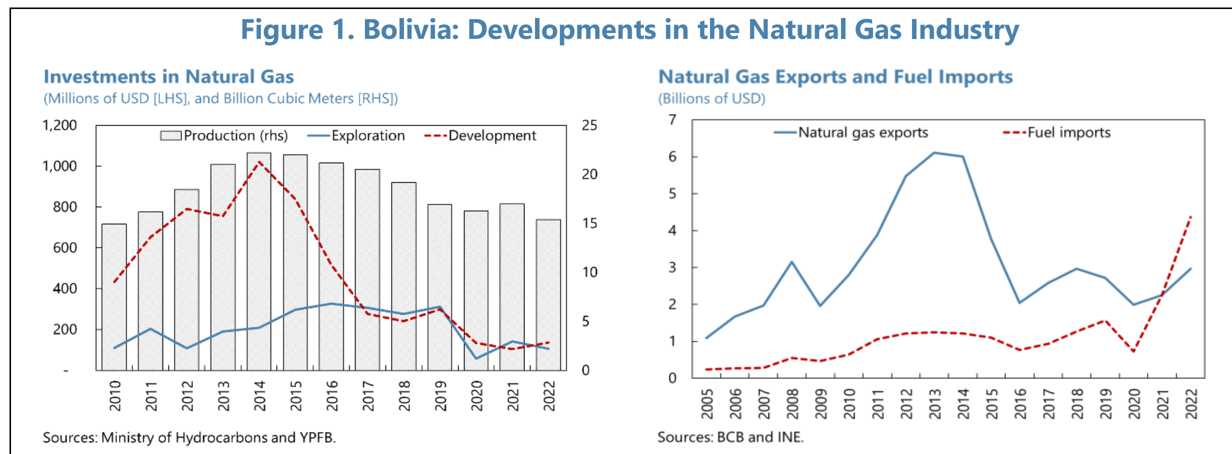
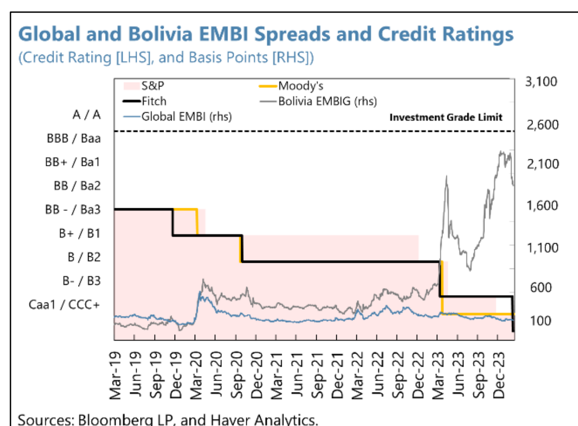


Figure 1. Bolivia: Developments in the Natural Gas Industry



3. Growing domestic imbalances have been reflected in a significant increase in the market pricing of sovereign risk. Bolivia's Emerging Market Bond Index (EMBI) spreads rose sharply in early 2023 as the shortage of FX became apparent and a mid-sized bank (Banco Fassil) failed. This effectively cut Bolivia off from international markets. Spreads narrowed in May 2023 following congressional approval of the partial liquidation of gold reserves. However, as reserves continued to be depleted, sovereign spreads resurged, above 2000 bps. In parallel, Bolivia's long-term foreign and local currency sovereign credit ratings have been successively downgraded.



Global and Bolivia EMBI Spreads and Credit Ratings
(Credit Rating [LHS], and Basis Points [RHS])

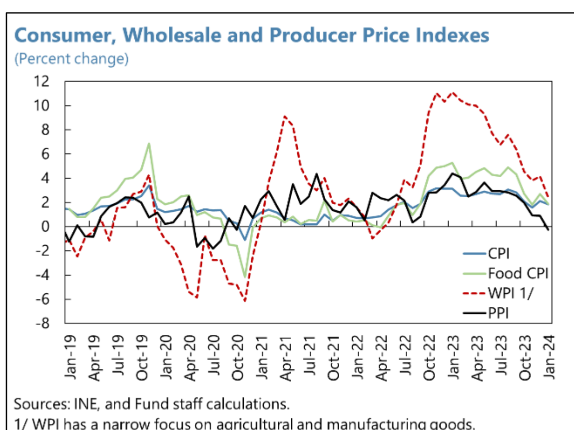
Sources: Bloomberg LP, and Haver Analytics.

4. Political tensions are undermining governability. Divisions within the government party have hindered approval of key legislation, including disbursements of new multilateral loans, the development of new frameworks for hydrocarbon, lithium, and mining exploration, and the launch of judicial elections. In January there was a 16-day road blockade by social organizations demanding resolution to the judicial election impasse which the authorities estimate caused nearly USD 1 billion in economic losses.

A DIFFICULT CONJUNCTURE

5. Activity has decelerated over the past year. Output recovered to its pre-pandemic level by end-2022 with growth of 3.6 percent. However, the decline in natural gas production, some retrenchment in public investment, turbulence in local financial markets, and deepening macroeconomic imbalances slowed growth to 2.5 percent in 2023. Private sector credit decelerated due to rising uncertainty, higher bank funding costs, and the absorption of Banco Fassil's loan portfolio by the rest of the system. The urban unemployment rate has fallen to 3.9 percent, but measures of underemployment remain above their pre-pandemic levels.

6. Price controls, food and fuel subsidies, export restrictions, and robust agricultural production have kept inflation low. After peaking at 3.1 percent in end-2022, driven by an acceleration in food prices, CPI fell to 1.9 percent by January 2024. Despite FX shortages, imported goods' inflation remains contained, partly due to falling dollar prices of durable goods and retailers absorbing part of the rise in import costs into their margins.



Consumer, Wholesale and Producer Price Indexes
(Percent change)

Sources: INE, and Fund staff calculations.
1/ WPI has a narrow focus on agricultural and manufacturing goods.

7. Gross fiscal financing needs (GFNs) peaked in 2022. Since then, there has been a significant post-pandemic decline in budget deficits. Over the past few years financing needs have been met mostly by central bank loans, debt issuance to the domestic pension funds, IFI disbursements, and a partial rollover of maturing Eurobonds. The GFN in 2023 was 14.2 percent of GDP and met mostly from domestic sources. GFNs are expected to remain relatively contained in the next two years until Eurobond payments come due in 2026.

Gross Fiscal Financing Needs

(Percent of GDP)

	2022	2023	2024	2025	2026
Gross fiscal financing needs	**19.9**	**14.2**	**14.0**	**10.9**	**8.2**
Primary deficit	**5.5**	**4.9**	**5.2**	**3.7**	**2.5**
Debt service	**14.4**	**9.3**	**8.8**	**7.2**	**5.7**
Domestic	10.3	6.7	5.9	4.3	2.3
Pension Funds	6.3	4.0	4.0	3.1	1.6
Banking system, including BCB	4.0	2.7	1.9	1.3	0.6
Others	0.0	0.0	0.0	0.0	0.0
External	4.1	2.6	2.9	2.9	3.4
Multilateral	2.5	1.6	1.7	1.7	1.7
Bilateral official	0.5	0.3	0.3	0.3	0.4
Private	1.2	0.7	0.8	0.8	1.3
Other debt creating flows	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Interest payments	**1.6**	**2.2**	**2.4**	**2.5**	**2.5**
Amortization	**12.8**	**7.1**	**6.3**	**4.7**	**3.2**
Domestic	9.6	5.5	4.7	3.1	1.2
External	3.2	1.6	1.6	1.6	2.0

8. A large current account deficit (estimated at 5 percent of GDP in 2023) and a lack of access to external financing has led to a drawdown of reserves and a shortage of FX. While the terms of trade have been relatively favorable, falling hydrocarbon production, a steep rise in fuel imports, and strong private sector import demand has resulted in a trade deficit. In March, a surge in FX demand amid concerns over falling reserve coverage caused banks to restrict the withdrawal of FX deposits. This prompted congress to pass legislation that allowed the central bank (BCB) to liquidate one-half of its gold reserves. Despite this, a parallel FX market has persisted with a premium relative to the official exchange rate of 15-20 percent by February 2024.[1] Gross international reserves have fallen to US$1.8 billion at end-2023 (about 1 month of import cover and 21 percent of the Fund's ARA metric). However, these reserves are mostly made up of the remaining encumbered gold that the central bank is legally prohibited from selling. To bolster reserves, the BCB has unilaterally extended the maturity of the currency swaps issued to banks[2] and imposed restrictions on gold exports by local producers. More recently, the BCB issued dollar-denominated bonds in the local market, and a series of measures were announced to encourage repatriation of FX proceeds, including fast-tracking of tax refunds for private exporters. Additionally, to reduce fuel imports, the government has embarked on domestically producing biodiesel, increasing the ethanol

[1] Such premia take the form of variable commissions charged by banks for foreign exchange operations in offshore accounts. However, associated data is not systematically collected and so the measured differential should be viewed as only broadly representative. Dollar exchange rates in informal onshore markets are, though, reported to show a broadly similar picture. In mid-February 2024, ASFI issued regulation limiting the banks' commissions for FX sales to local agents to 10 percent (or zero percent for transfers below USD 1000 per fortnight).

[2] Commercial banks were previously incentivized to swap US dollars for local currency overnight under (originally reversible) swap arrangements. In July 2023, the government extended the maturity date for all swaps to 2026.

content in gasoline, and fomenting purchase of flex-fuel and electric vehicles.[3] Bolivia's 2023 external position is assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies. The real exchange rate is estimated to be overvalued by 12–23 percent (Annex I).

9. In conjunction with the macroeconomic imbalances discussed above, financial stability risks have widened. In March 2023, a deposit run took hold at Banco Fassil, whose balance sheet had previously grown rapidly due to real estate investments and significant amounts of related-party lending. In April, the bank was intervened by the financial supervisor (ASFI) and subsequently larger banks absorbed its deposits and performing loans, while a trust fund—administered by the publicly owned Banco Unión—was established to manage the remaining assets and liabilities. For the system as a whole, bank capitalization exceeds regulatory requirements, albeit based on the local definition of bank capital and exceptional provisions regarding Banco Fassil's impaired loans.[4] While NPL levels are low (3 percent at end-2023), they have doubled since 2021 and may be understated given regulatory forbearance put in place during and after the pandemic. Bolivia has not introduced forward-looking provisions as per IFRS 9, but banks have maintained a relatively high total provision ratio of 135 percent of NPLs. Liquidity risk in the banking sector has increased both in local currency—including because of a rollover risk linked to pension fund deposits—and due to FX mismatches.[5]

OUTLOOK AND RISKS

10. The baseline outlook assumes a continuation of the current policy mix, even though that policy path is not sustainable and will require large additional external financing flows to maintain. Foregoing a reduction in the fiscal deficit would support demand, but the secular decline in hydrocarbon production, muted credit expansion, and heightened uncertainty will still weigh against growth in the coming years. Activity in 2024 is also being reduced by the prolonged road blockages and a weak agricultural output due to El Nino effects. Continued subsidies and the maintenance of the exchange rate peg will contain inflation in the 3–5 percent range over the next couple of years, albeit with upside risks if there were to be greater pass-through from the weaker parallel exchange rate. However, the current account deficit would remain large (in the 5–6 percent of GDP range), international reserves would be close to their legal minimum, and continuing

[3] The authorities also intend to facilitate private importation of fuels by private companies (which would substitute public sector imports). See footnote 9.

[4] Relative to international standards, Bolivia maintains (i) lower risk weights on loans to productive sectors and social housing; (ii) a zero-risk weight (for six years) on loans acquired from Banco Fassil; and (iii) general loan loss reserves in capital that exceed the Basel I limit.

[5] In addition to the unavailability of FX assets tied up in swaps with the BCB (footnote 2), banks' FX liquidity management is constrained by (i) limits to investments abroad, (ii) restrictions on the modalities for remittance payments to secure access to FX onshore by recipients; and (iii) restrictions on commissions charged for dollar transfers abroad. Foreign investment limits for banks were lowered from 10 percent to 8 percent in January 2023, and to 6 percent for demand deposits and 3 percent for remaining investments in February 2024 (since November 2023, the limits are waived for the publicly-owned bank to facilitate government payments). These caps' reductions represent a tightening of a capital flow management measure (CFM) under the Institutional View.

macroeconomic imbalances would discourage FDI inflows. Crucially, for this relatively benign outlook to be feasible the government would need to obtain around US$1.5 billion (2–3 percent of GDP) per year in (currently unidentified) external financing. Even then, Bolivia's risk of sovereign distress would be high (Annex II), GFNs would increase over time, and the sovereign-financial nexus would increase as the pension fund's exposure to government debt rises over time.

11. In the absence of a significant and sustained increase in external financing inflows, the authorities will soon face very difficult trade-offs that will require a substantial policy shift in order to avoid a disorderly adjustment.[6] Two possible orderly adjustment scenarios are outlined below (and in Figure 2). However, alternative paths could be more turbulent[7] and/or involve the introduction of administrative controls and financial repression— which would be highly distortionary and become increasingly difficult to maintain over time—to prevent a disorderly unwinding.

12. The authorities could choose to put in place a sharp, front-loaded fiscal adjustment. To ease pressure on reserves and maintain the exchange rate peg would require an up-front fiscal adjustment in 2024 of around 3 percent of GDP relative to the current budget plans. Consolidation would happen largely through cuts in public investment, which is easier to adjust quickly and has a large import content, facilitating external rebalancing.

- On the positive side, the adjustment would avert monetization of the fiscal deficit (closing the financing gap), compress imports, eliminate the current account deficit, and moderate the pace of increase in the debt/GDP ratio. The resulting shift in the external position would stop the drain on reserves and ease pressures on the exchange rate.

- However, the front-loaded fiscal adjustment that would be needed to restore external balance would trigger a sharp deceleration in growth. International reserves would recover only slowly, providing little room for maneuver if the economy were to be hit by external shocks, and the risks of debt distress would remain high. As such, domestic interest rates would likely need to be increased and remain high for some time to sustain the peg. The multi-year slowdown and higher interest rates would likely reveal an increase in credit quality problems, possibly leading some banks' capital to fall below the regulatory minimum.

- To facilitate external adjustment, the authorities could also consider increasing the flexibility of the exchange rate arrangement over time. However, this would carry its own risks particularly if expectations of future depreciation were to become entrenched and fed into deposit and capital outflows.

[6] Lifting the remaining gold reserves' use restrictions could provide a 4-6 month respite, but this would require congressional approval.

[7] Staff estimates that a sentiment shock leading to an unexpected exchange rate devaluation of 30 percent would depress growth by 2 percentage points, potentially impairing the banking system. These shocks are not included in the illustrative scenarios of Figure 2.

Table 1. Bolivia: Reform Scenario With Fiscal Adjustment

	Estimate	Projections						
	2022	2023	2024	2025	2026	2027	2028	2029
	(in percent of GDP unless noted otherwise)							
Baseline								
Real GDP (percent)	3.6	2.5	1.6	2.2	2.2	2.3	2.3	2.3
Nominal GDP (percent)	8.9	4.9	6.2	6.5	6.2	6.2	6.2	6.2
CPI inflation (average, percent)	1.7	2.6	4.5	4.2	3.9	3.8	3.8	3.8
Primary balance	-5.5	-4.9	-5.7	-5.3	-5.1	-4.9	-5.0	-4.8
Overall balance	-7.1	-7.0	-7.9	-7.5	-7.2	-7.1	-7.2	-7.1
Total gross NFPS debt	80.4	83.6	86.7	88.9	90.9	92.7	94.5	96.1
of which: external debt	30.0	29.8	30.0	30.0	29.6	29.2	28.9	28.5
of which: domestic debt	50.3	53.8	56.6	58.8	61.3	63.5	65.6	67.6
Gross Financing Needs	19.9	14.2	14.5	12.6	10.7	10.6	10.6	10.5
Current account	-0.4	-5.0	-5.7	-5.8	-5.6	-5.2	-5.2	-5.2
Central Bank gross foreign reserves (in USD million)	3796	1808	1653	1555	1556	1556	1557	1556
In percent of ARA	44.5	20.8	18.2	16.2	15.5	14.8	14.1	13.4
Contribution of measures to fiscal adjustment								
Limiting the public investment growth			-3.0	-3.0	-3.0	-2.9	-2.9	-2.9
Reform Scenario								
Real GDP (percentage change)	3.6	2.5	-0.2	1.5	1.8	2.1	2.1	2.2
Nominal GDP (percentage change)	8.9	4.9	3.3	5.5	5.8	5.9	6.0	6.0
CPI inflation (average, percent)	1.7	2.6	3.5	3.9	3.9	3.8	3.8	3.8
Primary balance	-5.5	-4.9	-2.7	-2.5	-2.5	-2.4	-2.5	-2.4
Overall balance	-7.1	-7.0	-4.9	-4.7	-4.5	-4.5	-4.5	-4.4
Total gross NFPS debt	80.4	83.6	85.9	86.1	86.0	85.6	85.3	84.8
of which: external debt	30.0	29.8	30.8	31.1	30.7	30.3	29.9	29.6
of which: domestic debt	50.3	53.8	55.1	55.0	55.3	55.3	55.3	55.3
Gross Financing Needs	19.9	14.2	11.7	10.0	8.1	7.9	7.9	7.8
Current account	-0.4	-5.0	-2.8	-2.3	-1.9	-1.4	-1.2	-1.1
Central Bank gross foreign reserves (in USD million)	3796	1808	1663	1824	2088	2841	3872	4883
In percent of ARA	44.5	20.8	18.6	19.4	21.3	27.7	36.0	43.3

13. Alternatively, the authorities could opt for a more gradual fiscal adjustment accompanied by an initial devaluation followed by the introduction of a crawling-peg arrangement. Bolivia could aim to address its macroeconomic imbalances with less upfront fiscal consolidation that relies less on public investment cuts and more on the mobilization of tax revenue and a reprioritization of current spending (see Table 2 and Section A for a broader discussion of policy options). This would be accompanied by an up-front 35 percent adjustment of the exchange rate and a subsequent move to a crawling peg.[8] To stabilize the exchange rate at a more depreciated level and control inflation the BCB would need to tighten domestic liquidity conditions and prioritize reforms to strengthen monetary policy transmission.

- On the downside, the exchange rate adjustment would cause an initial spike in inflation and lead to around 1½ percent of GDP in additional fuel subsidy costs (partially compensated for by an increase in royalties). In addition, the public debt ratio rises immediately by around 10 percent of GDP. Growth would decelerate in the near-term, albeit by less given the smaller fiscal contraction. The rise in fuel subsidy costs would require a front-loaded reform which would put further pressure on inflation. On the other hand, the spike in inflation could provide an opportunity to realign real public sector wages.

[8] The adjustment is calibrated to lead the real exchange rate to modestly overshoot initially and converge to a longer run equilibrium around 15 percent weaker than baseline, as informed by the external assessment (Annex I).

- On the plus side, the combined effect of the devaluation and slowing domestic demand would quickly restore balance in the external accounts and allow the BCB to steadily rebuild reserves and unwind restrictions on banks' ability to liquidate their FX swaps, ultimately reducing the risks of transitioning to a crawling peg regime. Demand would rebound faster with higher exports and a more competitive goods sector as well as with smaller cuts to public investment. With little apparent FX mismatch in the banks, the faster recovery in output would lessen the impact of the adjustment on credit quality. Nonetheless, the immediate implications for the banking system would still need to be managed carefully. Fiscal funding gaps would be quickly eliminated, and the debt/GDP path would improve significantly over the medium term, shifting medium- and long-term risks of debt distress from high to moderate (based on the IMF's Sovereign Risk and Debt Sustainability Analysis).

- Overall, the initial depreciation of the exchange rate does pose some risk and would require an accompanying tightening of domestic liquidity conditions However, the more immediate correction of external imbalances would lead to a less painful adjustment, lower risks along the transition path, and better medium-term growth prospects. Provided the package of policies for a successful transition are in place, this policy mix is viewed by staff as a preferable path.

Table 2. Bolivia: Reform Scenario With Fiscal and Exchange Rate Adjustments

	Estimate		Projections					
	2022	2023	2024	2025	2026	2027	2028	2029
	(in percent of GDP unless noted otherwise)							
Baseline								
Real GDP	3.6	2.5	1.6	2.2	2.2	2.3	2.3	2.3
Nominal GDP	8.9	4.9	6.2	6.5	6.2	6.2	6.2	6.2
CPI inflation (average, percent)	1.7	2.6	4.5	4.2	3.9	3.8	3.8	3.8
Primary balance	-5.5	-4.9	-5.7	-5.3	-5.1	-4.9	-5.0	-4.8
Overall balance	-7.1	-7.0	-7.9	-7.5	-7.2	-7.1	-7.2	-7.1
Total gross NFPS debt	80.4	83.6	86.7	88.9	90.9	92.7	94.5	96.1
of which: external debt	30.0	29.8	30.0	30.0	29.6	29.2	28.9	28.5
of which: domestic debt	50.3	53.8	56.6	58.8	61.3	63.5	65.6	67.6
Gross Financing Needs	19.9	14.2	14.5	12.6	10.7	10.6	10.6	10.5
Current account	-0.4	-5.0	-5.7	-5.8	-5.6	-5.2	-5.2	-5.2
Central Bank gross foreign reserves (in USD million)	3796	1808	1653	1555	1556	1556	1557	1556
In percent of ARA	44.5	20.8	18.2	16.2	15.5	14.8	14.1	13.4
Contribution of measures to fiscal adjustment								
Limiting public investment growth			0.5	1.0	1.6	1.6	1.6	1.6
Tax administration reforms				0.05	0.10	0.30	0.60	0.90
Partial freeze in public salaries in 2024 1/			1.0	1.0	1.0	1.1	1.2	1.3
Rationalization of fuel subsidies 2/			-1.2	-0.2	0.5	1.1	1.8	1.9
Reform Scenario								
Real GDP	3.6	2.5	0.5	2.0	2.7	3.4	3.3	3.3
Nominal GDP (percentage change)	8.9	4.9	15.7	10.7	10.4	10.1	9.3	8.7
CPI inflation (average, percent)	1.7	2.6	15.2	8.5	7.5	6.5	5.8	5.3
Primary balance	-5.5	-4.9	-5.2	-3.7	-2.5	-1.6	-0.7	-0.2
Overall balance	-7.1	-7.0	-7.5	-5.9	-4.6	-3.6	-2.5	-2.0
Total gross NFPS debt	80.4	83.6	88.8	86.8	83.9	80.5	76.5	72.6
of which: external debt	30.0	29.8	37.2	36.5	35.3	34.4	33.4	32.6
of which: domestic debt	50.3	53.8	51.6	50.3	48.6	46.1	43.1	40.0
Gross Financing Needs	19.9	14.2	14.0	10.9	8.2	7.1	5.8	5.1
Current account	-0.4	-5.0	-1.6	-1.4	-0.1	-0.3	-0.1	-0.5
Central Bank gross foreign reserves (in USD million)	3796	1808	2267	2895	4164	5633	7467	8889
In percent of ARA	44.5	20.8	23.9	28.2	38.0	48.3	59.9	67.3

Sources: Bolivian authorities (MEFP, Ministry of Planning, BCB, INE, UDAPE); IMF; Fund staff calculations.

1/ 5 percent nominal increase in public sector wages.

2/ Domestic fuel prices increase by 20 percent per year in 2024-25, and 10 percent per year in subsequent years. Negative contribution in 2024-25 reflect the increase in fuel prices due to the exchange rate devaluation (net of the effect of the 20 percent retail price increase).

14. In either of these scenarios, the associated policy shifts are likely to generate important socioeconomic hardships which will need to be mitigated by an active expansion of the social safety net. Either an abrupt fiscal adjustment or the jump in inflation associated with a devaluation and a phasing out of fuel subsidies could be borne disproportionately by the vulnerable population. As such, any path to address the significant domestic and external imbalances would need to set aside significant public resources to cushion the impact of the adjustment on lower-income households until such time as the economy is able to return to a sustained expansion.

15. The economy also remains vulnerable to external and climate change shocks (Annex III). A sharp deceleration in external demand, intensification of external conflicts leading to trade disruptions, significant deterioration of terms of trade, or renewed tightening of global financial conditions from commodity price fluctuations would exacerbate fiscal and external imbalances, hamper growth and weaken the domestic financial sector. Extreme weather conditions—as were the 2023 draughts and recent floods—may impair the large agricultural sector and can damage key infrastructure.

Authorities' Views

16. The authorities recognize the vulnerabilities associated with the low international reserves, which they assess to derive both from structural and conjunctural factors—declining hydrocarbon production potential, time to develop new resources, an unfavorable external environment, and ongoing political tensions. They emphasize, however, the resilience of the Bolivian economy and the government's firm action to protect the economic recovery and the population's standard of living and address the vulnerabilities. They consider that with the efforts underway, including recently announced measures agreed with the private sector (¶8), the situation of foreign exchange availability will gradually stabilize. They concur that the fiscal deficit must be reduced but favor a gradual consolidation process backed by stronger revenue administration, continued spending restraint, and savings in fuel subsidy costs through the expanded use of domestic biofuels. They oppose adjustments in the exchange rate or major changes in fuel subsidies, which they evaluate would unduly affect the most vulnerable populations and key sectors such as agriculture, threatening macroeconomic and social stability.

Figure 2. Bolivia: Baseline and Adjustment Scenarios 1/ (continued)

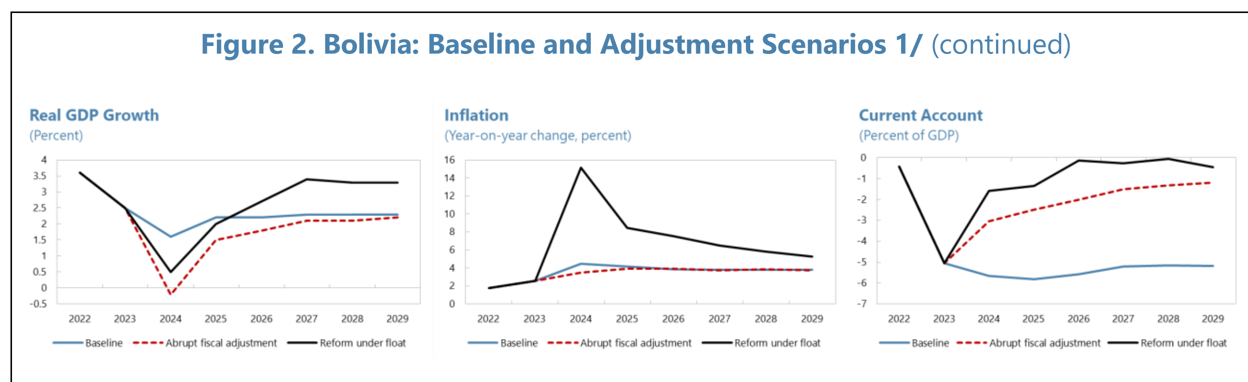
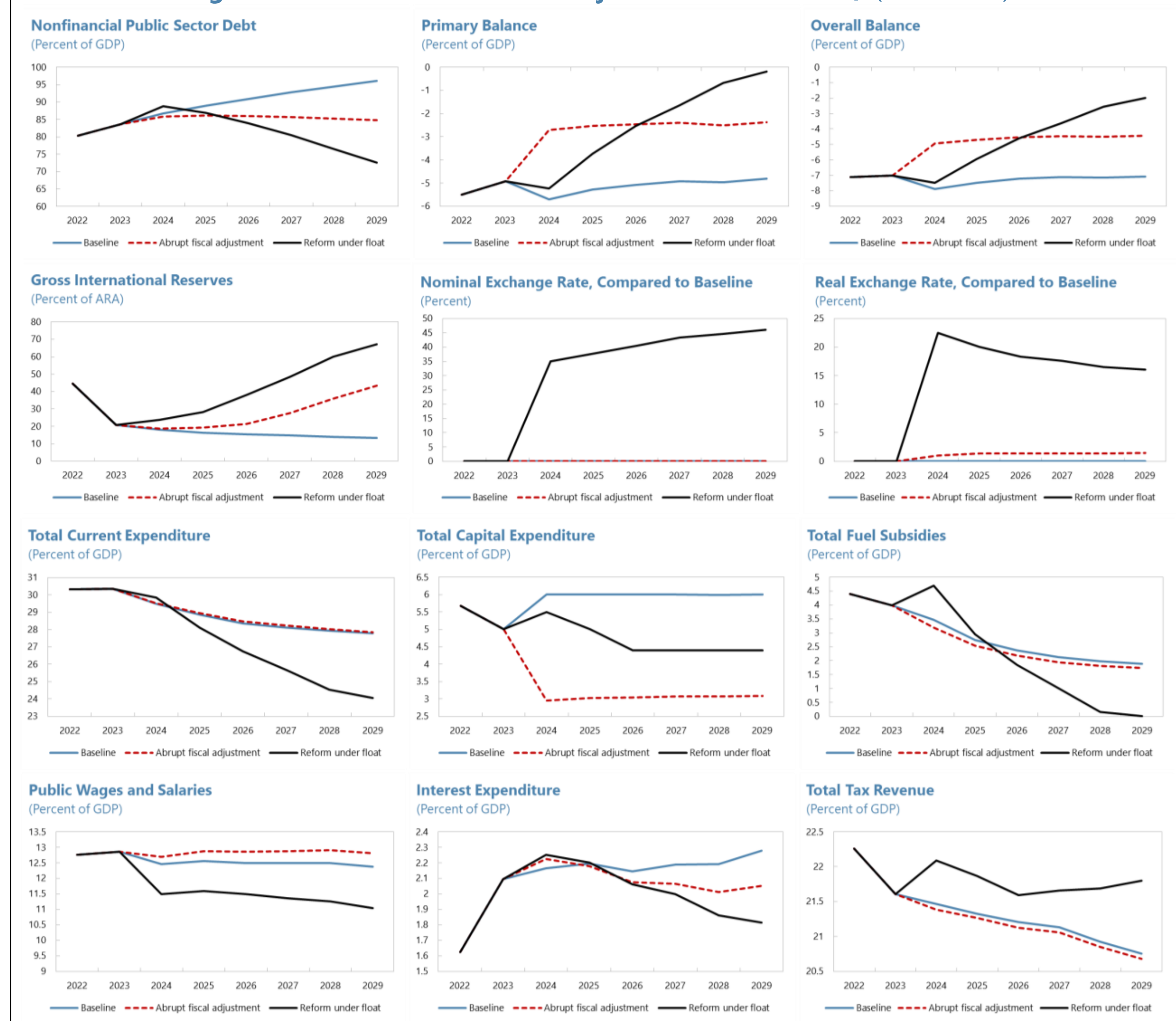


Figure 2. Bolivia: Baseline and Adjustment Scenarios 1/ (concluded)



Source: Fund staff calculations.

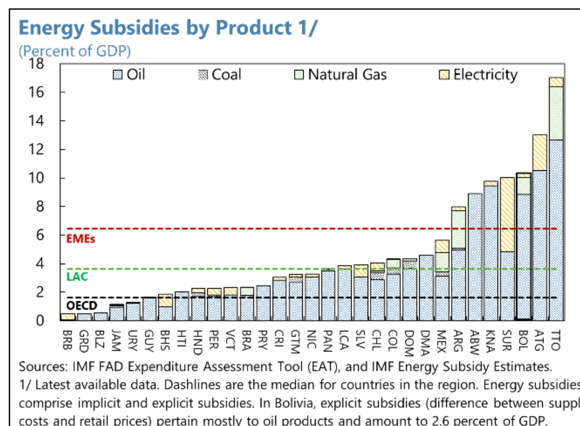
1/ Fiscal multipliers are derived from Kass-Hanna, Reynaud, and Walker (2023) "Estimating Fiscal Multipliers Under Alternative Exchange Rate Regimes: The Case of Bolivia". The highest fiscal multiplier on impact is from a persistent public investment shock and is 0.62 under a pegged exchange rate regime and 0.57 under a float.

UNWINDING MACROECONOMIC IMBALANCES

A. Restoring Debt Sustainability

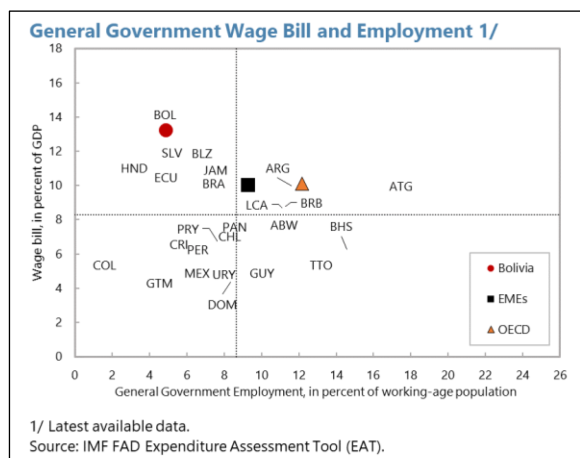
17. Any fiscal consolidation would need to rely on assertive actions on both the spending and revenue sides of the budget underpinned by improvements in fiscal governance. Policy measures that should be considered include:

- **Elimination of energy subsidies.** Domestic fuel prices have been fixed since 2004 generating large implicit and explicit subsidies (Annex VI). A gradual phase-out plan is necessary to eliminate the gap between market and regulated prices while recycling part of the fiscal savings to compensate vulnerable households. A public communications campaign should raise awareness over the regressive nature of energy subsidies and link enhancements in social protection directly to the subsidy reform. Increasing fuel prices by 5 percent per quarter in the first two years of the reform is estimated to generate budgetary savings of 1.4 percent of GDP.[9]



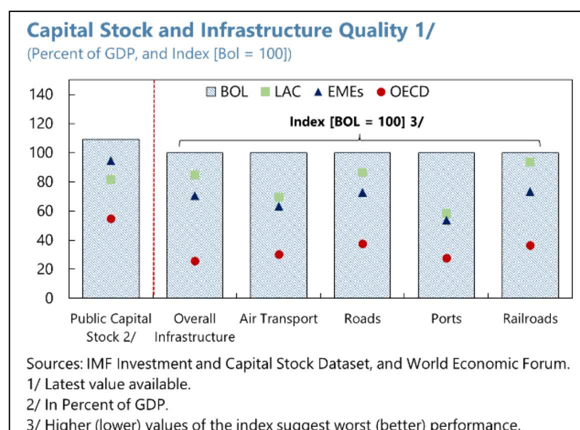
Sources: IMF FAD Expenditure Assessment Tool (EAT), and IMF Energy Subsidy Estimates.
1/ Latest available data. Dashlines are the median for countries in the region. Energy subsidies comprise implicit and explicit subsidies. In Bolivia, explicit subsidies (difference between supply costs and retail prices) pertain mostly to oil products and amount to 2.6 percent of GDP.

- **Reduction in the wage bill.** The share of public employment is relatively low in Bolivia, but the government's wage bill is above that of regional peers. Reviewing civil service compensation policies, including by restraining real wage growth and eliminating the extraordinary year-end wage bonus (*doble aguinaldo*), will be needed to reduce personnel expenditures. An assessment of public service structures and governance could also generate efficiency gains.



1/ Latest available data.
Source: IMF FAD Expenditure Assessment Tool (EAT).

- **Improving public investment management** would help contain the contractionary impact of the reduction in capital spending. The historically large spending ratios have yielded subpar results when measured by the quality of the public capital stock. The authorities could find a Public Investment Management Assessment (PIMA) useful in identifying priority areas to improve the planning, allocation, and execution of capital spending.



Sources: IMF Investment and Capital Stock Dataset, and World Economic Forum.
1/ Latest value available.
2/ In Percent of GDP.
3/ Higher (lower) values of the index suggest worst (better) performance.

- **Mobilizing tax revenues.** Modernizing tax and customs administration—strengthening compliance risk management, streamlining tax administration processes, leveraging enhanced IT

[9] In mid-February 2024, the government announced measures to facilitate direct fuel imports by private businesses, including by organizing diesel auctions to large-scale buyers. Although such measures may reduce the subsidy bill of the government, their effects are yet uncertain.

systems, and fostering collaboration between the tax and customs administrations—and promoting economic formalization—e.g., in the labor market, trade and mining sectors—could significantly broaden the tax base. Further policy changes could include:

i) introducing a personal income tax with a broad base and a progressive schedule;

ii) improving the taxation of immobile property, which would be more efficient and effective than the current wealth tax;

iii) applying the VAT on imported and digital services; and

iv) reducing the minimum transaction tax rate (that is currently 3 percent of gross income) to reduce barriers to formalization and firm growth.

Although yields from these measures would take time to materialize, prompt implementation of these reforms would enhance the credibility of the medium-term fiscal adjustment.

- **Other measures** could include better current spending efficiency and strengthening the governance of SOEs with a view to enhancing transparency and their financial positions.

18. In addition, investments should be made to strengthen the institutional framework for fiscal policy. Preparing and publishing a comprehensive medium-term fiscal framework (MTFF, Annex IV), anchored on long-term debt sustainability objectives, would facilitate fiscal planning, enhance the credibility of fiscal policy, and limit procyclicality. To this end, developing capacity for medium-term forecasting and assessment of fiscal risks is essential. Timely fiscal reporting would improve transparency and accountability.

Authorities' Views

19. The Bolivian authorities remain confident in their ability to abate the mounting fiscal pressures, highlighting the recent implementation of austerity measures and tax and customs administration efforts. They concurred that structural reforms are needed to contain fiscal deficits but expressed concern about the potential impact of staff-recommended fiscal policy adjustments on vulnerable populations and long-term growth. They agreed there was scope to improve the fiscal planning capacity and public investment efficiency and welcomed IMF CD support in these areas. The authorities also highlighted ongoing efforts to reduce the cost of fuel subsidies, including initiatives to sell fuels at higher that subsidized prices and the acceleration of biofuel plant construction projects. They are working on developing a Medium-Term Fiscal Framework.

B. Protecting the Vulnerable

20. Bolivia's social transfer programs should be enhanced to maintain their effectiveness in an environment of scarcer fiscal resources and a more difficult macroeconomic environment. Key existing programs—universal social pensions and conditional cash transfers that promote school attendance and infant and pregnancy health—rely directly on the proceeds from

hydrocarbons production and SOE dividends (which are both expected to decline over time). Given the pressures on the fiscal position, improving the design of such programs will be essential to protect more effectively the most vulnerable.

21. There is scope to improve targeting of social assistance. Currently, programs favor the elderly and children but provide little assistance to the non-elderly adult population. On the other hand, around two-thirds of non-poor households receive at least one social benefit which adds to the costs of the existing packages and leaves the average benefit at relatively low levels.[10] Bolivia's social assistance programs should be means-tested, initially through proxy targeting strategies but eventually with more systematic means-testing based on a comprehensive database of beneficiaries.

22. The social protection network is also hampered by an overly complex institutional design. Programs are currently implemented by disparate entities that maintain separate beneficiary registries and use different payment methods, exacerbating transaction costs and limiting effectiveness. Implementing a unified social registry for social programs—which could leverage on the 2024 census—would improve the identification of beneficiaries, allow for better targeting, and reduce duplication. Leveraging the financial sector for transfers and exploring digital solutions for remote regions would significantly enhance program coverage and reduce administrative costs.

Authorities' Views

23. Officials concurred with staff recommendations on prioritizing support for vulnerable households. They underscored the government's focus on strengthening the population's well-being and, in this vein, its past record in reducing poverty and inequality, the extensive reach of social protection programs and an important share of budget resources allocated to providing health and education services. They intend to build upon an envisaged "Census of the Poor ", use satellite data, and collaborate with development partners to improve the design and targeting of these safety nets.

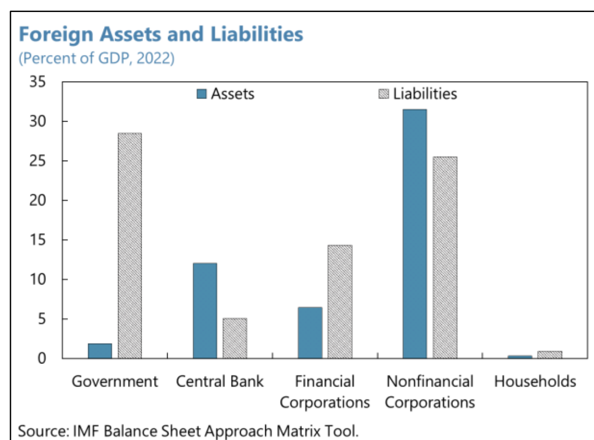
C. Redesigning the Monetary Framework

24. Provided that all supporting policies are in place, a step devaluation followed by a shift to a crawling peg is recommended to address the misalignment of the real exchange given scarce international reserves. With reserves depleted, a gradual adjustment of the exchange rate, even if accompanied by upfront fiscal adjustment, is likely to create significant risks by fostering expectations of future depreciation, incentivizing a portfolio shift out of bolivianos (and thus requiring much tighter monetary policy settings). Without some adjustment in the level of exchange rate it will be very difficult to accumulate sufficient international reserves to be able to weather shocks over the near term. Limited financial sector dollarization[11] and low private sector FX

[10] Systematic Country Diagnostic (SCD) Update: Rebalancing Inclusive and Sustainable Growth to Continue Reducing Poverty in Bolivia, World Bank, 2021.

[11] As of end-2023, 10.2 percent of deposits and 0.7 percent of loans were denominated in foreign currency.

mismatches suggest that a devaluation would create relatively modest balance sheet effects. A relatively moderate share of public debt in foreign currency also will help mitigate the impact. The resulting shift in relative prices would contract imports and improve the competitiveness of Bolivia's export sectors. A meaningful fiscal adjustment, weak domestic demand, and higher short-term interest rates should temper the pass-through from the exchange rate to prices (although the real exchange would still be expected to overshoot its medium-term level and then gradually appreciate through an inflation differential with trading partners). The devaluation will, though, increase the quasi-fiscal costs of the central bank's outstanding stock of FX swaps which could require an eventual recapitalization of the central bank.



Source: IMF Balance Sheet Approach Matrix Tool.

25. Following the devaluation, the central bank should institute a crawling peg regime to prevent renewed misalignment of the exchange rate. Implementation of such regime is recommended in the near term in light of capacity constraints and underdevelopment of market and regulatory tools to manage large exchange rate risk, after a prolonged period of limited exchange rate flexibility**.** The crawling peg would serve as the new nominal anchor to support price stability although the parameters—such as the planned rate of crawl and the width of the band—would need to be carefully designed and communicated by the central bank. Given the limited availability of reserves, monetization of the fiscal deficit should be eliminated or drastically reduced, FX intervention would need to be tightly circumscribed and domestic interest rates will need to move flexibly to defend the new regime as the central bank undertakes sterilization operations to align the money supply with the demand for bolivianos. To ensure that short-term money market rates transmit across the economy, the existing caps on domestic currency interest rates would have to be eliminated. There would also be a need to bolster the BCB's autonomy and operational capacity to manage liquidity, monitor market developments, and produce independent economic forecasts.

26. Once the institutional capacity is built, the objective should be to move to an inflation targeting regime. A more flexible exchange rate would help cushion the economy against external shocks and lessen the burden of adjustment on fiscal policy, wages, and employment. Such an increase in flexibility would need to be accompanied by the development of FX and money markets, including FX hedging instruments. Clear communication of the BCB's goals—guided by price and financial stability—would be essential and macroprudential regulations would need to be deployed to prevent FX mismatches from developing (e.g., through limits of FX open positions, higher capital requirements for loans to entities without a natural FX hedge). A successful transition to inflation targeting would also require central bank independence and the development, effective utilization, and publication of robust macroeconomic statistics to maintain transparency, build trust, and anchor inflation expectations.

Authorities' Views

27. Officials underscored the benefits of maintaining stable the exchange rate, highlighting the contribution it has made over the years to macroeconomic stability, low inflation, and a lack of dollarization. They argued against either a devaluation or a phased transition to a floating rate and were concerned that changes to the regime could have a destabilizing macroeconomic impact. They also underscore that the flexibility of the exchange rate would imply the loss of the monetary policy margin of action, as confidence in the Bolivian currency would be reduced. They remain committed to stable inflation and are seeking to develop institutional and analytical capacity to support more active sterilization operations.

D. Managing the Implications of the Adjustment for Financial Stability

28. The financial system faces important risks. Although timely intervention prevented a deposit run at Banco Fassil in early 2023 from having broader systemic effects, liquidity risks remain elevated—banks' FX liquidity is mostly tied up in longer-term swaps with the BCB and possible concerns over the currency peg may drive liquidation of local currency deposits. Binding liquidity regulation is absent. Banks' currently ample provisions (of 135 percent of NPLs) would not suffice to absorb significant credit losses under the 2024 FSAP's tressed scenario, which shows that banks accounting for 32 percent of system assets would be expected to fall below the regulatory capital minimum. The 2024 FSAP also highlighted significant shortcomings in both the tools and practice for crisis management and contingency planning by the financial supervisor. Systemic risk monitoring is hampered by data gaps and the macroprudential toolkit is incomplete.

29. Strengthening crisis management should be a top priority of financial oversight. Critical first steps will be to (see Annex VIII for key 2024 FSAP recommendations):

- **Establish guidance on recovery planning for banks and to develop bank-by-bank resolution plans.** Such guidance should cover a range of scenarios, from individual bank failures to systemic crises, and define crucial elements like board oversight, implementation responsibilities, activation triggers, and desired restoration points.

- **Enhance macroprudential frameworks** by enacting minimum liquidity requirements, adopting Basel III-compliant liquidity coverage ratio, net stable funding ratio, and borrower-based instruments, in addition to implementing additional capital buffers, especially for domestic systematically important banks (D-SIBs).

- **Adopt clear quantitative triggers for intervening a troubled bank, particularly in cases of illiquidity or capital shortfalls.** To expedite crisis resolution, discourage judicial interventions through clear legal provisions, and limit potential shareholder compensation to purely monetary redress only in proven cases of premature action by ASFI.

- **Align resolution tools with international best practices** by introducing legal safeguards for supervisors who are acting in accordance with their oversight responsibilities, new resolution powers to establish a bridge bank and creditor bail-in powers, designate and publish the list of

domestic systematically important banks (D-SIBs), and strengthen resolution tools for such institutions.

- **Strengthen the deposit insurance fund to align its governance structure and coverage with IADI Core Principles.** The deposit insurance fund should be managed by a dedicated unit within the BCB, with an independent management board. Government deposits should be excluded from the fund's coverage and fund usage limited to estimated liquidation costs. The fund's size should be increased to the implicit target of 5 percent to protect the system and safeguard public trust.

- **Tighten conditions for accessing emergency liquidity assistance.** Banks relying on BCB credit windows beyond the repo facility should face stricter supervisory scrutiny, coupled with quarterly assessments of their financial health.

30. Rigorous stress testing and closing existing data gaps would help identify troubled banks and allow supervisors to take pre-emptive steps to forestall systemic risks. Banks expected to fall below regulatory or liquidity minima should be subjected to enhanced supervision, be required to conduct solvency stress testing alongside liquidity and FX assessments, and provide a clear business plan that would allow them to maintain compliance even under stressed scenarios. Efforts to address data gaps hindering specific tests (e.g., deposit concentration, corporate stress testing) should be prioritized.

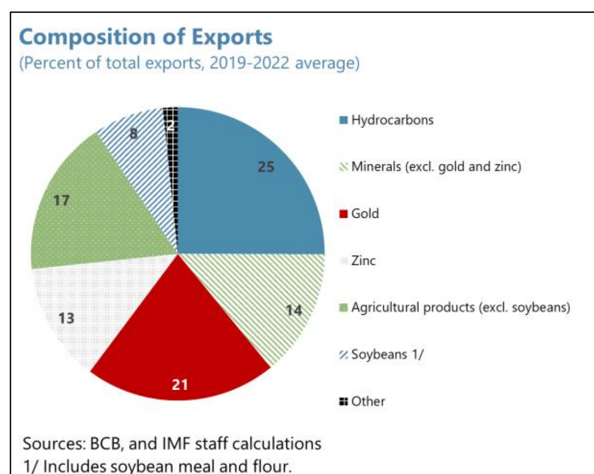
31. Bolivia has improved its AML/CFT framework, but sustained commitment and action are critical to fully realize its effectiveness. Following a recent GAFILAT (Grupo de Acción Financiera de Latinoamérica) assessment, approved in December 2023, Bolivia is under a one-year observation period by FATF. Bolivia is required to address identified shortcomings by June 2025 or face increased monitoring by FATF's International Cooperation Review Group. The authorities are urged to develop a clear road map for achieving this goal.

Authorities' Views

32. Bolivia's financial system has exhibited remarkable resilience, as evidenced by its low non-performing loan rates, above-required capitalization ratios, and high profitability, despite recent shocks. While accepting FSAP recommendations on strengthening institutional capacity in certain areas, the authorities contested the severity of stress test parameters. They note that the current deposit insurance system is efficient and aligns with international practice. The authorities noted that systemic risk regulation exceeds Basel requirements in certain areas and viewed the existing liquidity regulation as robust. They consider that risks associated with restructured loans are effectively mitigated. They also expressed confidence in bank resolution arrangements, citing established quantitative intervention triggers.

E. Removing Supply-Side Impediments to Growth

33. Bolivia has a narrow export base with strong dependence on soybeans, minerals (gold and zinc) and natural gas. Natural gas production is expected to continue declining in coming years, with the country potentially becoming a net importer by 2030. Agricultural exports are hindered by export quotas and other regulations. On the other hand, the government is expanding capacity to produce fertilizers (for exporting) and biodiesel (to increase domestic demand for agricultural output and substitute imported fuels).



34. A range of policies are needed to strengthen the regulatory framework and business environment, incentivize investment, boost productivity, and enhance competitiveness.

- ***The hydrocarbons law should be revised*** to incentivize exploration, reduce compliance costs, and minimize regulatory uncertainty, while upholding rigorous environmental safeguards.

- ***A new framework should be put in place to develop lithium resources (Annex V).*** This would help streamline the regulatory process, mitigate environmental risks associated with lithium mining, and establish transparent mechanisms for revenue sharing among investors, local and central governments.

- ***Scarce public investment resources should be more strategically allocated*** to target bottlenecks and areas of significant social benefit (e.g., in public transportation and renewable energy).

- ***Eliminating or at least relaxing credit quotas, interest rate controls, and directed credit would improve capital allocation and foster a more competitive financial system.*** Simultaneously, harmonizing regulatory frameworks across all banks (public and private) would ensure a level-playing field and promote fair competition. Strengthening the design, oversight, and evaluation of public *fideicomisos* (trusts) would ensure a more transparent use of public resources and minimize negative impacts on banking sector competition and stability (Annex VII).

- ***Enhancing the financial sector resilience will also require updating the insolvency framework,*** while strengthening the reliability and coverage of credit registry. To preserve past gains in broadening access to financial services, a national financial inclusion strategy should be implemented.

- ***Export ceilings and price controls should be phased out.*** This would incentivize new investments in the agricultural sector to take advantage of the improvements in competitiveness as the exchange rate is realigned with medium-term fundamentals.

- ***Environmental safeguards should be strengthened to prevent pollution and deforestation and mitigate the country's exposure to climate-related challenges.*** This will require bolstering legal frameworks, enhancing monitoring capabilities, and strengthening enforcement mechanisms to safeguard air, water, soil, and land use. Investing in resilient infrastructure, diversifying away from hydrocarbon production, and pursuing efficient energy consumption would help Bolivia build long-term climate change resilience and economic sustainability.[12]

Authorities' Views

35. The authorities underscored that current system of price controls, quotas, subsidies, and public investment are effective in striking the right balance between economic growth and social equity. They consider that credit quotas and interest rate caps are essential to direct resources toward critical development sectors, facilitate import substitution and ensure funding for investments in key export sectors. In a recent effort to bolster exports and alleviate FX and fuel shortages, the authorities announced a series of measures agreed with the private sector to streamline export procedures, support productivity-enhancement investments in the agricultural sector, lower transportation costs, and facilitate diesel imports directly by private companies. Officials also highlighted the progress in industrialization projects in critical areas such as lithium, other mining resources, and the productive sector. Similarly, they see the upcoming biodiesel plants playing a significant role in reducing the dependence on fuel imports. They underline the agreement for private sector's involvement in these efforts. There are actions underway to enhance the systematic monitoring of public trust funds to ensure a responsible management of the risks.

F. Data

36. While adequacy of Bolivia's data is broadly adequate for surveillance, timely publication of key macroeconomic statistics is essential to ensure transparency and accountability. Publication of external sector data, including international reserves information, suffered significant delays since early 2023. Reverting to the pre-2023 publication schedule for external and monetary statistics would be a crucial step. In addition, the authorities are encouraged to expand the coverage and frequency of data on the non-financial public sector, which would allow better monitoring of fiscal developments. The ongoing initiatives to rebase both GDP and CPI are commendable, while adopting the General Data Dissemination Standards would demonstrate Bolivia's commitment to data transparency.

[12] See IMF Country Reports, No. 21/180 and No. 22/333.

Authorities' Views

37. The authorities agreed that timely publication of economic statistics fosters transparency and trust, and anticipate increasing its frequency over time, while emphasizing the risks of speculative use of sensitive economic data, including international reserves. They are committed to enhancing the accuracy and accessibility of national accounts and inflation statistics, as evidenced recent initiatives such as a robust data collection law, standardized accounting practices, and modern valuation methods (shifting from fixed to mobile basis). A comprehensive national accounts data overhaul is expected to be completed this year.

STAFF APPRAISAL

38. Bolivia has sustained significant socioeconomic progress over the past two decades, but growing macroeconomic imbalances can put such gains at risk. Growth has outpaced regional peers, poverty rates have declined significantly, and inflation has been low, supported by fuel subsidies, price controls, and a fixed exchange rate regime. However, persistent fiscal and external deficits, amid dwindling natural gas dividends and an increasingly overvalued exchange rate, have resulted in high public debt and drained international reserves. Bolivia's 2023 external position is assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies.

39. The outlook is subject to exceptionally high downside risks. Continuing with the current, unsustainable policy mix will require external financing significantly above currently identified future inflows. International reserves are expected to remain near their legal minimum while risks of sovereign debt distress would remain high. Headwinds from waning hydrocarbon production, subdued credit growth, the overvalued exchange rate, and heightened economic and political uncertainty are expected to yield sub-par growth outturns and widen the parallel exchange rate premium, fueling inflationary pressures. Lack of significant new external financing would however force the government to abruptly cut spending and rely heavily on domestic financing sources, adding further pressure on international reserves, the parallel exchange rate, and potentially triggering capital outflows while increasing the sovereign-bank nexus and crowding out financing to the private economy. In such environment, confidence shocks could trigger a disorderly adjustment of the exchange rate, a deep recession, systemic financial instability, and/or runaway inflation.

40. In the absence of significant external financing, avoiding a disorderly adjustment will require significant policy shifts. Two possible strategies can be envisaged:

- *A front-loaded fiscal consolidation of about 3 percent of GDP*, which would initially rely on reducing public investment to help realign the external position, eliminate the need for central bank budget financing, halt the drain on international reserves, and put the debt-to-GDP ratio on a downward path. This approach would require increasing domestic interest rates to support the exchange rate peg and dissuade capital outflows. But the fiscal contraction and higher interest rates would likely trigger an abrupt economic slowdown, raise public debt servicing

costs, increase NPLs, and place bank balance sheets under strain. The stock of usable international reserves would remain close to zero for an extended period, leaving the country highly susceptible to external shocks.

- *A more gradual fiscal adjustment accompanied by a step devaluation and a shift to a crawling-peg regime.* A 35 percent devaluation would eliminate the overvaluation but would require tighter monetary conditions, which together with the expected future real appreciation would disincentivize dollarization and help restore external balance. Fiscal adjustment would be more reliant on the gradual phase-out of fuel subsidies, tax increases, and rationalization of current expenditures. Although the devaluation is expected to lead to initial spikes in inflation and debt-to-GDP ratio, the contraction in output would likely be less pronounced while the more competitive exchange rate would allow for international reserves rebuilding, leading to a faster recovery in output growth and a lower path for debt-to-GDP over the medium term.

41. Provided the required policies for a successful transition are in place, a more gradual fiscal consolidation accompanied by an up-front exchange rate devaluation provides a less socially costly adjustment path. This approach would imply lower economic costs and provide a less risky transition path than relying solely on an up-front fiscal retrenchment. A gradual adjustment of the exchange rate should be avoided. With usable international reserves effectively exhausted, it would likely fuel expectations of further depreciation, eroding confidence in the boliviano, and potentially triggering outflows from local currency assets. Strengthening fiscal and central bank governance will be crucial for the successful implementation of any policy adjustment strategy.

42. Fiscal adjustment should rely on high quality measures, backed by a strong institutional framework. A phase out of fuel subsidies should be coupled with targeted compensation to the most vulnerable and a public communication campaign underscoring the regressive nature of current subsidies. Existing social safety nets should be strengthened, including by putting in place a unified social registry to enhance coverage and improve targeting. Public sector wages will need to be reduced in inflation-adjusted terms, public investment management enhanced, while the ongoing efforts to modernize tax and customs administrations, improve compliance, and broaden the tax base should be intensified. Embedding these efforts within a medium-term fiscal framework that demonstrates sustainability of Bolivia's debt would enhance credibility and improve transparency and accountability.

43. A crawling peg should be implemented following the realignment of the exchange rate, accompanied by ancillary reforms. The crawling peg would be the new nominal anchor of monetary policy, with the rate of crawl carefully calibrated and communicated to the public. The central bank should strengthen capacity to actively undertake sterilization operations. Existing caps on lending rates should be lifted to permit full transmission of monetary policy to the market. As the BCB's institutional capacity develops, markets deepen, and macroprudential tools are put in place to prevent excessive FX or duration mismatches, the central bank should transition to an inflation targeting regime, backed by stronger central bank independence and accountability, robust macroeconomic and financial statistics, and a clear central bank communication strategy.

44. Improvements in crisis preparedness and contingency planning should be prioritized to safeguard financial stability. As an immediate priority, ASFI should provide banks with guidance on how they should undertake recovery operations across various scenarios. Resolution tools and legal safeguards should be aligned with international standards, and additional macroprudential instruments introduced (e.g., liquidity regulation and additional capital buffers). Furthermore, ASFI should designate the D-SIBs, develop resolution plans for such institutions, and, together with the BCB, enhance stress testing capacity. Access to BCB emergency liquidity support should be tightened and be accompanied by stricter supervision of banks that receive such support. The deposit insurance fund should be recapitalized.

45. Eliminating or at least relaxing credit quotas and interest rate controls is crucial to improve capital allocation and foster financial resilience. Harmonizing banks' regulatory frameworks would ensure fair competition and contribute to a healthy financial sector. Subjecting public trust funds (*fideicomisos*) that provide bank-like credit to tighter oversight and clear cost-benefit assessments would ensure transparent and accountable use of public resources. The insolvency framework should be modernized, and reliability and coverage of the credit registry improved. Bolivia should also implement a comprehensive financial inclusion strategy.

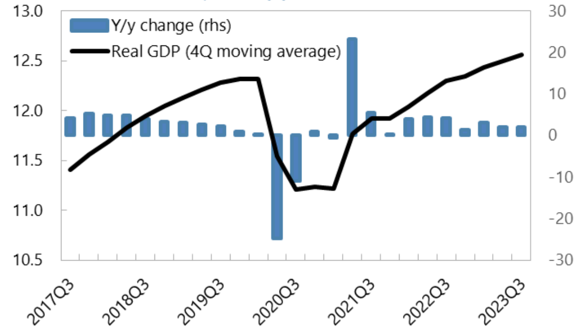
46. Removing supply-side impediments and strengthening governance and regulatory frameworks would help improve medium-term growth prospects. Hydrocarbon and lithium laws should look to incentivize private exploration by adjusting the government revenue share and domestic sales restrictions, reducing compliance costs and regulatory uncertainty, and implementing stringent environmental safeguards. Export ceilings and price controls should be unwound, and technological advancements supported. Public investment projects should prioritize areas with high socioeconomic returns. Advancements are needed in the AML/CFT legal framework to ensure its effective application.

47. The government should resume the timely publication of key macroeconomic statistics. Reverting to the pre-2023 publication schedule for the external accounts (including international reserves) and for monetary statistics should be accompanied by expanded coverage and frequency of non-financial public sector data, continued progress in rebasing both GDP and CPI, and adoption of the General Data Dissemination Standards.

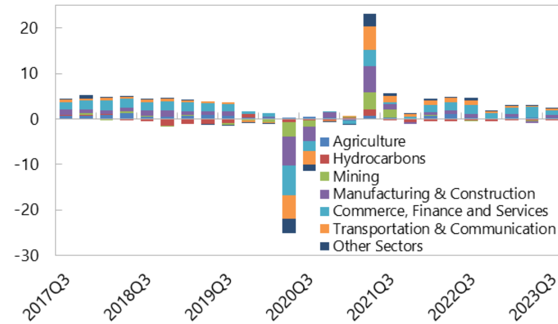
48. It is proposed that the next Article IV consultation with Bolivia be held on the standard 12-month cycle.

Figure 3. Bolivia: Real Sector Developments

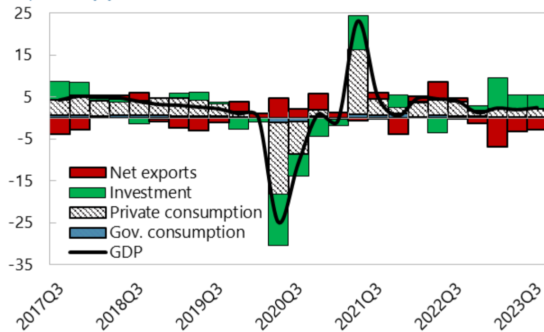
Economic activity moderated since end 2022…



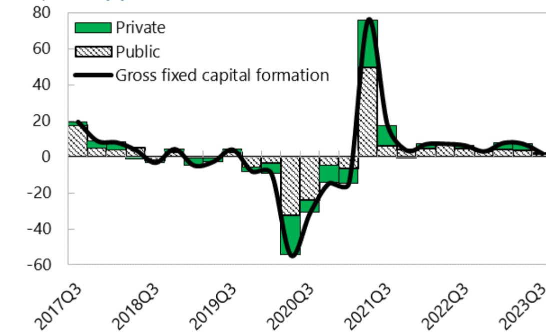
…and has been driven mostly by retail and financial services sectors.



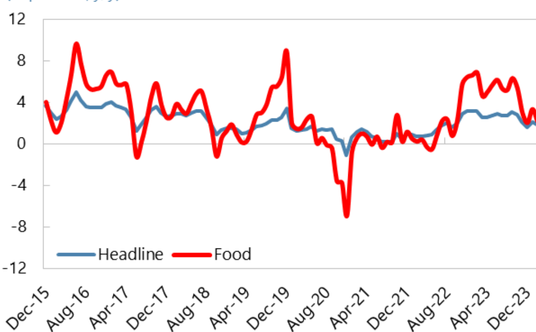
Investment remains the primary engine of economic expansion…



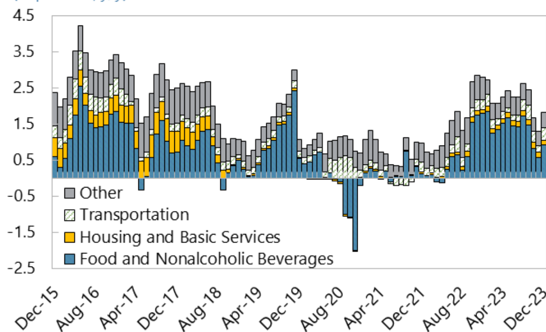
…mostly on account of public investment.



Headline inflation has remained controlled despite the rise in food prices in 2023…



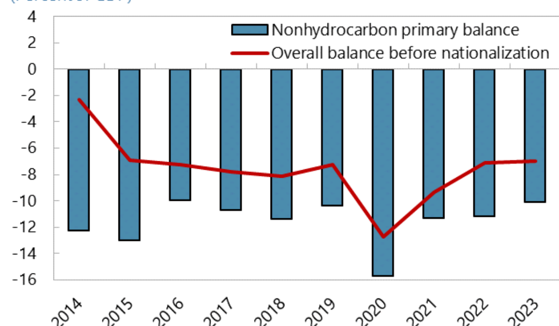
…driven by subsidies and price controls on key food and energy items that constitute a large component of the CPI basket.



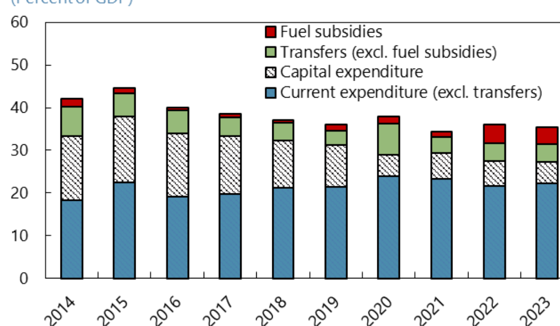
Sources: National Institute of Statistics, Central Bank of Bolivia, Haver Analytics, SEDLAC, World Bank, and Fund staff calculations.

Figure 4. Bolivia: Fiscal Sector Developments

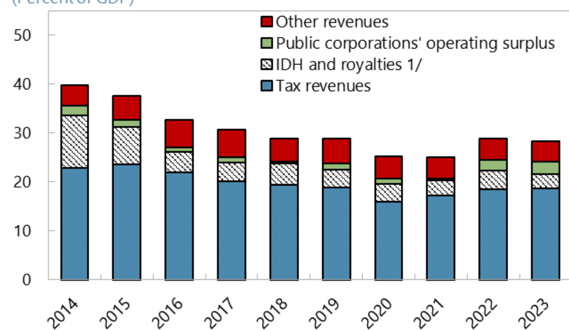
The fiscal deficit remained elevated in 2023, but the non-hydrocarbon balance improved...



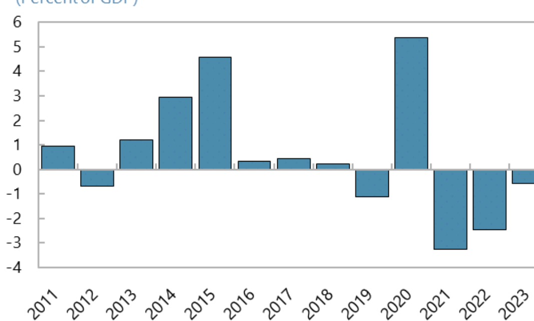
...reflecting some decline in capital expenditure and fuel subsidies....



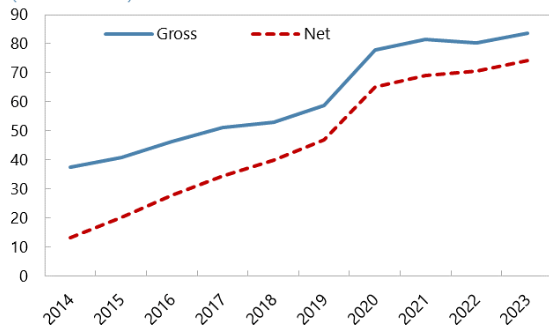
...while revenues fell due to lower hydrocarbon proceeds in 2023.



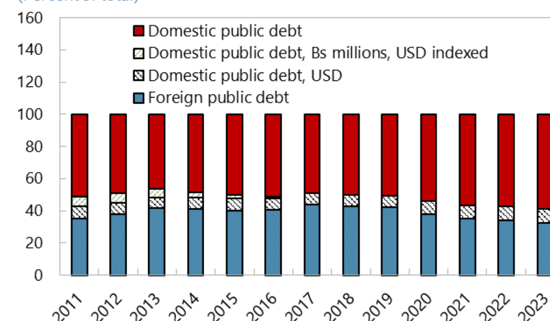
Fiscal policy was slightly contractionary in 2023.



Public debt continues to increase after the sharp rise in 2020.



The composition of public debt has become more tilted to domestic debt in the past three years.



Sources: Ministry of the Economy and Public Finances, Central Bank of Bolivia and Fund staff estimates.

1/ IDH: direct tax on hydrocarbons.

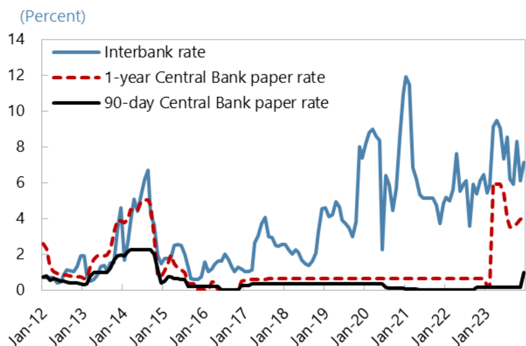
2/ Changes to primary fiscal balance.

3/ Excluding BCB loans to SOEs.

Figure 5. Bolivia: Monetary Sector Developments

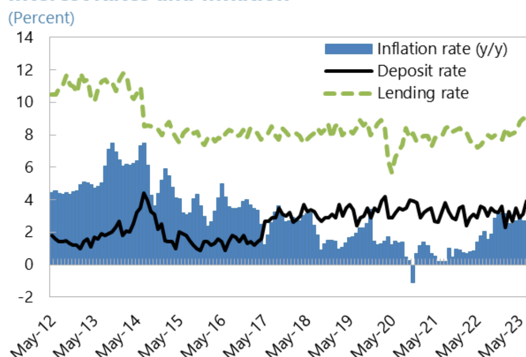
Rates on Central Bank paper increased substantially in 2023.

Central Bank and Interbank Interest Rate
(Percent)



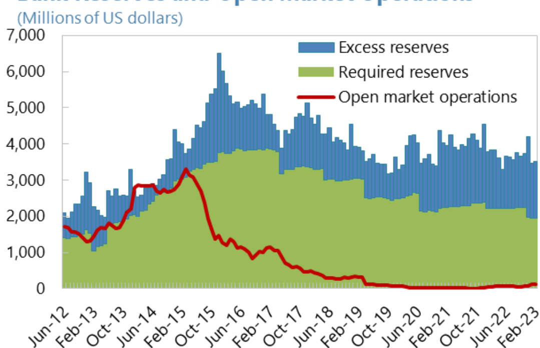
Deposit and lending rates have seen a modest increase in 2023.

Interest Rates and Inflation
(Percent)



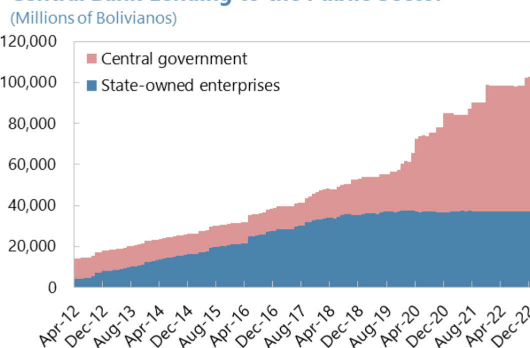
Banks' excess reserves have continued a gradual decline in 2023 while BCB open market operations have nearly stopped.

Bank Reserves and Open Market Operations
(Millions of US dollars)



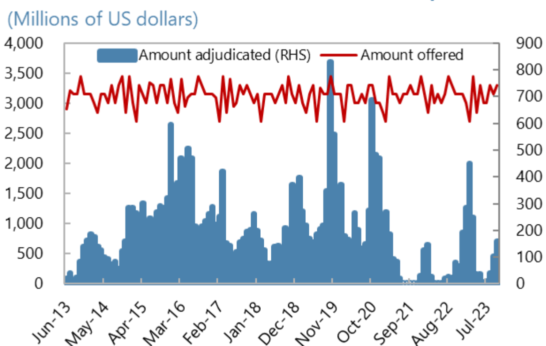
Central bank lending to the central government has expanded significantly since the pandemic, and notably in 2023.

Central Bank Lending to the Public Sector
(Millions of Bolivianos)



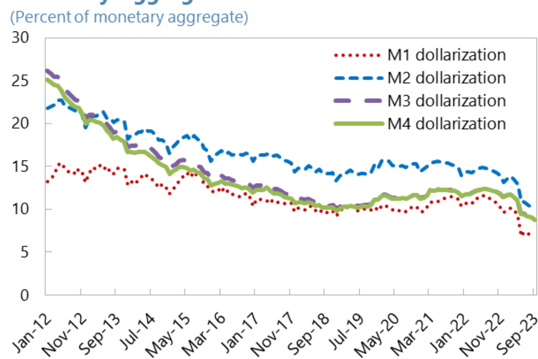
Central bank foreign exchange interventions remain low.

Central Bank Intervention in FX Market 1/
(Millions of US dollars)



Dollarization ratios dropped in 2023, partially due to the exit of Banco Fassil.

Monetary Aggregates Dollarization
(Percent of monetary aggregate)

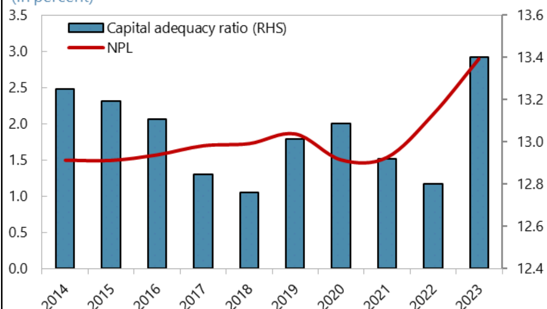


Sources: Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

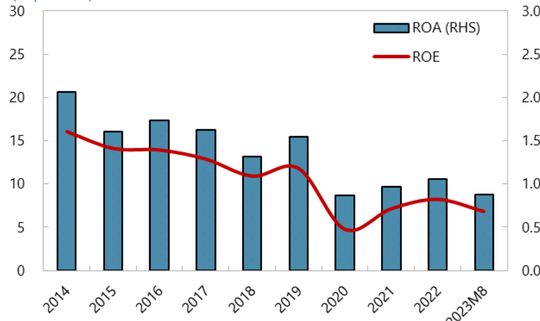
1/ The amounts offered and adjudicated correspond to the cumulative for the month.

Figure 6. Bolivia: Financial Sector Developments

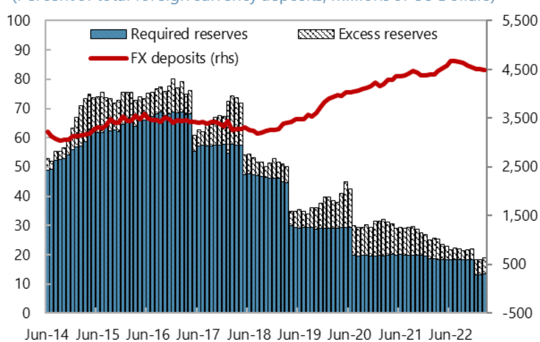
Capital adequacy improved in 2023 with the exit of Banco Fassil, while NPL levels have risen further.



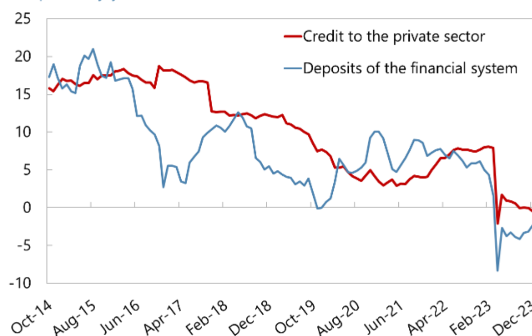
Bank profitability continues to fall.



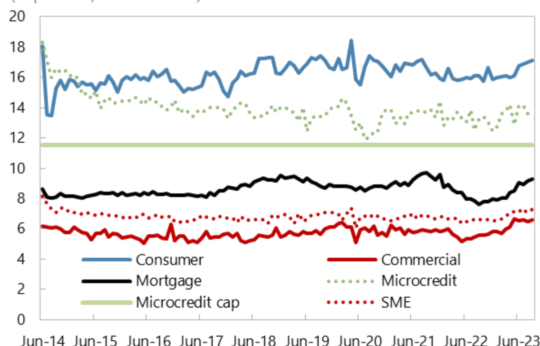
The central bank reduced further the FX reserve requirements.



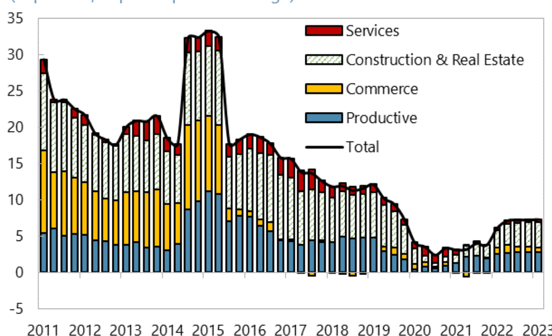
Deposit and credit growth continued to fall in 2023, in part due to the falure of Banco Fassil.



Lending rates increased across most types of credit…



Credit growth has been flowing mostly to "productive sectors" sector and real estate (social housing).



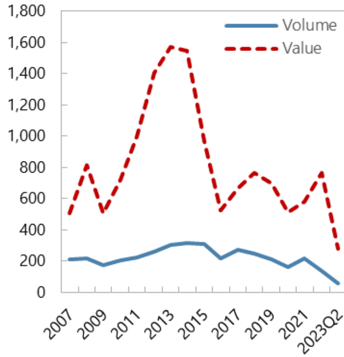
Sources: ASFI and Fund staff calculations.

1/ The estimations include credit extended by the addition of new financial institutions created during the period, including development institutions (*Instituciones Financieras de Desarrollo*).

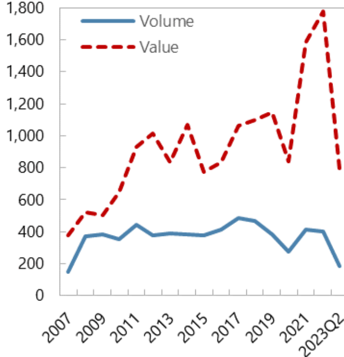
Figure 7. Bolivia: External Sector Developments

Export revenue from key sectors fell in 2023.

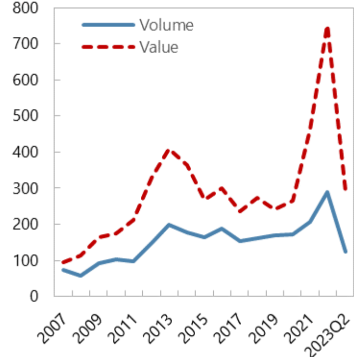
Natural Gas Exports
(Indexes, 2003=100)



Exports of Minerals, incl. Gold
(Indexes, 2003=100)

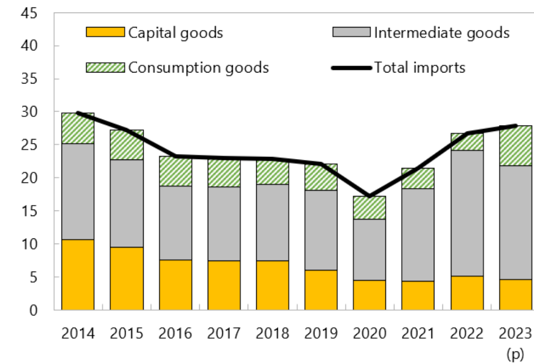


Exports of Soybeans and Derivatives
(Indexes, 2003=100)



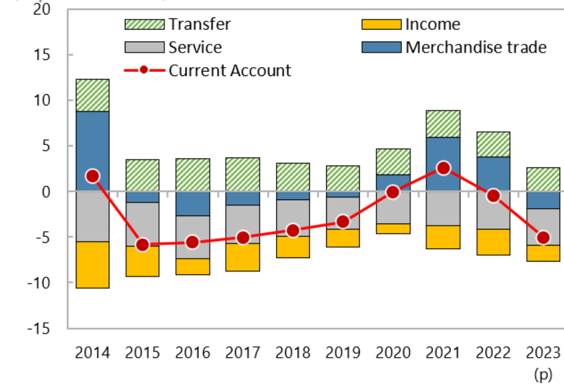
Imports remained elevated 2023; well-above the pre-pandemic levels.

Imports of Goods
(In percent of GDP)



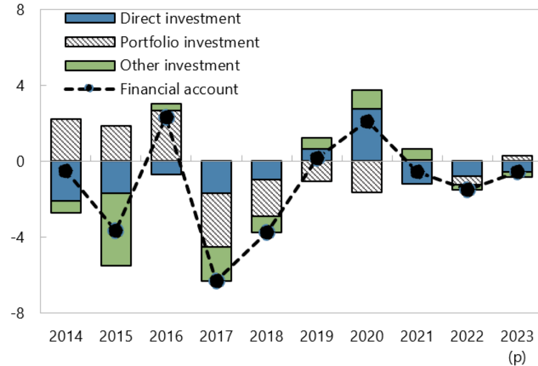
The current account deficit is estimated to have weakened further in 2023.

Current Account
(In percent of GDP)



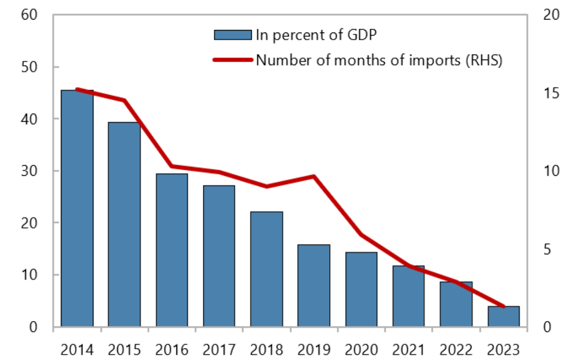
Financial outflows were driven by negative FDI in 2023.

Financial Account
(Percent of GDP; += net outflows)



International reserves are nearly depleted.

Gross Reserves
(Percent of GDP; Number of months)



Sources: Central Bank of Bolivia, INE, and Fund staff estimates.

Table 3. Bolivia: Selected Economic and Social Indicators, 2021–29

Population (millions, 2021)	11.8	Poverty rate (percent, 2021)	36.3
Population growth rate (percent, 2021)	1.4	Adult literacy rate (percent, 2021)	94.8
Life expectancy at birth (years, 2021)	72	GDP per capita (US$, 2021)	3,437
Total unemployment rate (2021)	7.0	IMF Quota (SDR, millions)	240.1

		Est.	Proj.						
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Income and prices									
Real GDP	6.1	3.6	2.5	1.6	2.2	2.2	2.3	2.3	2.3
Nominal GDP	10.3	8.9	4.9	6.2	6.5	6.2	6.2	6.2	6.2
CPI inflation (period average)	0.7	1.7	2.6	4.5	4.2	3.9	3.8	3.8	3.8
CPI inflation (end of period)	0.9	3.1	2.1	4.8	4.0	3.9	3.8	3.8	3.8
Investment and savings 1/									
Total investment	16.8	15.1	15.9	16.6	16.3	16.0	15.8	15.6	15.3
Of which: Public sector	6.2	5.7	5.0	6.0	6.0	6.0	6.0	6.0	6.0
Gross national savings	13.9	12.5	8.6	10.5	10.3	10.5	10.8	10.9	11.1
Of which: Public sector	-3.1	-1.4	-2.0	-1.9	-1.5	-1.2	-1.1	-1.2	-1.1
Combined public sector									
Revenues and grants	25.1	28.9	28.3	27.6	27.4	27.1	27.0	26.8	26.7
Of which: Hydrocarbon related revenue	3.6	6.0	5.4	4.3	3.9	3.5	3.2	3.0	3.0
Expenditure	34.4	36.0	35.3	35.5	34.8	34.3	34.1	33.9	33.8
Current	28.2	30.3	30.3	29.5	28.8	28.3	28.1	27.9	27.8
Capital 2/	6.2	5.7	5.0	6.0	6.0	6.0	6.0	6.0	6.0
Net lending/borrowing (overall balance)	-9.3	-7.1	-7.0	-7.9	-7.5	-7.2	-7.1	-7.2	-7.1
Of which: Non-hydrocarbon balance	-12.7	-12.8	-12.2	-12.0	-11.2	-10.5	-10.1	-10.0	-9.9
Total gross NFPS debt 3/	81.4	80.4	83.6	86.7	88.9	90.9	92.7	94.5	96.1
External sector									
Current account 1/	2.6	-0.4	-5.0	-5.7	-5.8	-5.6	-5.2	-5.2	-5.2
Exports of goods and services	28.5	32.6	28.5	27.0	26.9	26.5	25.9	25.5	24.9
Of which: Natural gas	5.5	6.7	3.8	3.4	3.0	2.7	2.5	2.3	2.1
Imports of goods and services	26.3	32.9	34.4	33.6	33.6	32.7	31.5	30.8	29.9
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (-= net inflow)	-0.6	-1.5	-0.5	-5.3	-5.8	-5.6	-5.2	-5.2	-5.2
Of which: Direct investment net	-1.2	-0.8	-0.6	-0.6	-0.9	-0.9	-1.2	-1.1	-1.0
Of which: Other investment, net	0.6	-0.3	-0.3	-4.6	-4.7	-5.1	-4.3	-4.0	-4.2
Of which: Unidentified financing inflows	...	...	-1.3	-2.7	-2.9	-3.1	-2.4	-2.2	-2.5
Net errors and omissions	-4.0	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Terms of trade index (percent change)	3.4	-1.6	1.2	-0.6	0.0	0.2	0.3	0.1	0.2
Central Bank gross foreign reserves 4/ 5/ 6/									
In millions of U.S. dollars	4,753	3,796	1,808	1,653	1,555	1,556	1,556	1,557	1,556
In months of imports of goods and services	3.9	2.8	1.3	1.1	1.0	1.0	1.0	0.9	0.9
In percent of GDP	11.7	8.6	3.9	3.4	3.0	2.8	2.6	2.5	2.3
In percent of ARA	58.4	44.5	20.8	18.2	16.2	15.5	14.8	14.1	13.4
Money and credit									
Credit to the private sector (percent change)	4.6	6.3	-0.4	3.0	4.3	5.1	6.2	6.2	6.2
Credit to the private sector (percent of GDP)	76.0	74.2	70.5	68.4	67.0	66.3	66.3	66.3	66.3
Broad money (percent of GDP)	93.8	85.2	82.8	81.2	80.0	78.9	77.8	76.8	75.7
Memorandum items:									
Nominal GDP (in billions of U.S. dollars)	40.7	44.3	46.5	49.3	52.5	55.8	59.2	62.9	66.8
Bolivianos/U.S. dollar (end-of-period) 7/	6.9	6.9	6.9	...	...	...	...		
REER, period average (percent change) 8/	-4.1	-0.9	-1.9	...	...	...	...		
Oil prices (in U.S. dollars per barrel)	69.2	96.4	80.6	77.7	73.8	70.9	69.0	67.9	67.4
Energy-related subsidies to SOEs (percent of GDP) 9/	1.3	4.4	4.0	3.5	2.7	2.4	2.1	2.0	1.9

Sources: Bolivian authorities (MEFP, Ministry of Planning, BCB, INE, UDAPE); IMF; Fund staff calculations.

1/ The discrepancy between the current account and the savings-investment balance reflects methodological differences. For the projection years, the discrepancy is assumed to remain constant in dollar value.

2/ Includes nationalization costs and net lending.

3/ Public debt includes SOE's borrowing from the BCB (but not from other domestic institutions) and BCB loans to FINPRO and FNDR.

4/ Excludes reserves from the Latin American Reserve Fund (FLAR) and Offshore Liquidity Requirements (RAL).

5/ All foreign assets valued at market prices.

6/ Includes a repurchase line of US$99.2 million maturing in 2025.

7/ Official (buy) exchange rate.

8/ The REER based on authorities' methodlogy is different from that of the IMF (see 2018 and 2017 Staff Reports).

9/ Includes the cost of subsidy borne by public enterprises and incentives for hydrocarbon exploration investments in the projection period.

Table 4a. Bolivia: Operations of the Combined Public Sector, 2021–29 1/

(Bs million)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Proj.						
Total Revenues	**70,000**	**87,777**	**90,346**	**93,443**	**98,595**	**103,732**	**109,605**	**115,411**	**122,238**
Tax Revenues	56,672	67,674	68,880	72,642	76,836	81,101	85,823	90,239	95,059
IDH and royalties	8,584	11,283	9,187	8,284	7,663	7,168	6,790	6,621	6,473
Direct Taxes	9,374	12,163	12,962	14,354	15,530	16,768	18,067	19,103	20,200
Indirect Taxes	38,714	44,228	46,730	50,005	53,643	57,165	60,967	64,516	68,386
o/w VAT	19,237	22,027	22,745	23,952	25,522	27,013	28,606	30,295	32,134
o/w Excise tax on fuel	2,434	2,200	2,345	2,478	2,633	2,799	2,978	3,168	3,371
Grants	105	133	138	146	156	165	175	186	198
Other revenue	13,224	19,970	21,329	20,655	21,603	22,466	23,607	24,985	26,981
Nontax revenue	11,013	12,292	12,491	13,362	14,311	15,286	16,330	17,447	18,640
Public enterprises operating balance	1,384	6,855	7,975	6,377	6,318	6,146	6,178	6,372	7,102
Central bank operating balance	827	822	862	915	975	1,035	1,099	1,167	1,239
Total Expenditures	**96,047**	**109,432**	**112,683**	**120,085**	**125,558**	**131,322**	**138,489**	**146,265**	**154,703**
Current Expenditure	78,695	92,161	96,729	99,779	103,941	108,374	114,120	120,427	127,224
Compensation of employees	37,298	38,805	40,981	42,187	45,231	47,790	50,750	53,892	56,713
Purchases of goods and services	12,623	13,635	14,025	14,888	15,849	16,825	17,867	18,973	20,147
Interest	3,771	4,935	6,677	7,328	7,903	8,206	8,882	9,446	10,436
Domestic	1,644	2,307	4,017	4,540	4,904	5,039	5,533	6,265	7,008
Foreign	2,126	2,628	2,659	2,788	2,999	3,168	3,349	3,181	3,429
Energy-related subsidies to SOEs 2/	3,729	13,379	12,701	11,739	9,907	9,078	8,634	8,529	8,647
Social benefits 3/	17,799	20,395	21,288	22,518	23,864	25,219	26,659	28,182	29,793
Other expense	3,475	1,011	1,057	1,118	1,186	1,255	1,329	1,406	1,488
Net acquisition of nonfinancial assets 4/	17,352	17,272	15,954	20,306	21,617	22,948	24,369	25,838	27,479
o/w Public Enterprises	4,073	4,268	2,960	3,370	3,431	3,584	3,835	4,219	3,807
Gross operating balance	**-8,694**	**-4,383**	**-6,383**	**-6,336**	**-5,346**	**-4,641**	**-4,515**	**-5,016**	**-4,986**
Primary Balance	**-22,276**	**-16,721**	**-15,661**	**-19,314**	**-19,060**	**-19,383**	**-20,002**	**-21,408**	**-22,029**
Net lending/borrowing (Fiscal Balance)	**-26,046**	**-21,655**	**-22,337**	**-26,642**	**-26,963**	**-27,589**	**-28,884**	**-30,854**	**-32,465**
Net financial transactions	**-26,046**	**-21,655**	**-22,337**	**-26,642**	**-26,963**	**-27,589**	**-28,884**	**-30,854**	**-32,465**
Net incurrence of liabilities	**26,046**	**21,655**	**22,337**	**26,642**	**26,963**	**27,589**	**28,884**	**30,854**	**32,465**
External	3,212	4,433	3,816	6,524	6,622	5,013	5,482	5,760	6,045
Disbursements 7/	9,368	14,540	9,348	11,324	11,574	11,828	12,100	12,379	12,663
Amortizations	-3,435	-9,795	-5,220	-4,489	-4,640	-6,504	-6,306	-6,306	-6,306
Other external	-2,720	-312	-312	-312	-312	-312	-312	-312	-312
Domestic	22,834	17,222	18,521	20,118	20,341	22,576	23,402	25,093	26,420
Banking system	10,720	8,050	9,305	368	268	168	68	68	68
Central Bank	11,047	7,482	8,837	0	0	0	0	0	0
Commercial banks	-327	568	468	368	268	168	68	68	68
Pension funds	10,835	8,203	8,285	8,368	8,452	8,536	8,622	8,708	8,795
Other domestic	1,278	968	930	481	549	841	754	711	667
Other, to be identified	…	…	…	10,901	11,072	13,030	13,958	15,606	16,889
Memorandum items:									
Hydrocarbon related revenue 5/	9,968	18,138	17,162	14,661	13,981	13,314	12,967	12,993	13,575
Nonfinancial public sector gross public debt 6/	227,299	244,279	266,616	293,258	320,221	347,810	376,694	407,548	440,013
o/w gross foreign public debt	87,106	91,240	95,056	101,580	108,202	113,215	118,697	124,458	130,503
NFPS deposits	34,156	29,794	29,794	29,794	29,794	29,794	29,794	29,794	29,794
Nominal GDP (Bs million)	279,221	304,001	318,808	338,433	360,289	382,460	406,150	431,292	457,978

Sources: Ministry of Finance; Bolivia Central Bank; and Fund staff estimates and projections.

1/ The operation of mixed-ownership companies, primarily in the telecom, electricity and hydrocarbon sectors, are not included.

2/ Includes incentives for hydrocarbon exploration investments in the projection period.

3/ Includes pensions, cash transfers to households, and social investment programs (previously classified as capital expenditure).

4/ Includes net lending.

5/ Hydrocarbon related revenues are defined as direct hydrocarbon tax (IDH), royalties, and the operating balance of the state oil/gas company (YPFB)

6/ Public debt includes SOE's borrowing from the BCB but not from other domestic institutions.

7/ Comprised of mostly bilateral and multilateral disbursements.

Table 4b. Bolivia: Operations of the Combined Public Sector, 2021–29 1/

(Percent of GDP)

			Proj.						
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Revenues	**25.1**	**28.9**	**28.3**	**27.6**	**27.4**	**27.1**	**27.0**	**26.8**	**26.7**
Tax Revenues	20.3	22.3	21.6	21.5	21.3	21.2	21.1	20.9	20.8
IDH and royalties	3.1	3.7	2.9	2.4	2.1	1.9	1.7	1.5	1.4
Direct Taxes	3.4	4.0	4.1	4.2	4.3	4.4	4.4	4.4	4.4
Indirect Taxes	13.9	14.5	14.7	14.8	14.9	14.9	15.0	15.0	14.9
o/w VAT	6.9	7.2	7.1	7.1	7.1	7.1	7.0	7.0	7.0
o/w Excise tax on fuel	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	4.7	6.6	6.7	6.1	6.0	5.9	5.8	5.8	5.9
Nontax revenue	3.9	4.0	3.9	3.9	4.0	4.0	4.0	4.0	4.1
Public enterprises operating balance	0.5	2.3	2.5	1.9	1.8	1.6	1.5	1.5	1.6
Central bank operating balance	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Expenditures	**34.4**	**36.0**	**35.3**	**35.5**	**34.8**	**34.3**	**34.1**	**33.9**	**33.8**
Current Expenditure	28.2	30.3	30.3	29.5	28.8	28.3	28.1	27.9	27.8
Compensation of employees	13.4	12.8	12.9	12.5	12.6	12.5	12.5	12.5	12.4
Purchases of goods and services	4.5	4.5	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Interest	1.4	1.6	2.1	2.2	2.2	2.1	2.2	2.2	2.3
Domestic	0.6	0.8	1.3	1.3	1.4	1.3	1.4	1.5	1.5
Foreign	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Energy-related subsidies to SOEs 2/	1.3	4.4	4.0	3.5	2.7	2.4	2.1	2.0	1.9
Social benefits 3/	6.4	6.7	6.7	6.7	6.6	6.6	6.6	6.5	6.5
Other expense	1.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net acquisition of nonfinancial assets 4/	6.2	5.7	5.0	6.0	6.0	6.0	6.0	6.0	6.0
o/w Public Enterprises	1.5	1.4	0.9	1.0	1.0	0.9	0.9	1.0	0.8
Gross operating balance	**-3.1**	**-1.4**	**-2.0**	**-1.9**	**-1.5**	**-1.2**	**-1.1**	**-1.2**	**-1.1**
Primary Balance	**-8.0**	**-5.5**	**-4.9**	**-5.7**	**-5.3**	**-5.1**	**-4.9**	**-5.0**	**-4.8**
Net lending/borrowing (Fiscal Balance)	**-9.3**	**-7.1**	**-7.0**	**-7.9**	**-7.5**	**-7.2**	**-7.1**	**-7.2**	**-7.1**
Net financial transactions	**-9.3**	**-7.1**	**-7.0**	**-7.9**	**-7.5**	**-7.2**	**-7.1**	**-7.2**	**-7.1**
Net incurrence of liabilities	**9.3**	**7.1**	**7.0**	**7.9**	**7.5**	**7.2**	**7.1**	**7.2**	**7.1**
External	1.2	1.5	1.2	1.9	1.8	1.3	1.3	1.3	1.3
Disbursements 7/	3.4	4.8	2.9	3.3	3.2	3.1	3.0	2.9	2.8
Amortizations	-1.2	-3.2	-1.6	-1.3	-1.3	-1.7	-1.6	-1.5	-1.4
Other external	-1.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic	8.2	5.7	5.8	5.9	5.6	5.9	5.8	5.8	5.8
Banking system	3.8	2.6	2.9	0.1	0.1	0.0	0.0	0.0	0.0
Central Bank	4.0	2.5	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	-0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Pension funds	3.9	2.7	2.6	2.5	2.3	2.2	2.1	2.0	1.9
Other domestic	0.5	0.3	0.3	0.1	0.2	0.2	0.2	0.2	0.1
Other, to be identified	…	…	…	3.2	3.1	3.4	3.4	3.6	3.7
Memorandum items:									
Hydrocarbon related revenue 5/	3.6	6.0	5.4	4.3	3.9	3.5	3.2	3.0	3.0
Nonfinancial public sector gross public debt 6/	81.4	80.4	83.6	86.7	88.9	90.9	92.7	94.5	96.1
o/w gross foreign public debt	31.2	30.0	29.8	30.0	30.0	29.6	29.2	28.9	28.5
NFPS deposits	12.2	9.8	9.3	8.8	8.3	7.8	7.3	6.9	6.5
Nominal GDP (Bs million)	279,221	304,001	318,808	338,433	360,289	382,460	406,150	431,292	457,978

Sources: Ministry of Finance; Bolivia Central Bank; and Fund staff estimates and projections.

1/ The operation of mixed-ownership companies, primarily in the telecom, electricity and hydrocarbon sectors, are not included.

2/ Includes incentives for hydrocarbon exploration investments in the projection period.

3/ Includes pensions, cash transfers to households, and social investment programs (previously classified as capital expenditure).

4/ Includes net lending.

5/ Hydrocarbon related revenues are defined as direct hydrocarbon tax (IDH), royalties, and the operating balance of the state oil/gas company (YPFB)

6/ Public debt includes SOE's borrowing from the BCB but not from other domestic institutions.

7/ Comprised of mostly bilateral and multilateral disbursements.

Table 5. Bolivia: Non-Financial Public Sector Debt, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Bs milllion								
Internal Debt 1/	**95,253**	**107,461**	**123,508**	**144,739**	**173,918**	**201,293**	**228,836**	**256,082**	**284,069**
Public Financial Sector	55,196	59,200	65,563	77,576	97,486	115,315	133,413	151,172	169,628
Private Sector	40,057	48,261	57,944	67,162	76,431	85,977	95,421	104,908	114,438
Public Non-Financial Sector	1	1	1	1	1	2	2	2	2
Short Term	16,501	24,852	28,563	35,994	42,782	49,566	56,150	62,832	69,602
Long Term	78,752	82,609	94,945	119,645	142,208	164,758	186,643	208,855	231,357
Foreign debt 2/ 3/	**87,106**	**91,240**	**95,056**	**112,481**	**119,274**	**126,245**	**132,655**	**140,063**	**147,392**
Central Government	79,914	79,845	83,185	99,794	105,761	112,106	117,830	124,520	131,093
Commercial Banks	0	0	0	0	0	0	0	0	0
Bilateral	10,588	10,452	10,889	11,636	12,395	12,969	13,597	14,257	14,950
Multilateral	55,605	55,058	57,361	61,297	65,293	68,318	71,626	75,102	78,750
Private	13,720	14,335	14,935	15,960	17,000	17,788	18,649	19,554	20,504
Other	0	0	0	0	0	0	0	0	0
Other NFPS	7,193	11,395	11,872	12,687	13,514	14,140	14,824	15,544	16,299
BCB loans to SOEs	**36,505**	**36,384**	**38,214**	**28,661**	**21,496**	**16,122**	**12,091**	**9,068**	**6,801**
BCB loans to FNDR	**2,334**	**2,760**	**2,953**	**2,215**	**1,661**	**1,246**	**934**	**701**	**526**
BCB loans to FINPRO	**6,101**	**6,434**	**6,884**	**5,163**	**3,872**	**2,904**	**2,178**	**1,634**	**1,225**
Total NFPS Debt	**227,299**	**244,279**	**266,616**	**293,258**	**320,221**	**347,810**	**376,694**	**407,548**	**440,013**
	Percent of GDP								
Internal Debt 1/	**34.1**	**35.3**	**38.7**	**42.8**	**48.3**	**52.6**	**56.3**	**59.4**	**62.0**
Public Financial Sector	19.8	19.5	20.6	22.9	27.1	30.2	32.8	35.1	37.0
Private Sector	14.3	15.9	18.2	19.8	21.2	22.5	23.5	24.3	25.0
Public Non-Financial Sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	5.9	8.2	9.0	10.6	11.9	13.0	13.8	14.6	15.2
Long Term	28.2	27.2	29.8	35.4	39.5	43.1	46.0	48.4	50.5
Foreign debt 1/	**31.2**	**30.0**	**29.8**	**33.2**	**33.1**	**33.0**	**32.7**	**32.5**	**32.2**
Central Government	28.6	26.3	26.1	29.5	29.4	29.3	29.0	28.9	28.6
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	3.8	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.3
Multilateral	19.9	18.1	18.0	18.1	18.1	17.9	17.6	17.4	17.2
Private	4.9	4.7	4.7	4.7	4.7	4.7	4.6	4.5	4.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other NFPS	2.6	3.7	3.7	3.7	3.8	3.7	3.6	3.6	3.6
BCB loans to SOEs	**13.1**	**12.0**	**12.0**	**8.5**	**6.0**	**4.2**	**3.0**	**2.1**	**1.5**
BCB loans to FNDR	**0.8**	**0.9**	**0.9**	**0.7**	**0.5**	**0.3**	**0.2**	**0.2**	**0.1**
BCB loans to FINPRO	**2.2**	**2.1**	**2.2**	**1.5**	**1.1**	**0.8**	**0.5**	**0.4**	**0.3**
Total NFPS Debt	**81.4**	**80.4**	**83.6**	**86.7**	**88.9**	**90.9**	**92.7**	**94.5**	**96.1**
Memorandum items:									
NFPS Deposits at the BCB (Bs million)	34,156	29,794	29,794	29,794	29,794	29,794	29,794	29,794	29,794
NFPS Net Debt (Bs million)	193,144	214,485	236,822	263,464	290,427	318,016	346,900	377,754	410,219
Nominal GDP (Bs million)	279,221	304,001	318,808	338,433	360,289	382,460	406,150	431,292	457,978

Sources: Ministry of Finance; Bolivia Central Bank; and Fund staff estimates and projections.

1/ Debt in local currency issued by the Treasury.

2/ Including domestic debt in FX held by residents.

3/ Foreign debt is all long term debt.

Table 6. Bolivia: Balance of Payments, 2021–29

			Proj.						
	2021	2022	2023	2024	2025	2026	2027	2028	2029
					(US$ million)				
Current account balance	**1,057**	**-194**	**-2,346**	**-2,795**	**-3,051**	**-3,110**	**-3,081**	**-3,245**	**-3,452**
Goods and services	884	-120	-2,744	-3,231	-3,509	-3,457	-3,296	-3,338	-3,350
Goods	2,406	1,695	-881	-1,534	-1,827	-1,809	-1,698	-1,796	-1,813
Exports	11,146	13,541	12,076	11,845	12,482	12,906	13,256	13,666	14,105
Imports	8,740	11,846	12,957	13,379	14,309	14,714	14,954	15,463	15,918
Services	-1,522	-1,815	-1,863	-1,697	-1,682	-1,649	-1,598	-1,542	-1,537
Credit	452	922	1,175	1,493	1,667	1,868	2,094	2,335	2,534
Debit	1,974	2,737	3,038	3,190	3,349	3,517	3,692	3,877	4,071
Interest Payments, net	-1,029	-1,274	-836	-809	-814	-950	-1,107	-1,250	-1,468
Remittances, net	1,202	1,200	1,234	1,245	1,272	1,298	1,321	1,343	1,366
Capital Account	**3**	**4**	**4**	**4**	**4**	**4**	**4**	**4**	**4**
Financial account (+= net outflows)	**-232**	**-671**	**-255**	**-2,636**	**-3,048**	**-3,107**	**-3,078**	**-3,242**	**-3,446**
Foreign direct investment, net	-492	-343	-272	-298	-449	-516	-686	-661	-635
Portfolio investment, net	21	-204	134	-56	-111	228	180	-51	11
Financial derivatives, net	4	-1	0	0	0	0	0	0	0
Other investment, net	235	-123	-116	-2,282	-2,489	-2,819	-2,572	-2,530	-2,822
Of which, unidentified financing inflows	...	...	-615	-1,320	-1,507	-1,745	-1,432	-1,390	-1,644
Net errors and omissions	**-1,646**	**-1,345**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financing	**354**	**864**	**2,088**	**155**	**-1**	**-1**	**0**	**-1**	**2**
Change in reserve assets (increase = -) 1/	354	864	2,088	155	-1	-1	0	-1	2
Current account balance	**2.6**	**-0.4**	**-5.0**	**-5.7**	**-5.8**	**-5.6**	**-5.2**	**-5.2**	**-5.2**
Goods and services	2.2	-0.3	-5.9	-6.5	-6.7	-6.2	-5.6	-5.3	-5.0
Goods	5.9	3.8	-1.9	-3.1	-3.5	-3.2	-2.9	-2.9	-2.7
Exports	27.4	30.6	26.0	24.0	23.8	23.1	22.4	21.7	21.1
Imports	21.5	26.7	27.9	27.1	27.2	26.4	25.3	24.6	23.8
Services	-3.7	-4.1	-4.0	-3.4	-3.2	-3.0	-2.7	-2.5	-2.3
Credit	1.1	2.1	2.5	3.0	3.2	3.4	3.5	3.7	3.8
Debit	4.8	6.2	6.5	6.5	6.4	6.3	6.2	6.2	6.1
Interest Payments, net	-2.5	-2.9	-1.8	-1.6	-1.6	-1.7	-1.9	-2.0	-2.2
Remittances, net	3.0	2.7	2.7	2.5	2.4	2.3	2.2	2.1	2.0
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-0.6**	**-1.5**	**-0.5**	**-5.3**	**-5.8**	**-5.6**	**-5.2**	**-5.2**	**-5.2**
Foreign direct investment, net	-1.2	-0.8	-0.6	-0.6	-0.9	-0.9	-1.2	-1.1	-1.0
Portfolio investment, net	0.1	-0.5	0.3	-0.1	-0.2	0.4	0.3	-0.1	0.0
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	0.6	-0.3	-0.3	-4.6	-4.7	-5.1	-4.3	-4.0	-4.2
Of which, unidentified financing inflows	0.0	0.0	-1.3	-2.7	-2.9	-3.1	-2.4	-2.2	-2.5
Net errors and omissions	**-4.0**	**-3.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	**0.9**	**1.9**	**4.5**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Change in reserve assets (increase = -) 1/	0.9	1.9	4.5	0.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Exports, c.i.f. (in millions of U.S. dollars)	10,966	13,528	12,076	11,845	12,482	12,906	13,256	13,666	14,105
o/w Natural gas	2,249	2,973	1,785	1,697	1,598	1,518	1,455	1,435	1,414
o/w Minerals	5,837	6,547	6,429	6,816	7,191	7,609	7,888	8,070	8,254
o/w Soy-related	1,369	2,220	2,108	1,560	1,843	1,864	1,932	2,003	2,086
Imports, c.i.f. (in millions of U.S. dollars)	9,618	13,049	13,921	13,793	14,575	14,980	15,370	15,780	16,385
o/w Combustibles	2,250	4,365	4,056	4,417	4,480	4,494	4,575	4,715	4,883
Gross BCB international reserves 2/	4,753	3,796	1,808	1,653	1,555	1,556	1,556	1,557	1,556
In percent of GDP	11.7	8.6	3.9	3.4	3.0	2.8	2.6	2.5	2.3
In months of next year's imports of goods and services	3.9	2.8	1.3	1.1	1.0	1.0	1.0	0.9	0.9
In percent of ARA	58.4	44.5	20.8	18.2	16.2	15.5	14.8	14.1	13.4
APSP oil prices (U.S. dollars per barrel)	69.2	96.4	80.6	78	74	71	69	68	67
Nominal GDP (in millions of U.S. dollars)	40,702.7	44,315.0	46,473.4	49,334	52,520	55,752	59,205	62,871	66,761

Sources: Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

1/ Ley Nº 1503 of May 5, 2023, mandates the BCB to maintain a minimum of 22 tons of gold within its gross international reserves.

2/ Includes a repurchase line of US$99.2 million maturing in 2025.

Table 7. Bolivia: Monetary Survey, 2021–29

	2021	2022	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
	(Bs million, unless otherwise indicated)								
Central Bank									
Net international reserves	32,609	26,042	11,721	10,658	10,667	10,673	10,677	10,683	10,672
Net international reserves (US$ million)	4,754	3,796	1,709	1,554	1,555	1,556	1,556	1,557	1,556
Net domestic assets	70,023	78,998	94,154	97,086	99,288	101,221	103,233	105,275	107,369
Net credit to the nonfinancial public sector	59,542	68,332	77,168	77,168	77,168	77,168	77,168	77,168	77,168
Net credit to financial intermediaries	23,521	24,818	31,214	34,218	36,493	38,706	41,207	43,249	45,342
Other items net	-13,041	-14,152	-14,229	-14,301	-14,373	-14,653	-15,142	-15,142	-15,142
Net medium and long-term foreign assets	-546	-354	-354	-354	-354	-354	-354	-354	-354
Base money	102,086	104,686	105,521	107,390	109,602	111,541	113,556	115,605	117,687
Base money (percentage change)	9.0	2.5	0.8	1.8	2.1	1.8	1.8	2	2
Currency in circulation	56,119	56,714	57,166	58,179	59,377	60,427	61,519	62,629	63,757
Bank reserves	45,967	47,972	48,355	49,211	50,225	51,113	52,037	52,976	53,930
o/w legal reserves	20,049	19,648	19,805	20,155	20,571	20,935	21,313	21,697	22,088
Financial System 1/									
Net short-term foreign assets	41,857	33,849	20,850	21,189	22,692	24,284	25,971	27,765	29,652
Net short-term foreign assets (US$ million)	6,102	4,934	3,039	3,089	3,308	3,540	3,786	4,047	4,322
Net domestic assets	223,103	227,775	246,753	258,095	271,352	284,339	297,986	312,191	326,999
Net credit to the public sector	60,750	70,108	78,945	78,945	78,945	78,945	78,945	78,945	78,945
Credit to the private sector	212,177	225,592	224,751	231,429	241,446	253,742	269,458	286,139	303,844
Credit to the private sector (percentage change	4.6	6.3	-0.4	3.0	4.3	5.1	6.2	6	6
Other items net	-49,824	-67,925	-56,943	-52,278	-49,039	-48,347	-50,417	-52,893	-55,789
Net medium and long-term foreign liabilities	3,064	2,529	3,577	4,626	5,675	6,723	7,772	8,821	9,869
Broad money	261,895	259,095	264,025	274,658	288,369	301,900	316,185	331,135	346,782
Liabilities in domestic currency	253,671	250,500	255,219	265,399	278,512	291,436	299,550	307,606	315,570
Foreign currency deposits	8,224	8,594	8,805	9,259	9,857	10,464	16,634	23,529	31,212
	(Changes in percent of broad money at the beginning of the period)								
Net short-term foreign assets	-1.5	-3.1	-5.0	0.1	0.5	0.6	0.6	0.6	1
Net domestic assets	7.7	1.8	7.3	4.3	4.8	4.5	4.5	4.5	4
Net credit to the public sector	5.1	3.6	3.4	0.0	0.0	0.0	0.0	0.0	0
Credit to the private sector	3.8	5.1	-0.3	2.5	3.6	4.3	5.2	5.3	5
Other items net	-1.1	-6.9	4.2	1.8	1.2	0.2	-0.7	-0.8	-1
Net medium and long-term foreign liabilities	0.1	-0.2	0.4	0.4	0.4	0.4	0.3	0.3	0
Broad money	6.0	-1.1	1.9	4.0	5.0	4.7	4.7	4.7	5
Liabilities in domestic currency	5.0	-1.2	1.8	3.9	4.8	4.5	2.7	2.5	2
Foreign currency deposits	1.0	0.1	0.1	0.2	0.2	0.2	2.0	2.2	2

Sources: Central Bank of Bolivia, and Fund staff calculations.

1/ The financial system comprises the central bank, commercial banks and nonbanks, and the Banco de Desarrollo Productivo (BDP), which is a state-owned second-tier bank.

Table 8. Bolivia: Financial Sector Indicators, 2017–23

(Percent)

	2017	2018	2019	2020	2021	2022	2023Q1	2023Q2
Capital Adequacy								
Regulatory capital to risk-weighted assets	**12.8**	**12.8**	**13.0**	**13.1**	**12.9**	**12.8**	**13.0**	**13.7**
Regulatory Tier 1 capital to risk-weighted assets	10.4	10.3	10.6	10.9	11.0	10.9	11.2	11.8
Tier 1 Capital to assets	6.6	6.7	6.9	6.8	6.7	6.8	7.1	7.1
Nonperforming loans net of provisions to capital	0.0	0.8	1.4	-2.4	-1.4	2.1	4.2	4.8
Large Exposures to Capital	11.0	8.4	14.4	9.3	14.3	10.9	4.9	2.9
Asset Quality								
Nonperforming loans to total gross loans	1.7	1.7	1.9	1.5	1.5	2.1	2.5	2.7
Provisions to Nonperforming loans 1/	99.9	94.6	91.3	119.7	111.2	88.1	79.4	78.4
Earnings and Profitability								
Return on Assets	**1.6**	**1.3**	**1.5**	**0.9**	**1.0**	**1.1**	**0.7**	**0.8**
Return on Equity	12.9	10.9	11.8	4.8	7.1	8.2	5.5	6.5
Interest margin to gross income	68.5	71.2	70.9	73.3	70.7	71.4	68.4	64.6
Liquidity								
Liquid assets to short-term liabilities	56.7	50.4	42.8	44.8	46.0	43.6	38.9	46.2
Liquid assets to total assets	25.2	22.3	16.9	17.6	18.4	17.2	14.5	17.5
FX Risks								
Net open position in foreign exchange to capital	-3.0	-8.5	-4.6	4.9	7.5	7.0	7.8	13.4
Foreign Currency Loans to Total Loans	2.1	1.5	1.2	1.1	0.9	0.8	0.8	0.8
Foreign Currency Liabilities to Total Liabilities	14.1	12.4	12.9	12.5	12.7	12.0	12.0	10.2

Sources: Central Bank of Bolivia and Fund staff calculations.

1/ Includes specific provisions only.

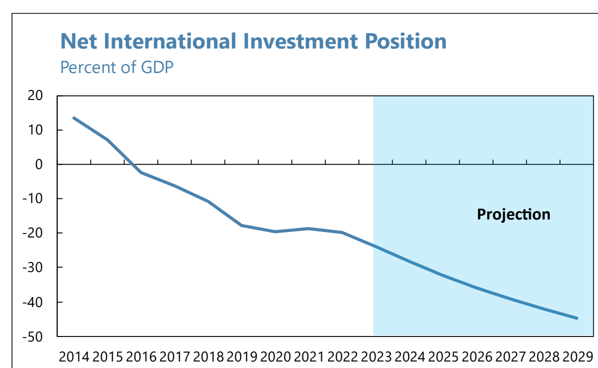
Annex I. External Sector Assessment

Overall Assessment: *The external position of Bolivia in 2023 was substantially weaker than the level implied by fundamentals and desirable policies.* Bolivia has run persistent current account deficits and experienced a substantial real exchange rate appreciation since 2015. These external imbalances have matched a deteriorating fiscal position in the context of an overvalued Bolivian peso that follows a de facto stabilized exchange rate regime. At end 2023, gross international reserves stood at US$1.8 billion, which is 1.3 months of projected 2023 imports, or 20.8 percent of the Fund's 2023 reserve adequacy metric.

Potential Policy Responses: There should be a commitment to implementing structural reforms to reduce the fiscal deficit, while protecting the most vulnerable. If it opts to preserve the stabilized exchange rate, Bolivia will need to rely on significant internal adjustments to public and private demand. Alternatively, a more flexible exchange rate regime, which would include an initial step devaluation, would foster trade rebalancing and cushion the economy against external shocks. Fiscal consolidation should rationalize spending and mobilize non-hydrocarbon revenues. Bolivia should also pursue measures to reinvigorate private investment and to improve productivity and competitiveness.

Foreign Assets and Liabilities: Position and Trajectory

Background. Bolivia has been a net debtor since 2016Q4. The net international position (NIIP) has weakened from a net surplus of US$4.5 billion (13.6 percent of GDP) in 2014 to a net deficit of US$11.1 billion (23.9 percent of GDP) at end-2023. The decline in net foreign assets reflects persistent current account deficits, coinciding with the commodity boom-bust cycle (2012–2017) and the accompanying fiscal expansion. Over half of foreign liabilities are in the form of loans and debt instruments, with the remaining share in equity, primarily as direct investment.



Assessment. Over the medium term the NIIP is expected to continue to deteriorate by 3 to 4 percent of GDP per year, owing to sustained current account deficits. To maintain the NIIP at the 2023 level of -23.9 percent of GDP would require a current account balance of about – 1.4 percent of GDP over the coming years. Although Bolivia's current short-term gross external financing needs are limited, as much of its external debt is long-term, with relatively favorable financing terms, the NIIP is expected to fall further posing a risk that future foreign financing may be done through riskier instruments.

2023 (% GDP)	NIIP: -23.9	Gross Assets: 31.9	Debt Assets: 5.7	Gross Liab.: 55.9	Debt Liab.: 33.6

Current Account

Background. The current account in Bolivia follows commodity price swings and, relatedly, fiscal policy. With the collapse in commodity prices in 2015 and associated increase in the budget deficit, the current account swung sharply into deficit, after a 10-year period of recurring surpluses. Due to increased domestic demand, and adverse trends in natural gas production, Bolivia turned into a net importer of fuels in 2022 for the first time in decades. In the first three quarters of 2023, the current account deficit reached US$457 million (1.0 percent of GDP), compared to a US$0.8 billion surplus in the same period of 2022. Further, net errors and omissions, which are likely to represent unreported imports and capital outflows, reached -3.7 percent of GDP in the same period.

Assessment. The estimated cyclically adjusted CA balance stood at -5.2 percent of GDP in 2023. The EBA-lite CA regression estimates a norm of –0.7 percent of GDP, thus implying a CA gap of -4.5 percent of GDP. Although the relative policy gap is small overall, the overly expansionary domestic fiscal position and inadequate reserve accumulation led to an estimated 4.5 percent of GDP deterioration of the 2023 CA relative to its norm, while foreign policy gaps overall worked in the opposite direction. Net errors and omissions, which have averaged -3.1 percent of GDP over the last five years, and are estimated to reach -3.2 percent in 2023, form a sizable portion of the current account. The external position is assessed to be substantially weaker than the level implied by medium-term fundamentals and desired policies. This assessment also corresponds to the weak fundamentals such as the inadequate level of reserves and the loss of market share in non-energy exports.

Bolivia: EBA-lite Model Results, 2023

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Estimated	**-5.0**	
Cyclical contributions (from model) (-)	0.1	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-5.2**	
CA Norm (from model) 2/	**-0.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-0.7**	
CA Gap	**-4.5**	**-2.2**
o/w Relative policy gap	-0.9	
Elasticity	-0.2	
REER Gap (in percent)	**23.1**	**11.6**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. CPI-based real effective exchange rate (REER) has been on an appreciating trend since end-2017. As of end-2023, the REER has appreciated by 45 percent since the boliviano was pegged to the U.S. dollar in 2011. From 2022 to 2023 the REER softened slightly, by around 2 percent, owing to subdued domestic inflationary pressures compared to Bolivia's main trading partners and falling commodity export prices (notably natural gas and soy).

Assessment. The CA gap and REER gap imply a REER overvaluation of 23.1 percent and 11.6 percent (applying an estimated elasticity of 0.20), respectively. To realign the exchange rate with fundamentals, policies should focus on fiscal consolidation, improving productivity and competitiveness.

Capital and Financial Accounts: Flows and Policy Measures

Background. The net FDI inflow is projected at 0.6 percent of GDP compared to a three-year average of 0.3 percent of GDP net outflow from 2020–2022. Restrictive capital flow measures, such as limits on foreign asset holdings and a tax on domestic dollar deposits have been employed. The World Bank, IDB and CAF disbursed net external funding totaling roughly $700 million in 2023. However, due to disagreement in congress future disbursements may be stalled.

Assessment. The current account deficit has been mainly financed by running down international reserves. Declining reserves, and continued fiscal and current account deficits, together with the tight global financial conditions, are expected to raise the cost of external funding, limiting prospects for further external sovereign bond issuance. Further, external financing costs continue to rise as Bolivia's EMBIG spread surpassed 2000 in November owing to economic and political turmoil. To support sustainable and durable growth, the authorities need to put in place policies that revitalize muted FDI inflows. Bolivia's substantial lithium resources could provide sizable FDI inflows if regulatory complexities and technological constraints can be overcome.

FX Intervention and Reserves Level

Background. Bolivia has a stabilized exchange rate regime, with the boliviano pegged at a rate of 6.9 to the U.S. dollar. Net international reserves fell from US$6.5 billion at end-2019 to US$1.7 billion at end-2023. Bolivian commercial banks have swapped over US$3 billion to the BCB over the past few years under a program known as CPVIS, which supported gross international reserves. However, international reserves have continued to be exhausted, causing the government to enact a 'gold law' in May 2023 to strengthen the country's foreign reserves. Deposit withdrawals experienced in March/April 2023 added to the high liquidity risk, forcing banks to ration FX. The central bank is, though, providing around US$10 million (down from US$20 million) per week to banks to meet private FX demand. During the first half of 2023 the central bank sold US$141 million to the public and US$1.1 billion to financial intermediation entities.

Assessment. Reserves are not adequate according to standard Fund metrics. The latest data at end-2023 show that gross reserves stand at 1.3 months of projected 2023 imports or 21 percent of the ARA. Reserves have diminished from over 50 percent of GDP to about 4 percent of GDP in the last decade and are projected to continue falling (as a share of GDP and in terms of the ARA metric). To preserve the stabilized exchange rate, there is a need to accumulate reserves and correct internal imbalances including through fiscal consolidation and supply side reforms.

Annex II. Sovereign Risk and Debt Sustainability Analysis

Bolivia's overall risk of sovereign stress is high. Under the baseline scenario, debt-to-GDP is projected to increase significantly (by about 16 percentage points) over the next 10 years, to 99 percent of GDP in 2032, partly driven by a large and persistent primary fiscal deficit. Despite a slight improvement in 2022, the debt trajectory remains concerning and is similar to staff's forecast in the 2022 Debt Sustainability Analysis. The debt profile itself is favorable until 2026, thanks to a modest share of FX-denominated debt, most of which held by multilateral lenders and at favorable terms. Thus, medium-term liquidity risks as analyzed by the GFN module are low. However, uncertain access to foreign financing in a context of persistent deficits and low international reserves elevates foreign debt servicing risks. A robust fiscal adjustment and realignment of the real effective exchange rate are imperative to safeguard debt sustainability.

1. The new template to analyze sovereign risk and debt sustainability framework (SRDSF) covers the non-financial public sector (NFPS) fiscal perimeter. This is derived by adding central government debt (as published by the BCB) to lending by the BCB to state owned enterprises (SOEs), the National Fund for Regional Development (FNDR), and the Fund for the Productive Industrial Revolution (FINPRO).

2. Debt developments. At end-2022, Bolivia's nonfinancial public sector (NFPS) gross debt amounted to 80.4 percent of GDP, 1 percentage point lower than in 2021 but more than 20 percentage points above its pre-pandemic level. A primary deficit of 5.5 percent of GDP and a somewhat favorable interest—growth differential (driven by a 5.2 percent increase in the GDP deflator) were the main drivers of gross debt changes. A liability management operation in February 2022 reduced the amount of principal outstanding for the 2013 Eurobond to USD183 million from USD500 million and supported further decline in gross debt. The debt-to-GDP ratio is estimated to have increased in 2023, as the government continued to run large deficits and automatic debt dynamics was less favorable with the decline in growth. Gross financing needs were mostly met by domestic bond issuances to the (recently nationalized) pension fund and central bank financing.

Table 1. Bolivia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**High**	Bolivia's overall risk of sovereign debt stress is high, reflecting elevated levels of vulnerability in the near, medium- and long-term horizons and despite low mechanical signal predicated on the projected primary balance path.
Near term 1/	...	...	...
Medium term	**High**	**High**	Medium-term risks are assessed as high under staff's baseline, despite the significant share of central bank holdings of central government securities that mitigate refinancing risks. In addition, external debt is mostly held by multilaterals, most debt is long-term, and average interest rates are low.
Fanchart	**High**		
GFN	**Low**		
Stress test	Comm. Prices Nat. Diast.		
Long term	...	**High**	Long-term risks are high arising from the expected need to refinance debt in the long-term and assumed persistence of elevated deficits, which will cause the debt-to-GDP to stabilize at very high-levels. While Bolivia has a relatively young population, longer term increases in aging-related expenditures on health and social security should be addressed through pension fund reforms and enhanced targeting of social safety nets. Upon delivery of the multi-year reform agenda, long run debt repayment capacity and overall fiscal position could be supported by revenue yields from ongoing investments in extractive industries, notably in the lithium sector.
Debt stabilization in the baseline			No

DSA Summary Assessment

Bolivia's overall risk of sovereign stress is high. Under the baseline scenario, debt-to-GDP is projected to increase significantly (by about 16 percentage points) over the next 10 years, to 99 percent of GDP in 2032, partly driven by a large and persistent primary fiscal deficit. Despite a slight improvement in 2022, the debt trajectory remains concerning and is similar to staff's forecast in the 2022 Debt Sustainability Analysis. The debt profile itself is favorable until 2026, thanks to a modest share of FX-denominated debt, most of which held by multilateral lenders and at favorable terms. Thus, medium-term liquidity risks as analyzed by the GFN module are low. Uncertain access to foreign financing in a context of persistent deficits and low international reserves elevates foreign debt servicing risks. A robust fiscal adjustment and realignment of the real effective exchange rate are imperative to safeguard debt sustainability.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Bolivia: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
		chosen		

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	Not applicable
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	Yes	
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	Yes	
CPS	8	Other public financial corporations	Yes	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

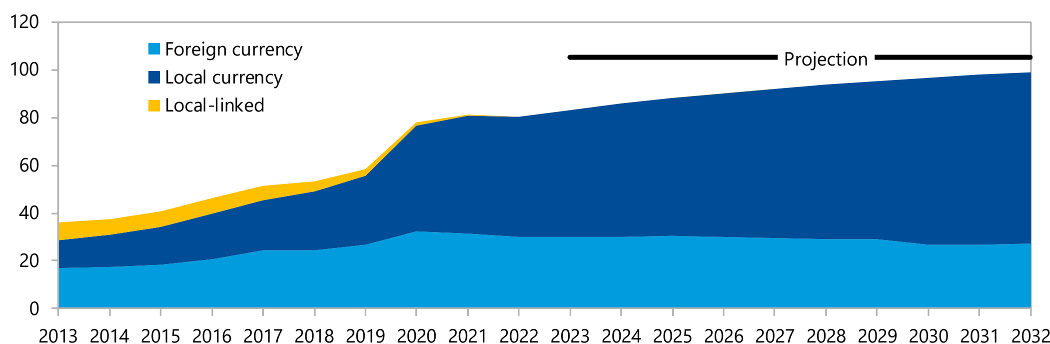
Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The debt coverage in this SRDSA comprises the non-financial public sector (NFPS), which is derived by adding central government debt (as published by the BCB) to the lending by the BCB to state owned enterprises (SOEs), the National Fund for Regional Development (FNDR), Fund for the Productive Industrial Revolution (FINPRO).

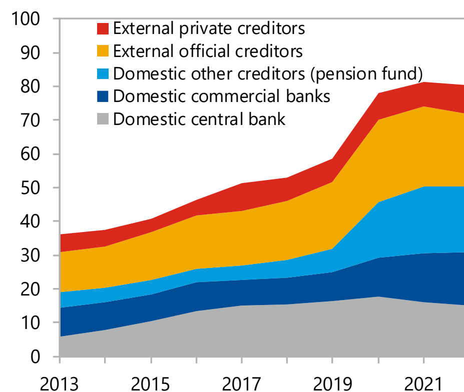
Table 3. Bolivia: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



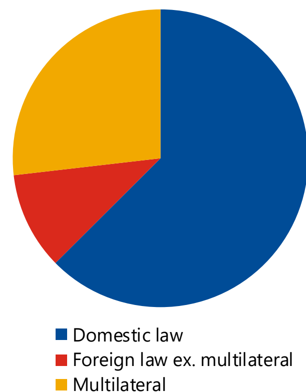
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



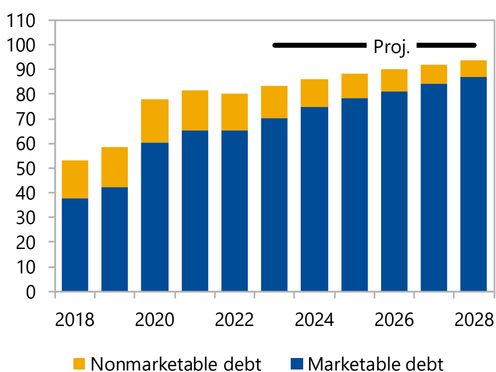
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2022 (percent)



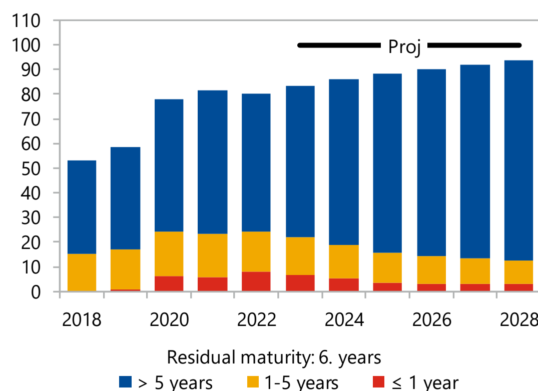
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)



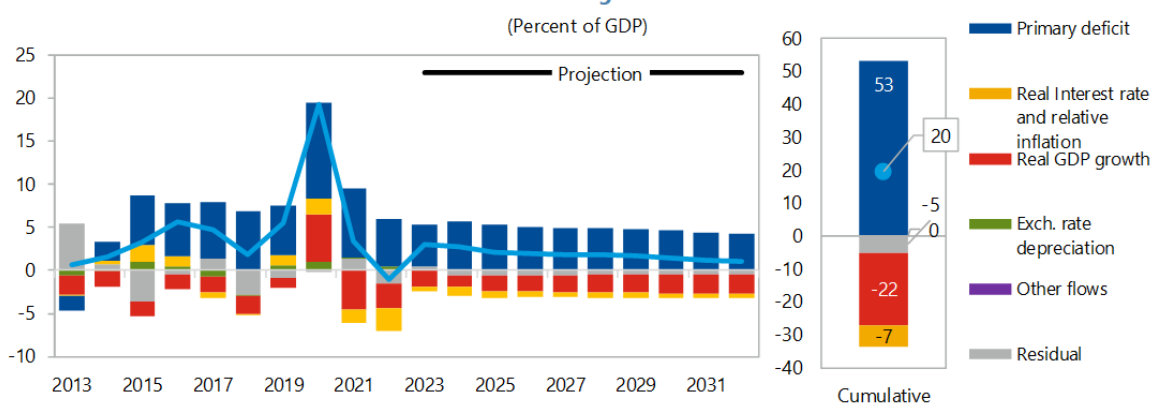
Note: The perimeter shown is nonfinancial public sector.

In August 2023, Bolivia repaid the remaining USD189 million due on the 2013 bond, following the liability management operation in February 2022 which reduced the amount of principal outstanding to USD183 million from USD500 million. Remaining outstanding external bonds total just USD1.85 billion (about 4 percent of 2022 GDP) and entail interest payments of USD110 million in 2024-2025, before principal amortization resumes in 2026, when Bolivia would need to make the first of three equal instalments of its USD1 billion bond maturing 2028. Most remaining external debt consists of multilateral and bilateral loans on concessional terms.

Table 4. Bolivia: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	80.4	83.3	86.1	88.2	90.2	91.9	93.7	95.4	96.8	98.0	99.1
Change in public debt	-1.1	3.0	2.8	2.1	2.0	1.8	1.8	1.7	1.4	1.2	1.1
Contribution of identified flows	0.5	2.5	3.4	2.7	2.5	2.3	2.3	2.2	1.9	1.7	1.5
Primary deficit	5.5	4.9	5.7	5.3	5.1	4.9	5.0	4.8	4.6	4.4	4.3
Noninterest revenues	28.9	28.3	27.6	27.4	27.1	27.0	26.8	26.7	26.9	26.7	26.7
Noninterest expenditures	34.4	33.2	33.3	32.7	32.2	31.9	31.7	31.5	31.5	31.1	30.9
Automatic debt dynamics	-5.0	-2.4	-2.3	-2.6	-2.5	-2.6	-2.7	-2.6	-2.7	-2.7	-2.7
Real interest rate and relative inflatio	-2.7	-0.4	-1.0	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5
Real interest rate	-2.2	0.0	-1.6	-1.4	-1.2	-1.1	-1.1	-1.1	-1.0	-1.0	-1.0
Relative inflation	-0.5	-0.4	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Real growth rate	-2.8	-2.0	-1.3	-1.9	-1.9	-2.0	-2.1	-2.1	-2.1	-2.2	-2.2
Real exchange rate	0.5	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-1.5	0.4	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Gross financing needs	19.9	13.8	14.0	12.0	10.0	9.7	9.6	9.4	9.2	9.0	8.5
of which: debt service	14.4	8.9	8.3	6.7	4.9	4.8	4.6	4.6	4.6	4.6	4.3
Local currency	10.3	6.4	6.1	4.5	2.3	2.2	2.2	2.2	2.3	2.4	2.2
Foreign currency	4.1	2.5	2.2	2.2	2.7	2.5	2.4	2.3	2.3	2.2	2.1
Memo:											
Real GDP growth (percent)	3.6	2.5	1.6	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Inflation (GDP deflator; percent)	5.1	2.3	4.5	4.2	3.9	3.8	3.8	3.8	3.8	3.8	3.8
Nominal GDP growth (percent)	8.9	4.9	6.2	6.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Effective interest rate (percent)	2.2	2.3	2.4	2.5	2.4	2.5	2.5	2.6	2.6	2.7	2.7

Contribution to Change in Public Debt



The country's persistent twin deficits threaten the sustainability of the exchange rate peg, raising the specter of a disruptive correction with cascading negative effects on growth. The baseline outlook assumes a continuation of the current policy mix, even though that policy path is not sustainable and will require large (currently unidentified) additional external financing flows (around US$1.5 billion, 2–3 percent of GDP) per year to maintain. In the absence of new external financing sources and correction of the exchange rate misalignment, staff projects the need for an upfront fiscal adjustment of roughly 3 percent of GDP in 2024 relative to the baseline outlook to avert reserve depletion and guide public debt onto a sustainable path.

Table 5. Bolivia: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

5-25 pct
25-50 pct
50-75 pct
75-95 pct
Actual
Baseline

Debt fanchart module

Fanchart width *(percent of GDP)*	90.9	1.3
Probability of debt non-stabilizaiton *(percent)*	98.8	0.8
Terminal debt-to-GDP x institutions index	79.1	1.7
Debt fanchart index (DFI)		3.9
Risk signal: 3/		High

Gross Financing Needs (Percent of GDP)

Financing provided by banks
Actual
Baseline
Stress scenario

Gross financing needs (GFN) module

Average baseline GFN *(percent of GDP)*	11.5	3.9
Initial Banks' claims on the gen. govt *(pct bank assets)*	1.1	0.3
Chg. In banks' claims in stress *(pct banks' assets)*	8.2	2.7
GFN financeability index (GFI)		7.0
Risk signal: 4/		Low

Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)

Medium-term index
Low risk

Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	3.9	0.9	0.5	0.4
GFN finaceability index	7.0	0.1	0.5	0.1
Medium-term index		0.5		
Risk signal: 5/		High		
Final assessment:		High		

Prob. of missed crisis, 2023-2028, if stress not predicted: 72.7 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 3.4 pct.

Bolivia's medium-term risk analysis points to high risks overall. The debt fanchart module flags a high level of risk. Conversely, the GFN financing needs module, focused on external financing requirements, suggests a lower level of risk and supports a view that medium-term risks may be more contained given negligible refinancing risks for central bank held securities and Bolivia's significant reliance on commodities, with nearly two-thirds of total exports originating from this sector. However, it is predicated on continued access to external financing, which is subject to large uncertainty. Direct banking sector exposure to public debt is low but the nationalized pension fund is a large creditor of the government.

Source: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Table 6. Bolivia: Realism of Baseline Assumptions

Forecast Track Record 1/

	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			
	real-time	**t+3**	**t+5**

Historical Output Gap Revisions 2/

Comparator Group:

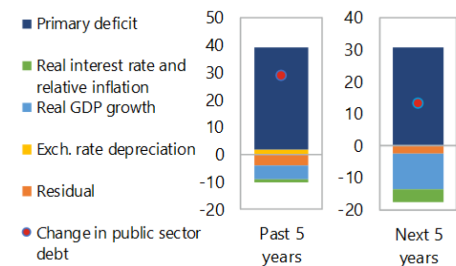
Emerging Markets, Non-Commodity Exporter, Surveillance

Color Code:

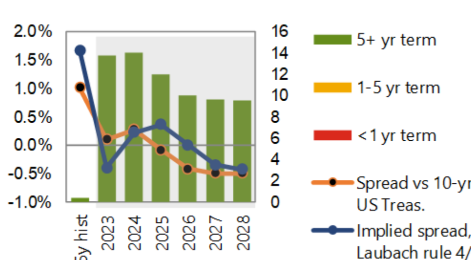
Optimistic: > 75th percentile; 50-75th percentile

Pessimistic: 25-50th percentile; < 25th percentile

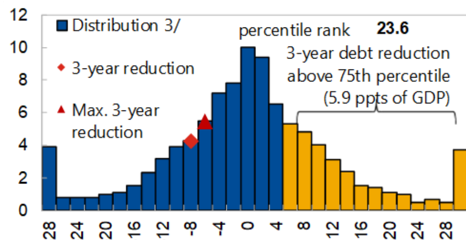
Public Debt Creating Flows
(Percent of GDP)



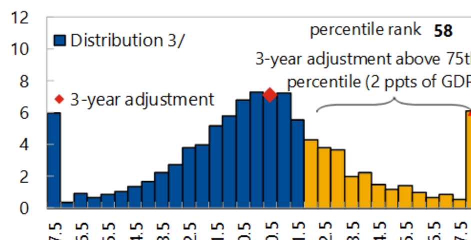
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



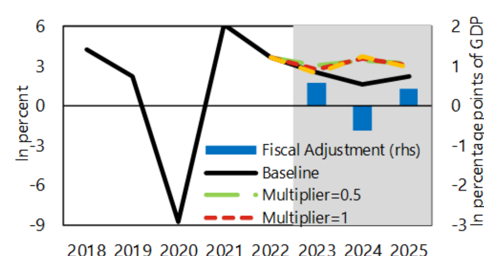
3-Year Debt Reduction
(Percent of GDP)



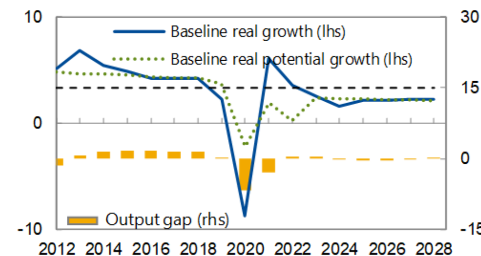
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(Percent)



Notwithstanding some signals of optimism from certain realism tools, Bolivia's substantial macro-vulnerabilities, accumulated over a protracted period of unsustainable policies, complicate the use of cross-country and historical comparisons for risk assessment. The track record of forecast accuracy, particularly regarding the public debt-to-GDP ratio and the primary deficit, exhibits a persistent pattern of misses. The fiscal multiplier analysis suggests a higher impact than the baseline growth projection. However, the current growth forecast aligns with the country's real potential growth. The recent growth slowdown can be attributed to a confluence of factors, including deepening macroeconomic imbalances, declining natural gas production, delays in the execution of public investment projects, turbulence in local financial markets, and the adverse impact of the La Niña phenomenon.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

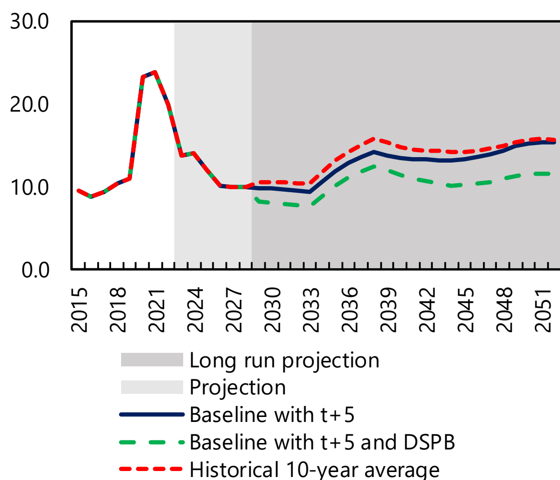
Table 7. Bolivia: Triggered Modules

Large amortizations	Pensions	**Climate change: Adaptation**	**Natural Resources**
	Health	Climate change: Mitigation	

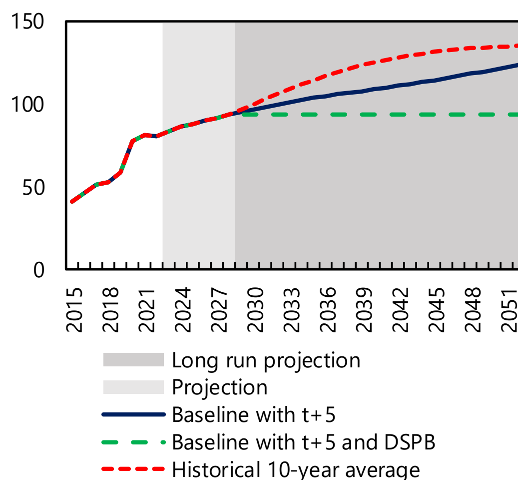
Bolivia: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



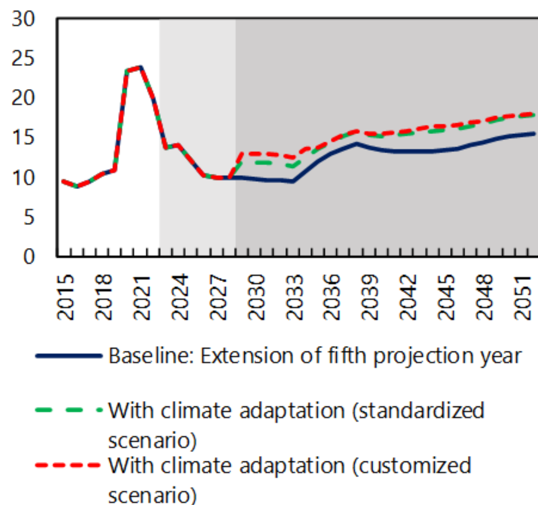
Total Public Debt-to-GDP Ratio



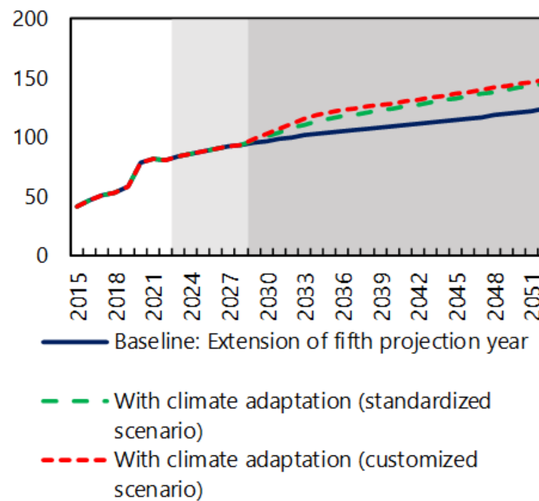
The large debt amortizations module shows gradual increase in GFN and debt relative to GDP under the baseline and custom scenarios.

Table 8. Bolivia: Climate Change: Adaptation

GFN-to-GDP Ratio



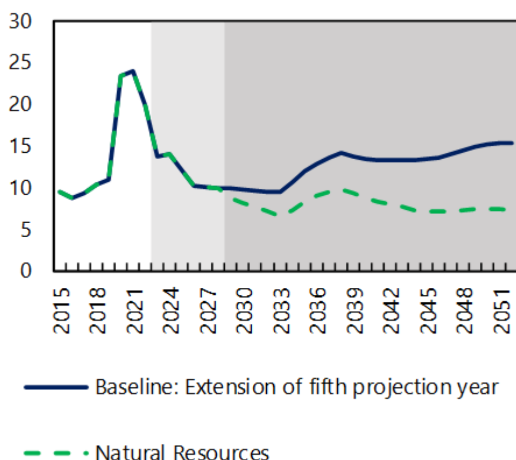
Total Public Debt-to-GDP Ratio



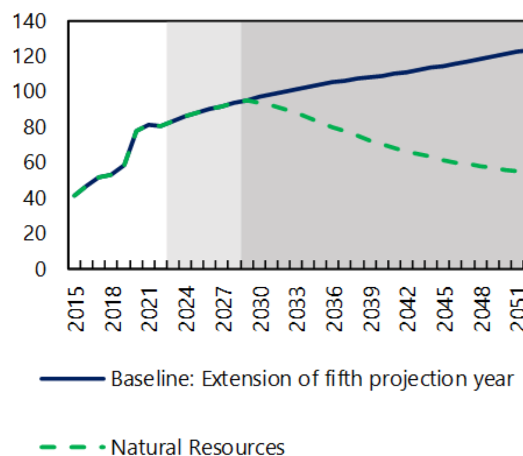
Adaptation and mitigation costs would rise the debt burden significantly in the long-term, posing additional sustainability risks. An increase in carbon pricing in line with past IMF advice could help compensate the fiscal impact of such costs.

Table 9. Bolivia: Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Since 2014, the dollar value of natural gas exports witnessed a nearly 70 percent decline, a consequence of both lower global prices and waning domestic production, following years of underinvestment. In addition to adverse trends in natural gas production, domestic natural gas demand has increased, rendering Bolivia a net importer of fuels in 2022 for the first time in decades. Over the long run, gradual exhaustion of Bolivia's natural gas reserves over the medium term is offset by the positive price dynamics of natural gas commodity on international markets. In combination with investment expenditures in natural gas exploration and production, this results in lower GFN and debt paths compared to the baseline. Nevertheless, the developments in the natural resources sector are subject to substantial uncertainty over the medium to long run, including upside risks from extractive industries, most notably in the lithium sector.

Annex III. Risk Assessment Matrix[1]

Risk	Likelihood	Impact	Policy Response
Global Risks			
Intensification of regional conflict(s). Escalation of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts disrupt trade (e.g., energy, food, tourism, and/or critical supply chains), remittances, FDI and financial flows, payment systems, and lead to refugee flows and terrorism.	High	Medium	Strengthen international reserve buffers to mitigate the impact of adverse changes in global food and energy supply and potential spikes in inflation. Phase out energy subsidies and utilize the resulting fiscal space to safeguard social programs during fiscal consolidation, ensuring debt sustainability. Closely monitor financial risks, including potential risks to FDI.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	High	Eliminate energy subsidies while strengthening social safety nets to protect vulnerable populations. Accelerate transition to renewable energy.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	Medium	High	Tailor fiscal policy strategies to address growth challenges, considering Bolivia's cyclical position, and rebuild international reserve buffers to counter potential capital outflows. Preserve the financial sector's capital adequacy buffers to safeguard against the impact of global financial tightening, rising risk premiums, financial asset repricing, and subsequent asset quality deterioration.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks either keep policy stance tight for longer than expected or loosen it prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial and debt markets.	Medium	Medium	Calibrate monetary policy to address spillovers into Bolivia and anchor inflation expectations. Enhance fiscal and external buffers. Intensify the monitoring and supervision of financial institutions.
Systemic financial instability. Higher-for-longer interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	Medium	Intensify the monitoring and supervision of financial institutions and tighten regulations.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

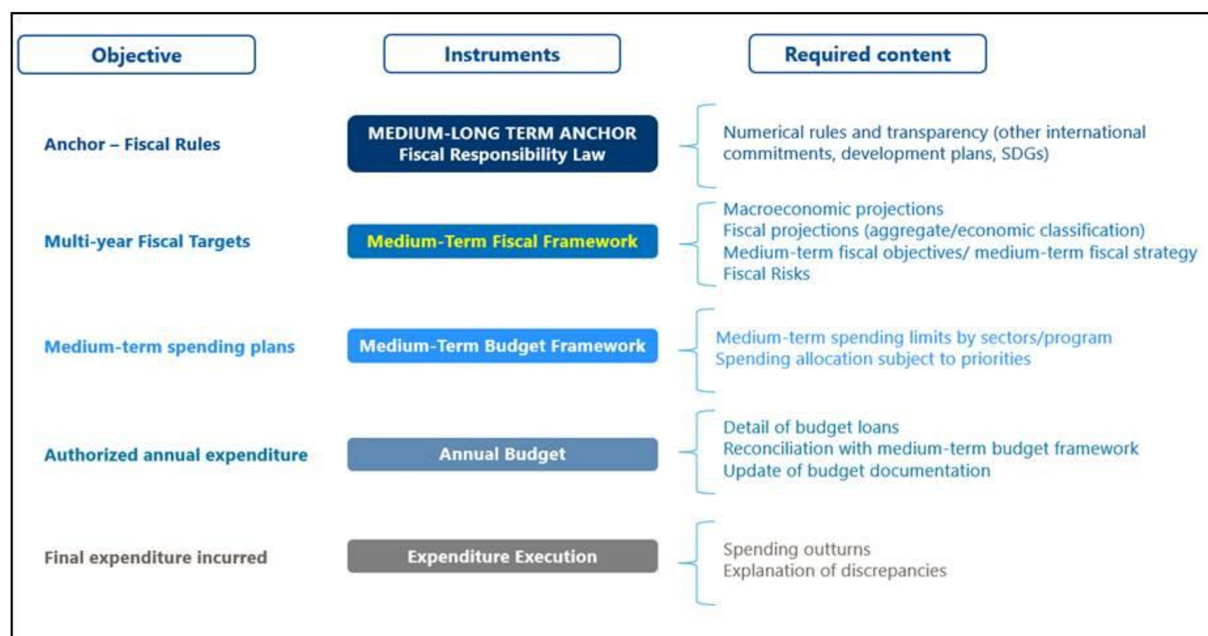
Risk	Likelihood	Impact	Policy Response
Global Risks			
Sovereign debt distress. Domino effects from higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	Medium	Medium	Strengthen fiscal buffers through mobilization of revenue and rationalization of spending. Intensify the monitoring and supervision of financial institutions and tighten regulations.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Medium	Low	Enhance digital security of payment and financial system, improve public awareness, and prepare a contingency plan.
Domestic Risks			
Rise in political risks, including widespread social unrest. Political tensions persist or intensify, impairing governability and generating policy paralysis, with significant negative effects on growth. Sudden rise in inflation and/or fuel rationing due to FX scarcity give ground to social unrest and political instability, disrupt domestic demand and supply, lead to a rise in unemployment and hurt disproportionately vulnerable groups.	Medium	High	Rebuild coalitions across party lines in the National Assembly and assess the macrocriticality of the ongoing reforms to elaborate strategies to get agreement in the approval process. Strengthen international reserves. Improve the targeting of social safety nets.
Inability to regain confidence in the current policy mix leads to lower external financing. Loss of confidence forces the government to abruptly cut capital spending and rely heavily on domestic financing sources, adding further pressure on international reserves, the parallel exchange rate, inflation, and potentially triggering capital outflows while increasing the sovereign-bank nexus and crowding out financing to the private economy.	High	High	Implement fiscal reforms and consider realigning the official exchange rate to strengthen reserve buffers and address underlying sources of macro-vulnerabilities, including persistent twin deficits and monetary financing.
Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. A decline in agricultural production could heighten food security risks, elevating the inflationary pressures and adversely impacting growth.	Medium	Medium	Maintain monetary policy stance that mitigates the impact of rise in food prices on domestic inflation. Use fiscal space to support growth, while prioritizing social spending towards vulnerable populations. Seek donor financing, strengthen financial resilience by reducing debt and better disaster risk layering, enhance post-disaster response, and accelerate shift to renewables.

Annex IV. Introducing Medium-Term Fiscal Framework in Bolivia

1. **Bolivia does not publish fiscal projections or a government fiscal strategy extending beyond one year.** The Fiscal-Financial Program (Programa Fiscal Financiero, PFF), published in March, only projects for the current year, while the Budget, presented in October, covers the following year. Internally, a Multi-Annual Budget is prepared but not published. In addition, the Economic and Social Development Plan (PDES) forecasts some aggregate macroeconomic and fiscal variables for five years.

2. **Preparing and publishing a medium-term fiscal framework (MTFF) would enhance Bolivia's fiscal policy credibility.** The MTFF would provide a clear roadmap for fiscal policy over the medium term, anchored on a sound macroeconomic scenario and consistent with long-term debt sustainability objectives. It would establish a process for extending the fiscal strategy to five years, with deficit objectives and a clear path to achieve them, consistent with a debt reduction that converges to a debt anchor. This anchor, a stock variable that is expected to be achieved in the medium term to guarantee fiscal sustainability, would serve as a guide to the fiscal forecasts for each period. The MTFF would also enhance the credibility of the fiscal strategy, improve fiscal discipline, and reinforce the credibility of the annual budget. It would serve as an overall ceiling for budget spending, providing a framework for sustainable public finances in Bolivia.

Figure 1. Fiscal Framework as a Top-Down Process

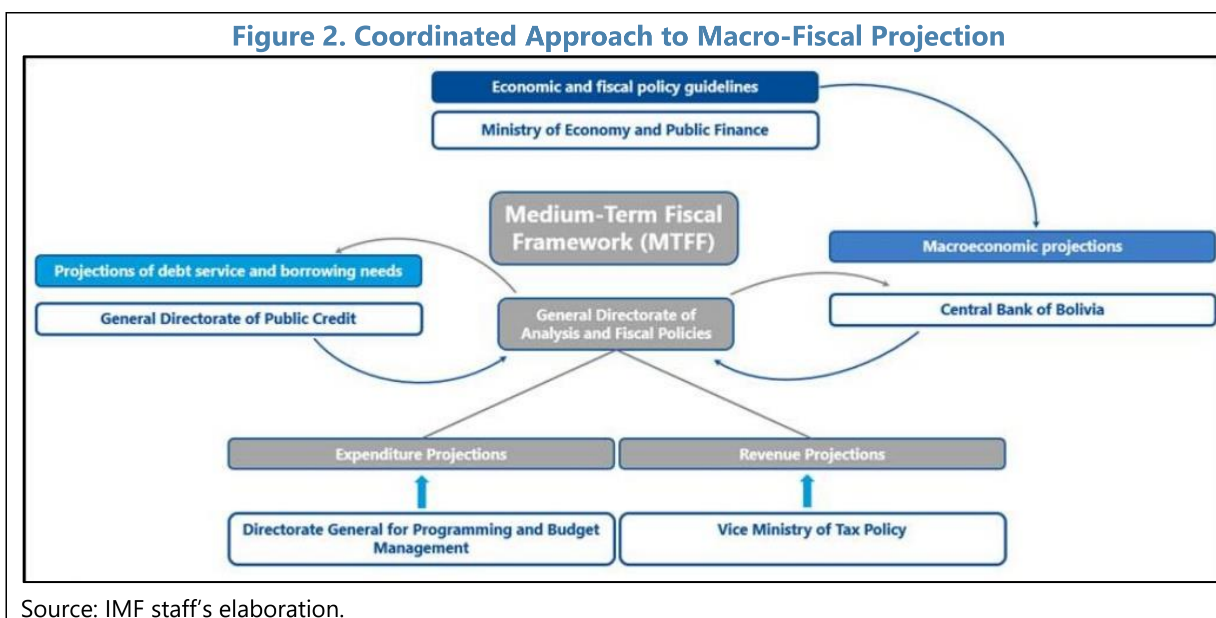


Source: IMF staff's elaboration

3. **MTFF reports serve as a crucial element of government communication.** The MTFF report would clearly articulate the government's medium-term fiscal strategy, including a five-year fiscal path commitment aligned with the PDES horizon and consistent with a medium-term sustainable debt level serving as a fiscal policy anchor. It would also incorporate a disaggregation of

annual fiscal variables with economic classification based on a medium-term macroeconomic scenario. The report would define the macroeconomic context, the fiscal scenario, and a risk analysis, including debt sustainability analysis.

Figure 2. Coordinated Approach to Macro-Fiscal Projection



Source: IMF staff's elaboration.

4. Implementation of an MTFF requires tight collaboration and synchronized efforts across government agencies. In Bolivia, the Macroeconomic Group could be tasked with defining the fiscal strategy and developing the projection path with 5-year deficit objectives. The General Directorate of Analysis and Fiscal Policies (DGAPF) could be entrusted, potentially through a legal mandate, with the responsibility of preparing the MTFF and overseeing an MTFF working group (WG) comprised of representatives from various departments responsible for expenses, income, and debt, and key public companies.[1] To ensure seamless information sharing with the DGAPF, each WG member should be assigned clearly defined tasks/contributions, deliverable within a pre-specified schedule.

5. A clear schedule for preparing and publishing the MTFF and PFF reports enhances predictability. MTFF reports should be finalized before budget preparation begins. In Bolivia, updates in April and October would be appropriate, to align with the budget cycle. Considering the current PFF publication timeline ending in March, the MTFF could be released around April, encompassing projections for the following year and four subsequent years. Releasing the MTFF in April also allows for the incorporation of year-end macroeconomic and fiscal data. An MTFF update could coincide with the annual budget release in October. Aggregate-level expenditure projections in the MTFF serve as a benchmark for annual budget expenditure ceilings.

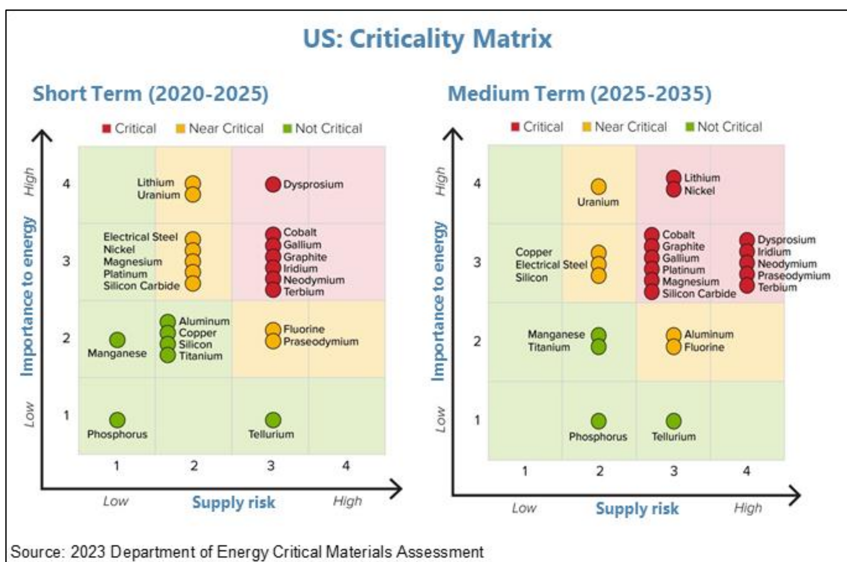
[1] The MTFF WG would include: DGAPF (General Directorate of Analysis and Fiscal Policies), DGAFT (General Directorate of Territorial Administration and Finance), DGPGP (General Directorate of Programming and Budget Management), DGCP (General Directorate of Public Credit); VPT (Vice Ministry of Tax Policy), BCB (Central Bank of Bolivia), and YPFB (Yacimientos Petrolíferos Fiscales Bolivianos).

6. Enhancing economic analysis and fiscal policy formulation entails a concerted, multi-pronged approach over the medium term. This includes strengthening in-house macroeconomic projection capacity within the MEFP, refining sectoral analysis by incorporating production and sales projections from YPFB and mining companies, implementing public debt projection tools, expanding fiscal analysis to include below-the-line items, enhancing risk monitoring, deepening fiscal policy analysis, and accounting for the impact of measures on the economy. These measures will collectively strengthen economic analysis and inform effective fiscal policy decisions.

Annex V. Creating an Enabling Environment for the Development of Lithium Resources

The Potential

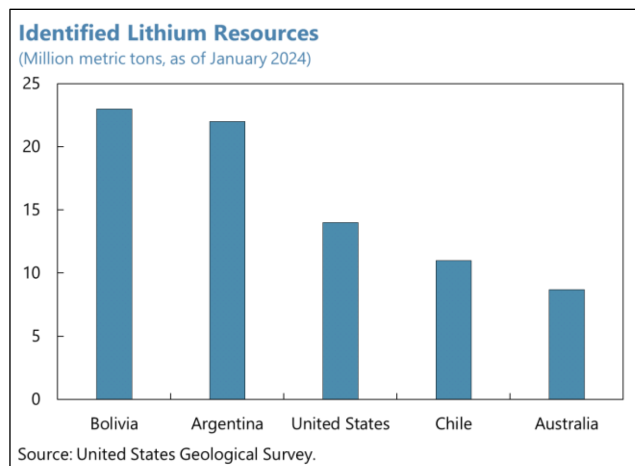
1. World lithium demand is expected to increase tenfold by the end of the decade. The 2020 US Energy Act defined lithium as a "critical mineral".[1] According to the 2023 US Department of Energy Critical Materials Assessment, lithium is one of the critical minerals with the highest importance to the energy sector and highest supply risk in the short and medium term. Global lithium consumption, as estimated by the United States Geological Survey (USGS), experienced a 41 percent surge, reaching 134,000 tons in 2022 from 95,000 tons in 2021.



US: Criticality Matrix

Source: 2023 Department of Energy Critical Materials Assessment

2. Bolivia has the world's largest identified lithium resources, representing about 22 percent of worldwide resources, which positions the county as a key potential supplier in world markets. Bolivia's resources are concentrated in salt flats (Uyuni, Coipasa, and Pastos Grandes) located in the southwest of the country. Salar de Uyuni is the world's largest salt lake and potentially the world's largest lithium source. However, there is uncertainty as to the magnitude of usable reserves, since only 2 million metric tons (out of 23 million metric tons potential) have been certified thus far.



Identified Lithium Resources

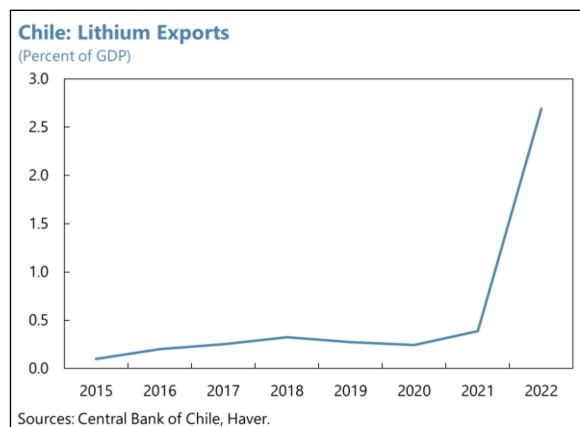
(Million metric tons, as of January 2024)

Source: United States Geological Survey.

3. Other lithium producers already receive sizable export proceeds. Chile, which has half of Bolivia's lithium resources, exported US$8 billion or 2.7 percent of GDP worth of lithium carbonates in 2022, while Australia and Argentina exported 0.5 and 0.1 percent of GDP of lithium, respectively.

[1] The US Secretary of Energy defines as critical mineral any non-fuel mineral that: (i) has a high risk of supply chain disruption; and (ii) serves an essential function in one or more energy technologies, including technologies that produce, transmit, store, and conserve energy.

Although Bolivia has lagged Chile and Argentina—its neighbors in the lithium triangle—in developing the industry, the country can draw useful lessons from their approach.



Sources: Central Bank of Chile, Haver.

Developing the Lithium Sector

4. Lithium development in Bolivia intensified in 2017. Although lithium production started in 2013 with the inauguration of the first pilot plant, investments took off in 2017 with the creation of the state-owned *Yacimientos de Litio Bolivianos* (YLB) with the mandate to explore lithium and other evaporite resources.[2] The following year, an industrial plant of potassium salts with a capacity of 350,000 tons per year was inaugurated. During 2021 and 2022 YLB inaugurated the *Centro de Investigacion en Ciencia y Tecnología* (CICYT, or Center for Research in Sciences and Technology) and started the construction of a plant for the water treatment. In 2023, a series of agreements with Chinese and Russian companies were signed for the utilization of extraction technologies, production, and commercialization of lithium carbonate.[3] These agreements foresee future investments of about US$ 2.5 billion that would enable the production of about 100,000 tons of lithium carbonate per year, once an initial pilot phase for the extraction technologies proposed by the consortiums is concluded satisfactorily. Also, in 2023 an Indian firm ALTMIN signed an agreement for the production with ALTMIN's proprietary technology in a pilot plant of active materials used in lithium batteries. The collaboration is expected to represent the incursion of Bolivia into the advancement of indigenous Li-Ion battery manufacturing, and will provide ALTMIN's lithium requirements for its operations in India. The first industrial plant of lithium carbonate (which construction started in 2018) entered in operation in end-2023, with a production goal of 15,000 tons per year.

5. YLB is currently extracting lithium using brine evaporation. The recently inaugurated lithium carbonate plant uses a traditional extraction technology based on brine evaporation, similar to what is done in Chile and Argentina. However, high levels of brine impurities and longer rainy seasons (that extend carbonate lithium extraction time by a factor of almost 10) render this extraction methodology is less attractive in Bolivia. Thus, the agreements signed in 2023 by YLB with Chinese and Russian companies contemplate the adaptation of direct extraction of lithium (EDL) technologies to the Bolivian context. While these technologies have been successful in laboratories, they have not been used yet at an industrial and commercial scale, raising some uncertainty regarding their applicability and consistency with Bolivia's environmental regulations. Should these

---

[2] Upon its creation (by Law No 928.), YLB was granted ownership of previously established pilot plants for production of carbonate of lithium, cathode materials, and ion batteries.

[3] YLB signed agreements with a Chinese consortium formed by CATL, Brunp, and CMOC, another Chinese company CITIC GUOAN, and the Russian company Uranium One.

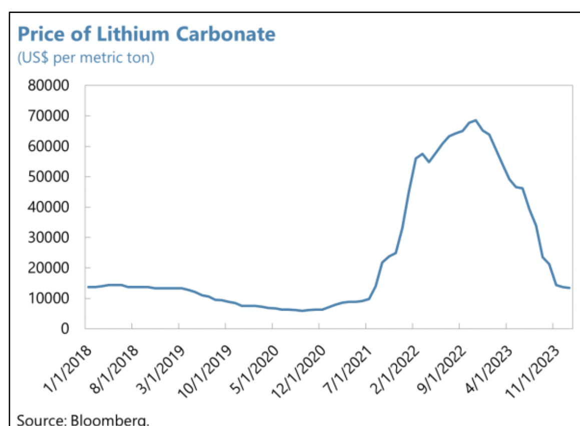
technologies prove successful, though, and any regulatory and environmental hurdles be cleared, the authorities estimate that they would enter in operation by end-2025.

Expected Level of Lithium Production and Exports

6. If agreements with foreign companies prove fruitful, according to the government estimates, Bolivia could extract over 100,000 tons of lithium per year in the medium term. Under such scenario, Bolivia's production and exports of lithium carbonate would start at 15,000 tons per year in 2024-25, potentially rising to 115,000 tons per year after 2026—equivalent to 88.5 and 68 percent of 2022 and 2023 estimated world production.

7. However, regulatory and technological constraints pose challenges to Bolivia optimizing its resource wealth. Lithium production currently lacks a specific regulatory framework and is thus subject to Bolivia's general mining code, which foresees an onerous government intake (see next section), reducing investment appeal. Additionally, there is uncertainty about the level of *certified* (i.e., usable) lithium reserves. The distribution of the accrued benefits across relevant stakeholders (including central and local governments) is yet to be defined in a sector-specific framework, as is the adoption of specific environmental regulation that can ensure sustainability and popular support. Plans to initiate production and exportation of electric batteries in 2025 also face multifaceted challenges as doing so requires developing adequate industrial infrastructure and qualified workforce.

8. Lithium prices are volatile and have decreased from their peak of about US$70,000 per metric ton. Volatility on international lithium carbonate prices can severely affect the profitability of exploiting this natural resource. Between December 2019 and December 2022, the global price of lithium increased by 764 percent, from US$7,550 to US$ 65,250, but since it has experienced a large reduction. In February 2024, this price stands at US$ 13,150 per ton; 80 percent below its November 2022 peak. The slowdown in prices has been the result of waning lithium demand in China and the increase in supply worldwide. China's supply of electrical vehicles (whose battery production requires lithium) increased only 30 percent in 2023, compared to 200 and 250 percent in 2022 and 2021, respectively. At the same time, worldwide lithium production in 2023 expanded by more than 20 percent.

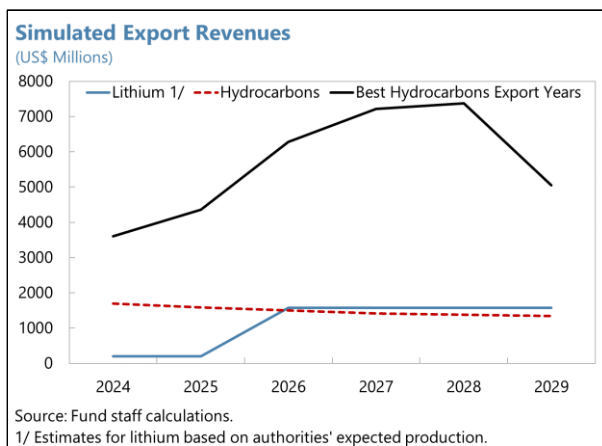


Source: Bloomberg.

9. In an illustrative scenario, consistent with the authorities' expected production capacity development, lithium export revenue could match that from hydrocarbon exports, but would fall short of the significant commodity-related inflows of the mid-2010s. Assuming that lithium prices stay at current levels, lithium export revenues could reach, in real terms, the level of current export revenues from hydrocarbons. However, such inflow would represent only ⅕ of hydrocarbon exports revenues reached during the peak period of production (2010-2015), in real

terms. Therefore, even though lithium represents an important opportunity for Bolivia, it is unlikely to generate similar external surpluses to those of natural gas in the past.

The Fiscal Regime for Lithium Production



Source: Fund staff calculations.
1/ Estimates for lithium based on authorities' expected production.

10. Bolivia's state-owned YLB is currently the sole stakeholder of Bolivia's lithium extraction.[4] Thus, the government appropriates both the revenues foreseen by the relevant tax regime and the exploration profits (as the owner of YLB). If other companies were permitted to operate, they would be subject to the same tax regime as for all mining concessionaires. The fiscal regime varies slightly by type of contract, but in general mining companies pay a rate of 25 percent corporate income tax plus a surcharge of 12.5 percent when the price of the extracted mineral is higher than a reference price.[5] Immediate depreciation of the CIT base of exploration expenditures and other capital expenditures is permitted in accordance with accounting standards as well as a five-year loss carryforward. The special tax on extraordinary profits is calculated by applying a rate of 25 percent to a modified measure of taxable profits. Finally, a royalty with a fixed rate of [3] percent is applied to the gross value of the extracted minerals.

11. Bolivia's government take is amongst the highest compared to other lithium rich resource countries. Although foreign investment in extractive sectors depends on a myriad of factors (financial, strategic, political, etc.), the effective tax rate is an important consideration. Bolivia's effective tax rate—considering the CIT, the surcharge and royalties— is one of the highest among lithium-rich countries.[6] However, international fiscal regimes for lithium extraction are diverse amongst countries. Generally, there is no specific tax regime for lithium, and instead the general mining tax regime is applied (with the notable exception of Chile). Further, it is typical that a standard corporate income tax is applied with ad-valorem royalties on production.[7] Moreover, the special tax on extraordinary profits that Bolivia applies acts to capture the economic rent (producer surplus) from lithium extraction. A more accommodative fiscal regime would apply a standard CIT rate, whilst limiting royalties on production and instead use a profit-based tax to absorb the producer surplus.

---

[4] The 2014 Mining Law and the 2017 Law for the Creation of Bolivian Lithium Deposits state that the extraction and industrialization process must be in the hands of the state.

[5] Since the exact level of the price threshold is not publicly known, for simplicity it was assumed that the additional rate is always applied.

[6] Bolivia's effective tax rate is estimated to be around 65 percent, similar to that in Chile and above Argentina's and Australia's.

[7] Royalties on production may dissuade investors as it is a further cost of extraction which is borne by the producer before profitability has been achieved.

Conclusion

12. Bolivia has a significant potential to benefit from its lithium resources. As the country with potentially the largest amount of lithium resources in the world, Bolivia, has the potential to benefit from the green transition—higher demand for electric vehicles is expected to raise the price of lithium but lithium alternatives bring uncertainty to future demand projections.

13. However, even if technological and regulatory obstacles are overcome, exploration of lithium is unlikely to fill future financing needs in the same measure as natural gas did in the past. Bolivia's current production of lithium is below its peers in the lithium triangle (Argentina and Chile) and extraction poses technological and regulatory difficulties. Should the later be successfully overcome, prospective export revenues from lithium assuming the authorities' current production projections will be significant but are not expected to outstrip current hydrocarbon export revenues, and are thus unlikely to exceed the revenue seen in the best years of hydrocarbon exports.

Reference

Boer, L., Pescatori, A., & Stuermer, M. (2023). Energy Transition Metals: Bottleneck for Net-Zero Emissions?. Journal of the European Economic Association, jvad039.

Annex VI. Implementing Energy Subsidy Reform in Bolivia

With annual cost of fuel subsidies averaging 2 percent of GDP since 2009, energy subsidy reform is key to rebalance Bolivia's significant fiscal and external accounts. Its design would need to safeguard the most vulnerable population by enhancing a robust social safety net that would help more efficiently mitigate the impact of higher fuel prices on the most vulnerable. In a context of higher-than-previously-anticipated oil prices, the authorities could also develop a more comprehensive reform plan, ultimately moving to an automatic pricing mechanism with price adjustment rules. Clearly communicating the benefits of a fuel subsidy reform to the public would help build public support.

1. Domestic fuel prices in Bolivia have been largely fixed since 2004. Supreme Decree No. 27691 of August 19, 2004, instituted the conditions for the commercialization of crude oil in the domestic market, establishing a stabilization mechanism for the reference crude oil price. This mechanism employs a reference price pegged to the 365-day average of West Texas Intermediate (WTI) crude minus $6.29 per barrel, coupled with a price band to provide further stability. This policy effectively insulated domestic derivative prices from international oil price fluctuations, keeping them largely fixed for the past two decades.[1]

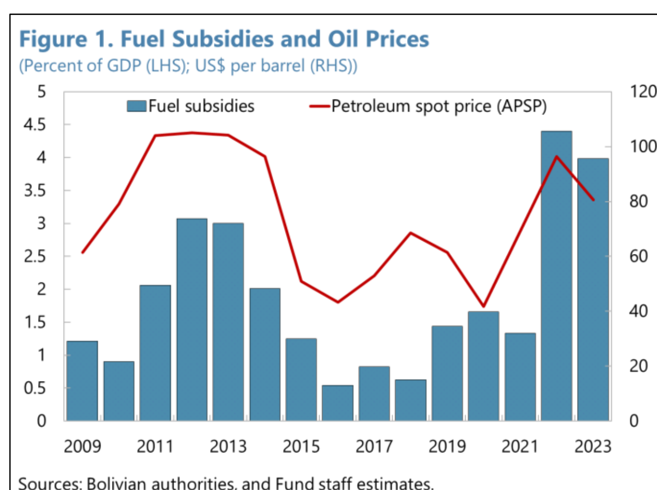


Figure 1. Fuel Subsidies and Oil Prices
(Percent of GDP (LHS); US$ per barrel (RHS))

Sources: Bolivian authorities, and Fund staff estimates.

2. Over the past two decades, the Bolivian government faced a significant subsidy bill. As market prices remained above regulated prices, subsidy bill peaked at 4.4 percent of GDP in 2022, before falling to 4.0 percent of GDP in 2023 (equivalent to nearly 60 percent of the fiscal deficit) when the Brent crude oil averaged $82.5 per barrel (Figure 1). Additional country-level impact can be quantified by considering both producer support and the gap between retail prices and an "efficient" price—one reflecting supply costs and all externalities. In 2023, Bolivia's kerosene subsidies carried the highest supply cost, diesel subsidies inflicted the most significant global warming impact, and gasoline subsidies imposed the heaviest blow to government finances, representing a missed opportunity to promote resource efficiency, environmental sustainability, and fiscal sustainability (Figure 2a). In addition to the direct budgetary cost, energy subsidies in Bolivia generate substantial negative externalities through air pollution, greenhouse gas emissions, and traffic congestion (Figure 2b).

[1] Vehicles with foreign license plates pay international prices, which are updated quarterly.

Figure 2a. Natural Gas and Coal Efficient Pricing
(US$/GJ)

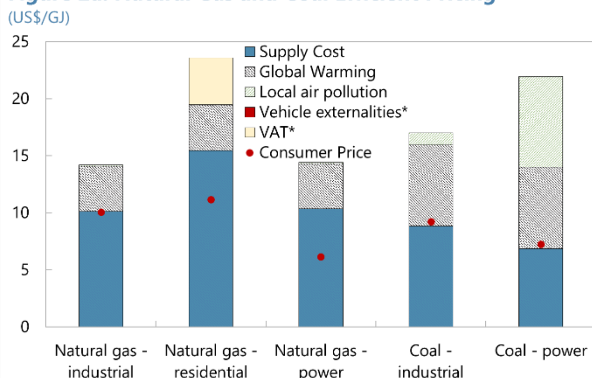
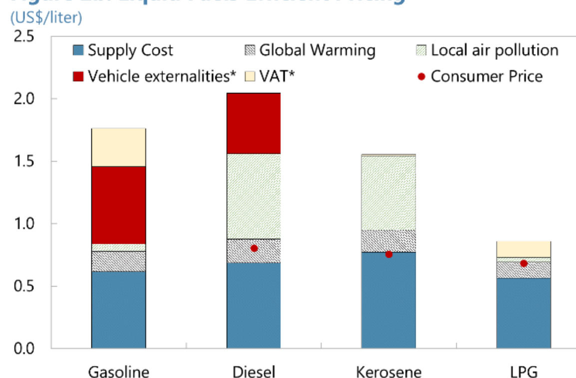


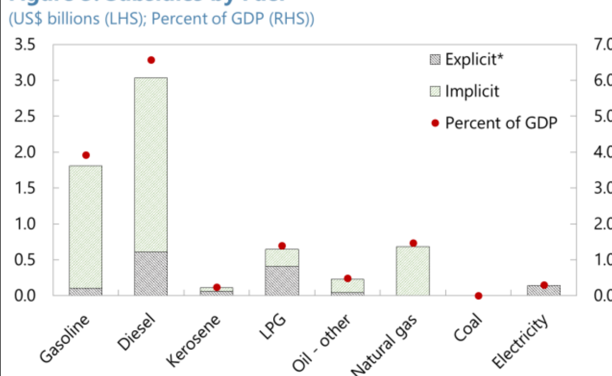
Figure 2b. Liquid Fuels Efficient Pricing
(US$/liter)



Source: IMF Fossil Fuel Subsidies Data: 2023 Update
* weighted by share of consumption relavent for the externality (e.g., VAT is only applied to final consumption).

3. To better understand the fiscal and economic implications of Bolivia's energy pricing policies, the country's energy subsidy landscape can be further decomposed into explicit and implicit components. Explicit subsidies arise when supply costs exceed retail prices, with direct cost to the government. Implicit subsidies, on the other hand, emerge when retail prices remain below the efficient price— excluding any explicit subsidy— indicating an opportunity cost to society in terms of foregone resource allocation benefits. In 2023, Bolivia faced a total energy subsidy cost of 14.4 percent of GDP, of which 6.6 percent of GDP was spent on diesel subsidies and 3.9 percent on gasoline subsidies (Figure 3). Diesel subsidies in 2023 carried the highest explicit (US$ 0.6 billion) and implicit (US$ 2.4 billion) subsidy cost.

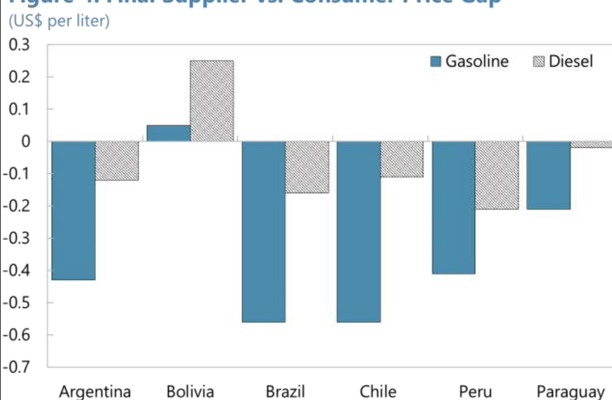
Figure 3. Subsidies by Fuel
(US$ billions (LHS); Percent of GDP (RHS))



Source: IMF Fossil Fuel Subsidies Data: 2023 Update
* Explicit excludes the producer portion of explicit subsidies.

4. Compared to its neighbors, Bolivia faces a substantial and positive gap between final supplier and consumer fuel prices (Figure 4). The retail price of diesel and gasoline in Bolivia is at nearly half of the average compared to the neighboring countries. Against this backdrop, Bolivia has faced considerably larger subsidy bills than other regional countries for these fuels. In 2023, the total (implicit and explicit) subsidy bill in Bolivia amounted to 12.6 percent of GDP compared to 4.2 percent among the regional peers (Figure 5a and 5b). The price difference incentivizes cross-border fuel smuggling.

Figure 4. Final Supplier vs. Consumer Price Gap
(US$ per liter)



Source: IMF Fossil Fuel Subsidies Data: 2023 Update

5. Preserving energy subsidies often finds justification in their perceived ability to lower inflation, lift poverty, and thus maintain social and political stability. Proponents contend that these subsidies directly benefit low-income households and alleviate poverty by keeping energy prices low. Additionally, energy subsidies are also viewed as an important component of social safety net.

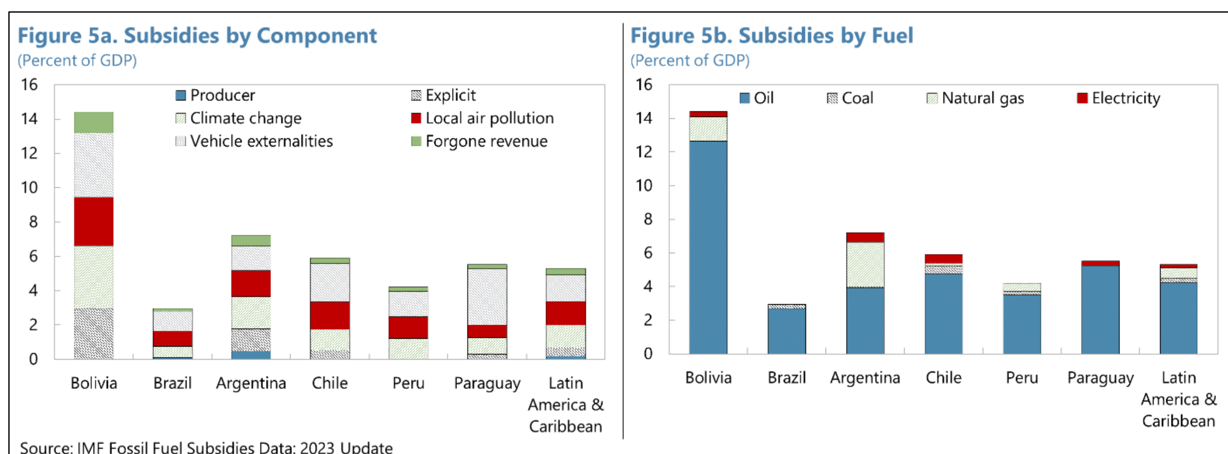


Figure 5a. Subsidies by Component
(Percent of GDP)

Figure 5b. Subsidies by Fuel
(Percent of GDP)

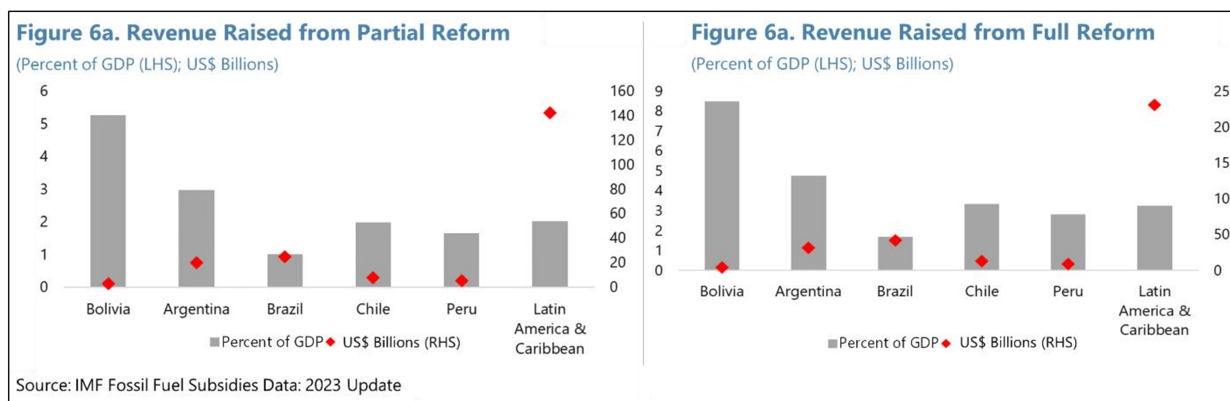
Source: IMF Fossil Fuel Subsidies Data: 2023 Update

6. However, empirical evidence from developing countries paints a different picture. Coady et al. (2015) analyze distribution of benefits from fuel subsidies in developing countries and find that the richest 20 percent of households capture, on average, more than six times more in fuel subsidies than the poorest 20 percent. This makes universal fuel subsidies a very inefficient policy instrument for protecting the vulnerable population from fuel price increases.

7. In the case of Bolivia, analyses of fiscal incidence reveal that existing energy subsidies, particularly for gas and gasoline, offer minimal redistribution due to their inherent regressivity. Studies by Paz et al. (2013) and Laserna (2018) demonstrate that the poorest quintile receives a mere 5 percent of the subsidy, while the richest 10 percent enjoy a disproportionate share exceeding the poorest group's total. Further research by Yánez et al. (2021) confirms this trend, with indirect subsidies heavily concentrated in the middle stratum (64 percent) compared to the vulnerable (20 percent) and the poor (6 percent). Moreover, while electricity and LPG subsidies exhibit near-neutral distributive effects, gasoline subsidies remain demonstrably regressive.

8. Energy subsidy reform in Bolivia is estimated to yield significant fiscal savings. For example, implementing partial energy subsidy reform, by either removing explicit subsidies or halving the gap between current and efficient prices, is expected to yield 5.3 percent of GDP in fiscal savings (Figure 6a). However, either of approaches falls short of 'full reform,' where all government support is eliminated and full environmental costs are accounted for. Implementing such reform would yield 8.5 percent of GDP in fiscal savings (Figure 6b).[2]

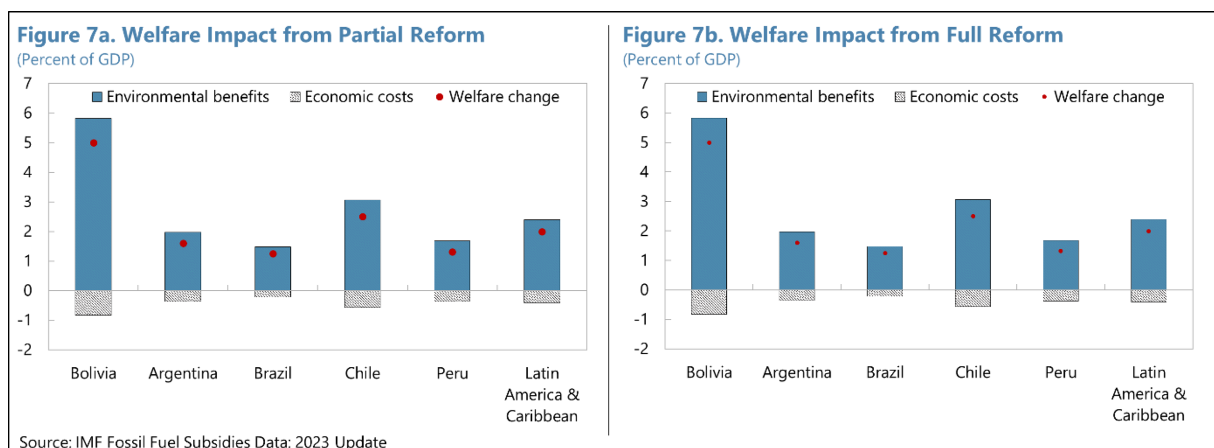
[2] The authorities have recently announced a liberalization of fuel imports to private companies, including auctions for large buyers. This complements efforts to reduce reliance on fossil fuels including a higher ethanol blend in gasoline. Introduction of a less subsidized premium gasoline is also envisaged. Although the impact of such measure is yet uncertain, it may contribute to lower the subsidy bill, working as a first step towards subsidy reform (in this case, targeted to affect some private businesses, through self-selection).



Source: IMF Fossil Fuel Subsidies Data: 2023 Update

9. While anticipated regulated price increases for fuels points towards a significant inflationary impact, a more granular examination reveals a complex interplay between direct and indirect effects. The immediate impact on consumer prices, determined by the weight of fuels and related products within the consumption basket (nearly 10 percent), could translate to a nearly 6 percentage point increase. However, the universal access to fuel subsidies for both household and businesses introduces an additional layer of complexity, where the removal of such support would result in businesses absorbing the full price hike. This, in turn, could potentially amplify inflationary pressures through operational adjustments and pricing decisions across various sectors.

10. Reforming energy subsidies in Bolivia is also expected to lead to significant improvement in environmental benefits while reducing economic costs. For example, a partial reform is estimated to yield 5.8 percent of GDP in environmental benefits, while incurring 0.8 percent of GDP in economic cost, leading to improvements in welfare of 5 percent of GDP (Figure 7a).[3] Full reform of energy subsidies could lead to 6.7 percent of GDP in welfare improvement, of which 9.2 percent of GDP in environmental benefits, and 2.5 percent of GDP in economic cost (Figure 7b).



Source: IMF Fossil Fuel Subsidies Data: 2023 Update

[3] Economic welfare costs are measured by the value of forgone benefits to fossil fuel consumers less savings in supply costs. Local air pollution co-benefits are estimated as reductions in mortality and morbidity linked to illnesses exacerbated by air pollution exposure. Transport co-benefits stem from reductions in traffic accidents, maintenance expenditures, and traffic congestion. Costs of global warming are estimated using a carbon price trajectory starting at $60/ton in 2020 and increasing by $1.5/ton annually (Black et al., 2023).

11. Despite short-term negative impacts of fuel subsidy removal on GDP growth due to rising energy costs and inflationary pressures affecting household purchasing power, the medium-term outlook appears more nuanced. Significant fiscal savings generated by removing subsidies can be strategically redeployed into public policies that stimulate medium- and long-term growth, improve family well-being, and enhance income distribution. This calls for carefully designed reform strategies that balance short-term adjustments with long-term investments for sustainable and equitable outcomes.

12. Sustainable and equitable energy subsidy reform calls for a multi-faceted approach. Drawing on international best practices, successful reform warrants a comprehensive energy sector plan, phased price increases, targeted poverty protection measures, and institutional reforms that depoliticize energy pricing. This holistic approach ensures a transition that prioritizes both economic efficiency and social justice. Highlighted literature and cross-country examples of fuel subsidy reforms (Coady et al., 2013) included the following features:

- *Gradual implementation is crucial to mitigate potential hardships.* Experience demonstrates that abrupt energy price increases can trigger fierce opposition, as witnessed in the 2008 and 2012 fuel subsidy reform attempts in Mauritania and Nigeria, respectively. Conversely, a phased approach offers advantages for both households and businesses, allowing time for adjustment and building public trust through the demonstrably beneficial use of subsidy savings. This approach can also mitigate inflationary pressures and facilitate the implementation of supportive social safety nets. Notably, Brazil's successful petroleum subsidy reform in the 1990s employed a step-by-step strategy to minimize resistance from key stakeholders.

- *While partial fuel price reform could aim to shield low-income households, a comprehensive approach combining price flexibility with robust, targeted social assistance achieves the same goal while eliminating the drawbacks of large subsidies (e.g., smuggling, climate impact).* However, trade-offs exist. Slower reform offers lower short-term savings, requiring a balance between budgetary goals and social impact. Sequencing also presents challenges, as artificially low kerosene prices can distort consumption patterns, leading to misuse and cross-border smuggling. Turkey's rapid LPG subsidy curtailment due to a surge in vehicle conversions exemplifies this. Finally, gradual reforms risk building public opposition. Addressing these concerns requires clear communication of long-term commitment, potentially across administrations, as demonstrated by Turkey's sustained liberalization efforts since the late 1980s. This builds broad support and facilitates successful implementation.

- *Reform design would need to safeguard the most vulnerable population.* Building upon the existing social safety net is key to mitigating the impact of higher fuel prices on vulnerable populations, as evidenced by the Dominican Republic's energy subsidy reform. The success of their "Solidaridad" conditional cash transfer program highlights the importance of targeted interventions, understanding the affected demographics, and building trust through transparent communication. This paves the way for supportive coalitions that embrace reform, ensuring a more equitable transition (Mukherjee et al., 2023).

- *Phasing out ad-hoc pricing and moving to a system of automatic pricing with adjustment mechanisms would help stabilize fuel tax revenues by moderating the pass-through from international market fluctuations.* This would help improve macro-fiscal planning as well as that of firms and households. For over five decades, South Africa has employed an automatic pricing mechanism for fuel products, demonstrably bolstering both macro-fiscal planning and private sector engagement. This mechanism's genesis lay in the apartheid era, aiming to secure reliable petroleum supply amidst international sanctions. By mirroring import parity prices, the policy effectively incentivized international firms to invest and maintain operations within the country, defying the embargo's economic pressure.

- *Effective communication is crucial for fostering public understanding and support for fuel price reform.* A well-crafted campaign should clarify the true beneficiaries of existing subsidies, highlight the opportunity cost such subsidies represent for public investments, and outline the redeployment of fiscal savings from the reform towards targeted poverty protection measures to protect the vulnerable, and foster public understanding and support. The 2010 Bolivian attempt to raise domestic fuel prices serves as a cautionary tale, highlighting the delicate balance between economic imperatives and social realities. In December 2010, Bolivia's unexpected fuel price hike proposal (73 percent for gasoline, 83 percent for diesel) sparked immediate public outrage. A wave of protests swiftly swept across the country, spearheaded by labor unions, student groups, and transportation workers. Faced with this mounting public pressure and the specter of widespread unrest, the government reversed the fuel price hike within five days.

- *Finally, maintaining transparency in the disclosure of information regarding government spending in fuel subsidies is beneficial for policymaking.* The full fiscal burden of energy subsidies— including both producer and consumer subsidies— is rarely reflected in the budget. Populations are also often unaware of how domestic energy prices compare with international market prices, the consequences of low energy prices for both the budget and economic efficiency, and the benefit of distribution of energy subsidies. As a result, the public is unable to make a connection between subsidies, constraints on expanding high- priority public spending, and the adverse effects of subsidies on economic growth and poverty reduction. Out of the 28 energy subsidy reform episodes, 17 indicate that lack of information was a barrier to reform. Yemen's experience is instructive, in that the public accepted a large adjustment in fuel prices once it had been made aware of the need for reforms and of their benefits, but when reforms were introduced without an effective public information strategy, especially during political crises, popular protests forced at least a partial reversal of the adjustments.

References

Anit Mukherjee, Yuko Okamura, Ugo Gentilini, Defne Gencer, Mohamed Almenfi, Adea Kryeziu, Miriam Montenegro, and Nithin Umapathi. 2023. Cash Transfers in the Context of Energy Subsidy Reforms Insights from Recent Experience. Energy Subsidy Reform in Action Series. Washington, DC: World Bank.

Black, Simon, Antung Liu, Ian Parry, and Nate Vernon. 2023. "IMF Fossil Fuel Subsidies Data: 2023 Update." International Monetary Fund, Washington, D.C.

Clements, Benedict, David Coady, Stefania Fabrizio, Sanjeev Gupta, Trevor Alleyne, and Carlo Sdralevich. 2013. "Energy subsidy reform: lessons and implications." International Monetary Fund, Washington, D.C.

Coady, David, Valentina Flamini, and Louis Sear. 2015. "The Unequal Benefits of Fuel Subsidies Revisited: Evidence for Developing Countries." Working Paper 15/250. International Monetary Fund, Washington, D.C.

Laserna, Roberto. 2018. "Energy Dividends in Bolivia: Are There Any Alternatives to Price Subsidies?" CGD Policy Paper 130, Center for Global Development, Washington, DC.

Paz, Verónica, George Gray Molina, Wilson Jiménez Pozo, and Ernesto Yáñez Aguilar. 2013. "What Explains Low Redistributive Impact of Fiscal Policy in Bolivia?" Commitment to Equity (CEQ), Tulane University, New Orleans.

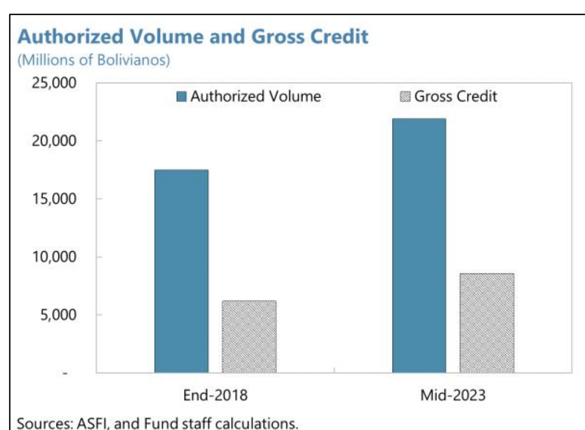
UDAPE, 2015. Diagnósticos sectoriales – hidrocarburos. Unidad de Análisis de Políticas Sociales y Económicas. La Paz.

Yánez, Ernesto, Wilson Jimenez, and Verónica Paz Arauco. 2021. Política Fiscal e Impactos Redistributivos en Bolivia." Commitment to Equity (CEQ), Tulane University, New Orleans.

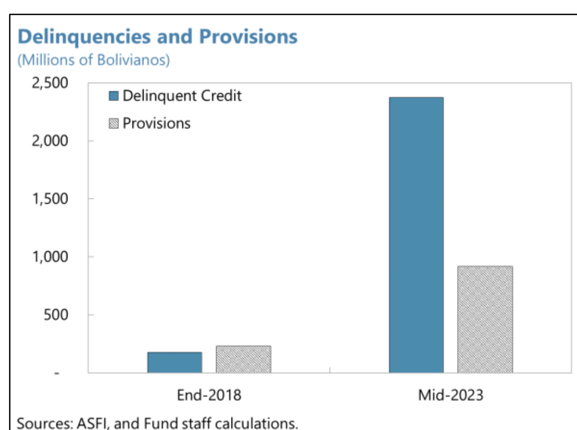
Annex VII. Fiscal Risks from Lending through Public Credit Fideicomisos

1. Risks from public sector credit can have a significant impact on government finances, warranting close monitoring. Like for risks from macroeconomic volatility, financial sector shocks, pandemics, natural disasters, or other types of government policies, associated losses may lead to increases in government deficits and debt liabilities. As such, a comprehensive assessment of these risks and their inter-linkages with other sectors is vital. The IMF 2014 Fiscal Transparency Evaluation (FTE) for Bolivia found that consolidated risk reporting was lacking and more accurate forecasts were needed.

2. Notwithstanding some progress since 2014, fiscal risks analysis and management can be further strengthened. Although the institutional coverage of Bolivia's fiscal data is fairly broad, extending to the nonfinancial public sector (NFPS), data on quasi-fiscal activities such as the execution of funds managed by public fideicomisos (trusts)—extrabudgetary entities that manage public funds but do not submit expenditure execution reports[1]—is absent. Fideicomisos serve diverse policy purposes, supporting underserved economic sectors and social functions. They also comprise credit fideicomisos, which are non-bank financial entities managed primarily by state-owned banks and funded by the public sector, mostly line ministries and the central bank. Among the roughly 90 fideicomisos (of which 36 are active), 15 offer credit, frequently at subsidized rates, to support specific objectives like infrastructure financing, economic development, import substitution, and social programs.



Sources: ASFI, and Fund staff calculations.



Sources: ASFI, and Fund staff calculations.

3. ASFI exercises oversight over the credit fideicomisos it regulates (one-third of all credit fideicomisos), whereas other fideicomisos enjoy special regimes by decree. According to ASFI data at end-June 2023, the total authorized volume of public credit fideicomisos managed by the two state-owned banks, including some non-credit elements, amounted to Bs. 21.9 billion (about 7 percent of GDP), of which Bs. 8.5 billion (39 percent) is currently allocated as credit. Public

[1] While operating off-budget, establishment and closure of credit fideicomisos can trigger costs. Credit fideicomisos also incur expenses chargeable to prior fiscal years, which remain unaccounted for in the current budget.

credit fideicomisos have gradually grown in size, now equivalent to 4.6 percent of commercial bank credit (up from 4.1 percent at end-2018) or 12.9 percent of commercial banks' corporate credit. The delinquency ratio of credit fideicomisos increased from 2.9 percent in 2018 to 27.8 percent in June 2023,[2] while provisions coverage fell from 128 percent to 39 percent within the same period. Despite the increase in delinquent exposures the capital ratio remained stable at around 60 percent, although other income may have helped offset these costs, thereby shielding the capital.

4. Bolivia's Ministry of Economy and Public Finance (MEFP) has recently adopted measures to gradually subject fideicomisos to greater control. To enhance budget transparency and accountability, the MEFP issued new reporting guidelines for credit fideicomisos in 2024, outlining the mandatory information to be reported and a submission schedules with the view to build a comprehensive fideicomisos database. However, these efforts are in the early stage (targeting completion by end-2024) and the collected information is yet to be included in the budget documentation. Further advancements are needed to enhance data standardization, strengthen monitoring, and shift towards a proactive fideicomisos' oversight with the view to foster trust and responsible management of public resources.

[2] Mainly due to a strong pickup in delinquencies at a large fideicomiso launched by the BCB after a multi-year grace period for debt service expired in 2022.

Annex VIII. Key 2024 FSAP Recommendations

Bank Stress Testing	
Enhance the bank solvency stress testing frameworks, with forward-looking models integrating all relevant risks.	ASFI, BCB
Improve the granularity of supervisory data of restructured/reprogrammed loans, collect data on large deposits to assess deposit concentration risk and finalize a publicly available house price index.	ASFI, BCB
Require banks to regularly conduct solvency stress tests and engage them in an ongoing dialogue on methodologies and results.	ASFI, BCB
Systemic Risk Monitoring, Macroprudential Policy	
Enhance cooperation between members of the Financial Stability Council by creating an analytical working group for assessing financial sector risks.	MEFP, BCB, ASFI
Strengthen the role of BCB in the Financial Stability Council and increase the transparency and communication of FSC decisions.	MEFP, BCB, ASFI
Develop additional indicators for monitoring of systemic risk.	ASFI, BCB
Adopt additional macroprudential instruments, notably liquidity regulation and additional capital buffers, and borrower-based tools.	BCB, MEFP, ASFI
Bank Supervision and Regulation	
Introduce legal changes to (i) prioritize ASFI's objective of promoting the safety and soundness of the banking system; (ii) guarantee ASFI's independence; (iii) ensure legal protection for supervisors; and (iv) provide access to group-wide information.	MEFP, ASFI
Implement an effective risk-based supervision approach introducing proper use of expert judgment that allows a comprehensive, critical, and prospective assessment of the risk profile proportionate to the banks' systemic importance, and improve supervisors' capacities.	ASFI
Establish a framework for effective use of the supervisory corrective powers.	ASFI
Align the capital adequacy and liquidity frameworks, treatment of problem assets, credit risk provisioning, related parties' management, interest rate risk in the banking book, and accounting standards to international guidelines and standards.	ASFI
Financial Integrity	
Strengthen the AML/CFT regime in line with the recommendations of Bolivia's forthcoming mutual evaluation report.	MEFP, CONAL
Financial Safety Net and Crisis Management	
Establish guidance on recovery planning for banks, develop resolution plans, and develop designation for systemic banks.	ASFI

Bring resolution tools in line with the FSB Key Attributes and establish unambiguous quantitative triggers for initiation of intervention in the law, notably for illiquidity and undercapitalization.	MEFP, ASFI
Establish a formal deposit insurance unit, with dedicated staff, and bring design features in line with IADI Core Principles.	BCB, MEFP, ASFI
Financial Sector Development	
Adopt a dynamic approach to interest rate controls and review the level and scope of credit quotas in order to minimize unintended effects on access to finance and financial stability.	MEFP, ASFI
Strengthen design, oversight, and evaluation of state credit programs to ensure a more effective/transparent use of public resources and minimize negative impacts on competition and stability.	MEFP, ASFI
Implement a national financial inclusion strategy to coordinate key actions, including fully digitizing government-to-person payments.	MEFP, ASFI, BCB, APS, MTEPS

Note: APS = Autoridad de Fiscalización y Control de Pensiones y Seguros, ASFI = Autoridad de Supervisión del Sistema Financiero, BCB = Banco Central de Bolivia, BDP = Banco de Desarrollo Productivo, CONAL = Consejo Nacional de Lucha contra la Legitimación de Ganancias Ilícitas y el Financiamiento del Terrorismo, MEFP = Ministerio de Economía y Finanzas Públicas, MJ = Ministerio de Justicia, MTEPS = Ministerio de Trabajo, Empleo y Previsión Social.

INTERNATIONAL MONETARY FUND

BOLIVIA

March 7, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS 2

LIST OF MULTILATERALS AND OTHER FINANCIAL INSTITUTIONS 3

STATISTICAL ISSUES 4

FUND RELATIONS

(As of February 26, 2024)

I. Membership Status: Joined: December 27, 1945; Article VIII

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	240.10	100.00
IMF's Holdings of Currency (Holdings Rate)	214.08	89.16
Reserve Tranche Position	26.02	10.84

III. SDR Department: SDR Million %Allocation		
Net cumulative allocation	394.26	100.00
Holdings	30.17	7.65

IV. Outstanding Purchases and Loans: None

Safeguards Assessment. Under the Fund's safeguards assessment policy, the Central Bank of Bolivia (BCB) was subject to an assessment with respect to the April 2, 2003 Stand-By Arrangement (SBA). A safeguards assessment was completed on June 27, 2003, and while no systemic risks with the BCB's safeguards were identified, uncertainties were expressed about the de facto lack of operational independence and program monetary data. An update assessment was completed on September 27, 2004, in conjunction with an augmentation of the SBA. This assessment confirmed that measures had been implemented to address all previously identified vulnerabilities, except for those requiring a change in the central bank law. Currently, BCB is not subject to the policy.

Exchange Arrangement: The Bolivian currency is the boliviano and the de jure exchange rate regime is a crawling peg to the U.S. dollar and the de facto exchange rate arrangement is stabilized. Within the scope of the official crawling peg exchange rate regime, in an external environment characterized by market exchange rate volatility and decreasing external inflation, the sliding rate was set to zero in 2011 to anchor the public's expectations. Consequently, the boliviano has stabilized against the U.S. dollar since November 2011. Accordingly, the de facto exchange rate arrangement has been retroactively reclassified to a 'stabilized arrangement' from a crawling peg, effective November 2, 2011. Bolivia has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF' Articles of Agreements, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices. Given recent developments to the exchange system, staff are currently assessing the implications of those developments as part of a broader jurisdictional assessment of Bolivia's exchange system.

Article IV Consultation: The last Article IV consultation was completed by the Executive Board on September 14, 2022 (IMF Country Report No. 2022/333). Bolivia is on a standard 12-month consultation cycle.

LIST OF MULTILATERALS AND OTHER FINANCIAL INSTITUTIONS

World Bank

https://www.worldbank.org/en/country/bolivia

Inter-American Development Bank

https://www.iadb.org/en/countries/bolivia/overview

CAF – Development Bank of Latin America

https://www.caf.com/en/countries/bolivia/

FONPLATA – Development Bank

https://www.fonplata.org/es/operaciones-por-pais/bolivia

European Union

https://eeas.europa.eu/delegations/bolivia_en

United Nations

http://www.nu.org.bo/

STATISTICAL ISSUES

(As of February 26, 2024)

Assessment of Data Adequacy for Surveillance

General. Data provision is broadly adequate for surveillance, but staff urge the authorities to move forward on key improvements. Priority reforms include: (i) completing the rebasing of the GDP and CPI indices; and (ii) improving the coverage of the nonfinancial public sector.

National Accounts. The current base year of the national accounts (1990) is outdated. Rebasing GDP is of critical importance for the country, given the significant change in GDP structure and composition since 1990. The national statistical institute (INE) started to update the base year to 2017 and to implement the 2008 SNA. Against this backdrop, INE has requested technical assistance (TA) to complete the new base year and update the quarterly national accounts.

Labor market. The quality of household and employment surveys has recovered in the last few years after resumption of the quarterly employment survey which had been discontinued in 2010, leading to the absence of quarterly information on unemployment, employment, and wages. Yearly information on wages is continuously compiled by INE.

Prices statistics. INE is also responsible for price statistics and currently compiles and disseminates monthly the consumer price index (CPI) based on the 2015/16 household budget survey. The CPI (2016=100) basket comprises 397 items, and the geographic coverage is of nine capital cities and three conurbations. STA has provided TA to INE to improve the producer price index (PPI) and to the Central Bank of Bolivia (BCB) to develop a work plan for compiling and disseminating a residential property price index. INE disseminates a PPI (2016=100).

Government finance statistics. Annual data on the operations of the consolidated central government do not cover all operations of state-owned enterprises, their subsidiaries, decentralized agencies, and operations channeled through special funds. The ongoing implementation of a comprehensive financial management system, with funding from the IADB/WB, will help in this regard, but it will be very important to improve the reporting and monitoring of the operations and debt of all public entities and their subsidiaries. The authorities have converted Bolivia's fiscal data into *GFSM 2014* format with STA assistance.

Monetary and Financial Statistics (MFS). MFS compiled and reported by Bolivia should be improved to abide to international standards since the compilation of broad money should exclude long term deposits. Also, coverage of Other Financial Corporations could be extended and improved to include the Fund for the Development of the Financial System (FONDESIF) and leasing companies. In November 2021, a remote technical assistance (TA) mission was conducted at the Central Bank of Bolivia (CBB) to discuss the statistical treatment and recording of SDR allocations in both MFS and ESS. A follow-up TA mission to improve the coverage and quality of monetary statistics is planned for April 2024.

Financial Soundness Indicators (FSIs). To support the financial sector assessment, the ASFI has made progress with respect to compiling FSIs for deposit takers.1 Besides all core FSIs, some additional ones for deposit takers and one additional FSI for other sectors (the residential real estate loans to total loans) have been computed.

External sector statistics (ESS). In November 2016, the BCB began publishing balance of payments and international investment position (IIP) data according to the *Balance of Payments Manual, sixth edition* (*BPM6*). The revised ESS contains methodological enhancements, including improved coverage in the financial account and IIP, better classifications of institutional sectors and financial instruments, and a more comprehensive method to account for processing services performed on certain types of Bolivia's exports. However, government-issued external bonds held by residents are now being recorded as external debt, which is not consistent with the *BPM6*. Fund staff have insisted that the recording of external sector debt, and all debts, follow the definitions and classifications laid out in *BPM6*, which will also ensure consistency with the IIP.

Data Standards and Quality

Bolivia has been a participant in the Enhanced General Data Dissemination System (e-GDDS) since November 2000 and last updated its metadata posted on the Dissemination Standard Bulletin Board in 2005 (National Accounts, Consumer Price Index; Labor Market Indicators; Producer Price Index; Central Government Operations; Central Government Debt; Merchandise Trade, Exchange Rate; and Official Reserve Assets) and 2014 (Deposit Corporation Survey, Central Bank Survey, Interest rates; Production Index, Balance of Payment, External Debt; and International Investment Position). Bolivia has yet to establish a National Summary Data Page—a data portal (recommended under the e-GDDS and required under the SDDS) for the dissemination of key macroeconomic data. A data Report on the Observance of Standards and Codes (ROSC) was published on August 13, 2007.

Table 1. Bolivia: Common Indicators Required for Surveillance
(As of February 26, 2024)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]	Data Quality-Methodological Soundness[10]	Data Quality-Accuracy and Reliability[11]
Exchange Rates	Daily	Daily	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Daily	Daily	D	D	D		
Reserve/Base Money	Oct-23	Jan-24	M	M	M	O, LO, LO, O	O,O,O,O,
Broad Money	Oct-23	Jan-24	M	M	M		
Central Bank Balance Sheet	Oct-23	Jan-24	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct-23	Jan-24	M	M	M		
Interest Rates[3]	Oct-23	Jan-24	M	M	M		
Consumer Price Index	Dec-23	Jan-24	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[4] - General Government[5]	Jun-23	Aug-23	M	M	M	LO, O, LO, O	O, LO, LNO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[4] - Central Government[6]	Jun-23	Aug-23	M	M	M	LO, LO, LNO, LO	LO, O, O, O, LO
Stock of Central Government and Central Government-Guaranteed Debt[7]	Jun-23	Aug-23	M	M	M		
External Current Account Balance	Sep-23	Jan-24	Q	Q	Q	O, LO, LO, LO	LO, O, LO, O, LO
Exports and Imports of Goods and Services[8]	Sep-23	Jan-24	Q	Q	Q		
GDP/GNP	Jun-23	Nov-23	Q	Q	Q	LO, LO, LO, O	LNO, LO, LNO, O, LO
Gross External Debt	Oct-23	Dec-23	Q	Q	Q		
International Investment Position[9]	Sep-23	Jan-24	Q	Q	Q		

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Bolivia does not compile central government fiscal data.
[7] Guaranteed non-financial public sector debt. Including currency and maturity composition.
[8] Monthly frequencies for goods only.
[9] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[10] Reflects the assessment provided in the data ROSC (published on August 13, 2007, and based on the findings of the mission that took place during January 24–February 7, 2007) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[11] Same as footnote 10, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Mr. Alfaro, Executive Director for Bolivia
and Ms. Ramos Capaquira, Advisor to Executive Director
March 22, 2024

On behalf of the Bolivian authorities, we thank staff for the cordial discussions under the Article IV Consultation and for the report. Likewise, we thank the IMF and World Bank staff for the discussions as part of the Financial Sector Assessment Program (FSAP). The authorities also appreciate the support from the different IMF departments through technical assistance on relevant issues for the country.

The succession of adverse global shocks after the pandemic, including geopolitical tensions, the global scenario of low growth and high inflation, the consequent tightening of financial conditions, and the slowdown in international trade, added to local shocks, such as the political divide within the Parliament, the failure of an important bank in the system, and the decreasing incomes from hydrocarbon exports, determined a complex context in which the Bolivian economy developed in recent years. This scenario demanded a strong policy response from the authorities who, within the framework of the economic model applied in the country, continued to prioritize the protection of the population's well-being, especially that of the most vulnerable. In this vein, in 2023 the economy continued to be resilient, with growth driven by domestic demand, continued improvement in the labor market, price stability, and a solid and resilient financial system. The government reaffirms its commitment to remain addressing the challenges to ensure macroeconomic stability and the achievement of the country's development objectives.

The authorities appreciate the coverage of these essential issues in the report, and while they agree with some of the conclusions and recommendations, they differ in others. They would like to make the following comments.

Economic performance and prospects

Despite the complex external environment and local shocks, the Bolivian economy continued to show resilience, driven by the domestic demand. The positive performance of investment and household consumption offset the fall in net external demand, allowing GDP to grow by 2.3 percent as of the third quarter of 2023. In economic activities, the recovery of the sectors strongly hit during the pandemic, such as restaurants and hotels, and the positive performance of other services and the agricultural sector mainly contributed to this result. The authorities expect a growth rate of around 3 percent in 2023, higher than the staff's estimate. They also emphasize that although a slowdown was recorded in 2023, this phenomenon was not only experienced in Bolivia. The global economy, and particularly, the South American region, also showed this trend in recent years. The labor market continued its recovery in 2023, with record employment levels and an unemployment rate of 3.9 percent, after having reached more than 10 percent at the peak of the pandemic.

The country experienced price stability, as a result of the government's measures and the agricultural sector's positive performance. The protection of the population's purchasing power was one of the authorities' main objectives against the high pressures due to rising international prices. Thus, unlike the global trend, prices have remained stable in the country in recent years. At end-2023, inflation reached 2.1 percent, one of the lowest rates in the region and the world, driven by the fuel and food subsidy scheme, exchange stability, and the food sector's positive performance.

The authorities' perspectives point to higher growth in the short and medium term, associated with the efforts to boost the productive sector. The government estimates a growth rate of 3.7 percent for 2024, well above that projected by staff, and an inflation rate of 3.6 percent, lower than staff's projection. The authorities are confident that strong domestic demand will continue to drive growth going forward. Nevertheless, they agree that the scenario remains highly uncertain; hence, they are committed to applying the necessary and appropriate measures to achieve the country's objectives, within the National Economic and Social Development Plan (PDES), 2021-2025.

Fiscal policy

The fiscal imbalance in 2023 was mainly explained by the government's efforts to strengthen the economic recovery and protect the population. Persistent high fuel prices in the external market during 2023 led to a higher subsidy cost, which the authorities assumed to guarantee price stability and, therefore, the protection of the population's cost of living and social stability. Moreover, the deficit was partly explained by public investment. The authorities emphasize the fundamental role of public investment in the economy, as this is one of the main instruments to achieve the country's development objectives, and in particular, to promote productive bolstering, the industrialization process, and economic diversification.

The authorities agree on the need to reduce the fiscal deficit; however, they emphasize that a gradual approach is more appropriate. The government considers that adjustments such as those proposed by staff can be painful for the population, especially for the most vulnerable, and affect long-term growth. The authorities recall that in the past similar measures were applied in the country with the expectation of a short-term impact and subsequent recovery and stabilization, which, however, did not happen. The adjustment weighed heavily on the economy in the medium term and left the population in a precarious situation. The authorities reaffirm their commitment to reducing the deficit, and in that vein, they have adopted a more gradual approach in favor of growth and social protection. Hence, important actions are being implemented to improve revenue mobilization, especially in tax administration, leveraging digitalization, and additional measures are being evaluated on this front, including initiatives to promote formalization. It is expected that, in the short and medium term, investments made in strategic projects linked to the industrialization policy with import substitution will increase the involved public companies' revenues. Similarly, efforts continue to control current spending. The country's "Subasta Electrónica" initiative in place in the country is one of the actions to enhance transparency and efficiency in procurement processes. Regarding public wages, the

authorities remain committed to their control and point out that the largest proportion of the bill is allocated to health and education sectors. The government is also working to improve the public investment efficiency and is resolved to continue in this direction. The authorities agree that a medium-term fiscal framework is essential to guide the fiscal policy, and in this vein, they are at initial stages of its development, after technical assistance received on this front.

Given the weight of subsidies on fiscal accounts, the authorities are committed to addressing them through a more structural approach. The Bolivian government does not consider that the elimination of the subsidy is appropriate at this time, due to its potential impact on the population, on the food producing sector, and in general, on price and social stability. The authorities recognize the urgency and importance on this issue. In this vein, they have been applying a series of measures that will help contain its weight on fiscal accounts, and at the same time, will favor the reduction of fuel imports, on which the country is dependent. Regarding diesel, the construction of biodiesel production plants is prioritized. Furthermore, through a recent agreement, the private sector will participate in these efforts. Under the same agreement, the private sector will also be able to import diesel directly for self-consumption, which will reduce the subsidy cost, and compete in auctions for large diesel importers, with the prospect of sales at a price higher than the subsidized. On gasoline, in recent months a higher percentage of ethanol was determined in the mix for generating the fuel, and progress is being made in the introduction of higher-quality gasoline types at a higher price than the subsidized. The authorities are confident that these efforts will begin to show results soon.

The scenario of more restrictive international financial conditions and political friction within the Assembly limited financing options. The authorities faced a difficult context to secure financing in 2023, even that already contracted with multilateral and bilateral creditors. Despite this environment, the government met external debt service payments. Furthermore, they are analyzing and exploring different additional financing options, including thematic bonds, leveraging the country's potential in that market.

Monetary and external sector policy

The authorities adopted important measures to contain the pressures on international reserves and the situation of availability of dollars in the economy, which resulted from an unfavorable external context that affected the export sector and made access to the international financial market difficult, fuel import spending, earning reduction from hydrocarbon exports, a local speculative outbreak around the availability of dollars, and higher external debt payments due to larger interest rates. Thus, among the measures, it is worth mentioning the actions to collect gold from the local market and financial operations with reserves by the Central Bank of Bolivia (BCB), dollars provision to the financial system, the establishment of a band for commissions transfers and money orders abroad, BCB's dollar bonds issuance at attractive interest rates, and the opening of a correspondent with the most important bank in China for the direct execution of transactions in the currencies of both countries, given the relevance of trade with China. Similarly, recently the government and the private sector accorded a set of measures to reinforce exports and the generation and repatriation of foreign currency. The productive

strengthening and the ongoing import substitution strategy are key in the authorities' agenda for structurally bolstering the reserves. The BCB highlights the stabilization of the reserve levels in the last quarter of 2023.

Exchange rate stability continues to play a fundamental role in price stability and economic stability in general. For this reason, the authorities do not consider that a devaluation or flexibility of the exchange rate is the answer to resolve the pressures on reserves. These would compromise macroeconomic stability, with a stronger impact in magnitude and duration than estimated by staff, and with a larger weight on the vulnerable population. Likewise, an exchange rate flexibility could increase dollarization, which eventually would make the country more exposed to external shocks and harm the monetary policy's response space.

Financial policy

Despite the shocks, the Bolivian financial system continues to be stable and resilient. The authorities highlight the timely response to the difficulties of one of the most important banks in the sector in the first semester of 2023, which allowed to contain its spread to the rest of the system. Moreover, the sector experienced unusual demand for foreign currency, mainly in the first part of the year; nevertheless, as of December 2023, banks already had dollar levels similar to those at end-2022. Furthermore, at the end of 2023, the financial sector presented a capitalization ratio above the requirement, positive profit levels, adequate asset quality, and high provisions. Regarding non-performing loans (NPL), its low rate is worth mentioning, 3.0 percent at end-2023, one of the lowest in the region. The authorities emphasize that NPL measurement is even stricter than the standard. Credits and deposits showed an important recovery, which continued in the first months of 2024. Similarly, the financial system remains highly Bolivianized, with a share of operations in local currency that reaches 90 percent in deposits and 99 percent in credits.

The regulatory, supervisory, and macroprudential frameworks are appropriate, mitigating systemic risks. The Financial Services Law in force in the country guides these frameworks and determines the Financial System Supervision Authority (ASFI)'s explicit mandate to guarantee the stability and solvency of the financial system, as well as its independence in the sector's regulation and supervision. An adequate level of capitalization and leverage, above that required and that established in the Basel III framework, respectively; the sharp decline in the deferred portfolio, whose level does not exceed 3 percent of total credits; and ASFI's close monitoring, including through the development of stress tests and models; and the institutional framework for risk monitoring, financial stability assessment, and macroprudential policy contribute to contain the risks to the system. Similarly, the authorities highlight that the aforementioned law establishes the guidelines for crisis management and resolution, and a defined institutional framework for the Deposit Insurance Fund (FPAH), which operates in a manner similar to an insurance. The recent experience with the bank intervened at the beginning of 2023, in line with the framework procedures, demonstrates its proper functioning.

The efforts in development and financial inclusion have been important. The authorities highlight the policy of credit and interest rate limits for prioritized segments that aim to promote the productive sector and allow the most vulnerable population access to housing. These loans have not generated a negative impact on the system, since most financial entities even exceeded the credit limits and maintained interest rates below the established maximum rates. Moreover, the progress in promoting microenterprise activities, as well as small and medium-sized enterprises, is significant. Regarding the latter, the guarantee funds created for certain sectors also contributed to their financial access. The Productive Development Bank (BDP) continues to promote productive activity, especially in vulnerable areas, and it is not a competition to the private financial sector, but on the contrary, it complements services to the productive segment. The authorities are developing the National Financial Inclusion Strategy. Regarding the AML/CFT framework, the progress in the matter is noteworthy. The authorities reiterate their commitment to strengthening the framework and applying actions in line with the international standards established by FATF.

Social policy

The continuity of poverty and inequality reduction, and in general, the improvement of the population's living conditions are priorities that continue to guide the authorities' actions. The country has recorded notable progress on these goals since 2006, which reverted in 2020, and has been restoring its trajectory since 2021. In 2022 and 2023, the efforts on this front continued, with an emphasis on protecting the population from the strong pressures of the highest international prices, where subsidies for fuel and food were fundamental. Furthermore, conditional cash transfer programs continued to benefit the most vulnerable population, such as children and adolescents who attend public education, mothers without access to health insurance, and the elderly, and a significant share of public resources was allocated to the education and health sectors. The economic activity dynamism and the labor market improvement were also essential in improving the social outcomes. The authorities remain committed to strengthening the social protection system, including upgrading the programs targeting and efficiency.

Structural reforms

Efforts towards strengthening the productive sector and diversifying the economy continue to improve the resilience to external shocks. Within the framework of the PDES, 2021-2025, and in particular, the industrialization with import substitution policy, the government continues actions through public investment and measures aimed at promoting the private productive sector. On the public sector front, actions remain through important investment projects in areas with high potential for the country, such as the generation of biofuels and fertilizers, in the food sector, in mining, and others. Regarding mining, the authorities recognize the broad potential in lithium production and its importance as part of the critical minerals in the current global energy transition process. In this vein, they are accelerating the efforts towards industrialization. Thus, a first industrial plant for lithium carbonate production was launched at the end-2023 and foreign investors' project development is expected, since they have shown broad interest in the

initiatives promoted by the government. Moreover, actions are being adopted to improve the prospects in the hydrocarbon sector through an ongoing exploration strategy.

Regarding the measures to boost the productive private sector, several initiatives are in place, such as zero VAT for import and sales of capital goods, the credit fund at a concessional rate of 0.5 percent for producers who promote import substitution, limits for productive portfolio, among others. Similarly, the authorities highlight the recent agreement signed with the private sector on a set of measures to strengthen the export and productive sector, which include total export liberalization with the commitment from the private sector to guarantee the provision of products to the domestic market, and the promotion of investments to boost productivity. The authorities consider that productive bolstering is essential to achieve a resilient and sustainable economy, with improved welfare for the population.