IMF Country Report No. 22/333

BOLIVIA

November 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE BOLIVIAN AUTHORITIES

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 2022 Article IV consultation with Bolivia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on June 10, 2022, 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 August 29, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Bolivian Authorities**.

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.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with Bolivia

FOR IMMEDIATE RELEASE

Washington, DC – **September 14, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bolivia on September 14, 2022 and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

While the Covid-19 pandemic has continued to cause disruptions and tragic loss of life in Bolivia, the economic recovery from the pandemic-driven downturn has been faster than expected. Following a contraction of 8.7 percent in 2020, the economy recorded growth of 6.1 percent in 2021, led by mining, construction, and agriculture. Higher global commodity prices have boosted export receipts, helping to raise the current account to a surplus of 2 percent of GDP in 2021. Inflation has been low, at 1.9 percent yoy in June 2022, supported by strong domestic food production, the boliviano's *de facto* peg to the U.S. dollar, and subsidies and price controls for fuel and food.

Increased revenues from the mining sector and the unwinding of several pandemic-related emergency measures contributed to a reduction of the fiscal deficit, from 12.7 percent of GDP in 2020 to a still-high 9.3 percent of GDP in 2021. Although higher prices for Bolivia's natural gas exports have provided some fiscal support, this effect has been outweighed by a decline in natural gas output and the additional subsidy expenditures needed to maintain fixed retail fuel prices. More than one-third of the fiscal deficit has been financed by the central bank, pressuring Bolivia's stock of international reserves, which have declined from US$5.28 billion at the end of 2020 to US$4.3 billion at end-July 2022.

Growth is projected at 3.8 percent yoy in 2022, slower than in 2021 but sufficient to bring GDP back to its pre-pandemic level by late in the year. Sustained elevated commodity prices will continue to boost mining and agricultural receipts. Inflation is projected to rise to 4.2 percent yoy by the end of the year, as international prices partially feed through to food and energy. The high cost of maintaining fuel subsidies, estimated at 3.7 percent of GDP, is projected to push the fiscal deficit of 8.5 percent of GDP in 2022, close to the level of the previous year.

Risks to the outlook include uncertainties over the impact of the war in Ukraine, including the possibility of higher energy prices, which could raise subsidy costs and feed domestic inflation. With its substantial financing needs, Bolivia also faces risks from changes in external financial conditions associated with a global tightening cycle. Although the financial sector appears to have come out of the pandemic in satisfactory condition, vulnerabilities built up during a period

[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 Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

of blanket loan deferrals may yet emerge. A resurgence of the pandemic could have negative effects on public health and economic growth.

Executive Board Assessment

In concluding the 2022 Article IV consultation with Bolivia, Executive Directors endorsed the staff's appraisal, as follows:

Bolivia has made great strides in reducing poverty. Per capita GDP has more than tripled since 2005, while social programs and higher wages have improved income distribution. From 2000 to 2021, the poverty rate fell from 66.4 to 36.3 percent, extreme poverty declined from 45.3 to 11.1 percent, life expectancy rose from 62 to 72 years, and the primary school completion rate increased from 84 to 99 percent. These were major and enduring achievements.

A meaningful fiscal adjustment will be required to restore debt sustainability, eliminate monetary financing, and rebuild international reserves. If Bolivia chooses to retain its exchange rate peg, restoration of macro sustainability will require reducing the primary deficit to around 1.5 percent of GDP through a credible medium-term plan. The government would need to restrain expenditures, including by eliminating the second supplementary year-end bonus ("doble aguinaldo"), constraining the growth in public sector wages, limiting the growth in public investment, and scaling back subsidies. The tax base can be broadened by addressing informality, strengthening tax and customs administration (through IT modernization and improved governance), and adjusting tax policy to increase personal income taxes on higher income households. Bolivia's external position is moderately weaker than the level implied by fundamentals and desirable policies.

Fuel subsidy reductions will need to be combined with compensation for the poorest deciles of the population. Successful implementation of an increase in domestic fuel prices will require recycling a portion of the budgetary savings to cash transfer programs that are targeted to the poorest deciles of the populations. An effective communication strategy will be critical to raise awareness of the regressive nature of energy subsidies and the benefits of shifting to market-based pricing of energy combined with targeted cash transfers.

Bolivia would benefit from greater central bank independence and a carefully sequenced transition to a more flexible exchange rate. Greater central bank independence and institutional capacity would support macro and financial stability, and facilitate exchange rate adjustments, when needed. Increased exchange rate flexibility would help preserve international reserves, reduce the current exchange rate overvaluation, and provide net welfare gains. Adoption of a flexible exchange rate alongside an inflation targeting monetary framework would substantially increase resilience to market shocks. This transition should be prepared and communicated carefully, coordinated with other macroeconomic policy measures, and accompanied by institutional independence for the central bank.

The BCB should reduce its dependence on currency swaps as a source of reserves. If fiscal reforms can be put in place, balance of payments pressures should subside and reserves can be built from external sovereign borrowing and direct purchases on the market so as to reduce the reliance on swap arrangements with commercial banks. In addition, steadily lengthening the maturity of those swaps that do remain would help lessen

vulnerabilities. If needed, other mechanisms could be adopted to ensure that domestic liquidity remains adequate.

The growing interdependence of the pension system and the government should be monitored. Consideration should be given to diversifying pension fund assets into a wider range of assets – potentially including foreign currency assets – to raise average returns and diversify exposure. However, this would need to be preceded by a transition to professional and independent management of pension fund portfolios and would, even then, need to be pursued carefully so as not to exacerbate external imbalances and vulnerabilities.

In the wake of the substantial loan restructuring during the pandemic, banks' loan books should be carefully monitored, to quickly identify signs of a deterioration in credit quality. In addition, a range of credit quotas and interest rate caps continue to constrain bank profitability; they should be gradually phased out. The regulator should closely monitor banks' capital adequacy and liquidity positions and further progress in anti-money laundering initiatives should be pursued ahead of the FATF assessment that is expected to begin later this year.

Programs to reduce smuggling and informality would help to improve governance. The aim should be to shift this activity into the formal economy, broaden the tax base, and improve the ability to track economic developments. Reforms to tax and customs administration can help by tracking goods and improving compliance with import procedures. These efforts will play an important role in improving governance, where several priority reform areas remain.

Supply side reforms are needed to boost investment in hydrocarbons and mining and encourage the development of new industries. The hydrocarbons law should be reformed to incentivize new investments and to scale back existing requirements for producers to sell below cost to the domestic market. The mining laws should be revised to incentivize private investment in lithium and other sectors. Other reforms, including the loosening of export limits and price controls, the use of international arbitration, the development of a one-stop shop to assist foreign investors, and the removal of credit quotas and interest rate ceilings would all be welcome.

Bolivia should increase the share of electricity generation from renewable energy and facilitate an increase in green investments. Bolivia can expand on its recent NDC commitments by setting clear emissions targets, accelerating the development of the nation's lithium resources, and presenting itself as a destination for green investment.

Table 1. Bolivia: Selected Economic Indicators

(in percent of GDP, unless noted otherwise)

			Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Income and prices									
Real GDP	2.2	-8.7	6.1	3.8	3.2	3.0	2.8	2.6	2.5
Nominal GDP	1.5	-10.4	10.3	7.1	6.4	6.6	6.4	6.2	6.1
CPI inflation (period average)	1.8	0.9	0.7	3.2	3.6	3.5	3.5	3.5	3.5
CPI inflation (end of period)	1.5	0.7	0.9	4.2	3.6	3.5	3.5	3.5	3.5
Investment and savings 1/									
Total investment	19.9	15.8	16.8	17.9	17.5	16.9	16.4	16.1	16.1
Of which: Public sector	9.8	5.0	6.2	6.8	6.6	6.2	6.0	6.0	6.1
Gross national savings	14.2	12.5	13.9	10.7	10.4	10.0	9.5	9.0	8.5
Of which: Public sector	2.6	-7.7	-3.1	-1.6	-1.0	-1.0	-0.6	0.0	0.3
Combined public sector									
Revenues and grants	28.8	25.3	25.1	26.6	27.2	26.8	26.7	26.6	26.6
Of which: Hydrocarbon related revenue	4.8	4.7	3.6	3.5	4.2	3.8	3.5	3.3	3.2
Expenditure	36.1	38.0	34.4	35.0	34.9	34.2	33.3	32.7	32.5
Current	26.3	33.0	28.2	28.3	28.3	27.9	27.3	26.7	26.4
Capital 2/	9.8	5.0	6.2	6.8	6.6	6.2	6.0	6.0	6.1
Net lending/borrowing (overall balance)	-7.2	-12.7	-9.3	-8.5	-7.7	-7.3	-6.7	-6.1	-5.9
Of which: Non-hydrocarbon balance	-10.1	-15.2	-10.9	-10.1	-10.1	-9.4	-8.5	-8.7	-8.4
Total gross NFPS debt 3/	59.3	78.0	80.5	82.3	84.3	86.1	87.6	88.5	89.4
External sector									
Current account 1/	-3.3	-0.7	2.0	-1.6	-1.7	-1.9	-2.1	-2.6	-3.6
Exports of goods and services	24.9	20.0	28.1	30.7	28.9	27.6	26.4	25.2	24.1
Of which: Natural gas	6.6	5.4	5.5	6.0	5.9	5.6	5.2	4.6	4.0
Imports of goods and services	29.0	22.4	26.5	32.2	30.8	30.1	29.3	28.6	28.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.2	2.1	-0.4	-0.3	-0.5	-0.7	-0.9	-1.5	-2.5
Of which: Direct investment net	0.6	2.8	-1.2	-0.8	-0.7	-0.8	-0.8	-1.0	-1.2
Net errors and omissions	-3.4	-1.9	-3.3	0.0	0.0	0.0	0.0	0.0	0.0
Terms of trade index (percent change)	-0.7	2.9	4.0	-2.7	-0.5	-0.2	0.3	0.3	0.4
Central Bank gross foreign reserves 4/ 5/									
In millions of U.S. dollars	6,468	5,276	4,753	4,200	3,621	3,039	2,442	1,819	1,164
In months of imports of goods and services	9.4	5.9	4.1	3.5	2.9	2.4	1.8	1.3	1.0
In percent of GDP	15.7	14.3	11.7	9.6	7.8	6.1	4.6	3.3	2.0
In percent of ARA	92.4	70.7	58.3	46.8	37.9	29.8	22.6	15.9	9.8
Money and credit									
Credit to the private sector	6.7	9.1	4.6	7.1	6.4	6.6	6.4	6.2	6.1
Credit to the private sector (percent of GDP)	65.8	80.2	76.0	76.0	76.0	76.0	76.0	76.0	76.0
Broad money (percent of GDP)	79.1	97.6	94.3	96.6	98.6	100.4	101.7	103.6	106.2
Memorandum items:									
Nominal GDP (in billions of U.S. dollars)	41.2	36.9	40.7	43.6	46.4	49.4	52.6	55.9	59.3
Bolivianos/U.S. dollar (end-of-period) 6/	6.9	6.9	6.9	...	...	...	...	...	...
REER, period average (percent change) 7/	4.6	5.2	-4.2	...	...	...	...	...	...
Oil prices (in U.S. dollars per barrel)	61.4	41.3	69.1	103.9	91.1	82.3	76.3	72.3	69.9
Energy-related subsidies to SOEs (percent of GDP) 8/	1.4	1.7	1.3	1.6	1.4	1.2	1.1	1.0	0.9

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/ Official (buy) exchange rate.

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

8/ Includes incentives for hydrocarbon exploration investments in the projection period, but excludes the cost borne by public enterprises.

INTERNATIONAL MONETARY FUND

BOLIVIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

August 29, 2022

EXECUTIVE SUMMARY

Context. Supported by favorable terms-of-trade, the economy has recovered more rapidly than expected and output is now nearing pre-COVID levels, although it is expected to remain below the pre-COVID trend during the next five years. The windfall from higher prices for Bolivia's exports of food, minerals, and natural gas has bolstered private savings, some of which has been channeled to finance the budget deficit. Despite this, ongoing monetary financing, in the context of the fixed exchange regime, continues to drain international reserves. The inflation rate has been one of the lowest in the region, in large part a result of price controls and increased subsidies for food and energy.

Outlook and risks. Bolivia is expected to experience solid growth and low inflation over the near-term but the large fiscal imbalance poses a substantial risk to macroeconomic stability. Bolivia is facing sizable and continuing fiscal financing needs at a time when global financial conditions are tightening and reserve coverage is falling. As a result, the government is expected to continue to rely heavily on monetary financing which will further deplete international reserves. In addition, much of the existing stock of reserves is made up of short-term swap arrangements with private financial institutions, creating the risk that these reserves would be unavailable in the event the financial system comes under stress.

Policies. As the shock from the pandemic diminishes, fiscal policy should concentrate on funding programs for the most vulnerable while accelerating spending and revenue measures to bring the deficit down. Doing so will support the exchange rate peg and help avert a potential speculative attack. A carefully sequenced transition to a more flexible exchange rate could also help reduce vulnerabilities. Pension reforms are needed to address growing medium-term imbalances in the pension system. As loan forbearance instituted during the pandemic is unwound, scrutiny over the financial system should be strengthened—including through rigorous stress tests—to ensure that banks maintain adequate levels of capital and liquidity. Strengthening governance and combating corruption would help incentivize private investment and improve the efficiency of public investment. A careful withdrawal of fossil fuel subsidies would better align market incentives with the authorities' goal of decarbonizing the economy.

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

A mission consisting of Chris Walker (head), Tannous Kass-Hanna, Antonio Gabriel, Gabriel Moura Queiroz, Chris Evans (all WHD) and Sergio Cárdenas (local economist) was conducted during May 30-June 10, 2022. Ms. Ramos (OED) participated in the meetings with government officials.

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