



## BOLIVIA

### 2012 ARTICLE IV CONSULTATION

June 2012

Under the Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV Consultation with Bolivia, the following documents have been released and are included in this package:

- Staff Report for the 2012 Article IV Consultation, prepared by a staff team of the IMF, following discussions that ended on 3/30/12 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 5/16/12. The views expressed in the Staff Report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the Debt Sustainability Analysis prepared by the IMF.
- A staff supplement on the Informational Annex prepared by the IMF.
- A Public Information Notice (PIN).

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# BOLIVIA

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

May 16, 2012

### KEY ISSUES

**Short-term prospects.** Real GDP growth is projected at 5 percent in 2012 thanks to external tailwinds, strong gas export volumes, and mildly expansionary policies, which are supporting domestic demand growth. The external current account and the fiscal position are projected to show small surpluses. Downside risks in the short term are mitigated by strong buffers. With the output gap estimated to have closed and domestic demand strong, there is a risk of overheating.

**Strengthening the policy framework.** Against the background of their prudent macroeconomic management of recent years, staff encouraged the authorities to move decisively toward the adoption of a medium-term fiscal framework to manage the hydrocarbon wealth. Staff also advised greater transparency and accountability in the operations of public corporations as well as keeping the role of the central bank in developmental policies limited.

**Managing credit expansion.** Much progress has been achieved in expanding access to financial services by the population at large, amid improving financial soundness indicators and a sharp decline in dollarization. Preserving these gains will require monitoring the current credit expansion closely, maintaining banking sector buffers, and continuing strengthening supervision. Recent initiatives to strengthen the crisis management framework are welcome.

**Achieving high medium-term growth and social inclusion.** Meeting Bolivia's large infrastructure and development needs will require higher investment. Beyond ensuring the stability of the legal framework, improvements can be achieved through a removal of distortions and reducing microeconomic uncertainties. Social policies have been effective and Bolivia has made inroads toward achieving the MDGs. Further improving targeting and avoiding erosion in the real value of transfer programs will help further improve the conditions of the most vulnerable groups.

Approved By  
**Gilbert Terrier and Jan  
 Kees Martijn**

Discussions for the 2012 Article IV Consultation were held in La Paz and Santa Cruz during March 19-30, 2012. The mission comprised G. Lopetegui (head), F. Arizala, C. Fernandez-Valdovinos (resident representative), N. Griffin and O. Sulla. Victor De La Barra (Advisor, OED) joined the meetings. The mission met with Minister of Finance Arce, Central Bank Vice-President Boyan, other senior public officials, and representatives of the private sector.

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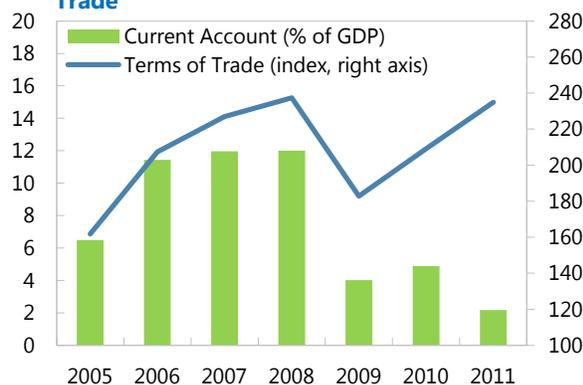
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## BACKGROUND

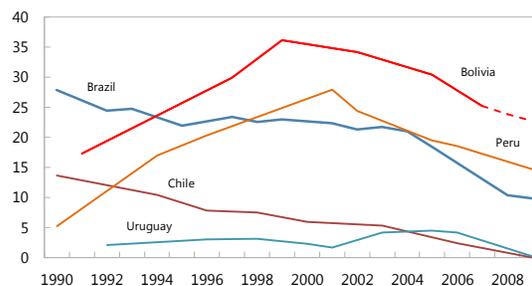
**1. Prudent macroeconomic policies, accompanied by strong terms of trade, have allowed Bolivia to achieve impressive economic outcomes in recent years.** Exports of goods have tripled since 2005, reflecting increased volumes of gas, mineral, and agricultural products, and the decade-long boom in commodity prices. Real GDP growth, which averaged 3.3 percent annually during 1996–2005, rose to an average of 4.7 percent during 2006–11. The fiscal position strengthened sharply, as larger export receipts, higher taxation of hydrocarbon production, and moderate rates of increase in government spending led to substantial fiscal surpluses. The external current account also registered surpluses, contributing to the build-up of a strong reserves buffer, now equivalent to close to 50 percent of GDP. Combined with the debt relief obtained under MDRI, these developments have helped Bolivia become a net external creditor country since 2008. In 2011, gross NFPS debt declined to less than 35 percent of GDP and net debt to only 14 percent, reflecting the accumulation of large general government deposits at the central bank.

**Current Account Balance and Terms of Trade**



**2. Strong results have also been achieved on improving social inclusion and income distribution.** Cash transfer programs have been successful in lowering extreme poverty, while investment in infrastructure has helped improve access to basic services (water and sanitation, energy) and transportation (mainly roads). Various initiatives have also been launched to support small businesses, generating employment and providing income stability to informal and vulnerable workers. To strengthen food security, the government has limited exports of certain products (sugar, soybeans, corn, meats) while reducing import tariffs on others and on inputs for their production. Social challenges persist, however, including still-high levels of poverty, infant mortality, and long-standing inequalities (Annex I).

**Selected Regional Countries: Poverty Headcount Ratio at US\$2 a day in PPP (percent of population)**



Source: World Bank, World Development Report, Instituto Nacional de Estadística de Bolivia, and IMF staff estimates.

**3. Private investment has remained subdued, amid lingering uncertainty about the legal framework.** The new constitution (2009), which gives the State a primary role in economic affairs, requires amending key economic laws, including those governing the central bank, the financial sector, the exploitation of natural resources, and inter-governmental fiscal relations. Social and regional disputes have also persisted,

including with respect to revenue-sharing arrangements and the location of infrastructure.

**4. In completing the 2011 Article IV consultation, the Executive Board welcomed Bolivia's strong economic performance, underpinned by prudent macroeconomic policies.** Directors concurred that the main short-term priority was to contain inflation, and stressed that meeting developmental needs and making inroads into

poverty reduction remained the main medium-term objectives (Box 1).

**5. Exchange system and statistics. Bolivia has accepted the obligations under Article VIII, sections 2, 3, and 4.** The exchange system is free of restrictions on the making of payments and transfers for current international transactions. Despite shortcomings, data provision to the Fund is broadly adequate for surveillance.

## RECENT DEVELOPMENTS, OUTLOOKS AND RISKS

### A. Recent Developments

**6. In 2011, economic activity remained robust amid strong domestic demand growth.** Real GDP grew 5.2 percent, led by domestic services, construction, and hydrocarbons production. After a sharp increase at the beginning of 2011, twelve-month inflation gradually declined to 4 percent in March 2012, reflecting a softening in international food prices, price agreements in agriculture, and a gradual re-anchoring of expectations. In 2011, domestic demand grew briskly, with imports climbing over 40 percent with respect to 2010. As a result, the external current account surplus narrowed from close to 5 percent of GDP to 2¼ percent of GDP, despite record-high export prices. International reserves rose to over 80 percent of M2 (which includes dollar denominated deposits), and about 50 percent of GDP (Figures 1 and 2).

**7. Policies have been broadly accommodative. The overall surplus of the public sector fell from 1.7 percent of GDP in 2010 to 0.8 percent of GDP in 2012.**

Revenue performance improved significantly, as collections registered a 25 percent increase

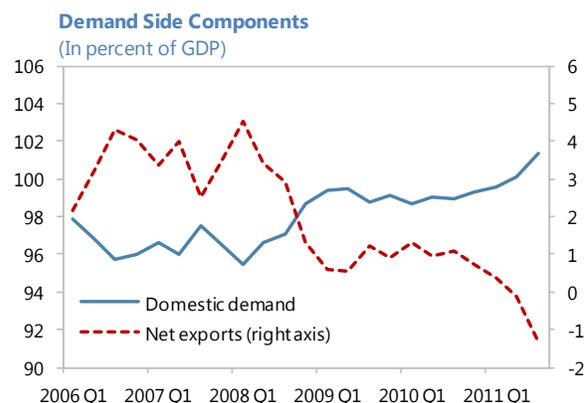
in real terms. This strength was particularly evident in the corporate income tax and VAT, reflecting both improved compliance and higher commodity prices and imports. At the same time, public investment picked up strongly, contributing to a fiscal impulse of about 1 percent of GDP (Figures 3 and 4).<sup>1</sup> In the monetary area, after a tightening in monetary conditions in early 2011, in response to the pickup in inflation, the central bank has been reducing the pace of liquidity withdrawal, allowing for a resurgence in excess bank liquidity (to above 5 percent of deposits). Banks have continued to expand credit to the private sector at a fairly brisk pace (above 20 percent y/y in nominal terms). During the course of 2011, the central bank let the Boliviano appreciate slightly (1.3 percent).

<sup>1</sup> Following standard practice in commodity exporting countries, the fiscal impulse is computed as the change in the cyclically –adjusted non-commodity primary balance.

## B. Outlook and Risks

**8. Growth prospects remain favorable in the near term, reflecting continued strength in the natural resource sector and private demand. Staff projects real GDP growth at 5 percent in 2012, in the context of still high terms-of-trade and accommodative policies.** Gas production and export volumes are expected to increase, while construction and services would continue leading GDP growth.

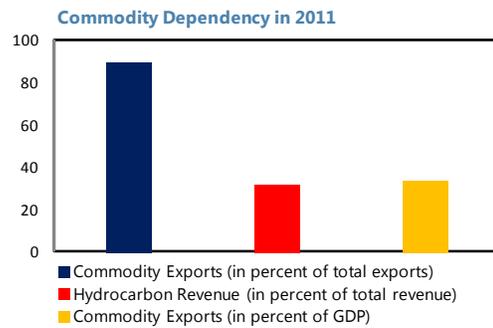
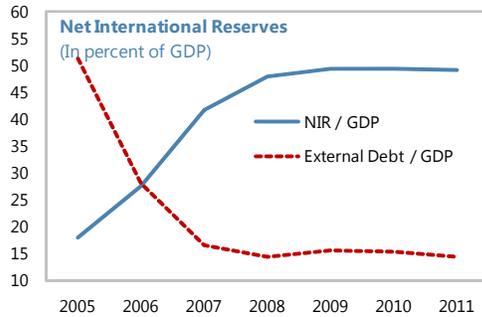
**9. With the output gap closed,<sup>2</sup> there are some risks that rapid demand growth could lead to overheating.** Inflation is projected at about 5 percent in 2012, assuming that food prices continue to trend down, with the strength of domestic demand representing some upside risks. A concern is that the upward trend in consumption and real estate growth would not be curbed early enough. Measured at constant prices, domestic demand has grown consistently above GDP in recent years, leading to declining net exports. And despite broadly similar terms of trade to those in 2008 (the previous peak), the external current account surplus has narrowed significantly since then (a drop of about 10 percentage points of GDP). Unemployment is now at record low levels (5½ percent), wages are rising—wages are up 8 percent and this year the minimum wage will increase by 22 percent—and shortages, albeit temporarily, have surfaced in the distribution of electricity.



**10. In the near term, downside risks from a more adverse external environment are mitigated by the strong financial buffers that Bolivia has built up in recent years.** Staff estimates that the first round effect of a decline in commodity prices—of around 20 percent for oil and minerals, and somewhat less for food<sup>3</sup>—would result in a deterioration of 5½ percentage points of GDP in the external current account balance and 2 percent of GDP in the overall fiscal balance. Bolivia’s international reserves and government deposits at the central bank—equivalent to 50 percent and 20 percent of GDP, respectively—would be more than adequate to buffer such a temporary adverse external shock. Moreover, external public debt has declined sharply in recent years and remains low at 14 percent of GDP, and a decline in gas export prices would take time to materialize, since existing contracts with regional partners follow international fuel prices with a lag of about six months.

<sup>2</sup> Calculated using HP filters.

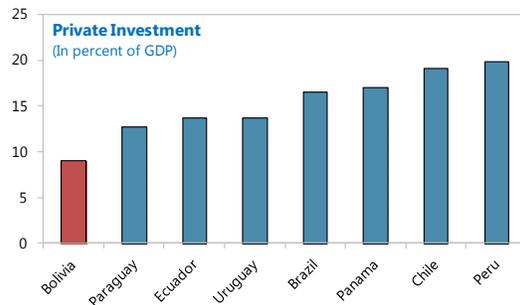
<sup>3</sup> As modeled in the 2011 Fall WEO’s adverse scenario.



**11. Prospects over the medium term are also favorable, and risks to the outlook are mainly associated with high commodity dependency and low levels of private investment.** Under staff’s baseline scenario, the economy will grow slightly above its observed long-term trend, assuming the maintenance of policies steered to anchor low level of inflation and maintain a small fiscal surplus—consistent with the government’s track record since 2006. But this scenario is subject to risks:

- Commodity dependency is high, accounting for roughly 90 percent of exports and 30 percent of fiscal revenue. As a result, Bolivia is vulnerable to a sustained fall in commodity prices. In addition, gas exports could decline later this decade if new fields are not developed, which would require a prompt increase in exploration activity. If prices or volumes of commodity exports (especially hydrocarbons) were to be affected significantly on a sustained basis (tail risk), policy adjustments, possibly in the form of a stronger non-hydrocarbon fiscal balance and a weaker real exchange rate, would be required. Financial sector developments would need to be carefully monitored in this scenario, given the significant increase in the size of the banking sector in recent years.

- Private investment is still low, compared with other countries in the region, conspiring against sustained economic growth, due to an uncertain business climate and longstanding goods and factor markets inefficiencies. In spite of some improvements in recent years, mostly on the back of stronger macroeconomic policies, Bolivia still ranks low in World Bank’s Doing Business Indicators (153/183) and World Economic Forum’s Global Competitiveness Index (103/142). It is possible, however, that official



data do not fully capture private sector investment, particularly in the informal sector of the economy. If this part of investment turned out to be significant, it is conceivable that long-term growth could be higher than estimated at present.

**12. The authorities disagreed with the balance of the risks presented by staff and stressed that their policies were aimed at**

**mitigating other key risks.** In the short-term, they viewed the deterioration of the external environment as the key risk. They agreed that financial cushions are ample enough and stressed that the 2008-09 experience had shown the resilience of the Bolivian economy and demonstrated its low exposure to global financial sector distress. They believed that, in the current context, overheating would be highly unlikely, including because their policies would expand supply. The authorities also

underscored that their policies were aimed at mitigating medium-term downside risks, including through the additional public investment to expand gas and mineral production and to develop these sectors downstream. They also expressed confidence that recent incentives to spur private sector investment in the hydrocarbon sector (see below) would contribute to higher growth and lower commodity dependency.

Bolivia: Selected Economic Indicators

	2008	2009	2010	2011	2012
Real GDP (percent change)	6.1	3.4	4.1	5.2	5.0
CPI (end of period percent change)	11.8	0.3	7.2	6.9	5.0
Overall fiscal balance (percent of GDP)	3.6	0.2	1.7	0.8	0.9
Of which: Non-hydrocarbons fiscal balance (percent of GDP)	-7.5	-10.3	-8.1	-8.7	-9.4
Current account balance (percent of GDP)	12.0	4.3	4.9	2.2	1.6

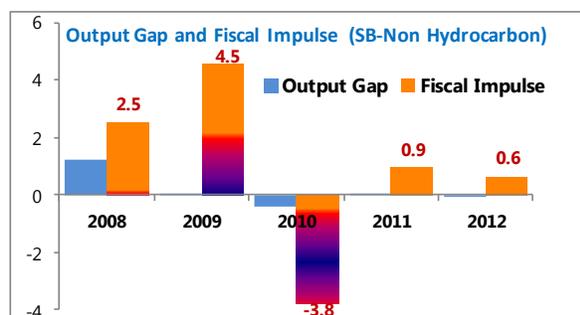
## POLICY DISCUSSIONS

*Discussions focused on the appropriate policy mix for 2012 and on medium-term challenges to achieving strong, sustained, and inclusive growth. Staff recommended the adoption of policies aimed at reducing overheating risks in the short-term and noted that Bolivia is in a solid position to sustain economic growth and poverty reduction over the medium term, through an increase in private investment and the efficient implementation of ambitious public investment plans.*

### A. Fiscal Policy

**13. To reduce upside risks to inflation and maintain strong financial cushions, staff suggested aiming at a somewhat higher fiscal balance in 2012.** Over the past few years, fiscal policy has been appropriately geared to smoothing out the effects of external shocks. However, the output gap is estimated to have closed, and some fiscal impulse ( $\frac{1}{2}$  percent of GDP) is projected for

2012. The authorities considered that this modest impulse was appropriate, given the risks of a slowdown in activity. They highlighted that public investment would remain high, as required for the development of infrastructure and the process of industrialization based on natural resources.



**14. Risks on the spending side call for an improvement in the non-hydrocarbon fiscal balance over the medium term.** The non-hydrocarbon fiscal balance<sup>4</sup> is projected to reach a deficit of 9½ percent of GDP in 2012, consistent with public spending equivalent to 35½ percent of GDP. Based on staff's projections, the non-hydrocarbon fiscal deficit would decline below 8 percent of GDP over the medium-term, as higher interest rates on net international reserves would boost government revenue. Staff noted that this fiscal scenario is subject to risks on the spending side, as ambitious investment plans in various ministries may not be consistent with the objective of maintaining investment at about 13 percent of GDP over the medium term. In addition, there is a need to strengthen incentives to private domestic oil production (see paragraph 25), which will require adjusting prices paid to producers by the state-owned oil company or reducing high taxes on oil production. The authorities agreed that investment could rise beyond the projected levels but emphasized that macroeconomic stability was high among government priorities and that the sustainability of fiscal policy would not be

<sup>4</sup> The non-hydrocarbon balance is defined as the total balance minus the hydrocarbon balance (hydrocarbon revenue, minus investment by the state-owned oil and gas company).

compromised. Staff recommended financing additional capital spending through further improvements in the non-hydrocarbon fiscal balance.

**15. A gradual reduction in energy subsidies would strengthen the non-hydrocarbons fiscal balance.** To offset additional outlays related to investment or current expenditure,<sup>5</sup> staff suggested a gradual reduction in fuel subsidies.<sup>6</sup> Guided by international experience in that area, staff considered that, to be successful, such a reduction would need to be accompanied by better targeting of social policies to protect the most vulnerable groups and/or special policies for public transportation.<sup>7</sup> Staff also noted that, in line with earlier technical assistance work, there was some space to strengthen direct taxation as well. The authorities, however, indicated that social resistance to both reducing fuel subsidies and increasing direct taxation were likely to prevent changes to policies in these areas.

**16. The authorities plan to diversify financing sources.** The authorities intend, conditions permitting, to issue sovereign debt in the international markets in an amount of US\$500 million in the coming months. While financing needs are not pressing in 2012, the authorities' objective is to develop a financing alternative for investment over the medium-

<sup>5</sup> A larger role of the State in economic activity may give rise to higher current spending, and social spending may also need to increase.

<sup>6</sup> If fully eliminated, staff estimates that net public sector revenue could increase by 4-6½ percent of GDP, depending on demand elasticity.

<sup>7</sup> Subsidy reforms accompanied by a strengthening of social policies include the cases of Indonesia (2005, 2008), Iran (2010), Jordan (2005), and Mozambique (2008).

term. While supporting the diversification of financing sources, staff encouraged the authorities to develop a debt and investment strategy in the context of a medium-term fiscal framework, including with integrated scenarios of public investment and financing needs. Staff also noted that the issuance of an international bond would help establish a benchmark for access to foreign financing by the private sector. To reduce the carrying cost of debt and make public sector cash management more efficient, staff and the authorities agreed that efforts to mobilize the savings of subnational governments (now earning no interest on deposits at the central bank) should continue, including through the voluntary placement of central government paper.

**17. Staff cautioned against excessive central bank financing to public corporations.** So far, the central bank has been authorized to lend the equivalent of almost US\$5 billion, or about 40 percent of NIRs, to public corporations and development projects. The central bank board has already approved the terms for about US\$2 billion of this lending, which will be granted in local currency at fixed interest rates below 1 percent, and with a maturity of at least 20 years. Staff noted that central bank lending for developmental purposes is strictly limited in most countries (Box 3) and expressed concern that the size and terms of these operations could result in quasi-fiscal losses for the central bank, especially under adverse external scenarios.<sup>8</sup> In that respect, staff noted

<sup>8</sup> Risks are currently limited, since reserve accumulation is expected to continue and most of central bank liabilities are in local currency and at zero rates (government deposits and monetary base are equivalent to about US\$11.2 billion). But both factors could change significantly in different macroeconomic circumstances.

that the central bank does not have expertise in assessing commercial and industrial risks. Thus, staff urged caution in the granting of new financing and the pace of disbursement of approved loans, through a strict prioritization of public investment plans. The authorities emphasized that the level and terms of central bank lending took into consideration current economic conditions, expected risks, and the need to ensure implementation of their economic and development plans. They underscored that price stability would not be subordinated to any other objectives.

**18. Staff encouraged the authorities to advance with their plans to set up a medium-term fiscal framework (MTFF) for the exploitation of natural resources.** In recent years, the authorities have conducted fiscal policy skillfully, attaining a good balance between saving part of the gas windfall and strengthening social policies and investment. Given that the risk of macroeconomic volatility from commodity boom-bust cycles is important, staff recommended that medium-term fiscal policy be guided by the objective of avoiding pro-cyclical spending while building strong buffers for insurance purposes in a stabilization fund.<sup>9</sup> A MTFF would also help introduce intergenerational equity considerations in the design of fiscal policy, as natural resource depletion would be balanced against strong developmental needs. The authorities indicated that these objectives were consistent with their policy agenda and expected that consensus would gradually build toward these ends. They indicated that work had started to project revenues and

<sup>9</sup> The 2010 Decentralization Law contains provisions for the set up of a stabilization and development fund, broadly along these lines.

expenditures on a multi-year basis, and that these projections would soon be attached to

the annual Budget for discussion in congress.

## B. Monetary and Exchange Rate Policies

### 19. Staff noted that keeping inflation expectations well anchored at a low level could require some monetary tightening.

Interest rates remain low, and are negative in real terms for deposits. At the same time, excess liquidity in the banking sector is high, which could potentially fuel higher credit growth levels. In that context, staff recommended taking steps to reduce the monetary impulse with a view to avoid feeding too rapid consumption growth. The authorities indicated that they would be ready to tighten, if warranted by inflation or external developments, but did not think that such a tightening was needed at this stage. They also noted that inflation expectations were well anchored and that there was no strong evidence that asset prices were out of line with fundamentals. The authorities also considered that higher credit expansion would help support economic activity amid global and regional output deceleration.

### 20. With respect to the exchange rate arrangement, the central bank reiterated its view that the current crawling peg regime provides the flexibility needed to manage

**imbalances.** Staff and the authorities agreed that there was no immediate need to alter the exchange rate level, given the presence of a high reserves buffer and no clear evidence of exchange rate misalignment (Box 2). Staff noted that banking sector dollarization has declined in recent years, to currently encompass less than 40 percent of deposits and 30 percent of loans. This, in staff's view, creates favorable conditions for the introduction of a crawling band, under which additional exchange rate flexibility could be introduced while avoiding unduly high volatility. Staff also commented that the introduction of a higher degree of exchange rate flexibility over the medium term would be important in helping the economy adjust to terms-of-trade shocks. The authorities, however, did not think that conditions have matured sufficiently to justify a shift toward more flexibility. Rather, they strongly argued against changes to their current policies. They observed that exchange rate stability has been a key factor behind Bolivia's strong economic performance as, in their view, excessive exchange rate volatility adversely affects private sector confidence.

## C. Financial Sector Policy

### 21. With strong financial sector indicators, and in the context of high credit growth, staff and the authorities agreed that close monitoring of financial sector conditions remained important.

Staff welcomed the authorities' recent decisions to increase provisioning requirements and to

continue assessing bank risks to adverse scenarios, including through stress tests.<sup>10</sup> The authorities expressed their satisfaction for having attained a good balance between

<sup>10</sup> The central bank and the bank supervisor conduct credit risk and liquidity risk stress tests, with the central bank focusing on effects on the aggregate system and the supervisor on individual institutions.

moderating inflation and ensuring continued credit expansion. Staff cautioned that credit growth might need to moderate further and suggested to continue aiming at gradual rise in short-term interest rates to increase incentives for savings.

**22. To contribute to a moderation of credit growth, staff suggested the use of reserve requirements and other macroprudential measures. In particular, staff argued in favor of increasing reserve requirements on local currency deposits, now at an effective rate of 7 percent.**<sup>11</sup> This, together with other macro-prudential measures, would help strengthen buffers in the financial sector while reducing the cost of sterilization. The authorities expressed the view that the adequacy of regulations in the banking sector was assessed on a regular basis and they saw no need for changes at this stage. They noted, however, that reserve requirements on dollar deposits (currently at an effective rate of about 27 percent) are well above those on boliviano deposits and are scheduled to rise further over time, in an effort to contribute further to de-dollarization and to absorb excess liquidity.

**23. Staff and the authorities discussed plans to strengthen financial sector legislation.** Staff welcomed the adoption of some of the FSAP recommendations and plans to: (i) enhance the financial system safety net, with the introduction of a limited deposit insurance scheme, without direct cost to the

government;<sup>12</sup> and (ii) maintain strong capital requirements, by giving bank supervisors authority to request capital increases beyond minimum levels with a view to reducing pro-cyclical behavior. The authorities also noted that they were exploring mechanisms to enhance access to credit for productive purposes and for low-income housing. Staff emphasized the need to avoid measures of direct control of credit or interest rates. Instead, enhanced access to credit should be delivered through special programs that transparently establish instruments and costs through the budget.

**24. The authorities are working toward strengthening AML/CFT regulations, to comply with international norms.** In its recent assessment, the FATF has identified areas for strengthening in the AML/CFT framework. There was agreement with the authorities that aligning domestic practices and the legal framework with international norms will be important to protect the reputation of Bolivia's financial sector as well as its access to external financing. In this direction, a strengthened strategy for the Financial Intelligence Unit, including with the hiring of more personnel, has been launched, and work has started to address weaknesses in the regulatory framework for AML/CFT, including with technical assistance from the Fund.

<sup>11</sup> The statutory rate on boliviano-denominated deposits is 12 percent, but banks face reduced requirements if they have increased their loan portfolios.

<sup>12</sup> A deposit insurance function would be added to the existing Fund for bank resolution, which is funded through fees paid by commercial banks.

## D. Structural Policies

**25. Staff recommended moving ahead with the enactment of key economic laws to remove deterrents to private investment, highlighting that sector policies could be enhanced to quickly spur investment.**

Despite the launching of a large number of initiatives to support micro and small business, a comprehensive strategy to promote investment by medium and large private enterprises still needs to be developed. With a few exceptions, the formalization of jobs and new investment has been hampered by uncertainties in the legal framework that remain unresolved (hydrocarbons law, mining law, commerce code, labor code). In addition, to ensure a level playing field in the productive sectors of the economy, there seems to be a need to better specify the scope of public sector intervention while ensuring that, at all times, the process of compensation of the former owners of nationalized companies is fair and swift. Against this background, staff made the following suggestions based on international experience: (i) in the hydrocarbon sector, gradually increase domestic fuel prices to limit the cost of subsidies; lower taxation (especially, taxes of 50 percent on the value of production) to provide better incentives for local production of oil; and approve the new legal framework to jump start private exploration; (ii) in agriculture, facilitate the adoption of new technology to improve yields and reduce uncertainties that prevent investment and bank financing; (iii) in the electricity sector, the new framework law should promptly clarify pricing policies—balancing social and developmental needs with incentives for the expansion of generation capacity through adequate cost recovery—and the scope of participation by the private sector.

**26. The authorities noted that finalizing the legal framework would require more time to consult with stakeholders, and that new public sector initiatives were designed to boost private investment.** In oil and gas, the state-owned holding YPFB has launched a campaign to attract investment in more than 50 exploration areas, conducting road shows worldwide that were well received. In addition, new incentives to spur additional production of liquid fuels have been enacted,<sup>13</sup> and a number of investments are being undertaken to add value to gas production. In agriculture, financial support programs (insurance and guarantee funds) and support to small producers by the state-owned food company Emapa have helped expand production. In electricity, new generation plants have been installed to satisfy demand and energy-saving initiatives have been launched.

**27. Staff recommended adopting a stronger framework for investment evaluation and to support efficiency in the operations of public corporations.** The increasing role of the state in the production of goods and services through state-owned enterprises (SOEs) warrants a stronger governance framework to ensure effectiveness in their operations while minimizing fiscal risks. While the authorities have made progress with the setting up of SEDEM, an agency designed to coordinate and enhance the operations and management of small enterprises, a broader strategy is needed to encompass all public corporations. Such a strategy should include

<sup>13</sup> If the incentives are successful, the costs to the budget may be very small or negative, since imports of diesel (heavily subsidized domestically) are expected to decline.

best corporate practices to reduce fiscal risks, including independent pricing and employment policies. The elaboration of reports on performance and risks—including the evaluations of scenarios simulated at lower commodity prices—and external audits of the financial statements would also help improve transparency. The authorities reported that work on a new law for Public Corporations was advancing and that it would incorporate some of these recommendations.

**28. Staff welcomed progress in social policies, which has allowed Bolivia to make inroads toward achieving its Millennium**

**Development Goals.** While supporting the government strategy, staff noted that maintaining the effectiveness of social spending would require more public resources over time. In particular, social policy should aim at maintaining the real value of transfer programs (benefits have been constant in nominal terms in the last two years) and enhancing the delivery of education and health services—a priority given still-high levels of infant mortality and child malnutrition. In preparing the budget, staff encouraged the authorities to weigh the benefits of additional social spending against those of large investment projects.

## STAFF APPRAISAL

**29. The Bolivian economy maintained a strong performance in 2011.** Real GDP growth accelerated, on the back of strong terms-of-trade and accommodative policies. Strong demand growth led to a narrowing of the external current account surplus and, despite buoyant revenue, the fiscal surplus declined due to fiscal impulse. Net international reserves climbed to new highs, thus offering strong protection to external shocks. Bank credit continued to expand at rapid rates, amid strong financial soundness indicators.

**30. The outlook for 2012 is favorable and short term downside risks are manageable.** Real GDP is expected to continue growing at a fast pace, reflecting still high terms of trade and mildly expansionary policies. The external current account and the fiscal balance are expected to remain in surplus. Downside risks from an adverse external environment are limited by strong financial cushions and proven resilience of the Bolivian economy to financial shocks.

**31. A shift in macroeconomic policies to a more neutral level might be required to consolidate the decline in inflation and reduce overheating risk.** The envisaged fiscal impulse is modest, but a higher fiscal balance would help offset strong private demand growth. The central bank may want to absorb part of the large excess liquidity in the banking sector with a view to slowing credit growth and seeking a gradual increase in short-term and deposit interest rates.

**32. Given the outlook for commodity prices, projected fiscal spending for 2012 is compatible with a sustainable fiscal position over the medium term.** Under current policies, public debt will remain on a downward path over the next few years, as the nonfinancial public sector is expected to run modest surpluses.

**33. To protect public investment and make room for higher social spending, a strengthening of the non-hydrocarbon balance is recommended.** Increasing

productive and social investment—while containing current expenditure—would require either higher revenue or reducing other spending. Reducing fuel subsidies, with appropriate compensatory measures, and strengthening direct taxation would help to make space for these additional outlays.

**34. Reforms to the policy framework, building on the authorities' plans, will help improve policy responses to changing economic conditions.** Setting up a medium-term fiscal framework for the exploitation of natural resources would help avoid pro-cyclical fiscal spending and build buffers to insure against commodity price volatility. It will also help introduce intergenerational equity considerations in the design of fiscal policy, as natural resource depletion is balanced against strong development needs.

**35. Limiting the role of the central bank in financing public investment would help reinforce the strength of monetary policy.** In line with international experience, central bank financing for development purposes should be limited, to avoid the emergence of quasi-fiscal losses, especially under adverse external scenarios. As lower dollarization becomes more entrenched and domestic financial markets develop further, the authorities will have room to move toward greater exchange rate flexibility.

**36. The expansion of public sector involvement in productive activities and investment should be accompanied by a stronger governance and accountability framework.** A strategy encompassing all public corporations, as planned with the enactment of a new law for Public Enterprises, is needed. Elements of the legal framework should include a requirement that financial

statements be externally audited; that the cost of quasi-fiscal operations be disclosed; and that reports be elaborated on the performance of companies and the risks they face. In tandem, there is a need to step up efforts to ensure the effectiveness of public spending and enhance implementation capacity across all levels of government.

**37. Building on important improvements in the financial sector, further strengthening is needed to ensure macro-financial stability.** Financial sector indicators are strong, but credit expansion needs to be monitored closely and banking sector buffers maintained. Staff welcomes the progress in the adoption of FSAP recommendations. Plans to strengthen the financial system safety net, with the introduction of a limited deposit insurance, should help consolidate the strength of the banking sector. In addition, direct controls on the price and allocation of credit should be avoided. To preserve Bolivia's financial system integrity, the AML/CFT regime should be rapidly strengthened to comply with international norms.

**38. Sustaining high and stable medium-term growth will require improvements in the business environment.** A key challenge will be to adapt the legal framework for natural resources and private investment to the mandates of the Constitution in a way that ensures clear and stable rules of the game for the private sector. Clearly defining the scope of public sector operations while ensuring a fair and swift process of compensation of the former owners of nationalized companies would also contribute to reducing risk perceptions.

**39. Progress in social policies has allowed Bolivia to make inroads toward achieving its Millennium Development Goals.** Maintaining the real value of cash-transfer programs to preserve their impact and enhancing the delivery of education and health services are priorities. Appropriate incorporation of these needs in the budgetary process will be important in the period ahead.

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

### Box 1. Fund Policy Recommendations and Implementation

**Monetary and exchange rate policy.** Directors recommended rapid exit from the monetary stimulus and a moderate appreciation of the currency to help reduce inflationary pressures. Over the medium term, directors suggested greater exchange rate flexibility to enhance the economy's capacity to respond to external shocks.

*The authorities responded to rising inflation by withdrawing liquidity through open market operations, especially in the first half of 2011. The Boliviano was allowed to appreciate slightly during the year.*

**Fiscal policy.** Directors stressed the importance of increasing productive and social investment to address developmental needs, while enhancing the effectiveness of public spending and implementation capacity across all levels of government. Directors welcomed plans to introduce multi-year budgeting and a fiscal savings fund to facilitate anti-cyclical policies and encouraged the authorities to limit fiscal claims on the central bank and enhance the transparency of state owned enterprises.

*The authorities are working on multi-year framework to guide fiscal policy and budget planning and envisage basing their budget projections on prudent estimates of oil and gas prices to generate savings and accumulate them in a fiscal fund. They indicated that they continue to work on a framework law for public corporations, which would provide tools for enhanced management and governance.*

**Financial sector.** Directors highlighted the need to continue improvements in the financial sector in line with FSAP recommendations, especially to ensure appropriate levels of banks' liquidity and capital buffers. They suggested to avoid using interest rate policy and prudential rules for development purposes, recommended strengthening financial sector supervision more broadly, and considered that deposit insurance would be a useful addition to the crisis management framework.

*Implementation of recommendations is underway (details are presented in Annex II).*

**Structural policies.** Directors stressed the need to improve investment climate through further reforms of the legal framework to ensure clear and stable rules for the private sector. They also called for strengthened social policies, improving further the targeting of transfer programs, facilitating the reduction of fuel subsidies, and introducing free price setting in agriculture.

*Envisaged legal reforms in the mining and hydrocarbons sectors are still under discussion. The reform of the fuel pricing policy is subject to political constraints. The authorities believe that price and trade controls in agriculture are necessary to limit speculation and ensure food security.*

## Box 2. Exchange Rate Assessment

**Staff estimates based on CGER methodologies suggest that the Boliviano is currently roughly in line with fundamentals.** There are some uncertainties associated with the application of these methodologies to Bolivia, since:

- they do not fully incorporate the implications of the exhaustion of natural resources within a predictable timeframe and the associated intergenerational considerations that may drive net assets accumulation in the near term;
- current account volatility is particularly high in Bolivia because of commodity price fluctuations, which makes it difficult to separate underlying trends from temporary changes, complicating the estimation of the underlying current account balance;
- the Bolivian economy has experienced large structural changes in recent years and, hence, past values of fundamental variables may be poor guides of their future levels.

With these caveats in mind, on average, the CGER approaches indicate a slight overvaluation of 2 percent, well within the margin of error typical of these estimates. The result is primarily driven by the Macroeconomic Balance (MA) approach. In particular, lower commodity prices and higher imports projected over the medium term have reduced the underlying current account balance (CAB), requiring a mild weakening of the real exchange rate to close the gap with the estimated current account norm. The other two approaches indicate smaller deviations of the Boliviano from the fundamentals.

- The Macroeconomic Balance (MB) approach indicates that a weakening of Bolivia's real effective exchange rate (REER) would be needed to close the difference between the underlying CAB and the current account norm. This result hinges on an underlying CAB that is roughly balanced, and a current account norm estimated at 2.6 percent of GDP. The level of the current account norm reflects mainly relatively high hydrocarbon trade and fiscal balances, and low old-age dependency ratios.

Bolivia: ER Assessment	
REER Deviation from Equilibrium 1/ (In percent)	
MB approach	4.4
ES approach	1.5
ERER approach	-0.3
Average	1.9

Source: Fund staff estimates.

1/ Undervaluation (-), overvaluation (+)

- The External Sustainability (ES) approach suggests that the Boliviano is overvalued by 1.5 percent. This assumes that Bolivia's net foreign assets would stabilize at their end-2011 level (18 percent of GDP), requiring a CAB of 1 percent of GDP.
- The Equilibrium Real Exchange Rate (ERER) approach points to undervaluation of about 0.3 percent. The model calculates the equilibrium REER on the basis of the terms of trade, net foreign assets, public expenditure, FDI, and relative productivity. The results of the model, however, are subject to a higher degree of uncertainty compared with the other two approaches. Firstly, the model does not take into account the significant structural changes of Bolivian economy in the estimation period, especially those associated with the production of natural gas. In addition, the specification is not fully robust, as the coefficient of the terms of trade variable has a negative sign, in contrast with the expected positive effect that terms of trade should have on the real exchange rate.

### Box 3. Central Bank Lending: Bolivia and International Practices

**In line with the government's development strategy, central bank financing of public enterprises and other development projects has been authorized in recent years.** Overall lending approved between 2009 and 2012, including the recently-approved establishment of FINPRO, and investment fund, is equivalent to US\$4.8 billion. Of this total, only 11.5 percent has been disbursed so far. According to the terms of approved central bank loans so far, they are extended in Bolivianos at highly concessional rates (0.9 percent on average), with maturities ranging from 20-30 years.

**According to a recent study,<sup>1</sup> concessional financing by central bank to public corporations is rare.** About two-thirds of the countries in the sample of 152 advanced and developing economies prohibit central bank lending to the government or restrict it to short-term loans. Most advanced economies do not allow central bank financing to the government for development purposes, while in some countries in Latin America, for example, Brazil, Chile and Guatemala; it is banned in the constitution.

Central Bank Credit to Public Corporations				
	Approved		Disbursed	
	USD bln	Percent GDP	USD bln	Percent GDP
YPFB	2.3	8.7	0.3	1.2
ENDE	0.7	2.6	0.2	0.7
COMIBOL	0.9	3.3	0.0	0.1
EASBA	0.2	0.8	0.0	0.2
FINPRO	0.6	2.2	0.0	0.0
<b>TOTAL</b>	<b>4.8</b>	<b>17.7</b>	<b>0.6</b>	<b>2.2</b>

**Some developing countries permit limited, short-term financing to the government on close-to-market terms to smooth out revenue fluctuations.** In those countries, the beneficiary is exclusively central government, rather than public corporations, with a few exceptions like Jordan, Nicaragua, Pakistan and Yemen. The maturity of central bank loans tends to be short (around 180 days, and up to a year in some African countries and the Caribbean). The amount of lending, if allowed, is limited and defined as proportion of the national budget (5 percent of government expenditures in Costa Rica or 25 percent of national budget in Bahrain).

<sup>1</sup> Jacome L, Matamoros-Indorf M., Sharma M. and Townsed S. 2012, "Central Bank Credit to Government: What Can We Learn from International Practices?", IMF Working Paper, Washington D.C.

**BOLIVIA: RISK ASSESSMENT MATRIX**

<b>Nature/Source of Main Risks</b>	<b>Likelihood of Realization in the Next Three Years</b>	<b>Expected Impact on Economy if Risk is Realized</b>
<b>Overheating</b>	<ul style="list-style-type: none"> <li>• Staff assessment: Medium.</li> <li>• The output gap is estimated to have closed and domestic demand is growing above production.</li> <li>• Sustained strength in terms of trade and expansionary policies could continue keeping demand above production.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff assessment: Low</li> <li>• Although inflation may temporarily increase, past experiences in Bolivia show that inflation can come down quickly when policies are adjusted accordingly.</li> </ul>
<b>A substantial and prolonged decline in global commodity prices</b>	<ul style="list-style-type: none"> <li>• Staff assessment: Low.</li> <li>• A softening of global growth could lower commodity prices, while possible supply disruptions in Middle East could raise oil prices.</li> <li>• Even if global commodity prices were to decline substantially, the prices of Bolivian gas exports would not fall immediately given that existing contracts with regional partners follow international fuel prices with a lag.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff assessment: Medium to High.</li> <li>• Bolivia is highly dependent on commodity exports, especially on hydrocarbons.</li> <li>• External and fiscal balances would deteriorate, and public investment could possibly decline.</li> <li>• Financial sector could amplify shock.</li> <li>• Large international reserves create some buffers.</li> </ul>
<b>Natural gas production decline in Bolivia</b>	<ul style="list-style-type: none"> <li>• Staff assessment: Low to Medium</li> <li>• Exploration remains low.</li> <li>• High level of taxation, domestic pricing policies, and the absence of final legal framework is deterring private investment.</li> <li>• Incentives are about to be implemented to increase local fuel production</li> <li>• State-owned company just launched international campaign to attract investments.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff assessment: Medium to High</li> <li>• Natural gas exports are equivalent to 50 percent of total exports.</li> <li>• Hydrocarbon revenue represents about 30 percent of total public sector revenue.</li> </ul>
<b>A worsening of global liquidity and financing conditions</b>	<ul style="list-style-type: none"> <li>• Staff assessment: Medium to high.</li> <li>• Risks in Eurozone continue to be important, with possible spillover effects over the global financial system.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff assessment: Low.</li> <li>• Foreign banks participation in the financial sector is low and loans are funded domestically. Private capital inflows are low.</li> <li>• Dollarization may increase slightly in response, but Bolivia has successfully reduced the amount of financial dollarization in recent years.</li> <li>• Exports to Europe are less than 10 percent.</li> </ul>

Nature/Source of Main Risks	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized
<b>Weak private investment</b>	<ul style="list-style-type: none"> <li>• Staff assessment: High.</li> <li>• Weaknesses in the business environment are longstanding in Bolivia.</li> <li>• Revisions to key economic laws have been slow, adding to legal uncertainty.</li> <li>• Government intervention could extend beyond strategic sectors, reducing incentives for private sector participation.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff assessment: Medium.</li> <li>• Medium-term growth could fall back to pre-boom levels.</li> <li>• Risk may be mitigated by higher public sector investments..</li> </ul>

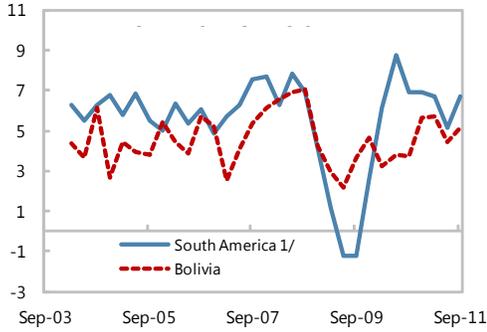
Figure 1. Bolivia: Real Sector Developments

The Bolivian economy continued to expand at a robust pace in 2011 despite the slowing in its neighbors, with GDP growth estimated at 5.2 percent. Inflation has moderated from a year ago (from 11 percent in March 2011 to 4 percent in March 2012, y/y) largely reflecting the slowdown in the growth of food prices.

Bolivia's economic activity remained robust in 2011, despite the visible slowing in the economic activity of neighboring countries.

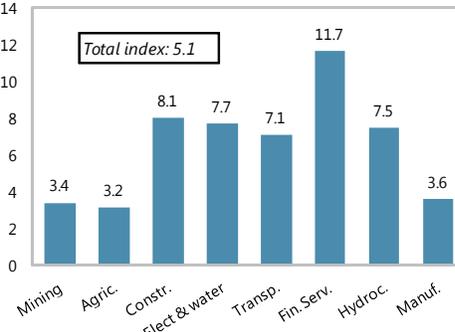
Growth in 2011 was broad based, but agriculture, mining and manufacturing lagged behind.

**Real GDP Growth**  
(y/y percent change)



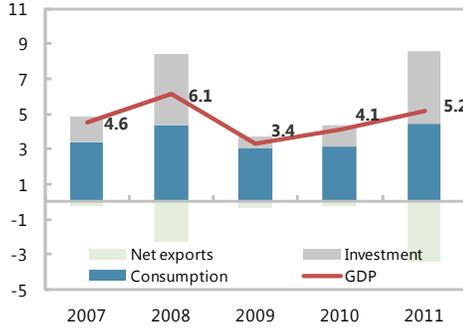
From the demand side, growth in consumption continues to drive the overall growth...

**Monthly Economic Activity Indicator**  
(Jan-Dec 2011, y/y percent change)



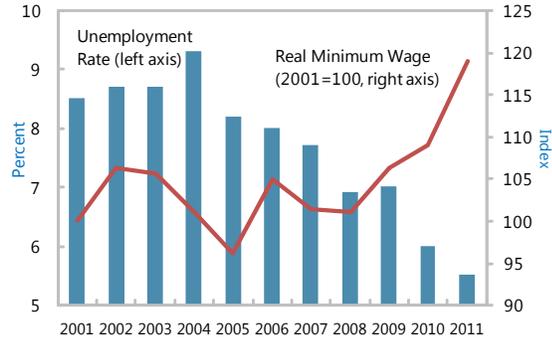
...supported by high employment and real wages, and an uptick in consumer credit.

**Real GDP Growth**  
(Annual percent change, contributions)



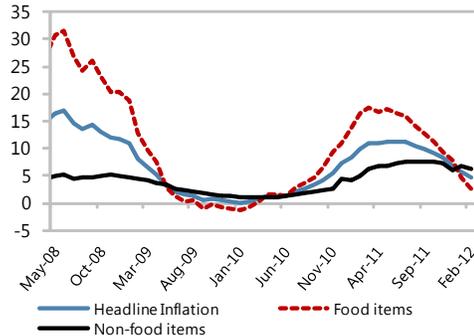
Inflation has moderated from a year ago, due to the fall in the growth of food prices.

**Labor Market Developments**

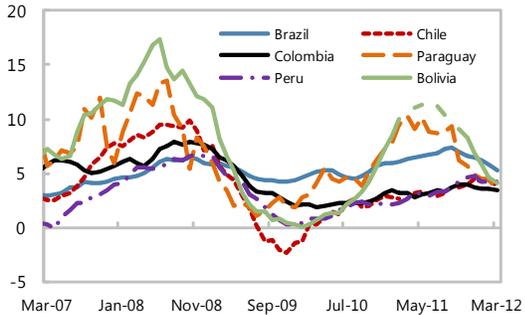


As a result, the inflation rate covered with other countries in the region.

**CPI Inflation**  
(y/y percent change)



**Headline Inflation**  
(y/y percent change)



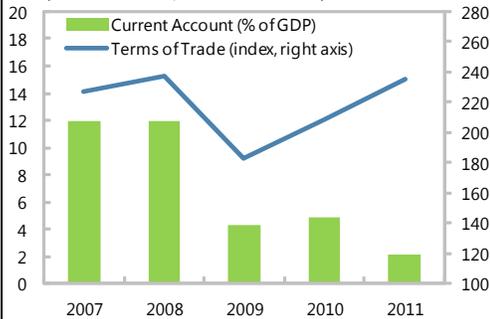
Sources: Central Bank of Bolivia and Fund staff estimates.  
1/ Median real GDP growth of Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

Figure 2. Bolivia: External Developments

Current account surplus fell from 5 percent in 2010 to about 2 percent in 2011 due to a surge in imports, despite continued strength in commodity exports. Capital account improved significantly, as net capital flows (excluding FDI) turned positive while FDI inflows remained steady. High level of foreign reserves provides ample buffer to adverse shocks.

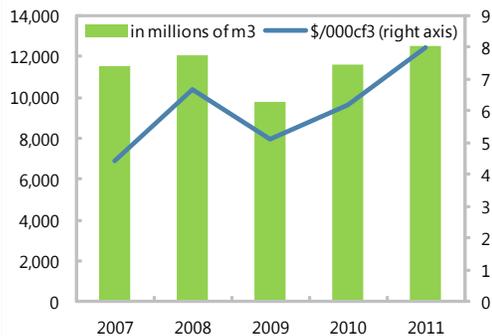
Bolivia's current account surplus fell to 2 percent in 2011, despite continued strength in terms of trade.

**Current Account Balance and Terms of Trade**  
(Percent of GDP, index 2000=100)



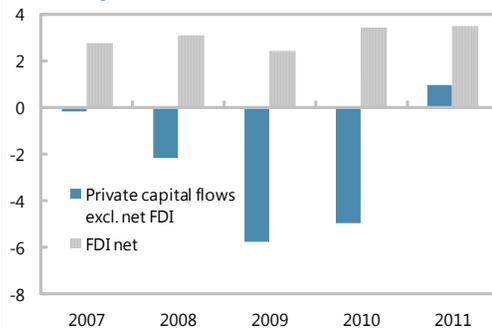
Increase in gas exports stems from an increase in both prices and volumes.

**Export Volumes and Price of Gas**



Capital account improved as net capital flows (excluding net FDI) turned positive.

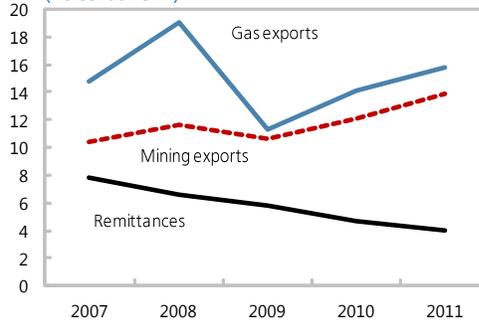
**Private Capital Flows and FDI**  
(Percentage of GDP)



Sources: National Authorities and IMF staff calculations. Data for 2011 corresponds to 2011 projections except for the NIR which corresponds to information up to December 2011.

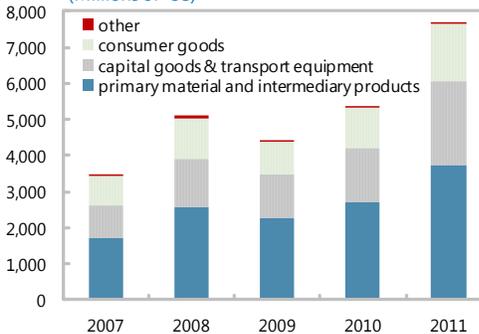
Gas and mining exports continued to increase, while remittances continued to fall.

**Gas and Mining Exports and Remittances**  
(Percent of GDP)



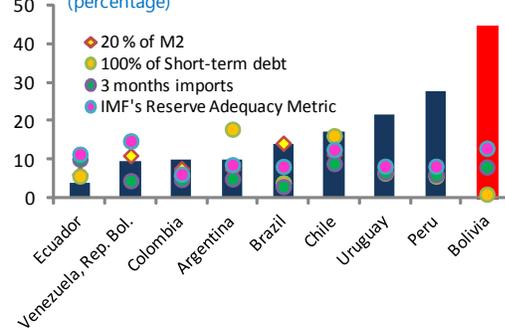
Imports increased almost by 40 percent in 2011, with consumer goods growing the most.

**Imports Composition**  
(Millions of US)



High level of net international reserves provides ample buffer to adverse external shocks.

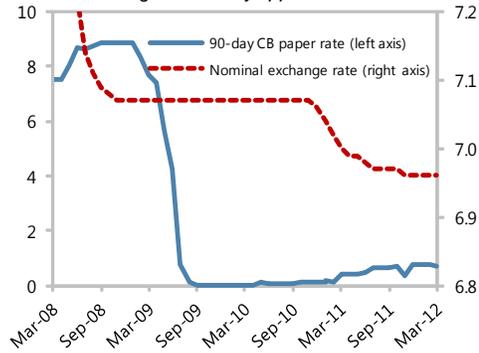
**NIR coverage of GDP in 2011**  
(percentage)



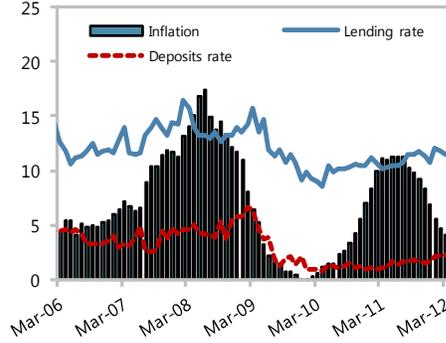
**Figure 3. Bolivia: Monetary Developments**

Monetary policy reacted to the surge in inflation in mid 2011, but liquidity increased later in the year, while interest rates remain at record low. Central bank continued the slow appreciation adjustments of the Boliviano under the crawling peg.

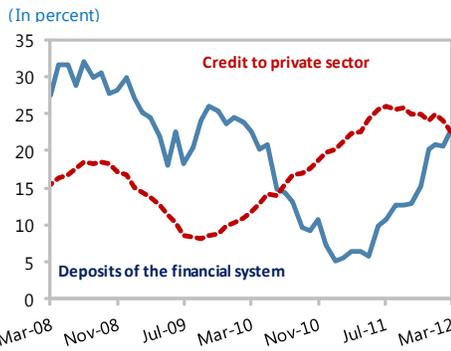
90-day Central Bank paper rates increased in 2011, while the exchange rate barely appreciated...



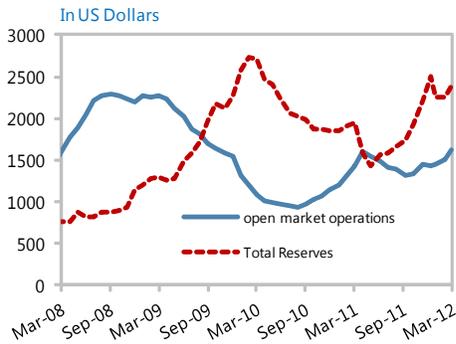
...real interest rates on deposits remain negative



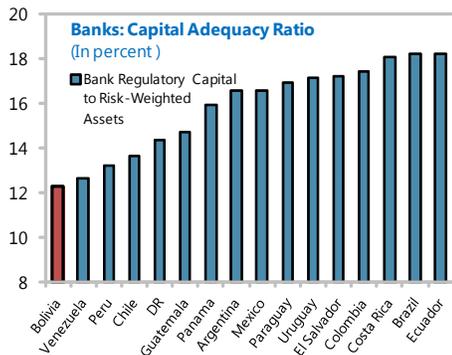
Credit growth continues at a fast pace above 20 percent annually



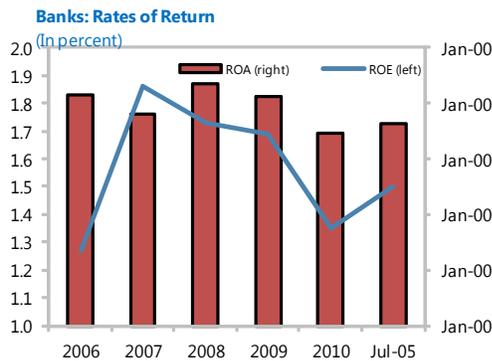
Open Market Operations increased in the first half and stabilized later in 2011, amid ample liquidity



Capital adequacy remains strong, although lower than other countries in Latin America...



...while bank profitability picked up in 2011



Sources: National Authorities and Fund staff calculations.

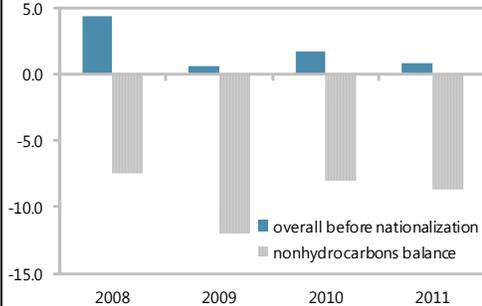
**Figure 4. Bolivia: Fiscal Developments**

*The fiscal balance declined in 2011, despite an important increase in revenues, on the back of improved compliance, high commodity prices, and strong imports. NFPS debt continues falling and domestic debt vulnerabilities have been reduced significantly.*

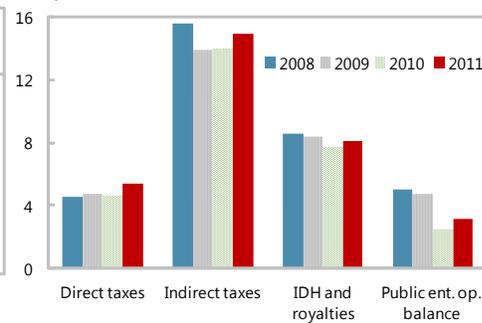
*The 2011 fiscal surplus declined to about 1 percent of GDP...*

*...with revenues increasing across the board*

**Fiscal Balances**  
(In percent of GDP)



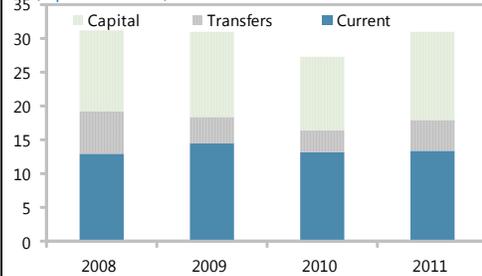
**Total Revenues Composition**  
(In percent of GDP)



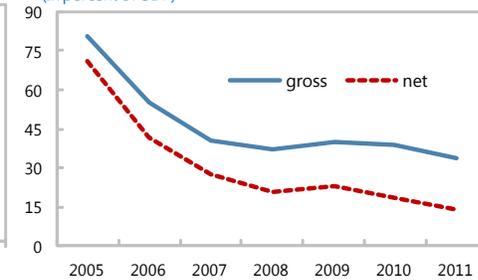
*...and expenditures picking up significantly, in particular capital spending.*

*Sustained fiscal surplus together with debt relief, allowed for a significant reduction in public sector*

**Expenditures**  
(In percent of GDP)



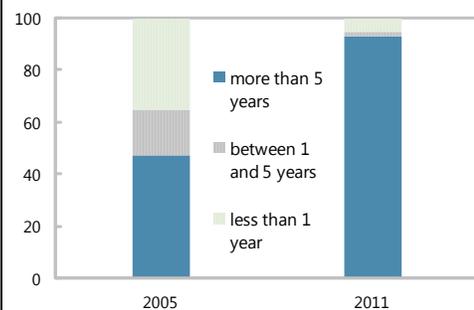
**Non-Financial Public Sector Debt**  
(In percent of GDP)



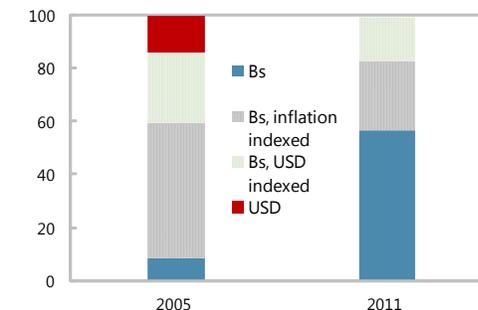
*Domestic debt vulnerabilities have been reduced as maturities have been extended...*

*...and foreign currency exposure has been reduced.*

**Domestic Debt Breakdown by Maturities**  
(In percent of total domestic debt)



**Domestic Debt Breakdown by Currency**  
(In percent of total domestic debt)



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

Table 1. Bolivia: Selected Economic and Financial Indicators

	2008	2009	Prel. 2010	Projections						
				2011	2012	2013	2014	2015	2016	2017
(Annual percentage changes)										
<b>Income and prices</b>										
Real GDP	6.1	3.4	4.1	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Real GDP excluding hydrocarbons	6.5	4.7	3.5	5.0	...	...	...	...	...	...
GDP deflator	10.4	-2.4	8.8	14.6	3.8	3.4	2.9	3.2	3.6	3.8
CPI inflation (period average)	10.3	6.5	2.5	9.9	4.9	4.5	4.0	4.0	4.0	4.0
CPI inflation (end-of-period)	11.8	0.3	7.2	6.9	5.0	4.4	4.2	4.0	4.0	4.0
(In percent of GDP)										
<b>Investment and savings</b>										
Total investment	17.6	17.0	17.0	19.6	19.4	19.4	19.5	19.5	19.5	19.6
Public sector	9.8	9.5	9.5	10.5	11.5	11.5	11.6	11.6	11.6	11.6
Private sector (includes stockbuilding)	7.8	7.5	7.6	9.0	7.9	7.9	7.9	7.9	7.9	7.9
Gross national savings	29.0	22.9	25.0	26.1	23.3	22.6	22.0	21.4	21.2	21.1
Public sector	14.1	10.1	11.1	11.4	12.5	11.9	12.1	12.3	12.8	12.6
Private sector	14.9	12.8	13.9	14.7	10.8	10.7	9.9	9.1	8.5	8.5
Saving/investment balances 1/	11.5	5.9	8.0	6.5	3.9	3.2	2.5	1.9	1.7	1.5
Public sector	4.3	0.6	1.7	0.8	0.9	0.4	0.5	0.7	1.2	1.0
Private sector	7.1	5.3	6.3	5.7	3.0	2.8	2.0	1.1	0.5	0.6
<b>Combined public sector</b>										
Revenues and grants	38.9	35.8	33.2	35.4	36.4	35.8	35.7	36.0	36.3	35.9
<i>Of which:</i>										
Hydrocarbons related revenue	13.4	11.3	10.2	11.2	11.8	10.9	10.3	10.2	10.0	9.7
Expenditure	35.3	35.6	31.5	34.6	35.5	35.4	35.0	35.1	35.0	35.1
Current	24.3	23.0	20.8	21.6	22.4	22.4	21.9	21.9	21.9	21.9
Capital 2/	11.1	12.6	10.7	13.0	13.1	13.1	13.1	13.1	13.1	13.1
Overall balance after nationalization costs	3.6	0.2	1.7	0.8	0.9	0.4	0.7	0.9	1.3	0.9
<i>Of which:</i>										
Balance before nationalization costs	5.1	0.6	1.7	0.8	0.9	0.4	0.7	0.9	1.3	0.9
Non-hydrocarbons balance, before nationalization costs	-7.5	-10.3	-8.1	-8.7	-9.4	-9.1	-8.3	-8.1	-7.6	-7.8
Total net NFPS debt	20.6	23.1	18.4	14.1	12.1	10.7	9.3	7.7	5.7	4.4
Total gross NFPS debt	37.2	40.0	38.5	33.9	34.5	33.4	32.6	31.6	30.6	29.3
<b>External sector</b>										
Current account 1/	12.0	4.3	4.9	2.2	1.6	1.1	0.5	0.0	-0.1	-0.1
Merchandise exports	39.3	28.4	32.3	33.9	35.3	34.3	33.4	32.4	31.6	30.9
<i>Of which: natural gas</i>	19.0	11.3	14.1	15.8	17.8	17.6	17.2	16.3	15.7	14.6
Merchandise imports	30.6	26.0	27.2	31.2	34.1	33.4	33.2	32.8	32.3	31.8
Terms of trade index (percent change)	4.6	-23.0	14.4	12.4	-2.1	-2.6	-2.8	-2.2	-1.0	-0.6
Net Central Bank foreign reserves 3/ 4/										
In millions of U.S. dollars	7,967	8,616	9,799	12,074	12,860	14,562	16,023	17,375	18,810	20,241
In percent of broad money	88.7	80.1	80.7	83.4	78.4	81.2	81.5	80.8	81.4	81.4
Exchange rates 5/										
Bolivianos/U.S. dollar (end-of-period)	6.97	6.97	6.95	6.86	...	...	...	...	...	...
REER, period average (percent change)	14.3	10.2	-3.6	4.2	...	...	...	...	...	...
(Annual percentage changes)										
<b>Money and credit</b>										
NFA of the financial system	10.1	60.6	-4.5	-19.0	30.5	12.0	11.9	11.5	9.6	9.8
NDA of the financial system	19.8	19.3	12.7	18.0	13.3	12.1	12.0	11.5	9.6	9.9
Credit to private sector (percent of GDP)	31.5	34.0	36.0	36.0	39.2	41.6	44.3	47.3	50.2	53.4
Broad money (percent change)	19.9	19.7	12.5	17.7	13.2	12.0	11.9	11.5	9.6	9.8
Interest rates (percent, end-of-period)										
Deposits (effective rate)	5.8	2.1	0.9	1.7	...	...	...	...	...	...
Lending (effective rate)	13.9	9.1	10.4	10.8	...	...	...	...	...	...
<b>Memorandum items:</b>										
Nominal GDP (in billions of U.S. dollars)	16.6	17.5	19.8	24.1	27.0	29.0	30.6	32.5	34.7	37.1
Oil prices (in U.S. dollars per barrel)	97.0	61.8	79.0	104.0	114.7	110.0	102.8	97.2	93.3	91.0

Sources: Bolivian authorities and Fund staff estimates and projections.

1/ The discrepancy between the current account and the savings-investment balances 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/ Excludes reserves from the Latin American Reserve Fund (FLAR) and Offshore Liquidity Requirements (RAL).

4/ All foreign assets valued at market prices.

5/ Official (buy) exchange rate.

	2008	2009	2010	Prel. 2011	Proj. 2012
<b>Revenue</b>	<b>38.9</b>	<b>35.8</b>	<b>33.2</b>	<b>35.4</b>	<b>36.4</b>
Taxes	28.5	26.9	26.3	28.3	29.5
IDH and royalties	8.5	8.3	7.7	8.1	9.0
Direct taxes	4.5	4.7	4.6	5.4	5.3
o/w: Corporate income tax	3.7	4.0	3.8	4.5	4.5
Indirect taxes	15.5	13.9	14.0	14.9	15.3
o/w: VAT	7.4	6.2	7.2	7.9	8.0
o/w: Excise tax on fuel	2.1	1.5	1.6	1.4	1.4
Grants	1.2	1.2	1.1	0.8	1.0
Other revenue	9.1	7.7	5.8	6.3	5.9
Nontax revenue	3.0	4.7	3.4	3.0	3.0
Public enterprises operating balance	4.9	3.0	2.5	3.1	2.8
Central bank operating balance	1.2	0.1	-0.1	0.2	0.1
<b>Expenditure</b>	<b>35.3</b>	<b>35.6</b>	<b>31.5</b>	<b>34.6</b>	<b>35.5</b>
<b>Expense</b>	<b>24.3</b>	<b>23.0</b>	<b>20.8</b>	<b>21.6</b>	<b>22.4</b>
Compensation of employees	8.7	10.2	9.5	9.1	9.5
Purchases of goods and services	2.2	2.6	2.2	2.9	3.0
Interest	2.0	1.6	1.4	1.2	1.2
Domestic	1.4	1.3	1.1	1.0	0.9
Foreign	0.6	0.4	0.3	0.2	0.3
Subsidies	3.5	1.2	0.9	2.0	2.0
Social benefits 1/	6.0	6.2	5.8	5.6	6.1
Other expense	1.8	1.2	1.1	0.6	0.6
Other	0.2	0.9	1.1	0.6	0.6
Nationalization cost	1.6	0.3	0.0	0.0	0.0
<b>Net acquisition of nonfinancial assets</b>	<b>11.1</b>	<b>12.6</b>	<b>10.7</b>	<b>13.0</b>	<b>13.1</b>
o/w: Public Enterprises	2.0	1.2	0.9	1.9	1.5
<b>Gross operating balance</b>	<b>14.6</b>	<b>12.8</b>	<b>12.4</b>	<b>13.8</b>	<b>14.0</b>
<b>Net lending/borrowing (overall balance)</b>	<b>3.6</b>	<b>0.2</b>	<b>1.7</b>	<b>0.8</b>	<b>0.9</b>
<b>Net financial transactions</b>	<b>3.6</b>	<b>0.2</b>	<b>1.7</b>	<b>0.8</b>	<b>0.9</b>
<b>Net acquisition of financial assets 2/</b>	<b>0.8</b>	<b>0.0</b>	...	...	...
<b>Net incurrence of liabilities</b>	<b>-2.8</b>	<b>-0.2</b>	<b>-1.7</b>	<b>-0.8</b>	<b>-0.9</b>
External	1.3	1.0	1.0	1.7	3.4
Disbursement	3.5	3.1	4.1	4.6	4.4
Amortizations	-2.1	-2.1	-3.0	-2.8	-0.9
Other external	0.0	0.0	0.0	-0.1	-0.1
Domestic	-4.1	-1.3	-2.7	-2.6	-4.3
Banking system	-5.4	-0.2	-5.3	-3.5	-4.5
Central Bank	-5.0	-0.4	-4.9	-2.6	-4.5
Commercial banks	-0.4	0.2	-0.4	-0.9	0.0
Pension funds	0.0	0.0	0.0	0.0	0.0
Other domestic	1.3	-1.1	2.6	0.9	0.2
<b>Memorandum items:</b>					
Primary balance	5.5	1.9	3.1	2.0	2.1
Overall balance before nationalization	5.1	0.6	1.7	0.8	0.9
o/w Non-hydrocarbon balance 3/	-7.5	-10.3	-8.1	-8.7	-9.4
Overall balance of the central government 4/	-2.2	-1.2	-1.8	-3.9	...
Overall balance of the central administration	-0.3	-0.8	-0.3	-4.0	...
Overall balance of subnational government	0.5	-0.8	1.8	2.5	...
Prefectures	0.2	-0.4	0.6	1.0	...
Municipalities	0.3	-0.4	1.2	1.5	...
Hydrocarbon related revenue 5/	13.4	11.3	10.2	11.2	11.8
Hydrocarbon balance 6/	13.4	10.1	9.8	9.6	10.3
Nonfinancial public sector gross public debt	37.2	40.0	38.5	33.9	34.5
o/w gross foreign public debt	14.5	15.6	15.4	14.4	16.7
Nominal GDP in billions of Bolivianos	120.7	121.7	137.9	169.9	185.2

Sources: Bolivian authorities and Fund staff estimates.

1/ Includes pensions and social transfers.

2/ Includes net lending.

3/ Overall balance minus hydrocarbon related balance.

4/ IMF staff's definition: overall balance excluding subnational governments, public enterprises and the Central Bank.

5/ Hydrocarbon related revenues are defined as IDH, royalties, and the operating balance of YPFB.

6/ Hydrocarbon related revenues minus YPFB capital expenditures.

**Table 3. Bolivia: Summary Balance of Payments**  
(In millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	Projections						
				2011	2012	2013	2014	2015	2016	2017
<b>Current account</b>	<b>1,991</b>	<b>746</b>	<b>969</b>	<b>537</b>	<b>419</b>	<b>316</b>	<b>209</b>	<b>70</b>	<b>50</b>	<b>33</b>
Trade balance	1,444	415	1,011	668	322	237	55	-139	-262	-325
Exports, f.o.b.	6,525	4,960	6,390	8,332	9,519	9,923	10,225	10,540	10,951	11,448
Exports, c.i.f.	7,058	5,453	6,957	9,167	10,334	10,719	10,985	11,267	11,652	12,126
Natural gas	3,159	1,968	2,798	3,885	4,812	5,098	5,277	5,292	5,459	5,426
<i>Of which:</i> To Brazil	2,850	1,587	2,353	2,899	3,328	3,226	3,138	3,037	2,968	2,921
volume (mmm <sup>3</sup> p/day)	30.5	22.2	26.9	26.9	29.5	29.5	30.0	30.0	30.0	30.0
price (\$/mmbtu)	7.2	5.5	6.8	8.4	8.7	8.5	8.1	7.8	7.7	7.5
To Argentina	307	380	445	986	1,484	1,872	2,139	2,255	2,492	2,505
volume (mmm <sup>3</sup> p/day)	2.5	4.6	4.8	7.5	11.0	14.3	17.1	18.6	21.1	21.5
price (\$/mmbtu)	9.4	6.3	7.1	10.3	10.5	10.1	9.7	9.4	9.2	9.0
Mining	1,938	1,847	2,389	3,422	3,508	3,595	3,607	3,627	3,669	3,724
Soy - related	340	481	496	636	615	635	650	664	679	695
Other	1,621	1,157	1,274	1,225	1,399	1,392	1,450	1,684	1,845	2,280
Imports, c.i.f.	-5,081	-4,545	-5,380	-7,664	-9,197	-9,686	-10,170	-10,679	-11,213	-11,773
Services (net)	-200	-209	-263	-322	-226	-247	-258	-269	-260	-248
Income (net)	-536	-674	-860	-986	-947	-988	-954	-949	-945	-950
Transfers (net)	1,284	1,213	1,081	1,177	1,269	1,314	1,366	1,427	1,516	1,556
<b>Capital and financial account</b>	<b>383</b>	<b>-199</b>	<b>-40</b>	<b>1,623</b>	<b>1,616</b>	<b>1,372</b>	<b>1,275</b>	<b>1,310</b>	<b>1,384</b>	<b>1,386</b>
Capital transfers	10	111	-7	6	0	0	0	0	0	0
Direct investment (net)	508	426	672	859	945	1,014	919	976	1,041	1,112
Gross investment	1,302	687	915	954	1,295	1,364	1,169	1,226	1,291	1,362
Disinvestment and investment abroad	-789	-264	-293	-180	-350	-350	-250	-250	-250	-250
Portfolio investment (net)	-208	-154	90	156	0	0	0	0	0	0
Public sector	231	382	269	536	936	491	515	511	529	490
Disbursements	588	546	818	777	1,190	740	764	761	779	747
Amortization	-357	-385	-549	-181	-254	-249	-250	-250	-250	-256
Fin system net foreign assets, excl. liquid asset requirement	0	-285	125	-243	-303	-172	-198	-215	-224	-255
Nonbank private sector loans	-21	-88	-213	-60	0	0	0	0	0	0
Other, including errors and omissions	-136	-591	-773	369	38	38	38	38	38	38
Other	-141	-200	190	275	-56	-56	-56	-56	-56	-56
Errors and omissions	4	-392	-963	94	94	94	94	94	94	94
<b>Overall balance</b>	<b>2,374</b>	<b>547</b>	<b>929</b>	<b>2,160</b>	<b>2,035</b>	<b>1,688</b>	<b>1,484</b>	<b>1,380</b>	<b>1,434</b>	<b>1,419</b>
<b>Financing</b>	<b>-2,374</b>	<b>-325</b>	<b>-923</b>	<b>-2,160</b>	<b>-2,035</b>	<b>-1,688</b>	<b>-1,484</b>	<b>-1,380</b>	<b>-1,434</b>	<b>-1,419</b>
<i>Memorandum items:</i>										
Current account (percent of GDP)	12.0	4.3	4.9	2.2	1.6	1.1	0.7	0.2	0.1	0.1
Merchandise exports (percent of GDP)	39.3	28.4	32.3	33.9	35.2	34.2	33.4	32.4	31.6	30.9
Merchandise imports (percent of GDP)	-30.6	-26.0	-27.2	-31.2	-34.0	-33.4	-33.2	-32.8	-32.3	-31.8
Net official reserves (end-of-period)	7,967	8,616	9,799	12,074	14,109	15,797	17,281	18,661	20,094	21,513
(In months of imports of goods and services)	16.5	19.6	18.3	16.5	17.0	18.0	18.7	19.2	19.7	20.1
Foreign direct investment (percent of GDP)	3.1	2.4	3.4	3.5	3.5	3.5	3.0	3.0	3.0	3.0
GDP (in millions of U.S. dollars)	16,602	17,464	19,810	24,604	27,012	28,980	30,646	32,548	34,702	37,073
Capital account (percent of GDP)	2.3	-1.1	-0.2	6.6	6.0	4.7	4.2	4.0	4.0	3.7
Errors and omissions (percent of GDP)	0.0	-2.2	-4.9	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Export value growth	46.4	-24.7	27.9	32.5	14.2	4.2	3.0	3.1	3.9	4.5
Export volume growth	18.7	3.4	2.4	3.9	13.5	5.2	5.5	4.8	4.8	4.9
Export prices growth	23.4	-27.1	24.9	27.5	0.7	-0.9	-2.3	-1.7	-0.9	-0.4
Import value growth	47.1	-12.7	21.3	42.5	20.0	5.3	5.0	5.0	5.0	5.0
Import volume growth	24.7	-7.8	11.1	25.6	16.7	3.5	4.4	4.4	4.9	4.8
Import prices growth	17.9	-5.3	9.2	13.4	2.8	1.8	0.6	0.6	0.1	0.2

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

1/ Includes SDR allocation in 2009.

**Table 4. Bolivia: Central Bank**

	2008	2009	2010	2011	2012
(Flows in millions of Bolivianos, unless otherwise indicated)					
Net international reserves	13,483	4,529	7,949	14,820	13,962
(Flows in millions of U.S. dollars)	2,413	650	1,183	2,275	2,035
Net domestic assets	-8,669	2,747	-4,918	-5,629	-8,094
Net credit to the nonfinancial public sector	-3,829	-221	-6,923	-4,199	-8,300
Net credit to financial intermediaries	-8,105	4,141	2,758	-1,788	416
<i>Of which:</i> Open market operations (increase -)	-7,703	4,385	2,869	-1,590	41
Net medium- and long-term foreign liabilities (increase -)	50	-1,500	-135	35	2
Other items (net)	3,214	327	-618	322	-212
Base money	4,814	7,276	3,031	9,191	6,124
Currency in circulation	2,940	1,849	5,693	3,999	4,499
Bank reserves	1,873	5,427	-2,663	5,191	1,625
Legal Reserves	934	5,916	-2,749	4,669	821
(Stocks in millions of Bolivianos, unless otherwise indicated)					
Net international reserves	55,528	60,057	68,005	82,825	96,787
(Stocks in millions of U.S. dollars)	7,967	8,616	9,799	12,074	14,109
Net domestic assets	-33,258	-30,511	-35,429	-41,058	-49,153
Net credit to the nonfinancial public sector	-12,213	-12,434	-19,357	-23,556	-31,856
Net credit to financial intermediaries	-13,253	-9,112	-6,354	-8,142	-7,725
<i>Of which:</i> Open market operations	-15,254	-10,869	-8,000	-9,591	-9,549
Net medium- and long-term foreign liabilities	-440	-1,940	-2,075	-2,040	-2,038
Other items (net)	-7,352	-7,026	-7,643	-7,321	-7,533
Base money	22,270	29,546	32,576	41,767	47,891
Currency in circulation	17,043	18,892	24,586	28,585	33,084
Bank reserves	5,227	10,653	7,991	13,182	14,807
Legal Reserves	3,189	9,105	6,356	11,025	11,845
(End of period percent change)					
Net international reserves	32.1	8.2	13.2	21.8	16.9
(Stocks in millions of U.S. dollars)	43.4	8.2	13.7	23.2	16.9
Net domestic assets	35.3	-8.3	16.1	15.9	19.7
Net credit to the nonfinancial public sector	45.7	1.8	55.7	21.7	35.2
Net credit to financial intermediaries	157.5	-31.2	-30.3	28.1	-5.1
<i>Of which:</i> Open market operations	102.0	-28.7	-26.4	19.9	-0.4
Net medium- and long-term foreign liabilities	-10.2	341.2	7.0	-1.7	-0.1
Other items (net)	-30.4	-4.4	8.8	-4.2	2.9
Base money	27.6	32.7	10.3	28.2	14.7
Currency in circulation	20.9	10.8	30.1	16.3	15.7
Bank reserves	55.9	103.8	-25.0	65.0	12.3
Legal Reserves	41.4	185.5	-30.2	73.5	7.4

Sources: Central Bank of Bolivia and Fund staff estimates.

<b>Table 5. Bolivia: Consolidated Commercial Banks and Non-Bank Depository Institutions</b>					
	2008	2009	2010	2011	2012
(Flows in millions of Bolivianos, unless otherwise indicated)					
Foreign assets	602	3,994	-476	-1,923	2,500
(Stock in millions of U.S. dollars)	154	573	-62	-263	364
Net domestic assets	7,848	6,846	3,852	13,764	13,001
Net credit to the public sector	-636	1,250	-564	-1,455	0
Credit to the private sector	2,632	3,400	8,258	11,423	11,505
Net position with the central bank	6,881	2,438	-3,211	6,899	1,312
Foreign liabilities	-937	-339	896	723	0
Other items (net)	-92	98	-1,528	-3,826	-1,281
Deposits	7,513	10,502	4,272	12,564	15,409
Local currency deposits	7,759	5,188	7,436	13,984	12,336
Foreign currency deposits	-246	5,314	-3,164	-1,421	3,073
(Stocks in millions of Bolivianos, unless otherwise indicated)					
Foreign assets	6,589	10,583	10,107	8,184	10,684
(Stock in millions of U.S. dollars)	945	1,518	1,456	1,193	1,557
Net domestic assets	43,025	49,871	53,723	67,487	80,488
Net credit to the public sector	1,180	2,429	1,866	411	411
Credit to the private sector	38,010	41,409	49,668	61,090	72,595
Net position with the central bank	13,681	16,119	12,909	19,808	21,120
Foreign liabilities	-2,745	-3,084	-2,188	-1,465	-1,465
Other items (net)	-7,101	-7,003	-8,531	-12,357	-13,638
Deposits	46,869	57,371	61,642	74,206	89,615
Local currency deposits	22,011	27,199	34,635	48,619	60,955
Foreign currency deposits	24,858	30,172	27,007	25,587	28,660
(End of period percent change)					
Foreign assets	10.1	60.6	-4.5	-19.0	30.5
(Stock in millions of U.S. dollars)	19.5	60.6	-4.1	-18.1	30.5
Net domestic assets	22.3	15.9	7.7	25.6	19.3
Net credit to the public sector	-35.0	105.9	-23.2	-78.0	0.0
Credit to the private sector	7.4	8.9	19.9	23.0	18.8
Net position with the central bank	101.2	17.8	-19.9	53.4	6.6
Foreign liabilities	51.8	12.4	-29.1	-33.0	0.0
Other items (net)	1.3	-1.4	21.8	26.2	31.4
Deposits	19.1	22.4	7.4	20.4	20.8
Local currency deposits	54.4	23.6	27.3	40.4	25.4
Foreign currency deposits	-1.0	21.4	-10.5	-5.3	12.0
<b>Memorandum items:</b>					
Credit to private sector (percent of GDP)	31.5	34.0	36.0	36.0	39.2
Deposits (percent of GDP)	38.8	47.1	44.7	43.7	48.4
Broad money (percent of GDP)	51.9	61.6	61.2	58.5	60.7
U.S. dollar and dollar-indexed deposits (in percent of total deposits)	53.0	52.6	43.8	34.5	32.0
U.S. dollar and dollar indexed credit (in percent of total credit)	59.3	49.5	38.6	30.7	29.5

Sources: Central Bank of Bolivia and Fund staff estimates.

**Table 6. Bolivia: Financial System Survey 1/**

	2008	2009	2010	2011	2012
(Flows in millions of Bolivianos, unless otherwise indicated)					
Net short-term foreign assets	14,085	8,524	7,472	12,897	7,893
(Flows in millions of U.S. dollars)	2,567	1,223	1,121	2,011	1,151
Net domestic assets	-3,693	3,828	1,925	2,036	5,254
Net credit to the public sector	-4,465	1,028	-7,487	-5,654	-8,400
Credit to the private sector	2,632	3,400	8,258	11,423	11,505
Net medium and long-term foreign liabilities (increase -)	-887	-1,839	761	758	2
Other items (net)	-973	1,239	393	-4,491	2,147
Broad money	10,393	12,352	9,398	14,933	13,147
Liabilities in domestic currency	10,639	7,038	12,562	16,354	10,074
Foreign currency deposits	-246	5,314	-3,164	-1,421	3,073
(Stocks in millions of Bolivianos, unless otherwise indicated)					
Net short-term foreign assets	62,117	70,640	78,113	91,009	98,902
(Stocks in millions of U.S. dollars)	8,912	10,135	11,255	13,267	14,417
Net domestic assets	516	4,344	6,270	8,306	13,560
Net credit to the public sector	-11,033	-10,005	-17,492	-23,145	-31,545
Credit to the private sector	38,010	41,409	49,668	61,090	72,595
Net medium and long-term foreign liabilities	-3,184	-5,024	-4,263	-3,505	-3,503
Other items (net)	-23,276	-22,037	-21,644	-26,134	-23,987
Broad money	62,633	74,985	84,382	99,315	112,462
Liabilities in domestic currency	37,775	44,813	57,375	73,728	83,802
Foreign currency deposits	24,858	30,172	27,007	25,587	28,660
(Changes in percent of broad money at the beginning of the period)					
Net short-term foreign assets	27.0	13.6	10.0	15.3	7.9
Net domestic assets	-7.1	6.1	2.6	2.4	5.3
Net credit to the public sector	-8.5	1.6	-10.0	-6.7	-8.5
Credit to the private sector	5.0	5.4	11.0	13.5	11.6
Net medium and long-term foreign liabilities (increase -)	-1.7	-2.9	1.0	0.9	0.0
Other items (net)	-1.9	2.0	0.5	-5.3	2.2
Broad money	19.9	19.7	12.5	17.7	13.2
Liabilities in domestic currency	20.4	11.2	16.8	19.4	10.1
Foreign currency deposits	-0.5	8.5	-4.2	-1.7	3.1

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

1/ The financial system comprises the central bank, commercial banks and nonbanks, and the National Financial Bolivia and FONDESIF, which are state-owned second-tier banks.

<b>Table 7. Bolivia: Selected Vulnerability Indicators</b>				
	2008	2009	2010	2011
<b>Reserve adequacy</b>	(In millions of U.S. dollars, unless otherwise indicated)			
Net international reserves	7,967	8,616	9,799	12,074
NIR coverage, in percent of:				
Dollar deposits	223.4	199.1	252.2	323.7
Total deposits	118.5	104.7	110.3	111.6
Broad money	88.7	80.1	80.6	83.4
In months of imports of goods and services	16.5	19.6	18.3	16.5
Net foreign assets of the financial system	552	1,076	1,139	979
NFA coverage, in percent of:				
Dollar deposits	15.5	24.9	29.3	26.3
Total deposits	8.2	13.1	12.8	9.1
Broad money	6.1	10.0	9.4	6.8
<b>Debt ratios</b>	(In percent of GDP)			
Total gross NFPS debt	37.2	40.0	38.5	33.9
Domestic	22.7	24.4	23.1	19.4
External	14.5	15.6	15.4	14.4
Total net NFPS debt	20.6	23.1	18.4	14.1
Private external debt	7.7	5.3	4.7	4.2
Net International Investment Position	9.3	18.1	16.8	17.8
<b>Commodity dependency</b>				
Hydrocarbon revenue (in percent of total revenues) <sup>1/</sup>	34.5	36.3	30.7	31.6
Non-hydrocarbon fiscal balance (in percent of GDP) <sup>1/</sup>	-7.5	-12.1	-8.1	-8.7
Gas exports (in percent of total exports)	49.0	40.0	43.8	46.6
Mining exports (in percent of total exports)	30.1	37.6	37.4	41.1
<b>Banking sector indicators</b>				
Nonperforming loans (in percent of total loans)	4.3	3.5	2.2	1.7
Restructured loans (in percent of total loans)	7.1	6.4	3.6	2.2
Nonperforming and restructured loans (in percent of total loans)	11.4	9.9	5.8	3.9
Capital adequacy ratio	13.7	13.3	11.9	12.3
Profits after tax (in percent of equity)	20.3	19.9	17.2	20.5
Cash and short-term investments as percent of total assets	43.4	48.0	39.0	37.6
<b>Composition of bank deposits</b>	(In percent)			
Dollar deposits	53.0	52.6	43.8	34.5
Local currency deposits	47.0	47.4	56.2	65.5
<b>Memorandum items:</b>				
Fiscal balance (in percent of GDP)	2.8	0.3	1.7	0.8
Total financial system deposits (US\$ million)	5,646	6,724	8,255	8,986

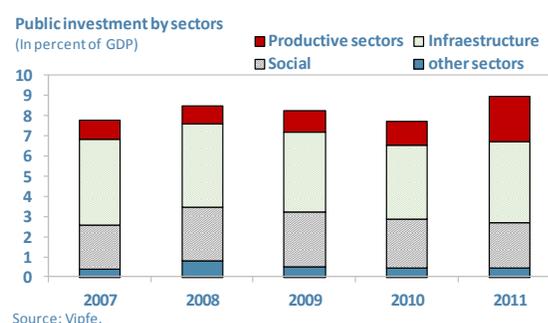
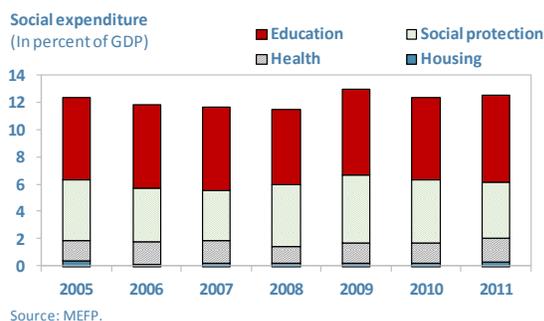
Sources: Central Bank of Bolivia and Fund staff estimates and projections.

## Annex I. Bolivia: Advances and Challenges in Social Policies<sup>1</sup>

### A. Most Recent Development in Social Indicators

**1. Higher economic growth has allowed materializing important improvements in the social front.** Since 2006 the Bolivian economy has doubled in size and by 2011 constitutes a nominal GDP of USD24.6 billions. In turn, GDP per capita has reached USD2,200 in 2011 increasing from USD1,200 5 years before. In 2005, 60.6 percent of the population was living under moderate poverty conditions and 38.2 percent was experiencing extreme poverty. In 2011 these indicators have fallen to 48.5 and 24.3 percent, respectively.

**2. Bolivia has maintained social expenditure roughly constant in terms of GDP since 2005.** In 2011 expenditures in education, social protection, health and housing added up to 12.5 percent of output. Education is the largest item in this total (51 percent), followed by social protection (33 percent), health (14 percent) and housing (2 percent). Investment related to social policies has also been important. Investment in the areas of health and social security, education and culture, basic sanitation and urbanism and housing represented 28 percent of public investment in 2007 and are expected to constitute 24 percent of the total in 2012.



**3. Social programs have been introduced with the objective of benefiting the most vulnerable sectors of the population.** Some of them have taken the form of cash-transfers and others have been implemented through subsidies.

**4. The main programs that encompass Bolivia's social safety net include:**

- a. Bono "Juancito Pinto," which aims to increase school attendance and basic education completion rate by providing an annual USD30 financial assistance to students attending public schools for grades 1 through 8.

<sup>1</sup> Prepared by Francisco Arizala and Manuel Rosales.

- b. Bono "Juana Azurduy," aimed to reduce child and maternal mortality by providing up to a total of USD50 in prenatal and post delivery care as well as around USD225 for early childhood care, over a two year period for pregnant women not covered by the social security system.
- c. Universal pension benefit "Renta Dignidad", which provides a USD30 monthly transfer to persons over age 60 not covered by the pension system. The pension is reduced to 75 percent of the monthly amount if the person receives other pension income.
- d. A pension reform that introduced a semi-contributive pillar, which complements contributive pensions that are below certain thresholds.
- e. Generalized fuel subsidies, with domestic fuel prices representing on average 40 percent of international prices in 2011.
- f. An electricity subsidy equivalent to 25 percent of the regular tariff is assigned to homes consuming less than 70 kwh/month.

**Table A1. Bolivia: Main Social Indicators and Social programs**

(In percent, number of beneficiaries, and percentages of GDP)

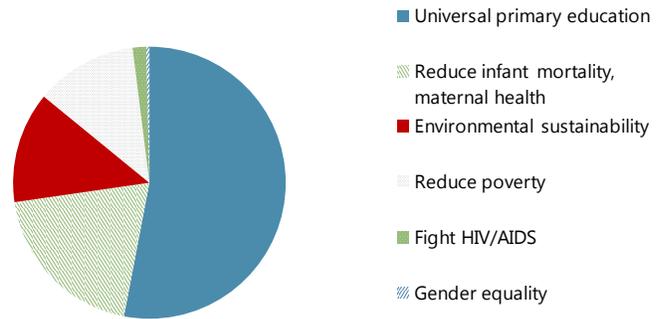
	2005	2006	2007	2008	2009	2010	2011
<b>Social indicators</b>							
1. Relative poverty, (national)	60.6	59.9	60.1	56.6	50.6		
Urban	51.1	50.3	50.9	48.7	43.5		
Rural	77.6	76.5	77.3	73.6	66.4		
2. Extreme poverty, (national)	38.2	37.7	37.7	29.9	26.1		
Urban	24.3	23.4	23.7	18.9	16.1		
Rural	62.9	62.2	63.9	51.5	45.5		
3. GDP per capita in PPP	3,772	4,011	4,246	4,531	4,693	4,849	
4. Gini coefficient	0.60	0.59	0.56	0.52	0.50	0.50	
5. Life expectancy at birth	66.0	66.0	66.0	66.0	66.0	67.0	67.0
Unemployment rate	8.2	8.0	7.7	6.9	7.0	6.0	5.5
<b>Social programs coverage and costs</b>							
1. Bono "Juancito Pinto," (Education)							
Beneficiaries (thousands)		1,085	1,322	1,681	1,748	1,648	1,688
Cost (percent of GDP)		0.2	0.3	0.3	0.3	0.3	0.3
2. Bono "Juana Azurduy," (maternity-early childhood care)							
Beneficiaries (thousands)					282	479	683
Cost (percent of GDP)					0.0	0.1	0.1
3. "Renta Dignidad," (pension benefit)							
Beneficiaries (thousands)				688	772	838	896
Cost (percent of GDP)				1.34	1.4	1.3	1.1
4. Fuel subsidies (percent of GDP)		0.5	0.9	2.0	1.3	1.7	2.9
5. Electricity subsidy							
Households benefited (percent of residential consumers)		41.6	41.4	43.6	46.6	48.5	
(Percent of GDP)		0.0	0.0	0.0	0.0	0.0	

Sources: Udape, World Bank, and Fund staff calculations.

## B. Progress Towards Achieving the Millennium Development Goals<sup>1</sup>

5. Between 2000 and 2007 public expenditure in social programs targeted to improve the MDG indicators increased from USD548 million to USD968. In 2007, this expenditure represented 7.4 percent of GDP. This spending has been prioritized towards achieving universal primary education, reduce child mortality and improve maternal health, and ensure environmental sustainability.

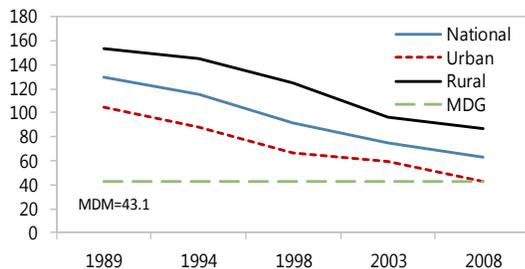
Public spending in MDG by Millennium Development Goal



Source: Udape.

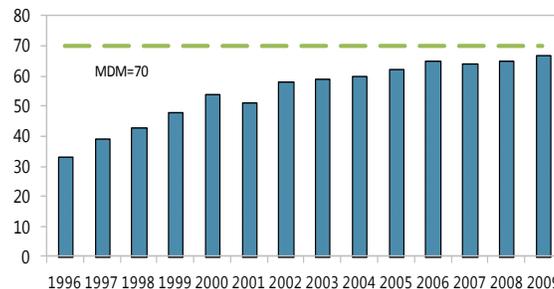
6. The efforts concentrated in reducing the under-five mortality rate and improving maternal health have been particularly successful. At the national level, the under-five mortality rate halved between 1989 and 2008. The authorities are confident that if this trend were to be maintained, the MDG in this area would be reached. In turn, the proportion of deliveries attended by skilled health personnel has increased significantly from 33 percent in 1996 to 67 percent in 2009, very close to the MDG of 70.

Under-five mortality rate (Per one thousand born)



Source: Udape.

Deliveries attended by skilled health personnel (In percent)



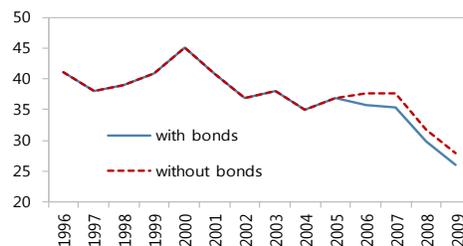
Source: Udape.

<sup>1</sup> An in depth analysis is only possible up until 2009, as microeconomic information is only available with a lag.

**7. Cash-transfers have had an impact on poverty reduction.** Estimations of their impact developed by Udape (social evaluation office) indicate that these programs might be responsible for a 2 percentage point reduction in the extreme poverty rate.

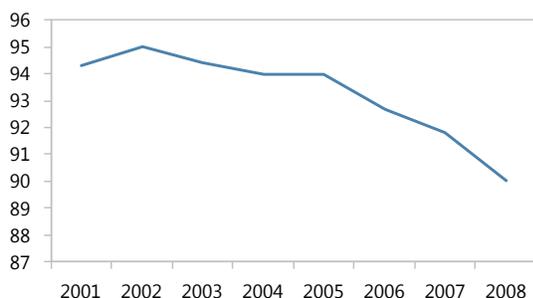
**8. Bolivia is facing challenges to capitalize progress in the MDG related to universal primary education and HIV/AIDS prevalence.** Even though targeted programs have allowed reducing the primary school attrition rate among children (dropouts fell from 6.4 percent to 2.9 percent between 2006 and 2010), enrollment rates have fallen from 94.3 percent in 2001 to 90 percent in 2008 (compared with a MDG of 100 percent of 2015). Similarly, prevalence of HIV/AIDS cases increased from 20.9 per million in 1996 to 513.8 in 2009.

Extreme poverty estimates with the inclusion of bonds  
(In percent)



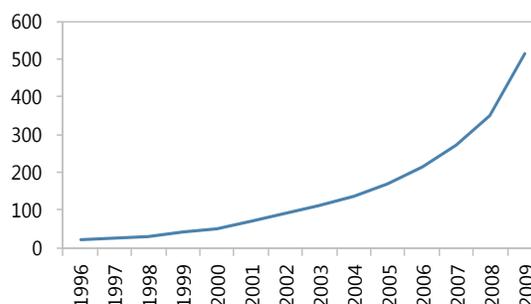
Source: Udape.

Primary education coverage  
(In percent)



Source: Udape.

Prevalence of HIV/AIDS  
(Number of cases per million)



Source: Udape.

## C. Social Challenges

**9. Bolivia remains among the poorest countries in the Latin American and Caribbean region.** Furthermore, there are important differences among indigenous and non indigenous groups. At 58 percent, the poverty rate for indigenous groups is higher compared to national levels (53.1 percent). Extreme poverty rate affects 34 percent of the latter compared to 26 percent for non-indigenous people.

**10. Bolivia's health indicators remain below neighboring countries.** Despite improvements, child and maternal mortality rates remain high and water and sanitation coverage are low, especially in the rural and poor-marginal urban areas. More unfavorable conditions reflect the fact that large part of the rural population live in remote areas with limited access to basic services. According to the World Bank, only two thirds of the population in rural areas has access to water and 9 percent to sanitation services.

	First									Target
	Observation	2004	2005	2006	2007	2008	2009	2010	2011	2015
<b>Goal 1. Eradicate Extreme Poverty and Hunger</b>										
<b>Target 1:</b> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.										
Population below US\$1 a day (in percent)	41.2 (1990)	34.5	38.2	37.7	37.7	29.9	26.1			<b>24.1</b>
<b>Target 2:</b> Halve, between 1990 and 2015, the proportion of people suffering hunger										
Prevalence of child malnutrition (percent of children under 5)	41.7 (1989)	32.5	...	...	...	27.2	...			<b>20.9</b>
<b>Goal 2. Achieve Universal Primary Education</b>										
<b>Target 3:</b> Ensure that, by 2015, children will be able to complete a full course of primary schooling.										
Net primary enrollment ratio (percent of relevant age group)	94.6 (1998)	94.4	...	95.2	94.2	...	...	...		<b>100.0</b>
Percentage of cohort reaching grade 8	55.4 (1992)	79.5	77.8	75.6	74.7	77.3	...			<b>100.0</b>
<b>Goal 3. Promote Gender Equality and Empower Women</b>										
<b>Target 4:</b> Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015.										
Gender disparities at completion of primary education (percent)	-14 (1990)	-3.3	...	-1.8	-0.3	-1.1	...			<b>0.0</b>
Gender disparities at completion of secondary education (percent)	3.4 (1992)	...	-0.4	-1.5	...	-1.4	...			<b>0.0</b>
<b>Goal 4. Reduce Child Mortality</b>										
<b>Target 5:</b> Reduce by two-thirds, between 1990 and 2015, the under five mortality rate										
Infant mortality rate (per 1,000 live births)	122.1 (1990)	69.8	66.7	63.9	61.5	59.0	56.7	54.2		<b>40.0</b>
Immunization against measles (percent of children 12-23 months)	53 (1990)	90.0	89.0	88.0	83.0	87.0	86.0	79.0		<b>95.0</b>
<b>Goal 5. Improve Maternal Health</b>										
<b>Target 6:</b> Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.										
Maternal mortality ratio (modeled estimate, per 100,000 live births)	510 (1990)	...	220	...	...	180	...	...		<b>128</b>
Proportion of births attended by skilled health personnel (percent)	43.2 (1989)	...	...	...	...	71.1	...			<b>70.0</b>
<b>Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases</b>										
<b>Target 7:</b> Halt by 2015, and begin to reverse, the spread of HIV/AIDS										
HIV prevalence, total (percent ages 15-24)	1.8 (1990)	13.4	19.3	19.2	...	...	...			<b>13.0</b>
<b>Target 8:</b> Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases										
Incidence of malaria (per 1,000 people)	7.5 (1990)	4.1	5.5	5.2	...	...	2.8			<b>2.0</b>
Incidence of tuberculosis cases cured (percent of diagnosed)	66 (1994)	80.0	78.0	83.0	85.0	84.0	86.0	...		<b>95.0</b>
<b>Target 10:</b> Halve by 2015 proportion of people without access to safe drinking water										
Access to potable water (percent of population)	57.5 (1992)	72.3	71.7	73.1	75.5	74.6	...			<b>78.5</b>
Access to improved sanitation facilities (percent of population)	28 (1992)	41.6	43.5	55.7	...	48.4	...			<b>64.0</b>
<b>Goal 8. Develop a global Partnership for Development</b>										
<b>Target 18:</b> Make available new technologies, especially information and communications										
Mobile and fixed-line telephone subscribers (per 100 people)	2.9 (1991)	27.0	33.5	38.1	41.6	60.6	74.4	80.8	...	
Internet users (per 100 people)	0.1 (1995)	4.4	5.2	6.2	10.5	10.8	14.3	20.0	...	

Sources: Bolivian authorities and World Bank Development Indicators.

## Annex II. Bolivia 2011 FSAP Update Main Recommendations and Authorities' Response

Recommendations	Authorities Response
<b>Macro Prudential</b>	
Keep real lending rates positive to avoid unsound credit growth.	Real interest rates remain negative on deposits and positive on credit. Interest rates have increased moderately in real estate lending.
<b>Supervisory Framework</b>	
Enhance independence of the financial regulatory agency: avoid interim appointment of the executive director of ASFI and specify the conditions for dismissal in the law.	ASFI's Interim Executive Director was appointed in 2011. ASFI staff commented that they perceive ASFI to be sufficiently independent and to be able to coordinate with the Central Bank and the Ministry of Finance.
Align ASFI's internal capacity and resources with their growing workload and responsibilities.	ASFI is planning to hire about 30 additional staff, especially in the FIU unit and is in the process of obtaining the budget for that purpose.
<b>Commercial Banking Sector</b>	
Ensure that classification and provisioning requirements are based solely on credit risk considerations.	Provisioning requirements are partially based on credit risk considerations and partially reflect government's policy to direct credit to productive sectors away from consumption and real estate. Overall, ASFI increased the requirement of cyclical provisions in the course of 2011, strengthening the coverage of risks in bank portfolios. In particular, it raised provisions on credit for consumption and reduced provisions for credit to productive sectors.
Eliminate limits on total foreign investments as a share of capital.	According to ASFI, commercial banks are allowed to invest abroad up to 50 percent of their capital. This limit has not been changed or eliminated.
Add market risk (interest rate and forex) to capital requirements.	Revisions of the capital requirement regulations implemented in 2011 added market risk to capital requirements. However, it did not distinguish between forex and interest rate risks.
Complete work on operational and interest rate risk guidance.	Risk guidance is work in progress and is expected to be completed by June 2012. It will include separate regulations for overall and operational risks.

<b>Recommendations</b>	<b>Authorities Response</b>
Make the financing of terrorism a criminal act; provide the FIU (financial intelligence unit) with adequate resources and establishing clear cooperation mechanisms between the FIU and ASFI.	Law 170 on terrorism financing was passed by Parliament in September 2011 and decree on sanctions (Decree 910) was issued. FIU has prepared a strategy that includes four components: (i) Aligning the law on terrorism financing with international standards; (ii) increasing supervising power of FIU, (iii) aligning the law with the Resolution 1373 of the UN security council on freezing of assets; (iv) increasing capacity of FIU and of the heads of financial institutions on the issues related to AML/CFT through training.
ASFI should increase the intensity, frequency, and coverage of supervision in financial institutions, including formalizing the on-site inspection cycle.	A draft new manual formalizing inspection and supervision practice is ready for approval. ASFI is working on a risk matrix, to increase supervision on riskier entities. ASFI's current on-site supervision is annual with semi-annual stress testing; however, flexibility has been increased to allow for more frequent inspections if problems are detected.
Improve the operations of the credit bureaus.	New department in charge of Credit Bureau supervision (Direction of Auxiliary Services) has been created in ASFI in 2011. The department has begun to inspect the credit bureaus and create a system to strengthen information.
<b>Microfinance</b>	
Promote partial credit guarantee schemes, registries for movable assets.	ASFI is working on a new regulation to establish the guarantees in terms of percentage of the capital of the enterprise rather than in nominal terms. Microcredit is currently guaranteed with nominal limits of Bs. 84,000 and of Bs. 112,000 for productive activities.
Carry out financial literacy and promotion campaigns.	In 2011, ASFI and the Central Bank organized enhanced public information campaigns on financial services through seminars on TV and radio advertisements. ASFI has also funded additional agencies in rural areas.

Recommendations	Authorities Response
<b>Payment System</b>	
Enact a Payment system law and formalize cooperation with ASFI.	Partially implemented. New regulation of Services of Payment was enacted by the Central Bank (BCB-RD N121/11). Regulation defines the scope of services under the payments system as well as functions, operations, and duties of companies that provide the service.
Supervise all institutions offering money-transfer services.	ASFI enacted the Regulation for the Constitution, Incorporation, Operation, Dissolution and closing of the Exchange Houses (ASFI N 672/11). ASFI is currently working to expand the regulation to other money-transferring institutions.
<b>Safety Nets</b>	
Include a deposit insurance scheme in the financial regulatory framework.	Deposit insurance will be considered in the new banking law.
<b>Insurance</b>	
Update the legal framework and increase the frequency of on-site inspection to a one-year cycle.	Not yet implemented.
Conduct a study on adequacy of reserves and reinsurance arrangements.	Not yet implemented.
<b>Pensions</b>	
Strengthen selection criteria standards for public pension fund directors and maintain the current strong investment framework.	Regulations are being drafted.
Auction all insurance risk to insurance providers.	Not yet implemented.



# BOLIVIA

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

May 16, 2012

Approved By  
**Gilbert Terrier and Jan  
Kees Martijn**

Prepared By The Staff of the International Monetary Fund

*Bolivia's public debt sustainability has continued to improve as a result of fiscal surpluses. Debt ratios continue to display ample margins with respect to risk thresholds and are expected to decline further under the baseline scenario. Debt service is projected to remain low, reflecting predominantly long maturities of remaining stocks of both domestic and foreign debt. The path of debt ratios would deteriorate somewhat under standard stress tests, but would remain within manageable bounds over the medium and long run. Therefore, the risk of debt distress is assessed to be low.*

## BACKGROUND

**1. Bolivia's gross public debt (domestic and external) has fallen significantly over the last years, benefiting from MDRI and fiscal surpluses.**

Between 2003 and 2011, gross debt has fallen from 96 to 34 percent of GDP, while external public debt has declined from 65 to 14 percent of GDP, with MDRI accounting for 2.9 billion dollars in 2006 and 2007.

**2. Bolivia's changing debt structure and the accumulation of significant public sector deposits at the central bank have further reduced debt vulnerabilities.**

Since 2005, average maturities have been successfully extended and foreign currency exposure has been reduced. Moreover, with the accumulation of net

deposits of the non-financial public sector at the Central Bank- amounting to about 20 percent of GDP at present- the solvency of the non-financial public sector measured by the net public debt (i.e., gross debt minus net central bank credit) has improved even more significantly: net debt has declined from 88 percent in 2003 to 14 percent of GDP in 2011. On account of declining gross debt, debt ratios would reach very low levels during the projection period. The average maturity of the outstanding external public debt remains longer than 20 years at year-end 2011 (with 64 percent of the total debt concentrated between 11 to 30 years and 32 percent beyond 31 years). Effective average interest rate of the total public debt was about 3.5 percent at year end 2011.

## BASELINE SCENARIO

**3. The main assumptions of the baseline scenario for the period of 2012-2032 are:**

- **Average annual real GDP growth:** 5 percent until 2017 and 4.5 percent until 2032.
- **Inflation:** 5.0 percent in 2012 and 4.0 percent between 2013 and 2032.
- **External sector:** In line with the medium-term staff projections (using the current WEO baseline for commodity prices) and the assumption of stable import and export ratios to GDP over the long term. Net FDI is assumed to remain broadly stable in terms of GDP, mainly influenced by the operations of foreign companies operating in the natural resource sector.
- **Fiscal assumptions:** beyond 2017, the NFPS is expected to run moderate primary surpluses (an average of 0.4 percent of GDP over 2018–32), with public investment levels and current spending broadly stable. CAF will remain as the largest external lender. In line with recent developments, until the distribution of revenues and spending responsibilities among different levels of government is redefined, the central government will continue running a deficit while sub-national governments will continue to run surpluses and accumulate deposits at the central bank.
- **Average concessionality of the public external debt:** is projected to be around 18 percent, in the medium term, based on projected disbursements of official loans and the concessional financing conditions

(grace period of about 7 years and interest rates below market rates).

**4. Bolivia's public and external debt is expected to remain sustainable throughout the projection period and the risk of debt distress is low.** Bolivia is classified as a strong performer in terms of its policy and institutional capacity, measured by the three-year average of the World Bank's Country Policy and Institutional Assessment (CPIA) scores. All the debt burden indicators for Bolivia are well below the specific indicative thresholds for strong performers. Hence, Bolivia's risk of debt distress is low- an

assessment that would hold even under significant stress tests.<sup>1</sup>

**5. Under the baseline scenario, Bolivia's indebtedness and debt service levels would remain well manageable.** Specifically, the gross non-financial sector public debt-to-GDP ratio -34 percent in 2011- is projected to decline gradually to 29 percent by 2017, and to 15 percent in 2032. The total stock of external debt (public and private) was 18 percent of GDP in 2011 and is projected to increase to 21 percent of GDP by 2017, and to stabilize at 15 percent of GDP by 2032. Consequently, Bolivia's debt is expected to be sustainable over the medium and long term.<sup>2</sup>

## STRESS TEST

**6. Standard stress tests suggest that Bolivia's low public and external indebtedness is resilient to a series of shocks.** Under the most extreme stress test to external debt, a one-time 30 percent nominal depreciation relative to the baseline in 2013, the ratio of the NPV of debt to GDP deteriorates somewhat and eventually returns to a downward trajectory. In all cases, it would remain well below risky levels. Flow indicators also remain manageable under all stress tests. For public debt, the biggest risk stems from a onetime depreciation of the currency, however, tests indicate that ratios remain within manageable levels. Assuming an adverse scenario where oil prices decline by 30 percent in 2012–17, Bolivia's non-interest current account would move from a surplus of about 2.2 percent of GDP to a deficitary position. This would mean that, with the same levels of projected external debt, net international reserves would remain broadly stable and decline gradually in terms of GDP, to about 41 percent of GDP in 2017; this level is judged to be

still strong and external debt indicators would remain below the thresholds.

**7. Bolivian authorities agree with the assessment of low risk of debt distress.** Staff discussed the assumptions with the authorities, as well as the strong dependence of the external and fiscal positions on hydrocarbon revenues. The authorities see upside risks to growth in the medium-term and are confident that their policies (i.e., industrialization of minerals and hydrocarbons) will result in more stable external and fiscal positions, making them less vulnerable to terms of trade shocks.

<sup>1</sup> Remittances in Bolivia represent about 4 percent of GDP and 12 percent of exports. If we take remittances into account there are no breaches of (modified) thresholds under the baseline or stress tests in the DSA; and inclusion of remittances does not cause a change in the risk rating, which remains low.

<sup>2</sup> The high levels of residuals in the external DSA are explained by the accumulation of foreign exchange reserves over the projection period, which is consistent with the projected fiscal stance that would lead to further accumulation of public sector deposits at the central bank.

**Table 1a. Bolivia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032**

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate						Projections			
	2009	2010	2011	Average <sup>5/</sup>	Standard Deviation <sup>5/</sup>	2012	2013	2014	2015	2016	2017	2012-17		2018-32	
												Average	Average		
<b>Public sector debt 1/</b>	<b>40.0</b>	<b>38.5</b>	<b>33.9</b>			<b>34.5</b>	<b>33.4</b>	<b>32.6</b>	<b>31.6</b>	<b>30.6</b>	<b>29.3</b>				
o/w foreign-currency denominated	20.3	19.4	17.8			19.7	19.8	20.0	20.0	19.9	19.6			23.7	14.6
Change in public sector debt	2.8	-1.4	-4.6			0.6	-1.1	-0.9	-1.0	-1.1	-1.2			-1.1	-0.7
Identified debt-creating flows	-1.3	-6.4	-8.3			-3.7	-2.7	-2.7	-2.9	-3.3	-2.9			-1.3	1.0
Primary deficit	-2.3	-3.1	-2.0	-2.0	4.1	-2.1	-1.6	-1.8	-2.0	-2.5	-2.1			-2.0	-0.8
Revenue and grants	36.1	33.2	35.4			36.4	35.8	35.7	36.0	36.3	35.9			36.3	35.0
of which: grants	1.2	1.1	0.8			1.0	1.0	1.0	1.0	1.0	1.0			1.0	1.0
Primary (noninterest) expenditure	33.8	30.1	33.4			34.3	34.2	33.9	33.9	33.8	33.8			35.5	36.1
Automatic debt dynamics	1.3	-3.3	-6.2			-1.6	-1.1	-0.9	-0.8	-0.8	-0.7			-0.5	-0.1
Contribution from interest rate/growth differential	0.6	-1.9	-3.6			-1.1	-1.0	-0.9	-0.8	-0.8	-0.8			-0.4	-0.1
of which: contribution from average real interest rate	1.8	-0.3	-1.8			0.5	0.6	0.7	0.7	0.7	0.7			0.5	0.5
of which: contribution from real GDP growth	-1.2	-1.6	-1.9			-1.6	-1.6	-1.6	-1.6	-1.5	-1.5			-1.0	-0.6
Contribution from real exchange rate depreciation	0.7	-1.4	-2.6			-0.5	-0.1	0.0	0.0	0.0	0.0			...	...
Other identified debt-creating flows	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Privatization receipts (negative)	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Residual, including asset changes	4.1	4.9	3.6			4.3	1.6	1.8	1.9	2.3	1.6			0.2	-1.7
<b>Other sustainability indicators</b>															
<b>PV of public sector debt</b>	...	...	<b>33.9</b>			<b>34.2</b>	<b>33.4</b>	<b>32.7</b>	<b>32.0</b>	<b>31.1</b>	<b>30.0</b>			<b>25.1</b>	<b>12.7</b>
o/w foreign-currency denominated	...	...	17.8			19.5	19.9	20.2	20.4	20.4	20.2			18.7	9.9
o/w external	...	...	14.5			16.4	17.0	17.6	17.9	18.2	18.2			17.3	9.3
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...			...	...
Gross financing need 2/	3.9	2.0	3.2			2.1	2.5	2.3	2.0	1.5	1.9			2.7	3.9
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	95.7			94.1	93.3	91.8	88.9	85.5	83.6			69.2	36.2
PV of public sector debt-to-revenue ratio (in percent)	...	...	97.9			96.8	96.0	94.4	91.4	87.9	86.0			71.1	37.3
o/w external 3/	...	...	41.8			46.4	48.9	50.6	51.3	51.4	52.1			49.1	27.3
Debt service-to-revenue and grants ratio (in percent) 4/	13.0	10.2	10.3			8.3	8.3	8.3	8.4	8.4	8.6			7.5	6.5
Debt service-to-revenue ratio (in percent) 4/	13.4	10.6	10.5			8.6	8.5	8.6	8.7	8.7	8.9			7.8	6.7
Primary deficit that stabilizes the debt-to-GDP ratio	-5.1	-1.6	2.6			-2.7	-0.5	-0.9	-1.1	-1.5	-0.9			0.3	1.9
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	3.4	4.1	5.1	4.6	0.8	5.0	5.0	5.0	5.0	5.0	5.0			5.0	4.0
Average nominal interest rate on forex debt (in percent)	3.1	2.7	2.7	3.1	0.9	2.6	2.6	2.7	2.8	2.9	2.9			2.8	3.5
Average real interest rate on domestic debt (in percent)	8.9	-3.2	-10.3	-0.4	6.9	1.3	1.7	2.7	3.5	4.0	4.9			3.0	4.1
Real exchange rate depreciation (in percent, + indicates depreciation)	3.6	-7.3	-14.0	-7.0	6.2	-2.9	...	...	...	...	...			...	...
Inflation rate (GDP deflator, in percent)	-2.4	8.8	17.3	8.6	5.8	3.8	3.4	2.9	3.2	3.6	3.8			3.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	7.2	-7.3	16.5	6.0	9.5	7.8	4.9	4.0	5.0	4.7	5.0			5.2	3.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	17.6	17.6	17.6	17.6	17.6	17.6			17.6	17.6

Sources: Country authorities; and Fund staff estimates and projections.

1/ Non financial public sector gross debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table 2a. Bolivia: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032**

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
<b>Baseline</b>	34	33	33	32	31	30	25	13
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	34	33	32	32	32	31	22	-5
A2. Primary balance is unchanged from 2012	34	33	32	31	31	30	21	-6
A3. Permanently lower GDP growth 1/	34	34	33	32	32	31	28	22
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	34	34	35	34	34	34	32	23
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	34	36	39	38	37	36	30	16
B3. Combination of B1-B2 using one half standard deviation shocks	34	35	36	36	35	34	31	21
B4. One-time 30 percent real depreciation in 2013	34	42	41	40	39	38	33	18
B5. 10 percent of GDP increase in other debt-creating flows in 2013	34	42	41	40	39	37	32	17
PV of Debt-to-Revenue Ratio 2/								
<b>Baseline</b>	94	93	92	89	85	84	69	36
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	94	93	91	89	87	86	61	-13
A2. Primary balance is unchanged from 2012	94	92	90	87	84	83	59	-16
A3. Permanently lower GDP growth 1/	94	94	92	90	87	86	77	62
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	94	95	97	96	94	94	87	66
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	94	102	109	105	101	99	82	45
B3. Combination of B1-B2 using one half standard deviation shocks	94	98	101	99	97	96	86	59
B4. One-time 30 percent real depreciation in 2013	94	117	115	111	107	105	89	52
B5. 10 percent of GDP increase in other debt-creating flows in 2013	94	116	114	111	106	104	87	48
Debt Service-to-Revenue Ratio 2/								
<b>Baseline</b>	8	8	8	8	8	9	8	6
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	8	8	8	8	9	9	7	5
A2. Primary balance is unchanged from 2012	8	8	8	8	8	9	7	5
A3. Permanently lower GDP growth 1/	8	8	8	8	9	9	8	8
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	8	8	9	9	9	9	8	8
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	8	8	9	9	9	9	8	8
B3. Combination of B1-B2 using one half standard deviation shocks	8	8	9	9	9	9	8	8
B4. One-time 30 percent real depreciation in 2013	8	9	10	10	10	10	9	8
B5. 10 percent of GDP increase in other debt-creating flows in 2013	8	8	9	9	9	9	8	8

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Table 3a. Bolivia: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/**

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections							2012-2017		2018-2032
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
<b>External debt (nominal) 1/</b>	<b>21.4</b>	<b>21.2</b>	<b>18.3</b>			<b>20.5</b>	<b>20.8</b>	<b>21.2</b>	<b>21.4</b>	<b>21.5</b>	<b>21.3</b>		<b>19.7</b>	<b>15.1</b>	
o/w public and publicly guaranteed (PPG)	15.6	15.4	14.5			16.7	17.0	17.4	17.6	17.7	17.5		15.9	11.2	
Change in external debt	1.2	-0.2	-2.9			2.2	0.3	0.4	0.2	0.1	-0.2		-0.4	-0.4	
Identified net debt-creating flows	-7.5	-10.8	-9.8			-5.9	-5.5	-4.5	-4.0	-3.9	-3.9		-3.8	-3.5	
<b>Non-interest current account deficit</b>	<b>-4.5</b>	<b>-5.2</b>	<b>-2.5</b>	<b>-7.1</b>	<b>4.4</b>	<b>-1.9</b>	<b>-1.4</b>	<b>-0.9</b>	<b>-0.4</b>	<b>-0.3</b>	<b>-0.3</b>		<b>-0.6</b>	<b>-0.4</b>	<b>-0.5</b>
Deficit in balance of goods and services	-2.1	-5.1	-2.7			-1.2	-0.8	-0.2	0.4	0.8	0.9		0.9	0.9	
Exports	28.2	32.3	33.9			35.3	34.3	33.4	32.4	31.6	30.9		30.9	30.9	
Imports	26.0	27.2	31.2			34.1	33.4	33.2	32.8	32.3	31.8		31.8	31.8	
Net current transfers (negative = inflow)	-6.9	-5.5	-4.8	-6.6	1.4	-4.4	-4.1	-3.8	-3.6	-3.4	-3.2		-2.3	-1.2	-2.0
o/w official	-1.1	-0.8	-0.8			-0.7	-0.7	-0.6	-0.6	-0.6	-0.5		-0.4	-0.2	
Other current account flows (negative = net inflow)	4.6	5.3	5.0			3.7	3.4	3.1	2.8	2.3	2.0		0.9	-0.1	
<b>Net FDI (negative = inflow)</b>	<b>-2.4</b>	<b>-3.4</b>	<b>-3.5</b>	<b>-2.0</b>	<b>2.0</b>	<b>-3.5</b>	<b>-3.5</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>		<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>
<b>Endogenous debt dynamics 2/</b>	<b>-0.6</b>	<b>-2.2</b>	<b>-3.8</b>			<b>-0.5</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>		<b>-0.2</b>	<b>0.0</b>	
Contribution from nominal interest rate	0.4	0.3	0.3			0.3	0.4	0.4	0.4	0.4	0.4		0.5	0.6	
Contribution from real GDP growth	-0.6	-0.8	-0.9			-0.8	-1.0	-1.0	-1.0	-1.0	-1.0		-0.8	-0.6	
Contribution from price and exchange rate changes	-0.4	-1.8	-3.3			...	...	...	...	...	...		...	...	
<b>Residual (3-4) 3/</b>	<b>8.6</b>	<b>10.6</b>	<b>6.9</b>			<b>8.1</b>	<b>5.9</b>	<b>4.9</b>	<b>4.2</b>	<b>4.0</b>	<b>3.7</b>		<b>3.4</b>	<b>3.0</b>	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	18.3			20.2	20.8	21.4	21.7	22.0	22.0		21.2	13.1	
In percent of exports	...	...	54.0			57.4	60.8	64.0	67.1	69.7	71.3		68.5	42.4	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>14.5</b>			<b>16.4</b>	<b>17.0</b>	<b>17.6</b>	<b>17.9</b>	<b>18.2</b>	<b>18.2</b>		<b>17.3</b>	<b>9.3</b>	
In percent of exports	...	...	42.7			46.5	49.7	52.6	55.3	57.6	58.9		56.2	30.0	
In percent of government revenues	...	...	41.8			46.4	48.9	50.6	51.3	51.4	52.1		49.1	27.3	
<b>Debt service-to-exports ratio (in percent)</b>	<b>6.5</b>	<b>6.5</b>	<b>4.4</b>			<b>3.9</b>	<b>4.1</b>	<b>4.2</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>		<b>4.3</b>	<b>4.0</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>4.5</b>	<b>4.7</b>	<b>2.8</b>			<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>		<b>2.5</b>	<b>2.1</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>3.7</b>	<b>4.8</b>	<b>2.7</b>			<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>		<b>2.2</b>	<b>1.9</b>	
Total gross financing need (Billions of U.S. dollars)	-0.7	-1.0	-0.8			-0.7	-0.7	-0.4	-0.3	-0.3	-0.3		-0.5	-0.9	
Non-interest current account deficit that stabilizes debt ratio	-5.6	-5.0	0.5			-4.1	-1.8	-1.3	-0.6	-0.4	-0.1		-0.1	0.0	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	3.4	4.1	5.1	4.6	0.8	5.0	5.0	5.0	5.0	5.0	5.0		5.0	4.0	4.0
GDP deflator in U.S. dollar terms (change in percent)	1.8	8.9	18.2	10.0	6.4	4.5	2.2	0.7	1.1	1.6	1.7		2.0	2.5	2.5
Effective interest rate (percent) 5/	2.2	1.7	1.7	2.2	0.7	1.9	2.0	2.1	2.1	2.1	2.1		2.0	2.7	3.9
Growth of exports of G&S (U.S. dollar terms, in percent)	-24.7	30.0	30.4	25.0	22.0	14.2	4.2	3.0	3.1	3.9	4.5		5.5	6.6	6.6
Growth of imports of G&S (U.S. dollar terms, in percent)	-10.6	18.4	42.5	22.6	16.8	20.0	5.3	5.0	5.0	5.0	5.0		7.6	6.6	6.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	17.6	17.6	17.6	17.6	17.6	17.6		17.6	17.6	17.6
Government revenues (excluding grants, in percent of GDP)	34.9	32.0	34.6			35.4	34.8	34.7	35.0	35.3	34.9		35.3	34.0	34.9
Aid flows (in Billions of U.S. dollars) 7/	0.3	0.3	0.3			0.4	0.4	0.4	0.5	0.5	0.5		0.6	1.0	
o/w Grants	0.2	0.2	0.2			0.3	0.3	0.3	0.3	0.3	0.4		0.5	1.0	
o/w Concessional loans	0.0	0.1	0.1			0.1	0.1	0.1	0.2	0.2	0.2		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.7	1.4	1.4	1.4	1.3	1.3		1.2	1.1	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			34.0	43.3	43.6	44.8	45.5	47.7		54.4	67.4	58.4
<b>Memorandum items:</b>															
Nominal GDP (Billions of U.S. dollars)	17.5	19.8	24.6			27.0	29.0	30.6	32.5	34.7	37.1		51.0	96.6	
Nominal dollar GDP growth	5.2	13.4	24.2			9.7	7.3	5.7	6.2	6.7	6.8		7.1	6.6	6.6
PV of PPG external debt (in Billions of U.S. dollars)	...	...	3.6			4.4	4.9	5.3	5.8	6.2	6.7		8.8	8.9	
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			3.4	1.6	1.6	1.5	1.4	1.3		1.8	0.9	-0.3
Gross workers' remittances (Billions of U.S. dollars)	1.0	0.9	1.0			1.0	1.0	1.1	1.1	1.1	1.2		1.4	2.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.9			15.8	16.4	17.0	17.4	17.6	17.6		16.9	9.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	38.2			42.1	45.0	47.7	50.2	52.2	53.4		51.5	28.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.5			2.1	2.2	2.2	2.3	2.2	2.3		2.3	2.0	

Sources: Country authorities; and Fund staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

**Table 3b. Bolivia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032**  
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of debt-to- GDP ratio								
<b>Baseline</b>	16	17	18	18	18	18	17	9
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	16	12	8	3	-1	-5	-21	-36
A2. New public sector loans on less favorable terms in 2012-2032 2	16	17	18	19	20	20	21	14
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	16	17	18	18	18	18	18	9
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	16	17	18	18	19	19	18	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	16	17	17	17	17	17	16	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	16	19	21	21	21	21	20	10
B5. Combination of B1-B4 using one-half standard deviation shocks	16	14	8	9	9	9	9	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	16	24	25	25	25	25	24	13
PV of debt-to-exports ratio								
<b>Baseline</b>	47	50	53	55	58	59	56	30
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	47	36	23	9	-4	-18	-67	-115
A2. New public sector loans on less favorable terms in 2012-2032 2	47	51	55	59	63	65	67	45
A3. Alternative Scenario :[Customize, enter title]	40	39	36	33	29	25	-3	-47
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	47	49	52	55	57	58	56	30
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	47	51	55	57	59	61	58	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	47	49	52	55	57	58	56	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	47	55	63	65	67	69	64	32
B5. Combination of B1-B4 using one-half standard deviation shocks	47	39	22	24	26	27	28	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	47	49	52	55	57	58	56	30
PV of debt-to-revenue ratio								
<b>Baseline</b>	46	49	51	51	51	52	49	27
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	46	35	22	9	-4	-15	-59	-105
A2. New public sector loans on less favorable terms in 2012-2032 2	46	50	53	55	56	58	59	41
A3. Alternative Scenario :[Customize, enter title]	40	38	35	31	26	22	-3	-43
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	46	49	51	52	52	53	50	28
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	46	49	52	53	53	53	50	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	46	48	48	49	49	49	46	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	46	54	60	61	60	61	56	29
B5. Combination of B1-B4 using one-half standard deviation shocks	46	40	23	25	26	27	27	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	46	68	71	72	72	73	69	38
Debt service-to-exports ratio								
<b>Baseline</b>	2	2	2	2	2	2	3	2
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	2	4	3	3	2	2	0	-4
A2. New public sector loans on less favorable terms in 2012-2032 2	2	4	4	4	4	4	5	6
A3. Alternative Scenario :[Customize, enter title]	3	3	3	3	3	3	3	0
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	2	4	4	4	4	4	4	5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	2	4	4	4	4	4	4	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	2	4	4	4	5	5	4	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	3	3	3	3	3	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	2	4	4	4	4	4	4	5
Debt service-to-revenue ratio								
<b>Baseline</b>	2	2	2	2	2	2	2	2
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	2	4	3	2	2	2	0	-4
A2. New public sector loans on less favorable terms in 2012-2032 2	2	4	4	4	4	4	4	5
A3. Alternative Scenario :[Customize, enter title]	3	3	3	3	3	3	2	0
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	2	4	4	4	4	4	4	5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	2	4	4	4	4	4	4	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	2	4	4	4	4	4	3	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	4	3	3	3	3	3	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	2	5	5	5	5	5	5	7
<b>Memorandum item:</b>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	17	17	17	17	17	17	17	17

Sources: Country authorities; and Fund staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

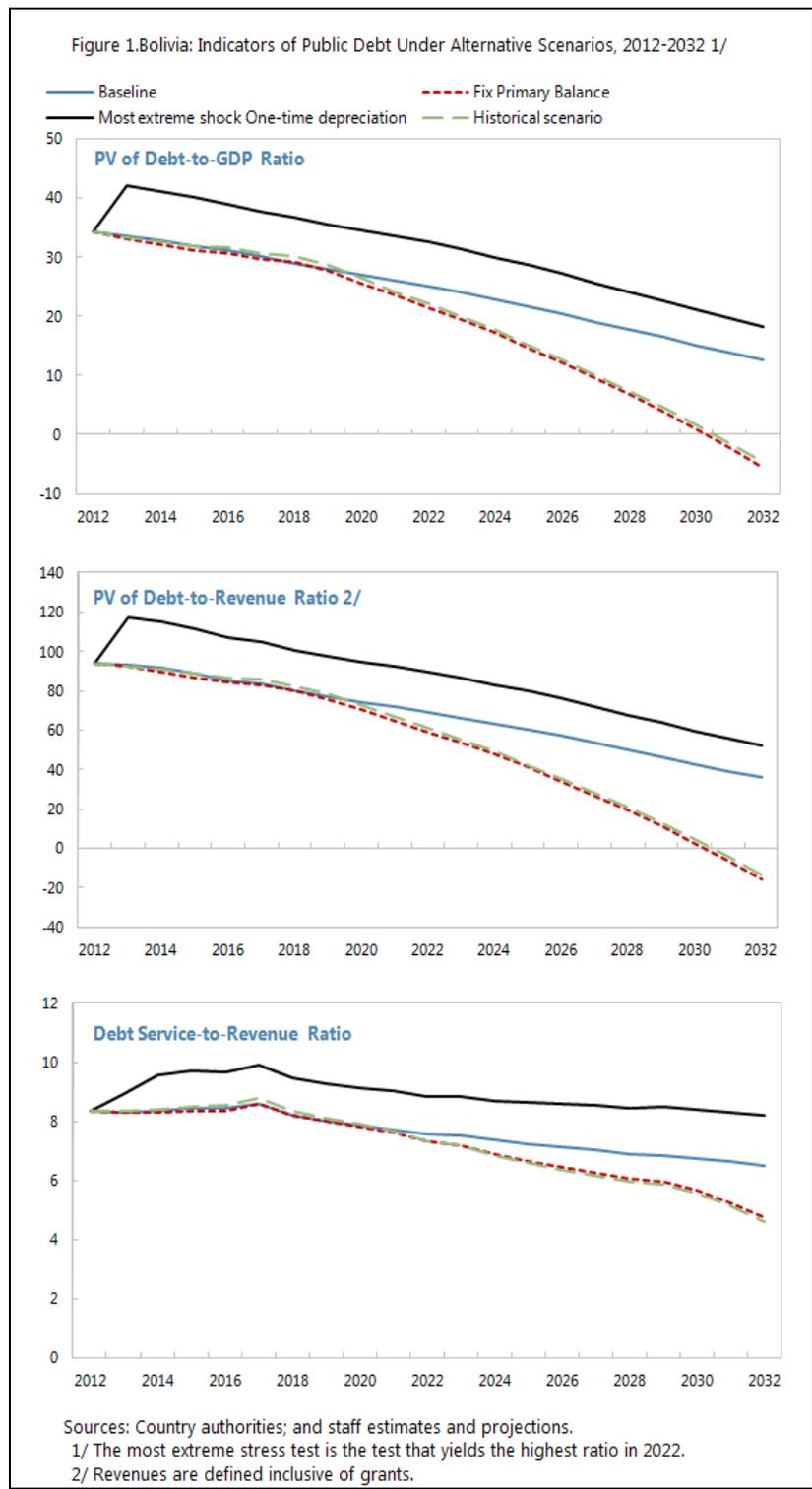
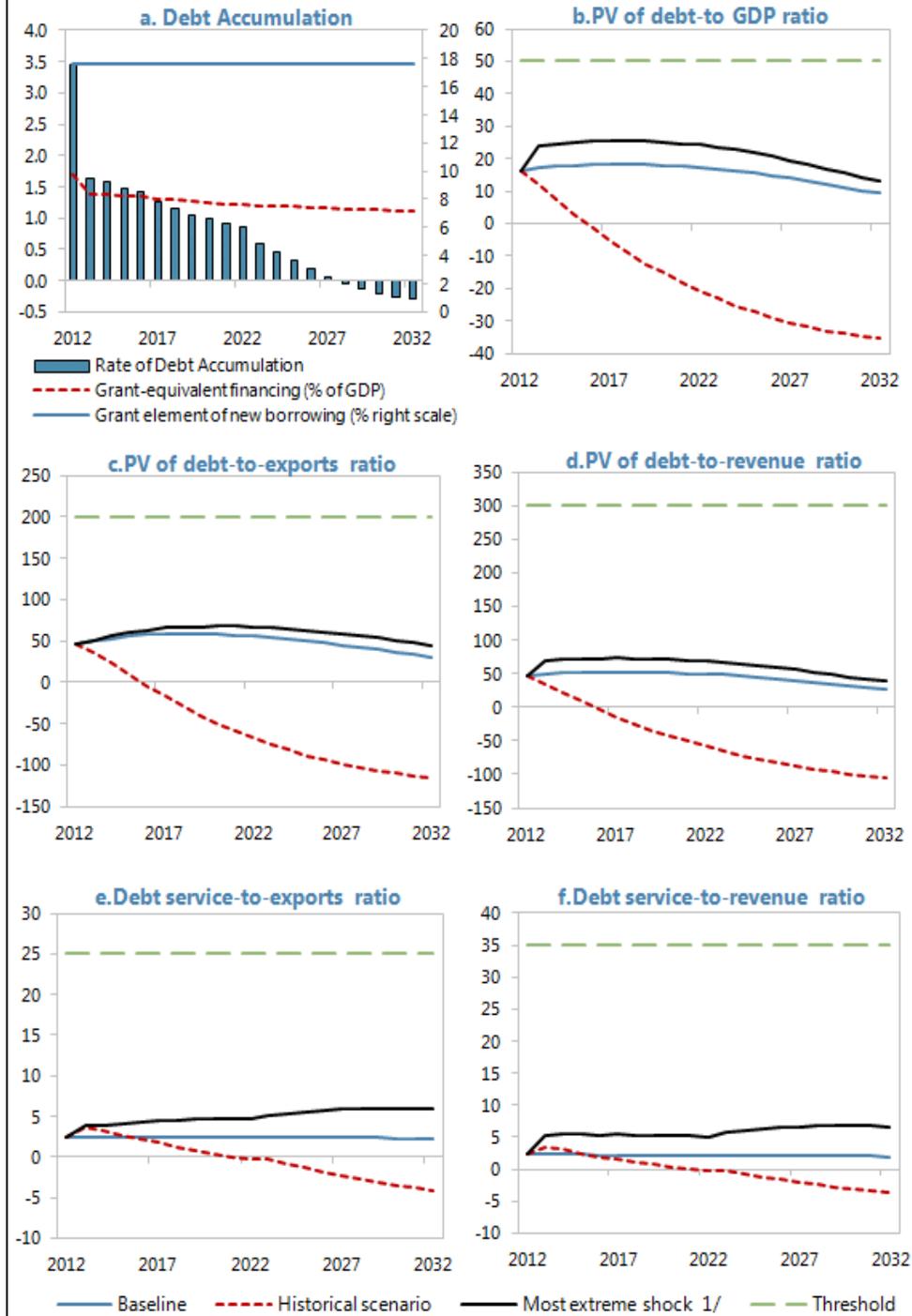


Figure 2. Bolivia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and Fund staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock



# BOLIVIA

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 16, 2012

Prepared By

Western Hemisphere Department

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## ANNEX 1. FUND RELATIONS

(AS OF APRIL 11, 2012)

**Membership Status:** Joined December 27, 1945; accepted its obligations under Article VIII on June 5, 1967. The exchange system is free of restrictions on current international payments and transfers.

### General Resources Account

	SDR Million	Percent of Quota
Quota	171.50	100.00
Fund holdings of currency	162.64	94.83
Reserve position in Fund	8.87	5.17

### SDR Department

	SDR Million	Percent of Allocation
Net cumulative allocation	164.13	100.00
Holdings	164.91	100.48

**Outstanding Purchases and Loans:** None.

### Financial Arrangements

(In SDR Millions)

Type	Approval date	Expiration date	Amount approved	Amount drawn
Stand-By	4/02/03	3/31/06	145.78	111.50
ECF <sup>1/</sup>	9/18/98	6/07/02	100.96	63.86
ECF <sup>1/</sup>	12/19/94	9/09/98	100.96	100.96

1/ Formerly PRGF

**Projected Obligations to the Fund: (SDR million;** based on existing use of resources and present holdings of SDRs):

	2011	2012	2013	2014
Principal				
Charges/Interest	0.00	0.00	0.00	0.00
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

**Safeguards Assessment:** Under the Fund's safeguards assessment policy, the Central Bank of Bolivia (CBB) 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 CBB'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, CBB is not subject to the policy.

**Exchange Arrangement:** The Bolivian currency is the Boliviano and the de facto and de jure exchange rate regimes are crawling peg. Since November 2010, the authorities resumed the negative crawling peg and the official selling rate has appreciated from Bs7.07 per U.S. dollar to Bs6.96.

**Article IV Consultation.** The last Article IV consultation was completed by the Executive Board on May 23, 2011 (Country Report No.

11/124). Bolivia is on a standard 12-month consultation cycle.

### Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
<b>Commitment of HIPC assistance</b>			
Decision point date	Sep-97	Feb-00	
Assistance committed			
by all creditors (US\$ million) <sup>1/</sup>	448	854	
<i>Of which:</i> IMF assistance (US\$ million)	29	55.32	
(SDR equivalent in millions)	21.25	41.14	
Completion point date	Sep-98	Jun-01	
<b>Disbursement of IMF assistance (SDR million)</b>			
Assistance disbursed to the member	21.25	41.14	62.39
Interim assistance	...	...	...
Completion point balance	21.25	41.14	62.39
Additional disbursement of interest income <sup>2/</sup>	...	3.09	3.09
<b>Total disbursements</b>	<b>21.25</b>	<b>44.23</b>	<b>65.48</b>
<b>Implementation of MDRI Assistance</b>			
Total debt relief (SDR Million) <sup>3/</sup>			160.93
<i>Of which:</i> MDRI			154.82
HIPC			6.11
Debt relief by facility (SDR Million)			

### Debt Relief by Facility (SDR Million)

Delivery Date	Eligible Debt		Total
	GRA	PRGF	
January 2006	6.7	71.15	77.85
January 2006	83.08	N/A	83.08

<sup>1/</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

<sup>2/</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

<sup>3/</sup> The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

**Technical Assistance, 2006–12**

<b>Department</b>	<b>Purpose</b>	<b>Date</b>
STA	Monetary statistics	Mar-06
FAD	Public finance information system	Dec-06
STA	ROSC Data Module	Jan-07
MCM	Inflation targeting	Jun-07
STA	National accounts	Sep-07
FAD	Tax policy	Mar-08
STA	National accounts	Aug-08
FAD	Treasury operations, cash and debt management	Nov-08
FAD	Expenditure policy (fiscal and distributional implications of petroleum product pricing)	Mar-09
FAD	Public financial management (intergovernmental fiscal relations)	July/August 2009
FAD	Tax policy (tax reform and taxation of natural resources)	July/August 2009
STA	National accounts	Oct-09
FAD	Tax system under the new constitutional framework	Oct-09
FAD	Decentralized autonomies with fiscal stability	Dec-09
FAD	Treasury management and sub national debt control	May-10
FAD	Development of a medium-term macro fiscal framework	May-10
FAD	Institutional strengthening of tax and customs administration	Jun-10
FAD	Integration of tax and customs administrations	Jan-11
STA	National accounts	Feb-11
MCM	Road map for the Issuance of Sovereign Bonds	Nov-11
LEG	AML/CFT regulatory and institutional framework	Jan-12
STA	Government Finance Statistics	Feb-12

**Resident Representative:** Mr. Carlos Fernandez-Valdovinos is the IMF Resident Representative for Brazil and Bolivia since August 2011.

## ANNEX 2. RELATIONS WITH THE WORLD BANK AND BANK-FUND COLLABORATION UNDER THE JMAP

### A. Relations with the World Bank

#### 1. The recently approved Country Partnership Strategy (CPS) is guiding the World Bank Group (WBG) support to Bolivia for the fiscal period 2012-2015.

Following the implementation of two consecutive Interim Strategy Notes (ISN), the WBG has developed a four-year CPS around the principles of alignment with Government strategic priorities, selectivity, and coordination with development partners. Also, a results matrix will track program implementation and its impact on country development goals. The CPS was discussed by the Board in December 2011. It proposes a program of lending operations and knowledge activities in four results areas: (i) sustainable productive development, (ii) climate change and disaster risk management, (iii) human development and access to basic services, and (iv) public sector effectiveness. In addition, the strategy incorporates gender and governance and anti-corruption as cross-cutting themes. These areas respond to Government requests and priorities outlined in the National Development Plan (NDP), and make the most of the WBG's comparative advantage.

2. **The CPS may involve a transition from financing through the International Development Association (IDA) to the International Bank for Reconstruction and Development (IBRD).** Up to the CPS midpoint review, Bolivia would only access IDA financing, for which an indicative lending program has been agreed upon with the Government for Special Drawing Rights (SDR)

110.5 million (approx. US\$170 million). These resources from the IDA16 cycle should be committed in fiscal years 2012-2014. The CPS proposes a frontloading of IDA resources in fiscal years 2012 and 2013 to ensure continuity of successful ongoing projects that close during the first and second year of the CPS. Since Bolivia's Gross National Income (GNI) per capita started to move decisively above the IDA operational cut-off in 2006, the Government submitted a formal request to access IBRD lending. This request will be formally assessed at the CPS midpoint review.

3. **The CPS will also support the development of a flexible program of Analytical and Advisory Activities (AAA) and convening services tailored to the Government's needs.** An indicative set of non-lending activities has been defined for fiscal year 2012, which includes technical assistance and Economic and Sector Work (ESW) in areas such as public sector governance, multi-dimensional poverty and poverty assessment, social safety nets, the strengthening of environmental and natural resource management, the Stolen Asset Recovery (StAR) Initiative, and the Report on the Observance of Standards and Codes (ROSC) in Auditing and Accounting. The AAA program will be kept open and flexible for the other years to ensure that it can respond to the requirements that emerge during the implementation of the CPS. A package of capacity building and knowledge activities would be provided to prepare the country for

the potential transition to IBRD lending in strategic areas such as public debt management. Recently, the Bank delivered to the Government core pieces of ESW related to the financial sector, including the Financial Sector Review and the Financial Sector Assessment Program (FSAP) Update. The financial sector notes followed a modular approach to accommodate topics of interest to the Government. Topics included the transitioning of financial cooperatives into the regulatory sphere, and comparing the applicable regulatory framework with regional standards. Another report in this series focuses on outreach to rural areas and assessing the financial sector's potential role in fostering productive sector credit. The Bank and the Government are currently exploring possible follow-up to implement some of the findings.

**4. The International Finance Corporation (IFC) will continue supporting Bolivia with a strategy that focuses on viable, high-impact private sector-led projects, complemented by strategic advisory services.** On the investment side, IFC will maintain its focus on clients with sustainable business models that have demonstrated strong past performance and operate efficiently within regulatory frameworks mandated by Bolivia's new Constitution. This includes projects primarily in financial markets, agribusiness and forestry, but could also expand to other sectors should a conducive environment be in place. On its advisory work, IFC will continue its work to improve the investment climate by simplifying procedures at the municipal and possibly the

national level, and provide training to Small and Medium Enterprises (SME) through its business advisory pillar. If required, IFC could provide further technical assistance and capacity building in investment climate, access to finance, and the strengthening of local royalty management through strategic community investment programs. In addition, the Multilateral Investment Guarantee Agency (MIGA) has received preliminary inquiries by investors and will proceed once a strong developmental case can be built.

**5. The CPS is supporting the smooth implementation of the current portfolio.**

New investment projects under preparation will enter the portfolio in the short term. The Bank's existing portfolio comprises 13 investment projects for a total commitment of US\$444 million, of which US\$330 million remain undisbursed (Table 1). There has been a slowdown in the execution of the portfolio over the ongoing fiscal year, to a large extent this is due to the recent change in the maturity of the portfolio. Four projects for US\$239 million entered the portfolio in calendar year 2011, these are just starting implementation. In addition, three operations and one additional financing are currently in preparation under the umbrella of the CPS: the Rural Alliances II Project (US\$40 million), an Additional Financing for the Urban Infrastructure Project (US\$24 million), the Water and Sanitation Project (US\$70 million), and the Access to Renewable Energy (US\$25 million). These operations are expected to be approved in fiscal years 2012 and 2013.

**Table 1 Bolivia: World Bank Portfolio (as of February 2012)**

<b>Project</b>	<b>Commitment</b>	<b>Disbursed</b>	<b>Undisbursed*</b>	<b>Closing Date</b>
	(US\$ million)	(US\$ million)	(US\$ million)	
Urban Infrastructure	30.0	29.7	2.1	Apr-12
Land for Agricultural Development	15.0	6.3	8.7	Jun-12
Emergency Recovery and Disaster Management	16.9	6.6	10.1	Jun-12
Secondary Education Transformation	10.0	7.0	3.0	Sep-12
Participatory Rural Investment II	20.0	12.1	7.6	Mar-13
Lake Titicaca Local Sustainable Development	20.0	2.4	17.4	Jun-13
Investing in Children and Youth	17.0	3.9	13.0	Dec-13
Expanding Access to Reduce Health Inequalities	18.5	2.2	15.7	Jan-14
Rural Alliances	58.4	45.2	15.0	Mar-14
Strengthening of the Statistical Capacity	50.0	0.4	50.4	Jun-15
National Roads and Airport Infrastructure	109.5	0.0	110.6	Dec-16
Agricultural Innovation and Services	39.0	0.0	37.8	Feb-17
Community Investment in Rural Areas	40.0	0.0	38.7	Apr-17
<b>Total</b>	<b>444.3</b>	<b>115.8</b>	<b>330.2</b>	

\*Undisbursed balances differ from the difference between committed and disbursed amounts due to variations in the exchange rates between SDRs and U.S. dollars.

**6. Trust funds (TF) are an important financing source for the Bank's program in Bolivia.** TFs are used to support Bank policy dialogue, pilot innovative ideas and operations through co-financing and background analytical work, they also play an important role in knowledge transfers through South-South capacity building activities. Currently, there are six recipient-executed trust funds under implementation: Decentralized Electricity for Universal Access (US\$5.2 million), Pilot Program for Climate Resilience I

(US\$1.5 million), Adaptation to the Impact of the Rapid Glacier Retreat in the Tropical Andres (US\$2.3 million), Reducing Risk for Biodiversity Conservation (US\$0.2 million), Early Childhood Care and Development (US\$2.9 million), and Integrated Community Driven Territorial Development for remote Communities in the Amazon (US\$2.3 million). Additionally, the Government and the Bank are working in the preparation of the second phase of the Pilot Program for Climate Resilience (US\$36 million).

## B. IMF Relations with the World Bank Under JMAP

7. The following priorities were identified for the coordinated work-plan on Bolivia:

- **Strengthening of the fiscal framework**, in particular the reform of intergovernmental relations, transparent management of the hydrocarbon-related revenue and reinforcement of the multi-annual budget process. The public sector has to strengthen capacity also on public sector management and procurement.
- **Maintaining adequate financial sector supervision.** The financial sector is liquid and solvent. The current challenge is to gradually increase its depth, while strengthening supervision to maintain the health of the loan portfolios, and to fully develop a financial sector safety net.
- **Improving the business climate to bolster investment.** Bolivia's private investment rate remains significantly below the levels observed in the past decade and well below the regional average. There is also the challenge to reconcile the need to maintain the role of the private sector with the government intention to increase the role of the state in the economy.
- **Reducing poverty.** Significant challenges remain in the area of human development, including access to quality basic education and health, employability of low income youth and social protection network.

8. It was agreed that the teams continue with the following division of labor:

- **Tax policy and administration.** The Fund will continue to have the lead in

collaborating with the authorities in this area.

- **Fiscal federalism.** The Fund has been providing TA on the fiscal implications of the draft law on Administrative Autonomies and Decentralization. Further, the Bank is supporting the Ministry of Development Planning in the decentralization process and the public investment management and coordination among different levels of government.
- **Governance and budget framework.** The Bank, in collaboration with the Ministry of Finance, and the IADB, delivered the Public Expenditure Financial Assessment (PEFA). The assessment provided the basis for the Government to prioritize and measure progress, and identified critical areas where reforms might be needed. Following the PEFA results, the Government designed an action plan, which in its first stage is focusing on enhancing revenue-generating functions (customs and taxation offices). If required, the Bank can support the development of PFM assessments at the sub-national level.
- **Social protection:** The Bank will continue assisting the Government in the area of social protection, health and education. The Bank has been also providing technical assistance on poverty, to help both diagnosis and targeting of population that fails to reach minimum standards of multidimensional welfare.
- **Private sector development:** The World Bank Group will continue its analytical work and financing in the area of

agricultural productivity, food security, rural development and community driven development.

- **Financial sector surveillance.** The Fund will continue with the surveillance of the financial sector developments. In addition,

the Bank is exploring possible follow-up to implement some of the findings of the financial sector notes.

## ANNEX 3. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

**1. As of December 31, 2011, the Inter-American Development Bank (IDB) had approved loans to Bolivia amounting to US\$4.66 billion, with disbursements totaling US\$3.62 billion.** Bolivia's outstanding debt to the IDB was approximately US\$764.0 million with undisbursed approved funds for US\$668.4 million. During the year net cash flows to the country were positive for a third year in a row, a trend expected to continue in the base scenario to 2016. At the end of 2007, the IDB unilaterally joined the IMF-WB MDRI initiative, by writing off a total of US\$741.1 million in principal payments and US\$307.3 millions of future interest payments, generating an estimated annual fiscal space of more than US\$18.0 millions on average.

**2. After the last round of debt relief, the IDB has implemented a new criteria of allocation of concessional lending** which is consistent with the application of the Debt Sustainability Framework. The IDB lending to Bolivia will follow the operational guidelines for concessional funds under the Fund of Special Operations (FSO) performance-based allocation system. Parallel lending operations, modality that blends ordinary and concessional funding, will be the preferred lending instrument up to 2020.

**3. The IDB and Bolivia have a new country strategy covering the period 2011-2015.** Under the new country strategy, the IDB has decided to increase financial flows to Bolivia. Beginning 2012, Bolivia, in the base scenario, will be allocated 25 percent of the concessional

element under IDB's blended financial conditions. The new country strategy included provisions and triggers for considering an increase in the financial envelope through an additional decrease in the concessional component element to 20 percent. During 2011 Bolivia enjoyed an annual allocation of US\$252.00 millions for 2011, the base scenario for the period 2011-2015 is the approval of new loans US\$252.0 million per year. At beginning of 2012 Bolivia and the IDB are in the process of changing the blend conditions (20 percent of concessional element), which will imply an annual allocation of US\$315.0 million for 2012.

**4. Under the Bank's country strategy with Bolivia, the government and the IDB have agreed on making sustainable growth and poverty-inequality reduction as main objectives of their strategic engagement.** In pursuit of this objective, the Bank will align its actions with those on Bolivia's National Development Plan. The country strategy will target its interventions in the following sectors: (i) Transport; (ii) Water and sanitation; (iii) Energy; (iv) Early Childhood Development (ECD); (v) Health; (vi) Education; and (vii) Institutional and Sustainability Strengthening. As overarching sectors, the IDB will focus on climate change and indigenous population/diversity issues.

**5. As of December 31, 2011 the portfolio of executing sovereign guaranteed operations in Bolivia consists of 31 loans, totaling US\$1.09 billion, of which 38 percent has already been disbursed.** The current executing portfolio supports mostly transport,

water and sanitation and energy infrastructure interventions. The undisbursed sovereign portfolio is concentrated (56 percent) in the above mentioned sectors. The non-sovereign guaranteed executing portfolio consists of 2 loans ascending to US\$7.1 million and 2 TFFP's ascending to US\$13 million, of which none has been disbursed. The Bank's 2012 operative program portfolio contains 7 sovereign guaranteed loans for a total amount of US\$252 million which will be concentrated in transport, water and sanitation, early childhood development, education, health and strengthening of public governance, and 3 non-sovereign guaranteed for a total amount of US\$ 14 million. Seven additional loans for US\$252 million have been identified for the pipeline 2013.

**6. The conditions for the strategy's implementation remain complex, with important institutional, social and political definitions yet to be clarified thus representing direct and indirect risks to the fulfillment of the strategy objectives.** In the new country strategy several macroeconomics, institutional and regulatory risks are identify to pose direct and indirect challenges to the implementation scenarios of the Bank's strategic engagement. Particularly relevant for the new country strategy are the financial implications of the country's excessive dependence on oil revenues; the weak policy implementation and institutional capacity affecting the public investments programs; and the problematic regulatory environment that keeps downgrading the investment climate of the country.

## ANNEX 4. STATISTICAL ISSUES

(As of April 30, 2012)

### A. Assessment of Data Adequacy for Surveillance

**General:** Data provision has some shortcomings, but is broadly adequate for surveillance.

**National Accounts:** The National Institute of Statistics (INE) is revising the national accounts statistics, including the updating of the base year (currently dating from 1990) and an intensified implementation of the *System of National Accounts 1993* (*SNA 1993*).

**Labor market:** The quality of the household and employment surveys has declined in the last few years, due mainly to financial constraints. The quarterly employment survey was discontinued in 2003, leading to a lack of quarterly information on unemployment, employment and wages. Yearly information on wages is still compiled by INE.

**Prices statistics:** Industrial producer price indices and external trade unit values are compiled by INE, but are in need of revision as regards concepts and definitions

consistent with *SNA 1993*, as well as treatment of seasonal products, missing items, quality changes, and introduction of new products.

**Government finance statistics:** Annual data on the operations of the consolidated central government do not cover all operations of 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 ensure proper monitoring of public sector financial operations including subnational fiscal operations, debt and social spending. It will also be important to improve on the reporting of the operations and debt of public enterprises.

**Balance of payments:** The coverage of certain services and financial transactions in the balance of payments has been expanded, following recommendations by the January 2007 Data ROSC mission.

### B. Data Standards and Quality

Bolivia has participated in the General Data Dissemination System (GDDS) since

November 2002. Data ROSC published on August 13, 2007.

## Bolivia: Indicators Required for Surveillance

(As of April 30, 2012)

	Date of Latest Observation	Date Received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>	Memo Items	
						Data Quality–Methodological Soundness <sup>10</sup>	Data Quality–Accuracy and Reliability <sup>11</sup>
Exchange Rates	Daily	Daily	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	Daily	Daily	D	D	D		
Reserve/Base Money	Mar. 2012	Apr. 2012	M	M	M	O, LO, LO, O	O, O, O, O, O
Broad Money	Mar. 2012	Apr. 2012	M	M	M		
Central Bank Balance Sheet	Mar. 2012	Apr. 2012	M	M	M		
Consolidated Balance Sheet of the Banking System	Mar. 2012	Apr. 2012	M	M	M		
Interest Rates <sup>3</sup>	Mar. 2012	Apr. 2012	W	W	M		
Consumer Price Index	Mar. 2012	Apr. 2012	M	M	M	LO, O, LO, O	O, LO, LNO, O, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – General Government <sup>5</sup>	Dec. 2011	Mar. 2012	M	M	M	LO, LO, LNO, LO	LO, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> – Central Government <sup>6</sup>	Dec. 2011	Mar. 2012	M	M	M		
Stock of Central Government and Central Government-Guaranteed Debt <sup>7</sup>	Dec. 2011	Mar. 2012	M	M	M		
External Current Account Balance	Q4 2011	Mar. 2012	Q	Q	Q	O, LO, LO, LO	LO, O, LO, O, LO
Exports and Imports of Goods and Services <sup>8</sup>	Q4 2011	Mar. 2012	Q	Q	Q		
GDP/GNP	Q3 2011	Dec. 2012	Q	Q	Q	LO, LO, LO, O	LNO, LO, LNO, O, LO
Gross External Debt	Q4 2011	Mar. 2012	M	M	M		
International Investment Position <sup>9</sup>	Q4 2011	Mar. 2012	Q	Q	Q		

<sup>1</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

<sup>2</sup> 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.

<sup>3</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>4</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>5</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>6</sup> Bolivia does not compile central government fiscal data.

<sup>7</sup> Guaranteed non-financial public sector debt. Including currency and maturity composition.

<sup>8</sup> Monthly frequencies for goods only.

<sup>9</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>10</sup> 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).

<sup>11</sup> 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.



INTERNATIONAL MONETARY FUND

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International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2012 Article IV Consultation with Bolivia**

On June 1, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation<sup>1</sup> with Bolivia on a lapse-of-time basis.<sup>2</sup>

### **Background**

Well-balanced macroeconomic policies, accompanied by an improvement in terms of trade during recent years, have allowed Bolivia to achieve very positive macro-economic results. Exports of goods tripled since 2005, thanks to increased volumes of gas, mineral, and agricultural exports, and the concurrent boom in commodity prices. Real GDP growth, which averaged 3.3 percent annually during 1996–2005, increased to an average of 4.7 percent in 2006–11. The external and fiscal positions strengthened sharply, as larger export receipts, higher taxation of hydrocarbon production, and moderate rates of increase in government spending, led to substantial external current account and fiscal surpluses. These surpluses contributed to the build-up of a comfortable reserves buffer, now at 50 percent of GDP.

In 2011, economic activity remained robust amid strong domestic demand growth, with real GDP growing by 5.2 percent. After a sharp increase at the beginning of 2011, 12-month inflation has gradually declined to 4 percent in March 2012, reflecting a softening in international food prices, price-stabilization policies in agriculture, and a gradual re-anchoring of expectations.

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<sup>1</sup> 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. 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>.

<sup>2</sup> 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.

Domestic demand grew briskly, with imports climbing over 40 percent with respect to 2010. As a result, the external current account balance narrowed to 2¼ percent of GDP, despite record-high export prices. Private investment has remained subdued, amid lingering uncertainty about the legal framework.

Economic policies have been accommodative. In early 2011, the central bank tightened monetary conditions in response to the pickup in inflation. However, since mid-2011 and in the face of renewed external uncertainty, the central bank reduced the pace of liquidity withdrawal, allowing for a resurgence of excess liquidity in the banking sector. At the same time, banks continued to expand credit to the private sector, at above 20 percent in nominal terms. The central bank let the currency appreciate only slightly, by 1.3 percent. The overall balance of the public sector registered a surplus of 0.8 percent of GDP in 2011, as revenue performance improved. Public investment picked up strongly, contributing to a fiscal impulse of about 1 percent of GDP.

Strong results have also been achieved on improving social inclusion and income distribution through cash transfer programs and investment in infrastructure. The share of the population living under extreme poverty has halved between 2005 and 2011, from 48.5 percent to 24.3 percent. At the same time, social and regional disputes have persisted, particularly in border conflicts and in the context of revenue-sharing arrangements, and location of infrastructure.

### **Executive Board Assessment**

In concluding the 2012 Article IV consultation with Bolivia, Executive Directors endorsed the staff's appraisal, as follows:

The Bolivian economy maintained a strong performance in 2011. Real GDP growth accelerated, on the back of strong terms-of-trade and accommodative policies. Strong demand growth led to a narrowing of the external current account surplus and, despite buoyant revenue, the fiscal surplus declined due to fiscal impulse. Net international reserves climbed to new highs, thus offering strong protection to external shocks. Bank credit continued to expand at rapid rates, amid strong financial soundness indicators.

The outlook for 2012 is favorable and short term downside risks are manageable. Real GDP is expected to continue growing at a fast pace, reflecting still high terms of trade and mildly expansionary policies. The external current account and the fiscal balance are expected to remain in surplus. Downside risks from an adverse external environment are limited by strong financial cushions and proven resilience of the Bolivian economy to financial shocks.

A shift in macroeconomic policies to a more neutral level might be required to consolidate the decline in inflation and reduce overheating risk. The envisaged fiscal impulse is modest, but a

higher fiscal balance would help offset strong private demand growth. The central bank may want to absorb part of the large excess liquidity in the banking sector with a view to slowing credit growth and seeking a gradual increase in short-term and deposit interest rates.

Given the outlook for commodity prices, projected fiscal spending for 2012 is compatible with a sustainable fiscal position over the medium term. Under current policies, public debt will remain on a downward path over the next few years, as the nonfinancial public sector is expected to run modest surpluses.

To protect public investment and make room for higher social spending, a strengthening of the non-hydrocarbon balance is recommended. Increasing productive and social investment—while containing current expenditure—would require either higher revenue or reducing other spending. Reducing fuel subsidies, with appropriate compensatory measures, and strengthening direct taxation would help to make space for these additional outlays.

Reforms to the policy framework, building on the authorities' plans, will help improve policy responses to changing economic conditions. Setting up a medium-term fiscal framework for the exploitation of natural resources would help avoid pro-cyclical fiscal spending and build buffers to insure against commodity price volatility. It will also help introduce intergenerational equity considerations in the design of fiscal policy, as natural resource depletion is balanced against strong development needs.

Limiting the role of the central bank in financing public investment would help reinforce the strength of monetary policy. In line with international experience, central bank financing for development purposes should be limited, to avoid the emergence of quasi-fiscal losses, especially under adverse external scenarios. As lower dollarization becomes more entrenched and domestic financial markets develop further, the authorities will have room to move toward greater exchange rate flexibility.

The expansion of public sector involvement in productive activities and investment should be accompanied by a stronger governance and accountability framework. A strategy encompassing all public corporations, as planned with the enactment of a new law for Public Enterprises, is needed. Elements of the legal framework should include a requirement that financial statements be externally audited; that the cost of quasi-fiscal operations be disclosed; and that reports be elaborated on the performance of companies and the risks they face. In tandem, there is a need to step up efforts to ensure the effectiveness of public spending and enhance implementation capacity across all levels of government.

Building on important improvements in the financial sector, further strengthening is needed to ensure macro-financial stability. Financial sector indicators are strong, but credit expansion needs to be monitored closely and banking sector buffers maintained. Staff welcomes the

progress in the adoption of FSAP recommendations. Plans to strengthen the financial system safety net, with the introduction of a limited deposit insurance, should help consolidate the strength of the banking sector. In addition, direct controls on the price and allocation of credit should be avoided. To preserve Bolivia's financial system integrity, the Anti Money Laundering/Combating the Financing of Terrorism regime should be rapidly strengthened to comply with international norms.

Sustaining high and stable medium-term growth will require improvements in the business environment. A key challenge will be to adapt the legal framework for natural resources and private investment to the mandates of the Constitution in a way that ensures clear and stable rules of the game for the private sector. Clearly defining the scope of public sector operations while ensuring a fair and swift process of compensation of the former owners of nationalized companies would also contribute to reducing risk perceptions.

Progress in social policies has allowed Bolivia to make inroads toward achieving its Millennium Development Goals. Maintaining the real value of cash-transfer programs to preserve their impact and enhancing the delivery of education and health services are priorities. Appropriate incorporation of these needs in the budgetary process will be important in the period ahead.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

### Bolivia: Selected Economic Indicators

	2008	2009	Prel. 2010	Prel. 2011	Proj. 2012
(Annual percentage changes)					
<b>Income and prices</b>					
Real GDP	6.1	3.4	4.1	5.2	5.0
GDP deflator	10.4	-2.4	8.8	14.6	3.8
CPI inflation (period average)	10.3	6.5	2.5	9.9	4.9
CPI inflation (end-of-period)	11.8	0.3	7.2	6.9	5.0
(In percent of GDP)					
<b>Combined public sector</b>					
Revenues and grants	38.9	35.8	33.2	35.4	36.4
<i>Of which:</i>					
Hydrocarbons related revenue	13.4	11.3	10.2	11.2	11.8
Expenditure	35.3	35.6	31.5	34.6	35.5
Overall balance	3.6	0.2	1.7	0.8	0.9
Total gross public debt	37.2	40.0	38.5	33.9	34.5
<b>External sector</b>					
Current account	12.0	4.3	4.9	2.2	1.6
Merchandise exports	39.3	28.4	32.3	33.9	35.3
<i>Of which:</i> Natural gas	19.0	11.3	14.1	15.8	17.8
Merchandise imports	30.6	26.0	27.2	31.2	34.1
Gross international reserves					
In millions of U.S. dollars	7,967	8,616	9,799	12,074	12,860
In percent of broad money	88.7	80.1	80.7	83.4	78.4
(Changes in percent of broad money at the beginning of the period)					
<b>Money and credit</b>					
NFA of the banking system	10.1	60.6	-4.5	-19.0	30.5
NDA of the banking system	19.8	19.3	12.7	18.0	13.3
<i>Of which:</i> Credit to the private sector (in percent of GDP)	31.5	34.0	36.0	36.0	39.2
Broad money	19.9	19.7	12.5	17.7	13.2
Interest rates (percent, end-of-period)					
Deposits in local currency	5.8	2.1	0.9	1.7	...
Loans in local currency	13.9	9.1	10.4	10.8	...

Sources: Bolivian authorities; and IMF staff estimates and projections.