INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/36

BOLIVIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

February 2014

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV Consultation with Bolivia, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV Consultation, prepared by a staff team of the IMF for the Executive Board's consideration on January 27, 2014, following discussions that ended on November 18, 2013, 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 December 26, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the IMF.
- A **Staff Statement** of January 22, 2014 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its January 27, 2014 consideration of the staff report that concluded the Article IV consultation with Bolivia.
- A **Statement by the Executive Director** for Bolivia.

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BOLIVIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

December 26, 2013

KEY ISSUES

Context. Since the mid-2000s, macroeconomic stability supported by high world commodity prices and active social policies have contributed to nearly tripling income per capita and reducing poverty in Bolivia. Prudent fiscal policies allowed saving a sizable portion of the hydrocarbon revenue windfall, improving the resilience of the economy to adverse external shocks. Reflecting this, Bolivia was one of few countries in Latin America that sustained positive growth during the global crisis of 2008–09 and weathered well the recent regional slowdown.

Recent developments and outlook. Real GDP growth is projected at 6.7 percent in 2013, the highest growth rate of the last thirty years and is expected to remain above potential in 2014. Downside risks from weaker activity in trading partners or lower world hydrocarbon prices have increased, but a strong external position and sizable international reserves provide ample buffers.

Macroeconomic policies. Staff recommended targeting a neutral fiscal stance in 2014, saving policy stimulus to respond to downside external shocks and adopting a medium term fiscal framework (MTFF) to manage resource wealth. The authorities reiterated their commitment to prudent fiscal policy and highlighted that work on the MTFF is an ongoing process. On monetary policy, staff noted that further tightening may be needed if inflationary pressures prove persistent and recommended discontinuing the direct lending of the central bank to public corporations and gradually exiting the stabilized exchange rate regime. The authorities did not concur with staff's recommendations.

Financial sector. The Bolivian financial system remains solid and well capitalized, but the new Financial Services Law could pose a risk to financial stability. Interest rate caps and minimum credit quotas could reduce the profitability of financial institutions, lower total lending funds, over-leverage target beneficiaries, and complicate the conduct of monetary policy. Staff recommended using other instruments to achieve the objectives set out in the law.

Structural and social policies. Removing uncertainties in the legal framework is critical to improve the business climate and promote private investment. Impact evaluation of social transfers and better targeting of fuel subsidies would enhance the cost-effectiveness of social policies and deepen the notable gains achieved by the authorities.

Approved By
Miguel Savastano and Chris Lane

Discussions for the 2013 Article IV Consultation were held in La Paz and Santa Cruz during November 6–18, 2013. The mission comprised Mmes. Corbacho (head), Ogawa, and Ture (WHD), Mr. Yepez (WHD), and Mr. Cardenas (local office). Mr. De La Barra (Advisor, OED) joined several meetings. The mission met with Minister of Economy and Public Finances Arce, Central Bank President Zabalaga, Minister of Planning Caro, other senior public officials, and representatives of the private sector. Mr. Tamez and Ms. Kroytor (LEG) provided inputs on the new Financial Services Law at headquarters.

CONTENTS

BACKGROUND 4

RECENT DEVELOPMENTS 4

OUTLOOK AND RISKS 7

POLICY DISCUSSIONS 9

A. Strengthening the Fiscal Framework 9

B. Maintaining Low and Stable Inflation 11

C. Safeguarding Financial Stability 12

D. Sustaining Inclusive Growth 13

STAFF APPRAISAL 14

BOXES

1. Past Fund Policy Recommendations and Implementation 17
2. Inflation Dynamics 18
3. International Reserves Management 19

FIGURES

1. Recent Economic Developments 6
2. Real Sector Developments 20
3. External Sector Developments 21
4. Monetary Developments 22
5. Fiscal Developments 23
6. Financial Sector Developments 24

TABLES

1. Selected Economic and Financial Indicators 25
2. Operations of the Combined Public Sector 26
3. Summary Balance of Payments 27
4. Central Bank Monetary Survey 28
5. Commercial Bank and Non-Bank Depository Institutions 29
6. Financial System Survey 30
7. Selected Vulnerability Indicators 31
8. Millennium Development Goals 32

ANNEXES

I. A Medium Term Fiscal Framework for Managing Resource Wealth 33
II. Potential Output 37
III. Assessing External Spillovers 39
IV. Exchange Rate and Competitiveness Assessment 41

BACKGROUND

1. **Since the mid-2000s, good macroeconomic performance and active social policies have helped nearly triple income per capita and reduce extreme poverty in Bolivia**. Prudent fiscal policies allowed saving a sizable portion of the hydrocarbon revenue windfall from the commodity price boom, improving the resilience of the economy to adverse shocks. Reflecting this, Bolivia was one of few countries in Latin America that sustained positive growth during the global crisis of 2008–09 and weathered well the recent regional slowdown. At the same time, deep political and social changes have been taking place. The 2009 Constitution dictates substantial revisions to the legal and policy frameworks. The authorities' economic strategy is aligned with new constitutional requirements and envisages the expansion and industrialization of natural resource production. The authorities are also making inroads to tackle still high levels of poverty, inequality, child and maternal mortality rates, and improve access to public services in remote areas.

RECENT DEVELOPMENTS

2. **Real GDP growth and the external position continued to be strong.** The latest data suggest that real GDP growth accelerated to 6.6 percent by September 2013, from 5.2 percent in 2012, supported by soaring hydrocarbon exports, resilient private consumption, and accommodative macro policies. Staff expects output growth of 6.7 percent for the year as a whole, the highest growth rate in thirty years. Notwithstanding elevated export volumes, the external current account surplus is projected to narrow to 4 percent of GDP in 2013, from the peak of 7.8 percent of GDP in 2012, due to softer terms of trade and a pickup in imports. Sizable gross international reserves (projected at 49 percent of GDP at end-2013) continue to provide ample buffer against external shocks.

3. **Inflationary pressures resurfaced in the second half of 2013 triggered by food supply shocks.** After hovering around 5 percent (y/y) in the first seven months of 2013, inflation increased in August and September driven by a spike in some food prices. By November, the food price shock reversed, with key staples posting deflation m/m aided by temporary measures to boost supply.[1] However, core inflation (excluding food, fuel, and administered prices) edged up to 4.9 percent (y/y), from 4 percent in January. Staff projects headline inflation to rise to 7.5 percent by end-2013, from 4.5 percent in 2012.

4. **Monetary conditions were tightened in response to the inflation shock**. Since end-2011, monetary policy has been anchored on a stable nominal exchange rate vis-à-vis the U.S. dollar, supplemented by liquidity management through open market operations.[2] Amid sizable excess

---

[1] Measures included increasing imports of those products and reaching agreement with domestic suppliers on their wholesale price.

[2] 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.

liquidity, the central bank started a gradual tightening of monetary conditions at the end of 2012 and accelerated the pace of open market operations in response to the food inflation shock. The central bank also placed papers directly with pension funds and immobilized banks' excess reserves in domestic currency (at a remunerated rate of 1.8 percent). As a result, excess liquidity fell and the auction rate of the 91 day t-bill inched up to 1.9 percent in November, from 0.35 percent at end-2012.[3] The authorities also applied stricter prudential limits on consumption credit and offered a savings bond to the public to stem the end-of-year seasonal hike in consumption.

5. The overall fiscal balance is projected to stay in surplus in 2013, consistent with an expansionary fiscal stance. Fiscal outturns through October showed a strong overall performance, supported by robust hydrocarbon and tax revenues. Higher transfers and fuel subsidies partially offset the increase in revenue, while capital expenditure execution advanced at a faster pace than in previous years, as capacity at the subnational level continues to be enhanced with support from the ministry of planning. For 2013 as a whole, staff projects an overall fiscal surplus of 0.6 percent of GDP (1.8 percent of GDP in 2012), which would imply a pro-cyclical impulse of about 0.8 percent of GDP.[4] Gross public debt is projected to decline to 32.5 percent of GDP by end-2013 and continue its downward trajectory over the medium term, with low risk of debt distress.[5]

6. The banking sector remains well capitalized. Growth in credit to the private sector moderated to 19 percent in nominal terms in November but remains high, led by commerce, real estate, and construction.[6] Banks' capital adequacy ratio stood at 12.9 percent in November, above the regulatory minimum of 10 percent, and the NPL ratio declined to 1.7 percent (from 8.7 percent at end-2006). Reflecting a new tax on foreign currency transactions and a corporate income tax surcharge for financial intermediaries, bank profitability is declining, with return-on-equity at 12.9 percent in November, compared to the peak of 21.2 percent in 2007. The steady increase in reserve requirements on foreign currency deposits and the stable exchange rate have contributed to a significant fall in the dollarization ratio (23 percent of total deposits in September from 53 percent in 2008).[7]

7. A new Financial Services Law could alter significantly the financial landscape. The law establishes a comprehensive legal framework for the regulation of financial services, financial institutions, and financial groups. Although the law includes several good provisions, its general thrust is to subordinate financial sector activities to social objectives. Furthermore, by allocating broad powers to the Executive branch, the law may give rise to regulatory uncertainty.

---

[3] The yield of the 1-year t-bill increased to 4.08 percent in November 2013 from 0.75 percent at end-2012.

[4] The fiscal impulse is calculated as the change in the cyclically-adjusted non-hydrocarbon fiscal balance (Annex I).

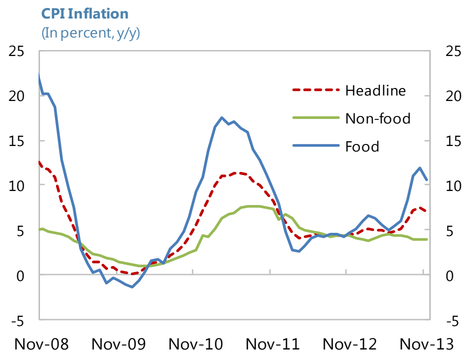
[5] See accompanying Debt Sustainability Analysis.

[6] Banking sector credit accounts for about ¾ of total credit to the private sector; the remaining ¼ is provided by cooperatives and other non-bank financial institutions.

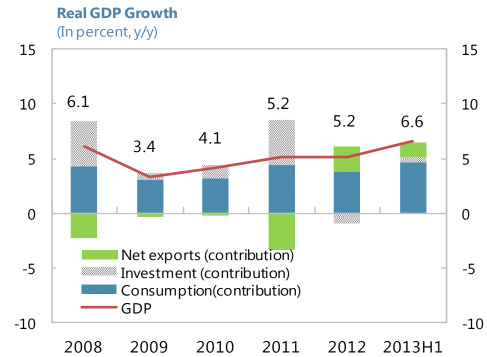
[7] Reserve requirements on foreign currency deposits are scheduled to steadily rise to 66.5 percent by 2016, from 21.5 percent in 2008.

Figure 1. Bolivia: Recent Economic Developments

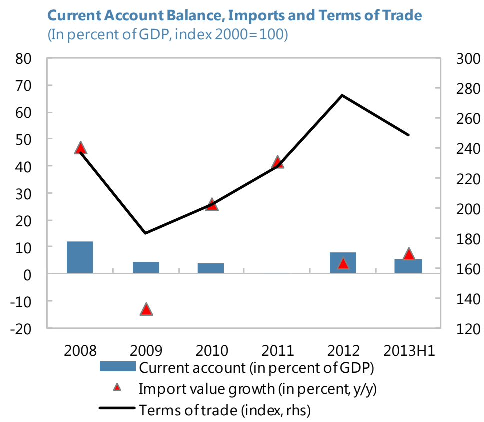
Inflationary pressures increased in August and September, driven by food supply shocks.



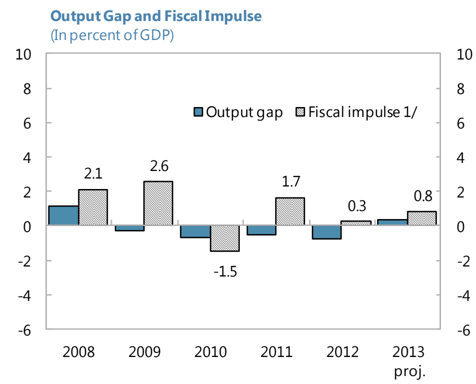
External demand, consumption, and public investment have been the main drivers of growth.



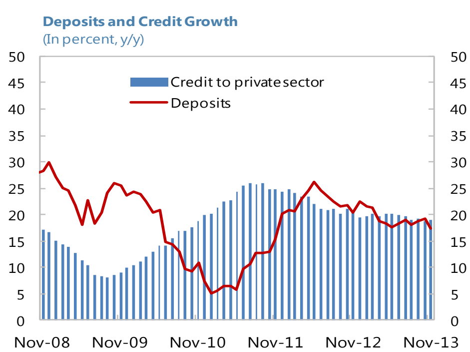
The current account surplus has narrowed against a backdrop of weaker terms of trade.



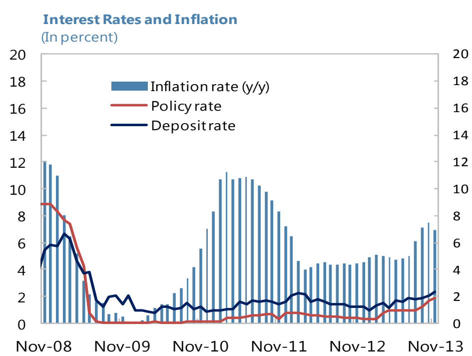
Fiscal policy is expected to remain expansionary.



Private sector credit growth is moderating but remains high…



…amid negative real interest rates.



Sources: Ministry of Economy and Public Finances, Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

1/ The fiscal impulse is calculated as the change in the cyclically-adjusted non-hydrocarbon primary fiscal balance.

Main features of the law include: (i) provisions to regulate lending rates and set lending targets for the productive sector and social housing; (ii) discretion to set floors on deposit rates; and (iii) mechanisms to enhance consumer protection and financial access in rural areas. The law came into effect in November, but specific regulations will be defined by Supreme Decrees in coming months.

8. **Bolivia's strong economic performance allowed the country to borrow from international capital markets at favorable terms.** In October 2012, Bolivia tapped international capital markets for the first time since the 1920s, issuing a 10 year bond for US$0.5 billion at a yield of 4.875 percent. In August 2013, a second issuance followed also for US$0.5 billion at a yield of 6.25 percent.[8] The issuances did not reflect a fiscal need but the authorities' desire to establish a benchmark for corporate foreign borrowing and to pre-finance important public investment projects in anticipation of tighter external financial conditions. The authorities are advancing with the preparation of a medium term debt strategy.

OUTLOOK AND RISKS

9. **Staff projects real GDP growth of 5.4 percent in 2014, above potential, supported by the hydrocarbon sector and a moderate fiscal impulse**.[9] Commodity prices are likely to continue softening, but multi-year natural gas export contracts with Brazil and Argentina will maintain comfortable export volumes. The external current account surplus is expected to continue narrowing (to 3.1 percent of GDP in 2014 and 1 percent of GDP by 2018). The overall fiscal balance is projected to turn to a deficit in 2014 that would remain over the medium term as hydrocarbon revenues decline. Staff expects the authorities will succeed in anchoring inflation expectations and inflation will stabilize around 5 percent over the medium term.

Medium-Term Outlook

(In percent of GDP, unless otherwise indicated)

	Prel.	Projections				
	2013	2014	2015	2016	2017	2018
Real GDP growth (in percent)	6.7	5.4	5.0	5.0	5.0	5.0
Inflation (in percent, end of period)	7.5	5.5	5.2	5.0	5.0	5.0
Fiscal balance	0.6	-0.4	-0.1	-0.1	-0.4	-0.7
Nonhydrocarbon balance	-10.2	-10.4	-10.1	-9.5	-9.3	-9.3
Public debt	32.5	29.7	27.8	25.9	24.1	22.3
Net public debt	9.5	8.9	8.3	7.7	7.4	7.4
Current account	4.0	3.1	1.9	1.4	1.1	0.9
Reserves	48.8	48.3	48.1	47.3	46.5	45.5
Reserves (in months of imports)	16.3	16.1	16.3	16.6	17.1	17.9
External debt	20.2	19.1	18.4	17.7	17.0	16.3

Sources: Ministry of Economy and Public finances, Central Bank of Bolivia, National Institute of Statistics, and Fund staff calculations.

[8] The issuances included collective action clauses.

[9] Staff estimates that potential growth in Bolivia is in the range of 4.5 to 5 percent (Annex II).

10. Near and medium term external risks are somewhat higher than at the time of the 2012 Article IV consultation, but external financial buffers continue to be abundant. Downside external risks include:

- *Weaker growth in Argentina and Brazil*. The share of Argentina and Brazil in Bolivian exports has climbed to around 50 percent in 2013, from 25 percent in the early 2000's. A slowdown in these countries would adversely affect Bolivia both through trade and non-trade (i.e. private sector confidence) channels. Empirical calculations by staff suggest that a one percentage point reduction in Brazil's output growth would lower Bolivia's output growth by 1/3 percentage point on impact and by close to 0.8 percent over a twelve month period (Annex III).

- *Lower world commodity prices,* particularly for hydrocarbons. Close to 90 percent of Bolivia's exports are commodity based—with natural gas representing roughly 50 percent of total exports. Bolivia's fiscal accounts are also sensitive to commodity prices, as hydrocarbon related revenues account for nearly 35 percent of total revenue and grants. An adverse shock to hydrocarbon commodity prices would affect revenues, public investment, and activity. Export price formulas for gas exports based on a basket of petroleum products with a three month lag provide a temporary cushion to a drop in commodity prices.

- *Large buffers*. Sizable international reserves and government deposits at the central bank—projected at 49 and 26 percent of GDP by end-2013, respectively—would allow the authorities to mitigate the effects of adverse external shocks, especially if these are transitory.

11. Domestic risks are broadly balanced. On the downside, absent significant progress in finalizing key laws and improving the business climate, private investment may remain subdued. At the same time, the new Financial Services Law may not provide a level playing field for public and private banks and may weaken credit conditions and banks' balance sheets. On the upside, fiscal stimulus may turn out stronger than anticipated in staff's baseline scenario, in the context of the general election scheduled to take place in late 2014. In addition, the implementation of the National Public Investment System may result in a faster-than-envisaged removal of bottlenecks in investment planning, execution, and monitoring, particularly at the local level.

12. The authorities were not too concerned about external risks. They stressed that Bolivia's development strategy relies on domestic demand as the main engine of growth and noted that a slowdown in external demand would not have a major impact on economic activity, in particular since fiscal policy could have a more active role in a less benign external environment. The authorities also considered that staff estimates of spillovers overstated the effects that a slowdown in trading partners would have on Bolivia. The authorities emphasized that the large financial buffers would allow them to respond timely and effectively to any external shock.

POLICY DISCUSSIONS

A. Strengthening the Fiscal Framework

13. The authorities reiterated their commitment to prudent fiscal policy. They highlighted that the overall fiscal deficit target of 3.2 percent of GDP included in the 2014 draft budget was significantly smaller than the fiscal deficit target of 4.6 percent of GDP that had been presented in the 2013 budget, supported by the established practice of conservative forecasting of oil prices. Replacing these forecasts with the WEO baseline for oil prices results in a projected fiscal deficit of 0.4 percent of GDP for 2014, which would imply a moderately expansionary fiscal stance. In view of prospects for strong growth and the closed output gap, staff recommended aiming for a neutral fiscal stance in 2014, saving stimulus to respond to downside external shocks, and cautioned that fiscal tightening may be warranted if inflationary pressures persist. The authorities noted that an overall fiscal surplus could be within reach in 2014. They highlighted that any fiscal stimulus would be driven by public investment, rather than current spending, as investment was essential to deepen the diversification and industrialization of the economy, with important projects already in the pipeline. The authorities did not see any reasons to be concerned about the impact of the election cycle on fiscal sustainability.

Summary of Fiscal Balances
(In percent of GDP)

						Proj.	
	2008	2009	2010	2011	2012	2013	2014
Nominal balances							
Overall balance	2.8	0.2	1.7	0.8	1.8	0.6	-0.4
Non-hydrocarbon primary balance	-5.6	-8.7	-6.7	-8.3	-8.7	-9.1	-9.5
Cyclically-adjusted balance							
Non-hydrocarbon primary balance	-5.4	-8.0	-6.5	-8.2	-8.4	-9.3	-9.6
Fiscal impulse	2.1	2.6	-1.5	1.7	0.3	0.8	0.4

Sources: Ministry of Economy and Public Finances and Fund staff calculations.

14. Staff underscored that improving the non-hydrocarbon fiscal balance is critical for medium term sustainability. The non-hydrocarbon primary deficit has widened from 3.2 percent of GDP in 2006 to 9.1 percent of GDP projected in 2013. On current proven gas reserves and resource horizon, staff estimates that the sustainable level of the non-hydrocarbon primary deficit is around 3¼ percent of GDP, requiring an improvement of 5¾ percent of GDP from the 2013 projected level (Annex I). The short resource horizon has a visible impact on the debt trajectory after the mid-2020s, underlying the urgency to invest in exploration with support from the private sector.[10] The authorities indicated that they were giving priority to investment in gas exploration, with 18 new contracts expected to be subscribed by 2025. At the same time, they disagreed with staff's concern about the level of the non-hydrocarbon fiscal deficit, given good prospects for the sector. The authorities argued that Bolivia had been able to post fiscal surpluses for several years without having to focus on the non-hydrocarbon fiscal balance and were committed to continue doing so in the future.

[10] See accompanying Debt Sustainability Analysis.

15. Strengthening the non-hydrocarbon fiscal balance will require both expenditure and revenue measures. On the expenditure side, measures that would help fiscal consolidation include a gradual reform of fuel subsidies to target the most vulnerable groups and enhancements in the quality of capital expenditure. On the revenue side, staff recommended (i) introducing personal income taxes or reforming the existing VAT complementary system; (ii) strengthening compliance of the corporate income tax; (iii) reforming revenue agencies; and (iv) quantifying and reporting tax expenditures in the budget with potential to curtail those with high cost-benefit ratios. With quasi-fiscal risks of public corporations and financial institutions on the rise, staff noted that a comprehensive risk statement in the budget would help identify fiscal vulnerabilities and inform any additional reform needs. The authorities acknowledged that revenue measures undertaken in recent years, even if different in nature, pursued the same goals suggested by staff, but clarified that there was little scope for structural fiscal reforms during the election year.[11]

16. Staff recommended developing a fully-fledged MTFF to manage resource wealth. Staff welcomed the progress made by the authorities in preparing medium term fiscal projections, but noted that these projections should be part of the budget documentation, in line with best practices in fiscal transparency. Staff stressed that a fully fledged MTFF comprises, in addition to numerical projections, mechanisms to insulate the fiscal sector from commodity price volatility, improve the predictability of the budget, and promote countercyclical fiscal policies. Staff advised the authorities to consider the eventual adoption of a fiscal rule that would set a target for the structural primary balance, supported by a stabilization/savings fund with clear investment objectives and a strong governance structure. Recognizing that the effective implementation of such a complex rule requires meeting important pre-conditions, staff suggested as a first step the calculation, reporting, and discussion of structural fiscal indicators in the budget. In addition, hydrocarbon revenue sharing agreements may need to be revisited in the context of the fiscal rule. The Fiscal Pact called for by the decentralization law of 2010 provides an opportune time for such a revision.

17. The authorities noted that the preparation of a MTFF is an ongoing process that will evolve into multi-year budgeting in the future. They concurred with the need to continue strengthening fiscal reporting and analysis for budget formulation, but saw the preparation of a MTFF as a more gradual process with some essential elements already underway. With respect to a stabilization fund, while it is foreseen in the decentralization law, they noted that it would be difficult to build the necessary consensus for its implementation during an election year. Still, the sizable resources of subnational governments held at the central bank already provide an important source of fiscal savings. The authorities were not persuaded about the benefits of a fiscal rule.

[11] In addition to the new taxes on the financial sector, the authorities have strengthened tax administration and significantly broadened the base of contributors.

B. Maintaining Low and Stable Inflation

18. Staff noted that the rapid response to the food price shock of 2013 was appropriate. Bolivia's highly open and commodity dependent economy is vulnerable to inflationary pressures from both external and domestic supply shocks (Box 2). Past experience suggests that second round effects take 5–8 months to reach their peak and are more persistent amid lax monetary conditions, such as those present in the first half of 2013. In addition, incomes policy decisions recently taken by the government,[12] coupled with the end year seasonal hike in demand entail upside risks. Given these risks, staff argued that further tightening may be necessary if second round effects prove persistent. The authorities stressed that measures taken had successfully decelerated inflation already in October. In addition, as the new instruments effectively withdrew liquidity in a short period of time, they noted that the food price shock could be less persistent.

19. Persistently high volatility of food prices and sizable pass-through suggest the need to strengthen the monetary policy framework. The gradual weakening of central bank independence and increased central bank lending to public corporations highlight the need to strengthen the framework and safeguard the hard won anti-inflation credentials of the central bank. To attain these objectives, staff recommended:

- *Discontinuing the practice of direct lending by the central bank to public corporations*. Since 2009, the central bank is authorized to lend to the central government at concessional terms. In 2013, this lending limit was increased to US$5.3 billion, of which US$2.2 billion had been disbursed by November. Staff noted that this lending exposes the central bank to quasi-fiscal losses in an adverse scenario and creates a potential conflict with its price stability objective. Staff recommended that financing of public investment be implemented by the ministry of finance through a savings fund, which could absorb the credit portfolio of the central bank. Staff argued that the "Fondo para la Revolución Industrial Productiva" (FINPRO), established in 2012 using part of international reserves, could be the stepping stone of a savings fund, provided that it generates sufficient positive returns, makes investments based on sound financial considerations, and is supported by a strong institutional setup (Box 3). The authorities stressed that price stability was a constitutional mandate that was not imperiled by lending activities on strategic areas. Moreover, the lending to public corporations constituted an income source for the central bank. They also argued that coordination among public institutions was essential to pursue appropriate policies, rather than a detriment to central bank independence. The authorities expressed interest in further input from staff on the accounting treatment of the lending operations currently on the balance sheet of the central bank.

- *Continuing to rely primarily on market-based signals to allocate financial savings*. Regulated interest rate margins and credit quotas contemplated by the new Financial Services Law may create costly distortions and complicate the conduct of monetary policy. In view of these risks, staff advised to establish a clear and transparent process for setting interest rates that minimizes distortions with market signals. It also stressed that any changes stemming from the new

[12] The 13-month wage was doubled and the solidarity pension increased in 2013.

constitution conserve the supremacy of the Central Bank Law.[13] The authorities clarified that regulated interest rates and credit quotas would apply to a fraction of the loan portfolio, leaving room for market-based signals.

- *Creating the conditions for a gradual exit from the de-facto stabilized exchange rate arrangement in place since end-2011*. This will enhance the capacity to absorb external shocks and to conduct independent monetary policy. Staff and the authorities concurred that there is no evidence of exchange rate misalignment (Annex IV). The authorities emphasized that their exchange rate policy allowed for sufficient flexibility to respond to changes in the international environment and had been appropriate for Bolivia, especially given volatility in external markets in recent years. Moreover, the steady fall in dollarization had won them increased independence in their monetary policy. Staff noted that several steps would help transition to greater exchange rate flexibility, including improving liquidity management, enhancing the role of the policy rate, continuing to develop inflation forecasting, collecting more high frequency indicators, and increasing central bank operational autonomy.

C. Safeguarding Financial Stability

20. The authorities have made progress in expanding access to financial services, amid improving financial soundness indicators. Preserving these gains will require monitoring the current credit expansion closely, maintaining banking sector buffers, and continuing to strengthen supervision. Staff encouraged the authorities to advance quickly with the creation of a real estate price index that would allow a better assessment of any potential misalignment in property prices. It also urged the authorities to expeditiously bring the large number of unlicensed financial institutions into the regulatory perimeter. The authorities noted that work on a real estate price index is underway.

21. Several FSAP recommendations have been implemented. In particular, progress has been made in adopting Basel II and III principles (such as adding market risk to capital requirements and completing the guidance on operational and interest rate risk), and introducing a deposit insurance scheme. Shortcomings remain in the areas of independence of the supervisory authority (ASFI), criteria for setting provisioning requirements, limits on total foreign investments as a share of capital, and regulations for the pensions and insurance sectors. Plans to strengthen ASFI's resources will help to ensure that the quality of oversight does not deteriorate in light of new tasks mandated by the Financial Services Law. The authorities noted that the close working relationship between the ministry of finance, ASFI, and the central bank is important and will be further strengthened under the Financial Stability Council created by the new law.

22. Bolivia's exit from the FATF monitoring process attests to the recent strengthening of the AML/CFT legal framework. Working towards effectively implementing the AML/CFT regime as

[13] The Financial Services Law explicitly states the supremacy of its provisions over contradictory laws, but recognizes that the Central Bank of Bolivia is regulated by its own legal framework (Art. 5).

the Financial Services Law comes into effect should be a key next step towards further enhancing the integrity of the financial system. In particular, it would be important to ensure a smooth transfer of the Financial Investigations Unit (FIU) and its resources from ASFI to the ministry of finance, to clarify the FIU's organization, functions, and sanctioning procedures in forthcoming regulations, and guarantee the autonomy of the FIU.

23. Staff expressed concern about potentially significant risks to financial stability stemming from the new Financial Services Law. In particular:

- *The regulated interest rates and credit quotas may distort resource allocation and negatively affect the profitability of financial institutions*. Controlled deposit rates may encourage circumvention and disintermediation more generally. Ceilings on lending rates and credit quotas may "crowd-in" sectors ill-equipped to efficiently absorb the funds and create concentration risks to the financial sector as a whole. Compressed interest margins are likely to hurt banks' profitability and thereafter capitalization. Banks' diverse credit portfolios and operational structures also pose challenges to set regulations consistent with financial stability and to ensure a level playing field among different types of institutions.

- *The legal framework regarding contracts could expose financial institutions to additional risks.* The law would allow clients to terminate contracts with financial institutions without incurring any penalty. In addition, mortgage loans would be considered fully paid with the amount that is recovered from the collateral, thus creating incentives for strategic defaults.

- *Increased intervention in financial institutions and regulatory uncertainty may discourage investment in the financial sector.* The law authorizes the Executive branch to impose "temporary preventive measures" (Art. 6) to safeguard the continuity of financial services and the stability of the financial system. In addition, the law does not elaborate on the functions, scope of powers, and accountability framework for the Financial Stability Council.

24. Staff argued that the authorities' financial inclusion goals could be attained through other policies. Such policies could include transparent fiscal transfers to financial institutions to subsidize lending to target beneficiaries. Moreover, staff noted that innovative interventions (such as partial credit guarantees and productive development services) could be more effective instruments to leverage public funds for development and housing finance. The authorities did not see merit in staff's concerns and stressed that regulations in Supreme Decrees would be set with due consideration for the stability and growth of the financial system and the economy.

D. Sustaining Inclusive Growth

25. Uncertainties in the legal framework continue to hamper the business climate. High commodity prices and accommodative policies have supported growth in Bolivia in recent years, but private investment as a share of GDP remains among the lowest in the region. Long delays in finalizing key legislation (e.g., on investment, hydrocarbon, mining, and labor) have weakened business confidence, as has the uncertainty regarding expropriation and nationalization processes. A vibrant private sector would help sustain strong growth over the medium term, including by partnering with the public sector in the exploration of natural resources and by enhancing the productivity and diversification of the economy. However, a business climate where private investment can thrive requires stable rules of the game, few, fair and swift processes of nationalization, and legislation that addresses the private sector's concerns over property rights. At the same time, the governance framework for public corporations should be improved to minimize fiscal risks and delineate their role vis-à-vis private companies in the authorities' development plan. The authorities continue to work towards building consensus for the approval of these laws. In their view, there is no legal uncertainty for investment in Bolivia, as the Investment Law of 1990 remains in effect and the 2009 constitution guarantees private property and fair rules for private investment.

26. The authorities' economic strategy yielded a considerable increase in standards of living and aims to continue tackling deep rooted social challenges. Notwithstanding these achievements, Bolivia ranks low in the UN's Human development index (108 out of 187 in 2012), child and maternal mortality rates are still high, and water and sanitation coverage is low, especially in the rural and poor marginal urban areas. Cash transfer programs in education, maternal health, energy, and pensions have been central to the authorities' efforts to combat poverty, inequality and improve health indicators. Staff recommended conducting an impact evaluation of the existing social transfers before scaling up their coverage, to ensure a good design and focalization. Finally, improved capacity at the local level would enhance the impact of social infrastructure and deepen the social gains already achieved by the authorities.

STAFF APPRAISAL

27. Bolivia's strong macroeconomic performance, backed by high commodity prices and active social policies, has resulted in an exceptional rise in income per capita and a decline in poverty. In 2013, real GDP growth is expected to reach its highest rate in over thirty years, supported by buoyant natural gas exports, strong private consumption growth, and accommodative macro-policies. Prudent macroeconomic management has allowed saving part of the hydrocarbon revenue windfall, with continued twin surpluses in the fiscal and external accounts strengthening the resilience of the economy to adverse shocks. Social policies have pursued ambitious redistributive and poverty reduction goals, increasing living standards of vulnerable households. Impact evaluation of cash transfer programs and better targeting of fuel subsidies would help improve on the design and cost-effectiveness of social policies. In addition, expanding access to quality health care and water and sanitation remain long standing priorities.

28. The economy is expected to continue to grow above potential in 2014, albeit at a slower pace, and risks to the outlook seem manageable. Although external risks over the near and medium term have increased (including from a sharp drop in world commodity prices or weaker activity in main trading partners), sizable international reserves and government deposits at the central bank provide ample buffers. Domestic risks are broadly balanced, with upside risks from fiscal stimulus offset by downside risks from a weak climate for private investment.

29. An immediate policy challenge is ensuring that the spike in some food prices of mid-2013 does not result in permanently higher inflation. The authorities' rapid tightening of monetary conditions has helped reduce this risk. If inflationary pressures persist, it would be necessary to continue to mop up liquidity. In addition, the effectiveness of monetary policy should be enhanced, including by allowing market-based signals to operate under the new Financial Services Law and gradually exiting from the de-facto stabilized exchange rate in place since late 2011. The recent practice of mandating the central bank to lend to public corporations should be discontinued, as it may weaken the solvency of the monetary authority and undermine macroeconomic stability in the long term. Staff recommended that those lending activities be undertaken by a sovereign fund administered by the ministry of finance, supported by a strong governance structure and clear investment criteria that ensure that benefits accrue to both current and future generations.

30. The favorable growth outlook points to the importance of ensuring that fiscal policy does not over-stimulate domestic demand. A neutral fiscal stance for 2014 would be consistent with a moderate overall fiscal surplus, rather than the deficit envisaged in the draft budget. The authorities should give priority to adopting a MTFF to manage resource wealth and help guide fiscal policy, balancing intergenerational equity against immediate needs. Priority should also be given to exploring new natural gas reserves to offset the impact of the depletion of hydrocarbon resources projected for mid-2020. The success of these efforts hinges on establishing a clear, stable legal framework and a favorable business climate for private investment. More generally, such efforts would help leverage the authorities' development strategy to industrialize the resource sector, diversify the economy, and boost competitiveness and productivity.

31. The Bolivian financial system remains solid and well capitalized, but the new Financial Services Law may create risks to financial stability. The law is appropriately focused on financial inclusion and productive development and contains various elements that, if effectively implemented, will help strengthen the safety net and the integrity of the financial system. However, the instruments chosen (interest rate caps and minimum credit quotas) could reduce the profitability and lending funds of financial institutions, over-leverage target beneficiaries, and complicate the conduct of monetary policy. Staff recommended the authorities to choose different instruments to achieve their goals, for example transparent fiscal transfers to financial institutions to subsidize lending to target beneficiaries.

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

Bolivia: Risk Assessment Matrix

Sources of risk	Up/Downside	Risk	Impact	Policy Response
Argentina and Brazil: Sharply weaker growth and/or policy spillovers	↓	M/H	H	Exchange rate flexibility. Use existing buffers from large international reserves. Given ample fiscal space, mobilize countercyclical fiscal policy.
Sustained decline in commodity prices	↓	L	M/H	Exchange rate flexibility. Large international reserves and government deposits at the central bank provide some buffer. Finalizing key economic laws, provided they improve Bolivia's business climate, will increase the productivity of key sectors, i.e. mining and hydrocarbon.
Increased uncertainty about the policy framework	↓	H	M	Promptly finalize pending reforms of the Investment, Hydrocarbon, and Mining Laws. Adopt a fair and swift process for nationalized companies. Allow market-based signals to operate.
Decline in natural gas production	↓	L/M	M/H	Finalize legal reforms to the hydrocarbon sector, setting stable pricing and tax policies that are attractive for private investment.
Persistent second round effects from food supply shocks	↓	H	M	Accelerate the withdrawal of excess liquidity through open market operations. Macroprudential measures.
Stronger fiscal stimulus due to upcoming election cycle	↑	L	M	With the output gap already closed, fiscal stimulus would be detrimental to inflation and the external current account balance.

Box 1. Past Fund Policy Recommendations and Implementation

The 2012 Article IV Consultation focused on the appropriate policy mix to mitigate risks of overheating and on medium term challenges to achieving strong, sustained, and inclusive growth.

Monetary and exchange rate policy. Directors recommended that the central bank absorb part of the large excess liquidity in the banking sector to slow credit growth and seek a gradual increase in interest rates. A gradual move toward greater exchange rate flexibility would be facilitated as lower dollarization becomes entrenched and financial markets develop.

Amid sizable excess liquidity, the central bank started a gradual tightening of monetary conditions at the end of 2012 and reacted promptly with further measures in response to the food inflation shock in mid-2013. The Boliviano has remained virtually unchanged vis-à-vis the US dollar since late 2011.

Fiscal policy. Directors recommended aiming for a higher fiscal balance to offset strong private demand growth and strengthening the non-hydrocarbon balance over the medium term. They stressed the advantage of setting up a MTFF to manage resource wealth. Directors encouraged the authorities to limit the role of the central bank in financing public investment and to enhance the governance and accountability framework for public enterprises.

The overall fiscal surplus in 2012 was about 1 percent of GDP higher than envisaged at the time of the Article IV Consultation, but the surplus narrowed in 2013. The authorities have advanced with the preparation of medium term fiscal projections and medium term forecasts for key public enterprises. The authorized limits for central bank lending to public corporations were raised in 2013. The Public Enterprises Law is under discussion.

Financial sector. Directors recommended avoiding direct controls on the price and allocation of credit, while noting that plans to enhance the financial system safety net should help consolidate the strength of the banking sector. Staff welcomed the progress in adopting FSAP recommendations.

The new Financial Services Law contemplates setting floors on deposit rates, as well as ceilings on lending rates and quantitative lending targets for the productive sector and social housing. The law includes several elements aligned with international practices, including the establishment of a macroprudential oversight body, a credit registry, and a deposit guarantee scheme.

Structural policies. Directors highlighted the importance of improving the business environment to sustain high and stable growth, through the adoption of a legal framework for natural resources and private investment that ensures clear and stable rules and delineates the scope of public sector operations.

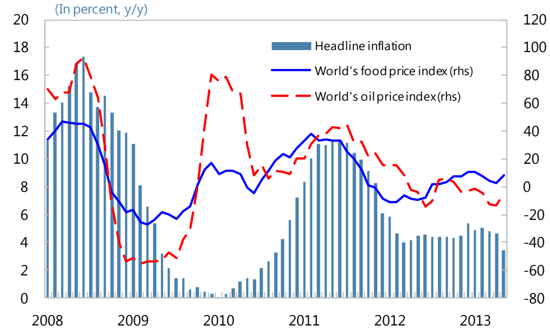
Legal reforms of key legislation, including on investment, hydrocarbon, mining and labor, are still pending. Uncertainty regarding expropriation and nationalization process continues to affect business confidence.

Box 2. Inflation Dynamics

Bolivia's highly open and commodity dependent economy is very sensitive to inflationary pressures stemming from both external and domestic supply shocks. Spikes in commodity prices have come hand in hand with spikes in domestic headline inflation. Developments in 2008 and early 2011 are particularly noteworthy, with headline prices in Bolivia growing by double digits on the back of a surge in global food and fuel prices.

The pass-through from global food prices to both domestic food prices and to headline inflation is very high. Staff estimates suggest that over a 12 month period, a 1 percent shock to global food prices increases domestic food prices by 0.81 percent. In turn, a 1 percent increase in domestic food prices has a cumulative twelve month pass-through of 0.85 percent to headline inflation. To put this in perspective, the October 2011 World Economic Outlook finds the median pass-though in a group of 50 emerging markets to be 0.35 (international food price inflation to domestic food price inflation) and 0.40 (domestic food price inflation to headline inflation). The very large value of the parameters estimated for Bolivia are partly explained by the larger share of food products in Bolivia's consumer price index,[1] and a lower effectiveness to contain second round effects.

Headline Inflation and Commodity Prices, 2008-2013
(In percent, y/y)



Sources: National Institute of Statistics, World Economic Outlook, and Fund staff calculations.

The exchange rate pass-through is high from a regional perspective. Based on a VAR model estimated for Bolivia, Chile, Paraguay, Peru and Uruguay,[2] a proxy for the exchange rate pass-through is computed from the impulse response functions for the price level and the nominal effective exchange rate (NEER), derived from a shock to the exchange rate. The proxy is calculated as the cumulative impulse response of prices relative to that of the NEER. Results indicate that Bolivia's short-run pass-through is large by regional standards, although it remains well below one. Also, the pass-through in Bolivia is more important at longer horizons, probably reflecting the high degree of openness of the economy and the high degree of dollarization of the financial system of the past year.

Exchange Rate Pass-Through
(In percent)

	Bolivia	Chile	Paraguay	Peru	Uruguay
2-months	2.5	1.3	5	1.9	3.5
6-months	11.8	5.2	13.8	13.8	12.3
12-months	23.2	10.6	21.9	18.4	17.2

Source: Fund staff calculations.

1/ The average food expenditure share in national consumption baskets of emerging markets is 34 percent (Catao, L. and R. Chang, "World Food Prices and Monetary Policy," IMF Working Paper 10/161, Washington: International monetary Fund). In Bolivia, it is 39 percent.

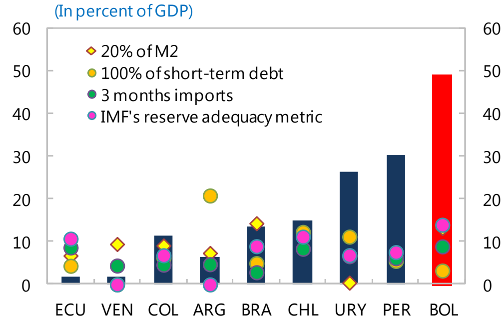
2/ VAR with 2 lags, estimated in log-levels with monthly frequency during 2003–2013, including a total production index, CPI, policy rate, and NEER. Commodity prices, the US federal funds rate, and US industrial production are also included as controls.

Box 3. International Reserves Management

After the nationalization of the hydrocarbon sector in 2006, Bolivia's public sector became the sole recipient of large natural gas exports receipts, resulting in substantial fiscal savings. As a self-insurance mechanism, and absent an institutional arrangement to manage this wealth, the windfall from these resources has been continuously deposited at the central bank. A managed exchange rate regime and a process of financial de-dollarization have also been important factors behind the accumulation of international reserves.

Bolivia's international reserves level is currently more than adequate, vastly exceeding various metrics. Since 2009, in line with the government's development strategy, the authorities have started managing reserves on the central bank balance sheet with a long term perspective. Under this premise, in recent years the central bank has been asked to lend to public enterprises and other development projects. This financing includes FINPRO, an investment fund, for USD $1.2 billion.

NIR Coverage in 2013
(In percent of GDP)



Sources: National authorities and Fund staff calculations.

The central bank and FINPRO's assets, and the returns they generate, could have important economic implications. It is therefore critical that the government carefully specify the setup and operations of FINPRO and explain these fully to the public. International best practices for the management of Sovereign Wealth Funds (SWFs) call for clear articles of agreement, which detail the role and responsibilities of a board of directors, management, monitoring, and audit requirements. Some countries go even further, by requiring independent and internationally reputable auditors. If spending stemming from these resources is allowed to take place outside the budget, issues of fiscal accounting and transparency could also emerge, which would undermine budgetary control, imply unequal treatment of different types of spending, and possibly lead to mismanagement of funds.[1]

Central Bank Credit to Public Corporations, as of November 2013

	Approved		Disbursed	
	USD $ Billion	Percent of GDP	USD $ Billion	Percent of GDP
YPFB	2.0	6.8	0.9	3.1
ENDE	1.0	3.4	0.4	1.4
COMIBOL	0.9	3.0	0.1	0.4
EASBA	0.3	0.9	0.2	0.5
FINPRO	0.6	2.0	0.6	2.0
MEFP	0.5	1.7	0.0	0.0
Total	5.3	17.8	2.2	7.5

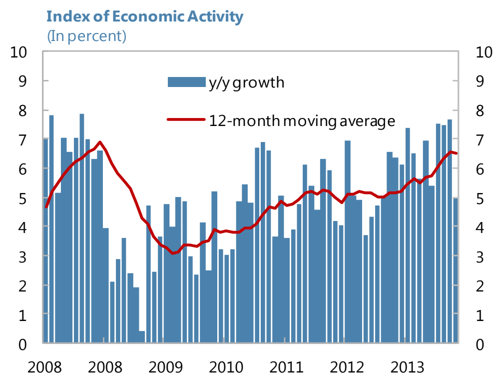
Source: Central Bank of Bolivia

Going forward, Bolivia should develop a mechanism to transform the reserves from the non-renewable sector into sustainable and more stable future income. Proper management of these resources could achieve the government's objective of spreading Bolivia's wealth across generations, help mitigate possible boom-bust cycles, and maintain the competitiveness of the non-commodity sector. An investment fund, with clear operational rules and functioning within an appropriate government-wide framework, could be an important tool for the government to manage its wealth from non-renewable resources and as an insurance mechanism from volatile commodity prices.

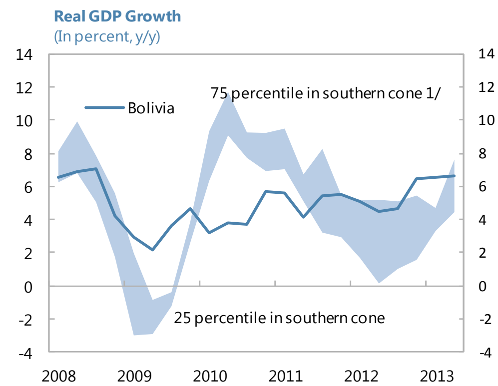
1/ The International Working Group of SWFs published a set of 24 voluntary principles on best practices in governance of SWFs. For a detailed description of the Santiago Principles see (http://www.iwg-swf.org/pubs/gapplist.htm).

Figure 2. Bolivia: Real Sector Developments

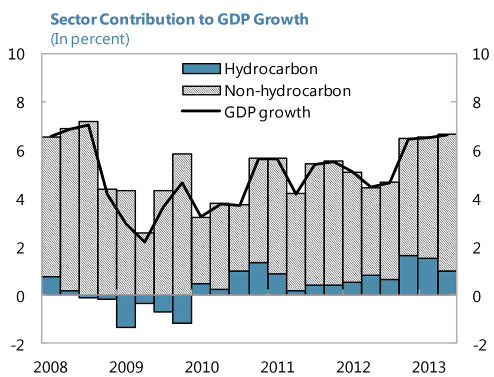
Growth accelerated in 2013...



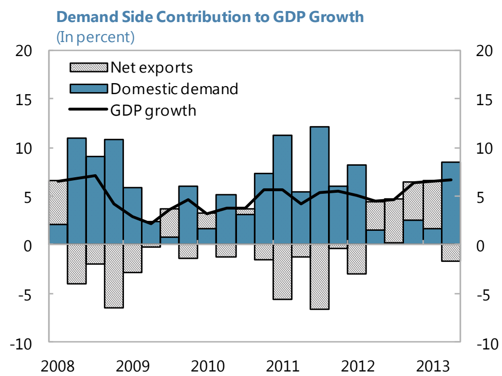
...well above median growth in the region.



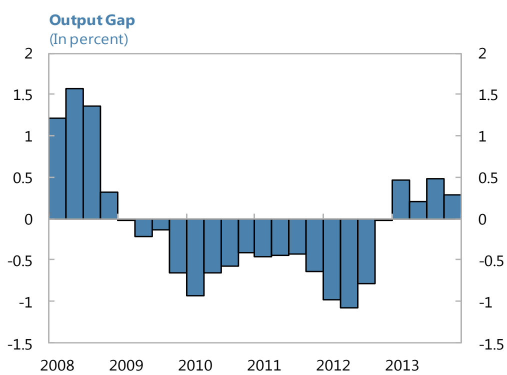
The hydrocarbon sector was a key source of growth...



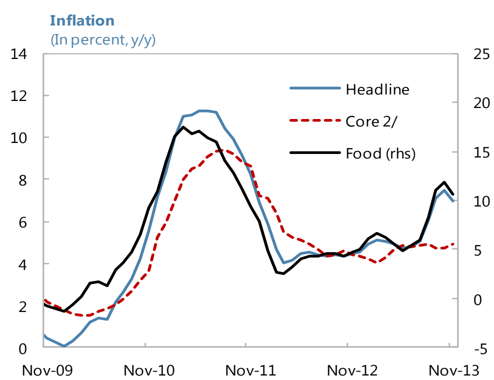
...while domestic demand picked up in mid-2013.



A positive output gap emerged in 2013...



...while food supply shocks have pushed up inflation.



Sources: National Institute of Statistics and Fund staff calculations.

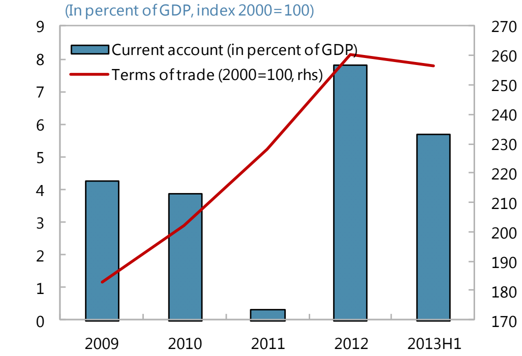
1/ Includes Argentina, Brazil, Chile, Paraguay, and Uruguay. Indicates the range of growth rates excluding the top and bottom 25 percentile.

2/ Excludes food, fuel, and administered prices.

Figure 3. Bolivia: External Sector Developments

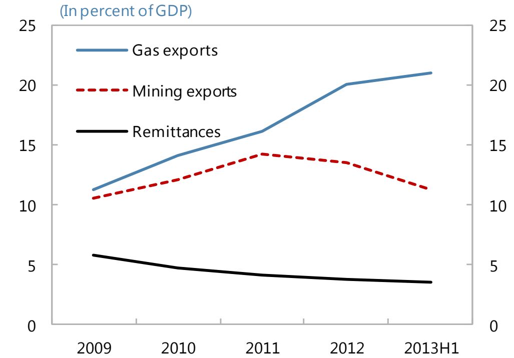
The current account surplus is narrowing.

Current Account Balance and Terms of Trade
(In percent of GDP, index 2000=100)



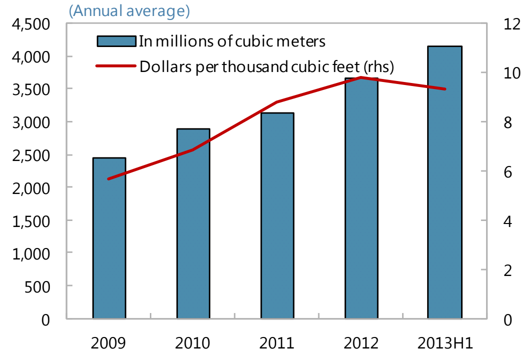
Mining exports continue to decline...

Gas and Mining Exports and Remittances
(In percent of GDP)



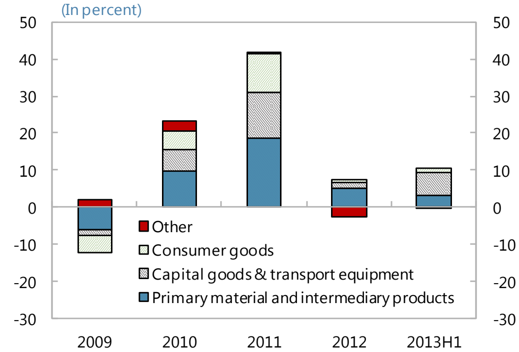
...while gas exports have reached record high levels.

Export Volumes and Price of Gas
(Annual average)



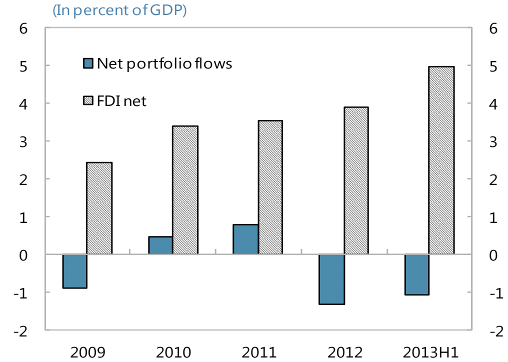
Imports increased in 2013, especially capital goods.

Import Growth by Categories
(In percent)



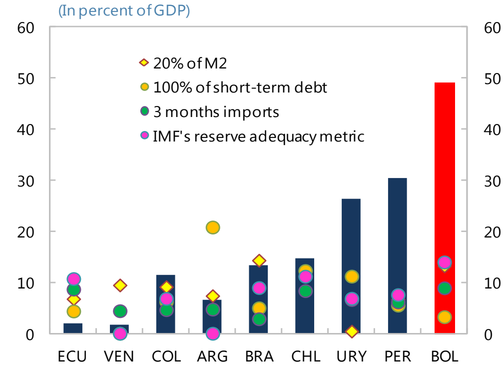
The capital account deficit narrowed as portfolio outflows receded and FDI increased.

Private Capital Flows and FDI
(In percent of GDP)



International reserves continue to vastly exceed every adequacy metric.

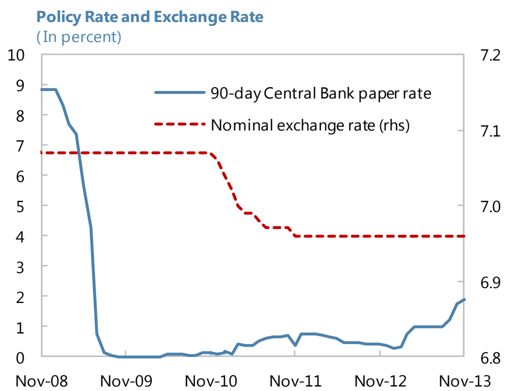
NIR coverage in 2013
(In percent of GDP)



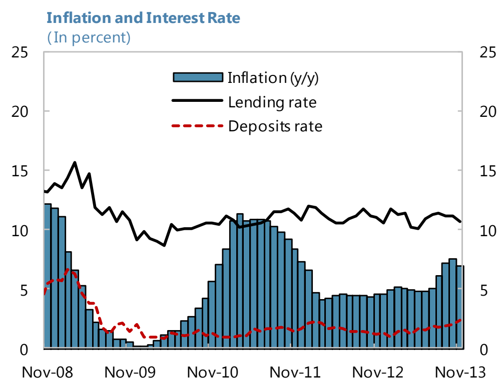
Sources: Central Bank of Bolivia and Fund staff calculations.

Figure 4. Bolivia: Monetary Developments

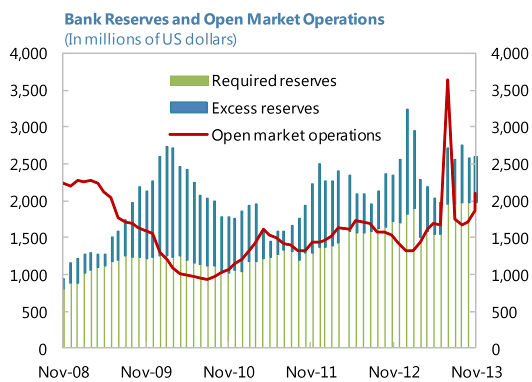
Rates on central bank paper edged up in 2013, while the exchange rate remained stable.



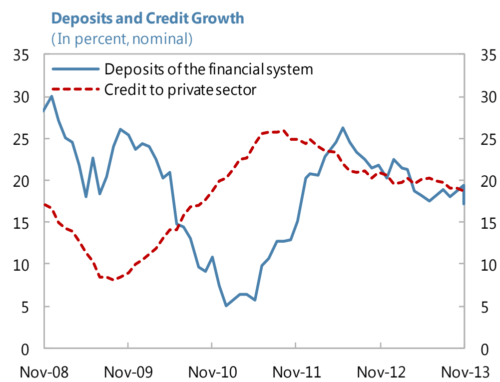
Real interest rates on deposits continue to be negative.



Open Market Operations accelerated in mid-2013 — including new instruments to withdraw liquidity.



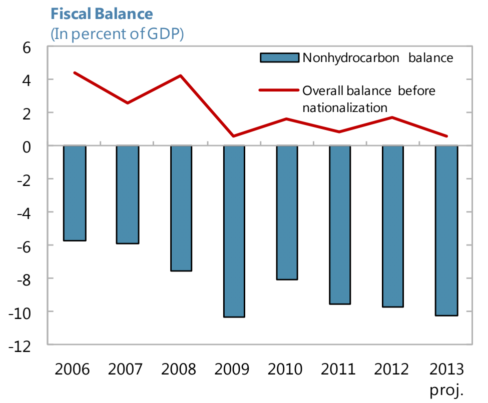
Credit growth has slowed but remains elevated.



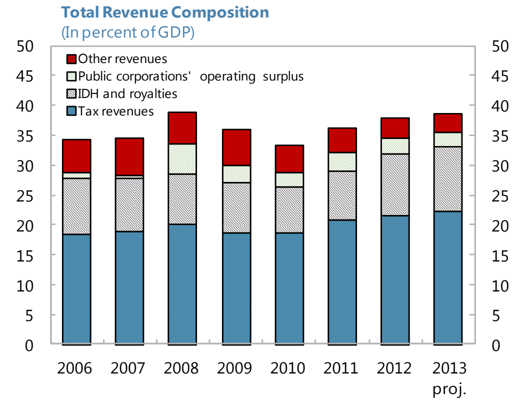
Sources: Central Bank of Bolivia, National Institute of Statistics and Fund staff calculations.

Figure 5. Bolivia: Fiscal Developments

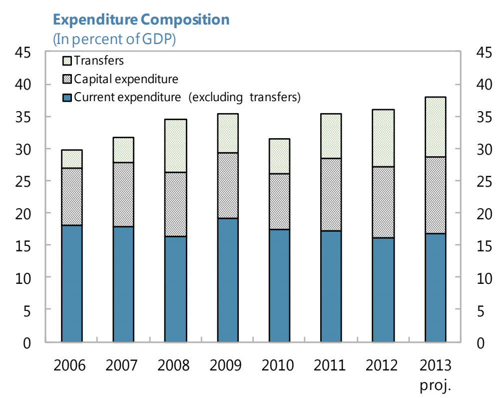
The overall fiscal balance is projected to remain in surplus in 2013, but the non-hydrocarbon fiscal deficit is large.



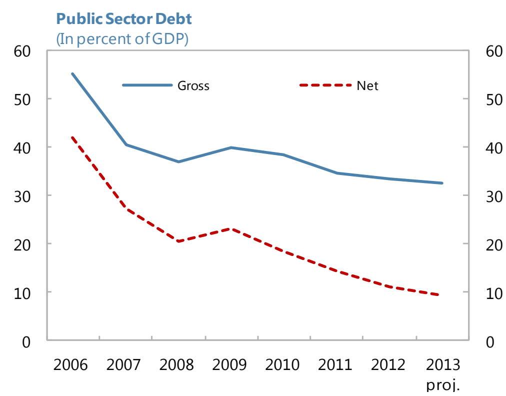
Hydrocarbon revenues increased further on the back of strong export volumes and prices…



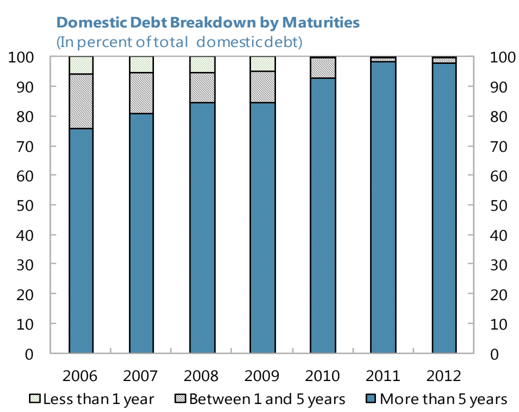
…and capital expenditure remains high.



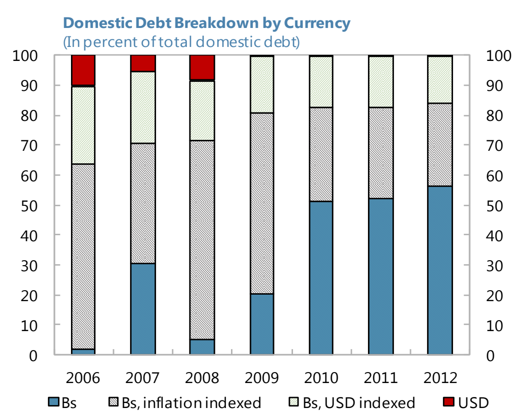
Public debt ratios continue to decline.



The maturity structure of public debt has improved…



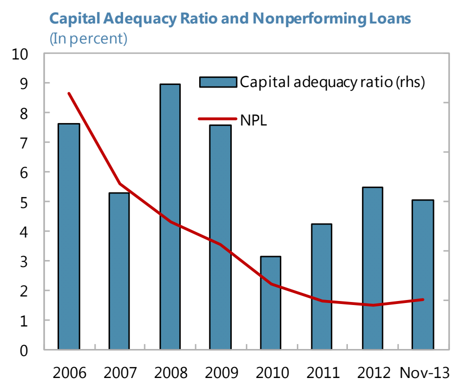
…and the share of foreign currency debt has declined.



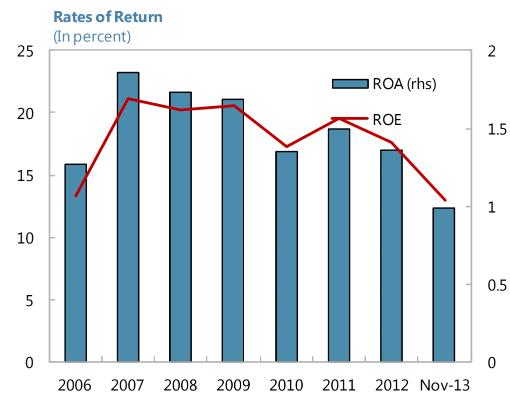
Sources: Ministry of Economy and Public Finances, Central Bank of Bolivia and Fund staff calculations.

Figure 6. Bolivia: Financial Sector Developments

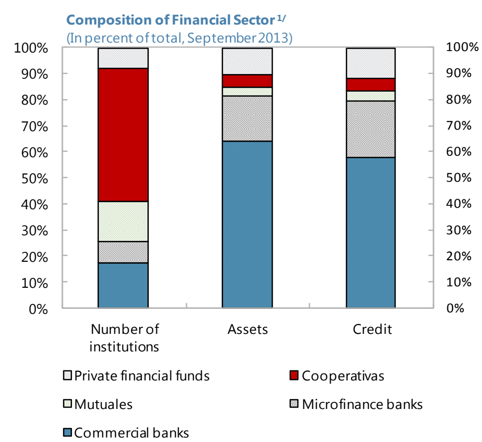
Capital adequacy remains above the regulatory requirement, and NPL ratios are low…



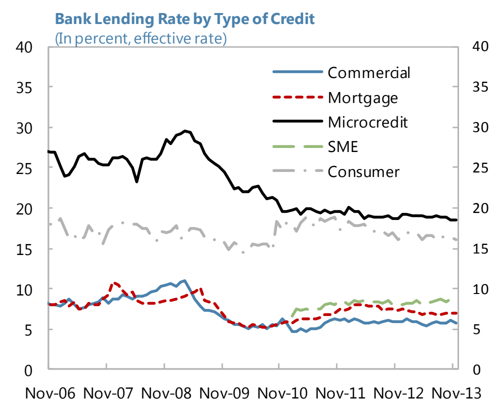
…while bank profitability declined following the introduction of new taxes.



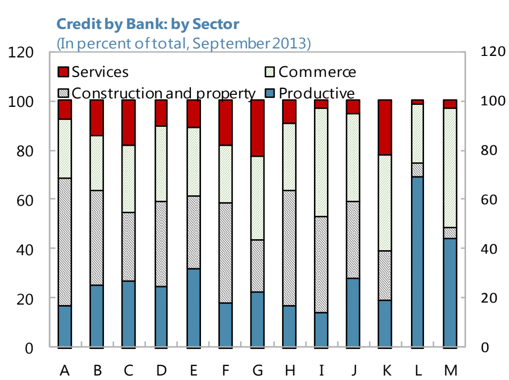
Commercial banks account for 80 percent of assets, but there are many non-bank institutions.



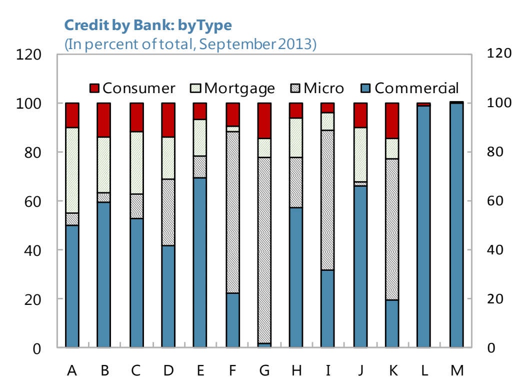
Lending rates in the productive sector and housing will be regulated under the new Financial Services Law.



Banks' credit portfolio is very diverse, in terms of sectors…



…as well as in types of loans.



Sources: ASFI and Fund staff calculations.

1/ Licensed institutions only.

Table 1. Bolivia: Selected Economic and Financial Indicators

I. Social and Demographic Indicators

GDP per capita (U.S. dollars, 2012)	2,514	Poverty headcount ratio (percent of population, 2009)	50.6
Population (millions, 2012)	10.8	Gini index (2008)	56.3
Life expectancy at birth (years, 2011)	67	Adult literacy rate (percent, 2010)	91.2
Infant mortality rate (per thousand, 2010)	54.2	Net primary education enrollment rate (2010)	88.0

II. Economic Indicators

						Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Income and prices	(Annual percentage changes)										
Real GDP	6.1	3.4	4.1	5.2	5.2	6.7	5.4	5.0	5.0	5.0	5.0
CPI inflation (end-of-period)	11.8	0.3	7.2	6.9	4.5	7.5	5.5	5.2	5.0	5.0	5.0
	(In percent of GDP, unless otherwise indicated)										
Investment and savings											
Total investment	17.6	17.0	17.0	19.6	17.7	19.2	19.4	18.7	18.3	18.4	17.5
Public sector	9.8	9.5	9.5	10.5	10.4	11.3	11.5	10.7	10.3	10.2	10.2
Private sector (includes stockbuilding)	7.8	7.5	7.6	9.0	7.3	7.9	7.9	8.0	8.0	8.2	7.3
Gross domestic savings	24.5	19.8	23.9	25.3	27.1	25.7	24.5	22.6	21.5	21.3	21.1
Gross national savings	29.0	22.9	25.0	25.3	25.7	23.5	22.7	20.8	19.9	19.6	19.4
Public sector	15.7	9.9	11.1	11.4	12.2	12.0	11.0	10.6	10.1	9.8	9.5
Private sector	13.3	13.0	13.9	14.0	13.6	11.5	11.7	10.2	9.7	9.8	10.0
Saving/investment balances 1/	11.4	5.9	8.0	5.8	8.1	4.3	3.3	2.1	1.5	1.2	2.0
Public sector	5.1	0.4	1.7	0.8	1.8	0.6	-0.4	-0.1	-0.1	-0.4	-0.7
Private sector	5.5	5.5	6.3	4.9	6.3	3.6	3.7	2.2	1.7	1.6	2.7
Combined public sector											
Revenues and grants	38.9	35.8	33.2	36.2	37.9	38.6	37.3	36.4	35.6	35.0	34.4
Of which: Hydrocarbon related revenue	13.4	11.3	10.2	11.4	13.0	13.1	12.2	11.4	10.7	10.2	9.9
Expenditure	35.3	35.8	31.5	35.4	36.1	38.0	37.7	36.5	35.8	35.4	35.1
Current	26.2	25.5	22.8	24.2	25.1	26.0	25.6	25.2	24.9	24.6	24.4
Capital 2/	9.2	10.3	8.7	11.2	11.0	12.0	12.1	11.4	10.9	10.8	10.7
Overall balance after nationalization costs	2.8	0.2	1.7	0.8	1.8	0.6	-0.4	-0.1	-0.1	-0.4	-0.7
Of which:											
Non-hydrocarbon balance, before nationalization costs	-7.5	-10.3	-8.1	-9.6	-9.7	-10.2	-10.4	-10.1	-9.5	-9.3	-9.3
Total net NFPS debt	20.6	23.1	18.4	14.4	11.1	9.5	8.9	8.3	7.7	7.4	7.4
Total gross NFPS debt	37.2	40.0	38.5	34.7	33.4	32.5	29.7	27.8	25.9	24.1	22.3
External sector											
Current account 1/	11.9	4.3	3.9	0.3	7.8	4.0	3.1	1.9	1.4	1.1	0.9
Merchandise exports	38.9	28.4	32.4	34.7	41.3	39.1	38.2	36.6	35.0	33.2	31.2
Of which: natural gas	18.8	11.3	14.1	16.1	20.1	18.4	16.7	14.9	13.8	12.2	11.5
Merchandise imports	30.3	26.0	28.3	32.9	30.4	31.0	31.7	31.5	30.6	29.2	27.4
Capital and financial account	2.3	-1.1	0.8	8.6	-1.5	-2.0	1.6	2.0	2.1	2.4	2.5
Of which: direct investment net	3.0	2.4	3.4	3.6	3.9	3.5	3.0	3.0	3.0	3.0	3.0
Overall balance of payments	14.1	3.1	4.6	9.0	6.3	2.0	4.7	3.9	3.5	3.5	3.4
Terms of trade index (percent change)	4.4	-23.0	10.6	12.8	20.6	-1.6	-0.4	-1.0	-1.0	-0.5	-0.6
Net Central Bank foreign reserves 3/ 4/											
In millions of U.S. dollars	7,722	8,580	9,730	12,019	13,927	14,534	16,089	17,502	18,896	20,432	22,074
In percent of broad money	85.9	79.8	80.0	83.0	80.0	71.3	68.0	65.6	63.3	61.0	58.9
Exchange rates 5/											
Bolivianos/U.S. dollar (end-of-period)	6.97	6.97	6.94	6.86	6.86	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
REER, period average (percent change)	14.0	10.2	-4.2	3.0	6.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Money and credit	(Annual percentage changes, unless otherwise indicated)										
Credit to private sector (percent of GDP)	31.5	34.0	36.0	36.8	39.0	42.1	42.5	43.4	44.2	45.1	45.8
Broad money (percent change)	19.9	19.7	12.5	17.7	20.2	17.2	15.9	12.8	12.0	12.1	12.0
Interest rates (percent, end-of-period)											
Deposits (effective rate)	5.8	2.1	0.9	1.7	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lending (effective rate)	13.9	9.1	10.4	10.8	10.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
U.S. dollar and dollar-indexed deposits (in percent of total deposits)	53.0	52.6	43.8	34.5	26.3	23.8	21.3	18.8	16.3	13.8	11.3
U.S. dollar and dollar indexed credit (in percent of total credit)	59.3	49.5	38.6	30.7	21.3	20.1	18.9	17.7	16.5	15.3	14.1
Memorandum items:											
Nominal GDP (in billions of U.S. dollars)	16.8	17.5	19.8	24.1	27.2	29.8	33.3	36.4	40.0	44.0	48.5
Oil prices (in U.S. dollars per barrel)	97.0	61.8	79.0	104.0	105.0	104.5	101.3	95.3	91.2	88.5	88.5

Sources: Ministry of Economy and Public Finances, Central Bank of Bolivia, National Institute of Statistics, UDAPE, the World Bank, and Fund staff calculations.
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.

Table 2. Bolivia: Operations of the Combined Public Sector[1/]

(In percent of GDP, unless otherwise indicated)

						Projections		
	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	**38.9**	**35.8**	**33.2**	**36.2**	**37.9**	**38.6**	**37.3**	**36.4**
Taxes	28.5	26.9	26.3	28.9	31.8	33.0	31.5	30.8
IDH and royalties	8.5	8.3	7.7	8.3	10.4	10.8	9.7	9.2
Direct taxes	4.5	4.7	4.6	5.5	5.7	6.2	6.1	6.1
o/w: Corporate income tax	3.7	4.0	3.8	4.6	5.0	5.5	5.5	5.5
Indirect taxes	15.5	13.9	14.0	15.2	15.8	16.1	15.7	15.6
o/w: VAT	7.4	7.0	7.2	8.1	8.7	9.1	8.8	8.7
o/w: Excise tax on fuel	2.1	1.5	1.6	1.5	1.3	1.3	1.3	1.2
Grants	1.2	1.2	1.1	0.8	0.7	0.5	0.5	0.5
Other revenue	9.1	7.7	5.8	6.5	5.4	5.1	5.2	5.1
Nontax revenue	3.0	4.7	3.4	3.0	2.6	2.7	2.7	2.7
Public enterprises operating balance	4.9	3.0	2.5	3.2	2.6	2.4	2.4	2.3
Central bank operating balance	1.2	0.1	-0.1	0.2	0.1	0.0	0.1	0.2
Expenditure	**35.3**	**35.8**	**31.5**	**35.4**	**36.1**	**38.0**	**37.7**	**36.5**
Expense	**26.2**	**25.5**	**22.8**	**24.2**	**25.1**	**26.0**	**25.6**	**25.2**
Compensation of employees	8.7	10.2	9.5	9.3	9.0	9.3	9.3	9.3
Purchases of goods and services	2.2	2.6	2.2	3.0	2.1	2.2	2.2	2.2
Interest	2.0	1.6	1.4	1.2	1.0	1.1	0.9	0.8
Domestic	1.4	1.3	1.1	1.0	0.8	0.7	0.7	0.6
Foreign	0.6	0.4	0.3	0.2	0.2	0.3	0.2	0.2
Subsidies	3.5	1.2	0.9	2.1	3.1	3.4	3.1	2.8
Social benefits 2/	7.9	8.4	7.8	7.9	8.8	8.9	9.0	9.0
Other expense	1.8	1.4	1.1	0.7	1.1	1.1	1.1	1.1
Other	0.2	1.1	1.1	0.7	1.1	1.1	1.1	1.1
Nationalization cost	1.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets 3/	**9.2**	**10.3**	**8.7**	**11.2**	**11.0**	**12.0**	**12.1**	**11.4**
o/w: Public Enterprises	2.0	1.2	0.9	1.9	2.8	3.6	3.5	2.7
Gross operating balance	**12.7**	**10.3**	**10.4**	**12.0**	**12.7**	**12.6**	**11.7**	**11.2**
Net lending/borrowing (overall balance)	**3.6**	**0.0**	**1.7**	**0.8**	**1.8**	**0.6**	**-0.4**	**-0.1**
Net financial transactions	**3.6**	**0.2**	**1.7**	**0.8**	**1.8**	**0.6**	**-0.4**	**-0.1**
Net acquisition of financial assets 4/	**0.8**	**0.0**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Net incurrence of liabilities	**-2.8**	**-0.2**	**-1.7**	**-0.8**	**-1.8**	**-0.6**	**0.4**	**0.1**
External	1.3	1.0	1.0	1.8	2.3	2.0	0.6	0.6
Disbursements	3.5	3.1	4.1	4.7	5.6	4.1	2.3	2.1
Amortizations	-2.1	-2.1	-3.0	-2.8	-3.2	-2.1	-1.6	-1.5
Other external	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic	-4.1	-1.3	-2.7	-2.6	-4.1	-2.6	-0.2	-0.5
Banking system	-5.5	-0.2	-5.3	-3.5	-3.4	-2.8	-0.3	-1.1
Central Bank	-5.0	-0.4	-4.9	-2.7	-3.4	-3.3	-1.2	-1.9
Commercial banks	-0.5	0.2	-0.4	-0.9	-0.1	0.5	0.9	0.8
Pension funds	0.0	0.0	0.0	0.0	-0.7	0.0	0.0	0.0
Other domestic	1.4	-1.1	2.6	0.9	-0.7	0.2	0.2	0.6
Memorandum items:								
Primary balance	5.5	1.7	3.1	2.1	2.8	1.7	0.4	0.7
Overall balance before nationalization	5.1	0.4	1.7	0.8	1.8	0.6	-0.4	-0.1
o/w Non-hydrocarbon balance 5/	-7.5	-10.3	-8.1	-9.6	-9.7	-10.2	-10.4	-10.1
Overall balance of the central government 6/	-2.2	-1.2	-1.8	-4.0	0.0	n.a.	n.a.	n.a.
Overall balance of the central administration	1.2	-0.8	0.0	-0.2	1.0	n.a.	n.a.	n.a.
Overall balance of subnational governments	0.5	-0.8	1.8	2.6	1.7	n.a.	n.a.	n.a.
Prefectures	0.2	-0.4	0.6	1.1	0.8	n.a.	n.a.	n.a.
Municipalities	0.3	-0.4	1.2	1.5	0.9	n.a.	n.a.	n.a.
Hydrocarbon related revenue 7/	13.4	11.3	10.2	11.4	13.0	13.1	12.2	11.4
Hydrocarbon balance 8/	13.4	10.1	9.8	10.4	11.5	10.8	10.0	10.0
Nonfinancial public sector gross public debt	37.2	40.0	38.5	34.7	33.4	32.5	29.7	27.8
o/w gross foreign public debt	14.5	15.6	15.4	14.8	15.7	16.4	15.2	14.5
Nominal GDP in billions of Bolivianos	120.7	121.7	137.9	166.1	186.8	204.4	228.3	249.8

Sources: Ministry of Economy and Public Finances and Fund staff calculations.

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

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

3/ The authorities' programs of social investment, including school breakfast, recurrent costs on basic sanitation and social management, are reclassified to current spending.

4/ Includes net lending.

5/ Overall balance minus hydrocarbon related balance.

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

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

8/ Hydrocarbon related revenues minus YPFB capital expenditures.

Table 3. Bolivia: Summary Balance of Payments

(In millions of U.S. dollars, unless otherwise indicated)

					Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Current account	**746**	**766**	**77**	**2,127**	**1,205**	**1,026**	**690**	**549**	**467**	**436**
Trade balance	415	812	431	2,964	2,394	2,175	1,872	1,760	1,785	1,835
Exports, f.o.b.	4,960	6,402	8,358	11,233	11,644	12,714	13,334	13,982	14,620	15,077
Exports, c.i.f.	5,462	7,006	9,213	11,968	12,331	13,369	13,969	14,598	15,262	15,720
Natural gas	1,968	2,798	3,885	5,479	5,483	5,573	5,437	5,506	5,387	5,555
Of which: To Brazil	1,587	2,353	2,899	3,541	3,482	3,322	3,125	2,990	2,901	2,992
volume (mmm3 p/day)	22.2	26.9	26.9	29.5	30.5	30.0	30.0	30.0	30.0	31.0
price ($/mmbtu)	5.5	6.8	8.4	9.3	8.9	8.6	8.1	7.7	7.5	7.3
To Argentina	380	445	986	1,887	2,001	2,251	2,312	2,515	2,486	2,566
volume (mmm3 p/day)	4.6	4.8	7.5	13.5	15.0	17.4	19.0	21.6	22.0	23.2
price ($/mmbtu)	6.3	7.1	10.2	10.8	10.3	10.0	9.4	9.0	8.8	8.6
Mining	1,847	2,398	3,429	3,681	3,626	3,686	3,766	3,833	4,201	4,689
Soy - related	484	496	628	968	960	902	872	894	910	939
Other	1,163	1,315	1,271	1,840	2,263	3,207	3,894	4,364	4,765	3,894
Imports, c.i.f.	-4,545	-5,590	-7,927	-8,269	-9,250	-10,539	-11,462	-12,222	-12,834	-13,243
Services (net)	-209	-263	-369	-473	-532	-537	-542	-548	-568	-611
Income (net)	-674	-864	-1,161	-1,629	-1,909	-1,916	-2,001	-2,117	-2,242	-2,327
Transfers (net)	1,213	1,081	1,175	1,266	1,252	1,304	1,362	1,453	1,491	1,541
Capital and financial account	**-199**	**149**	**2,083**	**-416**	**-598**	**529**	**723**	**845**	**1,070**	**1,205**
Capital transfers	111	-7	6	6	0	0	0	0	0	0
Direct investment (net)	426	672	859	1,060	1,043	999	1,092	1,200	1,320	1,451
Gross investment	687	915	954	1,274	1,272	1,249	1,342	1,450	1,570	1,727
Disinvestment and investment abroad	-264	-293	-180	-229	-229	-250	-250	-250	-250	-275
Portfolio investment (net)	-154	90	186	-360	-510	-510	-510	-510	0	0
Public sector	382	255	537	651	603	211	229	249	254	258
Disbursements	546	818	777	1,515	1,236	756	776	796	816	831
Amortization	-385	-549	-181	-826	-633	-545	-547	-546	-562	-573
Fin system net foreign assets, excl. liquid asset requirement	-285	125	-243	-578	-1,700	-136	-53	-60	-470	-300
Nonbank private sector loans	-88	-213	-60	0	0	0	0	0	0	0
Other, including errors and omissions	-591	-569	1,381	-930	-34	-34	-34	-34	-34	-34
Other	-200	190	275	20	-34	-34	-34	-34	-34	-34
Errors and omissions	-392	-759	1,107	-950	0	0	0	0	0	0
Overall balance	**547**	**914**	**2,160**	**1,712**	**607**	**1,555**	**1,414**	**1,393**	**1,537**	**1,642**
Financing	**-547**	**-923**	**-2,160**	**-1,712**	**-607**	**-1,555**	**-1,414**	**-1,393**	**-1,537**	**-1,642**
Memorandum items:										
Current account (in percent of GDP)	4.3	3.9	0.3	7.8	4.0	3.1	1.9	1.4	1.1	0.9
Merchandise exports (in percent of GDP)	28.4	32.4	34.7	41.3	39.1	38.2	36.6	35.0	33.2	31.2
Merchandise imports (in percent of GDP)	-26.0	-28.3	-32.9	-30.4	-31.0	-31.7	-31.5	-30.6	-29.2	-27.4
Net official reserves (end-of-period)	8,580	9,730	12,019	13,927	14,534	16,089	17,502	18,896	20,432	22,074
(in months of imports of goods and services)	19.5	17.6	15.7	17.3	16.3	16.1	16.3	16.6	17.1	17.9
Foreign direct investment (in percent of GDP)	2.4	3.4	3.6	3.9	3.5	3.0	3.0	3.0	3.0	3.0
GDP (in millions of U.S. dollars)	17,464	19,786	24,121	27,232	29,792	33,285	36,409	39,984	43,984	48,497
Capital account (in percent of GDP)	-1.1	0.8	8.6	-1.5	-2.0	1.6	2.0	2.1	2.4	2.5
Errors and omissions (in percent of GDP)	-2.2	-3.8	4.6	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Export value growth (in percent)	-24.0	29.1	30.6	34.4	3.7	9.2	4.9	4.9	4.6	3.1
Export volume growth (in percent)	4.2	3.3	3.7	11.8	2.8	8.5	5.2	5.1	4.5	3.2
Export prices growth (in percent)	-27.1	25.0	25.9	20.2	0.8	0.7	-0.3	-0.2	0.1	0.0
Import value growth (in percent)	-12.7	26.1	41.8	4.3	8.8	13.8	11.3	7.1	4.7	4.4
Import volume growth (in percent)	-7.8	11.5	27.0	4.6	6.2	12.7	10.5	6.2	4.1	3.8
Import prices growth (in percent)	-5.3	13.0	11.6	-0.3	2.4	1.0	0.7	0.8	0.6	0.6

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

Table 4. Bolivia: Central Bank Monetary Survey

						Projections	
	2008	2009	2010	2011	2012	2013	2014
	(Flows in millions of Bolivianos, unless otherwise indicated)						
Net international reserves	13,556	5,981	7,720	14,923	13,090	4,164	10,667
(Flows in millions of U.S. dollars)	2,403	858	1,150	2,289	1,908	607	1,555
Net domestic assets	-8,669	2,746	-4,918	-5,629	-7,141	-178	-3,360
Net credit to the nonfinancial public sector	-3,829	-221	-6,923	-4,199	-5,989	-6,700	-2,800
Net credit to financial intermediaries	-8,105	4,140	2,758	-1,788	757	2,470	-328
Of which: Open market operations (increase -)	-7,703	4,385	2,869	-1,590	747	-4,156	-1,000
Other items (net)	3,264	-1,173	-753	357	-1,909	4,052	-232
Net medium and long-term foreign assets	-73	-1,452	228	-104	953	-10	-10
Base money	4,814	7,275	3,031	9,190	6,902	3,977	7,297
Currency in circulation	2,940	1,849	5,693	3,999	4,080	5,176	4,672
Bank reserves	1,874	5,426	-2,662	5,191	2,822	-1,199	2,625
Legal Reserves	934	5,916	-2,749	4,669	2,533	190	2,437
	(Stocks in millions of Bolivianos, unless otherwise indicated)						
Net international reserves	53,823	59,803	67,524	82,447	95,537	99,702	110,369
(Stocks in millions of U.S. dollars)	7,722	8,580	9,730	12,019	13,927	14,534	16,089
Net domestic assets	-33,257	-30,511	-35,429	-41,058	-48,199	-48,377	-51,738
Net credit to the nonfinancial public sector	-12,213	-12,434	-19,357	-23,556	-29,545	-36,245	-39,045
Net credit to financial intermediaries	-13,252	-9,112	-6,354	-8,142	-7,384	-4,914	-5,242
Of which: Open market operations	-15,254	-10,869	-8,000	-9,591	-8,844	-13,000	-14,000
Other items (net)	-7,792	-8,965	-9,718	-9,361	-11,270	-7,218	-7,450
Net medium and long-term foreign assets	1,705	254	482	378	1,331	1,321	1,312
Base money	22,271	29,546	32,577	41,767	48,669	52,646	59,943
Currency in circulation	17,043	18,892	24,586	28,585	32,665	37,841	42,513
Bank reserves	5,228	10,653	7,991	13,182	16,004	14,805	17,430
Legal reserves	3,189	9,105	6,356	11,025	13,558	13,748	16,185
	(Annual percentage changes)						
Net international reserves	33.7	11.1	12.9	22.1	15.9	4.4	10.7
(Stocks in millions of U.S. dollars)	45.2	11.1	13.4	23.5	15.9	4.4	10.7
Net domestic assets	…	…	…	…	…	…	…
Net credit to the nonfinancial public sector	…	…	…	…	…	…	…
Net credit to financial intermediaries	…	…	…	…	…	…	…
Of which: Open market operations	…	…	…	…	…	…	…
Other items (net)	…	…	…	…	…	…	…
Net medium and long-term foreign assets	-4.1	-85.1	89.9	-21.5	252.0	-0.7	-0.7
Base money	27.6	32.7	10.3	28.2	16.5	8.2	13.9
Currency in circulation	20.9	10.8	30.1	16.3	14.3	15.8	12.3
Bank reserves	55.9	103.8	-25.0	65.0	21.4	-7.5	17.7
Legal reserves	41.4	185.5	-30.2	73.5	23.0	1.4	17.7

Sources: Central Bank of Bolivia and Fund staff calculations.

Table 5. Bolivia: Commercial Bank and Non-Bank Depository Institutions

	2008	2009	2010	2011	2012	Projections 2013	2014
	(Flows in millions of Bolivianos, unless otherwise indicated)						
Foreign assets	602	3,994	-476	-1,923	1,477	15,163	4,432
(Stock in millions of U.S. dollars)	154	573	-62	-263	215	2,210	646
Net domestic assets	7,848	6,846	3,852	13,764	13,821	892	14,315
Net credit to the public sector	-636	1,250	-564	-1,455	-143	1,029	2,058
Credit to the private sector	2,632	3,400	8,258	11,423	11,832	13,076	11,046
Net position with the central bank	6,881	2,438	-3,211	6,899	4,642	-1,159	3,625
Other items (net)	-1,029	-241	-632	-3,103	-2,511	-12,055	-2,414
Foreign liabilities	937	339	-896	-723	-193	0	0
Deposits	7,513	10,502	4,272	12,564	15,491	16,054	18,747
Local currency deposits	7,759	5,188	7,436	13,984	17,476	14,474	17,395
Foreign currency deposits	-246	5,314	-3,164	-1,421	-1,985	1,581	1,352
	(Stocks in millions of Bolivianos, unless otherwise indicated)						
Foreign assets	6,589	10,583	10,107	8,184	9,660	24,823	29,255
(Stock in millions of U.S. dollars)	945	1,518	1,456	1,193	1,408	3,619	4,265
Net domestic assets	43,025	49,871	53,723	67,487	81,308	82,199	96,514
Net credit to the public sector	1,180	2,429	1,866	411	268	1,297	3,355
Credit to the private sector	38,010	41,409	49,668	61,090	72,922	85,999	97,045
Net position with the central bank	13,681	16,119	12,909	19,808	24,450	23,291	26,916
Other items (net)	-9,846	-10,087	-10,719	-13,822	-16,333	-28,387	-30,801
Foreign liabilities	2,745	3,084	2,188	1,465	1,272	1,272	1,272
Deposits	46,869	57,371	61,642	74,206	89,697	105,751	124,498
Local currency deposits	22,011	27,199	34,635	48,619	66,095	80,568	97,964
Foreign currency deposits	24,858	30,172	27,007	25,587	23,602	25,182	26,534
	(Annual percentage changes)						
Foreign assets	10.1	60.6	-4.5	-19.0	18.0	157.0	17.9
(Stock in millions of U.S. dollars)	19.5	60.6	-4.1	-18.1	18.0	157.0	17.9
Net domestic assets	22.3	15.9	7.7	25.6	20.5	1.1	17.4
Net credit to the public sector	-35.0	105.9	-23.2	-78.0	-34.7	383.8	158.7
Credit to the private sector	7.4	8.9	19.9	23.0	19.4	17.9	12.8
Net position with the central bank	101.2	17.8	-19.9	53.4	23.4	-4.7	15.6
Other items (net)	…	…	…	…	…	…	…
Foreign liabilities	51.8	12.4	-29.1	-33.0	-13.2	0.0	0.0
Deposits	19.1	22.4	7.4	20.4	20.9	17.9	17.7
Local currency deposits	54.4	23.6	27.3	40.4	35.9	21.9	21.6
Foreign currency deposits	-1.0	21.4	-10.5	-5.3	-7.8	6.7	5.4
Memorandum items:							
Credit to private sector (in percent of GDP)	31.5	34.0	36.0	36.8	39.0	42.1	42.5
Deposits (in percent of GDP)	38.8	47.1	44.7	44.7	48.0	51.7	54.5
Broad money (in percent of GDP)	51.9	61.6	61.2	59.8	63.9	68.5	71.0
U.S. dollar and dollar-indexed deposits (in percent of total deposits)	53.0	52.6	43.8	34.5	26.3	23.8	21.3
U.S. dollar and dollar indexed credit (in percent of total credit)	59.3	49.5	38.6	30.7	21.3	20.1	18.9

Sources: Central Bank of Bolivia and Fund staff calculations.

Table 6. Bolivia: Financial System Survey [1/]

	2008	2009	2010	2011	2012	Projections 2013	2014
	(Flows in millions of Bolivianos, unless otherwise indicated)						
Net short-term foreign assets	14,158	9,975	7,244	13,000	14,567	19,327	15,099
(Flows in millions of U.S. dollars)	2,557	1,431	1,088	2,025	2,123	2,817	2,201
Net domestic assets	-2,756	4,167	1,029	1,313	4,339	1,230	7,205
Net credit to the public sector	-4,465	1,028	-7,487	-5,654	-6,132	-5,671	-742
Credit to the private sector	2,632	3,400	8,258	11,423	11,832	13,076	11,046
Other items (net)	-923	-261	258	-4,456	-1,362	-6,175	-3,100
Net medium and long-term foreign liabilities (increase -)	1,010	1,791	-1,124	-619	-1,146	10	10
Broad money	10,393	12,352	9,398	14,933	20,052	20,548	22,294
Liabilities in domestic currency	10,639	7,038	12,562	16,354	22,036	18,967	20,942
Foreign currency deposits	-246	5,314	-3,164	-1,421	-1,985	1,581	1,352
	(Stocks in millions of Bolivianos, unless otherwise indicated)						
Net short-term foreign assets	60,411	70,387	77,631	90,631	105,198	124,525	139,624
(Stocks in millions of U.S. dollars)	8,667	10,099	11,186	13,212	15,335	18,152	20,353
Net domestic assets	3,261	7,428	8,458	9,771	14,110	15,340	22,545
Net credit to the public sector	-11,033	-10,005	-17,492	-23,145	-29,277	-34,948	-35,690
Credit to the private sector	38,010	41,409	49,668	61,090	72,922	85,999	97,045
Other items (net)	-23,716	-23,977	-23,718	-28,174	-29,536	-35,711	-38,810
Net medium and long-term foreign liabilities (increase -)	1,040	2,830	1,706	1,087	-59	-49	-40
Broad money	62,633	74,985	84,382	99,315	119,367	139,914	162,208
Liabilities in domestic currency	37,775	44,813	57,375	73,728	95,765	114,732	135,674
Foreign currency deposits	24,858	30,172	27,007	25,587	23,602	25,182	26,534
	(Changes in percent of broad money at the beginning of the period)						
Net short-term foreign assets	27.1	15.9	9.7	15.4	14.7	16.2	10.8
Net domestic assets	-5.3	6.7	1.4	1.6	4.4	1.0	5.1
Net credit to the public sector	-8.5	1.6	-10.0	-6.7	-6.2	-4.8	-0.5
Credit to the private sector	5.0	5.4	11.0	13.5	11.9	11.0	7.9
Other items (net)	-1.8	-0.4	0.3	-5.3	-1.4	-5.2	-2.2
Net medium and long-term foreign liabilities	1.9	2.9	-1.5	-0.7	-1.2	0.0	0.0
Broad money	19.9	19.7	12.5	17.7	20.2	17.2	15.9
Liabilities in domestic currency	20.4	11.2	16.8	19.4	22.2	15.9	15.0
Foreign currency deposits	-0.5	8.5	-4.2	-1.7	-2.0	1.3	1.0

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

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

Table 7. Bolivia: Selected Vulnerability Indicators

	2008	2009	2010	2011	2012
Reserve adequacy	(In millions of U.S. dollars, unless otherwise indicated)				
Net international reserves	7,722	8,580	9,730	12,019	13,927
NIR coverage, in percent of:					
Dollar deposits	216.5	198.2	250.0	322.2	404.8
Total deposits	114.8	104.2	109.5	111.1	106.5
Broad money	85.9	79.8	80.0	83.0	80.0
In months of imports of goods and services	16.0	19.5	17.6	15.7	17.3
Net foreign assets of the financial system	1,339	1,961	1,772	1,407	1,594
NFA coverage, in percent of:					
Dollar deposits	37.5	45.3	45.5	37.7	46.3
Total deposits	19.9	23.8	19.9	13.0	12.2
Broad money	14.9	18.2	14.6	9.7	9.2
Debt ratios	(In percent of GDP)				
Total gross NFPS debt	37.2	40.0	38.5	34.7	33.4
Domestic	22.7	24.4	23.1	19.9	17.7
External	14.5	15.6	15.4	14.8	15.7
Total net NFPS debt	20.6	23.1	18.4	14.4	11.1
Private external debt	7.7	5.3	4.7	4.2	…
Net International Investment Position	9.3	18.1	16.8	17.8	…
Commodity dependency					
Hydrocarbon revenue (in percent of total revenues) 1/	34.5	31.6	30.7	31.6	35.4
Non-hydrocarbon fiscal balance 2/	-7.5	-10.3	-8.1	-9.6	-9.7
Gas exports (in percent of total exports)	49.0	39.7	43.7	46.5	48.8
Mining exports (in percent of total exports)	30.1	37.2	37.5	41.0	32.8
Banking sector indicators 3/					
Nonperforming loans (in percent of total loans)	4.3	3.5	2.2	1.7	1.5
Restructured loans (in percent of total loans)	8.8	6.4	3.6	2.2	1.5
Nonperforming and restructured loans (in percent of total loans)	13.1	9.9	5.8	3.9	3.0
Capital adequacy ratio (in percent)	13.7	13.3	11.9	12.3	12.6
Profits after tax (in percent of equity)	20.3	20.6	17.3	19.5	17.6
Cash and short-term investments (in percent of total assets)	43.4	48.0	39.0	37.6	37.4
Composition of bank deposits					
Dollar deposits (in percent of total deposit)	53.0	52.6	43.8	34.5	26.3
Local currency deposits (in percent of total deposit)	47.0	47.4	56.2	65.5	73.7
Memorandum items:					
Fiscal balance (in percent of GDP)	2.8	0.2	1.7	0.8	1.8
Total financial system deposits (US$ million)	5,646	6,724	8,267	8,986	10,817

Sources: Ministry of Economy and Public Finances, Central Bank of Bolivia, ASFI, and Fund staff calculations.
1/ Hydrocarbon related revenues are defined as direct hydrocarbon tax (IDH), royalties, and the operating balance of YPFB.
2/ Excludes hydrocarbon related revenues and YPFB capital expenditures.
3/ Latest available data.

Table 8. Bolivia: Millennium Development Goals

	First Observation	2004	2005	2006	2007	2008	2009	2010	2011	2012	Target 2015
Goal 1. Eradicate Extreme Poverty and Hunger											
Target 1: 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	...	...	...	**24.1**
Target 2: 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	...	...	...	...	**20.9**
Goal 2. Achieve Universal Primary Education											
Target 3. 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	...	90.7	88.0	...	...	**100.0**
Percentage of cohort reaching grade 8	55.4 (1992)	79.5	77.8	75.6	74.7	77.3	...	...	...	...	**100.0**
Goal 3. Promote Gender Equality and Empower Women											
Target 4. 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 (in percent)	-14 (1990)	-3.5	...	-2.0	-0.5	-1.2	-0.5	0.5	...	...	**0.0**
Gender disparities at completion of secondary education (in percent)	3.4 (1992)	0.8	-0.4	-1.5	-1.9	-1.4	...	...	...	...	**0.0**
Goal 4. Reduce Child Mortality											
Target 5. 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	...	...	**40.0**
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	84.0	...	**95.0**
Goal 5. Improve Maternal Health											
Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.											
Maternal mortality ratio (modeled estimate, per 100,000 live births)	450 (1990)	...	240	...	...	...	...	190	...	...	**128**
Proportion of births attended by skilled health personnel (in percent)	43.2 (1989)	...	...	...	...	71.1	...	...	...	...	**70.0**
Goal 6. Combat HIV/AIDS, Malaria, and Other Diseases											
Target 7. 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	...	...	...	...	...	...	**13.0**
Target 8. 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	3.9	...	...	**2.0**
Incidence of tuberculosis cases cured (in percent of diagnosed)	66 (1994)	80.0	78.0	83.0	85.0	84.0	86.0	88.0	...	...	**95.0**
Target 10. Halve by 2015 proportion of people without access to safe drinking water											
Access to potable water (in percent of population)	57.5 (1992)	72.3	71.7	74.1	74.4	74.6	...	...	...	...	**78.5**
Access to improved sanitation facilities (in percent of population)	28 (1992)	41.6	43.5	47.5	47.7	48.4	...	...	...	...	**64.0**
Goal 8. Develop a global Partnership for Development											
Target 18. 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	12.5	16.8	22.4	30.0	34.2	**...**

Sources: UDAPE and World Bank Development Indicators.

Annex I. A Medium Term Fiscal Framework for Managing Resource Wealth

Given the importance of the hydrocarbon sector for fiscal revenues in Bolivia, assessing the sustainable level of non-hydrocarbon fiscal balances is critical to anchor medium term fiscal policies. Based on resource horizon and production scenarios, the following approaches could inform the levels of non-resource balances that can be sustained by the resource wealth: 1) the bird-in-hand rule; 2) the permanent income hypothesis (PIH); 3) the modified PIH; and 4) the fiscal sustainability framework (FSF).

- The *bird-in-hand rule*, followed by Norway, sets aside resource revenue in a separate fund and targets the non-resource primary balance (NRPB) equal to the return on the fund. This approach limits the non-resource spending in earlier periods by accumulating savings for future generations.

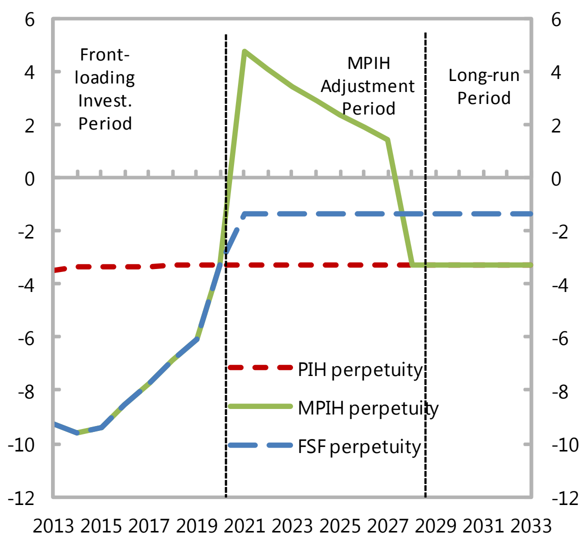
- The *PIH* combines both physical (natural resources in the ground, in net present value) and financial (savings realized from resource revenues) assets, and targets the NRPB based on the return on this combined resource wealth.

- The *modified PIH* takes into account the infrastructure investment needs of the country, and assumes a scaled up investment schedule in the near term. The resource wealth is subsequently replenished to sustain the same level of NRPB as in the PIH framework.

- The *FSF* assumes that the front-loaded investment under the modified PIH has a growth enhancing effect on the non-resource sector. Higher revenue generated from a more developed non-resource sector would help narrow the non-resource primary deficit, which, in turn, would imply a smaller pool of resource wealth required for its financing.

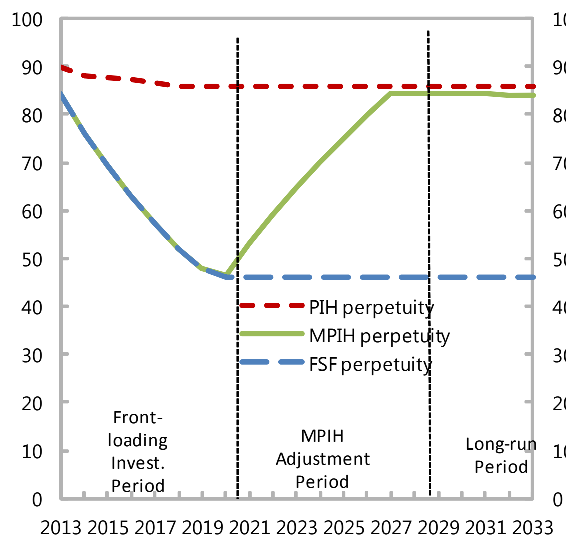
These frameworks could inform fiscal consolidation paths under different resource horizons, investment plans, and external environment assumptions. For example, based on current proven reserves of natural gas, equivalent to about 17 years of average annual production, an analysis based on PIH suggests a sustainable non-resource primary fiscal deficit of 3¼ percent of GDP (which would imply a fiscal adjustment of about 5¾ percent of GDP from projected 2013 levels). A more optimistic scenario with a longer resource horizon and a moderate decline in the resource balance indicates a sustainable deficit of 4½ percent of GDP. The figures below show an illustrative scenario with a gradual decline of current levels of spending, followed by an MPIH adjustment period to accumulate the resource wealth to the level needed to achieve long term sustainability.

Non-resource Primary Balance, 2013-2033
(In percent of GDP)



Source: Fund staff calculations.

Financial Wealth, 2013-2031
(In percent of GDP)



Source: Fund staff calculations

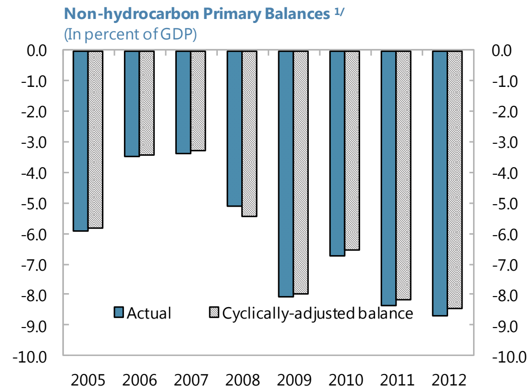
Insulating budget expenditure from commodity price fluctuations is also important for resource rich countries. Bolivia has managed the price risks through the practice of conservative forecasting of oil prices in the budget and the prudent use of hydrocarbon revenues. While this helped the authorities to successfully set aside windfalls from the commodity price boom, expenditure has been on occasion unpredictable, calling for the reformulation of the budget during the fiscal year. Calculating the structural fiscal balance (SB) and using it as a policy tool could be a first step towards a more systematic and predictable management of resource revenues.

The SB helps assess the fiscal stance by adjusting fiscal indicators by the output cycle and the impact of commodity price shocks, asset price cycles, and any one-off factors. The measure is highly relevant for Bolivia, as the increasing importance of hydrocarbon revenues backed by higher prices and greater demand for its natural gas exports has made it difficult to assess the underlying fiscal stance in recent years. Two measures of SB are of relevance for Bolivia: (i) the cyclically-adjusted non-hydrocarbon primary balance, and (ii) the structural primary balance with the hydrocarbon-balance based on structural commodity prices.

(i) Cyclically-adjusted non-hydrocarbon primary balances adjust non-hydrocarbon primary balances by the output cycle, ideally measured against non-hydrocarbon GDP. The adjustment for the output cycle requires calculating potential output, the output gap, and budget elasticities, and identifying one-off items.

- Potential GDP and the output gap can be calculated by various statistical and economic methods, including extracting the trend that smoothes business cycle fluctuations, the production function approach based on the trend subcomponents of GDP, and econometric models. Staff estimates suggest that Bolivia's potential growth is around 5 percent (Annex II).

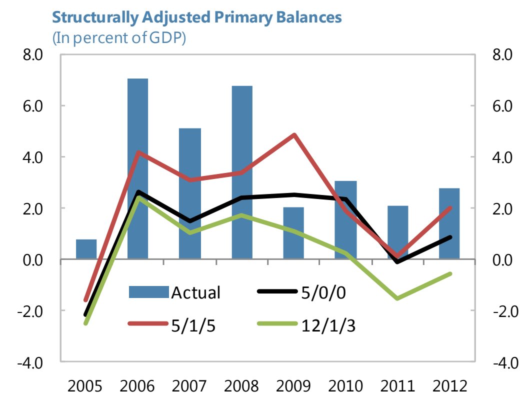
- Elasticities estimate how budget revenues or expenditures respond to changes in the economic cycle. A bottom-up approach is taken to apply estimated elasticities for major revenue categories (e.g. income taxes, indirect taxes, and social security contributions) to adjust non-hydrocarbon tax revenues for the output cycle. The elasticities of income taxes are estimated in the range of 2½–3½ percent, and indirect taxes at 1½ percent. Historical averages of the last 20 years show similar trends, with elasticities of 1–2½ percent for income taxes and around 1 percent for indirect taxes. Expenditures are typically assumed as structural, with zero elasticity to output.



Sources: Ministry of Economy and Public Finances and Fund staff calculations.
1/ The difference between actual and cyclically-adjusted balances are minor, except for 2008, due to the small output gap.

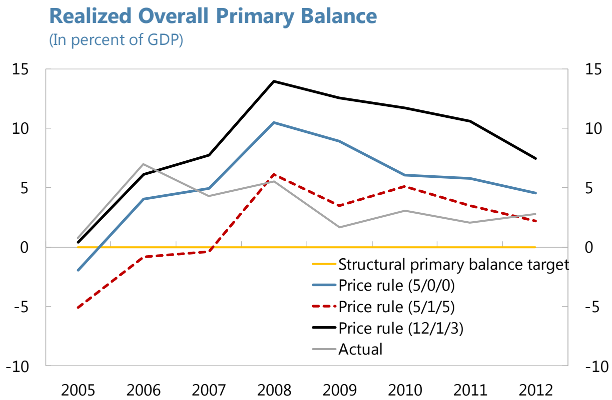
- One-off items consist of non-recurrent revenue and/or expenditure items that have limited impact on domestic activities. For Bolivia, the nationalization costs incurred in 2007–09 are adjusted as a one-off item.

(ii) The structural primary balance is calculated by adding structural hydrocarbon balances to the cyclically-adjusted non-hydrocarbon primary balance. The structural hydrocarbon balance aims to remove the effect of commodity price volatility by applying rule based prices. Commodity exporting countries apply various price rules. For example, benchmark prices set by an independent committee (Chile); moving averages of historical prices (Ghana); moving averages of historical, current and projected future prices (Trinidad and Tobago); and average forecasts by private sector analysts (Alberta, Canada). For illustration purposes, the figure shows structural balances based on three price rules: five year historical average (5/0/0); average of the past five years, current, and forecast for the next five years (5/1/5); and average of the past twelve years, current, and forecast for the next three years (12/1/3).

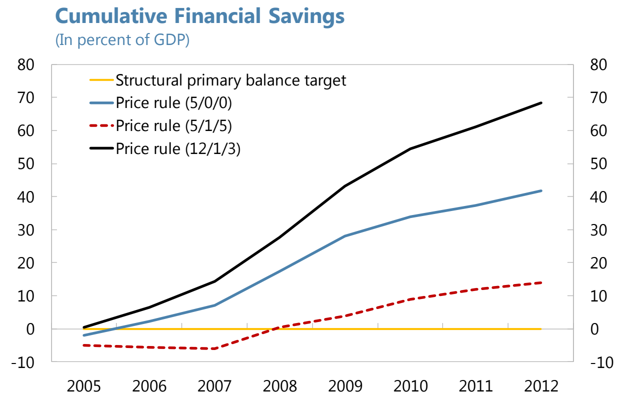


Sources: Ministry of Economy and Public Finances, WEO, and Fund staff calculations.

Structural primary balance targets can be set to determine the level of expenditure, irrespective of the realized level of commodity prices and revenues. The primary balance target may be complemented by rules applied specifically to expenditures, such as ceilings on real expenditure growth, to further reduce volatility and limit pro-cyclicality. The figures below shows the actual primary balance and the primary balance that would have been realized under a structural primary balance target of 0 percent of GDP. Additional cumulative savings under those price rules and structural balance target, compared to the actual level of expenditure, are also shown below.



Source: Fund staff calculations.



Source: Fund staff calculations.

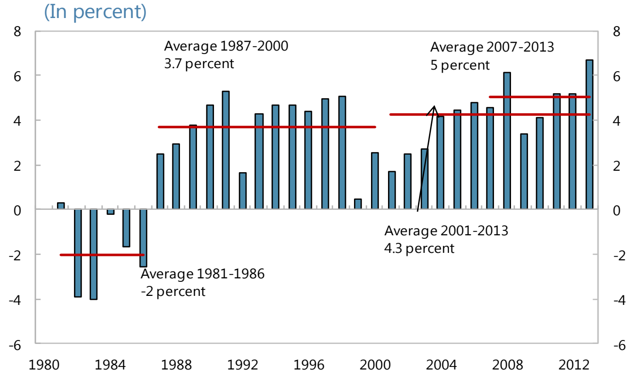
The use of the structural balance as a policy tool could be augmented by improvements in the quality of data and the institutional framework. Enhancing the quality and timeliness of fiscal data would help measure the fiscal policy stance more accurately, and its publication would strengthen transparency. Once monitoring of the structural balance is well established and integrated as a policy tool, the authorities could consider establishing formal fiscal rules to cope with price volatility and the exhaustibility of natural resource revenues. For fiscal rules to be effective, they should be measurable and evaluable. The rules should also be clear about the objectives, institutions, and reporting arrangements to avoid undermining their credibility.

Annex II. Potential Output

Estimating potential output is useful for the conduct of macroeconomic policy in Bolivia. Assessing the position of the economic cycle is critical given the increasing need to assess the monetary policy stance that would maintain low and stable inflation, evaluate the fiscal stance that could help bring the non-hydrocarbon fiscal balance to a sustainable path, and ultimately support long term growth.

However, the estimation of potential output is challenging. The Bolivian economy seems to have exhibited a structural break in 2001, with a sharp fall in output followed by a long period of strong growth. In addition, important structural transformations in recent years implied a noticeable acceleration in real GDP growth, with implications for trend or potential GDP.

Real GDP Growth in Bolivia, 1980-2013
(In percent)



Sources: National Institute of Statistics and Fund staff calculations.

A battery of methodologies is used to estimate a range of values for potential output in Bolivia. Univariate methods include the Hodrick-Prescott (HP) filter and band-pass filters (Baxter and King; Christiano and Fitzgerald). Multivariate methods include the Kalman filter with variants of the unobserved components model incorporating a Phillips curve (PC) and Okun's law (OL), and the production function (PF) approach based on a Cobb-Douglas production function with labor, physical and human capital, and technology inputs filtered by HP and band-pass filters.

Trend Growth and Output Gap Estimates
(In percent)

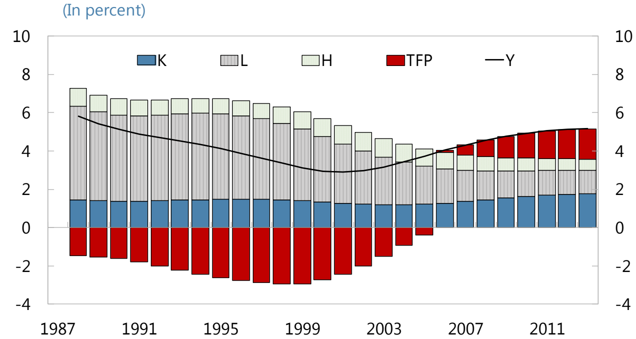
		Trend growth		Output gap	
Method		1990-2006	2007-2013	2012	2013
Univariate	Range	3.56 – 3.61	4.68 – 4.92	-0.64 – -0.27	0.48 – 0.87
Filters	Average	3.58	4.79	-0.52	0.65
Kalman Filter	PC+OL	3.75	4.55	-1.22	0.1
Production	Range	3.65 – 3.76	4.88 – 5.01	-0.83 – -0.01	0.34 – 0.95
Function	Average	3.66	4.94	-0.6	0.53
All	Range	3.56 – 3.76	4.55 – 5.01	-1.22 – -0.01	0.1 – 0.95
	Average	3.66	4.76	-0.78	0.42

Sources: National Institute of Statistics and Fund staff calculations.

The main results suggest:

- Following a trough in 2001, trend growth (Y) accelerated, especially after mid-2000 on the back of a sizable increase in the contribution from TFP and some improvement in the contribution from the capital stock (K). The increase in TFP could be capturing some of the impact of the commodity price boom not adequately

Contribution to Potential GDP Growth
(In percent)

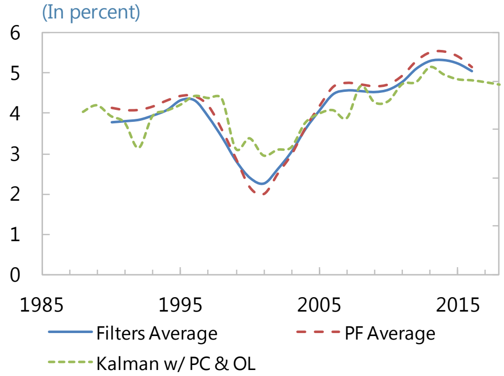


Source: National Institute of Statistics and Fund staff calculations.
Note: Based on the HP filter with λ=100. TFP: total factor productivity. H: human capital, L: labor input, K: capital stock, Y: output.

reflected in the stocks of physical and human capital (H).

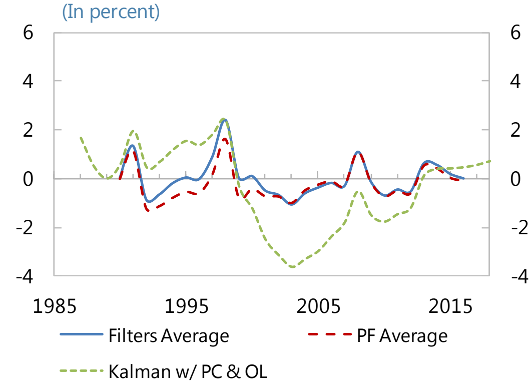
- Potential output growth has been in the range of 4.5 to 5 percent in the last five years.
- Trend growth peaked recently and is expected to average 5.2 percent in the near future, although there is high uncertainty given ongoing structural changes in the economy.
- Following a decade long negative output gap, the output gap closed in 2013, averaging 0.4 percent, and is expected to converge to nil in the near future.

Potential GDP Growth
(In percent)



Source: Fund staff calculations.

Output Gap
(In percent)



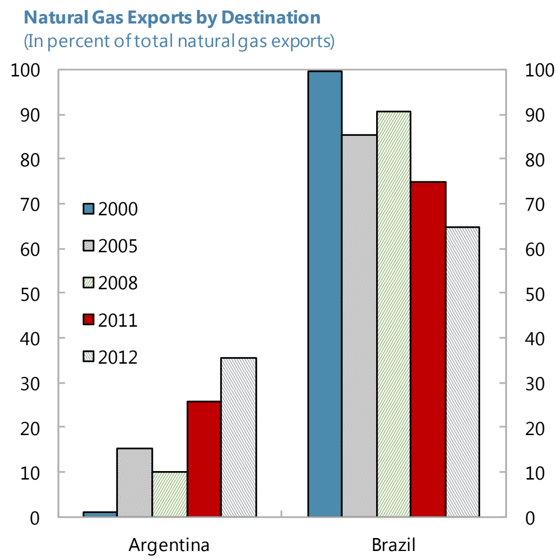
Source: Fund staff calculations.

Keeping in mind the caveats on the estimates, policy suggestions include:

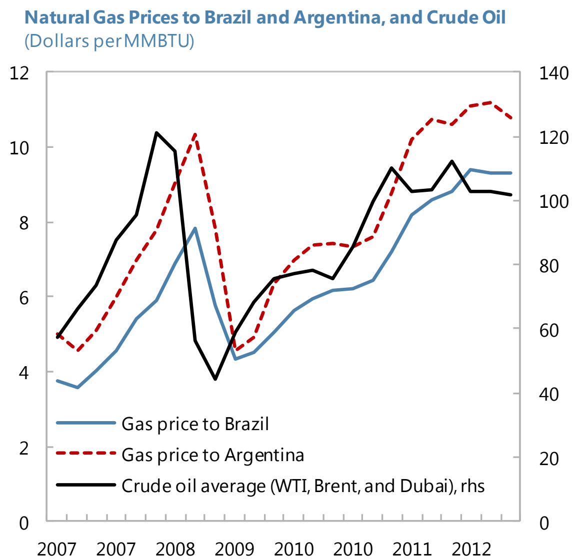
- Maintaining a neutral monetary and fiscal policy stance given the consistency of the estimates across methodologies in pointing to a closed output gap.
- Speeding up reforms tailored to enhance TFP to sustain higher long term growth.
- Improving physical and human capital accumulation though increased investment in infrastructure, education and healthcare and addressing the challenge of high labor informality that constitutes a drag on productivity.

Annex III. Assessing External Spillovers

Bolivia's economic linkages with Brazil and Argentina have strengthened in recent years with its exports to these countries increasing by more than fivefold since early 2000. As a result, Bolivia has become more vulnerable to shocks affecting its two largest neighbors. In view of their size and interconnectedness, the Brazilian and Argentinean economies can therefore act as transmitters and/or amplifiers of global demand shocks onto the Bolivian economy.



Source: National Institute of Statistics.

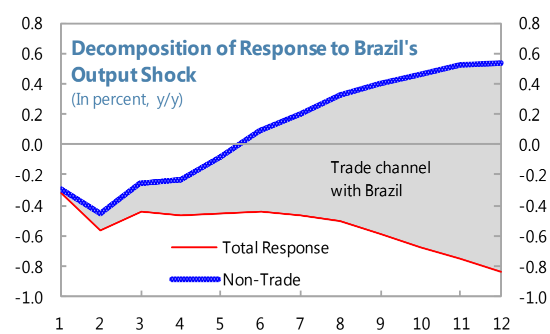


Sources: National Institute of Statistics and World Economic Outlook.

The spillover effects of regional and global shocks on Bolivia were identified using a structural VAR (SVAR) model. The model contains three block exogeneity restrictions: one containing only global variables (global demand and oil prices), a second block containing regional variables (Argentinean and Brazilian variables), and a third (domestic) block, with Bolivian variables. Following the methodology presented in Sims and Zha (2006),[14] counterfactual scenarios are constructed to quantify the empirical relevance of different channels of transmission of spillovers.

The key findings are:

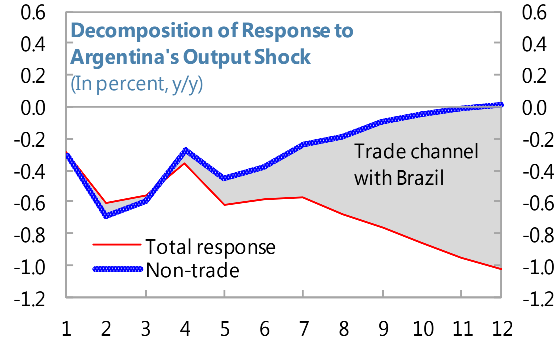
- **Spillovers from Brazil**. A one percentage point reduction in Brazil's output growth rate lowers Bolivia's output growth by 1/3 percentage point on impact. The cumulative effect is a contraction of 0.8 percent over a twelve month period. An unanticipated growth shock in Brazil is transmitted mainly through the trade channel.



Source: Fund staff calculations.

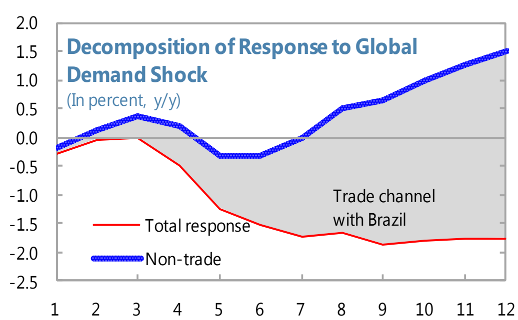
[14] Sims, C. and Zha, T. "Does Monetary Policy Generate Recessions?" Macroeconomic Dynamics, 10(02):231–272, 2006.

- **Spillovers from Argentina**. A one percentage point negative shock to Argentina's output growth rate also lowers Bolivia's output growth by close to 1/3 percentage point on impact. Over a twelve month period the cumulative effect on Bolivia of a growth shock in Argentina is larger than for the shock on Brazil, with Bolivian output decreasing by 1 percent. The main channels of transmission for the spillovers stemming from Argentina are third-country effects (Argentina's growth shock is transmitted to Bolivia through a scaling down in exports to Brazil).

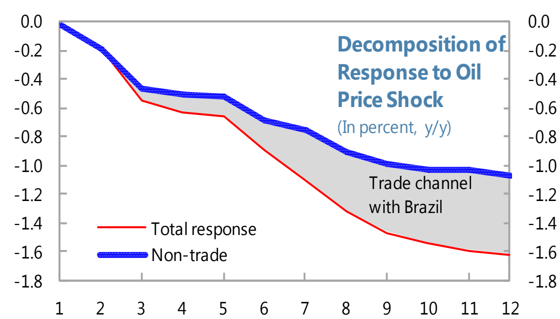


Source: Fund staff calculations.

- **Global demand and oil prices**. A one percentage point cutback in global demand brings down Bolivian output growth by 1.8 percent. At its trough, growth in Bolivia is principally affected by lower trade flows to Brazil. Oil prices have a large and significant effect on Bolivia's output. A ten percent drop in oil prices (relative to the U.S. consumer price index) would reduce Bolivia's output by 1.6 percent after one year. The impact of oil prices on trade flows with Brazil is the main factor behind the contraction of Bolivia's output.



Source: Fund staff calculations.



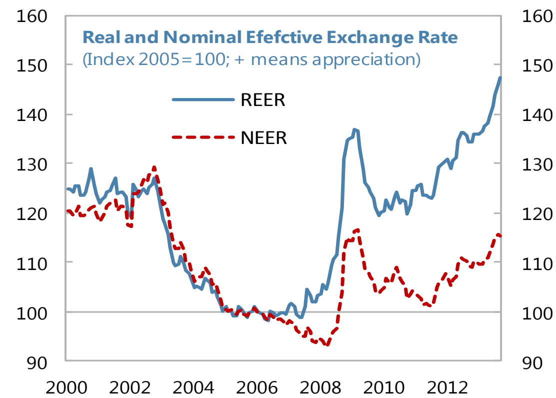
Source: Fund staff calculations.

Regional and global growth shocks appear to have a strong impact on Bolivia. Albeit it comes as no surprise, the empirical exercise suggests that trade flows with Brazil are the main channel of transmission of spillovers from external growth shocks or shocks to international oil prices. While domestic non-trade effects are particularly important for explaining the initial impact on Bolivia's output of foreign shocks, the volume of exports to Brazil is the main driver of Bolivia's output several months after impact.

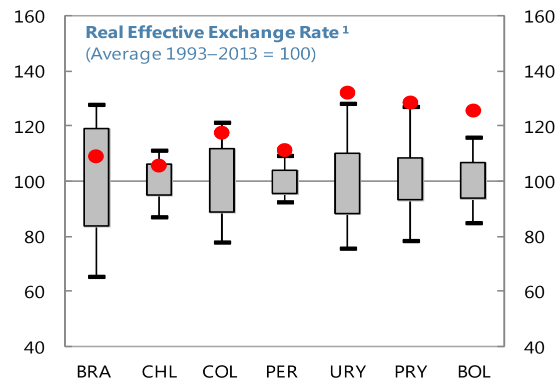
Understanding the transmission mechanism of external disturbances is important for macroeconomic management. Prudent fiscal policies and current account surpluses over the past several years have allowed Bolivia to accumulate significant buffers, but the economy is still vulnerable to external shocks which are transmitted and amplified primarily through the trade channel with Brazil. To ensure sustainable economic growth over the medium term, it would be important for the authorities to continue their efforts to diversify the export base, increase competitiveness, and manage natural resource wealth in an effective manner.

Annex IV. Exchange Rate and Competitiveness Assessment

Against a backdrop of substantial reserves accumulation, Bolivia's real effective exchange rate (REER) has risen by about 21 percent over the last decade. Bolivia's strong terms of trade, large public investment, and relatively high inflation rate account for most of the appreciation. Although there has been a nominal strengthening against regional currencies, the Boliviano has been kept virtually fixed vis-à-vis the U.S. dollar since late 2011.



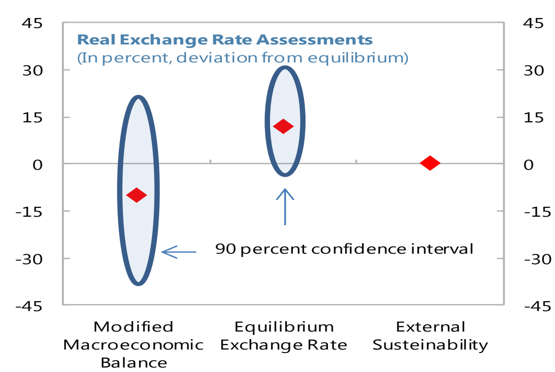
CGER methodologies tailored for resource rich countries suggest no significant misalignment:[15]



¹ Shows 95th percentile and 5th percentile for the period January 1993 to September 2013. Gray box covers range between 25th and 75th percentile of REER. Dots are latest observation (Sep-13).

- The benchmark Macroeconomic Balance (MB) approach was modified to separate the effects of hydrocarbon revenues and fiscal policy in the current account and to capture the elasticity of non-hydrocarbon exports and imports relative to the REER.[16] Following the large increase in the current account surplus in 2012, the MB approach suggests that a strengthening of Bolivia's REER would be needed for the underlying current account balance (CAB) to be close to its estimated medium term norm (-1.4 percent of GDP).[17] The estimated deviation from equilibrium is not statistically significant.

- The Equilibrium Real Exchange Rate (ERER) assessment points to an overvaluation of the exchange rate of about 12 percent as of September 2013. The ERER is estimated as a function of medium term fundamentals (terms of trade, net foreign assets, public expenditure, FDI, and productivity). The estimates are less robust



Sources: National authorities and Fund staff calculations.

[15] Based on "Macroeconomic Policy Frameworks for Resource-Rich Countries." 2012 IMF Policy Paper.

[16] The modified MB approach uses the non-hydrocarbon fiscal balance instead of the standard fiscal balance and a hydrocarbon export balance instead of the oil export balance.

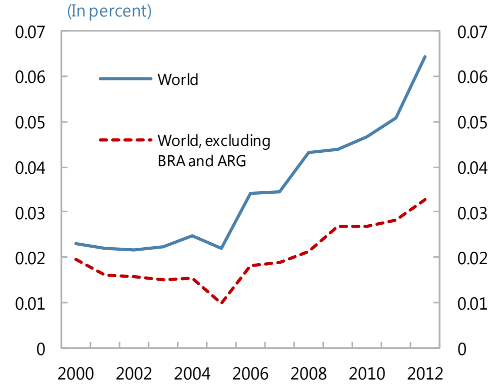
[17] The CAB norm under the benchmark MB approach is -1.8 percent of GDP.

than other approaches, given significant structural changes in the Bolivian economy in recent years that are not well captured in the model. The estimated deviation from equilibrium is not statistically significant.

- The external sustainability (ES) method suggests the boliviano is line with fundamentals, which would suggest that Bolivia's net foreign assets positions would stabilize at around 19 percent of GDP over the medium term.

Bolivia has increased its share in global export markets. The exports-to-GDP ratio has increased from 20 percent to around 40 percent over the last decade. On the structure of exports, hydrocarbon exports (primarily natural gas) have increased significantly to 46 percent of total exports (from 24 percent a decade earlier), concentrated in two main markets: Argentina and Brazil. The share of mining-related products has increased markedly as well, despite a sharp reduction in 2012. Policies aimed at strengthening food security have restricted non-traditional exports, mainly sugar, soybeans, corn, and meats (with a current share of 15 percent of total exports compared to 55 percent in 2002).

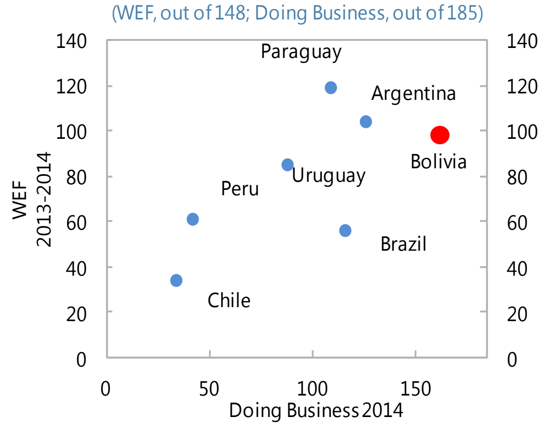
Export Market Shares
(In percent)



Sources: International Financial Statistics and Fund staff calculations.

Addressing longstanding weaknesses in the business environment would help boost competitiveness further. Bolivia's ranking in the 2013–14 World Economic Forum's Global Competitiveness Index improved to the 98th position (out of 148 countries), from 104th in the 2012–13 survey. Most of this improvement was driven by a better ranking in the macroeconomic environment (from 49th to 28th). Infrastructure bottlenecks, low labor market efficiency, and poor quality of higher education continue to adversely weigh on the country's competitiveness. Bolivia also stands low in the World Bank's Doing Business Index,[18] ranking 162nd out of 185 countries. Tax evasion, extensive procedures and days to start a business, and burdensome building permits are the main components behind Bolivia's relatively poor performance in this survey. Structural reforms, which would include addressing widespread labor informality, are needed to enhance competitiveness and productivity.

World Economic Forum and Doing Business Indicators
(WEF, out of 148; Doing Business, out of 185)



Sources: World Economic Forum and World Bank.

[18] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

INTERNATIONAL MONETARY FUND

BOLIVIA

December 26, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS 2

RELATIONS WITH THE WORLD BANK AND BANK-FUND COLLABORATION UNDER THE JMAP 5

A. Relations with the World Bank 5

B. IMF Relations with World Bank under JMAP 7

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK 10

STATISTICAL ISSUES 12

A. Assesment of Data Adequacy for Surveillance 12

B. Data Standards and Quality 12

FUND RELATIONS

(As of November 30, 2013)

Membership Status: Joined December 27, 1945; accepted its obligations under Article VIII, Sections 2, 3, and 4 on June 5, 1967. The exchange system is free of restrictions on current international payments and transfers.

General resources Account

	SDR Million	% Quota
Quota	171.50	100.00
Fund holdings of currency (Exchange Rate)	162.64	94.83
Reserve Tranche Position	8.87	5.17

SDR Department

	SDR Million	% Quota
Net cumulative allocation	164.13	100.00
Holdings	166.68	101.55

Outstanding Purchases and Loans: None

Latest Financial Arrangements

(In SDR Millions)

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Apr 02, 2003	Mar 31, 2006	145.78	111.50
ECF [1/]	Sep 18, 1998	Jun 07, 2002	100.96	63.86
ECF [1/]	Dec 19, 1994	Sep 09, 1998	100.96	100.96

Projected Payments to Fund [2/]

(SDR Million; Based on existing use of resources and present holdings of SDRs):

	2013	2014	2015	2016	2017
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		**0.00**	**0.00**	**0.00**	**0.00**

[1/] Formerly PRGF.

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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. The de jure exchange rate arrangement is classified as a crawling peg to the U.S. dollar. Within the scope of the official crawling peg exchange rate regime, in an external environment characterized by marked exchange rate volatility and decreasing external inflation, the sliding rate was set to zero to anchor the public expectations. Consequently, the boliviano stabilized anew against the U.S. dollar since November 2011. Accordingly, the de facto exchange rate arrangement has been retroactively reclassified to a stabilized arrangement from a crawling peg, effective November 2, 2011.

Article IV Consultation. The last Article IV consultation was completed by the Executive Board on June 1, 2012 (Country Report No. 12/149). Bolivia is on a standard 12 month consultation cycle.

Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
Commitment of HIPC assistance			
Decision point date	Sep 1997	Feb 2000	
Assistance committed by all creditors (US$ million)[1/]	448.00	854.00	
Of which: IMF assistance (US$ million)	29.00	55.32	
(SDR equivalent in millions)	21.25	41.14	
Completion point date	Sep 1998	Jun 2001	
Disbursement of IMF assistance (SDR million)			
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[2/]	...	3.09	3.09
Total disbursements	**21.25**	**44.23**	**65.48**
Implementation of MDRI Assistance			
Total debt relief (SDR Million)[3/]			160.93
Financed by: MDRI Trust			154.82
Remaining HIPC resources			6.11
Debt relief by facility (SDR Million)			

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGF	Total
January 2006	83.08	N/A	83.08
January 2006	6.70	71.15	77.85

[1/] 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.

[2/] 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.

[3/] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Technical Assistance, 2008–13

Department	Purpose	Date
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
LEG	AML/CFT regulatory and institutional framework	Jul. 12
FAD	Integration of tax and customs administrations	Aug. 12
FAD	Tax policy (mining code reform)	Dec. 12
LEG	AML/CFT regulatory and institutional framework	Apr. 13
FAD	ROSC Evaluation of fiscal transparency	Apr. 13
MCM	Medium-term debt strategy	Apr. 13
FAD	Institutional strengthening of tax and customs administration	Jul. 13
FAD	Tax policy (international taxation, personal income tax and tax expenditure)	Jul. 13
STA	SDDS assessment	Oct. 13
STA	National accounts	Oct. 13

RELATIONS WITH THE WORLD BANK AND BANK-FUND COLLABORATION UNDER THE JMAP

A. Relations with the World Bank

1. **The ongoing Country Partnership Strategy (CPS) for the fiscal period 2012–2015 is guiding the World Bank Group (WBG) support to Bolivia.** The CPS consists of a program of lending operations and knowledge activities along four pillars: (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, governance, and anti-corruption as cross-cutting themes. These areas respond to government requests and priorities outlined in the National Development Plan (NDP) while also making the most of the WBG´s comparative advantage.

2. **A CPS Progress Report will be presented to the Board of Executive Directors in February 2014.** This Mid-Term Review is confirming the relevance of the current CPS, under which most of the proposed lending program is under implementation or in the last stage of preparation. In agreement with the government, one operation in water and sanitation was dropped given the expanded role of other development partners. With the launch of the government´s Agenda Patriotica 2025 in early 2013, there is an increased policy dialogue on its emerging priorities with particular emphasis on those related to unlocking alternative sources of growth.

3. **For the remainder of the CPS period, efforts will involve more programmatic interventions, new instruments, and more innovative approaches and will now include financing from the International Bank for Reconstruction and Development (IBRD).** As envisioned in the CPS in addition to the resources allocated by the International Development Association (IDA), the proposed lending program for the remaining period includes financing from IBRD. The lending strategy will seek to minimize any significant drop in resources in the expected transition after the IDA17 cycle. Under this framework, the proposed program includes new investment financing in rural electrification, employment and job quality, an additional financing for an ongoing statistical capacity strengthening project, and a climate resilience operation for which resources include a combination of grant and concessional financing from the Climate Investment Fund. In terms of more programmatic and transformative approaches, a new project to support the development of Andean products is being prepared; in terms of new instruments, the upcoming Program for Results in road rehabilitation will seek to underpin a multi-agency program. A project to support government efforts to improve the effectiveness of public investment at decentralized levels will also be presented to the Board in the next months.

4. **There will be an effort to align the current portfolio and results framework to provide transformative solutions and to further focus on extreme poverty eradication and shared prosperity.** The portfolio under implementation comprises eleven investment projects worth US$464 million, of which the undisbursed balance is US$285 million (Table 1); new projects under

preparation are worth approximately US$390 million. The Bank will continue to focus on resolving implementation bottlenecks and on moving to a portfolio where products coalesce around a few areas of intervention that are both catalytic and aligned with Bolivia's own goals of shared prosperity and extreme poverty eradication by 2025. New initiatives will be prioritized according the following criteria: (i) support to sustainable employment and production corridors, particularly in rural areas; (ii) enhance institutional capacity in decentralized areas to deliver basic and social services and to address disaster risk and climate resilience; and (iii) enhance country systems and procedures to promote and evaluate results based development.

Table 1. World Bank Investment Portfolio in Bolivia
(as of December 2013)

Project	Commitment (US$ million)	Disbursed (US$ million)	Undisbursed* (US$ million)	Closing Date
Urban Infrastructure	54.0	31.26	24.50	October 2015
Land for Agricultural Development	15.0	11.57	3.44	June 2014
Lake Titicaca Local Sustainable Development	20.0	3.34	15.97	February 2015
Investing in Children and Youth	17.0	6.69	10.06	December 2013
Expanding Access to Reduce Health Inequalities	11.17	4.56	5.93	January 2014
Rural Alliances and AF	58.4	59.84	0.13	March 2014
Strengthening of the Statistical Capacity	50.0	37.81	10.96	June 2015
National Roads and Airport Infrastructure	109.5	1.10	106.03	December 2016
Agricultural Innovation and Services	39.0	7.88	29.7	February 2017
Community Investment in Rural Areas	40.0	10.08	28.12	April 2017
Rural Alliances II	50.0	1.00	48.85	November 2017
Total	**464**	**175.1**	**283.6**	

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

5. **Under the leadership of the International Finance Corporation (IFC), the CPS will continue supporting opportunities for private sector development under the NDP´s framework.** The IFC's overall program has focused on the investment climate and on simplifying procedures, as well as on Access to Finance (A2F) in agriculture and on training for small and medium enterprises (SMEs) through its Business Edge Program. On the investment side, the IFC has engaged clients in SME banking, microfinance and trade finance, agribusiness, and forestry.

6. **In terms of Analytical and Advisory Activities (AAA) and convening services, the Bank will continue supporting the development of a flexible program tailored to the government´s needs.** To the extent possible, AAA will be bundled around the criteria mentioned above. For the first time, AAA will include Bolivia´s first Reimbursable Advisory Services (RAS) program to strengthen public sector management systems for the Department of Santa Cruz. Table 2 presents

the list of ongoing and tentative Economic and Sector Work (ESW) and Non-Lending Technical Assistance (NLTA). The program will be kept open to respond to emerging requirements.

Table 2. AAA Ongoing and Tentative Program FY2014–2015

	Product
Report on Observance of Standards and Codes in Accounting	ESW
Sources of Growth Programmatic AAA	ESW
Urban Development Programmatic AAA	ESW
Multidimensional Poverty Phase III	TA
Multidimensional Poverty Phase IV	TA
TRE RAMP Support to the Central Bank of Bolivia	TA
Rapid Assessment and Action Plan for Santa Cruz	RAS
Improving Social Services	TA
Public Sector Governance IV	TA
Science and Technology Strategy	TA
Tourism Strategy and Private Sector Involvement	TA

7. Trust Funds (TF) continue to be used to support policy dialogue and to pilot innovative ideas. The current TF portfolio (Table 3) includes six grants in areas such as climate resilience, quality of statistical systems, early childhood care and development, community-driven development in remote areas and institutional strengthening. TFs are an important financing source for the Bank´s program in Bolivia.

Table 3. World Bank Trust Fund Portfolio in Bolivia
(as of December 2013)

Project	**Amount** (US$ million)
Strengthening of the Ministry of Development Planning in the Process of Decentralization (IDF)	0.28
Climate Change Resilience Management System in the Pilot Sub-basins (CSCFIA)	0.5
Pilot Program for Climate Resilience - Phase I (CSCFIA)	1.5
Ensuring Quality in the National Statistical System (TFSCB)	0.24
Early Childhood Care And Development in the Most Vulnerable Districts Of La Paz And El Alto (JSDF)	2.78
Integrated Community-Driven Territorial Development for Remote Communities in the Amazon (JSDF)	2.21

B. IMF Relations with the World Bank under JMAP

8. 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 the reinforcement of the multi-annual budget and planning process. The public sector also has to strengthen capacity on public sector management, procurement, and public investment, including at the subnational level.

- **Maintaining adequate financial sector supervision**. The financial sector is liquid and solvent. The current challenge is to implement the new Financial Services Law, continue strengthening supervision to maintain the health of the loan portfolios, and manage the transition of the AML/CT regime under the new law.

- **Improving the business climate to bolster investment**. Bolivia's private investment rate remains below the levels observed in the early 2000s 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, health, and a social protection network as well as the employability of low income youth. Technical strengthening on poverty measurement issues is also on the agenda.

9. 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. If requested by the government, the Bank may support this effort through its diagnosis tools.

- **Fiscal federalism and budget framework**. 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. The Bank is also providing support to strengthen the planning and implementation of public investment at all levels of governments, in association with the work towards the multi-annual budget process. The Fund will continue its analytical work on macro-fiscal institutions to manage resource wealth, including advising on the components of a medium-term fiscal framework.

- **Debt management**. The Bank, in collaboration with the Fund, is assisting the Ministry of Finance on developing debt management reform plans, based on the findings of the Debt Management Performance Assessment (DeMPA). In addition, the Bank will provide technical assistance on the management of non-concessional loans, for which Bolivia is already eligible for access.

- **Poverty and social protection.** The Bank has been providing technical assistance on poverty measurement, including monetary poverty and multidimensional well-being indicators. This complements the support provided to generate high quality statistical information through a STATCAP project. These tools would help both diagnose and target the population that fails to reach minimum standards of multidimensional welfare, as well as build capacity on the measurement of poverty, which would include gender issues. Also, the Bank will continue assisting the Government in the area of social protection, health, and early child development.

- **Private sector development.** The World Bank Group will continue providing financing in the area of agricultural productivity, food security, rural development and community driven development. The Bank is conducting a sectoral evaluation of growth, bottlenecks and measures to improve growth prospects, which would focus on agriculture, hydrocarbon and mining sectors. The IFC is providing support on improving business procedures for private sector, primarily on subnational levels.

- **Financial sector surveillance**. The Fund will continue with the surveillance of the financial sector developments and the monitoring of the implementation and operation of the Financial Services Law.

- **Statistics**. The Fund is providing TA for the subscription to the Special Data Dissemination Standard (SDDS). The Fund will also continue to provide support on enhancing the accounting of mixed-ownership companies, primarily in the telecommunications, electricity and hydrocarbon sectors, and their inclusion in the fiscal accounts of the non-financial public sector, given the government’s majority ownership and control.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

1. **As of September 30, 2013, the Inter-American Development Bank (IDB) had approved loans to Bolivia amounting to US$5.23 billion, with disbursements totaling US$3.89 billion.** Bolivia's outstanding debt to the IDB was approximately US$828.1 million with undisbursed approved funds for US$972.5 million. During the year, net cash flows to the country were positive for a fourth 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 country strategy covering the period 2011–2015.** Under the country strategy, the IDB has decided to increase financial flows to Bolivia. Beginning 2012, Bolivia, in the base scenario, will be allocated 20 percent of the concessional element under IDB's blended financial conditions. In 2013, Bolivia enjoyed an annual allocation of US$356.50 millions; the base scenario for the period 2013–2014 is the approval of new loans US$356.5 million per year.

4. **Under the Bank's country strategy with Bolivia, the government and the IDB have agreed on two main objectives: sustainable growth and poverty-inequality reduction**. In pursuit of these objectives, 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 September 30, 2013, the portfolio of executing sovereign guaranteed operations in Bolivia consists of 35 loans totaling US$1.30 billion, of which 26.9 percent has 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 5 loans ascending to US$29.0 million and two TFFP´s ascending to US$3.7 million. The Bank's 2013 operative program portfolio contains six sovereign guaranteed loans for a total amount of US$378.5 million, which will be concentrated in transport, water and sanitation, airports, urban development, and the strengthening of public governance, and two non-sovereign guaranteed loans for a total

amount of US$22 million. Six additional loans for US$334.5 million have been identified for the pipeline 2014.

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 have been identified 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 public investment, and the problematic regulatory environment that keeps downgrading the investment climate.

STATISTICAL ISSUES

(As of November 26, 2013)

A. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings but is broadly adequate for surveillance. Staff welcomes the authorities' plans to further strengthen the quality and timelines of statistics, which includes updating the base of the national accounts, implementing the agricultural and economic census, reinstating the employment survey, and working towards full subscription of the Special Data Dissemination Standard (SDDS).

National Accounts: The National Institute of Statistics (INE) is in the final stage of updating the base year of the national accounts (from 1990 to 2007), which includes the implementation of the System of National Accounts 1993 (SNA 1993) and some of the most relevant recommendations of the SNA 2008. INE plans to release preliminary results (year 2007–2012) by June 2014 and definitive series by the end of the year.

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 in regards to 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: 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. In particular, mixed-ownership companies, primarily in the telecommunications, electricity and hydrocarbon sectors, should be included in the fiscal accounts of the non-financial public sector, given the government's majority ownership and control.

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. The Data ROSC was published on August 13, 2007. In October 2013, a Special Data Dissemination Standard assessment mission was conducted. The mission found that the statistical system of Bolivia is, in general, in a good position to graduate to the SDDS in the mid-term.

Bolivia: Indicators Required for Surveillance

(As of November 26, 2013)

	Date of Latest Observ.	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]	Memo Items: Data Quality–Methodological Soundness[10]	Memo Items: Data Quality–Accuracy and Reliability[11]
Exchange Rates	Daily	Daily	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Daily	Daily	D	D	D		
Reserve/Base Money	Oct. 2013	Nov. 2013	M	M	M	O, LO, LO, O	O, O, O, O, O
Broad Money	Oct. 2013	Nov. 2013	M	M	M		
Central Bank Balance Sheet	Oct. 2013	Nov. 2013	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct. 2013	Nov. 2013	M	M	M		
Interest Rates[3]	Oct. 2013	Nov. 2013	W	W	W		
Consumer Price Index	Oct. 2013	Nov. 2013	M	M	M	LO, O, LO, O	O, LO, LNO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	Sep. 2013	Nov. 2013	M	M	M	LO, LO, LNO, LO	LO, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[4]– Central Government[6]	Sep. 2013	Nov. 2013	M	M	M		
Stock of Central Government and Central Government-Guaranteed Debt[7]	Sep. 2013	Nov. 2013	M	M	M		
External Current Account Balance	Q2 2013	Sep. 2013	Q	Q	Q	O, LO, LO, LO	LO, O, LO, O, LO
Exports and Imports of Goods and Services[8]	Q2 2013	Sep. 2013	Q	Q	Q		
GDP/GNP	Q2 2013	Nov. 2013	Q	Q	Q	LO, LO, LO, O	LNO, LO, LNO, O, LO
Gross External Debt	Oct. 2013	Nov. 2013	M	M	M		
International Investment Position[9]	Q4 2012	May 2013	Q	Q	Q		

[1] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); and Not Available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Bolivia does not compile central government fiscal data.

[7] Guaranteed non-financial public sector debt. Including currency and maturity composition.

[8] Monthly frequencies for goods only.

[9] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[10] Reflects the assessment provided in the data ROSC (published on August 13, 2007, and based on the findings of the mission of January 24–February 7, 2007) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are Fully Observed (O); Largely Observed (LO); Largely Not Observed (LNO); Not Observed (NO); and Not Available (NA).

[11] Same as footnote 10, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

BOLIVIA

December 26, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Miguel Savastano and Chris Lane

Prepared by the Staff from the International Monetary Fund

Bolivia's public debt declined sharply following MDRI debt relief in 2006–07 and debt sustainability has continued to improve, supported by overall fiscal surpluses since then. Under the baseline scenario, debt ratios continue to display ample margins with respect to risk thresholds and are expected to decline further in the medium to long term. Debt service is projected to remain low, reflecting predominantly long maturities of both domestic and foreign debt. The path of debt ratios deteriorates under standard stress tests, especially for total public debt, but would remain well below indicative thresholds. The risk of debt distress remains low. An alternative scenario was also prepared, which assumes no augmentation of current natural gas reserves and thus a shorter resource horizon compared to the baseline. Under this alternative scenario, debt ratios would start to climb after the mid-2020s when current proven gas reserves are expected to be exhausted.

BACKGROUND

1. **Bolivia's gross public debt declined sharply following MDRI debt relief and has continued to fall owing to consecutive years of overall fiscal surpluses and strong economic growth.** Gross debt dropped from 95.7 percent of GDP in 2003 to 40.5 percent in 2007 and subsequently to 33.4 percent in 2012. The decline in external public debt—to 14.8 percent of GDP in 2011 from 65.0 percent in 2003—reversed in 2012 to 15.7 percent of GDP as Bolivia issued the first international bond since the 1920s of US$ 0.5 billion. External public debt is projected to increase further in 2013 following the second issuance of an international bond of US$0.5 billion in August 2013.

2. **Bolivia's changing debt structure and the accumulation of significant public sector deposits at the central bank have further reduced debt vulnerabilities.** With the reduction in external debt and the shift to domestic debt in Bolivianos, foreign currency exposure has been reduced since 2005. In addition, almost all domestic debt had maturities exceeding five years at end-2012, compared to only about ⅔ in 2005, and 87.7 percent of external public debt had maturities exceeding eleven years. With the accumulation of net deposits of the non-financial public sector at the Central Bank, net public debt (i.e., gross debt minus net central bank credit) declined to 11.1 percent of GDP in 2012 from 87.8 percent in 2003. The effective interest rate of the total public debt was 3.4 percent in 2012.

BASELINE AND ALTERNATIVE SCENARIOS

3. **The main assumptions of the baseline scenario for the period of 2013–2033 are:**

- ***Average annual real GDP growth***: 6.7 percent in 2013, 5.4 percent in 2014, 5 percent until 2018 and 4 percent thereafter.

- ***Inflation*** (CPI, period average): 5.9 percent in 2013, 6.8 percent in 2014, and 5 percent in 2015–2033. Reflecting the food supply shocks of mid-2013, inflation assumptions for 2013–14 are higher than in last year's DSA.

- ***External sector***: in line with the medium term staff projections through 2018, and based on stable import and export ratios to GDP over the long term. Net FDI is assumed to remain stable at 3 percent of GDP through 2020, and decline gradually over the long term, mainly influenced by foreign investment in the natural resource sector.

- ***Fiscal assumptions and financing strategy***: in line with the medium term staff projections until 2018. For 2019–33, a primary surplus of 0.3 percent of GDP is assumed for the non-financial public sector (a surplus of 0.4 percent of GDP on average over 2018–32 in the previous DSA), on the basis of stable international oil prices and public expenditure as a share of GDP. CAF is expected to remain the largest external lender.

- ***Average concessionality of public external debt***: around 27 percent in the medium term, based on projected disbursements of official loans and the concessional financing conditions.

4. To assess the impact of the exhaustion of natural gas reserves, the following assumptions are made under an alternative scenario with a shorter resource horizon:

- ***Natural resource horizon***: The authorities have increased efforts to develop new gas exploration areas. Given the uncertainty and length of this process, an alternative scenario assesses the debt sustainability implications of a shorter resource horizon based only on current proven gas reserves. In line with the current reserves and staff's medium term production assumptions, the resource horizon is assumed to last through 2025.

- ***Fiscal assumptions***: With the assumed loss of hydrocarbon related revenues, the primary balance of non-financial public sector is projected to worsen to a deficit of around 8 percent of GDP on average in 2026–33.

5. Under the baseline scenario, Bolivia's public and external debt are expected to remain sustainable throughout the projection period. [1] Bolivia is classified as medium 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. The gross non-financial sector public debt is projected to decline to 22 percent of GDP by 2018 from 33 percent in 2012, then to 11 percent by 2033. Total external debt (including private) is projected to decline to 16 percent in 2018 and 10 percent by 2033, from 20 percent in 2012. All the debt burden indicators for Bolivia are well below the specific indicative thresholds for medium performers.

6. Under the shorter resource horizon scenario, the debt trajectory starts to worsen from mid-2020, reflecting the assumed exhaustion of current proven gas reserves. The public debt-to-GDP ratio is projected to bottom out at 21 percent in 2020 and increase to 32 percent by 2025. With the larger primary deficit, public debt could rise to around 61 percent of GDP by 2033.

STRESS TEST

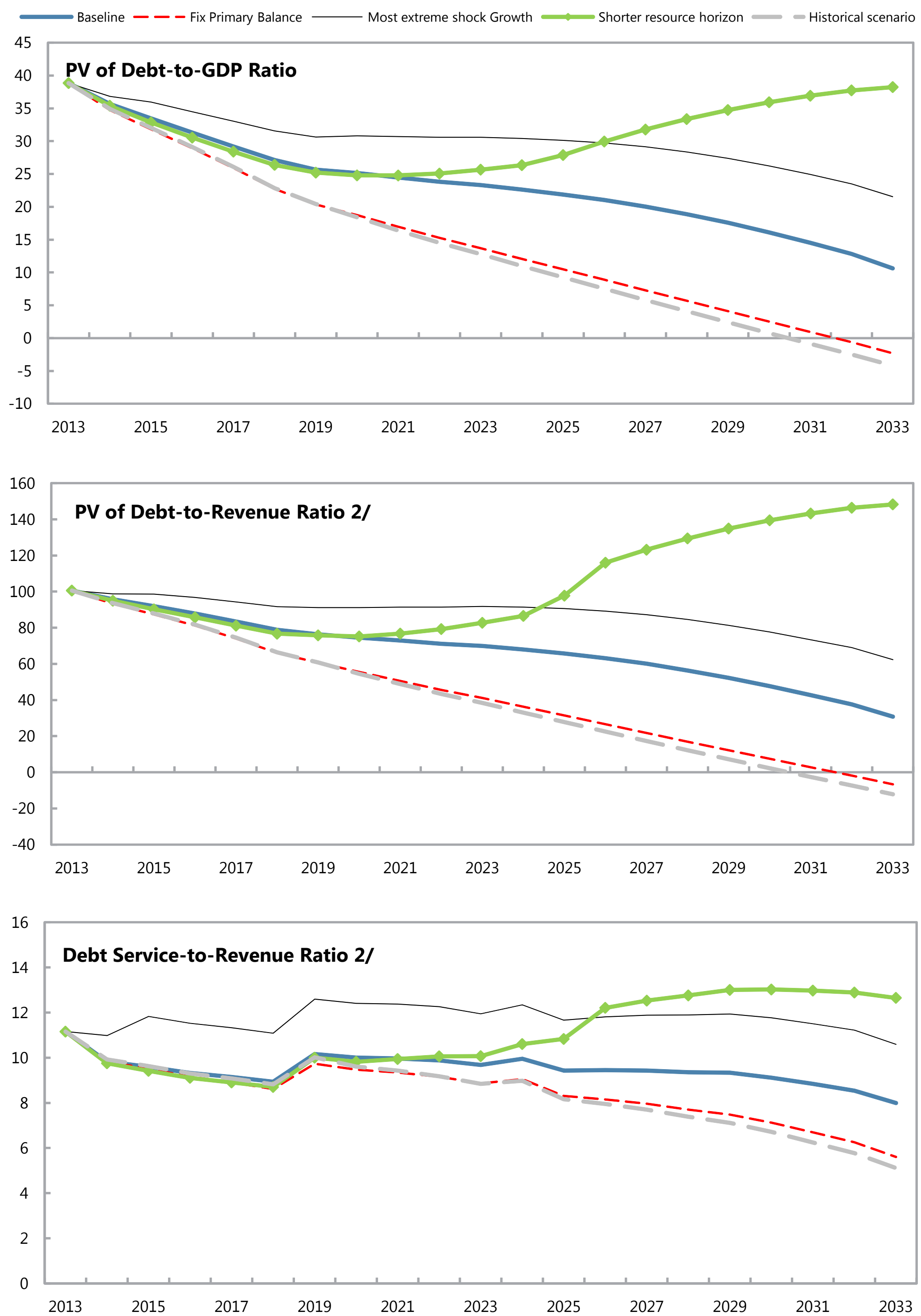
7. Standard stress tests on the baseline scenario suggest that Bolivia's low public and external indebtedness is resilient to a series of shocks. Under the most extreme stress test to external debt—one time 30 percent nominal depreciation relative to the baseline in 2014—the ratio of the PV of debt to GDP deteriorates by around 8½ percentage points on impact, but converges to the trajectory under the baseline scenario in the medium to long term. All the external debt indicators remain well below the

[1] Remittances in Bolivia represent about 4 percent of GDP and 9 percent of goods and services exports. If we take remittances into account, there are no breaches of (modified) thresholds under the baseline or stress tests in the DSA. The inclusion of remittances does not lead to a change in the risk rating, which remains low.

threshold in extreme stress scenarios. For public debt, the most extreme risk arises from a temporary shock to real GDP growth, but the stress tests indicate that debt ratios remain well below indicative thresholds.

8. Bolivia's risk of debt distress is low. Based on the analysis under the baseline and the most extreme stress test, staff and the authorities concurred that Bolivia's risk of debt distress is low, and its debt is expected to be sustainable over the medium and long term. The authorities highlighted that they have successfully reduced the public debt-to-GDP ratio to one of the lowest in the region. Moreover, they noted that the improvement in the maturity structure and the systemic decline in external debt service indicators pointed to limited liquidity risks.

Figure 1. Bolivia: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/

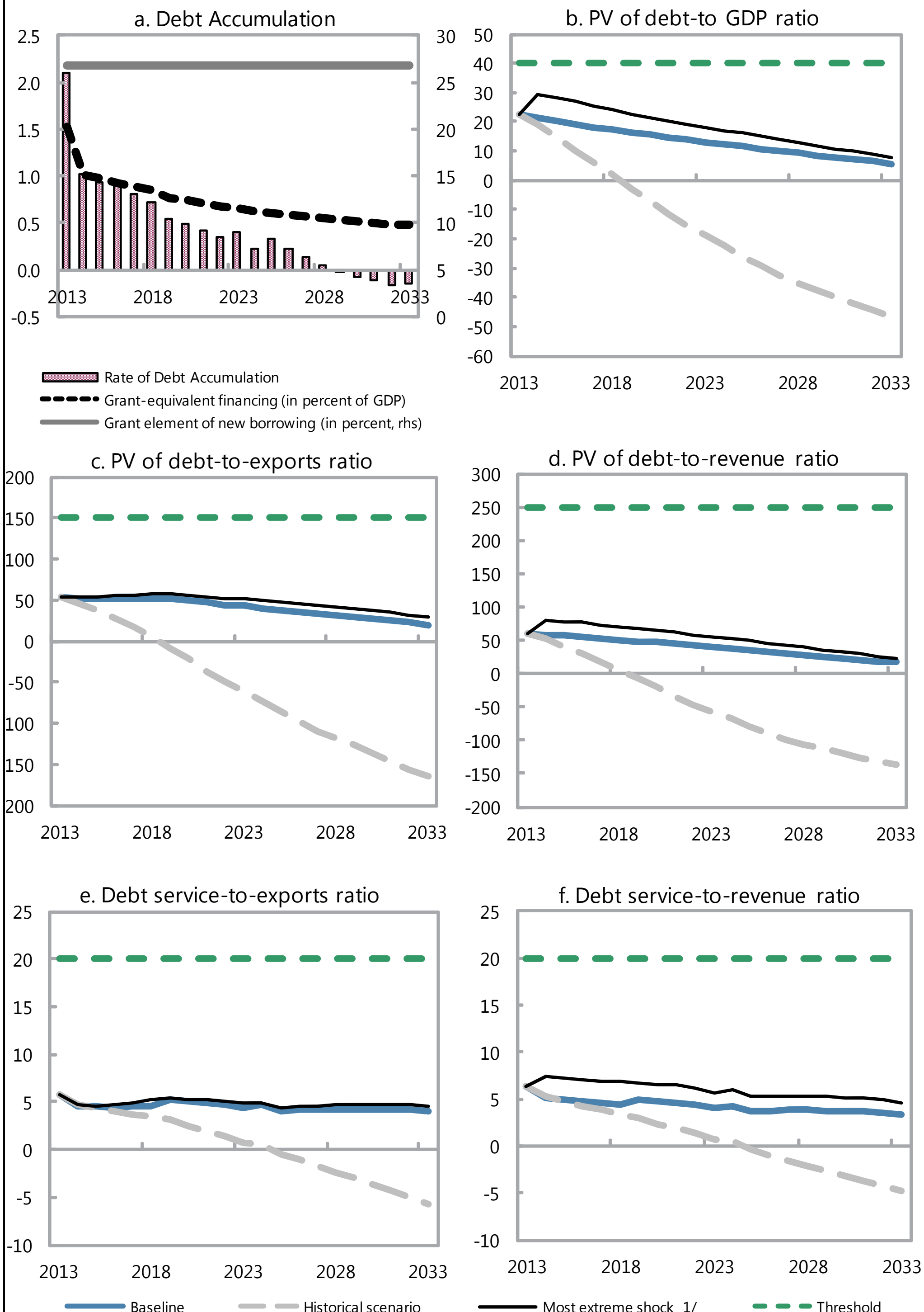


Sources: National authorities and Fund staff calculations.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Figure 2. Bolivia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: National authorities and Fund staff calculations.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. 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.

Table 1a. Bolivia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 6/	Standard Deviation 6/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	38.5	34.7	33.4			32.5	29.7	27.8	25.9	24.1	22.3		19.7	11.3	
of which: foreign-currency denominated	19.4	18.2	18.7			19.1	17.7	16.8	15.9	15.0	14.1		11.2	7.3	
Change in public sector debt	-1.5	-3.8	-1.3			-0.9	-2.8	-2.0	-1.9	-1.8	-1.7		-0.3	-1.8	
Identified debt-creating flows	-6.4	-7.6	-5.6			-3.5	-3.0	-2.4	-2.3	-2.0	-1.5		-0.3	-1.8	
Primary deficit	-3.1	-2.1	-2.8	-1.9	3.7	-1.7	-0.4	-0.7	-0.6	-0.3	0.1	-0.6	0.2	-1.5	-0.3
Revenue and grants	33.2	36.2	37.9			38.6	37.3	36.4	35.6	35.0	34.4		33.3	34.6	
of which: grants	1.1	0.8	0.7			0.5	0.5	0.5	0.5	0.5	0.4		0.4	0.4	
Primary (noninterest) expenditure	30.1	34.1	35.1			36.9	36.8	35.7	35.0	34.7	34.5		33.5	33.1	
Automatic debt dynamics	-3.3	-5.5	-2.8			-1.8	-2.5	-1.7	-1.7	-1.7	-1.6		-0.4	-0.3	
Contribution from interest rate/growth differential	-1.9	-3.3	-2.0			-1.6	-1.8	-1.4	-1.3	-1.3	-1.2		-0.1	-0.2	
of which: contribution from average real interest rate	-0.3	-1.4	-0.3			0.5	-0.1	0.0	0.0	0.0	-0.1		0.6	0.4	
of which: contribution from real GDP growth	-1.6	-1.9	-1.7			-2.1	-1.7	-1.4	-1.3	-1.2	-1.1		-0.8	-0.5	
Contribution from real exchange rate depreciation	-1.4	-2.2	-0.8			-0.2	-0.8	-0.4	-0.4	-0.4	-0.4		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	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	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 2/	4.9	3.7	4.3			2.6	0.1	0.5	0.4	0.2	-0.2		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	40.4			38.9	35.7	33.5	31.3	29.2	27.1		23.3	10.6	
of which: foreign-currency denominated	...	...	25.7			25.4	23.7	22.5	21.3	20.1	18.9		14.8	6.5	
of which: external	...	...	22.7			22.7	21.2	20.2	19.2	18.2	17.2		13.0	5.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	2.0	2.3	1.7			3.0	3.6	3.2	3.1	3.3	3.5		3.7	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	106.7			100.6	95.7	91.9	87.9	83.4	78.9		69.9	30.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	108.6			101.9	97.0	93.1	89.1	84.5	79.9		70.8	31.1	
of which: external 4/	...	...	61.0			59.5	57.6	56.3	54.8	52.8	50.6		39.6	16.7	
Debt service-to-revenue and grants ratio (in percent) 5/	10.3	10.2	10.9			11.2	9.8	9.6	9.3	9.1	8.9		9.7	8.0	
Debt service-to-revenue ratio (in percent) 5/	10.6	10.5	11.1			11.3	10.0	9.7	9.5	9.3	9.1		9.8	8.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.6	1.8	-1.5			-0.8	2.4	1.3	1.3	1.5	1.8		0.4	0.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.1	5.2	5.2	4.5	1.0	6.7	5.4	5.0	5.0	5.0	5.0	5.4	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	2.7	2.7	2.2	3.1	1.0	2.6	1.9	1.9	1.9	1.9	1.9	2.0	5.1	4.1	4.9
Average real interest rate on domestic debt (in percent)	-3.1	-8.2	-2.2	-0.4	6.1	2.0	-1.4	0.4	0.0	-0.2	-0.4	0.1	3.5	3.9	3.5
Real exchange rate depreciation (in percent, + indicates depreciation	-7.2	-11.9	-4.8	-5.8	5.7	-1.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.8	14.6	6.9	7.9	4.7	2.5	6.0	4.2	4.6	4.8	5.0	4.5	4.5	4.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percer	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	26.9	26.9	26.9	26.9	26.9	26.9	26.9	26.9	26.9	...

Sources: National authorities and Fund staff calculations.

1/ Non financial public sector gross debt.

2/ The large residual for 2013 reflects the issuance of the sovereign bond.

3/ 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.

4/ Revenues excluding grants.

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

6/ 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 2013-2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	39	36	33	31	29	27	23	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	39	35	32	29	26	23	13	-4
A2. Primary balance is unchanged from 2013	39	35	32	29	26	23	14	-2
A3. Permanently lower GDP growth 1/	39	36	34	32	30	28	26	19
A4. Alternative Scenario : Shorter resource horizon	39	35	33	31	28	26	26	38
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	39	37	36	34	33	32	31	22
B2. Primary balance is at historical average minus one standard deviations in 2014-201	39	37	37	35	32	30	26	12
B3. Combination of B1-B2 using one half standard deviation shocks	39	36	35	33	32	30	28	18
B4. One-time 30 percent real depreciation in 2014	39	46	43	40	37	34	29	13
B5. 10 percent of GDP increase in other debt-creating flows in 2014	39	43	41	38	35	33	28	13
PV of Debt-to-Revenue Ratio 2/								
Baseline	101	96	92	88	83	79	70	31
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	101	94	88	82	74	66	38	-12
A2. Primary balance is unchanged from 2013	101	93	87	81	74	66	41	-7
A3. Permanently lower GDP growth 1/	101	96	93	89	85	82	78	56
A4. Alternative Scenario : Shorter resource horizon	101	95	90	86	81	77	83	148
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	101	99	99	97	94	92	92	62
B2. Primary balance is at historical average minus one standard deviations in 2014-201	101	100	101	97	92	87	77	34
B3. Combination of B1-B2 using one half standard deviation shocks	101	98	96	94	91	88	85	53
B4. One-time 30 percent real depreciation in 2014	101	123	117	111	105	99	86	39
B5. 10 percent of GDP increase in other debt-creating flows in 2014	101	116	111	107	101	96	84	38
Debt Service-to-Revenue Ratio 2/								
Baseline	11	10	10	9	9	9	10	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	10	10	9	9	9	9	5
A2. Primary balance is unchanged from 2013	11	10	10	9	9	9	9	6
A3. Permanently lower GDP growth 1/	11	10	10	9	9	9	10	9
A4. Alternative Scenario : Shorter resource horizon	11	10	9	9	9	9	10	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-20	11	10	10	10	10	10	11	10
B2. Primary balance is at historical average minus one standard deviations in 2014-201	11	10	10	10	9	9	10	8
B3. Combination of B1-B2 using one half standard deviation shocks	11	10	10	10	9	9	10	9
B4. One-time 30 percent real depreciation in 2014	11	11	12	12	11	11	12	11
B5. 10 percent of GDP increase in other debt-creating flows in 2014	11	10	10	10	10	9	10	9

Sources: National authorities and Fund staff calculations.
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, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2013-2018			2019-2033
	2010	2011	2012			2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
External debt (nominal) 1/	**21.2**	**18.7**	**19.6**			**20.2**	**19.1**	**18.4**	**17.7**	**17.0**	**16.3**		**13.4**	**10.3**	
of which: public and publicly guaranteed (PPG)	15.4	14.8	15.7			16.4	15.2	14.5	13.8	13.1	12.4		9.5	6.4	
Change in external debt	-0.2	-2.5	0.9			0.6	-1.1	-0.7	-0.7	-0.7	-0.7		-0.5	-0.3	
Identified net debt-creating flows	-9.8	-7.7	-13.8			-8.7	-7.1	-5.8	-5.2	-4.9	-4.7		-2.5	-0.6	
Non-interest current account deficit	**-4.2**	**-0.6**	**-8.1**	**-6.8**	**4.4**	**-4.4**	**-3.4**	**-2.2**	**-1.6**	**-1.3**	**-1.1**		**-0.5**	**0.0**	-0.3
Deficit in balance of goods and services	-2.8	-0.3	-9.1			-6.3	-4.9	-3.7	-3.0	-2.8	-2.5		-0.8	0.7	
Exports	36.2	38.3	44.7			42.1	40.9	39.1	37.3	35.4	33.0		30.7	28.2	
Imports	33.5	38.0	35.6			35.9	36.0	35.5	34.3	32.6	30.5		29.9	28.9	
Net current transfers (negative = inflow)	-5.5	-4.9	-4.6	-6.4	1.5	-4.2	-3.9	-3.7	-3.6	-3.4	-3.2		-2.4	-1.5	-2.1
of which: official	-0.8	-0.8	-0.8			-0.7	-0.7	-0.7	-0.7	-0.6	-0.6		-0.3	-0.1	
Other current account flows (negative = net inflow)	4.0	4.5	5.7			6.0	5.5	5.2	5.0	4.9	4.6		2.7	0.8	
Net FDI (negative = inflow)	**-3.4**	**-3.6**	**-3.9**	**-2.2**	**2.0**	**-3.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**		**-2.0**	**-0.5**	-1.4
Endogenous debt dynamics 2/	**-2.2**	**-3.5**	**-1.9**			**-0.8**	**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.5**		**0.0**	**-0.1**	
Contribution from nominal interest rate	0.3	0.3	0.3			0.4	0.3	0.3	0.3	0.2	0.2		0.5	0.3	
Contribution from real GDP growth	-0.8	-0.9	-0.9			-1.2	-1.0	-0.9	-0.8	-0.8	-0.8		-0.5	-0.4	
Contribution from price and exchange rate changes	-1.7	-2.9	-1.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**9.5**	**5.2**	**14.8**			**9.4**	**5.9**	**5.1**	**4.5**	**4.2**	**3.9**		**2.0**	**0.3**	
of which: 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/	...	...	26.6			26.6	25.1	24.1	23.1	22.1	21.1		16.9	9.6	
In percent of exports	...	...	59.5			63.1	61.3	61.7	62.1	62.6	63.8		55.2	34.0	
PV of PPG external debt	**...**	**...**	**22.7**			**22.7**	**21.2**	**20.2**	**19.2**	**18.2**	**17.2**		**13.0**	**5.7**	
In percent of exports	**...**	**...**	**50.8**			**53.9**	**51.8**	**51.7**	**51.6**	**51.6**	**52.0**		**42.5**	**20.2**	
In percent of government revenues	**...**	**...**	**61.0**			**59.5**	**57.6**	**56.3**	**54.8**	**52.8**	**50.6**		**39.6**	**16.7**	
Debt service-to-exports ratio (in percent)	**5.8**	**4.0**	**5.4**			**7.2**	**6.0**	**6.0**	**6.0**	**6.1**	**6.3**		**6.3**	**6.0**	
PPG debt service-to-exports ratio (in percent)	**4.2**	**2.5**	**4.1**			**5.8**	**4.6**	**4.5**	**4.4**	**4.5**	**4.5**		**4.4**	**4.0**	
PPG debt service-to-revenue ratio (in percent)	**4.8**	**2.7**	**4.9**			**6.4**	**5.1**	**4.9**	**4.7**	**4.6**	**4.4**		**4.1**	**3.3**	
Total gross financing need (Billions of U.S. dollars)	-0.8	-0.3	-2.3			-1.1	-0.9	-0.6	-0.5	-0.4	-0.4		0.5	4.2	
Non-interest current account deficit that stabilizes debt ratio	-4.0	1.9	-9.0			-5.1	-2.2	-1.4	-0.9	-0.6	-0.4		0.0	0.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.1	5.2	5.2	4.5	1.0	6.7	5.4	5.0	5.0	5.0	5.0	5.4	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	8.8	15.9	7.3	8.5	6.7	2.5	6.0	4.2	4.6	4.8	5.0	4.5	4.5	4.5	4.5
Effective interest rate (percent) 5/	1.7	1.7	1.7	2.2	0.7	2.1	1.5	1.5	1.5	1.5	1.6	1.6	3.6	2.6	3.3
Growth of exports of G&S (US dollar terms, in percent)	31.0	28.8	31.8	24.3	17.7	3.0	8.6	4.6	4.6	4.3	3.0	4.7	7.3	7.4	7.6
Growth of imports of G&S (US dollar terms, in percent)	25.7	38.6	5.6	17.6	15.2	10.3	12.2	7.8	6.0	4.7	3.2	7.4	8.3	8.4	8.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	26.9	26.9	26.9	26.9	26.9	26.9	26.9	26.9	26.9	26.9
Government revenues (excluding grants, in percent of GDP)	32.0	35.4	37.2			38.1	36.8	35.9	35.2	34.5	34.0		32.9	34.2	33.2
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.3			0.1	0.2	0.2	0.2	0.2	0.2		0.3	0.6	
of which: Grants	0.2	0.2	0.2			0.1	0.2	0.2	0.2	0.2	0.2		0.3	0.6	
of which: Concessional loans	0.1	0.1	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.5	1.0	1.0	0.9	0.9	0.8		0.7	0.5	0.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			35.4	41.4	41.8	42.3	42.8	43.5		49.3	62.0	53.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	19.8	24.1	27.2			29.8	33.3	36.4	40.0	44.0	48.5		73.6	169.8	
Nominal dollar GDP growth	13.3	21.9	12.9			9.4	11.7	9.4	9.8	10.0	10.3	10.1	8.7	8.7	8.7
PV of PPG external debt (in Billions of US dollars)			6.2			6.8	7.1	7.4	7.7	8.0	8.3		9.6	9.7	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	1.0	0.9	0.9	0.8	0.7	1.1	0.4	-0.2	0.2
Gross workers' remittances (Billions of US dollars)	0.9	1.0	1.0			1.1	1.1	1.1	1.2	1.2	1.3		1.5	2.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	21.9			21.9	20.5	19.6	18.7	17.7	16.8		12.8	5.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	46.8			49.7	48.0	47.9	47.9	47.8	48.2		39.8	19.3	
Debt service of PPG external debt (in percent of exports + remittance	...	...	3.8			5.4	4.3	4.2	4.1	4.1	4.2		4.1	3.8	

Sources: National authorities and Fund staff calculations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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. The high levels of residuals over the projection period are explained by the accumulation of foreign exchange reserves, and increase in foreign assets related to FINPRO and management of bank reserve requirement on foreign currency deposits.

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, 2013-2033

(In percent)

				Projections				
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	23	21	20	19	18	17	**13**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	23	19	15	10	6	2	**-19**	-47
A2. New public sector loans on less favorable terms in 2013-2033 2	23	22	21	20	20	19	**16**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	23	22	21	20	19	18	**13**	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	23	22	21	20	19	18	**13**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	23	22	22	21	19	18	**14**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	23	23	23	22	21	19	**15**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	23	20	14	13	13	12	**9**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	23	30	28	27	25	24	**18**	8
PV of debt-to-exports ratio								
Baseline	54	52	52	52	52	52	**42**	20
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	54	46	37	28	17	6	**-62**	-165
A2. New public sector loans on less favorable terms in 2013-2033 2	54	53	54	55	56	57	**51**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	54	52	52	52	52	52	**42**	20
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	54	54	53	53	53	53	**44**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	54	52	52	52	52	52	**42**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	54	55	58	58	58	59	**48**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	54	45	30	30	30	30	**24**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	54	52	52	52	52	52	**42**	20
PV of debt-to-revenue ratio								
Baseline	59	58	56	55	53	51	**40**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	59	51	41	29	17	6	**-58**	-136
A2. New public sector loans on less favorable terms in 2013-2033 2	59	59	59	58	57	56	**47**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	59	59	58	57	55	52	**41**	17
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	59	59	58	56	54	52	**41**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	59	60	60	58	56	54	**42**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	59	61	63	62	59	57	**45**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	59	54	39	38	37	35	**27**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	59	80	79	76	74	71	**55**	23

Table 3b. Bolivia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (Concluded)
(In percent)

Debt service-to-exports ratio								
Baseline	6	5	5	4	4	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	6	5	4	4	4	4	**1**	-6
A2. New public sector loans on less favorable terms in 2013-2033 2	6	5	5	5	5	5	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	6	5	5	5	5	5	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	6	5	5	5	5	5	**4**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	6	5	5	5	5	5	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	6	5	5	5	5	5	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	6	4	4	4	4	4	**3**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	6	5	5	5	5	5	**4**	4
Debt service-to-revenue ratio								
Baseline	6	5	5	5	5	4	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	6	5	5	4	4	3	**1**	-5
A2. New public sector loans on less favorable terms in 2013-2033 2	6	5	5	5	5	5	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	6	5	5	5	5	5	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	6	5	5	5	5	5	**4**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	6	6	6	5	5	5	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	6	5	5	5	5	5	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	6	5	5	5	5	5	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	6	7	7	7	7	7	**6**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

Sources: National authorities and Fund staff calculations.

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.

Statement by IMF Staff Representative on Bolivia
January 27, 2014

1. **This statement provides information that has become available since the issuance of the staff report. The information does not alter the thrust of the staff appraisal.**

2. **Recent macroeconomic developments are in line with the staff report except for end-year inflation.**

- Inflation moderated to 6.5 percent y/y in December, closing the year below the 7.5 percent projected in the staff report. An unanticipated decline in the prices of key food items in the last two months of the year accounts for the difference between the staff projection and the outturn. Core inflation (excluding food, fuels, and administered prices) edged up to 5.1 percent y/y in December.

- Fiscal outturns through November showed an overall surplus of 3.7 percent of GDP (5.5 percent of GDP in the same period of 2012). The 2014 Budget Law approved by Congress in December was in line with the fiscal projections and targets presented in the staff report.

- Net international reserves reached US$14.4 billion at end-2013 (48.4 percent of projected 2013 GDP). The external current account recorded a surplus of 3.8 percent of GDP through September (5.5 percent of GDP in the same period of 2012).

3. **On December 23, a supreme decree set lending rates for social housing and credit quotas for social housing and the productive sector**. The ceiling on lending rates for social housing ranges from 5.5 to 6.5 percent depending on the value of the property. Existing mortgages can be renegotiated at the regulated rates. For housing financial institutions, the minimum credit quota for social housing was set at 50 percent. For commercial banks, the minimum quota for social housing and the productive sector combined was set at 60 percent, and for microfinance institutions at 50 percent. Commercial banks and microfinance institutions will have five years (housing financial institutions four years) to comply with the quotas. The national development bank, now a first-tier public bank, is exempt from the decree.

4. **On December 26, a new law on public enterprises was approved.** The goal of strategic enterprises in mining, energy, telecommunications, transport and other areas will be generating profits to finance social policies. The goal of social enterprises will be generating employment, providing services, and intervening in the market to avoid distortions. The law creates the Strategic Public Enterprises Council to establish policies, approve strategic plans, and appoint and dismiss enterprises' directors. The law requires external audits and the submission of the enterprises' budget to the ministry of finance and Congress.

INTERNATIONAL MONETARY FUND
COM
COMMUNICATIONS DEPARTMENT

Press Release No. 14/45
FOR IMMEDIATE RELEASE
February 10, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Bolivia

On January 27, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bolivia.

Good macroeconomic performance and active social policies since the mid-2000s have helped Bolivia to nearly triple income per capita and reduce poverty. In recent years, the economy benefitted from high international commodity prices and rising volumes of natural gas exports. Coupled with twin surpluses in the fiscal and external accounts, net international reserves have increased to almost 50 percent of gross domestic product (GDP), providing ample buffers against external shocks. Social policies have pursued ambitious redistributive and poverty reduction goals, increasing living standards of vulnerable households.

Real GDP growth is projected at 6.7 percent in 2013, the highest growth rate of the last thirty years, supported by soaring hydrocarbon exports, strong private consumption, and accommodative macroeconomic policies. Growth is projected to remain above potential again in 2014, sustained by hydrocarbon exports and a moderate fiscal impulse. Notwithstanding elevated export volumes, the external current account surplus is expected to narrow in 2013 and over the medium term on the back of softer terms of trade.

Food supply shocks triggered an increase in inflation in mid-2013, but the authorities responded with rapid monetary tightening and measures to improve food supply. Staff expects the authorities will succeed in anchoring inflation expectations and inflation is projected to fall to 5.5 percent by the end of 2014, though further tightening may be needed if inflationary pressures prove persistent.

The fiscal stance is expected to remain expansionary, with important investment projects to industrialize the resource sector in the pipeline. The overall fiscal surplus is projected to narrow

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

to 0.6 percent of GDP in 2013 and turn to an overall deficit of 0.4 percent of GDP in 2014. Gross public debt is expected to continue its downward trajectory to 32.5 percent of GDP by end-2013, from 40 percent of GDP in 2009.

The Bolivian financial system remains solid and well capitalized, but the new Financial Services Law could alter significantly the financial landscape. The law establishes a comprehensive legal framework for the regulation of financial services, financial institutions, and financial groups. The law includes several good provisions that, if effectively implemented, will help strengthen the safety net and the integrity of the financial system. However, the law's general thrust is to subordinate financial sector activities to social objectives with instruments that could create risks to financial stability. Main features of the law include: (i) provisions to regulate lending rates and set minimum lending quotas for the productive sector and social housing; (ii) discretion to set floors on deposit rates; and (iii) mechanisms to enhance consumer protection and financial access in rural areas.

Executive Board Assessment[2]

Executive Directors welcomed Bolivia's strong economic performance in 2013, which saw higher economic growth, strong fiscal and external positions, and improved standards of living. They noted that the near-term outlook is favorable, but encouraged the authorities to address some vulnerabilities and improve the policy frameworks.

Directors agreed that a neutral macroeconomic policy stance is appropriate for the period ahead in view of the favorable growth outlook and the closed output gap. Accordingly, they encouraged the authorities to avoid a pro-cyclical fiscal stimulus and save budgetary resources to respond to adverse external shocks. More broadly, Directors stressed the need to improve the non-hydrocarbon fiscal balance to secure medium-term sustainability. Measures could include better targeting fuel subsidies, enhancing the efficiency of public investment and social transfers, and implementing tax administration reforms. Taking note of the authorities' plans, Directors also encouraged the adoption of a medium-term fiscal framework to manage resource wealth, balancing intergenerational equity against immediate development needs.

Directors commended the authorities' response to the rise in inflation in mid-2013. They generally agreed that further monetary tightening could be needed if second-round effects prove persistent. Directors noted that continued reliance on market-based allocation of financial resources is important and recommended that central bank lending to public enterprises be discontinued. They considered that a savings fund established in line with international best

[2] 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.

practices could help channel such lending. Directors generally saw merit in gradually allowing greater exchange rate flexibility to help absorb external shocks.

Directors took note of the sound state of Bolivia's financial sector but stressed the need to continue to strengthen supervision. While recognizing the social objectives of the new Financial Services Law, Directors considered that less distortionary instruments to promote financial inclusion could be employed. Directors welcomed Bolivia's strengthened framework against money laundering and terrorist financing and urged its implementation.

Directors commended the authorities' progress in reducing poverty. They called for continued efforts to address longstanding social challenges, which could be grounded in a comprehensive evaluation of existing programs. They also noted that the changing world hydrocarbon market calls for broadening the economic base and raising productivity to sustain strong growth. In this regard, Directors emphasized the importance of improving the business climate, including by creating a predictable legal framework, to promote private sector activity. Greater investment in infrastructure and human capital will also be critical.

Bolivia: Selected Economic Indicators

					Projection	
	2009	2010	2011	2012	2013	2014
	(Annual percentage changes)					
Income and prices						
Real GDP	3.4	4.1	5.2	5.2	6.7	5.4
GDP deflator	-2.4	8.8	14.6	6.9	2.5	6.0
CPI inflation (period average)	3.3	2.5	9.9	4.5	5.7	6.8
CPI inflation (end-of-period)	0.3	7.2	6.9	4.5	6.5	5.5
	(In percent of GDP)					
Combined public sector						
Revenues and grants	35.8	33.2	36.2	37.9	38.6	37.3
Of which: Hydrocarbon related revenue	11.3	10.2	11.4	13.0	13.1	12.2
Expenditure	35.8	31.5	35.4	36.1	38.0	37.7
Overall balance	0.0	1.7	0.8	1.8	0.6	-0.4
Total gross public debt	40.0	38.5	34.7	33.4	32.5	29.7
External sector						
Current account	4.3	3.9	0.3	7.8	4.0	3.1
Merchandise export	28.4	32.4	34.7	41.3	39.1	38.2
Of which: Natural gas	11.3	14.1	16.1	20.1	18.4	16.7
Merchandise imports	26.0	28.3	32.9	30.4	31.0	31.7
Gross international reserves						
In millions of U.S. dollars	8,580	9,730	12,019	13,927	14,534	16,089
In percent of broad money	79.8	80.0	83.0	80.0	71.3	68.0
	(Changes in percent of broad money at the beginning of the period)					
Money and credit						
NFA of the banking system	18.8	8.2	14.7	13.5	16.2	10.8
NDA of the banking system	6.7	1.4	1.6	4.4	1.0	5.1
Of which: Credit to the private sector (in percent of GDP)	34.0	36.0	36.8	39.0	42.1	42.5
Broad money	19.7	12.5	17.7	20.2	17.2	15.9
Interest rates (percent, end-of-period)						
Deposits in local currency	2.1	0.9	1.7	1.2	…	…
Loans in local currency	9.1	10.4	10.8	10.6	…	…

Sources: National authorities and IMF Staff calculations.

Statement by Sergio Chodos, Alternate Executive Director for Bolivia and Victor Hugo De la Barra, Senior Advisor January 27, 2014

Background

During the past eight years, including the period of international crisis, the Plurinational State of Bolivia has consolidated macroeconomic stability and it has grown at an average rate of 5 percent. The ongoing reform process is based on the implementation of the so-called Bolivian economic, social, productive and communitarian model in which the state plays a leading role. In this model the macroeconomic stability is fundamental to achieve economic development with income redistribution and industrialization of natural resources.

The authorities regret that the staff throughout the report does not give enough merit to the industrialization and economic policies aimed at achieving a higher level of growth in Bolivia, attributing growth in recent years to the external context only.

Economic Overview

In 2013, Bolivia reached the highest growth of the past three decades, as well as a substantial improvement in the standard of living of the population, thanks to the successful social programs aimed at reducing inequality in the income distribution. This growth rate was mainly driven by domestic demand.

Hydrocarbons and manufacturing—in similar magnitude—led the dynamism of the economy, followed by financial services and transport. Figures from the National Institute of Statistics (INE) show that as of the third quarter of 2013 the cumulative growth was 6.7 percent of which 96 percent was domestic demand driven. The authorities believe that the staff is overstating the importance of the risk coming from Bolivia's ties with Brazil and Argentina, which are quite obvious due to the historical integration and their regional and global weight. In addition, according to growth projections for Brazil and Argentina included in the WEO, this risk is limited even in the medium term. On the other hand, it would have been more useful if the staff analyzed the process that the Plurinational State of Bolivia went through to reduce its external vulnerability and the role of the industrialization and economic policies implemented in the last eight years. The authorities commented extensively on the robustness of the risk estimates by the staff.

Macroeconomic stability is reflected in a set of indicators such as: sustained surpluses in the fiscal and external accounts, the dynamism of economic activity, stable prices, and high levels of international reserves and stability of the financial system, among others. These indicators are positive and are associated with the economic stability in the last eight years. Therefore; the authorities disagree with the assessment that the resilience of the economy was supported mainly by commodity prices given that their boom began much earlier than 2006 and had a short duration. The authorities reiterate that it is important to strike the right balance at the time of assessing the importance of commodity prices in the Bolivian economic performance.

Macroeconomic policy has succeeded in isolating the country from the effects of international crises since substantial buffers have been built to deal with any external shocks, which have provided sufficient confidence to economic agents. These, along with the orientation towards a greater role of the state in the economy, have enabled sustained growth, greater potential output and substantial improvements in the quality of life of the population, thus unemployment has been declining every year. In 2013 the unemployment rate was 3.2 percent while in 2006 it was 8 percent.

Fiscal Policy

Control over current spending has been crucial, as well as the use of fiscal space to increase capital spending. The electoral process of the year 2014 will have no impact on fiscal sustainability, taking into account that in elections and referendums carried out between 2006 and 2012, fiscal revenue was always higher than expenditure, reflecting the authorities' commitment to fiscal discipline. In 2013 the fiscal stance ended up once more with a surplus of 0.1 percent of GDP.

Capital spending accelerated significantly contributing to the remarkable growth in 2013. Economic development relies on a steady expansion of public investment as Bolivia requires expanding its infrastructure and moving forward in the process of industrialization of its raw materials for economic diversification. In 2012 public investment amounted to $2,897 million while in 2013 the execution of the public investment budget will be greater, as numbers show a level of $ 2,854 million as of November. Tax revenue has been strengthened in recent years with measures that allow increasing the scope of the tax base, improving the efficiency of tax administration, combating tax fraud and imposing new sanctions for non-compliance with tax obligations.

The staff has expressed worries about the non-hydrocarbon fiscal deficit. In response, it is necessary to mention that in recent years the authorities have established a range of policies in order to diversify the economy towards other extractive and non-extractive sectors, the positive results of which have been levied in the short and medium term. The scope of public investment is broad and not only addressed in the hydrocarbon sector. In addition, it is necessary to reiterate the remarkable levels of protection in public savings, international investment position, and international reserves which reached nearly 50 percent of GDP, standing out as the highest in the region.

Fiscal policy may have a more active role to the extent that economic activity may have difficulties going forward as a result of new shocks, whether external or internal. In addition, the considerable withdrawal of liquidity by the Central Bank of Bolivia (BCB) gives margin to monetary impulse if necessary.

The authorities are aware of the need for greater investment in oil exploration; therefore, the State oil company (YPFB) is implementing an ambitious plan of investment, with particular emphasis on exploration which, as we all know, takes time. In addition to investments made in 2013 that enabled the company to increase gas reserves for about 3 trillion cubic feet, YPFB aims to sign 18 new contracts for exploration in a time span of 10 years, which could imply increasing gas reserves up to 18 trillion cubic feet.

The staff has recommended abandoning the direct financing of the BCB to public enterprises under the argument of possible quasi fiscal losses. However, such financing is an important contribution to the process of industrialization and expansion of the output base. In addition, risks are limited and manageable since the financed projects have financial, economic and social high-yield. As a matter of example, the BCB is financing the construction of a urea and ammonia plant which will become operational in 2015 and will produce 432,000 and 756,000 metric tons of urea and ammonia respectively. It should be emphasized that the BCB has lent to strategic pubic enterprises which not only represent interest income but mainly more efficient use of national resources as opposed to financial investment. Taking into account recommendations from the staff, the authorities would appreciate a working paper to discuss the accounting treatment of the resources set aside to be lent to public corporations which are currently managed by the BCB as part of its balance sheet.

The authorities do not concur that there is absence of a framework that specifies the establishment and functioning of the Fund for Productive and Industrial Revolution (FINPRO) in a transparent manner, which would lead to a "mismanagement of funds". FINPRO has been regulated by Supreme Decree No. 1367 and its resources are managed through a trust which guarantees their preservation. Each project it finances must be approved by supreme decree.

Since 2006 the BCB counts on a short-term planning instrument: the Fiscal-Financial Program, which is agreed annually between the Ministry of Economy and Public Finance (MEFP) and the BCB, for establishing macroeconomic targets which have been satisfactorily achieved since then. In the same way, a medium-term fiscal framework is under preparation in accordance with the constitutional mandate for economic planning.

With regard to the setup of savings and/or stabilization funds, these are already considered within the Autonomy and Decentralization Law framework. In the meantime, the results of the budget execution of the sub-national governments (municipalities and governorates) and universities have also produced surpluses in recent years, which for practical purposes are fiscal savings.

The Plurinational State of Bolivia enjoys a greater capacity for public indebtedness because it has reached a sustainable level of external debt, which is not at risk even though the exploration for new oil and gas deposits would not lead to increases in gas reserves in the short term. External public debt represents only 14 percent of GDP and is among the lowest levels in the region, standing below the maximum limits recommended by international organizations. It is also necessary to point out that the placement of public debt is up to a 50-year maturity as few countries do, which ratifies the confidence of the Bolivian private sector in the economic stability of the country.

Monetary Policy

Since the fourth quarter of 2012, the BCB has gradually reduced the liquidity of the financial system by increasing the supply and the placement of monetary regulation instruments, allowing moderated increases in interest rates. Gradualism in these operations was in accordance with a context of slowing global growth (especially in Bolivia's trading partners), minor external inflationary pressures, but risk of internal inflation which, however, did not justify more restrictive policies. These gradual increases in rates preserved the dynamism of economic activity.

Inflationary pressures appeared in August 2013 because of rising prices of three products of the food basket, meaning that such pressures did not arise from a monetary impulse but from a transitory supply shock. Those increases were caused by adverse weather conditions (frost and drought), and disruption in commercialization channels and speculation. The authorities reacted quickly to solve the problem of supply, normalize the flow of those products and reverse the situation in the last two months of the year.

The response of the BCB through liquidity management has been suitable as the results show. By the end of 2013 monetary conditions tightened preventing second-round effects from inflationary pressures in August and September. The pace of open market operations accelerated and two new highly effective mechanisms were implemented to rapidly withdraw liquidity: i) the direct placement of BCB's deposit certificates to pension funds and ii) supplementary reserve requirement to financial intermediaries. In addition, the base of foreign-currency denominated deposits subject to reserve requirements was expanded while the prudential limits on consumer credit were raised.

It is inappropriate to associate second-round effects from the supply shock in August to liquidity conditions in early 2013. According to the staff report, inflation in the first seven months was kept at low levels. Moreover, inflation trend indicators remained stable and core inflation did not reach 4.9 percent yoy in any month of 2013, as the staff argues. On the contrary, core inflation ended up at 4.1 percent, lower than 2012's (4.8 percent).

The recommendation to move to greater exchange rate flexibility has been present in Article IV reports in recent years. The authorities emphasize that exchange rate policy is adequate in light of the high volatility observed in international monetary and exchange markets. The Plurinational State of Bolivia continues to apply successfully measures to de-dollarize its economy. The exchange-rate policy allows sufficient flexibility to respond to changes in the international context and—as the staff also points out—there is no misalignment of the real exchange rate. A retrospective study on the hypothetical implementation of a more or full flexible exchange rate policy in a context of high exchange rate volatility in the region between 2008 and 2010 would be appreciated by the authorities, as well as its impact on the process of de-dollarization.

Financial Services Law

The recently enacted Financial Services Law (FSL) goes beyond the macro-prudential recommendations set out by Basel II and Basel III. This law aims to democratize access to credit through the use of affordable guarantees to the population, generate better conditions for savings, protect the consumer who uses financial services, strengthen supervision to the financial system and promote operations of state banks, among other aspects.

The staff report magnifies the risks to financial stability that this law would entail arguing about the introduction of distortions in the allocation of resources, negative effects on the profitability of financial institutions, exposure to additional risks and granting broader powers to the government, which would cause regulatory uncertainty. A more rigorous analysis is required to back up these statements given that several provisions embodied in this law were already being applied before the FSL, enacting without creating additional risk to the financial system. For example, the termination of contracts without penalty and the prepayment are provisions that were already approved in previous laws. In addition, regulations of FSL were worked out alongside financial institutions' staff, who did not express concern, as the staff does.

The diagnosis made by the staff is orthodox with a strong position leaning towards financial liberalization which would be at the expense of financial inclusion and the need for financial institutions to endorse social and output- oriented goals. Financial markets are imperfect and present asymmetries of information that impel government intervention to make financial activities more efficient. This opinion is internationally growing consensus, especially after the latest international financial crisis generated by an excessive financial deregulation. Conversely to the staff's position, this law preserves the stability of the financial system through measures such as greater capital requirements, particularly in boom periods. The regulation of interest rates included in the FSL does not cover all rates, but only those negotiated in loans for social housing and manufacturing.

The staff mentioned that this law would entail complications to the conduct of monetary policy; however, it must be clarified that the main legislative body of the financial system will be the Financial Stability Council (composed by the President of the BCB, the Executive Director of the Authority's for Financial Supervision (ASFI) and the Minister of Economy and Finance). Within this Council the objectives of monetary policy will be harmonized with the provisions of the FSL. We are of the view that analysis of the FSL should have been done in the Article IV report of the following year, once all regulations and the immediate effects of its implementation are available.

Structural Reforms, Uncertainty and Poverty Reduction

There is no uncertainty for private investment given that some reforming legislation is under preparation. The country has an Investment Law in place which was approved in September 1990. In addition, in 2009 the Constitution approved mandates protection for private property and fair rules for private investment. A draft to reform such law in accordance with the Constitution's provisions was elaborated in consensus with the private sector representatives and sent to the Legislative Assembly. To counterargument the existence of uncertainty it is worth mentioning that foreign direct investment went from \$ 1,060 million in 2012 to \$ 1,366 million as of September 2013.

It should be clear that the Government of Bolivia—in the process of nationalization of strategic companies that were privatized in the past—has not expropriated any privately-owned capital but compensated fairly to investors, after a process of assessment and negotiation. Some of these processes have needed more time than others.

The process of reforming the legal framework for extractive sectors involves achieving the necessary consensus to ensure sustainability. The Law of Public Enterprises to reform and modernize the regulatory framework for these types of companies has recently been approved.

On social policies, the authorities maintain their commitment to improve the living conditions for the population through building basic infrastructure (water, sanitation, and roads) as well as increasing public expenditure to provide better education and health services. Key to that end, and also to reduce poverty, is the program of conditional cash-transfers to keep elementary school students on track and to entice pregnant women to attend regular pre-natal and pediatric checkups. The non-conditional cash transfer for the elderly will also continue as a universal retirement pension in addition to the benefits for the affiliates to the pension system. These programs aim to enhance domestic demand. As a result of such policies, extreme poverty has been reduced from 38.2 percent in 2005 to 21.6 percent in 2012. The authorities are still not comfortable with the prevalent level of poverty and intend to reduce it further by expanding the social safety net and improving access to basic infrastructure across the country.