

# A New Day for Bolivia: The Anatomy of a Crisis and the Options Ahead

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## Abstract

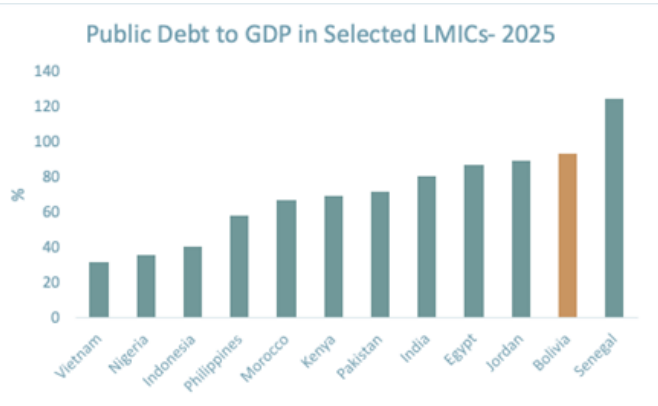
When Rodrigo Paz assumed office in November 2025, he declared an “Economic, Financial, Energy, and Social Emergency.” Bolivia’s total debt stood alarmingly high at 95%, liquid reserves stood below one month of imports, and the country had run persistent current account deficits since the commodity collapse of 2014. It lacked the foreign exchange, and the path to generating foreign exchange, needed to meet its \$1.6 billion (2.8% of GDP) in external debt payments through 2026 and its \$12 billion in debt payments through 2030.

*This paper analyzes Bolivia’s twin fiscal and external crisis. It reviews how the crisis emerged, the stabilization agenda of the Paz government thus far, and what more is needed. It raises concerns that the government’s reform commitment has weakened. Conducting a Debt Sustainability Analysis, it demonstrates that Bolivia must enact a fiscal and external adjustment, alongside a five-year reprofiling its bilateral and private external debt, to stabilize debt and restore growth. The paper also calls attention to challenges facing the future of Bolivia’s growth – idiosyncratic headwinds for the hydrocarbon and lithium sectors – and encourages renewed multilateral investment in the strong but underappreciated agricultural sector. Lastly, it draws attention to the deterioration of the Bolivian Central Bank’s balance sheet, as a result of loans to non-performing SOEs and the opaque use of gold derivatives, and advocates a review of reserve management policies and a fiscal recapitalization.*

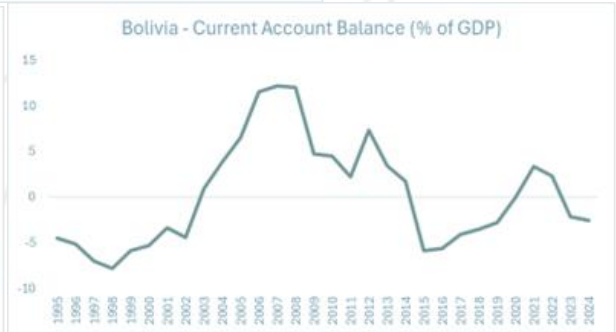
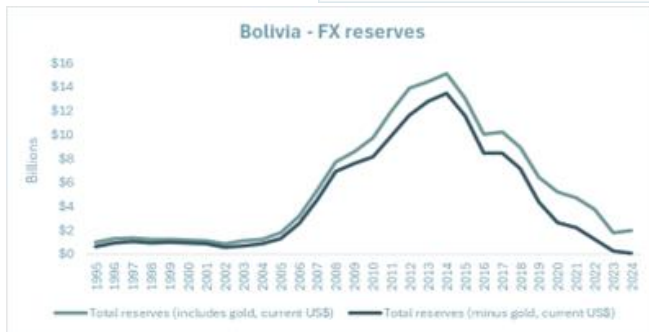
# Dashboard

Bolivia's 94% debt-to-GDP is very high relative to lower-middle-income peers, second only to Senegal.

Category	USD (Millions)	BOB (Millions)	% of Total	% of GDP
<b>Total Public Debt</b>	<b>\$46,551</b>	<b>BOB 321,668</b>	<b>100%</b>	<b>94%</b>
<b>External Debt (PPG)</b>	<b>\$13,420</b>	<b>BOB 92,733</b>	<b>29%</b>	<b>27%</b>
<b>Multilateral (of which):</b>	<b>\$9,345</b>	<b>BOB 64,575</b>	<b>20%</b>	<b>19%</b>
World Bank	\$1,626	BOB 11,234	3%	3%
Inter-American Dev. Bank	\$4,288	BOB 29,629	9%	9%
Corporacion Andina de Fomento	\$2,693	BOB 18,610	6%	5%
Other Multilateral	\$738	BOB 5,102	2%	1%
<b>Bilateral (of which):</b>	<b>\$2,160</b>	<b>BOB 14,928</b>	<b>5%</b>	<b>4%</b>
China	\$1,287	BOB 8,892	3%	3%
France	\$646	BOB 4,466	1%	1%
Other Bilateral	\$227	BOB 1,570	0%	0%
<b>Private (of which):</b>	<b>\$1,915</b>	<b>BOB 13,232</b>	<b>4%</b>	<b>4%</b>
Bank Loans	\$64	BOB 444	0%	0%
Bonds	\$1,850	BOB 12,784	4%	4%
Other Private	\$1	BOB 5	0%	0%
<b>Domestic Debt (GG)</b>	<b>\$33,131</b>	<b>BOB 228,934</b>	<b>71%</b>	<b>67%</b>
<b>Private Sector</b>	<b>\$2,876</b>	<b>BOB 19,874</b>	<b>6%</b>	<b>6%</b>
<b>Pension Funds</b>	<b>\$7,970</b>	<b>BOB 55,074</b>	<b>17%</b>	<b>16%</b>
<b>Central Bank</b>	<b>\$22,284</b>	<b>BOB 153,986</b>	<b>48%</b>	<b>45%</b>



It faces high external debt service payments through 2028. Having depleted reserves and run current account deficits for most of the past decade, it lacks the foreign exchange to meet these repayments.



With multilaterals already accounting for a halting 69.5% of Bolivia's external debt, the rigidity risk of having the IFIs refinance Bolivia is too high. Reforms and reprofiling are needed.



Source: Authors computation based on Local authorities, World Bank and IMF data.

## Introduction

**Upon taking office in November 2025, Bolivian President Rodrigo Paz declared an “Economic, Financial, Energy, and Social Emergency.”** A centrist senator who was considered a long shot for the presidency, Paz had been elected on a decisive mandate to turn the country around after nearly two decades of rule by the Movement for Socialism (MAS) – first under Evo Morales (2006-2019) and then under Luis Arce (2019-2025). To do so will be difficult.

**External debt is relatively low (27% of GDP), yet total debt levels are exceptionally high (95% of GDP) and liquid reserves stand below one month of imports.** Bolivia thus faces a classic, twin fiscal and external crisis. It must make \$1.6 billion (2.8% of GDP) in external debt service payments through 2026 and \$12 billion through 2030. Liquid foreign-exchange reserves stood at just \$73 million when Paz took office and the country has run nearly persistent current account deficits since the commodity collapse of 2014. As a result, Bolivia has no way to meet its obligations cleanly.

**Reported liquid reserves have since risen to \$460 million – through frontloaded financing from CAF and the unsustainable use of gold derivatives, which create an opaque future liability for the central bank.** This allowed Bolivia to meet its \$388 million interest bill on its 2028 and 2030 bonds in March 2026. Yet Bolivia continues to lack its own foreign exchange, and it has no path back to generating it. How Bolivia will stay current on \$12 billion in external obligations over the next five years remains a difficult question.

**So far, Paz’s agenda has relied on three concrete objectives:** consolidating fiscal policy, attracting investment to rehabilitate growth, and securing new financing packages from regional multilateral development banks. The government made early gestures toward exchange-rate flexibility and reserve management reform, but no action has been taken.

**On the fiscal side, the government has pledged to cut spending by 30%,** which would bring the general government primary deficit down from 5.3% of GDP to a more manageable 2.9% of GDP. Paz’s first step to do so was to eliminate fuel subsidies. His second step will be to put forward a new budget, although this has not yet occurred. Delays in the fiscal adjustment naturally exacerbate fiscal pressures.

**To stimulate growth, the government has signaled its intentions of attracting foreign investment to the hydrocarbon and lithium sectors.** However, the hydrocarbon sector has a difficult road ahead: Bolivia’s gas reserves are nearly depleted, significant upstream investment in exploration and development is now needed, and Bolivia faces stiff regional competition from the countries to which it once exported. The road ahead for lithium is more difficult still. The chemical profile of Bolivia’s salt flats complicates the extraction and refining of lithium, posing a problem that investors and miners can avoid by looking to Chile or Argentina. For all the attention to Bolivia’s vast lithium reserves – the world’s largest – the country exported just \$19 million worth of lithium last year.

**To provide immediate liquidity to facilitate the stabilization agenda and bolster the growth agenda,** Paz has also received a \$3.1 billion program over five years from CAF and a \$4.5 billion package over three years from IDB. Securing early, substantial support from the multilaterals has had the most material impact on Bolivia in recent months. However, the effect of these packages should not be overstated: Bolivia had large liabilities to CAF and IDB prior to Paz’s elections, and a primary function of the new financing will be to repay the multilaterals themselves.

**The question facing Bolivia now is whether all this will be enough to keep it current on its external obligations and rehabilitate growth – or whether deeper action will be needed.** To answer this, this paper analyzes the dynamics of the crisis today and assesses the government’s stabilization agenda. It constructs a Debt Sustainability Analysis to test a range of reforms and debt treatment scenarios.

**We find that the reform agenda thus far is insufficient.** While Bolivia has made progress on its fiscal adjustment, an external adjustment is sorely needed to rebuild reserves and work towards a current account surplus. Alongside the fiscal and external adjustment, we find the most credible path to stabilizing debt is a five-year reprofiling of bilateral and private external debt.

Our assessment of the large financing needs and regional competition facing the hydrocarbon sector, along with the unfortunate physical headwinds for the lithium sector, also indicates that the government has more work to do to identify a new growth model. **We encourage investments in Bolivia’s strong and underappreciated agricultural sector.**

**Lastly, while up-to-date data are lacking, our analysis indicates the Bolivian Central Bank is currently insolvent.** The fall in foreign-exchange reserves and rise in gold liabilities have squeezed the central bank’s balance sheet. A proper marking of the central bank’s loans to public sector institutions, of which 95% are unprofitable and 20.5% are insolvent, will push the central bank into negative equity. Insolvent central banks in lower middle-income countries are at risk of turning to forced money creation and exacerbating inflation to stay current on their liabilities, driving residents out of the currency. The large exchange-rate gap between the official and parallel rates indicates the Bolivian Central Bank has already crossed this tipping point. An overhaul of the Bolivian Central Bank’s reserve management policies, particularly with respect to the use of gold derivatives and an accounting of monetary financing, are needed. A fiscal recapitalization of the Bolivian Central Bank is likely required as part of an IMF program.

**The essential challenge for Bolivia is that while President Paz’s commitments to reform and stabilization are strong and credible, any agenda will take time and need space to bear fruit.** A duration mismatch thus looms over the new government’s plans: Paz is likely to succeed, but not on a timeline compatible with Bolivia’s repayment schedule. Failing to implement necessary reforms and resisting reprofiling would leave Bolivia on an unsustainable debt path and force it into increasingly unsustainable policies to stay current on its obligations.

**We find that Bolivia’s external debt position falls into the IMF’s “gray zone” category for Exceptional Access programs, which the Fund defines as when debt is “sustainable but not with high probability.”** Since 2016, IMF policy has nominally been that countries should reprofile to secure Exceptional Access when debt is in the gray zone. The IMF has shied from enforcing this policy, but it should hold Bolivia to it. Our Debt Sustainability Analysis shows that a program without a reprofiling would do more harm than good for Bolivia.

**We analyze the three potential paths forward for Bolivia and demonstrate the optimality of Option 1, which might conventionally be known as a “Three Pillar Approach”.**

## Option 1: The Three Pillar Approach

### *A fiscal and external adjustment, multilateral financing, and a five-year reprofiling of the bilateral and private external debt*

- **A fiscal adjustment through a 30% cut in public spending.** Following the elimination of the fuel subsidy (10% cut to expenditures), the government should target SOE payrolls and operating costs – which will bring the primary deficit down to 2.9%.
  - We do not envision the fiscal adjustment to play out through an increase in revenues in the near-term, given high rates of informality in the Bolivian economy, although we encourage efforts to widen the Bolivian tax base.
  - Social spending and capital expenditure should be improved, but significant cuts are not arithmetically necessary. Capital expenditure is on par with peers and should be maintained to support public investment in growth areas.
- **The external adjustment requires a 32.5% devaluation,** as well as an overhaul of reserve management policies to strike the 22-ton gold holding requirement and discontinue the use of gold derivatives to pad reserves.
  - Our analysis suggests the Bolivian Central Bank is insolvent. A fiscal recapitalization of the central bank as part of an IMF program is necessary.
- **Multilaterals.** CAF's \$3.1 billion, 5-year package and IDB's \$4.5 billion, 3-year package would be complemented by new IBRD financing and a \$3.3 billion EFF from the IMF.
  - An external adjustment should be a prior action of the EFF.
- **A five-year reprofiling** of Bolivia's bilateral and private creditor external debt would represent a total of approximately USD 4bn in hard currency savings.
  - Public debt would peak in 2026 and decline steadily, reaching 93% of GDP by 2030. The reprofiling would provide significant liquidity relief: gross financing needs would decline from 19.4% to 18.4% of GDP.
  - Debt service relative to revenues would increase to 67% by 2030, compared to 83% in a scenario with reforms but not reprofiling. Similarly, interest payments would rise to 13.9% of revenues, compared to 16.4% without reprofiling.

**While this Three Pillar Approach is the most credible path, it is not the one that the government has been tending towards in recent weeks.** Despite early commitments to a strong reform agenda, the government has delayed the fiscal adjustment, resisted the external adjustment, and continued experimenting with inadvisable liability-management options – namely, gold derivatives and a proposed debt exchange that would coerce public-sector holders of foreign-currency bonds into local-currency bonds. A watered-down version of the original reform agenda is understandable. Devaluations are difficult and have short-term inflationary effects, which will compound the pressures of fuel subsidy reform that the public is already grappling with. It is also unclear how a devaluation may affect Bolivia's partially dollarized banking system. The reasons for resisting a reprofiling are also

familiar: it will likely be difficult to engage with bondholders, and it will certainly be difficult to engage with China, the largest bilateral creditor.

**Bolivia's Option 2 thus involves some reforms and some creative tactics to stay current on debt service:**

#### Option 2: Some Reforms, Some Playing of the System

***A fiscal adjustment, no external adjustment, no debt treatment, more IFI financing, and a swap of public sector holdings of foreign-currency bonds into new local-currency notes***

- **The fiscal adjustment goes forward**, but Bolivia avoids devaluing due to fears of inflationary effects and financial instability.
- An IMF program would likely require a devaluation, but **there is a possibility that Bolivia may be granted an EFF** without a requirement for an external adjustment. Such a program would provide near-term relief, but there is no credible path to rebuilding reserves and developing a current account surplus absent an adjustment.
- **To bolster reserves without conducting an external adjustment**, Bolivia would swap public institutions' holdings of foreign-currency bonds into local-currency notes, lean more heavily on gold derivatives, and frontload financing from MDBs.
  - Compelling the central bank and pension fund to swap 67% of the 2028 and 2030 bonds for local currency notes enables Bolivia to conserve reserves, but it also weighs on their asset books – exacerbating the central bank's insolvency and creating unclear complications for the future of the pension fund.
  - Gold derivatives provide immediate liquidity, but create an opaque liability for the Bolivian Central Bank, pushing the central bank further into insolvency.
  - Refinancing bilateral and private external debt with multilateral debt can keep Bolivia current on its debt service, but it creates significant "rigidity risk" for Bolivia's debt stock. MDBs currently account for 70% of external debt.
- **The fiscal adjustment**, frontloaded IFI financing, the debt exchange, and further use of gold reserves enables Bolivia to forgo a debt reprofiling in the near-term.
  - However, we project that Bolivia will remain incapable of rebuilding reserves within 2030 absent a devaluation and debt treatment.
  - In this scenario, Bolivia would require unsustainable reserve management tactics and a vicious cycle of more unrestricturable MDB debt to stay current on debt service.
  - Our DSA indicates a fiscal adjustment without an external adjustment, and a successful (if inadvisable) debt exchange, would lead to a public debt trajectory that increases to 94% of GDP in 2030. Debt service and interest to revenue would reach 75% and 18.6% in 2030. Gross financing needs reach 20.2% in 2030.

**A core component of Option 2 is that the multilateral sector goes along with it and allows financing to move forward without high-quality reforms.** This would be a mistake. Our analysis suggests no

credible path for Bolivia to rebuild reserves and generate current account surpluses without the external adjustment that the Bolivian government has thus far avoided. If the IMF lends without requiring an external adjustment, it risks turning Bolivia into a recidivist borrower. An IMF program should include exchange-rate unification as a prior action, and other MDBs should hold off on providing new financing until there is greater commitment around the reform agenda and the IMF program. The risk that the government declares a preemptive victory, abandons necessary reforms, and conducts policies that exacerbate macro-fiscal pressures is high. Option 2 can only move forward if the multilaterals provide Bolivia the cash it needs in the short term. They should not do this.

**A third option explores a “no reform scenario” in which the fiscal adjustment fails to move forward, there is no external adjustment, and the multilaterals rightly refuse to fill the gap.** The purpose of examining this scenario is to highlight the very real risks that Bolivia now faces. These risks may be overlooked in some corners because Bolivia’s 2028 and 2030 bonds trade at 93 and 94 cents on the dollar, which suggests to some that Bolivia can return to the market with ease and that a high-quality reform agenda is unnecessary. This is not the case. The current prices of Bolivia’s bonds partially reflect bondholders’ expectations of repayment, which is understandable given the volume of IFI financing coming in and the availability of gold derivatives to generate cash. Bolivia’s bond prices also partially reflect that 50% of the 2028 and 2030 bonds are held by the central bank and 17% by the pension fund: i.e., prices are high because Bolivia’s public institutions bought and won’t sell. Yet bond prices *do not* reflect fresh demand or the ability to return to capital markets without reforms. As a result, the final “no reform scenario” is disconcerting. It leaves Bolivia without reserves and on an unsustainable debt path that crosses 99% of GDP by 2030, with no prospects for stabilization.

#### Option 3: The “No Reform Scenario”

##### ***A partial fiscal adjustment, no external adjustment, no new IFI financing, and no debt treatment***

- **This scenario assumes the government continues to not put forward a new budget,** making no further progress on the fiscal adjustment. The fiscal consolidation is thus only 10%.
- **This scenario assumes that the government continues to put off exchange-rate unification,** accelerating the use of gold derivatives as reserves are depleted and maintaining pressure on the current account. The Bolivian Central Bank would slide further into insolvency and the exchange-rate gap would widen.
- **To conserve reserves, Bolivia would conduct the proposed debt exchange.** As noted, this would add to balance sheet pressures on the Bolivian Central Bank and pension fund.
- **This scenario assumes no IMF program and no new MDB financing.** The CAF and IDB packages would primarily refinance prior loans, providing limited further support.
- **Bolivia would not conduct a debt treatment.** Our DSA finds that this scenario – a 10% fiscal consolidation, no external adjustment, a debt exchange, and no debt treatment – leaves Bolivia without reserves and on an unsustainable debt path that surpasses 99% of GDP by 2030. Debt service and interest to revenue would reach 84.8% and 16.4% in 2030. Gross financing needs reach 23.8% in 2030.

**There is a narrower scenario** – which bears much in common with Option 2 – which we cover in the DSA section of this paper but do not highlight here or consider to be likely. This is the prospect that Bolivia becomes a candidate for an IFI-led refinancing, which has become a popular agenda item among certain policymakers and members of the civil society community. Such a refinancing would presumably entail some reforms (perhaps just a fiscal adjustment, as in Option 2, or both a fiscal and an external adjustment, as we consider), but falls short of a debt treatment. Our DSA demonstrates that a fiscal and external adjustment that lacks a reprofiling leaves Bolivia on an unsustainable debt path. Debt service to revenue would be projected to rise from 56% to 83% between 2025 and 2030, while interest payments to revenues would increase from 9% to 16%. An equally pressing concern that should moot the possibility of an IFI-led refinancing, debt buyback, or anything of this sort is rigidity risk. MDBs already account for 70% of Bolivia’s external debt, well in excess of the 60% “danger zone” for unrestricturable debt. Replacing restricturable bilateral and private external debt with more unrestricturable MDB and IMF debt is inadvisable for Bolivia, even if it may be useful for other countries with otherwise similar debt pressures.

**The remainder of this paper proceeds as follows.** The first section analyzes the emergence and dynamics of Bolivia’s crisis. The second section discusses Paz’s stabilization agenda – what he has done so far and what more is needed. The third section discusses the findings and implications of our Debt Sustainability Analysis.

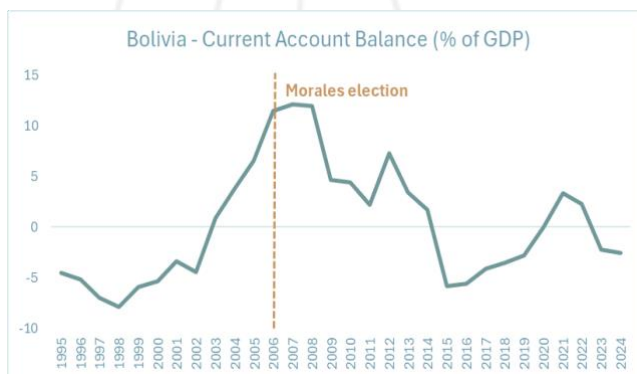
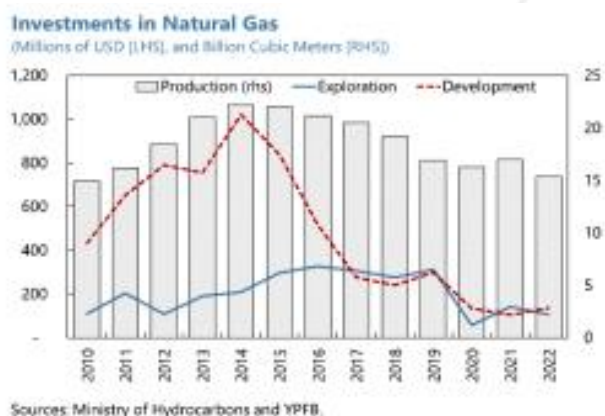
# 1. The Anatomy of a Crisis

**The situation Paz inherited was one of pronounced and persistent fiscal and current account deficits, as well as the depletion of Bolivia's official reserves.** Bolivia's key export sectors, and thus its sources of growth and foreign-exchange earnings, had been badly weakened. President Evo Morales had nationalized Bolivia's hydrocarbon industry on his 100th day in office in 2006, withdrew Bolivia from international arbitration treaties in 2007, and nationalized the country's lithium reserves in 2008. Bolivia has suffered persistent shortfalls in foreign direct investment, well below regional averages, ever since.

**The problems of underinvestment were initially masked** thanks to the coincidental implementation of HIPC debt relief in Morales' first year in office and by the commodity supercycle that spanned much of his early years in office. The multilaterals fortuitously slashed the country's debt-to-GDP from 77% to 37% the year after Morales came to power. As oil prices surged in his first few years in office too, Bolivia's current account surplus more than tripled to \$1.99 billion by 2008, 12% of GDP. The financial crisis of 2008 wobbled Bolivia, but only barely. Oil prices rebounded quickly.

**During this period, dollars flowed into the country, and the Bolivian Central Bank bought them up.** This led official reserves to climb to \$15.1 billion by 2014, but it also led to an expansion in the money supply, which grew by 489% from 2005 to 2014 and brought bouts of inflation.<sup>2</sup> In response, the Bolivian Central Bank established an exchange-rate peg at 6.96 Bolivianos to the dollar to act as a strong inflation anchor.

**However, having failed to diversify its sources of growth during the good years, the commodity collapse of 2014 tipped external and fiscal accounts into deficit in all years except 2021 and 2022.** Bolivia's dwindling hydrocarbon revenues became excessively sought after in the bad years. Gas revenues were used to hoist up a fiscal balance of just 0.4% of GDP, and the country's *non-hydrocarbon* fiscal balance collapsed to -12.1% of GDP. Gas revenues were committed to filling budget holes – not investing in Bolivia's future growth. Investment in gas exploration went into decline, falling by 75% since 2014.

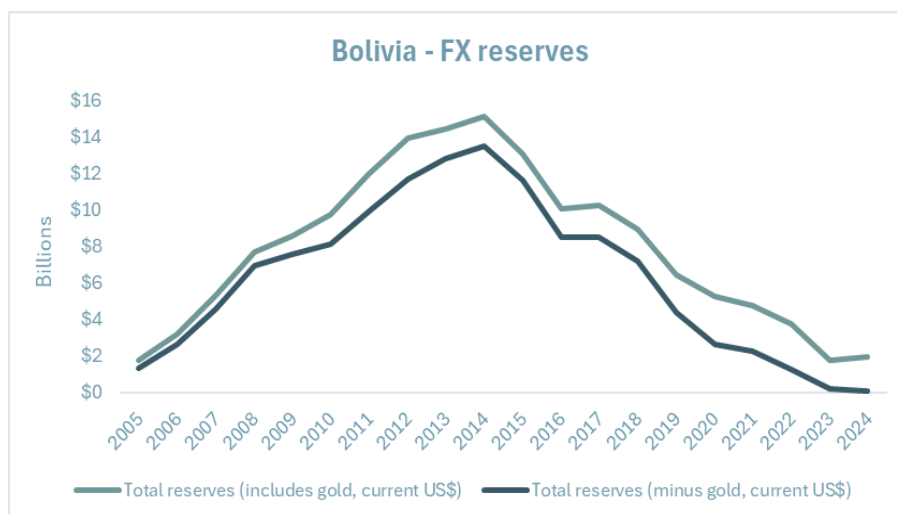


Source: IMF and World Bank

The failure to generate foreign-exchange revenues through commodity exports led to the depletion of Bolivia's foreign-exchange reserves over the same period. The sudden stop caused a problem: the

strong exchange rate established in 2011 weighed on the country's exports, putting further pressure on its current account and draining the central bank of its reserves.

**Official reserves collapsed from their high of \$15.1 billion in 2014 to just \$1 billion in 2023.**<sup>1</sup> At this point, queues to exchange Bolivianos for dollars began to form outside the Bolivian Central Bank and branches of the state-owned Banco Union. Not all demand was met, and a parallel market emerged later that year. The exchange rate gap between the official and unofficial rates blew out to 50% by 2025, and liquid reserves fell to just \$73 million, less than 1 month of import coverage. Although the exchange-rate gap has narrowed to 32.5% in 2026, the high official rate continues to deplete Bolivia's official reserves and put pressure on its balance of payments.<sup>2</sup>



Source: World Bank.

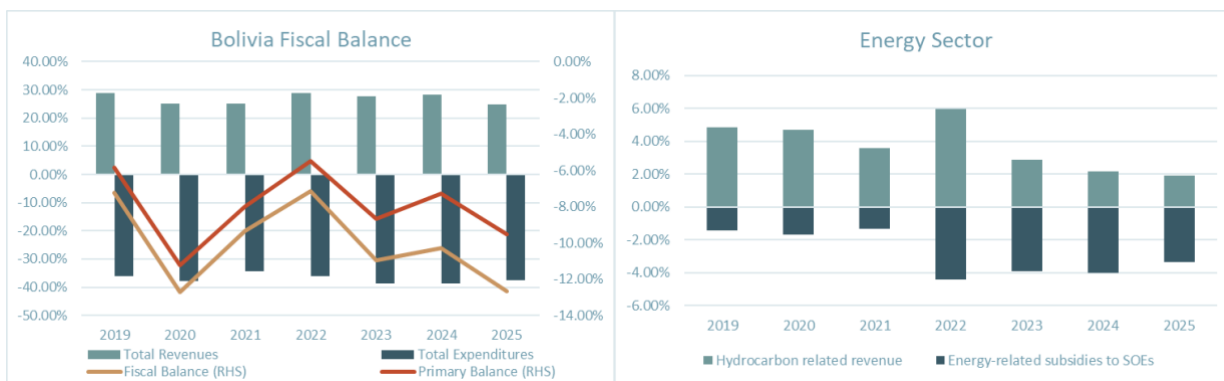
**The depletion of foreign exchange as a result of the exchange-rate policy was compounded by changes in regional energy markets.** At the time of the commodity collapse, Brazil and Argentina were the destination for nearly half of Bolivia's exports. Yet in the decade after the commodity collapse, not only did Bolivia's gas production dry up and Brazil's and Argentina's production surged, the two countries' currencies depreciated significantly against the Boliviano. With Bolivia maintaining its 6.91 peg to the dollar, the Brazilian real depreciated by 61.9% against the Boliviano and the Argentine peso depreciated by 98.7%. This made Bolivia's exports to its key trading partners prohibitively expensive. It also created an exchange-rate wall behind which they could further develop their own oil and gas industries: Brazil and Argentina subsequently began running energy surpluses, raising hard questions about the future of Bolivia's hydrocarbon industry.

**The unraveling of the Bolivian economy after the commodity collapse also had stark fiscal implications, best reflected by the country's -12.3% non-hydrocarbon balance in 2014.** As Bolivia failed to generate other revenue sources, Bolivia began to run persistent fiscal deficits.<sup>3</sup>

<sup>1</sup> World Bank (2024), *Total reserves (includes gold, current US\$) - Bolivia*, World Bank Open Data.

<sup>2</sup> International Monetary Fund (2025), *Bolivia: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bolivia*, IMF Country Report No. 25/29, Washington, D.C.

<sup>3</sup> International Monetary Fund. (2015). *Bolivia: 2015 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bolivia* (IMF Staff Country Report No. 15/334).



Source: IMF article IV (2025, 2024, 2022). The scope is combined public sector. Years 2024 and 2025 are estimated.

**Fiscally, two main problems emerged:** persistently low revenues and large spending commitments, especially around fuel subsidies and state-owned enterprises (SOEs).

**The fuel subsidy had been an essential component of Bolivia's fiscal policy mix since 2004**, when Morales' predecessor issued an executive decree holding that prices above \$27.11 per barrel would not be transferred to end consumers.<sup>4</sup> That policy held through repeated government efforts to remove it. The under-investment in Bolivia's hydrocarbon sector interacted painfully with this policy. In 2022 the lack of investment and persistent decline in Bolivia's gas production led the country to become a net importer of refined petroleum products (gasoline and diesel). As of 2024, it imported 50% of its gas and 86% of its diesel, reselling both in domestic markets below its import prices.<sup>5</sup> Its fuel subsidy policy also compelled its state-owned hydrocarbon company, YPFB, to sell below its own production costs. Direct fiscal costs related to the fuel subsidy soared following the 2022 commodity shock, from \$1.8 billion in that year to \$2.5 billion in 2025, or 3.9% of GDP.<sup>6</sup>

**Over the course of the Morales years, the Bolivian government came to own and operate 67 state-owned enterprises conducting a staggering array of roles.**<sup>7</sup> From 2014 to 2021, the SOEs' collective profits reportedly collapsed by 94%, from \$7.1 billion to \$413 million.<sup>8</sup> The government now reports that 64 of Bolivia's 67 SOEs operate at a loss.<sup>9</sup> As a result, the "SOE dividend" reversed to become a significant drag on the state's resources.

**With these pressures, the IMF expected Bolivia's overall fiscal balance to sink to a record low of -12.7% in 2025, and sink further to -13.2% in 2026.** Its non-hydrocarbon fiscal balance was projected to hit record lows of -16.3% and -16% in 2025 and 2026, further underscoring the country's failure to generate new revenue sources. As a result, public and publicly guaranteed debt stands at 95% of GDP, the worst among all lower-middle income peers besides Senegal.

<sup>4</sup> Medinaceli Monrroy, S. M., & Velázquez Bilbao La Vieja, M. G. (2023). *Hydrocarbon prices and subsidies in Bolivia 1986-2025* (Working Paper No. 05/2023). Institute for Advanced Development Studies (INESAD).

<sup>5</sup> U.S. Department of State. "2025 Investment Climate Statements: Bolivia." September 26, 2025.

<sup>6</sup> International Monetary Fund. 2025. "Bolivia: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bolivia." *IMF Staff Country Reports* 2025.

<sup>7</sup> Riveros, Thomas. "The Rise and Fall of Bolivia's State-Led Growth Model." Cornell University. January 20, 2026.

<sup>8</sup> U.S. Department of State. "2025 Investment Climate Statements: Bolivia." September 26, 2025.

<sup>9</sup> Estremadoiro Flores, Ernesto. "Empresas estatales bajo la lupa: 64 de 67 operan con pérdidas tras gestión del MAS." *El Deber*. 21 February 2026.

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## 2. A Stabilization and Growth Agenda

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**The prior section analyzed the overlapping crises that Paz inherited upon taking office in November 2025.** This section assesses how he has sought to resolve them. The government's stabilization agenda has several core pillars: the elimination of fuel subsidies, a 30% cut in public spending, and attracting foreign investment to spur growth – namely by rehabilitating the hydrocarbon sector and developing the mining sector. The government has also gestured towards a devaluation and reforms to reserve management policies. This section analyzes each item.

**The bright spot is the fiscal adjustment.** The elimination of the fuel subsidies via executive decree has already delivered an effective 10% cut to public spending. The trimmable fat in Bolivia's SOEs can be targeted without grave social disruption. A conducive budget process means Paz's budget will likely take effect automatically in January 2027 even if it lacks the votes to pass. This would bring the deficit from 5.3% of GDP in 2026 to 2.9% of GDP. Yet other items will encounter more headwinds.

**Significant upstream investment is needed in both the hydrocarbon and mining sectors.** While Paz's steps to reform the tax code and open the country to investment are smart and well-placed, it will be difficult to attract the necessary investment in these sectors and jumpstart growth given stiff regional competition, unfavorable chemical properties of Bolivia's lithium, and broader market trends. Our analysis suggests that Bolivia's hydrocarbon-led growth model cannot be rehabilitated to pre-2014 levels, that a variety of factors moot the possibility of a lithium-led growth model, and that policymaker and multilateral attention should turn towards agriculture.

**Despite early steps towards exchange-rate unification** – namely, publishing an official reference rate (parallel rate) and announcing an intention for exchange-rate flexibility – the government has not yet devalued. This may be due to a desire to use a strong exchange-rate policy as an inflation anchor while the government implements other reforms that invite short-term inflationary pressures (e.g., the fuel subsidy reform). It may also be due to understandable fears about financial stability risks. Yet to rebuild Bolivia's reserves and current account, there is a clear need to unify the official and parallel rates and conduct a 32.5% devaluation within the next 12 months. We apply a sensitivity analysis to determine the optimal depth and timing of a devaluation.

**The government's statements about reserve management reform are strong**, but actions can be strengthened. While it will be helpful to strike the Gold Law requirement to hold 22 tons of gold, this step alone is insufficient. Greater attention is needed to the central bank's unconventional use of gold derivatives to boost reserves, which create a hefty liability for the central bank, bad incentives for Bolivian gold miners, and weigh on the country's current account. A wider analysis of the Bolivian Central Bank's balance sheet also raises difficult questions – data is patchy, but our analysis suggests the Bolivian Central Bank is currently insolvent – and underscores the importance of rebuilding reserves. The failure to do so will undermine the Boliviano and ignite greater inflationary pressures.

## 2.1 Fiscal Adjustment

### 2.1.1 Elimination of Fuel Subsidy

**Paz eliminated the fuel subsidy via Supreme Decree No. 5503 in December 2025.**<sup>10</sup> The move led gasoline prices to spike by 86% and diesel prices by 160%. Unions went on strike, blockades were erected, and protests gripped the capital. Paz's vice president, Edman Lara, took a stand against Paz and sided with the protesters. After one month of protests, Paz reached an agreement with the national labor union that would enable the fuel subsidy elimination to stay in place while expanding the social safety net to support affected households. This included a 20% increase in the minimum wage. The original Supreme Decree was replaced with a new and functionally identical decree.

**The elimination of the fuel subsidy will provide significant fiscal relief to Bolivia: we estimate it would deliver a 10% cut in total expenditure if the subsidy were fully applied.** To the extent that it reduces smuggling and improves incentives for domestic producers, it may also help rehabilitate the hydrocarbon sector and provide deeper balance-of-payments relief.

**Paz sacrificed little to maintain the elimination of the fuel subsidy.** The 20% increase in the minimum wage will not pose a fiscal problem given Bolivia's high rates of informality: informal workers account for 84% of Bolivia's employment, nearly double the Latin American average of 44%.<sup>11</sup> Few people will be direct recipients of the new policy, and the 16% of the labor force that is already in the formal economy generally already earns incomes above the minimum wage.

### 2.1.2 SOEs, Public Investment, and Social Spending

**Fiscal adjustments are generally painful. However, with the successful elimination of the fuel subsidy, much of Paz's pledge to cut public spending by 30% has already occurred.** The clear bloat of Bolivia's SOEs also gives the government a target that should not cause great social disruption. Moreover, a conducive budget process means that Paz's budget will likely take effect in January 2027 even if it lacks the votes to pass this year. At worst, we foresee a one year delay to the fiscal adjustment. The successful enactment of the 30% spending cut would rein in Bolivia's primary deficit from 5.3% of GDP to 2.9% of GDP.

**Paz has not highlighted raising revenues as part of the fiscal adjustment.** This may be for ideological or political reasons (he is center-right in coalition with the right), but also for practical reasons due to the significant (84%) informality of the Bolivian economy.<sup>12</sup> Efforts to widen the tax base and formalize informal actors should be taken, but this is unlikely to contribute to the fiscal adjustment in the near term. As a result, the adjustment is likely to be focused on the expenditure side – with hope that greater non-tax revenues (e.g., hydrocarbons) return in the future.

**A high-level picture of Bolivia's public spending indicates an excess** of current expenditures (83% of total spending) over capital expenditures, very high public-sector compensation (33%), and, curiously,

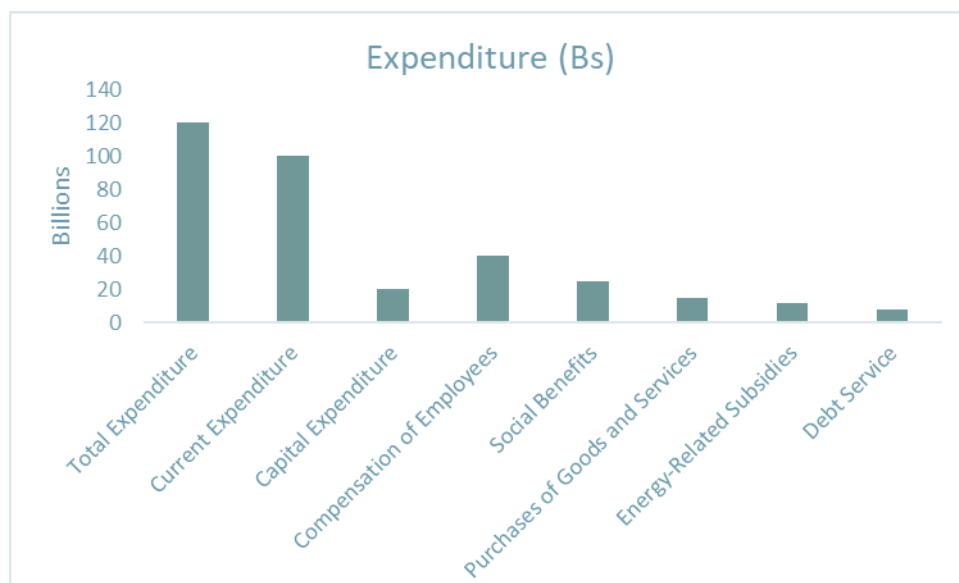
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<sup>10</sup> Oliva, Ayelen. "“Emergencia económica”: el presidente Paz pone fin a la subvención del combustible entre otras medidas en Bolivia." BBC. 18 December 2025.

<sup>11</sup> International Labour Organization. "Informal Employment Rate by Sex (%) - Annual." ILOSTAT Data Explorer. Accessed February 24, 2026. OECD. *Informality and Households' Vulnerabilities in Latin America*. OECD Development Policy Papers, No. 56, Oct. 2024.

<sup>12</sup> OECD. *Informality and Households' Vulnerabilities in Latin America*. OECD Development Policy Papers, No. 56. October 2024.

high “purchases of goods and services” (12.4%). These are the natural targets for the fiscal adjustment. While the IMF has called critical attention to Bolivia’s capital expenditure and social spending, we argue that these need to be reviewed and improved – but not cut wholesale.



Source: IMF Article IV (2024)

**With the elimination of the fuel subsidy having already cut Bolivia’s total spending by 10%**, cutting the remaining 20% – roughly \$1.5 billion per year – should turn attention to Bolivia’s 67 SOEs. A recent government report found that 64 of Bolivia’s 67 SOEs operate at a loss.<sup>13</sup> Of those, 14 are insolvent. More work will be needed to determine what is trimmable and at which SOEs.

**The analytical challenge is that Bolivia’s SOE spending is opaque.** Bolivia and the IMF do not break down public spending on SOEs versus the core government. It is unclear what portion of the broad category of “public sector compensation” goes to SOE payrolls versus teachers and healthcare workers whose roles and compensation should be preserved. It is similarly unclear what portion of “purchases of goods and services” goes to upkeep of SOEs rather than essential state spending.

**Bolivia’s public sector payroll has grown substantially over time with no measurable benefit to the Bolivian economy.** In 2026, it is on track to be 60% above where it was in 2019. This appears to have been driven not so much by the hiring of new employees, but by an increase in public-sector salaries. Bolivian laws around compensation are peculiarly inefficient and should be reviewed.<sup>14</sup> Thus far, Paz has made a provisional step of capping the growth of public-sector salaries via executive decree. Further action through the form of a public sector wage negotiation will be necessary to drive down spending. Determining what portion of public-sector payrolls is spent on SOEs and integrating this into

<sup>13</sup> Estremadoiro Flores, Ernesto. “Empresas estatales bajo la lupa: 64 de 67 operan con pérdidas tras gestión del MAS.” *El Deber*. 21 February 2026.

<sup>14</sup> One example is the “*doble aguinaldo*,” a second-year bonus for all workers in the country that is triggered when GDP growth exceeds 4.5%. This was established by Morales in 2013, and the IMF has routinely called to eliminate it. The *doble aguinaldo* reflects inefficiencies in Bolivia’s wage policies. It is not the problem itself. Since its creation 13 years ago, the *doble aguinaldo* has only actually paid out four times (2013, 2014, 2015, and 2018). Bloomberg Línea. “¿Por qué no habrá segundo aguinaldo en Bolivia en 2022?” November 8, 2022

a broader restructuring of Bolivia's SOEs – which may include downsizing, shuttering, or privatization of certain SOEs – should be a priority for the government.

**The other category of Bolivia's current expenditures that may be reduced is the "purchase of goods and services."** This also likely takes the form of spending on inefficient Bolivian SOEs, and it too has risen in recent years – from 9% of total expenditure in 2019 to 14% in 2026 – with little obvious benefit to the Bolivian economy. The Bolivian press routinely covers this with attention to SOEs with large fixed costs, low or no operating profits, and recurring periods of inoperability.<sup>15</sup>

**The IMF has long called attention to Bolivia's public investment, yet it is unclear if this should factor into the fiscal consolidation.** Bolivia's capital expenditure accounts for 12.8% of total expenditure, or 5.5% of GDP. Compared to Latin American and lower-middle-income peers, Bolivia's public investment is now low as a share of total expenditure and normal as a share of GDP. It is Bolivia's current expenditure that has surged by 236% over the past decade, and now accounts for 87.2% of total expenditure (32.3% of GDP). Bolivia's current expenditure is well in excess of its Latin American and lower-middle-income peers. This paints a clear picture of the course of Bolivia's fiscal adjustment: current expenditure must be reined in, but capital expenditure should likely only be reallocated towards higher-impact investments. In order to jump-start growth, it is essential that capital expenditure be improved, but not slashed.

**A similar caveat applies to scrutiny of Bolivia's social spending programs.** Morales expanded the social safety net during his time in office, from covering 12% of the population in the year he took office in 2006 to 77% by 2019. Under Luis Arce, the social safety net expanded further to cover 97% of the population.<sup>16</sup> The major policy creations were conditional cash transfers for schoolchildren (*Bono Juancito Pinto*) and new and expectant mothers (*Bono Juana Azurduy*), as well as an expansion of a cash transfer program for people above the age of 60 (*Renta Dignidad*). The percentage of the population living under \$3.00 per day collapsed from 15.9% in 2006 to 2.8% by 2023.<sup>17</sup>

**However, Morales' social spending initiatives have had well-documented flaws.** The *Renta Dignidad* has a demonstrated effect of reducing women's labor participation, which reduced household income.<sup>18</sup> The efficacy of the *Bono Juancito Pinto*, which pays out for school attendance, has been hindered by a lack of improvement in the Bolivian education system: the government paid for better attendance without paying for better education. The efficacy of the *Bono Juana Azurduy*, which pays out in part for mothers' visits to medical providers, has been hindered by a lack of medical providers.

**There is a need to improve the design and targeting of social spending initiatives**, as social spending accounts for 21.9% of Bolivia's total expenditure or 8% of GDP. It is larger than every other category except public-sector payrolls. In February 2026, the World Bank announced a \$200 million loan to support targeted improvements, but more work and technical assistance will be needed.<sup>19</sup>

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<sup>15</sup> Estremadoiro Flores, Ernesto. "Planta de urea: costos altos y desgaste comprometen la sostenibilidad de Bulo Bulo." *El Deber*, January 26, 2026.

<sup>16</sup> World Bank. "Coverage of social safety net programs (% of pop.) - Bolivia." World Bank Open Data.

<sup>17</sup> World Bank. "Poverty headcount ratio at \$2.15 a day (2017 PPP)(% of pop.) - Bolivia." World Bank Open Data.

<sup>18</sup> Mena, Gary, and Werner L. Hernani-Limarino. *Intended and Unintended Effects of Unconditional Cash Transfers: The Case of Bolivia's Renta Dignidad*. Inter-American Development Bank, 2015. IDB Working Paper Series 631.

<sup>19</sup> World Bank. "World Bank Group Approves US\$200 Million to Protect Vulnerable Bolivians and Strengthen Social Protection." Press release, February 5, 2026.

**There should be ample room to enact the remaining 20% public spending cut by reducing spending on public sector payrolls and purchases of goods and services** – which together account for 47% of total expenditure. Some efficiency gains around social spending (which accounts for 21.9% of total spending) may also be achieved without social disruption.

**No matter Paz’s course of action, cobbling together a new budget is likely to face political headwinds.** There is a notable (and effective) tendency in Bolivia towards strikes, blockades, and protests to put pressure on the government. The costs of blockades can be high – totaling \$1.7 billion in 2024, or 3% of GDP.<sup>20</sup> As a result of social and legislative pressure, Bolivia’s budgets have failed to secure legislative majorities in recent years. This gives way to a peculiar budget process in which the budget *automatically* takes effect the following year. The 2024, 2025, and 2026 budgets all took effect having failed to pass the prior year. As a result, Bolivia is currently operating under the 2026 Arce budget, which did not gain approval in his last year in office.

**We incorporate this political assessment into our Debt Sustainability Analysis** by assuming the fiscal adjustment to be delayed by one year, with the Paz budget following recent precedent and taking effect automatically on 1 January 2027. The result is a delayed correction in the debt stock (which would start decreasing later and not stabilize within our time horizon) and higher levels of debt service and gross financing needs, bolstering the need for reprofiling.

## 2.2 External Balance

### 2.2.1 Devaluation

**The exchange rate gap between the official and unofficial rate has narrowed** from its 100% high in 2025 to just 32.5% in 2026. However, at these levels, Bolivia’s exports remain artificially strong and its imports remain artificially cheap. Exchange rate unification through a 32.5% devaluation is needed to relieve the deterioration of Bolivia’s balance of payments and reserves.

**The government has gestured towards a devaluation, but it has not yet occurred.** A provisional step was taken in December 2025, when the Bolivian Central Bank published a new “Reference Value of the US Dollar.”<sup>21</sup> The central bank reaffirmed that this did not constitute a change in Bolivia’s official rate, but rather that the reference value would serve an informational purpose of compiling different quotations in the market and helping Bolivia transition towards a flexible exchange-rate regime. At present, the official rate remains 6.96 Bolivianos to the dollar, and the unofficial rate is 9.01 Bolivianos to the dollar. The “Reference Value” is outside the unofficial rate, at 9.27 Bolivianos to the dollar.

**It is unclear why Bolivia has not yet devalued:** whether because the government is still settling in, or whether it is hoping to use a strong exchange rate as an inflation anchor while it implements other necessary reforms that carry inflationary effects in the short term (e.g., fuel subsidy reform).

**The government may also hope to avoid financial stability risks posed by devaluation, as Bolivian banks are partially dollarized.** Although, a devaluation may help banks’ balance sheets as they are

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<sup>20</sup> International Monetary Fund. 2025. “Bolivia: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bolivia.” *IMF Staff Country Reports* 2025 (116).

<sup>21</sup> Banco Central de Bolivia. *Economía boliviana muestra resiliencia con crecimiento y estabilidad ante un contexto internacional y factores internos adversos*. January 5 2025.

structurally long dollars – Boliviano liabilities (household deposits) would weaken against partially dollarized assets (dollar loans) – a devaluation may hurt banks' asset quality. As borrowers' income remains in Bolivianos, their capacity to repay dollar-denominated loans will be diminished.

**Inflation and financial stability concerns are understandable**, but delaying Bolivia's devaluation will further erode Bolivia's balance of payments and reserves. We construct a sensitivity analysis to determine the optimal fiscal timing for a devaluation: conducting the devaluation alongside the fiscal adjustment and reprofiling within 2026 is superior to a delayed devaluation.

#### Debt/GDP in 2030

	2026	2027	2028	2029
<b>Reforms</b>	99%	100%	100%	99%
<b>Reprofiling only private</b>	94%	95%	96%	95%
<b>Reforms Delayed</b>	101%	102%	102%	102%
<b>Reprofiling only private with Delayed Reforms</b>	97%	98%	98%	98%
<b>Reprofiling (with reforms) only bilateral</b>	97%	98%	98%	97%
<b>Reprofiling (with reforms) private and bilateral</b>	92%	93%	93%	93%
<b>Baseline Fiscal with Devaluation</b>	111%	112%	112%	111%

*Authors' computations*

**There may be an impulse to look upon the case of Argentina as a positive reform model.** But it should be noted that Argentina's exchange-rate policy compelled it to file waivers of non-observance with the IMF for failing to meet reserve targets in order to secure disbursements. The policy also compelled Argentina to turn to the United States to conduct peso purchases and roll out a \$20 billion swap line.<sup>22</sup> Without special favors, Argentina's strong exchange-rate policy was of course a failure. Bolivia is unlikely to secure such special favors, amplifying the need for a devaluation.

#### 2.2.2 Attracting Investment and Searching for a Growth Model

**A third area of focus for the Paz government has been reopening the country to investment in a bid to jump-start growth.** The Bolivian growth model long revolved around hydrocarbons: oil and gas exports generated Bolivia's fiscal revenues and supplied it with foreign-exchange earnings. The failure to make productive use of Bolivia's hydrocarbon revenues upended Bolivia's growth model with the commodity crash of 2014. While there is a clear intention to rehabilitate the hydrocarbon sector, and with it the old Bolivian growth model, the new government has also paid increased attention to the potential of Bolivia's lithium – the largest stock in the world. The significance of lithium in battery chemistries, and thus the global energy transition, raises the prospect of a new driver of growth. Attracting investment in hydrocarbons and lithium has been a clear priority for the government, but both sectors will face significant headwinds. More thinking is needed around Bolivia's growth model.

**The Paz government is intent on reopening the country to foreign investment and boosting private sector investment, yet it has struggled to identify a legally binding path for doing this.** Paz's initial executive decree included enabling arbitration clauses in investment contracts to restore investor confidence, establishing a set of "investment protection principles," and creating a 30-day fast-track

<sup>22</sup> Setser, Brad, and Stephen Paduano. 2025. "Other People's Money, and the Problem with Mileism." *Financial Times*, September 30, 2025.

approval process for strategic investments.<sup>23</sup> It also initially consolidated Value Added Tax, Transactions Tax, and Corporate Income Tax for entrepreneurs, and created a new tax incentive that allows for the accelerated depreciation of assets acquired in 2026. However, this executive decree was scrapped after the protests after the fuel subsidy protests, and the growth-enhancing reforms were not included in the subsequent decree. Not only does Paz need to put forward a new decree or a new hydrocarbon law to improve Bolivia's investment climate, he must also contend with the uncomfortable fact that the nationalization of Bolivia's natural resources is enshrined in its constitution. A constitutional amendment may be necessary at some stage.

**In addition to political headwinds, the funding needs for this growth agenda are stark.** Investment in gas development is down 75% from the commodity collapse, and the country's gas reserves are nearly depleted. Bolivia needs significant investment in exploration and development. Developments in regional energy markets make it unlikely that Bolivia can attract this in the near term.

**Brazil and Argentina were long Bolivia's top export markets.** However, as Bolivia's gas output stalled following the 2014 commodity crash, Brazil and Argentina gained energy independence. Brazil developed its energy surplus in 2018 and Argentina followed in 2023.<sup>24</sup> Pipeline flows have reversed: Bolivia now imports from the two, or charges toll revenues for Argentine gas being exported to Brazil.<sup>25</sup> As Brazil and Argentina now record their largest-ever energy surpluses, they are consuming export markets that Bolivia may have pursued. The success of the Vaca Muerta is also absorbing significant regional investment. The Vaca Muerta Oil Sur Project – which includes a 550,000 barrel-per-day pipeline (tenfold Bolivia's daily output) – has secured \$2 billion in financing from a consortium of investors.<sup>26</sup> Regional competition compounds Bolivia's longer-running underinvestment challenges and makes the return of the hydrocarbon-led growth unlikely in the near term.

**The rise of a lithium-led growth has theoretical attractiveness, but faces greater obstacles.** Bolivia sits on the world's largest lithium deposit, with 23 million tons (20% of the global total) lying under the Uyuni salt flats.<sup>27</sup> However, in 2025, Bolivia's lithium exports totaled just \$19.6 million.<sup>28</sup>

**Bolivia has emphasized the development of Bolivia's lithium potential.** Foreign minister Fernando Aramayo traveled to Washington last year to discuss US investment in Bolivia's lithium, with a potential tie-in to an Exchange Stabilization Fund swap line.<sup>29</sup> There is a common view that unlocking Bolivia's lithium potential merely requires reversing certain Morales-era policies. It is true that Morales' nationalization of the country's lithium resources in 2008 cut off foreign investment and technical capacity. Yet Bolivia's lithium potential faces a deeper challenge: Bolivia's salt flats are rich in magnesium, which is chemically similar to lithium. It is difficult to separate the two minerals during the

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<sup>23</sup> United Nations Conference on Trade and Development. Bolivia, Plurinational State of - Creates an extraordinary regime for the promotion and protection of strategic investments. Investment Policy Monitor. December 17, 2025.

<sup>24</sup> International Energy Agency. "Brazil: Countries & Regions." Accessed March 3, 2026; International Energy Agency. "Argentina: Countries & Regions." Accessed March 3, 2026.

<sup>25</sup> Reuters. "Argentina Starts Gas Exports Through Bolivia, Brazil Firm Says." April 1, 2025.

<sup>26</sup> Reuters. "Vaca Muerta Expected to Lift Argentina Energy Surplus to New Record in 2026." February 5, 2026.

<sup>27</sup> Ritchie, Hannah, and Pablo Rosado. "The World's Lithium Is Mined in Just a Handful of Countries." *Our World in Data*. February 2, 2025. Swift, Benjamin. "The Dubai of South America: How the Promise of Riches from Lithium Mining Turned to Dust in Bolivia." *The Guardian*. September 3, 2025.

<sup>28</sup> Reuters. "Bolivia's New President Rekindles Cautious Hope for Long-Stalled Lithium Dreams." October 21, 2025

<sup>29</sup> Vyas, Kejal. "Bolivia Bets on Lithium and the U.S. to End Its Economic Slump." *Wall Street Journal*. February 23, 2026.

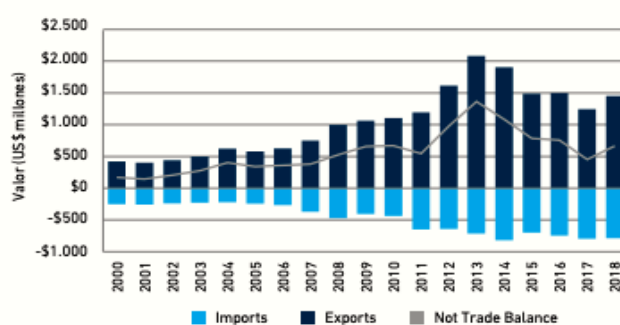
extraction and refining process. Compared to Argentina’s salt flats, which have a magnesium-to-lithium ratio of 1-to-1, and Chile’s salt flats, which have a ratio of 6-to-1, Bolivia’s salt flats have a magnesium-to-lithium ratio of 19-to-1.<sup>30</sup> Lithium investors are thus likely to look beyond Bolivia.

**Direct Lithium Extraction (DLE) technology can perhaps overcome this hurdle**, but it will require significant investment, and it is an unproven technology for Bolivia’s local brine and the rainy climate of its salt flats. Difficult technological questions hang over lithium more broadly. If the world veers towards different battery chemistries – such as sodium-ion batteries or solid-state batteries, rather than lithium-ion batteries – lithium will be greatly diminished as a potential growth driver.

**A sector that should receive more attention from Bolivia’s multilateral partners and foreign investors is likely its agricultural sector.**

**The agricultural sector is an overlooked bright spot of the Bolivian economy.** The acceleration of Bolivia’s agricultural output, which picked up from 3% prior to 2013 to 4.9% after 2013, buoyed the Bolivian economy following the commodity crash of 2014.<sup>31</sup> While the country runs current account deficits due to underinvestment in the hydrocarbon sector, fuel subsidies, and exchange-rate policy, Bolivia’s trade in agricultural goods still provides substantial balance-of-payments relief. Bolivia has run a substantial agricultural trade surplus throughout the past two decades, making its agricultural exports a steady source of foreign exchange. While Bolivia recorded a current account deficit of \$1.4 billion in 2024 (2.7% of GDP), its agricultural sector generated \$2.03 billion in export revenue, accounting for 18.5% of the country’s exports.<sup>32</sup>

**Agricultural trade flows, Bolivia 2000–2018 (US\$ '000)**



Source: Calculations based on COMTRADE data

**There are straightforward ways to strengthen Bolivia’s agricultural sector.** Bolivia’s agricultural exports consist primarily of raw agricultural goods, and its agricultural imports consist primarily of processed foods and refined products (consumer foods). Investments in domestic agricultural processing capacity would reduce Bolivia’s import bill and shift its exports toward higher-value agricultural products, providing a substantial balance-of-payments lift.

<sup>30</sup> "Bolivian Lithium Brines Emerging from the Shadows Cast by Chile and Argentina." *Stockhead*, 22 May 2024.

<sup>31</sup> World Bank. *Tapping the Potential of Bolivia's Agriculture and Food Systems to Support Inclusive and Sustainable Growth*. Washington, DC: World Bank Group, 2019.

<sup>32</sup> United Nations Conference on Trade and Development. 2025. "Bolivia (Plurinational State of): General Profile." UNCTADstat. Last modified December 2, 2025.

**A broader area of investment relates to irrigation and other agribusiness technologies.** Only 5% of Bolivia's irrigation systems makes use of modern technology, while 81% relies on traditional flood and gravity systems that depress crop yields.<sup>33</sup> In addition, Bolivia's use of fertilizer lags its peers in the region, adding further pressure. This exacerbates the country's vulnerability to rising temperatures and changing precipitation patterns, which are disrupting Bolivia's agricultural productivity. The room for improvement from well-placed investments in irrigation and fertilizer is evidenced by Bolivia's poor land productivity relative to its neighbors: land productivity is twice as high in Peru, three times as high in Ecuador, and four times as high in Colombia.<sup>34</sup>

**More broadly, persistent global food price inflation should be taken as an opportunity** for Bolivia to develop its agricultural sector and cash in on greater agricultural export revenues. The finalization of the EU-Mercosur trade deal should also be seen as a tailwind for Bolivia's agricultural exports in the coming years. Investor attention may inevitably gravitate towards hydrocarbons and critical minerals, but the headwinds facing those sectors should not be overlooked. Multilaterals should focus on the opportunities presented by the agricultural sector.

## 2.3 Monetary Control

### 2.3.1 Gold and Central Bank Reserve Management Reform

**Alongside exchange-rate flexibility, rebuilding reserves will require greater attention to the Bolivian Central Bank's reserve management policies.** In 2023, as dollar shortages became acute and the parallel market opened, Bolivia passed the "Gold Law." This stipulated that the central bank would have to hold a minimum of 22 tons of gold at any given time.<sup>35</sup>

**This policy has given way to conspicuous problems.** The Bolivian Central Bank reportedly purchases gold at prices that are uncompetitive on international markets, which has led to a surge in smuggling through Peru and Chile. The head of the state-owned gold trading firm, Epcoro, was arrested for corruption around the central bank's gold purchase policy.<sup>36</sup> Alongside rule-of-law concerns, the Gold Law has also led to an excessively high concentration of gold in the central bank's reserve portfolio – 84% of reserves as of January 2026.

**The government is reportedly drafting legislation to amend the "Gold Law" and strike the 22-ton gold holding requirement,** which is a positive step, but fails to address the costlier reserve management issue of the opaque use of gold derivatives that has arisen in recent months.<sup>37</sup>

**Information on Bolivia's gold derivatives is opaque,** but it appears the Bolivian Central Bank has begun buying gold forward in the local market in local currency and selling it forward abroad for foreign currency.<sup>38</sup> The use of forward contracts to monetize gold – receiving cash upfront in exchange for future deliveries of gold – is compelling, but it has created an expensive, short-term, and convoluted liability for the Bolivian Central Bank. The central bank owes delivery for 6.6 tons of gold, worth \$1.09

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<sup>33</sup> World Bank. *Tapping the Potential of Bolivia's Agriculture and Food Systems to Support Inclusive and Sustainable Growth*. Washington, DC: World Bank Group, 2019.

<sup>34</sup> *Ibid*, pg. 68.

<sup>35</sup> Mendoza, Sergio. "Bolivia Tightens Gold Buying Rules After Past Irregularities." Bloomberg. January 20, 2026.

<sup>36</sup> Mendoza, Sergio. "Bolivia Arrests Ex-State Gold Trader Boss in \$18m Probe." Bloomberg. January 7, 2026.

<sup>37</sup> Mendoza, Sergio. "Bolivia Tightens Gold Buying Rules After Past Irregularities." Bloomberg. January 20, 2026.

<sup>38</sup> "Bolivia's Gold Futures Strategy: A Path to Economic Stability in 2025?" *Discovery Alert*, 5 June 2025.

billion, through October 2026.<sup>39</sup> The central bank's equity value was already pressed down to \$1.8 billion as of January 2026. The depletion of reserves and running up of gold liabilities have possibly pushed the central bank into insolvency, as we discuss in the next sub-section. The practice can also be thought of in terms of its opportunity cost: if the price of gold continues to appreciate, Bolivia will be deprived of potential earnings as the central bank's forward contracts lock in lower sale prices. So long as this practice continues, Bolivia will naturally be deprived of gold export revenues as the central bank is purchasing what would otherwise be sold abroad.

### 2.3.2 Negative Central Bank Equity

**Opaque gold liabilities reflect a potential problem that has not been highlighted elsewhere: the likelihood that the Bolivian Central Bank currently has negative equity.** This is compounded by the central bank's longer-running practice of monetary financing for the central government and for SOEs. Recent government reporting has indicated that 95.5% of SOEs are unprofitable and 20.8% are insolvent. The lack of reporting of the central bank's gold derivatives creates problems for the asset and liability side of the balance sheet – its gold holdings are likely lower than reported, and its gold liabilities (which do not appear on the balance sheet) are likely higher. The poor performance of the SOEs creates even more serious risks for the asset side of the balance sheet. Our conclusion is that proper accounting of gold derivatives and public-sector loans would show that the central bank is currently insolvent and in need of fiscal recapitalization.

Bolivian Central Bank Balance Sheet (as reported, January 2026)	Amount (000s BOB)	USD (000s official rate)
<b>ASSETS</b>		
<b>Gross International Reserves (RIN)</b>	30,298,785	4,353,273.71
... Gold	26,582,904	3,819,382.76
... Foreign Exchange	3,192,569	458,702.44
... Other Assets	523,312	75,188.51
<b>Contributions to International Organizations</b>	1,519,928	218,380.46
<b>Other External Assets (Med. &amp; Long Term)</b>	4,424,421	635,692.67
<b>Credit to the Public Sector</b>	196,558,056	28,241,100
... Central Government	160,284,998	23,162,571.97
... SOEs	36,273,058	5,241,771.39
<b>Credit to the Financial Sector</b>	20,641,392	2,965,717.24
<b>Other Asset Accounts</b>	2,534,599	364,166.52
<b>TOTAL ASSETS</b>	255,977,182	36,778,330.75
<b>LIABILITIES</b>		
<b>Currency Emission (Monetary Base)</b>	102,421,588	14,715,745.4
<b>Bank Deposits (Reserve Requirements, etc.)</b>	65,148,650	9,360,438.22
<b>Short-Term External Obligations</b>	0	0
<b>Public Sector Deposits</b>	39,184,661	5,629,980.03
<b>International Organization Deposits</b>	3,842	552.01
<b>Med. &amp; Long-Term External Obligations</b>	9,608,896	1,380,588.51

<sup>39</sup> Mendoza, Sergio. "Bolivia Tightens Gold Buying Rules After Past Irregularities." Bloomberg. January 20, 2026.

<b>Other Liability Accounts</b>	26,277,022	3,775,434.20
<b>TOTAL LIABILITIES</b>	242,644,659	34,862,738.36
<b>Net Equity</b>	13,332,523	1,866,553.22

Source: Banco Central de Bolivia

**There are multiple, overlapping data issues that complicate analysis.** The last thorough financial statement that was released covered the year 2024. More recent monthly data have been published, but they stop at January 2026 – which obscures two months of a remarkable run-up in Bolivia’s reported reserves. Much of that run-up may be explained by front-loaded financing from IDB and CAF. However, some of it must also be explained by gold derivatives. Yet no gold derivatives are explicitly reported on the balance sheet as a liability. The central bank also apparently has zero short-term external obligations, which appears to contradict publicly available information about its short-term gold obligations. There was a surge of 5 billion Bolivianos (\$723 million) in “other liability accounts” (otras cuentas pasivo) from December 2025 to January 2026, and it is possible that this is where the gold derivatives are booked. Yet it is unclear if this is actually the case and, as noted, public reporting indicates that the Bolivian Central Bank owes delivery for 6.6 tons of gold (\$1.09 billion) through October 2026. This gold liability is in excess of the “other liability accounts,” which leaves a distinct possibility that the gold liability is not being recorded on the balance sheet. The opacity around the gold derivatives also raises difficult questions about the asset side of the central bank’s balance sheet – specifically whether the 26.5 billion Bolivianos (\$3.82 billion) in gold has been pre-committed.

**If the Bolivian Central Bank’s requirement to deliver \$1.09 billion in gold has been left off the balance sheet, as appears to be the case, the net equity value of the Bolivian Central Bank would drop to \$800 million. It would drop further with a proper accounting of the Bolivian Central Bank’s loans to public-sector institutions.**

**The most significant data issue facing a balance sheet analysis of the Bolivian Central Bank is its monetary financing: loans to the central government and state-owned enterprises.** As of January 2026, the Bolivian Central Bank’s loans to the central government total 160.3 billion Bolivianos (\$23 billion) and its loans to SOEs total 36.2 billion Bolivianos (\$5.2 billion). Taken together, loans to the public sector account for 77% of the Bolivian Central Bank’s 255 billion Boliviano asset book. This figure sits uncomfortably with the government’s recent disclosure that 64 of 67 SOEs are unprofitable and 14 are insolvent. It is highly likely that a significant portion of the public sector loan book should be marked down. However, there is no data to indicate to which SOEs the central bank has lent. As a result, there is no way to establish what portion of the Bolivian Central Bank’s assets should be marked down or by how much.

**However, we can outline an analytical framework that highlights the likelihood of the central bank’s insolvency.** Loans to SOEs account for 14.2% of total assets and are currently booked at 2.8 times the reported equity value of the central bank, excluding our assessment of unreported gold liabilities. If we include our assessment of the unreported gold liabilities, loans to SOEs would be 6.5 times greater than the central bank’s equity. As noted, according to the government’s recent reporting, 95.5% of SOEs being unprofitable and 20.8% being insolvent. A markdown of some portion of the SOE loans must financially occur – and given such high levels of unprofitability and insolvency, it is possible that a very large portion of the SOE loans may be marked down to a fraction of their current book value. In the

absence of better data at this time, an important provisional question emerges: by how much would the SOE loans have to be marked down for the central bank to be insolvent?

**Accounting for \$1.09 in unreported gold liabilities, if the SOE loan book is marked down by just 15%, the Bolivian Central Bank would have a net equity value of \$0.** If the markdown of the SOE loans corresponds in any way to the much larger figures of unprofitability and insolvency provided by the government – which is likely – the central bank would have negative equity. There is thus a high probability that the central bank is currently insolvent.

It should be said that many advanced-economy central banks are technically insolvent at present (e.g., the Federal Reserve and ECB) as a result of the growth of their asset books through quantitative easing and subsequent losses from interest rate hikes and quantitative tightening. Central banks can continue to operate normally through periods of negative equity. Conversely, positive equity is not a guarantor of a central bank's capacity to maintain public trust in money.<sup>40</sup> However, negative equity at emerging market central banks tends to correspond to other, more significant problems.

**As a balance-sheet matter, the Bolivian Central Bank's assets cannot generate enough income to service its liabilities.** Insolvent central banks often turn to forced money creation, or issue more short-term securities, in order to meet their liabilities. Forced money creation has the effect of rapidly expanding the monetary base, exacerbating inflationary risks, and undermining faith in public money. The academic literature highlights ambiguous “tipping points” at which market participants flee the local currency to a hard currency and the central bank loses monetary control.<sup>41</sup> At least one tipping point has already been crossed in Bolivia given the opening of the exchange-rate gap and the reversion to forced money creation. Since the exchange-rate gap opened in 2023, cash in circulation has surged by 82%. In the three-year period before that (2020 to 2023), cash in circulation grew by only 19%, and by just 11% in the three-year period before this (2017 to 2020). The increase in cash in circulation over the past three years exceeds that of the prior decade. Printing money to meet liabilities creates a vicious cycle that drives up inflation, widens the exchange-rate gap, undermines faith in the currency, and compels more money printing. Under such conditions, the Bolivian Central Bank will be continuously drained of whatever foreign-exchange reserves it can generate as Bolivian households and firms continuously seek to exit the currency. **A fiscal recapitalization is required to break this cycle and restore faith in the central bank and the Boliviano.**

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<sup>40</sup> Bell, Sarah, Jon Frost, Boris Hofmann, Damiano Sandri, and Hyun Song Shin. *Central Bank Capital and Trust in Money: Lessons from History for the Digital Age*. BIS Paper No. 146. Bank for International Settlements, June 2024.

<sup>41</sup> Bell, Sarah, Jon Frost, Boris Hofmann, Damiano Sandri, and Hyun Song Shin. *Central bank capital and trust in money: Lessons from history for the digital age*. BIS Papers No. 146. Basel: Bank for International Settlements, June 2024.

## Bolivia's Dash for (Printing) Cash

Cash in circulation spiked by 82% after the exchange-rate gap opened in 2023



Source: Bolivian Central Bank, author's calculations

**While the liability side of a central bank's balance sheet is chiefly bank notes and commercial bank reserves,** a significantly growing share of the Bolivian Central Bank's liabilities is also the issuance of short-term bills.<sup>42</sup> That issuance spiked by 132.5% from 2023 to 2024.<sup>43</sup> The central bank's ability to issue these securities into the market will be impaired if there are concerns about its solvency, which may accelerate the central bank's losses, as limited market demand for its issuances leads to higher borrowing costs, creating a vicious cycle. This vicious cycle can be amplified by forced money creation, which the central bank may have to do to stay current on its liabilities. This risks putting a central bank on an explosive debt path and accelerating inflation.

### **The new government will have to take a methodical approach to central bank oversight and reform.**

The spending down of the country's official reserves to finance unprofitable or insolvent state-owned enterprises has left the central bank with no reserves and likely with negative equity. Deferring action on the central bank's balance sheet risks undermining other steps, such as exchange-rate unification and inflation reduction. The path forward is not altogether clear and will likely require significant financial and technical support from the IMF.

<sup>42</sup> Banco Central de Bolivia (BCB). (2025). *Estados Financieros al 31 de diciembre de 2024 y 2023*. Bolivia.

<sup>43</sup> "Operaciones de mercado abierto," which is chiefly "regulacion monetaria" jumped from Bs 12.08bn to 18.62bn.

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## 3. Debt Sustainability Analysis

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**This section covers our Debt Sustainability Analysis and a range of scenarios:** no reform, some reforms (fiscal adjustment without external adjustments), and a three-pillar approach with fiscal and external reforms complemented by a reprofiling. We demonstrate that an external and fiscal adjustment alongside a reprofiling of Bolivia's bilateral and external private creditor debt is the best option to reliably ensure debt sustainability by 2030.

### 3.1 No Reform Scenario: High Risk to Debt Sustainability

**When Paz took office in November 2025, Bolivia was already on an unsustainable debt trajectory, both in terms of solvency and liquidity.** Nominal GDP is expected to grow at approximately 6% annually over the next five years, while the average effective interest rate on public debt is projected to reach 3.5%.<sup>44</sup> At the same time, the general government primary balance is assumed to remain in deficit, averaging an optimistic 5% of GDP.<sup>45</sup>

**If there are no policy adjustments beyond the reduction in fuel subsidies, these dynamics imply a continued deterioration of debt sustainability.** General government public debt is projected to rise from 89% of GDP in 2025 to 99% by 2030, with no prospect of stabilization. This increase is driven primarily by domestic borrowing, as Bolivia progressively repays external private creditors and remains effectively excluded from international capital markets.<sup>46</sup> Limited access to external financing implies that future deficits will be financed predominantly through domestic issuance.

**In parallel, liquidity pressures are expected to intensify significantly.** Debt service is projected to increase from 56% of revenues in 2025 to 85% by 2030. Similarly, gross financing needs are expected to grow from 19% of GDP to 24% by 2030. As government revenues are projected to decline modestly from 25% to 23% of GDP, interest payments are expected to almost double from 9% to 16% of revenues. This highlights the challenges the country is facing if no corrective policies are undertaken. An increase of more than 20% in gross financing needs to GDP, from 19.4% in 2025 to 23.8% in 2030, would push the country well above recommended thresholds.<sup>47</sup> Taken together, these projections indicate that Bolivia's debt sustainability is at risk under the baseline scenario.

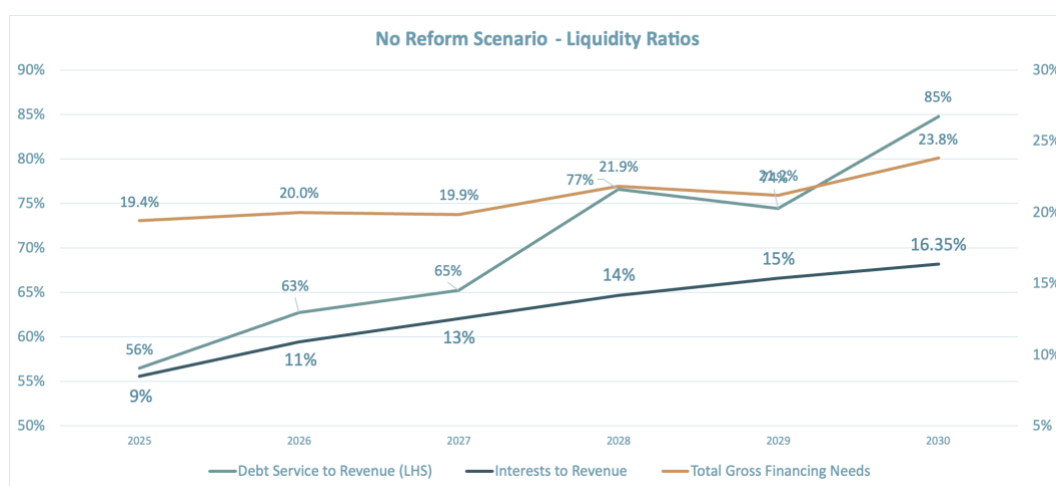
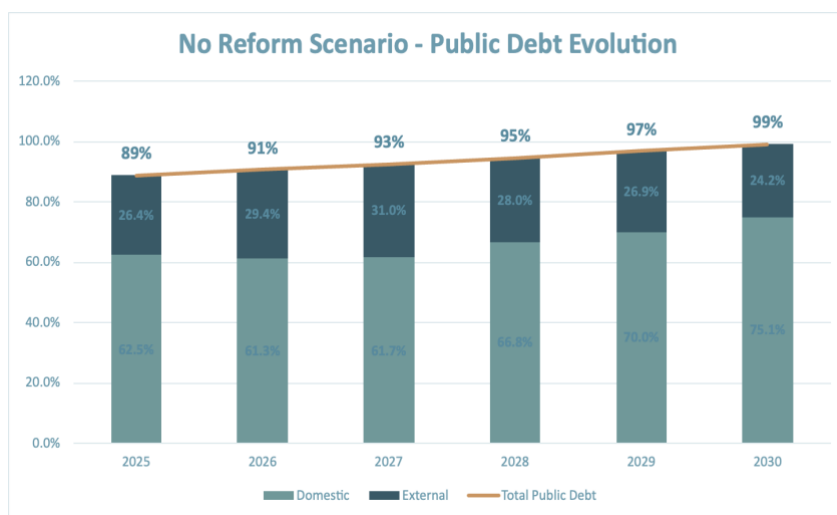
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<sup>44</sup> IMF WEO October 2025 for growth and primary balance. Interest rates are based on our computations.

<sup>45</sup> The primary balance deficit in the latest WEO has been significantly revised down compared to previous WEO for Bolivia. It appears the IMF has already incorporated some fiscal reforms promised by the new government. In this case the "baseline" scenario would already be optimistic.

<sup>46</sup> See analysis above on why recent eurobond rallies does not necessarily mean a return to the bond market.

<sup>47</sup> IMF used to recommend keeping GFN below 15% of GDP, although it is not a strict benchmark. [Gross Financing Needs is a Weird Indicator - Part 1](#)



### 3.2 Some Reforms, Some Playing of the System: Necessary But Not Sufficient

**This option considers substantial fiscal consolidation, totaling a 30% reduction in public spending.** This is complemented by a swap of public sector holdings of foreign-currency bonds into local-currency notes. External financing would come from IFI disbursement and a return to the market.

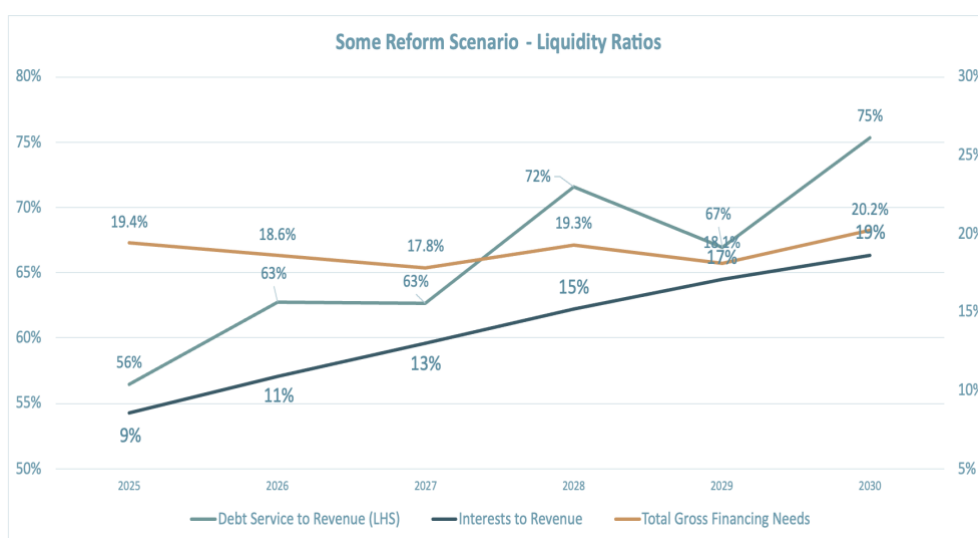
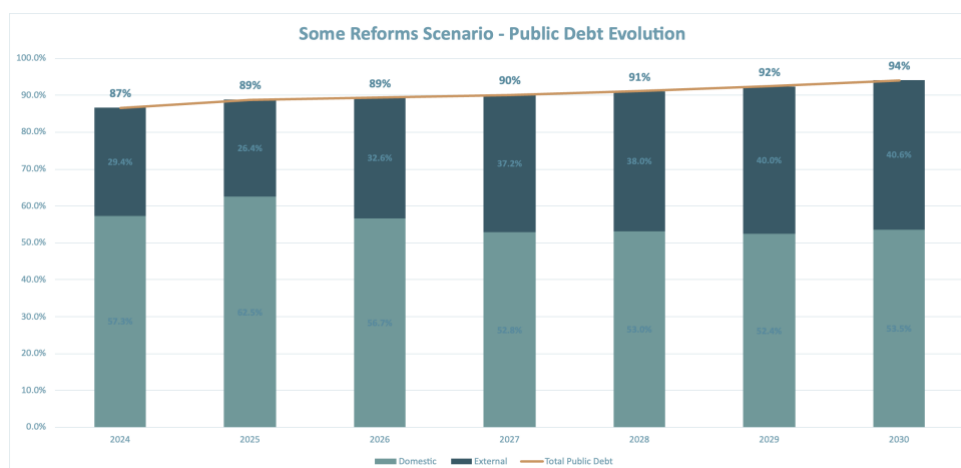
**If fully implemented starting in 2026<sup>48</sup>, these measures would stabilize but not reduce the general government debt trajectory to 94.1% of GDP in 2030.** The fiscal correction targeted by the administration is justified: as the primary balance would shrink to less than -2.7% in the medium term, it would reach levels similar to the automatic effect (growth/interest rate difference is 2.6%).

**Despite stabilizing debt dynamics, these reforms would be insufficient to materially improve liquidity indicators.** Debt service to revenue would be projected to rise from 56% to 75% between 2025 and 2030, while interest payments to revenues would increase from 9% to 19%. Interest rates remain

<sup>48</sup> Fiscal consolidation is computed by applying a 30% reduction to the current fiscal deficit forecasted by the latest WEO. The reduction is entirely channeled through the Primary Balance.

too high compared to government revenues. Gross Financing Needs would initially decrease thanks to the fiscal correction, but then peak in 2028 and 2030 due to Eurobonds repayments.

**The results in the previous section imply full and immediate implementation of ambitious reforms beginning in 2026.** According to our projections, any delay or partial implementation would lead to further deterioration of solvency and liquidity indicators.



### 3.3. Three Pillar Approach: The Sustainable Option

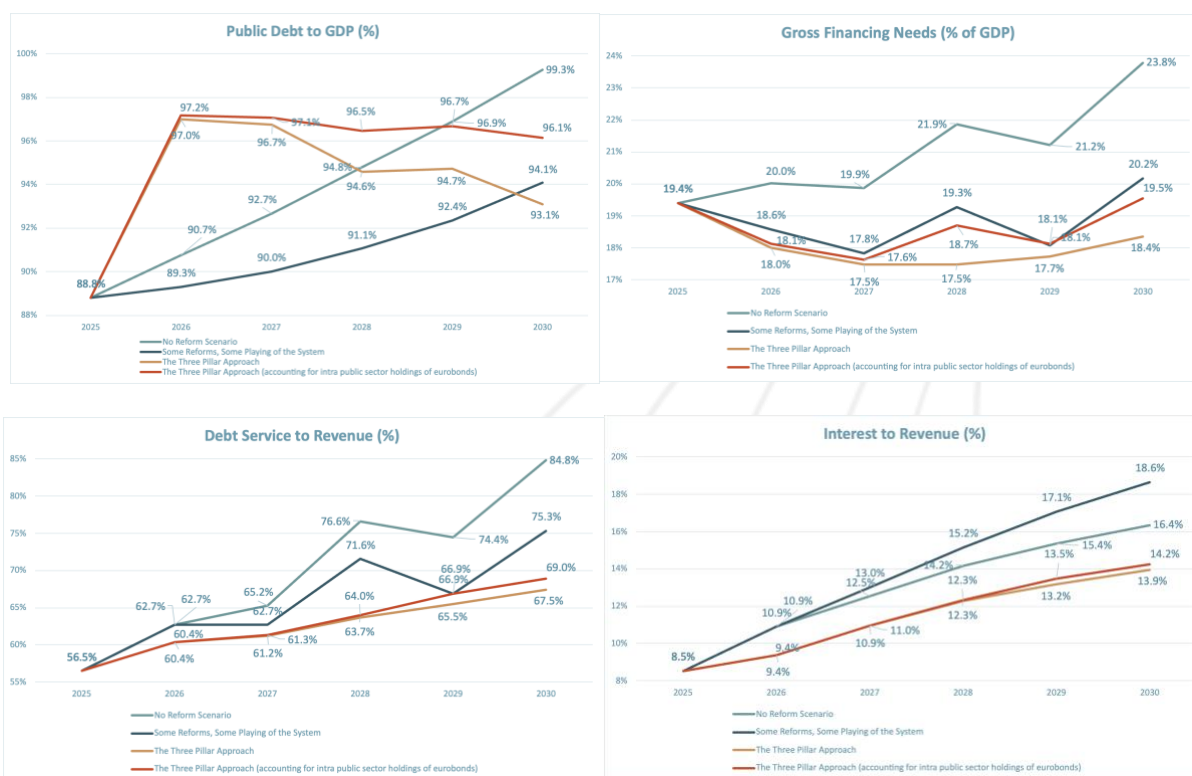
**Given the limited effectiveness of reforms alone, debt reprofiling combined with these reforms appears to be the only policy option capable of both reducing debt and creating sufficient fiscal space to support economic recovery.** A reprofiling of external private and bilateral debt over the next 5 years would represent a total of approximately USD 4bn of savings in hard currency.

**According to IMF estimates, Bolivia’s external debt service obligations over the next four years are distributed between multilateral creditors (56%), private creditors (27%), and bilateral creditors (17%).** Assuming multilateral creditors remain insulated, the most impactful reprofiling strategy would

involve suspending debt service payments to private and bilateral creditors in the next four years, in combination with fiscal and exchange rate reforms.

**Under this scenario, public debt would peak in 2026 and then decline steadily, reaching 93% of GDP by 2030.** It must be stated that this improvement reflects temporary relief, as deferred payments would eventually become due beyond the projection horizon. Reprofiting would also provide significant liquidity relief. Gross financing needs would decline from 19.4% to 18.5% of GDP. Debt service relative to revenues would still increase to 67% by 2030, compared to 83% in a scenario with reforms but not reprofiling. Similarly, interest payments would rise to 14.7% of revenues, compared to 16.4% without reprofiling. At first, these differences may appear small, but they represent a consequent and necessary additional fiscal space of several hundred million USD for the government.

**A caveat for the reprofiling is that a portion of the Eurobonds is reportedly held by the central bank and the pension funds.** If that is the case, this would mechanically reduce the impact of reprofiling at the broader public-sector level. Under the assumption that the totality of the pension fund and central bank holdings of Eurobonds is neutral at the broader public sector level<sup>49</sup>, the savings from a reprofiling would be reduced from USD 4bn to USD 3.3bn.<sup>50</sup> The impact on ratios (in red) nevertheless remains limited. They broadly follow the same trend as when intra-public sector holding of external bonded debt is not accounted for (in yellow).



<sup>49</sup> Because interest and amortization revenues stemming from their Eurobond holdings are flowing back to the central government through the primary balance. However, this assumption is not assured as it appears some parts of these holdings have been used to establish a total return swap with a commercial bank.

<sup>50</sup> Equivalent of 67% of the remaining debt service on the 2028 and 2030 bonds.

### 3.4 The Foreign Exchange Question: Reprofileing To Avoid Shortages

**Foreign exchange availability represents one of the most acute constraints on Bolivia's debt sustainability.** When Rodrigo Paz took office, he inherited an economy with virtually no liquid FX reserves. While total reserve assets appear higher when including gold holdings (around USD 4.4 bn), liquid reserves available to service external obligations are extremely limited, leaving the country highly vulnerable to external financing shocks. In this context, debt reprofileing plays a critical role not only in restoring debt metrics but, more importantly, in alleviating immediate foreign exchange pressures.

**Over the next five years, external public debt service is projected at approximately USD 12 billion.**

With liquid FX reserves close to zero prior to renewed multilateral support, and in the presence of a persistent current account deficit and limited market access, Bolivia's external position is structurally unsustainable without substantial MDB financing. According to the latest IMF Article IV projections, the country is expected to run persistent current account deficits averaging more than USD 2 billion annually over the coming years. These deficits will constitute an additional drain on foreign exchange reserves. While exchange rate depreciation could partially mitigate external imbalances by compressing imports and improving competitiveness, this adjustment is unlikely to fully offset underlying structural weaknesses in the balance of payments. As argued above, the government should implement policies promoting FDI, but these initiatives are uncertain and take time to materialize. The government also stated they would be willing to issue as soon as 2027 if it is doable at around 8.5%<sup>51</sup>. It is still unclear whether it is likely: its outstanding bonds have rallied to around 9%, but this yield probably does not reflect the true market value of Bolivia's credit due to the low liquidity in the secondary market and intra-public sector holdings.

**Under a no-reprofileing scenario, projected MDB disbursements<sup>52</sup> would cover between 50% and 80% of current external debt service obligations, depending on the scale and timing of liquidity support.**

In contrast, under an external private and bilateral debt reprofileing scenario, MDB financing could cover between 80% and 120% of external debt service requirements, significantly easing near-term external financing pressures and allowing for a gradual rebuilding of reserves.

**Maintaining the exchange rate at an artificially overvalued rate, while having virtually no liquid FX reserves, increases the risk of a collapse subsequent to a reserve shortage, as recently demonstrated by the case of Argentina.** It is a very costly strategy for the country. First, the central bank would be forced to defend the exchange rate against speculators, potentially selling scarce reserves. Second, with no guarantee of success for this strategy, a collapse of the peg would likely lead to a more abrupt devaluation than if it were effected in an orderly manner.

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<sup>51</sup> Do Rosario, Jorgelina and Sergio Mendoza. "Bolivia Will Tap Dollar Reserves for Bond Payments, Finance Minister Says." Bloomberg. 9 February 2026.

<sup>52</sup> We estimate 2026-2030 MDB financing to amount \$7-10.5bn per public announcement and historical values.

## Conclusion: A Stocktake and an Outline of An IMF Program

### **Bolivia finds itself in a somewhat awkward position today.**

On the one hand, the new government's day-one declaration that the country was in an "*Economic, Financial, Energy and Social Emergency*" was met with widespread agreement and support. The government's early actions – jump-starting the fiscal adjustment with the elimination of the fuel subsidy, and paving the way for the external adjustment through policy communication at the Bolivian Central Bank – helped secure large multilateral financing packages, narrow the exchange rate gap, and push up prices on Bolivia's 2028 and 2030 bonds. Paz faithfully communicated the problems facing Bolivia and the steps required to resolve them.

On the other hand, the government appears increasingly eager to declare a premature victory. Five months after Paz's inauguration, no budget has been put forward: the country is still running on a MAS budget that never won legislative support. Despite early preparations for exchange rate unification, devaluation has been delayed. Talks with the IMF have stalled as well, perhaps because of the government's newfound reluctance to see out the external adjustment. On the back of the early support that the government received, the finance ministry has conducted a roadshow in recent weeks to issue a new Eurobond, hoping to raise at 8.5%, which might help it resist further reforms.

Leaning heavily on CAF and IDB, and making use of gold derivatives to pad reserves, Bolivia was able to meet its \$388 million March repayment. It is possible that it will be able to tap international capital markets, too. However, it should be clear that this strategy – borrowing reserves, rather than rebuilding them – can only last so long. The degree to which Bolivia will be able to lean on multilaterals and reserve management tactics to meet its next repayment in the third quarter of 2026 remains highly uncertain.

Paz is conducting a rather conspicuous pivot from framing Bolivia's economic situation as a hydra-headed crisis to suggesting it is something that can be resolved with small fiscal fixes and a bit of multilateral financing. This paper's analysis aligns more closely with his initial framing: Bolivia faces significant economic pressures that must be resolved through fiscal adjustment, external adjustment, and stepped-up multilateral financing. It is also our assessment that a reprofiling of Bolivia's bilateral and external private creditor debt provides the most desirable, credible path for allowing Paz's stabilization agenda to work.

If the government's current positioning and delaying is only politics, that is understandable. It is true that even cautious approaches to fiscal and external adjustments may have pronounced consequences. Data issues make it unclear for outside researchers, multilaterals, and likely Bolivian authorities to quantify potential consequences (e.g., financial stability risks associated with a devaluation). Without being able to quantify potential consequences, it is very difficult to develop ways to contain them. Given such uncertainty, it is perfectly understandable that the Paz government would wish to wait until sometime after the March 22 local elections before taking any more action.

### **However, once the election is over, it will be necessary to continue with the stabilization agenda.**

Any further delays or dilution around the fiscal or external adjustment will only exacerbate the country's challenges and require more painful action in the future.

The Paz government should be held to its electoral intentions and resist declaring a premature victory. Bolivian authorities should also be dissuaded from the notion that the special favors that were doled out for Argentina will apply to them. It is good that Bolivia has re-fostered diplomatic relations with the United States, and this may make possible new credit enhancements and financing from DFC. However, it is unlikely that Bolivia will be able to secure an ESF swap line as the foreign minister has sought to do. It is also unlikely that Bolivia would be able to secure “waivers of nonobservance” on key performance criteria (such as reserve accumulation) and punt on its external adjustment. Nor, for that matter, would it be in Bolivia’s interest to attempt to do what Argentina has done. Becoming a recidivist borrower of the IMF due to the failure to implement necessary reforms and relying on special favors from one American political party is not a desirable or sustainable macro-fiscal strategy.

**For their part, multilaterals should be mindful of the Republic of the Congo precedent**, whereby well-publicized negotiations around an IMF program help a country secure large financing packages from MDBs and tap international capital markets, but ultimately the IMF program is abandoned due to a desire not to implement the necessary reforms. The multilaterals, including the IMF, should coordinate to provide Bolivia with the financial support and technical assistance the country requires. They should also coordinate to ensure that they do not enable Bolivia to avoid necessary reforms.

**This paper outlines the reforms needed to carry out the fiscal and external adjustments.**

- The fiscal adjustment requires cuts to current expenditure, focusing on SOE payrolls and operating costs, and improvements to capital expenditure and social spending.
  - We do not envision the fiscal adjustment to play out through an increase in revenues in the near term, given the high rates of informality in the Bolivian economy, although we are supportive of efforts to widen the Bolivian tax base.
- The external adjustment requires a 32.5% devaluation and a cleaning up of reserve management policies to discontinue the hazardous use of gold derivatives and monetary financing, which are draining the central bank of usable reserves and pushing it into insolvency.
  - Our analysis that the Bolivian Central Bank is likely insolvent, due to non-performing loans to SOEs and a surge in unreported gold liabilities, will also necessitate a fiscal recapitalization of the central bank as part of an IMF program.
- This paper has also highlighted how a reprofiling of Bolivia’s bilateral and private creditor external debt is the only credible, desirable way to give the country the breathing room it requires for stabilization and growth to occur.

**These actions will hopefully form the backbone of a strong and generous IMF program.** Bolivia has been negotiating an Extended Fund Facility (EFF), which will reportedly be \$2.6–3.3 billion or 792% to 1,005% of quota.<sup>53</sup> This necessarily engages the IMF’s “Exceptional Access Policy,” which allows for programs in excess of normal access limits provided four criteria are met: an exceptional balance of payments need, a high probability of debt sustainability, good prospects of gaining or regaining market

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<sup>53</sup> Do Rosario, Jorgelina and Sergio Mendoza. “Bolivia Seeks as Much as \$3.3 Billion in IMF Financing.” Bloomberg. 11 February 2026.

access, and that “the policy program of the member country provides a reasonably strong prospect of success.”

**Bolivia fares well on the first and third criteria.** It has an exceptional balance of payments need that cannot be met within normal access limits, and it also has good prospects of market access.

**However, there are clear questions around the second criterion.** Our analysis suggests that Bolivia’s debt is unsustainable: public debt stands at 95% of GDP and it has resorted to significant monetary financing and the use of unconventional reserve management tactics to stay current on debt service. Nevertheless, there is a likelihood that the IMF deems Bolivia a “gray zone” case, in which its debt is “considered sustainable but not with a high probability.” The 2016 modification to the Exceptional Access Policy introduced the use of reprofilings to help members secure Exceptional Access when debt is in the gray zone.<sup>54</sup> The IMF should hold Bolivia to this.

**There is also a growing risk of slippage on the fourth criterion.** The Paz government seems to wish to declare a premature victory and delay, dilute, or abandon components of the stabilization agenda. There appears to be equivocation on the external adjustment. For rebuilding Bolivia’s depleted reserves and turning around its persistent current account deficits, there is simply no alternative to a devaluation. In order to provide a “reasonably strong prospect of success,” the IMF should hold Bolivia to high-impact reforms: exchange-rate flexibility should be a prior action in an IMF program.

**Rodrigo Paz was elected on a historic mandate to bring a new day to Bolivia.** His government demonstrated a strong and smart commitment to this from its first day in office with the elimination of the fuel subsidy. It continued that progress with its moves at the Bolivian Central Bank to pave the way for exchange-rate unification and clean up the use of unconventional reserve management tactics. On the back of this progress, it won well-deserved support from the multilaterals and launched talks with the IMF and regained favor with international capital markets.

The Paz government’s initial willingness to conduct the hard measures needed to turn the country around appears to be fading. Stakeholders should provide the support that is needed to keep the president and the country on course.

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<sup>54</sup> Independent Evaluation Office of the International Monetary Fund. The IMF’s exceptional access policy: Evaluation Report. December 2024. International Monetary Fund.



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