

Bolivia's Economic Pivot: Early Macroeconomic Achievements and Remaining Challenges

Guillermo Arcay, Fernando García, Lucila Venturi,
Alejandro Werner and Ricardo Hausmann



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HARVARD KENNEDY SCHOOL
79 JFK STREET
CAMBRIDGE, MA 02138

GROWTHLAB.HKS.HARVARD.EDU

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The "Bolivia's Economic Pivot" series, produced by the Growth Lab, comprises seven documents: (1) Main findings and reform priorities, which integrates and synthesizes the six thematic studies in the series (Hausmann et al., 2026); (2) The Making of a Macroeconomic Crisis (García et al., 2026); (3) Early Macroeconomic Achievements and Remaining Challenges (Arcay et al., 2026); (4) Reviving the Energy Sector (Lamby et al., 2026); (5) Unlocking the Mining and Lithium Potential (Lamby & Hausmann, 2026); (6) Opportunities and Challenges in Agriculture (Shah & Hausmann, 2026); and (7) A Growth Diagnostics of the Tourism Sector (Freeman & Hausmann, 2026). See references.

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We note that the views expressed in this report are solely those of the authors and do not necessarily reflect the views of those acknowledged here.

Data and Information Disclaimer

This report is based exclusively on publicly available information and statistics at the time of writing. Official datasets in Bolivia are often outdated, incomplete, or published with significant lags, which limits the precision of certain estimates and the depth of the analysis. Where possible, these gaps have been addressed through secondary sources, historical trends, or internationally comparable data, though some figures should be interpreted as indicative rather than definitive. Given this, judgment was applied in preparing some of the numbers and calculations contained in this report, and any changes or developments occurring after February 28th, 2026, are not fully accounted for.

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Executive Summary

This paper assesses Bolivia's stabilization prospects using a macro-financial scenario framework that evaluates three questions: how severe the crisis could have become under policy continuity with zero reforms, what the new government's initial reform package has achieved, and what additional steps remain in the road ahead. Bolivia's macroeconomic crisis can be traced back to policy mistakes and macroeconomic imbalances that accumulated for over a decade. These did not immediately manifest as instability because ample reserves were used to delay that. Instability surfaced once liquid international reserves were depleted in 2023, triggering import contraction, the emergence of a parallel foreign exchange market, fuel shortages, and accelerating inflation that reached an annualized rate of 84% in June 2025¹. A political transition in the second half of 2025 opened the possibility of stabilization, and the new government has already taken important initial steps in that direction. These steps were necessary but not sufficient. However, Bolivia is still on time to enact a specific and feasible set of additional reforms that can close the remaining gaps.

Absent any reform, Bolivia was on the verge of a self-reinforcing crisis that would have resulted in economic collapse, instability, and a high probability of external default. Under the assumption of policy continuity, the macro-financial model projected a decline in non-fuel imports above 25% and a GDP contraction exceeding 5% in 2026, driven by the combined pressure of declining exports and net negative international financial flows. The exchange rate would have depreciated sharply to ration imports, transmitting the external crisis into fiscal accounts through surging energy subsidies and foreign debt service costs. The resulting fiscal deficits would have exceeded the combined financing capacity of the pension system and domestic debt markets, requiring monetary base expansions that would have doubled it every year, likely exceeding the feasible limits of the inflation tax and triggering a collapse in money demand. The balance sheets of the pension system, commercial banks, and the Central Bank would have been progressively eroded by the combination of accelerating inflation and financial repression. The projected figures rest on conservative assumptions, notably the absence of a banking crisis, no collapse in money demand, and the continued functioning of the fuel import system despite large arrears with fuel traders. The actual outcome would likely have been worse.

The initial reform package significantly reduced immediate tail risks, but the trajectory under reforms implemented or announced to date remains insufficient for stabilization. The new government restored fuel supply, secured multilateral financing commitments exceeding USD 9 billion over the medium term, partially reduced energy subsidies by 44% in US dollar terms, centralized and formalized the parallel foreign exchange market through the banking system, and resolved the domestic arrears overhang. The parallel-market premium fell from over 120% in the summer of 2025 to 31% by mid-December. Under current conditions, imports are expected to recover near pre-crisis levels, and real GDP may grow substantially in 2026. However, the expected fiscal deficit remains near 7% of GDP, of which approximately 3 percentage points would require monetary financing in 2026

¹ Annualized equivalent to monthly inflation rate in June 2025.

and 4.5% from 2027 onwards, sustaining inflation near 17%. After accounting for the recent shock to hydrocarbon prices, the fiscal deficit is expected to rise to 10% with monetization near 6% of GDP and inflation close to 25%. In addition, pension fund investments are expected to continue to be forced into government debt at below-market rates, while private credit remains stagnant, and the market exchange rate appears to be overvalued with depreciation pressures expected to surface during the second semester of 2026 as liquid external financing sources are drawn down.

The remaining fiscal imbalance can still be sustainably closed through a specific and plausible set of additional reforms. Despite the initial fuel price adjustment in December and omitting the recent international price hike, the fiscal opportunity cost of remaining fuel subsidies was still valued at 3.3% of GDP, and natural gas subsidies accounted for an additional 2.2% of GDP. After accounting for the recent international price shock, those figures rise to 7.4% and 2.9% respectively. Non-multilateral-financed public investment amounts to roughly 2.1% of GDP. An elimination of remaining energy subsidies combined with a freeze on non-strategic investment projects, accompanied by compensatory cash transfers, would be plausible, efficient, and sufficient to achieve fiscal sustainability. The fiscal arithmetic is complex because reducing monetization would also prevent the inflation-driven erosion of wages and transfers that was expected to occur in the counterfactual scenario with zero reforms, so the adjustment in other accounts should be 1.4 points of GDP higher than the headline deficit implies.

Completing stabilization also requires formalizing a credible exchange rate regime, rebuilding reserves, and resolving legacy balance sheet vulnerabilities. The official exchange rate must eventually be unified toward a market-determined level, which will likely be less overvalued than today's reference exchange rate after liquid external financing dries up and the public sector resorts to foreign exchange purchases from the private sector. However, uncertainty over fiscal accounts, the export path and multilateral disbursement timing currently prevents the Central Bank from defining an equilibrium-consistent exchange rate path, making the prompt approval of fiscal reforms, sectoral legislation, and the finalization of multilateral agreements a precondition for FX regime design. International reserves must be replenished to a level that provides credible protection against shocks, noting that roughly a third of gold reserves are pre-committed to settle contracts from the previous government. An IMF program would substantially strengthen the stabilization framework by transforming multilateral financing from project-tied to liquidity support, providing reserve accumulation assistance, and reducing country risk. US dollar-denominated arrears and central bank liabilities require coherent resolution to prevent stock problems from undermining flow stabilization. Finally, financial repression should only be unwound in a deliberate sequence, with each step contingent on the credibility established by the previous one.

Initial steps have bought time and credibility, but the window to complete stabilization reforms may close if further reforms are postponed. The initial reform package has moved Bolivia decisively away from the catastrophic trajectory of its counterfactual scenario, and the government retains a feasible menu of instruments to close the remaining fiscal and external gaps. The milestones identified in this paper are not optional additions to a stabilization program, they are the conditions that define stabilization itself. Several milestones will test the stabilization program: wage

renegotiations in May, fuel subsidy restructuring in June, progress on sectoral legislation, and the announcement of an IMF agreement. In addition, external liquid financing is expected to be drawn down in the second semester, and energy subsidies are already rising again due to turmoil in oil markets. The longer these reforms and vulnerabilities are deferred, the greater the risk that the gains from the initial reform package are eroded by the very imbalances they were designed to address.

1. Introduction

Booming natural gas exports powered a decade of growth and fiscal expansion in Bolivia during the 2000s, but the foundations of that growth engine would prove fragile. In the aftermath of hyperinflation in the 1980s, Bolivia implemented a package of liberalization reforms which included openness in the hydrocarbons and mining industries. Hydrocarbon liberalization led to an agreement to supply gas to Brazil and the inauguration of the Gasbol pipeline in 1999. The pipeline anchored demand and made exploration profitable, resulting in an 8-fold increase of certified natural gas reserves from 1998 to 2003². Production expanded in the 2000s, and in that decade the industry also benefited from international prices that were on average 170% higher than in the 1990s. An export-led boom followed, accompanied by an expansion in the size of government. The Central Bank's relatively cautious policy provided a stable foundation: accumulating roughly half of GDP in international reserves by 2009³ and fixing the exchange rate in 2011, with ample room to sustain it. Yet the policy choices that would later unravel this growth model were already underway.

The natural gas boom reversed sharply after nationalization discouraged investment and international prices collapsed, but rather than adjusting, authorities drew down reserves for nearly a decade until they were exhausted in 2023. The government nationalized the natural gas industry in 2006⁴ and cemented this reform into a new constitution three years later. Exploratory and productive investments dwindled as private capital was discouraged, and natural gas production began to decline in 2015⁵. Simultaneously, as the commodity supercycle ended in 2014, the industry suffered a sharp drop in international prices and Bolivia was left with a large gap in its external and fiscal balances. The fall in revenues was not followed by any meaningful adjustment in government expenditures, so the resulting fiscal and external deficits were financed through a sustained drawdown of international reserves. The vast reserves accumulated in the 2000s allowed this strategy to continue for almost a decade (Figure 1), until liquid reserves were finally depleted in 2023 and the full pent-up force of the crisis erupted.

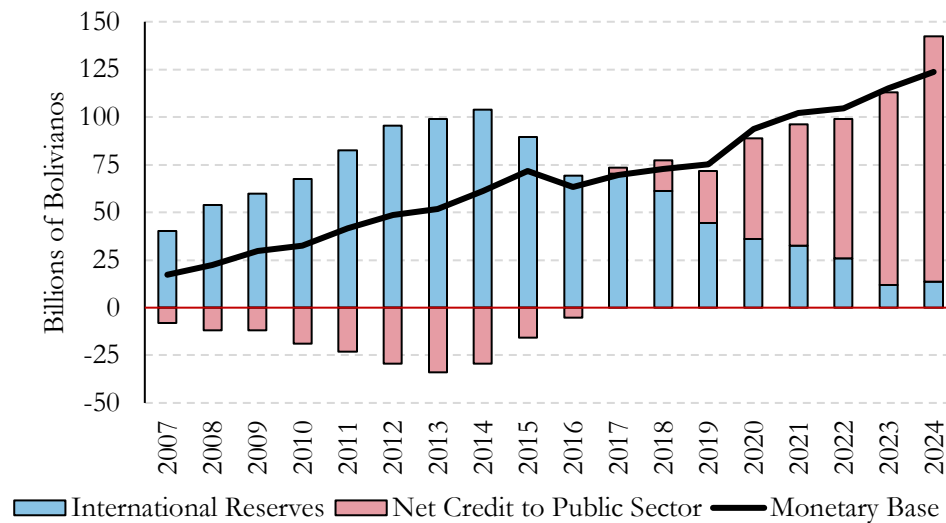
² Authors' elaboration based on Ryder Scott and Fundación Jubileo, which in turn draws on data from YPF and MHE.

³ Banco Central de Bolivia international reserve data.

⁴ The nationalization was enacted through Decreto Supremo No. 28701 "Héroes del Chaco," signed by President Evo Morales on May 1, 2006, which transferred ownership, control, and commercialization of all hydrocarbon production to the state through YPF.

⁵ Agencia Nacional de Hidrocarburos.

Figure 1: Origin of the Monetary Base, Selected Accounts



Source: Author's calculation based on Banco Central de Bolivia.

The depletion of liquid reserves was followed by foreign exchange scarcity, exchange rate instability and accelerating inflation, while authorities resorted to increasingly distortive mechanisms to finance the deficit. With reserves exhausted, the government turned to three alternative financing sources, each more distortive than the last. The first was crowding out private savings through Gestora, a traditionally small public pensions administrator that took over the entire pension system's portfolio from the private sector in May 2023⁶ and devoted nearly all investable funds to purchasing government debt at negative real interest rates. Under hypothetical real returns of 0% since inception, Gestora's portfolio would have been 20% larger than it was by October 2025 (a gap equivalent to 11% of GDP⁷). This mechanism is a well-studied pattern often used by governments in fiscal distress attempting to liquidate the value of their internal debts (Reinhart and Sbrancia, 2015). The second financing tool was crowding out private credit through the Central Bank, which issued debt instruments to commercial banks at relatively higher interest rates, accumulating obligations equivalent to 7% of GDP in just two years⁸. Even so, these sources could not cover a fiscal deficit exceeding 10% of GDP, and the residual was financed through monetary issuance: the monetary base rose 18% in 2023 and 14% in 2024, compared to just 1% in 2022⁹. On the external front, foreign exchange rationing resulted in import scarcity and capital controls, which pushed most private sector transactions into a parallel foreign exchange market whose premium over the official rate averaged 37% in 2024 and 91% in the first semester of 2025¹⁰. The public sector also accumulated roughly USD 2.6 Bn in arrears¹¹ with importers and foreign companies, while fuel shortages paralyzed

⁶ Bloomberg. "[AFP a Gestora: Estado boliviano toma control total sobre jubilaciones desde este lunes](#)". May 15th, 2023.

⁷ Author's calculations based on Autoridad de Fiscalización y Control de Pensiones y Seguros (APS).

⁸ Banco Central de Bolivia.

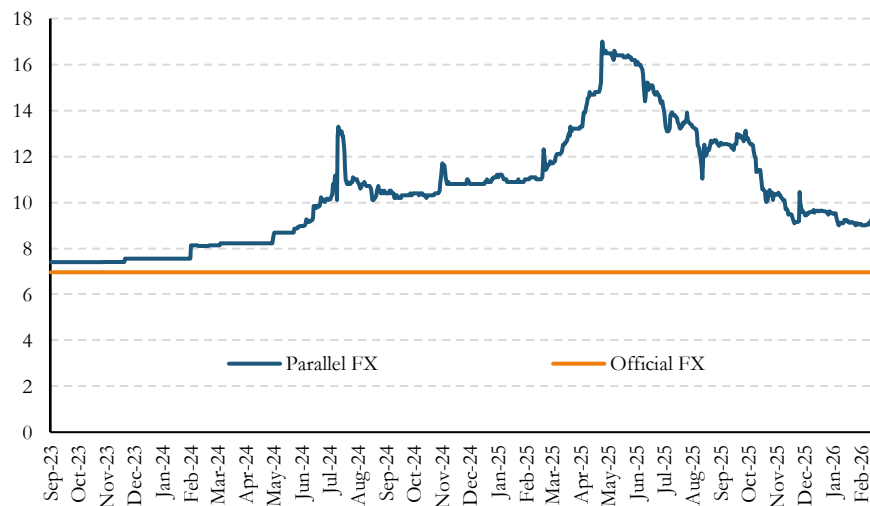
⁹ Banco Central de Bolivia.

¹⁰ Author's calculation based on dolarbluebolivia.click, and Banco Central de Bolivia.

¹¹ Banco Central de Bolivia.

transport across the country. On the internal front, the government accumulated roughly 4% of GDP in Boliviano-denominated arrears. Instability peaked in June 2025, when monthly inflation surpassed 5% (equivalent to an annualized rate of 84%¹²), the parallel-market premium reached 120%¹³, and severe fuel scarcity paralyzed truck drivers for days at a time¹⁴. High inflation episodes documented in the literature often show inertial self-reinforcing patterns (Dornbusch, Sturzenegger and Wolf, 1990), and Bolivia was on the verge of entering such a vicious dynamic as negative expectations pushed capital flights, subsequently worsening expectations.

Figure 2: Official and Parallel Exchange Rates in Bolivia



Source: Author's calculation based on dolarbluebolivia.click, and Banco Central de Bolivia.

A political transition in the second half of 2025 opened a window for stabilization and the new government's initial reforms reduced immediate tail risks, but the process remains incomplete. Expectations turned around in July 2025 in anticipation of general elections scheduled for August. Opposition candidates won in a landslide¹⁵ and took office on November 8th. They moved quickly by restoring nationwide fuel supply through arrangements with commodity traders and bridge financing from the Export-Import Bank of the United States¹⁶, securing multi-year multilateral financing commitments with CAF¹⁷, FONPLATA¹⁸, and the IADB¹⁹, partially reducing energy subsidies, partially freezing the wage bill, sterilizing the payment of internal arrears, and centralizing

¹² Author's calculation based on Instituto Nacional de Estadísticas de Bolivia.

¹³ Author's calculation based on dolarbluebolivia.click, and Banco Central de Bolivia.

¹⁴ Visión 360. "[Choferes y transporte pesado confirman movilizaciones y paro para el 3 de junio ante la escasez de combustible.](#)" 29 de mayo de 2025.

¹⁵ Órgano Electoral Plurinacional de Bolivia.

¹⁶ Export-Import Bank of the United States (EXIM). "[Bolivia's Moment of Opportunity is America's Moment to Lead.](#)" November, 2025.

¹⁷ CAF – Banco de Desarrollo de América Latina. "[CAF aprueba préstamo de liquidez por USD 550 millones en apoyo a Bolivia.](#)" November, 2025.

¹⁸ FONPLATA. "[FONPLATA afirma su apoyo a Bolivia y su Desarrollo.](#)" December, 2025.

¹⁹ IADB. "[Grupo BID y Bolivia acuerdan un paquete de apoyo de US\\$4.500 millones.](#)" January, 2026.

the semi-formal parallel foreign exchange market through the banking system with a transparent reference price. These measures reduced immediate tail risks, and anchored expectations such that the parallel-market premium fell to 31% by mid-December. However, the reforms undertaken so far are necessary but not sufficient to fully stabilize and place Bolivia in a sustainable growth path.

The remainder of the paper develops this argument as follows: Section 2 contextualizes the magnitude of Bolivia's stabilization challenge among international crisis episodes and identifies some of its key distinctive features, including the conditions for an expansionary adjustment and the contours of the required stabilization program. Sections 3 through 5 then leverage a macro-financial modeling framework to evaluate three distinct scenarios for the Bolivian economy. Section 3 explores a counterfactual scenario of policy continuity to establish how severe the crisis could have become absent any reforms. Section 4 incorporates the reforms that the new government has implemented or announced to date and shows that while the current trajectory averts the worst outcomes, the remaining fiscal deficit still requires monetization and Gestora financing, and external equilibrium remains vulnerable. Section 5 identifies the additional milestones required to complete stabilization, discusses feasible instruments for achieving them, and presents an alternative scenario under which Bolivia fulfills the stabilization process and enters a sustainable growth path.

2. Contextualizing the Bolivian Stabilization Challenge at its Onset

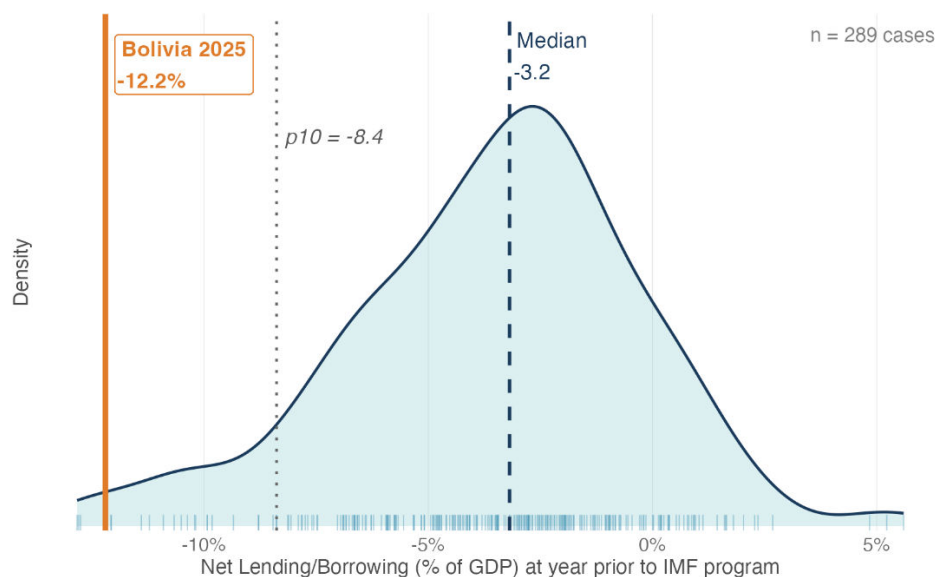
Bolivia's macroeconomic crisis is among the most severe in recent decades, but the structure of its fiscal accounts provides unusually large levers for adjustment, and its conditions can be consistent with an expansionary stabilization. This section contextualizes the scale of the challenge using cross-country evidence from historical IMF programs, identifies distinctive features of Bolivia's fiscal and external position that shape stabilization options, and outlines the preconditions for a stabilization program that are evaluated in the remainder of the paper. The required fiscal consolidation is dramatic, but Bolivia entered the crisis with large adjustment levers that are enough to stabilize. Moreover, the economy's current disequilibrium involves excess demand and an inelastic, import-constrained supply, which means that a fiscal consolidation coupled with external financing could reduce inflation while simultaneously expanding private economic activity.

Bolivia's fiscal deficit and revenue decline place it at the extreme end of historical crisis episodes that have required IMF intervention. Using event data from the IMF's Monitoring of Fund Arrangements (MONA) database and macroeconomic data from the World Economic Outlook, we compare Bolivia's fiscal position in 2025 against the distribution of crisis episodes during the year prior to undergoing their corresponding IMF program. The sample covers cases since the year 2000 and excludes those with low-severity preventive IMF programs. Bolivia's fiscal deficit was on track to reach 17% of GDP in 2025 if expectations reversal had not appreciated the exchange rate in the Summer. Still, Bolivia's actual fiscal deficit of 12.2% of GDP in 2025²⁰ stands among the top 4% compared to the distribution of crisis episodes with IMF programs in this century (Figure 3).

²⁰ Ministerio de Economía y Finanzas Públicas (MEFP).

Excluding 4 Islands²¹, only 3 countries entered an IMF program with a more severe fiscal deficit than the one Bolivia had in 2025, and they were all undergoing violent conflicts: Iraq (2004, 2016), Ukraine (2022), and Burundi (2003). Bolivia's fiscal deficit is a result of the collapse in natural gas revenues and the lack of expenditure adjustments thereafter. This decline is also at the extreme tail compared to crisis episodes with IMF programs in this century. Bolivia's fiscal revenues dropped from a peak of 40% of GDP in 2014 to merely 23.5% of GDP in 2025 (-16.5pp of GDP)²². Only Cyprus experienced a considerably larger shock before entering an IMF program, when its fiscal revenues collapsed 23pp of GDP (2008 to 2009) during the global financial crisis. Perhaps the most similar case to Bolivia was Angola, a hydrocarbons exporter whose fiscal revenues dropped from 25.6% of GDP in 2008 to 9.2% of GDP in 2018 (-16.4pp), undergoing two IMF programs in the process. The combination of an exceptionally large deficit and an eroded revenue base means that closing the fiscal gap will require expenditure adjustments of an extraordinary scale that few countries have had to undertake.

Figure 3: Bolivian Fiscal Deficit Relative to Distribution of Episodes with an IMF Program



Source: Author's calculation based on the International Monetary Fund's Monitoring of Fund Arrangements (MONA) database, World Economic Outlook, and Bolivian estimated fiscal accounts based on Ministerio de Economía y Finanzas Públicas.

The Bolivian balance of payments crisis was well underway before stabilization reforms began, with a large import contraction and the near-total depletion of international reserves.

Bolivia's imports declined by 16% from 2023 to 2025²³, placing it among the top 10% most severe episodes with an IMF program²⁴. Bolivia began from a position in which the economy has already been forced to ration imports for years, with severe consequences for logistics, agriculture, mining, and manufacturing. Capital goods import had already contracted 35%, while intermediate goods imports for agriculture, construction, and transport equipment had shrunk 20%, 28%, and 19%

²¹ São Tome and Príncipe (2004, 2009), Maldives (2009), Antigua and Barbuda (2009), and Seychelles (2020).

²² Ministerio de Economía y Finanzas Públicas (MEFP).

²³ Based on data from Banco Central de Bolivia, comparing the first 9 months of 2023 with the first 9 months of 2025.

²⁴ Estimated based on the 3-year decline in imports up to the year prior to each non-preventive IMF program.

respectively, from 2023 to 2025²⁵. The external position was further distinguished by the near-total absence of a reserve buffer. From 2015 to 2025, Bolivia's international reserves declined by 98%, well below the bottom decile threshold (-59.5%) among IMF program episodes. By 2025, liquid reserves in Bolivia were effectively zero²⁶. The remaining non-liquid reserves consisted of approximately 22 tons of gold, but Bolivian law requires a minimum of 22 tons to remain in reserves at all times, rendering them legally unsellable. Moreover, 6.6 of those tons had already been pre-sold under gold-future contracts by the previous administration, leaving only 15.6 tons which are legally unsellable. The Central Bank therefore entered the stabilization process with no usable buffer against shocks. Bolivia needs external finance not only to support a normalization of its imports but also to replenish its reserves, a dual requirement that distinguishes it from most historical cases.

Despite the severity of these imbalances, Bolivia entered the stabilization process with two unusually large and inefficient expenditure-side accounts that make the required fiscal adjustment technically achievable. Figure 4 shows the evolution of public investment and energy subsidies in Bolivia. The opportunity cost of energy subsidies including both fuels and natural gas was estimated at roughly 12% of GDP in 2024 and 14% of GDP in 2025²⁷. Their elimination alone would close most of the fiscal gap while also suppressing fuel contraband and opening the domestic market to competition. Public investment in Bolivia averaged 11% of GDP from 2010 to 2024²⁸, while Latin America averaged 4%. Despite consistently weak returns, public investment remains high for regional standards. A significant share of investment is directed toward state-owned enterprises and projects with limited economic payoff. Together, these two accounts provide more than sufficient adjustment space to achieve a sustainable fiscal position. Section 4 discusses how recent reforms have impacted both accounts, and Section 5 discusses their latent potential as levers for fiscal stabilization.

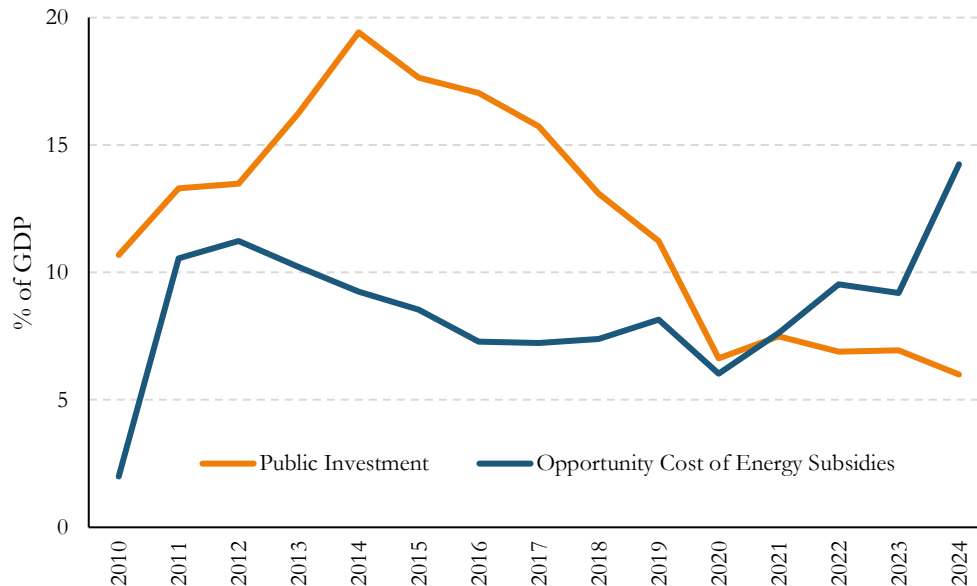
²⁵ Based on data from Banco Central de Bolivia, comparing the first 9 months of 2023 with the first 9 months of 2025.

²⁶ Only USD 51 million in November 2025 before CAF disbursed a liquidity credit tranche.

²⁷ Author's calculation based on data from Agencia Nacional de Hidrocarburos (ANH).

²⁸ Ministerio de Economía y Finanzas Públicas (MEFP).

Figure 4: Public Investment and the Opportunity Cost of Energy Subsidies



Source: Author's calculation based on Ministerio de Economía y Finanzas Públicas, Banco Central de Bolivia and Agencia Nacional de Hidrocarburos.

Wage renegotiations could pose a threat to fiscal consolidation, given the large size of the public sector wage bill and its corresponding wage premium. Although Bolivia's number of public sector employees is not disproportionately high compared with regional peers, their wage premium is substantial. Public employees earn, on average, 39% more per hour than comparable formal workers in the private sector. While part of it is explained by compositional differences (higher average education levels and experience in the public sector), 20 percentage points remains unexplained by the two sectors' compositional differences²⁹. A large unexplained component suggests the presence of structural distortions in wage-setting, likely tied to politicized negotiation processes, lack of performance-based pay or institutional rigidities. This means the wage bill carries significant fiscal weight not because of headcount but because of compensation levels. The annual wage renegotiations that take place between April and May represent a recurring fiscal risk: any stabilization program must ensure that wage settlements do not erode the consolidation gains from subsidy reform and investment cuts. The government should approach the negotiations mindful that public sector workers already earn significantly more than comparable private sector employees.

The Bolivian foreign exchange market also presents distinctive institutional features that shape how the adjustment will unfold. When the Boliviano peg collapsed in 2023, the private sector transitioned to a highly fragmented flexible exchange rate regime with no Central Bank backstop against capital flow volatility. The government had a large foreign exchange deficit, which it resolved by indirectly buying foreign exchange to privates through an opaque mechanism in which informal gold miners were required to sell their product to a state-owned enterprise at an official exchange rate

²⁹ Author's calculations based on Bolivia's Encuesta Continua de Empleo 2Q24.

valuation, which was then sold to the Central Bank for commercialization abroad. On the private sector side, commercial banks were allowed to broker transactions by registering them at the official rate in their books while repricing them through fees that mimicked the parallel rate. When regulators imposed limits on those fees, portions of the market shifted to segmented sectorial markets and to crypto. Eventually, the online price for USDT in Bolivianos became the informal reference nationwide. Since the change in government, there have been reforms aimed at reducing distortions and fragmentation in this market, which are explored in Section 4. However, the Central Bank has not yet published the new foreign exchange framework that will govern the official exchange rate going forward. Section 5 analyzes the current status of the foreign exchange market and ideas for a new foreign exchange regime.

The macroeconomic conditions under which Bolivia entered its stabilization process were consistent with those of an economically expansionary fiscal contraction. Bolivia's case activates a distinct and more direct mechanism. By the time Bolivia's new authorities were getting ready to develop a stabilization program, the economy had excess aggregate demand and an inelastic aggregate supply constrained by the economy's limited capacity to import. Imports contracted sharply as a direct consequence of foreign exchange scarcity, generating shortages that paralyzed logistics, agriculture, and mining. High and rising inflation accompanied by monetary financing of a double-digit fiscal deficit are signals of an economy where demand exceeds what the foreign-exchange-constrained supply can deliver. Under these conditions, fiscal consolidation is expected to reduce excess demand and be disinflationary without necessarily depressing real output. The impact of consolidation depends on how it changes the financing structure of the deficit. On the margin, a fiscal adjustment allows the public sector to first reduce monetary financing, directly lowering the inflation tax. If the consolidation is large enough, it also frees the pension system from forced purchases of government debt at below-market rates, allowing portfolio normalization and eventually restoring time deposits in commercial banks, indirectly supporting credit intermediation and private sector activity. The consolidation could also reduce the need for indirect financing through Central Bank instruments, freeing the funds invested by the banking sector in these instruments and increasing consumer credit. A fiscal contraction accompanied by an expansion in the availability of foreign exchange could therefore simultaneously lower inflation, expand private economic output, and begin to restore the financial system. The experience since the new government took office in late 2025 is consistent with this logic: authorities have begun fiscal adjustment while imports have expanded and inflation has remained low. The classic literature on expansionary consolidations emphasizes the confidence channel: large, credible fiscal adjustments can raise private consumption and investment by reducing expectations of future taxation (Giavazzi and Pagano, 1990; Alesina and Ardagna, 1998). In this case, fiscal adjustment arguably raises the confidence of multilateral banks on the sustainability of the stabilization program, enabling them to increase their investment in Bolivia with external finance that helps lift the imports constraint on aggregate supply.

These conditions define the contours of the stabilization program that Bolivia needs. First, a large fiscal adjustment concentrated on the expenditure side, targeting the three accounts identified above: energy subsidies, non-strategic public investment, and wage bill containment. The scale of the

adjustment is dramatic but the available levers are sufficient to achieve it. Second, an IMF program (likely an Extended Fund Facility given the severity of Bolivia's imbalances relative to historical program episodes) to provide current account support, reserve accumulation, and a credible anchor for expectations. The cross-country evidence presented above makes a strong case that Bolivia's crisis would qualify for a substantial program, especially if authorities show willingness to reform. Third, a resolution of the fuel supply dependency that currently leaves the country reliant on the same commodity traders to whom it owes arrears. As long as the government depends on its creditors for the nation's fuel supply, it has no leverage to renegotiate the terms of those arrears. Eliminating remaining fuel subsidies and opening the market to new entrants would break this dependency, after which the government could restructure the arrears from a position of strength. Fourth, structural and sectoral reforms that spur growth in exports, particularly in agriculture, tourism, mining, and hydrocarbons, to ensure that Bolivia's balance of payments can be self-sustained after multilateral financing commitments are drawn down. Without a credible export growth path, external financing risks becoming a bridge to nowhere.

The remainder of this paper evaluates these stabilization options through a macro-financial scenario framework that models and compares three distinct paths for the Bolivian economy.

The model follows standard IMF methodology, linking four core modules (the real sector, the balance of payments, consolidated fiscal accounts, and monetary accounts) through accounting identities and semi-elasticity parameters, supplemented by auxiliary modules on debt, inflation, the exchange rate, financial institutions, and key export sectors. It allows for the evaluation of different reform combinations and approximates the size and composition of international financing required to make any given set of reforms consistent with stabilization. Section 3 applies the model to a counterfactual scenario of policy continuity, highlighting a catastrophic trajectory that Bolivia would have followed absent any reforms, and establishing that as a benchmark against which the value of the reforms can be measured. Section 4 incorporates the reforms that the new government has implemented or announced to date and shows that while the current trajectory averts the worst outcomes, the remaining fiscal deficit still requires monetary and Gestora financing and the external balance remains fragile. Section 5 identifies the additional milestones required to complete stabilization, evaluates the instruments available to achieve them, and shows an alternative stable scenario for Bolivia under these additional policies.

3. The Averted Crisis: A Counterfactual Business-as-Usual Scenario

Bolivia's future macroeconomic performance must be evaluated in contrast to what its counterfactual performance would have been under zero reforms, which this section explores.

Policy continuity was a likely scenario. Throughout most of the 2025 electoral campaign, prediction markets assigned the highest probability of winning to candidates affiliated with the incumbent party³⁰. Markets interpreted this outcome as synonymous with policy continuity and thus crisis continuity. Capital flights worsened in reaction and the parallel-market premium was pushed beyond 120% until

³⁰ [“Bolivia Presidential Election”](#) forward market in Polymarket.com.

political winds and market expectations reversed just two months before the general elections. After holding political power over Bolivia almost without interruption since 2006, the incumbent party ultimately suffered a decisive defeat in the August 2025 general elections, accumulating only 12% of the presidential vote, 8% of seats in the lower house and zero seats in the senate. However, had the election resulted differently, the macroeconomic dynamics described in this section would have resembled the most likely outcome. This section leverages the macro-financial model to explore the dynamics that would have been expected under a scenario in which no meaningful reforms were undertaken to close the fiscal and external gaps.

Under policy continuity, the model implies a deepening balance of payments crisis, sharp exchange rate depreciation, surging fiscal deficits, and deterioration of balance sheets across the public sector, central bank, pension system, and banking sector. The balance of payments would have deteriorated through three reinforcing channels: declining exports, large external debt amortizations, and limited new sources of external financing. As the external position worsened imports contracted, the parallel-market exchange rate would have depreciated sharply, transmitting the crisis into the fiscal accounts through exchange-rate-linked expenditures such as energy subsidies and foreign debt service. The resulting fiscal deficits would have exceeded the combined financing capacity of the pension system, domestic debt markets, and the inflation tax, pushing monetary financing requirements beyond the point at which money creation can yield real seigniorage collection. The balance sheets of every major financial institution would have been progressively eroded by the combination of accelerating inflation and financial repression. Finally, an external default would have been highly likely.

Export earnings would have continued to decline as policy distortions compounded the structural erosion of the natural gas industry. Previous authorities had introduced major distortions that hindered export sectors. For example, they had blocked agricultural exports in an attempt to prevent domestic food scarcity, but this created additional difficulties for farmers and the agroindustry who were already contending with limited access to imported inputs and fuel. The resulting damage to productive capacity was visible in the data: during the first semester of 2025, agricultural and agro-industrial exports were 16% lower than in the prior year, and had this trend persisted the annual shortfall would have reached USD 318 million³¹. Natural gas exports were already 75% lower in 2024 compared to 2014³² but they would fall by an additional third in 2025, representing a further exports drop of roughly USD 560 million. Manufacturers faced similar constraints across the board. Without a reversal of these policy distortions, the contribution of key export sectors to the balance of payments would have deteriorated further with each passing year, tightening the external constraint on the economy.

Net international financial flows would have been negative, as Bolivia's debt service obligations substantially exceeded any realistic expectation of new lending. Eurobond amortizations were scheduled to begin in 2026, with annual payments of USD 333 million through

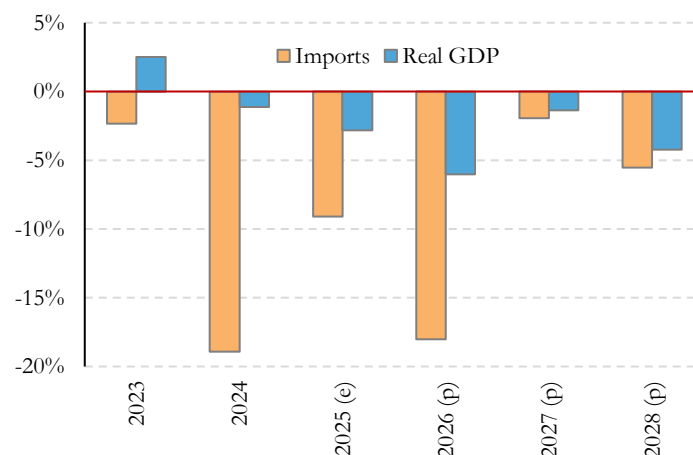
³¹ Author's calculation based on data from Banco Central de Bolivia.

³² Banco Central de Bolivia.

2028 on one instrument and USD 283 million per year from 2028 to 2030 on another. Bilateral and multilateral creditors were owed USD 863 million in amortizations in 2026 alone³³, with similar obligations continuing over the medium term. Against these outflows, new multilateral lending was unlikely to materialize. In the absence of a stabilization program, risk departments at multilateral development banks would have had little basis to approve fresh sovereign exposure, and the country's recent track record provided little reassurance. Authorities had consistently struggled to fully execute even pre-approved project-tied loans due to liquidity difficulties meeting investment project requirements. The government would also have faced mounting pressure to begin servicing its USD 2.6 billion in accumulated arrears³⁴, much of which is owed to the fuel traders that were partially keeping the country's transport system operational.

The combined pressure from declining exports and net negative financial flows would have forced a severe collapse of imports, triggering a deep recession and making an external default highly likely. With falling export revenues and international creditors absorbing more in repayments than they were providing in new financing, the residual capacity to import would have shrunk dramatically. Figure 5 shows the projected trajectory of imports, which would have dropped approximately 18% in 2026. Maintaining fuel imports, however, would have required the government to settle its arrears with fuel traders likely by drawing down the Central Bank's remaining gold reserves. The contraction of imports would have compounded the problem for exporters dependent on imported inputs, reinforcing the downward spiral in the balance of payments. As visualized in Figure 5, GDP would have been expected to decline by over 5% in 2026 and continue contracting thereafter. Given the magnitude of external obligations relative to the country's shrinking capacity to earn or borrow foreign exchange, an eventual default would have been difficult to avoid.

Figure 5: Projected Imports and GDP under Business-as-Usual Scenario



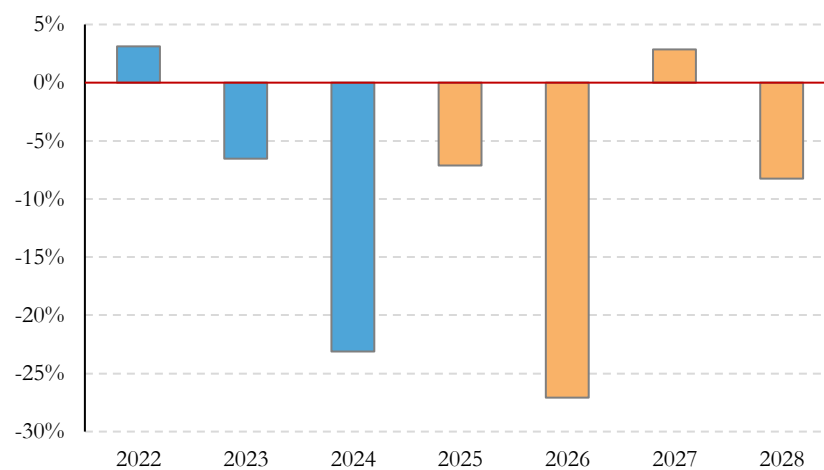
Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

³³ Ministerio de Economía y Finanzas Públicas (MEFP).

³⁴ Banco Central de Bolivia.

The parallel exchange rate would have depreciated sharply, driven both by monetary imbalances generating nominal depreciation pressures and by the need for the real exchange rate to depreciate to ration imports. The fiscal and monetary dynamics of this scenario, particularly the sustained monetization of large deficits, would have placed continuous downward pressure on the nominal value of the Boliviano. More fundamentally, however, the real exchange rate in Bolivia's parallel market functions as the price that rations imports to the level consistent with the available supply of foreign exchange. As the balance of payments tightened, the real exchange rate would have had to depreciate to bring import demand in line with the country's diminished capacity to pay. The sharpest real depreciation would have occurred in 2026, when declining exports, Eurobond amortizations, and multilateral debt service converged simultaneously. A second wave would have taken place in 2028, when amortizations from both Eurobond instruments overlapped (Figure 5). These projections rest on the conservative assumption of no default and no large chronic waves of capital flight; had the latter materialized, the expected depreciation would have been considerably more severe.

Figure 5: Projected Real Exchange Rate Variation under Business-as-Usual Scenario



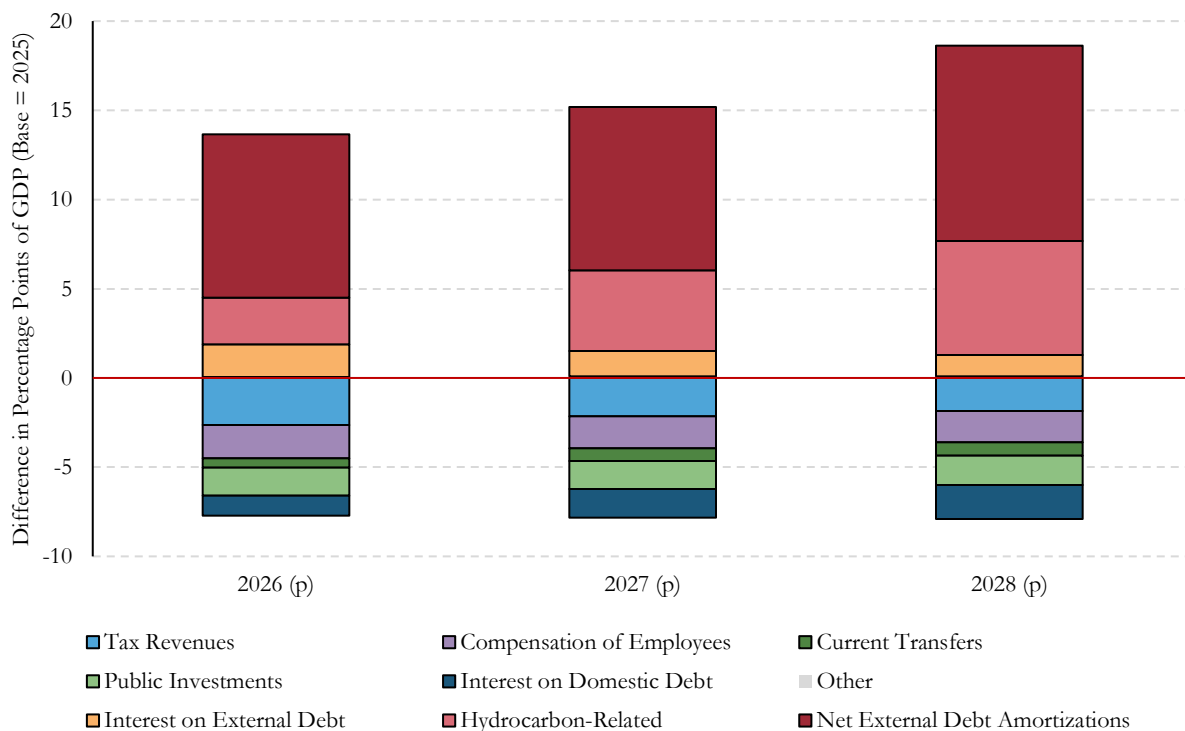
Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

The depreciation of the exchange rate would have transmitted negative spillovers into fiscal accounts, through government expenditures denominated in or linked to foreign currency.

The most significant channel runs through energy subsidies. Under the assumption that authorities maintained their level of fuel imports while continuing to freeze domestic fuel prices, the implied subsidy would have grown with each round of depreciation of the exchange rate, because fuel is purchased in US dollars on international markets and sold domestically at fixed Boliviano prices. Both real depreciation pressures, driven by the balance of payments, and nominal depreciation pressures, driven by fiscal-monetary dynamics, would have widened the gap between the international and local price of fuels. Figure 7 illustrates this dynamic alongside the analogous case of interest and amortization payments on foreign-currency-denominated public debt. The graph visualizes the accumulated variation of fiscal accounts each year compared to their baseline in 2025. Excluding net

amortizations of external debt, the sum for each year equals the variation in the fiscal deficit as a share of GDP. Including net amortizations of external debt, it equals the variation in domestic financing needs as a share of GDP. The figure shows fiscal accounts progressively deteriorate mainly due to hydrocarbon-related subsidies and external debt payments, which are US dollar-denominated expenditures that rise with depreciation. The result is a feedback loop between the external and fiscal crises: as the balance of payments worsens, the exchange rate depreciates; the more it depreciates, the larger the fiscal deficit becomes; and the larger the fiscal deficit, the greater the monetary financing required, which in turn generates further depreciation. Notably, the scenario expects a lower fiscal deficit in 2026 compared to 2025. This is because external debt amortizations above 8% of GDP are registered outside of the fiscal deficit despite raising the need for internal financing through inflationary money creation, which subsequently erodes the real value of certain fiscal expenditures such as the wage bill, transfers and interest payments on internal debt.

Figure 7: Projected Contributions to the Change in Domestic Financing Needs under Business-as-Usual Scenario



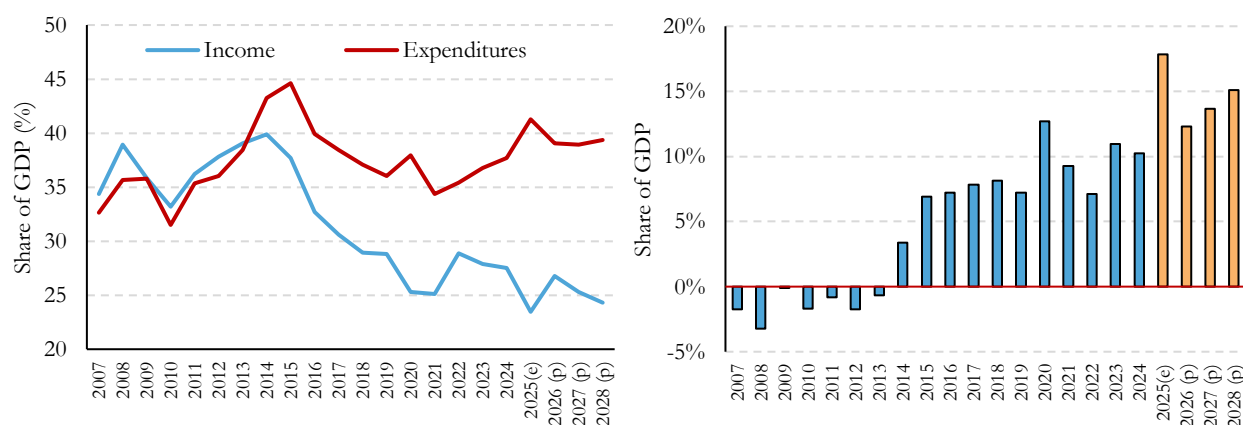
Note: Accounts with a positive (negative) value are expected to contribute more (less) to domestic financing needs in their corresponding year than they did in 2025. Source: Author’s calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

The fiscal deterioration would have been compounded by a real decline in certain tax revenues and partially offset by the inflation-driven erosion of real government spending on wages, transfers and interest on domestic debt. On the revenue side, customs collections had

already fallen by over 27% during the first semester of 2025³⁵, a decline that reflected the combined effects of lower trade volumes and the growth of contraband driven by import-export distortions. As these dynamics intensified under policy continuity, trade-based tax revenues would have continued to shrink. Domestic tax collection would have followed a similar trajectory as the recession deepened. On the expenditure side, the previous government's policy of adjusting wages and current transfers to inflation with a one-year lag meant that in a context of accelerating inflation, nominal increases would have consistently fallen short of price growth. The real value of the wage bill and transfer programs would thus have declined over time, providing some marginal relief to the deficit, but at the cost of a significant deterioration in the living standards of public sector workers and transfer recipients across the country.

The resulting fiscal deficits would have grown to levels that exceeded the economy's capacity to finance them, implying that even if not intended some form of forced adjustment would have become unavoidable. Figure 8's left panel shows the projected paths of fiscal revenues and expenditures under this scenario, while its right panel displays the corresponding deficits over time. The gap between revenues and expenditures would have widened as exchange-rate-linked expenditures surged while the tax base contracted alongside economic activity. Even assuming the entirety of the pension system's investable funds had been devoted to purchasing government debt (roughly 2.7% of GDP in 2026 and shrinking in real terms thereafter), the Central Bank would still have been required to provide monetary financing equivalent to over 20 percentage points of GDP (to finance both the fiscal deficit and external debt amortizations). In practice, maintaining these levels of expenditure would have been increasingly difficult. For example, the fuel subsidy system would have likely collapsed, not through policy choice but through the refusal of fuel traders to continue supplying them on trade credit given their growing level of arrears. In addition, other expenditures would have been at risk given the government's increasing financial difficulties.

Figure 8: Projected Fiscal Accounts (left panel), and Deficit (right panel) under Business-as-Usual Scenario

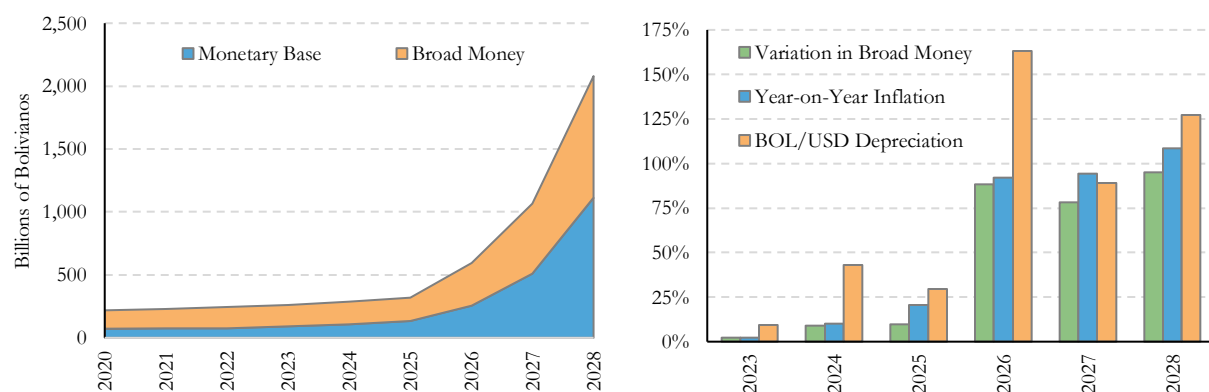


Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

³⁵ Ministerio de Economía y Finanzas Públicas (MEFP).

Financing deficits of this magnitude through money creation would have required yearly monetary base expansions over 100% in 2026 and onwards, levels that would likely trigger a collapse of money demand and exceed the feasible limits of the inflation tax. When a central bank finances the fiscal deficit by issuing money, the resulting inflation erodes its real value. In response, households and firms tend to reduce their real holdings of local money, converting them into goods or foreign exchange. This pushes inflation and depreciation further and shrinks the real monetary base, meaning that to finance the same deficit in real terms the central bank must print a progressively larger amount in each following period. The dynamic implies a Laffer curve for the inflation tax: at moderate levels, increasing the rate of money creation raises real seigniorage revenue, but beyond a threshold, the erosion of money demand outpaces the increase in issuance and real revenue declines (Cagan, 1956; Bruno and Fischer, 1990). International experience indicates that countries attempting to extract seigniorage in the double digits of GDP eventually find themselves on the declining side of this curve. The projections in Figure 9 assume that money demand remains stable, a highly conservative assumption. Had confidence broken and money demand collapsed, as is the standard nonlinear dynamic in severe monetary crises, the inflation and depreciation trajectories would have been dramatically worse.

Figure 9: Projected Monetary Growth, Inflation, and Depreciation under Business-as-Usual Scenario

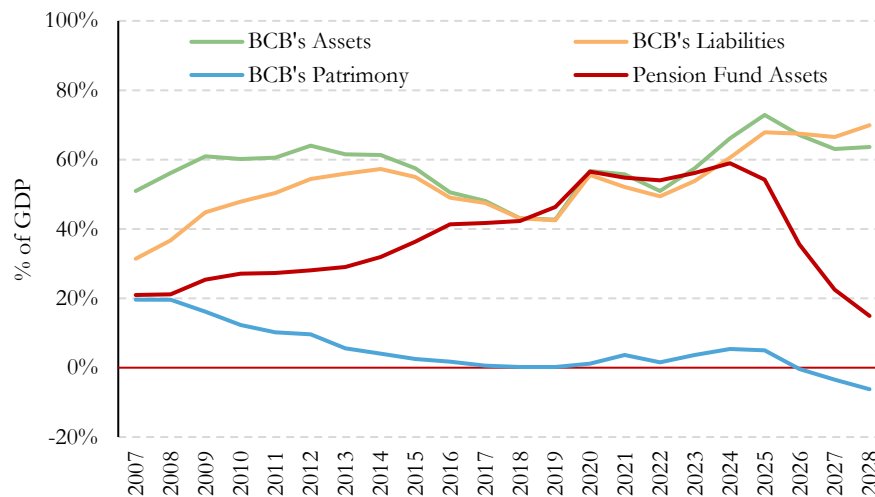


Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

Continued financial repression in an accelerating inflationary environment would have progressively eroded the balance sheets of the pension system, commercial banks, and the Central Bank. If pension assets had continued to be channeled into government debt at fixed nominal interest rates below the rate of inflation, the real size of Gestora's portfolio would have shrunk rapidly. As shown in Figure 10, by 2028 it would have been reduced to roughly a third of its 2024 magnitude as a share of GDP. The banking system would have followed a similar trajectory under continued interest rate controls: with lending rates held below inflation, shows how the credit portfolio would have contracted in real terms over time, progressively undermining the financial system's capacity to finance productive investments. This scenario conservatively assumes no bank run, but the probability of one would have grown in proportion to the severity of the crisis. The Central Bank's own balance sheet would have come under analogous pressure. Its liabilities, some of which were

denominated in US dollars or indexed to inflation, would have grown faster than its assets, a significant share of which consisted of government debt and deposits yielding negative real returns under financial repression. As visualized in Figure 10, the widening divergence between the value of assets and liabilities would have driven the Central Bank's net worth into negative territory, further eroding its capacity to conduct monetary policy and anchor expectations.

Figure 10: Projected Central Bank Patrimony and Pension Assets under Business-as-Usual Scenario



Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, Gestora Pública de Seguridad Social de Largo Plazo, and International Monetary Fund.

In sum, the counterfactual scenario of policy continuity would have produced a self-reinforcing crisis in which balance of payments pressures, exchange rate depreciation, fiscal deterioration, and monetary financing fed into one another with increasing severity. Imports would have collapsed, economic activity would have undergone a prolonged contraction, inflation would have accelerated as monetary financing grew and exceeded the feasible limits of the inflation tax, and the balance sheets of every major financial institution would have been progressively hollowed out by the combination of negative real returns and growing liabilities. An external default would have been highly likely. Moreover, this scenario rests on several conservative assumptions: the absence of a banking crisis, no sudden collapse in money demand, no chronic capital flights beyond baseline levels, and the continued functioning of the fuel import system despite the government's large and growing arrears with fuel traders. Had any of these risks materialized the expected crisis would have been significantly worse. The recent rise in the international price of hydrocarbons following an aggravation of violence in the Middle East is also omitted in this scenario and would have resulted in an exacerbation of both fiscal and external imbalances. Even without a deliberate reform package, some form of forced and disorderly adjustment would have become inevitable. The only question was whether it would occur through early and controlled policy choices or through the eventual collapse of the mechanisms that were temporarily holding the system together.

4. The Current Path: What Initial Reforms Achieved and Where They Fall Short

A political transition in the second half of 2025 altered the policy path and the new government's initial reforms have significantly reduced immediate risks, but latent vulnerabilities remain. Bolivia's macroeconomic path began to diverge from the counterfactual scenario described in the previous section even before a change in government took place. As opposition candidates took the lead in the polls during June 2025, the exchange rate appreciated, signaling a reduction of capital flight. By the time new authorities took office in November, the parallel-market premium had improved from over 120% to 52%. This section describes the reforms implemented or announced to date (Section 4.1) and presents the model's baseline projection assuming no further reforms beyond those (Section 4.2). The baseline trajectory represents a substantial improvement over the counterfactual but remains insufficient for stabilization. The fiscal deficit still requires monetary financing, external balance remains fragile, and other sources of vulnerability persist.

4.1. Policy Decisions During the New Administration

The initial reform package addressed the most pressing sources of instability and brought the parallel-market premium down to 31% by mid-December. Measures targeted four areas: restoring import capacity by securing external financing, defusing the domestic arrears overhang, centralizing and normalizing the non-official foreign exchange market, and beginning the process of fiscal consolidation. The rest of this subsection describes each of these in turn, followed by a discussion of reforms announced for the near future and key milestones that will shape the stabilization path over the coming months.

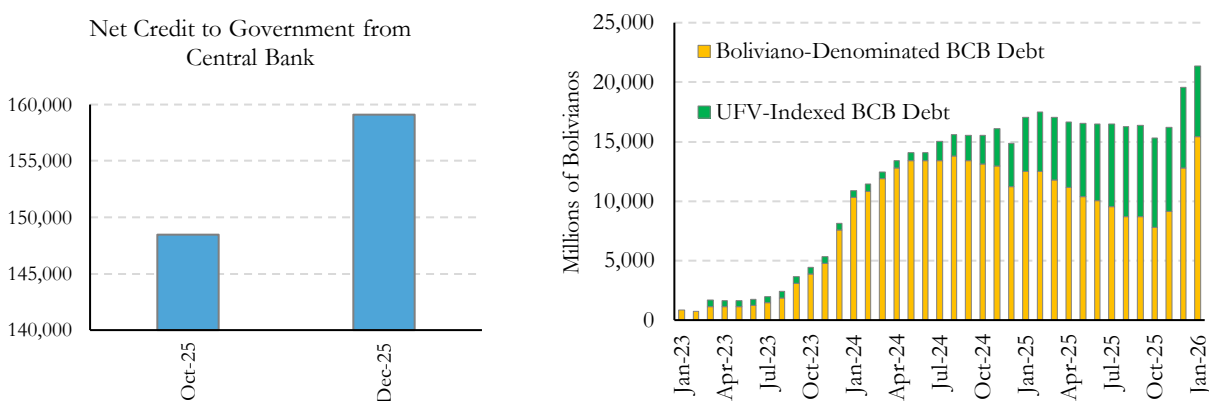
The government's most urgent priority was restoring fuel supply and securing external financing to stabilize the balance of payments. Before taking office, the incoming administration had negotiated arrangements with commodity traders operating in neighboring countries to supply the entire territory with fuel through tanker trucks, with trade credit guaranteed by the Export-Import Bank of the United States. The rapid elimination of fuel scarcity in the early days of the presidency had an immediate effect on market confidence and partially relaxed the import constraint on aggregate supply. This was reinforced by a series of multilateral financing announcements that signaled medium-term external support. Within ten days of taking office, CAF announced a USD 3.1 billion five-year agreement, including a USD 550 million liquidity tranche that was quickly disbursed³⁶. In the weeks that followed, the government announced financing frameworks with IADB and FONPLATA valued at USD 5.5 billion over the medium term, alongside intention to negotiate an USD 800 million loan with FLAR. The World Bank separately approved a USD 200 million loan to finance a cash transfer program³⁷. Together, these measures restored fuel availability and established a framework of external financing that substantially relaxed the short-term balance of payments constraint, transforming the external outlook from one of imminent collapse to one of manageable transition.

³⁶ IADB. "[Grupo BID y Bolivia acuerdan un paquete de apoyo de US\\$4.500 millones](#)". January, 2026.

³⁷ World Bank. "[Grupo Banco Mundial aprueba US\\$200 millones para apoyar a familias bolivianas y fortalecer el sistema de protección social](#)." February, 2026.

The government also needed to quickly resolve a large stock of Boliviano-denominated arrears to prevent disorderly monetary financing. Roughly 4% of GDP in domestic arrears were due before the end of the year, on top of Christmas bonuses to public employees. To manage this, the Central Bank provided net financing to the central government equivalent to approximately 2.5% of yearly GDP during November and December. Of this amount, approximately 6 billion Bolivianos (roughly 57% of net financing) was sterilized through the sale of BCB debt instruments in Bolivianos to commercial banks and the public (Figure 11). While the operation expanded the Central Bank's balance sheet liabilities, it prevented the arrears from triggering an uncontrolled surge in the monetary base and bought time for more structural fiscal measures to take effect. As part of the Central Bank's cautious monetary policy, its repo rates rose from 8% in October to 12.25% in March³⁸.

Figure 11: Net BCB Credit to Government, and Selected Central Bank Debt Instruments by Denomination

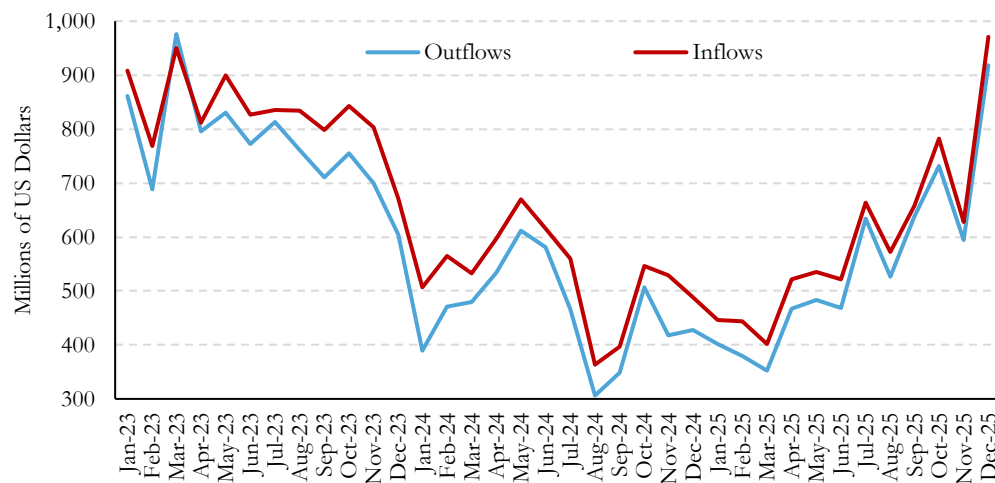


Source: Author's calculation based on Banco Central de Bolivia. Note: Right panel excludes USD-denominated BCB debt instruments.

The parallel foreign exchange market was legally recognized, centralized through the banking system, and made more transparent. The government allowed commercial banks to intermediate foreign exchange transactions without the regulator-imposed distortions that had fragmented the market in previous years. The average daily price resulting from bank-intermediated transactions began to be published on the Central Bank's website, and volumes traded through this mechanism grew sharply (Figure 12). At the same time, transactions conducted at the official exchange rate were quickly shifted to the new flexible bank-intermediated rate. This affected direct purchases abroad made by privates through banks, which amounted to roughly 1.6 billion US dollars in 2025, and represented an important step toward unifying exchange rate transactions and the parallel rate, even as the official rate remained formally unchanged.

³⁸ Banco Central de Bolivia.

Figure 12: International Transactions Flowing Through Bolivia's Banking System



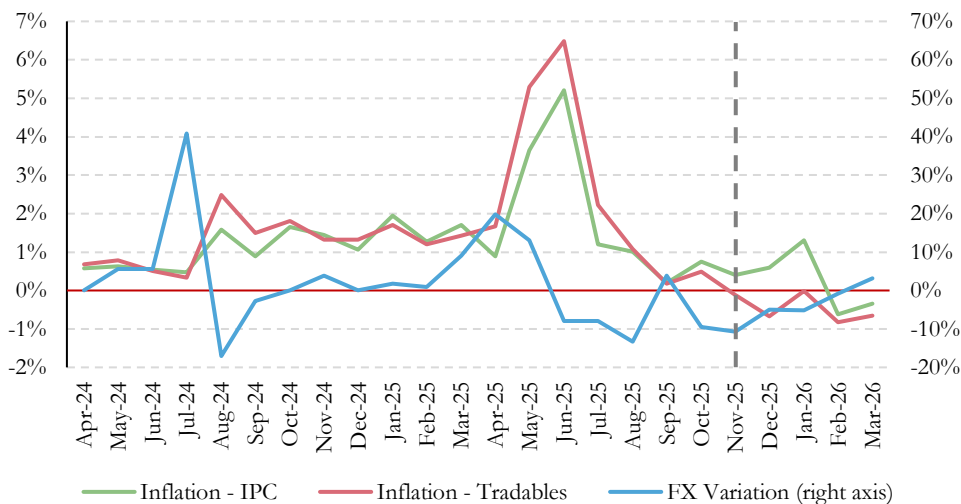
Source: Banco Central de Bolivia.

Supreme Decrees 5503 and 5516 partially reduced energy subsidies and introduced a broader fiscal consolidation package³⁹. The decrees raised the prices of diesel and gasoline, though not fully to international levels as measured through the parallel exchange rate and crucially did not adjust natural gas prices. In US dollar terms, the reduction in the fiscal cost of energy subsidies amounted to 44% relative to 2025 levels. The decrees also partially froze public sector hiring and mandated ministries to develop headcount-reduction plans. In compensation, the decrees raised the minimum wage by 20% and expanded cash transfers including a new temporary program called PEPE. The partial subsidy reduction was widely expected to trigger cost-push inflation, with some analysts projecting price increases exceeding 70%. In practice, the reforms allowed transport prices to adjust to equilibrium while other sectors experienced deflation. Figure 13 shows how tradable sectors experienced deflation from November to March (cumulate deflation of -2.3%), and how the general price index deflated in February and March (cumulate deflation of -1%)⁴⁰. This reflects the impact of reduced monetary financing and appreciation in the parallel market exchange rate.

³⁹ [Gaceta Oficial del Estado Plurinacional de Bolivia. Decreto Supremo No. 5516](#). January, 2026.

⁴⁰ Banco Central de Bolivia.

Figure 13: Monthly Inflation and Foreign Exchange Variation



Source: Banco Central de Bolivia. Note: Dashed vertical line represents the beginning of Bolivia's new presidential period.

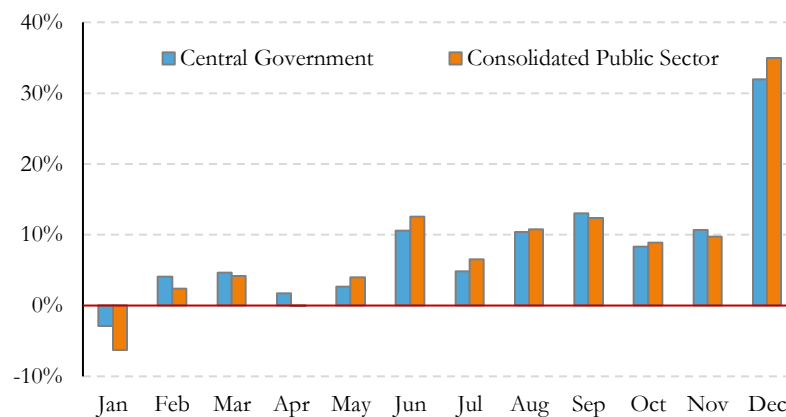
Several key legislative and policy milestones in the first half of 2026 will determine whether the reform momentum is sustained. Authorities have indicated they soon intend to submit proposals to congress for a new hydrocarbons law, a new mining law, and legislation to improve conditions for foreign direct investment. If approved, these would address structural bottlenecks that have constrained export growth and deterred private capital. Three additional milestones will be critical for the fiscal trajectory. First, the annual wage renegotiation announcements that typically take place every May will test the government's capacity to contain the public sector wage bill. A large wage increase could significantly derail fiscal consolidation efforts. Second, current fuel prices are expected to be revised in June, as announced by the YPFB vice president⁴¹, coinciding with the end of the transitional period described in the fuel subsidies appendix of Supreme Decree 5516. The expectation is that the automatic price adjustment mechanism will be activated at that point, though a full elimination of the fuel subsidy would likely continue to be delayed. Third, if approved, sectoral reforms to agriculture, mining, and hydrocarbons would need to be implemented promptly for their effects on exports and investment to materialize within the timeframe assumed by the baseline scenario. The outcome of these milestones will largely determine whether the baseline described in Section 4.2 holds or whether further adjustment becomes necessary.

Early indicators since the reform package have been encouraging, but the current macroeconomic picture is temporarily more favorable than the underlying conditions can sustain. Several factors contribute to this divergence. For example, fiscal accounts in the first quarter of the year benefit from seasonal patterns in public investment execution and revenue collection, which compress the deficit and monetary expansion below their annual average. From 2019 to 2024, the first quarter of each year only contributed to 0.4% of its corresponding yearly fiscal deficit on

⁴¹ Correo del Sur. "[Precios de combustibles serán evaluados en junio](#)". March, 2026.

average, while the second, third, and fourth quarters contributed 16.4%, 29.7%, and 53.6% respectively⁴². Figure 14 visualizes this seasonal dynamic with monthly data. At the same time, the parallel-market exchange rate has appreciated significantly since the political transition, in part because markets have priced in expectations of further reforms and an IMF agreement that have not yet materialized. If those expectations are not validated by policy action, the exchange rate would be expected to adjust. Reinforcing this temporary stability, the public sector's foreign exchange deficit is currently being financed almost entirely through trade credit and the CAF liquidity tranche rather than through market purchases of foreign currency, which suppresses the depreciation pressures that would surface later in 2026. These three factors are mutually reinforcing in the short term but transitory by nature: seasonal patterns will normalize, market expectations will be tested against actual policy decisions, and transitional financing sources will be drawn down. The macroeconomic trajectory that emerges once these effects dissipate is the subject of the following subsection.

Figure 14: Monthly Seasonal Contribution to the Annual Fiscal Deficit (2019-2024, average)



Source: Author's calculations based on data from Ministerio de Economía y Finanzas Públicas (MEFP).

4.2. Expected Macroeconomic Performance Under New Reforms

This section explores a macroeconomic scenario under the reforms that have been implemented or announced to date, which should not be interpreted as a precise forecast. The exercise rests on three defining assumptions. First, no further reforms are undertaken beyond those already in place or publicly committed to. This implies that additional reforms would improve the scenario shown below. Second, tail risk events do not materialize. For example, policy reversals driven by social resistance, an international shock like violence in the Middle East triggering a rise in oil prices, a collapse in confidence leading to capital flight, a banking crisis, or a disorderly implementation of fiscal decentralization reforms. The occurrence of any of these would yield worse outcomes than those shown below. Given its recency, the impact of the ongoing oil shock is explored separately at the end of this section. Third, the scenario assumes the absence of an IMF program, which would reshape the composition and availability of external financing throughout the projection's horizon.

⁴² Author's calculations based on data from Ministerio de Economía y Finanzas Públicas (MEFP).

Current reforms result in a substantial improvement over the counterfactual but are still not sufficient for stabilization. The balance of payments constraint is expected to ease as sectorial reforms drive export growth, and multilateral disbursements bridge the remaining external gap, allowing imports and real output to recover near pre-crisis levels. The fiscal position is expected to improve as energy subsidy savings and public sector headcount reductions lower the deficit relative to both 2025 and the counterfactual. However, a deficit of approximately 7% of GDP would persist. Of that, approximately 3 percentage points would require monetary financing in 2026. From 2027 onwards monetary financing would rise to 4.5% of GDP because a share of external financing is expected to switch from liquid budget support to investment project financing, demanding a rise in public investment expenditures in the future to secure balance of payments relief. The fiscal deficit reduction is significant, but the residual monetization would still sustain inflation near 17% over the next years, the pension system would remain locked into below-market government debt, private credit would continue to stagnate, and the market exchange rate would remain vulnerable to correction. These are not the characteristics of a stabilized economy.

Bolivia's capacity to import is expected to recover, driven by a resumption of export growth and the deployment of multilateral financing that bridges the gap until exports can sustain import levels independently. On the export side, growth would be driven by reforms to specific sectors and the overall conditions for foreign investment. On the financing side, multilateral agreements announced in late 2025 would allow import levels to exceed what export earnings alone could sustain. That gap is projected to persist until approximately 2030, making multilateral financing a central precondition for balance of payments stability in the next 5 years. If sectoral reforms stall and export growth fails to materialize, the financing would sustain imports temporarily without the productive transformation required to make them durable, so these reforms are pivotal to avoid multilateral financing becoming a bridge to nowhere.

Export growth in the near term is expected to come primarily from agriculture and tourism development, as well as higher international mineral prices. The expected liberalization of the agricultural sector, including the lifting of export and import restrictions and improved access to inputs and technology, would restore productive capacity that had been curtailed by prior policy distortions. Agri-tech cooperation with regional partners is expected to increase yields relatively quickly, especially among large-scale producers in the soy-maize-cattle-poultry complex. Tourism would benefit from the normalization of fuel supply and the foreign exchange market, as well as a policy of open skies and targeted investments in critical tourist sites. In the short term, mining exports are expected to receive a tailwind from recent gains in international mineral prices. New legislation for natural gas, mining, and evaporites would support long-term export growth, but production lags associated with greenfield investments are typically no shorter than five years, and the enabling legislation is still pending congressional approval. For these reasons, the near-term export trajectory is particularly sensitive to whether agricultural and tourism reforms are implemented promptly.

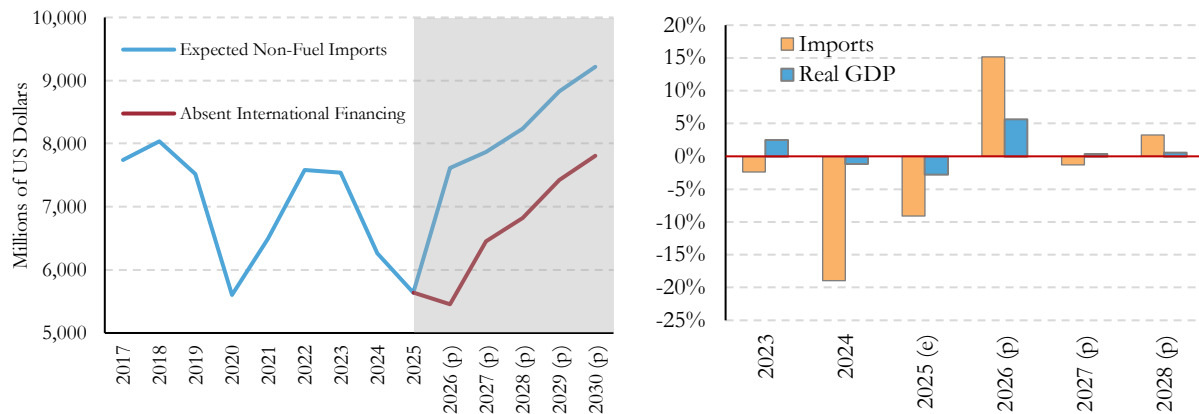
Multilateral financing is expected to bridge the external gap during the transition, though the absence of an IMF program lowers total financing and concentrates the available support in project financing rather than liquidity. The CAF agreement provides the most flexible component: the USD 550 million liquidity tranche disbursed in December 2025 would continue to support reserve coverage in 2026, while the remaining envelope flows as project financing at roughly half a billion US dollars per year through 2030. Disbursements from IADB, the World Bank, and FONPLATA would similarly be project-tied, with IADB volumes potentially lower than the announced framework if no agreement is reached with the IMF. FLAR could provide up to USD 800 million with scope for front-loading, although a substantial portion would be directed toward reserve accumulation rather than directly relaxing the import constraint. The scale of available financing is expected to be sufficient for the transition, but its composition limits the speed and flexibility with which it can respond to near-term liquidity needs.

External debt service is expected to remain manageable given the announced financing envelope, but the fuel-related arrears overhang remains a drag. The debt service schedule described in Section 3, including Eurobond amortizations rising to USD 617 million in 2028 when both instruments overlap, remains unchanged. However, two factors improve the outlook relative to the counterfactual: multilateral financing provides the resources to meet these obligations without forcing an import collapse, and roughly two-thirds of the outstanding Eurobond stock is held by domestic public institutions, so authorities expect to refinance it⁴³. Multilateral financing would not be expected to finance a large current account deficit. In practical terms, it would likely be used towards rolling over multilateral amortizations, meeting other external obligations, and accumulating a small buffer of liquid reserves. The USD 2.6 billion arrears stock is assumed to be repaid in tranches over five years at market interest rates, but this is a weak assumption. In reality the government retains multiple options to restructure these obligations on better terms. However, the government's negotiating position is constrained by the fact that a significant share of arrears is owed to the fuel traders that are currently preventing nationwide shortages.

Under these assumptions, imports could recover near pre-crisis levels and real GDP could grow substantially in 2026, though the sustainability of this trajectory depends on export growth materializing as projected. Figure 15's left panel shows Bolivia's expected import path (blue line) under this scenario alongside the path that could be sustained absent international financing (red line). Multilateral disbursements may bridge the gap during the transition, but a non-trivial share of the available financing in 2026 represents one-time inflows that cannot be relied upon to sustain the same level of imports in subsequent years. If export growth underperforms, the capacity to maintain 2026 import volumes in 2027 and 2028 would come into question. This is an argument for caution in the deployment of foreign exchange during 2026: preemptive reserve accumulation by the Central Bank, if the external position allows, would provide a buffer against a contraction in import capacity in the following years. Aggregate supply growth would be expected to follow imports growth, as visualized in the right panel of Figure 15.

⁴³ Bloomberg. "[Bolivia garantiza pago de bonosen dólares y prepara canje interno](#)". March, 2026.

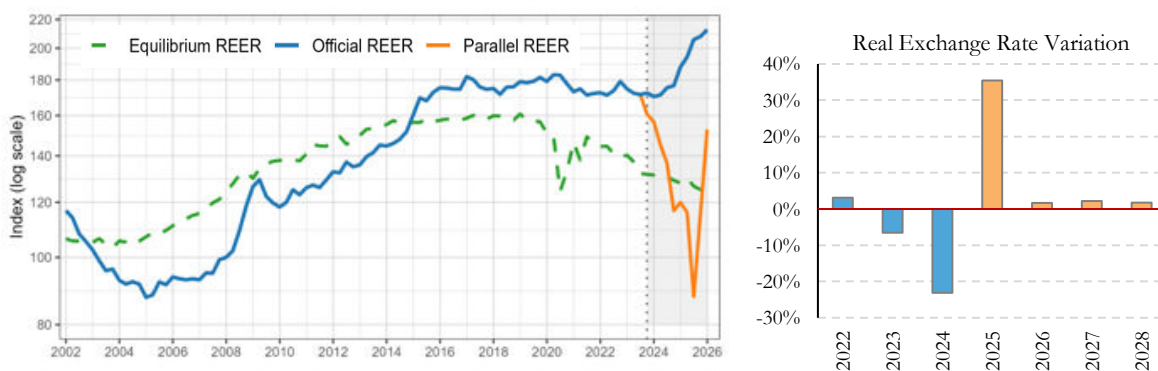
Figure 15: Projected Imports and GDP under Current Reforms Scenario



Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

The equilibrium real exchange rate is expected to stabilize as balance of payments pressures ease, but the evidence suggests the current market rate is overvalued relative to the equilibrium value, implying a real FX realignment might be difficult to avoid. As the forces that had driven sharp real depreciation in the counterfactual scenario dissipate under renewed multilateral financing and export recovery, the equilibrium real exchange rate would not be expected to depreciate further, as shown in the right panel of Figure 16. Under these conditions, future movements in the nominal exchange rate would primarily reflect monetary dynamics. However, García et al. (2026) estimates that the bank-intermediated FX market rate is currently overvalued relative to the level implied by Bolivia's economic fundamentals. This is visualized in left panel of Figure 16, which compares the evolution of the estimated equilibrium real exchange rate (green dotted line) with the official real exchange rate (blue line) and the parallel market real exchange rate (orange line). The graph shows how the parallel market rate became significantly undervalued during the height of the crisis as expectations deteriorated and capital flight intensified, but then subsequently appreciated past its equilibrium as political prospects improved and external financing was secured. Currently, both the official and parallel market rates appear to be overvalued.

Figure 16: Real Exchange Rate, Historical and Expected under Current Reforms Scenario



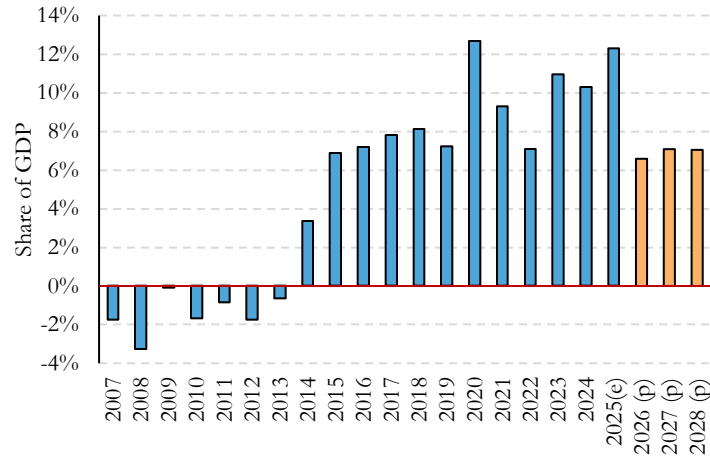
Source: García et al. (2026), and author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

A depreciation during 2026 would generate fiscal and inflationary pressures that authorities will need to manage proactively. The public sector faces a projected foreign exchange deficit of approximately USD 4 billion in 2026, given a hydrocarbons trade deficit of roughly USD 2.2 billion and its external debt obligations of USD 1.8 billion. This deficit is currently being financed almost entirely through trade credit and multilateral liquidity tranches rather than through market purchases of foreign currency. As these transitional financing sources are drawn down over the course of 2026 and subsequent years, the government will need to begin acquiring foreign exchange through market operations, placing depreciation pressure on the exchange rate. A depreciation would raise the fiscal cost of fuel imports and their implied subsidies. It would also trigger pass-through inflation via tradable goods, potentially de-anchoring inflation expectations. Authorities would need to respond by activating the fuel price adjustment mechanism that exists under Supreme Decree 5516 or creating a new mechanism that reflects the true international price valued at the market's exchange rate. They have recently expressed reluctance to do so and continue valuating the import price of fuels in Bolivianos using the official exchange rate and old international fuel prices.

The reform package is expected to improve fiscal accounts substantially compared to the counterfactual, but a deficit of approximately 7% of GDP would still persist (Figure 17). Relative to the counterfactual scenario from section 3, the largest sources of fiscal savings are poised to be the reduction in energy subsidies and interest on external debt, and the containment of wage bill expansion (Figure 18). Aside from the adjustment in energy prices, energy subsidies and interest on external debt benefit from fewer FX depreciation. In addition, domestic financing needs are further reduced by the virtual rollover of external debt through new multilateral disbursements. A planned reduction in public sector headcount of approximately 20% before 2028⁴⁴ would contribute additional savings on the wage bill. These gains would, however, be partially offset by the fiscal cost of the minimum wage increase and its indexation effects on public sector wages, the expansion of cash transfer programs including PEPE, and the assumed continuation of the pre-existing public investment pipeline plus additional execution of multilaterally financed projects. No announcements of cuts to public investment have been made, so the scenario does not assume them. This is a consequential assumption: halting a significant share of non-multilateral investment projects could reduce the deficit by more than 3 percentage points of GDP, a possibility explored in Section 5.

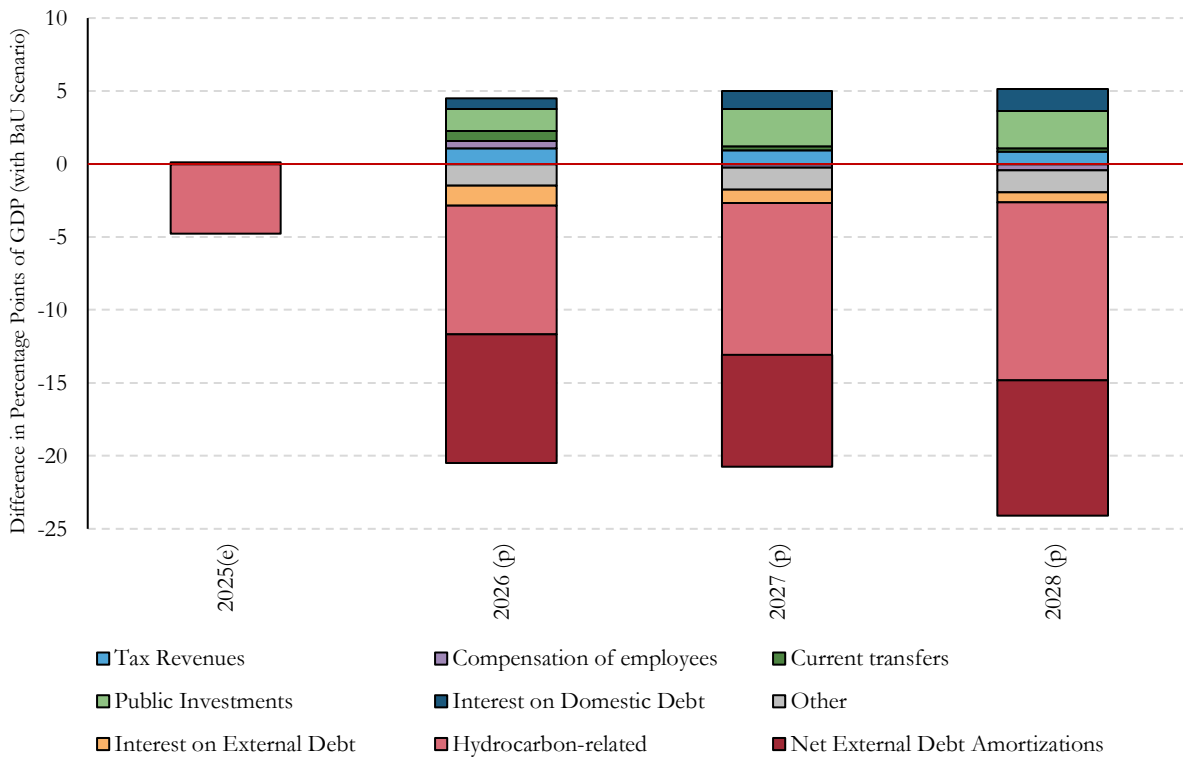
⁴⁴ Ministerio de Economía y Finanzas Públicas. “[Informe: De la Crisis a la Estabilidad Económica](#)”. March, 2026.

Figure 17: Estimated Fiscal Deficit under Current Reforms Scenario



Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

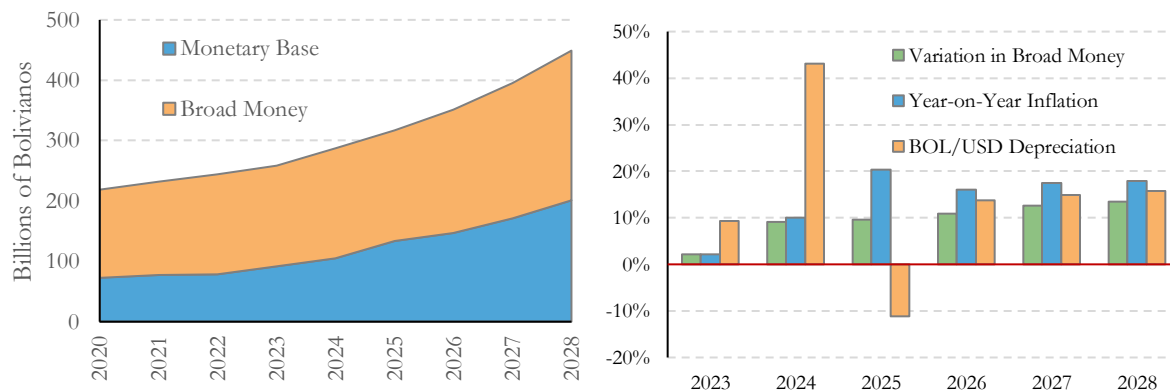
Figure 18: Projected Contributions to Domestic Financing Needs (Current Reforms vs Business-as-Usual Scenario)



Note: Accounts with a positive (negative) value contribute more (less) to domestic financing needs in their corresponding year than in the counterfactual scenario of zero reforms explored in Section 3. The reduction in domestic financing needs shown in this Figure is larger than the reduction in the fiscal deficit shown in Figure 17 because it compares to counterfactual fiscal accounts, not those from the year 2025. In addition, new sources of external financing counter the pressures from external debt amortizations that was present in the counterfactual scenario. Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

The residual fiscal deficit implies monetary financing of approximately 3% of GDP in 2026 and 4.5% of GDP onwards, maintaining inflation near 17%. Gestora is projected to finance slightly less than 3 percentage points of the deficit through continued purchases of government debt at below-market rates, an arrangement that forecloses its capacity to place time deposits in commercial banks, perpetuates the stagnation of private credit and further erodes the real value of pension savings. Given the large multilateral, bilateral and Eurobond amortization commitments, net international financial flows contribute only marginally to deficit financing in 2026 and are expected to turn negative in subsequent years as amortizations exceed new disbursements. The remainder falls to monetary financing, as shown in the left panel of Figure 19. The resulting expansion of monetary aggregates would depreciate the nominal exchange rate and sustain inflation near 17% over the medium-term horizon (Figure 19, right panel). At this level of monetization, the Central Bank continues to impose a substantial inflation tax, real money balances remain under pressure, and the conditions required to anchor expectations and normalize the financial system are not necessarily met. An additional source of monetary pressure stems from the Central Bank's own balance sheet. With lower yields on assets compared to liabilities, the Central Bank is expected to eventually incur in operational losses which would have to be financed through monetary issuance. The gap between this outcome and a stabilization-consistent path is the subject of Section 5.

Figure 19: Estimated Monetary Accounts, Inflation and Depreciation under Current Reforms Scenario



Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

Adjusting this scenario to account for the recent shock on international hydrocarbon prices reveals substantial external and fiscal vulnerabilities. As a result of an aggravation of violence in the Middle East, the price of hydrocarbons has increased over the short and medium term. West Texas Intermediate (WTI) crude oil barrel prices rose from \$65 in February to \$91 in March and peaked at \$112 for a brief period in April. Futures markets expect the price to be above \$80 for at least 5 months, and above \$70 for at least 2 years. This means the market expects the shock to be transitory, albeit with a high degree of uncertainty on its length. If that were the case, the optimal policy response would be absorbing it as a balance sheet shock with expanded short-term financing while avoiding a complete pass-through of international prices to local prices. However, if Bolivia doesn't manage to fully finance the shock absorption with extraordinary external sources, the country will face a tradeoff between

raising local prices to account for temporarily high international prices or allow the energy subsidy to rise and finance it through money creation and the inflation tax, risking a macroeconomic instability spiral. The shock will directly impact Bolivian accounts through two channels: a rise in the cost of importing fuels such as gasoline and diesel, and a rise in revenues from natural gas exports to Brazil. The average WTI price in 2026 as implied by the futures market is expected to be 22% higher than in 2025, and natural gas exports to Brazil are price-indexed to crude oil prices with a 3-month lag by contract, so that will impact both natural gas export revenues and the opportunity cost of selling subsidized natural gas internally. Fuel prices have also been highly sensitive to the shock. The international price of diesel⁴⁵ doubled from February to its peak in March, and future markets expect it to be 42% higher in 2026 compared to 2025, on average. Meanwhile, international gasoline prices⁴⁶ rose 65% from February to their peak in April, and the implied expectation from futures markets is that they will be 20% more expensive in 2026 compared to 2025. The combined impact of these shocks is expected to widen the hydrocarbons trade deficit by roughly \$640 million in 2026 and would also expand the fiscal cost of energy subsidies by \$1.8 billion (more than 3% of GDP), pushing monetary financing near 6% of GDP and inflation up to 25%.

5. Remaining Milestones Towards Stability and Growth

Reforms to date are insufficient for stabilization, but a scenario with fiscal sustainability, stable monetary and exchange rate dynamics, and rising imports and growth is within reach if Bolivia implements a set of plausible additional reforms and reaches an IMF agreement.

The scenario in Section 4 shows that the reforms implemented so far, while decisively improving Bolivia's trajectory, leave the economy with a fiscal deficit still requiring monetization and Gestora financing, high inflation expectations, an overvalued and segmented exchange rate expected to depreciate, an arrears overhang, insufficient reserves, and a repressed financial system. However, closing these gaps does not require a long list of reforms. It requires authorities to reduce or eliminate remaining energy subsidies, halt non-strategic public investments inherited from the previous administration, secure an IMF agreement that expands and anchors short and medium-term financing with greater liquidity flexibility while replenishing international reserves, and restructure arrears with fuel traders. The rest of this section discusses each of these milestones, their fiscal and macroeconomic implications, and the instruments available to achieve them.

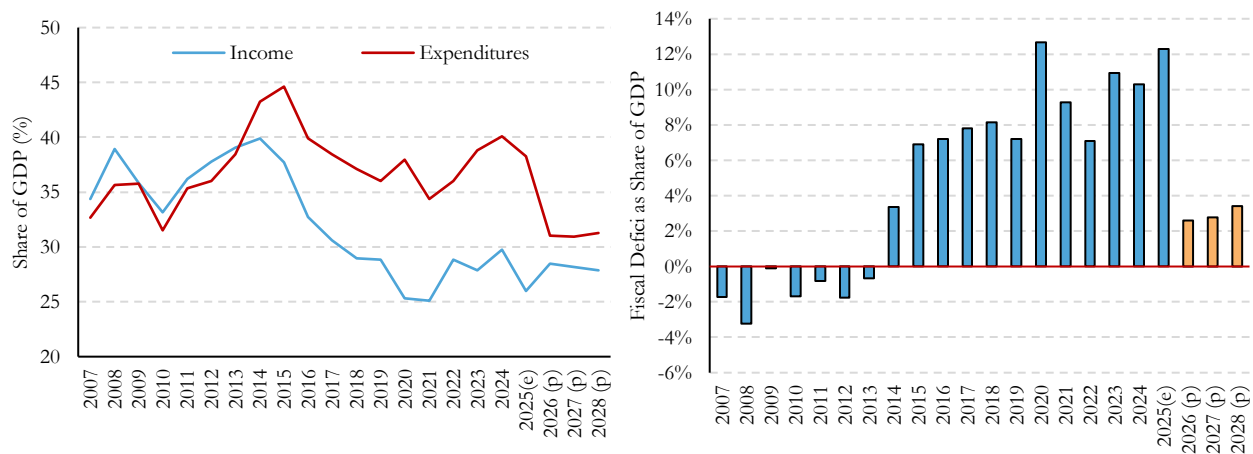
The fiscal deficit should be reduced to a sustainable level below 3% of GDP, and this can be achieved by reducing the remaining energy subsidies and halting preexisting non-strategic public investments. Despite the initial fuel price increase in December, the fiscal opportunity cost of fuel subsidies in 2026 ignoring the Iran oil price shock was still valued at 3.3% of GDP, while natural gas subsidies accounted for an additional 2.2% of GDP. Considering the expectation from futures markets after the Iran oil price shock those figures rose to 7.4% and 2.9%, respectively. Public investment is expected to amount to 4.2% of GDP in 2026 and 5.2% from 2027 onwards, of which roughly half would be tied to the multilateral project financing that has been announced. An

⁴⁵ New York Harbor Ultra-Low Sulfur Diesel.

⁴⁶ Reformulated Blendstock for Oxygenate Blending (RBOB) Gasoline.

elimination of remaining fuel and natural gas subsidies combined with a halt on non-multilateral investment projects would be sufficient to reduce the fiscal deficit below 3% of GDP. It should be noted that in this scenario the wage bill and current transfers would be roughly 1.4 percentage points of GDP higher than in Section 4's scenario under current reforms, because the elimination of monetary financing would reduce inflation and its erosion of pre-committed nominal increases in these accounts. These reforms could be accompanied by a second round of compensatory cash transfers to mitigate the impact on vulnerable households. This reduction of the fiscal deficit would allow for a stabilization of inflation and the exchange rate. It would also free the Central Bank and Gestora to make independent portfolio decisions and begin cleaning up their balance sheets.

Figure 20: Estimated Fiscal Deficit under Completed Reforms Scenario



Source: Author's calculation based on macro-financial model using historical data from Banco Central de Bolivia, Instituto Nacional de Estadística, Ministerio de Economía y Finanzas Públicas, and International Monetary Fund.

Domestic fuel prices should reflect their import cost at the market reference foreign exchange rate. Appendixes 1 and 2 of Supreme Decree 5516 establish an automatic price adjustment indexed to the import cost of fuels in US dollars valued at the official exchange rate. Under certain interpretations, a devaluation or unification of the official rate toward the parallel market level would therefore raise the price of fuels in Bolivianos and eliminate the remaining fuel subsidy automatically. Beyond its vast fiscal benefits, this measure would also suppress incentives for fuel contraband and enable multinational companies to profitably enter the Bolivian market for fuel commercialization, diversifying supply away from costly commodity traders. This measure could plausibly be implemented after the temporary fuel price period elapses in June.

Removing the natural gas subsidy is feasible and would benefit from coordination with a broader electricity sector reform. A significant share of local natural gas consumption feeds the thermoelectric generation system, which produces roughly 66% of Bolivia's electricity. This system is unsustainable in the medium term because Bolivia is expected to become a net importer of natural gas by 2030, and thermoelectric generation is more costly than greener alternatives at international gas prices. Given that thermoelectricity is expected to be phased out by market forces, the electricity sector would benefit from price signals that strengthen the investment case for hydroelectric and solar

generation. An increase in the natural gas price would provide precisely that signal. Moreover, because generation costs represent only a fraction of total electricity costs in Bolivia, the pass-through to final electricity prices is expected to be limited. Further, electricity price hikes could be temporarily differentiated to soften the social impact of reform. The subsidy removal is therefore aligned with the medium-term objectives of the electricity sector.

Halting non-multilateral public investment projects is not only fiscally beneficial but could raise the overall efficiency of public spending. Public investment averaged 11% of GDP from 2010 to 2024 before declining to roughly 4.2% by 2025, yet despite these elevated levels Bolivia consistently registered among the lowest investment efficiency scores in the region. A large share of resources was directed toward state-owned enterprises and import-substitution projects with limited economic payoff, including gas exploration and lithium ventures that delivered disappointing results. In the 2025 budget, 46% of public investment was allocated to productive sectors and multisectoral projects, much of it linked to public enterprises. Emblematic projects such as the Bulo Bulo urea plant and the San Buenaventura sugar mill illustrate this broader pattern of high fiscal cost and low economic return. Freezing these non-multilateral projects would allow the Ministry of Planning to review them in detail before deciding whether to reinstate or cancel them. At the same time, the freed fiscal space could be redirected toward strategic projects developed in collaboration with multilateral banks, such as the Bi-Oceanic Corridor, improved road access to Peruvian and Chilean ports, agricultural infrastructure, or hydroelectric generation. These projects would have a higher expected return and would simultaneously support the balance of payments by unlocking multilateral disbursements.

Bolivia will need a tax reform if fiscal consolidation is to become sustainable over time and if the tax system is to support, rather than undermine, formality and growth. The current system raises a relatively large amount of revenue, but it does so in ways that are neither sufficiently progressive nor conducive to productivity. It relies heavily on indirect taxation and other non-progressive instruments that place a disproportionate burden on lower-income households, while special regimes, weak enforcement, a high labor wedge, and distortionary taxes such as the Impuesto a las Transacciones (IT) reinforce informality, discourage firms from growing, and penalize formal employment. For these reasons, a medium-term tax reform should be understood as a necessary complement to the expenditure measures discussed above: one that broadens the base, strengthens compliance, rationalizes privileged regimes such as the Régimen Agropecuario Unificado (RAU), transforms the RC-IVA into a genuine progressive personal income tax, reduces the excessive non-wage cost of labor, and gradually eliminates the cascading IT. Such a reform would not only help make fiscal adjustment more durable but would also move Bolivia toward a tax system that is more pro-poor, less distortionary, and more supportive of long-run growth.

International reserves must be replenished to provide credible protection against shocks and anchor confidence in the currency. Although reserves have benefited from a recent surge in gold prices, roughly a third of the gold stock is pre-committed to settle gold-future contracts struck by the previous government, so effective reserve coverage is lower than headline figures suggest. Rebuilding reserves will require external creditor support, particularly in the early stages of stabilization when the

balance of payments is fragile and cannot generate surpluses on its own. After replenishing reserves with external support, the Central Bank should design a medium-term framework for converging toward a future self-sustaining path of balance sheet cleanup and reserve accumulation through open-market operations.

An IMF program would substantially strengthen the stabilization framework by expanding multilateral financing and shifting its composition, providing reserve support, and reducing country risk. Under an IMF agreement, other multilateral lenders would be expected to increase their support and shift a portion of their financing from project-tied loans to liquid budget support, increasing the size, speed, and flexibility of disbursements. The IMF would also provide direct reserve accumulation support to the Central Bank, lowering the risk of capital flight and enabling a more orderly exchange rate transition. Country risk would decline, improving the terms on which Bolivia could restructure its arrears and other external obligations, and potentially enabling new bond issuances in international markets as early as 2027. An IMF program would also provide a credible anchor for sequencing the liberalization of USD-denominated bank deposits and the eventual normalization of the capital account. In the absence of an IMF agreement, Bolivia would face greater uncertainty around meeting external targets, higher vulnerability to expectation shocks, dependence on the timing of project-tied disbursements, and a likely higher cost of accessing international capital markets, particularly if markets are currently pricing in the expectation of an IMF agreement such that failure to reach one would itself raise country risk.

Rapid implementation of fiscal reforms and balance of payments-related measures are essential to end uncertainty and fiscal dominance, allowing the Central Bank to credibly conduct independent monetary and exchange rate policy. As long as the fiscal deficit requires monetary financing, the Central Bank is structurally subordinated to the government's financing needs, unable to set monetary policy independently or commit credibly to an exchange rate target (Sargent and Wallace, 1981; Leeper, 1991). Completing the fiscal consolidation described above would eliminate this constraint. Simultaneously, quickly approving multilateral financing agreements would clarify the external financing envelope, removing a key source of uncertainty over the balance of payments path. Passing sectoral legislation for agriculture, tourism, hydrocarbons, mining, and evaporites would clarify expectations over the foreign direct investment and exports path, and signal that Bolivia's external financing is underpinned by a credible productive transformation, not merely by temporary bridge lending. Together, these reforms would create the conditions for the Central Bank to formalize a new exchange rate regime with credible targets. The speed at which these steps are taken matters: every month of delay extends the period of fiscal dominance and uncertainty, risking an erosion of the improved expectations that the initial reforms generated.

Authorities should announce a new foreign exchange regime as soon as conditions permit, though the timing and design of that regime will necessarily depend on the pace at which fiscal reforms and an IMF agreement are completed. If authorities commit to the remaining fiscal reforms and reach an IMF agreement within 2026, the Central Bank would be in a position to announce a new regime for a unified official exchange rate that is fully backed from inception. Under those conditions, several options would be credible: inflation targeting, a managed float within bands,

or even a new peg, depending on the level of reserves and the degree of confidence in fiscal sustainability. However, if authorities choose to delay the remaining reforms or do not pursue an IMF agreement, the Central Bank would lack the fundamentals to credibly announce any regime that presumes nominal exchange rate stability. In that scenario, the only credible transitional arrangement would be one that explicitly accommodates ongoing nominal adjustment, such as a crawling peg, a float with rolling bands, or a real exchange rate target, signaling to markets that the regime is designed to manage the transition rather than to anchor a level that cannot yet be sustained. The choice between these paths is therefore not merely technical but strategic: it determines whether Bolivia enters a stable regime backed by completed reforms or an interim arrangement that manages instability while reforms remain pending. In any case, the official and parallel rates should be unified soon given that most transactions already occur at the parallel rate but customs taxes are still charged based on the official rate, leaving potential tax revenue uncollected.

Bolivia should have no difficulty meeting its obligations to official creditors and Eurobond holders, but addressing fuel-related arrears and central bank liabilities requires deliberate action to prevent balance sheet vulnerabilities from undermining stabilization. Given the multilateral financing agreements already in place, debt service to official creditors and Eurobond amortizations are fully manageable within the projected financing envelope. The more complex challenge lies in the arrears and legacy liabilities. The external arrears with commodity traders could be refinanced through a long-term bond, though the government's negotiating position would improve after implementing the remaining stabilization reforms and opening the market to other fuel importers to reduce dependence on its current set of creditors. On the Central Bank's balance sheet, several categories of liabilities require distinct treatment. Boliviano-denominated debt and UFV-indexed debt could be rolled over, locking in longer maturities at cheap UFV-indexed interest rates if the market still has appetite at current rates around -8%. In the medium term, these liabilities may begin to be unwound after stabilization takes hold and money demand growth can absorb their repayment. The Central Bank's USD 472 million in US dollar-denominated debt with domestic private creditors⁴⁷ could be rolled over to longer and more varied periods, waiting until after an IMF agreement and a return to international markets before settlement. Throughout these operations, the Central Bank must balance liability management against the need to replenish international reserves, ensuring that the resolution of legacy obligations does not come at the cost of inadequate reserve coverage.

Some forms of financial repression should be maintained during the stabilization phase and unwound in a deliberate sequence, with each step contingent on the credibility established by the previous one. Capital controls, interest rate ceilings, and deposit withdrawal restrictions currently serve as a containment mechanism that prevents the crisis from accelerating. Removing them prematurely would risk disorderly capital outflows and exchange rate instability (Edwards, 1984; McKinnon, 1991). The appropriate sequencing begins with the fiscal, external, and sectoral reforms described above, which would stabilize long-term inflation and exchange rate expectations. Once that

⁴⁷ Data from Banco Central de Bolivia.

foundation is established, the first step would be to remove interest rate controls on commercial banks, allowing deposit and lending rates to reflect market conditions and improving financial efficiency (McKinnon, 1973; Shaw, 1973). The second step would be to deepen the government securities market with flexible interest rates, following the precedent set by BCB instrument auctions. The third step would be to remove withdrawal controls on US dollar-denominated bank deposits, which requires confidence that the exchange rate regime is credible and reserves are adequate. The final step would involve the possibility of removing remaining capital controls, once authorities deem that Bolivia is ready and the benefits outweigh the risks. Each step in this sequence depends on the prior one having anchored expectations sufficiently that the next liberalization does not trigger instability.

The reforms described in this section are still feasible, and they are both necessary and sufficient for Bolivia to stabilize its macroeconomy and enter a sustainable growth path.

Bolivia has a government with a clear mandate, multilateral partners willing to engage at scale, and market expectations that have already priced in further reform and an IMF agreement. The scenario analysis in this paper shows that a specific and limited set of additional measures can close the gap between the current unstable and vulnerable trajectory and that of a fully stabilized economy. The risk is not that stabilization is unachievable but that the window narrows if reforms are delayed. The imbalances identified in Section 4.2 compound over time: monetization will sustain inflation, inflation will erode the real gains from initial reforms, and the credibility premium that currently supports the exchange rate and financing conditions will dissipate if it is not validated by policy action. Acting decisively within this window would allow Bolivia not only to stabilize but to lay the foundation for a new growth model built on diversified exports, restored credit intermediation, and a credible macroeconomic framework. The sooner authorities stabilize, the greater the period they will have to enjoy the benefits while focusing on other policy priorities.

6. Conclusion

Initial reforms moved Bolivia away from a catastrophic crisis and demonstrated that fiscal adjustment is feasible, but certain fiscal, external, and financial vulnerabilities persist and, compounded by the recent oil price shock, require additional measures to achieve lasting stabilization. The counterfactual scenario under zero reforms establishes that the country was on the verge of entering a vicious cycle of self-reinforcing crisis that would have forced some form of disorderly adjustment regardless of government intent. The initial reform package from new authorities has managed to avert the worst outcomes and demonstrated that fiscal consolidation in Bolivia's current disequilibrium can be simultaneously disinflationary and non-contractionary. A combination of trade credit, liquid external financing from multilaterals, seasonally low public expenditures, and market expectations of future reforms has allowed the exchange rate and inflation to stabilize. However, initial reforms are not sufficient for stabilization, initial liquid financing sources are expected to be one-offs in the absence of an IMF agreement, and expectations may reverse if future reforms are postponed. These vulnerabilities are compounded by the recent shock on international hydrocarbon prices, which will exacerbate pressure on Bolivia's trade balance and energy subsidies. That said, the window for full stabilization is still open. Fiscal imbalances could be

sustainably resolved through an elimination of energy subsidies and non-strategic public investments, and external vulnerabilities could be resolved by securing an IMF agreement, restructuring fuel trader arrears, and implementing sectoral reforms that provide a credible export growth path. Under these measures Bolivia would be expected to grow, while inflation would converge to single digits, the exchange rate could be unified under a credible regime, and the financial system could begin to normalize.

The binding constraint to stabilization is thus one of political capacity to implement the needed reforms within a feasible timeline. Bolivia has a government that was recently elected by a landslide with an explicit mandate to stabilize, a congress where supermajorities are achievable through coalition, multilateral partners that have already demonstrated willingness to engage at an exceptional scale, and market expectations that have priced in further reform and an IMF agreement. These conditions are not typical of countries in macroeconomic crisis. They represent a confluence of political capital, institutional willingness, and market confidence that creates an unusual window for stabilization. But each of these conditions is contingent rather than permanent. The mandate will be tested by the political costs of subsidy removal and wage restraint. The multilateral willingness is real but conditional on a credible reform program. The market confidence is supportive but has been extended on credit. It reflects expectations of reforms that have not yet been legislated.

Each of these conditions may erode if reforms are delayed, and that erosion would be self-reinforcing. Market expectations will be tested by wage renegotiation announcements in May and an expected revision to the fuel subsidy scheme in June, as well as the progress of sectoral legislation in congress, and the status of IMF negotiations. If those moments pass without decisive action, the credibility premium currently embedded in money demand, the exchange rate, and financing conditions may begin to unwind, tightening the constraints on subsequent reforms. The political economy literature on delayed stabilizations shows that distributional conflicts over who bears the cost of adjustment can produce costly delays even when all parties would benefit from faster action (Alesina and Drazen, 1991). The market will keep an eye on how these distributional tensions resolve. Furthermore, fiscal and external pressures are expected to resurface as liquid multilateral loans and trade credit tighten in the coming months. Without an IMF agreement before the second semester of 2026, Bolivia's government would be expected to purchase foreign currency from the private sector to import fuels, causing a depreciation of the flexible reference exchange rate. Additionally, if there is no further progress on fuel subsidy elimination before the second semester, the government may not be able to fund itself without tapping into all of Gestora's investable assets, issuing market-priced debt absorbed by the banking sector, and expanding the money supply. Absent timely reforms and an IMF agreement, Bolivia might face a combination of pressures from excess money supply and scarce foreign exchange, coupled with a reversal of market expectations and capital flows. Bolivia's crisis is among the most challenging ones the world has seen in the 21st century. Despite this, the new government has managed to deliver early results and expand their window of opportunity. Bolivia has the tools, the mandate, and the partners. What it cannot afford is time.

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