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Growth Lab

Bolivia's Economic Pivot: Main Findings and Reform Priorities

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About the Growth Lab

The Growth Lab at Harvard University's multidisciplinary team pushes the frontiers of research on economic growth and development policy. The Lab advances academic research on the nature of economic growth and conducts applied, place-based engagements that aim to understand context-specific growth processes, address key constraints, and identify promising opportunities. Through its research and teaching activities, the Lab has become a global thought leader offering breakthrough ideas, methods, and tools — including Growth Diagnostics, Economic Complexity and Green Growth — that help practitioners, policymakers, and scholars understand how to accelerate economic growth and expand opportunity across the world. Consistent with the mission of the Harvard Kennedy School of Government, in which the program is housed, the Lab works to expand capabilities for improved economic policy-making such that more people and societies can enjoy higher levels of wellbeing through stronger, more sustainable, and more inclusive economic growth processes.

About the Series

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 et al., 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 Official datasets in Bolivia are often outdated, incomplete, or published with significant lags, which limits the precision of certain estimates and the depth of the analysis.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.

Bolivia's Economic Pivot: Key Findings and Reform Priorities

Bolivia's economic crisis is the predictable result of a development model that systematically dismantled the economic foundations on which economic growth depends. For over two decades, the development model has confused owning resources with knowing how to make them productive and redistributing rents with developing the capabilities to sustain an inclusive economy. The country has abundant natural resources, a young and growing workforce and a rich cultural heritage. In practice, every one of these assets is underutilized because the economic institutional conditions and complementary inputs needed to deploy them have been systematically eroded or never created. The binding constraint to growth has been the breakdown in the rules, incentives, and capabilities that allow citizens and firms to discover, invest, innovate, compete and generate growth.

The dismantling of Bolivia's productive capabilities was not the result of bad luck or external shocks; it was the cumulative outcome of a system that was deliberately redesigned to crowd out private investment and long-term competitiveness across every strategic sector of the economy. In hydrocarbons, the reversal of investment frameworks after 2006 discouraged private exploration and sent gas production into a decade-long decline, leading gas exports to fall from 1.88% of global gas exports in 2015 to 0.46% in 2024. In mining, the 2014 Mining Law introduced restrictions on private rights and contributed to a broader environment of regulatory uncertainty, weighing on exploration investment. As a result, no large-scale new mine has opened since 2014, even as neighboring Chile, Peru, and Argentina attracted substantial capital into the same geological belt. In agriculture, a food security framework built around export permits and bans on transgenic seeds actively suppressed production incentives and kept yields among the lowest in the region. For instance, while Brazil, Paraguay and Uruguay significantly increased their participation in the global protein value chain between 2005 and 2024, Bolivia's remained flat at around 0.04% across the entire period. In tourism, poor air access has constrained market access, as policy has privileged a national airline and restricted private airlines through inadequate regulations, increasing Bolivia's remoteness from key tourism markets. In addition, key destinations such as the *Salar de Uyuni* lack basic public goods and connectivity, limiting the entry of private tourism investment. In every case, the same logic prevailed: state control displaced private investment, uncertainty discouraged long-term commitment, and the capabilities needed to compete globally were never built.

The macroeconomic crisis is the most visible symptom of this deeper systemic failure. The fiscal deficits, the collapse of reserves, the exchange rate distortions, and the acceleration of inflation are the measurable expression of an economy that had progressively lost its capacity to produce, export, and generate the revenues needed to sustain public spending. Stabilizing the macroeconomy is urgent but will not be enough as it cannot regenerate the productive capacity that has been dismantled. Without fixing the deeper economic institutional breakdown, macroeconomic adjustment can arrest the crisis but cannot generate the economic growth that will make stabilization sustainable.

This policy summary asks why and what it would take to change course. Why is Bolivia facing this economic crisis? Why has a country with vast assets struggled to turn them into sustained economic growth and diversification? And what would it take to restore stability while building an economy that can finally harness Bolivia's enormous potential? The Growth Lab has completed a deep diagnostic of Bolivia's

macroeconomic constraints and sectoral potential. Building on the findings of six papers and widespread consultations with former and current government officials, academics, business leaders and civil society, this policy summary documents the project's central findings and suggested reform priorities.[1]

THE MACROECONOMIC COLLAPSE IS THE MOST VISIBLE SYMPTOM OF A CRISIS THAT RUNS MUCH DEEPER.

The path to economic crisis was predictable, if not inevitable. After more than a decade of large fiscal deficits, averaging 8.5% of GDP between 2014 and 2025, the government financed the gap first by running down international reserves and then increasingly through money creation and financial repression by captive domestic savings held in the banking system and Gestora. As reserves (excluding gold) thinned (from USD 13.5 billion in 2014 to just USD 365.4 million by March 2023), the pressure shifted to the exchange market: dollar scarcity intensified, parallel markets expanded, and the exchange-rate premium at its peak (June 2025) exceeded 136% over the official rate. By 2025, Bolivia's fiscal deficit of 12.2% of GDP ranked among the largest in the world.[2] Annual inflation accelerated above 20%, fuel shortages disrupted production and transport nationwide, and with no liquid foreign-currency reserves, import compression became unavoidable. What began as a macroeconomic imbalance turned into daily hardship for households and firms: long lines at gas stations, businesses unable to import inputs and families watching their savings and pensions erode.

The trigger of the crisis was the collapse of natural gas production. Between 2014 and 2025, production fell by 54.2% (from 59.6 to 27.3 million cubic meters per day) and export volumes by 77.6%, cutting hydrocarbon fiscal revenues from 12.1% of GDP in 2014 to 2.8% of GDP in 2024 (and an estimated of 1.8% of GDP in 2025), a loss of around 10 percentage points of GDP. With public spending failing to adjust to this new revenue reality, the fiscal gap widened to roughly 10.2% of GDP in 2024 and 12.2% of GDP in 2025.

But the revenue collapse was not an accident of geology; it was the direct and foreseeable consequence of the lack of private exploration investment that followed the 2006 nationalization and the policy regime it inaugurated. The gas boom of the late 1990s and early 2000s had been built on rules-based investment contracts, independent regulation, and competitive fiscal terms that attracted capital, technology and technical expertise from global energy companies, like Petrobras, Repsol and Total. Proven reserves grew sevenfold between 1997 and 2002, from 3.8 TCF to 27.4 TCF. Then, from 2006 onward, the government reversed those reforms and frameworks: it reasserted full state ownership, raised the effective government take to over 80% of wellhead value through a combination of royalties, taxes and participation agreements, forced companies to sell domestically at subsidized prices (as low as USD 1.25 per MMBTU when export prices were between USD 7-8), and banned international arbitration. In real terms, private investment in exploration collapsed from an annual average USD 333 million during 1997-2004 to USD 103 million during the following 20 years. Bolivia killed the goose that laid the golden eggs.

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[1] This summary draws on the following papers from the Bolivia's Economic Pivot series: (1) The Making of a Macroeconomic Crisis; (2) Early Achievements and Pending Policies in the Road to Stability and Growth; (3) Reviving the Energy Sector; (4) Unlocking the Mining and Lithium Potential; (5) An Agricultural Sector Analysis; and (6) A Tourism Growth Diagnostics of Structural Potential and Binding Constraints. See references.

[2] Figure presented at the 2025 Final Public Accountability Report of the Ministry of Economy and Public Finance of Bolivia by the Viceminister of Treasury and Public Credit. We compare the fiscal gap (12.2% of GDP) against fiscal deficits from the IMF World Economic Outlook (WEO), April 2026. This places Bolivia as the 8th largest fiscal deficit globally, only smaller than Timor-Leste, Libya, Ukraine, Kiribati, Brunei Darussalam, Bahrain, and St. Vincent and the Grenadines.

This was not an isolated mistake in only one economic sector, but the expression of a broader development strategy. Across agriculture, mining, lithium, and tourism, the same pattern was repeated: state control crowded out private investment, uncertainty around property rights discouraged exploration and expansion, price controls and export restrictions suppressed production incentives, and the institutional and technological capabilities needed to compete globally were either destroyed or never built. The consequences are measurable. Bolivia's Economic Complexity Index ranking fell from 106th in 2000 to 123rd in 2024, reflecting the economy's failure to develop new capabilities or diversify into more sophisticated exports. More striking still, between 1996 and 2023, its regulatory quality ranking collapsed from the 54th percentile globally to just the 11th percentile, the second-steepest decline in the world, even worse than Venezuela. Over the same period, the rule of law ranking also fell, from the 42nd to the 11th percentile. These scores reflect real perceptions among investors and firms about whether contracts will be enforced, whether property rights are secure, and whether the government can credibly commit to stable policies that can support private sector development.

In the process, Bolivia lost its economic agency: the capacity of its citizens and firms to create value, adopt technology, and compete in domestic and export markets. The state's role shifted away from delivering core functions and the complementary inputs that enable investment and production, such as credible regulation, rule of law, and reliable public goods, toward trying to control outcomes through direct ownership, price controls, generalized subsidies, export quotas, and discretionary allocation of resources across all strategic sectors. These measures may have protected consumption and enabled redistribution in the short term, but they discouraged the investment and capability-building needed to sustain growth and inclusion over time. The result was, therefore, the predictable erosion of the economic foundations on which sustainable, inclusive growth depends.

THE NEW ADMINISTRATION'S FIRST STEPS GO IN THE RIGHT DIRECTION, BUT THE HARD WORK LIES AHEAD.

President Rodrigo Paz's administration that took office in November 2025 has been taking important steps towards stabilization. First of all, it was able to restore fuel availability in gas stations, mitigating one of the most visible and disruptive symptoms of the crisis for ordinary Bolivians. Moreover, Supreme Decree 5503 (December 2025) and 5516 (January 2026) began to rationalize energy subsidies, introduce partial public sector hiring freezes, expanded social compensation (including an increase in *Renta Dignidad* and *Bono Juancito Pinto* and the creation of the 3-month new transfer called *Bono PEPE*), raised the national minimum wage by 20% and eliminated tariffs on certain machinery and mechanical parts. According to Ministry of Economy and Public Finance of Bolivia (2026), the fiscal deficit target is 7% of GDP by end of 2026. Moreover, the government has secured initial multilateral financing commitments that should help relieve near-term fiscal and external pressures. As of March 2026, these include (*i)* an IDB support package of up to USD 4.5 billion for 2026-2028, (*ii)* CAF commitments reported at USD 3.1 billion for 2025-2030, (*iii)* a World Bank operation of USD 200 million, and *iv)* a FONPLATA support of USD 1 billion between 2026-2030. Together, these early measures have helped steady the foreign exchange rate and improve market expectations. By mid-March 2026, the parallel-market premium fell to around 35%, the credit risk improved, and Moody's and Standard & Poor's improved their credit ratings and country's outlooks.

A reduction of around 5.2 percentage points of GDP in the fiscal deficit (from 12.2% of GDP to the 7% of GDP target) would place Bolivia among a very small group of countries that have seen a contraction in their fiscal balances of this

magnitude in a single year. Among emerging economies, the closest comparators are Jamaica, which reduced its deficit by 4.7 percentage points in 2010 from a starting position of nearly 11% of GDP; Ghana, which achieved an 8.4 percentage point adjustment in 2023 from a deficit of 11.8%; Mongolia, which compressed its deficit by 11.6 percentage points in 2017 starting from -15.3% of GDP following the collapse of commodity revenues (arguably the most structurally similar case); and Jordan, which reduced its deficit by 8.4 percentage points in 2015 from -15.5% of GDP, with fuel subsidy reform as a central instrument of adjustment. All four cases, however, were undertaken under active International Monetary Fund (IMF) programs that provided external buffer and institutional anchoring. Argentina's elimination of a 5.3% of GDP deficit in a single year in 2024 stands apart as the most intense recent adjustment in the region, though it was enabled together with an exchange rate devaluation and a broader shock therapy that is different from Bolivia's approach.[3]

Yet this is only the very first step, and the hard work lies ahead. President Paz's administration has inherited an economy shaped over a decade of accumulated distortions and policy choices that delayed adjustment rather than addressed the underlying constraints. No single measure can unwind them overnight, but partial adjustment without sustained follow-through risks losing credibility before the benefits of the current stabilization plan materialize. Considering the depth of the accumulated macroeconomic imbalances and the measures taken so far to address them, the rest of this document sets out our assessment of what is still missing, what a successful economic program for Bolivia should entail, and what it must seek to accomplish in order to close the remaining gaps toward macroeconomic stability and economic recovery.

THE ECONOMIC PLAN: FIVE INTERNALLY CONSISTENT PILLARS.

The first three pillars aim to address the near-term macroeconomic stability. These are:

1. A growth-enhancing and credible fiscal consolidation.
2. An effective and targeted social compensation network.
3. A credible restoration of the external balance and monetary credibility.

However, macroeconomic stabilization, even if successful, will not be enough to restore a sustainable growth path. Bolivia can close its fiscal deficit, rebuild reserves, and bring inflation under control, and still find itself back in crisis a few years later if the underlying constraints on growth and foreign exchange generation are not addressed. The same institutional breakdown that made the current crisis inevitable (*i.e.*, the absence of credible rules, competitive incentives, and capable institutions) will continue to prevent the economy from generating the investment, exports, and productivity growth that make stabilization sustainable. This is why a durable economic program requires two further pillars, focused on the medium- and long-term drivers of growth:

4. A regulatory system that allows for the efficient expansion of strategic sectors.
5. A new institutional foundation for developing new productive capabilities.

The distinction between these last two pillars is relevant. Whereas policy signals shape the choices one makes among the options one faces, capabilities determine which options are available. In that sense, Pillar 4 is

[3] Comparison made using IMF-World Economic Outlook (October 2025).

primarily about making strategic sectors investable again: it aims at fixing the policy and institutional distortions that prevent Bolivia from profitably deploying and scaling current or demonstrated capabilities to generate investment and exports. Pillar 5 is primarily a capabilities agenda: it is about building the public, private, and institutional know-how needed to discover new options and expand what Bolivia can produce competitively over time. In short, Pillar 4 removes the brakes on existing potential and Pillar 5 builds the engine for new potential.

Together, these five pillars are the foundations for a credible stabilization and a sustainable return to lasting growth. The next sections address each of these pillars in turn, focusing on the Growth Lab's suggested reforms and policy recommendations.

ON THE SEQUENCING OF THE POLICY SUGGESTIONS OF THE FIVE PILLARS.

The policy suggestions outlined in Pillars 1 to 5, detailed in the sections that follow, are mutually reinforcing, but their effectiveness depends critically on the order in which they are pursued. The overarching sequencing logic follows five stages:

1. Fiscal consolidation, anchored in energy subsidy reform and accompanied by targeted social compensation, must come first, because no other reform can be credibly designed or sustained without it. At its root, this is because Bolivia's economic crisis is a fiscal problem. As long as the government continues to finance its deficit through the Central Bank and financial repression, no investment regime, no IMF program, and no exchange rate framework can credibly anchor expectations. Reducing the fiscal deficit is therefore the precondition for everything else: it is what will allow Bolivia to end financial repression and inflationary finance, and in doing so, restore the conditions under which monetary policy can regain traction and resources can be redirected toward more productive uses.
2. Running in parallel, Bolivia must secure an IMF program and advance credible sectoral reform legislation in hydrocarbons, mining, lithium, agriculture, and tourism. These two agendas are mutually reinforcing: fiscal consolidation makes the IMF program easier to negotiate, while the IMF program and credible export-enhancing reform reduce financing risks and strengthen the external position of the country.
3. Only once fiscal consolidation is sufficiently advanced, and an IMF program is in place can Bolivia credibly address the exchange rate and monetary policy question. Attempting exchange rate normalization before the fiscal position is anchored risks triggering a confidence shock without the buffers needed to absorb it. Bolivia's monetary base is large relative to GDP, reflecting historically strong demand for the boliviano, but that is a source of vulnerability as much as strength: if confidence deteriorates before reserves are rebuilt and the fiscal anchor is secure, money demand could fall sharply, amplifying rather than absorbing the adjustment. For the same reason, capital controls must be maintained throughout this stage. Removing them before the new regime is in a credible place may risk disorderly capital outflows that would undermine the stabilization effort before it can take hold.
4. With the fiscal position anchored, an IMF program secured, and the exchange rate and monetary framework stabilized, Bolivia can then proceed to remove the administrative controls on interest rates and credit allocation that have distorted financial intermediation. This means lifting the floors on deposit rates and ceilings on lending rates set by regulation, and eliminating the directed

credit quotas that currently require banks to allocate prescribed shares of their loan portfolios to designated productive and housing sectors at below-market rates. Their persistence beyond the stabilization phase entrenches structural distortions: they compress bank margins, discourage deposit mobilization, and misallocate capital away from its most productive uses. However, given the long-term duration of Bolivia's banking assets, removing them before the macroeconomy stabilizes risks generating instability rather than efficiency gains.

5. Finally, and running as a longer-term parallel track throughout, Bolivia must begin building the foundations for new productive capabilities. Building the institutions, infrastructure, and knowledge networks that will allow Bolivia to discover and develop new productive options over time is a medium- and long-term undertaking, but one that must begin now. The sooner Bolivia starts building these capabilities, the sooner it can move beyond its current productive base and compete in new activities and markets.

PILLAR 1: A GROWTH-ENHANCING AND CREDIBLE FISCAL CONSOLIDATION

Bolivia's stabilization effort must rest on growth-enhancing fiscal consolidation, so that reducing the fiscal deficit and unlocking growth become mutually reinforcing rather than competing objectives. This is possible because Bolivia's fiscal deficit has long exceeded the economy's available voluntary savings, forcing it to be financed through monetization and financial repression. Both cause the private sector to spend less in real terms, undoing the expansionary effects of fiscal spending. Moreover, output has been constrained by shortages of fuel and foreign exchange causing increased nominal demand to cause inflation rather than growth. Eliminating the excess deficit in a way that increases foreign exchange and fuel availability therefore does not simply restore fiscal balance, it also removes the drag that monetization and financial repression has has on private activity. The composition of the needed adjustment in Bolivia reinforces this logic. International evidence on expenditure-based consolidations shows that fiscal adjustment can be expansionary when it is concentrated on reducing transfers and the government wage bill rather than on cutting public investment or raising taxes (Giavazzi and Pagano,1990; Alesina and Perotti, 1997). Bolivia is an unusually strong candidate for this outcome because the needed cuts are concentrated in current spending components. Therefore, Bolivia's fiscal consolidation can genuinely be expansionary, not despite spending cuts, but because of where those cuts are made and the savings they free up for more productive use by the private sector.

One of these cuts is energy subsidies, which are at the root of both the fiscal problem and reforming them is the backbone of the fiscal anchor and the growth agenda. Energy subsidies have become one of the largest and least economically efficient components of public spending. They sit at the intersection of the fiscal deficit, the external constraint, and the economy's supply response. Their explicit fiscal cost rose sharply, from about 0.6% of GDP in 2007 to an estimated 4.4% of GDP in 2025 (valued at the official exchange rate). But the true economic cost is significantly larger. A substantial share of the subsidy is implicit because of the opportunity cost of selling domestically produced hydrocarbons (gas, gasoline, and diesel) at below-market regulated prices rather than at export-parity values. Once this implicit component is included and valued at the 2025 average parallel exchange rate, the total economic cost of energy subsidies is estimated at around USD 4.3 billion or 14.5% of GDP in 2025, an amount that would close a large share of the country's entire fiscal deficit.

Reducing energy subsidies is not simply about reducing spending; it is, more importantly, about removing a distortion that has simultaneously suppressed domestic supply, eroded export capacity, and misallocated investment across the energy sector. The damage to supply is most visible in natural gas. When producers are required to sell gas domestically at roughly one-sixth of the export price, investment in exploration becomes commercially unattractive. Why would companies invest in discovering new reserves if they cannot recover their costs at domestic prices? As explained before, the predictable outcome has been the collapse in production and exports that started in 2014, which has raised the risk of Bolivia becoming a net importer of natural gas sometime between 2028-2031, and which can further impose challenges for the electricity system. In addition, artificially low prices have created arbitrage incentives, with smugglers purchasing subsidized fuel domestically and reselling it at international prices in Peru, Brazil, Argentina, and Paraguay.

Perhaps more consequential for the long run is the misallocation of investment. Cheap gas has made renewable energy commercially unviable, despite Bolivia possessing some of the world's best solar and hydropower potential. The country ranks 2nd and 8th globally in per-capita solar and hydropower potential, respectively. With 66% of electricity generation still coming from gas-fired thermal plants, Bolivia has effectively locked itself into a declining fuel source rather than building the diversified energy base its resource endowment would permit. If gas were priced at its true opportunity cost, renewable projects like large-scale solar farms or hydropower expansions would be commercially viable, reducing dependence on gas and freeing up volumes for export.

The subsidies that have caused this damage are also deeply regressive. Despite their stated redistributive intent, energy subsidies in Bolivia disproportionately benefit wealthier households, who consume far more energy in absolute terms. More fundamentally, generalized subsidies are an inefficient and poorly targeted redistribution mechanism: they absorb substantial fiscal resources that are disproportionately directed to higher-income groups. Subsidy reform is thus both a fiscal necessity and a redistributive opportunity, if accompanied by a stronger and better-targeted social compensation network, an issue addressed directly in Pillar 2.

The reduction of energy subsidies announced in December 2025 was an important first step in the right direction, though the energy subsidy reform remains incomplete. The government raised diesel prices by 163% (to Bs 9.80/liter) gasoline by 86% (to Bs 6.96/liter), and vehicular gas by 64%, signaling a willingness to break with a policy that had been politically untouchable for over a decade. The reform was also socially conscious as it was accompanied by compensation measures to help cushion the shock for vulnerable households. Our estimations suggest that the temporary introduction of *Bono PEPE* transfer roughly compensates for the loss of purchasing power from fuel subsidy removal for eligible households in the bottom 50% of the income distribution. This took courage and has begun to ease fiscal pressures. The estimated net economic savings (including both explicit and implicit savings) is USD 1.7 billion, which nets out the gross savings of USD 1.9 billion (of which USD 1.3 billion are explicit and USD 0.6 billion are implicit) of reducing these subsidies against the USD 238 million cost of expanded social transfers. The size of this adjustment represents around four times the average for a sample of 13 energy subsidy reforms.[4]

[4] The comparison draws on the compilation of energy reforms in Mukherjee, *et.al.*, (2023), which includes reforms undertaken in the Dominican Republic, Ghana, India, Indonesia, Iran, Jordan, Kenya, Malaysia, Morocco, Nigeria, the Philippines, Ukraine, and Yemen.

Despite this progress, two critical gaps remain to ensure the energy reform and, thus, the fiscal consolidation are growth-enhancing and credible.

#1.1. Eliminate remaining fuel subsidies and establish a market-based pricing mechanism to allow the development of a competitive private fuel market.

The first critical gap is that fuel subsidies have not been fully eliminated, and the decree did not establish a fully transparent, market-based pricing mechanism going forward, as market conditions change. As of end of February 2026, while the domestic price increases were significant, gasoline and diesel were still 40% and 18% below international prices (USD 1.26 and USD 1.29), respectively. In addition, the reform does not incorporate best practices in fuel price-setting methodologies.

With Supreme Decree 5516, the price setting remains a discretionary process and set for a period of only six months. It establishes *i)* a fixed adjustment factor and dollar reference price for crude oil of USD 64.45 per barrel for a six-month "transitional period" only, with modifications subject to approval by the Ministry of Hydrocarbons and Energy; *ii)* domestic fuel prices in bolivianos determined by the formula: price in bolivianos = dollar reference price × official exchange rate × adjustment factor; and, *iii)* that pump prices must adjust whenever the dollar reference price moves by more than 5% relative to its current level. The methodology for estimating this reference price and the adjustment factor are not publicly specified.

This pricing arrangement is structurally vulnerable to being eroded through three compounding mechanisms. First, both the reference price and every margin in the distribution chain, from refinery to retail, is frozen in nominal bolivianos terms for the transitional period. Inflation therefore operates on two fronts simultaneously. On the consumer side, the real value of the final price falls as inflation runs through the economy, quietly regenerating the subsidy (in real terms) that the reform was designed to eliminate. On the supply side, the real value of every logistical and intermediation margin erodes in parallel, gradually undermining the financial viability of different actors in the different parts of the supply chain.

Second, the decree does not explicitly establish how a change in the official exchange rate would pass through to domestic fuel prices. As a result, it remains unclear whether a devaluation would automatically pass through to domestic prices or whether it would instead widen the subsidy's fiscal burden.

Third, while the decree establishes a 5% trigger for price adjustments, no smoothing or risk management mechanisms are established to manage international oil price volatility. If prices rise sharply above USD 64.45 per barrel, the 5% trigger would require frequent and potentially large price adjustments. This is a risk that has already materialized: with international oil prices surging above USD 100 per barrel following the escalation of conflict in the Middle East in early 2026, an adjustment in the reference price should have been triggered. The government's decision to delay any revision until June illustrates precisely the political difficulty of operating a discretionary mechanism without the buffer of a price smoothing arrangement. Without a price smoothing mechanism, the government faces a recurring choice between absorbing the fiscal cost or imposing politically difficult price increases. Addressing this gap should be considered an integral part of completing the fuel reform.

Beyond these fiscal and technical vulnerabilities, the current arrangement forecloses a more fundamental objective: the development of a competitive private fuel market. As long as *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB) commercializes fuel at prices below import costs, private sector entry is commercially impossible as no firm can operate viably under those conditions. Fixing the pricing mechanism is therefore not only about fiscal sustainability, but the precondition for attracting private participants who can invest in distribution infrastructure, improve supply reliability, and reduce the state's operational burden in the sector.

Achieving this requires transitioning from the current discretionary system to a transparent, formula-based pricing mechanism in which domestic prices reflect true costs and adjust regularly in response to changes in international prices, the exchange rate, and inflation, without requiring ministerial approval. Colombia, for example, uses a monthly formula tied to international Gulf Coast and Caribbean prices, published 15 days in advance.

In competitive markets, fully automatic pass-through is the simplest and most fiscally transparent option, and the one most conducive to private sector entry. To protect consumers from sharp swings, this can be complemented by a smoothing mechanism, of which, three broad models can be considered. The first is a variable excise tax that adjusts countercyclically, rising when international prices fall and turning into a subsidy when they spike: Chile's MEPCO does this every three weeks, while Mexico's IEPS operates on a monthly basis, with the Finance Ministry applying discretionary rebates during periods of high volatility (Ministerio de Hacienda de Chile, no date; CIEP, no date). But this would require adding an excise tax to the price of gasoline, to begin with. The second is a price band backed by a stabilization fund, as Peru and Colombia have used; however, both countries' funds have faced serious fiscal sustainability problems during sustained price increases. For instance, Colombia's fund accumulated a billion-dollar deficit that Ecopetrol had to absorb, and Peru's required USD 2.5 billion in budgetary transfers over its first seven years (El Espectador, 2024; Energypedia, 2014). This is a risk Bolivia, with its limited fiscal space, can ill afford. A third mechanism would involve hedging: once the price is set, it can be assured by buying the appropriate options on the price of oil, such that upward deviations do not have to be passed on to the consumer, as they would be compensated by the rise in the value of the options. The coverage of protection against a rise in prices can be done by selling the risk of a fall in prices. We believe that Bolivia should explore this option. Regardless of the model chosen, implementation should be delegated to an independent regulatory body (with Bolivia's *Agencia Nacional de Hidrocarburos* the natural candidate) that publishes pricing calculations transparently and removes the government from individual pricing decisions.

#1.2. End natural gas underpricing to unlock investment and export revenues.

The second gap concerns the natural gas subsidy, which constitutes the largest implicit subsidy and the most severe distortion to investment incentives in the hydrocarbon sector, and remains unaddressed. The implicit cost of natural gas subsidies reached an estimated 3.0% of GDP in 2025, respectively. Domestic gas continues to be sold to power generators and industrial users at roughly USD 1.25 per MMBTU when the export price is between USD 6-7, sacrificing more than USD 900 million in potential annual export earnings and discouraging upstream and renewable energy investment. If left unaddressed, Bolivia's dwindling gas production threatens to transform this implicit cost into an explicit fiscal burden. Energy

experts warn the country may need to begin importing liquified petroleum gas (LPG) as early as this year, and natural gas sometime between 2028 and 2031.

Closing these two energy gaps would go a long way toward restoring fiscal sustainability, but they are not sufficient on their own. The December measures were bold enough to inevitably generate real political opposition, yet Bolivia's starting negative fiscal position is so deep that even an adjustment of this scale still leaves a substantial gap that needs to be closed to fully restore confidence and sustainability. This creates a critical choice about how to complete the consolidation in a way that is not only economically sound but also politically viable: whether to accelerate the path or, if the remaining adjustment is spread over time, how to finance the transition deficit in a credible and stabilizing way.

#1.3. Complete the fiscal consolidation path with a consistent financing strategy.

Reaching the 7% of GDP fiscal target for 2026 is an important milestone, but it is not a fiscally sustainable level. The measures suggested in #1.1 and #1.2 above would go a substantial way. Valued at an estimated 2026 average parallel exchange rate, the complete elimination of fuel subsidies, which still carry a fiscal explicit cost of 3.3% of GDP despite the initial price adjustment, the elimination of natural gas subsidies at approximately an additional 2.7% of GDP and freezing non-multilateral public investment, which represents roughly 3.1% of GDP, are options that can provide important fiscal savings, while unlocking growth.[5] However, these gross savings must be partially offset by a second round of social compensation needed to protect poor and vulnerable households. The fiscal consolidation must be accompanied by a second round of targeted compensation, likely an extension of *Bono PEPE*, and, if natural gas subsidies are removed, compensation for LPG cannisters' users. This social compensation measures would imply an estimated lower bound fiscal cost of 0.7% of GDP, further discussed in Pillar 2.

If instead the government chooses to phase the remaining fiscal gap gradually over the next two to three years, it must finance the resulting deficits during the transition. A credible stabilization plan implies not only a headline deficit target, but a consistent financing strategy, because the choice of financing sources determines how the whole macroeconomy adjusts. Yet given the lack of access to international markets and limited near-term scope for new revenue measures, the options available are not new: they are the same two instruments Bolivia has relied on throughout the crisis (*i.e.*, monetary financing by the Central Bank and forced absorption of government debt by Gestora and the banking system), and neither is without compounding costs to the credibility and sustainability of the stabilization effort itself.

Over the past three years, Bolivia's fiscal deficit has been financed through two main domestic sources: monetary financing by the Central Bank, which accounted for roughly 6.4% of GDP per year between 2023 and 2025, and forced absorption of government debt by the pension system through Gestora, which contributed approximately 2.7% of GDP annually. Together these two sources covered a large bulk of a deficit that reached over 10% of GDP at its peak and they have not been without cost for the economy. Each source carries its own compounding damage: monetization feeds inflation and depreciation

[5] Freezing non-multilateral public investment, which has ranked among the highest in the region over the past two decades, would not only help reduce the fiscal deficit but could also enhance the efficiency of public spending. A significant share of this investment has been undertaken by state-owned enterprises (SOEs), often inefficient SOEs, and financed through transfers from the central government.

pressure, while forced absorption through Gestora erodes the real value of pension assets and crowds out private sector credit.

Continued reliance on these sources will only deepen these damages. If we assume Gestora continues to contribute 2.7% of GDP through purchases of government debt at below-market rates, a large share of the remaining gap (approximately 4.5% of GDP) will fall to the Central Bank. This level of monetary financing would be expected to sustain an inflation rate near 17%, feed depreciation pressure in the foreign exchange market, delay the re-anchoring of expectations, and further erode the Central Bank's own balance sheet, which, as of December 2025, has already accumulated quasi-fiscal liabilities of 7.1% of GDP from sterilization instruments issued to partially contain the inflationary impact of past monetization.

Gestora's forced allocation is less visible but not less damaging. Since taking over the entire pension system's portfolio in May 2023, Gestora has devoted nearly all investable funds to purchasing government debt at negative real interest rates, silently decapitalizing the pension system in the process and widening the gap between the assets workers are accumulating and what they would have accumulated under market returns. Comparing the actual portfolio value in October 2025 against what it would have been had the entire portfolio earned a 0% real return reveals a gap of Bs 40 billion, equivalent to 20% of the portfolio's actual value and 11% of GDP. That is the measure of the quiet transfer of wealth away from Bolivia's future retirees that financial repression has produced. At the same time, Gestora's captive allocation crowds out private credit by foreclosing its capacity to place funds in commercial banks, lowering lending to the productive sector. The longer this continues, the larger the future pension shortfall and the deeper the credit stagnation.

Choosing to phase the remaining adjustment gradually therefore means choosing to continue these two financing sources and accepting their consequences for longer. It is a choice to spread the costs of monetization and financial repression over time, in the knowledge that those costs compound the longer consolidation is deferred. The case for accelerating the fiscal consolidation is ultimately a case for stopping these two mechanisms before they do further damage.

Finally, it is important to clarify some points on multilateral financing. First of all, it does not imply necessarily a large increase in sovereign debt. This is because a large share of these commitments will serve to roll over obligations that previous administrations contracted with multilateral institutions. Beyond rollover, this financing also serves as a way to substitute bilateral credit lines, which are often less transparent and less institutionally anchored, with multilateral credit that is more solid, transparent and governed by clear financing terms and conditionality frameworks. In this sense, the shift in the composition of Bolivia's external debt is itself a gain in credibility and institutional quality, even before new money is disbursed.

Second, multilateral financing, while crucial, cannot close the fiscal gap on its own. Net international financial flows are only expected to contribute 0.5% of GDP to deficit financing in 2026 as high amortization and interest payments this year are around USD 1.8 billion, and net flows are expected to turn negative in subsequent years as amortizations outpace new disbursements. Beyond this, even when the combined IDB, CAF, FONPLATA and World Bank commitments total USD 8.8 billion over the coming years, this stock of financing is also finite, not necessarily front-loaded, and conditional on reform

implementation as a large share is disbursed for project investment lending. The share that can genuinely serve as liquidity budget support is conditional on reaching a program agreement with the IMF. In short, multilateral financing buys time and credibility to sequence the adjustment, but it cannot substitute for closing the underlying fiscal gap.

Pillar 2: An effective and targeted social compensation network

The fiscal consolidation path outlined in Pillar 1 and anchored in energy subsidy reform will inevitably affect household purchasing power, particularly for the poorest and most vulnerable Bolivians. Social compensation is the precondition for the political viability and sustainability of the fiscal adjustment. Without effective protection mechanisms in place, the distributional costs of the adjustment fall disproportionately on those least able to absorb them, undermining both the fairness and the sustainability of the reform. For instance, households in the bottom income decile already spent around 16% of their income on energy, 4.5 times the share of the top 10% and making them by far the most exposed to the cost of removal.

Importantly, the reform that generates the need for compensation is also the one that creates the opportunity to rethink how Bolivia protects its poor. The subsidy that started to be dismantled was not a pro-poor policy. It is a transfer program for the wealthy, financed by public resources and justified by the language of social protection. The top decile alone absorbed around 21% of the total subsidy, seven times more per household than the bottom decile, which received just 3%. The reform is therefore not a case of the government taking something away from the poor. It is a correction of a policy that was quietly transferring public money to wealthier households and smuggling operations under the guise of social protection. Hence, the reform creates a genuine opportunity to rethink how Bolivia protects its poor: redirecting resources from an untargeted subsidy toward better-designed, more cost-effective transfers to those who actually need them.

Addressing this is both an urgent necessity and a strategic opportunity. The suggestions outlined below address both imperatives: immediate compensation for the most vulnerable, and a structural overhaul of the social protection system that has so far been unable to deliver it effectively.

#2.1. Implement a second-round social compensation during the completion of the fuel subsidy reform.

The completion of the fuel subsidy reform would imply further increases in gasoline, diesel, and CNG prices, each reaching households through different channels. Gasoline affects households directly through private vehicle use and indirectly through public transportation fares; CNG primarily through public transportation; and diesel through an indirect channel: higher freight and logistics costs that ripple through to consumer prices across the economy. The distributional impact therefore depends critically on how these price increases pass through to fares and consumer goods, and the early evidence from the first round of reforms suggests these two channels have played out very differently.

On public transportation, the pass-through was immediate and fell squarely on households. Bus fares doubled from Bs 2.5 to Bs 5 following an agreement between the government and transport unions after Supreme Decree 5516, costing the bottom 40% of the income distribution an estimated 3% of their monthly household income. The scale of the pass-through is visible in the CPI data: transport prices jumped 11.9% in January 2026, the sharpest monthly increase of any category.

On diesel, the pass-through to food has so far been more contained than feared: monthly food prices have registered a cumulative fall of 2.4% as of March 2026, suggesting limited immediate pass-through from higher diesel prices to food logistics costs. However, food prices had been running at 30.2% annual inflation through 2025, driven largely by supply disruptions caused by fuel shortages. While three months of data are not enough to draw firm conclusions, the early evidence suggests that restoring fuel availability may have done more to ease food price pressures than the subsidy removal has done to worsen them.

Completing the fuel reform as suggested in Pillar 1 (#1.1) would impose an additional purchasing power loss of between 3% and 5% of household income for the bottom 40%. The existing social transfer package, including increases to *Renta Dignidad* and *Bono Juancito Pinto* and the introduction of the three-month *Bono PEPE*, was designed to cushion the first round of price increases. This compensation represented 47% and 21% of monthly household income for the first and second decile, respectively, and 7% on average for the whole income distribution. And, it had an estimated fiscal cost 0.7% of GDP. Completing the reform will require a second round of compensation. Given the lack of targeting mechanisms, the most straightforward option in the short term would be a three-month extension of Bono PEPE at its current transfer value, at an estimated fiscal cost of USD 59 million (approximately 0.2% of GDP). This would provide relief equivalent to 23% and 10% of monthly household income for the first and second deciles, respectively, and an average of 3% across the full income distribution. However, this represents a temporary, time-bound transfer against a permanent increase in public transportation costs. Once the transfer expires, the bottom deciles will continue to face a structural reduction in real purchasing power with no ongoing compensation mechanism in place. A more durable response in the short term will therefore be needed: options include another increase in *Renta Dignidad* or *Bono Juancito Pinto* transfer values. The right combination will depend on fiscal space and the speed with which better targeting infrastructure can be built.

In the interim, the three-month extension should be understood as a bridge, not a solution as there is a coverage problem that should be addressed, if possible, before the next round of price adjustments takes effect: approximately 20% of poor households currently fall outside both *Bono PEPE* and the expanded *Renta Dignidad* scheme, meaning a meaningful share of the most vulnerable Bolivians are receiving no compensation at all. This gap reflects a deeper structural weakness in Bolivia's social protection architecture. Closing it requires improving the targeting and coverage of support mechanisms, a challenge that is taken up more fully in point #2.3 below.

#2.2. Improve cross-subsidization in electricity and implement LPG vouchers.

The reform of natural gas subsidies creates a second, distinct channel of impact. Natural gas is the primary energy source for Bolivia's industrial and residential sectors, powering thermoelectric generation that supplies the electricity grid, fueling industrial processes, and serving as the feedstock for the LPG that low-income households depend on for cooking. Higher gas prices will therefore be transmitted to households and firms through two routes: higher electricity tariffs, which affect both industry and households, and higher LPG prices, which hit poor households directly on one of their most basic expenditures. For instance, the elimination of natural gas subsidies will represent an average cost increase of around 6.5% of household income for the bottom 40% of the income distribution.

Hence, the distributional impacts of natural gas subsidy removal can and should be mitigated through well-designed compensation mechanisms. In the electricity sector, short-term price increases can be cushioned through cross-subsidies that protect the poorest households while allowing tariffs to reflect true costs for higher-income and industrial consumers. Cross-subsidies already exist in Bolivia through *Tarifa Dignidad*. Under the current set up, households that consume less than 70 kilowatts receive a 25% discount from their bill, financed by higher electricity tariffs for residential and commercial users with higher consumption. This current structure should be leveraged to cushion the impact of the removal of natural gas subsidies.

For LPG, countries like Peru and the Dominican Republic have successfully converted untargeted subsidies into targeted cash transfers or vouchers that subsidize LPG consumption, keeping energy affordable for vulnerable households in rural and peri-urban that use gas for cooking and heating, as well as for informal workers that sell street food. Given Bolivia's extensive remote and rural areas, evidence from Peru suggests that a voucher-based scheme would be more appropriate than the cash transfer model adopted by the Dominican Republic. Beyond logistical fit, vouchers tend to carry greater social acceptability, as the subsidy is directly and visibly linked to the LPG canister rather than provided as a generalized cash payment. The Peruvian experience also underscores the need to establish a reliable network of authorized distributors as a prerequisite for effective implementation. In Peru, vouchers are delivered through multiple channels: attached to beneficiaries' electricity bills, provided as stand-alone paper vouchers for beneficiaries without electricity, or sent as a digital voucher via SMS for beneficiaries with mobile phones (Fujita-Conrads *et. al.*, 2023). This is a flexible design that Bolivia would do well to replicate given the uneven reach of infrastructure across its territory. We estimate that compensating all households without connection to piped gas or electricity with one LPG canister per month has a fiscal cost of measure at approximately USD 160 million or 0.5% of GDP.

#2.3. Overhaul Bolivia's social protection architecture.

Bolivia's social protection system rests on four main programs (*Bono Juancito Pinto*, *Renta Dignidad*, *Bono Juana Azurduy*, and the recently introduced *Bono PEPE*) that share two structural weaknesses with significant fiscal and welfare consequences.

First, by being universal within broad categorical groups, the absence of targeting mechanisms produces a dual coverage inefficiency: the system simultaneously leaks transfers to non-poor households while excluding a significant share of the poor it is designed to protect. While it covers more than 80% of poor households, 74% of non-poor households receive at least one social transfer, meaning that a large share of social spending flows to households that do not need protection. This leakage is the highest in Latin America (IDB, 2023). However, nearly one in five eligible poor households do not receive *Bono Juancito Pinto* and 5.4% do not receive *Renta Dignidad*. Both failures stem from the same design flaw: a universalist architecture that delivers benefits through fixed categorical channels (*i.e.*, age, school enrollment, maternity) with no mechanism to identify which households are poor, systematically fails to reach those that fall outside standard delivery networks, or include those that do not need support.

Second, spreading transfers across too large a population keeps per-beneficiary amounts too low to meaningfully close the income gap. Bolivia's average transfer stands at 0.24 of the average income gap (versus 0.32 in Latin America and the Caribbean). Countries that have moved toward targeted programs

have generally sustained higher transfer levels precisely because concentrating on spending on a smaller eligible population allows for larger individual transfers without increasing the overall fiscal envelope.

The current reform moment, together with the recent engagement with the IDB and the World Bank on social protection reform, offers a rare opportunity to correct these failures simultaneously. In the near term, the government should use *Bono PEPE* to build the beneficiaries registry Bolivia has never had. The delivery system for social assistance in Bolivia is characterized by institutional fragmentation, multiple beneficiary registries, and different cash payment systems, with each institution managing its own registry, increasing transaction costs for both the government and beneficiaries and limiting the effectiveness of social policy (World Bank, 2026). Bono PEPE's registration requirement is the first opportunity Bolivia has had to break this pattern. The registry should be designed from the outset to capture household-level socioeconomic characteristics beyond categorical eligibility that can later serve as the basis for a targeting algorithm. This is the prerequisite for everything else. Without it, any targeting reform will reproduce the same blind spots the current system already has.

Second, a shift from universal to targeted programs that concentrate support on the poor and vulnerable, phasing out the universalism that currently directs a large share of social spending toward non-poor households. A prudent sequencing would start with geographic targeting, concentrating transfers on municipalities with the highest poverty rates and exclusion errors, as a first step that requires less administrative infrastructure and builds political legitimacy before moving to household-level targeting. As the social registry matures, more refined targeting mechanisms can be introduced. In parallel, consolidating Bolivia's fragmented programs into a smaller number of well-designed transfers, distinguishing clearly between consumption-smoothing and human capital investment objectives, would allow for higher transfer adequacy and cleaner accountability.

Pillar 3: A credible restoration of external balance and monetary credibility.

The Central Bank of Bolivia (BCB) has taken an important first step by formalizing the parallel exchange market. The private sector had already shifted to market-based rates before December 2025, either informally through the parallel market or formally through the banking system. In 2025, those operations through the banking system totaled over USD 13.7 billion across more than 2.1 million transactions, implying a large pool of observed prices at which households and firms, exporters and importers were already exchanging dollars.[6] What changed on December 1, 2025, is that the BCB began publishing a daily reference exchange rate derived from actual bank foreign exchange operations, acknowledging the market reality. At the same time, direct purchases made abroad through banks at the official exchange rate, which amounted to roughly USD 1.6 billion in 2025, shifted to the new reference rate. This represented an important step toward formalizing and aligning some private exchange rate transactions with market reality, even as the dual exchange rate structure remains formally in place.

However, while the market exchange rate governs private sector transactions, the official rate is far from being irrelevant for the public sector. Bolivia still operates with two exchange rates, and the government chooses to keep it that way for a reason. The official rate of Bs 6.97 per dollar governs public sector transactions, most

[6] Based on BCB's press communications from December 1, 2025 and January 5, 2026.

importantly the government's dollar deficit. Bolivia's public sector runs a structural deficit in foreign currency: fuel imports, external debt service, and other obligations exceed dollar revenues from exports and taxes.[7] Under the previous government, this gap was covered in part through surrender requirements on gold exporters, who were obliged to sell their output to state-owned enterprise EPCORO at the official rate, generating a discount of roughly USD 700 million per quarter (or approximately USD 2.8 billion annually) relative to what those dollars would cost at the market rate. This was, in effect, a tax on gold exporters that implicitly subsidized the government's dollar expenditures and that may have significant economic distortions. Gold exporters facing a forced below-market conversion have strong incentives to under-report volumes, route exports through third countries, or substitute into other assets, undermining the very export earnings Bolivia depends on.

The new administration is facing a public sector foreign exchange deficit estimated at roughly USD 4 billion in 2026. This includes a hydrocarbons trade deficit of USD 2.2 billion and external debt obligations of USD 1.8 billion. On top of this number, there are USD 2.6 billion in arrears that will need to be paid or restructured. It is also worth noting that the hydrocarbons deficit is subject to upside risk following the conflict in the Middle East. During the first quarter of 2026, this deficit was financed primarily through multilateral liquidity tranches and trade credit. However, as multilateral liquidity sources are expected to draw down over the course of the year, currency depreciation pressures are likely to reemerge. How the government chooses to cover the remainder to keep this pressure under control, whether by resuming the tax on gold exporters, securing additional multilateral support or turning to market purchases of foreign exchange, carries different consequences for the fiscal position, monetary policy, and the incentives facing Bolivia's export sectors.

Regardless of when and how the government decides to address the dual exchange rate, completing stabilization also requires formalizing a credible exchange rate regime. The following three conditions would make any transition significantly more manageable: completing fiscal consolidation is the prerequisite, securing an IMF program is the most time-sensitive, and advancing export reforms is the most structural. Together, they are mutually reinforcing: fiscal consolidation makes the IMF program more achievable; the IMF program de-risks the exchange rate transition; and export reforms make the new equilibrium sustainable.

#3.1. Complete the fiscal consolidation to be able to end fiscal dominance.

The first and most fundamental condition is ending fiscal dominance. Bolivia's monetary crisis is, at its root, a fiscal crisis: as long as the government continues to finance its deficit through the central bank and financial repression, no monetary or exchange rate framework can credibly anchor inflation and depreciation pressures. A credible monetary framework requires a credible commitment that the government will not turn to the central bank to fill fiscal gaps. In practice, this means establishing a binding legal prohibition on direct BCB financing of the fiscal deficit, limiting the share of government debt that Gestora can hold at below-market rates, and making both rules transparent and enforceable. The central challenge is that this commitment is difficult to make credibly before fiscal consolidation is substantially complete.

[7] The official rate also has a direct fiscal cost through customs: import duties and VAT are calculated on CIF values converted at Bs 6.97, meaning the government collects less tariff and VAT revenue per dollar of imports than it would at the market exchange rate.

#3.2. Secure an IMF program as the initial anchor to rebuild reserves.

The second and most urgent is to secure an IMF program, likely and Extended Fund Facility given the level and structural nature of the adjustment required. The scale of Bolivia's imbalances is exceptional even against the historical distribution of crises that have required IMF intervention. Drawing on the IMF's Monitoring of Fund Arrangements database, Bolivia's 2025 fiscal deficit of 12.2% of GDP falls in the top 4% of such episodes since 2000, while its 98% reserve depletion between 2015 and 2025 places it below the bottom decile, leaving the BCB with no usable buffer whatsoever. Rebuilding that buffer is therefore the most immediate operational priority.

International reserves must be rebuilt to a level that provides credible protection against a loss of confidence in the boliviano. Bolivia's monetary base of around 38% of GDP, reflecting historically strong demand for the domestic currency. That is a source of strength, but also of vulnerability: if confidence in the macroeconomic picture deteriorates, money demand could fall sharply, triggering depreciation and inflation as the ratio adjusts. Adequate reserves are the main buffer against that dynamic. At present, the BCB has no meaningful reserve cushion to deploy. After the payment of the Eurobonds in March 2026, liquid reserves fell to only USD 149.6 million, well below the level needed to provide a credible buffer against confidence shocks.[8] Rebuilding reserves will require external creditor support in the early stages, when the balance of payments cannot yet generate surpluses on its own.

An IMF program is the most effective vehicle for this, and its benefits extend well beyond reserve support. It will provide direct accumulation support to the BCB, helping rebuild the buffer needed to smooth exchange rate volatility and sustain confidence in the boliviano, while also helping transform the composition of existing multilateral support. The multilateral financing already secured from the IDB and World Bank is predominantly project-tied and cannot substitute for balance-of-payments liquidity. Under an IMF agreement, those same lenders would be expected to shift a portion of their financing toward budget support and liquidity disbursements, increasing the speed and flexibility of available support. Moreover, it would also reduce country risk, improving the terms on which Bolivia can restructure its external obligations and potentially enabling new bond issuance in international markets by 2027 under a successful program trajectory. Finally, it would provide a credible institutional anchor for sequencing the subsequent liberalization of USD-denominated bank deposits and the eventual normalization of the capital account. In the absence of an agreement, Bolivia faces not only greater financing uncertainty but also the risk that markets, which may already be pricing in an expected program, reprice country risk upward if one fails to materialize.

#3.3. Advance export-enhancing sectoral reforms to improve foreign exchange earnings outlook.

The third condition and relevant for the long term is reducing uncertainty over Bolivia's future export path. Bolivia's capacity to import and, therefore, to sustain economic activity depends critically on its ability to generate foreign exchange. At present, that capacity rests heavily on transitional multilateral financing rather than on self-sustaining export earnings. Until sectoral reforms for hydrocarbons, mining,

[8] BCB's remaining gold stock of 22 tons offers no usable buffer as current legislation mandates that precisely that amount be held as minimum reserves at all times. Moreover, roughly a third of the gold stock is pre-committed to settle gold-future contracts struck by the previous government, so effective coverage is lower than it appears.

agriculture, and other sectors are approved or moved forward, the foreign exchange outlook will remain fragile and dependent on financing that cannot be relied upon indefinitely. Importantly, credible reforms can attract foreign direct investment well ahead of actual production gains. For example, a new hydrocarbons and mining regime could signal a durable improvement in the investment climate, generating foreign direct investment (FDI) inflows and strengthening the external position before export volumes themselves increase materially. It should be noted, however, that FDI inflows are also associated with capital goods imports in their early stages, meaning the net foreign exchange effect in the initial years may be smaller than gross inflow figures suggest. The more immediate channel is therefore signaling: credible sectoral reform legislation, even before implementation, changes the risk calculus for multilateral and bilateral lenders, reinforcing Bolivia's ability to secure and maintain the IMF program described in #3.2. Some of the suggested reforms are detailed in Pillar 4 and 5.

#3.4. Establish a new foreign exchange and monetary policy regime and keep capital controls during the transition.

Only after the three preceding conditions are met may BCB credibly formalize a new exchange rate regime. If authorities commit to the remaining fiscal and growth reforms and reach an IMF agreement within 2026, BCB would be positioned to announce a unified official exchange rate regime backed by reserves from inception. Under those conditions, several options become viable: inflation targeting, a managed float within bands, or even a new peg, depending on reserve levels and the degree of confidence in fiscal sustainability. If, however, authorities delay the remaining reforms or forgo an IMF agreement, BCB would lack the fundamentals to anchor any regime premised on 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 transition rather than defend a level that cannot yet be sustained. The choice between these paths determines whether Bolivia enters a stable regime underpinned by completed reforms, or an interim arrangement that manages instability while reforms remain pending. In either case, capital controls (including withdrawal controls on US dollar-denominated deposits) must be maintained during the transition until the new regime has established sufficient credibility. Removing them prematurely would risk disorderly capital outflows and exchange rate instability that would undermine the stabilization effort itself.

Pillar 4: A restoration of investment attractiveness and export potential in strategic sectors.

Bolivia's situation demands that macroeconomic stabilization and structural reform be treated as parallel, not sequential, agendas. As argued in Pillar 3 (#3.3), sectoral reform is the third and most structural condition for restoring external balance, and it cannot wait. Closing the fiscal deficit is necessary but insufficient: Bolivia also needs to rebuild investment incentives and export capacity in latent strategic sectors to close the foreign exchange gap sustainably. Pillar 4 outlines priority reforms across four strategic sectors: hydrocarbons, mining (including lithium), agriculture and tourism.[9] Bolivia holds proven comparative advantages in

[9] For the full diagnosis and analysis of the constraints in each sector, readers should refer to the individual sectoral papers underlying this report. See footnote 1.

these sectors, but policy distortions have systematically suppressed investment and output. Some reforms can deliver results within 12–24 months; others will take longer but must begin now to signal credible regime change. Together, they can transform Bolivia's external constraint from a binding limit on growth into a foundation for sustained, diversified expansion.

#4.1. Reviving the hydrocarbons and energy sector.

Reform Pillar	Key Policy Action
Finalizing fuel subsidy reform to establish an efficient supply system	Close the gap between the domestic fuel price and international parity price
	Publish a clear formula to update prices based on international price movements
	Build a stabilization mechanism that absorbs price shocks and short-term volatility
	Enable private liquid fuel supply and auction off areas in blocks
Restructuring the hydrocarbons sector to restore exploration incentives	Restructure of the contractual setup: Under the current constitution private companies could be allowed to commercialize on behalf of YPFB After a constitutional reform ANH could choose the correct contractual model for each field, reflecting the different risk profiles
	Replace the IDH with a progressive tax that varies depending on international price levels, production volumes of the field and previous investments.
	Strengthen the role of the independent regulator ANH
	Improve corporate governance of YPFB by increasing its transparency and independence
	Eliminate the domestic natural gas subsidy and move prices to export parity. Introduce cross-subsidies to mitigate impact on electricity tariffs.
Developing hydropower and solar resources to reduce domestic gas consumption and increase natural gas export capacity	Run competitive renewable energy auctions and make conscious design choices about offtaker and currency denomination

Source: Lamby *et al.* (2026)

#4.2. Unlocking the mining and lithium potential.

Reform Pillar	Key Policy Actions	Rationale/Expected Impact
Secure and Bankable Mining Rights	Strengthen the security rights of administrative mining contracts by allowing conditional transferability of rights with administrative approval, establishing transparent rules for renewal and expansion of mining areas and enabling the use of the contract as collateral. This is possible through a new law that alters the Articles 17,18, 98, 136 and 144 of Law 535	Secure and transferable rights reduce perceived political risk and improve the bankability of mining projects. This lowers financing costs and encourages exploration and long-term investment.

Predictable Permitting and Consultation	Introduce clear timelines for permitting and prior consultation procedures; define procedural stages and administrative deadlines; strengthen institutional capacity for consultation processes; digitalize permitting procedures and improve transparency of requirements.	Reducing regulatory uncertainty shortens development timelines and lowers investment risk. It increases transparency from which local communities also benefit.
Clear and Commercial Role for the State	Clarify the mandates of COMIBOL and the mining regulator AJAM; establish transparent procedures for private participation in areas reserved for COMIBOL; strengthen corporate governance and financial transparency in state-owned mining companies. COMIBOL should take on a role in making mining projects investable. This would require a reform of Law 466 which regulates state-owned enterprises.	Clear institutional roles reduce conflicts of interest and improve investor confidence while maintaining state participation in the sector. Transparent partnership frameworks allow the state to benefit from mining development while mobilizing private capital.
Reform Cooperative Framework	Allow structured partnerships between cooperatives and private mining companies; introduce a graduated fiscal regime based on scale and profitability rather than legal classification; expand access to technical services, finance, and geological information for cooperatives. This would require reforming Article 151 of Law 535.	Better integration between cooperatives and private firms can raise productivity, facilitate technology transfer, and reduce territorial conflicts. A more coherent regulatory framework improves efficiency across the sector.
Neutral and Progressive Fiscal Regime	Reform the royalty structure to introduce greater progressivity linked to profitability; simplify the royalty base and close loopholes; index depreciation allowances to inflation and exchange rate movements; maintain stable fiscal terms for long-term investments.	A fiscal regime linked to project profitability reduces downside risk for marginal projects while preserving public revenue from highly profitable operations.
Competitive and Scalable Lithium Framework	Allow majority private participation in lithium projects under transparent contractual frameworks; strengthen governance and technical autonomy of YLB; establish clear fiscal terms for lithium extraction; encourage competitive bidding for project development. This would require eliminating Law 928 and replacing it with a new law.	Mobilizing capital and technology is essential to convert Bolivia's lithium resources into commercial production. A competitive framework can accelerate development while preserving state ownership of strategic resources.

Source: Lamby and Hausmann (2026)

#4.3. Diversifying agriculture.

Reform Pillar	Key Policy Actions	Rationale/Expected Impact
Launch a National Agricultural Diversification Strategy	• Establish a national strategy with a clear diversification mandate • Convene high-bandwidth engagement across ministries, producer associations, and civil society • Develop zone-specific policy packages for the Altiplano, Sub-Andean Valleys, and Eastern Lowlands	A national strategy would create the institutional platform to coordinate reforms, assign agency responsibilities, engage producers and civil society, and develop targeted interventions for Bolivia's distinct agricultural zones. It would also provide the vehicle through which the policy-created constraints above can be evaluated and reformed in light of their impact on diversification.
Scale up agricultural R&D and extension	• Increase INIAF funding and operational capacity • Build out an agricultural extension network capable of reaching farmers across Bolivia's diverse geographic zones	The INIAF, Bolivia's national agricultural innovation body, has been found to have "virtually no operating budget to take on agricultural research and transfer technology to producers" (World Bank, 2019). Without locally embedded institutions developing and disseminating solutions to local problems, productivity gains will remain slow. A wide dispersion of yields among farmers further signals the absence of effective extension services.
Lift export restrictions	• Establish a rules-based, predictable trade framework with a credible commitment not to ban exports • Reform or eliminate the domestic supply certification requirement for export permits	Bolivia's food security permit regime ties export access to domestic supply assessments, creating unpredictability that prevents producers and investors from making longer-run decisions with confidence that market access will not be suspended. Bolivia has suspended exports of soybeans, sugar, and beef on multiple occasions, including as recently as 2025.
Expand phytosanitary agreements and compliance capacity	• Negotiate phytosanitary agreements with new trading partners together with producer associations • Invest in SENASAG capacity and turnaround times • Develop phytosanitary roadmaps for priority export products and destination markets	A scarcity of phytosanitary agreements and lagging compliance capacity restricts access to international markets. Current SENASAG inspection bottlenecks impose cost overruns estimated at up to 23% for land transport. The rapid growth in beef exports following the 2019 agreement with China demonstrates that Bolivian producers can respond quickly when market access is established.

Improve logistics infrastructure	• Invest in transport and logistics infrastructure • Reduce inspection and certification delays • Address bottlenecks at border crossings and transit corridors	Bolivia ranks 121st out of 139 countries on the World Bank's 2023 Logistics Performance Index. As a landlocked country, logistics costs and bottlenecks have an outsized effect on export competitiveness, particularly for perishable and SPS-sensitive products.
Invest in irrigation	• Continue scaling up irrigation coverage • Reorient project design to match system scale with farm structure in highland and inter-Andean regions • Identify strategically located land suitable for large-scale, export-oriented irrigation investment	Bolivia's Decade of Irrigation (Law 745, 2015–2025) more than doubled irrigated cropland to 556,000 hectares by 2022 but fell short of its one-million-hectare target, and coverage remains low relative to total cropland. The next phase should scale up coverage further while also identifying strategically located land with export potential where large-scale irrigation investment could unlock commercial agricultural production, following the model of Peru's Chavimochic and Olmos projects.
Improve access to agricultural inputs	• Conduct a targeted review of SENASAG's agrochemical registration process to identify and quantify constraints • Streamline the prior authorization process by supreme decree under Andean Community Decision 804	Bolivia has very low fertilizer use relative to regional peers, and weak processes for registering agricultural machinery. A legal review identifies SENASAG's prior authorization requirement for agrochemical registration as the structural bottleneck. Reform of the registration process would be achievable by supreme decree under Andean Community Decision 804.
Transgenic seed approval regime	• Streamline the approval process via supreme decree to enable faster, rules-based GMO authorization • Consider a zone-specific framework to balance social pressures • Legalize and regulate the GM varieties already in widespread informal use	Bolivia's transgenic seed approval process is slow and unpredictable. GMOs are a politically sensitive issue in Bolivia, and the approval regime reflects that tension. Nonetheless, producer demand is strong - an estimated 40–100% of corn, soybeans, and cotton are already grown from illegal GM seeds - and lifting restrictions is estimated to improve yields by 28% for soy and 84% for maize. A zone-specific approach, permitting transgenic use in the eastern lowlands while maintaining restrictions in place elsewhere, could be a more socially feasible way of alleviating the constraint.

Source: Shah et al. (2026)

#4.4. Jumpstarting Tourism.

Reform Pillar	Key Policy Actions	Rationale/Expected Impact
Improve Bolivia's international air connectivity and aviation sector competitiveness	• Reduce airport service charges and aviation tariffs to align with regional benchmarks.• Eliminate distortionary aviation taxes and regulatory fees that raise operating costs for airlines.• Liberalize jet fuel pricing and introduce competitive supply conditions.• Prioritize signing an Open Skies agreement with the United States and regional hubs to improve access to unrealized tourism markets.• Develop route-development partnerships with international carriers to expand connections to high-income outbound tourism markets. • Treat airlines as strategic partners in tourism competitiveness rather than as targets for taxation.	Limited air connectivity restricts Bolivia's ability to convert global tourism demand into international arrivals and foreign exchange earnings. High aviation costs, limited route frequency, and weak integration into international airline networks reduce access to major outbound tourism markets. Improving aviation competitiveness is therefore the most immediate nationwide lever to expand tourism exports, with special consideration for connection to key outbound tourism markets (USA) as well as regional air hubs.
Establish institutional mechanisms to coordinate tourism development across the Salar de Uyuni circuit	• Internalize both local infrastructure costs and nationwide tourism benefits in public investment decisions. • Coordinate and finance large scale infrastructure at the scale required for a national tourism hub. • Align domestic air connectivity policy with tourism development priorities. • Provide credible, nationally backed legal security and investment guarantees, particularly in communal land contexts. • Integrate national and subnational actors within a single decision making framework to overcome vertical fragmentation and coordinate development across the tourism circuit.	No actor currently has both the incentive and authority to deliver the full bundle of complementary inputs required for tourism ecosystem formation in the Salar de Uyuni circuit. These public investments—including infrastructure, legal security, and transport integration—are required to crowd in private investment across the tourism value chain and build a functioning destination ecosystem. Yet municipalities bear the costs of many of these investments while most tourism benefits accrue nationally, weakening local incentives to provide them. At the same time, several critical inputs—including domestic air connectivity, legal guarantees, and resolution of inter-municipal land disputes—fall outside municipal authority.

Strengthen Uyuni as the transportation and amenities hub of the Salar tourism circuit	• Complete and operationalize a modern wastewater and sewer system.• Improve garbage collection and waste management services.• Invest in road paving and drainage infrastructure.• Upgrade urban amenities and public spaces supporting tourism services.• Strengthen domestic air connectivity between Uyuni and Bolivia's major cities.	Uyuni serves as the logistical gateway to the Salar but lacks the foundational public goods necessary to support higher-value tourism segments. Public goods underprovision serve as a disamenity constrain the town's ability to function as the hub of the tourism circuit. Strengthening Uyuni's basic infrastructure is therefore central to crowding in private investment and upgrading the visitor experience.
Strengthen legal security and investment conditions in communal land areas of the Salar circuit	Large-scale vertically-integrated tourism investments in thin markets around the Salar require credible legal guarantees and stable investment conditions. Current communal land governance arrangements and consultation processes introduce uncertainty that can deter capital-intensive tourism projects.	• Provide nationally backed legal guarantees and enforcement mechanisms for tourism investments.• Establish transparent compensation and revenue-sharing mechanisms with local communities.• Strengthen coordination between municipal, departmental, and national authorities in resolving territorial disputes.• Introduce investment risk-mitigation instruments, akin to political risk guarantees used in World Bank Group operations.

Source: Freeman and Hausmann (2026)

Pillar 5: A new institutional foundation for developing new productive capabilities

Pillar 5 is about creating new capabilities, not just correcting incentives in current strategic sectors. It is about building the public, private, and institutional know-how needed to expand Bolivia's productive options over time through skills, innovation and technology adoption, public goods, and coordination mechanisms that help firms discover, learn, upgrade, and enter new markets. However, building that engine faces a classical chicken-and-egg problem. To develop new productive capabilities, countries and firms must learn to do things they do not yet know how to do. You can only learn by doing, and you cannot do what you have never started. This is the core dilemma.

Markets alone will not coordinate this process. The government must be willing to actively orchestrate this capability accumulation, not by controlling outcomes, as Bolivia's past development model attempted, but by guiding the process and shaping the conditions under which firms can discover, learn and compete. That means i) creating channels through which knowhow flows into Bolivia; and ii) building the local business ecosystem that anchors firms and diffuses knowhow across the economy.

i. Creating channels through which knowhow flows into Bolivia

Two channels can bring knowhow flows into Bolivia. The first is bringing productive knowledge in from outside through FDI. For the past twenty years, Bolivia has been importing far less productive knowledge than its neighbors, and the gap has only widened. Bolivia's FDI inflows illustrates both the potential but also the cost of the past development model. Before 2005, Bolivia attracted FDI well above the regional average: 7.4% of GDP in 1995-2004, compared to 3.0% for Latin America and the Caribbean (LAC). Since then, the country has been effectively shut out. Inflows collapsed to 2.7% of GDP in 2005-2014 against a regional average of 3.6%, and further to just 0.4% by 2015-2024, compared to 3.2% for the region. The second channel is through higher movement of people, either through returned migration, diaspora engagement or immigration. Nearly one million Bolivians (8.2% of the 2020 population) live abroad (mainly in Argentina, Spain, Chile and the United States), placing Bolivia in the 70th percentile globally and behind only Venezuela, Paraguay, and Uruguay in South America. They work in different economic sectors, from construction and commerce in Argentina to ICT and financial services in the United States. These are people who carry productive knowledge, international networks and, in many cases, capital, and that could be used to leverage the development strategy of the country.

#5.1. Establish a proactive Investment Promotion Agency to attract capability-bearing foreign investment.

As the vehicle to attract FDI, Bolivia needs to create a well-designed Investment Promotion Agency (IPA). Bolivia has institutions oriented toward supporting domestic productive transformation. For instance, ProBolivia, created in 2008, was mandated precisely to upgrade value-added production, diversify the productive matrix, and modernize domestic enterprises. But what Bolivia lacks is an outward-facing institution dedicated to identifying which productive capabilities the country most needs to acquire from outside, targeting the firms and investors that carry those capabilities, and making a credible, tailored case for why Bolivia is the right place to deploy them. In 2020, the government launched ProExport with the mandate of promoting exports, tourism, and investment attraction. However, it has never developed the institutional depth or resources to be effective. The US State Department's investment climate assessments reported as recently as 2025 that Bolivia effectively lacks a functional IPA.

An effective IPA is first and foremost proactive. It does not passively list investment incentives and waits for firms to discover the country. It actively identifies which productive capabilities Bolivia most needs to acquire, targets firms and investors that carry those capabilities, and works to understand and address their specific requirements. For instance, Costa Rica's CINDE did not wait for Intel to discover Costa Rica; it spent years targeting the industry specifically, analyzing the requirements and inputs needed by the industry, building a credible offer, and creating the conditions that made Intel decide to invest in the country.

If we focus on the strategic sectors highlighted under Pillar 4, there are well-identified gaps. The hydrocarbon sector needs reservoir engineering and enhanced recovery expertise to slow the decline in existing fields, the exploration and drilling technology to prove new reserves, and the operational and project management capabilities. Given YPFB's lack of success in last years, it appears that it does not currently possess these capabilities to meet these needs. Lithium requires the Direct Lithium Extraction technology needed to process Bolivia's high-magnesium brine, a highly specific capability which only a handful of firms have deployed at scale. And agriculture needs the precision farming know-how and

biotechnology capabilities that have driven productivity gains across the border in Brazil, Paraguay, Argentina and Peru. An effective Bolivian IPA would not wait for these firms to arrive; it would go find them.

#5.2. Activate a structured diaspora engagement strategy to channel knowledge, investment and trade.

The vehicle to attract people is a structured diaspora engagement strategy. Bolivia's diaspora is a largely unmapped national asset. A serious strategy must start by mapping the diaspora, understanding what they do and where they work, and identifying the mechanisms that will most likely activate the engagement. Embassies can play a central role here, building living databases of professionals, entrepreneurs and investors abroad. Once mapped, the strategy must create concrete channels for engagement across three dimensions.

First, knowledge and skills transfer through fellowship, internships, industry visits, and university partnerships that connect diaspora professionals with Bolivian firms, startups, and students. Embassies and Bolivian associations abroad could convene sector-specific networks in ICT, mining, agribusiness, and financial services, creating structured pipelines of knowledge back into the country. Taiwan's Monte Jade Science and Technology Association offers a compelling model as it systematically connects Taiwan-based engineers with Silicon Valley counterparts, diffusing knowledge between the two countries.

Second, diaspora-led investment and entrepreneurship. Bolivians abroad are already entrepreneurially active, and much of that energy can be channeled back home by giving diaspora professionals accessible information about engagement opportunities, combined with practical incentives. Morocco's Movilizing Moroccan Competencies Living Abroad program is a useful reference: it paired information provision with matching grants and simplified procedures for diaspora investors, generating new enterprises and jobs at home. Bolivia could adopt a similar approach through co-investment vehicles, fast-track business registration, and preferential access to entrepreneurship programs for returnees bringing capital and knowhow into strategic sectors.

Third, trade and export networks. Diaspora members in Bolivia's key export markets are natural commercial anchors as they speak the language, know the business culture, and hold networks that domestic firms lack. ProColombia's Ambassador program has formalized exactly this role, recruiting Colombian professionals abroad as trade facilitators who help domestic exporters navigate foreign markets and build commercial relationships. Bolivia could replicate this, identifying and formally recognizing Bolivians in Argentina, Spain, the United States, and Chile as market connectors and export promotion tools.

ii. Building the local business ecosystem that anchors firms and diffuses knowhow across the economy

The second component to guarantee successful capability accumulation is building the right local business ecosystem. Foreign knowledge without a receptive local ecosystem produces enclaves (*i.e.*, activities that generate foreign exchange but leave no lasting capability behind). Bolivia knows this pattern well. Despite generating billions in natural gas revenues, the sector never developed a domestic supply chain, a local engineering services industry, or independent operational capabilities outside the state. Because YPFB controlled the

entire value chain there was no space for domestic firms to enter, learn, and grow alongside it. Mining tells a similar story. Bolivia has been mining silver, tin, zinc, and other minerals for longer than either Australia, Canada, or Chile, yet it remains overwhelmingly a producer of raw concentrates with virtually no domestic capacity in the engineering, environmental, or metallurgical services that modern mining requires.

Building that ecosystem requires working simultaneously on three fronts. The public goods and infrastructure that make productive activity possible; the regulatory institutions and conflict resolution mechanisms that make it safe and predictable; and the human capital, educational, and research institutions that connect knowledge to production.

The first front is public goods and infrastructure. For Bolivia, the gaps are concrete. The country ranks 121st out of 139 in the World Bank's Logistics Performance Index. Of its 81,000 km road network, only 7.34% is paved (versus a regional average of 39%) (IDB, 2014).[10] Rail infrastructure is split into two disconnected networks, so bulk cargo that could move cheaply by rail instead travels by road, adding a higher cost. Inspection and certification delays compound the problem further, adding cost overruns of up to 23% on land transport. Being landlocked may be a fixed cost and competitive disadvantage, but poor domestic logistics is a choice. It is precisely because Bolivia cannot close the distance to the sea that it must relentlessly close every gap within its control. Beyond transport, Bolivia lacks the phytosanitary certification capacity to access agricultural export markets, the quality testing laboratories that mining and industrial exporters require, and the reliable energy and digital connectivity infrastructure that modern firms take as given. These are the preconditions for any firm, either domestic or foreign, to produce competitively.

#5.3. Develop a National Productive Infrastructure Plan aligned to strategic sector priorities.

As with the Economic Development Plan, Bolivia should develop a National Productive Infrastructure Plan that can guide the conversations with multilateral organizations. The new administration has secured a significant multilateral project investment financing pipeline. This is a genuine window of opportunity, but only if the financing is directed strategically rather than dispersed across disconnected projects. The National Productive Infrastructure Plan needs to map each major infrastructure investment to the productive sectors that Bolivia wants to develop. Based on the announcements, multilateral partners have both the appetite and the instruments. What has been missing is a Bolivian government with a clear enough productive development strategy to walk into those conversations with a sectoral map and say: here is what we are building, here is the infrastructure that unlocks it, here is what we need from you. Without that map, multilateral financing flows to whatever is shovel-ready rather than what is strategically necessary, and infrastructure ends up reinforcing existing economic patterns rather than transforming them.

Delivering a National Productive Infrastructure Plan is above all a coordination challenge. Infrastructure investments that serve productive development cut across ministerial boundaries by definition, involve subnational governments, and need to be actively coordinated with the IPA so that what Bolivia offers

[10] IDB (2014) is based on data for early 2010s. While Bolivia's public investment in infrastructure rose significantly through the 2010s and absolute figures may have improved, more recent comparable data is unavailable.

investors is backed by the infrastructure those investments require. One option is to establish a dedicated high-level Infrastructure and Productive Development Committee, chaired by the Presidency or a specific Ministry, with mandatory participation from relevant ministries. This Committee will own the National Productive Infrastructure Plan and serve as the single interlocutor in multilateral negotiations. A second, lighter option is to embed this coordination function within an existing ministerial body, strengthening its mandate and technical capacity without creating new institutional layers. Both are near-term solutions to a near-term problem. The longer-term ambition should be a National Competitiveness and Productivity Council on the model of Chile, a standing body with a mandate that spans the full productive development agenda, bringing together government, the private sector, and technical experts, and within which infrastructure alignment is one working stream among several. Whichever model Bolivia chooses, three features are non-negotiable. The body must have: enough authority to override sectoral fragmentation across ministries; the technical capacity to engage multilateral partners as equals; and continuity to outlast the political cycle. The new administration has now the financing and the relationships; what it now needs is the institutional home for the plan that connects them.

The second front is regulatory institutions and conflict resolution mechanisms. New productive activities inevitably generate friction and disputes between new entrants and incumbents, investors and communities and sectors competing for land and water. Without credible mechanisms to resolve these conflicts predictably and transparently, investment does not happen. The problem is not that friction exists; friction is a normal feature of any dynamic economy. The problem is when conflict has no legitimate, binding resolution mechanism. When the only way to settle a dispute is through political pressure, road blockades, or ministerial discretion. In that environment, the party with the greatest capacity to disrupt has more power than the party with the strongest legal claim, and investment decisions tend to be limited.

Bolivia has experienced this dynamic repeatedly and across sectors. In hydrocarbons, the absence of community consultation and discretional changes on protected areas generated large opposition, with indigenous and peasant blockades halting drilling and seismic exploration projects across multiple regions (Paredes Tamayo and Fernández Reyes, 2023; Torri, 2023). In mining, water competition has been the central fault line: extraction in drought-prone areas has triggered community invasions, export route blockades, while poor conflict resolution frameworks have led to mining rights revocations and costly international arbitration claims that signal systemic social risk to investors (Weinberg, 2010; Ballantyne, 2023; Da Silva, 2018; Menon, 2019). In lithium, contracts signed in 2024 with foreign partners proceeded without the environmental impact assessments required under Bolivia's 1992 Environmental Law and without genuine community consultation (Ruas, 2025).

#5.4. (Re)build independent sector regulators and establish conflict resolution mechanisms.

Rebuilding regulatory institutions and conflict resolution mechanism requires progress on three mutually reinforcing fronts. The first is restoring technically independent sector regulators with clear mandates and adequate resources. These bodies should be able to apply rules consistently, reduce ministerial discretion, and give investors a credible basis for long-horizon capital commitments. Chile's sectoral regulators in mining and energy and Colombia's hydrocarbons regulator offer relevant regional models: both created rules-based frameworks that allowed investor confidence to develop even in politically contested sectors. The second is building transparent, rules-based licensing frameworks that replace discretionary decisions

with objective, time-bound, and appealable criteria so that firms can plan around the regulatory environment rather than around political exposure. The third is designing prior consultation mechanisms that bring all relevant stakeholders, including local communities, into the negotiation process rather than leaving them with a rational incentive to block it. The literature is clear on what reduces conflict: consultation must begin before decisions are made and genuinely shape project design; benefits must be distributed according to a negotiated process; and credible grievance mechanisms must exist so that disputes can be resolved without resorting to blockades or political pressure (Sustainability Directory, 2025; Bandura and Hardman, 2023; Oh, Shin and Ho, 2023). The government of Bolivia has the legal obligation of prior consultation to indigenous communities under ILO Convention 169, also known as the Indigenous and Tribal Peoples Convention 1989, but has never paired it with an institutional design that transform consultation from a procedural obstacle into a genuine negotiation, and communities from passive cost-bearers into stakeholders with a reason to support investment.

The third front is human capital. Capabilities ultimately live in people. Hence, investment in physical and productive capacity must be matched by investment in people (*i.e.*, in the skills and knowledge that make that capacity functional). The two are complementary. But building the right human capital base requires first an understanding of what the productive economy actually demands and will demand. Bolivia must develop the mechanisms to diagnose that demand before scaling supply. It needs to identify which skills are genuinely scarce, where the gaps lie, and what mix of training, curricular reform, and institutional change is needed to close them.

Bolivia's human capital challenge is not primarily one of quantity. The country's tertiary enrollment has expanded rapidly and the share of the workforce with university credentials is high relative to its income level — yet returns to education have fallen steadily and are now among the lowest in Latin America, a signal that supply is outpacing what the productive economy can absorb. At the same time, employers consistently report difficulty finding workers with the specific technical and organizational skills their production processes require, foreign-born workers command significantly higher wages and are disproportionately present in high-skill occupations in mining and professional services, and firms invest in on-the-job training at rates above what Bolivia's income level would predict. All these signs of a mismatch rooted not in insufficient enrollment but in a supply system that is misaligned in both content and quality with productive demand. Hence, the central design principle for Bolivia's human capital strategy must therefore be demand revelation before supply expansion.

#5.5. Build a demand-driven human capital strategy aligned to productive sector needs.

Two strategies are needed. The first is to build the information infrastructure that makes demand legible, so that the system knows what it is supposed to produce before it decides how much to produce. The second is to rewire how education and training institutions engage with the productive sector, moving from a model where firms are passive recipients of whatever the system happens to produce, to one where firms actively shape what is taught and host students while they learn to apply it. Neither reform alone is sufficient: institutional engagement without information produces well-intentioned co-design that addresses the wrong gaps; and, information without institutional engagement produces diagnostics that no one acts on.

Bolivia should establish *Mesas Sectoriales*, which are permanent tripartite bodies bringing together government, universities and technical institutes, and private sector firms and associations, in all of its priority productive sectors. The *mesas sectoriales* work because they change who sits at the table when training decisions are made: instead of universities designing programs in isolation, the firms that hire graduates have a formal, binding voice in defining what those graduates need to know, and their outputs feed directly into accreditation and funding decisions. The second reform requires that universities and technical institutes in priority sectors co-design curricula with formal employer panels, using the competency standards produced by the mesas as the starting point. Bolivia should also formalize dual training and structured internships as a standard modality for technical and vocational programs, with accreditation conditional on minimum workplace learning hours. Bolivia already has proof of concept: the Manqa gastronomy school and the viticulture-focused *bachilleratos técnicos* in Tarija show the model works within the country's own regulatory environment.

Conclusion: Bolivia's Moment of Opportunity

The country that dismantled its productive foundations over two decades is the same country that can rebuild them. The assets were never lost: the lithium, the solar potential, the agricultural land, the hydropower, the landscapes and the cultural heritage are still there. What is missing are the rules, the incentives, and the institutions to deploy them. Those can be changed and the current administration has already shown it is willing to take the first steps and hard calls that are needed.

The five pillars in this report are the map for what it should come next. Fiscal consolidation, social protection, monetary credibility, sectoral reform, and capability-building are five pillars of a single program. Each one is necessary, but none sufficient on its own. The sequencing is demanding, and the political pressures along the way will be real. But so is the upside. Bolivia's neighbors have demonstrated what happens when comparable endowments meet credible institutions and open investment frameworks: sustained growth, export diversification, and expanding opportunity. That path is available to Bolivia too.

But taking it requires more than the right policies on paper. It requires that Bolivian society understands what is at stake and why the reforms are necessary. The government needs to explain to Bolivian society, clearly and consistently, what the crisis has cost, what the reforms require, and what they make possible. Citizens who understand the stakes are more likely to support difficult measures and less likely to be influenced by those who benefit from the status quo. Honest communication is not just good governance; in this context, it is a reform tool.

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