RESUMO EXPANDIDO (PÚBLICO GERAL/NÃO ASSOCIADOS AKB) / EXTENDED ABSTRACTS (NON AKB MEMBERS) - ÁREA 5. COMÉRCIO INTERNACIONAL, TAXA DE CÂMBIO E DESENVOLVIMENTO ECONÔMICO

HOLDING THE PEG: BOLIVIA'S FIXED EXCHANGE RATE DURING 2006-2025

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Bolivia's macroeconomic regime between 2006 and 2025 challenges prevailing debates on exchange-rate regimes and policy space in developing economies. For more than a decade, the country sustained a de facto peg to the US dollar while raising real minimum wages, expanding fiscal policy and public investment, mobilizing the central bank to finance state-owned enterprises, promoting domestic financial de-dollarization, and directing private-bank credit toward productive sectors (Arauz et al., p. 209). This combination is difficult to reconcile with standard frameworks. Orthodox perspectives would usually predict that a fixed exchange rate, when combined with expansionary domestic policies, should generate real appreciation, current-account deterioration, reserve depletion, and, ultimately, a forced devaluation. Some heterodox approaches, in turn, associate greater policy space primarily with exchange-rate flexibility (Wray, 2015), while others emphasize that developing countries occupying subordinate positions in the international monetary and financial hierarchy remain subject to binding external constraints regardless of their exchange-rate regime (Kaltenbrunner and Paniciera, 2017). Across these perspectives, the Bolivian experience appears puzzling: the country combined a

hard exchange-rate commitment with redistributive, expansionary, and financially interventionist policies for longer than most theories would expect.

The puzzle is reinforced by Bolivia's macroeconomic and social performance after 2006. In the period between 1960 and 2005, Bolivia's GDP per capita, measured in constant 2015 dollars, grew at a compound annual growth rate of only 1.2 percent per year, below both the Latin American and Caribbean average of 1.7 percent and the world average of 1.9 percent, according to the World Bank (2026). After Evo Morales and the Movimiento al Socialismo (MAS) came to power in 2006, Bolivia entered a period of major economic and social transformation. Between 2006 and 2019, Bolivia's GDP per capita grew at a compound annual rate of 2.9 percent, well above the Latin American and Caribbean average of 1.0 percent and the world average of 1.6 percent (World Bank, 2026). Over the same period, the Gini index fell from 0.567 in 2006 to 0.416 in 2019, while the poverty rate, measured as the proportion of the population living on less than US$3.00 per day in purchasing-power-parity terms, fell from 15.9 percent in 2005 to 3.1 percent in 2019. Bolivia also maintained relatively low and stable prices during most of this period, with an average annual inflation rate of 5.1 percent between 2006 and 2019 (World Bank, 2026). This period was followed by a marked deterioration after 2020. The COVID-19 pandemic produced a sharp contraction in output in 2020, followed by a slow recovery. Although GDP eventually returned to its 2019 level in 2024, the economy slowed sharply again in 2025. Moreover, inflation, which had remained contained for many years, accelerated rapidly in the mid-2020s, rising from 2.1 percent in 2023 to 9.9 percent in 2024 and 20.4 percent in 2025 (INE, 2026).

With regard to Bolivia's external accounts, the experience can be broadly divided into two phases. The first phase, from 2006 to 2014, was marked by favorable external conditions, rising exports, current-account surpluses, and rapid accumulation of international reserves. Bolivia benefited from the expansion of natural gas exports, especially to Brazil and Argentina, as well as from high international hydrocarbon prices, which generated strong foreign exchange inflows. As a result, international reserves increased progressively, reaching approximately US$14 billion at the end of 2014, equivalent to around fourteen months of imports (IMF, 2026). Indicators of external vulnerability also

improved substantially. For example, the ratio between international reserves and short-term external debt rose well above the Greenspan-Guidotti benchmark, which recommends that emerging economies hold reserves at least equal to their short-term external debt. During this phase, the relaxation of the external constraint was driven primarily by the trade account and by the accumulation of foreign-exchange buffers associated with the commodity boom.

The second phase, from 2015 to 2025, was marked by the worsening of these external conditions. The decline in international hydrocarbon prices, combined with the Brazilian economic crisis, directly affected Bolivia's main export market and export revenues. In 2015, Bolivia registered its first trade and current-account deficits in several years, which persisted over subsequent years (World Bank, 2026). The external imbalance was increasingly absorbed through the use of international reserves. By 2019, reserves had fallen to approximately US$6.7 billion, equivalent to around six months of imports (IMF, 2026). The pandemic temporarily altered the trade balance by compressing domestic demand and imports, and Bolivia recorded trade surpluses in 2021 and 2022. However, this temporary improvement did not reverse the broader trend of reserve depletion. By 2024, international reserves had fallen to approximately US$1.9 billion, equivalent to only about two months of imports (IMF, 2026).

Across both phases, exchange-rate management remained a key element of Bolivia's macroeconomic regime. Since 2011, Bolivia has maintained the official exchange rate at 6.96 bolivianos per US dollar. This fixed parity was crucial for stabilizing domestic prices and supporting the broader de-dollarization strategy. In the post-pandemic period, however, the decline in foreign-exchange availability made it difficult to maintain parity amid falling reserve stocks. By early 2023, foreign-exchange scarcity had become visible in the banking system, as banks restricted foreign-currency withdrawals and a widening parallel market emerged, largely absent in the previous period. By March 2025, the parallel-market exchange rate reportedly reached around 14 bolivianos per US dollar, approximately twice the official rate.

It is worth noting that the deterioration of Bolivia's external accounts also coincided with a deepening political crisis. After the contested 2019 election and the fall of Evo Morales, Jeanine Áñez assumed office as interim president and governed from November 2019 to November 2020, in a transition widely

denounced by Morales's supporters and some analysts as a coup. New elections were held in October 2020, returning the MAS to power under Luis Arce, initially an ally of Morales and his former economy minister, who governed from November 2020 to November 2025. His administration inherited both the institutional legacy of the previous MAS period and its growing external vulnerabilities. By the end of Arce's term, internal divisions within the MAS, the foreign-exchange shortage, the rise of the parallel exchange-rate market, and accelerating inflation had substantially weakened the political coalition and economic foundations that had sustained the MAS period.

This paper asks how Bolivia sustained a fixed exchange-rate regime embedded in a broader redistributive and state-led growth strategy for so long, even as foreign-exchange scarcity, reserve depletion, and a widening parallel market signaled a deepening crisis, and what this trajectory reveals about the construction and erosion of policy space under external constraints. To answer these questions, the paper develops a historical case-study analysis that combines the examination of exchange-rate management, financial regulation, public banking, capital-flow management, and external financing strategies with an assessment of balance-of-payments outcomes, reserve dynamics, and indicators of external vulnerability.

The paper argues that Bolivia's experience should not be read either as evidence that external constraints do not matter or as a late confirmation of standard crisis theories that assign explanatory centrality to fiscal imbalances alone. The commodity boom and favorable terms of trade were clearly important. Without the foreign-exchange inflows generated by natural-gas exports and high commodity prices, the regime would not have been able to operate in the same way. However, Bolivia's room for maneuver was not determined solely by the external environment. It was also actively constructed through deliberate policy choices. Reserve accumulation increased the country's ability to sustain the peg and manage external shocks. Financial de-dollarization reduced domestic balance-sheet vulnerabilities and weakened some of the destabilizing mechanisms usually associated with exchange-rate depreciation in highly dollarized economies. Prudential regulation limited foreign-exchange exposure within the banking system. Moreover, the reversal from 2022–2023 onward does not fit neatly into the standard speculative-attack

sequence associated with fixed exchange-rate regimes. There was no simple transition from fiscal expansion to reserve loss to immediate official devaluation. Instead, Bolivia experienced a more gradual and institutionally mediated process in which the official peg persisted while adjustment pressures emerged through parallel-market depreciation, foreign-exchange rationing, import restrictions, shortages, and rising inflation. The crisis, therefore, reflected not only a macroeconomic imbalance but also the erosion of the mechanisms that had previously allowed the Bolivian state to manage and allocate foreign exchange.

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Palavras-chave: fixed exchange-rate regime; balance-of-payments constraint; development strategy.