

Our View On-The-Ground

REGIONAL MARKET VIEWS

Bolivia's Election:

A Glimpse into What's Ahead

As Bolivia approaches its general elections on Sunday, August 17, market sentiment appears to be shifting. Recent surveys and projections suggest growing expectations of a victory by right-leaning candidates. This evolving political outlook is already being reflected in financial indicators, most notably, the parallel (informal) exchange rate, which has declined significantly over the past month. This is a marked reversal from earlier speculation, particularly early this year when the parallel rate peaked at over 110% above the official rate of 6.96 bolivianos per dollar.

The recent appreciation of the boliviano in the informal market reflects growing investor confidence in the possibility of a government change. This sentiment is also evident in the performance of Bolivia's sovereign debt, which has risen by over 20% since April, signaling renewed internal and international optimism. If a right-leaning candidate wins this Sunday, sovereign debt prices could climb further, potentially approaching their previous peak in the 90–92 range, last seen at the end of 2021.

However, regardless of the election outcome, the incoming administration will face a severely strained macroeconomic environment. Public spending continues to exceed revenues, gas export volumes have dropped significantly, and foreign currency reserves remain at historic lows. The dollar shortage is also disrupting fuel imports, compounding fiscal pressures and limiting the government's ability to respond effectively.

In this market outlook we will examine the structural challenges facing Bolivia's economy and assess the potential policy measures, whether anticipated or necessary, that could help stabilize the country and restore investor confidence.

| Governance and Economic Stabilization: Key Challenges Ahead

For Bolivia's next president to implement meaningful economic reforms, governability will be essential. This means the Legislative Assembly must prioritize national economic recovery over partisan interests, working collaboratively to approve urgent measures that can stabilize the country. Without legislative support, even the most well-designed policies will face delays or political gridlock.

One of the most pressing issues is fiscal discipline, particularly the burden of subsidies promoted and sustained by the government. The hydrocarbon subsidy is the most significant expenditure the government must address, its removal is critical to reducing Bolivia's deficit. While targeted subsidy reductions could help ease public spending, these decisions must be carefully calibrated to avoid disproportionately impacting vulnerable populations or triggering social unrest. The administration will face difficult trade-offs in determining which subsidies to preserve and which to phase out.

Additionally, the new administration will need to reassess the future of deficit-generating state-owned enterprises created under prior left-leaning governments. Key decisions will involve which to close, restructure, or maintain, based on cost efficiency, best practices, and economic viability. Streamlining these entities will be essential to improving fiscal performance and restoring investor confidence.

| Liquidity and Dollarization: Immediate Needs

Bolivia urgently requires a dollar injection to restore liquidity and support imports. If a right-leaning candidate wins the presidency, there may be greater openness to seeking international financing, including potential agreements with institutions like the IMF. However, such loans typically involve lengthy negotiations and disbursement timelines, often up to a year.

In the short term, restoring public trust in the banking system is critical. Encouraging citizens to deposit their dollar savings, currently held outside the formal system, requires banks to return dollar-denominated savings in dollars, not in bolivianos. For this to happen, banks must receive dollar liquidity from the Central Bank, particularly for remittance-related obligations. Additionally, the new government must incentivize exports and lift existing restrictions to boost dollar inflows.

| Long-Term Strategy: Diversification and Economic Resilience

Looking ahead, Bolivia must avoid repeating past mistakes, namely, overreliance on a single natural resource to solve structural economic challenges. Instead, the country should pursue a diversified growth strategy, leveraging its natural assets as a complement, not the core, of its economy.

Key opportunities include:

- Tourism development to attract foreign currency inflows.
- Value-added production (e.g., manufacturing solar panels rather than exporting raw lithium).

- Innovation in emerging sectors such as fintech and digital services.
- Export expansion to generate foreign exchange and stimulate industrial activity.

Bolivia is approaching a pivotal election that could mark a turning point in its ongoing crisis. At OTG Asset Management, we closely monitor key developments and assess their implications for the region and emerging opportunities ahead. Stay informed with our latest reports and insights at OTG.

This opinion article was written on August 11, 2025, by the team of analysts at OTG Asset Management.

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