

# **Assessing Bolivia's debt relief under the heavily indebted poor countries initiative**

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## **ABSTRACT**

This paper examines whether Bolivia has made enough progress in debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, thus taking a sustainable debt path and graduating from debt renegotiations definitely. We find that reaching the completion point at the Enhanced HIPC initiative was a major milestone to provide significant debt relief, far bigger than the one obtained under previous traditional debt renegotiation mechanisms. However, given exogenous—external and domestic—shocks, declining aid trends and optimistic macro-assumptions used in the Enhanced HIPC debt renegotiations, the probability of having Bolivia reversing to unsustainable debt ratios is high. Henceforth, there are four possible reasons for Bolivia to consider adopting further debt proposals. Achieving the Millennium Development Goals would require extra resources; unexpected shocks would justify the creation of a HIPC contingency fund for graduated countries, Bolivia debt sustainability targets might be lower than the standard ones defined by the Enhanced HIPC; and donors aid might be turning to be more selective, concentrated on good performers like Bolivia.

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