Public Disclosure Authorized

BOLIVIA

Table 1	2021
Population, million	11.8
GDP, current US$ billion	40.4
GDP per capita, current US$	3416.1
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	9.0
Upper middle-income poverty rate ($5.5)[a]	21.6
Gini index[a]	43.6
School enrollment, primary (% gross)[b]	98.5
Life expectancy at birth, years[b]	71.5
Total GHG Emissions (mtCO2e)	126.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2011 PPPs.
b/ Most recent WDI value (2019).

The economy continues to recover from the pandemic-induced recession. Growth and poverty reduction are expected to slow down in the medium term as increasing public debt and declining international reserves may restrict expansionary efforts. Bolivia's medium-term prospects could be strengthened by cementing confidence in macroeconomic management, boosting public sector efficiency to enhance service delivery and protect the poor and vulnerable, and fostering private investment to ignite new sources of growth and employment.

Key conditions and challenges

Bolivia entered the pandemic with limited policy space and suffered a deep recession. An underdeveloped private sector, poorly targeted social programs, a weak health system, and political polarization have worsened the crisis and slowed recovery.

After a one-year political transition, the new authorities have aimed to resume a state-led development strategy, including expenditure stimulus and import substitution. However, with limited access to external financing, the Government has had to moderate expenditure.

Given high public debt and exchange rigidity, a credible plan to address the fiscal imbalances is critical. Consolidation could rely on improving spending efficiency while supporting the most vulnerable and improving access to quality services. Public expenditure efficiency could be enhanced by rationalizing public investment, including in public enterprises, improving public procurement, strengthening coordination across levels of government, and improving targeting of social programs.

Fostering private and foreign investment will be critical to stabilize gas exports and ignite new medium-term sources of growth and employment. The investment climate could be improved by reducing red tape, removing tax distortions, modernizing labor regulations, improving logistics, easing agricultural export restrictions, and fostering environmentally and socially sustainable mining, including lithium.

Besides its high exposure to climate-related risk, Bolivia is also exposed to volatile commodity prices, exacerbated by the Russia-Ukraine conflict. Although high commodity prices may reduce macroeconomic imbalances, they may also increase food inflation, hitting the poor and those vulnerable to falling into poverty the most. Additionally, declining gas production and fuel subsidies could prevent Bolivia from fully capitalizing on the upsurge in oil prices. Finally, with half of the population fully vaccinated as of February 2022, Bolivia is still exposed to new waves of infection.

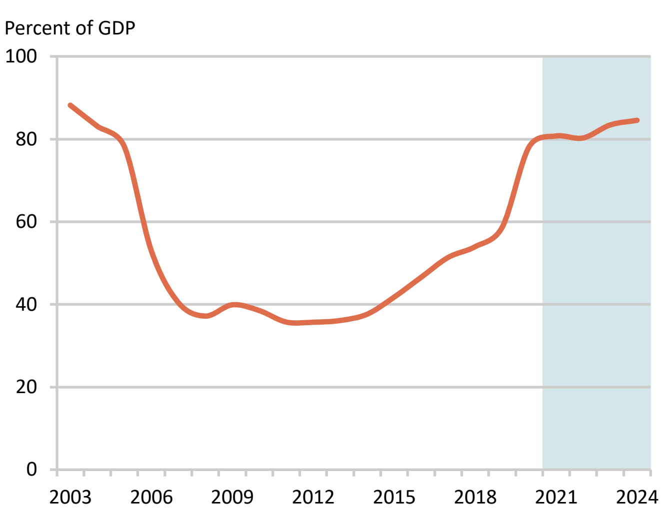
Recent developments

After falling 8.7 percent in 2020, the economy grew by an estimated 6.1 percent in 2021 due to improving external conditions, eased mobility restrictions, and recovering public investment. The recovery was led by mining exports and non-tradable sectors, such as construction and transport.

Urban unemployment declined from a peak of 11.6 percent in July 2020 to 5.4 percent in December 2021, back to pre-pandemic levels. The recovery in employment helped reduce poverty in 2021, mainly driven by rural areas, despite the end of emergency transfers in early 2021.

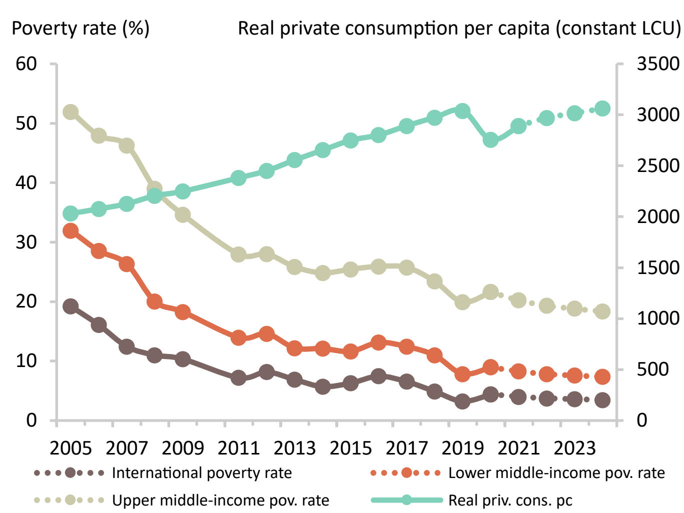
By the second quarter of 2021, informality remained high, particularly among youth, and 60 percent of households reported

FIGURE 1 Bolivia / Public debt



Sources: Central Bank of Bolivia and Ministry of Economy and Public Finance.

FIGURE 2 Bolivia / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: See Table 2.

lower income than before the pandemic. Moreover, 23 percent of households indicated running out of food during the previous month, affecting the rural poor and families with children the most.

The fiscal deficit fell from a peak of 12.7 percent of GDP in 2020 to 9.3 percent in 2021 due to the rebound of tax and hydrocarbon revenues and a lower-than-expected recovery of public investment; the introduction of a permanent wealth tax had limited impact. However, with limited external funding, the Government continued to tap into Central Bank and pension funds financing.

Despite low gas export volumes, the trade balance reached a sizable surplus in 2021 due to recovering mining exports and higher commodity prices. Notwithstanding the trade surplus, increasing remittances, and the SDR allocation, international reserves declined to a low of 5.1 months of imports by the end of 2021 owing to low foreign investment, smuggling, and capital outflows.

After a prolonged loan deferment, domestic credit to the private sector remained dampened partially due to uncertainty in the private sector after the pandemic. Despite increasing money supply, annual inflation remained under 1.0 percent, below the regional standard, as the economy continued to underperform, and fixed exchange rate and frozen fuel prices repressed imported inflation.

Outlook

The economy is expected to grow 3.9 percent in 2022 as some sectors continue to recover. Although the Government managed to refinance the bulk of 2022 and 2023 bonds, limited access to additional external financing is expected to limit fiscal spending which, combined with weak private and foreign investment, is expected to push growth to below 3.0 percent in the medium term. Additionally, with declining international reserves and the Government requiring funding, domestic credit to the private sector is projected to slow down.

The fiscal deficit is projected to remain above 7.0 percent in 2022 as the increase in the fuel subsidy will partially offset the effect of higher hydrocarbon revenues. However, it is expected to converge to 5.3 percent of GDP by 2024 as capital expenditure would be constrained by limited access to external funding. In the absence of substantial fiscal reforms, public debt is projected to increase from 81 percent in 2021 to 85 percent by 2024.

The Government is expected to support the fixed exchange rate regime, limiting its expansionary efforts. High commodity prices will help achieve sizable current account surpluses despite the stagnation of gas exports. However, capital outflows and smuggling may continue to erode international reserves.

Declining international reserves and emerging inflationary pressures, including those emerging from higher international food prices in 2022, are expected to curb expansionary monetary policies, including Central Bank funding to the public sector. The limited fiscal space and categorical design of social programs may undermine efforts to protect the poor and vulnerable from a surge in food prices.

Long-term effects of the pandemic, including human capital losses due to school closures, remote learning, and food insecurity, are a concern and affect the poor and vulnerable the most, limiting reductions in inequality and upward intergenerational mobility.

TABLE 2 Bolivia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.2	-8.7	6.1	3.9	2.8	2.7
Private Consumption	3.7	-7.9	5.3	4.1	2.9	2.8
Government Consumption	3.8	-2.8	5.4	4.2	-0.6	-0.3
Gross Fixed Capital Investment	-3.5	-25.9	11.9	4.4	5.3	4.8
Exports, Goods and Services	-1.8	-18.8	15.4	4.1	3.1	3.1
Imports, Goods and Services	1.5	-25.0	15.7	5.1	3.3	3.3
Real GDP growth, at constant factor prices	2.4	-8.4	6.4	3.5	2.5	2.7
Agriculture	5.3	3.1	1.8	4.0	4.0	4.0
Industry	0.1	-11.8	9.6	2.9	2.5	2.5
Services	3.4	-9.3	5.8	3.8	1.9	2.4
Inflation (Consumer Price Index)	1.8	0.9	0.7	3.9	3.5	3.5
Current Account Balance (% of GDP)	-3.4	-0.4	2.5	2.8	1.5	0.6
Net Foreign Direct Investment (% of GDP)	-0.6	-2.8	0.7	0.9	0.9	0.9
Fiscal Balance (% of GDP)	-7.2	-12.7	-9.3	-7.1	-5.9	-5.3
Debt (% of GDP)	58.6	78.1	80.8	80.3	83.4	84.6
Primary Balance (% of GDP)	-5.8	-11.2	-7.7	-5.4	-4.1	-3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.2	4.4	4.0	3.7	3.6	3.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	7.8	9.0	8.3	7.8	7.6	7.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	19.9	21.6	20.2	19.3	18.8	18.4
GHG emissions growth (mtCO2e)	0.3	-1.5	1.1	0.6	0.6	0.6
Energy related GHG emissions (% of total)	17.1	15.7	16.4	16.9	17.3	17.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on SEDLAC harmonization, using 2008-EH and 2020-EH.Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2008-2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.