BOLIVIA

Table 1	2021
Population, million	11.8
GDP, current US$ billion	40.4
GDP per capita, current US$	3414.9
International poverty rate ($2.15)[a]	3.1
Lower middle-income poverty rate ($3.65)[a]	6.2
Upper middle-income poverty rate ($6.85)[a]	17.0
Gini index[a]	43.6
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	137.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy continues recovering on tailwinds from high commodity prices. Growth and poverty reduction are expected to slow down in the medium term as increasing public debt and declining international reserves limit expansionary policies. Bolivia would benefit from improved macroeconomic management, public sector efficiency, and more private investment to foster growth and quality employment. Addressing human capital erosion due to the pandemic and building households' resilience are also critical for sustainable poverty reduction.

Key conditions and challenges

After years of loose fiscal, monetary, and financial policies and a pandemic-led recession, high public debt and low international reserves limit expansionary policies. Relying on commodity-driven growth, the government continues implementing a state-led development strategy, focused on import substitution, public investment, and sustaining a fixed exchange rate. Yet, limited access to global capital markets, declining gas production after years of under-investment, and increasing fuel and food subsidies constrain expansionary efforts and prompted the government to increasingly tap into pension funds and Central Bank financing.

A credible medium-term plan to address macroeconomic imbalances is critical to making the economy more resilient. Budgetary consolidation efforts could rely on improving spending efficiency while safeguarding social expenditure to sustain social gains and supporting the most vulnerable, who have not fully recovered from the pandemic yet. Public expenditure efficiency could be enhanced by rationalizing public investment, including in public enterprises, improving the progressivity of social spending, making public procurement more efficient, and strengthening the coordination among government levels.

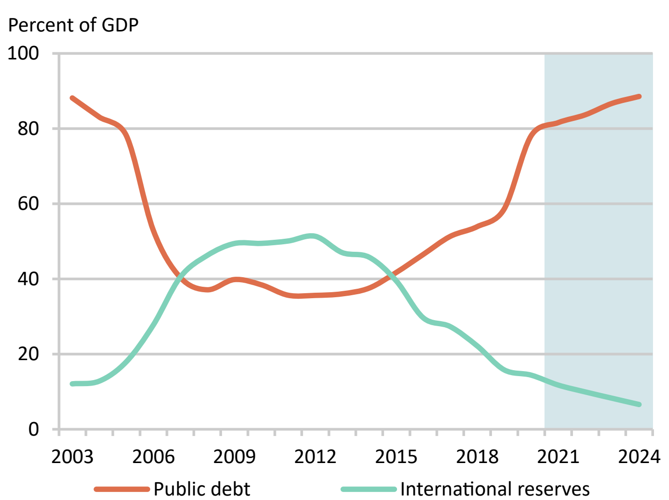
Fostering private and foreign investment could help to stabilize gas exports, diversify the economy, and ignite new sources of growth, creating the conditions for stronger and more inclusive formal employment. Bolivia's investment climate could be improved by reducing red tape, removing tax distortions, modernizing labor regulations, improving logistics, easing agricultural export restrictions, and fostering environmentally and socially sustainable mining, including lithium.

Recent developments

As the economy rebounded by 6.1 percent in 2021, poverty (measured at $6.85 PPP) fell from 17.0 percent in 2020 to 15.2 percent in 2021 despite the end of emergency transfers in early 2021. Leading indicators suggest the recovery continued in the first half of 2022, despite sporadic diesel shortages and social unrest on land tenure, the population census schedule, and domestic coca leaves commercialization. Urban unemployment fell from 5.8 percent in December 2021 to 4.7 percent in July 2022, returning to pre-pandemic levels. Yet, informality remained above pre-pandemic levels, mainly among youth and women.

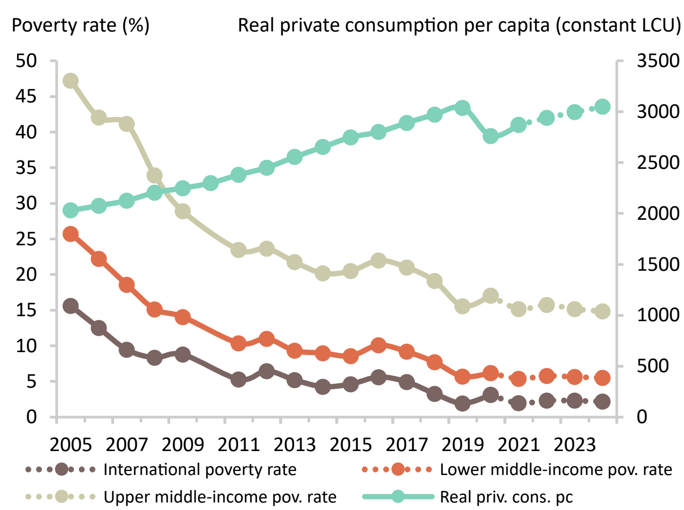
The 12-month rolling fiscal deficit fell from 9.3 percent of GDP in 2021 to 7.2 percent in June 2022 on the back of recovering taxes. The positive impact of high international oil prices and the negotiation of higher gas export prices to Argentina and Brazil on revenues were offset by declining export volumes and increasing fuel subsidies. With limited external funding, the deficit was financed mostly by pension funds and the Central Bank.

FIGURE 1 Bolivia / Public debt and international reserves



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.
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Higher commodity prices and mining and soybean export volumes increased the trade surplus, despite declining gas export volumes and rising fuel imports. Notwithstanding this surplus and the repatriation of SOEs' foreign assets ruled by the Central Bank, international reserves fell from 5.3 to 3.9 months of imports between December 2021 and August 2022 due to informal capital outflows, dollar cash demand, and smuggling.

The money supply continues to grow on the back of domestic credit to the public and private sectors. Inflation remains the lowest in the region due to the fixed exchange rate, frozen fuel prices, smuggling from Argentina, and government intervention in food markets, including subsidies.

Outlook

Growth is expected to return to pre-pandemic levels at 4.1 percent in 2022 as the government is expected to maintain high public expenditure. The government refinanced 2022 and 2023 bonds in March 2022 and secured substantial budget support from regional development banks. However, lower external funding is expected to constrain fiscal spending in the upcoming years. Coupled with weak private investment, dampened public expenditure, mainly capital expenditure, is projected to reduce growth below 3.0 percent in the medium term. Moreover, with declining international reserves and substantial Government financing needs, credit to the private sector is expected to slow down.

Although new gas fields are expected to come on stream, the fiscal deficit will remain close to 7.5 percent of GDP in 2022. Increasing fuel and food subsidies are expected to offset the effect of higher tax and hydrocarbon revenues. Also, a recent arbitration decision on the 12-year nationalization process of a pension fund would result in a one-off outlay. Although hydrocarbon revenues are expected to decline in the medium term, the fiscal deficit would converge to 6.0 percent by 2024 as limited external funding constrains spending. Yet, without substantial reforms to further reduced the fiscal imbalance and foster growth, this consolidation is not expected to stabilize debt in the projections period.

The Government is expected to remain committed to preserving the fixed exchange rate, to avoid a disorderly currency adjustment. Although the Government has made some effort to attract foreign investment to hydrocarbon exploration and lithium development, delays and long maturity periods are expected to limit their impact in the projection period. However, capital outflows and smuggling will continue eroding international reserves, which, in conjunction with emerging inflationary pressures, would restrict expansionary monetary policies.

This situation would limit Bolivia's capacity to deal with downside risks, including declining commodity prices, tightening international financial conditions, and liabilities resulting from pending arbitration processes or natural disasters.

With the lift of the pandemic-related transfers, poverty is expected to slightly increase to 15.8 percent in 2022. Moreover, long-term pandemic effects, including human capital losses due to school closures and food insecurity, are likely to affect the poor and vulnerable the most, limiting upward intergenerational mobility.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-8.7	6.1	4.1	2.8	2.7
Private Consumption	3.7	-7.9	5.3	3.8	3.2	3.1
Government Consumption	3.8	-2.8	5.4	6.3	-0.6	-0.2
Gross Fixed Capital Investment	-3.5	-25.9	11.9	5.3	3.8	2.9
Exports, Goods and Services	-1.8	-18.8	15.4	4.2	3.2	3.2
Imports, Goods and Services	1.5	-25.0	15.7	5.2	3.2	2.9
Real GDP growth, at constant factor prices	2.4	-8.4	6.4	3.6	2.6	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	4.0	2.2	2.4
Inflation (Consumer Price Index)	1.8	0.9	0.7	1.8	3.3	3.5
Current Account Balance (% of GDP)	-3.4	-0.4	2.0	2.3	1.1	0.5
Net Foreign Direct Investment Inflow (% of GDP)	-0.6	-2.8	1.2	1.7	1.7	1.7
Fiscal Balance (% of GDP)	-7.2	-12.7	-9.3	-7.6	-6.4	-6.0
Debt (% of GDP)	58.6	78.1	81.6	83.7	86.8	88.6
Primary Balance (% of GDP)	-5.8	-11.2	-7.9	-6.0	-4.6	-4.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.9	3.1	2.0	2.3	2.3	2.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.7	6.2	5.4	5.8	5.6	5.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	15.6	17.0	15.2	15.8	15.2	14.8
GHG emissions growth (mtCO2e)	7.0	-1.8	0.8	0.6	0.5	0.5
Energy related GHG emissions (% of total)	15.3	13.5	13.7	14.2	14.5	14.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SEDLAC harmonization, using 2020-EH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.