BOLIVIA

Table 1	2020
Population, million	11.7
GDP, current US$ billion	36.7
GDP per capita, current US$	3143.1
International poverty rate ($1.9)[a]	3.2
Lower middle-income poverty rate ($3.2)[a]	7.8
Upper middle-income poverty rate ($5.5)[a]	19.9
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	71.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

After the pandemic-induced recession, the economy is expected to rebound in 2021 on the back of eased mobility restrictions and expansionary efforts. Growth would slow down in the medium term due to shrinking room for expansionary policies. Consequently, poverty is expected to return to pre-crisis levels only by 2023. Bolivia's medium-term prospects depend on its capacity to reduce macroeconomic imbalances, generate fiscal space to shield social expenditure and protect the vulnerable, and ignite new sources of growth and employment.

Key conditions and challenges

After the commodity boom, a wide range of expansionary policies allowed Bolivia to keep growing despite declining gas production and low private investment. However, as these policies increased the public debt and eroded macroeconomic buffers, Bolivia had limited policy room to deal with the pandemic that plunged the economy into a deep recession and reversed eight years of poverty reduction. This scenario was compounded by structural weakness such as high labor informality and poorly targeted social programs, and political polarization after the contested 2019 elections led to President Morales's resignation.

After a one-year transition government, the new government is intent on boosting domestic demand and resuming earlier state-led development policies. With low hydrocarbon revenues, this agenda depends on external and Central Bank financing that may undermine macroeconomic sustainability.

The recovery from the COVID-19 crisis depends on how fast the vaccination is completed. While a constrained financial situation elevates the risk of a balance of payment crisis, strong growth fundamentals need to be activated.

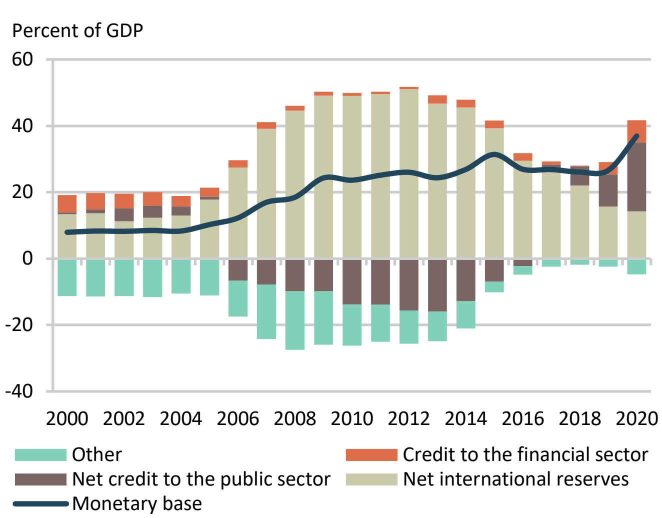
Cementing confidence in the fixed exchange rate requires reducing the fiscal and external imbalances. Improving fiscal policy efficiency and progressivity could help secure fiscal sustainability while shielding social expenditure and supporting the most vulnerable. It would also be critical to adopt a more pragmatic approach toward private and foreign investment to develop new gas reserves and foster new sources of growth and employment. The business environment could be improved by easing administrative agriculture export restrictions, improving logistics, reducing red-tape, and modernizing labor and tax regulation.

Recent developments

The pandemic plunged the economy into a deep recession in 2020. Excepting communication, agriculture, and public administration, most sectors dropped despite showing signs of recovery by the end of the year, after lockdown measures were lifted.

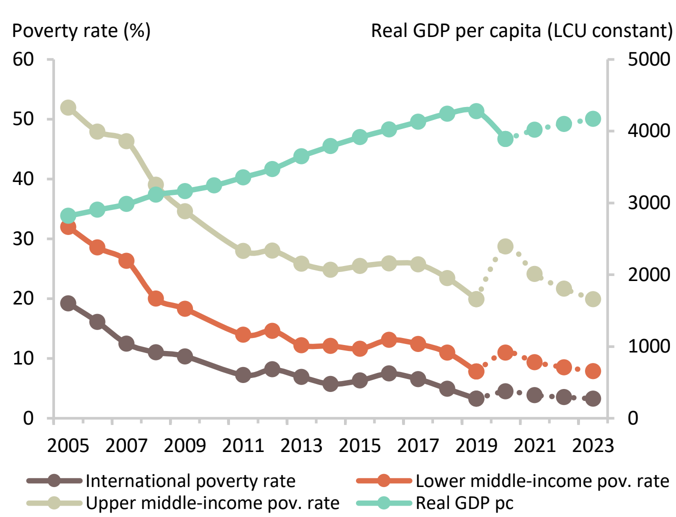
Poverty ($5.5 line in 2011 PPP) is expected to increase from 19.9 percent in 2019 to 28.7 percent in 2020, pushing more than one million people into poverty. Income inequality has increased as many low-skill salaried workers lost their jobs, and most self-employed, who account for more than 40 percent of employment, saw their earnings fall. Despite recent improvements, unemployment and underemployment remained above their pre-crisis levels in late 2020, mainly among women, widening gender gaps. Additionally, despite being almost universal, emergency cash transfers have only partially offset the drop of labor earnings due to their low generosity.

FIGURE 1 Bolivia / Monetary base



Sources: Central Bank of Bolivia.

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



Source: World Bank. Notes: see Table 2.

Despite the collapse in public investment, the fiscal deficit widened to 12 percent of GDP due to low hydrocarbon and tax revenues and high health and social protection expenditures. In conjunction with a fall in nominal GDP, the fiscal deficit increased public debt from 59 percent of GDP in 2019 to 77 percent in 2020. With limited external financing, the Central Bank funded the bulk of the fiscal deficit.

Although import compression reduced the current account deficit, international reserves continued to fall due to low external financing to the public sector, mutted foreign investment, and sizable private capital outflows. The partial recovery of imports and uncertainty around the 2020 elections renewed pressures on international reserves in late 2020.

As the economic contraction reduced average inflation to less than one percent, the Central Bank became the primary domestic credit source. Besides funding the fiscal deficit, the Central Banks also provided liquidity to the financial sector, which saw its profitability fall to a record low level as a result of the loan deferral imposed by the government to support debtors in 2020.

Outlook

Although the second wave of the pandemic dampened the recovery in early 2021, the economy is set to resume growth this year due to eased mobility restrictions. As the government ruled out a harsh lockdown, local authorities will impose only targeted restrictions until the vaccine is fully rolled out in the first half of 2022. Additionally, the government will apply some expansionary policies, including higher public investment. However, after the 2021 rebound, growth is projected to slow down. The tightening financial situation will constrain the space to boost domestic demand, and trade flows will likely slow down after the rebound from the crisis.

Although growth will reduce poverty from its 2020 peak, poverty is projected to remain above the pre-pandemic level until 2022. Long-term pandemic effects on employment and productivity—such as the hysteresis, decapitalization of businesses, and human capital losses due to school closures and remote learning—are likely to affect the poor and vulnerable the most, preventing inequality from falling and limiting upward intergenerational mobility.

The fiscal deficit is projected to gradually decrease to about 4.7 percent in 2023 as fiscal revenues recover and emergency expenditures fade out. Despite the issuance of international bonds to finance public investment and payback bonds due in 2022 and 2023, the tightening financial situation is expected to induce a partial consolidation, stabilizing public debt near 81 percent of GDP.

Current account deficits and capital outflows are expected to continue eroding international reserves but at a slower pace. The nominal exchange rate is projected to remain fixed as the government is expected to gradually limit its expansionary efforts to prevent a devaluation.

Declining international reserves and rising inflation would limit the Central Bank to continue fueling domestic credit. Moreover, the financial sector could require additional support. The massive reschedule of loans deferred in 2020 and the early withdrawal from the pension funds could add stress on the already hit financial sector, particularly small financial institutions.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.2	2.2	-7.8	4.7	3.5	3.0
Private Consumption	4.3	3.7	-8.1	4.6	3.7	3.3
Government Consumption	5.1	3.8	2.8	1.6	-0.8	0.3
Gross Fixed Capital Investment	3.2	-3.5	-34.1	23.1	2.9	3.5
Exports, Goods and Services	5.2	-1.8	-8.7	6.4	6.4	3.5
Imports, Goods and Services	1.9	1.5	-22.9	14.9	4.2	3.2
Real GDP growth, at constant factor prices	4.3	2.4	-7.8	4.7	3.5	3.0
Agriculture	6.9	5.3	2.4	4.2	4.2	4.2
Industry	2.3	0.1	-12.2	5.4	3.7	3.2
Services	5.2	3.4	-7.6	4.3	3.0	2.5
Inflation (Consumer Price Index)	2.3	1.8	0.9	2.5	3.0	3.0
Current Account Balance (% of GDP)	-4.5	-3.3	-0.8	-3.0	-1.4	-0.7
Net Foreign Direct Investment (% of GDP)	1.0	-0.7	-1.7	0.2	1.1	1.1
Fiscal Balance (% of GDP)	-8.1	-7.2	-12.0	-8.9	-6.0	-4.7
Debt (% of GDP)	53.3	58.8	77.2	81.1	81.3	80.5
Primary Balance (% of GDP)	-7.0	-5.8	-10.3	-7.1	-4.1	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.9	3.2	4.5	3.9	3.5	3.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.0	7.8	11.0	9.4	8.5	7.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.4	19.9	28.7	24.1	21.7	19.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2008-EH, 2011-EH, and 2019-EH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using average elasticity (2008-2011) with pass-through = 1based on GDP per capita in constant LCU.