

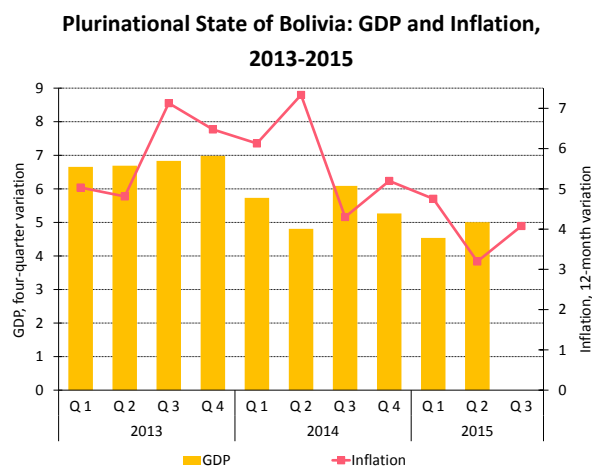
Plurinational State of Bolivia

Economic growth slowed in the Plurinational State of Bolivia in 2015, as international prices for the country's principal export commodities plummeted. The hydrocarbons sector in particular, which had propelled growth in recent years, was a net drag on the economy in the first half of the year. The contribution of gross fixed capital formation to growth diminished in 2015, though it remained positive. ECLAC estimates that GDP growth will reach 4.5% for the year overall (compared to 5.5% in 2014), on the back of steady household consumption, expansionary monetary policy and a projected upswing in public investment outlays at the end of the year. The country's external position remains strong, with ample reserves and low external debt, despite the fact that the current account fell into deficit and capital inflows were insufficient to fully cover the gap.

The fiscal accounts were strongly impacted in 2015 by plummeting export prices. Overall revenues of the general government fell 1.3% in the first nine months of the year, compared with the same period of the previous year, as hydrocarbons revenues—which made up roughly one third of total revenues in 2014—dropped 23%. Tax revenues registered a slight increase (3.7%), hindered by slow growth (0.7%) in corporate tax receipts. However, the value added tax and the transactions tax registered growth—of 7.2% and 10.7%, respectively—roughly in line with that of nominal GDP. Overall expenditures fell (-2.4%) during the period, as capital expenditures were significantly lower (-23%), despite a large budgeted increase for the year. Public investment may yet rebound as newly elected subnational governments begin to execute their budgets and traditional end-of-year spending ramps up.

The budget for 2015 projected a deficit for the public sector and that remains the most likely result. The accumulated overall balance in the 12 months to September was roughly -2.1% of GDP, due mainly to the lower public investment execution. Domestic public debt, which rose in 2014, fell marginally in the first nine months of the year (down 0.6% on December 2014). In contrast, external debt increased (9.4%) owing to significant disbursements from multilateral lenders. The government announced in October that the country had received a US\$ 7 billion line of credit from China to finance investment in hydroelectric power generation and infrastructure. If fully utilized, this credit would more than double the external debt of the Plurinational State of Bolivia.

The monetary policy stance was countercyclical in 2015, as the central bank sought to balance its aim of price stability with softening the impact of diminishing external demand on the domestic economy. In the first quarter, the central bank pursued a contractionary policy to mop up excess liquidity generated at the end of 2014, as well as to offset some supply-side price shocks. As a result, the stock of monetary regulation securities rose 15% in the first quarter, principally reflecting the placement of a new series of certificates of deposit. The central bank also made use of a new monetary regulation instrument in the first quarter—Special Deposits for Monetary Regulation (DERM)—which consists of voluntary short-term deposits by financial institutions in the central bank under certain conditions (including the amount on offer and the yield).



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In the second and third quarters, monetary policy turned increasingly expansionary in line with softening domestic demand and lower inflationary pressures. This shift was clearly visible in the stock of monetary regulation securities, which fell by 41% between peaks in March and September. Liquidity that had been locked up through the use of DERMs was also released in the second quarter. In the second half of the year, monetary issuance began to slow significantly as international reserves declined (down 7% year-on-year in September). Nevertheless, the broader monetary aggregates continued to exhibit steady growth thanks to stronger bank lending. Interest rates, for both lending and deposits, remained relatively stable through the first 9 months of the year.

No change was made to exchange-rate policy during 2015. The central bank remained committed to maintaining its crawling peg, citing its role in anchoring inflation expectations and in supporting the Bolivianization of the financial sector. Nevertheless, the real effective exchange rate continued to appreciate (a 9.5% year-on-year change in October), potentially to the detriment of domestic firms that export non-traditional goods.

Falling international commodity prices pushed the current account into deficit by 2.3% in the first half-year. The value of goods exports slumped by 30.8% during this period, owing largely to a sharp decline in unit values of hydrocarbons. Export volumes held relatively stable, with natural gas falling only 1.3%. Preliminary data for September suggest that these trends continued into the third quarter of the year. Import values also contracted (-3.9%), owing to a reduction in the purchase of intermediate goods such as fuels—reflecting lower prices—and construction materials. The deterioration of the trade balance was offset somewhat by an improvement in the income account, as net investment income outflows fell sharply. Workers' remittances from abroad, an important contributor to domestic household consumption, held steady at US\$ 557.7 million.

The capital and financial account rebounded in the first half of the year, recording a surplus of 1.6% of GDP, compared to a similarly sized deficit in the same period of 2014. Public sector inflows during the period were boosted by a number of loan disbursements by multilateral lenders. Gross foreign direct investment (FDI) inflows fell 28.1%, led by a decline for the hydrocarbons sector in line with lower earnings available for reinvestment. Nevertheless, net FDI inflows registered only a marginal decline of 3.3%, as intracompany loan repayments fell sharply in 2015. Although international reserves contracted in the first three quarters, they are still ample enough (43% of GDP at 30 June, equivalent to 15.7 months of import cover) to keep the country's external position solid.

Economic activity slowed in 2015, with cumulative GDP growth reaching 4.8% for the first six months of the year compared to the prior-year period. Lower natural gas prices, coupled with a marginal year-over-year change in production (-0.8%), resulted in the contribution of the country's important

**Plurinational State of Bolivia: main economic indicators,
2013-2015**

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	6.8	5.5	4.5
Per capita gross domestic product	5.1	3.8	2.9
Consumer prices	6.5	5.2	4.3 ^b
Real average wage ^c	1.1	0.6	...
Money (M1)	13.5	15.4	11.3 ^d
Real effective exchange rate ^e	-5.5	-4.9	-9.5 ^b
Terms of trade	-1.7	-2.5	-18.9
	Annual average percentage		
General government			
Overall balance / GDP	1.4	-2.5	...
Nominal deposit rate ^f	0.7	1.1	0.5 ^g
Nominal lending rate ^h	7.0	6.5	6.4 ^g
	Millions of dollars		
Exports of goods and services	12,761	13,508	9,831
Imports of goods and services	11,069	12,859	11,849
Current account balance	1,054	26	-2,518
Capital and financial balance ⁱ	67	944	1,363
Overall balance	1,122	971	-1,156

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a Estimates.

b Figures as of October.

c Private-sector average wage index.

d Figures as of August.

e A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

f Nominal local-currency rate for 60-91-day operations of the banking system.

g Figures as of November.

h Nominal local-currency rate for 60-91-day operations of the financial system.

i Includes errors and omissions.

hydrocarbons sector to GDP growth swinging from 0.6 percentage points in the first half of 2014 to -0.1 percentage points in 2015. Seen through the lens of demand, the slowdown in 2015 was driven by a sharp reduction in the contribution of gross fixed capital formation (0.7 percentage points in the first half-year, compared to 2.2 percentage points in the first half of 2014). The slowing momentum of trade reduced the negative contribution of net exports, from -1.7 percentage points in 2014 to -0.3 percentage points in 2015, which softened the impact of the smaller contribution from investment. Household consumption continued to drive growth in 2015, but its incidence has slowed in recent quarters.

Preliminary data suggests that these trends continued into the third quarter of the year. The global index of economic activity registered a cumulative increase of 4.4% in the year to August. Imports of capital goods, which are highly correlated with gross fixed capital formation, fell sharply in the third quarter (down 26% year-on-year) pointing to continued weakness in investment. Nevertheless, ECLAC forecasts that GDP growth for the year will be 4.5%, boosted by public investment outlays at year's end.

Softening domestic demand had the effect of tempering inflationary expectations during the year. After a jump in January, inflation slowed progressively in the first half of the year as supply-side shocks subsided. This trend reverted somewhat in the third quarter as rising food prices pushed up overall inflation (by 4.3% year-on-year in October, compared to 3.1% in July).

For 2016, ECLAC estimates that growth will remain stable (4.5%). Rising real wages, thanks to modest inflation, and the greater availability of credit should support household consumption, which is the principal motor of the economy. Investment should rebound somewhat as a number of natural-gas-related projects, mainly in exploration, begin to ramp up during the year. Nevertheless, the country will continue to feel the effects of lower global oil prices, which are one the key factors for determining the price of natural gas exports to Argentina and Brazil. The fiscal impulse imparted by public consumption and investment, however, will likely slacken in 2016 as the government has suggested that some austerity measures may be necessary in view of its lower forecast for commodities prices.