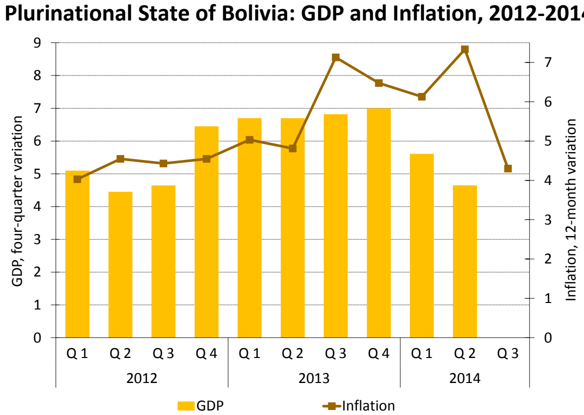
Plurinational State of Bolivia

The Bolivian economy slowed in 2014, but the country still has one of the highest growth rates in the region. Slowing growth in the hydrocarbons sector affected both economic activity and fiscal revenues. Nevertheless, private consumption and gross fixed capital formation —supported by an ample programme of public investment— kept GDP growth at around 5.0%. The marked easing of inflationary pressures opened space for the Central Bank of Bolivia (BCB) to gradually adopt a more accommodative monetary policy. The country has significant savings that would enable it to implement any countercyclical policy that might be necessary. For 2015, ECLAC forecasts that GDP will expand by 5.1% on the strength of domestic demand.

Fiscal policy remained expansionary, bolstered by a high level of public investment. Through September, general government expenditures were up by 21.5% compared with the prior-year period, as capital expenditures surged 40.9%. Current expenditures registered a smaller increase of 11.5%. Expenditure for personal services and goods and services rose, owing in part to extrabudgetary expenditures related to the Patujú Plan that the government rolled out in response to heavy flooding along the Beni River in February and March. Growth in tax revenues slowed significantly, to only 8.5%, compared with 21.1% in the same period of 2013. This was due largely to the performance of hydrocarbon revenues, which rose just 2.0% in the year (28.4% for the same period in 2013) as the growth of natural gas exports slackened. The general government could post a deficit at year-end, depending on budget execution at the subnational government level. In terms of financing, both the central government and the subnational governments as a whole have substantial savings in the form of deposits with the central bank (estimated at 13.9% and 6.8% of GDP, respectively, in June). In addition, the National Treasury's public debt as a percentage of GDP continued to fall, from 28.3% at the end of 2013 to an estimated 26.5% in September.

Monetary policy ceased to be contractionary in the second half of the year. In line with cooling economic activity and lower inflation expectations, the central bank gradually adopted an accommodative policy starting in midyear. The central bank reduced the offer of bonds in its open-market operations, and increased the use of repos to provide short-term liquidity to the financial system. However, the issuance of bonds directly to individuals continued, and this year the central bank will offer a 7% Christmas bond in order to counter any inflationary effects arising from the payment of the second wage bonus at year-end. Broad money (M3) and the credit portfolio of the financial sector both continued to slow during the year. Nevertheless, business lending and housing finance saw significant growth. The new financial system law came into force in 2014; in July the government set the maximum lending rates for financing for the productive sector. Regarding exchange rate policy, the nominal exchange rate was maintained throughout the year. No change is anticipated in the short term owing to the exchange rate's role in anchoring inflation expectations, promoting the Bolivianization of the financial system and facilitating the purchase of capital goods abroad for investment projects.

Plurinational State of Bolivia: GDP and Inflation, 2012-2014



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

The country's external position remained strong, although the current account surplus has narrowed. Exports were up by 8.9% in the third quarter compared with the same period in 2013, driven surprisingly by sales of metallic gold, whose share of total export value rose from 2.5% in 2013 to 10.8% in 2014. Natural gas sales grew by only 1.3% due to existing pipeline limitations and a slight reduction in price. Imports expanded by 14.6% on the back of strong demand for capital goods and transport equipment in response to the increase in gross fixed capital formation in the country. According to data available for the first half of the year, the capital and financial account remained in deficit. Private-sector purchases of foreign assets rose as did portfolio investment outflows, which climbed in line with the scheduled rise in reserve requirements for foreign currency deposits. Foreign direct investment (FDI) inflows held more or less steady in net terms, with a small 1.3% decrease. As a result of these trends net international reserves rose 5.2% in September over the same period of the previous year, reaching US$ 15.3 billion or an estimated 45% of GDP. This result, however, represents a significant slowdown from the double-digit growth rates registered in previous years.

Plurinational State of Bolivia: main economic indicators, 2012-2014

	2012	2013	2014 [a]
	Annual growth rate		
Gross domestic product	5.2	6.8	5.2
Per capita gross domestic product	3.6	5.2	3.8
Consumer prices	4.5	6.5	3.6 [b]
Real average wage [c]	0.9	0.6	...
Money (M1)	18.3	13.5	15.3 [d]
Real effective exchange rate [e]	-4.5	-6.0	-4.1 [b]
Terms of trade	3.4	-1.7	5.9
	Annual average percentage		
General government			
Overall balance / GDP	1.8	1.4	...
Nominal deposit rate	0.5	0.7	1.1 [f]
Nominal lending rate [g]	6.7	7.0	6.5 [f]
	Millions of dollars		
Exports of goods and services	12,260	12,703	13,808
Imports of goods and services	9,926	10,892	12,239
Current account balance	1,970	1,173	820
Capital and financial balance [h]	-258	-51	227
Overall balance	1,712	1,122	1,047

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.
f/ Figures as of November.
g/ Nominal local-currency rate for 60-91-day operations.
h/ Includes errors and omissions.

Economic activity in 2014 slowed somewhat more than was expected at the beginning of the year. In the first half, GDP grew by 5.1% owing to loss of momentum in the hydrocarbons sector, which expanded by 8.6% compared with the first half of 2013 (20.3% year-on-year in the first half of 2013). Lower growth was also seen in transport and communications, manufacturing and agriculture. On the demand side, growth was affected by a slowdown in investment, which rose just 0.5% (3.5% for the first half of 2013) as farm and mining sector inventories fell. Nevertheless, gross fixed capital formation alone surged 12.3% (5.6% for the first half of 2013). Private consumption, which accounts for about 69% of GDP, slowed slightly, showing growth of 5.4% compared with 5.7% in the first half of 2013. The overall index of economic activity (IGAE) recorded a cumulative variation of 5.2% to August, which could indicate that the economic slowdown has bottomed out.

Inflationary pressures eased significantly in the second half of the year. After substantial increases in February, June and July because of food supply shocks, the consumer price index posted a year-on-year variation of 3.6% in October – the lowest since September 2010. Among the factors behind this performance are higher food subsidies from the government through the food production support enterprise, EMAP. The easing of inflation, combined with the 10% public- and private-sector wage hike decreed in May (retroactive to January) and a 20% increase in the national minimum wage, served to drive real wages up.