

BOLIVIA

1. General trends

The Bolivian economy grew by 5.4% in 2014, a fall-off from 2013, when gross domestic product (GDP) expanded by an unprecedented 6.8%. This growth moderation was mainly due to a slowdown in the hydrocarbons sector, in a context where natural gas production plateaued and international commodity prices fell substantially. Notwithstanding these conditions, the country was once again among the fastest-growing in the region.

Lower growth in hydrocarbon revenues and a rise in public investment meant a deficit in the fiscal accounts. The worsening terms of trade, especially in the fourth quarter, adversely affected the trade balance. In addition, the greater dynamism of imports meant that the balance-of-payments current account closed the year with a surplus of just 0.03% of GDP. Monetary policy, meanwhile, ceased to be contractionary in the second half, something that was facilitated by moderating inflation.

ECLAC estimates that economic growth will be 4.5% in 2015, chiefly thanks to domestic demand. The government has planned for another substantial rise in public investment, which should cushion the economic slowdown somewhat. Private-sector consumption is also expected to contribute to growth, although some fall-off is to be expected because of slower wage growth and a drop in remittances from abroad. At the same time, a considerable drop (of 27.7%) in the value of exports in the first quarter of 2015 suggests that net exports will be a drag on GDP growth over the year.

2. Economic policy

(a) Fiscal policy

Fiscal policy remained expansionary in 2014, driven by strong public investment growth. Total general government expenditures were up 22.4% as of December, somewhat more than in the same period the year before, when they rose by 20.5%. Capital spending accounted for 55% of the rise in overall expenditure thanks to an increase of 32.1% that, after growth of 41.8% in 2013, left it at almost twice its 2012 level. There were particularly large increases in public investment in the sectors of transport, urban development and housing, and education. With regard to the latter two, the increases partly reflected off-budget spending of US\$ 476.6 million under the Patujú Plan, in response to heavy flooding along the Beni River in February and March 2014.

Current spending growth accelerated from 10.3% in 2013 to 16.4% in 2014, although the trend varied by component. Spending on personal services rose by 22.5%, which in turn represented about 57% of the overall increase in current spending. In May, the government decreed a wage increase of 10% for public servants, backdated to January. Purchases of goods and services were also highly dynamic, rising by 33.8%. Rapid growth in these components was offset by a 3% drop in current transfers. Within this item, nonetheless, pension payments rose by a substantial 16.7%, and in May 2014 the government

ordered an increase of 25% in the special payment for former combatants in the Chaco War, while in October approval was given for the payment of an annual bonus to beneficiaries of the universal old-age “dignity” pension, beginning that year.

Growth in general government fiscal revenues moderated significantly in 2014. Total revenue was up by 10.6% in December, as against 18.6% in the same period of 2013. This performance was due to a lesser increase in hydrocarbon revenues, which rose by just 1.7% (as against 24.6% in 2013). Conversely, tax revenue was more dynamic, but also displayed signs of slackening, with a rise of 11.3% (as against 17.7% in 2013). Of particular importance was slower growth in the corporation tax take (representing about 40% of internal tax receipts), which partly reflected lower profits in some sectors because of falling international commodity prices. Nonetheless, the value added tax take held up well, with a growth rate (17%) that was only slightly down on the 20% seen in 2013, something that can be put down to the latent dynamism of the domestic market.

The general government account closed the year with a deficit of 2.4% of GDP, financed by increasing public debt and drawing down government deposits with the central bank. Gross public debt increased modestly in 2014 but continued to fall as a share of GDP, declining to around 29.5%. External public debt rose by 9.0% as a result of an increase in loan disbursements from multilateral institutions. The domestic debt of the National Treasury also grew (by 6.3%), mainly because it auctioned a larger amount of securities to the private sector. On the other hand, the balance of central government and local and regional government deposits was down by 5.5 billion bolivianos, equivalent to 2.3% of GDP, at the end of 2014 as compared with December the previous year. Despite this drop, saving at both levels of government remains substantial, with a balance of about 16.5% of GDP (23.6% of GDP for the non-financial public sector).

The fiscal accounts are expected to remain in deficit in 2015, reflecting the downward trend in hydrocarbon revenues on the one hand and the government’s commitment to maintaining the pace of public investment on the other.

(b) Monetary and exchange-rate policy

Monetary policy became less contractionary in 2014. At the start of the year, in a context of strong liquidity and expectations of higher inflation, the central bank maintained the contractionary stance of 2013. In particular, it made more securities available, giving rise to a large increase in monetary policy rates. The high cost of withdrawing liquidity through this channel, with the annualized effective rate on a 364-day security reaching 5.2% in July, led the central bank to use other monetary management instruments, among them the direct issuance of certificates of deposit and adjustment of the legal reserve requirement, including a planned increase in the additional foreign-currency legal reserve requirement and the abolition of compensation for local-currency reserves through loan portfolio increases.

From August, however, monetary policy took on a more accommodative stance as economic activity cooled and inflation expectations moderated. The supply of securities for monetary management purposes was gradually reduced and the yields on securities in open market operations fell substantially. Nonetheless, in November and December 2014 the central bank stepped up its open market operations and issued another batch of certificates of deposits with a view to absorbing a year’s end rise in liquidity. The main factors behind this rise included the reduction in non-financial public-sector deposits with the central bank, whose growth over recent years had served to reduce liquidity substantially. Efforts by the central bank to curtail liquidity continued in the early months of 2015, with a 20% rise in the net balance of securities issued for monetary regulation purposes in the first quarter relative to the end of 2014.

The behaviour of the broader monetary aggregates (M3 and M'3, which includes accounts denominated in foreign currency) reflects changes in monetary policy over the year. Although the year-on-year change to December 2014 was smaller than in the same period of 2013, this outcome represents a slight acceleration from the level seen between June and August 2014. At the same time, growth in currency issue held fairly steady over the year, although it was somewhat lower than in 2013, which is indicative of the central bank's success in forestalling imbalances in the money market.

As regards exchange-rate policy, the nominal exchange rate held steady in 2014 and no new developments are expected in the short term, as the aim is to anchor inflationary expectations and promote bolivianization of the financial system. As in earlier years, the government's fiscal and financial programme for 2015 does not provide for any alteration in the nominal exchange rate this year. However, the economic slowdown across the region could give rise to pressure for this decision to be reconsidered.

Monetary policy trends also affected the financial system. The effective borrowing rate for fixed-term deposits in the banking system rose because of the increases in monetary policy rates. The trend altered substantially with the reorientation of monetary policy in July 2014, and in late March 2015 the borrowing rate returned to its 2013 levels. The rate of deposit-taking by financial intermediaries moderated during the year, but growth has remained substantial. There was a slight drop in the first quarter of 2015, partly due to the large amounts the central bank raised by selling securities directly to the public and issuing certificates of deposits.

Meanwhile, lending to the private sector continued to slacken, albeit with signs of a pick-up at the end of the year. The effective lending rate of the banking system held steady until July, when it dropped by 246 basis points. This outcome may be due to the caps set by the government that month under the 2013 Financial Services Act for rates on loans to the production sector. On the basis of that same law, the government decreed in October that commercial banks and small business banks were to put 6% of their 2014 net profits into credit guarantee funds for social housing in the first case and for the production sector in the second.

(c) Other policies

The government continued to play a very active role in industrial policy. The Investment Promotion Act was passed in April 2014 and the Mining and Metallurgy Act in May. There were ongoing efforts with projects begun earlier as part of the industrialization policy for the hydrocarbons sector, such as the Río Grande natural gas liquids extraction plant, which began operating in 2013, and the Gran Chaco natural gas liquids extraction and separation plant, which should start operating in 2015. Progress was also made towards realizing the lithium industrialization project on the Uyuni salt flats and the project to develop the country's first geothermal power plant, some of whose output could be exported. Mention should also be made of the government's efforts to promote electricity exports. The National Electricity Enterprise (ENDE) is planning to build an electrical interconnection line with Argentina, which should come into operation in 2016. Also planned is the signing of an electrical integration agreement with Brazil in 2015, which would require substantial investment to enable up to 7,500 MW of electricity to be exported to that country. In the area of foreign relations, the Plurinational State of Bolivia is expected to become a member of MERCOSUR in the first half of 2015.

3. The main variables

(a) The external sector

The behaviour of the balance of payments in 2014 was strongly marked by a deterioration in the terms of trade and by some exceptional financial transactions. The current account closed with a surplus equivalent to 0.03% of GDP, as compared to 3.4% the year before. This outcome was mainly due to a moderation in the growth of goods exports, which were up 5.2%, set against the greater dynamism of imports, which grew even more strongly than in 2013 (12.8% as against 8.9%).

The growth in goods exports was largely accounted for by a sharp rise in sales of semi-processed gold, whose share of total exports rose from 2.7% in 2013 to 10.6% in 2014. Without this product, the value of exports would have dropped by 3.1%. Sales of natural gas (which represents some 50% of total goods sales abroad) fell by 1.7%. This downward trend intensified in the fourth quarter with a year-on-year drop of 12%, reflecting adjustments to prices in contracts with Argentina and Brazil. Exports of agricultural products fell by 16% owing to a sharp decline in sales of soya beans and seeds. In contrast, mineral exports rose slightly in value (by 3.3%), owing particularly to a rise in the volume of zinc exports.

Goods imports rose by 12.8% because of growth in purchases of capital goods (up 20.7%) and industrial inputs (up 9.5%). This result was due to stronger gross fixed capital formation in the country and, in particular, the behaviour of public investment in infrastructure and in production activities. Consumer goods imports also rose (by 12.2%), reflecting the greater purchasing power of the population.

Among the other components of the current account, there was a particularly large deterioration in the services balance deficit, from 2.0% of GDP in 2013 to 3.2% in 2014. A 10.8% decline in investment income debits, meanwhile, in line with a tightening of profit margins among multinationals operating in the extractive industries, served to reduce the income balance deficit (5.0% of GDP as against 6.2% in 2013). Current transfers fell from 4.1% of GDP in 2013 to 3.2% in 2014. Public-sector transfers plunged by 84.1%, while private-sector transfers, which include remittances from workers outside the country, were down by 3.2%.

Although the capital and financial account deficit improved from 0.6% of GDP in 2013 to 0.3% in 2014, its evolution was marked by a number of exceptional transactions during the year. Net other capital flows improved, especially for the public sector, partly due to a one-off payment of US\$ 434.4 million by Petrobras for the export of “rich gas” between 2008 and 2013. Net foreign direct investment contracted considerably (by 63.0%), as the result of an increase in intragroup loan write-downs and payment by the government of US\$ 575 million as compensation for the nationalization of subsidiaries of Pan American Energy (in 2009), Red Eléctrica de España (in 2012) and Transierra (in 2014).

The overall balance of payments remained positive, thanks to increased flows in the errors and omissions category. As a result, net international reserves were up 4.8% by December to US\$ 15.1 billion, or 44.4% of GDP.

The deterioration of the trade balance in 2014 intensified in the first quarter of 2015. Exports fell 27.7% by value from the same period in 2014. In particular, natural gas sales were down 26.5% by value and those of gold 49.7%, with large declines for agricultural and mineral products as well. Meanwhile, the

value of imports dropped slightly (by 2.2%), owing to a decline in purchases of capital goods and diesel. The year-on-year change in consumer goods imports remained positive. As a result, the trade balance at the end of the quarter was in deficit for the first time in 11 years.

(b) Economic activity

Following record GDP growth in 2013, economic activity began to weaken in 2014. The general index of economic activity shows that growth slowed from 7.0% in the fourth quarter of 2013 to 4.7% in the second quarter of 2014. Despite a rebound in the third quarter (6.0%), economic activity slowed once again in the fourth quarter (5.2%). Thus, the year ended with estimated GDP growth of 5.4%. This dynamic can be observed in the component of the index that covers payment of indirect taxes and import duties, whose year-on-year growth rate bottomed out in August and then rose gradually until the end of the year, something that may be due to a moderate recovery in the domestic market. In any event, the country is still growing at a rate well above the regional average.

On the expenditure side, domestic demand continued to be the main driver of economic growth in 2014. The GDP growth share of household and general government consumption held steady over the year to September relative to the same period the previous year, contributing 4.5 percentage points, as against 4.6 percentage points in 2013. Gross fixed capital formation was particularly strong, contributing 2.4 percentage points to overall growth, as compared to 1.6 percentage points in 2013. However, a sharp decline in inventory subtracted 1.3 percentage points from growth in the period. Meanwhile, net exports reduced GDP growth by 0.3 percentage points, reflecting the increased dynamism of imports.

On the supply side, the fall-off in economic growth was mainly due to the slowdown in the hydrocarbons sector. From January to September 2014, this industry contributed 0.5 percentage points to GDP growth, as compared to 1.2 percentage points in the same period of 2013. Gross production of natural gas, after increasing at high rates in recent years, rose by an average of 5.3% (as against 14.0% in 2013), with an average daily output of 61.3 million cubic metres, a level that is expected to be maintained in 2015. Output is expected to rise from 2016 when the Aquio-Incahuasi field comes into production.

As regards the other sectors, there was a general slowdown, albeit with some signs of stabilization or rebound in agriculture, manufacturing and commerce. Financial services, conversely, slowed sharply throughout the year, from 16.7% year-on-year growth in February to 2.8% in December. At the same time, the mining sector recovered, with full-year growth of 6.0% (as compared to 2.9% in 2013 and -5.0% in 2012).

ECLAC estimates GDP growth of 4.5% for 2015. Domestic demand will remain the main driver of growth, supported by gross fixed capital formation, since the government plans another substantial increase in public investment. Lower wage growth and falling remittances from abroad will likely result in a moderation of private-sector consumption growth, and declining terms of trade are expected to exacerbate the impact of net exports on GDP growth.

(c) Prices, wages and employment

The cumulative inflation rate in 2014 was 5.2%, almost 1.3 percentage points less than in 2013. There were large rises in February, June, July, November and December, however, mainly because of food supply shocks. In addition to the central bank's efforts to control liquidity, the government adopted a number of measures to cushion the impact of these. In February, it decreed an extension of the 0% tax rate on wheat and wheat flour until the end of the year. Other measures were food subsidies provided

through the Food Production Support Enterprise (EMAPA) and “fair price and weight” markets. The increase recorded at the end of the year was reversed in the early months of 2015, and in April the 12-month change was 4.8%.

As regards pay, as of June 2014 the average nominal private-sector wage was up 7.9% year on year, or 0.5% in real terms. In May 2014, the government decreed a wage increase of 10% in both the public and private sectors (backdated to January 2014), while also approving a 20% rise in the national minimum wage, as in 2013. The government is maintaining its wage policy in 2015, albeit with smaller rises than in previous years, setting an increase of 8.5% for wages (depending on profits in the case of public-sector enterprises) and 15% for the national minimum wage.

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	4.8	4.6	6.1	3.4	4.1	5.2	5.2	6.8	5.4
Per capita gross domestic product	3.0	2.8	4.4	1.7	2.5	3.6	3.6	5.2	3.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.3	-0.5	2.6	3.7	-1.2	3.1	4.1	4.7	12.1
Mining and quarrying	5.4	7.0	22.9	-2.0	4.0	5.3	4.9	9.0	-8.2
Manufacturing	8.1	6.1	3.7	4.8	2.6	3.7	4.7	6.1	6.8
Electricity, gas and water	4.0	4.3	3.6	6.1	7.3	7.4	5.8	5.1	3.3
Construction	8.2	14.3	9.2	10.8	7.5	8.0	8.0	10.6	-7.2
Wholesale and retail commerce, restaurants and hotels	-20.7	36.6	4.0	4.3	3.8	3.5	3.7	3.8	10.7
Transport, storage and communications	3.9	3.5	4.0	5.6	8.0	6.1	2.7	6.7	7.7
Financial institutions, insurance, real estate and business services	5.4	6.3	4.7	4.1	5.6	5.3	9.8	6.5	13.0
Community, social and personal services	3.3	3.7	3.5	5.6	3.6	5.1	5.1	7.6	6.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.0	4.1	5.3	3.7	3.9	5.4	4.7	6.3	5.7
Government consumption	3.3	3.8	3.9	3.8	3.1	7.2	4.9	9.3	6.2
Private consumption	4.1	4.2	5.5	3.7	4.0	5.2	4.6	5.9	5.6
Gross capital formation	-0.4	5.8	29.3	3.9	7.1	23.5	-4.6	16.1	7.8
Exports (goods and services)	11.3	3.1	2.2	-10.8	9.9	5.9	11.9	4.1	8.6
Imports (goods and services)	5.2	4.4	9.4	-10.2	11.0	17.0	4.3	8.2	10.3
Investment and saving c/	Porcentajes of GDP								
Gross capital formation	13.9	15.2	17.6	17.0	17.0	19.6	17.6	19.0	26.7
National saving	25.2	26.7	29.5	21.3	20.9	19.9	24.9	22.5	26.8
External saving	-11.3	-11.5	-11.9	-4.3	-3.9	-0.3	-7.3	-3.4	0.0
Balance of payments	Millions of dollars								
Current account balance	1,293	1,506	1,991	746	766	77	1,970	1,054	10
Goods balance	1,036	918	1,444	415	812	431	2,676	2,319	1,731
Exports, f.o.b.	3,952	4,504	6,525	4,960	6,402	8,358	11,254	11,657	12,266
Imports, f.o.b.	2,916	3,586	5,081	4,545	5,590	7,927	8,578	9,338	10,535
Services trade balance	-168	-189	-200	-209	-263	-369	-342	-627	-1,099
Income balance	-397	-489	-536	-674	-864	-1,161	-1,629	-1,908	-1,707
Net current transfers	822	1,266	1,284	1,213	1,081	1,175	1,266	1,270	1,084
Capital and financial balance d/	222	446	383	-421	157	2,083	-258	67	961
Net foreign direct investment	278	363	509	420	651	859	1,060	1,750	648
Other capital movements	-55	83	-127	-841	-493	1,225	-1,318	-1,682	313
Overall balance	1,516	1,952	2,374	325	923	2,160	1,712	1,122	971
Variation in reserve assets e/	-1,516	-1,952	-2,374	-325	-923	-2,160	-1,712	-1,122	-971
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	102.3	101.8	93.4	85.5	89.8	89.8	87.0	81.7	76.4
Terms of trade for goods (index: 2010=100)	88.7	90.1	91.3	88.4	100.0	111.0	114.8	112.8	109.9
Net resource transfer (millions of dollars)	-175	-43	-154	-1,094	-707	923	-1,888	-1,840	-746
Total gross external debt (millions of dollars)	6,278	5,403	5,930	5,801	5,875	6,298	6,711	7,756	8,543

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.9	11.7	11.8	0.3	7.2	6.9	4.5	6.5	5.2
Variation in nominal exchange rate (annual average)	-0.8	-1.9	-7.8	-2.8	-0.2	-0.9	-0.5	-0.1	-0.1
Variation in average real wage	-7.3	-6.4	-7.7	2.2	3.6	-1.8	1.1	1.1	0.6
Nominal deposit rate h/	4.2	3.6	4.6	2.9	0.4	0.5	0.5	0.7	1.1
Nominal lending rate h/	8.8	8.3	8.9	8.5	5.2	6.3	6.7	7.0	6.5
General government	Percentajes of GDP								
Total revenue	32.7	32.8	32.7	32.8	30.8	32.8	35.1	36.8	36.5
Tax revenue	17.9	18.3	19.5	18.1	18.0	20.0	20.9	21.8	20.4
Total expenditure	29.2	30.5	32.7	34.8	30.9	33.9	33.2	35.4	38.9
Current expenditure	18.9	18.7	21.8	22.8	20.9	21.8	22.4	21.9	22.9
Interest	1.8	1.3	0.8	1.6	1.5	1.0	0.9	0.6	0.7
Capital expenditure	10.4	11.7	10.9	12.0	9.9	12.1	10.8	13.6	16.1
Primary balance	5.3	3.5	0.8	-0.4	1.4	-0.2	2.7	2.0	-1.7
Overall balance	3.5	2.3	0.0	-2.0	-0.1	-1.1	1.8	1.4	-2.4
Central government public debt	49.7	37.2	34.0	36.3	34.6	34.5	29.1	28.4	26.9
Domestic	26.9	24.0	22.7	24.4	23.3	19.2	15.9	13.3	12.2
External	22.7	13.1	11.3	12.0	11.4	14.6	13.3	15.1	14.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	44.1	42.0	39.4	43.5	44.4	44.9	48.7	48.7	53.4
To the public sector	9.2	8.0	8.3	9.6	8.7	8.5	10.1	10.0	11.6
To the private sector	34.8	34.0	31.1	33.9	35.7	36.4	38.5	38.8	41.8
Monetary base	12.2	16.9	18.5	24.3	23.6	25.1	26.0	24.4	26.0
Money (M1)	11.5	16.2	17.1	20.2	23.1	22.3	23.7	23.9	24.6
M2	15.6	23.9	26.1	34.3	40.5	43.4	50.0	53.3	56.9
Foreign-currency deposits	26.7	23.9	20.3	24.4	19.1	15.3	12.8	10.9	9.6

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Departmental capitals. Up to 2008, urban areas.

h/ Bank operations (61-90 days), in local currency.

Table 2
BOLIVIA: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	Trim.1	Trim.2	Trim.3	Trim.4	Trim.1	Trim.2	Trim.3	Trim.4	Trim.1	Trim.2 a/
Producto interno bruto total (variación respecto del mismo trimestre del año anterior) b/	6.7	6.7	6.8	7.0	5.6	4.6	6.0
Reservas internacionales brutas (millones de dólares)	14,113	14,055	14,409	14,302	14,522	14,627	15,181	15,329	15,066	14,745 c/
Tipo de cambio real efectivo (índice 2005=100) d/	84.9	83.3	79.6	78.7	76.3	78.2	77.1	73.9	69.9	70.1 c/
Precios al consumidor (variación porcentual en 12 meses)	5.0	4.8	6.1	7.0	6.1	6.6	5.9	4.4	5.4	4.1 c/
Tipo de cambio nominal promedio (bolivianos por dólar)	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Tasas de interés nominales (medias de porcentajes anualizados)										
Tasa de interés pasiva e/	0.5	0.6	0.4	1.4	0.9	1.2	1.3	1.1	0.5	0.49 f/
Tasa de interés activa e/	7.1	7.1	6.7	7.0	6.8	6.6	6.4	6.4	6.5	6.42 c/
Tasa de interés interbancaria	0.7	0.9	1.3	4.0	2.7	4.9
Tasa de política monetaria	4.0	4.0	4.0	4.2	4.5	5.3	6.0	4.0	3.3	2.9 c/
Crédito interno (variación respecto del mismo trimestre del año anterior)	22.4	22.3	22.3	19.5	19.2	18.6	17.0	15.9
Crédito vencido respecto del crédito total (porcentajes)	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7 f/

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1990 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Bank operations (61-90 days), in local currency.

f/ Figures as of April.