

Plurinational State of Bolivia

Gross domestic product (GDP) in the Plurinational State of Bolivia expanded by 4.0% in 2016, one of the highest rates in the region. This was driven mainly by public investment and a countercyclical monetary policy that offset a weak external trade performance, caused mainly by a deterioration in the country's terms of trade. The savings built up during the commodity-price supercycle covered financing of the fiscal deficit. Nonetheless, investment projects need to be developed to diversify and empower the public revenue mix, otherwise the ambitious investment programme could be hampered in the future.

Public investment has continued to expand, as part of the Economic and Social Development Plan “Desarrollo Integral para Vivir Bien 2016-2020” (PDES), being promoted by the government; and, although some items of public expenditure have been scaled down—such as subnational government budgets—the fall in tax revenue resulting from weaker hydrocarbon sales and smaller mining royalties have contributed to a widening fiscal deficit.

Public sector income was down by 11% in real terms over the 12 months to June 2016, mainly owing to a 33% drop in hydrocarbon earnings and a 2% fall in tax revenues. Public expenditure was 4% lower in real terms year-on-year in the same month; current outgoings have grown by 1%, driven mainly by salaries and transfer payments, while capital expenditure was 11% lower, year-on-year. Thus, the cumulative 12-month fiscal deficit of the non-financial public sector (NFPS) to June 2016 represented 8.8% of GDP.

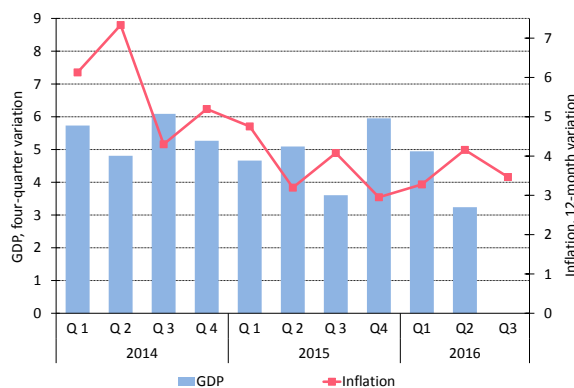
As a result, the deposits that public entities had accumulated in their accounts at the Central Bank of Bolivia (BCB) in earlier years were drawn down to some extent; but a degree of fiscal space remains since the debt remains at a low level. The domestic debt of the General Treasury of the Nation stood at 13% of GDP on 30 September 2016, while the medium-term external public debt was equivalent to 19.4% of GDP.

The authorities are forecasting the deficit on the General State Budget at 7.8% of GDP in 2017, owing to the high level of public investment needed to implement the economic and social development plan. This is expected to be funded from previous years' savings plus external financing.

In the first half of 2016, the monetary authorities injected large amounts of liquidity which kept money market interest rates close to zero, thereby helping to keep bank interest rates low. The growth of domestic credit has mainly been channelled towards the financial, industrial and construction sectors, pursuant to the provisions of the Financial Services Act, which promotes financing for the production and low-income housing sectors.

The central bank has reaffirmed its commitment to maintain the crawling-peg exchange-rate regime, citing its role in anchoring inflation expectations and in supporting the Bolivianization of the financial sector, which in June amounted to 96.3% of the portfolio. Nonetheless, the real effective exchange rate has

Plurinational State of Bolivia: GDP and Inflation, 2014-2016



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

continued to appreciate in 2016, strengthening by 3.9% from January to June, relative to the year-earlier period.

Since late 2014, the balance of payments has been displaying a current account deficit; and in 2016 thus far, capital flows have been weaker, which has meant a 17% drop in international reserves according to October figures.

The current account has widened to US\$ 569 million, according to data for the first half of 2016. The larger deficit on the trade account is the result of a 31% drop in exports, which outweighed the 17% reduction in goods imports in the same period. The fall in international hydrocarbons prices would seem to explain a large part of this deterioration, and it has meant an 11% deterioration in the terms of trade. In addition, the volume of hydrocarbon exports was 8% down in the first seven months of the year, owing to reduced sales to Brazil. Other export categories grew by 30% in January-July, compared to the same period in 2015, thanks to a recovery in the prices and volumes of several products related to mining and soya. Imports fell by 14% in the same period, mainly owing to a reduction in purchases of intermediate inputs (-20%) and capital goods (-15%).

The current account deficit has been mitigated by a smaller gap on the income account and an increase in transfers (up by 7% in the first half of 2016), which substantially underpin domestic consumption.

Net flows of foreign direct investment (FDI) have slackened sharply since early 2014, and in the first half of 2016 they were 60% down on the year-earlier period, mainly owing to reduced reinvestment of profits.

If these trends continue, the current account deficit can be expected to moderate to around 5% of GDP.

For 2017, the external scenario is somewhat more favourable in terms of the prices of the main export products, which would make it possible to reduce the current account gap.

Economic activity continues to generate one of the region's highest growth rates, although the pace has slackened since the start of the year. As of June, cumulative GDP growth over four quarters was 4.2%. The sector reporting the highest four-quarter growth rate is public administration, at 8.8%. Low interest rates, increased liquidity and the promotion of credit to the production and low-income housing sectors, in the framework of the Financial Services Act, are in line with the growth of the financial and construction sectors, of 7.1% and 6%, respectively. Construction has been further boosted by public investment projects. Most sectors have performed positively in the year to date, except for mining, which has flatlined, and the natural gas and oil sector, which had shrunk by 2.7% as of June this year. Softer Brazilian demand for Bolivian natural gas, and maintenance works on the Margarita field, explain the lower level of hydrocarbons production.

Plurinational State of Bolivia: main economic indicators, 2014-2016

	2014	2015	2016 ^a
Annual growth rate			
Gross domestic product	5.5	4.8	4.0
Per capita gross domestic product	3.8	3.2	2.4
Consumer prices	5.2	3.0	3.5 ^b
Real average wage ^c	1.5	6.6	...
Money (M1)	15.4	9.4	10.6 ^d
Real effective exchange rate ^e	-6.5	-10.8	-7.6 ^b
Terms of trade	-15.4	-18.6	-5.4
Annual average percentage			
General government			
Overall balance / GDP	-2.5	-4.5	...
Nominal deposit rate ^f	1.1	0.5	0.5 ^g
Nominal lending rate ^h	6.5	6.4	6.2 ^g
Millions of dollars			
Exports of goods and services	14,041	9,915	8,191
Imports of goods and services	12,911	11,814	10,413
Current account balance	478	-1,854	-1,718
Capital and financial balance ⁱ	454	233	-565
Overall balance	932	-1,620	-2,283

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

a/ Estimates.

b/ Figures as of September.

c/ Private-sector average wage index.

d/ Figures as of July.

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

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

g/ Figures as of October.

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

i/ Includes errors and omissions.

Public consumption has been the main driver of domestic demand, growing by 9% over four quarters. Nonetheless, gross fixed capital formation has slowed sharply, and in June it was reporting a cumulative four-quarter variation of just 1%.

The economy is set to expand by 4.0% in 2016 as a whole, but next year's growth is likely to be hindered by budget constraints that could to some extent curb public consumption and investment, which have been the twin pillars of the Bolivian economy.

Inflation has gradually eased throughout 2016. Food products, which have the greatest weight in the consumer price index (CPI) basket, have been somewhat volatile, mainly owing to problems caused by drought. Nonetheless, the cumulative rise in the CPI to October was 3.27%, and the 12-month inflation stood at 3.5%.