PLURINATIONAL STATE OF BOLIVIA

1. General trends

In 2018, the Bolivian economy reprised its previous-year expansion of 4.2%. The pace of growth slackened, however, in the second half of the year, in line with the trend of natural gas production, which collapsed in the last quarter as the gas fields currently being exploited showed signs of depletion. Nonetheless, the strong agricultural season, together with fiscal, monetary and sector promotion policies, supported growth in manufacturing, agriculture, public administration and financial institutions, and this kept GDP growth at the same level as in 2017. The stronger economic expansion in the first half of the year made it possible to pay the second bonus wage (*aguinaldo*),[1] which stimulated consumption. The latter variable had the greatest impact on total spending, since investment gradually lost the momentum it displayed in 2017, revealing the existence of challenges in the execution of public investment.

Accordingly, there was a decrease in capital spending by the non-financial public sector (NFPS); but this was more than offset by an increase in current expenditure, causing the fiscal deficit to widen to 8.2% of GDP in 2018, the largest in the last five years. Higher oil prices during the year had less of an impact on fiscal revenues,[2] since gas production was down. The corresponding reduction in gas exports, compounded by lacklustre mining sales, also affected the external accounts, which were further undermined by lower worker remittances from abroad, resulting in a current account deficit of 4.9% of GDP in 2018. These fiscal and external deficits, together with a reduction in capital inflows to the Bolivian economy, caused a drain on reserves, which dropped from the equivalent of 27% of GDP in 2017 to 22% in 2018.

An NFPS fiscal deficit of 6.9% of GDP is programmed for 2019, but this could prove ambitious owing to the likely adverse effects on fiscal income and the external accounts of lower commodity prices and reduced gas production. The current account deficit could thus widen further, and the economy can be expected to continue shedding reserves during the year. Fiscal, monetary and sectoral policies are expected to continue underpinning the growth of economic activity; and investment, especially in the electric power sector, should boost output, which is forecast to grow by 4% in 2019. Major challenges for this year include the execution of public investment and the complications posed by the natural gas industry, in terms of both extraction and the renewal of sales contracts.

2. Economic policy

(a) Fiscal policy

The NFPS fiscal deficit has been growing over the last five years and stood at 8.2% of GDP at end-2018, compared to 7.8% a year earlier. Fiscal income grew to 42% of GDP (40% in 2017) but a long way from the 49% achieved in 2014. Tax revenues remained stable relative to their 2017 level, around 18% of GDP, while hydrocarbon revenues increased slightly thanks to the recovery of oil prices in 2018, to represent 13.6% of GDP, up from 12.9% in the previous year. Over the past five years, however,

[1] The second bonus, which is known as “The Effort” in Bolivia, was introduced in 2013 as a benefit to be provided to workers when annual GDP growth exceeds 4.5% (as calculated for the 12-month period up to September of each year). The bonus was paid in 2013, 2014, 2015 and 2018.

[2] WTI oil is the parameter used in gas sales contracts to Argentina and Brazil.

hydrocarbon revenues have been eroded by both declining natural gas production and lower oil prices. As a result, revenues were well below the levels reached in 2013, of around 24% of GDP. While total expenditure has been contained, dropping from 48% of GDP in 2017 to 47% in 2018, this has been based on lower capital expenditures, as current spending rose to 34% of GDP, from the 2017 level of 32%. The impact of the payment of the second bonus on wages partly explains the rise in current expenditure. The deficit was financed mainly with domestic credit (which in late 2018 represented 6.3% of GDP) and to a lesser extent externally (1.9% of GDP). As a result, the external debt remained stable around the previous year's level, equivalent to 25.1% of GDP as of 31 December 2018. As a result, external assets, including international reserves, fell by 13% in 2018, to reach a level equivalent to 27% of GDP; and they have continued to decline in 2019, such that in May they were down by 8% on their end-2018 level.[3]

The Bolivian authorities are implementing the Economic and Social Development Plan 2016–2020, with a view to maintaining the policies and strategies launched in 2006 to improve the distribution of wealth and expand and diversify the country's production matrix. The government plays a central role in this through public investment and social programmes. Accordingly, a fiscal deficit had been foreseen, to be financed mainly with domestic funds; but the Plan was expected to generate future surpluses as a result of the industrial exploitation of natural resources. Nonetheless, the projects in question have not yet generated sufficient income to help reduce the fiscal deficit; and the 2019 General State Budget Law (PGE) is projecting a shortfall of 6.9% of GDP. Public investment totalling US$ 6.510 billion has been programmed for 2019, compared to the previous year's executed investment of US$ 4.458 billion (77% of the budgeted amount).[4] In the first quarter of 2019, public investment totalling US$ 630 million was undertaken in the Plurinational State of Bolivia, according to figures from the Ministry of Development Planning, equivalent to almost 10% of the total amount budgeted for the year. Given the fiscal revenue impact of reductions in both the price of gas for export and the volume produced, the fiscal deficit could be larger than programmed.

(b) Monetary policy

In 2018 the monetary authority persevered with its policy of low interest rates and striving to maintain liquidity, which was partly hampered by the effect that the loss of reserves had on the monetary base. Liquidity was injected into the system by buying back securities and further reducing the legal reserve ratio in foreign currency. The resources in question were used to create a fund to provide credit to the production sector and for social housing. This fuelled an increase in credit flows in the financial system. Despite the measures adopted, the interest rate on deposits rose steadily in the first part of the year, so the monetary authority altered the formula for calculating its benchmark rate, as a result of which both levels and volatility were significantly reduced from June 2018 onwards. As a result, the benchmark rate settled around 2.5% and, consequently, the deposit rate stabilized around 3%.

In 2019, the growth of deposits in the financial system has been slackening; so, in March, the Financial System Supervisory Authority (ASFI), in coordination with the Ministry of Economy and Public Finances and the Central Bank of Bolivia (BCB), approved the implementation of three instruments that aim to inject liquidity into the financial system. The first of these measures involved lowering the ceiling on financial institutions' investment abroad from 25% of their regulatory capital to 15%. This move is expected bring back US$ 107 million out of a total of US$ 734 million that banks hold in the international

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3 During the commodity super-cycle, the Bolivian economy accumulated substantial amounts of funding as external buffers. These consisted of international reserves and other external assets held in various funds, such as the Liquid Assets Requirement Fund (RAL), the Savings Protection Fund (FPAH) and the Insuree Protection Fund (FPA), which between them grew to the equivalent of 58% of GDP in 2012 and 2013.

4 Executed public investment has been less than 80% of the amounts planned since 2015.

financial market. The second measure consists in reducing the foreign investment limit for new investment funds managed by Sociedad Administradora de Fondos de Inversión, from 25% to 5%. The third measure involved the central bank entering the stock market to purchase public sector securities held by private investors, such as banks and pension fund managers.

(c) Exchange-rate policy

On the foreign-exchange front, the central bank maintained its policy of fostering stability, which favoured low levels of inflation. The consumer price index (CPI) rose by just 1.51% in 2018, benefiting from the abundant agricultural harvest, which helped keep food and beverage prices low. From January to May 2019, inflation has remained low, and the CPI posted a cumulative increase of 0.7% and a year-on-year rise of 1.58%.

Steep depreciations among the currencies of some of Bolivia's trading partners in 2018, mainly Argentina (70%) and Brazil (14%), resulted in a 6.1% reduction in the real exchange-rate index during the year, bringing the cumulative real appreciation of the boliviano over the last five years to 25%, according to figures from the Economic Commission for Latin America and the Caribbean (ECLAC). This trend has persisted in the first four months of 2019, and there has been an appreciation of 2.7% relative to the average index for 2018.

3. The main variables

(a) Economic activity

In 2018, the Bolivian economy grew by 4.2%, equal to the previous year's expansion. The pace of growth slackened, however, in the second half of the year. In June 2018, cumulative annual GDP growth stood at 4.8%, which made it possible to pay the second bonus wage, which boosted consumer spending. Consumption contributed 3 percentage points to the overall growth rate, thereby underpinning the GDP expansion in conjunction with the external sector. In 2017, exports had detracted from growth (-1.4%), before again making a positive contribution in 2018 (1.3%), whereas the negative contribution of imports decreased from -1.7% in 2017 to -0.6% in 2018. In the case of investment, vigorous growth of 11.8% in 2017 slackened to just 3.2% in 2018, owing to weaker performances in both public and private investment.[5] As a result, its contribution to GDP growth fell to 0.7% in 2018 from 2.5% in the previous year.

A sector-by-sector analysis shows that the largest contributors to economic growth in 2018 were manufacturing (which expanded by 5.5%), agriculture (+6.9%), public administration (+6.8%) and financial institutions (+5.3%). The growth of these sectors was supported by the introduction of new chemical products, such as urea and anhydrous alcohol; the expansion of cement production; the strong agricultural season; monetary policy stimulus; continued implementation of the Financial Services Act and sectoral development policies. At the same time, the negative contribution of hydrocarbons to GDP growth increased to -0.5% in 2018 from the previous year's -0.2%, as a result of the steep fall in production over the last five years. In 2018, output averaged 51.5 million cubic metres per day, one of the lowest levels since the 61.3 million cubic metres per day of 2014, since when production has declined steadily. In the last quarter of 2018 gas production was 24% lower than a year earlier, owing to less demand from Brazil and Argentina and problems on the production side. The latter reflected the apparent exhaustion of the gas fields in operation, and resulted in the State-owned Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) being fined in 2019 by the Brazilian oil company Petrobras for its failure to fulfill contracted natural gas

[5] In 2018, the public sector accounted for 65% of total investment.

shipments.[6] Low levels of gas extraction not only mean a smaller contribution to growth, but also reduced export earnings and lower tax revenues (royalties and revenues from the direct tax on hydrocarbons). An additional concern is that the contract with Petrobras for the sale of gas to Brazil ends in 2019, and the conditions for its renewal are currently being negotiated. In the mining sector, which had traditionally played a key role in the Bolivian economy, growth has been meagre. This sector is facing institutional challenges that have restricted its growth. On the other hand, major investments are being made in the energy sector, particularly in electric power generation and transmission, which will have a positive impact on output in 2019. Lastly, there are good prospects for the extraction and industrialization of lithium, for which the authorities have invested in pilot plants for the production of lithium carbonate and have signed agreements and contracts with German and Chinese firms. This involves an investment of around US$ 3.6 billion not only in the production of lithium, but also in its industrialization, which will make it possible to manufacture lithium batteries on a large scale.

(b) The external sector

In 2018, the Bolivian economy posted a current account deficit similar to that of the previous year, equivalent to 4.9% of GDP; but as both foreign direct investment (FDI) and portfolio and other investment flows were lower, the stock of reserves fell by 13% from the 2017 level. The central bank's net international reserves have been retreating from their 2012 peak of 51% of GDP; and by December 2018 they had fallen to 22% of GDP. Reserves have continued to dwindle in 2019 thus far; and in May they were 7% lower than in December 2018.

The recovery in the price of oil and, hence, in gas sale prices allowed for a slight improvement in the terms of trade during 2018, which helped to reduce the trade deficit (US$ 475 million, compared to the previous year's US$ 516 million gap). Nonetheless, the decline in gas exports, which became more accentuated in the last quarter of the year, restricted the growth of total exports to 9.5% in 2018. Goods imports increased by 7.8% in 2018, led by purchases of intermediate goods (up by 13.6%), followed by capital goods (+7.5%), while imports of consumer goods were down by 3%.

In 2018, remittances from abroad declined by 10%, owing to a 20.5% reduction in remittances from Argentina and a 16.0% drop in those from Brazil. As of March 2019, family remittances were reported as being down by a cumulative US$ 330 million, in other words 5.4% less than in the year-earlier period. Argentina, Brazil and Spain are among the countries that recorded the largest reductions, representing 57.9% of remittances received, with Spain accounting for the largest share (43.0%). Remittances from workers abroad make a substantial contribution to household consumption: in 2018 they were equivalent to over 3% of GDP, double the contribution recorded in the other Andean countries (around 1.5%).

Figures published by the National Institute of Statistics (INE) for the first quarter of 2019 show exports down by 6.5% relative to the same period in 2018, owing to a 20% drop in foreign sales of the minerals group, which have been hit by lower international prices in this period —20% lower in the case of zinc and lead, and 7% in the case of silver. The drop in the price of oil in conjunction with the reduction in gas extraction resulted in an 8% fall in hydrocarbon exports in the first quarter of 2019. In contrast, an increase in exports of metallic gold (by 12.6%) and soybeans (7.9%) partially offset the weak performance of other exports. Imports, on the other hand, were up by 4.3% in the first three months of 2019, on the back

[6] On March 26, 2019, Petrobras fined YPFB for failing to ship natural gas to Brazil for ten months (nine months in 2018 and again in February 2019) according to the volumes established in the Gas Supply Agreement signed in 1996 by both state-owned companies, which is set to end in 2019. In 2016 the public company Energía Argentina S. A. (Enarsa) had previously fined YPFB for failing to make gas shipments.

of increased purchases of industrial supplies (6.6%), fuels (80%) and non-food consumer goods (4.9%). Conversely, imports in other categories have fallen —capital goods by 18.7%, transport equipment by 10.6% and food and beverages by 2.0%. If exports and remittance flows to the Bolivian economy continue to weaken, the current account deficit is likely to widen in 2019.

(c) Wages and employment

Maintenance of the growth rate in the economy has brought down unemployment. According to the results of the Continuous Employment Survey conducted by INE and published in June 2019, in the fourth quarter of 2018 unemployment in the urban area stood at 4.27%, down from 4.5% a year earlier. Moreover, the gap between the male and female unemployment rates in the urban area has narrowed. In the last quarter of 2018, the rate among men was 4.2%, compared to 4.5% for women, whereas the gap was 0.7 percentage points in the same quarter of 2017.

Wage policy continued to drive above-inflation wage increases. The national minimum wage rose by 3% to 2,060 bolivianos (US$ 296) in 2018; and a further 3% increase was approved in May 2019, raising it to 2,122 bolivianos (US$ 305).

Lastly, it is important to note that significant progress has been made in reducing poverty, through public investment in social projects, transfer policies,[7] higher wages, lower unemployment and higher incomes among rural workers as a result of the good agricultural performance. According to INE figures, the extreme poverty rate was 15.2% in 2018 — a reduction of 23 percentage points from the 38.2% recorded in 2005.

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7 The “Bono Juancito Pinto” subsidy programme and the “Juana Azurduy” mother-child subsidy programme have been created to support the most vulnerable population groups, along with the “Renta Dignidad” universal old-age income programme.

Table 1
PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	4.1	5.2	5.1	6.8	5.5	4.9	4.3	4.2	4.2
Per capita gross domestic product	2.4	3.5	3.4	5.1	3.8	3.2	2.7	2.6	2.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-1.2	3.1	4.1	4.7	3.8	5.1	3.1	7.6	6.9
Mining and quarrying	4.0	5.2	4.9	9.0	5.9	-1.4	-0.5	-0.6	-3.4
Manufacturing	2.6	3.7	4.7	6.1	4.0	4.6	6.2	3.3	5.5
Electricity, gas and water	7.3	7.3	5.8	5.1	6.4	6.3	5.3	4.0	3.4
Construction	7.5	8.0	8.0	10.6	7.8	5.4	7.8	5.0	3.5
Wholesale and retail commerce, restaurants and hotels	3.8	3.4	3.7	3.8	3.9	4.3	4.4	5.1	5.0
Transport, storage and communications	8.0	6.1	2.7	6.7	5.0	5.3	5.7	5.2	4.4
Financial institutions, insurance, real estate and business services	5.6	3.5	9.9	6.8	6.0	6.1	7.9	4.8	5.3
Community, social and personal services	3.6	5.1	5.1	7.6	6.1	7.8	4.3	4.6	6.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.9	5.5	4.6	6.4	5.6	5.8	3.1	4.8	4.4
Government consumption	3.1	7.2	4.9	9.3	6.7	9.2	1.6	4.9	5.1
Private consumption	4.0	5.2	4.6	5.9	5.4	5.2	3.4	4.7	4.3
Gross capital formation	7.1	25.9	-6.6	16.0	12.5	0.8	9.9	15.9	-0.5
Exports (goods and services)	9.9	4.6	13.3	4.1	10.9	-5.9	-5.7	-5.0	5.2
Imports (goods and services)	11.0	17.0	4.3	8.2	15.1	-5.4	-4.2	5.6	1.9
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	17.0	19.8	17.7	19.0	21.0	20.3	21.1	22.2	20.6
National saving	20.9	20.1	24.9	22.5	22.8	14.4	15.4	17.2	15.7
External saving	-3.9	-0.3	-7.3	-3.4	-1.7	5.9	5.6	5.0	4.9
Balance of payments	**Millions of dollars**								
Current account balance	766	77	1 970	1 054	570	-1 936	-1 907	-1 871	-1 990
Goods balance	812	431	2 676	2 319	2 916	-388	-901	-516	-475
Exports, f.o.b.	6 402	8 358	11 254	11 657	12 810	8 684	7 030	8 105	8 879
Imports, f.o.b.	5 590	7 927	8 578	9 338	9 894	9 072	7 931	8 621	9 354
Services trade balance	-263	-369	-342	-627	-1 829	-1 592	-1 613	-1 679	-1 790
Income balance	-864	-1 161	-1 629	-1 908	-1 698	-1 127	-621	-1 060	-975
Net current transfers	1 081	1 175	1 266	1 270	1 181	1 171	1 228	1 385	1 251
Capital and financial balance d/	157	2 083	-258	67	362	316	-1 139	1 638	760
Net foreign direct investment	672	859	1 060	1 750	690	556	246	633	344
Other capital movements	-514	1 224	-1 318	-1 682	-328	-241	-1 385	1 006	416
Overall balance	923	2 160	1 712	1 122	932	-1 620	-3 046	-232	-1 229.5
Variation in reserve assets e/	-923	-2 160	-1 712	-1 122	-932	1 620	3 046	232	1 229.5
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	89.7	89.8	87.0	81.5	74.9	65.6	62.6	64.8	60.6
Terms of trade for goods (index: 2010=100) g/	100.0	118.1	112.3	100.4	95.1	76.9	66.5	76.9	82.9
Net resource transfer (millions of dollars)	-707	923	-1 888	-1 840	-1 336	-811	-1 760	578	-215
Total gross external debt (millions of dollars)	6 050	6 553	6 954	8 078	8 842	9 796	10 703	12 687	12 382
Employment h/	**Average annual rates**								
Labour force participation rate	...	65.9	61.2	63.4	65.8	61.0	66.0	67.4	70.8
Open unemployment rate i/	...	3.8	3.2	4.0	3.5	4.4	4.7	5.1	4.9

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	7.2	6.9	4.5	6.5	5.2	3.0	4.0	2.7	1.5
Variation in nominal exchange rate (annual average)	-0.2	-1.0	-0.5	-0.1	-0.1	-0.1	0.1	0.1	0.0
Variation in average real wage	3.5	-1.8	1.1	1.1	1.5	5.7	1.7	1.8	...
Nominal deposit rate j/	0.4	0.5	0.5	0.7	1.1	0.5	0.5	1.4	2.1
Nominal lending rate j/	5.2	6.3	6.7	7.0	6.5	6.4	6.2	6.0	6.4
General government	**Percentages of GDP**								
Total revenue	30.8	32.8	35.0	36.7	37.7	36.1	31.3	29.3	...
Tax revenue	18.0	20.0	20.9	21.7	22.3	23.2	21.6	19.7	...
Total expenditure	30.9	33.9	33.2	35.4	40.2	40.6	34.6	34.3	...
Current expenditure	20.9	21.8	22.4	21.8	23.6	26.8	22.5	22.3	...
Interest	1.5	1.0	0.9	0.6	0.8	0.9	0.6	0.7	...
Capital expenditure	9.9	12.1	10.8	13.5	16.6	13.7	12.1	12.0	...
Primary balance	1.4	-0.2	2.7	2.0	-1.7	-3.6	-2.8	-4.4	...
Overall balance	-0.1	-1.1	1.8	1.4	-2.5	-4.5	-3.4	-5.0	...
Central government public debt	34.6	34.5	29.1	28.4	27.7	29.5	31.4	34.4	36.0
Domestic	23.3	19.2	15.9	13.3	12.6	12.4	12.7	12.0	13.4
External	11.4	14.6	13.3	15.1	15.1	17.1	18.7	22.4	22.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	44.4	44.9	48.7	51.5	55.3	65.5	75.8	78.2	81.8
To the public sector	8.7	8.5	10.1	11.1	12.0	14.5	17.3	18.5	19.5
To the private sector	35.7	36.3	38.5	38.7	43.2	51.0	58.6	59.7	62.2
Monetary base	23.6	25.1	26.0	24.4	26.9	31.4	26.9	26.8	26.1
Money (M1)	23.1	22.3	23.7	23.8	25.4	27.1	26.8	25.6	24.6
M2	40.5	43.3	50.0	53.2	58.9	69.2	69.4	70.4	70.2
Foreign-currency deposits	19.1	15.3	12.8	10.9	10.0	10.5	9.7	8.6	7.7

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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ New measurements have been used since 2016; the data are not comparable with the previous series.
i/ Urban total.
j/ Bank operations (61-90 days), in local currency.

Table 2

PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	3.3	3.8	4.3	5.2	4.9	4.8	4.0	3.3	...	...
Gross international reserves (millions of dollars)	9 968	10 198	10 313	10 275	9 999	9 628	9 022	8 731	8 382	8 326
Real effective exchange rate (index: 2005=100) c/	64.1	65.3	65.0	65.0	64.7	62.0	58.1	57.8	58.2	57.7 d/
Consumer prices (12-month percentage variation)	3.3	1.8	3.6	2.7	2.7	3.2	0.9	1.5	1.1	1.7 d/
Average nominal exchange rate (bolivianos per dollar)	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	0.7	1.5	1.1	2.2	2.1	2.0	1.4	2.8	2.0	2.5 d/
Lending rate e/	5.7	5.8	6.2	6.4	6.4	6.2	6.3	6.6	6.7	5.0 d/
Monetary policy rates	2.5	2.1	2.5	2.5	2.5	2.2	2.5	2.5	2.5	2.5 d/
Domestic credit (variation from same quarter of preceding year)	19.4	16.8	16.3	15.5	14.2	14.2	13.7	12.7	...	...

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/ Quarterly average, weighted by the value of goods exports and imports.
d/ Figures as of May.
e/ Bank operations (61-90 days), in local currency.

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