

PLURINATIONAL STATE OF BOLIVIA

1. General trends

According to official estimates, the economy contracted by 8.0% in 2020. This sharp drop, larger than the average for Latin America and the Caribbean, reflects the economic impact of the measures adopted to address the health crisis, which compounded the complex political and social landscape prompted by the presidential elections held in late 2019. Considering the relatively limited public policy space, and that the vaccination campaign has been hampered by vaccine access complications, the Economic Commission for Latin America and the Caribbean (ECLAC) projects growth of about 5.1% for 2021.

In the light of weak final consumption demand, average annual inflation in 2020 was just 0.9% (compared with 1.8% in 2019), and despite the recovery in economic activity forecast for 2021, cumulative inflation up to May was just 0.3%, slightly lower than the 0.4% recorded in the year-earlier period.

As a result of the collapse in revenues, the non-financial public sector deficit in 2020 increased by 5 percentage points from the level seen in 2019, to 12.3% of GDP. The rise in the deficit was financed mainly through credit granted by the Central Bank of Bolivia to the National Treasury. For 2021, the fiscal programme is targeting a reduction in the non-financial public sector deficit to 9.7% of GDP.

In 2020, medium- and long-term public external debt increased by nearly US\$ 900 million to US\$ 12.2 billion, with a present value equivalent to 30.9% of GDP. Although the balance and composition of the country's debt are within sustainability thresholds, all three major credit rating agencies downgraded their ratings and categorized this debt as highly speculative.

As regards the external sector, the balance-of-payments current account deficit was reduced from 3.4% of GDP in 2019 to 0.5% of GDP in 2020. This relative improvement stems from the sharp contraction in imports of intermediate and capital goods. The recovery in domestic demand, coupled with still-fragile external demand, is expected to result in a deterioration in the current account balance in 2021.

2. Economic policy

(a) Fiscal policy

While the fiscal plan originally adopted for 2020 envisaged a reduction in the non-financial public sector deficit equivalent to 1.5% of GDP, the health crisis prompted a more moderate fiscal policy stance. As a result, the primary deficit, which in 2019 was equivalent to 6.3% of GDP, rose to 11.2% of GDP in 2020. This is mainly because of the 20.7% drop in total revenues in real terms, which was only partially offset by the 7.8% reduction in total spending.

The decline in current revenues, equivalent to more than 5 percentage points of GDP, derives from a 24.1% drop in tax revenues in real terms, owing to the collapse in economic activity prompted by coronavirus disease (COVID-19) pandemic restrictions and weaker revenues from hydrocarbon activities (down 14.1% in real terms) and from other businesses (down 36.8%).

Although total spending remained relatively constant at around 45% of GDP, this was at the cost of a sharp contraction in capital spending, which plummeted 47.4% in real terms, and allowed current spending to increase by 4.6% in real terms. The growth in spending mainly involved current transfers, which rose from 4.7% of GDP in 2019 to 8.5% of GDP in 2020.

As of November 2020, the government headed by Luis Arce introduced a series of measures aimed at reactivating both demand and supply of goods and services. One example of the stimulation of demand is the *Bono Contra el Hambre*, which consists of a transfer of 1,000 bolivianos to low-income households and which, according to official estimates, has benefited nearly four million families, thanks to a disbursement equivalent to 1.5% of GDP. A value added tax (VAT) refund was also implemented, for up to 5% of purchases by people with incomes of up to 9,000 bolivianos (equivalent to about US\$ 1,300). In addition, measures to boost the supply of goods and services include lending at rates of 0.5% to encourage import substitution, and the announcement of public investment projects worth US\$ 4 billion in 2021.

The deficit reduction in 2021 is expected to be driven mainly by higher tax revenues as economic activity recovers. This is expected to be complemented by the introduction of a tax applicable to natural persons whose assets exceed 30 million bolivianos, at a maximum rate of 2.4%.

The public sector's financing needs were covered through liquidity loans (15 billion bolivianos) and emergency loans (8.8 billion bolivianos) from the central bank. Total non-financial public sector debt is estimated to have represented close to 79% of GDP at the end of 2020, up sharply from 59.1% of GDP at the end of 2019.

(b) Monetary policy

In 2020, the central bank strengthened its expansionary monetary policy stance, especially through unconventional instruments, including the following.

In order to maintain adequate liquidity in the financial system, the placement of monetary regulation securities in open market operations was reduced from 100 million bolivianos at the end of 2019 to just 20 million bolivianos as of September 2020. This complemented the inclusion of time deposits as collateral for repurchase agreements in the interbank market.

To increase the availability of loanable funds, the central bank purchased securities from the National Treasury held by pension fund managers from March 2020 onward. Moreover, in June the foreign currency legal reserve requirement was lowered, while the percentage of funds held in trust denominated in local currency was increased.

Despite the volatility over the course of the year, nominal lending rates generally trended slightly downward. The nominal corporate lending rate fell from 6.23% at the beginning of the year to 5.66% in December. During the same period, nominal deposit rates remained relatively constant at around 2%. While the M2 monetary aggregate increased by 10.8% in nominal terms over the year after having contracted by 7.0% in 2019, loans granted to the private sector grew by 9.1% over the same period, slightly below the 10.1% recorded in 2019.

(c) Exchange-rate policy

The boliviano remained pegged to the dollar in 2020. Given the depreciation of the latter against the currencies of the Plurinational State of Bolivia's main trading partners, the real effective exchange rate is estimated to have depreciated slightly in 2020.

Net international reserves fell by US\$ 1.192 billion in 2020 and stood at US\$ 5.276 billion at the end of the year. These reserves benefited from both the revaluation of gold assets and the US\$ 327 million deriving from the Rapid Financing Instrument of the International Monetary Fund (IMF), which was requested by the previous government and ended up being rejected by the legislative assembly.

Net international reserves declined from 15.7% of GDP to 13.8% of GDP. Although the import cover of goods and services rose from 6.5 to 7.7 months, this mainly reflects the deep contraction in the value of monthly imports.

(d) Other policies

Although the transitional government called general elections in May 2020, the health emergency meant that they were postponed, initially to the first week of August. A further postponement until October triggered a series of protests in August. Luis Arce, of the Movement Towards Socialism (MAS), was elected in the first round and took office in early November 2020. MAS representatives maintained a simple majority in both houses of the Plurinational Legislative Assembly.

3. The main variables**(a) The external sector**

The reduction in the current account deficit equivalent to 3 percentage points of GDP mainly reflects the sharp contraction in goods imports (down 28.4%) because of the strict quarantine imposed as a result of the health crisis and the suspension of investment projects. The most affected items were imports of intermediate goods (down 28%) and capital goods (down 33.2%). Although goods exports dropped sharply (by 21.4%), driven by lower exported volumes of minerals and the sharp decline in international hydrocarbon prices, the trade balance reflected a surplus of US\$ 450 million, which contrasts with the deficit of US\$ 236 million recorded in 2019.

The deficits in the services account (3.1% of GDP) and the primary income account (1.4% of GDP) narrowed slightly owing to the impact of the pandemic on the transport and travel sector in the case of the services account, and losses incurred by foreign companies in the case of the primary income account. The surplus in the secondary income account (2.8% of GDP) fell slightly, owing mainly to the effect of COVID-19 on workers' remittances, which fell by 15.4% to US\$ 1.116 billion.

The financial account recorded a reduction in foreign direct investment liabilities, i.e., a net disinvestment of close to US\$ 1 billion, which mainly affected the mining sector, and a similar increase in deposits of Bolivian individuals abroad. This was partially offset by a US\$ 629 million reduction in portfolio investment assets, which meant a US\$ 1.752 billion drop in reserve assets.

Up to May 2021, external sector figures point to a recovery in goods exports, driven mainly by external demand for industrial supplies. However, although imports picked up pace, this mainly reflects the

impact of price trends on imports of intermediate goods and, to a lesser extent, greater demand for consumer goods, since imports of capital goods are virtually stagnant.

(b) Economic activity

There is a significant lag in the publication of data on recent economic trends. At the close of the first half of 2021, national accounts data were only available up to the second quarter of 2020 and figures for the overall indicator of economic activity (IGAE) were only available up to November of the same year.

After a year-on-year decline of up to 26.6% in April 2020, the annual average growth of the IGAE points to a decrease in economic activity of around 8.0% for 2020 as a whole. The most affected activities were the following: crude oil and natural gas (down 5.1%), as a result of the slump in demand both domestically and in key markets, particularly Brazil; mining (down 29.9%), which was affected by the suspension of operations in some companies in the sector; construction (down 27.2%), owing to the standstill in public investment; and transport and storage (down 16.5%). Although there are no updated figures for the components of demand, household consumption and investment appear to have been the hardest hit, with that impact partially offset by net exports.

The growth projection for 2022 (3.5%) is subject to the trend in different variables, including both external demand and domestic demand, which will in turn depend on the vaccination process and possible resurgence of COVID-19, and on the implementation of the public investment plan.

(c) Wages and employment

The deceleration in consumer price trends derived from the deflation in the prices of food and non-alcoholic beverages (down 0.7%, compared to an increase of 3.4% at the end of 2019), which offset the price increases recorded in some divisions, including health, where average annual inflation rose from 2.6% at the end of 2019 to 5.4% at the end of 2020. According to official estimates factoring in stronger demand, inflation of around 2.6% is projected for 2021.

As a result of the suspension of activities, the labour participation rate in urban areas fell from 69.3% in January 2020 to 58.6% in May 2020 and the participation rate among women fell from 61.2% at the beginning of 2020 to 52.6% in July 2020. Although the participation rate recovered in the second half of 2020 and stood at 71.0% overall (63.2% for women) at the end of the year, over the course of 2020, the unemployment rate increased by 3.4 percentage points and ended the year at 8.2%. The underemployment rate, which at the end of 2019 was 4.3%, climbed to 12.6% by the end of 2020. In both cases, the gender-disaggregated figures show that the crisis has weighed more heavily on women.

With regard to wages, the minimum wage remained unchanged in 2020 compared to the previous year owing to the lack of consensus, while average nominal private sector wages contracted by 2.2% (down 3.2% in real terms). In May 2021, the national minimum wage was adjusted to 2,164 bolivianos, an increase of just 2.0% in nominal terms compared to the minimum wage in effect as of May 2019.

Table 1
PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	Annual growth rates b/								
Gross domestic product	5.1	6.8	5.5	4.9	4.3	4.2	4.2	2.2	-8.0
Per capita gross domestic product	3.5	5.1	3.8	3.3	2.7	2.7	2.8	0.8	-9.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.1	4.7	3.8	5.1	3.1	7.6	6.9	5.3	3.9
Mining and quarrying	4.9	9.0	5.9	-1.4	-0.5	-0.6	-3.4	-6.3	-21.0
Manufacturing	4.7	6.1	4.0	4.6	6.2	3.3	5.5	3.2	-9.6
Electricity, gas and water	5.8	5.1	6.4	6.3	5.3	4.0	3.4	2.8	-2.8
Construction	8.0	10.6	7.8	5.4	7.8	5.0	3.5	1.9	-43.9
Wholesale and retail commerce, restaurants and hotels	3.7	3.8	3.9	4.3	4.4	5.1	5.0	3.8	-13.0
Transport, storage and communications	2.7	6.7	5.0	5.3	5.7	5.2	4.4	1.6	-10.4
Financial institutions, insurance, real estate and business services	9.9	6.8	6.0	6.1	7.9	4.8	5.3	4.4	-1.4
Community, social and personal services	5.1	7.6	6.1	7.8	4.3	4.6	6.1	4.0	-3.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.6	6.4	5.6	5.8	3.1	4.8	4.4	3.7	-8.1
Government consumption	4.9	9.3	6.7	9.2	1.6	4.9	5.1	3.8	3.0
Private consumption	4.6	5.9	5.4	5.2	3.4	4.7	4.3	3.7	-10.0
Gross capital formation	-6.6	16.0	12.5	0.8	9.9	15.9	-0.5	0.6	-14.0
Exports (goods and services)	13.3	4.1	10.9	-5.9	-5.7	-5.0	5.2	-1.8	-2.5
Imports (goods and services)	4.3	8.2	15.1	-5.4	-4.2	5.6	1.9	1.5	-8.7
Investment and saving c/	Percentages of GDP								
Gross capital formation	17.7	19.0	21.0	20.3	21.1	22.2	20.6	19.9	18.6
National saving	24.9	22.5	22.8	14.4	15.4	17.2	16.3	16.5	18.0
External saving	-7.3	-3.4	-1.7	5.9	5.6	5.1	4.3	3.4	0.5
Balance of payments	Millions of dollars								
Current account balance	1 970	1 054	570	-1 936	-1 907	-1 898	-1 725	-1 398	-206
Goods balance	3 135	2 810	2 916	-388	-901	-547	-362	-236	436
Exports, f.o.b.	11 133	11 539	12 810	8 684	7 030	8 134	8 940	8 819	6 953
Imports, f.o.b.	7 997	8 729	9 894	9 072	7 931	8 681	9 302	9 055	6 517
Services trade balance	-796	-1 118	-1 829	-1 592	-1 613	-1 626	-1 631	-1 449	-1 238
Income balance	-1 629	-1 908	-1 698	-1 127	-621	-1 110	-976	-847	-436
Net current transfers	1 260	1 270	1 181	1 171	1 228	1 385	1 243	1 134	1 033
Capital and financial balance d/	-258	70	362	316	-1 139	1 666	495	-1 441	-1 546
Net foreign direct investment	1 060	1 750	690	556	246	633	387	-265	-996
Other capital movements	-1 318	-1 680	-328	-241	-1 385	1 033	109	-1 177	-550
Overall balance	1 712	1 124	932	-1 620	-3 046	-232	-1 230	-2 839	-1 751.9
Variation in reserve assets e/	-1 712	-1 124	-932	1 620	3 046	232	1 230	2 839	1 751.9
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	87.0	81.7	74.7	65.1	62.0	64.0	60.6	57.1	53.3
Terms of trade for goods (index: 2010=100)	112.3	100.4	95.1	71.2	60.1	66.7	70.9	70.3	69.8
Net resource transfer (millions of dollars)	-1 888	-1 838	-1 336	-811	-1 760	556	-480	-2 288	-1 982
Total gross external debt (millions of dollars)	6 625	7 756	8 543	9 445	10 703	11 702	12 491	13 473	14 205
Employment g/ h/	Average annual rates								
Labour force participation rate	61.2	63.4	65.8	61.0	66.0	67.4	70.8	73.0	67.0
Open unemployment rate	2.3	2.9	2.3	3.5	3.5	3.6	3.5	3.7	7.9

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.5	6.5	5.2	3.0	4.0	2.7	1.5	1.5	0.7
Variation in nominal exchange rate (annual average)	-0.5	-0.1	-0.1	-0.1	0.1	0.1	0.0	-0.1	0.0
Variation in average real wage	1.1	1.1	1.5	5.7	1.7	1.8	3.1	-0.4	-0.3
Nominal deposit rate i/	0.5	0.7	1.1	0.5	0.5	1.4	2.1	2.4	3.4
Nominal lending rate i/	6.7	7.0	6.5	6.4	6.2	6.0	6.4	6.4	6.3
General government	Percentages of GDP								
Total revenue	35.0	36.7	37.7	36.1	31.3	29.3	28.0	27.0	22.1
Tax revenue	20.9	21.7	22.3	23.2	21.6	19.7	19.0	18.4	14.7
Total expenditure	33.2	35.4	40.2	40.6	34.6	34.3	34.0	33.9	34.4
Current expenditure	22.4	21.8	23.6	26.8	22.5	22.3	23.6	24.2	28.8
Interest	0.9	0.6	0.8	0.9	0.6	0.7	0.8	0.8	0.9
Capital expenditure	10.8	13.5	16.6	13.7	12.1	12.0	10.4	9.7	5.5
Primary balance	2.7	2.0	-1.7	-3.6	-2.8	-4.4	-5.2	-6.1	-11.3
Overall balance	1.8	1.4	-2.5	-4.5	-3.4	-5.0	-6.0	-6.9	-12.2
Central government public debt	29.1	28.4	27.7	29.5	31.4	34.4	36.0	40.4	54.4
Domestic	15.9	13.3	12.6	12.4	12.7	12.0	13.4	15.7	26.3
External	13.3	15.1	15.1	17.1	18.7	22.4	22.6	24.7	28.1
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	48.7	51.5	55.3	65.5	75.8	78.2	81.8	87.8	106.7
To the public sector	10.1	11.1	12.0	14.5	17.3	18.5	19.5	22.1	33.7
To the private sector	38.5	40.4	43.2	51.0	58.6	59.7	62.2	65.7	73.0
Monetary base	26.0	24.4	26.9	31.4	26.9	26.8	26.1	26.6	35.6
Money (M1)	23.7	23.8	25.4	27.1	26.8	25.6	24.6	23.3	28.2
M2	50.0	53.2	58.9	69.2	69.4	70.4	70.2	68.1	81.0
Foreign-currency deposits	12.8	10.9	10.0	10.5	9.7	8.6	7.7	8.4	10.0

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/ New measurements have been used since 2016; the data are not comparable with the previous series.

h/ Nationwide total.

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

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	3.1	2.6	2.2	1.1	0.6	-21.7
Gross international reserves (millions of dollars)	8 382	8 326	7 908	6 586	6 258	6 398	6 536	5 386	4 754	4 624
Real effective exchange rate (index: 2005=100) c/	58.3	57.9	56.6	55.6	55.3	51.8	52.5	53.6	54.1	54.9 d/
Open unemployment rate	4.4	3.5	3.3	3.6	4.2	8.4	10.8	8.4	6.3	...
Employment rate	69.3	70.4	71.1	70.4	70.6	55.8	57.3	63.3	70.6	...
Consumer prices (12-month percentage variation)	1.1	1.7	2.3	1.5	1.4	1.4	0.5	0.7	1.2	0.2
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
Nominal interest rates (average annualized percentages)										
Deposit rate e/	2.0	2.6	2.7	2.3	2.6	3.4	3.1	4.4	3.2	1.5 d/
Lending rate e/	6.7	5.5	6.7	6.5	6.4	6.0	6.5	6.4	8.0 f/	...
Monetary policy rates	2.5	2.5	2.5	2.8	2.8	2.8	2.5	2.0	3.0	5.7
Sovereign bond spread, Embi + (basis points to end of period) g/	280	253	291	218	645	630	622	461	501	481
Domestic credit (variation from same quarter of preceding year)	11.9	11.0	10.1	8.4	8.7	11.9	10.7	12.6

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/ 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.

f/ Figures as of February.

g/ Measured by J.P.Morgan.