

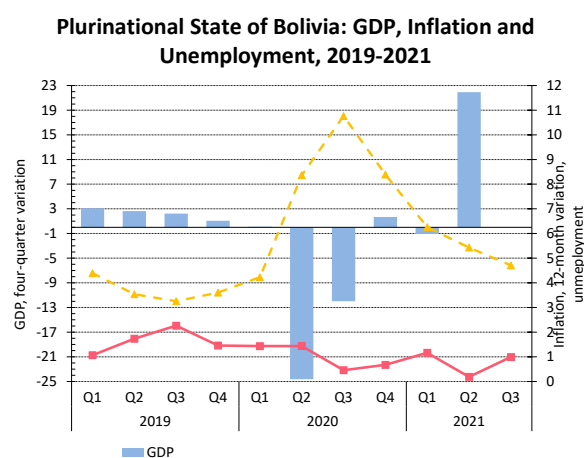
## Plurinational State of Bolivia

In view of the favourable external cycle and the easing of coronavirus disease (COVID-19) control measures, the Economic Commission for Latin America and the Caribbean (ECLAC) expects the Bolivian economy to expand by 5.2% in 2021. In line with the current economic development model, which is intensive in public investment, and the comparatively moderate rebound in fiscal revenues from the hydrocarbon sector, an overall deficit of more than 8% of GDP is expected. Meanwhile, the pace of domestic recovery, which is more restrained than the external one, is expected to result in a positive current account balance of around 0.8% of GDP. The immobility of the nominal exchange rate, the fall in wages, hydrocarbon subsidies and price regulation on some components of the household basket, as well as higher agricultural output seem likely to keep the inflation rate below 2.5% in 2021. Finally, the normalization of production cycles in various sectors and the increase in labour participation is expected to result in unemployment closing the year at around 5.4% and greater job insecurity.

As of the first half of 2021, total revenues of the non-financial public sector (NFPS) grew relative to 2020, reaching 18.5% of GDP (a cumulative increase of 32.1% in real terms). However, that recovery remains partial (88.9%) compared with the same period in 2019. This performance is based on higher current revenues from gas exports, which as of the date of this analysis represented 35.8% of total revenues and were almost on par (99.4%) with pre-pandemic levels. There was more measured growth in tax revenues, which saw a recovery of 83.2%, reflecting a lower collection of the 2020 corporate income tax, a still moderate rebound in private consumption and greater job insecurity.

In terms of government spending, as of the first half of 2021, borrowing needs were higher. Even though Law No. 1356 (2021 General State Budget Law) provided for consolidated current spending 6% lower than in 2020, this spending resumed its expansionary path and amounted to 44,525.3 million bolivianos (16.7% of GDP compared to 15.5% of GDP before the pandemic). Prominent within that expenditure were payments for imports and fuel subsidies, in line with the economic reactivation and downward curves in gas production and gas liquids extraction. Capital expenditure also increased, reaching 8,845.9 million bolivianos (3.3% of GDP) and real growth of 55.3%, with public investment execution at close to 33% in the period under review (30,390 million bolivianos budgeted for 2021).

In the first half of the year, higher revenues from gas sales resulted in a current account surplus equivalent to 1.8% of GDP. However, the increase in capital expenditures led to an overall deficit of 1.5% of GDP. This trend is expected to deepen in the second half of the year owing to the concentration in revenue collection in April and in expenditure in the fourth quarter, a performance expected to result in a current deficit of more than 1% of GDP and an overall deficit in excess of 8% of GDP at the end of 2021.



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

Persistent cash flow requirements are mainly being covered by internal borrowing contracted with the Central Bank of Bolivia (BCB). As of June 2021, total domestic public debt stood at around 30.8% of GDP. Between June 2020 and June 2021, the public external debt balance grew by 17.0% in real terms reaching 31.0% of GDP, of which 92.6% corresponded to the central government.

Despite the higher debt balances, the recovery of exports and GDP produced improved debt sustainability indicators. While the debt-to-GDP ratio declined by 2 percentage points, the debt-to-exports ratio contracted by 8.7 percentage points. Regarding their long-term trajectory, both indicators deteriorated from 14.5% and 34.8%, respectively, in December 2008 to 31.0% and 152.3%, respectively, at present. This fiscal performance, coupled with US\$ 1 billion in sovereign debt scheduled to mature in 2022 and 2023, led Moody's to downgrade its long-term foreign currency outlook from B2 (stable) to B2 (negative) in September 2021.

According to the Economic and Social Development Plan 2021–2025, fiscal imbalances are expected to deepen as public investment is projected at approximately 227,731.4 million bolivianos, with no identified source of financing.

In terms of monetary policy, the low inflation registered so far by the Bolivian economy (0.54% accumulated to October) allowed BCB to continue its expansionary path in 2021, reducing the net balances of open market operations to a historic low of 63.8 million bolivianos as of September 2021 (-56.6% year-on-year). Likewise, the limits on foreign investments by insurance companies were reduced (from 7% to 5%) and on banks' regulatory capital (from 15% to 10%). These and other measures resulted in a total cash legal reserve surplus of 13,153.4 million bolivianos as of September 2021 (a 22.9% increase over 12 months), 77% of which is in local currency. Along the same lines, interbank rates fell from 11.9% in January to 4.6% in September 2021, while in the financial system the reference rate increased 4 basis points over the same period.

As of August 2021, the broader monetary aggregates (M3, M3', M4 and M4'') registered 12-month growth rates of between 4% and 5.5% and denoted a greater public preference for foreign currency. By contrast, the narrowest aggregate showed negative variations based on the evolution of currency in circulation and demand deposits.

With respect to monetary issuance, the balance was 50,483.7 million bolivianos as of September 2021, while its annualized rates of change fluctuated from 13.8% in January to -2.9% as of September. In line with the BCB role as a financier of the non-financial public sector (NFPS), the ratio of issuance to net international reserves rose from 29.1 in December 2008 to 152.3 in September 2021, a fivefold increase.

**Plurinational State of Bolivia: main economic indicators, 2019-2021**

	2019	2020	2021 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	2.2	-8.0	5.2
Per capita gross domestic product	0.8	-10.1	3.8
Consumer prices	1.5	0.7	1.0 <sup>b</sup>
Real average wage <sup>c</sup>	-0.4	-0.3	0.0 <sup>b</sup>
Money (M1)	0.7	5.1	5.0 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-5.8	-6.6	3.7 <sup>b</sup>
Terms of trade	-0.9	-0.7	33.3
	<b>Annual average percentage</b>		
General government			
Overall balance / GDP	-6.9	-13.1	...
Nominal deposit rate <sup>f</sup>	2.4	3.4	2.2 <sup>b</sup>
Nominal lending rate <sup>g</sup>	6.4	6.3	8.0 <sup>h</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	10 262	7 558	10 848
Imports of goods and services	11 947	8 359	10 608
Current account balance	-1 398	-189	426
Capital and financial balance <sup>i</sup>	-1 441	-1 563	...
Overall balance	-2 839	-1 752	...

**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 August.

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

f/ Nominal local-currency rate for 61-90-day operations of the banking system.

g/ Nominal local-currency rate for 61-90-day operations of the financial system.

h/ Figures as of February.

i/ Includes errors and omissions.

At the end of the third quarter, the monetary base stood at 93,112.7 million bolivianos and its largest source of growth on the origin side was net credit to the NFPS, which increased 37.8% over 12 months to a total of 56,172.4 million bolivianos. In second place were loans to the financial and private system (13.2%). These increases were partially offset by the decline in open market operations and net international reserves (down 24% between September 2020 and September 2021). More recently, BCB disbursed 3,018.4 million bolivianos in extraordinary credit to the Ministry of Economy and Public Finance to finance 2020 liquidity loans, which enabled a shift from short- to long-term indebtedness.

In 2021, the nominal exchange rate remained unchanged, a situation that is expected to be maintained as long as the level of net international reserves allows it. According to the multilateral real effective exchange rate index, as of June 2021, the national currency depreciated by 0.25% as a result of the recovery of the Argentine peso and the Brazilian real.

Under this exchange rate regime, it is necessary to finance current account and private capital operations with external loans or net international reserves. Thus, net international reserves continued to decline, recording a year-on-year decrease of 23% as of August 2021.

With regard to the external sector, after six years, the Plurinational State of Bolivia once again recorded sustained monthly surplus trade balances between January and September 2021. This performance was based on a favourable external cycle that stimulated exports (especially from the mining and manufacturing industries), which reached a rate of change of 65.9% in the third quarter. Meanwhile, the still sluggish domestic recovery and limited fiscal room for public investment resulted in import growth of only 31.8%, the lubricants and related products and construction materials being the standout sectors in that regard. The import of capital goods is the category that lagged the most in a context in which foreign direct investment (FDI) was limited to reinvestment of profits, domestic savings were negatively affected and credit growth was subdued.

Primary income was close to triple the 2020 deficit balance owing to the fall in investment income receipts (43.8%) and the recovery in FDI profits (128.9%). In terms of secondary income, as of June 2021, the recovery of economic activity in the main countries where family remittances to the Plurinational State of Bolivia originate resulted in an inflow of transfers 0.4% of GDP higher than that recorded in 2020.

After the high prices registered for soybeans and gold, two of the Plurinational State of Bolivia's traditional export commodities, in May and June, respectively, the trade balance records as of September 2021 showed slight downward corrections, which was compounded by growing fuel imports. These signs could indicate a return to a trade deficit in the near term.

In the period under review, the financial account showed a negative balance owing to the net issuance of liabilities, which was based on the flow of assets in the other investment category and the flow of liabilities in direct investment. The net investment reported by the rest of the world in the country corresponded to the reinvestment of mining and hydrocarbon profits. Reserve assets continued to record declines in the credit balance, although to a lesser extent than in previous years because of foreign currency inflows from exports and remittances.

On an aggregate basis, as of the second quarter of 2021, the balance of payments showed no financing needs, implying a position of net issuer of financial assets.

As for the real sector, since the end of 2013, economic activity in the Plurinational State of Bolivia has shown signs of a progressive slowdown, which was exacerbated by COVID-19 containment measures. Following the adoption of a strict quarantine on 22 March 2020, the country's GDP shrank

by 24.6% in June 2020 compared to the same period in 2019. Over the ensuing quarters, the easing of measures led to a partial reversal of the negative shock and, as of June 2021, the country recorded year-on-year growth of 21.9%, ending a one-year recession. More common indicators, such as the global index of economic activity (IGAE), show that, once the comparative effect of the strict containment measures had been overcome, the pace of expansion faltered and proved insufficient to recover pre-pandemic levels.

On the supply side, the three sectors hardest hit by the mobility restrictions in 2020—mining, construction, and transport and communications—are currently the most buoyant. In terms of contribution, thanks to the greater inflow and outflow of goods, the transport and communications sector led economic growth with 2.5 percentage points, followed by mining (1.8 percentage points) and manufacturing (1.4 percentage points).

On the demand side, exports recorded the highest growth, fuelled by the external cycle. With the public sector having played the role of mitigator in 2020, its spending registered the lowest growth. With respect to the setbacks recorded during the pandemic, investment was the aggregate that lagged the most owing to deaccumulation of inventories and a limited expansion of gross fixed capital formation. In terms of incidence, the leading aggregate was household consumption, although its recovery is still uneven.

As of October 2021, cumulative inflation stood at 0.54%, below the low end of official forecasts. This performance was influenced by supply and demand factors, as well as by economic policy. The continued expansion of agricultural production increased the supply of foodstuffs, especially vegetables, which are usually inflationary. The fall in average labour income and greater job insecurity had a similar effect. Meanwhile, the stability of the national exchange rate amid depreciation rates that outstripped the inflation rates recorded by the main economies from which the Plurinational State of Bolivia imports food helped keep imported inflation low. On top of these policies were fuel subsidies and regulation of the prices of some components of the family food basket.

With the normalization of production cycles in the services, construction and mining sectors, according to the National Statistics Institute (INE),<sup>1</sup> the negative effects of the pandemic on the labour market are thought to have been reversed, although working conditions appear more precarious. The overall participation rate rose from 64.2% in the third quarter of 2020 to 73.6% in the same period in 2021, while the employment rate increased from 57.3% to 69.0% and unemployment fell from 10.8% to 6.3%, owing mainly to self-employment. The average salary is estimated to have fallen by more than 15%, approximately 41,160 million bolivianos on aggregate, which is thought to have prompted a greater number of family members per family unit to join the labour force.

Growth is forecast at 3.2% for 2022, based on structural aspects of the Bolivian economy, as well as reduced room for manoeuvre in fiscal, monetary and financial policy. One of the key real sectors, hydrocarbons, is exploiting fields in deep decline. In another important sector, mining, the reinvestment of profits recorded from FDI limits its productive capacity, negatively affecting the potential expansion of the concentrate-based industry. The sustained expansionary orientation of monetary policy for seven years and the setting of targets for the expansion of the productive and social housing portfolios may be reducing the effectiveness of credit in spurring the economy. Finally, the government's high indebtedness and the payment of the first sovereign bond issue is expected to result in lower government spending.

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<sup>1</sup> Continuous Employment Survey as of October 2021, with preliminary results on employment in the urban area.