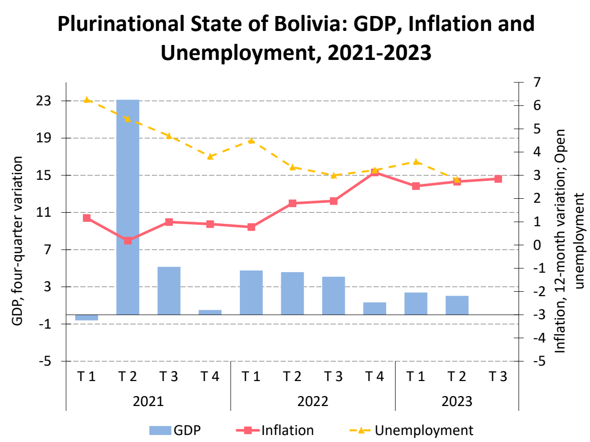
Plurinational State of Bolivia

The GDP of the Plurinational State of Bolivia is expected to expand by 2.2% in 2023, owing to the ongoing hydrocarbon crisis, the crowding-out effect on lending to the private sector from the public sector, the damaging effects of El Niño phenomenon and vast fires on agricultural production, and a less favourable external sector. The fact that expansionary fiscal policy remained in place despite a sharp drop in revenue from tax and hydrocarbons is expected to result in an overall deficit of around 8% of GDP. Late payments to suppliers of heavily subsidized imports of gasoline and diesel have also been observed. Inflation is forecast to be driven up by falls in exchange rates on parallel markets to 7.4 bolivianos per dollar, weaker production of foodstuffs and higher black-market prices for diesel and gasoline. Lastly, lower zinc, silver, lead, tin and soybean prices, together with depletion of hydrocarbon reserves, are expected to result in a balance of payments deficit.

In the first half of 2023, the tax revenues of the non-financial public sector fell from 20.2% to 18.3% of GDP. This decline is largely a reflection of the drop in revenue from other companies (0.6 percentage points), owing to the cumulative decrease to June 2023 in zinc, silver, lead, tin and urea production. Revenues from hydrocarbon sales contracted by 0.3 percentage points of GDP, while hydrocarbon tax revenue fell by 0.1 percentage points of GDP. Tax revenues also continued to decline, falling by 0.5 percentage points of GDP, reflecting weak domestic demand.

Fiscal expenditure decreased by 0.3 percentage points of GDP, less than the drop in revenue, on account of the continued expansionary fiscal policy stance. Because fiscal space was limited, the reduction was in the capital expenditure component (-0.4 percentage points of GDP), while current expenditure climbed by 0.1 percentage points of GDP, driven by transfers and interest on external debt and, to a lesser extent, by wages and salaries. The decrease in expenditure on goods and services shows considerable progress, with a reduction of 0.3 percentage points of GDP. However, because of the accrual principle, this account does not record the amounts the public sector owes to suppliers and distributors of subsidized gasoline and diesel, or non-payments to them. The non-payments have led to a shortage of these fuels in the domestic market and to prices that are over 50% higher on the parallel market.



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

The overall balance showed a deficit of 1% of GDP, compared to a surplus of 0.6% of GDP in June 2022. Financing sources were predominantly domestic (0.9 percentage points of GDP) and focused on the Central Bank of Bolivia, given the country's limited and costly access to external sources and the underlying risks to its fiscal sustainability. The fiscal financing structure is having a draining effect on foreign currency, reserves of which were already in a critical state, and is producing a crowding-out effect on the private sector. Together, external and domestic debt in August 2023 amounted to 80% of GDP.

Political disagreements prevented a last-minute reformulation of the General State Budget for 2023, which proposed an additional disbursement of 4.605 billion bolivianos, with 70% for the central government and 30% for municipal authorities. Lastly, the draft General State Budget for 2024 has not yet been submitted to the legislature and adjustments have yet to be made to align budget ceilings with macroeconomic projections.

Plurinational State of Bolivia: main economic indicators, 2021-2023

	2021	2022	2023 [a]
	Annual growth rate		
Gross domestic product	6.1	3.6	2.2
Consumer prices	0.9	3.1	2.8 [b]
Real average wage [c]	1.4	-0.6	-2.9 [d]
Money (M1)	4.7	...	...
Real effective exchange rate [d]	3.9	5.1	77.4 [b]
Terms of trade	10.9	-9.3	-6.3
	Annual average percentage		[o]
General government			
Overall balance / GDP	-8.5	...	...
Nominal deposit rate [e]	1.9	1.4	3.2 [b]
Nominal lending rate [g]	6.9	6.5	7.2 [b]
	Millions of dollars		
Exports of goods and services	11 424	14 467	2 833 [i]
Imports of goods and services	10 726	14 577	3 173 [i]
Current account balance	871	-184	-324 [i]
Capital and financial balance [h]	-1 225	-680	-534 [i]
Overall balance	-354	-864	-857 [i]

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 June.
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.
h/ Nominal rate in local currency for 61-90 day financial system operations.
i/ The data for 2023 correspond to the sum of the first and second quarters.
j/ Includes errors and omissions.

The central bank adopted an even more expansionary monetary policy stance, in order to finance the public sector. In the first eight months of the year, it channelled 8.487 billion bolivianos to the non-financial public sector, more than the entire financing for 2022, representing a 12-month increase of 422%. For the private sector, the central bank's net lending to August 2023 amounted to 2.798 billion bolivianos, down 66.2% over 12 months. The resulting increase in the money supply put further pressure on international reserves, especially in currencies, which were already in a critical state, standing at US$ 310.8 million in April 2023 according to the latest public data. Policy implementation was mostly unconventional, with liquidity lending to financial institutions and guarantees through multiple funds.

A shortage in and restricted access to dollars from early February, combined with runs on deposits caused by a regulatory intervention with regard to the country's third largest bank at the end of April 2023, led to liquidity stress in the financial system and large fluctuations in interbank and deposit rates. After starting the year at 5.41%, interbank rates peaked at 9.83% in the last week of April, easing to 6.19% in August. The median deposit rate for full-service banks, meanwhile, rose from 3.27% to a high of 4.13%, returning to 3.84% in August. Lending rates rose by a total of 125 basis points, owing to greater materialization of credit risk and increases in provisions. By September 2023, the financial system loan portfolio had accumulated growth of 1.92%, while deposits had shrunk 45.18% on the prior-year period.

The exchange-rate policy kept the nominal anchor at 6.86 and 6.96 bolivianos per dollar for purchases and sales, respectively. However, the parallel exchange rate is 7.40 bolivianos per dollar.

The country's exports for January to August 2023 were down 23.7% compared to the same period in 2022. This out-turn was largely a result of the high basis of comparison from 2022, owing to the impact of the war in Ukraine on world grain, fertilizer and hydrocarbon markets, and domestic factors, such as reduced gas production capacity. External gas sales accounted for 6.5 percentage points of this drop because of a volume effect that was amplified by the fall in oil prices through to June 2023. Seeds, beans and soybean products, meanwhile, contributed 4.5 percentage points to the decline, with drops in both volume and price. The situation was compounded by less buoyant automotive industries in the United States and Japan, leading to less demand for zinc and metallic tin.

Imports fell by a cumulative 0.25% through to August 2023, owing to the net international reserves crisis and the lack of foreign currency in the economy. After posting 12-month growth of 24.0% in January 2023, imports then showed a fall of 23.4% in August 2023, in line with measures to restrict access to dollars in the financial system from February 2023 onward, combined with high costs of foreign-currency transactions and the related bureaucratic processes. A more pronounced fall was prevented by the mining sector, through its imports of machinery and transport equipment, while fuel and lubricants, which are usually a factor of concern owing to their fiscal cost; particularly in the cases of gasoline and diesel, contracted by 1.9% because of a price effect.

Because the contraction in exports was significantly larger than that in imports, the cumulative trade balance for January to August 2023 showed a small deficit (US$ 47.3 million). This balance contrasts with the surpluses for similar periods of the preceding three years.

Since the country’s foreign-exchange supply collapsed, publications on the balance of payments and net international reserves have been infrequent. The first quarter 2023 balance of payments shows a current account deficit, including all of its components apart from secondary income, which had a positive result owing to remittances from workers abroad.

Specifically, the goods balance for the first quarter of 2023 was down 100.2% relative to the first quarter of 2022 (from 2.4% to 0.0% of GDP) owing to less favourable international conditions for the country’s exports and a substantial decline in the productive capacity of the hydrocarbon sector. The primary income deficit was 0.7% of GDP, as higher interest payments on loans were almost entirely offset by lower income paid on direct investment in the hydrocarbon and mining sectors. The secondary income surplus was also 0.7%, reflecting 7.2% growth in remittances.

In the first quarter of 2023, the financial account showed a considerably larger deficit, with net capital outflows amounting to 1.8% of GDP, compared to 0.4% of GDP in the same period of 2022. The fall in reserve assets of 1.3% of GDP largely explains this performance.

In June 2023, GDP growth in the Plurinational State of Bolivia showed a sharp slowdown, with cumulative expansion of 2.2%, less than half the 4.7% recorded in the same period of 2022. On the supply side, this reflected buoyant growth of sectors that account for small shares of GDP, such as other services and electricity, gas and water, and contractions in the key sectors of hydrocarbons and manufacturing.

In June 2023, the hydrocarbons sector showed cumulative declines of 12.0% in production of natural gas and of 16.3% for oil. The depletion of reserves and the substitution of imports of Bolivian gas with domestic production in Brazil and Argentina were the main factors behind this fall, which reduced GDP growth by 0.23 percentage points.

The manufacturing industry, which reduced GDP growth by 0.12 percentage points, added two harmful shocks: (i) the downward shock of hydrocarbons, which affected petroleum products and chemical substances such as urea; and (ii) the harmful impact of the El Niño phenomenon on the agricultural sector, reducing raw material for processing.

On the expenditure side, slacker external demand (reducing GDP growth by a cumulative 5.06 percentage points) intensified the structural weakening that the economy has been showing since late 2013. A high basis of comparison, originating from the impact of the war in Ukraine on demand for and prices of grains, fertilizers and hydrocarbons, meant that after cumulative growth of 15.9% in June 2022, a fall of 14.6% was recorded for the same period of 2023. In contrast, imports continued to grow owing to purchases of capital goods and higher demand for heavily subsidized imports of gasoline and diesel, driving smuggling to other countries in the region (5% cumulative growth to June 2023).

Weaker external demand resulted in lower revenues, meaning that both public and private consumption growth rates had to adjust to almost half those posted in June 2022. Investment was the only figure that rebounded, from a cumulative contraction of 6.7% in the prior year to a rise of 26.1%.

In October 2023, the consumer price index showed a cumulative rise of 1.48%. Headline inflation was constrained by the non-food component (0.01%), since food prices, which have more regressive effects, rose by 2.73%. The main factors behind this trend were the severe droughts caused by the El Niño phenomenon, higher imported inflation from depreciation of the boliviano on the parallel market to 7.4 bolivianos to the dollar and increases in financial costs of imports. The country’s long period of low inflation is at risk both from the imported component and from the government’s recent failure to maintain the large subsidies for hydrocarbons, leading to diesel shortages and a price rise of 61% on the black market.

For the labour market, the most recent published data is for the fourth quarter of 2022. At that time, the urban unemployment rate had fallen by 0.85 percentage points to 4.32%. However, labour conditions are likely to be more precarious given that commerce is the sector that has been the main attractor of labour and that job destruction has been most severe in the manufacturing industry.

Lastly, nominal wage increases continued in accordance with the path set out in law by the central government. In addition to retroactive increases on 1 May of each year, a September 2023 supreme decree provided for an increase of up to 3% for workers of 13 state-owned companies, despite the Bolivian economy repeatedly showing fiscal imbalances.