

## BOLIVIA

### 1. General trends

In 2013 the Bolivian economy expanded at a historic rate of 6.8%, the highest seen in 38 years, driven by rapid growth in the oil and gas sector and strong domestic demand. The balance-of-payments current account surplus, although smaller than in 2012, boosted international reserves, some of which were used to fund social and industrial policy, with a part being used to capitalize a new fund to boost the manufacturing sector. The fiscal accounts of both the non-financial public sector (NFPS) and the general government yielded surpluses, but less than those of 2012. Inflation rose significantly over the year, reaching 6.5% in December, as a result of food supply problems and, to a lesser extent, burgeoning domestic demand.

ECLAC expects economic growth to slow somewhat in 2014 to 5.5%. Domestic demand will most likely remain the driving force, spurred by increasing public spending and investment. The national budget puts the NFPS deficit at around 3.2%, as a result of a substantial increase in capital expenditures, though it may be smaller depending on public investment disbursements. The current account surplus is expected to continue to contract, owing to growth in imports of capital goods for use in the oil and gas sector and planned infrastructure projects. The central bank forecasts inflation of 5.5% for the year, within a band of between 4.6% and 7.0%.

### 2. Economic policy

#### (a) Fiscal policy

Fiscal policy was slightly expansionary in 2013, reflecting greater capital expenditure and slacker growth in oil and gas income. The general government's fiscal balance remained in surplus, by around 1.4% of GDP, while the surplus of the NFPS—which includes State-owned companies—totalled almost 0.5% of GDP at the end of the year.

General government income increased by 12.6% in real terms in 2013, somewhat down on the 2012 rate of 15.3%, due largely to the slowdown in receipts from hydrocarbon taxes, which grew by 17.8% in 2013, down from 28.7% in 2012. Growth in tax revenues also slackened, though this was mitigated somewhat by the introduction of a new foreign currency sales tax (IVME) and an additional levy on the financial sector (both approved at the end of 2012).

General government expenditure, meanwhile, increased by 14.5% in real terms over the year. Capital expenditure surged by 35.4%—accounting for 13.7% of GDP, an increase of 2.9 percentage points—reflecting a jump in public investment in transport and oil and gas production. There was a slight uptick in current expenditure, of 4.5% over the year, due for the most part to higher staffing costs. It was agreed to raise the monthly universal old-age pension (or “dignity” pension) by 50 bolivianos from June, which boosted growth in current transfers to the private sector.

Although the country's fiscal accounts finished the year in surplus, external public debt increased by one percentage point of GDP to reach 17% thereof by the year's end, chiefly as a result of the second successful issuance of US\$ 500 million in sovereign bonds in August. The government has earmarked the funds raised for public investment, particularly road infrastructure, including projects in Cochabamba, Beni and Pando. However, the share of public investment financed from external resources declined sharply, to 23% of the total in 2013.

For 2014, the national budget projects an NFPS deficit of 3.2% of GDP, driven by an anticipated rise in public-sector capital expenditure from 16.9% to 20% of GDP, fuelled notably by increased spending by the State-owned oil company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), which plans investments to the tune of US\$ 1.860 billion in 2014.

### **(b) Monetary policy**

On the monetary front, the central bank adopted a contractionary monetary policy to reduce market liquidity by increasing the issuance of government securities, introducing new financial instruments for the non-financial private sector and altering the legal reserve system for the financial sector. This process gained momentum in September with the introduction of complementary reserves — an additional reserve requirement lasting for a period of 224 days— which led to the removal of 1.872 billion bolivianos from circulation. The central bank also withdrew a net sum of 3.651 billion bolivianos between September and December by means of open market operations. Other factors that tempered liquidity growth included an increase in NFPS deposits with the central bank, which added up to the equivalent of 27.7% of GDP for the year, and the policy of expanding foreign-currency deposits via the additional reserve requirement, which will rise incrementally until 2016.

Despite the intervention of the central bank, monetary aggregates continued to grow rapidly, albeit more slowly than in 2011 and 2012. Deposit rates in the financial sector rose during the year as a result of competition from the central bank's bonds with their higher interest rates, but remained below those in other countries of the region. Deposits stood at 103.409 billion bolivianos at the end of 2013, an increase of 16.2%. Despite rising deposit rates, interest rates remained stable over the year. Loans from the banking system to the private sector expanded by 21.5% by the end of the year, driven by strong growth in business and consumer credit. Rapid growth was also seen in microcredit and loans to SMEs, although momentum slowed over the year in these segments. Mortgage lending, which had accelerated in early 2013, showed signs of slowing in the final months of the year.

The central bank's efforts to contain liquidity continued into early 2014. In January it withdrew a net total of some 4.145 billion bolivianos via open market operations, thus absorbing some of the spike in liquidity following the double bonus payment in late 2013. Growth in the banking portfolio slowed in January, but showed signs of picking up in April, while remaining below levels seen in 2013. As for the remaining months of 2014, in the second quarter the central bank will review the situation regarding the complementary reserve requirements introduced in 2013 and revise its open-market operations, taking into account the possibility of an NFPS deficit at the end of the year.

The country's financial system underwent extensive reform in 2013. In August 2013 the new Financial Services Act was passed, a piece of legislation that empowers the government to determine lending rate ceilings, deposit rate floors, the composition of loan portfolios as well as fees and grace periods. In addition, the new law gives the government greater leeway to regulate financial institutions with the aim of encouraging lending to the manufacturing sector and for home mortgages. In December the government issued a decree setting lending rates for social housing ranging between 5.5% and 6.5%,

depending on the value of the home, and obliging banks to hold at least 60% of their total portfolio in loans for social housing and to the production sector (the latter must account for at least 25% thereof). As of June 2014, the government had still to set interest rates for lending to the production sector and for deposits, both important elements covered by the new act.

### **(c) Exchange-rate policy**

The central bank maintained a stable nominal exchange rate over the year with a view to dampening expectations of inflation and furthering the bolivianization of the economy, particularly the financial sector.

## **3. The main variables**

### **(a) The external sector**

The current account balance deteriorated in 2013, though it remained in surplus at US\$ 1.012 billion, or the equivalent of 3.3% of GDP. A key factor in this result was the robust growth in imports (12.9%), especially of capital goods, reflecting the rise in investment during the year. Although exports of natural gas, the country's main export product, increased by 12%, a sharp drop in exports of precious metal scrap and amalgams held down growth in total exports, which rose by a meagre 2.3%. There was, however, a surge in exports of certain agricultural products, such as soybean seeds, soybeans and quinoa (exports of this last commodity roughly doubled in value). Accordingly, Brazil and Argentina, the main buyers of the Plurinational State of Bolivia's natural gas, increased their share of the country's exports from 48.3% to 53.2%, while that of the United States fell.

Unilateral current account transfers showed no net changes over the year. An increase of 8.0% in remittances from migrant workers, which stood at US\$ 1.182 billion, was offset by a fall in public transfers. There was, however, a spike in remittances from Spain (17.1%).

The capital and financial account returned a deficit, driven mainly by an increase in outflows of other capital. This was primarily due to the establishment of the Fund for the Productive Industrial Revolution (FINPRO), which was capitalized to the tune of US\$ 1.2 billion from the central bank's international reserves, an operation that for statistical purposes was classified as an other capital outflow. There were also increased outflows associated with the expansion of the Liquid Asset Requirement (RAL) Fund following the increase in reserve requirements for foreign-currency deposits. The issuance of US\$ 500 million in sovereign bonds in August 2013 served to offset somewhat these outflows. Additionally, net foreign direct investment surged by 65% to US\$ 1.750 billion, principally as a result of the performance of the oil and gas sector.

International reserve growth posted a two-decade low in 2013, owing to the transfer of US\$ 1.2 billion to set up FINPRO. Nevertheless, by December net international reserves stood at US\$ 14.430 billion, or the equivalent of 47% of GDP (the region's ratio).

Preliminary data suggest that the main trends of 2013 have continued in the first quarter of 2014. In April the trade balance surplus had shrunk by 14.5% as a result of sustained import growth (10.5%), especially of capital goods, and sluggish exports, which grew 3.1%.

### **(b) Economic activity**

The historic performance of 2013 was strongly driven by domestic demand, particularly consumption, both public and private (accounting for 1 and 4.2 GDP percentage points, respectively). Private consumption was boosted in particular by strong job creation and wage growth combined with the greater provision of credit, and public consumption, by increases in transfers and salaries. However, the most notable change was the performance of gross fixed capital formation, whose impact on GDP increased from 0.3 percentage points in 2012 to 2.5 percentage points in 2013 (growth of around 37% over the year).

On the supply side, stronger GDP growth was attributable to the expansion of production of refined petroleum products (15.3%), crude oil and natural gas (15.0%), non-metallic minerals (11.6%), financial services (11.3%), construction (10.6%), public administration services (9.5%) and transport and storage (7.7%). Notable developments in the field of refined petroleum products include the start of production in July 2013 of liquefied petroleum gas at the separation plant in Rio Grande for supply to the domestic market and, in part, for export to Paraguay and Uruguay. Buoyant natural gas exports to Argentina, which in 2013 were comfortably above the minimum levels set in the contract with that country, were a key driver of the expansion of the hydrocarbons sector. Growth in construction and the production of non-ferrous minerals—the cement industry—was spurred by the rise in gross fixed capital formation. The performance of financial services reflected the profits made in the sector thanks to the increase in the banking portfolio and low level of non-performing loans.

ECLAC expects economic growth to slow progressively in 2014 to around 5.5%, a level still well above the average for the region. The latest data from the overall index of economic activity (IGAE), showing cumulative growth of 5.5% in March, appear to support this projection. Growth has slowed notably in both crude oil and natural gas production and financial services, but both sectors could revive during the year. For 2014, YPFB expects liquid natural gas production to increase by around 15% to reach some 67 million cubic metres per day, and public and private investment in the sector to rise to US\$ 3.029 billion. Activity in the financial services sector could be boosted by the Financial Services Act, which entered into force in January. One sector that continues to underperform is mining, which recorded growth of just 3.3% in February. A new mining law is being considered for 2014, which could revive activity in this key sector. At the end of April, the government reached an agreement with the mining cooperatives to go ahead with this legislation, after having provisionally suspended its discussion in the wake of clashes between miners and the police.

### **(c) Prices, wages and employment**

In December cumulative inflation stood at 6.5%, reflecting spikes in August and September when the monthly rate exceeded 1.3%. This was caused mainly by supply problems, including rises in the prices of various products in the basic consumption basket owing to extreme weather. Surging tomato, potato and chicken prices accounted for over three quarters of the increase during those months. Core inflation, meanwhile, remained relatively stable but trended slightly upwards, closing the year up 4.3%.

Wages in the public and private sectors increased in 2013, reflecting both economic growth and the impact of government wage policy. In April an 8% wage hike was announced for public sector workers in health care, the armed forces and the police, among other sectors. A baseline figure of 8% was set for negotiations on pay rises in the private sector, and the national minimum wage was increased to 1,200 bolivianos, a rise of 20% with respect to 2012. Furthermore, in November the

government announced that a second annual bonus would be paid to public and private sector workers in years in which GDP growth tops 4.5%.

Trends from 2013 continued into the first half of 2014. Data for the first five months suggest that inflation has cooled somewhat, with a year-on-year rise of 6.4% recorded in March. The government has maintained its policy of wage increases and in May announced pay rises of 10% in the public and private sectors and set the minimum wage at 1,440 bolivianos, up 20%.

Table 1  
BOLIVIA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
<b>Annual growth rates b/</b>									
Gross domestic product	4.4	4.8	4.6	6.1	3.4	4.1	5.2	5.2	6.8
Per capita gross domestic product	2.5	3.0	2.8	4.4	1.7	2.5	3.6	3.6	5.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	5.0	4.3	-0.5	2.6	3.7	-1.2	3.1	4.1	4.7
Mining and quarrying	13.1	5.4	7.0	22.9	-2.0	4.0	5.3	4.9	9.0
Manufacturing	3.0	8.1	6.1	3.7	4.8	2.6	3.7	4.7	6.1
Electricity, gas and water	2.7	4.0	4.3	3.6	6.1	7.3	7.4	5.8	5.1
Construction	6.4	8.2	14.3	9.2	10.8	7.5	8.0	8.0	10.6
Wholesale and retail commerce, restaurants and hotels	2.4	3.4	4.8	4.0	4.3	3.8	3.5	3.7	3.8
Transport, storage and communications	2.9	3.9	3.5	4.0	5.6	8.0	6.1	2.7	6.7
Financial institutions, insurance, real estate and business services	0.4	5.4	6.3	4.7	4.1	5.6	5.3	9.8	6.5
Community, social and personal services	3.0	3.3	3.7	3.5	5.6	3.6	5.1	5.1	7.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.3	4.0	4.1	5.3	3.7	3.9	5.4	4.7	6.3
Government consumption	3.4	3.3	3.8	3.9	3.8	3.1	7.2	4.9	9.3
Private consumption	3.3	4.1	4.2	5.5	3.7	4.0	5.2	4.6	5.9
Gross capital formation	26.9	-0.4	5.8	29.3	3.9	7.1	23.5	-4.6	16.1
Exports (goods and services)	8.3	11.3	3.1	2.2	-10.8	9.9	5.9	11.9	4.1
Imports (goods and services)	14.8	5.2	4.4	9.4	-10.2	11.0	17.0	4.3	8.2
Investment and saving c/									
<b>Percentajes of GDP</b>									
Gross capital formation	14.3	13.9	15.2	17.6	17.0	17.0	19.6	17.6	19.0
National saving	20.1	25.2	26.7	29.5	21.3	20.9	19.9	26.0	22.3
External saving	-5.9	-11.3	-11.5	-11.9	-4.3	-3.9	-0.3	-8.3	-3.3
Balance of payments									
<b>Millions of dollars</b>									
Current account balance	561	1,293	1,506	1,991	746	766	77	2,259	1,012
Goods balance	396	1,036	918	1,444	415	812	431	2,964	2,158
Exports, f.o.b.	2,827	3,952	4,504	6,525	4,960	6,402	8,358	11,233	11,496
Imports, f.o.b.	2,431	2,916	3,586	5,081	4,545	5,590	7,927	8,269	9,338
Services trade balance	-42	-168	-189	-200	-209	-263	-369	-342	-508
Income balance	-376	-397	-489	-536	-674	-864	-1,161	-1,629	-1,908
Net current transfers	584	822	1,266	1,284	1,213	1,081	1,175	1,266	1,270
Capital and financial balance d/	-58	222	446	383	-421	157	2,083	-547	110
Net foreign direct investment	-242	278	363	509	420	651	859	1,060	1,750
Other capital movements	184	-55	83	-127	-841	-493	1,224	-1,607	-1,640
Overall balance	504	1,516	1,952	2,374	325	923	2,160	1,712	1,122
Variation in reserve assets e/	-504	-1,516	-1,952	-2,374	-325	-923	-2,160	-1,712	-1,122
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100)	100.0	102.3	101.8	93.4	85.4	89.9	89.9	86.0	80.6
Terms of trade for goods (index: 2005=100)	100.0	125.0	127.0	128.7	124.6	140.9	156.4	161.8	158.9
Net resource transfer (millions of dollars)	-434	-175	-43	-154	-1,094	-707	923	-2,176	-1,798
Total gross external debt (millions of dollars)	7,666	6,278	5,403	5,930	5,801	5,875	6,298	6,711	7,756
Employment g/									
<b>Average annual rates</b>									
Labour force participation rate	55.7	58.7	64.8	...	56.9	57.3	...	...	...
Open unemployment rate	8.1	8.0	7.7	6.7	7.9	6.1	5.8	...	...

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	4.9	4.9	11.7	11.8	0.3	7.2	6.9	4.5	6.5
Variation in nominal exchange rate (annual average)	1.6	-0.7	-2.0	-7.8	-3.0	0.0	-0.9	-0.5	-0.1
Variation in average real wage	-3.6	-8.0	-6.3	-7.7	2.3	3.7	-1.9	...	...
Nominal deposit rate h/	4.8	4.2	3.6	4.6	2.9	0.4	0.5	0.5	0.7
Nominal lending rate h/	12.1	8.8	8.3	8.9	8.5	5.2	6.3	6.7	7.0
<b>General government</b>	<b>Percentajes of GDP</b>								
Total revenue	30.3	32.7	32.7	32.7	32.8	30.8	32.8	35.1	36.8
Tax revenue	18.5	17.9	18.3	19.5	18.1	18.0	20.0	20.9	21.6
Total expenditure	32.6	29.2	30.5	32.7	34.8	30.9	33.9	33.2	35.4
Current expenditure	22.6	18.9	18.7	21.8	22.8	20.9	21.8	22.4	21.9
Interest	2.7	1.8	1.3	0.8	1.6	1.5	1.0	0.9	0.6
Capital expenditure	10.1	10.4	11.7	10.9	12.0	9.9	12.1	10.8	13.6
Primary balance	0.4	5.3	3.5	0.8	-0.4	1.4	-0.2	2.7	1.9
Overall balance	-2.3	3.5	2.3	0.0	-2.0	-0.1	-1.1	1.8	1.3
Central government public debt	75.4	49.7	37.2	34.0	36.3	34.7	34.7	29.1	28.4
Domestic	30.9	26.9	24.0	22.7	24.4	23.3	20.1	15.8	13.2
External	44.5	22.7	13.1	11.3	12.0	11.5	14.7	13.3	15.2
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	53.4	44.1	42.0	39.4	43.5	44.4	44.9	48.7	48.7 i/
To the public sector	14.1	9.2	8.0	8.3	9.6	8.7	8.5	10.1	10.0 i/
To the private sector	39.3	34.8	34.0	31.1	33.9	35.7	36.4	38.5	38.8 i/
Monetary base	10.2	12.2	16.9	18.5	24.3	23.6	25.1	26.0	24.4
Money (M1)	9.6	11.5	16.2	17.1	20.2	23.1	22.3	23.7	23.9
M2	12.2	15.6	23.9	26.1	34.3	40.5	43.4	50.0	53.3
Foreign-currency deposits	30.9	26.7	23.9	20.3	24.4	19.1	15.3	12.8	10.9

**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/ Departmental capitals. Up to 2008, urban areas.

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

i/ Figures as of September.

Table 2  
**BOLIVIA: MAIN QUARTERLY INDICATORS**

	2012				2013				2014	
	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/	5.1	4.5	4.6	6.5	6.7	6.7	6.8	7.0	...	... c/
Gross international reserves (millions of dollars)	12,658	12,478	13,077	13,875	14,113	14,055	14,409	14,302	14,522	14,612 d/
Real effective exchange rate (index: 2005=100) f/	88.2	85.8	85.0	84.9	83.8	82.0	78.6	78.0	76.1	78.1 d/
Consumer prices (12-month percentage variation)	4.8	4.4	4.4	4.5	5.0	4.8	6.1	7.0	6.1	6.6
Average nominal exchange rate (bolivianos per dollar)	6.92	6.92	6.93	6.92	6.92	6.92	6.92	6.91	6.91	6.91 d/
Nominal interest rates (annualized percentages)										
Deposit rate g/	0.4	0.3	0.4	0.7	0.5	0.6	0.4	1.4	0.9	0.3 g/
Lending rate g/	6.7	6.5	6.7	7.0	7.1	7.1	6.7	7.0	6.8	6.6
Interbank rate	0.7	0.4	1.0	1.4	0.7	0.9	1.3	4.0	2.7	...
Monetary policy rates	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.2	4.5	5.3
International bond issues (millions of dollars)	-	-	-	500	-	-	500	-	-	...
Domestic credit (variation from same quarter of preceding year)	22.2	23.2	22.0	23.1	22.4	22.3	22.3	...	...	...
Non-performing loans as a percentage of total credit	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.5	...

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

a/ Preliminary figures.

b/ Figure is based on Global Indicator of Economic Activity.

c/ Based on figures in local currency at constant 1990 prices.

d/ Figures as of May.

e/ Quarterly average, weighted by the value of goods exports and imports.

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

g/ Figures as of April.