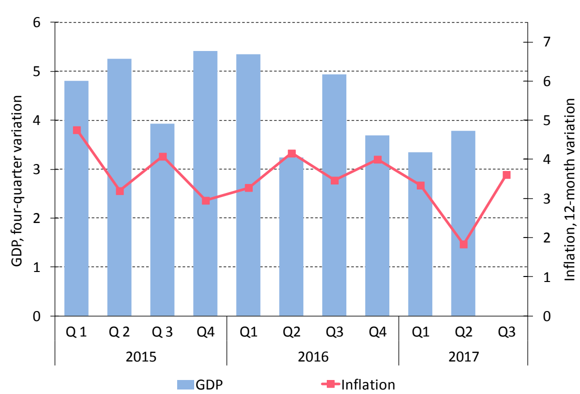
Plurinational State of Bolivia

The economy of the Plurinational State of Bolivia grew by about 3.9% in 2017. While this is a slight slowdown from the previous year's figure of 4.3%, the economy remains one of the region's most dynamic. Domestic demand —achieved through a fiscal policy that has bolstered public investment and an expansionary monetary policy that has favoured credit for the productive sector— has been the engine of this growth. Since mid-2013, however, the rate of growth has declined, mainly because of poor performance by the hydrocarbon sector and decelerations in certain other industries. Key export products, particularly natural gas, have been commanding lower prices. The impact of this has been felt not only on export earnings, but also by fiscal revenues, and it has resulted in high deficits in both the fiscal balance sheet and the current account that amounted to around 6.0% and 5.4% of GDP, respectively, at the end of 2017. Similarly, as of October 2017, foreign reserves were 35% down from their peak in 2014 and, while it nevertheless remains low, external debt has risen to around 24% of GDP. That notwithstanding, the economy has savings (equal to 37% of GDP) earned during the commodities supercycle, which have enabled the country to fund public investments and maintain its social spending programmes.

Because of both higher export prices and increased dynamism in its trading partners, international conditions have been more favourable for the Bolivian economy in 2017 than in the immediately preceding years, and that trend is expected to carry forward into 2018, maintaining a GDP growth rate of around 4.0%, which might reveal symptoms of the exhaustion of fiscal and monetary policy as a driving force, delays in some public investment projects and an anaemic level of private investment. However, rising oil prices and revenues from the new urea plant will ease the fiscal and foreign-trade imbalances, even though problems with the execution of public investment will limit the country's economic growth.

In 2017, the fiscal deficit of the non-financial public sector (NFPS) will rise to 7% of GDP, slightly higher than the 2016 result of 6.6%. As of June, fiscal revenues had accumulated a decrease of 3% in nominal terms over a period of 12 months, mainly on account of the 17% drop in income from hydrocarbons. The total accrued SPNF deficit over the 12 months to June rose to 7.3% of GDP, despite the 4% fall in spending over the same period. As a result of low public investment execution during the first half of the year (45% of the planned amount), capital spending has fallen by 5%, and increased execution is expected during the second part of the year.

Plurinational State of Bolivia: GDP and Inflation, 2015-2017



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

In the first half of 2017, the Central Bank of Bolivia maintained the expansionary orientation of monetary policy adopted in mid-2014, seeking to keep liquidity high and interest rates low. During that six-month period the liquidity of the economy declined dramatically, however, primarily because of sovereign bond purchases by residents. To counteract this reduced liquidity, adjustments were made that cut the reserve requirements for deposits. Likewise, after the reduced liquidity forced interbank rates as high as 5.13%, by the end of May they had fallen to 2.0%. While this at first led to higher interest rates within the financial system, the situation was subsequently brought under control and, as a result, the private sector credit portfolio was able to continue expanding. Also worthy of note is the slowdown in the rate of growth of deposits in the financial system, which has been ongoing since 2015; this might indicate some weakening in that sector.

The monetary authority has maintained a stable exchange rate policy; as a result, public expectations about the value of the dollar have been firm, the boliviano has steadied and inflation has been kept low. In October 2017, the 12-month variation in the consumer price index was 3%, down from the previous year's result of 4%, with a final figure of 3.5% forecast for year's end. During the first nine months of 2017, low inflation in the Plurinational State of Bolivia and the nominal appreciation of its trading partners' currencies led to a real-term depreciation of 3% in the value of the boliviano. In real terms, however, the currency has appreciated by 28% since mid-2012.

Plurinational State of Bolivia: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	4.9	4.3	3.9
Per capita gross domestic product	3.2	2.7	2.4
Consumer prices	3.0	4.0	3.0 [b]
Real average wage [c]	6.8	1.7	...
Money (M1)	9.4	9.6	0.4 [d]
Real effective exchange rate [e]	-12.4	-4.6	3.9 [f]
Terms of trade	-26.2	-12.7	9.1
	Annual average percentage		
General government			
Overall balance / GDP	-4.5	-3.0	...
Nominal deposit rate [g]	0.5	0.5	1.0 [b]
Nominal lending rate [h]	6.4	6.2	5.9 [b]
	Millions of dollars		
Exports of goods and services	9 927	8 245	9 147
Imports of goods and services	11 839	10 729	11 471
Current account balance	-1 868	-1 907	-1 971
Capital and financial balance [i]	248	-1 138	1 961
Overall balance	-1 620	-3 046	-9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
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/ Figures as of September.
g/ Nominal local-currency rate for 60-91-day operations of the banking system.
h/ Nominal local-currency rate for 60-91-day operations of the financial system.
i/ Includes errors and omissions.

The current account deficit will stand at 5.4% of GDP (similar to the 2016 result) and this has been funded mainly by bond issues, given that flows of foreign direct investment (FDI) dropped by 16% during the first six months. With this, the country's nominal international reserves have stabilized at a level similar to their 2016 close. In the first nine months of 2017, the recovery in the prices of hydrocarbons (26%) and minerals (21%) more than offset the decrease in export volumes, which was primarily caused by reduced Brazilian demand for gas and declining output from the operating gas fields; as a result, the value of exports rose by 8.8% over the previous year. Imports have also risen, with cumulative growth of 9.5% over the first nine months of the year: increases of 16% in imports of capital goods and 37% in fuel imports —caused by higher energy prices— were recorded. Ultimately, the trade deficit rose in year-on-year terms. Moreover, the recovery of hydrocarbon prices has meant increased repatriation of profits by companies operating in the sector. However, with a 5% rise over the first six months, remittances by migrants have continued to contribute to household consumption, and they have offset the shortfalls in other current account balances.

Domestic demand continues to act as an engine of growth for the Bolivian economy. In the first half of 2017, gross fixed capital formation (GFCF) rose by 4.8%, a rate similar to that reported by household and public consumption. Broken down in institutional terms, gross fixed capital formation in the private sector rose by 3.5%, while public sector GFCF increased by 14.8%, in line with the central role that the government has given to public investment. At the sectoral level, the fall of 7.1% in hydrocarbon production has negatively impacted GDP, as has the 2.1% drop in the output of the mining sector. The agricultural sector, following the severe drought that affected the country in 2016, has reported a recovery of 7.6%. There were also slowdowns in sectors that had previously been performing well, such as financial services, manufacturing and construction.

The government has expressed interest in using employment support programmes to reduce the unemployment rate, which stood at around 4.5% at the close of 2016. At the same time, wages and salaries rose by approximately 7% in nominal terms, as a knock-on effect of the 11% adjustment in the minimum wage decreed in May 2017.