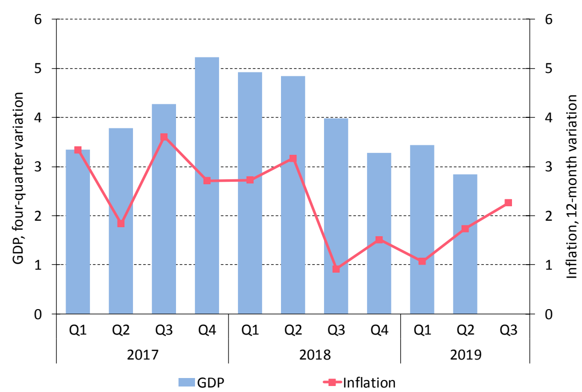
## Plurinational State of Bolivia

Over the past decade, the Plurinational State of Bolivia saw its economy grow at an average annual rate of 4.9%, significantly outpacing the regional and world averages. However, since mid-2013 economic growth has slowed, mainly owing to the sluggish performance of the hydrocarbons sector. Furthermore, 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, resulting in large deficits: around 7.9% of GDP in May 2019 in the fiscal balance sheet and around 5.2% of GDP in the current account in March. This led to a decline in international reserves, which by the end of October had fallen 22% compared to year-end 2018, accompanied by an increase in external debt, which remains low nonetheless. During the commodities boom, the country accumulated a sizeable stock of reserves, enabling it to finance public investment and maintain spending programmes that contributed to improvements in social development indicators. However, these external assets have shrunk from a high of 51% of GDP in 2012 to 17% of GDP in 2019 (less than in 2006) and investment projects have failed to boost the country's production and revenue base, in terms of exports or fiscal revenues.

In 2019 the economy is projected to expand by around 3.0%, a rate which is expected to be repeated in 2020, but with significant downside risks owing to the potential adverse impacts on output, fiscal revenues and external accounts from lower commodity prices and less gas extraction. Other factors that must be considered are the future impact of the standstill in activity in several areas of the country caused by the climate of violence following the electoral process that came to a head in October 2019 and the effects that political uncertainty could have on public and private investment.

According to annualized figures at May 2019, the fiscal deficit in the non-financial public sector has climbed to 7.9% of GDP over the past five years, as revenues have declined while fiscal expenditure has been maintained. On one hand, there has been a slump in fiscal revenues from hydrocarbons, owing to a decline in natural gas production and lower prices: in 2013 these revenues were equivalent to around 24% of GDP, but in May 2019 they stood at 14% of GDP. Other tax revenues held steady, in the region of 26% of GDP. On the other hand, total expenditure remained at around 47% of GDP, to support social development policies and diversification of the export mix. Public investment in social projects and transfer policies resulted in significant progress in reducing poverty. According to figures from the National Institute of Statistics, the rate of extreme poverty was 15.2% in 2018, a substantial reduction from the 38.2% recorded in 2005. However, public investment projects have not broadened the sources of tax revenue, so the fiscal space has shrunk. In 2019, the fiscal deficit was financed mainly through domestic credit (representing 6% of GDP in May) and, to a lesser extent, external credit (2% of GDP). As a result, external debt remained stable compared to the previous year, standing at 25% of GDP in 2019.

**Plurinational State of Bolivia: GDP and Inflation, 2017-2019**




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

**Plurinational State of Bolivia: main economic indicators, 2017-2019**

| | 2017 | 2018 | 2019 [a] |
|---|---|---|---|
| | Annual growth rate | | |
| Gross domestic product | 4.2 | 4.2 | 3.0 |
| Per capita gross domestic product | 2.6 | 2.7 | 1.5 |
| Consumer prices | 2.7 | 1.5 | 2.5 [b] |
| Real average wage [c] | 1.6 | 3.1 | 1.6 [d] |
| Money (M1) | 2.0 | 6.4 | 1.9 [e] |
| Real effective exchange rate [f] | 3.3 | -5.2 | -6.4 [g] |
| Terms of trade [h] | 15.5 | 7.9 | -2.7 |
| | Annual average percentage | | |
| General government | | | |
| Overall balance / GDP | -5.0 | -6.0 | … |
| Nominal deposit rate [i] | 1.4 | 2.1 | 2.4 [g] |
| Nominal lending rate [j] | 6.0 | 6.4 | 6.3 [g] |
| | Millions of dollars | | |
| Exports of goods and services | 9 544 | 10 359 | 10 076 |
| Imports of goods and services | 11 739 | 12 508 | 12 537 |
| Current account balance | -1 871 | -1 914 | -2 461 |
| Capital and financial balance [k] | 1 638 | 685 | -189 |
| Overall balance | -232 | -1 230 | -2 650 |

**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/ Estimate based on the interannual variation to March.
e/ Figures as of July.
f/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
g/ Figures as of September.
h/ Economic Development Division, calculations for Preliminary Overview 2019.
i/ Nominal local-currency rate for 61-90-day operations of the banking system.
j/ Nominal local-currency rate for 61-90-day operations of the financial system.
k/ Includes errors and omissions.

Financial system deposits have been slowing down throughout 2019, despite attempts by the Central Bank of Bolivia to implement instruments to inject liquidity into the financial system.

The central bank kept the nominal exchange rate stable, thus favouring low inflation. In October 2019, the consumer price index showed a 12-month change of 2.5%. In particular, good performance by the agricultural sector during the year contributed to this result, helping to keep food and beverage prices low. Between January and September 2019, the multilateral real exchange rate rose by 5% with respect to prior-year period and by around 19% in the last five years, according to central bank figures.

From late 2018 onward, the slackening of activity intensified: economic growth for the first half of 2019 was 3.1%, down from 4.9% in the first half of 2018.

Non-extractive sectors grew by 4.8% in the first half of 2019, a slight slowdown on the same period of 2018. Agriculture continued to expand rapidly, at a rate of 7.1% in the first half of 2019, and was the sector that made the largest contribution to growth (one percentage point). However, in the hydrocarbons sector —which accounts for a considerable portion of GDP— gas production was constrained, as the capacity added through new wells has proved insufficient to replace that lost through depletion of older wells. As a result, the sector has been contracting since 2015. This trend became more marked from the last quarter of 2018 onward, with a 22% drop in gas production in the first half of 2019, shaving 1.1 percentage points off total growth for the period. All this resulted in the State company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) breaching the terms of its contract to send natural gas to Brazil in 2018 and 2019.

The repercussions of the low gas extraction were also reflected in a 2.4% drop in exports of goods and services, resulting in a negative contribution to GDP growth (-0.6 percentage point) in the first half of 2019. Investment —which has slackened since late 2017— also contributed negatively to GDP growth (-0.8 percentage point), contracting by 3.3% in the first six months of 2019. In this regard, a number of projects have stalled, especially in the lithium sector, and this may explain to some extent the poorer investment performance. Conversely, growth in consumption, mainly by households, contributed greatly to sustaining aggregate demand, adding 3.6 percentage points to GDP growth in the first half of 2019. Household consumption expanded by 5.1% in the first half of 2019 with respect to the same period of 2018, boosted by payment of the extra month's bonus at the end of 2018. However, this situation will not be repeated in 2019, as the conditions for payment of this benefit have not been met. Furthermore, consumption could be hit by the decline in remittance flows from workers abroad, owing to lower growth in the countries from which they are sent. In the first eight months of 2019, remittances fell by 3.8% compared to the prior-year period.

External accounts weakened in 2019. According to balance-of-payments figures, the current account deficit climbed in the first quarter of 2019, reaching 5.2% of GDP in annualized terms, while financial flows, mainly from other investments, declined. The result was a drop in international reserves, which at October 2019 had shrunk by 22% with respect to December 2018, to the equivalent of 17% of GDP. The trade balance was weakened by the decline in exports, which fell by 5.1% year-on-year between January and July 2019. With the exception of gold, the prices of the Bolivian economy's main commodity exports (natural gas and minerals) fell during the year. Between January and October 2019, West Texas Intermediate (WTI) oil —a benchmark for gas sales— shed 14.7% compared the same period in the prior year, while zinc and silver dropped by 15% and 5%, respectively. In addition to production problems, gas exports have been affected by changes in contractual terms with the country's main customers, Argentina and Brazil. The new contract to sell gas to Argentina brings in less revenue for the Bolivian economy, while the terms to renew the contract with Petrobras to sell gas to Brazil, which expires in 2019, may be less favourable. Higher net outflows on the income account and the contraction in remittances widened the current account deficit in the first quarter of 2019.

The sustained pace of economic growth of recent years brought a decrease in unemployment, despite a significant proportion of employment remaining informal, with precarious working conditions. According to the results of the Continuous Employment Survey conducted by the National Institute of Statistics, published in June 2019, by the fourth quarter of 2018 the unemployment rate in urban areas was 4.27%. In terms of pay, policy has continued to drive above-inflation wage increases. Indeed, the national minimum wage reached 2,122 bolivianos (US$ 305) in 2019, up 3% on 2018.