Plurinational State of Bolivia

1. General trends

Economic growth slowed to 4.8% in the Plurinational State of Bolivia in 2015 (compared with 5.5% in 2014), as international prices for the country's principal export commodities plummeted. The hydrocarbon sector in particular, which had propelled growth in recent years, was a net drag on the economy during the year. The contribution of gross fixed capital formation to growth diminished in 2015, though it remained positive. The decline in investment and weaker household consumption led to a sharp slowdown in imports, and as a result net exports weighed less on growth. The country's external position remains strong, with ample international reserves and low external debt.

According to ECLAC estimates, growth is set to lose pace in 2016, at 4.5%. Domestic demand should continue to be the main driver, supported primarily by a planned increase in public investment. The 2016 State budget includes an outlay of US$ 6.395 billion on public investment (compared with US$ 4.892 billion in 2015), with a particular focus on investment in the production sector. Meanwhile, the slowdown in private consumer spending is likely to ease as an increase in private sector lending should offset any deceleration in real wage growth. The contribution of net exports to growth is more dependent on gross fixed capital formation: increased investment should strengthen imports at a time when the value of exports is set to decline as commodity prices fall further.

2. Economic policy

(a) Fiscal policy

Plummeting export prices hit fiscal accounts hard in 2015. As expected, hydrocarbon revenues — which made up roughly one third of total government revenues in 2014— dropped by 26%, hurting total income (-4.3%). More specifically, revenue from the direct tax on hydrocarbons and hydrocarbon royalties fell sharply (-30% and -32% respectively). Tax revenues edged up (3.2%) despite weak growth in the corporation tax take (0.3% to November), which was hit by the decline in extractive industries' profits. However, receipts from value added tax (6% to November) and transaction tax (9%) were stronger, reflecting some underlying momentum in domestic demand.

Government spending remained close to the level seen the previous year, rising just 0.8%. Nonetheless, the types of spending varied considerably. Despite the significant increase budgeted for the full year, capital spending was much lower (-17%) as a result of the break for subnational elections held on 29 March. This performance also reflects the potential limitations that subnational governments face in implementing investment budgets that have grown rapidly within the space of a few years: public investment by departmental and local authorities rose from US$ 700 million in 2010 to a peak of US$ 2.1 billion in 2014. In contrast, current spending rose significantly (13%), offsetting the fall in capital spending. In particular, personal services spending increased (21%, representing 70% of the total increase in current spending), owing in part to the increase in civil servants' wages decreed in May (8.5%) and the second bonus payment in December.

These trends in public revenues and spending led to a general government deficit of 4.5% of GDP at the end of 2015, 2.0 percentage points up on the year-earlier period. The deficit was funded mainly with the government's central bank deposits, which decreased by 19% (from 20% of GDP to 16% of GDP), and an increase in external debt, mainly through multilateral creditors' disbursements. Meanwhile, the national treasury's domestic debt edged down by 2%, reflecting the institution's efforts to preserve the effects of the central bank's expansionary monetary policy. The weight of non-financial domestic and external public debt is still low relative to GDP (29%).

For the 2016 budget, the government signalled that it would continue pushing public investment to support the country's economic growth, with an increase of 3.5% forecast compared with the 2015 budget, which implies a 30.7% jump versus the amount actually invested that year. The central government —including State-owned companies— will play a more dominant role than in recent years, representing 80% of the budget total compared with 60% in 2015. Government revenue is expected to decline, triggering an increase in the non-financial public sector deficit to 4.5% of GDP, versus 3.6% in the 2015 budget (which climbed to 6.3% of GDP on the basis of actual figures).

On the basis of preliminary figures for the first quarter of 2016, government revenue fell by 11.1% compared with the year-earlier period, although this was slightly better than the decline of 13.8% seen in the fourth quarter of 2015. The year-on-year fall in hydrocarbon revenues slowed (-30.2%, compared with -36.4% in the fourth quarter of 2015). In contrast, tax revenue edged down by 5.9% in the quarter, which suggests weakness in domestic demand. Current spending shrank by 14.5% compared with the 2015 trend. Although capital spending also decreased year-on-year, the figures for early 2016 are not necessarily indicative of those for the full year as execution levels are normally high in the last few months of the year.

(b) Monetary policy

Monetary policy was countercyclical in 2015: the central bank tried to even out the shock in the terms of trade and subsequent drag on gross national income and keep prices stable. Nonetheless, in the first quarter of the year, it pursued a contractionary policy in order to absorb the excess liquidity generated at the end of 2014 and counteract supply-side price fluctuations. As a result, monetary regulation securities increased by 15% during the first quarter, owing mainly to the placement of new certificates of deposit. The central bank also employed a new monetary regulation instrument in the first quarter —special deposits for monetary regulation (DERMs)— which consists of voluntary short-term deposits by financial institutions in the central bank under certain conditions (including the amount on offer and the yield).

Monetary policy became more expansionary between April and the end of the year, amid softer domestic demand, lower inflationary pressure and declining international reserves (which fell by 17% between December 2014 and December 2015). The decrease in monetary regulation securities by about 56% between March (when they peaked) and December clearly reflected the change. The liquidity that had been locked up through the use of DERMs was also released in the second quarter. Legal reserve requirements were also adjusted in May to inject more liquidity into the financial system. These adjustments included a change in the composition of reserve requirements and an increase in the percentage of financial intermediary funds that can be used as reserves. The central bank's measures led liquidity to almost double (95%) to a historical level of roughly 19 billion bolivianos (US$ 2.7 billion) in December.

The decline in interest rates for monetary regulation instruments led to reduced lending and deposit rates. Between December 2014 and December 2015, the effective lending rate fell by 64 basis points and the effective deposit rate for term deposits dropped by 114 basis points. The greater amount of resources available for services and the lower interest rates reactivated growth in private sector lending from August onwards (with a year-on-year change of 15.5% at the end of July, which rose to 17.5% at the end of December). Lending to the production sector grew substantially (47%), with significant increases in loans for manufacturing, construction and agriculture. There was also a sharp uptick in lending for social housing, which had benefited more than 24,000 families at the end of December. In both cases, the increases reflected the full entry into force of the measures included in the Financial Services Act at the end of 2013.

The central bank slowed its injection of liquidity into the financial system in the first quarter of 2016. Monetary regulation securities decreased by 7% between the end of December and March, owing mainly to net repayments in January and February, since March saw an increase. Nonetheless, the central bank signalled its intention to pursue an expansionary monetary policy in 2016 to support domestic demand, in line with its dual objective of maintaining price stability and supporting the country's economic and social development.

(c) Exchange-rate policy

Exchange-rate policy held steady in 2015. The central bank remained committed to maintaining its crawling peg, citing its role in anchoring inflation expectations and in supporting the Bolivianization of the financial sector. Nonetheless, the real effective exchange rate continued to appreciate. Between 2014 and 2015 it had dropped by 10.8%, but at the end of May 2016 it had climbed 8% year-on-year, potentially to the detriment of domestic firms that export non-traditional goods.

(d) Other policies

Aware that the weakness in hydrocarbon revenues (which have funded public investment in the past few years) could continue, the government has sought other sources of income and funding. For example, it signed an addendum to the memorandum of understanding (MoU) on energy with Brazil in July 2015 to generate and export 8,000MW of electricity. US$ 27 billion is set to be invested exclusively in power generation projects between 2015 and 2025. The National Electricity Enterprise (ENDE) announced in January 2016 that it would invest roughly US$ 2.56 billion to increase electricity reserves, extend transmission lines and launch exports to Argentina (1,000MW planned).

Nonetheless, the importance of the hydrocarbon sector cannot be overlooked. In December, the government adopted the Investment Promotion Act on Hydrocarbon Exploration and Use, which sets aside a portion of revenues from the direct tax on hydrocarbons to fund production incentives that stimulate investment in the sector and increase the country's production and reserves. The government expects investment in the sector to rise to US$ 30 billion between 2015 and 2025, with about 80% of this amount stemming from government projects.

In October 2015, the government announced that it had received a US$ 7.0 billion line of credit —representing 22.8% of GDP— from China, to finance investment in infrastructure and generate hydroelectric energy in collaboration with Chinese companies. Nonetheless, using up this credit line would more than double the country's external debt (17% of GDP in 2015).

3. The main variables

(a) The external sector

The decline in international commodities prices, particularly for hydrocarbons and minerals (which represent 80% of exports), has led to a deficit in the balance of goods since the last quarter of 2014, bringing an end to 10 years of surpluses. Exports dropped by more than 30% in 2015, while imports fell by 8%. The main factor responsible for the trend in imports was the 9% contraction in capital goods imports.

Transfers, which comprise mainly remittances from Bolivians working abroad, and which are a significant contributor to domestic household consumption, increased slightly in 2015 (1.3%).

The deterioration in the trade balance was offset somewhat by an improvement in the income account, as net investment income outflows were more limited. A current account deficit emerged in 2015, reverting the trend of surpluses every year since 2004, and representing 5.8% of GDP.

In 2015, the deficit in the capital and financial account grew significantly. Net FDI inflows, which had sustained the financial account in the past, plunged by 22% in 2015, confirming a significant drop since 2013. Net portfolio investment outflows also picked up pace, as did outflows of other investments. This resulted in a loss of reserves representing 5% of GDP. However, although international reserves contracted, they were still ample and represented about 45% of GDP at the end of December 2015, which is equivalent to 16 months of import cover.

Mineral and hydrocarbon prices are expected to continue falling in 2016 (from January to April, the price of natural gas, the main export, plummeted 30% compared with the year-earlier period). Hence, exports could decline further this year. In the first four months of 2016, exports plunged 30% compared with the same period in 2015. Imports began falling in mid-2015 and between January and April 2016 declined by 17%, but this was not enough to improve the goods trade balance and the current account deficit could widen in 2016. In the first quarter of 2016, the current account posted a deficit of US$ 513 million, higher than the year-earlier period, and net capital outflows totalled US$ 363 million, which led to a US$ 876 million decline in reserves.

(b) Economic activity

Economic activity decelerated in 2015. GDP growth fell by 4.8% due to the markedly lower contribution from extractive industries and a sharp drop in investment. The hydrocarbon sector’s contribution to GDP growth declined significantly, from 0.4 percentage points in 2014 to -0.1 percentage points in 2015, owing to falling natural gas prices, along with a slight year-on-year decrease in production (-0.8% in the first half of the year compared with 2014). Mining was also affected by the decline in mineral and metal prices, which hurt the profits of companies in the sector, resulting in a significant decline in their contribution to growth (from 0.3 percentage points in 2014 to -0.1 percentage points in 2015). In contrast, the contribution from agriculture increased (from 0.5 percentage points to 0.6 percentage points), reflecting a recovery in production, which had been affected by flooding in 2014. An increase in the government’s current spending boosted the contribution of public administration services (from 0.7 percentage points to 0.9 percentage points).

The softness in demand in 2015 stemmed from a marked reduction in gross fixed capital formation’s contribution to growth (1.0 percentage points compared with 2.0 percentage points in 2014).

General government investment, which had increased substantially in the last few years, dropped sharply in 2015. Weaker trade momentum led to a less negative contribution from net exports, which went from -1.6 percentage points in 2014 to -0.1 percentage points in 2015, reflecting the decline in gross fixed capital formation, which depends largely on imported intermediate and capital goods. Household consumption continued to drive growth in 2015 (contributing 3.6 percentage points to GDP growth), but to a lesser extent than in previous years. In contrast, the contribution from public consumption increased, as mentioned previously, owing to an increase in current spending.

GDP growth is set to slow to 4.5% in 2016.

(c) Prices, wages and employment

The decline in domestic demand lowered inflationary expectations in 2015. Following a sudden increase in the prices of food and non-alcoholic beverages in January, inflation slowed gradually during the first half of the year, as supply-side shocks subsided. This downward trend reverted somewhat during the third quarter as rising food prices pushed up overall inflation (by 4.3% year-on-year in October, compared with 3.1% year-on-year in July). Nonetheless, cumulative inflation stood at 3.0% in December 2015, 2.2 percentage points lower than in 2014.

Wage growth continued to support household consumption. Average nominal private sector wages rose by 8.7% year-on-year in June 2015, representing an increase of 5.4% in real terms when factoring in inflation, while average nominal public sector wages increased by 6.3%, or 2.9% in real terms. The government decreed a 15% increase in the national minimum wage in May 2015, which was lower than the 20% rise in the previous years. The downtrend continued in 2016, when the government approved an increase of 9%.

Table 1

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	4.6	6.1	3.4	4.1	5.2	5.1	6.8	5.5	4.8
Per capita gross domestic product	2.8	4.3	1.6	2.4	3.5	3.4	5.1	3.8	3.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.5	2.6	3.7	-1.2	3.1	4.1	4.7	3.8	5.1
Mining and quarrying	7.0	22.9	-2.0	4.0	5.2	4.9	9.0	5.9	-1.4
Manufacturing	6.1	3.7	4.8	2.6	3.7	4.7	6.1	4.0	4.6
Electricity, gas and water	4.3	3.6	6.1	7.3	7.3	5.8	5.1	6.4	6.3
Construction	14.3	9.2	10.8	7.5	8.0	8.0	10.6	7.8	5.4
Wholesale and retail commerce, restaurants and hotels	4.8	4.0	4.3	3.8	3.4	3.7	7.8	0.0	4.3
Transport, storage and communications	3.5	4.0	5.6	8.0	6.1	2.7	6.7	5.0	5.3
Financial institutions, insurance, real estate and business services	6.3	4.7	4.1	5.6	3.5	9.9	6.8	6.0	6.1
Community, social and personal services	3.7	3.5	5.6	3.6	5.1	5.1	7.6	6.1	7.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.1	5.3	3.7	3.9	5.5	4.6	6.4	5.6	5.7
Government consumption	3.8	3.9	3.8	3.1	7.2	4.9	9.3	6.7	9.2
Private consumption	4.2	5.5	3.7	4.0	5.2	4.6	5.9	5.4	5.1
Gross capital formation	11.1	29.3	3.9	7.1	25.9	-6.6	16.0	12.5	1.6
Exports (goods and services)	3.1	2.2	-10.8	9.9	4.6	13.3	4.1	10.9	-5.9
Imports (goods and services)	4.4	9.4	-10.2	11.0	17.0	4.3	8.2	15.1	-5.1
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	15.2	17.6	17.0	17.0	19.8	17.7	19.0	21.0	19.2
National saving	26.7	29.5	21.3	20.9	20.1	24.9	22.5	21.2	13.4
External saving	-11.5	-11.9	-4.3	-3.9	-0.3	-7.3	-3.4	-0.2	5.8
Balance of payments	**Millions of dollars**								
Current account balance	1,506	1,991	746	766	77	1,970	1,054	61	-1,923
Goods balance	918	1,444	415	812	431	2,676	2,319	1,783	-1,384
Exports, f.o.b.	4,504	6,525	4,960	6,402	8,358	11,254	11,657	12,301	8,302
Imports, f.o.b.	3,586	5,081	4,545	5,590	7,927	8,578	9,338	10,518	9,686
Services trade balance	-189	-200	-209	-263	-369	-342	-627	-1,099	-535
Income balance	-489	-536	-674	-864	-1,161	-1,629	-1,908	-1,707	-1,173
Net current transfers	1,266	1,284	1,213	1,081	1,175	1,266	1,270	1,084	1,169
Capital and financial balance d/	446	383	-421	157	2,083	-258	67	909	280
Net foreign direct investment	363	509	420	651	859	1,060	1,750	648	503
Other capital movements	83	-127	-841	-493	1,225	-1,318	-1,682	262	-224
Overall balance	1,952	2,374	325	923	2,160	1,712	1,122	971	-1,643
Variation in reserve assets e/	-1,952	-2,374	-325	-923	-2,160	-1,712	-1,122	-971	1,643
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	101.8	93.4	85.5	89.9	89.8	87.0	81.7	76.4	68.2
Terms of trade for goods (index: 2010=100)	93.9	99.0	95.2	100.0	118.1	112.3	94.5	79.9	65.0
Net resource transfer (millions of dollars)	-43	-154	-1,094	-707	923	-1,888	-1,840	-797	-893
Total gross external debt (millions of dollars)	5,403	5,930	5,801	5,875	6,298	6,625	7,756	8,543	9,445

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	11.7	11.8	0.3	7.2	6.9	4.5	6.5	5.2	3.0
Variation in nominal exchange rate (annual average)	-1.9	-7.8	-2.8	-0.2	-1.0	-0.5	-0.1	-0.1	-0.1
Variation in average real wage	-6.4	-7.7	2.3	3.5	-1.8	1.1	1.1	1.6	7.4
Nominal deposit rate h/	3.6	4.6	2.9	0.4	0.5	0.5	0.7	1.1	0.5
Nominal lending rate h/	8.3	8.9	8.5	5.2	6.3	6.7	7.0	6.5	6.4
General government	**Percentajes of GDP**								
Total revenue	32.8	32.7	32.8	30.8	32.8	35.0	36.7	37.7	36.1
Tax revenue	18.3	19.5	18.1	18.0	20.0	20.9	21.7	22.3	23.2
Total expenditure	30.5	32.7	34.8	30.9	33.9	33.2	35.4	40.2	40.6
Current expenditure	18.7	21.8	22.8	20.9	21.8	22.4	21.8	23.6	26.8
Interest	1.3	0.8	1.6	1.5	1.0	0.9	0.6	0.8	0.9
Capital expenditure	11.7	10.9	12.0	9.9	12.1	10.8	13.5	16.6	13.8
Primary balance	3.5	0.8	-0.4	1.4	-0.2	2.7	2.0	-1.7	-3.6
Overall balance	2.3	0.0	-2.0	-0.1	-1.1	1.8	1.4	-2.5	-4.5
Central government public debt	37.2	34.0	36.3	34.6	34.5	29.1	28.4	27.7	29.5
Domestic	24.0	22.7	24.4	23.3	19.2	15.9	13.3	12.6	12.4
External	13.1	11.3	12.0	11.4	14.6	13.3	15.1	15.1	17.1
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	42.0	39.4	43.5	44.4	44.9	48.7	48.6	55.3	65.5
To the public sector	8.0	8.3	9.6	8.7	8.5	10.1	10.0	12.0	14.5
To the private sector	34.0	31.1	33.9	35.7	36.3	38.5	38.7	43.2	51.0
Monetary base	16.9	18.5	24.3	23.6	25.1	26.0	24.4	26.9	31.4
Money (M1)	16.2	17.1	20.2	23.1	22.3	23.7	23.8	25.4	27.1
M2	23.9	26.1	34.3	40.5	43.3	50.0	53.2	58.9	69.2
Foreign-currency deposits	23.9	20.3	24.4	19.1	15.3	12.8	10.9	10.0	10.5

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/ Departamental capitals. Up to 2008, urban areas.
h/ Bank operations (61-90 days), in local currency. .

Table 2

PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	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/	5.7	4.8	6.1	5.3	4.7	5.1	3.6	5.9	...	...
Gross international reserves (millions of dollars)	14,522	14,627	15,181	15,329	15,066	14,733	14,356	13,517	12,696	11,979 c/
Real effective exchange rate (index: 2005=100) d/	76.3	78.2	77.1	73.9	70.0	70.2	67.0	65.4	62.1	65.5 c/
Consumer prices (12-month percentage variation)	6.1	7.3	4.3	5.2	4.8	3.2	4.1	3.0	3.3	5.0 c/
Average nominal exchange rate (bolivianos per dollar)	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Nominal interest rates (average annualized percentages)										
Deposit rate e/	0.9	1.2	1.3	1.1	0.5	0.6	0.5	0.5	0.5	0.3 c/
Lending rate e/	6.8	6.6	6.4	6.4	6.5	6.4	6.4	6.2	6.2	6.0 c/
Monetary policy rates	4.7	5.7	6.0	4.0	3.3	2.5	2.5	2.5	2.5	2.5
Domestic credit (variation from same quarter of preceding year)	19.2	18.6	17.0	15.9	15.5	15.9	17.2	18.1	18.8	...
Non-performing loans as a percentage of total credit	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	...

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/ Figures as of May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Bank operations (61-90 days), in local currency.