

Plurinational State of Bolivia

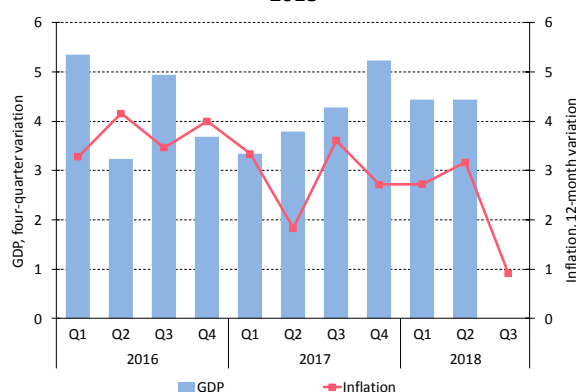
The Bolivian economy remained strong in 2018, marking up a year-on-year growth rate of around 4.4%. Public investment has been the economy's main driver, although consumption was also up considerably. Thanks to this good showing, the government announced that a second extra month's bonus would be paid in December 2018.¹ While the bonus will bolster the growth of household consumption, it will add to the country's sizeable fiscal and external deficits. The fiscal deficit has been growing for the last five years and is expected to amount to about 7.4% of GDP for 2018, although higher hydrocarbon prices in 2018 have mitigated both the fiscal deficit and the current account deficit (approximately 3.5% of GDP) somewhat. These imbalances, the maintenance of what amounts to a fixed exchange rate and smaller capital flows drove down international reserves in 2018. The strength of public investment in infrastructure and energy and in the health and education sectors is expected to continue in 2019, and this, in conjunction with the steady growth of consumption, will in all likelihood allow the economy to more or less match its 2018 growth rate in 2019.

The initial general government budget estimate for 2018 put the fiscal deficit at 8.3% of GDP, but the current projection places it at around 7.4%. Higher oil prices buoyed receipts from direct hydrocarbon taxes—which had jumped by 22% as of October 2018—and, as a result, total fiscal revenues were up by 5.6% for the same period. The cost (registered as current expenditure) of the payout of the extra bonus is estimated at approximately 1 point of GDP, which will partially offset the increase in fiscal revenues. The general government budget estimate contained in the bill now awaiting passage by the legislature puts the fiscal deficit at 6.9% of GDP for 2019.

The central bank kept interest rates low in 2018 and attempted to maintain a healthy amount of liquidity, which was constrained somewhat by the impact on the monetary base of the contraction in reserves. The authorities tried to inject liquidity into the economy by means of bond buybacks and a further reduction in the legal reserve rate for foreign-currency deposits. These resources were used to set up a fund for loans to production enterprises and for social housing that made it possible to augment credit flows to the financial system. Nevertheless, interest rates on deposits climbed steadily in the first part of the year. After the central bank reacted to this trend by altering the way in which it calculates the benchmark rate, that rate's level and volatility were both considerably reduced.

By keeping the nominal exchange rate low, the central bank helped to curb inflation. As of October 2018, the cumulative variation in the consumer price index was 0.9%, and it was expected to close out the year at around 3.5%.

Plurinational State of Bolivia: GDP and Inflation, 2016-2018



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

¹ This second bonus, which is known as “The Effort” in Bolivia, was introduced in 2013 as a benefit to be provided to workers when annual GDP growth exceeds 4.5% (as calculated for the 12-month period up to June of each year). This bonus was paid out for the 2013, 2014, 2015 and 2018 fiscal years.

Plentiful harvests also helped to hold down food and beverage prices. On the other hand, although the real exchange rate was fairly stable in 2018, it has appreciated by roughly 20% over the last five years.

The central bank has also helped to fuel economic development by providing financing for public enterprises, infrastructure works and social protection programmes.

During the first nine months of 2018, the 24% upswing in hydrocarbon prices—which more than made up for the 1.2% decrease in the volume of natural gas exports—boosted total exports, as they rose by 13.7% in value even though export volumes were up by only 0.5% for that period. This, plus the fact that imports edged up by just 3.9% during this period (mainly because the preceding period had set such a high basis of comparison), resulted in an improvement in the trade balance, which in turn eased the deficit on current account (narrowing it from 5.4% of GDP in 2017 to 4.1% as of June 2018 in annualized terms). This positive turn of events was also buttressed by a steady increase in remittances from emigrants, which climbed by 6% in the first half of the year and helped to offset part of the increase in external factor and interest payments. In the light of these trends, the deficit on current account is expected to close out the year at around 3.5% of GDP. Despite this improvement, however, slackening capital inflows in the form of both foreign direct investment and other types of funds in 2018 had driven international reserves down by 17% from their end-2017 level as of October 2018. In fact, international reserves have been falling since 2014, when they amounted to over 45% of GDP; as of September 2018, they were equivalent to no more than around 21% of GDP. Given this situation, external public-sector borrowing has been quite limited in recent years (amounting to 24% of GDP as at September 2018), despite the active public investment programme that was put in place when the government decided to use the external assets that had built up during the commodities boom for that purpose.

As mentioned earlier, in 2018 the Bolivian economy turned in a robust performance marked by a cumulative annual growth rate of 4.6% as of June. Its expansion has been led by investment, which jumped by 8.2%, and by strong household and government consumption (4.7% and 4.5%, respectively). The surge in investment has been led by public investment, which soared by 13% during that same period, as against a 6% increase in private investment,² while the strong growth of household consumption has been fuelled by expanding remittances and the second extra month's bonus payment.

The first half of 2018 saw more bountiful harvests in the wake of the serious drought in 2016. Public investment in irrigation works contributed to the 7.5% upturn in crop output, and even better

Plurinational State of Bolivia: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	4.3	4.2	4.4
Per capita gross domestic product	2.7	2.6	2.9
Consumer prices	4.0	2.7	1.3 ^b
Real average wage ^c	1.7	1.7 ^d	...
Money (M1)	9.6	2.0	7.6 ^e
Real effective exchange rate ^f	-4.6	3.8	-4.2 ^g
Terms of trade	-20.2	15.5	7.9
	Annual average percentage		
General government			
Overall balance / GDP	-3.4	-5.0	...
Nominal deposit rate ^h	0.5	1.4	1.9 ^b
Nominal lending rate ⁱ	6.2	6.0	6.4 ^b
	Millions of dollars		
Exports of goods and services	8 275	9 504	10 565
Imports of goods and services	10 789	11 678	12 082
Current account balance	-1 944	-2 013	-1 423
Capital and financial balance ^j	-1 102	2 001	-332
Overall balance	-3 046	-12	-1 755

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/ The figure correspond to the average of the first semester.

e/ Figures as of August.

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/ Nominal local-currency rate for 61-90-day operations of the banking system.

i/ Nominal local-currency rate for 61-90-day operations of the financial system.

j/ Includes errors and omissions.

² Public investment accounted for 61% of total investment in 2018 according to the figures compiled by the National Institute of Statistics (INE).

harvests are expected in 2019. Investment drove the 6.1% expansion of the construction sector, while the 5.6% increase in financial services was fuelled by the support provided for industrial credit and social housing loans. Hydrocarbon production was the most sluggish sector, growing by just 1.5% in the first half of 2018, and it may actually close out the year with a slight contraction, since exports of natural gas to Brazil and Argentina weakened during the second half. The country's hydrocarbon output is estimated to have dropped, on average, from 55.11 MMm³/d in 2017 to 54.22 MMm³/d in 2018, and the outlook for 2019 is uncertain, since the contract for natural gas sales to Brazil will expire and the terms of its renewal are now being negotiated. The mining sector did record some growth but is dealing with a number of institutional challenges that may limit its expansion. However, large-scale investments in energy, and particularly in electrical power generation and transmission, are being made that should have a positive impact on production in 2019.

The strength of the economy held unemployment down to an estimated level of around 4.1% as of July 2018, according to preliminary figures. No wage statistics are yet available for 2018, but the real minimum wage climbed by 3% in 2018 and has risen by over 130% over the past 10 years.