PLURINATIONAL STATE OF BOLIVIA

1. General trends

In 2019, the economy of the Plurinational State of Bolivia slowed significantly, expanding just 2.2%, compared to 4.2% in 2018. This slackening was a result of a continued downturn in hydrocarbon output —compounded by an adverse international price situation— and a standstill in various activities owing to uncertainty caused by the October elections. Given the impact on domestic demand from measures to address the health crisis caused by coronavirus disease (COVID-19), and lower external demand, the Economic Commission for Latin America and the Caribbean (ECLAC) projects a contraction in GDP of 5.2% in 2020.

Lower demand pressures and a slowdown in food prices during the first half of the year drove down average annual inflation from 2.3% in 2018 to 1.8% at year-end 2019. Despite a slight rebound in food prices in March and April, cumulative inflation for the first six months of 2020 was 0.48%, similar to the prior-year period.

The 2019 non-financial public sector fiscal deficit was equivalent to 7.2% of GDP, representing a reduction from the 8.1% posted in 2018, driven by a fall in investment. Despite the limited fiscal space available, the measures announced by the government to address the pandemic are equivalent to 4.3% of GDP. Of this amount, around 40% corresponds to social spending (primarily transfers), 30% to initiatives to support employment and businesses and 20% to fiscal expenditure through forgiveness of taxes. The remaining 10% will be used to cover discounts on basic services.

To limit growth in the fiscal deficit in 2020 to 7.3% of GDP, the impact of lower revenues will be offset by capital expenditure cuts equivalent to around 3% of GDP. Required financing will therefore be in the region of US$ 3 billion. Around US$ 2 billion will be financed on the domestic market and the remainder will be covered by external resources, including roughly US$ 700 million from international financial institutions. Consequently, the gross debt of the non-financial public sector, which in 2019 was equivalent to 57.5% of GDP, is expected to rise to 64.9% in 2020.

Despite the decline in natural gas and mineral exports, the current account deficit narrowed from 4.6% of GDP in 2018 to 3.4% in 2019, owing to a sharp contraction in goods imports. Although first-quarter data show a relative improvement in the current account balance, this is the result of a significant slump in imports.

2. Economic policy

(a) Fiscal policy

Fiscal policy was clearly contractionary, as reflected in the decline in the non-financial public sector primary deficit from 7.2% of GDP in 2018 to 6.3% in 2019. The reduction in the deficit stemmed from a decline in investment, mainly in the case of public enterprises, from 13.1% of GDP in 2018 to 11.2% in 2019. Capital expenditures were lower owing to the completion of investment projects and measures to rationalize spending. Current expenditures were virtually unchanged from the prior year, at around 33.9% of GDP.

Total revenues fell by 0.8 points of GDP to 37.9% of GDP, driven by an overall fall of 3.2% in tax revenues (16.9% of GDP) in real terms and a decline of 21.8% in hydrocarbon tax revenue in real terms.

The deficit was mainly financed with domestic resources, including credit (2.7% of GDP) and deposits (1.3% of GDP) from the Central Bank of Bolivia. In 2019, non-financial public sector deposits with the central bank continued the descent begun in 2013, when they stood at 26.6% of GDP, falling from 13.2% of GDP in 2018 to 11.7% in 2019.

As regards the response to the health crisis from March 2020 onward, in addition to increased spending to strengthen health sector capacities, the Bolivian authorities took a number of steps to alleviate the negative impact on the most vulnerable from the mandatory confinement to curb the spread of COVID-19. These initiatives included extending the *Bono Familia* transfer scheme to all families with children in school, which is intended to benefit the poorest households. The *Canasta Familiar* scheme was also extended to more families, and transfers will be made to those who are not beneficiaries of other transfer programmes. These measures have been accompanied by payment of electricity bills for households with lower levels of consumption, and reductions in water and gas rates for all households, as well as the possibility to defer certain taxes, including business income and value added taxes.

To complement the reorientation of national resources, the government has obtained loans from the International Monetary Fund Rapid Financing Facility (US$ 332 million), the Andean Development Corporation (US$ 50 million), and the World Bank (US$ 254 million).

(b) Monetary policy

The Central Bank of Bolivia’s monetary policy regime uses the pegged nominal exchange rate as a nominal anchor, and the net domestic credit growth rate as its operational target, to keep inflation near the target rate, which was cut from 4% to 3.5% in July 2019.

During 2019, the monetary authority maintained an expansionary policy stance, injecting liquidity into the financial system through open-market operations, keeping liquidity window rates at low levels (2.5% for repurchase operations), extending the fund for lending to the productive sector and low-income housing, and further cutting the reserve requirement in local currency by 15 percentage points (from 33% to 18% for deposits of up to 720 days) to create a new credit fund.

The central bank has maintained its expansionary monetary policy stance into 2020. It has injected around US$ 500 million into the financial system by purchasing bonds from pension funds, which are expected to channel the resources into the banking system. In addition, it was announced that small and medium-sized enterprises and individuals would have the possibility of deferring payment of loan principal for up to two months.

With regard to exchange rate policy, the nominal exchange rate was kept at 6.96 bolivianos to the dollar throughout 2019. To do so, the Central Bank of Bolivia authorized the sale of foreign currency to currency exchange establishments through Banco Unión for a total of US$ 1.5 billion between October and November, in response to uncertainty caused by elections.

Despite depreciation of the currencies of the Plurinational State of Bolivia’s key trading partners, inflation differentials meant that the real effective exchange rate appreciated 0.23% in 2019.

(c) Exchange-rate policy

Following the political and social tension unleashed by the elections in late October 2019 and the subsequent resignation of Evo Morales, the interim government led by Jeanine Áñez called general elections for 3 May 2020. However, in response to the health emergency, the election has been postponed until further notice.

The first cases of COVID-19 were confirmed in the Plurinational State of Bolivia in early March. By 23 June, 25,493 cases and 820 deaths had been recorded. Given the limited health-care infrastructure available, the government took measures to limit infection, including sweeping restrictions on the movement of people, border closures, and suspension of various activities involving large gatherings, such as face-to-face classes at schools.

As part of the package of measures to mitigate the effects of the pandemic, in mid-April, the government announced an emergency employment support plan, under which soft loans of up to two months' minimum wage may be extended to each worker registered in the integrated pension system, per month, for a maximum of two months. The loans have a repayment term of up to 18 months, with a grace period of up to 6 months.

A state of health emergency was declared on 25 March and a strict lockdown was imposed, which lasted until 11 May. Since then, a dynamic lockdown scheme has been in place, whereby locations are assigned one of three levels of risk, entailing different restrictions. Regardless of the risk level for each location, general restrictions such as physical distancing, mandatory use of facemasks, frequent handwashing and limited service hours have been maintained. In addition, borders remain closed, and flights, public events and face-to-face classes in schools are still suspended.

3. The main variables

(a) Economic activity

The significant slowdown in GDP in 2019 was primarily a result of a continued contraction in hydrocarbon production. Activity in the oil and natural gas sector fell by 10.3% in the year, adding to the 7.8% drop recorded in 2018. The lack of investment in the sector has affected production to such a degree that it has not been possible to add new deposits to replace depleted ones. This was compounded by uncertainty following the presidential elections in October, which paralysed various activities, resulting in a significant slowdown in activity in manufacturing (3.2%, down from 5.5% in 2018), transport (1.6%, from 4.4% in 2018), and public administration services (4.1%, from 6.8% in 2018).

On the expenditure side, the lower hydrocarbon production resulted in a 1.8% drop in exports of goods and services (5.2% in 2018). Meanwhile, growth in household spending slowed from 3% in 2018 to 2.6% in 2019. The fall was relatively small because the impact on aggregate activity was partially offset by improved conditions in the labour market, which still benefited from relatively upbeat economic activity up to the third quarter of the year. Although gross fixed capital formation contracted by 3.5%, its impact on growth was offset by a significant increase in inventories.

According to figures from the global index of economic activity (IGAE), which continued to show a sustained slackening of growth, in March the economy began to suffer the repercussions of measures to address the COVID-19 pandemic. The most affected sectors included non-food manufacturing, which contracted 9.2% year-on-year, construction (-14.6%), trade (-3.3%) and transport and storage (-11.3%).

(b) The external sector

The reduction in the current account deficit as a proportion of GDP is the result of a fall of around 1.5 percentage points of GDP in the value of imports of goods and services, driven by a 17.6% contraction in the value of capital goods imports. This more than offset the 10.1% decline in the value of fuel and lubricant exports.

During 2019, the primary income account deficit shrank by 0.5 percentage points of GDP to 1.9% of GDP, while the secondary income account balance fell slightly from 3.1% to 2.8% of GDP. The reduction in the deficit on the primary income account reflects less buoyant investment income, affected by the value of gas production (both volumes and prices). The smaller surplus on the secondary income account is the result of a 3.8% drop in remittance flows, mainly owing to weaker economies in Argentina and Brazil, as flows from the United States and Spain actually increased.

In addition to the current account deficit there were net outflows of foreign direct investment (0.5% of GDP) and other investment (1% of GDP). These outflows were compensated by net flows of portfolio investment equivalent to 1.4% of GDP (2.1% of GDP in 2018). Consequently, the current account deficit was fully financed with reserve assets.

The figures for 2020 show that the contraction in domestic demand has accentuated the decline in the value of goods imports, which fell 35.1% in the first six months of the year, outpacing the 25.5% decrease in goods exports, resulting in a steady reduction in the current account deficit.

Net international reserves stood at US$ 6.468 billion at the end of December 2019, equivalent to 15.7% of GDP or 7.9 months of imports — a significant drop from the US$ 8.946 billion recorded at the end of 2018. At year-end 2019, consolidated public sector external debt was equivalent to 26% of GDP, an increase of 1.6 points on the prior year.

(c) Wages and employment

The deceleration in average inflation in 2019 was mainly a result of a downturn in food and non-alcoholic beverage prices in the first half of the year. Despite the subsequent recovery in food inflation, which ended the year at an average of 2.9%, low inflation in the rest of the components led to muted aggregate price growth. By May 2020, food prices had fallen 0.4% from their December 2019 levels, while over the same period the non-food price index rose by 1%.

With regard to wages, in 2019 the average private sector wage grew by 4.3% in nominal terms and 2.8% in real terms, which compares favourably with the growth of just 0.5% in real terms in 2018.

According to the continuous employment survey results, in 2019 the labour force participation rate rose by one percentage point to 72.8%, although the breakdown by sex shows a small drop in the participation of women (64.5%). Meanwhile, the unemployment rate climbed from 3.5% to 3.8%, while the underemployment rate rose 0.3 percentage points to 3.9%. The figures at the end of the first quarter of 2020 show a worsening of employment conditions, as reflected in the drop in the participation rate to 70.9% and rises in the unemployment and underemployment rates of 4.3% and 4.4%, respectively.

Table 1

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	5.2	5.1	6.8	5.5	4.9	4.3	4.2	4.2	2.2
Per capita gross domestic product	3.5	3.5	5.1	3.8	3.3	2.7	2.7	2.8	0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.1	4.1	4.7	3.8	5.1	3.1	7.6	6.9	5.3
Mining and quarrying	5.2	4.9	9.0	5.9	-1.4	-0.5	-0.6	-3.4	-6.3
Manufacturing	3.7	4.7	6.1	4.0	4.6	6.2	3.3	5.5	3.2
Electricity, gas and water	7.3	5.8	5.1	6.4	6.3	5.3	4.0	3.4	2.8
Construction	8.0	8.0	10.6	7.8	5.4	7.8	5.0	3.5	1.9
Wholesale and retail commerce, restaurants and hotels	3.4	3.7	3.8	3.9	4.3	4.4	5.1	5.0	3.8
Transport, storage and communications	6.1	2.7	6.7	5.0	5.3	5.7	5.2	4.4	1.6
Financial institutions, insurance, real estate and business services	3.5	9.9	6.8	6.0	6.1	7.9	4.8	5.3	4.4
Community, social and personal services	5.1	5.1	7.6	6.1	7.8	4.3	4.6	6.1	4.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.5	4.6	6.4	5.6	5.8	3.1	4.8	4.4	3.7
Government consumption	7.2	4.9	9.3	6.7	9.2	1.6	4.9	5.1	3.8
Private consumption	5.2	4.6	5.9	5.4	5.2	3.4	4.7	4.3	3.7
Gross capital formation	25.9	-6.6	16.0	12.5	0.8	9.9	15.9	-0.5	0.6
Exports (goods and services)	4.6	13.3	4.1	10.9	-5.9	-5.7	-5.0	5.2	-1.8
Imports (goods and services)	17.0	4.3	8.2	15.1	-5.4	-4.2	5.6	1.9	1.5
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	19.8	17.7	19.0	21.0	20.3	21.1	22.2	20.6	19.9
National saving	22.1	24.9	22.5	22.8	14.4	15.4	17.2	16.1	16.5
External saving	-2.2	-7.3	-3.4	-1.7	5.9	5.6	5.1	4.5	3.3
Balance of payments	**Millions of dollars**								
Current account balance	537	1 970	1 054	570	-1 936	-1 907	-1 898	-1 823	-1 361
Goods balance	1 048	3 135	2 810	2 916	-388	-901	-547	-460	-236
Exports, f.o.b.	8 175	11 133	11 539	12 810	8 684	7 030	8 134	8 895	8 819
Imports, f.o.b.	7 126	7 997	8 729	9 894	9 072	7 931	8 681	9 354	9 055
Services trade balance	-703	-796	-1 118	-1 829	-1 592	-1 613	-1 626	-1 631	-1 476
Income balance	-986	-1 629	-1 908	-1 698	-1 127	-621	-1 110	-976	-787
Net current transfers	1 177	1 260	1 270	1 181	1 171	1 228	1 385	1 243	1 138
Capital and financial balance d/	1 624	-258	70	362	316	-1 139	1 666	594	-1 478
Net foreign direct investment	859	1 060	1 750	690	556	246	633	387	-285
Other capital movements	765	-1 318	-1 680	-328	-241	-1 385	1 033	207	-1 193
Overall balance	2 161	1 712	1 124	932	-1 620	-3 046	-232	-1 230	-2 839.0
Variation in reserve assets e/	-2 161	-1 712	-1 124	-932	1 620	3 046	232	1 230	2 839.0
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	89.8	87.0	81.5	74.5	65.0	61.8	63.8	60.5	57.0
Terms of trade for goods (index: 2010=100)	118.1	112.3	100.4	95.1	71.2	60.1	67.6	66.6	67.2
Net resource transfer (millions of dollars)	638	-1 888	-1 838	-1 336	-811	-1 760	556	-382	-2 266
Total gross external debt (millions of dollars)	6 298	6 625	7 756	8 543	9 445	10 703	11 702	12 491	13 478
Employment g/	**Average annual rates**								
Labour force participation rate	65.9	61.2	63.4	65.8	61.0	66.0	67.4	70.8	73.0
Open unemployment rate h/	2.7	2.3	2.9	2.3	3.5	3.5	3.6	3.5	3.7

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	6.9	4.5	6.5	5.2	3.0	4.0	2.7	1.5	1.5
Variation in nominal exchange rate									
(annual average)	-1.0	-0.5	-0.1	-0.1	-0.1	0.1	0.1	0.0	-0.1
Variation in average real wage	1.1	1.1	1.1	1.5	5.7	1.7	1.8	3.1	-0.3
Nominal deposit rate i/	0.5	0.5	0.7	1.1	0.5	0.5	1.4	2.1	2.4
Nominal lending rate i/	6.3	6.7	7.0	6.5	6.4	6.2	6.0	6.4	6.4
General government	**Percentages of GDP**								
Total revenue	32.8	35.0	36.7	37.7	36.1	31.3	29.3	28.0	...
Tax revenue	20.0	20.9	21.7	22.3	23.2	21.6	19.7	17.8	...
Total expenditure	33.9	33.2	35.4	40.2	40.6	34.6	34.3	34.0	...
Current expenditure	21.8	22.4	21.8	23.6	26.8	22.5	22.3	23.6	...
Interest	1.0	0.9	0.6	0.8	0.9	0.6	0.7	0.8	...
Capital expenditure	12.1	10.8	13.5	16.6	13.7	12.1	12.0	10.4	...
Primary balance	-0.2	2.7	2.0	-1.7	-3.6	-2.8	-4.4	-5.2	...
Overall balance	-1.1	1.8	1.4	-2.5	-4.5	-3.4	-5.0	-6.0	...
Central government public debt	34.5	29.1	28.4	27.7	29.5	31.4	34.4	36.0	40.4
Domestic	19.2	15.9	13.3	12.6	12.4	12.7	12.0	13.4	15.7
External	14.6	13.3	15.1	15.1	17.1	18.7	22.4	22.6	24.7
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	44.9	48.7	51.5	55.3	65.5	75.8	78.2	81.8	87.8
To the public sector	8.5	10.1	11.1	12.0	14.5	17.3	18.5	19.5	22.1
To the private sector	36.3	38.5	40.4	43.2	51.0	58.6	59.7	62.2	65.7
Monetary base	25.1	26.0	24.4	26.9	31.4	26.9	26.8	26.1	26.6
Money (M1)	22.3	23.7	23.8	25.4	27.1	26.8	25.6	24.6	23.3
M2	43.3	50.0	53.2	58.9	69.2	69.4	70.4	70.2	68.1
Foreign-currency deposits	15.3	12.8	10.9	10.0	10.5	9.7	8.6	7.7	8.4

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/ New measurements have been used since 2016; the data are not comparable with the previous series.
h/ Nationwide total.
i/ Bank operations (61-90 days), in local currency.

Table 2

PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	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/	4.9	4.8	4.0	3.3	3.1	2.6	2.2	1.1	...	...
Gross international reserves (millions of dollars)	9 999	9 628	9 022	8 731	8 382	8 326	7 908	6 586	6 258	6 398
Real effective exchange rate (index: 2005=100) c/	64.3	62.0	58.0	57.7	58.2	57.8	56.5	55.4	55.1	51.4 d/
Open unemployment rate	4.2	3.5	3.3	3.0	4.4	3.5	3.3	3.6	4.2	...
Employment rate	65.6	68.7	69.5	69.7	69.3	70.4	71.1	70.4	70.6	...
Consumer prices (12-month percentage variation)	2.7	3.2	0.9	1.5	1.1	1.7	2.3	1.5	1.4	1.4
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 d/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	2.1	2.0	1.4	2.8	2.0	2.6	2.7	2.3	2.6	3.3 f/
Lending rate e/	6.4	6.2	6.3	6.6	6.7	5.5	6.7	6.5	6.6	6.4 f/
Monetary policy rates	2.5	2.2	2.5	2.5	2.5	2.5	2.5	2.8	2.8	2.8
Sovereign bond spread, Embi + (basis points to end of period) g/	426	497	474	568	280	253	291	218	645	630
Domestic credit (variation from same quarter of preceding year)	14.2	14.2	13.7	12.7	11.9	11.0	10.1	8.4	8.7	...

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

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