PLURINATIONAL STATE OF BOLIVIA

1. General trends

The economy of the Plurinational State of Bolivia grew by 4.3% of gross domestic product (GDP) in 2016. While this is one of the highest rates in the region, it has been decelerating over the last three years. This growth was driven by public investment and by an expansive monetary policy that offset a weak external trade performance, caused mainly by a deterioration in the country's terms of trade following the fall in prices for energy and mining products that began at the end of 2014. The fastest-growing sectors in 2016 were the financial, construction and industrial sectors, which grew by 7.9%, 7.8% and 6.2%, respectively, while the hydrocarbon sector shrank by 4.4%. With regard to expenditure, household consumption continued to underpin GDP growth, as both public consumption and investment slowed in 2016. The savings built up during the commodity-price supercycle covered the financing of the fiscal deficit in 2016, which was 6.6% of GDP despite the retrenchment in spending, as it failed to offset the drop in public revenues resulting from lower hydrocarbon sales.

According to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC), growth will remain moderate in 2017 (up to 4.0%) because, despite the improvement in the international context, the weaker performance of the hydrocarbon sector will have an impact not only on production, but also on public finances. According to the economic authorities' projections, fiscal spending should be adjusted in 2017; however, the fiscal deficit of the consolidated public sector could reach 7.8% of GDP, mainly as a result of lower revenues from natural gas sales. Thus, investment and public consumption could be curbed.

Consequently, investment projects must be developed that diversify and strengthen the public revenue mix; otherwise the ambitious investment programme for the period 2016-2020, covered by the Economic and Social Development Plan, could be affected, limiting growth possibilities.

2. Economic policy

(a) Fiscal policy

The drop in oil prices in 2016, together with economic slowdown in Brazil —one of the main importers of Bolivian gas — led to lower hydrocarbon revenues (26%), which exacerbated the fall in public revenues (8%) from the non-financial public sector. Revenues from hydrocarbons have been declining since 2015, in line with the collapse of commodity prices. Lower public revenues have led to the adoption of a contractionary fiscal policy with regard to the consolidated public sector. Total spending cuts were in line with the fall in revenues, which meant that the fiscal deficit remained at around 6.6%, slightly lower than it was in 2015. The biggest retrenchment was made in current expenditure, which at 10% was much bigger than the cut in capital expenditure (4%). However, capital expenditure by State-owned companies, prioritized in the General State Budget, grew considerably in 2016 (14%), which, together with the drop in revenues from hydrocarbon sales, has widened the deficit attributable to these companies.

Public investment has continued to expand, as part of the government-led Economic and Social Development Plan. According to official data, public investment reached a record level of US$ 4.102

billion in November 2016, a 9% increase over November 2015. In this regard, heavy investment in water, basic sanitation and irrigation has helped to mitigate the effects of droughts in recent years.

The deposits that public entities had accumulated in their accounts at the Central Bank of Bolivia (BCB) in earlier years were drawn down to finance the fiscal deficit; but a degree of fiscal space remains since the debt is still at a low level. The domestic debt of the General Treasury of the Nation stood at 12.4% of GDP on 30 October 2016, while the medium-term external public debt was equivalent to 19.4% of GDP; although that is still low, it has been steadily increasing over the last decade.

According to the General State Budget for 2017, the deficit is projected to reach 7.8% of GDP as a result of a 3% reduction in government revenues, which could once more be affected by a 23% fall in hydrocarbon sales. Under the budget presented, fiscal expenditure is expected to contract in line with revenues, with a 2.7% drop in capital expenditure that would more than offset the 1.4% rise in current expenditure. To date, gas exports to Brazil and Argentina have fallen, which will have a negative impact on the direct tax on hydrocarbons, revenues from which are distributed among subnational governments. In April 2017, it was decided to raise the minimum wage by 10.8%, which will affect public expenditure on wages.

In March 2017, the Plurinational State of Bolivia issued on international capital markets US$ 1 billion of sovereign bonds with an average maturity of 10 years and an annual rate of interest of 4.5%, better conditions than previous issuances held in 2012 and 2013.[1] This issuance, together with a financial cushion of international reserves, the Liquid Asset Requirement Fund, the Fund for the Productive Industrial Revolution and the savings and insurance protection funds, which totalled 38% of GDP as of December 2016, improved the financial position, although there are limitations on the use that the government can make of these funds.

(b) Monetary policy

In 2016, the central bank continued to pursue its expansionary monetary policy, first adopted in mid-2014, keeping liquidity high and interest rates low in a context of moderate inflation.

Net domestic credit doubled compared with 2015 and loans to the financial sector increased sharply, while lending to the non-financial public sector grew more slowly than in 2015. That expansion of lending to the financial sector generated a high availability of lendable resources, leading financial intermediaries to issue more loans.

In line with the expansionary monetary policy, there was a net redemption of monetary regulation securities; maturities were significantly higher than placements and the balance of monetary regulation securities declined from the level seen at the end of 2015. Meanwhile, maintaining the minimum required reserve of cash and securities in 2016 allowed liquidity to be injected into the economy. The Financial Services Act draws a distinction between reserve requirements and sets a higher rate for deposits made in a foreign currency to encourage the Bolivianization of financial transactions.

Liquidity remained high during 2016, albeit below the historic high seen at the end of 2015. The central bank kept monetary policy rates close to zero for most of the year, which held down financial intermediation rates throughout that period. This high liquidity encouraged the financial sector to issue loans to the private sector, chiefly the industrial and construction sectors, in accordance with the

[1] Previous interest rates were 4.87% in 2012 and 5.95% in 2013.

provisions of the Financial Services Act which calls for financing for the production sector and low-income housing. These sectors were the most buoyant of the economy of the Plurinational State of Bolivia in 2016.

(c) Exchange-rate policy

Exchange-rate policy held steady in 2016. 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, which could be detrimental to domestic firms that export non-traditional products. The real exchange rate appreciated by close to 5% in 2016, according to ECLAC figures.

(d) Other policies

National strategic public companies have a key role to play in the development plan being promoted by the government, so the central bank has continued to finance projects on the industrialization of hydrocarbons, energy security, the industrialization of lithium and food security, in accordance with the current legal framework. Hence, the central bank has financed the liquid separation plants of Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and a urea and ammonia plant in Cochabamba, construction of which was 99% complete by the end of 2016 and will boost exports. With regard to the increase in power generation, there are two hydroelectric projects: one in Cochabamba, which in November 2016 was 41.6% complete, and the other in La Paz, which is in an initial phase and 6.9% complete. Both projects will add 327 MW of generating capacity. The first phase of the lithium industrialization project on the Uyuni salt flats, which was the inauguration of a pilot plant, was completed by December 2016. The second phase, building the industrial plant, is 46% complete and in January 2017 work began to establish the research and development centre. The central bank also provided financing for investment projects at the San Buenaventura sugar production plant, which was 98.2% complete by December 2016.

3. The main variables

(a) The external sector

In 2016, the current account deficit improved slightly compared with 2015, decreasing from 5.7% of GDP to 5.6% (US$ 1.876 billion), which together with a capital outflow of US$ 1.17 billion, led to a significant drop in international reserves of US$ 3.046 billion.

The fall in international commodity prices, particularly for hydrocarbons and minerals, which account for 72% of exports, led to a deficit in the balance of goods in the last quarter of 2014, bringing an end to 10 years of surpluses. The decline in export prices and lower demand for Bolivian gas from Brazil would explain the 19% drop in exports seen in 2016. Hydrocarbon exports decreased by 46%, while soya exports grew by 11% and mineral exports by 7.4%. Imports contracted by 13%, as a result of sharp falls in imports of capital goods (19%), intermediate goods (14%) and, to a lesser extent, consumer goods (6%). As a result, the trade balance worsened considerably in 2016, reaching a deficit of US$ 817 million.

Current transfers saw modest growth of close to 2.6% in 2016.[2] Remittances, which mostly come from Spain, have fallen by 40% in recent years as a result of the weak labour market conditions in that country. Remittances from Brazil also fell during 2016 following the economic slowdown there. However, heavy migration to Argentina and Chile has increased remittances from those countries considerably.

Lower prices for hydrocarbons and minerals also meant lower profits for foreign investors and, therefore, lower factor payments abroad. This led to an improvement in the income deficit, down from US$ 1.127 billion in 2015 to US$ 661 million in 2016.

Meanwhile, capital flows slackened in 2016, with a net cash outflow from both portfolio investments (US$ 834 million) and other investments (US$ 335 million) and with falling levels of foreign direct investment since the end of 2014.[3]

International reserves fell 22% in 2016 after financing the current account deficit and the net outflow of capital, but remained at high levels with respect to GDP (30%) thanks to the savings built up during the boom in hydrocarbon prices.

Prices for hydrocarbons and minerals are expected to recover in 2017.[4] In terms of export volume, hydrocarbon exports plummeted in the first quarter, while mining production is showing signs of growth.[5] However, it is estimated that exports could grow by around 10%. Given that imports are also expected to recover, the trade balance could remain at levels similar to those of 2016. Remittances should continue to grow in line with the economic recovery of the main countries of origin (Spain, the United States and Argentina), which would go some way to absorbing the shock of higher overseas income payments due to higher hydrocarbon prices. All these factors would mean that the current account deficit will be similar to that of 2016. The international issuance of sovereign bonds would help to finance that deficit, since other financial flows are not expected to pick up.

(b) Economic activity

GDP of the Plurinational State of Bolivia grew at a rate of 4.3% in 2016, higher than the regional average, but is evidence of an economic slowdown, as the national average of the last five years was around 5.5%.

Most sectors performed well in 2016, with the exception of the natural gas and oil sector, which contracted by 4.4%. Softer Brazilian demand for Bolivian natural gas, owing to the industrial slowdown and the increased production of hydroelectric energy, as well as the maintenance work on the Margarita field, explain the drop in hydrocarbon production. Natural gas production averaged 57.8 million m^3 per day, down 4.2% over the previous year, and crude oil production fell by 7.3%. Low interest rates,

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[2] In this economy, the main component of transfers is remittances from workers abroad, which make a substantial contribution to household consumption, accounting for about 3% of GDP in 2016, well above that of other Andean countries, where they account for around 1.5%.

[3] A significant portion of other investment outflows are advances for manufacturing capital goods abroad. Those goods will then be imported in the coming months for public investment projects.

[4] In the first four months of the year, the prices of the main products in the export basket of the Plurinational State of Bolivia have increased significantly compared to the same period in 2016: the price of oil is up by 52%, zinc by 59%, tin, 26% and silver, 15%. However, these increases should slow down over the course of the year, as the first half of 2016 offers a low basis of comparison.

[5] According to the Ministry of Mining and Metallurgy, in the first quarter of 2017, production volume was up 9% compared to the same quarter in 2016.

increased liquidity and the promotion of credit to the production and low-income housing sectors, in the framework of the Financial Services Act, are in line with the growth of the financial and construction sectors, of 7.9% and 7.8%, respectively. Construction has been further boosted by public investment projects. The main drivers of the economy were manufacturing (1%) and financial institutions (0.5%), while hydrocarbons had a negative impact on GDP (-0.3%).

Domestic demand was buoyed by household consumption, which grew by 3.4%, with a 2.4% contribution to GDP, supported by more lending to the private sector and higher remittances from abroad. There was a sharp slowdown in the other components of domestic demand in 2016; public consumption went from growth of more than 9% in 2015 to a mere 1.6% in 2016. Despite greater investment in public companies, total investment growth decreased from 5% in 2015 to 3.4% in 2016.

According to the Ministry of Hydrocarbons and Energy, natural gas production reached 52.93 million m^3 per day in January 2017, slightly below the 2016 average. However, according to the Ministry of Mining and Metallurgy, mining production grew 9% during the first quarter of 2017. This growth, together with other buoyant sectors such as industry, construction and financial services, could mitigate to a certain extent the effects of the poorer performance of hydrocarbon production. With regard to domestic demand, remittances and rising wages will continue to underpin household consumption. There is no sign of an uptick in public consumption or investment, so the economy is expected to slow down slightly in 2017, with growth of 4%.

(c) Prices, wages and employment

Exchange rate stability, lower demand pressures and the correction of food prices helped to keep inflation at relatively low levels, with a cumulative 12-month variation of 4% as of December 2016, lower than the average rate for the last 10 years of 6%. In the first months of 2016, the prices of perishable foodstuffs, mainly tomatoes, rebounded, as supply was limited by external factors, but then normalized in the second half of the year. Meanwhile, lower demand pressures were revealed by inflationary trend indicators, such as the consumer price index (CPI) without food and the core CPI, which by December 2016 showed cumulative growth of around 2.5%.

Inflation was up by 0.48% in the first quarter of 2017, while cumulative 12-month inflation reached 3.34%. By the close of the current fiscal year, the economic authorities expect inflation to be around 5%, higher than it was in 2016.

Public sector wages saw real growth of 1.6% in 2016, in line with the previous three years. Real wages in the private sector increased by 4%, according to data for the first half of 2016. Since 2006, the government has been steadily increasing the minimum wage. In 2016, it was readjusted by 9% in nominal terms and, in May 2017, the government set a minimum wage increase of 10.8%, representing a real increase of 6%, in line with the growth seen in 2016. However, a higher minimum wage has a limited impact, given the high levels of informal employment in the Plurinational State of Bolivia.

In May 2017, the government announced a plan to reduce the unemployment rate that includes both infrastructure projects, which will create direct jobs, and training programmes for workers and incentives for hiring firms.

Table 1

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	6.1	3.4	4.1	5.2	5.1	6.8	5.5	4.9	4.3
Per capita gross domestic product	4.3	1.6	2.4	3.5	3.4	5.1	3.8	3.2	2.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.6	3.7	-1.2	3.1	4.1	4.7	3.8	5.1	3.1
Mining and quarrying	22.9	-2.0	4.0	5.2	4.9	9.0	5.9	-1.4	-0.5
Manufacturing	3.7	4.8	2.6	3.7	4.7	6.1	4.0	4.6	6.2
Electricity, gas and water	3.6	6.1	7.3	7.3	5.8	5.1	6.4	6.3	5.3
Construction	9.2	10.8	7.5	8.0	8.0	10.6	7.8	5.4	7.8
Wholesale and retail commerce, restaurants and hotels	4.0	4.3	3.8	3.4	3.7	3.8	3.9	4.3	4.4
Transport, storage and communications	4.0	5.6	8.0	6.1	2.7	6.7	5.0	5.3	5.7
Financial institutions, insurance, real estate and business services	4.7	4.1	5.6	3.5	9.9	6.8	6.0	6.1	7.9
Community, social and personal services	3.5	5.6	3.6	5.1	5.1	7.6	6.1	7.8	4.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.3	3.7	3.9	5.5	4.6	6.4	5.6	5.8	3.1
Government consumption	3.9	3.8	3.1	7.2	4.9	9.3	6.7	9.2	1.6
Private consumption	5.5	3.7	4.0	5.2	4.6	5.9	5.4	5.2	3.4
Gross capital formation	29.3	3.9	7.1	25.9	-6.6	16.0	12.5	0.8	9.9
Exports (goods and services)	2.2	-10.8	9.9	4.6	13.3	4.1	10.9	-5.9	-5.7
Imports (goods and services)	9.4	-10.2	11.0	17.0	4.3	8.2	15.1	-5.4	-4.2
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	17.6	17.0	17.0	19.8	17.7	19.0	21.0	20.3	20.8
National saving	29.6	21.3	20.9	20.1	24.9	22.5	22.8	14.6	15.2
External saving	-12.1	-4.3	-3.9	-0.3	-7.3	-3.4	-1.7	5.7	5.5
Balance of payments	**Millions of dollars**								
Current account balance	2 015	746	766	77	1 970	1 054	577	-1 879	-1 876
Goods balance	1 467	415	812	431	2 676	2 319	2 922	-331	-817
Exports, f.o.b.	6 448	4 960	6 402	8 358	11 254	11 657	12 810	8 673	6 986
Imports, f.o.b.	4 980	4 545	5 590	7 927	8 578	9 338	9 888	9 004	7 803
Services trade balance	-200	-209	-263	-369	-342	-627	-1 829	-1 592	-1 598
Income balance	-536	-674	-864	-1 161	-1 629	-1 908	-1 698	-1 127	-661
Net current transfers	1 284	1 213	1 081	1 175	1 266	1 270	1 181	1 171	1 201
Capital and financial balance d/	359	-421	157	2 083	-258	67	356	259	-1 170
Net foreign direct investment	508	426	672	859	1 060	1 750	690	556	395
Other capital movements	-149	-846	-514	1 224	-1 318	-1 682	-334	-298	-1 565
Overall balance	2 374	325	923	2 160	1 712	1 122	932	-1 620	-3 046
Variation in reserve assets e/	-2 374	-325	-923	-2 160	-1 712	-1 122	-932	1 620	3 046
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	93.4	85.5	89.9	89.8	87.0	81.5	74.9	65.6	62.5
Terms of trade for goods (index: 2010=100)	99.0	95.2	100.0	118.1	112.3	94.5	79.9	59.9	53.1
Net resource transfer (millions of dollars)	-177	-1 094	-707	923	-1 888	-1 840	-1 342	-868	-1 831
Total gross external debt (millions of dollars)	5 930	5 801	5 875	6 298	6 625	7 756	8 543	9 445	10 717

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	11.8	0.3	7.2	6.9	4.5	6.5	5.2	3.0	4.0
Variation in nominal exchange rate									
(annual average)	-7.8	-2.8	-0.2	-1.0	-0.5	-0.1	-0.1	-0.1	0.1
Variation in average real wage	-7.7	2.3	3.5	-1.8	1.1	1.1	1.5	6.8	4.6
Nominal deposit rate h/	4.6	2.9	0.4	0.5	0.5	0.7	1.1	0.5	0.5
Nominal lending rate h/	8.9	8.5	5.2	6.3	6.7	7.0	6.5	6.4	6.2
General government	**Percentajes of GDP**								
Total revenue	32.7	32.8	30.8	32.8	35.0	36.7	37.7	36.1	31.4
Tax revenue	19.5	18.1	18.0	20.0	20.9	21.7	22.3	23.2	20.7
Total expenditure	32.7	34.8	30.9	33.9	33.2	35.4	40.2	40.6	34.4
Current expenditure	21.8	22.8	20.9	21.8	22.4	21.8	23.6	26.8	22.2
Interest	0.8	1.6	1.5	1.0	0.9	0.6	0.8	0.9	0.6
Capital expenditure	10.9	12.0	9.9	12.1	10.8	13.5	16.6	13.7	12.2
Primary balance	0.8	-0.4	1.4	-0.2	2.7	2.0	-1.7	-3.6	-2.4
Overall balance	0.0	-2.0	-0.1	-1.1	1.8	1.4	-2.5	-4.5	-3.0
Central government public debt	34.0	36.3	34.6	34.5	29.1	28.4	27.7	29.5	31.5
Domestic	22.7	24.4	23.3	19.2	15.9	13.3	12.6	12.4	12.7
External	11.3	12.0	11.4	14.6	13.3	15.1	15.1	17.1	18.8
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	39.4	43.5	44.4	44.9	48.7	51.5	55.3	65.5	…
To the public sector	8.3	9.6	8.7	8.5	10.1	11.1	12.0	14.5	…
To the private sector	31.1	33.9	35.7	36.3	38.5	38.7	43.2	51.0	…
Monetary base	18.5	24.3	23.6	25.1	26.0	24.4	26.9	31.4	27.0
Money (M1)	17.1	20.2	23.1	22.3	23.7	23.8	25.4	27.1	26.9
M2	26.1	34.3	40.5	43.3	50.0	53.2	58.9	69.2	69.7
Foreign-currency deposits	20.3	24.4	19.1	15.3	12.8	10.9	10.0	10.5	9.7

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/ 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

	2015				2016				2017	
	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/	4.8	5.3	3.9	5.4	5.4	3.2	4.9	3.7	...	...
Gross international reserves (millions of dollars)	15 066	14 733	14 356	13 517	12 696	11 856	11 283	10 376	9 968	10 145 c/
Real effective exchange rate (index: 2005=100) d/	67.8	67.7	64.4	62.5	59.4	62.9	64.4	63.3	64.0	65.3 c/
Consumer prices										
(12-month percentage variation)	4.8	3.2	4.1	3.0	3.3	4.2	3.5	4.0	1.7	1.2 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/	0.5	0.6	0.5	0.5	0.5	0.4	0.5	0.5	0.7	1.8 f/
Lending rate e/	6.5	6.4	6.4	6.2	6.2	6.2	6.3	6.2	5.7	6.1 f/
Monetary policy rates	3.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	1.9 c/
Domestic credit (variation from same quarter of preceding year)	15.5	15.9	17.2	18.1	18.8	18.8	18.0	...	...	...
Non-performing loans as a percentage of total credit	1.6	1.6	1.6	1.6	1.7	1.7	1.6	1.6	1.7	1.7 f/

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.
f/ Figures as of April.

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