Plurinational State of Bolivia

In view of the weak performance of the global economy, the conflict between the Russian Federation and Ukraine, and domestic factors including the depletion of the country's gas reserves and political instability, the Bolivian economy is expected to grow by around 3.5% in 2022. Meanwhile, exchange rate immobility, government subsidies and the stricter export conditions will keep inflation close to the government target (3.3%). Additional adjustments in capital spending during the second half of the year in the face of growing current spending on gasoline and diesel imports could also maintain the fiscal deficit in line with the country’s fiscal programme (8.5% of GDP). The hydrocarbon deficit incurred by the Plurinational State of Bolivia in the last seven months of the year, together with lower mineral prices, may result in a less favourable current account balance. Lastly, the unemployment rate is expected to hold at 4.3%, albeit with higher levels of informality and therefore job insecurity.

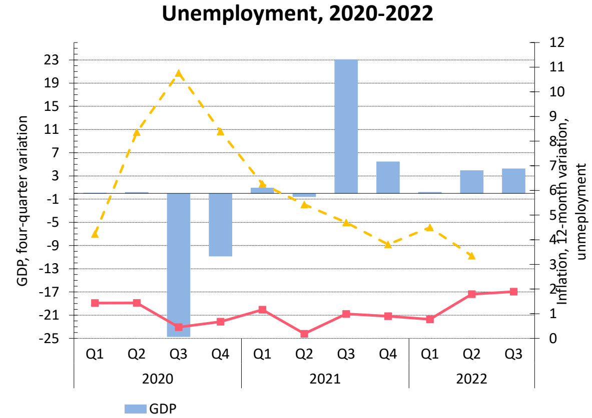
In the first half of 2022, cumulative non-financial public sector revenues rose 18.1% in real teams, to 20.3% of GDP. This year-on-year slowdown (from a 32.3% increase in the prior-year period) occurred in all sources of tax revenues and in particular income from hydrocarbon taxes and royalties, which fell 10.7% in real terms, owing to a decline in natural gas production.

Growth in total non-financial public sector expenditure also slowed (6.9% real growth in the first half of 2022, equivalent to 17% of GDP). Capital spending, which functioned as an adjustment variable, contracted by 14.2% owing in part to reduced access to external financing. In contrast, current expenditure continued to grow at higher rates (9.7%), driven primarily by rising fuel subsidies, which spiked following the outbreak of the conflict in Ukraine. With income increasing at a faster rate than spending, the country posted an overall surplus of 0.4% of GDP at the end of the first half of the year.

Regarding public financing, the partial exchange of US$ 850 million in previously issued sovereign debt in February 2022, together with the overall surplus, resulted in a reduction in net domestic credit equal to 0.6% of GDP. More recently, in September 2022, the Andean Development Corporation extended a US$ 400 million loan, to be used for public investment, which is usually concentrated in the fourth quarter.

Buoyed by inflation below the target set in its 2022 fiscal programme of 3.3%, monetary policy remained expansionary overall. Between December 2021 and October 2022, net domestic credit from the Central Bank of Bolivia to the financial sector grew by 6.8%, channelled through non-conventional instruments. More specifically, financial institutions received over US$ 305.1 million in liquidity loans backed by the fund for lending to the productive sector and low -income housing (II and III). The central bank’s open market operations balance consisted in US$ 26 million less year-on-year in liquidity withdrawals.

Plurinational State of Bolivia: GDP, Inflation and Unemployment, 2020-2022



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

In this context, credit growth in the financial system rebounded to 6.2% in the same period, with rescheduling representing close to 19% of the total. Meanwhile, the drop in labour income was reflected in a slowdown in deposits, which grew by 3.3%.

Given the country's critical level of net international reserves, the central bank's two most recent measures were aimed at encouraging dollar savings in the financial system, as well as providing greater liquidity. One measure doubled the commission for withdrawing dollars from the central bank, while the second reduced the legal reserve rates, in particular for foreign currency deposits. Exchange-rate policy ensured the continued stability of the rate against the dollar, a decision that mitigated external inflationary pressures to the detriment of reserve assets.

Plurinational State of Bolivia: main economic indicators, 2019-2021

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-8.7	6.1	3.5
Per capita gross domestic product	-10.0	4.7	2.1
Consumer prices	0.7	0.9	2.9 [b]
Real average wage [c]	-0.3	1.8	…
Money (M1)	5.1	4.7	…
Real effective exchange rate [d]	-5.7	1.3	2.7 [b]
Terms of trade	-0.7	33.3	5.1
	Annual average percentage		
General government			
Overall balance / GDP	-13.1	…	…
Nominal deposit rate [e]	3.4	1.9	1.4 [f]
Nominal lending rate [g]	6.3	6.9	6.5 [b]
	Millions of dollars		
Exports of goods and services	14 336	22 401	29 293
Imports of goods and services	14 779	19 500	25 055
Current account balance	3 121	6 708	-4 073
Capital and financial balance [h]	-10 848	-6 813	…
Overall balance	-7 727	-106	…

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/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
e/ Nominal local-currency rate for 61-90-day operations of the banking system.
f/ Figures as of September.
g/ Nominal local-currency rate for 61-90-day operations of the financial system.
h/ Includes errors and omissions.

Over the first nine months of 2022, Bolivian exports grew by a cumulative 32.6%, much less than in the same period of 2021 (138.8%). Both external and internal factors contributed to this performance, as did the statistical effect of the baseline. The conflict between the Russian Federation and Ukraine, and the consequent decline in the global supply of grains, hydrocarbons and fertilizers boosted external demand for these products from the Plurinational State of Bolivia, while the depleted gas reserves partially absorbed the geopolitical shock. However, the move by several countries to further tighten monetary policy slowed global economic activity and demand for minerals —silver, especially— from May onwards.

The manufacturing sector was the largest source of export growth (16.7 percentage points), thanks to soybean-derived products, gold and granulated urea. Hydrocarbons were the second largest source (7.9 percentage points), sustained solely by the price effect (a cumulative increase of 64.6% over the first nine months of 2022), given that depleted gas reserves resulted in a drop in volume of 15.6% over the same period. The third largest source of export growth was the agricultural sector, once again driven by unprocessed soy seeds and beans.

Imports grew by a cumulative 48% over the first nine months of 2022. This upward trend began in February and was exacerbated from April onwards owing to the higher prices (76.8%) and volumes imported (46.6%) of gasoline and diesel. This increase is the result of production trends in certain sectors, as well as smuggling to neighbouring countries, a practice driven by steep government subsidies for these energy products. The machinery and transportation equipment sector also had a significant impact (7 percentage points), primarily via imports for the agricultural sector that were driven in part by tax incentives.[1] Lastly, mercury imported from China for the gold sector pushed up the contribution of

[1] Act 1394 of 31 August 2021.

chemical products (4.2 percentage points) and also made the Plurinational State of Bolivia one of the world's largest mercury importers.

This accelerated growth in imports from February 2022 onward, together with the decline in exports from May of the same year, resulted in trade deficits in August and September. A similar trend is expected in the fourth quarter of 2022, both as a result of the depletion of gas reserves, and of a 36-day strike in Santa Cruz —the heart of the country's oilseed industry— in protest of the rescheduling of the population census, together with road blockages in the same region by government sectors to counter the strike.

Balance of payments data for the first half of 2022 show a current account surplus of 2.0% of GDP (US$ 859 million). Within this account, there was a goods trade surplus (US$ 1.682 billion), as exports and imports still performed favourably. In contrast, there was a trade deficit for services (US$ 857 million), affected by higher freight costs and a more robust recovery of outbound rather than inbound tourism.

Primary income was in deficit by US$ 569 million, a level very similar to 2021. On the debit side, this performance is explained by increasing payments on direct investment in mining and agroindustry, as well as external debt servicing, which is expected to intensify with the tightening of global financial conditions and the country's high level of public debt. On the credit side, yields on the central bank's international reserves were almost stable in the face of higher interest rates and declines in reserves.

In the first half of 2022, secondary income —a usual source of foreign exchange for the Bolivian economy— recorded meagre cumulative growth of 2% and reached 1.4% of GDP, in contrast to a significant 33% rebound in 2021. The depreciation of the euro and consequent slump in remittances received from Spain is one reason for this; another is the significant growth in remittances from the Plurinational State of Bolivia to other countries (a cumulative increase of 14.0%).

The financial account shows US$ 72 million (0.2% of GDP) in net asset purchases. In terms of direct investment, a net inflow of US$ 160 million came from reinvestment of profits, primarily by extractive companies, reflecting a slowdown from 2021. Portfolio investment also recorded net issuance of liabilities, corresponding to the partial exchange of sovereign bonds (US$ 850 million) in February 2022. The "Other investment" account was a notable source of foreign currency outflows, with a net acquisition of assets of US$ 462 million in deposits as a result of exchange-rate expectations, rising yields worldwide, and political and social instability.

Net international reserves are at critical levels, standing at US$ 3.852 billion on 18 November (a cumulative drop of 75% from their November 2014 high of US$ 15.478 billion), equivalent to 9.2% of the country's GDP. This is a worrying figure for the macroeconomic stability of a fixed-rate economy in which reserve assets should represent at least 16% of GDP. Total net international reserves cover less than three months of imports, and the scenario is even less encouraging if only the foreign exchange component is considered. In sum, the international investment position showed a debit balance of 16.4% of GDP.

By mid-year 2022, the GDP of the Plurinational State of Bolivia had grown by 4.1%, below the regional average of 5.1%.[2] In terms of supply, all sectors contributed positively except crude oil and

[2] Belize is not included in this figure.

gas, which fell 0.5 percentage points year-on-year. This performance is the result of nearly two decades of uninterrupted mining of gas reservoirs and limited to no investment in exploration.

In contrast, the greatest contributions to economic growth came from the transportation and communications sector (0.9 percentage points) and agriculture, forestry, hunting and fishing (0.9 percentage points). In the case of the former, buoyant world demand for metals until April 2022 was a determining factor for rail transport expansion. Likewise, the global substitution of grain, oilseed and fertilizer suppliers in the wake of the conflict between the Russian Federation and Ukraine had a favourable impact on both road transport and the agricultural sector. Agricultural production also benefitted from fewer adverse weather events in the first half of 2022, compared to the same period in 2021.

On the demand side, exports provided most of the growth (92%) with a gross impact of 3.8 percentage points, based on major products such as soybean derivatives, gold and zinc ore. Investment performance (-1.1 percentage points) detracted from this momentum, mainly on account of a public sector that is currently limited in its financial and implementation capacities, as well as a depletion of private sector stocks, particularly in agro-industry.

After recording 12-month inflation of under 2% for two and a half years, the rate of inflation in the Plurinational State of Bolivia gained momentum from June onward, reaching 3.17% in November 2022. The categories that contributed the most to inflation were food and non-alcoholic beverages (0.26 percentage points), food expenses outside the household (0.12 percentage points) and transportation (0.10 percentage points). Policies such as extensive subsidies on fuels, fertilizers and certain basic food basket items, along with exchange rate stability and export controls prevented further price hikes.

With regard to the labour market, although the unemployment rate in October 2022 (4.3%) was 1.1 percentage points lower than in December 2021, working conditions are more precarious. With informal work exceeding 80% of the total, the activities in which most of this workforce was concentrated were wholesale and retail sales, automotive repair and private domestic work, most of which offer neither social security nor job stability. Likewise, contractions in real income are thought to be encouraging more people in households to join the labour market.

In 2022, the Plurinational State of Bolivia is expected to grow by as much as 3.5%, driven by external and domestic factors. External factors include a sluggish global economy that will continue to hold back the mining sector, and the conflict in Ukraine, which will sustain trends in the agricultural, industrial and hydrocarbon sectors. The latter is likely to be offset by domestic factors such as the depletion of gas resources, political strife and social instability,[3] reduced fiscal capacities and droughts during the second half of the year.

Based on figures released in November, inflation is expected to approach the 3.3% target set by the government in its fiscal programme, as a result of seasonal and climatic factors and the continuation of policies in place to control inflation. Similarly, the fiscal deficit is expected to approach the target of 8.5% of GDP if the reduction in capital spending seen in the first half of the year continues. The balance of payments is likely to deteriorate in the second half of the year, owing to increasing imports of gas and diesel.

[3] Experts believe that the strike and blockades around Santa Cruz, which lasted over thirty-six days, cost US$ 1 billion in GDP at current prices.