Plurinational State of Bolivia

In view of the economic crisis caused by the health measures adopted to contain the coronavirus disease (COVID-19) pandemic, the Economic Commission for Latin America and the Caribbean (ECLAC) expects the Bolivian economy to contract by 8.0% in 2020. The crisis has fuelled a significant increase in the unemployment rate but subdued inflation, which is likely to end 2020 around 1.5% year-on-year. Although external demand for Bolivian goods and services has also been undermined by the pandemic, the effect on imports has been even greater, with the result that the current account balance is expected to record a slight surplus. As a result of the various measures adopted to alleviate the economic impact of the crisis, the non-financial public sector deficit is projected to reach 12% of gross domestic product (GDP).

Although the transitional government headed by Jeanine Áñez called general elections for 3 May, the health emergency meant that they were postponed, initially to the first week of August. A further postponement until 18 October triggered a series of protests during August. In the elections, Luis Arce, of the Movement Towards Socialism (MAS), was elected in the first round and took office in early November 2020. MAS representatives maintained a simple majority in both houses of the Plurinational Legislative Assembly.

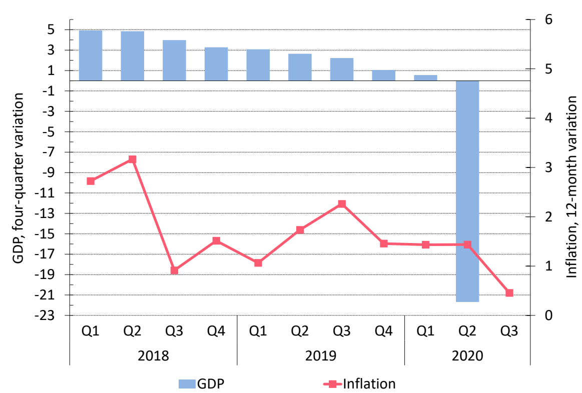
The draft General State Budget for 2021 foresees non-financial public sector revenues shrinking by 28% in real terms in 2020, owing to the 32% real reduction in tax revenue, equivalent to roughly 5% of GDP. This reflects both the fall in the level of economic activity and the extension of tax payment deadlines. Although total non-financial public sector expenditure remained constant in nominal terms, its composition changed significantly. Capital expenditure contracted by 6 percentage points of GDP, and current expenditure rose sharply, mainly owing to the measures adopted to mitigate the effects of the economic crisis.

In addition to the aforementioned tax deferrals (representing 1.5% of GDP), other measures include transfers to various segments of the population (equivalent to 1.7% of GDP), credit to firms and job support (1.2% of GDP) and discounts on basic services (0.3% of GDP). In total, the fiscal stimulus implemented in response to the crisis is valued at approximately 5% of GDP.

The deficit has been financed mainly through credit extended by the Central Bank of Bolivia (BCB) and, to a lesser extent, by debt issued on the domestic market. At the end of September, outstanding domestic public debt represented 21.6% of GDP, nearly 6 percentage points above the level at end-2019.

Monetary policy maintained an expansionary stance, with a view to underpinning liquidity in the financial system. In addition to lowering reserve requirements, the BCB purchased government bonds held by the Pension Fund Management Companies (AFPs);

Plurinational State of Bolivia: GDP and Inflation, 2018-2020



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

rescheduled loan repayments for clients of the national financial system; extended the range of eligible collateral; and announced the creation and expansion of various credit guarantee funds. According to official estimates, the monetary stimulus to the financial system is equivalent to 9.5% of GDP.

Interest rates in the financial system remained broadly stable in real terms until the end of the third quarter of the year. Although the nominal expansion of the M3 monetary aggregate (+3.7%) has eased slightly since the end of 2019 (+4.5%), the nominal growth of bank lending to the private sector slowed from 6.2% to 1.9% in the same period.

In the first half of 2020, the current account balance recorded a slight surplus of US$35 million (0.2% of semi-annual GDP), in contrast to the deficit of US$ 939 million (-4.7% of semi-annual GDP) recorded in the year-earlier period. This result is the combination of a narrowing of the trade deficit owing to the slump in imports; a reduction in the primary income deficit as a result of decreased profit repatriation; and the relative stability of the secondary income account. The latter was underpinned by an increase in transfers to the general government, since family-remittance inflows in the first half of the year were down by 30.7%.

Plurinational State of Bolivia: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	4.2	2.2	-8.0
Per capita gross domestic product	2.8	0.8	-9.3
Consumer prices	1.5	1.5	0.5 [b]
Real average wage [c]	3.1	-0.4	-1.0 [d]
Money (M1)	6.4	0.7	3.0 [e]
Real effective exchange rate [f]	-5.2	-5.8	-7.7 [b]
Terms of trade	-1.5	0.9	-6.3
	Annual average percentage		
General government			
Overall balance / GDP	-6.0	-6.9	...
Nominal deposit rate [g]	2.1	2.4	3.1 [b]
Nominal lending rate [h]	6.4	6.4	6.3 [b]
	Millions of dollars		
Exports of goods and services	10 353	10 259	3 584 [i]
Imports of goods and services	12 444	11 907	3 866 [i]
Current account balance	-1 823	-1 324	35 [i]
Capital and financial balance [j]	594	-1 515	-587 [i]
Overall balance	-1 230	-2 839	-552 [i]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Private-sector average wage index.
d/ Figures as of July.
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/ Nominal local-currency rate for 61-90-day operations of the banking system.
h/ Nominal local-currency rate for 61-90-day operations of the financial system.
i/ Cumulative figures to the second quarter of 2020.
j/ Includes errors and omissions.

On the financial account, in the first half of 2020 there was a net outflow of US$ 204 million (1.2% of semi-annual GDP), in contrast to a US$ 681 million inflow in the first half of 2019. This reflects net outward direct investment of US$ 378 million, compared to the year-earlier outflow of US$ 146 million; net inward portfolio investment of just US$ 54 million, significantly down on the US$ 1 billion inflow in the first half of 2019; and an inflow of US$ 120 million in respect of other investments.

In the first half of 2020, reserve assets decreased by US$ 552 million, mainly owing to the financing of direct investment operations. At the end of June, the balance of net international reserves stood at US$ 6.272 billion, equivalent to 16% of GDP and sufficient to cover seven months of imports of goods and services.

Having grown at a year-on-year real rate of just 0.6% in the first quarter of 2020, the Bolivian economy contracted by 21.7% in real terms in the second quarter, owing to the imposition of strict quarantine measures since late March. This resulted in a cumulative real contraction of 11.1% in the first six months year-on-year.

All sectors contributed to the overall GDP contraction, except agriculture and public administration services. The steepest falls were recorded in manufacturing (-12.8%), metallic and non-metallic minerals (-38.6%), construction (-50.9%) and transport and telecommunications (-13%). In terms of the components of aggregate demand, household consumption shrank by 6.1%, government consumption fell by 2.6%, and gross fixed capital formation dropped by 17%. The slump in domestic demand resulted in a 31.4% real contraction in imports of goods and services, which offset the effect of the 19.6% reduction in exports. As a result, net exports actually made a positive contribution to growth.

Although the trend of the monthly indicator of economic activity has recovered to some extent since the end of the second quarter, it seems to have stalled in August, when economic activity was disrupted by the protests against the postponement of the presidential elections.

Given the weakness of demand and the maintenance of a fixed exchange rate, consumer prices remained broadly stable until the end of the third quarter of 2020. Despite a slight uptick in August, owing to food supply problems caused by the roadblocks set up during the protests, cumulative inflation up to September, relative to December 2019, was just 0.5%. Food prices were 0.7% higher at the end of the third quarter, whereas prices in the rest of the consumption basket were up by 0.2%.

The urban employment indicators point to a general deterioration of the labour market conditions. The overall participation rate, which at the end of 2019 stood at 69% of the working-age population, fell to 65.6% in September, with the female participation rate a further 4.2 percentage points lower at 57%. In the same period, the unemployment rate rose from 4.8% to 10% of the economically active population. Compounding this, average nominal wages in the private sector fell by 0.6% (-1.9% in real terms).

For 2021, ECLAC is forecasting a tentative recovery in economic activity, with growth of around 3%. Growth prospects will be hampered by the relative weakness of external demand, and by the narrow margin available for implementing economic recovery policies. In this scenario, and assuming that the exchange-rate regime is maintained, the greater vibrancy of domestic demand is likely to trigger a slight uptick in inflation and a deterioration of the current account balance. Although the fiscal deficit in 2021 is set to be smaller than in 2020, it will still be close to 8% of GDP.