Plurinational State of Bolivia

Historic levels of natural gas production and rising private consumption fuelled economic growth in the Plurinational State of Bolivia in 2013. At the same time, there was a certain de-anchoring of inflation expectations. GDP growth is expected to slow in 2014.

The economy exceeded initial growth estimates in 2013, as record natural gas production and a boom in private consumption pushed GDP up by 6.4%. However, the economy also showed signs of overheating and inflation quickened considerably over the year. Macroeconomic policy tools were deployed to counteract this trend, especially in the second half of 2013. As a result, and also because of lower international oil prices —a benchmark for natural gas export contracts— slower economic growth of 5.5% is expected for 2014.

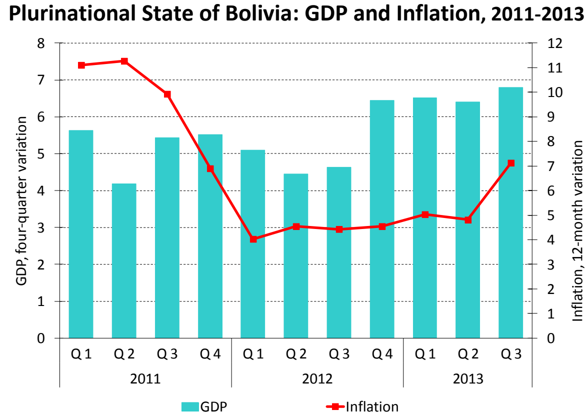
The solid performance of the economy, especially in the hydrocarbons sector, led total central government revenues to rise by 15.0% in real terms between January and October, slightly down on the same period in 2012 (17.9%). The introduction of a new foreign currency sales tax and the additional tax applied to the financial sector (both adopted in 2012) helped boost tax revenues, which rose by 13.0%. Revenue from hydrocarbons jumped 20.7%.

While revenues increased more slowly than in 2012, growth in total spending picked up (17.3% in real terms in 2013, compared with 7.6% the previous year). Public investment soared by 37.9%. An 8% wage hike for civil servants, and an increase in transfers, especially in the form of pensions under the Renta Dignidad ("decent income") programme, led to higher current expenditure. Faster spending growth caused a slight reduction in the overall balance; however the government expects to return a surplus at year end.

The public debt increased by 13.1% to October, which, given that the fiscal accounts posted a surplus, is primarily due to the successful US$ 500 million sovereign bond issue in August. The government will allocate the proceeds of this bond issue, the second in 12 months, to public investment. In consequence, the external debt at the end of October stood at US$ 4.990 billion, or 17% of GDP.

In the monetary sphere, 2013 was marked by increased inflationary pressures and high levels of liquidity. In this context, the central bank sought to drain liquidity from the market by stepping up sales of government securities and introducing new instruments aimed at the non-financial private sector. This process accelerated in September, and in October the central bank was able to withdraw a net sum of over 2.0 billion bolivianos from circulation through open market operations. Other factors that limited liquidity growth included an increase in non-financial public sector (NFPS) deposits with the central bank, which stood at 29.4% of GDP in the first half of the year, and a planned expansion in the foreign currency deposit base subject to an additional reserve requirement, which will rise continuously until 2016. The central bank also kept the nominal

Plurinational State of Bolivia: GDP and Inflation, 2011-2013



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

exchange rate stable throughout the year, in order to anchor inflation expectations.

In spite of these measures, monetary aggregates and public lending continued to grow rapidly, albeit somewhat slower than in 2011 and early 2012. In the 12 months to October 2013, bank lending to the private sector climbed by 20.7%, in a context of low arrears levels and favourable interest rates. However, the country's financial system is about to embark on a process of change as a result of the new Financial Services Act, which gives the government the power to determine lending rate ceilings, deposit rate floors and the composition of the loan portfolio. It will also be able to control fees and grace periods, and to regulate financial institutions in order to encourage lending to the production and housing sectors. The new regulation is expected to be completed by the end of the year.

Plurinational State of Bolivia: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	5.2	5.2	6.4
Per capita gross domestic product	3.6	3.6	4.9
Consumer prices	6.9	4.5	7.5 [b]
Real average wage [c]	-1.2	…	…
Money (M1)	27.2	18.3	13.7 [d]
Real effective exchange rate [e]	-1.4	-5.4	-4.9 [b]
Terms of trade	11.0	3.4	-3.7
	Annual average percentage		
Open urban unemployment rate	5.8	…	…
General government			
Overall balance / GDP	-1.1	1.8	0.4
Monetary policy rate	4.0	4.0	4.0 [b]
Nominal lending rate [f]	6.3	6.7	6.9 [b]
	Millions of dollars		
Exports of goods and services	9 238	12 178	12 473
Imports of goods and services	9 176	9 687	10 567
Current account balance	77	2 127	1 321
Capital and financial balance [g]	2 083	-416	-998
Overall balance	2 160	1 712	323

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] Figures as of July.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Nominal local-currency rate for 60-91-day operations.
[g] Includes errors and omissions.

In December 2012, the government nationalized four subsidiaries of the Spanish firm Iberdrola, then went on to nationalize the airport operator Servicios de Aeropuertos Bolivianos (SABSA), a subsidiary of Abertis part-owned by AENA of Spain. In the hydrocarbons sector, in August 2013 the government signed contracts with Gazprom (Russian Federation) and Total (France) for the exploration of the Azero block in the south-east of the country.

The Plurinational State of Bolivia returned a substantial current account surplus of about 3% of GDP at the end of the first half of 2013. This was mainly thanks to booming exports, which were up 29.1% in value terms, compared with a more modest increase in imports (up 10.3%). The most recent trade balance data suggest that this surplus will narrow by the end of the year, since imports grew by 12.0% and exports by just 6.3% over the period to September.

Remittances from emigrant workers totalled US$ 771 million to August, a 6.8% increase on the amount recorded in the same period in 2012. Remittances from Spain and the United States, which accounted for 63.7% of the total during the period, gained 11.5% and 19.8% respectively. The capital and financial account (including errors and omissions) remained in deficit, although foreign direct investment increased in the first half of 2013 on the back of reinvestment by companies that operate in the hydrocarbons sector.

Net international reserves continued to build up during the year as a result of the current account surplus, and stood at US$ 14.518 billion (about 50% of GDP) at the end of September. In October, international reserves fell by 1.8% (US$ 256 million), owing to a payment made into the Fund for the Productive Industrial Revolution (FINPRO), which is intended to strengthen agricultural production and consolidate food sovereignty.

Both the government and ECLAC had projected growth of about 5% for 2013, but the data for the first half-year suggest that the rate could be close to 6.4%. Between January and August, the overall index of economic activity (IGAE) was up 6.9% over the year-earlier period. However, there was a dip in activity in the crude oil and natural gas sector in September, which caused the growth rate to slip to 6.6%. The sectors that posted the fastest growth to September 2013, according to the overall index, were crude oil and natural gas (18.3%), construction (8.6%), transport and storage (8.1%) and manufacturing (6.7%). The key mining sector posted growth of just 1.3%, partly owing to lower international prices for minerals and metals, and also because a new mining law, currently under negotiation, is expected to enter force under the next administration. On the demand side, GDP growth in the first half of the year was fuelled mainly by private spending (which contributed 4.2 percentage points) and net exports (1.4 percentage points).

Inflation shot up between August and September, and stood at 7.5% over the 12 months to October, as a result of demand pressures and supply-side problems. On the demand side, key factors included higher economic growth and increases in civil servants' salaries and the national minimum wage. In terms of supply, weather events pushed up prices for the basket of basic products, especially potatoes and tomatoes. In addition to the central bank response, the government temporarily set the tariff rate at 0% for tomato, wheat and meslin products.

Although there is no continuous survey on the state of the labour market, the government maintains that unemployment is about 3%. Labour income increased thanks to the rise in civil servants' salaries and the 20% hike in the national minimum wage, which stood at 1,200 bolivianos. Among other labour policies, in October the government decreed that companies facing bankruptcy may be taken over by their workers and reformed as social enterprises.