PLURINATIONAL STATE OF BOLIVIA

1. General trends

The gross domestic product (GDP) of the Plurinational State of Bolivia grew by 4.2% in 2017. The growth rate accelerated from 3.5% in the first half of the year to 4.8% in the second, in year-on-year terms.

Growth was driven by investment, which increased by 11.8% in 2017, reflecting the government's emphasis on public investment and the upturn in consumption expenditure by both the public sector and households. This offset the lacklustre performance of exports, especially exports of hydrocarbons, which, despite the recovery of oil prices, shrank in volume terms owing to lower demand for Bolivian gas from Brazil. The most dynamic sector in 2017 was agriculture, which grew by 7.6%, while the hydrocarbons sector contracted by 2.4%.

The fiscal policy stimulus to economic activity led to a higher fiscal deficit in 2017, equivalent to 7.8% of GDP, which was mostly financed by external borrowing. The current account deficit also increased: to 6.3% of GDP. Capital flows meant that international reserves held steady in nominal terms, with the external debt increasing to the equivalent of 25% of GDP at the end of 2017. However, at the end of 2017, the country's net external assets, built up during the commodity-price supercycle, were equivalent to 35% of GDP.

Public investment will continue to drive economic activity in 2018. Combined with improved terms of trade thanks to higher prices for oil and some minerals, it will sustain public and private expenditure and lead to GDP growth of between 4.2% and 4.5%.

2. Economic policy

(a) Fiscal policy

The recovery of the price of oil in 2017 (the benchmark price used in contracts for exports of Bolivian gas to Argentina and Brazil) led to a 3% increase in revenue from hydrocarbons, following two years of steep declines. That induced a similar increase in the revenue of the non-financial public sector as a whole. However, non-financial public sector spending rose by 7% in 2017, above all owing to increased expenditure on wages and procurement of goods and services, which increased by 14.8% and 12.6%, respectively, while capital expenditure rose 1.9%. Thus, the overall deficit of the non-financial public sector expanded from the equivalent of 6.6% of GDP in 2016 to 7.8% in 2017. That deficit was financed mainly by external borrowing, taking the external debt from 21.4% of GDP at the end of 2016 to 24.9% at December 31, 2017. The external debt has risen steadily over the past decade: from 16.7% of GDP in 2007. The increase in 2017 in the indebtedness included a U$$ 1 billion sovereign bond issue in March. By international external debt sustainability criteria, the level of indebtedness of the Plurinational State of Bolivia is far from critical. Moreover, the Bolivian economy can fall back on significant savings generated during the commodity-price supercycle. At the end of 2017, these were equivalent to 35% of GDP and comprised international reserves (27.4% of GDP) and other external assets (9% of GDP) placed in a number of different funds.

Under the General State Budget for 2018, the consolidated public sector budget will be 2% larger than in 2017, reflecting the ongoing emphasis on public investment and expenditure on health and education, in particular (6.8% and 7.7% of the total, respectively). The budget envisages public investment totalling US$ 7.285 billion, equivalent to almost 18% of GDP. However, a matter of concern for the government is that, for the past three years, delays in certain projects have meant that less than 80% of budgeted appropriations for public investment have been executed. Judging by figures for the first quarter of 2018, which show higher budget execution rates than in the prior-year period, this trend could be reversed. The budget projects growth of 0.5% in public revenues for 2018, which would mean that the projected fiscal deficit for the 2018 financial year would be 8.3% of GDP. However, the show is based on an oil price projection of US$ 45.50 per barrel, which is well below the price recorded in the first four months of 2018 (US$ 63.73 per barrel). Thus, public revenues could exceed budget estimates. However, should year-on-year growth in June 2018 exceed 4.5%,[1] the possibility of a second extra month's bonus wage (*aguinaldo*) being paid has to be factored in. It could make a significant difference to the public sector wage bill and, hence, to expenditure, offsetting the above-mentioned increase in public revenues.

(b) Monetary policy

In 2017, 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.

Monetary issue in 2017 exceeded that of the year before, while net domestic credit of the Central Bank of Bolivia was lower than in 2016, essentially due to a contraction of lending to the financial sector, which to some extent offset the net domestic credit to the non-financial public sector generated by the fiscal expansion. According to central bank figures at April 2018, both currency issue and net domestic credit have continued to expand, especially to the non-financial public sector.

Following a drop in liquidity early in 2017, the central bank adopted a number of monetary policy measures to restore liquidity, such as lowering minimum reserve requirements and facilitating financial intermediaries' access to discount windows. Monetary policy rates were kept close to zero, which helped boost financial system lending to the private sector, especially to the production and low-cost housing sectors, in line with the Financial Services Act.

(c) Exchange-rate policy

Exchange-rate policy has held steady, anchoring expectations regarding the value of the dollar, consolidating the local currency and curbing inflation. In real terms, the exchange rate fell 5% between December 2016 and the end of 2017 as a result of the stability of the nominal exchange rate, nominal appreciation of the currencies of Bolivia's main trading partners and the low levels of inflation in the Bolivian economy. That reverses some of the appreciation of the real exchange rate over the past decade, with current levels being approximately 30% below those recorded in 2007.

(d) Other policies

The central bank continued its policy of helping to finance State-owned companies. Empresa Nacional de Electricidad (ENDE) was the company that received the largest flow of funds in 2017, to invest in hydroelectric and thermal power plants, transmission lines and photovoltaic solar energy. ENDE

[1] The second extra month bonus wage, known as the "Effort to Help Bolivia" (*Esfuerzo por Bolivia*), was created in 2013. The measure seeks to benefit workers when year-on-year GDP growth in the 12 months prior to September of each year exceeds 4.5%. The bonus was paid in 2013, 2014 and 2015, but not in 2016 and 2017, when the growth goal was not met.

has also promoted the "Living with Dignity" electricity programme, which has benefited some 48,000 families.

The central bank has also helped finance the Montero-Bulo Bulo tranche of the Rail Transportation System, built to ship urea and ammonia from the Bulo Bulo plant, and the expansion of the Mi Teleférico aerial cable transport system in La Paz and El Alto.

The urea and ammonia complex came on stream in the last quarter of 2017 and domestic market sales have begun. A contract has also been signed to export urea to Brazil.

A plant producing pipes and accessories for domestic market natural gas networks was opened in December 2017.

In April 2017, the Yacimientos de Litio Bolivianos company was founded to industrialize the natural resources of the Uyuni salt flats. A cathodic materials pilot plant was also inaugurated in 2017. By the second half of the year, construction of the potassium salts industrial plant was 93% complete. However, larger-scale exploitation of lithium resources is needed and the Bolivian State and the German consortium ACI Systems have formed a partnership aimed at investing US$ 1.3 billion to build four plants. Bolivian lithium will compete with that produced by Argentina (30,000 tons per year) and Chile (70,000 tons per year).

3. The main variables

(a) The external sector

The current account deficit increased from 5.7% of GDP in 2016 to 6.3% (US$ 2.377 billion) in 2017. However, capital inflows of US$ 2.365 billion meant that international reserves held steady. The largest inflows of capital stemmed mainly from a sovereign bond placement, the reinvestment of profits in on foreign direct investment and disbursements by international organizations for production and infrastructure projects.

The increase in the current account deficit was due, above all, to the higher profits of foreign investors resulting from the recovery in the prices of export products and higher interest payments on external liabilities. Thus, the deficit on the income account doubled between 2016 and 2017 to US$ 1.117 billion.

The 23% hike in oil and minerals prices in 2017 more than offset the drop in volumes of exports, so that overall exports grew by 10.7%. The volume of hydrocarbons exports fell by 11% owing to the 21% contraction in gas imports by Brazil. The drop in mineral exports is explained above all by lower volumes of silver exports. Minerals exports accounted for 48% of the total in 2017, while hydrocarbons accounted for 35%. Imports were more buoyant than in previous years, when they had fallen despite the upturn in economic activity. In line with the uptick in economic activity and especially the surge in investment, all categories of imports expanded in 2017 compared to the prior year (intermediate goods, by 10%; consumer goods, 9%; and capital goods, 8%). As a result, the trade deficit was US$ 855 million, similar to the deficit posted in 2016. In line with imports of goods, debits for services increased in 2017, raising the deficit on the services account to US$ 1.663 billion.

The 7% increase in family remittances to the Plurinational State of Bolivia in 2017 translated into a higher current transfers surplus (US$ 1.258 billion) and partially mitigated the current account deficit.

Remittances from workers abroad make a substantial contribution to household consumption. In 2017, they accounted for more than 3% of GDP, double the average for the other Andean countries.

In the first quarter of 2018, exports increased by 22% compared to the prior-year period. Hydrocarbons exports were up 33%, and minerals by 24%. This is the result of higher oil, gold, zinc and tin prices as well as the recovery in gas imports by Brazil, which in volume terms increased, from a low base, by more than 20% compared to first quarter 2017. Imports of goods held steady in the first three months of 2018. However, investment and public expenditure plans are likely to push them higher. Family remittances during the first quarter of 2018 increased noticeably (by 11%), which should to some extent offset the higher income account payments caused by higher export prices and higher interest payments.

(b) Economic activity

The growth of the Bolivian economy accelerated in the second half of 2017 and ended the year with an overall rate of 4.2%. During the first half, economic activity had expanded by 3.5%, partly thanks to a good crop year. However, the hydrocarbons sector contracted sharply owing to the decline in gas imports by Brazil during that period. In the second half of 2017, the hydrocarbons sector recovered along with all other sectors, triggering economic growth of 4.8%.

The most dynamic sector for 2017 overall was agriculture, which grew by 7.6% thanks to more favourable climatic conditions and an expansion of the area under cultivation. The transport and communications, commerce and construction sectors grew by approximately 5%. Increased agricultural output meant that more produce had to be transported, while public investment boosted construction of roads and infrastructure for water resources, communications and industrialization. Government services output increased by 4.8% compared to 2016, while both financial institutions and manufacturing experienced slower rates of growth. The only sector that shrank outright was hydrocarbons, whose output contracted by 2.4% in 2017.

Domestic demand continued to underpin Bolivian economic growth in 2017. Most notably, gross fixed capital formation increased by 11.8% (much more than the year-on-year expansion posted in 2016), driven chiefly by public investment. Public consumption also picked up in 2017, by 4.9%, similar to the expansion of household consumption (4.8%), which was boosted by higher wages and by remittances from abroad. External demand played only a modest role, owing to the 5% drop in exports of goods and services, as a result of the lower volumes exported of both hydrocarbons and minerals.

According to the authorities, economic activity remained buoyant in the early months of 2018. In the first quarter of 2018, the hydrocarbons sector rebounded thanks to the normalization of gas imports by Brazil; construction is growing by around 5%; agriculture and manufacturing by more than 4%; while mining was reportedly growing by only 1%. If the surge in investment and in both household and public consumption continues, the Bolivian economy could grow by between 4.2% and 4.5% in 2018.

(c) Prices, wages and employment

Exchange-rate stability and the correction of food prices helped to bring inflation down from 4% in 2016 to 2.7% in 2017. Inflation in respect of foodstuffs and beverages, the item with the highest weighting in the consumer price index (CPI) basket, was four percentage points lower than in 2016, as supply rebounded. The CPI for services held steady in 2017. Thus, there was little movement in the various inflation indicators.

In April 2018, cumulative 12-month inflation was 3.01%. By the close of 2018, as projected in the General State Budget for 2018, the economic authorities expect inflation to be around 4.5%, which would allow the central bank a fair amount of leeway with regard to monetary policy.

In May, 2018, the government announced a 3% hike in the minimum wage. Over the past 10 years, the national minimum wage in the Plurinational State of Bolivia has increased by 280%, while cumulative inflation for the same period was 63.8%. However, the minimum wage has a limited impact, given the high levels of informal employment.[2] At the same time as it announced the increase in the minimum wage, the government promulgated the Social Enterprises Act, under which a private enterprise in bankruptcy or receivership proceedings may be transferred to its workers as a way to restore jobs.

Social policies, higher wages and increased income for rural workers as a result of the improved performance of the agricultural sector have reduced poverty levels in the Plurinational State of Bolivia. According to the household surveys conducted by the National Statistics Institute (INE), poverty fell from 59.9% in 2006 to 36.4% in 2017, while extreme poverty dropped from 37.7% to 17.1% over the same period. After holding steady in 2013-2016, poverty indicators improved in 2017.

[2] Inter-American Development Bank (IDB) estimates for 2015 showed that only 16.8% of the workforce between 15 and 64 years of age with lower levels of education were affiliated to the social security system.

Table 1

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	3.4	4.1	5.2	5.1	6.8	5.5	4.9	4.3	4.2
Per capita gross domestic product	1.6	2.4	3.5	3.4	5.1	3.8	3.2	2.7	2.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.7	-1.2	3.1	4.1	4.7	3.8	5.1	3.1	7.6
Mining and quarrying	-2.0	4.0	5.2	4.9	9.0	5.9	-1.4	-0.5	-0.6
Manufacturing	4.8	2.6	3.7	4.7	6.1	4.0	4.6	6.2	3.3
Electricity, gas and water	6.1	7.3	7.3	5.8	5.1	6.4	6.3	5.3	4.0
Construction	10.8	7.5	8.0	8.0	10.6	7.8	5.4	7.8	5.0
Wholesale and retail commerce, restaurants and hotels	4.3	3.8	3.4	3.7	3.8	3.9	4.3	4.4	5.1
Transport, storage and communications	5.6	8.0	6.1	2.7	6.7	5.0	5.3	5.7	5.2
Financial institutions, insurance, real estate and business services	4.1	5.6	3.5	9.9	6.8	6.0	6.1	7.9	4.8
Community, social and personal services	5.6	3.6	5.1	5.1	7.6	6.1	7.8	4.3	4.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.7	3.9	5.5	4.6	6.4	5.6	5.8	3.1	4.8
Government consumption	3.8	3.1	7.2	4.9	9.3	6.7	9.2	1.6	4.9
Private consumption	3.7	4.0	5.2	4.6	5.9	5.4	5.2	3.4	4.7
Gross capital formation	3.9	7.1	25.9	-6.6	16.0	12.5	0.8	9.9	15.9
Exports (goods and services)	-10.8	9.9	4.6	13.3	4.1	10.9	-5.9	-5.7	-5.0
Imports (goods and services)	-10.2	11.0	17.0	4.3	8.2	15.1	-5.4	-4.2	5.6
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	17.0	17.0	19.8	17.7	19.0	21.0	20.3	21.1	22.2
National saving	21.3	20.9	20.1	24.9	22.5	22.8	14.4	15.4	15.9
External saving	-4.3	-3.9	-0.3	-7.3	-3.4	-1.7	5.9	5.7	6.3
Balance of payments	**Millions of dollars**								
Current account balance	746	766	77	1 970	1 054	571	-1 936	-1 932	-2 374.8
Goods balance	415	812	431	2 676	2 319	2 916	-388	-889	-868.9
Exports, f.o.b.	4 960	6 402	8 358	11 254	11 657	12 810	8 684	7 000	7 752.3
Imports, f.o.b.	4 545	5 590	7 927	8 578	9 338	9 894	9 072	7 888	8 621.3
Services trade balance	-209	-263	-369	-342	-627	-1 829	-1 592	-1 613	-1 657.3
Income balance	-674	-864	-1 161	-1 629	-1 908	-1 698	-1 127	-621	-1 121.8
Net current transfers	1 213	1 081	1 175	1 266	1 270	1 181	1 171	1 191	1 273.2
Capital and financial balance d/	-421	157	2 083	-258	67	362	316	-1 114	2 363.3
Net foreign direct investment	426	672	859	1 060	1 750	690	556	246	645.0
Other capital movements	-846	-514	1 224	-1 318	-1 682	-328	-241	-1 361	1 718.3
Overall balance	325	923	2 160	1 712	1 122	932	-1 620	-3 046	-11.6
Variation in reserve assets e/	-325	-923	-2 160	-1 712	-1 122	-932	1 620	3 046	11.6
Other financing	0	0	0	0	0	0	0	0	0.0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	85.5	89.9	89.8	87.0	81.5	74.9	65.6	62.6	64.9
Terms of trade for goods (index: 2010=100)	95.2	100.0	118.1	112.3	100.4	95.1	71.2	56.8	60.6
Net resource transfer (millions of dollars)	-1 094	-707	923	-1 888	-1 840	-1 336	-811	-1 735	1 241.5
Total gross external debt (millions of dollars)	5 801	6 050	6 553	6 954	8 078	8 842	9 796	10 703	12 687.1

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	0.3	7.2	6.9	4.5	6.5	5.2	3.0	4.0	2.7
Variation in nominal exchange rate (annual average)	-2.8	-0.2	-1.0	-0.5	-0.1	-0.1	-0.1	0.1	0.1
Variation in average real wage	2.3	3.5	-1.8	1.1	1.1	1.5	5.7	1.7	1.8
Nominal deposit rate h/	2.9	0.4	0.5	0.5	0.7	1.1	0.5	0.5	1.4
Nominal lending rate h/	8.5	5.2	6.3	6.7	7.0	6.5	6.4	6.2	6.0
General government	**Percentajes of GDP**								
Total revenue	32.8	30.8	32.8	35.0	36.7	37.7	36.1	31.3	29.3
Tax revenue	18.1	18.0	20.0	20.9	21.7	22.3	23.2	20.6	19.0
Total expenditure	34.8	30.9	33.9	33.2	35.4	40.2	40.6	34.3	34.3
Current expenditure	22.8	20.9	21.8	22.4	21.8	23.6	26.8	22.1	22.3
Interest	1.6	1.5	1.0	0.9	0.6	0.8	0.9	0.6	0.7
Capital expenditure	12.0	9.9	12.1	10.8	13.5	16.6	13.7	12.1	12.0
Primary balance	-0.4	1.4	-0.2	2.7	2.0	-1.7	-3.6	-2.4	-4.4
Overall balance	-2.0	-0.1	-1.1	1.8	1.4	-2.5	-4.5	-3.0	-5.0
Central government public debt	36.3	34.6	34.5	29.1	28.4	27.7	29.5	31.4	34.4
Domestic	24.4	23.3	19.2	15.9	13.3	12.6	12.4	12.7	12.0
External	12.0	11.4	14.6	13.3	15.1	15.1	17.1	18.7	22.4
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	43.5	44.4	44.9	48.7	51.5	55.3	65.5	75.8	78.2
To the public sector	9.6	8.7	8.5	10.1	11.1	12.0	14.5	17.3	18.5
To the private sector	33.9	35.7	36.3	38.5	38.7	43.2	51.0	58.6	59.7
Monetary base	24.3	23.6	25.1	26.0	24.4	26.9	31.4	26.9	26.8
Money (M1)	20.2	23.1	22.3	23.7	23.8	25.4	27.1	26.8	25.6
M2	34.3	40.5	43.3	50.0	53.2	58.9	69.2	69.4	70.4
Foreign-currency deposits	24.4	19.1	15.3	12.8	10.9	10.0	10.5	9.7	8.6

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/ Urban areas.
h/ Bank operations (61-90 days), in local currency.

Table 2

PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	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/	5.4	3.2	4.9	3.7	3.3	3.8	4.3	5.2	4.4	...
Gross international reserves (millions of dollars)	12 696	11 856	11 283	10 376	9 968	10 198	10 313	10 275	9 999	9 628
Real effective exchange rate (index: 2005=100) c/	59.4	63.0	64.5	63.4	64.1	65.3	65.1	65.2	65.0	62.3
Consumer prices (12-month percentage variation)	3.3	4.2	3.5	4.0	3.3	1.8	3.6	2.7	2.7	3.2
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 d/	0.5	0.4	0.5	0.5	0.7	1.5	1.1	2.2	2.1	2.0
Lending rate d/	6.2	6.2	6.3	6.2	5.7	5.8	6.2	6.4	6.4	6.2
Monetary policy rates	2.5	2.5	2.5	2.5	2.5	2.1	2.5	2.5	2.5	2.2
Domestic credit (variation from same quarter of preceding year)	18.8	18.8	18.0	18.5	19.4	16.8	16.3	15.5	...	...
Non-performing loans as a percentage of total credit	1.7	1.7	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9

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/ Bank operations (61-90 days), in local currency.