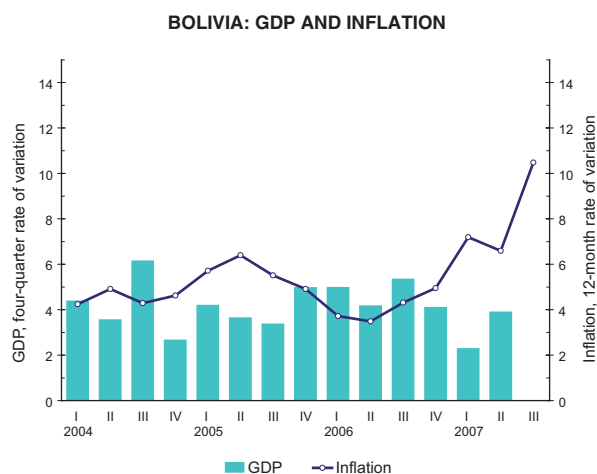


Bolivia

In 2007, Bolivia posted 3.8% growth in GDP, slightly down on the 2006 figure. The rate in the first half of the year was 3.2%, compared with the same period of 2006. While growth was recorded in the first half-year in activities such as construction (7.5%), transport and storage (5.6%), and manufacturing (4.5%), there were declines in others: crop production, forestry, hunting and fisheries (down 1.6%) and metallic and non-metallic minerals (down 4.3%). The first of these declines was due to flooding, which affected the eastern departments of the country in February and March, causing damage estimated by ECLAC at a total of US\$ 443 million.¹ The contraction in the mining industry was attributable mainly to social unrest at the Huanuni mine, which led to a substantial fall in tin production. A recovery in mining activity is expected in the second half-year, as the San Cristóbal mine is scheduled to dispatch its first exports in October.

Annual inflation, which stood at 4.95% at the close of 2006, is expected to rise to approximately 12% in 2007, mainly as a result of higher food prices (meat and wheat flour, especially). Once again, these increases are largely attributable to unsettled weather in the first quarter of the year associated with the El Niño phenomenon, which brought flooding to the eastern departments, while La Niña brought drought to the high Andean plateau. The problem was compounded by rising wheat prices in international markets. Nevertheless, measures taken by the government in the second half-year (in particular, the suspension of import tariffs on meat and wheat) helped to moderate these trends.

Central bank policies have also been directed at countering inflationary pressures. The 63.5% expansion in the money supply (M1) between September 2006 and September 2007 is indicative of the abundant



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

¹ See ECLAC, *Economic Survey of Latin America and the Caribbean 2006-2007 (LC/G.2338-P/I)*, Santiago, Chile, 2007. United Nations publication, Sales No. E.07.II.G.2.

liquidity situation. The central bank stepped up its open-market operations and postponed the relevant maturity dates in order to deepen the liquidity control policy and reduce the risk of reabsorption by maturity concentration. Consequently, the rate of return on 13-week public local-currency securities went up from 4.81% to 7.05% in the space of one year. The Central Bank of Bolivia used the local currency in a more dynamic way and, in order to contain the external pressures on prices, brought about a 3% appreciation of the peso between September 2006 and September 2007. In addition, the rate of the transaction fee on remittances of funds from abroad was increased to 1% in a bid to avert speculative capital inflows that could inject more liquidity into the economy; this measure does not apply to transactions conducted through the Central Bank by exporting companies.

A quick evaluation of the data for the first three quarters of 2007 compared with the same period of 2006 reveals that the government's fiscal policy was expansionary, with spending by the NFPS growing from 21.1% of GDP to 27.8%. The figures are not directly comparable, however, since the wholesale operations of Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and of the companies Empresa Metalúrgica Vinto and Huanuni were nationalized and thus incorporated into the public sector. If the effect of these nationalizations in the public accounts is discounted, the variation in total expenditure amounts to just 0.8% of GDP. In order to analyse the fiscal position and its impact on inflation, it should be borne in mind that the fiscal accounts, while slightly lower than in the previous year, continue to show a surplus: the NFPS balance shows a total accumulated surplus of 3.9% of GDP to September 2007, compared with 6.3% in the first eight months of 2006. In terms of external debt, the public accounts continue to benefit from the processes initiated under the highly indebted poor countries debt initiative (HIPC II). In June 2007, an Inter-American Development Bank (IDB) debt-relief package for a total of US\$ 1.171 billion came into effect, reducing accumulated debt to US\$ 2.094 billion in September 2007.

The Government of Bolivia is continuing to prioritize investment in the social sector: it has built hospitals and launched various health and education programmes. Between 2005 and 2006, social spending soared by 34% and a similar increase is expected in 2007. The rate of investment in the production sector of the economy still remains low, however: 5% of GDP by the private sector and 7% by the public sector in 2006. The weak investment rate, which has been a problem for decades, will make it difficult to sustain the growth rate. The government is therefore

BOLIVIA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	4.0	4.6	3.8
Per capita gross domestic product	1.8	2.5	1.7
Consumer prices	4.9	4.9	11.9 ^b
Real minimum wage	-5.1	4.5	-1.0
Money (M1)	30.1	44.7	49.0 ^c
Real effective exchange rate ^d	7.4	1.9	-0.4 ^e
Terms of trade	7.5	20.4	1.9
Annual average percentages			
General government overall balance / GDP	-2.3	3.6	2.1
Nominal deposit rate ^f	1.7	2.5	2.4 ^g
Nominal lending rate ^f	8.2	7.9	8.2 ^g
Millions of dollars			
Exports of goods and services	3 280	4 297	4 684
Imports of goods and services	2 865	3 437	3 809
Current account	634	1 319	1 471
Capital and financial account	-197	120	-271
Overall balance	437	1 439	1 200

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

^a Preliminary estimates.

^b Twelve-month variation to November 2007.

^c Twelve-month variation to September 2007.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Annual average of rates on transactions in dollars.

^g Average from January to October, annualized.

adopting measures to stimulate investment and promote greater public-sector participation. Thus, for 2007, public capital investment is forecast to jump by 68% in nominal terms.

As in the last three years, the external sector posted a surplus (US\$ 698.9 million) on the current account in the first half of 2007. Assuming that the trend observed in the second half of 2006 persists, the surplus will be higher than in that year (US\$ 1.319 billion or 11.9% of GDP). All things being equal, by the end of 2007, the country's international reserves will exceed the US\$ 5 billion mark, or 18 months' imports.

In the first half of 2006, goods imports totalled US\$ 1.543 billion, which was 10.1% more than in the same period of 2006; this reflected increases in consumer goods (17.6%), intermediate goods (8.1%) and capital goods (6.5%). Goods exports expanded by 8%, favoured by the international context of rising commodity prices, in particular prices of minerals and some agricultural crops. Thus, the surplus on the trade balance diminished. Net foreign direct investment amounted to US\$ 95 million in the first half of 2007, compared with just US\$ 12 million in the first half of 2006.

Job creation was up in the mining sector and, to a lesser extent, in construction. However, this has not affected the national employment rate. The

government has implemented various measures to foster job creation in small and medium-sized enterprises, for example, through the Productive Development Bank. Nevertheless, some time will pass before these initiatives bear fruit.

In 2008, according to the central bank, the main engines of growth will be agricultural activity, the new

investments in the hydrocarbon sector, the expansion of production at the San Cristóbal and San Bartolomé mining projects, and the El Mutún mining project, which is soon to come on stream.

ECLAC predicts a growth rate of 4.0% for 2008. However, this will only be feasible if the political instability observed in 2007 is overcome.