

Plurinational State of Bolivia

1. General trends

In 2008, Bolivia continued to show positive results in economic activity and external and fiscal accounts. GDP growth stood at 6.1%, 1.5 percentage points above the 2007 figure. For the fifth consecutive year, GDP grew by over 4%. The year closed with an inflation rate of 11.8%. The increase in economic activity translated into a drop in unemployment from 7.7% to 7%. The non-financial public sector (NFPS) posted a surplus equivalent to 3.2% of GDP and the balance of payments ended the year with a US\$ 2.374 billion surplus. Net international reserves held by the central bank increased by US\$ 2.403 billion.

These results were driven by the rise in average annual prices for gas and soy exports in 2008 and higher volumes of mineral exports. Given the international crisis, prices for the main Bolivian export products fell starting in the fourth quarter, and this has been reflected in external sector results in the first quarter of 2009. ECLAC estimates project growth in economic activity of approximately 2.5% for 2009.

In the first quarter of 2008, the country was affected by the weather phenomenon known as La Niña,¹ particularly

in the departments of Beni and Santa Cruz, which prevented additional growth in agricultural activity in 2008. A national emergency was declared on 28 January 2009 in response to the dengue epidemic.

From the political perspective, the new constitution which had been under debate since 2006 was passed in January 2009 in a referendum organized by the National Electoral Court. It is expected that the new constitution will be accompanied by legislative changes; presidential elections will be held in December 2009.

2. Economic policy

(a) Fiscal policy

In 2008, for the third consecutive year, the NFPS posted a surplus equivalent to 3.2% of GDP. Revenue grew owing to higher prices for hydrocarbons and increased

receipts from domestic taxes and customs duties. In the case of revenue from hydrocarbons, the State's participation in the industry intensified, while tariff receipts were boosted by higher import volumes. The areas of fiscal spending that saw the largest increases were goods and services and public investment. In sectoral terms, the general government result was close to balanced, while State-owned enterprises showed a surplus equivalent to 3.3% of GDP.

¹ See Economic Commission for Latin America and the Caribbean (ECLAC), *Evolución del impacto acumulado y adicional ocasionado por La Niña, Bolivia, 2008* (LC/MEX/L.863), Mexico City, ECLAC subregional headquarters for Mexico, May 2008.

The external public debt grew by US\$ 238.6 million in 2008 (10.4%), mainly comprised of loans from multilateral institutions (US\$ 107.7 million) and bilateral debt (US\$ 120.8 million). The latter includes borrowing from the Bolivarian Republic of Venezuela in the framework of strengthening economic ties between the two countries. Only 2.1% of external public debt is short-term, owed by the State oil company Yacimientos Petrolíferos Fiscales Bolivianos (YPBF). Domestic debt increased by 10% in 2008.

(b) Monetary policy

In 2008, as in the last few years, the central bank's objective was to maintain a low, stable inflation rate. It therefore continued to apply a monetary policy based on a system of intermediate quantitative targets, establishing a ceiling on net domestic credit to ensure that the money supply is consistent with public demand for money.

The coordination agreement between the central bank and the Ministry of Finance, signed in April 2008, was renewed for 2009.² As in 2007, the financial programme targets were easily met in 2008. The agreed target of reducing net domestic credit (1.466 billion bolivianos) was easily surpassed (4.595 billion bolivianos), as was the target of maintaining US\$ 1.7 billion in net international reserves held by the central bank, which totalled US\$ 2.374 billion. These results were due to the favourable external context for the Bolivian economy in the first three quarters of 2008, which is when most of the year's accumulation of net international reserves by the central bank took place. Net domestic credit was reduced by means of open market operations and changes to the legal reserve requirement. The savings realized by the NFPS in the accounts it holds with the central bank also contributed.

Changes in the external landscape in 2008 were reflected in the reorientation of monetary policy. From January to September, total open market operations jumped 125% from US\$ 1,021,500,000 to US\$ 2,298,600,000.³ They dropped by 4.2% in the fourth quarter, however, reaching US\$ 2,202,300,000 at the end of the year. The central bank proceeded with caution in the open market during the first four months of 2009. At the end of April, the total of open market operations was very

similar to what was seen at the end of 2008 (US\$ 2.197 billion). Given the external situation, public preference shifted towards holding money in foreign currency. Thus, the ratio of broad money in local currency (M3) to broad money including foreign currency (M'3) began to decrease in October 2008. From September 2008 to April 2009 this indicator dropped 6.7 percentage points from 63% to 56.7%.⁴

In December 2008, seeking to discourage the public's preference for foreign currency deposits, the central bank increased to 30% the legal reserve requirement for foreign currency. It established 30 September 2008 as the base date for the application of the additional reserve requirement and the measure went into effect in January 2009. In the first quarter of 2008, in order to restrict the growth of monetary aggregates, the central bank had raised the legal reserve requirement on national currency deposits.

(c) Exchange-rate policy

Together with monetary policy, the exchange-rate policy aims to achieve stability in the purchasing power of the national currency. Since 2008, the central bank has kept the benchmark rates for both the purchase and sale of dollars fixed at 6.97 and 7.07 bolivianos, respectively. This measure is designed to keep the exchange rate from overreacting to the uncertainties caused by the international financial crisis. To that end, the central bank has based all its transactions on those rates. It is maintaining the crawling-peg exchange-rate regime it has applied for the past 20 years, which is based on small unannounced depreciations or appreciations of the boliviano against the dollar. Although the exchange rate has in practice been fixed since September, the monetary authorities are not formally committed to maintaining it. While the central bank has been a net seller of foreign exchange to the financial system since September 2008, from January 2007 to August 2008 it was a net purchaser, which prevented greater appreciation of the boliviano.

In December 2008, the central bank lowered the commission applied to transfers from abroad from 1% to 0.6% and raised the commission on transfers to other countries from 0.2% to 0.6%. This measure was designed to alleviate downward pressure on the exchange rate.

Consequently, from December 2007 to December 2008, the boliviano appreciated 7.8% in nominal terms as compared with 4.5% in 2007.

² This type of agreement was established in 2006 and replaced the financial programme signed with the International Monetary Fund until 2005. The programme is designed to keep the monetary programme, and therefore the net internal credit target, in line with goals set in the National Development Plan and the annual fiscal programme.

³ Open market operations performed by the Central Bank of Bolivia are denominated in bolivianos and Housing Development Units (UFV).

⁴ This ratio, which is a good indicator of preference for the boliviano, had increased consistently over the last three years. The figure seen in April 2009 is 17.4 percentage points higher than the January 2006 figure.

(d) Other policies

On 19 February 2009 the government mandated a 12% increase (647 bolivianos) in the minimum wage for the public and private sectors and a private-sector wage increase of the same percentage.⁵ Both measures are retroactive to 1 January. The general wage increase for workers in the private sector is not mandatory for executives or managerial positions and is left to the employer's discretion.

As mentioned in the *Economic Survey of Latin America and the Caribbean 2007-2008*, in response to the damage caused by the weather phenomenon known as La Niña, a fund for reconstruction, food security and production support was created in 2008 and was initially funded with a US\$ 600 million loan from the central bank to the Ministry of Finance. By the end of 2008, US\$ 241 million of the fund had already been utilized.

3. The main variables

(a) Economic activity

The GDP of the Bolivian economy grew by 6.1% in 2008, 1.5 percentage points faster than in 2007. The four economic activities that posted the fastest growth were metallic and non-metallic minerals (56.3%), construction (9.2%), commerce (4%) and financial establishments, insurance, real estate and business services (4.7%). The proportion of the total GDP growth which was attributable to each of these activities was 2.4, 0.3, 0.4 and 0.5 percentage points, respectively. Growth in the metallic and non-metallic minerals sector was mainly due to the opening of the San Cristóbal mine. The crop-growing and livestock, fish farming, forestry and hunting and fishing sector was up 2.6%, following a 0.5% drop in 2007. This recovery would have been stronger had it not been for the adverse effects of the La Niña weather phenomenon during the first quarter of 2008.

On the demand side, gross fixed capital formation grew by 18.7%, 6.1 percentage points more than in 2007. Final household consumption was up 5.5%, while final government consumption rose by 3.9%. Once again, the expansion in gross capital formation was due to rising government investment. The budget for 2009 calls for growth in public investment of approximately 31.6%

(b) Prices, wages and employment

Inflation in 2008 stood at 11.8%, 0.1 percentage points higher than in 2007. With price rises in 2007 and 2008 far surpassing the 2006 level (5%), the inflation

target was not met for the second consecutive year. The categories that contributed the most to the rise in the consumer price index (CPI) were food and non-alcoholic beverages (58.9%), restaurants and hotels (22.2%) and furniture and household items (7.5%).

2008 can be divided into two distinct periods in terms of inflationary behaviour. At the end of the first semester, cumulative inflation stood at 8.5% while 12-month inflation was 17.3%. The figures for the second semester were 2.7% and 11.8% respectively.

Inflation slowed in the first four months of 2009. The cumulative rate was -0.6%, 6.2 percentage points lower than in the same period in 2008, while 12-month inflation was 5.3%, 9.9 percentage points below the 2008 level. The behaviour of inflation from September 2008 on can be attributed mainly to falling international commodity prices and the exchange-rate stability maintained by the central bank. Given how the price index has behaved so far in 2009, inflation is projected to close the year within the central bank's target range.

According to information from the National Statistical Institute (INE), the urban open unemployment rate dropped 0.7 percentage points, from 7.7% in 2007 to 7% in 2008. This may have resulted from increased activity in labour-intensive sectors such as construction and commerce. As for wages, the CPI for unskilled labour rose by 18.6% in 2008, while wages for skilled labour rose by 8.6%.⁶ In the first case, the expansion was due to higher pay for domestic help and in the second, increased wages for workers in the health care sector.

⁵ Article 48 of the new constitution stipulates that labour provisions are binding. Under article 49, overall and sectoral minimum wages and overall wage increases are to be determined by law.

⁶ These wage indicators are calculated based on certain items in the different categories of the CPI.

Table 1
PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	2.5	1.7	2.5	2.7	4.2	4.4	4.8	4.6	6.1
Per capita gross domestic product	0.1	-0.6	0.2	0.4	1.9	2.2	2.6	2.4	4.0
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	3.4	3.5	0.4	8.7	0.2	5.0	4.3	-0.5	2.6
Mining and quarrying	6.4	-1.5	2.5	5.0	9.4	13.1	5.4	7.0	22.9
Manufacturing	1.8	2.7	0.3	3.8	5.6	3.0	8.1	6.1	3.7
Electricity, gas and water	1.9	0.7	2.2	2.9	3.1	2.7	4.0	4.3	3.6
Construction	-4.1	-7.0	16.2	-23.7	2.2	6.4	8.2	14.3	9.2
Wholesale and retail commerce, restaurants and hotels	3.6	1.1	2.0	1.8	3.5	2.4	3.4	4.8	4.0
Transport, storage and communications	2.4	3.0	4.3	3.9	4.0	2.9	3.9	3.5	4.0
Financial institutions, insurance, real estate and business services	-0.6	0.2	-3.1	-3.3	-1.5	0.4	5.4	6.3	4.7
Community, social and personal services	2.4	2.6	3.0	2.9	3.3	3.0	3.3	3.7	3.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.3	1.5	2.2	2.1	2.9	3.3	4.0	4.1	5.3
Government consumption	2.1	2.9	3.5	3.6	3.1	3.4	3.3	3.8	3.9
Private consumption	2.3	1.3	2.0	1.9	2.9	3.3	4.1	4.2	5.5
Gross domestic investment	-7.4	-17.5	17.9	-12.8	-11.8	26.9	-5.1	11.1	29.3
Exports (goods and services)	15.0	8.4	5.7	12.2	16.6	8.3	11.3	3.1	2.2
Imports (goods and services)	4.7	-5.0	13.1	0.9	5.5	14.8	5.2	4.4	9.4
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	18.1	14.3	16.3	13.2	11.0	14.3	13.9	14.4	14.4
National saving	12.8	10.9	11.8	14.2	14.9	20.8	25.4	26.5	26.5
External saving	5.3	3.4	4.5	-0.9	-3.8	-6.5	-11.5	-12.1	-12.1
Millions of dollars									
Balance of payments									
Current account balance	-446	-274	-352	76	337	622	1 317	1 591	2 015
Goods balance	-364	-295	-340	100	421	609	1 242	1 004	1 467
Exports, f.o.b.	1 246	1 285	1 299	1 598	2 146	2 791	3 875	4 458	6 448
Imports, f.o.b.	1 610	1 580	1 639	1 497	1 725	2 183	2 632	3 455	4 980
Services trade balance	-244	-164	-177	-187	-190	-194	-350	-189	-200
Income balance	-225	-211	-205	-303	-385	-376	-397	-489	-536
Net current transfers	387	396	369	465	491	584	822	1 266	1 284
Capital and financial balance ^d	407	238	9	-137	-265	-185	121	361	359
Net foreign direct investment	734	703	674	195	63	-242	278	362	508
Otros movimientos de capital	-327	-465	-665	-332	-328	56	-156	-1	-149
Overall balance	-39	-36	-343	-62	73	437	1 439	1 952	2 374
Variation in reserve assets ^e	39	33	303	-152	-157	-463	-1 286	-1 952	-2 374
Other financing	1	3	40	214	85	26	-152	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	100	101	96	104	110	117	119	118	106
Terms of trade for goods (index: 2000=100)	100	96	96	99	104	112	140	142	144
Net resource transfer (millions of dollars)	182	30	-156	-226	-565	-535	-428	-128	-177
Gross external public debt (millions of dollars)	6 740	6 861	6 945	7 709	7 562	7 666	6 278	5 386	5 913
Average annual rates									
Employment									
Labour force participation rate ^g	56.1	60.6	58.0	60.4	58.6	55.7	58.7	57.1	...
Open unemployment rate ^h	7.5	8.5	8.7	9.2	6.2	8.1	8.0	7.7	7.0
Prices									
Annual percentages									
Variation in consumer prices (December-December)	3.4	0.9	2.5	3.9	4.6	4.9	4.9	11.7	11.8
Variation in nominal exchange rate (annual average)	6.4	6.8	8.5	6.8	3.6	1.6	-0.8	-1.9	-7.8
Variation in real minimum wage	2.9	10.8	4.7	0.8	-4.2	-5.1	4.5	-1.3	-1.5
Nominal deposit rate ⁱ	2.7	1.8	2.0	1.7	2.4	2.4	3.6
Nominal lending rate ⁱ	...	13.7	10.9	9.1	8.2	8.2	7.8	8.2	8.9

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
	Percentages of GDP								
Non-financial public sector									
Total income	33.6	30.4	27.5	28.8	27.4	31.7	39.1	43.6	48.4
Current income	31.4	28.0	25.3	25.9	24.9	29.5	37.3	42.0	47.1
Tax income	16.1	15.2	15.4	14.8	17.0	18.4	17.9	18.1	19.2
Capital income	2.2	2.4	2.3	2.9	2.5	2.1	1.8	1.6	1.2
Total expenditure	37.3	37.2	36.3	36.7	33.0	33.9	34.6	41.9	45.1
Current expenditure	30.3	28.9	28.0	28.6	23.9	23.9	24.4	29.1	32.4
Interest	1.8	2.1	2.1	2.6	2.6	2.7	1.8	1.3	0.9
Capital expenditure	7.1	8.4	8.4	8.1	9.1	10.0	10.2	12.7	12.6
Primary balance	-1.9	-4.7	-6.7	-5.3	-2.9	0.4	6.3	3.0	4.1
Overall balance	-3.7	-6.8	-8.8	-7.9	-5.5	-2.2	4.5	1.7	3.2
Public debt^l	65.8	76.7	80.2	89.5	83.9	78.3	52.6	40.0	36.7
Domestic ^k	19.4	26.1	28.7	30.7	31.6	31.1	27.1	24.0	22.7
External	46.4	50.7	51.5	58.8	52.3	47.2	25.5	16.0	14.0
Money and credit^l									
Domestic credit	70.0	67.4	66.6	63.7	58.0	53.4	44.1	42.0	39.4
To the public sector	11.5	14.2	15.5	15.9	15.9	14.1	9.2	8.0	8.3
To the private sector	58.5	53.2	51.1	47.8	42.1	39.3	34.8	34.0	31.1
Liquidity (M3)	51.5	52.9	49.4	47.7	42.3	43.0	42.4	47.8	46.5
Currency outside banks and local-currency deposits (M2)	7.2	7.9	7.7	8.3	9.3	12.2	15.6	23.9	26.1
Foreign-currency deposits	44.3	45.0	41.7	39.4	33.1	30.9	26.7	23.9	20.3

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 figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, urban total.

^h Percentage of the economically active population, urban total.

ⁱ Bank operations (61-90 days), in dollars.

^j Public and publicly guaranteed private debt is not included.

^k Domestic debt refers to central government debt.

^l The monetary figures are end-of-year stocks.

(c) The external sector

The balance of payments posted a surplus of US\$ 2.374 billion (14.2% of GDP) in 2008, US\$ 422 million (21.6%) more than in 2007. The current account surplus rose by US\$ 424 million (26.7%) to US\$ 2.015 billion (12.2% of GDP). The balance of the financial and capital account was close to its 2007 level.

The current account result was driven by an improvement in the goods balance, which grew by US\$ 464 million (46.2%) with respect to 2007. Extraction, mining and gas exports also contributed. The country's exports climbed US\$ 1.99 billion (44.6%), owing mainly to export volume (29.1%). Given the growth of economic activity and the appreciation of the real exchange rate, imports have surged in recent years. In 2008 they rose by US\$ 1.526 billion (44.2%). The total of family remittances was similar to the 2007 level, increasing by US\$ 51.3 million (4.9%).

At the end of 2008, net international reserves held by the central bank reached US\$ 7.722 billion (46.3% of GDP), an increase of US\$ 2.403 billion

(45.3%) over the 2007 figure. In relation to 2003 —when hydrocarbon prices began to rise— the central bank's net international reserves have expanded. Net reserves closed 2008 at an all-time year-end high.

Despite the favourable performance of the external accounts in the first three quarters of 2008 (the balance-of-payments surplus averaged US\$ 810.1 million), results were negative in the fourth quarter, with a balance-of-payments deficit of US\$ 56.4 million. The capital and financial account posted a US\$ 166 million deficit after showing a surplus in the preceding three quarters. This result was due to a deterioration of investment and portfolio accounts in the private sector. Net international reserves held by the central bank fell by US\$ 88.7. Unlike other countries whose export basket is heavily weighted by commodities, Bolivian exports did not undergo a significant decline since the prices of its gas exports are linked to petroleum, but with a three-month lag. A slowdown in the external sector became evident in the first quarter of 2009. With respect to the same period in 2008, the trade balance showed a surplus of US\$ 127 million, 77% less than in 2008 (US\$ 428 million). This

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2007				2008 ^a				2009 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	2.5	4.1	5.3	6.1	6.6	6.9	7.1	4.2	2.1	...
Goods exports, f.o.b. (millions of dollars)	964	1 112	1 272	1 445	1 560	1 740	1 885	1 743	1 169	...
Goods imports, c.i.f. (millions of dollars)	748	796	902	1 010	1 036	1 234	1 359	1 380	1 043	...
Gross international reserves (millions of dollars)	3 547	3 888	4 742	5 319	6 232	7 118	7 809	7 722	7 762	7 895 ^c
Real effective exchange rate (index: 2000=100) ^d	118	121	116	116	115	112	106	90	89	94 ^c
Consumer prices (12-month percentage variation)	7.2	6.6	10.5	11.7	14.1	17.3	14.5	11.8	6.6	2.1
Average nominal exchange rate (bolivianos per dollar)	8.00	7.96	7.79	7.64	7.55	7.31	7.07	7.00	7.01	7.03
Nominal interest rates (annualized percentages)										
Deposit rate ^e	2.5	2.3	2.5	2.5	2.8	3.5	4.0	4.1	2.9	1.7
Lending rate ^e	8.3	8.0	8.2	8.3	8.1	8.2	9.3	9.8	9.6	8.9 ^c
Interbank rate ^f	3.8	3.9	4.6	5.6	5.9	6.6	7.7	4.9	3.0	1.5 ^c
Domestic credit (variation from same quarter of preceding year)	5.3	7.6	7.1	6.9	6.4	4.8	8.5	10.1	11.4	...
Non-performing loans as a percentage of total credit	8.8	6.9	7.8	5.6	5.7	5.2	5.0	4.3	4.8	4.4

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 Data to May.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Bank operations (61-90 days); three-month average, in dollars.

^f Repurchase rate, in dollars.

was due to a fall of nearly US\$ 433 million in exports, resulting from a decrease in the value of external sales of food and beverages, industrial supplies and fuel and lubricants. In 2009, Bolivian exports to the United States will not enjoy preferential treatment through the Andean Trade Promotion and Drug Eradication Act, since the Act was not renewed by that country. In the last year for which figures are available (2007), exports

—especially fabrics, jewellery and crafts— benefited from this tariff advantage and reached US\$ 155 million. Bolivian exports still enjoy preferential treatment through two programmes: the Generalized System of Preferences and the most-favoured-nation clause, as well as cooperation agreements signed in recent years with the Bolivarian Republic of Venezuela and the Islamic Republic of Iran.