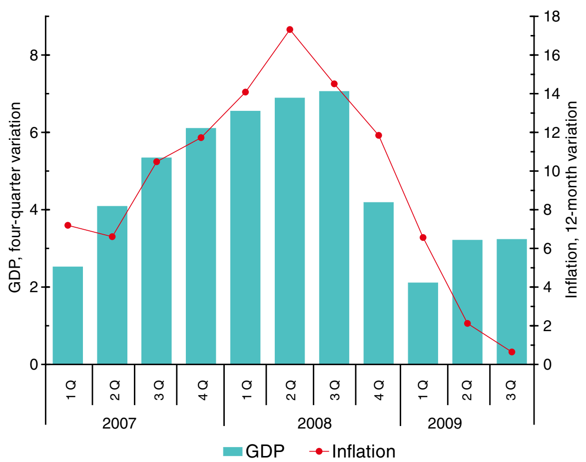
Plurinational State of Bolivia

The GDP of the Plurinational State of Bolivia will expand by 3.5% in 2009, which means the growth rate will be 3.2 percentage points lower than in 2008. The urban unemployment rate meanwhile will be 6.8%, 0.1 percentage points higher than in 2008, and inflation will end the year at about 1%, 11 percentage points below the rate recorded in 2008. Both the balance-of-payments current account and the non-financial public sector accounts will close with surpluses, albeit leaner ones than in 2008, mainly thanks to the drop in average hydrocarbon prices during the year. In 2009, the political landscape was dominated by two electoral events: the January 2009 referendum approving the nation's new political constitution; and the presidential and parliamentary elections in December 2009. The new congress is set to debate modifications to a number of laws with a view to adapting legislation to the new constitutional framework.

In keeping with lower inflationary expectations, in the fourth quarter of 2008, the central bank switched policy from issuing bonds in open market operations to redeeming bonds. As a result, between October 2008 and October 2009 the central bank reduced its balance of outstanding government securities by US$ 621.8 million (27.9%). To further expand liquidity, the central bank lowered its repo rate by 10 percentage points from 13% in December 2008 to 3% in October 2009. This liquidity growth was consistent with expansions in total net domestic credit and net domestic credit to the non-financial public sector and with a moderate reduction in net foreign reserves. During the first half of the year these goals were met with ease, especially as regards net internal credit to the non-financial public sector whose reduction came as a result of the accumulation of deposits the sector holds with the central bank. The bank also lowered its benchmark rates, which translated into significantly lower bank lending and deposit rates. From December 2008 to September 2009, bank lending rates dropped from 10.1% to 7.6% and bank deposit rates, from 3.2% to 0.5%. Additionally, in order to stimulate growth in the local currency portfolio, the central bank approved two changes to the reserve requirement. In January, the additional reserve requirement for foreign currency deposits was raised from 7.5% to 30%, and in August the reserve requirement for deposits in local currency was lowered, reflecting the growth in these deposits.

According to available official information, the non-financial public sector had a surplus of approximately 2.8% of GDP in August 2009. In comparison with August 2008, real expenditures were up by 3.5% and revenues were down by 5.3%, mainly because of weaker inflows of customs duties and internal revenue (down by 26.6% and 16.6%, respectively) and because of the 9.5% drop in revenue from the special hydrocarbons tax. The fall-off in

PLURINATIONAL STATE OF BOLIVIA: GDP AND INFLATION



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

customs revenue was mostly tied to the slump in imports, and the decline in hydrocarbon tax revenues reflected the sluggishness in that sector. As regards fiscal spending in 2009, in light of the redefined role of the State, the public sector announced a major investment programme valued at US$ 1.852 billion, a small percentage of which was in execution by September. In the area of social spending, a new benefit called the "Juana Azurduy" grant was instituted, and coverage of the "Juancito Pinto" grant was extended to include students through the eighth grade. The non-financial public sector is expected to close 2009 with a slight surplus, showing a positive balance for public enterprises and a negative balance for the national treasury. The national treasury stepped up its local-currency bond issues by 39.3% between October 2008 and October 2009, in an amount equivalent to 49.3% of the cut-back in the central bank's open market operations. The financial system has been the main buyer of these bonds. The move was the result of a policy decision to improve debt quality, given the low interest rates, and to offer longer maturities; the action also stemmed from the national treasury's need to compensate for shrinking revenue. As a result, domestic public debt of the non-financial public sector increased by 11.4%, while external public debt expanded by 11%, which in turn swelled multilateral debt by 9.8% and bilateral debt by 14.5%.

In the first half of 2009, the GDP of the Plurinational State of Bolivia posted year-on-year growth of 3.2%. The sector that grew the most was metallic and non-metallic minerals, at 14.4%, which mainly had to do with the San Cristóbal mine having operated above capacity for part of the first semester. Although this sector registered the highest growth, its level of activity was actually down in comparison with the same period in 2008, when it grew 63%. The crude oil and natural gas sector contracted by 13.1% because of Brazil's lower demand for gas. On the demand side, GDP growth was driven by gross fixed capital formation and final consumption by public administration, which were up 4.5% and 4.4% and accounted for 0.72 and 0.45 percentage points of GDP growth, respectively. ECLAC estimates that the economy of the Plurinational State of Bolivia will grow by about 3.5% in 2009.

Cumulative inflation was at 0.2% through October 2009, or 0.8% in year-on-year terms. These were some of the lowest rates in Latin America and were 11 and 13 percentage points lower, respectively, than the rates recorded for the same periods in 2008. This was the result of the drop in food prices brought about by the fall in international commodity prices and the increase in domestic supply generated by favourable weather.

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	4.6	6.1	3.5
Per capita gross domestic product	2.7	4.3	1.7
Consumer prices	11.7	11.8	0.8 [b]
Average real wage	-1.3	-1.5	8.2
Money (M1)	58.1	23.2	10.5 [b]
Real effective exchange rate [c]	-1.1	-10.2	-12.6 [d]
Terms of trade	1.6	1.3	-2.2
	Annual average percentages		
Urban unemployment rate	7.7	6.7	6.8
General government overall balance/GDP	2.3	-0.0	-3.2
Nominal deposit rate [e]	2.4	3.6	1.7 [f]
Nominal lending rate [e]	8.2	8.9	8.6 [f]
	Millions of dollars		
Exports of goods and services	4 958	6 947	5 504
Imports of goods and services	4 143	5 680	5 064
Current account balance	1 591	2 015	1 063
Capital and financial account balance [g]	361	359	-332
Overall balance	1 952	2 374	731

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Year-on-year average variation, January to October.
[e] Annual average of monthly rates in dollars.
[f] Average from January to October, annualized.
[g] Includes errors and omissions.

In the first half of 2009, the economy of the Plurinational State of Bolivia had a surplus of about US$ 388.3 million in its current account, which was 63.3% less than the US$ 670 million posted in the same period in 2008. Exports were down by US$ 853 million (27.3%) because of the decline in hydrocarbon prices in international markets and because of Brazil's lower demand for gas. Remittances by workers fell by 7.4% and were US$ 39.4 million lower than in the first half of 2008. Real exchange rates through October 2009 depreciated by 12.6% in year-on-year terms. The capital and financial account posted a deficit of US$ 170.2 million which, including errors and omissions, reached US$ 255.7 million. This balance was largely the result of the US$ 255.1 million negative balance on portfolio investment accounts. On the other hand, during the first half of 2009, the net international reserves held by the central bank increased by US$ 233.6 million (3%), and by October 2009 they had reached US$ 859 million, in other words, grown by 11.4%, which represented an increase of US$ 1.062 billion (14.1%) in year-on-year terms.