

## Plurinational State of Bolivia

The GDP of the Plurinational State of Bolivia grew by 5.0% in 2012, reflecting a slight slowdown compared with 2011. Inflation stood at 4.5%, which is considerably lower than the rate for the previous year. The general government accounts returned to surplus territory (1.5% of GDP) after recording a slight deficit in 2011.

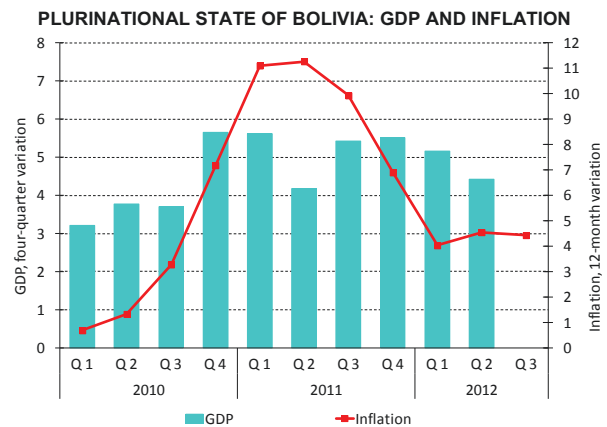
Financial policies stood out among the way of the macroeconomic policies implemented in 2012. In order to further the process referred to as “bolivianization”, the government raised reserve requirements for foreign-currency deposits and imposed a 0.7% tax on dollar sales by banks. It also created a 12.5% tax on earnings for banks with a return on net equity in excess of 13%. As for trade, the government raised some tariffs to encourage production by small domestic enterprises. The minimum wage was raised by 22.6% to 1,000 bolivianos per month, and the government nationalized Red Eléctrica Internacional, the company which operates the country’s electricity grid.

During the first half of 2012, the non-financial public sector posted an overall surplus equivalent to 5.6% of GDP. Nonetheless, the government is projecting that by year-end this surplus will fall to 1.5%, which would mean a deficit during the second half. For the first three quarters of 2012, nominal tax revenue rose by 20.5% over the same period the previous year; revenue from hydrocarbons increased by 31.2% (both the output and the price of gas went up in 2012). Current expenditure expanded by 7.1% in the year to September 2012, compared with the same period the previous year. Capital spending jumped by more than 21.8%, owing to the public investment programme (primarily in infrastructure) which continues to be one of the Government of the Plurinational State of Bolivia’s largest items of expense. Public investment stood at US\$ 1.407 billion through September 2012, an increase of 32% compared with the same period in 2011. The total investment budget for 2012 was US\$ 3.253 billion. Although just 43.2% of the amount allocated for public investment had been spent by the end of the third quarter, the pace

of investment is expected to speed up in the closing quarter, as it has in previous years, and the Government expects to spend more than 90% of the amount budgeted.

Government domestic debt decreased in nominal and real terms during the first nine months of the year by around 2 percentage points of GDP, while external debt went up only slightly. External debt was equivalent to 11.2% of GDP for the first half of the year; in October 2012, the Plurinational State of Bolivia returned to the international capital market, placing a US\$ 500 million bond issue at an interest rate of 4.85%.

In the first half of the year, the central bank sought to maintain a balance between measures aimed at keeping inflation low and others geared to spur economic growth. With inflation below target, the central bank opted for a gradual expansionary policy, reducing the supply of securities in open market



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

operations and thus prompting a decline in net placements at lower rates. These factors also helped drive local financial market interest rates down. The monetary programme targets for the first half of the year (total net domestic lending, net domestic central bank lending to the non-financial public sector and the accumulation of international reserves) were met by a wide margin. The central bank repo rate remained unchanged throughout the year. The monetary aggregates increased in 2012, although by less than in other years (M2 was up by 6% through the end of October, while M3 increased by 10.9%). The gross loan portfolio of private banks continued to expand, increasing by 15.6% in the first 10 months of 2012, boosted by a slight decrease in lending rates, particularly in national currency.

The drive towards “bolivianization” of the financial system continued in 2012, with around 70% of deposits and 78% of loans held in national currency as at September –the highest levels ever recorded. This was helped along by changes in reserve requirement regulations, such as higher additional reserve requirements for foreign-currency deposits in order to encourage the use of national currency within the financial system. The nominal exchange rate remained unchanged in 2012 while the real effective exchange rate showed a year-on-year appreciation of 5% through September.

GDP growth was 5.0% in 2012. The best-performing sectors were oil and natural gas (which grew by 13.9%), construction (up 10%) and the financial sector (which expanded by 8.1%). The mining sector, one of the most important in the country, slid 9% in 2012 due to labour problems in some of the largest mines. On the demand side, GDP growth was attributable to an increase in gross fixed capital formation (13%) and public consumption expenditure (7%). ECLAC estimates that the economy of the Plurinational State of Bolivia will grow by 5.0% in 2013.

Cumulative inflation between January and October 2012 was 3.5% and is expected to close December at about 4.5%. After posting higher rates in early 2011, inflation has remained within the central bank’s benchmark range over the past year and a half thanks to stable food and other commodity prices throughout the year.

The National Institute of Statistics stopped publishing data on employment after the second quarter of 2011. However, according to Ministry of

#### PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.1	5.2	5.0
Per capita gross domestic product	2.5	3.5	3.5
Consumer prices	7.2	6.9	4.3 <sup>b</sup>
Real average wage <sup>c</sup>	3.1	-1.2	...
Money (M1)	24.1	27.2	18.9 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	4.5	-1.4	-5.8 <sup>f</sup>
Terms of trade			
<b>Annual average percentages</b>			
Open urban unemployment rate	6.1	5.8	...
Non-financial public sector			
overall balance /GDP	1.7	0.8	1.5
Monetary police rate	3.0	4.0	4.0 <sup>g</sup>
Nominal lending rate <sup>h</sup>	5.2	6.3	6.7 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	7 159	9 133	10 485
Imports of goods and services	6 412	8 787	9 396
Current account balance	969	537	1 180
Capital and financial balance <sup>i</sup>	-46	1 623	434
Overall balance	923	2 160	1 614

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

<sup>a</sup> Estimate.

<sup>b</sup> Twelve-month variation to October 2012.

<sup>c</sup> Private-sector average wage index.

<sup>d</sup> Year-on-year average variation, January to August.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> January-October average.

<sup>h</sup> Nominal local-currency rate for 60-91-day operations.

<sup>i</sup> Includes errors and omissions.

Economy estimates, the unemployment rate is slightly under 5%. On 1 May 2012, the government announced that the minimum wage would increase by 22.6% to 1,000 bolivianos per month.

In the first half of 2012, the economy of the Plurinational State of Bolivia ran a current account surplus of US\$ 734 million, which was 53% more than during the same period in 2011. Goods exports continued to expand rapidly, growing by 30% during the period. This increase was due more to higher volume rather than rising prices, although prices did creep up by around 5%. Imports surged by 14.9%. Worker remittances grew little in the first half of 2012. The decline in remittances from Spain (which account for 42.9% of the total) and Argentina (12.7% of the total) compared with the same period in 2011 was offset by the 40.7% rise in remittances from the United States and other countries. Meanwhile, the capital and financial accounts posted a surplus of just US\$ 63.4 million as of June 2012, which is lower than the figure for 2011 because of the outflow of private capital in the second quarter of the year. However, as of October 2012 net international reserves held by the central bank stood at US\$ 13.772 billion —a 14.6% increase taking import cover to 21 months.