

Plurinational State of Bolivia

1. General trends

In 2010, the Bolivian economy continued to record positive growth and to produce sound external and fiscal accounts. GDP expanded by 4.1%, reflecting a 0.7 percentage-point increase compared with the 2009 growth rate. Prices escalated fairly rapidly to register a 7.2% rise during the year. The non-financial public sector (NFPS) generated a surplus equivalent to 1.7% of GDP. The balance of payments showed a surplus of US\$ 923 million, an increase of US\$ 570 million, or 175%, over the 2009 figure. Net international reserves held by the Central Bank of Bolivia grew by US\$ 1.15 billion to stand at US\$ 9.73 billion.

These results stem from the upturn following the international financial crisis. External sales were buoyant, reflecting a rally in the average prices of Bolivia's main exports and higher export volumes, especially in the case of natural gas. The financial sector continued to grow with the domestic loan portfolio expanding by 15.7%. According to ECLAC estimates, economic activity will expand by approximately 5.3% in 2011.

Among the challenges facing the Government of the Plurinational State of Bolivia are the need to curb the rise in food prices and the inflation that these will trigger, maintain the competitiveness of the country's main exports and boost the recovery of the mining sector.

2. Economic policy

(a) Fiscal policy

For the fifth year in a row, the NFPS registered a surplus in 2010, of 1.7% of GDP. More than two thirds of the consolidated surplus was attributable to the performance of the central government and a smaller proportion to the surplus recorded by State-owned companies. The general government balance was due largely to the increase in tax revenues. In terms of public expenditure, current expenditure was up, while capital expenditure diminished. After running a deficit in 2009, State-owned companies managed to generate a surplus in 2010 thanks to the rally

in hydrocarbon sales, which accounted for the bulk of these earnings.

In 2010, the country's external public debt grew by US\$ 281 million (10.8%). This debt consists mainly of loans contracted with multilateral agencies, since its bilateral debt continued to decline. The external public debt balance stood at US\$ 2.883 billion, or 15.0% of GDP. While external debt did not increase significantly in 2010, internal debt grew rapidly, increasing by US\$ 1.378 billion (46%) and representing 23.1% of GDP. Total debt (external plus internal) of the Plurinational State of Bolivia is equivalent to 38.1% of GDP.

(b) Monetary and financial policy

In response to changes abroad, in particular the upturn in the global economy, the Central Bank of Bolivia reviewed its policy in 2010. Its objective continues to be to contain inflation at a low and stable rate and, thus, given inflationary pressures, it has sought to rein in liquidity and to withdraw the monetary stimulus measures adopted following the outbreak of the crisis. The benchmark inflation target set by the central bank for 2011 is 6%.

With inflation forecast to exceed the previous year's level, steps were taken to dismantle the stimulus measures put in place in 2009 to cope with the global financial crisis. The financial programme for 2010 was designed to curb liquidity and to offer the NFPS greater access to financing mechanisms. The authorities therefore agreed to draw on the country's net international reserves and to augment the net internal credit available to the financial sector and NFPS. As regards the financial sector, the central bank applied an open-market policy (buying and selling securities) in an attempt to control the liquidity in the system. In the first two quarters of 2010, a net redemption of securities was observed, but inflationary pressures in the third quarter prompted the bank to adopt a countercyclical policy and, in the third and fourth quarters a net issue of securities was launched. This issuance of securities began to increase in the third quarter and expanded from less than US\$ 1 billion bolivianos in the last quarter of 2009 to close to US\$ 3 billion bolivianos in the corresponding quarter of 2010. The central bank also decided to revive a programme which allows the public to buy securities directly from the central bank. This gives small savers access to more attractive rates of return than in the financial system.

In 2010, the negative balance of net domestic loans owed to the NFPS was the widest for the entire period 2006-2010, at 6.927 billion bolivianos. This reflects an increase of 118.8% over the 2009 figure. The balance was due to the accumulation of NFPS deposits in the central bank. The policy, consisting in a slight withdrawal of the stimulus, did not alter the Bank's repo rate, which remained at 3% throughout 2010. While the monetary base recorded a slight contraction in 2010, the monetary aggregates M1, M2 and M3 expanded during the year.

The combination of the above-mentioned factors had significant repercussions on the financial system. The increase in the balance of open-market operations during the year represented a net withdrawal of liquidity from the sector. In December 2010, lending rates for local currency were lower than the rates applied in the same period of 2008, although some rates (for example the 30-day rate) were higher than in the corresponding period of 2009. Deposit rates continued to decline for

all maturity periods but the reduction was not as sharp as in the previous year. Thus the spread between lending and deposit rates diminished for most maturity periods. In 2010, domestic private bank loan portfolios increased by 15.7%, a substantially higher rate than in 2009.

In November 2010, the central bank raised the legal reserve requirement for foreign currency deposits from 2% to 3.5% and the marginal cash reserve requirement in foreign currency from 30% to 45%. In order to enhance the solvency of the financial system, the cash reserve was raised once again in January 2011 for deposits in foreign currency, this time to 13.5%, while the reserve requirement for securities was lowered from 12% to 8%. These policies were part of the government's effort to bolivianize the financial system. At the end of 2010, for the first time more than half of deposits and loans were in local currency.

Although open-market operations started to gather momentum towards the end of the year, the reduction during the first half enabled the National Treasury to increase its borrowing on the domestic market. In 2010, National Treasury Bonds increased by 24.6%, but in early 2011, this balance began to fall owing to the contraction in liquidity in the financial system.

(c) Exchange-rate policy

During the first nine months of 2010, the central bank maintained fixed benchmark exchange rates of 6.97 and 7.07 bolivianos for the purchase and sale of dollars, respectively. This policy had been in effect since September 2008. In the third week of November, however, the bank started to raise the value of its currency by means of small adjustments in the exchange rate. By the end of December, the boliviano had appreciated by 3 centavos against the dollar (to stand at 6.94 and 7.04, respectively) and this trend has continued into 2011. With the continuation of the appreciation policy, the rates at the end of May 2011 stood at 6.88 to the dollar (buying) and 6.98 (selling). While these changes were the first in over two years, officially, the exchange-rate regime applied by the central bank over the past 20 years, based on small unannounced appreciations or depreciations (crawling peg), remains unchanged.

The currency was allowed to appreciate in order to counter inflationary pressures from abroad, in particular from currency appreciations in the country's main trading partners, which had contributed to a spike in inflation in the Bolivian economy. Apart from taming inflation, the appreciation of the boliviano has led to a greater build-up of international reserves by the central bank and has contributed to the bolivianization of the financial system, one of the government's key policies. Indeed, 63% of all

the conversions of deposits to bolivianos in 2010 took place after the first appreciation of the currency. These increases in the value of the currency have triggered fears of a stronger appreciation, which may explain why some of the savings in dollars have been converted to savings in bolivianos.

In order to clear up any doubt concerning expectations and future exchange-rate trends, the central bank maintained a daily supply of US\$ 50 million, which was not exceeded on any occasion by demand. In the first 10 months of 2010, the bank's foreign currency purchases were practically non-existent, but in the last two months of the year, they amounted to US\$ 431 million. The purchases in November and December show how sensitive the market is to slight movements in the exchange rate. The monthly purchase in December was the highest in the decade.

In 2010, the real effective exchange-rate index in the Plurinational State of Bolivia declined by 3.5%. Up to February 2011, it was maintained at similar levels to those registered in late 2010.

3. The main variables

(a) Economic activity

In 2010, the Plurinational State of Bolivia posted GDP growth of 4.1%, representing a modest 0.7 percentage-point improvement over the 2009 rate. Notwithstanding its outstanding performance in 2009 (one of the best in the region), in 2010, when most of the neighbouring economies were growing at stronger rates thanks to the economic upturn, the Plurinational State of Bolivia recorded growth rates more in line with potential GDP growth and among the weakest in the region. The three sectors that recorded the strongest growth in 2010 were oil and natural gas (14%), financial services (10.7%) and transport and communications (8%). These activities' contributions to GDP growth were 0.77, 0.39 and 0.86 percentage points, respectively. On the other hand, two of the mainstays of the Bolivian economy slowed in 2010: agriculture by 1.2% and metal and non-metal ores by 4.1%. In the latter case, this was due mainly to a series of work stoppages and labour confrontations.

In terms of demand, GDP growth was driven by an increase in the final consumption expenditure of households and non-profit institutions serving households (NPISHs), which grew by 4.0%. Final consumption expenditure of

(d) Other policies

On 1 May 2011, the government rescinded Supreme Decree 21060, which promulgated the current open-market economy, based on supply and demand. The remaining laws that support this Supreme Decree are to be eliminated or amended in order to strengthen and consolidate this act.

In April 2011, the government proposed the use of US\$ 2 billion of net international reserves as loans. This is not the first time that the central bank has drawn on its reserves to finance loans. In late 2009, it had granted a loan of US\$ 1 billion to Yacimientos Petrolíferos Fiscales Bolivianos and two totalling US\$ 1.5 billion to Empresa Nacional de Electricidad (ENDE) and Corporación Minera de Bolivia (COMIBOL).

In the financial sector, a decree has recently been passed which states that financial entities' investments abroad must not exceed 50% of their net worth. An agreement has been reached with the Association of Private Banks of Bolivia (ASOBAN) to reduce lending rates for loans to the productive sector by 70 basis points.

the public administration increased by 3.1% (a lower figure than in 2009). Gross fixed capital formation rose by 7.1%. Public consumption contracted following the withdrawal of policies implemented by the government to cushion the impact of the external financial crisis. The more rapid expansion of gross fixed capital formation was due to the government's new focus on boosting public investment.

(b) Prices, wages and employment

In 2010, the rate of inflation of the Bolivian economy was 7.2%, that is, 6.9 percentage points higher than in 2009. Almost all of the increase occurred in the second half-year, when inflation rose by 6.6 percentage points. This spike was due to a number of factors, notably soaring international prices, especially for food, and adverse weather phenomena (including droughts, floods, frost and hotspots), which affected the output of some agricultural products. Lastly, the 1.8% rise in December was due to the removal of the petroleum subsidy, which resulted in an 80% hike in the price of this product to the consumer, although mass mobilizations in the country prompted a hasty withdrawal of this decision one week later.

Table 1
PLURINATIONAL STATE OF BOLIVIA MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4	4.1
Per capita gross domestic product	0.4	0.7	2.2	2.5	2.9	2.7	4.3	1.6	2.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.4	8.7	0.2	5.0	4.3	-0.5	2.6	3.7	-1.2
Mining and quarrying	2.5	5.0	9.4	13.1	5.4	7.0	22.9	-2.0	4.0
Manufacturing	0.3	3.8	5.6	3.0	8.1	6.1	3.7	4.8	2.6
Electricity, gas and water	2.2	2.9	3.1	2.7	4.0	4.3	3.6	6.1	7.3
Construction	16.2	-23.7	2.2	6.4	8.2	14.3	9.2	10.8	7.5
Wholesale and retail commerce, restaurants and hotels	2.0	1.8	3.5	2.4	3.4	4.8	4.0	4.3	3.8
Transport, storage and communications	4.3	3.9	4.0	2.9	3.9	3.5	4.0	5.6	8.0
Financial institutions, insurance, real estate and business services	-3.1	-3.3	-1.5	0.4	5.4	6.3	4.7	4.1	5.6
Community, social and personal services	3.0	2.9	3.3	3.0	3.3	3.7	3.5	5.6	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.2	2.1	2.9	3.3	4.0	4.1	5.3	3.7	3.9
Government consumption	3.5	3.6	3.1	3.4	3.3	3.8	3.9	3.8	3.1
Private consumption	2.0	1.9	2.9	3.3	4.1	4.2	5.5	3.7	4.0
Gross capital formation	17.9	-12.8	-11.8	26.9	-5.1	11.1	29.3	3.9	7.1
Exports (goods and services)	5.7	12.2	16.6	8.3	11.3	3.1	2.2	-10.8	9.9
Imports (goods and services)	13.1	0.9	5.5	14.8	5.2	4.4	9.4	-10.2	11.0
Percentages of GDP									
Investment and saving^c									
Gross capital formation	16.3	13.2	11.0	14.3	13.9	15.2	17.6	17.0	17.0
National saving	11.8	14.3	14.9	20.8	25.4	27.3	29.5	21.7	21.6
External saving	4.5	-1.0	-3.8	-6.5	-11.5	-12.1	-12.0	-4.7	-4.6
Millions of dollars									
Balance of payments									
Current account balance	-352	85	337	622	1 318	1 591	1 993	813	903
Goods balance	-340	100	421	609	1 243	1 215	1 762	774	907
Exports, f.o.b.	1 299	1 598	2 146	2 791	3 875	4 458	6 527	4 918	6 290
Imports, f.o.b.	1 639	1 498	1 725	2 183	2 632	3 243	4 764	4 144	5 384
Services trade balance	-177	-187	-190	-194	-350	-400	-517	-500	-225
Income balance	-205	-302	-385	-376	-397	-489	-536	-674	-860
Net current transfers	369	474	491	584	822	1 266	1 284	1 213	1 081
Capital and financial balance ^d	9	-147	-265	-185	-112	346	381	-488	20
Net foreign direct investment	674	195	83	-291	284	362	508	426	651
Other capital movements	-665	-341	-347	106	-396	-16	-126	-914	-630
Overall balance	-343	-62	73	437	1 206	1 938	2 374	325	923
Variation in reserve assets ^e	303	-152	-157	-463	-1 286	-1 938	-2 374	-325	-923
Other financing	40	214	85	26	80	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	95.4	104.0	109.5	116.8	119.5	118.4	110.1	99.8	103.3
Terms of trade for goods (index: 2005=100)	86.0	88.1	93.0	100.0	125.0	127.0	128.7	124.6	140.9
Net resource transfer (millions of dollars)	-156	-235	-565	-535	-428	-143	-155	-1 162	-840
Total gross external debt (millions of dollars)	6 970	7 734	7 562	7 666	6 278	5 403	5 930	5 801	5 836
Average annual rates									
Employment									
Labour force participation rate ^g	64.6	67.6	64.9	62.8	66.3	64.8
Open unemployment rate ^h	8.7	9.2	6.2	8.1	8.0	7.7	6.7	7.9	6.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3	7.2
Variation in nominal exchange rate (annual average)	8.5	6.7	3.8	1.6	-0.8	-1.9	-7.8	-2.8	-0.2
Variation in real minimum wage	4.7	0.8	-4.2	-5.1	4.5	-1.3	-1.5	8.3	2.5
Nominal deposit rate ⁱ	2.7	1.8	2.0	1.7	2.4	2.4	3.6	1.5	0.3
Nominal lending rate ⁱ	10.9	9.1	8.2	8.2	7.8	8.2	8.9	8.3	5.7

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue	27.5	28.7	28.5	31.6	39.1	43.6	48.4	45.0	44.7
Current revenue	25.2	25.7	25.8	29.3	37.2	41.9	47.1	43.8	43.5
Tax revenue	15.4	14.8	17.0	18.4	17.9	18.1	19.2	17.2	17.7
Capital revenue	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure	36.3	36.6	34.0	33.8	34.6	41.9	45.2	44.9	43.1
Current expenditure	28.0	28.4	24.9	23.7	24.2	29.1	32.4	32.1	32.3
Interest	2.1	2.6	2.7	2.7	1.8	1.3	0.9	1.6	1.6
Capital expenditure	8.4	8.2	9.2	10.2	10.4	12.7	12.6	12.8	10.7
Primary balance	-6.7	-5.3	-2.9	0.4	6.3	3.0	4.1	1.7	3.3
Overall balance	-8.8	-7.9	-5.5	-2.2	4.5	1.7	3.2	0.1	1.7
Public debt^j	80.2	89.5	83.9	78.1	52.4	40.0	36.8	37.6	38.1
Domestic ^k	28.6	30.7	31.5	30.9	26.9	24.0	22.7	22.5	23.1
External	51.5	58.8	52.3	47.2	25.5	16.0	14.1	15.1	15.0
Money and credit^l									
Domestic credit	66.6	63.7	58.0	53.4	44.1	42.0	39.4	43.5	44.4
To the public sector	15.5	15.9	15.9	14.1	9.2	8.0	8.3	9.6	8.7
To the private sector	51.1	47.8	42.1	39.3	34.8	34.0	31.1	33.9	35.7
Liquidity (M3)	49.4	47.7	42.3	43.0	42.4	47.8	46.5	58.7	59.5
Currency outside banks and local-currency deposits (M2)	7.7	8.3	9.3	12.2	15.6	23.9	26.1	34.3	40.5
Foreign-currency deposits	41.7	39.4	33.1	30.9	26.7	23.9	20.3	24.4	19.1

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 Publicly guaranteed private debt is not included.

^k Domestic debt refers to central government debt.

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

The sharpest increases in 2010 were seen in foods and non-alcoholic beverages (11.6%), restaurants and hotels (9.5%), and transport (8.6%). The higher cost of food and non-alcoholic beverages accounted for 65% of the rise in inflation in 2010.

In the first five months of 2011, cumulative inflation stood at 4.1%, 3.8 percentage points more than the rate recorded for the same period in 2010. Meanwhile, 12-month inflation reached 11.3%, 9.9 percentage points higher than in the corresponding period for 2010. Consequently, the average rise in the past 11 months was over 1% per month although in the April and May 2011 inflation slowed. Thus, in just one quarter of the year, the country has already arrived at 67% of its annual inflation target.

Between June 2009 and June 2010, the unemployment rate fell from 7.73% to 6.03%, owing mainly to a decline in the female unemployment rate from 9.43% to 6.89%. In the same period, the national employment rate rose from 55.95% to 56.75%. Publication of the quarterly employment survey was discontinued after the second quarter of 2010; thus, no further updates on unemployment figures are available.

In April 2011, the government reached an agreement with the Bolivia Central Workers' Union on an 11% rise for teachers and health workers. On 2 March 2011, it raised the public and private minimum wage by 20%. Following successive annual increments, the monthly minimum wage has gone up by 85.2% since 2006 and now stands at 815.4 bolivianos.

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	2.9	2.2	3.6	4.6	3.2	3.8	3.7	5.7
Goods exports, f.o.b. (millions of dollars)	1 160	1 286	1 473	1 493	1 489	1 659	1 916	1 892	1 867	1 400
Goods imports, c.i.f. (millions of dollars)	1 052	977	1 135	1 303	1 168	1 268	1 392	1 538	1 545	1 083
Gross international reserves (millions of dollars)	7 762	7 955	8 453	8 580	8 449	8 537	9 058	9 730	10 485	10 677
Real effective exchange rate (index: 2000=100) ^d	92.0	97.9	102.7	106.6	102.4	103.0	103.9	103.9	101.5	103.8
Consumer prices (12-month percentage variation)	6.6	2.1	0.6	0.3	0.7	1.3	3.3	7.2	11.1	11.3
Average nominal exchange rate (bolivianos per dollar)	7.00	7.03	7.04	7.05	7.03	7.02	7.02	7.01	6.99	6.98
Nominal interest rates (annualized percentages)										
Deposit rate ^e	2.9	1.7	0.8	0.5	0.5	0.3	0.2	0.2	0.1	0.1 ^f
Lending rate ^e	9.6	8.8	7.9	6.8	5.9	5.6	5.7	5.5	7.1	6.7 ^f
Interbank rate ^g	7.5	4.1	1.4	0.7	0.7	1.0	0.9	0.8	1.1	...
Domestic credit (variation from same quarter of preceding year)	11.4	12.4	10.6	11.2	11.4	12.1	13.7	15.7
Non-performing loans as a percentage of total credit	4.8	4.4	4.2	3.5	3.8	3.1	2.6	2.2	2.3	2.1

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1990 prices.

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

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

^f Data to April.

^g Repurchase rate, in dollars.

(c) The external sector

In 2010, the balance of payments showed a surplus of US\$ 923 million, US\$ 570 million (175%) more than the 2009 figure. The surplus on the current account swelled by US\$ 89.4 million to stand at US\$ 903 million. The capital and financial accounts (without errors and omissions) increased by US\$ 881.7 million, moving from a small deficit to close the year with a surplus of US\$ 853 million. FDI totalled US\$ 651 million in 2010, an increase of 54.6%.

The balance on the current account is attributable to a US\$ 447 million improvement in the trade balance (92.5%) with respect to the 2009 figure. With the upturn in the global economy, the country's main exports strengthened in both value and volume terms. After a fall in 2009, due to the global recession, export volumes of gas, soybean, minerals and other products expanded, coming close to the record levels attained in 2008. Imports were also up

in 2010, exceeding the 2009 levels by 21%. Intermediate and capital goods, destined mainly for industrial and agricultural use, accounted for as much as 78% of imports. Migrants' remittances, amounting to US\$ 939 million, also contributed to the positive current account balance. Even though remittances were slightly lower than in 2009 (by US\$ 79.4 million), it should be noted that the Plurinational State of Bolivia is the only country in the region where remittance inflows in 2010 exceeded the pre-crisis average (2004-2007).

At the close of 2010, net international reserves held by the central bank swelled by US\$ 1.15 billion compared with the December 2009 level to stand at US\$ 9.73 billion, a record year-end figure, equivalent to 19 months of imports of goods and services. During the first three months of 2011 this trend continued and reserves totalled US\$ 10.486 billion, an increase of 7.8% during the first quarter of the year.