

Bolivia

In 2006, the Bolivian economy continued to reap the benefits afforded by the external economic situation, which set the stage for price increases for raw materials (particularly metals and hydrocarbons) and a consequent 20.4% improvement in the country's terms of trade. For 2006, economic growth is estimated at 4.5%, inflation at 4.5% and the current account surplus at US\$ 1.28 billion (the equivalent of 12% of GDP). Other developments include a major build-up of international reserves, an improved fiscal balance and a US\$ 1.735 billion (16.2% of GDP) reduction in the country's external debt. All this took place in a domestic political and institutional environment characterized by dramatic changes. At the beginning of July, elections were held for representatives of the Constituent Assembly, which was established on 6 August. There are also signs that institutional changes are afoot: a supreme decree issued on 1 May permits the nationalization of the hydrocarbons industry, and the new direction being taken by Bolivia's integration strategy has led to the signing of cooperation agreements with Cuba and the Bolivarian Republic of Venezuela.

In terms of fiscal policy, the non-financial public sector (NFPS) posted a 6.4% surplus up to September 2006, compared with the 2.3% deficit recorded in 2005. This improvement is due to the cumulative deposits made by prefectures and municipal governments, which, according to estimates prepared by the Social and Economic Policy Analysis Unit of the Ministry for Development Planning, represent about 70% of the proceeds they have received from the direct tax on hydrocarbons. The 2006 NFPS surplus is expected to come in at 5.2% of GDP, while the general government surplus is estimated at 4.1%. In addition, the external debt shrank by 35.2%, falling from US\$ 4.942 billion at the close of 2005 to US\$ 3.207 billion as of September 2006.

As for monetary policy, the central bank complied with the established monetary programme, despite the fact that no agreement had been concluded with the International Monetary Fund (IMF). In the first nine months of the year, M1, M2, M3 and M4 all recorded an increase in real terms. Their expansion was absorbed by the money demand fuelled by the economy's expansion and by currency substitution towards the boliviano. The

real monetary base expanded by 5.8%, which is mainly attributable to an increase of nearly 60.1% in international reserves. This was partially offset by the reduction in net credit to the public sector that was made as part of the central bank's monetary programme.

The Bolivian economy is expected to have grown 4.5% in 2006, with an expansion of 4.8% recorded in the first half of the year. In the longer term, the country's economic growth may be affected by two risk factors. First, growth in the last three years has been linked to the driving force of external demand, mainly in the extraction sectors, but no repetition of the large price increases seen in 2004 and 2005 is expected for raw materials any time soon. Second, investment has been the slowest-growing component of expenditure, and this investment pattern could undermine the Bolivian economy's potential GDP growth in the future.

Inflation over the past 12 months was 4.7%, which is 0.3 percentage points lower than the figure up to November 2005. Cumulative inflation up to November 2006 was 0.2 percentage points lower than for the year-earlier period. Prices for food and beverages posted the

highest increase, outpacing inflation. For tradable goods, cumulative inflation up to November 2006 was 4.8%, while 12-month inflation was 5.5%. These figures were both higher than the equivalent inflation rates for non-tradables, which came in at 3.7% and 4.2%, respectively.

All in all, Bolivia's inflation rate is estimated to have been 4.5% in 2006, which is 0.4 percentage points lower than in 2005. This figure falls within the target band of 3%-5% established by the central bank. In 2005, the unemployment rate was 8.5%. Given the fact that the country's economic growth has been based around extraction industries and is being driven by external demand, the unemployment rate is expected to undergo a moderate reduction in 2006.

The balance-of-payments current account surplus for 2006 is estimated to stand at around US\$ 1.28 billion, which is 1.65 times higher than the figure recorded in 2005. The trade balance is expected to weigh in at US\$ 1.3 billion. Between January and September 2006, the trade balance came to US\$ 1.1 billion, which is US\$ 694 million more than it was a year earlier. In the first nine months of 2006, total merchandise exports grew by 50.1%, while imports were up by 20.8%. The activities with the most buoyant external sales were mining and hydrocarbon extraction, which were up by 121.7% and 56.5%, respectively, in relation to January-September 2005. These two sectors' exports represented 65.5% of total external sales. Manufacturing exports rose by 15.8% and amounted to 26.1% of total exports for the first three quarters of 2006. Among the various categories of imports, capital goods displayed the strongest growth (61.1%). In terms of Bolivia's trade balance with individual countries during this period, Brazil posted the largest surplus (US\$ 755 million), while Chile recorded the biggest deficit (US\$ 120 million). In the medium term, the main risk factors for Bolivia's export sector are associated with hydrocarbon price levels. Short-term risk has been dispelled somewhat by the extension of

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	3.9	4.1	4.5
Consumer prices	4.6	4.9	4.7 ^b
Average real wage	2.9	-3.9	...
Money (M1)	15.7	30.1	46.4 ^c
Real effective exchange rate ^d	7.2	7.4	2.0 ^c
Terms of trade	5.6	7.5	20.4
Annual average percentages			
Urban unemployment rate	6.2	8.2	...
NFPS overall			
balance/GDP	-5.5	-2.3	5.2
Nominal deposit rate ^e	2.0	1.7	2.4 ^f
Nominal lending rate ^e	8.2	8.2	7.7 ^f
Millions of dollars			
Exports of goods and services	2 562	3 280	4 352
Imports of goods and services	2 331	2 872	3 433
Current account	337	619	1 284
Capital and financial account	-265	-126	-184
Overall balance	73	493	1 100

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 2006.

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

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

^e Annual average of rates on transactions in dollars.

^f Average from January to October, annualized.

the United States' regime of preferential treatment for Bolivian exports under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), promulgated in December 2005. This agreement has made it possible for the products of small-scale (and labour-intensive) textile, jewellery and crafts producers to enter the United States market. As for the exchange rate, the boliviano has appreciated 0.37% in the first 10 months of the year. The external sector's performance also paved the way for a build-up of international reserves of almost US\$ 1.257 billion (11.8% of GDP) between December 2005 and October 2006, bringing the total balance to a record high of US\$ 2.970 billion. International reserves are expected to exceed US\$ 3 billion by the end of the year.