

## Bolivia

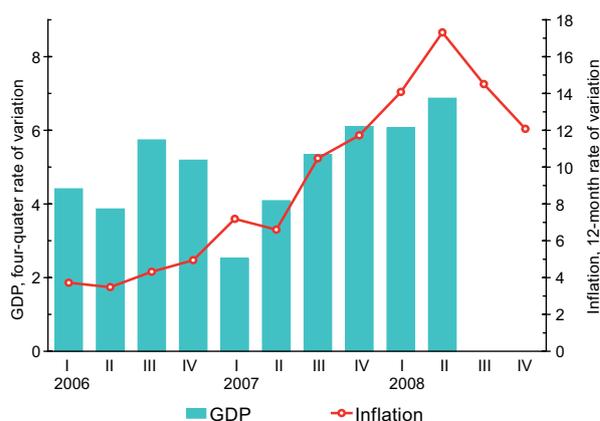
ECLAC estimates that GDP growth will reach 5.8% in 2008, an increase of about 1.2 percentage points over its 2007 level, and the urban unemployment figure will be 7.2%, 0.5 points down in relation to 2007. Inflation will stand at 13%, making 2008 the second consecutive year of two-digit price rises. The balance-of-payments current account and the non-financial public sector (NFPS) will close the year with surpluses, basically because of the high prices of natural gas in 2008. The political scene was dominated by a series of electoral processes: in the first half of the year, referendums on autonomy in various departments, and in the second semester, referendums on recalling the country's President and the prefects of certain departments. The Constituent Assembly, after more than a year of work, presented a draft for a new constitution which will be the subject of a referendum in January 2009 and which, if approved, will entail amendments to many laws to bring them into line with the new constitutional framework. This project would guarantee autonomy for departments, municipalities and indigenous peoples and would entail the holding of a presidential election in December 2009.

In the first half of 2008, the country's GDP was 6.5% higher compared to the same period in 2007. The five most buoyant sectors were metallic and non-metallic minerals (63.0%), construction (9.0%), crude oil and natural gas (6.8%), financial establishments (6.2%) and manufacturing (4.7%). The first of those had an incidence on GDP of 2.49 percentage points (38.3% of total growth), followed by manufacturing with 0.77% points. Growth in the production of metallic and non-metallic minerals was associated with the launching of a number of stages of the San Cristóbal mine project. The sector which had the least growth in the first half of 2008 (2.4%) was crop farming, livestock production, forestry, hunting and fishing, owing to the disastrous weather which struck the eastern part of the country in the first semester, associated with the La Niña phenomenon. On the demand side, GDP growth was based on households' final consumption expenditure and on gross fixed capital formation, which were up by 5.5% and 9.5%, respectively. Their incidence on GDP growth was 3.85 and 1.25 percentage points,

respectively. ECLAC estimates place the growth of the Bolivian economy close to 3% in 2009.

Monetary aggregates have expanded considerably over the past three years owing to rising international

**BOLIVIA: GDP AND INFLATION**



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

reserves and the replacement of the dollar by the boliviano.<sup>1</sup> Those aggregates followed the same trend in 2008, with the money supply rising by 14.1% to November, and by 35.7% from November 2007 to November 2008. M1, M2 and M3 increased by 19%, 28.6% and 32%, and by 33.6%, 46.4% and 49.3%, respectively, over those same two periods. Given the dedollarization of the Bolivian economy, the monetary liquidity growth figures for the M1, M2 and M3 aggregates including foreign currency were lower than the above figures. The central bank's goal since 2007 has been to hold down inflationary pressures on the economy, mainly by means of open-market operations; it had to deal with not only external inflationary pressures but also rising liquidity resulting from the positive performance of the export sector. Over the first 11 months of the year, open-market operations were up 118.1% to US\$ 1.207 billion.<sup>2</sup> In reaction to the changing level of inflation, those operations ceased to grow, in contrast with their behaviour since January 2007. The main buyer in the open-market operations was the financial system.

Up to September 2008, the fiscal accounts recorded positive balances. At that date, the non-financial public sector (NFPS) had a surplus of 7.3% of GDP, an increase of 3.1 percentage points over September 2007. The revenue heading that showed the highest increase was that relating to hydrocarbons, which was up 2.7% of GDP. The national budget is expected to show an increase in public investment of close to 31.6% in 2009.

As for prices, the yearly cumulative inflation figure stood at 11.4% in November, and the 12-month figure was 12.1%. It should be noted that the latter peaked at 17.3% in June. The CPI component which showed the greatest variation was food. The slowing of inflation after July was due to falling world prices for food—of which Bolivia is a net importer—and to a double exchange-rate effect relating to the appreciation of the boliviano against the dollar and the latter's appreciation in international markets. This has resulted in reduced prices in internal markets for imported goods. The boliviano appreciated by 7.8% between December 2007 and October 2008 and by 9% compared with October 2007, contrasting with the behaviour in September and October of nominal exchange rates in neighbouring countries such as Brazil, Chile and Peru. Bolivia's real exchange rate appreciated by 10.8% from December 2007 to October 2007.

<sup>1</sup> Between November 2005 and November 2008, the central bank's international reserves swelled by US\$ 5.967 billion, while deposits in bolivianos rose from 14.5% to 47.4%.

<sup>2</sup> Between October 2007 and October 2008 they increased by 150.7% (US\$ 1,361,400,000). As of October 2008, only 0.18% of the central bank's open-market operations were denominated in dollars.

#### BOLIVIA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.8	4.6	5.8
Per capita gross domestic product	2.6	2.4	3.7
Consumer prices	4.9	11.7	12.1 <sup>b</sup>
Average real wage	4.5	-1.3	-1.6
Money (M1)	42.9	58.1	52.8 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	2.2	-1.0	-7.3 <sup>e</sup>
Terms of trade	20.4	3.6	5.7
<b>Annual average percentages</b>			
Urban unemployment rate	8.0	7.7	...
General government			
overall balance / GDP	3.4	2.3	3.0
Nominal deposit rate <sup>f</sup>	2.4	2.4	3.6 <sup>g</sup>
Nominal lending rate <sup>f</sup>	7.8	8.2	8.8 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	4 351	4 927	6 520
Imports of goods and services	3 459	4 082	5 496
Current account	1 317	1 763	2 053
Capital and financial account	121	117	247
Overall balance	1 439	1 880	2 300

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Twelve-month variation to August 2008.

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

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

<sup>f</sup> Annual average of monthly rates in dollars.

<sup>g</sup> Average from January to November, annualized.

The current account registered a surplus for 2008, buoyed up once more by high average prices for hydrocarbons over the course of the year. In the period from January to September, the current account surplus stood at US\$ 1.576 billion, 51.5% higher than in the same period in 2007. This was essentially due to increases in exports and in migrants' remittances, and a reduced deficit on the investment income account. During the same period, exports totalled US\$ 4.694 billion, a 50.1% rise compared with the first three quarters of 2007. The leading sectors in that growth were mineral extraction (70.0%) and hydrocarbons (51.8%). Imports increased by 47.7% from January to September 2008 in relation to the same period in 2007.<sup>3</sup> Some 97.6% of those external purchases were made by manufacturing industry and essentially relate to industrial supplies and capital goods. The growth of imports was influenced by both economic growth and the appreciation of the boliviano. Over the same period, migrants' remittances increased by 8.1%.

<sup>3</sup> The growth of imports in recent years has been significant; in comparison with January-September 2005, they have increased by over 100%.

As a result of the performance of the current account, as of late November 2008 the central bank's net international reserves were equivalent to US\$ 7.547 billion, US\$ 2.298 billion (42.3%) above their level at the end of December 2007 and US\$ 2.538 billion (50%) higher than the October 2007 figure.

Two areas of concern are expected to arise in 2009 in relation to the country's exports. First, the worldwide slowdown in economic growth may lower the prices of the country's main export commodities. Second, the external sales of the manufacturing sector may fall because of the suspension of preferential tariffs which had been granted

to Bolivia by the United States, following the decision taken in October by the Bolivian authorities to expel the representatives of the Drug Enforcement Administration (DEA).<sup>4</sup> The United States is the country's fourth largest export trade partner, accounting for 6.1% of Bolivia's external sales up to October 2008. Most of the goods benefiting from the preferential tariffs were craft products such as leather goods, jewellery and cloth. The government and the producers are seeking to redirect those exports to markets in the Bolivarian Republic of Venezuela and the Islamic Republic of Iran, in the framework of the country's cooperation agreements with those States.

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<sup>4</sup> The preferential tariff regimes for which anti-drug certification is required are the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and the Generalized System of Preferences (GSP). In November, the United States announced the suspension of preferential tariffs for Bolivia.