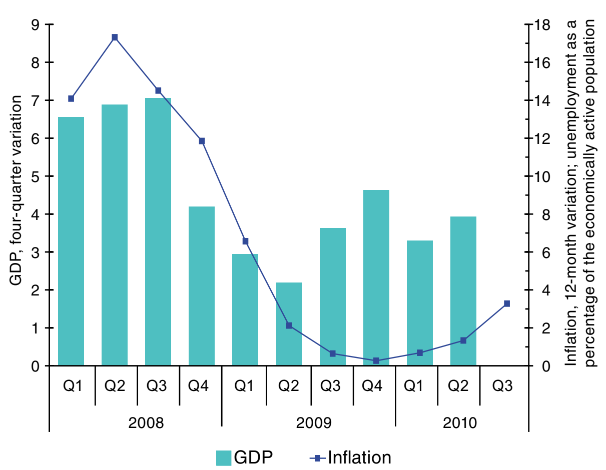
Plurinational State of Bolivia

The GDP of the Plurinational State of Bolivia is expected to show growth of 3.8% in 2010 (0.4 percentage points higher than in 2009), while urban unemployment in the second quarter of the year stood at 6.03% (1.70 percentage points lower than in the second quarter of 2009). The annual average inflation rate for December 2010 is projected to surpass the 6% mark, representing an increase of nearly 6 percentage points over the 2009 rate of 0.3%. The balance-of-payments current account will end the year with a larger surplus than in 2009, thanks mainly to a trade balance surplus and higher remittances from abroad. By contrast, the non-financial public sector accounts will close the year with a deficit for the first time since 2005.

During the first two quarters of 2010, the Central Bank of Bolivia relaxed its expansionary monetary policy stance through net bond issues in open market operations. This move was part of the central bank's monetary programme, which set targets for expanding total net domestic credit and net domestic credit to the non-financial public sector and for slightly reducing net foreign reserves. During the first half of the year, these targets were easily met. Despite the pull-back in its expansionary stance, the central bank's repo rate remained unchanged at 4.5%. A decrease in domestic financing and net domestic credit to the non-financial public sector was partially offset by an expansion in net domestic credit to the financial sector through the redemption of bonds. The banking system's lending and deposit rates continued to drop in 2010. Between September 2009 and October 2010, the government's policy of boosting credit to the productive sector pushed average lending rates down from 7.6% to 4.99% and deposit rates from 0.5% to 0.2%. As lower interest rates stimulated borrowing, the gross loan portfolio swelled 24% between December 2009 and October 2010, to reach a total of US$ 5.108 billion. The process known as "bolivianization" (or de-dollarization) of the banking system continued in 2010, with over 50% of loans and deposits held in bolivianos at year-end.

According to official information available at August 2010, the non-financial public sector was running a surplus of approximately 2.8% of GDP. With respect to the same period in 2009, expenditure as a percentage of GDP was down by 0.3 percentage points and revenue by 2.1 percentage points. Although the results to September indicate a fall in both revenue and expenditure, the Plurinational State of Bolivia is expected to close 2010 with expenditure as a percentage of GDP at 1 percentage point higher than at year-end 2009 (from 32.4% to 33.4%), while revenue is projected to decrease from 31.3% to 30% of GDP. Although tax revenue overall will likely inch up from 17.1% to 17.3% of GDP, receipts from the hydrocarbon tax are expected to fall from 9.8% to 8.5% of GDP. This

PLURINATIONAL STATE OF BOLIVIA: GDP AND INFLATION



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

fall is due mainly to the fact that it takes two to three quarters for a rise in oil prices to affect sales prices in the oil sector. The higher tax receipts will come principally from increased inflows of customs duties, which rose by an estimated 12.8% in nominal terms in 2010 as a result of a 21.1% increase in imports between September 2009 and September 2010. With regard to fiscal expenditure, in the year to September current expenditure rose by 1 percentage point (from 12.7% to 13.7% of GDP), with a projected increase of 1.8 percentage points by the end of the year. In 2010, the government continued its investment programme, but, as in 2009, it did not manage to invest the total amount allocated. Public investment stood at US$ 806 million through September 2010, representing an increase of 6.7% compared with the same period in 2009. However, the investment budget for the whole year was a little over US$ 2 billion (a 51.4% increase on the 2009 budget), indicating that there have been execution delays. The non-financial public sector is expected to end the year with a deficit of 1.5% of GDP. While public enterprises will close the year with a surplus, the national treasury is expected to run a year-end deficit of 3.4% of GDP. In the year to October, the public sector's domestic public debt grew by 6%, while external public debt rose by 5%. As a percentage of GDP, domestic public debt decreased from 24.8% to 23.9% and external public debt went from 15% to 14.3% during this period.

In the first half of 2010, the GDP of the Plurinational State of Bolivia posted year-on-year growth of 3.6%. Construction, which grew by 10.2%, was the most buoyant area of economic activity, thanks mainly to the boom in housing construction. Increased demand for gas in Brazil and Argentina spurred expansion of 6.42% in the crude oil and natural gas sector. Mining, which —with growth of over 14%— had been the most robust sector in 2009, expanded by only 0.72% during the period. In addition, during the second half of 2010, strikes in the mining region of Potosí brought mining operations to a halt for almost an entire month. On the demand side, GDP growth was driven by gross fixed capital formation and final consumption expenditure by households and private non-profit institutions, which grew by 10.79% and 3.77% respectively. Their impact on GDP growth was 1.52 and 2.64 percentage points, respectively. ECLAC estimates economic growth in the Plurinational State of Bolivia at about 3.8% for 2010 and about 4.5% for 2011.

Cumulative inflation between January and November 2010 was 5.3% and is expected to close the year at over 6%, which is substantially higher than the inflation of 0.3% posted in 2009. Inflation was driven up by the rise in commodity prices, as some food items became costlier due to shortages caused by drought and flooding in various parts of the country. As a result, inflation rose by 1.2% in October and by 1.1% in November, which represented almost one half of the total cumulative inflation to that point. Between June 2009 and June 2010, the unemployment rate fell from 7.73% to 6.03%, owing mainly to a drop in female unemployment from 9.43% to 6.89%. The participation rate rose from 55.95% to 56.75% during the same period.

For 2010, the Plurinational State of Bolivia ran a current account surplus of about US$ 713 million, which was 12.34% less than in 2009. Goods exports grew by US$ 788 million (16.02%), owing in part to the surge in hydrocarbon exports (34%) triggered by a recovery in demand from Brazil during the year. Imports rose by 22.32%, leading to a goods balance of US$ 639.9 million, which was 17.71% lower than in 2009. Workers' remittances were down by US$ 66 million (9.9%) compared with the first half of 2009. The real effective exchange rate through October 2010 showed year-on-year appreciation of 1.8%. The capital and financial accounts posted a surplus of US$ 76 million. Through October 2010, the net international reserves held by the central bank increased by US$ 609 million (7.1%) to reach US$ 9.208 billion, which is equivalent to 21 months of import cover.

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	6.1	3.4	3.8
Per capita gross domestic product	4.3	1.6	2.1
Consumer prices	11.8	0.3	5.6 [b]
Average real wage	-7.4	3.8	...
Money (M1)	23.2	19.3	20.8 [c]
Real effective exchange rate [d]	-7.0	-8.7	7.3 [e]
Terms of trade	1.3	-3.2	9.3
	Annual average percentages		
Urban unemployment rate	6.7	7.9	6.5
General government overall balance / GDP	0.0	-1.1	-3.5
Nominal deposit rate [f]	3.6	1.5	0.3 [g]
Nominal lending rate [f]	8.9	8.3	5.8 [g]
	Millions of dollars		
Exports of goods and services	7 026	5 433	6 683
Imports of goods and services	5 781	5 159	5 924
Current account	1 993	813	959
Capital and financial account [h]	381	-488	-659
Overall balance	2 374	325	300

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 2010.
[c] Twelve-month variation to September 2010.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year variation, January to October average.
[f] Annualized average of monthly rates in dollars.
[g] Average from January to October.
[h] Includes errors and omissions.