

PLURINATIONAL STATE OF BOLIVIA

1. General trends

In 2012, the Bolivian economy continued to perform well, both in terms of growth and in terms of its external and fiscal accounts. GDP expanded by 5.2%, which was slightly more than the 2011 growth rate. Inflation eased in 2012, with prices up by 4.5%; in the fiscal accounts, the overall central government balance rebounded from the deficit recorded in 2011 to post a surplus of 1.8%. The balance-of-payments current account showed a surplus of US\$ 2.001 billion, more than double the figure for 2011 and equivalent to 7.6% of GDP. Net international reserves held by the central bank continued to expand rapidly and amounted to US\$ 13.969 billion (53% of GDP) at the end of 2012, an increase of 16% for the year.

So far in 2013 the economy of the Plurinational State of Bolivia has continued to perform well and grow briskly: in the first quarter of 2013 the overall index of economic activity indicated year-on-year growth of 6%, and central government revenues rose by 19% compared with the first quarter of 2012. However, government expenditure has declined in 2013 to date. In the external sector, the results remain positive with exports up by 31% in the first quarter of 2013 on the strength of the hydrocarbons sector, while imports rose by 10.8% over the same period.

ECLAC projects growth of about 5.5% for the year as a whole, somewhat higher than in 2012.

2. Economic policy

(a) Fiscal policy

The non-financial public sector (NFPS) registered a surplus in 2012 for the seventh year in a row, in this case equivalent to 1.8% of GDP. The central government also posted a surplus once again, representing 1.8% of GDP as well. The improvements in the fiscal accounts were largely determined by higher revenues. In 2012 both tax revenues and hydrocarbons revenues soared (16.2% and 26.3%, respectively), and total NFPS revenues expanded by 16.4%. The rise in tax revenues was mainly attributable to an increase in receipts as the tax base broadened; hydrocarbon revenues were pushed up by the larger volumes of natural gas sold to Argentina and Brazil. In 2012, tax revenues were equivalent to 20.9% of GDP, while hydrocarbon revenues were 11.9% and total central government revenues came to 35.1% of GDP. Total NFPS spending went up by 14% in 2012 (to 46.3% of GDP), driven by current spending (owing to increases in public-sector wages), which accounts for 32.5% of GDP. Capital expenditure continued to expand, to almost 14% of GDP, but at a much slower pace than the previous year.

Capital expenditure did not rise by as much as in the past, but the public investment programme continued to make up a large share. Public investment grew by 33.5% to reach US\$ 2.874 billion (10.9% of GDP). The government executed a large part —about 88%— of its budgeted funds in 2012. That budget has been bumped up for 2013, with US\$ 3.807 billion dollars allocated for public investment.

External public debt increased by US\$ 700 million to US\$ 4.282 billion, equivalent to 16.2% of GDP. Much of that increase is attributable to a US\$ 500 million sovereign bond issue on 22 October 2012, the first time that the Plurinational State of Bolivia accessed international capital markets in more

than 80 years. The emission was successful and the annual interest rate was set at 4.8%. The government is planning to issue another US\$ 500 million in the second half of 2013. A portion of the proceeds from the first issue was used to pay down domestic public debt, lowering its ratio to GDP from 20.8% in 2011 to 16.1% at the end of 2012. The sum of external and domestic public debt gave a total public debt balance equivalent to 32.3% of GDP.

In the first quarter of 2013, government revenue continued to grow apace (19%) compared with the first quarter of 2012; there was no significant change in spending. For the year as a whole, both revenues and spending are expected to increase, the latter fuelled by substantial public investment in the run-up to the 2014 presidential elections.

(b) Monetary policy

In 2012 the central bank continued to apply countercyclical measures to address external changes and implement policies in line with the global and national scenario. In the first half of the year the central bank made net placements of securities to buffer the high level of liquidity. From the third quarter, as inflation stabilized, a net purchase of open-market securities helped the financial sector to continue expanding. In the fourth quarter, owing to seasonally high liquidity, the central bank increased the supply of securities, but demand was very low, and the net purchase of securities continued during this period.

In 2012, according to the fiscal-financial programme agreed to between the central bank and the Ministry of Economy and Public Finance, the balance of net domestic credit to the NFPS was expected to be positive. Throughout the year, however, the NFPS made net deposits at the central bank and the government ended the year with a fiscal surplus. Monetary and financial sector stability led the central bank to hold the repo rate unchanged for 2012. Thanks to the central bank's expansionary policies aimed at stimulating financial sector growth, the monetary base and monetary aggregates M1, M2, and M3 expanded by between 15% and 20% over the year.

With regard to the financial system, both lending rates and deposit rates rose slightly (by 11 basis points and 9 basis points, respectively) in 2012. Deposits in the financial system and the gross loan portfolio continued to grow at an annual rate of 20%, propelled in part by central bank policies. Growth was strongest in the areas of micro-credit and loans to small and medium-sized enterprises (SMEs). The government has been boosting lending to these sectors to increase the share of credit allocated to productive activities. These policies are producing results, with loans to the productive sector up by 19% in 2012.

The central bank modified the legal reserve requirement twice during the year in a bid to enhance the "bolivianization" of the financial system. First, in January 2012, the central bank expanded the foreign-currency deposits base subject to a marginal cash reserve requirement. The second change, in April, exempted from the early redemption ban term deposits in foreign currencies that are converted into local currency deposits. These policies promoted the continued bolivianization of the financial system in 2012. By December, this process reached a new milestone, with 80% of the loan portfolio and 71.6% of deposits in national currency.

The same trends that shaped monetary policy in 2012 continued into early 2013. Inflation remained low and steady, enabling the central bank to focus its energies on economic expansion through credit. The central bank has therefore continued to boost liquidity in the Bolivian economy. In the second part of the year, the financial system could be affected by the new banking law, which is currently being debated in the congress. This law seeks to set lending rates for certain types of credit with a view to

promoting certain sectors of the economy. Specifically, the government will regulate rates on production sector and mortgage loans (up to US\$ 120,000), among others.

(c) Exchange-rate policy

The central bank's exchange-rate policy is based on unannounced gradual exchange-rate adjustments (crawling peg). However, in 2012 and the first months of 2013 there was no change in the nominal exchange rate because the central bank uses it to anchor public expectations and sustain the process of bolivianizing the economy. Although the nominal exchange rate remained unchanged, the real effective exchange rate appreciated slightly (by about 5%) in 2012 and continued to appreciate during the first months of 2013.

(d) Other policies

In 2012 and the first few months of 2013, the government continued to nationalize companies deemed strategic for the country's development. Three companies were nationalized in 2012, starting in January with the acquisition of the shares of the Argentine-British oil company Pan American Energy (PAE), which operated the Margarita gas field that supplies the Argentine market. Second, in May the State acquired the shares of Red Eléctrica Internacional, a Spanish company that operated the country's electricity network. The third nationalization took place in December 2012, when the State took over the power companies Electropaz and Elfeo, which were subsidiaries of a Spanish company. The process continued in 2013, with the nationalization in February of Servicios de Aeropuertos Bolivianos (SABSA), a Spanish company that operated several airports in the country.

3. The main variables

(a) The external sector

In 2012, the balance-of-payments current account recorded a surplus of US\$ 2.001 billion (7.6% of GDP). Meanwhile, the balance of the capital and financial accounts dropped to US\$ 534.3 million (2.0% of GDP). Foreign direct investment shot up by 23% in 2012, reaching US\$ 1.060 billion. However, it is still low at just 4% of GDP. As a result of these factors, the country's overall balance inched down from 9% of GDP in 2011 to 6.2% of GDP in 2012.

The current account picked up in 2012 thanks to a marked improvement in the trade balance, which rose by US\$ 315 million over 2011 to stand at US\$ 2.364 billion in 2012, owing to a 33% upsurge in goods exports. Of the three largest destination markets for Bolivian exports (Brazil (36%), Argentina (13%), and the United States (12%)), exports to the United States and Argentina grew at the fastest pace in 2012 and the first quarter of 2013 (by more than 90% and more than 50%, respectively). Exports to Brazil grew by about 20% in 2012 and 17% in the first quarter of 2013. The expansion in exports to Brazil and Argentina is attributable to the boom in natural gas exports to these countries, while the increase in exports to the United States was spurred by a 581% surge in minerals and metals exports (which account for 64% of total exports to the United States). Higher prices (up by 16% in 2012) largely explained the jump in exports, although volume (up by 12%) also played a significant role. Imports rose by 15% in 2012, with higher prices and higher volumes having an almost equal impact (up by 7.7% and 7.6%, respectively). For 2013 as a whole, exports are expected to continue growing at a high rate, and new investment projects are projected to lift imports.

In 2012, emigrant remittances rose by 8.1% to total US\$ 1.094 billion. They continued their upward trend in the first quarter of 2013, up 10.8% compared with the first quarter of 2012. The main sending country is still Spain, which accounts for about 44% of total remittances. At the end of 2012, net international reserves held by the central bank amounted to US\$ 13.969 billion, representing an increase of 16% over the year. This expansion continued in early 2013; in May 2013 net international reserves totalled US\$ 13.998 billion, equivalent to 20.7 months of imports of goods and services and 53.7% of GDP.

(b) Economic growth

GDP grew by 5.2% in 2012, the same rate as in 2011. The three economic activities which registered the highest growth in 2012 were financial intermediation, construction and the electricity, gas and water supply sector, with growth rates of 9.8%, 8.0% and 5.8%, respectively. The respective impacts of these activities on GDP growth was 0.52 percentage points, 0.16 percentage points and 0.14 percentage points. Two mainstays of the Bolivian economy (agriculture and mining) posted dissimilar growth rates: the pace of growth in agriculture accelerated to 4.1% in 2012, while mining slowed slightly to grow at 4.9% owing to labour unrest in the mines.

On the demand side, GDP growth was driven by an increase in central government final consumption expenditure, which rose by 4.9%; final consumption expenditure by households and non-profit institutions serving households grew by 4.6%. Gross fixed capital formation went up moderately, by 1.5%, owing to the government's focus on its public investment programme and policies designed to attract foreign investment, although this growth was markedly lower than the 23.7% recorded in 2011.

The overall index of economic activity for the first quarter of 2013 indicated an approximately 6% increase in the growth rate, driven by the buoyant energy and construction sectors. For 2013 as a whole, gas production is expected to increase, the mining sector is expected to pick up again after the low output recorded in 2012, and GDP growth of close to 5.5% is projected.

(c) Prices, wages and employment

In 2012, the inflation rate in the Bolivian economy was 4.5%, representing a drop of over 2 percentage points with respect to the previous year. In 2012, in contrast with other years, inflation was low (within the range forecast by the central bank) and steady throughout the year. The greatest variations in 2012 were seen in relation to alcohol and tobacco, health care, and furniture and household items and services. The inflation trend held in the first quarter of 2013; the cumulative index for the first five months was 2.0%. Annual inflation for 2013 is expected to be about the same as for 2012.

The government raised the minimum wage to 1,000 bolivianos in 2012 and to 1,200 bolivianos in April 2013. The latest data on wages are from June 2012. In that quarter, public-sector wages rose by 4.1% compared with the previous quarter. Although there are no data on employment or unemployment indexes since June 2011, government estimates put the unemployment rate at around 5%. Similar trends are expected to be seen in 2013. Owing to the solid performance of the economy, it is likely that wages will rise and more people will find work.

Table 1
PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	Annual growth rates b/								
Gross domestic product	4.2	4.4	4.8	4.6	6.1	3.4	4.1	5.2	5.2
Per capita gross domestic product	2.2	2.5	3.0	2.8	4.4	1.7	2.5	3.6	3.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.2	5.0	4.3	-0.5	2.6	3.7	-1.2	3.1	4.1
Mining and quarrying	9.4	13.1	5.4	7.0	22.9	-2.0	4.0	5.3	4.9
Manufacturing	5.6	3.0	8.1	6.1	3.7	4.8	2.6	3.7	4.7
Electricity, gas and water	3.1	2.7	4.0	4.3	3.6	6.1	7.3	7.4	5.8
Construction	2.2	6.4	8.2	14.3	9.2	10.8	7.5	8.0	8.0
Wholesale and retail commerce, restaurants and hotels	3.5	2.4	3.4	4.8	4.0	4.3	3.8	3.5	3.7
Transport, storage and communications	4.0	2.9	3.9	3.5	4.0	5.6	8.0	6.1	2.7
Financial institutions, insurance, real estate and business services	-1.5	0.4	5.4	6.3	4.7	4.1	5.6	5.3	9.8
Community, social and personal services	3.3	3.0	3.3	3.7	3.5	5.6	3.6	5.1	5.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.9	3.3	4.0	4.1	5.3	3.7	3.9	5.4	4.7
Government consumption	3.1	3.4	3.3	3.8	3.9	3.8	3.1	7.2	4.9
Private consumption	2.9	3.3	4.1	4.2	5.5	3.7	4.0	5.2	4.6
Gross capital formation	-11.8	26.9	-0.4	5.8	29.3	3.9	7.1	23.5	-4.5
Exports (goods and services)	16.6	8.3	11.3	3.1	2.2	-10.8	9.9	5.9	11.9
Imports (goods and services)	5.5	14.8	5.2	4.4	9.4	-10.2	11.0	17.0	4.3
Investment and saving c/	Percentajes of GDP								
Gross capital formation	11.0	14.3	13.9	15.2	17.6	17.0	17.0	19.6	17.7
National saving	14.7	20.1	25.2	26.7	29.5	21.3	20.9	20.9	25.1
External saving	-3.7	-5.9	-11.3	-11.5	-11.9	-4.3	-3.9	-1.4	-7.4
Balance of payments	Millions of dollars								
Current account balance	325	561	1 293	1 506	1 991	746	766	329	2 001
Goods balance	289	396	1 036	918	1 444	415	812	684	2 838
Exports, f.o.b.	2 166	2 827	3 952	4 504	6 525	4 960	6 402	8 348	11 107
Imports, f.o.b.	1 877	2 431	2 916	3 586	5 081	4 545	5 590	7 664	8 269
Services trade balance	-71	-42	-168	-189	-200	-209	-263	-369	-473
Income balance	-385	-376	-397	-489	-536	-674	-864	-1 161	-1 629
Net current transfers	491	584	822	1 266	1 284	1 213	1 081	1 175	1 266
Capital and financial balance d/	-199	-58	222	446	383	-421	157	1 831	-289
Net foreign direct investment	63	-242	278	363	509	420	651	859	1 060
Other capital movements	-261	184	-55	83	-127	-841	-493	972	-1 349
Overall balance	126	504	1 516	1 952	2 374	325	923	2 160	1 712
Variation in reserve assets e/	-138	-504	-1 516	-1 952	-2 374	-325	-923	-2 160	-1 712
Other financing	13	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	92.6	100.0	102.3	101.3	92.5	84.3	88.0	86.7	82.0
Terms of trade for goods (index: 2005=100)	93.0	100.0	125.0	127.0	128.7	124.6	140.9	156.4	161.8
Net resource transfer (millions of dollars)	-571	-434	-175	-43	-154	-1 094	-707	670	-1 919
Total gross external debt (millions of dollars)	7 562	7 666	6 278	5 403	5 930	5 801	5 875	6 298	6 283
Employment g/	Average annual rates								
Labour force participation rate	58.6	55.7	58.7	57.1	...	56.9	57.3
Open unemployment rate	6.2	8.1	8.0	7.7	6.7	7.9	6.1	5.8	...

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.6	4.9	4.9	11.7	11.8	0.3	7.2	6.9	4.5
Variation in nominal exchange rate (annual average)	3.6	1.6	-0.7	-2.0	-7.8	-3.0	0.0	-0.9	-0.5
Variation in average real wage	2.7	-3.6	-8.0	-5.6	-7.7	2.3	3.1	-0.5	...
Nominal deposit rate h/	7.0	4.8	4.2	3.6	4.6	2.9	0.4	0.5	0.4
Nominal lending rate h/	17.2	12.1	8.8	8.3	8.9	8.5	5.2	6.3	6.7
General government	Percentajes of GDP								
Total revenue	26.3	30.3	32.7	32.7	32.7	32.8	30.8	32.8	35.1
Tax revenue	17.1	18.5	17.9	18.3	19.5	18.1	18.0	20.0	20.9
Total expenditure	31.9	32.6	29.2	30.5	32.7	34.8	30.9	33.9	33.3
Current expenditure	22.9	22.6	18.9	18.7	21.8	22.8	20.9	21.8	22.5
Interest	2.6	2.7	1.8	1.3	0.8	1.6	1.5	1.0	0.9
Capital expenditure	9.1	10.1	10.4	11.7	10.9	12.0	9.9	12.1	10.8
Primary balance	-3.0	0.4	5.3	3.5	0.8	-0.4	1.4	-0.2	2.7
Overall balance	-5.7	-2.3	3.5	2.3	0.0	-2.0	-0.1	-1.1	1.8
Central government public debt	81.1	75.4	49.6	37.1	34.0	36.3	34.5	34.4	31.3
Domestic	31.5	30.9	26.9	24.0	22.7	24.4	23.1	19.9	15.8
External	49.6	44.5	22.7	13.1	11.3	12.0	11.4	14.5	15.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	58.0	53.4	44.1	42.0	39.4	43.5	44.4	44.9	48.8
To the public sector	15.9	14.1	9.2	8.0	8.3	9.6	8.7	8.5	10.2
To the private sector	42.1	39.3	34.8	34.0	31.1	33.9	35.7	36.4	38.6
Monetary base	8.3	10.2	12.2	16.9	18.5	24.3	23.6	25.1	26.1
Money (M1)	42.3	43.0	42.4	47.8	46.5	58.7	59.5	58.7	62.9
M2	9.3	12.2	15.6	23.9	26.1	34.3	40.5	43.4	50.1
Foreign-currency deposits	33.1	30.9	26.7	23.9	20.3	24.4	19.1	15.3	12.8

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 values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Departmental capitals. Up to 2008, urban areas.

h/ Bank operations (61-90 days), in local currency.

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	5.6	4.2	5.4	5.5	5.1	4.5	4.6	6.5	6.0 c/	...
Goods exports, f.o.b. (millions of dollars)	1 870	2 233	2 713	2 361	2 270	2 957	3 271	3 449	2 982	913 d/
Goods imports, c.i.f. (millions of dollars)	1 545	1 767	2 146	2 215	1 896	1 941	2 038	2 396	2 101	724 d/
Gross international reserves (millions of dollars)	10 485	10 751	11 408	12 018	12 746	12 438	13 419	13 969	14 188	13 998 e/
Real effective exchange rate (index: 2005=100) f/	86.5	88.5	87.6	84.3	84.6	82.0	80.9	80.5	79.3	78.3 e/
Consumer prices (12-month percentage variation)	11.1	11.3	9.9	6.9	4.0	4.5	4.4	4.5	5.0	4.7 e/
Average nominal exchange rate (bolivianos per dollar)	6.99	6.97	6.93	6.93	6.92	6.92	6.93	6.92	6.92	6.92
Nominal interest rates (annualized percentages)										
Deposit rate g/	0.5	0.4	0.7	0.4	0.4	0.3	0.4	0.7	0.5	0.6 e/
Lending rate g/	5.9	6.5	6.4	6.7	6.7	6.5	6.7	7.0	7.1	6.8 e/
Interbank rate	1.1	2.9	2.4	1.4	0.7	0.4	1.0	1.4	0.7	...
Monetary policy rates	3.0	4.0	4.8	4.3	4.0	4.0	4.0	4.0	4.0	4.0
International bond issues (millions of dollars)	-	-	-	-	-	-	-	500	-	- e/
Domestic credit (variation from same quarter of preceding year)	16.6	17.5	19.5	21.2	22.2	23.2	22.0	23.1
Non-performing loans as a percentage of total credit	2.3	1.9	1.9	1.7	1.7	1.7	1.7	1.5	1.6	1.6 e/

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/ Figure is based on Global Indicator of Economic Activity.

d/ Figures as of April.

e/ Figures as of May.

f/ Quarterly average, weighted by the value of goods exports and imports.

g/ Bank operations (61-90 days), in local currency.