Plurinational State of Bolivia

1. General trends

In 2009, despite the international financial crisis, the economy of the Plurinational State of Bolivia continued to expand and both on external and fiscal accounts remained in positive territory. GDP grew by 3.4%, a rate 2.7 percentage points lower than in 2008. Prices rose by 0.26%. In the fourth quarter of 2009, the unemployment rate in the main cities[1] stood at 7.4%. The non-financial public sector (NFPS) posted a surplus equivalent to 0.1% of GDP. The balance of payments registered a surplus of US$ 326 million, which represented a drop of some US$ 2.048 billion (86%) with respect to 2008. Net international reserves held by the central bank increased by US$ 858 million, totalling US$ 8.58 billion, well above the figure for 2008 (US$ 2.4 billion).

This performance reflects the impact of the international financial crisis, which eroded the value of exports as a consequence of both lower average prices for the country's main export products (soybean, natural gas and mining products) and smaller export volumes of soybean and natural gas. Having only limited integration with international capital markets, the country's financial system remained unaffected by the crisis. For 2010, ECLAC projects economic growth of approximately 4.5%.

On the political front, elections were held in April 2010 for governors and other regional government officials. Following the election of the president in December 2009, these were the only officials remaining to be elected under the new constitutional framework approved by referendum in January 2009.

Two of the main challenges facing the Government of the Plurinational State of Bolivia are, first, the implementation of the regime of autonomous entities recognized under the new Constitution —departments, municipalities, regions and the various groups of indigenous peoples— and, second, falling demand for natural gas in Brazil and Argentina. The recovery or replacement of those markets is expected to be a priority for the authorities, given the important role that this sector has played in the country's economy over the past 10 years.

1 The Plurinational State of Bolivia has been collecting official statistics on employment and unemployment trends since the introduction of the Quarterly Employment Survey in 2009. The survey is conducted in the nine departmental capitals and in the city of El Alto.

2. Economic policy

(a) Fiscal policy

In 2009, the NFPS posted a surplus for the fourth consecutive year, this time equivalent to approximately 0.1% of GDP. The general government surplus of 4.1% —accounted for by the regional governments— was offset by the deficit posted by State-owned enterprises as a result of falling gas revenues, reflecting the administration's dependence on hydrocarbon taxes.

The external public debt rose by US$ 155 million (6%) in 2009, mainly as a result of loans from multilateral agencies as bilateral debt actually decreased. At the end of 2009 the external public debt totalled US$ 2.593 billion, or 15% of GDP. Domestic debt rose by US$ 265 million (9.6%) with respect to 2008. Thanks to transparency in the execution of public policies and the performance of the national economy, in May 2010 Standard and Poor's raised the country's foreign and local currency debt rating from B-/C to B/B.

(b) Monetary and financial policy

In 2009, the central bank continued to pursue its objective of maintaining a low, stable inflation rate. To that end, it continued to apply a monetary policy based on a system of intermediate quantitative targets, establishing a ceiling on the expansion of net domestic credit in order to keep the money supply consistent with public demand for money. The inflation reference rate used by the central bank for the year was 3%. The rate for 2010 was set at 4%.

In March 2010, the central bank and the Ministry of Economy and Public Finance signed an agreement to implement the country's 2010 fiscal-financial programme, the aim of which is to ensure stability and economic growth through coordinated efforts. This is the fifth consecutive year in which such an agreement has been signed, demonstrating the transparency that characterizes the relationship between the two institutions. The agreement is formulated so as to ensure that the monetary programme, and therefore the central bank's net domestic credit target, will take into account the objectives established under the annual fiscal programme. It also sets explicit quarterly targets for the NFPS deficit and its domestic financing, for domestic credit from the central bank to the NFPS and for the accumulation of net international reserves by the central bank, which allows for coordinated programming of public debt security issues.

In line with lower inflationary expectations, and in order to address the effects of the international financial crisis, the 2009 financial programme provided for a further expansion of liquidity and more financing for the NFPS than in previous years, by setting less ambitious goals for the accumulation of net international reserves and reducing net domestic credit to both the financial sector and the NFPS. The central bank narrowed domestic credit to the financial sector through a policy of facilitating the net redemption of securities, thereby reducing total open-market operations by US$ 658 million (29.9%) with respect to December 2008. This policy has been maintained in 2010, and in late April open-market operations were down by US$ 1.226 billion (55%) on the previous year's figure, with a cumulative reduction of US$ 543 million (35.2%) in 2009. Net domestic credit to the NFPS fell by 0.9% in 2009, substantially less than in 2008 (48%). The contraction would have been larger but for deposits made by the NFPS in the central bank during the year.

This expansionary monetary policy translated into a decrease in the central bank's repo rate, which was cut four times in 2009, from 13% to 3%, where it remained at the end of April 2010. As a result, the monetary base expanded strongly in real terms in 2009, unlike M1, M2 and M3.[2]

The combination of these factors had a strong impact on the financial system. The reduction of open-market operations during the year translated into a net injection of liquidity into the system and a fall in intermediation rates. With the exception of the 30-day rate, all domestic currency lending rates fell between December 2008 and December 2009. Deposit rates also fell for all maturities, even more sharply than lending rates, as a result of which the spread increased. For example, between December 2008 and December 2009, 60-day deposit rates fell by 3.73 percentage points, while lending rates for the same period declined by 2.3 percentage points. In 2009, the portfolio of domestic currency loans experienced real growth of approximately 10.3%, far more than in 2008. Thus, the international crisis did not affect the financial system of the Plurinational State of Bolivia, which is not integrated into the global financial system, nor did it affect the country's small stock market. Two factors contributed to this situation: the growth of the Bolivian economy and the changes in the reserve requirement introduced in June 2009, which provided for a reduction of the local currency reserve requirement providing that the gross local currency portfolio exceeded the balance of 30 June 2009.

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2 These aggregates include only payments in local currency.

The decline in total open-market operations has freed up space for financing of the National Treasury in the domestic market. In 2009, the Treasury's securities holdings increased by US$ 255 million (29.8%), while up to April 2010 they had grown by US$ 136 million (12.2%). The Treasury has benefited not only from greater opportunities for financing, but also from the decline in interest rates.

(c) Exchange-rate policy

Thus far in 2010, the central bank has kept the benchmark rates for both the purchase and sale of dollars fixed at 6.97 and 7.07 bolivianos, respectively. This policy has been in effect since September 2008, its objective being to prevent the exchange rate from overreacting to the uncertainties caused by the international financial crisis. However, although the exchange rate is in practice fixed, the monetary authorities have never formally committed to maintaining it and, in fact, have maintained the exchange-rate policy applied by the central bank for more than 20 years, namely: small unannounced depreciations or appreciations of the boliviano against the dollar.

The maintenance of a stable nominal exchange rate has been possible thanks to the substantial net international reserves held by the central bank. In order to avoid any uncertainty that might result from external financial turbulence, the central bank maintained a daily supply of US$ 50 million, which was consistently sufficient to meet demand. In December 2008, with a view to promoting growth of the local currency lending portfolio, the board of directors of the central bank approved an amendment to its exchange position regulations, reducing limits on the long position in foreign exchange and in Housing Development Units (UFV) to 60% and 15%, respectively.

The real exchange rate index for the Plurinational State of Bolivia rose by 15.9% in 2009. At the end of March 2010 it remained at levels similar to those of late 2009.

(d) Other policies

On 1 May 2010 the government nationalized the following companies: Empresa Eléctrica Corani (50% of which was owned by Ecoenergy International); Guaracachi (whose majority shareholder was the British firm Rurelec PLC); Empresa de Luz y Fuerza Eléctrica de Cochabamba (ELFEC), which was not in foreign hands but was owned by its employees; Cooperativa Mixta de Teléfonos de Cochabamba (COMTECO); and Valle Hermoso (50% of which was owned by The Bolivian Generating Group, a unit of Panamerican of Bolivia). The State will thus become the majority owner of all these companies. A period of 120 days was allotted for carrying out appraisals and paying the respective groups of shareholders.[3]

With regard to labour issues, the government issued a series of supreme decrees, one of which, on 1 May 2010, raised the minimum wage in the public and private sectors by 5%, as provided for under the budget law of 2010. The increase, which was made retroactive to 1 January, brought the monthly minimum wage to 679.5 bolivianos. Since 2006, as a result of successive annual decrees, the minimum wage has risen cumulatively by 54.3%. Another decree guaranteed job security in all sectors of the economy for workers who have children.

3. The main variables

(a) Economic activity

In 2009 GDP grew by 3.4%, a rate which was 2.7 percentage points less than in 2008, but nevertheless represented one of the best performances among countries of the region, whose economies felt the impacts of the recession occurring in the developed economies. The three areas of economic activity posting the highest growth rates were construction (10.8%), metallic and non-metallic minerals (9.9%) and government services (6.5%). These activities accounted for 0.34, 0.62 and 0.57 percentage points of total GDP growth, respectively. The crude oil and natural gas sector, meanwhile, contracted by 13.5%, largely as a result of the decline in demand from Brazil.

On the demand side, growth was driven by government final consumption expenditure (3.8%), followed by the final consumption expenditure of households and non - profit institutions serving households (NPISHs) (3.7%) and gross fixed capital formation (2.9%). Growth in the final government consumption was similar to the level posted

[3] Under the Constitution of the Plurinational State of Bolivia, management and oversight of strategic sectors of the economy is a State function.

Table 1

PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	1.7	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4
Per capita gross domestic product	-0.4	0.4	0.7	2.2	2.5	2.9	2.7	4.3	1.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.5	0.4	8.7	0.2	5.0	4.3	-0.5	2.6	3.7
Mining and quarrying	-1.5	2.5	5.0	9.4	13.1	5.4	7.0	22.9	-2.0
Manufacturing	2.7	0.3	3.8	5.6	3.0	8.1	6.1	3.7	4.8
Electricity, gas and water	0.7	2.2	2.9	3.1	2.7	4.0	4.3	3.6	6.1
Construction	-7.0	16.2	-23.7	2.2	6.4	8.2	14.3	9.2	10.8
Wholesale and retail commerce, restaurants and hotels	1.1	2.0	1.8	3.5	2.4	3.4	4.8	4.0	4.3
Transport, storage and communications	3.0	4.3	3.9	4.0	2.9	3.9	3.5	4.0	5.6
Financial institutions, insurance, real estate and business services	0.2	-3.1	-3.3	-1.5	0.4	5.4	6.3	4.7	4.1
Community, social and personal services	2.6	3.0	2.9	3.3	3.0	3.3	3.7	3.5	5.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.5	2.2	2.1	2.9	3.3	4.0	4.1	5.3	3.7
Government consumption	2.9	3.5	3.6	3.1	3.4	3.3	3.8	3.9	3.8
Private consumption	1.3	2.0	1.9	2.9	3.3	4.1	4.2	5.5	3.7
Gross capital formation	-17.5	17.9	-12.8	-11.8	26.9	-5.1	11.1	29.3	3.9
Exports (goods and services)	8.4	5.7	12.2	16.6	8.3	11.3	3.1	2.2	-10.8
Imports (goods and services)	-5.0	13.1	0.9	5.5	14.8	5.2	4.4	9.4	-10.2
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	14.3	16.3	13.2	11.0	14.3	13.9	15.2	17.6	17.0
National saving	10.9	11.8	14.3	14.9	20.8	25.4	27.3	29.6	21.6
External saving	3.4	4.5	-1.0	-3.8	-6.5	-11.5	-12.1	-12.1	-4.6
					Millions of dollars				
Balance of payments									
Current account balance	-274	-352	85	337	622	1 318	1 591	2 015	801
Goods balance	-295	-340	100	421	609	1 243	1 215	1 807	761
Exports, f.o.b.	1 285	1 299	1 598	2 146	2 791	3 875	4 458	6 448	4 848
Imports, f.o.b.	1 580	1 639	1 498	1 725	2 183	2 632	3 243	4 641	4 087
Services trade balance	-164	-177	-187	-190	-194	-350	-400	-540	-500
Income balance	-211	-205	-302	-385	-376	-397	-489	-536	-674
Net current transfers	396	369	474	491	584	822	1 266	1 284	1 213
Capital and financial balance [d]	238	9	-147	-265	-185	-112	346	359	-475
Net foreign direct investment	703	674	195	83	-291	284	362	508	426
Otros movimientos de capital	-465	-665	-341	-347	106	-396	-16	-149	-901
Overall balance	-36	-343	-62	73	437	1 206	1 938	2 374	326
Variation in reserve assets [e]	33	303	-152	-157	-463	-1 286	-1 938	-2 374	-326
Other financing	3	40	214	85	26	80	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	101.2	95.4	104.0	109.5	116.8	119.5	118.6	110.4	100.6
Terms of trade for goods (index: 2000=100)	95.8	96.2	98.5	104.1	111.8	139.8	142.1	143.9	139.4
Net resource transfer (millions of dollars)	366	175	279	213	358	1 077	1 037	1 156	971
Gross external public debt (millions of dollars)	6 861	6 970	7 734	7 562	7 666	6 278	5 403	5 930	6 033
					Average annual rates				
Employment									
Labour force participation rate [g]	67.8	64.6	67.6	64.9	62.8	66.3	64.8	...	...
Open unemployment rate [h]	8.5	8.7	9.2	6.2	8.1	8.0	7.7	6.7	7.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	0.9	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3
Variation in nominal exchange rate (annual average)	7.4	8.5	6.7	3.8	1.6	-0.8	-1.9	-7.8	-2.8
Variation in real minimum wage	10.8	4.7	0.8	-4.2	-5.1	4.5	-1.3	-1.5	8.2
Nominal deposit rate [i]	...	2.7	1.8	2.0	1.7	2.4	2.4	3.6	1.6
Nominal lending rate [i]	13.7	10.9	9.1	8.2	8.2	7.8	8.2	8.9	8.3
					Percentages of GDP				
Non-financial public sector									
Total revenue	30.4	27.5	28.8	27.4	31.7	39.1	43.6	48.4	...
Current revenue	28.0	25.3	25.9	24.9	29.5	37.3	42.0	47.1	...
Tax revenue	15.2	15.4	14.8	17.0	18.4	17.9	18.1	19.2	...
Capital revenue	2.4	2.3	2.9	2.5	2.1	1.8	1.6	1.2	...

Table I (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Total expenditure	37.2	36.3	36.7	33.0	33.9	34.6	41.9	45.1	...
Current expenditure	28.9	28.0	28.6	23.9	23.9	24.4	29.1	32.4	...
Interest	2.1	2.1	2.6	2.6	2.7	1.8	1.3	0.9	0.9
Capital expenditure	8.4	8.4	8.1	9.1	10.0	10.2	12.7	12.6	...
Primary balance	-4.7	-6.7	-5.3	-2.9	0.4	6.3	3.0	4.1	1.0
Overall balance	-6.8	-8.8	-7.9	-5.5	-2.2	4.5	1.7	3.2	0.1
Public debt [j]	76.7	80.2	89.5	83.9	78.1	52.4	40.0	36.8	39.5
Domestic [k]	26.0	28.6	30.7	31.5	30.9	26.9	24.0	22.7	24.4
External	50.7	51.5	58.8	52.3	47.2	25.5	16.0	14.1	15.1
Money and credit [l]									
Domestic credit	67.4	66.6	63.7	58.0	53.4	44.1	42.0	39.4	43.5
To the public sector	14.2	15.5	15.9	15.9	14.1	9.2	8.0	8.3	9.6
To the private sector	53.2	51.1	47.8	42.1	39.3	34.8	34.0	31.1	33.9
Liquidity (M3)	52.9	49.4	47.7	42.3	43.0	42.4	47.8	46.5	58.7
Currency outside banks and local-currency deposits (M2)	7.9	7.7	8.3	9.3	12.2	15.6	23.9	26.1	34.3
Foreign-currency deposits	45.0	41.7	39.4	33.1	30.9	26.7	23.9	20.3	24.4

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.

in 2008; in the other two it was slower. The trend of government consumption reflected the counter-cyclical policies introduced by the government to mitigate the effects of the external situation. Gross capital formation would have slowed even further had there not been an upturn in public investment.

(b) Prices, wages and employment

The inflation rate in 2009 was 0.3%, 11.5 percentage points lower than in 2008, which was attributable to two main factors. The first was a drop in food prices linked, in turn, to both lower commodity prices in international markets (which had been the principal source of inflationary pressure since the third quarter of 2007) and an expansion in the domestic food supply due to more favourable climatic conditions than in previous years, when food production suffered from the impact of El Niño and La Niña weather phenomena. The second was domestic policies such as the central bank's fixing of the nominal exchange rate against the dollar, which further reduced inflationary expectations.

The item in the consumer price index (CPI) to register the largest price decline was food and alcoholic beverages, whose prices fell 3.1%. This is also the item that accounts for the largest share of the CPI (27%).

Cumulative inflation in the first four months of 2010 was 0.3%, while 12-month inflation was 1.2%. Those figures represent an increase of 0.9 percentage points and a decline of 4.1 percentage points compared to the respective year-earlier periods, and reflect the sharp drop in inflation in 2009. Indeed, inflation was negative for every month from March to September 2009, before turning positive as of October. The acceleration observed in 2010 is not cause for alarm, however, as it may be interpreted as a normalization of price growth towards positive values, indicating that inflation may be stabilizing around the medium-term target of 4% set by the central bank.

According to information from the National Statistical Institute (INE), the unemployment rate reached 7.4% by the end of the fourth quarter of 2009. No comparisons can be made with previous years because this figure comes from a survey that was introduced in 2009. With regard to wages, the CPI for unskilled workers rose by 4.2% in 2009, while the increase for skilled workers was 2.4%.[4] The index for both measures rose by 3.8%. These wage indices have continued to lag behind the trend shown by the CPI.

4 These wage indicators are calculated by the central bank on the basis of CPI service items.

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6,6	6,7	6,8	6,1	2,1	4,2	3,3	...	...	...
Goods exports, f.o.b. (millions of dollars)	1 561	1 740	1 895	1 705	1 160	1 286	1 473	1 493	1 489	1 100 [c]
Goods imports, c.i.f. (millions of dollars)	1 036	1 234	1 359	1 380	1 052	977	1 135	1 303	1 168	862 [c]
Gross international reserves (millions of dollars)	6 232	7 118	7 809	7 722	7 762	7 955	8 453	8 580	8 449	8 537
Real effective exchange rate (index: 2000=100) [d]	120	117	111	93	92	98	104	108	106	106 [c]
Consumer prices (12-month percentage variation)	14,1	17,3	14,5	11,8	6,6	2,1	0,6	0,3	0,7	1,4 [c]
Average nominal exchange rate (bolivianos per dollar)	7,56	7,31	7,07	7,00	7,00	7,03	7,04	7,05	7,03	7,02
Nominal interest rates (annualized percentages)										
Deposit rate [e]	2,8	3,5	4,0	4,1	2,9	1,7	0,8	0,5	0,5	0,3 [c]
Lending rate [e]	8,1	8,2	9,3	9,8	9,6	8,8	7,9	6,8	5,9	5,4 [c]
Interbank rate [f]	4,8	6,9	7,9	11,2	7,5	4,1	1,4	0,7	0,7	2,0 [g]
Domestic credit (variation from same quarter of preceding year)	6,4	4,8	8,5	10,1	11,4	12,4	10,6	11,2	11,4	...
Non-performing loans as a percentage of total credit	5,7	5,2	5,0	4,3	4,8	4,4	4,2	3,5	3,8	3,5 [c]

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] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Bank operations (61-90 days); three-month average, in dollars.
[f] Repurchase rate, in dollars.
[g] Data to April.

(c) The external sector

In 2009, the balance of payments posted a surplus of US$ 326 million, some US$ 2.048 billion (86.3%) less than in 2008. The current account surplus narrowed by US$ 1.214 billion to stand at US$ 801 million at the year's end. The balance on the capital and financial account declined by US$ 407 million, turning negative by US$ 28 million by the end of the year.

The current account balance reflects a US$ 1.046 billion (57.9%) reduction in the surplus on the goods trade balance with respect to 2008. This fall was equivalent to 86% of the current account balance, the main channel through which the international recession has been transmitted to the domestic economy. Commodities such as soybeans, natural gas and mining products make up approximately 90% of the country's exports. A drop in the price of these commodities in 2009 resulted in a decline in export prices. The price of soybeans, for example, decreased by 16.6%, while soybean oil and natural gas prices dropped by 32.5% and 55.5%, respectively, and overall export volumes shrank by 16.1%. Reduced demand for natural gas in the principal export markets, Brazil and Argentina, was an important factor in this decline. The value of exports fell by US$ 1.6 billion. Despite the growth in economic activity, imports were down by US$ 554 million (11.9%), with intermediate goods showing the greatest decline. Family remittances posted very similar levels to those for 2008, decreasing by US$ 70 million (6.5%).

At the end of 2009, net international reserves held by the central bank amounted to US$ 8.58 billion, an increase of US$ 858 million (11.1%) over the 2008 figure. Since 2003 —when hydrocarbon prices began to rise— the central bank's net international reserves have grown steadily and by the close of 2009 had reached an all-time year-end high.