

Highlights of Bolivia

2009 - 2010 Edition



2009 Summary

Bolivia, as the rest of the region, suffered from the international economic crisis especially as two of its more important sectors, mining and oil and gas production had to deal with falling international prices resulting in a significant fall in the value of exports.

Also remittances from Bolivians resident abroad fell, affecting household consumption, especially in the lower and lower-middle income groups, which represent 60% of the population.

In spite of these adverse circumstances in September 2009, Fitch Ratings upgraded the Bolivian country rating from B- to B for local and foreign debt. This improvement has been achieved because macroeconomic stability was maintained throughout the crisis.

This macroeconomic stability is the result of the accumulation of savings and international reserves during several years enabling the Bolivian government to apply counter-cyclical economic policies such as the reduction of interest rates, the expansion of public expenditure and the development of social assistance programs; for example Renta Dignidad (for people above 65 years), Bono Juancito Pinto (for children in public schools) and Bono Madre Niño (for women with newborn babies).

On the political front during 2009 the new Constitution was approved and Evo Morales was reelected as Bolivian President for a further five year term (2010-2015). Also Morales' political party, Movimiento al Socialismo (MAS), gained control of the Congress (Asamblea Legislativa Plurinacional - the new name of the former Bolivian Congress) with a two thirds majority.

Economic facts

1 Inflation

Inflation for 2009 was 0.26%, lowest rate in the last five years and far below the 8% initially forecasted by the Bolivian Central Bank (BCB). The main factors causing this fall in inflation were:

- The fall in the international prices of energy, food and other commodities as a result of economic recession.
- Policies applied by the Bolivian government and the Bolivian Central Bank to control inflationary pressures.
- A good harvest, resulting in a normal supply of basic foodstuffs.

Inflation is expected to be below 6% in 2010.

2 Financial System

Deposits in the banking system increased 19% during 2009 with bank loans increasing 5%.

Non-performing loans held by the banks fell to 3.5% of the loan portfolio in 2009, the lowest level in the last five years.

Remittances from Bolivians residents abroad fell US\$68 million (6.8%) in the period January through November 2009 to US\$934 million compared to the same period of the previous year, although this is still 0.9% higher than in the same period in 2007.

3 Interest Rates

Interest rate on loans in local currency fell by 42% to 8.04%p.a. in December 2009, continuing the trend of the previous 2 years. The interest rate on deposits in local currency also decreased to 0.99%p.a. in December 2009.

A similar reduction occurred in rates on foreign currency operations, with the rate charged on loans falling 33% and on deposits 88% during the year.

The decrease in interest rates was the result of changes in the methodology used by the Bolivian Central Bank to calculate its reference rate (Tre), used to remunerate banks on deposits with the Central Bank and for Government borrowing. From March 2009 the Tre has been calculated taking into account the rate paid by banks on all fixed term deposits rather than only those from 91 to 180 days used previously. The reduction in the Tre encouraged banks to lend to their customers.

4 Public Sector

Official figures show that the budget surplus amounted to 2.3% of the GDP, the fourth year in a row of public surplus. This surplus is lower than prior years mainly due to the fall in tax revenue from the export of minerals and oil and gas and on remittances from Bolivians resident abroad.

Public Sector expenditure increased in 2009 mainly as a result of the increase in social assistance programs.

5 External Debt

External debt fell from US\$2,600 million to US\$2,568 million in the period through December 2009, mainly because foreign governments, especially Spanish Government, pardoned debt.

6 Gross Domestic Product

The estimate for the increase in Gross Domestic Product (GDP) over the previous year for the third quarter of 2009 was 3.24%. This is lower than the 6.15% achieved in 2008, mainly because of a fall in exports to US\$5,296 million from US\$6,899 million in 2008 (23.23%).

Oil and gas exports fell 41.06%, mineral exports 1.44% and textile exports 10.18%. The reduction in oil and gas and mineral exports was the result of lower international prices whereas the fall in textile exports arose from the loss of the duty exemptions on exports to USA included in the ATPDEA agreement with USA, which was not renewed. This forced manufacturers to look for new markets, such as Venezuela, for textile products.

Despite the fall in exports the commercial trade balance continued in surplus (US\$ 887 million), although this was 53% less than the surplus registered in 2008.

Economic growth in 2009 was driven by metallic and non metallic mineral production, construction, transport and storage and public sector administration which grew at an average of 8.21%.

7 Relevant Facts

- Foreign investment dropped 49% during 2009.
- Inflation in 2009 fell to 0.26%p.a, the lowest in the last five years.
- In January 2009 a new Constitution was approved with 61% of the votes.
- In December 2009 Evo Morales was re-elected as president for a five year term (2010-2015) with 64% of the votes.
- The Pension Funds Administrators invested US\$2.4 billions (previously held in capitalized companies through the Individual Capitalization Fund) in Governmental Bonds converting the Bolivian Government in one of the major debtors of the Bolivian Pension Fund.
- The United States Senate approved a one year extension of the ATPDEA until December 2010 for Colombia, Ecuador and Peru excluding Bolivia.
- The Bolivian Government approved a US\$1 billion loan from the Bolivian Central Bank to Yacimientos Petrolíferos Fiscales Bolivianos to finance its Investment Plan for the period 2010-2015.

8 Perspectives for 2010

2010 will be an important year for Bolivia as the Asamblea Legislativa Plurinacional is required to establish new laws to form a Plurinacional State. Among the more important issues for 2010 are:

- The reform of the Pensions Law, transferring to the Government the administration of pension funds and creating a mixed system (Public and Private), guaranteeing the social security contributions of Bolivian workers.

- A new mining law requiring new contracts with the private mining companies, eliminating private concessions and returning to the State those concessions which do not fulfill an economic function.
- A modification in the Code of Commerce to recognize the “communitarian and social economy” and “communitarian” tourism under Bolivian law.
- The industrialization of Lithium with the start -up of the first Pilot Plant Project at Río Grande (Potosí) which envisages the industrial production and marketing of lithium carbonate by the year 2014. The proposed investment in this project is US\$500 million.
- The increase in Bolivian State intervention in the economy through State companies in areas such as dairy products, paper and cement production throughout the country.

Economic growth is expected to be 4.5% in 2010 in line with the expected growth rate throughout the region.

Principal economic indicators

1 Gross Domestic Product (GDP), Inflation and Budget Surplus	2005	2006 (p)	2007 (p)	2008 (p)	2009 (e)
GDP (US\$ millions of 1990)	8,211	8,605	8,998	9,551	n.a.
GDP per inhabitant (value in current US\$)	1,010	1,182	1,363	1,651	n.a.
GDP, annual growth rate (%)	4,42	4,80	4,56	6,15	3,24
Consumer Index Price (1) (%)	4,91	4,95	11,73	11,85	0,26
Budget Surplus (Deficit) / GDP (%)	-2,20	4,50	1,70	3,20	2,30

(1) Annual variation (p) Preliminary (e) Official estimation (pr) Projection N.A. Not Available Source: INE, BCB, Ministerio de Hacienda, UPF

2 Trade Balance (1)	2005	2006	2007	2008 (p)	2009 (p)
FOB Exports	2.791	3.875	4.458	6.899	5.296
CIF Imports	2.334	2.815	3.455	5.009	4.409
Balance	457	1.060	1.004	1.890	887

(1) In current US\$ millions (p) Preliminary Source: BCB, INE

3 International Reserves of Bolivian Central Bank (1)	2005	2006	2007	2008	2009
Gross International Reserves	1.798	3.193	5.318	7.722	8.580
Net International Reserves	1.714	3.178	5.319	7.722	8.580

(1) In current US\$ millions Source: BCB

4 Monetary Indicators (1)	2005	2006	2007	2008	2009
Monetary Base	976	1.398	2.270	3.153	3.806
Monetary Emission	765	1.093	1.834	2.411	2.413
Current Cash, M ¹	1.421	1.854	2.764	3.627	3.978
Total Liquidity, M ³	4.247	5.046	6.785	8.859	10.121

(1) In thousands of US\$ Source: BCB

5 Loans granted by Bolivian Central Bank (1)	2005	2006	2007	2008	2009
Net Loans to the Public Sector	85	(766)	(1,048)	(1,688)	(2,095)
Loans to the Financial System (2)	284	279	316	277	n.a.

(1) In millions of US\$ (2) Includes loans to FONDESIF and NAFIBO N.A. Not Available Source: BCB

6 Liabilities and Receivables of the Banking System (1)	2005	2006	2007	2008	2009
Liabilities with the Public (Deposits)	2,879	3,343	4,238	5,690	6,751
Loan portfolio	2,595	2,767	3,204	3,734	3,929
Non-performing loans/Total Portfolio (%) (2)	11,4	8,7	5,6	4,30	3,5

(1) In millions of US\$ (2) (Non-performing loans + loans in legal action/Total portfolio) Source: Financial System Regulator (ASFI for its acronyms in Spanish)

7 Effective Interest Rate within the National Banking System (%)	2005	2006	2007	2008	2009 (Dec)
Monthly average (annual rates)					
Interest rate on loans (at maturity)					
Effective rates LC-LC without restatement (a)	11,59	11,83	14,35	13,82	8,04
FC (c)	11,60	11,23	10,45	12,56	8,37
Interest rate on deposits (fixed term)					
Effective LC-LC without restatement (a)	4,55	3,62	4,52	6	0,99
LC-LC with restatement (b)	1,15	0,5	0,5	0,56	0,15
FC (c)	2,22	2,85	2,19	4,16	0,50

(a) Local currency, without restatement (b) Local currency, with restatement (c) Foreign Currency Source: BCB

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