

Highlights of Bolivia

2007 – 2008 Edition*



Screening 2007

2007 was a year of contrasts for the Bolivian economy, on the positive side there were record levels of exports and net international reserves combined with a reduction of 57% in the external debt. Furthermore for the third year running there was a budget surplus and continued growth (4.2% in 2007). As a result of this situation the local currency revalued against the US dollar for the second year running, in 2007 by 4.48%.

On the other hand inflation was double digit at 11.73%, the highest in the last 20 years. Amongst the reasons for this spike are i) the climatic effects caused by “El Niño”, ii) the dedollarization of the economy and iii) the reduction of the levels of external investment.

The banking sector continued its recovery as demonstrated by an increase in deposits from the public in both local and foreign currency, and in the loan portfolio.

On the other hand, the level of foreign investment in the period January through September 2007 fell by 75% compared with the same period of the prior year. Finally, with the subscription of the contract between Jindal Steel and Power and Empresa Siderúrgica del Mutún (ESM), it is estimated that the Indian company will invest an average of 260 millions of dollars in the next eight years.

1 The Economic Events Inflation

In 2007 inflation was 11.73%, three times the target for the year. The increase was a result of various factors including:

- The effect of climatic phenomena.
- The gradual dedollarization of the economy.
- The increase in international prices.
- The reduction in the level of investment.
- Liquidity as a result of remittances from Bolivians resident abroad.

2 Financial System

The banking system grew strongly during the year. At December 31, 2007 deposits amounted to approximately US\$4,180 million an increase of 26.81% over US\$3,296 million the previous year.

The increase in deposits in local currency – 79% and index linked deposits (Units of housing development-UFVs for its initials in Spanish) – 97% was particularly strong. This is largely due to the exchange rate policy adopted by the government during the last two years which resulted in the revaluation of the boliviano against the US dollar. The loan portfolio of the banks increased by 17.86% amounting, at year end, to US\$2.992 million. The strongest growth was in the construction sector in Santa Cruz. Non performing loans amounted to 5.6% of the portfolio, a reduction of 3.1% with respect to the previous year when it amounted to 8.7%.

During 2007 remittances from Bolivians resident abroad amounted to US\$651 million an increase of 70% over the prior year.

3 Interest Rates

Interest rates in local currency increased significantly during the year. The rate on loans increased from 10.4% to 16.43%, whilst the rate on deposits rose from 3.46% to 3.91%. Interest rates on foreign currency denominated deposits (mainly US dollars) fell during the year from 3.43% to 2.03% whilst the rates charged on loans was unchanged at, about, 10,8%.

4 Dollarization

Between the years 2005 and 2007, the boliviano has revalued against the US dollar which resulted in an increase in deposits and loans denominated in local currency in the banking system. Compared to 2005 deposits and loans denominated in local currency increased by 19% and 21% respectively. Despite this increase the deposits and loans in US dollars still amounts to 63% and 80%, respectively of the total.

5 Public Sector

The Government budget surplus amounted to US\$578 million, 13,11% greater than the prior year and represented 6.48% of the gross national product. During 2006 and 2007 the surplus has risen due to an increase of US\$ 750 million in the revenues of hydrocarbons and the taxes generated by the mining sector. On the other hand, the public expenditures have increased approximately in US\$ 1.300 million in the same period due to the increase on public sector salaries and expenditures on goods and services.

6 Foreign Debt

External debt has fallen each year since 2005. At the end of 2007 the external debt amounted to US\$2,104 million, a reduction of US\$2.838 million at the end of 2005. This reduction arose mainly from the forgiveness of outstanding debt of US\$1,044 million by Interamerican Development Bank (IDB), US\$1,511 million by the World Bank and US\$232 million by the International Monetary Fund.

7 Gross National Product

The gross national product in 2007 increased to approximately US\$8.920 million, which represents an estimated growth of 4.2%. The increase mainly arose from an increase in the sale of hydrocarbon products, the increase in the international prices of minerals and growth in the manufacturing sector.

This rate of growth was, however, less than the prior year by 0.43% due, mainly, to the increase in inflation, the increase in internal debt, the impact generated by weather phenomena and in the fall in the level of investment.

On the other hand, the increase of the Gross National Product in the past years is due mainly to the increase of the international prices of commodities and not due to the increase in the volume of sales and production.

8 Important Events

- The Ways and Means Committee of the House of Representatives of the USA Congress approved the extension of the Andean Trade Promotion and Eradication of Drugs Act (ATPDEA) until December 31, 2008, extending the right to export Bolivian products to USA free from tariffs during this time.
- Almost 3 million Bolivians, resident abroad remitted US\$651 million.
- The climatic phenomenon has had an important negative effect on the Bolivian economy and on the gross national product, reducing the supply of finished products in the local market and consequently, affecting the selling prices.

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Perspective For 2008

The rate of growth of the World economy is expected to slow during 2008, after the strong expansion of 2002 through 2007. The weakness in the financial markets arising from the deterioration of the housing market in USA is having an effect, with the largest economy in the world - USA - slowing significantly. Expected growth in 2008 is not expected to exceed 1.5%, with the resulting reduction in internal demand. Another important factor to take into account is the possible slowdown in the emerging markets such as China and India where the rate of growth could fall from 12% to approximately 10%, because of the restriction of capital and financial flows as a result of the slowdown in Europe and USA.

In the case of Latin America, although the fall of the financial markets has not yet had a major impact, some knock -on effects must be expected especially if there is a fall in demand for raw materials in the major world economies.

In the specific case of the Bolivia inflation is expected to fall to about 8% and the volume of exports of manufacturing products, minerals and oil and gas are expected to be maintained. In conclusion the outlook for the Bolivian economy will depend, to a large extent on its ability to develop and supply its markets and on the international prices of commodities.

Principal economic indicators

		2005	2006	2007
Macro-economic data				
GNP (growth)	Percentage	4,55%	4,63%	4,20% (p)
GNP (in millions of US\$ of 1990)	Millions of US\$	8.182	8.560	8.920 (p)
GNP (per head)	US\$	868	889	908 (p)
Inflation	Percentage	4,91%	4,95%	11,73%
Exchange rate	Bolivianos per US\$1	8,08	8,03	7,67
Devaluation/revaluation	Percentage	0,248%	-0,62%	-4,48%
UFV's (used to index financial operations)	Units	1,1443	1,1933	1,28835
External sector				
Exports	Millions of US\$	2.868	4.080	4.780
Imports	Millions of US\$	2.343	2.824	3.430
Trade balance	Millions of US\$	584	1.399	1.418 [1]
Net international reserves	Millions of US\$	2.434	3.980	5.975
Banking system				
Interest rate on loans – local currency	Percentage	12,39%	10,40%	16,43%
Interest rate on loans - US\$	Percentage	12,56%	10,89%	10,82%
Interest rates on deposits – local currency	Percentage	4,47%	3,46%	3,91%
Interest on deposits – US\$	Percentage	2,27%	3,43%	2,03%
Deposits in local currency	Millions of US\$	425	670	1.201
Deposits in US\$	Millions of US\$	2.315	2.459	2.650
Deposits in UFV's	Millions of US\$	93	167	329
Loan portfolio in local currency	Millions of US\$	189	431	595
Loan portfolio in US\$	Millions of US\$	2.123	2.094	2.388
Loan portfolio in UFV's	Millions of US\$	28	14	9
Remittance from Bolivians abroad	Millions of US\$	207	384	651
Public sector				
Deficit/surplus	Millions of US\$	(215)	511	578 (p)
Revenue	Millions of US\$	3.025	4.476	5.820 (p)
Public expenditure	Millions of US\$	3.240	3.965	5.242 (p)
Revenue on hydrocarbons [2]	Millions of US\$	931	1.979	2.729 (p)
External debt				
External debt	Millions of US\$	4.942	3.248	2.104 (p)
Unemployment				
Unemployment rate	Percentage	8,15%	7,64%	n/a

Sources: Bolivian Central Bank, National Statistics Institute,

(p) preliminary

[1] Includes reexports, personal belongings and temporary imports

n/a Not available

