

1999 Country Reports on Economic Policy and Trade Practices

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BOLIVIA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1997	1998	1999	6/
<i>Income, Production and Employment 1/</i>				
Nominal GDP	7,647	8,213	8,550	
Real GDP Growth (pct)	4.2	4.7	2.0	
GDP by Sector (pct share)				
Agriculture	14.1	14.0	13.6	
Manufacturing	16.8	16.7	16.7	
Services	33.2	33.0	29.8	
Government	8.9	8.9	8.0	
Per Capita GDP (US\$)	969	989	1,036	
Labor Force (million)	2.4	2.5	2.6	
Unemployment Rate (pct) 2/	4.1	4.3	4.6	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2) 3/	27.5	12.7	-8.0	
Consumer Price Inflation	7.0	4.4	3.0	
Average Exchange Rate (Bs/US\$)	5.26	5.51	5.89	
<i>Trade and Balance of Payments:</i>				
Total Exports FOB	1,166	1,104	1,020	
Exports to U.S. FOB 4/	264	293	N/A	
Total Imports CIF	1,851	1,983	1,600	
Imports from U.S. CIF 4/	443	626	N/A	
Trade Balance	-685	-879	-580	
Balance with U.S. 4/	-179	-333	N/A	
Current Account Deficit/GDP	-9.0	-9.9	-7.0	
External Public Debt	4,600	4,800	4,600	
Debt Service Payments/GDP (pct)	4.1	4.2	3.6	
Fiscal Deficit/GDP (pct)	3.3	4.2	4.0	
Gold and Foreign Exchange Reserves	1,189	1,193	1,280	
Aid from U.S. 4/	120	112	114	
Aid from All Other Sources 5/	530	468	410	

- 1/ UDAPE, National Institute of Statistics (INE), Central Bank of Bolivia and embassy projection.
- 2/ For urban areas; data does not consider underemployment.
- 3/ Include National Currency Deposits indexed to U.S Dollar and U.S Dollar Deposits
- 4/ Sources: U.S. Census Bureau and embassy estimates.
- 5/ Aid obligated.
- 6/ 1999 figures are yearly projections based on eight or nine-month data.

1. General Policy Framework

Seventeen years after its return to democracy, Bolivia continues to consolidate a series of structural reforms that further orient the economy to the demands of the market and encourage greater efficiency by exposing it to increasing international competition. Parallel reforms in the judicial system promise to create a more reliable rule of law in the coming years.

The foundation of this new economic system was the "capitalization"/privatization of five large state-owned corporations and the establishment of a regulatory system to monitor the functioning key sectors. The capitalization program has succeeded in promoting steady rates of growth of private investment and savings, principally from the United States and in the hydrocarbons sector. This investment portends enhanced prospects for economic growth in the coming years. The government projects that the economy will grow by 2 percent in 1999, with inflation in consumer prices dropping to about 2.5 percent.

Macroeconomic indicators have improved steadily since the government undertook stabilization and structural reforms in the mid-1980s. Commercial bank deposits have more than doubled since 1991, to over \$4.4 billion (October 1999). Persistent trade deficits since 1991 have been offset by large inflows of foreign assistance and private investment, allowing official foreign exchange reserves to grow to a record \$1.1 billion (December 1998), decreasing slightly to \$945 million (August 1999). Net reserves are more than seven months of imports. Despite continuing improvements in tax collection, the budget deficit for the non-financial public sector increased to 3.3 percent in 1997, and to 4.1 percent in 1998, largely as a result of pension reform. This figure is expected to remain level through 1999.

The money supply (M1) has grown steadily since 1991, with M1 now averaging around 11 percent of GDP. Total liquidity represents approximately 43 percent of the GDP. M2 has decreased significantly since 1996 reaching negative levels during the first nine months of 1999. The published figures for money in circulation are misleading, however, since there are billions of U.S. dollars in circulation side-by-side with the local currency, the Boliviano. Dollars are a legal means of exchange, and contracts can be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, at the end of August 1999 nearly 94 percent of the \$4.4 billion of deposits in the Bolivian financial system was denominated in dollars.

Low rates of inflation at home and abroad have helped to lower interest rates. In October 1999 the average rate paid on dollar deposits was approximately 7.1 percent, and the average rate charged on dollar loans was 18.5 percent. Increased bank competition and new foreign investment in the sector will likely cut financial spreads, making credit still cheaper in the near-term. However, larger financial spreads during 1999 result from a very restricted monetary policy and international financial crises.

2. Exchange Rate Policy

There are no restrictions on convertibility or remittances. The official exchange rate is set by a daily auction of dollars managed by the central bank. Through this mechanism the central bank has allowed the Boliviano to depreciate slowly to preserve its purchasing power parity. The rate in the parallel market closely tracks the official exchange rate. The official exchange rate fell with respect to the dollar by 4.8 percent in 1996, 3.3 percent in 1997, 4 percent in 1998, and by 5.8 percent through the end of October 1999.

3. Structural Policies

A variety of laws have liberalized the economy significantly since the sea change seen in Bolivia's economic policies in the mid-1980s. In 1990 the government simplified tariffs to 5 percent for capital goods and 10 percent for all other imports. The government charges a 13 percent value-added tax and 3 percent transaction tax, whether imported or produced domestically. There are also excise taxes charged on some consumer products. No import permits are required, except for the import of arms and pharmaceutical products.

The 1990 Investment Law guarantees inter alia the free remission of profits, the freedom to set prices and full convertibility of currency. It essentially guarantees national treatment for foreign investors and authorizes international arbitration. An Arbitration Law was enacted on March 11, 1997.

The 1996 Hydrocarbons Law authorized YPFB (the petroleum parastatal) to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. A subsequent law deregulated hydrocarbon prices, establishing international prices as their benchmarks. A recent Mining Law taxed profits and opened up border areas to foreign investors so long as Bolivian partners hold the mining concession. Most mining taxes can be credited against U.S. taxes.

Subsequent to the enactment of a new Banking Law, the government enacted a new financial law in 1998 -- the Law of Property and Popular Credit -- which changed the institutional set-up of the financial regulatory bodies. It also provided for improved prudential regulation for all types of financial institutions and promoted stability in the financial system while also inducing greater competition and efficiency.

4. Debt Management Policies

The Bolivian Government owes about \$4.2 billion to foreign creditors (end-August 1999). Two-thirds of this amount is owed to international financial institutions (principally the Inter-American Development Bank, the World Bank and the International Development Agency of the World Bank); almost one-third is owed to foreign governments, and less than 0.8 percent is owed to private banks. Bilateral debt payments have been rescheduled six times by the Paris Club, and several foreign governments have forgiven substantial amounts of the bilateral debt unilaterally. In 1998 Bolivia entered into the Highly Indebted Poor Country (HIPC) program, which will reduce this stock by approximately \$460 million in present value terms over the life of the agreement. The Consultative Group in 1999 approved an additional \$960 million in debt relief for Bolivia. Also, Bolivia is eligible for further debt relief under HIPC II.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia. The Bolivian Export Law prohibited the import of products that might affect the preservation of wildlife, particularly nuclear waste. Bolivia became a member of the World Trade Organization (WTO) in September 1995.

The Investment Law essentially guarantees national treatment for foreign investors. The one real barrier to direct investment -- a prohibition on foreigners holding mining concessions within 50 kilometers of the border -- is applied uniformly to all foreign investors. Bolivians with mining concessions near the border, however, may have foreign partners as long as the partners are not from the country adjacent to that portion of the border, except if authorized by law. In 1999 the Government of Bolivia enacted a law called LEY CORAZON, that establishes 11 telecommunications, energy and transportation corridors within 50 kilometers of the border within which foreign investors are allowed to develop projects. There are no limitations on foreign equity participation.

The governments of the United States and Bolivia signed a Bilateral Investment Treaty during the Summit of the Americas in Santiago in April 1998. It will come into effect after the U.S. Senate ratifies it.

6. Export Subsidies Policies

The government does not directly subsidize exports. The 1993 Export Law replaced a former drawback program with one in which the government grants rebates of all domestic taxes paid on the production of items later exported.

7. Protection of U.S. Intellectual Property

Bolivia belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, and the Nairobi Treaty. In 1999 the U.S. Trade Representative placed Bolivia on the "Special 301" Watch List.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia. However, there have been some recent positive developments: in 1997 the government created the National Intellectual Property Service that for the first time will unify the administration of patents, trademarks, copyrights, and other intellectual property. Earlier, the government enacted a Copyright Law (1992) that, with some key changes enacted this year in Bolivia's Code of Criminal Procedure (which will take effect in March 2001), should create the proper legal environment to promote IPR protection. The government has proposed a draft Intellectual Property Law that it claims will bring Bolivia's protection for IPR up to the standards specified in the WTO TRIPs Agreement. However, there is doubt whether the current draft law is fully TRIPs compliant. Creating awareness in the judiciary and among the public of the rights of IPR holders is another formidable challenge facing the National Intellectual Property Service. According to a 1998 study by the Business Software Alliance and the Software and Information Industry Association, Bolivia has the highest rate of software piracy in Latin America with an estimated 87 percent of all software sold in the country of illegal origin.

8. Worker Rights

a. The Right of Association: Workers may form and join organizations of their choosing. The Labor Code requires prior governmental authorization to establish a union, permits only one union per enterprise and allows the government to dissolve unions; the code, however, has not been strictly enforced in recent years. While the code denies civil servants the right to organize and bans strikes in public services, nearly all civilian government workers are unionized. Workers are not penalized for union activities.

In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; in fact, approximately one-half of the workers in the formal economy -- or about 15 percent of all workers -- belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the government does not prosecute those responsible, nor does it impose penalties.

The COB's numerous strikes to protest the government's economic reforms are generally receiving decreased support. The COB demonstrations that habitually have disrupted public order in major cities -- which decreased during 1997 and 1998 -- have resurfaced in the second half of 1999, probably due to the municipal elections in December. The leadership of the urban teachers' union -- the most aggressive affiliate within the COB -- has conducted several strikes lasting days in opposition to the government's ongoing efforts at educational reform. A teachers' strike in February 1999 shut down the public schools for almost the entire month.

Unions are not free from influence by political parties. Most parties have labor committees that try to sway union activity, causing fierce political battles within unions. Most unions also have party activists as members.

The Labor Code allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions (WFTU) in 1988.

b. The Right to Organize and Bargain Collectively: Workers may organize and bargain collectively. Collective bargaining (voluntary direct negotiations between unions and employers without participation of the government) is limited.

The COB contends that it still is the exclusive representative of all Bolivian workers. Consultations between government representatives and COB leaders are common but have little effect on wages or working conditions. Major structural reforms have further eroded the COB's legitimacy as the sole labor representative. Private employers may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. These adjustments, however, usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the COB.

The law prohibits discrimination against union members and organizers. Complaints go to the National Labor Court, which can take a year or more to rule. Union leaders say problems are often moot by the time the court rules. Labor law and practice in the seven special free trade zones are the same as in the rest of Bolivia.

c. Prohibition of Forced or Compulsory Labor: The law prohibits forced or compulsory labor. Reported violations were the unregulated apprenticeship of children, agricultural servitude by indigenous workers and some individual cases of household workers effectively imprisoned by their employers.

d. Minimum Age for Employment of Children: The Code prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. It permits apprenticeship for those 12 to 14 years of age; it is ambiguous, however, on conditions of employment for minors aged 14 to 17, a practice which has been criticized by the International Labor Organization. Urban children hawk goods, shine shoes and assist transport operators; rural children often work with parents from an early age. Children are not generally employed in factories or formal businesses; when so employed, however, they often work the same hours as adults. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but they generally are not enforced.

The past two governments attempted to revise the Labor Code but desisted in the face of COB opposition. The present government is obliged to legislate reforms to the Code -- including greater labor flexibility -- under the terms of the HIPC, but has yet to do so.

e. Acceptable Conditions of Work: The law establishes a minimum wage of Bs 330 per month (approximately \$56), bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers earn more. Its economic importance resides in the fact that certain benefit calculations are pegged to it. The minimum wage does not cover members of the informal sector who constitute the majority of the urban workforce, nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a workweek of 5 or 5 1/2 days, because the maximum workweek of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced; work conditions in the mining sector are particularly bad.

f. Rights in Sectors with U.S. Investment: The majority of U.S. investment is in the sectors of hydrocarbons, power generation and mining. The rights of workers in these sectors are the same as in other sectors. Conditions and salaries for workers in the hydrocarbons sector are generally better than in other industries because of stronger labor unions in that industry.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	109
Total Manufacturing	(2)
Food & Kindred Products	0
Chemicals & Allied Products	0
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	(2)
Wholesale Trade	(1)
Banking	(1)
Finance/Insurance/Real Estate	0
Services	(1)
Other Industries	182
TOTAL ALL INDUSTRIES	328

(1) Suppressed to avoid disclosing data of individual companies.

(2) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.