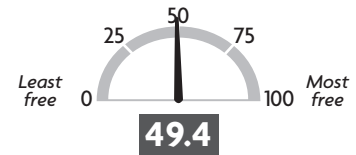


# BOLIVIA

## Economic Freedom Score



World Rank: **146**

Regional Rank: **25**

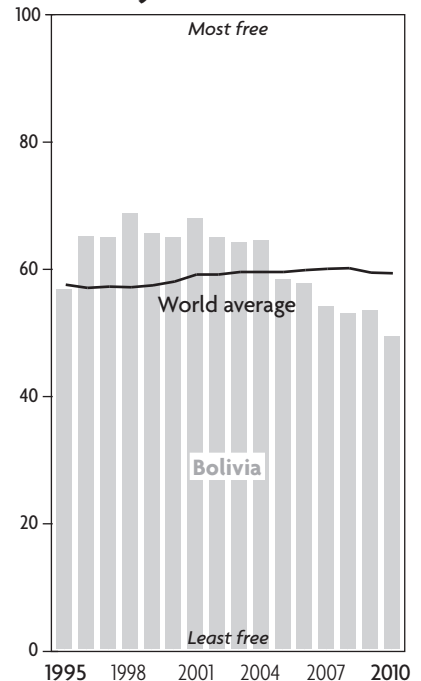
**B**olivia's economic freedom score is 49.4, making its economy the 146th freest in the 2010 *Index*. Its overall score is 4.2 points worse than last year, with declines in nine of the 10 economic freedoms. Bolivia is ranked 25th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world and regional averages.

Privatization and liberalization half-measures have led to marginal investment and economic growth. The hydrocarbon sector has been the major source of relatively high income growth in the past five years. Overall economic development has been uneven, and poverty remains daunting. Improving the investment and business climate remains an urgent priority.

Persistent institutional weaknesses impede creation of a more vibrant private sector. Pervasive corruption and onerous regulation are major hurdles for foreign and domestic investment. Rule of law is weak, and private property is vulnerable to bureaucratic interference or even expropriation. Restrictive labor laws hamper employment and productivity growth. More than half of the workforce is estimated to work in the shadow economy.

**BACKGROUND:** Almost two-thirds of Bolivia's people live in poverty, engaged primarily in subsistence agriculture. From the mid-1980s until 2005, successive elected governments pursued economic and social reform. The government of President Sanchez de Lozada (1993–1997) reduced government intervention through partial privatization and lower taxes and tariffs. A 1999 economic downturn created fiscal pressures, and proposed tax hikes sparked social unrest. Mobs removed two presidents from office in 2003 and 2005, and anti-market populist Evo Morales took office in 2006. Morales engineered a new constitution that expanded executive power, land redistribution, and state control of key natural resources and industries. His concentration of power has been somewhat contained by the opposition-controlled Senate and state governors seeking greater autonomy. Internal divisions led to a serious outbreak of violence in September 2008.

## Country's Score Over Time



## Quick Facts

**Population:** 9.7 million

**GDP (PPP):** \$41.4 billion

6.1% growth in 2008

4.9% 5-year compound annual growth

\$4,278 per capita

**Unemployment:** 7.5% (2007)

**Inflation (CPI):** 14.0%

**FDI Inflow:** \$513 million

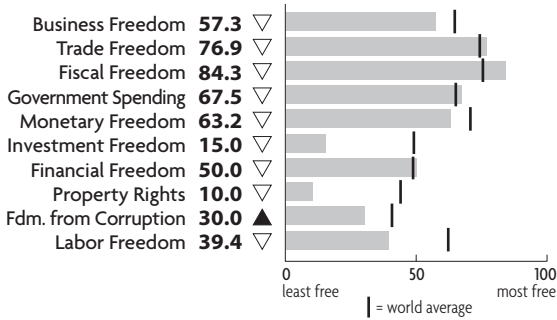
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## BOLIVIA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 57.3

The overall freedom to establish and run a business is restricted by Bolivia's regulatory environment. Starting a business takes an average of 50 days, compared to the world average of 35 days. Obtaining a business license requires about the world average of 18 procedures and more than the world average of 218 days.

### TRADE FREEDOM — 76.9

Bolivia's weighted average tariff rate was 4.1 percent in 2008. Inconsistent customs valuation, import bans and restrictions, domestic preference in government procurement, inconsistent sanitary and phytosanitary rules, export subsidies, customs corruption, weak infrastructure, and issues related to the enforcement and protection of intellectual property rights add to the costs of trade. Fifteen points were deducted from Bolivia's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 84.3

Bolivia has a relatively low income tax and a moderate corporate tax. The top income tax rate is 13 percent, and the corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a transaction tax. In the most recent year, overall tax revenue as a percentage of GDP was 27.8 percent.

### GOVERNMENT SPENDING — 67.5

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 32.9 percent of GDP. Strategic sectors (hydrocarbons and telecommunications) are nationalized, public spending is on the rise, and budgetary management is weak.

### MONETARY FREEDOM — 63.2

Inflation has accelerated rapidly, averaging 11.8 percent between 2006 and 2008. Regulations control prices for most public utilities, petroleum products, and potable water. Fifteen points were deducted from Bolivia's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 15

The law provides for equal treatment of foreign and domestic firms. Residents and non-residents may hold foreign exchange accounts. President Morales has "nationalized"

the hydrocarbons industry (forcing companies to negotiate new contracts and offering the state-owned oil company majority control of five firms) and telecommunications, with mining, forestry, electricity, and transportation as other possible targets. Under the 2009 constitution, all hydrocarbon deposits belong to the government. Despite a relatively transparent investment code, private investment is hindered by arbitrary implementation, cumbersome bureaucracy, pervasive corruption, uncertainty about future nationalizations, and social unrest. There are minimal restrictions on currency transfers or remittances. The government can expropriate property, and competing claims to land titles and the absence of reliable dispute resolution create risk and uncertainty in real property acquisition.

### FINANCIAL FREEDOM — 50

Bolivia's financial system remains generally weak and poorly supervised, but it has grown and become more open. There are 12 commercial banks, of which three are foreign-owned, and 45 non-bank financial institutions. Credit is generally allocated on market terms, but domestic collateral is required. Credit to the private sector has expanded very slowly. The development of a modern securities exchange is undermined by political and social unrest. Capital markets are focused on trading in government bonds, although corporate debt and mutual funds have grown. There are no restrictions on remittances or currency transfers.

### PROPERTY RIGHTS — 10

Article 308 of a new constitution promulgated in 2009 states that "the private accumulation of economic power" will not be permitted to "endanger the economic sovereignty of the State" and that the "the right to own private property either individually or collectively [must] fulfill a social function" and "not harm the collective interest." Although other statutes guarantee property rights, the judicial process is subject to political influence and corruption. Enforcement of intellectual property rights is erratic and largely ineffective. Competing claims to land titles and the absence of reliable dispute resolution make acquisition of real property risky. Expropriation is a real possibility, as is illegal squatting on rural private property.

### FREEDOM FROM CORRUPTION — 30

Corruption is perceived as pervasive. Bolivia ranks 102nd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Officials accused of corruption are rarely prosecuted or convicted. A government report has rated the national police, customs, and justice system as the most corrupt institutions.

### LABOR FREEDOM — 39.4

Restrictive employment regulations hinder job creation and productivity growth. The government has established minimum wages for the public and private sectors. The non-salary cost of employing a worker is moderate, but overall rigidity in hiring and firing is quite high.