



## Bolivia's Economy – An Update

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Bolivia's main economic indicators have continued to show improvement, with rapid improvement in some areas, over the past year. Real GDP growth for 2006 came in at 4.6 percent, compared to 4 percent in 2005, 4.2 percent in 2004, and compared to an average of 2.3 percent for the 2000-2003 period. Manufacturing was one of the faster-growing sectors, growing 8.1 percent (as compared to 2.7 percent the previous year). Construction – including public works – also picked up, growing 4.5 percent in 2006, as compared to 2.6 percent the previous year. Growth in 2007 is projected to be slightly lower, at 4 percent, because of extensive flooding in March that caused an estimated \$443 million in damage.<sup>1</sup>

Bolivia's situation regarding fiscal balances, balance of payments, and international reserves has been improving drastically. Total revenues for the combined public sector increased from 27.5 percent of GDP in 2004 to 40.2 percent in 2006. Most of this increase has been due to the government's policies in the hydrocarbons sector, beginning with the 2005 hydrocarbons law that increased royalties, and then further royalty increases and the re-nationalization of the sector last year. Increases in natural gas prices have made these changes even more important. The government's revenue from hydrocarbons has increased from 5 percent of GDP in 2004 to 13.3 percent in 2006. This alone is an enormous increase in revenue, which in the US would be more than \$1.1 trillion dollars. Hydrocarbons revenue this year (what has been accumulated so far through May 2007) has increased by an additional 26 percent in real terms compared to the same period last year.

Expenditures have not grown as rapidly. Total government expenditures went from 33 percent of GDP in 2004 to 35.6 percent in 2006 (combined public sector). This resulted in an overall fiscal surplus of 4.6 percent of GDP in 2006. This is expected to be reduced somewhat in 2007, as the government plans to increase capital spending by 68 percent.<sup>2</sup>

The current account surplus for 2006 was an enormous 11.9 percent of GDP. As a result, Bolivia has been piling up international reserves, which now total \$3.9 billion, or about 32 percent of GDP. This is much more than the country needs.

Bolivia's public debt has also been reduced from 70 to 35 percent of GDP over the past year and a half, with much of this due to recent debt cancellation. About \$1.2 billion of debt to the Inter-American Development Bank, or 10 percent of GDP, was cancelled last year. Most of the rest of Bolivia's debt reduction, as a percent of GDP, was due to cancellation of World Bank debt last year. Bolivia's total foreign public debt now stands at \$2.1 billion or about 16 percent of GDP. This is a relatively low level of foreign indebtedness.

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<sup>1</sup> Economic Commission for Latin America and the Caribbean/Comisión Economía para América Latina y el Caribe, "Estudio económico de América Latina y el Caribe 2006-2007," (2007) [[www.eclac.cl](http://www.eclac.cl)].

<sup>2</sup> Approved national budgets for 2006 and 2007 available through the Budget Viceministry (at Finance Ministry) [<http://vmpe.hacienda.gov.bo/presupuestos.asp>].

The only major economic indicator that has worsened recently has been inflation, which rose from 4.3 percent last year to 6.6 percent currently (2<sup>nd</sup> quarter, year-over-year). This is probably related to the rapid expansion of the country's international reserve holdings. In any case, this uptick in inflation does not threaten to derail the current economic expansion.

Despite the acceleration of growth, progress in reducing poverty has been slow, with the official poverty rate falling from 63.1 percent in 2003 to an estimated 59.9 percent in 2006.<sup>3</sup> There are several reasons for this slow progress. First, much of the growth has been in the hydrocarbons sector, which accounts for only about 2 percent of employment. In order for this increased revenue to have more of an impact on poverty, the government would have to use this revenue. As the increase in the fiscal surplus indicates, most of it has not been spent. One reason is that the federal government does not control a good part of these revenues, which under current law belong to departmental and municipal authorities. This is one of the contentious issues that the Constituent Assembly, which is drawing up a new constitution, is expected to address.

The closely related issue of large regional economic disparities is another issue that will have to be addressed if there is to be more significant progress in poverty reduction. For example, the economic growth of the 1990s, plus 2001-2004, left residents of the valleys (Cochabamba, Chuquisaca, and Tarija) with a per capita GDP in 2004 that was about 15 percent higher than in 1992. This is a very modest gain but nonetheless positive. The highland (La Paz, Oruro, and Potosí) and lowland (Santa Cruz, Beni, and Pando) regions, however, were at basically the same level of per capita GDP in 2004 as they were 12 years earlier.<sup>4</sup>

Another reason that there has not been more poverty reduction is that even these improved rates of growth, which have only been seen for the last 3 years, are not all that high for a developing country. On a per capita basis, GDP has grown by 1.9 percent annually over the last three years. By comparison, Brazil grew more than twice that fast in the decades prior to 1980 and other, more successful developing countries such as South Korea and Taiwan have maintained rates of growth more than three times as fast for decades. In order to accelerate poverty reduction, Bolivia will have to increase growth and change the regional and demographic distribution of the gains from growth.

On the other hand, the government has been taking steps to improve the lives of poor people, some of which would not show up in the official measures of poverty. The Education Ministry reports 172,314 graduates, and 328,933 current participants, in a national literacy program.<sup>5</sup> Another component of the campaign is to provide eye check-ups and glasses to those who need it. The program is also unique in that it has parallel (although smaller) literacy campaigns in Aymara and Quechua (with close to 17,000 participants and graduates). The health ministry also reports 100,000 eye surgeries to restore or improve vision in people who are afflicted with cataracts and other serious vision problems. There were six new national hospitals inaugurated in 2007, and the congress is currently considering legislation for universal health insurance coverage. The government is also currently implementing a "zero malnutrition" program to reduce or eliminate child malnutrition and related diseases.

An ambitious program of land reform and land titling – which is necessary because of the lack of clarity of land ownership in many areas -- has also begun. According to the government some 5.375 million hectares have been titled under the current administration. Another 481,664 hectares have been distributed to poor farmers.

In sum, the Bolivian economy has shown considerable progress on most indicators over the past year and a half. The government has begun a number of initiatives to address the needs of the poor. But other structural changes (including land reform in a country that has more than 40 percent of its employed labor force in agriculture), faster growth, the reduction of regional disparities, and an accelerated diversification of the economy away from hydrocarbons and minerals are the medium-to-long term development challenges facing the economy.

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<sup>3</sup> From Unidad de Análisis de Políticas Sociales y Económicas (Government of Bolivia) database of economic and social indicators ("Dossier de estadísticas") [<http://www.udape.gov.bo/>].

<sup>4</sup> International Monetary Fund, "Bolivia: 2006 Article IV Consultation," July 2006.

<sup>5</sup> Ministerio de Educación y Culturas Programa Nacional de Alfabetización (Government of Bolivia) [<http://www.minedu.gov.bo/minedu/pna/indice.html>].