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Bolivia's Economy – An Update

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The Bolivian economy continued to show significant improvements in 2007 and the first quarter of 2008, in spite of political conflict between the government and the opposition, based in the Eastern part of the country. For the first quarter of 2008, the Bolivian economy grew at a 6.1 percent rate (year over year). In 2007, Bolivia had a 4.6 percent real GDP growth rate, compared with 4.8 percent in 2006 (preliminary figures). The construction and manufacturing sectors grew by 14.3 and 6.0 percent in 2007, respectively, and they continued to experience strong growth in the first quarter of 2008 (8.6 and 5.3 percent, respectively).

The agricultural sector was harshly hit by floods in the first half of 2007 and shrank by 0.5 percent over the year. Since November 2007 and through April 2008, heavy rains have continued to cause floods across the country. However, there were some signs of recovery in the first quarter of 2008 for this sector, with a 2.1 percent growth rate (year over year).

In spite of claims that the nationalization efforts and political tensions in the country would curtail foreign investment and hence production, the hydrocarbons and mining sectors have been growing at a very fast pace: by 10.0 and 5.2 percent in 2007 and 11.3 and 53.8 percent in the first quarter of 2008 (annualized rate), respectively. However, these sectors, particularly the mining sector, might have experienced a slowdown during the last quarter of the year due to high volatility and downward pressure in world prices.

One of the government's biggest achievements has been the enormous increase in revenues that has come from getting control over its hydrocarbon sector. For comparison, just the *increase* in hydrocarbon revenues, as a percent of the economy, is more than the entire sum of on-budget revenues collected by the U.S. government.
It is clear that Bolivia is in a very solid position to spend as much as it needs to in order to counteract any contagion from the world recession. The main constraint for developing countries that wish to pursue expansionary (counter-cyclical) fiscal and monetary policies during an economic slowdown is having enough foreign exchange reserves to avoid a shortage, or balance of payments crisis. Bolivia has more international reserves, relative to its economy, than China does. It has an enormous current account surplus (12.8 percent of GDP), and a huge budget surplus (7.3 percent of GDP. Finally, Bolivia also has a very low public debt and especially foreign public debt, which have been greatly reduced in recent years.

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Bolivia is not very dependent on the international financial system, and it has more than enough international reserves to protect its own banking system. The main way that it might be affected by the world economic slowdown is through the price of its exports, especially natural gas. But Bolivia's current account surplus is so large that there is no reason for such price declines to cause an economic slowdown in Bolivia.

In short, Bolivia is in a position to continue growing at an accelerated rate, expanding its social and infrastructure spending, reduce poverty and unemployment, and deliver on its promises to the electorate. It can lean against the winds of the global slowdown as much as it chooses to do so.

Below are some highlights and statistics:

- Hydrocarbon revenues have increased from 5.6 percent of GDP in 2004 to 20.4 percent of GDP in 2007 and will reach a similar level this year (estimate for the year: 20.8 percent of GDP).

- After 66 years of running deficits, the government budget had a 4.5 percent of GDP surplus in 2006. This trend continued in 2007 with a 1.7 percent of GDP surplus and this year (through September) the surplus is at 7.3 percent of GDP.

- Total revenues for the combined public sector increased from 27.5 percent of GDP in 2004 to 43.6 percent of GDP in 2007. Based on the data available for this year (through September), total revenues have reached an estimated 43.2 percent of GDP on an annual basis.

- Total government spending increased from 33 percent of GDP in 2004 to 42 percent of GDP in 2007. For 2008, spending might end up being lower, at around 34.5 percent of GDP.
- The current account surplus increased from 3.8 percent of GDP in 2004 to an enormous 13.3 percent of GDP in 2007. This year, the current account surplus will close at around an estimated 12.8 percent of GDP.

- International reserves have increased from $1.3 billion (or 14.4 percent of GDP) in 2004 to $7.7 billion (or around 40.6 percent of GDP) as of August 2008.

- The domestic public debt has been reduced from a peak (at least since 1993) of 32 percent of GDP in 2004 to 23 percent of GDP as of September 2008.

- The foreign public debt has been reduced from 58 percent of GDP in 2004 to 14 percent of GDP as of September 2008.

- The average inflation rate in 2007 was 8.7 percent, compared to 4.3 percent in 2006. Average inflation between January and October 2008 has been running at a 14.4 percent rate (compared to the same period in 2007). The spike in inflation since 2007 is due to high international food prices and to weather conditions in Bolivia, which has been plagued by flooding caused by heavy rains (November 2007 – April 2008) and most recently by droughts. Food price inflation for January-October 2008 was around 26 percent, and if food prices are excluded from headline inflation, the rate for the same period comes down to a 4.6 percent. Inflation in food prices has come down from 32.8 percent (year-over-year) in June to 22.6 percent in October.

- National Literacy Program: As of October 2008, there are 779,665 graduates from the program and 40,859 currently participating in it. [1]

- Quechua Literacy Program: As of October 2008, there 12,547 graduates and 1,019 current participants.

- Aymara Literacy Program: As of October 2008, there are 15,992 graduates and 8,704 current participants.

[1] Government of Bolivia. Ministry of Education and Culture. National Literacy Program. Resultados del programa. November 7, 2008. Accessed online on November 13, 2008. <http://www.minedu.gov.bo/minedu/pna/indice.html>.

- In October 2006, the government created an annual stipend for students in 1st through 8th grades, called "Juancito Pinto". The stipend is of about $27 per year and is currently received by over 1.8 million children across the country.

- In late 2007, the government instituted a program, called Renta Dignidad, for the elderly by which any person above 60 years old would receive an annual payment regardless of whether the person had contributed to the social security system. The program sparked conflict between the central government and some provincial governments (mainly the natural gas producers) because this program was set to be financed with 30 percent of all revenues coming from the Direct Tax on Hydrocarbons (IDH), but not from royalties. Revenues from this tax account for around 5 percent of all revenues of the general government (central government plus the prefectures and municipalities).

In February 2008, the program started making payments of around $333 per year to those who do not have a social security or retirement pension and of $250 per year for those who do. From February to August, an average of 554,000 payments per month have been made (in a country of about 10 million) and 80 percent of those payments have gone to people that do not receive any type of old-age pension. The total cost of the program for that period was $100.5 million. On an annual basis, this is about 21 percent of what the general government received in IDH revenues in 2007 and has received so far in 2008 (through September).

The government estimates that the prefectures' contributions to the Renta Dignidad program will be minimal. For the Santa Cruz prefecture, which leads the opposition, only 5 percent of the prefecture's total hydrocarbon revenues will be used to finance the Renta Dignidad program.[2]

In 2005-2007, public investment in infrastructure increased by 36 percent in nominal terms, with significant increases in spending on irrigation, agricultural infrastructure, rural electrification, roads and bridges. Social spending increased by 39.8 percent during the same period, with public spending on education increasing by 74.6 percent and on health by 49.1 percent (mainly in new hospitals and equipment).

[2] Government of Bolivia. Ministry of Housing. La verdad sobre los recursos que recibe Santa Cruz. Accessed online on November 13, 2008.<http://www.hacienda.gov.bo/informaciones/informeSCZ.pdf>.