



## Bolivia's Economy: The First Year

BY MARK WEISBROT

Bolivia's economy has done well in the first year of Evo Morales' presidency. There were improvements in most of the major economic indicators, as well as some new initiatives by the government to fulfill its promises to the country's impoverished majority. The government's hydrocarbon revenues increased by an estimated 3.4 percent of GDP<sup>1</sup>, a large sum that is – relative to Bolivia's economy -- about 70 percent bigger than the US Federal budget deficit. As a result of these increased revenues, Bolivia balanced its central government budget for the first time in many years, running a surplus.

More importantly, the increased revenue will allow the government to pursue its plans to increase access to education and health care, and pursue a development strategy that allows productivity and economic growth to accelerate, and boost incomes among the 65 percent of Bolivia's population that lives below the poverty line.

Like almost all of Latin America, Bolivia suffered a sharp slowdown of economic growth over the last quarter century. This economic failure was so severe that Bolivia's income per person in 2005 was actually less than it was 27 years prior, a relatively rare outcome in the history of modern societies. For 20 consecutive years (with the exception of 8 months), Bolivia was operating under agreements with the International Monetary Fund. During this time, Bolivia completed numerous structural reforms recommended by economists from multi-lateral lending institutions.<sup>2</sup> In the IMF's April 2005 country report on Bolivia, the authors discuss the Bolivian “puzzle” – “that a country perceived as having one of the best structural reform records in Latin America experienced sluggish per capita growth, and made virtually no progress in reducing income-based poverty measures.”<sup>3</sup>

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<sup>1</sup> International Monetary Fund Country Report No. 06/270, July 2006  
<http://www.imf.org/external/pubs/ft/scr/2006/cr06270.pdf>

<sup>2</sup> See Weisbrot and Sandoval, "Bolivia's Challenges," Center for Economic and Policy Research (2006)  
[http://www.cepr.net/documents/bolivia\\_challenges\\_2006\\_03.pdf](http://www.cepr.net/documents/bolivia_challenges_2006_03.pdf)

<sup>3</sup> International Monetary Fund Country Report No. 05/139  
<http://www.imf.org/external/pubs/ft/scr/2005/cr05139.pdf> (April 2005)

In March of 2006, the Bolivian government allowed its IMF agreement to expire. This gave the government new freedom to pursue different economic and development policies. One of the first reforms that the government pursued was to increase its control over hydrocarbons (mostly natural gas) and also its revenue. The government's revenue had already increased enormously as a result of the May 2005 hydrocarbons law, but in 2006 the government went further and "re-nationalized" the industry, renegotiating its agreements with major foreign producers, including a 48 percent price increase with Argentina. It is also rebuilding the state-owned gas company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). While there remain some negotiations with Petrobras, the Brazilian state-controlled company that has a very large stake in Bolivia (most of Bolivia's natural gas is exported to Brazil and Argentina), the government has so far accomplished most of what it set out to do in May of 2006, when it announced its nationalization decree.

The significance of the government's energy reform can hardly be over-emphasized. According to the IMF, the government's royalties from hydrocarbons has increased by 6.7 percent of GDP in the last 2 years. This is huge: for the U.S. economy, this would be like increasing government revenue by 900 *billion* dollars. And the government is expecting these revenues to triple over the next four years.

In November of 2006, the Bolivian Senate passed an ambitious land reform law, which aims to redistribute some 77,000 square miles of land, an area the size of Nebraska. This reform, if fully implemented, could benefit millions of poor Bolivians. The government has already given poor rural families some 8500 square miles of state-owned land.

In March the government approved a program of free reproductive services for women; it also announced a new health insurance program for citizens 60 years of age and over, and one for people under 21 years. The government has also been expanding health clinics in rural areas. This month the Bolivian cabinet proposed legislation to provide universal health insurance for the rest of the population. Because of the government's increased revenues and solid fiscal position, a reform of this kind has much greater chances of success than in the past.

Bolivia has a current account surplus of 5 percent of GDP and foreign exchange reserves increased by more than 20 percent to 2.56 billion in 2006. The country also reduced its public debt from 71 to 51 percent of GDP over the past year, mostly as a result of World Bank and (much smaller) IMF debt cancellation reached under the Multilateral Debt Relief Initiative. If the Inter-American Development Bank comes through on promised debt cancellation, this debt will be further reduced by about 7 percent of GDP.

The IMF projected Bolivia's economy to grow by 4.1 percent in 2006, which is reasonable but needs to be improved upon. The government has recently put together a National Development Strategy, something that is probably a necessary condition for accelerating growth, diversifying away from dependence on natural resources, and into higher value-added areas of production.

It should be emphasized that while Bolivia has increased the state's control over natural resources, much of Bolivia's improved economic prospects are a result of increased international competition. For example, under the IMF agreements of the past, the Fund exerted a near-monopoly over credit, because of an informal arrangement in which other official and sometimes even private sources were contingent on an IMF agreement. This enabled the Fund to restrict the economic policy choices of Bolivia and other governments. This "creditors' cartel" has collapsed in recent years for middle-income countries, and especially in Latin America, where the government of Venezuela has provided

an alternative source of credit to Argentina, Bolivia, Ecuador and other countries. Similarly, while previous, corrupt governments in Bolivia pursued deals with a relative handful of foreign investors with which they were connected, the current government is benefiting from increased competition and potential competition in foreign investment, including investors from Russia, India, Venezuela, and elsewhere. In this regard, its increased control over hydrocarbons has also increased the government's ability to negotiate with foreign investors.