

# Bolivia

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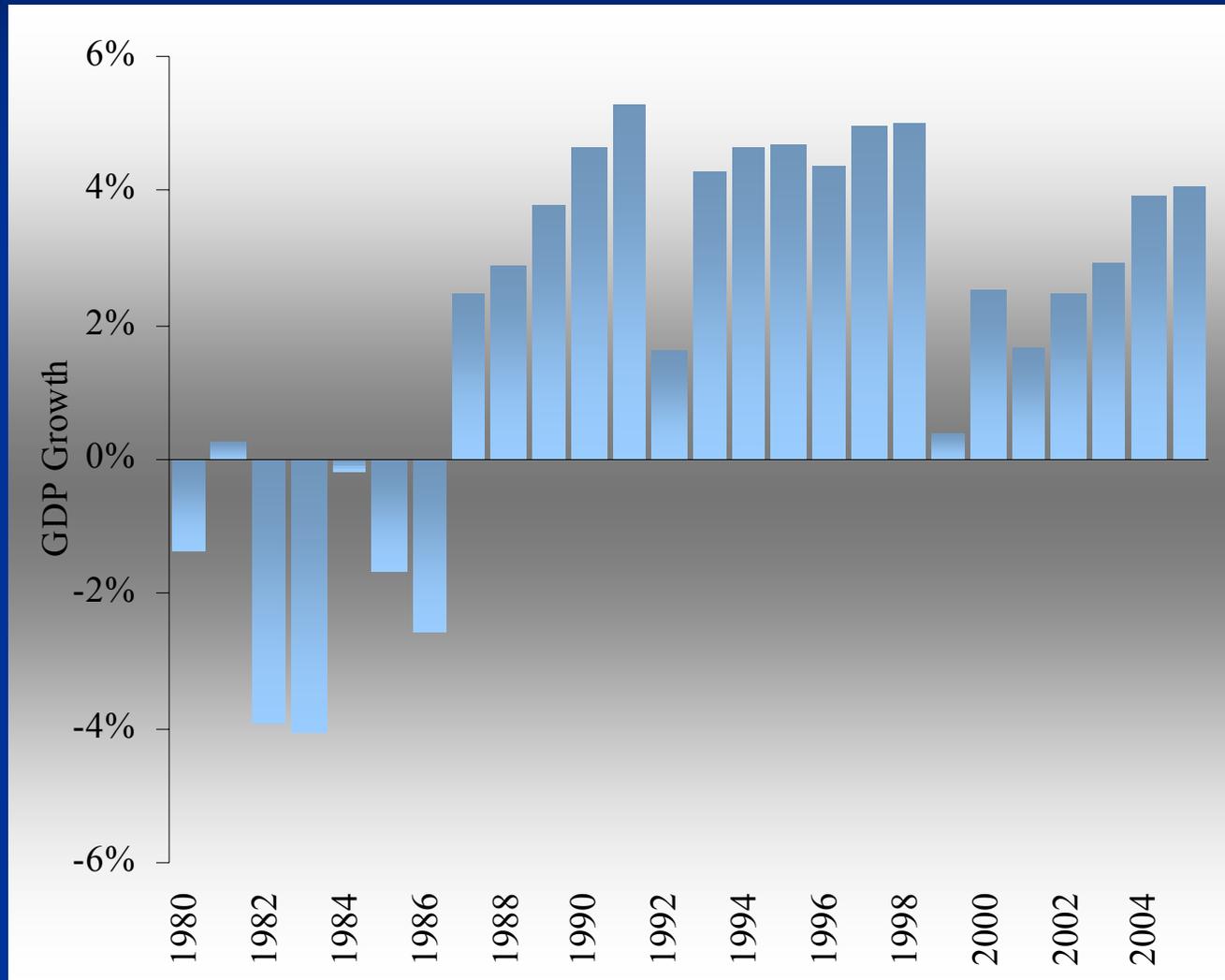
Economic Growth in Latin America:

What Have we Learned?

IMF, November 17, 2006

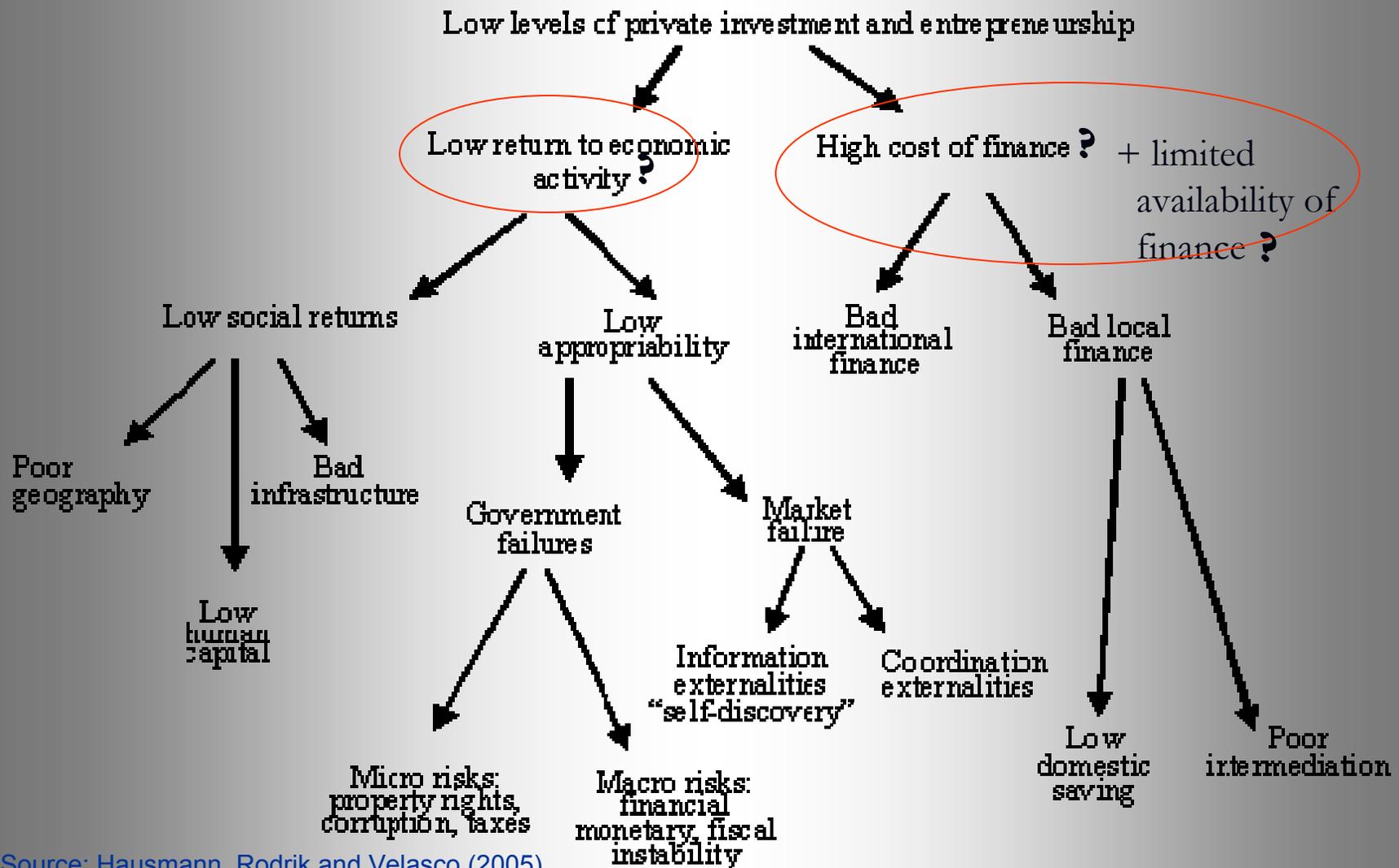
# Fractured growth

(real GDP growth, %)



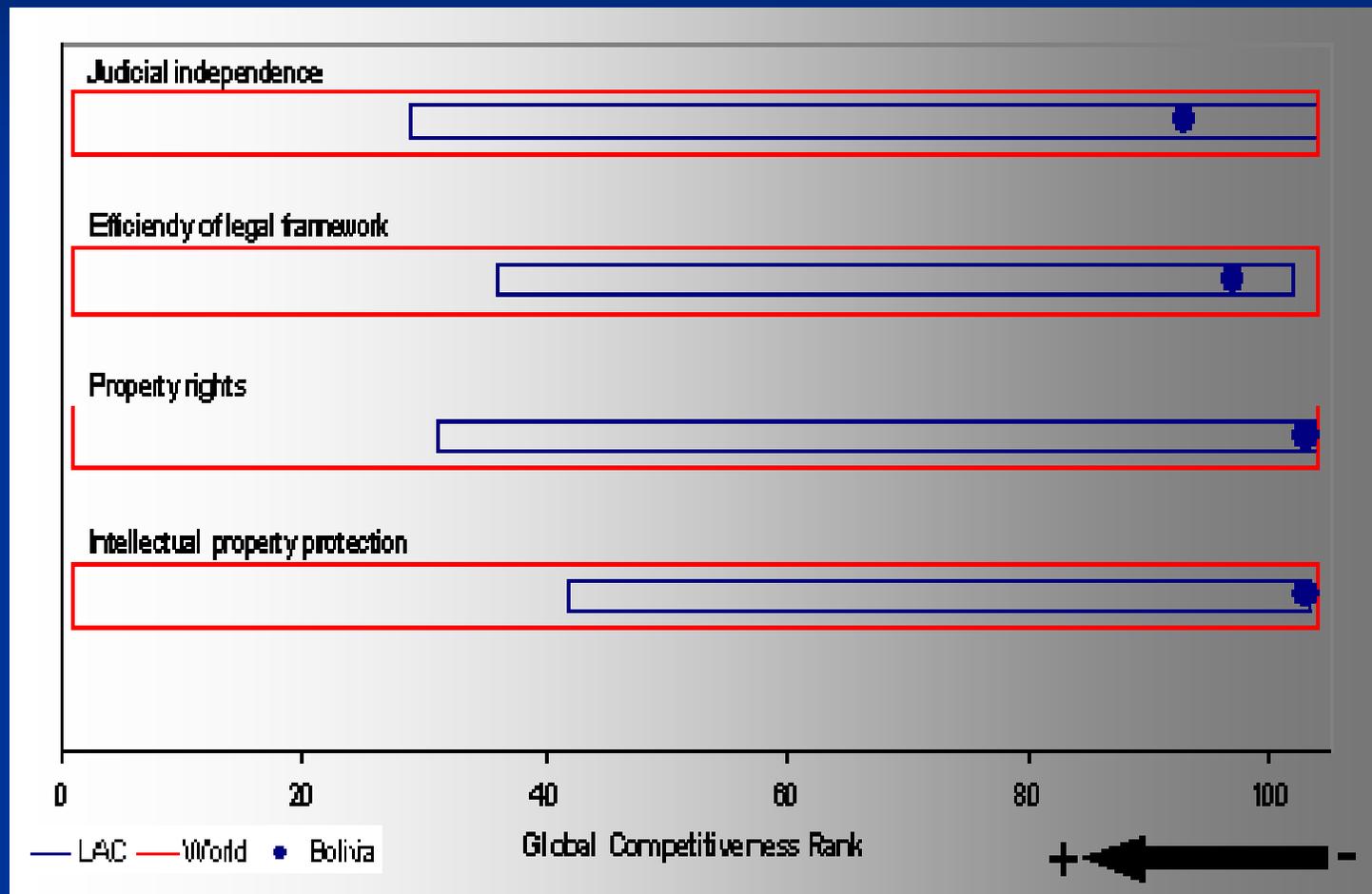
# Applying the Growth Diagnostics Approach

**Figure 1: Growth Diagnostics**



Source: Hausmann, Rodrik and Velasco (2005)

# Micro risks: Poor enforcement of property rights and other institutional weaknesses

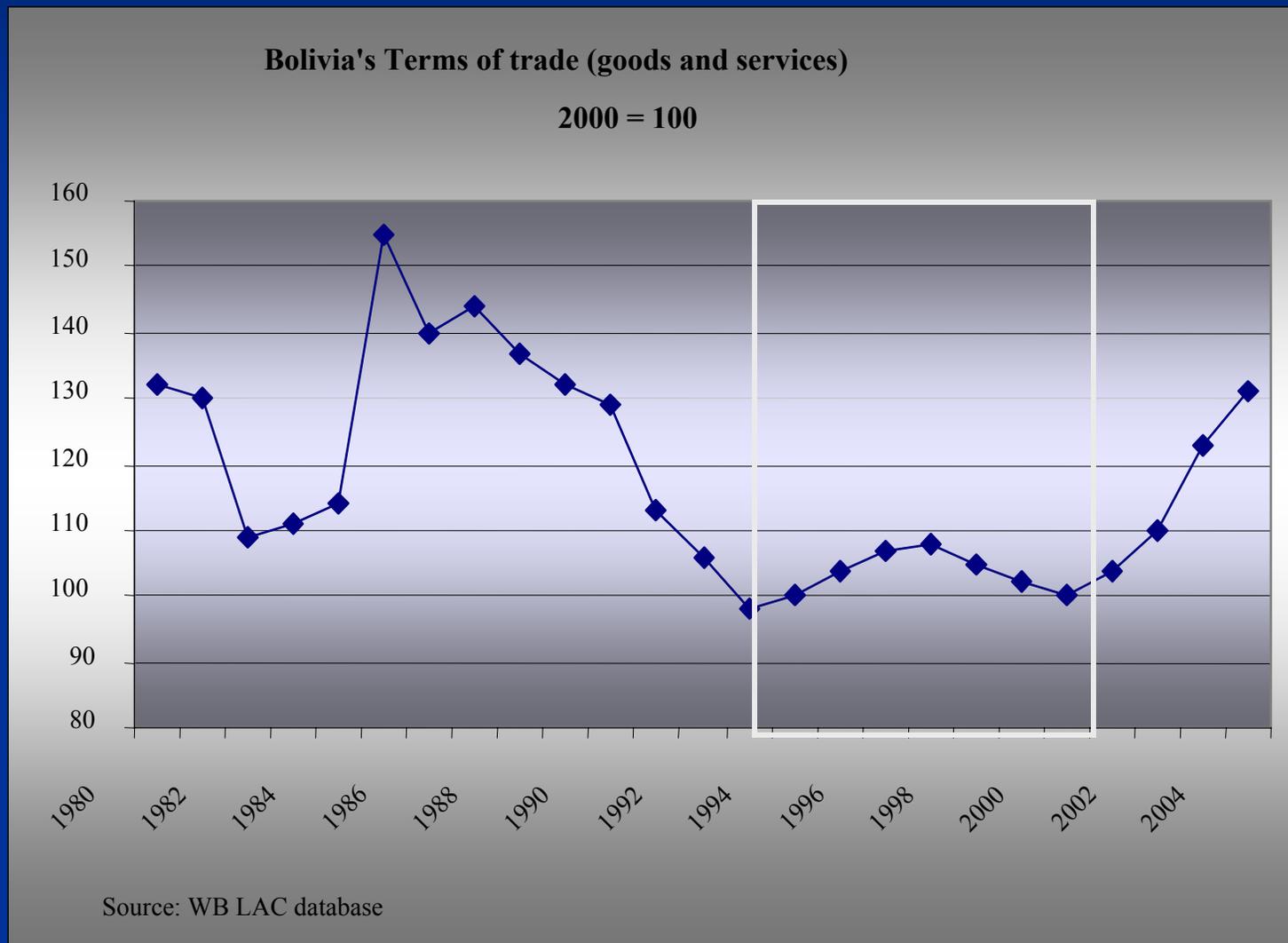


# **Macro risks:** Highly dependent on external factors

## The early and mid-1990s

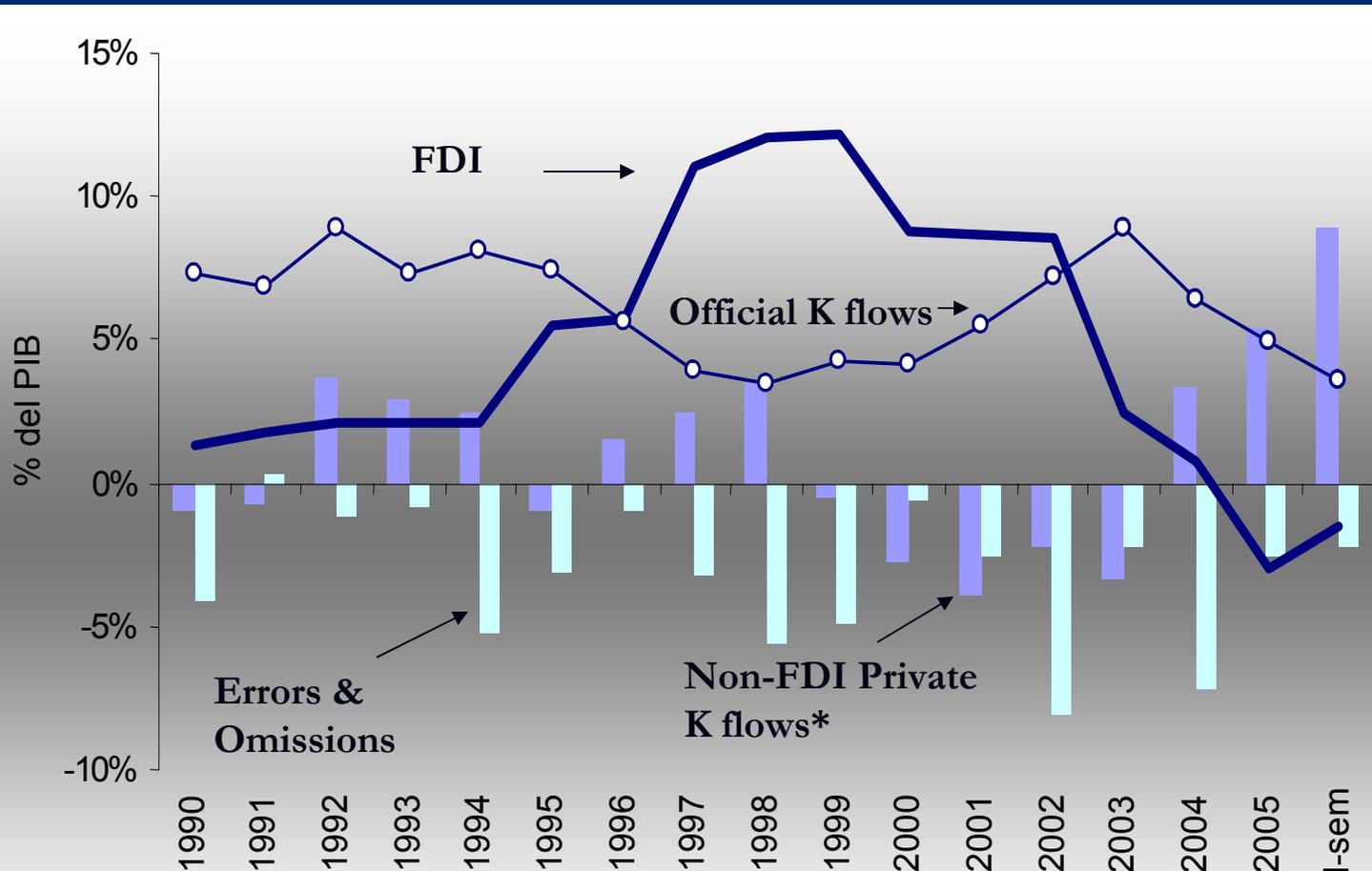
- Terms of trade of the 1990s 30 % lower than the 1980s'
- High international liquidity
- Booms in trading partners
- **The late 1990s**
- Regional financial turmoil.
- Devaluations in Argentina, Brazil and Chile
- Slowdown in trading partners.
- El Niño—Floods
- Coca eradication

# The mid- and late-1990s: Lower terms of trade but relatively stable



# Sustained hectic K flows

% of GDP



\*Includes portfolio inv.; remittances; other private K flows. Source: Central Bank of Bolivia.

2006 II-sem

## Bolivia: A vulnerable economy with deep property rights and other institutional weaknesses\*

Where have the reforms gone?

- Significant improvement in social indicators
- One of the most open economy in the region
- One of the most resilient financial sector in the region
- Inflation: one digit in last 10 years

\*Bolivia-Country Economic Memorandum (2005). The World Bank

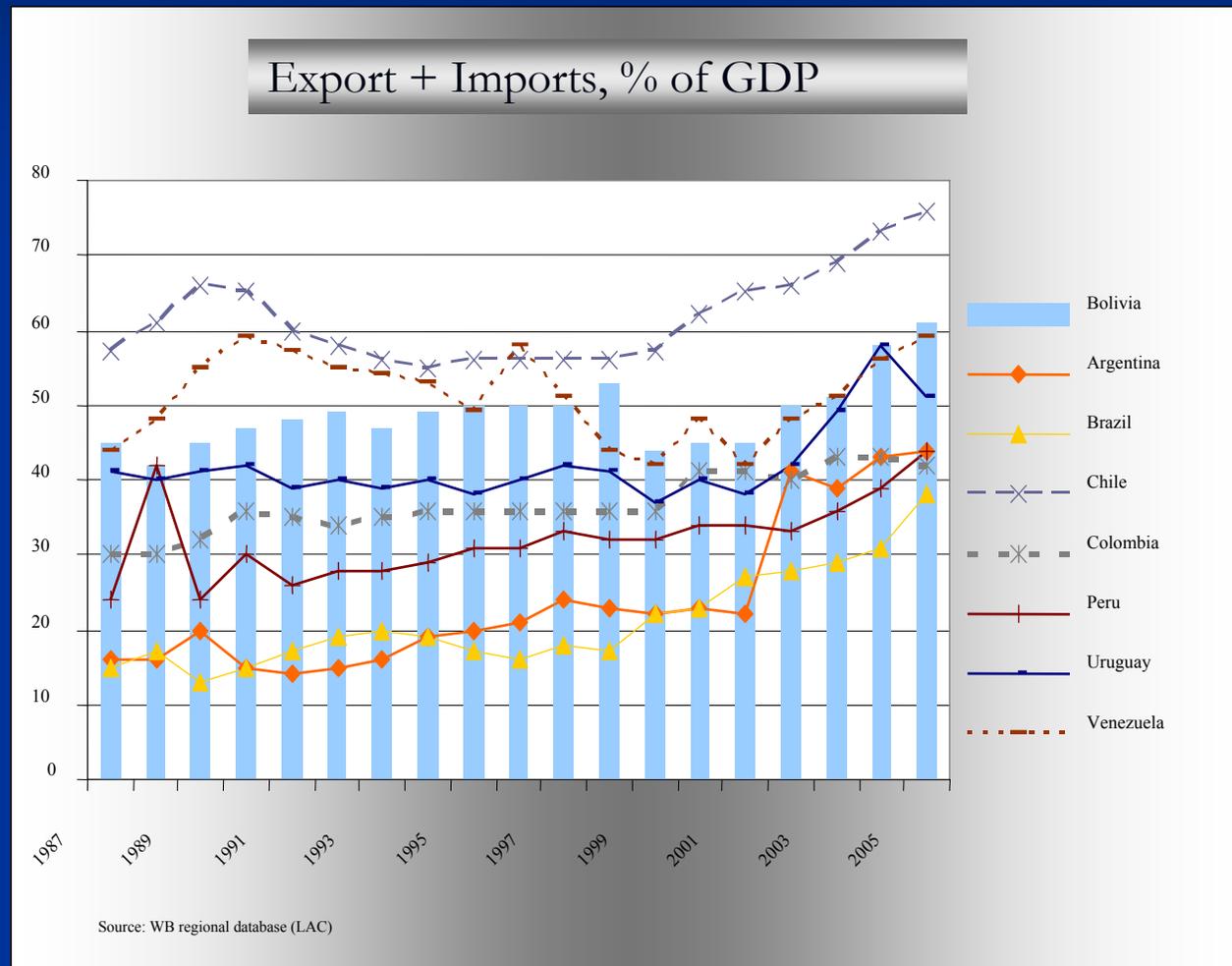
# ➤ Improvement in social indicators, but who benefits the most?\*

- The richest in tertiary education
- The richest in urban areas in electricity
- Those in urban areas in water in sanitation

**=>Unsatisfied social demands**

\*Bolivia--Public Expenditure Review (2004). The Inter-American Development Bank and The World Bank.

# ➤ One of the most open economy in the region,...



# ..but with a trade structure that makes the economy vulnerable

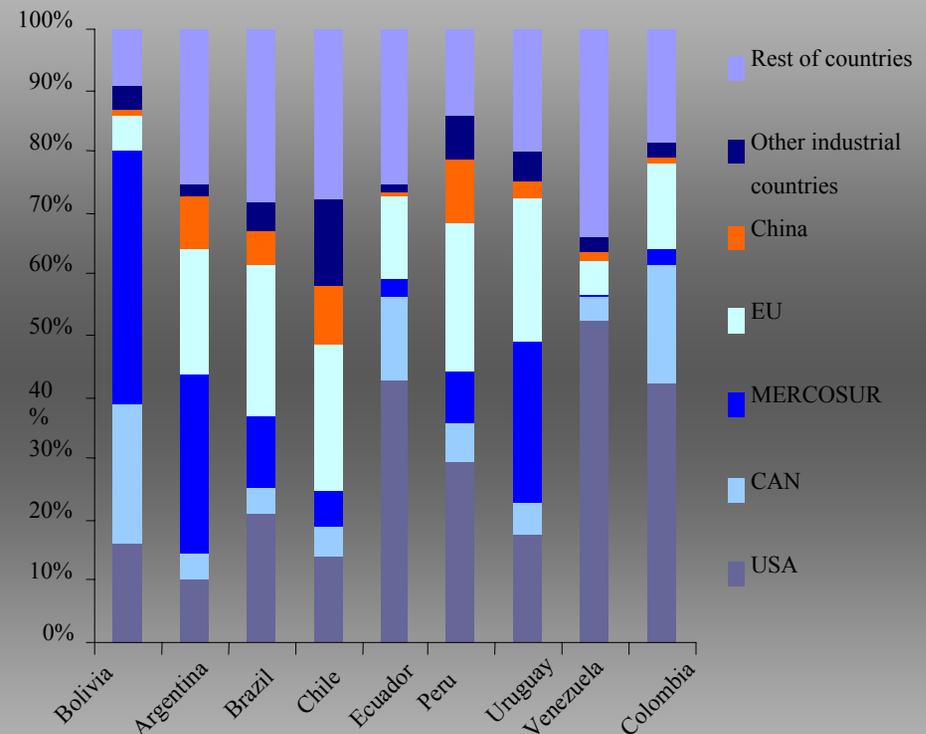
## Of total exports

- 65 % are regional exports
- 66% are extractive industry
  - Brazil: the largest trading partner:

## ■ Vulnerable

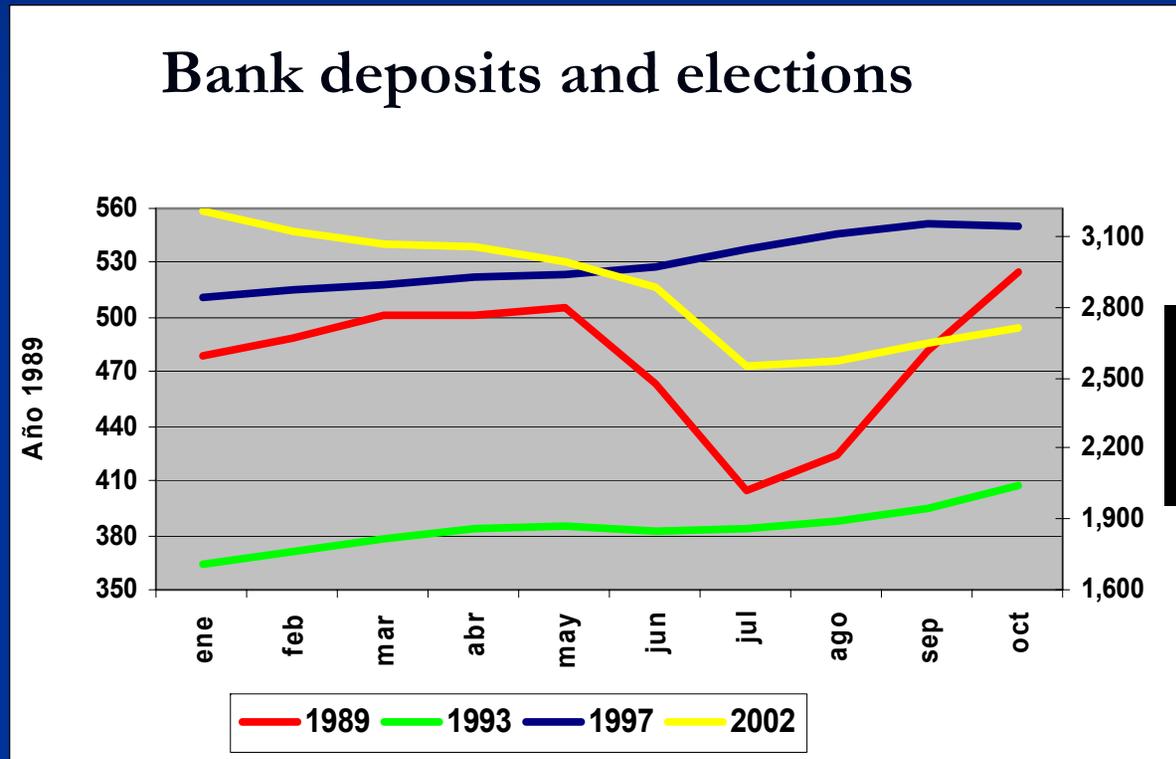
- to systemic shocks
- to non-tariff barriers from border economies

Structure of exports by destiny  
(2004, %)



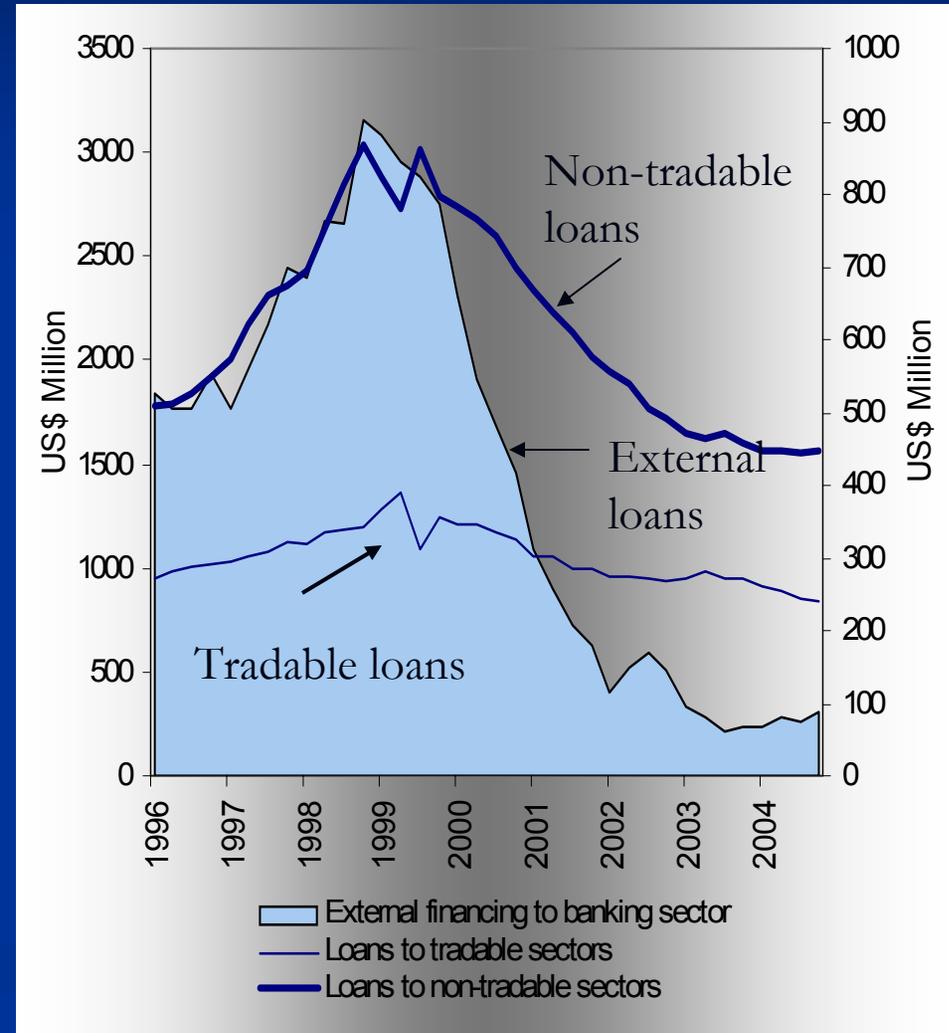
Source: IMF

# ➤ One of the most resilient financial sector in the region, ...



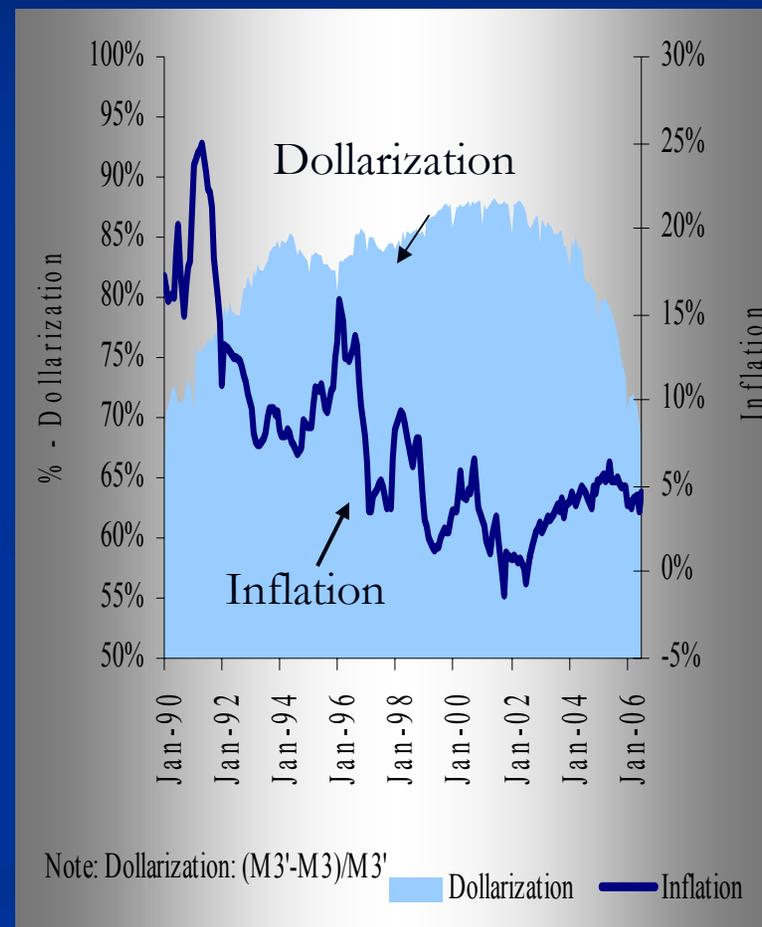
# ...but limited credit availability

- ❑ 70 % of total bank loan portfolio goes to 2 % of borrowers (i.e., client concentration).
- ❑ Credit to the non-tradable sector associated with external loans.
- ❑ Banks reluctant to lend. Troubled firms (the late 1990s).



➤ Inflation came down, but credibility problems remained

	1990-94	1994-96 privatization	1997-04
Overall Budget Deficit (after grants), % of GDP	4.5	1.8	5.6
Bank troubles	Annual bank runs. Closing of 12 banks		



## Limited impact of reforms at micro and institutional levels.

- Bolivia ranks poorly (the worst among LAC countries) in all categories
  - Poor enforcement of contracts and property rights
  - Poor institutions. Corruption
  - Poor justice
  - Costly entry and exit of firms
  - Stringent labor laws

# But the economy grew faster and steadily in the mid-90s!

Yes, the service sectors and Mercosur  
exports (i.e., gas)

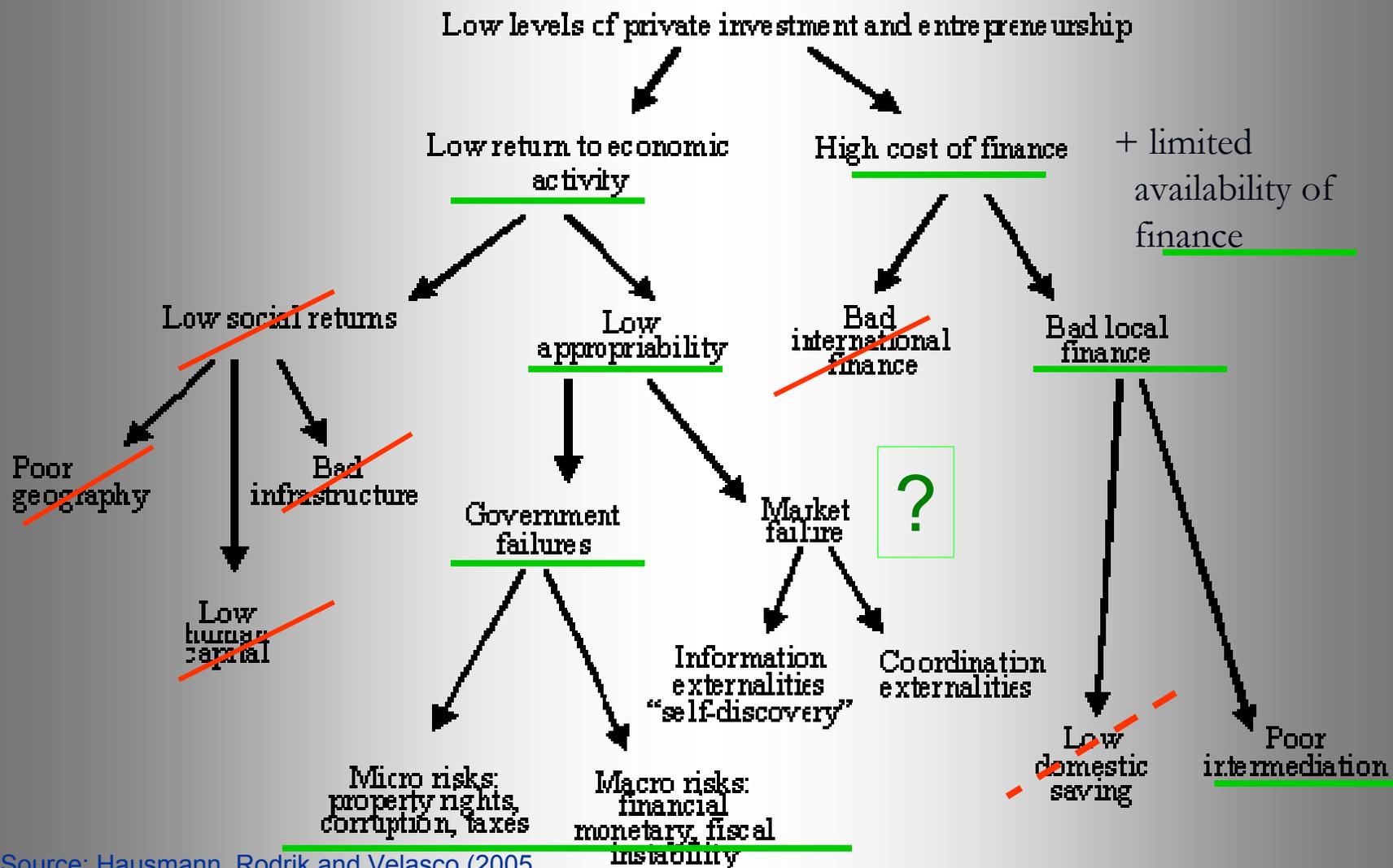
	Participation, %	Growth, %		
		90-96	97-98	99-03
TOTAL	100.0	4.2	5.0	1.9
Banking and services	11.5	5.4	12.6	2.0
Transport and comm.	11.0	5.7	8.1	2.5
Construction	3.1	6.0	20.4	-6.8
Commerce	7.9	4.4	3.3	1.8
Public administration	11.5	1.9	4.2	3.0
Other 2/	19.2	3.4	2.5	1.6
Hydrocarbons	2.6	3.0	13.5	5.5
Mining	3.9	4.2	-0.1	-1.6
Manufacture	15.2	4.8	2.3	2.3
Agriculture	14.1	4.2	0.1	3.1

The private sector virtually never took off other than in the privatized sectors (e.g., hydrocarbons sector)

=> Fractured growth

# Bolivia: Growth Diagnostics

**Figure 1: Growth Diagnostics**



# Bolivia

- Bolivia's growth remains highly dependent on external factors
- We cannot reject the hypothesis that Bolivia's binding constraints are
  - macroeconomic risks and poor property rights fueled by social instability (in turn fueled by cultural traits)
  - Availability of credit associate with external loans, in particular for the non-tradable sector. High concentration of bank clients. Today disincentives to FDI.
- We could not ascertain whether or not market failures are constraining growth

# Using the Growth Diagnostic Approach

## Benefits

- Useful organizing approach for macro-micro integrated analysis of growth obstacles
- A vehicle to give more economic content to the findings of firm surveys (i.e., Investment Climate Assessments)
- Helps narrowing down the list of potential obstacles to growth
- Useful for policy dialogue. Appealing to policy makers

## Risks

- Using the wrong rates of returns.
- Easy to pick obstacles to growth close to the analyst's preferences