



DIÁLOGO A FONDO

El blog del FMI sobre temas económicos de América Latina

Bolivia: Preserving the Gains

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Downtown La Paz, Bolivia: the country has made significant economic progress since 2004 (photo: Robert Postma/Newscom)

Economic performance in Bolivia since 2004 has been impressive. An extended commodity price boom combined with sound policies and a focus on social objectives helped Bolivia maintain high rates of growth, build ample foreign reserves, and reduce poverty and inequality.

But the overall pace of progress has slowed in recent years under the “new normal” of lower commodity prices. Persistently lower hydrocarbon and mining receipts raises some doubts about the “Bolivian economic model,” and how the government will meet its goals of eradicating extreme poverty and providing universal access to health and education by 2025.

In this blog, we highlight three specific areas where important progress has been achieved and argue that preserving these gains will require some modifications to the current strategy.

Diálogo a fondo: <http://blog-dialogoafondo.imf.org/>

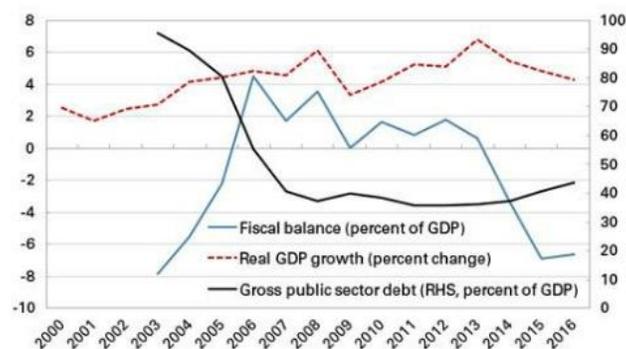
First: sustained strong growth for 15 years

Annual growth in Bolivia has averaged 4.9 percent since 2004. The commodity boom led to higher profits in the energy, minerals, and agriculture sectors, soaring tax revenues, more social spending, and higher public investment. Over this period, income per person in Bolivia more than tripled while the authorities smartly saved some of the wealth windfall, delivering sustained fiscal surpluses until 2014 and building up foreign reserves.

Since the decline in natural gas and mineral prices in 2014, growth has been supported by accommodative fiscal policy—funded by savings accumulated during the boom and foreign borrowing—and expansionary credit policies.

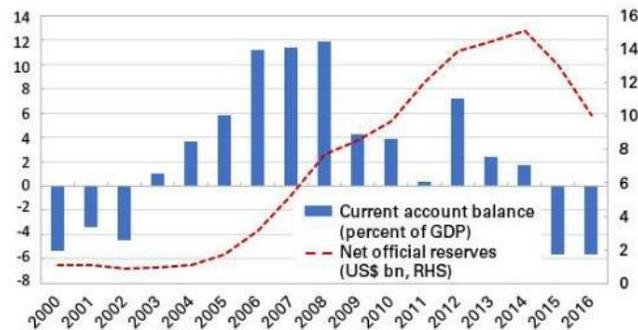
Good progress

Bolivia's growth rate has averaged about 5 percent since 2004 and public debt remains relatively low.



Large buffers

Bolivia was able to build ample reserves during the commodity boom.



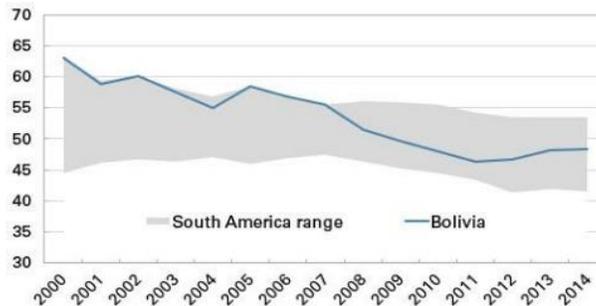
Second: significant drop in poverty and inequality

Between 2004–2015, poverty fell from 63 percent of the population to [39 percent](#), with extreme poverty dropping from 45 percent to 14 percent. As explained by a recent [study](#), more than two thirds of the reduction in poverty was attributed to strong GDP growth, while social programs, particularly those for school age kids, the elderly, and expectant mothers and infants, also played an important role. In terms of [social indicators](#), during 2000–16, for example, life expectancy at birth rose from 61 years to 69 years, the under-5 mortality rate (per 1000 live births) fell from 80 to 38, and the primary school completion rate rose from 84 percent to 99 percent.

At the same time, inequality decreased substantially. Bolivia's Gini coefficient—a measure of income distribution that ranges from zero (a perfectly equal distribution) to 1 (one person has all the income)—fell from 0.59 in 2004 to [0.48 in 2014](#). Bolivia went from being the most unequal country in South America to around the average for the region. This drop reflected a decline in the wage premium attached to skills as the real labor incomes of lower-skilled workers grew more rapidly than those of higher-skilled workers, driven by annual increases in the minimum wage and caps on some public sector salaries. Higher agricultural prices during the commodity boom also helped raise rural incomes.

More equal

Bolivia registered some of the largest declines in inequality in the region from 2000–2014.



Note: The Gini coefficient is a measure of income distribution that ranges from zero (a perfectly equal distribution) to 1 (one person has all the income).



Third: substantial de-dollarization

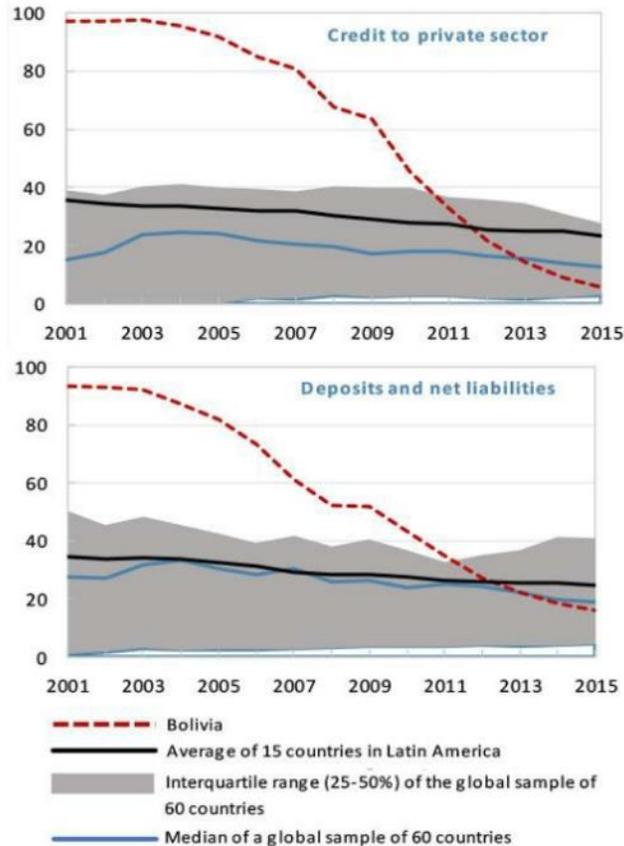
Bolivia had a long and difficult history of financial instability, and high financial sector dollarization amplified vulnerabilities. However, this risk has been drastically reduced: dollarization in Bolivia has plummeted, with foreign exchange loans having fallen from over 95 percent of total loans in 2004 to just 3 percent in 2016, and foreign currency deposits dropping from 87 percent of total deposits to about 16 percent over the same period. This impressive decline helped improve the effectiveness of monetary policy, contributed to financial sector stability, and made access to credit and financial services available to more Bolivians, helping to lower poverty and inequality.

While [earlier research](#) found that exchange rate appreciation played a role in credit de-dollarization, this success also reflects the impact of macroprudential policies to encourage a move to local currency, including a tax on foreign currency transactions, higher reserve requirements on foreign currency deposits, higher provisioning and capital requirements on foreign currency-denominated loans, and higher capital requirements against open foreign currency positions.

From dollars to bolivianos

Dollarization in Bolivia has fallen sharply.

(dollarization, percent, foreign currency figures
calculated in constant December 2001 exchange rate)



Containing risks

Since the commodity price drop in 2014, the government has boosted public expenditure significantly to support growth. Together with expanded lending by the central bank to state-owned enterprises, this has raised fiscal risks and the potential liabilities of the state. Credit risks are also likely to be building in the financial sector given the high pace of lending as banks expand credit to meet quotas under the 2013 Financial Services Law.

In the [most recent annual assessment of the Bolivian economy](#), IMF staff flagged potential hazards associated with the government's current strategy. Given the rapid decline in reserve buffers and sizable fiscal deficits, the Fund staff saw the need for more significant policy adjustments to anchor macroeconomic stability, limit the buildup of vulnerabilities, and ensure long-term debt sustainability. Among other things, the IMF encouraged the government to gradually lower the non-

hydrocarbon primary deficit and consider greater exchange rate flexibility to help the process of external adjustment.

The government is aware of the prevailing risks of the current strategy but it expects that the large-scale investment projects will raise productivity and provide returns high enough to safeguard growth and fiscal sustainability over the long term.

With foreign reserves still high and public debt relatively low, we think they can take a gradual, measured approach to rebalancing the economy.

We will continue this dialogue with the government during Bolivia's next annual checkup—due at the end of 2017—where we will take a closer look at how things are developing in this very interesting country.



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