

# From a Boom of External Incomes to the Global Financial Crisis: Performance of the Bolivian Economy

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## **Recent Developments**

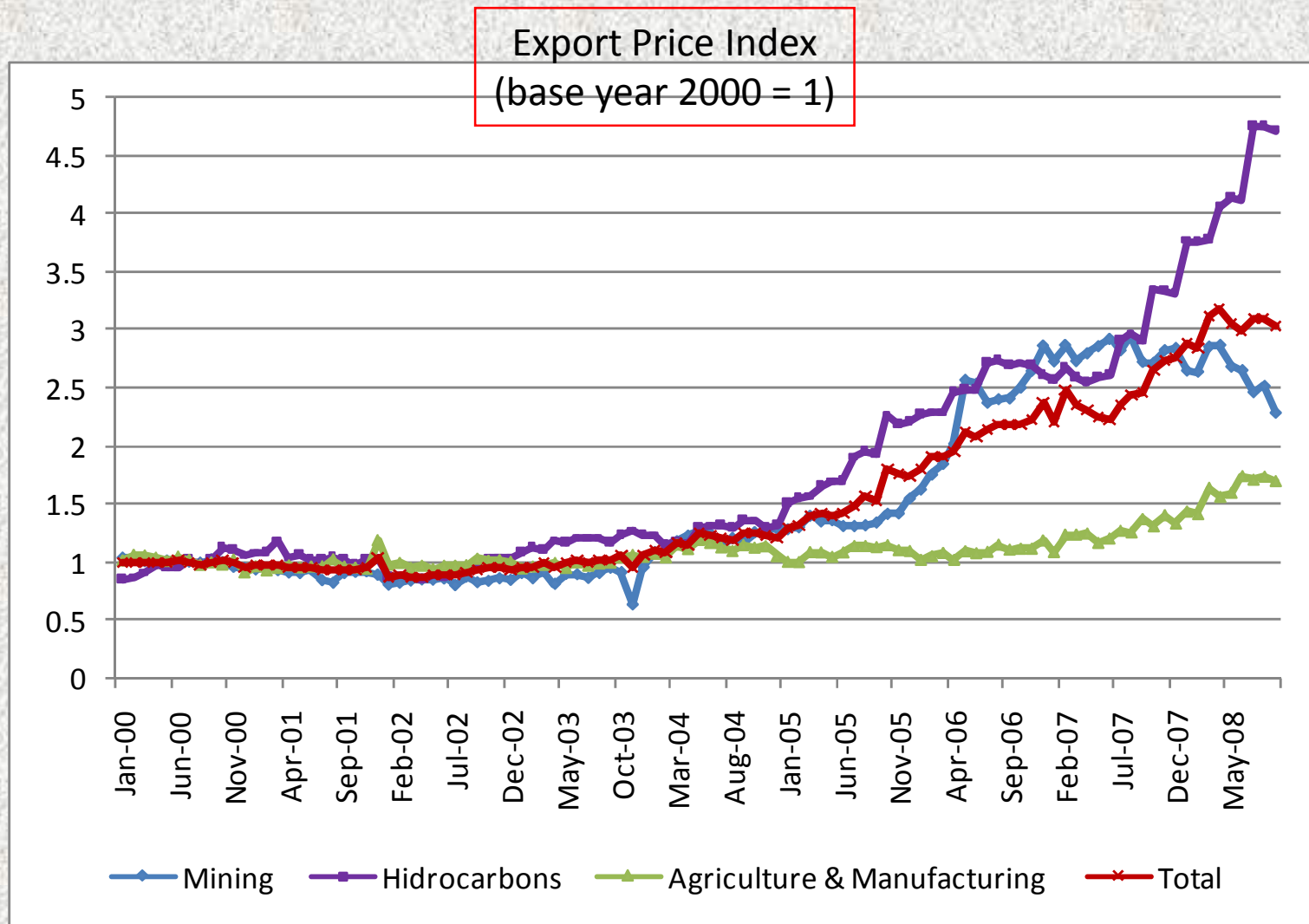
**The Bolivian economy is about to experience a transit from an extremely favorable external environment of large external incomes, to a situation of global financial crisis.**

**Starting from 2005, the economy benefited from large external incomes resulting from higher export revenues and increased remittances.**

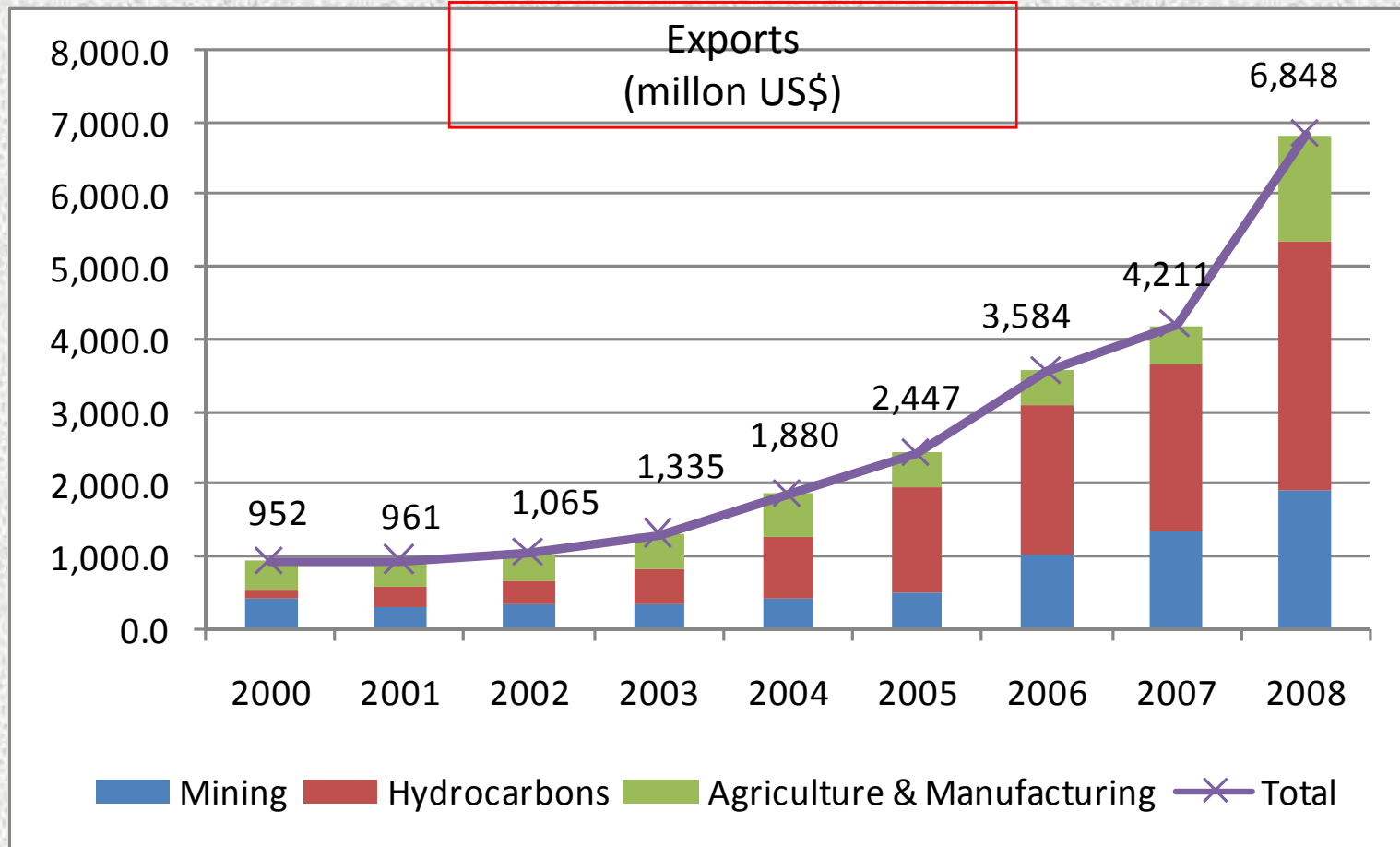
**However, it is expected that in the coming years the global financial crisis will bring about negative external shocks:**

- Lower export prices
- Smaller external remittances due to higher unemployment rates in developed countries

# Starting from 2005, Bolivia benefited from high export commodity prices



As a result, exports presented an impressive threefold increase between 2004 and 2008



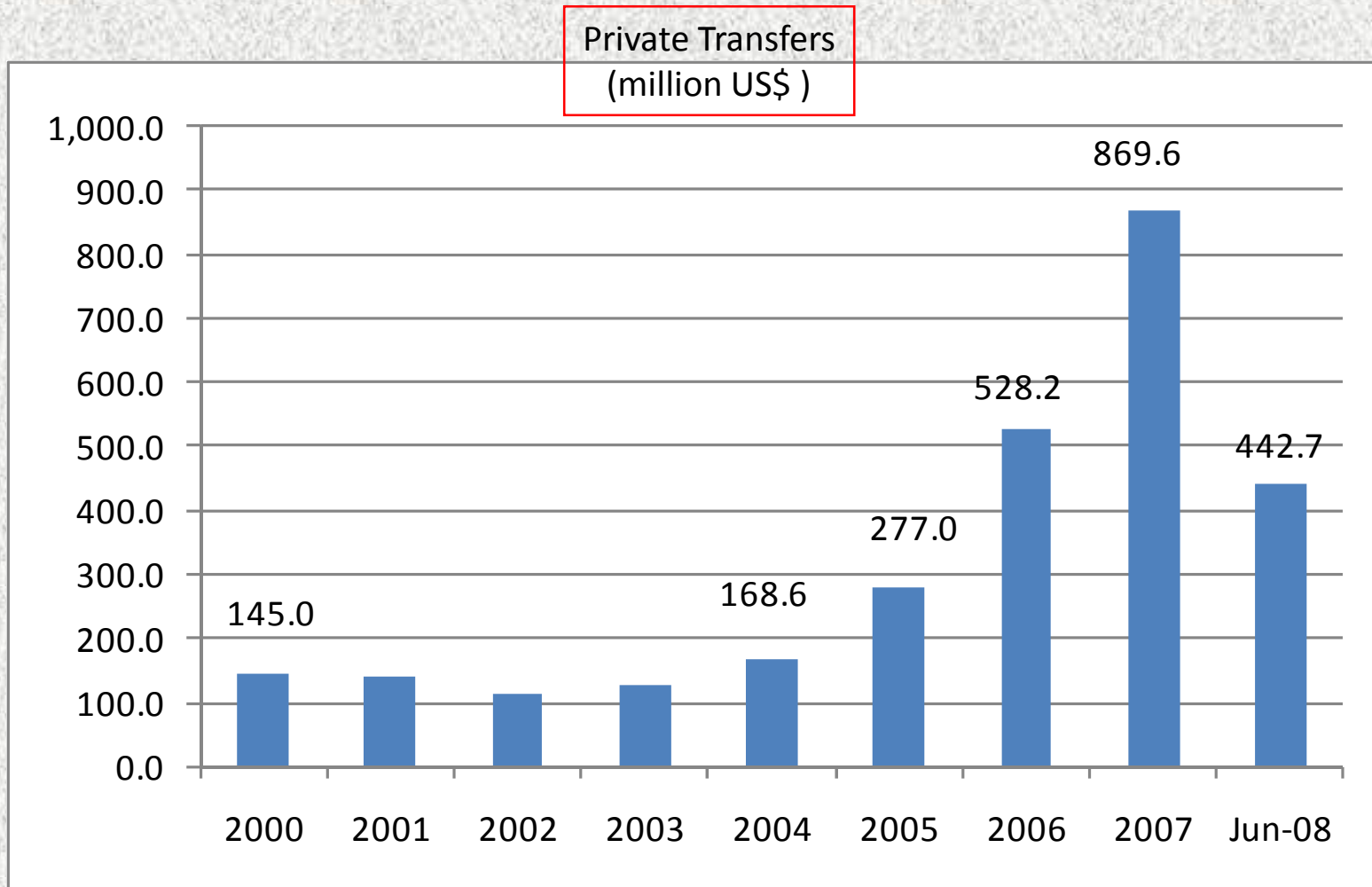
264 % increase between 2004 and 2008



El incremento es explicado básicamente por los mayores precios y no por los volúmenes



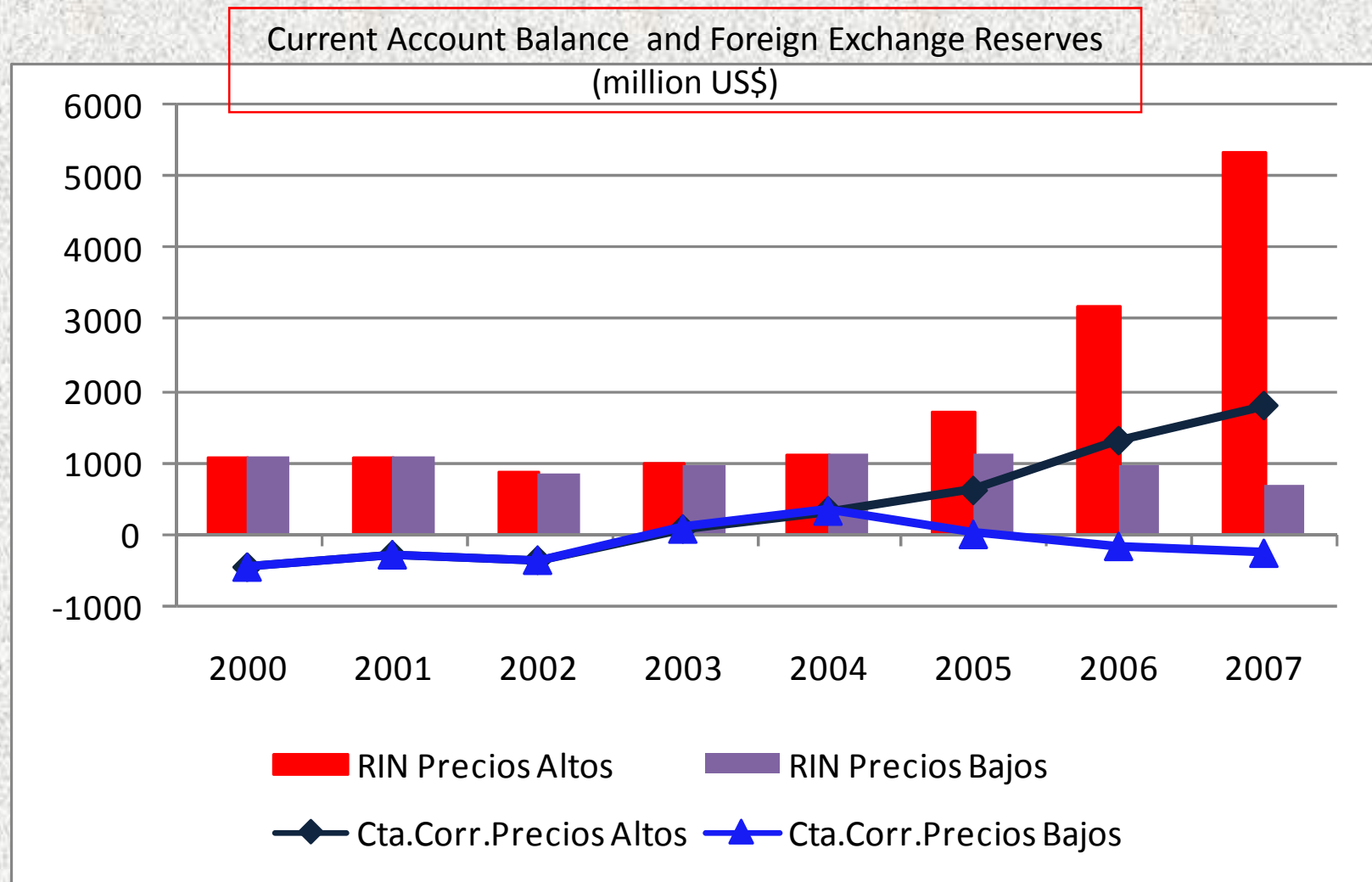
Besides, remittances grew significantly,  
contributing to the external boom



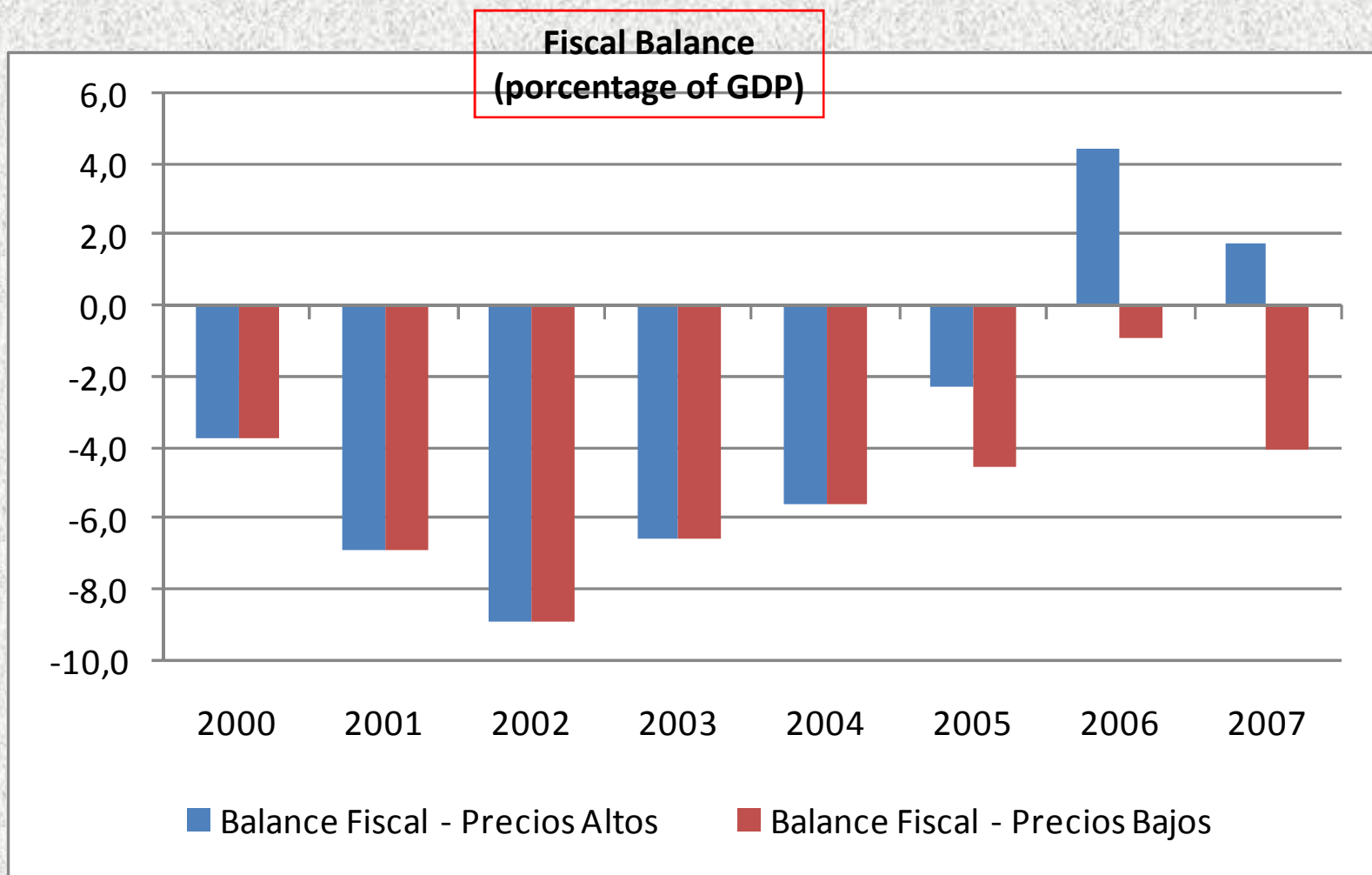
As a result, the Bolivian economy is better equipped to undertake counter-cyclical policies in order to ameliorate the effects of the external crisis



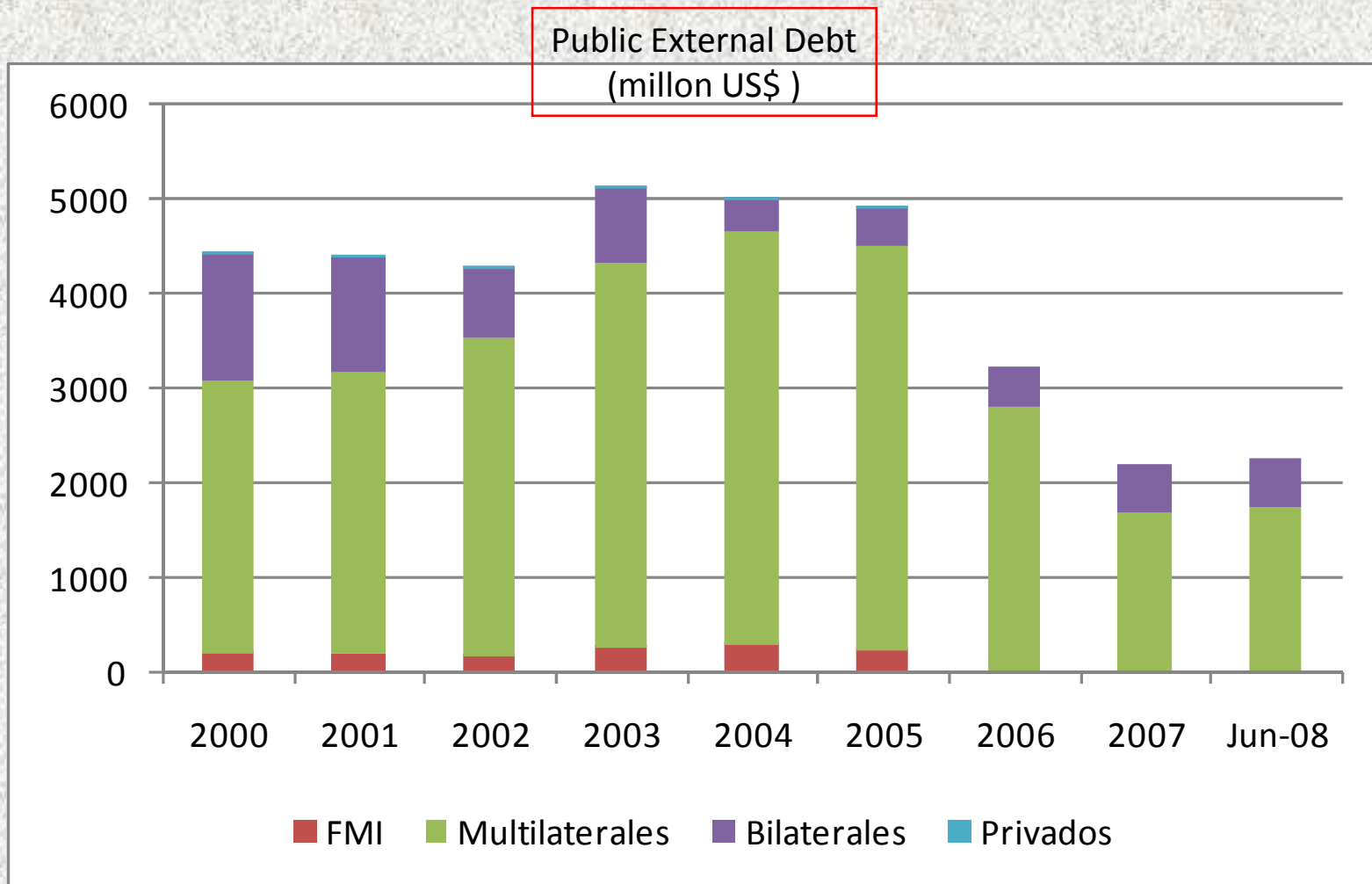
# Increased exchange revenues have reverted the chronic external and fiscal balances' deficit



## Fiscal balance has presented surpluses starting from 2006

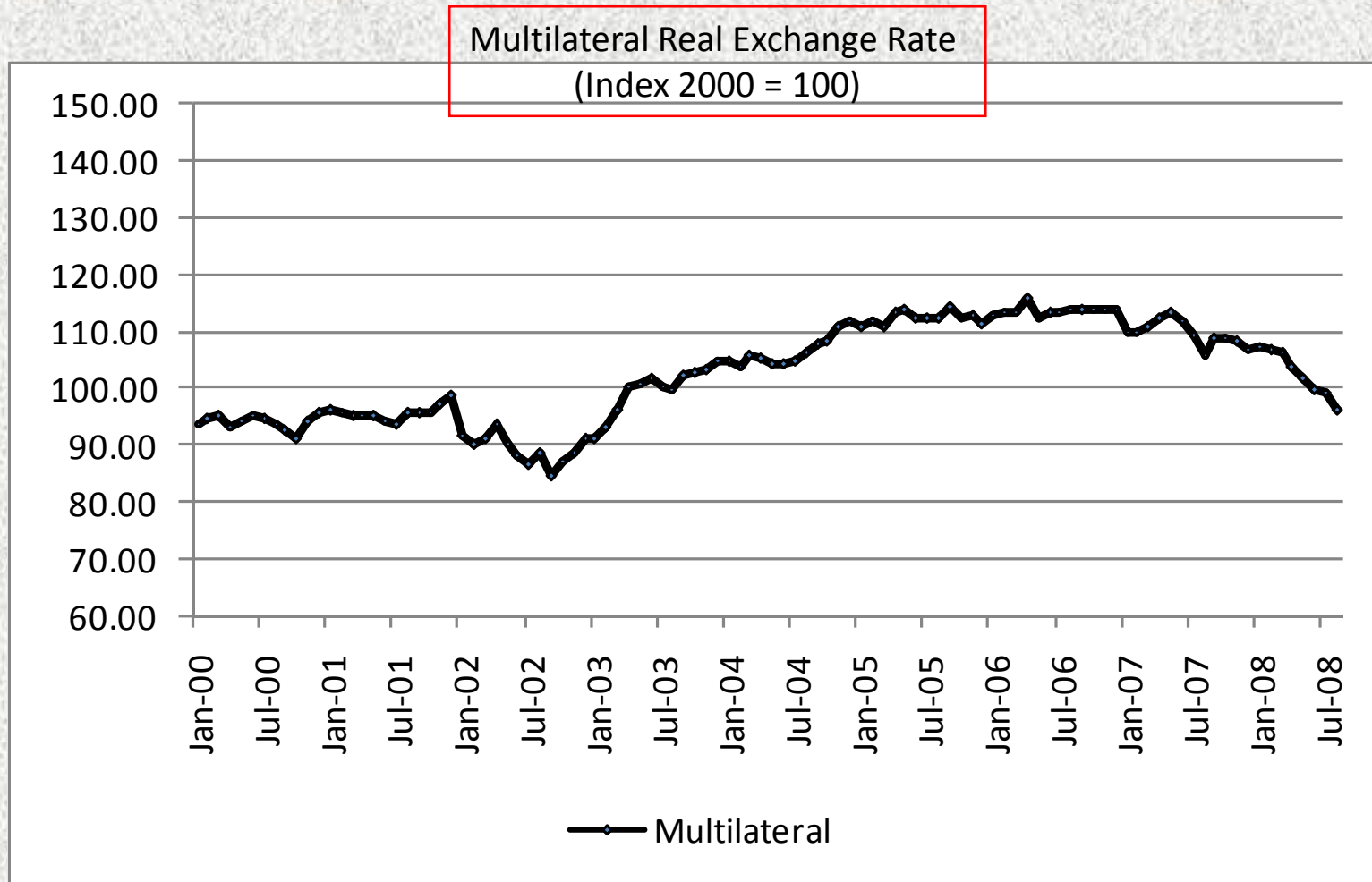


# External Debt has reduced sharply due to various debt relief initiatives



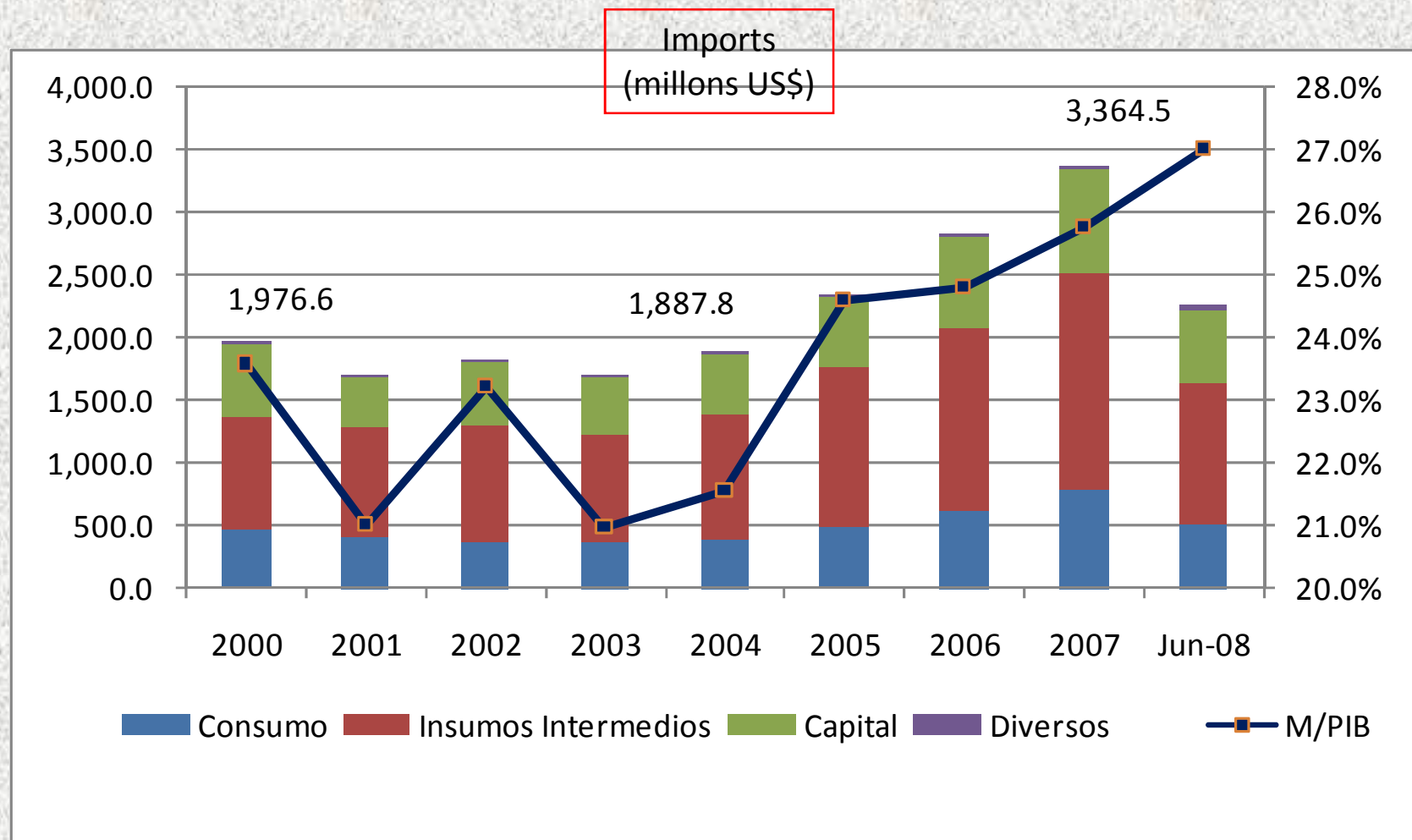
However, there are important  
remaining weaknesses

The large availability of foreign exchange has exerted pressures for a real exchange appreciation



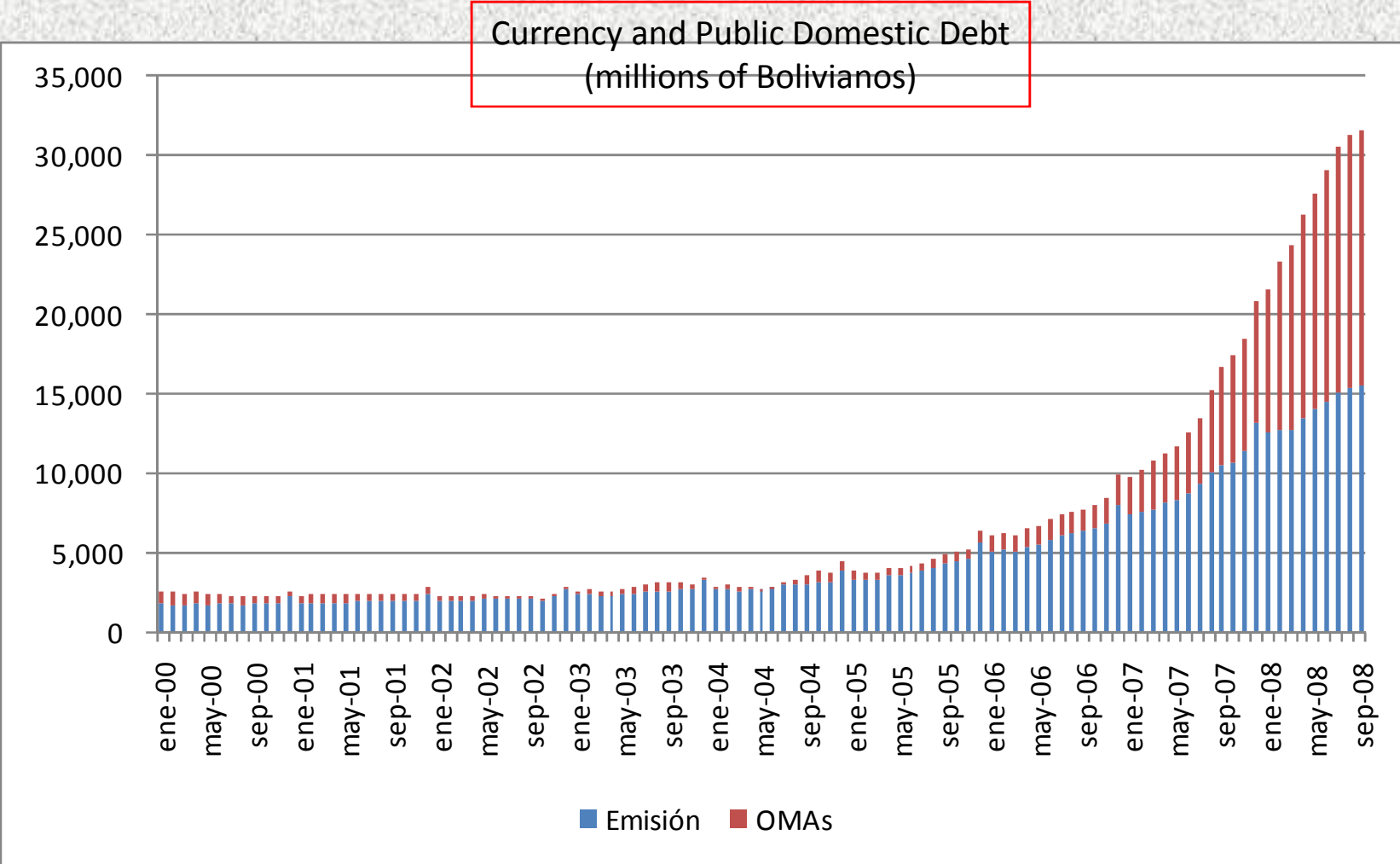


However, the economy has become more dependent on imports

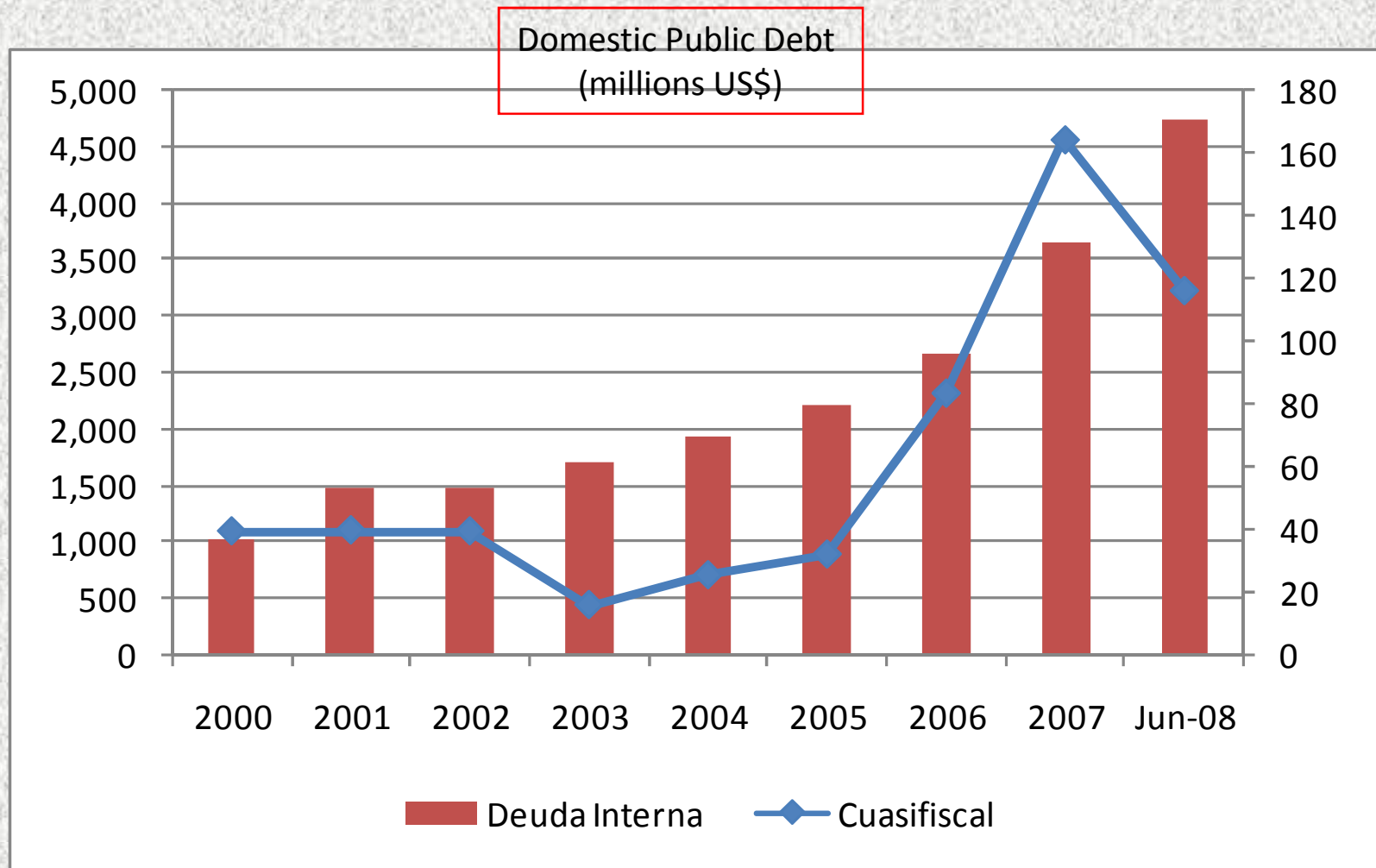


78,2 % increase between 2004 and 2007

Monetary policy was aimed at sterilizing the excess of liquidity from the economy, through the issuing of public domestic debt

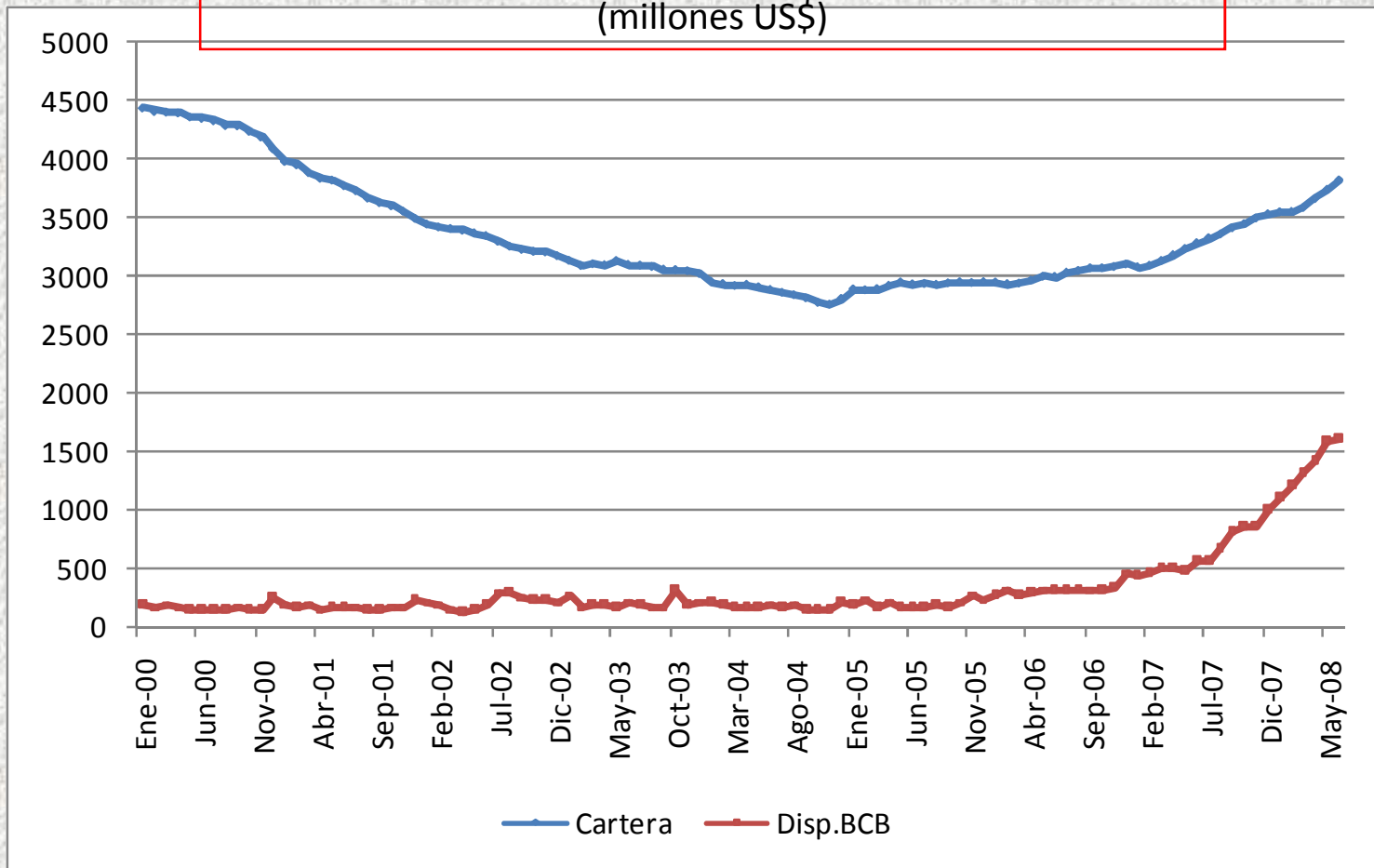


This policy has increased the public domestic debt and the quasi-fiscal costs for the State

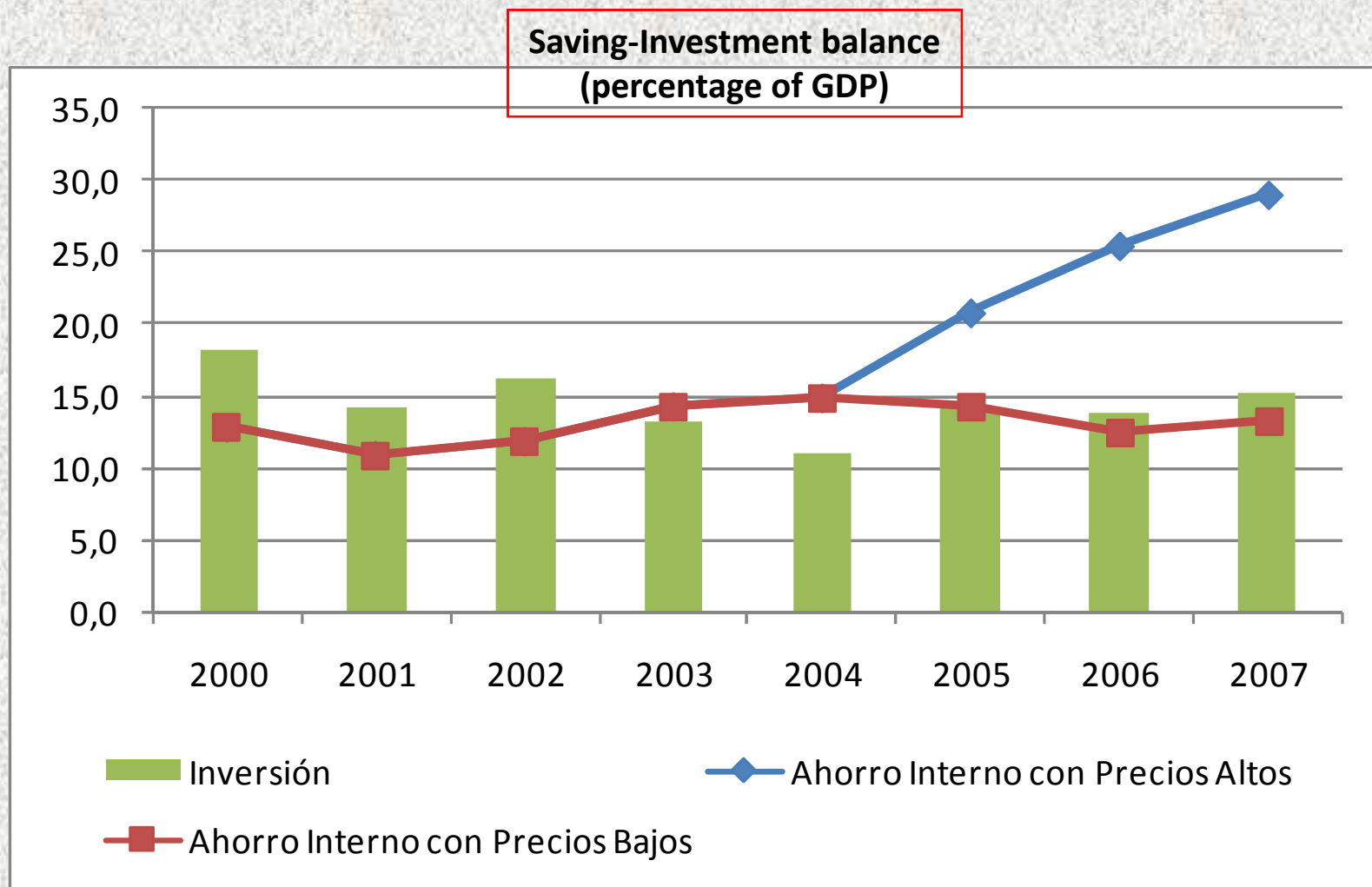


Banks have increased their portfolio of Public bonds and have moderately increased their lending to the private sector

Cartera e Inversiones Temporarias de los Bancos Comerciales  
(millones US\$)



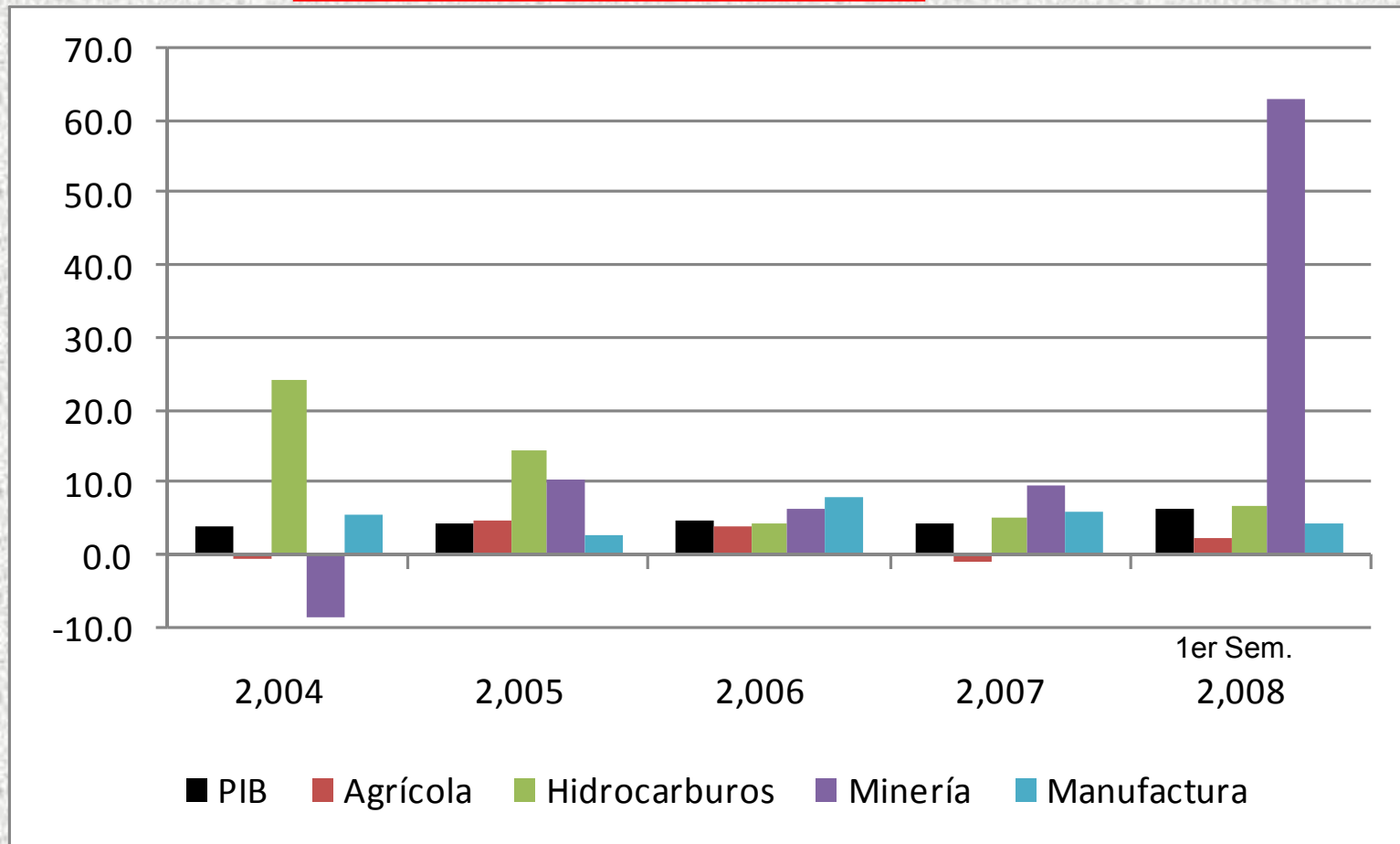
Despite the large increase in domestic savings, investment rates have remained extremely low





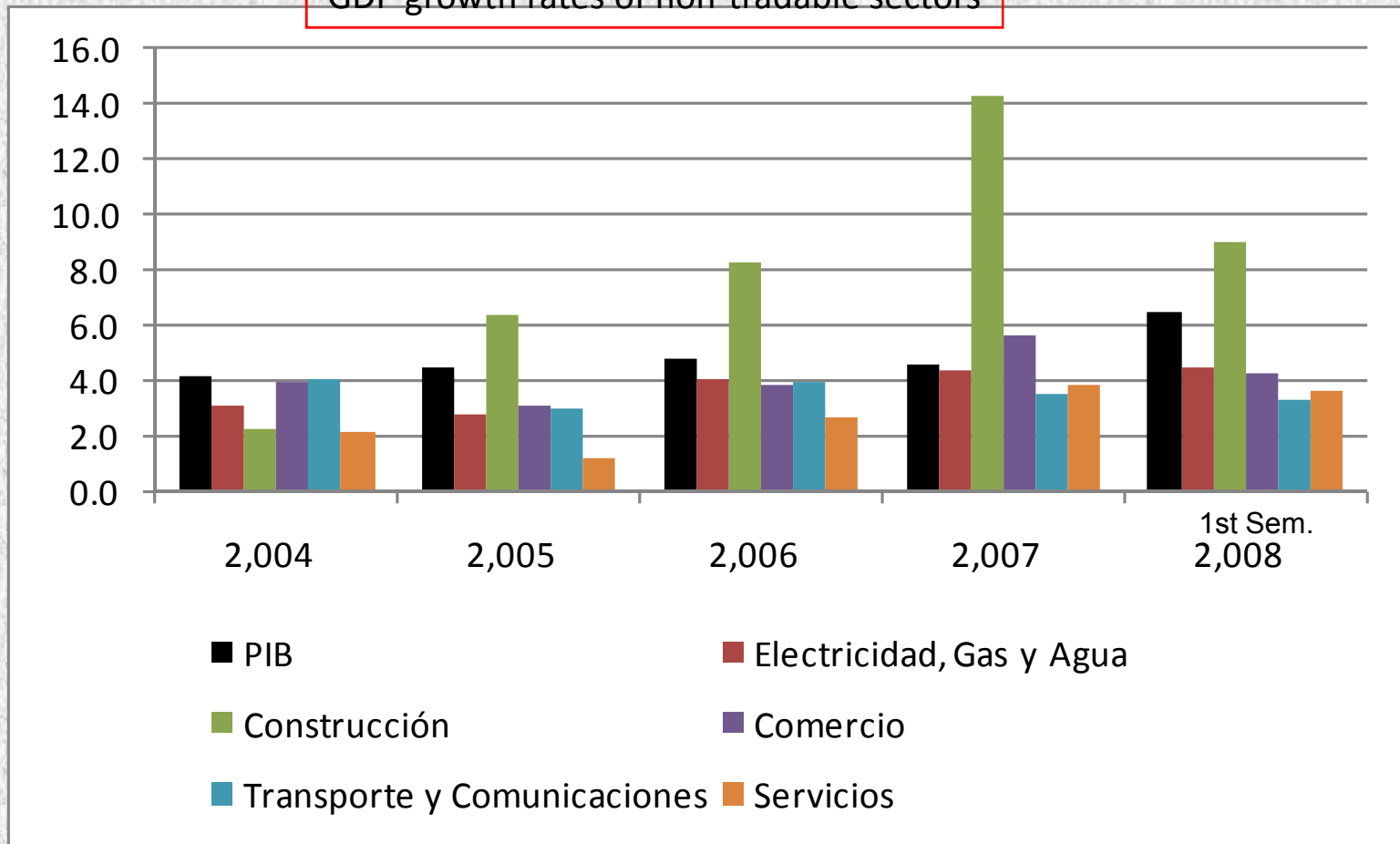
# Growth have recovered led by the export commodity booming sectors (hydrocarbons and mining)

GDP growth rates of Tradable Sectors



# Among Non-tradables, construction has been the most dynamic sector

GDP growth rates of non-tradable sectors



## **Expected effects of the external shocks brought about by the global crisis:**

Lower prices of commodity exports, i.e. hydrocarbons and minerals.

Lower quantities exported, due to the international recession and the lost of the preferential access to the US markets for Bolivian manufactures, under the ATPDEA

Remittances are likely to decrease due to increased unemployment in developed countries

FDI flows are likely to remain stagnated as in the previous years

## **Expected effects of the external shocks brought about by the global crisis:**

Economic activity and growth is likely to slow-down due to reduced dynamic of the expor sectors, which boosted growth in recent years

The government is likely to respond to the recessionary pressures, by increasing public expenditures, both current and capital

External and fiscal balaances are likely to move into deficit positions again

Unemployment and poverty incidence are likely to rise

## **Expected effects of the external shocks brought about by the global crisis:**

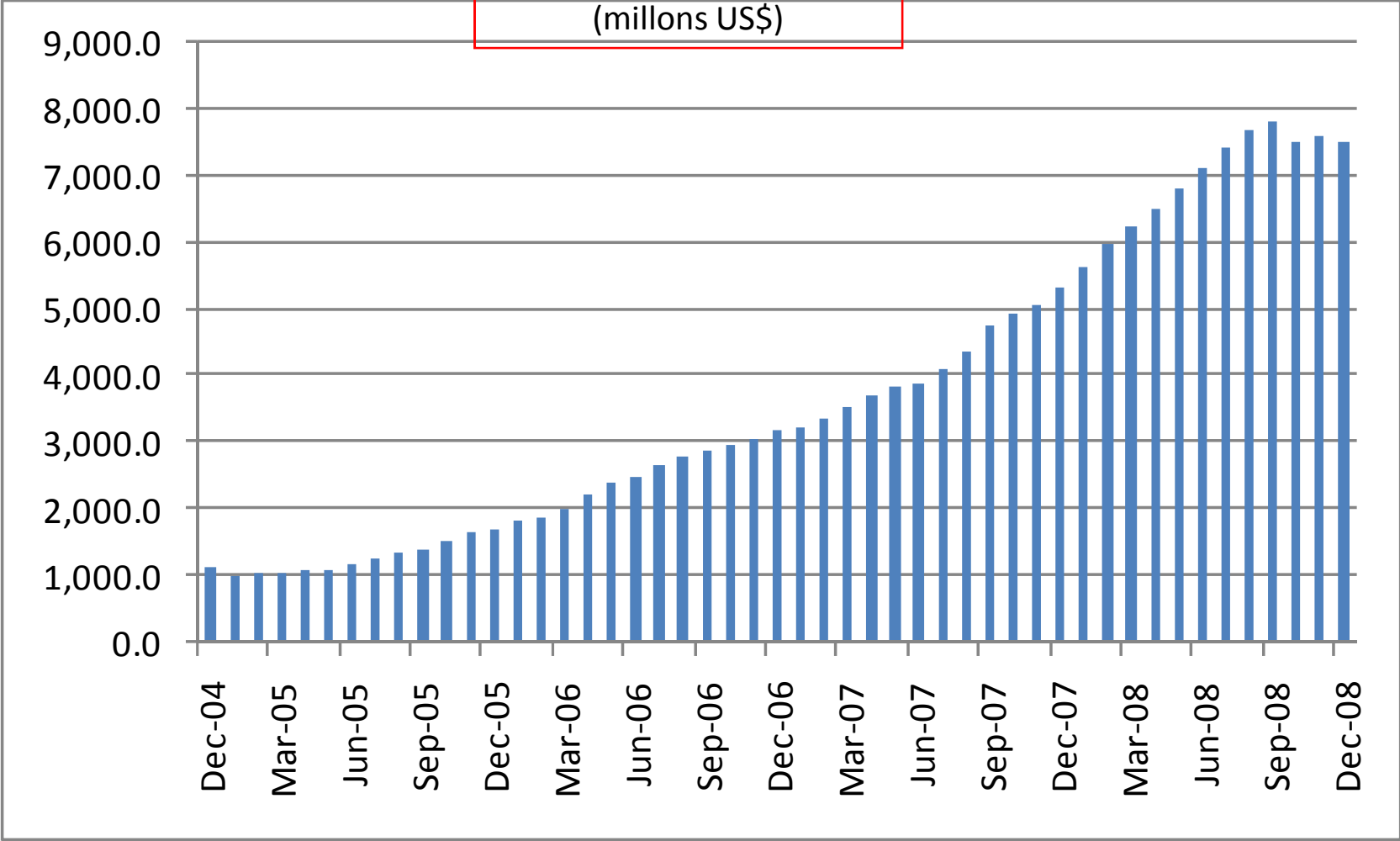
It is expected that the pressure on the external exchange reserves will be considerably large, due to:

- i. decreased external revenues
- ii. larger government expenditures
- iii. increased demand for foreign exchange due to devaluation expectations
- iv. utilization of reserves by the government to fund public projects



# Foreign exchange reserves have already presented a decreasing trend in the last months of 2008

Foreign Exchange Reserves  
(millions US\$)



**The effects of shocks and likely policy responses will be tested through three types of models:**

A multi-sectoral Computable General Equilibrium Model (CGEM)

A RMSM-X based Macro-consistency model

A household survey based microeconomic model to test the poverty and distributional impacts of the shocks and policies

## Marginal analysis of external shocks and policies through a macro-consistency model

	50% reduction in Natural Gas export price	50% drop in remittances	10% drop in mining export volumes and 50% in prices	5% increase in public investment real growth rate
GDP Growth	0.0	-2.8	-2.0	0.6
Current Account Balance (% of GDP)	-8.5	0.8	-3.5	-0.4
Fiscal Balance (% of GDP)	-5.0	-0.7	-0.5	-0.5
Exchange Reserves (million US\$)	-1665.0	77.7	-730.6	-57.5
Unemployment rate	0.0	3.0	1.6	-0.8