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AMERICAS

Turnabout in Bolivia as Economy Rises From Instability

By WILLIAM NEUMAN FEB. 16, 2014

LA PAZ, Bolivia — Argentina's currency has plunged, setting off global worries about developing economies. Brazil is struggling to shake concerns over years of sluggish growth. Venezuela, which sits atop the world's largest oil reserves, has one of the world's highest inflation rates. Farther afield, countries like Turkey and South Africa have watched their currencies suffer as investors search for safer returns elsewhere.

And then there is Bolivia.

Tucked away in the shadow of its more populous and more prosperous neighbors, tiny, impoverished Bolivia, once a perennial economic basket case, has suddenly become a different kind of exception — this time in a good way.

Its economy grew an estimated 6.5 percent last year, among the strongest rates in the region. Inflation has been kept in check. The budget is balanced, and once-crippling government debt has been slashed. And the country has a rainy-day fund of foreign reserves so large — for the size of its economy — that it could be the envy of nearly every other country in the world.

"Bolivia has been in a way an outlier," said Ana Corbacho, the International Monetary Fund's chief of mission here, adding that falling commodity prices and other factors have downgraded economic expectations throughout the region. "The general trend is we have been revising down our growth forecast, except for Bolivia we have been revising upward."

Bolivia has taken an unlikely path to becoming the darling of international financial institutions like the monetary fund, not least because the high praise today is coming from some of the same institutions that the country's socialist president, Evo Morales, loves to berate.

Mr. Morales often speaks harshly of capitalism and some of its most ardent defenders, like big corporations, the United States, the monetary fund and the World Bank. He nationalized the oil and gas sector after taking office in 2006, and he has expropriated more than 20 private companies in a variety of industries.

Yet while Mr. Morales calls himself a revolutionary, others have begun using a very different word to describe him: "prudent."

Both the monetary fund and the World Bank, in recent reports, praised what they called Mr. Morales's "prudent" macroeconomic policies. Fitch Ratings, a major credit rating agency, cited his "prudent fiscal management."

While Mr. Morales remains firmly in Latin America's leftist camp, on many economic matters he fits within a broader trend away from ideological rigidity in the region.

In Peru, President Ollanta Humala went from ardent leftist to centrist. In Colombia, President Juan Manuel Santos, a former defense minister, now plays the role of peacemaker, negotiating with the country's largest guerrilla group. In El Salvador, presidential candidates from left and right moved toward the center to woo voters. In Uruguay, President José Mujica, a leftist and a former Marxist guerrilla, has carried out business-friendly economic policies.

"There's definitely an underappreciated element of pragmatism" in the region, said Maxwell A. Cameron, a professor of political science at the University of British Columbia.

Not long ago, Bolivia was a focal point of political and economic instability, and while it remains South America's poorest country, much has changed.

Economic growth last year was the strongest in at least three decades, according to the monetary fund, and it continued a string of several years of healthy growth. The portion of the population living in extreme poverty fell to 24 percent in 2011, down from 38 percent in 2005, the year before Mr. Morales took office.

Though there is still much misery, the economic transformation is widely visible, in thriving urban markets or in the new tractors tilling land where farm animals pulled plows not long ago. In El Alto, a working-class city perched above the capital, the newly wealthy flaunt their success in the form of brightly colored mansions. Another recent addition: the proliferation of bakeries selling elaborate cakes, a sign that even those of more modest means have extra cash to spend.

One of the most surprising developments is the way that Bolivia has amassed foreign currency, salting away a rainy-day fund of about $14 billion, equal to more than half of its gross domestic product, or 17 months of imports, that can help it get through economic hard times.

According to the monetary fund, Bolivia has the highest ratio in the world of international reserves to the size of its economy, having recently surpassed China in that regard.

"We are showing the entire world that you can have socialist policies with macroeconomic equilibrium," said Economy and Finance Minister Luis Arce. "Everything we are going to do is directed at benefiting the poor. But you have to do it applying economic science."

The country is doing well thanks to relatively high prices for natural gas — its most important export — during Mr. Morales's presidency. That enabled Mr. Morales to order in November that all government and many private sector workers get double the customary year-end bonus of a full month's salary.

It was a populist move that critics linked to the coming election season — Mr. Morales will run for a new term in October. But it is consistent with a broader effort to redistribute wealth and direct some of the country's natural gas income directly into people's pockets.

"I wouldn't necessarily say these are mainstream economic policies," Ms. Corbacho said. "What we have assessed as very positive are the outcomes they have achieved when it comes to growth, social indicators" and other criteria.

Bolivia's turnaround is noteworthy because for many years the country was a proving ground for the kind of orthodox, free market policies long promoted by the monetary fund and other international institutions. Grappling with a host of economic problems, including hyperinflation that reached 24,000 percent in 1985, the government cut spending, eliminated fuel subsidies, partially privatized government-owned companies and fired many workers.

Critics say that while those policies tamed inflation, they also did long-term damage, exacerbating the unequal distribution of wealth, pushing newly out-of-work miners and farmers into coca farming that increased cocaine production, and ultimately contributing to the social unrest that helped usher in Mr. Morales as president.

“The Morales administration has basically cast off the recommendations of the I.M.F. and other huge international lending organizations, and for the first time, during his tenure, you see those macroeconomic indicators improve significantly, which finally gains the approval of organizations like the I.M.F.,” said Kathryn Ledebur, director of the Andean Information Network, a research group based in Bolivia.

Mr. Morales has benefited by being president during a time of high commodity prices, which have driven economic growth here and in many countries throughout the region. In a highly contentious move, he nationalized the energy sector by taking a greater stake in the companies that extract the nation’s gas and demanding a bigger share of the revenues. That has greatly increased government income, giving him the money to pay for social programs like cash payments to young mothers, improved pensions and infrastructure projects.

But while the nationalization rattled foreign investors, Mr. Morales now gets generally good marks for the way he has handled the windfall.

“You could mismanage this opportunity, and the reality is they have not,” said Faris Hadad-Zervos, the resident representative of the World Bank in La Paz, who cited the large foreign reserves stock and substantial increases in government spending on infrastructure.

Not that there are no areas of concern. Both the monetary fund and the World Bank say much more should be done to encourage private investment. Bolivia has less than half the rate of private investment of most other countries in South America.

There are also worries about what will happen if natural gas prices fall significantly, and whether Bolivia is simply in the midst of the typical boom-andbust cycle that often bedevils poor countries.

Bolivia's gas exports go entirely to Brazil and Argentina on long-term contracts, meaning that sustained economic problems in those countries could eventually spell problems for Bolivia. But a greater concern is over a low level of investment in gas exploration, which could endanger Bolivia's ability to maintain production levels in the future.

"This is not sustainable in the long term," said Jose L. Valera, a lawyer based in Houston who has represented energy companies doing business in Bolivia. "The model is not designed to generate substantial profits for an oil industry that is going to then be incentivized to reinvest in Bolivia."

Bolivia's relations with the monetary fund and the World Bank, both based in Washington, are a sharp contrast to those of some of its leftist allies. Venezuela, Ecuador and Argentina refuse to take part in annual economic reviews by the monetary fund.

Mr. Morales's public statements have also often been highly critical. He once said the World Bank tried to blackmail him into changing his economic policies. And in a speech in December 2012, he called for the dismantling of "the international financial system and its satellites, the I.M.F. and the World Bank."

But his attitude toward the bank seemed to have changed in July at an event to announce a World Bank project to support quinoa farmers.

"The World Bank does not blackmail, or impose conditions, not anymore," Mr. Morales said, according to a publication on the bank's website. To celebrate, he played a friendly soccer game with the bank's president, Jim Yong Kim.

Monica Machicao contributed reporting.

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