

Credit Analysis

**Bolivia**

**Ratings**

<b>Foreign Currency</b>	
Long-Term IDR	B
Short-Term IDR	B
<b>Local Currency</b>	
Long-Term IDR	B
Country Ceiling	B

**Outlooks**

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

**Financial Data**

<b>Bolivia</b>	<b>2008</b>
GDP	16.7
GDP per head (USD 000)	1.7
Population (m)	9.7
International reserves	7,721.8
Net external debt (% GDP)	-32.9
Central government total debt (% GDP)	29.4
CG foreign-currency debt	3.6
CG domestically issued debt (BOLbn)	19.1

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**Related Research**

- [Sovereign Rating Methodology \(October 2007\)](#)
- [Country Ceilings \(September 2008\)](#)
- [Bank Systemic Risk Report \(May 2009\)](#)
- [Global Economic Outlook \(June 2009\)](#)
- [Guide to Sovereign Credit Report \(October 2008\)](#)
- [Sovereign Review \(June 2009\)](#)

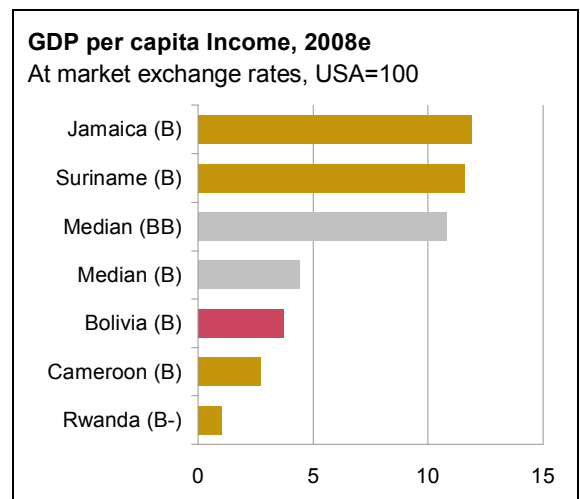
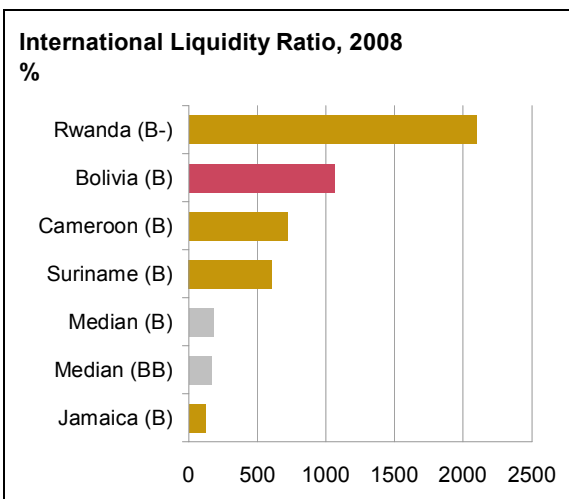
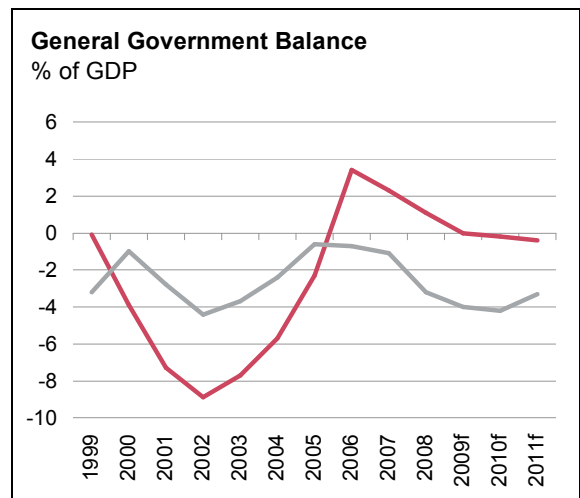
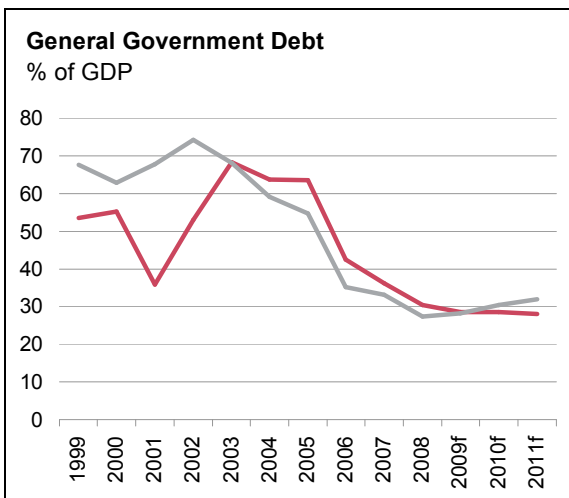
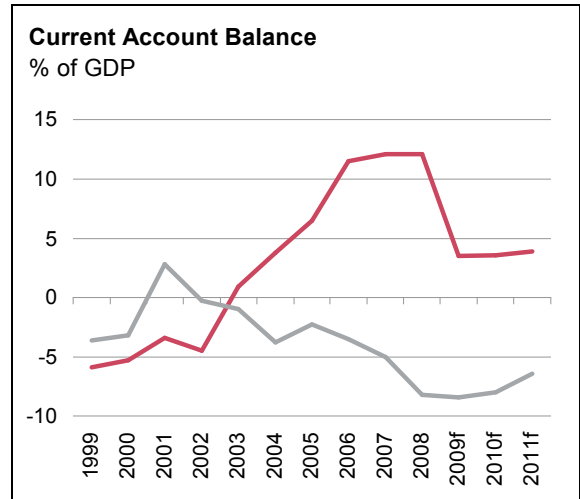
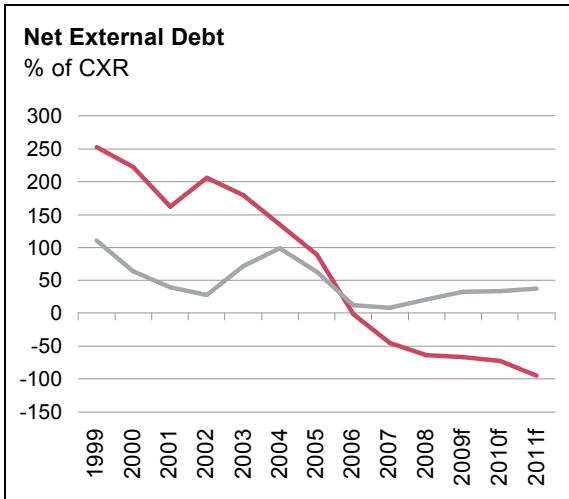
**Rating Rationale**

- Fitch Ratings recently upgraded Bolivia's Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'B' from 'B-'. The maintenance of macroeconomic stability in the context of political and social turbulence and a more challenging external environment supports this rating action. Favourable public and external debt ratios following debt relief under the Highly Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) also underpin sovereign creditworthiness, as do international reserve accumulation and abundant natural resources. At the same time, Bolivia's ratings remain constrained by structural weaknesses, as denoted by poor governance and business climate indicators, as well as its high commodity dependence.
- Bolivia has confronted reduced commodity prices, contracting export volumes and lower workers' remittances as a result of the global economic crisis. Nevertheless, limited foreign participation in Bolivia's banking system as well as the absence of toxic assets or sizeable international funding has shielded the country from fallout from the global crisis through direct financial channels. Fitch expects real GDP growth to decelerate to 1.6% in 2009 in response to the less favourable external environment before recovering to 2.8% in 2010 with some support from informal economic activity.
- Bolivia's fiscal policy response to the global economic crisis has taken the form of continued expenditure expansion and higher public investment. However, the effectiveness of this fiscal stimulus is hindered by weak execution capacity. As a result, Fitch expects a near balanced position for fiscal accounts in 2009 (including pension costs). Higher expenditure combined with lower revenue and more difficult financing conditions could increase fiscal pressures over the forecast horizon. In spite of expected fiscal slippage, Bolivia's fiscal indicators will remain robust relative to 'B' peers (sovereigns rated 'B+', 'B' or 'B-').
- Although resurgent political pressures in advance of December 2009's general elections could combine with the deteriorating economic environment to result in renewed civil unrest, Fitch does not expect this to derail macroeconomic stability. Political tensions have eased somewhat as the stalemate over the draft constitution ended with its approval in a January 2009 referendum. Furthermore, increased public spending and conditional cash transfers may continue to mitigate social pressures arising from economic deceleration and declining remittances.

**Key Rating Drivers**

- Continued resilience in the face of domestic and external shocks or sustained higher economic growth could be positive for creditworthiness.
- Downward pressure on the sovereign ratings could arise from fiscal slippage which jeopardizes macroeconomic stability and debt dynamics; a more difficult financing outlook; as well as resurgent political and social pressures that result in macroeconomic imbalances.

**Peer Comparison**



— Bolivia

— Medians

## Rating Factors

### Peer Group

Rating	Country
B+	Cape Verde
	Georgia
	Ghana
	Kenya
	Papua New Guinea
	Sri Lanka
	Venezuela
B	Bolivia
	Benin
	Cameroon
	Dominican Republic
	Jamaica
	Mongolia
	Mozambique
	Suriname
	Uganda
	Ukraine
B-	Lebanon
	Mali
	Moldova
	Rwanda

Source: Fitch

### Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
08 Sep 09	B	B
17 Mar 04	B-	B-

Source: Fitch

### Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Neutral	Strength	Weakness
Trend	Stable	Stable	Stable	Stable

Note: Relative to 'B' category  
Source: Fitch

### Strengths

- Bolivia's sovereign creditworthiness is supported by its track record of macroeconomic stability, including lower volatility of GDP and five-year average inflation than the 'B' medians, despite periods of significant political uncertainty.
- Public and external debt ratios compare favourably with 'B' medians, owing to sizeable write-offs under HIPC and MDRI as well as dynamic GDP growth in recent years.
- Considerable international reserve accumulation has strengthened Bolivia's net external creditor position as well as the sovereign's net foreign assets and international liquidity indicators.
- Abundant natural resources provide an important source of economic growth, fiscal revenue and foreign exchange. Yet, Fitch notes that uncertainty with regards to the regulatory framework discourages investment needed to maintain and further develop the productivity of these resources.

### Weaknesses

- Widespread poverty and weak social indicators constrain Bolivia's sovereign ratings due to policy implications and contributions to social unrest.
- Poor governance indicators and political fragmentation underpin persistent uncertainty regarding the direction of macroeconomic policy.
- Institutional weakness combines with poor business climate indicators to deter private investment which is essential to sustaining growth and improving living standards over the medium to long term.
- Commodity dependence renders the real sector as well as fiscal and external accounts vulnerable to external shocks. However, the recent increase in government deposits and marked accumulation of international reserves somewhat mitigate this concern over the rating horizon.

### Local Currency Rating

Bolivia's Local-Currency IDR of 'B' is equivalent to the Foreign-Currency IDR owing to economic policy uncertainty, a high level of financial dollarization and underdeveloped domestic capital markets.

### Country Ceiling

At 'B', Bolivia's Country Ceiling is also in line with the Foreign-Currency Long-Term IDR in light of limited financial and real economic integration in the global economy, weak rule of law, heavy state intervention in the economy, and exchange rate policy uncertainty.

**Outlook and Key Issues**

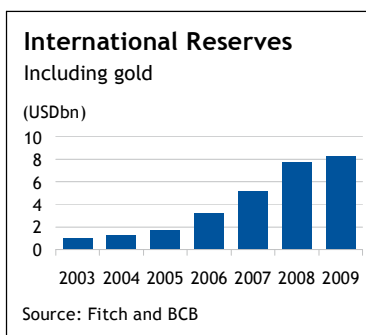
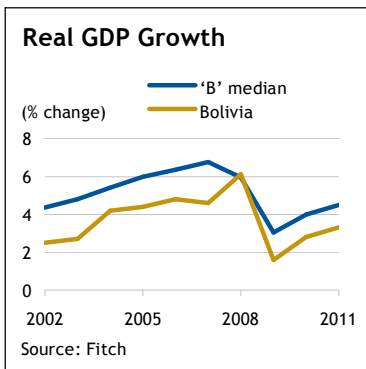
**Macroeconomic Performance**

Although the global economic and financial crisis has hit Bolivia with lower commodity prices, contracting export volumes and declining workers' remittances since late last year, the economy grew above potential for a fifth consecutive year in 2008. In spite of political turbulence, Bolivia's real GDP growth increased to 6.1% in 2008 while annual average inflation reached 14% due to external and domestic food and fuel price shocks as well as fiscal expansion. Economic growth was underpinned by strong private consumption, higher public spending and investment. In fact, domestic demand increased by an estimated 8.7% in 2008. Fitch notes, however, that extraordinary activity in the mining sector, particularly with regards to lead, silver and zinc production at San Cristobal, provided a significant one-off boost to overall GDP which is estimated to account for around 2.5% of last year's real GDP growth. Import growth outpaced export growth, despite the important expansion in the mining sector. A large current account surplus of 12.1% of GDP drove international reserve accumulation of nearly USD2.4bn. As a result, Bolivia closed the year with record international reserves in excess of USD7.7bn.

Limited foreign participation in Bolivia's banking system, a concentration in public-sector instruments, and the absence of toxic assets or sizeable international funding, have shielded Bolivia from fallout from the global crisis through direct financial channels. However, a deteriorating external environment marked by global recession, lower commodity prices and reduced capital flows related to raw-material exports will take a toll on Bolivia's economic performance as well as its external and fiscal accounts in 2009. At the same time, the outlook for inflation has improved due to slowing global and domestic economic growth as well as lower commodity prices. Fitch forecasts real GDP growth to decelerate to 1.6% this year. The manufacturing sector has been weakened by higher inflation last year as well as the elimination of preferential access to the US market under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and reduced demand for exports. Rising unemployment and declining remittance inflows will contribute to lower private consumption. Nevertheless, the informal private sector, which is estimated to represent around 70% of GDP, will absorb some of the reduced formal activity and employment. Thus, the multiplier effect of informal economic activities, along with increased public spending, will offer additional support for domestic demand in 2009.

Fitch expects export growth to slow this year due to lower commodity prices and weaker external demand. Imports are forecast to decelerate even more sharply owing to lower food and fuel prices as well as softer domestic demand. As a result, the current account surplus could narrow to around 3.5% of GDP in 2009. Meanwhile, poor prospects for inward FDI and strong net portfolio outflows in the first part of this year suggest a less significant increase in Bolivia's international reserves than seen in recent years.

Over the past 10 years, the Bolivian economy has become increasingly dependent on hydrocarbons exports, which reached 48% of total exports in 2008 compared with 6% in 1999. At the same time, higher value-added non-traditional exports fell to 19% of the total from 46% in 1999. However, overall annual hydrocarbons production growth averaged just 1.2% between 2006 and 2008, compared with 17.1% from 2000 to 2006.<sup>1</sup> Productive capacity in this key sector is nearing full utilization, which could jeopardize the sustainability of Bolivia's recent higher growth trajectory. The performance of this sector is significant to overall economic activity as well as the scope for the increasingly important role of public spending in GDP growth and the government's macroeconomic policy strategy. Yet, state intervention in the sector has diluted technical capacity and deterred new foreign



<sup>1</sup> Cámara Boliviana de Hidrocarburos, Informe CBH 2008

investment. Industry analysts suggest that Bolivia requires at least USD3bn over the next five years just to sustain actual production levels. However, investment in exploration and production totalled just USD300m in 2008 and only four new wells were drilled, compared with 82 in Colombia, 153 in Peru and 1105 in Argentina.<sup>2</sup> These structural issues not only complicate delivery on existing contracts with Argentina and Brazil, risking Bolivia's reputation as a reliable supplier and further discouraging foreign investment, but also underpin shortages of liquid hydrocarbons for domestic consumption.

### Monetary and Fiscal Policy

Facing external and domestic inflationary shocks in 2008 as well as strong fiscal expansion, the central bank used open market operations (OMOs) to absorb excess domestic liquidity. Within the context of a crawling peg exchange rate regime, policymakers also allowed an accelerated appreciation of the boliviano (BOL) during the first three quarters of 2008. The authorities have held Bolivia's exchange rate at BOL7.07/USD1 since October 2008, crediting the nominal exchange rate anchor, along with lower international interest rates, with helping sustain domestic confidence and prevent capital flight in the face of domestic political turbulence and external shocks. The appreciation of the Boliviano also supported a longer-term trend of declining financial dollarization. However, despite higher reserve requirements for foreign-currency deposits, the dollarization ratio rose 55% of total deposits in July 2009, compared with 50% October 2008. A modification in exchange rate policy which signals future depreciation could undermine confidence as well as accelerate the rise of dollarization. Nevertheless, lower economic activity and reduced capital inflows are expected to increase pressure on the currency to weaken and could compel the central bank to allow some gradual depreciation before the end of the year.

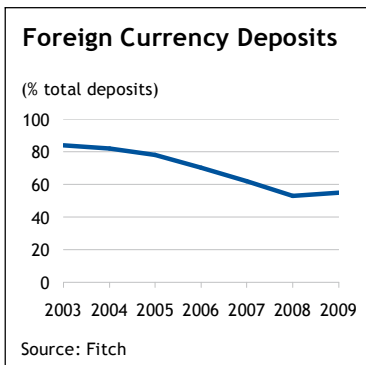
On the fiscal side, notwithstanding sustained expenditure expansion under President Evo Morales, Bolivia has posted general government surpluses for the past three years. These results are due in large part to strong growth in revenue related to extractive-sector exports since the 2005 Hydrocarbons Law increased the state's role in the sector and its receipts from related activities.<sup>3</sup> However, weaker economic activity and lower commodity prices will underpin a contraction in fiscal revenue in 2009, while Fitch expects wage increases, higher transfers and subsidies as well as election-related spending to drive further expenditure growth.

Bolivia's fiscal policy response to the global economic crisis has taken the form of continued expenditure expansion and a higher public investment allocation. The government aims to increase public investment by 50% to USD1.8bn during this pre-electoral year. However, Fitch notes that the effectiveness of this fiscal stimulus will be hindered by weak execution capacity and that public investment was only 25% executed through June 2009. Investment in productive sectors, including hydrocarbons and mining, was only 12% executed, infrastructure projects were 23% executed and social investment was 36% executed. The authorities have expanded conditional cash transfers to cover approximately 30% of the population, targeting students, mothers and young children as well as retirees.

Owing in part to under-execution of capital spending, Fitch expects a near balanced position for fiscal accounts in 2009 (including pension costs). Higher expenditure combined with lower revenue and more difficult financing conditions could increase fiscal pressures over the forecast horizon. Nevertheless, Bolivia's fiscal indicators will remain robust relative to 'B' peers in spite of expected fiscal slippage.

<sup>2</sup> Cámara Boliviana de Hidrocarburos, Informe CBH 2008

<sup>3</sup> While not fully nationalizing assets and gas fields, the May 2005 Hydrocarbons Law re-established the state-owned petrol company Yacimientos Petrolíferos Fiscales Bolivianos as the sector's sole authority on setting prices, production volumes, terms of exports, and distribution. Foreign companies pay 50% royalties and their tax rate depends on production and field size



**Political and Social Situation**

Bolivian society has long been characterized by severe social, regional and political fragmentation, which limits both democratic stability and economic development. However, this has not resulted in significant macroeconomic volatility or erosion of creditworthiness in recent years. Political tensions have eased somewhat since the stalemate over the draft constitution ended with its approval in a January 2009 referendum. Although the opposition is now relatively fractured, political pressures could be renewed as general elections, scheduled for 6 December 2009, draw closer. Economic deterioration could weigh on President Morales’s Movimiento al Socialismo’s popularity, but the president himself enjoys over 60% approval ratings and is expected to be re-elected easily, particularly in light of the absence of a unifying opposition candidate. Opposition representatives could win enough congressional seats to sustain the current polarized political landscape, but they may lose their upper house majority. Regardless of the outcome, opportunities for consensus remain difficult to identify, and Fitch cautions that continued political instability could combine with the deteriorating economic environment to result in an upsurge in civic discontent and occasional violent clashes. Yet, Fitch does not expect this to derail macroeconomic stability.

The constitutional reform process, a priority for President Morales, contributed to Bolivia’s political uncertainty and inspired open defiance of the central government by the eastern lowland departments. The new constitution gives greater representation to indigenous groups and establishes degrees of autonomy at the departmental, regional municipal and indigenous levels. However, this structure is not fully in accordance with the statutes of autonomy proposed by the opposition which aim to give the regions more control over land, taxes, and hydrocarbons revenue. The new constitutional text also increases state control of the economy, forbids international settlements, limits the size of landholdings, provides for the election of judges and allows two consecutive five-year presidential terms. Economic policy will be coordinated between the Ministry of Finance and the central bank, potentially reducing monetary policy independence and risking its effectiveness. Fitch is also concerned about a provision requiring reinvestment within Bolivia of private profits from natural resource sectors, as it could deter important foreign investment.

Although the government’s interventionist economic policy has been popular with President Morales’s supporters, the private sector’s vehement opposition represents another dimension of Bolivia’s political and regional conflict. Since Morales took office, the government has nationalized Bolivia’s largest tin mine, a smelting plant, the largest telecommunications company (Entel), Petrobras’s two largest refineries and all fuel wholesaling, and has negotiated or seized controlling stakes in hydrocarbons players Andina, Chaco, Transredes, and CLHB. The government has also begun talks with three main electricity companies to negotiate the terms of their nationalization, while players in the railroad sector fear they will be the next entities to be reverted to state ownership.

**Bolivia’s Rank in Doing Business 2009**

(Out of 181 countries)

Ease of doing business	150
Starting a business	165
Dealing with construction permits	98
Employing workers	180
Registering property	129
Getting credit	106
Protecting investors	126
Paying taxes	176
Trading across borders	117
Enforcing contracts	133
Closing a business	59

Source: World Bank, reflecting 2008

**Forecast Summary**

	2005	2006	2007	2008	2009f	2010f	2011f
<b>Macroeconomic indicators and policy</b>							
Real GDP growth (%)	4.4	4.8	4.6	6.1	1.6	2.8	3.3
Consumer prices (annual average % change)	5.4	4.3	8.7	14.0	6.9	3.3	4.3
Short-term interest rate (%) <sup>a</sup>	3.5	3.8	4.3	7.7	4.5	4.0	4.0
General government balance (% of GDP)	-2.3	3.4	2.3	1.1	0.0	-0.2	-0.4
General government debt (% of GDP)	63.5	42.6	36.1	30.4	28.5	28.6	28.0
BOL per USD (annual average)	8.1	8.0	7.9	7.2	7.1	7.2	7.4
Real effective exchange rate (2000 = 100)	79.8	79.5	81.8	93.8	91.5	90.1	89.2
<b>External finance</b>							
Current account balance (USDm)	622.4	1,317.5	1,591.2	2,015.0	643.6	692.9	785.2
Current account balance (% of GDP)	6.5	11.5	12.1	12.1	3.5	3.6	3.9
Current account balance plus net FDI (% of GDP)	4.0	13.9	14.9	15.1	5.6	5.7	6.1
Net external debt (USDm)	3,627.5	-68.8	-3,040.4	-5,493.6	-4,427.8	-5,004.0	-6,877.9
Net external debt (% of GDP)	38.0	-0.6	-23.2	-32.9	-23.9	-26.0	-34.0
Net external debt (% of CXR)	89.6	-1.3	-45.6	-63.3	-66.3	-72.6	-95.1
Official international reserves including gold (USDm)	1,732.9	3,165.4	5,188.8	7,721.8	8,315.0	9,228.4	11,410.1
Official international reserves (months of CXP cover)	6.1	9.1	12.3	13.9	16.5	17.9	21.2
External interest service (% of CXR)	5.4	4.3	3.1	2.2	2.2	2.2	2.1
Gross external financing requirement (% int. reserves)	-28.6	-57.2	-45.2	-35.7	-6.2	-6.2	-6.6
<b>Memo: Global forecast summary</b>							
<b>Real GDP growth (%)</b>							
US	3.1	2.7	2.1	0.4	-3.0	1.4	1.7
Japan	1.9	2.1	2.3	-0.6	-6.9	0.9	1.5
Euro area	1.8	3.0	2.7	0.6	-4.7	-0.2	2.0
World	3.3	3.9	3.6	1.7	-3.3	1.4	2.5
<b>Commodities</b>							
Oil (USD/barrel)	54.4	65.4	72.6	97.0	55.0	65.0	70.0

<sup>a</sup> Money market policy interest rate (annual average)  
Source: Fitch, IMF and national authorities

Not surprisingly, Bolivia ranks lower than the 'B' median ranking on the World Bank's "Doing Business" survey. Better infrastructure, stronger institutions, and improvements in the rule of law are critical to attracting investment, improving technical capacity, and sustaining growth as well as increasing employment and living standards. Medium-term policies to diversify the economy and enhance productivity would benefit creditworthiness and ensure that Bolivia's hydrocarbons boom does not limit the development of other economic sectors, especially those which lead to job creation.

Bolivia's international relations are intertwined with its political and economic outlook as well. The Venezuelan government provides direct aid to Bolivia's police, military, social organizations, and municipalities, funding construction of schools and hospitals. On the other hand, Bolivia's relations with important trading partners, the US and Peru, have deteriorated further through diplomatic spats. In addition, the US opted not to renew the ATPDEA for Bolivia, citing a lack of progress on drug eradication as well as the ouster of the US ambassador. The Bolivian authorities hope that increased trade with Argentina, Brazil and Venezuela will supplant the loss of preferential access to the US market under ATPDEA.<sup>4</sup> However, these markets are unlikely to serve as perfect substitutes for the size and specific demand from the US once its economy and external demand recover. In addition, ATPDEA's absence has a sizeable impact on unemployment among small and medium-sized manufacturers in areas such as El Alto, where poverty is already high and social tensions are easily heightened. Still, the informal private sector could absorb some of the reduced formal employment in this area.

<sup>4</sup> About 50% of exports to the US were covered under ATPDEA

**Comparative Analysis: Macroeconomic Performance and Policies**

**Bolivia**

	2008						
	Bolivia 'B'	Cameroon 'B'	Jamaica 'B'	Suriname 'B'	Rwanda 'B-'	'B' median	'BB' median
Real GDP (5yr average % change)	4.8	3.2	1.2	5.8	7.0	6.3	6.0
Volatility of GDP (10yr rolling SD)	1.7	0.9	1.1	2.9	3.2	2.9	3.1
Consumer prices (5yr average)	7.4	2.7	13.8	10.1	10.9	10.3	7.9
Volatility of CPI (10yr rolling SD)	3.9	1.9	5.0	29.7	5.2	5.2	3.7
Years since double-digit inflation	0.0	14.0	0.0	0.0	0.0	n.a.	n.a.
Unemployment rate	8.7	n.a.	12.0	10.2	n.a.	8.4	7.5
Type of exchange rate regime	Managed float	CFA zone	Managed float	USD peg	Managed float	n.a.	n.a.
Dollarization ratio	53.0	0.0	34.7	56.4	18.0	36.7	51.2
REER volatility (10yr rolling SD)	6.7	3.9	10.1	7.7	6.6	7.6	9.0

Source: Fitch and national authorities

**Strengths**

- Within the 'B' category, Bolivia has a comparatively strong track record of macroeconomic stability over the past 10 years, as evidenced by lower volatility of GDP, CPI and REER than the corresponding peer medians.
- While it recently experienced double-digit inflation, Bolivia's five-year average inflation rate is lower than the category median.

**Weaknesses**

- Five-year average real GDP growth underperforms the 'B' median, although Bolivia's economy has expanded faster than its estimated potential growth rate in each of the last five years. Additionally, in the absence of greater investment, hydrocarbons-sector capacity constraints could undermine the sustainability of higher growth rates as well as the increasingly important fiscal impulse.
- Bolivia's dollarization ratio exceeds the 'B' median, presenting risks to the effectiveness of monetary policy as well as corporate and household balance sheets.

**Commentary**

The central bank's monetary policy toolkit includes currency appreciation, reserve requirements and OMOs. However, monetary policy is relatively inefficient in Bolivia owing to comparatively high dollarization, low financial intermediation and uncoordinated fiscal expansion.

Facing annual average inflation of 14% in 2008, the central bank allowed an accelerated appreciation of the BOL during the first three quarters of 2008. The authorities also increased reserve requirement on foreign-currency deposits to 30% from 7.5%. Additionally, OMOs absorbed excess domestic liquidity stemming in large part from capital inflows related to raw-material exports. As a result, the central bank's outstanding debt stock increased 115% in 2008, reaching nearly 15% of GDP.

The unemployment rate provides a less useful basis for comparison in this case due to the lack of similar figures among peer sovereigns as well as Bolivia's sizeable informal economy.

**Comparative Analysis: Structural Features**

**Bolivia**

	2008						
	Bolivia 'B'	Cameroon 'B'	Jamaica 'B'	Suriname 'B'	Rwanda 'B-'	'B' median	'BB' median
GNI per capita PPP (USD, latest)	4,140	2,120	5,990	7,510	860	3,050	6,640
GDP per capita (USD, mkt exchange rates)	1,720	1,228	5,464	5,328	472	1,994	4,952
Human Development Index (percentile, latest)	34.8	19.3	42.5	53.0	9.9	35.9	50.2
Ease of Doing Business (percentile, latest)	21.5	13.6	65.0	20.4	15.9	33.9	47.8
Trade openness (CXR and CXP % GDP)	46.0	27.0	68.0	69.6	33.7	44.6	46.1
Gross domestic savings (% GDP)	24.5	17.0	-3.1	28.2	-9.2	9.0	19.4
Gross national savings (% GNP)	30.6	16.2	6.7	34.2	8.1	16.2	22.3
Gross domestic investment (% GDP)	17.6	18.1	28.1	32.4	15.8	26.6	24.4
Private credit (% GDP)	31.3	10.3	27.9	26.1	14.1	26.7	32.9
BSR indicators	E1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bank system CAR	13.7	10.9	13.9	13.2	17.3	13.7	15.0
Foreign bank ownership (% assets)	15.0	68.3	55.0	24.3	36.9	34.0	25.0
Public bank ownership (% assets)	6.6	0.0	0.0	32.3	35.9	15.3	17.3
Default record (year cured) <sup>a</sup>	HIPC 2001, MDRI 2006	HIPC 2006, MDRI 2006	None	2002	HIPC 2006, MDRI 2006	n.a.	n.a.

<sup>a</sup> Many rounds of restructuring with both official and commercial bank creditors between 1980 and 1998, some of which resulted in capital losses. Debt relief under HIPC and MDRI  
Source: Fitch, United Nations and World Bank

**Strengths**

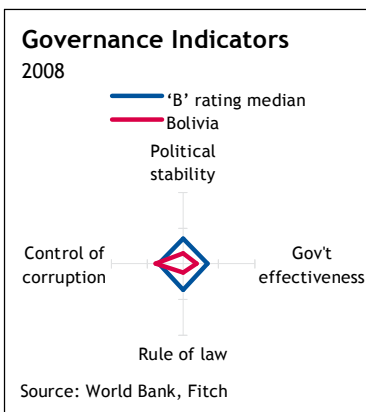
- Bolivia's gross domestic savings and gross national savings rates are stronger than the 'B' medians.
- Fitch assigns a Macro-Prudential Indicator of '1' to the Bolivian banking system, which indicates low potential for systemic stress based on moderate credit growth and real exchange rate appreciation.

**Weaknesses**

- Bolivia is among the poorest countries in Latin America, a factor which constrains the sovereign's ratings due to policy implications and its contribution to social unrest.
- Bolivia's political and social landscape is extremely fractured, while institutions are feeble, presenting ripe conditions for heightened social pressures and discouraging investment. Furthermore, policy continuity is low due to ongoing institutional changes.
- Factors underlying a sub-par Ease of Doing Business ranking feed into an inferior gross domestic investment rate. The absence of stronger private investment and FDI could limit future growth prospects.

**Commentary**

Bolivia's financial sector is better positioned to weather economic deterioration than in the past. However, the ongoing economic slowdown is expected to exact a toll on loan portfolio quality and profitability in 2009 and 2010. Non-performing loans reached a record low 3.8% of total loans in 2008, but then rose to 4.2% by March 2009. Provisions deteriorated to 188% to 163% over the same period. While the banking system's liquidity position has improved since 2003, due in large part to increasing public-sector deposits, pressures on thinly capitalized institutions could increase over the forecast horizon.



## Comparative Analysis: External Finances

### Bolivia

	2008					Last 10 years	
	Bolivia 'B'	Cameroon 'B'	Jamaica 'B'	Suriname 'B'	Rwanda 'B-'	'B' median	'BB' median
GXD (% CXR)	66.2	47.0	108.9	19.9	53.7	110.3	111.5
GXD (% GDP)	34.5	12.2	62.3	14.0	16.0	53.6	41.9
NXD (% CXR)	-63.3	-14.2	77.2	-26.9	-5.0	35.6	23.6
NXD (% GDP)	-32.9	-3.7	44.1	-19.0	-1.5	20.6	9.9
GSXD (% GXD)	39.5	70.2	69.5	74.2	96.8	64.3	47.0
NSXD (% CXR)	-62.7	-13.4	54.8	-9.1	6.5	31.9	12.6
NSXD (% GDP)	-32.7	-3.5	31.3	-6.4	1.9	16.9	4.8
SNFA (USDm)	5,184.0	810.8	3,732.9	176.3	n.a.	-1,022.7	-2,323.7
SNFA (% GDP)	31.1	3.5	25.2	6.4	n.a.	-13.6	-5.6
Ext. debt service ratio (% CXR)	4.1	6.5	17.9	3.5	1.7	11.3	17.3
Ext. interest service ratio (% CXR)	2.2	1.2	7.1	0.5	0.6	3.3	5.4
Liquidity ratio (latest)	1,061.3	717.0	121.3	607.4	2,096.4	137.4	115.3
Current account balance (% GDP)	12.1	-2.1	-21.7	2.0	-7.8	-3.7	-2.7
CAB plus net FDI (% GDP)	15.1	-1.3	-12.1	3.2	-5.3	0.1	1.4
Commodity dependence (% CXR, latest)	66.2	66.0	12.3	17.2	14.4	31.9	42.6
Sovereign net FX debt (% GDP)	-32.7	0.2	37.9	-5.5	1.9	9.5	1.3

Source: Fitch, IMF and national authorities

### Strengths

- Gross external and gross sovereign external debt ratios compare favourably with 10-year medians due to significant debt relief during that period under HIPC and MDRI. Net external and net sovereign external debt indicators are also stronger than 10-year 'B' medians owing to significant reserve accumulation in recent years.
- Supported by considerable international reserves build-up and lower external debt levels, sovereign net foreign asset and international liquidity measures exceed 10-year peer medians.
- External debt and interest service ratios are stronger than 'B' medians following debt relief.

### Weaknesses

- Commodity dependence renders external accounts vulnerable to shocks. However, recent marked accumulation of international reserves mitigates this concern to some extent.

### Commentary

Bolivia received debt relief under HIPC and MDRI. The latter covered 100% of debt incurred by Bolivia before January 2005 to the IMF (USD230m) and the World Bank (USD1.5bn). Bolivia also received USD1.7bn in debt relief from the Inter-American Development Bank in 2007.

Bolivia increased external borrowing from bilateral creditors in 2008, led by USD142m in net borrowing from Venezuela. These funds were used to finance diesel imports, road construction and maintenance projects as well as what the authorities refer to as economic and social infrastructure. Venezuela also participated in direct purchases of treasury notes.

## Comparative Analysis: Public Finances

### Bolivia

	2008					Last 10 years	
	Bolivia 'B'	Cameroon 'B'	Jamaica 'B'	Suriname 'B'	Rwanda 'B-'	'B' median	'BB' median
Budget balance (% GDP)	1.1	2.9	-6.7	0.4	1.5	-2.0	-2.2
Primary balance (% GDP)	1.8	3.3	4.4	1.8	1.6	1.2	0.9
Revenues and grants (% GDP)	32.7	21.7	24.6	30.3	28.6	29.5	23.8
Volatility of revenues/GDP ratio	12.5	11.9	4.9	12.0	18.6	10.3	7.0
Interest payments (% revenue)	2.4	1.9	45.4	4.3	1.8	8.1	12.0
Debt (% revenue)	93.0	60.4	433.4	67.9	73.2	184.8	190.5
Debt (% GDP)	30.4	13.1	106.5	20.6	20.9	50.4	40.4
Net debt (% GDP)	44.2	n.a.	97.6	17.5	13.0	49.6	34.4
FC debt (% total debt)	44.8	92.9	46.8	55.0	74.1	74.1	66.3
CG debt maturities (% GDP)	1.6	1.5	n.a.	2.6	1.7	6.5	5.5
Average duration of CG debt (years)	n.a.	n.a.	n.a.	n.a.	0.0	8.5	3.1

GG if not otherwise specified. CG for Bolivia  
Source: Fitch and national authorities

### Strengths

- Boosted by increased state participation in hydrocarbons activities since 2005, Bolivia's fiscal surpluses and revenue and grants as a percent of GDP exceed 10-year 'B' medians.
- Debt and interest payments make up a lower proportion of revenue than 10-year medians owing to the important contribution of extractive sector taxes and royalties to total revenue.
- Following considerable debt relief, Bolivia's general government debt and net debt as a percentage of GDP compare favourably with the 10-year peer medians. The proportion of public debt denominated in foreign currency is well below the 10-year 'B' median, as are central government debt maturities as a percentage of GDP.

### Weaknesses

- The volatility of Bolivia's revenue/GDP ratio is higher than the 10-year 'B' median, due to changes in the structure of extractive-sector-related revenue as well as commodity dependence.
- Fiscal expenditure has become more rigid as the Bolivian state has increased its role in the economy.

### Commentary

Conditional cash transfers, or "bonos", reach approximately 30% of the population as of 2009 and are funded with hydrocarbons proceeds as well as multilateral and bilateral borrowing. These transfers have supported domestic demand against a backdrop of economic deterioration and declining remittances. Nevertheless, Fitch is concerned about the transparency and flexibility of these transfers as well as the sustainability of their financing, particularly given the rate at which they have expanded and the increased role of bilateral financing in social spending.

**Fiscal Accounts Summary**

(% of GDP)	2006	2007	2008	2009f	2010f	2011f
<b>Central government</b>						
Revenue	32.8	32.8	32.7	29.8	28.8	27.4
Expenditure	29.3	30.5	31.7	29.8	28.9	27.8
O/w interest payments	1.8	1.3	0.8	0.7	0.6	0.5
Primary balance	5.2	3.5	1.8	0.7	0.4	0.1
Overall balance	3.4	2.3	1.1	0.0	-0.2	-0.4
<b>General government debt</b>	42.6	36.1	30.4	28.5	28.6	28.0
% of general government revenue	129.9	110.3	93.0	95.6	99.6	102.2
General government deposits	7.2	8.5	10.8	15.1	15.8	14.5
Net general government debt	35.4	27.6	19.6	13.4	12.8	13.5
<b>Central government</b>						
Revenue	32.8	32.8	32.7	29.8	28.8	27.4
O/w grants	1.8	1.6	1.2	1.1	1.1	1.0
Expenditure and net lending	29.3	30.5	31.7	29.8	28.9	27.8
O/w current expenditure and transfers	15.6	15.4	18.5	18.5	18.1	17.4
- Interest	1.8	1.3	0.8	0.7	0.6	0.5
O/w capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Current balance	15.3	15.8	13.0	10.2	9.6	8.9
Primary balance	5.2	3.5	1.8	0.7	0.4	0.1
Overall balance	3.4	2.3	1.1	0.0	-0.2	-0.4
Central government debt	40.4	34.3	28.8	27.0	27.2	26.6
% of central government revenues	123.3	104.6	87.9	90.6	94.5	97.2
<b>Central government debt (BOLbn)</b>	37.1	35.3	34.7	35.3	37.7	39.7
By residency of holder						
Domestic	18.9	18.9	19.1	-	-	-
Foreign	18.2	16.4	15.6	-	-	-
By place of issue						
Domestic	18.9	18.9	19.1	-	-	-
Foreign	18.2	16.4	15.6	-	-	-
By currency denomination						
Local currency	13.7	13.4	12.4	-	-	-
Foreign currency	13.7	13.4	24.9	-	-	-
In USD equivalent (eop exchange rate)	1.7	1.8	3.5	-	-	-
By maturity						
Less than 12 months (residual maturity)	n.a.	n.a.	n.a.	-	-	-
Average maturity (years)	n.a.	n.a.	n.a.	-	-	-
Average duration (years)	n.a.	n.a.	n.a.	-	-	-
<b>Memo</b>						
Non-financial public-sector balance (% GDP)	4.5	1.7	2.4	0.6	0.4	0.1
Net non-financial public-sector debt (% GDP)	35.6	28.8	20.6	13.2	12.3	13.3
Nominal GDP (BOLbn)	91.7	103.0	120.7	13.0	138.8	149.4

Source: Ministry of Finance and Fitch estimates and forecasts

**External Debt and Assets**

(USDbn)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Gross external debt</b>	7.4	7.1	6.2	7.0	7.5	7.4	7.6	6.1	5.5	5.7
% of GDP	88.7	85.1	75.7	88.4	93.2	84.0	79.5	53.2	41.9	34.5
% of CXR	390.5	352.1	297.3	338.4	296.2	231.7	187.4	111.2	82.3	66.2
<b>By maturity</b>										
Medium- and long-term	6.7	6.7	5.9	6.7	7.2	7.1	7.4	5.9	5.3	5.5
Short-term	0.7	0.5	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
% of total debt	9.4	6.5	4.7	4.7	4.4	3.7	2.4	3.3	3.9	3.8
<b>By debtor</b>										
Monetary authorities	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.0	0.0	0.0
General government	4.3	4.3	3.2	3.6	4.5	4.3	4.3	3.0	2.3	2.3
O/w central government	3.6	3.6	1.5	2.4	3.5	3.4	3.6	2.3	2.2	2.2
Banks	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Other sectors	2.4	2.4	2.4	2.9	2.5	2.5	2.7	2.8	3.0	3.2
<b>Gross external assets (non-equity)</b>	2.6	2.6	2.8	2.7	3.0	3.1	4.0	6.2	8.5	11.2
International reserves, incl. gold	1.2	1.2	1.1	0.9	1.0	1.2	1.7	3.2	5.2	7.7
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	0.5	0.6	0.8	0.6	0.6	0.6	0.9	1.0	0.9	0.8
Other sector foreign assets	0.9	0.8	0.9	1.2	1.3	1.3	1.4	2.0	2.4	2.7
<b>Net external debt</b>	4.8	4.5	3.4	4.3	4.6	4.3	3.6	-0.1	-3.0	-5.5
% of GDP	57.3	53.8	41.3	54.0	56.6	48.9	38.0	-0.6	-23.2	-32.9
% of CXR	252.4	222.5	162.1	206.4	179.8	134.7	89.6	-1.3	-45.6	-63.3
Net sovereign external debt	3.3	3.3	2.3	3.0	3.7	3.4	2.9	-0.2	-2.9	-5.4
% of GDP	40.3	39.0	27.9	37.5	46.0	38.6	30.3	-1.7	-22.3	-32.7
Net bank external debt	-0.2	-0.3	-0.4	-0.3	-0.3	-0.3	-0.6	-0.7	-0.7	-0.5
Net other external debt	1.6	1.6	1.5	1.7	1.2	1.2	1.3	0.8	0.6	0.5
<b>Net international investment position</b>	-7.7	-8.0	-8.4	-9.0	-8.0	-7.8	-7.2	-3.6	-0.3	1.4
% of GDP	-92.5	-95.3	-103.5	-114.4	-98.6	-88.9	-75.6	-31.6	-2.3	8.5
<b>Sovereign net foreign assets</b>	-2.6	-2.5	-2.6	-2.8	-3.4	-3.0	-2.4	0.6	3.7	5.2
% of GDP	-31.4	-30.1	-32.1	-35.7	-41.5	-34.7	-25.4	5.5	27.9	31.1
<b>Debt service (principal &amp; interest)</b>	0.5	0.7	0.8	0.2	0.3	0.4	0.5	0.6	0.4	0.4
Debt service (% of CXR)	27.2	36.8	36.9	8.7	13.2	12.2	12.0	10.2	5.5	4.1
Interest (% of CXR)	10.9	10.4	8.5	5.7	5.2	5.1	5.4	4.3	3.1	2.2
Liquidity ratio (%)	129.6	122.7	146.5	407.0	224.0	231.7	244.3	358.4	735.5	1,061.3
Net sovereign FX debt (% of GDP)	40.3	39.0	27.9	37.5	46.0	38.6	30.3	-1.7	-22.3	-32.7
<b>Memo</b>										
Nominal GDP	8.3	8.4	8.1	7.9	8.1	8.8	9.5	11.5	13.1	16.7
Gross sovereign external debt	4.6	4.5	3.4	3.8	4.7	4.6	4.6	3.0	2.3	2.3
Inter-company loans	0.8	1.2	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Sources: NBP, IMF, World Bank and Fitch estimates and forecasts

**Balance of Payments**

(USDm)	2006	2007	2008	2009f	2010f	2011f
<b>Current account balance</b>	<b>1,317.5</b>	<b>1,591.2</b>	<b>2,015.0</b>	<b>643.6</b>	<b>692.9</b>	<b>785.2</b>
% of GDP	11.5	12.1	12.1	3.5	3.6	3.9
% of CXR	24.0	23.8	23.2	9.6	10.1	10.9
<b>Trade balance</b>	<b>1,242.4</b>	<b>1,214.8</b>	<b>1,806.9</b>	<b>891.0</b>	<b>961.7</b>	<b>1,030.0</b>
Exports, fob	3,874.5	4,458.3	6,447.8	4,835.9	5,005.1	5,255.4
Imports, fob	2,632.1	3,243.5	4,641.0	3,944.8	4,043.4	4,225.4
<b>Services, net</b>	<b>-350.0</b>	<b>-400.3</b>	<b>-539.6</b>	<b>-610.4</b>	<b>-627.1</b>	<b>-626.0</b>
Services, credit	476.6	499.4	499.7	449.7	454.2	476.9
Services, debit	826.6	899.7	1,039.3	1,060.1	1,081.3	1,102.9
<b>Income, net</b>	<b>-397.2</b>	<b>-489.4</b>	<b>-536.4</b>	<b>-649.8</b>	<b>-682.3</b>	<b>-716.4</b>
Income, credit	235.4	369.8	346.4	277.1	291.0	305.5
Income, debit	632.7	859.3	882.8	926.9	973.3	1,022.0
O/w: Interest payments	233.8	208.0	194.7	150.0	150.0	150.0
<b>Current transfers, net</b>	<b>822.3</b>	<b>1,266.2</b>	<b>1,284.1</b>	<b>1,012.8</b>	<b>1,040.6</b>	<b>1,097.6</b>
<b>Memo</b>						
Non-debt-creating inflows (net)	137.4	180.1	509.6	50.0	200.0	350.0
O/w equity FDI	137.4	180.1	381.4	300.0	300.0	337.5
O/w portfolio equity	0.0	0.0	0.0	-350.0	-200.0	-100.0
O/w other	1,893.6	1,267.4	185.5	0.0	0.0	0.0
Change in reserves (-= increase)	1,286.3	1,937.7	2,860.8	568.6	867.9	1,136.2
Gross external financing requirement	-990.5	-1,431.2	-1,852.0	-480.6	-518.9	-610.2
Stock of international reserves, incl. gold	3,165.4	5,188.8	7,721.8	8,315.0	9,228.4	11,410.1

Sources: IMF and Fitch estimates and forecasts

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