

Bolivia



Summary

Moody's Ba3 / S&P BB / Fitch BB-1

Economy: Agriculture 13%, Industry 39%, Services 48%

Bolivia is rich in natural resources, including minerals, natural gas, and agricultural products. Since receiving a debt relief package in the mid-2000s, the country has benefited from improved economic policies and high commodity prices. However, economic growth has slowed recently, resulting in fiscal and current account deterioration compared. Bolivia's main challenges are social, as it is one of the poorest countries in Latin America, with large income disparities. Since Evo Morales was elected in 2006, economic management has remained stable, and despite a history of nationalization, foreign direct investment (FDI) continues to flow in. The public sector has played a larger role in the economy since the nationalization of the gas sector in 2006, which is an important driver of growth. Mr. Morales used higher government revenues from the commodity boom to step up social programs, which has allowed him to maintain high popularity. However, his popularity has declined since last year, and he lost a referendum in 2016 that would have allowed him to run for a fourth term in 2020.

Economic Indicators

	2012	2013	2014	2015	2016F	2017F
Population (Millions)	10.2	10.4	10.6	10.7	10.9	11.1
GDP per Capita (USD)	2,665	2,970	3,147	3,099	3,276	3,595
Nominal GDP (USD Billions)	27.3	30.9	33.2	33.2	35.7	39.8
Real GDP (%)	5.1	6.8	5.5	4.8	3.7	3.9
Year-End CPI (%)	4.5	6.5	5.2	3.0	5.1	5.0
Fiscal Balance (% of GDP)	1.8	0.7	-3.4	-6.9	-8.1	-7.5
Interest (% of Revenues)	2.7	2.4	2.4	2.7	2.9	3.3
FC Debt/Public Debt (%)	49.4	56.1	59.5	59.9	58.5	55.8
Government Debt (% of GDP)	33.3	32.5	33.0	36.2	40.6	42.8
Government Debt (% of Revenue)	88.2	83.1	82.8	95.9	116.8	123.1
Current Account (% of GDP)	7.2	2.4	0.2	-5.8	-6.6	-4.9
FDI (% of GDP)	3.9	5.7	1.9	4.2	3.6	3.1
External Debt (% of GDP)	18.6	19.6	19.9	21.5	22.0	19.8
Foreign Reserves/External Debt (%)	274.5	238.4	228.6	198.1	163.6	172.1
Foreign Reserves (Mo. of imports)	16.8	15.7	14.1	13.9	13.3	14.0
Foreign Reserves (% of GDP)	51.0	46.7	45.5	42.6	36.1	34.0

As of November 2016.

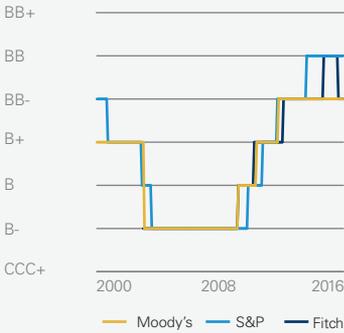
Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.

Sources: IMF, Central Bank, Ministry of Finance, Haver and Lazard

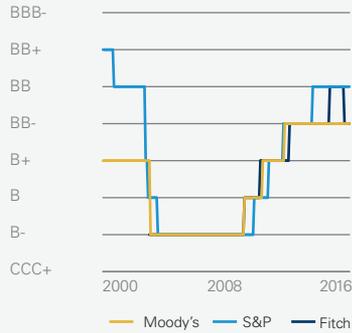
Rating History

Below is a history of the country's foreign and local currency ratings by the major agencies dating back to 2000. We have also included a chart of the country's hard currency external debt spread and the JP Morgan EMBI Global Diversified Index spread for comparison.

Rating History Hard Currency



Local Currency

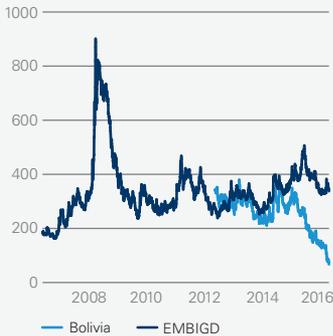


As of December 2016

Performance represents past performance. Past performance is not a reliable indicator of future results.

Source: Fitch, Moody's, Standard and Poor's, Bloomberg

Bond Spreads



As of December 2016

Performance represents past performance. Past performance is not a reliable indicator of future results.

Source: JP Morgan

Strengths

Economic Growth

Bolivia has enjoyed one of the highest growth rates in South America, averaging 5.0% in the period from 2010 to 2016, although economic growth is expected to slow down to 3.5% per year in the medium term.² High economic growth has been the result of good economic management and favorable terms of trade, mainly in energy exports. The public sector has become a more important economic player following the nationalization of the gas industry and other sectors in the mid-2000s. The public sector now accounts for about 63% of total investment, which is equivalent to an estimated 21% of 2015 GDP.³ One of the country's main challenges going forward will be whether the government can maintain high growth amid a more challenging external environment.

Gas

Bolivia is rich in natural resources, especially gas. It is an important exporter of gas to Brazil and Argentina⁴ and has recently started exporting to Peru, Uruguay, and Paraguay. It is expected to supply 100% of Paraguay's needs.⁵ Gas production totals 20.9 billion cubic meter (Bcm)⁶ per day, and the government expects production capacity to increase incrementally by at least 25 million cubic meters (cbm) between 2016 and 2020.⁷ Bolivia has long-term contracts for gas with both Argentina and Brazil; it supplies 20 million cbm daily to Argentina and about 32–34 million cubic meters daily to Brazil.⁸ The rest of the gas is consumed domestically. Gas could potentially also be exported to Chile, which faces a shortage of energy, but due to an ongoing dispute over border claims, Bolivia is not currently supplying gas to Chile.

Mining

Bolivia's mining potential is significant, as the country has an estimated 238 different minerals⁹ in its soils, yet most mineral resources remain unexploited given unfriendly business conditions. Bolivia has historically been a mining country, but reserves are difficult to determine given the lack of exploration. Currently, Bolivia is among the top 15 producers of tin and silver in the world, and produces copper and gold as well.¹⁰ It also has the largest lithium reserves in the world, amounting to 23%¹¹ of the global reserves and is in the process of building a US\$620 million lithium processing plant that should be operational by 2020.¹²

Government Balance Sheet

For most of the past decade, the public sector has been running fiscal surpluses and has accumulated savings amounting to 10% of GDP; as a result, Bolivia has a relatively low debt ratio of 42.8% of GDP.¹³ In addition, the debt structure is much better than in the past. Solid fiscal numbers are attributable to a combination of higher gas and oil royalties and the nationalization of several companies. Bolivia's low debt level is the result of fiscal surpluses and debt relief granted as part of the Heavily Indebted Poor Countries Initiative (HIPC) program in 2001.¹⁴ In the last decade, with the exception of 2012 and 2013, the government has borrowed mainly in local currency and with long-term maturities, reducing exchange-rate and rollover risk. Bolivia's external debt outstanding is fairly low at US\$6.3 billion as of August 2016; 84.2% is owed to bilateral and multilateral institutions and only US\$1 billion is owed to the private sector.¹⁵ The government has plans to issue an additional US\$1 billion to finance its 2017 budget.¹⁶

External Position

Bolivia's balance of payments is as also fairly solid, as Bolivia posted current account surpluses between 2005 and 2015 averaging 5% of GDP. We note that since then, the balance of payments has turned negative, although the International Monetary Fund (IMF) expects the current account deficit to improve from 2016 onwards.¹⁷ Foreign reserves as a percentage of GDP are also very high at approximately 33%, among the highest in Latin America,¹⁸ and are more than sufficient to cover a year's worth of imports.¹⁹ In addition, the country is an external creditor. Bolivia also receives large sums of FDI expected to average 3.2% GDP²⁰ in the medium term, most of which will go to the gas and mining sectors.²¹

Social Programs Support Presidential Popularity

One of the key reasons Mr. Morales has remained in power for so long is the success of his social programs. Spending on social programs in education, health, housing, and social protection amounts to more than 10% of GDP.²² Some of the most popular programs include the Juancinto Pinto program to increase school attendance; the Juana Azurduy program to reduce child and maternal mortality; and the Renta Dignidad, a pension scheme targeting older people. High economic growth has also contributed to a higher income level, with GDP per capita increasing from US\$1,015 in 2005 to an estimated US\$3,595 by 2016.²³ During Mr. Morales' tenure, extreme poverty has fallen from 36.7% of the population in 2005 to 16.8% by 2015.²⁴ Until recently, Mr. Morales remained very popular; according to Equipos Consultores he was the most popular Latin leader as of August 2015, with a 75% popularity rate. However, his popularity has fallen considerably since then, and the latest poll shows his popularity at 46% as of September 2016. Mr. Morales also lost a referendum in 2016 that would have allowed him to run for president for a fourth term in 2020.²⁵

Weaknesses

Unfriendly Business Environment

Since Mr. Morales became president in 2006, Bolivia has nationalized the oil and gas sector, as well as other strategic sectors, such as mining and telecommunications, via military occupation.²⁶ This is an important tenet of his mandate; in his second reelection in 2014 that will see him govern until 2020, Morales reiterated that his electoral victory was a triumph of nationalization over privatization.²⁷ While assets are nationalized, in some instances foreign companies still manage and run the operations under contract. In other instances, companies submit arbitration disputes long after nationalization. For example, Swiss company Glencore submitted an arbitration claim in 2016 against assets nationalized in the years 2007–2012.²⁸ More recently, there have been threats to ban Coca-Cola and McDonald's by the end of 2016.²⁹ In the Ease of Doing Business Index 2017, Bolivia now ranks 149 out of 190 countries, compared to 111 out of 155 countries in 2006.³⁰ Unfriendly government policies have resulted in India's Jindal Steel and Power's decision to cancel a US\$2.1 billion iron ore project because the Bolivian government did not meet the terms of the contract.³¹ However, FDI continues to flow into the country, reaching a peak of US\$2.1 billion in 2014.³²

Location

Bolivia's remote location represents a major competitiveness challenge and a major growth constraint. Bolivia is a landlocked country, with the majority of the country's landmass located in the Andean region, making it very expensive to transport products. It is extremely difficult and expensive to import into and export from La Paz, the highest capital in the world. Transportation infrastructure is very limited, and it is expensive to build given geographic constraints. It is even more difficult to transport exports and imports from Santa Cruz, the largest city in Bolivia, to the Pacific Ocean, because Santa Cruz is located in the eastern region of the country and separated from the coast by the Andean region.

Commodity Dependency

Bolivia is very sensitive to commodity prices as gas and mining products amount to about 70% of exports, almost 55% of government revenues.³³ Thus, if commodity prices continue to decline, Bolivia will be in a weaker position. According to the IMF, a 20% decline in energy and mining prices will result in a current account deterioration of 5.5% of GDP and a 2.0% decline in the fiscal balance.³⁴ This risk is partially mitigated by the fact that Bolivia has multiple commodities whose prices are not closely correlated. Bolivian exports are relatively diversified, with gas amounting to 33% of exports and mining 36%.³⁵ Of Bolivia's mining exports, silver amounts to 33% and zinc 25% of the total.³⁶ The country has a high level of savings, which will allow it to withstand a sustained decline in commodity prices without facing major economic problems. For example, Bolivia posted the highest growth rate in South America in 2009 despite the decline in commodity prices.³⁷

Social/Geographic Division

One of Bolivia's main problems is its very divided society. The animosity between the wealthier eastern lowland region, which has economic power, and the poorer western highland region, which holds political power, has brought the country close to civil war. The peak of recent tension took place in the mid-2000s when the government politically crushed the lowlands opposition, which was pushing for autonomy. Since then, tension has declined, and Mr. Morales's popularity has improved, as demonstrated by his winning the majority of the votes in the lowland regions during the 2014 election.

Chile/Bolivia Relationship

Bolivia's poor relationship with Chile is a major growth constraint. Most Bolivians resent the Chileans, especially after Bolivia lost its coast to Chile during the War of the Pacific in 1879–1904. The Bolivian government has tried to regain access to the Pacific Ocean through Chile, with no success. Because of this resentment, Bolivia's government has limited trade with Chile, which is one of the economic leaders in the region. For example, Bolivia exports gas to Argentina and not Chile, even though Chile is a more reliable partner in terms of payments. The UN's International Court of Justice agreed to arbitrate the case in September 2015, although Chile believes the ICJ does not have jurisdiction over the matter.³⁸ The diplomatic dispute continues to deteriorate, with Chile's Minister of Foreign Relations declaring that the Chilean-Bolivian relationship is at its worst in the last 100 years.³⁹

Country Background



Size	1,098,581 KM ² (28th)
Capital	La Paz
Population	11 Million
Ethnic Groups	Mestizo (Mixed White and Amerindian Ancestry) 68%, Indigenous 20%, White 5%
Religion	Roman Catholic 76.8%, Evangelical and Pentecostal 8.1%, Protestant 7.9%
Median Age	24 Years
Literacy Rate	95.7%
Independence	August 1825
Political System	Republic
Presidents	Evo Morales
Presidential Election	2019
Economy	Agriculture 13.5% Industry 38.78%, Service 47.7%
Labor Force	Agriculture 32%, Industry 20%, Service 48%
Merchandise Exports	Natural Gas, Mineral Ores, Gold, Soybeans and Soy Products, Tin
Export Partners	Brazil 28.1%, Argentina 16.9%, US 12.1%, Colombia 6.3%, China 5.3%, Japan 4.7%, South Korea 4.3%
Currency	Boliviano (BOB)

As of November 2016

Source: CIA

Country Timeline

Democracy and economic collapse

- 1985 Siles resigns in the wake of a general strike and an attempted coup; elections held but are inconclusive; parliament chooses Paz Estenssoro as president.
- 1986 Twenty-one thousand miners lose their jobs following the collapse of the tin market.
- 1989 Leftist Jaime Paz Zamora becomes president and enters power-sharing pact with former dictator Hugo Banzer.
- 1990 Some 4 million acres of rainforest allocated to indigenous peoples.
- 1993 Banzer withdraws from the presidential race, which is won by Gonzalo Sanchez de Lozada.
- 1997 Banzer elected president.
- 1998 Banzer tells the United Nations that he is committed to freeing Bolivia from drugs before the end of his term in 2002.
- 1999 Encouraged by moves to prosecute former Chilean dictator Augusto Pinochet, opposition demands inquiry into Banzer's role during the repression of the 1970s.
- 2000 Banzer announces the almost total eradication of the coca plant in the Chapare jungle region.
- 2001 January—Government declares almost half of Bolivia a natural disaster area following heavy rains.

Banzer dies

- 2001 August—Vice-President Jorge Quiroga sworn in as president, replacing Hugo Banzer who is suffering from cancer. He dies in May 2002.
- 2001 December—Farmers reject a government offer of \$900 each a year in exchange for the eradication of the coca crop used to produce cocaine.
- 2002 August—Gonzalo Sanchez de Lozada wins a clear victory in a National Congress run-off vote and becomes president for a second time. His rival, coca growers' representative Evo Morales, leads a strengthened opposition.
- 2003 February—More than 30 killed in violent protests against proposed income tax. President Sanchez de Lozada withdraws the proposal.
- 2003 September-October—80 killed, hundreds injured in protests fuelled by government plans to export natural gas via Chile. President Sanchez de Lozada resigns under pressure of protests and is succeeded by Carlos Mesa.

Energy protests

- 2004 July—Referendum on gas exports: Voters back greater state involvement in the industry and approve exports of the resource.
- 2004 August—Landmark deal signed to allow Bolivia to export gas via a Peruvian port.
- 2005 January—Rising fuel prices trigger large-scale anti-government protests and blockades in Santa Cruz, the country's largest and wealthiest city, and in El Alto, near La Paz. Civic and business leaders in Santa Cruz push for autonomy for the province.
- 2005 March—President Mesa submits his resignation, blaming protests which he says have made it impossible to govern. Congress rejects the offer, as well as a later request by the president for early elections, and Mr Mesa remains in office.
- 2005 May—Protests over energy resources bring La Paz, and government business, to a near standstill. President Mesa promises a rewritten constitution and a referendum on autonomy demands from resource-rich provinces.

Socialists in power

- 2005 June—As angry street protests continue, President Mesa resigns. Supreme Court head Eduardo Rodriguez is sworn in as caretaker president.

- 2005 December—Socialist leader Evo Morales wins presidential elections. He becomes the first indigenous Bolivian to take office.
- 2006 May—President Morales issues a decree to put the energy industry under state control.
- 2006 June—President Morales claims victory in elections for a new assembly which will write a new constitution, aimed at giving more power to the indigenous majority.
- 2006 October—Clashes between rival groups of tin miners leave 16 people dead in the town of Huanuni.
- 2006 November—Land reform bill is narrowly approved by the Senate. The bill aims to expropriate up to one fifth of Bolivian land for redistribution to the landless poor.

Nationalization

- 2006 December—Bolivia completes its gas nationalisation programme, launched in May, giving the state control over the operations of foreign energy firms in the country.
- 2007 January—Pro-Morales trade unionists and coca growers set up a parallel local government in Cochabamba and demand the resignation of the state's pro-autonomy governor. Clashes leave two people dead. Government declares a state of emergency after months of heavy rain leave dozens of people dead and many thousands homeless.
- 2007 May—President Morales spearheads a protest campaign after world football's governing body, Fifa, bans international games at high altitudes. The ban rules out international matches in cities such as La Paz and Potosi.
- 2007 August—Presidents of Bolivia, Venezuela and Argentina sign joint energy deals worth more than \$1B.

Constitutional moves

- 2007 December—President Morales formally receives controversial new draft constitution which he says will promote re-distribution of the country's wealth and give a greater voice to the indigenous majority.
- 2008 August—President Morales gains 67% of vote in recall referendum on his leadership.
- 2008 September—Anti-government protests escalate into violence in the east and north of Bolivia, with 30 people killed in the worst-affected region, the northern province of Pando. The government and opposition agree to talks in an effort to resolve the crisis. Bolivia expels the US ambassador, accusing him of fomenting civil unrest. Washington reciprocates by expelling the Bolivian ambassador.
- 2008 November—Bolivia stops US drug enforcement agency from operating in the country.
- 2009 January—New constitution giving greater rights to indigenous majority is approved in a national referendum, with more than 60% voting in favour.
- 2009 April—President Morales says a plot to assassinate him was foiled when police killed three international mercenaries in a raid on a house in the opposition stronghold Santa Cruz.
- 2009 May—Ex-President Gonzalo Sanchez de Lozada is tried in absentia over death of 60 during protests in 2003.

Morales reelected

- 2009 December—President Morales is reelected for a second term with more than 60% of the vote.
- 2010 May—President Morales orders nationalisation of four electricity firms, saying the state now controlled 80% of country's power generation. Strikes and rallies against government wage policies. President Morales meets Pope, urges him to allow priests to marry.
- 2010 October—Government scraps new law designed to cut cocaine production in response to anger from coca growers.
- 2010 December—Thousands of Bolivians take to the streets to protest government plans to increase the cost of fuel.
- 2011 January—Government drops plans to raise fuel prices by more than 70%.
- 2011 February—Sharp rises in the prices of basic foodstuffs and food shortages spark violent demonstrations.

2011	August–September—Plans to build a major road through a rainforest reserve—a project the government says is essential for development—spark mass protests.
2011	October—More than 60% voters cast invalid ballots in election to choose Bolivia's top judges, in what is interpreted as a major slap in the face for President Morales.
2012	January—Bolivia temporarily leaves UN Conventions on Narcotics in protest against classification of coca as an illegal drug, signs agreement with US and Brazil to help reduce the production of illegal cocaine.
2012	April—President Morales rescinds the contract awarded to Brazil's OAS to build a controversial road through the Amazon forest.
2012	May—President Morales nationalises Spanish-owned electric power company REE, saying it has not invested enough in Bolivia.
2012	June—Police strike for better pay sees violent clashes across country. Government accuses strikers of setting stage for coup, an allegation denied by police officers
2013	May—Bolivia passes a law paving the way for President Morales to be seek a third term. The constitution states that presidents can only serve two terms, but the supreme court ruled that, because the constitution was changed during Mr Morales' first four years, that term did not count. Opposition politicians denounce the law as unconstitutional. President Morales expels the US Agency for International Development (USAID), accusing it of trying to "conspire against Bolivia".
2013	October—Luis Cutipa, the head of Bolivia's coca control and industrialisation agency, is arrested over accusations of illegally selling seized coca and other charges, which he denies.
2013	December—Bolivia launches its first telecommunications satellite.
2014	January—President Morales announces plans to build the country's first nuclear reactor.
2014	April—President Morales says the country's minimum wage will rise by 20%, and that the basic salary will go up by 10%. Bolivia submits legal documents to the United Nations' highest court in support of its claim seeking to regain access to the sea from Chile.
2014	October—Evo Morales wins a third term as Bolivia's president.
2016	February—Voters in a referendum reject proposed constitutional changes which would have allowed President Morales to stand for another term.

Source: BBC

Notes

- 1 As of December 2016.
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- 13 IMF WEO Outlook, October 2016. <http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx>.
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- 15 "Informe de la deuda externa publica, Agosto 2016," Banco Central de Bolivia, accessed on November 17, 2016, <http://deudaexternapublica.bcb.gob.bo/publico/inicio#>.
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