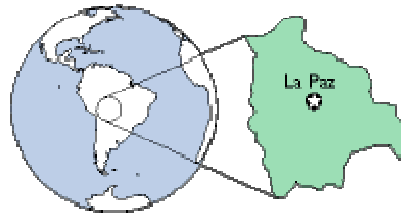


COUNTRY REVIEW

Bolivia



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EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	La Paz (administrative)
GDP:	USD 17.46bn (2009e)
Population:	9.86mn(2009e)
GDP per capita:	USD 1771(2009e)
Currency:	Boliviano (BOB)
Form of state:	Republic
Head of government:	President Juan Evo Morales
Next elections:	2014

Bolivia has a long history of weak and unstable government—approaching 200 coups and counter coups since independence in 1825—with institutional ineffectiveness and bouts of social unrest. The political system is deeply fractured along socio-economic and regional lines. Sweeping economic liberalisation, begun in the mid-1980s, failed to meet the expectations of much of the population, particularly poorer indigenous group, and undermined the credibility of political parties, which mainly represented the elite. Marginalised radical and indigenous groups became better organised and used mass protests to de-stabilise government. Meanwhile, the wealthier states in the East, which have most of the natural resources and are ethnically different from the highlands where indigenous groups are concentrated, demanded more autonomy and leaders in these regions took over as the main opposition from discredited traditional parties.

At the end of 2005 radical-left, indigenous leader Evo Morales won the presidency on a nationalist/populist platform and despite the deep social divisions has retained power, introducing a new constitution in 2009 and winning a new five-year term as president with a commanding majority. His MAS also consolidated its position in legislative elections. With the constitution agreed and with elections out of the potential socio-political flashpoints have reduced somewhat. President Morales' good level of personal support may provide a reasonable prospects for continuity (the next elections are not due until December 2014). Nonetheless, the deep schisms and polarisation of the electorate remain and there is a likelihood of growing social discontent among its own supporters if the government fails to fulfil electoral expectations, as recent protests have demonstrated.

The government under President Morales has pursued a national/populist agenda associated with the region's radical-left and the business environment remains weak and uncertain. There has been significant expansion of the state's role in the economy. Hydrocarbons, electricity and telecommunications have all been re-nationalised. It remains to be seen where the boundaries of the state will lie, but there is some risk of further piece-meal interventions. In September 2010, for example the government took a 33% stake by decree in a cement manufacturer. Uncertainty and regulations are likely to curb foreign investment, which is needed to develop key sectors such as natural gas. If foreign investment fails to materialise in the key hydrocarbons sector there is also likely to be increasing tension over time between government spending (which has been relatively conservative so far) and the fiscal balance.

The landlocked economy is heavily dependent on commodities, particularly minerals and hydrocarbons. Hydrocarbons alone account for around 45% of exports and government revenues and development of hydrocarbons is essential for medium-term growth. Growth of real GDP per capita in the past ten years was a modest annual average 1.46%. Growth of real GDP in 2009 slowed during the global recession but remained positive at 3.4%. We expect growth to pick up to around 4% in 2010 before easing to 3.5% in 2011, as export demand moderates and investment remains subdued.

International financial linkages are relatively low and the banking system was largely unaffected by the global crisis, according to the IMF article IV consultation released earlier this year. However, the banking system is vulnerable to exchange rate devaluation.

There was a small fiscal surplus in 2009 (0.1% of GDP, after 3.2% in 2008) and a small deficit (less than 1% of GDP) is expected in 2010 and 2011. The Public debt-GDP ratio has fallen substantially to 42% at end-2009 after substantial debt relief under the HIPC initiative and will probably drop below 40% in 2011. Monetary policy is centred on the crawling peg exchange rate, which, in fact, has been a stable peg at 7.02 for the past two years. Relatively high foreign exchange reserves should allow this to continue, unless commodity prices fall unexpectedly, in which case the fiscal position would also

weaken seriously. Inflation fell sharply in 2009, but has gathered some momentum in 2010 and should end the year around 4%.

The external current account surplus fell markedly in 2009 as revenues were hit by lower commodity prices, though imports also fell and the surplus was still 4.7% of GDP. The surplus should remain at 4-6% of GDP in 2010-2011. Foreign investment fell by 18% in 2009 and dropped further in Q1 2010, though it remains to be seen if this is a trend. Foreign exchange reserves have risen steadily to cover 15 months of imports and seven times external debt falling due in 2011. Provided hydrocarbon prices do not fall unexpectedly sharply, the external liquidity position should remain strong.

External debt ratios are moderate. External debt is 33% of GDP and 78% of exports of goods and services. Interest payments are just over 2% of exports of goods and services.

Overall, external liquidity is strong, though the economy is vulnerable to a sustained fall in commodity prices. The business environment and growth prospects are clouded, however, by nationalist/populist stance of the government. Political stability is also not assured though President Morales retains a strong following, reflected in his re-election under the new constitution at end-2009, which consolidated his position.

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