

Economic policy unlikely to change after the elections

General Information



GDP	USD27.035 bn (World ranking 94, World Bank 2012)
Population	10.5 million (World ranking 82, World Bank 2012)
Form of state	Republic / Social Unitarian State
Head of government	Evo MORALES (MAS)
Next elections	October - 2014, presidential and legislative



Strengths

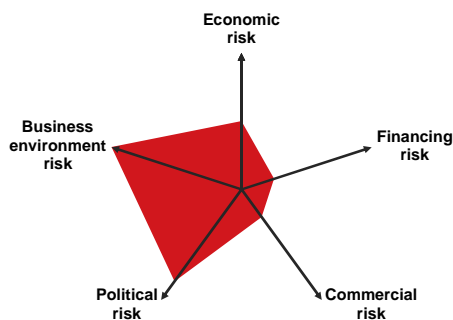
- Valuable natural resources, especially hydrocarbons
- Improving currency autonomy
- Surplus in current account and fiscal balances
- Increasing capacity to weather external shocks

Weaknesses

- High dependency on the commodity sector
- Declining but still high inequality and elevated level of poverty
- Weak business environment
- Threat of (re)nationalisation
- Enclosed geographic position

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination / origin (% of total)

Exports	Rank	Imports
Brazil	35% 1	19% Brazil
Argentina	12% 2	19% Chile
United States	10% 3	12% Argentina
Peru	6% 4	10% China
South Korea	5% 5	7% United States

By product (% of total)

Exports	Rank	Imports
Natural Gas	45% 1	12% Refined Petroleum
Non Ferrous Ores	22% 2	6% Cars And Cycles
Animal Food	6% 3	4% Iron Steel
Non Ferrous Metals	6% 4	4% Plastic Articles
Fats	5% 5	4% Miscellaneous Hardware

Source: Chelem, UNCTAD (2012)

Economic Overview

Growth to remain among the highest in the region

In 2013, the Bolivian economy expanded at +6.7%, the fastest pace in the last 35 years, mainly driven by hydrocarbons sector, private consumption and public spending. Available data for 2014 suggests that the activity is decelerating towards a similar level to that seen in 2012. Real GDP grew by +5.6% y/y in Q1-2014, against +7% y/y in Q4-2013, while the economic activity index (a proxy of GDP) has decelerated to +4.9% y/y in May against +9% y/y in December.

Euler Hermes expects the economy to slow to +5.2% in 2014 and to +5% in 2015. The economic growth of Bolivia should however continue to largely outperform the regional average. October's Presidential elections will also see supportive fiscal policy, maintaining domestic demand as the main engine of growth. Consumer prices have accelerated since the beginning of the year (+7.5% y/y in July against +6.1% y/y in January), mainly due to soaring food prices. Against this background, a tightening of monetary policy is likely. Euler Hermes expects inflation to moderate gradually and reach +5.7% y/y by the year. On average, consumer prices are expected to rise by +6.3% in 2014, after +5.7% in 2013, and to level off at +6% in 2015.

Inflation expectations are broadly anchored by the fixed exchange rate regime currently in place in Bolivia. However, the emergence of problematic inflation rates cannot be ruled out in the medium-term as a price-wage spiral remains a risk. The government decided in April 2014 of a nationwide increase in salaries of +10%, while the minimum wage was raised by +20%, but this remains low at around USD210 per month.

Slight deterioration of the fiscal balance on the back of Presidential elections

Large revenues from the hydrocarbon sector have kept the fiscal balance in surplus since 2006. IMF data showed a significant deterioration in 2013 to +0.1% of GDP against +1.8% in 2012. This was driven by the concerning combination of lower import revenues (as the international price of gas has stagnated), coupled with a rebound in public spending (mainly social programs and public investment).

Public spending will likely expand further in 2014 given October's Presidential election, while revenues should stabilize. Consequently, Euler Hermes expects the fiscal balance to switch into a slight deficit of -0.5% of GDP in 2014, which should slightly narrow in 2015 to -0.2% of GDP as the government returns to a more prudent post-election fiscal policy. However, given the primary surplus, the public debt is likely to continue decreasing.

Strong external position

Exports of goods slowed sharply in 2013 to +3.6% y/y against +34% y/y in 2012, as a consequence of softer terms of trade. The imports of goods (+8.9% y/y) and services (+15.3% y/y) remains buoyant on the back of important ongoing investment projects in the hydrocarbon sectors. Consequently the trade surplus lessened, while the deficit in the balance of services widened slightly. Also, the income balance deficit deteriorated sharply driven by elevated levels of income repatriation by foreign companies. All in all, the current account surplus decreased to +3.8% of GDP, against +7.3% in 2012.

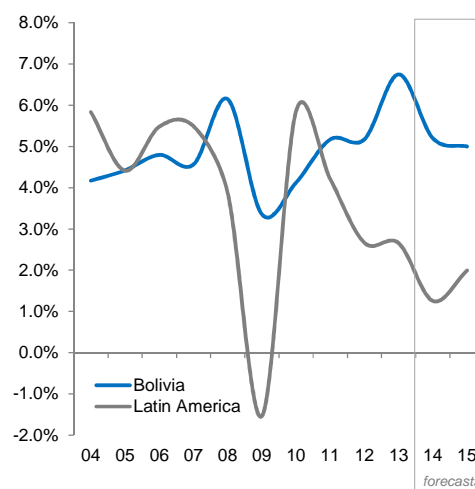
Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	5.2	6.7	5.2	5.0
Inflation (% , yearly average)	4.5	5.7	6.3	6.0
Fiscal balance* (% of GDP)	1.8	0.1	-0.5	-0.2
Public debt* (% of GDP)	33.4	33.1	30.3	27.9
Current account (% of GDP)	7.8	3.7	3.0	3.4
External debt (% of GDP)	25.3	20.2	17.0	15.0

*Includes Local Government; Nonfinancial Public Corporation; Social Security Funds; State Government

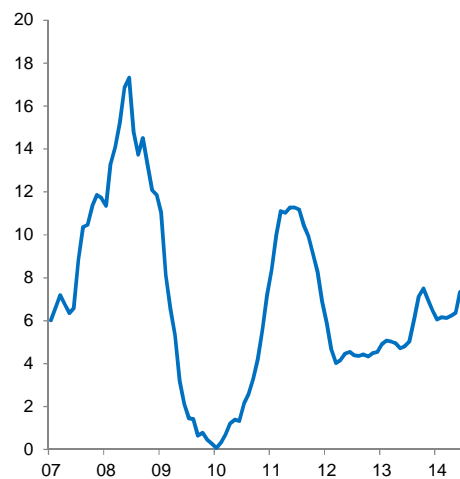
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Inflation rate (%)



Sources: National sources, IHS, Euler Hermes

While imports should remain strong, exports may slow down further in 2014 since oil and gas prices are expected to stagnate, at best. Also, the revision of gas supply contracts with Brazil and Argentina is likely to lead to less favorable conditions for Bolivia given the subdued economic situation of these countries, again weighing on exports. The current account surplus is expected to narrow again in 2014 to +3% of GDP, before improving slightly in 2015 to +3.4%. The external debt is expected to continue decreasing to 15% of GDP in 2015 against 20% in 2013.

Moreover, the Central Bank has substantial FX reserves. International reserves (excluding gold) amounted to USD13 bn as of June 2014, which represents about 14 months of import cover (of goods and services).

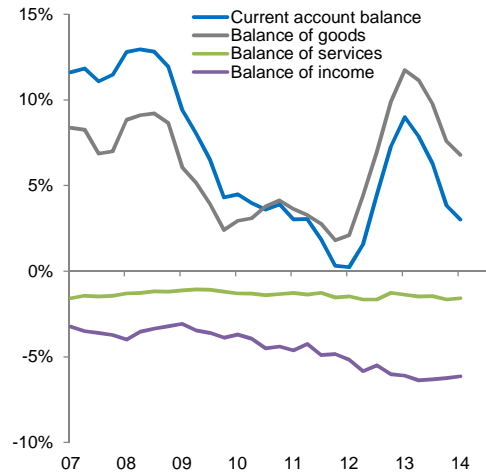
State interventionism undermines private investment and generates rigidities

Despite the very favorable outlook for growth and the broadly sound fiscal and external situations, trading with Bolivia remains problematic. The business environment is very weak. According to the World Bank's Doing Business 2014 figures, Bolivia ranks 162th out of 189 countries. The risk of expropriation is important as it limits investors' appetite for investment. In the few past years, several companies have been (re)nationalized, notably in the hydrocarbons, the electricity and the telecommunication sectors. For instance, in 2013, the national power-grid company TDE (Transportadora de electricidad) and the company in charge of operating in several airports SBSA (Servicios de Aeropuertos Bolivianos), which were both owned by Spanish capital, were entirely nationalized.

The new Law of Financial Services (approved in August 2013) illustrates the growing state interventionism as the government has now the power to set floors on deposits rates and regulate lending rates, as well as to fix minimum quotas for productive and social housing credit. Similarly, the project of law to allow the Central Bank lending to public enterprises also raises concerns about the independency of the monetary institution.

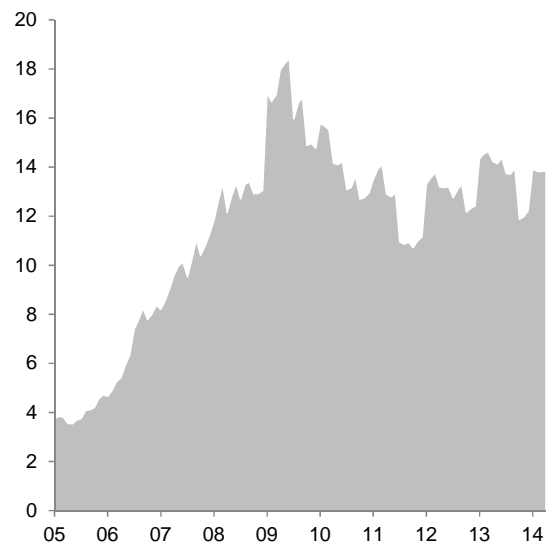
A change in the economic policy is unlikely after the October elections since the current president Evo Morales is leading the polls. The surveys suggest that more than 50% of Bolivians intend to vote for Morales, enough to secure a first-round victory.

Current account balance breakdown (over 4 quarters, % of GDP)



Sources: National sources, IHS, Euler Hermes

Foreign exchange reserves import cover (months)



Sources: National sources, IHS, Euler Hermes

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