

Country Report

Bolivia

Hit by low commodity prices



General Information

GDP	USD34.176bn (World ranking 96, World Bank 2014)
Population	10.85mn (World ranking 80, World Bank 2014)
Form of state	Republic / Social Unitarian State
Head of government	Evo MORALES (MAS)
Next elections	2019, presidential and legislative



Strengths

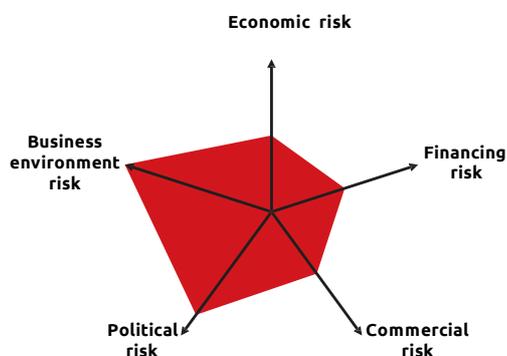
- Valuable natural resources, especially hydrocarbons
- Improving currency autonomy
- Surplus in current account and fiscal balances
- Increasing capacity to weather external shocks

Weaknesses

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

Country Rating

D4



Source: EulerHermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Brazil	33% 1	19% Brazil
Argentina	16% 2	12% Argentina
United States	16% 3	12% Chile
Peru	5% 4	10% United States
China	3% 5	9% China

By product (% of total)

Exports	Rank	Imports
Natural gas	47% 1	13% Petroleum products
Metalliferous ores	16% 2	13% Road vehicles
Gold	10% 3	7% Specialised machinery
Feedstuff for animals	5% 4	6% Iron and steel
Petroleum products	4% 5	6% Industrial machinery parts

Source: ITC, UNCTAD, CHELEM

Economic Overview

Low commodity prices to weigh on growth

The landlocked economy depends on mineral and hydrocarbon exports to a large extent. Amid a protracted period of low commodity prices and poor economic performance of main trade partners (recession in Argentina and Brazil, slowing growth in China), growth is set to dip below +4% in coming years. The average rate over 2010-2014 was +5.5%. Nonetheless, Bolivia should continue to outperform the regional average.

State interventionism undermines private investment and generates rigidities

The government conducted a prudent policy during the boom in commodity prices. It safeguarded a sizeable share of export revenues. However, the plunge in gas and oil prices has led to a strong deterioration of fiscal and external accounts. These are not expected to narrow much in the coming years.

Indeed, while fiscal and export revenues are set to recover at a modest pace, public spending should remain buoyant. This will support domestic demand. Imports - notably of capital goods - will remain strong due to public development projects.

Accordingly, the public and external debt will rise at a steady pace but remain at manageable levels. FX reserves are comfortable and cover around 12 months of imports. Yet these have tumbled over the last months to USD11.6bn. The June 2016 figure is -11% lower than a year ago.

Inflation is anchored to the most part by a fixed exchange rate regime. But 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 to increase the minimum wage by 9% in April 2016, after +15% in 2015.

Trading with Bolivia remains problematic. State interventionism undermines private investment and generates rigidities. According to the World Bank's *Doing Business 2016* survey, Bolivia ranks 157th out of 189 countries, with particular shortcomings in registering property, paying taxes, and protecting investors. The risk of expropriation is considerable. In the past few years, several companies have been (re)nationalized, with a focus on the hydrocarbons, the electricity, and the telecommunication sectors.

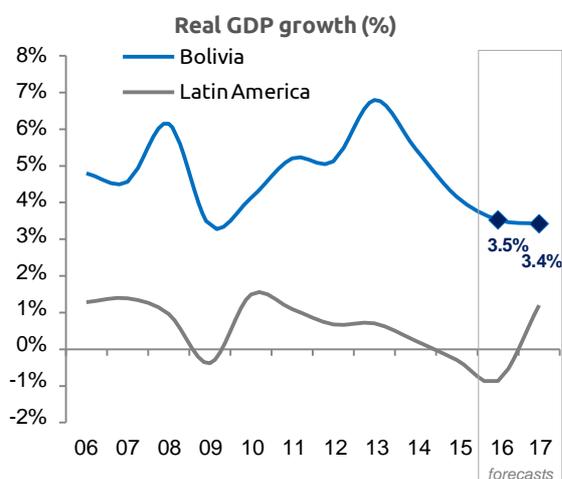
President Evo Morales, who continues to enjoy high popularity rates, was re-elected in October 2014 for a third 5-year term. He has been in power since 2009. However, in February 2016, he lost a referendum aimed at allowing him to hold office indefinitely. Next elections will be held in 2019.

Key economic forecasts

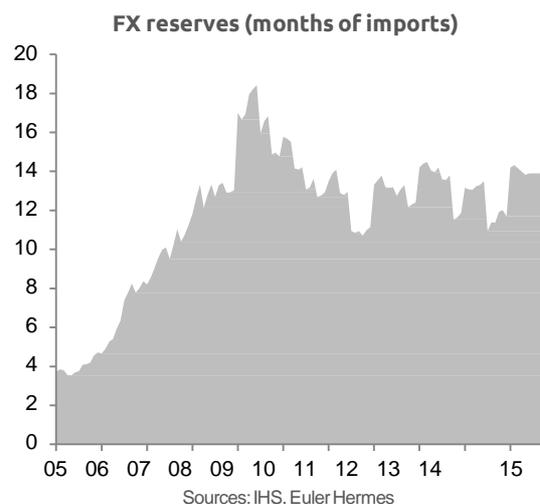
	2014	2015	2016f	2017f
GDP growth (% change)	5.5	4.2	3.5	3.4
Inflation (% , yearly average)	5.8	4.1	3.9	5.0
Fiscal balance* (% of GDP)	-3.4	-6.6	-6.9	-6.7
Public debt* (% of GDP)	33.0	39.7	40.8	42.7
Current account (% of GDP)	0.2	-6.9	-8.2	-7.0
External debt (% of GDP)	26.6	28.2	32.3	36.8

*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes



Sources: IHS, Euler Hermes



Sources: IHS, Euler Hermes

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.

Subscribe to EH Economics alerts
<http://ehnet/eco/Pages/EH-Economics-Alerts.aspx>

Contact Euler Hermes
 Economic Research Team
research@eulerhermes.com

Last review: 2016-09-26
 Country Risk Analyst:
 Daniela Ordóñez
daniela.ordonez@eulerhermes.com