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Research Update:

Bolivia Outlook Revised To Negative On Higher External Risks; 'BB/B' Ratings Affirmed

Primary Credit Analyst:
Delfina Cavanagh, Buenos Aires (54) 114-891-2153; delfina.cavanagh@spglobal.com

Secondary Contacts:
Marina Neves, Sao Paulo 55 11 3039-9719; marina.neves@spglobal.com
Joydeep Mukherji, New York (1) 212-438-7351; joydeep.mukherji@spglobal.com

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Overview

- Low export prices for natural gas, combined with thus far only modest success in boosting prospects for gas production, are weighing on Bolivia's external position.
- Potentially prolonged current account deficits, continued high levels of public-sector spending, and sustained rapid growth in domestic credit could erode the country's still-strong external position and weaken creditworthiness over the next two years.
- We are revising our rating outlook on Bolivia to negative from stable, and we are affirming our 'BB' long-term foreign and local currency sovereign credit ratings.
- The negative outlook reflects the at least one-in-three likelihood that persistent current account deficits could contribute to macroeconomic imbalances, weakening the country's sound external profile beyond our current expectations, over the next two years.

Rating Action

On May 25, 2017, S&P Global Ratings revised its rating outlook on the Plurinational State of Bolivia to negative from stable. At the same time, we affirmed our 'BB' long-term foreign and local currency sovereign credit ratings and our 'B' short-term foreign and local currency ratings. The transfer and convertibility assessment is unchanged at 'BB'.

Rationale

The negative outlook reflects the at least one-in-three likelihood that Bolivia's persistent current account deficits could contribute to macroeconomic imbalances, weakening the country's external profile beyond our current expectations, over the next two years. Low export prices for natural gas, along with only modest success in boosting prospects for gas production, are weighing on Bolivia's external position. Potentially prolonged current account deficits, as well as continued high public-sector spending and sustained rapid growth in domestic credit in recent years, could erode the country's still-strong external position.

For the third consecutive year, the combination of low export prices for natural gas and the government's policy of sustaining public-sector investment is likely to contribute to a current account deficit (CAD) approaching 5.3% of GDP in 2017, similar to the 5.5% deficit in 2016. Both the trade and current account deficits are likely to slightly narrow over the next two years, with the CAD likely approaching 4%-5% of GDP, based on a modest increase in gas export volumes and prices.

We project that narrow net external debt (total external debt less official foreign exchange reserves plus public- and financial-sector liquid external assets) will evolve toward a debtor position next year from -30% of current account receipts (CAR) in 2017 and -73% in 2015. Bolivia could become a net external debtor on this measure in the next two years, absent a substantial reduction in its CAD. We expect Bolivia's gross external financing needs (current account payments and public- and private-sector external debt due by remaining maturity) relative to CAR and usable foreign exchange reserves to rise toward 70% from 59% last year.

Bolivia's stable exchange rate vis-a-vis the U.S. dollar since 2011 has anchored inflation expectations and contributed to significantly lower dollarization in the country. However, steps toward greater exchange rate flexibility would contain external vulnerabilities if current account deficits persist and foreign exchange reserves continue to decline.

The ratings on Bolivia still reflect its strong external balance sheet, low debt burden, and favorable debt profile. They also reflect Bolivia's evolving public institutions, low per capita income (projected to exceed US$3,300 in 2017), and fiscal and export dependence on commodities. Hydrocarbons (mainly natural gas) and minerals account for the bulk of the country's exports, contributing to volatility in its terms of trade (the prices of exports compared with prices of imports). In addition, our ratings on Bolivia reflect its limited monetary flexibility.

Bolivia's GDP grew 4.3% in 2016 (or 2.7% in per capita terms), despite lower earnings from energy exports. We expect GDP growth to be around 3.8% in 2017 (or just above 2.2% in per capita terms), sustained by public-sector spending, and hover around 3%-3.5% in the following couple of years, given low commodity prices. However, growth could be higher if oil prices rise beyond our current expectations.

We expect the general government deficit to be around 3% of GDP in 2017 and remain relatively stable in the next three years. Public-sector revenues may rise modestly because of a higher contribution from the hydrocarbon sector, reflecting the lagged impact of a modest recovery in oil prices, which are linked to the export price for Bolivia's natural gas (see "S&P Global Ratings Raises Its Oil And Natural Gas Prices Assumptions For 2017," from Dec. 14, 2016). We also expect public spending to slightly increase in terms of GDP, reflecting the government's economic development strategy that relies on public investment. As a result, general government debt could increase by over 3.4% of GDP, on average annually, during 2017-2020.

We project net general government debt could approach 18% of GDP in 2017, up from 16.5% in 2016, and continue climbing toward 25% of GDP in 2020. Interest costs will likely rise to 2.6% of general government revenue in 2017 and exceed 3% in the next three years, reflecting increasing debt. We expect net public-sector debt to continue increasing in the next three years to around 44% in 2020.

The consolidated public-sector deficit is likely to be around 6.5% of GDP this year. The government is likely to fund about 70% of the overall public-sector deficit by drawing upon its ample fiscal reserves and other domestic sources (internal resources, local debt issuances, and new credit from the central bank) and the rest from borrowing abroad, including from official and commercial lenders.

Success in boosting the country's proven reserves of natural gas would, at least partially, compensate for a potentially prolonged fall in commodity prices, as well as facilitate the government's strategy for industrialization. Gas output declined 4% in 2016, after falling 1% in 2015. The government projects that gas output will rise 2% in 2017. From 2019, gas output is projected to decline more substantially, absent new output from recent exploration investments. More than three-quarters is sold to Argentina and Brazil, while the rest is consumed domestically. Uncertainty about future gas production could affect upcoming negotiations to renew long-term sales contracts with Brazil (due in 2019) and Argentina (due in 2027).

Investment in the hydrocarbon sector amounted to $725 million in 2016, down from $1.15 billion in 2015. The government is projecting about $5.2 billion in investment in exploration and exploitation in the sector during 2017-2020.

Despite recent efforts to diversify the economy, it is still dependent on the hydrocarbon sector. Commodity exports account for more than 75% of total exports, while natural gas was around 30% of all exports in 2016, down from more than 50% in 2013. On average, about 47% of public-sector revenues (in the form of royalties and tax revenues) came from the hydrocarbon sector during 2010-2014, diminishing to 32% in 2016.

Bolivia's public institutions are still developing and susceptible to politicization, and economic policymaking is highly centralized. President Evo Morales will likely run for a fourth term in 2019. Despite losing a referendum in 2016 to change the constitution to allow Morales to run for a third consecutive mandate, it is likely that the president will seek approval to pursue another mandate. The governing Movimiento al Socialismo (MAS) political party holds a more than two-thirds majority in Congress and has a widespread presence throughout the country. There is no clear successor to Morales within his political movement, and no one within the MAS has similar political credentials, while the opposition remains divided, limiting its chances in the next presidential elections.

Unlike most of its counterparts, the Bolivian central bank lends to public-sector enterprises (mainly to YPFB, the oil and gas company) and manages funds that are available for investment in various projects. All such funds, as well as dollars kept in a bank deposit guarantee fund, are distinct from the central bank's foreign exchange reserves. Total central bank lending to public enterprises and trust funds reached just less than 12% of GDP in 2016.

Inflation is likely to be 4.5% in 2017, similar to 2016, and hover around 4.5% on average over the coming three to four years. Inflation will be anchored by Bolivia's stable exchange rate; however, we believe that it remains vulnerable to supply shocks.

The level of dollarization continues to fall from previously high levels. Deposits denominated in local currency increased to around 85% of total deposits by the end of 2016 from 6% in 2002, and loans in local currency increased from 53% to 97% during the same period.

The reported capital adequacy ratio of the banks exceeds 12%, and deposits fully fund the loan book. The financial system is likely to remain a net external creditor in the coming three years. Total bank lending to the private sector grew around 17% in 2016 and may grow at a slower pace this year. Total domestic credit to the private and the nonfinancial public sector grew rapidly to 58% of GDP in 2016 from 39% in 2012, and we expect it to reach 66% of GDP in 2019. While nonperforming loans are around 1.5% of total loans and are fully covered by loan loss provisions, rapid credit growth raises the risk of potentially higher nonperforming loans in the event of lower-than-expected growth. The long-term health of the financial system depends in large part on the government's pragmatism in prudently encouraging lending to targeted sectors, avoiding excessive credit growth and risk-taking, and maintaining bank profitability.

Outlook

The negative outlook reflects the risk that Bolivia's external position could deteriorate beyond our current expectations as a result of persistently large current account deficits over the next two years. Growing economic imbalances, including potential risks to the financial system emanating from the rapid increase in domestic credit in recent years, could raise the country's vulnerability to an adverse external shock. A weaker external or monetary profile could result in a downgrade.

Conversely, timely adjustment in fiscal and monetary policies could contain further deterioration in Bolivia's external profile and its economic resilience. Similarly, better-than-expected export performance, especially through improved prospects for long-term hydrocarbon output and exports, could sustain favorable GDP growth, contain the CAD, and reduce macroeconomic imbalances. We could revise the outlook to stable as a result.

Key Statistics

Table 1

Plurinational State of Bolivia--Selected Indicators											
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017f**	**2018f**	**2019f**	**2020f**
ECONOMIC INDICATORS (%)											
Nominal GDP (bil. LC)	137.88	166.13	187.04	211.45	228.00	228.03	233.60	253.39	274.06	296.42	319.05
Nominal GDP (bil. $)	19.65	23.95	27.07	30.60	33.00	33.00	33.81	36.67	39.12	41.31	43.26
GDP per capita ($000s)	2.0	2.4	2.6	2.9	3.1	3.1	3.1	3.3	3.5	3.6	3.7
Real GDP growth	4.1	5.2	5.2	6.8	5.5	4.9	4.3	3.8	3.5	3.5	3.0
Real GDP per capita growth	2.5	3.5	3.5	5.1	3.8	3.3	2.7	2.2	1.9	1.9	1.4
Real investment growth	7.5	23.7	2.5	11.7	9.9	5.0	3.4	3.8	3.5	3.5	3.0
Investment/GDP	17.0	19.8	17.7	19.1	21.0	20.3	20.8	20.8	20.8	20.8	20.8
Savings/GDP	20.9	20.1	25.0	22.5	22.8	14.6	15.2	15.5	15.8	16.0	16.9
Exports/GDP	41.2	44.1	47.2	44.2	43.3	30.9	24.6	24.6	24.6	24.6	24.6
Real exports growth	9.9	4.6	13.3	4.1	10.9	(5.9)	(5.7)	3.8	3.5	3.5	3.0
Unemployment rate	6.0	3.8	3.2	4.0	3.5	4.0	4.0	4.0	4.0	4.0	4.0
EXTERNAL INDICATORS (%)											
Current account balance/GDP	3.9	0.3	7.3	3.4	1.7	(5.7)	(5.5)	(5.3)	(5.0)	(4.8)	(3.9)
Current account balance/CARs	9.2	0.7	14.4	7.4	3.7	(16.5)	(19.2)	(17.8)	(16.9)	(16.3)	(13.1)
CARs/GDP	42.5	44.0	50.5	46.4	46.9	34.6	28.9	29.6	29.7	29.7	29.6
Trade balance/GDP	4.1	1.8	9.9	7.6	8.9	(1.0)	(2.4)	(3.5)	(3.3)	(3.1)	(2.9)
Net FDI/GDP	3.4	3.6	3.9	5.7	1.9	1.7	1.3	1.4	1.8	2.4	2.3
Net portfolio equity inflow/GDP	0.5	0.8	(1.3)	(1.4)	(2.2)	(1.8)	(2.5)	(1.4)	(1.3)	(1.0)	(0.9)
Gross external financing needs/CARs plus usable reserves	50.0	57.4	51.2	50.9	54.4	56.4	58.9	70.5	75.4	81.8	85.7
Narrow net external debt/CARs	(82.7)	(80.8)	(74.4)	(71.5)	(68.9)	(73.0)	(52.1)	(29.6)	(11.6)	1.3	12.0
Net external liabilities/CARs	(38.0)	(40.2)	(37.6)	(42.2)	(38.6)	(30.3)	(6.9)	11.1	28.1	43.8	57.4
Short-term external debt by remaining maturity/CARs	8.6	8.9	8.8	6.9	7.4	12.5	15.7	14.9	14.8	14.5	14.2
Usable reserves/CAPs (months)	13.1	10.7	11.8	12.4	11.3	13.3	13.0	9.0	7.6	6.2	5.1
Usable reserves (mil. $)	9,329	11,522	13,552	14,025	14,702	12,586	9,565	8,655	7,351	6,204	5,082
FISCAL INDICATORS (%, General government)											
Balance/GDP	(0.1)	(1.1)	1.8	1.4	(2.5)	(4.5)	(3.0)	(3.0)	(3.0)	(3.0)	(2.8)
Change in debt/GDP	2.6	1.7	2.3	2.5	1.6	1.8	1.8	3.1	3.5	3.5	3.5
Primary balance/GDP	1.4	(0.2)	2.7	2.0	(1.7)	(3.6)	(2.4)	(2.2)	(2.1)	(2.0)	(1.6)
Revenue/GDP	30.8	32.8	35.1	36.8	37.7	36.1	31.4	31.6	31.8	32.0	32.2
Expenditures/GDP	30.9	33.9	33.2	35.4	40.2	40.6	34.4	34.6	34.8	35.0	35.0
Interest /revenues	4.9	3.0	2.6	1.7	2.0	2.4	1.9	2.5	2.9	3.2	3.8
Debt/GDP	35.8	31.4	30.2	29.2	28.6	30.5	31.6	32.2	33.3	34.2	35.3
Debt/Revenue	116.4	95.8	86.0	79.3	75.9	84.4	100.5	101.9	104.7	107.0	109.7
Net debt/GDP	15.5	10.3	6.2	5.2	8.3	13.9	15.8	17.6	19.8	21.8	23.8

Table 1

Plurinational State of Bolivia--Selected Indicators (cont.)	2010	2011	2012	2013	2014	2015	2016	2017f	2018f	2019f	2020f
Liquid assets/GDP	20.3	21.1	23.9	24.0	20.3	16.5	15.8	14.6	13.5	12.4	11.6
MONETARY INDICATORS (%)											
CPI growth	2.5	9.8	4.6	5.7	5.8	4.1	4.0	4.5	4.5	4.5	4.5
GDP deflator growth	8.8	14.6	7.0	5.9	2.2	(4.6)	(1.7)	4.5	4.5	4.5	4.5
Exchange rate, year-end (LC/$)	6.99	6.91	6.91	6.91	6.91	6.91	6.91	6.91	7.10	7.25	7.50
Banks' claims on resident non-gov't sector growth	17.7	22.2	18.5	19.4	14.7	18.3	16.1	13.3	13.0	13.0	11.5
Banks' claims on resident non-gov't sector/GDP	37.3	37.8	39.8	42.0	44.7	52.9	59.9	62.6	65.4	68.3	70.7
Real effective exchange rate growth	(4.9)	1.9	5.2	5.6	7.9	16.1	6.1	N/A	N/A	N/A	N/A

Note: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. f--Forecast. N/A--Not available.

Ratings Score Snapshot

Table 2

Plurinational State of Bolivia--Ratings Score Snapshot

Key rating factors	Assessments
Institutional assessment	Weakness
Economic assessment	Weakness
External assessment	Strength
Fiscal assessment: flexibility and performance	Weakness
Fiscal assessment: debt burden	Strength
Monetary assessment	Neutral

Note: S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Section V.B of S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 23, 2014, summarizes how the various factors are combined to derive the sovereign foreign currency rating, while section V.C details how the scores are derived. The ratings score snapshot summarizes whether we consider that the individual rating factors listed in our methodology constitute a strength or a weakness to the sovereign credit profile, or whether we consider them to be neutral. The concepts of "strength", "neutral", or "weakness" are absolute, rather than in relation to sovereigns in a given rating category. Therefore, highly rated sovereigns will typically display more strengths, and lower rated sovereigns more weaknesses. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in assessment of the aforementioned factors does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the assessments.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - Sovereigns: Sovereign Rating Methodology, Dec. 23, 2014
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings History, May 5, 2017
- Banking Industry Country Risk Assessment Update: May 2017, May 5, 2017
- 2016 Sovereign Ratings Update: Outlook And CreditWatch Resolutions, April 18, 2017
- Global Sovereign Rating Trends: First-Quarter 2017, April 10, 2017
- Sovereign Risk Indicators, April 10, 2017; an interactive version is also available at http://www.spratings.com/sri
- 2016 Annual Sovereign Default Study And Rating Transitions, April 4, 2017
- Sovereign Debt 2017: Global Borrowing To Drop By 4% To US$6.8 Trillion, Feb. 23, 2017
- Plurinational State of Bolivia, June 8, 2016

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed that all key rating factors were unchanged.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed; Outlook Action		
	To	From
Bolivia (Plurinational State of)		
Sovereign Credit Rating	BB/Negative/B	BB/Stable/B

Ratings Affirmed	
Bolivia (Plurinational State of)	
Senior Unsecured	BB
Transfer & Convertibility Assessment	BB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.