Research Update:

Bolivia 'B+/B' Ratings Affirmed; Outlook Remains Negative

February 15, 2022

Overview

- We expect that slow fiscal consolidation will keep Bolivia's deficit above 6% of GDP in the next two years, raising net general government debt above 60% of GDP by 2023.
- Supportive commodity prices have eased pressure on Bolivia's external profile, but stagnant gas export capacity could turn current account results negative in coming years.
- We affirmed our 'B+' long-term foreign and local currency sovereign credit ratings on Bolivia. We plan to assign a 'B+' issue rating to its proposed new market debt.
- The outlook remains negative, indicating the risk of a downgrade over the coming six to 12 months due to potential further deterioration of the government's debt profile or weakening of its external profile.

PRIMARY CREDIT ANALYST

Carolina Caballero
Sao Paulo
(55) 11-3039-9748
carolina.caballero
@spglobal.com

SECONDARY CONTACT

Manuel Orozco
Sao Paulo
+ 55 11 3039 4819
manuel.orozco
@spglobal.com

Rating Action

On Feb. 15, 2022, S&P Global Ratings affirmed its 'B+' long-term foreign and local currency sovereign credit ratings and 'B' short-term foreign and local currency ratings on the Plurinational State of Bolivia. The outlook remains negative. The transfer and convertibility assessment remains unchanged at 'B+'.

Outlook

The negative outlook indicates the possibility of a downgrade over the coming six to 12 months due to vulnerabilities stemming from a potential weakening of the sovereign's debt profile because of a higher interest burden and the risk of poorer-than-expected external balances.

Continued deterioration in the sovereign's debt burden or an unexpected adverse movement in exchange-rate markets could increase the sovereign's interest payments as a share of its revenues, thereby worsening fiscal rigidity and leading to a downgrade. We could also lower the rating if there is an erosion of the country's external profile due to unexpected shocks to commodity prices that results in persistent imbalances or if there are other developments that diminish the sovereign's access to funding.

Conversely, we could revise the outlook to stable in the next year if effective policy management leads to faster-than-expected correction of the fiscal gap and stabilization of the sovereign's debt and interest burden. Political initiatives to curb expenditure growth or boost revenues could bolster Bolivia's budgetary flexibility and help contain external vulnerabilities.

Rationale

The ratings on Bolivia capture structural weaknesses, such as its low per capita GDP (which we project at US$3,550 in 2022), and increasing vulnerabilities from persistent and sizable fiscal deficits that have led to a rapid increase in government debt and a deterioration of the country's external profile. The ratings also reflect weak political institutions with limited checks and balances, and limited monetary policy flexibility arising from exchange-rate rigidities.

Bolivia has used fiscal policy, especially through public investment, to sustain GDP growth and to improve living conditions, as improved social indicators over the past decade demonstrate. However, the country's fiscal and external profiles have worsened over recent years and become rating vulnerabilities. Bolivia's net government debt as a share of GDP will likely exceed 60% by 2023, from 30% in 2019. Its narrow net external debt has deteriorated consistently, reflecting growing public-sector external borrowing and diminished foreign exchange reserves.

The ratings also reflect a track record of low inflation, a low level of dollarization in the financial system, and a manageable debt service profile in the next two years.

Institutional and economic profile: Slowing economic growth and challenging political context constrain Bolivia's capacity to address fiscal weakness

- An estimated GDP recovery of 6.2% in 2021 leaves an output gap relative to pre-pandemic levels.
- Growth will likely slow to 3.6% in 2022 and 3.0% for 2023-2025 as a weaker fiscal position will likely limit the government's ability to boost growth.
- Weak political institutions with limited checks and balances reduce the predictability and effectiveness of policymaking.

Our institutional assessment of Bolivia takes into account weak checks and balances between institutions, as well as limited predictability over policy implementation and effectiveness. Moreover, political divisions and social fragmentation remain high after the 2019 political crisis.

The current administration, which took office in late 2020, focused on expansionary measures to stabilize the economy while containing the pandemic. In 2020, GDP contracted 8%, resulting in a setback in all social indicators after many years of impressive progress in boosting income and living standards. We estimate GDP grew 6.2% in 2021, closing the year's GDP just below pre-pandemic levels. Meanwhile, unemployment fell to 5% from its 11% peak amid the 2020 crisis.

Fiscal measures helped sustain GDP growth and manage the social fallout from the pandemic, but they also worsened an already weakening debt dynamic. A current account surplus in 2021 helped stabilize Bolivia's external profile, which had been eroding for several years, but public finances continued to deteriorate.

The irregular change of government in 2019, with the resignation of the former president, and continued high political polarization after the 2020 elections highlight the difficulty in undertaking timely and forceful fiscal adjustments to stabilize the continuing increase in the sovereign's debt burden.

We expect broad continuity in key economic policies. The administration will likely continue to rely on the public sector to invest and spur GDP growth while maintaining government control of key strategic sectors of the economy, as indicated in its 2021-2025 development plan. However, the government's weaker public finances are likely to slow project execution capacity and, consequently, the economic growth rate.

We estimate GDP growth will decelerate to 3.6% this year before stabilizing at 3% in 2023-2025. A key driver will continue to be public spending, while private investment and foreign direct investment (FDI) will likely remain low. We expect that FDI will average less than 1% of GDP in coming years.

Flexibility and performance profile: Worsening debt metrics and weakened external buffers remain prominent rating weaknesses

- Supportive commodity prices improved the current account balance to an estimated surplus of 0.6% of GDP last year, from an average deficit of 2.7% of GDP in 2018-2020.
- High prices for commodity exports should support a current account surplus in 2022 and ease pressure on foreign exchange reserves.
- Slow fiscal adjustment will likely push net general government debt beyond 60% of GDP by 2023.

Supportive commodity prices will likely lead to a second year of current account surpluses in 2022, followed by a deficit next year given stagnant gas export capacity and import pressure. Mineral exports (especially gold) have been growing even as oil and gas production has been slowing. This, added to recent high prices, raised gold exports to 23% of total good exports in 2021, slightly above the 20% share of natural gas exports .

Natural gas exports represented around 30% of the country's total exports before the pandemic. However, the sector's export capacity has been gradually decreasing over the last decade amid stagnant production and increased domestic demand for gas. Bolivia has had to adjust the minimum export volumes pledged under its gas purchasing contracts with Brazil and Argentina to reflect the current reduced export capacity of the sector. To tackle this decline, the administration raised Bolivia's gas exploration budget At the same time, other ongoing projects aim to boost industrialization and raise the export capacity of the mineral sector and substitute for imports. However, the potential positive impact of such spending would appear in the long term, beyond our forecast period. At the same time, gains from increasing oil prices--used to determine Bolivian gas exports --will have a limited impact on Bolivia's current account because the trade surplus in oil products has been decreasing since 2016 due to stagnant export volumes and rising gasoline imports.

The recent improvement in the current account helped to stabilize foreign exchange reserves at year-end 2021 at US$4.6 billion--50% of the 2018 level. However, we expect the current account is likely to return to a deficit balance averaging 2.3% of GDP in 2023-2024, absent policy changes. The deficits will reflect expected normalization of commodity prices; recovery in domestic demand, including significant government spending; and moderate to weak prospects for export growth. The external deficits are likely to be mostly financed by debt because FDI will likely remain low. As a result, we project narrow net external debt to rise to 80% of current account receipts

(CAR), from 60% currently.

Gross external financing needs are likely to average 87% of CAR and usable reserves in 2022-2025, from 76% in 2021. Only 17% of external debt is owed to commercial creditors. The completion of recently proposed liability management operations that reduce debt service payments in the coming years would have a marginal positive impact on these external ratios. We expect foreign exchange reserves to remain stable at US$4.5 billion over the next two years, assuming continued access to external market financing. However, an unexpected and prolonged inability to access external funding could increase vulnerability in the external profile given expected current account deficits.

The government is likely to undertake a gradual fiscal correction from recent high deficits. As a result, the increase in net general government debt relative to GDP is likely to remain above 6% in 2022-2023, down from a nearly 13% record amid the pandemic. Fiscal correction would mainly come from the withdrawal of extraordinary measures implemented in response to COVID-19 in 2020 and 2021, slowing execution of infrastructure spending, and continued recovery in tax revenues. Royalties and other gas-related taxes--which represent around 18% of general government revenues--would likely benefit from the high export prices this year. High infrastructure needs and the administration's ambitious infrastructure program will likely keep capital expenditure high at 6% of GDP, or 20% of total general government spending.

We expect sovereign debt to continue growing over our forecast, with net general government debt exceeding 60% of GDP by 2023, up from 37% on average in 2019-2020. Net debt was growing quickly before the COVID-19 pandemic, reaching 30% of GDP in 2019 from only 16% in 2017. Higher debt could raise interest spending as a share of government revenue toward 5% by 2025, depending on interest costs and exchange-rate movements. A high share of foreign currency debt (over 45% of the total sovereign debt) makes the debt burden vulnerable to potential sharp adverse swings in currency.

Rapid growth of credit over the last decade has boosted the assets of the banking sector, which now exceed 100% of GDP. At the same time, the pandemic-induced slowdown and prolonged credit moratoriums could worsen the asset quality of banks. That said, reported nonperforming loans are around 1.6% of total loans and are fully covered by conservative provisioning policies and the high share of the collateralized loan portfolio. Slower credit growth raises the risk of potentially higher nonperforming loans.

The considerable reduction in the foreign currency exposure of the financial system mitigates the risks to stability. Dollar-denominated lending has plunged during the past few years, and it now represents only about 1% of total bank loans, reflecting both currency stability for many years and low inflation. Average inflation was 0.7% in 2021, among the lowest in the region. However, the exchange-rate regime also constrains monetary flexibility.

Key Statistics

Table 1

Bolivia--Selected Indicators

	2015	2016	2017	2018	2019	2020	2021e	2022e	2023f	2024f	2025f
Economic indicators (%)											
Nominal GDP (bil. LC)	228.0	234.5	259.2	278.4	282.6	252.7	276.4	295.0	314.5	335.2	357.4

Table 1

Bolivia--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021e	2022e	2023f	2024f	2025f
Nominal GDP (bil. $)	33.0	33.9	37.5	40.3	40.9	36.6	40.0	42.7	43.3	43.5	45.0
GDP per capita (000s $)	3.0	3.1	3.4	3.5	3.6	3.1	3.4	3.6	3.6	3.5	3.6
Real GDP growth	4.9	4.3	4.2	4.2	2.2	(8.8)	6.2	3.6	3.0	3.0	3.0
Real GDP per capita growth	3.5	2.7	2.7	2.7	0.8	(10.1)	4.7	2.2	1.6	1.6	1.6
Real investment growth	5.0	3.4	11.8	3.2	(3.5)	(26.0)	4.5	5.5	8.0	3.0	1.5
Investment/GDP	20.3	21.1	22.2	20.6	19.9	15.8	14.5	15.4	15.6	15.6	15.6
Savings/GDP	14.4	15.3	17.2	16.3	16.5	15.5	15.1	15.6	13.2	12.9	13.8
Exports/GDP	30.9	24.5	24.9	26.0	25.0	20.4	28.6	28.5	25.5	25.0	25.0
Real exports growth	(5.9)	(5.7)	(5.0)	5.2	(1.8)	(18.3)	52.6	3.3	(8.0)	1.1	6.6
Unemployment rate	3.5	3.6	5.1	4.9	5.0	8.3	6.3	6.3	5.0	5.0	6.0
External indicators (%)											
Current account balance/GDP	(5.9)	(5.7)	(5.1)	(4.3)	(3.4)	(0.4)	0.6	0.2	(2.4)	(2.7)	(1.8)
Current account balance/CARs	(17.0)	(19.8)	(16.7)	(14.2)	(11.6)	(1.6)	1.8	0.6	(8.2)	(9.4)	(6.4)
CARs/GDP	34.6	29.0	30.4	30.1	29.0	24.4	32.4	32.2	29.2	28.8	28.8
Trade balance/GDP	(1.2)	(2.7)	(1.5)	(0.9)	(0.6)	1.2	3.7	3.3	0.3	(0.4)	0.0
Net FDI/GDP	1.7	0.7	1.7	1.0	(0.6)	(2.8)	0.6	0.6	0.6	0.7	0.7
Net portfolio equity inflow/GDP	(1.9)	(2.7)	2.9	2.0	1.1	0.6	0.0	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	53.9	55.5	67.2	66.1	68.6	65.7	75.6	83.7	88.1	87.7	86.0
Narrow net external debt/CARs	(75.8)	(51.4)	(22.7)	(1.6)	37.5	73.8	58.9	61.9	73.1	80.9	82.3
Narrow net external debt/CAPs	(64.8)	(42.9)	(19.5)	(1.4)	33.6	72.7	60.1	62.2	67.6	74.0	77.4
Net external liabilities/CARs	(48.5)	(10.2)	19.2	34.0	59.2	80.1	55.8	50.3	62.7	72.8	76.9
Net external liabilities/CAPs	(41.5)	(8.5)	16.5	29.7	53.0	78.8	56.8	50.6	58.0	66.6	72.3
Short-term external debt by remaining maturity/CARs	6.2	6.9	6.9	5.3	6.2	8.3	5.9	10.9	12.0	8.4	8.3

Table 1

Bolivia--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021e	2022e	2023f	2024f	2025f
Usable reserves/CAPs (months)	13.2	12.8	8.6	8.5	7.7	7.9	4.6	3.8	4.0	3.8	3.8
Usable reserves (mil. $)	12,586.1	9,564.5	9,793.9	8,520.3	5,992.9	4,890.9	4,368.8	4,613.8	4,306.4	4,306.4	4,306.4
Fiscal indicators (general government; %)											
Balance/GDP	(4.5)	(3.4)	(5.0)	(6.0)	(6.9)	(13.1)	(9.5)	(7.3)	(5.9)	(5.0)	(4.0)
Change in net debt/GDP	5.6	3.0	7.2	5.6	4.9	12.2	10.2	7.1	8.5	5.7	4.7
Primary balance/GDP	(3.6)	(2.8)	(4.4)	(5.2)	(6.1)	(12.1)	(8.4)	(6.2)	(4.8)	(3.8)	(2.7)
Revenue/GDP	36.1	31.3	29.3	28.0	27.0	23.6	24.3	25.3	25.3	24.9	24.8
Expenditures/GDP	40.6	34.6	34.3	34.0	33.9	36.7	33.8	32.6	31.2	29.9	28.8
Interest/revenues	2.4	1.9	2.3	2.8	3.0	4.0	4.5	4.3	4.6	4.9	5.1
Debt/GDP	30.4	32.3	36.4	38.0	41.9	59.1	64.4	67.5	72.2	73.7	74.1
Debt/revenues	84.3	103.1	124.3	135.7	155.3	250.2	265.1	266.9	285.8	296.4	298.4
Net debt/GDP	13.9	16.5	22.1	26.2	30.7	46.5	52.7	56.5	61.6	63.4	64.2
Liquid assets/GDP	16.5	15.8	14.3	11.9	11.2	12.6	11.7	11.0	10.6	10.3	9.9
Monetary indicators (%)											
CPI growth	4.1	3.6	2.8	2.3	1.8	0.9	0.7	3.0	3.5	3.5	3.5
GDP deflator growth	(4.6)	(1.4)	6.1	3.1	(0.7)	(1.9)	3.0	3.0	3.5	3.5	3.5
Exchange rate, year-end (LC/$)	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	7.6	7.8	8.1
Banks' claims on resident non-gov't sector growth	18.3	16.1	11.2	14.7	6.8	4.3	3.1	7.7	8.0	8.0	6.9
Banks' claims on resident non-gov't sector/GDP	52.9	59.7	60.1	64.2	67.5	78.8	74.2	74.9	75.9	76.9	77.1
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 1

Bolivia--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021e	2022e	2023f	2024f	2025f
Real effective exchange rate growth	14.6	4.1	(2.2)	2.2	4.6	5.2	N/A	N/A	N/A	N/A	N/A

Sources: Bolivia's Ministry of Economy and Public Finance, Central Bank of Bolivia, National Statistical Institute (INE), and International Monetary Fund.
Adjustments: N/A
Definitions: 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 claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. e--Estimate. f--Forecast. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. 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.

Ratings Score Snapshot

Table 2

Bolivia--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	5	Policy choices likely weaken capability and willingness to maintain sustainable public finances and balanced economic growth. Future policy responses are difficult to predict because of a highly polarized politcal landscape and centralized decition making system.
Economic assessment	5	Based on GDP per capita (US$) and growth trends as per Selected Indicators in table 1.
External assessment	4	Based on narrow net external debt and gross external financing needs/(CAR + useable reserves) as per Selected Indicators in table 1.
		The country is exposed to significant volatility in terms of trade due to its dependence on hydrocarbons.
Fiscal assessment: flexibility and performance	6	Based on the change in net general government debt (% of GDP) as per Selected Indicators in table 1

Table 2

Bolivia--Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
		The sovereign faces shortfalls in basic services and infrastructure, as reflected, for instance, by its low ranking on the UNDP's human development index.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in table 1.
		Over 40% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The Bolivian exchange-rate regime is a conventional pegged arrangement. The regime is not a legal peg, and the central bank intervenes in foreign exchange markets.
		Central bank independece is limited by perceived political interference. It uses market-based monetary instruments and has the ability to act as a lender of last resort. Annual inflation is low, as per Selected Indicators in table 1.
Indicative rating	b+	As per table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	B+	
Notches of uplift	0	
Local currency	B+	Default risks do not apply differently to foreign- and local-currency debt.

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). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score 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 scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Banking Industry Country Risk Assessment: Bolivia, Nov. 8, 2021
- Bolivia Outlook Revised To Negative On Increasing Debt And External Vulnerabilities; 'B+' Long-Term Ratings Affirmed, March 22, 2021

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's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

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	
Bolivia (Plurinational State of)	
Sovereign Credit Rating	B+/Negative/B
Transfer & Convertibility Assessment	
Local Currency	B+

Ratings Affirmed	
Bolivia (Plurinational State of)	
Senior Unsecured	B+

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.