

Bolivia's Ratings Unchanged After Elections

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21 Dec 2005 10:12 AM (EST) ----- Fitch Ratings-New York-21 December 2005: Fitch Ratings today commented on the Republic of Bolivia's general elections held on Dec. 18, 2005. Fitch rates Bolivia's foreign and local currency issuer default ratings 'B-' with a Negative Outlook. Evo Morales of the leftist party Movimiento al Socialismo (MAS) won the presidential election with an absolute majority of 51%, according to unofficial results. In a country where over one-half the population is indigenous, Mr. Morales is the first indigenous leader to win the presidency. Evo Morales will take office on Jan. 22, 2006. Similarly, his party fared well in the congressional elections, winning 78 of the 157 seats, one short of a majority. The new president will face the daunting task of addressing the demands of Bolivians for the nationalization of the energy sector, the drafting of a new constitution, and the issue of more autonomy for Bolivia's regions. While Fitch is concerned about the politician's campaign rhetoric, which challenged the liberal economic policies followed by recent governments and the regional policies of the U.S. that advocate the eradication of coca cultivation, the Morales victory should give his government a greater degree of legitimacy than that enjoyed by recent predecessors, and could lead to improvements in governability. Furthermore, the carrot of the Multilateral Debt Relief Initiative, which could lead to 100% debt relief from the IMF and the World Bank as early as next year, may provide sufficient incentive to maintain important aspects of Bolivia's macroeconomic framework and to respect property rights. The targeted 100% debt relief of IMF and World Bank Debt outstanding as of Dec. 31, 2004, would cut Bolivia's public sector debt by approximately US\$2.1 billion, potentially reducing the sovereign's debt/GDP ratio to 54% by the end of 2006 from a forecasted 75% at the end of this year. 'Looking ahead, Bolivia's credit story will be determined by the political and economic pragmatism of President-elect Evo Morales and his ability to withstand demands by more radical social movements,' according to Theresa Paiz-Fredel, Fitch's lead analyst for Bolivia and director in the Sovereign group. Fitch believes there are two key factors to monitor with respect to the sovereign's creditworthiness, particularly since both could have implications for future debt relief. First, how does the Morales government interpret and implement the new hydrocarbons law approved in May 2005? Under this law, 12 multinational oil companies will have to renegotiate exploration and production contracts. Will this government honor bilateral investment protection agreements? Will it respect legal certainty as well as foreign and national private investment? Second, will Bolivia maintain a cordial bilateral relationship with the U.S.? This relationship is likely to be conditioned on respect for democratic institutions and a continuation of the fight against drug production and trafficking. While Morales does not support U.S. coca-eradication efforts, defending the plant as an integral part of Bolivian culture, he has vowed to adhere to an effective fight against narco-trafficking. Additionally, since winning the election, Morales has also pledged to respect private property. In spite of a prolonged period of social unrest and political uncertainty, Bolivia's president-elect inherits a growing and stable economy due to a benign international environment and the government's efforts to tighten fiscal policy. Real GDP growth is likely to reach almost 4.0% this year, underpinned by exports of hydrocarbons and minerals. High international commodity prices and record export volumes also benefited Bolivia's external accounts, with export growth reaching 23% for the first 10 months of 2005, compared with the same period in 2004. International reserves have grown to US\$1.7 billion, or almost six months of imports of goods and services, the highest level in Bolivia's history. For the first three quarters of 2005, the combined public sector balance reverted to a slight surplus from a deficit of 5.5% of GDP in 2004 (including grants). Fiscal consolidation and growth have been contributing to an improvement in Bolivia's debt ratios, while inflation remains in single digits. Nevertheless, private investment, particularly foreign direct investment, has declined significantly in recent years. A loss of

international support or a further deterioration of the social and political environment that affects debt service capacity or willingness could trigger a downgrade. Conversely, more clarity on debt forgiveness and/or an easing of social tensions, which results in improved governability could lead to a revision of the Outlook back to Stable. Contact: Theresa Paiz Fredel +1-212-908-0534, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.