

# **SOVEREIGN ISSUES PLURINATIONAL STATE OF BOLIVIA**

**Presented by**

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**Vice Minister of the Treasury and Public Credit**

**Ministry of Economy and Public Finance**

**Brussels, 4 April 2014**



Ministerio de  
**ECONOMÍA  
Y  
FINANZAS PÚBLICAS**  
ESTADO PLURINACIONAL DE BOLIVIA

# Bolivia at a Glance

One of Latin America's best performing economies

## US\$31.2 billion GDP [2013(p)]

- 6.8% Real GDP growth in 2013(p)
- 10.4 million population

## Rich in natural resources with a growing manufacturing and agricultural sectors

- Largest lithium resources in the world (9m tons)
- 2nd largest per capita gas reserves in Latin America
- Top GDP components: Manufacturing, agriculture, Hydrocarbons/Mining

## Healthy external profile

- 2013 current and capital accounts of USD1.1bn
- US\$14.4bn in Reserves, 51% Reserves to GDP
- 144% Reserves to Public Debt

## Solid monetary and fiscal administration

- Ongoing fiscal surpluses since 2006 [2013(p): 0.1%]
- Modest inflation of 6,5% in 2013(p)

• **President: Evo Morales, re-elected in 2009 with 64% of the vote** (first term under the NCPE, the new constitution). President Morales could be re-elected again in 2014 (for what would be his second term under the new constitution)



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- 1. The Economic, Social, Communitarian and Productive Model.**
- 2. Economic Performance.**
- 3. Social Developments.**
- 4. Sovereign Issues.**
- 5. Conclusions.**



# 1. The Economic, Social, Communitarian and Productive Model



## The Neoliberal Economic Model

1. Free market. The market is the mechanism for allocating resources and the imbalance adjustor. Hypothesis: Efficient Market
2. An isolated State. The market is a self-regulated mechanism of the economic process
3. Privatization, the surplus is transferred abroad and without a precautionary management policy of Natural Resources
4. A Primary Exporter Development Pattern

## The Economic, Social, Communitarian and Productive Model

1. The state intervenes to correct market failures (lack of redistribution of wealth and transnational monopoly of strategic companies)
2. An active participation of the State in the economy. The State must intervene in the economy through its seven facets: planner, entrepreneur, investor, regulator, benefactor, developer, banker
3. Nationalization and control of strategic natural resources
4. A pattern of industrialization and productive development



## The Neoliberal Economic Model

5. High concentration of income, sectors excluded of society
6. Economy focused on private initiative
7. Growth depends only on the external demand
8. Investment depends on external savings, boosting debt and fiscal deficit
9. Stagnation, poverty, inequality of wealth and opportunity
10. Macroeconomic stability as an end in itself

## The Economic, Social, Communitarian and Productive Model

5. Redistributive State
6. The State is the sponsor of a plural economy
7. Growth based on external and domestic demand
8. Generation of domestic resources for investment, fiscal surpluses and lower debt
9. Development, redistribution and employment generation
10. Preserving macroeconomic stability as a social asset and promote economic development



# Foundations of the New Model

1

**GROWTH AND DEVELOPMENT BASED ON THE USE OF NATURAL RESOURCES:** Change in the primary export production matrix to one that prioritizes the production and increases the value of products through an industrialization process

2

**APPROPRIATION OF ECONOMIC SURPLUS:** With the recovery of natural resources surpluses are now left in the country and are redistributed to other sectors generating income and employment

3

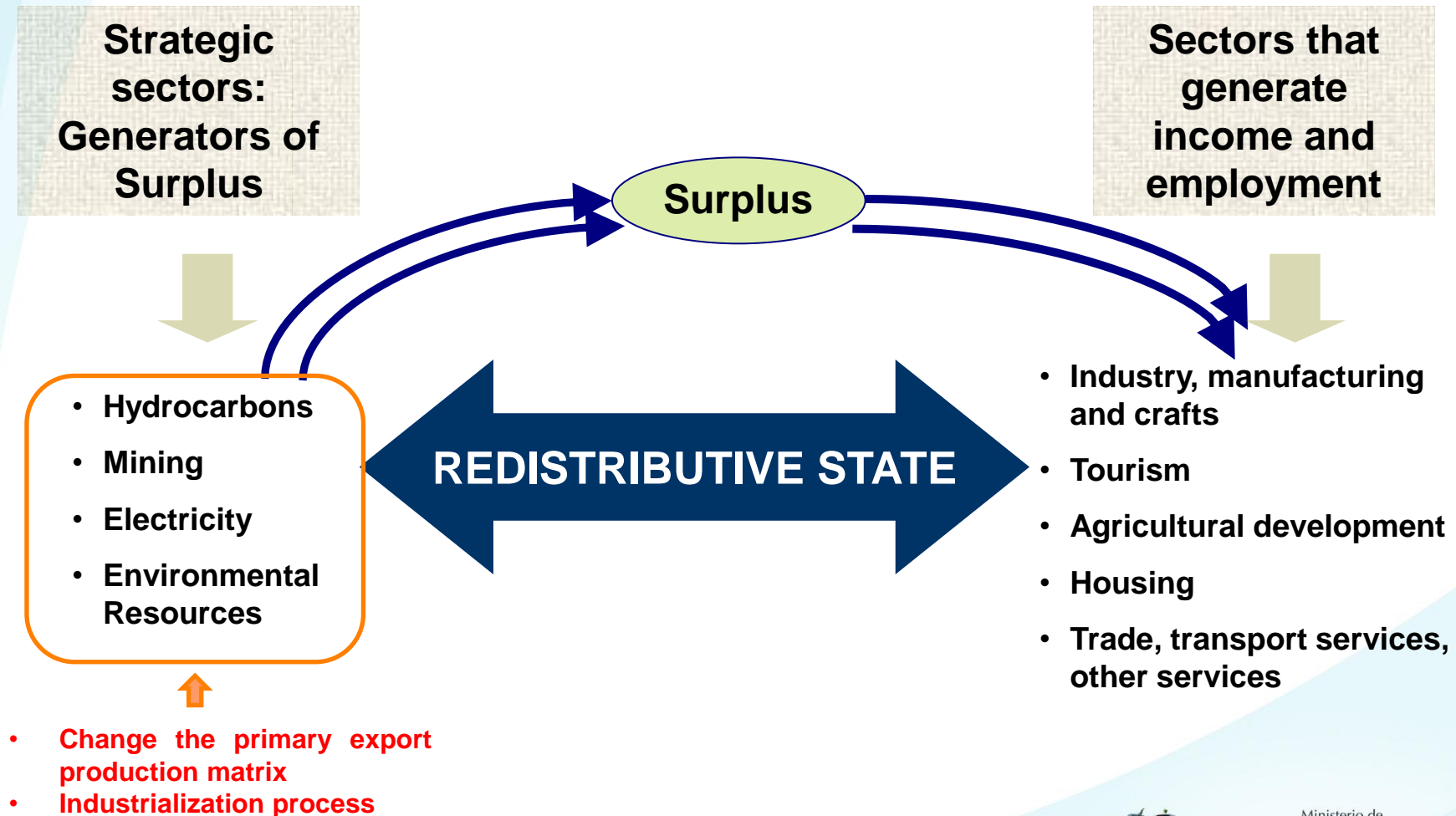
**REVENUE REDISTRIBUTION MODEL:** Conditional transfers (Juancito Pinto cash transfer program, Juana Azurduy voucher program and the Dignity Pension program), public investment, inversely proportional wage increases and others.

4

**REDUCTION OF SOCIAL INEQUALITY AND POVERTY**



# The Economic, Social, Communitarian and Productive Model

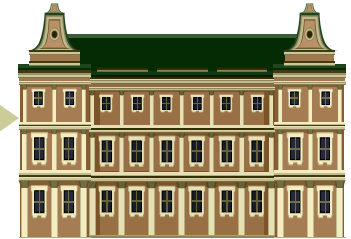
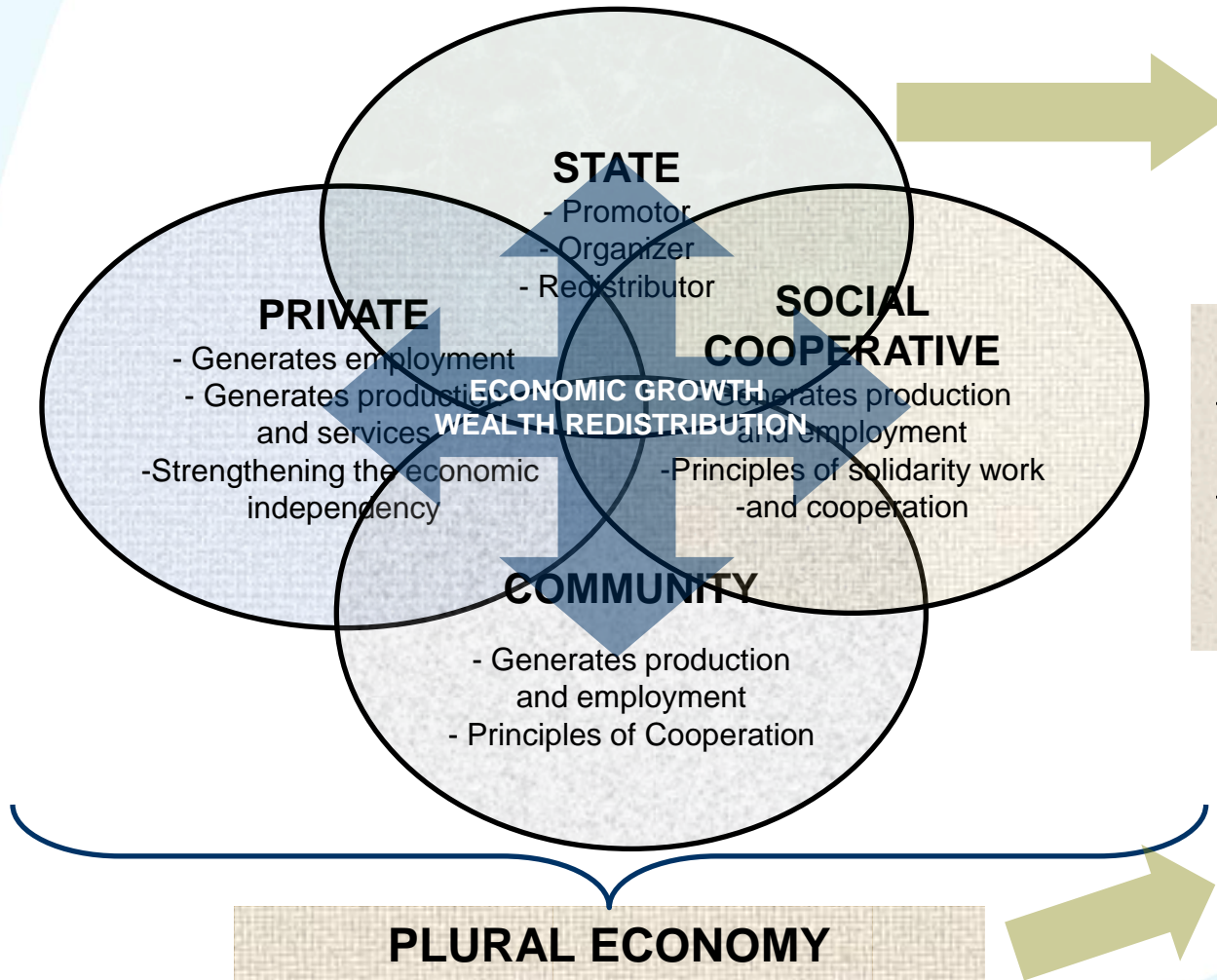


Source: New Political Constitution of the State  
Elaborated: Ministry of Economy and Public Finances





# Plural Economy



## Role of the State

Promote the integration of various economic forms of production, aiming to achieve economic and **social development**

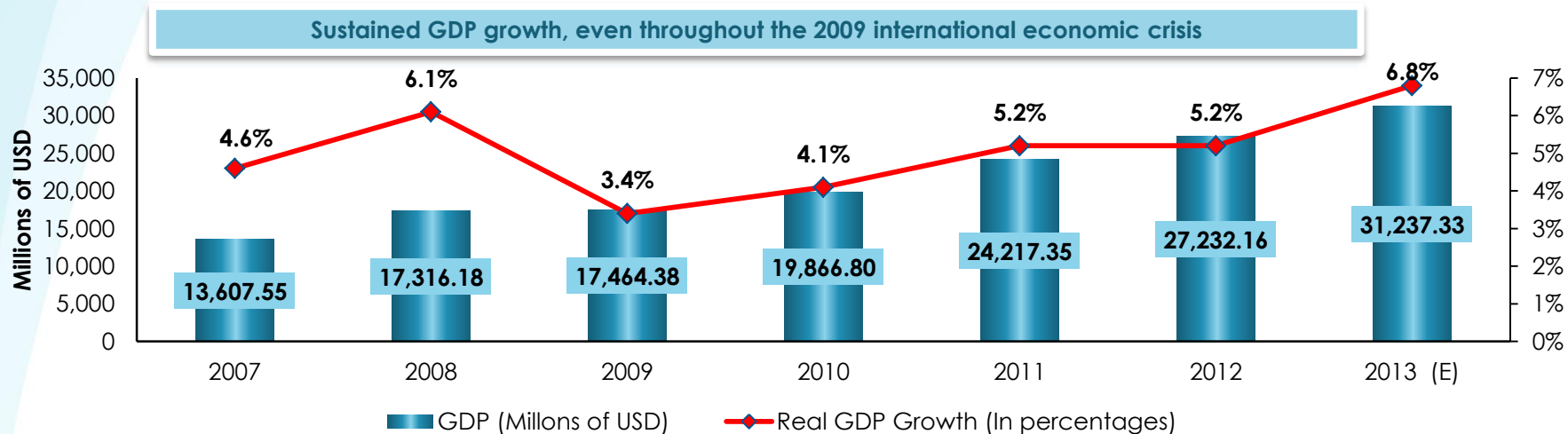
Complementation of individual interest with collective welfare



## 2. Economic Performance



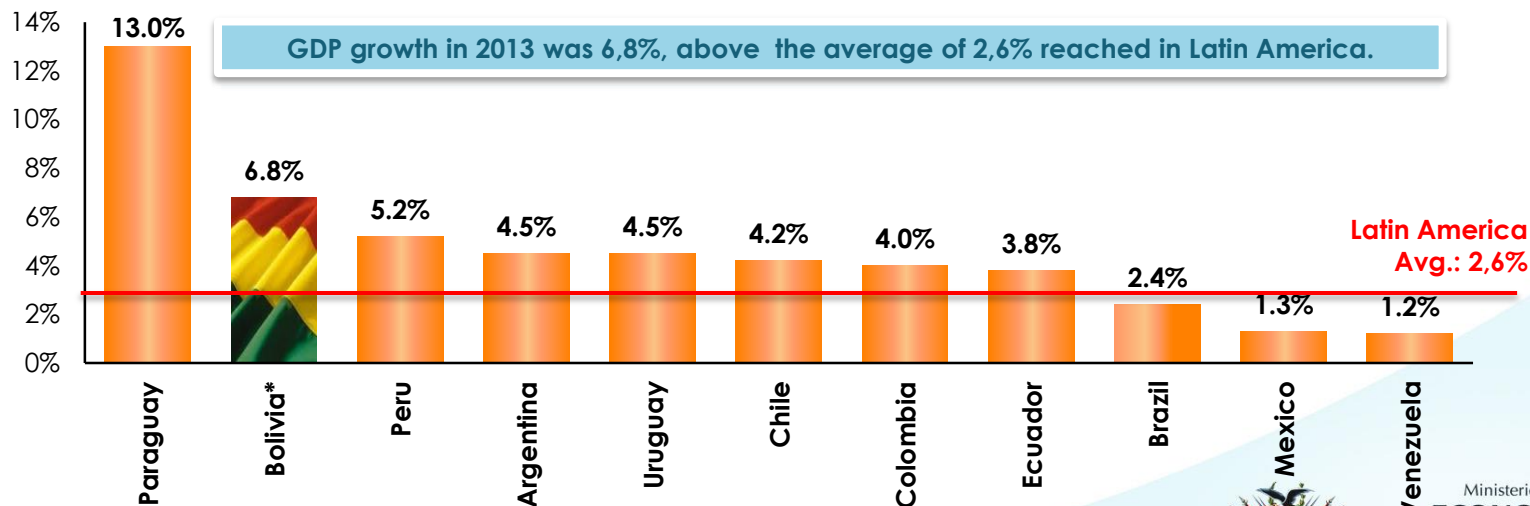
# Sustained Growth (2007 - 2013)



(E) Estimate

Source: Ministry of Economy and Public Finance, Fiscal Analysis Net (RAF)

# Real Growth - Regional Comparison (2013)

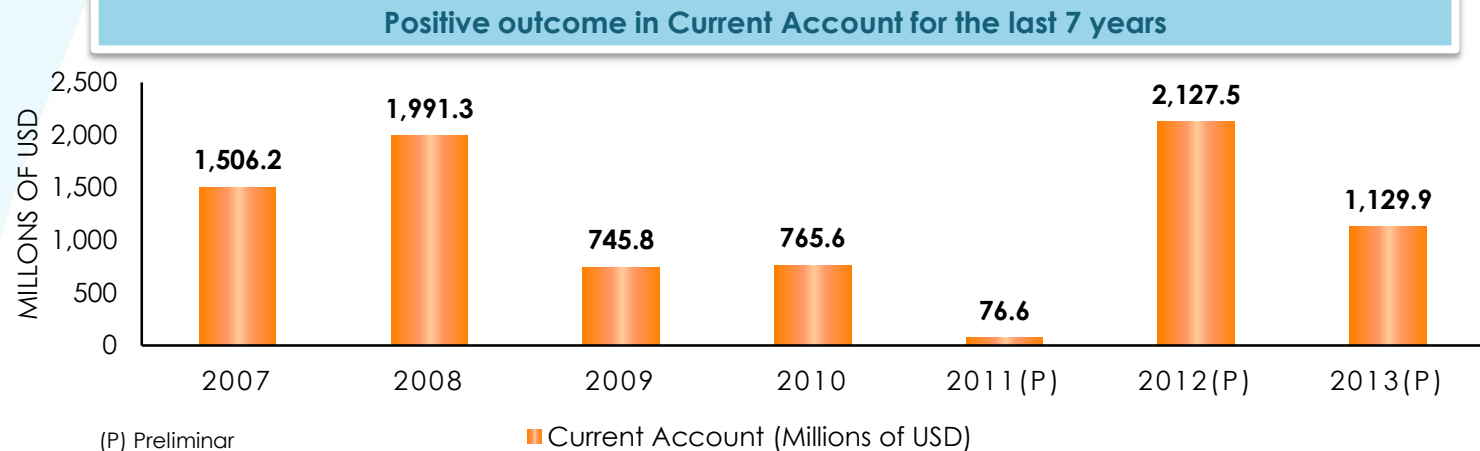


\*Global Economic Activity Index (IGAE).

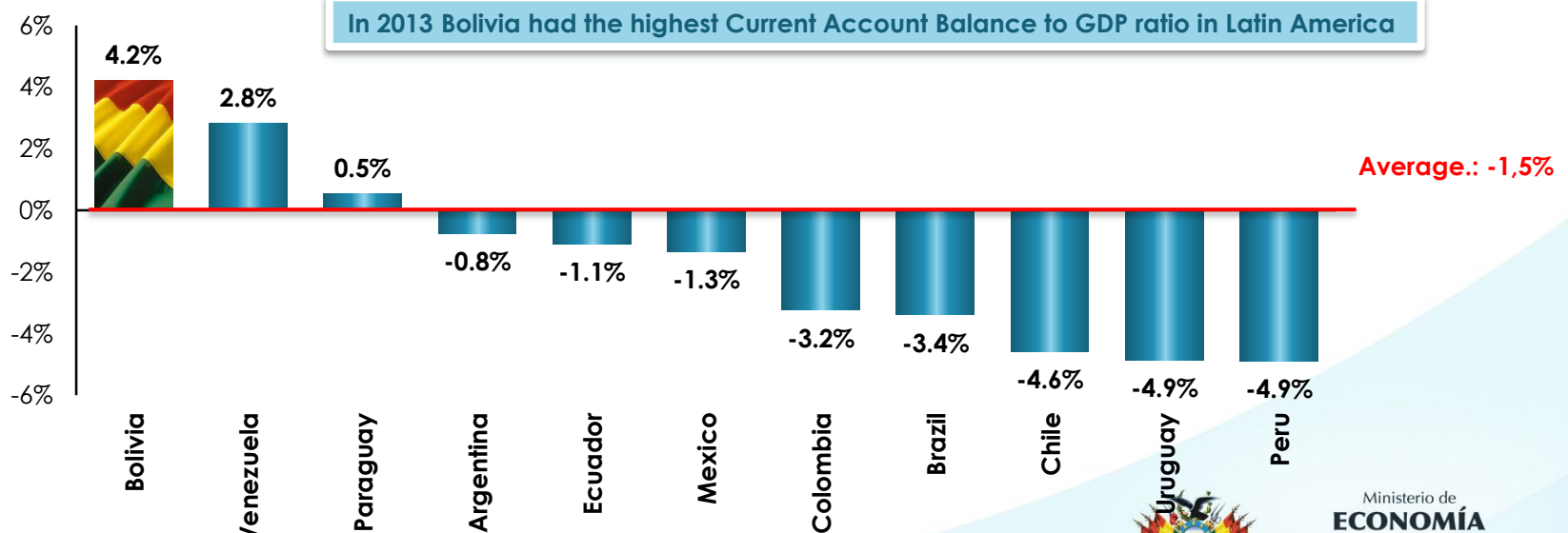
Source: Economic Commission for Latin America and the Caribbean (ECLAC). December, 2013.



# Positive Current Account (2007 – 2013)



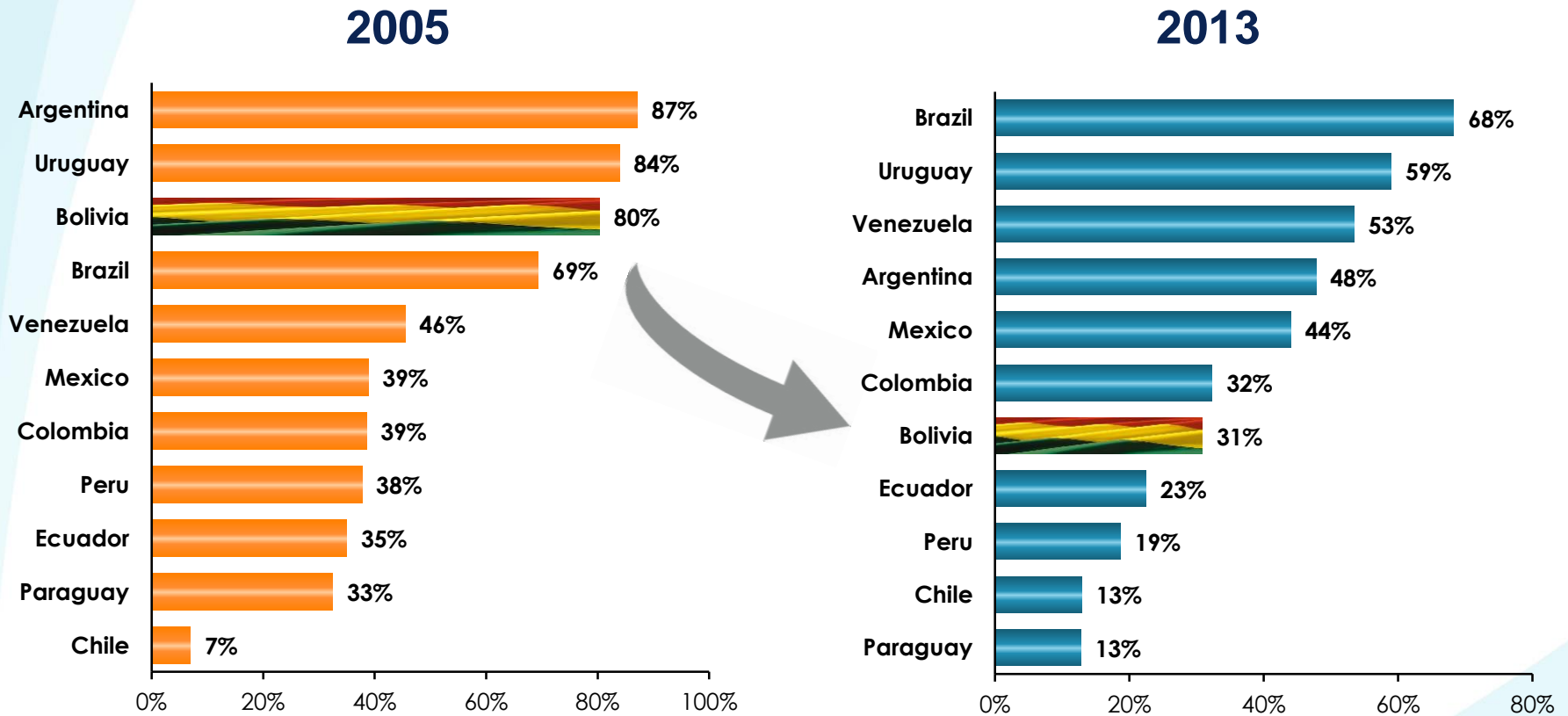
# Current Account Balance/GDP – Regional Comparison (2013)



Source: IMF, World Economic Outlook Database, October 2013.



# Public Debt/GDP – International Comparison (In percentages)



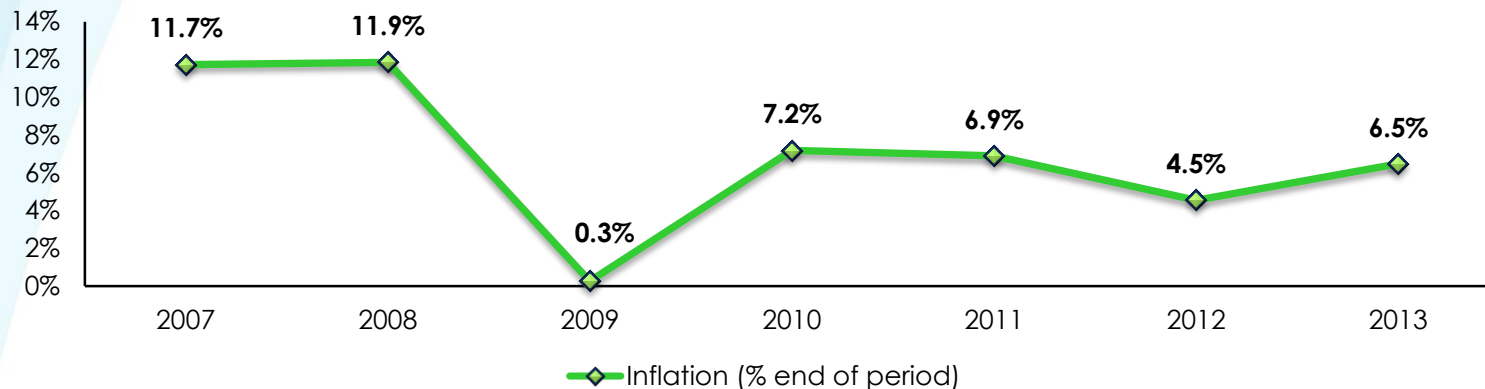
Source: IMF, World Economic Outlook Database, October 2013.

Gross public debt to GDP ratio descended as a sign of the improvement of the country's solvency



# Low Levels of Inflation (2007 – 2013)

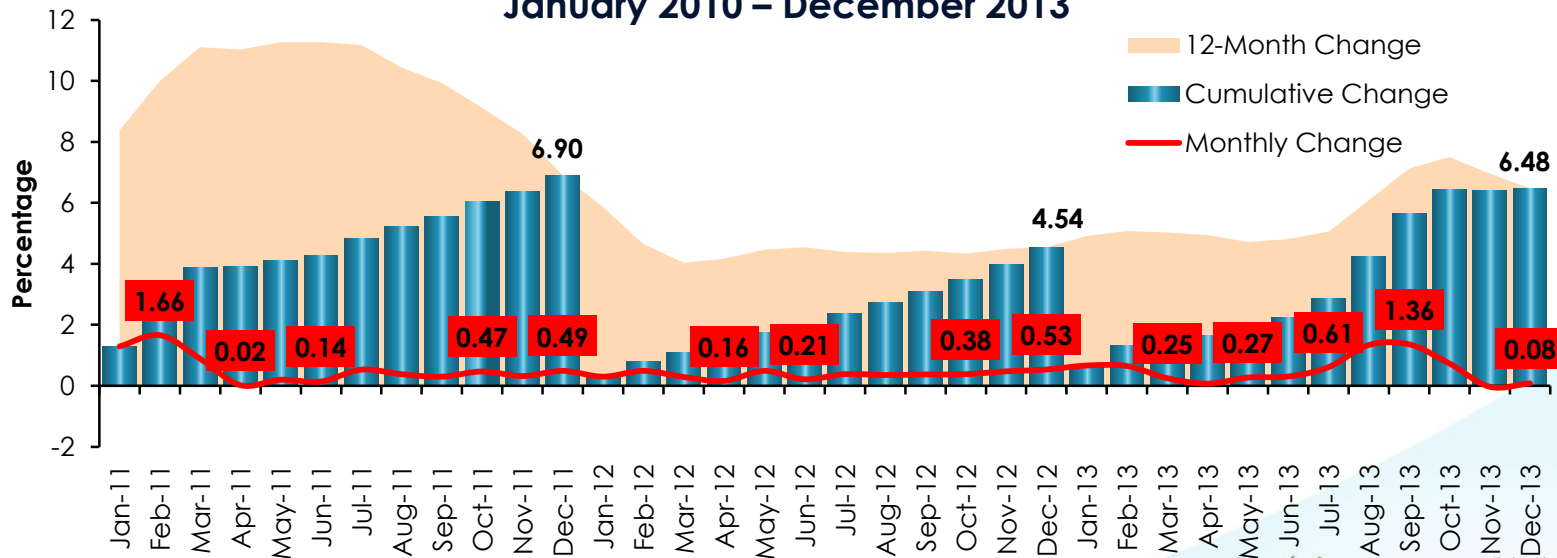
Bolivia presented modest levels of inflation during the last 7 years



Source: National Institute of Statistics.

## Monthly, Cumulative and Year over Year Inflation

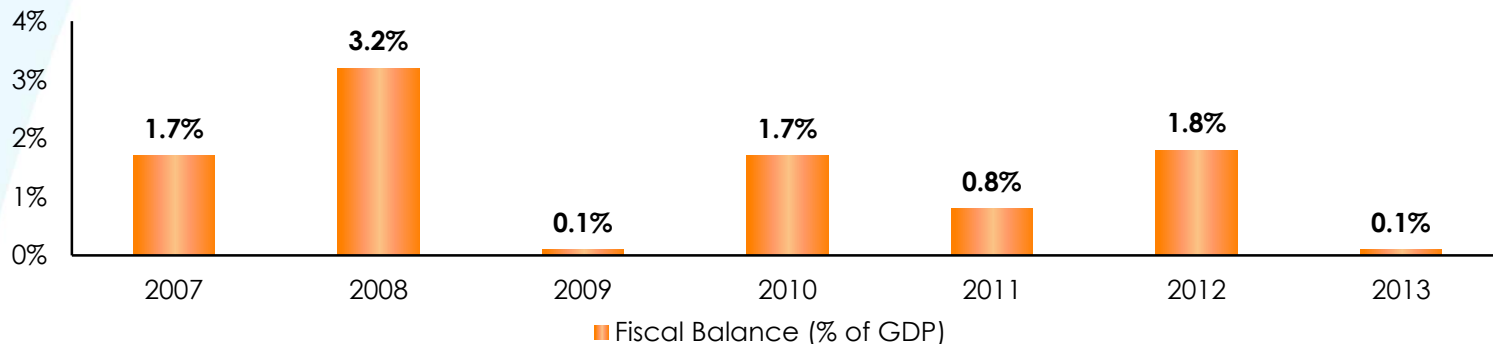
January 2010 – December 2013



Source: National Institute of Statistics

# Prudent Fiscal Policy: Fiscal Balance (2007 – 2013)

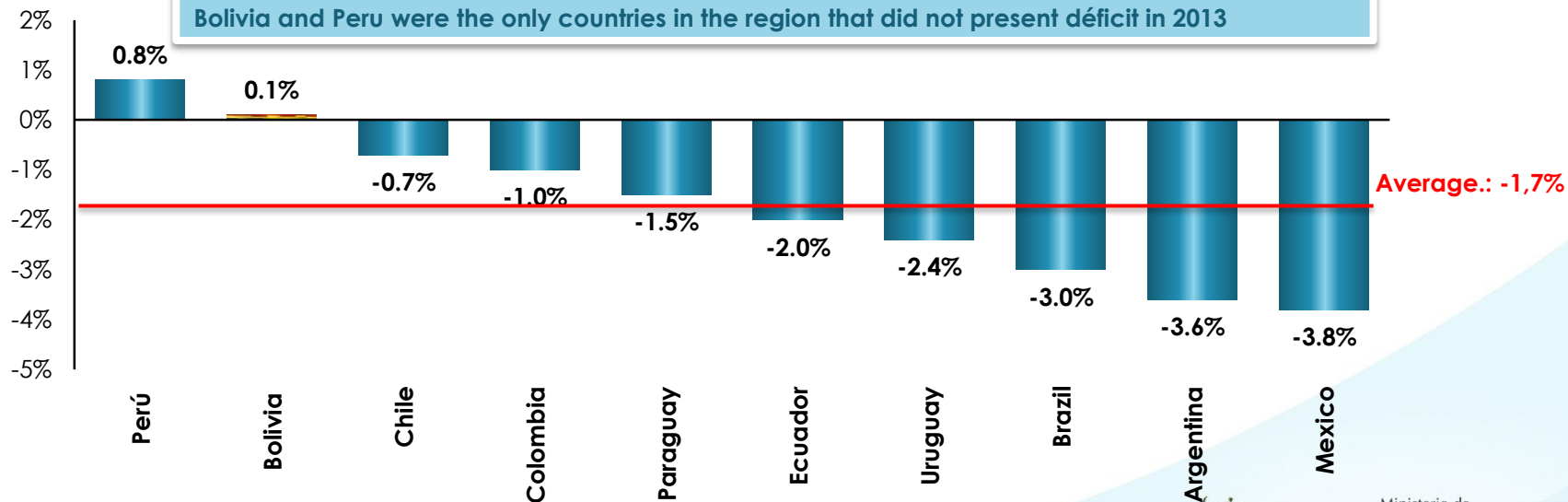
Consecutive years of fiscal surpluses, even during recent crises



Source: Ministry of Economy and Public Finance – Central Bank of Bolivia

## Regional Comparison (2013)

Bolivia and Peru were the only countries in the region that did not present déficit in 2013

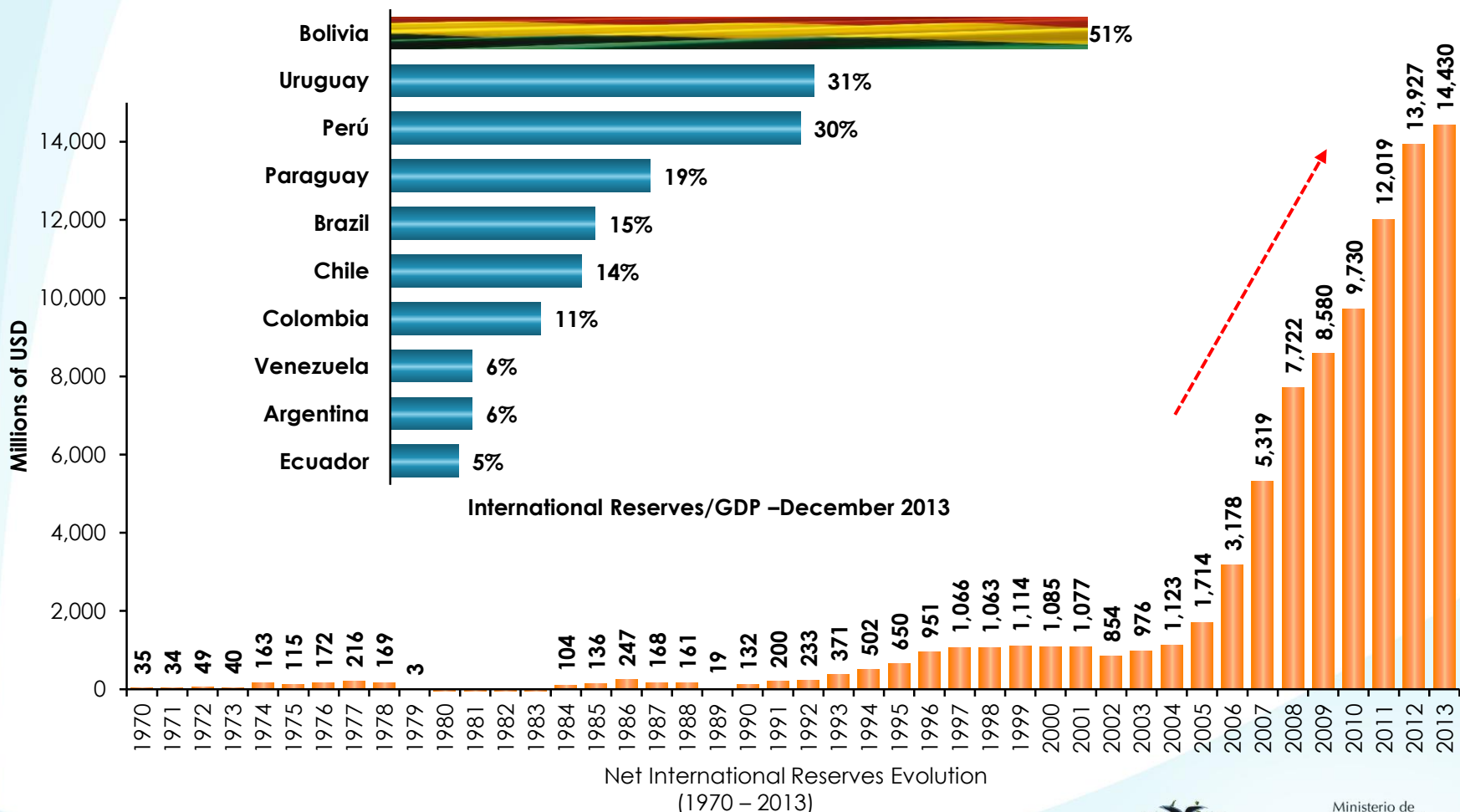


Source: Ministries of Finance of each country



# International Reserves

Bolivia had the best percentage of International Reserves to GDP in Latin America in 2013



Source: Central Banks of each country

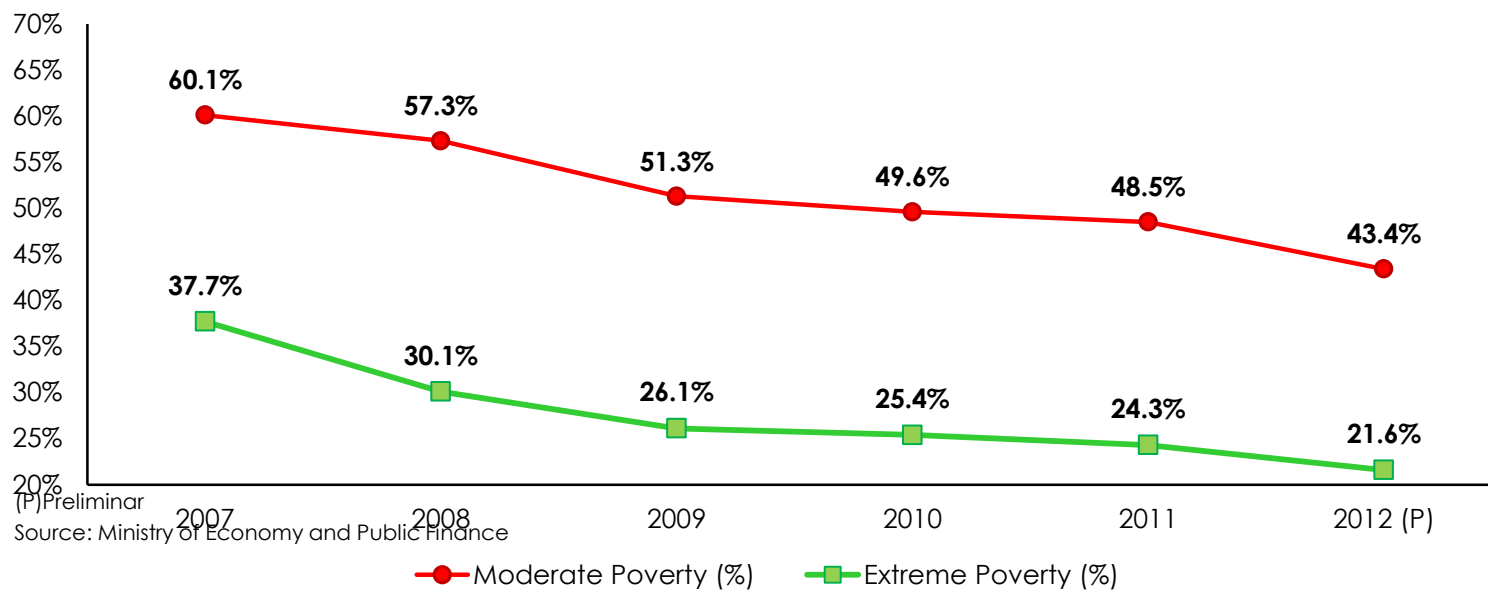




### 3. Social Developments



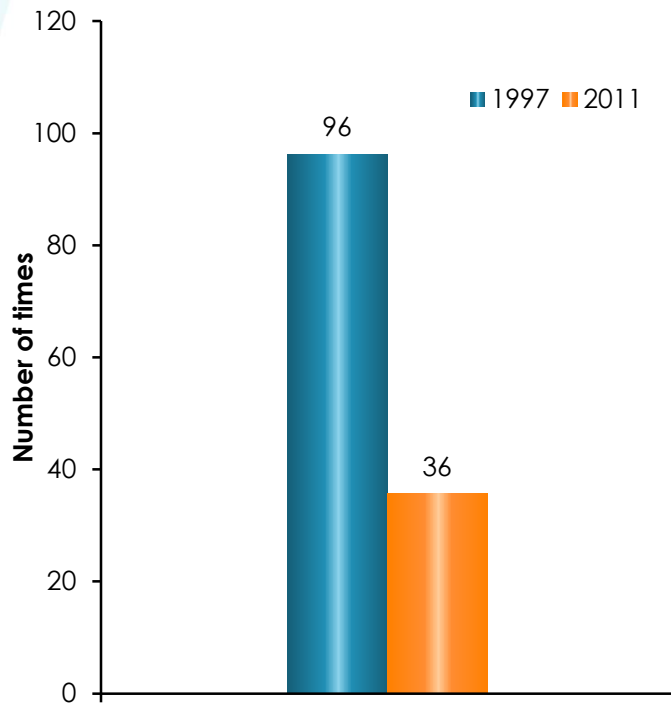
## Reduction of Poverty: Poverty (2007 – 2013)



Extreme and moderate poverty have considerably reduced thanks to redistributive policies and the Government commitment to eradicating poverty

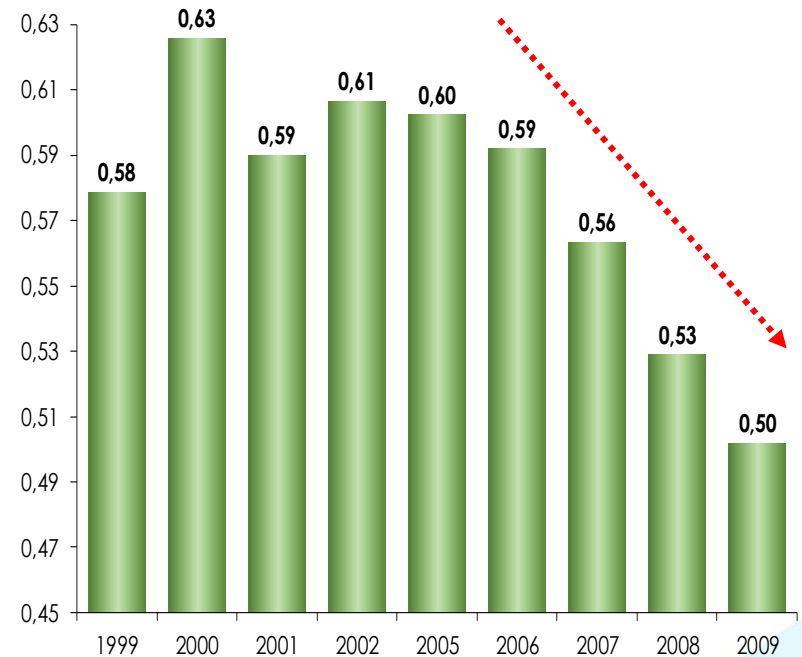
# National Inequality Indicators

Nationwide relation of income between the richest 10% and the poorest 10% between (1997-2011)



In 1997 the richest 10% received 96 times the income of the poorest 10%.  
 In 2011 the richest 10% received only 36 times the income of the poorest 10%.

Gini Indicator (1999-2009)

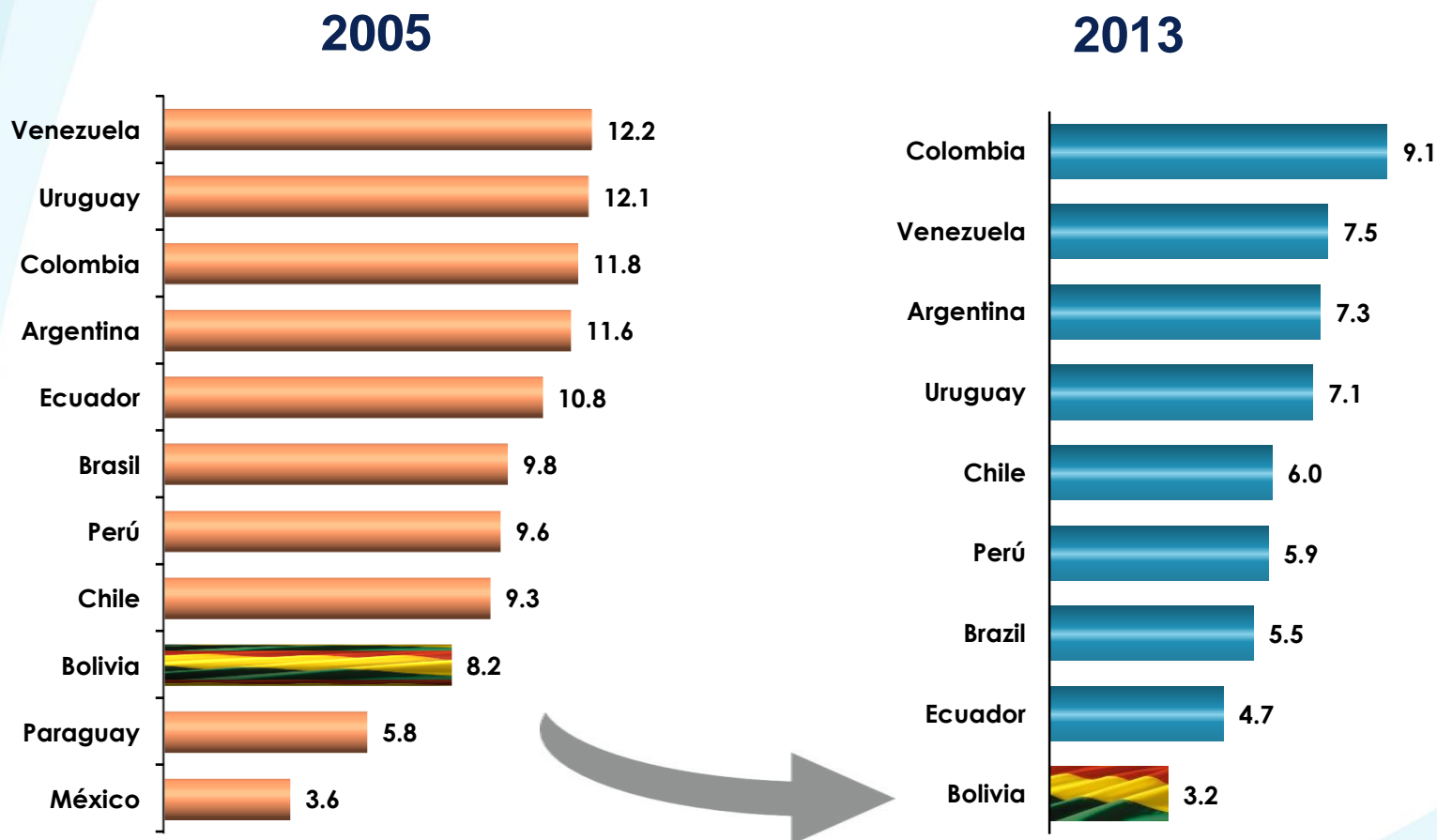


1 = Inequality, 0 = Equality



# Reduction of Unemployment

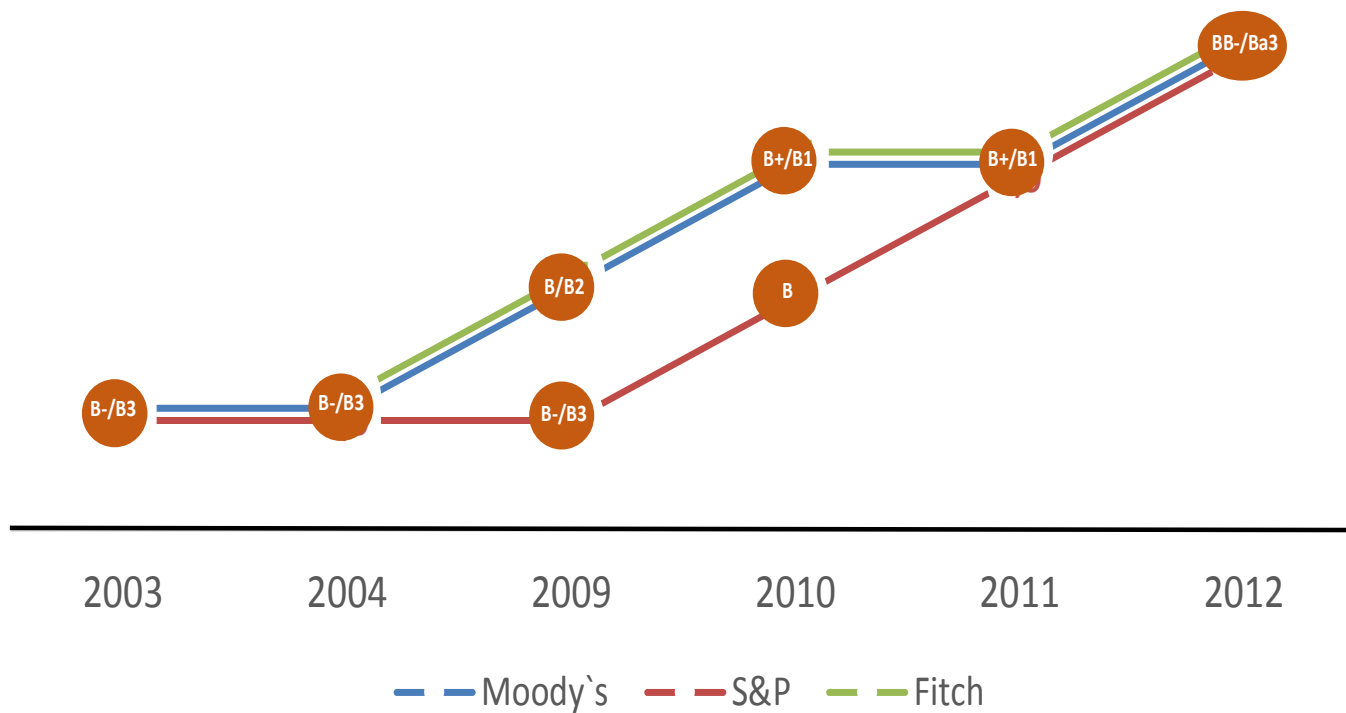
Bolivia presented the lowest unemployment rate in the region in 2013



Source: Statistical Offices of each country.  
Data of 2013 is preliminar



## Evolution of Credit Ratings Plurinational State of Bolivia



## 4. Sovereign Issues

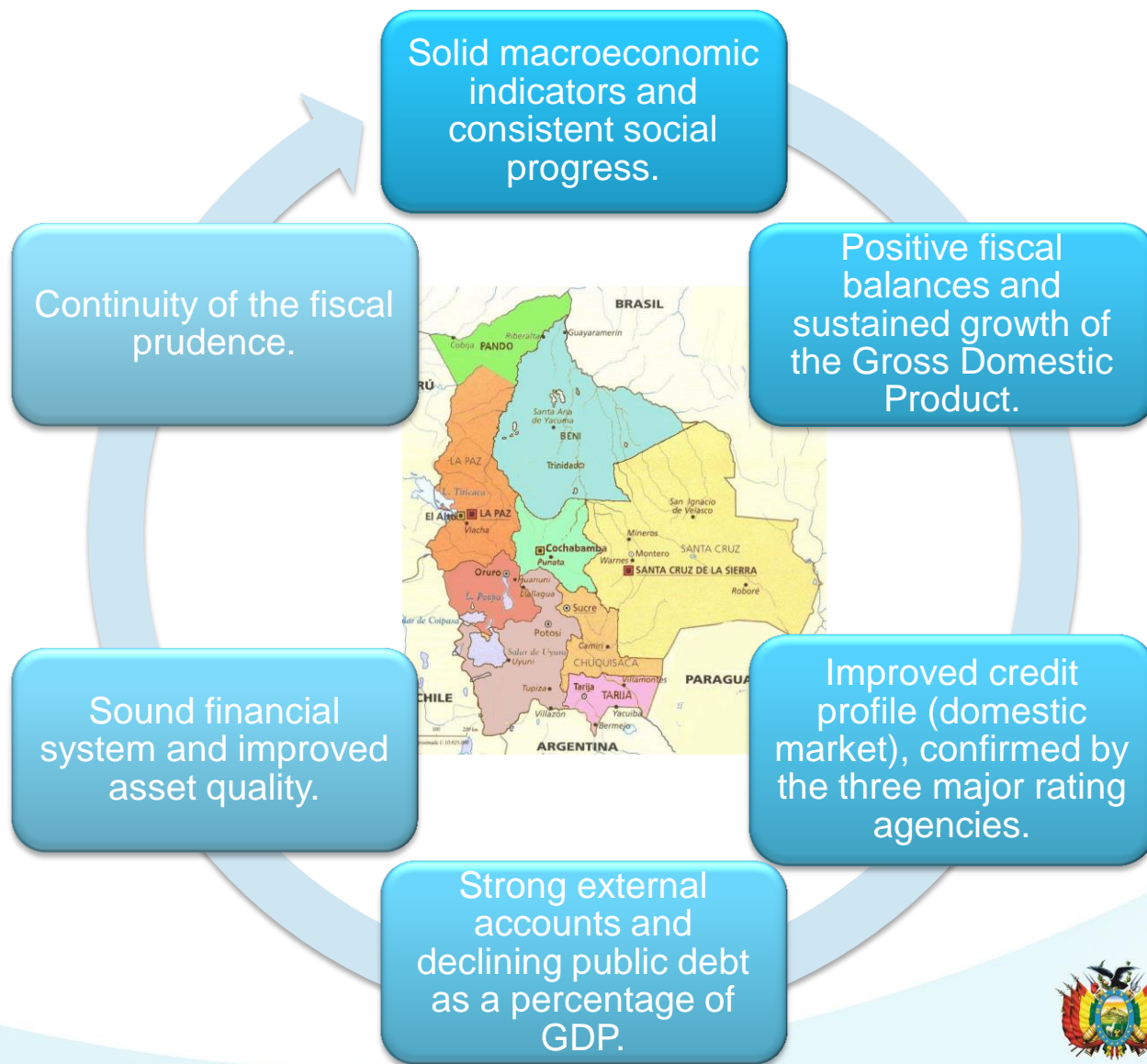




## Objectives of the Sovereign Issues Plurinational State of Bolivia

- ✓ Place the Plurinational State of Bolivia as a successful economy in macroeconomic policy with income redistribution.
- ✓ Diversification of funding sources to the public sector.
- ✓ Establish a reference for local public and private companies to access to the international capital markets.
- ✓ Bolivia took advantage of a window of opportunity in the international capital market.

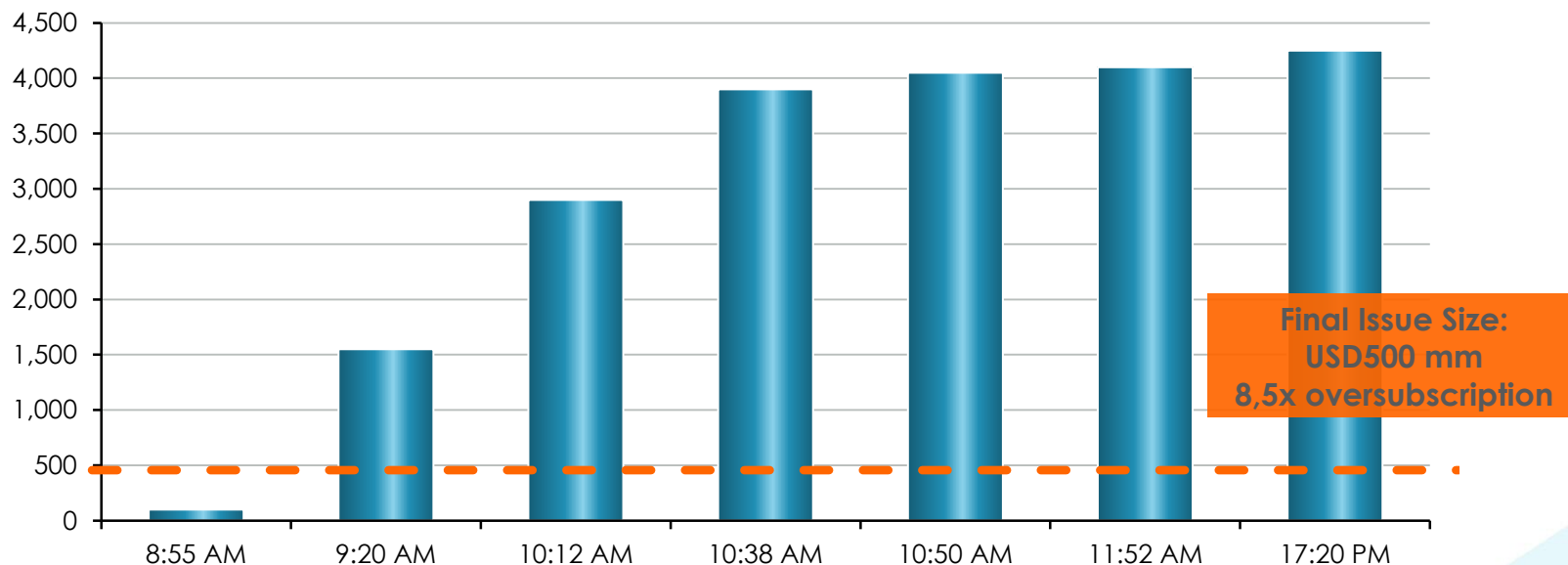
# Strengths of the Plurinational State of Bolivia





## Execution of the Debut Sovereign Issue

- ✓ Five countries that had issued bonds were visited in order to study and learn from their experience.
- ✓ In preparation for this issue, two teams were formed with the aim of visiting the largest number of investors in Europe, the US and Latin America.
- ✓ October 2012: the first international capital markets issue for a local issuer out of Bolivia in almost 100 years.



Execution Steps

5% area (initial Pricing Thoughts)

4,875%  
(+/- 12,5 bps)  
Official  
Guidance

Books  
Subject

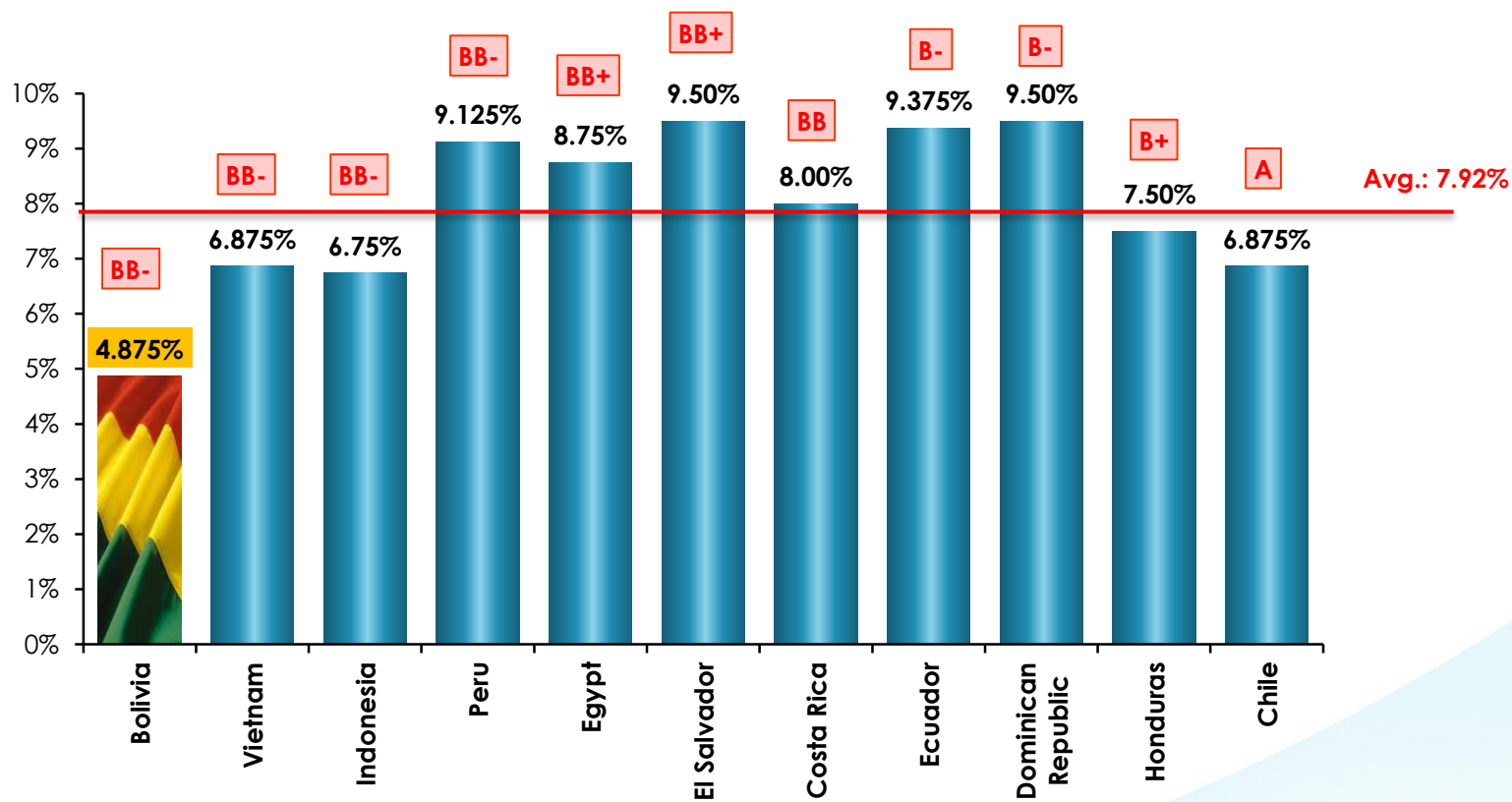
USD500mm  
Launched  
at 4,875%

USD500mm  
Priced  
4,875%



# Debut Sovereign Issues Interest rates (Coupons)

- ✓ Bolivia took advantage of a window of opportunity in the international capital market.
- ✓ The interest rate achieved was one of the lowest in recent history of debut issues and it was below the average interest rate for debut issues.



Source: Bloomberg.



# Plurinational State of Bolivia

## Sovereign Issues

Terms of issue	Bolivia '22	Bolivia '23
<b>Ratings:</b>	Ba3 (Moody's) / BB- (S&P) / BB- (Fitch)	
<b>Principal Amount:</b>	USD 500 million	USD 500 million
<b>Maturity:</b>	10 years	10 years
<b>Coupon:</b>	4.875%	5,950%
<b>Issue Price:</b>	100.00%	97.794%

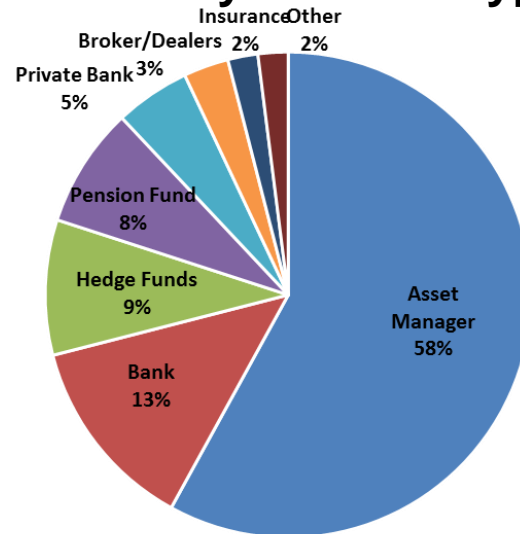
Both issuances have allowed positioning Bolivia as a strong, successful and financially sound country, consolidating new sources of financing for public investment projects, and thus contributing to the sustained economic and social growth that our country has achieved in recent years.



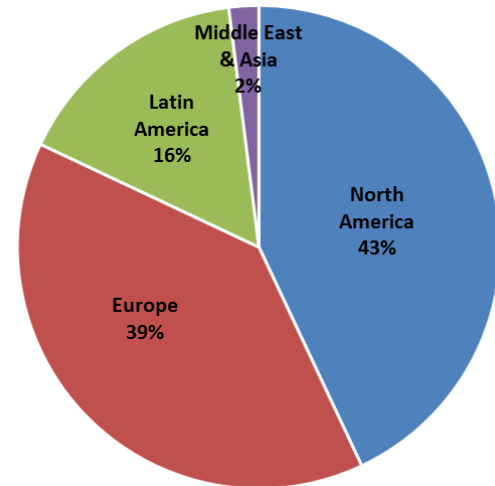
# Investors Allocation

The order books in both issues had a high quality of investors around the world

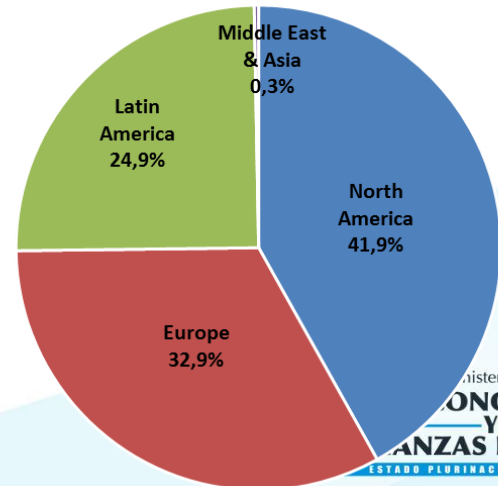
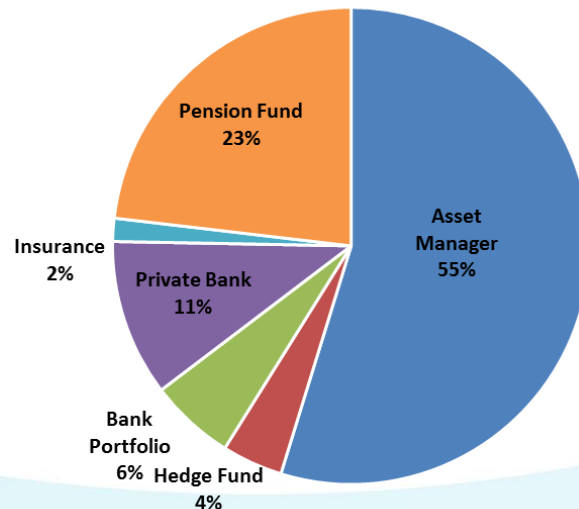
## Allocation by Investor Type



## Allocation by Regions



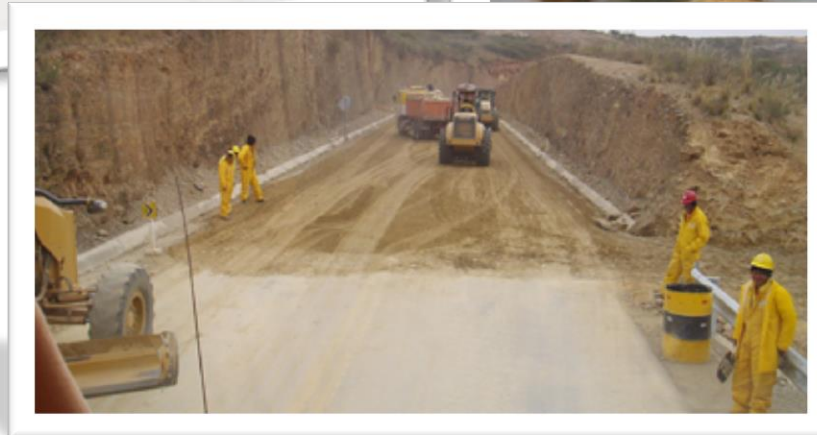
**Bolivia '22**



**Bolivia '23**

# Financed Projects with Bond Issues

Proceeds from both bond issues were destined to finance infrastructure projects (roads and bridges) all over the country in order to dinamize the economy.



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**Wall Street le pone la alfombra roja a Evo Morales**

AméricaEconomica.com

Evo Morales ha conquistado mercado internacional. El Gobierno boliviano, que hoy se enfrenta a una multitudinaria huelga de transporte y aún no ha logrado acabar con los conflictos mineros, ha conseguido colocar bonos soberanos a diez años por una tasa de interés inferior a la que pagan países como España.

Bolivia ha colocado en el mercado financiero de Wall Street su primer bono soberano en casi un siglo por valor de 500 millones de dólares (unos 383 millones de euros). Pero la mayor hazaña es que el país latinoamericano ha alcanzado un interés anual para su emisión de deuda del 4,8%, por debajo por debajo del 5,0% proyectado inicialmente y del 5,45% que paga España.

La operación se ha producido después de que la agencia de calificación Fitch Ratings subiera la nota de la deuda soberana de Bolivia de 'B' a 'BB-' y Moody's elevó su grado inversión de 'B3' a 'Ba3'.

Antes de esto, Evo Morales había previsto en los Presupuestos Generales de 2012 una partida por la citada cantidad para la emisión de bonos soberanos con el objetivo de "posicionar a Bolivia como un país solvente y confiable a nivel internacional".

**Income Investing**  
News, analysis and commentary on income-generating investments.

October 11, 2012, 4:38 P.M. ET

**Also Now Issuing Bonds: Bolivia, for First Time Since 1920**

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ously low that 800-year-old Cambridge University just [issued its](#) that some other unusual institutions are stepping up to the w. Like Bolivia. Per Bloomberg, the South American country is of its first planned overseas bond sale since 1920. From

Bank of America Corp. (BAC) and Goldman Sachs the meetings, according to three investors contacted sions, which are scheduled for Oct. 15 to Oct. 19, e, the U.S. and Latin America, according to the ot to be identified because the discussions are ries that have

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**Bolivia tests market with \$500m bond issue**

Oct 22, 2012 9:24pm by Andres Schipani

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**Bolivia repeats US\$500mn bond issue**  
By Business News Americas staff reporter - Friday, August 16, 2013

Bolivia has launched its second bond issue in less than 10 months for US\$500mn, according to a release from the country's economy and finance ministry.

The new 10-year notes carry a coupon of 5.95% and pay a 6.25% yield, according to reports.

investors from the US accounted for 41% of interested parties, followed by Europe with 34%, Latin America with 14%, and Asia the remaining 1%. Demand outpaced supply, according to the release.

Bolivia had planned to return to the global bond markets a few months ago, but decided to postpone the move after JS Fed chairman Ben Bernanke announced that there could be a change in the Fed's so-called QE monetary stimulus program. This led to an increase in rates for bonds issued by governments and corporations in emerging markets.

Bolivia's US\$500mn bond issue in October 2012 marked the nation's first foray into global credit markets in almost 100 years.

It took a while – over ninety years since the last almost nine months since it was first announced Bolivia finally took the plunge into the global credit on Monday, with the launch of a \$500m bond issue.

The 10-year dollar-issue, Bolivia's first overseas since the 1920s, was priced at a 4.875 per cent yield according to IFR.

Marcelo Urdininea, head of asset management at Mercantil Santa Cruz in La Paz, said he expected credit strip supply by at least \$250m.

re solid, so there is a good expectation in the market for dbrics.

by Bolivia's leftist finance minister, Luis Arce, who told August: "We are sure we are going to do well in the market to welcome foreign investment. We want to position the al reasons why Bolivia should be in the international

mercado financiero de Wall Street su primer bono soberano en casi un siglo por valor de 500 millones de dólares (unos 383 millones de euros). Pero la mayor hazaña es que el país latinoamericano ha alcanzado un interés anual para su emisión de deuda del 4,8%, por debajo por debajo del 5,0% proyectado inicialmente y del 5,45% que paga España.

Antes de esto, Evo Morales había previsto en los Presupuestos Generales de 2012 una partida por la citada cantidad para la emisión de bonos soberanos con el objetivo de "posicionar a Bolivia como un país solvente y confiable a nivel internacional".

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**REUTERS**

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**UPDATE 3-Bolivia sells first global bonds in almost a century**

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LA PAZ, Oct 22 (Reuters) - Bolivia returned to global credit markets for the first time in nearly a century on Monday, selling \$500 million worth of 10-year bonds in a sign of investor confidence in South America's poorest nation.

Leftist President Evo Morales has tightened state control over Bolivia's commodities-based economy with a string of nationalizations, but Wall Street has praised his government's macroeconomic policies as prudent.

Revenue from the Andean country's natural gas and mineral exports has bolstered the central bank's international reserves and the economy has grown by 4.7 percent on average

## 5. Conclusions



# Conclusions

- ✓ Sovereign bond issuances in the international capital markets meant an acknowledgement of Bolivia's policy successes and improvements in our creditworthiness due to the implementation of the Economic, Social, Communitarian and Productive Model since 2006, allowing us to move from a group of official financing recipients into a more advanced group of emerging market economies.
- ✓ Bolivia was able to diversify sources of funding for the public sector in order to boost an investment plan focused on developing infrastructure in the country which will dinamize the economy.





# Conclusions

- ✓ At the same time, this issuances opened the opportunity for private and public companies to access the international capital markets to finance their investment projects in better financial conditions.
- ✓ Bolivia took advantage of the window of opportunity for emerging economies in the international capital market through its sovereign bond issuances in favorable conditions.



# Conclusions

- ✓ Literature on debut sovereign issues suggests:
  - i. That the primary objective pursued by sovereigns in accessing international capital markets, is to build up its foreign currency reserves. However Bolivian sovereign issue did not pursue that objective considering that Bolivia's international reserves are really strong (International reserves to GDP ratio in 2013 is 51%).
  - i. Including an agreement with the IMF as a way to reduce the risk premium associated with higher repayment risk, instead Bolivia choose to go on its own and the yield obtained in its transactions was a reflect only of Bolivian risk.
  - ii. That most common mistakes in placing debut bonds are the size of the issue in relation to the intended use of proceeds and repayment risk.



# Conclusions

These risks were minimized by the Bolivian government considering the following:

- i. Sovereign issuances of Bolivia demonstrated the access to a broad base of institutional investors, in addition to its ability to absorb the proceeds of both transactions and destined them to finance infrastructure projects in order to dinamize the economy.
- ii. In both issuances Bolivia considered the maturity profile of domestic and external debt safeguarding the long-term debt repayment, whereas Bolivia's debt service has been made with its own resources.



# Conclusions

- ✓ The preparation process was the result of a learning process of international best practices related to sovereign issues in countries like Colombia, Salvador, Argentina, Guatemala and the Dominican Republic. As a result, a team with a solid foundation was established to address the debut issuance achieving good results in the recruitment processes as well as the transactions.
- ✓ Bolivian bonds exceeded the expectations of their attractiveness to foreign capital, 267 investors from around the world offered to invest more than U.S.\$4,200 million, i.e. more than eight times the Bolivian U.S.\$500 million offer.
- ✓ Since 2006 Bolivia carried out great efforts to transparent its debt management, as well as the generation and reporting of data with initiatives such the Public Expenditure and Financial Accountability Program (PEFA), international external audit to ISO 9001 Certification, ROSS Mission, among others



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Brussels, 4 April 2014



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