



BOLIVIA



Regulation and Development of the Debt Market

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Macroeconomic Framework

Bolivia undertook major economic reforms starting in 1986 based on market oriented policies. Such policies included market determined prices and interest rates, market determined exchange rate, open market policies with low tariff base (10% for consumer goods and 0-5% for capital and intermediate goods), free capital movement, equal investment rules for nationals and foreign investors and a very simple tax structure (Value Added Tax, Income Tax, import tariffs, Transaction Tax, tax on luxurious goods and local taxes for houses and vehicles).

Also, strict fiscal and monetary policies were followed (the latter carried by an independent monetary authority).



Macroeconomic Framework

Results have been positive: one digit inflation in the past 10 years with an average real GDP growth of 4%

Chart GDP

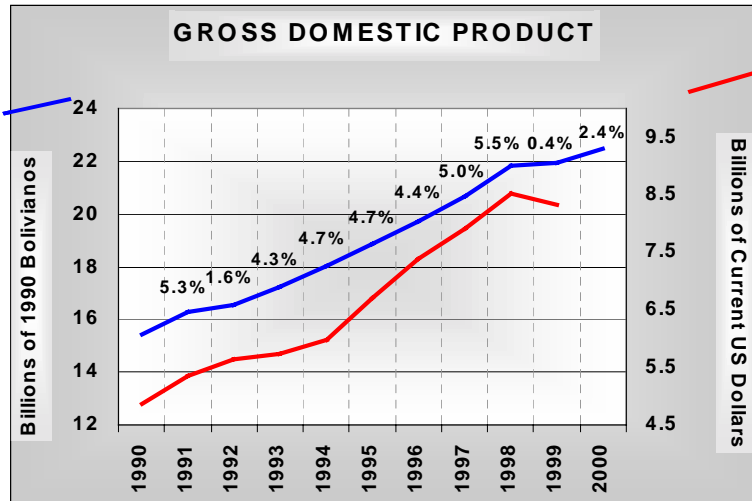
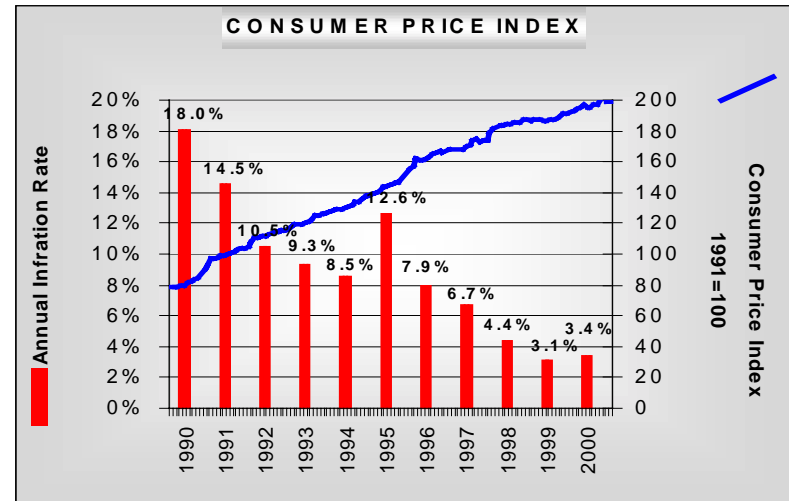


Chart Inflation





Institutional Reforms

Major institutional reforms were also undertaken, specially in the financial sector, including:

- * Independent Central Bank (the President is nominated by the President of Bolivia from a list of three candidates approved by 2/3 of Congress for a 6 year term).
- * Independent Supervisory and Regulatory Authority for Banking (named as before).
- * Independent Supervisory and Regulatory Authority for Pensions, Securities and Insurance (named as before).
- * Prudential Regulation Committee in charge of approving prudential regulation regarding the financial system (the committee is formed by the President of the Central Bank, the Vice-minister of Finance, the Superintendent of Banking and the Superintendent of Pensions, Securities and Insurance, each with one vote).
- * An administrative procedure system for conflict resolution which avoids lengthy and complicated judicial processes and with a superintendent also named as above.



Other Contributing Reforms

Other reforms that contribute to the development of capital markets include:

Pensions Reform: the pension system was changed from a defined benefit system (pay as you go) managed by public and semi-public institutions, to a defined contribution system managed by private pension fund administrators (AFP's).

The AFP's manage two different funds as trusts: (i) a contributory fund formed with individual contributions for retirement; and (ii) a non contributory fund formed initially with 50% of the shares of the privatized companies. This fund, which accounts for 1.5 billion dollars, has a fiduciary mandate for paying a benefit to each adult bolivian citizen as of December, 1995.

AFP's must follow strict investment guidelines with clear diversification rules. All investments must be placed in risk rated securities (including equity) with domestic risk rate investment grade or higher. All transactions must be done through the exchange. AFP's are also authorized to invest abroad up to 10% of total funds managed, also under strict prudential regulation. 90% of portfolio must be kept in custody of authorized custodians at all times.



Other Contributing Reforms

Capitalization Reform: all major public companies (hydrocarbons, electricity, telecommunications, airline, railroads) have been transferred to private administration through a system called capitalization, which included:

- * An international bidding process in terms of compromised investment by an strategic investor for the targeted former public company.
- * For the compromised investment, the strategic investor received 50% of the shares of the company and administrative control.
- * The remaining shares of each company were transferred to a trust fund managed by the AFP's, which appoint members to the board of the new company under a fiduciary responsibility.
- * The AFP's have the mandate to maximize the value of the portfolio under management and, therefore, are free to set the portfolio profile based on an authorized investment framework. Trading must take place in exchanges.



Capital Market Regulations

Capital market development has been fostered with the approval of several regulations, including:

- * Capital Markets Law (March, 1998) which established the required prudential regulation for intermediaries and issuers, tax exemptions, conflicts of interest, insider trading, securitization processes, investment funds, and rating agencies, among others.
- * Marking to market of securities.
- * Central Depository, Clearing and Settlement.
- * Accounting Standards and Disclosure.
- * Capital Markets Registry (Bolivia's EDGAR).
- * Investment rules for contractual saving institutions (pension funds and life insurance companies).
- * IPO's and tender offers (in progress).
- * Corporate Governance and protection of minorities (in progress).



Capital Market Institutions

Several institutions have evolved supporting capital markets:

- * Bolivian Stock Exchange (since 1989).
- * Several intermediaries, broker/dealers and investment fund managers.
- * Custodians.
- * Rating Agencies (Fitch and PCR operating).
- * Securitization Firms.
- * Central Depository (in progress).
- * Growing number of issuers and broadening of investors base.



Taxation

Bolivia's tax system creates several exemptions / incentives for capital market's investors:

- * All Government debt is tax exempted.
- * All private securities, as well as time deposits, with maturities greater than 3 years are exempt.
- * Capital gains are exempt.
- * Securitization processes totally exempt, on the process (transferring of assets) and for the securities.



Money Market

The money market had an interesting development:

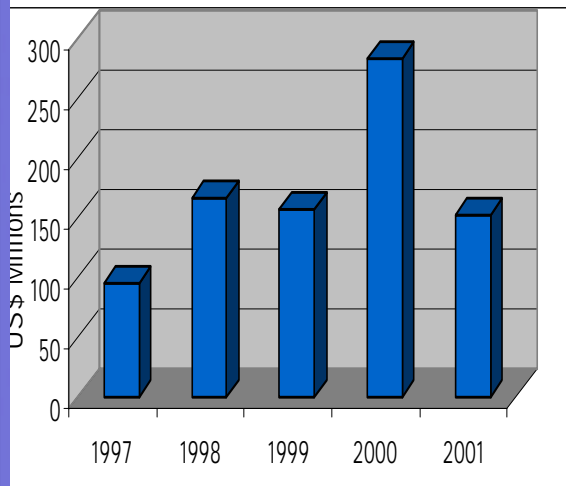
- * Transactions with short term securities and bank term deposits reached US\$ 3.2 billion (40% of GDP) in the year 2000.
- * All bank term deposits can be traded on the exchange.
- * Other short term securities traded include Treasury Bills.
- * Repos represent 50% of money market transactions.
- * The Central Bank performs open market operations with Government securities and also accepts repos as collateral in its liquidity window.
- * Mutual funds are active traders in the money market.



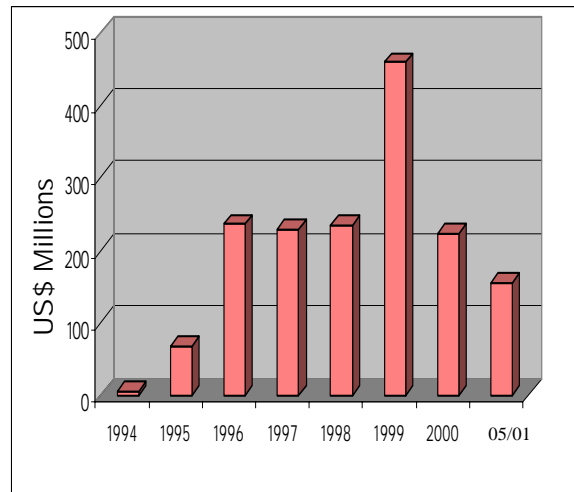
Government Securities

The Government of Bolivia has actively participated in the market as an issuer. Treasury has both short term and long term (up to 15 year maturity) debt providing an adequate term structured yield curve. Coupon bonds are issued to increase liquidity in the market and stripping is permitted.

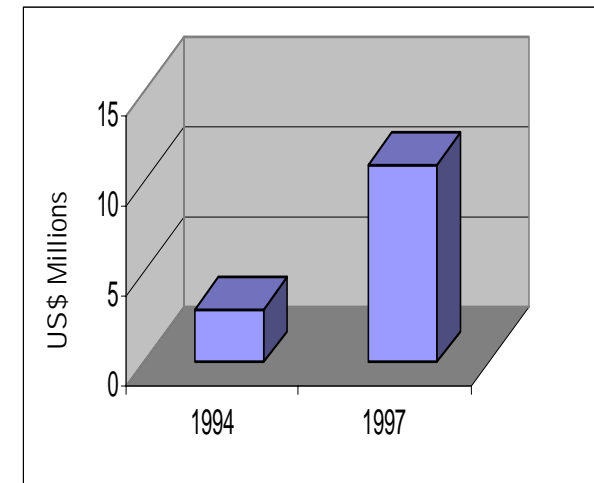
Treasury Bonds



Treasury Bills



Municipal Bonds





Other Fixed Income Instruments

For over ten years market transactions were limited to government securities and bank certificates of deposit.

Given the new regulations, different kind of institutions, issuers and instruments have evolved.

At the end of 2000, for the first time in our market, a bolivian company issued US\$ 30 million in long term debt (up to 10 year maturity), with domestic risk rating higher than investment grade. The issue was placed mainly among bolivian institutional investors at an interest rate lower than the average banking rate for commercial loans (10%).

2001 has been so far a very active year:

The first project finance through the market (US\$ 65 million for a hydroelectric plant) totally sold.

US\$ 80 million issued by a natural gas transport company with maturities up to 6 years oversubscribed.

US\$ 50 million in securitization processes (including mortgage backed and flow backed) under structuring.

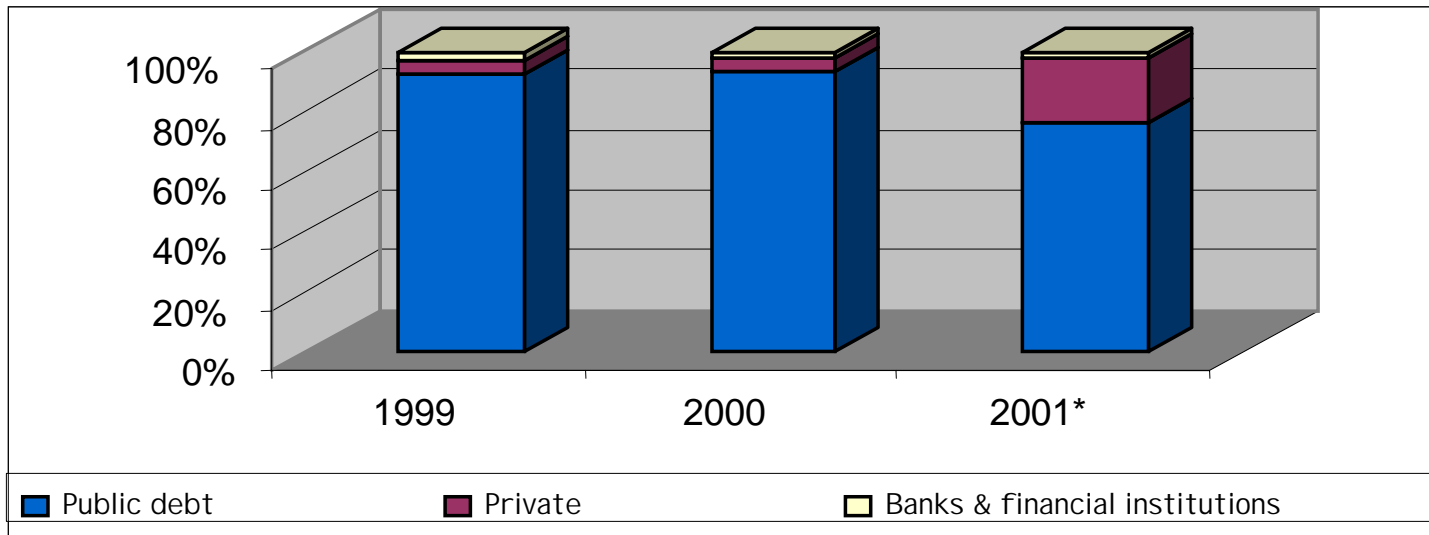
US\$ 115 million securitization of future government royalties from natural gas sale to Brazil under structuring.

Other long term corporate issues under structuring.



Foresight

Issues by economic sectors (in US\$ millions)



	1999	2000	2001*
Public debt (government)	405	755	877
Private	17	39	245
Banks & financial institutions	14	16	20
TOTAL	436	810	1.142

* Forecast



Thank you

