Bolivia

MARKET REVIEW

In 2003, Bolivia's GDP grew 2.5%, while inflation continued to be low. The inflation rate for 2003 was 3.94%.

Bolivia's economy faced external conditions that were very different from the internal ones. The external conditions, such as best prices and lower interest rates during 2003, were favourable against the internal conditions where private consumption lowered, primarily due to the lack of direct foreign investment.

Political and social conflicts affected normal economic activity and produced a feeling of uncertainty which ended up affecting the banking and financial systems.

Best international prices for Bolivian products helped to expand the exportation of agricultural products as well as manufactured products. As a consequence of the decrease in foreign investment, the importation level of capital goods decreased by approximately 8.9%, and the importation of consumption goods also decreased due to the depreciation of local currency.

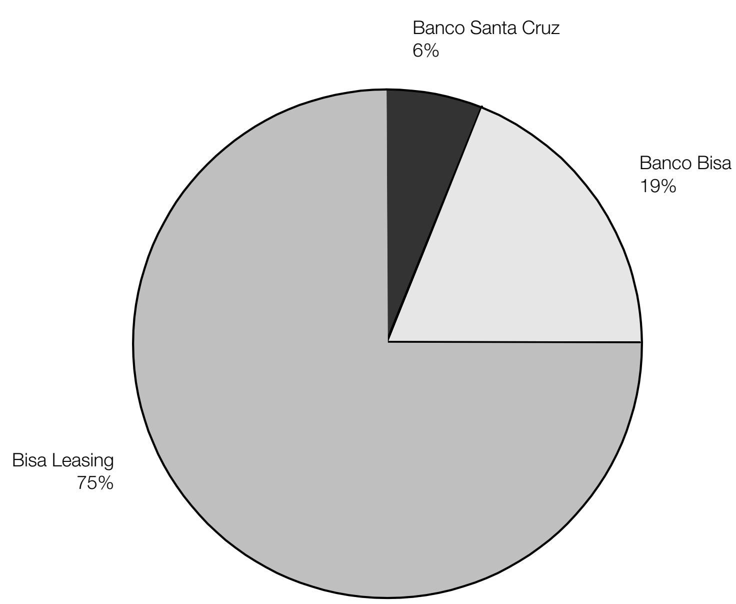
With respect to internal conditions, factors including the conclusion of important projects related to the hydrocarbons sector, actions against coca plantations, the shrinkage of the banking system, etc., produced lower public investment, which in turn produced a downward shift of internal demand.

Only natural gas reserves grew by 819.16%, with such an increase determining the importance of such natural resources for the future of the economy, especially considering the current political and social conflicts.

The processed food industry is the most competitive industry for Bolivia, as well as the mining industry, particularly gold, zinc and tin. Such industries demand equipment, which is good news in terms of potential for the equipment leasing industry.

Bolivia exported US$1.57bn in 2003, and in contrast, it imported US$1.63bn. As a measure of country risk, Standard & Poor's rates Bolivia sovereign debt as B with a negative outlook.

Table 1: Leasing market share in Bolivia



Note: The total of the leasing industry in Bolivia can be estimated at around US$40m.
Source: Bisa Leasing S.A.

The banking system. Despite the current social and political conflicts the banking system as a whole has survived. Compared to 2002, its performance was better in 2003 with its main ratios improving.

The fall in the levels of deposits was less dramatic and the delinquency levels improved. Interest rates continued lowering as they have done during the past few years.

The leasing industry. In Bolivia, the leasing industry is highly concentrated. The main player in the marketplace is Bisa Leasing, a wholly owned subsidiary of Banco Bisa.

Law and regulation. *Leasing companies*. Pursuant to the Bank and Financial Entities Statute, Ley No.1488, April 14, 1993, banks can either directly undertake leasing transactions or create a wholly owned subsidiary, a finance leasing company.

In any event, both entities are subject to the Superintendencia de Bancos y Entidades Financieras (Banking Supervision Regulatory Body), SUDEF, and therefore their operation should comply with the same regulations as banks. Consequently, only banks and companies with a licence granted by SUDEF may act as lessors in any leasing contract within Bolivia.

At present, there is only one finance leasing company licensed in Bolivia, namely Bisa Leasing S.A.

Leasing companies must be incorporated with the same procedures which are necessary for the creation of a new bank in Bolivia. Minimum paid equity was, according to law 1670, 1995 and resolution 116, 1997 of the Central Bank of Bolivia DEG550,000 (approx. US$726,000). Since Decree 2297, 2001, the minimum capital required was reduced to DEG275,000 (approx. US$363,000).

According to Bolivian regulations, whenever any bank participates in a leasing company, it must hold a share of not less than 51% of the total outstanding shares.

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In Bolivia, the leasing industry is highly concentated, with Bisa Leasing being the main player in the marketplace.

For independent lessors, that restriction does not exist. So, manufacturing or trading companies or groups can incorporate a lessor without that restriction, but must always file for the corresponding licence at the SUDEF.

Foreign investors are allowed to hold up to 100% of a leasing company's outstanding shares. In addition, foreign investments in Bolivia may be insured, through Overseas Private Insurance Corporation, and through MIGA. These two entities provide a relief to country risk, since they insure foreign investments.

Accounting. Bolivia follows the same accounting principles under IAS 17. Lessors record the lease receivables in their balance sheet and only record as income the financial portion of rentals while they amortise their investment in their principal portion.

Operations. Bolivia follows the guidelines set forth by the Bank of International Settlements, under the new Basel Accord. In this direction, the "solvency ratio" (CAP) is the quotient resulting after dividing the leasing company's equity by its total assets weighed by their comparative risk factors. This ratio was set forth at a minimum rate of 10%.

Taxation. Leasing contracts are subject to value-added tax (VAT) of 13% over the amount of the corresponding lease payments.

Income taxes are applied at a uniform tariff of 25%. For lessees, lease rentals accrued or paid are fully deductible from taxable income (Supreme decree 24051, 1997, art.17).

The lease contract. The lease contract is subject to the general rules for contracts and obligations as provided by the Banking and Financial Entities Law, the Commercial Code and the Civil Code.

The legal definition for the leasing contract contained in the new Compilation of Banking Law differs from the definition contained by the Ottawa Convention. Therefore, lessors are not legally protected against defences to the hell-or-high-water provision, and the tripartite nature of the leasing transaction is not recognised.

The recently enacted Law for the Strengthening of the Financial Control, Law 2297, 2001, introduced some unnecessary restrictions to leasing activity. In addition, it changed the definition that under Law 14333 better reflected the actual nature of leasing.

Cross-border leasing. According to Bolivian Tax Law, rentals payable under cross-border leases are subject to a withholding tax of 12.5% (25% Corporate Income Tax rate times a deemed net taxable profit of 50% of total rentals – Art. 51 Ley 843, 1986).

Under article 125 of the General Customs Law, equipment under cross-border leasing may be imported pursuant to the Temporary Import system. All import duties are payable in accordance with the regulations set forth by the Customs Authorities.

Repossessions and enforcement of agreements are currently in the process of being reformed.

Sources:

- Central Bank of Bolivia (Banco Central de Bolivia – Informe Anual 2003 – Evolución de la Economía Boliviana). www.bcb.gov.co
- Superintendencia de Bancos y Entidades Financiera de Bolivia. www.sbef.gov.co
- Cámara Nacional de Industrias – Bolivia. www.bolivia-industry.com
- Servicio de Impuestos Nacionales – Bolivia. www.impuestos.gov.bo

Notes:

Bolivian financial institutions and lessors:

Banco Santa Cruz S.A.	www.bsc.com.bo
Banco Nacional de Bolivia S.A.	www.bnb.com.bo
Banco Unión S.A.	www.bancounion.com.bo
Banco Mercantil S.A.	www.mercantil.com.bo
Banco BISA	www.grupobisa.com
Banco Solidario S.A.	ydiaz@bancosol.com.bo
Banco Ganadero S.A.	bangan@roble.scz.entelnet.bo
Citibank S.A.	www.citicorp.com
Banco do Brasil S.A.	bblapaz@caoba.entelnet.bo

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