Executive Summary

In the first half of 2021, COVID-19 pandemic continued to generate high rates of infection and mortality. In the world, greater outbreaks were reported, amid the emergence of new and potentially more contagious variants. In this context, the rollout of COVID-19 vaccines helped to reduce the number of infections. However, this has only been evident in a small number of developed countries that, due to their financial capacity, acquired most of the global supply of vaccines; meanwhile, most of the countries faced severe limitations in their supply, which affected their COVID-19 vaccination rollout.

Despite this context characterized by high uncertainty, the global economy recovery advanced, although differences in performance between countries and sectors were evident, with emerging markets and developing countries being the most lagging behind in their recovery. In contrast, the better performance of a few countries boosted the global trade and industrial production, raising the prices of commodities, even above pre-pandemic levels. In this setting, inflation increased, especially in developed economies, also due to other factors such as higher transportations costs and global supply chains disruptions.

However, central banks in developed economies maintained the monetary impulses, since they considered that the inflation rebound was temporary. They began to give signs that the normalization of the monetary stimulus could begin sooner than expected. This provoked higher volatility and uncertainty in financial markets and affected prices of some assets, mainly gold, in its role as active shelter. Likewise, greater concerns about acceleration of inflation incited higher borrowing costs, less capital flows toward emerging markets and developing countries and increased the perception of risk country, especially in the case of South America,.

The recovery of the global economy favored the increase of raw materials prices exported from Bolivia, in especial minerals and soybeans and derivatives. In the first quarter, a current account surplus was registered after six years; which helped to reduce the pressures on reserve assets. In the other hand, in the financial account there was a net issuance of liabilities, highlighting the increase in the flows of Foreign Direct Investment compared to previous years. Finally, the external debt continues at sustainable levels in terms of solvency and liquidity.

Naturally, the global context of the COVID-19 pandemic was also reflected in the national territory, between the periods of December, 2020 – March, 2021 and April, 2021 – July, 2021 the second and third waves were observed, respectively. Nevertheless, in this periods, unlike the first wave administrated by the *de facto* government, the management of economic and health policies was carried out by a democratic government, whose legitimacy and credibility allowed it to face the subsequent waves of the pandemic in the national territory more effectively. There were important improvements in the health sector, increasing considerably the number of test carried out and starting the COVID-19 vaccination rollout in the national territory. This massive campaign was able to advance steadily, despite the problems with the international supply of COVID-19 vaccines.

All this framework, together with a stable political and social environment, allowed to begin economic recovery, in a context of stability, without inflation pressures.

During its time, the democratic government adopted various high-impact measures to regain the path of sustainable economic growth in the country. In March, the Ministry of Economy and Public Finance (MEFP) and the Central Bank of Bolivia (BCB) signed the Fiscal-Financial Program (PFF) 2021, where monetary policy guidelines of the BCB are established. This subscription was attended by the Constitutional President of The Plurinational State of Bolivia, Luis Alberto Arce Catacora, issuing a clear and tangible signal about the strength of the commitment assumed by the national Government in seeking to achieve economic reactivation in benefits of the entire population.

In this line, the loosing monetary policy was deepened, adapting various conventional and unconventional measures to maintain the liquidity of the financial system at appropriated levels in order to promote credit expansion. In turn, this influenced the reduction of the rates of the interbank operations as of the repurchase agreements within the money market and contributed to the recovery of the financial system portfolio.

At the same time, the BCB recovered its role as lender of last resort by raising rates at the discount window, since this fell during 2021 in an uncertainty scenario caused by political and social instability and the COVID-19 pandemic, which caused that some financial institutions did not make a correct use of this instrument, since they obtained resources at low rates and lending at high rates to other financial institutions (arbitrage).

Additionally, the limits on investment abroad were reduced and investments in sovereign bonds limits were included within this limits in order to prioritize the use of resources available in the national economy. Finally, the validity of the Credit Fund for the Productive Sector and Social Interest Housing was extended due to the agility of this mechanism at the moment to inject liquidity in the financial system and increase the loanable resources.

It should be noted that the BCB efforts were increased due the fact that, while dealing with effects of the still existing COVID-19 pandemic, they also had to be focused on mitigating the damage caused by poor macroeconomic planning by the facto government, overshadowed even more by the presence of acts of corruption.

By its side, the exchange rate stability was maintained, given the scenario of high volatility in the exchange rates of countries in the region. In fact, the stability of the exchange rate in Bolivia was decisive, anchoring the expectations about the value of the American currency, helping to keep inflation low, favoring loosing monetary policy and sustaining the de-dollarization of the economy.

Additionally, in line with the national government reactivation policy, the BCB retook support for the country´s productive sector, responding to request for disbursements from national strategic public companies, as well as those for deferral and rescheduling of some companies, according with the framework of current regulations. The BCB, in coordination with the Executive Body, granted financing to second-tier banks to constitute of trusts for the reactivation and development of the national industry with substitution of imports (SIBOLIVIA), and kept supporting to the society by financing the Juana Azurduy Bond.

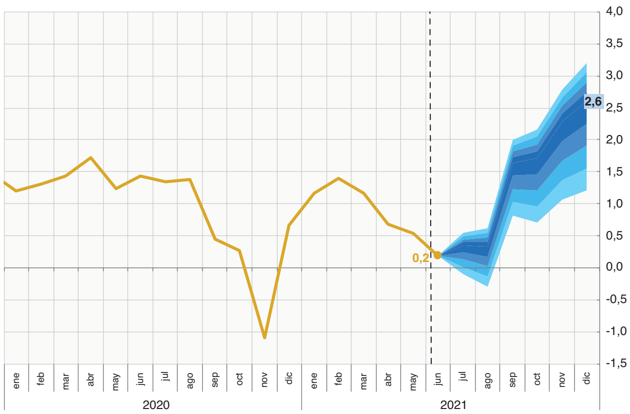
After all the efforts undertaken, the first signs of the revenues obtained and the reactivation of Bolivian economic are already visible. Indeed, after the important slowdown in economic activity in 2020, as a result of the mobility restrictions applied in the face of COVID-19 pandemic arrival and the absence of policies to support the economic sectors, in the first four months of the year the Global Economic Activity Index showed an accumulated growth rate of 5,2%, showing signs of the economic recovery. The sectors of Metallic and Non-Metallic Minerals and Manufacturing Industry had the most important incidences in the growth of the first four months of 2021. On the expenditure side, the more execution of public investment had a positive impact on the aggregate demand and the favorable trade balance reflected the better conditions in the foreign markets.

By its part, inflation remained in low and stable levels. This situation provoked that the inflation in June took place in the lower section of the forecast range announced in the IPM of January, 2021.

For the second half of 2021, high uncertainty will remain in the international scenario. Although the outlook for the end of 2021 has been corrected upward, the recovery between economies will advance at different speeds, being South America one of the regions that will face a more adverse context due to structural factors. A higher global inflation is expected due to a combination of transitory factors and supply restrictions; however, it is expected that central banks maintain the loosing monetary policy in general, given that they see this inflation increased as something temporary. Finally, the commodity prices will evolve positively, with some adjustments in the case of oil price caused by future plans of a gradual release of the international supply.

In the national context, coordinated economic policy measures will allow the economy to remain on an upward path, with macroeconomic stability as observed in the recent months. The growth of the national Gross Domestic Product (GDP) is expected to reach the projected figure in the PFF 2021, supported by the better performance of the extractive sectors and the positive effects of an important execution of public investment on the economy. However, the best economic growth prospects will be conditioned to the advance of the COVID-19 vaccination programs at national and regional levels. By its side, it is expected that inflation finish the year around to 2,6% inside a range, biased downwards, between 1,2% and 3,2%.

Observed and expected Y-o-Y Inflation
(In percentage)



Source: Central Bank of Bolivia
Notes: It includes confidence intervals around the base scenery.

Given this scenery, the monetary and exchange policies will continue to support the recovery of national economic activity. However, in the case that some risk materializing, as in other circumstances, within the framework of its powers, the BCB will apply the policy instrumentals at its disposal in order to maintain the stability of domestic purchasing power of the national currency to contribute to the economic and social development of the country.