

Executive Summary

In 2021, global uncertainty remained high. The emergence of new risks negatively affected the performance of the global economy. Since the beginning of the year, new and more contagious mutations of COVID-19 (coronavirus) have interrupted the opening plans of several economies, and immunization goals have come up against unequal access to vaccines, as well as the resistance of some population groups to make use of these immunization schemes.

Multiple risks were observed, mainly due to the decoupling process between the recovery in global demand and supply. The latter faced the greatest delays in its reactivation amid major disruptions in the international supply chain.

In this context, the global economic recovery, which had already been differentiated between sectors and economies, became even more heterogeneous, with a loss of dynamism by the end of the year. The evolution of inflation was, in general, one of the main issues of concern. It was initially prompted by the shortage of supplies and the rise in transportation costs and, later, it was driven by higher international prices of raw materials, especially in energy goods.

Central Banks of advanced economies tried to handle with caution the information on the determinants and nature of inflation, which was initially seen as transitory. Subsequently, this assessment changed when it was established that the effects are more persistent than initially expected. These developments caused greater uncertainty and volatility in global markets.

Consequently, at the end of the year, the main central banks announced adjustments of their quantitative stimulus programs. In South America, the monetary authorities increased policy rates, even taking them towards their neutral levels. In this framework, financial conditions deteriorated, financing costs increased and capital flows became less dynamic.

At the regional level, capital flows were reversed due to a perception of higher country risks.

Regarding international prices of commodities, they showed a pronounced increase compared to 2020, particularly those of agricultural and mineral products. In addition, higher oil prices had a positive impact on the export prices of natural gas. It is also worth mentioning the important role of the higher volume of exports of minerals and non-traditional products. In this framework, in the third quarter of the year, the Balance of Payments showed a surplus in the Current Account. These results were not seen for six years, and have been driven by the growth of exports and greater family remittances.

On the other hand, in the Financial Account, there was a significant net inflow of Foreign Direct Investment. The greater flow of foreign resources helped to stabilize foreign exchange international reserves, whose reduction slowed. Lastly, external debt remained at sustainable levels in terms of solvency and liquidity.

The BCB maintained the accommodative stance of monetary policy by using conventional instruments but, particularly, reinforcing its non-conventional instruments. In this line, liquidity loans were channeled to Financial Intermediation Entities (EIF), with a guarantee from the Funds CPVIS II and CPVIS III, whose conditions were flexible enough during the year in order to sustain liquidity levels of EIF and, thus, promote the recovery of productive sectors. In addition, at the end of the year, the Fund for Credits for the Productive Sector (CPRO Fund) was established, which, in 2022, will strengthen liquidity management of EIFs and will contribute to a greater extent to the recovery of the productive sector.

Apart from this, monetary policy rates remained at minimum levels and, with the changes in the conditions of liquidity windows (increasing the

rates), the BCB recovered its role as lender of last resort. In this scenario, the normalization of the conditions of the monetary and financial markets could be achieved and the interest rates trajectory was corrected downwards. The credit of the financial system to the private sector showed signs of recovery that were more noticeable during the second half of the year. On the other hand, deposits in the financial system began to show positive flows, signaling a higher degree of confidence of the public.

Regarding foreign exchange markets, various external factors determined a rise in the demand of US dollars in South American countries, provided it was considered as a refuge asset. The depreciation of regional currencies passed through to domestic prices in most of our neighboring economies, boosting the rise in imported inflation. Contrary to this, in Bolivia, exchange rate expectations converged towards the official rate set by the Central Bank. This was feasible as a result of an internal context of economic recovery, political stability and net foreign exchange inflows.

In turn, net sales of US dollars by EIF to the public registered lower levels than those of past years, as well as the sales of dollars from the BCB to the EIFs which considerably reduced. These conditions allow the foreign exchange stability policy to contain external inflationary pressures, keeping the purchasing power of families, granting greater scope for action to the accommodative monetary policy and sustaining financial dedollarization.

Likewise, in order to support the recovery of the economy, the BCB deferred and rescheduled the debt service of the credits granted to Strategic Public National Enterprises, as well as to those subnational governments that requested it. Support for the productive sector was resumed, responding to funding requests within the framework of current regulations. In this way, the monetary authority granted financing for the constitution of trusts and continued to support social policies through the financing of the Juana Azurduy Bond.

Inflation remained at low rates and followed a stable path despite being affected by different shocks. At the end of the year, a gradual increase in inflation was anticipated in line with the recovery of the economy, although without reaching rates that could undermine macroeconomic stability.

In contrast to the sharp contraction of the economic activity registered in 2020, as of the third quarter of 2021, the GDP attained a growth rate of 8.9%. This

result was conveyed by the following factors: impulse of the credits to the productive sector; refinancing and/or rescheduling of credits to economic agents; strengthening of state-owned companies; the cash refund of VAT to consumers; among others. The normalization of economic activities was also very relevant which, in turn, was boosted by the rise in the inoculation rates of population against COVID-19.

This setting contributed to a better performance in sectors such as Transport and Communications, Metallic and Non-Metallic Minerals, Manufacturing Industry and Construction, mainly. On the expenditure side, consumption of households as well as the execution of public investment recovered their critical role, driving the upward trend of domestic demand. Also, the favorable performance of the external sector was reflected in a positive trade balance.

Looking ahead to 2022, the international scenario will continue to be subject to risk factors and high levels of uncertainty. The acceleration of COVID-19 infections, due to new, more contagious variants, represents an obstacle to restore normal global mobility levels and, in this context, the evolution of inflation and the rate of adjustments of monetary stimulus could undergo greater shifts.

Thus, external financing conditions for emerging and developing economies are expected to become less favorable. In relation to the international prices of raw materials, these are expected to continue at high levels, aspect that would reflect greater supply disruptions in relation to the expected moderation in demand. In this context, during this year, the external boost for the Bolivian economy could be compromised.

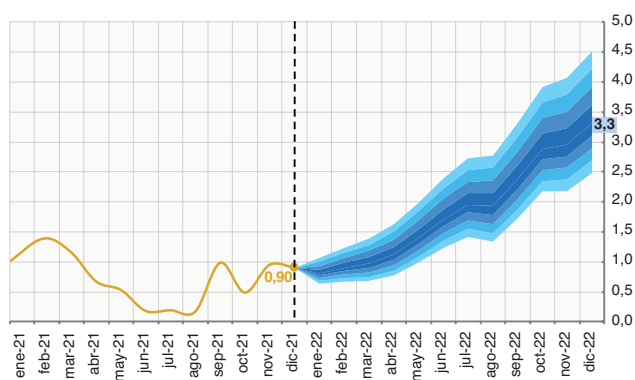
Faced with this scenario and giving continuity to the strengthening of public investment, aimed mainly at the productive and infrastructure sectors, a GDP growth of around 5.1% is expected for the end of 2022. These perspectives could be affected by the presence of risks linked to the COVID-19 pandemic and the appearance of new variants, as well as the occurrence of more adverse climatic phenomena that could negatively impact agricultural production.

In relation to inflation, it is expected that, at the end of this year, it will achieve a rate around 3.3%. Uncertainty about its expected trajectory continues to be high, especially due to the presence of risks in both directions, among which the following stand out as upward risks: more adverse than expected impacts of climatic phenomena, greater inflationary

pressure due to climate change and greater external inflation on the global supply side, due to disruptions in world logistic systems. In contrast, downside risks refer to the negative impact on consumption of new variants and waves of COVID-19, and unexpected depreciations of trading partners' currencies. However, upside risks are expected to be somewhat more dominant. In this context, the projection range of inflation is between 2.5% and 4.5%.

Given this scenario, monetary and exchange policies will continue to contribute to the recovery of national economic activity, ensuring that inflation rates remain low and controlled. The BCB, within the framework of its duties, constantly monitors the risks that could affect the expected trajectory of inflation and, in this sense, reaffirms its commitment to maintain the stability of the domestic purchasing power of the national currency to contribute to economic and social development of the country.

**Observed and expected inflation
(In percentage)**



Source: Central Bank of Bolivia

Notes: It includes confidence intervals around the base scenery