Executive Summary

In the first half of the year, two shocks characterized the international economic context. First, the pandemic still affects international trade demonstrating its persistence. The global vaccination campaign reduced the disease lethality, although the number of infections topped due the Omicron variant. In response, strict confinements in some countries as China were imposed and resulted in logistics and production chain problems. As a result, high transport prices continue to negatively impact the international trade.

The war between Ukraine and Russia is the second major international shock. Food and energy international markets reacted with high prices due the supply shortage caused by this conflict. The resulting inflation in most advanced, emerging and developing economies was spread by international trade. In this scenario, the affected economies central banks responded shifting the monetary policy to a contractionary stance, primarily by increasing their reference interest rates. Consequently, the overall activity might contract. Therefore, the stagflation risk gives rise to an uncertainty scenario that characterizes the international economic context.

For South American economies, this framework might influence heterogeneous results. This is due to the fact that several economies will be benefited from the commodities price hike, especially those with an export sector based on commodities like Colombia, Argentina and Bolivia. While the economic prospect for these economies is set to improve, net energy and food importing economies forecast is revised downward.

During the first semester, Bolivia's balance of payments showed an outstanding current account surplus, which is the highest in eight years. This is the result of the exports sector good performance and the personal remittances inflow. In addition, net capital inflow registered in the Financial Account was positive for two consecutive years. The signs of internal economic reactivation and commodities' price hike motivated the net investment increase by non-residents towards the economy. The gross direct investment was mainly directed to the manufacturing industry, hydrocarbons and mining sectors. This entry of external resources into the economy was accompanied by timely policy decisions.

In this sense, the Central Bank of Bolivia (BCB) supports the economy development and guarantees the effective functioning of the payment system through, mainly, non-conventional instruments designed to meet the needs of the economy. Aimed at boosting the credit portfolio to support the economic activity expansion, liquidity was reinforced by loans backed by the CPVIS II and III Funds. In 2022, the creation of the CPRO Fund stood out for being a medium-term instrument designed to facilitate and make the financial management of Financial Intermediation Entities (EIF) more flexible. Likewise, the resources channeled from the BCB to the Productive Development Bank (BDP) financed the Development Finance Institutions (IFDs) and Savings and Credit Cooperatives (CACs). With these mechanisms at work, the financial system's liquidity was at adequate levels, which guaranteed the resources availability to finance the private sector during this reactivating process.

At the same time and in the same direction, orthodox policy instruments were also used. In this sense, the BCB continued its open market operations, signaling the accommodative stance of the monetary policy. The direct provision of liquidity remained active, although the operations pace decreased. In contrast, the liquidity loans backed by the RAL Fund were prominently used.

In coordination with the Government's Executive Branch, the BCB maintained its exchange rate policy, which stabilizes agents' expectations regarding the national currency price with respect the US dollar, prevents the strong imported inflationary pressure that threatens other economies of the world, facilitates the application of the expansive monetary policy and preserves the financial Bolivianization. The stability of the exchange rate also favored Bolivia's commercial position due to the real depreciation of the boliviano against most of its trading partners' currencies, which fostered higher price competitiveness in the national products. At the same time, the local demand for dollars decreased in relation to past periods. Specifically, the foreign exchange sales from the EIFs to the public and from the BCB to the EIFs contracted.

Regarding inflation, price level control was effective. Amid a highly difficult international context configured by external shocks, which negatively affect other economies through the rapid increase in prices, Bolivia registers one of the lowest inflation rates in the world. This result is driven by the adequate supply of food, the implementation of subsidy policies aimed at protecting local markets, the proper exchange rate management and the anchoring of expectations despite the uncertainty generated by the war in Ukraine. However, during the second quarter, some climatic events affected certain food prices such as poultry and vegetables. Despite this, inflation remained within the forecast range.

Regarding financial deposits, these showed a positive inflow, despite the tax collection season at the edge of the first quarter's end, which reveals the increase of public's confidence in the system. Similarly, credits portfolio showed a significant recovery since April in response to the government's policy to end the portfolio deferral and economic lag caused by the pandemic. The good performance of deposits influenced the monetary aggregates growth, while the monetary base had positive year-on-year growth and stable dynamics.

Economic activity performed well and in line with the recovery path after the most severe effects of the pandemic. This process was accompanied by the application of immunization programs against Covid-19, the expiration of the portfolio deferral period and credits rescheduling, the moderate weather effects, and the reactivation of industrial production. On the expenditure side, internal demand was supported by the execution of public investment projects, while external demand had a positive impact, resulting in the trade balance surplus of May 2022. As a result, the economic growth for the first quarter of this year was 4.0%.

Unless the geopolitical conflict in Ukraine is resolved, inflation in the world's economies will continue to be high due to distortions and interruptions in the global economic supply and its forthcoming consequences. Along this, the war implies possible risks such as the escalation of geopolitical tensions, stagflation, financial instability and food insecurity. At the same time, the response of the monetary authorities is expected to adjust further, risking the economics' growth and limiting the external demand of our trading partners. Another widespread risk is the persistence of Covid-19 infections, which could slow down economic activity, even more so if new variants of the virus arise stronger to the vaccines' effectiveness.

Growth forecast for the economic activity of Bolivia is positive and driven by the public and private investment projects performance that would keep several economic sectors active. The financial system is expected to maintain its stability and solvency, supporting the economy with loans to the production sector. Under these conditions, inflation is expected to be around 3.3%.

The economic activity is still in recovery process. The monetary and exchange rate policies will continue to be the right framework for it. The BCB will employ all its instruments to maintain low and controlled inflation levels. Likewise, constant surveillance will monitor internal and external risks that could affect the inflation trajectory. Thus, the BCB reaffirms its commitment to maintain the stability of the currency's internal purchasing power to contribute to the economic and social development of the economy.

Observed and projected inflation
(In percentage)