

# Executive Summary

The Russo-Ukrainian war and the continuous supply disruptions, caused by the quarantines imposed in China, started the global inflationary process. Due to the scale up in energy and food price in a broad and persistent manner, the inflation rates reached levels above the initial expectation, especially in South America. In this context, the estimated external inflation relevant to Bolivia by the end of 2022 is up to 4.9%. In line with the inflation increase, most of the world economies applied a monetary contractive stance by increasing their policy interest rates.

Two elements influenced the decrease of the global economic growth, the world high inflation and the cumulative effects of the applied monetary policy. The growth leading indicators suggested the global economy is already immersing in a slowdown process. In this line and according to the last World Bank forecast, the world economy growth finished 2022 around 2.9%, 1.2pp below the beginning of the year expectation, this is due to the monetary tightening, which effects might reverberate through 2023. In addition, the strengthening of the US dollar value originated the financial, stock market and exchange rate volatilities, which could deepen the economic global growth slowdown. In contrast, the less intense rise in the Fed's policy rate could help to soothe expectations and normalize the dollar value.

On the other hand, at the end of the year, a new wave of infections spread through China increasing the possibility of deepening the disruption in the international production chains. Indeed, since the beginning of the pandemic, the Chinese health policies have been set very restrictive in terms of mobility when an infection sprout was identified. This impacted the international supply chains and China's demand, both rebounding in the whole international trade because of the big influence of China in the world economy. In December and in accordance to its

population unrest, the government decided to flex its health policy.

In this context, Bolivia's international trading partners showed signs of slowing down, especially in the last half of the year. Indeed, Bolivia's relevant external activity performance fell from 5.04% at the beginning of 2022, to 2.38% in the last quarter of the year.

The commodity prices increased on the base of 2021. The partial recovery of the global economy after the COVID-19 pandemic and the war between Russia and Ukraine mainly favored agriculture prices and fertilizers such as soybeans and urea, the rise in the oil price led to gains in the natural gas value exported from Bolivia. However, the mineral price annual average remained at a similar level with respect to the previous year; the significant increase in the gold and silver price during the first quarter rebounded starkly afterwards, given its negative correlation to the dollar value.

This international context together with the economic reactivation and reconstruction policies resulted in a current account surplus for the second consecutive year for the Bolivian economy. The Financial Account registered a net decrease in assets, mainly due to the amortization of parent company debt instruments with Direct Investment and the use of Reserve Assets. Finally, the external debt continues to be at sustainable levels in terms of solvency and liquidity.

Given this challenging external scenario, using its conventional and non-conventional instruments, the BCB continued to support the economy recovery and to guarantee the national payment system effective functioning. In the first case, the institution began the normalization gradual process of the BCB securities supply and interest rates, keeping healthy levels in

the financial system liquidity in order to maintain its dynamism.

In the second case, the BCB unconventional instruments were the main mechanism to inject resources into the economy. This booster was made through loans to the Financial Institutions using resources in the different Funds as collaterals, and credits were issued through the BDP to provide liquidity to the DFIs and CACs. In order to complement these measures, the BCB created the CPRO Fund at the beginning of 2022, extended the different funds validity date, strengthened the FIUSEER, issued direct bonds with attractive financial conditions and through electronic channels, and used other instruments.

It is important to highlight that Bolivia monetary policy is applied differently than in other countries, especially in those with inflation target, therefore, the instruments are different. Interest rates are not the main monetary instrument of the Bolivian economy, monetary aggregates are. In this sense, the policy implemented by the BCB in coordination with the Government allowed liquidity to remain high at adequate levels allowing the financial system to maintain credit available to the private sector and avoiding stress in the monetary and financial markets. In this way, the policies contributed to the economic reconstruction of the country in a context of controlled inflation.

The regional financial scenario was characterized by the volatility of its exchange rates due to the dollar revalorization. In this context, the stability of the exchange rate policy guided the population's dollar price expectations, contained the imported inflation pressure, allowed the expansive monetary policy stance and preserved the financial process of Bolivianization. Similarly, the BCB guaranteed the population's access to foreign currency through various mechanisms.

Despite the external and internal inflationary high pressures, the inflation in Bolivia remained controlled by the end of 2022 at 3.1% constituting the lowest in South America and among the lowest in the world. This remarkable result was partly explained by different measures implemented by the Government such as the support to the productive sectors, especially to agriculture; protection to local markets;

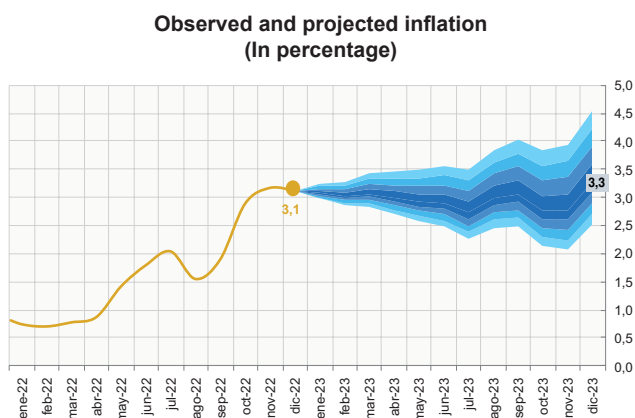
subsidies on key products; exchange rate stability; proper monetary policy management; and anchored expectations.

Through 2022, the growth of money deposits in the financial system was 6.2% and loans grew by 7.5%, the arrearage rate remained low and at controlled levels, profits were perceived by the financial sector and the financial Bolivianization process was preserved reaching a ratio of 99.2% in loans and 86.3% in deposits. All this results were reached even in spite of the social conflicts originated in the department of Santa Cruz in the last quarter of the year. Similarly, monetary aggregates registered positive growth rates as a result of the money demand normalization.

In this context, the economic recovery continued, the GDP grew 4.3% by the third quarter of 2022. On the supply side, the sectors that stood out with a greater contribution to this growth were Transport and communications, Agriculture, forestry, hunting and fishing, Other services and Manufacturing industry. On the spending side, the continuity of expansionary economic policies strengthened domestic demand, private consumption and gross fixed capital formation.

The international economic outlook for 2023 is more challenging than the past year. The world monetary tightening in advanced economies will continue, although at a slower pace given the decline in inflation. Thus, global economic growth will suffer as a consequence of the contractive monetary stance. In South America, its growth will slow down, the World Bank forecast for the region is 1.1%; 1.6% (0.5pp below previous projections in both cases) according to the IMF, while the ECLAC is more pessimistic with 1.0%. Likewise, it is expected that the financial access to external financing will be more restrictive.

Bolivia's economic growth would be 4.9% for 2023 according to the PFF. This result is in line with the normalization to post-covid economic activity that would have an impact on better performance in sectors such as community services, restaurants and hotels, among others. Additionally, public investment would help consolidate the change in the country's productive matrix, among other factors. Likewise, inflation at the end of 2023 is expected to be around 3.3%, within a projection range between 2.5% and 4.5%, in line with the expected national and international economic activity.



Source: Central Bank of Bolivia

Notes: The graph includes confidence intervals around the central scenario.

In Bolivia, the economic activity is still in recovery process, therefore, the monetary and exchange rate policies will be orientated in order to support it. The BCB will act in favor of maintaining low and controlled levels of inflation. Likewise, internal and external risks that could affect the expected course of inflation will be constantly monitored. In this sense, the BCB reaffirms its commitment to maintain the stability of the internal purchasing power of the national currency to contribute to the economic and social development of the country.