Executive Summary

Throughout 2019, the international context was characterized by high uncertainty that mainly affected the performance of trade, investment and industrial activity. In this framework, there was a global economic slowdown.

Contrary to initial belief from the beginning of the year, the weak economic growth and the low inflation rates caused a turn for the main advanced economies monetary policy towards a more expansive stance. In this scenario, emerging countries international financing costs were reduced, which led to an increase in most of these countries external liabilities. However, capital flows to South America moderated mainly due to idiosyncratic factors.

Facing this external scenario and amid local uncertainty produced by an escalation of political and social conflicts that affected several economies in the region, growth forecasts were corrected downwards. As a result, a lower dynamism for 2019 in almost all countries is projected. Consequently and in the face of low levels of inflation, most of the central banks in the region cut their policy interest rates. Meanwhile, some monetary authorities intervened in their exchange markets due to a dominant depreciation trend in their currencies. In this international and regional environment, it is estimated that the Bolivian economy grew 2.8% in 2019, which is the second highest growth rate in South America.

Commodity prices at their international markets remained low. However, the average price index of Bolivia for these export products increased slightly in 2019 thanks to the escalation of natural gas prices, which offset the fall of those for mineral and agricultural products. Therefore, the deficit in the commercial balance decreased, and the current account closed with a lower deficit than in 2018 continuing the gradual correction since 2016.

Alongside this external scenario, the Central Bank of Bolivia (BCB) implemented several measures that allowed liquidity to be injected into the financial system and strengthened the Foreign Exchange Reserves. However, many adverse shocks, of internal and external nature, amplified the liquidity problems in the financial system and fostered the escalation of demanded US dollars by the population. Some of these BCB measures were: keeping levels of monetary policy interest rates close to zero; early redemption of monetary regulation titles and reduction of its supply; expansion of the CPVIS II Fund; creation of the CPVIS III funded by the released resources from the reduction of the reserve requirement in dollars; repo operations with DPF; among others.

These expansive policies were decisive to sustain liquidity and mitigate the impacts of the conflicts occurred between October and November 2019, while maintaining the dynamism of the loans. Also, in the framework of these regulations, the BCB granted emergency and liquidity credits to the General Treasury of the Nation. Due to the described economic conditions and the lack of external financing, this liquidity expansion resulted in overdrafts in the quantitative goals of Foreign Exchange Reserves and Net Internal Credit to the Non-Financial Public Sector contrary to what was initially agreed on the Financial Fiscal Program.

For the first time since 2014, the growth of deposits was affected by the fall in national savings. Additional adverse shocks in 2019 determined a negative flow in deposits that had not been observed since 2004. The loans to the private sector slowed down due to the
lack of resources. However, the 7.7% growth in credit remains significant.

In the foreign exchange market, the demand for US dollars by the public was high at the beginning of the year and rebounded sharply in October and November. In this context, the BCB adopted many measures in order to reduce the agent’s expectations regarding the availability of foreign exchange. Those were: the modification of the guidelines in the exchange position for the financial system to avoid the entities to adjust their short positions by buying currency foreign; the sale of dollars to private retailers dealers through the Unión Bank; the increase of the upper limit on cash dollars availability in the BCB vault; and the fee reduction for transfers to service the private external debt using resources paid out through the BCB. Likewise, the exchange rate stability policy helped to anchor expectations, keep inflation low and sustain the process of Bolivianization of the economy.

Social and political conflicts occurred between the months of October and November. Those resulted in a considerable drop of private deposits in the financial system, a decrease in liquidity at its lowest level in the year, a considerable increase in the demand for dollars and the consequent decrease in the Foreign Exchange Reserves. However, a rapid correction in the behavior of these variables happened once these tensions ceased. Deposits increased, liquidity showed a significant recovery and the demand for dollars returned to normal levels stabilizing Foreign Exchange Reserves. The measures taken by the BCB to provide liquidity and foreign currency to the financial system in a timely and proper manner were decisive to overcome this period of tension.

The Foreign Exchange Reserves at the end of 2019 reached US$6,468 million, an amount that represents six months of imports and four times the short-term external debt, exceeding international standards. However, the decrease from its highest level was significant. The Law of the General Budget of the Nation - Year 2009 authorized the BCB to grant an extraordinary loan up to the equivalent of one billion dollars in favor of Bolivian Fiscal Oil Fields (Yacimientos Petrolíferos Fiscales Bolivianos). The Law of the General Budget of the Nation - Year 2010, authorized the BCB to grant an extraordinary loan up to the equivalent of one billion dollars in favor of National Strategic Public Companies (Empresas Públicas Nacionales Estratégicas). Law 232 of April 9, 2012 established the creation of the Fund for the Industrial Productive Revolution (Fondo para la Revolución Industrial Productiva) with an amount of six hundred million dollars from the Foreign Exchange Reserves and a loan of six hundred million dollars granted by the BCB with resources from the Foreign Exchange Reserves.

The inflation behavior, in the first half of the year, and the weak pressures over demand (in line with the low level of core inflation) led to correct the forecast inflation from 4.0% to 3.5% around a range between 2.5% and 4.0% (announced in the IPM of July 2019). These reflect this year’s downward bias anticipated by the BCB. Indeed, annual inflation ended at 1.5%, below the range of the revised projection. This is the lowest rate of the last decade for Bolivia and the second lowest in South America. In that sense, the coherent management of the monetary and exchange rate policies of the BCB helped to maintain the stability of domestic prices.
At the third quarter of 2019, Bolivia’s growth rate is 2.9%, the lowest since 2009, due to the weak performance of the extractive sectors. On the expenditure side, domestic demand continued to have a positive impact on growth. While net external demand had a negative impact due to a decrease in natural gas buying from Brazil and Argentina, and lower exports of zinc, lead and tin.

In 2020, uncertainty will continue to threaten the global economy performance, keeping growth biased down. In this context, the world’s growth prospects are moderate and differentiated at a country level. The policy interest rates from the main advanced economies will remain at low levels since inflationary pressures are low, and a weak growth is expected. This means favorable financing conditions for emerging economies. Likewise, a moderate dynamic of the commodities international prices is expected. In this scenario, a modest recovery in South American countries is anticipated. However, their financial and foreign exchange markets are vulnerable to risks, especially internal ones. With these perspectives, a weak growth is expected for our main business partners.

For 2020, the forecasted growth of Bolivia is 3.5% ranging between 2.6% and 4.0%. This is sustained mainly by the expansion of the agricultural and industrial sectors and the recovery of extractive activities. By the end of 2020, inflation projections are around 3.4%, within a range of 2.0% and 4.0%.

However, growth and inflation projections could be revised due to the possible impact of the Coronavirus. These forecasts are not risk free, since there are factors that could cause deviations from their expected behaviors.

In this context, the monetary stance will continue to be accommodative. A careful balance between preserving price stability and fostering economic growth will always be the priority. Meanwhile, the exchange rate will continue to be stable with the purpose of anchoring expectations and reinforcing the process of stabilization of inflation, promoting the Bolivianization of the economy to maintain the stability and development of the financial system and the market of values.