

## BOLIVIA: UNREST IN SANTA CRUZ WILL LIKELY DWINDLE BUT RISKS OF DISORDERLY DEVALUATION OR CAPITAL CONTROLS ARE RISING



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### Event

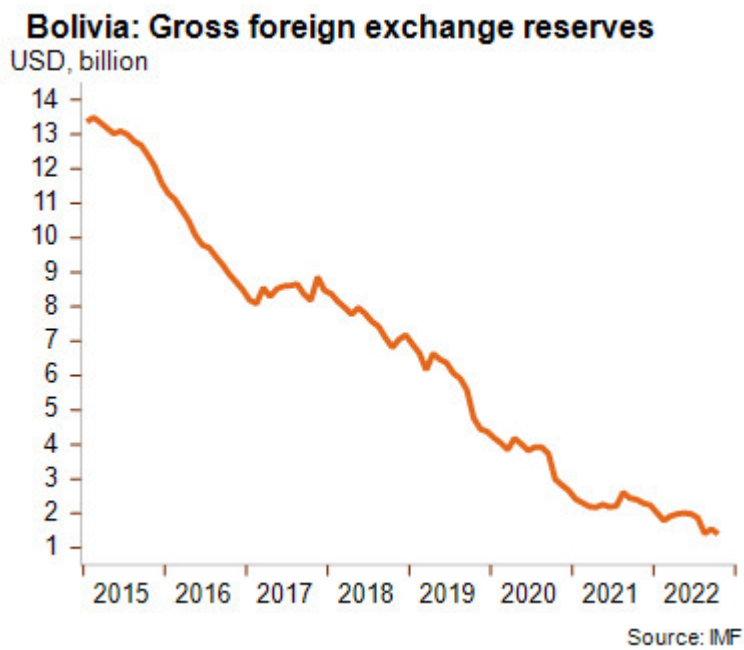
At the end of December, the governor of the Santa Cruz department, Luis Fernando Camacho, was arrested. He faces terrorism charges related to the ouster of former **President Evo Morales in 2019**. Camacho says he is innocent of the charges. At the same time, he may also face allegations relating to his leadership of lengthy strikes in Santa Cruz last October and November. These protests demanded that the delayed national census of 2022 to 2024 be brought forward. It is assumed that rapid population growth in Santa Cruz (the most populated region in Bolivia) would give the right to a larger share of both government revenues and legislative representation to this department.

### Impact

Bolivia is known to be a highly polarised country. Political tensions have increased since the election victory of President Arce in November 2020 with severe measures against opponents, as illustrated by the recent arrest of Camacho. Camacho is a strong opponent of former president Morales and of incumbent Luis Arce. Both belong to the ruling political MAS party (Movimiento al Socialismo) that has been governing the country since 2005 (with a brief interruption of a temporary caretaker government in 2019). Camacho was an **unsuccessful presidential candidate in November 2020** but won the governorship of Santa Cruz, Bolivia's economic wealthiest department, in 2021.

Ever since Camacho was arrested, severe unrest has flared up in Santa Cruz, hurting local businesses. That being said, unrest has remained limited to the Santa Cruz department and is not expected to stir nationwide unrest as Camacho is a divisive figure in the country. Nevertheless, unrest is currently increasing anti-government sentiments amid ongoing polarisation. As a result, Bolivia is likely to see more rapid social mobilisation and severe nationwide unrest over various grievances in the coming year. Those could, for example, be triggered by disputes among rival coca growers, social and labour demands. Moreover, according to the IMF, Bolivia had a relatively high public debt of almost 83% of GDP at the end of 2022. Given those weak public finances, the government doesn't have room to calm down the population through public spending.

Road blockades in the Santa Cruz region are impacting the country as a whole, as they dent food and manufacture supplies to other parts of the country as well as exports. If unrest were to continue or escalate in the coming months – as was the case in October and November – it would hurt the economy. The forecasted 2023 real GDP growth of about 3% would be revised downwards despite historically elevated commodity prices (almost half of current account revenues come from ores and metals and a fifth from gas exports). Moreover, it could lead to an even faster decline in foreign exchange reserves. As shown in the graph below, keeping the boliviano pegged to the US dollar has led to a rapid decrease in foreign exchange reserves in the past years. As a result, foreign exchange reserves stand at a low level (only covering one



**Analyst:** Jolyn Debuysscher – [J.Debuysscher@credendo.com](mailto:J.Debuysscher@credendo.com)

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