Executive Summary

Global economic activity was weak during the first half of 2016 while growth forecasts have been revised downward in most countries. Recovery in advanced economies remained sluggish whereas emerging and developing economies recorded lower economic dynamism. By the end of 2016, a Gross Domestic Product (GDP) contraction is expected in South America (for a second consecutive year), though prospects are diverse within the region.

Commodity prices still remain in low levels mainly because of a weak global demand. Consequently, inflationary pressures in advanced economies remained subdued, giving Central Banks enough space to maintain accommodative monetary policies. Meanwhile, inflation remained above targets in most South American countries, mostly as a result of depreciation of domestic currencies over the past months. In this context, interest rates have been kept at high levels despite economic slowdown in most economies.

In contrast, local economic activity remained strong (4.9% according with the official figure of GDP for the first quarter) ranking as the fastest growing economy in the region. On the supply side, a positive performance stood out in most of the sectors, mainly driven by countercyclical policies application. Within Economic and Social Development Plan 2016-2020 context, domestic demand continued to propel growth as consumption and investment contributions were significant.

This strong domestic demand led imports do not present a significant fall; meanwhile, the value of exports showed a greater drop because of a weak global economic activity and low levels of international prices of commodities. This resulted in a negative trade balance, affecting the current account and, subsequently, the Balance of Payments, which implied a decrease in international reserves. Nevertheless, the external solvency of the country is quite remarkable, as reflected by a creditor status in terms of net international investment position, as well as by a high level of foreign-exchange reserves (one of the highest of the region in terms of GDP).

Given the adverse international context, economic authorities decided to continue the implementation of countercyclical policies to boost economic activity. Accordingly, during the first semester monetary policy remained expansionary, maintaining a high level of liquidity and low interest rates which translated into a large pool of loanable resources. As a result, credit to the private sector registered a historical flow during the first half of the year, mainly to the productive sector and social housing according with the Financial Services Law. Furthermore, the de-dollarization process deepened and financial stability indicators continued strong.

Domestic inflation remained subdued, evolving mostly around the lower bound of the fan chart announced in the Monetary Policy Report (MPR) of January 2016. Only a temporary rebound in inflation was observed in May, explained by an increase in prices of tomatoes (originated by negative supply shocks); nonetheless, that surge was quickly mitigated. A low imported inflation, stable service tariffs and anchored inflation expectations explained the stable behavior of inflation as well.

Contrary to the high volatility in foreign exchange markets of other countries, Bolivia's exchange rate stability contributed to keep inflation under control, supporting an expansionary monetary policy; it also contributed to deepen the de-dollarization process. These results have been obtained without the generation of persistent misalignments of the real exchange with respect to its long term equilibrium.

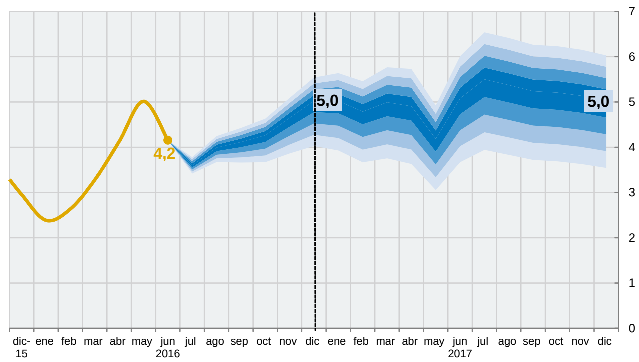
On the other hand, the National Government implemented diverse measures (direct and indirect) to control the price variation of basic goods and services.

Within an heterodox framework, the Central Bank continued undertaking several measures to support social and economic development, such as the loans to National Strategic Public Enterprises, the trust fund established with the National Fund for Regional Development, and the resources provided to the Juana Azurduy program, among others.

Regarding the Bolivian economy outlook, economic forecasts are left unchanged for 2016 with respect to the figures announced in the previous edition of the MPR. Economic growth is projected to be around 5%, the highest rate in South America for third year in a row, while inflation is projected to close around 5%.

Taking into account the importance of a careful balance between preserving price stability and boosting economic activity, monetary policy will remain accommodative during the second part of 2016; likewise, exchange rate stability will be preserved. In the face of any misalignment with regard to the goals established, the National Goverment and the Central Bank will employ the policy instruments at their disposal to protect the welfare of Bolivian population.

CPI Inflation forecast
(Annual change, percent)



Source: Central Bank of Bolivia
Notes: The graph includes confidence intervals around the baseline scenario. The lightest part is consistent with a confidence interval of 90%