

Executive Summary

During the first half of 2019, the growth of the global economy continued to weaken induced by slowdowns in world trade and manufacturing activity. In this context, uncertainty levels for global risks increased lessening investor confidence. As a result, growth prospects were revised downwards in general terms. Consequently, the evolution of economic activity in most advanced countries points out a slowdown in 2019. Despite the expectation at the beginning of the year, the described situation plus low core inflations caused the main central banks to have less restrictive or even accommodative monetary stances.

Emerging and developing economies had heterogeneous performances. Recently they benefited from more favorable financial conditions and greater capital flows. Main reasons are the increase in the probability of a cut in the Fed's rate and the return of US-China trade negotiations. Although risks in economic growth and volatility in the exchange markets persist, a dollar depreciation trend is observed in June.

In South America, the growth would be lower than expected. Outlooks by country are differenced by their recent performances, the local panorama, and relevant external factors. Amid moderate inflationary pressures, monetary policy rates of the region lingered, and in some cases were adjusted downwards.

Individually, the evolution of international prices of commodities was varied. Although altogether it was stable. In the first quarter of 2019, Bolivia's current account deficit was mainly explained by exogenous factors. The first one linked to business partners' slowdown in economic activity. The second one to exchange and financial volatility in international

markets. The need for financing was met with international reserves. This behavior reflected adequate levels according to international standards. Together with the country's sustainable external indebtedness, this situation shapes Bolivia's external strength. Therefore, it's expected for the Bolivian economic growth to remain the highest in the region, along with controlled inflation and a stable exchange rate.

In this sense, the BCB continued adopting an accommodative stance. This countercyclical behavior contributes to economic growth and social protection programs without neglecting price stability. The policy injected resources to maintain adequate levels of liquidity at low interest rates. Several measures such as the decrease of liquidity windows rates of the BCB, the lessen of limits on investments abroad, the expansion of the CPVIS II fund and the creation of the CPVIS III fund were used. The last one is composed of resources freed up by the reduction of the reserve rate in foreign currency, the early redemption of bonds, the reduction of the monetary regulation securities supply and the direct bonds acquisition limits by individuals.

International exchange markets are highly volatile. However, in Bolivia, the exchange stability anchored expectations, controlled imported inflation and continued the de-dollarization process. This happened while the monetary stance is accommodative. Furthermore, to lessen pressure on the local exchange market, the limits in the short and long positions of financial entities increased and reduced respectively. The BUN channeled the BCB dollars supply to exchange services supervised by ASFI was performed. This contributed to mitigating agents' exchange expectations. Throughout the semester,

the national currency was depreciated in real terms compared against most of its trading partners. The real and effective exchange rate index did not leave its equilibrium path.

Direct loans to strategic companies, disbursements to municipalities and governorates with resources from the trust fund with the FNDR and the financing of the Juana Azurduy bond, continued to be an important BCB action to support the productive sector and redistribution of income.

In the first semester, inflation was lower than expected due mainly to the good performance of the agricultural sector, low imported inflation, lower inflation expectations and limited variations in service prices. On the other hand, the indicators of inflationary trend were lower than the total inflation proving there were no pressures on the demand side. In South America, Bolivia recorded the second-lowest accumulated inflation rate.

The slowdown in the growth of savings in the financial system was offset by the monetary impulses, which contributed to sustaining the dynamism of credit to the private sector. At the same time, the public's preference for the national currency, reflected in de-dollarization, continued to progress in an environment of currency volatility in several countries. Thus, the main indicators showed the strength and solvency of the financial system.

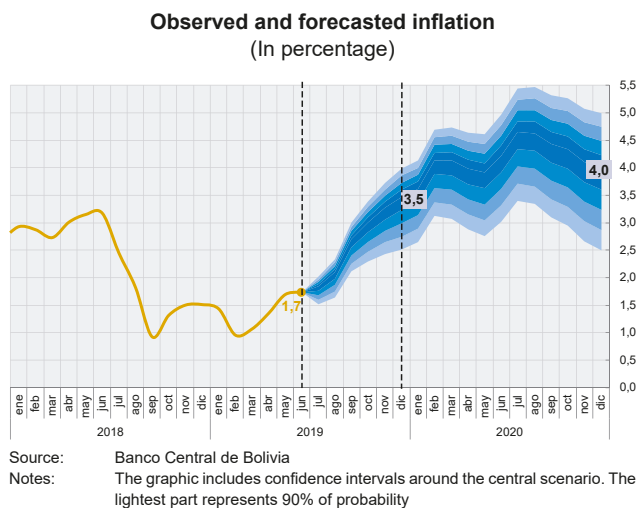
At the end of 2018, despite the external context of weak global recovery, Bolivia registered the highest growth in South America sustained by non-extractive sectors of the national economy. On the expenditure side, the contribution of domestic demand stands out again, thanks in part to fiscal and monetary impulses. Indicators show that this positive performance was maintained in the first half of 2019. Likewise, the unemployment rate continued to fall and stands among the lowest in the region.

The international context for the rest of 2019 will remain marked by uncertainty, with a risk balance biased downwards. Consequently, the outlook for

global activity has weakened. In South America, modest and differentiated growth between countries is expected. Within that framework, the growth of the relevant external GDP for Bolivia would be lower than the one forecasted in January IPM. International prices of commodities were revised downwards. Uncertainty will continue to be a characteristic of financial and exchange markets. Therefore, due to expected appreciations in the main business partners' currencies, corrections in the relevant foreign inflation to Bolivia are foreseen.

For the first half of 2019, Bolivia's economic results reflect the correct behavior of economic policies. This allows for continuing the path of stability and growth during the second half of the year. At the end of the year, the economic growth forecast is around 4.5%. At the end of 2019, estimates indicate that inflation would be around 3.5% in a range between 2.5% and 4.0%. The balance of risks is biased downwards with a higher probability of ending slightly below target.

These results will be possible through proper coordination of economic policies.



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. In this context, the exchange rate will continue to be stable.