

EXECUTIVE SUMMARY

In 2014, the world economy growth is projected to be 3.3%. This year, the global economic performance was characterized by a slowdown in several economies, mostly emerging and developing countries. Among advanced economies highlights U.S. recovery especially in the second and third quarter, after recording a fall at the beginning of the year. Furthermore, it is important to mention the weak growth in the euro area and the contraction of Japan in the second half of the year.

The performance of emerging and developing economies was affected by the deceleration in the Russian economy and most Latin American countries, particularly Brazil and Argentina. The economic activity in Latin America was influenced mostly by lower private investment and higher interest rates. China also recorded an economic slowdown due to lower investment, slower evolution of net exports and the implementation of adjustment policies. In this scenario, Bolivia emerged as the fastest growing economy in South America.

Regarding the international prices of commodities, they continued the downward development during 2014. This behavior was mainly observed in the second half of the year as a result of lower economic growth prospects in emerging economies and the appreciation of the U.S. dollar against most currencies.

Against this backdrop, global inflationary pressures were reduced. In 2014, the average inflation in advanced economies was similar to one year earlier, while the corresponding average in emerging economies was lower. In this context, most central banks in advanced economies continued with the accommodative monetary policy stance to stimulate economic activity. Unlike their peers, the FED ended its asset purchase program and, as a result, the debate about the the maintenance of interest rates near zero was reopened.

Among emerging and developing economies, inflation rates showed heterogeneous behaviors. In Latin America, once more Venezuela and Argentina exhibited again higher inflation rates, followed by Uruguay and Brazil. As a result of this performance, the interest rate in these last two countries were increased. In China inflation remained subdued.

Respect to the Bolivian economy, its performance was outstanding and grew at 5.4% in 2014, the highest rate in South America. On the supply side, all sectors contributed to this growth, with remarkable participation of the Financial, Public Administration Services, Manufacturing, Transport and Communications, Agriculture and Crude Oil and Natural Gas Sectors. On the spending side, the growth was driven by the domestic demand, supported by strong investment, strengthening redistributive policies and credit growth driven by low active interest rates and dynamism of productive and social housing loans.

In 2014, the balance of Non-Financial Public Sector (SPNF for its acronym in Spanish) registered a deficit equivalent to 3.4% of GDP. This result came primarily from the higher capital expenditure and other expenses incurred for cases of emergencies and extraordinary events. To the extent that public resources were allocated significantly to investment and not to current spending, the deficit is healthy for the additional revenues that are expected in the future. Total revenues of SPNF increased as an effect of increases of hydrocarbons sales, domestic rent and customs revenues and sales of goods and services.

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In a less favorable international environment, external accounts recorded positive results in 2014. They displayed surplus in current account and capital and financial account, which determined a surplus in the Balance of Payments and the increase in the Net Foreign Exchange Reserves (RIN for its acronym in Spanish). In the current account underlined the favorable trade balance; while in the capital and financial account highlighted the gross Foreign Direct Investment, who reached its highest level. However, trade balance and current account surpluses were lower than those of previous years, due to deteriorating terms of trade and higher imports of capital goods and inputs, in a context of strong investment growth.

In this sense, the RIN reached to \$us15.123 MM, an increase of \$us693 MM with respect to one year earlier. The RIN/GDP ratio (45%) is one of the highest in the world and supports exchange rate policy and financial stability.

The stock of public debt in the medium and long term amounted to 17.3% of GDP as of December 2014. The external debt indicators show a low level of debt both in historical terms and relative to other countries. Likewise, with respect to international sustainability thresholds there is a high degree of solvency and liquidity.

In 2014, monetary issuance grew 11.8%, below the expected growth rate (13.3%) and following a trajectory in line with its fundamentals. Moreover, the means of payment in national currency continued to record growth rates higher than those of total monetary aggregates, reflecting the deepening of the dedollarization process.

Performance of the financial system was remarkable during 2014. Deposits increased at a steady pace and credits attained one of the largest increases in recent years (especially those devoted to the productive sector). Likewise, financial dedollarization deepened and the main financial indicators remained strong.

In 2014, inflation evolved steadily with transitory rebounds in the middle and the end of the year related to shocks that affected the supply of some foods (onion, tomato, potato, beef and chicken). Accordingly, inflation ended the year with a rate of 5.2%, below the target of 5.5%, and below the average inflation rate of the region as well. Furthermore, inflationary trend indicators remained stable throughout the year, reflecting the absence of significant pressures on the long-term component of inflation. Successful inflation control was possible due to the policies implemented by the National Government and the BCB in a coordinated way.

Monetary policy, in line with its countercyclical nature, maintained a careful balance between its objectives of preserving a low and stable inflation and contributing to economic growth (within a framework of coordination between the BCB and the National Government). In the first seven months of 2014, the BCB continued the withdrawal of monetary impulses (orientation gradually implemented since the end of 2012) with the aim of preventing inflationary risks related to second round effects. In the next three months, the monetary policy gradually changed its direction in order to reduce interest rates, taking advantage of the low inflation figures observed. In the last two months of 2014, preventing seasonal increases in liquidity that could have generated inflationary pressures, the supply of BCB securities increased substantially. The monetary policy was implemented by keeping low interest rates for most of 2014 in order to sustain the dynamism of economic activity. In this regard, the targets set in the Financial Program were reached. These actions were complemented by actions and policies of the National Government to control the supply shocks that occurred in the middle and the end of the year.

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Regarding exchange rate policy, the official exchange rate was kept stable during 2014, becoming one of the main determinants of the dedollarization process. Furthermore, exchange rate policy helped to keep expectations anchored without generating persistent misalignments of the real exchange rate with respect to its equilibrium level. The direction of the exchange rate policy was also consistent with an environment characterized by low external inflationary pressures, with a systematic reduction of imported inflation. Moreover, the demand for U.S. dollars was fulfilled by the BCB through different mechanisms.

Additionally, in the context of the Political Constitution of the Plurinational State of Bolivia and the New Social Productive Economic Model, the Monetary Authority continued contributing to economic and social development by performing functions beyond traditional central banking, for instance: funding of Strategic National Public Enterprises in order to support productive activity, resource transfers from the foreign exchange reserves for payment of Bono Juana Azurduy, direct selling of bonds at attractive rates of return to individuals and exchange rate policy with favorable redistributive effects, among others.

Growth prospects for the world economy for 2015 and 2016 suggest a modest recovery (3.5% and 3.7%, respectively). On the other hand, it is expected that the Bolivian economy will reach a solid growth rate close to 5% in 2015. This forecast is based on the strength of domestic demand, particularly investment. Regarding inflation, it is expected a rate close to 5.5% by the end of 2015.

BCB monetary policy will continue its countercyclical orientation, maintaining an appropriate balance between the objective of preserving low inflation and contributing to growth of economic activity. In this regard, the MEFP (for its acronym in Spanish) and BCB, under the coordination of policies signed on March 11, 2015, Fiscal and Financial 2015 Program which provides for this year an expansionary monetary policy without cause inflationary pressures. It also targets for the fiscal deficit, expansion of CIN total BCB, CIN NFPS, domestic financing, and a loss of NIR, consistent with the macroeconomic targets were set.

In terms of institutional interactions various activities were conducted; among those it is worth mentioning the institutional relations with multilateral agencies, neighbors, social organizations, executive and legislative bodies, business associations, financial institutions, academia and public.

Furthermore, to strengthen the Payments System, BCB implemented the Integrated Payments Settlement system for the purpose of contributing to the process of financial inclusion in the country. In 2014 payments system processed a value equal to 3.7 times the value of GDP.

In pursuit of continuous improvement in the management of international reserves, the foreign exchange reserves of BCB were invested preserving liquidity criteria, safety, preservation of capital, diversification and profitability. It is remarkable the development of a credit risk model based on Basel II and optimization of settlement and accounting functions in investment of international reserves.

Regarding monetary material management, in a context of deepening of the dedollarization process and economic growth, the BCB developed the new series of bills (series "J") with new security measures.

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The Monetary Authority strengthened its policy of transparency and access to information through Accountability of Public Accounts in all regions of the country and with a large attendance and participation of the population, addressing issues such as monetary and exchange rate policies, management of international reserves, monetary material management and regulation of the payment system.

Moreover, the BCB gave continuity to activities that promote the participation of the public in its policies. In this regard, the VIII Monetary Conference was held in July, under the theme “The Role of Natural Resources in Latin America”; in August the Seventh Meeting of Bolivian Economists took place in the city of La Paz, with the theme “The role of the Plurinational State in economic development”. BCB also organized economic research seminars, workshops, and a series of colloquiums about the Plural Economy. The Seventh version of School Essay Contest was organized under the theme “Social Productive Community Economic Model” and the Fourth version of School Dramatization Tournament, under the theme “The redistribution of economic surplus”.

Financial statements of BCB audited by PricewaterhouseCoopers indicate that these statements reflect properly, in all significant aspects, the financial position, operation results and cash flows of the BCB up to 31 December of 2014.

Finally, the Central Bank of Bolivia reiterates its commitment to use suitably and effectively the policy instruments at its disposal to fulfill its constitutional mandate of preserving the purchasing power of the domestic currency in order to contribute to economic and social development of the country.