

EXECUTIVE SUMMARY

In 2015, the world economic growth was characterized by a weak recovery in advanced economies and a further slowdown in emerging and developing economies, highlighting the lack of economic momentum in most economies of South America. Among advanced economies, it is relevant to mention that the US economy grew at similar levels of last year, along with the moderate economic recovery in the Euro Zone and Japan.

For the fifth consecutive year, lower economic growth was observed in emerging and developing economies. The slowdown in China had effects on other economies through trade and international commodity prices. The economic growth in the region dropped again, highlighting the economic shrinkage of Brazil. In this scenario, Bolivia emerged as the fastest growing economy in South America for the second year and for the third time in the last ten years.

Regarding international commodity prices, the 2012 downward trend continued as a result of the lower demand from China, favorable supply conditions and the appreciation of the US dollar against most currencies. In this context, it is important to acknowledge the dramatic fall in the crude oil price.

On the other hand, global inflationary pressures at a global level had different behaviors. Inflationary pressures in advanced economies were below its targets due to the economic slowdown and declining commodity prices. This context allowed greater room for central banks to maintain the expansionary monetary policy through low interest rates and unconventional quantitative easing measures to boost demand. In contrast, the Fed increased its policy interest rates by 25bp after maintaining low interest rate levels for almost 10 years. Conversely, in many Latin American economies, inflation rose above its central bank's target particularly in countries with inflation targeting and flexible exchange rates regimes, reflecting the pass-through effect of the depreciation of their currencies to higher prices.

Regarding the Bolivian economy, its performance was outstanding; it grew 4.8% in 2015, the highest rate in South America for the second consecutive year. The supply side was specially supported by non-extractive sectors. Regarding spending, the major contribution of the domestic demand growth is largely explained by the impulse of fiscal and monetary policy.

Despite the adverse external environment, the Bolivian economy maintained a strong external position. Indeed, international assets exceeded liabilities, being one of the few countries in the world with a creditor International Investment Position. Net Foreign Exchange Reserves as a percentage of the GDP remained the highest in South America.

The decrease in international commodity prices, along with the behavior of investment, influenced the deficit of trade balance and current account of the balance of payments. This result was partially offset by a capital and financial account surplus, based on significant inflows from FDI and external disbursements to the public sector.

The recorded fiscal balance deficit reached 6.9% of the GDP, enhanced by the increased public investment aimed to foster economic growth and the reduction of tax revenues due to a decrease of international oil prices.

The stock of the medium and long-term external public debt reached 19.1% of the GDP, while the non-financial public sector domestic debt was 8.4% of the GDP. The solvency and liquidity indicators of public debt showed a low level of indebtedness, in historical terms, relative to other countries and to international sustainability thresholds.

The monetary base and monetary aggregates grew; due to the countercyclical stance of the monetary policy. Fiscal and monetary impulses allowed to sustain aggregate demand and contributed to the dynamism of the economy. Moreover, means of payment in national currency continued to grow higher than those of total monetary aggregates, reflecting the deepening of the de-dollarization process.

The financial system performance was remarkable. Deposits increased at a steady pace and credits, mainly directed to the productive sector and social housing portfolio, recorded the highest historical growth. Meanwhile, financial de-dollarization deepened and the main financial soundness indicators remained strong.

In 2015, inflation remained at expected levels, reaching a rate of 3% at the end of the year, the lowest since 2009. The downward trend in inflation was mainly determined by the good performance of the agricultural sector, low external inflationary pressures and exchange rate stability. It is noteworthy that Bolivia's inflation was the lowest in South America, in contrast to several countries in the region that registered price increases above their inflationary targets due to the significant depreciation of their currencies.

In early 2015, against the unfavorable international context, national authorities decided to maintain policies to boost the economic activity and fight against poverty. In this sense, fiscal and monetary impulses mitigated the negative impact of the international economic cycle.

Monetary policy remained - expansionary, injecting large amounts of liquidity. Consequently the financial system liquidity closed at historically high - levels, government securities rates dropped to near zero, causing the money market and financial system interest rates to decline. These encouraged loans aimed to the productive sector and social housing, both enforced by the Financial Services Act.

Regarding exchange rate policy, in an environment characterized by lower inflationary pressures of external origin and depreciation of currencies of neighboring countries, the official exchange rate was kept stable during 2015, maintaining a low imported inflation, maintaining an expansionary monetary policy, deepening the de-dollarization process and helping to keep expectations anchored without generating - misalignments of real exchange rate respect to its long-term equilibrium level. Moreover, the demand for U.S. dollars from private and financial sector was fulfilled by the BCB.

Among the policies that contributed to economic and social development, the Monetary Authority kept funding Strategic National Public Enterprises, transferring resources from foreign exchange reserves to pay the Juana Azurduy conditional transfer and it kept selling bonds with attractive rates of return directly to individuals among others. In this effort, the BCB granted an outstanding loan of Bs3.180 million for the creation of a trust fund to support regional governments to finance local project partnerships, to ensure public investment access to external sources of funding.

Under the coordination of macroeconomic policies, the MEFP and the BCB signed on March 16, 2016 the Fiscal and Financial Program 2016, which forecasts, in a context of world economic moderate recovery, that the economic growth for this year will reach a growth rate around 5,0%, once more - the highest growth rate in the region. This forecast is based on the performance of domestic demand, particularly public investment under the Economic and Social Development Plan. Inflation is expected to reach a rate around 5,3% by the end of the year. Expansionary Monetary policy, which began in mid-2014, will continue, maintaining an appropriate balance between the objective of keeping low inflation and to contribute to the dynamism of economic activity .

In terms of institutional interactions, various activities were conducted. Among those, it is worth mentioning the relationship with social organizations, executive and legislative bodies, business associations, financial institutions, academic institutions and the general public. Besides, it's noteworthy to acknowledge the involvement of the BCB in the National Financial Stability Board.

Moreover, to strengthen the system of payments, the BCB continued developing modules of integrated payment settlement systems and data capture. In addition, it encouraged the use of electronic money in order

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to contribute to the process of financial inclusion of rural areas. In 2015 the payments system processed a value equal to four times the GDP.

Regarding the management of monetary material, in a context of a de-dollarization process and high economic growth, the BCB put in circulation the “J” bill series with new security measures.

The BCB kept strengthening its transparency and information access policy through the Accountability of Public Accounts performed in all regions of the country with large attendance and participation of the general public.

Additionally, the monetary authority continued organizing activities aimed to promote general public participation. In this regard, the ninth Monetary Conference was held in July, under the theme “Regional policy responses to the New World Economic Context”; in August, the eighth Bolivian Economists Meeting took place in Chuquisaca, with the theme “Industrialization: Heading to the diversification of the 2025 production structure “. The eighth version of the High School Essay Contest under the theme “Economic activity in the region” finally the fifth version of the High School Dramatization Event, under the theme “The impact of social transfers in households, neighborhoods and communities”. BCB also organized economic research seminars, workshops and a series of colloquiums about the Plural Economy. Showing the relevance of these activities, BCB won the “Best Practice for Public Institutions Award” concerning citizen participation.

BCB financial statements audited by KPMG SRL reflect properly, in all significant aspects, the BCB financial position, operation results and cash flows - up to 31 December of 2015.

Finally, the BCB reaffirms its commitment to fulfill its constitutional mandate to preserve the domestic purchasing power of the currency to contribute to the country’s economic and social development, using all its available policy instruments.

