

EXECUTIVE SUMMARY

The performance of the world's economy in 2016 had retained and downward trend, which had yielded some of the lowest results since the financial crisis of 2008-2009. Just like in previous years, there was a mild and minor recovery of some of the advanced economies, while the emerging and developing economies had sustained themselves as the engine of worldwide growth, mainly the performance of the Asian economies such as China and India. Within this context and for the second consecutive year, South America had registered an economic contraction. Regardless of this fact, such results do not reflect the largest divergence within the region, in which Bolivia has remained as the nation with the largest economic growth for the last three years.

On the other hand, the inflation pressures from advanced economies had begun to exert some pressure in the international prices of commodities toward the second half of the year. However, such price levels had remained below the prices and terms observed in 2015. In addition with the expectations toward and expansive orientation of the fiscal policies announced by the new Presidential Administration of the United States, which has led to a change in the perception of the future monetary policies amongst advanced economies. In essence, the Federal Reserve of the United States had increased the interest rates by December; while the European Central Bank had announced the reduction for the purchase of various assets as of April of 2017.

In regards to the region, throughout the year, the inflation rates had remained consistent among many Latin American nations, most of which are above the economic boundaries established by various monetary authorities. Such behavior has been especially evident and common among economies with a flexible exchange rate, mostly due to the strong currency depreciation which they had suffered within recent terms. In such regard, the central banks had maintained their interest rates at elevated levels, regardless of the deaccelerating policies of such economies.

In contrast to this, Bolivia, while facing this less favorable context, had opted to sustain a counter-cyclical orientation through the policies and motions established by the related economic authorities, all of which was intended toward a new economic activities and overall dynamics and to contribute in our struggle against poverty and inequality, while creating the necessary means for the overall stability of prices. Consequently, the growth and inflation targets for 2016 were properly accomplished with some reasonable deviations, which were mostly to external economic clashes and conflicts.

In essence, the economic level in Bolivia was slightly improved in 2016, which helped to reach a growth rate of 4.3%, which is regarded as the highest one in South America, which has been accomplished for a third consecutive year and for the fourth time since 2009. In regards to the offer, such growth was sustained through the expansion in most sectors, which includes a special and improved rate among non-extractive industries. In regards to expenditure, most of the growth has been due to the internal demand and this could be attributed to the changes generated within national fiscal and monetary policies.

Regardless of the unfavorable external problems, and the expanding policies thereof, Bolivia has retained a solid position to cope with such international conflicts. In essence, for the ninth year in a row, Bolivia has retained the same net debit and credit balances in International Investment. At the same time, the Net International Reserves expressed as a percentage within the GDP had remained amongst the highest percentile in South America.

Default levels within checking accounts had remained at below 5.5% in regards to the GDP, which was below the previous year, while financial account had presented a greater deficit. The deficit decrease among checking accounts was due to fewer net payments, mostly in response to international factors and because

of an increased total number of cash transfers from Bolivian residents abroad, which led to the decrease in commercial expenditure. On the other hand, the financial accounts had accounted for increased cash flow withdrawal in comparison to the advanced payments for the importation of capital goods intended for the construction of various large scale projects. It is important to highlight that within the regional context the extraction of cash and the Direct Foreign Investments had remained as significant factors of the economy.

The Fiscal Balance had registered a deficit equal to 6.6% of the GDP, which is below to the balance registered in 2015, which could also be attributed to a decrease in every day expenses; although the same levels of cash flow expenses have been retained. The balance of the external public debt on a short and long term basis toward the end of this term have reached 21.3% in regards to the GDP. At the same time, the internal debt of the public sector closed at 9% in regards to the GDP, which reflected much solvency and liquidity within the terms of the public debt and an elevated sustainability in comparison to other countries, and below the broadly accepted international threshold.

In an effort to protect prices stability, the expansive nature of the monetary policy had retained high liquidity levels and monetary interest rates close to zero, while supporting the dynamic growth of the Financial System in favor of the non-financial private sector and in effort to provide an additional incentive toward greater investment and consumption which would strengthen the existing economic activities. Credit was mostly concentrated within the productive sector and social housing pursuant to the Law of Financial Services.

The financial system has retained the same dynamic growth. Cash deposits have been increasing although a slight deceleration had been observed toward the end of the year, mainly due to a comparative base effect; the net portfolio increase had reported a similar growth in 2015, which was regarded as the highest historical record. Credit was mostly issued in favor of the productive sector and for social housing. The credit targets within these sectors pursuant to the terms established by the Financial Services Law, elevated liquidity and low interest rates had helped to create a positive environment for the overall growth of the portfolio. Within this context, there are some fairly high solidity indicators within the financial system. The monetary aggregates had sustained the same growth levels, although at a decreased rate in comparison to previous terms due to the behavior of the existing deposits. At the same time, the nationalization process within this term had been increased.

An important aspect it is to highlight the stability of prices within the context of the dynamic movement of the economic activities. Inflation has a stable evolution and it remained at controlled and manageable levels throughout the year, while reaching a 4% rate by the end of 2016. Some of the main factors that explain these results included the stability of national currency's exchange rate, the correction in the prices of perishable goods which lowered the offered prices, the inflation expectations have remained within the announced ranges and the prices of the various services and utilities have remained at the same level. There have also been certain key actions from the Executive Branch intended to secure the steady and constant supply of goods within the national markets, which helped to secure the sovereignty of food supply within the country.

The exchange rate policy had played an important role. Within the environment identified by the volatility in regards to the exchange policies with neighboring nations, which are often subject to great appreciations and depreciations, the nominal exchange rate in Bolivia had remained constantly stable in an effort to reduce the effects of foreign inflation, while generating various means to adopt expansive monetary exchange policies. At the same time, this contributed greatly to the nationalization process and to anchor the public's expectations. All of this has been possible thanks to persistent misalignment with the real currency exchange (ITCR) in regards to the long term balance established by its own fundamental concepts; in essence, the closing of the ITCR term had registered a depreciation of the real currency exchange. It is important to highlight that through various mechanisms, BCB had attended to all of dollar-monetary requirements, for either internal or foreign transactions.

In regards to the policies established to contribute towards direct economic and social development, BCB had continued with the financing of Strategic National Public Entities and of certain strategic counterparts for

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sub-national projects, which included the transference of resources for the payment of the Juana Azurduy Bonus. At the same time, there had been certain continuity in the sale of bonds with attractive interest rates which were aimed at natural persons, which helped to strengthen family savings, which reduced the interest in imported bonds due to the idle-stationary characteristics of such bonds.

In regards to the institutional administration, in 2016 various meetings were held with the Board of Directors and with the various Committees formed within the institution, such meetings were intended to evaluate and determine the orientation and instrumentation of the BCB policies. There was also a periodic follow up of the economic environment within the country and abroad. At the same time, in regards to the framework of coordination policies, the BCB had participated in inter-institutional meetings as a Macro Group, Inter-ministry Council of Public Debt and the Council for Financial Stability, among others. In such regard, the BCB intervened in various meetings with international organizations in an effort to highlight various national economic policies. Finally, academic activities have been organized as an incentive for economic research, some of the most relevant ones include the Second International Congress of the Association of Latin American Economic Thinking (APEL) which included the participation of some of the highest authorities of the country as well as renowned Latin American researchers and various participants from fifteen different countries who discussed recent trends in economic and social thinking.

In regards to the framework of some of the main operations of the BCB; the administration of the international reserves had retained its liquidity and the investment capital, which had reached the previously established performance rates. The supply of physical currency had been sustained, while renewing and improving various safety measures and the overall strengthening in the distribution of bills and coins of the various forms of currency required by the population. The payments system had continued its normal development within the complementary modules of the system for Integrated Liquidation of Payments (LIP), which helped to issue a specific norm and it helped to propel the usage of electronic monetary transactions. The Gathering System of Periodic Information of Foreign-Monetary Transfers (SCIP) which started to work toward the end of 2015 has allowed to obtain information about transfers abroad and from international sources through the Bolivian Financial System. It is also important to highlight that the financial statements of the institution, in accordance to the external auditing entity, had reasonably presented, in every significant regard, the current equity and financial conditions of the Bolivian Central Bank as of December 31, 2016, as well as the results of its operations and the cash flow for the term that have been concluded on the applicable date.

The transparency policy has been extended as well as the means needed to have greater access to the information of various activities aimed at the effective application of the Participation Law and Social Control and the Anti-Corruption Law and Illicit Wealth Law. In such regard, the institution has held various hearings to review financial statements and to secure the transparency of their origin and to include the participation of civil society in such activities.

Various additional policies have been issued to secure different activities that would secure the BCB policies. They highlight the transference of some of the main reports of the related policies before the BCB, the Monetary Journal, the Summit of Economists of Bolivia, the Contest of School Essays and the Theatre Contest. These and other activities had allowed for an elevated participation from the population. At the same time, various seminars were held about economic research, internal workshops and talks about plural economics.

Finally, it is also important to mention that the BCB had received two significant awards. First of all, and for a second consecutive, the prestigious 'Global Finance' magazine had rated the BCB amongst the best Central Banks in the continent, due to its great administrative work and the control of the inflation rates, its economic growth, currency exchange stability and the handling of the monetary policies. On the other hand, the BCB had obtained first place in the National Awards of Proper Practices summoned for the first time by the Ministry of Labor, thanks to the creation of various mechanisms and interaction spaces which would allow for the sharing, participation and empowerment of civil society as a whole in regards to the policies of the Monetary Authority.

While maintaining a constant coordination of macroeconomic policies and the necessary transparency in the reporting of financial statements, by February 14, 2017 the Ministry of Economics and Public Finances and the BCB had undersigned a Decision for the Execution of the Fiscal-Financial Program 2017, such document provides a summary of the policies that would be applied to reach the inflation and growth targets in 2017. Within such agreement it has been foreseen that towards the end of the year, within a context of moderate recovery of the world's economy, Bolivia will reach a growth of 4.7% and an inflation rate of 5.0%, which would be the highest growth rate within the region while retaining the desired price stability. Therefore, the policies issued by the BCB will continue to retain an adequate balance to ensure a low inflation and to in an effort to contribute to the dynamic growth of the various economic activities.

In such regard, the Central Bank of Bolivia had confirmed its commitment to comply with the constitutional mandate to preserve the internal value of the national currency, which would contribute the nation's economic and social development, while applying timely and adequate instruments and policies to secure the economy.