EXECUTIVE SUMMARY

In 2010 a higher-than-expected recovery of global economic activity characterized the international context for the Bolivian economy. This was fostered by emerging and developing economies, in contrast to the slow recovery of advanced countries.

Moderate U.S. economic growth was mainly driven by private consumption. Nevertheless, high unemployment continued as a risk factor. A weak fiscal situation affected Euro area economic growth. There was also a decoupling between a few peripheral European countries (Portugal, Ireland, Italy, Greece, and Spain) and the main economies of this continent. In addition, some nations registered inflationary pressures.

Latin America showed a better performance due to the lagged effects of countercyclical policies adopted in the middle of the crisis and a favorable external environment characterized by high prices of commodities. Moreover, strong capital inflows to the region led to currency appreciations, and to the adoption of short-term capital controls.

Global consumer prices increase was diverse across regions. On one hand, advanced economies showed moderate inflation while emerging and developing ones, in special energy and net food importers, experienced greater gains in their price levels.

U.S. monetary policy was expansionary, especially from the beginning of the second phase of the Quantitative Easing program (QE2), which involved $600 Billion liquidity injection as of November of 2010. In the Euro area monetary authorities focused on the normalization of monetary impulses within a framework of slow economic growth, high unemployment, and rising inflation in late 2010.

In emerging and developing economies, inflationary pressures were significantly broadened due to the increase in international food and energy prices. As a result, Central Banks have oriented their actions to ease monetary policy impulses.

Financial markets performance was determined by the tensions resulting from a weak fiscal position in some European economies and the consequent increase in their sovereign risk. Furthermore, low growth expectations and steady expansionary policies in advanced countries also influenced financial markets, especially in U.S. and Japan. Nonetheless, stock markets had a good performance as a consequence of good growth prospects in Asia and low interest rates.

The Bolivian economy grew at a rate of 4.1%, driven by domestic demand, the rise in public and private investment, and the dynamics of transport and communications, financial services and hydrocarbons sectors.

For fifth consecutive year, a fiscal surplus was registered (2% of Gross Domestic Product, GDP). Fiscal resources were allocated to productive public initiatives, and social protection programs.

The current account of the balance of payments recorded a surplus (4.6% of GDP), explained by positive resource balance and remittances. The capital and financial account also registered a surplus due to higher disbursements of public external debt and foreign direct investment. These results led to an increase in Central Bank international reserves, which amounted $9.7 Billion (equivalent to 19 months of imports), the highest level in Latin America in terms of GDP. Consequently, Bolivian net foreign assets increased to 17% of GDP.

Monetary aggregates that include foreign currency (M'1, M'2 and M'3) slowed down their growth, according to the evolution of their determinants. Furthermore, domestic money indicators (M1, M2 and M3) growth was accelerated as a result of an increasing preference of the public for the Bolivian money.

Regarding the financial sector, policy actions taken were aimed to incentive credit for productive activities, resulting in greater financial deepening, particularly in local currency operations. Accordingly, domestic currency denominated deposits and loans grew at rates of 26% and 78% respectively. In global terms, total loans and deposits grew at annual rates of 19% and 7%.

Financial de-dollarization (Bolivianization) reached a level of 56% by the end of the year, with positive influence on the financial soundness of the system. It should be noted the descending trend of non-performing loans, the capital-adequacy ratio above the required level, and positive earnings of financial entities.

By the end of 2010, inflation slightly exceeded 7% as an effect of a rebound of prices during the second half of the year. This behavior was explained by: i) the increase in imported inflation (high prices of food and energy, and currency appreciation of main trading partners); ii) adverse weather events that affected the performance of the agricultural sector; iii) higher inflation expectations, related with speculative practices and concealment of goods; iv) increase in demand during the second half of the year, though not significant; and v) the temporary rise of fuel prices in the domestic market in the last weekend of December.

Within the framework of coordination with Central Government, the monetary policy was countercyclical: a gradually increase in public bonds supply since the first quarter of 2010, higher reserve requirements for foreign currency denominated deposits, and, last but not least, an aggressive campaign to promote direct, open market operations between the Central Bank and the public.

Likewise, exchange rate policy was intended to stabilize exchange rate expectations and to mitigate foreign inflation within a context with remaining uncertainty about the pace of world economy recovery. Additionally, this policy contributed to deepen de-dollarization, and to preserve financial stability.

Global economic outlook for 2011 reflects a slower growth than previous year, mainly because of monetary impulses normalization in several emerging and developing economies. In this scenario, differentiated economic growth across regions is expected with lasting doubts about the strength of advanced countries recovery. The latter would still be negatively affected by their high levels of unemployment, as well as by the weaknesses of their balance sheets and housing markets. This point would also result in dissimilar economic policies between regions.

Bolivian economic growth would be based on: i) the agricultural and mining sectors recovery; ii) continued dynamism of natural gas exports; and iii) significant public investments in strategic sectors such as hydrocarbons, mining and infrastructure. The Central Bank will support these investments within the framework of the laws approved for this purpose.

From the expenditure side, growth would continue to be encouraged by domestic demand led by private consumption and investment (both private and public).

Positive external accounts balances would continue, allowing a greater accumulation of international reserves, in a setting of higher prices of commodities and a more dynamic world trade.

Regarding fiscal accounts, according to the 2011 Financial and Fiscal Program signed between the Ministry of Economics and Public Finance and the Central Bank, the fiscal deficit would reach 4.2% of GDP. It would be a consequence of an increasing public investment and the permanence of social protection programs without generating a crowding out effect of the private sector. It is also expected that deposits and loans, particularly in local currency, will continue to grow. Financial policies will be devoted to promote credits, especially those for productive projects.

In organizational terms, Central Bank governance structure has specialized committees headed by the President and the General Manager of the Bank. These committees are formed mostly by the President, General Manager, Division Managers and the Main Economic Policy Advisor (equivalent to Economic Studies Division Manager). These instances provide necessary and relevant information to the Board of Directors, which is the highest authority of the Central Bank regarding its decision-making process. This structure helps to accomplish constitutional roles of the institution related to: i) formulation and implementation of monetary and exchange-rate policies; ii) payments system regulation; iii) international reserves management; and iv) issue of monetary material.

In 2010 new operators were incorporated to the payments system, and new legislation was enacted in order to improve its performance. Inside the system, high and low-value operations have been increased, reaching three times GDP. Operations in local currency were the most important ones.

International reserves were invested according to the following criteria (ordered in terms of importance): safety, capital preservation, liquidity, currency diversification, and profitability. The portfolio was diversified in order to achieve adequate credit quality. There were increases in working and investment capital, while gold reserves rose due to the purchase of seven tons of gold and high prices of this metal. Yields obtained were higher than benchmarks determined previously by the Central Bank.

Money issuance and de-dollarization implied additional tasks in terms of monetary material management. Reception of new bills ("I" series), coinage, distribution of coins in order to facilitate small transactions, as well as the replacement of damaged bills, improved money structure. Additionally, the monetary authority supported to extraordinary, commemorative coinage.

The Central Bank of Bolivia developed regular and exceptional institutional activities that allowed improving its relationship with international and national organizations while fulfilling commitments acquired under the existing legal framework and the principles of public administration.

Among the regular activities of the Bank, it is important to highlight academic events related to economic research and discussion of economic policies (Meeting of Bolivian Economists, Monetary and Financial Conferences), the continuity of events aimed at spreading the institutional role of the Bank (Economic Research National Award and the National Award of School Essays), as well as the organization of several educational campaigns. Last but not least, it is important to mention the XV Meeting of the Central Bank Researchers Network of the Americas held in La Paz (Bolivia) during the first days of November, 2010.

A more common practice at the Central Bank is the strengthening of social control activities with social organizations, as well as the promotion of more accountability and transparency. In this regard, in 2010 the Central Bank was accountable under activities related to inflation control, money issuance, and international reserves management.

In organizational terms, the Bank changed its internal bylaws, and implemented several actions to consolidate its institutional structure.

Financial Statements were audited by independent, internal and external audits. As pointed out by PricewaterhouseCoopers, the statements represent fairly the financial and patrimonial situation of the Bank to the 31th of December of 2010 and 2009, as well as the results of its operations and cash flows of the periods mentioned. All these actions were implemented under the specific accounting policies stated in the Law of the Central Bank (N°1670) and the Resolutions and Acts of the Board of Directors.

To conclude, the Central Bank of Bolivia reaffirms its commitment to compliance with its constitutional mission, and its willing to support the process of transformation and changes required in order to achieve Bolivian economic and social development.