EXECUTIVE SUMMARY

In 2013, world economy growth was positive, although slightly lower than the previous year. Emerging economies grew at a slower rate and advanced economies showed a slow recovery, especially in the second half of the year.

Global economic dynamism was impulsed by some advanced economies, especially U.S. recovery. Although the Eurozone has shown some positive results, due to the good performance of the center economies as Germany, still shows signs of weakness and deflation risks.

Uncertainty regarding fiscal and monetary policies in the U.S. perturbed international financial and currency markets. Nevertheless, in the last months risk aversion decreased in line with a lower slowdown than expected in some emerging economies, new signs of recovery in advanced economies and partial resolution of fiscal problems in the U.S.

In the case of Latin American economies, they continued growing, albeit at a slower speed than the year before and with differentiated performances among countries. In fact, Panama, Bolivia, Uruguay, Peru, Chile and Colombia reported solid dynamisms, while Paraguay and Argentina showed an upturn; in contrast to Brazil and Mexico, where a slow recovery was observed. Vulnerability in some economies increased in order to new external financing conditions, declining prices of raw materials and adjustments in domestic demand.

Regarding to international prices of export products, they tended to fell in 2013, mostly in the cases of minerals, agricultural goods and hydrocarbons. The decline in mineral prices was mainly observed in the first half of the year, as a result of the slowdown in the demand of some economies, like China. In the case of food, the decline in cereal and sugar prices was explained by better crops.

The weak economic performance and lower international prices of commodities contained the global inflation pressures. Consequently, central banks kept the interest rates at low levels and used different measures to impulse local demand, particularly in advanced economies. However, the Fed announced the beginning of the progressive tapering of its monetary stimulus by reducing monthly purchases of financial assets.

In emerging and developing economies, inflation rates showed heterogeneous behaviors, though stable in most cases. In Latin America, only Venezuela and Argentina exhibited higher inflation rates.

Moreover, as a consequence of the uncertainty about the tapering of monetary stimulus in the U.S. the international financial and currency markets were affected, especially in the case of emerging economies where tightening financial conditions in the international markets and capital outflows impacted, pushing local currencies to depreciate against the U.S. dollar.

Respect to the domestic activity, it grew at 6.8%, the highest rate in the last thirty eight years, and above the official projections for 2013 (5.5%). On the supply side, the leader sectors were Manufacturing, Hydrocarbons and Public Administration Services. It should be noted that in the period between 2006 and 2013, the most dynamic activities were Financial Services and Construction. On the demand side, the growth was driven by the domestic demand, partly as a result of adequate liquidity, low interest rates during most part of the year, high public investment and redistributive policies.

For eighth consecutive year the Balance of Non-Financial Public Sector (NFPS) registered a surplus; equivalent to 0.7% of GDP. Revenues came primarily from hydrocarbons sales in external and internal markets, domestic rent, sales of other national corporations, taxes on hydrocarbons and customs revenue. Meanwhile, expenditures were explained by public investment, which registered a record level of implementation, especially in projects in strategic sectors such as hydrocarbons, mining, energy and electricity, and telecommunications. In addition, the Government continued with a redistributive policy through the increase in the minimum wage, inversely proportional increases in the public employees' salaries, improvements in retiree people pensions and unconditional transferences as part of social protection programs.

Alike past years, in 2013 the external accounts registered positive results. The large surplus in the trade balance, increments in worker remittances and Foreign Direct Investment, explained the surplus in the Balance of Payments and Net earnings on Foreign Exchange Reserves (NFER; USD503 MM). At the end of 2013, the NFER reached to USD14.430MM (47% of GDP). It's important to note that the implementation of the Fund for the Industrial Revolution and Production (FINPRO, for its acronym in spanish) involved a USD1.200MM transfer of Net International Reserves, which implies that its increase in consolidated terms the foreign assets was even greater.

In order to remove liquidity from the financial system, the Central Bank of Bolivia (CBB) increased the domestic public debt through monetary policy operations. These instruments helped to prevent possible inflationary second-round effects. In net terms, the CBB's debt remained in a creditor position reflecting a high coverage of its domestic liabilities. The NFPS's debt declined, particularly the one expressed in UFV, allowing to continue with the process of "Bolivianización" of the domestic debt.

Regarding to the external public debt, its ratio to GDP remained low, reflecting the country's creditworthiness. More than 50% of the debt balance was assigned to transport and infrastructure projects. Public external short term debt was completely paid at the end of 2013. Solvency and liquidity Indicators show the sustainability of the debt. Rating Agencies reaffirmed the rating of Bolivian debt, maintaining a stable outlook for 2014.

The principal financial indicators remained strong. Credit to private sector recorded its highest absolute growth in our economic history and the deposits continued its outstanding behavior. Meanwhile, growing tendency of loan portfolio was mainly aimed to productive sector. Also, bolivianization ratios of credits and deposit continued to increase, 87,6% (7,6 percentage points higher than in 2012) and 77,1% (5,1 percentage points higher); respectively.

Monetary issue grew as expected and according to the evolution of its fundamentals. Monetary base maintained a stable annual growth until September, when it started to slow down, reaching 6% of growth at the end of the year. In the last quarter, the dynamism of monetary regulation was determinant to control seasonally expansion factors that are more distinctive in these months of the year. Likewise, the growth rate of broader monetary aggregates was below the one recorded in 2012. All these aspects make clear the CBB purpose of containing monetary expansion that could generate inflationary pressures.

In this external and internal context, inflation, that during the first semester was stable an in line with its annual target, rose above inflationary pressures during the second semester, reaching in October an annual growth of 7,5%. This performance was explained by adverse climatic factors and speculative actions that caused substantial increases in prices of some foods, especially potato, tomato and chicken. In the following months, coordinated actions between the CBB and the Executive Branch of Government contributed to correct these disturbances, ending the year with an inflation rate of 6,5 %, higher than the announced target (4.8%), but within the forecast range (3.8% to 6.8 %) acknowledged in the Monetary Policy Report, July 2013.

Inflation adjustments in the last two months confirmed that this phenomenon did not correspond to a long-term behavioral trends or money market imbalances. Indeed, indicators of trend inflation (core inflation, underlying inflation and inflation excluding food) had a relatively stable variation and below the head inflation over the year, which indicate no demand inflationary pressures.

However, with the intention of correcting price increase timely and to avoid second round effects, the CBB and the Executive Branch coordinated to reduce significantly the liquidity, to guarantee the supply of the domestic market and to struggle against speculation.

Regarding monetary policy, it should be pointed out that the withdrawal of monetary impulses continued gradually. Low interest rate were kept most of 2013 due to lower imported inflationary pressures, slight impacts of domestic origin for changes in administered prices and high fiscal surplus in the first half of the year. However, in the second half the supply of monetary regulation securities was boosted in line with the supply side inflation shocks, the strong economic dynamism and the greater seasonal public spending.

In order to assist the liquidity regulation process, besides OMO, increase of reserve requirement for deposits in foreign currency, direct supply securities to natural individuals (BCB-Aniversario y BCB-Navideño) and additional faculties to OMO Committee, the CBB implemented new tools, such as Deposit Certificates issued for the enterprises that manage pension funds and Supplementary Reserves which were required to financial intermediaries with a level of liquidity than exceeds the optimal level.

Regarding the exchange rate policy, the exchange rate was stable throughout 2013, maintaining the official parity of 6,96 Bs/USD for sale and 6,86 Bs/USD for purchase. This guidance has been preserved since the end of 2011, based on the sustained decline of external inflationary pressures, the importance of anchoring public expectations in an environment of exchange rate volatility of the main trading partners, and in order to deepen the bolivianization process; without generating persistent misalignments of the real exchange rate with respect to the long-term trend set by its fundamentals.

Moreover, under the Political Constitution of Plurinational State of Bolivia and the new social productive economic model, the CBB also contributed to economic and social development performing other functions besides those of traditional central banking. Among them were the financing of Strategic National Public Enterprises and the constitution of FINPRO in order to replace the primary export model with an industrial and productive one. In the social sphere, the CBB has transferred resources to pay the Bono Juana Azurduy and continued offering securities to natural individuals with attractive yields, providing in this way more resources especially to the population of lower income, therefore, the CBB contributed to the redistribution of economic surplus. Other important achievements were the redistributive impact of exchange rate policy and the contribution of bolivianization to control inflation and to boost credit.

The perspectives for the world economy in 2014 indicate signs of improvement, especially in advanced economies, although this recovery is still far away from to be robust. In this sense, the international economic performance could be influenced by the withdrawal of monetary impulses in the U.S., the slowdown in some emerging economies with high weight in world trade, the decline in international commodity prices and the potential risks of stagnation and deflation in the Euro Zone.

In the domestic environment, the economic growth forecast for 2014 is around 5,7%. The lower forecast respect to 2013 (6,8%) is mainly due to a higher comparison base, particularly in the hydrocarbon sector, which was operating at almost full capacity in 2013. The estimated economic growth is mainly supported by the following sectors i) Manufacturing, ii) Construction and Public Works, iii) Electricity, Gas and Water, iv) Financial Services and v) Transportation.

Concerning external sector, it is expected an increase in the net international reserves due to a surplus in the balance of payments. Although a deficit in the current account is expected, it would be offset by a positive flow in the capital and financial account. The current account deficit would be explained by an increase in imports of capital and intermediate goods according to higher public investment dynamism. On the other hand, family remittances would maintain the growth observed in the last years. In capital and financial account is expected a positive flow of foreign investment and partial use of resources from the Fund for Industrial and Productive Revolution (FINPRO for its acronym in Spanish), which means the entry in the economy of trust resources that actually are outside.

In the field of coordination MEFP (for its acronym in Spanish)-CBB and according to the Decision of the Fiscal and Financial Performance 2014 Program, signed on January 27, 2014, fiscal policy will continue to promote sustainable growth, while preserving social protection mechanisms and ensuring fiscal sustainability, which would imply a maximum budget deficit of 3.2% of GDP. Meanwhile, the monetary policy will keep a countercyclical orientation, carrying out an appropriate balance between the objective of maintaining low inflation and to contribute to the dynamism of economic activity. The Exchange Rate Policy will keep focus on the consolidation of inflation stabilization process, promoting the bolivianization of the national economy to preserve the stability of the financial system and mitigate the effects of external shocks.

Regarding inflation it is estimated that the rate will be around 5.5% in 2014, in a range between 4.6% and 7.0%. For 2015, the price variation will be around 4.0%. These forecasts take into account several factors, mainly related to domestic inflationary pressures, especially significant wage increases and important rise in dynamics of economic activity due to fiscal stimulus expected for increasing public investment. Meanwhile, the external inflationary pressures are expected to be low.

Regarding institutional management, under the new law and community social productive economic model in CBB made amendments to its rules to implement new monetary regulation instruments, gold buying and public investment. CBB has five Committees (Monetary and Exchange Rate Policy Committee, Open Market Operations Committee Financial Intermediation System Analysis Commitee, International Reserves Committee and Systemic Risk Analysis Committee) chaired by the Highest Executive Authority. These committees discussed and proposed policies on different topics in the scope of its competencies.

In order to have organized and trained civil servants for effective management, the committees under the General Management Committee (Human Resource Management, Training Committee and Risk Analysis Committee) performed their duties as provided in the regulations.

The Issuing Entity oriented its activities towards the signing of interagency cooperation to promote and disseminate knowledge and participated in several meetings with international organizations.

Regarding the payment system highlighted various actions of the CBB in operational and regulatory matters. In that sense, the national payment system processed an estimated an amount to 4 times the value of GDP in 2013, consistent with economic the growth and the expansion of financial system, the value of SIPAV operations continued to increase in 2013. Progressive bolivianization in economy due to increasing public confidence in local currency was reflected in a greater involvement of MN in the operation of the payments system. Meanwhile, money transfers via electronic funds transfer orders via ACH are a safe and convenient way to make payments. Low levels of exposure to systemic risk realize the strength of the infrastructure of payment systems operating in the country.

The management of international reserves continued to use the strategic structure of asset -based optimization models. On the other hand, the CBB, continued to provide liquidity to the financial system during 2013 and buying gold in local market that began in 2012. In 2013, the RAMP portfolio was established with a share of International Reserves under delegated administration with the World Bank, which in turn allowed the generation of knowledge transfer portfolio management staff CBB.

Regarding the management of monetary material, according to the schedule requests made in 2011, the CBB in 2013 received the last batch of bills cutting Bs200. And also have the necessary availability of monetary material, in this lower court management bills and coins were monetized for subsequent entry into service. The impulse of domestic demand to economic growth seen in recent years and the consequent expansion of money, motivated Monetary Authority (in foresight) to start a new bidding process. This requirement will meet the needs of population, especially fractional money in the medium term. Additionally, the new print will improve the security of bills.

In 2013 the CBB trained its staff in national and international events. Training for all civil servers, of which 93% exceeded the 40 hours of annual training established in the current regulations was promoted. Training a large number of servers supported institution outside the country. In addition various internal replicas were made to disseminate this knowledge.

During 2013, the CBB strengthened its policy of transparency and access to information, developing the process of Accountability of Public Accounts in five cities of the country. Representatives of Social Organizations and civil society through a selection process determined the CBB Accountability of Public Accounts - 2013 on: i) Monetary Sovereignty and Bolivianization and ii) Investment and Management of International Reserves.

Simultaneously, the CBB gave continuity to the dissemination of knowledge. In July, was carried out the Seventh Monetary Conference under the theme “Successes and Challenges for Latin America in the Midst of Crisis”. Subsequently with the participation of international and national exhibitors, in October took place the Sixth Meeting of Bolivian Economists in the city of Tarija, whose main theme was “New paradigms of economic policy”. Similarly, continued with the organization of school competitions on economic issues, performing the Sixth School Essay Contest and the Third School Dramatization Tournament, involving students across the country. It also highlights the V Conference on Economic and Financial Education in Latin America, organized with CEMLA and the Organization for Economic Cooperation and Development (OECD) in 2013, with the aim of participating institutions (MEFP, BCB, ASFI, APS, Impuestos Nacionales, Ministry of Education and CEUB) project joint and participatory national strategy. Similarly continued, encouraging research through CBB Academic Seminars.

PEI 2013-2017 adopted in 2012 entered into force. This planning tool highlights the guidance of CBB and the contribution to the objectives, policies, strategies, plans and programs of the National Development Plan, in order to deepen the change process, a task in which CBB has a preponderant role.

Financial statements of the BCB were audited by PricewaterhouseCoopers andrepresent fairly well all significant aspects as the financial condition, operation results and cash flows of the BCB to December 31st, 2013.

Finally, note that the CBB reaffirms its commitment to use timely and effectively, policy instruments at its disposal in order to fulfill its constitutional mandate to preserve the domestic purchasing power of money to contribute to economic and social development.