

Real Exchange Rate in Bolivia: an application of the macroeconomic balance approach

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Abstract

The importance of analyzing the behavior of the Real Exchange Rate (RER) lies in the fact that its dynamics influences on the allocation of resources between tradable and nontradable sectors, and on the definition of investment strategies and external borrowing. In that sense, from the wide range of methods of calculation, the present work focused on the macroeconomic balance approach. For the particular case of Bolivia, this approach resulted in a slight undervaluation of the RER, leaving room for real appreciation to take the current account balance to its medium and long term levels.

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