

Macro-prudential instruments implemented in Bolivia. The effectiveness of legal reserve requirement as macroprudential policy - Bolivia: 2005-2015

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Abstract

This document considers that Bolivian financial system -because of Financial Services Law of 2013- has undergone substantial changes. In that sense, this law refers to Deposit Institutions as those entities that can modify the monetary aggregates and influence the monetary multipliers.

Since 2005, in Bolivia, the monetary policy instrument termed "reserve requirements" has had several changes which were reflected through modifications of the regulation of reserve requirements.

It is observed that the financial margin, according to the methodology of Freixas and Rochet (1997) and disaggregated for operations in national currency and foreign currency, has had greater benefits for the domestic currency, which was made possible by the reserve requirements scheme that has favored the *Boliviano*. In so far, as this instrument penalizes foreign currency operations, this margin has been reduced and deposit institutions have opted to reduce their foreign currency operations, which were replaced and increased by larger operations in domestic currency.

At the same time, this research establishes, through a qualitative quantification, that in modifications of Reserve Requirements, it has been prevailed the macroprudential character. Additionally it was achieved the financial bolivianization through currencies differentiated rates of reserve requirements, which influenced the deposit institutions to concentrate in credit operations expressed in *Bolivianos*.

JEL Classification: E52, E58

Keywords: Reserve requirements, macroprudential policy