

Commodity prices, monetary policy and economic growth in Bolivia: A structural approach

Antonio Murillo Reyes

José Pantoja Ballivián

Abstract

Bolivia, like other small open economies, is affected by world economic activity, commodity prices, and among other factors, by foreign inflation, especially by food inflation. The impact of external shocks conditions the actions of domestic economic policy and therefore the final responses of output and prices. In the present work, it is estimated the transmission of shocks of world output and prices of raw materials to domestic economy and to internal prices as well in the short term. Additionally, the magnitude of the pass-through effect of external food inflation to domestic inflation for the period 1992-2015 is determined. Finally, given the monetary policy responses of Central Bank of Bolivia to external shocks, we measure the responses of domestic output, inflation and real exchange rate to changes in the amount of money in the economy. For this study, a Structural Vector Autoregressive model (SVAR) is used. It is observed that world output affects domestic output and local prices to a greater extent and persistence than commodity prices. Likewise in the short-term external food inflation is the main source of domestic price growth, but its effect declines notably in the medium term, being shocks of relevant world output those that act gradually. Finally, monetary policy act to mitigate the impact of external shocks, boost activity and influence on real exchange rate in the short-term.

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