

Monetary policy cyclicality in Bolivia

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Abstract

The monetary policy in Bolivia was characterized by its heterodox approach and countercyclical orientation. In the last few years, terms of trade persistent decline bring again to the forefront the monetary policy dilemma in many countries of the region where, in contrast to Bolivia, procyclical monetary policies were implemented. This paper provides evidence that Bolivia has shifted from procyclical, but not statistically significant monetary policy before 2006, to a significant countercyclical stance after 2006. Monetary policy credibility, monetary spaces, lower financial dollarization and the use of a wide range of instruments have been key factors behind the move to countercyclicity. In this context, in recent years the country's performance in terms of economic growth and inflation, was one of the most outstanding in South America, with less output volatility associated to a more countercyclical policy.

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