

Advantages of maintaining domestic currency in Bolivia

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ABSTRACT

In a dollarized economy, there are advantages and disadvantages –effective and potential- both from the usage of foreign currency and from greater demand for the domestic monetary sign. In the work are assessed both aspects, under the premise that benefits of dollarization are mainly associated to periods of high inflation and stability, through the provision of a mechanism with purposes of information, and resource intermediation; meanwhile in a context of economic stability, the potential benefits of an increase in the demand for domestic currency become increasingly attractive. The assessment of both aspects, shows the convenience to stimulate a greater use of domestic currency, the Boliviano, due that some of the main advantages that could offer a full scheme of dollarization of the economy have already been reached in Bolivia. The features of Bolivian dollarization suggest that this phenomenon is embedded in the behavior of agents, who keep their assets almost exclusively in foreign currency, although they make transactions by mainly using the Boliviano. With this framework, initially, it must tend to reversal of dollarization, that is, currency substitution. Dollarization, in the sense of assets substitution, must be viewed as a natural phenomenon in an economy in transition to openness and integration, being its likely reversal, a possibility in the long term that will answer to soundness and stability of economic policies.