

Real Equilibrium Exchange Rate: an analysis of Bolivian case in recent years

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ABSTRACT

There is consensus about the central objective of exchange rate policy should be to avoid prolonged or substantial biases of Real Exchange Rate (REE) regarding its equilibrium value. This topic has broad relevance in exchange rate regimes with some degree of flexibility, wherein the monetary authority plays a role in determining nominal exchange rate. The search of this objective, in first place, establishes the need to determine the trajectory of the equilibrium real exchange rate in the long term.

In this study is discarded the hypothesis about that REE movements in the nineties decade in Bolivia, are consistent with Purchasing Power Parity theory. It is estimated the long term relationship between REE and its determinant fundamentals, and through an errors correction model, it is analyzed the short term dynamic of REE and its velocity of adjustment to its equilibrium level, in response to transitory shocks. Findings show that most proportion of the variations of REE in the nineties decade can be interpreted as changes of the equilibrium. From estimates of sustainable levels of its fundamentals, it is calculated the long term values of Real Equilibrium Exchange Rate. The results allow to observe that along the nineties REE in Bolivia did not show significant misalignment levels, outstanding however, a subvaluation episode (1994/96) and recently another of overvaluation (1998/99).