Monetary policy in Bolivia and its transmission mechanisms

Walter Orellana Rocha, Oscar Lora Rocha, Raúl Mendoza Patiño,
Rafael Boyán Tellez

Abstract

The document studies the channels by which monetary policy influences price level, as main objective, and influences in economic activity, as complementary objective. For this, are used autoregressive vector models, and are analyzed the impulse-response functions, and the decomposition of variance of forecasting error. The results show that the transmission channel of the interest rates of monetary market would be little effective to influence on banking market rates, thus, to modify the path of growth of the product, and to affect underlying inflation.

In the study it is verified that depreciation rate and money issuance growth are the variables that better explain prices behavior in addition to verify the existence of a non-linear relationship between depreciation and underlying inflation. In an 18 month horizon, both variables together explain around 50% of variability of prices. However, their effect in product is pretty reduced. Empirical evidence indicates that credit approach of the transmission mechanism of monetary policy in the real sector of the economy, is the most important in Bolivia. The results show that consumption and product trajectories are modified in short term when there is a shock to growth rates in monetary aggregates M’2 and M’3.