Financial and exchange rate instruments to stimulate the use of domestic currency in the Bolivian financial system

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ABSTRACT

The achievement of macroeconomic stability and the necessity of dispose of effective monetary and exchange rate policies, to promote growth and fight exogenous shocks, among other reasons, have incentivized to the Central Bank of Bolivia to explore mechanisms to induct a reduction of high and persistent levels of dollarization of the economy. The regulatory way, is not recommended, given the characteristics of the process and the behavior of the expectations of the agents that are averse to risk, who, although with macroeconomic stability in the last fifteen years, keep the expectation of a high depreciation process (peso problem). Then the alternative that surges is the provision of financial instruments to stimulate agents to keep most of their assets in domestic currency. Given that exchange rate risk is, along with the inertia of the process, one of the main determinants of dollarization, it is recommended the creation of hedging instruments, such as derivatives (futures, forwards and swaps), the improvement of indexed instruments, and the requirement of collaterals for indebtedness operations. The creation of synergies with the Bolivian stock exchange, which is interested in growth and diversification of stock market, is a suitable strategy for the process. Moreover, are recommended measures of monetary policy that stimulate a margin in favor of interest rates for domestic currency. Anyway, re-monetization policies must be applied in-block, thus avoiding unwanted re-compositions in the portfolio of economic agents.

JEL Classification: E41, E44, E52
Keywords: dolarización, instrumentos financieros, remonetización