

Explicit inflation targeting and monetary policy in Bolivia

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ABSTRACT

Bolivia implements its monetary policy through the establishment of limits to the growth of internal net credit from Central Bank, an intermediate target, which in the past was an effective nominal anchor. Nevertheless, results of empirical research, conducted through Granger test, autoregressive vector models, and tradeoff coefficient, show that in recent years the stable and predictable relationship between such intermediate target and the ultimate objective of monetary policy, inflation, measured as the variation of the Consumer Price Index, has been affected.

This phenomenon, which has been present in different economies, has originated that many countries adopt other schemes of monetary policy instrumentation, such as the explicit inflation targeting. By analyzing the features and requirements of this scheme, it is found that Bolivia, although does not face greater operative limitations which difficult its application, faces certain structural constraints. The most important of them is the high degree of dollarization of the economy.

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