

Uncertainty and dollarization in Bolivia

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ABSTRACT

The work presents a model in which are determined the factors of dollarization taking as theoretical framework, the Capital Asset Pricing Model (CAPM). Subsequently it is performed the empirical test of the model, for Bolivian economy, for the period March, 1999 – September, 2001. As proxy variable of dollarization it was used the ratio of deposits in foreign currency expressed in US dollars to deposits in domestic currency, and as proxy variable of the uncertainty of devaluation, the second moment of the exchange rate variation using a GARCH (1,1) model. The obtained findings show that dollarization phenomenon in Bolivia is determined by the pace of monetary devaluation, uncertainty of devaluation that is perceived by economic agents, and inertial phenomenon of dollarization. Thus, it is concluded that to revert this phenomenon it is necessary to include financial hedging instruments for exchange rate risk. Likewise, in the last three years, devaluation uncertainty, approached by conditional variance of exchange rate, has registered a notorious stability compared to past years, which suggests that actual exchange rate system, adopted by Central Bank of Bolivia, is adequate for control it.

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