

Estimation of the Real Equilibrium Exchange Rate for Bolivia

María Angélica Aguilar Marquez

ABSTRACT

The estimation of the Real Equilibrium Exchange Rate for different economies is a topic constantly treated in economic literature. Empirical studies in this field, try to determine if real exchange rate is misaligned respect of its equilibrium level, with the purpose that government authorities choose how to correct those deviations which result to be important.

The study estimated the real equilibrium exchange rate for Bolivia, based on its fundamentals for the period of 1990-2002 using error correction models. Found results allow differentiate the real exchange rate behavior in two periods: in the first one (1990-1995), it underwent misalignments of relative importance (overvaluations and sub valuations) although of short duration. In the second one, since 1996, its trajectory closely followed that of the real equilibrium exchange rate, with short transitory deviations. At the end of 2002, the Boliviano would have been sub valuated, approximately in 3%.

JEL Classification: F31, F41, F47

Keywords: Real Equilibrium Exchange Rate; misalignment; errors correction models; Bolivia