

# Effects of exchange rate variations on financial intermediation activities in Bolivia 1990-2003

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## ABSTRACT

This work establishes an important relationship between exchange rate variations and financial intermediation activities in Bolivia for the period of 1990-2003. The high degree of dollarization of financial assets and liabilities determines that greater exchange rate depreciation, it diminishes the capacity of payment of borrowers of financial entities that mostly perceive incomes expressed in Bolivianos, thus resulting in their credit portfolio deterioration. Since 1999, that relationship has been particularly relevant, as with a poor performance, from that year, a greater depreciation of exchange rate, diminished the capacity of payment of the borrowers of financial system, and thus, the quality of credits.

It is also analyzed the relationship between exchange rate, and different interest rates of the credit market, of deposits, and of monetary market, as well as the direct impact of the variations of dollar exchange rate, in the balance of financial intermediation entities, with the purpose of complement this work in those aspects that are considered more important about the link between exchange rate and financial entities activities.

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