

Inflation and exchange rate depreciation in a dollarized economy. The case of Bolivia

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ABSTRACT

The work empirically analyzes the magnitude of the pass-through coefficient from nominal exchange rate to internal prices in Bolivia, using different methodologies of autoregressive vectors. The results indicate that the magnitude of this coefficient is relatively larger to that found for neighbor economies (including the Peruvian experience that has similar characteristics of dollarization) which would reflect the level of importance of exchange rate as nominal anchor. It is probably that the observed fall in the pass-through coefficient in recent years be related with the almost nil change in administered prices of hydrocarbons, and not with the structural fall, as is the case of other economies. The work confirms the non-linear relationship between inflation and depreciation, although different to that previously obtained in other studies: a greater rate of depreciation rapidly increases the pass-through and makes the effect be more variable, while lower rates of depreciation gradually reduce the pass-through coefficient. Finally, it was obtained an estimate of the expected coefficient of pass-through, which was near to one and that differs from the effective pass-through, showing the crucial role that the exchange rate has as nominal anchor of the expectations of economic agents.

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