Characteristics of imported inflation in Bolivia: Can it be contained with exchange rate policy?

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ABSTRACT

As result of imported inflation, annual inflation in Bolivia increased since 2006, and from the end of 2007 it overcame one digit. The Central Bank of Bolivia boost national currency appreciation to contain pressures originated in high international food prices and appreciations of the main commercial partners currencies. Despite this, inflation continued rising generating questions about the exchange rate policy effectiveness.

In this document are studied the effects of external inflationary pressures and the contribution of exchange rate policy to stability of prices, compared with other countries. Findings show that relationship between inflation and exchange rate behavior, known as the exchange rate pass-through effect, has reduced in the last 10 years. However, it is shown that inflation would have been higher, if Boliviano wouldn't have been appreciated as its contribution to inflation control became effective through its effect on prices of imported goods and services. Under a less rigid exchange rate regime, its effect on the price stability would have been greater although it would have higher costs due to the high degree of dollarization of the economy.

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