Exchange rate policy and international crisis: the unnecessary detour

Gabriel Loza Tellería

Abstract

One lesson of the financial crisis was the overreaction of exchange rate policies in countries of South America. After the outbreak of the crisis, most of them tended to depreciate their currencies hoping to better cope with the negative effects, to subsequently appreciate them to even higher levels than pre-crisis. This exchange rate policy overreaction was a similar response to those in past crises, although the preconditions were different, especially their economic fundamentals, expressed in the balance of payments and fiscal balance, which were solid and showed high degrees of intervention in exchange rate regimes of apparently independent flotation.

In Bolivia, a small economy, commodities exporter, with low degree of international financial integration and partial dollarization, implemented exchange rate policy was to maintain stable the nominal exchange rate, mainly due that pre-crisis conditions did reflect macroeconomic strength and low external, fiscal and financial vulnerability, avoiding the unnecessary depreciations and appreciations detour of other countries of the region.

JEL Classification: *E3, E4, E5, F3, G0*
Keywords: *Financial crisis; international context; exchange rate policy; exchange rate volatility*