

# Macroeconomic risk and bolivianization: a cointegration analysis with nonstationary dynamic portfolio minimum variance

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## ABSTRACT

This research examines the relationship between the financial bolivianization and macroeconomic risk in Bolivia. The study (i) extends the theoretical model of Ize and Levy-Yeyati (2003), with a conditional heteroskedasticity specification to calculate a non-stationary dynamic portfolio of minimum variance as a proxy for macroeconomic risk and, (ii) contrasts the cointegration between this portfolio and the bolivianization. The results indicate that macroeconomic risk would be a long-term determinant of the bolivianization process; consequently, policies that control the perception of risk, affecting the volatilities of inflation and the real exchange rate, could deepen the dollarization of the financial system, and consolidate the use of local currency in Bolivia.

**JEL Classification:** C32, C51, E40

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