Financial bolivianization and effectiveness of monetary policy in Bolivia

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ABSTRACT

The paper examines the process of financial *bolivianization* and the effectiveness of monetary policy in Bolivia. After defining the concept of dollarization, we illustrate the presence of this phenomenon in the country's monetary history, and after comparing with the other countries in the region, Bolivia is characterized as the driver of financial de-dollarization in Latin America.

Thereafter, by structural models, it is analyzed the financial de-dollarization, which causality *à la* Granger, goes from deposits to loans. The foreign exchange position, exchange rate stability, and the differential of nominal lending rate would explain portfolio de-dollarization. The exchange rate appreciation, reserve requirements, taxes, foreign exchange position limits, indexed financial instruments, differential of returns, and a hysteresis component would be the determinants of de-dollarization of deposits. Finally, estimating the pass-through coefficient as a proxy for monetary policy effectiveness, it is evidenced a more effective monetary policy due to the deepening of the *bolivianization* (de-dollarization) of the financial system.

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