

Determinants of excess of liquidity: empirical evidence for Bolivia

Luis Fernando Cernadas Miranda

ABSTRACT

Until 2008, the excess of liquidity has characterized by maintaining at low levels (Bs1.000 million on average). However, since 2009 these levels rose significantly (in February 2010 it exceeded the Bs8.000 million). The research seeks the reasons behind this behavior.

Through Generalized Method of Moments (GMM) estimations and decomposing the excess of liquidity in its both voluntary and involuntary components, it is found that the accumulation of reserves was motivated by the expansion of monetary policy, the growth of deposits in local currency, increased levels of volatility of deposits and sustained growth in the economic activity.

At December 2011, 77% of excess liquidity would correspond to the voluntary component, which from the viewpoint of effectiveness of monetary policy is less dangerous than the involuntary component. This would imply that, although there are excess liquidity levels, the transmission mechanism of monetary policy in Bolivia is not clogged.

JEL Classification: *E50, E51, E52, E58*

Keywords: *Excess liquidity, voluntary reserves, involuntary reserves, liquidity preference curves, Generalized Method of Moments*