

Exchange rate policy in Bolivia, objectives and effectiveness

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Abstract

Until 2005, Bolivia's exchange rate policy followed a stance characterized by continuous and gradual nominal depreciation, in order to maintain a constant real exchange rate. From 2006 onward, we clearly distinguish the modification of exchange rate policy stance to one oriented to maintain stability in the purchasing power of domestic currency. In this sense, it becomes relevant the analysis of the effectiveness of exchange rate policy to control inflation through the analysis of the pass-through effect.

In this regard, by using the methodology of McCarthy (1999), this study found evidence that the change in the stance of exchange rate policy helped to achieve the objective of controlling inflation and contributed to the process of *bolivianización*, without neglecting the stability of financial system and without generating misalignments in the real exchange rate equilibrium. Likewise, evidence of asymmetric response of prices to changes in exchange rate was found.

JEL Classification: C32, E31, F31

Keywords: Exchange rate, inflation and pass-through