

Development of the financial system in Bolivia and convergence of monetary and macroprudential policies' objectives

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Abstract

This document analyzes the coordination of monetary and macroprudential policies and its effects on the financial development of Bolivia between 2006 - 2017. It is evident that in recent years there have been important advances on financial system development, in an environment of high convergence of monetary policy (price stability) and macroprudential policy (financial stability) objectives. Likewise, the evaluation of legal reserve by currencies verifies that higher yields of domestic currency with respect to foreign currency driven by monetary policy, contributed to the de-dollarization process of Bolivian economy and to the country's financial stability. Statistical criteria and models of Cointegrated Autoregressive Vectors were used to assess the degree of convergence of monetary and macroprudential policies' objectives. In this way, it was empirically found that financial stability, monetary conditions, GDP growth, and a low or zero inflation gap would significantly explain the country's financial development.

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