

Political and Health Crisis: Monetary Policy Response in Times of Uncertainty

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Abstract

Periods of high uncertainty have considerable consequences on economic activity, therefore, monetary policy makers must take into account the degree of uncertainty in which the economy operates. In the particular case of Bolivia, the global COVID-19 pandemic, coupled with a period of political transition, generated an unusual increase in uncertainty and is currently one of the main sources of adverse effects on the economy. Using a SVAR model, estimated with Bayesian techniques, effects of uncertainty on the economy were quantified. The obtained results reflect that periods of high uncertainty have a negative and significant impact on economic activity, which is mainly transmitted by a drop in consumption and investment. The Central Bank of Bolivia responds with an expansive monetary policy, injecting resources into the economy, but this has its limitations.

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