

Financial vulnerability: Proposal for the estimation of a Financial Conditions Index for Bolivia*

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ABSTRACT

The importance of monitoring financial conditions became more relevant after the International Financial Crisis and recently due to the economic and financial impact of the COVID-19. This importance arises due to the close relationship that exists between real activity and financial vulnerabilities, which are understood as the extent to which the adverse impact of shocks on economic activity can be amplified by financial frictions. In this sense, the objective of the investigation is to estimate a Financial Conditions Index (FCI) for Bolivia. It can summarize the information contained in different financial variables and reflects the situation of the financial system. Methodologically, a factor-augmented VAR model was used, following what was proposed by Koop and Korobilis (2014). The outcomes show that the resulting estimated FCI is adequate to explain the periods of greater tightening of financial conditions in the national economy.

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