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Short Run Savings Fluctuations and Export Shocks. Theory and Evidence for Latin-America

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A basic theoretical of a small open economy within the framework of intertemporal maximization is used to analyze the effects of nominal export shocks. The model helps in explaining the close relationship that is found between export shocks and short run fluctuations of domestic savings in the major Latin American economies. The savings/ GDP ratio moves fairly closely with exports as transitory. An explanation is proposed for Colombia's fall in the savings rate during the 1990s, and the puzzling cases of Mexico and Peru during the 1980s. Exports volatility and prolonged overvaluation of the exchange rate are associated with savings rate volatility.

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