

**IV. High-Level Seminar of the Eurosystem and Latin American  
Central Banks**

**Rise and fall in commodity prices  
Economic impact and policy responses**

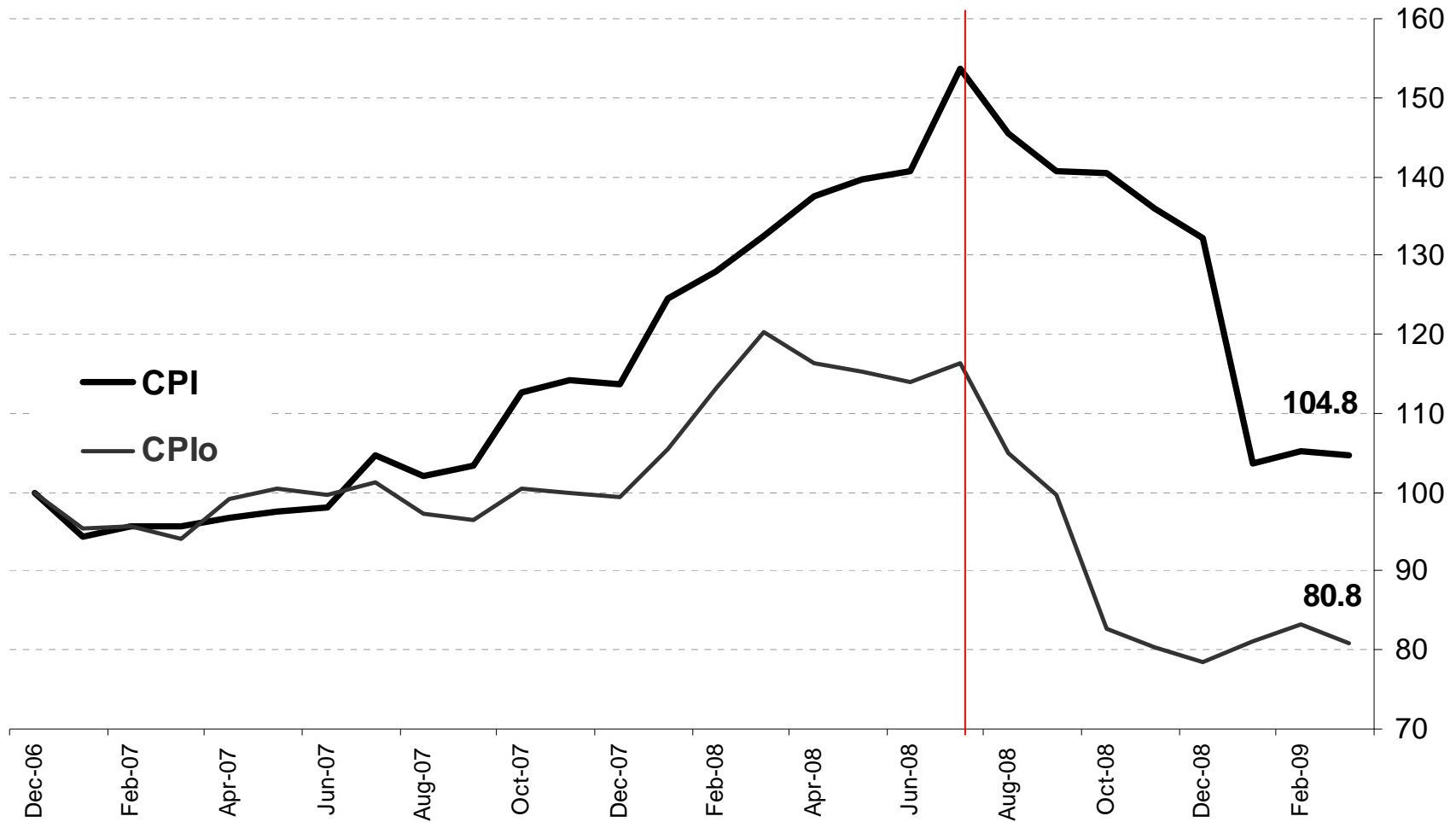
**Bolivia: The Case of an bi-  
monetary and commodity  
exporter economy**

**Gabriel Loza  
President, Central Bank of Bolivia**

**Mexico City, March 2009**

## **Rise and fall in commodity prices**

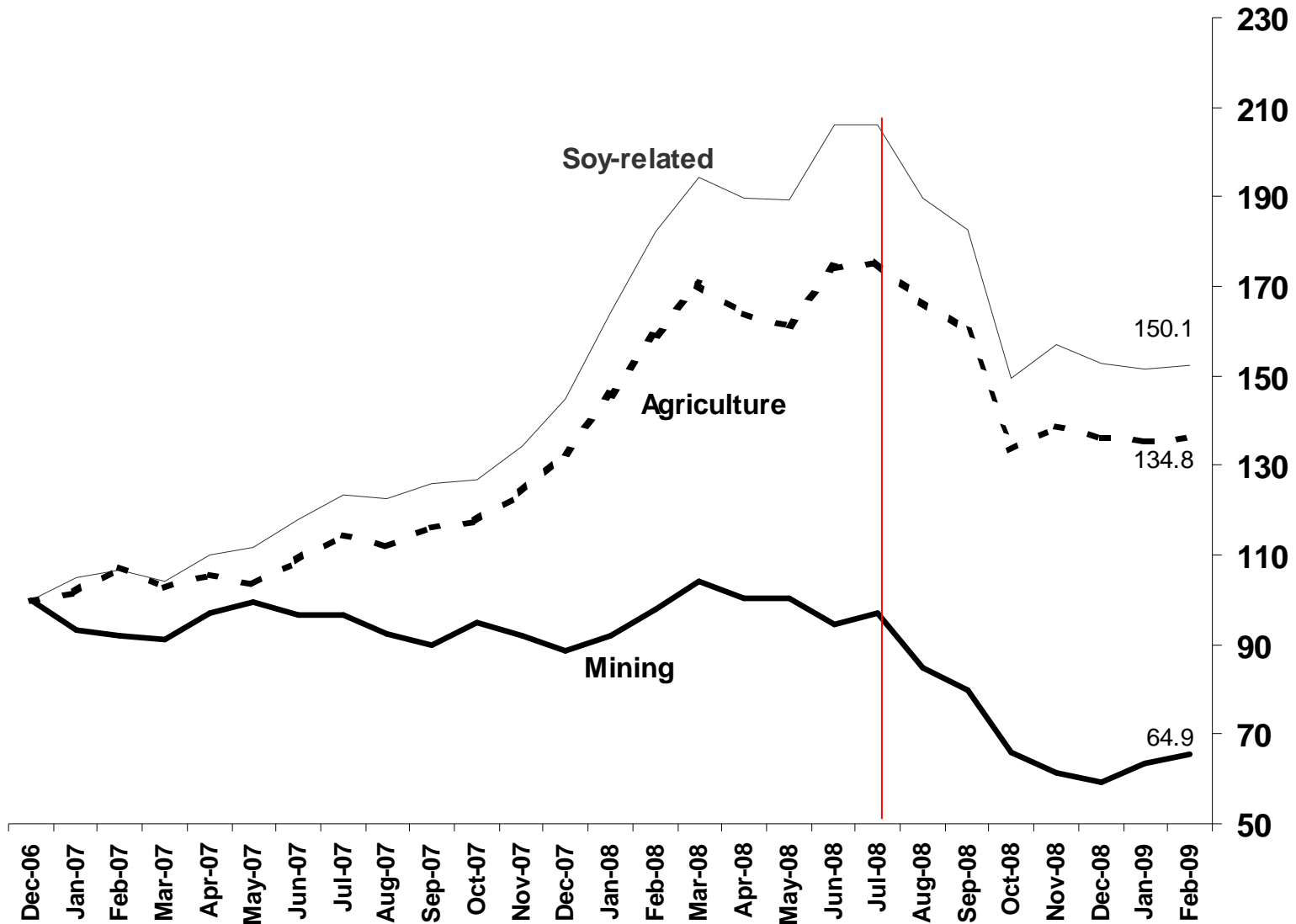
# Bolivia: Commodities Price Index, 2006 – 3/19/09 (December 2006 = 100)



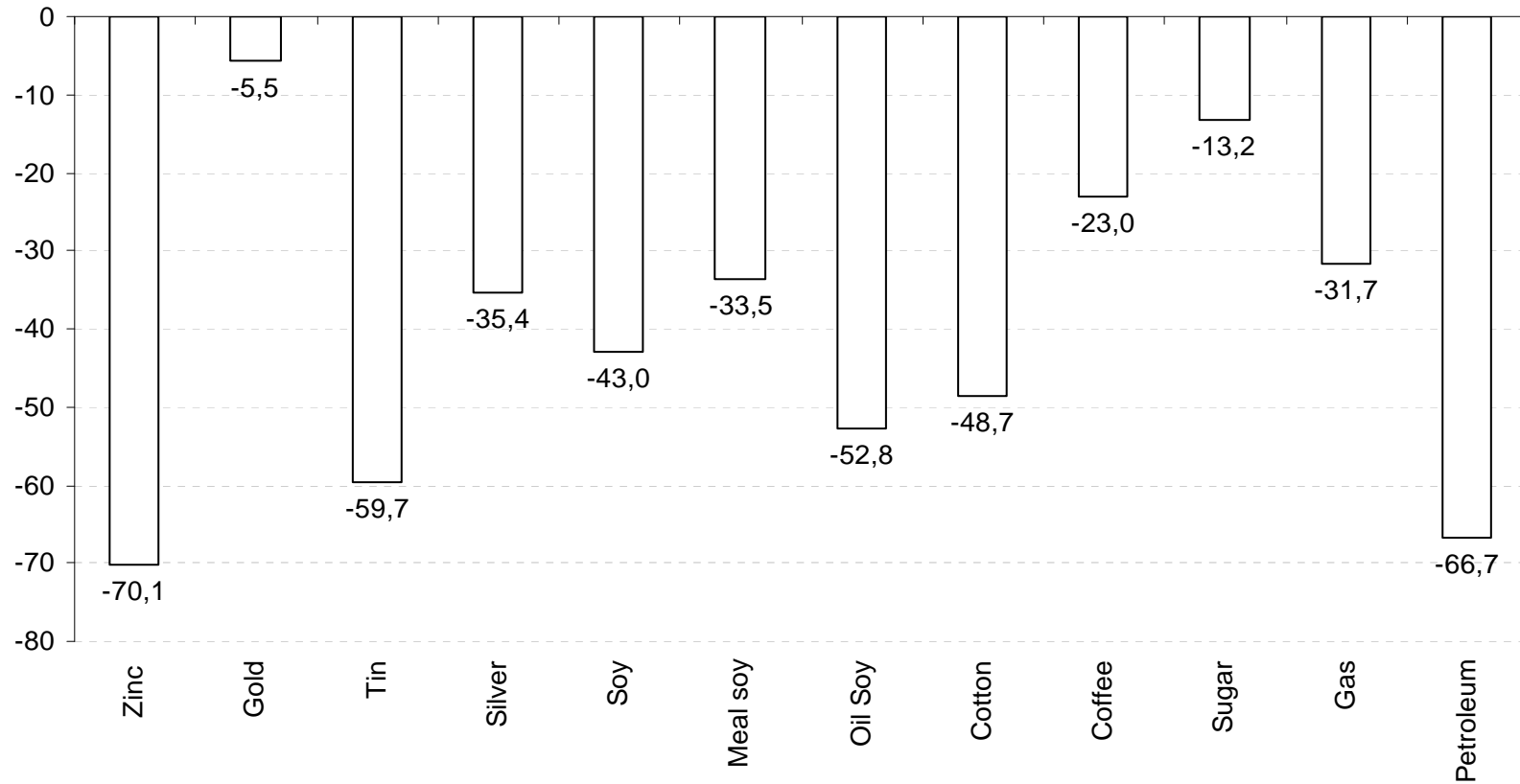
**CPI = Commodities price index**

**CPIo = Commodities price index excluding hydrocarbons**

# Bolivia: Commodities Price Index, 2006 – 3/19/09 (December 2006 = 100)

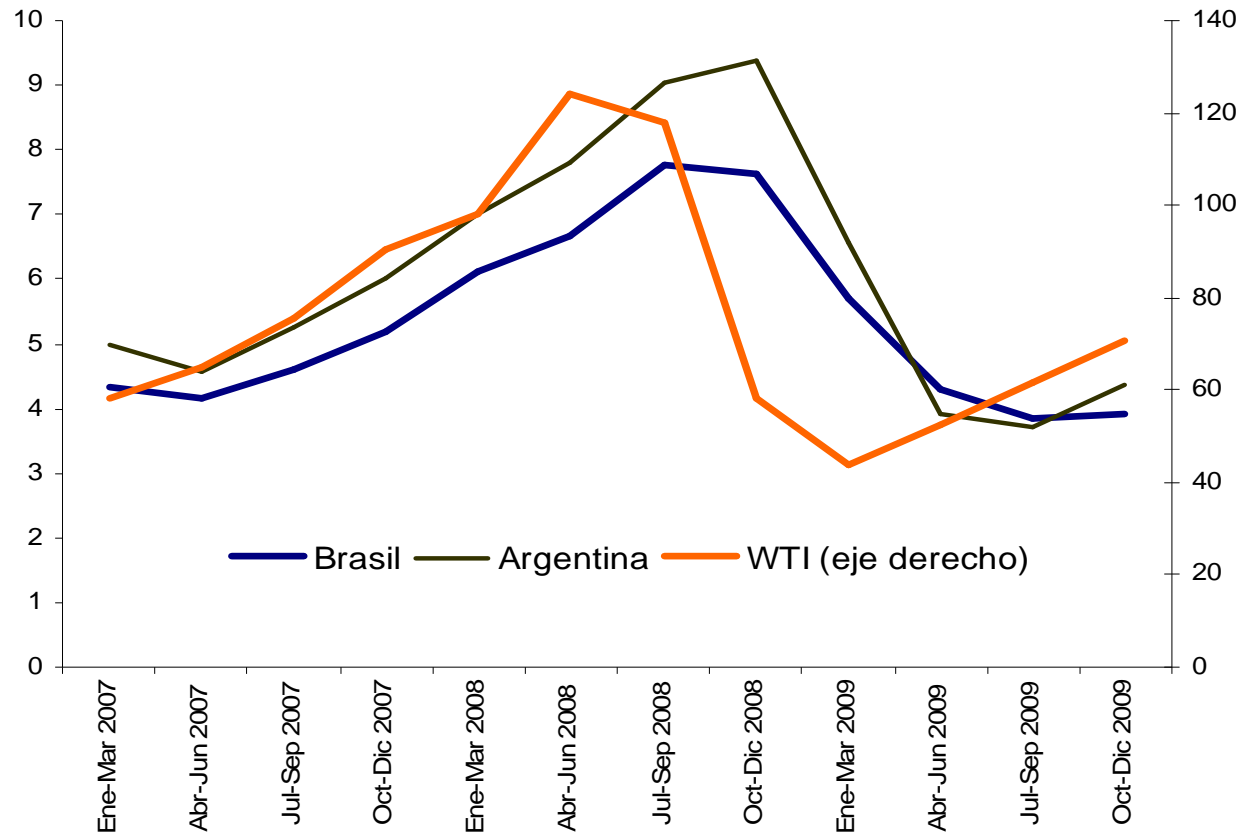


# Change from the maximum commodity's price (3/19/2009)



# Bolivia: Natural Gas Price

Quarterly average prices for natural gas to Brazil and Argentina. Petroleum price (USD/MMBTU and USD per barril WTI)

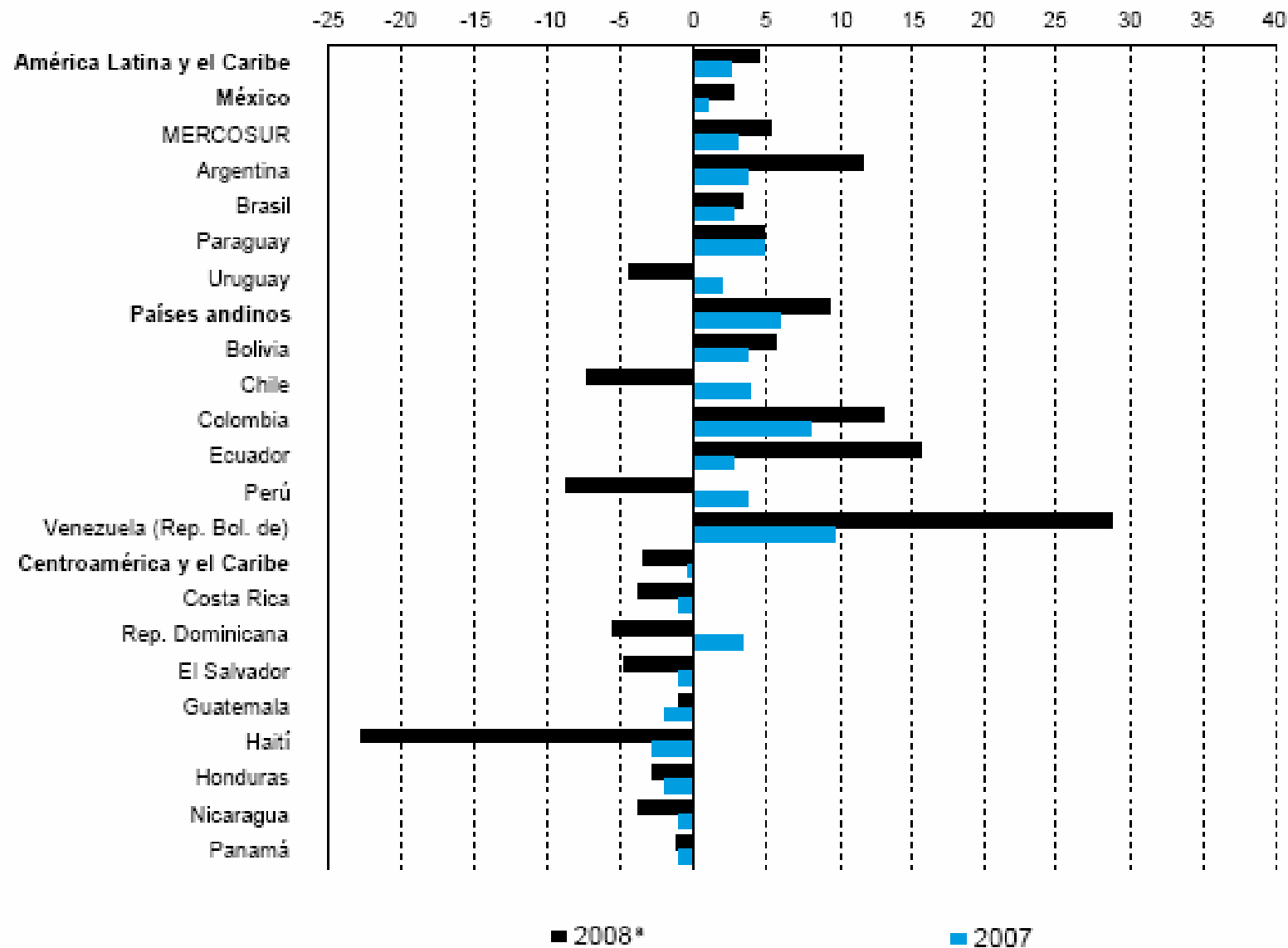


Fuente.- Bloomberg  
Elaboración.- BCB.

# **Economic impact**

# Latin America and Caribbean: Terms of Trade Index

(% change 2008 – 2007)



## Bolivia: Exports by groups of the SITC

(In USD millions)

	2007	2008	Change % 2008/2007	2007 Share ( % )	2008 Share ( % )
<b>Primary goods</b>	<b>4.377,5</b>	<b>6.363,4</b>	<b>45,4</b>	<b>91,3</b>	<b>92,7</b>
Agriculture products	679,9	944,8	39,0	14,2	13,8
Extractive industries	3.389,4	5.035,5	48,6	70,7	73,3
Mining	1.071,5	1.545,7	44,3	22,3	22,5
Hydrocarbons	2.317,9	3.489,7	50,6	48,3	50,8
Other primary products	308,2	383,1	24,3	6,4	5,6
<b>Manufactured goods</b>	<b>286,6</b>	<b>339,5</b>	<b>18,5</b>	<b>6,0</b>	<b>4,9</b>
Iron and steel	0,3	0,3	-1,3	0,0	0,0
Chemicals	41,9	66,7	59,3	0,9	1,0
Other manufactured goods	77,3	61,5	-20,5	1,6	0,9
Machines, transport and Equipment	0,8	1,6	105,0	0,0	0,0
Textiles	26,1	85,6	228,7	0,5	1,2
Clothing and accesories	32,2	31,3	-3,0	0,7	0,5
Miscelaneous goods	108,0	92,5	-14,3	2,3	1,3
<b>Other goods</b>	<b>132,2</b>	<b>163,3</b>	<b>23,5</b>	<b>2,8</b>	<b>2,4</b>
<b>EXPORTS</b>	<b>4.796,3</b>	<b>6.866,3</b>	<b>43,2</b>	<b>100,0</b>	<b>100,0</b>
<b>REEXPORTS</b>	<b>64,0</b>	<b>112,0</b>	<b>75,1</b>		
<b>TOTAL EXPORTS</b>	<b>4.860,3</b>	<b>6.978,3</b>	<b>43,6</b>		

## Hirschman-Herfindahl Index (HHI) of Bolivian Exports

	2007		2008	
	Share (si)	(si) <sup>2</sup>	Share (si)	(si) <sup>2</sup>
Natural Gas	0,406	0,164	0,453	0,205
Zinc	0,143	0,020	0,106	0,011
Soy related 1/	0,083	0,007	0,072	0,005
Other non traditional	0,069	0,005	0,075	0,006
Spot crude	0,055	0,003	0,043	0,002
Silver	0,046	0,002	0,075	0,006
Tin	0,044	0,002	0,041	0,002
Other goods	0,032	0,001	0,031	0,001
Gold	0,025	0,001	0,020	0,000
Chestnut	0,014	0,000	0,012	0,000
Other Metals	0,014	0,000	0,011	0,000
Wood	0,014	0,000	0,010	0,000
Lead	0,013	0,000	0,024	0,001
Jewelry	0,011	0,000	0,003	0,000
Sugar	0,007	0,000	0,007	0,000
Clothes	0,006	0,000	0,004	0,000
Hides	0,006	0,000	0,003	0,000
Other oils	0,005	0,000	0,005	0,000
Coffee	0,003	0,000	0,002	0,000
Palm hearts	0,002	0,000	0,001	0,000
Cotton	0,001	0,000	0,000	0,000
<b>Total</b>	<b>1,000</b>	<b>0,206</b>	<b>1,000</b>	<b>0,238</b>

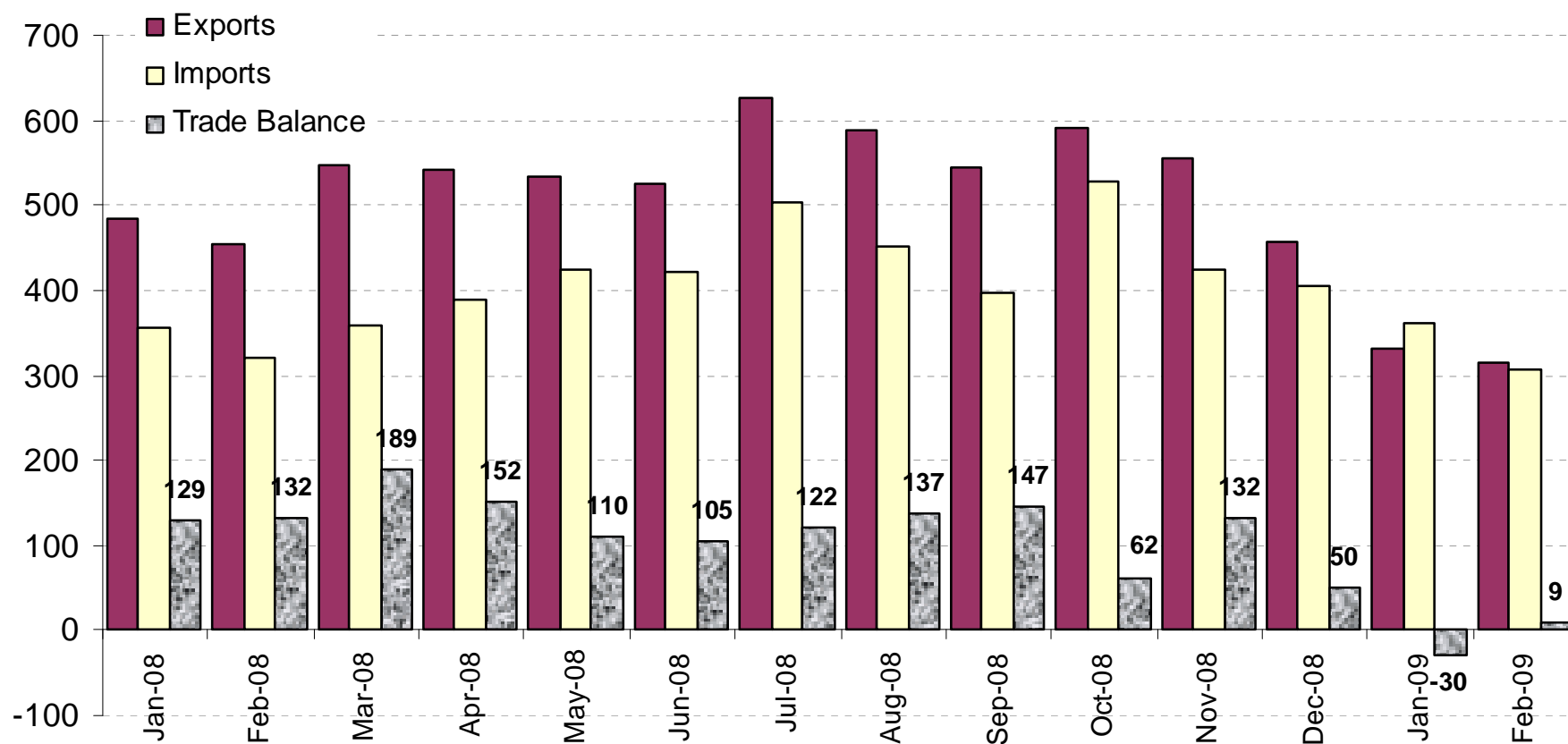
1/ Including reexports.

	2007	2008
<b>Indice Herfindahl - Hirschman (HHI)</b>	<b>0,2064</b>	<b>0,2383</b>

Note: When HHI is next to zero (one), means low (high) concentration.

# Bolivia: Trade Balance

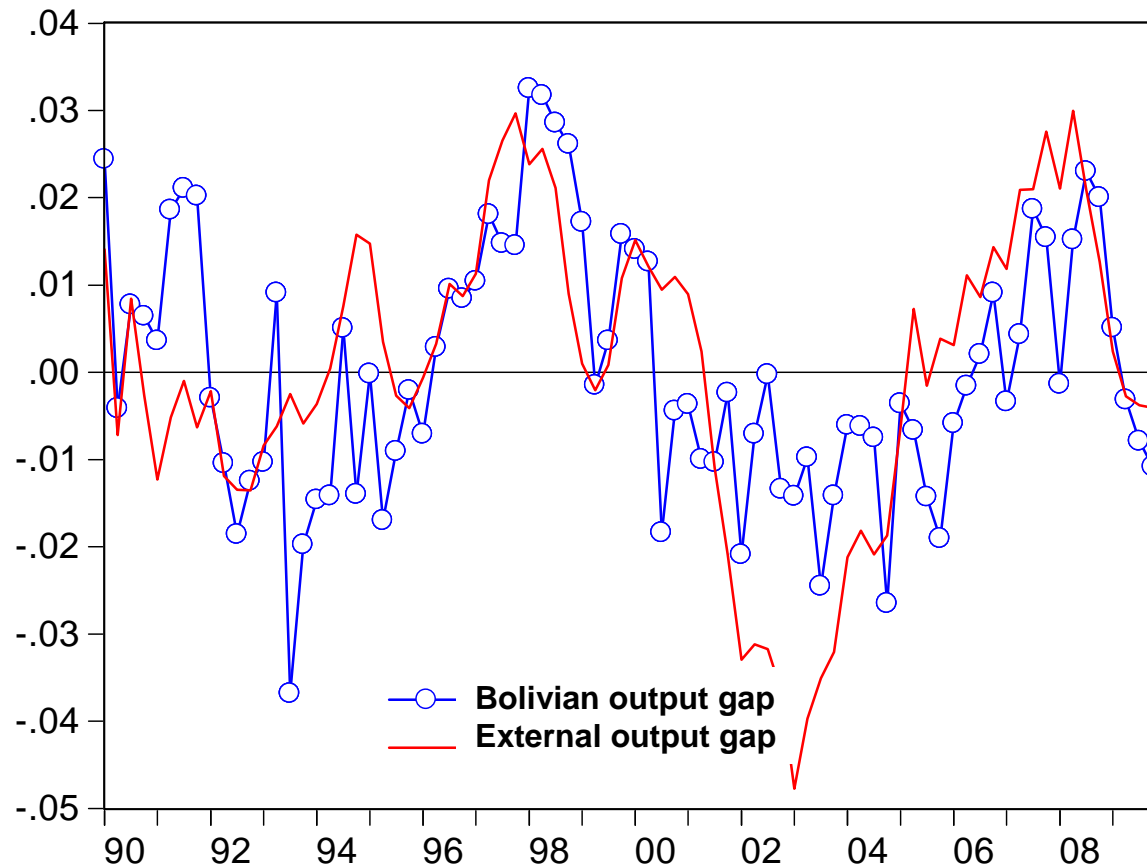
(In USD millions)



# Global and Bolivian economic cycles, 1990-2009f

(In % of trend GDP)

- o External crisis has affected slightly the economic outlook for 2009: GDP growth forecast has decreased from 6.2% to 5.2%. Then, Bolivia would not have a recession in the following quarters, but it will have a moderate deceleration.

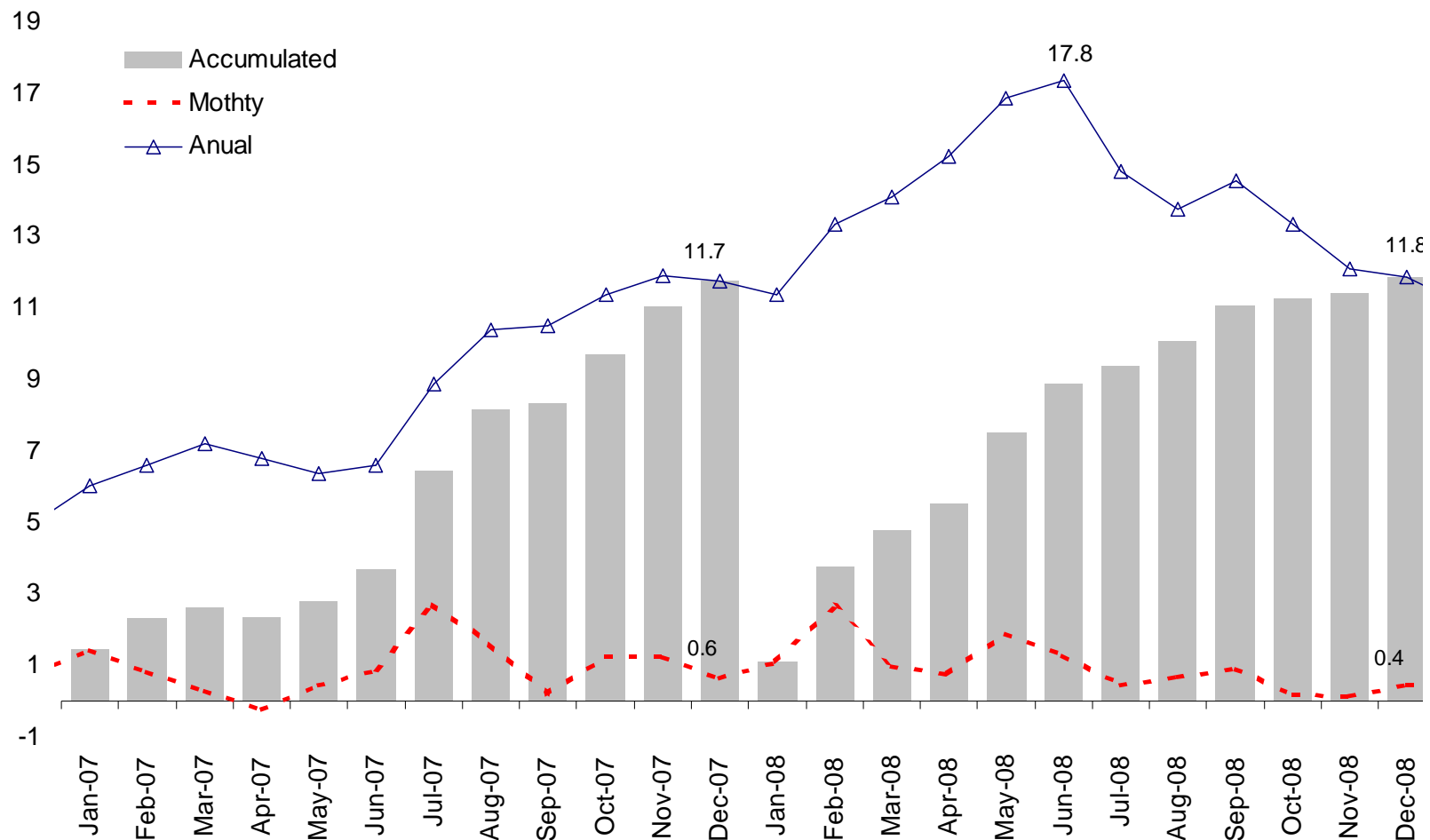


Note: Output gap is defined as the difference between actual (or forecasted) GDP and trend output, in percent.

**Previous conditions**

# Bolivia: Monthly, Accumulated and Annual Inflation (Percentage changes)

o Decreasing food and energy prices and Central Bank policies, among other factors, reduced inflationary pressures: Inflation rate has decreased from 17% (oya) in June, 2008 to 8% in February, 2009; and inflation rate returned to a single digit after 18 months.

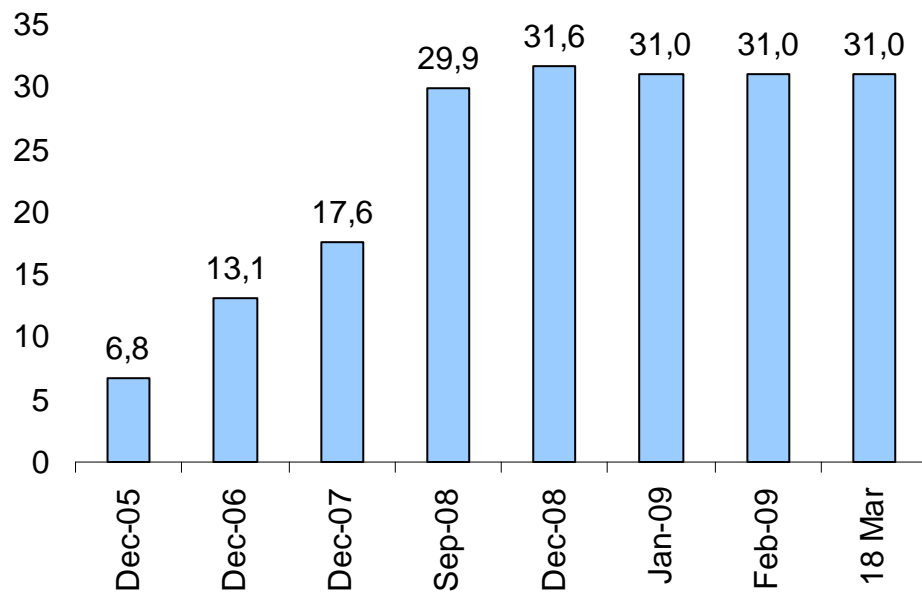


Source: Bolivian National Statistics Institute

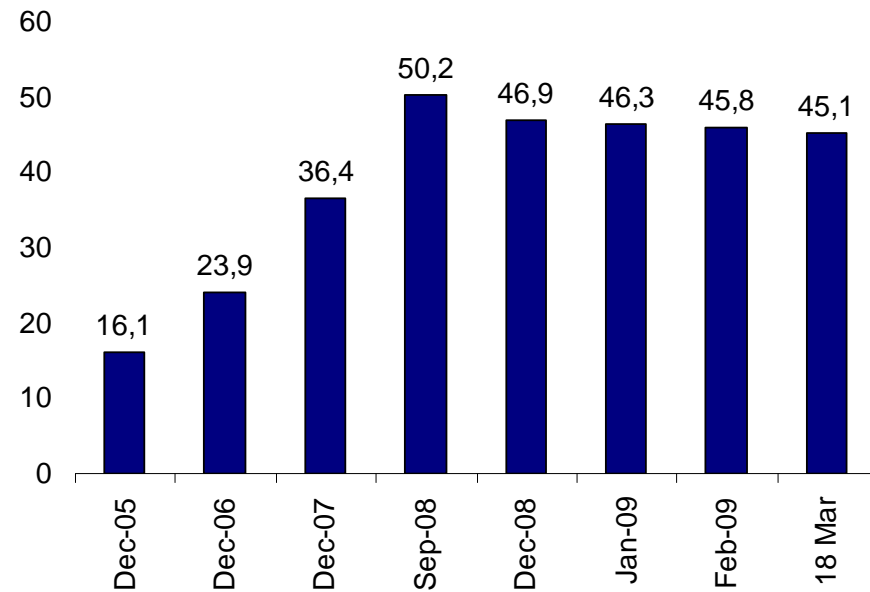
# Bolivia: Financial Dollarization

- Deposits Dollarization has increased from October 2008; meanwhile Credit Dollarization has remained constant.

**Credit in local currency**  
(as percentage of total credit)



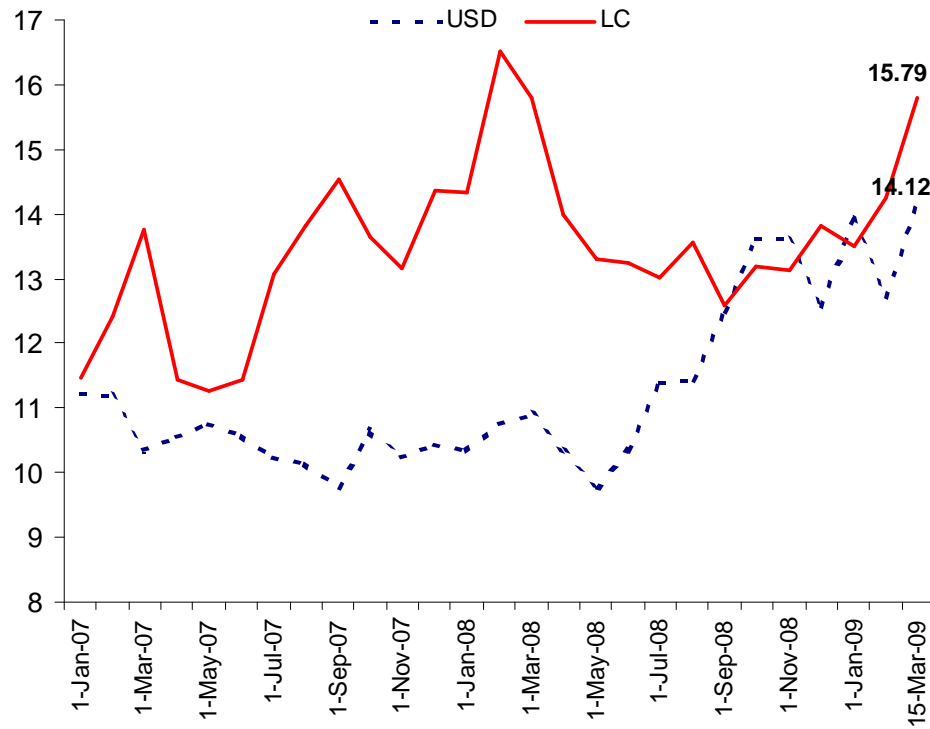
**Deposits in local currency**  
(as percentage of total deposits)



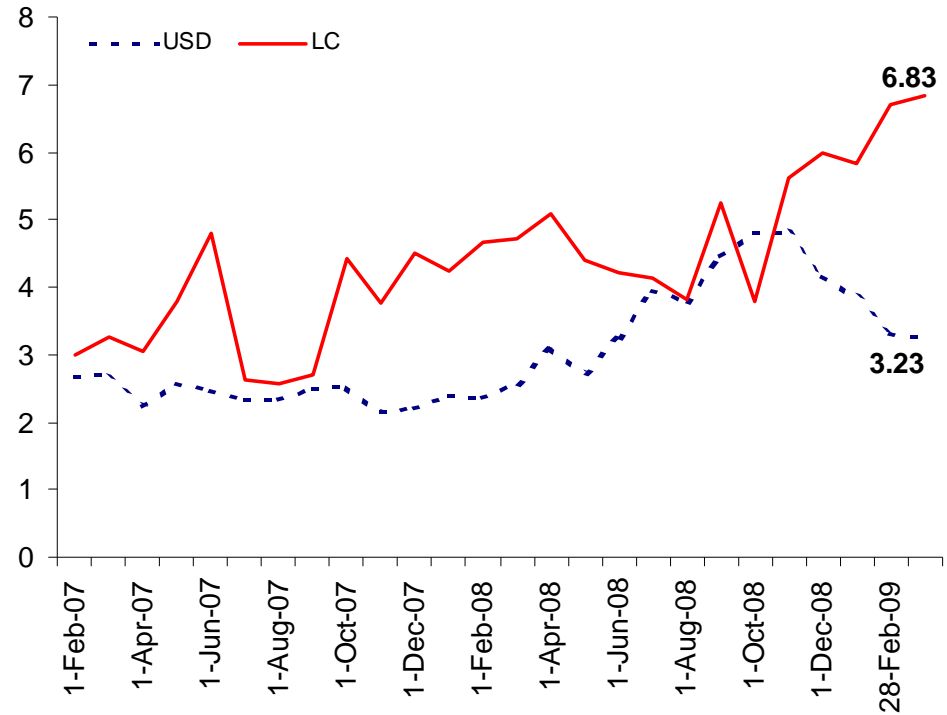
# Interest Rates of the Banking System

(in percentage)

Interest rate on credits



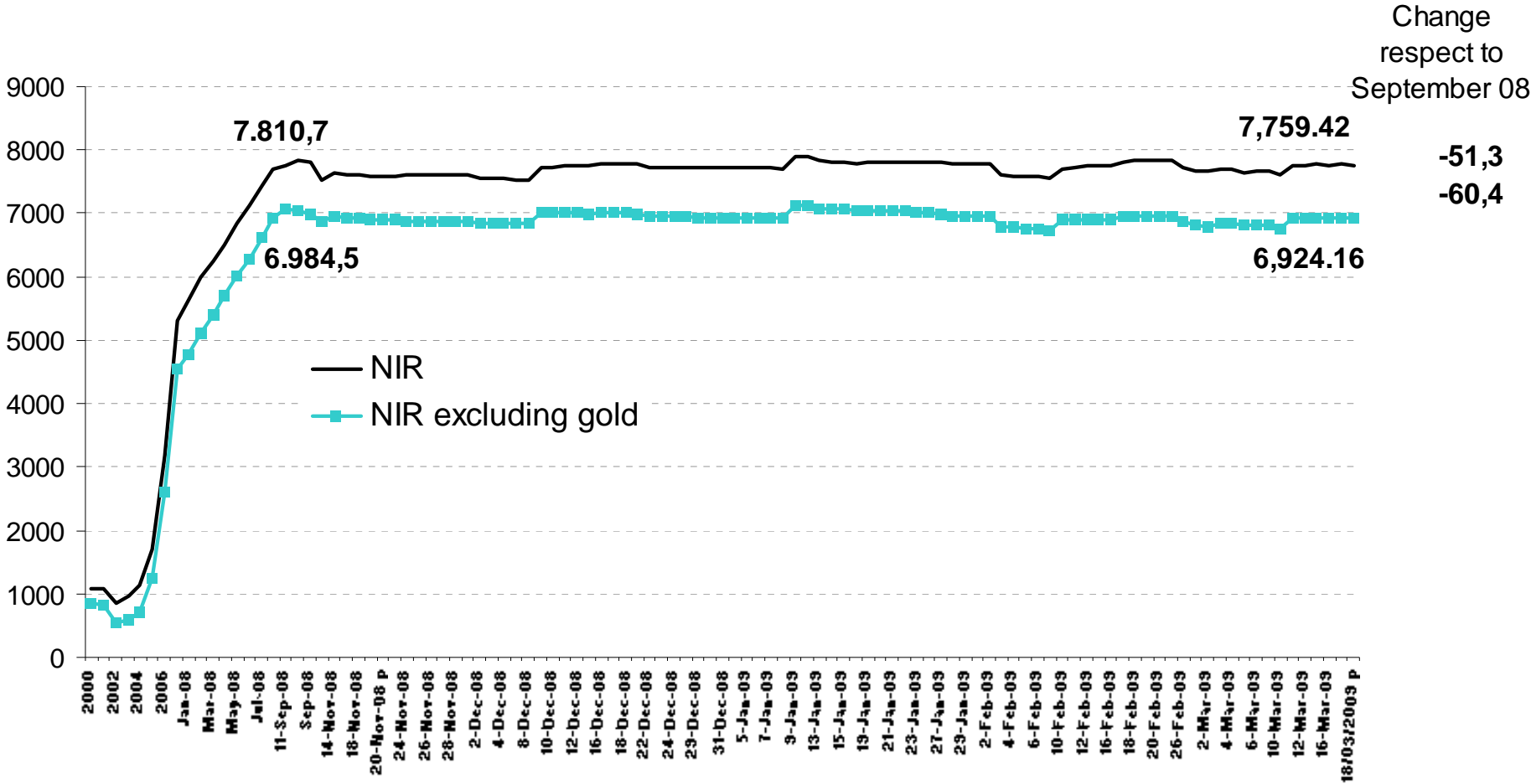
Interest rate on deposits



LC = Local Currency

# Bolivia: Net International Reserves of the CBB

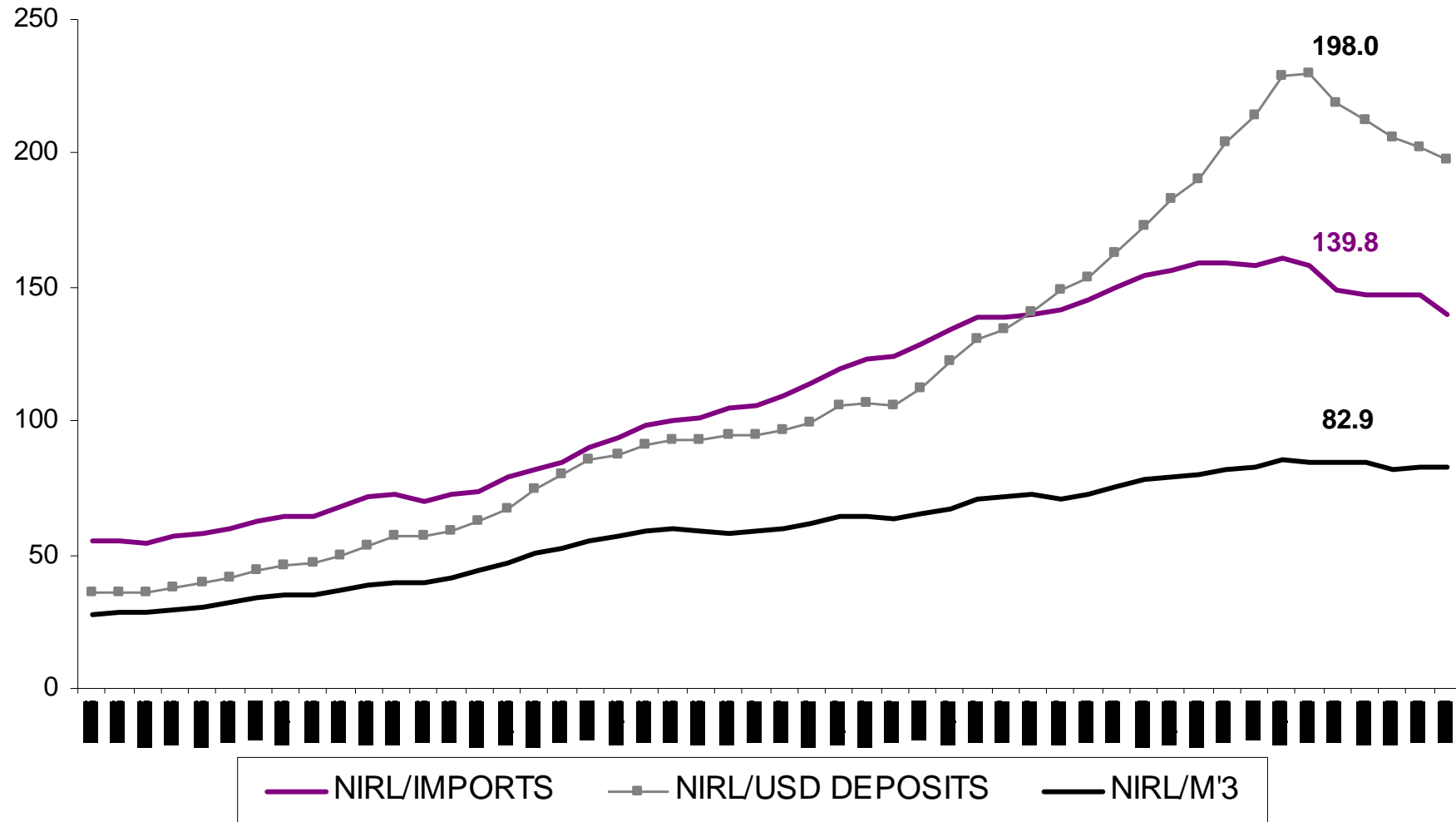
(In USD millions)



Source: Central Bank of Bolivia

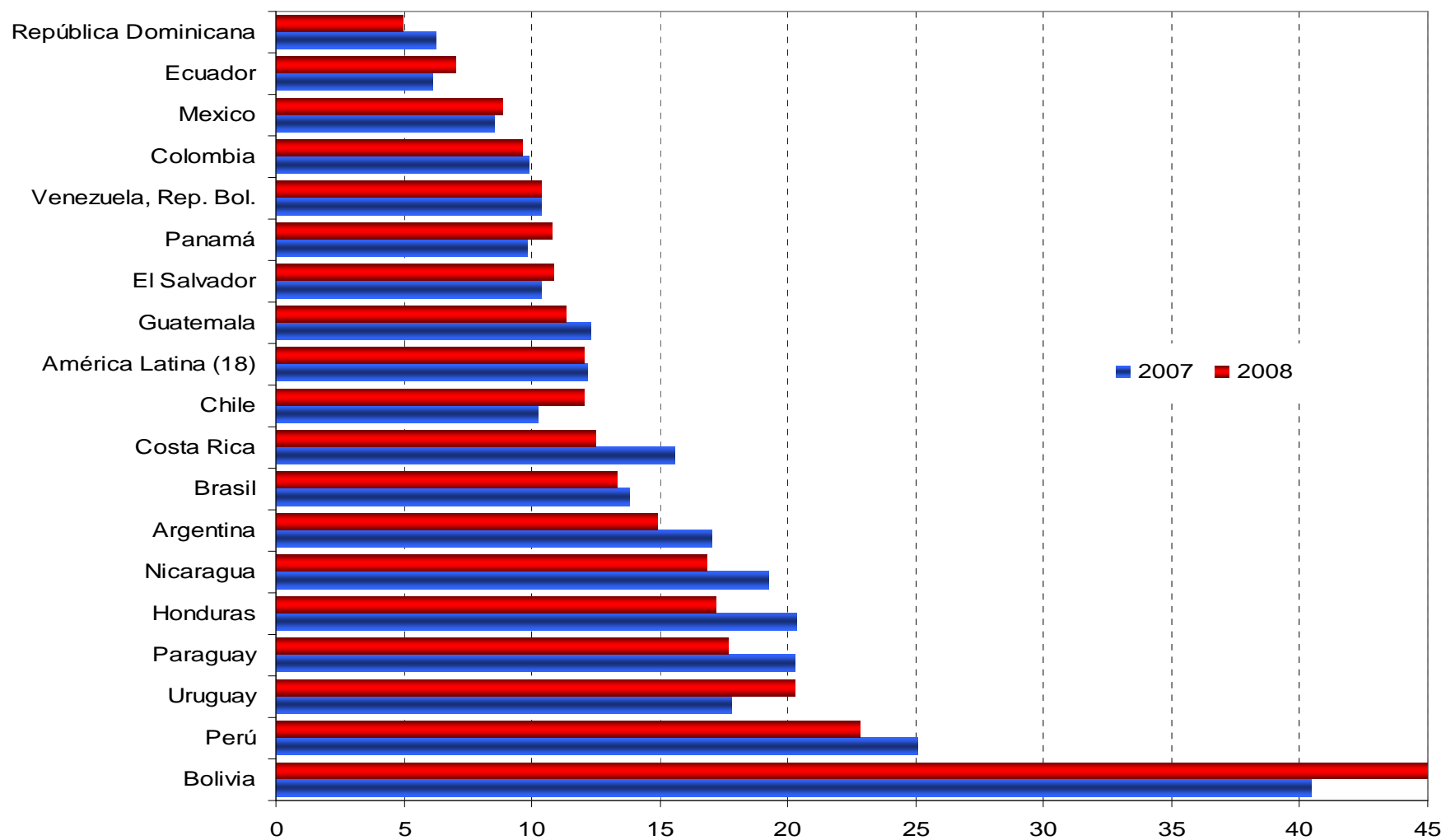
# Bolivia: NIRL<sup>1</sup> Coverage

(in percent of Dollar Denominated Deposits, Imports and Broad Money)



<sup>1</sup> NIRL = liquid reserves excluding gold and including liquid asset requirements (RAL)

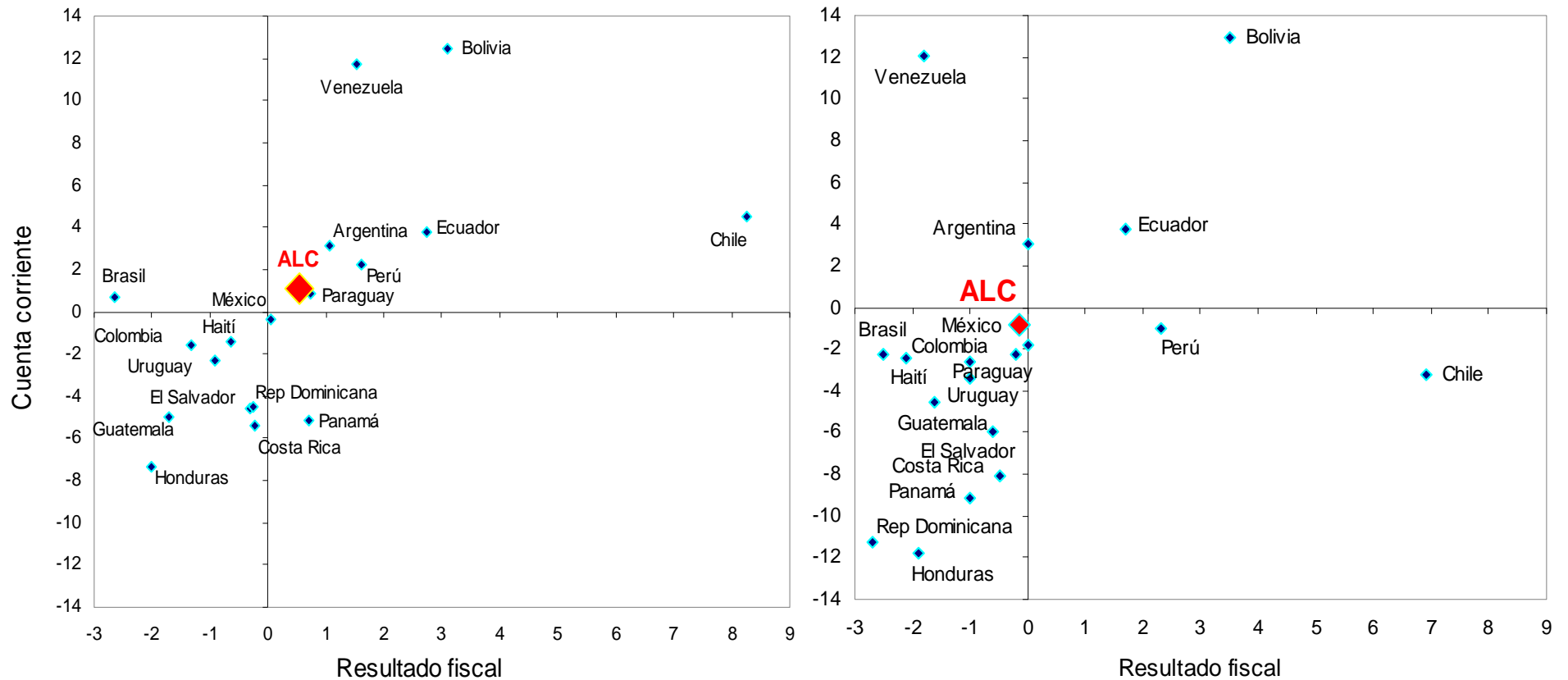
# Latin America: Net International Reserves (As percent of GDP)



# Latin America: Current Account and Fiscal Balance (In % of GDP)

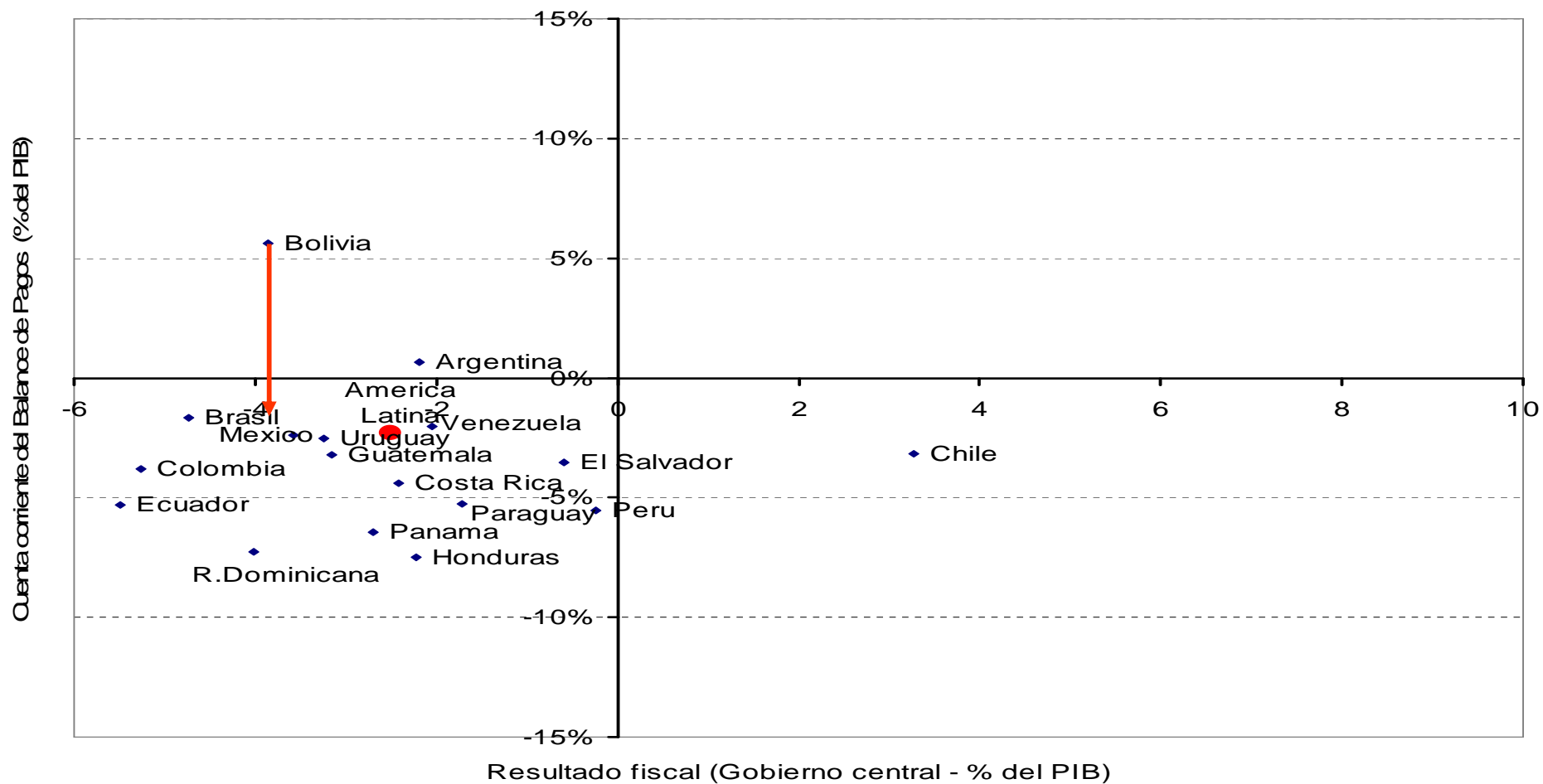
2006-2007

2008



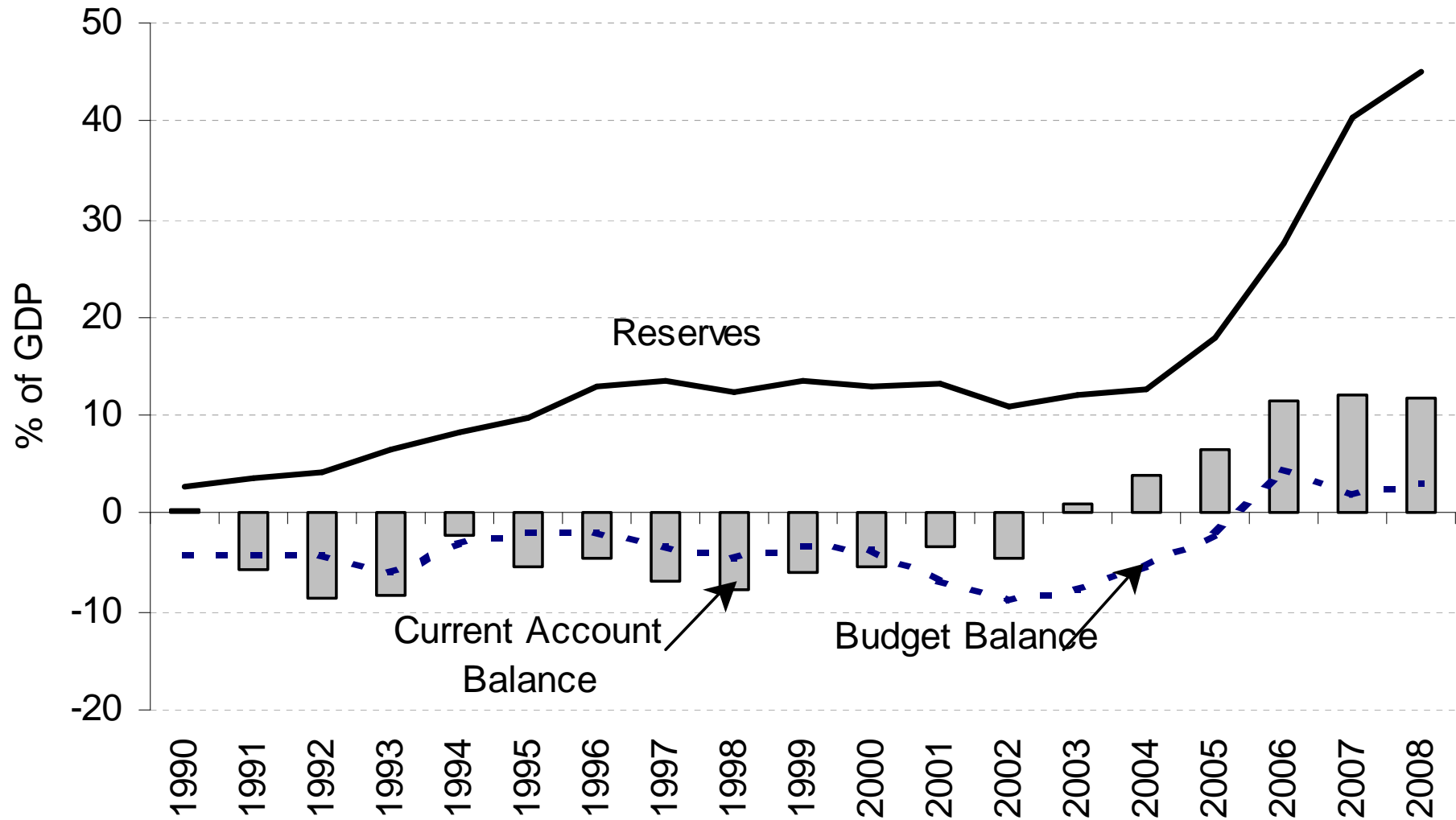
# Latin America: Current Account and Fiscal Balance (In % of GDP)

2009



# Bolivia: Current Account Balance, Fiscal Balance and Net International Reserves

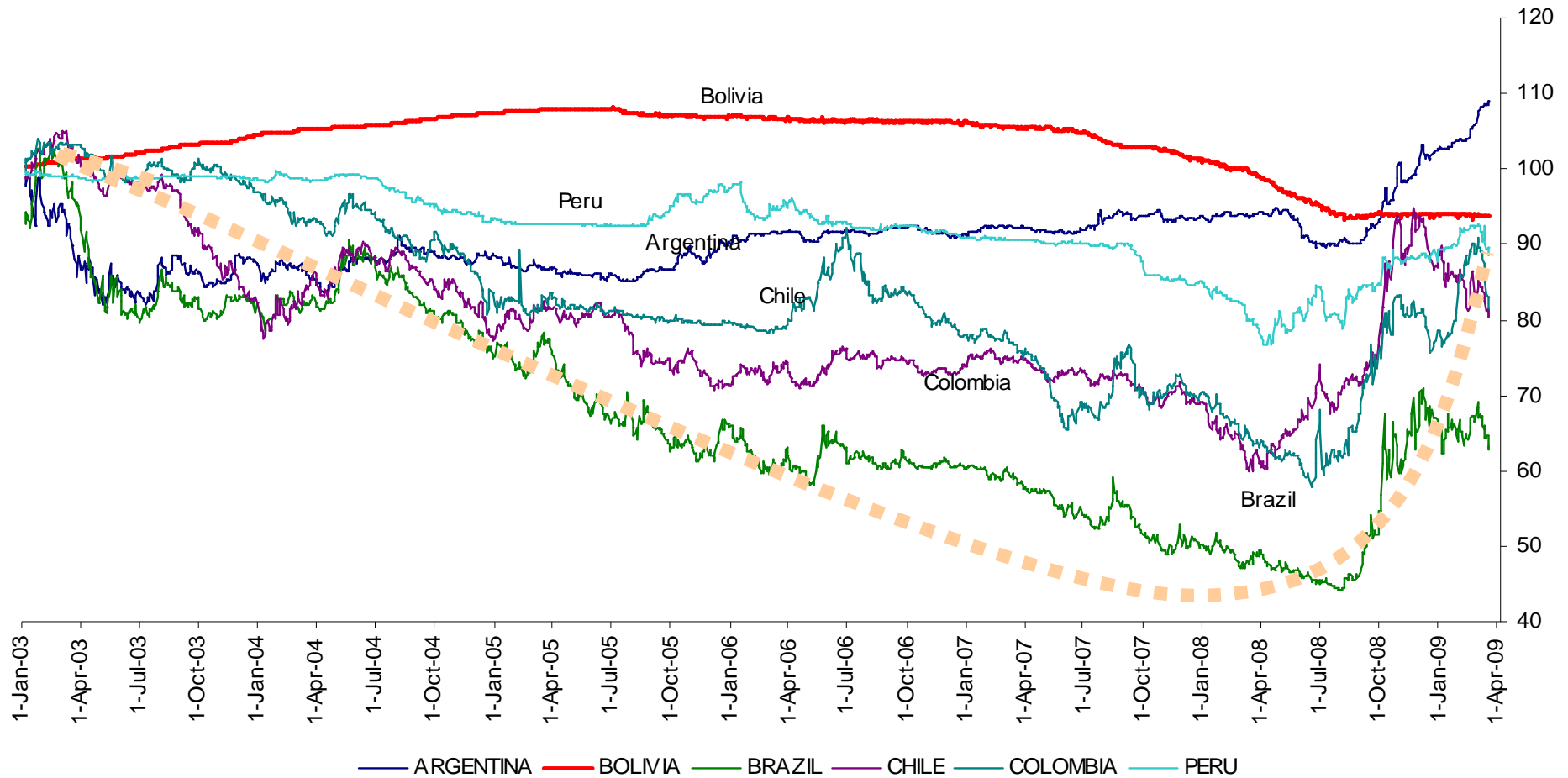
(In % of GDP)



# **Policy responses: Exchange Rate Policy**

# Nominal Exchange Rate in Selected Countries

(Index, December 2003 = 100)



Source: Bloomberg and Central Bank of Bolivia

# Nominal Exchange Rate in Selected Countries

(Currency per USD)

## Exchange rates

		<b>% Change</b>				
		<b>3/20/2009</b>	<b>1 Week</b>	<b>1 Month</b>	<b>1 Year</b>	<b>Dec.08/ Dec.07</b>
Brazil	R/USD	2,25	-1,61	-5,81	28,82	31,01
Argentina	AR/USD	3,65	-0,07	3,13	15,57	9,63
Peru	NS/USD	3,11	-2,01	-4,39	11,25	4,66
R.B. of Venezuela	BF/USD	2,15	0,00	0,00	0,00	0,00
Colombia	P/USD	2.338,48	-4,45	-9,46	28,25	11,47
Chile	CH/USD	587,45	-1,19	-5,74	31,39	28,23
Euro	€/USD	0,735	-5,10	-5,74	13,44	5,28
Japan	¥/USD	95,47	-2,82	2,27	-3,85	-19,29
Pound	£/USD	0,69	-3,00	-0,17	37,19	37,72

# Exchange Rate Policy Target

- Control of inflation
- Prevent the dollarization of the economy
- Mitigate the effects of external shocks

## Concluding remarks

- International financial turmoil impact on Bolivian GDP will be about a percentage point. For 2009, GDP growth is projected around 4.5% (IMF: 4%). Over the last four years, GDP growth was mainly driven by domestic demand.
- The impact of falling commodity prices will depend on the structure and concentration of country exports. In the case of Bolivia, natural gas prices –the main export product– is computed with a lag to international oil prices. The latter worked as a buffer over the last months. Nevertheless full effects are expected to happen over the second half of the year.
- Declining exports and –to a lesser extent– remittances will lead to a current account deficit around 3% of GDP in 2009 after six years of surpluses.
- Declining tax revenues and increasing public investment will explain the NFPS deficit of 3% of GDP for 2009 after three years of surpluses.

# Policy responses

- Policy responses depend upon country specific initial conditions. Particularly in Bolivia:
  - Current account surpluses over the last 5 years allowed NIR accumulation (45% of GDP as of December 2008) reducing external vulnerabilities.
  - Fiscal surpluses over the last 3 years lead an accumulation of NFPS deposits at the CBBolivia of 18% of GDP, which will give room for an expansionary fiscal policy.
  - Decreasing inflation will also give room for an expansionary monetary policy.
  - Declining financial dollarization will improve monetary and exchange rate policy effectiveness.
- Policy guidelines:
  - Avoid exchange rate overshoot.
  - Avoid competitive depreciations and the return to trade protectionism (Parade Paradox).
  - Developed countries should do any effort to resolve the crisis, since this was originated in these ones.
  - Regional position should be coordinated.

## PRESS RELEASE

March 23, 2009.

### **Fourth High-Level Seminar of the Eurosystem and Latin American Central Banks held in Mexico City on 23 March 2009.**

The economic implications and the policy responses to the global financial crisis and to the rise and fall in commodity prices were the main focus of the discussions held at the Fourth High-Level Seminar of the Eurosystem and Latin American Central Banks that took place today in Mexico City, under the chairmanship of Guillermo Ortiz, Governor of Banco de México, Jean Claude Trichet, President of the European Central Bank, and José Viñals, Deputy Governor of Banco de España.

The Seminar was attended by Governors and high-level representatives of Latin American and Eurosystem central banks, as well as by high-level representatives of some international organizations, including the Center for Latin American Monetary Studies, the European Commission, the Inter-American Development Bank, the Economic Commission for Latin America and the Caribbean, and the Central American Monetary Council.

The Seminar, which was hosted by the Banco de México and jointly organised with the European Central Bank and the Banco de España, aimed at consolidating the policy dialogue between central bankers of Europe and Latin America following the third Seminar in Madrid in 2006.

#### **Implications of the financial crisis**

The first session focused on the global implications of the financial crisis and its effects on Latin America and the euro area. There was an exchange of views on the factors which have contributed to the financial crisis, on the channels through which the crisis spread across the globe and on the macroeconomic and financial implications of the crisis for both the euro area and Latin America. In this context, the outlook for both regions was discussed.

Governors highlighted the importance of the measures adopted so far for restoring the orderly functioning of financial markets, supporting the real economy, and enhancing confidence, which seek to strike an adequate balance between timely support and long term policy sustainability. They also stressed the need for an orderly exit strategy from current policy stimuli, when conditions warrant.

#### **The rise and fall in commodity prices: Economic impact and monetary policy**

The second session concentrated on the recent rise and subsequent fall in commodity prices and the policy response to commodity price shocks. Key topics in the discussion were the factors that have contributed to the recent fluctuations in commodity prices, their long term prospects and their impact on the near-term inflation outlook. In addition, there was an exchange of views on the extent to which high commodity prices contributed to the strengthening of economic conditions in Latin

America and how the current adjustment will affect the region. Finally, the appropriate mix of macroeconomic policies in response to external shocks was also addressed.

Participants agreed that the recent decline in commodity prices reflects to a large extent the drop in global demand, in turn as a result of the global financial and economic crisis. This decline has reduced inflationary pressures, but poses a challenge for Latin American commodity exporters. On the other hand, commodity importers are benefitting from an improvement in their terms of trade.

### **Global policy measures in response to the financial crisis**

The third session explored the global policy response to the financial crisis. The discussants focused on policy measures implemented so far at both the country and multilateral level. Moreover, participants discussed how global policy coordination can be fostered and improved over the medium term.

Governors agreed that the global nature of the crisis requires a global response. In this regard, they considered that international cooperation constitutes an effective way for minimizing the impact of the crisis. They also pointed out that countries should reinforce their commitment to keeping markets open through dialogue and cooperation.

\* \* \*

Governors thanked the Banco de México for the organisation of this Seminar and underscored the value of this unique form of policy dialogue between Latin America and Europe, which they will continue in the future.

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*Very firm vision*

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Fourth High-Level Seminar of the  
Eurosistema and Latin American Central Banks

**The financial crisis and commodity prices – Economic  
implications and policy responses**

Programme

Mexico City, March 22-23, 2009

**Venue:** Four Seasons Hotel, Hall "Guadalajara"  
Paseo de la Reforma No. 500, Colonia Juárez, México 06600, México, D.F.

**Sunday 22 March**

10:00 – 16:00

**Guided Tour:** San Angel Colonial Town

19:00 – 20:00

**Guided Tour:** The Interactive Museum of Economics (MIDE) - Former  
Monastery of Betlemitas  
Tacuba 17, Centro Histórico, México 06000, México, D.F.

20:00 – 22:00

**Official Dinner:** The Interactive Museum of Economics (MIDE) - Former  
Monastery of Betlemitas

Welcome Remarks by Guillermo Ortiz (*Governor, Banco de México*)

Closing Remarks by Jean-Claude Trichet (*President, European Central Bank*)

**Monday 23 March**

9:00 – 9:30

Opening Remarks by Guillermo Ortiz (*Governor, Banco de México*)

Introduction to the Seminar by José Viñals (*Deputy Governor, Banco de  
España*)

9:30 – 11:05

**First Session: Global implications of the financial crisis and its effects on  
Latin America and the euro area**

Chaired by Fabrizio Saccomanni (*Director General, Banca d'Italia*)

Presenter:

- Christian Noyer (*Governor, Banque de France*)

Lead discussants:

- Martín Castellano (*Chief of Staff, Banco Central de la República Argentina*)
- Serge Kolb (*Executive Director, Central Bank of Luxembourg*)

**Group photo**

**Coffee break**

11:25 – 13:00

**Second Session: Rise and fall in commodity prices - Economic impact and policy responses**

Chaired by Wolfgang Duchtatzek (*Vice-Governor, Austrian National Bank*)

Presenter:

- José De Gregorio (*Governor, Banco Central de Chile*)

Lead discussants:

- José de Matos (*Deputy Governor and Member of the Board, Banco de Portugal*)
- Gabriel Loza (*President, Banco Central de Bolivia*)

*Lunch: Four Seasons Hotel, Hall "Mérida"*

14:50 – 16:25

**Third Session: Policy coordination in the context of the financial crisis**

Chaired by María Antonieta del Cid de Bonilla (*President, Banco de Guatemala, and President, Central American Monetary Council*)

Presenter:

- Henrique de Campos Meirelles (*Governor, Banco Central do Brasil*)

Lead discussants:

- Nout H.E.M Wellink (*President, De Nederlandsche Bank*)
- Julio Velarde (*Governor, Banco Central de Reserva del Perú*)

*Coffee break*

16:40 – 17:25

**General Discussion and Conclusions**

Chaired by Jean-Claude Trichet (*President, European Central Bank*)

17:30 – 18:00

**Press Conference**

- Guillermo Ortiz (*Governor, Banco de México*)
- Jean-Claude Trichet (*President, European Central Bank*)
- José Viñals (*Deputy Governor, Banco de España*)

20:30

**Informal Dinner:**

*Hacienda de los Morales*

*Vázquez de Mella No. 525, Colonia del Bosque, México  
11510, México, D.F.*

*Note: Presentations are expected to last 20 minutes, lead discussions 10 minutes each. They will be followed by a general discussion*

