Exchange rate, exports and imports: the case of Bolivian economy

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Abstract

Recently, as result of capital outflows from emerging economies, it has come back concern about high trade deficits and the return to more active exchange rate policies. In the case of Bolivia, due to deficit trade balances that characterize it there is concern about the role of exchange rate policy to deal with such deficit, and the question is, how elastic are exports and imports to changes in real exchange rate?

Empirical evidence for the Bolivian case shows that in short term exports and imports are inelastic to exchange rate, reason why the role of monetary policy would be marginal to correct trade deficits. However, in long term, the Marshall-Lerner condition is satisfied, by which exchange rate policy would be relevant in contributing to correct trade imbalances.

An important finding is that manufacture exports are not only highly inelastic to exchange rate, but also to exports of agricultural products. Total imports, in the short and long term, are inelastic to changes of real exchange rate, except for imports of consumption goods, which have a long term unitary elasticity. GDP is the variable that significantly influences in the evolution of imports and not in real exchange rate. Thus, in upswings imports increase, and in downswings they decrease.