
Eduardo Borensztein
A “necessary paper”. Issue needs to be understood better.

**Brazil**
(Commodity exports ≈ 7% of GDP)
Key Features

SVAR of global conditions and domestic macro variables

• Global bloc:
  – Global (G7) GDP
  – US shadow policy rate
  – Effective exchange rate of the USD

• Domestic bloc:
  – Commodity Price Index
  – GDP aggregate of four countries
  – Real Domestic Credit
  – Real ST interest rate
  – Real USD exchange rate
Key Features

Innovations:

• Aggregate of four EM commodity exporters, exchange rate floaters
• Commodity Prices not exogenous.
• Credit channel—Monetary Policy implications
• Missing innovation: no China
• Relatively large effects (7.4% in commodities impacts 1.1% in GDP and 5% on the real exchange rate after one year)
• But not as large as Kose (2002) (30% of variance of growth is terms of trade)
• There is also a smallish effect on Credit after one year, larger later.
• Monetary policy appears to have been procyclical (interest rate falls one year after commodity prices rise).
• Exchange rates act as shock absorbers
Global shocks

• Global output and US exchange rate dominate commodity prices
• Similar to Dornbusch (1985)! Elasticity of about 2.5 and 1.5 (the latter a bit of a puzzle)
• Same result in Borensztein and Reinhart (1994)
Discussion

• No global “country risk premium” variable
• Aggregate of four economies
• Both interest rates and credit volume in domestic bloc. How does this channel work? Investment?
• Commodity prices are endogenous (and they don’t affect global variables)
• What about the super-cycle?
What about the “supercycle”? 

What happens with large commodity shocks?

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<tbody>
<tr>
<td>United States</td>
<td>106%</td>
<td>98%</td>
<td>151%</td>
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<tr>
<td>WWII reconstruction</td>
<td>11</td>
<td>11</td>
<td>13?</td>
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<tr>
<td>China</td>
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- Sample coincides with super-cycle boom. Larger effects?