Working Paper No. 48

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Juan Carlos Echeverry

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.