Box 1: Impact of the Drop In Terms Of Trade on Real Gross National Disposable Income: The Experience of Chile, Colombia and Peru

Box 1: Inflation Report June 2015 Keep in mind
The Monetary Policy Report presents the Bank's technical staff's analysis of the economy and the inflationary situation and its medium and long-term outlook. Based on it, it makes a recommendation to the Board of Directors on the monetary policy stance. This report is published on the second business day following the Board of Directors' meetings in January, April, July, and October.

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For a small open economy that receives external funding and is obliged to adapt to international credit and liquidity conditions, besides being an intensive producer and exporter of commodities (as is the case of Colombia and many other countries in the region), it is very important to analyze the momentum in terms of trade (TT) and how it affects gross national disposable income (GNDI). Doing so is important to ensuring good economic policy in terms of how it is planned, designed and implemented. The significance of this relationship lies with the fact that changes in terms of trade have a real impact on the economy, particularly on national income. For instance, agents will have more spending power when the ratio of export prices to import prices for goods and services is favorable. The opposite also applies: if that ratio is unfavorable, the economy will have to adjust its spending levels, which would imply a decline in the collective welfare of the country.
Moreover, depending on the nature of the TT shock, which might be temporary or persistent, an economy can be temporarily or permanently richer or poorer.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications/inflation-report/box-1-impact-of-the-drop-in-terms-of-trade-on-real-gross-national-disposable-income-the-experience-of-chile-colombia-and-peru