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The impact of commodity price shocks on commodity dependent countries (Burkina Faso, Ethiopia and Mozambique)

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Abstract

Many least developed countries (LDCs) face commodity dependence on the export and import side. This paper develops a structuralist computable general equilibrium model for commodity-dependent LDCs and simulates global commodity price shocks for Burkina Faso, Ethiopia and Mozambique. Results show important macroeconomic and distributional effects. Although increasing export commodity prices are beneficial, the high correlation with import commodity prices causes low or even negative combined effects. The magnitude of effects depends on the degree of import and export dependence, the production structure of the key commodity sectors and policies that determine the distribution of windfall profits.

Keywords: Economic Development; Primary Commodities; Commodity Dependence; Price Volatility; Africa

JEL Classification: E12, E27, F41

1. Introduction

Commodity dependence remains an important issue in many least developed countries (LDCs). In total, 91 developing countries are considered as commodity dependent in 2014/15, as the ratio of primary commodity exports to the value of total merchandise exports exceeds 60 per cent (UNCTAD 2017).