

عنوان مقاله:

Exchange Rate Pass-Through and Central Bank Credibility: Evidence on Inflation Targeting Countries

محل انتشار:

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خلاصه مقاله:

This paper sheds a new light on the role of central bank credibility (CBC) in explaining the extent of exchange rate pass-through (ERPT) in two stages. In the first stage, using 60 months rolling window regression of the inflation on the nominal effective exchange rate is obtained time-varying ERPT during 1990m1-2020m1. Once the credibility index (deviation of average of past inflation from target) is computed over a period of 29 years (1991-2019), in the second stage, the sample of 19 inflation targeting (IT) economies are split into different regimes with regard to the credibility values by using a Panel Threshold Regression (PTR) model. Our empirical result shows that there is one threshold point for CBC which is well identified by the data, allowing me to split my sample into two credibility regimes. When CBC level is below a threshold of 35% within a high-inflation environment, the extent of the ERPT coefficient is found to be higher. However, with the shift towards high-credibility regime, when credibility level is exceeding the threshold of 35%, the level of pass-through is significantly declining in the IT countries. This finding sheds further light on how the credibility gained through the commitment to the targets can be effective on the performance of the central bank and would ensure the better control of the pass-through.

کلمات کلیدی:

Central Bank Credibility, Inflation Targeting, Threshold Effect

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