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Essays on Economic Policy (ESPE in Spanish) - Analyzing the Exchange Rate Pass-through in Mexico: Evidence Post Inflation Targeting Implementation

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Abstract

This paper presents an analysis of the exchange rate pass-through mechanism for the Mexican economy after the formal adoption of inflation targeting policy. In particular, this research work analyzes how a change in the nominal exchange rate depreciation is transmitted to domestic prices along the distribution chain of pricing. The analysis is carried out using a recursive Structural Vector Autorregression with exogenous variables (recursive SVAR-X) model, which aims at the estimation of structural impulse-response-functions as a tool to analyze the degree and speed of the effect of exchange rate depreciation changes on domestic prices. Additionally, variance decompositions are computed to capture the relative importance of exchange rate depreciation shocks in explaining inflation fluctuations. Our results show that, for the period of analysis (after the formal adoption of inflation targeting in Mexico), the exchange rate pass-through to consumer prices is quite small and fast and exchange rate surprises are not relevant to explain consumer price inflation variation.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/analyzing-the-exchange-rate-pass-through-in-mexico