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Exchange Rate Pass-Through to Domestic Prices: The Case of Colombia

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This study uses two different econometric frameworks to study exchange rate pass-through to import, producer and consumer prices in Colombia. Both frameworks are based on vector autoregressive (VAR) models, the first using an unrestricted VAR model, and the second using the Johansen framework of multivariate cointegration. Exchange rate pass-through is shown to be incomplete. Import prices, nevertheless, respond quickly to an exchange rate change, where some 80 percent of such a change is passed onto prices of imports within 12 months. The corresponding figure for producer prices is 28 percent and for consumer prices less than 15 percent, where for the latter the two different frameworks yield rather different results. We can, however, conclude that pass-through is modest for producer prices and very limited for consumer prices. An exchange rate shock does, therefore, only have little impact on consumer price inflation.