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Exchange Rate Pass-Through in ASEAN Countries: An Application of the SVAR Model

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ABSTRACT

Central banks in emerging countries generally question the effect of exchange rate pass-through into price levels in the national economy in order to implement monetary policy effectively. This article is conducted in response to these macroeconomic concerns. Five founding members of the Association of Southeast Asian Nations (ASEAN), for which all the required data are available, are included in our sample with up-to-date time-series data until 2016. We use a structural vector autoregressive model in this study. Several interesting findings emerged from our study. First, we find incomplete exchange rate pass-through to domestic prices, and the producer price index is found to be affected more than the consumer price index. Second, the exchange rate shocks are found to have an immediate effect within one quarter on producer prices in all the countries. Third, variance in domestic prices is found to be caused mainly by shocks from oil prices, output gaps, and exchange rates, with some

differences in the extent of effects across countries. Fourth, in these five countries, interest rates appear to play a minor role in explaining the inflation rate. We recommend that policy makers pursuing price stability in the economy focus on exchange rates and interest rate policy with great caution.

KEY WORDS:

ASEAN | exchange rate pass-through | inflation | structural VAR

JEL CLASSIFICATIONL:

E31 | F52 | F31

Notes

[1.] This method has been employed in a few previous studies (Ito and Sato 2008; Saha and Zhang 2016).

Additional information

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