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Research Announcement

Long-run exchange rate pass-through: evidence from new panel data techniques

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Abstract

This paper examines the exchange rate pass-through (ERPT) into import prices using recent panel data techniques. For a sample of 27 OECD countries, panel cointegration tests provide an evidence for the existence of long-run equilibrium relationship in pass-through equation. Following Pedroni (2001), we employ both FM-OLS and DOLS estimators and show that long-run ERPT elasticity does not exceed 0.70%. Individual estimates of ERPT are heterogeneous across 27 OECD countries, ranging from 0.23% in France to 0.98% in Poland. When we look for the macroeconomic determinants of this long-run heterogeneity, we implement a panel threshold methodology as introduced by Hansen (2000). Our results indicate a regime-dependence of ERPT, that is, countries with higher inflation regime and more exchange rate volatility would experience a higher degree of pass-through.

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