

Investigating the Relationship between Inflation and Exchange Rate by Considering the Foreign Exchange Market Pressure Index and the Degree of Intervention of the Central Bank**Foad Hashemi *****Seyyed Shamseddin Hosseini ******Kambiz Hozhabr Kiani *******Mohammad Reza Farzin ******

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Abstract

The present article examines the relationship between inflation and exchange rate by considering the foreign exchange market pressure index and the degree of central bank's intervention in Iran's economy using Weymark model (1995) and SVAR structural self-regression model based on seasonal data for the years 1370-1397. Based on the results of estimating the Weymark model (1995), Iran's foreign exchange market has experienced an increase in pressure in the foreign exchange market in 91 out of 111 chapters in order to prevent the devaluation of the rial. Also, according to the results of SVAR model estimation, a shock from the oil revenue, a shock from the foreign exchange market pressure and a shock from the central bank's intervention have caused an increase of 26%, 28% and 56% increase in inflation in the country, respectively. It can be concluded that as the impulse in government foreign exchange earnings increases, the growth of the central bank's foreign exchange reserves will decrease. the central bank is forced to step up its intervention to reduce inflation in the foreign exchange market to prevent traders from attacking. Also, the calculation of the foreign exchange market pressure index indicates that the highest numbers obtained for this index are related to the time when the gap between the free exchange rate and the official exchange rate has increased.

Keywords: Inflation, Exchange Rate, Central Bank Intervention, SVAR model.**JEL Classification:** C24, E52, G12, G32, G19.

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