

The Effect of Exchange Rate Overshooting and Central Bank Intervention on Iran's Trade with the Countries of the Caspian Region

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Abstract

The purpose of this study is to investigate the effect of exchange rate overshooting and central bank intervention on Iran's trade with the Caspian Basin countries based on data from 1995-2019 and using the Panel Star soft threshold (PSTR) approach. The results of the model estimate show; The variables of GDP per capita, trade agreement, population, distance between the capital, the border and common language have a positive effect and the variables of central bank intervention and exchange rate overshooting have a negative effect on Iran's trade volume with Caspian countries. Artificial pricing of the exchange rate in the years before the crisis and preventing its adjustment in accordance with economic conditions is one of the main reasons for the recent currency crisis in the country. In addition, the calculation of the foreign exchange market pressure index and central bank interventions indicate 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 widened. the expanding and diversifying markets and financial institutions, moving to an open economy and trade agreements, and using foreign investment and changing capital market regulations to increase transparency and stability to increase savings And investment can provide the basis for increasing the country's exports.

Keywords: Exchange Rate Overshooting; Central Bank Intervention; Trade; Caspian Littoral Countries; Panel Threshold Approach.

JEL Classification: E43, G21, O23.

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