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Analysis of the Effects of Exchange Rate Pass-Through with Emphasis on the Inflationary Environment of the Iranian Economy and the Intervention behavior of the Central Bank

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Abstract

This paper analyzed the effects of exchange rate pass-through with emphasis on the inflationary environment of Iran and the behavior of the Central Bank. Therefore,the STAR model during the period 2001:03 to 2019:04 was used. The results showed that GDP and the volume of money have a positive relationship and nominal interest rate, exchange rate and the central bank intervention have a negative relationship with the price index. The difference between the coefficients of the variables in the two regimes indicates that the effect of exchange rate and GDP growth on the price index in each regime is different. In the low exchange rate regime, the increase in the exchange rate causes a decrease and in the high exchange rate regime, the price index increases. There may be a causality relationship between exchange rates and inflation. That is, inflation increases with the increase in the exchange rate and the price of imported goods, and this inflation causes the exchange rate to rise again. On the other hand, the growth rate of the exchange rate in the impulse function is more than its deviations from the equilibrium which indicates the interventions of the Central Bank have been more to control the growth of the exchange rate. In fact, with this policy, the central bank has sought to control rising prices.

Keywords: Exchange rate; Inflationary Environment; Central Bank Behavior; STAR.
JEL Classification: E43, G21, O23.

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