

10. TIME-VARYING EXCHANGE RATE PASS-THROUGH TO DOMESTIC PRICES: EVIDENCE FROM TURKEY (APPENDIX)

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Abstract

Exchange rate fluctuations have decisive effects on inflation dynamics and monetary policy in emerging market economies. This paper analyzes exchange rate pass-through to domestic prices in Turkey by employing the TVP-VAR model for the period from 2002:01 to 2019:12. Our findings indicate that exchange rate pass-through varied throughout the relevant period. Specifically, the pass-through coefficients decreased considerably after adopting the inflation targeting regime, whereas it accelerated significantly following the exchange rate depreciations, especially after 2013. This upward trend was probably due to structural problems and policy choices. Rising pass-through coefficients may imply the exchange rate pass-through has an impact during inflation targeting. However, it should be noted that inflation targeting has underperformed in Turkey due to policy preferences in the last decade.

Keywords: Exchange rate, exchange rate pass-through, domestic prices, TVP-VAR model, Turkey

JEL Classification: C32, E31, E52, E58

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Appendix

Figure A1. Sample autocorrelation functions, the sample paths, and the posterior densities for selected parameters

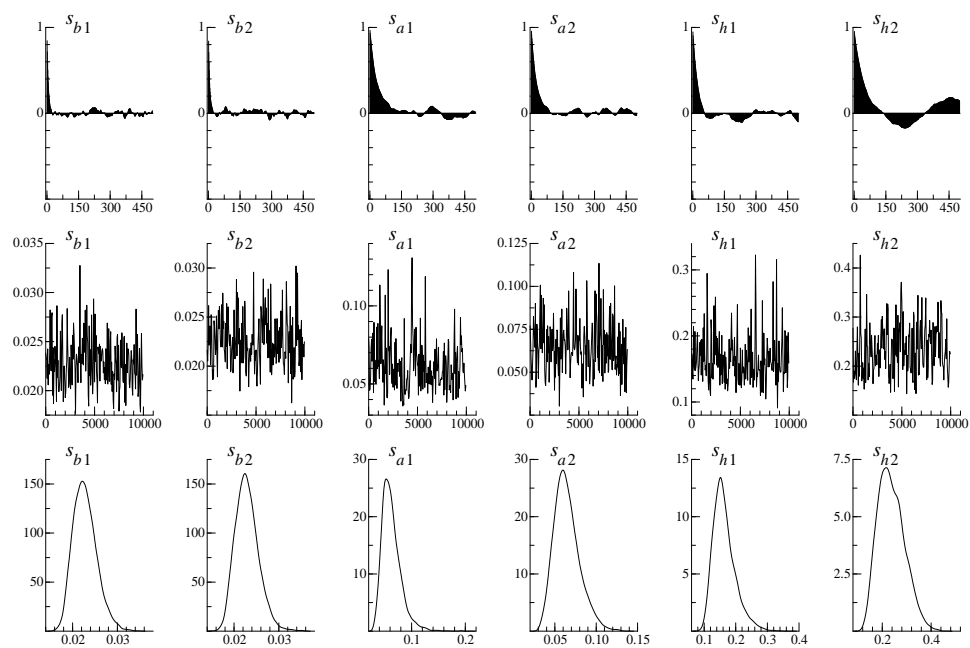
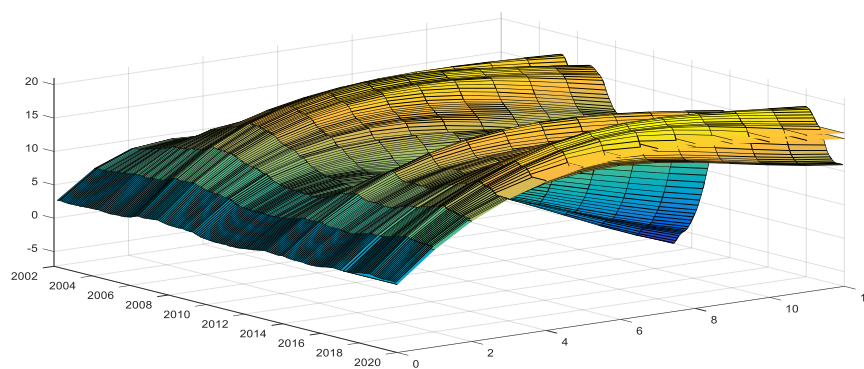




Figure A2. Time-varying responses of import prices to exchange rate shocks
(a) Time-varying cumulative responses of import prices to exchange rate shocks



(b) Confidence interval of import prices to exchange rate shocks at $h=12$ with ± 1 standard error bands

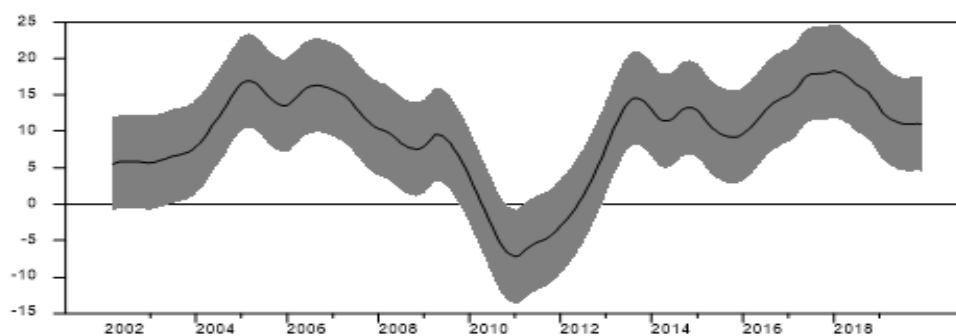
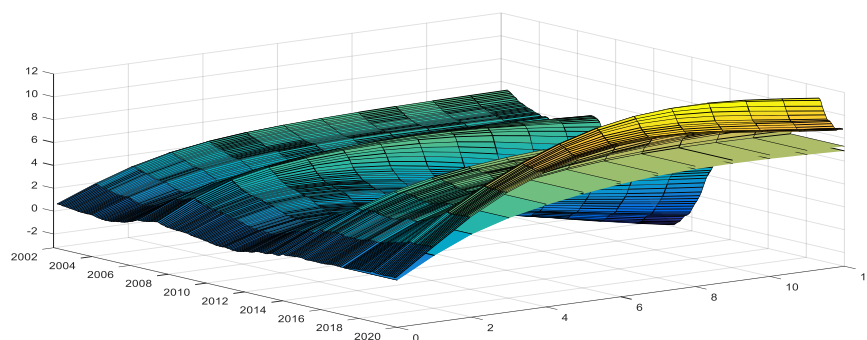


Figure A3. Time-varying responses of producer prices to exchange rate shocks
(a) Time-varying cumulative responses of producer prices to exchange rate shocks



(b) Confidence interval of producer prices to exchange rate shocks at h=12 with ± 1 standard error bands

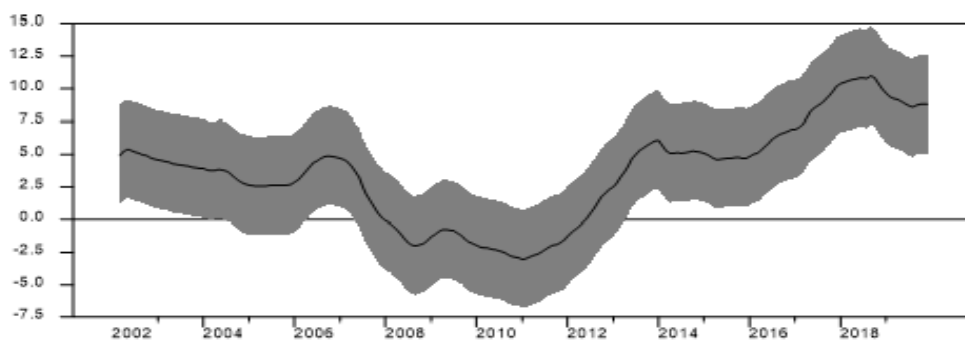
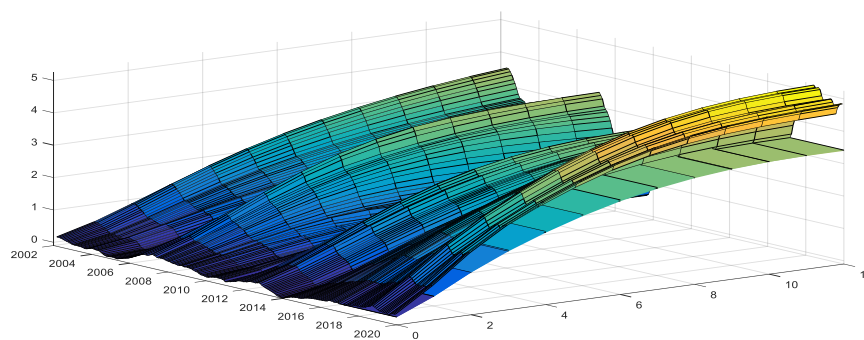


Figure A4. Time-varying responses of consumer prices to exchange rate shocks

(a) Time-varying cumulative responses of consumer prices to exchange rate shocks



(b) Confidence interval of consumer prices to exchange rate shocks at $h=12$ with ± 1 standard error bands

