AN INVESTİGATION OF EXCHANGE RATE PASS-THROUGH IN TURKEY

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Exchange rate pass-through refers to the effects of exchange rates on domestic inflation. Inflation forecasts can be significantly affected by the movement in the exchange rates. Also, the varying degrees of exchange rate pass-through can lead to an indirect effect on inflation through changing relative prices. Therefore, for inflation targeting countries the exchange rate pass-through is an important concept.

After the 2000-2001 financial crisis in Turkey, a strong reform program involving enactment of the floating exchange rate regime was initiated. The adoption of the floating exchange rate regime weakened the relationship between prices and exchange rates, but its existence did not cease. To get information on dynamics of the exchange rate pass-through, the long run and the short run relationships between exchange rates and prices are investigated. The existence of an asymmetric cointegration relationship between exchange rates and prices indicates that the magnitude of pass-through during depreciations and appreciations differs.

Key Words: Exchange rate pass-through, inflation, asymmetric cointegration