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EXAMINING THE DEGREE OF EXCHANGE RATE PASS-THROUGH IN SUB-SAHARAN OIL EXPORTING COUNTRIES: A PANEL DATA APPROACH

Abstract:

The paper sets to explore the debate of whether a shift to a more stabilized low-inflation regime as a result of monetary policy dynamics could lead to a decline in the degree of pass-through of exchange rate movements to consumer prices. The paper deviates from previous empirical work as it subjects the series to multiple structural break tests as proposed by Bai and Perron (2013) which help to identify policies related to stabilizing the environment and also uses panel-data approach. The paper utilizes quarterly data from 1981q1 to 2014q3 and covers oil exporting countries in Sub-Saharan African and lends it support to the Taylor Hypothesis. Specifically, the paper confirms the hypothesis that the degree of exchange rate pass-through to consumer price declines following inflation stabilization policies as witnessed in the selected countries. Guided by the findings of the paper, the policies adopted after 2010s seems to be more credible in stabilizing the environment than the policies implemented in the 1990s. Several explanations have been offered for the relative efficiency of the 2010s policies.

Keywords:

Exchange rate pass-through, Taylor Hypothesis, Linear Dynamic Panel Models, Multiple Structural Break Test

JEL Classification: E31, D42, F31