

ABSTRACT

Most of the emerging market economies in the 90s faced a grave crisis. After this crisis, emerging market economies' monetary policies gave up using exchange rates as an anchor. Therefore, the Inflation Targeting Framework (ITF) became a new policy. In the context of the debate on Exchange Rate Pass-Through (ERPT) under inflation targeting regimes, this study analyses how the adoption of inflation targeting influenced ERPT in the three developing countries of Southeast Asia – Indonesia, Thailand, and the Philippines, over the sample period of 2000 to 2019. Moreover, this study aims to analyze the macroeconomic determinants of the degree of pass-through to a consumer price index. For this purpose, this study adopts a distinct methodology combining Vector Autoregressive (VAR) and Error Correction Model (ECM) regression analyses. Using VAR analyses, this study found asymmetric effects of exchange rate shocks in Indonesia, Thailand, and the Philippines, and the results also varied in the short and long-terms. Moreover, by using short and long-term regression analyses of ECM, this study found that the adoption of inflation targeting does not reduce the degree of ERPT, while increased trade openness through higher trade share and lower trade tariffs reduce the degree of ERPT in the sample country.

Keywords: Exchange Rate Pass-Through, Inflation Targeting Framework (ITF), Trade Share, Trade Tariffs, Vector Autoregressive (VAR), Error Correction Model (ECM)