



# Exchange rate pass-through in Russian Federation

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# Presentation Plan

- Main aim of my research and relevance of this problem in Russian Federation
- Theoretical aspects of the research
- Future goals of the research
- References

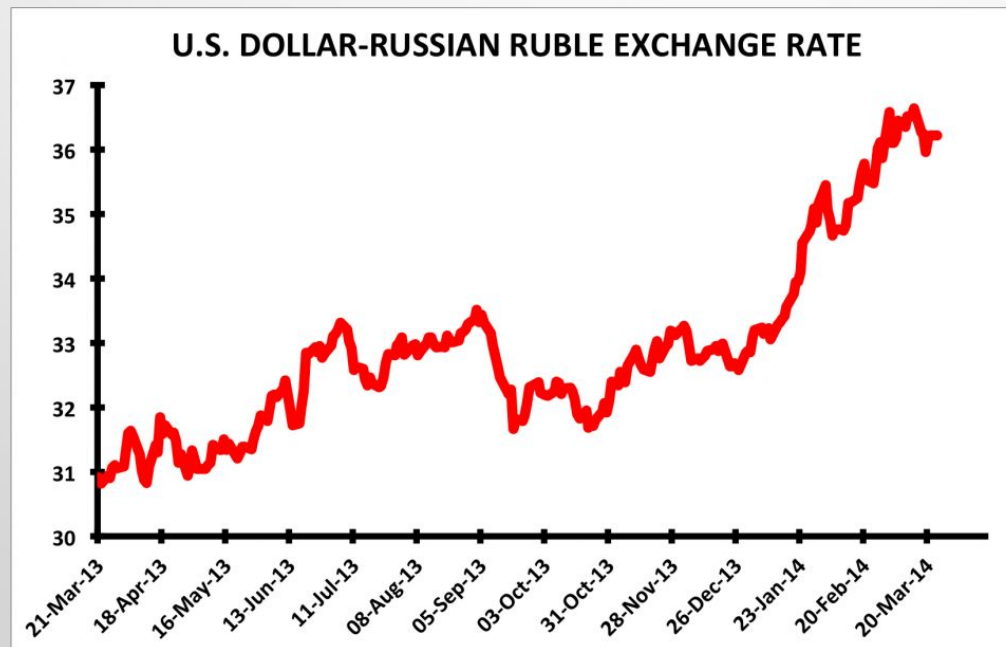


# Main aim

to analyze the the exchange rate pass-through of the ruble in the prices of goods and services on the territory of the Russia

## Relevance of the issue

is determined by a high degree of openness of Russian economy and its high dollarization-dependence on other economies



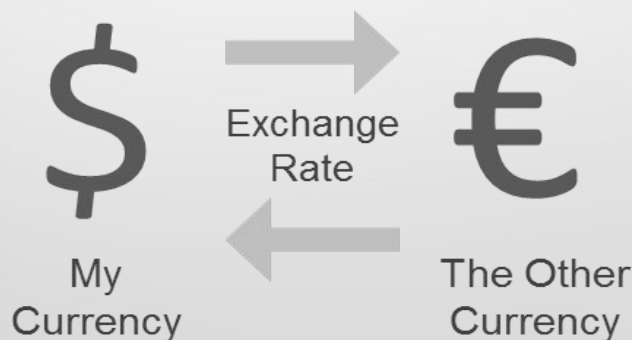
# Main theoretical definitions

- ***Exchange rate:***

Price for which the currency of a country can be exchanged for another country's currency

- ***Exchange rate pass-through:***

The percentage change (in local currency!) of import prices resulting from a one percent change in the exchange rate between the exporting and importing countries.



# The main factors which have influence on exchange rate pass through

- **The macroeconomic situation in the country**
- **Transaction costs**
- **Interchangeability of imported goods**
- **Demand shocks**
- **The degree of segmentation of the market between two countries**
- **Currency pricing**

# Practical example

Suppose that the US is importing widgets from England

	Exchange rate	Widgets cost
	\$1 for £1	\$10
	\$1.5 for £1	\$12.5
Change	50%	25%

The exchange rate pass-through is:  $\frac{25\%}{50\%} = 0,5$

*For every 1% increase in the exchange rate, there has been a 0.5% increase in the price of the widgets.*

# A simple model of the dependence of the exchange rate and inflation

$$s_t = p_t^T - p_t^{T*}$$

$$\begin{cases} p_t = \gamma \times p_t^T + (1 - \gamma) \times p_t^N \\ p_t^* = \gamma \times p_t^{T*} + (1 - \gamma) \times p_t^{N*} \end{cases}$$

The connection

between the nominal exchange rate and price levels is determined by:

$$E_t = \mu \times p_t - \mu^* \times p_t^* + \delta, \quad \text{where is}$$

$$\mu = [\gamma + \varphi(1 - \gamma)]^{-1}$$

$$\mu^* = [\gamma + \varphi^*(1 - \gamma)]^{-1}$$

$$\delta = (\alpha^* \mu^* - \alpha \mu)(1 - \gamma)$$

$\gamma$ -share of tradable goods,  $1 - \gamma$ -share of non tradable goods

# Future goals of my research

- To analyze different mechanisms of ERPT (direct and indirect mechanisms)
- To determine the dependence of ERPT on the regime of monetary policy, including exchange rate regime (fixed or floating)
- To examine the dynamics of the ruble exchange rate and domestic prices in recent years, using panel data
- To give basic conclusions and recommendations for the monetary policy in Russia



# What I am going to use for this purpose?

- Michael B. Devereux and James Yetman(2007) Price-Setting and Exchange Rate Pass-Through
- Reginaldo P.Nogueira - «Does the exchange rate pass- through respond for measures of macroeconomic instability?»(May 2011)
- Handbook G Kaunonen and Juntilla 2010
- To analyse data of ERPT in different countries

# References

- Пономарев Ю.; Трунин П.; Улюкаев А. *Эффект переноса динамики обменного курса на цены в России.*(2001)
- Goldberg, P.K.; Knetter, M.M. (1997). "Goods prices and exchange rates: What have we learned?"
- Campa, J.M.; Goldberg, L.S. (2005). "Exchange Rate Pass-Through into Import Prices". *Review of Economics and Statistics.*



Thank you for your attention!