

# Les Jeudi d'Economie & de Finance (JEF)

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## Séminaire de Recherche Pré-soutenance de thèse

### **Exchange Rate Pass-Through to domestic prices: theoretical approaches and empirical validations**

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**ABSTRACT :** In this thesis, we emphasize macroeconomic aspect of the exchange rate pass-through to domestic prices using many econometric issues. Using a co-integrated VAR framework, we assess and compare the degree of exchange rate pass-through (ERPT) to domestic prices in five MENA countries. In accordance with the majority of empirical studies, we provide a strong evidence of incomplete long run ERPT to consumer prices in our sub sample. We also show that the ERPT degree decreases across the different price indices. Using a Markov-switching approach with time varying transmission probability, we found that a lower degree of pass-through in Tunisia is associated with a smaller level, lower volatility and lower persistence of inflation and vice versa. To introduce nonlinear econometrics to the discussion of macroeconomic policy design in Tunisian economy, we investigate the presence of asymmetries in the degree of pass-through into import prices due to the exchange rate variations within smooth transition regression framework. Our results suggest that the degree and the dynamics of the ERPT are asymmetric to the volatility of the exchange rate variation.

The main finding of this thesis is the important role of macroeconomic forces in driving the transmission of dinar depreciations. Finding a low degree of exchange rate pass-through allows more flexibility in pursuing an independent monetary policy, which helps to perform an inflation targeting strategy and the corresponding optimal policy consists on fixing the nominal exchange rate. As smaller inflation volatility is associated with smaller exchange rate pass through, the CBT should mitigate the inflation movements by designing a more credible monetary policy. By anchoring the public expectation, the announced objective can be thereby reached by assuring the credibility of the monetary policy. Since it is evident that the ERPT is non linear, the CBT should include that behavior in evaluating the scope of their policy decisions and the time they appraise their achievements, in addition to inflation forecasts.

**Keywords: Exchange Rate Pass-Through, co-integrated VAR, consumer prices, Markov-switching, inflation, smooth transition regression, import price.**

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