Abstract

We use a VAR model with time-varying parameters and stochastic volatility to examine the conditional exchange rate pass-through to time-varying shocks in Peru. By explicitly modeling the factors driving exchange rate fluctuations, we find that different shocks are associated with different magnitudes and speeds of pass-through to import and consumer prices. The highest pass-through magnitudes come from monetary shocks, while the lowest come from domestic supply shocks. These magnitudes do not remain constant over time but change according to the economic environment. The pass-through changes during specific periods as well as the shocks driving the exchange rate. The time it takes for the pass-through to reach its steady-state value is also contingent on shocks, but there is no evidence of it being time-varying. In terms of policy, our findings help improve the understanding of the mechanisms of exchange rate pass-through in Peru, enabling the monetary authority to contain the inflationary effects caused by exchange rate depreciations during particular regimes.