

Empirical Analysis of Exchange Rate Pass-Through Effects on Emerging Market Economies: A Case Study of Inflation Targeting Regimes in Latin America

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Abstract. This study examines the nuanced relationship between exchange rate fluctuations and inflation in emerging market economies, specifically those employing inflation targeting regimes in Latin America. Utilizing a panel data approach, the research delineates how exchange rate pass-through (ERPT) manifests distinctively across various macroeconomic environments. Findings indicate significant heterogeneity in ERPT intensity, influenced by monetary policy frameworks and external economic shocks. The paper underscores the critical need for tailored policy interventions to mitigate exchange rate volatility impacts.

Keywords: Exchange Rate Pass-Through, Inflation Targeting, Emerging Markets, Macroeconomic Policy, Latin America, Monetary Policy, Economic Shocks, Panel Data Analysis, Inflation Dynamics

Introduction

The volatility of exchange rates poses a persistent challenge for emerging market economies, particularly those adhering to inflation targeting regimes. In recent years (2024-2026), the global economic landscape has witnessed increased capital flow volatility, driven by geopolitical tensions and shifts in foreign direct investment patterns. These dynamics have pronounced implications for monetary policy effectiveness, especially in countries where institutional frameworks are still evolving. The phenomenon of exchange rate pass-through (ERPT) into domestic prices remains a focal point for economists studying inflation dynamics. ERPT refers to the degree to which domestic prices adjust in response to exchange rate fluctuations. This adjustment is crucial for policymakers aiming

to maintain price stability while navigating external shocks. In this paper, we provide a comprehensive empirical analysis of ERPT within the context of Latin American economies implementing inflation targeting. Through advanced econometric modeling and robust data from 2020 to 2026, we explore the idiosyncrasies of ERPT in relation to monetary policy efficacy and external economic pressures. Our findings reveal substantial variability in ERPT effects across different countries, necessitating a more granular approach to policy design. We emphasize the importance of understanding these differences to tailor monetary interventions effectively. The paper is structured as follows: Section 2 reviews the existing literature on ERPT and inflation targeting. Section 3 details the methodological framework and data employed in the analysis. Section 4 presents the empirical findings, followed by a discussion in Section 5. Finally, Section 6 concludes with policy recommendations.

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