

Exchange Rate Pass-Through and Managed Float: Revised Estimations

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Abstract

We explore the hypothesis of incomplete exchange rate pass-through to import prices for the Hellenic economy during its course to the EMU. We are searching if “expenditure-switching” effects on the current account were operate and consequently if managed float of the Hellenic Drachma (GRD) by the Bank of Greece was efficient. In a partial equilibrium framework, we use the generic regression model proposed by Goldberg & Knetter (1997) and cointegration analysis initiated by Johansen (1988), for the Hellenic bilateral trade against Germany, Italy, France and the United Kingdom, during the 1975q1-1998q4 era. The main empirical evidences are in favour of long run ineffectiveness of the exchange rate regime adopted, which is namely verified by (a) the producer currency pricing of Hellenic imports, (b) the incomplete exchange rate pass-through on import prices and (c) the exchange rate disconnection from the industrial production.

Keywords: exchange rate pass-through, managed float, exchange rate disconnect, producer vs local currency pricing, small open economy, EMU, Hellenic Economy.

JEL Classification: F310; F320; F360; C500.

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