

Modelling Exchange-Rate Pass-Through: A Model of Oil Prices and Asymmetric Exchange Rate Fluctuations in Selected African Countries

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Abstract : In the last two decades, we have witnessed an increased interest in exchange rate pass-through (ERPT) in developing economies and emerging markets. This is perhaps due to the acknowledged significance of the pattern of exchange rate pass-through as a key instrument in monetary policy design, principally in retort to a shock in exchange rate in literature. This paper analyzed Exchange Rate Pass-Through by A Model of Oil Prices and Asymmetric Exchange Rate Fluctuations in Selected African Countries. The study adopted A Non-Linear Autoregressive Distributed Lag approach using yearly data on Algeria, Burundi, Nigeria and South Africa from 1986 to 2022. The paper found asymmetry in exchange rate pass-through in net oil-importing and net oil-exporting countries in the short run during the period under review. An ERPT exhibited a complete pass-through in the short run in the case of net oil-importing countries but an incomplete pass-through in the case of the net oil-exporting countries that were examined. An extended result revealed a significant impact of oil price shock on exchange rate pass-through to domestic price in the long run only for net oil importing countries. The Wald restriction test also confirms the evidence of asymmetric with the role of oil price acting as an accelerator to exchange rate pass-through to domestic price in the countries examined. The study found the outcome to be very useful for gaining expansive knowledge on the external shock impact on ERPT and could be of critical value for national monetary policy decisions on inflation targeting, especially for countries examined and other developing net oil importers and exporters.

Keywords : pass through, exchange rate, ARDL, monetary policy

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