

## **EXCHANGE RATE PASS-THROUGH TO DOMESTIC PRICES: THE TURKISH CASE (2002-2014)**

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### **Abstract**

*This study examines the degree of exchange rate pass through (ERPT) into producer prices and consumer prices in Turkey. To see the effect of ERPT, recursive vector autoregressive (VAR) model on monthly data from January 2002 to November 2014 is used. Model includes six variables which are oil prices that represent supply shock, industry production index that represents demand shocks, reserve money representing monetary policy, nominal Exchange rate and CPI-PPI indexes. Obtained results show that although there is a pass through from Exchange rate to consumer and producer prices, degree of it is not as effective as before 2001. This shows that with conducting flexible exchange rate regime, ERPT effect on domestic prices has decreased.*

**Key words:** Exchange rate pass through, Floating exchange rate regime, Monetary policy.