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March 13, 2018

RBI Working Paper No. 2/2018
**Non-Linear, Asymmetric and Time-Varying Exchange Rate Pass-Through:
Recent Evidence from India**

The Reserve Bank of India today placed on its website a Working Paper titled "[Non-Linear, Asymmetric and Time-Varying Exchange Rate Pass-Through: Recent Evidence from India](#)" under the Reserve Bank of India Working Paper Series. The Paper is co-authored by Michael Debabrata Patra, Jeevan Kumar Khundrakpam and Joice John.

Exchange rate pass-through (ERPT) to consumer prices matters for the conduct of monetary policy as it informs the policy maker about the extent to which the domestic inflation is hostage to imported influences. Exploring nonlinearities and time variations over the period from April 2005 to March 2016, the paper finds that ERPT in India was rising until 2014 but it has been declining since then, reflecting the ebbing of inflation and exchange rate volatility under the flexible inflation targeting framework adopted *de facto* since 2015 and *de jure* since 2016. Structural changes in the degree of openness and commodity price shifts are other influential factors determining the size of ERPT in India. The policy implications of nonlinear and time-varying ERPT are examined in macroeconomic general equilibrium framework and the results indicate that monetary policy transmission is strongest during periods of small depreciations. However, the transmission of these exchange rate changes to domestic inflation would be strong too, sharpening the impossible dilemma.

* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.

Press Release: 2017-18/2433

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