
[Access this article at Elsevier](#)

[Access this article at REPOSITORIO BANREP](#)

Keep in mind

In the journal Essays on Economic Policy (ESPE) - we disclose the results and policy proposals that arise from academic research carried out at the *Banco de la República*. When you read us, always keep in mind that the content of our articles, as well as the analyzes and conclusions derived from them, are the sole responsibility of their authors. The material disclosed in our ESPE magazine does not compromise or represent the opinion of *Banco de la República* or that of its Board of Directors.

AUTHOR OR EDITOR

Sylvia Beatriz Guillermo Peón

Martín Alberto Rodríguez Brindis

AUTHORS AND/OR EDITORS

[Guillermo-Peón, Sylvia Beatriz](#)

[Martín Alberto Rodríguez Brindis](#)

Publication Date:

Sunday, 01 June 2014

Abstract

This paper presents an analysis of the exchange rate pass-through mechanism for the Mexican economy after the formal adoption of inflation targeting policy. In particular, this research work analyzes how a change in the nominal exchange rate depreciation is transmitted to domestic prices along the distribution chain of pricing. The analysis is carried out using a recursive Structural Vector Autorregression with exogenous variables (recursive SVAR-X) model, which aims at the estimation of structural impulse-response-functions as a tool to analyze the degree and speed of the effect of exchange rate depreciation changes on domestic prices. Additionally, variance decompositions are computed to capture the relative importance of exchange rate depreciation shocks in explaining inflation fluctuations. Our results show that, for the period of analysis (after the formal adoption of inflation targeting in Mexico), the exchange rate pass-through to consumer prices is quite small and fast and exchange rate surprises are not relevant to explain consumer price inflation variation.