

Analysis of Decisive Factors behind Exchange Rate Pass-through to Korean Export Prices

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This study puts forth a new method for calculating the exchange rate pass-through to Korea's export prices. After dividing the period since 1980 into five ranges using the quarterly data, we calculated the amounts of pass-through by industry and by time range. The results showed the level of exchange rate pass-through to have declined in the 2000s and fallen greatly since the global financial crisis. The degrees of exchange rate pass-through showed wide differences across the various industries and time ranges.

Based on the calculated data, panel analysis was then conducted to identify the decisive factors affecting exchange rate pass-through. It was found that, the higher the shares of domestic demand and intermediary goods, the lower the degrees of pass-through. The biggest difference compared to the results of existing research was the significant negative (-) coefficient of the market share rate. This implies that Korean export companies are trying to maintain their market shares by being passive in price adjustments in response to changing exchange rates.

Meanwhile, we also undertook an analysis of the possibility of asymmetry in regression factors between periods of upward and of downward trends in exchange rates. The results confirmed that the levels of significance of the coefficients of the shares of domestic demand and intermediary goods grow very high during periods of exchange rate declines. This suggests that, if export conditions deteriorate due to appreciation of the Korean won, then having a broad domestic market can be a key factor in easing external shocks. Additionally, in cases where the share of intermediary goods is high, adjusting the retail margin may also help to alleviate exchange rate shocks.

Given these results it is judged that, in order to respond actively to the weak external economic conditions since the global financial crisis, and to enhance Korean companies' competitiveness, the boosting of domestic demand is necessary.

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