



## 5<sup>th</sup> CBSL-ADBI-APAEA Joint Workshop

Theme *"Inflation and Exchange Rate Dynamics in Asia and the Pacific"*

Webinar Workshop, September 06, 2024

*Hosted by the Central Bank of Sri Lanka*

Schedule (Colombo TIME)	Agenda
9:30 am - 9:45am	Inauguration by <b>Dr. Nandalal Weerasinghe</b> , Governor, Central Bank of Sri Lanka (CBSL) Opening Remarks by <b>Prof. Tetsushi Sonobe</b> , Dean, Asian Development Bank Institute (ADBI)
9:45am - 11:15am	Workshop Session 1 (3 Papers)
11:15 am - 12:45pm	Workshop Session 2 (3 Papers)
12:45pm - 1.00 pm	<i>Closing remarks and publication details</i> <b>Prof. Susan Sharma</b> , APAEA <b>Dr. S. Jegajeevan</b> , Director-Economic Research, CBSL

**Zoom Details:** Topic: 5th CBSL-ADBI-APAEA Workshop

Link - Register in advance for this webinar:

[https://us06web.zoom.us/webinar/register/WN\\_taRPHG6KStGNX8AahFnInA](https://us06web.zoom.us/webinar/register/WN_taRPHG6KStGNX8AahFnInA)

# WORKSHOP DETAILS

## WORKSHOP SESSION 1

**Chair: Dr. Dil Rahut (Vice-Chair of Research, ADBI)**

**20 minutes for presentation, 7 minutes for discussion, and 3 minutes for Q&A.**

**9:45am - 10:15am**      **Title: Analyzing Price Rigidity and Price Convergence in the Services Sector of Sri Lanka**

**Authors:** Praveen Jangam (IIT Jodhpur), Badri Narayan Rath (IIT Hyderabad), and Sachira Perera (CBSL)

**Presenters:** Praveen Jangam (IIT Jodhpur) and Sachira Perera (CBSL)

**Discussant:** Birendra Bahadur Budha (Nepal Rastra Bank)

**10:15am - 10:45am**      **Title: Revisiting Monetary Policy Transmission in New Inflation Targeting Countries: Evidence from Sri Lanka**

**Authors:** Bhavesh Garg (IIT Ropar), Sayar Shah (IIT Ropar) and Janaka Edirisinghe (CBSL)

**Presenters:** Bhavesh Garg (IIT Ropar)

**Discussant:** Poramapa Poonpakdee (Bank of Thailand)

**10:45am - 11:15am**      **Title: The Impact of Imports on Consumer Inflation in Sri Lanka: An Empirical Analysis**

**Authors:** Chinmaya Behera (Goa Institute of Management) and Yashodha Senadheera (CBSL)

**Presenter:** Chinmaya Behera (GIM)

**Discussant:** Badri Narayan Rath (IIT Hyderabad)

## WORKSHOP SESSION 2

**Chair: Dr. Chandranath Amarasekara (Assistant Governor, CBSL)**

**20 minutes for presentation, 7 minutes for discussion, and 3 minutes for Q&A.**

**11:15am - 11:45am**      **Title: Does Nepal's Inflation Converge to India?**

**Authors:** Birendra Bahadur Budha (Nepal Rastra Bank)

**Presenters:** Birendra Bahadur Budha (Nepal Rastra Bank)

**Discussant:** Kasun Pathirage (CBSL)

**11:45pm - 12:15pm**      **Title: The Impact of Global Uncertainties in the Exchange Rate Pass-Through and Its impact on Monetary Policy in Asian-Pacific Countries**

**Authors:** Ganapati Mendali (Rajendra University, Odhisa)

**Presenters:** Ganapati Mendali (Rajendra University, Odhisa)

**Discussant:** Vipula Wickramarachchi (CBSL)

**12:15pm-12:45pm**      **Title: Exchange Rate Effects on Firm Performance: A NICER Approach**

**Authors:** Nuwat Nookhwun (Bank of Thailand), Jettawat Pattararong (Bank of Thailand), Phurichai Rungcharoenkitkul (Bank for International Settlements)

**Presenters:** Jettawat Pattararong (Bank of Thailand)

**Discussant:** John Beirne (ADB)

**12:45pm - 1.00pm**      **CLOSING REMARKS**

**Prof. Susan Sharma & Dr. S. Jegajeevan**



## **5<sup>th</sup> CBSL-ADBI-APAEA Workshop**

***Theme: Inflation and Exchange Rate Dynamics in Asia and Pacific***

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### **ABSTRACTS**

#### **SESSION I**

#### **Analyzing Price Rigidity and Price Convergence in the Services Sector of Sri Lanka**

*Bhushan Praveen Jangam, Badri Narayan Rath, Sachira Perera*

#### Abstract

This paper investigates price rigidity in the services sector of Sri Lanka by using monthly data over the period 2010 to 2023. First, the study employs an Autoregressive model to assess the price rigidity. In the second stage, we use Phillips and Sul panel club convergence method to investigate the price convergence in case of service sector. The findings support the presence of price rigidity, however, there is lack of price convergence across various sub-sectors of service sector. From policy perspective, the monetary policy of Sri Lanka may have limited impact on controlling inflation of service sector. Thus, the price rigidity along with absent in price convergence of service sector can have adverse effect on economic growth in the long-run.

## **Revisiting Monetary Policy Transmission in New Inflation Targeting Countries: Evidence from Sri Lanka**

*Bhaves Garg, Sayar Ahmad Shah, Janaka Edirisinghe*

### Abstract

This study investigates the monetary policy transmission mechanism in Sri Lanka, which has recently transitioned towards the flexible inflationary targeting framework. Employing monthly data from 2020-2023, the findings confirm the significant role of the interest rate channel relative to the exchange rate channel in determining the monetary transmission effect on the output. Our key finding suggests that under the strict inflationary targeting monetary policy, there is a weak monetary transmission effect compared to the flexible inflation targeting. Thus, for monetary policy to realise effective monetary transmission, the focus must be on the robust implementation of a flexible inflation monetary policy regime in Sri Lanka.

## **Impact of Imports on Consumer Inflation in Sri Lanka: An Empirical Analysis**

*Chinmaya Behera, Yashodha Warunie Senadheera*

### Abstract

The objective of this study is to investigate the impact of imports on consumer inflation in Sri Lanka. Using the Westerlund and Narayan (2012, 2015) model fitted to monthly data, we find that imports of consumer goods have a negative effect on consumer inflation in Sri Lanka. Conversely, imports of intermediate goods are found to have a positive impact on inflation. Interestingly, we find no evidence of a significant impact on consumer inflation from the import of investment goods. Moreover, when adjusting the sample period to account for periods of high inflation and economic crisis, we do not discover any significant relationship between imports and inflation. Guided by these findings, our paper's advice to policymakers in Sri Lanka is to encourage the importation of essential consumer goods while discouraging the importation of intermediate goods to help stabilize overall price levels.

## SESSION II

### **Does Nepal's inflation converge with India's inflation?**

*Birendra Bahadur Budha*

#### Abstract

This paper investigates whether Nepal's inflation converges with India's inflation and examines the role of India's inflation in driving Nepal's inflation using data for the period 1974-2024. The paper finds that Nepal's inflation converges with India's inflation, and the effect of India's CPI persists up to 10 months on Nepal's CPI, and up to 22 months on Nepal's food CPI. Inflation convergence is explained by the mechanisms of high trade integration, high labor mobility and wage convergence, and the peg of the Nepalese Rupee with the Indian Rupee. The paper also finds the convergence in wage growth between Nepal and India, and a significant pass-through of the depreciation of the Nepalese Rupee against the US dollar to Nepal's overall CPI and food CPI. These results imply that the current exchange rate peg is working well as a nominal anchor, helping to maintain monetary stability by borrowing from India's stability. However, macroeconomic policies can be used to correct short-term deviation from India's inflation.

### **The Impact of Global Uncertainties in the Exchange Rate Pass-Through and Its impact on Monetary Policy in Asian-Pacific Countries**

*Ganapati Mendali*

#### Abstract

This study examines the influence of global uncertainties on the exchange rate pass-through (ERPT) in Asia-Pacific countries 2003M1 to 2021M1. To study this behaviour, we have used Panel autoregressive distributed lag (Panel ARDL) model by employing seven variables (viz., exchange rate, consumer price, output gap, Central bank policy rate, oil prices, economic policy uncertainty and geo-political risk). In the long run, the exchange rate changes has a significant negative impact on the price level. The geo-political risk also has significant negative impact on the price level. However, economic policy uncertainty has insignificant impact on prices in Asia-Pacific countries. However, in the short run, there is no significant impact of exchange rate changes, economic policy uncertainty and geo-political risk on price level. The change in monetary policy has a significant negative impact on consumer prices in the Asia-Pacific countries in the long-run. However, no such impact is seen in the short-run. The economic policy uncertainty shocks do not have any significant impact on the price level in the short-run and long run. In terms of policy, this means that the economic policy uncertainty has insignificant consequences for monetary policy, and does not poses a threat to price stability. This indicates that a credible monetary policy could control inflation in the long -run.

## **Exchange Rate Effects on Firm Performance: A NICER Approach**

*Nuwat Nookhwun, Jettawat Pattararangrong, Phurichai Rungcharoenkitkul*

### Abstract

This paper examines the valuation effects of exchange rates arising from currency mismatches of firms' trade transactions. Combining Thailand's several micro-level datasets, we construct firm-specific exchange rates which account for invoicing currencies and hence capture cash-flow impact of currency mismatches. We show that these net-invoicecurrency-weighted exchange rates (NICER) outperform both trade-weighted and dollar exchange rates in explaining firms' profitability. The impact of NICER changes on cash flows is larger for small and medium-sized exporters, while importers face a uniformly small impact. The cash flow effects are moreover stronger for NICER linked to non-dollar invoicing currencies. Among possible factors, international trade dependency stands out as a key determinant of heterogeneous exchange rate sensitivities, with financial hedging offering mitigation only for dollar-invoiced transactions. On the real side, we document evidence that NICER movements affect firms' investment and labor reallocation decisions. These findings highlight a novel financial channel of exchange rates under the dominant currency paradigm.