

The paper examines the hypothesis that the devaluation of the domestic currency leads to the higher exchange rate pass-through at the zero lower bound since the interest rate channel cannot offset effects of the depreciation in that situation. Time-varying vector autoregression with stochastic volatility is used to identify the development of the pass-through. The hypothesis is tested on the Czech dataset because the Czech Republic is considered as the prototypical small open economy with inflation targeting. The assumption of higher pass-through to consumer prices at the zero lower bound is rejected. Obtained results confirm that the depreciation stimulates output growth slightly more when the interest rate is close to zero. Our estimations imply that the exchange rate commitment of the Czech National Bank increased the price level by 0.116 % and contributed to the output growth by 0.781 %.