

The inflationary effects of fiscal policy in Turkey: Evidence from a SVAR model

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Abstract

The high single-digit inflation in Turkey, as well as in other developing countries is the subject of studies focusing on the role of monetary policy. While low budget deficits and sustainable debt dynamics in post 2001 crisis period in Turkey, whether the fiscal aggregates are expansionary and they play any role in inflation rigidity remain as unanswered and important questions. This study aims to provide evidence on these questions. After analyzing the nature of fiscal policy in Turkey between 2002:Q1-2014:Q4 period, I try to evaluate the impact of fiscal policy shock on macroeconomic variables, with a special focus on inflation. The methodological framework is structural vector autoregressive. Whereas the preliminary results regarding the effect on output are in line with the previous literature for fiscal policy

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in Turkey, the findings for the effects on inflation differ in respect to fiscal aggregates.

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