

Asymmetric Relationship Between Money Supply and Economic Growth: The Case of Turkey under Inflation Targeting Regime

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Abstract:

In the 1990s, the economy of Turkey experienced many crises experiences. IMF's stabilization programs could not achieve permanent success against inflation. In 2000, exchange rate targeting was initiated within the scope of the fight against inflation, but this program ended with the economic crisis in 2001. In the circumstances, in order to fight against inflation, the Central Bank started an implicit inflation targeting in the 2002-2005 period and an open inflation targeting after 2006. The aim of this study is to observe the effects of open inflation targeting, which was started after 2006. In this regard, based on the St. Louis equation, the effects of money supply on economic growth were tested by using the non-linear autoregressive distributed lag (NARDL) method and Hatemi-J asymmetric causality test. The data about the variables cover the period after 2006 and were obtained from CBRT. The study finds that the effects of the changes in money supply on economic growth are asymmetric and asymmetric causality test findings, there is a causality from positive and negative shock in the money supply to positive and negative shock in the economic growth. In addition, the existence of causality from positive and negative shock in the economic growth to positive and negative shocks in the money supply. Empirical results also suggest that the money supply is endogenous for this period.

Keywords: Money Supply, Economic Growth, Asymmetric Causality, NARDL

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