

The Effect of Monetary Policy on an Emerging Market Economy: Evidence from Turkey

Anil Akçaglayan*

Ayşe Ertugrul**

Anil.Akcaglayan@politics.ankara.edu.tr, Ayse.Ertugrul@malix.univ-paris1.fr

Preliminary Version

Abstract

Our paper aims to examine the dynamic relationship between monetary policy and the Turkish exchange rate during the period 1990-2004. To account for changes in monetary policy, we divide our sample into two sub-periods corresponding to 1990:06-1999:12 and 2000:01-2004:11. We estimate a VAR model applying the Toda Yamamoto (1995) methodology (which allows testing Granger causality regardless of the order of integration of the series) to monthly data. Our results indicate that monetary policy instrument (the nominal interest rate of the money market) Granger causes foreign exchange reserves and the real exchange rate in the first sub-period whilst it Granger causes the inflation rate, the reserve money, the output and the real exchange rate.

JEL classification: E52, E58, F30

Key words: monetary policy, VAR, Granger causality, Turkey

* Ankara University, Department of Economics, 06590 Cebeçi, Ankara,

** Laboratoire Théorie et Applications en Microéconomie et Macroéconomie - CNRS (UMR 8059), Université de Paris 1 Panthéon Sorbonne, Maison des Sciences Economiques 106-112, Bd de l'Hôpital, 75647 Paris Cedex 13,