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ANALYSIS THE DETERMINANTS OF INFLATION DYNAMICS IN TURKEY

Abstract:

The high inflation is undesirable phenomenon for Turkey especially from 1970s to 2000s. Turkey was introduced the destructive effects of inflation in the 1970s. In particular, this process began with the rise of oil prices in the 1970s lasted until the 2000s. The reasons of these political instability, populist policies, failure to comply with fiscal discipline, budget deficits, and growing SOE deficits. But with the 2000s, after the stand-by agreement with IMF, the fight against inflation has been one of the main public policies and, therefore, steps have been taken towards fiscal discipline. As a result of this context, inflation could be reduced to single digits. However, inflation still continues to maintain its place on the agenda. Therefore, the study focuses to examine the determinants of inflation in Turkey on economic and econometric criterion and also to investigate causal relationships among some macroeconomic variables. For that purpose, in this study, estimates have been investigated using Johansen Co-integration and Vector Error Correction approached.

Keywords:

Inflation, Budget Deficit, Fiscal Discipline, Johansen Co-integration Test

JEL Classification: E31, E60, H62