

# Review of: "A VAR Framework of Exchange Rates, Interest Rates, and Inflation Through COVID-19 in Turkey: Empirical Evidence From Linear Cointegration and Causality Analysis"

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Potential competing interests: No potential competing interests to declare.

I believe that the evidence documented in this article is relevant for both academics and policymakers alike. My comments are mostly related to the interpretation of the findings, as well as the extent to which the results can be generalized to other market regimes.

First, since the period of analysis comprises 2020 and the onset of the COVID-19 pandemic, it is important to consider that exchange rate markets likely reflected the massive monetary policy expansions by central banks of developed and emerging market economies to mitigate the effects of the pandemic (Cortes, Gao, Silva, and Song 2022; Rebucci, Hartley, and Jimenez 2022). While the balance sheets of central banks of developed economies were gradually expanding over the decade as the result of the quantitative easing policies to counteract the subprime and Eurozone crises, the expansions in February and March of 2020 were nearly unparalleled, not only in economic magnitude but also by the number of different monetary authorities announcing quantitative easing policies in a short period.

Perhaps the reasons why the onset of the COVID-19 pandemic does not represent a major structural shift to long-term inflation rates are twofold: first, there was a high degree of multilateralism in quantitative easing announcements in March and April of 2020. Hence, while capital markets benefitted from the liquidity injection (Cortes, Gao, Silva, and Song 2022; Rebucci, Hartley, and Jimenez 2022), equilibrium interest rates did not change substantially in the absence of major imbalances in money supply across countries (Dedola, Georgiadis, Grab and Mehl 2021). Moreover, because of the gamut of supply-side and demand-side effects of the pandemic, it was unclear whether the crisis was inflationary or deflationary.

I concur with the inflation discussion raised by the authors, but it would be helpful to expand the sample beyond July 2020. After all, after 2021, the immunization campaigns and the prevalence of antibodies in the population significantly reduced the concerns of economic agents regarding COVID-19 infections and fatalities. Instead, inflationary pressures in 2021 and 2022 can be largely attributed to lockdowns and port closures in China (despite improved public health concerns) and disruptions caused by the war in Ukraine. Assuming that data is not a constraint, I would encourage the authors to expand the study sample period. Expanding the period is also important given the arguments about fiscal dominance that the authors are raising. After all, fiscal dominance is more likely when a country's fiscal space is constrained, which is likely the case after the COVID-19 pandemic when governments also engaged in expansionary fiscal policies.

The central finding of the paper is that structural shifts in interest rate dynamics occurred around the events leading to political instability in 2016. Hence, it would be important to delve into the economic channels that explain such variation. Are the findings driven by a direct exchange-rate depreciation channel as in Costa, Dhingra, and Machin (2024) or by an indirect channel wherein uncertainty affects the investment and hiring decisions of corporations (Campello, Cortes, d'Almeida, and Kankanhalli 2022), which in turn affect foreign direct investment and equilibrium inflation exchange rates?

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