

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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This paper, "A VAR Framework of Exchange Rates, Interest Rates, and Inflation Through COVID-19 in Turkey: Empirical Evidence From Linear Cointegration and Causality Analysis," is an insightful investigation into the interplay between key economic variables in Turkey during a time of intense economic upheaval. By covering the period from January 2004 to July 2020, the study incorporates critical events, including the 2016 FETO coup attempt, the 2018 U.S. sanctions, and the COVID-19 pandemic, offering a comprehensive view of external and internal economic shocks. This approach effectively contextualizes the analysis and enhances its relevance, as it allows for the assessment of both transient and structural changes within Turkey's macroeconomic landscape. The dataset and timeline selection are commendable, providing a robust foundation for examining the interactions between exchange rates, interest rates, and inflation.

The study's methodological rigor is evident in its use of advanced econometric tools, such as the Vector Autoregressive (VAR) model, ARDL Bounds test, and Granger causality analysis. Each of these methods is thoughtfully chosen, allowing for an exploration of both short-term and long-term relationships among the variables. This multi-method approach strengthens the findings by providing a nuanced understanding of dynamic relationships, helping to distinguish between immediate effects and longer-term trends. Moreover, the combination of tests for stationarity, causality, and cointegration highlights the interconnectedness of the variables and provides a well-rounded perspective on the Turkish economy's response to external pressures.

However, certain areas of the paper could be enhanced to deepen its academic and practical contributions. For example, while the literature review is extensive, it could be further enriched by including more recent studies on emerging markets during the COVID-19 pandemic. Expanding this context would strengthen the study's comparative value and emphasize Turkey's position relative to similar economies. Additionally, certain key economic terms, such as "fiscal dominance" and "purchasing power parity (PPP)," are central to the paper's arguments but would benefit from further clarification. For instance, explaining fiscal dominance and its implications for central bank autonomy in Turkey's unique political landscape would provide readers with a deeper understanding of this complex issue.

The paper would also benefit from a more explicit discussion on the chosen variables and the rationale behind their selection, particularly regarding the Turkish Interbank Offer Rate (TIBOR) and Commercial Bank Interest Rates (CBIR).

Although these are familiar within the Turkish context, providing additional background would enhance accessibility for international readers. While the use of VAR and ARDL models is methodologically sound, adding robustness checks, such as variance decomposition and impulse response functions, could further support the paper's conclusions and provide additional insight into variable interactions. Such enhancements would add another layer of empirical robustness, reinforcing the study's findings and practical implications.

In its conclusion, the study presents valuable recommendations for policymakers, particularly in terms of addressing fiscal and monetary policy concerns. These conclusions could be further enriched by discussing alternative policy frameworks or strategies that could mitigate fiscal dominance and enhance economic resilience. Expanding this analysis would increase the practical value of the study for Turkish policymakers and offer relevant insights for other emerging economies facing similar challenges. Overall, this paper presents a well-structured, empirically sound examination of Turkey's macroeconomic dynamics, with clear potential for further refinement to maximize its academic and policy impact.