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.

This paper provides a thorough analysis of the relationship between exchange rates, interest rates, and inflation in Turkey, using advanced econometric methods like ARDL and VAR Granger causality. It effectively highlights the impact of key events such as the 2016 FETO coup, the 2018 U.S. embargo, and the COVID-19 pandemic on Turkey's inflation dynamics. The methodology is robust, and the policy recommendations are practical, especially regarding the synchronization of PPI and TIBOR to control inflation.

However, some areas for improvement include further explanation of technical results, a deeper exploration of fiscal policy's role, and a discussion of model limitations. Additionally, the paper could be more accessible to non-experts by simplifying some of the technical jargon.

Areas for Improvement:

Technical Results:

The discussion of the Johansen cointegration test results (Table 5) could benefit from clearer interpretation. While the results show cointegration at the 5% level, the paper could elaborate on the implications of this in lay terms, especially how it reinforces the long-term relationship between inflation and exchange rates. A more in-depth explanation of the trace and max-eigen statistics and their role in confirming cointegration would be helpful for non-expert readers.

Similarly, the ARDL model's short- and long-run coefficients (Table 6) could use further clarification. The paper mentions a 15.15% increase in CPI with a 1% increase in PPI but does not elaborate on the potential policy implications of such a large impact. A deeper discussion of the practical consequences of these coefficients in terms of economic stability or policy interventions would make the findings more impactful.

Fiscal Policy:

The role of fiscal policy is acknowledged in the conclusion but could be explored in more depth throughout the paper. The paper mentions "fiscal dominance" but does not fully unpack its consequences for monetary policy and inflation control. For instance, the paper could investigate how fiscal policies during crises (such as the 2018 U.S. embargo or COVID-19) influenced the central bank's monetary policy decisions and their potential conflicts with inflation targets.

The paper could expand on how fiscal interventions, such as stimulus packages or public sector subsidies, have impacted inflation. During the COVID-19 pandemic, the Turkish government introduced measures like debt restructuring and direct subsidies to businesses and consumers. These policies could have exacerbated inflation by increasing demand while limiting the central bank's ability to control interest rates effectively. A deeper dive into these fiscal measures and their consequences on inflation, especially during crises, would provide a more nuanced understanding of the complex dynamics between fiscal and monetary policies.

Policy Recommendations: Given the paper's findings about fiscal dominance, it would be helpful to include specific policy recommendations. For example, the paper could suggest how the central bank could regain more autonomy in policy-making or recommend ways to harmonize fiscal and monetary policies to prevent inflationary spirals in the future.

Overall, the study contributes valuable insights to understanding Turkey’s macroeconomic challenges, offering a comprehensive framework for policymakers.