

Inflation, Output, and Stabilization in a High Inflation Economy: Turkey, 1980 – 2000

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Abstract

This paper surveys and examines the sources of fluctuations in inflation and output in Turkey. Using a dynamic open economy aggregate supply – aggregate demand model with imperfect capital mobility and structural vector–autoregressions, the authors consider real oil price, supply, balance of payments, real demand, and monetary disturbances. Empirical results indicate that inflation is driven by monetary and real demand disturbances while output is mainly driven by aggregate supply disturbances. The historical decomposition shows that a substantial portion of inflation is aggregate demand–driven core inflation. A credible disinflation program accompanied by structural reform is likely to stabilize the economy with little output costs.