

An Investigation of the Interaction Effects of Volatility of Monetary, Financial and Real Exchange Rate Policies in the Iranian Economy: Application of VAR and GARCH Models

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Abstract

Achieving economic growth and price stability through monetary, fiscal and exchange rate policies requires coordination. The purpose of this paper was to investigate the relationship between the volatility of these policies in Iran over 1357-1396 periods. So that VAR approaches was used. Using the EGARCH method, the volatility of tax revenue, government expenditure, liquidity, interest rate and real exchange rate were estimated. The results of the impulse response test showed that in the long run, monetary policy volatility (liquidity) has a direct impact on financial policy volatility. Also, the volatility of fiscal policy has a negative effect on the volatility of monetary policy (liquidity), but it has not affected the volatility of interest rates. According to the results, financial policy volatility (government expenditures) leading to an increase in real exchange rate volatility and monetary policy volatility (liquidity) also has a negative impact on real exchange rate volatility. Thus, it can be seen that the fiscal policies resulting from government spending and the monetary policies resulting from the volume of liquidity affect each other. They also have significant long-term effects on real exchange rate volatility.

Keywords: Volatility of Monetary Policy, Volatility of Financial Policy, Volatility of Real Exchange Rate policy, EGARCH.

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