

Measuring the Effect of Monetary and Fiscal Policy Interaction on Macroeconomic Variables; TVP-VAR Approach

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Abstract

One of the most important criteria in measuring the effect of economic policy is how monetary and fiscal policy interact and the effect of this interaction on economic growth. An important point in studying the interaction between monetary and fiscal policies is the coordination between these policies in order to achieve the goals of economic growth. Accordingly, considering the interaction of monetary and fiscal policies in different periods of the Iranian economy using the TVP-VAR method, which can evaluate the effects of economic policy changes on macro variables over time, this article studies the shock effect of monetary and fiscal policies and their impact on the two macroeconomic variables, namely inflation and GDP in the period 1379 to 1398. The results show that the effect of fiscal policy on GDP growth is larger than monetary policy. The analysis of the interaction of monetary and fiscal policies shows two important results. First, the

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increase in government debt has a greater effect on output growth and increased liquidity than the monetary policy shock due to its more stable and broader effect. Second, monetary policy can lead to more sustained inflation. The most important policy recommendation of this study is that considering the dominant role of fiscal policy in the Iranian economy in the period under review, it is necessary for monetary policymakers to pay sufficient attention to the central bank using a regular monetary policy framework to control inflation and the main goal that is controlling inflation and maintaining stable economic growth.

Keywords: Monetary and Fiscal Policy Interactions; Rule-Based Monetary and Fiscal Policies; inflation; TVP-VAR Model.

JEL Classification: E52, E58, E61, E62.

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