

DO OIL PRICES AFFECT CURRENT ACCOUNT ASYMMETRICALLY? NON LINEAR ARDL APPROACH

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Abstract

Although most of the emerging market economies heavily depend on imported oil, the relation between oil prices and current account balance has been analyzed only in a limited number of studies. This paper aims to investigate the asymmetric effects of changes in oil prices on current account balance of Turkey by considering the possible nonlinearities in the current account balance. Previous empirical studies adopted the traditional cointegration methods by assuming a linear and symmetric long run relationship between current account and oil prices. However, recent empirical literature proposes that the adjustment of current account dynamics may follow a nonlinear process because of the future policy changes and transaction costs. To capture possible nonlinearity in the data, we employ the Nonlinear Autoregressive Distributed Lag (NARDL) cointegration approach proposed by Shin et al. (2014). NARDL is a recently developed method which uses positive and negative partial sum decompositions of the variables of interest and makes it possible to separate the effects of increases and decreases in oil prices. Furthermore, this method detects the asymmetric effects in the short run and long run. Our results based on monthly data between 2004-2015 reveal that i) current account and oil prices are cointegrated in the long run, ii) current account reacts asymmetrically to the oil price changes in the short run, iii) there is no evidence of asymmetry in the long run. These findings indicate that oil importing developing countries become more vulnerable to oil price shocks especially in the short run. Thus, implementing policies to reduce the dependency on oil should be one of the priorities of the policy makers.

Keywords: Asymmetry, Nonlinear ARDL, oil prices.