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Revisiting the Feldstein-Horioka Puzzle for Turkey

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ABSTRACT

The domestic saving and investment correlation as posited by Feldstein & Horioka (Feldstein & Horioka, 1980) is revisited for Turkey and tested over the periods 1950–2017, 1950–1989, and 1990–2017. The first period is characterized by restricted capital mobility and the second period represents a period of perfect capital mobility. The time series properties of the data and the presence of structural breaks are properly addressed when testing for the presence of a longrun relationship between investment and saving ratios by using the bounds testing procedure. We find saving and investments to be cointegrated for Turkey over the whole period and the sub-periods. However, the investments and savings are positively correlated during the period of restricted capital mobility (1950–1989) and negatively correlated during the period of perfect capital mobility (1990–2017). These results are in conformity with the Feldstein and Horioka hypothesis that in a closed economy domestic investments are financed with domestic savings, and under perfect international capital mobility domestic savings flow to the most attractive returns around the world.

KEYWORDS Feldstein-Horioka puzzle; Capital mobility; Turkey; Cointegration; Bounds testing procedure