

increased the net domestic assets when output growth increase which could be evaluated as accommodation at least part of additional domestic demand stemmed from increase in government expenditures through an expansion of domestic credit. In the second period, we couldn't observe any relationship among net domestic assets and budget deficits and output. There is no significant relationship between net domestic assets and inflation in all periods. These results consistently suggest that the CBRT implemented a monetary policy accommodating to fiscal deficit and domestic demand until 1994. Since "short-term advances to Treasury" were heavily curtailed in the second period, we may not observe any relation between deficit and NDA in the second period. The estimated coefficient of VINT is positive significantly in the second period. This result is consistent with the CBRT's policy goal of stability in both TL and foreign exchange markets by the help of exchange rate policy, liquidity management techniques and the interest rate policy, which are consistent with the conducted fiscal policy.

In the NFA equation, the estimated coefficient of the capital account and current account are positive significantly in all periods as expected. The estimated coefficient of PRIM marginally significant in the second period while considerably significant in the first period. This is not surprising when considered the fact that the level of open FX positions of the banking system increased dramatically compared to the level of CBRT FX reserves and reached to 75 percent of official FX reserves at the end of 1993 as seen from Graph 1 in Appendix A.

Second Trial

We also estimated the equations by using "net credits to private sector" (CRDPRIV) instead of total net domestic assets. We obtained net credits to private sector (sum of "open market operation (OMO) stock", "credits to banking sector" and "other items") by excluding the net credits to government sector from the total net domestic assets. In the second step, we used the net credits to government sector (CRDGOV) as explanatory variable in the reaction function to measure the *neutralization* coefficient. The estimated coefficient for this variable is expected to lie between zero and minus 1. A coefficient of -1 would imply that the central bank neutralizes completely the public sector's credit requirements by cutting back credit to the private sector. Partial neutralization, on the other hand, produces a coefficient less than zero but greater than -1, and no neutralization entails a coefficient of zero. An accommodating monetary policy would increase in private sector domestic credit along with increased