Budget deficit and current deficit issues are critical macro-economic variables for most economies. Therefore, there has been a large number of academic work on this field. This study examines the causality relation between budget deficit, current deficit, exchange rate and interest rate in Turkey for 2001-2014 period. With respect to this, discussions on internal and external balance of economy and the definition of twin deficit hypothesis are given in section 1. Related empirical studies are summarized in section 2 and the work completed with econometric method and application sections. In empirical part of the work, we employ Toda Yamamoto causality test and we do not find any support for the twin deficit hypothesis. Our findings indicate that there is a unidirectional causality running from current deficit to budget deficit and a bi-directional causality between interest rate and budget deficit. We also find that there is a unidirectional causality running from exchange rate to budget deficit.

Keywords: Current Deficit, Budget Deficit, Twin Deficit, Toda Yamamoto Test.
Jel sınıflaması: H6, H62, F14