

## **Shadow Economy and Public Debt Sustainability in Turkey**

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### **Abstract**

The aim of this study is to examine the relationship between the shadow economy and public debt in Turkey. We elaborate on the questions regarding the negative effects of shadow economy on the sustainability of public debt with observing the estimates about the size of shadow economy in Turkey. In the light of some scholars' estimates; we re-evaluate the macroeconomic situation of Turkey. At the core of study; we discuss how the borrowing policies of government would differ if the shadow economy is included into legal system. In order to examine the effects of shadow economy on sustainability; we use various sustainability indicators. There is a significant difference observed between the calculation which is made by taking into account the volume of shadow economy as a share of economic system and by excluding the shadow economy as an exogenous variable.

**Key Words** : Public Debt, Shadow Economy, Sustainability.

**JEL Codes** : E26, H63.