Ekonomi, İşletme ve Maliye Araştırmaları Dergisi
Cilt 1, Sayı 2, 2019
s. 88-102

THE IMPORTANCE OF HARMONIOUS MONETARY AND FISCAL POLICIES: AN EXAMINATION UPON CREDIT INTEREST RATE IN TURKEY

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Abstract

High bank interest rates have been one of the main problems in certain periods for Turkey. When the development trend of interest rates is examined, it is seen that interest rates were high in the past, they decreased between 2002 and 2010, and they have been increasing after the year 2011. In order to reach low bank interest rates, monetary and fiscal policies are the main tools that can be used. Therefore, the application of monetary and fiscal policies in a harmonious way has substantial importance. Within this context, this study is prepared to evaluate the recent experience of Turkey in terms of harmonious monetary and fiscal policies. In this context, the period after 2010 is included and the period after 2016 is focused especially. Hence, recent approaches and practices in Turkey in terms of the harmonious policy are examined. As a result of the study, it is determined in the study that tight monetary policy and loose fiscal policy are applied generally in Turkey. However, monetary and fiscal policies have begun to be harmonious with the last quarter of 2018. In this context, the credit interest rate of banks has been decreasing with the last quarter of 2018 which was increasing since 2017. This shows that harmonious policies are so important that low bank interest rates cannot be reached without the practice of harmonious policies. This is the most important point that should be stated. Therefore, if it is desired to reach a low credit interest rate of banks, it is highly recommended that Turkey should always adopt harmonious monetary and fiscal policies.

Keywords: *Banking, Interest Rate, Harmonious Monetary and Fiscal Policies, Turkey.*

JEL Classification: *E31, E58, E63, O24, P44.*

UYUMLU PARA VE MALİYE POLİTİKALARININ ÖNEMİ: TÜRKİYE'DE KREDİ FAİZİ ÜZERİNE BİR İNCELEME

Özet

Türkiye'de bazı dönemlerde yüksek faiz oranları temel problemlerden biri olmuştur. Faiz oranlarının gelişim eğilimi incelendiğinde, geçmiş oldukça yüksek, 2002-2010 arasında düşme eğiliminde ve 2011 yılından sonra ise yükselme eğiliminde olduğu görülmektedir. Düşük faiz oranlarına ulaşmak için, para ve maliye politikaları kullanılabilecek temel araçlardır. Bu nedenle, para ve maliye politikalarının uyumlu bir şekilde kullanılması kritik öneme sahiptir. Bu bağlamda, Türkiye'de son zamanlarda deneyimlenen para ve maliye politikasının uyumunun değerlendirmesi amacıyla bu çalışma hazırlanmıştır. Bu kapsamda, çalışmada 2010 ve sonrası ele alınmış, 2016 ve sonrası döneme ise daha fazla odaklanılmıştır. Böylece, para ve maliye politikasının uyumu açısından Türkiye'deki güncel uygulama ve yaklaşımlar incelenmiştir. Çalışma sonucunda, Türkiye'de genel olarak sıkı para politikasının ve gevşek maliye politikasının uygulandığı belirlenmiştir. Ancak, 2018 yılının son çeyreği ile birlikte, para ve maliye politikası uyumlandırılmaya başlanmıştır. Bu kapsamda, 2017 yılından beri artış gösteren banka kredi faizi, 2018 yılının son çeyreği ile birlikte düşmeye başlamıştır. Bu tablo, uyumlu politikalar

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uygulanmaksızın, düşük banka kredi faizlerine ulaşılamayacağını göstermesi açısından önem taşımaktadır. Bu, vurgulanması gereken önemli noktadır. Dolayısıyla, düşük banka kredi faizine ulaşılmak isteniyorsa, Türkiye'nin her zaman için uyumlu para ve maliye politikası uygulaması önerilmektedir.

Anahtar Kelimeler: *Bankacılık, Faiz Oranı, Uyumlu Para ve Maliye Politikaları, Türkiye.*

JEL Sınıflaması: *E31, E58, E63, O24, P44.*

1. Introduction

Turkey experienced a variety of problems in macroeconomic indicators before 2002. Some of them could be summarized as the budget deficit, foreign trade deficit, current account deficit, high inflation, high-interest rates, and high volatility in foreign exchange rates (FER). Problems in the mentioned macroeconomic indicators reached the top level with the effects of the 2000 and 2001 crisis (Kartal, 2018).

Although there were a lot of macroeconomic problems in Turkey until 2002, most of them have been under control for the forthcoming period after 2002. However, troubled times have been seen in some indicators, specifically inflation and interest rates. So, in order to mention a victory in struggling with inflation and reaching low bank interest rates, i.e. low-cost credits, application of harmonious monetary and fiscal policies have enormous importance.

It is anticipated that similar to developed countries, Turkey should practice harmonious policies in order to have low bank interest rates via inflation. In other words, taken into consideration the effects and importance of harmonious policies on inflation and bank interest rates, it is expected to be applied harmonious policies by Turkey. However, Turkey's application in practices is a question mark. So, it will be valuable to research and examine recent developments and conditions in Turkey.

When examining Turkey's practices, it can be seen that Turkey has applied harmonious policies sometimes. However, it is hard to say that Turkey always has applied harmonious policies in recent periods. The policy selection of Turkey changes depending on national and international conjuncture. As a result of whether monetary and fiscal policies are harmonious or not, inflation and bank interest rates show different trend such as becoming low/stable or in an increasing trend.

Inflation is important for Turkey because of the fact that there was a painful experience and it affected Turkey very badly for many perspectives and caused negative effects on lots of macroeconomic indicators. Similar to inflation, bank interest rates have been important for Turkey due to fact that Turkey has a bank-based financial system and most of the funds are provided by credit channel (Yüksel et al., 2015; Dinçer et al., 2016; Kartal et al., 2018). Therefore, increases in bank interest rates affect all economic actors negatively. That is why it is concentrated in this study taking into consideration bank interest rates in terms of harmonious monetary and fiscal policies. Also, the reason, why commercial credit interest rates are taken consideration as the interest rate in the study, is that most of the credits consist of commercial credits (BRSA, 2018). For this reason, in the context of the importance of harmonious monetary and fiscal policies, recent developments in commercial credit interest rates of banks are examined in detail. In addition to these, inflation and interest rates affect deeply savings in a country which have substantial importance for investments (Ersin & Duran, 2017).

This paper aims to make an examination and evaluation of the recent situation regarding harmonious monetary and fiscal policies in terms of interest rates in Turkey. For this purpose, the credit interest rate of banks is chosen as interest rate indicator. In this context, recent practices of

Turkey in the harmonization of monetary and fiscal policies are examined. Hence, Turkey's practices and choices of policy are defined. As far as it is known, there is no recent study in Turkey examining the role and the importance of monetary and fiscal policies in terms of harmonious policy implementation in recent times. So, it is thought that the study has a pioneer and unique characteristics from this perspective.

This study consists of four parts. After the introduction part, some selected studies in Turkey regarding monetary and fiscal policies and interest rates are examined within the context of the literature review in the second part. Practices of monetary and fiscal policies, whether they are harmonious or not, in Turkey and their effects on credit interest rates of banks are examined in the third part. Finally, an evaluation is made in the fourth part.

2. Literature Review

There are a lot of studies about interest rates, monetary and fiscal policies in Turkish literature. Akkaya & Gürkaynak (2012) examine monetary policy from the implementation perspective by using descriptive statistics method. They conclude that although Central Bank of Republic of Turkey (CBRT) does not have any responsibility actually, it assumes responsibility to struggle with credit growth and current account deficit. However, CBRT does not have the necessary instruments so as to do this. Similarly, Keskin (2018) examine monetary policy from the implementation perspective by using descriptive statistics method and defines that instabilities resulting from international capital flows cannot be prevented by only monetary policy instruments.

Another group of studies examines monetary policy from the perspective of effects. Erol (2014) handles the issue by using descriptive statistics method and states that monetary policy did not become successful in the global crisis. Erer et al. (2016) examine monetary policy by threshold vector autoregressive regression method and define that CBRT short-term interest rate affects real exchange rate positively while but Federal Reserve Bank (FED) affects only the real exchange rate positively in high inflation period. FED's short-term interest policy is vital for Turkey. Gökalp (2016) reviews the issue by generalized method of moments and determines that increase in policy interest rate of CBRT results in the decrease in stock price. Oskay (2017) handles the issue by using descriptive statistics method and states that it will not be sufficient for the central bank to assume a duty by focusing on monetary policy in order to ensure price stability and financial stability and to correct macroeconomic imbalances. Kaya (2018) handles the issue by dynamic stochastic general equilibrium model and defines that there is a mutual relation between stock returns and monetary policy shocks.

The last group of studies in the literature examines monetary policy from policy coordination perspective. Özyılmaz (2016) handles the issue by using descriptive statistics method and states that monetary and fiscal policies are not independent of each other, and policy coordination is essential for effective macroeconomic results. Cukadar & Algan (2018) examine the issue with a similar perspective by nonlinear time series and determine that there is no relationship between monetary and fiscal policy variables between 1980 and 2016. Also, the low coordination coefficient shows that coordination institutions did not work efficiently.

In addition to monetary policy, some studies examine fiscal policy. Yurdakul & Saçkan (2006) examine fiscal policy from the effect perspective by Granger causality test. They conclude that Price stability can be achieved by both appropriate monetary and fiscal policies. Similarly, Düzgün (2010) examine fiscal policy with the same approach by ARDL boundary test and he defines that fiscal policy is more effective than monetary policy in Turkish economy for the period of 1987: Q1-2007: Q3.

Another group of studies examines fiscal policy from the perspective of implementation. Günaydın & Eser (2012) handle the issue by using descriptive statistics method and states that independent fiscal policy committee is recommended in order to sustain success by the delegation of the fiscal policy through maintaining the fiscal discipline. Similarly, Altunöz (2018) examine fiscal policy with the same approach by ARDL boundary test and he determines that Fiscal policy in Turkey is efficient in the short run and long run whereas monetary policy is effective only in the short run for the period of 1992-2016.

The last group of studies in the literature examines fiscal policy from policy coordination perspective. Özaktaş (2008) handles the issue by Johannsen co-integration test and states that CBRT can be only successful in reaching the inflation target with the support of the fiscal policy. Şimşek (2008) handles the issue by using descriptive statistics method and defines that instruments of monetary and fiscal policies should be adopted simultaneously in order to provide financial stability. Şimşek & Altay (2009) conclude that monetary and fiscal policies should be adopted consistently with each other in order to prevent the crisis. Also, Bozkurt & Göğül (2010) determine that if coordination were not provided between monetary and fiscal policies, then financial instability arises. While Tokucu (2010) state that monetary and fiscal policies should be adopted simultaneously and based on activists approach for getting rid of crisis, similarly (2014) conclude that decisions of monetary policy should be taken into consideration in fiscal policy implementation.

Besides monetary and fiscal policies, there are also studies examine interest rate from the perspective of which determinants affect the interest rate. Some studies research the relationship between interest rate and inflation. Sever and Mızrak (2007), Mercan (2013), Aytaç and Sağlam (2014), Tanrıöver and Yamak (2015), Atgür and Altay (2015), Doğan et al. (2016), and Tunalı and Erönal (2016) examine this relations by using Granger causality analysis, Gregory-Hansen co-integration test, Johannsen co-integration analysis, MGARCH, regression, vector autoregression model and vector autoregressive model. They concluded that inflation, meaning the wholesale price index, inflation uncertainty, and general price level, is a significant determinant of the interest rate.

Another group of studies examines the relationship between interest rate and FER. Gül et al. (2007), Sever and Mızrak (2007), and Ekinci et al. (2016) examine this relation by using Granger causality analysis, regression and vector autoregressive model. They determined that FER, meaning USD and EUR, are significant determinants and increase causes of the interest rate.

The last group of studies in the literature examines the relationship between interest rate and different indicators. Demir and Sever (2008) analyze the effect of public domestic borrowing on interest rate by using Johansen co-integration analysis and determine that there is a correlation between interest rate and public domestic borrowing. Durgut (2010) analyzes the effect of the real money supply, public debt stock, and real exchange rate on interest rate by using Johansen co-integration analysis and determines that these are indicators of the interest rate. Öztürk and Durgut (2011) analyze the effect of domestic debt stock on interest rate by using Johansen co-integration analysis and determine that there is a positive long-run relationship between domestic debt stock and interest rate. Akıncı and Yılmaz (2016) analyze the effect of economic growth, exchange rate, money supply, external debt service, current account balance, and inflation rate on interest rate by using Johansen co-integration analysis and define that these indicators have statistically significant effects on the interest rate.

When examining studies in the literature as a whole, any study examining the role and the importance of monetary and fiscal policies in terms of harmonious policy implementation exists. For this reason, there is a need such a study. In the present study, it is aimed to determine current practices in the coordination of monetary and fiscal policy in Turkey in terms of credit interest rate.

3. An Examination upon Practice of Harmonious Monetary and Fiscal Policies in Terms of Credit Interest Rate of Banks in Turkey

In the context of the examination of harmonious monetary and fiscal policies, firstly developments of interest rate in Turkey are examined. Secondly, developments of FER and inflation, which have an effect on credit interest rate in Turkey, are examined. After that, monetary and fiscal policy practices are examined. As a last, the effects of monetary and fiscal policy practices on credit interest rate changes are discussed.

3.1. Developments of Interest Rate In Turkey

Most of the countries are dependent on credit opportunities for financing economic activities. Turkey is also one of these countries that financial markets consist of mainly the banking sector. In other words, most of the economic activities in Turkey are funded by the banking sector. For this reason, the credit interest rate of banks has crucial importance in Turkey. Figure 1 shows the development trend of interest rate in Turkey since 2002.

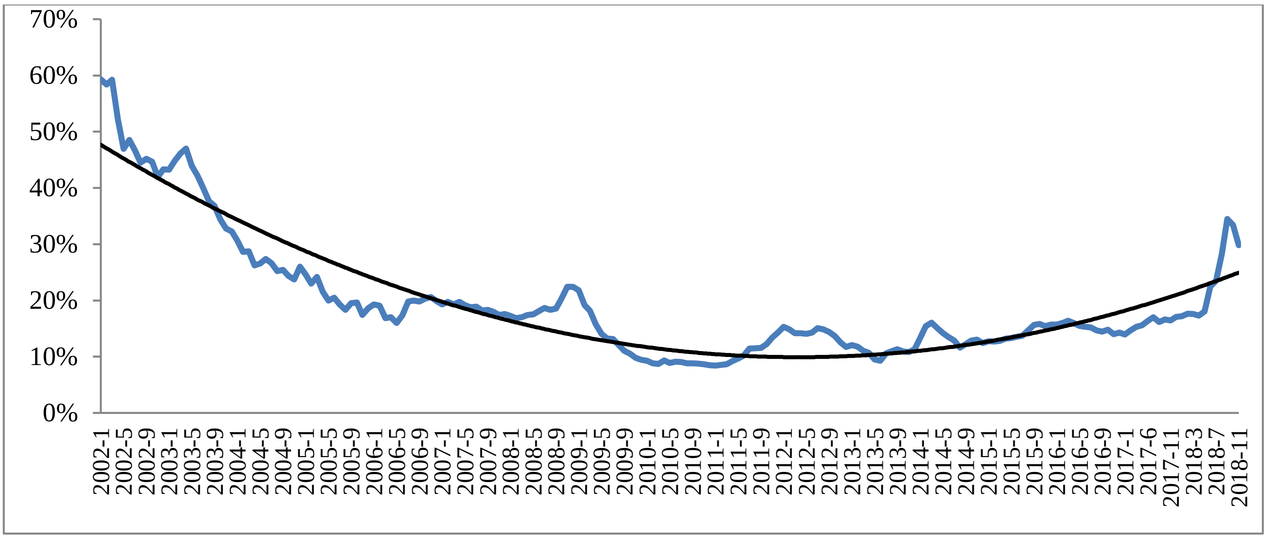

Fig. 1. Bank Credit Interest Rate since 2002 in Turkey (%). **Source:** CBRT, 2018a.

When the development trend of interest rate in Turkey examined, it can be seen that the interest rate was 60% as of 2002 January and it decreased to 8% as of 2011 January by declining. The interest rate, which gradually increased in the following periods, increased 17% as of 2017 December. The interest rate has sustained its upward trend due to the effects of national and international macroeconomic developments and has reached 35% at the end of 2018 September. Also, this level is the highest level that interest rate has reached after 2004. As of 2018 October end, the interest rate has become 30%.

In order to understand better how bank credit interest rate has been changing recently, it would be better to examine the period since 2010 and focus the period since 2016 in detail. Figure 2 shows the development of the interest rate in Turkey since 2010.

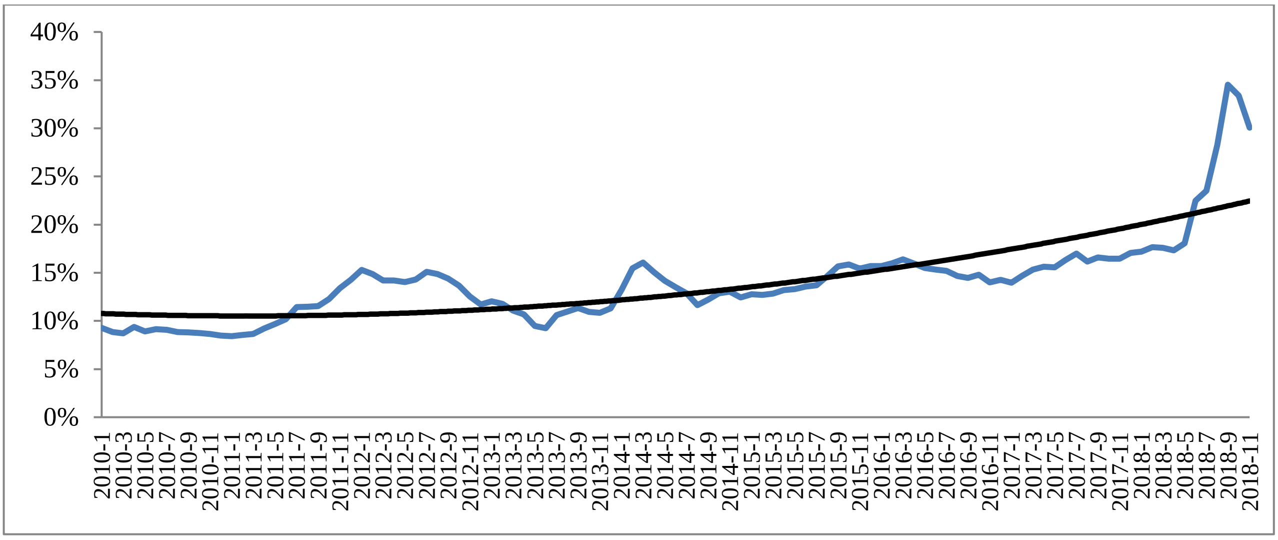

Fig. 2. Bank Credit Interest Rate since 2006 in Turkey (%)**. Source:** CBRT, 2018a.

As Figure 2 indicates, interest rate moved horizontally throughout 2010 approximately at the level of 10%. Interest rate increased to the level of 14% as of 2011 end, decreased to the level of 12% as of 2012 end, decreased to the level of 11% as of 2013 end, increased to the level of 12% as of 2014 end, increased to the level of 16% as of 2015 end, decreased to the level of 14% as of 2016 end and increased to the level of 17% as of 2017. This structure shows that the interest rate has moved the range of 10%-17% between 2010 and 2017.

On the other hand, as Figure 2 indicates, the important changes and volatility in interest rate have been seen in 2018. The interest rate has remained 17% still as of 2018 April which is same to the level as of 2017 December. However, after that time, the picture began to change. Interest rate increased to 18% as of 2018 May, increased to 22% as of 2018 June, increased to 23% as of 2018 July, increased to 28% as of 2018 August, increased to 35% as of 2018 September, decreased to 33% as of 2018 October, decreased to 30% as of 2018 November. The figure for the last year shows that there are some problems and misapplication of the policies in Turkey causing an increase in interest rate.

3.2.Developments of FER and Inflation

Changes of interest rate result mainly from developments of macroeconomic indicators. The most important macroeconomic indicators affecting interest rate in Turkey are FER and inflation. In order to understand changes occurring in interest rate, examination of developments in FER and inflation is a must. In this context, Figure 3 shows the development of FER in Turkey since 2010.

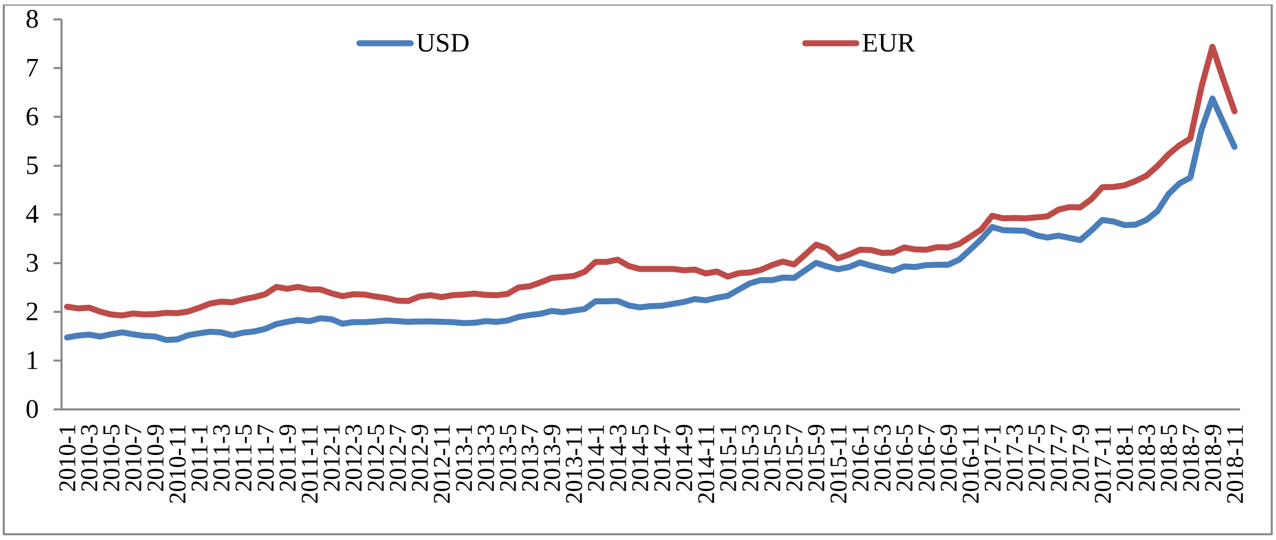

Fig. 3. FER in Turkey (%)**. Source:** CBRT, 2018a.

FER in Turkey is quite stable between 2002 and 2010. As Figure 3 indicates, FER also moved nearly horizontally until 2017 end. At that time, 1 USD was 3.85-TL and 1 EUR was 4.56-TL. However, the picture began to change with the year 2018 depending on the deterioration in macroeconomic indicators of Turkey. USD/TL FER increased to 4.06-TL as of 2018 April, increased to 4.42-TL as of 2018 May, increased to 4.64-TL as of 2018 June, increased to 4.76-TL as of 2018 July, increased to 5.74-TL as of 2018 August, increased to 6.38-TL as of 2018 September. After that pick point, USD/TL FER decreased a bit and it has been 5.38-TL as of 2018 November.

EUR/TL FER followed a similar pattern to USD/TL FER. EUR/TL FER. EUR/TL FER increased to 4.99-TL as of 2018 April, increased to 5.23-TL as of 2018 May, increased to 5.42-TL as of 2018 June, increased to 5.56-TL as of 2018 July, increased to 6.62-TL as of 2018 August, increased to 7.44-TL as of 2018 September. After that pick point, EUR/TL FER decreased a bit and it has been 6.12-TL as of 2018 November. The picture regarding FER, including USD/TL and EUR/TL, tells that there is some misapplication of the policies in Turkey causing the increase in FER.

FER cause an increase in inflation and hence they affect interest rate in this way. Therefore, in addition to FER, following changes in inflation is important for the interest rate. So, Figure 4 shows the development of inflation, including the consumer price index (CPI) and the producer price index (PPI), in Turkey since 2010.

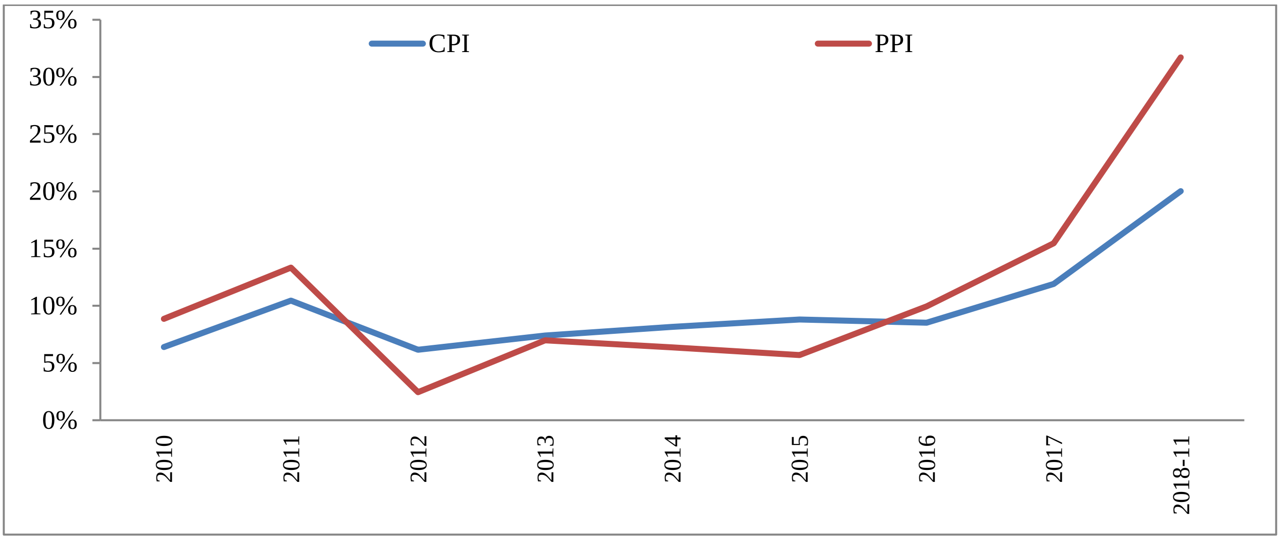

Fig. 4. Annual Inflation in Turkey (%). **Source:** Turkish Statistical Institute (TSI), 2018.

Inflation in Turkey is quite stable between 2002 and 2010 at around 10%. This picture shows a similar trend with the interest rate and FER. As Figure 4 indicates, inflation moved nearly horizontally until 2016 end. At that time, CPI was 38.53% and PPI was 9.94%. However, the picture began to change with the year 2017 depending on the deterioration in macroeconomic indicators of Turkey. CPI increased to 11.92% and PPI increased to 15.47% as 2017 December. This negative trend continued in 2018. The most current figure for CPI is 20.02% and for PPI is 31.71% as of 2018 November. The picture regarding inflation, including CPI and PPI, shows that there is some misapplication of the policies in Turkey causing the increase in inflation.

3.3. Practices of Monetary Policy

To understand the effects of monetary policy on credit interest rate of banks, what practices of the monetary policy have been applied should be reviewed firstly. As it is known, CBRT has applied interest corridor approach for a while and it has given up this approach by completing simplification process regarding the operational framework of the monetary policy on 06.01.2018 (CBRT, 2018b). Figure 5 shows the development of interest rates used in interest corridor approach of CBRT since 2010.

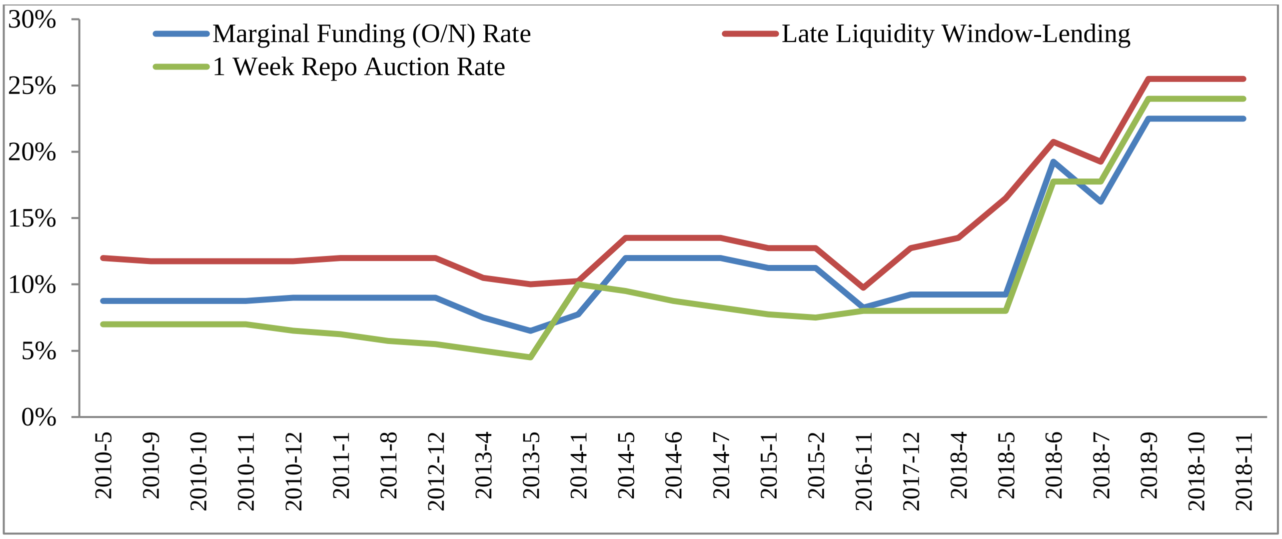

Fig. 5. Interest Corridor and CBRT Interest Rates (%). **Source:** CBRT, 2018b.

As Figure 5 indicates, interest rates used in interest corridor approach moved nearly horizontally until 2013 May end. At that time, 1-week repo auction rate was 4.50%, marginal funding rate was 6.5% and late liquidity window rate for lending was 10%. However, the picture began to change with the 2014 January depending on the deterioration in macroeconomic indicators of Turkey. 1-week repo auction rate increased to 10% and the rate moved horizontally until 2018 May end at the around of 8%. Meanwhile, late liquidity window rate for lending, which shows actual interest in the market, increased to 16.5% as of 2018 May end. In the simplification process regarding the operational framework of the monetary policy, 1-week repo auction rate was determined as 17.75%, marginal funding rate was determined as 19.25% and late liquidity window rate for lending was determined as 20.75% in 2018 June. The latest figures for the interest rates are 24%, 22.50%, and 25.50% as of 2018 October respectively.

In addition to interest corridor approach used by CBRT, the volume of emission is an important indicator in terms of monetary policy. Figure 6 shows the development of the volume of emission of CBRT since 2010.

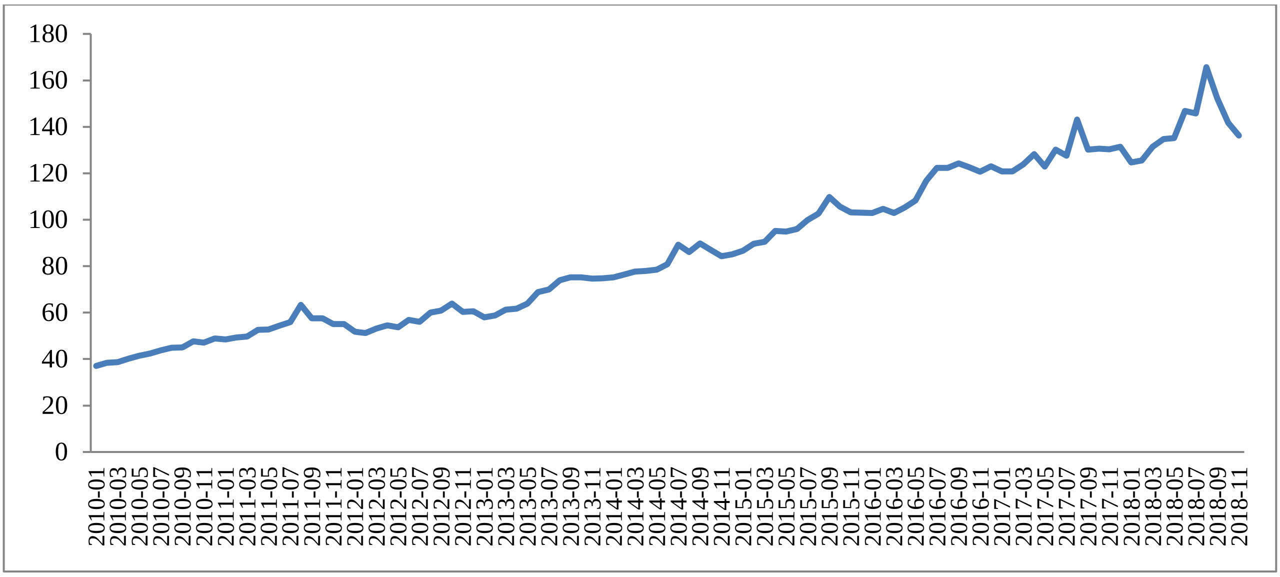

Fig. 6. The volume of Emission in Turkey (Billion TL). **Source:** CBRT, 2018a.

As Figure 6 indicates, the volume of emission had an upward trend continuously except for some periods like May, September in 2017 and, January, September, October, and November in 2018. Also, change examination of the volume of emission over time would be much more helpful in understanding the changes in the volume of emission. Figure 7 shows the changes in the volume of emission of CBRT since 2010.

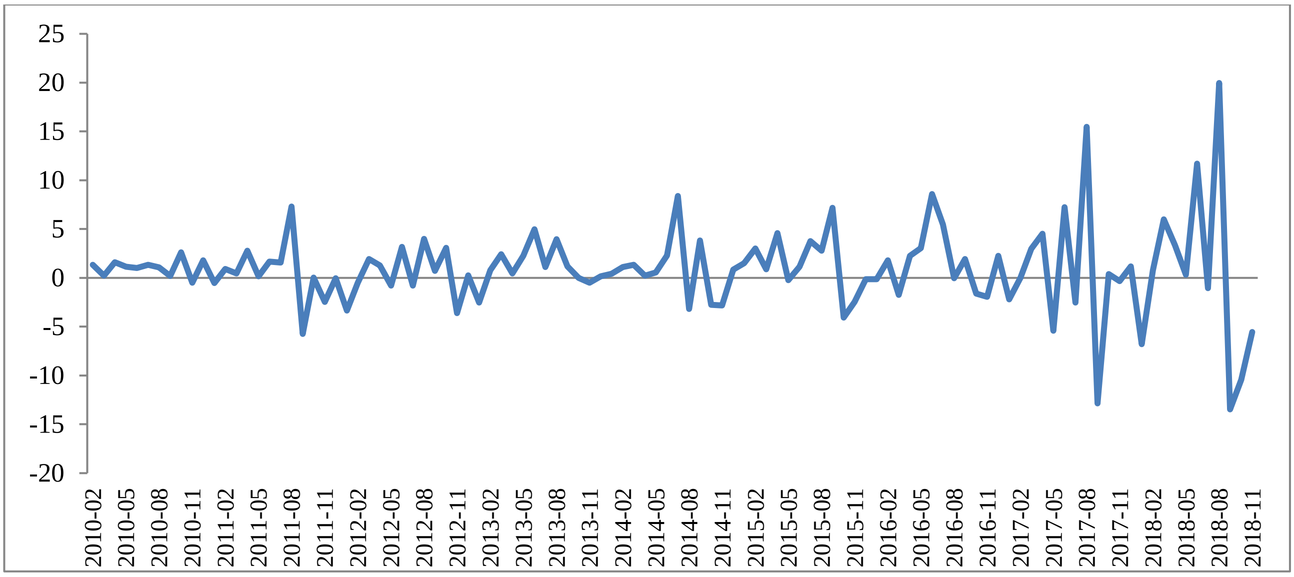

Fig. 7. Change in Volume of Emission in Turkey (Billion TL, changes compared to the previous month). **Source:** CBRT, 2018a.

As Figure 7 indicates, change in the volume of emission was quite low till the end of the 2017 July. This changing trend can be evaluated as an adjustment according to monetary policy, inflation and economic growth. However, this condition changed after that time. Wavelength has become greater since 2017 August and major changes in the volume of emission were seen in 2017 and 2018. The volume of emission was increased TL 15.5 billion TL and reached to TL 143.1 billion as of 2018 August. As of 2018 September, it was decreased TL 12.9 billion TL and reached to TL 130.2 billion returning nearly 2018 July volume of emission level. Change the speed of volume of emission has been low from 2017 October to the end of 2018 May. The volume of emission was increased TL 11.7 billion TL and reached to TL 146.8 billion as of 2018 June. At the end of 2018 August, Volume of emission was increased TL 20 billion TL compared to the previous month and reached to TL 165.7 billion. The volume of emission was decreased in the following month, 2018 September, October, November, by TL 13.5 billion TL, TL 10.4 billion and TL 5.5 billion respectively, hence it has become TL 136.3 billion at the end of 2018 November which is very near to the level of 2018 May.

As it can be understood from the developments mentioned above, CBRT has difficulty in taking necessary actions in some periods in terms of policy interest rates. For example, CBRT did not take necessary actions by not to increase 1-week repo auction rate (policy interest rate) between 2016 November and 2018 June although market interest was increasing. Instead, CBRT preferred to increase late liquidity window rate for lending. However, CBRT had to change this approach by increasing all interest rate dramatically in interest corridor in 2018 June.

Similar to the interest rate in interest corridor, CBRT has difficulty in taking necessary actions in some periods in terms of volume of emission. For example, CBRT did not take necessary actions by not to take stable or decreasing emission between 2017 August and 2018 August although inflation was increasing. Instead, CBRT preferred to increase the volume of emission at a substantial amount compared to the previous month in 2017 August, 2018 June, and 2018 August. However, CBRT had to change this approach. In this context, CBRT decreased the volume of emission dramatically at the amount of TL 13.5 billion in 2018 September, at an amount of TL 10.4 billion in 2018 October, and at an amount of TL 5.5 billion in 2018 November.

As general, in terms of monetary policy, it can be concluded that CBRT has been practicing tight monetary policy. In other words, CBRT has been fulfilling its responsibilities generally. However, this does not mean that there are not any problematic times. Unfortunately, CBRT was late in taking necessary actions in terms of interest rates in interest corridor and volume of emission.

3.4. Practices of Fiscal Policy

Besides monetary policy, fiscal policy is also important in terms of effects on the credit interest rate of banks. So, what practices of the fiscal policy have been applied should be examined first.

Fiscal policy is described as "*usage of fiscal instruments for a target aiming at providing economic balance or eliminating economic imbalances*". In this context, such policies as tax policy, expenditure policy, borrowing policy, and other policies, including foreign trade policy, incentive policy etc., are used (Vergidosyası, 2018). In practices of these types of policies, public spending, public revenue, budget deficit/surplus, and borrowing are main policy instruments and they have importance in terms of fiscal policy (Ekonomihukuk, 2018). For this reason, to understand which type of fiscal policy has been deployed in Turkey, examination of developments in these policy instruments is required. Figure 8 shows the changes in the main indicators of fiscal policy since 2010.

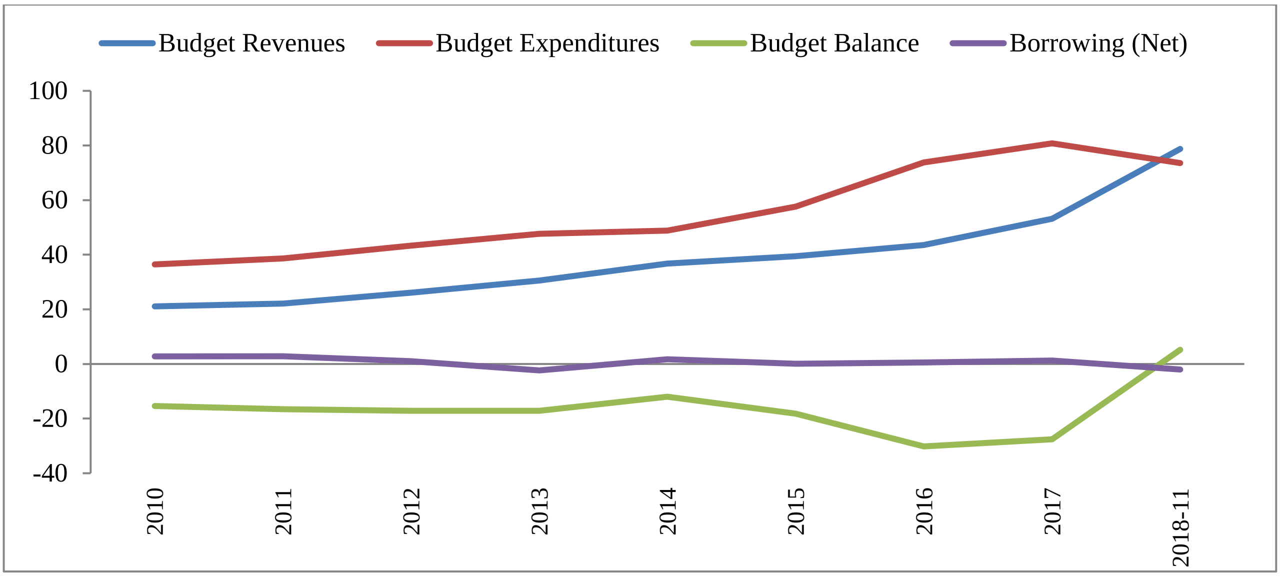

Fig. 8. Changes in Main Fiscal Policy Indicators (Billion TL, annual based). **Source:** CBRT, 2018a.

As Figure 8 indicates, budget balance, which is the result of budget figures and can be described as the difference between budget revenues and budget expenditures, is negative. In other words, there are budget deficit practices in Turkey which means that loose fiscal policy has been applied over time. When figures are examined, the budget deficit is around TL 15 billion TL between 2010 and 2014. However, this picture began to change after that time. The budget deficit was TL 18.2 billion in 2015, TL 30.2 billion in 2016, TL 27.6 billion in 2017. There is no budget deficit as of 2018 November and even there is TL 5.2 billion budget surplus. This picture means that Turkey has been giving up budget deficit approach which stands for loose fiscal policy. Instead, Turkey has beginning to deploy budget surplus approach which stands for tight fiscal policy.

In addition to the main indicators of fiscal policy, practices of incentive policy are important in terms of fiscal policy. When practices of incentives are examined, it can be seen that there are a variety of incentives packages regarding local and foreign investments, supports labor social security premiums and tax liabilities. These practices show that loose fiscal policy is applied with these incentive practices in order to sustain economic growth although they result in inflation. So, it can be said that said that loose fiscal policy is chosen while tight monetary policy is applied for macroeconomic aims and targets.

As it can be understood from the developments mentioned above, fiscal policy has some deficiencies. As general, in terms of fiscal policy, it can be concluded that loose fiscal policy has been preferred in Turkey. In other words, the government has preferred to apply the loose fiscal policy in order to finance and sustain economic growth except for 2018 that there is a budget surplus as of 2018 November.

3.5. Discussion about Effects of Monetary and Fiscal Policies' Practices on Credit Interest Rate

After practices of monetary and fiscal policies in Turkey are examined in the previous subunits, effects of practices of monetary and fiscal policies are discussed in this subunit. When we examine the trend of credit interest rates in Turkey, it has been increasing recently. This is an important problem for Turkey economy due to the fact that Turkey has a bank-based financial system and most of the economic activities are funded by banks via credit channel. For this reason, keeping credit interest rates of bank lower is so crucial in Turkey.

Interest rates are mainly affected by practices of monetary policy in the short run and practices of fiscal policy in long run. As examined in earlier parts of the study, monetary policy is applied as tight whereas fiscal policy applied as loose as general except for exceptional periods. In other words, while CBRT has trying to keep under control monetary base and inflation in Turkey and it has been succeeding to lower credit interest rate in the market, ministry of finance has been expanding expenditures and hence it has been succeeding to sustain economic growth in Turkey. This means that there are dilemmas between the aims and priorities of monetary and fiscal policies. While CBRT has been focusing on inflation and price stability, the ministry of finance has been focusing on economic growth. Economic growth has been preferred instead of inflation in some periods in Turkey. In these periods, fiscal policy is incompliant with monetary policy. This causes unharmonious monetary and fiscal policy practices in Turkey.

Because of the fact that there are unharmonious monetary and fiscal policy practices in Turkey, the credit interest rate of banks has been increasing recently. If Turkey needs credit financing, wants to decrease and reach credit interest rate of banks, there is no another way except for applying harmonious monetary and fiscal policy practices. Otherwise, the credit interest rate of banks will continue to increase. In this context, the ministry of finance should support CBRT much more in struggling with inflation. Hence, all macroeconomic indicators of Turkey including the credit interest rate of banks will decrease with the harmonious monetary and fiscal policy practices.

4. Conclusion

Credit interest rate of banks is very crucial for a lot of countries, especially Turkey which has a bank-based financial system. That is why Turkey needs extensive financing due to fact that it is an emerging country. However, Turkey does not have enough internal savings. For this reason, the credit of banks is a substantially important resource for finance.

Besides providing credit opportunity, the level of the credit interest rate of banks is also important. In order to keep the credit interest rate of banks lower, harmonious practices in monetary and fiscal policies are very important in countries.

In the study, it is aimed at evaluating Turkey's practices in monetary and fiscal policies and the effects of them on credit interest rates of the bank. Within this framework, the period after 2010 is included and the period after 2016 is focused especially.

By considering the analysis results of the study, it is concluded that tight monetary policy and loose fiscal policy are applied in Turkey generally. However, this structure has begun to change. Turkey has been starting to apply harmonious monetary and fiscal policies in 2018 last quarter. Hence, the credit interest rate of banks has begun to decrease. Although the credit interest rate of banks reached 34.51% in 2018 September, it has decreased to 29.82% as of 2018 November end.

If Turkey continues to apply harmonious monetary and fiscal policies in the forthcoming period, the credit interest rate of banks will decrease much more in near future. Therefore, Turkey should give additional attention to applying monetary and fiscal policies harmoniously with each other. Within this context, increasing and sustaining the independence of the CBRT is very important. Besides, excess consumption causing an increase in inflation should be minimized in order to support and comply with the monetary policy. Also, efforts for increasing in production capacities of Turkey should be increased with the support of harmonious monetary and fiscal policies. Hence, the economy will grow on one side and credit interest rate will decrease on the other side.

In this study, it is aimed to establish a basis for the subject. It is recommended for the next studies that harmonization between monetary and fiscal policies could be examined by using statistical/econometrics methods/models. Hence, the literature regarding the subject could be deepened.

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