Budget Policies and Economic Stability in Turkey: A Periodic Evaluation

Türkiye'de Bütçe Politikaları ve Ekonomik İstikrar: Dönemsel Bir Değerlendirme

Semih Serkant AKTUĞ*
Mehmet DAG**
Ali Sabri Taher TAHER***

Abstract

Economic stability is important for the effectiveness of an economy. The budget policy is a fundamental policy tool of governments, especially for dealing with the public budget deficit. The main objectives of the budget policy are to guide the country's income and expenses in line with its economic policies. The aim of this study was the development of budget policy for the period 2000-2015 and to examine the economic stability of Turkey. According to the findings of the study, budgetary policies in Turkey provide significantly contribute to economic stability.

Keywords: Budget Policy, Economic Stability, Turkey.

INTRODUCTION

Many developing countries have reached the desired targets, mainly increasing rates of economic growth, low or controlled inflation rates, unemployment rates close to normal levels. Through the use of any budget policies or other instruments, however, what is important is how to maintain this achievement of goals through a comprehensive package of actions.
The purpose of this study is to clarify the impact and relationships between some macroeconomic variables in the field of budget policies and achieving economic stability in Turkey. However, economic stability policies include controlling both consumer price index, inflation, and unemployment to certain limits, as well as achieving the goal of continuously reducing inflation and reducing the unemployment rate to normal.

Besides, minimizing the effects of external shocks that cause the economic cycle within its extreme limits. Also, access to price stability, the highest purchasing power of the money and budget balance. While, a stable environment is fundamental to the efficiency of an economy, and this issue of stability can divide into three specific economic objectives: the growth of real output, full employment, and price stability.

These objectives may be interrelated and interdependent. Without full employment, the potential output in an economy will not fully employ, and price fluctuations may lead to uncertainty and slower economic growth. Thus, given the damage caused by high inflation, it is clear that the recent decline in inflation in emerging markets is an acceptable development in different economies. The most important economic policy questions that still have to answer are whether this price environment stability and what steps should take to keep inflation under control.

This study is significant, while the study is very related as it will analytically demonstrate the role of budget policies in achieving economic stability during the period 2000-2015. However, it is essential to study the impact of the two policies to confirm the economic stability in Turkey.

The methodology of this study based on primary macroeconomic analysis for budget policies in achieving economic stability in Turkey during the period 2000-2015, while budget policies are remarkable as well as significant issues not only for developed states but also for developing ones. Turkey is also the case in this matter, that including the use of the consumer price index, unemployment rate, the growth rate of money supply, interest rates, exchange rates.

However, policy affects the economic stability in general and inflation in particular by changing either a comprehensive or an interest rate targeting. By employing some potential actions, so, the traditional actions of policy comprise the fluctuations in money supply, interest rates, exchange rates, and changes in asset prices, which is Turkey effectively implement them. Besides, increased money supply, as well as adopted floating interest rates and a free exchange rate regime. However, foreign currencies exchange systems have liberalized.

Further, the study concludes that the budget policy performed to be a substance of Turkey’s macroeconomic stability. Especially, since the crisis of 2001, Turkey has reached to very remarkable budget results, especially for the central government. Turkey sharply declined its chronic budget deficit. Thus, the budget policy can significantly affect the future growth rate of the economy by stimulating the growth of the human capital stock. As well as through capitalizing into infrastructure developments. As a result, the Turkish government through implementing budget policy kept public finances on a maintainable path. Consequently, the budget policies impact on achieving economic stability in Turkey. However, budget policies can use to achieve long-term economic stability if the increase in the money supply is equal to
the growth of net national product without the use of policies based on expansion and contraction.

The study consists of three chapters. The first chapter dealt with macroeconomic policy variables namely budget policies. The second chapter included the most prominent experiences of Turkey aimed at achieving economic stability, so, it consisted of some topics. While the last chapter presented an analytical method of the study includes a 15-year spanning 2000-2015 for Turkey, we have adopted in the standard analysis for their ability to illustrate changes in economic and variables, besides the most important conclusions.

**THE IMPACT OF BUDGET POLICY**

**Public Expenditure and its Role in Economic Activity**

The governments need to reduce expenditure rise sharply in times of prosperity so that they only rise in times of economic stagnation. Effective financial rules that help contain spending during times of economic recovery are useful. While, Clements et al., (2007: 52) argues that the governments should also consider additional allocations to public investment. Also, support their ability to evaluate and manage investment projects and assist the implementation of merit-based recruitment and wage-based systems in achieving expenditure efficiency. The IS curve shows the production structures and the interest rate. For example, the actual and planned expenditures on production are equal. Planned and actual spending depends positively on real income, negatively on the real interest rate, positive on government consumptions of goods and services and adversely on taxes:

\[ E = E(Y, i - \pi^e, G, T), 0 < E_r < 1, Ei - \pi^e < 0, E_T < 0 \]

As \( E \): represents planned expenditures.

\( Y \): real output, \( i \): nominal interest rate and: expected inflation, \( G \): actual government procurement, \( T \): real taxes and the like denote partial derivations, both \( G \) and \( T \) have been taking as expected inflation, the adverse effect of the interest rate. Real estate works through consumer spending, especially on durable goods. It has assumed that planned expenditures increase by less than one with income. Assumptions have made about how the determinants of proposed costs and the standard equation introduced:

\[ E = C(Y - T) + I(i - \pi^e) + G \]

As: \( C \): consumption, and \( I \): investment and restrictions in this scroll may be unrealistic in no small degree. For instance, there is a great deal of evidence that the real interest rate affects consumption or there is often comprehensive and dominant evidence that income affects investment. However, there is little basis for assuming that income and taxes have an equal and opposite effect on expenditure (Romer, 2001: 220).

There are several mechanisms in which private expenditure could reduce when public expenditure increases. For example, increased federal spending may lead to an increase in domestic economic activity, and thus private sector demand for cash.
declines. If interest rates have risen the sustainability portfolio balance will tend to other things remain unchanged.

To reduce the interest sensitivity of demand – which is assuming the financial clutter abroad. Even if interest rates do not rise abruptly and imbalance in the existing portfolio, increased demand for cash may cause individuals to spend less to collect some money. Nevertheless, private spending could fall further if public expenditure to increase the tax liability of the private sector, at present due to high taxes today or in the future because of the need to reduce public debt.

The private-sector taxpayers have no direct impact on local absorption but have an effect on private income as this indirectly affects private spending. In short, the impact of budget policy on aggregate demand appears to be more complicated than Keynesian theory proposes, and it is arguable whether the specific budgetary system can reduce domestic demand. Ultimately, the issue needs more empirical analysis (Khan, 1987: 26).

**The Tax System and its Role in Economic Activity**

The tax system of developing countries is stationary, so the conditions that generate coherently, integrated policies are often absent and lost, making their success partly as opposed to developed countries where the financial system has been very successful. State policymakers often use tax system and policy to incentive economic activity and to contend with other states to invite new capital. While researchers have surveyed the effectiveness of state and local tax policy as an economic stimulus, no consensus exists regarding whether and how state corporate income tax policies affect economies (McCarty & Bruce: 2010).

In Friedman's proposal, the size of the government will determine by what the population wants the government to provide, and then tax rates will somehow be adjusted to balance the budget only in the full employment level. Moreover, to build periodic counter-efficient oscillations to return the economy to full employment requires two conditions: First, the tax expenditure and its revenues must be payable to the government regularly. The expenditure must be periodic, and it should be a previous tax period. So, this includes a secure social protection network. Consequently, expenditures will increase sharply in the case of stagnation and, alternatively, be linked to economic achievement, since sales or revenue taxes can do so. The second condition is that the government's activities need to be large (Wray, 2002: 2).

**Budget Deficits**

The global economic crisis has once again elevated the question of the future of international currencies that represent the global reserve. The US dollar has maintained its absolute sovereignty for almost a century. However, there is growing speculation from the observers pointing to the end of the era of control enjoyed by the dollar, and for many, the fate of the dollar began inevitably after the downfall of the US real estate market in mid-2007. That unleashed the biggest sudden coup in the financial markets in the USA.

According to Cohen, (2009, p. 26) since the great depression, it has shown that the crisis has proved to be critical to the dollar and has not even been spared the
financial sector's troubles in the USA which required significant government interventions to overturn the preferences decisively. Instead, ironically, the crisis temporarily strengthened the global securities center greenback as investors fled to the dollar for safety in emerging markets in Latin America, the effects of a higher budget deficit in the interest rate are likely to be much stronger than in developed economies.

Thus, increases in the quantity of nominal debt ensue through deficits, and, liable on the reasons for the deficit, the increase in nominal debt may change beliefs about the future budget backing for the debt at the same time that it affects the amount of debt outstanding. The deficit might also lead to interest rate changes through a policy reaction (Christopher, 2016:34).

While, Guell, (2007: 118-119) mention that when the deficit is significant because the economy does not work well, then the whole economy will be a problem, not a budget deficit. If the deficit is so high, even when the economy is good then the deficit will be the problem. Economists who believe that deficits can use to stimulate an economy that lacks consistency and with a set of restricted incentives and this is called job financing.

In this context, (Wray, 2002: 1) mentioned that Friedman's proposal to finance the budget deficit by creating money as the surplus cases would weaken the unit. Moreover, assessed the creation of private money from banks through the need reserve 100% and something that Fisher and Simons obtained in their analysis so there will be no money creation by private banks that will expand bank money supply only when banking governmental money reserves. So, this proposed situation produces strong, counter-cyclical forces to help stabilize the economy. However, Friedman can maintain an excellent quantitative perspective, because he claims that it will be a fluctuation of money rather than a government spending that has stabilized the economy.

The Relationship between Budget Deficit and the Other Macroeconomic Variables

According to Saleh, (2003) the relationship between budget deficits and macroeconomic variables (such as interest rates, growth, trade deficit, and exchange rate) characterizes one of the most widely argued topics between economists and policymakers in both industrialized and developing countries. However, according to Karel, (2004: 1) there are many types of the budget deficit, as follows:

1. Increasing public sector budget means to increase net borrowing.
2. Decreasing public sector budget means less net borrowing.
3. Public sector budget increase means more customizations and grants to institutions (TI) Transformation Institutions.
4. Public sector budget decrease means fewer allocations, and grants to institutions (TI) Transformation Institutions.

In this regard, recent studies show that no direct correlations found between the budget deficit and macroeconomic instability. The emergence of any macroeconomic stability depends on how and how to finance the deficit. There are several options for financing the deficit.
1. The sale of government bonds.
2. The borrowing from abroad.
3. Issuing sock money.
4. The sales of state assets (privatization).

The effect of the budget deficit on macroeconomic stability is affected as well as the absorption capacity of the private economy. So, in general, long-term budget deficit more readily absorbed by countries that possess a high level of private savings and complete financial markets development, given that the least sophisticated own private savings less and never fully developed financial markets and pricing rules should attempt to reduce the budget deficit.

**Budget Deficits and Economic Performance**

According to recent studies on the effects of budget deficits in developing economies, we can conclude the follows:

1. The budget deficit is undoubtedly negative for economic growth in many cases.
2. The high budget deficit is explained mostly by the result of political decisions that have been planned and not as a result of external shocks or a response to the current domestic economic situation.
3. Although financing a short-term budget deficit through cash transfers do not necessarily lead to inflation, in the long run, the cash shift may cause growth in inflation.
4. There is some evidence that public investment is not always positive for private investment and this denies public opinion towards this issue. Public investment has adverse effects on private investment, and public investment replaces and does not complement private investment.
5. The budget deficit causes the deficit of the trade account. So, if the value of the trade account increases, the exchange rate becomes excessive. However, this negatively affects the growth of the economy, reduces exports and encourages imports.
6. Reducing the budget deficit is an effective policy in raising domestic savings.

**Budget Determinants**

The emergence of the deficit needs to addressed either from commercial sources or other non-sources. The budget outline reflects the link between the budget deficit and alternative resources to finance the deficit. In this way, we can analyze the relationships between budget policy and macroeconomic conditions in the budget deficit. We know the budget deficit linked to the change of net government debt in the following manner:

\[ D_g - D_{g-1} = (G + I_g - T) + rD_{g-1} \] (1)

Whereas expressing the change in net government debt between the current and previous period, G represents government consumption expenditures, government
investment, $I_s$, $T$ taxes, $r$ nominal rate of interest. Necessary to explain the difference between economic theory and government finances statistics, that equation (1) above is base on economic theory, so it is dealing with variables in net values especially expressions that we put between brackets and represents the net balance of the state budget $(G + I_s - T)$.

Also, public expenditure is net values $G + I_s$, and $T$ represents the net tax revenue (total taxes-transfers). There is a difference in the comparison between the government finance statistics giving the total values, the right side of the beyond equation signifies a budget deficit and shows that the change in net public debt is equal to the total budget deficit + debt service.

Thus, if the budget is negative (deficit) it is necessary to compensate it, and to this end, the government has several options to choose from how to settle this deficit if the deficit is covered and compensated by issuing bonds, there are four parties can be sold to these bonds:

1. Foreign institutions whether in the private sector or the public.
2. Families and institutions.
3. Local banking systems.

In developing countries, in particular, the most substantial amount of government bonds is purchased from the Central Bank because there is insufficient financial capacity for people in the private sector. The government usually does not need to pay interest to the Central Bank if there are problems. Moreover, when the government funds the Central Bank, this means just the transformation of public debt from the public institution to another because of the Central Bank in the other back to the state. Foreigners do not care much about the bonds of developing country governments, and financial markets in these countries are underdeveloped.

Now suppose that part of deficit returns to the investor in the local private sector or foreign investor and the rest is up to the Central Bank. Moreover, according to the given situation, the total amount of government debt in the Central Bank’s ownership is expressed by the following equation (Karel V., 2004, pp. 1-4).

$$ (D_{gc} - D_{gc-1}) = (D_g - D_{g-1}) - (D_{gp} - D_{gp-1}) \quad \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (2) $$

The left-hand side of the equation $(D_{gc} - D_{gc-1})$ shows the change in the public debt in the ownership of the Central Bank, and $(D_g - D_{g-1})$ the right-hand side, representing the overall change in the public debt. The change in public debt reduced it due to sampling in the private sector $(D_{gp} - D_{gp-1})$.

The following relationship shows how the public debt in the Central Bank's portfolio affects the base along with the other elements and reflects the indirect effect of the budget deficit on the base:

\[(MB - MB_{-1}) = (D_{gc} - D_{gc-1}) + e(R_c - R_{c-1}) + (L_{cb} - L_{cb-1}) \]...........(3)

The variable R represents the foreign reserve of the Central Bank, e nominal exchange rate, refers to the total credit in the Central Bank, which gives to the commercial banks, under the assumption that the last equation of zero to obtain the following equation:

\[(MB - MB_{-1}) = (D_{gc} - D_{gc-1}) + e(R_c - R_{c-1}) \]............(4)

To compensate for the expression within the brackets \((D_{gc} - D_{gc-1})\) from equation (2) we conclude a new relationship that reveals the possibility of financing the budget deficit:

\[(D_{gc} - D_{gc-1}) = (MB - MB_{-1}) + (D_{sp} - D_{sp-1}) - e(R_c - R_{c-1}) \]...........(5)

However, according to Karel, (2004, p. 4) equation (5) proposes three main alternatives to finance the budget deficit:

1. Increase the base (currency issuance).
2. Issuing government bonds offered to the private sector (leading to private sector financing and hence the impact of crowding abroad).
3. Reducing foreign reserves.

The final impact of the budget deficit is dependent on the means of financing it and every alternative to finance causes macroeconomic instability when used substantially. Although the method of financing is essential in determining the impact of the deficit in the national economy, many economists believe that the deficit should be reduced or eliminated, because it has adverse effects on the economy and they mainly believe that the deficit causes inflation and lowers economic growth.

However, under certain circumstances, policies designed to reduce or eliminate deficits may be more undesirable. In a recession, attempts to eliminate deficits by reducing government spending or increasing taxes or both make the deficit worse. The budget balance is likely to be the best solution (Michael, 1988: 534-537).

THE CONCEPT OF ECONOMIC STABILITY

Economic stability is defining as an economic environment free from volatility or fluctuations in macroeconomic variables. When the economy grows at a moderate rate under low and stable inflation, the economy is economically stable.

On the other hand, inactivity and economic cycles have a short time horizon, and an unsustainable balance of payments leads to gross foreign exchange volatility, a sharp rise in the financial budget and its decline. So, high inflation, constant or volatile leads to fears of financial instability, all signs of economic instability may
increase uncertainty reduces investment promotion, slow down economic growth and reduce social welfare.

However, theoretically, macroeconomic instability refers to phenomena that make the national macroeconomic situation less expectable, and it is of concern because irregularity hampers resource allocation decisions, investment, and growth (Ulvedal, 2013:5) So, in reducing economic instability. The economic system can increase the quality of life by enhancing standards of living by raising productivity and efficiency that lead to sustainable employment levels (Gormez & Yigit, 2009: 2).

Some recent studies suggested that active economic stability policies that respond to inflation and output gap may accrue at the same time on the low and stable inflation rate and a high degree of economic stability. There is also broad agreement that the goal of policy in the United States of America and the past few decades was to seek price stability and increase sustainable growth over time.

According to Orphanides, (2002, p. 1), active stabilization policies that respond to inflation and the level of economic activity can achieve these goals and make a low and stable rate of inflation, and a high degree of economic stability.

While the benefits of economic stability discussed in detail by the staff of the Joint Economic Commissions (JEC) and they reach the following:

- Improving the Central Bank's credibility, accountability, and transparency, so, the apparent objective reduces the Central Bank's incentives to slide back from its long-term creeping inflation commitments and shows how the Central Bank is supposed to work and reduce the chances of interference for political purposes.
- Long-term high growth, economic theory, and evidence suggest that limited long-term inflation encourages employment and economic growth.
- High-quality exchange, under price stability, could serve as an intermediary function of exchange and store of value.

In this regard, Taylor, (2000: 9) argued that the fight against the decline might difficult and economic instability may increase as well as when inflation gets down successive downwards with the low inflation that will raise the real interest rates and this leads to lower inflation.

However, a typical concern about price stability is that it leaves the Central Bank without much flexibility in policymaking. In all countries that have inflation targets or other price stabilization targets, the Central Bank maintains a sizeable discretionary capacity. Consequently, the price stability act of 2003 puts price stability being targeted mainly for policy although it may leave room for other objectives to the extent compatible with price stability (Saxton, 2004: 2).

As indicated by Saxton, (2004:) further argues that inflation targeting usually takes the form of a set package of goals or target band such as 1-3% of inflation in general and not a specific number. The range of the target is usually a medium-term goal which gives the Central Bank more flexibility.

The choice of macroeconomic policies and integrated sectoral policies has made it necessary for governments to ensure that privatization transferred in an economic environment that allows both competing and international forces to produce
efficient production and thereby improve growth prospects. Private sector transformation in an environment of high and unstable inflation it is not spam.

**Economic Stability in Turkey**

Turkey experienced a severe economic crisis in November 2000 and again in February 2001. The crisis erupted after Turkey adopted an exchange-rate-based disinflation program led and engineered by the IMF. During the year 2001, GNP fell by 9.5% in real terms, consumer price inflation soared to 54.4%, and the currency fell 51% against the significant foreign monies. The rate of unemployment rose by two percentage points in 2001 and then by another three percentage points in 2002. Real wages fell by 20% in 2001, recovery of the Turkish economy was vigorous after the crisis of 2000/2001. Gross national product (GNP) grew at an average annual rate of 6.9%. Price inflation was finally brought down to single-digit levels after nearly four decades of high inflation episodes. In the meantime, significant success in budget balance has achieved, and Turkey has successfully further penetrated European markets, raising the significance of full-membership negotiations with the EU (Erinc, 2007: 1).

The elimination of chronic inflation and systemic instability has become one of the primary objectives of the economic programs implemented since the year 1999 with the support of the IMF’s position. While the policies adopted by the economic program covering the period from 2002 to 2004 will also contribute to the necessary transition of Turkey’s membership to the European Union.

However, PRE, (2002: 3) indicated that the policy aimed at transforming the inflation target under the volatile exchange rate system as well as the income policy that will determine by a standard base consistent with the objectives of the budget policy. While the Turkish economy has undergone a significant transformation over the seven years between the internal economic crisis of 2001 and the global economic crisis of 2008. As a result of this transformation that the GDP increased between 2002-2008 from $300 billion to $750 billion, with an average growth rate of 6.8% per capita income rose to Turkish citizen in the same period of $3300 to $10000 annually, as well as the continued decline in inflation rates and the steady increase in the volume of investments.

Accordingly, Turkey ranked 16th in the ranking of the largest economies on the world level and became its sixth ranking on the European level, and narrowed the gap for the first time between the Turkish development rates and of European development rates. Given the long-term changes that expect to emerge on the global economic map and the growing Turkish role at the international level, Ankara expects to be one of the most prominent emerging powers in a multi-polar world looming on the horizon (Öztürk, 2010: 47).

**The Role of Budget Policies in Economic Stability**

The role of budget policy as subjective and discretionary budget policy stability during volatile economic activity tax budget spending responds automatically to the road leading to economic stability. For example, during an economic slowdown, the benefits of unemployment rises with increasing unemployment and this increases the expenditure so requires not only acted publicly by the government in parallel falling tax payments when the economy is slowing recession.
However, Ulvedal, (2013: 8), estimated that the elements of tax stability overcome about 8% of the impact of the economic shock on GDP while rationalization of expenditure leads to stability. Hence, local governments believe that tax revenues are falling during the recession, but because most of these governments are forced to balance their budgets annually, they often reduce spending during the recession. Governments may make voluntary budget changes in the face of an economic slowdown.

According to Lonela & Codreanu, (2010: 4) the expansionary budget policy aims to boost demand and production in the economy either directly over higher government spending or indirectly through tax cuts that stimulate private consumption and investment spending. The elements of financial stability help to moderate economic fluctuations. There is controversy over the contribution of budget policy to fighting the economic recession. The long-term slowdown that is characteristic of substantial changes in budget policy weakens the role of elective policy that can play during the relatively short recession faced by some countries.

While, Saxton, (2004:7) mentioned that in the long term, gold maintains its purchasing power well, but the experience of the countries that possessed the gold standard was moderate, but the constant inflation or deflation lasted for several years.

In this context, Taylor, (2000: 3) indicated that among the relevant topics were the subject of debate and controversy in an international conference held in 1987 are:

1) Causes of macroeconomic instability from 1973 until the early 1980s.

2) Choose an optimal system to reduce future instability.

Accordingly, during the 1973-1980 period, the macroeconomic performance was excellent in most developed countries, notably Japan, compared to the corresponding weak performance in the United States of America in the same period.

While, there is a substantial agreement between Andrew Crocket, Stanley Fischer, Allan Meltzer, James Tobin and Ted Truman. That the difference in policy may explain a large part of the difference in performance between Japan and the United States and other countries, mainly that there was broad agreement that a significant United States policy error is excessive expansion at the end of the 1970s and keep inflation low and stable.

In this regard, Grauwe and Gunther, (2008: 542) argued that the inflation target physical characteristics of nominal income. So, a nominal target income does not give us evident dismantling elements of inflation and output element, so there is no clear anchor for inflation expectations, as well as the inflation rate, is usually a good concept by public opinion while the growth of nominal income may be the more ambiguous concept. Economic growth and stability are incredibly complex phenomena that even today regardless of economic theory very developed can't say positively whether all growth factors contribute to the realization and sustainability of stability or low inflation rate (Debelle, 1999: 12).

In other words, dynamic equilibrium is defining as the case in which growth is consistent with low and stable inflation and with a sustainable balance of payments position. So, this based on the assumption that in the short term, higher inflation can apply to growth and that the balance of payments deficit can reduce growth, Medium
and long, high inflation and high indebtedness have a negative impact on economic growth. (Brkic, 1997: 17).

The equilibrium in the money market or the financial market derived from the general economic balance. So, the equivalent of the values of the variables in the economic system or its stability. While, this is the equation between the opposing forces, to balance several conditions, the full balance if the net power added to the balances equal to zero, and there is a stable equilibrium when it exceeds the marginal propensity for saving propensity to invest. Besides, when the equilibrium is an unstable and dynamic balance which includes the element of time,

**Economic Stability Variables**

There is an international consensus among policymakers, public opinion, and economists that the high inflation rate is costly and that the stability of the price necessary. The issue of inflation control has a significant challenge facing Central Banks worldwide and through the application of improved policy structures, requiring high transparency and increased independence from the effects of short-term policies.

As well as the constant comparison, Central Banks in achieving this goal, and advanced procedures against inflation raising from forecast stable economic environment and usability so undoubtedly contributed to improvements in economic performance.

**Inflation**

Inflation can define as a constant or continuous increase in the general price level or, instead, as a continued or incessant fall in the money value. Several things should note about this definition. First, inflation states to the movement in the general prices level. So, it does not refer to changes in one price relative to other prices. However, these changes are characteristic even when the general prices level is stable. Second, the prices are those of staff and services, not assets. Third, the rise in the price level should be somewhat considerable and continue over a period longer than a day, week, or month (Labonte, 2011, p. 3).

One of the critical issues is deflation and response through policy. policymakers have faced the reality of deflation and zero interest rates. The latter is a cause of instability. According to Taylor, (2000: 1) the modern perspective is consistently for near-zero interest rate policy, which began in 1995 grew from policy changes in previous years.

That budget policy tools that increase reflationary can use to enhance the level of economic activity in the periods of recession or slowdown in economic activity, and this is through a tax cut and increasing government spending (Lonela & Codreanu, 2010: 3). However, some policies reduce inflation (deflationary) and can use during the boom of the level of economic activity when economic activity is growing above its potential; this is done through a tax increase and cuts government spending. There is an excellent theoretical explanation, why would deteriorate economic stability when approaching the negative inflation?

However, there are good reasons for the deterioration when inflation becomes high when the nominal interest rate approaches zero, one of the channels of policy, the interest rate will not decrease. So challenging landing may be severe and economic
instability may increase as well as when declining inflation gets down with the low inflation rate, which will raise real interest rates.

According to Öztürk, (2010: 54) inflation and its price instability are one of the essential difficulties faced by countries’ economies. After inflation in Turkey in 2001 reached 70%, it dropped to 8.4% at the end of 2007 and then rose slightly in 2008 due to the increase in international prices to reach 10%. Due to lower prices and lower demand at the beginning of 2009, consumer price inflation CPI at the end of March to 7.8%. The reason for this is that the proportion of foreign currency contents out of the total savings rate of banks in Turkey in 2001 was 75% and the remaining portion, which constituted 25% was the local currency.

Unemployment

Unemployment is a socio-economic phenomenon of a global character, as well as being a socio-economic problem for any society; whether developing or developed, they deviate from the known values and ethical norms of social life. However, the problem of unemployment is becoming increasingly important in developing countries to increase pressure on the production and service sectors as well as their effects on economic and social life. A further characteristic of the post-2001 era has been Turkey’s jobless growth. High unemployment and low participation rates have accompanied rapid growth rates. The unemployment rate rose to above 10% after the 2001 crisis and has not come down to pre-crisis levels despite rapid growth. With relatively cheap imports, Turkey has been importing much more foreign products (Erinc, 2007: 1).

ANALYZING THE DEVELOPMENT OF BUDGET POLICIES AND ECONOMIC STABILITY IN TURKEY DURING THE PERIOD 2000-2015

The purpose of this chapter is to analyze the role of budget policies in achieving economic stability in Turkey during the period 2000-2015. The data that related to Turkey and used for the analysis taken from the Central Bank of the Republic of Turkey, (2018), and World Data Atlas, (2018). However, the years reflected for the data collection were from 2000 to 2015, so, the Years data related to all three study variables, namely budget policy and economic stability, this provides a sample size of 45 which bigger than the generally accepted size of 30 in economic studies. As it identified the primary purpose of this study is to analyze the effect of budget policies economic stability, for Turkey.

DATA AND METHODOLOGY

The methodology of this study based on primary macroeconomic analysis for budget policies in achieving economic stability in Turkey during the period 2000-2015, while budget policies are remarkable variables as well as significant issues not only for developed states but also for developing ones.

Turkey is also the case in this matter, that including the use of the consumer price index, unemployment rate, the growth rate of money supply, interest rates, exchange rates. Moreover, a budget deficit of individual states, which are starting points for discovering the behavior of both states and their in-depth analysis as the data set presented in tables and figures below.
Turkey’s Data Used in the Study

For analyzing the role of budget policies in achieving economic stability in Turkey during the period 2000-2015, this study concentrated on the growth rate of money supply, interest rates, exchange rates, and budget deficit as the economic indicators besides a consumer price index and unemployment rate indicators. During the year 2000, Turkey experienced an economic crisis and again in February 2001. The crisis exploded after Turkey implemented an exchange rate based inflation targeting program led and planned by the IMF. Table 1 shows some of Turkey’s Economic Indicators During the Period 2000-2015.

Table 1: Turkey’s Economic Indicators During the Period 2000-2015

<table>
<thead>
<tr>
<th>Years</th>
<th>Policy</th>
<th>Budget policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consumer Price Index</td>
<td>Unemployment Rate %</td>
</tr>
<tr>
<td>2000</td>
<td>19.3</td>
<td>6.0</td>
</tr>
<tr>
<td>2001</td>
<td>29.8</td>
<td>7.8</td>
</tr>
<tr>
<td>2002</td>
<td>43.2</td>
<td>9.8</td>
</tr>
<tr>
<td>2003</td>
<td>54.1</td>
<td>9.9</td>
</tr>
<tr>
<td>2004</td>
<td>59.8</td>
<td>9.7</td>
</tr>
<tr>
<td>2005</td>
<td>65.9</td>
<td>9.5</td>
</tr>
<tr>
<td>2006</td>
<td>72.2</td>
<td>9.0</td>
</tr>
<tr>
<td>2007</td>
<td>78.5</td>
<td>9.2</td>
</tr>
<tr>
<td>2008</td>
<td>86.7</td>
<td>10.0</td>
</tr>
<tr>
<td>2009</td>
<td>92.1</td>
<td>13.1</td>
</tr>
<tr>
<td>2010</td>
<td>100.0</td>
<td>11.1</td>
</tr>
<tr>
<td>2011</td>
<td>106.5</td>
<td>9.1</td>
</tr>
<tr>
<td>2012</td>
<td>115.9</td>
<td>8.4</td>
</tr>
<tr>
<td>2013</td>
<td>124.6</td>
<td>9.0</td>
</tr>
<tr>
<td>2014</td>
<td>135.7</td>
<td>9.9</td>
</tr>
<tr>
<td>2015</td>
<td>146.1</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Regarding the policy, the Central Bank of Turkey adopt the programme aims to disinflation under the structure that has employed indirectly since 2001, and officially since 2006. While, the primary purpose of policy has to accomplish price stability, with the short-term interest rate being the central mechanism to achieve this aim. So, this policy which has worked reasonably well to commentator inflation prospects and facilitated to build flexibility to international shocks, which brought interest to lower rates and inflation down to single digit after many years of chronic high inflation and interest rates.

However, a sharp decline takes place in exchange rate composed with the interest rates which motivated domestic demand. So, this mainly due to the early credibility of the programme, prosperity effect and protected consumption demand stemming from high real interest rates in 1999. In the same context, the budget policy during the same period remains to be a key pillar of Turkey's economic stability, so, both policies played a significant effect on reducing the inflation rate, as well as on indicators of growth.

TURKEY’S ECONOMIC STABILITY

Consumer Price Index (CPI)

In this study we analysis Turkey’s economic stability under two critical factors which is consumer price index (CPI), and the unemployment rate. As results revealed in the table below, the annual percentage changes of the Consumer Price Index (CPI) in 2000, declined to 19.3 percent due to Turkey experienced an economic crisis in this year. However, CPI reminds relatively decline from 2001 to 2003. Table 2 gives information about Turkey’s Consumer Price Index, and the Unemployment Rate During the Period 2000-2015.

Nevertheless, (CPI) is annually reserved with annually updated weights. The primary source of weights is the household budget. While CPI gathered for the whole country and 26 statistical regions, CPI covers all household consumption expenditure which takes place on the economic territory, as the figure 1 below showed CPI is steadily increased notably in 2004 at the rate 59.8. So, reached 146.1 in 2015, due to customers confident where back to Turkey’s economy and household consumption expenditure increased since the life standards obtained much better.

Table 2: Turkey’s Consumer Price Index, and the Unemployment Rate During the Period 2000-2015

<table>
<thead>
<tr>
<th>Years</th>
<th>Consumer Price Index</th>
<th>Unemployment Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>19.3</td>
<td>6.0</td>
</tr>
<tr>
<td>2001</td>
<td>29.8</td>
<td>7.8</td>
</tr>
<tr>
<td>2002</td>
<td>43.2</td>
<td>9.8</td>
</tr>
<tr>
<td>2003</td>
<td>54.1</td>
<td>9.9</td>
</tr>
<tr>
<td>2004</td>
<td>59.8</td>
<td>9.7</td>
</tr>
</tbody>
</table>
2005 | 65.9 | 9.5  
2006 | 72.2 | 9.0  
2007 | 78.5 | 9.2  
2008 | 86.7 | 10.0  
2009 | 92.1 | 13.1  
2010 | 100.0 | 11.1  
2011 | 106.5 | 9.1  
2012 | 115.9 | 8.4  
2013 | 124.6 | 9.0  
2014 | 135.7 | 9.9  
2015 | 146.1 | 10.3  


Data about the Turkey's Consumer Price Index (2000-2015) is given below in the Figure 1.

Figure 1 demonstrates the rise in the Turkey's Consumer Price Index (CPI) between the years of 2000 and 2015. As it can be viewed from the figure, Turkey's CPI has been continuously rising among the given year range.

Unemployment Rate

As figure 2 showed, the unemployment rate in Turkey increased from 6% in 2000 to 7.8% in 2001 due to February economic crisis that again exploded after Turkey implemented an exchange rate based inflation targeting program led and planned by the IMF.

However, unemployment in major metropolitan areas fell to 10.3% in 2015, from around 13.1% and 11.1% in 2009-10 respectively, in other words, the unemployment rate rose by 1.1 percentage points in 2010 and then by another 2.1
percentage points in 2010, before declining again to 9.1% and 8.4 in 2011-12 respectively. In the same context, Turkey’s economy recovered dynamically just after the global crisis, nevertheless in the development of external and domestic macroeconomic imbalances emerged. Growth averaged close to 9% in 2010-11, with robust job creation.

**Figure 2:** Turkey’s Unemployment Rate During the Period 2000-2015

![Turkey Unemployment Rate During 2000-2015](image)

**Source:** Central Bank of the Republic of Turkey, (2018)

**The Role of Budget Policy**

In the previous years, budget policy performed that to be a substance of Turkey’s macroeconomic stability. Especially, since the crisis of 2001, Turkey has reached to very remarkable budget results, especially for the central government. As figure (3) below showed Turkey sharply declined its chronic budget deficit from -33% in 2001 to -1% in 2015. However, during the period indicated the lowest decline was in 2001 due to the economic crisis Turkey experienced, while the higher amount reached in 2006 by -0.6%.

Even though, in the late of 2000 Turkey faced rapid financial outflows, since the loss of investor confidence. While, the capital outflow made a massive budget deficit and banking crisis, so, resulting in rapid growth and currency devaluation. Therefore, Turkey unable to maintain an exchange rate target, the currency was floated. Thus, budget policy can significantly affect the future growth rate of the economy by stimulating the growth of the human capital stock. As well as through capitalizing into infrastructure developments. As a result, the Turkish government through implementing budget policy kept public finances on a maintainable path.

**Figure 3:** Turkey’s Budget Deficit During the Period 2000-2015

![Turkey’s Budget Deficit During the Period 2000-2015](image)
As the results revealed in the table (3) below, Turkey’s annual percentage changes of the CPI at the beginning of the period declined. The fluctuating notably took place between 2004 to 2015. The unemployment rate in Turkey increased from 6% in 2000 to 7.8% in 2001. However, unemployment in major metropolitan areas fell to 10.3% in 2015, from around 13.1% and 11.1% in 2009-10 respectively. This shows Turkey’s economy recovered dynamically just after the global crisis.

**Table 3:** Turkey’s Economic Stability Data During the Period 2000-2015

<table>
<thead>
<tr>
<th>Years</th>
<th>Consumer Price Index %</th>
<th>Unemployment Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>19.3</td>
<td>6.0</td>
</tr>
<tr>
<td>2001</td>
<td>29.8</td>
<td>7.8</td>
</tr>
<tr>
<td>2002</td>
<td>43.2</td>
<td>9.8</td>
</tr>
<tr>
<td>2003</td>
<td>54.1</td>
<td>9.9</td>
</tr>
<tr>
<td>2004</td>
<td>59.8</td>
<td>9.7</td>
</tr>
<tr>
<td>2005</td>
<td>65.9</td>
<td>9.5</td>
</tr>
<tr>
<td>2006</td>
<td>72.2</td>
<td>9.0</td>
</tr>
<tr>
<td>2007</td>
<td>78.5</td>
<td>9.2</td>
</tr>
<tr>
<td>2008</td>
<td>86.7</td>
<td>10.0</td>
</tr>
<tr>
<td>2009</td>
<td>92.1</td>
<td>13.1</td>
</tr>
<tr>
<td>2010</td>
<td>100.0</td>
<td>11.1</td>
</tr>
<tr>
<td>2011</td>
<td>106.5</td>
<td>9.1</td>
</tr>
</tbody>
</table>
Development of Budget Deficits

The budget policy performed to be a substance of Turkey’s macroeconomic stability. Especially, since the crisis of 2001, Turkey has reached to very remarkable budget results, especially for central government. As the table (4) below displayed Turkey sharply declined its chronic budget deficit. Thus, the budget policy can significantly affect the future growth rate of the economy by stimulating the growth of the human capital stock. As well as through capitalizing into infrastructure developments. As a result, the Turkish government through implementing budget policy kept public finances on a maintainable path.

Table 4: Turkey’s Budget Deficit Over the Period 2000-2015

<table>
<thead>
<tr>
<th>Years</th>
<th>Turkey Budget Deficit %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-33</td>
</tr>
<tr>
<td>2002</td>
<td>-12.9</td>
</tr>
<tr>
<td>2003</td>
<td>-11.3</td>
</tr>
<tr>
<td>2004</td>
<td>-4.5</td>
</tr>
<tr>
<td>2005</td>
<td>-1.2</td>
</tr>
<tr>
<td>2006</td>
<td>-0.6</td>
</tr>
<tr>
<td>2007</td>
<td>-1.6</td>
</tr>
<tr>
<td>2008</td>
<td>-1.8</td>
</tr>
<tr>
<td>2009</td>
<td>-5.3</td>
</tr>
<tr>
<td>2010</td>
<td>-3.5</td>
</tr>
<tr>
<td>2011</td>
<td>-1.3</td>
</tr>
<tr>
<td>2012</td>
<td>-1.9</td>
</tr>
<tr>
<td>2013</td>
<td>-1</td>
</tr>
<tr>
<td>2014</td>
<td>-1.1</td>
</tr>
<tr>
<td>2015</td>
<td>-1</td>
</tr>
</tbody>
</table>

Source: Central Bank of the Republic of Turkey, (2018)

As it can bee seen the table above Turkey had progress in decreasing budget deficit between 2000 and 2015. That is the result of the impact on expenditure of measures taken within the framework of fiscal discipline decrease was observed an increase in revenues (Atılgan Yaşa, 2017:84).
CONCLUSION

The study concludes that Turkey’s annual percentage changes of the CPI at the beginning of the period 2000-2015 declined. The fluctuating notably took place between 2004 to 2015. While the study found that the unemployment rate in Turkey increased from 6% in 2000 to 7.8% in 2001. However, unemployment in major metropolitan areas fell to 10.3% in 2015, from around 13.1% and 11.1% in 2009-10 respectively.

The study also found that the Central Bank of Turkey during the period 2000-2015, took various actions on policy and reached its objectives of achieving its economic stability, in the overall level of prices and maintaining the reliability of the banking system, constant with the purposes of the bank and the means to achieve these purposes, in accordance with the provisions of the law.

However, budget policy affects the economic stability in general and inflation in particular by changing either a comprehensive or an interest rate targeting. By employing some potential actions, so, the traditional actions of budget policy comprise the fluctuations in money supply, interest rates, exchange rates, and changes in asset prices, which is Turkey effectively implement them. Besides, increased money supply, as well as adopted floating interest rates and a free exchange rate regime. However, foreign currencies exchange systems have liberalized.

So, this study hypothesis is that the budget policy have a significant impact on achieving economic stability in Turkey over 2000-2015. The study also found that the Central Bank of Turkey during the period 2000-2015, took various actions on policy and reached its objectives of achieving its economic stability, in the overall level of prices and maintaining the reliability of the banking system, constant with the purposes of the bank and the means to achieve these purposes, in accordance with the provisions of the law. However, budget policies in Turkey can be used to achieve long-term economic stability if the increase in the money supply is equal to the growth of net national product without the use of policies based on expansion and contraction.

Further, the study concludes that the budget policy performed that to be a substance of Turkey’s macroeconomic stability. Especially, since the crisis of 2001, Turkey has reached to very remarkable budget results, especially for central government. Turkey sharply declined its chronic budget deficit. Thus, budget policy can significantly affect the future growth rate of the economy by stimulating the growth of the human capital stock. As well as through capitalizing into infrastructure developments. As a result, the Turkish government through implementing budget policy kept public finances on a maintainable path.

REFERENCES


Khan, M. S. (1987, Jan.). Macroeconomic Adjustment in Developing Countries: A Policy Perspective Author. The World Bank Research Observer, 2(1).


