

# MONETARY PROGRAMMING IN TURKEY AFTER 1990s

**Oğuz YILDIRIM**

Instructor Doctor, Open Education Faculty, Anadolu University Eskişehir/Turkey

## **I. Introduction**

Money is most important for modern market economies. Value of money must be stable for an economy that is productive working. Therefore, monetary policy is most important a macroeconomics policy tool. Although, monetary programming is an annual program in monetary policy.

In the most of countries, monetary programming brought a new approach that the central banks set targets for the monetary variables and announce them to the public so that they could adapt their plans to the targets. That approach would reduce the effects of informational asymmetry (**Tacal, 1993**).

The purpose of monetary programming is to prevent effects of economic instabilities for a stable economy. The monetary programming must have some basic characteristics (**Yıldırım, 1995**).

\* Monetary programming must be coherent with inflation targets of central bank.

\* Monetary programming must be to give a direction expects of money markets and finance markets.

\* The target changeable of monetary programming must be related with economic activities.

\* The target changeable of monetary programming must be include all tools of monetary policy.

Briefly, in the monetary programming target changeables to choose most important. Now, we examine the historical progress of monetary programming.

In the developed West Countries, the practice of monetary programming started in the year 1973 after the oil shock (**Kumcu, 1998: 40-41**). Monetary programming was used in Germany for the first time in the year 1974. To be continued, North Europe Countries used monetary programming and most important economic successful provided. Although in Turkey, this practice has been started in the years 1985 and 1986s.

## **II. Monetary Programming Before 1990s**

In Turkey, the practice of monetary program started before 1990s. For the first time, the idea of monetary program appeared in 1985 and 1986 (**Kumcu, 1998**). These practices to be continued until 1990s. But, at that time prepared monetary programs was not announced by CBRT to public opinion. Because, at that time the basic of monetary programs was not set still.

In the year 1986, CBRT prepared an annual monetary program for internal use (**Tacal, 1993**). Taking the inflation and growth rates targets planned for 1986 by the government and setting a target for broad money (M2) (See Table-I).

**Table-I: Targets and Realized of 1986-1989**

	1986 Targets(%)	1986 Real(%)	1987 Targets(%)	1987 Real(%)	1988 Real(%)	1989 Real(%)
Growth	5.0	8.1	5.0	7.4	4.1	1.8
Inflation	25.0	25.8	25.0	51.7	68.0	70.0
M2	35.0	40.0	30.0	36.0	47.6	83.0

**Source:** CBRT Annual Reports, 1986-1989

According to Table-I, growth rate realized above the rate announced by the government. Also government borrowing from CBRT sources realized above the limits in the monetary program. Therefore, increase in broad money (M2) realized above the targets set in the monetary program. However, because of the decline in the prices in the world economy import prices declined. Therefore, inflation rate did not realize much above the target level. Finally, prepared program has been succeeded.

CBRT, prepared an annual monetary program also for the year 1987 for internal use only (See Table-I) (Tacal, 1993). According to Table-I, due to the excess liquidity remained from the year 1986, excess demand of treasury for short-term advances from CBRT and reserve money increased beyond the upper limits in the 1987 monetary program. In addition, increased interest rates because of the rivalry between financial institutions increased deposits. Therefore, broad money (M2), especially inflation rate increased beyond the target levels in the monetary program. Finally, prepared program has not been succeeded.

In the year 1988, purpose of monetary policy was controlling the money supply while making Turkish Lira (TL) attractive. Until 1989, monetary policy and discount window were the means of agricultural and industrial development support policy.

A year hence, in the year 1989 principles of the monetary policy were to control the growth of the domestic liabilities of CBRT and stop its expansionary effect in the financial system. CBRT-Treasury protocol regarding the limitation of short-term advances to the Treasury from CBRT signed in 1989 (Kumcu, 1998: 40-41). Therefore, CBRT credits did not expand in 1989. In the year 1989, CBRT prepared an annual monetary program for internal use. But, it was not announced by CBRT to public opinion. Because, at that time, the basic of monetary programs was not set still.

### III. Monetary Programming After 1990s

#### III. a). Monetary Programming in 1990s:

First time, an annual monetary program was announced by CBRT on January 16, 1990. This program is the most of event for monetary policy.

In order to control use of CBRT sources to finance government deficit, a protocol was signed between the Treasury and CBRT in 1989 in accordance with the act, number 1211 (Tacal, 1993). The Treasury started to use market sources mainly instead of CBRT sources. The purpose of this program is general macroeconomics targets, such as low inflation rate, high growth rate, balance of payments and employment.

Monetary programming in 1990 does not refer to any monetary aggregate such as reserve money, M1, M2 and refrains from establishing any links between them and the targeted variables (Saraçoğlu, 1990).

Instead, the monetary program was formulated in microeconomics terms, i.e. targeting variables selected from the CBRT's balance sheet in order to reach the balance

sheet characteristics which would enable the CBRT to control its balance sheet and monetary operations (**Tacal, 1993**). This balance aggregates are as follows: Balance Sheet Total, Total Domestic Liabilities, Total Domestic Assets and Central Bank Money. Table-II, indicates targets and realized values of 1990-1992.

**Table-II: Monetary Targets of CBRT and Realized, 1990-1992**

	1990 Targets(%)	1990 Real(%)	1992 Targets(%)	1992 Real(%)
Balance Sheet Total	12-22	24.1	37-47	85.0
Total Domestic Liabilities	15-25	21.6	38-48	101.0
Total Domestic Assets	6-16	11.9	27-39	75.0
Central Bank Money	35-48	26.6	40-50	100.0

**Source:** CBRT Annual Reports, 1990-1992

This prepared program has been succeeded. As known, a protocol was signed between the Treasury and CBRT in 1989 regarding the control of CBRT credits extended to the Treasury. However, in order to maintain to finance public deficit should be brought under control. Therefore, there was no significant differences between the targets and realized values in the 1990 monetary program. And this program is a successful monetary program.

In 1991, CBRT did not announce any monetary program. In January 1991 the Gulf War begun. In addition, in October 1991 there was general Parliament election in Turkey. Year 1991, was a strength year for using monetary policy and CBRT.

During the Gulf War and also during the election period public borrowing from CBRT sources increased. On the other hand, public deficit increased the government used CBRT sources to finance government expenditures. Therefore, CBRT did not announce monetary program in 1991. During 1991-1992 period, there appeared significant changes between the targets and realized values (**Yıldırım, 1995**).

### **III. b). Monetary Programming in 1992s:**

In 1992, CBRT announced a new monetary program to public opinion, such as in 1990 year. The main purpose of this program decrease indefinites in economy such as monetary programming in 1990. According to the Table-II, this prepared program has not been succeeded.

In the first months of 1992, the government reached its credit limit from CBRT. Extreme government borrowing increased the liquidity in economy (**Tacal, 1993**). Besides, CBRT tried to decrease liquidity selling government bills by open market operations and borrowing in interbank market. However, increase in the liabilities of CBRT due to open market operations increased the Central Bank Money (CBM) beyond the targets in the monetary program. When the Treasury used its credit limit from CBRT, it borrowed in the domestic market. Therefore, interest rates increased. Finally, this monetary program is a unsuccessful program.

After 1992 and until 1996, CBRT did not announced an annual monetary program to public opinion.

In 1996 and 1997, CBRT prepared one each annual monetary programs for internal use only, such as monetary programming in 1992 (**Kumcu, 1998**). But, these programs have not been succeeded. Because, in April 1994 occurred a great financial crisis in Turkey economy and effects of this financial crisis to be continued until these years. As

a result of this financial crisis; the Turkish Lira (TL) depreciated by more than 50 percent against the US dollar, real output contracted by about 6 percent, annual inflation rate jumped to three digit levels, public sector debt stock and deficits as a percentage of GNP reached record high levels and the burden of interest payments increased. Finally, the Treasury started to rely on shortterm advances from CBRT (**Kirbitçioğlu and Köse, 1998: 87-88**).

At the beginning of 1998, CBRT announced an annual monetary program for internal use only. At this program, CBRT declared that it would influence the monetary conditions through controlling the reserve money and announced that its exchange rate policy would be conducted in accordance with the estimated inflation rate. Further, CBRT announced to conduct its monetary and exchange rate policy consistent with the 50 percent inflation target in the second half of 1998. And in July 1998, the Staff Monitored Program signed with the International Monetary Fund (IMF) (**Erçel, 1998**). In addition 1998, the negative developments in the Russian financial markets and the South Asian crisis did not adversely affect the Turkish financial market (**Kirbitçioğlu and Köse, 1998: 87-88**). As a result, in Turkish economy has observed positive development at the end of 1998. The inflation rates decreased and the growth rate increased.

In 1999, CBRT did not announce any monetary program. Year 1999, was a strength year for using monetary policy and CBRT. Because, in April 1999 there was general Parliament election in Turkey. In addition, in August 1999 occurred a great earthquake. The economics situation was unstabiles in the during 1999. At the end of 1999, CBRT signed Stand-By Agreement with IMF. As a result, the macroeconomic policies for 2000-2002 period, which were framed and studied therein are finalized.

### III. c). Monetary Programming in 2000s:

In December 1999, CBRT announced its monetary program in 2000 year (**Erçel, 1999**). This program is “disinflation program for the year 2000”. The fundamental goal of this program, which is to last for three years are:

- \* To bring down the inflation to 25 percent by the end of 2000, 12 percent by the end of 2001, and 7 percent by the end of 2002.

- \* To reduce real interest rates to plausible levels.

- \* To increase the growth potential of the economy.

- \* To provide a more effective and fair allocation of the resources in the economy.

As a known, high-inflation is the most problem of Turkish economy, that has remained unresolved for 25 years (**Erçel, 1999**). The primary effects of the inflation on the economy are as follows: The unstable economic growth dynamic, high real interest rates and employment rates, erosion of the credibility of national currency (TL), high budget deficits, deteriorate the income distribution and increased the total debt of the public sector rapidly (**Yeldan, 2001: 158**)

As a result, inflation is not an solely economic problem only. Such as persistent inflation is also an important social problem. Inflation has a negative impact on a large part of the society. The main points of the disinflation program are as follos: To apply a tight fiscal policy, realizing the structural reforms, speeding up the privatization and an income policy.

As a result, the point behind reducing inflation with minimum cost is to decrease inflationary expectations. The success of the program depends on the credibility, continuity and acceptance of the program by the different groups of the society.

#### IV. Conclusion

The purpose of monetary policy and program is to prevent effects of economic instabilities for a stable economy. The monetary programming is an annual program in monetary policy.

The idea behind the policy of monetary programming that is declaring targets on monetary aggregates expecting public to adopt their plans accordingly seems to be the idea of rational expectations theory.

In Turkey, first time the idea of monetary program appeared in 1985. These programs to be continued until at the end of 1990s. In 1990 and 1992, CBRT announced an annual monetary programs to public opinion. In 1999, CBRT announced its disinflation program for the year 2000. In general, for successful of prepared monetary programs;

\* In order to eliminate these economic problems, it is not sufficient to have only powerful monetary programs. There must also be a determined political support throughout the monetary programs period. This is exactly the most important factor for a successfully implementation of the monetary programs.

\* The success of the monetary programs depends on the credibility, continuity and acceptance of the monetary programs by the different groups of the society. Therefore, the acceptance of the monetary programs by whole society, believing that it is a long-term program, will in turn lead to stable and sustainable economic growth.

\* As a result, from now on, all society have to do is to support the monetary programs.

#### Appendix

*Central Bank Money*: Monetary Base + Deposit of the Public Sector

*Currency in Circulation*: Notes and Coins Issued + Vault Cash The Banking Sector + Free Deposits

*M1*: Currency in Circulation + Sight Deposits with Deposit Money Banks + Deposits with the Central Bank

*M2*: M1 + Time Deposits with Deposit Money Banks

*M2Y*: M2 + Foreign Exchange Deposits Net Domestic Assets: Base Money - Net Foreign Assets Maturity of Two Years or Longer + Others

*Monetary Base*: Reserve Money + Liabilities due to Open Market Operations

*Reserve Money*: Currency Issued + Reserve Balances of the Banking Sector + Banking Sector Reposits + Depo-of Public Funds + Non-Bank Private Sector

*Total Domestic Liabilities*: Central Bank Money + Foreign Exchang Deposits of non Bank Res + Foreign Deposits of Bank

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