FİNANCİAL DİSCİPLİNARY EFFORTS FREE FROM IMF İN TURKEY

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ABSTRACT

In many developing and developed countries, voluntary-arbitrary policies which have been corruptively applied to financial discipline have brought rule-based financial policies into question. Increasing budget deficit in Turkey, significant rise in public debt stock and current deficit depending on saving gap have increased the economic fragility, bringing up efforts to construct a regular financial structure. Turkey, having conducted financial process under the anchoring of IMF till 2008, has put medium-term programme (MTP) into operation since 2008 as a result of the search for a new anchor. This study aims to present an evaluation of the process of fiscal rule in Turkey which has not yet become legalised.

Key Words: IMF, Stand-by Agreement, Medium-Term Programme, Fiscal Rule

1. INTRODUCTİON

World economic crisis in 1929 invalidated the customary assumption that the actively-operating price mechanism would institute the productional level of full employment, therefore, Keynesian suggestions took the responsibility for the conveyance of underemployment to full employment. In this regard, Keynesian economic theory tried to find solution to the issue of underemployment through open budget policies and proposed financial rulelessness as the way out. However, the debate over whether voluntary-arbitrary or rule-based policy should be applied in economic policies has survived until today. Rule-based economic policies have two aspects: monetary and financial. While rule-based monetary policy is establised by autonomous central banks, the constitution of autonomous financial institutions which will organize financial discipline in a regular financial policy is crucial. The concept of voluntary policies in public finance, which increased budget deficit, weakened debt sustainability and exacerbated the burden of tax, finally paved the way for the destabilization of economy. A very typical example to this is the crisis of debt into which many EU-member countries, the leading of whom is Greece, have gone.

Financial discipline can be explained as the efforts to reach target butget figures which are projected in advance. The importance of financial discipline is due to the fact that it is the precondition of the sustainable growth. In this sense, depending on the necessity of financial discipline, Turkish economy has proportionally assured macroeconomic stability through the compliance with financial discipline in policy implementations being conducted within the scope of 18th and 19th Stand-by agreements made with IMF following the crisis in 2001. 19th Stand-by agreement, which is an important anchor in providing financial discipline, expired in May 2008 and finding a new anchor, the search for which was necessitated by the financial crisis in 2008, was reckoned on the 20th stand-by agreement that had been planned to be made with IMF; nonetheless, no settlement was reached despite many negotiations. Accordingly, 'medium-term programme' that was declared in 2009 has been regarded as a means to sustain macroeconomic stability in Turkey.

The aim of this study is to discuss Turkey's search for a new anchor in the context of medium-term programme (MTP) following the expiry of the 19th stand-by agreement and to assess Turkey's efforts in transition to fiscal rule implementation. In this regard, the general process of fiscal rule will be the first to be discussed. Second, fiscal rule regulations in Turkey and abroad will be assessed with an overall evaluation of stand-by agreements made with IMF. Finally, Turkey's financial disciplinary efforts free from IMF and MTP implementations will be dealed.

2. The General Process of Fiscal Rule

2.1. The Concept of Fiscal Rule

Economy policies are discussed in two categories: arbitrary and rule-based. There exist voluntary and rule-based policies in implementing financial policies as well. Thus, if economy policies authorize politicians in the fields of means, priorities, magnitudes and timing, such policies are termed 'voluntary-arbitrary' (Aktan, Dileyici & Özen, 2010:1).

Keynes, in his studies on the world economic crisin in 1929, suggested that voluntary-arbitrary policy implementations would be more effective than rule-based ones. Accordingly, concentrating on 'open budget policy', total demand would be revitalized by increasing public expenditures to compensate demand weakness which was seen as the root cause of the crisis. However, open budget policy failed to remove the effect of the conjuncture and seriously ruined financial discipline and economic stability, making the budget deficit irrecoverable. Consequently, arbitrary finacial policies were criticised severely. In this regard, fiscal rule is the permanent constraints to the general financial performance indicators in macroeconomic sense. In practice, these constraints are regarded as budget, incurring debt, expenditure and the restrictions placed to incomes as a percentage of a certain macro magnitude (Şen, 2010:27).

In other words, the regulations established in financial policies are the applications which are to take control of the quantity and composition of such means of arbitrary financial policies as budget deficit, noninterest surplus, size of debt stock, debt sources, taxes, taxing authorization and sorts of expenditures. Such applications can be available on such legal grounds as govermental programmes and manifestos, constitutions, acts and international agreements (Aktan, 2010: 86).

Between financial discipline and fiscal rule is a close relation. Financial discipline firstly evokes the equality of public incomes and expenditures. In this sense, financial discipline is not only the balanced budget but it also contains such regulations relating to the income-and-expense balance as governmental business enterprises (GBE), social security institutions, local administrations, funds and rolling capital. These regulations are determined by governmental borrowing, budget deficits and/or a combination of both (Dileyici & Özkivrak, 2000:4; Ley, 2004:1). However, financial discipline should, beyond being income-and-expense balance, be evaluated as the precurance of fiscal policies' sustainability in budget deficits and in public debt and finance in the medium and long terms. Moreover, to conduct budget and public debts within a framework of the rule will positively effect the reliability and performance of financial policy. Within this scope, fiscal rule implementation should be seen as a mistake-correcting mechanism with reference to debt targets which fasten expense-limit in the medium term (Debrun, Epstein & Symansky, 2008:1). On the other hand, fiscal rule is a mechanism that restricts financial fixing authority through the numerical bounds set to budget items. Accordingly, an IMF-supported programme can not be a fiscal rule because it is characteristically not permanent in terms of financial policy. Furthermore, budgets do not have the features of fiscal rules (Lombardo, 2009:3–4; Kopits & Symansky, 1998:2).

2.2. The Reasons For Fiscal Rule Implementations

Fiscal rule implementation should be associated with the historical development of Keynesian fiscal policies. Keynesian fiscal policies, the theoretical foundations of which were laid following the outbreak of the Great Depression in 1929, were regarded as the 'lifeguards' for the era but it lost its effect because of the governments' know-no-bound attitudes after the recession, which initiated the discussion for the necessity of fiscal rule. Particularly after 1970, increasing public expenses depending on the recession put the keynesian suggestions out of commission (Aktan, Dileyici & Özen, 2010:1). Public debt that became unremovable with the growth of public debts was another reason for the necessity of financial discipline. The level of public borrowing has, especially for countries whose financial discipline is poor and international entrepreneurs, been an important macroeconomic issue since the debt crisis in 1980 (Basci, Ekinci & Yulek, 2004: 3).

In democratic governance, however, the ruling party's preferences of election-economy implementations with the intent to be re-elected and the disagreements between coalition partners may both effect the necessary reformations in economic conjuncture, and therefore, budget performance is adversely effected by this negative political environment. Moreover, the deadlocks within the mechanism of making political decisions instigates decision lag and instability. Thus, in many developed countries, the solution of such problems is provided by the rule-based financial policies (Daban et al. 2003:13). To summarize the reasons for the implementations of fiscal rule, Fiscal Rule assures macroeconomic stability, provides the reliability of financial policy by reducing the budget deficits, and consequently, weakens the effect of economic conjuncture through a sustainable financial policy (Kennedy, Robbins &Delorme, 2001:240). In this regard, Kopits & Symantsky (1998) suggest, while establishing a fiscal rule, that the framework be well-determined, smooth and comprehensible, compatible with the goal, reliable and supportive of structural reforms, and finally, flexible enough to accord with other policies. Besides, three components of an active fiscal rule are also notable. These are a) the absolute and significant correlation between numeral goal and ultimate goal, b) the sufficient flexibility to be given to shocks, and c) the clear institutional mechanism. These components are, particulary in an environment of poor public finance, dependent on high uncertainty of macroeconomics and financial developments (IMF, 2009:20).

2.3. The Methods of Fiscal Rule

The methods to be followed in fiscal rule implementations can be classified as the rules of budget balance, rules about borrowing, spending rules and rules related to incomes (Aktan, 2010:86).

Budget restrictions: Contain the restrictions to the volume and the composition of budget. These can be a) the equality of public incomes and expenses, b) the restriction to financial deficit compared to gross domestic product, c) the restrictions to structural budget deficits, and d) the balance between current incomes and expenses.

Debt restrictions: Contain the restrictions to debt sources of local, regional, provincial, or national-federal public management units. In this sense, limitations can be imposed on total debt stock compared to gross domestic product.

Income and expense restrictions: Contain the constitutional or legal regulations which organize to what extent income and/or expense items will increase in the year subsequent to the current year. Either expense items are subjected to nominal restriction or total public expenditures compared to gross domestic product are restricted. As for income restrictions, some limitations can be imposed to the increase in incomes so that local governments' expenditures will not exceed their imcomes.

3. Fiscal Rule in Turkey and In the World

The implementations about fiscal rule date back to very old times and, however, they have been based on constitutional and legal grounds for the last 150 years. The process can be analyzed in three steps (Gunaydin & Eser. 2010:64-66):

First, lower managements in some federal governments borrowed as much as public sector wanted for investments only and accepted 'the golden rule' which suggested financing the residual current expenditure by taxation and other incomes. This rule included a more flexible structure than the equilibrium rule. Second, following the Second World War, some industrialized countries adopted the blanced budget rule with intent to support their stability programmes including their monetary programmes. Last, in regard to the debt crisis that happened in 1970s and 1980, fiscal rule has taken place since 1990s. In the mid-1980s in USA, the first numeral rule was enacted with Gramm-Rudman-Holling Act which was followed by Budget Implementation Act in 1990. In addition, a restriction was placed for blanced budget in 1997 in Japan. Also, in Canada from 1991 to 1996, Federal Spending Control Act was intented to limit expenses. In the meantime, similar implementations were put into force in Latin America. As for Europe, fiscal rule was brought to agenda with Maastricht Treaty in 1992. With this treaty, fiscal rule was establised as the precondition of the participation in European Monetary Union. Afterwards, this implementation continued its existence with Stability and Growth Pact and sanctions were placed if the restrictions to budget deficit were exceeded.

Fiscal rule regulations can differ from country to country because of their characteristics. The rules being applied in USA, Switzerland, Germany and Poland are shaped by constitutional orders whereas they are formed in legal frames in such developed countries as England, New Zealand, Spain, Sweden, Canada as well as some south American countries like Peru, Colombia, Argentina and Brasil. Moreover, such regulations are organized with the scope of international treaties in European Union while they are formed within the frameworks of governmental decisions in Japan, of Financial Stability Code in Norway and of political guidance in Netherlands and Indonesia (Kesik & Bayar, 2010:50).

Financial indiscipline in Turkey made an explicit appearance between 1983 and 1993. In this time, the principle of budget 'union' was abandoned, and, off-budget fund implementations, the expenses of which were kept out of control, were put into action. Moreover, public borrowing policy, instead of taxation, was adopted in financing public expenditures and limitless borrowing became available. Additionally, supplementary budget implementations became usual and the short-term advance payment implementations of the central bank were frequently utilized (Yükseler, 2010:2). The crisis in 1994 unearthed the necessities that financial policies be disciplined. Accordingly, the sustainability of public debts became more of an issue and the importance of noninterest balance was grasped to minimize public debts. Also, some restrictions to public borrowing–which before underwent no limitations– were proposed and some regulations about this issue were made with the post-2000 structuring (Yükseler, 2010:1). In this context, public debt management was reorganized by the Act no.4749, which is related to Public Financing and Organizing Debt Management. However, with public procurement law no.4734, efficiency in using the sources was prioritised. On the other hand, public finance management and control law no. 5018 reconstructed the financial system. Still, regulations which would form publicity in public finance were made in many fields. In addition to all these mentioned above, right to information act no. 4982 and public employees ethics committee act no. 5176 were enacted, in that time, in order to conduct public finance management in a rule-based unity (Kesik & Bayar, 2010:53). In the scope of 'Transition to Strong Economy Programme', put into action after 2002, budget implementations which give particular importance to financial discipline have been performed. Such applications have made remarkable progress of the understanding of financial discipline which took no step until that moment (Eroğlu & Eroğlu, 2011:65).

The act no. 5018 has a special place in reconstructing financial management system in Turkey. This act obliged public managements within the central governance to calculate, for a 3-year period at least, the fiscal burden of income-reducing or expense-increasing regulations in the scope of Medium-Term Programme (MTP) and of Medium-term Financial Plan (MTFP) (Kesik & Bayar, 2010:53).

Despite these regulations, the general elections in 2007, budget deficits increased by the 2008 financial crisis, the evident increase in public debt stock and the current deficit related to saving gap have all brought up serious worries about the sustainability of financial policy. These worries have initiated a discussion on the necessity that financial policy be brought under control. The focus of the discussion has been the failure in providing a far-reaching tax reform and expenditure discipline during the IMF-coordinated programme. In this regard, in budget realizations, %5,6 Budget Deficit/Gross Domestic Product (GDP) in 2009 and %4,2 in 2010, both of which can not be underestimated, have come into being (T:C. Maliye Bakanlığı, 2012). Although such a case, under normal conditions, should be taken as a serious risk with regard to economic indicators, demand weakness in the nature of the crisis has produced the perception that budget deficit is sustainable at both national and international levels. Moreover, the solutions by IMF to the 2011 crisis were supportive of public expenditures, which shows that the case is reasonable.

The establisment of the 'confidence' factor is the first step to be taken to overcome the crisis. In this sense, Turkey negotiated several times with IMF for the 20th Stand-by agreement but no agreement was made. Concordantly, the first question to come to mind is: Can 'confidence' be established by an agreement with IMF only? In other words, will the anchoring by IMF be sufficient to establish confidence? The answer to these questions depends upon the introduction of a new programme alternative to that of IMF. In this regard, with the declaration of MTP, in 2009, containing the 2010-2012 period, Turkey has initiated an alternative programme– which is the first sign that fiscal rule implementation will be put into action. During the negotiations for the 20th stand-by agreement with IMF, Turkish government stated that MTP, which is the national programme of Turkey, would be the basic policy. This approach showed that an agreement between Turkey and IMF could be possible within the scope of MTP, and, MTP was regarded as an alternative anchoring (Eroğlu & Eroğlu, 2009:39).

4. Turkey-IMF Relations on Financial Discipline

Turkey's first official relation with IMF, after having been a member of IMF in 1947, started with a series of stability precautions taken with the aid of IMF in 4th August 1958, however, the first stand-by agreement was made in 1961 and the agreements were annually rearranged from that time to 1970. The 10th stand-by agreement was made in 1970 and, from then on, there was a 8-year break in negotiations with IMF until 24th August 1978 when negotiations were re-started for annual stand-by agreements (which lasted 12, 24 and 36 months) until 1984 (Eroğlu & Eroğlu, 2011:65).

After the second half of the 1970s, Turkey confronted with serious macroeconomic problems and the precautions taken were rather momentary than provided a temporary solution. In this period when import substituting industrialization strategy was pursued, the country became unable to discharge external debts. Turkey, with the stand-by agreements with IMF in 24th August 1978 and 19th July 1979, launched two stability programmes, though, foreign exchange bottleneck, high inflation, negative growth rates and weakened competitiveness inevitably led to economic crisis. In this regard, the agreements made with IMF slid economy into chaos instead of producing solutions to the existing economic problems. However, the collaboration with IMF still continued and,even, the solution was sought within the IMF's suggestions. Hereon, in 24th January 1980, to rescue economy from the crisis, the new government which had just come to power declared the new package of economic measures in line with IMF's suggestions (Eroğlu & Eroğlu, 2011:65). This package of measures that included financial liberalization and integration into world economy initially accelerated economic growth but this acceleration did not last long (Guncavdi & Kucukciftci, 2005: 78–79). Within this process, inflation, which had for the first time reached a three-digit rate (%104) in 1946, reached a record high with the rate %107 in 1980. Thus, two stand-by agreements, one of which was in 24th June 1983 and the other in 4th April 1984, with IMF were made, however, no temporary solution was generated and the stand-bys with IMF were paused until 1994. 16th stand-by agreement which was made in 8th July 1994 expired in 26th September 1995. The biggest current and public deficits in the history of Turkish Republic emerged in 1994 (Eroğlu & Eroğlu, 2011:65). With the increasing burden of external debt, Turkey preferred meeting the deficit through internal borrowing and, thus, both the increasing internal debt stock and the decreasing Gross National Product (GNP) doubled the risk premium for the indicators for borrowing (Kantarci & Karacan, 2008: 149).

The process of 17th stand-by started in October and November of 1997 and the existing government and IMF made a Close Monitoring Agreement that proposed reaching some targets prior to a 3-year medium term agreement. Close Monitoring Agreement was later transformed into the 17th stand-by agreement (Eroğlu & Eroğlu, 2009:133). During this period, many social and political precautions for monetary policy, financial policy, debt management and financial sector reforms and for the restoration of investment conditions were brought to agenda (Kantarci & Karacan, 2008: 150). Disinflation Programme being conducted within the scope of 17th stand-by agreement ended up with the unstoppable crises, which were in one sense due to the fixed exchange rate regime, in November 2000 and February 2001. Then, 18th stand-by agreement was made in 4th February 2002.

18th stand-by agreement was performed along with 'Transition to Strong Economy Programme' and this programme was completely implemented with the stability assured by sigle-party government until 4th February 2005. This agreement differs from the previous agreements in that it is one of the two agreements (18th and 19th stand-bys) which maintained until expiry date. 19th stand-by went into operation in 11th May 2005 and expired in 10th May 2008. This agreeement determined growth and noninterest targets, aiming to bring down the interests, take public debts under control, actualize structural reforms–particularly Social Security Reform–, ease the burden of tax to increase the employment rate, privatize public banks and to strengthen international reserves. In this regard, stability through a substantially formed policy in monetary and financial issues was targeted so that macroeconomic indicators could occur at a reassuring level (Eroğlu & Eroğlu, 2009: 134-135).

5. Financial Discipline in Turkey: Financial Disciplinary Efforts Free From IMF and Medium-term Programme Implementations

Turkey has made nineteen stand-by agreements with IMF since 1st January 1961 and formed economic policies in line with these agreements for 48 years. Negotiations between Turkey and IMF for the 20th stand-by agreement have started in 8th January 2009 but no settlement has been reached despite many efforts. Privatization, balanced public finance, social security, estimations for incomes and expenses are prominent among the issues on which search for agreement is still present (Eroğlu & Eroğlu, 2009: 136-137). The way to remove uncertainty and establish confidence during a global crisis is to present a measurement that economic units will regard as 'anchor'. Accordingly, as the negotiations for the 20th stand-by agreement with IMF did not yield any positive result, MTP was announced as an alternative to IMF anchoring in September 2009. In the scope of MTP, fiscal rule implementation was brought to agenda and regulations were completed until the end of 2010, and, public financial management was projected to perform in accordance with the planned fiscal rule as from 2011 budget year (Kesik & Bayar, 2010:55). In respect to this, within the fiscal rule, MTP targeted that public deficit-national income ratio should be compatible with a sustainable debt structure in the medium-long term. However, in MTP, it was stated, while determining the adaptation to be made for public deficit, that how far the previous year's deficit is from the medium-long-term target should be taken into consideration and that the adaptation for public deficit will be higher if the growth is above the long-term average and it will lower if the growth is below (DPT,2009:7).

Until this new regulation, Turkey's fiscal rule that limited borrowing was based on the regulation within Public Finance and Debt Management Law which restricted the central managements' borrowing to budget deficit. New fiscal rule to be introduced with a medium-term programme suggests restricting public deficit, and, while introducing this restriction two crucial variables–one of which is growth and the other conjunctural change– should be taken into account. Therefore, a flexibility, in paralel with the economic process, is to be brought to this rule (Eğilmez, 2009).

The primary object of MTP is to drag Turkish economy into a period of strong and sustainable growth just as after the crisis in 2001. As scheduled, to reach this goal, short-term precautions will be taken to escape 2008 financial crisis, and, structural reforms will be made to strengthen the system in the medium and long terms. It is expected that the programme, which has been prepared with a holistic approach, will increase predictability and consolidate confidence. The programme specifies that monetary and financial policies will be implemented independently, and, the compatibility of these programmes is vital for the success of the programme. Price stability which is the primary focus of monetary policy is planned to be the precondition. By this approach, it has been planned to prevent potential criticism that monetary policy will be shaped by financial policy and monetary policies will lose independence.

The objective of the fiscal rule has been described to include the target that public deficit-GNP ratio should be consistent with a sustainable debt structure (DPT, 2009:35-39). Thus, with its characteristics as a fiscal rule, MTP being implemented in Turkish economy has the feature of an anchor. In this regard, it can be asserted that among the goals of MTP are to reconstitute the sustainable growth rate of macroeconomic magnitudes, to maintain low inflation, to reconstruct public balance that was deranged during the crisis and to reach a reasonable level for the realizations of unemployment and current deficit (T.C. Kalkınma Bakanlığı , 2011:65-68).

In view of the goals of MTP, a highly reliable national programme, rather than a programme which can be regarded as IMF's 'flexible loan special to the crisis' implementation, considered as an anchor that has been accepted by international capital is very important in that it reveals that Turkish economy has become less fragile. Moreover, the remarks addressed by IMF in September 2008, when the crisis broke out, pointed that such developing countries as Turkey, which conforms to budget discipline and is in an effort to make structural reforms, should be given financial support. Thus, with the financial aid to be given, it was aimed to support flexible budget and monetary policies that governments should implement against the crisis, which in this regard differs from usual IMF programmes (Eroğlu & Eroğlu, 2009:141).

Whether or not the fiscal rule implementation is necessary in order to provide financial discipline is closely associated with the success of countries in implementing fiscal performance and financial policies. Fiscal rule implementation is thought to positively effect economic stability and growth in countries whose fiscal performances are poor and who fail to implement financial policies (Kopits, 2001:1).

The regulation projected as Fiscal rule in Turkey is formulated as follow (DPT, 2009:7):

Δa = y (a-1 - a*) + k (b - b*)

In this formula, **Δa** represents Adaptation for public deficit/GNP, **a–1**: public deficit in the previous year /GNP, **a***: target public deficit in the medium-long term/GNP, **b**: GNP's real growth rate, **b***: long-term average of GNP's real growth rate, **y**: coefficient of convergence to public deficit's medium-long term target and **k**: coefficient of reflectivity of cyclical (conjunctural) effect. **y** and **k** coefficients are negative numbers and negativity of **Δa:** shows the decrease in public deficit. This formula shows, if public deficit has deviated from the level being planned 1 year ago, how to compensate this deviation in the next years.

In this process, a mechanism that is regarded as an automatic stabilizer is proposed to take the system under control. If growth rate exceeds its own potential, expense-reducing precautions (savings) will come into prominence. This case will result in either budgetary surplus or larger budget deficit than those in previous years. If growth fails to go beyond its own potential, budget deficit will be larger. This case will become the stabilizer in the medium term. In this regard, as economic units can be aware that budget discipline will be set and public debts will be kept on reasonable levels, their predictions will be healthy enough to make more rational decisions (Eroğlu & Eroğlu, 2011:65). Thus, the law proposed, in the scope of the formula above, for the fiscal rule presents the formula's parameters. Accordingly, the target value (**a***) for public deficit within a 10-year perspective has been projected to be 1% of Gross National Product (GNP). This parameter also points to what Turkey's target is for debt stock during the relevant period. Coefficient of convergence (**y**) that shows how speedily Turkey will reach the target public deficit has been determined as %0.33. %5 growth rate (**b**) is yet another important parameter which is considered as threshold growth rate within the 10-year perspective. Coefficient of reflectivity of cyclical (conjunctural) effect (**k**) indicates how much must be saved before the threshold grows, i.e. in case of a growth rate more than %5, and how much will be spent in case of low growth, and, it is determined as %0.33 of coefficient of reflectivity. According to these parameters, adaptation for public deficit (**Δa**) is determined by coefficients of convergence and reflectivity before the deviation of public deficit and deviation values of growth rate, and, each is one-third (0.33) effective (Kesik & Bayar, 2010:53).

Note that effectuation of these is associated with the measure of reliability and sustainability. In this sense, for the success of fiscal rule implementation, both populist expenditures during elections and loyality to the same fiscal rule in case of government change are highly crucial. Moreover, the plausability and credibility of the fiscal rule are also significant factors. Many countries have attributed the condition of 'reliability and sustainability' to the implementation of the medium-term programme and to the institution of 'Financial Advisory Committees' (Özatay, 2010a). Thus, independent financial committees that countries will institute in accordance with their political environments, constitutional orders and also with the nature of the existing financial problems will help the fiscal rule perform effectively, improving the efficiency of the financial policy (Debrun, Hauner, & Kumar, 2009:44-81: citing IMF, 2009:13).

During an economic crisis, public opinion should immediately be focused on an anchor to lessen the effect of the crisis. The point Turkey should pay attention to is that this anchoring will be either the 20th stand-by agreement with IMF or a programme which Turkey will determine by its own initiative. In respect to this, to remove the ambiguity, both IMF and Turkish government confirmed that no negotiation was available (Eroğlu & Eroğlu, 2009:139) and the governent remarked that the fiscal rule, which will be legalized with MTP, will be accepted as the anchor.

Remarkable progress has been made for the regulations about the fiscal rule but no concrete step has been taken for the institution of Financial Committees. This is possible with an independent institute which will supervise the income and expense figures of the budget on behalf of Turkish Grand National Assembly (TGNA) (Özatay, 2010b). By this way, the institutional independence (the structure of independent central bank) within the monetary policy implementation will be provided for the financial policy in terms of supervision only. With respect to this, the regulation for the supervising mechanism has been included in 'Draft Law of Fiscal Rule', which was prepared in 2010 but postponed to be legalised. According to the draft, the mechanism will perform as follow (Kesik & Bayar, 2010:59): Ministry of Finance will declare the financial data relating to general management/executive level to the public in 3- and 6-month periods. The reliability of the report will be supervised in accordance with the predetermined rules by Court of Accounts. Supervision results will be sent to TGNA within 45 days following the publication of Fiscal Rule Monitoring Report to inform the public. In addition, at the request of Ministry of Finance, public agency's senior managers will charge the responsible unit managers who have not met their obligations with an administrative fine valued at 1-month net payments.

Conclusion

In crisis economy, economic units prioritise the factor of confidence for the operation of fiscal policies. Whether voluntary-arbitrary or rule-based policies to be implemented has always been the matter of discussion. Recent global crisis in 2008 and debt crisis brought with it in Europe have again brought voluntary policies into question. Thus, developed countries with a rule-based policy management have escaped deficit pressure which is a consequence of the increasing public expenditures while potential debt crises in developing countries can be prevented. In view of voluntary policies' confidence weakness, introducing a measurement that will establish confidence is highly crucial. This is possible through either a programme whose criteria are determined by such an international financial institution as IMF or a highly applicable national programme whose objectives and control mechanism are reliably scheduled.

Turkey initially intended to overcome the confidence deadlock caused by the economic crisis in 2008 by favour of 20th stand-by agreement with IMF but when these efforts did not yield any result, MTP was accepted as a measure of anchor within the frame of fiscal rule. A highly reliable national programme, rather than an IMF-supported implementation, considered as an anchor that has been accepted by international capital is very important in that it reveals that Turkish economy has become less fragile, and, markets have reacted to this advancement positively. Moreover, markets already gave almost no negative reaction to the expiry of 20th stand-by agreement. However, the sustainability of MTP in the long term is of prime importance. In this regard, the success of fiscal rule implementation is determined by avoidance from populist expenditures during elections, loyality to the same fiscal rule during the government change, plausibility of the fiscal rule and its high credibility. Additionally, the course of global economic conjuncture is among the factors that effect success since financial disciplines of many developing and developed countries were smashed during the crisis in 2008. In Turkey, independent and rule-based monetary policy has institutionally and legally been implemented within economic policies whereas no institutional or legal regulation is still available for the fiscal rule in terms of financial policies. In the process that has started in 2009, targets for various macroeconomic magnitudes have been set as a part of MTP, though, no regulations have been made with regards to transparency and accountability, and, sanctions against the violation of the rule are not legally-binding.

In conclusion, although MTP, introduced as an alternative to IMF programmes, has been accepted as an anchor by both national and international environments, to –institutionally and legally– structure it is perceived as a serious matter by public opinion. For a fiscal rule to actively function, it should be established on a constitutional and legal ground and be decisively implemented, and, sanctions must be clear-cut; in additon, inspection and accountability mechanism must function properly, and, the rule is supposed to be flexible enough against unexpected economic fluctuations.

In this regard, Turkey should immediately enact the fiscal rule to complete institutional structuring and actualise necessary reforms. A fiscal rule whose structural reforms are incomplete will be unable to go beyond an implementation lacking of reliability which has poor applicability and sustainability.

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