

POLITICAL EXCHANGE RATE FLUCTUATIONS SPECIFIC TO FIXED EXCHANGE RATE REGIMES: A CASE STUDY ON TURKEY

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Abstract

Based on political business cycle theories, governments manipulate the economy with macroeconomic policies to be re-elected. Thus, government's uses of exchange rates in addition to monetary and fiscal policies create "Political Exchange Rate Fluctuations". The main objective of the present study is to determine the political exchange rate fluctuations during periods of fixed exchange rate implementation in Turkey. Since devaluations in countries that implement fixed exchange rates is an indicator of the failure of the government, devaluations are usually implemented after the elections. Eight of the nine devaluations implemented in Turkey between 1946-2001 were realized after the elections. Therefore, it is possible to discuss the existence of political exchange rate fluctuations under fixed exchange rate regimes in Turkey. Furthermore, devaluations based on the election date were discussed in the present study based on economic crises, the reforms implemented after the crises and the pursuits of individual-political gain by the central bank director.

Keywords: Political business cycle theories, political exchange rate fluctuations, fixed exchange rate, devaluation, central bank, Turkey.

Clasificare JEL : M40, M41

1. Introduction

One of the branches of the new political economics literature is political business cycles theory. The theory analyzes the changes in economic policy instruments utilized by the government to be reelected, and its effects on economic outcomes (Przeworski, 2014: 33; Eryılmaz and Murat, 2016: 249). Political business cycles theory is divided into two sections of traditional and modern theories. In the 1970s, attempts were made to develop traditional opportunistic and traditional partisan goals of theory based on adaptive expectations. From the mid-1980s onwards, with the influence of the rational expectations theory, modern models of the above mentioned objectives have emerged. While there is a homogenous ideological structure between voters and parties for opportunistic goals, ideological differences exist between the two parties for partisan goals.

Consistent with the goal of re-election, government should implement expansionist fiscal and monetary policies, which are macroeconomic policy instruments, before the election and conduct contractionary policies shortly after the election (Nordhaus, 1975: 169-189). However, the government could use the exchange rate as well as the monetary and fiscal policies to influence the electorate. Depending on the exchange rate regime, the exchange rates could be increased immediately after the election with economic concerns, while the exchange rate is kept lower to increase the purchasing power of the electorate before the election. In countries that apply fixed exchange rate regime, the postponement of the devaluation decision indicates the presence of political exchange rate fluctuations. Review of previous studies showed that a study Ben-Porath (1975) on Israel referred to political exchange rate fluctuations particularly after the elections (Stein and Streb, 2004: 120). Furthermore, studies on Latin American countries demonstrated that foreign exchange rates moved with the elections (Obstfeld and Rogoff, 1995, Goldfajn and Valdes, 1999, Bonomo and Terra, 2005).

The objective of the present study is to investigate whether political exchange rate fluctuations existed in the fixed exchange rate regime in Turkey. In the analysis of political business cycle fluctuations in Turkey, generally monetary and fiscal policy tools were used. It is considered that the present study would contribute to the literature since there are no previous analyses on the exchange rates in terms of election periods in the fixed exchange rate regime in Turkey. Thus, the relationship between the devaluations, which occurred 9 times between 1946-2001 in Turkey, and the election periods during the related years was analyzed. The study includes five sections, and in the second section, political business cycle theory and its sub-branches are discussed. In the third section, the political exchange rate fluctuations and the factors that result in these fluctuations are addressed in the framework of fixed and flexible exchange rate regimes. Furthermore, a literature review is conducted in this section and the results of previous international studies

carried out in relevant fields are discussed. In the fourth section, the presences of political exchange rate fluctuations specific to fixed exchange rate regime in Turkey are discussed. Since the vast majorities (8) of the 9 devaluations in Turkey were implemented after the elections, the existence of the political exchange rates could be claimed. Only the devaluation of April 5, 1994 was implemented before the elections, therefore that devaluation was not consistent with the political exchange rate fluctuations. The analysis of the above mentioned contradictory case was attempted to be explained based on the central bank and the government from the perspective of personal and political interests. In the fifth section, the conclusions and discussions are included.

2. Political Business Cycles Theory

The relationship between politics and economics is a wide field of research. One of these fields of investigation is the political business cycle theories that are based on especially the relations between politicians and electorate. In the extensive literature based on Kalecki's (1943) article "Political aspect of full employment", the debate over the interests of the government and the corporate owners was decisive (Kalecki, 1943). Then, the implementation of expansionist economic policies by the government to be reelected during pre-election periods caused to debate to focus on governments and electorate (Nordhaus, 1975). Accordingly, governments' opportunistic expansionist monetary and fiscal policies before the elections and contractionary policies after the elections would result in the fluctuation of macroeconomic factors (Snowdon and Vane, 2005: 531). For the political business cycles to emerge, the voters must not be able to calculate the long-term consequences (shortsighted) and should not act rationally. If voters perceive that the ruling party's pre-election expansionary policies aim to deceive them, political business cycle would not take place (McCallum, 1978).

Political conjuncture theories can be examined under four groups based on the categorization of voters and politicians by the ruling party and the type of expectations.

Table 1. Political Business Cycle Theory Classification

Models	Opportunistic	Partisan
Traditional Models	Nordhaus (1975) Lindbeck (1976)	Hibbs (1977)
Modern Models	Cukierman-Meltzer (1986) Rogoff-Sibert (1988) Rogoff (1990) Persson-Tabellini (1990)	Alesina (1987)

Resource: Alesina, 1988: 16

Based on the Table 1, if voters and politicians have homogeneous ideological structure and expectations are adaptive, it is possible to consider the traditional opportunistic models. If the relationship between the electorate and politicians is heterogeneous and adaptive expectations are prominent, partisan models are concerned (Drazen, 2000: 75). Studies by Nordhaus (1975) and Lindbeck (1976) are traditional opportunistic, while the study by Hibbs (1977) established the foundations of the traditional partisan models. With the advent of rational expectations in the economy, the opportunistic and partisan versions of the political business cycles were diversified as modern theories (Alesina, 1988: 15-16). Cukierman and Meltzer (1986), Rogoff and Sibert (1988), Rogoff (1990), and Persson-Tabellini (1990) were the pioneers of rational opportunism, and Alesina (1987) was that of the rational partisan models.

In the traditional opportunistic model, voters and parties are ideologically identical, and the parties try to attract the votes of myopic electorate to be reelected during the pre-election period. Since the expansionary policies implemented during the pre-election period would increase inflation and reduce unemployment, the government would try to prevent further increase in inflation with contractionary economic policies immediately after the election (MacRae, 1977: 46). In the traditional partisan model, voters and politicians are ideologically different. The difference demonstrates that different parties have different economic priorities. Politicians are forced to implement policies consistent with different political priorities of the electorate. Thus, right-wing governments usually target low inflation to influence their electorate, while left-wing governments target low unemployment. As a result, macroeconomic factors would fluctuate based on politics and depending on whether a right-wing or left-wing party would win the elections (Hibbs, 1994: 16).

The rational expectations of economic agents result in policy inactivity. Accordingly, in the presence of policy inefficiency, there is no way to mislead rational voters with the policies that the political parties implement. This outcome prevents the political business cycle theory to function. However, the existence of asymmetric information between voters and politicians and the uncertainty of the election results indicate that political business cycles would occur even when voters have rational expectations (Alesina, 1989: 146).

The first of the modern theories based on rational expectations is the rational opportunist model. The government, benefiting from the information asymmetry between the electorate and politicians, tries to influence the voters with opportunistic policies. Even though the voters are rational, there is no voter who calculates and knows every government action. Thus, the governments signal the voters about their abilities by lowering the taxes and increasing public expenditures. As a result, voters will choose the parties whose abilities they trust the most. This suggests that even if the voters are rational about the economy, there would be fluctuations (Rogoff and Sibert, 1986: 2). However, although the implemented policies would mislead voters in the short term and cause economic fluctuations, the illusion would not last forever and long-term fluctuations would not be observed (Alesina, 1988: 35).

In the rational partisan model, voters and party groups are ideologically different, similar to the traditional partisan model. The left-wing parties target decreasing unemployment and the right-wing parties aim to reduce inflation. But unlike the traditional partisan model, the existence of election uncertainty and pre-election collective bargaining agreements would lead economic actors to be mistaken even if there are rational expectations. The governments of different political parties and the possibility of significant election surprises will lead to high and short-term deviations in macroeconomic indicators (Alesina and Sachs, 1988: 64). The first thing the right-wing party that wins the elections after a left-wing party would do will be to reduce the inflation that has increased due to the expansionary policies of the former left-wing government. Thus, the inflation realized with the contractionary policies of the right-wing government would be reduced below the expected inflation rate. After the right-wing government, as the left-wing government assumes the power, the new government would want to reduce the high unemployment with expansionary policies. As a result, inflation would rise above the expected inflation rate. Thus, although ideological differences and electoral uncertainties are the cause of economic fluctuations in the short term, long-term fluctuations would not occur due to the impact of rational expectations (Alesina, 1987: 658-659; Alesina et al., 1997: 51).

3. Political Exchange Rate Fluctuations Theory

The theory of political exchange rate fluctuations arises when politicians manipulate the exchange rate as a political tool during the election periods. The government may use the exchange rate as a target in addition to monetary and fiscal policies to be re-elected. Because voters can easily monitor changes in exchange rates (Walter, 2006: 2). It could be argued that the exchange rates that could be observed by the electorate and provide increases in purchasing power via changing exchange rates are in a decreasing trend before the elections and increase right after the elections in the political cycle (Dornbusch, 1986: 27-29). Prior to the elections, lowering the exchange rate for political reasons results in less expensive imported commodities. This situation can be likened to the government's pre-election tax reductions, which could be observed in political budget cycles (Eryılmaz and Mercan, 2015: 6, Eryılmaz and Murat: 2016, 207). In both cases welfare is transferred to individuals with political concerns (Tuftes, 1978).

Flexible or fixed exchange rate systems are not different in terms of politics. Devaluation in economies where there is a fixed exchange rate regime reflects political deficiency of the government. Accordingly, devaluation has a tax-like effect on consumption (Atkinson and Stiglitz, 1980). A rise in the exchange rates indicates that the government is incompetent, reducing the purchasing power of the individual. In this case, it is necessary for the government to postpone the devaluation after the elections to be reelected (Ghezzi, Stein and Streb, 2000: 1). Therefore, competent governments limit the exchange rate increases as a signal before the elections. The manipulation of the exchange rates by the opportunist government for the sake of political gain results in political exchange rate fluctuations (Stein and Streb, 2004: 120).

The status of the economic policy instruments during election periods can be seen in Figure 1. Thus, before the elections, inflation and M1 monetary stock increase, while unemployment rate and exchange rates decrease (Eryılmaz, 2015: 516). In the post-election period, as a result of the contractionary policies, the vice versa is true for the policy instruments.

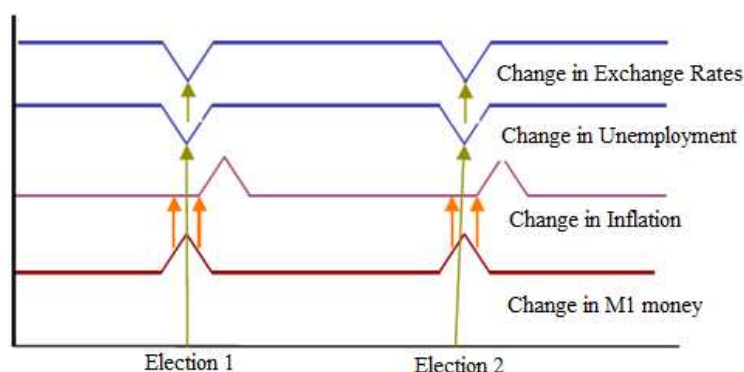


Figure 1. The Course of Policy Instruments During Election Periods

Resource: Prepared by the author based on Asutay, 2005: 4

The factors that affect the political exchange rate fluctuations are the independence of the central bank, the existence / absence of capital movements, the attitude of the central bank president, the coordination of foreign currencies and monetary policy, and the form of government in the country. The first of these factors, independence of the central bank, is quite important for the political business cycles theory. The independence of the central bank means the ability of the central bank to produce central bank policies independent from the government. The high level of independence of the central bank in a country prevents collaboration with the government during elections and financing of the government by the central bank (Eijffinger and De Haan, 1996: 44). Furthermore, while the central bank determines its objectives along with the increasing significance of the autonomy of the instrument and the objective, it prioritizes the objective of price stability. Thus, weakening the government's arbitrary intervention power on exchange rates (Jacome, 2001). However, although the central bank is autonomous, the dependence of the appointment of the chairman and members of the board to the government leads to a business alliance between the central bank and the government. Thus, although the central bank is autonomous, the possibility of reflection of the government policies on monetary and exchange policy instruments increases. To reduce this collaboration, the instrumental autonomy of the central bank was attempted to be strengthened (Arnone et al. 2007: 6).

The independence of the central bank based on the public choice theory points to a government that has no control over bureaucracy (Vaubel, 1997: 202). Thus, an autonomous central bank cannot be a partner in the opportunistic policies of the government, but it leads to the implementation of discretionary policies more than other economic institutions. Thus, an independent central bank can help re-election of an ideologically-favored party even if it is not for opportunistic reasons (Hayo and Hefeker, 2001: 5-6). Moreover, implementation of discretionary policies by the central bank might be for the protection of the personal interests if the central bank president. This could be similar to the desire of ruling parties to be reelected during election periods (Eryilmaz, 2015: 538). Accordingly, the head of the central bank might change the monetary and exchange rate policies towards the end of her or his term at the office. For example, when the economy has a fixed exchange rate regime, the devaluation is postponed to the post-election period. However, under a flexible exchange rate regime, an income transfer to individuals is attempted in pre-election period by decreasing the exchange rates.

Another factor that affects political exchange rate fluctuations is capital movements and the exchange rate systems. Thus, manipulation instruments in the political business cycles theory differentiates based on the exchange rate system implemented in countries. When the Mundell-Fleming model that assumes full capital movements is valid, it is necessary to use monetary policy if there is a flexible exchange rate in the country, and fiscal policy instruments if there is a fixed exchange rate (Hiroi, 2009: 5). If there is no capital movement in the country, both the monetary and fiscal policies are effective and the problem of policy instrument choice for the political business cycle does not arise. When there are no capital movements in the country, the government implements expansionary fiscal policy in the pre-election term. If the central bank is not autonomous, expansionary fiscal policies are supported by monetary policies. If the central bank is autonomous, the promotion of fiscal policies with monetary policies is dependent on monetary contracts (Hallerberg and De Souza, 2000). The instruments that would be used when the central bank is autonomous and not autonomous and under different exchange rate regimes are presented in Table 2.

Table 2. Validity Matrix for Fiscal and Monetary Political Business Cycles

	Central Bank Non-Autonomous	Central Bank Autonomous
Capital Movements and Fixed Exchange Rates	Fiscal fluctuations exist. Monetary fluctuations do not exist.	Fiscal fluctuations exist. Monetary fluctuations do not exist.
Capital Movements and Flexible Exchange Rates	Fiscal fluctuations do not exist. Monetary fluctuations exist.	No fiscal and monetary fluctuations.

Resource: Hallerberg and De Souza, 2000: 5

Financial and monetary fluctuations based on the autonomy of the central bank and capital mobility with fixed or flexible exchange rate regimes are presented in Table 2. Thus, if a flexible exchange rate regime is implemented under the capital movement conditions, the monetary policies could be used as a manipulation instrument. However,

when the central bank is autonomous, it will not be possible to use the monetary policy instrument. Also, when the central bank is autonomous, the government could use fiscal policies during the election periods as a policy instrument under the fixed exchange rate regime. The fixed exchange rate regime in a country diminishes the impact of the government on monetary policy. When the government attempts to influence the electorate with competency signal, it might choose political budgetary fluctuations since monetary policies are not effective under fixed exchange rate (Bernard and Leblang, 1999). Presence of an autonomous central bank and fixed exchange rate regime leads to the exclusion of the government in monetary policies. This causes governments to look for other policies besides conventional policies to serve for their interest (Demertzis et al., 2004). Thus, the independence of the central bank under fixed exchange rates may lead to the use of currency exchange rates for political interests in addition to fiscal policies. The use of exchange rates means indirect administration of the monetary policies.

Finally, the coordination of exchange and monetary policies could be found behind political exchange rate fluctuations. Accordingly, the use of monetary policies in pre-election periods instead of the exchange rates reflects political monetary fluctuations. The government increases the money supply with various methods with opportunistic aims (Asutay, 2005: 4; Eryılmaz and Murat: 2014: 70). Furthermore, there is a link between monetary policies implemented with electoral concerns and exchange rate fluctuations. Due to the increase in the money supply, domestic currency becomes worthless under flexible exchange rate regimes and the exchange rates increase. But before the elections, the government wants to reduce the exchange rates to be reelected. Thus, to prevent the increases in exchange rates, the government increases foreign currency supply in the market against domestic currency. The central bank reserves would decrease as a result of this intervention. Thus, one of the methods to understand political exchange rate fluctuations is to control central bank reserves. The decreasing reserves due to exchange rate interventions are not fully recognized by the electorate. Thus, the political cost of changes in the central bank reserves is negligible (Dreher and Vaubel, 2009: 756).

Dreher and Vaubel (2009) investigated the impact of political business cycles on the international reserves of nations. In the study conducted with 1975-2000 data for 149 countries, it was found that the international reserves decreased based on the monetary base as the central bank sold foreign currencies to the market to reduce the exchange rates in the pre-election period. On the other hand, the consumption of reserves to reduce exchange rates, in return raises the issue of increasing the reserves. Central banks of countries with foreign trade deficits may increase their reserves through short-term foreign capital influx through increased interest rates. Furthermore, the withdrawal of the local currency from the market against the foreign currency sales for the reduction in the exchange rates renders the political monetary fluctuations before the elections difficult. It is necessary to resort to sterilization in the open market operations in order not to allow exchange rate interventions to prevent political monetary fluctuations (Dreher and Vaubel, 2009: 756).

The form of government in countries is significant for political exchange rate fluctuations. Concerns about the elections are higher in democratic countries, so are the interventions on the exchange rates as a manipulation instrument using monetary and fiscal policies. Therefore, the long-term power of dictatorial governments weakens the need to use policy instruments for political interests. Thus, in countries with a democratic government, exchange rates are more likely to be manipulated for political reasons when compared to countries ruled by dictatorship (Bonomo and Terra, 1999: 4).

There are several studies conducted on political exchange rate fluctuations. These studies usually concentrate on the level of exchange rates during election periods. In the study conducted by Ben-Porath in Israel (1975), it was observed that devaluations were avoided before the elections (Stein and Streb, 2004: 120). In studies conducted by Obstfeld and Rogoff (1995), Goldfajn and Valdes (1999) on Mexico, by Bonomo and Terra (1980) for Brazil and by Bonomo and Terra (2005) for Latin America, it was found that the exchange rates fell before the elections and increased shortly after the elections. It seems like the governments conduct foreign exchange rate interventions based on the election periods.

Stein and Streb (2004) did not find any evidence on exchange rate hikes before elections in a study they conducted with the 1960-1994 data for 26 Latin American and Caribbean countries. However, immediately after the elections, they observed that the exchange rates were 2% higher than the previous period (Stein and Streb, 2004: 119-145). Grier and Hernandez-Trillo (2004) reported that they did not encounter political exchange rate fluctuations in the US. However, in the analyzes they conducted for Mexico, it was observed that the appreciation of the exchange rates started 12 months before the election, and then the exchange rates depreciated in the next twelve months after the election. The magnitude of the exchange rate fluctuations has a negative effect on the national income (Stein, Streb and Ghezzi, 2005: 315). Another study on the political exchange rate theory was on the exchange rate regimes that were valid before and after the elections. In a study they conducted with the data for 13 Latin American countries, Gavin and Perotti (1997) found that the countries that implement a fixed exchange rate regime before the elections to prevent the exchange rate fluctuations, adapt flexible exchange regimes after the elections (Cermeno et al., 2010: 167). On the other hand, the effect of the election uncertainty on exchange rates should also be examined. Garfinkel (1999) found that the surprise elections influenced future exchange rates and that the error term for the exchange rates was high based on the uncertainty for the G-7 countries (Cermeno et al., 2010: 168).

Changes in imports could be examined in addition to the changes in reserves to understand political exchange rate fluctuations. Before the elections, there should be an increase in exports due to the decrease in the exchange rates and there should be a decrease in imports in the post-election period due to the increase in exchange rates. Colunga and Mendez (2010) found statistically significant increases in imports that started 3 and 5 months before the elections in 15 Latin American and Caribbean countries demonstrated that the local currency appreciated. Since the exchange rates would increase after the elections, it could be deducted that the imports would decrease (Gamez, 2012: 6).

4. Presence of Political Exchange Rates Specific to Fixed Exchange Rate Regimes in Turkey

In this section, the existence of political exchange rate fluctuations in Turkey will be investigated based on devaluation. Thus, based on the main hypothesis, the decrease in exchange rates before elections helps the re-election of the government by creating a welfare transfer to individuals. On the other hand, in the case of fixed exchange rates, devaluation should be postponed to the post-election period. In Turkey, 9 devaluations were implemented since 1946. The timing of these devaluations with respect to the election dates is presented in Table 3 below.

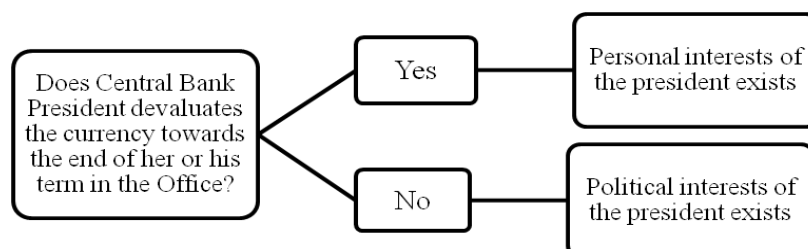
Table 3. Dates of Elections and Devaluations in Turkey Between 1946-2001

ELECTIONS	DEVALUATION	ASSESSMENT
July 21, 1946	September 7, 1946	Post-election
October 27, 1957	August 4, 1958	Post-election
October ,12 1969	August 10, 1970	Post-election
June 5, 1977	September 21, 1977, March 1, 1978, June 10, 1979, January 24, 1980	Post-election
December 24, 1995	April 5, 1994	Pre-election
April 18, 1999	February 22, 2001	Post-election

Resource: Information available on tcmb.gov.tr and tbmm.gov.tr

Table 3 demonstrates that the devaluations in Turkey are implemented immediately after the elections. Almost all the 9 devaluations were postponed after the elections. Only the devaluation of April 5, 1994 was implemented before the elections. That was due to the severe 1994 crisis and uncertainties about the coalition government. Since the devaluation reduces the purchase power of the actors of the economy and reflects the failure of the economic administration of the parties, parties postpone the devaluation until after the elections. Thus, it could be argued that the elections were influential on the timing of the devaluations in Turkey and therefore it was used for the purposes of achieving political gains.

Since political exchange rate fluctuations specific to fixed exchange rates exist in Turkey, it is necessary to examine the behavior of the head of the central bank and the central bank board, which are responsible for the decision for devaluation. Accordingly, the head of the central bank can try to demonstrate to the public that she or he is successful in order to be reappointed. Thus, the behavior of the central bank president parallel to the government policies since her or his reappointment depends on the government (Havrilesky, 1995: 202-203). Therefore, it may be expected that the devaluation, which is a sign of the central bank president's failure, would be postponed to the post-election period. However, the president of the central bank could also prioritize her or his personal interests right before the end of her or his term in the office. The pursuit of personal interests could result in the transfer of the income arising from the devaluation to the president and other interest groups with the expectations of not re-appointment.



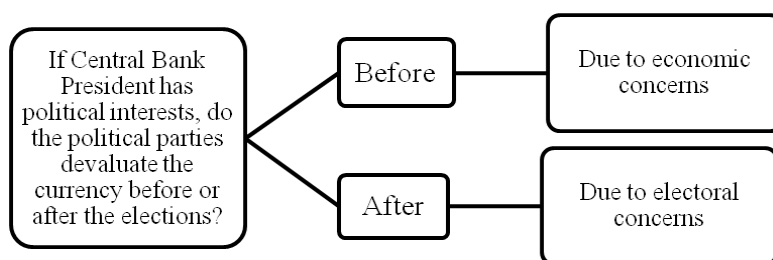


Figure 2. The Relationship Between the Personal and Political Interests of the Central Bank President

Resource: Designed by the author.

The reasons for the personal and political interests of the central bank president can be observed in the table above. Thus, if the head of the central bank devaluates the currency before the end of her or his term in the office, there is a personal interest, and if she or he does not, there is a political interest. Political interests include the goal of re-appointment of the central bank president. If the central bank president implements the devaluation before the election, it could be argued that the aim is to improve the economic situation as soon as possible. However, if the devaluation is postponed to after the elections, it means that compatibility indicator is prevalent due to the electoral concerns of the government. Situations where the personal interests of the president and the electoral interests of the party to be reelected contradict or match are presented in the matrix below.

Table 4. Devaluation Matrix for Central Bank President and General Elections

Devaluation	Central Bank President Election	Central Bank President Election
General Elections	1 BEFORE BEFORE	2 BEFORE AFTER
	3 AFTER BEFORE	4 AFTER AFTER

Resource: Designed by the author.

The relationship between the central bank presidential election, general election and devaluation can be examined in Table 5 in a quadruple matrix. Thus, in the 1st matrix, the head of the central bank is in pursuit of personal gain in the pre-election devaluation, however the party would not benefit from it since it would be perceived as the inability of the government by the electorate. In the 2nd matrix, both the personal interests of central bank president and the electoral interests of the party would be maximized. The matrix 2 where both parties obtain the highest gain represents the Nash equilibrium. The 3rd matrix refers to the condition which is not beneficial for both parties. In this matrix, the president would not gain any interest, while the party would gain political interest since the electorate would evaluate the government as competent. In the 4th matrix, the devaluation implemented after the general election would maximize the political interest of the party, but devaluation after the election of the president means that the president would not have any personal interests. As a result, since both parties would want to maximize their interests, the timing of the devaluation presented in the 2nd matrix would indicate both personal and political interests.

In light of the above mentioned information, the relations of the presidents of the Central Bank of the Republic of Turkey (CBRT) and devaluation will be examined and then, an analysis of personal and political gains will be conducted. There was a total of 9 devaluations from 1946 until 2001 in Turkey. In the following table, the terms of the CBRT presidents, and the dates of the corresponding devaluations are summarized.

Table 5. CBRT Presidents' Terms in Office and Devaluation Timing

CBRT PRESIDENTS*	START DATE IN OFFICE	END DATE IN OFFICE	DEVALUATION	ASSESSMENT
SUNEL	March 21, 1938	March 9, 1949	September 7, 1946	SECOND HALF OF THE TERM

GİDEL	July 20, 1953	July 16, 1960	August 4, 1958	SECOND HALF OF THE TERM
TALU	July 14 1967	December 11, 1971	August 10, 1970	SECOND HALF OF THE TERM
SADIKLAR	June 26, 1976	September 18, 1978	21.09.1977, 1.03.1978	SECOND HALF OF THE TERM
AYDINOĞLU	October 21, 1978	January 10, 1981	10.06.1979, 24.01.1980	SECOND HALF OF THE TERM
TÖRÜNER	February 14, 1994	November 1, 1995	April 5, 1994	FIRST HALF OF THE TERM
ERÇEL	April 10, 1996	March 1, 2001	February 22, 2001	SECOND HALF OF THE TERM

Note: * indicate last names of CBRT presidents.

Resource: Designed based on the information obtained at tcmb.gov.tr

Based on the above table, the devaluations implemented by the presidents of CBRT Sunel, Gidel, Talu, Sadıklar, Aydınoğlu and Erçel were conducted in the second half of their presidential term. Only one devaluation was implemented by Törüner during the first half of his presidential term. As a result, based on the table, it could be argued that the central bank presidents or the decision makers who are in the pursuit of interest fulfilled their purpose of acquiring personal gains towards the end of their terms in the office.

It is necessary to investigate the maximization of personal and political interests by evaluating the general election dates and the elections of the presidents of the central bank. Accordingly, political parties want to devalue the currency after the general elections, while the head of the central bank wants to devalue the currency before the election of the next CBRT president. This reflects the highest yield for both sides in the Nash equilibrium. Thus, Table 7 compares general election dates and central bank president's election dates in Turkey and the dates of major devaluations.

Table 6. The Relationship Between the General Elections and CBRT President Elections and Devaluation in Turkey

ELECTION DATES	CBT PRESIDENTS	START DATE IN OFFICE	END DATE IN OFFICE	DEVALUATION	CB PRESIDENT ELECTION	GENERAL ELECTION
21.07.46	SUNEL	21.3.1938	9.3.1949	7.9.1946	BEFORE	AFTER
27.10.57	GİDEL	20.7.1953	16.7.1960	4.8.1958	BEFORE	AFTER
12.10.69	TALU	14.7.1967	11.12.1971	10.8.1970	BEFORE	AFTER
5.6.77	SADIKLAR	26.6.1976	18.9.1978	21.09.1977, 1.03.1978	BEFORE	AFTER
24.12.95	TÖRÜNER	14.2.1994	1.11.1995	5.4.1994	BEFORE	BEFORE
18.4.99	ERÇEL	10.4.1996	1.3.2001	22.2.2001	BEFORE	AFTER

Resource: Designed based on the information obtained at tcmb.gov.tr and tbmm.gov.tr.

Based on the table, the devaluations were implemented immediately after the general elections during the presidencies of Sunel, Gidel, Talu, Sadıklar, Erçel in the central bank. This demonstrated that the government postponed the devaluation to the post-general election period to be re-elected. However, the devaluation implemented

before the general elections during the time of Törünér meant that the government had abandoned their political interests. However, it could be explained by the efforts of the government to resolve the economic crisis of 1994 due to the difference between the dates of the elections (December 24, 1995) and the devaluation (April 5, 1994). Thus, the dominance of the economic crisis during periods of the fixed exchange rate regimes means that political interests and economic interests contradict. It was understood that during crisis periods, the formation of structural programs by the government resulted in a situation that prevented political exchange rate fluctuations.

5. Conclusions

The common ground among the studies conducted on political exchange rate fluctuations is to reveal the relationship between the exchange rate movements and the elections during the pre-election and post-election periods. According to the related theory, the foreign exchange rates decrease before elections and increase after elections to increase the purchasing power of the electorate. Furthermore, since devaluation in countries with fixed exchange rate regimes reflects the failure of the government, devaluations are postponed to the post-election period. Surveys conducted in countries with fixed exchange rate regimes indicated that the devaluations are implemented after the elections.

In the present study that investigated political exchange rate fluctuations, political exchange rate fluctuations were determined under fixed exchange rate regimes in Turkey between 1946-2001. Accordingly, 8 of the 9 devaluations implemented in the period (1946, 1958, 1970, 1977, 1978, 1979, 1980, 2001 devaluations) were implemented immediately after the related elections. The single devaluation, which did not fit into political exchange rate fluctuations theory, took place on April 5, 1994 before the 1995 elections. One of the reasons for this was the fact that the effects of the 1994 crisis on the economy were heavy and the decisions taken to resolve the crisis had to be implemented as soon as possible.

The timing of the devaluation may vary based on the circumstances of the parties that are in pursuit of interest. For example, it is obvious that the postponement of the devaluation to the post-election period would benefit the government. However, on the other hand, it is also obvious that the central bank board and chairman, who would actually make the decision for the devaluation, would like to devalue the currency towards the end of their term in office to maximize their gains if they have no possibility of reelection. Therefore, the fact that both central bank president and the government are in Nash equilibrium at the time of the devaluation is important for interpreting the devaluation. Thus, when we look at the relationship between the timing of the devaluation and the term in office of the heads of central banks in our country, it could be observed that devaluations usually took place during the second half of the term of the central bank presidents in office. The devaluation of April 5, 1994 is the only contradiction and it was implemented during the first half of the term of CBRT president Törünér. Hence, the decisions of April 5, 1994 did not serve the interests of both the president of the central bank and the government. Because devaluation of 1994 was aimed to solve the 1994 economic crisis. The deep economic crisis in 1994 necessitated the interests should be neglected until the economy reached the solid ground. Thus, it was stated that the structural decisions made after the economic crises hinder political exchange rate fluctuations. Furthermore, it could be concluded that political interests could be set aside to gain economic interests due to the magnitude of economic crises.

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