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# THE HARMONIZATION PROBLEMS BETWEEN LAWS OF FISCAL ORDER AND LAWS OF PROPERTY ORDER: THE TURKISH CASE RELATING TO ECONOMIC CRISIS

Özcan ERDOĞAN\*

## ÖZET

*Hemen hemen bütün ülkelerde ekonomik istikrarın sağlanması açısından iktisat politikası araçları ile maliye politikası araçları arasında uyum sağlanması gereği bulunmaktadır ve bu durum özellikle ekonomik kriz dönemlerinde daha da önem kazanmaktadır.*

*Bu uyum gereği, geçmişte gelişmekte olan ülkelerde ve eski doğu bloku ülkelerinde öne çıkmıştır; bugün ise gelişmiş ekonomiler de dahil bütün dünyada öne çıkmaktadır. Son yıllarda ülkemizde, Rusya'da ortaya çıkan ekonomik krizler ve son küresel finansal kriz; bu uyumun gereğini belirgin bir şekilde ortaya koymuştur.*

*Yukarıda belirtilen uyum gereğince; makalede ülkemiz göz önünde tutularak ekonomik kriz ortamında mülkiyet düzenini belirleyen yasalarla mali düzeni belirleyen yasalar arasındaki uyum sorunları incelenecektir.*

## ABSTRACT

*There is a need of a harmonization between the the tools of fiscal policy and the tools of economic policy in almost every country from the point of enabling the economic stabilization and this situation gains importance especially in the periods of economic crisis.*

*This situation had become prominent in the developing countries and the former Eastern Block countries in the past; today, however, it has come to the forefront in the whole world, including the developed economies. The economic crises that has appeared in our country and Russia and the final global financial crises in recent years have revealed the necessity of this harmonization distinctively.*

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*According to the harmonisation which is clarified above; considering our country in the article, the harmonisation problems between the laws which determine to the fiscal order with the laws which determine to the property order within the economic crisis medium will be analyzed.*

**Key words:** *Harmonisation, law, fiscal, property, order.*

The relationship between the elements of all the open systems in the nature is quite explicit. However there is the necessity of some features for these systems to function well and to maintain their existence. One of these characteristics is related to the relationships between the elements of the system to be meaningful and harmonious. If there is no meaningful relationship between the elements of the system, one can not mention harmony as a matter of course.

Such a situation is discussed also between the elements of the economic system. As it is known the economic policies also provide the operation of the economic system. The tool of every economic policy exists within their own elements. What matters here is the condition that the relationships between these elements are meaningful. The meaningful relationship between these elements brings along the harmonisation between the elements as well.

The harmonisation between the elements of tools of economic policy bears the importance from the points like providing the most appropriate income distribution, achieving economic growth, reducing unemployment, controlling inflation and reaching the balance of payments surplus.<sup>1</sup>

The harmonisation between the elements of tools of economic policy will facilitate to reach to the goals of economic policy.

In an underdeveloped country like Turkey, there is a constant indicator of crisis such as inflation, owing to the structural issues. The individuals within this crisis medium prefer to invest their savings not to the financial means, but to the real estates which they consider to be protecting the values of their savings. This situation, on the other hand, is not a favorable situation from the point of the management of the economy. Because, excluding the fact that a person owns at least one real estate, the investment made to the real estate is a speculative-intentioned investment and it is not the type of an investment to increase the production in the crisis medium.

## **I. INDICATORS OF CRISIS CAUSING THE DETERIORATION OF THE FISCAL ORDER**

The criteria to be handled below are in a sense the criteria showing the degree of the interference of the public economy to the national economy. The negative developments that would occur in this criteria have some qualities to interrupt the normal operation of

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<sup>1</sup> Christopher Pass, Bryan Lowes and Leslie Davies, **Dictionary of Economics**, Collins, Glasgow 1988, p.153.

economy. There have always been deviations in the Turkish economy related to these criteria for long years.

The indicators of crisis that cause the deterioration of the fiscal order related to this subject shall separately be handled.

#### **a) Public Expenditures/GDP**

Public Expenditures and especially the investment expenditures and the current expenditures of these expenditures; symbolize the service production of public sector in an economy.<sup>2</sup>

GDP (Gross Domestic Product), on the other hand; represents the monetary value of all final goods and services which are produced in the economy over a one-year period.<sup>3</sup>

Public Expenditures/GDP criteria; roughly indicates the share of public economics within the total production of economy.<sup>4</sup>

Public expenditures diminish in the period of economic recession; accordingly, the total production declines in the economy and eventually, it decreases in the real GDP.<sup>5</sup>

The public expenditures/GDP relationship is a that much distinctive relationship.

#### **b) Public Revenues/GDP**

Public revenues are the name of all incomes acquired by the units that constitute the public economy by leaning on the laws.<sup>6</sup>

Another measurement method of GDP is the income method and accordingly, GDP is the sum of the factor revenues received, as it makes the annual production.<sup>7</sup>

As for the public revenues/GDP relationship; the state is the owner of production factors, as well and it produces service with these production factors and owing to these productions, the production factors of the state obtain factor incomes.<sup>8</sup>

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<sup>2</sup> Richard A. Musgrave and Peggy Musgrave, **Public Finance in Theory and Practice**, McGraw-Hill, Singapore 1989, p.6.

<sup>3</sup> Barbara Ingham, **Economics and Development**, McGraw-Hill, Cambridge 1995, p.92.

<sup>4</sup> John R. Lott Jr., "Public Schooling, Indoctrination, and Totalitarianism", **The Journal of Political Economy**, 107/6(1999), p.131.

<sup>5</sup> Philip Turner, "Savings and Investment, exchange rates, and International Imbalances: A Comparison of the United States, Japan and Germany", **Journal of the Japanese and International Economics**, 2/3(1988), p.265.

<sup>6</sup> Paresh Kumar Narayan, "The Government Revenue and Government Expenditure Nexus: Empirical Evidence from Nine Asian Countries", **Journal of Asian Economics**, 15(2005), p.1207.

<sup>7</sup> Francisco O. Redelico, Araceli N. Proto ve Marcel Ausloos "Hierarchical structures in the Gross Domestic Product per capita fluctuation in Latin American countries", **Physica A**, 388(2009), p.3528.

<sup>8</sup> Xianchun Xu, "China's gross domestic product estimation", **China Economic Review**, 15/3(2004), p.303.

The importance of the Public Revenues/GDP relationship is as I've already mentioned above.

#### **c) Domestic Debt Payments/GDP**

Domestic Debt Payments are formed from the total of the capital sum of the domestic debts and its interest payments.<sup>9</sup>

Another measurement method of GDP is expenditure method and accordingly GDP is the total of expenditures on the annual domestic production of goods and services.<sup>10</sup>

The fact that the Domestic Debt Payments/GDP ratio is high shows the contractionary effect of the domestic debt payments on the economy.<sup>11</sup>

The fact that the Domestic Debt Payments/GDP ratio is low could be a good sign for the operation of the economy.

#### **d) Foreign Debt Payments/GDP**

Foreign debt payments comprise from the total of the main capital payments of the foreign debts and the interest payments.<sup>12</sup>

The fact that the Domestic Debt Payments/GDP ratio is high shows the contractionary effect of foreign debt payments on the economy and the transfer of sources to be used in the improvement from the debtor country to abroad.<sup>13</sup>

Foreign debts shall be used in the productive investment projects.

#### **e) Interest Payments/GDP**

Interest payments are considered as transfer expenditures within the consolidated budget expenditures.<sup>14</sup>

Surplus of the interest payments is a sign of the rise of the borrowing cost.<sup>15</sup>

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<sup>9</sup> Michael Kumhof, "A quantitative exploration of the role of short-term domestic debt in balance of payments crises", **Journal of International Economics**, 51/1(2000), p.197.

<sup>10</sup> Eduardo Lora and Mauricio Olivera "Public debt and social expenditure: Friends or Foes?", **Emerging Markets Review**, 8/4(2007), p.301.

<sup>11</sup> Stuart Landon and Constance E. Smith "Government debt spillovers in a monetary union" **The North American Journal of Economics and Finance**, 18/2(2007), p.137.

<sup>12</sup> Yung Chul Park, "Foreign debt, balance of payments, and growth prospects: the case of the Republic of Korea, 1965-1988" **World Development**, 14/8(1986), p.1023.

<sup>13</sup> Eli M. Remolona, Mahar Mangahas and Filologo Pante Jr., "Foreign Debt, balance of payments, and the economic crisis of the Philippines in 1983-1984", **World Development**, 14/8(1986), p.1012.

<sup>14</sup> Donald J. Mathieson, "Inflation, interest rates, and the balance of payments during a financial reform: The case of Argentina", **World Development**, 10/9(1982), p.817.

<sup>15</sup> Andrew Atkeson and José-Victor Rios-Rull, "The balance of payments and borrowing constraints: An alternative view of the Mexican crisis", **Journal of International Economics**, 41/3-4(1996), p.341.

The increase of the interest payments is the sign of the decrease of expenditures made to purchase the domestically produced goods and services in case GDP does not increase at the same ratio.<sup>16</sup>

Interest payments within the public expenditures are required to be reduced.

#### **f) Primary Budget Surplus**

The primary budget surplus means that consolidated budget revenues are higher than the primary consolidated budget expenditures.<sup>17</sup>

The reduction of the interest payments shall contribute to the increase of the primary budget surplus.<sup>18</sup>

The application of primary budget surplus is an approach to be carried out for the periods of economic crises.

## **II. ECONOMIC CRISIS-FISCAL ORDER RELATIONSHIP**

Since the equilibrium under optimal policy is efficient; the welfare costs to hold the fiscal policy stable and the increasing inflation to 10 percent as a result of the Friedman rule; depend on the points of lifetime consumption at 8 percent.<sup>19</sup>

In the countries with a partly enclave economy such as Iran, the Fiscal Policy could be the most efficient tool to strive with the inflation over the short term as an internal factor.<sup>20</sup> The effect of fiscal policy in case of positive inflation is as at the state of no inflation.<sup>21</sup>

In the EU (European Union), to which Turkey has long been trying to be a member as well; at the current situation of EMU (European Monetary Union), the EU is interpreted as a ground, on which the monetary strategy is not clarified and the fiscal decisions follow the monetary policy there. Which problems permit to this structure about nullifying various kinds of shocks consistent is an open question. The first step in indicating to this question has been taken by Leitemo who considers how the inflation targeting aim to form the fiscal policy in an open economy model which is trade-off between efficiency and inflation, between a flexible exchange rate and fiscal policy which affects the total demand. Leitemo

<sup>16</sup> Matthew R. McBrady and Michael J. Schill, "Foreign currency-denominated borrowing in the absence of operating incentives", *Journal of Financial Economics*, 86/1(2007), p.162.

<sup>17</sup> Tilak Abeysinghe and Ananda Jayawickrama, "Lifetime income and housing affordability in Singapore", *Journal of Asian Economics*, 19/2(2008), p.120.

<sup>18</sup> Stephanie Schmitt Grohé and Martin Uribe "Price level determinacy and monetary policy under a balanced-budget requirement", *Journal of Monetary Economics*, 45/1(2000), p.214.

<sup>19</sup> Pedro Gomis Porqueras and Adrian Peralta-Alva, "Optimal Monetary and Fiscal Policies in a Search Theoretic Model of Monetary Exchange", *European Economic Review*, 54/3(2010), p.333.

<sup>20</sup> Amir Kia, "Deficits, debt financing, monetary policy and inflation in developing countries: Internal or external factors? Evidence from Iran", *J. of Asian Economics*, 17/5(2006), p.896.

<sup>21</sup> Joao Ricardo Faria, "A two-class fiscal and monetary growth model", *Structural Change and Economic Dynamics*, 11/3(2000), p.361.

has indicated that the question is to keep the gap between inflation and total output under control.<sup>22</sup>

So many studies have indicated that the public budget deficits are in a positive relationship with capital flight; that is, a higher deficit or a lower surplus connects with a greater capital flight.<sup>23</sup>

Nowadays, the monetary crisis and fiscal order relationship is the relationship which is supervised as implicit in the great economies such as the EU's economy.

### **III. THE RELATIONSHIP OF ECONOMIC CRISIS-FISCAL ORDER-PROPRIETORSHIP ORDER**

Inflation that we've handled as monetary crisis; plays an erosive role for the public revenue and in order to prevent this erosion; the state shall to resorts to increase all taxes, including the estate taxes.<sup>24</sup>

During the high inflation periods at developing countries, the public invests to the immovables which they consider to raise in value together with inflation; in an attempt to prevent their cash estates from being shrunk.<sup>25</sup>

The fact that the state increases the immovable purchase taxes, including the estate taxes averts the public with cash value to direct their investments to the real estate market.<sup>26</sup>

The condition that the state increases immovable purchase taxes, including the estate taxes in the developing countries has resulted in directing the investments to the government debt securities, foreign-exchange markets and the gold market by the public.<sup>27</sup>

The relationships of the monetary crisis - fiscal order - proprietorship order shall be handled in terms of the following aspects.

#### **a) Inflation Rate-Public Expenditures/GDP- Number of the Land Register Transactions -Value of the Land Register Transactions Relationship**

In the inflationist medium, both public expenditures and GDP and the value of land register transactions, as well, increase numerically and this situation ends up with an

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<sup>22</sup> Torben M. Andersen , "The macroeconomic policy mix in a monetary union with flexible inflation targeting", **Journal of International Money and Finance**, 27/3(2008), p.412.

<sup>23</sup> Léonce Ndikumana and James K. Boyce "Public debts and private assets: explaining capital flight from Sub-Saharan African Countries", **World Development**, 31/1(2003), p.112.

<sup>24</sup> Robert David Cruz and Maria J. Willumsen "Wage inflation, fiscal policies, and income distribution in Brazil", **Journal of Policy Modelling**, 13/3(1991), p.392.

<sup>25</sup> Daniel Heymann and Pablo Sanguinetti "Fiscal inconsistencies and high inflation", **Journal of Development Economics**, 43/1(1994), p.89.

<sup>26</sup> Edward F. Buffie, "Public sector layoffs, severance pay, and inflation in the small open economy", **Journal of International Money and Finance**, 28/6(2009), p.989.

<sup>27</sup> Manabu Shimasawa and Akira Sadahiro "Policy reform and optimal inflation rate for Japan in computable OLG economy", **Economic Modelling**, 26/2(2009), p.380.

increasing number of land register transactions as long as the real estate taxes and estate purchase taxes are not increased.<sup>28</sup>

This has the very same meaning with the escape of public, who is one of the economics actors, from money.<sup>29</sup>

One has to perceive this process as a normal line of action within the transaction of the general rules of the economy.

**b) Inflation Rate-Public Revenues/GDP-Number of the Land Register Transactions - Value of the Land Register Transactions**

GDP increases numerically in the inflationist medium and once increasing the estate taxes and the taxes including both estate purchase taxes with the aim of struggle with inflation; there shall be no upsurge in the number and the value of the land register transactions.<sup>30</sup>

The purpose here is to direct the public to the investments which have a meaning from economic angle, not to the speculative investments<sup>31</sup>

Another solution for the inflationist medium is to increase the production.

**c) Inflation Rate-Domestic Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationship**

As indicated above, the GDP increases numerically in the inflationist medium and once the public wants to protect the value of their savings, it primarily directs to the purchase of immovables; however, if the profit of the state domestic debt instrument gets higher than the profit of the immovables, the investment demand of the public directs to the securities.<sup>32</sup>

Directing the demand of the public to the securities is very significant from the point of reducing the demand in struggle with inflation.<sup>33</sup>

<sup>28</sup> Thomas M. Holloway, "Measuring the cyclical sensitivity of federal receipts and expenditures: Simplified estimation procedures", **International Journal of Forecasting**, 5/3(1989), p.352.

<sup>29</sup> Reid W. Click, "Seigniorage and conventional taxation with multiple exogenous shocks", **Journal of Economic Dynamics and Control**, 24/10(2000), p.1465.

<sup>30</sup> Korkut Boratav, Oktar Turel and Erinc Yeldan, "Dilemmas of structural adjustment and environmental policies under instability: Post-1980 Turkey", **World Development**, 24/2(1996), p.382.

<sup>31</sup> Roberta Chang, Linda Kaltani and Norman V. Loayza, "Openness can be good for growth: The role of policy complementarities", **Journal of Development Economics**, 90/1(2009), p.38.

<sup>32</sup> A. Sanchis, M.J. Segovia, J.A. Gil, A. Heras and J.L. Vilar, "Rough sets and the role of the monetary policy in financial stability(macroeconomic problem) and the prediction of insolvency insurance sector(microeconomic problem)", **European Journal of Operational Research**, 181/3(2007), p.1557.

<sup>33</sup> Karel Jansen, "The macroeconomic effects of direct foreign investment: The case of Thailand", **World Development**, 23/2(1995), p.198.



On condition that it is completed with the increase of and the reduce of demand export as a result of the increase of the production; this shall be the most significant result from the point of the struggle with inflation.

**d) Inflation Rate-Foreign Debt Payments/GDP-Number of Land Register Transactions-Value of the Land Register Transactions Relationship**

GDP increases numerically in inflationist medium and it directs to immovable purchases when the public wants to protect their savings; but when the foreign debt payments step in; there might be regressions in the inflation rate due to the reduction that may occur on demand and consequently, the demand on the immovable purchase decreases.<sup>34</sup>

The foreign debt payments in extrovert economies have the feature of contracting demands.<sup>35</sup>

We see that the foreign debt payments act as the automatic stabilizer here.

**e) Inflation Rate-Interest Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationship**

As we've indicated; the GDP increases numerically in the inflationist medium and the public enters a line of action which could be considered to be normal for an underdeveloped economy with the aim to protect the purchasing power of their savings and it directs to immovable purchase; when the interest payments begin to be activated in this period; the reduction that would arise in demand downgrades the inflation rate a little and accordingly, there might be some downfalls in immovable purchases.<sup>36</sup>

The contraction that would be caused by the debt interest payments on demand; is about public demand.<sup>37</sup>

In today's economies in which the debt is paid with debt, the burden of interest constantly increases.

**f) Inflation Rate-Primary Budget Surplus-Number of the Land Register Transactions-Value of the Land Register Transactions Relationship**

Primary budget surplus is provided by the curtailment on public expenditures and increase on public revenues, which brings about the demand contraction. Primary budget surplus is one of the important tools for struggle with inflation, as well.<sup>38</sup>

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<sup>34</sup> Enrique G. Mendoza and Jonathan D. Ostry, "International Evidence on fiscal solvency: Is fiscal policy "responsible", *Journal of Monetary Economics*, 55/6(2008), p.1083.

<sup>35</sup> Martin Brown, Tullio Jappelli and Marco Pagano, "Information sharing and credit: Firm-level evidence from transition countries", *Journal of Financial Intermediation*, 18/2(2009), p.160.

<sup>36</sup> Alfredo Coutino, "On the use of high-frequency economic information to anticipate the current quarter GDP: A study case for Mexico", *Journal of Policy Modelling*, 27/3(2005), p.339.

<sup>37</sup> Gerald K. Helleiner, "Balance-of-payments experience and growth prospects of developing countries: A synthesis", *World Development*, 14/8(1986), p.903.

In the economies in which the method of primary budget surplus is performed; the inflation rate deteriorates; the public substantially backs out of heading towards immovables to protect the purchasing power of their savings.<sup>39</sup>

In problematical economies, it is necessary to take some precautions to increase the productivity and provide discipline in the public sector together with primary budget surplus.

#### IV. THE EFFECTS OF ECONOMIC CRISIS ON THE FISCAL ORDER AND PROPRIETORSHIP ORDER

The effects of economic crisis on a country's economy are closely related with the structural reasons and the depth of these crises. One of the unchanging structural reasons of economic crisis in Turkey is the public deficit. The reason of this is that the underground economy is not chained. Another structural reason of economic crisis in Turkey is that R&D studies have remained on lower levels, which is one of the reasons relating to the dependence of economy on the foreign sources. Another structural reason of economic crisis in Turkey is that saving rate is on the lowest level.<sup>40</sup>

The effects of economic crisis on fiscal order and proprietorship order shall be handled on 5 periods.

##### a) Economic Crisis-Fiscal Order-Proprietorship Order Relationships During the 1973-1979 Period

Prices are approximately four times higher in the 1973-1979 period, compared to 1962-1969 period. The fact that OPEC increased the oil prices approximately four times higher at the end of 1973 and that the oil increase was reflected on the manufactured goods and inputs prices produced by the developed countries in the following years, has lead to the inflation caused by the proceeding of economy in our country, as well as the imported inflation to reach great dimensions. The inflation rate which gradually increased through the end of 1970s has brought to the agenda the fact of flight from money which was caused by the inflationary expectations. The fact that the precautions taken against inflation are not of structural quality, fallen short in reversing the inflationary expectations.<sup>41</sup>

The effects of economic crisis on fiscal order and proprietorship order on this period shall be dealt from six points of view.

<sup>38</sup> Stanley Fischer, "The role of macroeconomic factors in growth", **Journal of Monetary Economics**, 32/3(1993), p.504.

<sup>39</sup> Patrick Conway and Joshua Greene, "Is Africa different?", **World Development**, 21/12(1993), p.2021.

<sup>40</sup> Selim Somcag, **Türkiye'nin Ekonomik Krizi**, 2006 Yayınevi, İstanbul 2006, p.36.

<sup>41</sup> Ilker Parasiz, **Türkiye Ekonomisi 1923'den Günümüze İktisat ve İstikrar Politikaları**, Ezgi Kitabevi, Bursa 1998, p.152 and 154.

**a.1) Inflation Rate-Public Expenditures/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Together with OPEC's increasing the oils prices four times more at the end of 1973; an increase at the inflation rates started in the following years and together with the increases at inflation rates, the increase also at property transactions began to be seen; quantitative increases began to be seen at public expenditures except for the years 1974 and 1978.

Years	Inflation Rate	Public Expenditures/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1973	16,54	0.176	1.388.016	26.146,80
1974	17,11	0.158	1.268.360	26.054,58
1975	18,80	0.178	1.374.021	33.443,02
1976	15,24	0.189	1.445.450	43.713,63
1977	27,93	0.226	1.501.500	70.669,98
1978	49,86	0.221	1.480.855	79.671,75
1979	55,30	0.222	1.408.713	98.092,62

Along with the first oil crisis in 1973, a stagflationist period started; accordingly, there was a contraction on public expenditures in 1974<sup>42</sup> and a decline both at property transactions was dwelled as well. Turkey encountered with such a problem that it could not pay its short-run debts in 1978. The applications of public expenditure cut back, together with the stabilization program of 1978 were started and there was a decline in the public expenditures in that and the following year.<sup>43</sup>

Another purpose of the stability decisions of 1979 was to reduce the inflation. However, as a result of political instabilities, no reduction was provided in public expenditures and no decline in inflation occurred.<sup>44</sup> 1973-1979 period was a period in which, intensive economic crises occurred.

**a.2) Inflation Rate-Public Revenues/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

The stagflationist process which was entered in 1973 has taken effect with the decline in the public revenues compared to the previous year. The purpose of economic stabilization decisions of 1979 was to increase the public revenues and to provide the recession in inflation. However, the present instable medium has also precluded reaching to these purposes.<sup>45</sup>

<sup>42</sup> Gülten Kazgan, "Türkiye Ekonomisinde Krizler (1929-2001)" **Ekonomi Politik Açısından Bir İrdeleme**, İstanbul Bilgi Üniversitesi Yayınları, İstanbul 2008, p.174.

<sup>43</sup> Hüseyin Karakayalı, **Türkiye'nin Ekonomik Yapısı ve Değişimi**, İzmir 1997, p.92.

<sup>44</sup> Rıdvan Karluk, **Cumhuriyet'in İlanından Günümüze Türkiye Ekonomisi'nde Yapısal Dönüşüm**, Beta Yayınları, İstanbul 2005, p.406.

<sup>45</sup> İlker Parasız, **Enflasyon Kriz Ayarlamalar**, Ezgi Kitabevi, Bursa 2002, p.333.

Because of the present stagflationist process, there has been a decline in the property transactions in 1974. Together with the increase of the inflation in 1979, the property prices increased as well and in 1979, there was a decline in the property estates as an investment of the public.

Years	Inflation Rate	Public Revenues/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1973	16,54	0.170	1.388.016	26.146,80
1974	17,11	0.151	1.268.360	26.054,58
1975	18,80	0.177	1.374.021	33.443,02
1976	15,24	0.185	1.445.450	43.713,63
1977	27,93	0.190	1.501.500	70.669,98
1978	49,86	0.207	1.480.855	79.671,75
1979	55,30	0.201	1.408.713	98.092,62

Because of the internal and foreign political instabilities during the 1973-1979 periods, the decisions taken to provide the economic stability could not be applied.

### **a.3) Inflation Rate-Domestic Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

As there was no public expenditure discipline during the 1973-1979 periods, a constant increase is observed in domestic debt, although at low rate. The decisions taken during the economic stability precautions in 1978 and 1979 with an attempt to reduce the public expenditures could not be put into effect. It is seen in this period that a great majority of the domestic debt instruments of the state were sold to the banks, and that the people did not give credit to these instruments. Because the interest income, that is provided by these instruments is under the inflation.<sup>46</sup>

Years	Inflation Rate	Domestic Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1973	16,54	0.0039	1.388.016	26.146,80
1974	17,11	0.0041	1.268.360	26.054,58
1975	18,80	0.0042	1.374.021	33.443,02
1976	15,24	0.0044	1.445.450	43.713,63
1977	27,93	0.0045	1.501.500	70.669,98
1978	49,86	0.0046	1.480.855	79.671,75
1979	55,30	0.0049	1.408.713	98.092,62

<sup>46</sup> Ridvan S. Karluk, "Türkiye Ekonomisinde 1980 Öncesi ve Sonrası Yaşanan Krizlere Yönelik İstikrar Politikaları," Halil Seyidoğlu and Rifat Yıldız (Eds.). **Ekonomik Kriz Öncesi Erken Uyari Sistemleri**, Arikan Yayınevi, İstanbul 2006, p.61-62.

It is also seen that due to low interest incomes, the public has directed to real estate purchase and sale rather than the domestic debt instruments of the state. Because of the stagflationist process entered into during real estate purchase and sale, there was a decline in 1974 and there also was a reduction in the direction to the real estate values as an investment due to the great increase in the real estate prices in 1979.

The fact that there was no discipline of the public expenditure during the 1973-1979 periods has brought forward a constant increase in domestic debt.

**a.4) Inflation Rate-Foreign Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

The period of 1973-1979 was a problematic period from the point of foreign debts. The worsening oil bill rapidly increased the short-run foreign debts of Turkey. While the proportion of the short-run foreign debts to the total foreign debts was 24% in 1975, it became %58 just two years later. In 1977, CTLD (Convertible Turkish Lira Deposits) that were due, could not be paid. In 1978, the foreign debts went up to 4.8 billion dollars. The fact that economic stability decisions taken in 1978 and 1979 could not be implemented also endangered the supply of external source that was necessary for the economy.<sup>47</sup>

Years	Inflation Rate	Foreign Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1973	16,54	0.009	1.388.016	26.146,80
1974	17,11	0.006	1.268.360	26.054,58
1975	18,80	0.005	1.374.021	33.443,02
1976	15,24	0.004	1.445.450	43.713,63
1977	27,93	0.003	1.501.500	70.669,98
1978	49,86	0.002	1.480.855	79.671,75
1979	55,30	0.006	1.408.713	98.092,62

In this period, Turkey has some difficulties in supplying foreign debt. Another feature that is seen in this period is that foreign debt payments do follow a declining course, which shows that the share of foreign debts is decreasing on the contractionary effect which would be brought along by the foreign debt payments to the economy.

Together with all of these, the application of the public, directing to real estate purchase and sale as an investment in the inflationist media continued.

**a.5) Inflation Rate-Interest Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

During the period of 1973-1979, the fact that the state could not provide the public expenditure discipline and that it had trouble in increasing the public expenditures has

<sup>47</sup> Asli Demircug Kunt and Enrica Detragiache, "Interest rates, official lending and the debt crisis: A reassessment", *Journal of Development Economics*, 44/2(1994), p.276.

brought along affording the public deficits by domestic and foreign debt and as a matter of course, this condition brought along the result that interest payments followed an increasing course.<sup>48</sup>

Years	Inflation Rate	Interest Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1973	16,54	0.0054	1.388.016	26.146,80
1974	17,11	0.0056	1.268.360	26.054,58
1975	18,80	0.0057	1.374.021	33.443,02
1976	15,24	0.0059	1.445.450	43.713,63
1977	27,93	0.0060	1.501.500	70.669,98
1978	49,86	0.0061	1.480.855	79.671,75
1979	55,30	0,0063	1.408.713	98.092,62

As a result of defining the interest rates of domestic debt instruments under the inflation and the increasing inflation, the public directed to the real estate means as an investment and this direction continued except for the years 1974, in which the stagflationist period dominated and 1979, in which the real estate values exceedingly increased.

**a.6) Inflation Rate-Primary Budget Surplus-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Primary Budget Surplus	Number of Land Register Transactions	Value of Land Register Transactions (millions TL)
1973	16,54	-10.263,7	1.388.016	26.146,80
1974	17,11	-14.484,1	1.268.360	26.054,58
1975	18,80	-19.638,2	1.374.021	33.443,02
1976	15,24	-24.132,7	1.445.450	43.713,63
1977	27,93	-32.173,6	1.501.500	70.669,98
1978	49,86	-38.142,4	1.480.855	79.671,75
1979	55,30	-42.175,5	1.408.713	98.092,62

Even during the 1973-1979 period, in which the interest expenditures from the budget expenditures were excluded; the budget has a deficit in a way to gradually increase each year. The increase of the inflation along with this deficit is another noticeable matter. This fact depicts that public expenditures can not be disciplined. The increase of energy

<sup>48</sup> Albert C. Cizauskas, "International debt renegotiation: Lessons from the past", **World Development**, 7/2(1979), p.203.

prices after the first oil crises in 1973 has become an important factor on the increase of the budget deficit.<sup>49</sup>

The increase in the inflation and the budget deficit even on the condition of the primary surplus during this period have pushed the people towards directing to the real estate means as an investment and this direction continued except for the stagflationist period of 1974 and high inflation period of 1979.

#### **b) Economic Crisis-Fiscal Order-Proprietorship Order Relationships During the 1980-1990 Period**

Turkey entered the year 1980 with accruing and condensing economic problems. Some of these problems could be explained as follows. There are some mistakes, deficiencies and delays in taking and applying the decisions concerning the economic policy. The economy has a gradually accelerating inflation problem. There is a decline in the capacity usage rates of industry that gradually becomes efficient. A decline has appeared in the speed of the export increase of the country within years. Throughout the years, an increasing decline has been seen in the propensity to save of the public. Towards 1980s, the burden of the short-run foreign debt gradually became heavier. The industrialization strategy, based on the import substitution caused a complete decrease in the foreign exchange reserves of the country, which were already inadequate.<sup>50</sup>

The effects of economic crisis on fiscal order and proprietorship order on this period shall be dealt from six points of view.

##### **b.1) Inflation Rate-Public Expenditures/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Together with the 24th January Economic Stability decisions, public expenditures began to be disciplined and a deceleration in the increasing speed of the public expenditures was seen. This also means to be a decline in the demand of the public sector. As a result of the general elections, there was an increase in the public expenditures in 1983 and 1987. Due to the preparations for the First Gulf War, the public expenditures depicted an increase also in 1990. The inflation rates reached to very high levels together with a 48.6 percent devaluation of 1980 and with arrangements on domestic prices added to this. Together with the arrangements on domestic prices in 1984, the inflation rose again. After the high-rate devaluation made as a result of the Economic Stability Decisions dated 4th February 1988, the inflation rates climbed up again.<sup>51</sup>

Together with the decline of the inflation and the foundation of Istanbul Stock Exchange Market during this period, the public depicted a less direction towards the real

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<sup>49</sup> Francesco Giavazzi and Guido Tabellini "Economic and political liberalizations", *Journal of Monetary Economics*, 52/7(2005), p.1323.

<sup>50</sup> Craig Burnside, Martin Eichenbaum and Sergio Rebelo, "Government finance in the wake of currency crises," *Journal of Monetary Economics*, 53/3(2006), p.421.

<sup>51</sup> Richard H. Adams Jr., "Economic Growth, Inequality and Poverty: Estimating the Growth Elasticity of Poverty", *World Development*, 32/12(2004), p.2011.

estate purchase and sale as an investment compared to the previous period. This period has been a period in which the public expenditures were relatively regulated compared to the previous one.

Years	Inflation Rate	Public Expenditures/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1980	118,18	0.219	1.379.792	165.978,22
1981	38,35	0.206	1.207.033	240.673,89
1982	27,2	0.168	1.300.581	358.435,23
1983	31,21	0.209	923.319	711.642,21
1984	48,03	0.185	1.094.480	863.933,09
1985	45,54	0.171	804.873	1.900.043,21
1986	34,85	0.163	841.303	2.745.938,33
1987	38,50	0.171	890.563	3.692.414,46
1988	74,70	0.169	832.146	3.918.793,01
1989	69,57	0.171	970.689	6.124.362,44
1990	60,37	0.174	918.384	9.383.328,76

**b.2) Inflation Rate-Public Revenues/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Public Revenues/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1980	118,18	0.189	1.379.792	165.978,22
1981	38,35	0.195	1.207.033	240.673,89
1982	27,2	0.155	1.300.581	358.435,23
1983	31,21	0.194	923.319	711.642,21
1984	48,03	0.171	1.094.480	863.933,09
1985	45,54	0.170	804.873	1.900.043,21
1986	34,85	0.140	841.303	2.745.938,33
1987	38,50	0.140	890.563	3.692.414,46
1988	74,70	0.136	832.146	3.918.793,01
1989	69,57	0.138	970.689	6.124.362,44
1990	60,37	0.144	918.384	9.383.328,76

Compared to the previous period, this period has been the period in which there is a decline in public revenues. Together with the 24th January Economic Stability Decisions, there was a transmission to the sedular structure in income tax. Although Value Added Tax (VAT) application took place in 1985, this application did not bring along an increase in tax



incomes. In spite of the VAT application, which was brought as a reform for the regulations in Income Tax and for Turkish Tax System, there was no significant increase in tax incomes. One of the most important reasons for no significant increase in tax incomes throughout 1980s is the abrogation of the declaration of wealth basis, that was applied together with and until the time of the 24th January Economic Stability Decisions, which means that the section of the increase of wealth would remain uncovered in the balance of Income=Expense+Saving total. Another reason for the abrogation of the wealth declaration application was to enable the entrance of the high-scale foreign capital into Turkey, however, even many years after the abrogation of the wealth declaration application, there was no significant entrance of foreign capital into Turkey.<sup>52</sup>

The problem of the increase of the public revenues, which was one of the structural problems of the public economy during the 1980-1990 periods, could not be solved.

**b.3) Inflation Rate-Domestic Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Domestic Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1980	118,18	0.0052	1.379.792	165.978,22
1981	38,35	0.0195	1.207.033	240.673,89
1982	27,2	0.0216	1.300.581	358.435,23
1983	31,21	0.0800	923.319	711.642,21
1984	48,03	0.0109	1.094.480	863.933,09
1985	45,54	0.0353	804.873	1.900.043,21
1986	34,85	0.0450	841.303	2.745.938,33
1987	38,50	0.0615	890.563	3.692.414,46
1988	74,70	0.0455	832.146	3.918.793,01
1989	69,57	0.0468	970.689	6.124.362,44
1990	60,37	0.0372	918.384	9.383.328,76

As a result of the fact that the increase speed of the public revenue could not catch up with the increase speed of the public expenditures during this period and due to the new substructure investment projects and the fact that no external source was found with convenient circumstances from outside; a cumulative increase attracts attention in domestic debt tendency. A reason for that much increase of the public expenditures in Turkey is the additional investment efforts to complete the Southeastern Anatolia Project. Another reason of that much increase of the public expenditures in Turkey is the separatist terror that

<sup>52</sup> Jack Glen and Ajit Singh, "Comparing capital structures and rates of return in developed and emerging markets", *Emerging Markets Review*, 5/2(2004), p.177.

accelerated during this period and continued in a section of the country. Additionally, the government has made the domestic debt attractive with the fiscal policy it follows and the interest rates given in the domestic debt are the real interest rates and the account owners lionise the domestic debt instruments for that.<sup>53</sup>

During this period, the fact that the public lionised the domestic debt instruments and that compared to the previous period, the inflation rate decreased has reduced the direction of the public towards the real estate purchase and sale proceedings as an investment.

**b.4) Inflation Rate-Foreign Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Foreign Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1980	118,18	0.009	1.379.792	165.978,22
1981	38,35	0.007	1.207.033	240.673,89
1982	27,2	0.009	1.300.581	358.435,23
1983	31,21	0.017	923.319	711.642,21
1984	48,03	0.027	1.094.480	863.933,09
1985	45,54	0.028	804.873	1.900.043,21
1986	34,85	0.024	841.303	2.745.938,33
1987	38,50	0.026	890.563	3.692.414,46
1988	74,70	0.029	832.146	3.918.793,01
1989	69,57	0.011	970.689	6.124.362,44
1990	60,37	0.036	918.384	9.383.328,76

Turkey could borrow from several international foundations during the decennium after 1980s. Together with the 24th January 1980 Economic Stability Decisions, approved by IMF (International Monetary Fund), Turkey obtained an opportunity to borrow some loans. With these decisions, Turkey signed a stand-by agreement with IMF for the 1980-1984 period. With these decisions, the government had the opportunity to get loan from the World Bank. Turkey got the opportunity to borrow a program credit for the periods between 1st of February, 1980 and 30th of June, 1981 as a result of these decisions. New commitments were given together with the new decisions taken on 29th of December, 1983 and during this period, project and program loans of 2.6 billion dollars in 1980, 2.6 in 1981, 1.76 in 1982, 1.87 in 1983 could be borrowed. The loan of net 1 billion dollar from IMF was used. Borrowing a program loan from the World Bank, 1.3 billion dollars was used. 400 billion dollars of program loan from Saudi Arabia, 340 billion dollars from the Islamic Development Bank, 400 billion dollars from the OPEC fund, 400 billion dollars from the European Housing Fund were borrowed. After 1984, in which the stand-by agreement

<sup>53</sup> Joshua Aizenman and Pablo E. Guidotti, "Capital controls, collection costs and domestic public debt", *Journal of International Money and Finance*, 13/1(1994), p.48.

with IMF was completed, Turkey got the opportunity to obtain credit from the international banks and the capital market again.<sup>54</sup>

It is seen that during this period, Turkey was in a better situation from the point of loan administration compared to the previous period and that it started to pay the foreign debts together with the economic stability decisions with an increasing proportion.

**b.5) Inflation Rate-Interest Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relations**

Years	Inflation Rate	Interest Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1980	118,18	0,0059	1.379.792	165.978,22
1981	38,35	0,0095	1.207.033	240.673,89
1982	27,2	0,0083	1.300.581	358.435,23
1983	31,21	0,015	923.319	711.642,21
1984	48,03	0,021	1.094.480	863.933,09
1985	45,54	0,019	804.873	1.900.043,21
1986	34,85	0,026	841.303	2.745.938,33
1987	38,50	0,030	890.563	3.692.414,46
1988	74,70	0,039	832.146	3.918.793,01
1989	69,57	0,036	970.689	6.124.362,44
1990	60,37	0,035	918.384	9.383.328,76

During this period, a gradually increasing rise in interest payments draws attention. This fact beckons a situation that develops against other expense items and especially against investment spending in public expenditures. Interest spendings are kinds of spendings that have an affect on ruining the income distribution. Especially during this period, the burden of interest increased when the Turkish government transmitted to the application of the real interest rate in domestic debt instruments. Supplying loans in greater proportions also in foreign debt is a development that increases the burden of interest.<sup>55</sup>

Together with transmitting to the application of the real interest rate in the state domestic debt instruments and showing a decrease in inflation, the tendency of the public to estimate their savings with the real estate purchase gradually decreases.

**b.6.) Inflation Rate-Primary Budget Surplus-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

In years 1980, 1981, 1982, 1983 and 1987, although a computation was made with primary budget surplus; it is observed that the budget still had a deficit. This situation beckons that there was no discipline of public expenditure and as a result, the budget deficits reached to great dimensions. Besides, the period of 1980-1983 was a period, in which

<sup>54</sup> Linda Allen, Gayle DeLong and Anthony Saunders, "Issues in the credit risk modelling of retail markets", *Journal of Banking & Finance*, 28/4(2004), p.744.

<sup>55</sup> Amartya Lahiri and Carlos Végh, "Delaying the Inevitable: Interest Rate Defense and Balance of Payment Crisis", *The Journal of Political Economy*, 111/2(2003), p.412.

the stand-by agreement, made with IMF was in effect. In spite of the computation of primary budget surplus, one of the reasons of that much increase of the budget deficits was devaluations.<sup>56</sup>

Years	Inflation Rate	Primary Budget Surplus	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1980	118,18	-128.323,9	1.379.792	165.978,22
1981	38,35	-21.591,3	1.207.033	240.673,89
1982	27,2	-55.737,8	1.300.581	358.435,23
1983	31,21	-8.185,2	923.319	711.642,21
1984	48,03	132.989,9	1.094.480	863.933,09
1985	45,54	667.765,8	804.873	1.900.043,21
1986	34,85	173.181,3	841.303	2.745.938,33
1987	38,50	-68.089	890.563	3.692.414,46
1988	74,70	1.119.315	832.146	3.918.793,01
1989	69,57	756.401	970.689	6.124.362,44
1990	60,37	2.184.157,3	918.384	9.383.328,76

It is seen that in years when primary budget surplus was negative, the inflation was high as well and that the public directed to the real estate purchase and sale as an investment more during these years compared to previous ones.

#### c) Economic Crisis-Fiscal Order-Proprietorship Order Relationships During the 1991-1994 Period

The deficits of public sector in Turkey rapidly increased as from 1990, tax incomes did not answer even meeting the domestic debt service, the state was in a position to finance its cash deficiency with domestic debts, the foreign exchange reserves rapidly wasted away after the state directed to the foreign debt and the sources of the Central Bank in an attempt to pay this deficit off. By 1994, Turkey was under a great pressure of foreign debt and for the first time, the state became indebted more domestically in order to pay off the foreign debts and consequently, foreign debts were transformed into domestic debts and while the foreign debts were being paid off, domestic debts grew enormously. The rapid growth in the domestic interest rates lead to the flow of short-term hot money from abroad into the country this time; the Turkish money increased in value and this situation lead to the decrease of export and increase of import.<sup>57</sup>

The effects of economic crisis on fiscal order and proprietorship order during this period shall be dealt from six points of view.

<sup>56</sup> Henning Bohn, "Are stationarity and cointegration restrictions really necessary for the intertemporal budget constraint", *Journal of Monetary Economics*, 54/7(2007), p.1842.

<sup>57</sup> Hans Pitlik and Steffen Wirth, "Do crises promote the extent of economic liberalization?: an empirical test", *European Journal of Political Economy*, 19/3(2003), p.572.

**c.1) Inflation Rate-Public Expenditures/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

During this period, it is seen that the public expenditures got into a rapid trend of increase. A reason for the increase of the public expenditures that way was the expenses for the preparations of the First Gulf War that took place in 1991. Another reason for the increase of the public expenditures was the increased domestic debt interest payments.<sup>58</sup>

Years	Inflation Rate	Public Expenditures/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1991	65,68	0.210	925.780	13.001.707,17
1992	71,09	0.206	1.067.950	24.247.471,53
1993	65,64	0.247	1.141.017	47.739.270,84
1994	103,93	0.233	1.142.367	182.579.660,74

Together with the acceleration of the inflation during this period and as a result of the fact that ISM(Istanbul Securities Market) was not in adequate depth, it is seen that the public directed to the real estate purchase and sale as an investment.

**c.2) Inflation Rate-Public Revenues/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

In the first half of 1990s, a high-rate growth was enabled together with the activation of the internal growth dynamics. During this period, it is seen that Gross National Product grew averagely at the rate of 6% annually. As a result of the economic crisis of 1994, the growth regressed at 6%. However, there was no regression resulting from the additional tax that was put into effect in order to struggle with the crisis of 5th April, 1994. In the first half of 1990s, there was an increase in the public revenues with the effect of growth.<sup>59</sup>

Years	Inflation Rate	Public Revenues/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1991	65,68	0.157	925.780	13.001.707,17
1992	71,09	0.163	1.067.950	24.247.471,53
1993	65,64	0.180	1.141.017	47.739.270,84
1994	103,93	0.194	1.142.367	182.579.660,74

During this period, it could be said that the public, together with the increase of the inflation, directed to the real estate purchase and sale which they considered to be reliable as an investment.

<sup>58</sup> Hung-Ju Chen and Ming-Chia Li, "Productive public expenditures, expectation formations and nonlinear dynamics", *Mathematical Social Sciences*, 56/1(2008), p.121.

<sup>59</sup> Paul Pecorino, "Tax rates and tax revenues in a model of growth through human capital accumulation", *Journal of Monetary Economics*, 36/3(1995), p.532.

**c.3) Inflation Rate-Domestic Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

During this period, since the payment of the foreign debts became due and since available budget revenues were not sufficient in order to pay these debts off; the state intensely chose domestic debt in order to pay off the foreign debt services. In other words, this means the internalisation of the foreign debt.<sup>60</sup>

Years	Inflation Rate	Domestic Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1991	65,68	0.053	925.780	13.001.707,17
1992	71,09	0.075	1.067.950	24.247.471,53
1993	65,64	0.108	1.141.017	47.739.270,84
1994	103,93	0.123	1.142.367	182.579.660,74

As a result of the fact that the inflation was in an accelerating trend during this period and that ISM was not deep enough to afford the investment demands of the public yet; the public directed to the real estate purchase and sale as an investment.

**c.4) Inflation Rate-Foreign Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Foreign Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1991	65,68	0.012	925.780	13.001.707,17
1992	71,09	0.039	1.067.950	24.247.471,53
1993	65,64	0.086	1.141.017	47.739.270,84
1994	103,93	0.029	1.142.367	182.579.660,74

Compared to the previous one, Turkey was into a payment of foreign debt that was increasing each year except for 1994, during this period. Since there was no adequate fiscal source to pay off the foreign debts; the proceedings of paying the foreign debts could be made through applying to the new loans.<sup>61</sup>

As a result of the increasing inflation, the public applied to the real estate purchase and sale as an investment during this period, as well.

**c.5) Inflation Rate-Interest Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

During this period, the interest payments depict a year-over-year increase compared to the previous period and the increase of the interest payments shows parallelism with the increase of the debt payments. The increase of the interest payments is a development

<sup>60</sup> Arnaud Mehl and Julien Reynaud, "Risky public domestic debt composition in emerging economies", *Journal of International Money and Finance*, 29/1(2010), p.10.

<sup>61</sup> Khaled A. Hussein and Luiz R. de Mello Jr., "Is foreign debt portfolio management efficient in emerging economies", *Journal of Development Economics*, 66/1(2001), p.325.

against other public expenditures. Together with the stability precautions taken during this period, domestic debt interest rates were pulled down, as well.<sup>62</sup>

Years	Inflation Rate	Interest Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1991	65,68	0,038	925.780	13.001.707,17
1992	71,09	0,037	1.067.950	24.247.471,53
1993	65,64	0,059	1.141.017	47.739.270,84
1994	103,93	0,077	1.142.367	182.579.660,74

Together with the course of the domestic debt interest rates being downwards, the public directed to the real estate purchase and sale proceedings as an investment again.

#### **c.6) Inflation Rate-Budget Surplus without Interest-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

During this period, primary budget surplus showed a deficit because of the First Gulf War in 1991 and this deficit decreased in 1992. In 1993, however, this deficit increased again as a result of the foreign debt payments and in 1994, as a result of the additional tax revenues, primary surplus accrued.<sup>63</sup>

Years	Inflation Rate	Primary Budget Surplus	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1991	65,68	-9.243.635,6	925.780	13.001.707,17
1992	71,09	-7.031.039	1.067.950	24.247.471,53
1993	65,64	-16.634.960	1.141.017	47.739.270,84
1994	103,93	147.446.363	1.142.367	182.579.660,74

During this period, as well, the public directed to the real estate purchase and sale as an investment because of reasons like the highness of the inflation rate and ISM's lack of depth for the investment of the public.

#### **d) Economic Crisis-Fiscal Order-Proprietorship Order Relationships During 1995-1999 Period**

The factors that caused the Economic Stability Decisions dated from 5th April 1994, continue its effect during this period, too. The financial problems of the Social Security Institutions became heavier in this period. While the external means of the Central Bank decreased, the domestic means rapidly increased. The situation that there was no excessive rise of the exchange rate during this period was a significant development. The protection of the stability of the Financial Markets during this period gained importance. Towards the end of the period, the Program of Struggle with Inflation was brought forefront in 1999. This

<sup>62</sup> Li Wei, "Ruin probability in the presence of interest earnings and tax payments", **Insurance: Mathematics and Economics**, 45/1(2009), p.136.

<sup>63</sup> David Stasavage and Dambisa Moyo, "Are Cash Budgets a Cure for Excess Fiscal Deficits (and at What Cost)?", **World Development**, 28/12(2000), p.2108.

plan was explained as the Inflation Degradation Program on 9th December 1999 and it was supported by the IMF agreement, which was about to be signed later. In 1999, the 17th Stand-by Agreement was signed with IMF. According to this agreement, Turkey was supposed to be supported with a source of 10.4 billion dollars (7.5 billion dollars for the three-year period, for “facility of additional reserve” and 2.9 billion dollars for the stand-by).

The effects of economic crisis on fiscal order and proprietorship order during this period shall be dealt from six points of view.

**d.1) Inflation Rate-Public Expenditures/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Public Expenditures/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1995	97,34	0.222	1.129.984	1.254.685.868,57
1996	80,31	0.268	1.086.572	1.625.335.946,44
1997	84,48	0.279	1.165.395	1.717.136.662,96
1998	86,66	0.299	1.134.935	2.679.452.397,11
1999	64.77	0.363	1.119.945	5.486.579.181.08

At the beginning of this period, by the discipline provided for the public expenditures as the nature of the 5th April 1994 Economic Stability Decisions; there is a decline in the public expenditures in question. However, by 1996, the public expenditures got into a trend of increase again. The Crisis of the Southeast Asia that started in 1997 transformed to the Russian crisis later in 1998 and it caused the increase of the transfer expenditures in the budget in both crises. One reason for the increase of the expenditures in these years is the fact that Turkey transferred to the eight-year education as from 1997-1998. As a result of the Great Marmara Earthquake that happened in 1999, there was a jump in the increase of the public expenditures.<sup>64</sup>

An obligation from the fiscal structure and the reflection of the problems in the international finance market on Turkey play a role in the increase of the public expenditures during this period.

**d.2) Inflation Rate-Public Revenues/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Compared to the previous period, a decline attracts attention in the public revenues of 1995 and 1996 during this period. The fact that the reduction, brought by the 1994 crises, high inflation and the real interest rates that increased with devaluation had affected both fiscal and the real sector negatively has a role in this situation. In order to prevent these negative developments, the stoppage tax was brought for the interest revenues in this

<sup>64</sup> Norman Gemmell, Richard Kneller and Ismael Sanz, “Foreign investment, international trade and the size and structure of public expenditures”, *European Journal of Political Economy*, 24/1(2008), p.158.



period. In order to decrease the evasion of tax, the application of identity number was brought for motor vehicle and real estate purchase and sale.<sup>65</sup>

Years	Inflation Rate	Public Revenues/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1995	97,34	0.182	1.129.984	1.254.685.868,57
1996	80,31	0.185	1.086.572	1.625.335.946,44
1997	84,48	0.202	1.165.395	1.717.136.662,96
1998	86,66	0.226	1.134.935	2.679.452.397,11
1999	64,77	0.245	1.119.945	5.486.579.181,08

Due to the fiscal precautions taken through the end of this period; there was a decline in the proceedings of real estate purchase and sale.

#### **d.3) Inflation Rate-Domestic Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

In the previous period, there already were significant increases in domestic debts as a consequence of the internalization of the foreign debts. These increases continued during this period, as well. There was a decline in the domestic debt payments only in 1997. However, in the following years, the increase in the domestic debt payments continued.<sup>66</sup>

Years	Inflation Rate	Domestic Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1995	97,34	0.140	1.129.984	1.254.685.868,57
1996	80,31	0.188	1.086.572	1.625.335.946,44
1997	84,48	0.088	1.165.395	1.717.136.662,96
1998	86,66	0.141	1.134.935	2.679.452.397,11
1999	64,77	0.181	1.119.945	5.486.579.181,08

The fact that the due date of the domestic debts has shortened, is a significant factor on the increase of the domestic debt payments.

#### **d.4) Inflation Rate-Foreign Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Together with the decision of 6th September 1995, the Central Bank put a 6% cutback of the Resource Utilization Support Fund on the syndication loans, used by banks. This enterprise is an enterprise made for the sake of the constraint of the foreign debt enterprises of the finance sector of the private sector. The most important reason of this enterprise is the burden of foreign debt which would be considered as important in the Turkish

<sup>65</sup> Lance A. Fischer and Geoffrey H. Kingston, "Joint Implications of Consumption and Tax Smoothing", *Journal of Money, Credit and Banking*, 37/6(2005), p.112.

<sup>66</sup> Paolo Mauro, Nathan Sussman and Yishay Yafeh, "Emerging Market Spreads: Then versus now", *The Quarterly Journal of Economics*, 117/2(2002), p.699.

economy. During this period, when it was time to pay off the short-run foreign debts; it is seen that the cash outflows, having important effects on economy, were recognized.<sup>67</sup>

Years	Inflation Rate	Foreign Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1995	97,34	0.031	1.129.984	1.254.685.868,57
1996	80,31	0.028	1.086.572	1.625.335.946,44
1997	84,48	0.024	1.165.395	1.717.136.662,96
1998	86,66	0.035	1.134.935	2.679.452.397,11
1999	64.77	0.030	1.119.945	5.486.579.181.08

In the periods, when the foreign debt payments increased, a contractionary effect on economy occurred.

#### **d.5) Inflation Rate-Interest Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

The rates of the interest payments, indicated above, are manageable rates. However, the increase of the interest payments in 1999 started to create a kind of disturbance from the point of the management of economy.<sup>68</sup>

Years	Inflation Rate	Interest Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1995	97,34	0,074	1.129.984	1.254.685.868,57
1996	80,31	0,101	1.086.572	1.625.335.946,44
1997	84,48	0,079	1.165.395	1.717.136.662,96
1998	86,66	0,012	1.134.935	2.679.452.397,11
1999	64.77	0,138	1.119.945	5.486.579.181.08

The fact that the interests of domestic and foreign debts are that much high, or in other words, the increase of the transfer expenditures implies to allocate less share for current and investment expenditures from the budget.

#### **d.6) Inflation Rate-Primary Budget Surplus-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

As well as internalization during this period, the fact that there was a substantial foreign debt burden and no full-scale devaluations as a positive development, have prevented the excessive increase of the transfer expenditures from the public expenditures except for the years 1997-1998. The expenditure discipline on public expenditures, which had to be provided by the 5th April Economic Stability Decisions, were violated except for 1995. Besides these developments, an increase was enabled in the primary budget surplus in

<sup>67</sup> Hiroshi Fujiki, "Institutions of Foreign Exchange Settlement in a Two-Country Model", *Journal of Money, Credit and Banking*, 38/3(2006), p.712.

<sup>68</sup> Ray C. Fair, "Estimates of the Effectiveness of Monetary Policy", *Journal of Money, Credit and Banking*, 37/4(2005), p.652.

1995-1996; there was a decline in the primary surplus as a result of the Crisis of Southeast Asia, which was a significant financial crisis in 1997 and as a consequence of the precautions taken against this, the primary surplus considerably increased in 1998 and due to the natural disasters in 1999, the increase in the public expenditures degraded the primary budget surplus.<sup>69</sup>

Years	Inflation Rate	Primary Budget Surplus	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
1995	97,34	261.171.150	1.129.984	1.254.685.868,57
1996	80,31	264.050.957	1.086.572	1.625.335.946,44
1997	84,48	42.763.810	1.165.395	1.717.136.662,96
1998	86,66	2.373.218.518	1.134.935	2.679.452.397,11
1999	64.77	1.569.220.207	1.119.945	5.486.579.181.08

In order to make an increase in the primary budget surplus, the discipline of the public expenditure shall be reconsidered.

#### **e) Economic Crisis-Fiscal Order-Proprietorship Order Relationships During 2000-2008 Period**

During this period, Turkey experienced two financial crises; the first one dated 22nd November–5th December 2000 and the second one dated 19–23 February 2001. In the crisis of November, there was an outflow of 7 billion dollars within 15 days from Turkey. During the period of IMF program that started on 1st January 2000, Turkey received 11.3 billion dollars of IMF loan within 14 months. In Turkey, capital movements and interests were free until the crisis of February 2001 and the exchange rates were under the supervision of anchor. After the crisis of February 2001, the exchange rates were released, capital movements were restricted and the interests were under control. By 19th February, there was an outflow of foreign exchange of totally 5 billion 77 million dollars. Herewith, the demand for foreign exchange was tried to be prevented. All these precautions were of course taken after the increase of exchange rates and interests. All these crises occurred as a result of the deficiency of liquidity. During this period, overnight interests reached to 4475%. After the crisis of February 2001, Transition to the Strong Economy Program was brought into force together with the economic stability decisions, taken on 14th April 2001.<sup>70</sup>

The effects of economic crisis on fiscal order and proprietorship order on this period will be dealt from six points of view.

<sup>69</sup> Bernardino Benito and Francisco Bastida, "Budget Transparency, Fiscal Performance, and Political Turnout: An International Approach", **Public Administration Review**, 69/3(2009), p.411.

<sup>70</sup> Craig Burnside, Martin Eichenbaum and Sergio Rebelo "Prospective Deficits and the Asian Currency Crisis", **The Journal of Political Economy**, 109/6(2001), p.1172.

**e.1) Inflation Rate-Public Expenditures/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

At the beginning of this period, there was an increase in public expenditures due to the crises of 2000 and 2001. The reasons of these increases were foreign exchange domestic debts and their interests together with the foreign debts and their interests. The devaluations that occurred in 2000 and 2001 caused the increase of the transfer expenditures of the public expenditures. However, after the speculative-purpose cash flow that occurred as a result of the interest increase, the Turkish Lira gained value and there were declines in the public expenditures which contained the transfer expenditures.<sup>71</sup>

Years	Inflation Rate	Public Expenditures/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
2000	56,43	0.375	1.144.594	5.628.713.895,58
2001	53,46	0.452	1.121.575	8.426.642.436,35
2002	47,19	0.418	2.639.749	38.999.963.300
2003	25,55	0.390	2.730.432	50.406.815.900
2004	10,66	0.328	3.532.081	64.510.034.400
2005	8,18	0.300	4.432.064	95.666.777.100
2006	9,59	0.278	4.990.138	120.376.476.100
2007	8,78	0.265	5.946.527	162.181.501.600
2008	10,43	0.254	6.584.783	205.815.365.200

The inflation degraded, declines occurred in exchange rates; however, since ISM had no depth to absorb the public investments, the public continued to direct to the real estate purchase and sale as an investment during this period.

**e.2) Inflation Rate-Public Revenues/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Public Revenues/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
2000	56,43	0.268	1.144.594	5.628.713.895,58
2001	53,46	0.289	1.121.575	8.426.642.436,35
2002	47,19	0.273	2.639.749	38.999.963.300
2003	25,55	0.279	2.730.432	50.406.815.900
2004	10,66	0.257	3.532.081	64.510.034.400
2005	8,18	0.283	4.432.064	95.666.777.100
2006	9,59	0.277	4.990.138	120.376.476.100
2007	8,78	0.260	5.946.527	162.181.501.600
2008	10,43	0.249	6.584.783	205.815.365.200

<sup>71</sup> Paul Rivlin, "Two Middle Eastern Inflation: Israel and Turkey 1980-2001", *British Journal of Middle Eastern Studies*, 30/2(2003), p.231.

During this period, due to the reasons like tax security precautions as taxpayer identification number and acceleration of privatization; there is an increase in the public expenditures. However, the fact that underground economy is 60% of the GNP is the greatest burden over the increase of the public revenues in Turkey.<sup>72</sup>

In order to achieve the steady sources from the point of public expenditures in Turkey, underground economy shall be chained.

**e.3) Inflation Rate-Domestic Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Domestic Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
2000	56,43	0.132	1.144.594	5.628.713.895,58
2001	53,46	0.303	1.121.575	8.426.642.436,35
2002	47,19	0.282	2.639.749	38.999.963.300
2003	25,55	0.294	2.730.432	50.406.815.900
2004	10,66	0.295	3.532.081	64.510.034.400
2005	8,18	0.267	4.432.064	95.666.777.100
2006	9,59	0.194	4.990.138	120.376.476.100
2007	8,78	0.189	5.946.527	162.181.501.600
2008	10,43	0.186	6.584.783	205.815.365.200

During this period in Turkey, together with the loans borrowed from the IMF during the crisis of February 2001, a reconstruction was made for the domestic debts. Together with the precautions taken, the credits of domestic debt were extended up to 33 months. Together with the extension of the credit in domestic debts, the burden of the domestic debt payments on economy started to decline relatively.<sup>73</sup>

While the real return of the domestic debt instruments in Turkey is fine, the public still directs to the real estate purchase and sale as an investment.

**e.4) Inflation Rate-Foreign Debt Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Some significant developments occurred in Turkey, in terms of declining the foreign debt interests during this period. On 22.6.2005, the Treasury issued a 7-year term loan bill of exchange with an interest of 4.75% in terms of Euro. England's borrowing rate of interest during this period is 4.25%. It is seen that during this period, the loans in the newly-issued

<sup>72</sup> Roger D. Congleton and Sanghack Lee, "Efficient mercantilism? Revenue-maximizing monopoly policies as Ramsey taxation", *European Journal of Political Economy*, 25/1(2009), p.113.

<sup>73</sup> Jun Pan and Kenneth J. Singleton, "Default and Recovery Implicit in the Term Structure of Sovereign CDS Spreads", *The Journal of Finance*, 63/5(2008), p.2376.

bills of debt extended compared to the previous period. Additionally during this period, as the Turkish Lira gained value, the sum of foreign debt service decreased.<sup>74</sup>

Years	Inflation Rate	Foreign Debt Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
2000	56,43	0.029	1.144.594	5.628.713.895,58
2001	53,46	0.054	1.121.575	8.426.642.436,35
2002	47,19	0.032	2.639.749	38.999.963.300
2003	25,55	0.030	2.730.432	50.406.815.900
2004	10,66	0.023	3.532.081	64.510.034.400
2005	8,18	0.032	4.432.064	95.666.777.100
2006	9,59	0.032	4.990.138	120.376.476.100
2007	8,78	0.031	5.946.527	162.181.501.600
2008	10,43	0.029	6.584.783	205.815.365.200

During this period, Turkey comparatively lessened the foreign debt payments and tried to decrease the pressure of the foreign debt payments on the balance of payments.

**e.5) Inflation Rate-Interest Payments/GDP-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships**

Years	Inflation Rate	Interest Payments/GDP	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
2000	56,43	0,164	1.144.594	5.628.713.895,58
2001	53,46	0,230	1.121.575	8.426.642.436,35
2002	47,19	0,188	2.639.749	38.999.963.300
2003	25,55	0,163	2.730.432	50.406.815.900
2004	10,66	0,131	3.532.081	64.510.034.400
2005	8,18	0,094	4.432.064	95.666.777.100
2006	9,59	0,079	4.990.138	120.376.476.100
2007	8,78	0,077	5.946.527	162.181.501.600
2008	10,43	0,074	6.584.783	205.815.365.200

The fact that interest payments gradually declined during this period is a development that lessens the annihilating affect of the interest payments on the distribution of income. The lessening of the interest payments means allocating more share for other public expenditures and trying to fulfill the principle of social government.<sup>75</sup>

The only solution to lessen the burden of interest payments on the budget in Turkey is to chain the underground economy.

<sup>74</sup> Kathryn M.E. Dominquez, "The European Central Bank, the Euro, and Global Financial Markets", *The Journal of Economic Perspectives*, 20/4(2006), p.82.

<sup>75</sup> Abraham Bell and Gideon Parchomovsky, "Reconfiguring Property in Three Dimensions", *The University of Chicago Law Review*, 75/3(2008), p.1063.

#### e.6) Inflation Rate-Budget Surplus without Interest-Number of the Land Register Transactions-Value of the Land Register Transactions Relationships

During this period, the fact that primary surplus gradually increased each year meant that the discipline of the public expenditure in economy gradually activated in a sense. The increase of privatization, limitations on price increases for civil servants and other expenditure-restricting precautions have role on this. The increase of the primary surplus implies the increase of the debt payment capacity of the economy.<sup>76</sup>

Years	Inflation Rate	Primary Budget Surplus	Number of the Land Register Transactions	Value of the Land Register Transactions (millions TL)
2000	56,43	7.174.976.326	1.144.594	5.628.713.895,58
2001	53,46	12.028.514.242	1.121.575	8.426.642.436,35
2002	47,19	11.780.632.481	2.639.749	38.999.963.300
2003	25,55	18.404.747.777	2.730.432	50.406.815.900
2004	10,66	26.188.489.567	3.532.081	64.510.034.400
2005	8,18	37.562.801.821	4.432.064	95.666.777.100
2006	9,59	46.428.513.214	4.990.138	120.376.476.100
2007	8,78	57.532.418.872	5.946.527	162.181.501.600
2008	10,43	68.423.519.917	6.584.783	205.815.365.200

During this period, the greatest factors for the increase of the primary surplus are; political stability and political determination.

#### CONCLUSION

In a developing economy like that of Turkey, there is a problem of inflation that continues except for the last 5-6 years of period. Throughout years, public deficit has been the greatest problem of the Turkish public sector. Among the reasons of the public deficit are being unable to discipline the public expenditures except for the last 5-6 years of period and being unable to chain the underground economy. In addition to these, one of the reasons for the domestic and foreign debt in Turkey to have reached to enormous dimensions is the lowness of the saving rate of the public and these rates are lower, compared to the rate of the period before 1980. The greatest reason of being unable to chain the underground economy and being unable to increase the public revenues is the abrogation of the principle of wealth declaration during the period after 1980.

Another reason that Turkish economy got under the burden of that much debt is the fact that the economy could not produce the high-technology capital products. The oil crises of 1970s caused an inflation problem arising from import in economy and Turkey could not reflect these price increases that occurred in the basic inputs on the prices of the agricultural industry products, exported and imported by Turkey. This situation, on the other hand, led

<sup>76</sup> Patrick Conway and Stanley Fischer, "The International Monetary Fund in a Time of Crisis: A Review of Stanley Fischer's "IMF Essay's from a Time of Crisis: The International Financial System, Stabilization, and Development", *Journal of Economic Literature*, 44/1(2006), p.134.

to external commerce deficit in Turkey and the importation of capital goods that are necessary for the economic progress by means of foreign debt. This structural problem of the Turkish economy led to increases in the foreign debt and a foreign debt crisis in the following years. The problem of foreign debt, which was experienced again by Turkey together with the crisis of 1994, was avoided by the internalization of the foreign debts during and after the period of 1994, or in other words, by paying off the foreign debts by domestic borrowing. When the steady sources of public revenues could not be provided in order to pay off the foreign debts, the period of paying the debts with debts started in Turkey and this situation combined with the negative effects of the Southeast Asia Crisis in 1997 and Russia Crisis in 1998 and Turkey experienced another economic crisis in 2000. Before the economic crisis in 2000, the domestic debt rate in 1999 exceeded 29% of GNP (Gross National Product) and the foreign debt rate, on the other hand, came up 55.3% of GNP. In this year, together with the increase of the real interests, some problems occurred, concerning particularly the convertibility of the domestic debts. During this period, in order to convert the foreign debt services, Turkey trusted the hot money flows and paid high interests for the hot money. By 1994, Turkey encountered with significant amounts of hot money flow. As from 1994, Turkish Economy was in no way able to reach to the steady sources of public revenues, it increasingly attached to the sources of domestic debt and foreign debt in an attempt to close the public deficits and the period, in which the debts were paid by debts continued. The crisis, dated from November 2000 in Turkey emerged as a result of the expansion of the exchange demand created by the attacks that rose from the liquidity necessity of the market. Towards the end of this year, as a result of the liquidity shortage of the banks interest rates climbed up, additionally, exchange intake of the banks with the purpose of clearing the debts decreased the reserves of CBRT (Central Bank of the Republic of Turkey) as 5.5 billion dollars and the facility of the first 7.5 billion dollars reserve of IMF was benefitted in an attempt to prevent the increase in the exchange rates. In December of 2000, the average overnight interests in the market of interbank whisked from 199% to 873%. However, together with the precautions taken, overnight interests in the market of interbank declined to 42.2% in January 2001 and additionally, external loans were cut and capital flights reached to great dimensions in February 2001 as well and the capital flight reached to 6.5 billion dollars in this month. The overnight interests in the market of interbank rose to up to 4019% again in February 2001. In CBRT reserves, another decrease of 3.5 billion dollars occurred and exchange rates highly increased.

The deep crises in the Turkish Economy since 1970s and the high inflation rates after the crises except for the last 3-4 years, made the public direct to the real estate purchase and sale as an investment. Another reason for the public to direct to the real estate purchase and sale as an investment is the fact that the stock exchange market, on which the people are supposed to evaluate their investments, are not deep enough and besides, the lowness of the real interest rates.



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