



INFLATION TARGETING REGIME AS A MONETARY POLICY AND INFLATION TARGETING POLICY APPLICABILITY IN TURKEY

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Abstract

In this paper inflation targeting, as a tool of monetary policy, is mentioned in teheorical framework and practicability of the method is analysed. In this examination macroeconomic performance of Turkish economy in recent years and datas of this performance are used. These datas are compare with pre-condition of inflation targeting that mentioned in literature. In addition, we discussed the role of central banks in performing inflation targeting and the question of is The Central Bank Of The Republic Of Turkey obtaining necessary conditions is answered.

Key Words: *Monetary Policy, Inflation Targetting, Central Bank*

INTRODUCTION

The era we live is one of the leading economic problems of inflation, in all countries, developed and developing are experienced in different dimensions. Solve the problem of the developed countries in recent years in response to inflation, a significant portion of which is a developing country inflation continues to be a problem. This is one of the countries that entered Turkey in 1975 and still could not get rid of the inflation spiral. In particular, civil servants and workers, which causes depletion of those on a fixed income, such as inflation, winning money without working rentier sector share in the distribution of the national income and income distribution in taking an important role in causing injustice. In disinflation and implemented many measures to date from the 1990s, a new policy by the monetary authorities, the inflation targeting policy has been implemented. Inflation targeting policy will be examined in this study.

1.Inflation Targeting

Inflation targeting, the central bank with the ultimate goal of price stability and sustaining for the purpose of monetary policy is a reasonable period specified for a numeric inflation target or target range will be based on, and it announced to the public in the form of identifiable monetary policy application [7]. Inflation targeting policy as distinct from other nominal anchor, central banks in achieving the targeted inflation rate using various monetary policy tools have freedom. These

approaches allow the country to be focused only on their own situation and monetary policy instead of a single variable, all the factors that may affect inflation is determined in consideration. These factors include wage increases, exchange rate increases, public pricing mechanism, expectations, many factors, including the price of oil is located. Another advantage of inflation targeting, this approach can be followed by the public and easy understanding of the characteristics of an approach that is so transparency. Is declared to be a particular target of the central bank is preventing inconsistent [15].

2.Prerequisites Required For The Implementation Of Inflation Targeting

As in the implementation of the other monetary policy strategy of inflation targeting strategy to be successful depends on the presence of certain pre-conditions.

2.1.The ultimate goal of monetary policy is price stability should

The monetary authority has determined that only the realization of the inflation target should be aimed. For this reason, economic growth, employment levels, such as exchange rate stability should choose another target. For example, the implementation of a fixed exchange rate system in countries where it is not possible to switch to inflation targeting. Therefore, the direct inflation targeting strategy that selects countries to abandon the fixed exchange rate system and must pass a



floating exchange rate regime [8]. In the inflation targeting regime, albeit indirectly between monetary and fiscal policies are an interaction. Monetary policy, fiscal policy, inflation operationally to consider their impact on the state. Fiscal policies are supportive to overall inflation target. For example, a large stock of public debt, the central bank's inflation target, at least in the short term does not perform to expectations. As a result, public debt due to interest rates rising and the government's debt burden, and thus may lead to an increase in the debt stock. Most of the countries in the implementation of inflation targeting, inflation, public debt financing of the government's attempt to use as a tool for the prevention of inflation-indexed debt papers should be issued [7].

2.2. An Independent Central Bank

Prerequisites for inflation targeting to be successful, the first, is to ensure the independence of the central bank. In economic literature, the independence of the central bank, the bank tries to maintain price stability, the monetary policy regime and will use monetary instruments, with their own free will is defined as the formulation and implementation. Price stability and as a result of sustained growth to be permanent, short-term recovery for the long-term goal of abandoning failure and everyday policy tool to be avoided for central banks to be independent of economics literature focused on the importance of the issues that are included [3]. In general, the independence of the central bank in the "political independence" and "economic independence" criteria were taken into consideration. These are undoubtedly the most important, is political independence. Political independence, without the influence of government policy objectives of the central bank is able to choose their own defined. This independence criteria, the central bank governor and the board of directors appointed by the government, even when the assignment is longer than the governments mandate the government in implementing the central bank's monetary policy can be summarized as being independent. In the inflation targeting central bank independence, while maintaining price stability, the monetary policy regime and will use monetary tools to select your own decisions and practices can be defined as. An independent central bank, monetary policy should not be exposed to political pressure while playing [18]. When we look at practices around the world, with a degree of independence of central banks is inversely proportional to the rate of inflation. So, the higher the degree of independence

of the central bank, the inflation rate has dropped. For this reason, central bank independence, inflation targeting is gaining importance in a separate. In countries that have adopted this practice, fiscal policy, monetary policy should not be an advantage against. On the contrary, the central bank is forced to fulfill the demands of the government of the state and it will appear on the resulting inflationary pressures will reduce the effectiveness of monetary policy [18].

2.3. Finding of the developed financial markets in the countries

In order to implement inflation targeting, inflation targeting selects the most important structural precondition of the country is that it has developed financial markets. Advanced financial markets by the central bank will increase the effectiveness of monetary instruments to be used. Otherwise, use of financial markets, financial instruments does not respond sufficiently quickly can lead to deviations from the inflation target. Financial markets bonds to be issued by the public will absorb at a depth that is very important. This minimum level of public financing of the Central Bank or the means used at all [17]. Money markets and the banking sector to a large extent, capital markets and securities exchanges also been expressed on the point that the inflation targeting of the banking and securities exchanges are emerging importance of having a strong and stable. Because the central bank wants to give signals to the markets and their impact on the real sector with the help of these two brokerage firms to fulfill. Financial markets financial instruments used does not respond sufficiently quickly may lead to deviations from the inflation target [6]. A well-functioning financial markets, under the inflation targeting strategy, will further facilitate the formulation of monetary policy. Deep and liquid financial markets about future monetary action, market expectations and economic rules, in relation to movements in asset prices to be transferred to the central bank provides information. As well as deep and liquid financial market shocks to be absorbed helps and so the central bank's short-term shock effect of minimizing or maintain financial stability for the movement as opposed to the inflation target on focus more permits. In addition, the financial markets, such as government bonds in order to satisfy public debt means that the central bank will carry on the public debt burden will be greatly reduced too. In addition, the well-functioning of financial markets, monetary and exchange rate contributes to the effective implementation of operations. Central banks, these



operations without any deviations from the common market prices, we may need to manage a wide range. To manage monetary policy effectively manage the balance sheet and the country's foreign exchange reserves and the supply of credit is when you need the ultimate loaner. Also limit the effects of dollarization for monetary policy, financial markets without excessive dollarized monetary policy when adequate levels of development will be more effective [21]. As a result, in countries that have adopted inflation targeting approach to policy-makers in the country should assist in the formation of a well-functioning financial markets. Deep, liquid and secure markets is very important, especially for monetary policy under inflation targeting strategy.

3.Strategic Properties of Inflation Targeting

3.1.Accountability and Transparency

Another benefit of the target for monetary policy in determining the central bank can be observed as tangible and can be held responsible for the function. The central bank targets to reach by declaring itself to the outside environment, the right of debate as to whether these goals and then evaluate whether the central bank's offer is successful in their aims. Inflation target of monetary policy in the success of public support will be able to hold a very important place. Therefore, the public should be informed of the policy.

The reason that transparency is desirable, that may arise in the economy by reducing unnecessary uncertainty is to increase the predictability of monetary policy. Related to transparency in this description very closely related to the common point is that the concept of accountability. Because the main purpose of solicitation of transparency, people, governments or markets activities and policies is therefore responsible for the retention approach . So at this point transparency for the central bank, bank of information for the evaluation can be defined as the release. Commitment to transparency, while improving the reliability of the central bank on the one hand, on the other hand the future of monetary policy help to reduce uncertainty about what will happen.

Monetary policy regimes containing the terms of transparency and accountability in the case of institutional arrangements, it is possible to say that two conclusions emerge. First, the monetary authority surprises creating inflationary monetary incentives will be constrained in its ability to carry

and therefore can be overcome doubts on the subject will increase the reliability of the monetary policy. Secondly, the reduction of uncertainty regarding monetary policy , private sector organizations, risk assessment opportunity to benefit from a healthier way than they will be able to take effective decisions and will increase efficiency in the allocation of resources [26].

3.2. Reliability

Reliability of the public policies implemented when there is a change in the functioning of the process, it is really necessary for such a change is made to believe. In another aspect also, dependability, and the future direction of the economic policy of the current review of the comments made on the authority initially declared policy is to ensure consistency with their program. More importantly, the reliability of monetary policy, at every stage of the policy, the central bank faced the public about the objectives and limitations of the information is not consistent with the public opinion [20]. Many countries experience of ensuring the reliability of the implementation of inflation targeting is not easy, and suggests that a transition period is needed. Comes to the reliability of the applications will be made public as soon as it would not be correct to think. However, to make progress towards price stability is a positive and necessary institutional arrangements with the formation of monetary policy and increasing reliability was possible.

3.3. Flexibility

To be referred to the concept of flexibility required, to achieve the inflation target, the central bank in the face of macro-economic developments, what is that such stabilizers react. Central banks are expanding or shrinking of the areas of responsibility to increase or decrease the transparency of the central bank's flexibility is capable of limiting or enhancing effect. Therefore, the establishment of an appropriate balance between transparency and flexibility inflation targeting regime constitutes one of the most important strategies [7].

3.4.Adoption of Forward-Looking Approach

Reducing inflation targeting policy that separates it from the other one of the most important features is the determination of a forward-looking approach. In practice, inflation projections are based. If the projected inflation , will be higher than targeted inflation expectations if there is a tight monetary



policy, expected inflation at lower levels than targeted inflation expectations that would be applied if there is loose monetary policy. In other words, depending on the inflation forecast policy objectives constricting or is used for easing [26].

3.5. And identification of the target in the measurement type

Inflation targeting is very important in the methods to be used. Widely used measure of inflation to measure the shape of the general area of the base or core inflation, the consumer price index (CPI) method [25].

4. Advantages and Disadvantages of Inflation Targeting

Caused by inflation targeting has many advantages and disadvantages.

4.1. Advantages of Inflation Targeting

Until today the successful implementation of inflation targeting is seen. In developed countries, convergence of inflation rates has greatly. The research, published in the inflation-targeting countries, using data from the previous eras in their estimates, inflation results show that inflation targeting is much lower than after [27]. Inflation targeting strategy has some advantages in controlling inflation. These advantages can be summarized as follows.

I-Inflation targeting strategy in terms of public opinion has a very clear structure [12]. In this approach, central banks, particularly the inflation target, including any kind of information concerning the operation of monetary policy is transferring into the market. Thus, unlike other monetary policy strategy, the market may have about the economy are information directly [6].

II-Fledged inflation targeting regime, the central bank increases the accountability that this strategy of the central bank over-expansionary monetary policy following the paths, production and employment expansion by trying to time inconsistency fall into the trap and reduces the possibility. However, time inconsistency usually the central bank on an extreme expansionary monetary policy to follow in the direction of political pressure caused because of inflation targeting, the central bank's long-term they will do about the political debate to focus on this approach is an advantage [20].

III-Inflation-targeting policy, increases the level of transparency of monetary policy, however, monetary policy makers to come to a more responsible position allows [12].

The inflation targeting strategy, with regard to the transparency of the inflation-targeting central bank credibility and respectability in the eyes of the people is increasing. However, monetary policy is consistently successful, public support for the creation of an independent central bank also gives rise [20].

IV-Inflation-targeting policy, the monetary authority to achieve the goal of price stability provides all the information needed to use, and with it, the success of monetary policy also allows the measurement of monetary policy [12].

V-Inflation-targeting monetary policy significantly focused on responding to domestic shocks. More precisely put, monetary policy focuses only on conditions within the country. Therefore, to keep track of developments in the economy and price stability target all the improvements necessary to perform exactly is closely monitored [6].

4.2. Disadvantages of Inflation Targeting

Besides the advantages of inflation targeting regime, there are a number of disadvantages. The negative aspects of inflation targeting regime are:

I-Monetary authority to inflation, exchange rates, monetary as easy as it can not interfere great. In the inflation targeting strategy announced targets a variable that is not under the control of the Central Bank. Therefore, the central bank declared that, although committed to reaching the target only to individuals and markets with inflation targeting monetary policy can not give precise information on the progress [12].

II-Inflation targeting strategy, not fully prevent fiscal dominance. Fiscal dominance, the monetary authority's exposure to political pressures and also because of expansionary fiscal policy can create a reason for not being able to control inflation [6].

III- inflation targeting, an application requires a very strict and uncompromising [12]. as a consequence of unexpected economic shocks and monetary policy enough elective (change according to the situation) may not be able to show. In such an environment significantly fluctuations in production will inevitably occur. Therefore, economic growth, especially in the short term may be adversely affected.

IV-Inflation-targeting regime, when compared with other regimes leads to an inactive production



balance. This condition manifests itself in the supply shock.

V- Inflation targeting strategy, in terms of high-level or partial dollarization cases, can lead to potential problems [12]. Many firms in emerging market countries, households and banks' balance sheets has been largely dollarized. A large part of long-term debt is denominated in dollars. Inflation targeting, exchange rate fluctuations because it requires flexibility in the nominal exchange rate is inevitable. However, the national currency of the large and sudden drop in the value of dollar-denominated debt load would raise serious distortions in the balance sheet and this will bring will increase the risk of financial crises [14]

5.Applicability of Inflation Targeting in Turkey

After the 1970s, Turkey's agenda is well established and continue to exist until today the inflation problem, which took place in Turkey in general is the source of economic problems [6]. These problems ; price mechanism , information handling function damage, financial intermediation activities inefficiency and instability, economic policies applied to the reduced confidence in international markets competitiveness of the economy, reduction in resources effectively unavailable, equality in income distribution deterioration, low and unstable growth , the labor market can be summarized as unable to work effectively [6].

5.1.Basic properties of inflation in Turkey

- a)The world according to overall long-term and high inflation in Turkey prevails.
- b)Is a high level of volatility in inflation in Turkey.
- c) more than the inflation rate fluctuation around an average of play is also valid for the period.
- d)Turkey's inflation inertia has a strong and long that may take.
- e) Awareness against inflation and disinflation in Turkey in the social consensus is not developed enough.
- f) The purpose of price stability in Turkey subordinate remained significantly [6].

5.2.Necessary for the implementation of Inflation Targeting in Turkey Prerequisites Assessment

Contains country-specific inflation targeting policy. In our country, the success of the program as appropriate for our country to avoid an inflation targeting is required. Which is a very new concept

for Turkey will be implemented inflation targeting for the first time on any kind of hesitation carries. Program for the success of the transition process is important first of all. When we look at international examples, inflation targeting each country adopts its own policies. However, with inflation targeting policy still can be said of certain common points. Based on these Turkey will note that at least some point in the transition phase we are going to talk about;

5.2.1.Merkez Bankasının Bağımsızlığı Ön Şartı

The concept of independence of boards and committees in the economy when evaluated in terms of political influence, guidance and control to be independent of the form can be demonstrated. If the independence of the Central Bank, the value of money and the political power of the short-term interests to be sacrificed for the sake of enjoying the application is not secured [12].

No. 4651 law adopted on 25 April 2001 in the "Law Amending the Law on the Turkish Republic Central Bank" with important progress has been made in this regard. Namely, the law of the Turkish Republic Central Bank Law No. 4 of 1211 with in the article;

"The Bank's main objective to maintain price stability is the Bank, ensuring price stability with the goal does not conflict with the government's growth and employment policies support" in the form of a modification, price stability, ensuring the CBT's primary objective has been turned into. In the same article, the amendment relates to the powers of the Central Bank to bank instrument independence is given. In addition, the Turkish Republic Central Bank Law No. 52 of 1211 and 56 With the changes in substance, has been strengthening the economic independence of the bank.

Central Bank Law No. 22 of 1211 and 42 with the changes in the articles, which is extremely important for inflation targeting, the central bank regulations on transparency and accountability were also made.

Thus, with the new changes to the Law on the Turkish Republic Central Bank, inflation targeting can be said that the fulfillment of the first pre-requisite [10].

5.2.2.Fiscal Dominance Level and Market Depth

From the beginning of the 1980s, Turkish economy has entered a period of great change. 1980 stabilization program with the central bank reduced



its share in the financial system is intended to function as a healthy financial system. The amendment is also necessary for the transition to a market economy. But be financed through monetization of budget deficits due to rapidly after 1980 regulations made in improving the financial system can be said to be very effective. The government's budget deficit to finance increasingly resorting to sources inside the central bank, the central bank 's balance sheet growth is caused. Moreover, excessive government borrowing after 1980 and followed resulting in a rapid growth policies, the central bank's credit policy unfollow has been healthy [1].

A country's inflation targeting policy to apply are required to have a good financial background. In order to have a good financial infrastructure in the country's low of fiscal dominance, the higher must be the depth of financial markets [20].

In this context, financial (fiscal) dominance of fiscal policy, monetary policy impact on the router or limiting the presence of symptoms related to the lack of a significant inflation targeting is a prerequisite. In other words, the public sector debt and deficits and their financing methods monetization causing possible so as not to be the state's seigniorage income base is not too large , the financial markets of government debt to be met adequately with depth should be [10].

Seigniorage, with simply the face value of money is the difference between the cost of production. This difference falls as income to the state coffers. Thus the state from collecting taxes or borrowing a portion of the expenditure can be met. Source of the state monopoly on printing money power is control over the financial system and fiscal policy [16].

That took place in Turkey between 1980-1995 period seigniorage rate is seen to be quite high compared to developed countries. For example, the ratio 2.98 between 1980-1991 in Turkey , between the years 1980 to 1995 is realized as 3.14 . In this context, Turkey 's commitment to the seigniorage revenue from developed countries and developing countries can be said to be more intense than most.

Fiscal dominance in Turkey, on financial markets and monetary policy may be concluded that there is quite intense. Therefore, as a result of fiscal dominance and the ultimate goal of price stability would be today a single inflation targeting policy is possible to say whether the conditions occur [19].

5.2.3. Transparency and Accountability

Transparency is a prerequisite for a credible policy. A program transparent clear, simple and

understandable. I tried all of that, especially inflation-targeting central banks have implemented a transparent policy. Inflation reports, official speeches, monthly statistics and so on. Methods of central banks, the people are informed about the objectives and realization rates [13].

Structural taken as a whole of the Central Bank, is supported by law and in achieving a specific goal and that goal can be used independently if you have the independence and accountability of policy instruments complement each other. In other words, the central bank in achieving price stability is an independent authority that can take their own decisions requires being accountable. After all, an independent central bank and currency price stability on the one hand while on the other hand against the trust itself, which guarantees independence and parliament has a responsibility to society and be accountable [12].

From the November 2001 Central Bank, monetary policy and economic developments that "Monetary Policy Report" is issued. In this report, the relevant term price developments, monetary and exchange rate policy, financial markets, public finance and domestic debt stock, the overall balance, balance of payments, monetary policy in the forward-looking inflation assessment in the fields of development and prospects are located. In addition, the Central Bank web site almost all macroeconomic aggregates and sub-items of the balance sheet relating to Central Bank has a large database, and are constantly updated. Also available, the Central Bank balance sheet of the sub-items indicative of base money and net domestic assets and net international reserves related to the objectives realizations re-targeting period ended the day by a press release is publicized. In this regard readily follow a transparent policy for the program said that the Central Bank. When the transition to inflation targeting new programs adapted to the current state of the application will be eligible to continue [2].

5.2.4. Appropriate Level of Inflation Targeting inflation in order to pass

To apply successfully targeting inflation rate of inflation is sufficiently low level needs. This situation, to ensure the independence of monetary policy, and it is also necessary in order to avoid fiscal dominance. Because of the high rate of inflation in an environment that will arise due to structural problems with the state seigniorage and inflation tax revenues are being directed to.

In the world, known for his work on inflation targeting Frederic S. Mishkin, in a country which is suitable for the implementation of inflation



targeting, the inflation rate should be 15% say that [22]. From this perspective, Turkey has not yet seen this criterion provide.

In Turkey, the implementation of inflation targeting approach in front of one of the problems is the pricing behavior based on past inflation. This habit in the minds of individuals is due to the formation of preconceptions about inflation. Future rather than past inflation in the community inflation-indexed adoption of a pricing approach is an important step in the transition to inflation targeting. A leading role in this regard to the public sector is reduced. In addition, the increase in Turkey in exchange rate and inflation rate in the presence of a strong relationship between is a matter to be considered.

Another factor to be considered, due to the influence of expectations on inflation determinants of central banks, the economic and business environment at first, then people believe the level of inflation is that it may indeed be lowered. This, in the direction of reducing inflation and economic stability before and each time people have tried similar programs in a disappointing is quite a difficult task for the central bank [20].

5.2.5.Example applications inflation targeting countries in the CPI is taken as the base index

In inflation-targeting countries, which will target index-linked rate is an important issue. Here it when you create the public's expectations of what his index is important. Inflation targeting countries use the CPI inflation rate has generally. Clarity about which index will be applied to Turkey, although the application of the CPI is likely to be seen. However, only the use of CPI crisis countries involve risks due to being a team. Therefore, these shocks should be free from inflation. Currency risk, depending on the import-export price index to play, oil and public sector prices, still in the CPI significant with a weight-residential real estate prices, while food expenditure and interest cost and natural disasters (such as earthquakes) adjusted a "base CPI" identify, through it we switch to inflation targeting may be more useful [9].

5.2.6.Targeting a predetermined point or tape should be

Targeting a point or a band to be in the range should be preferred. Example countries in applications point target attached to a major difficulty in experiencing and practice generally a band gap reference seen. Our country, high inflation rate and exchange rate risk, the point of targeting success may prevent a certain band gap reference

should be taken. And narrowing the width of the band are also important. Narrowly defined bands result of the failure of the expansion costs (GDP , unemployment, interest and exchange rates increase the cost) for the country, more is installed, apply in our country during the band in the first place wide, keeping the implementation of the program from the results obtained success rate over time narrowed advised.

5.2.7.Target figures towards the end of the year and time of the determination is made

Example applications as seen in countries determined inflation target for the next year are disclosed in recent months. This is very important. Because clearer towards the end of year figures to be seen next year in terms of the front is important. Naturally, more realistic goals are set. However, in the middle of the year or at the beginning of the second semester of a target set for the next year will be less chance of success [9].

5.2.8.The common feature of countries in achieving successful results is that they did not live in crisis

When we examine the economy of the country is successful in implementing. Another thing that we've found is that I have never experienced the crisis Turkey so many times with high inflation and with the economic crisis will be the first country to go to this practice. Thus, it is apparent that the magnitude of the risks on. Moreover, Turkey's short-term and current debt with high interest risk is the risk of increases. Domestic debt balance of payments surplus seats and began to build the tourism and export revenues in Turkey are other advantages. Thus, these results will be important in the transition to inflation targeting.

5.2.9.Inflation targeting is also important in the exchange rate regime

In countries with inflation targeting another common issue is that a successful exchange is in the balance. That implements the peg and associated unsuccessfully to inflation targeting regime in exchange rates in countries where it is important for the success of the program. However, you can be successful with a disciplined exchange rate regime. To do this, in some countries, the national currency support in terms of domestic deposits accounts banned and the national currency term deposits applied to the interest rates by



increasing the domestic currency preserved, as well as a kind of currency under pressure, keeping the programs implemented have been successful. In some countries the rate of inflation targeting in the holder under pressure targets identified, was shot two birds with one stone, a kind. Turkey as in other countries in the framework of the program in a similar exchange rate regime should be established. The adoption of a floating exchange rate system experienced devaluation, it is not prepared to have placed the financial and real sectors, have together entered into in the money markets, balance is disturbed. Therefore, before a new application plays an important role in terms of balancing a repressive policy on the exchange rate to be determined. Indeed, which is very important for Turkey's economy during the implementation of this program would inevitably be experienced in this situation again, this time Turkey can take it, is unknown. Floating exchange rate system seem to be abandoned. However, the interest of the policy holder under pressure, as well as exchange rate regime is a must. Long-term incentive Turkish Lira TL was introduced to new applications, but they should be diversified. Establishes Treasury-indexed instruments should continue, but should be biting put pressure on the regime [9].

November 2000 and February 2001 crises, especially in the wake of structural defects in the banking system, the system and cause great harm to the economy of Turkey has. Subsequently, structural reforms in the banking system and to start the implementation of inflation targeting effort was made to develop the necessary infrastructure. However, as of the end of the CBT although it had targeted inflation rate (eg, 20 percent for 2003, 12 per cent for the year 2004) in order to perform this rate policies applied are flatly expression. Central Bank application in our country is an implicit inflation targeting is mentioned.

6. Inflation Targeting Strategy in Turkey

Of 2002 from the beginning, implemented implicit inflation targeting regime with CPI inflation rate fell sharply in 2005, until the end of four consecutive years realized objectives remain below the strategy with high level of trust remained. The rapid decline in inflation during the 2002-2005 period, the explicit targeting of one of the prerequisites for the provision to mean that poses a significant milestone. On the other hand, global liquidity conditions had deteriorated before the same milestone, the deepest economic crisis in the history of the beginning of an era where there are

also marked. In this context, Turkey's inflation targeting regime experienced during the first negative experience, it is known that the May-June 2006. If after the period of 2007-2009 Global Financial Crisis constitute the primary concern of economic policy has become. Implicit in this period could not be repeated targeting of the period of performance [11].

April 30 of 2008, dated the Republic of Turkey Central Bank of Turkey open letter in food and energy prices in relation to the raised risks predominantly to the realization of monetary policy outside the domain that depending on variables from the target largely and long-term deviations will occur to the Central Bank, the medium-term targets determined to lose rationality with the proposal for the revision of objectives led to the government. Justification submitted to the government "even under the cautious stance of monetary policy in the period to end-year target of 4% is in the form will not be achieved is remarkable. From the revision of objectives in the period up to November 2008, despite the contractionary effects of the global crisis is not interest rate cuts, the Central Bank's revised targets can be read as a sign of commitment. Make the expected impact of the revision in the markets in the aftermath of the crisis arising from the negative aggregate demand shock has been met with a radical reduction cycle [11].

7. Concluding Remarks

Nowadays, many countries implemented by the inflation targeting approach has demonstrated performance in developed countries, though quite successful in terms of applicability in developing countries is still being debated. The main reason for that fiscal dominance in this country despite being extremely busy in the financial markets is that insufficient depth. Therefore, in these countries the preparation of operational and technical infrastructure is extremely important. Indeed, many of the developing countries, this approach has been carried out before the legal and institutional arrangements, and similar to the anchor exchange rate policy, inflation at a certain level before downloading and then started to approach it in a gradual manner [12].

In addition to this, Turkey's transition to inflation targeting approach is considered in terms of some other serious problems. First, Turkey's years-long political and economic instability has trust issues which occur as a result. Besides, Turkey's domestic debt stock from year to year due to an ongoing



problem dealing with debt is to be converted. Accordingly, the market conditions, the Central Bank monetary policy instruments can not be used in an effective manner. So in the interest of the Central Bank independently using the tool seems to be able to focus on the inflation target. Another problem encountered in terms of Turkey is the instability of the exchange rate.

With regard to the applicability of inflation targeting in Turkey so far the results obtained from studies itemize to summarize as follows;

- a. In Turkey fiscal dominance level is very high.
- b. Financial depth is very low. So markets are very shallow.
- c. Inflation rate is high.
- d. The budget deficit has reached significant proportions.
- e. Confidence in the policies of central banks and the economy is insufficient.
- f. Full independence of the central bank has been ensured.
- g. Transparency and accountability are taken important steps in.
- h. Central Bank's stability and preparations are underway [6].

Turkish economy last point as inflation targeting policy will be examined regardless of the costs in the extreme. Despite the increase, fiscal discipline and structural reforms in 2004 to continue and the IMF after 2005, again to be understood, inflation targeting positive contribution among the factors that are included. In the first 5 months of the year, have fallen below the 12% annual target, although the economy is still fragile, that there is a structure is an important element that should not be ignored. Inflation targeting, which is a different kind of "implicit inflation targeting", which focuses on future inflation is a monetary policy strategy implementation is considered. As general characteristics, in this strategy, the monetary base periods are set targets consistent with the inflation target. Developments in the monetary policy decisions of the monetary base more, mainly on future inflation developments is decisive. This policy allows the application of inflation targeting in locations subject to direct, monetary authorities are trying to apply the transition to inflation targeting [5]. Currently, both explicitly and implicitly inflation target adopted inflation targeting Central Bank, we operate more than two tasks. As a result of this reduction of the inflation and price stability Central Bank aims, does not deal with issues of employment and production. Therefore, the Central Bank inflation in an open

and transparent manner and putting forth his views on price stability, in the short and medium term expectations strives to occur in this direction [23].

In our country the last two years, the chronically high inflation the Central Bank followed by the implicit inflation targeting framework, in a stepwise manner moderate inflation switching threshold which 10 percent has reached [24].

Year-end target to keep the case, the Central Bank against the former by the different and more challenging than it is possible that the phenomenon of inflation. Because moderate disinflation, chronic high inflation is more difficult than fighting. The viscosity of the latter is higher than the first. At this point, instead of the central bank's implicit inflation targeting and direct inflation targeting pass it to share with the community, with single-digit inflation are unlikely to be more effective in the fight. In particular, the disinflationary process credibility (reliability) increase in the transition to inflation targeting will provide a significant contribution to the Central Bank stands out as a factor [5].

As a result, in Turkey, to switch to inflation targeting, monetary policy, fiscal policy applied to the reduction of the rule is required. Public spending should be minimized, should be provided the full independence of the central bank, as in New Zealand, for example in case of failure of the person to be held responsible for this situation should be determined in advance.

However, CPI and core inflation in Turkey is described as private manufacturing price index, inflation targeting can be based on.

Full implementation of inflation targeting Turkey's inflation rate is below 10 percent (in developed countries), it is expected to pass.

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