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Navigating financial cycles: Economic growth, bureaucratic autonomy, and regulatory governance in emerging markets

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Abstract
Political decisions over economic growth policies influence the degree of bureaucratic autonomy and regulatory governance dynamics. Yet, our understanding of these processes in the Global South is somewhat limited. The article studies the post-Global Financial Crisis period and relies on elite interviews and secondary sources from Turkey. It problematizes how an economic growth model dependent on foreign capital inflows, which are contingent on global financial cycles, influences the trajectory of bureaucratic autonomy. Specifically, we argue that dependence on foreign capital flows for economic growth creates an unstable macroeconomic policy environment: while the expansionary episode of the global financial cycle masks conflicts between the incumbent and bureaucracy, the contractionary episode threatens the political survival of the incumbent. In the case of Turkey, this has incentivized the ruling coalition to resort to executive aggrandizement to control monetary policy and banking regulation, which resulted in a dramatic decay of the autonomy of the regulatory agencies since 2013.

Keywords: bureaucratic autonomy, credit-led growth model, growth coalitions, growth models, regulatory governance.

1. Introduction

The recent rise of populism and authoritarian turn around the world has triggered a debate about how the populist, authoritarian challenges impact regulatory governance, public administration, and the public policy processes (Bauer et al., 2021; Bauer & Becker, 2020; Benoit, 2021; Dussagu-Laguna, 2022; Hajnal, 2021; Koop & Lodge, 2020; Mathieu, 2023; Moynihan, 2022; Peters & Pierre, 2019, 2022). This debate describes—in detail—strategies and mechanisms used for executive control and aggrandizement over bureaucracy (e.g., autonomous regulatory agencies and monetary authorities) to enact the incumbent's preferred regulatory policies (Apaydin, 2018; Donadelli & van der Heijden, 2024; Milhorance, 2022). Yet, our understanding of how executive control over regulatory governance in authoritarian contexts evolves over time is limited.

Recent findings concur that bureaucracy—with its set of expertise and capabilities—plays a central role in policy design and implementation (Maggetti, 2009), and thereby influence economic growth policies. However, comparative political economy scholars rarely problematize the politics-administration nexus within the politics of economic growth over time in developing countries with regime instabilities (Apaydin & Coban, 2023; Cornell et al., 2020; Guardiancich & Guidi, 2016; Hope & Soskice, 2016; Karas, 2022), and the changing role of bureaucracy in the regulatory domain under non-democratic regimes is underexplored (for exceptions, see Dussagu-Laguna, 2022; Peci et al., 2023). At the same time, while comparative political economy scholars question the link between growth models and the policy process (Baccaro & Pontusson, 2019, 2022), the political and economic bases of policy processes and bureaucratic autonomy have received lesser attention in the current public administration and policy scholarship.[1]

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To go beyond existing approaches, this exploratory case study draws on original evidence from Turkey as an illustration of decay in bureaucratic autonomy in a small open economy, where growth is primarily driven by domestic consumption. Not all non-democratic regimes command totalitarian control over the bureaucratic apparatus: recent research reveals pockets of bureaucratic autonomy present under these systems, especially in areas that require higher level of technical expertise such as monetary policy and banking regulation (Apaydin, 2018). In that sense, the case of Turkey reveals the evolution of regulatory autonomy under a non-democratic regime that faces structural constraints over time. Moreover, the focus on a particular domestic context allows us to study how growth models shape the temporal trajectory of bureaucratic autonomy under economic stress: given the fact that this process is inherently contested especially at times of crisis (Baccaro & Pontusson, 2022), continuous power struggles determine the relative position of bureaucracy vis-à-vis other actors with important implications on its autonomy for the design and/or implementation of policy decisions. Such autonomy, in turn, is critical for the success and effectiveness of the executive's program. Therefore, understanding how and why bureaucratic autonomy evolves under structural pressures (e.g., due to policy constraints imposed by past choices, such as regulations on capital account liberalization, exchange rate policy and/or banking regulations) necessitates a processual understanding. Finally, while systematically contested political regimes create room for bureaucracy to counteract the executive's attempts to curb bureaucratic autonomy, the response could take various forms such as guerilla tactics (Schuster et al., 2022) that may include designing unconventional policies and instruments, which could insulate bureaucrats from political meddling. In that sense, despite the emphasis in earlier studies on legal "de-delegation" (Ozel, 2012); such attempts might not immediately turn into actual de-delegation (Coban, 2024). This calls for a new framework to "consider the role of different voices and interests, coalition building, multidimensional conflicts and compromise formation" (Peters et al., 2022: 972), given that the decay (or strengthening of) bureaucratic autonomy is "not a one-off event" but a *conflict-ridden process* that involves power struggles and bargains between the executive and bureaucracy over extended periods (Bauer, 2023a; Carpenter & Krause, 2015; Coroado, 2020).

To elaborate on these points, the article brings together comparative political economy and public policy and administration scholarship to understand the changing role of bureaucracy in relation to an ongoing transformation of a growth model under non-democratic systems. Critically, our findings reveal how the response of actors within the growth coalition to structural constraints imposed by past policy choices generates feedback effects on bureaucratic autonomy in monetary and banking regulatory agencies. Our specific focus is on the Central Bank of Turkey (CBRT) and the Banking Regulation and Supervision Agency (BRSA): following the implementation of market liberalization reforms in the early 2000s, these organizations emerged as key actors in shaping the growth models and oversee the implementation of monetary policy and financial regulations. In the context of Turkey, these policies define the cost and the conditions of credit allocation which are critical in steering a domestic demand-driven growth process. During the first decade into the new millennium, the BRSA and the CBRT have gained greater weight and visibility to address the instabilities generated by a growth model that heavily depends on external capital inflows (Apaydin & Coban, 2023) thanks to the Justice and Development Party (AKP)'s policy choices that prioritized access to private credit as an important driver of economic growth (Guven, 2016; Orhangazi & Yeldan, 2021). Specifically, easier access to credit allowed higher economic growth rates, as the global financial cycle was expansionary until the Global Financial Crisis (GFC) in 2008, which helped AKP to maintain political economic support through massive capital inflows. In the meantime, the CBRT and the BRSA enjoyed relatively higher levels of autonomy during the early 2000s: capital inflows during the expansionary period of the global financial cycle masked potential conflicts between the incumbent and the nonfinancial corporations (NFCs).

Yet, the response to the GFC in the core economies, in particular the United States (Mianda-Agrippino & Rey, 2020; Mianda-Agrippino & Rey, 2021), led to a significantly loose and expansionary global financial cycle. During this period, capital inflows to developing countries, including Turkey, reached a recent peak (Akyuz, 2017). In this context, concerns about financial stability driven by unusually large inflows triggered the CBRT and the BRSA to tighten monetary and bank regulatory policies to reduce the pace of domestic credit allocation from 2010 onwards (Coban, 2022), which, in turn upset the nonfinancial corporations (NFCs) with closer ties to the incumbent. While the business community became more vocal over monetary and bank regulatory policies that also put economic growth at risk, the Fed announced the termination of loose monetary policy, which meant limited capital inflows to developing countries. Within this setting, political survival concerns of the AKP were further elevated given that domestic credit allocation began to slow down and thereby affecting economic growth (Apaydin & Coban, 2023; Tansel, 2016).[2] While navigating a contractionary global financial cycle and low levels of capital inflows, the conflict between AKP and the regulatory bureaucracy became more and more salient in the public sphere. During this period, the CBRT and the BRSA attempted to maintain their autonomy by way of designing unconventional policy instruments to ensure continuous access to affordable credit to the NFCs while avoiding a major crisis. Yet while seeking to maintain their relevance and autonomy under these structural constraints, the CBRT and the BRSA harmed their credibility due to ad-hoc and reactive policy instruments. Ultimately, the de facto autonomy of the CBRT and the BRSA declined gradually through greater executive interference with the decision-making processes of senior officials, monetary and regulatory policies, frequent discretionary replacement of CBRT governors, imposing the government's policy preferences (i.e., low interest rates and loose bank regulation) and further changes in legal arrangements (i.e., formal rules on the distribution of annual profits of the central bank, reforming the tenure of central bankers, and ministerial oversight over the regulatory authorities).

The case of Turkey offers broader insights into the link between economic growth and the evolution of bureaucratic autonomy in regulatory agencies across peripheral countries that have adopted these institutions relatively recently under financial globalization. In the rest of the article, we revisit the growth models scholarship and link these debates to public administration and regulatory governance literature to build the analytical framework. The next section introduces the methodology. This is followed by a discussion of the link between structural constraints of the Turkish growth model and bureaucratic autonomy. The article ends with a summary of the main findings and a brief discussion of further implications.

2. Existing debates and the analytical framework

Broadly, growth models refer to a set of macroeconomic policy choices that define core drivers of gross domestic product (GDP). In a recent study, Baccaro and Pontusson (2016: 186) highlight three distinct models: "consumption-led growth financed by credit, investment-led growth and export-led growth."[3] In the consumption-led credit financed model (i.e., credit-led model), the main source of growth is domestic consumption that is financed by credit, such as in the United Kingdom. In the export-led model, the main source of economic growth is exports, driven by foreign demand. Finally, the investment-led growth model relates to a more "balanced" third option, such as in Sweden, where consumption and investment together spur economic growth. Within these three options, consumption-led growth model financed by credit is more likely to expose emerging capitalist economies to greater instabilities due to unexpected volatilities in global markets.[4]

Another important lesson of these studies shows that past policy choices over economic growth models impose structural limitations on the maneuvering capacity of the political and economic stakeholders. Constrained by the changes to or pressure over the core parameters of growth models, not all actors adopt the same policy position over time, and power struggles among diverse actors within the dominant social bloc including the executive, business as well as bureaucracy incentivize factions to impose their unique set of preferences over others. Often, these actors engage in power struggles as "[coalitions are organised around] policy paradigms … [and coalitional politics] define the parameters of the policy debate [and project] these paradigms to the public at large" (Baccaro et al., 2022b: 511; see also Blyth & Matthijs, 2017). Within this context, stakeholder preferences define policies which arise on distributional conflicts as "[growth] [c]oalitions of social forces … legitimately claim to represent the 'national interest'" (Baccaro & Pontusson, 2016: 200).

If policymakers prioritize a growth model that depends on external capital inflows for domestic consumption and thereby easy access to credit, the market becomes increasingly sensitive to volatility in global markets over time (Mianda-Agrippino & Rey, 2021; Schedelik et al., 2021). In emerging capitalist economies, the repercussions of a global crisis also have profound political implications, since the aggregation of these countries into the global financial markets is increasingly characterized by a process of dependent financialization, where bank-based financial systems increasingly need access to capital inflows given shallow capital markets in these areas (Bortz & Kaltenbrunner, 2018). As such, this model is often crisis-prone given the fragilities associated with balancing attractiveness toward international investors while avoiding capital outflows or sudden stops (Akyuz, 2017;

Kaltenbrunner & Painceira, 2015; Stockhammer, 2022). Thus, when the global financial cycle is down, higher interest rates and/or scarce liquidity in international markets limit peripheral access to cheap credit; and the outcome is loan scarcity in these areas (Mianda-Agrippino & Rey, 2020).

Within this context, since NFCs prefer lower interest rates to finance trade and investment (Frieden, 1991; Reisenbichler, 2022; Walter, 2008), an externally induced credit crunch is unwelcome by these groups who then pressure the government to lower domestic borrowing rates. In that sense, the structural limitations imposed by the subordinate position of developing countries in the international monetary hierarchy shaped largely by the global financial cycles and past policy choices of the incumbent challenge them to recalibrate policies to sustain economic growth. This is more likely when the dominant growth coalition pressures the executive for easier access to credit, which further generates friction between the economic bureaucracy and the government. While the former strives to maintain its autonomy as stakeholders pressure the government over scarce resources, regulatory agencies struggle to maintain their organizational, legal, financial, and discretionary autonomy (Verhoest et al., 2010), as the conflict within the dominant growth coalition regarding growth model parameters deepens further.

2.1. Analytical framework

Delegating policymaking and implementation powers to an autonomous agency requires getting these agencies aligned with the preferences of the executive and the growth coalition: if bureaucrats observe that the benefits of divergence override the costs of compliance, they may shirk, sabotage (Bauer, 2023b; Bischoff, 2023; Schuster et al., 2022). At the same time, businesses may lobby to "capture" these organizations (in)directly by appealing to the executive and/or politicize the debate (see Culpepper, 2010; Feldmann & Morgan, 2022). Bureaucracy operates within this "network of multiple audiences" that need to perceive bureaucracy as reputable and capable so that bureaucrats can "build *program coalitions* around the policies they favor" (Carpenter, 2001: 14, italics in original; see also Carpenter, 2010); and their capacity to maintain their autonomy remains conditional on the relative success of the executive's policy agenda, as well as the degree of support from the stakeholders that is part of the coalition (McDonnell, 2020: 141).

In democracies, the central role of the bureaucratic apparatus attributes them significant influence over the policy process (Bertelli & Busuioc, 2021; Carpenter, 2001). Specifically, bureaucracy can be "an epistemic counterweight to representative decision-making and infused with the very values that coin society at large, and the democratic system at large" (Bauer, 2023a: 3; see also Miller & Whitford, 2016). In a similar vein, and given their central role in a credit-led growth model, autonomous regulatory and monetary authorities can signal credibility, overcome time-inconsistency in policy preferences, partially depoliticise policy processes and even shift the blame for unpopular choices (Stone Sweet & Thatcher, 2002). However, autonomous agencies can act as "veto players," especially against populist leaders who look for the next opportunity to seize power and engage in an assault on bureaucratic autonomy (Bauer, 2023a: 4). Within this setting, autonomous agencies can shield discretionary, populist, and arbitrary pressures of the government (Maggetti, 2010: 3). Thus, enhanced bureaucratic autonomy could have a mediating effect against democratic breakdown (Andersen & Krishnarajan, 2019), and alleviate the impact of economic crises (Pepinsky, 2014).

Yet when the political survival of the incumbent is at stake in non-democracies (e.g., because of exogenous and/or endogenous constraints triggered by a crisis), the executive may either seek to shift the source of demand (e.g., from credit-led model that depends on domestic consumption to export-led growth model that relies on foreign demand), or maintain the growth model while altering or rebuilding growth coalitions and/or reframing the institutional arrangements of the model via political takeover of the economic bureaucracy. The option has nontrivial costs: changing the growth model requires time, resources, policy capacity, and alignment of actors' preferences within the growth coalition for a substantial overhaul of the key drivers of economic growth. The second option may be less costly, since it does not entail overhauling macroeconomic policy which would require more time and investment of resources (Scheiring, 2021).

Thus, the latter is more likely when the government seeks a less costly option of subverting the bureaucratic autonomy of the monetary and regulatory authorities to selectively address the needs of the NFCs that are politically important while navigating the shifts in the global financial cycle. Given that the incumbents in developing countries are less capable of unrolling comprehensive bailout measures to help all distressed firms and banks, and are constrained by the high costs of choosing this alternative path (Chwieroth & Walter, 2017), the economic bureaucracy turns into a fundamental site of contestation when various interest groups strive to control and determine the policy process in selecting the beneficiaries (Peters et al., 2022: 972). This is also because of the bureaucracy's likely veto player position regarding the future of the growth model in question (Apaydin & Coban, 2023; Redwood, 2023).

Subversion of the bureaucratic autonomy may accelerate during a critical juncture (e.g., an economic crisis) when a shock redefines policy preferences of the incumbent. This is more likely when multiple crises and fluctuations in the global financial cycle test and expose the fragilities of the growth model that cannot ensure credit allocation on favorable terms (Desai et al., 2009), which prompts the executive to revise the parameters of the growth model. As the crisis puts the incumbent's chances of political survival at risk due to a declining economic growth rate, actors' preferences may shift; and the autonomy of the monetary and regulatory authorities may "become imperilled if *politicians* no longer see the particular knowledge offered by bureaucrats as relevant for solving salient problems [i.e., delivering economic growth]" (Christensen, 2024: 84, emphasis in original; see also Koga et al., 2023). The implementation of altered preferences requires the incumbent to re-align the bureaucracy with the shifts in policy preferences by replacing or capturing autonomous agencies to deliver economic growth and thereby retain support and avoid opposition from within the ruling coalition. To that end, the incumbent may alter the institutional arrangements that challenge bureaucratic autonomy to ensure that its "priorities are followed through on the ground … [and bureaucrats] experience heightened pressure to align their actions with the overarching policy vision articulated by the leadership" (Chan, 2024: 218). Put differently, the input–output-outcome framework expects that when the political environment is under stress, actors react to the stressor, and their response reshapes organizational structures, institutional arrangements, and policies (Guidi et al., 2020).

In this context, the conflict between the executive and bureaucracy might not be easy to resolve in the short run because bureaucrats may not *immediately* give in to the rulers' encroachment upon their autonomy. In response, they often seek to safeguard it. One such tactic involves the employment of unconventional policies that require highly specialized technocratic expertise. However, these strategies may ultimately undermine their autonomy: as bureaucrats strive to shield themselves from authoritarian encroachment, untested policies could have unintended consequences that harm the interests of politically connected businesses and/or the executive. Under these circumstances, bureaucrats inadvertently become further entangled in contradictory policies, which limits their ability to navigate crises as the global financial cycle oscillates between expansion and contraction. This, in turn, incentivizes the incumbent to politicize bureaucracy (Dahlstrom & Niklasson, 2013; Peters & Pierre, 2004; Yesilkagit & van Thiel, 2008) and to gain greater control over autonomous regulatory authorities as the bureaucrats are increasingly unable to serve the needs and preferences of the dominant growth coalition. This incentive further expands executive control over bureaucratic capabilities through direct control, expertise repression, and/or appointment of like-minded officials (Ennser-Jedenastik, 2016; Hustedt & Salomonsen, 2014). Consequently, once institutional protections over bureaucratic autonomy are removed, the likelihood of greater political control over autonomous agencies increases.

"Getting back control" from autonomous authorities unfolds through distinct mechanisms such as patronage networks that enable bureaucratic capture via staffing bureaucratic ranks with loyal partisan agents, and/or changes in legal arrangements to subordinate bureaucracy to implement the incumbent's policy agenda (Bauer et al., 2021; Bauer & Becker, 2020). This way of frequent political meddling in their day-to-day activities further results in greater politicization of the policy process and centralization of power in the executive (Peters & Pierre, 2019: 1527–1528; see also Bauer & Becker, 2020; Bauer et al., 2021). The outcome of this process is decay in both de facto and de jure autonomy (Ozel & Unan, 2021). Figure 1 summarizes our theoretical expectations.

3. Methodology

This study employs an exploratory case study method and generates data based on an extensive field research that was conducted between late December 2019 and May 2022 in Istanbul and Ankara. The field research included 24 elite interviews. We used purposive sampling strategy and combined this with snowball sampling strategy by asking our respondents to refer us to former and/or current senior public officials,

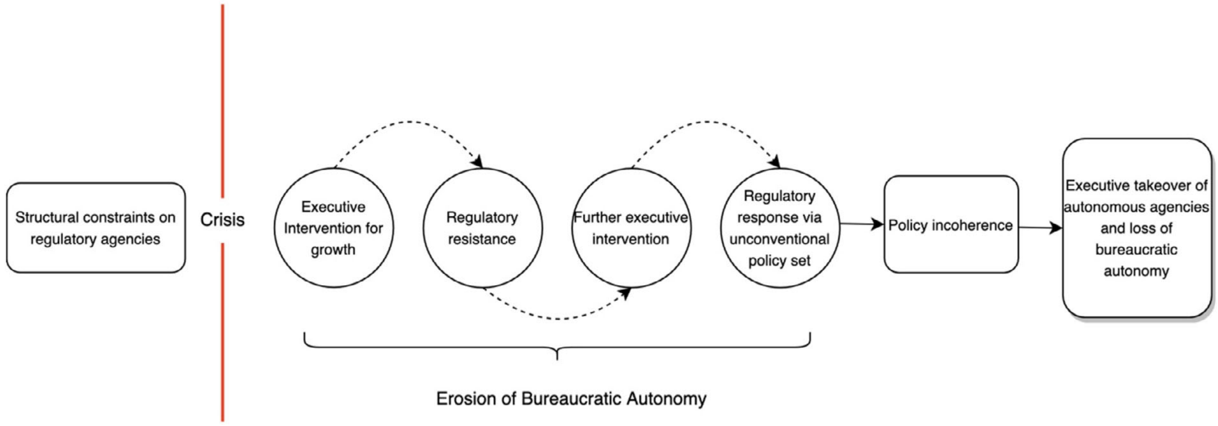

FIGURE 1 The erosion of bureaucratic autonomy in monetary and banking regulation under credit-led growth model in non-democracies.

politicians, or bankers. The existing politics-administration nexus, regulatory governance, and the politics of economic growth informed potential factors and processes to construct the guide to make sense of the decay in bureaucratic autonomy. To this end, the semi-structured interview guide involved questions interested in the processes and outputs, such as monetary and bank regulatory policymaking and decision processes, monetary and regulatory policy preferences, the role of business and the government, appointments and personnel management at the CBRT and the BRSA, and the political intervention into policy decisions. We tailored the questions according to the professional background and role of the interviewees in their respective public or private organizations. The interviews lasted between 40 minutes and two hours. Nineteen interviews were voice recorded, and five interviews were recorded by taking notes. In addition, we have taken field notes on several occasions, which allowed for reflection on the interview, and the setting, and for making sense of the interview data. Interview data collection lasted until we reached the "saturation point" beyond which an additional interview would not have yielded more information.

In addition to this new interview dataset, we build on an earlier dataset that was generated in early 2016 during a previous field study with interviewees who have a similar profile. This allows us to identify the influential drivers of the trajectory of autonomy of the CBRT and BRSA over time. In addition to these interviews, we relied on primary and secondary data sources for triangulation. These include official policy documents and reports of public organizations, presentations or speeches of key policymakers, newspaper articles, columns of former politicians and principal policymakers in newspapers, academic publications, and official reports of international organizations. Data analysis and analytical framework construction involve three parallel stages of iterative: relying on the primary data inductively and being informed by the existing literature regarding the relevant factors and processes deductively. Following the interviews and collection of complementary written documents in parallel, we first constructed themes manually through open coding to identify overarching themes with reference to actors and the consequences of actors' actions over time. Second, we constructed a timeline of events which we elaborate below. Finally, we developed an analytical framework that reflects the overarching themes and the events that led to the decay in bureaucratic autonomy of the CBRT and the BRSA.

4. The credit-led model and the decay in bureaucratic autonomy in Turkey

4.1. Bureaucratic autonomy between 2001 and 2013

Turkey experienced systemic banking and economic crises in 2001. In response, the coalition government implemented a stand-by program under the supervision of the International Monetary Fund (IMF) and the World Bank. The program led to further financial liberalization with the removal of restrictions on capital flows, imposed fiscal restraint, and introduced institutional reforms such as the establishment of autonomous regulatory agencies including the BRSA, granting de jure autonomy to the CBRT, and amendments to the public procurement law for more transparent and competitive biddings (Cizre & Yeldan, 2005). During this period, the institutional reforms involved the separation of monetary and fiscal powers by way of creating autonomous monetary and banking regulators. These agencies have enjoyed greater de facto and de jure autonomy at the time of their creation (e.g., legal isolation, managerial and policy design discretion) (Apaydin & Jordana, 2023; Atiyas, 2012; Coban, 2022; Donmez & Zemandl, 2019).

Following the elections in 2002 and the arrival of AKP to power, the new government has embarked on a growth model that mainly relied on the expansion of credit—where domestic consumption was financed by international capital inflows (Orhangazi & Yeldan, 2021). This was accompanied by a commitment to the IMF program that imposed strict conditionalities for structural reforms including fiscal restraint to "tame" chronic public budget deficits (Yeldan & Unuvar, 2016). During the first decade of the 2000s, capital inflows and annual economic growth rate have become highly correlated (Orhangazi & Yeldan, 2021: fig. 1, p. 465), suggesting that a rise or a slowdown in capital inflows meant higher or lower annual GDP growth rate, respectively. This dependence reached its peak when capital inflows accounted for 12% of GDP in 2007 due to ample liquidity in global financial markets during the expansionary global financial cycle (ibid). Thanks to (unusually) high capital inflows combined with domestic fiscal restraint, access to credit in international markets was easier with greater abundance. This created space for the banking sector to allocate credit to the households and the NFCs. Consequently, as interest rates declined, capital inflows financed growing private sector and household credit demand. The availability of affordable loans was relatively critical for the economic performance of the NFCs and households at a time of austerity.

In this loose monetary and bank regulatory policy setting, NFCs' growing dependence on credit increased their sensitivity to interest rates for their performance. Figure 2 reveals that the share of credit to the NFCs as the percentage of GDP was around 20% in the early 2000s. Figure 3 shows that the average interest rate charged on corporate loans by banks was around 60% in the early 2000s. But it went down to less than 10% in the 2010s. Moreover, Figure 3 demonstrates a close relationship between interest rates and corporate indebtedness. When interest rates were lower, corporate indebtedness rose faster.

Credit-led growth model in Turkey rests upon two main features: First, the government acts as a "broker" between the banking sector whose role is to finance consumption and the NFCs. The latter is particularly

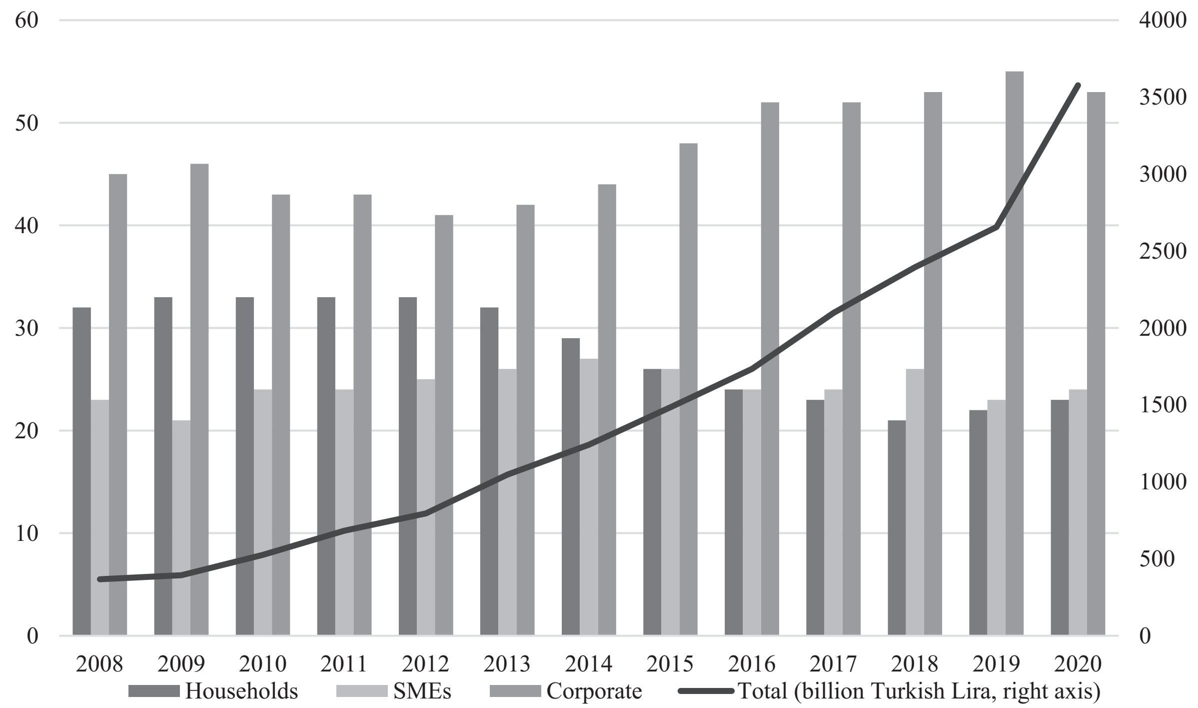

FIGURE 2 The share of households and the nonfinancial sector in total bank credit. *Source*: BDDK (2014, 2020).

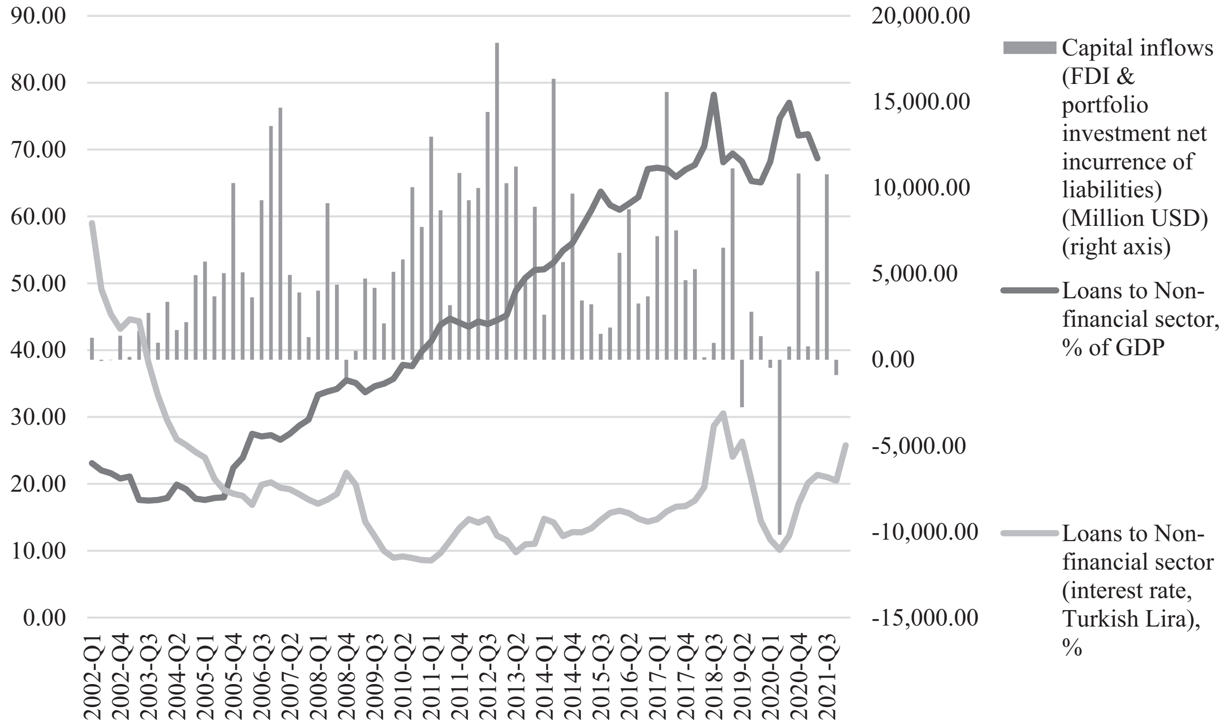

FIGURE 3 Capital inflows, corporate indebtedness, and average corporate loan interest rates. *Source*: BIS and CBRT, https://evds2.tcmb.gov.tr/ (accessed 18 January 2022).

important since its economic performance and political loyalty reproduce the public legitimacy of the incumbent (Bugra & Savaskan, 2014). Second, the growth model builds on the clientelist exchange between the government, NFCs, and households. During its tenure, the AKP government channeled resources toward its constituency through favoritism, concessions on public land, targeted privatizations or public service delivery contracts, and lower interest rates to finance private consumption and investment (Ayhan & Ustuner, 2022; Gurakar, 2016). Third, the clientelist nature of these arrangements demands a bureaucratic apparatus for the maintenance of these relations that benefits all stakeholders. As Ozel (2012) notes, this process has unfolded via various decree laws that gradually intensified ministerial control over de jure autonomous regulatory agencies, including the BRSA, in the early 2010s.

Bureaucratic autonomy is at its highest when multiple audiences including the growth coalition enable greater space for public organizations without challenging or meddling in their autonomy (Carpenter, 2001, 2010). In Turkey, the BRSA and CBRT enjoyed greater autonomy given the presence of such an audience of a coalition that shielded them from substantial executive pressure until the early 2010s. This enhanced autonomy was significant for two interrelated reasons. First, prudent regulatory and monetary policies enabled extensive credit allocation, which also served the core constituency of the AKP through policy credibility within a favorable, expansionary global financial cycle (Orhangazi & Yeldan, 2021). Second, and relatedly, these policies in this period arose out of reliance on in-house policy design and implementation capabilities. For example, BRSA implemented macro-prudential regulation with the imposition of limits on the distribution of profit [in the banking sector], a 12% capital adequacy ratio (which was and is still higher than the Basel standards), stricter regulations on corporate governance, and limits on exposure to derivatives, and ban on household borrowing in foreign currency.[5] With these policies and instruments, the BRSA and the CBRT steered financial stability, which served the interests of the executive and the dominant coalition by enabling domestic financial market development that facilitated easier access to credit.

Still, the CBRT and the BRSA, along with other autonomous regulatory agencies have been targeted for political influence through appointments in the higher ranks of both organizations and decree-laws that sought to expand executive control by the 2010s (Ozel, 2012). Nevertheless, both organizations were able to rely on in-house expertise (Coban, 2022) as continued capital inflows facilitated sustained credit allocation and higher economic growth rates. As the executive and the broader business community benefitted from a relatively stable international financial environment until the GFC (Apaydin & Coban, 2023; Yagci, 2018), this coalition did not feel the pressure to intervene systematically in CBRT's and BRSA's autonomy.

Indeed, as Figure 4 indicates, the "regulatory quality" was increasing until the taper tantrum of 2013, as central bankers and the regulators were capable of developing policy instruments, while coordinating with the then Deputy Prime Minister (DPM) in charge of economic and financial affairs, Ali Babacan. Thanks to the quantitative easing policy of the Fed between 2008 and 2013, peaked capital inflows led to a historically high current account balance deficit (see Fig. 3). In response to the worsening current account deficit, and fearing financial instability in case of a sudden stop or capital reversal, central bankers designed a series of unconventional monetary policy instruments (e.g., reserve option mechanism, asymmetric interest rate corridor) to manage capital flows and to boost foreign reserve accumulation. At the same time, the CBRT coordinated closely with Ali Babacan, and established policy coordination channels with the BRSA to implement macroprudential measures (e.g., loan-to-value ratio, debt-to-income ratio) thanks to Babacan's political support to reduce the pace of the rise in household indebtedness in 2011 (Coban, 2022: 867). As these instruments were against preferences of the executive and the growth coalition (Yagci, 2021)[6] given their private consumption dampening effect, the NFCs began to target the two organizations because of conflicts over the restrictive bank regulatory policy (i.e., macroprudential measures on consumer loans that targeted private consumption, and, in turn, NFCs' profits through the consumption channel) (Yagci, 2021). By way of deploying unconventional policy instruments, the BRSA and the CBRT were temporarily able to withstand political intervention and retain their autonomy (Coban, 2022). This temporary resistance was possible thanks to sustained capital inflows masking divergence in policy preferences between the executive, the NFCs and the monetary and bank regulatory authorities.

4.2. The gradual decay in bureaucratic autonomy since 2013

2013 was a significant critical juncture for the gradual subordination and capture of the CBRT and BRSA through politicization and centralization of the policy process: worsening external conditions which were accompanied by domestic political instability disrupted the integrity of the coalition that supported their autonomy. In addition to the Fed's tapering announcement in May that triggered the contractionary episode in the global financial cycle, the Gezi Park protests in June, and the December 17–25 corruption scandal further aggravated the political survival concerns of AKP.[7] As a former senior central banker notes:

> *Since its establishment until 2012-2013, AKP respected common sense and consultation … [Erdogan] used to listen to those whose goodwill he had trusted, took notes of their recommendations, and would pursue those*

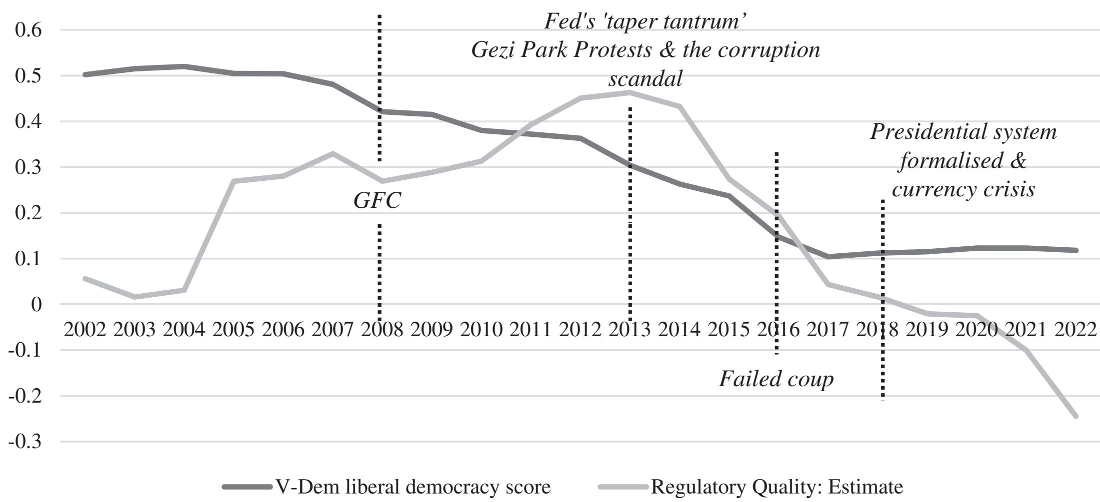

FIGURE 4 Liberal democracy score and regulatory quality. *Source*: V-Dem; World Governance Indicators.

recommendations [even] if they did not align with his ideas, preferences … 2013 was a turning point, as the processes excluded many others and the family got more involved in the policy processes.[8]

As bureaucrats tried to carve out an autonomous space, purges of regulators began in early 2014 in the case of the BRSA.[9] A senior regulator mentioned that:

the main actor during the [intervention] in December 17-25, 2013 [by Fethullah Gulen group] was not the police or judiciary. Agents within the BRSA engaged in financial espionage to inspect individuals' and firms' bank accounts, and handed that data over to the police and attorneys, which were used during the [purges].[10]

A similar process unfolded in the case of the CBRT. On 7 June 2013 one of Erdogan's chief economic policy advisors Cemil Ertem noted that the Gezi Park protests aimed to destabilize the country, arguing that "[t]here is now an anti-interest rate lobby … you must be afraid of it!"[11] Due to the Fed's "taper tantrum" and stringent external financing conditions that led to the rise in corporate finance costs, Ertem was clearly worried about a growing economic backlash that could merge with a visibly powerful social opposition that demanded political change. Thus, following the downward pressure on Turkish lira (TL) toward the end of December 2013, the CBRT hiked the interest rates in early January 2014 from 7.75% to 12% at an emergency monetary policy committee meeting.[12] This dramatic rise driven by CBRT's commitment to signal its autonomy triggered Erdogan's fierce critique of the interest policy.[13] While there has been a round of decline in interest rates in the ensuing months in 2014,[14] Erdogan and the CBRT governor Basci were openly engaged in a public polemic on high interest rates in 2014.[15] Erdogan accused the governor of treason by serving the infamous "interest rate lobby."[16] Meanwhile, under tighter conditions for credit allocation, NFCs began to call for lower interest rates and loose bank regulatory standards to have easier access to credit (Yagci, 2018). In response, various ministers (e.g., the-then Minister of Economy, Nihat Zeybekci, his predecessor Zafer Caglayan), and Erdogan's chief policy advisors (e.g., Cemil Ertem, Yigit Bulut) contested higher interest rates and restrictive bank regulatory measures which were working against the NFCs' loose monetary and bank regulatory policy preferences. These actors became more vocal since 2013; and as we elaborate below, they played an influential role in eroding the coalition that shielded the autonomy of the BRSA and CBRT.

At this point, it was difficult for the government to ignore these demands as the contractionary global financial cycle restricted access to cheap credit in the post-tantrum period which overlapped with domestic political crises. The government was already aware of the electoral response to the decline in GDP growth after the GFC, which resulted in lower electoral support for AKP in the 2009 local elections. Until 2013, one of the primary political economic beneficiaries of the low-interest rate policy has been NFCs, which constitute more than 90% of private firms in Turkey,[17] and employ a substantial number of the labor force. Additionally, the clientelist relations with the credit-dependent NFCs (e.g., SMEs, exporting manufacturers, construction firms) (Bugra & Savaskan, 2014; Gurakar, 2016; Yesilbag, 2022) made it politically costly to disregard their calls for easy access to credit. This is clearly visible in bank lending figures that rise before elections in particular pro-AKP constituencies, as "the government targets local economic activity via corporate credit" (Bircan & Saka, 2019: 303). Given this critical importance of access to affordable credit, NFCs insisted on lower interest rates and became more vocal due to more restrictive conditions of credit allocation given the slowdown in capital inflows, especially after 2013. Thus, the pressure on the CBRT to initiate a rate reduction intensified. Following the rate hike in early 2014, the monetary policy committee began to lower rates in 2014; and the NFCs vocally supported CBRT's decision.[18] In an attempt to maintain their bureaucratic autonomy, CBRT bureaucrats justified this unconventional policy to lower interest rates until late 2016. In the words of a senior central banker:

[i]f I shut my ears to the demands of stakeholders, they will hang me … [Also] the primary mandate of the central bank is price stability, and the second mandate is financial stability. Financial stability is compatible with economic growth and developmental goals.[19]

A former senior central banker also mentioned that:

Even though the international financial conditions were tightened, we resisted to hike the interest rates …[T]here was also the 1.92 case [when governor Basci promised in press briefing in 2013 that the USD-TL exchange rate would remain at that level]. These were all due to the government's sensitivity over high interest rates.[20]

On the CBRT's intervention in the foreign exchange market at that time, another senior central banker noted that:

> *we were able to achieve higher levels of gross foreign reserves by allowing the banking sector to replace its TL reserves in foreign currency and gold.*[21]

While the loss of majority in the legislative in the June 2015 general election was of a significant survival threat to the AKP, the failed coup in July 2016 was another turning point that exacerbated the political survival concerns of the government. In addition, this critical event triggered another round of depreciation in TL. In turn, economic growth slowed down, incentivizing another round of calls for lower interest rates to prop up the economy. During this period, the BRSA received demands from NFCs to ease its macroprudential regulations. For example, one senior regulator mentioned that:

> *[w]e were pressured by the jewellery and furniture sectors [which are SMEs; and the BRSA had imposed caps on instalment payments on transactions in these sectors]. They were demanding reversal of the restrictions.*[22]

By the end of 2016, the BRSA adopted a looser bank regulatory policy (Coban, 2022). Yet paradoxically, the post-2016 period marked the beginning of the organizational turmoil that increased the pace of the erosion in autonomy of the CBRT with the appointment of Murat Cetinkaya as the new governor, who had close relations with Erdogan's son-in-law and the Minister of Treasury and Finance, Berat Albayrak. Cetinkaya privately reported his recommendations to Albayrak arguing that the CBRT's legal mandate should have focused more on employment and economic growth along with price stability.[23] Thus, Cetinkaya began his term with a steep decline in interest rates at the beginning of his mandate. However, when the failed coup in July 2016 triggered political concerns about impending market instability, the CBRT was forced to increase the interest rates in early 2017 to stem the downward pressure on TL by invoking CBRT's autonomous decision-making capacity.

As the interest rates were yet again rising, access to private credit became more challenging for the private sector, and the government unrolled a credit guarantee scheme in 2017. While this scheme allocated around eight billion TL between 2010 and 2015, the new scheme drastically increased the volume to 186 billion TL. The NFCs were the main beneficiaries. Specifically, SMEs that were operating mostly in the construction and manufacturing sectors received at least 40% of the total allocation.[24] The scheme was vital for the viability of the credit-led model at the time (Orhangazi & Yeldan, 2023). For instance, the Istanbul Chamber of Industry reported that even the largest 1,000 industrial firms have become more indebted since 2016. The average total debt-to-equity ratio among these firms was 162% in 2016, which rose to 216% by 2020.[25]

While the credit guarantee fund gained momentum, the CBRT decided to increase interest rates in early 2017, given rapidly rising inflation rate due to credit expansion and the downward pressure on TL. The rising inflation rate, declining capital inflows, and unsustainable economic growth model began to worry the government. Referring to "*significant decisions* about investments and macroeconomic balance," Erdogan announced snap elections in April 2018.[26] A pro-government analyst interpreted the snap election as overcoming pressure on the downward pressure on TL, which was led by forex speculators. The pundits also argued that the snap election could cure the "sicknesses of the past", referring to high-interest rates, chronic current account deficit, and ineffective, inefficient bureaucracy.[27] Last but not least, the Chair of the Istanbul Chamber of Commerce supported the decision on the grounds that "early elections are in the best interests of business. With the strengthened [political and administrative] system, the private sector [begins to] invest 1,5 years earlier [than regular elections]."[28] Hearing these calls, Erdogan promised to lower interest rates during the electoral campaign and reiterated his plan to "tighten the grips" on the CBRT before the presidential elections in 2018 during his meeting with international investors in London.[29] CBRT's response was to initiate another round of hike with the policy rate reaching 24% following the local and general elections in September 2018.

4.3. The "long and bitter round" since 2018

After 2018, institutional arrangements for economic growth went through a dramatic change. On the monetary policy front, the BRSA and CBRT became sites of direct intervention by the government. Despite subtle acts of resistance by the bureaucrats prior to the elections, both organizations have been subject to capture and control through amendments in the legal arrangements thereafter.

While Erdogan secured his presidency in 2018, he was still under the pressure of politically connected NFCs who continued to lobby for cheaper access to credit, which in turn prompted Erdogan to increase his pressure on the CBRT.[30] The final straw that broke bureaucratic autonomy came after the spat between Erdogan and Trump over the jailed pastor Brunson. Trump's threats to sanction the country caused another round of depreciation in TL. During this process, the CBRT defied Erdogan's calls for lower interest rates, increased the policy rate and did not change it until mid-2019. In response, the government reduced the legal term of the CBRT governors from five to four years.[31] Following this intervention, CBRT turned more hesitant to rely on policy rate as its primary instrument. In a final attempt to avoid executive intervention, the CBRT bureaucrats took the unconventional path and used the late liquidity window rate to regulate the market.[32] Avoiding a direct clash with Erdogan, the CBRT increased this rate while the policy rate remained the same. Practically, this was a backdoor technique to increase the rates. Yet, these attempts to shield autonomy from executive intervention failed miserably, and Erdogan sacked Cetinkaya in mid-2019, two years before the end of his tenure, stating that the governor did not follow his instructions.[33] The loss of Istanbul and Ankara municipalities to the opposition in the 2019 local elections was also of major concern for Erdogan, since a substantial number of NFCs with links to the party were based in these cities. Following Cetinkaya's removal, his successor Murat Uysal began his term with another round of steep decline, as the policy rate went down from 24% to 19.75% in July 2019. The NFCs endorsed again the rate cut, as reductions were seen as a positive signal to generate investment and production.[34] At the same time, a representative of a major business association called on the CBRT to shoulder NFCs' debt.[35]

As a result of CBRT's interest rate cuts, the downward pressure on TL mounted. A former central banker mentioned that "everyone understood that hiking interest rates was the last resort, and there was no meaningful rise in interest rates. It was very difficult to manage inflation expectations … Controlling both the exchange rate and the inflation rate was difficult in these conditions."[36] Managing both rates meant that the CBRT could rely on and deplete its foreign reserves. However, the process was not made public until 2020 when it became salient that the CBRT and the Treasury engaged in a formal agreement to sell foreign currency to state-owned banks to maintain the exchange rate stability to avoid a rate hike and keep the inflation under control. This process began in mid-2019 and continued until mid-2020. The total volume is estimated to have reached USD128 billion.[37]

Disguised depletion of foreign reserves and interest rate cuts were accompanied by additional legal amendments in the Law of the Central Bank. Most importantly, the Treasury, the major shareholder of the CBRT, initiated an extraordinary meeting in early 2019.[38] As the announcement of the meeting noted, the CBRT started to distribute parts of the annual profit in January 2019. Previously general meetings used to be held once a year in April. However, the amendment enabled the Treasury to call shareholders to an extraordinary meeting in January and began to tap annual profits along with retained earnings. This new practice has become common as the Treasury frequently called for extraordinary meetings since then.

At the same time, changes in the institutional arrangements for the viability of the credit-led model also curbed BRSA's de facto autonomy. To avoid a de jure takeover, the BRSA engaged in what senior bankers view as "micro-management." This includes regulatory intervention in the daily practices of the banking sector through informal pressure on senior-level appointments, as the BRSA has a legal mandate to supervise the competences of senior-level bankers. It was argued that the regulator used this authority to pressure several senior-level bankers out of their posts.[39] A former senior banker who was ousted mentioned that:

> *I believe the decision was politically driven because I used to work in a bank that had close relations with foreign financial organisations. I think the government perceived our operations against their interests and made up a list [of personae non gratae].*[40]

Moreover, BRSA's "micro-management" included stricter oversight of NFC-bank relations as the BRSA curiously acted as an intermediary between NFCs and banks. In the words of a senior regulator, "[i]f a bank charged 10 percent commission fee on early payment of a loan, and the firm resisted the decision, that might have been passed on the BRSA. And the BRSA might have told the bank to repeal the charge."[41]

When the COVID-19 pandemic hit the Turkish economy in 2020, growth turned negative. The "flight to safety" during this uncertain period reversed the direction of capital flows away from developing countries, hitting hard Turkey as well. Navigating during this turbulent period and addressing the slowdown in credit allocation, the BRSA adopted another unconventional "micro-management" instrument, the so-called "active ratio." While the CBRT designed this instrument and the regulators [in the BRSA] were not happy to adopt the idea, the pressure from the government pushed the bureaucrats to deploy the instrument.[42] The ratio required banks to extend more credit to the private sector, purchase government bonds, and/or engage in swap arrangements with the CBRT. Using active ratio, BRSA imposed a financial penalty on banks whose ratio has remained below one. In one particular case, the penalty reached 40% of the annual profit of a foreign-owned bank.[43] Reflecting the motives of the government, a senior banker mentioned that banks, in particular private banks, were resistant to lend out more even before the pandemic crisis.[44] Relying on moral suasion, the Minister of Treasury and Finance, Berat Albayrak argued that "the state cannot allow [private] banks to operate as usurers … financial resources of the country must be channeled to those who need it. We believe BRSA's active ratio addresses that concern well. And we want the banking sector to keep credit channels open to the private sector and households."[45] A side effect of BRSA's loose stance on credit allocation was a significant depreciation of TL. The BRSA discursively required banks to curb the demand for foreign currency.[46] And the government reacted to the downward pressure on TL by amending the Banking Law in early 2020 and providing authority to penalize "manipulation" and "misleading transactions" in the market to stem demand for foreign currency.[47]

Finally, oscillation between lower and higher interest rates did not end in 2020. Erdogan sacked Murat Uysal in 2020 and replaced him with a former technocrat and Minister of Finance, Naci Agbal. However, as Agbal hiked the interest rates again, the government's distaste of higher interest rates led to his removal in mid-2021. Agbal's successor, a former journalist in a pro-government daily and a Member of Parliament from AKP, Sahap Kavcioglu also began his term with reducing interest rates. Quite tellingly, the Minister of Treasury and Finance, Nureddin Nebati, who was Deputy Minister since 2018, emphasized that "every time we attempted to implement our low interest rate policy since 2013, we have come across a powerful resistance. This time, we are determined to implement this policy."[48] As the incumbent achieved full control of bureaucracy, and the CBRT resorted to a looser interest rate policy in mid-2021, whose consequences include hyper-inflation due to the depreciation of TL, triggering a devastating rise in inequality and poverty (Apaydin, 2024; Senses, 2022). By that time, de facto autonomy of the CBRT had substantially eroded, and the government was largely in control of the BRSA to steer the monetary policy in line with the preferences of NFCs with stronger ties to the AKP.

5. Conclusion

This article has shown how structural constraints imposed by past policy choices in Turkey created room for a substantial decay in the autonomy of regulatory and monetary agencies in the aftermath of the global credit crunch. A major conclusion of this study highlights the dynamic link between the preferred growth model and the bureaucratic autonomy of regulatory agencies in a non-democratic setting where the performance legitimacy of the incumbent is contingent on global financial cycles and foreign capital inflows are critical for domestic consumption and economic growth. Given the high costs of moving away from growth driven by domestic consumption and the practical limitations associated with "exporting" their way out of the crisis, the AKP government in Turkey opted for institutional changes through de facto and de jure interventions to CBRT's and BRSA's autonomy (see Table 1), against which bureaucrats responded with a set of unconventional policies. While this

TABLE 1 Summary of de jure and de facto autonomy interventions

	De jure autonomy	De facto autonomy
CBRT	Reducing Governor's tenure; changes in the procedures, qualification, and the tenure of Vice Governors, changing the procedures of profit distribution	Arbitrary end of Governors' tenure; intervening in monetary policy decisions (e.g., interest rates); disguised liquidation of foreign currency reserves
BRSA	Amending the Banking Law (e.g., authority to penalize "manipulation" and "misleading transactions"; increasing the control of the Minister); forcing the agency to fire staff	Intervening in bank regulation and supervision decisions (e.g., revoking bank license); directing the agency to deny promotion of senior bankers; mobilization of the banking sector to allocate more credit

response maintained credit-led growth with lower interest rates and a loose bank regulatory policy, enabling the NFCs to have easier access to credit even during the contractionary periods of global financial cycle, the economic bureaucracy gradually lost their autonomy when the revised policies of the incumbent no longer aligned with the bureaucrats' mandate. This triggered an authoritarian takeover of their de jure and de facto autonomy due to the incumbent's political survival concerns, as the government could not forsake economic growth even at the expense of financial and macroeconomic instability.

In that sense, our study makes three important contributions to the debate on growth models, bureaucratic autonomy, and regulatory governance. First, we complement existing studies by highlighting the links between political and economic sources of decay in bureaucratic autonomy of monetary and banking regulation based on original evidence from Turkey. Second, the article emphasizes the financial constraints on developing countries that are in a subordinate position within the global hierarchy, and the role of these dynamics in shaping the domestic politics of economic growth. Beyond the case of Turkey, the global financial cycle and policy responses during the expansionary or contractionary periods have broader repercussions in other developing countries. For example, during the same period, the Hungarian central bank was under severe executive pressure (Scheiring, 2021; Sebok et al., 2022), while the Brazilian regulatory agencies were "militarised" (i.e., military officers appointed to civil bureaucratic ranks) (Coban & Cunha, 2023). These processes were also influenced by economic pressures stemming from contractionary episodes of the global financial cycle in the post-GFC period, which similarly threatened the political survival of the incumbent party in Hungary and caused one of the worst economic recessions in Brazil leading to the replacement of the incumbent left-wing government with a far-right populist government. In that sense, the policy responses to these periods have critical consequences for coalitional growth politics and bureaucratic autonomy. Third, the Turkish case highlights the de-institutionalization of premature autonomy of the BRSA and CBRT by revealing that authoritarian incumbents are more likely to compromise bureaucratic autonomy even in areas dominated by technocratic expertise when faced with a threat of survival. At the same time, when bureaucrats resist executive encroachment via unconventional policies that excessively rely on technocratic expertise (Yesilkagit et al., 2024), they can paradoxically become more vulnerable to a political takeover, especially when they are unable to control market volatilities with these untested and complicated instruments.

Recently, Ang (2017) and Bertelli et al. (2020: 10) suggested that we know little about public administration in authoritarian regimes in developing countries, and more specifically about the role of non-state actors in bureaucratic autonomy. Our study is an important contribution to this debate: specifically, the findings reveal that the economic constituency that AKP relies on is quite influential over the monetary and bank regulatory authorities. Under global financial volatilities, the co-dependence between the government and the NFCs has contributed to the decay in bureaucratic autonomy, leading the executive to centralize the monetary and bank regulatory policymaking processes and intervene in day-to-day operations of the CBRT and BRSA. Such business power over monetary and regulatory policies further highlights the need to study the circumstances under which the private sector influences the policies, as well as the implications of policy processes on bureaucratic autonomy in developing and/or non-democratic countries (for exceptions, see country cases in Feldmann & Morgan, 2023).

Importantly, the role of NFCs points to the less visible and more complex features between regulatory agencies and the *principal* in emerging markets. While many scholars examine the interactions between politicians and the regulator and/or the regulator and the regulatee, incorporating business as principals beyond the regulatees and other stakeholders offers a clearer picture of regulatory governance and the regulatory policy processes, given the polycentric structure of the regulatory space (Coban, 2024; Maggetti & Papadopoulos, 2018). Additionally, while a focus on how populist or authoritarian leaders challenge regulatory agencies is important, the role of political and economic coalitions behind these dynamics calls for a more systematic inquiry (Apaydin & Coban, 2023; Milhorance, 2022). Acknowledging the role played by these growth coalitions can further improve our understanding of political drivers of bureaucratic autonomy and the evolution of the regulatory state under populist authoritarian regimes.

Finally, our study introduces further research questions. While the challenge to depoliticization and agencification is well-documented in democratically established countries after the GFC (Koop & Lodge, 2020; Onoda, 2024), further research is warranted to tease out the variation in bureaucratic autonomy and regulatory governance across settings where populist and/or authoritarian incumbents rule. Before the populist turn worldwide, regulatory capture by market actors was a predominant concern (Carpenter & Moss, 2014), yet more recent studies further add the risk of "political capture" by populist leaders. Yet not much is known whether and how "market capture" and "political capture" differ in established democracies and non-democracies (Apaydin & Coban, 2023; Coban, 2023; Koop & Lodge, 2020; Mathieu & Valenzuela, 2024; Onoda, 2024). Going further, future studies are necessary to examine how governments that endorse different growth models (e.g. export-led, mixed) influence bureaucratic autonomy in distinct political settings.

On a final note, while this article has focused on a single case study, the recent implementation of new instruments characterized by financial nationalism such as in Hungary and elsewhere calls for a comparative focus to understand the transformation of de facto and de jure autonomy of central banks and autonomous regulatory agencies (Johnson & Barnes, 2024; Piroska, 2022). When domestic policy preferences change and/or the broader policymaking context shifts, premature institutionalization of bureaucratic autonomy could be easily overturned. This is more critical in jurisdictions where autonomous regulatory agencies are a novelty in the bureaucratic apparatus. Further studies could combine this by exploring the role of other relevant actors (e.g. media, labor unions) that influence bureaucratic autonomy (in)directly, as well as unpacking the black box of political survival concerns by taking voter expectations into account (Pond, 2021).

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Conflict of interest statement

The authors declare no conflicts of interest.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Endnotes

1 Bureaucratic autonomy refers to "the ability of executive agencies to use their own discretionary authority to implement policies made by political principals, as well as to make policy according to their own wishes when mandates are ambiguous, incomplete, corrupt, or contrary to their perception of national interest" (Bersch & Fukuyama, 2023: 214). This definition revolves around de facto autonomy (i.e., policy discretion, managerial), so we also incorporate de jure autonomy (i.e., legal) in our understanding of bureaucratic autonomy. *De facto autonomy* relates to the actual and discretionary capacity of an autonomous organization to rely on own policy preferences and capabilities; and *de jure autonomy* refers to legal insulation over within organizational and policy decisions (Coban, 2024; Maggetti, 2007). For various dimensions of bureaucratic autonomy, see Verhoest et al. (2010).

2 These include export-oriented manufacturers, small-and-medium sized enterprises, and construction firms (Apaydin, 2024: 3).

3 Freyssenet (2008) notes that nations rely on a mix of investment, consumption, and exports. In our case, we focus on the main contributor of economic growth on which the existing literature agrees: credit-led model. Still, for variations in growth models, see Baccaro et al. (2022a).

4 In cases where growth is dependent on foreign direct investment (FDI) inflows, the negative impact of a global financial crisis may be partially offset when these firms rely on intra-firm financing rather than bank loans. Under these circumstances the economic bureaucracy may partially resist political pressures. For example, the Hungarian Central Bank acted rather autonomously in two instances: there, the Central Bank introduced the Funding for Growth Scheme by relying on "[the central bank's] de jure independence vis-à-vis both liberal critics and the government itself to reinterpret the de facto operating mission and decide autonomously on heterodox policies" (Sebok et al., 2022: 116). Later, the Central Bank hiked interest rates while defying the calls from the government to reduce interest rates; see https://www.reuters.com/markets/rates-bonds/hungary-central-bank-defies-government-pressure-cut-interest-rates-2023-02-28/. Relatedly, in an export-led growth model, where foreign demand drives economic growth with less exposure to capital flow imbalances such as in Latin America, the presence of populist leaders did not cause de-delegation (Bodea & Garriga, 2023; Correa et al., 2019), while natural resource export-orientation has triggered tremendous politicization in particular environment and oil and energy regulatory agencies in Brazil (Milhorance, 2022). For example, Bolsonaro government enacted the law giving the Brazilian Central Bank formal autonomy, see https://www.ft.com/content/d10ba61b-78b6-480c-9652-0cc7b06c1bbd.

5 Interview, R8, BRSA, Istanbul, 4 March 2016.

6 Interview, CB9, Ankara, 9 April 2022.

7 A major bottom-up social opposition to AKP government emerged during the Gezi Park protests in June 2013 (Arat, 2013); and the 17–25 December 2013 corruption scandal was driven by a within-AKP conflict (Tas, 2018).

8 Interview, CB1, Istanbul, 16 January 2020.

9 Later, the BRSA was forced to revoke the banking license of Bank Asya, a Fethullah Gulen-linked Islamic bank in 2015. Gulen supporters spearheaded an important opposition movement within the AKP. The decision was an attempt that challenged BRSA's autonomy because it was not known whether the regulator had the preference to revoke the license at that time. See https://www.bloomberg.com/news/articles/2015-02-03/turkey-govt-fund-appoints-new-board-at-bank-asya-tmsf-spokesman. There were allegations that Erdogan had promised the then-Chairman of the BRSA a seat in the Parliament for revoking the license; see https://t24.com.tr/haber/fuat-avni-bddk-baskan-vekili-mutalip-unala-vekillik-sozu-verildi,285979.

10 Interview, R4, 12 February 2020.

11 See https://www.star.com.tr/yazar/antifaiz-lobisi-ve-iktisat-uzerine-yazi-775123/. See Schafer (2024) on authoritarian sentiments of presidential advisors.

12 See https://www.nytimes.com/2014/01/29/business/international/stress-on-turkish-currency-eases-before-central-banks-emergency-session.html.

13 See https://www.aa.com.tr/en/turkey/turkish-pm-renews-criticism-of-high-interest-rates/146974.

14 See https://www.dailysabah.com/economy/2014/06/26/turkish-central-bank-expected-to-further-cut-interest-rates.

15 See https://www.bloomberg.com/news/articles/2014-05-26/erdogan-says-basci-s-paltry-turkish-interest-rate-cut-is-a-joke.

16 See https://www.reuters.com/article/us-turkey-economy-erdogan-idUSKBN0LW0Y520150228.

17 https://www.tuik.gov.tr/indir/duyuru/kobi-istatistikleri-raporu.pdf, accessed on 16 January 2022.

18 For example, in early 2015, the heads of the main peak associations of exporting manufacturers and local chambers of commerce openly supported these policies. They argued that the CBRT gave a new impetus to productive forces and thereby create employment and prosperity while calling for further cuts in interest rates. See https://www.cnnturk.com/haber/ekonomi/genel/-is-dunyasi-merkez-bankasinin-faiz-kararini-yorumladi.

19 Interview, CB5, Ankara, 24 January 2020.

20 Interview, CB7, Ankara, 22 January 2020.

21 Interview, CB10, Ankara, 12 April 2022.

22 Interview, R2, Istanbul, 29 December 2019.

23 See https://wikileaks.org/berats-box/emailid/19172.

24 See the annual reports of the Credit Guarantee Fund https://www.kgf.com.tr/index.php/en/information-center/activity-reports.

25 See https://www.iso500.org.tr/iso-500-dergileri/birinci-500-dergileri/ (p. 62).

26 See https://www.dw.com/tr/erdo%C4%9Fan-erken-se%C3%A7im-zorunlu-h%C3%A2le-geldi/a-43440203.

27 See https://www.setav.org/erken-secim-turkiye-ekonomisi-acisindan-dogru-mu/.

28 See https://www.setav.org/erken-secim-turkiye-ekonomisi-acisindan-dogru-mu/.

29 See https://www.ft.com/content/d29bf5ac-57fd-11e8-bdb7-f6677d2e1ce8.

30 As Figure 2 indicates, since the GFC, the share of households in total bank credit to the private sector declined from 33% to 23% by the end of 2020, while that of the NFCs rose. Importantly, the share of SMEs went up from 21% in 2009 to 24% in end-2020; and the share of corporate credit rose from 46% in 2009 to 53% by end-2020.

31 See https://www.ft.com/content/4448afee-838a-11e8-a29d-73e3d454535d.

32 This is a monetary policy instrument which is used in extraordinary conditions such as a banking crisis during which one (or more) bank(s) that might default receives an emergency line from the central bank. Yet it now constituted the centerpiece of the monetary policy framework.

33 See https://www.reuters.com/article/us-turkey-cenbank-governor-idUSKCN1UH142.

34 See https://www.dunya.com/finans/haberler/is-dunyasi-faiz-kararini-yorumladi-haberi-450743.

35 See https://www.patronlardunyasi.com/haber/ASO-Baskani-Ozdebir-Merkez-Bankasi-borcumuzu-ortak-olsun/225285.

36 Interview, CB7, Ankara, 22 January 2020.

37 See https://www.bloomberg.com/opinion/articles/2021-04-22/question-over-128-billion-in-foreign-exchange-reserves-rattles-turkey-s-erdogan.

38 See https://www.tcmb.gov.tr/wps/wcm/connect/f49d366b-080f-4a2f-ba58-b65fd7419858/ANO2019-02.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-f49d366b-080f-4a2f-ba58-b65fd7419858-mxx9T2n.

39 See https://www.bloomberg.com/news/articles/2019-12-15/top-turkish-bankers-say-they-were-fired-on-orders-of-regulators.

40 Interview, B2, Istanbul, 9 January 2020.

41 Interview, R4, Istanbul, 12 February 2020.

42 Interview, CB9, Ankara, 9 April 2022.

43 See https://www.bloomberght.com/bddk-den-iki-bankaya-aktif-rasyosu-cezasi-2261101.

44 Interview, B5, Istanbul, 17 January 2020.

45 See https://www.sabah.com.tr/yazarlar/muderrisoglu/2020/05/04/yerel-parayla-ticaret-icin-1-2-aya-adim-atacagiz.

46 See https://www.aa.com.tr/tr/ekonomi/bddk-bankalara-kredilerin-amaci-disinda-kullanilmamasini-tavsiye-etti/1795920. The call against transformation of cheap TL loan was renewed later such as in 2021; see https://www.bddk.org.tr/Duyuru/EkGetir/899?ekId=803.

47 See https://www.reuters.com/article/turkey-banks-regulator-idINL8N2CP2I1.

48 https://www.duvarenglish.com/turkish-deputy-finance-minister-nureddin-nebati-expresses-determination-to-continue-policy-of-interest-rate-cuts-news-59660, accessed on 15 January 2022.

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