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THE 2000-2001 FINANCIAL CRISIS IN TURKEY AND THE GLOBAL ECONOMIC CRISIS OF 2008-2009: REASONS AND COMPARISONS

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- Abstract -

The economic crisis of 2000-2001 was proved to be demolishing for Turkey after the abundance of currency peg in the same year. The crisis in question stemmed from insufficient implementation of regulations, inadequate depth of the capital markets, lack of assessment of risk, excessive lending to incorporated institutions by national banks, restricted interest rates, monitored foreign exchange operations, limited foreign asset holding, lack of competition, barriers to foreign entry & high liquidity, chronic inflation and a deficit in balance of payments. However, the crisis that Turkey was subject to in 2008-2009 was quite different than the previous ones as to be a result of world matters. The sparking effect begun in the USA at the mortgage market, the fail of the mortgage market negatively influenced the capital, stock and derivative markets and spread the world. Thus, this study aims to analyze and reveal the reflections of the 2000-2001 and 2008-2009 crises and their comparison with regards to Turkey on theoretical basis resting on numerous comprehensive and credible national and international publications.

Key words: *Turkey, Economic Crisis, Economic Effect, Economic Analysis*

JEL Classification: E20, F41, G01, G21, O11

1. INTRODUCTION

The Republic of Turkey began to integrate her economy and deregulate her financial markets with that of the world in 1980s. Before the regulation period, the Turkish economy and financial markets were considered under the government constraints with excessive public involvement. The general properties of the said period were high inflation, interest and exchange rates; heavy tax burdens, instable liquidity amount and limited entry to the Turkish economic and financial sector. The relatively inadequate interest rates and high inflation, caused by primarily expansionary fiscal and monetary policies, brought about negative real interest rates and precluded households from depositing their savings in the formal banking sector. Thus, this low level of savings in the banking sector and high level of government debt market facilitated the dependence on foreign credits in order to compensate the credit deficit that was affecting the Turkish economy negatively. Therefore, it was evident to make a sweeping and far reaching structural reform program (Günçavdı, Küçükçifçi: 2005). Therefore, in order to make structural changes, decrease inflation and interest rates, as well as to secure economic growth and financial stability a program was introduced by the government with the support of the IMF. However, the program failed and caused the November 2000 and February 2001 financial crises. The economy and the real sector were affected adversely.

Another economic crisis affected Turkey began in 2008. Yet, this time the case was too different. In 2000 and 2001, the crises stemmed from the own structural and financial constraints of Turkey and it was possible to find international financial sources and assistance to manage both of the crises. Furthermore, the IMF and Turkey agreed on a standby program, made structural changes and put the economy back on its track. However, the situation in 2008 was quite different. The crisis began in the mortgage market in the USA with excessive lending to investors who were incapable of paying it back. With the burst of the mortgage bubble, the crises expanded to the entire world financial markets and this chain reaction had an adverse effect on Turkey too.

In November 2000 and February 2001 crises, the situation resulted from the concerns made up by the Turkish economy and it was possible to ease the crises with foreign financial back up. Yet, in 2008, the crisis began in the USA and expanded the world. Thus, this time, it is not likely to acquire foreign back up right away, simply since the crisis soared in other countries, economies and financial markets. Furthermore, it will not be possible to prevent the negative effects of the crisis with international trade implementations, since it is not going to be easy to create demand abroad. Consequently, this paper attempts to explain the November 2000 – February 2001 and 2008 crises and compare them depending on sweeping national and international publications.

2. AN ANALYSIS OF NOVEMBER 2000 AND FEBRUARY 2001 CRISES

The Republic of Turkey is a developing country that has been experiencing an economic and financial restructuring process for about two decades in order to assure economic growth and financial efficiency in the financial markets. However, this process was interrupted by successive crises. The first one was a banking crisis in 1994, which was the forerunner of the forthcoming ones. Though, Turkey was following an IMF backed disinflation period, she suffered two substantial crises one in November 2000 and the other one in February 2001. As a result of these crises, the economy was hard – hit, the money, capital and stock markets weakened as well as the financial system almost collapsed (Yörük, Erdem, Erdem: 2006; Bahmani – Oskoee, Karacal: 2006). Prior to 2000s, the economic and financial structure of Turkey was an underdeveloped and weak one. The period before 2000s can be best identified by high regulation, restricted interest rates, controlled foreign exchange operations, limited foreign asset holding, low intensity of competition, barriers to foreign entry and insufficient liquidity, chronic inflation, and a deficit in balance of payments. Therefore, the situation was wide open to capital flight as a result of inadequate economic and financial conditions. Thus, in order to manage the vulnerable economic condition Capital Markets Board and the Istanbul Stock Exchange were established (Günay, Tektaş: 2006; Şengönül, Thorbecke: 2005; Alper, Berumet, Malatyalı: 2001; Günçavdı, Küçükçifçi: 2005).

The Turkish economy has experienced economic difficulties since 1990s, especially with the beginning of 2000s when the exchange rate based disinflation program was deteriorated by two successive economic crises. The crises emerged in an overvalued domestic currency, inconsistent trade deficits and immense capital outflows as well as subjected the country to the most intensive economic crises in her history. The financial sector could be considered as the fundamental effective factor for these crises owing to its weak structure, failing to render sufficient funds to prevent the crises and outflow of capital as well as inadequate regulative precautions. However, the government, with the 1999 program, aimed to launch financial reforms, decline inflation, creates a financial structure to lead local savings to domestic industries and generate more production as well as economic growth. Nonetheless, apart from the expected outcome, the results were economic crises, decline in output and negative reflections on the whole economy (Günçavdı, Küçükçifçi: 2005). Through the end of 1999, Turkey with initiating an exchange rate dependent disinflation program supported by a three – year standby agreement with the IMF. Tight fiscal and monetary policies, a structural reform and a sound exchange rate commitment were envisaged as anchors of the program which also to be backed by the Central Bank (CBRT) implementations as well. The program was begun with sound resolution and it seemed to be in expected sequence with falling interest inflation figures. However, only 11 months after the initiation of the program, it failed with a severe liquidity shortage. Having been unable to tackle the turmoil, the program was abandoned in February 2001 as the internal debt market entirely failed. The pegged exchange rate was left to float and finally a new agreement made with the IMF amounting to $18[1] billion. The IMF released the credit on one condition: Turkey was to introduce good governance into both public and private sectors. Though the exchange rate based disinflation program was at first accomplished in reducing inflation and nominal interest rates; the crawling peg was bringing about considerable situations. First, the commercial deficit was amounting and second, international financial arbitrage was implemented comprehensively owing to overvalued local currency. In addition to these the structural weaknesses of the banking sector, currency mismatches intensified the situation. Eventually, the increasing amount of current account deficit and government's incapability of privatization operations lead to a disbelief in investors' confidence in maintaining the currency peg (Ekinci, Ertürk: 2007; Ertürk: 2003).

The 1999 program was designed to be remedy for the entire economy, but, it was not carried out with adequate structural implementations and consistent courage. First of all, the financial reforms were not applied with an important change in financial implementations of corporations and cause to cheap cost of investment too. The financial operations focused primarily on domestic debt market by abandoning ordinary financial activities, inconsistence in returns stemming from asymmetric information and lack of appropriate agencies, and leading to credit constraints for domestic real sector investments. This also means that in the pre – crisis period the financial sector, especially the banking industry lost its significance as to supply the economy with the necessary financial strength it needed in the said period. Moreover, the financial sector, with its changing role in the economy, was directed to meet the financial necessities of the public sector, the government debt instruments dominated the financial markets and created the fundamental output growth in the financial market (Günçavdı, Küçükçifçi: 2005).

After the end of a three – year standby agreement with the IMF in December 1999, Turkey began the application of a new one at the beginning of January 2000 which aimed to lower the inflation to 25% in 2000 and to single figures at the end of 2002 as well as to decrease the public debt. Although, the program was designed to stabilize and enhance the economic order it collapsed in

[1] This amount is the second largest credit given by the IMF after releasing $30 billion to Brazil in 2002.

November 2000 resulting from a liquidity crisis which stemmed from a sudden capital outflow. The slowdown in economic indicators were felt in the second half of the year 2000 as the capital inflow begun to reduce, short term bank loans decreased, interest rates inclined to increase and the destructive crisis took the stage to threaten the economy and the Central Bank did not manage to hinder the crisis with the low foreign exchange reserves it possessed in the said period. Also, the fragile structure of the banking sector and excessive lending to affiliated institutions, sweeping political instability, rapidly changing governments and the earthquake of 1999 intensified the crisis. In addition to this, the program implemented failed to foresee the possible economic risks, weak financial system (in the said period, banks were possessing nearly 90% of outstanding Treasury instruments and using low – cost foreign credits to back up their portfolios and the Treasury also let the banks to expand their net open foreign exchange position)[2], shortage of foreign currency, currency appreciation, widening deficit of current account and a potential devaluation of the local currency that would spark the crisis. Therefore, at the end of 2000 the expected results were revealed as increase in exchange rates as a result of devaluation in local currency, decrease in capital inflow and increase in capital outflow, lessening of economic activities, trade deficit stemming from formerly highly appreciated local currency, worsening balance of payments and amounting exchange risks. The crisis began at the end of the year, thanks to tourism revenues acquired in the summer period, but, the $25 billion foreign exchange reserves and $7,5 supplemental reserves of the Central Bank were far less to prevent the crises. Yet, there is another factor to be stressed is the late intervention of the Central Bank. Excessive risk and fragility in the banking industry were evident. However, the Central Bank did not take an action to intervene the money and capital markets in this vulnerable period to preserve the value of the Turkish currency and asset prices depending on the agreement made with the IMF.

Table1: Inflation rates, GNP per Capita & Growth Rates (1990 – 2001)

Year	WPI %	CPI %	GNP per Capita $	Growth Rate %
1990	48,6	60,4	2.710	9,4
1991	59,2	71,1	2.666	0,3
1992	61,4	66,0	2.776	6,4
1993	60,3	71,1	3.093	8,1
1994	149,6	125,5	2.195	-6,1
1995	64,9	78,9	2.841	8.0
1996	84,9	79,8	3.005	7,1
1997	91.0	99,1	3.110	8,3
1998	54,3	69,7	3.247	3,9
1999	62,9	68,8	2.836	-6,1
2000	32,7	39.0	2.986	6,3
2001	88,6	68,5	2.103	-9,5

Reference: Çapoğlu, 2004; Undersecretariat of Treasury (2003)

[2] By september 2000, the net open foreign exchange position of the banks in the Turkish Banking Industry was $2 billion . However, the regulatory limit was $2 billion. Therefore, the current open foreign exchange status of the banking industry in the said period was ten- fold of the pre – announced limit (Çapoğlu: 2004).

Thus, the system rested on only the foreign capital inflow and when enough of foreign capital did not back the program and the debt market was very shallow with the low liquidity, the system failed. Eventually, in November 2001, overnight interbank interest rates sky-highed to 2000% as an aftermath of a liquidity crisis in the banking sector. In the forthcoming panic period people tended to exchange the Turkish currency with the foreign currencies and the currency peg could only be relinquished by the financial back up of the IMF who had previously opposed the instrument (Ekinci, Ertürk: 2007; Ertürk: 2003; Günay, Tektaş: 2006; Özkan: 2005; Çapoğlu: 2004).

At the beginning of the program net international reserves began to rise, but it turned out to be insufficient as of February 2001. The $25 billion reserve of the CBRT fell short. With regards to exchange rate, the nominal anchor and pre-declared crawling peg regime were introduced. However, mismatching with economic and trade conditions the exchange rate adjustment failed as well as deteriorated the inflation and interest rates too. The growth rate of the economy declined from 8.0 in 1995, 7.1 in 1996, 8.3 in 1997, 3.9 in 1998, -6.1 in 1999 to -6.3 in 2000; the capacity utilization rate did not change significantly as 78.8 in 1995, 78.0 in 1996, 79.3 in 1997, 76.6 in 1998, 72.2 in 1999 and 76.6 in 2000 and the trade deficit realized as 24.5 in the year of 2000. In addition to this the inflation attained the level of 38.9 that is well over the envisaged 25% in the 1999 program (Keyder: 2001). Even though, the liquidity crisis of November 2000 was prevented to become a far more dangerous one for the economy with IMF support, it had deteriorated the banking system and lead to a huge perilous growth in the public debt stemming from sudden increases in the interest rates to preserve the peg. However, it was another reason that triggered the sweeping crisis in February 2001. When a public quarrel emerged between the President and the Prime Minister on the regulation of banks, a sudden panic in financial markets drove investors to hold foreign currency and the Turkish Lira lost half of its value against the foreign currencies all of a sudden, many baking and other industrial corporations went insolvent as well as a substantial number of white and blue collar laborers became unemployed. The rate of unemployment rose day by day and GNP per capita reduced 50% over a night. The financial crises of November 2000 and February 2001 affected the Turkish economy deeply. The financial sector collapsed and the businesses in the real sector were forced to reduce their production. The interest rates increased, the Turkish currency devaluated by half, many laborers became unemployed and a substantial number of firms closed down. 20 banks were transferred to Saving Deposits Insurance Fund (SDIF), the Banking Regulation and Supervision Agency (BRSA) was established in order to regulate, monitor and rehabilitate the financial sector. Moreover, the effect of the crises in the financial sector was $50 billion to the economy alone (Ertürk: 2003; Ozkan: 2005; Yıldırım: 2002; Günay, Tektaş: 2006; Alper, Berumet, Malatyalı: 2001).

The decline in confidence level, particularly the foreign investors (in normal periods the foreign ownership in Istanbul Stock Exchange is more than 50%) owing to delays in privatization, structural reforms bank failures, impacted on the economy and financial sector considerably. High current account and trade deficits, foreign exchange shortage and duty losses of the public banks intensified the process. Moreover, the inflation rate and interest rate remained higher, real sector continued to operate on low capacity utilization, unemployment rose and the Turkish currency lost half of its value over a night (Keyder: 2001).

3. CERTAIN IMPACTS OF NOVEMBER 2000 AND FEBRUARY 2001 CRISES ON THE TURKISH ECONOMY

As stated before, with the adoption of 1999 program, a resolute stabilization package was initiated with the promotion of the IMF. The program aimed to decrease the inflation rate and secure economic growth with a sound exchange rate commitment, tight monetary control, fiscal adjustments to tackle inflationary pressures and make structural alternations to liberalize economy. Yet, the result was not the expected one, the process failed on November 2000 and intensified in February 2001. The reflections could be summarized as (Özkan: 2005; Keyder: 2001; Ekinci, Ertürk: 2007; Ertürk: 2003, Günay, Tektaş: 2006);

- Macroeconomic position: Fixed exchange regime proved to be disastrous, interest and inflation rates did not decrease as envisaged. The Turkish currency devaluated by half, production and employment declined as well as the trade deficit and balance of payments were adversely affected too. The economic growth rate declined from (%) 8.0 in 1995, 7.1 in 1996, 8.3 in 1997, 3.9 in 1998, -6.3 in 1999, -6.3 in 2000 to -9,5 in 2001,
- The current account balance was damaged by the crises. The trade balance and the current account balance were (million $) -10,582 and -2,437 in 1996; -15,358 and -2,638 in 1997; -14,220 and 1,984 in 1998; -10,443 and -1,360 in 1999 as well as -22,341 and -9,765 in 2000.
- The economy as observed from the growth rate, current account and trade balances and almost 30% inflation rate was far behind being competitive,
- The exchange rate devaluation depreciated the value of Lira, thereby, the commitments made to counterparts abroad on foreign exchange decreased the debt payment ability of both public and private parties,
- The total foreign debt of Turkey, once $3 billion in 1971 rose to $100 billion in 2000 and became nearly 60% of the GDP,
- The government was forced to borrow from abroad in order to repay the previous credits. However, this situation made the Turkish economy more dependent on foreign counterparts and vulnerable in a possible crisis,
- The banking corporations were barrowing credits abroad, exchanging the amount in Turkey and benefiting from a considerable return on arbitrage gains with the high exchange rate. However, as a result of both crises, the banks lost their repayment capacity and 20 banks were transferred to Saving Deposits Insurance Fund (SDIF) in order to be restructured and privatized later. Some of the banking corporation was liquidated. Apart from the real sector of the economy, its cost was $50 billion to restructure the banking industry,
- GDP per capita declined by 50%, the demand on goods and products decreased and the production slowed down,

- The inflation and interest rates remained high and failed to be reduced (inflation rate was nearly 30% and the interest rates were high enough to cover the difference at the end of 2001),
- The domestic debt as a percentage of GDP (Domestic Debt/GDP) increased as 19.7 in 1985, 14.4 in 1990, 17.3 in 1995, 21.0 in 1996, 21.4 in 1997, 21.9 in 1998, 29.3 in 1999 and 29.0 in 2000,
- The current account deficit realized as $9,8 billion in the year of 2000, exceeding the targeted $2,8 billion,
- The net debt of the public sector attained to 93,3% of the GNP, which was targeted as 93,3% of the GNP in the 1999 program,
- The banking corporations were lending immense amount of credits to their affiliated corporations and those affiliated corporations were using the banks a means of financial source. After the crises, the Banking Regulation and Supervision Agency was established in order to monitor the financial sector, make sure that the previous detrimental incidents would not repeat and secure the credibility lost in the banking industry,
- The CBRT failed to manage the currency crises by intervention to the markets late in order to fully comply with the IMF rules. However, it was the IMF to decide to abandon the currency peg at the end,
- The failure of the IMF policies became evident, but the financial assistance was obtained from IMF again ($18 billion).

As a result the economic and financial crises of November 2000 and February 2001 had an immense adverse impact on the Turkish economy and financial sector. The Turkish economy was subject to substantial current account and trade deficits, high inflation and interest rates affecting the investments in the real sector negatively, goods and services production declined and this increased the unemployment, the foreign debt amount of Turkey and the cost of borrowing domestic markets rose, the Turkish currency, Lira was devaluated by 50% and the growth rate of the Turkish economy declined considerably. After, defining the facts of November 2000 and February 2001 crises, the subject of next sections will be to discuss the fundamentals and reasons of 2008 crisis.

4. GLOBAL CRISIS OF 2008 – 2009

The global economy faces one of the worst crises recently. In the first decade of 2000s the global economic environment led investors, businesses and consumers to expect a promising future and ignore the financial risks. Housing and asset prices used to be convenient, risky assets were devised and marketed as not being risky as well as leverage increased. Therefore, when the housing prices fell short of expectations, the sub-prime mortgage market collapsed and the economic arena was wide open for an economic crisis. With regards to rapid global commercial, economic and financial integration and intense and unsophisticated interactions among financial and economic institutions, the crisis of 2008 managed to move across assets, markets and economies easily (Blanchard: 2008). The financial crisis has revealed the regulation and supervision weaknesses of economic systems (Sacasa: 2008).

The crisis did not start all of a sudden, but began as a result of inadequacy of economic and financial agencies. First of all, the global macroeconomic imbalances led to lower interest rates during the past decade, involving more risk taking and contributed to the formation of asset price bubbles around the world. Second, variations in the financial sector framework and the failure of risk management to comply with financial renovations during the past 20 years instigated systematic instability in markets. Eventually, leveraged financial institutions, taking risks without avoiding systematic risk constituted the way to crisis (Sacasa: 2008). Furthermore, one can state that 2008 crisis is a defining moment for the global financial system and relations among countries. The institutional, economic and financial environment alternates at a quick and unpredictable rate. The changes happening in the global economic and financial order are not driven by a center point, but, are a series of different reactions to global financial developments. Therefore, market failures and policy mismatches become unavoidable. Also, during the process, the inadequacy of today's multilateral coordination became evident. Afterwards, the simultaneous and large delivering of the housing sector, the financial sector and the insufficient consumer demand in the USA triggered the process. To be more specific (El – Erian: 2008);

- The first part of the crisis began in 2006 in the housing market. The immediate damage was first felt in the housing sector of the economy, which has the weakest capital support, least transparent, due to sup-prime mortgages in the USA. This was partly a reflection of disbelief in the modern risk management techniques that was insufficient in the expansion of derivative and structured products,
- The uneasiness began in the financial sector in 2007. At the beginning, the financial institutions searched and generally accomplished in benefiting from new capital and support their troublesome balance sheets. However, as they accumulated capital, they recognized the losses gradually. But the accelerated decline in the housing market spread to the financial system and intensified the situation,
- With these negative impacts and shot down of businesses, prices and unemployment rose and availability of credits declined.

Regulators and central banks failed to sufficiently intervene in the crisis. The systematic risk grew and the asset price bubbles burst out. During last decade, some economies maintained continuously large current account surpluses which created a great demand for financial assets issued in various countries, especially the USA. This affected the low real interest rates worldwide, which in turn stimulated substantial risky credit growth. In the USA, the credit debt amount of households and non-financial businesses grew from 118 to 173 percent of GDP between 1994 and 2007. The increase of the credit debt of households accelerated more since 2000 and rose from 98 to 136 percent of the disposable income. During the same period, similar ratios increased from 120 – 180 percent in England and from 72 – 91 in the € zone (Sacasa: 2008).

The deepening financial crisis in the world, with the decline in major advanced economies and expanded to emerging markets such as China, India and Brazil too. Some governments in the world have announced precautions, including the USA, Japan Europe, China and India. The European commission declared that 16 countries in the € zone might subject to 1, 9% of contraction in 2009. It could also be stated that Eastern Europe, South East Asia and Latin

America will be affected by the crisis in 2009. The economies affected by the crisis so far are Belarus, Hungary, Iceland, Latvia, Pakistan, Serbia, Ukraine, China, El Salvador as well as Turkey[3].

5. THE ECONOMIC SITUATION IN TURKEY[4] AFTER 2001 AND THE CRISES OF 2008 -2009

Through the end of the year 2000, upon the reflections of economic slowdowns in various national economies, the central banks of primarily the USA, Japan and the EU countries began to follow loose monetary policies and reduced the interest rates. The loose monetary policies followed, resulted in, on the one hand an expansion in asset prices, on the other hand promoting long term investment primarily in the mortgage sector by means of incurring liabilities with low interest rates. The banks in various countries, in order to increase the demand for housing credits, diversified the housing credit instruments and made the borrowing conditions flexible, even facilitated the clients who did not possess the ability to pay them back, borrow above the possible limit. In this period, the continuation of long term interest rates barrowing with low costs instigated the demand for high risk and high return instruments, mainly the sub – prime mortgage instruments. However, these sorts of instruments, not having a liquid secondary market and not monitored adequately, prevented the precise pricing of risks. The insufficiency of regulation, informing and monitoring operations in the financial sector and its existence far behind the fast changing business world led to excessive risk taking, maturity mismatches and asset price inflation[5]. With the decline in confidence for the mortgage instruments, the investors tended to focus on low risk treasury instruments. Thus, this brought about a liquidity strain in financial markets since it became even more difficult to meet the short term liquidity needs of both financial institutions and, personal and corporate investors. Later, the liquidity strain in the market resulted in losses in the balance sheets of the corporations. Thanks to globalization and excessive dependence of national economies to each other, this facilitated the spread of the crisis on the global base[6].

Regarding to the Turkish Economy, over the last two decades, integrated with an outward oriented approach, the Turkish Republic has experienced a comprehensive economic transformation and began to make significant breakthroughs. A new economic program was declared in April 2001 after the previous economic and financial crises, especially focusing on the financial sector. Since then, the overall target of the economic policies is to accomplish a sustainable growth, reinstating macro economic balances, decreasing the unemployment, restructuring the financial sector, securing the financial discipline and preserving stability in exchange markets. Therefore, it is

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[3] Opinion of IMF managing director Dominique Strauss – Kahn, www.imf.org (last accessed 20.02.2009).

[4] **Turkey Country Profile**: population, 71.5 million; GDP, 700 billion USD; GDP per capita 10000 USD; GDP growth rate, 4.2%; Inflation rate, 9,6%; Unemployment rate, 10,1%; Outstanding total debt, 500 billion USD; Trade balance, -69,8 billion USD; Area: 775.000 km2; Capital: Ankara; Currency: Turkish Lira (Source: World Bank: Country Brief, www.worldbank.org.tr).

[5] YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).

[6] YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).

possible to state that Turkey focuses substantially on structural reforms. Beginning from the financial sector and with a pronounced privatization process, comprehensive reforms involving agriculture sector, social security, energy and telecommunications have continued. Macro economic trends have been positive since 2002, for, the rate of inflation was reduced to a single digit figures, secured a stable growth and attained consistency in economic indicators. Today, Turkey is one of the largest economies in the world. As a result, in the previous 7 years, she has recorded an economic growth rate of nearly 7% annual. Interest and inflation rates, which are still high in comparison to some Western countries, keep declining continuously and economic policies are also supported by fiscal expansion and monetary loosening. Productivity growth was around 10% in the manufacturing industry and it is also notable to stress that industrial and durable goods constitute the bigger part of the merchandise produced[7].

Table 2: Figures related to the Turkish Economy

USD	2002	2003	2004	2005	2006	***2007***	***2008***	***2009[8]***
GDP (billion $)	181,7	239,2	392,9	483,9	530,6	***655,9***	***700***	***600***
Income per capita ($)	2619	3383	5.799	7.027	7.609	***9.305***	***10.000***	***8.000***
Capacity Utilization%	75,4	78,4	81,5	80,3	81,8	***81,1***	***64,7***	***70.4[9]***
CPI	29,7	18,4	9,3	7,7	9,7	***8,4***	***10,1***	***10***
WPI	30,8	13,9	13,8	2,7	11,6	***5,9***	***8,1***	***8.9***
Unemplymt%	10,6	10,5	10,3	10,3	9,9	***9,9***	***12,3***	***16.1[10]***
Budgt Deficit (billion $)	27,8	26,5	21,3	7,2	3,8	***10,6***	***13***	***11.9***
Internal Debt (billion $)	100	130	158	182	175	***195***	***211***	***180***
External Debt (billion $)	130	145	162,3	170,6	206,5	***247,2***	***289,8***	***345.9[11]***
Imports (billion $)	-51,6	-69,3	-97,5	-116,8	-139,6	***-170,0***	***-201,8***	***-67***
Exports (billion $)	36,1	47,3	63,2	73,5	85,5	***107,2***	***132,0***	***44.5***
Foreign Trade Deficit	-15,5	-22,1	-34,4	-42,3	-54,0	***-62,8***	***-69,8***	***-22.5[12]***
Current Accont Defct	-1,8	-8,0	-15,7	-22,6	-32,2	***-38,0***	***-41,4***	***-2.6***
FDI (billion $)	0,6	0,7	2,9	9,8	19,9	***21,9***	***17,7***	***2.3***
CBRT Reserves (billion $)	26,7	33,6	36,0	50,5	60,9	***71,3***	***73,0***	***67.2***

[7] Prospects & Recent Developments in the Turkish Economy (www.mfa.gov.tr)
[8] Figures as of February - May 2009.
[9] Figure as of May 2009
[10] Figure as of March 2009
[11] Figure as of May 2009
[12] Figure as of April 2009

Reference: Web pages of –> the Turkish Statistical Institute, State Planning Organization of Turkey, Central Bank of the Republic of Turkey, Undersecretariat of Treasury, Undersecretariat of Foreign Trade.

After the financial crises of 2000 – 2001, Turkey entered an era of significant growth and structural change. Beginning especially from 2002, the annual growth rate has been considerable. The public debt stock dropped from 74% of the GDP at the end of 2002, to 39 % of the GDP in 2007, a strong reform program was initiated involving an exchange rate float, financial sector rehabilitation, accelerated privatization, revenue administration reinforcement, investment climate enhancement, energy sector reformation, and social security reform. Therefore, one could state that confidence was secured[13].

The fiscal and monetary policies have been maintaining resolutely to reinforce the economic growth. With in the framework of globalization, Turkey has been pursuing far–reaching economic policies in order to integrate her economy with that of the world. The economic policies of the government has focused on international trade, imports and exports as well as implementing efficient privatization policies in order to be an influential actor in her region and beyond[14]. However, owing to global economy, a problem beginning in a part of the world is likely to affect other economies positively or negatively. Furthermore, the financial crisis of 2008 began in the USA, spread to advanced economies then the other parts of the world, including Turkey. There are some views stating that the global crisis did not affect the Turkish economy significantly, but, with the figures presented in Table 2, one can comprehend that the situation is reverse of what is thought.

The indicators of internal and external demand were positive in 2006, in Turkey. By the end of 2006, the GDP grew 9.7% and the demand of the households grew 8.8% in comparison to the previous year. In this period, the real consumer credit growth rate increased by 100% and the increase in the housing credits realized as 400%. However, by the end of 2006 and at the beginning of 2007 the international capital conditions changed against the developed countries. As a result, capital outflows appeared in numerous countries, including Turkey. The New Turkish Lira depreciated as 30%. This situation coupled with the severe increase in the food prices, resulted from drought, led to the increases in prices and inflation rate as well as the increase of inflation rate over the expected level. The CBRT intervened in financial markets and avoid the further increase of prices and inflation rate. However, the economic slow-down was begun to be felt through the end of 2007. The consumer credits grew 15% and housing credits grew 20% annually (quite low when compared to the previous year). The financial crisis emerging in the financial markets of the developed countries as liquidity strains in mid 2007, became prominent in developing countries, as well as led to considerable capital outflows too. In order to prevent the negative effects of the crisis and the financial strain, the CBRT began to inject liquidity to the financial market, attempted to preserve the value of the Turkish currency – Lira, interest rates and

[13] Recent economic performance of the Turkish Economy (www.worldbank.org.tr)
[14] Prospects & Recent Developments in the Turkish Economy (www.mfa.gov.tr)

foreign exchange rates. The decline in food and oil prices (from 140$ to less then 40$) affected the inflation rate positively in this period as well[15].

The Turkish economy has been doing well since the year of 2002. However, if Table 3 is analyzed, the figures suggest that some negative changes occurred from 2007 to 2008 and 2008 to 2009. The GDP amount was $530.6 billion in 2006, $655,9 in 2007 but could only rose to $700 billion at the end of 2008 owing to the global crisis. The capacity utilization rate was 81.8% in 2006 and 81.1% in 2007, but dropped to 64.7% in 2008 which is below the 2002 75.4 level. The CPI was 9.7% in 2006, decreased to 8.4% in 2007, but again rose to 10.1% in 2008. The rate of WPI was 11.6 in 2006, decreased to 5.9% in 2007, but rose to 8.1% in 2008. The unemployment rate was 10.6% in 2002 and 12.3% at the end of 2008. It is evident that the rate of unemployment is more in comparison to 2001 crisis. The budget deficit was $3.8 billion in 2006, increased to $10.6 billion in 2007 and realized as $13 billion in 2008. The internal debt stock increased from $175 billion in 2006 to $211 billion in 2008 and the external debt stock increased from $206.5 billion in 2006 to $289.8 billion in 2008. The import volume increased from $139.6 billion in 2006 to $201.8 billion 2008; the export volume increased from $85.5 billion in 2006 to $132 billion 2008, thereby, increased the trade deficit from $54billion in 2006 to $69.8 billion 2008. The reserves of the CBRT was $60.9 billion in 2006, amounted to $71.3 billion in 2007, but as a result of the 2008 global financial crisis the CBRT was supposed to intervene in financial markets, therefore the CBRT reserves could only increase to $73 billion and fell short of the increase of 2006 – 2007 period. With respect to these figures, one could state that, the Turkish economy may be not as much as advanced economies but, was impacted by the global crisis of 2008 which also affects 2009 as well. Having analyzing the figures concerning to the years of 2006, 2007 and 2008, it is obvious that the crisis is influential in 2009 too. When, Table 2 is considered again, the change in figures from 2008 to April 2009 is substantial. The amount of GDP, income per capita, inflation, internal and external debt, foreign trade volume, unemployment and the CBRT reserves declined considerably or stood stagnant. This means that 2009 would be a difficult year for Turkey and solutions have to be devised as to put the economy on the right track in 2010.

According to the reports revealed by the Turkish Statistical Institute, in April 2009, the number of businesses established in Turkey decreased 24.6% in comparison to April 2008 (the number of businesses established decreased from 4699 to 3541). The monthly production index decreased 17.6% in December 2008 in comparison to December 2007. The sharpest decline was observed in capital goods production with decline of 31.2%. The capacity utilization rate declined 12 points and realized as 70.4% in May 2009 with comparison to May 2008. The primary reason of the decline in capacity utilization rate is the deficiency of domestic and external demand. The shortage of raw materials, financial inadequacies, challenges on laborers and insufficiency of energy sources are secondary reasons. The domestic market demand deficiency affected 49.8%, external demand affected 28.5 percent and rest is made up of the said reasons above. With respect to employment, the amount of the population capable of working rose by 860,000 in February 2009, in comparison to the previous year; attaining to a total of nearly 50,500,000 of the entire 71 million. The rate of unemployment rose by 4 points and 1,125.000 in March 2009 In comparison

[15]YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).

to March 2008 and attained 3,802,000 unemployed laborers. In addition to this, regarding to temporary foreign trade data, unit value of exportation declined 9.6% and of importation declined as 5.9% in December 2008, when compared to December 2007[16].

With regards to the situation of Turkey and compare today to past, it is evident that the debt stock is still too high. Economies with high debt stocks, both internal and external, are always subject to crisis. Therefore, fiscal policy might be developed as to decrease the public expenditure and increase the public revenue by tax reforms and decreasing unregistered economy. It is possible to state that the financial institutions are at the center of the crisis. The high losses, insolvencies, high risk premiums of financial institutions negatively affect the confidence and demand of consumers. Also, financial support such as tax reduction, subsidies and low interest credits could be supplied to corporate investors to preserve consumer demand and create more jobs to bring down unemployment[17]. Some measures that could be implemented are[18];

- Recapitalization and restructuring of troublesome assets and financial institutions,
- Capital injection to markets by governments in order to revive demand,
- Policies to decrease interest and inflation rates, to foster corporate and personal investment, thereby, enhancing production, exports and national revenues as well as reducing trade and current deficits shall be operated,
- Foreign and internal debt stock must be lowered in order to improve long term structural investments,
- Loose or tight, fiscal or monetary policies shall be devised for each case,
- New regulations, codes and control mechanisms shall be constituted, the notification of public by government institutions and avoidance of asymmetric information must be secured,
- New financial policies to reinforce the economy an international corporation to prevent such issues shall be implemented,
- Unregistered economy must be taken under control to increase tax revenues,
- FDI policies shall focus on greenfield operations more than privatization.

6. CONCLUSION

Turkey is an emerging economy that has been subject to economic and financial re-engineering process for about two decades in order to secure economic growth and financial stability. Furthermore, this process has been interrupted with substantial crises. The first important crisis was the 1994 one which was the signal of the forthcoming economic turmoil. Although, an IMF

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[16] The reports of the Turkish Statistical Institute, www.tuik.gov.tr.
[17]YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).
[18] IMF Global Financial Stability Report, January 2009 (www.imf.org).

lead stand – by program was followed, the November 2000 and February 2001 crises were experienced. The conditions of the Turkish economy at that time could be best defined with high regulation, high interest rates, monitored foreign Exchange operations, limited foreign asset ownership, low competition, barriers before foreign investment, insufficient liquidity, chronic inflation and trade deficit. Therefore, the Turkish economy was a weak through the beginning of the new millennium.

After completing a 3 - year IMF lead austerity plan, Turkey began to implement a new economic program in 2000. Though, the program was devised to stabilize and develop economic process, it proved to be a failure in November 2000 as a result of a liquidity crisis that emerged as a sudden capital outflow. As the capital outflow began, short term bank loans decreased interest rates increased and the economic production dropped considerably. Moreover, the exchange rates sky – rocketed, economic activities slowed down, the Turkish currency devaluated by 50%, the negative balance of balance of payments and current deficit increased, total debt stock amounted, many banking corporations were transferred to SDIF due to financial difficulties and insolvency, inflation and interest rates remained high and the failure of the IMF policies coasted Turkey to $50 billion.

As the years proceeded, the economy in Turkey restored its order at a stability point. However, this time, in 2008, the economic conditions in the world, especially in the developed countries were not promising. The 2008 world economic crisis did not start suddenly. First, the global macroeconomic inequalities brought about lower interest rates in the past decade, resulted in risk taking and caused the formation of asset bubbles. Second, the failure of risk management directed the investors to comply with wrong financial and investment decisions. Finally, the leveraged financial corporations, taking risk without preventing the systematic risk paved the way to the world economic crisis of 2008. The first part of the crisis began in the USA in the housing market with excessive lending to weak investors. This was followed by the difficulties began in financial sector in 2007. With the insolvency of a substantial amount of credits and decline in the prices of financial instruments, the crisis began and spread the rest of the world afterwards.

By all means, the crisis affected the Turkish economy as well. But, this time the situation is quite different from the 2001 crisis; because, the crisis of 2001 stemmed from the core deficiencies of the Turkish economy and financial sector. Moreover, it was also possible to borrow credit abroad and finance the crisis and secure demand in other countries for the Turkish merchandise in order to increase production, employment and revenues. However, in 2008 crisis the situation began in the USA, spread the Western economies and affected almost every state in the world. Thus, this time we have to devise our own solutions with our own sources.

Although, the economic situation began to revive after 2002 and attained a nearly 7% of economic growth, low inflation and unemployment rates, this scene has begun to change since 2008. Some claim that Turkey was not affected by the 2008 world crisis significantly, but, the reality is so different. The GDP and income per capita decreased; inflation, budget deficit, debt stock, current account, foreign trade deficit increased; and the CBRT reserves decreased. Therefore, it is possible to state that the world crisis of 2008 had a substantial impact on the Turkish economy.

Since certain situations require certain solutions, the government shall devise a special economic rehabilitation plan to avoid the further impacts of 2008 crisis. Some cures could be as to restructure the troubled assets and financial sector; supply capital and tax deduction to secure demand in markets; new policies to reduce inflation, interest rates, budget deficit and trade deficit should be devised; loose or tight, fiscal or monetary policies shall be pursued according to contingency; facilitate the entry of foreign capita; instigate greenfield operations and tax reduction in certain sectors to increase demand.

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