Turkish Economy, Eco 403

Week 10

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- The 1980s and 1990s
- The deepining of January 24 decisions in the late 1980s.
- More liberalization, free capital movements.
- More export, continuous devaluation, but, an extra 50 percent grant given to foreign exchange coming from export.
- Increase in public expenditures and budget deficits, crowding out.
- Monetary policy and neglected fiscal policy.
- Increasing share of foreign trade in gdp.

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1995: Customs Union with EU.

Increasing trade with EU, but also increasing demand for intermediate goods and increasing current account deficits, and steadly increasing foreign debt.

Free capital movements affected the value of TL against foreign exchanges, domestic interest rates increased. Public debt burden increased again.

Central Bank concentraded on foreign exchange rather then short- term interest rate. Indeed, Central Bank considered the controlling inflation via controlling exchange rates

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- As a result, Turkey applied to IMF twice in the 1990s: 1994 and 1999 with two unsuccessful stand- by agreements.
- A large devaluation of TL in 1994 occured and what is so called ‘April 5 economic decisions’ put into effect. It aimed to regulate monetary and publis finance policies. However, inflation has reached to high double and tripple digits. The Trasury offered high interest rates for borrowing, not only from domestic market, but also from international markets. High reel rates of returns offered to lenders. Many financial techniques have come into effect.

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- Two important, among others, problem have distinguished in the 1990s: i) unsustainable domestic debt (domestic debt/gdp), and ii) inefficient commercial banking system.
- i) Domestic debt stock has increased feom 30 percent in 1990 to 60 percent in 1999, domestic debt/ gdp from 6 percent t0 40 percent at the same period. Time- to- time, reel interest rates raised to 30 percent. 32 percent of all taxes allocated to debt- interest payment in 1990, it increase to 70 percent in 1999.
- ii) There were many small and medium sized commercial banks in the 1990s, with limited branches over country, and aiming financing the Treasury.

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- ‘Luggage trade’ in the 1990s.
- Far East Asia Crises in the late 1990s.
- ‘Transition to Strong Economy Program’ after 1999 and 2000 crises. Stand by with IMF, some USD 30 billion support from IMF and World Bank and Kemal Derviş.
- The main future of Transition to Strong Economy Pragram: a) reducing inflation through floating exchange rates, b) restructring the commercial banking system by public and ‘Saving Fund’ that have taken control of bankrupt commercial banks, c) restructring the public finanse system, d) a common understanding of Turkey’s problems through the different parts of society (business community, workers,…)

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- e) A carefull income polict that is not going to be inflationary, and f) efficiency, flexibility and transparent administration.
- Some economic figures

Average growth rates

	Population	GDP	GDP per capita	Level of GDP per capita where 1980=100
1980- 1987	2.4	5.6	3.1	124
1988- 2002	1.7	3.2	1.5	155
2003- 2007	1.4	6.9	5.4	202
2008- 2015	1.4	3.3	1.9	234
1980- 2015	1.6	4.1	2.5	234

Kaynak: Pamuk, 2018, p.247.