International Journal of Finance and Commerce
www.commercejournals.com
Online ISSN: 2664-715X; Print ISSN: 2664-7141
Received: 01-01-2019; Accepted: 02-02-2019; Published; 08-01-2020
Volume 2; Issue 1; 2020; Page No. 01-04

Buckle up 2018-19 finds the turkey's economy crisis as an inevitable and heading down, and that's ahead of surprises

Shajjadul Islam[1], Md Shohel Rana[2]
[1] Research Scholar, North South University, Bangladesh
[2] Research Scholar, Begum Rokeya University, Bangladesh

Abstract
Turkey is quite intimate with economic crises that follow the latest 2018-19 crisis. A quick financial downturn is under way in the context of foreign interference, political imbalance and socio-cultural integration. Our purpose was to find out the foremost factors behind the immediate triggers which render the situation impossible to understand properly. The effect of a currency crisis and rising inflation and interest rates create a tense political unrest. These dilemma relates to the Turkey's president Recep Tayyip Erdogan was confronting his first recession as his party will be tested for local elections. This article will exposed Turkey serious Debt crisis. In the mean time, another problem looming over Turkey's economy is the threat of U.S. sanctions over it's economy. These results on the progress to the crisis on Turkish economy. This article comprises several thematic sections with graphical presentation. This article discovered the main strengths and weakness considering Turkish fragile economy. The article concludes by discussing Turkey and the necessary structural reforms required for transforming the economy of Turkey.

Keywords: global economy, financial condition, monetization bankruptcy, interest rate

Introduction

Turkey, one of the European economic power-based on its financial flow and cheap loan facility. Recent years, the global economic conditions consolidated their economic disruption seize their most growing market within the context of financial dependency. Turkish was remarkably victims because of global financial stress, as it hurt from a monetary catastrophe followed by a recession. Turkish Lira lost 31% of its value in 2018 compared to the US dollar, depreciating much depreciating much further in the first eight months and after that the dramatic interest rate hike in September. Hundreds of companies have since collapsed in the bankruptcy surge, and the official unemployment rate has reached record levels since 2008. In the coming months banks have helped restructure loans valued at 20 billion USD through the revised debt restructuring framework in the banking sector and new securitization campaigns have been carried forward (kimdir, 2019) [6]. However, at the beginning of March 2019, policy makers attempts to mitigate spillover effects were not enough to revitalize the credit market. The Turkish economy plunged into decline in the second half of 2018, according to the latest statistics available, though the overall annual growth rate stayed positive at 2.6% (Institute, 2018) [4]. The main contribution of this paper is a critical analysis of the economic crisis in Turkey 2018-2019 as part of dependent financing. Firstly, explain in the context of the heterodox literature the concept of dependent financing of the emerging capitalist countries. Secondly, in four phases I analyzed the financial inflows of Turkey to explain each one's key dynamics. Thirdly, I focus on crisis that intensified in the post-2013 period of dependent on financialisation. Eventually, I discuss the response of Recep Tayyip Erdogan management and central bank policy reactions to the currency crisis. Based on a systematic inquiry and case study regarding Turkish political systems and the available official data are used. To justify our argument, I represent the data in time series and tables to determine changes between different phases and periods.

Analysis and findings

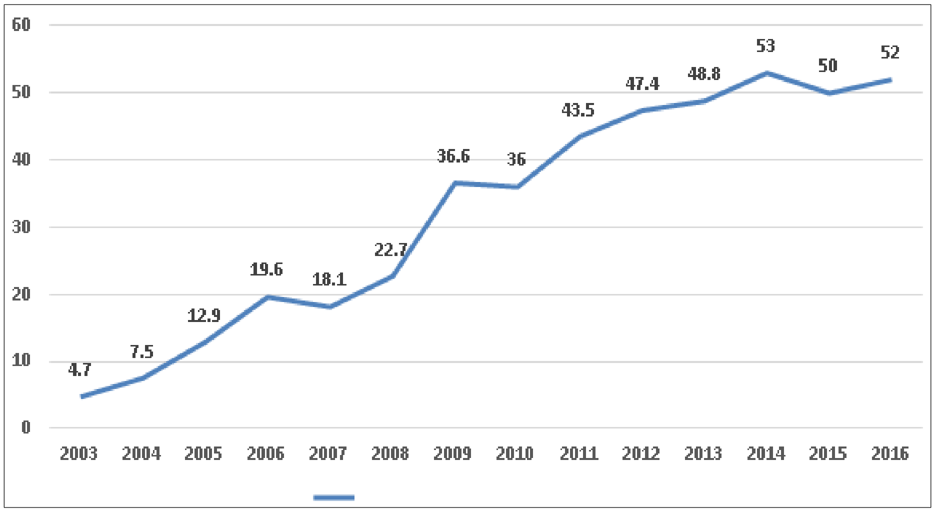
Financial dependency and its drawbacks

Financialization is an unequal and mixed phenomenon of global financial movements impact on credit expansion and financial development, which influenced by different factors, such as the equilibrium of social interests or the fragility of local markets arising from total weaknesses. During the 90s interest rate was so bigger for turkey that govt had to take debt management for financial stability. After the recession, they found finacialization that able to lower interest rates to prevent currency devaluation. My observation is on the consequences of financialization and financial transformation integration and the recent currency crisis in Turkey.

Turkish fast economic transition and debt hikeness

The momentum of economic growth and recession in Turkey are severely affected by capital inflows and reverse rate. Despite Turkish financial market inferiority, political processes have been driven by financial flows and standards. Therefore, I argue that dependent financing has defined the country's capital accumulation due to its economic structure. It has been built in Turkey for four different phases. The first period from 1989 to 2001 marked the movements of capital liberalization (Yalman, Marois, & Güngen, 2019) [1, 9]. During this period, public debt not only provided turkish larger company with enormous revenues but also intensified their economic crisis. In short, the first regime was marked by a high interest rate, high inflation and unstable flows.

The second phase began in 2001, was the rise of household debt, a new phenomenon in Turkey, where households debt to disposable income ratio exceeded 50 percent in the early 2010. Apart from the IMF programme, the financial sector are reformed in the official candidacy status of Turkey for European Union membership. As a result, capital inflows rushed (see Figure 1).

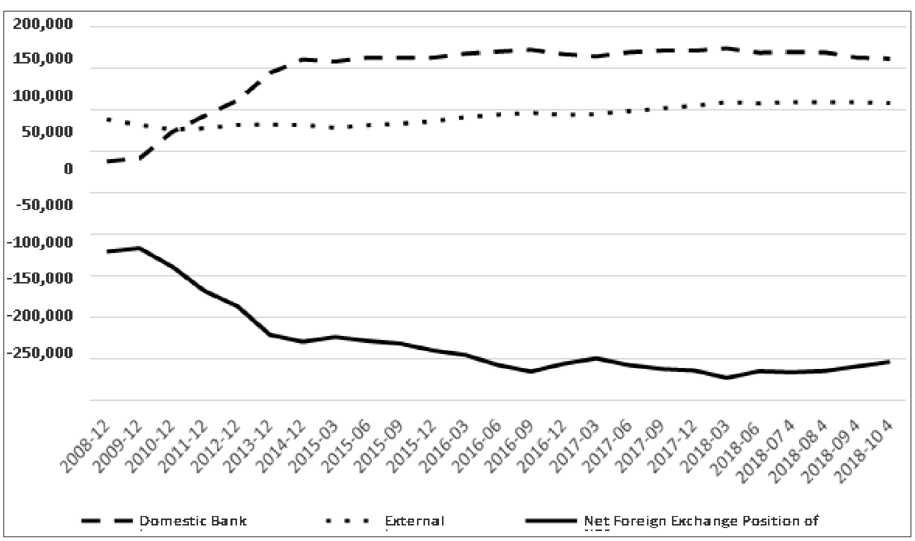


Source: CBRT Financial Stability Reports (11 years)

Fig 1: Household indebtedness ratio increased in Turkey (2003-2016).

Turkey's conservative policies have promoted financial-market expansion since 1980_(Akyuz, 2015) [2]. The structure of production is based on imports and current account deficit has increased dramatically with an overvalued Turkish Lira.

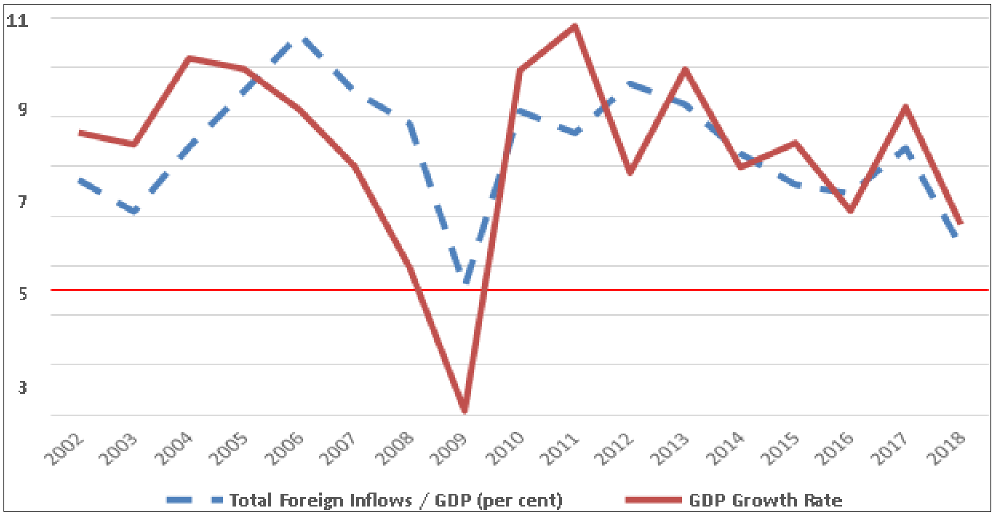
After the global financial crisis turned around in 2008, the third phase continues until 2013. During this time, policy makers planned to benefit from international financial conditions and decided to borrow foreign exchange which was two results (i) sharp increase in foreign exchange (ii) banking system rollover. Figure 2 shows the banking system's was an effect of liberalizing in Turkey. Between 2009 to 2013, non-financial corporate debt rose from US$ 66 trillion to US$ 177 trillion. In the recent economic turmoil of 2018, this became especially significant when the sudden devaluation of Turkish Lira.



***Source**:* From CBRT database, https://evds2.tcmb.gov.tr/ (10.01.2019)

Fig 2: Shifting roles of regional banks in Turkey (2008-2018)

In the post-capital liberalization process, there was a startling parallelism between net capital inflow and Gross Domestic Product Growth Throughout Turkey. As Figure 3 shows, the massive outflows happened from the financial crisis (Karacimen, 2014) [5].



Source: Turkstat and CBRT data

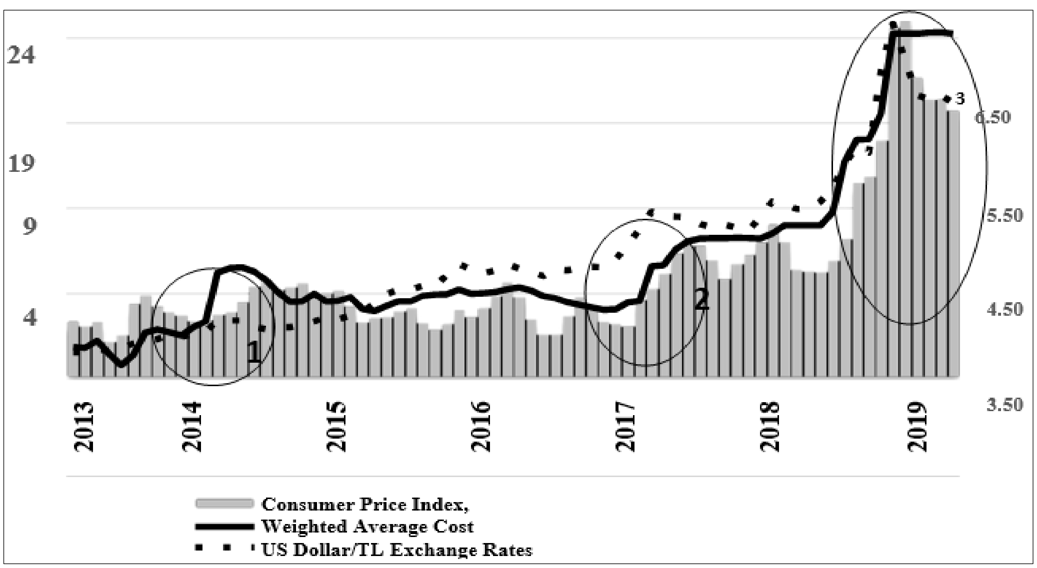
Fig 3: Global investment and economic flow in Turkey (2002-2018)

The fourth period start after 2013, when the economic slow-motion because of currency crisis ensuing recession till 2018. The non-financial companies liabilities exceeded above USD 190 billion by the end of 2015 and continued to 2016 (Güngen, 2019) [1, 9]. Turkish Lira deflation has increased inflation higher than other middle-income countries.

The roots of the 2018-19 crisis

Debtfarism facilitates dependence on risky consumer loans to meet basic needs and represents capitalism's quest for formalized financial abstractions (such as service fee, late fee). Business fees and commissions are more difficult to object when actual wages remain and basic services need more cash. It can increase consumption thus normalizing credit accumulation pressures for some time.

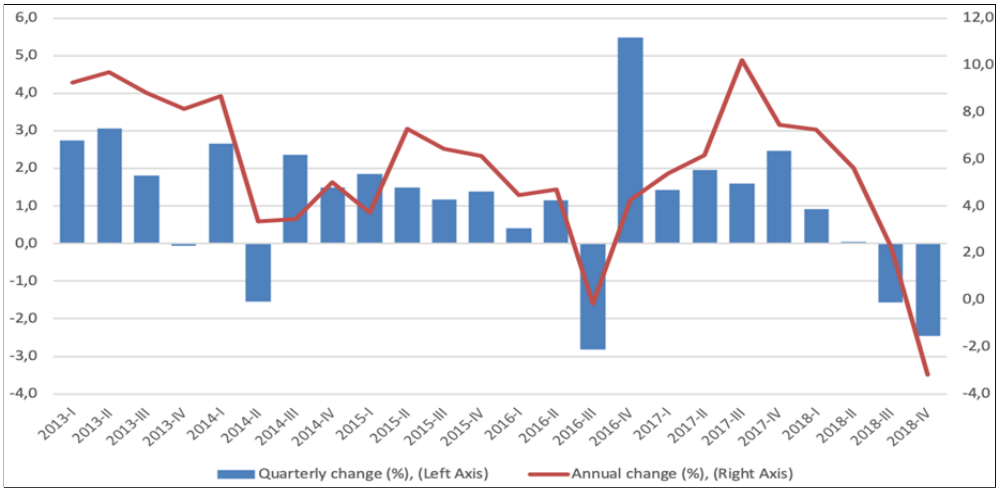
To avoid further depreciation of Turkish Lira, TCB increased interest rates multiple times. TL rises followed credit expansion by state-sponsored and AKP cadres influence the political power.



Source: Prepared by the authors based on CBRT database, URL: https://evds2.tcmb.gov.tr/ 12.03.2019

Fig 4: Three episodes of escalating crisis in Turkey

Before the presidential and parliamentary elections of 24 June 2018, political uncertainty was increasing and there was confusion about the current political and economic system after that political stability come back when Erdoğan and his coalition far-right nationalist movement group (MHP) won the election. The height Of the financial crisis was when Turkish-US political tension escalated in August 2018(TL lost 23 per cent values against the USD) (Türkcan & Saygılı, 2011) [8]. While the currency crisis of August 2018 was certainly a powerful stimulus, the economy cooled down. Figure 5, shows that there was null GDP growth in the second quarter of 2018.



Source: Turkish Statistical Institute database, URL: http://www.tuik.gov.tr/PreHaberBultenleri.do?id=30886 12.03.2019

Fig 5: Turkey's Gross Domestic Product

Turkish authoritarianism

Turkey's authoritarian mode and capital inflows have dramatically impacted on the economic growth. There is no single-way causality among authoritarianism and economic crisis. The balance of payments data indicate that net capital inflows dropped significantly in 2018. Policymakers also converted the Turkey Development Bank turn into a financial institution helped state-owned banks. Since the credit crunch could not be overcome by late 2018 and households were cutting down on spending. As can be seen clearly, the policy responses had two main aims: (i) containing the spill-over effects of the currency crisis prior to the local elections for 31 March 2019 and (ii) recovering economic growth as fast as possible (Soner, Heidelberger, & King, 2019) [7].

Conclusion

Dependent monetization can be analyzed in terms of the emergence of an economic structure in Turkey. When global economic conditions tighten, it was harder to access cheap sources of loan. Under circumstances, Turkey need to offer higher interest rates to attract capital, it becomes more difficult for households and corporations to roll over their debt. On the other side, a long-term view illustrates the social fragility over the neoliberal borrowing phase. We argue that this dependent framework provides a better understanding of the recurrent nature of economic turmoil. We also suggest that the currency crisis of 2018 should be seen as a catalyst for Turkey's 2018- 2019 economic crisis (Akçay & Güngen, 2018) [1]. The 2018 currency crisis did indeed prove to be the final act in the slow- motion drift that began with the first signs of change in global liquidity conditions. Dependent financialization may have institutionalized the social power of finance capital in Turkey but the growth of market finance and drawing more people and corporations into the financial markets inevitably created greater volatility. The government's response to the 2018-2019 crisis, however, indicates the continuing commitment of Turkey's policymakers to the model that led to the crisis in the first place.

References

1. Akçay Ü, Güngen A. Lira's downfall is a symptom. Reset Dialogues, 2018.
2. Akyuz Y. Internationalization of Finance and Changing. Retrieved, 2015. from https://www.southcentre.int/wp-content/uploads/2015/08/PB20_Internationalization-of-Finance-Changing-Vulnerabilities-in-EDEs-The-Case-of-Malaysia_EN_rev2.pdf
3. Güngen AR. The Political Economy of Financial Transformation in Turkey. 2019; 160-180.
4. Institute TS. Retrieved from Quarterly Gross Domestic Product, 2018. http://www.turkstat.gov.tr/PreHaber Bultenleri.do? id=30886
5. Karacimen E. Financialization in Turkey: The Case of Consumer Debt. Journal of Balkan and Near Eastern. 2014; 16(2):161-180.
6. Kimdir HA. Retrieved, 2019, from https://www.dunya.com/finans/haberler/tbb-baskani-aydin-yapilandirilan-kredi-118-milyar-lira-haberi-436848
7. Soner C, Heidelberger D, King M. Turkey's Authoritarianism and Crisis Management It's Complicated! Retrieved from Public Seminar, 2019. https://publicseminar.org/essays/turkeys-authoritarianism-and-crisis-manage ment/
8. Türkcan B, Saygılı RF. Foreign Direct Investment Inflows and net exports Relationship in Turkey. (S. Islam, Ed.) International Journal of Social Science and Huminity studies. 2011; 3(2):83-90.
9. Yalman G, Marois T, Güngen AR. The Political Economy of Financial Transformation in Turkey, Retrieved, 2019, 47(1). from Routledge; London: https://www.researchgate.net/publication/319448591_Hazine_Mustesarligi_ve_Borc_Yonetimi_Finansallasma_Surecinde_bir_Kurumun_Donusumu_Treasury_and_Debt_Management_Transformation_of_an_Institution_within_the_Process_of_Financialization