Economic crisis in turkey

History

The economic problems that are plaguing the Turkish economy at the present are numerous to say the least. Since the collapse of the subprime market in the United States, Turkey has experienced what some have come to call an economic recession. While it remains to be seen if the Turkish economy is really undergoing a recession at this point in time, this situation can be used as a great opportunity to point out the current struggles of the Turkish economy. As such, this brief discourse shall discuss the weaknesses of the Turkish economy, particularly Reduction in trade and Business activities, Unemployment, and High Taxation.

Prior to the economic crisis, the economy of Turkey was expanding strongly, registering growth rates of 8. 9% and 7. 4% for the 2004 and 2005 fiscal years respectively[1]. This is a much greater improvement from the early 1970s when the Turkish Economy reached its worst crisis since the fall of the Ottoman Empire. During this period, the Turkish authorities had failed to take sufficient measures to adjust to the effects of the sharp increase in world oil prices in 1973-74 and had financed the resulting deficits with short-term loans from foreign lenders. By 1979 inflation had reached triple-digit levels, unemployment had risen to about 15 percent, industry was using only half its capacity, and the government was unable to pay even the interest on foreign loans.

The problems the Turkish economy is facing can be traced back to the mounting concern over the disarray in economic policy which was reflected in an accelerated " dollarization" of the economy as residents switched domestic assets into foreign-currency deposits to protect their investments. By the end of 1994, about 50 percent of the total deposit base was held in the form of foreign-currency deposits, up from 1 percent in 1993. The downgrading by credit-rating agencies and a lack of confidence in the government's budget deficit target of 14 percent of GDP for 1994 triggered large-scale capital flight and the collapse of the exchange rate. The government had to intervene by selling its foreign-currency reserves to staunch the decline of the Turkish lira. As a result, reserves fell from US$6. 3 billion at the end of 1993 to US$3 billion by the end of March 1994. Before the end of April, when the government was forced to announce a long-overdue austerity program following the March 1994 local elections, the lira had plummeted by 76 percent from the end of 1993 to TL41, 000 against the United States dollar.

This led to the second cause, higher taxes which were a reactionary measure by the Turkish government. The government actually succeeded in generating a small surplus in the budget during the second quarter of 1994, mainly as a result of higher taxes, after running a deficit of 17 percent of GDP in the first quarter. The slowdown in government spending, a sharp loss in business confidence, and the resulting decline in economic activity reduced tax revenues, however. The fiscal crisis resulted in a decline in real GDP of 5 percent in 1994 after the economy had grown briskly in 1992 and 1993. Real wages also fell in 1994: average nominal wage increases of 65 percent were about 20 percent below the rate of consumer price inflation.

This led to the retrenchment problem in the year 2001 which resulted from the economic crises. Demands by domestic markets and positive export activities declined, bringing about a decrease in the production and capacity utilization in the manufacturing industry in the years to come. Private sector activities remain prevalent due to the decrease of public sector participation in the manufacturing industry brought about by privatization.

The fundamental flaws and structural weaknesses of the Turkish economy are not only more visible now but also more potentially damaging. The current weakness that the Turkish currency is experiencing coupled with the exponential increase in oil prices may have arguably not placed the country into recession but have brought its economy pretty close to it. The country's progress in recent years, however, has been remarkable. The benefits of the government's commitment to its economic program are clearly visible. Much has been achieved since the current reform program was started. The challenge that remains for Turkey now is to build on those achievements and exploit Turkey's potential as a rapidly-growing and increasingly sophisticated economy[2].

One way to look at this problem in the real world setting is to discuss the impact of such in relation to the current economic stimulus that the Turkish government has planned. As shown by certain researchers, the projected loss of jobs and increase in unemployment rate is not necessarily affected by any economic stimulus package. This is the reason why the question on whether or not the package should be higher is not really relevant. Loss of jobs can be attributed to the economic fundamentals of the Turkish economy such as the shift in production facilities to other countries. This would mean that changes in monetary and fiscal policy would not necessarily have a direct effect on the unemployment rate.

So while current theories show that monetary and fiscal policies may indeed impact inflation and unemployment, such is not always the case in certain situations as shown in the example provided. The basics such as solid economic fundamentals must always be considered when looking at the impact of such changes to see if they can really attain the desired effect.

[1] http://countrystudies. us/turkey/53. htm

[2] Turkey's Economy: A Future Full of Promise. Retrieved on November 23, 2006 from, http://www. imf. org/external/np/speeches/2005/050505. htm