

**World Economics Association
Conferences, 2013
Neoliberalism in Turkey: A Balance Sheet of Three Decades**

2013, n. 4: 28th October – 24th November

**Title of paper: The Turkish Neoliberal Unshared Growth Regime of the Post-2001
Period**

**Hansjörg Herr
Zeynep M. Sonat**

Abstract

After the 2001 crisis, Turkey continued to pursue a radical market reform strategy following the philosophy of the Washington Consensus. The capital account was liberalised, many banks and enterprises were privatised, and financialisation processes were started, while the government withdrew from redistribution policies and policies of social justice in the 1980s and, even more so, in the 1990s. Gross domestic product growth after 2001 was relatively high, but it was a “jobless” growth due to high productivity increases. The latter were to a large extent caused by intensifying the work process and not always by technological advancement. High consumption demand in this period was mainly financed through rapid increase in consumer loans and credit cards, which is an unsound way. The 2000s showed clear tendencies of a real estate bubble partly driven by capital inflows. The huge expansion of housing loans, as part of the consumer loans, in the 2000s supports this argument. The enterprise sector has been becoming increasingly exposed to currency mismatch caused by foreign indebtedness. This fragile condition of the enterprise sector puts the stability of the financial sector at risk, because it has “bad” debtors. And Turkey is a country with very high inequality. This neoliberal unshared growth regime of the post-2001 period is not sustainable; it is at least very risky and socially unjust. Especially high current account deficits, high currency mismatch above all in the enterprise sector, high inequality, high unemployment, and in spite of successes an unsatisfactory development of the industrial sector make the development in Turkey vulnerable. Recommendable is a new development regime with selective capital controls, a balanced current account, an active government policy to support certain industries, a strengthening of unions and employer associations, a coordinated wage bargaining on the sectoral level, and last but not least policies to achieve a more equal income distribution.

Keywords

Turkey; development; economic regime; monetary policy; international capital flows

Author(s) details

Hansjörg Herr, professor for Supranational Integration at the Berlin School of Economics and Law, Germany. Hochschule für Wirtschaft und Recht Berlin, Badensche Straße 52, 10825 Berlin, Germany. E-mail: hansherr@hwr-berlin.de

Zeynep M. Sonat, doctoral student at the Freie Universität Berlin and at the Berlin School of Economics and Law, Germany. Hochschule für Wirtschaft und Recht Berlin, Badensche Straße 52, 10825 Berlin, Germany. E-mail: zeynepsonat@gmail.com

Authors' Note

For helpful comments we thank Trevor Evans, Achim Truger, Alexander Gallas, Thomas Obst, Petra Dünhaupt and Bea Maria Ruoff. All errors remain ours.

We thank the Berlin School of Economics and Law for supporting the PhD project of Zeynep M. Sonat as part of its gender programme.

Disclaimer

The authors of this paper hereby declare that a version of this paper was submitted to an academic journal and is now in the peer-review process.

1. Introduction

After two decades of an industrialisation strategy based on import substitution in Turkey in the period of 1960-1980, trade and financial liberalization accompanied by an export promotion strategy were initiated in the 1980s. The capital account was liberalized in the period of 1989-1991. In the 1990s and especially the early 2000s the Turkish economy was characterised by deep instabilities. The February 2001 financial crisis caused sharp gross domestic product (GDP) contraction and unemployment hikes. Only in the post-2001 period could relatively stable and high GDP growth rates be achieved. Due to this economic performance accompanied by a market oriented open economy structure, Turkey has been labelled as a “promising star” (The Economist, 2005) and in 2011 a CEO of one of the largest conglomerates in Turkey characterized the country as the “China of Europe” (Hermann, 2011); The World Bank (2012). Despite the apparent successes this paper questions the sustainability of Turkey’s growth performance in the post-2001 period. It asserts that Turkey’s macroeconomic regime in the post-2001 period has been a handicapped one, which might not sustain a stable growth performance in the long-term and at least is risky because of its inherent social and economic fragility. The recent social unrest also reflects this deficient growth regime.¹

Firstly, a short economic history of Turkey will be presented. After that, the development of Turkey from the 1990s on and especially in the post-2001 period will be analysed. Thirdly, the Turkish economic regime will be summarized and future development scenarios will be portrayed.

2. A short economic history of Turkey

The Republic of Turkey was founded in the year 1923. The period of 1923-1950 started with the government’s aim of maintaining “national economic sovereignty” in the long-term (Öniş & Riedel, 1993, p. 9). Firstly, the major concern was to support the private sector by establishing investment banks and providing tax relief and subsidies for investment. In the 1930s, this strategy of promoting the private sector was given up due to its insufficient success. Starting from the 1930s, until the end of the 1950s, Turkey followed so called étatism² with elements of economic planning. Throughout this period, the public sector dominated economic activity in Turkey. Most of the enterprises, especially the strategic ones, were owned by the state.

The major characteristics of the period 1950-1960 were the increasing share of the private sector in the economy and the fading out of state planning in spite of a big public enterprise sector. The high inflation rate in this period was combined with a real appreciation of the Turkish Lira (TL)³, a deterioration of the trade balance in the late 1950s, and increasing external indebtedness. In 1958 a stabilization program was initiated which succeeded in decreasing the inflation rate. However, during the political struggle over which economic policy was to be followed a military takeover took place in May 1960 leading to a dictatorship until the establishment of new political parties was allowed in February 1961.

¹ This paper was mainly completed at the end of the year 2012, before the beginning of the nation-wide anti-government protests in late May 2013, and the subsequent political tensions in Turkey.

² Öniş and Riedel (1993, p. 10) argue that the étatism was then considered as “a unique mixture of capitalism and socialism” by the Turkish government.

³ In January 1, 2005, the currency unit of Turkey changed from TL to New Turkish Lira (YTL) by deleting six zeroes from the currency. The currency had been called YTL for some years. Recently, the currency of Turkey is called TL again.

The main characteristic of the period between 1960 and 1980 was again the emphasis on a bigger role for the state and economic planning of the development of key industries (Öniş & Riedel, 1993). Import substitution industrialization was adopted by the government as the most important development strategy. Throughout this period, the share of industry in GDP increased mainly due to state-owned enterprises. Despite the import substitution strategy the trade deficit increased as well as foreign indebtedness. In the late 1960s, conflicts between right and left wing groups increased. In 1971, as a result of political destabilisation the military forced the government to resign. The military government lasted until October 1973, when general elections were held. During the 1970s Turkish foreign debt increased sharply and led to a severe debt crisis in at the end of the 1970s. The Turkish government signed stand-by agreements with the International Monetary Fund (IMF) in 1978 and 1979, both of which did not continue, because of the unsatisfied demands of the IMF. However, in January 1980 the Turkish government initiated a structural-adjustment program aimed at an export-oriented development strategy as well as liberalization policies. Among other things, the domestic financial system was deregulated and international capital controls slightly relaxed. Mounting instabilities in the economic and the political sphere led to another military takeover in September 1980 lasting until the general elections in November 1983. However, the military regime this time supported the liberalization process. The currency was sharply devalued in order to promote exports. Most of the import restrictions were lifted. In response, export performance was good during the 1980s and the current account deficit as a percentage of GDP turned into a surplus in the late 1980s. Until the end of the decade, economic growth in Turkey was stable.

During the 1990s economic activity in Turkey became characterized by volatile short-term capital in-and-outflows, which led to boom-bust cycles and two severe financial crises in 1994 and 2001. These crises led to a substantial contraction of economic activity, high unemployment rates, and subsequent social unrest.

3. The development regime of the 2000s

3.1. Demand, GDP growth and employment

In contrast to the boom-bust cycles and financial crises the Turkish economy had experienced in the 1990s and the early 2000s, GDP growth in the post-2001 period has been strong and economic performance, at least at first glance, seems to have been good (see Table 1). The largest share of aggregate demand in the post-2001 period has been, as in almost all countries, private consumption; this share was slightly higher in the 2000s than in the 1990s (see Appendix I). The rapid increase of consumer loans and credit cards in the 2000s played an important role in this development. For instance, retail loans (the sum of consumer loans and credit cards) as a percentage of final consumption expenditure rapidly increased from 5.6 per cent in 2003 to 21 per cent in June 2007 (Central Bank of the Republic of Turkey / CBRT, 2007a).

Gross fixed capital formation has constituted the second largest component of aggregate demand, albeit it was lower as a percentage of GDP on average in the post-2001 period than in the 1990s (Rodrik, 2009; The World Bank, 2012) and has further decreased in the 2000s.

The share of government consumption in aggregate demand has been limited, due to the small size of the public sector in Turkey.

Of special interest is Turkey's external balance on goods and services that has been negative in most years since the 1990s, but deteriorated exceptionally in 2011 with a very high deficit of 8.9 per cent of GDP, and an even higher current account deficit (The World Bank, 2012) (see Appendix II).

Table 1: Turkey - main macroeconomic indicators

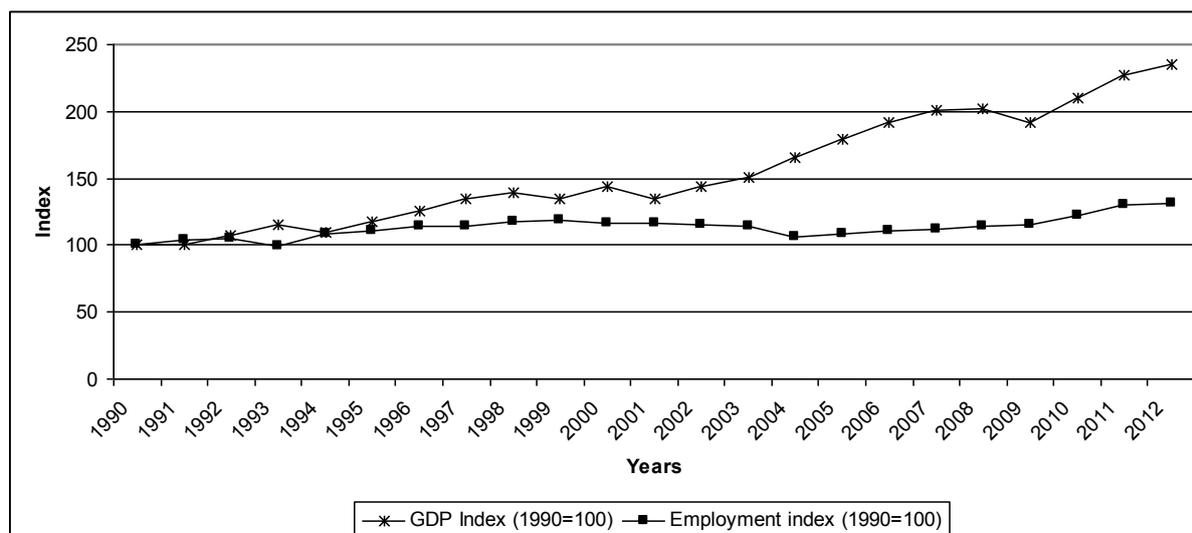
Years	Real GDP growth rate (%)	Inflation rate (%) CPI	Inflation rate (%) GDP deflator	Employment growth rate (%)	Unemployment rate (%)	Consolidated budget balance/GDP (%)	Outstanding domestic public debt/GDP (%)	Public foreign debt/GDP (%)
1990	9.3	60.3	58.2	1.7	8.0	-2.3	14.5	27.6
1991	0.7	66.0	59.2	3.9	8.2	-4.0	15.5	28.1
1992	5.0	70.1	65.2	0.9	8.5	-3.2	17.8	27.1
1993	7.7	66.1	68.4	-5.2	9.0	-5.0	18.0	26.0
1994	-4.7	106.3	104.7	7.5	8.6	-2.9	20.7	39.4
1995	7.9	93.6	86.0	2.8	7.6	-3.0	17.5	31.9
1996	7.4	80.4	77.2	2.9	6.6	-6.2	21.3	28.9
1997	7.6	85.7	81.5	0.1	6.8	-5.8	21.8	26.7
1998	2.3	84.6	138.0	2.6	6.9	-5.5	16.5	20.1
1999	-3.4	64.9	54.2	1.2	7.7	-8.9	21.9	22.0
2000	6.8	54.9	49.2	-2.2	6.5	-8.2	21.9	24.0
2001	-5.7	54.4	52.9	-0.3	8.4	-12.4	50.9	36.4
2002	6.2	45.0	37.4	-0.8	10.4	-11.9	42.8	37.2
2003	5.3	25.3	23.3	-1.0	10.5	-8.8	42.7	31.4
2004	9.4	10.6	12.4	-7.7	10.8	-5.4	40.2	24.7
2005	8.4	7.7	7.1	2.2	10.6	-1.3	37.7	17.7
2006	6.9	9.6	9.3	1.8	10.2	-0.6	33.2	16.4
2007	4.7	8.4	6.2	1.5	10.3	-1.6	30.3	13.8
2008	0.7	10.1	12.0	2.2	11.0	-1.8	28.9	12.6
2009	-4.8	6.5	5.3	0.4	14.0	-5.5	34.6	15.7
2010	9.0	6.4	5.7	5.4	11.9	-3.6	32.1	13.7
2011	8.5	10.4	8.6	6.3	9.8	-1.3	29.9	19.9

Source: Annual macro-economic database/ AMECO (2012); CBRT (2012a, 2012b); Republic of Turkey Ministry of Development (2012); Republic of Turkey Ministry of Finance (2012); Republic of Turkey Prime Ministry Undersecretariat of Treasury (2012); Turkstat (2012a); authors' calculations.

The average growth rate in the period of 2002-2007 was 6.8 per cent (The World Bank, 2012), however taken the total 2000s or the earlier decades growth looks less impressive.⁴ A key feature of the 2000s was an almost “jobless growth” in Turkey (see Diagram 1). Official unemployment rates in the post-2001 period remained at a level of around 10 per cent (The World Bank, 2012). In reality unemployment rates are much higher. For example, Aydiner-Avsar and Onaran (2010) emphasize the dramatic increase in the number of discouraged workers in Turkey in the post-2001 period. According to their estimates its share in the total labour force was 2.7 per cent in 2007.

⁴ When the 2001 crisis and the global crisis of 2008-2009 are considered, the average growth rate of the 2000s becomes 3.8 per cent. The average growth rates in the 1960s, 1970s, 1980s and 1990s were about 6.4 per cent, 4.7 per cent, 4.1 per cent and 4 per cent, respectively (The World Bank, 2012).

Diagram 1: Real GDP and employment indices in Turkey (1990=100)



Source: AMECO (2012); authors' calculations

From the year 2000 until 2007, the number of people employed in the industrial sector increased from 3.8 million to 4.3 million; in the service sector from 10 million to 11.6 million, whereas in the agricultural sector employment decreased from 7.8 million to 4.9 million (Republic of Turkey Ministry of Development, 2012). Thus, the service sector and the industrial sector could not absorb the loss of employment in agriculture in this period. Many of these people leaving the agricultural sector switched to the service sector in many cases as marginalized and informal labour in urban regions (Yeldan, 2011)⁵

After 2001 in Turkey high unemployment rates and a radical market policy also in the labour market went hand in hand. It should be no surprise that working conditions for a large part of workers are precarious. For example, temporary employment was estimated at around 13.4 per cent of total employment in 2011 (Eurostat, 2012).

The relatively low employment creation reflects the high productivity increases in the manufacturing sector in the post-2001 period, which are in fact one of the highest among Organisation for Economic Co-operation and Development (OECD) countries (OECD, 2010). Industrial production between 2001 and 2011 increased by 72.9 per cent (IMF, 2012a; authors' calculations), employment in the industrial sector only by 24.6 per cent (AMECO, 2012; Republic of Turkey Ministry of Development, 2012; authors' calculations). An orthodox explanation for this trend is the “entrepreneurial spirit of the Turkish people” (OECD, 2010, p. 110), foreign direct investment (FDI) inflows which led to an upgraded technology and know-how, and foreign competition which stimulated enterprises to produce more efficiently (OECD, 2006, 2008a, 2010). Other explanations draw a more critical picture. For instance, concerning the manufacturing and services sectors, The World Bank (2006, p. 15) reports “part of the increase in productivity since 2001 has been due to the increased working hours per worker rather than increased factor productivity per worker” which implies the considerable role of work intensification in the productivity growth per worker in these sectors. Yeldan (2008, p. 4) argues that the increasing dependency of domestic industries on imports led to an “adaptation of increasingly capital intensive and foreign technologies”,

⁵ The share of agricultural sector employment in total employment was around 36 per cent; the share of industrial sector employment around 17.7 per cent and the share of services sector employment around 46 per cent in the year 2000. In 2011, the share of agriculture decreased to around 25.5 per cent; the share of industry increased to around 19.5 per cent and the share of services increased to around 55 per cent of total employment (AMECO, 2012; Republic of Turkey Ministry of Development, 2012; authors' calculations).

resulting in a negative impact on employment. Bağımsız Sosyal Bilimciler (2005) attributes high productivity increases to the wave of privatization and restructuring of enterprises, which led to a decrease in employment without adding to new investment or technology sufficiently, accompanied by an increase in the work burden. It seems that a big part of the productivity increase is based on intensifying work and eroding working conditions and not on technological improvements. Similarly, the CBRT implicitly stresses this issue as follows: “[a]s a result of increased capital deepening and *more efficient utilization of [the] labor force* by manufacturing firms due to increased competition, labor productivity increased substantially in recent years [emphasis added]” (CBRT, 2007b, p. 36).

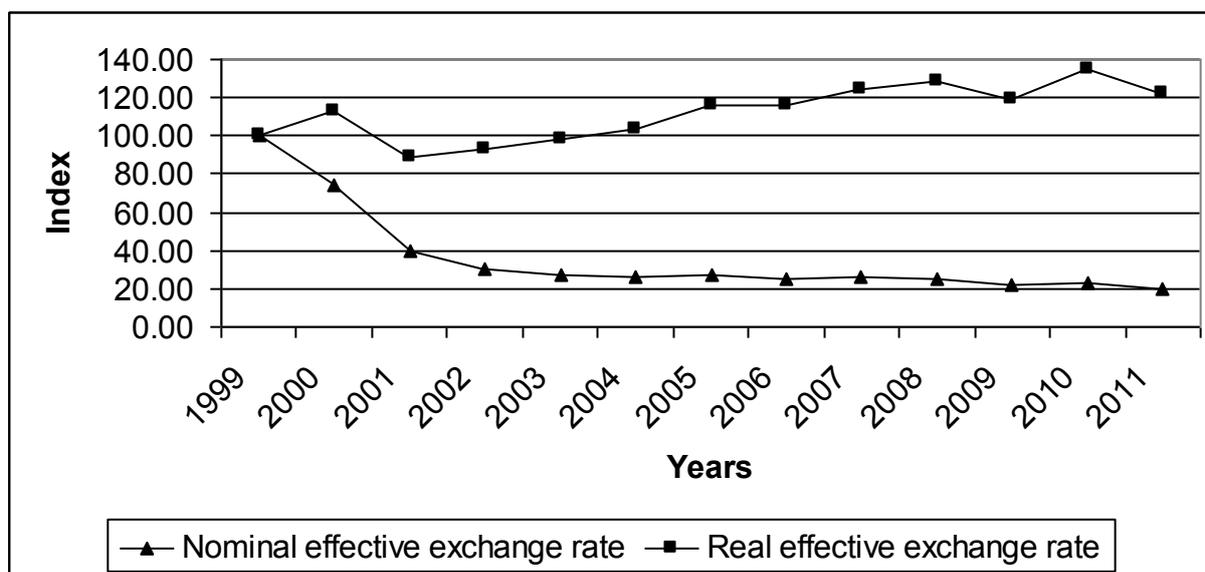
3.2. Integration into the world market

Turkey was one of the countries integrated in the Bretton Woods System. After the breakdown of the system in the early 1970s, Turkey followed various types of exchange rate regimes until recently.

In the early 1970s, Turkey began to implement a managed floating exchange rate regime. However, the TL became unstable. After the crisis in the end 1970s and as part of the structural adjustment program in 1980 the TL sharply devalued in order to promote exports and Turkey followed a crawling-peg exchange rate regime. In May 1981 Turkey again switched to a managed floating exchange rate with the main aim to reduce short-term volatility. Until 1988 the TL gradually devalued in line with the inflation rate keeping the real exchange rate unchanged. In 1999, again a crawling-peg exchange rate regime was adopted under the disinflation program backed by the IMF, but this regime had to be abandoned due to the financial crisis of 2001. Since then, the official exchange rate regime has been a floating regime.

In the 1990s the nominal effective exchange rate of the TL was subject to extreme depreciations, which culminated in a currency crisis in 2001. After 2001 the nominal exchange rate became, compared to the 1990s, relatively stable. In the second half of the 1990s the real effective exchange rate of the TL showed a real appreciation, however during the currency crisis in 2001 a sharp real depreciation. In the 2000s the real effective exchange rate signalled a permanent and substantial real appreciation until 2008; then the real external value of the TL remained with some fluctuations at the same level (see Diagram 2).

Diagram 2: Nominal and real effective exchange rate indices (1999=100)^{ab}



^a Increase shows appreciation

^b Based on the following trading partners of Turkey: European Union (EU) 15 and Australia, Canada, United States (US), Japan, Norway, New Zealand, Mexico and Switzerland

Source: Eurostat (2012)

As Turkey was a fairly closed economy and had gone through a long period of import substituting industrialization, the structural-adjustment program in the 1980s aimed at a large scale liberalization process and an export oriented development strategy. The full capital account liberalization which was implemented between 1989 and 1991 was combined with a policy of high interest rates to slow down nominal depreciation to control inflation (Boratav, Yeldan, & Köse, 2001). In the 1990s and 2010s large capital inflows led to partly high current account deficit due to the “overvalued Turkish Lira instigating imports and hampering exports” (Ok, 2008, p. 8). The current account deficit reached unsustainable levels, in 2011 for example 9.9 per cent of GDP (see Appendix II). Especially competition from other emerging market economies, particularly from the East Asian ones, made development for Turkish industry difficult. At the same time Turkey followed an integration strategy into the world market which is based on a high dependency of exports on imports. Turkey to a large extent imports intermediate products from the East Asian countries in USD and exports finished products in euro to the EU (Sönmez, 2009). According to Sönmez, this trading structure has made the Turkish industries dependent on imported intermediate products and vulnerable to exchange rate movements between the euro and the USD.

Looking at the current account it is noteworthy that the income balance is substantially negative because Turkey has a negative foreign asset position and interest and profits flow abroad. However, due to high remittances, net transfers are positive (see Appendix III).

The level of net FDI inflows remained at relatively low levels until the mid-2000s, however increased substantially in the following years (see Appendix III).⁶ Yeldan (2006, p. 8) stresses that this sharp increase in the FDI figures from 2005 onwards was mainly due to the “privatizations receipts plus real estate and land purchases of the foreigners”⁷

Portfolio inflows to Turkey fluctuated in the 1990s as well as in the 2000s. But gross and net flows became substantially bigger in the 2000s.⁸ When portfolio inflows to Turkey are decomposed, it can be observed that the share of equity portfolio inflows was negligible compared to the share of debt security inflows in most of the years during the 1990s. In the post-2001 period, the equity portfolio inflows were much larger compared to the 1990s, however, debt security inflows accelerated even more.

⁶ Before the 2000s, net FDI in Turkey was quite low and never increased above 1000 million USD annually in the 1990s, whereas in the post-2001 period, it accelerated. It increased from 2005 million USD in 2004 to 8967 million USD in 2005, and reached 19941 million USD in 2007. After a sharp decline in the period of 2009-2010, it increased again to 13406 million USD in 2011 (CBRT, 2012a; authors' calculations).

⁷ For example, large sales in the telecommunication sector in 2005 and of large enterprises in 2006 to foreigners and the increasing foreign purchases of parts of the domestic banking sector in 2007 were the factors which highly contributed to the rising FDI inflows. The block sale of Turk Telecom (6.5 billion USD) in November 2005 was the largest privatization in that year. In 2006, the two large privatizations were the block sale of TÜPRAŞ (4.1 billion USD) and the block sale of ERDEMİR (2.7 billion USD). In 2007 the sale of the T. Halkbank was 1.8 billion USD (see Republic of Turkey Prime Ministry Privatization Administration, 2008). When, for example, the structure of FDI inflows in the period of 2007-2011 is decomposed, it can be observed that on average annually about 42.3 per cent was in the field of financial and insurance activities, whereas only 22.6 per cent went to the manufacturing sector (CBRT, 2012a; authors' calculations).

⁸ For example, the ratio of gross portfolio inflows as a percentage of GDP increased from 0.6 per cent in 2002 to 3.0 per cent in 2005. Due to large portfolio outflows from Turkey in the years 2001 and 2002, net portfolio inflows in these years as a per cent of GDP were negative at around -2.3 per cent and -0.3 per cent, respectively. In 2005 the ratio reached 2.8 per cent of GDP. After 2005, both gross and net portfolio inflows as a per cent of GDP declined and turned negative in 2008. Then in the following years net inflows became positive again (CBRT, 2012a; The World Bank, 2012; authors' calculations)

Gross and net other investment inflows – mainly bank credits – as a percentage of GDP fluctuated to a great extent in the 1990s and accelerated in the post-2001 period until the 2008-2009 global crisis, but increased again in the following years.

Changes of central bank reserves showed partly high positive and negative interventions also in the 2000s. However, these interventions did not prevent the gradual depreciation of the TL in the second half of the 1990s and 2000s.⁹ It is obvious that the central bank tried to stabilize the exchange rate in an environment of unstable capital flows and partly unwanted appreciation pressure.

3.3. Credit expansion and bubbles in Turkey

From 1989 until 2001 Turkey was characterized by an externally stimulated boom-bust cycle. After capital account liberalization in 1989 and due to high interest rates in TL (see Diagram 6) Turkish banks started to borrow increasingly from foreign financial markets in foreign currency at relatively low interest rates to lend at much higher interest rates in the domestic market, after converting foreign currency to domestic currency. Capital inflows were also stimulated by foreign ownership in the Turkish banking sector.¹⁰ This development increased the fragility of the banking sector due to currency mismatch as well as a maturity mismatch in banks' balance sheets, which made the Turkish banking system highly vulnerable to capital outflows and subsequent depreciation¹¹. Due to the banking sector restructuring program after the 2001 financial crisis, which aimed at establishing EU regulation standards, the Turkish banking sector has become more resilient to these fragilities. However, extensive indirect vulnerabilities remain.

The 2000s were characterized, as already mentioned, by a strong credit expansion and substantial domestic indebtedness of private households. External lending in a relevant way added to the rapid credit expansion, particularly in terms of consumer loans.¹² Consumer loans increased from 0.9 per cent of GDP in 2001 to 12.5 per cent of GDP in 2011; housing loans - as a part of consumer loans - in the same period increased from 0.2 per cent of GDP to 5.5 per cent of GDP. Moreover, as an additional item to the consumer loans, individual credit card credit as a per cent of GDP almost quadrupled in the period of 2001-2011 from 1.1 per cent in 2001 to 4.2 per cent in 2011. The absolute levels look still not very high, but it has to be kept in mind that more than half of the consumer loans are taken by low and lower middle income groups (see CBRT, 2012d). The dangers of high consumption debt became obvious

⁹ Total net foreign exchange purchases in the period of 2002-2011 added up to 76.2 billion USD and the central bank's gross foreign exchange reserves account for 77.8 billion USD, as of 2011 (CBRT, 2011a, 2012a).

¹⁰ Ownership of foreign financial institutions in Turkey started to increase at the end 1980s. Increasing foreign ownership in the banking sector eased the entry of foreign capital in Turkey (Çakar, 2003). Share of foreign ownership based on paid-up capital in total banking shares reached 24.9 per cent in 2012, while this ratio increases to 42.8 per cent when the publicly offered shares of the Turkish banking sector held by foreigners are included (CBRT, 2012d). Asset share and credit shares of foreign banks in Turkish banking sector also increased since the 1990s. Asset share of foreign banks in total banking sector assets was 3.5 per cent and credit share of foreign banks in total banking sector credits was 3.5 per cent in 1990 (Türkiye Bankalar Birliği, 2005). In 2012, asset share increased to 13 per cent of total banking sector assets and credit share increased to 14.5 per cent of total banking sector credits (Türkiye Bankalar Birliği, 2013; authors' calculations).

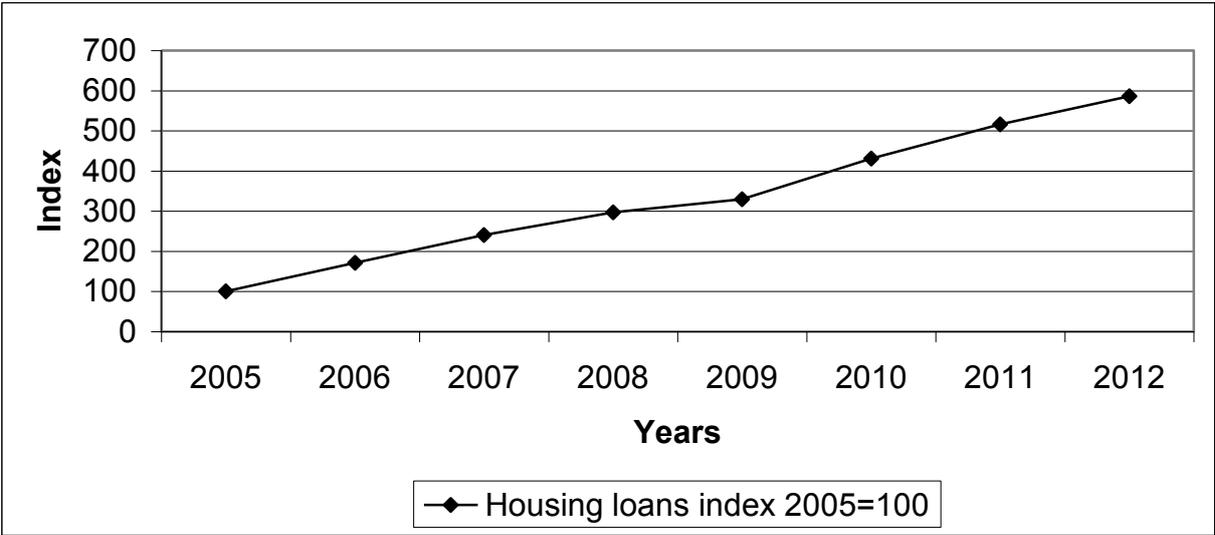
¹¹ For instance, Özatay and Sak (2002, p. 16) report that the ratio of liquid foreign exchange assets to foreign exchange liabilities declined from 44.8 per cent in 1995 to 34.4 per cent in September 2000.

¹² As a share of total loans, consumer loans increased from 6.9 per cent in 2001 to 28.3 per cent in 2011; in the same period, housing loans - as a part of consumer loans - increased from 1.7 per cent of total loans to 12.3 per cent. Individual credit card credit increased from 7.5 per cent to 9.5 per cent of total loans in this period. Correspondingly, credits to enterprises decreased from 92.9 per cent to 61.1 per cent of total loans (CBRT, 2012a; authors' calculations).

after the outbreak of the subprime crisis and the Great Recession it caused in the US, UK, Spain and many other countries. Credits to enterprises¹³ also increased from 13.1 per cent to 27.0 per cent of GDP in this period (CBRT, 2012a; authors' calculations).

The 2000s showed clear tendencies of a real estate bubble partly driven by capital inflows. The huge expansion of housing loans in the 2000s supports this argument (see Diagram 3). Until recently there was no good country-wide statistical data available about house price developments in Turkey. But according to the new House Price Index (HPI, 2010=100), which indicates the prices of houses in all regions of Turkey, the annual increase of house prices from the previous year was always over 10 per cent (CBRT, 2012c).¹⁴ Stock markets in Turkey also showed tendencies of a bubble in the post-2001 period.¹⁵

Diagram 3: Housing loans (TL + foreign exchange + foreign exchange indexed) by domestic deposit banks, index 2005=100



Source: CBRT (2012a); authors' calculations

Gross external debt of Turkey in 2011 was 39.7 per cent of GDP, compared to 57.7 per cent of GDP when the currency crisis in 2001 escalated. On the other hand, short-term external debt was 8.4 per cent of GDP in 2001 and it increased to 10.4 per cent of GDP in 2011. Official foreign reserves of the central bank were around 10.1 per cent of GDP in 2011 (CBRT, 2012a; The World Bank, 2012; authors' calculations).

¹³ "Credits to enterprises" denotes the credits taken by non-financial companies and individual corporations from deposit money banks and investment and development banks.

¹⁴ An indication for a real estate bubble also can be found in the sharp increase of employment in this sector. Taking employment in 2004 as 100, employment in the building and construction sector increased until 2011 to almost 180. In the agricultural and manufacturing sector the increase was below 120 and in the service sector around 130 (AMECO 2012, authors' own calculation). In addition, real estate price hikes has been reported by some national as well as international journals and newspapers lately. For instance, Roberts (2012) from The New York Times points out a recent real estate bubble and its accumulated risks in Turkey by referring to the well-known economist Daron Acemoglu. In this article, the resemblance of the real estate bubble in Turkey to the ones in the United States and Spain before the global crisis is mentioned as well.

¹⁵ From 2001 to 2007, the stock price index (January, 1986=1) of 100 selected stocks traded at the Istanbul Stock Exchange (ISE) increased by around 375 per cent. In 2008 and 2009, the index decreased to some extent. However, it increased again sharply from 2009 to 2010 by 58.2 per cent and continued increasing in 2011 (CBRT, 2012a; authors' calculations).

Concerning the foreign indebtedness of sectors households are not any more allowed to take credits from abroad nor foreign exchange credits and foreign exchange-indexed credits from domestic banks.¹⁶ Therefore, the private household sector does not suffer from high debt in foreign currency.

From 2001, the year of the big financial crisis, to 2011 enterprise sector's foreign indebtedness as a per cent of GDP decreased from 17.3 per cent to 14 per cent and government sector's foreign indebtedness from 20.9 per cent to 10.7 per cent. However, in the post-2001 period external borrowing of the financial sector in foreign currency increased from 7.3 per cent of GDP in 2001 to 13.4 per cent in 2011 (CBRT, 2012a; The World Bank, 2012; authors' calculations).¹⁷ The decline in government sector's foreign indebtedness can be explained by minimized economic activities of government in this period as well as large scale privatizations.

Dollarisation mainly in the form of domestic foreign currency deposits and domestic foreign currency loans is important in Turkey. Foreign exchange deposits as a per cent of total domestic deposits of deposit money banks was 29.5 per cent and 14.7 per cent of GDP in 2011 (CBRT, 2012a; authors' calculations).¹⁸ Domestic foreign currency loans (extended by deposit money banks as well as by investment and development banks) in Turkey in 2011 was around 24 per cent of total domestic loans and 10.8 per cent of GDP according to the CBRT statistics and authors' calculations.

The banking sector in the post-2001 period, due to reforms after the 2001 crisis, has been avoiding excessive foreign exchange risks and hedged a large part of their foreign exchange and maturity risks (Alp & Elekdağ, 2011).¹⁹ However, the enterprise sector's absolute level of indebtedness substantially increased after 2001, while a significant currency mismatch has developed.²⁰ The main sources of the enterprise sector's foreign exchange borrowing have been foreign as well as domestic banks.²¹

¹⁶ See the amendments to the Decree No. 32 in 2009 that is based on Law No. 1567 Regarding the Protection of the Value of Turkish Currency in Official Gazette No. 27260 (2009). This started to eliminate the foreign exchange rate risk in household's balance sheets. Households' long foreign exchange position became 24.2 per cent of GDP (CBRT, 2012a; 2012d; authors' calculations).

¹⁷ The relative decline in foreign indebtedness of the enterprise sector reflects the Amendments to Decree No. 32, which aimed at decreasing the borrowing of enterprises from foreign branches and affiliates of Turkish banks by easing domestic borrowing conditions in foreign currency. The goal was to decrease foreign debt of Turkey (CBRT, 2009). Firms have been encouraged to borrow from domestic banks in foreign currency instead of borrowing from abroad.

¹⁸ We can expect that banks use these foreign exchange deposits as loans to firms. But we do not know the exact figures as the foreign deposits also could be invested abroad.

¹⁹ For example banks have been creating an on-balance sheet short position by borrowing long-term foreign exchange loans from abroad, transforming them into TL and giving long-term housing credits in TL (CBRT, 2007a). CBRT also reports that the banks have been compensating this currency mismatch by their off-balance sheet assets.

²⁰ Net foreign exchange short position of the enterprise sector as a per cent of GDP was 16.9 per cent in September 2012 (CBRT, 2012d; The World Bank, 2012; authors' calculations). A "short position" in a balance sheet means the foreign exchange assets are less than foreign exchange liabilities. A "long position" means the opposite.

²¹ Amendments to Decree No. 32 allowed domestic enterprises, which do not have any foreign exchange revenues, to borrow from domestic banks in foreign currency. Before this amendment, only exporting enterprises and enterprises with foreign exchange revenues were subject to this privilege. Such a policy may reduce foreign debt in foreign currency, but at the same time increases domestic credit in foreign currency and does not reduce overall currency mismatch. As intended by this regulation, external borrowing of the enterprise sector from foreign banks and foreign branches and affiliates of Turkish banks has declined from June 2009 onwards. However, enterprise sector's domestic borrowing in foreign currency increased.

Taking foreign indebtedness and foreign domestic currency credits together there is a potentially very high currency mismatch especially of the enterprise sector. Although the large share of enterprise sector's financial debt denominated in foreign currency is long-term, the share of it in total financial debt of the enterprise sector was 56.7 per cent, as of August 2012 (CBRT, 2012d). This is extremely high. This situation of the enterprise sector would indirectly affect the banking sector in case of a sharp real depreciation. Turkish banks hedge a high proportion of their currency mismatch. But a high currency mismatch may remain also in the financial sector. The public sector has also accumulated foreign exchange risks in the 2000s. The short foreign exchange position of the public sector as a per cent of GDP was 9.6 per cent in September 2012 (CBRT, 2012d; The World Bank, 2012; authors' calculations). The overall macroeconomic open foreign exchange position of Turkey reached 11.1 per cent of GDP in September 2012 (CBRT, 2012d). These figures indicate the vulnerable position of the Turkish economy. In a constellation of high foreign debt in foreign currency, a real depreciation of the national currency increases the real debt burden and leads to a so called twin-crises, a simultaneous balance of payment and domestic financial system crisis.

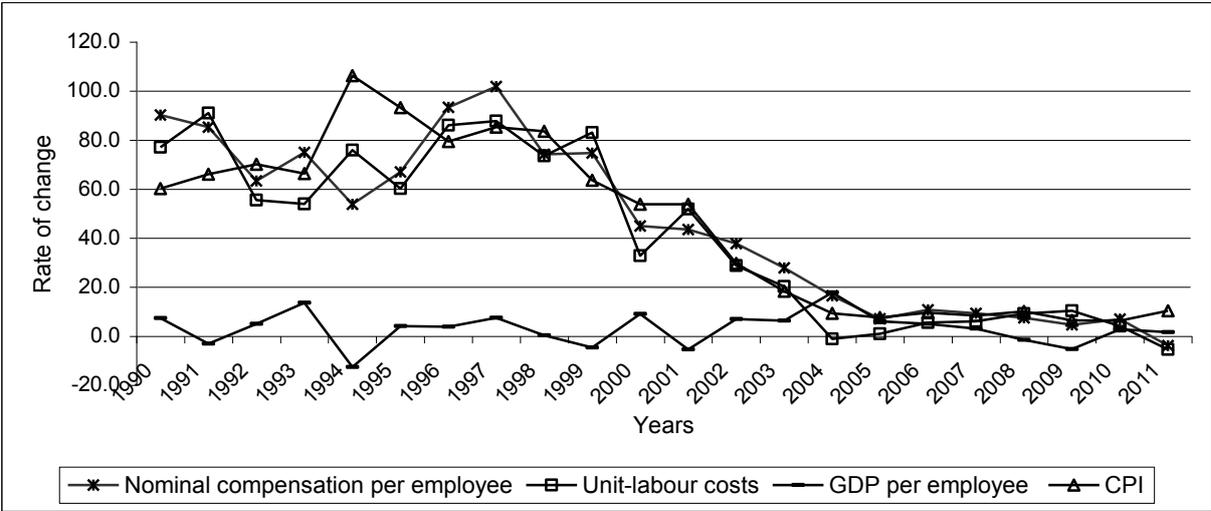
3.4. Wage development and inflation

Changes in the price level depend on changes in costs and disequilibria between aggregate demand and supply in a situation where enterprises change prices and not quantities produced. In the long-run, cost factors become the anchor of the price level. It should be mentioned that higher costs will increase prices without the need for excess demand. There is a direct price-price effect. If the oil price increases even in a situation of economic stagnation and a lack of demand prices will go up. This happens with all types of cost increases (Herr, 2009; Keynes, 1930).

Unit-labour costs are the domestic nominal anchor of the price level.²² Diagram 4 very much supports this argument. In the post-1980 period, inflation in Turkey accelerated and remained at high levels, albeit it significantly declined in the post-2001 period compared to the previous periods. Changes in nominal compensation per employee, the main factor for unit-labour cost development, as well as changes in unit-labour costs are highly correlated with the inflation rate. The correlation is closer than expected. Firstly, in the short-run demand-and-supply inequalities can influence the price level. Secondly, exchange rate movements via changing import prices lead to price level changes. Thirdly, changes in food and natural resource prices influence the price level.

²² The percentage change in unit-labour costs (\dot{u}) depends on the percentage change in nominal wages (\dot{w}) minus the percentage change in labour productivity ($\dot{\pi}$). So we get $\dot{u} = \dot{w} - \dot{\pi}$. The relevant labour productivity is the medium-term one which does not depend on business cycle effects. As price level changes (\dot{P}) in the medium term depend very much on changes in unit-labour costs ($\dot{P} \leftarrow \dot{u}$) it follows $\dot{P} \leftarrow \dot{u} = \dot{w} - \dot{\pi}$. For example, an increase of the nominal wage rate by 5 per cent and an increase of productivity by 2 per cent will lead to an inflation rate of 3 per cent.

Diagram 4: Change in nominal compensation per employee, unit-labour costs, and inflation rate in Turkey



Source: AMECO (2012); CBRT (2012a, 2012b); authors' calculations

For many countries and also for Turkey the nominal exchange rate is the external anchor of the price level. The exchange rate pass-through in Turkey was very high and fast - around 45 per cent in six-months-time - before 2001 (Kara & Ögünç, 2005). In the post-2001 period, it declined to some extent. Volkan, Saatçioğlu, and Korap (2007) estimated it at around 35 per cent in an 18-months-time for the period of 2003-2006 and Kara and Ögünç (2011) estimated it at around 15 per cent in around one-year-time for the period of 2002-2011. These figures imply that the exchange rate remains a significant factor for price level development (Kara & Ögünç, 2011). This can, for example be seen in 2011 when the price level went up in spite of falling wages costs, as documented in Diagram 4.

The exchange rate pass-through depends on several factors. Firstly, the import quota of a country is important. Imports to GDP in Turkey in 2011 was 29.3 per cent (The World Bank, 2012). This figure shows that depreciations will influence the price level substantially. Secondly, as soon as nominal wage development tries to compensate for the decline of real wages caused by depreciation, a depreciation-wage-price spiral starts to turn. Such a constellation did at least partly exist in Turkey before 2001. In that period strong nominal depreciations led to such declines in real wages that nominal wages had to adjust. In such a case the exchange rate becomes the driving force of high inflation. Such a scenario can be combined with high budget deficits financed by the central bank. Domestic monetary wealth is pumped into the economy via the budget deficit. This domestic wealth is directly exchanged into foreign currency and further stimulates a depreciation-wage-price spiral. Such a scenario explains why very high inflation rates usually are not driven by excess demand for goods, but by cost factors (see for such a scenario Fischer, Sahay, & Végh, 2002; Robinson, 1938). Thus we can support the argument that the relatively high budget deficit in Turkey especially between the mid- 1990s and mid-2000s, as documented in Table 1, added to the inflation problem in Turkey.²³

Our analysis is very much in line with the arguments of the Turkish central bank. According to the inflation reports of the CBRT between 2006 and 2011 exchange rate movements, wage

²³ We do not argue that budet deficis always lead to inflation. For example, the high budet deficits in many Western countries during and after the Great Recession did not lead to inflation – even when financed by the central bank.

developments, and energy and food prices developments were the main factors determining inflation (CBRT, 2006a, 2008a, 2011b).

The nominal wage rate per hour should increase according to medium-term or trend macroeconomic productivity changes²⁴ plus the target rate of inflation of the central bank. This wage norm should be a guideline of wage increases in all industries.²⁵ In that case, wages will be perfectly compatible with the target inflation rate. As long as the wage norm is realised monetary policy will be relieved of a considerable burden and can and should support GDP growth whenever possible. Of course, a wage norm only makes sense as long as the nominal exchange rate as the external anchor for the price level is relatively stable. On the one hand volatile exchange rate movements make it very difficult or not possible to follow a wage norm. On the other hand wage developments which diverge fundamentally from the wage norm do not allow a stable exchange rate. A country like Turkey needs both, a stable nominal wage development leading to a low inflation rate and a relatively stable exchange rate.

Labour markets do not automatically lead to a wage development according to the wage norm. Certain labour market institutions are needed to support a functional wage development. The collective bargaining system in Turkey has two different levels. Sectoral level negotiations take place in the public sector, other negotiations take place mainly on the enterprise level (see for this part Visser, 2011).²⁶ The legislation of 1982, which brought more restrictive rules for wage bargaining than previous legislations, is currently in action. One element of this legislation is that wage bargaining agreements are usually not extended to workers which are not unionized. Trade union density, which indicates total trade union membership as a percentage of employees, was around 35.3 per cent in 1975 and decreased to 5.8 per cent in 2008. In addition, unions in Turkey are deeply politically divided. The weak union movement implies that collective bargaining is too weak to follow a macroeconomic strategy to establish a wage development according to the wage norm. A national minimum wage is set by the government after tripartite consultations.²⁷ In international comparison with 46.8 per cent of average wages, statutory minimum wages in Turkey are relatively low (Eurostat, 2012). In Turkey minimum wage development became a substitute for proper wage bargaining and wage coordination. Also wages in the informal sector, which is considered to

²⁴ This is important as statistically measured productivity depends on the business cycle. It decreases during recession as firms cannot or do not want to fire employees in line with drops in demand and production. It increases in the first phase of a boom as firms to a certain extent can increase output without additional labour input.

²⁵ The wage norm, the percentage change of nominal wages (\dot{w}_n) for a macroeconomic functional increase in nominal wages, looks as follows: $\dot{w}_n = \pi_{\text{medium-term and total economy}} + P_{\text{target of central bank}}$

²⁶ Moreover, the rights of association and collective bargaining in Turkey are different in the private and public sectors. Since 1980, private sector employees have the right of collective bargaining and since 1990, they have the right of association with minor restrictions, whereas the public sector employees have these rights but they are very limited. For instance, there are restrictions on the content of the collective bargaining agreements and some groups of employees are excluded from these agreements. Similarly, since 1990, private sector employees have the right to strike, whereas the public sector employees have this right but regulated to a great extent (Visser, 2011).

²⁷ Turkey has a statutory minimum wage system since 1971. In 1995, a tripartite council, called the Economic and Social Council, was established with the aim of forming a sound social dialogue between government, employer associations and trade unions on social and economic policy decisions of the government. From 1995 onwards, the involvement of trade unions and employer associations in government decisions exists, but it is restricted, and is neither frequent nor on a regular basis. Recently, additional organizations, such as Labour Council, the Tripartite Consultation Board, the Minimum Wage Committee, and the Supreme Arbitration Board are in charge of enhancing the social dialogue in the wage bargaining system.

be 42.1 per cent of total employment as of 2011 (Turkstat, 2012b), are highly influenced by minimum wages as noted by The World Bank (2006).

3.5. Monetary policy

From the 1980s until the late 1990s, the medium-term price stability objective was aimed to be achieved by monetary targeting (controlling the monetary aggregates M1 and M2). However, in substance the Turkish central bank tried to control the exchange rate by experimenting with different exchange rate regimes (see section 3.2). In early 2002, the Turkish central bank began to implement an implicit inflation targeting strategy accompanied by an officially floating exchange rate. In early 2002, a point target of 35 per cent inflation was defined based on the consumer price index (CBRT, 2002). In January 2006, the CBRT introduced an explicit inflation targeting strategy with point targets and a band of 2 per cent above and below the point targets. However, target rates of 5, 4 and 4 per cent in the following years could not be achieved as the inflation rates were always a few percentage points higher (see Table 1). The CBRT usually attributed the failure to miss the inflation targets to external factors, including increasing food and energy prices (see CBRT, 2008b). In the following years the CBRT was more successful.

The inflation targeting strategy did not prevent high current account deficits, domestic bubbles and the instability of the financial sector. Due to these failures, in November 2010 the inflation targeting strategy was modified by adding a financial stability target to the price stability target. In order to achieve financial stability, two intermediate targets were introduced: first restricting domestic credit expansion and restraining short-term foreign capital inflows.(Kara, 2011; Özatay, 2011).²⁸

The aim of this policy modification was "to bring the economy to a soft landing (avoid a "sudden stop") and to rebalance the composition of growth, without hampering the price stability objective" (Kara, 2011, p. 2). However, in 2011, the inflation rate mounted to 10.4 per cent, far above the target rate of 5.5 per cent (CBRT, 2012b). In terms of restraining the domestic credit volume as a per cent of GDP, the new policy framework does not seem successful so far either. For instance, deposit money bank loans increased 39.4 per cent of GDP in 2010 when the new policy framework was introduced (CBRT, 2012a; authors' calculations).

For a country like Turkey it is an illusion to follow an inflation targeting strategy and neglect the exchange rate and the current account. Volatile exchange rate movements in Turkey change the value of the external debt and also lead to unacceptable price level shocks. It is not a surprise that Turkey in substance followed a monetary policy to stabilize the exchange rate. Confronted with an economic boom phase with high capital inflows after 2002, the CBRT intervened heavily in the foreign exchange market to avoid a further appreciation of the TL as Turkey already had high current account deficits. However, in 2008 and 2011, the CBRT reduced its foreign reserves to fight against a weakness of the TL.²⁹ Overall the CBRT has been accumulating high foreign exchange reserves in the post-2001 period due to the large capital inflows and a half-heated strategy to prevent unsustainably high current account

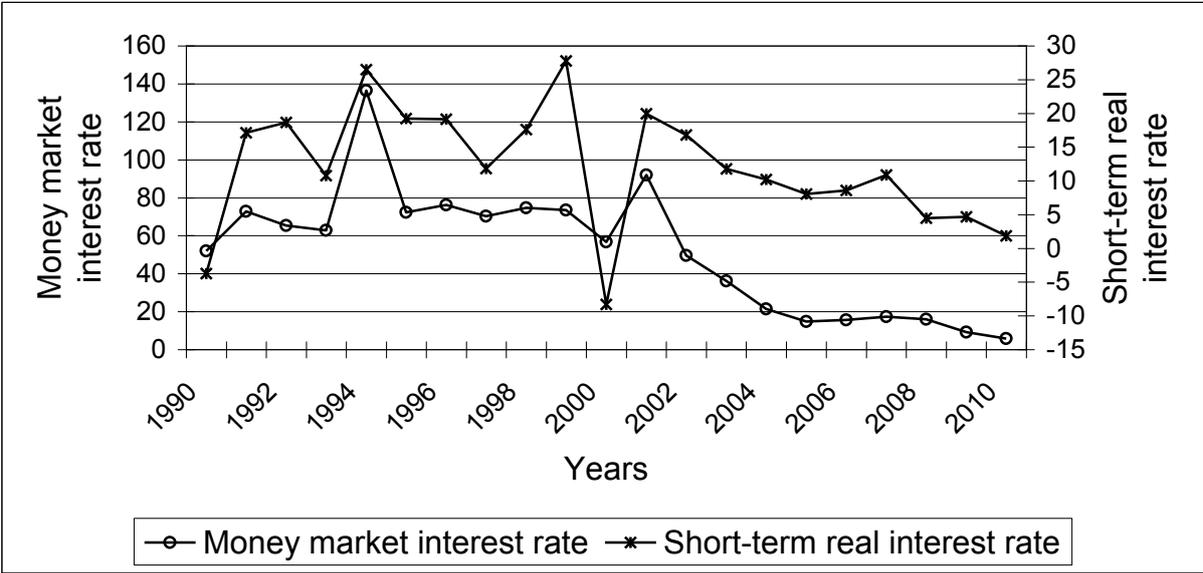
²⁸ In order to achieve these intermediate targets, additional policy instruments were introduced. Overnight borrowing rates were decreased and the interest rate corridor between the overnight borrowing and lending rates was enlarged. The aim of this policy move was to increase the volatility of short-term interest rates, which is supposed to restrict carry trade activities of international financial investors. On the other hand, the central bank aimed at restricting domestic credit growth, which is stimulated by low interest rates, by introducing higher reserve requirement ratios on TL and foreign exchange deposit accounts.

²⁹ The CBRT's gross foreign exchange reserves declined from 71.6 billion USD in 2007 to 69.8 billion USD in 2008, and from 80.7 billion USD in 2010 to 77.8 billion USD in 2011 (CBRT, 2012a).

deficits.³⁰ Turkey – as many other emerging markets – suffered in the 2000s from too high capital inflows.

Although it is evident that the real interest rates were lower in the post-2001 period compared to the 1990s, they remained higher than in most of the emerging market economies in this period. This can be attributed to the low credibility of the disinflation program and high exchange rate risk premium in the post-2001 period in Turkey relative to other countries (Kannan, 2008). The increase of real interest rates in May-June 2006 and the following years was caused by turbulence in international financial markets and due to the declining risk appetite of the financial investors towards emerging markets (CBRT, 2006b). Only the global crisis with very low interest rates in the capitalist centres after the outbreak of the subprime crisis in 2007 brought real interest rates in Turkey down (see Diagram 5). Since 2008, real interest rates significantly declined due to the global economic crisis.

Diagram 5: Nominal money market interest rate and short-term real interest rate*



Source: AMECO (2012); IMF (2012a)

* The short-term real interest rate for the year 1997 is obtained from Berument and Malatyali (2001), due to the unavailable data in public sources.

Turkey completed its last IMF program in May 2008. After that, a Post-Program Monitoring (PPM) intensively discussed with the IMF was put in action in October 2008, the aim of which was increasing the resistance of the Turkish economy against the recent stress in the world financial markets, mainly through the continuation of structural reforms and tight monetary policy (IMF, 2008). The first round of the PPM discussion ended in May 2010 with an IMF report emphasizing on the need for tight fiscal policy in support of a tight monetary policy for restraining credit growth on the one hand, and on the other hand emphasizing on the continuation of foreign exchange accumulation by the CBRT due to shortening maturities of the foreign capital inflows (see IMF, 2010). The second round of discussions began and they ended in February 2011. The IMF report based on these discussion stresses the increasing vulnerabilities in the Turkish economy, for instance increasingly shorter maturity

³⁰ As many central banks, the CBRT sterilized the liquidity effects of its foreign exchange market interventions through various market and non-market based operations. According to Löffler, Schnabl, and Schobert (2010), this brought the Turkish central bank together with many other central banks into a domestic debtor position, which under certain conditions can make monetary policy difficult.

structure of foreign capital inflows to Turkey and the dependence of domestic growth on these inflows (IMF, 2012b). The IMF criticizes the recent monetary policy framework of the CBRT as being "increasingly activist" (p. 19).

All in all, over the last two decades monetary policy in Turkey frequently changed its strategy. Also the inflation targeting strategy which dominated the 2000s was given up because the targets in most years after 2006 could not be realised and especially it could not prevent high current account deficits and domestic financial fragility. Exchange rate movements which are of key importance for the Turkish economy in many phases dominated monetary policy directly or indirectly via their price level effects, their current account effects and their effects on the domestic asset market. Monetary policy would have been much easier and most likely more successful when Turkey would have used international capital controls to prevent high current account deficit and disconnect domestic interest rates from international markets. But these did not fit to the overall philosophy of the economic strategy of the Turkish government after the crisis in the early 2000s.

3.6. Fiscal policy

The main reasons for the increasing budget deficits at the end-1990s (see Table 1) was a) the Russian crisis in 1998 which also affected the reputation of the TL, forced the CBRT to increase interest rates in order to prevent the depreciation of the TL and reduced GDP growth, b) increased government spending due to the general elections in 1999, and c) the severe earthquake in Turkey in 1999 (Ertuğrul & Selçuk, 2001). Budget deficits escalated as well as the inflation rate. The central bank indirectly financed the public households via refinancing commercial banks which gave credit to the government.³¹ Money creation in domestic currency in a constellation of high inflation led to capital flight and a cumulative depreciation-inflation-wage-price spiral, as mentioned above.

To slow down inflation and also to pay lower interest (as long as the exchange rate does not collapse) Turkey has a long tradition to finance part of public debt abroad. In 2000, when the crisis started, Turkish foreign government debt had increased to 16.2 per cent of GDP (CBRT, 2012a; The World Bank, 2012; authors' calculations). Such a policy is understandable, but dangerous. The government could not fulfil its foreign debt obligation; it had to go the IMF.

After the crisis of February 2001, a "strengthened" stabilization program backed by the IMF which lasted until May 2008 was initiated. The main targets were strict fiscal policy aimed at a 6.5 per cent primary surplus of GDP and a tight monetary policy through an inflation targeting regime (Telli, Voyvoda, & Yeldan, 2006). As shown, during the post-2001 period public finances have been improved by strict fiscal policies. However, in spite of high GDP growth in some of the years budget deficits in per cent of GDP remained high, for example caused by elections held in 2007. The OECD proclaims "transparency shortcomings" in the Turkish government budget (OECD, 2008a, p. 41). High interest rates especially before 2008 burdened public households. For example, 23.9 per cent of total public expenditures in 2007 were interest payments (Bağımsız Sosyal Bilimciler, 2008).

Lower public debt in per cent of GDP during the 2000s (see Table 1) was supported by privatizations. Also public expenditures in areas which are highly in need of development like education and infrastructure did not increase sufficiently. The insufficient delivery of public goods by the Turkish government was at least partly caused by IMF stand-by agreements which focused on structural reforms in areas like social security, education, retirement and health insurance, thus relieving the burden of the government and leaving these areas as new

³¹ The share of government bonds and bills in the total claims of the deposit money banks was around 14.9 in 1998; it increased to about 19.0 per cent in 2000 and escalated to 37.1 per cent in 2001 (CBRT, 2012a; authors' calculations).

profit opportunities for the private sector (Bağımsız Sosyal Bilimciler, 2008; Yeldan, 2008). Overall, fiscal stabilization led to a fading social and other infrastructure of Turkey in the post-2001 period.

3.7. Inequality in Turkey

The Gini coefficient for market income in Turkey with a value of 0.46 on average of the years 2007, 2009 and 2011 is close to OECD average (OECD, 2012; Turkstat, 2012c; 2013; authors' calculations). However, looking at the Gini coefficient based on disposable income with a value of 0.41 makes Turkey one of the countries with the biggest social differentiation in the OECD world (see Diagram 6).³² Adding the high unemployment rate and bad working conditions for many employees it becomes obvious that Turkey suffers a deep social crisis.

Other measures of income inequality and poverty do not display a brighter picture. Turkstat (2012e) reports that according to relative income poverty figures³³ 16.1 per cent of the population was below poverty line in 2011.³⁴ From a comparative perspective, Turkey had the second highest relative income poverty among all OECD countries after Mexico in the mid-2000s (OECD, 2008b).³⁵ According to this OECD report, when relative income poverty and material deprivation³⁶ are both considered for around the year 2000, Turkey showed one of the worst situations in the OECD world. And for large parts in the Turkish society the situation did not improve during the 2000s and early 2010s. .

Turkey is characterized by a minimum of government redistribution policy, even compared to very market radical countries like the US or the UK. The OECD (2008b, p. 104) reports that the cash benefits system in Turkey was one of the “least progressive” one among the OECD countries in the mid-2000s. And there are deep regional differences in Turkey.³⁷

³² In 1994 the Gini coefficient for disposable income was 0.49 (Turkstat, 2007). After the 2001 financial crisis, it was 0.44 in 2002 and decreased in the following years until 2005; in 2006, it increased to 0.43 (Turkstat, 2006, 2007, 2012d). In 2010 and 2011, it did not change much and remained at around 0.40 (Turkstat, 2012d, 2013). These press releases and reports of Turkstat also show that disposable income inequality based on Gini coefficient has been higher in urban areas than rural ones in the period of 2002-2011, except the year 2005. These figures imply that income inequality only temporarily decreased in some years in the post-2001 period, but no continuous decline can be observed. Based on these data sources, authors' calculations show that the Gini coefficients of the period 2002-2006 and 2007-2011 are the same with a value around 0.41. It also should be kept in mind that the shrinking agricultural sector added to the moderate decrease of the Gini coefficient in some years – an effect which can be observed in many developing countries.

³³ This indicator is defined here as the share of the population with a disposable income that is below 50 per cent of the median income.

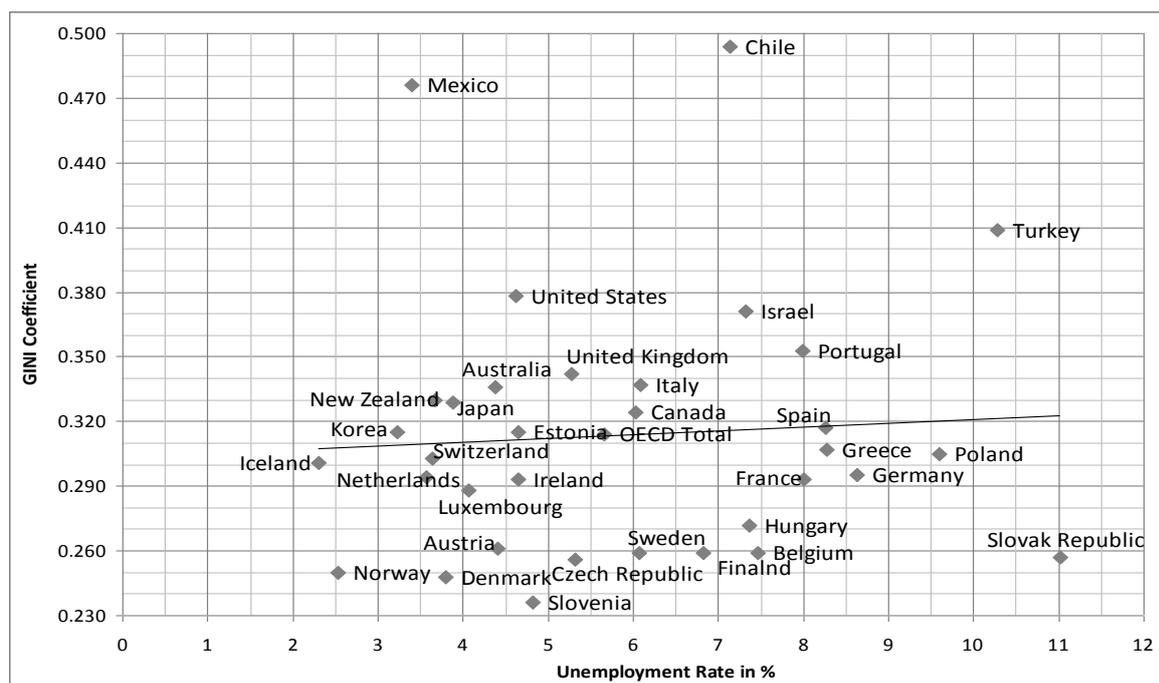
³⁴ This rate was reported as 13.9 per cent for urban areas and 15.7 per cent in rural areas (see Turkstat, 2012e).

³⁵ This ranking is based on the relative income poverty definition in footnote 33.

³⁶ Material deprivation does not have a commonly accepted definition, but it usually refers to a condition that an individual or household lacks basic material needs for participating in society (see for these dimensions OECD, 2008b; Turkstat, 2012e). Considering the items of material deprivation, basic leisure as commonly defined by the OECD and Turkstat as "having one week holiday away from home per year", 86.5 per cent of the population was reported as lacking this leisure in 2011 (Turkstat, 2012e). According to this report, 41.6 per cent of the population was in need of housing repair that is considered to be a part of housing deprivation in 2011. In terms of financial stress, 61.8 per cent of the population is recorded as having problems in paying bills in 2011 by this report. Turkstat also shows that in 2009, 17.3 per cent of the population was living under permanent poverty (households below 60 per cent of the median disposable income) and this figure increased to 18.5 per cent in 2010.

³⁷ The eastern, north-eastern and south-eastern regions are the poorest regions of Turkey; the richest are the western regions, particularly the north-west region. There are more poor people in rural areas than the cities (Turkstat, 2012f).

Diagram 6: Gini coefficient of disposable income and unemployment rate 2007*



* Gini coefficient late 2000s

Source: OECD (2012)

A very unequal income distribution is not only a problem for social sustainability, it is also a direct economic problem as countries with an unequal income distribution tend to have a lack of sustainable aggregate demand because the rich have a lower propensity to consume than the poor. In other words, decreasing incomes of the middle to low income segments of society have a negative effect on aggregate consumption, and hence on aggregate demand and output. This negative effect for demand has been compensated in Turkey via higher indebtedness of private households. Such a development has its limitation as the subprime crisis and the Great Recession showed. Economic catching-up must not be combined with increasing income inequality. South Korea and other East Asian countries, for example, show that a very successful development strategy is not only possible with a relatively equal income distribution, but equal income distribution supports development (Stiglitz, 1996) (see Korea in Diagram 6).

4. The Turkish unshared growth regime and its perspectives

In the early 2000s reforms towards a radical market development model without doubt changed the Turkish economy and society deeply. Macroeconomic policies were successfully focused towards low inflation rates, relatively stable exchange rates and low fiscal deficits. Deregulated markets triggered economic growth in the period after the 2001 crisis. But GDP growth was not high enough to solve the unemployment problem in Turkey. Overall the policy followed in Turkey very much fits to the philosophy of the Washington Consensus, the strategy developed by the IMF, US Treasury, World Bank and other Washington based institutions in the 1980s. This neoliberal consensus was characterized by Paul Krugman (1995) as sound money (macroeconomic stability in a Victorian style) and free markets (deregulation, liberalization and privatization). Despite of apparent economic successes development in Turkey after 2001 has been socially dangerous and also economically most likely not sustainable.

Firstly, let us look at the growth drivers of the 2000s. Dani Rodrik (2009, p. 18) labels the growth in Turkey in the 2000s as “foreign-borrowing led growth”. In fact, foreign capital inflows added to the domestic credit and investment dynamic and stimulated aggregate demand and output. However, the negative current account created by these capital inflows reduced aggregate demand and output. The net effect of the integration of Turkey into the world market is difficult to figure out, but the partly very high current account deficits must be seen as a burden for aggregate demand and growth. FDI inflows increased investment demand only to a relatively small extent because a large part of FDI existed of mergers & acquisitions and thus only changed ownership. Equity portfolio investment takes usually place in secondary markets and adds in this case not one lira to the funds an enterprise can invest.

Secondly, high productivity growth rates in this period draw a too rosy picture and did only partly depend on technological advancement. Productivity increases were largely based on restructuring after privatization and intensification of work. This source of productivity increases has limitations and leads to indecent working conditions.

Thirdly, the main demand driver was demand from private households. As such this is not a problem at all. However, it becomes a problem when high household demand is based on consumption credit and high real estate investment, which is financed in an unsound way. There are tendencies in Turkey, which signal a real estate bubble and an unsustainable build-up of indebtedness of households.

This brings us the fourth point. There are clear financialisation tendencies. We understand under financialisation in Turkey a role of the financial system which does not serve industrial development, which integrates the domestic financial system in a dangerous way into the world financial system, which leads to real estate and stock market bubbles, which attracts an increasing part of income, and which leads to corporate governance strategies based on short-term profit maximization, cost-cutting measures and precarious jobs creating. Such a finance driven development model contrasts sharply with the industry driven development of the East-Asian miracle countries (see Stiglitz, 1996; Stiglitz & Uy, 1996). We judge an industry driven development model for an emerging economy like Turkey as more promising than a model based on financialisation.

Fifthly, Turkey has a long history of external fragility and balance of payment triggered financial crises. We believe this history is not over. In the 2000s government foreign debt in per cent of GDP decreased, what is a positive development, but still is substantial. Also official foreign reserves are relatively high, and there is also no high external indebtedness in the private household sector. However, the enterprise sector has been becoming increasingly exposed to currency mismatch caused by foreign debt and dollarisation. As the enterprise sector is exposed to high debt in foreign currency the domestic financial system cannot be judged stable because it has “bad” debtors. An economic shock and a collapse of the TL can trigger a financial crisis. A following collapse of GDP growth may lead to an escalating non-performing loan problem in domestic currency.

Sixthly, Turkey lacks labour market institutions, which guarantee a wage development according to the wage norm. The lack of strong trade unions and strong employer organizations and of a widespread wage bargaining process must be judged as a weakness of the Turkish labour market, which makes it difficult to establish a macroeconomic functional wage development. Minimum wage development became a substitute for wage bargaining. The lack of strong unions added to high wage dispersion in Turkey. Existing labour market institutions in Turkey potentially add to price level instability.

Seventhly, inequality is disturbingly high in Turkey. It looks like Turkey is not on the way to West European countries with its still existing social model but more on the way to emerging

economies with a deep split in society between poor and rich with all the negative effects involved with such a situation.

Another more sustainable and successful development regime in Turkey is possible.³⁸ Such a regime would change macroeconomic policy in Turkey in different ways.

The Turkish economy has to be protected from foreign instability and instabilities caused by the way Turkey integrated into the world market. Of key importance is the integration into international financial markets. The best way to reduce external vulnerability is to control capital imports and especially indebtedness in foreign currency of all domestic sectors (Williamson, 2005). Capital import controls would reduce the need of central bank intervention and sterilization policies which sometimes have negative side-effects. There is plenty of empirical and theoretical evidence that full capital account convertibility does not add to long-term growth, but without doubt increases instability (Rodrik, 1998; Stiglitz, 2004). Certain types of FDI are positive and should be allowed. But Turkey should definitely not sell more of its financial institutions to foreigners and should gear FDI to the industrial sector.

It also would be advisable for Turkey to come to a constellation of a medium-term balanced current account. The overvaluation strategy of the TL benefits the middle classes which can cheaply buy foreign cars and other things. But it reduces aggregate demand, GDP growth and employment. The best policy would be a cautious real depreciation of the TL to balance the current account or to have a slight surplus. We do not argue for an import substitution strategy. Turkey has to further stimulate and support exports, but not necessarily high export surpluses. As an exchange rate regime a managed floating plus strategy seems to be the best. This implies a combination of capital controls, central bank interventions in the foreign exchange market and an interest policy to keep the exchange rate at a level which balances the current account in the medium-term and at the same time avoids large exchange rate swings. Selected FDI inflows can be combined with a balanced current account, for example, when the central bank intervenes in the foreign exchange market and sterilizes unwanted liquidity effects. China has a successful history of such a policy (Herr, 2010). Portfolio investment is not very useful for a country like Turkey, also foreign credit should be strictly controlled.

Of key importance for development is a financial system, which is stable and serves the real economy. Profits should be made in industrial production. A low real interest rate should be earned in the financial system but no high incomes from speculation and other activities in the financial sphere. Turkey has actively supported and passively accepted financialisation processes in its economy. Commercial banks in Turkey are allowed and even encouraged to engage in capital market activities, insurance activities as well as leasing and factoring activities (see Banking Regulation and Supervision Agency / BRSA, 2011). Financialisation does not lead to sustainable growth, but to asset price bubbles, instability and income inequality. To prevent financialisation it is important to separate commercial banking from non-bank financial institutions. Commercial banks should not be allowed to finance non-bank financial institutions in any relevant extent. Also, proprietary trading as well as the selling of credits should be radically restricted for commercial banks. Commercial banks should follow a business model to finance enterprises and (to a sustainable extent) households. Such a financial system as well as a monetary policy which supports growth, plays an important role to stabilise investment. Real estate financing has to be regulated additionally. Development

³⁸ See for such regimes Herr and Kazandziska (2011); Dullien, Herr, and Kellermann (2011) and Herr and Priewe (2005).

banks could help to allocate credit in technologically, ecologically and socially preferable sectors.³⁹

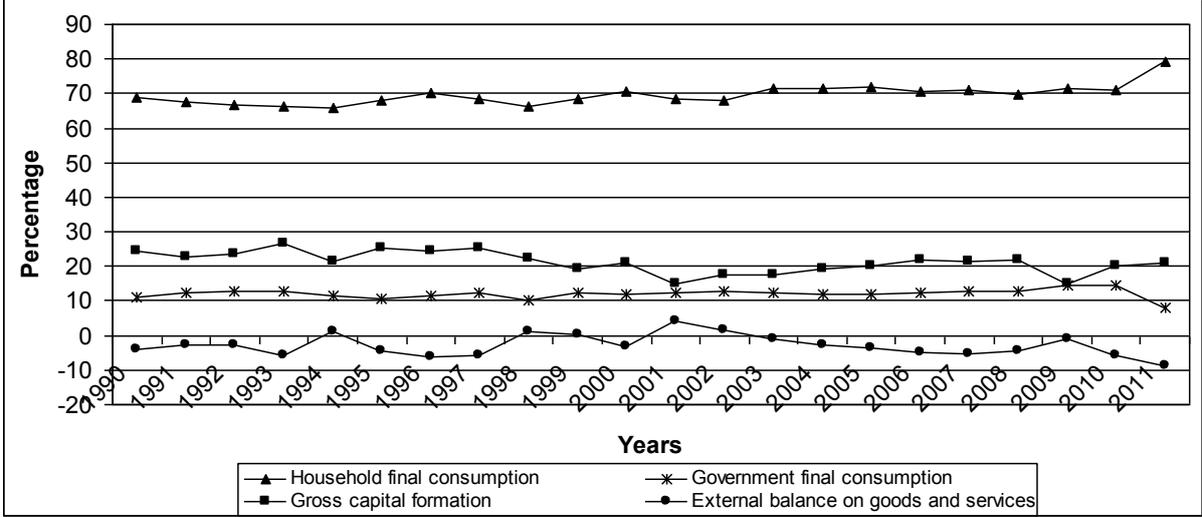
Turkey has no stable labour market institutions. Statutory minimum wages to a large extent substitute wage bargaining. It is recommendable that minimum wages adjust every year according to macroeconomic medium-term productivity increases plus the inflation target of the central bank. But minimum wage policy has limitations. For example, statutory minimum wages are not a useful instrument if a shortage of labour (even in some professions) pushes wages up. To improve sustainable macroeconomic performance comprehensive labour market institutions including strong unions and employer associations taking macroeconomic developments into account during wage bargaining processes are a precondition. Turkish labour market institutions are needed to establish wage bargaining on sectoral level and to organise wage coordination. Economic policy should strengthen unions and employer associations and wage bargaining on a sectoral level. Extension mechanisms of wage bargaining should give equal conditions for all enterprises in an industry. The law of one price also for wages is an important element to stimulate technological development and innovation because this law of one price forces unproductive enterprises to improve or leave the market and allows productive enterprises to realise higher profits which allows them to grow faster. A functioning wage bargaining process should also leave the extent of wage dispersion to the bargaining partners. Usually strong unions limit wage dispersion compared to a purely market-driven wage bargaining process.

Turkey needs to stimulate productivity increases and innovation in different areas, also in industry. As middle-sized country with about 74 million citizens it is not sufficient to have a big service sector, a big financial sector and a productive agriculture. The exchange rate should, what we have learned from David Ricardo, be used as a general protection against foreign competition, and policies in the tradition of Friedrich List should support key domestic industries beyond the attraction of selected FDI. Needed is a combination of tariffs and industrial policy to give domestic enterprises in a late-comer country a chance to develop. Industrial policy should be directed towards high value added sectors. For instance, establishing technology clusters as in Taiwan and Malaysia would enable fast and cheap technological upgrade of exporting firms, and hence would make them competitive. Beyond this, Turkey should further improve its infrastructure, and support research and education as public goods. Natural monopolies do not need to be privatised. They can help to stabilise the investment dynamic of an economy.

Last but not least, Turkey has to actively change disposable income distribution to guarantee social cohesion in society and sustainable economic prosperity. A more equal income distribution will foster demand based on income and can trigger a stable consumption-demand-output process which also leads to high investment and productivity increases. For this aim, market income distribution should be changed by increasing the role of wage bargaining and reducing wage dispersion. Also financialisation tendencies should be controlled including possibilities to earn high incomes by financial intermediation or speculation. The Turkish government has to take over an active role to change income distribution. This includes, for example, policies to create a more equal disposable income distribution by a progressive tax system, competition policy to reduce rent seeking and the delivery of public goods in the field of education, research and transportation.

³⁹ Furthermore, the financial system is not supervised and regulated by a single institution in Turkey. The regular banking, leasing and factoring activities are under the authority of the Banking Regulation and Supervision Agency (BRSA), while the capital market activities are ruled by the Capital Market Authority. It would be better to have supervision and regulation in one institution.

Appendix I: Composition of aggregate demand in per cent of GDP in Turkey



Source: The World Bank (2012)

Appendix II: Turkey - External sector indicators

Years	Current account/GDP (%)	imports/GDP (%)	imports growth (%)	exports/GDP (%)	exports growth (%)	International trade ^a /GDP (%)	Net FDI inflows/GDP (%)	Net portfolio investment inflows/GDP (%)	Net other investment inflows ^b /GDP (%)	Net errors and omissions/GDP (%)	Reserve assets/GDP (%)	Change in nominal effective exchange rate index ^{cd} (1999=100) (%)	Central Bank's gross foreign exchange reserves (million USD)
1990	-1.7	17.6	33.1	13.4	3.2	30.9	0.5	0.4	1.9	-0.3	-0.6	-26.3	5758.5
1991	0.2	16.6	-5.3	13.8	3.1	30.5	0.5	0.4	-2.5	0.6	0.8	-36.4	4812.9
1992	-0.6	17.3	10.9	14.4	11.0	31.7	0.5	1.5	0.3	-0.7	-0.9	-41.3	6106.6
1993	-3.6	19.3	35.8	13.7	7.7	33.0	0.3	2.2	2.4	-1.2	-0.2	-32.4	6277.2
1994	2.0	20.4	-21.9	21.4	15.2	41.7	0.4	0.9	-4.6	1.4	-0.2	-63.5	6905.9
1995	-1.4	24.4	29.6	19.9	8.0	44.2	0.5	0.1	2.1	1.4	-2.7	-40.0	12042.8
1996	-1.3	27.8	20.5	21.5	22.0	49.4	0.3	0.3	2.4	0.8	-2.5	-42.2	16386.1
1997	-1.4	30.4	22.4	24.6	19.1	55.0	0.3	0.9	2.5	-0.5	-1.8	-41.1	18609.8
1998	0.7	20.2	2.3	21.3	12.0	41.5	0.2	-2.5	2.0	-0.3	-0.2	-40.7	19718.4
1999	-0.4	19.3	-3.7	19.4	-10.7	38.7	0.1	1.4	0.5	0.5	-2.1	-35.7	23177.0
2000	-3.7	23.1	21.8	20.1	16.0	43.2	0.0	0.4	3.2	-1.0	1.1	-25.8	25097.0
2001	1.9	23.3	-24.8	27.4	3.9	50.8	1.5	-2.3	-6.6	-1.1	6.6	-46.1	18892.0
2002	-0.3	23.6	20.9	25.2	6.9	48.8	0.4	-0.3	0.4	-0.3	0.1	-23.8	27006.0
2003	-2.5	24.0	23.5	23.0	6.9	47.0	0.4	0.8	1.1	1.5	-1.4	-12.5	33724.0
2004	-3.7	26.2	20.8	23.6	11.2	49.7	0.5	2.0	2.0	0.3	-1.1	-3.4	36006.0
2005	-4.6	25.4	12.2	21.9	7.9	47.2	1.9	2.8	4.2	0.6	-4.8	5.8	48320.0
2006	-6.1	27.6	6.9	22.7	6.6	50.3	3.6	1.4	3.0	0.0	-2.0	-6.6	58332.0
2007	-5.9	27.5	10.7	22.3	7.3	49.8	3.1	0.1	4.4	0.2	-1.9	2.5	71568.0
2008	-5.7	28.3	-4.1	23.9	2.7	52.2	2.3	-0.7	3.1	0.6	0.4	-4.1	69715.0
2009	-2.2	24.4	-14.3	23.3	-5.0	47.7	1.1	0.0	0.5	0.7	-0.1	-11.8	70689.0
2010	-6.4	26.8	20.7	21.1	3.4	47.8	1.0	2.2	4.8	0.4	-2.0	5.8	80696.0
2011	-9.9	29.3	-2.4	21.0	-5.9	50.0	1.7	2.8	4.0	1.5	-0.1	-14.3	77756.0

^a Sum of exports and imports of goods and services

^b Monetary authorities, general government, banks and other sectors

^c Based on the following trading partners of Turkey: EU 15 and Australia, Canada, US, Japan, Norway, New Zealand, Mexico and Switzerland

^d Minus sign indicates a depreciation.

Source: CBRT (2012a, 2012e); Eurostat (2012); The World Bank (2012); authors' calculations

Appendix III: Turkey's Balance of Payments, Analytical Presentation*, 1990-2011

(Million US Dollars)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CURRENT ACCOUNT	-2.625	250	-974	-6.433	2.631	-2.339	-2.437	-2.638	2.000	-925	-9.920	3.760	-626	-7.515	-14.431	-22.309	-32.249	-38.434	-41.524	-13.370	-46.643	-76.906
Exports ^a	12.959	13.593	14.715	15.345	18.106	21.636	32.067	32.110	30.741	29.031	30.825	34.729	40.719	52.394	68.535	78.365	93.613	115.361	140.800	109.647	120.902	143.397
Imports ^b	-22.407	-20.883	-22.791	-29.426	-22.273	-34.788	-42.331	-47.158	-44.779	-38.802	-52.882	-38.092	-47.109	-65.883	-91.271	-111.445	-134.669	-162.213	-193.821	-134.497	-177.347	-232.538
Balance on Goods	-9.448	-7.290	-8.076	-14.081	-4.167	-13.152	-10.264	-15.048	-14.038	-9.771	-22.057	-3.363	-6.390	-13.489	-22.736	-33.080	-41.056	-46.852	-53.021	-24.850	-56.445	-89.141
Services: Credit	8.083	8.446	9.564	10.919	11.076	14.939	13.057	19.248	23.183	16.370	19.463	15.203	14.031	17.952	22.941	26.898	25.549	28.930	35.564	33.922	34.743	38.959
Services: Debit	-3.117	-3.282	-3.757	-4.179	-4.024	-5.319	-6.400	-8.336	-9.665	-8.888	-8.088	-6.067	-6.146	-7.441	-10.144	-11.742	-11.994	-15.647	-17.816	-16.606	-19.250	-20.685
Balance on Goods and Services	-4.482	-2.126	-2.269	-7.341	2.885	-3.532	-3.607	-4.136	-520	-2.269	-10.682	5.773	1.495	-2.978	-9.939	-17.924	-27.501	-33.569	-35.273	-7.534	-40.952	-70.867
Income: Credit	917	935	1.012	1.135	890	1.488	1.577	1.900	2.481	2.350	2.836	2.753	2.486	2.246	2.651	3.644	4.418	6.423	6.889	5.164	4.477	3.952
Income: Debit	-3.425	-3.598	-3.637	-3.879	-4.154	-4.693	-4.504	-4.913	-5.466	-5.887	-6.838	-7.753	-7.040	-7.803	-8.260	-9.483	-11.074	-13.531	-15.253	-13.355	-11.616	-11.725
Balance on Goods, Services and Income	-6.990	-4.789	-4.894	-10.085	-379	-6.737	-6.534	-7.149	-3.505	-5.806	-14.684	773	-3.059	-8.535	-15.548	-23.763	-34.157	-40.677	-43.637	-15.725	-48.091	-78.640
Current Transfers	4.365	5.039	3.920	3.652	3.010	4.398	4.097	4.511	5.505	4.881	4.764	2.987	2.433	1.020	1.117	1.454	1.908	2.243	2.113	2.355	1.448	1.734
CAPITAL ACCOUNT																						
FINANCIAL ACCOUNT	4.037	-2.397	3.648	8.903	-4.257	4.565	5.483	6.969	-840	4.829	9.584	-14.557	1.172	7.162	17.702	42.685	42.689	49.287	34.707	10.065	58.929	66.594
Direct Investment Abroad	16	-27	-65	-14	-49	-113	-110	-251	-367	-645	-870	-497	-143	-480	-780	-1.064	-924	-2.106	-2.549	-1.553	-1.464	-2.466
Direct Investment in Turkey	684	810	844	636	608	885	722	805	940	783	982	3.352	1.082	1.702	2.785	10.031	20.185	22.047	19.504	8.411	9.038	15.872
Portfolio Investment- Assets	-134	-91	-754	-563	35	-466	-1.380	-710	-1.622	-759	-593	-788	-2.096	-1.386	-1.388	-1.233	-3.987	-1.947	-1.244	-2.711	-3.524	2.688
Portfolio Investment- Liabilities	681	714	3.165	4.480	1.123	703	1.950	2.344	-5.089	4.188	1.615	-3.727	1.503	3.851	9.411	14.670	11.402	2.780	-3.770	2.938	19.617	19.298
Equity Securities	89	147	350	570	989	195	191	8	-518	428	489	-79	-16	905	1.427	5.669	1.939	5.138	716	2.827	3.468	-986
Debt Securities	592	567	2.815	3.910	134	508	1.759	2.336	-4.571	3.760	1.126	-3.648	1.519	2.946	7.984	9.001	9.463	-2.358	-4.486	111	16.149	20.284
Other Investment- Assets	-409	-2.563	-2.438	-3.291	2.423	-383	331	-1.750	-1.464	-2.304	-1.939	-601	-777	-986	-6.983	-553	-13.479	-4.969	-12.058	10.987	7.012	11.395
Monetary Authorities	361	29	36	-60	-18	-102	-117	-98	-95	-98	1	-39	-30	-28	-24	-16	0	2	2	2	4	2
General Government																	-42	-116	-32	-31	-29	-108
Banks	-769	-2.595	-2.474	-3.231	2.441	-281	1.448	-976	-942	-1.839	-1.574	233	643	348	-5.324	-149	-11.018	-3.389	-10.255	6.396	13.158	-408
Other sectors	-1	3	0	0	0	-1.000	-676	-427	-367	-966	-795	-1.390	-1.306	-1.635	-388	-2.419	-1.466	-1.773	4.620	-6.121	11.909	
Other Investment- Liabilities	3.199	-1.240	2.896	7.655	-8.397	3.939	3.970	6.531	6.762	3.566	10.389	-12.296	1.603	4.461	14.657	20.834	29.492	33.482	34.824	-8.007	28.250	19.807
Monetary Authorities	-535	-939	255	1.036	1.362	1.556	1.255	1.026	571	-231	619	735	1.336	497	-209	-787	-1.268	-1.450	-1.791	-901	-553	-1.965
General Government	-393	-201	-1.645	-2.177	-2.962	-2.131	-2.108	-1.456	-1.655	-1.932	117	-1.977	-669	-2.194	-1.163	-2.165	-712	82	1.742	1.602	3.580	1.982
Banks	2.279	396	2.100	4.495	-7.053	1.973	3.046	2.232	3.195	2.655	3.736	-9.644	-2.016	2.846	6.564	10.524	11.704	3.736	9.457	514	27.254	9.982
Other sectors	1.848	-496	2.186	4.301	256	2.541	1.777	4.729	4.651	3.074	5.917	-1.410	2.952	3.312	9.465	13.262	19.768	31.114	25.416	-9.222	-2.031	9.808
Current, Capital and Financial Account	1.412	-2.147	2.674	2.470	-1.626	2.226	3.046	4.331	1.160	3.904	-336	-10.797	546	-353	3.271	20.376	10.440	10.845	-8.878	-3.356	12.235	-10.342
NET ERRORS AND OMISSIONS	-468	948	-1.190	-2.162	1.832	2.432	1.499	-987	-713	1.302	-2.661	-2.127	-758	4.450	1.071	2.824	185	1.170	4.120	4.147	2.733	11.356
GLOBAL BALANCE	944	-1.199	1.484	308	206	4.658	4.545	3.344	447	5.206	-2.997	-12.924	-212	4.097	4.342	23.200	10.625	12.015	-2.758	791	14.968	1.014
RESERVE ASSETS	-944	1.199	-1.484	-308	-206	-4.658	-4.545	-3.344	-447	-5.206	2.997	12.924	212	-4.097	-4.342	-23.200	-10.625	-12.015	2.758	-791	-14.968	-1.014
Official Reserves	-896	1.199	-1.484	-308	-546	-5.005	-4.545	-3.316	-216	-5.726	-354	2.694	-6.153	-4.047	-824	-17.847	-6.114	-8.032	1.057	-111	-12.809	1.813
Use of Fund Credits and Loans	-48	0	0	0	340	347	0	-28	-231	520	3.351	10.230	6.365	-50	-3.518	-5.353	-4.511	-3.983	1.701	-680	-2.159	-2.827
Exceptional Financing																						
(*) Counterpart items in the old presentation are included in reserve assets.																						
^a Data excludes insurance and freight costs																						
^b Data excludes insurance and freight costs																						

Source: part of the table in CBRT (2012e)

References

- Alp, H., & Elekdag, S. (2011). *The Role of Monetary Policy in Turkey during the Global Financial Crisis*. Ankara: Central Bank of the Republic of Turkey.
- AMECO. (2012). Annual Macro-economic Database of the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN). http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm
- Aydiner-Avsar, N., & Onaran, O. (2010). The Determinant of Employment: A Sectoral Analysis for Turkey. *The Developing Economies*, 48(2), 203-231.
- Bağımsız Sosyal Bilimciler. (2005). *2005 Başında Türkiye'nin Ekonomik ve Siyasal Yaşamı Üzerine Değerlendirmeler*. Ankara: Türk Mühendis ve Mimar Odaları Birliği / TMMOB.
- Bağımsız Sosyal Bilimciler. (2008). *2008 Kavşağında Türkiye: Siyaset, İktisat ve Toplum*. İstanbul: Yordam Kitap.
- Berument, H., & Malatyali, K. (2001). Determinants of Interest Rates in Turkey. *Russian and East European Finance and Trade*, 37(1), 5-16.
- Boratav, K., Yeldan, A. E., & Köse, A. H. (2001). Turkey: Globalization, Distribution and Social Policy, 1980–1998 In L. Taylor (Ed.), *External Liberalization, Economic Performance and Social Policy*: Oxford University Press.
- BRSA. (2011). *Bankacılıkta Yapısal Gelişmeler* (Vol. 6). Ankara: Bankacılık Düzenleme ve Denetleme Kurumu.
- Çakar, V. (2003). *Yabancı Sermayeli Banka Girişleri ve Ulusal Bankacılık Sektörleri Üzerindeki Etkileri*. (Uzmanlık Yeterlilik Tezi), Türkiye Cumhuriyet Merkez Bankası, Ankara.
- CBRT. (2002). *Monetary Policy Report*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2006a). *Inflation Report 2006 - IV*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2006b). *Financial Stability Report* (Vol. 3). Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2007a). *Financial Stability Report* (Vol. 5). Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2007b). *Inflation Report 2007- IV*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2008a). *Inflation Report 2008 - IV*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2008b). *Monetary and Exchange Rate Policy for 2009*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2009). *Financial Stability Report* (Vol. 9). Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2011a). *Monetary and Exchange Rate Policy for 2012*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2011b). *Inflation Report 2011-IV*. Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2012a). Electronic Data Delivery System. from CBRT <http://evds.tcmb.gov.tr/yeni/cbt-uk.html>
- CBRT. (2012b). Annual CPI and Targets. Ankara: CBRT.

- CBRT. (2012c). House Price Index (Vol. May). Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2012d). *Financial Stability Report* (Vol. 15). Ankara: Central Bank of the Republic of Turkey.
- CBRT. (2012e). Balance of Payments - Yearly Analytic Presentation (1975-2012). Ankara: CBRT.
- Dullien, S., Herr, H., & Kellermann, C. (2011). *Decent Capitalism*. London: Pluto.
- Ertuğrul, A., & Selçuk, F. (2001). A Brief Account of the Turkish Economy, 1980-2000. *Russian and East European Finance and Trade*, 37(6), 6-30.
- Eurostat. (2012). Statistics. Retrieved 20.12.2012, from Statistical Office of the European Union <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>
- Fischer, S., Sahay, R., & Végh, C. A. (2002). Modern Hyper- and High Inflation. *Journal of Economic Literature*, 40(3), 837-880.
- Hermann, R. (2011). Güler Sabancı: Die anatolische Superfrau, *Frankfurter Allgemeine Zeitung*.
- Herr, H. (2009). The Labour Market in a Keynesian Economic Regime: Theoretical Debate and Empirical Findings. *Cambridge Journal of Economics*, 33(5), 949-965.
- Herr, H. (2010). Credit Expansion and Development – A Schumpeterian and Keynesian View of the Chinese Miracle. *Intervention. European Journal of Economics and Economic Policy*, 7(1), 71-89.
- Herr, H., & Kazandziska, M. (2011). *Macroeconomic Policy Regimes in Western Industrial Countries*. London: Routledge.
- Herr, H., & Priewe, J. (2005). Beyond the »Washington Consensus«: Macroeconomic Policies for Development *International Politics and Society*, 2/2005, 72-97.
- IMF. (2008) Statement by the IMF Mission to Turkey. *Press Release: Vol. No.08/265*. Washington, D.C.: International Monetary Fund.
- IMF. (2010) Turkey: Staff Report for the 2010 Article IV Consultation and Post - Program Monitoring-Supplementary Information; Staff Report; Informational Annex; Public Information Notice on the Executive Board Discussion. *Country Report No. 10/278*. Washington, D.C.: International Monetary Fund.
- IMF. (2012a). International Financial Statistics. from International Monetary Fund <http://elibrary-data.imf.org/>
- IMF. (2012b). Turkey: 2011 Article IV Consultation - Staff Report; Staff Supplements; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Turkey *IMF Country Report No. 12/16*. .
- Kannan, P. (2008). *Perspectives on High Real Interest Rates in Turkey* (Vol. 08/251): IMF.
- Kara, H. (2011). *Monetary Policy under Global Imbalances: The Turkish Experience*. Ankara: Central Bank of the Republic of Turkey.
- Kara, H., & Ögünç, F. (2005). Exchange Rate Pass-Through in Turkey: It is Slow, but is it Really Low? *Research Department Working Paper No: 05/10*. Retrieved from <http://www.tcmb.gov.tr/research/discus/WP0510ENG.pdf>

- Kara, H., & Ögünç, F. (2011). Döviz Kuru ve İthalat Fiyatlarının Enflasyona Etkisi. *Ekonomi Notlari* 2011(14). Retrieved from <http://www.tcmb.gov.tr/research/discus/WP0510ENG.pdf>
- Keynes, J. M. (1930). *Treatise on Money, Vol. 1, The Pure Theory of Money*. London: MacMillan, Collected Writings, Vol. V.
- Krugman, P. (1995). Dutch Tulips and Emerging Markets. *Foreign Affairs*, 74(4), 28-44.
- Löffler, A., Schnabl, G., & Schobert, F. (2010). *Inflation Targeting by Debtor Central Banks in Emerging Market Economies*. Munich: CESifo.
- OECD. (2006). *OECD Economic Surveys: Turkey* (Vol. 2006, Issue 15): Organization for Economic Co-operation and Development.
- OECD. (2008a). *OECD Economic Surveys: Turkey* (Vol. 2008, Issue 14): Organization for Economic Co-operation and Development.
- OECD. (2008b). *Growing Unequal: Income Distribution and Poverty in OECD Countries*: OECD Publishing doi: 10.1787/9789264044197-en.
- OECD. (2010). *OECD Economic Surveys: Turkey* (Vol. 2010, Issue 13): Organization for Economic Co-operation and Development.
- OECD. (2012). Statistics. from Organization for Economic Co-operation and Development <http://www.oecd.org/statistics/>
- Official Gazette No. 27260. (2009). 2009/15082 Türk Parası Kıymetini Koruma Hakkında 32 Sayılı Kararda Değişiklik Yapılmasına Dair Karar, *Official Gazette*.
- Ok, S. T. (2008). Sustainability and Financing of Current Account Deficits: The Turkish Case. *İktisat, İşletme ve Finans*, 23(272), 7-24.
- Öniş, Z., & Riedel, J. (1993). *Economic Crises and Long-Term Growth in Turkey*: Washington, DC : World Bank.
- Özatay, F. (2011). Merkez Bankası'nın Yeni Para Politikası: İki Hedef - Üç Ara Hedef - Üç Arac. *İktisat, İşletme ve Finans* 26(302), 27-43.
- Özatay, F., & Sak, G. (2002). Banking Sector Fragility and Turkey's 2000-01 Financial Crisis. *Brookings Trade Forum*, 2002(1), 121-160.
- Republic of Turkey Ministry of Development. (2012). *Economic and Social Indicators*. Retrieved from: <http://www.dpt.gov.tr/PortalDesign/PortalControls/WebIcerikGosterim.aspx?Enc=83D5A6FF03C7B4FC5A73E5CFAD2D9676>
- Republic of Turkey Ministry of Finance. (2012). Statistics. <http://www.maliye.gov.tr/Sayfalar/Eng/AnaSayfa.aspx>
- Republic of Turkey Prime Ministry Privatization Administration. (2008). *Privatization Implementations Between 1985-2008*. Retrieved from: <http://www.oib.gov.tr/program/implementations.htm>
- Republic of Turkey Prime Ministry Undersecretariat of Treasury. (2012). Statistics. <http://www.treasury.gov.tr/irj/portal/anonymous?NavigationTarget=navurl://ce3dfbf81aace54e4b6d1e21fe4a165f&InitialNodeFirstLevel=true>
- Roberts, N. (2012). House Hunting in ... Turkey, *The New York Times*. Retrieved from <http://www.nytimes.com/2012/08/23/greathomesanddestinations/real-estate-in-turkey.html?adxnnl=1&adxnnlx=1351635621-mj56NXAzVHrEr/rVyxw8nA>

- Robinson, J. (1938). The Economics of Hyperinflation. Besprechung des gleichnamigen Buches von Bresciani-Turroni, C. *The Economic Journal*, 48(191), 507-513.
- Rodrik, D. (1998). Who Needs Capital-Account Convertibility? In F. Stanley (Ed.), *Should the IMF Pursue Capital Account Convertibility?* Princeton, N.J.: Princeton, NJ : Princeton Univ., Dep. of Economics, Internat. Finance Section.
- Rodrik, D. (2009). *The Turkish Economy After The Crisis* (Vol. 2009/9): Turkish Economic Association
- Sönmez, M. (2009). *100 Soruda Küresel Kriz ve Türkiye*. Istanbul: Yeni Alan Yayıncılık.
- Stiglitz, J. E. (1996). Some Lessons from the East Asian Miracle. *World Bank Research Observer*, 11(2), 151-177.
- Stiglitz, J. E. (2004). Capital-Market Liberalization, Globalization, and the IMF. *Oxford Review of Economic Policy*, 20(1), 57-71.
- Stiglitz, J. E., & Uy, M. (1996). Financial Markets, Public Policy, And The East Asian Miracle. *World Bank Research Observer*, 11(2), 249-276.
- Telli, Ç., Voyvoda, E., & Yeldan, A. E. (2006). A General Equilibrium Assessment of Twin-Targeting in Turkey. In G. A. Epstein & A. E. Yeldan (Eds.), *Beyond Inflation Targeting. Assessing the Impacts and Policy Alternatives*. United Kingdom (UK): Edward Elgar.
- The Economist. (2005). A promising start. But Turkey's economy still has a lot to catch up on, *The Economist*.
- The World Bank. (2006). *Turkey-Labour Market Study* (Vol. 1, Report No. 33254): The World Bank.
- The World Bank. (2012). World Development Indicators. from The World Bank <http://data.worldbank.org/indicator>
- Türkiye Bankalar Birliği. (2005). Türkiye'de Yabancı Bankalar. *Bankacılar*, Mart 2005(52).
- Türkiye Bankalar Birliği. (2013). Banka Bilgileri (Seçilmiş Tablolar, Konsolide((Konsolidasyona tabi finansal kuruluşlar dahil)) - 2012 - Aralık *İstatistik Raporlar*.
- Turkstat. (2006) The Results of Income Distribution, 2005. Ankara: Turkish Statistical Institut.
- Turkstat. (2007). *Household Budget Survey. Income Distribution. Turkey-Urban-Rural 2004*. Ankara: Turkish Statistical Institut.
- Turkstat. (2012a). Statistics. from Turkish Statistical Institut <http://www.turkstat.gov.tr/Start.do>
- Turkstat. (2012b). *Household Labour Force Statistics 2011*. Ankara: Turkish Statistical Institut.
- Turkstat. (2012c). *Income and Living Conditions Survey 2009*. Ankara: Turkish Statistical Institut.
- Turkstat. (2012d). *Turkey's Statistical Yearbook 2011*. Ankara: Turkish Statistical Institut.
- Turkstat. (2012e). Gelir ve Yasam Kosullari Arastirmasi, 2011, Sayı: 10902. Ankara: Turkish Statistical Institut.
- Turkstat. (2012f) Yoksulluk Çalışması, 2010. *Haber Bülteni*, Sayı 8642. Ankara: Türkiye İstatistik Kurumu.

- Turkstat. (2013). *Income and Living Conditions Survey 2011*. Ankara: Turkish Statistical Institut.
- Visser, J. (2011). *Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960-2010 (ICTWSS)*. from Amsterdam Institute for Advanced Labour Studies AIAS. University of Amsterdam <http://www.uva-aias.net/208>
- Volkan, A., Saatçioğlu, C., & Korap, L. (2007) *Impact of Exchange Rate Changes on Domestic Inflation: The Turkish Experience. Working Paper No. 2007/6*: Turkish Economic Association.
- Williamson, J. (2005). *Curbing the Boom-Bust Cycle: Stabilizing Capital Flows to Emerging Markets*. Washington D.C.: Institute for International Economics.
- Yeldan, A. E. (2006). *Turkey: 2001-2006, Macroeconomics of Post-Crisis Adjustments*. Retrieved from <http://www.gpn.org/data/turkey/turkey-analysis.pdf>
- Yeldan, A. E. (2008). *Turkey and the Long Decade with the IMF: 1998-2008*. Retrieved from http://www.networkideas.org/news/jun2008/Turkey_IMF.pdf
- Yeldan, A. E. (2011). *Macroeconomics of Growth and Employment: The Case of Turkey*. Geneva: International Labour Organization.