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An Evaluation of Possible Scenarios for The Contemporary Turkish Economic Turbulence

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ABSTRACT

The current economic crisis is one of the most pressing issues confronting the Turkish economy and society. A country's economy is defined as the growth and productivity of a country's resources and the flow of those resources in a distributed structure, as the economy is the backbone of any country. A country's economy can develop through its infrastructure and industrial development. Due to some internal dynamics in 1994, Turkey was impacted by global economic crises and had started to experience its first financial crisis. As the ongoing problem is caused predominantly by one factor, the economic crisis, it will be stimulating to see how this factor can directly influence the financial situation. Hence, the article shows a comparative analysis through parallel evaluation how the sudden economic crisis increases on the global and domestic level in the Turkish economy. In addition to this context, this study also focuses on the economic fluctuation in modern Turkey and the depreciation of the Turkish Lira against the dollar. As the various kinds of literature show that, there have been several financial crises in the world, the effect of which has been manifested in developed countries and the world's developing countries as well. During the recent economic crisis, the Turkish finance sector faced several serious challenges which impacted its performance, such as the Lira-to-Dollar exchange rate.

INTRODUCTION

A crisis occurs when something or someone is affected by one or more extremely serious problems. Here we have used the term "crisis" in relation with economy. It is describe price and quantity changes that go beyond what is considered an acceptable range in the commodity, service, factor, and foreign exchange markets. Throughout history, numerous economic crises have occurred in numerous countries. There are two types of economic crises: those that affect the real economy and those that affect the financial sector. In commodity and service markets, real segment crises show up as inflation crises, stagnation crisis, and unemployment crisis, etc. The second one is more specific which talks about the financial crisis that happened because of problems in the money markets. It is possible to define a financial crisis as a serious economic problem that arises as a result of a significant increase in the number of (non-performing) credits in the banking system (Yurdakul, 2014).

At the present time, globalising world economies are going through crisis because of things like economic instability and fluctuations. These crises are affecting different countries in different ways, depending on how closely they are connected economically. The global crises not only have an effect on the economy of the nation in which they first emerge, but they also spread to the economies of other nations. These crises will unavoidably have an impact on levels of economic growth and stability. These crises have a greater impact in developing countries. The real estate and financial sectors of many nations have suffered because of the global financial crisis (Arabaci, 2016). The recent global crises have had a negative impact on the traditional banking system around the world. During the global financial crisis, Islamic banks performed better than traditional banks (Shafique, Faheem, & Abdullah, 2012).

LITERATURE REVIEW

Origin of Turkey's Economic Crisis

The Republic of Turkey is geographically situated at the crossroads of Europe and Asia, with a smaller area in south-eastern Europe and a greater part in western Asia. The country has a very tactical location as it is stated by Rouleau (2000) in his book named "Turkey's dream of democracy"-

> Turkey was too important a player on the international chessboard to be ignored. Bordering the oil fields of the Middle East, at the edge of the ex-soviet Turkic republics of the Caucasus and Central Asia (some of which are also rich in oil), and linked through its Ottoman past to the Balkans, Turkey has huge potential to play a stabilizing country in a turbulent region. Moreover, in the economic domain, Turkey had intensified its lucrative commercial and financial ties with Europe and had come to be considered one of the world's ten most promising emerging markets by the U.S government (Rouleau, 2000).

The Turkish economy underwent a radical transformation following the two financial crisis of 1994 and 2001. The crisis of 2001 had a rather severe effect on the banking sector and financial markets, leading to sizable capital outflows. More than 50% of the Lira's value was lost, and the GDP shrank by 6% during that time. When the 2001 financial crisis began, Turkey and the International Monetary Fund (IMF) already had a standby agreement. After the crisis, a new plan was implemented with a focus on structural transformation and long-term reliability (Çakmaklı, Demiralp, Yeşiltaş, & Yıldırım, 2021).

The internal and global economic crises have both had an impact on Turkey's economy. As a result of international factors, Turkey had its first crisis in 1994. East Asian financial crisis in 1997 and Russian crisis in 2000-2001 triggered another crisis in Turkey. Also in 2007, the global financial crisis originated from the US mortgage market's reimbursement problems, which lasted from 2007 to 2008. In developing countries, this crisis spread quickly and deeply to financial markets around the world. Both local and external factors played a role in its spread. After that it turned into an international crisis of cash flow and credit, which harmed market confidence. With the collapse of major financial institutions in 2008, it emerged as a new crisis in the banking and finance sectors. The economic crisis, which originated as a financial crisis in developed economies, began to distress developing economies in the fourth quarter of 2008. Since Turkey is a developing country, the 2008 financial crisis has had an impact on the country (Erdas, 2020).

The Turkish banking system faced many difficulties during the global crisis, which affected its performance and profit share. Financial institutions, especially banks, were direct victims of the crisis, which affected their financial outlines, market strategies, and operational policies. The crisis froze money markets, led to a decrement in property and stock values, and caused bank failures. However, Shariah-compliant Islamic banks remained stable throughout the crisis (Zehri, Abdelbaki, & Bouabdellah, 2012). Basically, Islamic finance refers to financial activities that must adhere to Sharia (Islamic Law). The term can also refer to investments that adhere to Islamic law. The spread of Islamic banking and finance corresponded with the emergence of Islam. However, systematic Islamic finance did not emerge until the twentieth century. It organises money based on Mudarabah and Wakalah principles and receives demand deposits as interest-free loans from these banks (Ahmed, 2010).

Erdogan has used aggressive, pro-growth strategies since he took office. He also flattered foreign investors and encouraged businesses and consumers to suffer debt. In the first decade of Erdogan’s rule, Turkey's economy grew rapidly and was called an "economic miracle." Turkey became richer as poverty was reduced. Turkey handled the 2007-2009 financial crisis well. 2008's 0.6% GDP growth and 2009's -4.8% recession were followed by 8.4% in 2010 and 11.2% in 2011.

Additionally, it was during this time that the economy's dynamic growth slowed down. Turkey faced significant internal issues in 2013. During that time, there was an uprising in Istanbul's Gezi Park that sparked a wave of widespread protests against Erdogan’s rule. Moreover, a conflict between the AKP and its allies among the elites contributed to the Gülen Movement's gradual marginalisation. After the botched coup d'état in 2016, mass arrests and purges in state institutions marked the real turning point (Oke, 2017). These internal conflicts increased the AKP's influence and strengthened Erdogan’s position. They simultaneously had a big impact on the economy. After 2002, the Turkish government permitted some economic flexibility and changed its economic strategy in response to external circumstances; however, since 2016, this flexibility has decreased. The government started tying the economy to its political goals and tightening control over the important economic sectors. Governmental power grew more and more centralised while business initiatives were becoming more and more controlled.

The Turkish Banking Crisis of 2000-01

Modern Turkey, which was established as a republic on October 29, 1923, has a history of political and economic instability. The republican people's party, Cumhuriyat Halk Partisi (CHP), was the only party in existence at the time of the military's establishment which was ruling the republic. The military had regained control in three putches against the civil government in 1960, 1971, and 1980 because more parties were allowed to compete in the general assembly elections. The most severe crisis Turkey has faced since then was the 2001 bank crisis (Simet, Lungu, Muller, & Karassavoglou, 2015).

Koen Brinke warned of a complete economic failure in Turkey. The beginning of the crisis of Turkey is described as:

> In November 2000, banks start to close their interbank credit lines to vulnerable Turkish banks, after concerns about the health of the banking sector have increased sharply. The concerns also prompt foreign investors to withdraw funds by selling off treasury bills and equities. Consequently, on 20 November 2000, Demirbank, a private mid-size bank, is not able to borrow anymore in the interbank market (Akyüz and Boratov, 2003). Therefore, it has to sell part of its government securities portfolio, causing a further fall in the value of government securities and an increase in secondary market interest rates, raising doubts about the sustainability of public debt and the crawling peg exchange rate regime that had been in place since December 1999 (Brinke, 2013).

The political crisis occurs in the first quarter of 2001 as a result of the turmoil in November. On the 21st of February, the president and prime minister had a disagreement over how to combat corruption in the banking industry. Thus, investors once again lost their faith in the sustainability of the stability programme, leading to a currency crisis as the Turkish lira came under attack from both foreign and domestic speculators. According to Brinke (2013), a wide - ranging banking system restructuring programme was launched by the Banking Regulation and Supervision Agency in May 2001. The programme was based on four pillars:

- A reorganisation of the state banks
- An expedient resolution of SDIF banks
- A consolidation of the private banks
- A consolidation of the regulatory and supervisory structure.

There were no exchange rate controls for three months. To avoid a government default, a debt swap was completed in June 2001. The economy quickly recovered in part as a result of extensive structural reforms. Improvements were made to banking regulations and supervision. The reforms contributed to the banking sector's long-term stability during the recent financial crisis. After the financial crisis, the economy quickly accessible (Brinke, 2013).

In November 2002, the Justice and Development Party (AKP), led by Turkish President Recep Tayyip Erdogan, won the election and he emphasised in the corporate sectors for the economic improvements. With the passage of the new Foreign Direct Investment Law, Turkey gained a significant increment in the inflow of foreign capital. A significant reduction in the corporate tax rate and a simplification of the tax code were also implemented. Finally, state-owned businesses were sold off. As a result, the AKP gained a lot of support both domestically and internationally. Turkish macroeconomic stability and rapid growth were credited in large part to the AKP's implementation of economic reforms (Ugur, 2009).

The Impact of Global Financial Crisis of 2008

The financial environment was favourable from 2002 to 2006. During this time, the country's growth rates were stable, and low inflation and low real interest rates meant that investors could take advantage of rising stock prices and returns. But once again, Turkey's economy was damaged by the 2008 global financial crisis, which began in the United States as a mortgage loan crisis in 2007 and spread to other countries. Therefore, the rate of Turkey's economic growth was slow consequently, the number of people seeking employment. Turkish businesses were impacted greatly by the global financial crisis, which led to a decrease in both domestic and international demand. In addition to an increase in the number of unemployed people as a result of company bankruptcy and dismissals, lower demand and lower purchasing power have resulted from rising unemployment rates. There were no sharp fluctuations in the financial markets like there were during the 1999-2001 crisis. Global trade volume slowed, particularly in the European Union (EU) countries, which are Turkey's main trading partners, and poor demand conditions contributed to a significant drop in the country's foreign trade in 2009.

Despite this, Turkey's economy recovered quickly in the final quarter of 2009, growing at a rate of 6%. There was an 11.7 percent growth rate in the first quarter, 10.3 percent in the second quarter, and 5.5 percent growth rate in the third quarter of 2010 compared to 2009. During and after the financial crisis, the deficits in Turkey's current account hit the roof, funded in part by portfolio investments and other forms of investment, putting the country's economy at risk. A significant issue that could halt economic growth is the post-crisis rise in outstanding foreign debt, as well as the possibility of unfavourable conditions abroad. These factors together could raise the perceived risk of foreign investors (Yurdakul, 2014).

Recent Economic Crisis in Turkey

This economic crisis started in 2018 because of the Lira to Dollar exchange rate was one of leading significant difficulties the Turkish finance sector encountered during the recent economic crisis, which had an effect on its performance. Turkey experienced an economic crisis after the collapse of the country's economic growth model in 2018, which elaborate significant investment funded by rising foreign debt. The Turkish lira's value was severely depreciated as a result of the 25% inflation that was reached in November (Ellyatt, 2018). The Turkish lira experienced a sharp decline in value, falling by 20% a few days after U.S. President Donald Trump doubled up the customs charges on imports of Turkish steel and aluminium in August 2018 (Tankersley, Swanson, & Phillips, 2018).

The Central Bank of the Republic of Turkey (CBRT) raised interest rates in response to the high inflation, first raising them from 13.5% to 16.5% in May and then raising them to 24% in September. The Turkish President, whose position was that a high interest rate impedes economic growth and leads to inflation, was vehemently opposed to the increase. Murat Cetinkaya, the governor of the CBRT, was under pressure from Erdogan to lower the interest rate. Cetinkaya was compelled to resign as governor of the central bank in July 2019 by Erdogan after refusing to do so. The Turkish economy has benefited from maintaining the high interest rate at 24% and has seen an improvement in financial conditions (Coskun

& Toksabay, 2019). In 2019, Murat Uysal was appointed as the new CBRT governor, a position he held for more than a year. The Turkish central bank's governors have changed several times over the past few years, which only serves to highlight how politicised the bank has become. But the organisation ought to be unconnected to the executive branch.

Natasha Turak wrote in her article which published on CNBC (a news website), she blamed that Investors worry about Erdogan's perceived influence over the central bank of Turkey, whose monetary policies are seen as lacking in independence. In roughly two years, he has dismissed three central bank directors due to disagreements over policy.
Furthermore, she quoted Semih Tumen, a former central bank deputy governor who Erdogan terminated in October 2021, sharply criticized the president's moves as Tumen wrote on Twitter as "w*e need to abandon this irrational experiment, which has no chance of success, and return to quality policies that will protect the value of the Turkish lira and protect the welfare of the Turkish people."*

At a time when the Turkish currency market was unstable, debt repayment was problematic, inflation was accelerating, and the unemployment rate was high, credit rating agencies lowered Turkey's rating. In August 2018, the Lira lost 35% of its value against the US dollar, followed by prompt inflation, a severe decline of the debt-ridden corporate sector, and an abrupt rise in unemployment, especially among the young and educated.

Reasons behind the Current Economic Crisis in Turkey

Turkey is currently experiencing an economic crisis once more. The Turkish lira, the country's official currency, has been in rapid decline recently, having lost about 50 percent of its value against the Dollar last month. Currency has lost nearly half of its value since the beginning of 2022. Indeed, the lira's depreciation has lasted even longer. In 2014, it cost two liras to buy one dollar. A single dollar now costs more than 13 liras in Turkey (Perumal, 2021). According to orthodox economists and popular critics of the government, institutional decay has led to market interventions and the delaying of "structural reforms" like labour market flexibility and Foreign Direct Investment (FDI) incentives, while the government has blamed international investors. We argue that the Turkish economy's distresses stem from structural problems and basic instabilities generated by the post-2001-crisis speculative-led economic growth model (Orhangazi & Yeldan). There is another reason behind the collapsing Turkish economy was the normal channels of supply and demand were affected by the COVID-19 shock in Turkey's economy. Because of the early pandemic lockdowns and those workers who became infected and couldn't work, supply decreased significantly. The 'fear factor,' which reflects new consumption habits of households restricted in social interaction, had the greatest negative impact on supply, with the demand side. In addition, supply chain disruptions and the depreciation of the Turkish Lira (TL) increased the cost of borrowing in those industries that are more closely linked to the rest of the world (Çakmaklı, Demiralp, Yeşiltaş, & Yıldırım, 2021).

The tourism industry plays a key role to bring the current account deficit down. Throughout the pandemic, the industry was severely impacted which had a profound effect on Turkey's economy. According to Çakmaklı (2021), Turkish tourism reached a record high in 2019 with an estimated 44.7 million international visitors, 22 millions of them from EU countries and 5 million from Germany. As a comparison, in the first eight months of 2019, nearly 30 million tourists came to Turkey, compared to just 7 million visitors in the same period in 2020. Travel and tourism estimated to account for 12 percent of Turkey's GDP in 2019. A pandemic in April and May of 2020 led to a significant drop in tourist numbers, which re-emerged in the summer months of June, July, and August. There are only 28 percent more tourists in August than there were in the past three months (Çakmaklı, Demiralp, Yeşiltaş, & Yıldırım, 2021). According to Turk Statistical Institute, the tourism industry brought in a total of 34.5 billion USD in revenue in 2019, with 26.6 billion USD being earned in the first three quarters of the year. The first three quarters of 2020 produced a total revenue of 8.1 billion USD. Direct tourism revenue is expected to drop by more than $20 billion in 2020.

Though, the Turkey is a secular country but the policies of President Recep Tayyip Erdogan are all about promoting Islam. This is evident, for example, by his support for the Egyptian-based fundamentalist Islamist group Muslim Brotherhood (which he later withdrew), as well as the conversion of the Church of Hagia Sophia to a mosque in 2020. But some economic experts now think that Erdogan's economic policies are inspired by his religious views. Mustafa Akyol writes in his book, *why as a Muslim, I defend liberty*, that “in mid-2010, after a decade of economic success thanks to pursuing conventional economics and institutional reforms outlined by global markets and the European Union, President Recep Tayyip Erdogan reverted to his old Islamist ideology. That included a conspiratorial rhetoric about the ‘interest system’, or ‘the mother and father of all evil” (Krishnankutty & Rampal, 2021).

RESULT AND DISCUSSION

After growing 11% in 2021, Turkey's economy was slow in 2022 due to rising fuel prices and supply shortages from the Ukraine war. In addition to the metals and chemicals which need for domestic production, Turkey received nearly 30 percent of its natural gas and nearly 20 percent of its chemicals and metals from Russia. Trade between Russia and Turkey has been negatively affected by Western sanctions on Russia, the withdrawal of some Russian banks from the SWIFT system, and the closure of some Black Sea ports due to the war. As elections (June 2023) approach, polarisation may increase, but it should not threaten political stability in the country. Turkey government recently restored their relations with the Saudi Arabia and UAE (United Arab Emirates), despite regional disagreements, both countries signed bilateral trade, energy, and environment agreements in November 2021.

Firstly, Turkish President Tayyib Erdogan's visited to Saudi Arabia and then Saudi crown Prince Muhammad bin Salman visited Ankara in June, 2022 is proof that the relationship between the two countries has once again been restored, which directly benefits Turkey's falling currency. The both countries also talked about how to work together better in trade and other areas, like defence, energy, and tourism, according to a joint statement. It also said that Ankara had asked Saudi investment funds to put their money into Turkish start-up companies. Some media reports claim that Egypt and Israel have also taken steps to improve their relations with Turkey. It is envisioned that these improvements will boost the economy in both directions. According to the World Travel & Tourism Council's (WTTC) projections, the sector's contribution to the nation's gross domestic product (GDP) could reach nearly 1, 04 trillion Turkish Liras ($117 billion) by 2032, representing 11 percent of the economy.

CONCLUSION

The Turkish economy has been affected by the country's tense relationship with the West, its interference in a number of regional conflicts, After the Turkish lira depreciated by a record amount in the first half of 2018, the economy bounced back faster than expected thanks to policies that made the economy grow and a sudden rise in exports while imports dropped by a lot. He politicised of institutions, the arrival of about 4 million refugees, and the COVID-19 pandemic. In 2020 Turkey's GDP suffered a loss of about 3 to 5 percent from tourism sector. But the expert said that once the pandemic is under control, we think tourism will start to grow again. With a weaker TL, Turkey might be able to get even more tourists after the pandemic, which will help the country's economy to recover faster.

The Turkish republic is facing a major challenge of economic vulnerability as it near of its 100th anniversary in 2023 next year. Because there were so many elections between 2014 and 2019, voters were more interested in short-term promises than long-term plans. Before the presidential and parliamentary elections in 2023, which will be a very important year because it will be the 100th anniversary of the Republic, the government's top goal is to keep its support base. The goals that were set for 2023, such as becoming one of the top 10 economies in the world, starting to run nuclear power plants, reducing energy use, joining the EU, becoming a major regional power, and improving transportation and tourism, but all these promises so far appear to be hollow and contradictory. In President Recep Tayyip Erdogan's speeches, vague goals like "a prosperous Turkey by the year 2023" have become the mainstream. However, these goals are not clear and can be interpreted in different ways that when there were problems at home and abroad, the executive decided to put short-term election goals ahead of long-term national goals.

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