Turkish Economy: Week 1&2 (A Short Overview)

Mahir Fisunoğlu

Turkish economy-1

- 1. Before the Republic
- 2. 1920’s
- 3.1930’s and1940’s
- 4.1950’s
- 5.1960’s and 1970’s
- 6. 1980’s and 1990’s
- 7. 2000’s and beyond

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- 1. Before the Republic
- The Crimea War, receiving foreign debt and the Galata bankers
- Fiscal policy (tax revenues) and ve monetary policy (Ottoman Bank)
- 1879- 1882 (Rüsum-u Sitte, six taxes)
- 1881 Muharrem Kararnamesi/Düyun-u Umumiye İdaresi (The Muharrem Legislation/The Ottoman Foreign Debt Administration)

Foreign debt, Ottoman Empire (million Ottoman lira)

	Debt	Receiving amount	Commission (%)	Average interest rate (%)
1854- 1877	238,6	129,8	46	6,6
1878- 1914	140,5	91,4	35	4,8

- Kepenek, 2011, s.12

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- The 1920’s
- The Izmir Economic Congress (February 1923) Traders, farmers, industry groups and workers.
- The Lausanne Peace Treaty (July 1923)
- The end of economic concessions, the debate over other concessions to foreigners, the Ottoman debts, customs, war compensations, migration/immigrants, The Mousul problem.
- The 1920’s: Tax on agriculture (Aşar Vergisi), Industrial Support Law (Sanayii Teşvik Yasası (1927)); 1923- 1930 (budget surplus, foreign trade deficit).

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- 1929 The Great Depression and étaism
- Two different industrial plannings in the 1930's
- Economic independence and rapid development
- a) Equilibrium between public revenue and public expenditures,
- b) Limited import and foreign trade surplus,
- c) Industrialization based on local natural resources and local agriculture,
- d) Domestic production of basic consumer products,
- e) Industrial establishment to be set close/near to raw material sources.

Turkish economy- 5

- The First Five Year Industrial Plan I
- Textile (cotton, wool, hemp), Mining operations (iron and steel, copper, sulphure), paper, chemicals (silk, super phospat, rose oil, phosphoric acid,) glas and cement.
- The cost of Plan: 45 million lira, 65 million lira, 100 million lira.
- The finance of the Plan: 10,5 million lira from Soviet Union, 41,6 million lira from Sümerbank, 2,4 million lira from İşBank, 6 million lira from public budget every year.
- 1934- 1936.

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- The Second Five Year Industrial Plan
- Intermediate goods and investment goods (food, chemicals, machineries, naval transportation)
- The cost: 112 million lira.
- World War II
- Foreign trade: Surpluses (not deficit) from 1933 to 1945, except 1938.
- Economic growth: From 1933 to 1945 positive growth rates except; 1935, 1941, 1944.
- Public budget: Generally at equilibrium and surplus.
- After World War II, Industrial Development Bank of Turkey
- i)The first currency devaluation: September 7, 1946, US dollars from 1,30 lira to 2,80 lira.
- ii) Before 1950, The Vaner Report.

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- The 1950’s
- Agricultural development and strategy of integration to the world economy over agriculture.
- Highways and construction works.
- Again foreign debt.
- Problems with foreign debt payments, exchange rate from tourism to be exchanged 5,25- 5,50 lira instead of 2,80 lira.
- Monetary expansion and increase in inflation.
- The economic decisions of August 4, 1958; IMF and the World Bank, currency devaluation again (2,8 4 to 6,22), liberal foreign trade, tight monetary and fiscal policies, increasing the prices of goods produced by state economic enterprises.

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- An overview of 1950- 1960
- Foreign trade deficits.
- Budget deficits, monetary expansion and inflation.
- The 1960s
- New Constitution and new public organizations (The Supreme Court, The Election Board, State Planning Organization)
- The period for planned development: Obligatiory for public sector, free for private sector. International support to planned development and the OECD.

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- 15 years perspective on the development plans and the European Economic Union.
- Planned based on import substitution.
- The First Five- Year Development Plan (1963- 1967) Basic targets: 7 percent average annual growth rate, regional planning, a new tax regulations, pricing policy, unemployment benefits, social security for agricultural workers and farmers.
- Targets for agriculture, mining, energy, industry and transportation.
- Stressing the importance of industrilization though it is not clearly defined (example: the production of Devrim automobile).

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- The Second Five- Year Development Plan (1968- 1972)
- Basic targets: An annual average growth rate of 7 percent, increasing the employment, increasing the savings, reducing to foreign dependency of economy, urbanization, the importance and dominant role of industrialization, the production of intermediate goods and investment/capital goods by public sector, domestic production of consumer durables by private sector.
- The Third Five- Year development Plan (1973- 1977)
- A new long- term development perspective.
- a) A new perspective on competition for the European Economic Union and reaching the 1970's economic development level of a union member in 1995), The Joint protocol of 1970.

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- b) A structural change in industrial production.
- c) Land reform.
- d) Increasing the saving rate to 24,5 percent of gdp.
- e) Cypris Peace Operation and petroleum/oil prices.
- f) Political situation.
- g) Foreign exchange crises and devaluation.
- The Fourth Five- Year Development Plan (1979- 1983)
- a) Public investments on state economic enterprises for rapid growth.
- b) Import substitution.
- c) At the same time, more international trade.

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- d) The goal of full membership to the European Economic Union.
- e) Economic crises, economic policy decisions of January, 24 1980 and military takeover of September 12, 1980.
- An outline of the first three five- year plans:
- a)Monetary expansion and increase in credit volume (40 percent average annual increase between 1963 and 1978, partcularly higher after 1973; half of the credit allocated to trade and only 10 percent to public sector).
- b) Average growth rate: 6-7 percent average annual growth rate during the first plan period, 5 percent average in the second and 3-4 percent average growth rateslduring the third plan period.
- c)Deterioration of current account (Particularly during the third plan period).

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- After 1980: A shift from import substitution to export promotion policies.
- The 1980’s, IMF and The World Banks
- a) Pricing policies (Markets for goods and services, labor and capital markets, interest rates, exchange rates (again devaluation).
- b)Openning to international markets (Export, import promotions and tax refunds).
- c) Expectations for foreign direct investment.
- d) Policies toward reducing the volume of public sector.
- e) Monetary policy, Decree Number 32.

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- The 1990’s: Hard times

	DevalationRate	Inflation Rate	Annual interest rate
1980	144	115	33
1985	42	45	55
1990	23	60	59
1995	54	94	92
2000	49	55	38
2001	97	54	38
2002	23	45	54

- Kepenek,2012, s. 237.

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- The 1990’s and the first period of the 2000’s
- a) The 1994 Crises, unfinished and incomplete IMF Agreements.
- b) Privatizations.
- c) Unfinished Central Bank- Treasury Agreement.
- d) Free financial capital movements/ financial investments.
- e) Increase in foreign debt/ gdp ratio to 45 percent (2000) and domestic debt/gdp ratio to 22 percent (2000).
- ‘Luggage trade’ with the Russian Federation.
- Asian crises.

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The 2000’li years (con’d)

Erasing six zeros from lira.

2008 Mortgage Crises.

Foreign debt/gdp ratio 40 percent in 2011 and domestic debt/gnp ratio 28,5 percent in 2011.

Increase in foreing direct investment.

Increase in financial investments and the value of the lira: Increase in import and decrease in export- the problem of current account and balance-of-payments.

The 2014 crises.

Turkish economy- 17

- Increase foreign debt again.
- Financial dicipline.
- Slowing in economic growth after 2017, increase in inflation rate, and the problem of unemployment, particularly youth unemployment.
- Covid-19, monetary expansion in the world (and in Turkey), increase in public expenditures, financial supports to consumers and business firms.
- In General
- Turkey has faced with high inflation, but not hyper inflation.
- Weak investment-saving relations (1925 10 percent, 1990 25 percent, 2000 20 percent, 2010 18 percent).

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- 1950- 2020
- Weak political organizations (both micro and macro).
- Despite this, some acceptable and positive economic results in the early stage.
- Increasing political disputes, political competition and pressures on the economic growth.
- Decline in the quality of economic policy, deterioration in political and economic organizations.
- Decline in quantity and quality of private investments.
- Deteriorations in inflation rate, current account/balance- of- payment, income distribution, total factor growth and decline in gdp per capita.
- Crises in finance or currency, going to IMF (basically 1958, 2001) or military takeovers (1960, 1980).

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- Middle income trap, stagnant gdp per capita, generally 20 –year cycles.
- Possible problems for the near future(Climate change- The Paris Agreement- The Green Agreement, carbon-tax-on- border, sustainable development goals, Transatlantic Trade and Investment Agreement, FED’s decision on increase in interest rate).
- High inflation- high interest rate, high foreign debt/gdp- volatility on exchange rate- current account- slow growth rates.