



IPE Political Economy Forum **16 October 2023**, 4-6 pm

HWR Berlin, **Schöneberg Campus**, Building B, Room B 4.41

Turkey in Turbulence: Heterodoxy or a New Chapter in Neoliberal Peripheral Development?

Speaker

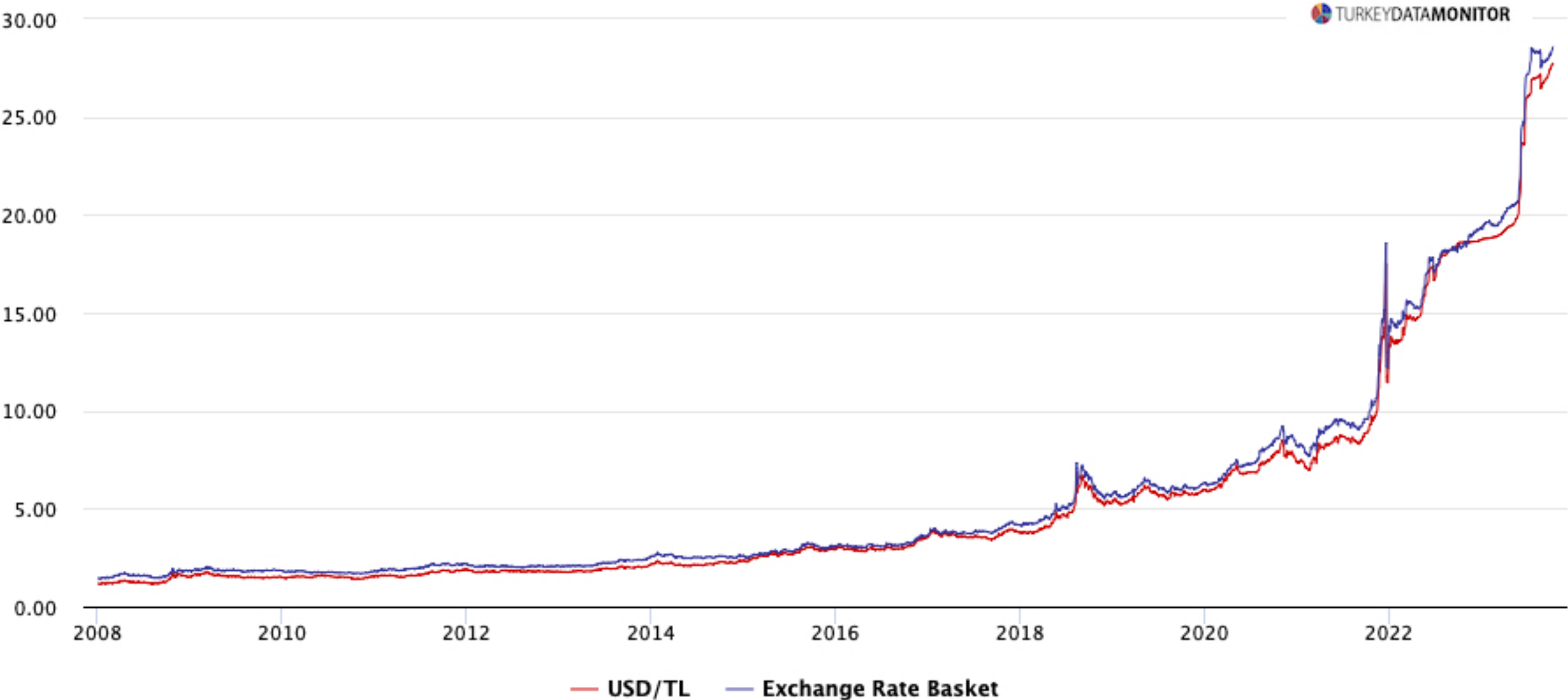
Özgür Orhangazi, Kadir Has University, Istanbul

Discussant

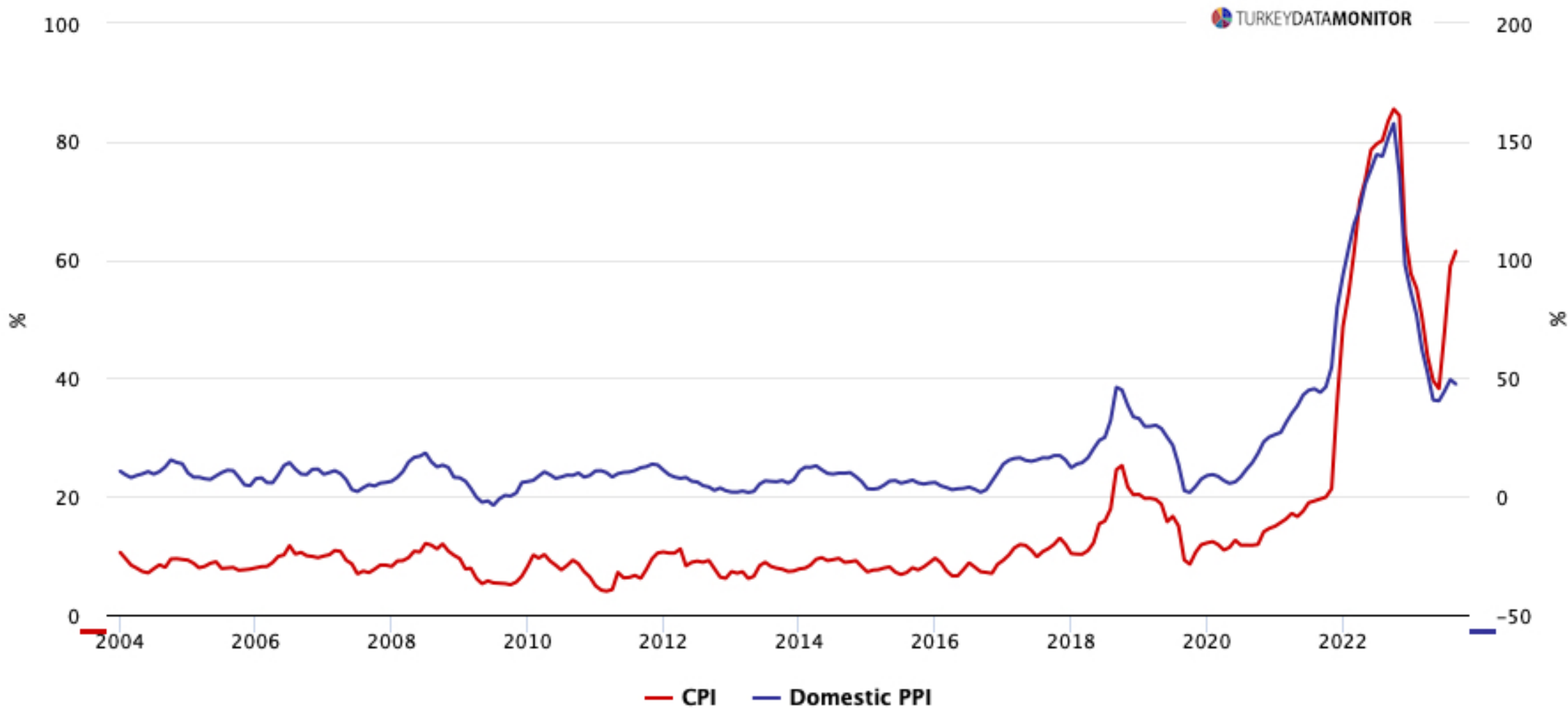
Ümit Akcay, IPE Berlin



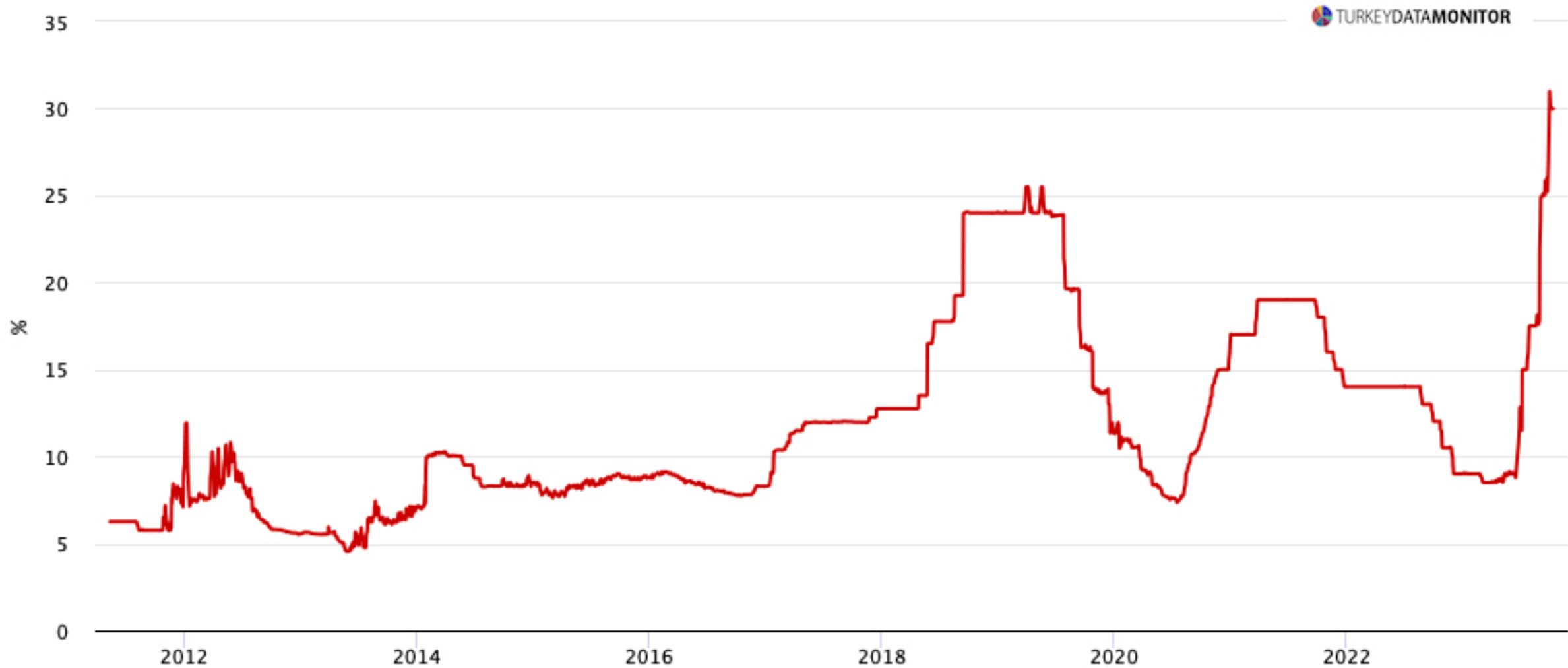
Nominal Exchange Rates



CPI and D-PPI Inflation (yoy, %)



CBRT Funding Rate



Outline of the presentation

- Two main questions:
 - How and why did Turkish economy came to this point?
 - A periodization of the recent economic performance
 - Structural problems and fragilities
 - How can we understand the policy choices of the government?
 - A lesson in the infamous trilemma
 - “Irrational” policy choices?
 - “Accumulate, accumulate! That is Moses and the prophets!”
 - Push the labor share down
 - Debt financed growth (+ debt deflation?)

Post-2001 economy

- **2002-2007**

- Foreign capital inflows
- Appreciating currency
- Declining interest rates
- Low inflation
- High growth

- **2009-2013**

- Foreign capital inflows
- Overvalued currency
- Low interest rates
- Low inflation
- High growth

- **2014-2017**

- Changing global liquidity
- Increased fragilities
- Attempts to grow
 - Interest rate vs. exchange rate

- **2018**

- Currency crisis

- **2019-2021**

- Growth vs. stability

- **2021-2023**

- Negative real interest rates

2002-2007 and 2009-2013

- Foreign capital inflows
 - Push factors
 - Post-2000 global liquidity
 - Post-2018 quantitative easing
 - Pull factors
 - Post-2001 crisis policies
 - Independent central bank, inflation targeting, primary budget surplus
 - Privatizations, deregulations and increased marketization
 - Speculative arbitrage opportunities for foreign capital

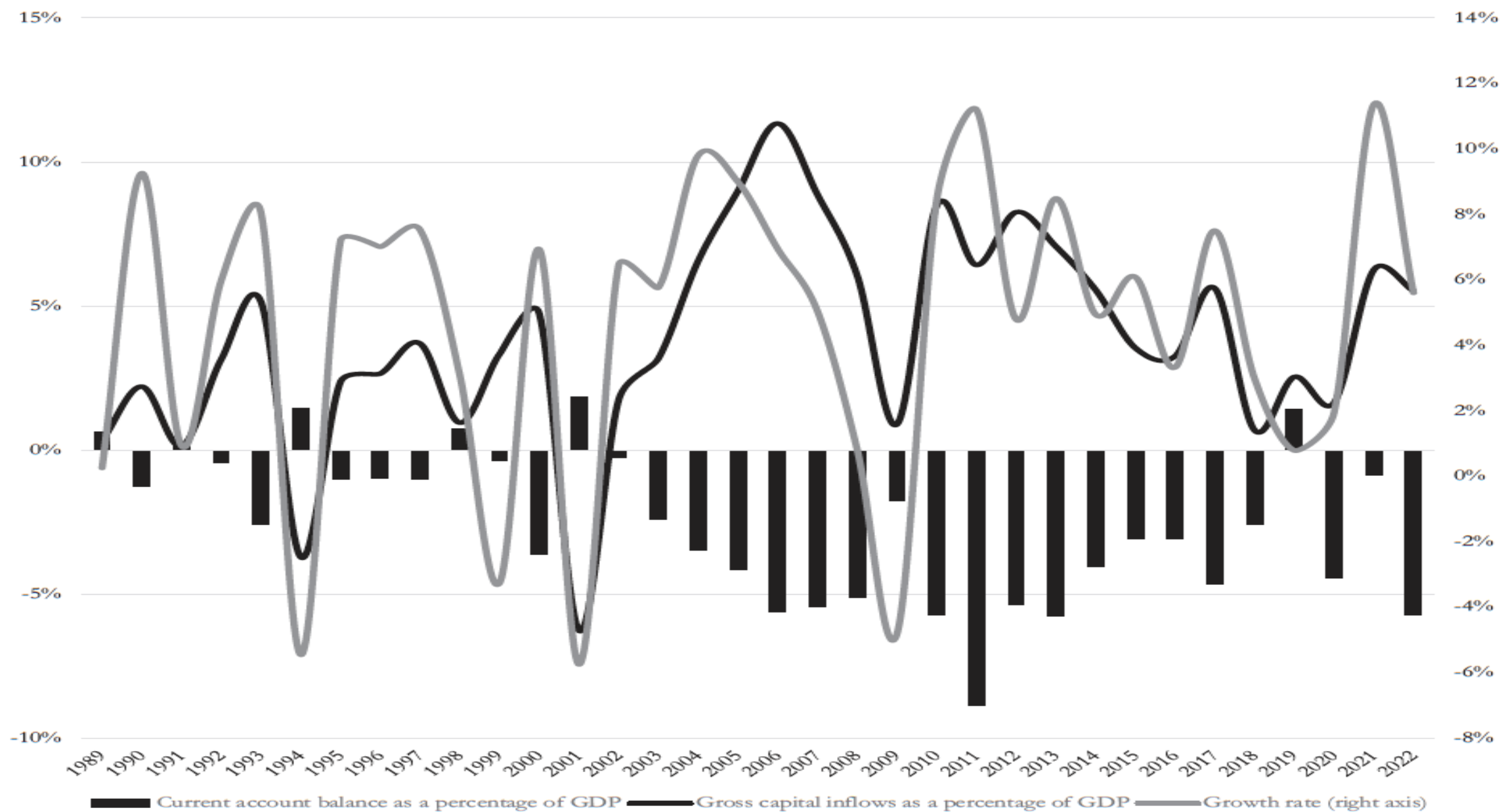
2002-2008

	\$/TRY	Rate of inflation	Interest rate	Growth rate
2001	1.23	68.5	62.0	-5.8%
2002	1.52	29.7	51.0	6.4%
2003	1.50	18.4	31.0	5.8%
2004	1.43	9.3	22.0	9.8%
2005	1.35	10.5	17.5	9.0%
2006	1.44	9.7	22.5	6.9%
2007	1.31	8.4	20.0	5.0%
2008	1.30	10.1	17.5	0.8%

2009-2013

	\$/TRY	Rate of inflation	Interest rate	Growth rate
2009	1.56	6.5	9.0	-4.8%
2010	1.51	6.4	9.0	8.4%
2011	1.68	10.5	12.5	11.2%
2012	1.80	6.2	9.0	4.8%
2013	1.91	7.4	7.75	8.5%

Figure 1. Capital Inflows, Current Account and Economic Growth



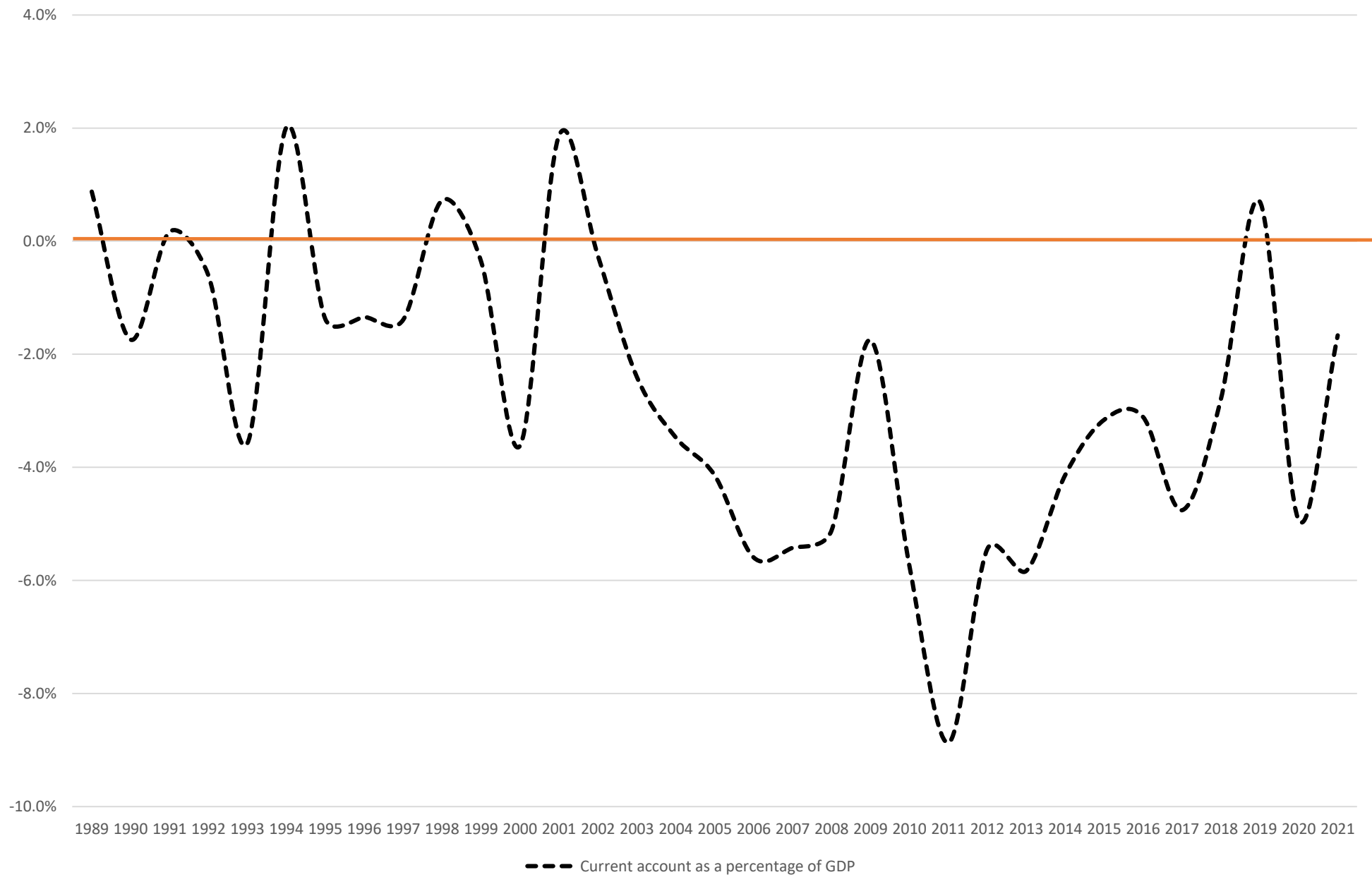
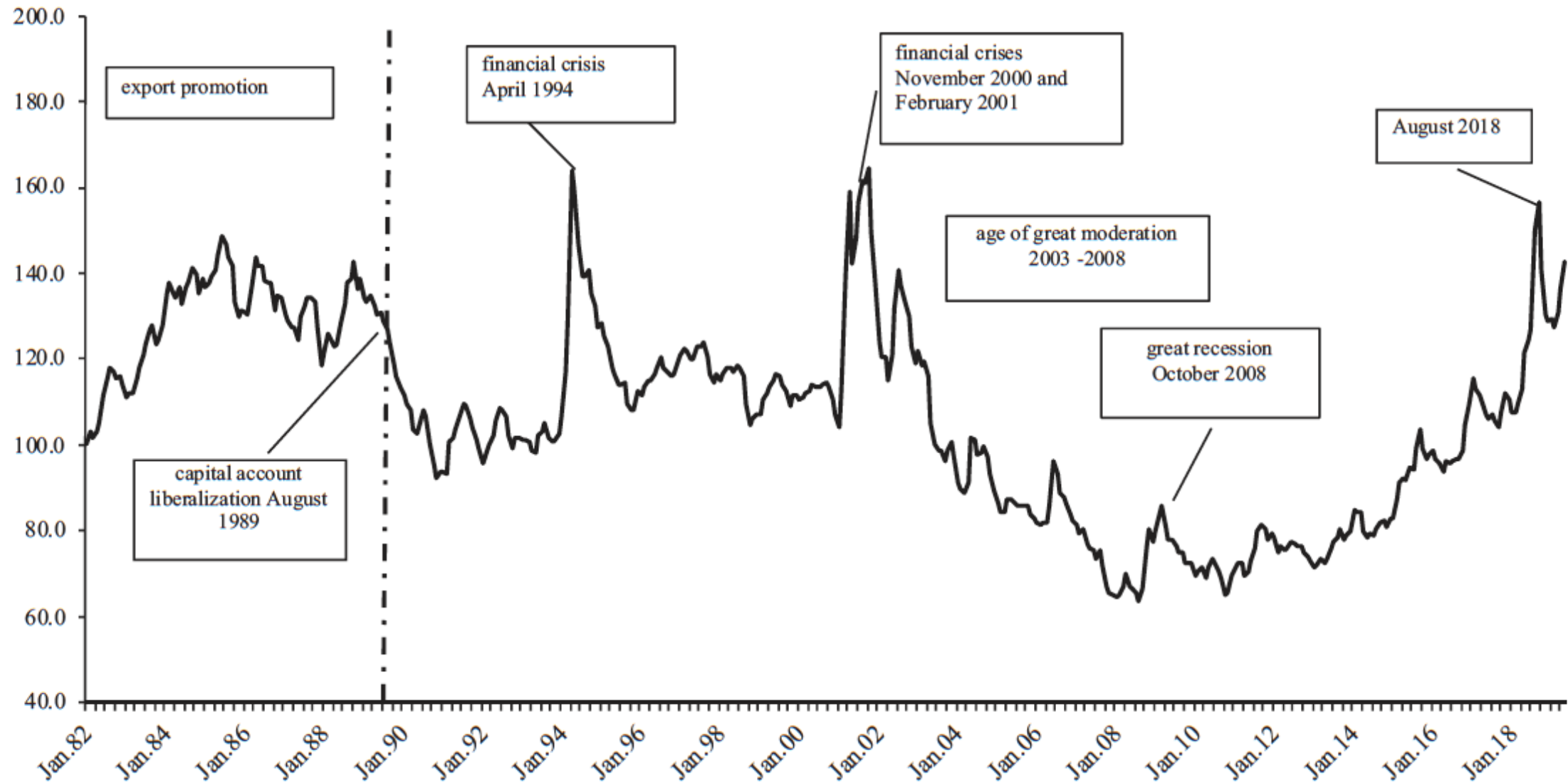
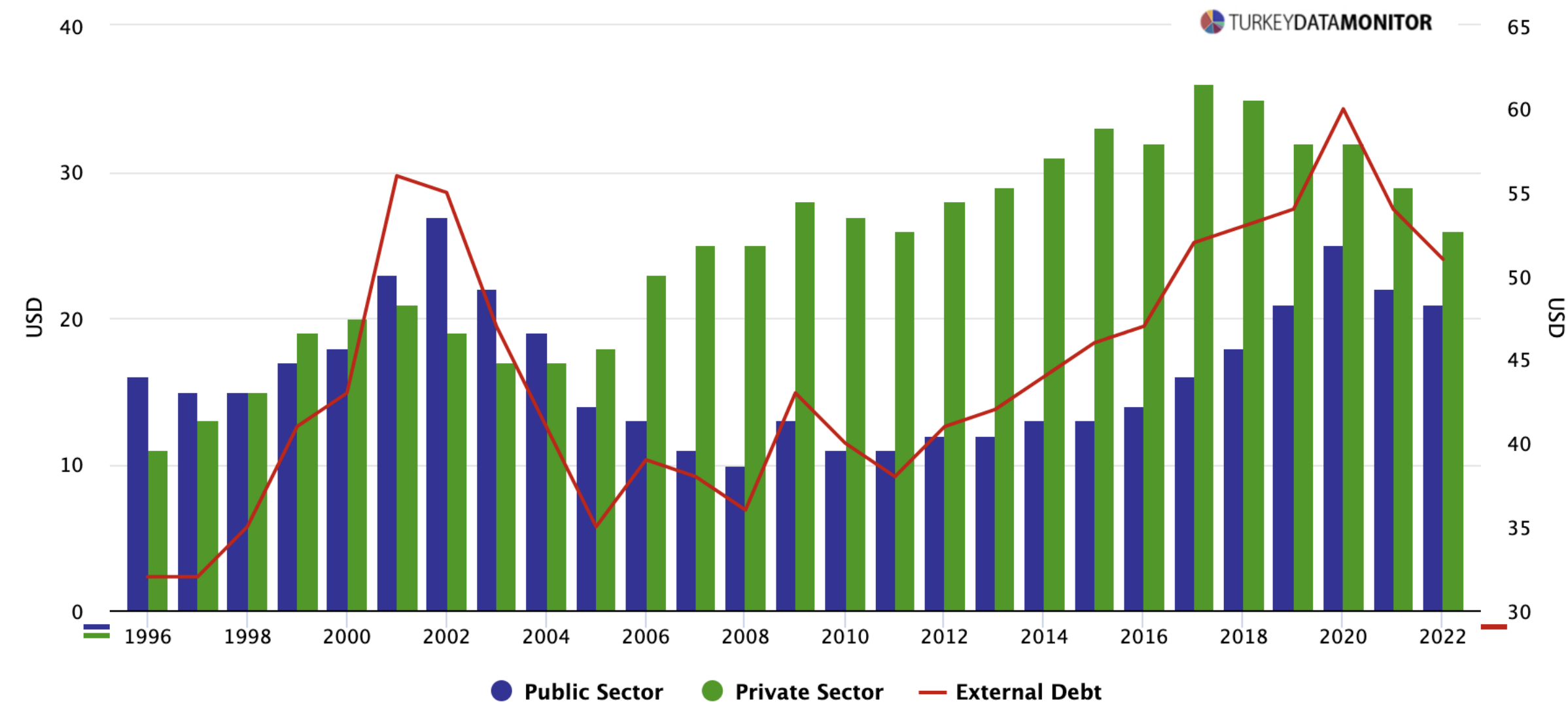


Figure 5. Real Exchange Rate Index (TL/\$) PPP in Consumer Prices, 1982–2018 (1982=100)



External Debt Stock (as % of GDP)

Chart • External Debt, NIIP and Int'l Reserves • Hazine (Annual, 1,000,000 USD)



Structural problems and fragilities

- External accounts
 - High and persistent current account deficits
 - High external debt
 - Overvalued currency
 - Increased import dependence
 - Declining export competitiveness
- Domestic fragilities
 - Credit-led growth
 - Construction-led growth

2014-2017

	\$/TRY	Rate of inflation	Interest rate	Growth rate
2014	2.20	8.2	11.25	4.9%
2015	2.73	8.8	10.75	6.1%
2016	3.03	8.5	8.50	3.3%
2017	3.66	11.9	9.25	7.5%

2018-2021: Growth vs. stability

- 2018 currency crisis
 - Interest rate hikes
- 2019 recovery and attempts to decrease interest rates
- 2020 pandemics, capital outflows
 - Interest rate cuts and credit expansion
 - Running out of foreign exchange reserves
 - Tendency towards a BoP crisis
 - Back to orthodoxy
 - Interest rate hikes

2018-2022

	\$/TRY	Rate of inflation	Interest rate	Growth rate
2018	4.83	20.30	25.50	3.0%
2019	5.69	11.84	13.50	0.9%
2020	7.03	14.60	18.50	1.8%
2021	8.91	36.08	15.50	11.0%
2022*	18.6	64.27	10.50	5%

2021-2023 Negative real interest rate experiment

Middle East

Turkey's cenbank shocks with 100 basis point rate cut despite soaring inflation

By Ali Kucukgocmen and Nevzat Devranoglu

August 18, 2022 11:37 PM GMT+2 · Updated a year ago



[1/2] A logo of Turkey's Central Bank is pictured at the entrance of its headquarters in Ankara, Turkey October 15, 2021. REUTERS/Cagla Gurdogan [Acquire Licensing Rights](#)

Summary

- Under pressure from Erdogan, bank cuts rate to 13%
- Last year's easing sparked currency crisis, stoked inflation
- Annual inflation hit 24-year high of 79.6% in July
- Bank says it acted to preserve economic momentum, index

MARKETS

Turkish lira nudges downward as central bank holds interest rates

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KEY POINTS

- Turkey's currency has lost more than 48% of its value in the last year as Erdogan pushed on with his policy of eschewing rate rises despite sky-high inflation.
- In its statement, the Turkish central bank's monetary policy committee also formally outlined its pursuit of "permanent liraisation" in all its foreign policy tools.

Turkey cuts benchmark interest rate despite rampant inflation

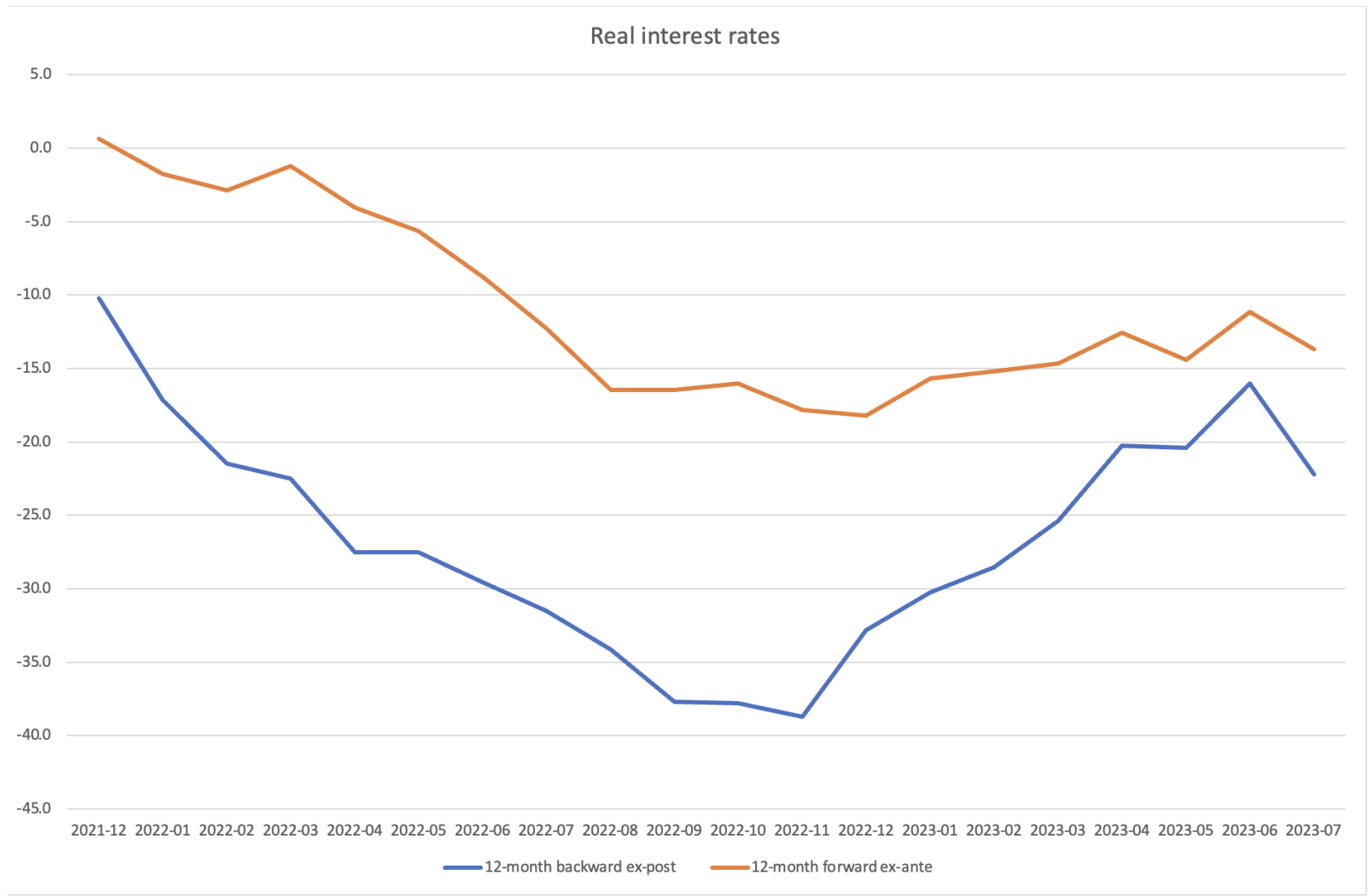
Central bank imposes bigger than expected reduction to 10.5% as Erdoğan battles to bring down borrowing costs



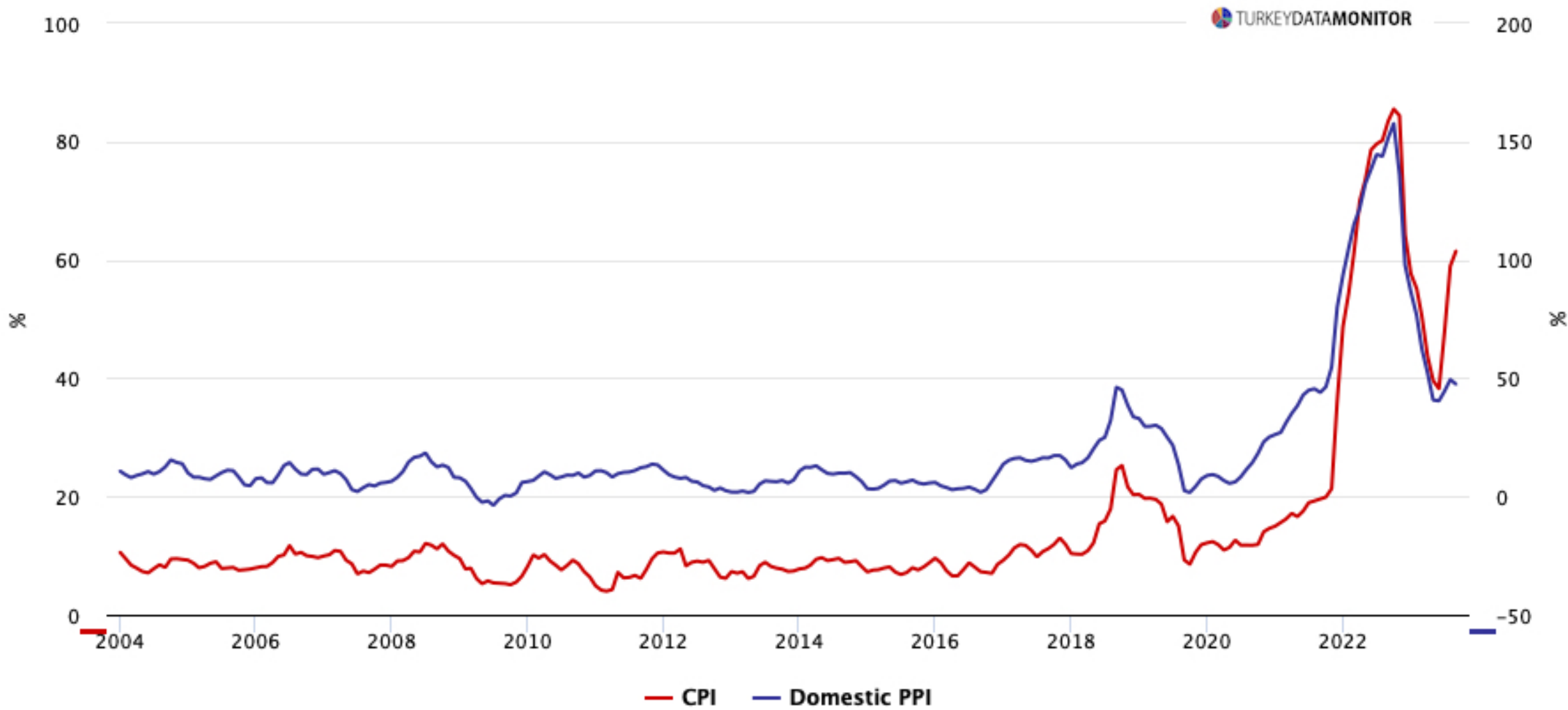
Turkish president Recep Tayyip Erdoğan has said repeatedly that he wants borrowing costs to drop below 10 per cent in the months ahead © AP

Laura Pitel and Adam Samson in Istanbul OCTOBER 20 2022

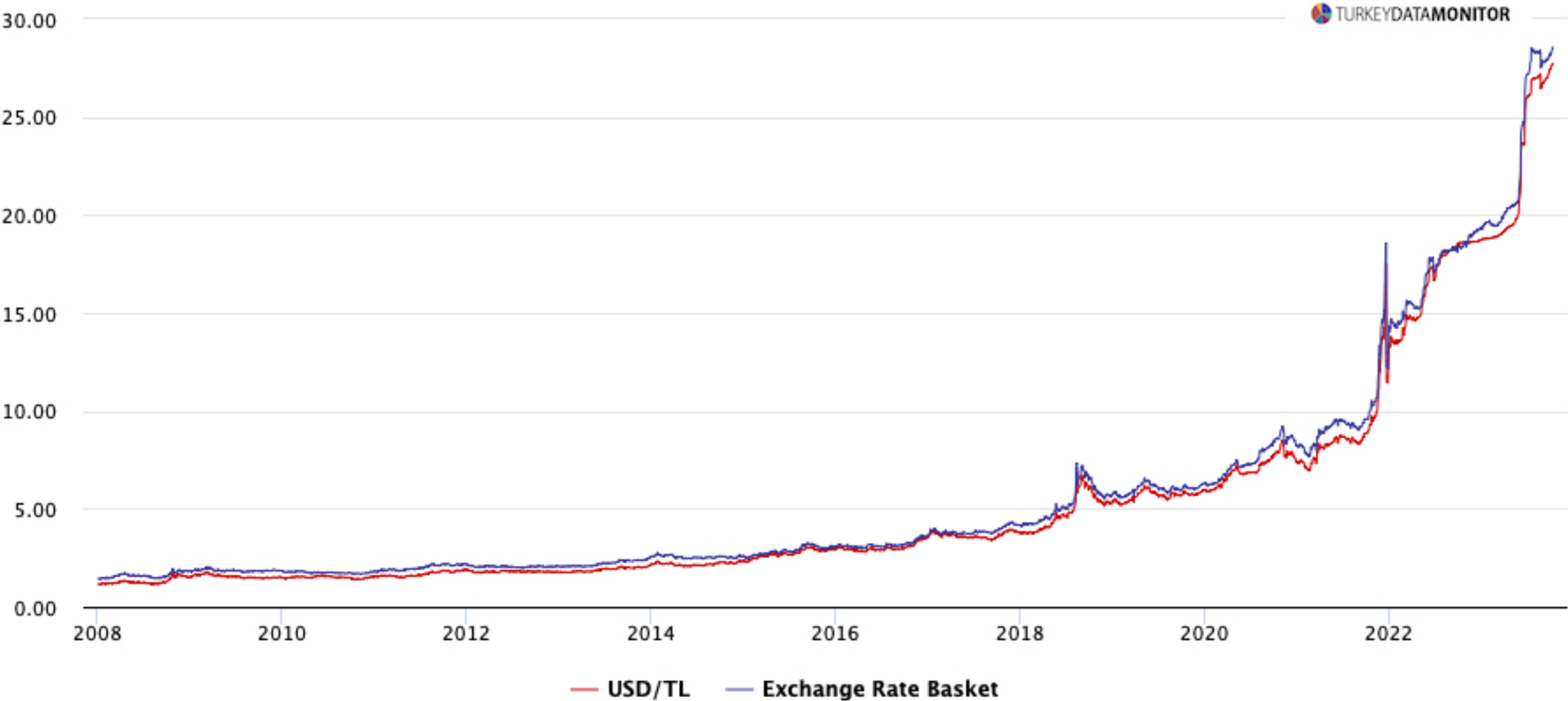
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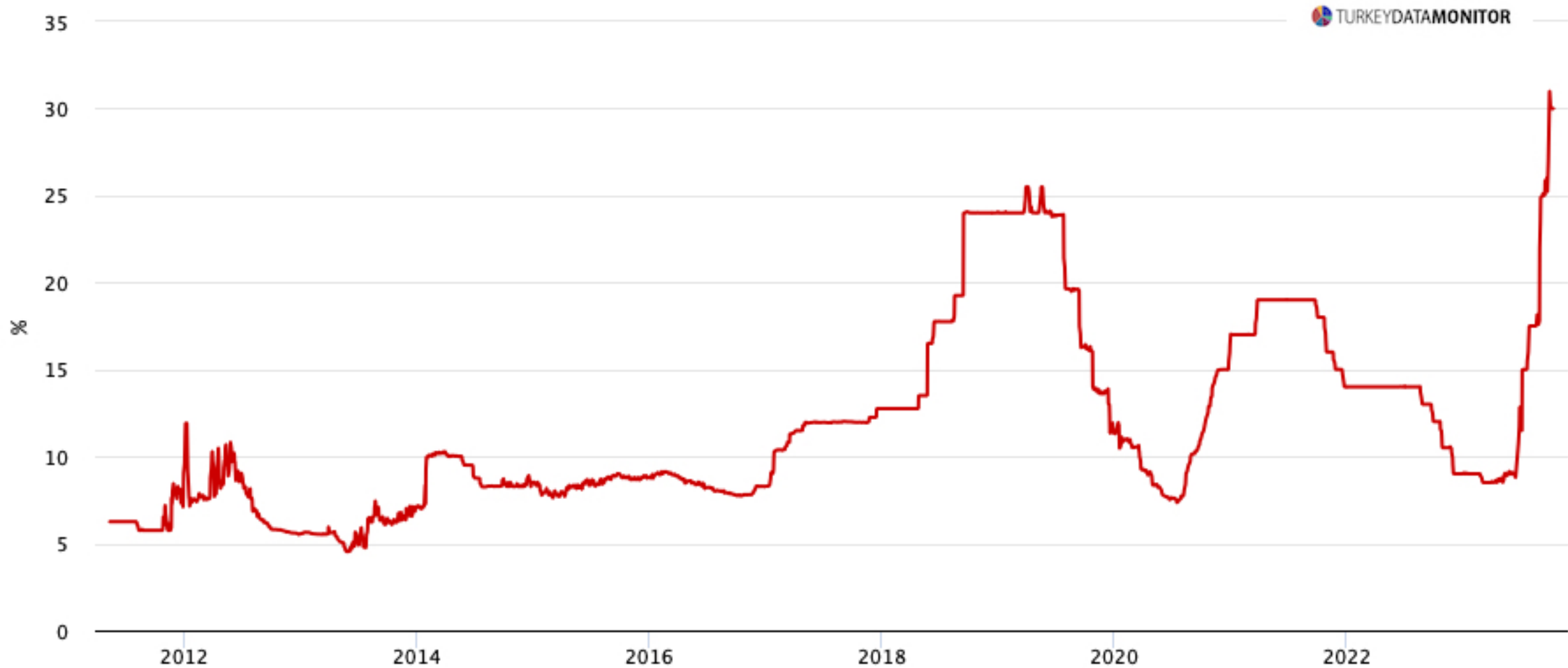
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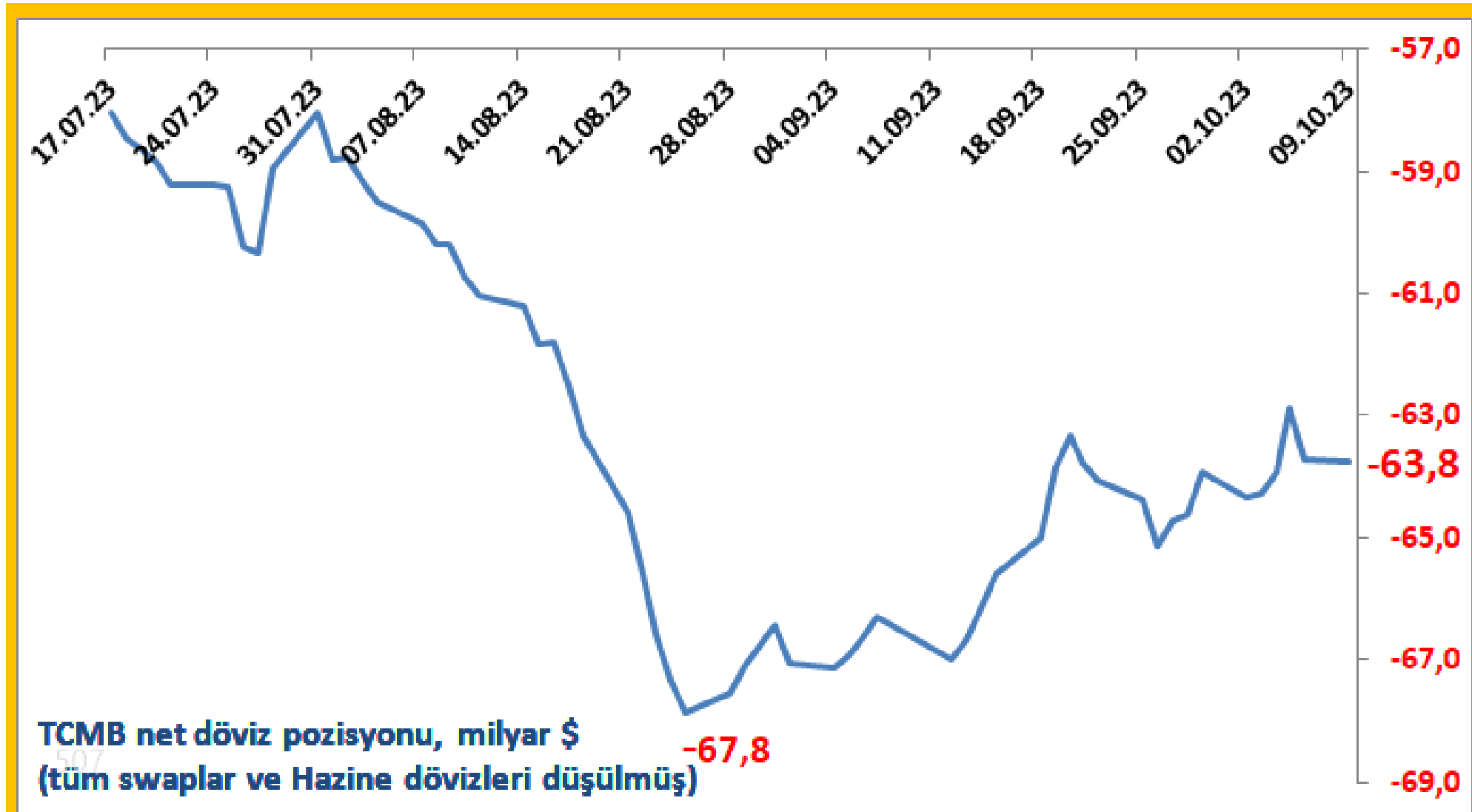
Trilemma

- Selected capital controls
- Currency market interventions with borrowed Central Bank reserves
- Attempts to discourage domestic forex demand
 - Exchange rate protected TRY accounts
- A series of bank and credit regulations and interventions

Table 2. Dollarization

As a % of total	Turkish lira deposits	Foreign currency deposits	Exchange rate protected deposits
2021 December	35.5	64.5	0
2022-01	38.6	61.4	0
2022-02	31.8	58.8	9.4
2022-03	31.7	58.1	10.2
2022-04	30.1	56.6	13.2
2022-05	27.7	58.5	13.7
2022-06	28.1	56.9	15.0
2022-07	28.3	56.4	15.2
2022-08	28.4	55.1	16.5
2022-09	28.9	53.8	17.4
2022-10	29.4	53.1	17.4

Central bank own reserves (net of swaps)



- Two main questions:
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Figure 4. Distribution of Real Non-agricultural Value Added (2003 = 100)

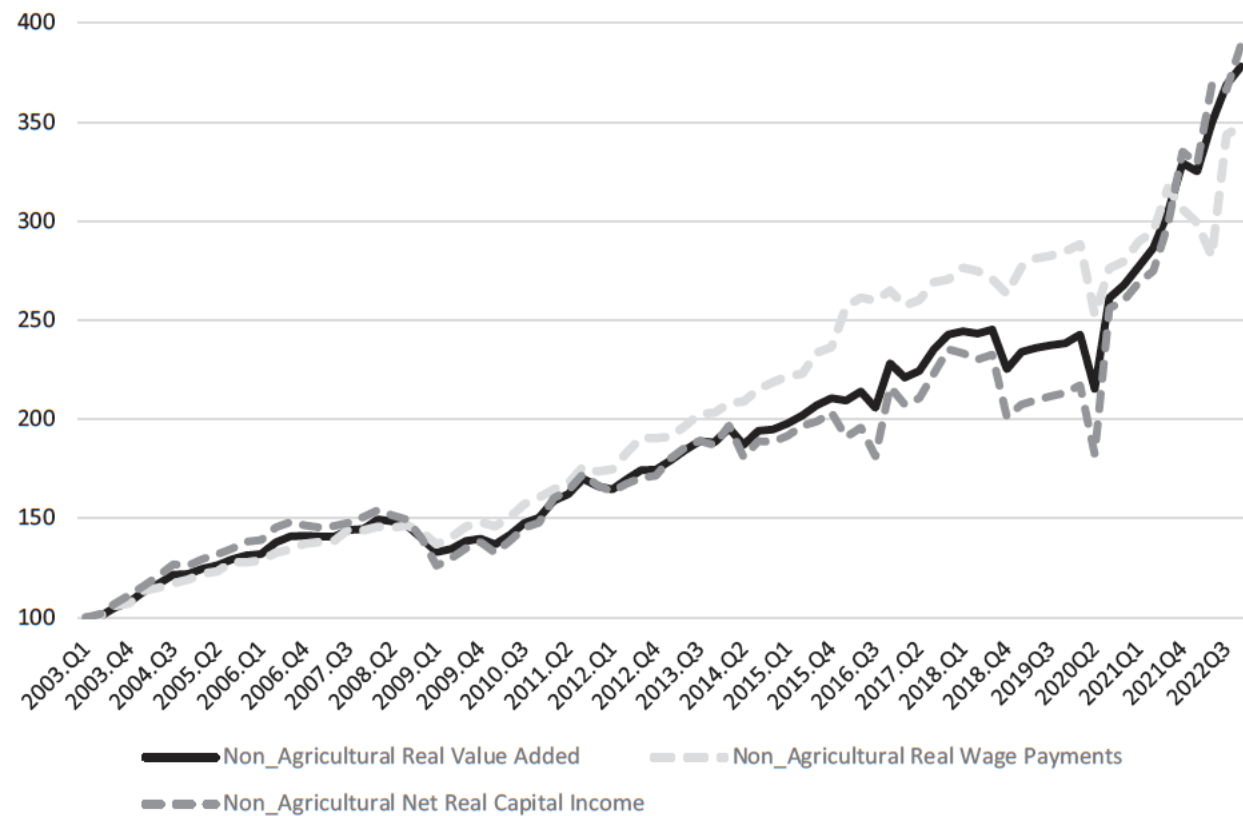


Figure 5. Crocodile Capitalism: Percentage Changes in the Distribution of National Income (2019–22)

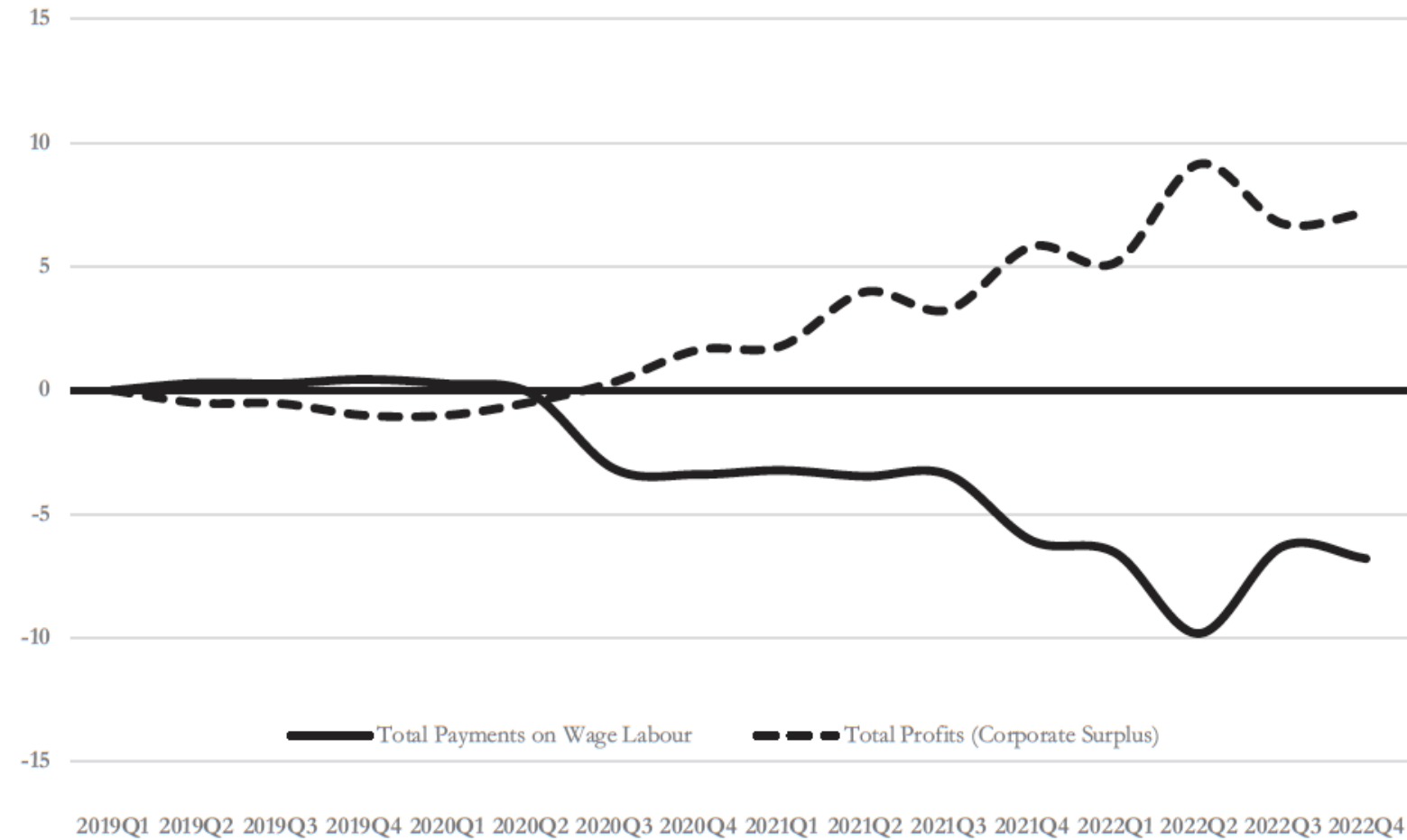
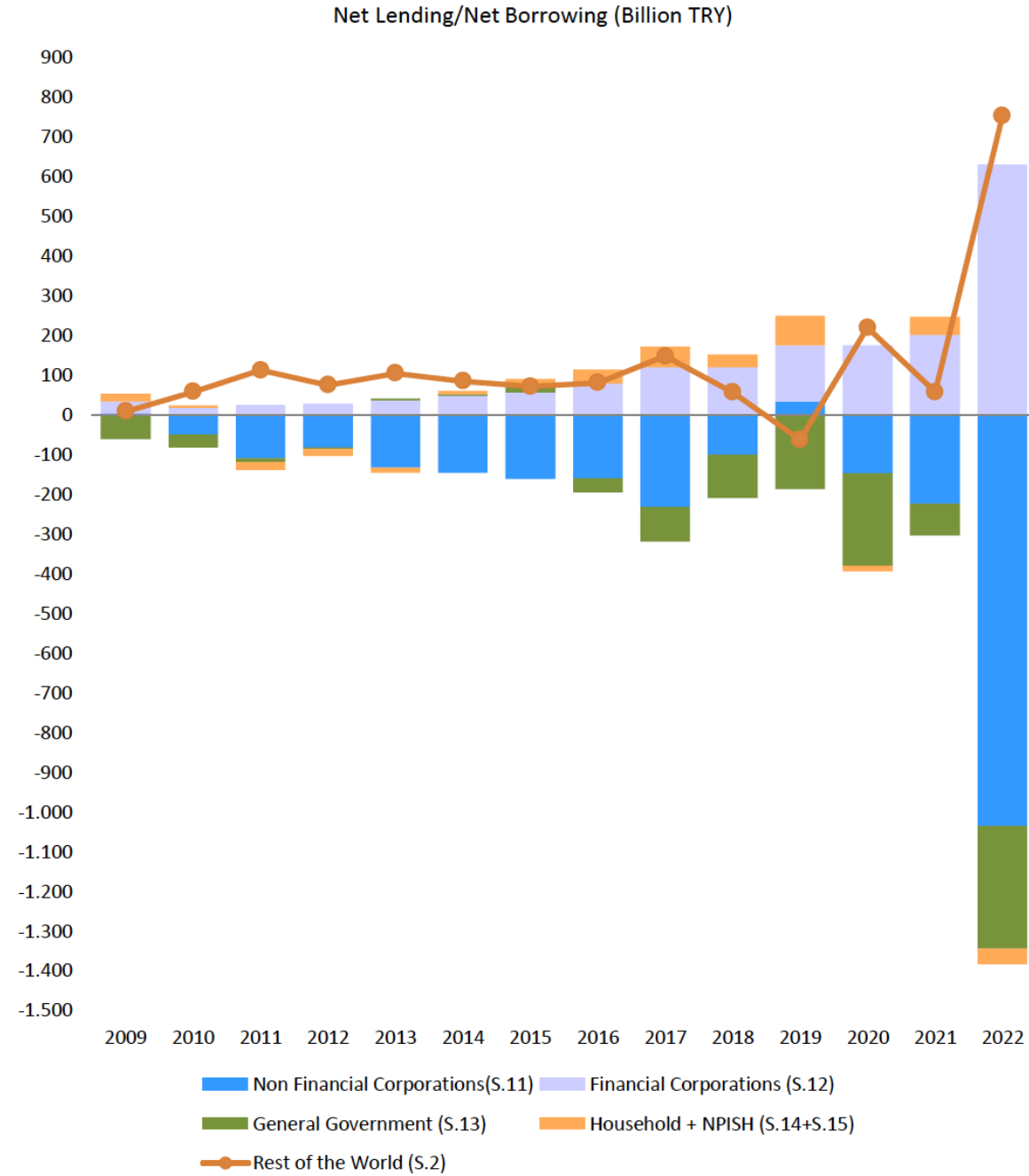




Chart 8-1: Net Lending/Net Borrowing According to Institutional Sectors



Accumulation

- Negative real interest rates
 - Contradiction: Potential fragility when rates go up
- Lower labor costs
 - Contradiction: Aggregate demand
 - Household borrowing
 - Net wealth effects
 - External demand (exports)
- Currency devaluation
 - Contradiction 1: Import dependency
 - Contradiction 2: Foreign capital inflow dependency

Turkey in Turbulence: Heterodoxy or a New Chapter in Neoliberal Peripheral Development?

Özgür Orhangazi  and A. Erinc Yeldan 

ABSTRACT

While global monetary tightening by central banks, led by the US Federal Reserve, has heightened concerns about a slowdown in the world's economy and an increased likelihood of debt crises across developing countries, Turkey has attracted attention for doing the opposite. Indeed, the country's economic policy makers have intensified monetary easing towards credit expansion at the risk of increased exchange rate instability. This article analyses the Turkish case and makes four contributions. First, it establishes a framework through which we can understand and interpret the policy choices of the government. Second, it shows the binding effects of the trilemma in the context of an economy fully integrated in the global economy and discusses how the government tried to tackle these effects through a series of ad hoc



Türkiye'nin Dış Sermaye Bağımlılığına Kısa Bir Bakış

Özgür Orhangazi*

“Türkiye her zaman 70 sente muhtaçtır! Bu şudur: Dış ticaret açığı Türkiye'yi dışarıdan ucuz para bulma durumunda tuttuğu sürece bir tane 70 sente değil birçok 70 sente muhtacı. Yani 4 milyar dolar borç buluyorsanız 4 milyarın içinde kaç tane 70 sent varsa o kadar 70 sente muhtaçsınız. Bir tanesi eksilse işiniz görülmez.”

Süleyman Demirel, 1977¹

nedir uygulanan ekonomi politikaları ve özellikle de 2021 sonlarından itibaren Merkez Bankasının politika faiz oranını enflasyonun oldukça altında tutması olsa da daha altta yatan yapısal neden olarak, Türkiye ekonomisinin iki seviyede dışa bağımlılığının oldukça yüksek olmasını tespit edebiliriz. Bunlardan ilki, 1989'da sermaye hareketlerinin serbestleştirilmesinden bu yana büyüme temposunun dış sermaye girişlerine bağımlı hale gelmiş

The Re-making of the Turkish Crisis

Özgür Orhangazi and A. Erinc Yeldan

ABSTRACT

By the end of 2018 Turkey had entered a new economic crisis and a lengthy recession period. In contrast to the previous financial crises of 1994, 2001 and 2009, when the economy shrank abruptly with a spectacular collapse of asset values and a severe contraction of output, the 2018 economic crisis was characterized by a prolonged recession with persistent low (negative) rates of growth, dwindling investment performance, debt repayment problems, secularly rising unemployment, spiralling currency depreciation and high inflation. The mainstream approach attributes this dismal performance to a lack of 'structural reforms' and/or exogenous policy factors. However, this analysis shows that the underlying sources of the crisis are to be found not in the conjunctural cycles of reform fatigue, but rather in the post-2001, neo-liberal, speculation-led growth model that relied excessively on hot-money

CHAPTER 10

Neoliberal Framework and External Dependency Versus Political Priorities, 2009–2020

Korkut Boratav and Özgür Orhangazi

INTRODUCTION

As discussed in the previous chapters, Turkey was among the early adopters of the neoliberal policy framework that has increasingly dominated the agenda of the world economy and its institutions. Rapid trade and financial liberalizations of the early 1980s were followed by the liberalization of capital movements in 1989. The 1990s witnessed boom-bust cycles of capital flows that generated episodes of economic growth, followed by sudden stops and outflows, resulting in financial

“Türkiye Modeli” - 2021 ve Sonrası: Rastgele hedefler, gerçekleştirmeler ve bir bilanço*

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Özet

2021 sonbaharında Merkez Bankası'nın politika faizini indirmeye başlamasıyla birlikte döviz kurları yükselirken kısa bir süre sonra da enflasyon artışı geçti. Kısa sürede piyasa faizleri reel olarak negatif bölgeye çekildi. Aralık 2001'deki faiz indirimini takiben döviz kurlarındaki yükseliş hızlandı, piyasalardaki oynaklık kontrolden çıkmaya başladı. Kurlardaki yükselişi dizginlemek için devreye önce döviz kuru korumalı vadeli hesaplar, sonrasında da bir dizi bankacılık düzenlemesi sokuldu. Her ne kadar gerçek anlamda bir model çerçevesinde uygulanıyor olmasa da, bu politikalara “Türkiye modeli” ismi verildi. Bu çalışmada Eylül 2021'den itibaren uygulanan politikaların sebep ve sonuçlarını anlamak üzere bir tartışma yürütüyoruz. Bu amaçla öncelikle 2001'den itibaren Türkiye ekonomisinin makro dinamiklerinin bir dönemlendirmesini sunuyoruz. Bu dinamiklerin ana eksenini dış sermaye hareketleri ve bu süreçte biriken ve ihmal edilen kırılganlıkların oluşturduğunu vurguladıktan sonra, 2021'de uygulanmaya başlanan politika çerçevesine odaklanıyoruz. Bu politikaların ortaya çıkışını ve uygulanmasını tartışıp uygulanan politikaların makro ekonomik sonuçlarını, Orta Vadeli Program