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GLOBAL FINANCIAL CRISIS AND TURKEY: EFFECTS AND SUGGESTIONS

A global financial crisis hit the world in late 2008. It has become clear that this financial crisis will have a deep impact on countries trade volumes and investment plans. When the crisis was started in financial markets, it affected developed countries as much as developing ones. From the beginning of September 2008, it started to be deepening in USA while it was spread out to the world. Turkey is one of the countries affected from this global economic crisis. Turkey had became dependant on capital accumulation movements after 1990s. Growth with capital accumulation movements constituted a relationship between capital movements and balance of payment. Growth related to short run capital movements provided money from money instead of production. So it affects investments negatively and this makes a negative effect on growth in long run period. The clearest effect of global crisis to Turkey is unemployment and inflation. Although it is very difficult for Turkey to put these two in order, in last years it has been started to decrease with policies, but with this global crisis they are increased again.
JEL: G01; G21; G28; N20

Crisis is a very common concept used in very different science branches. Crisis in deed, is used as great depression, difficulty and direction througout to wicked development which is happened suddenly. The main components of the crisis are; the events which cannot be estimated before come out all of a sudden. Because of this sudden event, firms in micro level and government in macro level are affected. Production capacities will fall and prosperity of people start to decrease first. But 1929 crisis was different from this. Instead of crisis event related to production, world faced with a crisis depending on consumption. Nearly what Say law said – every supply will create its own demand- was not enough to analyze and a new crisis related to effective insufficient demand came out. Because of petroleum shocks and its reflections to the economy, stagflation occured and adverse supply shocks started. Depending on economic problems and development in economic science, crisis also experienced evolution and since than developing countries started to call crisis as "debt crises". In 1990s' capital was globalize and financial and balance sheet crisis started to exist together. This was called twin crisis.

Today, there have been important signals that inform the crisis is coming like financial indicators, current balance operation indicators, budget deficits, indicators of capital balance, unstability in politics, sudden decreases in bond markets and election period in a country. In Turkish economy, especially after 1990s, political

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instability was accepted as crises signals to analyze unbalanced macroeconomic issues. The economic problems of political instability are generally polarization in distributing income and the position of medium class people whose status getting worse.

The purpose of this paper is to discuss the important issues surrounding the global financial crisis. Special emphasis is given to the effects of crisis on Turkey both positively and negatively. It is argued that the three important factors that caused the global crisis are: 1. Institutions that were giving house credits converted this mortgage they had taken for houses to stocks & bonds and export them to collect funds from market. But the price of houses decreased and individuals took house credits could not make the payments. So the value of the stocks & bonds decreased and institutions which were exporting them corrupted their financial system. 2. Because of this distrustful situation, banks increased interest rates for credits and liquidity deficit has started and 3. consumption and investment expenditures stopped which would lead to decrease in production and a raise in budget deficit. The content of this paper is: the next section briefly summarizes the types of crisis occured in the world since 1990s. The second part denotes the crisis Turkey faced since 1980. The third section discusses how this global crisis came out and its effects on Turkey. Special attention will be devoted to the financial position of Turkey compared to other developed countries. The final section concludes.

I. Types of Crisis Occurred in the World

There had been many crisis occured in international financial system after 1990s. Europe Money Crisis (1992-1993), Latin America – Tekila Crisis (1994-1995), Turkish Crisis (1994), South Eastern Asian Crisis (1997-1998), Russian Crisis (1998), Brazil Crisis (1999), Turkish Crisis (2001), Argentina Crisis (2002) are some of them. Because of free international capital mobility in global world, the number of financial crisis, their frequency and effects are one of the discussion subjects whether they are happening due to the weaknesses of the main economic parameters or the changes in market expectations (Duman and others, 2004).

Of course there are differences between the real and not real financial crisis. The financial crisis which are not real are in the beginning will only cause a loss in wealth because of change in optimistic expectations to uncertainity. This loss in wealth does not mean crisis in deed. So despite excessive decrease in wealth prices and increase in bankruptcies in real sector, this financial crisis might not be accepted as real crisis. Because they do not have a serious potential fall in money supply. In this respect. İt is difficult to say all financial unstabilities causes financial crisis in the economy. To overcome these unstabilities depend on how macroeconomic policies are followed and their trustability. Therefore, it can be said that financial crisis-related to the rise in economy's fragility degree-must be taken into consideration as a result of economic and/or financial unsystematicness (Schwartz, 1986).

If types of financial crises are overviewed, there are four types: money crises, banking crisis, systematic financial crises and foreign debt crisis (IMF 1998: 74-75). Money crisis is a speculative attact on money's variation value which will cause money to devaluate and/or to decrease exchange reserves in great amounts due to stop money devaluate and/or enormous increase in interest rates. Banking crisis occurs when banks cannot make their obligations because of their unsuccessful banking operations and when government does force banks to intervene this unsuccessfulness. Systematic financial crisis are called the financial corruptions in real economy by preventing financial markets to work efficiently. Foreign debt crisis come into exist when government or private sector cannot make the payment of foreign debt. As a result, common characteristics of all financial crises are causing important fluctuations in financial asset prices and economic unstabilities (Davis, 1992). Turkey indeed faced three types of crisis – money, banking and systematic financial crisis- in its economic history. But, the financial crisis which followed one after another in 1990s in deed showed similarities in many ways. However, they happened in different situations and unexpected periods (Ertürk 2003: 225). When they came out one by one, the latest crisis are tried to explained with new types crises (Yay, G.Yay ve Yılmaz 2001).

In the beginning of 1990s, Europe failed to explain the money crisis. Some economists told that the negative expectations of economic actors in sustainable fixed exchange rate regime in the long run resulted in crisis (Obstfeld 1996). On the other hand, theories that explain the South Eastern Asian Crisis insisted on giving government guarantee for bank and firm losses (Krugman, 1997). In this type of crisis, government guarantee let the bond prices rise enourmously. The most important difference that seperate this theory from others is, this theory is also explaining banking crisis. Crisis firstly started by getting into debt from abroad, capital earnings decreased, banks' losses increased and as a result of this they started to call back the credits they had given. To pay the debts they own, national banks started to collect credits. Also there had been an intensive capital exit from the country which would last with crisis. There is another approach called Heterodox that tries to explain financial crisis as decrease in capital income, value of banks assets and their net value. With a rise in interest rates, liabilities of banks rise, assets (bond and credits) do not change and net value of bank decrease (Duman and others,2004).

II. Crisis Turkey Faced since 1980s

Turkey had been faced a very important crisis that affected all public sectors in ten years. Although the reasons, precautions and results of the crisis were known, government could not keep away from that. Because of that, the negotiations with IMF started. To look at the crisis background, we have to start from 1980s. At the end of 1979s', economy was in bottle neck. Foreign currency reserves have dropped to a critical minimum and it was really very difficult to find petroleum, medicine and fertilizer in the market. Both production and investment stopped (Sadıklar, 2008). The official price of the foreign currency was 35 while it was 47 in the black market. Inflation was over 60% and tendency to ascend over %100. Economic growth turned into negative. To stop this, 24 January 1980 decisions were taken into consideration. These decisions were made to revive the economy in short run. For long run, the aim was to open the economy to foreign market and provide free market economy's conditions and use them in Turkey. So to overcome these problems, 1 USA Dollar equalized to 70 TL which signified 100% devaluation those times. Encouragements were made to rise exports and investments both coming abroad and in domestic market. With these analyses, economy started to run as a machine and inflation decreased to 25%. So it could be said that 24th January 1980 decisions were the ones that were received in time and attained success. Although in the short run, all the applications were made in its proper place, in the long run it failed. Because fiscal reforms were not made and this was affected the rational expectations negatively. Monetary policy was seen as an implement and public deficit could not be prevented. From all of these, the most important negative impact was not creating the reliable resources for economic growth; instead of that tax precautions taken into account caused loss in resources.

Inflation was very high and it made uncertainty in the economy by constituting short run foreign resource movements in 1990. Private sectors and banks increased their shares while government decreased its share in getting into debt. These entire macroeconomics instabilities enabled 1994 crisis happened. Government decreased interest rates which made people to make a movement from Turkish Lira to Foreign Currencies and so that, Turkish Lira devaluated against Dollar. Foreign currency increased by 230% in three months, economic growth which was 7% in last years started to decrease meanwhile. Interest rates went up to 1000% from 100%. Although short run foreign resource movements had a positive effect on 1994 crisis, the main problem was the public financial deficits. Because government failed to provide reliable resources and crisis wan inevitable. Also the instabilities that banks faced in 1994 created uncertainty and lack of confidence. Because government put an obligation to the agreement - "any bank who failed to make its payments would be taken over by Saving Deposit Insurance Fund" -that they had made with International Monetary Fund. So, one of the main components of the financial sector crisis was this. Rising globalization in the beginning of 1990s' had a great impact on capital accumulation. A developing economy that started to overtake financial freedom (economic structure by increasing economic growth, balanced budget, producing the materials which had higher value added and controlled banking system) would bring damage instead of benefit to the country. In an economy which carried structural and institutional weaknesses would have a limited opportunity to affect capital accumulation, so short run foreign resource movements could only be made by very high interest rates. And this would increase the risk of crisis.

III. How Global Crisis Starts in USA?

The structural reason of 2008 financial crisis is indeed, in order to generate remedies for Asian crisis accured in the late 1990, USA tried to exceed liquidity problems by decreasing interest rates from 6% to 1.5% through the medium of FED. However, Dollar was depreciated seriously due to high liquidity abundance in Dollar base in the world markets. Because China is the biggest importer of USA and making very cheap production, this leads USA to allow sustainable budget deficit. But the subprime mortgage crisis is approximately 700 billion Dollars and this brings about crisis of confidence in the markets. Even though Fed starts to decrease interest rates to cover the problems, this is just a temporary solution and will expand the distressing in the long run. Nothwithstanding US economy gets into recession in every 10 years, but gets out from this in short run and continue its trend. Unfortunately, the difference of this recession is the possibility of being longer. This possibility may threaten developing countries more like Turkey whose economic growth are depending on hot money result from global liquidity abundance.

Global Crisis that affects all of the countries was because of the problems of not getting the credits of properties on time which leaded raise in prices of assets. In other ways it was excess production crisis. World economies stopped consumption and investment expenditures because of narrowing credit sources. Central Bank of the developed countries injected liquidity to the market and decreased the interest rates by making corporation together. These precautions are not enough for US economy. Although temporary tax encouragements and exports increase, consumption expenditures and credits are tightening. 159 thousand people lost their jobs in the beginning of September. Selling cars had its lowest value since 16 years. Also the crisis is not good for European Countries. Economic growth was decreased by 8% in the second period in annual base. The three biggest countries of Europe; Germany, France and Italy got narrowed their economies. In Spain, the growth is very close to be stopped. In Japan, exports are still decreasing and investments continue to slow down. In Japan, economic growth was decreased by 3% in the second period in annual base. But China is resisting on this Global Economic Crisis and continuing its positive economic growth. It is estimated that Capital Inflow to developing countries will decrease to 550 million Dollars in 2009 which was 750 million Dollars in 2008. From this respect, approximately in 80 countries rate of current deficit to national income could be more than 5%. From the foreign statistics, Turkey is one of the 28th risky countries. Response to financing the economic growth, Turkey has to pay high interest rates. The interest rates are 1.5% in USA, 3.75% in EU, 4.5% in England and 18% in Turkey (Yetim, 2008). Although countries start to decrease interest rates, there is no change in Turkey due to the necessity of foreign investment. Despite decreasing petroleum and stock prices, to continue its growth, to finance its current deficit and to pay its foreign debts, it seems difficult for Turkey to find the necessary foreign sources it requires. Because production decreases, industrial sector decreased by 4%, agricultural sector decreased by 7.3% and service sector receded by 5.7% since last year. Domestic demand also starts to recede. Load debt of people increased by 25.5% and it is 119,5 million TL now which was 95 million TL last year. The most important increase is in requirement credits. Established company numbers decreased by 4.49% and 6.9% firms closed before the year ends. Also our export will be influenced from this. Turkey mainly exports to Russia and European countries. The growth is slowing down in those countries. So both exports and tourism income will be influenced negatively. So the new global conditions of 2008 are showing that economic growth dependent on low foreign exchange and low import will not be possible any more.

Indeed, crisis which started in 1998 in Western parts of the world and the attack done to the twin towers in 2001 affected all the countries and interest rates were decreased to perform the economy. England decreased the rates in its lowest value since 1946 which was 3.25%, in Japan it was 0.25%, in Germany and France 2.5% and in USA 1.5%. Remaining credit capacity due to fallen interest rates, new arrangements were done in 2002 to revive economy with the help of construction sector by facilitating low income people to own residences. But the impact was reverse and property prices increased. Sharp fallen in interest rates in USA treasury bonds and remaining price of stocks with abundant liquidity in foreign countries leaded people to prefer properties in USA. Although construction sector enlarged, there were no enough demand and the price of immovable's continued to rise. Between 1999 and 2003 the price of the houses increased 90% in Germany and France, 125% in England and %150 in USA. Response to remaining increase in price of houses continuously, the increase in real income was just 15%. This was lead millions of people to get credits not proportional with their income. Although quality of credits decreased, profit rates in balance sheets of financial institutions were not taken into consideration as a sign of risk. Even investment banks obtained new sources by selling their credits to give more loans (Han, 2008). But like Great Depression happened in 1929, prices of house were decreased suddenly when there was no demand for the exaggerated priced properties. People who indebted to the banks could not pay their credits and as a result banks confiscated to the properties they got. Because of not collecting the money they had given, banks could not find sources to pay their loans and financial system stopped.

Liquidity deficit was not covered and crisis was inevitable. Financial crisis in developing countries leads banks to increase interest rates and to reduce their lending to achieve capital adequacy ratios. By reducing loans, firms must reduce their production and thus reduce income and increase unemployment rates which will lead to reduction in profits and bankruptcy for some firms. This bankruptcy will worsen the balance sheet f the banks, a further reduction in lending and more risky cycle starts. Also the depreciation of currency will raise the volume of exports and if banks reduce giving lending, production will decrease instead of expanding. There are two important economic crises that Turkey had faced in short period which increased the interest rates, collapsed stock exchange and lower the prices of goods and services as to international markets. Meanwhile having high exchange rates made Turkey very attractive for the foreign investors. Turkey followed tight monetary policy with the support of IMF, but this increased inflation rates. The aim of the program was to increase the value of Turkish Lira by providing insufficient money in the market, to decrease the purchasing power of most part of the people with low wage policies and taxes, to narrow domestic demand and with the help of all these components, control the increase in prices. Quantity of money decreased in the market and volume of emission was hold low which caused recession. As a summary, there were four important factors that caused financial crisis in Turkey in 2000 November and 2001 September. These are:

1. The followed foreign exchange policy was not put into practice as it was decided.

2. Banks, who were not supervised, had uneconomic behaviors

3. Deflation program which was applied in 2000 was not strengthened and lack of effective regulations.

4. The value of short run capital accumulation was not understood well and it was very unstable (Eren and Süslü, 2001).

Also, globalization in Capitalism and free capital accumulation will let financial crisis to be global. Because demands narrowing in a big economy like USA is making crisis global by condensing it also in real economies provision chain. The mortgage crisis happened in 2007 was not a surprise in deed. Global economic powers in the world decreased long term interest rates and USA increased the value of the houses so much that the owners of those houses saw themselves so rich and started to make more expenses. Every year the income coming from property market went to otomobile sector, holidays, leisure and etc (Yeldan, 2008). The explosion in property market in 2002 saved the world economy. USA people attacked to property market. But with the beginning of 2005, it started to become reverse. The higher the price of the houses brought higher mortgage. As a result of these, customer of the houses decreased which made the selling volume to fall. So after 2005 prices started to decline and it continued in 2006. USA was the first giving credit quarantees to the market. Range of the deposit guarantee was broadened and assets that lost value were bought. They decreased the taxes to raise consumption and decided to increase government expenditures. So how will these results affect Turkey's economy? It can be reviewed into two sub titles: its positive and negative effects.

1. Positive Effects against Global Crisis

a. Financial Sector

After 2001 Financial Crisis, banks were restructured again, their capital sufficiency was increased and a very tight provision was put into consideration to financial sector. Their operations are more stable after these obligations. Indeed, the tight care of BRSA on Turkish Banks, there are no any deficiency in capital sufficiency and a balance between foreign exchange assets and foreign exchange liabilities. Also, Turkey did not make any imports depending on mortgage of house stocks or bonds. Mortgage credits are very limited and there are no any documents for that. Credits for houses are 4% of the GDP. By the way, banks do not stop the credit flow between each other and continue liquidity which does not make a panic in depositors.

Table 1

Rate of Banks Capital Sufficiency

Years	Sufficiency Rates %
2002	25.1
2003	30.9
2004	28.8
2005	23.7
2006	21.9
2007	18.9

Source: TUIK

b. Economic Growth and Hot Money

The high economic growth rate that Turkey faces since 2000 in deed depends on the political stabilities and financial disciplines that government applied. But also there are other factors such as wideness in liquidity in developed countries, capital is moving towards the economies which are giving high interest rates and Turkey is one of the countries. It makes strong and applicable agreements with IMF and with the help of this; it starts to draw foreign direct investments. So a tight interest rate policy that US Central Bank follows leads domestic and foreign speculators to hold financial assets in Turkey. There has been a productivity increase in labor force which is above real wages as well.

Table 2

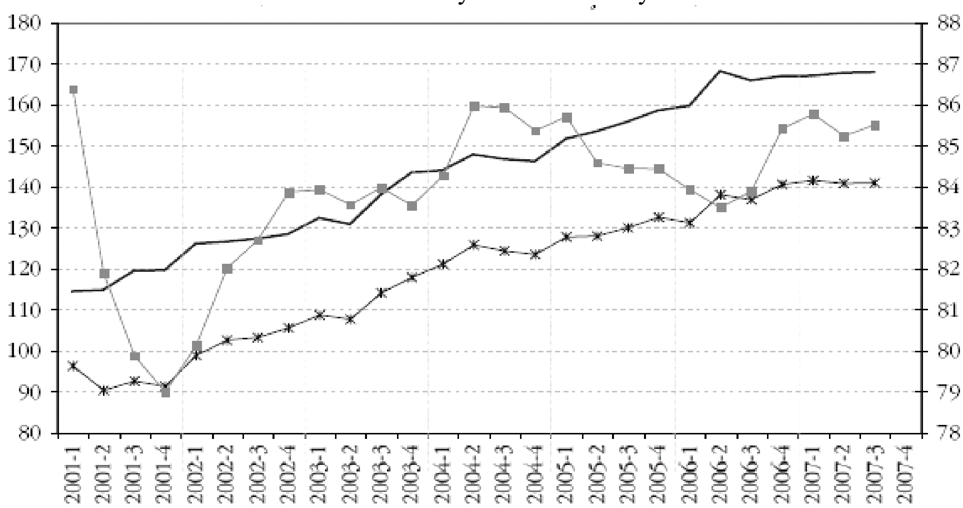
Foreign Direct Capital Inflow to Turkey

	2004	2005	2006	2007	2008
International Direct Investments Total (Net)	2785	10031	20185	22046	17718
International Direct Capital	1442	8190	17263	19120	14781
Capital (Net)	1092	8134	16982	18393	14407
Inflow	1190	8535	17639	19136	14442
Outflow	-98	-401	-657	-743	-35
Other Capitals	350	56	281	727	374
Property (Net)	1343	1841	2922	2926	2937

Source: CBRT

Table 3

Productivity Index of Turkey



Source: TUIK

The most important contribution to Turkey's economic growth is coming from consumption and investment expenditures. Growth performance is protecting its internality. The reverse can be seen in economies owning high saving.

c. International Trade and Getting into Debt

Domestic industrialists who use imported inputs for production are pleased with the decreased Dollar rates. Because the recession in Dollar will decrease output costs and increase profit. Indeed debtors who get into debt by foreign exchange gain more with a decreasing value of Dollar. Low Dollar makes banks to get into debt more in Dollars. This raises the open operations. People using consumer credits over foreign exchange gain advantage. Also sharp decrease in Dollar yields benefit to the government and foreign loan payments decrease approximately 2.5 – 3 billion Dollar. But when the Dollar looses its value against Turkish Lira, advantage of competition will become smaller for exporters. But responds to this, imports increase and foreign debts do.

2. Negative Effects of Global Crisis:

a. Budget Deficit

Turkey is decreasing the budget deficit after 2002. it is under the Maasricht Criteria of 3% (IMF, 2008). But it must not be forgotten that when the taxes taken from imports decrease, budget deficit in GDP can be increased by 6 – 7%. And it was happened like that. Budget was affected from raising expenditures and decreased tax income. According to Ministry of Finance statements, in January budget deficit approached to 3 billion Dollars by increasing 465,8%. Also, primary surplus receded to 816 million TL by decreasing 78,3%. In January, budget expenses was 18.8 million TL by raising 15,3% and budget income was 15.8 million TL by increasing 0,3%. Interest expenses were 3.8 million TL by diminishing 11.7% although it had been 4.3 million TL in the same period last year.

Table 4

Materializing in Budget, Million TL

	2009 January	Change (%)
Budget expenditures	18.796	15.3
Expenses except interest	15.013	24.9
Personal expenses	5.646	16.6
SSA premium	691	11
Purchasing goods and services	1.096	3.6
Current transfers	7.166	39.5
Capital expenses	9	-44.7
Capital transfers	80	172.5
Lending	325	1.8
Reserve appropriation	0	0
Interest payments	3.783	-11.7
Budget income	15.831	0.3
Tax income	13.825	-2.4
Income coming outside tax	1.748	22.9
Budget Administration Income	164	50.9
Arrangement and supervision income	92	1.1
Budget balance	-2.967	-465.8
Balance except interest	816	-78.3

Source: Undersecretaries of Treasury

Nevertheless, current transfers reached 7.1 million TL by raising 39,5%. Transfers made to health, social aid and retirement were increased by 27,4%. Share of the Local Administrations was 17,2%. In February, income tax 10,8%, corporate tax 15%, stamp tax 16,3% were increased. VAT 5,5%, VAT of imports 30,2%, private consumption tax 5,3% and charge 7,7% were fallen. As a result of the recession in global economy, revenues received from direct taxes are below from the target.

b. Foreign Exchange Rates and Expectations of Devaluation

Disadvantage of dependence to foreign countries will cause Turkish Lira to loose value against other currencies in crisis happened. From past to present, convertibility of Turkish Lira is a big problem. In any crisis happened or expected in the world, it is losing value and devaluated. To stop this, precautions must be taken. Because of the increase in foreign currencies, hot money starts to go abroad and in October, 7 billion Dollars in Turkish Bank Deposits Account disappeared suddenly.

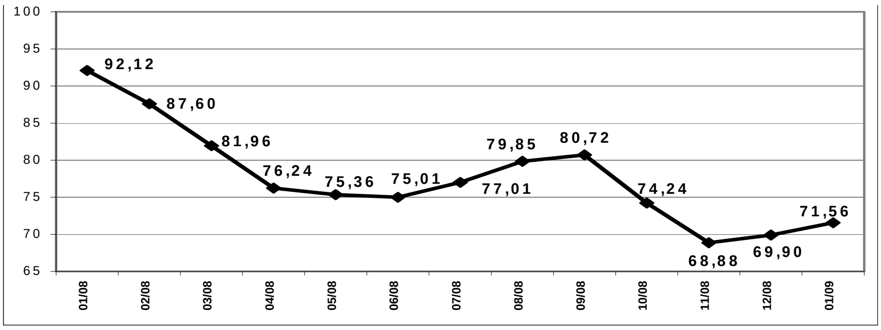
To summarize, dependence to IMF and World Bank, narrowing in Consumer expenditures and shrinking of the government due to narrowing in exports by decrease in limits on trade and although economic growth will be obtained in the long run, economy will be collapsed. In any case Turkey has very low competitive power than European

Countries and become to be affected in any financial panic happened in the world because of being dependent to foreign markets in case of production factors. Due to the research that CEPR did in 15 countries, in any damage because of the depreciation in Dollar (Dollar is losing value as 13.8%, 22.8% and 42%), to correct this exchange rates will cause Turkey to make a loss in GDP in total as 1.8%, 3% and 5.6%.

(http://www.cepr.net/documents/publications/debt_2004_09.pdf)

Table 5

Consumer Confidence Index



Source: TUIK

Expectation of devaluation will affect Consumption expenditures. It is called also market risks. Declining in consumption expenditures which is the first component of total demand means decreasing sales due to firms. Decrease in sales will reduce the production of firms which will make a decline in economic growth. This will lead to firing employees. If declining in consumption expenditures ($C = f [I, P_{Index}$, Expectation, r, $W/P_i]$) affects investment expenditures, the result will be decrease in total demand. Even total supply is not changed; a vicious circle can be seen as economic recession or negative economic growth.

As seen from the table, consumers have little confidence to the economy. After global crisis started, people got panic and confidence index decline and its lowest rate on November. But after some relieved explanations and necessary precautions were obtained, it shows an increasing trend.

Table 6

Index of Consumer Confidence, Sub-items and Change Rates

	Index			Changes due to last month %	
	Nov-08	Dec-08	Jan-09	Dec-08	Jan-09
Index of Consumer Confidence	**68.88**	**69.90**	**71.56**	**1.48**	**2.37**
Purchasing Power (current term)	65.50	64.90	62.72	-0.92	-3.36
Purchasing Power (future term)	68.50	68.14	70.39	-0.53	3.30
General Economic Situation	62.95	62.19	63.87	-1.20	2.69
Possibilities of finding Jobs (Future term)	64.05	63.42	64.92	-0.98	2.35
Appropriateness of purchasing Resistant Consumption Goods in current year	83.40	90.84	95.89	8.92	5.56

Source: TUIK

c. Effects on unemployment

Global crisis affect also employment sector negatively. Comparing to other countries, Turkey has a very dynamic and young population. Every year approximately 800 thousand people enter the labor force. But worker circulation in labor force is a serious problem. Because Especially in Turkey, there is not a common institutional Social insurance system and workers are deprived of Social insurance and with the effect of crisis they are working with fear because of firing.

Table 11

Status of Employment in Turkey

	2007	2008
Working Age Population	49.454	50.217
Labor Fore	23.612	24.632
Employed	21.310	21.945
Unemployed	2.302	2.687
Employment rate	43.10	40.60
Unemployment rate	9,7	11,6
Unemployment rate without agriculture	12,3	14.00
Young Unemployment (15-24)	19,8	21,5

Source: TUIK, CB

From the household labor force survey of TUIK, Non-institutional Civilian population is 69 million 372 thousand people while 49 million 672 thousand are over 15 years old and 24 Million 632 thousand are in labor force. 21 million 945 thousand are employed. So in Turkey, labor force participation rate is 45.9%, employment rate is 40.6% while unemployment rate is 11.6%. (Central Bank, 2008).

Although the effect of crisis has not been feeled yet in the beginning of crisis in Turkey, because of the negative progress, firms start to fire employees as the first and the easiest precautions they can take and they even do not take the advantages of sorts of savings.

d. Current account deficit

Turkey is really comperled to finance its current operation debt. İt is enlarging continuously and financial needs are increasing. These debts are covered by private sectors indebet. Constriction in global credits will limit capital accumulation, so how will this current Deficit will be financed?

Using World markets liquidity, giving high interest rates will pull out hot money and current deficit which is being financed by private income will be a problem in Turkey. The most important reasons of high current deficit in economy are high growth rates, domestic saving deficits and appreciated domestic currency. Economic growth in Turkey increases technology, raw materials and intermediate goods, so there is a positive relationship between growth and current deficit (Korkmaz, 2005). In developing countries like Turkey, production capacities are very low and growth of population is high. So GDP per capita is very low compared to developed countries. Low GDP per capita will cause a low saving rate and investments are insufficient level. According to insufficient capital accumulation, level of national income will be low again in the next periods. As a result, developing countries cannot reach the required economic growth rate and is generally in vicious circle (Susam and Bakkal, 2008).

Table 9

Current Account Deficit (% of GNP)

Countries	2005	2006	2007	2008
Germany	4.6	5	5.4	5.1
France	-1.1	-1.2	-1.6	-1.8
England	-2.5	-3.2	-3.5	-3.6
Italy	-1.5	-2.4	-2.3	-2.6
USA	-6.1	-6.2	-5.7	-6.2
Japan	3.6	3.9	4.5	4.3
Turkey	-6.2	-7.9	-7.5	-7.2
China	7.2	9.4	11.7	12.2

Source: IMF - World Economic Outlook, 2008.

When Current account deficit is evaluated deeply, share of the developing countries are declining in the world economies as years past and as a result of this they are losing their competition power in global market. Especially USA who has the biggest share in global market is giving a great current deficit. It has revived its economy by increasing consumption expenditures, but when the decrease in construction sector affects the total employment negatively, foreign trade balance starts to give huge deficits. The reason is indeed real estate market and growth of financial sector gets the place of saving and investment which are the basic components of economic growth. When looking at the latest studies done, Turkey is using Euro in exporting and Dollar in importing. Even it can be thought that depreciating Dollar against Euro will affect foreign trade balance positively; when imports increase, current deficit will be deepened more and will trig crisis in both domestic and foreign sector in Turkey.

Table 10

International Reserves except Gold, Billion Dollars*

Countries	1980	1990	2000	2005	2006	2007
Germany	48.59	67.90	56.89	45.14	41.69	44.33
France	27.34	36.78	37.04	27.75	42.65	45.71
England	20.65	35.85	38.77	38.47	40.70	48.96
Italy	23.13	62.93	25.57	25.51	25.66	28.39
USA	15.60	72.26	56.60	54.08	54.85	59.52
Japan	24.64	78.50	354.9	834.28	879.68	952.78
China	2.55	29.59	168.28	821.51	1,068.49	1,530.28
Turkey	1.08	6.05	22.49	50.58	60.89	73.38

*The Sum of the Total Foreign Exchange Reserves that Authority of Monetary Associations (Central Bank and Money Authority, Committee of Money, Stability Funds of Foreign Exchange and Treasury) own.

According to the International Reserves in most developed countries seen in the Table above, reserves are in Dollar base and in respect of IBRD data for 2007, the proportion was 65%. In developing countries the proportion was worse. Forexample the proportion of Dollar reserves to GNP is 10% and even 20% in some cases. Because of the existing crisis, some of the countries start to use Euro instead of Dollar and in this respect Dollar reserves decreased to 61.5% which was 75% in September. Such as Mexico which is a member of OPEC, is supporting to use Euro in petroleum sales. Because Dollar is showing a decreasing trend and countries have no confidence on that.

e. Decreasing in exports

Turkey's 55.8% of total exports are done to EU countries. There has been a 6-7% decline since September 2008 and exports decreased to 49%. Shortage in demand in EU will affect our sales negatively. In October, the proportion of total market decreased by 37.3% and it was 39.2% in automobile sector. The others are textile, electrics and electronics, chemistry goods. Although production has seen to be increased, decline started in August is showing its effect since then. Exports to Finland decreased from 48.2 million Dollars to 23.7 Million Dollar, to South Cyprus decreased by 36.1%, to Lithuania decreased by 28.2%, to Portugal decreased by

22.1%, to England decreased by 8.6%, Denmark decreased by 16.7%, Spain decreased by 19.9%, Bulgarian decreased by 5.3% and to Hungary decreased by 20.9% (TUIK).

The real reason of the decrease in exports can be explained by appreciation of Euro against Dollar by 14.5%. Although most of exports are done to Europe, international trade values are followed by Dollar and in respect to the parity of Dollar-Euro changes in Dollar's favor decreases exports values. Global crisis with increasing exchange rates in 2009 will make contradictions in exports. According to the SIS reports, decreasing in imports because of tightening in domestic market and decreasing in exports because of tightening in foreign markets will change the sign of current account deficit.

Because of demand lowness in foreign sales, international trade can be lower by 15% and this means 80 Billion Dollars. It is expected that exports will decrease by 12% and imports will decrease by 15%. Unplanned investment dependent on inventory in production sector directed to exports which mean unexpected inventory increase and this is the evident indicator for the change in production index.

Table 7

Exports Distributions according to Countries

	Annual				Percentage Share			
	2004	2005	2006	2007	2004	2005	2006	2007
EU countries	36.580,9	41.365	47.934,7	60.405,3	57,9	56,3	56	56,3
Turkey Free Zone	2.563,6	2.973,2	2.967,2	2.939,9	4,1	4	3,5	2,7
Other Countries	24.022,7	29.138,2	34.632,7	43.808,7	38	39,7	40,5	40,8
EU Countries	4507,4	5.855,3	7.951,7	10.841,9	7,1	8	9,3	10,1
African Countries	2968,1	3.631,2	4.555,8	5.976,8	4,7	4,9	5,3	5,6
American Countries	5.733,2	5.950,2	6.328,4	5.577,2	9,1	8,1	7,4	5,2
Asian Countries	10.455,4	13.213,1	15.257,3	20.213,5	16,6	18	17,8	18,8
Middle East Countries	7.921,3	10.184,2	11.315,8	14.990,5	12,5	13,9	13,2	14
Other Countries	348,5	478,3	519,5	1.199,3	0,6	0,7	0,6	1,1
Selected country groups								
OECD countries	40.518,5	44.355	54.481	65.655,3	64,1	60,4	63,7	61,2
EFTA countries	666,6	820,8	1.199,3	1.327,8	1,1	1,1	1,4	1,2
Blacksea Economic Corporation	6,779	8.619,5	11.583,7	16.788,7	10,7	11,7	13,5	15,7
Economic Corporation Association	2.206,3	2.669,9	3.341	4.461,7	3,5	3,6	3,9	4,3
Community of Independent Government	3.951,6	5.056,8	6.992,5	10.084,1	6,3	6,9	8,2	9,4
Turkish Republics	1.194,3	1.409,3	1.981,6	2.871,1	1,9	1,9	2,3	2,7
Muslim Conference Corporation	10.214,3	13.051	15.007,5	20.217,7	16,2	17,8	17,5	18,8
Total	63.167,2	73.476,4	85.534,7	107.271,7	100	100	100	100

Source: TUIK

f. Foreign Debts

When the costs of credits increase, it becomes difficult for Turkish Companies to get money from abroad. In Turkey, banks and real sector are suffering high foreign debts. Domestic savings are very low and this increases to get foreign sources (18% to GDP). Private sectors' foreign debt stock is $200 million in 2008. Proportion of debt stocks to GDP increased to 28% although it was 18% in 2002.

Table 8

Domestic and Foreign Debts of Turkey

	2002	2003	2004	2005	2006	2007	2008
Total Debt Stock	221.2	283,4	328,2	351,5	384,6	466,6	471,0
A. Domestic	91,7	139,3	167,3	182,4	178,9	219,2	181,7
B. Foreign	129,5	144,1	160,9	169,0	205,7	247,4	289,3
-Public Sector	64,5	70,8	75,7	70,4	71,6	73,5	78,7
-CB	22,0	24,4	21,4	15,4	15,7	15,8	14,3
-Private Sector	43,0	48,9	63,8	83,2	118,5	158,2	196,2
CB Reserves (Net)	**28,1**	**35,2**	**37,6**	**52,4**	**63,3**	**76,4**	**80,8**
Foreign exchange rate at the end of the year	1,63	1,40	1,34	1,34	1,41	1,16	1,51

Source: Undersecretaries of Treasury

If the economic growth stays stable, then paying these debts will cause problem. Especially firms owned in foreign exchange but not earning in that currency will face problems in their payments. And if exchange rate risks are added to this situation, the problem becomes bigger. Banks will be in a difficult position if the real sector cannot pay the credits they got to those banks. Besides, Public Sector foreign debt stock is lower than GDP. Central Bank's debt stock is also decreased to 3%. In recession periods of the economy, as far as greatness of the public debts will cause payment problems, it will also prevent the application of financial policies that are taken into account when the crisis affect real sector. By the way, increase in foreign exchange rates will increase foreign debts of real sector. Also biggest payment of debts of private sector is in 2009 which will be a risky period for Turkey.

IV. Conclusion

Turkey has a considerable knowledge of crisis management because of the many crisis it has experienced before. It had faced 7 crisis since 1980 and the most important reasons for these crisis are decline in public investment, increase in privatization**,** decrease in the authority of unions, confide in global policies. Before 1980, although the economy experienced a financial crisis in average 15 years, in globalization period every four years there was an economic crisis and government could not make long term policies and programs with grappling the crisis.

The effect of global crisis which was started with increase in the risk of mortgage market in USA and widened to the world by stocks and bonds will affect the countries which have high current account deficit and required high Foreign direct investments more. After 2001 crisis, Turkey financed its Foreign debts with the help of high interest rate and low Foreign exchange rate policies by using the right policies. All the crisis till now were recovered by taking precautions periodically, so economic recessions existed in Turkey injured both the government and the people. The global crisis we are facing now will also bring more serious problems in the future as making people poorer, more people will be unemployed, socio-economic problems will be existed. In the inflation report of Central Bank for October, the main important pushing power for increasing production capacity is investments and if investment stops in real sector, then the growth rate will be declined related to that. In addition to this, employment opportunities will be declined and firing will be raised.

From other side of the point, when economic growth is slowing down and declining in petroleum prices, demand for imports will decrease. Although this condition will decrease current account deficit, finance of current account deficit will be continued in response to slow capital accumulation down in the world. Regards to this slowing down, countries that have high current deficit will cause exchange problems. By the way, recession in the world and norrowing in Foreign Trade will decrease exports. To revive demand again in the sector, expansionary fiscal policy must be followed. Taxes like VAT, unemployment and cost of employment, and also to prevent informal employment taxes on employment must be decreased. Government expenditures that affect the consumption positively should be raised. To make positive impact on growth by decreasing cost of production, the increase that was made on electricity must be withdrawn. Decreasing interest rates will make a constructive effect on exports and growth by increasing liquidity in the sector, although it depreciates TL. So Turkey has to make a choice between policy depand on hot money and policy depand on production.

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