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## The last decade of Turkish economy: macroeconomic equilibrium and problems

### Abstract

The Turkish Economy has achieved an important success in restoring domestic equilibrium between 1998 and 2008, after three subsequent crises. Turkey has successfully reached its predefined targets in areas such as foreign direct investment, foreign debt-GDP ratio, budgetary deficit-GDP ratio, inflation and budget surplus over interest. However, unemployment and the current deficit continue to represent problems for the entire economy, as their importance has increased. Approximately 1,4 billion dollars of International Foreign Capital entered Turkey between the years 1995-2004. This amount increased to 18,2 billion dollars by 2008, which was a record level. During this ten-year period, the foreign debts of Turkey increased, however, while their ratio to Gross Domestic Product gradually decreased. This ratio was 46.6 % in 1998, declining to 39.5% by 2008. In this period, the ratio of budgetary deficit to Gross Domestic Product was 7,1% in 1998, which decreased to 0,8% in 2008. The problem of unemployment grew larger over this period; its ratio was 6,9% in 1998, but much higher in 2008 at 11%. In this period the problem of inflation gradually became less important. The inflation rate (Consumer Price Index) was 101,6% in 1998, which decreased to 9,50% in 2009. The current deficit, on the other hand, continued to be a problem — during this period it got larger gradually. The goal of achieving a budget surplus over interest was reached and represented a significant success.

**Keywords:** Turkish economy, macroeconomic equilibrium.

**JEL Classification:** E24, E31, F21.

### Introduction

Since the year 1980, the Turkish Economy has followed an open development strategy that depends on exports. While this policy has achieved successful results, the Turkish economy has experienced critical problems and crises while integrating with the World economy, however. In this context, following the 1995 and 1998 crises it is also worth mentioning the crises of November 2000 and February 2001. After these crises, Turkey went through an important development and transition process until the World Economic Crisis of 2008.

This study will therefore examine the basic economic entities and performance over the 1998-2008 period and how development of the Turkish economy was handled.

**1.1. Direct foreign capital investments.** Between the years 1995 and 2004, 1,4 billion dollars of International Direct Foreign capital entered Turkey. Since 2004 it reached a record level of 10 billion dollars. This number reached 20,2 Billion Dollars in 2006 and 22,0 Billion Dollars in 2007. Within the IDI (International Direct Investment) list of the top 20 countries that attract foreign investments all around the world, Turkey was the 17<sup>th</sup> in 2006 while receding to 23<sup>rd</sup> in 2007. Among the developing countries list Turkey came in 5<sup>th</sup> in 2006 while receding to 9<sup>th</sup> in 2007 (Yased, 2009).

The most important reasons for the increase in direct foreign investment into Turkey after 2004 are the single-party government and the consequent political stability and the start of Turkey-EU full membership negotiations in October 2005.

Direct foreign capital investments in Turkey have followed a parallel trend to that of the worldwide recession and decreased 18% compared to 2007, accruing as 18,2 million dollars in 2008 (Yased, 2009).

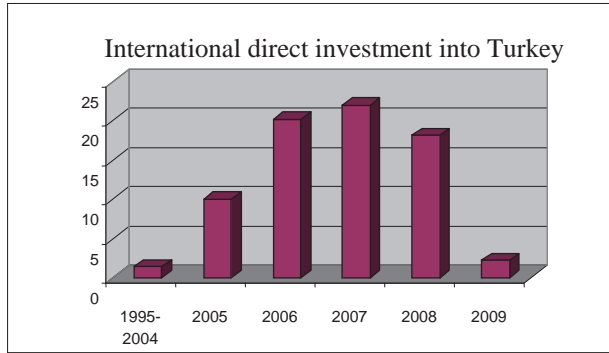
The amounts of IDI for the periods between 1995 and 2008 and the first quarter of 2009 are given in the table below.

Table 1. International direct investment into Turkey (Million \$)

Years	Net million USD dollars
1995-2004 average	1.4
2005	10.0
2006	20.2
2007	22.0
2008	18.2
2009 First quarter	2.2

Source: TCMB (Central Bank of the Republic of Turkey), YASED (International Investors Association), Uluslararası Doğrudan Yatırımları Değerlendirme Raporu, Mart 2009, Mayıs 2009 (The Evaluation Report of International Direct Investments, March 2009, May 2009).

The IDI amounts given in Table 1 and their development are shown in the diagram below.



Note: the first quarter of 2009, average of 1995-2004, including purchase of immovables.

Source: TCMB, YASED, The Evaluation Report of International Direct Investments, March 2009, May 2009.

**1.2. Development of foreign debts and their ratio to GDP.** The total foreign debt of Turkey in the first quarter of 1998 was 85.751 Billion Dollars. At the end of 2008 total foreign debt increased 3,2 times and reached 276.834 Billion Dollars. On the other hand, ratio of foreign debt to GDP keeps decreasing. These two contradicting phenomena are explained by the increase of GDP in Turkey.

The amounts of foreign debt for the years between 1998 and 2008 are given in the table below.

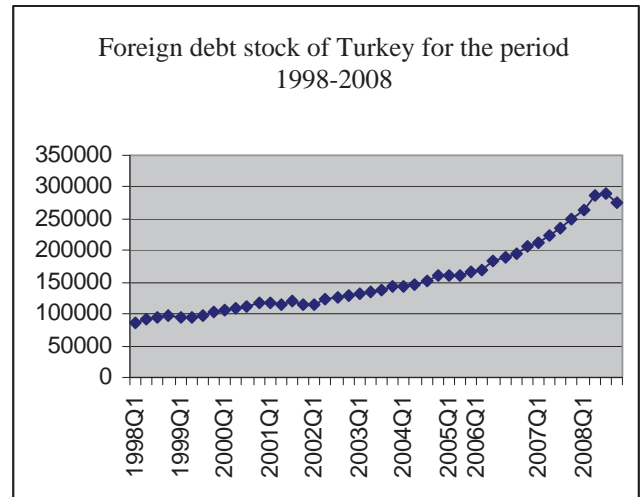
Table 2. Foreign debt stock of Turkey for the years between 1998 and 2008 (Million \$)

Years	Amount	Years	Amount
1998Q*1	85.751	2004Q1	144.751
1998Q2	90.390	2004Q2	147.240
1998Q3	95.709	2004Q3	152.944
1998Q4	96.351	2004Q4	160.918
1999Q1	94.915	2005Q1	160.036
1999Q2	93.619	2005Q2	161.649
1999Q3	97.384	2005Q3	165.414
1999Q4	103.123	2005Q4	169.503
2000Q1	104.752	2006Q1	184.267
2000Q2	109.477	2006Q2	190.669
2000Q3	110.712	2006Q3	196.112
2000Q4	118.602	2006Q4	207.325
2001Q1	116.946	2007Q1	213.240
2001Q2	114.376	2007Q2	223.706
2001Q3	119.775	2007Q3	235.563
2001Q4	113.592	2007Q4	248.958
2002Q1	113.881	2008Q1	265.019
2002Q2	123.325	2008Q2	286.171
2002Q3	124.865	2008Q3	290.715
2002Q4	129.527	2008Q4	276.834
2003Q1	130.893		
2003Q2	134.972		
2003Q3	138.664		
2003Q4	144.095		

Note\*Quarter.

Source: TCMB, <http://evds.tcmb.gov.tr/>

The values given in the table above are shown on the graph below.



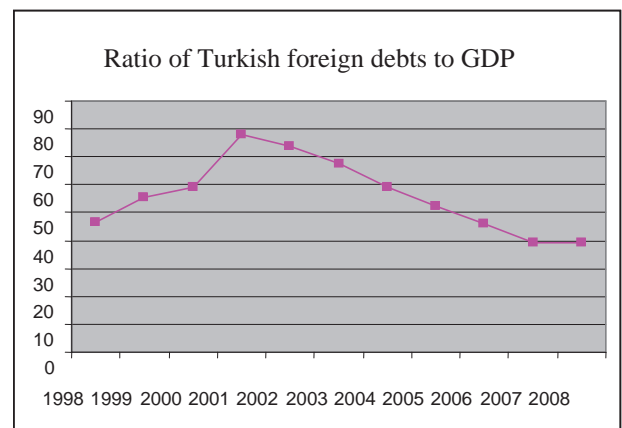
As seen from the table above and the diagram there is a critical increase in the foreign debt stock of Turkey during this decade. On the other hand, the ratio of foreign debt to GDP displays a visible decrease. These ratios and their development are shown in the table and the diagram.

Table 3. Ratio of Turkish foreign debts to GDP

Years	Ratio
1998	46.6
1999	55.7
2000	59.3
2001	78
2002	73.7
2003	67.4
2004	59.2
2005	52.3
2006	46.1
2007	39.4
2008	39.5

Source: The Under secretariat of Turkish Treasury, TÜİK (Turkish Statistical Institute). 1998-2001 Data, were obtained from TÜİK as GNP.

The values from the above table are shown in the diagram below.



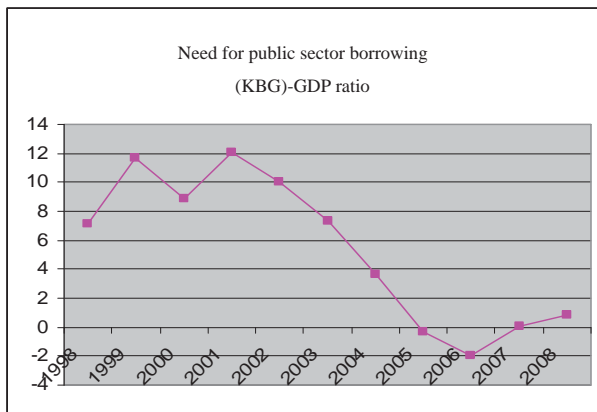
**1.3. Ratio of budgetary deficits to GDP.** Important developments also took place in Turkey regarding budgetary deficits between 1998 and 2008. The non-interest consolidated budget that kept causing deficits between 1998-2004 resulted in a surplus in 2005 and 2006 for the first time (Table 4). However, this trend turned into deficits again in 2007 and 2008. This situation is shown in the table and the diagram below.

Table 4. Need for public sector borrowing (KBG) - GDP ratio

Years	Ratio
1998	7.1
1999	11.7
2000	8.9
2001	12.1
2002	10
2003	7.3
2004	3.6
2005	-0.3
2006	-2
2007	0.1
2008	0.8

Source: TCMB, <http://evds.tcmb.gov.tr/>

Need for Public Sector Borrowing/GDP ratios are given on the diagram below.



**1.4. Unemployment Rate.** Together with current deficit the second most important problem of the 1998-2008 period for the Turkish Economy was unemployment. The unemployment rate of 1998 was 6.9%, which increased to 11% by the end of 2008 — a dramatic change. Changes in unemployment during this period are shown in the table below.

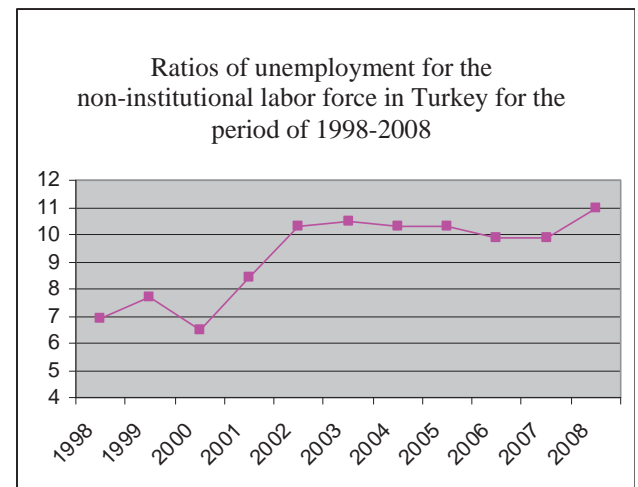
Table 5. Number and ratios of unemployment for the non-institutional labor force in Turkey for the period from 1998 to 2008 (age 15 + )

Years	Number of the unemployed (thousand)	Unemployment rate (%)
1998	1606	6.9
1999	1829	7.7
2000	1497	6.5

2001	1967	8.4
2002	2464	10.3
2003	2493	10.5
2004	2498	10.3
2005	2519	10.3
2006	2447	9.9
2007	2333	9.9
2008	2611	11.0

Source: TÜİK, <http://www.tuik.gov.tr/istgucu/basla1.do>, <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=406>, <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=1901>

The values given in the table above are shown in the diagram below.



**1.5. Inflation.** During the 1998-2008 period, inflation was no longer an important problem for the Turkish economy. It re-emerged as a problem in 2009, however. The inflation rate reached double-digit rates under the influence of the global economic crisis, and only recently has begun trending downward in the May-June period. The Central Bank revised its year-end target downward to 6-7%. The survey of expectations of the Central Bank issued in June 2009 announced the yearly Consumer Price Index expectation as 6,18% (TCMB, Beklent Anketi, 22.6.2009, <http://www.tcmb.gov.tr/>).

Inflation rates (Consumer Price Index) for Turkey for the 1998-2008 period are shown in the table below.

Table 6. Inflation rates in Turkey for the 1998-2008 period (Consumer Price Index, compared to the same month of the previous year-January/January)

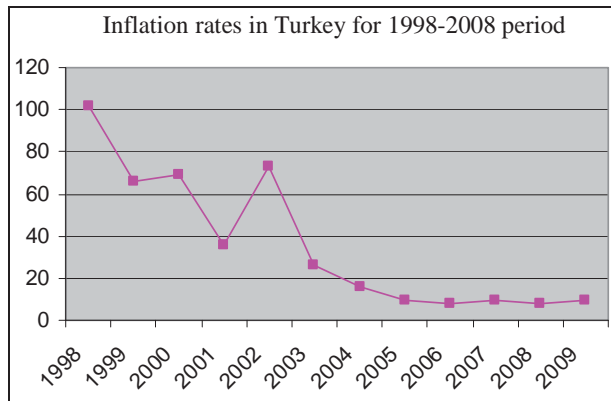
Years	Inflation ratio (%)
1998	101.6
1999	65.9
2000	68.9
2001	35.9
2002	73.2
2003	26.4
2004	16.2
2005	9.24

Table 6 (cont.). Inflation rates in Turkey for the 1998-2008 period (Consumer Price Index, compared to the same month of the previous year-January/January)

2006	7.93
2007	9.93
2008	8.17
2009	9.50

Source: [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=17&ust\\_id=6](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=17&ust_id=6)  
 Note: January 1997-January 2004, 1994 was used as the basis year. January 2005-January 2009, 2003 was used as the basis year.

Inflation rates for Turkey for the 1998-2008 period are shown in the diagram below.



**1.6. Current accounts deficit.** Another important problem for the Turkish economy is the current account deficit. Along with the monetary and exchange rate policies applied yearly, the dependence of industry on external inputs deepened this problem. Moreover, the size of imports has had a negative effect on the Turkish economy, which carries a high unemployment rate.

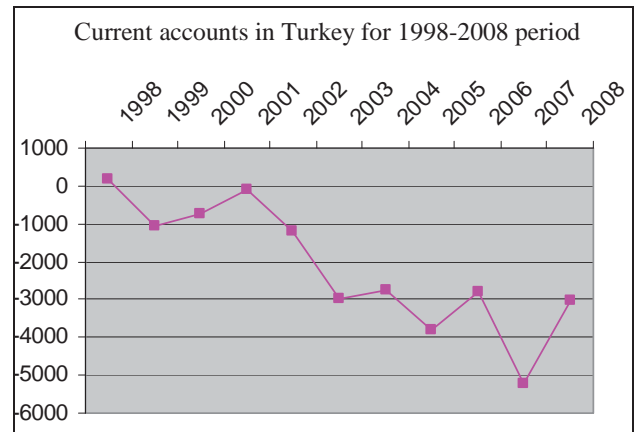
Changes in current deficit in Turkey for the 1998-2008 period are given in the table below.

Table 7. Current Accounts in Turkey for the 1998-2008 period (million \$)

Years	Amount
12-1998	170
12-1999	-1040
12-2000	-745
12-2001	-99
12-2002	-1207
12-2003	-2974
12-2004	-2748
12-2005	-3825
12-2006	-2816
12-2007	-5220
12-2008	-3036

Note: The data are monthly.  
 Source: TCMB, <http://evds.tcmb.gov.tr/>

The current accounts in Turkey for the 1998-2008 periods are given in the diagram below.



**1.7. Budget surplus over interest.** According to the stand-by agreement with the IMF, a 6,5% budget surplus over interest was predefined yearly. Achieving this target has been regarded as a significant success.

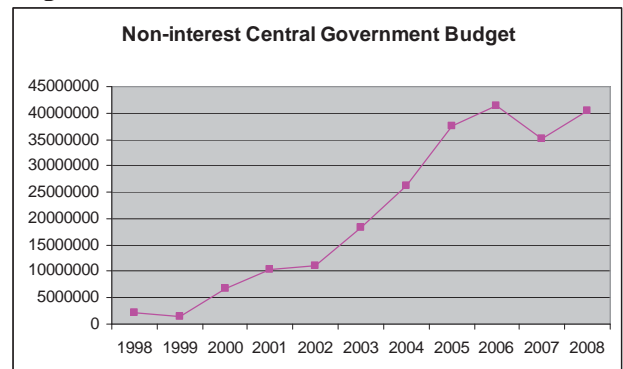
Changes in non-interest central government budget in Turkey for the 1998-2008 period are given in the table below.

Table 8. Need for public sector borrowing, non-interest central government budget (annual, thousand TL)

Years	Amount
1998	-2281636
1999	-1436419
2000	-6713860
2001	-10271825
2002	-11126598
2003	-18404773
2004	-26278000
2005	-37614446
2006	-41320106
2007	-35044984
2008	-40360488

Source: TCMB, <http://evds.tcmb.gov.tr/>, DPT.  
 Notes: 1. After the year 2006 the definition was changed as Central Government Budget. In the previous years it had been presented in the basis of Consolidated Budget. 2. (-) This symbol is used for surplus.

The values given in the table above are shown in the diagram below.



## Conclusion and evaluation

The Turkish Economy went through three important economic crises since 1998. The first one, which occurred in 1998, was largely due to external reasons. The other two crises of November 2000 and February 2001 resulted from internal dynamics of Turkey. Thanks to the precautions taken and other structural reforms, these crises turned into opportunities for Turkey in the following periods. Integration of these precautions together with political stability resulted in significant stabilization of Turkey's economy, which has been widely-regarded as a success.

During the 1998-2008 period, Turkey reached one of the most important achievements in direct foreign capital investment, joining the top 20 countries in the world. Although the foreign debts of Turkey kept increasing during this period, their

ratio to GDP decreased gradually. In this period, the ratio of budgetary deficits to GDP decreased gradually and the Maastricht Criteria target was outgrown in these terms.

The most important problem that has worsened during this period was unemployment. Especially due to the influence of the current Global Economic Crisis, the unemployment rate has increased gradually. On the other hand, inflation decreased in importance when compared with the 1998-2008 period, falling to the single-digit numbers.

Along with unemployment, another important problem for the Turkish economy has been the current accounts deficit. In the 1998-2008 period this problem kept increasing in importance.

Last but not least, it is worth noting that Turkey achieved a significant success in reaching the target of budget surplus over interest in this decade.

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