Crisis and Development of Financial Structure in Turkey After 1980

Havva Arabacı, Fatih Çavdar
TrakyaUniversitesi

The process of financial liberalization which started in the 80's, occurred together with a series of changes in the financial structure of Turkey. In this period, economic changes especially at the fields of labor, capital, commerce and technology affected significantly whole economy of the country. Together with the removal of obstacles that blocks capital movements, fragility of the financial system has increased and Turkey's economy has begun to experience financial crises consecutively. Applicated fiscal measures have been exacerbated the crises.

In this study, it is given that the financial structure in Turkey has realized what kind of transformation with the effects of the after 1980 crisis.

Key Words: Liberalization, Financial Structure, Transformation, Crisis, State.

Introduction

Liberalization process of developed and under-developed countries differ from each other. As a result of the liberalization of the countries there have been changes in many areas such as trade, technology, labor and capital. After the globalization, significant changes have taken place in the financial field. However, under developed countries with high financial fragility have faced severe crisis than developed countries.

Year 1980 was a year of significant structural transformation for Turkey's economy. After 1980, Turkey's financial liberalization process affected both domestic and foreign policy. Moreover, integration into the globalization process has accelerated.

After 1990, speed and amount of capital growth did not provided same positive results in all countries. Financial aspects of this change are described in the study on the case of Turkey. Turkey and the experiences of other countries who are in the same mass also put the emphasis on the transformation of the financial structure. As a result of financial liberalization movements applied in the countries across the world, crises faced by developed and under developed countries has a significant importance.

Crisis After 1980

The implementation of the decisions taken at 1980 stabilization program, reveals the radical changes occurred at economic and financial structure. On the other hand, this changes relationship with the crisis makes a significant emphasis for Turkey and other less developed and developing countries, for the results of the “change and transformation in the financial structure” process.

Turkey, since the beginning of 1980, has been among the countries that adopting and implementing neo-liberal approach mainly based on free market oriented outward policies within the support of the World Bank and IMF. In this process, rapid, constant and variable rates of inflation and financial crises due to the liberalization of capital movements in mid 1989 and
medium and large-scale fluctuations in exchange rates and interest rates has been occurred at economy (Şenses and Taymaz, 2003 pp. 429-430).

"Export-oriented accumulation" period extending from 1980 to 1989 was followed by "hot money based growth" period in the 1990s (Sönmez, 2002 pp. 115-116).

At the process of the financial freedom and the free movement of short / long-term capital after 1990s which increased instability in the world economy, has also increased instability in Turkey (Apak and Aytaç, 2009 p. 110). 1990's for Turkey's economy, has been a period of experiencing internal and external shocks and crisis.

With the effects of the liberalization of capital movements that spread all over the world in the 1990s, has increased vulnerability of emerging economies to external shocks. During the 1990s these shocks has led to experience sudden and high rate of reversals in short term capital flows (CBT, 2002 pp.58-59).

A characteristic of 1990's era which provide basis to crisis is, rapid development in the brokering function of banks by enabling short term foreign borrowing through opening foreign currency positions and enlarging off balance sheet repurchase agreements to finance government deficits by internal debt (Celasun, 2002 pp. 7).

During 1990-1996, except years 1991 (Gulf crisis) and 1994 (financial crisis), Turkey has been exposed to excessive speculative capital inflows. As in many Latin American countries and also in Turkey, new capital inflows in 1990s were in the form of portfolio investments and short-term capitals. After the liberalization of capital transactions, excessive capital inflows have increased current account and state deficits. When wrong policies on capital inflows and lack of good governance added to this situation a major crisis hit Turkey in 1994 (Yentürk, 2005 pp.130-131).

Despite the measures taken in the 1994 crisis, the effects of crisis, has maintained its negative impact on the financial structure. After then November 2000 and February 2001 crises occurred. Especially after the 2000, crisis happened behind one another to have deeply affected the financial structure.

In Turkey, during the first 10 months of 2000, net foreign capital inflows have boomed. In November 2000, monetary contraction in the economy resulting from foreigners taking it aboard by selling stocks was felt immediately at the financial markets and the inter-bank overnight interest rate hikes has occurred. Turkish banking system went into a serious liquidity crisis caused by shocking interest rate rise which is a result of speculative capital outflow (Akalın and Uçak 2007 p. 261).

The growth of the current account deficit, the delay of privatization and structural reforms creating a negative impact on capital flows has led to an increase in interest rates in 2000. Turmoil in the financial markets and foreign capital outflow led to a reduction in Central Bank reserves. With the reduction of reserves a sudden increase in interest rates has been observed. Central Bank, in November 2000, has provided liquidity to the markets by exceeding the ceiling of Net Domestic Assets (CBT, 2002 p. 50).

While markets surviving through after effects of the November crisis Turkey faced a new crisis (Uyar, 2003:136). February crises that Turkey faced after the November crisis, was very heavy both economically and socially as well as financially. Crisis emerged as a result of the deterioration of basic macroeconomic indicators; however, this deterioration formed as a result of the pressures of speculative flows which created by unchecked capital movement (Yeldan, 2002 p. 4). Like in the November crisis, Central Bank's decision to not to change the targeted Net Domestic Assets, was among the factors that aggravate and deepen the crisis in February. In this
In a crisis environment where payment systems are impaired and financial markets are adversely affected, foreign exchange demand continued (Kumcu, 2001). Continued demand has led the balance of payments deficit to become unsustainable. We must not forget that the impact of the 2001 crisis to the economy, which occurred as unemployment, poverty, and high inflation, continued for a long time. During this crisis, many banks went bankrupt, taken over by state or sold to foreigners. (Seyidoğlu, 2010 p. 241). To capitalise these, the need for public funds increased, this has led to a significant increase in the domestic debt stock (CBT, 2002 p.65).

United States has experienced a crisis in 2007, starting in the financial field, and in time spread to the real sector and finally in an expanding scope affected the entire economy. In the summer of 2007 crisis erupted in the U.S. housing market, which at the beginning occurred as Mortgage crisis, turned into a liquidity crisis through the process, affected real sector after the financial market and continues to spread besides the developed capitalist countries regions. In order to take control of the crisis, trillions worth funds and credits have been released to market by Western states, led by US (Bedirhanoğlu, 2009 p.1).

In terms of laborers, it will be clearly seen that, crisis will affect them in forms of deepening and spreading unemployment, generalized and extended flexible employment practices and wage cuts in severance-pay claims. This situation shows that awareness created by capitalism is stronger in the central economies rather than the surrounding economies and dominant at the capital owners rather than the laborers (Önder, 2009 pp.13). Technological advances and globalization process has made world economies more dependent (to each other). In 2008-2009, like the rest of the world, Turkey also has experienced severe effects of the global crisis.

Turkey's financial sector was less affected by the global crisis. In 2001, Turkey faced a similar crisis which United States faced in 2007. Effects of 2007 crisis on the real sector has been devastating. Industrial production has decreased, unemployment increased. Economic recession that began in the last quarter of 2008 has continued and the economy began to grow in the last quarter of 2009. Effects of the global crisis, especially has shown on foreign trade and foreign investment. While exports contracting, imports contracted further and resulted as a decline of balance of the current account deficit (Seyidoğlu, 2010 pp. 241-243).

With the last crises it's been understood that in preventing crises state has a key role and in the future for providing stability and development that role will continue. (Seyidoğlu, 2010 p. 238).

The Transformation of Financial Structure in Turkey

After 1990, 1994 crisis, 1997 Asia crisis 1998 Russia, 2000 November - 2001 February crisis occurred; to eliminate direct and indirect negative reflections of crises to economy and the financial structure, legal and institutional arrangements were made.

Since 1980, to ensure growth and development, Turkey’s economic system have been harmonized with international economic policies by restricting the government implemented policies and state intervention instruments. Some of these are; (Güzelsarı;2008 pp.105-181)

Reducing State Intervention and State Regulatory Structure
To achieve economic development, all were attributed to the limitation of state intervention instruments according to motto which called "small states, strong market". For this; (1) withdraw of state intervention in the public budget to a minimum level (2) limitation of state economic enterprises which is direct state intervention instrument in the economy (3) abandonment of normative and regulatory role of the state

Since the 1980s, the ongoing neoliberal transformation can be characterized as liquidation of the gains of the welfare state, the subordination of the market, penetration of economic criteria’s such as efficiency, productivity, profitability, growth into all areas of social life. This process raises the need for reconfiguration for both the nation-state forms and global capitalist order.

**Budget and Tax Policy Changes in Favor of Capital**

In capitalist society, one of the means of state intervention in the economy is the budget and tax policies. State intervene economy as a very important role by collecting and spending budget resources. This intervention has a decisive importance in terms of capital and labor.

**Legal-Institutional Arrangements in the Neo-Liberal Policy**

After 1980, the creation of new accumulation model privatizations accompanied by deregulation has resulted in withdrawal of the state's social policy.

**Restructuring Finance Management**

Reform issues in the 2000’s, the public personnel reform, local government reform, public budget reform and public administration reform have emerged on four separate parts each in itself constitute a whole.

The most important pillar of public administration reform were public expenditure management, budget management structure and state laws governing income / institutional arrangements. Expenditure and budget structure and Revenue Management were reorganized with The Public Financial Management and Control Law (Law No 5018) which came into force in 2003 and the Revenue Administration Act which came into force in 2005.

**Debt Management with New Regulations**

In terms of debt management, use of economic and fiscal policy instruments through which institutions and how and the relationship between these institutions, have great importance in restructuring of the state. Worldwide debt management is generally conducted by Ministry of Finance, Central Bank, the Debt Management Office, Debt Advisory Group; In Turkey, Under secretariat of Treasury is responsible for debt management. Relations with the IMF and the World Bank which have increasing influence on economic management and global regulatory bodies such as the WTO have been conducted by Undersecretary of Treasury Turkey, since 1980, with in support of the World Bank and the IMF, has been among the countries that adopting and implementing the neo-liberal approach that based on out warded, free market oriented policies (Şenses and Taymaz, 2003 pp. 429-430).
In Turkey, in 1989, capital movements were liberalized, the liberalization of the financial system has been started. However, the liberalization of the financial system was completed in 2000. Narrowing of public economic activity was initiated by the 1980 Stability Programme. In Turkey, only 6.2 billion dollars of privatization carried out between 1983-2003, privatization program gained momentum with 2000-2002 programs and 29 billion dollars privatization was carried out by the end of 2008. In total 35.2 billion dollars of state capital stock has been transferred to the private sector (Ekzen, 2009 p. 105).

In 1985 government -to close the budget deficit- began to issue government bonds and bills. After 1989, government while providing capital inflows by issuing bonds, has become constantly paying debt in the medium and long term loans. In Turkey in the 1990s, there has been an increase in both domestic and external debt. Liberalization of capital movements, has developed a new mechanisms that causes increasing external sources to transform in to state debt. Facilitation in high-interest financing of the budget deficit by domestic borrowing, has resulted a vicious cycle that causes heavy distortion in the state balances. Inflow of external resources in 1998-2007 years largely supported the increase in current state spending; were used to finance the budget deficit (Boratav, 2013 pp. 183-208). After the liberalization of capital movements in 1989, the reform process has led to higher external debt.

After 1989 large state debt has emerged as a result of persistent problems in the tax system, deteriorating financial structures of state-owned institutions, transfers through subsides to social security institutions and agricultural sector, loose income policies conducted by the governments. During 1990's while there wasn't a significant improvement in the government's ability to collect direct taxes, indirect taxes (mostly conducted from consumption) has became the most important income resource (CBT, 2002 ss. 30). A conversion from indirect taxes to direct taxes is observed on the applied tax policies.

Also in the context of restoring fiscal discipline which began to gain importance after the 2001 crisis, law on Public Finance and Regulating Public Debt Management No.4749came into force in 2002 in tended to discipline debt management and financial rule shave been put into life in this sense. The purpose of Law No. 4749 which generally containing regulations on public debt is; to ensure fiscal discipline and transparency and to create a debt management on borrowing process which reveals optimal term on debt structure. In this purpose, metropolitan municipalities, municipalities and their affiliated organizations and other local government agencies and also arrangements for the procedures and principles concerning mainly foreign borrowings of local governments are within the scope of this law (Gündüz and Agun, 2011 pp. 137).

Conclusion

The financial instruments have great importance for under-developed countries. In these countries, economic and fiscal policies which based on globalized rising financial markets and financial instruments have been applied. Therefore, in the 1980’s and the 1990’s, Turkey's financial liberalization process was completed in a series of legal acts. However, the fragility of the financial structure of Turkey, and other setbacks, such as encountered in implementation of financial control and audit were resulted with heavy crisis. To understand the external and internal structures of the crisis require to take necessary steps.
After 1980’s, to reduce the effects of the crisis in Turkey, a wide variety of financial measures have been taken. However, the results of the measures to ensure economic growth and development was a failure. Therefore, crisis in Europe, Asia, Latin America and Turkey has adversely affected countries Turkey, especially in the 1990s, have been affected by the crisis of the other countries and regions. In this process, the 1994 economic crisis and the banking crises of November 2000 and February 2001 have direct impacts on the economic and financial structure of Turkey. 2007 global financial crisis in the United States was seen in Turkey and other countries because of "ripple effect". Economic and financial decisions which oriented to prevent or mitigate the effects of the crisis has not been sufficient. Within this period, Turkey's fragile financial structure caused the ineffective use of financial instruments. Financial liberalization process, starting with the financial decisions made way to the crises in Turkey's economy which becomes completely open within this period.

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