

Global Financial Crisis: Economic Austerity Measures Of Turkey

Merve KILIÇ
Fatih University, Turkey
mervekilic@fatih.edu.tr

Abstract: The global financial crisis has been the worst financial crisis since the one related to the Great Depression of the 1930s. It contributed to widespread business contraction, increases in unemployment, shrinking government revenues, declines in consumer wealth, and so a significant decline in economic activity. Many causes have been cited about the global financial crisis by leading economists and experts. Both market-based and regulatory solutions have been presented to lessen the dramatic effects of the crisis.

The collapse of a housing bubble, which peaked in the United States in 2006, erupted in 2007 and led to a global financial crisis in 2008. This crisis has been triggered by a dramatic rise in mortgage delinquencies and foreclosures in the U.S. and has caused the values of securities tied to housing prices. So it has damaged financial institutions all over the world. The financial crisis which began in industrialized countries quickly spread to emerging and developing economies. Questions about bank liquidity, declines in credit availability, and damaged investor confidence had a negative impact on global markets, and caused large losses during 2008.

This global crisis also affected Turkey. But the effects of this crisis on Turkey were limited. Demand in global and national markets has decreased. So the trade level in both national and global markets has also decreased. Bank's liquidity and profitability seemed healthy during such a crucial crisis. There were several policies of Turkish Government to diminish the effects of financial crisis about interest rates, tax rates, exports rediscount credit limit etc.

This study aims to analyze the effects of the global financial crisis and the measures taken by Turkey to lessen the negative effects of it on Turkish economy.

Introduction

A first glance at Turkey's performance in the current global financial crisis shows that it has managed to weather the global stormy conditions relatively well. Although Turkey has been negatively affected by this crisis, it has succeeded to avoid collapsing into a currency and financial crisis. Activity in the real sector has contracted sharply, mainly as a result of both collapsing external demand and strongly declining domestic demand. A financial crisis similar to those in the 1990s and in 2000/2001 has been avoided before. Experiences of Turkey from those previous crises have conserved it from the last global financial crisis. However there are still negative signals in the economy that have occurred because of old vulnerabilities of the Turkish economy. Warning indications that the Turkish economy include developments related to the timing of the economic slowdown, the fairly large correction of the exchange rate at the beginning of the crisis, concerns regarding the external indebtedness of the private sector and the numerous voices calling for policy anchors, such as the introduction of binding fiscal rules or a new IMF arrangement (Macovei, 2009).

This global financial has affected not only U.S., but also all the countries in the world. 2008-2009 financial crisis was the deepest one since 1929 Great Depression. Governments have taken several measures to decrease the effects of this crisis in their countries. Turkish Government also has taken several measures toward global financial crisis. Although Turkey experienced crises before, this last one was different from others. 1990s and 2000/2001 crises of Turkey were triggered by domestic instability rather than international factors.

The main purpose of this paper is to analyze the economic austerity measures of Turkey to lessen the affects of the global financial crisis. In this paper general causes and the consequences of the crisis will be also assessed. The market collapse which started in U.S. now dispersed all over the countries and affected the world economy. As a developing country, Turkey, has applied several policies. Those policies should be some different than Turkey applied in prior crisis, because the causes of the last one was so different.

The paper is organized as follows. The second section analyzes the causes and consequences of the Global Financial Crisis which has occurred in the U.S. The third part explains the effects of this crisis on Turkish Economy.

The economic austerity measures which have been taken by Turkish Government have been explained in the fourth section. The last section gives the conclusions of this study.

Causes and Consequences of the 2008-2009 Global Financial Crises

The turmoil in the U.S. subprime mortgage market, which erupted in the second half of 2007, started to spillover to the overall markets challenging both financial and economic stability. There are mainly two reasons underlying the widespread and devastating effects of this crisis. The first one of these is globalization phenomenon that has gained pace early 1980s reaching peak 2000s. Globalization led to financial and economic systems to be highly integrated. The second one is that this is a financial crisis and that erupted in many developed economies simultaneously (www.tcmb.gov.tr).

There were other reasons that had triggered the global financial crisis underlying those two main reasons. The first one was the bursting of the housing bubble. Falling house prices have a major effect on household wealth, spending and defaults on loans held by institutions. Events in the U.S. typify a global phenomenon. From 2000 to 2006, house prices in some areas doubled and then subsequently collapsed. While house prices were rising so strongly, credit was supplied liberally to meet the demand as perceptions of risk fell. The rising wealth boosted confidence and spending (Mckibbin and Stockel, 2009). Low interest rates and large inflows of foreign funds created easy credit conditions and encouraged debt-financed consumption. Easy credit, and a belief that house prices would continue to appreciate, had encouraged many subprime borrowers to obtain adjustable-rate mortgages. This credit and house price explosion caused a building boom and a surplus of unsold homes. As the number of unsold houses increased, the U.S. houses prices begin declining in mid-2006. The decline in mortgage payments also reduced the value of mortgage-backed securities, which eroded the net worth and financial health of banks. This vicious cycle was at the heart of the crisis (www.wikipedia.org).

The second reason, even though the U.S. had low and sometimes negative savings rates, there was a “global savings glut” coming from the savings of China, Japan, the Middle East, and Europe. It is widely believed that one of the driving forces of over lending and reckless investment in the U.S. housing market came from the global imbalance in savings and investment. The Asian financial crisis occurred in 1997 after some Asian nations suffered seriously from slumping exchange rates because of a lack of foreign reserve. Many of the emerging countries started to save their money in foreign reserves, particularly U.S. dollars. This global saving mainly from China, Japan, Russia, Taiwan, India, Brazil and other oil-exporting countries, was used to buy U.S. Treasury bonds and other U.S. securities. The global imbalance reflected the chronic shortage of savings relative to investment in the U.S. and other developed countries, but the substantial savings surplus to investment in emerging countries (Yu et al., 2009).

The third cause was the creative financial intermediation made possible by innovative, but complex, mortgage securities. These securities were sold globally under a lax financial regulatory system with the promise of stable and generous long-term returns (Yu et al., 2009). Along with the rise of unregulated lenders came a rise in the kinds of subprime loans that economists say have sounded an alarm. The large number of adjustable rate mortgages, interest-only mortgages and “stated income” loans are an example of this thinking. “Stated income” loans, also called “no doc” loans and, sarcastically, “liar loans,” are a subset of Alt-A loans. The borrower does not have to provide documentation to substantiate the income stated on the application to finance home purchases. Such loans should have raised concerns about the quality of the loans if interest rates increased or the borrower became unable to pay the mortgage (Bianco, 2008).

The causes of global financial crisis are summarized in G-20 Financial Markets and World Economy Conference Declaration. These developments, together, contributed to excesses and ultimately resulted in severe market disruption:

During a period of strong global growth, growing capital flows, and prolonged stability earlier this decade, market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system. Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions. Major underlying factors to the current situation were, among others, inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes.

There are long-term and short-term consequences of this global financial crisis. Slower global growth was one of the dramatic results of the crisis. Global growth stood at 5 percent in 2007, but IMF expects world growth to

slow to 3 percent in 2009. Some countries experienced economic contraction after the crisis. In G7 countries except for the United States and Canada, GDP growth was slower in Q2 of 2008 compared to Q1. Three major European economies (Italy, France and Germany) experienced negative GDP growth in Q2, and forecasts are for a continued decline in Q3. The IMF forecasts around 0 percent growth for advanced economies in 2009, and the Federal Reserve Bank of San Francisco said that the U.S. economy will face a sharp slowdown in the final quarter of 2008 and a small contraction in the first quarter of 2009. The crisis caused financing challenges for governments. There is some risk that governments may not be able to guarantee the stability of the financial system, as it has become clear in the case of Iceland, where the banking sector has assets of around 300% of GDP, something no government could ever guarantee, at least not on a short-term basis. Other crucial consequence of the crisis was the rising unemployment. The IMF also predicts that unemployment in the advanced economies will rise from 5.7 percent in 2008 to 6.5 percent in 2009. As economic growth slows, some sectors, including construction and real estate services, are likely to experience disproportionate employment declines. Significant job losses in the financial sector of the industrialized nations are also likely. Since its employment peak in December 2006, the U.S. financial industry has lost 172,000 jobs. In September 2008 alone, the U.S. lost 17,000 financial jobs, representing 10.6% of total employment losses that month. The financial sector employment in Europe exhibits similar downward trends. Another result was the decreasing trade volume. According to the IMF, the forecast for world trade volume growth (in terms of goods and services) has been revised downwards by 1.9 percentage points to reach 4.1% in 2009, with a likely impact on labor markets in developing and emerging economies. A drop in exports, as well as capital inflow, may trigger a falloff in investments. Deceleration of growth and deteriorating financing conditions may trigger further business failures and possibly more banking emergencies – the result being that some countries may slip toward a balance of payment crisis (Khatiwada and McGirr, 2009).

The Effects of the Global Financial Crisis on Turkish Economy

Turkish economy has high level of integration with world economy through trade and financing channels. So the contagion of the Turkish economy from the crisis is related with this integration. The problems in global credit markets have led to loss of consumer confidence, domestic uncertainties and deterioration in risk perceptions, and so decline in international trade. So, the impact has come mainly through two channels: the collapse in external demand has affected Turkey's key exports while subdued domestic lending and capital inflows have depressed domestic demand (Macovei, 2009).

The effects of the crisis have been significantly felt after the second quarter of the 2008 when economic growth rate started to decline in Turkey. As a result, Turkish economy grew by only 0.9 percent in 2008, while the growth rate was 4.7 percent in 2007. As the global uncertainties intensified at the beginning of 2009, the slowdown of the economy deepened. The GDP contracted by 14.3 percent in the first quarter of 2009. However, with positive effects of fiscal stimulus packages the slowdown of the economy moderated in the second quarter. As a result, Turkish economy contracted by 10.6 in the first half of 2009. The unemployment rate, which was 10.3 percent in September 2008, increased to 16.1 percent in February 2009. Partly due to the effect of the tax reductions implemented in certain sectors, the unemployment rate began to fall and realized at 13 percent in June 2009. Consumer inflation declined to 5.3 percent as of August 2009. It is expected to be around 5 percent at the end of the year. The Central Bank short-term interest rates decreased to 7.25 percent, down by 10.5 percentage points compared with the last quarter of 2008. Market interest rates also decreased in line with the interest rate policy of the Central Bank (www.tbb.org.tr). Both external and internal demand decreased, and so output and income declined. External financing became limited. The unemployment rate increased. On the other hand, interest and inflation rates have decreased (Tab. 1).

	Dec.2002	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec. 2007	Dec. 2008	Nov. 2009
GDP (YTL/TL)	275.032	356.680	430.511	486.401	575.784	856.387	950.144	700.958
Real GDP Growth	6.2	5.3	9.4	8.4	6.89	4.67	-1.1	-6.5
Inflation	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.53
Unemployment Rate	10.3	10.5	10.3	10.3	8.8	10.6	13.6	13.0
The Central Bank Short-Term Interest Rates	44	26	18.0	13.5	17.5	15.75	15.0	6.5

Table 1: Selected Economic Variables (percentage)

Source: TURKSTAT

Foreign direct investment came into Turkey has also adversely been affected by this crisis. The liquidity crunch which has been triggered by the crisis eventually led to a downward trend in foreign direct investments. According to UNCTAD (United Nations Conference on Trade and Development), FDI inflows declined by 15 percent according to preliminary figures of 2008. According to UNCTAD data, investment inflows into developed countries dropped 32.7 percent, while inflows into developing countries increased by 3.6 percent. In the first ten months of 2009, FDI inflows to Turkey have reached to 6.622 billion USD. In parallel to the decline in global FDI inflows in 2008, FDI inflows declined by 18 percent in Turkey and received a total of 18 billion USD. The decline in FDI inflows to Turkey are reflecting the global downward trend (Fig. 1).

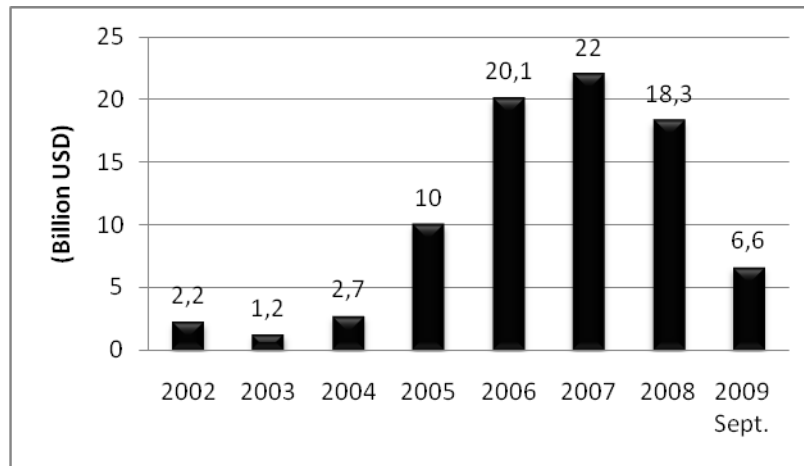


Figure 1: FDI (Foreign Direct Inflows) to Turkey (2002-2009)

Source: www.treasury.gov.tr

The effects of the crisis on Turkish economy can be classified as effects on real economy, effects on financial markets, and effects on banking sector.

The Impact on Real Economy

Global financial economic crisis has a significant negative impact on the real economy of Turkey. The negative effects of the global crisis on Turkey's real economy have become highly evident in the last quarter of 2008 and in the first quarter 2009. The real sector has been impacted through two main channels: external demand has shrunk significantly since October 2008, and domestic demand has contracted in tandem with deteriorating business prospects and lending conditions (Macovei, 2009). The index of industrial production has declined sharply since August 2008. Industrial capacity in this global financial crisis has decreased more than it decreased in 2001 financial crisis. Manufacturing industry is an important part of Turkish economy. It creates employment and export opportunities. More specifically, about 4.5 million work force is employed and about 95% export of export generated in the manufacturing industry. Due to the economic crisis, the manufacturing production declined (Çiçek and Hatırlı, 2009). Several industries, in particular car industry, were highly sensitive to a drop in external demand, mainly that originating from the European Union countries. Annual decline in the automotive sector doubled the rate recorded in the 2001 crisis. In the 2001 crisis, the lowest level attained by the drop in the capacity utilization rate was 68.5% in April 2001, whereas in the current crisis, the capacity utilization rate sank to 63.8% in both January and February 2009 in the automotive industry. Production in the automotive sector contracted on average by almost 30% annually in the second half of 2009 (Tab. 2). The machinery and textiles sectors are also contracted by around 24% and 20%, respectively in 2008 (Tab. 3 and Tab. 4).

	2004	2005	2006	2007	2008	2008 (11 months)	2009 (11 months)	Change (%) 2008-2009
Production (Thousand)	864	916	1.026	1.133	1.147	1.108	775	-30
Export (Thousand)	519	561	706	830	910	873	560	-35
Exp./Production (%)	60	61	69	73	79	79	72	-

Table 2: Production and Export of Automotive Industry
Source: OSD

	Dec.2006	Dec. 2007	Dec. 2008	Oct. 2009		Dec.2006	Dec. 2007	Dec. 2008	Oct. 2009
Total Industry	107.8	115.3	114.3	117.9	Total Industry	2.6	-1.9	-17.8	6.5
Manufacturing	107.7	114.8	112.7	116.7	Manufacturing	1.6	-2.6	-20.1	6.6
Textile	100.1	102.9	91.4	93.2	Textile	-5.0	-10.9	-22.0	4.9
Machinery	113.8	120.9	115	114.2	Machinery	17.8	-16	-14.8	9.4
Transportation Equipment	110.0	126.7	133.9	109	Transportation Equipment	10.0	13.6	-40.0	-4.6

Table 3: Industrial Production Indexes (2005=100.0)

Table 4: Percentage Change of Monthly Industrial Production Index over to the Same Month of the Previous Year (2005=100.0)

Source: TURKSTAT

World trade contracted 9.8 percent in the last quarter of 2008 and 31.9 percent in the first half of 2009 (Fig. 2). The annual volume of external trade was USD 348 billion as of September 2008 and dropped to USD 258 billion as of June 2009. Decline in exports has been significant in the current crisis whereas in the previous one they were less affected. This result is as expected. Because in the last crisis the whole world is in recession.

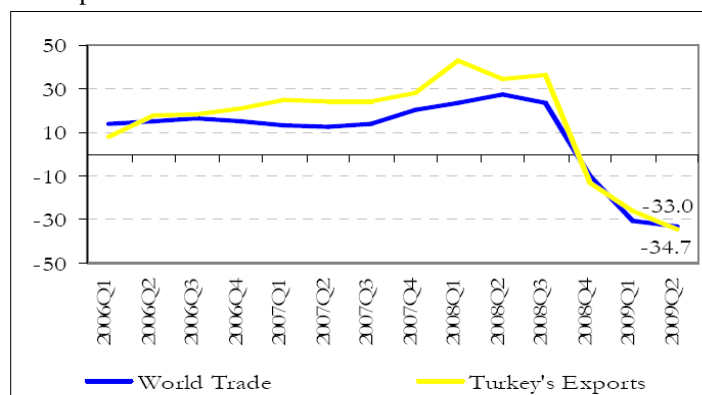


Figure 2: Export levels of the World and Turkey

Source: <http://www.istanbul2009turkey.org/istanbul2009/Turkey/Turkish%20Economy.pdf>

Together with the weakening in oil and commodity prices and decline in exports of technology intensive sectors with higher dependency, imports has also been declining since October 2008 (Fig. 3).

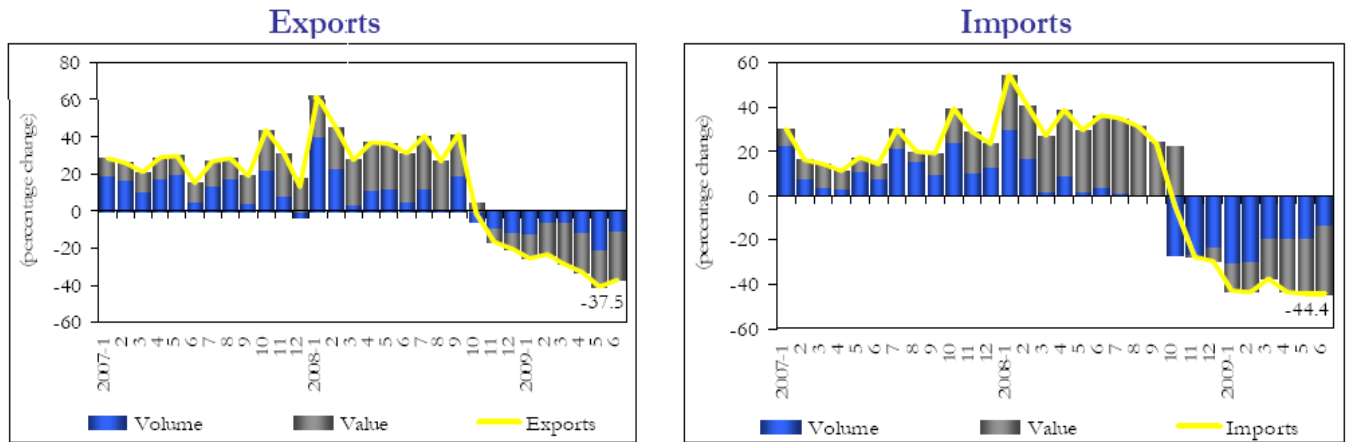


Figure 3: Exports and Imports

Source: <http://www.istanbul2009turkey.org/istanbul2009/Turkey/Turkish%20Economy.pdf>

	Dec.2002	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec. 2007	Dec. 2008	Nov. 2009
Export (YTL/TL)	54.622	70.370	90.327	99.039	123.342	139.340	170.513	130.143
Import (YTL/TL)	78.390	103.425	139.677	157.381	201.078	221.029	258.691	175.654

Table 5: Exports and Import of Turkey

Source: TURKSTAT

As a result, world trade volume and global economic activity has weakened substantially because of the global financial turmoil especially since the third quarter of 2008. Parallel to this development, Turkey's exports has been declining since October 2008 due to the significant slowdown in her major trading partners, especially in the European Union (EU). The increase in trade volume with African nations turned out to be a factor that restricted the further fall in exports (www.istanbul2009turkey.org).

The Impact on Financial Markets

The Turkish currency and financial markets came under significant pressure from the turmoil in global markets that broke out in July 2007 and subsequent decline in risk appetite for emerging market investments. The Istanbul Stock Exchange lost about 55% of its value from July 2007 until March 2009, when a rebound started. Between March and June 2009, the stock exchange regained some ground, but remained around 30% below the July 2007 value (Fig. 4).

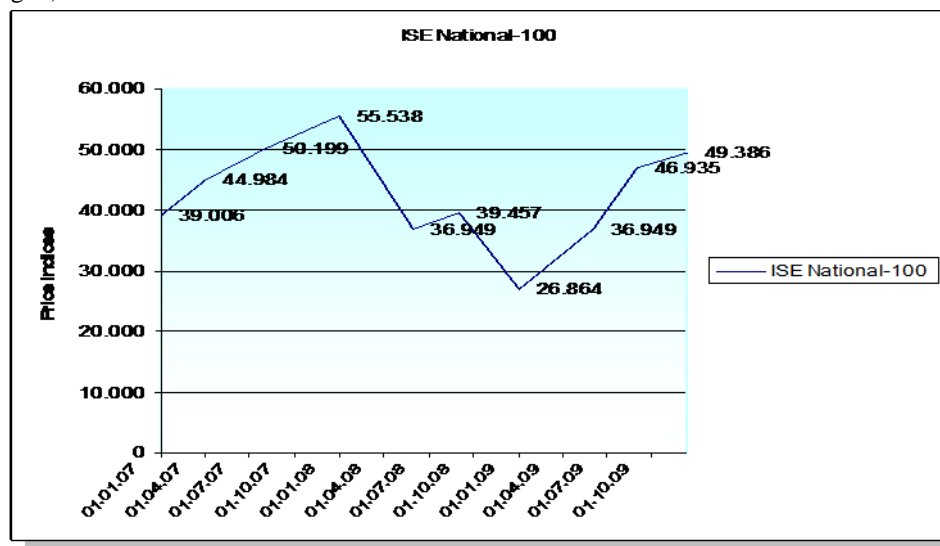


Figure 4: Price Indices ISE National-100, According to Closing Price

Source: www.tcmb.gov.tr

Turkish Lira has been in a strengthening period after 2002. The Lira became more volatile during the sub-prime credit crunch, but did not depreciate strongly until October-November 2008- after Lehman Brothers collapsed. So, international financial crisis put upward pressure on the exchange rate and TL depreciated. From October 2008 until March 2009, the lira lost around 25% of its value against Euro, but has since regained about 10% (Macvoeli, 2009). The Lira also lost about 20% of its value against US Dollar from September 2008 to June 2009.

The Impact on Banking Sector

In Turkey, the financial sector is yet at the stage of growth. It is small and shallow when compared with the financial sectors of developed countries. It is estimated that the ratio of financial assets, consisting of bank assets, shares and public and private borrowing instruments, to GDP was 150 percent for Turkey, 246 percent for developing countries and 421 percent for the world in 2007. The banking system has a major share in the financial sector (www.tbb.org.tr).

After the 2001 financial crisis, a restructuring program was applied in the banking sector. Bankrupt banks were closed, taken over or merged with other banks after the 2001 crisis. Risk management systems improved and public supervision became more effective in this period. Banking Regulation and Supervision Agency fulfilled its regulation and supervision responsibilities very well in 2000s. The banking sector has showed a rapid growth performance after this program. The total assets rose from USD 130 billion to USD 465 billion, their ratio to GDP from 57 percent to 77 percent. In this period, the financial structure of the sector also became stronger. The shareholders' equity of the sector also became stronger. The shareholders' equity of the sector increased from USD 16 billion to USD 54 billion and its free equity from USD 3 billion to USD 40 billion (www.tbb.org.tr). As a result of success of "Banking Restructuring Program" and change in the risk management conception Turkish Banking Sector seemed well positioned to weather the global financial crisis, the opposite of the situation in the EU and the US where the crisis was first triggered by the financial turmoil. Financial sector as a whole and banking sector grew faster than the general economy in 2008. Total assets of Turkish financial sector and banking sector grew 23% and 26%, respectively. Total assets of Turkish financial sector and banking sector reached to 945.4 billion Turkish Liras (TL) in 2008 (Basti, 2009).

Performance indicators of the banking sector were also generally positive in 2008. Capital adequacy ratio of the sector is above the legal limits. There is small deterioration in solvency and leverage ratios, but debt repayment capacity of the banking sector seems still healthy. Profitability of the banking sector is still very high by the end of 2008 (Basti, 2009).

The Economic Austerity Measures of Turkey against the Global Financial Crisis

The authorities and organizations adopted a series of measures to lessen the effects of the global financial crisis on their own countries, and also in Turkey. Those anti-crisis measures adopted by the authorities initially on the monetary side and subsequently became more pronounced in the fiscal policy area. This was broadly in line with the crisis response packages adopted internationally, while taking into account the particularities of Turkey's macroeconomic framework in terms of available room for counter-cyclical measures. The Central Bank, Banking Regulation and Supervision Agency, and Turkish Government have taken some austerity measures against global financial crisis to protect Turkey from the negative effects of the global financial crisis.

Central Bank Measures against the Global Financial Crisis

Problems in the international credit markets have heightened since the second half of September due to increased concerns over the credibility of the financial system, thus leading to liquidity problems in many countries. During this period, the Central Bank adopted the following regulations in order to ensure the efficient functioning of the foreign exchange market and to strengthen foreign exchange liquidity in the banking system in case of liquidity problems (www.tcmb.gov.tr): Central Bank declared that it will resume its activities as an intermediary in the Foreign Exchange Deposit Market until the removal of uncertainties in international markets since 9 October 2008. Central Bank increased its transaction limits in the Foreign Exchange Deposit Market by twofold to USD 10.8 billion since 23 October 2008. Central Bank extended lending maturity to one month from one week in the Foreign Exchange Deposit Market since 21 November 2008. It adopted a strategy to use foreign exchange reserves to primarily support the foreign exchange liquidity need of the banking system. The reserve requirement ratio was unchanged at 6 percent in liabilities, but it was lowered to 9 percent from 11 percent in foreign exchange liabilities

since 28 November 2008. With this measure, the Central Bank provided an additional liquidity of USD 2.5 billion to the banking system.

The Central Bank Regulation on the Liquidity Support Facility governing the principles and procedures set forth for the utilization of credit facilities as stipulated in subparagraph (c) of the (I) of Article 40 of the Central Bank Law was published. Accordingly, the loans will be available (www.tbb.org.tr):

- as advance payments, with one month maturities for a maximum of one year period,
- at the lending rate set for the intraday transactions carried out at the Interbank Money Market; bearing in mind the principle that interest rates applicable to credits of this nature are higher than those applicable to normal open market transactions of the central banks,
- against collaterals accepted at the Interbank Money Market,
- being limited to the amount twice as much as the equity capital of the applying bank.

In the last quarter of 2008, global financial conditions have been tighter than required by the stance of monetary policy, owing mainly to the intensification of the global financial crisis. Turkey has also been undergoing a similar process. In this context, the Central Bank recently made a measured cut in short-term interest rates, in order to offset the extra tightening in monetary conditions (www.tcmb.gov.tr).

Because of the fluctuations due to decrease in the depth of foreign exchange market, the Central Bank has decided to inject foreign exchange liquidity into the market in March 10, 2009 through pre-announced foreign exchange selling auctions under the basic principles of floating exchange rate regime. Daily amount of foreign exchange to be sold via auctions has been set as USD 50 million. Until April 2009, when the auctions were postponed, the amount sold through auctions reached USD 900 million. The Central Bank has started foreign exchange buying auctions in order to increase foreign exchange reserves and the amount bought through the auctions reached to 1.3 billion dollar as of September 15 2009 (www.istanbul2009turkey.org). The Central Bank cut its interest rates and extended the maturity in foreign exchange deposit market in order to prevent a possible foreign exchange squeeze in the financial market. Accordingly, lending rate was reduced to 5.5 percent from 7.0 percent for USD, and to 6.5 percent from 9.0 percent for Euro. The maturity of interbank transactions was extended to 3 months from 1 month (www.tbb.org.tr).

Central Bank increased the exports rediscount credit limit by USD 500 million to USD 1 billion in order to contain the effects of the global financial crisis on industry sectors. Additionally, the rules and principles applicable to the exports rediscount loan limit were rearranged for rendering the use of these loans easier. Therefore, the condition that sets forth assignment of the reserves for letters of credit to the Central Bank was repealed (Erdönmez, 2009).

The Banking Regulation and Supervision (BRSA) Measures against the Global Financial Crisis

The Banking Regulation and Supervision (BRSA) adopted certain measures aimed at preserving the financial strength of banks and containing the effects of abrupt changes in the financial asset prices on banks' capital adequacies. BRSA required banks to get permission for distribution of the 2008 earnings and to protect the balance sheets of the banks from the last interest rate increase BRSA made a new arrangement. BRSA allowed banks to reclassify the securities in their balance sheet from trading portfolio to investment portfolio for once only. BRSA allowed banks to restructure the loans apparently posing no problems in order to ensure smooth functioning of the loan relations between banks and non-financial institutions (www.tbb.org.tr).

The Government Measures against the Global Financial Crisis

To mitigate the adverse effects of global financial crisis on the Turkish Economy the Government has taken various measures. Credit subsidies have been provided to the real sector with special focus on small and medium enterprises and also exporters, guarantee and credit limits of Eximbank were increased, value added tax and special consumption tax on many products such as automobile, furniture, home appliances and residential estates were reduced temporarily, withholding tax on stocks for local investors was removed, the amount of short-term working allowance was increased and its duration was lengthened, unemployment insurance payments were amplified, infrastructure expenditures to the Southeastern Anatolia Project were increased, transfer payments to local governments were increased, incentives on income tax, energy supports, and social security premiums were extended for one year, a new employment package was prepared, a new incentive system was prepared to support investments taking sectoral and regional priorities into consideration, loan guarantee application for small and medium enterprises (SMEs) were enhanced, regulations for reconstructing cumulative credit card debts were put into practice (www.treasury.gov.tr).

The Government sought authorization from the Parliament for increasing and determining for a period of two years the deposit insurance coverage, which was TL 50,000. This amendment allowed for the Treasury's direct guarantee on the deposits insured as the Savings Deposit Insurance Fund's (SDIF) own resources would not be sufficient to cover an unlimited insurance on deposits for which the SDIF was authorized under the current law. Additionally, the Finance Ministry introduced tax advantages for sectors. Accordingly, payment of the tax dues which became payable before 1 September 2008 was decided to be deferred to December 2008 and with 18 installments (www.tbb.org.tr).

With a law, called Asset Peace Law, the real and legal person owing money, foreign exchange, stocks and other precious assets abroad as of 1 October 2008 allowed to bring them and register those precious assets in Turkey by paying two percent tax. Similarly, it was also decided that current income and corporate taxpayers should be able to register their existing securities and real properties inside Turkey which were not registered as of 1 October 2008 through payment of five percent tax (Erdönmez, 2009).

"The Law No. 5834 About Omission of the Past Records for Unpaid Checks and Protested Promissory Notes, and Credit and Credit Card Debts", known as the law for the amnesty records allowed the deletion of the real and legal persons' past records kept at the Central Bank for their unpaid checks, protested promissory notes, and credit debts ensuring that such sums are totally paid before or within 6 months after its effective date or restructured and totally paid. The Government introduced a new economic austerity package for companies, employees, and retired people as a law. With this law, the short term employment fund implemented over Unemployment Fund was extended to 6 months from 3 months. The amount of compensation was increased by 50 percent. According to this law the retirement wages could never be seized (Erdönmez, 2009).

The Government also announced other measures in order to ease the effects of the global financial crisis on 13 March 2009. Accordingly, it was adopted that (www.tbb.org.tr):

- consumption tax applied to durable goods and automobiles to be lowered for a period of 3 months,
- value added tax (VAT) applied to real estates to be lowered to 8 percent from 18 percent for a period of 3 months,
- an additional subsidy of TL 75 million to be extended to SMEs,
- resource utilization support fund to be cut by 5 percentage points,
- capital of Eximbank to be increased,
- discounted night tariff for pricing the use off electricity in industry sector that applied to weekdays only to be extended to cover also weekends and other public holidays,
- Special Communication Tax of cable, wireless, and mobile internet service is decreased from 15 percent to 5 percent,
- For 1979 and old model of automobiles which will be written off remission of tax is enabled,
- To encourage the merger of SMEs the Government adopted a tax measure. SMEs which merge with other SMEs until 31 December 2009 will be exempted from corporate tax or pay reduced corporate tax down to 7.5%.
- To accelerate domestic demand the Government extended the Private Consumption Tax from 15 June 2009 to 30 September 2009.

Conclusion

The world faced a serious crisis for the first time after the "Great Depression" which started in U.S. and has spread all over the countries in a short time. Turkey has also been affected by this crisis. Foreign direct investment inflows, export, domestic demand, and industrial production have declined, while the unemployment rate and inflation rate have increased. Foreign exchange rate has been also affected dramatically. Lira has lost value against Euro and US Dollar. To mitigate those adverse effects of global financial crisis on the Turkish Economy, the Government, the Central Bank, and Banking Regulation and Supervision Agency have taken various measures. Some of the measures taken in order to cushion negative impacts of global crisis to the national economy have been successful, some of them expected to be effective in the forthcoming periods. A pick up in Turkish economy is expected parallel to the recovery of the world economy.

In fact, the economical figures show that Turkey is more resilient to both domestic and external shocks than her previous crisis experiences. The pressures on the exchange rate have not affected banking sector and currency so much. The banking sector has remained healthy and profitable; despite the main source of the global financial crisis was financial sector. Foreign direct investment has declined but continued to flow into the country at moderate levels. Istanbul Stock Exchange has lost value, after a while it has started to regain its value. It can be concluded that the performance of Turkish economy under such a serious crisis validates the success of Turkey's past restructurings.

On the other side, the dramatic rise in unemployment rate and the sharper than expected decline in economic activity show that there are still some vulnerabilities of Turkish economy.

According to many analysts the negative effects of the current crisis will remain awhile because of the weak external environment, low levels of external and domestic demand, and shrinkage of the foreign capital inflows. The recession has stroked the bottom in the first quarter of 2009. In the rest of the year the economy has started to rally by force of tax incentives which have provided increase in domestic demand. At this juncture, policymakers should aim to sustain the improvement in investor confidence and to decrease the unemployment rate. Structural reforms boosting the small and medium enterprises (SMEs) and so the competitiveness of the business sector would help improve the performance of the economy in the upturn.

As for the Turkish economy's future prospects, the increase in GDP between 2002 and 2007 shows that Turkey has an apparent growth potential. With her growth potential, young population, diverse and qualified workforce, entrepreneurial spirit, Turkey is a crucial potential market for global investors. Its strategic location between Europe and Asia give her an important role in this area and makes it a relatively attractive business location. The last developments demonstrate that some of the problems of Turkish economy have been solved, but there are still remaining problems which are waiting to be solved. So, Turkey has to continue to make restructurings and reforms to achieve its expected growth potential.

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