The Global Financial Crisis Of 2008 And Turkey

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Abstract: The First World Economic Crisis that started in 1929 and rapidly influenced all the countries around the world resulted in stagnation, common unemployment, increase in foreign trade deficits and consequent decrease in the level of welfare. The policies initiated in order to decrease and eventually delete these effects of the crisis could only give results many years later. However, erasing the effects of the first crisis was not enough to put an end to the world crises. In 1970 a new crisis bringing along worse results than the previous, began. During this period of both inflation and stagnation, the results have been more destructive. The third major crisis that affected the world economy deeply is, of course, the Global Financial Crisis of 2008. This crisis has affected all the countries around the world and its effects are still visible. In this respect, the Turkish Economy was also influenced by this crisis. In this paper, firstly, economic crises were analyzed, and then the global crises were evaluated from the perspective of Turkey.

Introduction

After the First World Economic Crisis that emerged in 1929, a new crisis harsher than this one emerged. The third important crisis that deeply affected world economy is the 2008 Global Financial Crisis. Economy of Turkey was affected not only by global crises but also by peculiar structural problems and crises which emerged on regional level.

Definition of Globalization and Its Development

The concept of globalization is one which has been intensely used beginning from theaftermath of 1980s. Though there are many definitions for globalization, there is no concept which was agreed upon so far. The concept of globalization is a multidimensional and a difficult to restrict issue. The most important reason for this is that globalization is a process which is not merely economical. There are also social, political, and cultural aspects of globalization.

Sociologists such as Anthony Giddens and John Tomlinson, by referring to its multi-respect characteristics, appreciate it as a multidimensional procedure with economical, social, cultural and technological aspects. (Rugman, 2000, p.23)

Global Financial Crises

Crises which deeply affected world economy are 1st World Economic Crisis of 1929, Oil Crisis of 1970 and Financial Crisis of 2008.

Crisis of 1929

In world economy, an atmosphere fitting to theses of Classical Economists continued until 1920s. Until then, in addition to that there was not remarkable unemployment in economies, the incomes increased in a stable way and general level of prices kept its stability.

But, from the end of 1929 on, the existing balances started to go out of order on a serious level. While the number of unemployed in USA was 1.5 million in 1929, this number reached to 13 millions in 4 years by increasing 10 times. Likewise, while USA had a production of goods and services which made 103 billion dollars, this number remarkably decreased to approximately 55 billion dollars in 1933 (Şıklar,p.249). This rate of decrease was 40 per cent in Germany, approximately 30 per cent in France, and 10 per cent in England (Yıldırım, Karaman…,2009, p.13).

These negative indications about USA and some European countries were observed almost all around the world and this incident was historically recorded as First World Economic Depression.

Crisis of 1970

The second most severe crisis after the First World Economic Depression is the Crisis of 1970. The most important reason for this crisis was that OPEC countries increased the oil prices to four times higher than before. As a result of the over increases of oil prices, important rise in the general level of prices occurred. Along with the rise in the general level of prices Gross National Product also decreased on a great level. This situation was historically recorded as "stagflation" (Parasız, 2006, p.313).

The Crisis of 2008

After the Crisis of 1970 which was named as Oil shock, the most important crisis that deeply affected World economy is The Financial Crisis of 2008. This crisis was seen as problems in the payback of mortgage credits in USA and its effect was felt all around the world in a short period of time. The most common effects of this crisis were seen as; decreases of Gross National Products, increasing unemployment rates and common corporation bankrupts.

Global Crises and Turkey

The Crisis of 1929 and Turkey

The first of crises that deeply affected World Economy is the World Economic Crisis of 1929. This crisis affected both European economy and the US economy. The crisis caused result such as important decreases in production, mass unemployment, foreign trade deficits and which emerged with stagnation, and decrease in the level of wealth which emerged in relation with all these.

During the period of World Economic Crisis of 1929, Economy of Turkey determined an economy politics which had started with İzmir Economics Congress of 1923 and had determined its objectives. In accordance with these objectives, decisions of investment and production leaded by the state were made and started to be applied. (Kılıçbay, 1992, p.100)

Yet, "World Economy Depression", which had in early 1929 and of which the effect was felt all around the world, restricted especially the export in Economy of Turkey that had not been opened to abroad yet (Kılıçbay, 2006, p.101). Economy was in quite a gradual yet a determinate development stage which would make the infrastructure of the developments of following periods (Kılıçbay, 2006., p. 101).

The Crisis of 1970 and Turkey

OPEC had increased oil prices to 4 times higher in a short time in 1972 and these price increases had continued with interruptions in the following periods. This situation deeply affected both world and Economy of Turkey (Kılıçbay, 2006, p.153).

Foreign Exchange reserves rapidly decreased, internal prices rose, inflation, unemployment and stagnation were experienced simultaneously in this period. The effect of this incident, named as "Stagflation", became devastating on economies. (Karluk, 2005, p. 4040-405, Kılıçbay, 2006, 153).

Turkey was greatly affected with its inflation rate rising up to 100 per cent and 0 per cent growth rate in the period between 1973 and 1980 (Kılıçbay, 2006, p.156).

Asian Crisis of 1998 and Economy of Turkey

After a very rapid growth, South Asian Countries went into a great depression in the last quarter of 20th century. The following chart clearly puts forward this situation (Parasız, 2006, p.318.).

Countries	1970-1996	1997	1998
Indonesia	6.8	4.7	-15.5
Malaysia	7.4	7.8	-4.7
Korea	8.4	5.5	-6.5
Thailand	7.5	-0.4	-7.0
Average	7.5	4.4	-8.4

Chart: Growth Rates at Some Asian Countries

As it is seen in the chart, while Asian countries grew on average 7.5 per cent, this rate decreased to 4.4 per cent in 1997 and to -8.4 per cent in 1998 in the period of 1970-1996.

As a result of South Asian Crisis, Indonesia Rupiah, Korea Won and Malaysia Ringgit devalued at a rate of 60 per cent. Since TL was too valuable in this period, Turkish Goods faced unfair competence with South Asian origin goods (Parasız, 2006, p.318).

Great Economic Crises Turkey Experienced after 1980

Crises of November 2000 and February 2001 in Economy of Turkey

Turkey legislated on a foreign exchange hoe, which anticipated the approximation of pre-declared devaluation and inflation, to be valid by 1 January 2001. But foreign trade balance-sheet deficit grew as a result of that TL was initially too valuable, that interest rates decreased rapidly and that consumption spending and export increased in relation with this (Parasız, 2006,p.318). Meanwhile, since the deficits of state banks grew and Demirbank could not fulfil its undertakings Crisis of 15 November 2000 was experienced (Parasız, 2006, p.317-318).

The first banking crisis occurred in 1994 in Turkey. In this period 3 banks were cleared. Banking sector grew 18 per cent by displaying a recovery in 1995. But the sensitivity of banking sector toward liquidity and interest rates increased in 2000 as a result of Asia Crisis of 1998 and earthquake disaster which was experienced in 1999 in Turkey (Karluk, 2005, p.361).

As a result of the crisis in November 2000, 9 banks were transferred to TMSF (saving deposit insurance fund). This crisis also paved the way for the crisis in February 2001 (Yılmaz-Şen, 2006, p.325). Crisis of November 2000 in Turkey is a crisis of banking to a great extent. Such a result was inevitable when 100 per cent reassurance provided for investments and socio-economic conditions of the period came together. Crisis of February 2001, which is the most profound crisis ever, burst out in Turkey when the effects of this crisis and wrong policies of the period were combined with political risks.

In February 2001, “flexible rate of exchange” was facilitated by resigning from firm money policy which had been used for 14 months. The interests had risen to 7500 per cent in 21 February 2001, and İstanbul Stock Market decreased 18.1 per cent, the worst ever. As a result of these developments, rate of exchange was left to fluctuation and while one US dollar was 686.500 TL on 19 February, it rose to 920.000 on 23 February and to 960.000 on 28 February. So, TL lost 40 per cent value against US Dollar in 10 days (http://www.econturk.org/Turkiyeekonomisi/krizdenkrize.pdf).

Crisis of 2008 and Turkey

Reasons for Financial Crisis of 2008

Financial crisis of 2008 was an all of a sudden event. It occurred as a result of the combination of many negative developments in world economy. The main reasons for the developments which had deeply affected World economy can be gathered under the following titles.

a. Current deficits of USA which had been going on since 1990s and that this deficit increased more and more (http://blog.milliyet.com.tr/Blog.aspx?BlogNo=144073).

b. Abundance of US Dollars in world markets due to current deficit of USA.

c. Stagnation of Japanese economy due to first mortgage crisis in Japan ever in 1993 and therefore that Japanese had to drive the reserves they had to world markets (http://www.gazeteport.com.tr/EK ONOMI/NEWS/GP_356985).

d. That the Hedge Funds started to find fund as a result of increasing Leverage rate (on record rates of 1*88) (Eğilmez, 2008, Reasons for Global Crisis)

e. Over securitization at financial markets
f. Significant lack of auditing on major actors (Hedge Funds and Investment Banks, Morgan Stanley, Merrill Lynch etc.) at financial markets

The combination of the reasons, which were given as main titles above, and financial balloon in the world burst out as a result of mortgage crisis in USA. This situation was followed by the bankrupts of some investment banks and mortgage banks of USA and England. Likewise; (http://economictimes.indiatimes.com/quickiearticleshow/3552098.cms), as a result of the crisis, Bank of America paid 4 billion US dollars countrywide for risky debts of mortgage debtors on 11 January. Northern Rock was nationalised after a financial crisis on 17 February in England. Bear Stears was sold to US investment bank JP Morgan Chase (2 dollars per share), US Treasure and Federal Reserve supported national housing market by an effective nationalisation of Mortgage finance companies; Fannie Mae and Freddie Mac on 13 July.

Conclusion

A great liquidity urge started in world economy which started first as a result of mortgage crisis and then as a result of explosion of huge financial balloon. This development which first burst out in financial sector, also started to affect reel sector in a short time. The negative developments in reel sector were observed all around the world in 2009 and it is inevitable that it will go on in 2010. These negative developments, which were felt all around the world, definitely affected Economy of Turkey and this effect will go on in the following periods. But the measures taken so far, determinate and stable policies toward preserving macroeconomic stability minimized the degree of effect. Loyalty to the applied stability program might minimize this degree of effect in the future.

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