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Shaky emerging economies in view of the global financial crisis: The Turkish economy after three decades of liberal reforms

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Abstract

In the wake of the global change of a new accumulation regime in major capitalist economies, the opening up and liberalisation process of emerging economies from the 1980s has provoked great expectations that resulted in recurrent disappointing crises. Studied as a stylized fact, the Turkish experience leads us to assess the role of liberalised macroeconomic environment, unsuitable economic policies and hesitant and weak regulatory mechanisms as the main sources of perverse sequencing in the reform area. The paper shows that the Turkish crises since the 1980s arose from bad macroeconomic policies, which implemented the neo-liberal shock therapy model and triggered boom-and-bust cycles. After three decades of liberal reforms, the Turkish economy remains still subject to structural downturns. The economic recovery is not guaranteed by a hasty liberalisation. It requires consistent policies which should frame economic agents' forms of behaviour in order to induce a sustainable macroeconomic development.

Key words: Liberalisation, Stability, Sustainable growth regime, Turkish economy

JEL classifications: F36, F41, G01

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Shaky emerging economies in view of the global financial crisis: The Turkish economy after three decades of liberal reforms[*]

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1. Introduction

The 2007/08 global financial crisis raises again the issue of how interdependencies between idiosyncratic bank risks and financial systems' stability might be better managed to prevent the recurrence of such crises. Monetary and financial authorities all around the world implement emergency policies. But they do not consider a suitable analysis of the financial-instability hypothesis which would be able to point up the weaknesses of the dominant market-oriented monetary and financial regulatory framework. In a recent paper, Frenkel and Rapetti (2009) argued that there are some lessons that have been learnt from three decades of several financial crises in developing countries.

In the wake of the global change of a new accumulation regime in the major capitalist economies, the opening up and liberalisation process of emerging economies since the 1980s has provoked great expectations that resulted in recurrent crises. Large capital inflows, without relevant economic policies and regulatory frames, have increased structural fragilities and created large economic imbalances as well as social distortions. As the lack of proper institutional structures failed to channel capital inflows into sustainable productive investment plans, the speculative investments gained ground on development objectives and exacerbated monetary and financial instabilities. Although the emerging markets seem not to be dragged into the heart of the 2007/08 crisis yet, their structural vulnerabilities continue to haunt the future of the path-dependent growth policies.

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The Turkish economy represents an interesting study case in order to assess the role of a liberalised macroeconomic environment, subsequent economic policies and regulatory failures which are the source of perverse sequencing in the economic transformation process. The main argument in this paper is that since the financial and economic integration of the Turkish economy had (and has) a preference for a rapid liberalisation process without considering the structural needs and capacities of the whole economy, government had (and has) no room to conduct consistent macroeconomic policies in order to frame sustainable economic and social environment. Consequently, one should expect new crises in the aftermath of the actual global crisis.

The next section presents theoretical grounds on the constraints and consequences of a hasty financial liberalisation and points out that acting as a magnet for unstable capital movements in an unstable environment the swift opening-up of domestic markets leads market reforms to fuel recurrent monetary and financial crises. The third section recalls the main banking and financial reforms implemented in Turkey since the 1980s and brings to the fore their effects on the Turkish economy. Increasing monetary disequilibria (high and volatile inflation and interest rates) and subsequent stabilisation programmes put the economy under a persistent burden and reduced its ability to cope with external and internal difficulties in order to reach a sustainable growth path. Then, we argue that the Turkish crises arose from bad macroeconomic policies founded on the neo-liberal shock therapy that triggered boom-and-bust cycles. The fourth section analyses the economic situation on the eve of the 2001 crisis through the rise of banking risks inferred by irregular behaviour. It shows that contrary to the hypotheses of shock therapy models, there is no spontaneous mechanism of competition which could incite market actors to adopt behaviour that would turn out to be efficient on the macroeconomic level. In fact, the reforms provoke modifications that generate a macular degeneration encouraged by the speculative financing of the national debt. The fifth section explains that the high growth era in the aftermath of the 2000-2001 Turkish crises is not due

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to a strengthening of internal resilience through the improvement of income distribution or expansionist stabilisation policies, neither is it due to the improvement of external equilibrium through the current account balance and capital inflows. The growth is rather related to the cyclical opportunities due to the global speculative boom in the world during 2003-2007 as soaring and abundant speculative liquidities on global markets in the aftermath of the dotcom crisis have spurred emerging economies. In the face of the current global reversal of which the effects seems expand into the peripheral economies from the end of 2009, the Turkish economy seems not to be able to prevent the world-wide consequences of the 2007/08 financial turmoil as its vulnerabilities remain worrisome. Its competitiveness remains weak, the sustainability of its financial system as well as that of its industries depend closely on unstable capital inflows and the growth path is not reinforced by an improvement of income distribution which would be able to contribute to the increase of national accumulation. The last section concludes.

2. Constraints and consequences of the financial liberalisation

The financial liberalisation is considered as a necessary step in market-oriented reforms in emerging economies in the process of economic development (IMF, 1997, Summers, 2000). Advocating in favour of the financial liberalisation, Obstfeld and Rogoff (1996) and Obstfeld (1998, p. 10) note that "Economic theory leaves no doubt about the potential advantages of global financial trading". Blundell-Wignall and Browne (1991) presents a comprehensive summary of the literature the major arguments of which are now well known: International (liberalised) financial markets allow economic agents to pool various risks; developing countries with little capital can borrow from abroad to finance investment, when capital markets are perfectly integrated, then investors tap the world savings pool to undertake investment in each country independently of domestic saving. The continuous global trading and innovations in internationally traded financial instruments leads agents to arbitrage and

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drive the risk-adjusted nominal rate of return on financial assets into uniformity. Such developments are expected to improve the allocation of savings and investment in the world economy (Fischer, 1998). Henry (2003) and Quinn and Toyoda (2008) assert that capital account liberalisation had a positive impact on the growth in both advanced and emerging market economies while Bekaert et al. (2003) find that the effects of both capital account liberalisation and equity market liberalisation are associated with subsequent economic growth. In a Hayekian vein, Rapaczynski (1996) asserts that relevant institutions should emerge spontaneously through the liberalized market's dynamics.

However, acting as a magnet for unstable speculative investor behaviour in an unstable environment, hasty opening-up of domestic markets and financial liberalisation lead to the fact that market reforms are often accompanied by severe and recurrent crises. On liberalised markets, a general shortening of time horizons of economic agents is observed as large government budget deficits or high inflation could lead foreign investors to exit emerging markets at the first sign of trouble (Prasad and Rajan, 2008). Several studies show the negative consequences of the capital account liberalisation and the retreat of (macro) regulatory mechanisms in emerging economies (Goldstein and Turner, 1996, Ülgen, 2008) as well as in advanced economies (Griefel-Tatje and Lovell, 1996, Humphrey and Pulley, 1997). The increase of external liquidities can lead to more conservative monetary policies against expected inflation and then to a rise of domestic interest rates that reduces the bank credit available for productive plans. Further, inflows can provoke exchange rate appreciation and reduce the price competitiveness of tradable goods and impede economic growth. Such consequences are sources of macroeconomic instability without improving economic structure.

Spontaneous evolution of market institutions reveals to be complex and difficult to be implemented. Great resiliency of local structures, hasty implementations and lack of regulatory structures can provoke serious macroeconomic disequilibria. Business failures and

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banking and financial crises succeed one another and reduce the credibility of reforms in public opinion (Ülgen, 2007). Another binding constraint to add to this evolution is the growing inequalities and an increasingly unequal income distribution leading to a lower economic growth in the long run.

Third generation models of crises show how problems in the banking and financial system interact with currency crises, and how these crises can have real effects on the whole economy (Chang and Velasco, 2001). These models also put to the fore the interdependencies between domestic structures and conditions under which the capital account liberalisation is implemented. The success of reforms depends on minimal conditions required in the development of the banking and financial system (Rajan and Zingales, 1998) but also on the evolution of regulatory supervision structures previous to the liberalisation. But in emerging financial systems, the liberalisation is implemented quickly despite weak regulatory schemes the soundness of which plays a decisive role in systemic stability (Alper and Öniş, 2002, Ganioğlu, 2007).

The financial stability reveals to be a *sine qua non* condition of the economic growth. In the case of Asian countries (Irwin and Vines, 1999) as well as in the case of the Turkish and Argentina crises (Eichengreen, 2001), vulnerabilities seem to be accentuated by capital markets liberalisation when domestic markets are not yet prepared for the consequences of such changes. Reforms generate various movements of innovation in financial markets and the opening up submits domestic savings to the effects of global phenomena that suddenly expose banks to new practices on public debt and on real estate and derivative markets. The increasing power of the short-term financial flows and the weight of the capital movements on the liquidity of the banking system affect the commitments of banks by leading them to privilege the portfolio investments at the expense of long-term investments, what engenders severe problems for the efficiency of the credit system.

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Prasad et al. (2003) assert that financial integration has to be implemented and controlled with precaution in order to reinforce the reform absorption capacity of economies. Characteristic differences between emerging economies call for different and various ways of imagining and implementing reforms and their speed should be graduated in order to satisfy the society's targets through the determination of authorities to lead sustainable development policies (Stiglitz, 2008). Voluntary and conscious intervention of authorities should aim to create and reinforce a frame consistent with the needs and capacities of economies in transition. Stiglitz et al. (2006) advocate therefore in favour of capital inflows control to protect the inflows from the volatility of speculative finance.

Following the example of numerous emerging economies, the Turkish economy constitutes a study case as its crises since the 1980s arose from bad macroeconomic policies which implemented neo-liberal shock therapy model of the triptych 'stabilisation-liberalisation-privatisation' and then triggered boom-and-bust cycles.

3. Banking reforms, increasing disequilibria and stabilisation programmes

From 1980, Turkey turns to a liberal model abandoning interventionist development policies of the 1960-70s. The abolition of the previous bank regulatory schemes constitutes one of the first steps in the transition of the Turkish economy towards a more opened market economy. During the period of several reforms between 1980 and 1994, formal measures are quickly taken by replacing the development of the banking system on a fast liberalisation and on an opening to the international competition. This period of reforms resulted in a first large-scale twin crisis (foreign exchange and banking crisis) in 1994 and opened a new era of successive stabilisation programmes while with the liberalisation of the capital account in 1989, the economy became more integrated into the global economy. This evolution made the sustainability of the national debt closely dependent on the sensitivity of markets to the current exchange-rate regime and to the problems of liquidity of the banking system.

The first phase (1980-1983) took place within the framework of stabilisation and structural adjustment programmes. This phase of application of the shock therapy was based on the hypothesis that a fast opening and liberalisation would lead markets to stabilise spontaneously. Controls and regulations (ceilings on interest rates, conditions of entry into the banking markets) were appreciably reduced or abolished. The financial modernization was based on the development of securities markets; the first certificates of deposits appeared in July 1980 and the Council of capital markets with discretionary power is established in 1982. However, the restrictive monetary policy implemented during this period reduced strongly the domestic demand and contributed to the deterioration of the real sector's situation.

In this context of wild economic freedom, the increased competition amongst banks for the collection of the deposits, but also the emergence of 'bankers', a kind of financial intermediaries (of a number exceeding several thousand establishments) working in a Ponzi scheme through the aggressive issues of certificates of deposits, provoked an intense pressure on interest rates[1]. The lack of a regulatory environment to guide the activities of banks and to intervene in the resolution of possible shocks and liquidity problems led to bankruptcies of some financial institutions in 1982. This revealed that the liberalisation and the subsequent increased wild competition were not enough to strengthen the financial system.

The second phase (1983-1988) was more intensive in institutional reforms. In order to meet the expectations of depositors, negatively affected by the previous bankers' failures, the Savings and Deposit Insurance Fund (SDIF) was created in 1983. From 1984 residents can hold deposits in foreign currencies and banks assets abroad. To develop the new financial markets, the Istanbul Stock Exchange was created in 1985. At the same time, a new banking law, to reduce the fragility of the sector, compelled banks to hold minimal reserves for their capital adequacy and to record non-performing loans separately and cover them by reserves. This law also introduced a standardized accounting system and imposed to banks the

[1] For more detailed analyses of financial crises in developing countries in a Minskian vein, the reader is referred to Schroeder (2002) and to Frenkel and Rapetti (2009).

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obligation of annual regular external audit. Since 1986, the Banking supervision department of the Central Bank of the Republic of Turkey (TCMB, henceforth) is involved in the supervision of the system under the control of the Treasury. Besides, the TCMB began its open market operations in 1987.

The third phase (1988-1994), expected as the outcome period of the reforms, marked the opening of the capital account (liberalised in August 1989) and the liberalisation of the foreign exchange market. Banks became free to determine their exchange rates but their contribution to the financing of the economy remained rather shy and the opening of the market did not provoke the expected consequences on the monetarization of the economy:

[Insert Table 1. Monetary aggregates and bank loans 1980-1994]

At the macroeconomic level, the export-led development strategy which had given the growth rates on average raised around 7% a year in the previous phase, met its limits and macroeconomic indicators quickly deteriorated. The economy underwent a contraction, the growth of the GNP decreased from 9.8% in 1987 to 1.6% in 1989. The current account deficit rose to 2.625 billion US$ in 1990 (Table 3). In 1993, the balance was of -6.433 billion with a trade account deficit amounting to -14.081 billion. The exports/imports ratio fell from 81.4% in 1988 to 52.1% in 1993. This picture has also been accompanied by strong fluctuations in the exchange rate US$/TL (Turkish Lira):

[Insert Table 2. Annual change of US$/TL 1987-1993]

During the reforms, strong pressures have hung also over the labour market due to the population growth and the continuous migration towards big cities. The disparities were persisting; the Gini coefficient was rising from 0.44 in 1987 to 0.49 in 1994. In 1994, the

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average income of the upper quintile in the national income was 9.2 and 11.9 times more than the average incomes of the lower quintile, respectively, in the rural zones and in the urban zones (Şenses, 2003, p. 94). Although the rate of absolute poverty was relatively low on average (7.3% in 1994), it was very high in the poorest region (14.5%) while it was 2.3% in the richest region, denoting a very strong interregional disparity.

Liberalisation policies occasioned then a change in the regime of accumulation which is jammed between a very unstable growth path - unable to improve the general well-being of the population – and an increasingly fragile monetary and financial structure - unable to contribute to the financing of the production and to the macroeconomic stability. The outcome of this evolution has been a large-scale twin crisis (exchange and banking crises) in 1994, launching recurrent stabilisation programmes with ambiguous effects on the expected cleaning up of the economy.

After more than a decade of reforms, the imbalances became dependent on the volatility of short-term capital flows. The sensitivity of these flows, increasing under the influence of international (Gulf crisis in 1990-91) and national events, had generated pressures on the growth path.

[Insert Table 3. Macroeconomic indicators 1980-1994]

From 1990, the economy has had high growth rates but without really stabilising the key indicators. In spite of a restrictive monetary policy, the inflationary trend had been persistent. The consumer price index (CPI) varied over 1983-1994 between 31.4 and 106.3%. Despite an increased competition on financial markets, interest rates remained high. Over the period 1983-1994, the average rates of interest on term deposits have been between 45% and 95.6%. The average interbank repo rate of interest was of 39.09% in 1986 and of 106.31% in 1995. Macroeconomic fragilities fed the increasing internal and external deficits. Domestic debt stock/GNP ratio varied between 21.9% and 20.6% over the period while the external

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debt/GNP ratio followed an ascending evolution by which the share of the short-term debt increased parallel to the total external debt (Table 3).

In order to mitigate the persistency of the disequilibrium, the Turkish government started a disinflation programme from the mid-1998 under the control of the IMF. But the effects of the Asian and Russian crises of 1997-1998 have provoked a break in the capital inflows in 1998 without causing banking and exchange crises. However, the uncertainties of the Turkish general election of April and the earthquakes in 1999 have contributed to the deterioration of the public accounts. In light of the persistency of inflation and the deterioration of economic activity (economic growth declined from 3.9 % in 1998 to -6.1% in 1999), the authorities opted for another programme of disinflation, based this time on the external credibility of the national currency. They put into place a crawling peg exchange regime at the end of 1999 with the approval of the IMF.

While a new banking law and the creation of the Banking Regulation and Supervision Agency (BRSA) tried to frame this programme, strong tensions on the liquidity of the banking system appeared and 5 private banks have been declared insolvent and transferred to the SDIF. These tensions provoked, in November, 2000, sharp increases in interest rates and markets' expectations turned to a close devaluation. The monetary stabilisation policy, based on an almost fixed exchange rate regime, in an environment of free capital movements, showed itself unbearable.

[Insert table 4. Macroeconomic indicators 1995-2001]

While the competitiveness has been deteriorated and financial markets remained very weakly directed to the financing of productive activities, the economy became completely dependent on capital inflows for the sustainability of the external debt. Also the short open position of the banking system has started to increase; of 4.6 billion US$ in 1999 it raised to

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8.55 billion in 2000. The mechanisms of financing, under the influence of a high volatility of interest rates, underwent then what we can call *the macular degeneration*[2]. The short rates (from 1 day to 1 month) increased from 70% to 300% at the end of November 2000 and in December 4, they reached 2500%. The central bank continued to defend its exchange-rate-stabilisation programme whereas the imbalances persisted and soiled the relevance of the growth regime's sustainability. The ratio of current account/FX reserves, highly fluctuating and often negative, shrank from 8.97% in 1998 to -43.13% in 2000:

[Insert Table 5. Current account and FX reserves 1992-2001]

The capital outflows put the market into a position of illiquidity. In November 2000, 5.037 billion dollars outflowed. During the first five months of 2001, the net outflows had been about 3.562 billion. The IMF announced, in December 2000, an additional line of loan of 7.5 billion dollars and the government declared its guarantee on all the commitments. But despite this prompt financing from the IMF, markets' ardours have not been calmed; the capital outflows became more marked and resulted in February 2001 in the gravest crisis of the republican history: a depreciation of about 60%; the short rates had been fluctuating until 5000% between 21/12/2000 and 19/03/2001 to come down to 150% in May 2001 and to 66% at the end of the same year.

The high sensitivity of the economy to the problems of illiquidity is increased by a preliminary inappropriate preparation of the financial liberalisation. Alper and Öniş (2002) characterize the role played by the banking system in the escalation of imbalances by the distortions inferred by the dominance of public banks, the problem of open positions of banks and the 'politicization' of new entries into the banking sector. Özkan-Günay and Günay

[2] Macular degeneration is a loss of vision in the center of the visual field (the macula) because of damage to the retina. Macular degeneration, in the Turkish case, made it difficult or impossible to recognize vulnerabilities, although enough peripheral vision remained to allow short-term economic activities.

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(2007) identify the inadequate regulatory system, the weak supervision and the political interferences as the main factors that contributed to the intensification of the banking system fragilities. Yayla et al. (2008) underline the high sensitivity of the Turkish banking and financial markets and the weight of a high probability of systemic default until 2003 resulting from the institutional vulnerability of banks to the volatility of capital and risk markets. The weaknesses of regulatory mechanisms which reduced the capacity of supervision and intervention of the authorities appear to be a decisive concern in this picture. The absence of new regulatory rules that should accompany the process of liberalisation left the banking system in a highly risky environment (Green et al. 2005).

4. Banking risks inferred by *irregular* behaviours

Contrary to the hypotheses of shock therapy models, there is no spontaneous mechanism of competition which could push market actors to adopt efficient behaviour at the macroeconomic level. In fact, the reforms reduce sharply the efficiency and the range of regulatory mechanisms on banking and financial markets, distort behaviour of economic agents and create a fragile environment where the increasing uncertainty push agents to take short-term opportunistic positions.

The first type of irregular behaviour in the Turkish experience is the distortion led by the rule of the public banks whose loan strategies remained under the influence of the electoral considerations. This has also accompanied the rent-seeking strategies of certain groups of interest close to the government and generated the *tunneling* phenomenon (Johnson et al. 2000). The tunneling is the appropriation, through illegal ways, of the assets and profits of a firm by a small group of persons who hold the control of management and decision. This phenomenon is not specific to the liberalisation but it is well fuelled in such an environment. Hellman, Jones and Kaufmann (2000) support the idea that this phenomenon is related to the capture of the power (*state capture*) by some groups of interest after the liberalisation. The

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corruption of the power develops between public decision-makers and private actors because of the deficiencies and weaknesses of regulatory mechanisms implemented by the authorities. Generally, in economies where the state capture is strong, some public institutions are intended to supply advantages to lobbies and influential firms without trying to improve the institutional structure and the modalities of management of economic relations. In such a context, instead of contributing to revitalize and to modernize the sector, the entry of new and/or foreign banks is directed to operations of implicit cooperation with public authorities or with domestic banks aiming to benefit from high returns on an increasing national debt. Two public banks (Ziraat Bankası and Halk Bank) were at the centre of this process after the crisis of 1994. Six stabilisation programmes, aiming mainly at reducing the importance of extra budgetary funds, have had the effect of placing the burden of the distribution of rents on these establishments. In addition, the entry into the sector has been dominated by similar political considerations (Alper and Öniş, 2002). After the elections of 1991, six new private banks are authorized to enter the sector through networks of influence between some industrial groups and the government and they all went bankrupt in the following years. An eloquent example is the case of four banks, Interbank, Türkbank, İmarbank and Egebank, owners of which were close to the government and which have been transferred to the SDIF from 1999 (FEMISE, 2005) with huge costs of bankruptcy estimated at several billion dollars.

The second type of irregular behaviour, having dominated markets from the first phase of reforms and observed also by Arestis and Singh (2010) as one of the reasons explaining the failure of the liberalisation is the increased wild competition that led to exaggerated risk-taking and then to massive bank failures. Hellman, Murdock and Stiglitz (2000) argued that with the increase of the competition on financial markets banks are more incited to enter into competition for the collection of deposits by offering higher interest rates to the expenses, often, of their balance-sheet stability. This, accompanied by the limited liability of banks in the regulatory system, creates an environment dominated by the moral hazard; the highly

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risky investments - the cost of bankruptcy of which is partially transferable on public funds - becoming more attractive. More interesting is that the model suggests that on highly competitive markets, there is no equilibrium at which a bank would choose to invest in a sound way. Indeed, banks adopt excessively optimistic and short-sighted positions by financing firms or holdings which are not financially and economically sound.

An incentive factor of this *macular degeneration* is the way of financing the national debt through speculative instruments which fed a new regime of financial accumulation. In the first phases of reforms, the need of financing of the public sector reported to the GNP followed a downward path (passing from 8.8% in 1980 to 5.7% in 1989). But from the 1990s, a noteworthy increase is observed reaching 7.4% in 1990 and 12% in 1993. Then, from the 1990 onwards, the borrowing requirement of the debt has directed the monetary policies and consequently banks' strategies (Aydın, 2002). The continuous increase of returns on the national debt financing incited private banks to neglect the distribution of credit in the economy. The ratio between Domestic bank loans (DBL) and Public debt held by banks (as Government bonds and Treasury bills, PBB) fell in a considerable way denoting a real modification in the market strategy of the banking system. Now, between 1986 and 2001, on a consolidated base, the bank assets increased more than the GNP (Table 6) without improving the real sector financing. One can observe, on the contrary, a decline of the share of commercial loans; the ratio DBL/GNP decreased from 19.6% to 18.1% over the period whereas the ratio DBL/Bank deposits shrank from 70.4% to 31%:

[Insert Table 6. Change of banks' market strategies 1986-2001]

Özatay and Sak (2003) explain that the 2001 crisis has started through the increase of the fragilities of the banking sector. The risk accumulation and the rise of imbalances for the whole sector are mainly related to the involvement of banks in speculative operations through

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very short-term commitments that are mismatched in their maturity as well as in their currency denomination and accompany an increase of non-performing loans. In such a strategy, the banking system external borrowing in foreign currencies has been used to finance the public debt in TL. The ratio FX Liabilities/Total Liabilities of banks went from 11.7% in 1986 to 42.7% in 1995 and to 50.8% in 2001. So, since the 1990s, the external open positions of banks were increasing, banks trying to benefit from uncovered interest differentials without improving their structural profitability in a stable way:

[Insert Table 7. Open positions and the profitability ratio of the banking system 1988-2000]

So we find one of the characteristics of a speculative environment with a structural incentive for banks to continuously feed their short open positions. Under such circumstances, a currency crisis usually provokes a banking crisis. When the monetary authorities remain attached to the anchoring of the exchange rate in spite of increasing public debt borrowing requirement, banks are encouraged to finance public issues through their FX borrowing from abroad, so the phenomenon of dollarization becomes dominant. The part of FX assets in total bank assets increased from 26% in 1998 to 38% in 1999 and that of FX liabilities from 25% to 48%. The share of FX deposits in total bank deposits was 50% in 1999 and 61% in 2001 with an average term of 3 months.

Mohanty and Klau (2004) maintain that the monetary authorities in emerging countries are in front of a dilemma by respecting their anti-inflationary commitments through a fixed exchange rate to obtain foreign capital that holds interest rates at high levels and harms economic growth. As also argued by Stiglitz et al. (2006), constraints can be more binding on emerging economies than on advanced ones as the authorities are not always able to use counter-cyclical fiscal and monetary policies; they are under the constraint of calming the ardours of foreign capital flows. In such an environment, the main activity of the Turkish

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banks was based on foreign capital inflows led by the stabilisation of the exchange rate, what allowed investors to arbitrate between domestic and international rates. Then, the viability of the system became closely dependent on the probability of a sudden depreciation. The persistency of the current account deficit and the vulnerability of the banking system prevented the structural transformations from reaching a stable macroeconomic state and stumbled over a sudden stop of the capital flows. The consequence of this crisis has been to contract the GDP of 9.5% in real terms and the domestic demand of 21% in 2001.

The crisis intervention was designed to overcome banking system's and public debt's weaknesses while meeting the claims of the creditors. Much of the crisis resolution effort has been used to pay foreign private liabilities and to cover the outflows of foreign portfolio investments. Without a credible strategy for involving the private sector (and especially bankers and debt holders) in crisis resolution through temporary standstills on sovereign debt, the Turkish government has been reluctant to implement long-term structural development-seeking policies for fear of worsening its access to global capital markets. Such a choice put the burden of the resolution on the entire economy, saving the *rentier* (bond-holding) class and aggravate the difficulties in managing the debt (Akyüz and Boratav, 2002).

5. Great expectations, deceptive recovery and future trouble in the wake of the financial turmoil

It is usually admitted that after the 2001 crisis, Turkey succeeded to improve some of its fragilities through an inflation-targeting monetary policy, a public-debt reducing fiscal policy (with a primary surplus objective of 6.5% on average) and the restructuring of the banking system's balance sheets. Actually, the current weaknesses of the Turkish economy are not principally founded on the banking system's exposition to external downturns at least in the short-term while the contribution of the banking system to the financing of the real economy remains excessively low (the ratio Bank loans/GDP is one of the lowest amongst emerging

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economies. See Table 9). On the whole, the Turkish banking system has been restructured especially by decreasing its exposition to foreign exchange risks. The number of banks has been reduced to 49 as by 2008 with a relatively high concentration; the share of the five biggest banks is 60% higher than the average share of the Euro zone (of 45%). The ratio of Deposits/GDP has increased to 50% (albeit less than the 117% of the Euro zone). However, the Bank balance-sheet/GDP ratio remains one of the lowest of the EU (less than 90%, just above that of Poland and Romania). The dollarization is, nevertheless, reduced as the ratio of Foreign currency deposits/Total deposits decreased from more than 40% in the 1990s to less than 33% on 2005-2009. As the share of foreign banks in domestic banks' capital structure remains low (less than 25% in 2008 and 2009, less than the new members of the EU), Turkish banks have not been involved in the 2007/08 financial crisis. The profitability (net profit/total assets) of the sector reached again its levels of the pre-2001 crisis with an average of 2.1% on 2003-2008 with a net interest margin of 4.6% on average, higher than that of US banks (3.5%) and of EU banks (1.1%) on the same period. Also, the return on equity ratio evolved on average around 15.8% (USA: 10.9% and EU: 10.3%, with sharp decrease from 2008). The capital adequacy ratio remains high on average albeit on a decreasing path:

[Insert Table 8. Banking system's capital adequacy ratio (%) 2003-2008]

Therefore, one can assert that Turkey has adopted the best practices in its financial management in the wake of the 2001 crisis. However, the fact that Turkey was strongly hit in many ways by the current financial crisis shows that a financially liberalised economy always keeps many sources of vulnerability as it remains prone to the effects of changes in external financial markets. As noted by Cardarelli et al. (2009), the financial stress plays a precursor role in the economic slowdown. A rapid expansion of bank credit, sharp rise in house prices and increasing borrowing by the corporate/household sectors contribute to a higher

probability for the financial stress lead to severe economic downturns. Countries whose financial systems are dominated by more arm's-length based markets tend to be under financial turmoil effects and pronounced propagating shocks. Therefore, "prudential measures as well as monetary policy should pay due regard to the vulnerabilities that may build up and that eventually lead to greater output losses if the financial system is hit by a severe shock" (Cardarelli et al. 2009, p. 25). So, Rodrik asserts that "Lesson number one is that policy needs to guard not just against domestic shocks, but also shocks that emanate from financial instability elsewhere" (2009, pp. 1-2). This has several implications for the financial-openness policies for emerging economies like the Turkey.

Financial liberalisation was exposed emerging economies to the high speculative sensitivity of external capital flows under the permanent threat of a sudden stop. Domestic banks as well as corporate sector borrowing needs are starved of external financing; the investment and the production are retrenched and aggravate the fall in domestic demand. The global-capital-flows-dependency[3] dictates the monetary and exchange policies to the Turkish authorities who tried to hold domestic rates sufficiently high to capture more external flows they need to sustain the current account deficit. Real interest rates have evolved between 10-15% during mid-2006/mid-2009 before decreasing at the end of 2009 under more accommodating monetary policies in the face of the global downturn. Foreign direct investment flows decreased to 18.3 billion in 2008 and to 8 billion in 2009 after having followed an explosive path going up from 2.8 billion US$ in 2004 to 10 billion in 2005 with continuous peaks in 2006 (20.2 billion) and in 2007 (22 billion). Parallel to this, stock market prices accompanied the rise of that of developed financial markets inducing a sort of asset inflation and fuelling speculative expectations. Istanbul Stock Exchange index (ISE 100) passed from 25000 in the mid-2005 to more than 55000 at the beginning of 2008. After a decline up to 20000-25000 till the mid-2009, it has increased again up to 65000 during 2010

[3] For several insightful studies on this issue, see Hein (2008).

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preparing the ground for a new boom-and-bust cycle which is usually brought through the cyclical nature of agents' preference toward risk on weakly regulated domestic financial markets (Frenkel and Rapetti, 2009).

In the current crisis, there are some speculative opportunities that external capital can keep. After a sharp capital outflow in 2008-2009, Turkey had become a sizable recipient of inflows once again at the end of 2009. In almost the same way, after a sharp depreciation at the beginning of 2009, the TL had already begun to appreciate by the mid-2009. While these resumptions in external confidence have prevented the economy from a financial collapse, the relatively high level of interest rates and an appreciated domestic currency posed the problem of under-competitiveness for the economy. As a result, a sharp decline in real GDP has reached its bottom in 2009. The quick recovery of the economic activity from the end of 2009 could show that the worst of the crisis is over. But the Turkish economy seems not to be able to prevent the world-wide consequences of the current financial turmoil as its vulnerabilities remain worrisome.

The pre-crisis vulnerabilities such as large deficits, wrongly-directed credit growth and high levels of short-term debt are giving cause for concern and remain open to several spillovers. Changes in the international trade and international borrowing conditions serve as key transmission channels. While not directly exposed to the roots of the financial crisis on advanced markets, many emerging economies experience sharp downturns. Even in the economies with relatively low international financial integration, financial channels transmit advanced economies' imbalances as well as the trade channels spur similar distress in emerging economies. Such spillovers are called by Masson (1998) 'mansoonal effects' as the policies implemented in industrial countries can contemporaneously provoke crisis effects in emerging economies through trade linkages and the dependency of emerging economies' stabilisation programmes on the monetary and exchange rate policies in advanced economies.

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Actually, the high growth era in the aftermath of the 2001 Turkish crisis was not due to a strengthening of internal (improvement of income distribution, expansionist stabilisation policies, etc.) and external (current account balance and capital inflows) resilience but to the cyclical opportunities due to the global speculative boom in the world during 2003-2007. As also stated by Ocampo (2009, p. 716), the high performance in this period was a result of "the intensity of favourable external factors rather than of improvements in economic policy, which overall remained pro-cyclical in most countries". The Turkish economy remained on a fragile path with an average of 5-6% of current account deficit/GDP ratio that seems to increase parallel to the growth rate during the booms and to maintain its path despite the reversal of the latter as in 2009-2010.

[Insert Table 9. Macroeconomic indicators 1999-2009]

Then the second lesson emphasized by Rodrik (2009, p. 2) is related to the growth strategy of emerging economies. It is worth to note that in Turkey, the unemployment rate has remained high despite strong economic growth rates since 2001 denoting low performance on the macroeconomic front. This seems to be related to the new (perverse) accumulation regime of the economy since the beginning of its liberalisation process. The Turkish economy has followed, as stated in the previous sections, through its integration into the liberalised international circuits the same pattern that of the developed economies' finance-based growth regime. Stockhammer (2009) suggests the notion of 'finance-dominated' accumulation regime as the financial developments shape the pattern and the pace of accumulation in economies integrated into the globalisation process and which implement wage moderation policies and credit-driven consumption models through increasing current account deficits. The unemployment rate which was around 10% between 2005-mid-2008, increased from the mid-2008 up to 16% and from the end of 2009, it shrank to 13% (net of seasonal changes) while the employment rate kept its average low level around 42%. According to the data of

October 2010, the unemployment rate has reached, at the end of July 2010, 10.6% with 13.6% when the agriculture is excluded and 19.5% for the youth unemployment. In addition, while on a slightly decreasing path, the Gini coefficient remains high around 0.40 since 2006, according to a report of TÜİK of 2010 on distribution of annual incomes by quintiles ordered by household disposal income. That reveals that high growth rates of the boom period did failed to put the economy on a job-creating regime of accumulation. As stated by Uygur, "In spite of the relatively high growth rates and substantial productivity increases in the 2000s until 2007, there was hardly any rise in real wages (...). In the first six months of the recent recession of 2008-09, real wages fell and it is highly likely that they will continue falling in 2009, as they did in the earlier crises" (2010, p. 8).

In addition, the external deficit continued its rising path (Table 9) and unlike the changes in the aftermath of the 2001 crisis, exports fell just after the current crisis under the effect of the contraction in the global trade. Then the external demand did not operate as an adjustment mechanism in Turkey. This has also contributed to the widening of the trade account deficit. In the wake of the current crisis, the exports to Latin America and Middle-East countries increased whereas the exports to EU decreased. However, this counter-cyclical diversification of exports has not yet improved the trade balance because of the lower shares of these new markets in the Turkish external trade. Then, on the whole, the international trade downturn from developed regions contracted Turkey's exports by almost 27% in the last quarter of 2008; so, exports kept a decreasing path passing from an average of 35 billion US$ in the first quarters of 2008 to 25 billion per quarter from the end of 2008. However, in 2009, Turkish exports were down by 23% year-on-year, imports also contracted even faster by 45% and the current account deficit went down by 67%. But this trend was reversed in 2010; imports rose by 34% more than the increase of exports (by 15%) leading again to the expansion of the current account deficit (TSPAKB, 2010). This shrank also the trade revenues of the economy relatively to its debt level; the ratio Gross external debt/Exports (Fob), felt

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from 231.2% in 2005 to 209.9% in 2008, picked up again in 2009 (262.7%) and in 2010 (2010Q1: 246.9; 2010Q2: 237.8, Undersecretary of Treasury, 2010).

Under such circumstances, the real sector has been impacted through two main channels; the contraction of the external demand since the end of 2008 and the fall of the domestic demand as the contribution of resident households' final consumption decreased sharply from 2008, accompanied by an impressive contraction of private investment (the GFCF passing from 3.1% in 2007 to -6.2 in 2008 and to -19.2 in 2009):

[Insert Table 10. Contribution of expenditure types to growth rates of GDP (% at 1998 prices) 2005-2009]

Such a reversal has obviously accompanied the high volatility of the growth rate during the last three years:

[Insert Table 11. GDP annual growth rates (% at 1998 prices) 2007-2010]

Contrary to the decrease of the formal external financial dependency of the banking sector, the external debt position of the private corporate sector has followed an increasing path since the aftermath of the 2001 crisis. The Private corporate sector's external debt/GDP (%) has been particularly worsened on 2005-2009 (17.5% in 2005 and 27.8% in 2009):

[Insert Table 12. Gross external debt stock (at the end of the year, million US$) 2002-2010]

As one can easily observe (Tables 3, 4 and 12), the share of the short term external debt in the total external debt stock has not really been stabilised on a decreasing path in the subsequent period to the 2001 crisis. This share which has reached 23.9% in 2000 and gone

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down to 15.97% in 2003 and to 17.28% in 2007 rose again to 20.43% in the first quarter of 2010.

The same path of increasing vulnerabilities can be observed in the evolution of the public sector's gross debt stock (% of GDP) while this level remains below the level of most of the EU countries (EU27 around 62 to 73.6% over 2004-2009); the stock which had had a decreasing path on 2002-2007 (going from 73.7% to 39.4%), has reached 45.5% in 2009. Parallel to this, the public sector borrowing requirement (% of GDP), after having decreased from 12.1% to -1.9% between 2001 and 2006, crept up to high levels passing from 0.1% in 2007 to 6.4% in 2009 (Undersecretary of Treasury, 2010). Also the public sector primary surplus (IMF definition, % of GDP), which had increased from 0.3% on average in 1993-2002 to 5% in 2003-2006, decreased again sharply from 3.1% in 2007 to -1.1% in 2009, manifesting external dependency effects on the national economy.

Such developments reveal that the Turkish economy remains under the threat of two major fragilities: the persistent external debt-dependent economic activity (especially for the corporate sector but also, indirectly, for the banking sector) and the lack of competitiveness which submits the whole economy to the international trade uncertainties and increases its debt burden. These fragilities could hurt the seeming economic stability if the international context in the aftermath of the current global turmoil comes to remove the global markets' volatilities from developed to emerging economies. These fragilities would also keep strong the external constraints that dominate domestic economic policies since the 1990s and prevent possible development strategies from improving the income distribution inequalities and the domestic demand in a sustainable way.

6. Conclusion

Debates on the processes of transition in emerging economies towards a more open market economy and on the consequences of the financial liberalisation in a vulnerable

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macroeconomic environment underline the complexity of the phenomenon of liberalisation. This complexity appears with more strength today to the observation of the difficulties that the developed financial systems undergo since 2007. However, the transformations implemented in the Turkish banking system since the 1980s and the ambiguous subsequent results can be used as a study case suited to estimate the relevance of the modalities of banking reforms and financial liberalisation. They can also allow us to underline the central role that the nature of growth policies, incentive mechanisms, reformed rules and regulation can play in the success and the stability expected from this process.

This analysis of the path of the Turkish economy after three decades of liberalisation reveals that the country evolves in the current crisis with important concerns some part of which is related to unswept structural weaknesses of an internationally integrated emerging economy. Inherent structural failures and lack of long-term directed national and 'voluntarist' proactive development strategies make that the economy remains unable to reach a sustainable and more resilient path of growth. The Turkish reforms have been carried out through an extremely fragile macroeconomic frame (banking system weaknesses, inadequate stabilisation programmes). In particular from the end of 1999, in spite of increasing deficits, these programmes have been based on the exchange rate stability to reduce the inflation and to improve the international credibility of the monetary policy. This modality of stabilisation has provoked an infernal spiral by feeding the underlying macroeconomic and structural imbalances and increasing the vulnerability of the banking system the main transformation of which had been based on a hasty generalized liberalisation. Myopia to disaster and a highly speculative behaviour, which testify of a macular degeneration, arose from irregular banking behaviours under the pressure of markets wildly liberalised. This evolution resulted in recurring banking crises (1982-84, 1994, 2000-2001) and showed that the reforms depend on the consistency of the economic policies regarding the capacities and needs of the economy in order to reduce the probability of structural distortions. Even from a neoclassical point of

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view, liberal reforms must be sequenced with meticulous care and gradually implemented to mitigate the fragilities of financial and non-financial firms (Bhattacharya, 1997). It seems that any overflowing of financial markets on the absorption capacities of the economy provokes hardly controllable negative consequences and reduces the sustainability of the growth path by creating imbalances which self-feed through uncontrolled global volatilities.

Developing and emerging economies suffer from several problems but as it is well stated by Rodrik, "As the experience of successful countries demonstrates, what is required is strategic prioritization" (2009, p. 12). The only hastily implemented financial liberalisation, founded on the belief that free markets clear up spontaneously, could not provide a sustainable growth. To date, with the current turmoil, market-oriented policies proponents recognize the relevance of macro regulation. But a consistent conclusion cannot be founded only on the strengthening of market-friendly prudential regulation and supervision but before all requires some safeguards against global flows' speculative volatilities. Because capital inflows exacerbate the investment constraint and then reduce economic growth through their effect on the direction of economic policies, the financial openness can constitute a handicap rather than a suitable source of real growth financing. Foreign borrowing boosted growth in Turkey as private returns in tradables were relatively high parallel to high current account deficit. But this growth has not focused on job creation. Large external deficit remained as a blockage factor against the widening of the positive impacts of the growth. More domestic saving mobilisation and the use of funds into job creating activities seem to be the necessary conditions for a sustainable recovery. That requires a substantial effort in terms of new development policies based on the creation of quality and technology producing activities beyond the short-term private returns in tradables. It is advisable to develop policies within the framework of a macroeconomic action plan beyond the beliefs of the liberalism. One of the first actions to be undertaken in this objective consists in channelling the financial markets regarding the imperatives of the stable development.

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The Turkish example shows that these conditions and mechanisms are not spontaneously reached by liberalised markets and by the risky dismantling of the public mechanisms of supervision. Financial sustainability (Debt/GNP) and the economic sustainability (competitiveness and growth) are weakened by the new regime of accumulation based on conservative monetary policies and on finance-dominated markets. Such a regime, founding the modernization of economy on a fast and weakly structured liberalisation and aiming to satisfy the requirements of short-term stabilisation programmes without considering capacities and needs of the economy, cannot bear the required economic growth in the future.

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Tables to be inserted into the text

Table 1. *Monetary aggregates and bank loans 1980-1994*

(%)	1980	1983	1988	1989	1993	1994
M1/GNP	13.28	13.93	8.77	8.5	6.48	5.94
M2/GNP	16.63	23.6	21.06	20.47	14.16	16.22
Domestic bank loans/GNP	25.01	24.59	23.17	19.43	22.72	19.91

Source: TÜİK, 2006

Table 2. *Annual change of US$/TL 1987-1993*

1987	34,72 %
1988	78,03 %
1989	49 %
1990	26,7 %
1991	73,4 %
1992	68,6 %
1993	68,98 %

Source: Author's calculations from TCMB and TÜİK 2006 et 2009

Table3. *Macroeconomic indicators 1980-1994*

(%)	1980	1983	1987	1988	1989	1990	1993	1994
CPI (change/year)	101.4	31.4	38.9	73.7	63.3	60.3	66.1	106.3
Average interest rate on 1 year deposits (end of the year)	33	45	52	83.9	58.8	59.4	74.7	95.6
Discount rate of TCMB	26	48.5	45	54	54	45	54.5	55
Growth rate (GNP, constant prices)	-2.8	4.2	9.8	1.5	1.6	9.4	8.1	-6.1
Domestic debt Stock/GNP	13.6	22.8	23	22	18.2	14.4	17.9	20.6
External debt Stock/GNP	19.34	31.08	46.79	45.02	38.82	32.59	37.45	48.29
External debt service/GNP	0.29	6.03	5.9	7.44	6.44	4.79	4.44	6.99
Share of the short-term external debt/Total external debt	n. a.	11.86	18.95	15.76	13.76	19.37	27.51	17.24
Current account (million US$)	-3408	-1923	-806	1596	961	-2625	-6433	2631
Trade account (millions US$)	-4603	-2990	-3206	-1813	-4190	-9448	-14081	-4167
Current account/GNP	-4.98	-3.18	-0.94	1.76	0.89	-1.74	-3.6	2.0
Total domestic bank loans/GNP	25.01	24.59	27.74	23.17	19.43	18.62	22.72	19.91

Source: TÜİK, 2006 and 2009

Table 4. *Macroeconomic indicators 1995-2001*

(%)	1995	1996	1997	1998	1999	2000	2001
CPI (change/year)	88	80.4	85.7	84.7	64.9	54.9	54.4
Average interest rate on 1 year deposits (end of the year)	91.30	93.80	96.6	95.5	46.7	45.6	62.5
Discount rate of TCMB	50	57	67	80	60	70	70
Growth rate (GNP, constant prices)	8	7.1	8.3	3.9	-6.1	6.3	-9.5
Domestic debt stock/GNP *	17.3	21	21.4	21.7	29.3	29	69.2
External debt stock/GNP *	41.93	43.45	43.8	46.6	55.7	59.3	78
External debt service/GNP	5.77	6.2	6.5	8	9.9	11	16.9
Share of the short-term external debt/Total external debt *	21.43	21.5	21	21.6	22.2	23.9	14.4
Current account (million US$)	-2339	-2437	-2638	-2000	-925	-9920	3760
Trade account (million US$)	-13152	-10264	-15048	-14038	-9771	-22057	-3363
Current account/GNP	-1.4	-1.3	-1.4	1.0	-0.73	-4.9	2.3
Total domestic bank loans/GNP	20.66	24.44	27.02	22	22.19	22.81	20.46

* New series from 1996.

Source: TÜİK, 2006 and 2009

Table 5. *Current account and FX reserves 1992-2001*

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(A) Current account (million US$)	-974	-6433	2631	-2339	-2437	-2638	2000	-925	-9920	3760
(B) FX reserves (million US$)	4800	6900	5300	13300	15700	17400	22300	22200	23000	19100
A/B (%)	-20.29	-93.2	49.64	-17.58	-15.52	-15.16	8.97	-4.16	-43.13	19.7

(Author's calculations from the data of TÜİK 2006 and TCMB)

Table 6. *Change of banks' market strategies 1986-2001*

(%)	1986	87	88	89	90	91	92	93	94	95	96	97	98	99	2000	2001
DBL/ PBB	6,8	4,5	3,7	3,5	4,3	3,5	3,7	3,9	3,9	5,2	3,5	4,8	3,1	1,6	1,8	0,6
PBB/ Total issue of public bonds	n. a.	77,7	90,5	90,2	85,9	92,8	79,1	77,8	71,5	81,6	84,4	89,5	86,8	85,3	75,9	74,5
Assets/ GNP	45,4	52,4	49,9	42,4	38,8	41,5	45,1	47,8	45,6	46,8	54,1	59,4	62,55	82,75	76,3	85,1
DBL/ Bank deposits	70,4	72,7	64,7	62,8	74,3	63,9	66,5	76,1	49,4	56,5	57	66,12	54,14	40,25	47,08	31

Source: TCMB, Undersecretary of Treasury and Aydın, 2002

Table 7. *Open positions and the profitability ratio of the banking system 1988-2000*

(%)	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
FXAssets/FX Liabilities	103.8	105.3	88.1	90	86.8	84.6	96.5	90.6	93.6	89.6	84.9	79.4	76
Open position* /Equity Capital	-14.6	-16.5	39.6	44.2	80.7	104.8	26.6	73.4	50.6	81.1	123.1	362.7	212.2
Net profit (end of period)/Total Assets	n. a.	2.1	2.8	2.4	2.8	3.5	2.2	3.4	3.9	3.4	2.7	-0.6	-3.1

* FX Liabilities-FX Assets. A negative value means a long position, assets being higher than liabilities.

Source: TBB, 2009

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Table 8. *Banking system's capital adequacy ratio (%) 2003-2008*

	USA Banks	EU Banks	Turkish Banks
2003	12.8	12.4	30.9
2004	12.6	11.9	28.8
2005	12.3	11.4	23.7
2006	12.4	11.1	21.9
2007	12.2	11.4	18.9
2008	12.7	11.7	18

Source: TCMB May, 2010

Table 9. *Macroeconomic indicators* 1999-2009*

(%)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CPI (change/year)	54.9	54.4	45	25.3	10.6	8.2	9.6	8.8	10.4	6.5	9 (average on Jan-Sept)
Average interest rate on 1 year deposits (end of the year)	45.6	62.5	48.2	28.6	22.6	20.38	23.72	21.3	25.68	15.7	
Discount rate of TCMB	70	70	55	43	38	23	27	25	25	19→15 (at the end of the year)	#
GNP growth rate (1998prices)*	6.3	-9.5	7.9	5.9	9.9	8.4	6.9	4.7	0.7	-4.7	11 (Jan-Aug)
Domestic debt stock/GNP*	29	69.2	54.5	54.5	52.3	50.3	43.7	42.3	39.2	44.4	
New series	21.9	50.9	42.8	42.7	40.2	37.7	33.2	30.3	27.2	34.64	
External debt stock/GNP*	59.3	78	71.9	60.6	54.2	47.4	53	52	51		
New series	44.69	57.74	56.2	47.26	41.24	35.25	39.44	38.45	37.5	43.4	
External debt service/GNP**	11	16.9	12.5	9.1	7.8	7.6	7.6	7.5	7.2	Q4:9.3	
Share of short-term external debt/Total external debt	23.9	14.4	12.6	15.9	20.1	22.4	20.5	17.3	18.2	18.75	
Current account (billion US$)**	-9.92	3.76	-0.6	-7.5	-14.4	-22.2	-32.9	-38.3	-41.9	-14.4	-27.98 (Jan-August)
Trade account (billion US$)	-22.05	-3.36	-6.4	-13.49	-22.73	-33.1	-41.06	-46.79	-53.02	-24.89	-32.04 (Jan-Aug)
Current account/GNP	-4.9	2.3	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.7	Q4/ -2.3***	-5.4 (target)
Total domestic bank loans/GDP****	17.2	15.3	10.32	11.88	14.91	20.53	24.59	27.14	31.15	34.89	

* From 2002, the ratios are calculated on the basis of GDP while there is no great difference between the GNP and the GDP in the Turkish economy.
** New series from 2002.
*** Current account balance targets (% of GDP) are: 2011: -5.4; 2012: -5.3; 2013: -5.2.
****Regarding Table 4, I used the last data offered by the TCMB to calculate again the ratio for the whole banking system's domestic loans to the economy (interbank loans are excluded) at current prices. In the first two quarters of 2010, total bank loans have increased of 23.6% with regard to the previous year value).
TCMB kept its one-week repo lending rate at 7% for the 11th month and also reduced the overnight borrowing interest rate from 6.25% to 5.75% and held the lending rate at 8.75%. Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Lending rate was kept at 11.75% and the interest rate on borrowing facilities provided for primary dealers via repo transactions was kept constant at 7.75 percent (TCMB, Decision of the Monetary Policy Committee, October 14, 2010).
Source: TÜİK 2009, 2010 and TCMB

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Table 10. *Contribution of expenditure types to growth rates of GDP (% at 1998 prices) 2005-2009*

	Resident households final consumption	Gross fixed capital formation (GFCF)
2005	5.6	3.9
2006	3.3	3.2
2007	3.8	0.8
2008	-0.2	-1.5
2009	-1.6	-4.5

Source: TÜIK 2010

Table 11. *GDP annual growth rates (% at 1998 prices) 2007-2010*

	2007	2008	2009	2010
Q1	8.1	7.0	-14.5	11.7
Q2	3.8	3.6	-7.7	10.3
Q3	3.2	0.9	-2.9	
Q4	4.2	-7.0	6.0	

Source: TCMB 2010

Table 12. *Gross external debt stock (at the end of the year, million US$) 2002-2010*

	2002	2003	2004	2005	2006	2007	2008	2009	2010Q1
A. Total	129532	144097	160977	169901	207819	249553	277005	268194	266605
A.1.Short-term	16424	23013	32205	38283	42616	43135	50448	49577	54472
Public sector	915	1341	1840	2133	1750	2163	3248	3598	4697
Private banks	5429	8351	12714	16562	19993	16167	21613	22127	26342
Non-financial corporate	8425	10461	13960	16178	17601	22061	23494	21785	21466
A.2.Long-term	113108	121084	128772	131618	165203	206418	226557	218617	212133
Public sector	63619	69503	73828	68278	69837	71361	75037	79819	80174
Private banks	3029	3133	5798	12341	22078	30941	30049	27993	26746
Non-financial corporate	24350	24783	28245	34604	53736	79625	98224	91831	87937
B. Share of the non-financial private corporate sector in total external debt*	0.253	0.245	0.262	0.299	0.343	0.407	0.439	0.424	0.410

* Author's calculations from the data of TCMB

Source: TCMB

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