

END OF BOOM THE POLITICAL ECONOMY OF TURKEY'S CRISIS

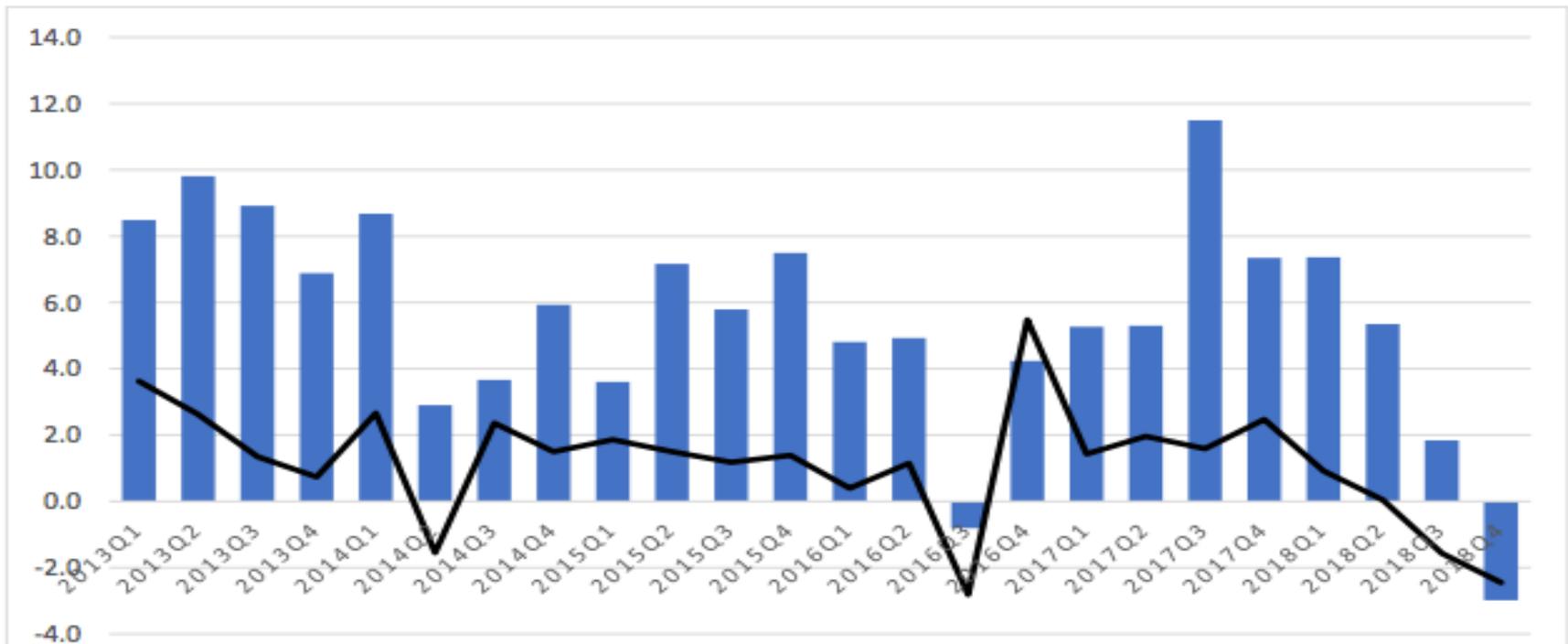
Cem Oyvat, University of Greenwich



Introduction

- Turkey's latest economic downturn: Reasons and consequences
- A brief history of economic developments in Justice and Development Party (AKP) era
- Why is Turkey facing the economic downturn 'now'?
- Possible impact of economic downturn on the elections on Sunday.

Contraction of GDP in two consecutive quarters => Recession!

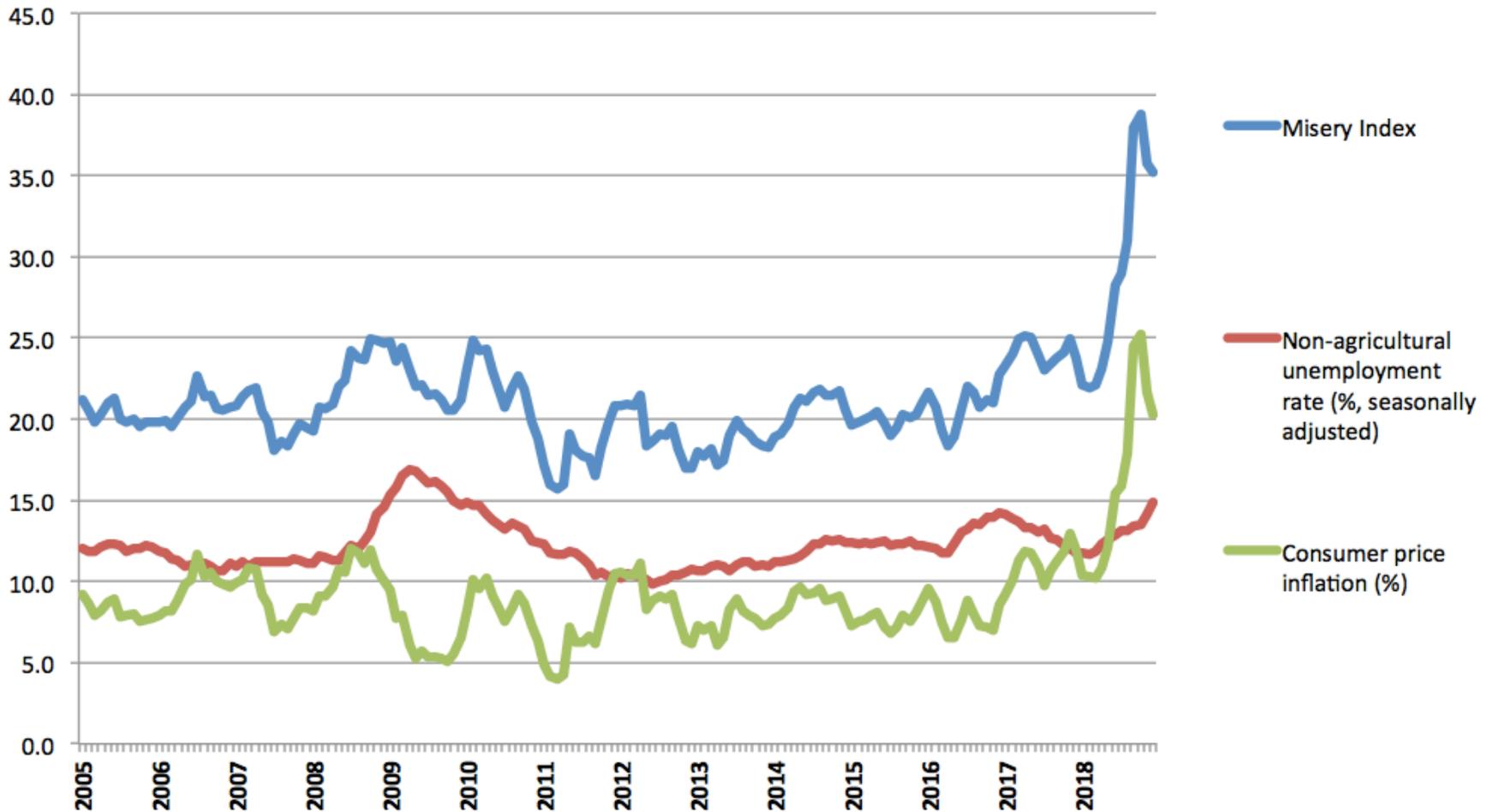


Source: Gürsel, Bakış and Kavuncu (2019),
Seasonally adjusted growth in quarterly GDP

Blue bars: Growth rate compared to the same quarter of previous year

Black line: Growth rate compared to previous quarter

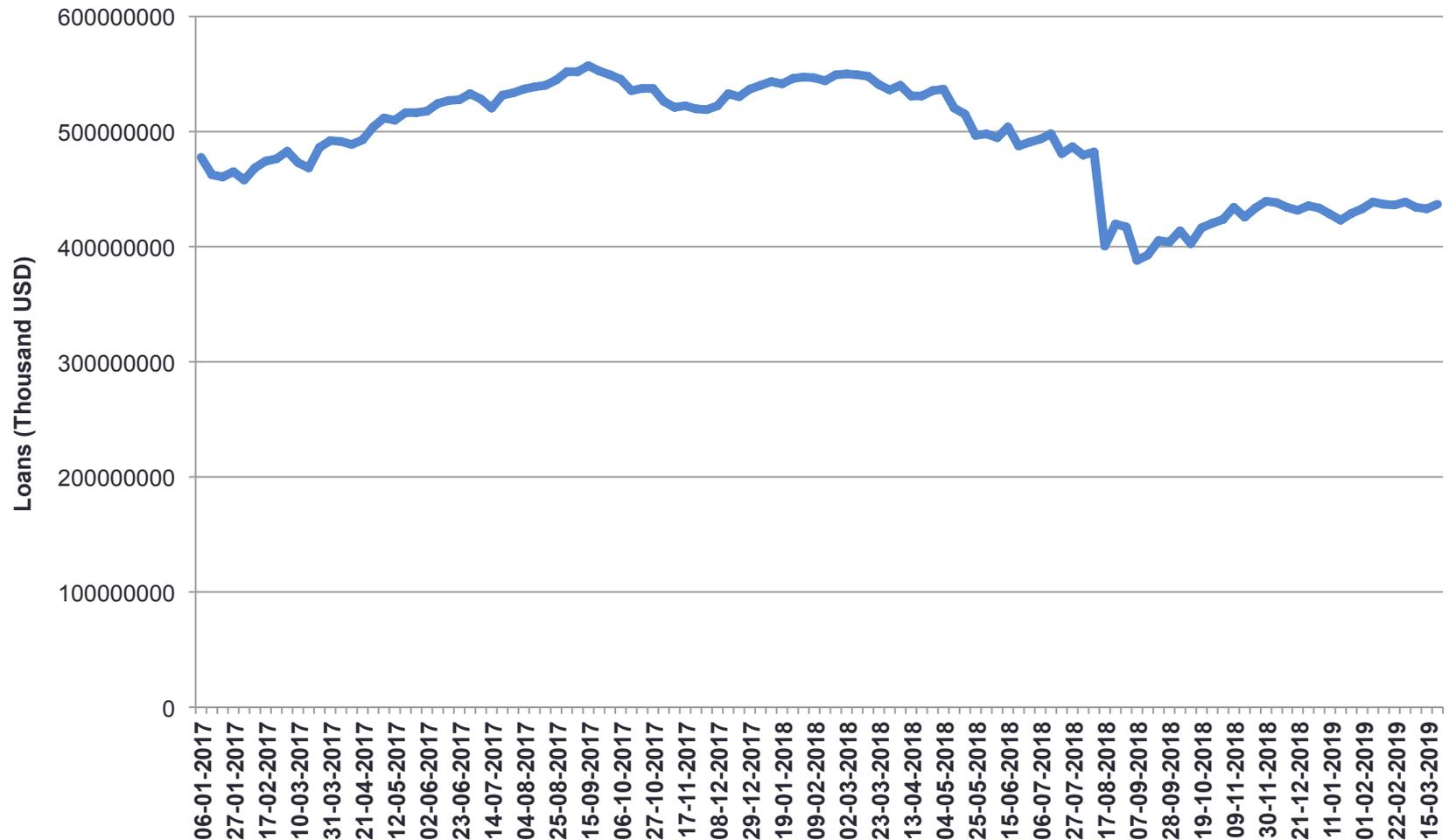
Turkey's Misery Index (Misery Index = Inflation + Unemployment Rate)



PMI Index on business confidence in manufacturing industry (Markit - Istanbul Chamber of Commerce)



Credit stock of Turkish banks (Loans to financial sector excluded, USD)

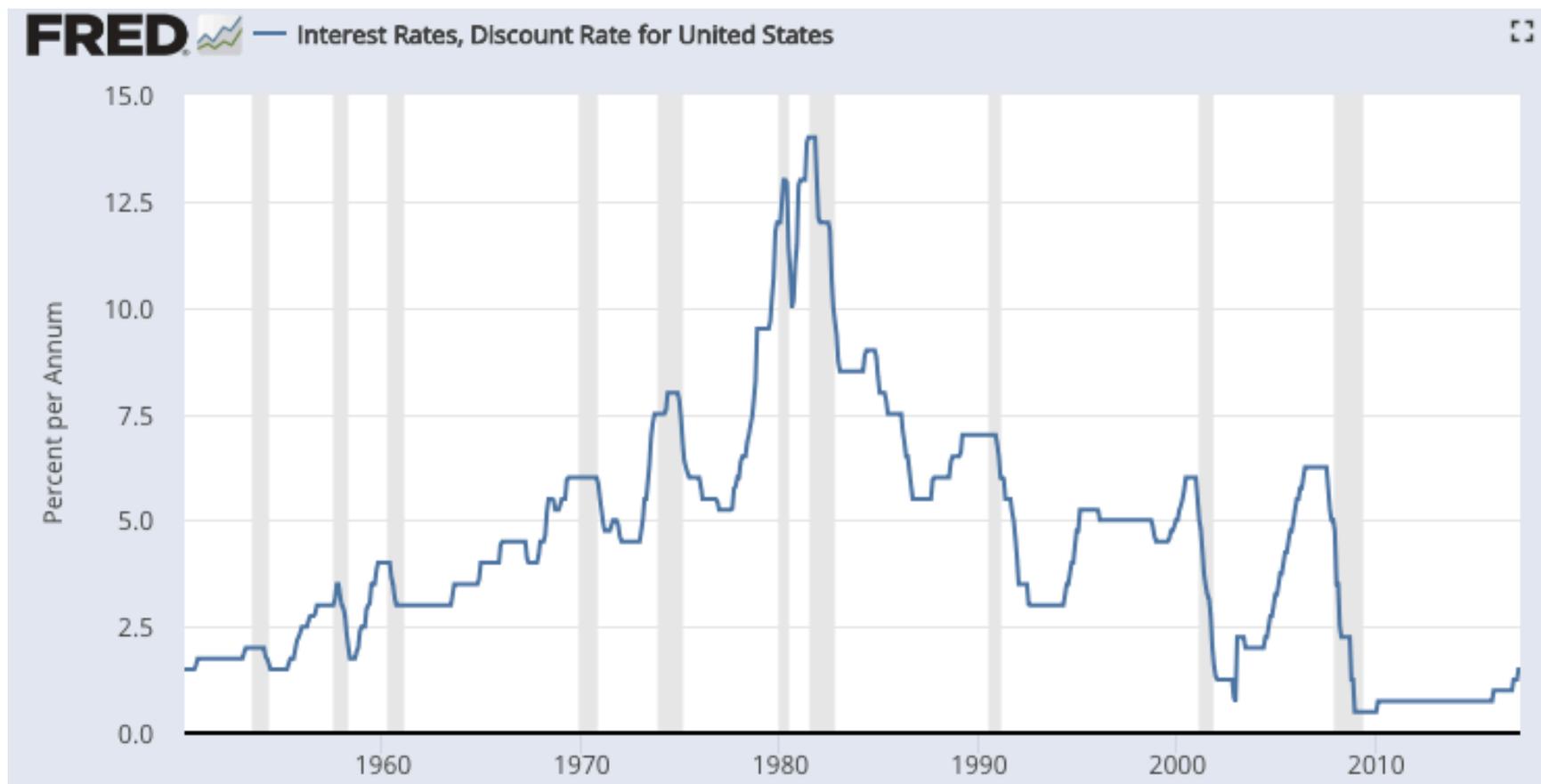


Speculation-led growth regime

- Neoliberal shift from import-substituting industrialization strategy to export-oriented growth model (1980)
- Capital account liberalization (1989)
- Two economic crises led by capital outflows (1994 and 2001)
- The election victory of the Justice and Development Party (AKP) in 2002.
- Ruled by Tayyip Erdoğan between 2002 - ?



The role of FED policies



The average annual growth of GDP per capita in different country groups with respect to income level

		1990-2002	2002-2013	2002-2007	2007-2009	2009-2013
All Countries	Lower income	1.48	3.18	3.44	2.77	3.14
	Lower-middle income	0.66	3.15	4.27	1.43	2.70
	Upper-middle income	1.16	2.81	4.68	-1.39	2.73
	Higher income	1.70	0.82	1.94	-2.84	1.31
Countries that are not fuel dependent	Lower income	1.10	3.08	2.98	2.79	3.42
	Lower-middle income	0.88	2.93	3.93	1.10	2.67
	Upper-middle income	1.47	2.81	4.78	-1.52	2.67
	Higher income	1.87	1.12	2.29	-2.42	1.49
Turkey		1.44	3.54	5.49	-3.33	4.67

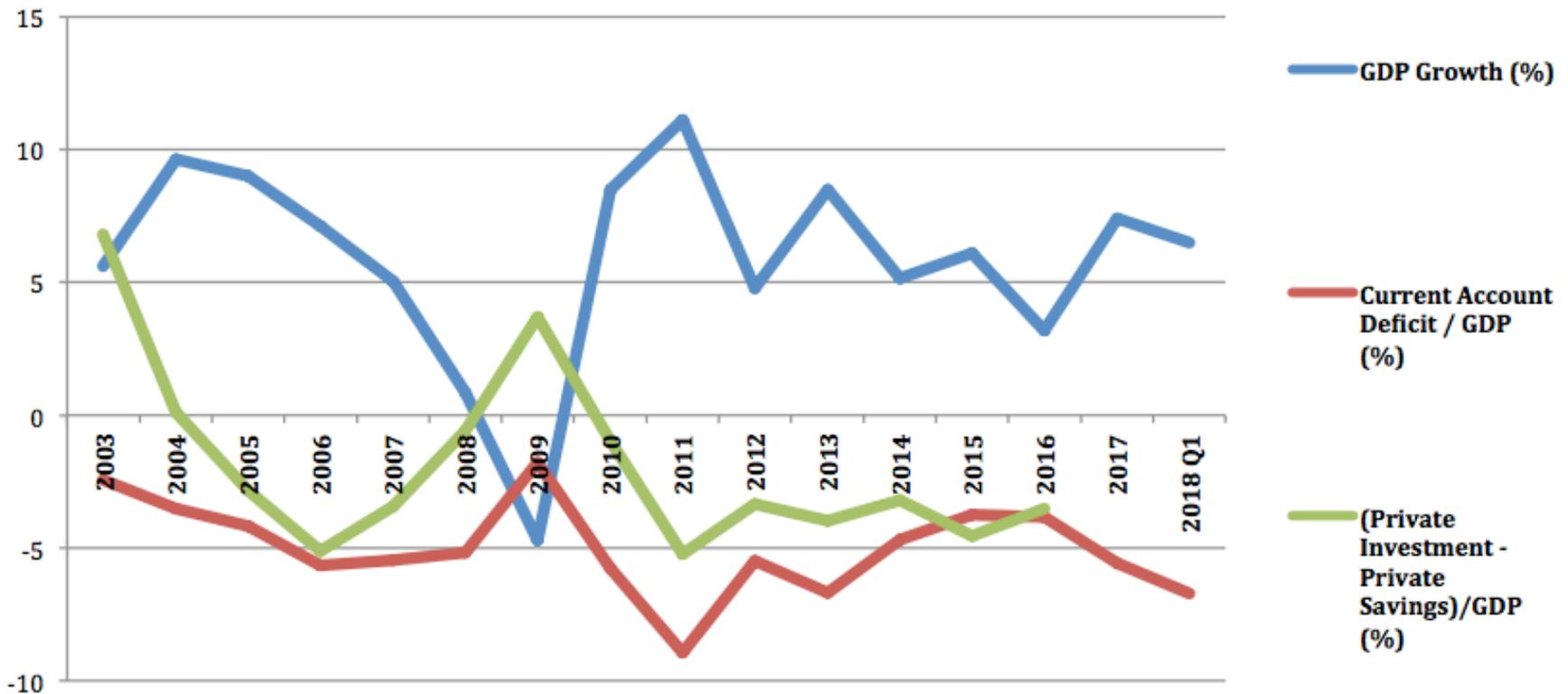
Three points are crucial for understanding the downturn in Turkey

- **1) Chronic current account deficit problem in 2000s.**
- Turkey's current account deficit/GDP ratio was 5.6% in 2017 and 6.7% and 5.2% during the first and second quarters of 2018.

- **2) Rising private sector indebtedness**
- The gross external debt as a share of GDP (%) in Turkey increased from 36.7% in 2011 to 51.9% in the second quarter of 2018.
- %56.7 in the last quarter of 2018

- **3) Depleting foreign currency reserves**
- The gross foreign currency reserves of the Central Bank of the Republic of Turkey (CBRT) depleted from \$112.0 billion in December 2013 to \$78,3 billion in July 2018 and to \$70,4 billion in August 2018.
- **Currently gross foreign currency reserves are \$71,4 billion (net reserves below \$30 billion even when gold reserves are added)**

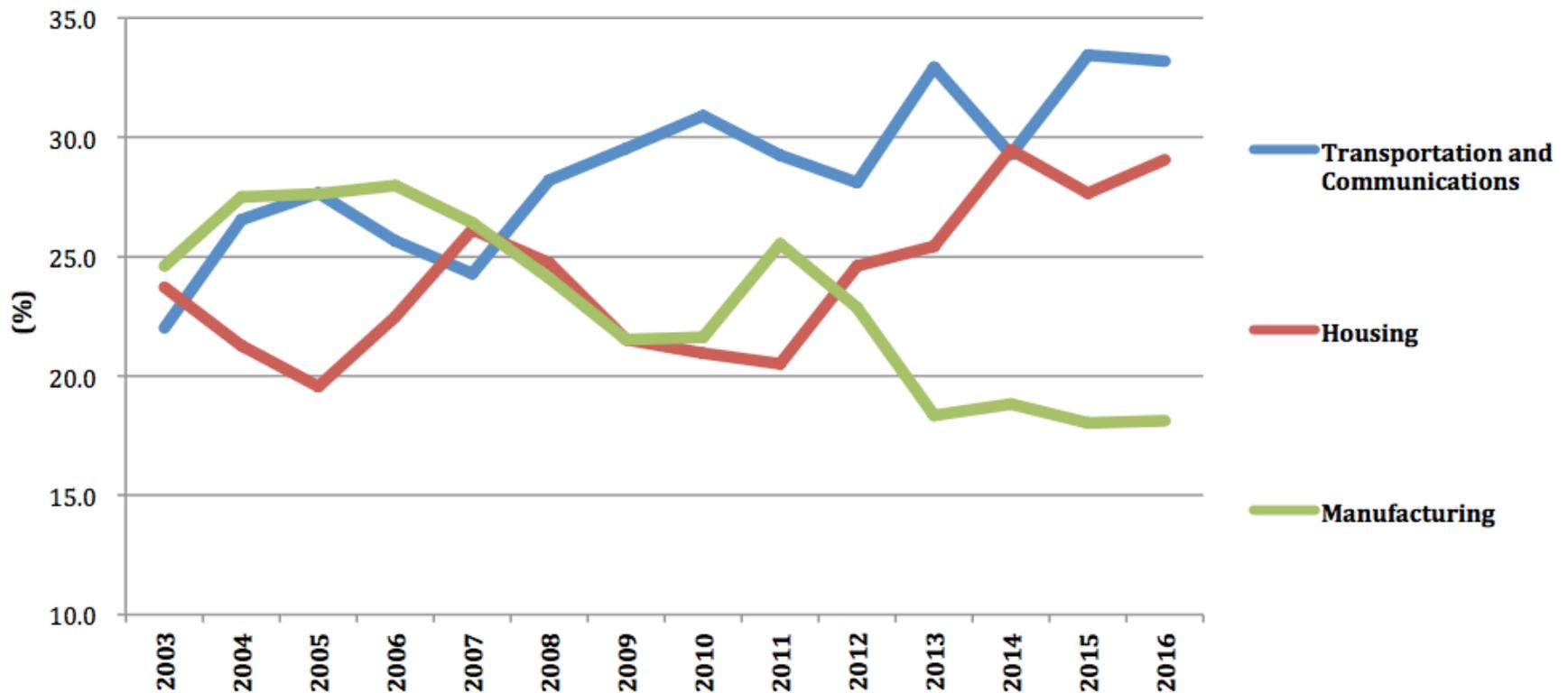
Turkey's chronic current account deficit problem



Source: WDI (2018) and author's calculations based on Republic of Turkey Ministry of Development (2018)
Note: GDP growth (%) for 2018 Q1 is growth compared to the first quarter in 2017

High investment-savings gap... But where did the investments go?

Figure 2: Share of selected sectors in total (private & public) investments in Turkey (%)



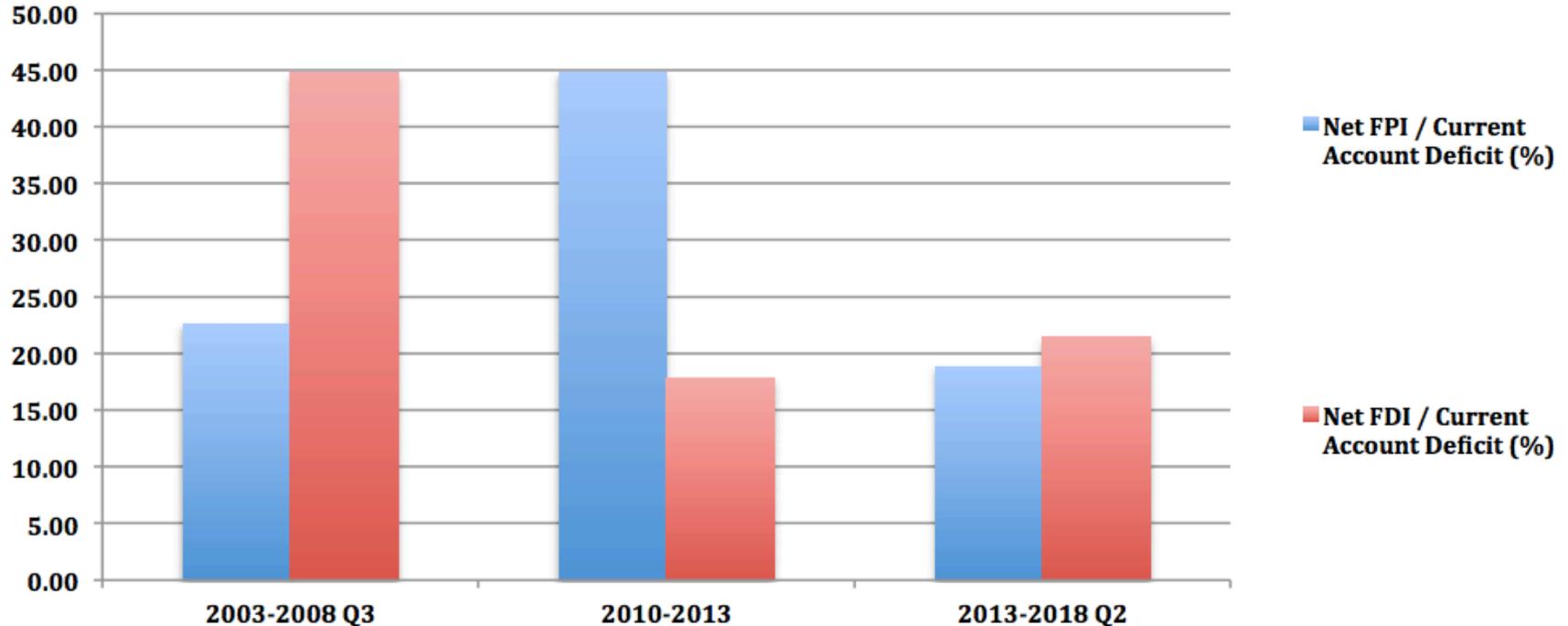
Source: Republic of Turkey Ministry of Development (2018)

Why is Turkey facing the economic downturn 'now'?

- **1) Years of growth, Foreign direct investments (FDI) and privatisations (2003 – 2008 3Q)**
- *Foreign direct investments (FDI):*
- Privatisations of public firms and acquisitions of other Turkish firms
- Privatisations of Turkish Telecom in 2005 (\$6.5 billion), PETKIM in 2007 (\$2.1 billion), TEKEL in 2008 (\$1.7 billion)
- *Foreign Portfolio Investments (FPI):*
- Low interest rates in the US
- Relatively lax capital account regulations in Turkey

Why is Turkey facing the economic downturn 'now'?

Figure 3: FPI and FDI as a share of total current account deficit in Turkey (%) for the given periods



Source: Author's calculations based on Central Bank of the Republic of Turkey (2018) data

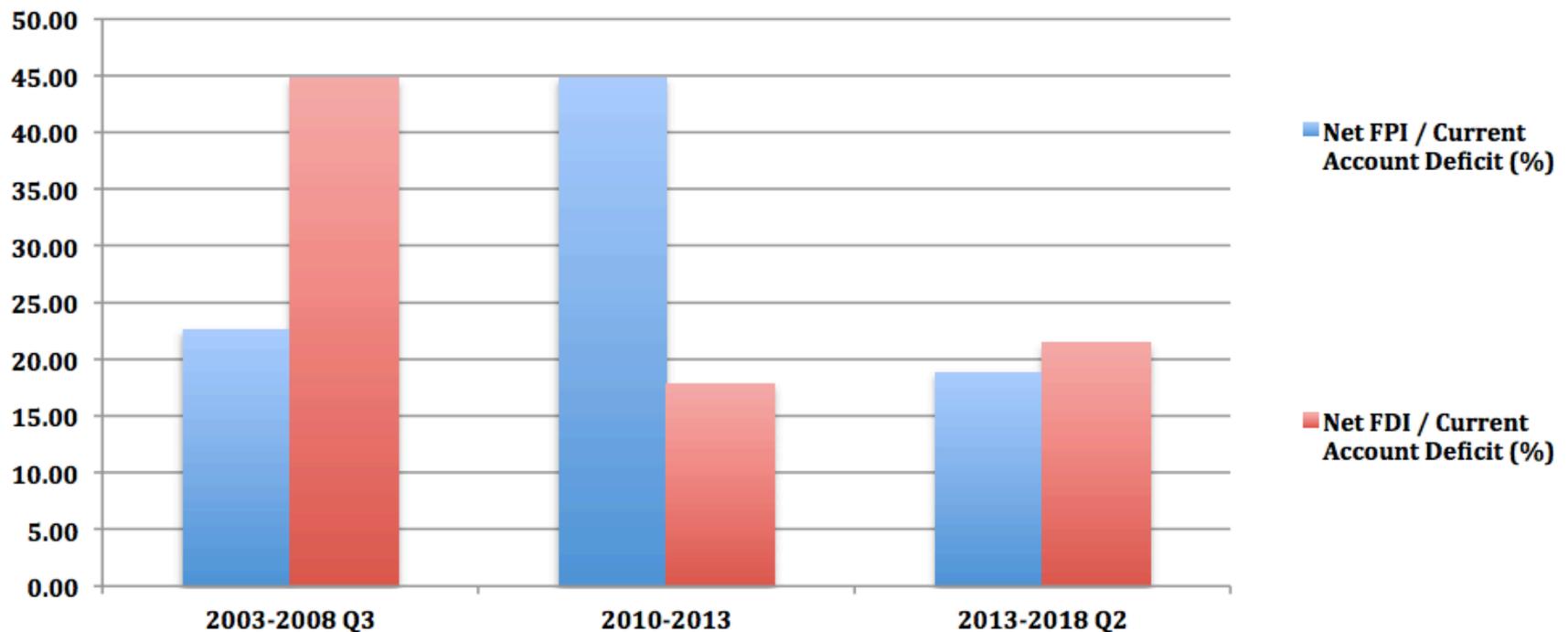
Why is Turkey facing the economic downturn 'now'?

- **2) The Global Crisis and Turkey's downturn (2008 Q4 -2009)**
- During the period of global crisis (2008 Q4-2009), the net financial portfolio inflows stopped and turned negative.
- Foreign Direct Investments are reduced by 59.4% in 2009.
- Turkey experienced a negative growth rate of -4.7%, lower than most of the other emerging economies

- **3) Years of quantitative easing, capital availability and financial inflows (2010 – 2013)**
- 44.8% of this current account deficit was financed by Financial Portfolio Investments
- Net FDI was limited, only covering 18.3% of current account deficit.

How did Turkey not experience an economic crisis until now?

Figure 3: FPI and FDI as a share of total current account deficit in Turkey (%) for the given periods



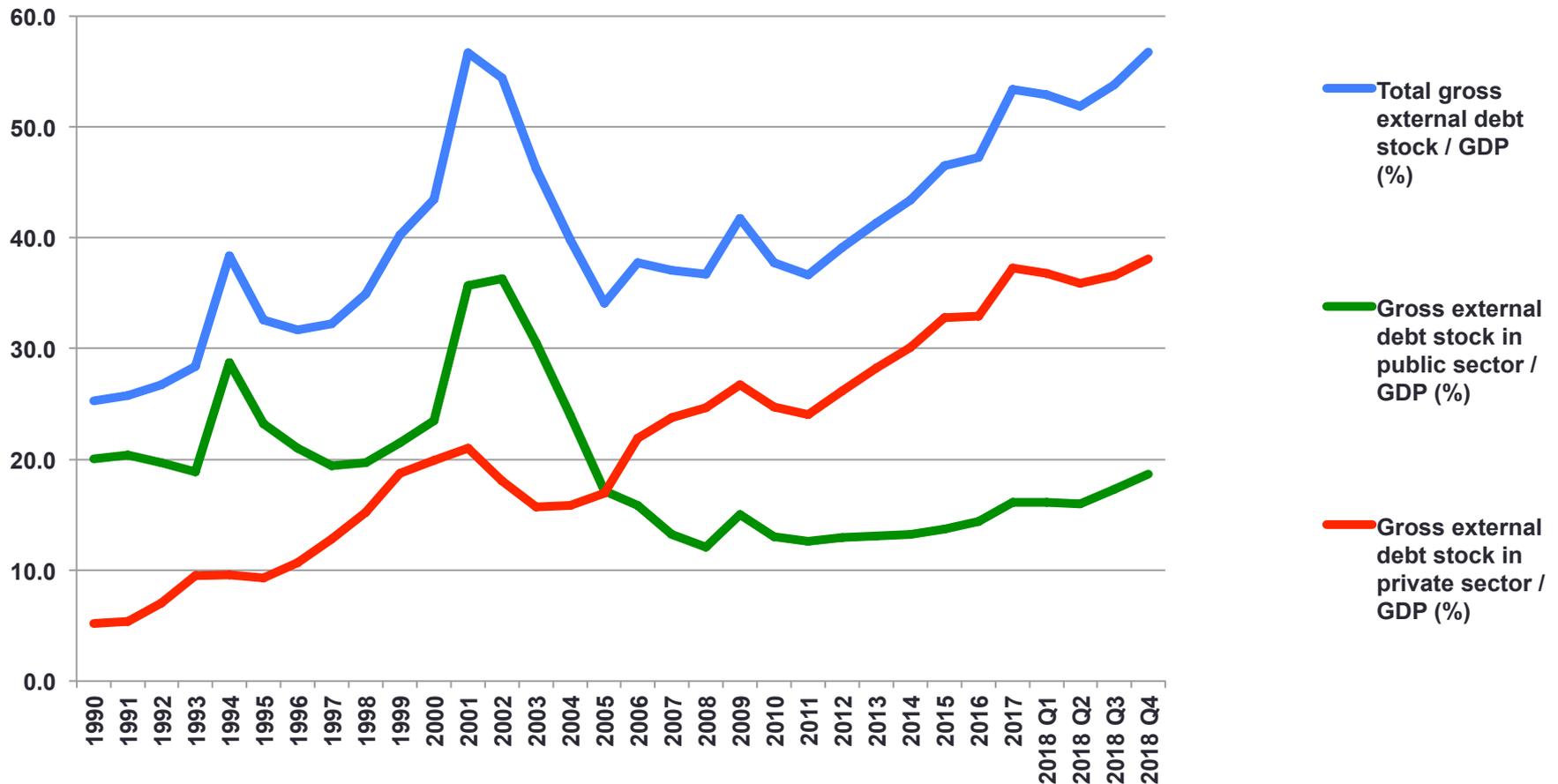
Source: Author's calculations based on Central Bank of the Republic of Turkey (2018) data

Why is Turkey facing the economic downturn 'now'?

- **4) Accumulating external debts and depleting foreign currency reserves (2014 – 2018 Q2)**
- CBTR's foreign currency reserves declined => Turkey's foreign currency reserves were used for financing 14.6% of the current account deficit.
- Rapidly increasing debt stock (mainly due to debt in private sector)
- Erdoğan's pressure on CBTR to keep the interest rates low.
- In 2017, Credit Guarantee Fund provided collaterals to 11.8% of commercial credits and supported the boom by incentivizing the investments of small and medium enterprises.

Why is Turkey facing the economic downturn 'now'?

Gross external debt stock of Turkey as a share of GDP (%)



The possible effects of economic downturn in the local elections on this Sunday

- Economic conditions in Turkey DOES matter in elections
- Following the global recession, the AKP vote share plunged in the 2009 local elections.
- The next two years witnessed rapid recovery. 11.1% growth in 2011. AKP achieved its highest vote share ever in 2011 (49.8%).
- Pro-government media influences economic perceptions.

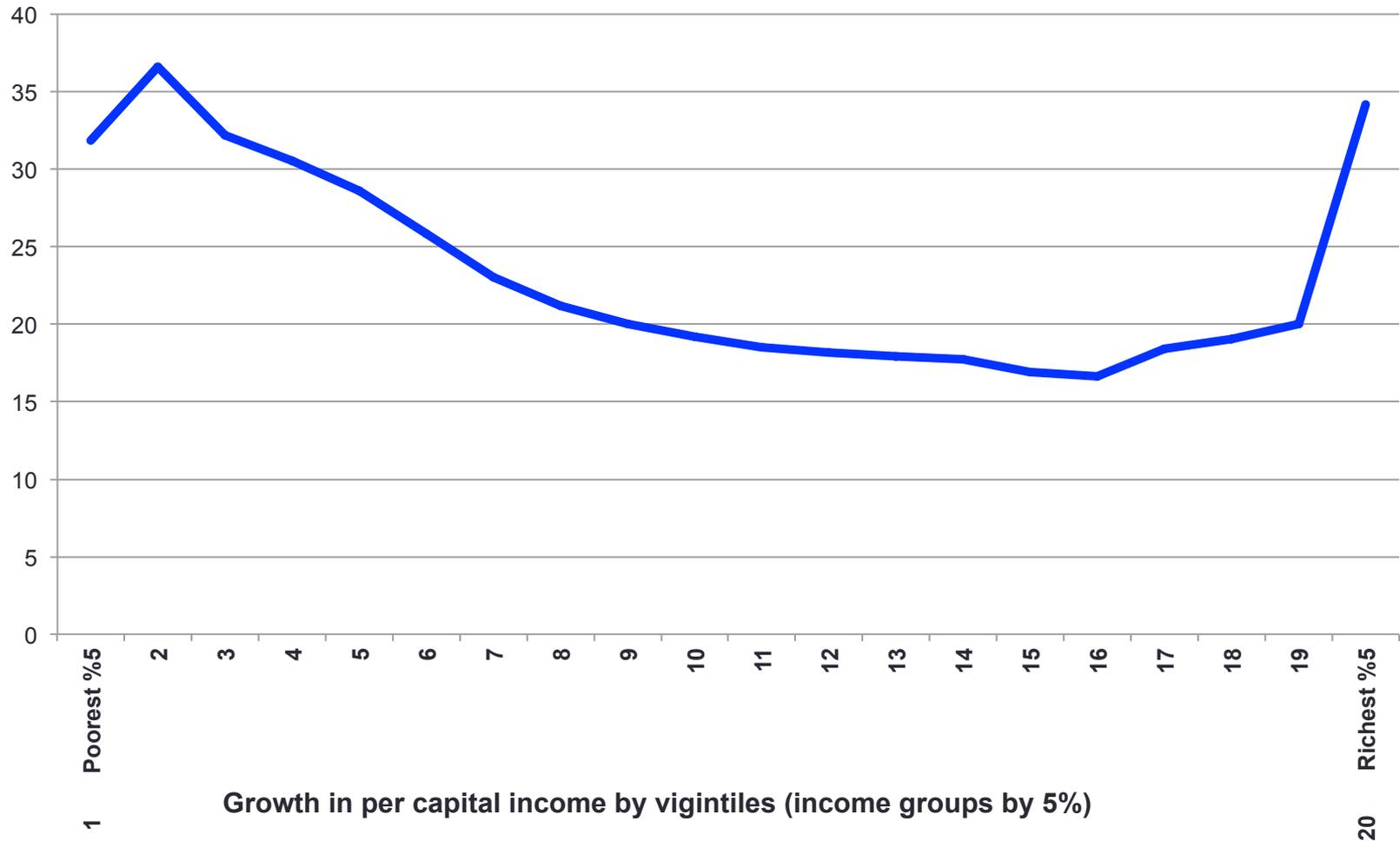
Economic Voting and Media Influence in a Competitive

Authoritarian Setting: Evidence from Turkey

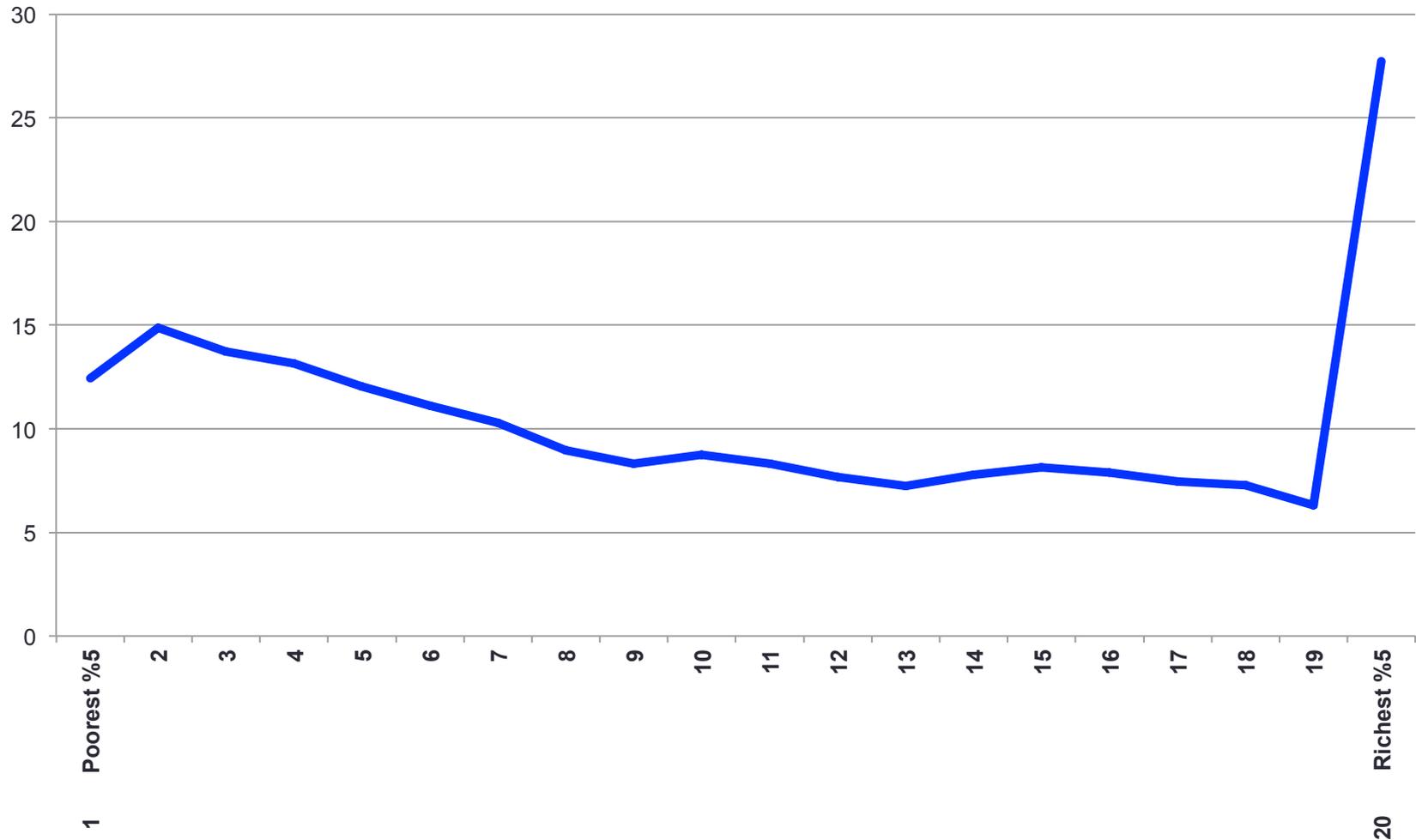
Alper H. Yagci* & Cem Oyvat†

Current version: December 2018

Growth in per capita income between 2010-2017 (%)



Growth in per capita income between 2014-2017 (%)



The possible effects of economic downturn in the local elections on this Sunday

- We find that a 1% decline in the growth of incomes leads to 0.7% to 1.0% decline in probability of voting Tayyip Erdoğan.
- The growth rate between July 2017-June 2018 was 5.6% before the General Elections in June 2018.
- If Turkey's economic performance in 2019 Q1 is similar to 2018 Q4, the yearly growth will be -0.4% for April 2018 - March 2019.
- **Hence, we can predict that AKP's share of votes will decline by 4.2% to 6.0% in the local elections on Sunday due to the economic crisis.**

The influence of pro-government media on economic perceptions

DAILY SABAH
BUSINESS

CATEGORIES
Daily Sabah > Business

China aims to double investments in Turkey to \$6 billion by 2021

DAILY SABAH

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DHA Photo

a PARA	BIST 100 92.120,33 %0.29	EURO /TRY 6,2625 %2.77	USD /TRY 5,3309 %3.74	ALTIN 230,1210 %2.40	FAİZ 21,2100 %-0.61	BREK 67,7
PIYASALAR	DÖVİZ	ALTIN	BORSA	TAHVİL-BONO-REPO		

Haberler > Haberler Haberleri > TCMB yayımladı! 100 milyar doları aştı...

TCMB yayımladı! 100 milyar doları aştı...

Türkiye Cumhuriyet Merkez Bankası'nın (TCMB) resmi rezerv varlıkları, şubatta bir önceki aya kıyasla yüzde 3,4 artarak 100,1 milyar dolara yükseldi.

AA | Haberler Haberleri

Giriş Tarihi: 28.3.2019 10:38 Güncelleme Tarihi: 28.3.2019 10:50



Fahiş etiketlere karşı tanzim satışları başladı
HEM TAZE HEM UCUZ ÇOK MEMNUNUZ

HEM TAZE HEM UCUZ ÇOK MEMNUNUZ
KANDİL'DEN SABAH'A SALDIRI TALIMATI

AYDIN SENGÜL
AK PARTİ İZMİR İL BAŞKANI

TANZİM SATIŞ İZMİR'DE NEDEN YOK?

13:35 ▲ 222.5 99.70, İZMİR 104.30, ANTALYA 97.6, BURSA 88.8, ÇANAKKALE 88.8, ÇANAKKALE AJANS

The influence of pro-government media

	Survey data		Affiliation information	
	I) Ratio in sample (%)	II) Viewers who voted AKP (%)	III) Time devoted to Erdogan or AKP (%)	IV) Ownership as of February 2018
Don't watch TV news	15.7	20.6	N/A	N/A
A Haber*	8	85.8	81.0	Turkuvaz Medya (Zirve Holding)
ATV*	14.7	77.7	81.8	Turkuvaz Medya (Zirve Holding)
CNN Türk	2.5	25	61.1	Doğan Yayın Holding
Fox TV	21.4	12.9	56.4	Fox International Channels
Haber Türk	1.2	44.8	65.3	Ciner Medya Grubu
Halk TV	1.7	2.4	N/A	Estetik Yayın A.Ş
Kanal 7*	1.4	85.3	81.3	Yeni Dünya Medya Grubu
Kanal D	7.4	36.3	61.7	Doğan Yayın Holding
NTV	2.2	41.8	76.9	Doğuş Holding
Show TV	4.1	52.6	67.2	Ciner Medya Grubu
Star TV	3.7	38.8	66.9	Doğuş Holding
TRT and TRT Haber*	11.1	72.6	91.2	State agency
Other channels	4.9	51.4	N/A	N/A
Total	100	44.3		

* Pro-government. Column III reports, based on official RTUK data, minutes devoted to AKP representatives in addition to President Erdoğan during the propaganda period before the 2017 referendum. See Supplementary Appendix A.1 for details.

		Pro-govt TV	Other or no TV	Difference	N
Retrospective pocketbook (1 to 5)	Past AKP voters	2.97	2.69	0.28***	1052
	Others	2.45	2.01	0.44***	1323
Retrospective sociotropic (1 to 5)	Past AKP voters	3.22	2.87	0.35***	1038
	Others	2.58	2.01	0.57***	1315
Counterfactual evaluation (1 to 3)	Past AKP voters	2.74	2.5	0.23***	1007
	Others	2.17	1.74	0.42***	1256
Prospective pocketbook (1 to 5)	Past AKP voters	3.23	2.93	0.31***	1018
	Others	2.69	2.16	0.54***	1298
Prospective sociotropic (1 to 5)	Past AKP voters	3.36	3.02	0.34***	1013
	Others	2.75	2.14	0.61***	1297
Perceived price index (%)	Past AKP voters	136	144	-8***	996
	Others	150	157	-7*	1270
Sociotropic overestimation (-2 to 4)	Past AKP voters	0.24	0.18	0.06	1037
	Others	0.13	0	0.13***	1313

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$ for one tailed differences

Retrospective pocketbook: Current effect of government's policies on your own budget

Retrospective sociotropic: Current effect of government's policies on national economy

Prospective pocketbook: Expected effects of government's policies on your own budget

Prospective sociotropic: Expected effects of government's policies on national economy

Counterfactual evaluation: How do you think the economy would fare if someone other than Erdogan came to power?

Perceived price index: Prediction on the yearly inflation rate

Counterfactual evaluation: How do you think the economy would fare if someone other than Erdoğan came to power?



Scenes from Istanbul from early 1990s, in which the mayor was from the social democrat party- SHP. (Strike of waste collectors)



Scenes from public hospitals from 1998, in which the main opposition party- CHP leader Kılıçdaroğlu was the director of Social Security Organization (SSK).

- **Pro-government TV followers also rate the current economic situation better than how they rate their own budget (socioeconomic overestimation)**
- As in this interview...
- - The economy is doing great. Every household owns three cars. If you don't have what can I do.
- - Where is your car? You don't talk about water bills, electricity bills and you talk about 'car'.
- - I have it.
- - Dude, I have known you for almost 40 years. You don't even have a bicycle.
- https://www.youtube.com/watch?v=2hkT2cYUbQI&fbclid=IwAR2P-X8CQrpx2Oi_5FTtEjGZg17RoT595CUg4u_iD6BmLEPlq2claTnL8rg

The influence of pro-government media

- Watching extreme pro-government media increases the probability to vote Erdoğan by %19.4 to %29.1.
- The results are based on Konda survey in February 2018. 35.2% watched extreme pro-government at the time of survey
- Which means extreme pro-government TV channels contribute Erdoğan's vote between 6.8 to 10.2 percentage points.
-
- After we finished our research, a pro-government business group purchased the biggest media company (Doğan Medya Group) relatively associated with the secular opposition—and changed its editorial policy immediately.

Conclusions

- Turkey has currently been experiencing an economic downturn due to fragilities accumulating until now.
- Investments-savings gap did not lead to a structural change that would change Turkey's current account deficit problem.
- Rapidly rising external debt and depleting foreign currency reserves in the post-2013 period.
- Economic downturn is very likely influence the voting behaviour in the local elections on Sunday.
- As Turkey goes to the polls amid recession, Erdoğan's control over the media may be his strongest asset.
-