Turkish manufacturing sector hit hard by financial crisis

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On Wednesday, the Turkish Statistical Institute (TUIK) announced that industrial output, a leading indicator of economic growth, decreased in August at a 4 percent annual rate. In August 2007 industrial production in Turkey increased by 6.3 percent.

This figure is far worse than expectations, which are also rapidly being revised downwards. According to the median estimate of eight economists polled by Bloomberg, output for August was expected to decline 0.3 percent. It is therefore no exaggeration to say that the industrial output figures for August came as a shock.

In the first eight months of 2008 industrial production grew by 3.6 percent year on year. In the same period last year this figure was 5.8 percent. The current contraction in industrial output is the first in 2008 and the biggest decline since January 2006.

As soon as the TUIK announced the August industrial output figures, economic growth forecasts prepared by different financial institutions for 2008, were cut by 2 percentage points from previous estimates of 4 to 4.5 percent. Expectations for 2009 look even gloomier.

Initially the economic growth target of the Islamist AKP (Justice and Development Party) government was 5 percent for this year, later revised to 4.5 percent.

Also on Wednesday the Turkish Union of Chambers and Commodity Exchanges (TOBB) issued figures confirming that Turkish capitalism is moving into a dramatic slowdown phase. According to the TOBB's Trade Registry figures, in the first nine months of this year the number of newly established companies has decreased by 4.99 percent compared with a year ago. Over the same period the number of company closures was up by 1.49 percent.

The figures recently issued by the Auto Distributors' Association show that car sales in August fell 8.3 percent from a year earlier, the second consecutive decline. Sales of commercial vehicles dropped 20.5 percent.

Last month, Toyota Motor Corporation announced that it was suspending production at its Turkish plant for two weeks due to weak demand.

On September 24, Tofas, the Turkish manufacturer of cars for Fiat, announced it would be stopping production at its car plant for six days. Ali Pandir, chief executive of Tofas, said the carmaker would produce 330,000 vehicles this year, 20,000 fewer than it initially planned.

Also in September, the Turkish unit of multinational tyre company Goodyear said it was stopping production at its factories in Turkey's northwest, in Adapazari and Izmit, for eight days beginning October 3.

Ten days ago the Association of Automotive Parts and Components Manufacturers (TAYSAD) announced that auto producers' orders for the Turkish auto supplier industry have declined by 30 percent. The supplier industry now potentially faces a huge loss of market for its products and the spectre of large-scale redundancies.

Recent macroeconomic figures reveal that the Turkish economy has been experiencing a very serious slowdown and is heading into a recession.The growth rate of the Turkish economy already suffered a significant blow in the second quarter of the year. Gross domestic product (GDP) increased just 1.9 percent in the second quarter of 2008 compared to the same period a year ago. This marked a clear slowdown in the country's economic performance and the lowest quarterly figure since the first quarter of 2002.

Inan Demir, an economist for Finansbank, told Bloomberg: "Growth is going to remain sluggish and sub-trend into 2009. But we still don't expect the Central Bank to start easing rates because that would further expose the currency to shifts in risk appetite."

Erdal Saglam of *Hurriyet* agrees with Demir: "Obviously, this lasting financial crisis and the rise in currency rates will put off any interest rate cuts."

The Turkish Central Bank increased its overnight

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borrowing rate half a percentage point, to 16.75 percent, in July--almost four times the level in the euro zone. Despite very high interest rates in Turkey for the last few days, the Turkish lira (YTL) has been falling as the global financial and economic crisis reduced speculative demand for higher yielding "emerging" market assets.

An open and fierce conflict between the government and the Central Bank administration is entirely possible in the coming months, although both are controlled by Islamist forces. One week ago Prime Minister Recep Tayyip Erdogan publicly criticised the Central Bank's policy of keeping overnight interest rates very high.

A few days later Durmus Yilmaz, Central Bank governor retaliated by telling reporters: "More or less, all countries will be affected by the crisis. It is not wise to think that our country will not be one of them." This was a direct reference to statements by Erdogan and other AKP leaders who claimed that Turkey would at most be minimally affected by the global crisis.

Turkey faces municipal elections next March and this is making Erdogan and his party nervous about the possibility of losing electoral support as the crisis intensifies.

A rapid loss of value in the YTL against the dollar and other so-called hard currencies, as has taken place in the last few days, will certainly spur inflation and drive up the cost of imports. The intensification of this trend is probable under conditions where capital inflows have stopped and a capital outflow is on the agenda.

Extremely weak economic growth over the coming months--negative growth for the last quarter of the year is a serious possibility--combined with rising, or at least resistant inflation will lead to the worst-case economic scenario- stagflation. The rising cost of imports will in turn increase the trade deficit and current accounts deficit.

The foreign debts of the Turkish bourgeoisie, especially those of companies lacking foreign exchange deposits, will invariably increase in line with the intensification of the finance crisis. Between 2002 and 2007 the annual average increase rate of foreign debts in the private sector was 28.5 percent. For the first seven months of this year the rate of increase was 23.4 percent and the total foreign debt stock reached US$200 billion.

On Thursday, the chairman of the Turkish Business Industrialists' and Businessmen's Association (TUSIAD), Arzuhan Dogan Yalcindag, told the press that businesses are "very worried" and declared: "The economic crisis must be handled seriously ... The government is not handling the economic crisis seriously enough!" Yalcindag added, "At the moment the world economy is shrinking, which would reduce our exports. Domestic demand is already falling. The Turkish private sector has incredible loans exposure ... All of this means that the shrinking global economy would have an impact on Turkey as well, and this is really worrying."

Slowing growth will in turn swell unemployment, especially youth unemployment, fuelled by a relatively fast-rising population and migration to the cities due to the harsh free-market policies of the government, affecting poor peasants in rural Anatolia.

At the same time, Turkish capitalism is facing the current global financial and economic crisis with a very high current accounts deficit and a heavy reliance on foreign capital. The ongoing and deepening economic crisis of world capitalism clearly shows that the prevailing Turkish growth model--based mainly on cheap foreign currencies (or an overvalued YTL, the local currency) and cheap imports based on cheap and easily available credit (including debt creating foreign inflows)--is no longer viable.

Once again Turkish capitalism is moving into a very severe and long-term economic crisis under conditions where there is a deepening regime crisis. These two crises are closely interlinked. In the final analysis, the conflict between the Islamist AKP government and the Kemalist establishment led by the Turkish military is a conflict between two feuding factions of the Turkish bourgeoisie, which are historically deeply divided. Neither can offer any solution to the current economic crisis.

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