

Turkish economy heading toward recession

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Turkey's industrial output declined for the second consecutive month in September, according to figures released by the Turkish Statistical Institute (TUIK) on Monday. Factory after factory is halting production, both temporarily and permanently.

TUIK announced that industrial production fell 5.5 percent compared to the same month in 2007. Industrial production fell 4 percent in August, meaning that for the first time in more than six years, Turkish capitalism has experienced two consecutive months of falling industrial production.

This is the biggest single decline of output since February 2002—a year after the devastating financial crisis of February 2001, when working people were suffering under the austerity measures implemented by the coalition government with the support of the IMF and the World Bank.

In some sectors, the picture looks even grimmer. Manufacturing output fell 6.3 percent in September, compared to a 5.8 percent decline in August. Mining output declined 4.3 percent, reversing an 8.5 percent growth in August. Production of utilities slowed down significantly, increasing by only 1.6 percent compared to a 3.6 percent growth the preceding month.

When the first three quarters of this year are compared to 2007, industrial production increased only by 2.5 percent and the manufacturing increased by 1.9 percent. Last year, the increase rates for the same period were 5.7 percent and 4.7 percent, respectively.

It is now almost certain that the Turkish economy will contract in the third quarter. Finans Invest chief economist Banu Kivci Tokali told *Today's Zaman*, "I think the GDP growth rate [for the third quarter] will be somewhere in between 0 and -1 percent."

As the impact of the global economic and financial crisis spreads, it can be predicted that the last quarter of the year will witness negative growth as well. Sengul

Dagdeviren, chief economist at ING Bank in Istanbul, told *Hurriyet Daily News*, "It is inevitable that we will see a contraction in output in the fourth quarter and it will remain weak in the first half of 2009." In other words, Turkey has entered into recession.

Everyday, this is more bad news from major companies. According to a *Hurriyet Daily News* report, "Toyota Motor Corp. said in September it was suspending production at its Turkish plant for two weeks because of lower demand in Western Europe. On September 23, Tofas, which makes Fiat cars, announced a six-day pause. Ford Otosan, Ford Motor Co.'s unit in Turkey, said today it would stop production at its plants in northwest Turkey for 14 days this month."

Production at textile and clothing firms is declining continuously. (See "Turkey: Financial crisis hits textile industry") Industries such as electrical machinery, electronics and chemicals are also being hard hit. As the daily *Milliyet* commented: "While the Turkish textile industry shrank by 17.6 percent, the electronics industry also cut output in September."

Moreover, all indicators point to 2009 being even worse. On Tuesday, TUIK announced that the rate of capacity utilisation decreased from 83.1 percent in October 2007 to 76.7 percent in October of this year, a much larger drop than expected.

Many commentators are now saying the recession in 2009 may be deeper than expected and last throughout the year. This means that production may contract to quasi-depression levels. Given the accumulated vulnerabilities of the economy, the possibility of a full-fledged depression cannot be ruled out.

Business circles, even those close to the ruling Justice and Development Party (AKP), have issued statements emphasising the seriousness of the situation and calling for a rescue package.

The chairman of the Istanbul Chamber of Industry

(ISO), Tanil Kucuk, published a statement immediately after TUIK's announcement, writing, "If measures to combat the financial crisis are not put into action soon, the coming months will only bring more grim consequences." Kucuk also warned, "After a certain point, no rescue package will be useful."

At a conference in Samsun the same day, the president of the Turkish Union of Chambers and Commodity Exchanges (TOBB), Rifat Hisarciklioglu, said, "No one in the world knows when this turmoil will reach an end. We are now right in the middle of it and now is the time to be more cautious." Hisarciklioglu asked the government to support "an entrepreneurial spirit" and "pay more attention to the current-account deficit."

The chairperson of the Turkish Industrialists' and Businessmen's Association (TUSIAD), Arzuhan Dogan Yalcindag, repeated her call for signing a new stand-by agreement with the IMF: "Turkey should make a new agreement with the International Monetary Fund (IMF) and receive new loans. Such an agreement won't hurt Turkey's honour."

A new agreement with the IMF will mean harsher attacks on the working class—including stricter austerity measures, the expansion of "flexible" and insecure working practices and a further repression of real wages.

The ruling AKP has no objections to such measures. Its major concern is the coming local elections in March 2009. A staff team from the IMF, led by Lorenzo Giorgianni, held discussions with the Turkish authorities and representatives of Turkish big business in Ankara and Istanbul October 16-29 in the context of post-programme monitoring. At the conclusion of the mission, Giorgianni made a statement asking the government to "implement stricter control of local government finances," which will bind the hand of the AKP on the eve of the elections.

A weak result for the AKP in the local elections will play into the hands of the party's Kemalist opponents who have lost a substantial amount of ground against the Islamists and are looking for a settling of scores. This is why Prime Minister Tayyip Erdogan of the AKP has been speaking against an IMF agreement. "Shall we sit down at the table and sign a deal with the IMF immediately?" he asked. "We make deals only if our interests are satisfied. If they try to push us into a

deal, saying, 'Now's our chance, let's throttle Turkey,' then, forgive us, but we will not be involved in such a business."



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