Turkish economy in freefall

Sinan Ikinci
7 July 2009

Last week, the Turkish Statistic Institute (TUIK) announced that Turkey's economy shrank by 13.8 percent in the first quarter of 2009, compared to the same quarter a year ago.

This figure is even worse than the expectations of individual economists as well as financial and academic institutions, which hovered at around 11 percent.

In particular, economists with Islamist sympathies tried hard to downplay the crisis by keeping their estimates of contraction as low as possible. Some even claimed that there would only be a 6 percent contraction. This was the position taken by the Islamist AKP (Justice and Development Party) government, which has declared that the crisis is "largely psychological."

Wholesale and retail trade, construction and manufacturing are the worst hit economic sectors. They recorded massive drops of 25.4 percent, 18.9 percent and 18.5 percent, respectively.

The rate of contraction in private consumption and investments accelerated significantly. Private consumption, which dropped by 4.6 percent in the last quarter of 2008, plummeted by 9.2 percent in the first quarter of this year. This is an even steeper decline than the one experienced during the devastating 2001 financial crisis.

In terms of real GDP, this figure marks the steepest quarterly decline in economic growth since 1945, when the economy was in depression due to the Second World War.

When calculated in terms of the US dollar, the contraction in the Turkish economy is 29 percent. This is mainly due to a loss of value suffered by the overvalued currency (Turkish lira) under conditions of economic crisis. Before October 2008, when the tidal wave of the global crisis first reached the shores of the country, an overvalued lira was used to inflate the country's GDP in dollar terms.

In addition to sustaining a 13.8 percent contraction in fixed prices, the Turkish economy recorded a 2.2 percent decline in current prices in the first quarter of the year. This is a "first" in the modern history of Turkish capitalism and points out a very dangerous trend of wage deflation. (See "Dramatic decline in Turkish wages") Significantly, this figure has been largely ignored by the media and its commentators. Even the Islamist daily *Today's Zaman* sought to downplay the significance of this latter figure, arguing that 2.2 is much smaller than 13.8! In fact, on the contrary, it is the decline in current prices that highlights the extreme gravity of the situation.

The GDP figures make clear that Turkey is one of the worst affected economies in the world. Only Estonia and Latvia are falling at a faster rate.

In the last quarter of 2008, the Turkish economy contracted at a rate of 6.2 percent. Last week, many commentators in the news media described the two consecutive quarters of contraction as a recession. In fact, when the situation is assessed together with other main macroeconomic figures and leading indicators, it becomes clear that Turkish capitalism's contraction has already reached a disastrous quasi-depression level.

Since October 2008, exports have been plummeting, industrial and manufacturing output as well as capacity utilisation has been declining, unemployment has hit unprecedented levels, new investments have crawled to a halt, consumer demand has collapsed due to deepening wage deflation and rapidly growing social and economic inequality, while the profits of non-financial companies have dipped.

One of the major consequences of the global crisis for developing countries is a dramatic cut in exports. This is why the drop in exports plays a major role in determining the severity of Turkey's economic crisis and serves as a critical leading indicator. In this respect, the most recent data show that exports continued to decline in June with no prospects of recovery.

Last week, the Turkish Exporters Assembly (TIM) announced that the country's exports continued to slide by 32.78 percent to US$8.1 billion in June 2009, compared to the same month of the previous year.

The government's response

Since the middle of 2008, the AKP government and in particular its prime minister, Recep Tayyip Erdogan, have been complacently arguing that the country's economy will not be seriously affected by the global crisis. They claimed that Turkey would be among the group of countries that would be relatively less affected. During this period, Erdogan repeated this claim on a number of occasions. The realities of Turkish economy are now making a mockery of his and his party's unfounded claims.

In the first months of this year, the government prepared a stimulus package including some major tax incentives for certain industries such as automotive, electronics, home appliances and furniture. The figures of the first three months indicate that these stimulus measures have had little effect on economic growth.

On the other hand, the country's budget deficit has been skyrocketing. This tendency will create more troubles for Turkish capitalism in the months and years to come, with a massive budget deficit and a domestic debt steadily going out of control.

The government's miscalculation finds its expression in its official macroeconomic targets. Initially, the AKP government forecasted a growth of 4 percent for the Turkish economy in 2009 and stubbornly refused to change its prediction although the alarm bells were ringing for quite a long time. Then, just a few months ago, this figure was revised to a negative 3.6 percent growth. It is now clear that this target is also far from being realistic. Actually, this was crystal clear even on the very day the new target was announced.

Economic growth for Turkey as estimated by different institutions are as follows: the Economist Intelligence Unit: -4.5 percent; the International Monetary Fund (IMF): -5.1 percent; the World Bank: -5.5 percent; and the OECD: -5.9 percent. Although they are all significantly higher than the government's forecast, they are also too optimistic. Last week, Citigroup lowered its forecast for Turkey's economic growth for 2009 from -4 percent to -7 percent. The Economists Platform in Turkey revised its economic growth expectation from -5.1 percent to -7.2 percent.

It is already clear that in 2009, the Turkish economy will contract at a rate not less than 7 percent. This economic meltdown vindicates what the *World Socialist Web Site* has been saying about the future prospects of Turkish capitalism: "Despite the homilies by government officials aimed at lulling the Turkish population, all the indications are that the growing international storm will invariably drive the Turkish economy onto the rocks." This is exactly what is happening at the moment. (See "Turkish economy falters")

An internecine war within the ruling class and negotiations with the IMF

The so-called "secular" wing of the Turkish bourgeoisie—mainly 500 members of the Turkish Industrialists' and Businessmen's Association (TUSIAD)—and its representatives in the sphere of politics and media have already started to use the historic quarterly contraction data to increase pressure on the government to sign a new stand-by agreement with the IMF. This faction of the bourgeoisie justifies this demand by claiming that a new IMF deal would restore confidence in the markets while providing financial resources to ease choked financial channels. When translated into plain language, this means: We have massive foreign debts, we took advantage of them during the fast economic growth period, but now we want the government to become the guarantor of our debts.

On the other hand, the Independent and Businessmen's Association (MUSIAD)—one of the major representatives of the Islamist wing of Turkish bourgeoisie—repeatedly opposed a new stand-by agreement with the IMF, claiming that such a deal was not a prerequisite for recovery. But it is also calling for "structural reforms"—like its rivals in the TUSIAD. When it comes to attacking the working class, the internal divisions within the bourgeoisie, however deep they may be, immediately fade away.

As the political representative of the Islamist bourgeoisie, the AKP government has been dragging its feet for more than a year regarding a possible IMF deal. The AKP government fears that a further austerity programme would be harmful to its political prospects less than 12 months before a national election. The government also rejects the IMF's demand to create an autonomous tax administration. On a number of occasions, Prime Minister Erdogan has described this demand by the IMF as unacceptable.

This is because the Islamist government uses tax investigations as a way of putting pressure on and even sometimes directly attacking a rival section of the bourgeoisie. It doesn't want to lose such a powerful tool at its disposal.

The government and its supporters criticise the so-called "secular" wing of the bourgeoisie for attacking the government. Last week, Ibrahim Ozturk of *Today's Zaman* wrote in his column, "Due to some ideological priorities, big business did not take the required initiatives. Even worse, they tried to reduce the confidence of the end consumer so that government would lose a significant proportion of the vote, and in the case of an early election, the Justice and Development Party (AKP Party) government would go." These two sentences speak volumes regarding the internal tensions of the bourgeoisie as well as the country at large.

Up to now, the financial sector has emerged largely "safe and sound" when compared with the non-financial corporations. The profits of banks and other financial institutions remain very high.

Almost all of the commentators attribute this to the reforms of the post-2001 crisis period. Although there is a grain of truth in this assessment, avoiding a financial crisis was mainly due to an inflow of unregistered capital to Turkey worth more than US$18 billion since October 2008.

No one knows the major source of this inflow, and the Central Bank, which issues these figures, is unable to provide a convincing explanation. But one thing is for certain: without this inflow, Turkish capitalism would experience a serious financial crisis more or less simultaneously with the ongoing economic crisis, which would also exacerbate it immensely.

In any case, the amount of bad credits is accumulating rapidly, and a decline in the profits of financial institutions is inevitable. Sooner or later, this will put an additional pressure on Turkish capitalism, which is writhing in the grip of a deepening economic crisis.