Turkey’s central bank changes interest rate policy after critical elections

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Last Thursday, the Turkish Central Bank announced its expected decision on interest rates, raising the policy rate from 8.5 percent to 15 percent. The decision representing a sharp shift in the financial policy advocated by President Recep Tayyip Erdo?an came shortly after Hafize Gaye Erkan was appointed to run the central bank.

In a statement, the Central Bank said, “Monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved.” But the rate hike was below the expectations of the financial markets.

The Turkish Lira fell more than 5 percent on Thursday, sending 1 US dollar above 25 TL. Before the second round of the presidential elections held on May 28, the US dollar exchange rate was 19.97 TL. This means the Turkish currency has depreciated by around 30 percent against the dollar since the election.

The devaluation of the TL will further exacerbate the already high cost of living and the decline in workers’ purchasing power. The tight monetary policies and interest rate hikes that have been in place in major capitalist countries are expected to have a negative impact on economic growth, employment and wages.

In a statement before the elections, the *World Socialist Web Site* warned of the dangers awaiting the working class in Turkey, stating: “In reality, the economic crisis and the social attacks of the ruling class will deepen, whichever candidate wins.”

The Central Bank in Turkey last raised the policy rate in March 2021 to 19 percent. At a time when central banks around the world were raising interest rates, President Erdo?an’s Justice and Development Party (AKP) government has continuously lowered them.

Erdo?an justified his decision to cut interest rates by claiming that “interest is the cause of inflation” and that interest has no place in Islam. However, the government’s low interest rate policy was mainly motivated by its prioritization of economic growth and employment ahead of the critical 2023 elections. Indeed, it hiked interest rates immediately after the election.

The government, which saw its support dwindling in the polls due to the cost of living crisis fueled by the COVID-19 pandemic and the US-NATO war against Russia in Ukraine, could only continue its populist policies until the elections.

On the other hand, the growth with the low interest rate policy during this period was accompanied by a flight from the TL and a rise in inflation. The Central Bank depleted its foreign reserves to control exchange rates and international net reserves fell to a negative level. However, the decline of TL against the dollar could not be stopped.

While one dollar was 7 liras in 2021, it has now risen to 26 liras. Moreover, as the annual inflation officially rose to around 80 percent, real inflation was over 150 percent last year. As of May, it is officially 39 percent, but an independent calculation put it as 109 percent.

While financial markets criticized Erdo?an’s pre-election low interest rate policy as irrational and called for a return to “orthodox policies,” he presided over a massive transfer of wealth from the working class to finance capital. The total net profit of the banking sector increased by 366 percent in 2022. In contrast, labor’s share of national income declined from 32 percent in 2016 to 23.7 percent in 2022.

As WSWS has previously explained, over the last year, central banks around the world, led by the Federal Reserve in the US and the European Central Bank, have “shifted from its decades-long policy of providing trillions of dollars in virtually free credit for financial speculation to a regime of rising interest rates. Its aim is to drive up unemployment to beat back the growing struggles of workers to increase their wages to keep up with record high living expenses.”

Therefore, after the elections, Erdo?an formed an economic management team composed of figures favored by the international financial elite. Mehmet ?im?ek, a former AKP minister, was appointed as minister of Treasury and Finance, while Erkan, a senior finance executive from the United States, was appointed as the head of the Central Bank.

In an article on the interest rate hike in Turkey, the *Financial Times*, the mouthpiece of European finance capital, commented: “The move marked the clearest sign yet that the economic team Erdo?an put in place after winning May’s election—led by finance minister Mehmet ?im?ek and central bank governor Hafize Gaye Erkan—will use traditional economic tools to restore Turkey’s economy to a more sustainable path and try to lure back investors who have abandoned the market.”

The newspaper wrote: “the scale of the [interest rate] increase disappointed some investors and local market participants who had projected a rise to 20 percent or even as high as 40 percent … With the current account deficit running at record levels, fuelled by a $36bn goods trade gap, a domestic economy that many analysts say is overheating, and a currency that is seen as overvalued despite a huge fall in recent years, the interventions ?im?ek will need to undertake are expected to be painful in the short run.”

Workers will face an intensifying attack on their social conditions. The interest rate hike will plunge millions of workers, who survive on consumer credits and credit cards, deeper into misery. It will also push many companies, which are already barely profitable, into bankruptcy or contraction with mass layoffs. In addition to the high cost of living, the rise in unemployment will drive a fall in real wages and higher levels of social inequality.

However, fears that the unbearable conditions of the working class could lead to a social explosion forced the government to raise the minimum wage by 34 percent, an increase far below the real inflation workers face. The minimum wage was increased to 11,400 liras (US$483) on 20 June, but rapidly fell to US$438 with the depreciation in TL.

Under conditions where governments squander social resources on militarism amid the US-NATO war against Russia and as corporate profits reach extraordinary levels, these wage increases mainly aim to limit growing discontent and anger among workers.

Workers can fight the worldwide cost of living only with the demand of an automatic rise in proportion to the price increases in consumer goods. Independent rank-and-file committees must be set up by workers to determine the rates of price increases. They must combine the struggle for these transitional demands with the struggle for workers’ power against capitalism across the world.