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MASTER'S THESIS

IN THE LIGHT OF CRISIS THEORIES TURKEY'S ECONOMIC CRISIS AND THE IMPORTANCE OF 6-8 ANNUAL PERIODS IN CRISIS

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APPROVAL PAGE

DECLARATION

I hereby declare that this doctoral thesis titled as "In The Light Of Crisis Theories Turkey's Economic Crisis And The Importance Of 6-8 Annual Periods In Crisis" has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all materials benefited in this thesis consist of the mentioned resourses in the reference list. I verify all these with my honour.

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ABSTRACT

Master's Thesis

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It is not possible to detect when the economic crises would occur. But awareness to be increased by observing the changes occurring in the economic data of the countries would strengthen the predictions in case of a probable depression, make it easier to take action and finally may become a "guide" for taking precautions for the future. After January 24 Decrees in 1980 Turkey started to face more with "economic crises" concept. Based on this theoretical perspective, this thesis handles with the concepts of economic crisis and conjunctural waves in theoretical aspect and evaluate the crisis appearing in Turkish economy. Conjunctural fluctuation periods of Turkish economy covered in scope of the common variables determined in theory and practice and the evaluations to be made through these periods would be helpful in better understanding of the fragilities of country's economy and the economy policy decisions to be taken for the future. At this point economic growth, national per capita income, unemployment, average inflation, current account deficit and foreign trade deficits and industrial production, real sector confidence and consumer confidence indexes would be advantageous. It is concluded that the successive conjunctural fluctuations occurred in periods of 6-8 years in Turkish economy when the economic course was observed. Datas also, handle with Hodrick-Prescott Filter within eviews.

Keywords: Crisis, Conjuncture Theories, Crisis of Turkish Economy

ÖZET

Yüksek Lisans Tezi

Kriz Teorileri Işığında Türkiye'nin Ekonomik Krizleri Ve
6-8 Yıllık Periyotların Krizlerdeki Önemi

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Ekonomik krizlerin ne zaman meydana geleceğini saptamak şüphesiz ki mümkün değildir. Fakat ülkelerin ekonomik verilerinde meydana gelen değişikliklerin gözlenmesi yoluyla arttırılacak bilinirlik olası bir bunalım hali durumunda öngörüleri kuvvetlendirecek, aksiyon alınmasını kolaylaştıracak ve en nihayetinde geleceğe yönelik tedbirlerin alınması anlamında yol gösterici birer "kılavuz" olabilecektir. 1980 yılı 24 Ocak Kararları sonrasında Türkiye "ekonomik krizler" kavramı ile daha sık yüzleşir hale gelmiştir. Bu kuramsal perspektife dayanarak, bu tez, ekonomik kriz ve konjonktürel dalgalanmalar kavramlarını teorik boyutta ele almakta ve bu çerçevede Türkiye'de beliren ekonomik krizleri değerlendirmektedir. Teori ve pratik bağlamında belirlenen ortak değişkenler bağlamında ele alınan Türkiye ekonomisinin konjontürel dalgalanma periyotları yoluyla yapılacak değerlendirmeler; ülke ekonomisinin kırılganlıklarının daha iyi anlaşılması ve geleceğe dönük alınacak ekonomi politika kararlarına yardımcı olacaktır. Bu çerçevede büyüme, kişi başı düşen milli gelir seyri ve işsizlik, ortalama enflasyon, cari açık ve dış ticaret açıkları ve sanayi üretim, reel sektör güven ve tüketici güven endekslerine göz atılmasında fayda olduğu düşünülmektedir. Ekonominin seyri incelendiğinde birbirini takip eden konjonktürel dalgalanmaların Türkiye ekonomisi özelinde 6-8 yıllık periyotlar halinde hareket ettiği kanaatine varılmaktadır. Bu durum, ayrıca, Eviews'ta Hodric Prescott filter ile de ele alınmıştır.

Anahtar Kelimeler: Krizler, Konjonktür Teorileri, Türkiye Ekonomisi Krizleri

IN THE LIGHT OF CRISIS THEORIES TURKEY'S ECONOMIC CRISIS AND THE IMPORTANCE OF 6-8 ANNUAL PERIODS IN CRISIS

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ANALYSIS OF TURKISH ECONOMY

ABBREVIATIONS

ABT	Association of Banks of Turkey
BRSA	Banking Regulation and Supervision Agency
CAR	Capital Adequacy Ratio
CBRT	Central Bank of Rebuplic of Turkey
GDP	Gross Domestic Product
HP	Hodrick-Prescott Filter
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
SEE	State Economic Enterprises
SME	Small and Medium Enterprises
WB	World Bank

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INTRODUCTION

The effects of “globalization” period starting to be apparent by 1980 were felt in Turkey as all other countries. Turkey adopting a foreign expanded, export-based production model economic model with January 24 Decrees in 1980 started to face more with "economic crises" concept through which the importance of globalization increased during this foreign expansion phase. Economic crisis concept which can be summarized as the "depression state" in the economies of countries cause the slowing of general economy courses of the countries and thus issues such as national income losses, increases in unemployment ratios, increase of price general levels and finally brings along the inertia in economic data. Depression triggering way of economic crises due to inertia causes an increase in the sensitivity of the countries on economic crises and opposite behavior incites the fragility of the countries. Thus, being alert for the economic crises both before and during their courses and keeping political decisions to prevent or delay the crises ready stand out for economic stability concept.

At this point it is not possible to detect *exactly*, when the economic crises would occur. But awareness to be increased by observing the changes occurring in the economic data of the countries and the changes noticed with holistic point of view would strengthen the predictions in case of a probable depression, make it easier to take action and finally may become a “guide" for taking precautions for the future.

After understanding the importance of economic crises, it would be possible to start the evaluation of crisis concept by detecting the sectoral source. Through the economic crises covered within the scope of the types reflected in literature, the type and thus the characteristics of the crisis in mentioned economies can be understood more clearly. In most general terms, type definition to be done on economic crisis likely to occur due to financial/fiscal or real sector causes might be leading for sectoral concentration, political precautions and predictions.

As mentioned before, it is not exactly possible to know when the crises would burst in advance. But evaluations to be made within the scope of occurrence conditions and periods of the crisis with clarified type and typical characteristics are important to determine the possible results to be acquired in similar conditions.

Although it is known that the action types observed in economy include characteristics such as being trendy, seasonal or random, detection of conjunctural fluctuations which are "fluctuation acts formed by enlargement or hesitation stages observed to occur due to the coverage of the trend and understood to certainly follow one another" can be detectable. Fluctuation types which can be done in scope of time ranges were also covered within the scope of hypothetical explanations. Conjunctural fluctuations may have a short or long term characteristic in scope of time frames/ranges. Thus, while short term fluctuations understood to occur within the scope of conjunctural fluctuations are called *business cycles*, long term fluctuations are called *long waves*. It is also understood that a conjuncture cycle includes four stages as ***revival, welfare*** *(*or improvement*)*, ***recession*** (or regression) and ***depression*** (or contraction). In the light of all this information, **in the first chapter** of this thesis study, the crisis concept was covered in scope of its characteristic and types and it was tried to form the **theoretical background** of the 6-8 year crisis periods in Turkish economy by evaluating the action types observed in economy within conjunctural fluctuations and period and hypothetical explanations.

After covering the theoretical background of crisis concept and conjunctural fluctuations, it was important to analyze Turkish economy under the titles: before 1980 and after 1980 and evaluate the economic crises especially after 1980 with their characteristics. Thus, covering the prominent developments in the crises occurring especially after 1980 regarded as anchor due to being the year in which the foreign expansion move was made would help to determine the common characteristics of the crises. In the **second chapter of the study,** the emergence way in Turkish economy and the accompanying developments were covered for the economic crisis concept which was provided with its theoretical background before and in a way **the practical results in Turkish economy** were covered for the crises.

Common variables of Turkish economy in crisis phases to be shaped by conjunctural fluctuations covered in theory and practice would be helpful in the determination of basic economic demonstrators which should be considered to define the economic crisis occurring / considered to occur in periodical phases. In the light of this information, **we will try to define the economic acts in Turkish economy in scope of the economic demonstrators chosen during the phase between 1980 and**

today in the third chapter. Also, the **Hodrick Prescott filter** will help us to see the fluctuations, clearly.

Conjunctural fluctuation periods of Turkish economy covered in scope of the common variables determined in theory and practice and the evaluations to be made through these periods would be helpful in better understanding of the fragilities of country's economy and for suggestion of economy policy to the authorities to be taken for the future.

CHAPTER ONE
LITERATURE REVIEW CRISIS CONJUNCTURE WAVES

Economic crises which are an inseparable part of free market economy became more widespread by forming a cycle with the globalization concept starting to have a larger effect on the whole world in 1980 in which the foreign expansion steps in Turkey were also established and speeded up the spreading effect of the crises between the countries. This increasing importance of economic crises also made economy policies to be applied in crises important. Without a doubt, it is not possible to guess when the economic crises would burst out. But examining the economic acts in crisis periods to be selected would be an important guide to determine whether similar results would be acquired in similar phases or not.

Within this scope, although **economic crises** are defined as deteriorations occurring in economic data in micro or macro plane, they are divided into money, banking, systematic financial crises and foreign debt types and real sector crisis are divided into financial/fiscal and inflation, recession and unemployment types. With generation theories developed with motives such as money crises controlled foreign exchange acts, stable exchange rate levels, budget deficits, struggle against unemployment, etc, making sense for breakages occurring in developing countries and determining prevention policies are tried. The inconsistence in **first generation model** put forward by Paul Krugman in 1979 based on the study of Salant and Henderson's "Market Anticipations of Government Policies and the Price Gold" dated 1978 was between the monetizated public sector and exchange rate system. Crises are predictable in first generation model. The most important characteristic **second generation** crisis model asserted by Maurice Obstfeld in 1994 was the unpredictability of the crises. Finally, the expressivities of crisis generation theories of previous periods were questioned due to the Asian crisis occurring in 1990s and thus **third generation** crisis model stepped in.

When the acts observed in the economy other than the economic crises were considered, we basically come across the trend in which increases and decreases were degraded to a linear platform, seasonal, random acts and finally conjunctural fluctuations. Among these, conjuncture concept which can also be named as consecutively moving and recurrent is one of the most important tools for the course of economic order. In literature, according to S. Aden, conjuncture wave is the distance between the two sequential lowest points of economic activity volume and the phases of conjuncture waves are divided into four stages as *revival, welfare (or improvement), recession* (or regression) and *depression* (or contraction). Also while conjunctural fluctuations are divided into two parts as short and long waves; short term fluctuations are called business cycles and long term fluctuations are called long waves.

Although the most important contribution was made by Mitchell in ***Business Cycles*** concept, the business fluctuations which can change between 1 to 10-20 years according to Mitchell and they are the combination of four subsequent phases in most general terms. In literature, the mentioned business cycles last 3-4 years according to Kitchin, 7-10 years according to Juglar and 5-25 years according to Kuznets. The most important contributions in ***Long Waves*** concept which is another type of conjuntural fluctuations were made by Kondratieff and the studies on fluctuation movement asserted with the prediction of covering 50-60 years were continued by V. Dujin later. Again in literature, it is observed that following Kondratieff, Schumpeter also defined business cycles as cycles of nearly fifty years of improvement periods and named all these technological change waves as "consecutive industrial reforms" in total. The distinction from Schumpeter and Kontratieff is the fact that "technological changes" in conjunctural fluctuations change the periods.

Together with the conjunctural fluctuationed covered in scope of duration and the crisis fact, it would be advantageous to look at the conceptual approached made on crisis concept. Economic crises in literature are covered within the **"external"** and **"internal"** dynamics theoretically. The theoretical approach asserting that the economic crises occurred due to external dynamics can be covered within the scope of Classical and Keynesian economic views. Capitalist production style model is stable in both views and this production model is consistent within itself. Thus the interruption of the system is caused by external factors. For example state interventions on the economies are external. For external, while "external" state intervention disrupts the economic stability and causes crisis according to the

Classical approach; according to the Keynesian approach, although it is "external", the same state intervention regulates the economic stability, instead of disrupting it.

The main understanding in approaches such as ***Monetarist, Supply Side Economy*** and ***New Classical Economy*** which are among the liberal approaches to classical economic approach is that economic fluctuations occur as the natural result of external factors which are independent from the operation of market system effecting the markets. According to Keynes, marginal activity of the capital is the main resource of business cycles and marginal activity of the capital is closely related to the future expectations of investors. Basically in approaches such as ***Neo Keynesian Approach, Cambridge Keynesianism, Instability Keynesianism, New Keynesians and Post Keynesian*** approaches, it is asserted that the total demand fluctuated in line with the public and private sector decisions, foreseen and unforeseen policies changed the output and employment level, prices and wages moved slowly preventing the fast matching, there was no optimal level for employment and unemployment and as a result active interventions are necessary and it is necessary to prevent unemployment rather than the inflation with these interventions.

According to theoretical approaches claiming that the crises are caused by “internal” dynamics, economical depressions are present in the nature of capitalist production model and are unchangeable. According to literature, Marxist crisis approach is one of most important approaches stating that the crises depend on internal dynamics and capitalist production model has a characteristic to create the crisis within and thus to create the final crisis which would bring its end finally.

When we look at the economic crises in Turkish economy after the issues covered within the scope of economic crises and again the acts seen in economy, it can be understood that one of the main striking issues is the foreign expansion phase occurring in 1980. Liberalization of the financial area is one of the biggest innovations brought by export-based economy model adopted in 1980. "Financial liberalization" first put forth by McKinnon and Shaw in 1973 and then contributed by different people such as Kaptur Galbis and Mathieson would bring along economic growth by operating through interest rate and foreign investor channels. Foreign expansion phase gaining speed after 1980 brought along many economic crises. In the phase following 1980 in which financial liberalization steps were taken, many crises occurred in Turkish economy. 1994, 2000/2001 crises and global financial economic crises deeply affecting not only Turkey, but the whole world recently can be given as examples. Starting from this point, although many studies were seen in the literature which describe the condition of Turkish economy based on 1980 and the economic crises occurring in the country, studies on Turkish economy and economic crises by Fatih Özatay, Mahfi Eğilmez, İlker Parasız, Gülten Kazgan, Nurhan Yentürk, Yakup Kepenek, etc can be taken as reference for the developments occurring during economic crises.

As we can see within the scope of all these issues, literature review can be divided into three sections. First the examinations on the economic crisis concept and the types of economic crises can form the theoretic background of the study in a way. Secondly, post-Republican period of Turkish economy can be examined in general and the crises after 1980 and the precautions taken for these crises can be examined exclusively. The mentioned examinations will be helpful for learning the **practical** characteristic of the economic crises through recognizing the characteristics of economic crises and conjunctural fluctuations with their **theoretical** background defined in a sense and the characteristics of economic crises occurring in Turkish economy. Starting from the question on the kinds of changes occurring in Turkish economy covered in theoretic and practical background in periods of 6-8 years based on chosen data, a **synthesis** focused result can be acquired starting from the point that whether the conjunctural fluctuations have a meaning in terms of duration or not.

1.1. CRISIS

1.1.1. The Concept Of Crisis

In today's world, - on the local or international scale- one of the most talked-about concepts is globalization. When globalization is considered economically or politically; it can be understood that it has a multidimensional structure with different effects as political, economic, technological and environmental etc. on both the community and each individual who constitutes it. Globalization, with technological advances in accelerating communication activities, it is generally accepted that inter-individual relations are made not only unilaterally but inter-related on the basis of "dependency". (Bayar, 2008: 25)

One of the areas of it is more felt of globalization which is penetrating into nearly every aspect of daily life, is economic activities. Globalization, with global commercial relations gaining volume, on a micro or macro scale: It contains different subcomponents (Bayar, 2008:27) in the form of *"The unique volume, depth and diversity that global financial markets and global capital flows have today"* and *"The structure of production models that emerged globally"* and It is manifested as economic activities transformation into increasingly integrated at the international community.

Increasingly growed importance globalization, brought together different concepts. One of the concepts mentioned subject; "Economic crises". When we look at the concept of crisis that can be regarded as a chaotic situation in the most general sense, it is noteworthy that the opinion as follows:

> *"..including financial and economic crisis, but additionally encompassing environmental, demographic and political cirisis. They use a range of diverse concepts that partially overlap with that crisis, from catastrophe to revolution. The concepts and topics include: risk, especially in relation to the possibility of environmental catastrophe (Beck 1992,2009); normal accidents in high- technology systems that can become catastrophes (Perrow 1999 (1984), 2011 (2007)); 'natural' disasters that have varied impacts on people (Yodmani 2001); political revolts that might become revolutions (Skocpol 1979; Goldstone 1991); business cycles and bubbles (Perez 2002, 2009); financial instability (Minsky 2008 (1986)); descent into and recuperation from over-commercialization (Polanyi 1957); and crisis as opportunity for economic renewal (Schumpeter 1954; Haas 1958).* (Walby, 2015: 21)

In this sense, it can be thougth that aspects of the crisis that led to the emergence of unexpected situations, have functions of creating destabilizing / unstable structures, and of mediating the establishment of new balances in new platforms.

Until recently, where followed an *outward-closed import substitution economy model* and then adopts *opened to the outside in the export-based economy system* in Turkey's economy, the impact of globalization has increased perceptibly level. By accepting this as data, the outward opening that emerged with the 1980s and the accompanying global economic conjuncture; as well as examining the crises encountered in the import substitutional economic model processes experienced before 1980; to clarify its position on a world scale through the recognition of Turkey's internal dynamics; it is believed that it is a SWOT[1] analysis in terms of revealing its weaknesses, strengths and the formation of future economic strategies.

When we look at the meanings in all these contexts, it is seen that the concept deriving from the word "crisis" is defined in the TDK dictionary as: "The state of crisis in the life of a society or a foundation or a person; the state of contradiction that suddenly occurs in a natural process; cessation of purchasing power, the decline in sales value and the reduction of work force" (Gültekin, 2002: 9) or "The country's economy is transformed into an unstable structure by losing the equilibrium state that it has in the face of a problem that arises". (Darican, 2013: 40)

Also, regardless of whether they were known beforehand, "crises that occurred as a transition from good to bad", can also be defined as: that have faced the market and are beyond the limits of what they are accustomed to as financial, goods or services, etc. due to adverse conditions that fall into firms in micro level and in this sense, the level of economic development resulting strong waves (Kibritçioğlu, 2006: 38) or viewed with the idea of unsustainable with a further development of the resulting trigger concluded (Kumcu, 2008: 171) that the current situation is unsustainable in practice situation.

The concept of crisis, it can be seen to have general characteristics such as: the presence of sudden developments that go beyond the current / sustained situation; the speed of these emerging developments is often excessive; and posing a threat to people at the economic level or at the socio-political level that will continue; if it does not respond to these threats that it emerges, it may lead to social or environmental disasters (Gök, 2010: 5) by leaping to different countries with "*contagious effect*"[2].

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[1]**SWOT Analysis:** A technique including the analysis of determination of strengths, weaknesses, opportunities and threats of a situation, a technique, a process or a person.

[2]**Contagious Effect:** The contamination of the crises from country to country have been divided into spill over and pure contagion. Whereas the developments / decisions made in different countries that are in commercial relations are affecting the other country as well according to spill over; the developments / decisions made in a country do not have a direct impact on the economic data of the other country according to pure contagion transmission, although it is foreseen that developments in

Economic crises may arise from reasons such as supply or demand imbalances in the real and / or financial sectors. There are various reasons for the emergence of a crisis based on both supply and demand disruptions, which are not always the result of "mere" economic triggers. For example; floods, earthquakes, etc. such as natural disasters may accelerate the development of the national economy by possible hazards of leaping and in time, it is only one of the situations that could lead (Darıcan, 2013: 41) to economic downturn.

From a literary perspective, "money, banking, systematic financial crises and external debt" (Karluk, 2005: 39); inflation, recession (recession) and unemployment are the main types of crises. In order to be able to analyze the crisis in a healthy way, it is important to distinguish the sector. According to this, while the sectors in which the concept of crisis is influenced are divided into financial / financial and real, such as money, banking, systematic financial crises and external debt are financial / financial; inflation, recession and unemployment are under the heading of real sector crises.

"Financial sector"; Taking into institutions comprised of organizations such as fund supply and demand come together in the most general sense of community and banks, insurance companies, leasing, factoring companies, investment fund management and it is to find the body as crises experienced in this sector are mostly losses in the stock market. "The financial sector crisis" is also referred to as the "financial crisis" concept. In these crises, the sudden change in demand for national currency and foreign exchange reserves as a result of panic in the air, for this reason primarily financial data, exchange movements etc., it is emerging developments such as the fluctuations (Eğilmez, 2008: 51) experienced.

In case "Real sector"; while taking into account the markets such as goods, services and industry on the axis of producer and consumer; it offers home inflation, recession and unemployment changes, fluctuations in producer and consumer demand and fluctuations in the economy emerging in this sector.

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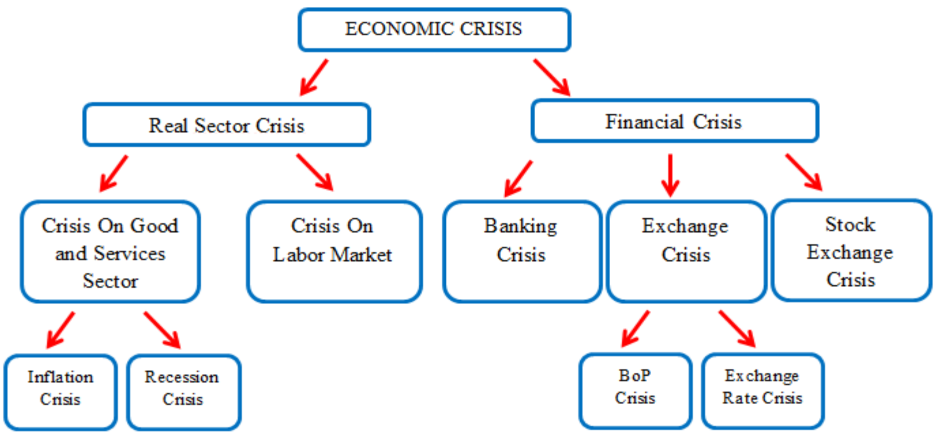
the changing country may affect the thoughts and perceptions of the macroeconomic data in the other country.

1.1.2. Type of Crisis

As noted earlier, crises emerge to be focused on the real and financial / financial sector; financial crises including money, banking, systematic financial crises and external debt; crises arising from the real sector are inflation, recession and unemployment crises. Relevant classification is in the real sector; inflation and stagnation based goods, service and labor market crises; and in the financial sector; exchange rate and balance of payments, banking, foreign exchange and stock market crises.

Figure 1: Types of Economic Crisis



Source: Transferred from Kibritçioğlu by Telli, 2013: 6.

1.1.3. Financial Crisis

Deepening in the financial markets' contributed to the growing importance of globalization is great. Financial markets; money and capital markets can be classified into two.

In these markets, volunteers to get funds / demanding fund are facing related to those with more funds / supplying funds. In the process of balancing the supply and demand mechanisms of the Fund, instability / crises may be experienced from time to time. At the core of these crises are declines of consumer and simultaneously demanding firm investment and as well as the deterioration in the quality of life of the individuals and the increases in unemployment rates. On the other hand, the crises experienced in these markets can also arise due to shares sources, which are important tools of the sector and the damage that occurs in this way creates the "uncertainty" situation by creating a process of countries' depreciation in national currencies. As it may also arise as a sum of these developments, which are considered financial crises; the sector can create a crisis in its / itself. (Eğilmez, 2008: 48)

While the mechanisms that trigger the financial sector crises vary, these; the state, the central banks or the banks have lived the troubles on fulfill their obligation to pay. Together these problems "*external shocks*" origin, it causes the market actors to have difficulties in fulfilling their actions on the international level. On the other hand, the inverse of the new applications that are required to be made on the market, in other words, the "policy shocks" that are experienced can be an important factor.

Another factor to reach the "debt limits" level; can be said that is, the actors in the market are forced to re-borrow with the loss of reputation; the final factor is the self-fulfilling expectations of the market and the "*panic environment*" (Tunay, 2014: 89-90) that the financial sector has fallen into.

If we look at the details of money, banking, systematic financial crises and external crises that involve exchange rate instability and balance of payments originated from the financial sector:

1.1.3.1. Money Crisis'

The expectation of profits arising from the development of trade volume is due to the use of financial sector instruments, transactions in national currencies, and so on which also increases interest. Investment requests related to the interest rates of the value level of domestic currencies; therefore, there is a connection to interest sensitive fund inflows and outflows. Also, according to the stabilization structures of countries in direct or portfolio investments, which are shaped by interest rates, the contribution of "level of reliability" to local dynamics is also great. Along with being, the main elements that determine fund inflows and outflows are interest rates and elements of reliability, the emerging "speculative" attacks lead to the demand for currencies and thus to the fluctuation of currency value. So that the organization that is responsible for providing "price stability" and "financial stability" Central Bank may not be able to respond adequately to monetary fluctuations in interest, trust, speculative attacks, triangles and the process that started with the monetary fluctuation continued with the depreciation of the local currency and ultimately resulted in money crises (Seyidoğlu, 1999: 40) In fact, these "money crises" arising from the financial sector may progress in stages and cause the real sector to enter into a downturn.

Money crises, a type of financial sector crises that countries have faced, have gained importance and have been dealt with from different angles with the globalization deepening in the financial sector. Theoretical explanations that deal with the bases of currency crises can be evaluated within the framework of generation theories. According to this;

1.1.3.1.1. Generation Models in Money Crises

Generation theories; controlled foreign exchange movements, stable exchange rates, budget deficits, fight against unemployment, etc. money crisis models developed with motives like; and these models have been developed to identify the breakdowns in emerging countries and to determine their prevention policies.

While it is known that crises in developing countries stem from the internal dynamics of the countries, as well as environmental actor factors; it was not possible to have a "holistic / single model" to explain the instabilities that existed. In other words, the first, second and third generation models (Oktar, 2014: 5) of crises, which have been proposed to explain the crisis, partially complete each other, but have different characteristics in their essence.

Whether foreseeable or not, economic crises bring short or long term deterioration in economic data. In this sense, while money crises emerging in the financial sector lead to deterioration in economic data, one of the models introduced in the name of the announcement of these crises is ***the First Generation Crisis Model*** which is frequently discussed at the beginning of 1990's; it is predicted that the situation of instability will arise in the financial crises, there is no acceptable response to this situation of panic in society.

In this model, while it may be the case that the exchange rate regime applied in the country is fixed or floating, the reality is that the current exchange rate regime and the monetary policy model that is being applied do not overlap. Money and financial policies in "loose policy rules”[3] implementation conspicuous among other important issues. (Özatay, 2009: 35)

Based on the 1978 study of Salant and Hederson's "Market Anticipations of Governance Policies and the Price Gold" by Paul Krugman in 1979; it is envisaged that the permanent budget deficit is kept in its place and the country chooses the way of constantly printing money in order to prevent this deficit, on the other hand, the efforts to save the equilibrium in a country with a fixed exchange rate protected by continuous direct intervention will reduce the reserves in both conditions; declining reserves will cause interest rates to fall and inflation expectations to rise.

As there are foreign investors leaving the country with falling inflation, *shadow price* in foreign exchange (shaped by falling demand - indicating the price level at which the fixing does not exist) will rise above the official establishment in the country; foreign trade deficits based on reserve losses resulting from the fixed exchange rate regime will also be added to loss caused by the foreign investor leaving the country.

As a result, P. Krugman and then studies in the coming period is referred to as the first generation model crisis and emphasizes "the inconsistency between crises of the overvalued public sector deficits and the exchange rate system". (Bastı, 2006: 9)

In the Second Generation Crisis Model, which was introduced by Maurice Obstfeld in 1994 and is also called the "*self-justifying crises*", unlike the "predictable" situation that arises in the first generation model, the outbreak of the crisis is not foreseeable. In this case, the crisis in the economy, thus eliciting a sudden collapse; the most important characteristic of the model is the emergence of this sudden emergence (Özatay, 2009: 41).

Moreover, although the problem of the exchange rate targets existing in the first generation crisis models and the inconsistency of monetary and fiscal policies does not exist in this model, the emergence of the crisis is concerned with society is concerned about the abandonment of the constant exchange rate system being

[3]**Loose money / fiscal policy:** The policies that countries implement to manage fiscal and monetary policy are money and finance policies. When loose fiscal policies propose high public spending and / or low tax burden; loose monetary policy is the establishment of a control mechanism to increase money supply by various means, including open market operations, required reserves, rediscount rates, etc., of money movements circulating in the market.

implemented and speculative attacks, the government will take steps to confirm the anticipation. In this crisis model, the creation of an expectation environment in which investors increase interest rates based on their investments with the expectation that the government will increase exchange rate, it is transforming into pressure in the coming years, and it causes the governments to really give up the fixed exchange rate system.

Therefore, in the second generation crisis model; Two elements are emerging which could be explained as; with the increase in the cost of maintaining the fixed exchange rate regime, "self-fulfilling expectations" that derive from the idea that the growing government in the private sector will devalue and eventually become a speculative tactic and "multiple equilibria", which can be formed at different points and derive from the belief that each one will be balanced. In the model, there is no belief that the government is indispensable for the fixed exchange rate regime. In other words, it is suggested that the possibility of devaluation can be brought to the agenda if the exchange rate is compared with the fixed exchange rate regime and if it has a higher return rate. In short, insistence on maintaining a devaluation or fixed exchange rate regime can be seen as a policy choice (Bastı, 2006: 10) for government.

When it came to the second half of the 1990s (1997), the crisis known as the Asian Crisis and emerging in Thailand sprang to countries such as Korea, Indonesia, Malaysia and the Philippines afterwards. As a matter of fact, this crisis has enabled the explanatory powers of the first and second generation crisis models to become questionable and thus ***the Third Generation Crisis Model***.

According to the F. Özatay: "The Asian crisis is not to be described as the first generation model. Because in these countries, Korea and Thailand are overspending (budget surplus); in Malaysia the equivalent; while in the other two Asian countries it is small level (budget deficit). It is not to be explained with the second generation model either. Because again there is no high level of unemployment in these countries. Therefore, countries do not have to choose between maintaining unemployment and fixed exc. rates. In addition, the idea that *the growth rates can be improved by going to the devaluation* which is valid in the second generation models when the economy shrinks in these countries is not valid.” Hence, in the first and second generation crisis models, it was seen that such issues as highlighted budget deficits, high unemployment rates and the choice of devaluation tactics were not fully valid in those countries exposed to the Asian Crisis.

In summary; predictable or non-predictable situations that arise in economies, panic air, etc. as well as the basic subjects it is seen to be shaped in the following frame; preference for reducing the fixed exchange rate regime and reducing unemployment in the first and second generation crisis models according to budget deficits and high unemployment rates; after the Asian Crisis, the deterioration in the bilateral relations of commercial companies, which are far ahead of the real and financial sector, and the instabilities experienced in the banking sector, etc. situations. In another saying, the third generation crisis model, the monetary crisis, the pioneer of open foreign exchange position, maturity mismatch, problematic loans, insufficient capital and leverage ratio, etc. and that the banking and / or private companies have suffered from the deterioration of the balance sheet (Özatay, 2009: 48-53).

1.1.3.2. Banking Crises

Banks are the main financial institutions collecting "deposits" from individuals constituting the society and transferring these deposits as "credits" to the demanding individuals. Especially those who supply the funds, in the process of banking crises that originated from acts that banks fail to fulfill against all parties; existing acts are postponed, and in case of failure, chaotic situations that prevail up to the bankruptcy arise where the panic air is dominant (Darıcan, 2013: 40).

As actors of the sector, while it is possible to classify the main risks that banks face are *interest*, *liquidity*, *credit* and *exchange rate*. So looking at these risks:
The risk of interest is that although there is a change in interest rates in the market conditions, there is no change in assets and liabilities, and the equity capital is fragile against fluctuations in market interest rates. When the situation arising as interest risk is not corrected, liquidity becomes a risk; and *liquidity risk*; the bank's cash inflows and outflows, and therefore non-compliance with active and passive inflows, and the failure to inflows, and the failure to meet the obligations

of the floods and the failure to obtain the cash earnings. Another type of risk that banks face is *credit risk*. In this type of risk, there is a requirement that banks cannot collect their paid / live credit balances and they are monitored on the accounts to be liquidated; finally, *market risk* is; It is the emergence of open or foreign positions with foreign currency and foreign exchange movements depending on the presence of foreign and domestic money in the assets and liabilities of the bank.

In short, the banking crises, which have been spreading since the banks that are sector-leading or small actors; have gained volume over time, affecting the entire financial sector; this instability environment, which starts with banks and affects the entire financial sector, can also cause the recession to be experienced in goods and services markets by leaping into the real sector.

1.1.3.3. Systematic Financial Crisis

Although the main actors in the financial sectors are collecting deposits, in the sector; participation, development and investment banks; insurance, leasing companies, venture capital, investment trusts and funds, etc. are also actors. In this sense, the systematic financial crises also take place in the financial sector where there are also banking crises; but are more extensive and multifaceted crises that can occur not only in the banking sector but also in the other actors of the sector, and which, in addition to the deterioration in the financial system, have negative effects on social, political and economic life (transferred from Turgut by Darıcan, 2013: 40).

1.1.3.4. External Debt Crisis:

The expansion and deepening of financial markets has also begun to cause external debt crises with the feature of accelerating capital flows. Even though the disruptions that have arisen on the payment of debts burdened in these crises, which arise through the increase of foreign borrowing originating from foreign countries, shocks created by the developments in the global system are also impacted by investment declines and liquidity congestion. These effects lead to a decrease in the amount of money in the countries and investments, and consequently, the decline in consumer spending.

The deterioration in the economic data, especially the decline in the foreign trade volume, causes the countries to enter the bottleneck and causes an unstoppable crisis environment. The concept which takes place as a foreign debt crisis in literature is in the most general sense a combination of these elements (transferred from Turgut by Darıcan, 2013: 40).

1.1.4. Real Sector Crisis

It is useful to look at the financial crises that emerge in the financial markets and find expression in detail in previous parts as well as real sector crisis.

Real sector crises are emerging as inflation and stagnation crises in goods and services markets and unemployment crises in the labor market (Yücel, 2010: 54). In order to identify real sector crises, it is useful to look at economic indicators as follows: "growth in the manufacturing industry production index, bank loans for the real sector, manufacturing industry weekly or monthly working hours, unemployment rate, real sector fixed capital investments, capacity utilization rate" (Yücel, 2013: 58).

Because of including labor and goods-service markets' qualities; real sector crisis can be handled as the deteriorations in these datas, as well. (transferred from Kibritçioğlu by Yücel, 2013: 56). As long as it has the qualities that include labor and goods-service markets, this data can be taken as living distortions in crises experienced in the real sector.

Real sector crises according to leading indicators that are effective / heavily influenced by the examination of such data; it can be evaluated under 3 headings inflation, recession (recession) and unemployment.

According to consumer demand and supply, while commodity prices are emerging in the market and prices are constantly rising upwards and in this case the *inflation* based crisis can be considered as the instability that brings inflationist pressure. Similar to the supply and demand structure formed in the goods and services market, wages are determined according to supply and demand in the labor market. On the other hand, even in this equilibrium the economic stagnation situation that even in this equilibrium and goes beyond the level of natural unemployment at the acceptable level and arises from the labor market, is creating *unemployment crisis*.

In the case of *recession crises*, it emerged in the case in both the goods and services market and the imbalances in the labor market and and as a result unable to reach an adequate level of investment, such as the growth rate of contraction experienced in achieving the desired growth rate can be called induced crisis (transferred from Kibritçioğlu by Yücel, 2013: 56).

1.1.4.1. Inflation Crises

The first of the kind of crisis of real sector is inflation crisis which are sourced from the movement of the rate of inflation. According to the nature of crisis origination, the concept of inflation is defined in the literature as: “originally applied solely to the quantity of money. It mean that the volume of money was *inflated*, blowned up, overextended. It is not mere pedantry to insist that the word should be used only in its original meaning. To use it to mean “a rise in prices” is to deflect attention away from the real cause of inflation and the real cure for it.”[33] (Hazlitt, 1983: 12)

As it is known, the main purpose of macroeconomics; *to ensure lasting economic stability*. Ensuring price stability is also among the main macroeconomic targets. When such money, finance, foreign trade etc. policy arguments are also considered to be macro-economic policy instruments used for the purposes of achieving the main purpose of life, inflation rates will be the determining factor in achieving price stability. In this sense, the phenomenon of inflation can be defined in the most basic sense as: "*the overall increase in prices at the general level*".

Inflation, which is demand inflation based on demand growth and cost inflation based on supply decline, the total demand is higher than the total demand. If called in terms of demand or cost, inflation, in any given case; causes an increase in spending on goods and services, to fall in the real value of money, decrease in the purchasing power of money. This information is in the light of the inflation crisis in the real sector:

> *“Inflation, to sum up, is the increase in the volüme of Money and credit in relation to the volüme of goods. It is harmful because it depreciates the volüme of Monetary unit, raises everybody’s cost of living, imposes what is in effect a tax on the poorest (without exemptions) at as high rate as the tax on the richest, wipes out the value of past savings, discourages future savings, redistributes wealth and income wantonly, encourages and rewardsspeculation and gambling at the expense of thrift and work, undermines confidence in the justice of a free enterprise system and corrupts public and private morals”* (Hazlitt, 1983: 41)

and the fact that it is one of the leading ones of the real sector crises and the inflation crises have great importance.

As a result, while the relationship between inflation and growth / recession rates has not been fully proven, it is accepted by many people the thought that the expansionary monetary or fiscal policies that will be commissioned to overcome crisis situations will cause the general level of prices to rise over time and structural problems will arise in the future (Tunay, 2014: 334).

1.1.4.2. Recession Crisis

The real sector is another kind of crisis is recession crisis. It is necessary to look at the concept of *recession* first in order to understand the trend of the crisis. The recession is the slowing of economic activity. In a recession, one of the phases of a conjuncture cycle, while economic activity is shrinking compared to the previous period, transitory contractions and expansions at the conjuncture level become a matter of concern. In contrast to these temporary and short-term waves, resignation in the case of violence and increase in wages; is called depression. (Teymen, 2012: 407) "The instability in one or more of the macroeconomic indicators in the depression cycle is long-lasting and depression is the collapse of the market at the same time" (transferred from Parasız by Teymen, 1996: 407).

Therefore, although there are economic stagnation in both; recession and depression situations, while in the case of recession the growth rate is slower than depression, whereas in the case of depression economic growth is descending to negative levels and there is a visible decline in production capacities. (transferred from Hacer by Fırat, 2012: 407)

The pauses in the case of recession are most commonly caused by the interruption of consumption and subsequent investment expenditures, which in turn lead to real sector crises (Yücel, 2013:56).

1.1.4.3. Unemployment Crises

In order for countries to achieve their basic objectives of sustained economic stability, besides the price stability, one of the main objectives is the provision of full employment. The determinant / anchor element of the full employment target is the changes in unemployment rates.

Natural unemployment rate in economics literature; based on such factors as, temporary occupational and displacement changes etc., the challenge is to come from a combination of structural unemployment caused by labor types who have difficulty adapting to technological development with the frictional.

Although the country's employment figures show improvement or deterioration in the periods of revival and contraction in the country's economies, the number of unemployed in the labor force population in the country in the unemployment crisis in the real sector exceeds the natural unemployment rates as mentioned above and and this situation is becoming a long-term, depressing situation for the country's economies. In this context, developments that occur in the labor market and affect the economic structures of the countries on a long-term basis as a result of increasing unemployment rates can be called "unemployment-based" economic crises.

1.2. CONJUNCTURE THEORIES

1.2.1. Types of Movements in Economies

The fluctuations that take place in the country's economies are sometimes positive / improving, but sometimes negative / deteriorating. Economic crisis deeply influence countries and cause great deterioration in economic datas but It would not be right to call every negative development as economic crises.

In this context, it is possible to classify the movements in the economy as trends, seasonal waves, random waves and conjunctural waves.

Trend according to the classification; is the whole of the ascending or declining movement that arises when an average is taken, regardless of the short or downward movements of the country's economies. ***Seasonal fluctuations;*** it is the movements that can be seen as a consequence of the reflection of the movement which has occasionally occurred in the country's economies as a demand-oriented economy. Seasonal change can be affected by "the number of days in one day is not equal and the distribution of the holidays"(Özer, 1998: 8). ***Random fluctuations;*** while floods, earthquakes, etc., which are more natural disasters and float in the economy. the process of developing fluctuations in economic data, ***Conjunctural (circuit) fluctuations*** are; the fluctuation movement that consists of the stages of expansion or recession, which seems to be the end of the handling of the trend and that it seems to follow each other.

In other words, conjunctural waves can be short or long-lasting, as can be predicted. Here are brief cycles of **cyclical waves / business cycles** that seem to have come to within cyclical waves; long waves are called **long waves**.

Short-Term Cycles (Business Cycles); these waves stem from the functioning of the capitalist system, together with the emergence as a whole in all sectors. It is known that it is tried to be explained with various theories within the framework of the opinions that the fluctuations are externality or internalism.

The most important contribution to the concept of cyclical waves is made by Mitchell, and cyclical waves varying from 1 to 10-20 years according to Mitchell that:

"... a kind of wave in the overall economic activities of the nations in which the activities are organized mainly by firms; the surge consists of a period of almost simultaneous expansion on many economic activities, then a stagnation and contraction, and a period of revival associated with the expansion of the next cycle."

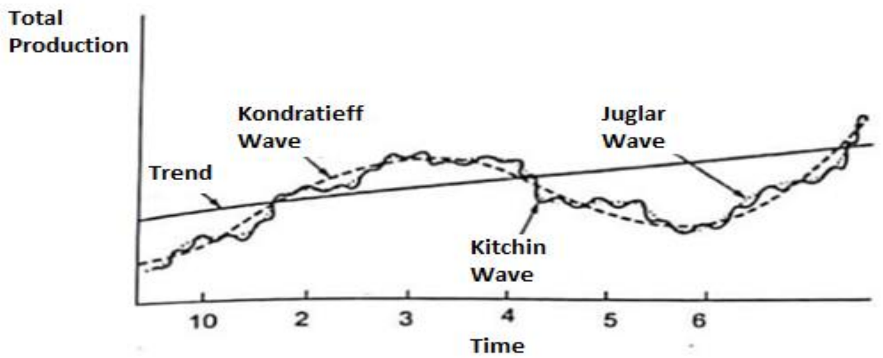
Thes cyclical fluctuations have types as Kitchin waves (3-4 years period), Juglar waves (7-10 years period) and Kuznets waves (15-25 years period)

Long-Term Fluctuations (Long Waves); This type of surge was presumed by Kondratieff as covering 50-60 years, and Kondratieff's work was later continued by V. Dujin.

Another view put forward by long-term waves is proposed by Schumpeter. In the Schumpeter study, the impact of technology on growth / shrinkage, and the progress that technological developments have created with accumulation has positively reflected credit demand, otherwise credit requirements will decrease. Falling credit demands will also reduce growth while lowering profits. Decreasing profit causes the crises. As a result, there is a relationship between technological innovations and crises (transferred from Hartley, Hoover, Salyer, by Nedret, 2005: 13).

According to Schumpeter, there are three types of waves in capitalist production. These; Kitchin 3-4 year period, Juglar 7-10 years and 50-60 years are the Kondratieff waves (Demirci, 2005: 10-18).

Figure 2: Schumpeter's Three-Wave Scheme



Source: Ünay: 1996:12

1.2.2. The Concept of Conjuncture Waves

Production model based on free market economy; it has allowed many to grow such as increasing international trade, indefinite boundaries, profitability calculations, company productivity as well as diversification and expansion of derivative products based on the financial sector. The capitalist production model based on the neoclassical free market conception, a derivative of the classical economic approach, has brought along many key concepts.

One of the mentioned concepts is the concept of "economic crisis" as mentioned before. With economic crises, difficulties in putting production models together with experience gained by actors in the market, it creates an "*antidote*" effect for possible future new crises and therefore measures to be taken. In this sense, defining the concept of crisis is crucial for both the current and future forecasts. At the point of describing the economic crises, conjuncture theories which have a descriptive nature of the crises and the repetition of crises enter into force; thus helping to identify the periodic movements of the crises.

The concept that enters into the literature of economics as "*conjuncture*" can also be defined as "*successive and recurrent*", "waves" concepts. Decisive concepts such as income, employment and unemployment in the process of economic management of countries follow a fluctuating way and increase or decrease in this direction.

These incremental or decremental movements are handled within the framework of certain phases, forming a wave if they are integrated and the concept of wave describes the cyclical movements. That is, conjunctural waves are the sum of the fluctuation movements that are obtained by collectively treating data such as employment in an economy, national income and general level of prices. (Konjonkturel Hareketler ve Türkiye Ekonomisi Semineri, 1973: 5)

While the concept called “ekonomik konjonktür” in Turkish is taking the names like business cycle or trade cycle in English, French is also used as cycle economique or conjuncture economique. Moreover, even if a full consensus is not reached, the conjuncture; According to G. Haberler, *successive periods of depression* *and prosperity*; According to A.G. Pigou who based on employment data, *waves shaped by unemployment rates*; According to A. H. Hensen, *employment, national income and fluctuations in prices* (Aydın, 2006: 26).

> *"Business cycle theory (as distinct from monetary economy) is mainly a twentieth century product. Fort he most part, the majör ninetietht century economists set short-term fluctuations to one side in order tofocus attention on other issues. The general underlying idea (on might callit a "natural rate hypothesis") must have been that one could understand the main determinants ofthe avarage levelsand rates of growth in economic activity without understanding the fluctuations. The task of making precise exactly which aspects of economic life had been so set aside by this fruithful ninetieenth century strategy was undertaken at the beginning of present century.."* (Lucas, 1983: 273)

A period of time is needed for the emergence and observation of cyclical fluctuations. The conjuncture waves observed in the time frame not only clarify the fluctuations of prices, national income and employment data, it will also help to demonstrate the impact that these fluctuations have on communities (Ünay, 1996: 406).

While the analysis of cyclical fluctuations emerges in different theoretical studies, standing out among them based works as the cyclical waves and Kontradieff' sthe long conjuncture waves and the theory of development shaped by Schumpeter's concept of creative destruction. There are also external models that are shaped by the contrast of classical and Keynesian approaches and internal models that Marxist theory has put forward (Aydoğuş, 2009: 3). On the other hand, Immanuel Wallerstein's Theory of the World System (Umruk, 2013: 38-39), etc. can also be considered in this context.

1.2.3. Conjuncture Theories According to Duration

As mentioned before, a number of theoretical explanations have been made for the concept which entered into economic literature as conjunctural waves, even "in 1895, Bergman revealed the existence of 280 conjuncture theories with his research, and the number of them increased day by day". (Aydın, 2006: 29)

However, in the most general sense about the waves created by the increasing-decreasing movements in the data such as the level of national income, employment and price is defined as a phase and the total result of the sum of these phases is called the "conjuncture cycle".

> *"Business cycles belong to the history of modern economies with interdependence markets, free enterprise, and private ownership of financial assets and capital goods. They developed in the era of great growth of industry, banking and credit. They are varied and changing even while retaining their general charecteristics of persistence and pervasiveness as well as specific regularities of amplitude and timing All this was long recognized by serious scholars and careful observes with abiding interest in the subject."* (Zarnowitz, 1996: 73).

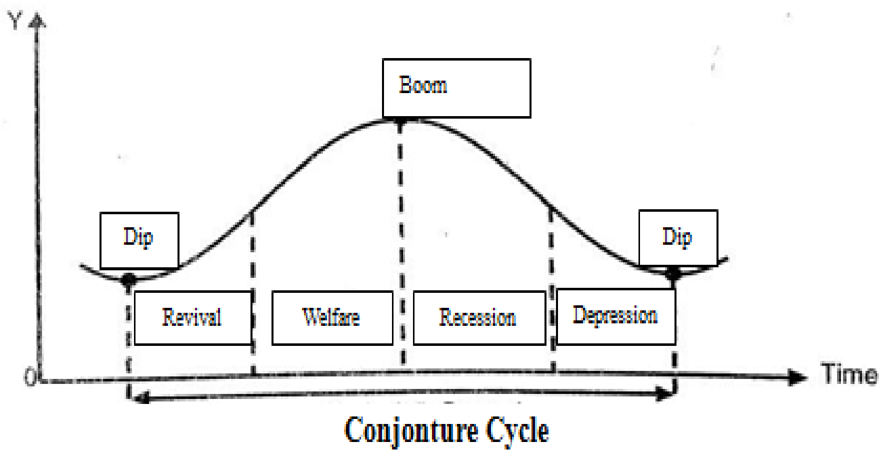
According to S. Aden, the conjuncture cycle is the distance between two consecutive lowest points of the economic activity volume, and the stages of the conjuncture cycle are separated, namely: **revival, welfare** (or improvement) **recession** (or regression) and **depression** (contraction). "(Ünay, 1996: 10) In this sense, it can be seen that the properties are in the form of looking at the properties of the phases;

> ***In the stages of revival****; changes in strategic items or successful outcomes of public intervention begin to increase the level of production and employment. The increase in industrial production flourishes raw material prices. This development is usually followed by service production from behind.* It feels itself *a revival all around the economy, preparation for the development and the future.* ***In the stages of Welfare or Development,*** *effective production approaches potential production by raising the level of national income and employment. This will cause prices to rise, speculation starts to follow. After the increase in price and production, profit increases. New investments in this phase will increase the demand for credits, so interest rate increases. The wave of wealth and welfare followed by the increase of wages and raw material prices spread to all the economy. The interest rate increases when the lending reaches the ceiling level during* ***the recession*** *with decreasing credits, investments are reduced. Since the fall in consumption will break the development in prices, production will decrease and empty production capacity will emerge in the economy. For this reason, profits decrease, investments fall, and partial crisis begins. Since such a development will destroy the trusting environment, the entrepreneurship is undermined and the entrances to economic life are reduced.* ***In the stages of depression or contraction****, the decrease in profits in the economy is*

followed by losses and losses are followed by bankruptcies. (Ünay 1996: 11)

A conjuncture cycle formed by the movement between the bottom and top points between stages is shown in the graphic below.

Figure 3: Conjuncture Cycle



There are theoretical explanations for the circuit process, shown in detail with the graph above.

1.2.3.1. Kondratieff: The Theories of Long Wave

Found expression conjuncture with the above details and phases wave "dip-boom-dip-boom" period the movement of the cruising, although with being the different theories about the duration of the principal cycle / periodic motion of the main wave, the first of these "Kontradieff Waves" is based on the theory of cyclical waves in long-termed.

It is suggested that the Kondratieff waves, which consist of two long-term main fluctuations such as expansion and contraction, cover a period ranging from 40 to 60 years. While the first stage of the process in question is usually named as an increasing stage of prosperity, the succession to the peak of the process is called the period of welfare decline. In countries where long-term growth targets are predicted according to Kondratieff, long-term cyclical waves parallel to this goal are inevitable (Çapraz, 2001: 11).

The long-running Kondratieff waves that Kondratieff suggests cover the 50-60 year time frame;

> *"That it is a behavior of the world economy, and that rather is than in production data of individual and national economies, observed in the production of international production; interested in output rather than prices; they appear in average 50-60 year periods; the innovations that created technological revolutions stem from the creation of new leading industries and commercial sectors; in other words, the Kondratieff waves originate from the demand for solutions to new problems and the supply of such solutions is made by innovative firms; each Kondratieff wave is unique in terms of location and time; every Kondratieff wave changes the world economy; in other words, they lead to structural transformations"*

is considered. (Aydoğuş ao, 2009: 4)

According to Kondratieff's work, the long turbulent waves of different countries in different histories, in other words, deviations from country to country in historical intervals: It covers the years of 1789-1849; 1849-1896; 1896-1935, In this sense, the first conjunctural wave emerges with the beginning year of 1789 and the first 25 years passes with the rise. The first conjuncture cycle, which began in 1814 and lasted for 35 years, takes 60 years.

Similar to the first conjuncture cycle, the fluctuation that began in 1849 entered the decline phase after the ascension phase up to 1873, and this decline lasted until 1896.

On the other hand, the third wave, which was envisaged to begin in 1896, after a 24-year rise, the decline slows down to 1920 and continues until 1935 (transferred from Kondratieff ve Stolper by Aydoğuş, 2009: 13). Looking at this information frame, the conjuncture waves that started at the end of the 1700s show itself in three wave movements to the middle of the 1900s.

According to Nikolai Kodratieff: there are two fluctuations in economic datas. Scholars looking at short term cycles were missing the long term with another saying the big picture. Kontratieff argued emprically the short waves in long run the facts as "prices, interest rates, wages, productions, investment and consumption" (Knoop, 2009: 33).

1.2.3.1. Schumpeter: Innovation Theory

Schumpeter is another name in the theoretical explanations of the fluctuations. By following also Schumpeter to Kondratieff, he defined cycle periods of about fifty years for cycle waves as cycles or waves. "All these waves are the sum of the technological change waves covering research and innovation, called "successive industrial revolutions". (transferred from Freeman by Aydoğuş, 2009: 13)

In his Schumpeter book on "Economic Cycles", while accepting the existence of long waves of "Kondratieff" that lasted for fifty years on the one hand, gives a different explanation to Kondratieff's explanation. According to Schumpeter, the main difference is that every conjuncture period differs from each other due to the technological changes in the conjunctural waves. Schumpeter; they also examined the characteristics of the process that created these waves along with the waves that caused each other to differ.

On the other hand, Schumpeter argued that "innovation in a sector has reduced the costs of the industry, causing prices to decline and causing real wages to rise. Hence, he stated that the engine of the capitalist grower is technological innovations". (Schumpeter, 1939: 14). Schumpeter's notion of literate addition became "creative destruction" concept. On the concept of creative destruction:

> *"The contents of the laborer's budget, say from 1760 to 1940, did not simply grow on unchanging lines but they underwent a process of qualitative change. Similarly, the history of the productive apparatus of a typical farm, from the beginnings of the rationalization of crop rotation, plowing and fattening to the mechanized thing of today–linking up with elevators and railroads–is a history of revolutions. So is the history of the productive apparatus of the iron and steel industry from the charcoal furnace to our own type of furnace, or the history of the apparatus of power production from the overshot water wheel to the modern power plant, or the history of transportation from the mailcoach to the airplane. The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation–if I may use that biological term–that incessantly revolutionizes the economic structure from within, incessantly destroying*

> *the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in…"* (Schumpeter, 1975: 82-85).

may be called as.

It is also contemplated "even the central point of his whole life work: that capitalism can only be understood as an evolutionary process of continuous innovation and "creative destruction" is still not taken into the bosom of mainstream theory, although *many* now pay lip service to it". (Freeman, 2007: 3).

The fact of occurring of long waves and their reasons Schumpeter works help us. According to Schumpeter innovation and the concept of creative destruction plays a big role on it. According to him technology merge states to make work employees on more efficient areas and in the process of growth old techniques on economy shift to use new areas and also change within the new ones. So technological improvements create growth and while realizing the growth processes state face with economic contractions and slowdowns (Knoop, 2009: 34).

According to Schumpeter, when the conjunctural waves in the capitalist system are examined in terms of time, three types of waves are observed. These are short cyclical fluctuations, usually 3-4 years, which are the Kitchin waves; Juglar waves that last for 7-11 years; It is the Kondratief waves with 50 to 60 years and long turns. In short, Schumpeter emphasized the importance of innovations that entrepreneurship and entrepreneurs have signed, and that it has conjunctural waves in the country's economies, which makes the capitalist production model dynamic. (Aydoğuş, 2009: 14).

Figure 4: Schumpeter's Long Waves

Wave	*Length*	*Innovations*
First Wave	1775 - 1835 (60 years)	Water power, Textiles, Iron
Second Wave	1835 - 1890 (55 years)	Steam, Rail, Steel
Third Wave	1890 - 1940 (50 years)	Electricity, Chemicals, Internal-combustion engine
Fourth Wave	1940 - 1990 (40 years)	Petrochemicals, Electronics, Aviation
Fifth Wave	1990 - 2020 (30 years)	Digital Networks, Software, New Media

Source: Knoop, 2009: 35.

The theoretical explanations on conjunctural waves, as mentioned earlier, state that there is a difference in the wage of a cycle process. One of the explanations for this time-varying phenomenon is called the Little Depression or **Kitchin Dynamics / 40 month waves**. The theory was called "Kitchin's Waves" in reference to the American economist Kitchin, who discovered the existence of these waves, and suggests that the waves of depression are made up of small waves.

The existence of short waves; with waves lengths of about 40 months was first seen in the conjunctural history of North America (Çapraz, 2001: 7). According to Schumpeter, the 40-month waves appear as three separate waves of 40 months in six separate 10-year waves within long waves called Juglar waves (transferred from Schumpeter by Aydoğuş, 2009: 14).

While two or three waves consecutiveness can lead to the depression process, it is thought to occur 37 between the years 1807-1937; 14 Kitchen of the waves between the years of 1840-1937. The Kitchin waves, which have an average duration of 14 months, have been repeated with a regular structure.

"According to Fellner, a typical chronological order is 1825, 1836, 1847, 1857, 1866, 1873, 1882, 1890, 1900, 1907 and 1913 years of crisis that prove the panic reactions have been observed in the financial sector. In this chronological order, rhythms generally ranging from 7 to 11 years, it is also called "**Juglar Waves7 / 11 year fluctuations**" with the respect of name of Juglar, who first put forward the phenomenon of cyclical by Schumpeter and that the crisis is rooted in prosperity." (Çapraz, 2001: 8)

In the foresight of Schumpeter, with regard to the process of Kitchin and Juglar between the waves, it is suggested that three Kitchin waves were formed in a Juglar waves. Although the relationship between Juglar and Kitchin waves cannot be fully clarified, It is predicted that the Kitchin waves are effective in the formation of the Juglar waves.

Out of all of them, "there are Kuznets waves (ranging from 15 to 25 years) included in the business cycles (Çapraz, 2001: 8) depending on such factors as Kitchin type seasonal waves from cyclical waves and by the US economist Kuznets, construction, immigration, etc. and they are thought to follow similar steps.

Except those, According to the work made by Kondratieff stated that While **Kondratieff Waves / 50-60 years cyclical wave** occurs on result of major projects such as construction railway etc., when it comes to past turnaround, the technology of such waves is internally contained and there are 3 separate Kondratieff waves up to the rotation (Demirci, 2005: 16).

1.2.4. Theoretical Approaches to the Concept of Economic Crisis

While the economic crises are classified according to periodic repetitions, the theoretical explanations brought to them are so important. Despite the numerous theories of crisis, it said that the history of economic thought in the shape of the frame in two opposite view.

The first of these: arguing that with the capitalist system has a stable structure with the power to reach the balance by its internal dynamics, that the states of instability that took place in the economic systems originate from external factors that are out of the capitalist mode of production; another approach is, that the crises that took place in the capitalist production model originate from the process of operation of the system, that is, they have an "inherent" quality (Çapraz, 2001: 14). Hence, theoretical explanations of economic crises have been shaped by external or internal qualities of crises.

1.2.4.1. Economic Approaches of Crisis Based on External Factors

The theoretical approaches which state that the capitalist system is in a stable structure and therefore the economic crisis is caused by external factors can be examined in the broadest sense within the context of mutual explanations of Classical and Keynesian approaches.

In both opinions, the model of capitalist mode of production is stable and this production model is in harmony with itself. Therefore, the interruption of the system stems from external factors. For example; State interventions made to the economies are external (Çapraz, 2001: 14). Along with being external, according to the classical approach, while the "external" state intervention disrupts economic stability and creates a crisis; according to Keynesian approach, it is important and necessary to fulfill the distorted stability as opposed to distorting economic stability with the same state intervention being "external".

1.2.4.1.1. Classical Economic Approach and Derivatives of Crisis Based on External Factors

In theoretical explanations brought to the theory of crisis, classical economic thought approach emphasizes "externality". According to this, while in the most basic sense the Classic approach is provided with the "invisible hand" mechanism in the "natural order" function, with the order created by the invisible hand and interventions in the economic structure in stability, it disrupts the balances and creates a crisis.

Although based on the same principles as the classical approach, in the **Neo-Classical** approach, which emphasizes the concept of "utility" instead of "labor" by making use of mathematical calculations, while there are waves in the economy that are not severe but regular but there are also more severe and sudden waves and while again the first of these is the factors in the economic process itself, the second is the waves that arise out of external influences in the capitalist production model (Çapraz, 2001: 19).

With the Great Depression that emerged after the First World War, keynesian who started to come to the forefront in economic life, the basic understanding **Monetarist**, **Supply-side Economics** and **New Classical Economics** which produces arguments against keynesian economics that have begun to come to the forefront in economic life, and which comes after liberal approaches to classical economics approach is; economic waves emerge as a natural consequence of the influence of market on external factors that are independent of the functioning of the market system, (Çapraz, 2001: 25) as it.

According to Monetarists: monetarists raised consciousness about the importance of monetary policy, they reestablished neoclassical principles such as Money neutrality and the natural rate hypothesis, they highlighted the importance of price expectations and their role in influencing the impact of government policy, they were the first to clear make a distinctions between real and nominal interest rates, they raised real concerns about the destabilizing effects of stabilizing policy (Knoop, 2009: 76-77).

The Supply-side Economics which argued that the conditions of supply are more important in response to the approach of Keynesian economics to the foreground of total demand or M. Friedman, who is the father of the monetarist approach of voicing as "While the phenomenon of inflation is always a monetary phenomenon everywhere, the most important factor in the economy is the amount of money in circulation” (Bilgili, 2009: 159) it is important that "Less government regulation for the development of competition and technological innovations in the economic life, and the need for the private sector to reduce the size of the public economy in order to give more opportunities" (Bilgili, 2009: 223). According to the **New Classical Approach**, (which is dealt with under the heading of classical approach and is also called Rational Expectations): "Individuals are able to create expectations in the framework of rational expectations using past term data as well as current period data." (Bilgili, 2009: 190)

According to this, according to the rational expectation approach, which has the foresight that individuals will make mistakes but not repeat the same mistakes, economic individuals who do not make systematic mistakes are caused by accidental changes in economic waves because they are inaccurate due to insufficient information. "Instabilities are caused by external factors that are caused by changes in the amount of money." (Çapraz, 2001: 33)

1.2.4.1.2. Keynesian Economic Approach and Derivatives of Crisis Based on External Factors

One of the theoretical approaches voicing caused by external factors of the economic crisis are Keynesian approach. In addition to traditional Neo Keynesian Approach, as the base on Cambridge Keynesianism, Imbalance Keynesianism, New Keynesianism and Post Keynesian Approachestional Keynesian approaches, with the diversification of Keynesian approaches, rather than the economic systems to be stabilized by the functioning of the natural balance mechanism, it is inevitable that the economy will become unbalanced and that government intervention is necessary to prevent it.

While the assumption that the economy is full employment is valid in classical economic thought, the economy is not fully employed in keynesian economics. There are 4 important tasks for the state in the name of stable unification of the unemployed economic structure as "The waste of unearned income, the saving of the economy from the liquidity trap, the selection of effective politics and the provision of economic growth" (Bilgili, 2009: 84).

The crisis according to Keynes; it is defined as the right moves up or down. Though the transition from the current situation to the better is not much felt; Moving towards worse always be more severe and occurs abruptly. According to Keynes, who suggests that marginal efficiency of the capital is the main source of cyclical waves; "The marginal efficiency of capital has also connect to the expectations of investors about the future". As said of Keynes "Rather than a decrease in current income, a reduction in projected investments is an important factor in the crisis process and no matter how much the interest rate has fallen, it cannot have the capacity to balance the much the interest rate has fallen, it cannot have the capacity to balance the investments, stating that as the level of employment distorted by economic waves in laissez-faire conditions will not be balanced by the current volume of investment determined by the private sector." (Keynes, 1964: 23)

In addition to traditional Keynesian approaches, based on Neo Keynesian Approach, Cambridge Keynesianism, Imbalance Keynesianism, New Keynesian and Post Keynesian Approaches emerging from the diversification of Keynesian approaches said that the total demand is fluctuating in line with public and private sector decisions, predicted and unforeseen policies changed the level of output and employment, prices and prices move slowly by hindering the rapid realization of adaptation, there is no optimal level for employment and unemployment, as a result of which, active interventions are necessary and that these interventions also require that efforts should be made to prevent significant unemployment in.

According to Keynesian: output and employment are more volatile than prices and wages in the short, aggregate demand is volatile and is the source of business cycle fluctuations, monetary and fiscal policy can be used to stabilize output, the movement of an economy to its long-run equilibrium takes place very slowly. In summary, both Keynes and Keynessians believe that capitalist economies are inherently volatile and need macroeconomic management in order to avoid destabilizing business cycles that are extremely costly and persistent. Without government intervention, this instability could eventually weaken the public's belief in capitalism, and lead to its downfall (Knoop, 2009: 59).

1.2.4.2. Economic Approaches of Crisis Based on Internal Factors

Unlike contrary to the classical and Neo-classical theories of economic theories which link economic crises to the independent and incidental external factors, approaches that treat the crises as a phenomenon arising from internal contradictions of the system is evaluated the crises are a normal state of existence (Çapraz, 2001: 35) that is created by the antagonistic contradictions inherent in the capitalist mode of production. Although it is known that there are many internal evaluation models in question, one of the approaches that assess "crises as a whole with the historical development process" (Çapraz, 2001: 35) The Marxist approach can be considered.

According to Marx, the capitalist production model is the one that creates the crisis in itself, and by its qualities it will eventually create the ultimate crisis which will bring its own end. In another words; although the fixed capital investment in the capitalist system, capital units that accumulate in one hand bring about an increase in unemployment levels. It stipulates that while the rising unemployment rates cause deterioration in the living conditions of the individuals constituted society, with the addition of small businessmen whose situation has been deteriorated to the proletarian class in bad condition already, internally unstable structure of the capitalist production model will be shaken by the crisis process (Barber, 2007: 180).

Marx's labor-value theory, which states that crises emerge with inner dynamics, focused on topics such as the tendency of falling snow, capital accumulation; it stipulates that in the capitalist mode of production, which leads to the accumulation of excess capital, this strength that the shareholders hold, will also affect interest rates by attracting investments, it will also be difficult for the borrower to pay the loan debts and that stock values or national currencies will depreciate in the coming period; devaluation moves will be done to avoid the mentioned value losses, however, bankruptcies in the private sector can not be avoided, such as rising unemployment rates.

As a result, the pre-crisis time-widening and aggressively-pumped market system will again witness the crisis and the depreciation of the capital caused by its own internal dynamics (Brenner, 2008: 1-55).

Ultimately, the crises faced by Engels and Marx's theory of crisis are not coincidental. The most prominent feature of these crises is "systematic and periodic" (Clarke, 2009: 14). In this sense, the characteristic of crisis theory is that: *"The essential and irreducible nature of the capitalist mode of production, which defines the objective boundaries of capitalism and the necessity of socialism, is the emphasis on the necessity of crisis"* (Clarke, 2009: 112) That is to say, the economic crises stem from the dynamics of their own operation of the capitalist production model, therefore it has intrinsic qualities. So much so that the crisis-causing nature of capitalism, which originates from these internal dynamics, will create the crisis itself that will bring the end of the capitalist system.

CHAPTER TWO
TURKEY'S ECONOMIC CRISIS

2.1. OVERWIEV

Following the declaration of the Republic, Turkey's economy has faced different economic crises up to the recent day. To be able to address these economic crises in detail, it will be useful to look at the course of the economy in this period.

In this sense, when we look at the first period following the declaration of the Republic, it is observed that the priority was given to removing the effects of the war which had been prevailing the land for many years. It is understandable that the decisive feature of the period is the adoption of a conservative economic policy especially based on the increasing statism[4] policy after 1930. Examples of the prominent aspects of the development period can be named as Law on the Protection of the Turkish Currency issued at the beginning of the 1930s and again -despite the neutral position of Turkey- World War II which erupted at the end of the 1930s.

In the following process, it is observed that the ending of World War II in the middle of the 1940s after six years of a great devastation on the world scale and the starting of multiparty democracy in Turkey occurred in the same period. The 1950s, which started well in comparison with previous periods, began to deteriorate with the second half and finally, this deterioration increased even more by the end of the period.

In 1960s which were the years residing one of the cornerstone developments for Turkey's economy, the outwardly closed economic model was shaped as "Planned Development Period" and 5-year development plans based on the growth target started to come to the forefront.

"A foreign expanded, export-based production model" was adopted in 1960 and 1980. With the start of outward opening in this period, the increase in the economic fluctuations became striking.

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[4]When we look at the doctrine, it is seen that the notion of **Statism** is defined as "the idea that the development of an country which can occur by the state initiative, the name given to the system in which the doctrine or the state directly tackle economic life".

Stabilization decisions dated January 24, 1980 were among the most important steps of the fundamental transformation in Turkey's economy. This transformation occurring in the fields of economic stability, system and order politics, industrialization strategies, the role of the state and bureaucratic mechanisms is a product of new economic understanding and the effort to harmonize with the global economy. In this period, New-Neo Classical politics took the place of Keynesian economic view and the interventionist understanding stemming from the social and economic functions of the state were abandoned. The state's downsizing and privatization policies were generally accepted by political and economic authorities. (Altay, 2010: 25).

If the economic growth figures of the countries are to be regarded as an "output"; it is necessary for different economic data to come together and form a meaningful and healthy integrity, a systemic structure, in order for this growth to come about. In this sense, an outwardly closed growth model based on agricultural sector was preferred in Turkish economy for many years. Although the model applied in the years in which planned development based economy model was adopted was called *import substitution industrialization model* and included the "industrialization" term, the production in this model was actually domestic and the country lacked the competing power in international markets especially in terms of industralizating structure (İncekara, 2008: 56).

Nevertheless, when the GNP growth and growth and share distribution in agriculture, industry and service sectors in this period in which the economic activities of the state were reduced and the gradual passing to the free market economy started is considered, it is observed that the share of Turkey in agriculture sector decreased and the share increased in service sectors, mainly industry in the context of agriculture, industry and service sectors, while the share of Turkey's agricultural sector decreased, mainly including industry.[5]

[5]In this context, the sectoral growth rates of Turkey's economy and if we take a look at GNP share in the context of agriculture, industry, services; As of 1980, it is shown as 24.2% of agriculture, 20.5% of industry and 54.4% of services. Among this it can be understood that the share of agriculture today falls below 10%, the industry's share is between 20%-30% and services sector’s share is 55%-60%. On the other hand, it is also observed that the industry and services sectors are sharper and the growth rate of the agricultural sector is more steadily increasing and decreasing year by year.

Following the 1980s when the transition from the agricultural sector to the industrial and services sector accelerated, 1990s constituted the basis of the intense economic crisis occurring both in Turkey and the World economy.

In 2000s, Stabilization programs such as 2000-The Fight Against Inflation, 2001-Transition to the Strong Economy were continued to be applied and in 2008, the Global Financial /Monetary Crisis-the European Debt Crisis breaking out first in the US and then in Europe encouraged all world countries to take action. It can be said that the effect of the fluctuations created by the global financial crisis continued their effect especially in developing countries between 2007/2008 and 2018.

Considering all these and summarizing the period after the declaration of the Republic, it can be said that economic understandings shaped by the understanding based on statism politics-rooted protective Development Plans came to the forefront before 1980 and those aiming foreign expansion in an effort to adapt to the liberalizing World economies came to the forefront after 1980. With the growth figures changing due to the decrease in the share of agriculture sector in GDP and the increase in industry and service sectors share in 1980, economic managers tried to implement different measures for the economic improvements in the country both before and after 1980.

In short, it wouldn't be wrong to mention that Turkey's economy (especially in 1980 when the foreign expansion model was adopted) constantly witnessed crises/fluctuations both before and after 1980.

2.2. ON THE PRE-1980 PERIOD

Giving importance to the industrialization efforts in the founding years of the Republic of Turkey, economic policies based on "statism" policy were determined in general in Turkey's economy as mentioned before. Considering long years of war in the country and the global Great Depression in 1929, Turkey had an image targeting a progress within itself during this period. Under these conditions, it can be considered that developments such as the effort to improve national banking implemented from the declaration of the Republic until the beginning of 1930s and the improvement efforts among national borders with the First Industrial Plan implemented between the beginning of 1930s and 1938 constituted the basis of applications based on import substitution and statism principles supporting this argument. Moreover, it can also be said that steps such as the Law on the Protection of the Value of Turkish Currency issued in 1930 and the establishment of the Central Bank can also be named among the prominent developments of the period. In this sense, it can be said that the policy goal conjectures as mentioned were successful as Turkey became a country with a foreign trade surplus, with the exception of 1938. This momentum achieved in the economy continued for a while in the Second World War which broke out in the 1940s and witnessed the polarizations of the leading states of the world.

Not joining the World War II and having a neutral position, Turkey continued to pursue a self-sufficient, introverted and closed economic model during this period. After the Second World War, the multi-party system started in Turkey in 1946 and entered a liberalization period in economic terms through the democratic political steps started. Enactment of "National Conservation Law" and starting the implementation of "Asset Tax" and the economic supports for the country such as "Truman Doctrine" and "Marshall Plan" were also the important milestones in 1940s when first deviations from Atatürk's national economical policies started to occur. Issues such as the first foreign debt taken in 1947 after the declaration of the Republic due to the foreign trade imbalance caused by *the first devaluation*[6] (Yazıcıoğlu, 2014: 59) dated September 7, 1946 are the markers of the period.

Steps such as sending soldiers to Korea in Korean War and becoming a member of NATO taken by Turkey which previously gave an introverted and detached image from the outside world can be considered as a demonstrator of getting attached to the external world. Positive economic improvements such as foreign trade surplus in this period, especially when entering the World War II and again for a short time after the war ended in 1950s. As the economy started to give deficit by the second half of the period, foreign trade deficit increased and thus the conservative understanding gained importance again on the contrary to the first half

[6] In addition, in Turkey devaluations were realized at the dates and rates of August 4, 1958 68.9%; August 10, 1970 40%; September 21, 1977 9.1%; March 1, 1978 23%; June 10, 1979 43.7%; January 24, 1980 32.7%; April 5 1994 51%; February 22 2001 28.4%.

of 1950s which were the liberalization period years in which the figures reached 11% for the economic growth starting with the multi-party system entrance period.

With the effect of 1958 crisis (Kazgan, 2005: 465) caused by external capital reaching and liberalisation aims with different sources such as direct investment, short and long term credit external aids (Marshall aid) and the opening of importation in foreign trade with a ratio of 60% with decree no August 10, 1950, the first Stabilization program which is the product of these aims went into effect in 1958. "Moratorium" declared due to factors such as growing and unpaid debts, disrupted financial structure, worsening foreign trade balance, etc has an effect on the mentioned stabilization program coming on the agenda. A debt of 422 million dollars was delayed with the Stabilization program and a new paying program of 3% was formed meaning the "consolidation" of the debt. (Kazgan, 2005: 116). Finally, at the end of 1950s, it was observed that Turkish economy lead to a depression with "international payment difficulty" and was trapped by the "inflation". (Kepenek ve Yentürk, 1994: 144)

1960's were the years in which targets such as decreasing poverty with import-oriented industrialization move, speeding the industrialization, lowering the inflation and providing justice in income distribution stood out and "Development Plans" the first of which was going to be applied in 1963-1967 and renewed in every five years in the future were enabled. It is observed that the Development Plans which were started to be applied in 1963 and then renewed in every five years had common characteristics such as *"depending on the production structure despite all reforming promises, aiming the growth of economy at a certain pace every year, giving priority to industrialization and being part of a certain long term strategy"* (Kepenek ve Yentürk, 1994: 147). Although it can be said that success was acquired in this economy model depending on export orientation in this point, it is understood that foreign exchange scarcity, intermediate and capital good procurement problems which are the dilemmas of the mentioned models (Demirci, 2005: 147) prevented the sustainability of the success reached during the period.

Especially the accumulation caused by USA spending on Vietnam war at the end of 1960s, decreasing of investment increases in the period called as "golden age"[7] for World economy after World War II and speculative attacks becoming profit expectations, free fluctuations occurring due to understanding that dollar cannot be kept stable against other currencies and such causes caused an extreme liquidity abundance in international financial (Kazgan, 2005: 135-136) markets. This situation caused the speeding up of occurrences such as speculative attacks, raw material price increases for the future in World economics and stagflation, oil crisis, etc came to the agenda. The main target of this period in Turkey in which Planned Development Programs applications were on the agenda between 1961 and 1979 was to lower high inflation rates and to provide economic groups within the scope of growth ratio targeted as 7% in average. The aim was to build a self-satisfying economy model although it has a basically introverted structure.

At the end of introverted 1960-1980 period, Turkey faced a crisis which was similar to the one in 1958. Similarly, targeted liberalization in 1958 and the debt burden of foreign trade liberalization goals has become unpaid, 1970 's first half of the year also targeted other liberalization moves brought Turkey to become unable to pay its short-term debt, especially at the end of 1977. Thus the crisis condition which started in 1978 was felt again in 1979 due to the effect of stagflation fact showing its effect on the world (Kazgan, 2005: 173).

Stability Programs were applied intensively in this period. Within this concept, Financial Stability concept should be considered to define the aims of Stability Programs. Financial Stability is the condition for parties supplying and demanding savings to form a fund balance away from the fragilities of the economy meaning a healthy fund balance. Failures to be experienced in providing the balance would effect real sector in time and bring about problems such as crises eventually.[8] (Karluk, 2014: 509)

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[7]**The Golden Age:** It is the period of progress that is named after the influence created by the fast increase in growth rates experienced in the world economy - especially in the developed countries. The golden age, which gave its name between 1945 and 1970, will end with "stagflation" that erupted when it reached the 1970s.

[8]Two different programs stand out in the doctrine for the achievement of Financial Stability. These are **Orthodox and Heterodox Stability Programs**. Orthodox program in the most general sense derived from correct and belief words (orthos and doxa in Greek); refer to the search for stability through customary policies; Heterodox program derived from different and belief words (heteros and doxa in Greek) which is known as stabilization programs led by unusually shocking policies.

In scope of all these improvements, when the aims and results of Stability Programs applied between 1960-1980 in Turkish economy are observed,

Table 1: Stability Programs Applied in Turkish Economy

Date	Government	Aim	Result
September 1946	Recep Peker	Opening the economy to foreign market and reconstructing	Imports boomed and foreign trade deficit increased.
August 1958	Adnan Menderes	Restraining the inflation and accelerating growth	Inflation was restrained but the growth was not accelerated.
August 1970 (Stand-by)	Süleyman Demirel	Ending economic recession	Growth increased but inflation also increased.
August-September 1977	Süleyman Demirel	Lowering the inflation and covering foreign exchange deficit	Inflation increased, current account deficit increased and growth slowed down.
March 1978 (Stand-by)	Bülent Ecevit	Increasing the export, speeding up the growth	Economic problems increased, recession turned into a crisis
March 1979 (Stand-by)	Bülent Ecevit	Ending economic crisis	Economy got smaller, inflation couldn't be prevented
January 1980	Süleyman Demirel	Opening the economy to foreign market and ending economic recession	Economy was successfully opened to the foreign market but the inflation reached a three-digit number
April 1994 (Stand-by)	Tansu Çiller	Ending the increase in internal and foreign deficits	Inflation boomed and 94 crisis emerged
January 1997	Mesut Yılmaz	Preventing the inflation	Wasn't completed due to early election decision.
December 1999 (Stand-by)	Bülent Ecevit	Restraining the inflation	2000 and 2001 crisis had a shocking effect.

Source: AKDİŞ, 2001: 5

It is observed that while the stability programs with the mentioned dates and aims were shaped in scope of aims such as foreign expansion, covering foreign currency deficit and fighting against inflation, it is also observed that they generally result in the increasing of the inflation and slowing of growth figures.

2.3. ON THE POST-1980 PERIOD

1980 has been the period in which the aim of being integrated in an international system and export-oriented economy policy was followed for Turkish economy contrary to the outwardly closed, import substitution period applied in the previous period. If we classify the period between 1980 and today as 1980-1989, 1990-2000 and after 2000, 80-89 period in most general terms is the period in which neo-liberal policies increasing the recognition with “stagflation” concept showing itself in 1970s stand out. This period is seen as the period in which Turkey started to gain its place in the globalizing World and the period of overcoming the problems faced before 80's with January 24, 1980 Stability Decrees and joining with the external world. At the end of the period/in 1989, precautions liberalizing the foreign exchange actions were taken again. On the other hand, in this period: "stimulating the exportation with subventions, liberalizing the importation in stages, controlled fluctuation of currency rate and keeping capital movements under control" are observed. Also the "liberalization of the period is fast” (Demirci, 2005: 163).

In the period between 1990 and 1999, liberalizing phase gained speed globally and there was an increase in the close relations between the countries with the Maastricht Treaty signed in Europe continent, etc. It can be considered that this liberalization condition also brings along the higher perception of neo-liberal economy policies. One of the most important improvements of the period was 5 April Decrees taken after the economic crisis in 1994. The reforms in this period: "start with the liberalization of capital movements and tangible assets and government securities constitute a great part of tangible assets due to the increasing public borrowing necessity. Getting away from their main activities, banks became institutions marketing government bond issues during this period (Demirci, 2005: 163).

In the first half of the period between 2000 and today, an economic crisis which burst up in the country at the beginning of the period occurred and thus a recovery-reconstruction period was in the agenda. There was a significant budget deficit in the country during this period and we can say that the borrowing terms were short, real interest rates were high, domestic and foreign debts were accumulated and the current deficit was high. Also events inducing speculative attacks (such as siphoning operations, throwing the institution law) were also observed when the banking sector was weak (Özatay, 2009: 102).

In 2007 and 2008 and after that period, the effects of global financial/monetary-debt crises breaking out due to the housing market problems especially in USA, then reaching to the bankruptcy of many finance institutions and finally spreading to the European countries as debt crisis were reflected on developing countries positively and then negatively. This period is seen as a period in which Turkey searched for policies for the effects of the mentioned crisis.

During the global crisis breaking out in 2007/2008 and emerging as the cash flow from developed countries to the developing countries, the course changed in almost 2013/2014 years and the hot money entrances depending on the appealing interest rates started to flow in the opposite direction with the recovery in USA and European economies meaning from the developing countries to developed countries. This condition brought along different effects such as exchange rate changes and speculative attacks. In 2018, especially exchange rate changes and growth rate fluctuations are mainly observed in developed countries.

As a result, breakages can be observed in every 6-8 years in average in the country's economy such as 24 January 1980 Stability Decrees, the years of 1987-88 and 1989 liberalization steps in Foreign Currency Transactions, 5 April 1994 Decrees, November 1999-February 2000 Economic depressions and 2007-2008 Global Economic Crisis.

In this regard, it is considered that covering the issues giving priority to the mentioned periods and developments may contribute to forecasts about the future.

2.3.1. 1980 and January 24 Decrees

A structural transform started in 1980. Global efficiency of neo-liberal policies was felt during this period and the deficiency of Stability program which was formed in 1977-78 but couldn't be applied due to the uncertainty in the country is felt.

It can be considered that Turkey's condition in 1980 was similar to Latin countries due to causes such as foreign trade volume imbalance, foreign exchange shortage, high inflation, unemployment rates, general short-term structure of debts, financial oppression environment of the country preventing the improvement of financial markets, the uncertainty in the country due to the frequent government changes (Gürsoy, 2009: 123).

For this reason, a package containing many new practices were formed in scope of January 24 Stability Program at the beginning of 1980. January 24 Decrees are similar to the programs applied between 1950 and 1954 but they are more strictly subject to the views of IMF and World Bank. Although its results were nearly as bad as 1929 crisis in terms of foreign trade deficit,[9] the difference of the period lies in the aim of the liberalization of economy and joining with the world. It is obvious that January 24 Decrees have a different style than the previous periods in terms of both the events that occurred and the understanding of practice.

It is also considered that Turkey's foreign expansion target is caused by both "external pressures" as the country was put in a difficult condition due to the constant debt taking caused by previous periods and being in a "weak" situation towards international institutions such as IMF, OECD and WB as these debts couldn't be paid and re-activation demand of the country for the credit channel (it is understood that this condition was due to Turkey being able to take the credit demanded between 1980 and 1984) and "internal pressures" such as the counties will to create its own entrepreneur and foreign expansion will of public-private companies and capital groups believing the foreign expansion would be beneficial. In fact increasing interests, prices and unemployment due to the financial constraint in 1978 were also effective in taking these decisions (Kazgan, 2005: 195-216).

[9]FTD deficits importance was a result of the fact that the rest of the world began to pursue liberal policies in the process of opening the country, and the continuous outward shift of the source of the country, shortly the deterioration of foreign trade.

In this regard, the general aim of January 24 Decrees were to struggle with inflation and payment difficulties in short term and providing foreign trade and foreign exchange liberty by providing structural transformations in long term. While all these were being done, the effect of public section on the market was decreased and liberal free market economy was stimulated with the textile, construction and light industry-based structural transformation which were actions different from the industrialization logic through the use of SEEs (State Economic Enterprises) between 1960 and 1980.

As mentioned before, there is a similarity between January 24 Stability Decrees and previous stability decrees and the plan is to spread the transformation to a long term rather than a short term. Within this framework, by decreasing the inflation in short term, full-capacity operating, eliminating payment difficulty, liberalization of foreign exchange markets, in short with a liberal point of view, money supply control would stand out.

With the Anavatan party which can be said to have a liberal point of view coming to power in 1983, these decrees targeted in 1980 brought along export improvement, increasing of foreign capital, ending of black markets, decreasing of the burdens on treasury with the increases in the prices of SEE goods, narrowing the subventions, money market devices and foreign exchange system coming into force and thus increases occurred in unemployment, budget deficit and foreign trade deficit data and the income distribution was damaged (Karluk, 2005: 520-524).

When considered within the scope of all these issues: It can be considered that January 24 Decrees "*are the combination of 1958 and 1970 Stability packages and are not very different from 1978-1979 Stability packages*"[10] (transferred Şenses by Kurtoğlu, 2012: 536-537).

[10]It can also be said that **the Stabilization Packages before January 24, 1980** includes common features such as "devaluation decisions that restrict imports, do not increase exports; which has weak domestic savings, foreign investors, inflation can't be controlled and therefore outsourcing ultimately with debt crisis".

2.3.2. 1987/88 Foreign Currency Transactions

In 1980, a trend towards improving and liberalizing the financial markets in the whole world -mainly in developing countries- stands out.

In this sense, it wouldn't be wrong to say that liberalization trend is based on interest rates which are one of the most fundamental tools of the market. In fact, the mentioned understanding is based on *"the financial liberalization theory founded by McKinnon (1973) and Shaw (1973) and then improved by economists such as Kapur Galbis and Mathieson.*" According to this theory, growth will step in. Liberalization has two different channels which can be named as interest and foreign investors. About the **interest channel**; it is considered that the increase in interest rates would increase saving and thus the liquidity in the market would decrease. Although this would partially affect the investors negatively -due to the inverse correlation between interest rates and investments-, the market will be affected positively. In general, the increased investment would provide growth. The critical point here is the necessity to pay attention to interest rate not being above the marginal efficiency of the capital. Because in that situation, individuals would incline towards deposit account profits and cause economic recession instead of growing. The second channel is about the positive effect which would be created by liberalization on **foreign investors**. Because while financial liberalization moves increase the trust of foreign investors in the country, it will also make the resource procurement phase of country banks faster. As the resource procurement would give banks the chance to gain volume and improve competition environment, this growth to be reflected on investments would improve the economy (Gürsoy, 2009: 131).

As mentioned before, the financial liberalization understanding which shows its effect on the whole world also influenced Turkey and as a result, Turkey also chose to become liberalized in 1980.

But when we look at the steps taken in 1980, we observe that January 24 Decrees aiming the foreign expansion and liberalization through making the public sector smaller depended on the growth to be acquired through the momentum created by public sector again and thus the targeted structural transformation returned to the starting point in a sense and this situation in which actors leading financial life, mainly the government, were *only redefined* instead of a structural transformation *couldn't prevent the result of actors becoming stronger -again mainly the government-* (transferred from Öniş by Kurtoğlu, 2012:537) and thus after putting the January 24 Decrees into practice -mainly the first three years-, although the results were generally positive, the condition got worse later. This means that

> *"Although Turkish economy entered a phase of structural change after 1980 Stability decrees, the Decrees couldn't reach a complete success in the provision of the stability required in economy. As a result, a new economic crisis started in 1988. But this crisis was different from pre-1970 crisis. At the beginning of 1988, the production decreased while the prices increased, investments were led towards areas other than foreign trade, consumption increased, interests increased while real wages decreased, public deficits increased but current account balance had surplus. This crisis started as the economy first recovered between 1986-1988; then subsided and then the regrowth phase started. ...The price of products were increased at the end of 1987 to prevent this negative course and the exportation was increased through the limitation of domestic demand. But the costs increased in correlation with increasing interests and limitation of public investments to cover public deficits also negatively affected private sector production and investment. This situation negatively affected financial markets and the investors kept away from Turkish Lira. Free floating interests caused the overvaluation of Turkish Lira and the entrance of short-term capital (hot money) inflow to the country gained speed."* (Karluk, 2005: 524)

As mentioned above, February 4 Stability Program was applied to prevent the balances damaged by country's economy entering election phase in 1987 in addition to the events which started in a positive course in 1980 and got worse later. It is observed that the economic recession was embittered basically with the increasing of deposit interests in financial markets and this package regulating the foreign exchange the banks will keep in the Central Bank. While the inflation increases up to 70%, growth ratios decreased to 1% from 9%.

In the latter stage, deposit interests were made completely free as a solution. Deposit interests made free caused a higher increase for the interest within the scope of supply-demand balance and interest rates which became appealing made the circulation from foreign exchange to local currency faster. In this situation, the foreign exchange entrance to the country gained speed due to the arrangement in exchange regime leading the way of liberalization, this situation brought along the recovery in growth rates. Indeed, although it is observed that the arrangement made in foreign exchange regime during this period put the economy in order, it also brought along the formation of *open position*[11] in the country (Karluk, 2005: 524).

When considered within these issues, Turkish economy taking an foreign expansion decision in 1980 fell into a new constraint in 1988 and February 4 Stability Decrees helped the country to overcome this condition.

2.3.3. 1994 and April 5 Decrees

In the period up to 1994, subjects like the fall of the Berlin Wall in 1989 and the passing to single pole world order in the double pole World order led by USA with the ending of USSR regime in 1991 were in world agenda and Iran-Iraq dispute in the Gulf War came into prominence in the Middle East. Apart from these global changes, Turkey also had a high debt problem in addition to the problems in both public and banking system in Turkish economy.

It can be said that the real effects of liberalization policies starting to be applied in 1980 were felt by 1990s. Although these policies appear as public sector debts in some countries and as private sector debts in others, it can be said that although high budget deficits and unemployment were not present especially in some Asian countries, they also faced some kind of crisis. More clearly, although the expected capital inflow was acquired through the policy based on providing capital accumulation through the liberalization coming into prominence in 1980s and thus making the country more attractive, it also brought along high degree of debt both in public and private sector. Although there was a reserve increase in the central banks

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[11]**Open Position:** The circumstance of nonconcurrence between assets and liabilities in the balance-sheet in the context of a bank, in the entire financial markets in the context of a state. This nonconcurrence may have positive or negative consequences as the exchange rate increases or decreases. If the assets are more than the liabilities, the increase seen in the exchange rates will create an excess position; in the opposite case, the increase in exchange rates will create an open position.

of the countries, the increase in the interest rates was inevitable. As a result, "high interest", "high devaluation" and "decrease in demand" problems occurred. Thus 100% increase was seen in the exchange rate in Turkey in 1994. Also as the idea of the requirement of giving 100% guarantee to bank deposit created the basis of big problems in financial/monetary sector for the future, it wouldn't be wrong to say that there was a significant capital crisis in the country by 1994 (Kurtoğlu, 2012: 570-571).

Accordingly the economic crisis which burst in 1994 had basic causes such as “unsustainable budget deficits, high level of foreign debts, inflation increase, production decrease, rapid fund flows occurring with globalization and open positions in the banks” (Gürsoy, 2009: 136). Structural programs which were planned in 1980 but couldn't be accomplished completely also had a large effect on the occurrence of 1994 crisis for Turkey. The fact that Turkey tried to create financial resource through domestic government bonds called SIDN (state internal debt notes) instead of implementing structural programs for the problems occurring after 1980 and this brought along SIDN related interest rate increases should not be neglected. Of course the "liberalization in foreign exchange regime" step leading the way of fast capital entry to the economy with Decree no 32 in 1988 has an effect on this condition. Shortly, due to the unstable and unplanned growth of country's economy especially after 1988, the inflation reached 150% in 1994 and a downsizing of 6% was caused.

April 5, 1994 Stability Decrees came up in order to struggle with the crisis occurring after the phase leading to 1994 crisis explained in detail above. First it can be said that wages and salaries were determined as anchors in April 5 Stability Decrees and the program is Orthodox. With the Privatization Law No. 4046 coming into force on November 27, 1994, it was signaled that liberalization steps would be continued in the future. (Kurtoğlu, 2012: 571-574)

According to Kazgan emphasizing the high rated debt item, it "increasing debts seen in the economies of the countries also effected the reserves and domestic debt level reached very high levels in 1994 and this domestic debt increase brought along the increase in interest rates and it is inevitable that high interest-caused increase in capital inflow would finally bring foreign trade and current account deficit cases to the agenda". April 5 decrees are also important for lowering the inflation in line with these improvements, increasing export incomes, recovering income distribution and providing social state in economic welfare. Two main strategies come forward with these decrees. The first of these was the short term recovery of macroeconomic frame and this covers the lowering the inflation, providing consistency for TL, balancing the debted public sector and recovering the foreign trade and current account deficits through increasing exportation. It can be said that these short-term strategies were partially successful. The second of the mentioned basic strategies is the application of structural reforms and it wouldn't be possible to say the economy administrators are completely successful in performing this (Gürsoy, 2009: 137).

As a result, it can be said that in Turkish economy housing big fluctuations with 1980 liberalization moves, another capital-centered fluctuation occurred in 1994 after the debt-caused shock in 1988. April 5 Decrees coming to the agenda after 1994 crisis regarded economy policies instead of the subventions in the economy but couldn't be satisfactorily successful in the application of principal decrees in the mentioned program although it had a wide vision including short term plans and structural plans and it prepared the basis of the banking crisis of 1999/2000 (Kazgan, 2012: 226).

2.3.4. 2000 November 2001 February and Struggle against Inflation-Strong Economy Transition Programs

After 1994 crisis, conjunctural depression and the fluctuation continued both in Turkey and the international context until 2000. The depression caused by the crisis breaking out in Asian countries in 1997 deeply affected many Southeastern Asian countries and it brought along the differentiation of crisis theories as mentioned before. While there were fluctuations created by the deterioration in the balances of the companies and banks around the world, the effects of Customs Union

Agreement coming to the agenda within the scope of UN relations in 1996 in Turkey and the earthquake in 1999.

Under these conditions, finally the application of the structural regulations envisioned in IMF Letter of Intent in Turkey was started to be discussed in 1999. With Letter of Intent of 1999, gradual lowering of inflation from 25% to 7% was aimed and 3 main strategies such as "providing strict financial discipline", "making structural reforms" and "providing stability with the pre-determined exchange rate" were regarded. In scope of these strategies, privatization targets have an important place. The program also contains a money authority policy as "keeping the internal asset stock constant", an income policy as "keeping the wages and salaries at inflation rate" and social and structural regulations as "making reforms". Changes including *social security, tax policies, agriculture, and transparency in financial management, privatization and capital markets regulation and banking* formed the basis of all (Yentürk, 1994: 586-587).

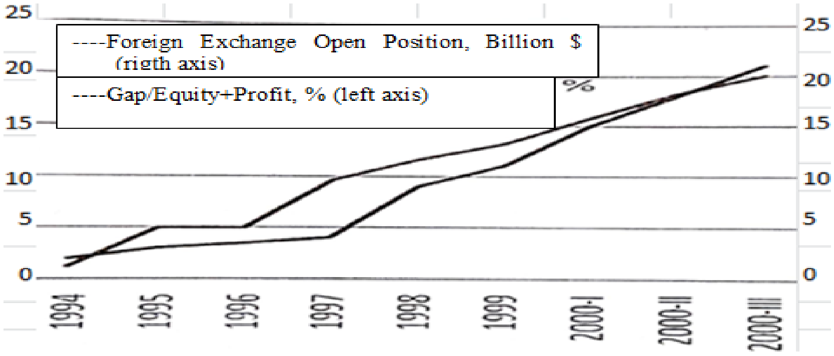
Although 1999 was entered with different targets and strategies, all these couldn't be prevent the break-out of a new crisis. In this regard, banking sector had a great role in the crisis occurring in November 2000 and February 2001 after 1994 crisis. Although it seems that the deterioration in the banking sector playing an active role in the mentioned crises occurred due to these crises, it wouldn't be wrong to say it is rooted back to 1994 or even 1980s. It is striking that the banks with a significantly increasing number due to 1980 foreign expansion/liberalization policies again had a great share in the country's economy in 1990s and many companies even opened banks to increase debting opportunities.[12]

Within this concept, by 1994;

> *"Since an active supervision and certain debting limitations were not present in Turkish Banking system after 1994, the banks preferred to follow a short-term debting policy. Thus while the domestic debting need of the government was met, profiting chance was also provided to banks through arbitrage. Debits rapidly increased in the banking sector with this trend."*

[12]Although the banking law that started in the 1980s came to the fore with the number of banks that showed a large increase in quantity in the following period, when it came to 2000s, this situation drew attention as decrease in the number of units in the banking sector, shaped as condensation of sector shares into 5-10 banks.

Figure 5: Banking Sector Foreign Exchange Deficit Position. (1994-2000:3)



Source: BRSA

Thus -as it can be understood from the figure above- there was an increase of nearly 20 times in the foreign exchange position debits of banks in Turkey between 1999 and 2000. Although this increase caused an extreme increase in the fragility levels of the banks, Öniş Ziya claimed that 2001 crisis was a typical asymmetric information problem with the fact of public bank situation and IMF can not see them. And also according them, 2000 Crisis was a private banking crisis and 2001 crisis was a public established banking crisis, this was the difference between them (Öniş and Barry, 2003: 13). Because when active, credit and deposit sizes in the banking sector by 2000 are considered, it is observed that the share of public banks had sector shares of 34%, 27% and 40% in order. The factor under such high efficiency of the banks in the sector is that in most general terms, they are seen as an instrument both for financing domestic debting and again taking notes exported by public[13] (Öztürk, 2012: 106).

While there are problems such as increasing position deficits in banking sector, maturity mismatch, high overnight debting interest rates in the banking sector, it is also striking that the current account deficit also reached high levels in the country's economy. Based on the maximum inflation rate decrease down to 39% at most in 2000s while it was 69% in 1999, it can be considered that the crisis possibility was actually higher in 1999. With the starting of reforms planned under

[13]Among the items that banks earn interest income credit loans and stocks and bonds comes as leading values. It is seen that 62% of the interest income was taken from the credit loands in 1994 but it decreased to 38% in the year 2000. In this framework it can be said that the banks take advantage of high inflation by basing their interest income on instruments such as treasury bills and state treasuries instead of loan/credits.

six different titles as *social security, tax policies, agriculture, transparency in financial management, privatization and capital markets regulation and banking* between IMF and Turkey, a partially stable structure was achieved in 1999. But it is understood that as the reforms under the titles of transparency in financial management, privatization and capital markets regulation and banking couldn't be accomplished completely in the following period, 2000 and even 2001 full of depression was faced. (Özatay, 2009: 88-95).

It can be said that the crisis was ready to strike in 1999 due to the increasing fragility of the banking sector and the reforms which couldn't be continued after the foundations were laid and it finally became larger in 2000 and broke out in November 2000.

Within the frame of all these issues, 2000 was the year in which the exchange rate was determined as the target to be stabilized. As mentioned above, the problems starting in the banking sector became larger as current account deficit reached 10 billion levels and this condition intensified the failure in lowering the inflation. Issues such as insecurity and ambiguity created by factors such as gradually increasing liquidity requirement in the market, fluctuations in capital flow, etc were among other striking problems of the period.

Subjects such as whether the economic crisis breaking out in 2000 in Turkey with all these founding events was caused by other countries and whether it was similar to the crisis in other countries in this sense are important issues to be clarified. Fatih Özatay mentioned that it would be advantageous to look at the "market economies improving as the appetite of international financial investors for risk taking increases and Turkey's credit risk" and as the result of the analysis he made on this subject, he concluded that there was no significant difference in global risk taking appetite, meaning there was no external shock. Özatay then looked at EMBI index[14] and said that this index has been published since 1999 and if Turkey's risk would increase, the bond demand would decrease and Turkey would sell more bonds to cause less harm and the bond price would fall and the demand for inverse

[14]**EMBI:** The emerging market bond index which is composed by the initials of the English word of the same notion follows the total yield from valuable paper / loan instruments in emerging markets.

correlation caused interest and as a result, the margin between the USA and Turkey's bond interest would increase. It won't be wrong to say this situation can be related to the credit risk of the country. When compared to increasing market economies, it can be concluded that Turkey's credit risk started to increase after July 2000 and the risk level before that was lower compared to developing counties and thus worsening condition of Turkey caused the crisis in 2000-2001. (Özatay, 2009: 84-86).

As a result;

> *"Turkey entered 2000 with a new economic program. The most striking issue of this program supported by IMF was inclusion of an exchange rate with a pre-determined increasing rate. Starting from the beginning of 2000, daily values of the exchange rate was declared in advance for 1.5 years. Starting from the end of this period, the exchange rate was going to fluctuate in a gradually increasing range. The main aim was not to struggle with inflation only with strict financial and monetary policy and to support them with other mechanisms to end the inertia formed in the inflation. Such heterodox programs were also applied and were successful in 1985 Israel and 1989 Mexico programs before.* (Özatay, 2009: 88)

But this program came to the agenda with the perception that it would end up in failure in 2000 and this view was justified at the beginning of 2001. But overnight interest rates increasing up to 6200% on February 21 brought along the decision to leave the exchange rate to fluctuate on February 22, 2001 and the country's economy lost balance.

The country's economy clearly worsening towards the end of 2000 contrary to the good graphic at the beginning, Nurhan Yentürk stated that 2000 Stability program had an Orthodox character and common characteristic applied in developing countries dominates the program. First of all we can say that the fact that the use of a single anchor was not enough. It means that corrective devaluation was not performed before as exchange rate anchor was applied and thus Turkish Lira gained value and foreign trade deficit increased. Also while monetary base was related to foreign exchange inflows and outflows, attention was not paid to short term capital inflows and outflows and CBRT opposing to these inflows and outflows is another issue neglected. As a result interest rate decreased which would increase investments. While it was considered that this condition would prevent the foreign trade deficit to be created by over-valuating Turkish Lira, it couldn't be figured out that decreasing interest rates would also decrease saving rates and lead people to consumption and this would end up in inflation increase. This means that the aim of decreasing the interest rate and increasing investment through exchange rate anchor couldn't prevent the fact that Turkish Lira would gain value with exchange rate policy and prevent foreign trade deficit increase. Instead of the decreasing interest and increasing investment which are known results of exchange rate policy, interest decreases, investment decreases and consumption for importation increases and foreign trade increases. Also it was planned that the income to be acquired through privatization would be used for public debts but this is only possible in short term and other structural regulations would be required for later. On the other hand, as no structural regulations were made, banking sector regulation which was already fragile was delayed to a time after exchange rate anchor and became more fragile. Actually government securities/notes in balance sheet in banking sector had a high ratio and this creates interest risk. As a result: mistakes such as "not fulfilling/delaying of structural reforms", "not making corrective devaluation at the beginning of the program", “not considering high consumption tendency", "not considering short term capital inflow and outflow" and "not making banking reform before the program" brought along 2001 crisis” (Yentürk, 1994: 587-591)

There was interest rate and exchange rate risk for the banks in November 2000 and this was caused by inadequate capital structures, keeping high government bonds, foreign exchange deficits, etc. The high increase in current account deficit constituted a problem as there was no corrective devaluation. In November 2000, IMF had the impression that it won't be possible to continue the program and as short term capital outflow increased in November 2000, CBRT reserve decreased nearly four quadrillions. Liquidity requirement occurred in the market on November 22 and liquidity and interest increased up to 2000 as CBRT didn't meet the requirement. Devaluation expectation in the market increased and CBRT left limitation application in internal asset stock. It can be stated that not being able to predict the real sector contraction to be created by such liquidity problem in the program is one of the main mistakes. As a result, the program was abandoned in December 2000 with the fear that foreign exchange attack would destock the reserves. Capital outflow occurred in the country due to the institution law crisis on February 19, 2001 and the foreign exchange demand of the banks increased and liquidity shortage occurred. Interest rates increased too much and CBRT decided not to sell foreign exchange and foreign exchange was left to fluctuate on February 22, 2001[15] (Yentürk, 1994: 587) As a result, fixed exchange rate regime was abandoned. Problems such as inflation, interest, purchasing power and decreasing national income remained. Then reforms not made between 2002 and 2004 were targeted with Strong Economy Transit program in 2001. (Yentürk, 1994:592-595).

Stability program started to decrease the inflation and to provide economic stability in November 2000 was wounded. Thus overnight debting interest rate in interbank money market which reached 900% in November 2000 increased up to 6200% in February 2001. In fact it wouldn't be wrong to say that the foreign exchange attack started after the argument between the Prime Minister and President in the February crisis in February 2001. Because again while international exchange rate reserves which decreased 6.2 billion TL were in the agenda in November 2000, CBRT foreign exchange reserves decreased 5.3 billion between February 16 and 23 in 2001 and decreased to 22.6 billion from 27.9 billion. As a result CBRT couldn't resist the attack movement against foreign exchange and the exchange rate was left to fluctuate on February 22, 2001. (Öztürk, 2012: 105)

Based on the summarized information on 2000 and 2001 crises in scope of all these issues:

[15] Again according to YENTURK: The government suggests that the devaluation is more appropriate to prevent itself from the perception of being guilty even though it decides to let the currency fluctuate.

Table 2: Facts Of 2000 and 2001 Crisis

Nature Of Crisis	Balance of payments crisis caused by successive speculative attacks and massive outflows of capital leading to the collapse of growth and heavy unemployment in 2001. Both internal and external imbalances are important.
Origins	Primarily originated from disequilibrium in the banking sector (private banks in 2000and public banks in 2001); a strong link may be formulated between disequilibria in the banking sector and fiscal imbalances.
External Dimension	Highly volatile external environment characterized by recurrent crisis in emerging market and reversible capital flows, especially after the Asian Crisis of 1997. Export performance negatively affected by the Russian crisis and weak global demand. Rendered to economy highly vulnerable to the crisis.
Internal Actors In The Post-Crisis Context	IMF is the critical actor both in the pre- and the post-crisis era; the role of EU decisive for the first time. IMF and EU anchors are increasingly interrelated. World Bank is also involved as a secondary actor.
Political Consequences	A decisive turning point, the democratic regime proved to be highly resilient in the face of the crisis, the impact of the changed international environment and presence of a powerful EU anchor are significant.”

Source: Öniş ve Barry, 2003: 4

2.3.5. 2007/08 Global Crisis and its Reflections on Turkey

Turkey's encounter with 2001 crisis presented the fragility in the financial sector. Thus Turkey's economy was damaged deeply in terms of growth, unemployment and inflation rates in 2001. The country's economy shrunk 9.4% in 2001 and unemployment increased up to 8.5% from 6.3% and he inflation similarly increased up to 69% from 49%. The outcome was an additional debt of 19.8 billion $

undertaken with the letter of intent dated January 18, 2002 taken from IMF. All these indicators clearly presented the requirement of basic regulations mainly in financial sector. The recovery period in the financial sector started with this idea.

Thus to be able to understand the present condition of Turkey coming out of 2001 crisis but leading towards 2008 global crisis, it is considered that looking at financial sector improvement would be beneficial. From this incentive, it can be seen that the first improvement was the opening of autonomous and effective supervision way of BRSA in banking system. It is considered that this regulation made with BRSA presented significance in the improvement of a total of 23 banks reaching the levels of 48 billion $ after the crisis. On the other hand, after 2001 crisis:

> *"Active size per branch was 21 million dollars in 2002 and increased to 27 million dollars in 2004. Similarly, active size of banking sector in dollar base was 130 billion dollars at the end of 2002 and became 165 billion dollars with an increased of 27% at the beginning of 2004. Capital stocks of banking sector were also affected by the improvements. Capital stocks reaching 26 quadrillion TL by 2002 reached 35 quadrillion TL from the beginning of 2004. Banking sector CAR increased to 31% from 25% at the end of 2002. Sector share which was 526 quadrillion TL in 2002 reached 5.7 quadrillion TL at the beginning of 2004 increasing nearly 10 times. The number of deposit banks and development and investment banks active in Turkey reached 46 with a removal of eight banks in 2007 compared to 2002 and this number is the lowest level after 1983."* (Öztürk, 2012: 106).

The crisis in 2000-2001 initiated the regulation of the whole banking sector and in latter stages, implicit inflation target was applied in Turkey until 2006 and open inflation target was applied after 2006. This increase of thrust in the banking sector increased the efficiency of CBRT 's use of political devices in time and later the interest rate regressed to 26% from 44% by the end of 2003.

Considering all these results, a recovery is clearly noticed in the banking sector and this recovery had a positive reflection on the country's economy in the future.

"While the ratio of total actives to GNP was 77% in 2002, this ratio increased to 85% in 2007. Deposit-loan transformation ratio increased more than two times in 2002-2007. The ratio which was 35% in 2002 reached 80% in 2007. Loan-asset ratio was 27% in 2002 and 48% in 2007. Increase in mortgage and consumer loans is striking. Similarly SME credits also constituted 29% of whole loans. The ratio of non-performing loans among all loans decreased to 3.5% from 18.5% between 2002 and 2007. We observed that capital stocks increased more than three times at the end of 2007 and reached 63 billion dollars from 18 billion dollars. Net return on assets reached 2.6% at the end of 2007 for the sector. Similarly capital stock profitability reached 20% at the end of 2007. CAR regularly decreased starting from 2002 and decreased down to 19% from 25% at the end of 2007.'[16] (Öztürk, 2012: 106)

While the financial improvements mentioned above were taking place in Turkey, Mortgage crisis giving its first signals in previous years became apparent in 2007-2008 in USA and the whole world, mainly USA and then European countries entering a debt crisis cycle entered a new crisis.

It would be advantageous to look especially to mortgage meaning house market in order to understand the crisis emerging in USA which became the World leading country by leaving the two poled Cold War phase lasting until 1990s with victory. Sub-prime credit market has an importance place in the emergence of the mentioned crisis according to Özatay. When USA citizens are listed in order according to their credibility characteristics, different customer profiles lined up from those with the best paying performance to those with least paying performance. Among the mentioned customers, although the lowest group including those lacking the reimbursement quality for the credit they took is called subprime credit market, they have basic determining characteristics such as having difficulty in reimbursement of the credits they took with their present income, having execution

[16]In countries with long-term high inflation, banks couldn't lean into long-term housing loans. Due to the macroeconomic stability experienced in the 2000s, inflation rates have fallen and the government's domestic borrowing liabilities have decreased. Decreasing interest rates have accompanied increase in demand for housing financing. It is also clear that CAR has a decreasing tendency, but it is higher than 8% and 12%. This is mainly due to the increasing of the efficiency of the survilence and supervisory activities within public, increase of the understanding of risk-based supervision and increasing the importance of risk management in the banking sector with restructuring following year 2002.

proceedings commenced as they couldn't pay the credit they took before or having payment difficulty.

The condition here is the individuals in subprime credit market getting the chance to take credits again on the present house with the chance given by the increasing real estate prices although they had already taken credits before, mortgages increasing over and over again and markets going into a cycle within the "balloon"[17] prices. The prices fall with the demand problem in the real estate sector with surplus supply and individuals with low income in subprime credit market cannot fulfill present actions. Unperformed acts cause the seizure of the houses of the individuals, price decrease for the houses with an increasing number in the market and this is a mutually nourishing phase. Due to the least auditable structure of balloon prices forming in the market within the financial sector framework which can be called as shadow banking, the housing market problem becoming unstoppable gradually grew and it finally brought along a crisis phase lasting many years in the whole world, especially USA.

During whole this process, growing banking sector has an important place within the constantly widening credit volume of the World becoming to liberalize in 1980.

According to Özatay stating that there are four different stages of comprehending mortgaged house market up to 2007-2008, first there is classical bank balance formed by deposit and capital items of individual or commercial credits given by banks up to 1938. Federal National Mortgage Association (Fannie Mae) which was built to give individuals with low income the chance to own their own houses and sell houses with mortgage came into the play in 1938 and provided cash inflow by removing the credit risk of the bank from the balance sheet.

In 1968, Fannie Mae was divided into two (Fannie Mae and Government National Mortgage Association), privatized and acquired a new structure. In 1970s, state funded Freddie Mae was founded and the mortgaged credits were turned into

[17]Looking at the Case-Shiller index, which looks at the weighted average prices of the 10 states in the United States, includes data available from 1987 by two academics to observe the balloon prices, it can be seen that house prices increased by 86% between 1996 and 2006. The increase started to reverse in 2006.

securities and remarketed and this institution entered the market as a competitor for Fannie Mae.

Apart from all these, investment companies presenting securizations also stepped in and as a result of institutions like Fannie Mae selling mortgages to these (the risk is still on Fannie Mae as there is the guarantee process),[18] the risk was shared between actors such as banks, mentioned state funded institutions, investment companies and savers providing resources[19] for these. But mentioned mortgage credits don't constitute risk until this stage as they are given to credible customer groups.[20] As other financial companies realizing the profit in asset backed security market stepped in to have a share, while the shares taken by state funded and other private companies in 2003 were about 74%-26% in order, they reached 43%-57% in 2006. With other financial institutions entering the market, credits are also given to subprime customers, not only credible customers. Thus, as other financial institutions entered the market, while credit balances given to subprime credit market increased to 14% and 30% in 2003 (a total of 111 billion dollars) and 2006 (a total of 258 billion dollars), the credit ratio given to the most creditable customer group decreased to 26% from 52%. The uncertainty of buyer-seller relations increased in the mentioned operations as over the counter markets stepped in and the system lacking audit brought along the crisis.

To summarize, while the crediting phase of individuals with low credibility was good at the beginning, reimbursement of credits became problematic with the market constraint, this condition caused the loss of available houses and the prices in the housing market exposed to supply increase hit rock bottom and the house prices

[18]At this point, investment companies that issue asset-based securities find source from individuals with diverse and small savings. In other words, the loan process that started with the purchase of housing has extended to the owners who are irrelevant to the intervening different institutional structures and which are very small, which means that the start and the end result are disconnected from each other.

[19]The asset-based housing stock increased from $ 200 billion in 1980 to $ 4 trillion in 2007.

[20]Based on the different customer groups such as Collateralized Mortgage Obligation (CMO) and Collateralized Debt Obligation (CDO), which arise in the following phases “as the principal and interest payments of the housing loans behind the asset-based securities returned”, the financial instruments drawn as differentiated maturities including the principle of paying from the top to the bottom according to priority order are included in the system. These occur as the sale of asset-backed securities that are sold to government-sponsored institutions from banks, and those that are bought and sold by CDO-selling investment companies and sold to the depositors at over-the-counter markets.

hitting rock bottom deeply effected all parties included in the system by different actors. As a result, many companies such as the well-established bank Lehman Brothers or 639 billion dollars in September 2008 had to declare bankruptcy. (Özatay, 2009: 103-126).

As a result the 2008 crisis spread to the developing countries from the developed countries in the last 3-4 years. By the second half of 2008, this spread reached its fastest stage. The speed in global economy started to decrease suddenly in 2007 and a major global depression similar to 1929 crisis started again. Although this depression burst out in developed countries, it affects the economies of developing countries mostly.[21]

It would be advantageous to look at the causes of the crisis to be able to better define this systemic crisis which had a global effect after 1929 crisis and is the biggest crisis up to today. Of course it is basically possible to say that basic inflation and interest rates decreased until 2007-2008.

But according to Sever Erşan, the main causes of the crisis were "macroeconomic", "financial" and "arrangement and auditing" and etc. when examined in detail.

Cheap workforce occurred in the Soviet block countries with the ending of the cold war in 1990s and the production levels increased with these low wages decreased inflation and thus the interest. Also the economic recession occurring in USA economy with events such as terror attack[22] brought along the continuation of the idea of stopping recession by lowering interest rates and decreasing the interest

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[21] *"It was a lean contagion that caused systemic fragility. When the global systemic crisis of 2005-2009 shift into the stage of leaning, every country in the system, felt more or less a crisis, and were exposed to lean contagion. ...The worst of the lean contagion is that it's so unpredictable. It was not only in the predicted dimension, but also it has a character that was not suitable for quantitative evaluation. If contamination did not create a transformation that left deep and thick traces on macroeconomic quantities, then the consequence was that the effects of lean contagion could be quickly corrected. The recent credit crisis began as a credit crunch and quickly spread to the markets. Liquidity inadequacy, payoff, trust crisis triggered each other; effective and deep process. USA; shadow banking, unchecked off-balance-sheet derivatives, extreme risk-focused organizations, and managers who were exempted from racial punishment, created their own balloon economy. This balloon has also made unrestraint turn ordinary which can easily turn into a crisis. So it locked the whole world's agenda into a virtual richness."*

[22] **Dot-Com**: It is the name given to the balloon movement which is formed by the increasing market values of the technology and information companies operating in the American market in the early 2000's.

rate 11 times between 2000 and 2001 with this motivation and the interests decreased down to 1.75% from 6.5%.[23] Issuing of asset backed securities increased as other actors wanting to take share from the market with the improving housing market with decreased interests and the increase for risk appetite entered the system. On the other hand, issues such as unbalanced world trade occurring due to China entering the market and causing an increase in foreign trade deficit and thus current account deficit (current account deficit increased to 250 billion dollars from 60 billion dollars), USA losing its power in 2000s although its power peaked after World War II, the markets still dominated by USA despite this fact and changing spending habits can be shown as **macroeconomic causes**.

Factors such as financial system becoming more complicated due to the assets gaining volume with the securization phase occurring with improvements such as increasing financial tool types and capital flows increasing to a higher level and the consequent extremely high house prices, uncontrolled dollar based markets occurring due to dollar leading not only USA, but the whole world and monetary system becoming uncontrollable in international dimensions due to the fixed exchange rate system China tried to apply while entering the market in the phase of decreasing inflation in USA are the **financial causes of the crisis.**

Issues such as nonobjective international institutions and agencies, mainly credit rating agencies; aggressive profit understanding occurring in the markets with the wide authorities given to CEOs which are the actors to determine the risk appetites of companies from a single hand; asymmetrical knowledge prevailing the markets; conceptions occurring on all actors such as changing conditions, improving technology level and profit expectation; mortgage credits unconsciously pumped so that households can own their own houses and government guarantees warranting this and auditing deficiencies supporting shadow banking **are the causes of the crisis due to the regulation and applications (Sever, 2014: 3-19).**

Although the crisis in 2007-2008 discussed in detail above was tried to be associated to the crisis before, it was different. It is possible to use the "systemic" concept for 2007-2008 crisis. Because this crisis was not only in a single sector

[23]This situation will play a major role in the upcoming housing loan demand bubble.

market, but created a depression in a more comprehensive macro scale. Shortly this crises was effective on a wider area, not only in a single area such as Asia, OPEC countries, etc. If we should consider global trade relations for USA, the continent of Europe, Asian countries and other developing countries, although this crisis started in housing market in USA, it spread to other actors in time and acquired a global character. Issues causing the mentioned condition can mainly be evaluated under titles such as auditory deficiencies in financial markets, the growth of the effect created by the volume gained by derivative transactions market, risky operations and individuals taken in the system through shadow banking system and interest advantage profit searches causing the increasing of the risk appetite of actors in global scale (Alkan, 2009: 33).

While these global improvements were taking place in 2007-2008, it would be advantageous to look at how the global crisis sprung to Turkey in 2007-2008 after 2001 crisis.

Based on foreign trade data between 2000 and 2007, the ratio of export to national income in Turkey increased to 16% from 10%, the ratio of import to national income increased to 25% from 20% and the ratio of export to import increased to 63% from 50%. To be able to understand the dimension of the crisis, the current account deficit increased to 38 billion dollars from 1 billion dollars in 2007 and 49 billion dollars in August 2008. Although the growth ratio was 6% in 2006, the ratio of current account deficit to national income was 6%. Although the growth decreased later, current account deficit/national income ratio still remained high and growth fell to negative ratios in 2009 (Sönmez, 2009: 73-74).

To summarize, it can be said that Turkey's foreign expansion period was also reflected on the numbers. Crisis breaking out in USA emerged in Turkey with increasing current account deficit with decreasing growth ratios and the ratio of current account to national income after 2006.

> *Before the global crisis emerging in USA and then spreading to the world and causing depression, Turkey's capitalism had already started to descend in 2007 after the growth based on cheap labor in 2002-2006. Growth became slower starting from the beginning of 2007, inflation became two digits again, Turkish lira gained high value, and import*

increased unemployment indwelled and current account deficit increased quickly. These improvements also increased the fragility of the economy towards the shocks. Regardless of the global changes, Turkey was already leading towards its own crisis. Thus it wouldn't be right to relate the crisis only to external factors. Although the trauma of 2001 crisis was not overcome yet, the capitalism in Turkey entering a new crisis in 2008 tried to grow depending on heavy and cheap labor paying effort to compete with exporting Asian countries after 2001. But the country was short of breath quickly in this Asianization phase." (Sönmez, 2009: 75)

Table 3: Growth and Current Account Deficit; 2001-2008

Years	GNP (Million $)	Current Account Deficit/GDP. (%)
2001	196.736	1.9
2002	230.494	-0.3
2003	304.901	-2.5
2004	390.387	-3.7
2005	481.497	-4.6
2006	526.429	-6.1
2007	655.886	-5.8
2008	782.090	-6.1

(Between 2008 September and September annual) (Sönmez, 2009: 77)

As a result, although it is striking that Turkey's foreign trade volume increases with increasing foreign expansion level, when we look at the increasing foreign trade volume in detail, it is understood that the contribution of importation in foreign trade volume is bigger. Larger amount of importation compared to exportation brings along the multiplication of foreign trade deficit. It wouldn't be wrong to say that foreign trade deficit increased up to 70 billion dollars from 30 billion dollars between 2000 and 2008 and this was a triggering issue for increasing current account deficit. As we can see on the table above, current account deficit problem started to become more significant in Turkey after 2001. Although recovery signs were observed in banking sector due to the recovery in financial sector by 2008, growth ratios decreased down to 2% and 0.5% levels by the second and third quarters of 2008.

"2001 crisis ended up with the biggest recession of Turkey's economic history. Economy policy started to be applied by IMF after the crisis ended up with high growth ratios with an average reaching 7% for 6 successive years. One of the most important characteristics of growth period following 2001 crisis was the growth occurring with hot money based

outsource inlet and again the parallel course of GNP increase with foreign trade growth. When foreign resource inlet reaching net 9.5 billion dollars and providing the chance of 7.4% growth brought along a big current account deficit the same year, capital inlet left its place to capital escape and the net capital outflow reaching 14.5 billion dollars in 2001 is an effective factor for 7.5% downsizing occurring the same year." (Sönmez, 2009: 80)

1994 crisis brought a sudden collapse, 2001 crisis could be called as a crisis occurring "only once" but Turkey entered the crisis in 2008 in a course of time. Basically Turkey faced the effects in real sector. Public sector entering a period of debting need and extensive expenditure and trying to cover these through coinage to exchange for CBRT's advance payment, unsettled exchange regime and the way of hot money entrance to the country opened by the sudden opening of this regime and hot money leaving the country again when the situation in the country got worse, bank bankruptcies and finally high inflation rate occurring in the country occurred in the country in 1994 crisis. In 2001, disruption in bank balance sheet and overdebting of banks going into a labyrinth, banks' exposure to open position caused the occurrence of liquidity problem in the market and foreign exchange searches were added.

"2008 global crisis affected Turkey in a different way compared to previous crises. We witnessed that Turkey was affected by the global crisis not through the banking system, but through real sector production, importation financing and unemployment problems. The main actors of the relations of Turkey with international economy in the period after 2003 were 'real manufacturer companies and households' rather than 'banking sector'. Foreign debts of real sector and households quickly increasing during this period and these sectors drifted in an extreme importation and foreign debt addiction to be able to continue their economic activities caused substantial fragilities in national economic balances." (Sönmez, 2009: 98)

But 2008 crisis affected the real sector instead of the financial sector apart from all these and "Manufacturing Industry output decreased extremely and the third quarter growth ratio remained as 0.5% for 2008. Exportation and domestic demand decreases have an important effect on decreasing manufacturing industry output. "Although exportation increased to 130 billion dollars from 107 billion dollars for a period of 12 months between 2007 and 2008, a regression of 21% was observed when December 2007 and December 2008 were compared and decreases reaching 25% in textile and 45% in automotive sector appeared to have effect on this exportation recession." The same decrease was also present in household income and the ratio of household income to national income decreased down to 65% in the third quarter of 2008. As a result, exportation and domestic demand decrease in 2007 and 2008 brought along the decrease in industrial production. (Sönmez, 2009: 102).

> *"Increasing economic depression with the effect of 2008 global crisis in brought along the rapid climbing of unemployment. According to the results of October 2008 labor force questionnaire of Turkish Statistical Institute, the number of unemployed people increased by 358.000 compared to the same month of the previous year and became 2.600.000."*[24] (Sönmez, 2009: 104)

According to Özatay, Turkey was affected by 2008 crisis much more than considered and growth figures decreased and unemployment rate increased. In more detail, this crisis affected Turkey through different channels. According to this, it can primarily be said that "there wasn't a great pressure on foreign exchange rate and interest" in this crisis. Such a depression bursting out in real sector due to the liberalization moves increasing after 1980 and these occurring mostly in financial fields focused on financial sector and it can be related to the fact that this caused household accustomed to this condition not to feel this condition too much and the downsizing couldn't be completely defined as it was concurrent with the whole world.

The conclusion reached with comparison of the changes in foreign exchange rate, interest rate and CBRT foreign exchange rate with 2001 data is important. Because although there was a 41.7% increase in foreign exchange rate level between 2008 and 2009, this increase was 138.8% between February 2001 and October 2001. A similar condition is present also in interest rates. While foreign exchange interest increase was 58% between 2007 and 2008, it was 401% between 2000 and 2001.[25]

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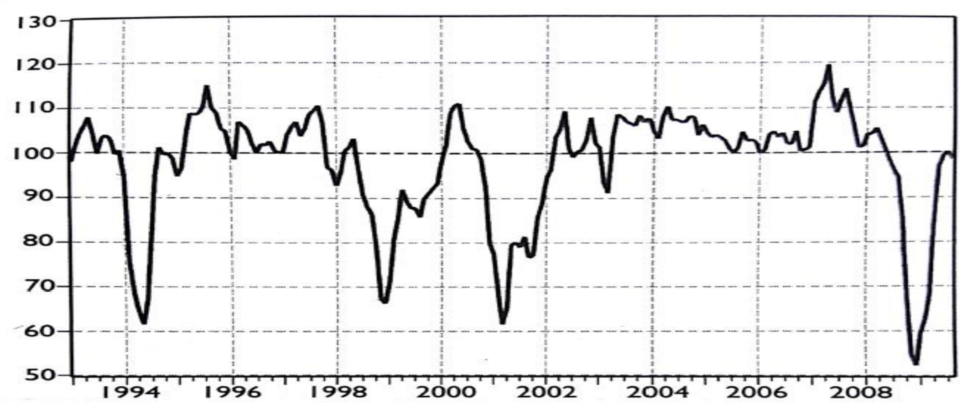
[24]At this point according to ILO datas; between the year 2000 and 2008 number of unempolyment become 190 million person from 170 million one

[25]Interest rates were 16,6% at the end of 2007 and 26,2% in October 2008 and 36% in November 2000 and 181% in March 2001 respectively.

Finally when we look at the decrease in foreign exchange reserve, while the foreign exchange reserve was 78.3 billion $ in May 2008, it decreased to 62.4 billion dollars in April 2009 meaning a decrease of 20% (15.9 billion dollars), the reserves which were 27.9 billion dollars in February 2001 decreased to 15.9 billion dollars in July 2001. This condition also corresponds to a decrease reaching up to 40% in foreign exchange reserves. As a result, considering the foreign exchange rate, interest rates and foreign exchange reserves, the conclusion that 2008 crisis affected Turkey less was reached as 2008 hosted "milder" improvements and it was considered that our banks were stronger in financial sector when 2001 and 2008 were compared.

But effecting channels such as **decreasing foreign demand** occurring with sudden and sharp decrease in the interest of foreigners to the goods we export; **decreasing foreign credits** depending on bankruptcy of many banks, companies, etc. around the world and having difficulty in paying their debts; **decreasing domestic credits** appearing as Turkish banks behaving more conservative on market crediting and **decreasing real sector consumer index showing the decreasing trust of households to the economy**[26] can be mentioned.

Figure 6: Real Sector Confidence Index (1993 January-2009 August, Monthly Data. Values Below 100 Show that the Confidence is low).



Resource: CBRT.

[26]As is apparent from the chart below in almost all crises in Turkey reduction has emerged in the real sector confidence index.

The effect of the global crisis on Turkey appeared in the form of decreasing growth numbers and increasing unemployment and taxes were regulated in the country and employment campaign was foreseen. While searching for credit support for small and medium scaled enterprises, regulations were made on credit card interests. As a result of all these, according to Özatay, the ratios of Turkey's foreign trade to national income as 1993:6.6%, 1998:10.1%, 2000:10.4% and 2007:16.6 would cause future decrease in foreign incomes to be felt deeper. When issues such as low investment ratios of Turkey and these substituted by foreign investment and foreign investments stopped suddenly with the crisis; political reactions not completely given as the the crisis was based on real sector, rather than financial sector and even tax regulations being advantageous for importation rather than exportation, it wouldn't be wrong to say that it is not possible for Turkey to remain unaffected from the global crisis.

As a result, global systemic crisis simultaneously bursting out around the world had its reflections in Turkey, too. Contrary to the previous crisis, although the crisis burst out in real sector, not in the financial sector, Turkey faced a distressed period again in 2008 and 2009 both due to internal factors and global events after the crisis years in 2000 and 2001.

2.3.6. About the Current Economic Condition and Data

To be able to understand the current condition of Turkish economy entering a phase of foreign expansion and liberalization in 1980, it would be advantageous to evaluate the economic crisis in 2000-2001 as the starting point, the reflections of the global crisis in 2007 and 2008 and its reflections on Turkey as the medium point and the current condition as the final point and thus to cover the concerned phase in two separate sections, considering the destruction it caused and the importance of the improvements made.

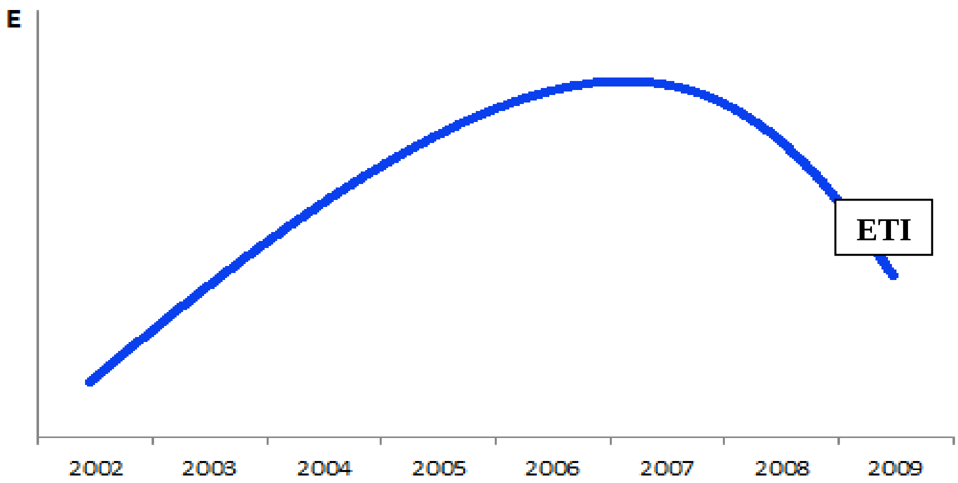
The economic crisis in 2001 causing a great crisis in Turkey's economy improved the banking sector with the lessons Turkey gained between 2007 and 2008. It wouldn't be wrong to say that the condition of the global economic system has a great contribution in this. According to Mahfi Eğilmez: *"Turkey gained the greatest* *chance for an economic break between 2002 and the mid of 2007.* Speed gaining UN membership period, IMF supports, present condition of global economic system and the position of foreign capital took for the advantage of Turkey has a great effect on this phase. Resource volume acquired by public sector, domestic value gaining value and the related increase in GNP are among the improvements which stand out. This country-wide improvement caused a delay in the making up of the structural adjustment deficiencies present in all periods of Turkey and even the unperformance of them. In other words, the momentum phase acquired in the country especially after 2002 was not questioned for "sustainability" again. "This means that an economy cannot finance the budget deficit through constant privatization. *It cannot keep the current account deficit at this level through the constant search for outsources. Inflation cannot be controlled by constantly keeping its money valuable and suppressing the prices managed by public sector. To be able to do it, it should carry its relations with UN to a better condition than today and make structural reforms. Turkey spent its days without being able to develop any precautions for the global crisis among its own vicious debates and by only relying on the "nothing will ever happen to us" theory it formed.*"[27]

Turkey's condition in 2002 following the 2001 crisis was as mentioned above and in 2007-2008, it is striking that Turkey face problems such as high current account deficit, increasing foreign debt liabilities, increased unemployment, slowed down growth ratios and unstable hot money movements. According to this, budget deficit problem in the country's agenda starting from 1970s and 1980s, left its place to a current account deficit within 6-7% levels. The share of public sector in GDP decreased from 27.9% in 2002 to 10.9% in 2008 and private sector debit increased from 18.7% in 2002 to 27% in 2008. Country's economy growing with a ratio of 6-7% starting from 2002, decreased to negative digits in 2008, unemployment started to grow and portfolio investments had a high course with the attraction created by high interest rate while foreign investments increased directly with the country risks decreasing. The hot money relation section of these foreign investments with a high

[27]Passage to this point is taken from: EĞİLMEZ, Mahfi; Küresel Finansal Krizi: Piyasa Sisteminin Eleştirisi, Remzi Kitabevi, 11. Basım, Mayıs 2015 (Birinci Basım Aralık 2008), s.128-232. Radikal gazetesi 12 Ocak 2008: "2008 Tahminlerimi Açıklamayacağım"

course between 2002 and 2008 had a high course after 2008 and then started to flow in the opposite way due to the recovery in USA and European countries. As a result, if we would gather important economic demonstrators such as growth, current account deficit, budget deficit and inflation and call this economic trend index (ETI), the table would be as the following: (Eğilmez, 2008: 136-143)

Figure 7: Course of Turkey's Economy by the Last Quarter of 2008



With the global crisis continuing with an increasing destruction by the end of 2007, both USA and European countries were left in a difficult condition as the two important actors of global economy both USA and European countries were in a difficult condition and an important decline occurred in data such as "national income", "employment", credits", "capital flows" and "foreign trade". So it wouldn't be wrong to say that the world faced the severest crisis in terms of global capitalism after 1980 in this regard (Aydoğuş, 2009: 31).

Increasing the liquidity of the market was one of the exit ways for the systemic crisis spreading to the whole world and gaining a global crisis after the Mortgage crisis bursting out in USA. Bailout packages of 700 billion $ and 787 billion $ were put into action in order during the periods of George W. Bush and B. Obama in USA and abundance of liquidity was tried to be provided for the market by pulling the central bank policy interest rates to nearly 0% both in USA and England (Aydoğuş, 2009: 33).

Through decreasing interest rates to overcome the stress bursting out in USA and later in European countries, the liquidity abundance phase formed in the market lead the way of the sudden increase of liquidity level as mentioned before. Low interest rates and abundant liquidity resource caused the search for finding more profitable markets and finally money flow started to move towards developing market economies in countries with advanced money flow.

Turkey became one of the country's benefiting from the money flow of developed countries. Not only liquidity abundance, when high income acquired from the stock exchange markets of the developing countries was considered with factors such as the effect of interest rates which were at a relatively high levels compared to depression economies, it wouldn't be wrong to say that the country's were centers of attraction for the global investors and hot money fact of developing countries.

Foreign money inflow increased the value of the currencies of developing countries. As the effects of the depression cycle created by the global crisis still continue, a decrease in money flow from developed countries to developing countries was observed in 2013-2014. This condition caused the decrease in the foreign exchange amount in developing countries and the decreasing foreign exchange amount brought along an increase in the exchange rates of the countries.[28]

While the phase of TL losing value against foreign currencies caused an increase in imported goods and foreign financing costs, increasing cost of imported goods would mean the increasing of production costs as the weight is on interim goods and capital goods meaning the goods used during manufacturing in Turkey's importation. These increases occurring in manufacturing costs would certainly be reflected on product prices and headline inflation would increase. The increase in inflation would cause the deficiency of real interest (interest rate was cleared from the inflation) and thus the decreasing of savings and deposit money in the banks to flow to different areas. Banks increasing nominal interests not to cause resource losses would cause the increase of indicative interest in second hand bond market.

[28]At this point, although exchange rate increases are considered to be a trigger for exports to emerging economies, such as Turkey, which its imports largely based on export-based economies, rather than the promoter / enhancer effect of an increase in the exchange rate of the country's economy it would not be wrong to say that it will shift into a deterrent / deteriorating effect.

One of the most basic actions to be taken to remove the mentioned inflationist phase would be the activation of structural regulations. Although structural regulations fact taking long term policy tools to its agenda is a long term integrative understanding requiring patience, another economic argument which can be used to prevent the inflationist phase would be increasing interest rates as a short term policy tool. Increased interest rates would help the country to become attractive to foreign investors and the increasing foreign exchange amount would help the decreasing of exchange rate.[29]

It wouldn't be wrong to say that the high inflation and high interest rates phase occurring recently in Turkey created an economic understanding slowing down the country's economy and depending on fund revenues of households rather than production focused market economy.

Liberalizing structure of global economic system not only gradually bonded the countries, but the border becoming indefinite increased the transitivity of the economic depressions between the countries and made refraining from the global crises harder. The data on the effects of the global systemic crisis occurring in 2007-2008 on Turkey are available and the hot money and capital flows and the improvements in the developing countries including Turkey lasted up to 2013-2014 as mentioned before.

It wouldn't be wrong to say a momentum loss occurred in economy in 2015-2016 following the crisis showing affect in Turkey at the end of 2008 and in 2009 after 2007-2008 global crises, mainly due to issues such as the slowing capital inflows to Turkey and the canalization of the mentioned capital flow especially to construction sector.

As a result, it can be said that the situation of Turkey's economy which started to fluctuate in 1980 had a similar course with 2000s, an incline started after the phase in which an increase occurred by 2002 in the mentioned period until today and

[29]Concerning the interest rates, it is useful to look in terms of foreign investors as direct investments and hot money entry. While increasing interest rates may lead the country to become attractive for hot money; they are likely to create adverse reactions when they are considered for direct investments. However, in the context of interest rates, the action to be taken will generate faster results in the sense of hot money entry; direct investments are not only due to low interest rates but also because of the country and market risks taken into account.

reached the lowest levels in 2008-2009, then increased again due to the entrance of especially the foreign capital to the country in the following period and then finally it started to decrease in 2013-2014-2015 and it is still possible to feel this decline today.

CHAPTER THREE

ANALYSIS OF TURKISH ECONOMY

3.1. ANALYSIS OF 6-8 YEARS OF CONJUNTURAL ACTS OF TURKISH ECONOMY IN THE LIGHT OF CHOSEN DATAS

As mentioned in previous chapters, while crises were classified as financial and real sector crises in most general terms and financial crises were divided into money, banking, systematic financial crises and foreign crises, real sector crises were divided into sub branches as inflation, unemployment and recession. Within the context of foreign expansion phase of Turkish economy especially after 1980 and also the export based economy model, how and to what degree the issues within the scope of the mentioned crisis types were faced were covered again in previous chapters within the scope of "Turkey's crisis".

It is important to consider the common improvement titles to be determined for the crises both encountered by Turkish economy and the crises faced by the countries on international base and the fact that Turkish economy also experienced descends and ascends witin 6-8 year periods covered within the scope of conjuncture theories.

“Basically, foreign exchange rush, speculative attacks, leaping exchange rate and foreign exchange regime collapsing in money crises, disaster in financial sector, bankruptcy of some financial institutions and the rest losing their capital substantially in financial crises” occur (Özatay, 2009: 19).

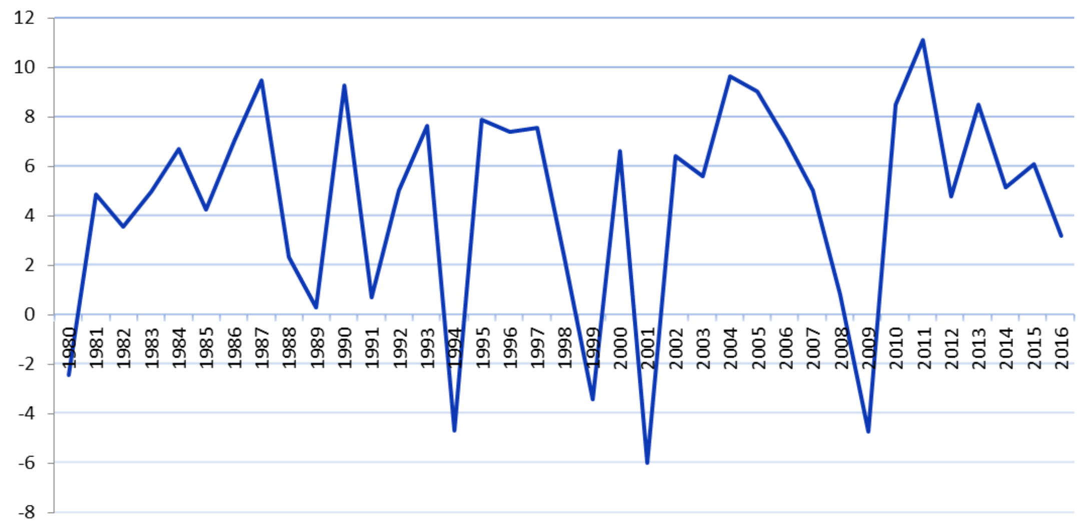
When we look at the crisis acts wtihin the concept of money crises, according to Özatay: the interest rates increase, central bank reserves resolve and it is foreseen that the foreign exchange rate would rise quickly with the increasing foreign exchange demand due to the individuals acting with the fear that the uncertainty would increase. It is also stated that Central banks would sell foreign exchange to prevent the increase in exchange rate and this will cause a rise in interest rates but if they don't have the power to do this, the exchange rate will continue to increase. As a result, dissolution is foreseen in central bank reserves while there is an increase in exchange rate and interest rates in money crises. Thus the increasing foreign exchange rate would cause decrease in the trust towards economy and the increase in the country's credit risk. When we consider credit risk especially as a demonstrator for the confidence of foreign investors in the country, it is obvious that this risk increase would have a negative reflection on companies in private sector and the banking sector. It is possible for financial crises to appear especially in the form of rush to foreign exchange and as a rush to the banks. In this regard, while exchange rates and interests increase both as a rush towards the money or the banks, foreign exchange systems collapse, economic growth decreases regardless of the presence or lack of a shock in financial institutions and thus a contraction and increased unemployment are faced as a result.

Özatay also stated that: regardless of the presence of issues such as exchange rate and interest increase, collapse of exchanges, etc, two important results of economic crises were the decrease in growth rates and the increase in unemployment numbers[30]. Thus while it was observed that the increase in unemployment ratios accompanied the growth ratios decreasing by the end of 2008 and the beginning of 2009, a similar damage not observed in the present exchange rate of the period can be given as an example for the fact that a simultaneous deterioration in all data (Özatay, 2009: 20-30).

To be able to understand finance or real sector conditions to form foresight by understanding economic condition in Turkey in past economic crises and today within the scope of all these issues, it is considered that mainly **growth** and thus **national income** course and **unemployment, average inflation, current account deficit and foreign trade deficits and industrial production, real sector confidence and consumer confidence indexes** would be advantageous.

[30]Again, according to Özatay following subjects have been stated: Increase in the national income has not had an immediate effect on the employment rate; the growth experienced in national income growth declines / growth rates is delayed to employment / unemployment rates; even in some cases (such as increased unemployment / employment ratios due to productivity or population growth) unemployment rates are also increasing during periods when growth rates are positive.

Figure 8: GDP Growth (Annual %) (1980-2016)



Source: World Bank

Although the economic crisis occurring after 1980 started in 1980 and occurred in 1987, 1994, 2000-2001 and 2007-2008-2009, it is known that the crises occured in periods of 6-8 years. While deterioration was observed in many data such as unemployment, inflation, interest rates, etc in the economic crises occurring at the mentioned times, it can be said that one of the most important items the crisis years deteriorated was the change in growth ratios.

In this regard, when we look at the change in the growth ratios of Turkish economy by 1980, we can see that negative growth ratio of 2.4% in 1980 started to increase in the period after the mentioned year and again decreased to 2.3% from 9.5% by 1988 after the breakage in 1987. The mentioned decrease in growth ratios was at 0.3% level by 1989. Although the recovery is striking in the growth rate which had a great decrease in 1988 and 1989 with the breakage in 1987, the growth ratio decreased to -4.7% with 1994 crisis from 7.7% which was the growth ratio in 1993. The growth ratio becoming positive again in 1995 decreased to -6.0% in 2001 from the positive growth ratio of 6.6% in 2000.

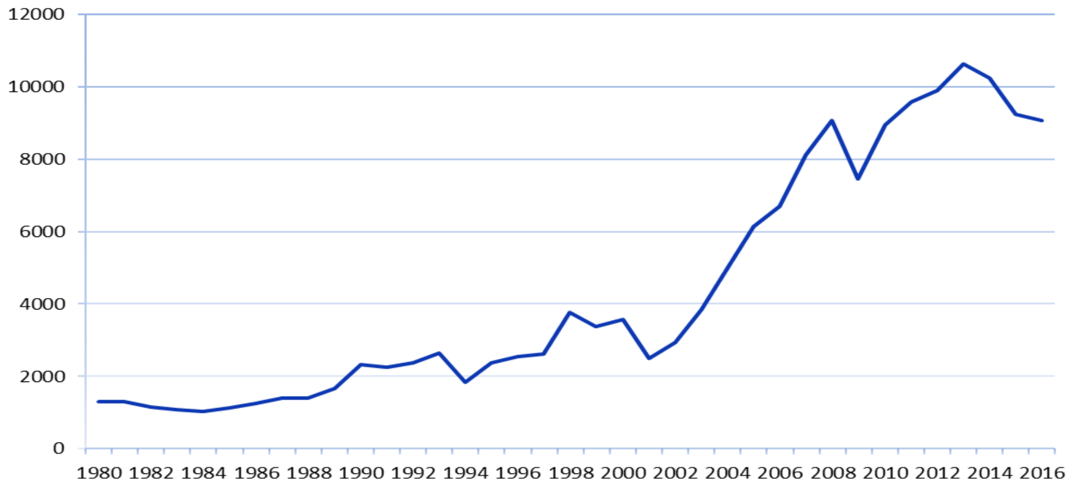
Although Turkey entered an improvement period gaining speed with the reforms in financial area after overcoming a serious crisis phase with the deteriorations occurring especially in banking sector in 2000-2001, it can be seen that

Turkey faced a negative improvement stage again with a ratio of -4.7% in 2009 following 2007-2008 which were the years in which the global crisis with global effects became deeper.

We have already mentioned that Turkish economy entering a foreign expansion period by 1980 experienced deteriorations in every 6-8 years and the change in growth rates can be a significant margin for these deteriorations. Significant growth ratios were re-acquired in 2010 and 2011 in Turkish economy in which the effects of economic crises were felt more in 2009 following 2007-2008 which were the last years of the global crisis in this regard [31] but had a downward graphic with the 3.2% growth ratio following the 6.1% growth in 2015 after 2009 which was the negative growth ratio of -4.7% in the mentioned recovery.

As a result, we noticed fluctuations occurring in periods of 6-8 years after 1980 when we looked at the growth ratios in Turkish economy adopting an export-based economic model.[32]

Figure 9: Adjusted Net National Income (Per Capita) (Current US$)



Source: World Bank

[31]Looking at the years in turn, it is seen in the data taken from the World Bank, the growth rate as of 2010 is 8.5% and as of 2011 is 11.1%, respectively

[32]It should not be forgotten that the conditions of the period in which fluctuations exist may differ in terms of bottom and peak points / severity, according to the effects of economic measures taken according to the correctness of the measures. Also severity and duration of the fluctuations does not depend only on internal dynamics of Turkey's economy; it is also important to note that developments in the global sense have great influence in the course of the economy in this sense.

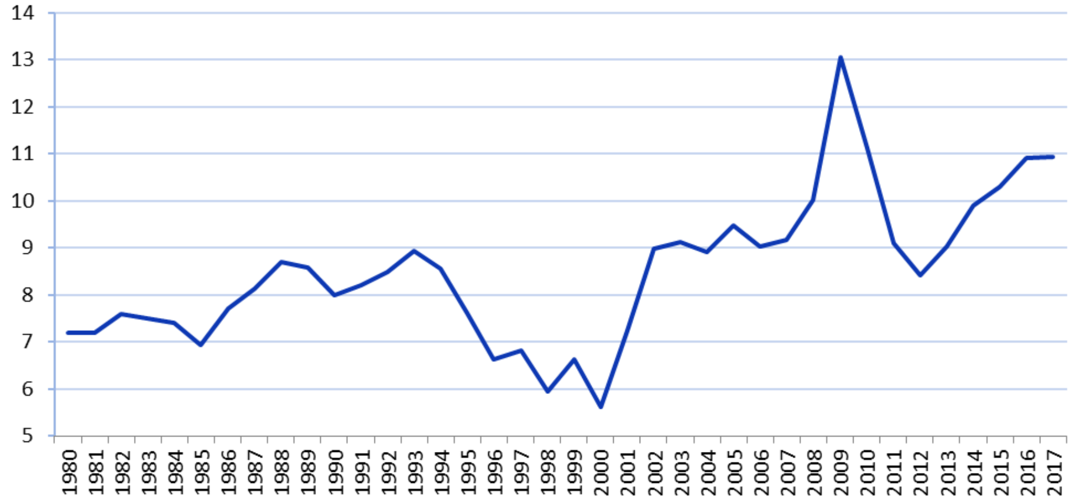
Although the effects the crisis years created on growth ratios were mentioned before, we think that the mentioned effect had its influence in periods of 6-8 years which are similar periods also on consolidated national income balance. Thus although the adjusted net national income course had an increasing trend as we can seen on the graphic above, by the end of 1980 and the beginning of 1990s when the effects of foreign expansion period was felt intensively, higher increases and decreases were observed compared to previous periods.

On the other hand it is observed that 6-8 year course in the economic deteriorations occurring in 1994, 2000-2001, 2007-2008-2009 also occurred in adjusted net national income and adjusted net national income which was 150.741.953.612.7 $ in 1993 decreased to 106.372.239.995.3 $ by 1994 and the same decreases were also present in adjusted net national income balances which were 226.147.660.466.6 $ in 2000, 160.389.464.734.9 $ in 2001, 638.537.487.362.3 in 2008 and 531.465.371.522.0 $ in 2009. Adjusted net national income balance decreasing by 2009 compared to the previous period started to increase again by 2010 and continuing the decrease in 2014 and 2015, the balance of 805.744.519.056 in 2013[33] decreased to 720.742.933.983.8 $ in 2016.

As a result, we noticed fluctuations occurring in periods of 6-8 years after 1980 when we looked at the adjusted net national income in Turkish economy adopting an export-based economic model.

[33]Adjusted net national income yielded results sd 788,202,656,343.7, - $ and 722,868,554,297.1, - $, respectively in the related years.

Figure 10: Unemployment (%Of Total Labor Force) (1980-2016)



Source: IMF

As mentioned before, although economic crisis occur in real or financial sector, its real or financial sector focused effects are felt mostly on growth ratios and unemployment figures. In this regard, the evaluation to be made in the course of unemployment ratios is considered to be important with the fluctuations in growth rates and also the actions in adjusted net national income balances during the crisis periods.

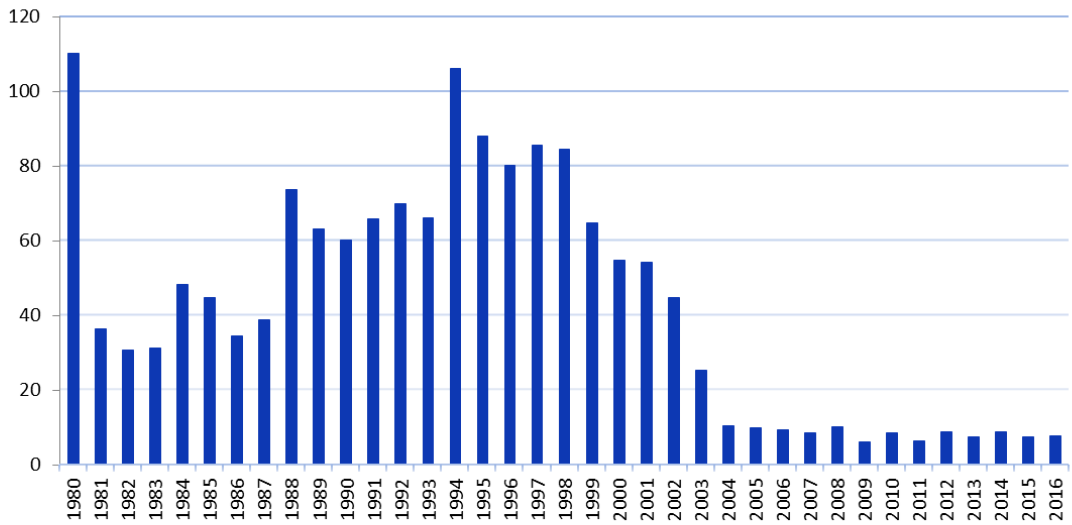
Actions similar to the fluctuations in growth ratios were observed in unemploment ratios in Turkish economy after 1980 and unemployment ratios were 8%, 9%, 10.4% and 12.6% in 1988, 1993, 2002 and 2009 in order and unemployment ratios decreasing in 2010-2013[34] started to increase again in the following phase and these ratios were 10.8% in 2016 and 2017.

Within the scope of all these data, it is considered that both growth and unemployment ratios fluctuate in periods of 6-8 years as mentioned before. As mentioned before, according to Özatay, although the effect of the increases and decreases in the country's national income on employment datas are not momentary, the changes in national income increase and decrease/growth ratios may be reflected on employment/unemployment ratios with a delay. Even in some conditions (unemployment/employment ratios increasing due to productivity or population

[34]Unemployment rates between 2010 and 2013 were 10,7%, 8,8%, 8,1% and 8,7% respectively..

increase, etc), increasing employment ratios in periods with positive growth ratios are issues to be considered on this subject.

Figure 11: Inflation, Consumer Prices (% Annual)



Source: World Bank

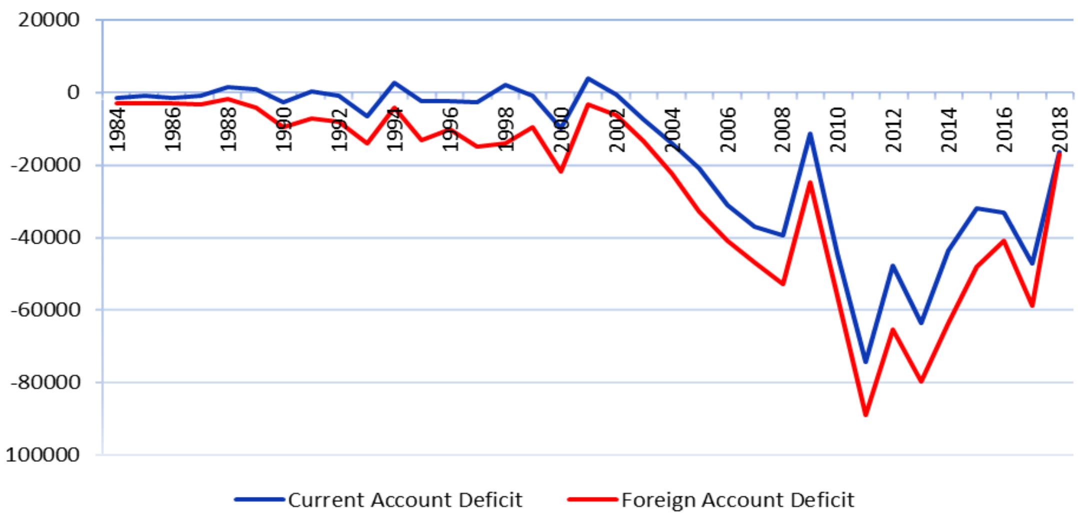
Although it seems to have a lower effect lately, Turkish economy faced high inflation ratios for many years. When considered in terms of manufacturer-sided cost inflation and consumer focused demand inflation, high rated inflation also has an effect on increasing interest ratios in the operation phase of the market.[35]

In this regard, when we look at the inflation data in scope of consumer prices by 1980, it is observed that the inflation ratios were 110%, 73.7% and 106.3% in order in 1980, 1988 and 1994 called as the crisis years of inflation ratios in scope of consumer prices which seemed to have a slower fluctuation phase after the economic crisis in 2000-2001. It is striking that these ratios were at higher levels in 2000 and 2001 compared to today and partially increased compared to the previous period and the same increase was 8.8% in 2007 and 10.4% in 2008 and entered a phase of decrease in the following period and became 8.9% in 2014 and has a tendency to increase in recent years.

[35]According to **Fischer**: Real interest rate; is the difference between the nominal interest rate and the inflation rate. Accordingly, because of the increase in inflation decreases the return on the real interest rate, market interest rates will go higher.

As mentioned before, there were fluctuations mainly in demonstrators such as national income, per capita income and enemployment ratios after the export-based economy model starting with foreign expansion moves in 1980 in Turkey and these fluctuations occured in periods of 6-8 years. While it was considered that it would be advantageous to separate inflation ratios for pre and post 2000s, one of the most important characteristics of this distinction was the fact that the results in inflation ratios before 2000 and also the changes in these ratios in years were higher in crisis periods and on the other hand, although the fluctuations occurring after 2000 were milder compared to the previous period, they were more significant in periods of 6-8 years in average as 2000-2001, 2008-2009 and 2014 and 2015.

Figure 12: Current Account And Foreign Trade Deficits



Source: CBRT

Foreign trade has a gradually increasing importance for foreign trade in Turkey starting to follow an outwardly open economy model recently. In this regard, it is striking that Turkey has an increasing import and export volume after 1980.

Increasing foreign trade activities certainly bring along foreign trade and current account deficit problem. By 1980, it is observed that foreign trade deficit had a course parallel to current account deficit amount. The current account deficit and foreign trade deficit balance starting to deteriorate in 1990s reached a more perceivable level in 2000s. Although there was no significant deterioration in 5/12 billion dollar levels in 1993 and then 4/11 billion $ levels during 1994 crisis, a similar deterioration was observed in 2000-2001 in current account and foreign trade deficit balances which increased as the data mentioned before. By the end of 2000, the current account deficit was 9 billion dollars and foreign trade deficit amount was 21 billion dollars. The actual deterioration in current account and foreign trade deficit balances increasing in 1994 and 2000-2001 crises occurred after the global crisis phase in 2008-2009. Although there was a partial recovery after the current account deficit which was at 45 and 57 billion dollars level in the third quarter of 2008 reached the peak balance of 75 and 89 billion dollars by 2011, deterioration phase occurred again in 2013 and 2014 and was 62 and 79 billion $ at the end of 2013.

As a result, international trade volume increasing after 1980 witnessed deteriorations in 6-8 year periods in 1994, 2000-2001, 2008-2009 and 2013-2014 (even after a little recovery even today). The recent decrease in TL value, meaning the interest rate increase, has an important share in the increasing current account and foreign trade deficit balances in recent years. Although the mentioned situation causes high results of $ based current account and foreign trade deficit balances, the mentioned fluctuation corresponds to the related periods of year ranges.

Figure 13: Index Of Industrial Production

Source: World Bank

Industry production index sheds light on the production increase and decreases occurring in industry sector. It is advantageous to look at the industry production index to evaluate the industry sector developments during the crises occurring in Turkish economy in periods of 6-8 years after 1980.

Due to the monthly examination of industry production index, it was understood that this occurred as a trend increasing after 1980 and it can be said that this condition could be related to the increasing share the sector gets from the national income compared to the services and agriculture sectors. When we look at the details of the index within the context of the increasing trend, it can be understood that there was a decrease in crisis periods as seen in previous data. Decreases in the mentioned data had a significant graphic in 1994 00/01, 08/09. Although it was seen to have a fluctuating course after the decrease especially in 2008/2009, it is considered that the contribution provided by the banking sector on financing need of the sector had an important share on the contribution provided to the sector's financing need from the banking sector.

Table 4: Loans

(Million TL)

	2002	2005	2010	2015	2016
Total	61.112	161.073	563.583	1.531.651	1.791.576
Individual	269	47.057	181.780	419.030	460.167
- Credit Cards	0,15	18.384	49.098	102.589	110.324
-Home	64	12.423	61.660	144.221	165.115
-Automobile	46	6.230	6.027	6.679	7.000
-Other	159	10.021	64.995	165.541	177.728
Institutional	60.843	114.016	381.803	1.112.621	1.331.409
-SME Loans	-	-	131.360	403.900	443.466

Source: BRSA

Based on the credit distribution results taken from the Banks Association of Turkey, it is understood that total corporate loans balance which was 381.803 million TL in 2010 increased up to 1.331.409 in 2016, meaning that corporate loans increased about 3.5 times in 2010-2016 and share of SME Credits in this amount had a similar increase rate after increasing to 443.466 million TL from 131.360 million TL.

In addition to this when we look at the details of the improvements in Banking sector for the period covering 1960-2016 mentioned by Banks Association of Turkey so that the improvement in the banking sector can be seen better:

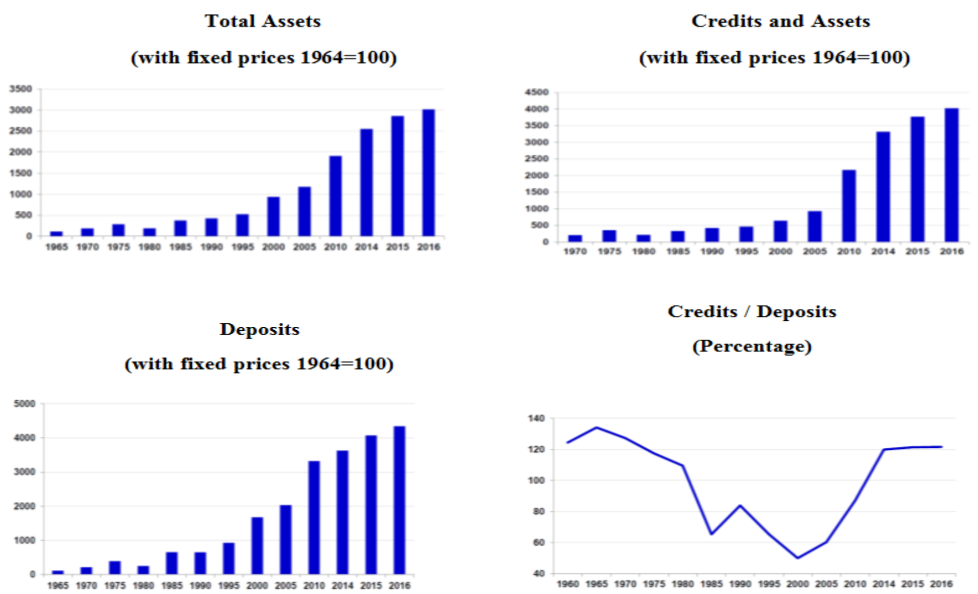
Table 5: Chosen Balance Sheet Demonstrators

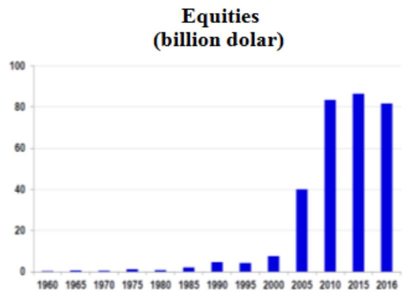
(Billion Dollars)

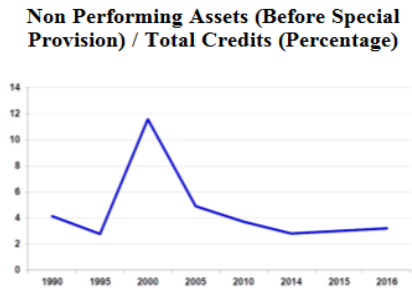
	1960	1970	1980	1990	2000	2010	2015	2016
Credits and Assets	1	3	10	27	51	331	489	473
Securities Portfolio	0,1	0,4	1	6	18	201	111	97
Liquid Assets	0,4	1	5	13	32	68	114	106
Total Assets	2	6	19	58	155	626	769	736

As we can understand from the table above, it can be seen that between 2000 and 2010, a high balance and momentum increase was especially noticed in credits and assets, securities, liquid assets and Total active balances in banking sector.

Figure 14: Banking Sector Datas



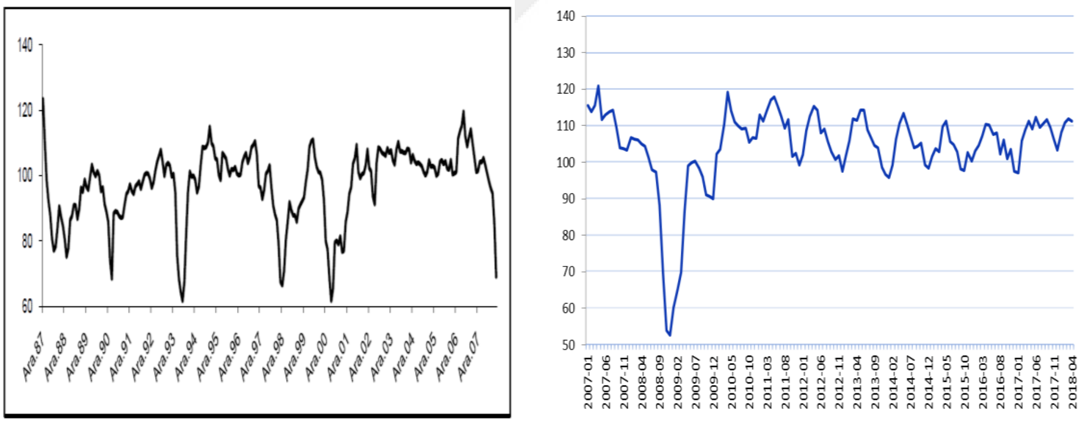




Again when total actives, credits and assets, deposit, credit deposit ratio, equities are considered based on 1964, it is observed that they reached a high increase level by 2000. In parallel, there was a sharp decrease also in the ratio of non-performing assets to credits after 2000.

In short, while decreases were observed in industry production index in periods of 6-8 years, there were fluctuations after 2009. Especially for today, the sharp and severe acts are prevented due to the easiness of meeting the requirements of sectoral financing needs.

Figure 15: Real Sector Confidence Index



Source: CBRT (EVDS)

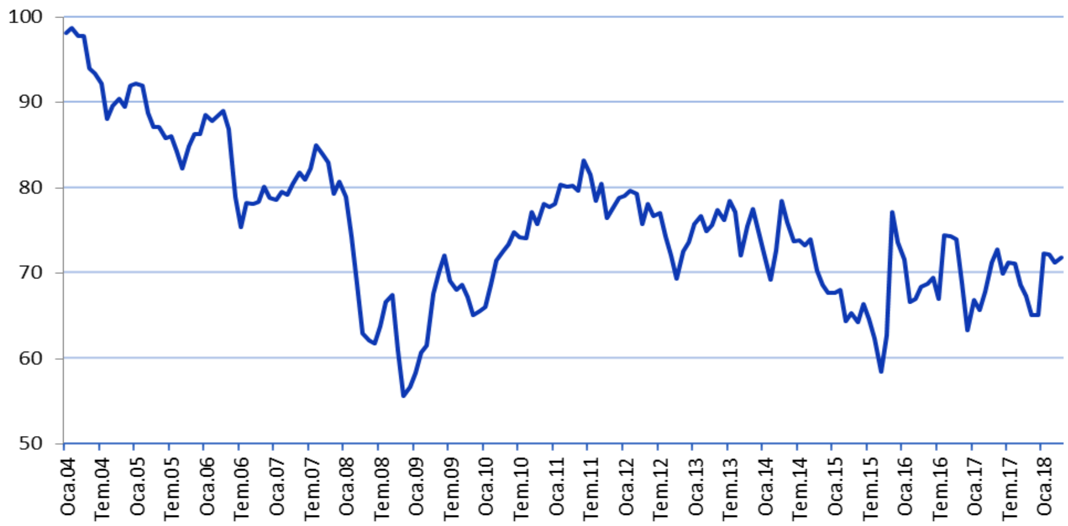
Sectoral distinction is important for the complete definition of the depressions occurring in economy as mentioned before. In this regard, the trust of the active actors of the sector in the economy within the financial/fiscal or real sector distinction and their related investment plans and expectations for the future include important demonstrators for the course of the economy.

In the light of this information, real sector confidence index is one of the most important demonstrators for monitoring the confidence of real sector actors towards the economy and observing the condition of the expactation for the future.

When we look at RSCI data which can be examined in two different graphics as 1987-2007 and 2007-today, although a fluctuating course was observed in the results, it was striking that index data especially in the years 87/88, 93/94, 00/01 and 08/09 decreased from 100 score level. It was observed that the index decreasing to the lowest level under 60 scores in 2009 increased again after this period and decreased again after the increase ending up to the middle of 2010 and the fluctuations occurring in the form of the mentioned decreases and increases repeated in phases of 1 year. In the graphics, it was also observed that the index decreased below 100 points in 2012, 2013, 2014, 2015 and 2016 in the mentioned fluctuations.

It is considered that the actors forming the sector gave shorter reactions to the developments in economy compared to the fluctuating course after 2009 taken by RSCI observed to decrease to the lowest levels in ranges of 6-8 years as the crisis years 87/88, 93/94, 00/01 and 08/09. It is known that Turkish economy facing bank-sourced crisis in financial sector for many years made the financial sector stronger due to the regulations again in the banking sector in the beginning of 2000s. It is considered that the global financial crisis showing its effects mostly in USA in 2007/2008 and European countries in 2010 effected Turkey in real sector rather than the finance sector. On the other hand, when it is considered that the depression condition faced by the actors which are in the position of the leading developed countries of the world fastened the money flow from developed countries to the develoing ones, it is understood that real section confidence index decreasing to the lowest levels in the crisis occurring in periods of 6-8 years after 1980 didn't decrease to low levels as in crisis periods with the strengthening effects mentioned above in favour of the country but caused fluctuations in the index data due to the formation of big "indecisions" in the view of sector on economy. It shows that a condition of "unstability" prevails the trust of sector on economy in this fluctuation phase which provides signalling data on fragility. Lower amount of political shocks compared to previous periods and continuing money flow from developed countries to Turkey have a great effect on the fact that the mentioned unstabilities don't turn into deep economic crises.

Figure 16: Consumer Confidence Index



Source: World Bank

In the formation stage of the trust for the economy based on the country economies and the expectations for the future in this regard, demand side household/consumer view is as important as supply side sectoral point of view.

In this regard, it is important to consider the trust for Turkish economy and the tendency of spending and saving for the future. In the consumer confidence index examination based on the data of Central Bank of Turkish Republic starting from 2004, it was observed that the mentioned data started to decrease by 2004 and 93.5% level in 2004 decreased to 65% in 2008 which is the global crisis year, then the index at the minimum level started to increase again and reached 79% in 2011. Starting to decrease again after 2011, the index decreased to 66.3% level in 2015.

In short, it is considered that the fluctuations in consumer confidence index formed based on the expenditure and saving tendencies were shaped in the crisis periods of Turkey and moved parallel to the conjunctural fluctuations considered to occur in 6-8 year periods according to the index data.

3.2. CONJUNCTURE WAVES UNDER HODRICK-PRESCOTT FILTER

6-8 fluctuation phases covered with raw data in previous sections of the study are covered with Hodrick-Prescott Filter method in this section. HP Filter *"depends on a two-sided and symmetrical filtering operation. With this method, time series is divided into trend and cyclic constituents. The value providing the smallest variable variance around the trend is acquired. HP method is as follows:"* (Alacahan, 2012: 21-22)

$$\min_{\tau_t} \sum_{t=1}^{T} (X_t - \tau_t)^{2+\lambda} \sum_{t=2}^{T-1} [(\tau_{t+1} - \tau_t - \tau_{t-1})]^2$$

If we should look at the filter application in more detail through the explanations in Eviews program: "The Hodrick-Prescott Filter is a smoothing method that is widely used among macroeconomists to obtain a smooth estimate of the long-term trend component of a series. The method was first used in a working paper (circulated in the early 1980's and published in 1997) by Hodrick and Prescott to analyze postwar U.S. business cycles."

Technically, the Hodrick-Prescott (HP) filter is a two-sided linear filter that computes the smoothed series s of y by minimizing the variance of y around s, subject to a penalty that constrains the second difference of s. That is, the HP filter chooses s to minimize:

The penalty parameter λ controls the smoothness of the series σ. The larger the λ, the smoother the σ. As $\lambda = \infty$, s approaches a linear trend.

First, provide a name for the smoothed series. Eviews will suggest a name, but you can always enter a name of your choosing. Next, specify an integer value for the smoothing parameter λ. You may specify the parameter using the frequency power rule of Ravn and Uhlig (2002) (the number of periods per year divided by 4, raised to a power, and multiplied by 1600), or you may specify λ directly. The default is to use a power rule of 2, yielding the original Hodrick and Prescott values for λ :

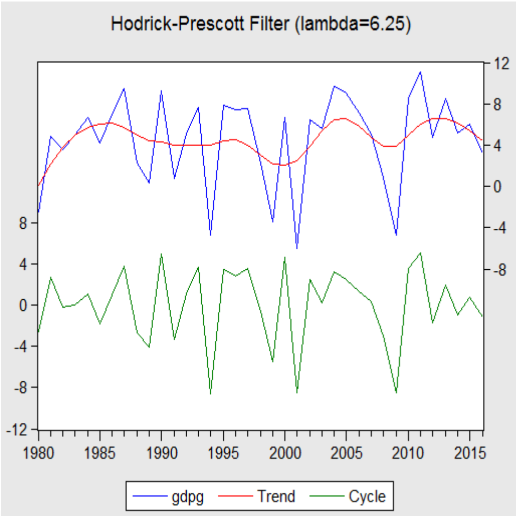
$$\lambda = \begin{cases} 100 & \text{for annual data} \\ 1{,}600 & \text{for quarterly data} \\ 14{,}400 & \text{for monthly data} \end{cases}$$

(**Source:** http://www.eviews.com/help/helpintro.html#page/content/series-Hodrick Prescott_Filter.html)

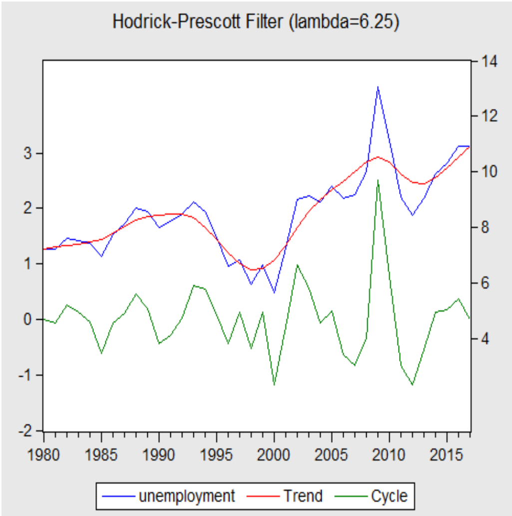
Even though λ data is taken as 1600 in quarterly data, the mentioned data is considered to be valid for USA and a different quarterly data can be taken for developing countries to lower error margin. Issues such as regime changes and structural breakages may play role in the differentiation of fluctuations. Work cycles should be covered within this issue. Starting from this point, different λ data was taken in different studies. For example: According to Pedersen method, optimal λ value was found very lower than 1600 and the parameter was regarded as 98. Similarly, optimal λ parameter was regarded lower as 19 by Dermoune et al. (Alacahan, 2012: p. 22)

As mentioned before, there were fluctuations mainly in demonstrators such as national income, per capita income and enemployment ratios after the export-based economy model starting with foreign expansion moves in 1980 in Turkey and these fluctuations occured in periods of 6-8 years. Under the light of this informations to be able to understand finance or real sector conditions to form foresight by understanding economic condition in Turkey in past economic crises and today within the scope of all these issues, it is considered that mainly again **growth** and thus **per capita income** course and **unemployment, average inflation, current account deficit and foreign trade deficits and industrial production, real sector confidence and consumer confidence indexes** would be advantageous and so that - given the detailed information above - Hodric-Prescott filter is applied to these datas.

GDP GROWTH



UNEMPLOYMENT



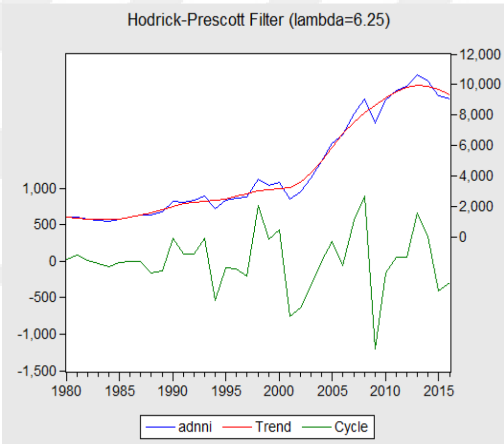
As told before the concept that enters into the literature of economics as "*conjuncture*" can also be defined as "*successive and recurrent*", "waves" concepts. Decisive concepts such as income, employment and unemployment in the process of economic management of countries follow a fluctuating way and increase or decrease in this direction.

These incremental or decremental movements are handled within the framework of certain phases, forming a wave if they are integrated and the concept of wave describes the cyclical movements.

Based on this information, chosen data with cyclical movements examined with raw data before were examined with Hodrick-Prescott filter in Eviews program. As mentioned before in the study, conjunctural waves are determinant. As told before conjunctural waves are the sum of the fluctuation movements that are obtained by collectively treating data such as *employment in an economy, national income and general level of prices*. Within this scope we need to look at 2 determinant demonstrator that are GDP growth and unemployment (the concept of which said before time gaps can be occur with GDP).

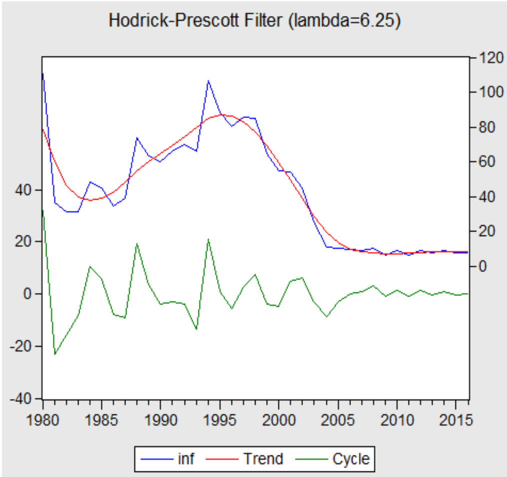
As mentioned before, while λ parameter was taken as 100 for annual data, 1600 for quarterly and 14.400 for monthly data in scope of HP filter application, it could be taken as 98 or 19 in developing countries for quarterly data. Again within the scope of Eviews application, it was observed that λ parameter was recommended as 6.5 for GDP Growth and Unemployment data taken per year between 1980 and today. The results acquired with the filter applied are given in the graphics above and when the mentioned graphics are examined, it was observed that both growth and unemployment data moved cyclically in periods of 6-8 years. It was observed that trend and cycle curves with the last decrease for GDP growth in 2009 started to decrease especially in 2014 and 2015. Although it is noticed that a similar condition occurred also in unemployment data, a recovery was observed in the trend and cycle curves starting to increase in 2009 for the last time and cyclical movement recurred especially after 2014 and 2015 meaning an increase in unemployment ratios. An upward movement was also observed in unemployment ratio in 2000-2001, 1994 and 1987-1988 which were the crisis years

NET NAT. INCOME (PER CAPITA)



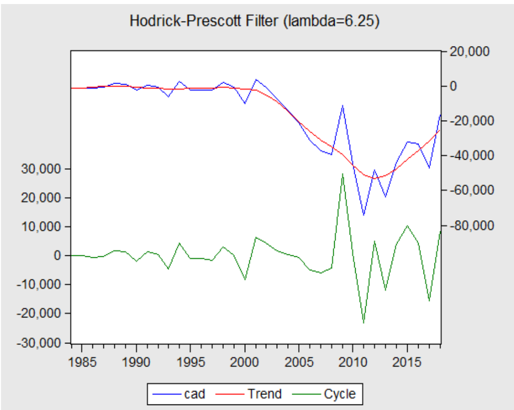
When we looked at the Eviews graph formed with net national income data by applying HP filter, we observed that net national income course entering an increase trend by 2000s decreased under HP filter cycle curve especially in 1994-2000-2001 and 2008-2009 which were the crisis years as mentioned in previous sections, cyclical movement started to decrease again in the period following the mentioned years after its course over the trend curve in 2014, 2015. On the other hand, when increasing exchange rate prices of today are considered, it wouldn't be wrong to say that current $ exchange rate data and net national income per capita data would decrease under HP trend data.

INFLATION

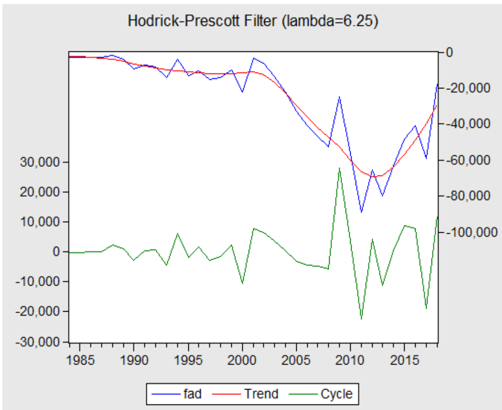


Although it was observed that the fluctuation in inflation rates decreased by 2005 and 2006 due to the evaluation of inflation data with HP Filter and in the years 1987-88 1994, 2000-01 increased a little higher than HP trend curve as cycle curve, the inflation data was in a cyclical fluctuation in crisis years. Although it is observed that the mentioned fluctuation decreased as mentioned before, it wouldn't be wrong to say that the inflationist phase started to increase although the rates are relatively lower compared to the 1990s when the inflationist pressure increased in the markets especially due to TL recently losing value.

CURRENT ACCOUNT DEFICIT

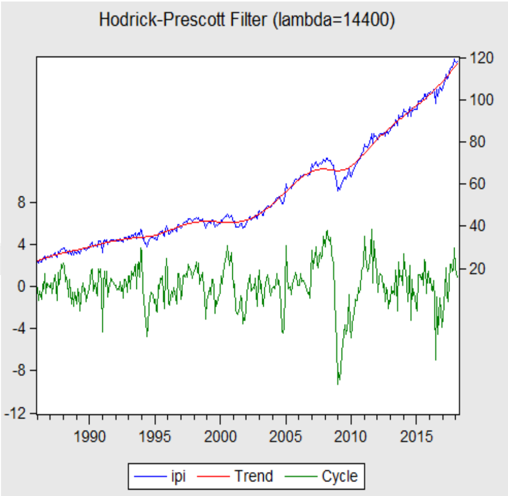


FOREIGN TRADE DEFICIT

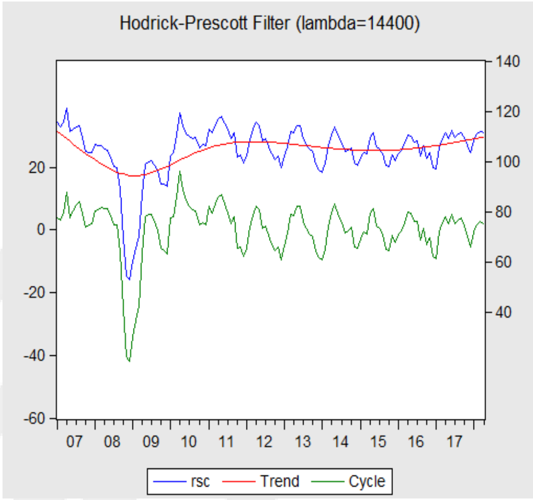


Based on Current Account and Foreign Trade Deficit data, a decrease was observed in the trend in both data by 2000s. But when we look at the HP filter cycle curve together with directional trend curve, it is noticed that the cyclical curve was in an increasing trend in crisis years as mentioned in the above data, upward movement recurred with the last one in 2015-2016, the momentum started to increase again after a short momentum loss and this increase passed the trend curve and continued the increasing phase.

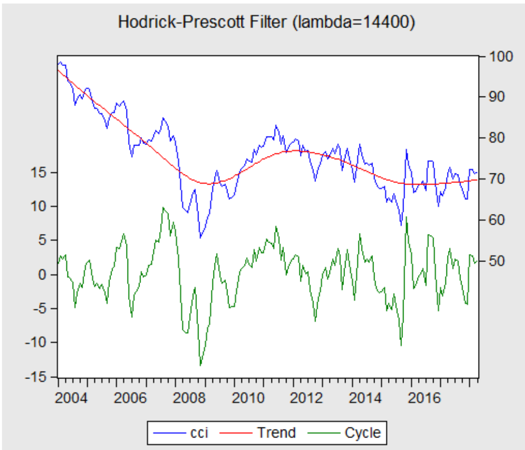
INDUSTRY PRODUCTION INDEX



REAL SEC. CONFIDENCE INDEX



CONSUMER CONFIDENCE INDEX



In supply and demand side tendency data in scope of IPI, RSCI and CCI data, λ data was recommended as 14.400 by Eviews in HP filter graphics formed like this and the fluctuation especially in CCI data decreased in 2008-2009 and then increased again and entered 2014-2015 with a similar decreasing trend. While it was observed that HP filter graphic formed with IPI data had an upward trend curve and a cycle curve with small fluctuations around this curve, it would be advantageous to repeat that the effect of banking sector credit volume enlargement showing that the reachability of financing opportunities covered in detail in previous sections was large on upward trend in IPI curve. It can be seen that RSCI data started to increase after the sharp decrease in 2008-2009 and the fluctuation in the mentioned data was in short ranges after this period. This situation strengthened the effects mentioned above in favor of the country but caused fluctuations in the index data due to the formation of big "indecisions" in the view of sector on economy. It shows that a condition of "instability" prevails the trust of sector on economy in this fluctuation phase which provides signaling data on fragility. When we look at the HP filter trend curve of RSCI curve, it wouldn't be wrong to say that the curve reaching the bottom in 2008-2009 started to move downwards in 2014-205 after an increase and followed a convex route in the mentioned years.

As a result, in addition to the analyses made with raw data on selected data in previous parts, a *"smoothing method that is widely used among macroeconomists to obtain a smooth estimate of the long-term trend component of a series.*" was made through Eviews program. In the examinations made as a result of HP Filter application constituting its basis, it is concluded that cyclical movements moved in time ranges of 6-8 years in Turkish economy. It can be said that the economic structure strengtified with the contribution of the regulated financial sector by 2000s caused the higher sensation of the economic disruption in real sector. In this regard, 6-8 year fluctuations in data such as GDP growth and unemployment are seen more clearly. Fluctuations were observed in similar ranges in other data with details given above and the improvements in the mentioned auxiliary data can bring along prolapsus in force and time spaces of conjunctural fluctuations which is one of the most important factors for certain detection of time ranges of conjunctural fluctuations.

CONCLUSION

Due to the issues covered within the conjunctural fluctuations after 1980 within the scope of theory-practice and the data chosen in this regard in the previous chapters of the study, it was concluded that the economic course in Turkey was interrupted in periods of 6-8 years. It can be concluded that the depressions occurring in periods of 6-8 years caused problems mainly such as the lack of experience created due to the fact that foreign expanded economy model was recently applied and although revision efforts were made in the applied economy policies, similar mistakes were repeated in general terms.

The inexperience in the application of export-based economy model starting in 1980 is certainly not available today. Thus Turkey has been applying the mentioned economy model for the increasing foreign trade volume and relations in the phase of nearly 40 years after 1980.

On the other hand, some application mistakes which were made before are not made today. For example, although neither high exchange and interest rates are regarded as problem causing issues in today's Turkey, applications such as domestic debting of Treasury through taking advance from CBRT applied in 1994 and then causing a higher increase in interest rates which are already high are not available today.

And although not totally applied, the reforms predicted to be made under titles such as *social security, tax policies, agriculture, transparency in financial management, privatization and regulation of capital markets and banking* within the scope of IMF letter of intent in 1999 have been among the important steps carrying their positive effects to today.

When considered in scope of the "banking" reform which is among the mentioned reform titles, precautions and improvements made after the financial sector problems and bank bankruptcies occurring with the crises in banking sector called problematic for many years and marked 2000-2001 years have been among the most important crisis preventing, depression volume decreasing instruments in today's economy. As it can be seen from previous graphs between 2000 and 2010, a high balance and momentum increase was especially noticed in credits and assets, securities, liquid assets and Total active balances in banking sector. Also total actives, credits and assets, deposit, credit deposit ratio, equities are considered based on 1964, it is observed that they reached a high increase level by 2000. In parallel, there was a sharp decrease also in the ratio of non-performing assets to credits after 2000. With the helps of these improvements the sharp and severe acts are prevented due to the easiness of meeting the requirements of sectoral financing needs.

In the light of all this information, it is considered that the banking system entered a recovery phase after the crisis environment it entered in 2000 and 2001 and the balance sheet data started to recover in this direction. When it is considered that the crises were shaped in the distinction between financial and real sector, it is considered that the recovery in financial sector branch contributed to the decrease in the severity of the crisis periods lasting 6-8 years and the delays in the cycles occurring time to time.

Together with the issues such as foreign expanded economy model with an increasing experience level, abandonment of previous application mistakes, prevention of depressions to be created in real sector with the momentum created by banking sector, the recent global improvements also had a great contribution. For example the damage caused in the mentioned hinterland countries by the debt crises occurring in European continent after the Mortgage problem breaking out in USA still continues today and the foreign money reserve glow to developing countries such as Turkey continues as the recovery period was not completed. In this regard, both resource availability and the uncompleted recovery phase in developed countries can be defined as important crisis preventing improvements for Turkey. Thus as a developing country, the foreign money resource flow Turkey takes from the outside keeps the sector alive. In short, although it is known that issues especially such as the decrease in growth numbers and the increase in unemployment rates in 2007-2008 when the global financial crisis broke out have negative effects on Turkey, the uncertainty in the world economy had a positive contribution to Turkey in terms of foreign money inflow.

Also, presence of a single-party government contrary to the coalition governments since 2000s is also one of the improvements considered to contribute to the economy in political terms to prevent the political crises such as throwing the institutional law and government crises, etc occurring especially in 2000-2001 crisis.[36]

On the other hand, issues such as canalization of foreign capital with an increasing inflow speed to Turkish economy after the global financial crisis to construction sector rather than for building new production facilities or increasing R&D activities leading the way of ballooning especially in real estate prices and causing a decrease in the economic contribution of the sector which reached a point of fulfillment as its advancement speed decreases and the decrease in the instrument management efficiency of central bank which is among the most important actors in economy management were considered among the wrong steps taken by the economy management.

The subject of economic crises and conjunctural fluctuations covered within the scope of theory practice and HP application presented 6-8 year periodic movements for Turkish economy. As much as the situation detection made with the steps which were mentioned above, observed to be taken and considered right or wrong, ***economy policies*** to be proposed are also important.

According to this, the fact that Turkish economy witnesses fluctuations every 6-8 years should be one of the most important preliminary facts to be accepted. This preliminary fact on economy's course would provide the predictability of the period leading to revival or recession, meaning welfare or depression. With this acceptance to be covered on a sub ground, it is considered that passing to the reorganization of economic tools at a higher level would be advantageous. In this regard, it is believed that saving ratios are one of the concepts which should be considered for Turkish

[36]According to Özatay, as mentioned before, in the period of 2000-2001, while following subjects attract the attention: there was a significant budgetary gap in the country, term of borrowing was short, real interest rates of borrowing matrices were high, the amount of internal and external debt has accumulated and the current deficit was high; also addition to this, the weakness of the banking sector, the scam operations that triggered speculative attacks, and the throwing of the constitution book incident were among the main factors that created the 2000-01 crisis.

economy. Because low saving ratios changing between 10-15% are an important demonstrator for the saving gap in Turkish economy. This condition would bring along the substitution of inadequate domestic saving by foreign investor saving. On the other hand, although it is known that foreign investment fact occurs directly in the form of direct or hot money investments, concepts such as interest rates, exchange rates, etc have a high effect on these investments.

Although it is considered that over-devaluated TL and the resultant high exchange rate levels have export-increasing characteristic, the cost on manufacturer side especially increases the inflation in Turkish economy in which the export-based manufacturing has an import-based course. As the course of high exchange rate and high inflation rates would narrow the gap between nominal interest rates and real interest income, it would also cause increase in market interest rates. The important point here is that as much as the contribution in hot money inflow, high interest rates also s a negative effect on direct investments.

For Turkey, this condition is important as while preventing the course leading to increasing market interest rates is possible with re-increased interest ratios in short term -this would cause worsening of the economy- long-term prevention of economic disruption would be possible only through structural reforms. At this point, while making structural reforms is the most important economy policy suggestion for this study, spreading of the mentioned reforms in many fields such as technology/informatics, education, justice, etc is also considered important. As mentioned in detail in previous parts of the study, the escalation of the recent economic data disruption through the improvement of banking and thus the financial sector by 2000s and delay of the phase from 2014 and 2015 until today are considered among the most important samples for delaying the transition process to negative economy during the 6-8 year conjunctural fluctuation period for Turkish economy through structural reforms. While a financial sector structure not containing the previous reforms would cause more corruption of real sector data today, it would obviously cause a harder financing phase for the prominent economy actors of the sector mainly SMEs.

Shortly, economy policy suggestion for Turkey for this study would be based on the realization of "structural reforms" to be covered within the scope of education, technology/informatics, justice, etc which are similar to the banking sector reform to be done for means such as decreasing investment deficit, low interest rate which would support direct investments, value gaining domestic currency and low inflation in upper ground and 6-8 year conjunctural fluctuation reality in the lower ground. On the contrary, the transformation of gains to losses in banking sector and the deepening of the economic deterioration phase considered to occur recently would be inevitable.

As a result, although both positive and negative steps are present in Turkish economy entering a foreign expansion period by 1980, it is concluded that the successive conjunctural fluctuations occurred in periods of 6-8 years in Turkish economy when the economic course was observed. Considering the 6-8 year periodic fluctuations during the economic course, mainly the growth and unemployment data, although the reconfiguration of economy policies won't clear away the conjunctural fluctuations, it is considered that they will contribute to the decreasing of the severity towards the end points and also their duration.

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