

The Role Of Turkish Central Bank During And After The 2008-Financial Crises

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ABSTRACT

The Global Financial Crises occurred at the end of 2008, and in very short time, spread to all sectors of economy. All countries were badly hit by the crises and the World economies shrank almost \$50 trillion, the equivalent of one year of world GDP. During the process, especially the banking sectors of the world economies was smashed, and many banks and financial institutions bankrupted and some others liquidated such as Lehman Brothers. All countries took the drastic fiscal and monetary measures to overcome the global crises. So, this paper focuses on the functions of central banks asking that what the role of central banks to cope with the global crises was, and thus omits the side of fiscal policies implemented by different countries. It especially discusses the role of Turkish Central Bank and its monetary policies during and after the 2008-Global Financial Crises. What was the achievement of the measures taken and the monetary policies implemented by Turkish Central Bank during and after the financial crises?

Keywords: The Role of Turkish Central Bank; 2008-Financial Crises; Monetary Policies

INTRODUCTION

The Global Financial Crises occurred at the end of 2008, and in very short time, spread to all sectors of economy. All countries were badly hit by the crises and the World economies shrank almost \$50 trillion, the equivalent of one year of world GDP. (Aisen Ari., Franken Michael, p.4) During the process, especially the banking sectors of the world economies was smashed, and many banks and financial institutions bankrupted and some others liquidated such as Lehman Brothers. All countries took the drastic fiscal and monetary measures to overcome the global crises. The main reason of the meltdown of the financial system, that is, the financial crises was the loose monetary polices in the developed countries. So, this paper omits the side of fiscal policies implemented by different countries and focusing on the functions of central banks asking that what the role of central banks to cope with the global crises was? It especially discusses the role of Turkish Central Bank and its monetary policies during and after the 2008-Global Financial Crises. What was the achievement of the measures taken and the monetary policies implemented by Turkish Central Bank during and after the financial crises?

Turkey grew by 8.9 percent in 2010 following China and Argentina. What was the role of Turkish Central Bank in this process? Political stability was very important factor in 9 percent-growth of the Turkish economy. The mid-term economic program declared by the government during the global crisis-2008 reduced the risk and uncertainties towards the future of the Turkish economy. It is obvious that the expectations with regards to the economic development of Turkey were successfully managed by Turkish government during the crises.

Table: 1

| Financial Crises-2008 | What Happened in general |
|------------------------------|--|
| | -Recession in all general economic activities -Decrease of Inflation -Decrease in Commodity Prices -Shortage in Aggregate Demand -Slowing down in Credit Canals of Banks |

The recent global financial crises demonstrated that the financial regulation for the world economies which was designed in the GATT negotiations in 1944 and got stronger after the 1980, have had many causes of vulnerability. It also showed that the current global financial system is very sensitive and vulnerable to the external shocks and could be easily speculated and manipulated which means that it is very risky for the real economic system. From the economist, Paul Krugman, the analysis regarding the global financial crises in his book, we obviously understand that the great financial reform is necessary for the global financial system, which could be offered and designed by the emerging markets and economies in the near future.

Crises Effect on the Turkish Economy

The Global Financial Crises affected badly the Turkish economy by reducing aggregate demand together with the sharp fall in commodity prices and inflation and by limiting financing instruments and bank's credit channels and financing policies.

First, the Turkish economy got the strong signal in the late 2009 towards the recovery of the Turkish economy from the crises because the economy grew by 6 percent in last quarter of 2009 which was the first time after crises and continued to systematically grow by now. The Turkish economy has been growing for the last consecutive 15 quarters. It obviously means that the Turkish economy succeed to get rid of the crises in the shorter time than anticipated and, record to grow by 9.8 percent in 2010 following China and Argentina all over the World. How and why the Turkish economy accomplished the crises while the EU economies such as Greece, Spain and Portuguese economies are having still economic difficulties and striving against the turmoil because of the huge public and foreign debt.

Political stability was very important factor in 9.8 percent-growth of the Turkish economy behind this accomplishment. The mid-term economic program declared by the government during the global crisis-2008 reduced the risk and uncertainties towards the future of the Turkish economy. It is obvious that the expectations with regards to the economic development of Turkey were successfully managed by the government through the fiscal discipline and monetary policies. Besides this, the most important thing is that the trust or confidence to Turkish economy was increased by the public and businesses since the decision makers who are responsible for economic policies took the right measures on time. Public trust to Turkish economy depends on the political and economical stability in Turkey. Investors' and consumers' trust to Turkish economy helped in becoming the success of the monetary and fiscal policies during the crises.

Apart from the things mentioned all above, what was the specific role of Turkish Central Bank in this process?

Turkish Central Bank Policies between 2008-2010

Turkish Central Bank played very important role during the crises taking some measurements on time. As soon as the crises appeared and spread quickly to all over the world, the developed countries such as the USA, the EU, and etc., took very immediate and drastic measures and, in the meantime, the Turkish Central Bank put simultaneously in practice the right monetary policies in harmonized with the Turkish government fiscal policies. Turkish Central Bank Policies aimed at the restoring of price, financial and economic stability in public sector by using the policy tools such as interest rate, liquid funds, and reserve ratio requirements in order to increase the total demand in economy when economy was in recession because of the crises. Thus, the Turkish Central Bank played very significant role in recovering from the crises through the monetary tools. Then, what were the measures taken and the monetary policies implemented by Turkish central bank during and after the financial crises? Almost every central bank of other countries used the same macroeconomics policy tools, but why it was more successful in Turkey?

The economic monetary measures that have been taken by the Turkish Central Bank and Turkish Government during the crises can be summarized as follows (Table 2).

Table: 2

| Institutions | Measures |
|----------------------|--|
| Turkish Central Bank | <ul style="list-style-type: none"> -Cut in Interest Rate -Reduction in Required Reserve Ratio -Intermediation activities in exchange rule and effective markets have started until the uncertainty in international markets reduces |
| Turkish Government | <p>No IMF- Stand-by Arrangements</p> <p>Other Tax Measures</p> <ul style="list-style-type: none"> _ A law that induces the assets in foreign countries to flow inside by tax exemptions and tax reductions was put into force _ the stoppage of % 10 on domestic investor's financial gains from issues was reduced to % 10 percent _ The gains of mutual funds and investment trusts in capital markets were exempted from taxation by Banking and Insurance Transactions Tax _ The stoppage on credits from foreign markets was reduced to % 5 percent and tax burden was decreased 12 _ Special communication tax was reduced from % 15 to % 5 <p>Tax Reductions</p> <ul style="list-style-type: none"> _ A legal arrangement was put into force that includes reductions in corporate taxes to accelerate economic development and growth and to employment rate and real investments _ Investors that will take corporate taxes will take incentive certificate _ The period of the incentive on employment of youth and women is extended _ Resource utilization support found on real tax payers credits was reduced from % 15 to % 10 percent _ The period of taxing advantage on incentives on income tax, insurance premium and energy aids is extended to one year <p>Arrangements on Private Consumption Tax (PCT)</p> <ul style="list-style-type: none"> _ The PCT rate on motor vehicles is reduced _ The PCT rate on electronic item and white goods is reduced to % 0 percent <p>Arrangements on Value Added Tax Private Consumption Tax (VAT)</p> <ul style="list-style-type: none"> _ VAT on specific residences is reduced from % 18 to % 8 _ VAT on selling of specific industrial machines is reduced from % 18 to % 8 <p>Measures Taken In Real Sector</p> <p>A-Aids to SBE's:</p> <ul style="list-style-type: none"> _ Small business that have tax debts and insurance premium debts will be included to benefit from SBE Credits _ SBE's in services sector and trade sector will benefit from Small and Medium Industry Development Organization (SMIDO) credits. _ The budget of SMIDO is increased by % 48 percent in 2009 _ An additional source was given to SMIDO. <p>B-Measures Taken in Organizational Industry Areas and Small Industrial Sites</p> <ul style="list-style-type: none"> _ The Ministry of Industry and Trade has given to these areas credits and the interest rate of these credits was reduced _ The non-payment period on credits is doubled taking into account the problems on payments _ A new arrangement was made on loan guarantees _ The annual discount rates of Halkbank that gives credits to Organizational Industrial Areas are reduced by % 50 <p>C-Other Measures</p> <ul style="list-style-type: none"> _ Bill indexed on income are induced in markets so as to widen the base of investments in domestic markets _ The Cabinet is vested with the authority of widening the scope of deposit protection and increasing the limits _ A strategical plan on underground economy is put into force _ A Research and Development (R&D) Centre will be established to encourage R&D firms to benefit from R&D incentives |

Source: Erdönmez, Pelin Ataman, "Küresel Kriz ve Ülkeler Tarafından Alınan Önlemler Kronolojisi", Bankacılar, Sayı: 68, Mart 2009, pp.85-101

Tandircioglu, Haluk,(2009), Effects of Global Crises on Turkish Economy, <http://www.iefpedia.com/english/wp-content/uploads/2010/01/EFFECTS-OF-GLOBAL-CRISIS-ON-TURKISH-ECONOMY-Dr.-Haluk-TANDIRCIO%C4%9ELU.pdf>

As summarized in Table-2 above, the Turkish Central Bank reduced the interest rates in November of 2008 and, in this regard it implemented the expansionary monetary policies during the global crises because of the shortage of demand in the market.(TCMB, 2009 Report, p.2) During the crises, the anxiety about inflation target policies has already been declined because of the shortages of the aggregate demand. Thus, it prepared the appropriate economic environment for the central bank to focus on the financial stability.(TCMB, 2009, p.2) It can be interfered that the Turkish Central Bank played very successful role in recovering from the crises in shorter time compared to the neighboring EU countries and the USA. Another reason why the Turkish Central Bank was so successful in Turkey was that Turkish entrepreneurs and investors and households which are the major economic player, trusted very much the Turkish Economy during the crises.

CONCLUSION

It is strongly understood that the global financial system needs necessarily the radical financial reform, which could be potentially offered and designed by the emerging markets and economies in the near future. The recent crises confirmed that the sustainability of the current financial system by designed the developed countries after the GATT negotiations is unlikely to proceed in this way since the present financial system continue to produce other financial crises because of its ability to create financial crises and economic chaos all the time. The fundamental reason for this is that the financial sector has grown 12 time faster than the real sector of economies in the world, which means that the player in the financial sector made money 12 times bigger than the ones in the real sector without producing any goods and services. By nature, the current financial system has greatly stimulated the investor to invest their money to financial instruments rather than the real instruments as they bring about the faster money earning. Thus, investing in non-real instruments has rapidly inflated the financial sector in the last three decades. As a result, financial sector has been much bigger than real production sector for years. To prevent from the future financial crises, the financial system should be again designed in accord with real economic sector rules.

AUTHOR INFORMATION

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