An In-depth Analysis of Economic Policies Implemented in Turkey from 1923 to 2023

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Abstract

This study provides an in-depth analysis of Turkey's economic policies throughout key historical periods, spanning from the Atatürk era to the challenges posed by the 2019 Covid pandemic. The analysis unfolds with a focus on the Atatürk era economic policies, followed by an exploration of the economic landscape during the period 1939-1950. Transition attempts towards a market economy during 1947-1979 are scrutinized, highlighting the notable 1958 devaluation and the subsequent policy experiments in the 1950-1960 era. The planned economy period from 1963-1974 is examined, leading into the tumultuous period of 1975-1979 marked by a significant crisis. The transformative 1980 decisions are outlined, including the repercussions of the April 5, 1994-decisions. The measures taken against the 1997 global crisis, such as the Stand-By Agreement, are elucidated along with their objectives, policies, and results. The study also delves into the economic landscape of the period 2000-2008, addressing the crises of November 2000 and February 2001, followed by the post-crisis measures under the 2002 Emergency Action Plan. The economic policies from the 2008 crisis to the 2019 Covid pandemic are discussed, including the 2018 economic crisis and reform efforts. This comprehensive analysis aims to provide insights into the evolving nature of Turkey's economic policies and their consequences over the years.

1 Economic Policies of Atatürk Era

The economic policies implemented during the Mustafa Kemal Atatürk Era aimed to achieve economic development in the early years of the Republic of Turkey. The decisions reached at the Economics Congress established a foundation for liberal policies and led to major economic steps.

These strategies included providing support for private entrepreneurs, establishment of banks for credit, formation of the industrial sectors using local raw materials, prioritization of daily consumer goods, implementing nationalization policies, and the utilization of cabotage rights. Additionally, the assumption of the Düyun-u Umumiye debts (Ottoman public depts) and their resolution through a 1928 Treaty marked a crucial economic milestone.

Despite being influenced by the global events such as the 1929 Great Depression and World War II, the Turkish Economy continued to progress amidst various political and social challenges.

The agricultural sector witnessed substantial growth, while the industrial sector exhibited growth, except during wartime.

During this period, the economy turned inward to settle the debts inherited from the Ottoman Empire, resulting in a decrease in the import/GDP ratio and the attainment of a trade surplus.

The investment/GDP ratio also increased, further supporting economic growth.

The economic policies of the Mustafa Kemal Atatürk era aimed at taking significant steps toward Turkey's economic independence and development.

2 Economic Policies during the Period 1939-1950

The Turkish economy experienced changes during the period 1939-1950, influenced by the impact of World War II. While there was still a trade surplus, there were some new economic challenges during this period. There had been a decrease in income, coupled with an increase in inflation. In addition, economic policies such as the "Wealth Tax" and the "Land Crops Tax" have been put into effect. Nevertheless, the introduction of taxes such as the "Wealth" and "Transaction Tax" had a negative impact on the growth of the industrial sector, which faced difficulties with accumulating capital and implementing modern production technologies. Particularly, taxes such as the Wealth Tax hindered the accumulation of capital, hence constraining the growth of the industrial sector. This suggests that the economic policies implemented during this period have had adverse outcomes.

3 Transition Attempts to Market Economy during the Period 1947-1979 And New Policy Experiments of 1950-1960 Until the 1958 Devaluation

The period from 1947 to 1979 in Turkey witnessed attempts to transition towards a market economy. This process reflects the evolution of global economic connections in Turkey since the Tanzimat era. Turkey initially followed the trends of Europe and subsequently, those of the Western world, attempted to open up to the outside world, and then detached from the global system during the period from 1930 to 1946.

The economic reforms and policy changes undertaken in Turkey during this period signify indications of a transition towards a more liberal market economy. Between 1947 and 1979, efforts towards liberalization in Turkey's economic policies and attempts to transition towards market economy principles were observed.

During this timeframe, Turkey intensified its efforts to open up to the outside world, and economic policies evolved towards a more market-oriented direction. However, the extent to which the economic policies of this period were entirely successful and the degree to which the economy liberalized remains a subject of debate. These attempts represent steps taken towards modernizing Turkey's economic structure and playing a more effective role in the global economy."

With the advent of the Democrat Party to power in Turkey from 1950 to 1960, a new era of policies with liberal tendencies emerged, replacing the statist tradition. During this period, the government sought to stimulate private entrepreneurship by increasing investments and expenditures to create infrastructure and demand. The years between 1950 and 1960 witnessed new economic policy experiments influenced by liberal policies.

During this period, an "import substitution" industrial policy was implemented, and the industrial sector grew by 119.6% with an average annual growth rate of 8.3%. Turkey established more intense political and economic relations with the West and the United States under the Marshall Plan in 1947. The Korean War and NATO membership led Turkey to adopt a more outward-looking policy.

In its outward-looking policy, Turkey, being an agricultural country, focused on exporting agricultural products, leading to a concentration on agriculture-based industrialization. Simultaneously, in the transportation sector, road development was favored over railways, and there were developments related to the importation of motor vehicles.

On the other hand, in the agricultural sector, the use of tractors and fertilizers rapidly increased under the Marshall Plan. However, the level of farmer awareness and effective use of machinery did not reach the desired standards during this period. The number of tractors increased significantly, but there were challenges in maximizing productivity.

4 Planned Economy: The Period of 1963-1974

The period of 1963-1974 in Turkey witnessed the implementation of planned economic policies. This era corresponds to a time when planning became widespread in the Western world, and the Turkish economy was influenced by planned economy during this period. The First, Second, and Third Five-Year Development Plans were implemented during this timeframe.

The period of 1963-1969 experienced relatively rapid and stable growth. These plans aimed to "increase national savings, direct investments for the benefit of society, and achieve economic, social, and cultural development through democratic means." The fact that public investments constituted more than 50% of total investments indicates the allocation of resources within the planned framework.

The First Five-Year Development Plan particularly acknowledged that "development would be achieved through industrialization" and included policies to expand the production and export opportunities for industrial goods. Successful efforts in import substitution policies could be attributed to Turkey in the 1963-1967 period.

However, events such as the 1973 Oil Crisis and the subsequent Cyprus Peace Operation had adverse effects on the Turkish economy. The reversal of terms of trade led to an increase in trade deficits, and to overcome this situation, foreign exchange reserves, worker remittances, and foreign aid were utilized. Nevertheless, despite these efforts and attempts to create new sources, economic challenges persisted.

5 The Period of 1975-1979 and the Crisis

The years 1975-1979 in Turkey witnessed significant developments influenced by global economic changes. Key events during this period include:

Smithsonian Agreement and Exchange Rate System Change: The Smithsonian Agreement, held on March 18, 1971, severed the link between the U.S. dollar and gold, leading to the abandonment of the fixed exchange rate system. During this period, the Bretton Woods International Monetary and Financial System was abandoned, and a floating exchange rate system was adopted.

Monetarist Policies and Export-Oriented Industrialization: Keynesian policies were abandoned and replaced by Monetarist policies and export-oriented measures. Despite these efforts, the transition to a free-market economy could not be achieved during this period, and a healthy restructuring of the economy proved elusive.

Oil Crisis and Economic Challenges: The decision by OPEC members to increase oil prices by 150% for the second time in 1979 and 1980 left Turkey facing an economic crisis. Inflation rates surged, unemployment rates increased, and the informal economy reached its peak during this period.

January 24 Decisions: To control economic instability, address the external deficit, and stimulate the economy, the Turkish government introduced the "January 24 Decisions." These decisions involved a 48.6% devaluation of the Turkish lira and various economic adjustments.

Impacts and Crisis Management: The 1979-1980 Oil Crisis led to rising unemployment, increased inflation, and shortages of essential goods in Turkey. To revive and stabilize the economy, the government implemented the "January 24 Decisions."

The economic challenges during this period prompted significant changes in Turkey's economic policies and structural strategies, impacting various sectors within the country.

6 The 1980 Decisions and The Implementation of the Market Economy

January 24, 1980, marks a significant turning point for the Turkish economy. The decisions made on this date, known as the January 24 Decisions, led to substantial changes in Turkey's economic policies and strategies. The notable features of this period include:

With the January 24 Decisions, Turkey shifted from an inward-focused development strategy to an outward-focused model, enhancing the role of market forces. Quantity restrictions on imports were lifted, and export incentives were introduced.

During this period, a substantial devaluation was implemented, raising the exchange rate from 1 Dollar = 47.1 TL to 1 Dollar = 70 TL. Within the framework of the stabilization program, prices of state-owned enterprises' goods and services were increased, export subsidies were enhanced, and import restrictions were liberalized.

The January 24 Decisions aimed at liberalizing trade, finance, and capital markets and redefining the role of the public sector within the free-market system. Steps were taken for macroeconomic and financial stability, liberalization of trade and financial markets, and other measures.

Under the military government's administration and policies implemented during the 1980-1983 period, inflation rapidly decreased, and with the restructuring of external debts, the balance of payments improved.

The issuance of the "Decision No. 32 on the Protection of the Value of the Turkish Currency" in 1989 significantly liberalized the exchange rate regime, initiating a process of real appreciation as capital inflows increased.

The economic reforms during this period brought about significant changes in Turkey's economic structure, directing the country towards a more liberal market economy.

7 The April 5, 1994-Decisions and Aftermath

The economic environment leading to the April 5 Decisions was explained verbatim in paragraphs 1 to 14 of the Decisions as follows:

In 1986, 43 liras out of every 100 liras of tax revenue went to domestic debt principal and interest payments, which increased to 60 liras in 1991 and further to 104 liras in 1993. In other words, tax revenues are insufficient to cover domestic debt principal and interest payments, implying that even the most urgent needs of the state cannot be met.

The public sector borrowing requirement, which was 6.2% of the GDP in 1988, rose to 14.5% in 1991.

In 1993, the Turkish Lira became 22% more valuable in real terms against foreign currencies compared to 1988. This excessive appreciation of the exchange rate reduced the profitability of exports while making imports relatively cheaper.

The economic slowdown in Western economies also contributed to a rapid increase in the trade deficit.

During the same period, there was a rapid increase in wages and salaries. As a result of the real increase in civil servant salaries to 1.8 times the 1988 level in 1993, a 3-fold increase in worker wages in the public sector and a 2.5-fold increase in the private sector, the share of wages and salaries in GDP increased from the 20s to 36%. The share of interest income increased from the 6s to the 10s.

The slowing growth of exports and the acceleration of import growth resulted in a trade deficit of 14.2 billion dollars in 1993, and the current account balance showed a deficit of 6.4 billion dollars.

The high interest rate and overvalued exchange rate environment pursued after 1989, based on short-term capital inflows, led to an unsustainable borrowing policy for financing high public deficits in the long run. Indeed, in 1993, the limits of this borrowing policy were reached, leading to significant speculative fluctuations in exchange rates and financial markets.

As of September 6, 1995, the Central Bank had to implement a series of monetary operations. In line with the decisions taken on September 6-7, 1995, exchange rates were brought under pressure, interest rates were raised, consumption was restricted, imports were curbed, and exports were encouraged.

The economic crisis that began in Southeast Asian countries with the devaluation of Thailand's national currency, the Baht, on July 2, 1997, quickly spread to other regional countries, transforming into a global phenomenon. In response to the crisis affecting Thailand, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Taiwan, and indirectly Japan and China, the IMF had to intervene and provide financial support to Thailand and Indonesia.

Following the Southeast Asian Crisis, the political and economic instability in Russia affected Turkey, leading the Istanbul Stock Exchange (IMKB) to experience its second-largest decline since its establishment in 1986.

During the deepening Stock Exchange Crisis in Russia, approximately 4.5 billion dollars left Turkey. One billion dollars originated from the stock market, three billion dollars from bonds, and 500 million dollars resulted from the non-renewal of syndicated loans.

8 Measures Taken Against the 1997 Global Crisis: Stand-By Agreement: Objectives, Policies, and Results of the Stand-By Program

Exacerbating Turkey's economic instability problem, it led to the implementation of a program expected to last for three years starting from the beginning of 1998.

Achieving the first six-month goals of this program resulted in the signing of the "Stand-By Agreement" with the IMF at the end of June. This Stand-By Agreement, the seventeenth agreement signed with the IMF, generated positive expectations in national and international markets. Indeed, international rating agencies expressed favorable views after the signing of the agreement.

The Stand-By Program aims to increase the non-interest budget surplus, which was zero in 1997, to 4% of the GDP in 1998 through income-increasing and expenditure-reducing measures.

Except for privatization, budget revenues exceeded the Program target by June and the end of September.

As a result of the February 1999 visit by the IMF delegation, the Program was considered successful in many aspects. Inflation has clearly slowed down in line with the targets and the Consumer Price Index (TEFE) has reached its lowest levels in the past eight years.

In fiscal policy, the non-interest budget surplus exceeded the program target in 1998, reaching 4.1% of the GDP.

The financial market-driven crisis experienced in Asian countries was averted by these countries undergoing significant devaluation (30%). However, Turkey, by adhering to the conditions of the stability program it implemented, avoided devaluation. Therefore, both the Turkish Lira was excessively appreciated, and external deficits rapidly increased, leading to a severe crisis environment. During this period, the deepening of the crisis was also influenced by the problem of dollarization in the Turkish economy.

Beyond the negative effects of external factors and the earthquake disaster, the fundamental reasons for the Turkish economy facing crises at frequent intervals in the 1990s were the unsustainable debt dynamics, the unhealthy structure in the financial system, particularly in public banks, and other structural problems that could not be permanently resolved.

By the year 1999, to combat the crisis, a stability program covering 2000-2002 was implemented under the name of "Exchange Rate-Based Inflation Targeting Program" with IMF support on December 9, 1999. The aim was to reduce high inflation due to high public deficits. Thus, Turkey entered the new millennium with a new package prepared to prevent an economic crisis.

9 The Period of 2000-2008

As a result of the agreement reached with the Inflation Targeting Program, the amount of credit to be received from the IMF was determined as 4 billion dollars. The disbursement of the IMF credit was planned in quarterly installments, and it was agreed that an initial amount of 300 million dollars would be urgently provided by the IMF. However, during this Program supported by the IMF, severe banking and currency crises occurred in Turkey in November 2000 and February 2001.

9.1 The November 2000 and February 2001 Crises

Like other developing countries, it is known that Turkey was significantly affected by the 1994 crisis and the Asian crisis in 1997. The crisis in Russia in 1998, following these crises, resulted in significant losses in our trade with Russia and pushed the economy into a recession. However, none of these crises had as profound an impact on the economy as the consecutive crises in 2000 and 2001. In 2000, Turkey implemented a disinflation program with the support of the IMF and the World Bank to reduce inflation, which had reached three-digit figures.

It was acknowledged and declared that the main source of inflation was public deficits and that this stemmed from the management of public sector finance. Measures were taken to close these deficits.

The second significant aspect of the inflation-fighting program consisted of changes in exchange rates and monetary policies.

In the field of monetary policy, restrictions were imposed on the Central Bank's net domestic assets.

The final aspect of the program consisted of structural reforms and privatization programs.

9.2 The Post-Crisis Measures: 2002 Emergency Action Plan

The stability programs implemented after November 2002, marked by the end of crises and the commencement of a stable political process, have produced more positive effects on the economy. Following November 2002, the new government introduced a comprehensive program under the name of the Emergency Action Plan.

The plan is fundamentally built upon financially oriented measures regarding tax and expenditure policies, structural reforms for privatization and the restructuring of the real sector, and regulations related to foreign trade. To revive the real sector, measures were planned to encourage direct foreign investments and emphasize supportive regulations for small and medium-sized enterprises (SMEs).

The stringent fiscal and monetary measures envisaged by the stability programs reduced the fragility in public financial balances and financial markets. In 2004, as in 2003, the main objective of fiscal policies was to generate a significant non-interest surplus, aiming to reduce the public debt stock and enhance its convertibility. Particularly, the positive effects of contractionary fiscal measures on the budget balance continued in the 2006-2007 period.

The improvement in public finances during the 2006-2007 period had positive repercussions on the economy, leading to a decrease in both inflation rates and domestic borrowing rates, except for periodic fluctuations. It is observed that the contractionary fiscal measures implemented during the 2003-2007 period contributed to a relative improvement in public finances. The fact that the policies had positive effects on inflation and domestic borrowing rates is significant for the continuity of the implemented policies.

However, considering that the same policies had a contractionary impact on the real sector over time, it is important to lower the non-interest surplus target gradually to ease the markets and the real sector. Achieving economic growth through gradually loosening contractionary fiscal and financial measures after controlling inflation by prioritizing price stability will enhance domestic savings and investments.

The primary goals of the stability programs implemented from 2000 to 2007 can be summarized as stimulating foreign capital inflows, reducing the government's share in the economy through ongoing privatizations, lowering the debt burden in the budget, increasing tax revenues, and implementing structural reforms."

9.3 Key Indicators and Privatization Revenues (2001-2007)

	2001	2002	2003	2004	2005	2006	2007
GNP Growth Rate (%)	-10,1	7,9	5,9	9,9	7,6	6,0	4,7
Inflation Rate (%), (CPI)	51,49	43,96	25,4	8,58	8,18	9,6	8,5
Current Account Balance (million $)	3.393	-1.519	8.036	-15.559	-22.60	-32.192	-38.03
Unemployment Rate (%)	8,4	10,3	10,5	10,3	10,3	9,9	10,1
Budget Deficit/GDP (%)	-16,5	-14,6	-11,3	-7,4	-2,0	-0,8	-2,5
Privatization Income (million $)	233	502	414	1.566	3.465	9.976	9.511

Table 1. Source: *Turkish Statistics Institute*

After 2001, there is a notable growth trend in the Gross Domestic Product (GDP). The inflation rate decreased to single digits by the end of 2007, and privatization revenues have significantly increased in the last five years.

The crisis that originated in subprime mortgage-backed securities in the United States in August 2007 later evolved into a financial crisis affecting the financial sectors of both the United States and European Union countries in 2008. The impact of the crisis gradually spread towards the real sector and developing countries. As financial institutions in developed countries began to withdraw from emerging market markets to compensate for the deterioration in their balance sheets, it led to a rapid contraction of liquidity in international financial markets.

In the last quarter of 2008, as the financial crisis turned into a global recession, a sharp slowdown in both domestic and international demand was observed. In parallel with these developments, commodity prices also experienced a significant decline.

10 From the 2008 Crisis to the 2019 Covid Pandemic: Changes in Economic Policies and Their Consequences in Turkey

The economic policies pursued in Turkey after 2008 and their results have undergone various stages of change when considering economic conditions, domestic and international factors. Below is a general assessment of the key features of the post-2008 period and the economic policies implemented:

Global Economic Crisis (2008): The global economic crisis that erupted in 2008 also affected Turkey. Decreased external demand, financial market fluctuations, and a contraction in trade volume negatively impacted Turkey's economic growth performance.

Measures and Stimulus Policies: The Turkish government implemented various stimulus measures to prevent economic contraction and support employment. Policies such as tax reductions, increased public spending, and credit support were put in place.

Strong Initial Reaction and Stability: Turkey managed to maintain economic stability with its rapid reaction and effective policy measures against the global crisis. However, challenges were faced during this period, including negative effects on the trade balance and an increase in the current account deficit.

Economic Growth and Investments: In the early 2010s, the Turkish economy entered a period of rapid recovery, showing positive growth rates. Significant investments were made, especially in construction, energy, and infrastructure projects.

Current Account Deficit Issue and External Financing: Alongside Turkey's economic performance, the issue of the current account deficit became more pronounced. Dependency on external financing sparked debates about the sustainability of the economy.

Central Bank Policies: The Central Bank shaped its monetary policies within the framework of inflation targeting. Interest rates and reserve policies were implemented to ensure the stability of the economy.

2018 Economic Performance and Reform Efforts: The economic crisis in 2018 shook Turkey's economic balances. During this period, new reform efforts were initiated to address exchange rate fluctuations, inflation, and challenges in the trade balance.

11 Conclusion: Todays Economic Measures

At present, the economic policies have been formulated in response to the economic circumstances that were witnessed in 2018, which significantly impacted Turkey's economic stability. During this time, there were new efforts undertaken to address the volatility of exchange rates, inflation, and problems with the trade balance.

Turkey has implemented various policies, including financial support packages and credit facilities, to shape its economic recovery and resilience in response to the COVID-19 epidemic.

A thorough examination of the impact of the pandemic on Turkey's economy in the agricultural, industrial, and service sectors yields the following findings:

During the epidemic, the agriculture industry showed overall resilience as it maintained the continuous production of necessary food. Nevertheless, it encountered obstacles such as logistical constraints, scarcity of labor, and changes in demand.

The volatility in agricultural commodity prices had a direct influence on the economic well-being of farmers, which necessitated the subsidies.

The pandemic had a significant impact on the industrial sector as a result of worldwide disruptions in supply chains, transportation challenges, and decreased demand. Industries such as automobiles, textiles, and electronics witnessed declines in both production and demand.

Following the end of the epidemic, the industrial sector received assistance through programs designed to promote domestic production and decrease dependence on foreign suppliers.

The service sector, specifically industries such as tourism, accommodation, food and beverage, and entertainment, witnessed major adverse impacts due to travel limitations, social distancing regulations, and closures. Significant contractions were recorded in the sub-sectors.

On the other hand, service industries that prioritize technology experienced development opportunities as a result of the increasing popularity of remote work and digitalization.

The Turkish government adopted a range of fiscal and monetary measures to address the economic impacts of the pandemic. Various measures, including business support, temporary job allowances, and tax deferrals, were implemented.

Measures were taken to provide assistance to producers in the agricultural sector, develop laws that encourage local production in the industrial sector, and establish support programs in the service sector.

Following the epidemic, Turkey increased its efforts to boost the durability and resilience of its economic structure. Strategic plans were formulated to further objectives in encouraging local production, digitization, and the green economy.

The pandemic has modified global economic relations and intensified Turkey's efforts to adjust to these modifications. Measures have been taken to promote new trade and investment opportunities and establish a strong international trade policy.

Turkey's attempts to attain economic stability have been most emphasized in the post-pandemic era. The impact of the policies implemented during this period differed among different sectors, but overall, it represents a period of economic recovery and increased reform measures.

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