

The Last Three Significant Crises That Faced in Turkey's Economy and Their Effects to Manufacturing Sector

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Abstract

For less developed countries, having short-term economic crisis is one of the most fundamental problems for the last 10-15 years. It is not an unusual event when we consider the crisis that has happened in less developed countries in previous periods. But in some aspects there are some main differences between these recent crisis and the previous ones .In previous crisis the main problems were about balance of foreign payments and inflation. On the other hand, the recent crisis has been related to the instability of the international capital movements that are the consequence of the steps for the liberality. Furthermore they impact finance markets, real sector and socioeconomic indicators. They affect not only the countries it emerged in, but also the whole world. Therefore it reaches a dimension that affects the international finance system.

Recently the most important economical and financial short-term crisis emerged in Turkey are the ones that happened respectively in 1994, 2001 and 2008.The aim of this work is to evaluate and analyze these important crisis in the axis of the World, relating to Turkey.

Key Words: Crisis, Effects of the Global Crisis, Economic Crisis and Turkey.

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1. Introductory

The globalization being practiced at the present time aims to create the required conditions of a competitive atmosphere for small or large businesses and marketing researches. At this point, the results of the recent crisis are that: incomes which do not supply the expenditures, the produced goods being sold for cheap prices in the competitive atmosphere. And also emergence of some unexpected situations and marriage of companies. These are other negative results that lead to an international economic downturn. If the crises are to be defined broadly, they are unexpected and unpredictable stress situations that strand the enterprises.

The deficiency in decision mechanism and rational process of enterprises are the indicator of crisis. Such a condition in a company leads many serious problems such as producing, marketing, reserve, public relations and accountancy. In depression periods a detection in coordination arising from crisis is not very common. But a general means of detection in coordination is more common. Whatever the reason is, crisis strand enterprises and their managements. Crisis reminds us the improvements that threat the enterprise's life.

The recent macro crises seen in our country has affected the enterprises deeply. The unready and inflexible ones strive to survive. Although they know the temporary damages, some other management diversifies and takes precautions in order to get over the crises. These emerged crisis create changes (some are obligatory and some are arbitrary) in managerial and organizational constitutions. Even though these changes bring with psychological, sociological and socio-psychological negativities, the managements achieve to survive. The success of the company managements plays an important part in minimizing the effects of the crisis.

2. Definition Of Crisis And A Conceptional Approach

It's quite hard to make a generally accepted definition of crisis in terms of the company management. In literature of business management, there are some different words that are used instead of crisis such as anxiety, stress, disaster and panic, which makes it harder to make a comprehensive definition. If we need to make a short definition it can be defined as unexpected events that stop the ability of the management and affect its performance (Jimenez,2001;54).According to another definition; crisis derive from many factors such as cash short, decline in selling, sudden market changes, international negative events, new government regulations, negative public concept, insufficient information source of the

organization, information that is not current and insufficient communication.(Callahan,1998;32)

2.1. Types of Crisis

Crisis can be categorized in many aspects within the framework of environmental and organizational factors. These factors are arranged like the following;

- Industrial accidents,
- Environmental problems,
- Financial problems,
- Problems of the partners,
- Handovers,
- Intensive gossips,
- Strikes,
- Production gathering,
- Legal changes,
- Defect in information systems,
- Natural disasters,
- Bankruptcy,
- Service defects.

2.1.1. Economic Crisis and Types:

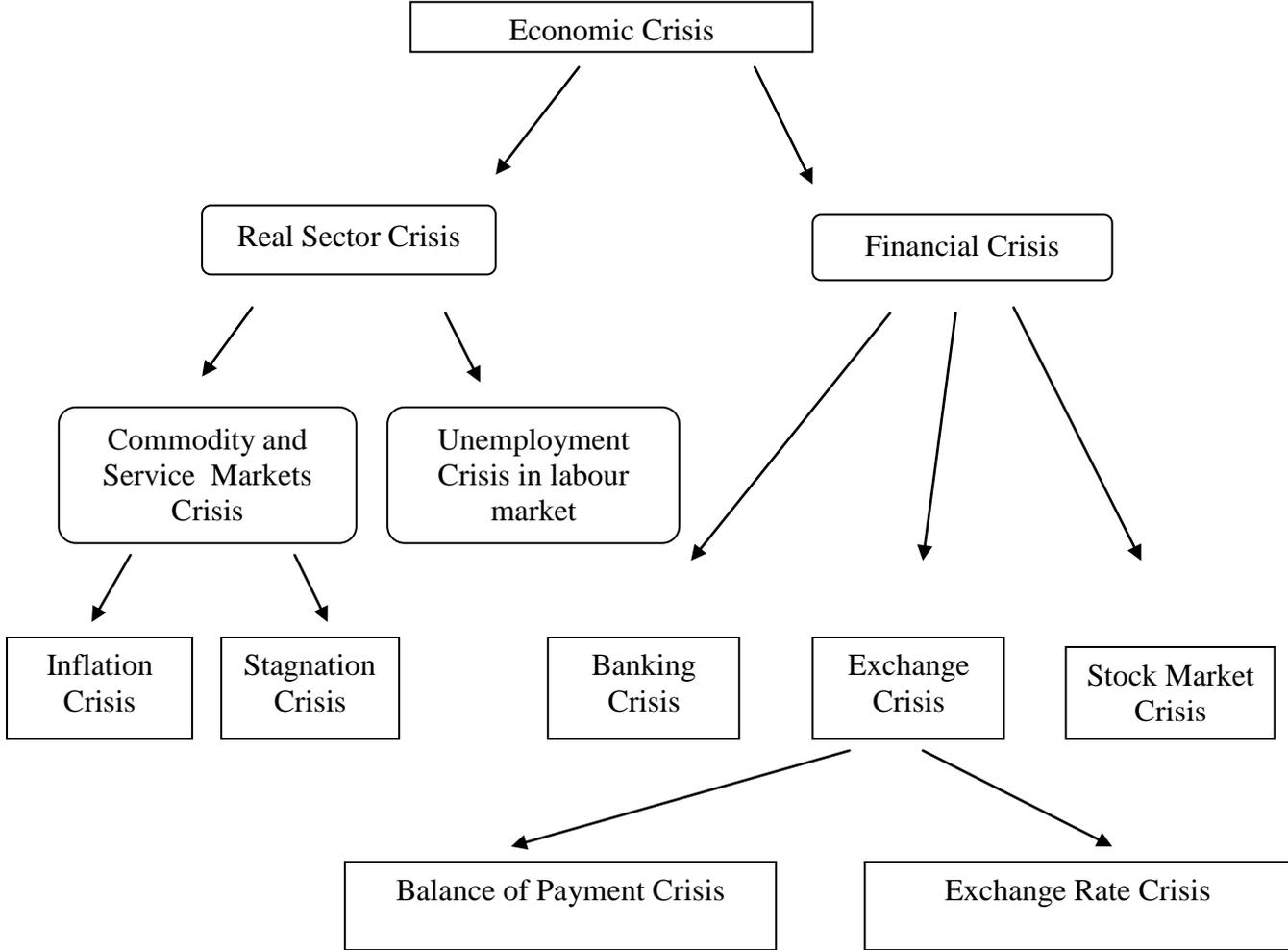
All types of crises are originated in technical, economical, human resources, social, judicial, managerial and communicative roots. The most common type encountered in the World is economic.

2.1.2 Types of Macroeconomic Crisis

Economic Crisis can be defined as inadmissible severe fluctuations of price or quantity in currency markets or goods, service and manufacturing factors.

The fundamental types of macroeconomic crisis can be arranged under two main titles; real sector crisis and financial crisis

Figure-1: Classification of Fundamental Macroeconomic Crisis



Source: Kibritçioğlu, 2002

Real Sector Crisis; It comes out as serious restrictions (stagnation and/or unemployment crisis) in commodity-service and labor markets, that is in quantities of manufacturing and/or employment. The permanent increase of cost level in commodity and service markets is known as inflation. If these increases are over specific levels, it is inflation then. Economists call it chronic inflation when there is a broad price level increase in an economy just like in Turkey.

Financial Crisis can be considered as severe price fluctuations in finance markets such as exchange and stock markets. And they are also accepted as serious economic problems in banking system as a result of excessive increase of ruined loans.(Kibritcioglu,2002)

3. The Last Three Significant Crises That Faced In Turkey

Crisis has affected Turkey as much as all the other countries. Anybody can observe the crisis around themselves easily. It is possible to observe it as it has affected real sector shortly after the money sector. Manufacturing has slowed down. Factories have started to be shutdown and accordingly workers have started to be dismissed.

From now on, in the global scale, economy will be more fragile; the number of economic crisis will increase but the range will reduce. Furthermore we should be ready for the global economic crisis as much as the inner crisis that created by effort of Turkey itself as a result of internal reasons.

Crisis is experienced directly nowadays. It is not only a word, which is used by politic and economical environments. Unemployment has spread all over the society; to the poor and the rich; to all sectors and units like a virus. At first unemployment damages people one by one, and then it affects their families, and whole the society with its people and corporations.

3.1 Economic Crisis of 1994

It is a fact that the Turkish economy started to stop at the end of 1980s just like the end of the 70s. Turkey experienced another one at the beginning of 1994 as the previous one hadn't been solved by means of a permanency program of solution. The main reason was that the political government regarded that it was over as they had the idea that the exchange problem was solved. As a result of this misunderstanding, par of exchange and TL, which had been seemed stable for a long time, was destroyed. Inflationary expectancies were highly increased and the public treasury became unable to get into dept inside. The political power imposed an economic permanency program when Turkey's loan worthiness was reduced by the loan assessment comity of the U.S.A and it had no more chance to get any external loans. Immediately Turkey made a 14 months standby regulation with IMF. At the beginning of the year 1994 there emerged the biggest current account deficit and government deficit of Turkish Republic. It is enough to see the size of the macroeconomic imbalance. These constitutions

and politics that couldn't be carried on in the middle-long term were the main reasons of the financial crisis that experienced in April 1994. In some developing countries like Turkey, which experienced the negative effects of excessive speculative capital income on economic balances heavily, it could be possible to get over the crisis lightly by means of the precautions that taken only after the outbreak of the crisis. But in Turkey the applied applications and financial decisions increased the size of the crisis. (TMMOB, Ekonomik Kriz, 5 Nisan Kararları ve 1994 Yılı; 22)

3.1.1 The Broad View of the Economy before the 15 April 1994

The rate of domestic debt to gross national product was intended to rise ,from the beginning of the 1990s up to 1994. On one hand, the government changed the finance management of deficits in order to reduce the domestic debt rates and extend the payment term structure in 1993. On the other hand, by means of a law, which was legislated at the end of 1993, the Public Treasury's accumulated debts to the Central Bank were wiped up. And also in this period a supplementary budget was made to double the possibility of going into debt. Ultimately with a deficit finance, the public treasury started to use source of The Central Bank in a rising rate. To finance that public deficit by The Central Bank's sources instead of domestic debts increased the expectancy of a devaluation. At the same time, the emerged demand for foreign exchange caused an increase in distinction between market rate and official rate. Thus the increase of instability in markets and the excessive fluctuations in exchange rates at the end of 1993 brought with pessimistic expectations about future. (Annual Reports of The Central Bank, 1994; 13)

It can be easily observed that the real sector before 5 April 1994 was not established on a tough and stable base. Moreover competitiveness of the enterprises in manufacturing wasn't advanced to World standards and an extraordinary increase in foreign-trade and accordingly a consistent growth couldn't be achieved. (Alpago, 2002; 120) Current accounts deficit, including foreign trade, invisible transactions and uncovered transfers, experienced the biggest deficit of the Republic history in 1993. That deficit increased nearly 8.5 times from the previous year's same period's and it reached 4.721 million dollars from 505 million dollars. In 1993 especially the foreign trade deficit was much bigger than the envisaged one. And that caused an increase in invisible transactions, uncovered transfers furthermore a dangerously increased current accounts deficit. (Akgüç-Özötün, 1994; 29)

Table 1: 1990-1993 Macroeconomic Performance of Turkey

	990	991	992	993
GSMH Real Increase Speed	.4	.4	.4	.6
Inflation Rate(Wholesale Price Index)(%)	2.7	5.1	2.1	8.3
Current Accounts Balance (Million \$)	2.6	58.0	943.0	6.4
Whole Investments/GNP(Gross National Product)(%)	6.1	2.2	2.4	6.9
Current Accounts Balance (%)	2.4 0		0.8	5.0
Consolidated Budget Deficit/GNP(%)	3.0	5.2	4.3	6.9
KKFG/GNP (%)	.4	0.2	0.6	2.1

Reference: ALPAGO Hasan, IMF-Turkey Relations

3.1.2 General Features of 1994 Financial Crisis

In terms of Turkey's economy, 1994 has a great importance. The process that had started with the 24 January 1980 Decisions reached a big crisis after 14 years. 1994 Economic Precautions Application Plan was come up to order in order to maintain the concept of 24 January 1980 Decisions, to weather a crisis and overcome it. It is permanently emphasized that in Turkey the introverted industrialization had been left and an extroverted industrialization based on exportation had been adopted for 14 years. The increase in exportation that was generated by means of enforcing the capacity usage and the rate politics came to a halt in 1994. A neglected industrialization and an unproductive economy dragged Turkey to a quiet serious crisis. The growing public deficits were tried to be supplied by internal and external debts. And in order to pay the debts new money was borrowed. (www.jmo.org.tr). If we want to arrange the significant features of 1994 Crisis under fundamental titles it is like the following:

- It was a short term but severe crisis.
- The crisis had begun at the end of 1993 and broke out in 1994.
- Although there had already been a basic continuing imbalance for 2 years, addition of the turmoil in European Money Markets triggered the crisis.
- The Current Accounts Deficit increased to 6.4 billion dollars from 1 billion dollars.
- Outstanding external debt increased about 12 billion dollars.
- Short-term debts broke a historical record by leaping to 18.5 billion dollars. 1994 was properly a year of disaster.
- Total outflow of capital reached 4.2 billion dollars.
- While the rate of interests exceeded 400%, the wholesale price index (TEFE) reached 121% and the consumer price index (TÜFE) reached 106%. In short they reached three digits numbers.
- There happened a 6% shrink in national income (GNP) while the unemployment hit to 20%. Half a million people was dismissed.

3.1.3 The Results That Raised From the Incorrect Method of 1994 Crisis

The finance administration misjudged the indicators of the crisis that started in 1993 and it failed in crisis management.

1-The current account deficit was expanded.

2-Liquidity was injected into the markets in order to reduce the interest rates.

3- Liquidity increased inflation and the demand for foreign exchange.

4-The political authorities estimated that they could solve the problem by means of selling high exchange reserves. But their estimate didn't hit the target as the banks had predicted the coming devaluation and they had gathered the sold exchanges with increasing prices. And the rates didn't reduce however the supply of foreign exchange raised. Eventually while the exchange rates in January 1994 was 19 thousand TL and the Central Bank Reserves was 7 billion dollars, the exchange rates in April 1994 increased to 38 thousand TL and international reserves reduced to 3 billion dollars. Unemployment increased and inflation raised to three digits numbers. The 1994 Crisis happened and the government took the 5 April Decisions. In order to reduce the demand for foreign exchange, however they had wanted to reduce the interests previously; they sold debt papers with a 400% interest rate.(Korkmaz, Ekonomik Krizlerden Ders Almalıyız, 2008)

3.2 An Overview of the 2001 Crisis

The process of the unity of national and international finance markets, which started after the World War II and gained acceleration after 1990, brought with the concept of financial crisis. Globalization of the finance markets and restricting movements in those markets during 1990's caused a rapid increase in international capital movements. The financial liberization that came up with globalization impaired the economies against the external shocks. Removing away the obstacles in front of the capital was a positive progress for the countries that had insufficient capitals and especially the developing ones. On the other hand, the speculative oriented short-term capital movements led to a rapid dissemination of the crisis throughout the World. (GENÇTÜRK, USUL; Finansal Krizlerin Hisse Yoğunluğu Açısından Şirket Performansına Etkileri ve Bankacılık Sektöründe Bir İnceleme)

Turkey experienced many other crises just like the February 2001 Crisis. High rate increases that occurred in current accounts deficit caused the 21 February 2001 Crisis, which was qua

an exchange crisis. The main factors that prepared the 2000-2001 Crisis were: the excessive valuable Turkish Liras, a current accounts deficit ongoing over the critical limitations, a financial sector devoid of capital, deficit positions(banks-real sector-general public), duty deficits of the general public banks and as a result of all these events increase in revenue and interest risks of the financial sector especially (Karaçor,2001;388).The exchange reserves which were 27 billion dollars in 16 February reduced to 22 billion 58 million dollars as from 19 February 2001.Consequently The Central Bank lost exchange reserves over 5 billion dollars in a day(as the 17-18 February were at weekend and holiday).At the beginning of 2000 there wasn't a problem in balance payment of current running accounts. Merely the domestic debt burden of the general public was increased; banking sector became fragile and also the deficit positions of banks were increased. As a result, the finance administration thought that even strict finance politics wouldn't be enough for improving the impaired domestic debt dynamics and it foresaw necessity of extrovert support .And to that end, Turkey declared an IMF supported stand-by program that was put into practice for a three years term(2000-2002).

To sum up, it can be easily seen that in 2000 there was an appreciable increase in capital inflow, an increase in value of real rate, a decline in domestic debt interests, a rapid increase in domestic credit stocks. Moreover it was easy to see a high rate of growth in national income, a reduced inflation rate and an increase in investment/rate of national income(Celasun,2001;18).In comparison with 1999,2000 was in a better position. In 2000 a recovery in the public sector interest-free balance could be provided and the possibility of foreign indebtment was increased. As a result of this, the domestic debts/national income rates became stable and the certain external debt stocks(defined by IMF) with national income rate were reduced partially. In spite of these developments, which seem positive at first, there were many negative indicators that established a ground for crisis. The current accounts deficit approached to 10 billion dollars and the deficit of commercial bank sector's inner balance sheet positions reached 18 billion dollars (growth of the rate risks).In addition to this, the growing liquidity demand of the state banks and short-term foreign debts reached a level that exceeded the TCMB's gross exchange reserves. All of these were the most negative indicators of the crisis. In the context of crisis literature, the leading characteristic of 2001 experience of Turkey was that the crisis came out in a process of practicing an IMF supported program. The major weaknesses of the 2000 program, which was based upon to commitments of exchange rates, were put the program into practice before strengthening the financial structure of

banking system, fixing the nominal rate rises according to unreal prevision of inflation, a money base dependent to capital inflow and outflow and also not to carry out a prudential cost and wage index extensively. (Celasun, 2001; 41)

3.2.1 Signals of the 2001 Crisis

Observing previous crises that came out in different countries in the past can give us some clues about understanding and foreseeing the crises. If the countries that experienced or have a risk of experiencing a financial crisis detect the mistakes made in the past, they will reduce the possibility of facing a crisis. The common factors of almost all financial crisis experienced in Mexico, Korea, Thailand, Indonesia, Russia, Brazil and Turkey can be arranged as; (ERÇEL; Finansal Krizler I- Nedenleri; 2002,)

- ❖ Stable or a money dependent rate direction,
- ❖ Weakness of the banking sector,
- ❖ Current accounts deficit,
- ❖ Short term debt burden of public sector,
- ❖ Finance deficit of the public,
- ❖ A high amount of portfolio investment and capital flight from the country in crisis periods.
- ❖ Political ambiguities
- ❖ Being affected of the financial crises occurred in other countries

When we observe the economic-financial position of the countries that have crisis, we can see almost the same movements easily. Short-term investors intend to get back their money from the country's economy when the signals of a crisis emerge. Although these hot money owners act in order not to lose the value of the investment rather than gaining profits, they create a liquidity and exchange rate risk for their economy. (Ögel,2005;26).The general indicators of the crisis are an excessive loaning cycle, bankruptcy of banks, money politics, balance of current accounts problems, capital accounts problems and a low growth.(Yay ve diğerleri,2001;36).Crisis come out as a reaction of an economy, whose financial balances are ruined, financial corporations are weak, markets are shallow and whose industrialization and agriculture is unproductive, to increasing globalization frequently. (Kazgan, 2001; 26).But the crisis effects not only the country it emerged but also all the other markets around globally. This event shows the contagious effect of crisis, which is a very important property of them.

A crisis emerged in any sector can contaminate other sectors. And a crisis emerged in an organization can affect the other related organizations too. When we think in the basis of economies, a crises emerged in a country's economy can affect the articulated financial markets and the other countries' economies by means of international trade.(Ünlü Keskin,2004;45)

One of the signals of the February 2001 Crisis was the increase in suspicion about sustainability of the medium-dated programme directed and controlled by IMF at the beginning of 2000.And as other signals; weaknesses and problems were occurred in economy, which caused a mistrust for the programme. As a result of excessive improve in TL, manufacturing tended to domestic consumption instead of exportation. That improve of TL directed foreign investors to close their accounts in Turkey and as a result T.C.M.B reserves started to melt. Furthermore the other signals of 2001 Crisis are increasing deficit positions of banks, the liquidity congestion came out in banking sector as a result of inadequate supervision and wrong business applications. Besides, the problems in Argentina's economy were one of the other reasons preparing the February Crisis just like Asia and Russia Crisis. When we look at the crisis that had happened before globalization notion spread on the World, we can say they had more local characteristics. (Aşıkoğlu, 1993; 33)

3.2.2 Development of the Crisis and Its Effects

Turkey started to live a financial crisis that burst in 22 November 2000.In that date, lasting the night loaning rates almost tripled to %110.8 and in the highest rate it rised to %210. (Uygur, 2001; 6)On the other hand, the rates that was connected to nominal anchor before 2000, couldn't keep up with economical developments in terms of time. Furthermore especially in 1999 and 2000 the effortlessness of enduring consumption loans increased consumption and luxury importation and as a result, the offset rate of exportation to importation was diminished gradually. The burst of the November Crisis became inevitable because of propriety rumours about some ministers and even the prime minister related to privatizations and the events of clearance of dirty money and siphon (Palamut ve Giray,2001;33)

The stability programmes that related to nominal anchor causes corruptions in foreign trade and current balance related to increase in growth rate and increasing value of local money. If the current balance is corrupted and some negotiations create some suspicions about the maintainability of the applied programme, it will reduce the positive net capital movement to a level in where it can't finance the current account deficits. And it will also establish a ground for a speculative attack to national money. It was exactly the event that happened at

the beginning of 2000. As a result of the decline of trusting on the programme, foreign capital income turned to be negative in September. And in the middle of November a speculative attack began. As from the end of the year, local money lost in value in the face of foreign money, real credit capacity was contracted 26%, domestic debt rates increased again, domestic expenditures decreased, importation reduced 25% and GSMH reduced 9.4%. The national output with 201 billion dollars fell off to 144 billion dollars. National revenue per capita fell off to 2185 dollars from 2987 dollars. This case affected the situation of Turkey in the world economy league. Although it was estimated as the 20th economy of the World with its 200 billion dollars economy, now Turkey is between the 25th and 30th in the league with its economy decreased to 144 billion dollars. In terms of per capita income

While it was the 43rd country of the World, now it is between the 50th and 55th. The World Bank entitles the countries on these levels as “low-medium developed countries” Whereas Turkey had been among the “upper-medium developed countries” until a year ago. Since February 2001, 12 banks have been seized or liquidated by incorporating. The %30 inflation has exceeded to 70%. The interest rates paid by the public treasury increased at the rate of 50%. In this period only the payments of the domestic debt interest are in the level of 143 billion dollars. Domestic Debt Stocks with duty deficits has increased at the rate of four times than 2000. Our domestic debt, which was 11.6 quadrillions at the end of 1998s, reached to 45 quadrillions and 427 trillions at the end of February 2001. According to the same period’s dollar rate, it is in level 50 billion 131 million. Duty deficit of the state banks in 1990-2000 was 20 billion dollars. (Çelebi, 2001; 17)

Unemployment was another negative bringing of the crisis. At least 1.5 million people lost their job. By applying the floating rate in 2001, exportation rised to 31.13 billion dollars from 27.7 billion dollars and the importation reduced to 41.3 billion dollars from 54.5 billion dollars. The offset rate of exportation to importation rised to %75.7 from %51. Payment balance of Turkey showed a 2.9 billion dollars deficit in 2000 and showed a 12.9 billion dollars deficit in 2001. As it is seen, the February 2001 crisis created really damaging effects on the economy of the country. (Çelik; Krizin Vakti Saati Gelmişti Yada Hiç Gitmemiști; 2009).

3.2.3 Results of 2001 Crisis

After February 2001, the restrictions happened in manufacturing, domestic trade and urban employment increased the poverty profile. As a result of the closed up companies, many people became unemployed. And also the banking sector received a heavy blow. The number

of the banks in banking sector fell off to 54 from 61 in 2002. And the total number of the branch offices in the sector fell off to 6106 by reducing 802 ones. The number of the staff working in the banking sector decreased 14.071 person. 15.950 employees of the public capital commerce banks and 505 employees of fund banks were dismissed in 2002. That crisis reduced the worth of enterprises treated in IMKB at the rate of 1/3 in comparison with 1999. When we look at the market caps of the enterprises treated in IMKB before and after the 2001 crisis, we see that it was.

114 billion dollars in 1999, 69.5 billion dollars in 2000, 47.7 billion dollars in 2001 and 34.5 billion dollars in 2002. The decline of these enterprises' worth increased the demand for the shares. Moreover the share of the foreign people in administration increased. Some of the shares changed hands below their real value. With the financial crisis, the ambiguity in the markets rises and for firms, it gets harder to foresee the future. (Doğan, 2005; 48) This case causes short-dating in economy. Besides, increase of the interests and decrease of demands cause a reduce in selling of the enterprises, an increase in stocks and emergence of a surplus capacity. Along with the crisis, the enterprises reduce and almost stop their investments. When the total investment expenditures are considered. The data is arranged like the following: in 1997 35.137.000 New Turkish Liras (NTL), in 1998 33.768.000 NTL, in 1999 28.472.000 NTL, in 2000 3.281.000 NTL, in 2001 22.782.000 NTL and in 2002 22.531.000 NTL. After the crisis there happened a decrease in the exchange reserves, too. The exchange reserve which was 28 billion dollars before the 2001 Crisis deteriorated to 18 billion dollars after the crisis in May 2001. After the crisis the citizens' foreign exchange deposit reduced to 33 billion from 38 billion dollars. (Çelebi, 2001; 23). The critical restrictions in manufacturing and industry sectors are negative outcomes of the 2001 crisis too. In the following December there happened a %4.3 contraction in manufacturing. Afterwards that trend continued and it reached 57.5 during the first 9 months of 2001. The deterioration in that period was %39 for transports, %24 for press, %25 for leather cultivation and %15 for paper. Capacity utilization rates of manufacturing industry had a parallel decline with the manufacturing. Just before the November Crisis, in October 2000, the private sector capacity utilization rate was 76.3 but it decreased down to %64 in June 2001. The total capacity utilization rate of the public and private manufacturing industries decreased down to %71 from %79.5 after the November 2001 Crisis. When we look at the public burden of debt and the debt dynamics we see that the gross debt stock reached %99.6. (%68.1 domestic debt, %31.5 foreign debt)

3.3 General Comment of the 2008 Crisis

The global crisis that started in the U.S.A and leapt to Europe and the other countries could be deferred by the interest rate cut a bit. But the crisis couldn't be stopped. It deepened and left its mark on 2009. The 4th biggest foreign bank of the U.S.A Lehman Brother's was left to bankruptcy. That event has made an earthquake effect in the World's stock markets. On the other hand, the dimension of that impact haven't been estimated and declared yet. Whereas this event has effected not only the U.S.A but also all the world markets.

Although the U.S.A law system has regulations that won't let financial scandals, the criminal events a significant part of which has happened recently are economical. This event has brought with the suspicion of some new negative evolutions. (Akbaş; Kriz Yılı; 2008) The fundamental reason of the crisis that started in the U.S.A are the problems related to the mortgage sector. The mortgage sector, which appeared in the U.S.A first and effected the world negatively, first started to pose a problem three years ago. The American mortgage market is the biggest market of the world with its 10 trillion growth. Some financial institutions in the USA gave mortgage credits to people having a low credibility because of high volume of money five years ago. In this way they entered a precarious finance institution. The dimension of the high risky credits which is used only by the low-income people and called 'subprime' has reached 1.5 trillion dollars. (Çelebi; Kriz Nasıl Başladı; 2008)

Consequently, the dwelling prices has started to go down since the huge bubble, which was created by the dwelling prices of the USA, blew out. The ones who got mortgaged dwelling credits by providing this houses as collaterals have been faced with difficulties for two main reasons. Firstly, the value of the collaterals has declined and secondly, the . Secondly, while the dwelling prices were increasing, dwelling value could surpass the collateral that was required for dwelling. They have been able to get other loans by providing this leftover as collaterals. When the dwelling prices have started to decline people, especially the ones with low-income haven't been able to pay the debts. As a result, the dwellings have been confiscated. The sufferers should have turn their dwellings into cash so they have turned to be sellers in the market. As a result the prices have fallen off (Özatay, Yaşadığımız Kriz Nasıl Bir Kriz, Nasıl Başladı; 2008)

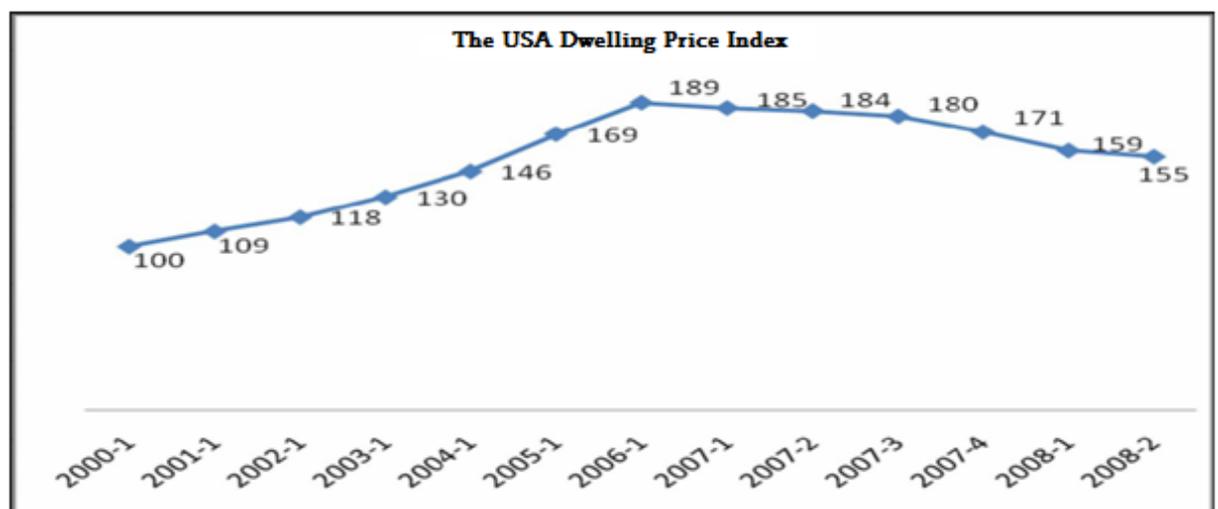
3.3.1 The Effects of the 2008 Global-Financial Crisis

The negative effects of the 2008 Global-Financial Crisis have been felt by both Turkey and the entire world. As a result of this, the markets have gotten into a recession and a lot of enterprises have nearly been closed down. With the effect of this financial crisis, many people have been forced to leave without pay or they have been dismissed. Consequently, the recession in manufacturing sector born of financial problems has caused negative reflections to other countries' economies. It is possible to evaluate the effects of the 2008 global-financial crisis in three dimensions; decline in dwelling prices, declines in growth rates and increase in unemployment rates.

3.3.1.1 Decline in Dwelling Prices

While the increase of the dwelling prices is one of the reasons of global-financial crisis, the decrease of the prices is one of the results. The housing market has gotten into the vicious circle we have mentioned above as a result of non-reversed dwelling credits. The USA has been experiencing significant declines in dwelling prices. In the following graphic the development dwelling prices according to S&P/CaseShiller Index is seen.

Grafik-1: The USA Dwelling Price Index



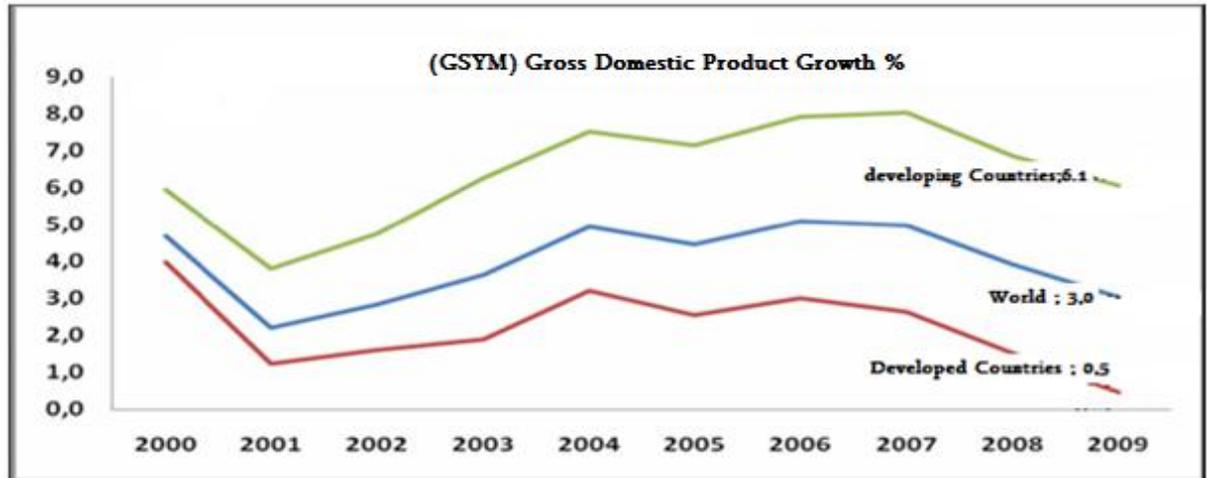
Source: www.imf.org

As it is seen in the graphic, the dwelling prices increased nearly at the rate of 90% between 2001-2007. A decline has started since the beginning of 2007. And the trend of decline still continues. Similar declines are seen in England as well.

3.3.1.2 Declines in Growth Rates

There are decreases in the growth rates of both developing and developed countries because of the reflections of the financial crisis to real economy. In the following graphic the tendency of decline in growth rates in both developing and developed countries after 2007 is seen.

Graphic-2: GSYM(Gross Domestic Product)-World, Developing Countries, Developed Countries (%)



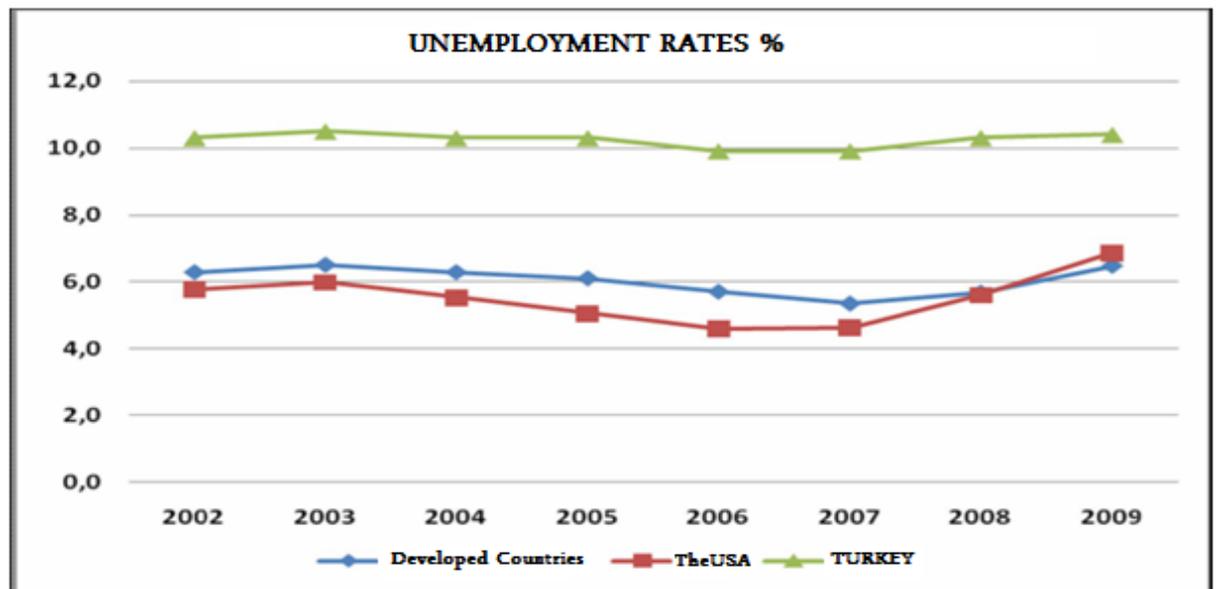
Source: www.imf.org

It is accepted that after the crises originated in dwelling credits, recovery takes a long time in comparison with the banking and share crisis. Because of this low growth rates are awaited after 2009.

3.3.1.3 Increases at the Rate of Unemployment

The global crisis has affected the unemployment rates significantly as well. An upward trend is seen especially in the USA and other developed countries. But in Turkey the unemployment rates, which dropped under %10s in 2006 and 2007, has started to go on over %10 again.

Graphic-3: Unemployment Rates



Source: www.imf.org

The financial crisis that happened in the USA hasn't had a great impact on unemployment of Turkey. But we may expect some more careful steps of Turkish financial system. We may be faced with a more selective banking sector in credit policy and a financial sector which is less eager for growing. So that the self-protection reflex of financial sector may create a restrain on investments and employment because of high credit costs. (Alantar; 2008; 7)

3.3.2 The 2008 Global and Financial Crisis' Effects on Manufacturing and Agriculture

There are some negative effects of the crisis that first emerged in the USA at the last quarter of 2008 and spread over the world in a short time on Turkey's economy, too. The rate of growth in our country, which had been at the rate of %4.7 in 2007, decreased to %1.1 in 2008 with a 4 times decline. Besides while the unemployment rates of 2007 were %9.6, it became %11.6 in 2008. (Çiçek and Hatırlı; 2009)

In 2007 the total amount of importation in manufacturing sector was 170 billion dollars. The 123.6 billion dollar of that amount was consisted of inputs (intermediate goods). Intermediate goods importation increased 2.46 times parallel to total import growth in a five years period. The growth of input importation has been the main reason that has brought the import growth. (Şenesen, 2005)

Graphic-4: GSYH ve Industrial Sector Growth Rate



Source: (TÜİK) Turkish Statistical Institute (TurkStat)

The manufacturing sector in Turkish Economy has been as the most important sector because of its added value and its contribution to employment and exportation. The sector is the foundation stone of our economy with its 4.5 million employees and %95 shares in total export. A %24.2 decline (compared with the same month of the previous year) in manufacturing industry's production happened in January 2009, when the severe effects of the crisis were being experienced. At the same time, exportation of manufacturing sector experienced decline at the rate of %26, too. The manufacturing sector was affected from the crisis at a level. And this level affects the national economy directly or indirectly. As a result of the crisis, unemployment rate increased to rate of %16.9 from the rate of %8.9. Furthermore some decreases emerged at the rates of total import, manufacturing industry export and capacity utilization. (Çiçek, Hatırlı, 2009)

The situation of agriculture is not very different; addition to imported input has risen in the same way. The seed amelioration stations outstretched to whole Anatolia are liquidated and moreover the seeds improved in these stations are give place to "genetically reversible" imported ones. Stud import has increased while the domestic stud producing and activities of animal races' reparation farms have being stopped. The Kütahya Nitrogen Manure Installations (as a KiT), which make production by means of azote available in the air, is a good example for this manufacturing dimension. This Installations were liquidated and they gave place to new enterprises that originated in chemical material importation and namely the

importation. The IMF programme liquidates the integrated installations in positions of KiT(state-owned economic enterprise) remarkably. But the agricultural import share in total import is below the added value share. In short, the IMF program has doomed the real sector to input importation in several ways. Two significant results has come out as a result. The first result is 'current accounts deficits' lack in consistency. A historic top in growing current accounts deficits was expected as %8.5(the top border is %5) of the GSYİH in 2008.And the second one is the growth of the foreign debts highly originated in these foreign deficits, some of which are speculative aimed foreign debts. By 2006, Turkey had been among the 15 developing countries whose foreign debts were over %50(considered as the level of danger) of GSYİH. By the end of 2008 it would be through the first ten.

3.3.3 The Comment of the 2008 Crisis In Terms Of Turkey

To reduce the economical events happened in the world to simple terms and ignore them is really a big negligence .Especially the ones who are in charge of managing the country have to take urgent and applicable precautions immediately. Otherwise when evolutions in the world money market are considered, there will occur an obligation of new rate and exchange balance in Turkey. As our country is dependent to other foreign countries in the matter of energy especially, exchange demand increases day by day. Besides, the constriction of our exportation potentiality and our exportation that turn out to be foreign-dependent is a significant source of problem for us. An increase in economical bottlenecks throughout the world and their negative effects on markets are expected. The existing figures show that the future is quiet risky. Hence we have to say that we are just at the beginning of the phenomenon that is defined as crisis.

The economical events happened in Turkey have started to be heavier and affected all parts of the society. Turkey has just welcomed a period in which it must be more careful about the current account deficit. Although the big funds that invest in Turkey's money and capital markets want to continue their investments, they will check their decisions because of the constriction in liquidity. And this may reduce the demand for Turkish Liras. On the other hand the increases in rates may have a positive effect (however limited it is) on current account deficit. If the financial ambiguity takes a long time, the increase in exchange rates may be permanent. And this situation may cause inflation, arising from imported raw materials and search. But this ambiguity will not continue for a long time and if the capital input into the Turkish economy goes on, the increase in the rates may stay limited.(Alantar; 2008; 7)

In the past, the public sector used to show budget deficits and in order to finance that, it used to get debts both in the interior and abroad. As the public finance deficits has been supplied rapidly, public sector reduced getting into foreign debt quietly. The private sector, which benefited from that space, trended to foreign debt by taking rate risk. And it increased the foreign debt stock up to 172 billion dollars from 43 billion dollars in six years. Undoubtedly, private sector's loaning is much better than the public sector's loaning. Because, while the public sector gets into debt for unproductive works, the private sector gets into debt for investment or at least getting by manufacturing. However the recent foreign debt of our private sector has turned into getting by the debts by debts. The total foreign debt stocks of Turkey has been 262 billion dollars since the end of May 2008. 73 billion dollars of the total belongs to the public sector, 17 billion dollars to the Central Bank and 172 billion dollars to the private sector. 60 billion dollars of the total private foreign debts belong to finance sector and 112 billion dollars belong to real sector. The private sector foreign debt stock was 43 billion dollars in 2002. The rate of that stock to GSHY, namely the private sector foreign burden of debt was %18. Today's debt burden, created by 172 billion dollars private sector foreign debt stock is %24. (Karaman; Ekonomik Kriz, İşsizlik ve Yardım; 2009)

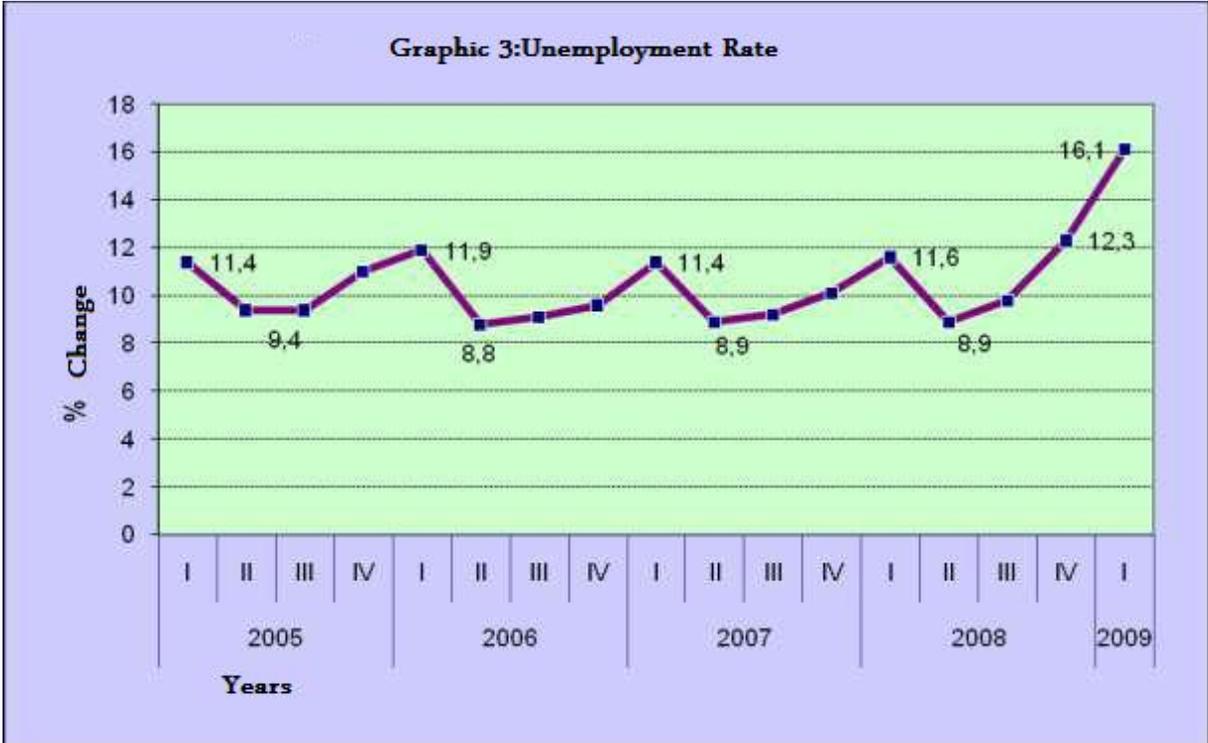
3.3.4 The Overall Results Of 2008 Crisis and Suggestions

The crisis has taken its effects as an increase especially in unemployment. Consumers have reduced the expenditures and the investment demand of private sector has been contracted. The private sector debt hasn't been affected negatively. At present there are between 2 million 300 thousand and 2 million 500 thousand unemployed people in Turkey. In each crisis periods unemployment rates of Turkey enter a new platform. While it was at the rate of 6-8 percent before 2001, it raised to the rate of 8-10 percent after the 2001 Crisis. This crisis may disappear completely in the second part of 2010 in Turkey. Then our unemployment rates will have been placed in a new platform with the rate of 13-15 percent. It will be hard to turn back anymore. (Karcıoğlu; Ekonomik Kriz ve Türkiye)

Let's observe employment which is one of the other important effects of the global crisis on Turkey's economy. The number of the employed people in April 2009 decreased to 20 million 698 thousand people with a 530 thousand loss. And at the same period, 94 thousand employed people working in agriculture sector and 436 thousand people working out of agricultural sector decreased (TSI) As 'off-the-books employment' is also at a high rate in Turkey, the amount of the negative effects of the crisis on labor market hasn't been defined yet. However, there have happened many lay-off incidents in the textile and home appliance sectors that

make export-related production. Moreover some industry installations in several cities have been obliged to vacation shutdowns and some others has been shutdown. (Ünal and Kaya, 2009)

Graphic-5: Unemployment Rate



Source: TUIK (Turkish Statistical Institute) (TurkStat)

A Eurostat research has put forward that the rate of unemployed men during the crisis is more than the rate of unemployed women. And it also has stated that the youth has been affected by the crisis negatively. In that report there is also another comment” Although unemployment rates has decreased throughout Europe for three years, the economical crisis has affected the employment market extremely negative. It is stated that, number of the unemployed people in 27 European country has reached to 21.5 million and only in January 2009, 800 thousand people were became dismissed. Men have been affected by the crisis much more than women. Among the most damaged sectors, there are the automotive industry and finance sector on the top. According to that report, unemployment differences between men and women was going on at the rate of %1.3 between 2002-2007 but that difference nearly has been made up in 2009. So far as the report, this trend is seen in Lithuania, Ireland, Letonia and Estonia distinctly. The unemployment rate among young men in these countries is over women. On

the other hand, unemployment of women is over unemployment of men in 14 EU countries primarily Greece, Italy, Slovakia and the Czech Republic. By the way, the unemployment rate of the young between ages 15-24 increased 4 percent and it reached the rate of 18.3 percent between the beginning of 2008 and of 2009. Since the start of 2009, the number of the unemployed over Europe has been around 4.9 million. the maximum unemployed young exist in Spain with the rate of %33.6. The following countries are Latvia with %28.2 and Italia with 24.9. The European countries that have the lowest unemployment rates are Holland with %6, Denmark with %8.9 and Austria with %9. (Euractiv; Krizde Ençok Etkilenenler Erkekler Oldu; 2009)

The economical crisis has caused worldwide layoffs in many sectors such as automotive industry, telecom sector, drug manufacturing and steel companies... Number of the people who has been dismissed only by international companies reached hundred thousands from September. A financial company, Citigroup from the USA has led the way by laying off 52 thousand people. In financial sector the list goes like that: American Express with 7,000, GMAC LLC with 5,000, National City with 4,000, Goldman Sachs with 3,300, Barclays with 3,000, HSBC with 2,200 and UBS with 2,000 people. The number of the dismissed people in financial sector has exceeded 100 thousand since the beginning of September. Among the non-financial sectors, Hewlett-Packard Company, which displays activity in informatique sector in North America, has been on the top of the list with 24 thousand 600 people. The following companies are: the Japanese giant electronic company Sony with 16 thousand, The English-Australian Rio Tinto, which is the third biggest mining company of the world, with 14 thousand and the biggest telecom and internet company AT&T with 12 thousand people. And some companies have declared that they will layoff employees. These companies are British Telecom with 10,000, Telecom Italia with 9,000, Arcelor Mittal with 9,000, DHL Express BV with 9,500, Wolseley with 7,300, Merck & Co with 6,800, ChTPZ Group with 4,900, Sun Microsystems with 6,000, Whirlpool with 5,000 and Dow Chemical with 5,000 people.

In automotive sector there are also some companies who has declared the same situation. These companies are Renault with 6,000, Daimler AG with 2,300, Volvo with 4,340, PSA Peugeot-Citroen with 3,550, Suzuki with 1,200, Chrysler with 6,000, Ford Motors with 2,260 and Nissan with 2,500 people. And the Italian company Fiat will close up the most of its companies in Italy and will lay off 48 thousand people temporarily. International companies of non-financial sectors have laid off nearly 280 thousand people since September.

International Labor Organization (ILO) has made a warning that, 20 million people will have been dismissed until the end of next year, as a result of the financial crisis' effects on global economy. Juan Somavia, the chairman of ILO has stated that while making rescue plans president of the states should focus on the effects of the crisis not only about the financial corporations but also about the individuals. The expected unemployment rate in OECD region for this year is %5.9. It's predicted that this rate will be %6.9 next year and %7.2 in 2010. (Oğuz, Bozdemir, 2008)

4. Conclusion and Suggestions

Economy administration has misjudged the crisis signals that started 1993 and has failed in crisis management.

- 1- Current account deficit grew in 1994.
- 2- Liquidity was injected to markets in order to decrease interest rates.
- 3- The liquidity increased inflation and exchange demand.
- 4- The political authority estimated that restriction would be possible by selling high exchange reserves. And this restriction would solve the problem. But it didn't work. Because banks had known the coming devaluation. They gathered the sold exchanges with increased prices and the rates didn't decrease in spite of the increased exchange demand.

Later on the crisis happened in Turkey in 2001 created great impacts on GSMH (Gross National Product), growth, inflation, public debts, employment, financial and real sector. All these effects brought forth aggravated outcomes for our economy. The constrictions seen in manufacturing, domestic trade and urban employment after February 2001, has raised the poverty profile. Quite a few people were dismissed as a result of closing down business. Banking sector was another sector that had a heavy blow of the crisis. Number of the banks that was displaying activity in 2002 in banking sector decreased to 54 from 61. The total number of the branch offices 802 decreased and became 6106. The number of the employees working in banks decreased a 14.071 person. Unless Turkey didn't experience these crisis it would be in a more improved situation.

Finally, if we think about the 2008-2009 crises, whose effects still exist, we can give some concrete prudential suggestions. Minimizing the damages will be possible only if the enterprises of Turkey take some precautions by 2010. If they want a solution they should take

into consideration the problems arising from the 2008 and 2009 crisis. Some of the most important precautions are;

- Doing business at the rate of interest,
- Making investments carefully or do them with own interests
- Finding and cultivating new markets,
- Minimizing the foreign debt,
- Reducing expenditures and using the available conditions ideally
- Diversifying the credit sources and searching for cheap credit opportunities(Especially the Credit Guaranty Fund may be examined)
- Appealing to domestic market as much as exportation and establishing an optimal market structure.
- Heading for product range and market classification, searching for products that will appeal to low income group.
- Editing the formation of management-organization and consolidating the shortcomings by new professionals.
- Making investment decisions about the fields that have high transforming capability.
- Preparing several scripts for a possible crisis by making short, medium and long term crisis plans.

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