# Hiçbir şey Değişmiyor. Nothing Changes

Written by Rory Glass

If this week has taught us anything, it's that Erdoğan's grip on power and the market's rejection of Erdoğan's grip on power continue in equal measure. Last Sunday, Recep Tayyip Erdoğan secured another five-year term as Turkey's president following a run-off election which saw him take 52% of the votes, against Kemal Kilicdaroglu's 48%. Though, as Erdoğan rose to the podium overlooking the Presidential Palace in Ankara, the lira continued to sink. Such was the run of the lira, the currency hit historic lows against the dollar as the market feared over the prospect of another five years of unorthodox fiscal and monetary policies.

Sunday's election comes against a backdrop of increasing political and socio-economic polarisation across the Republic as people all sides of the political spectrum charge Erdoğan's AKP party with suppressing civil liberties and damaging the economy. Since becoming prime minister in 2003, Erdoğan has successively consolidated his grip on executive, legislative, judicial, and monetary power through constitutional amendments and use of force. For example, Erdoğan's moves to consolidate political power culminated in 2017, when following a failed coup d'état he abolished the office of the Prime Minister, swallowing up much of its power into the Presidency. Furthermore, Erdoğan's project to consolidate his grip on monetary power has seen him dismiss central bankers with impunity, appointing 'dalkavuk' or 'yes-men' in their wake as he commits to cutting interest rates despite soaring inflation.

The detrimental impact to the economy has been indisputable. Last October for example, inflation hit 85.51%, signalling the highest level in 24-years while the worsening economic climate has resulted in the Turkish lira losing over 78% of its value against the US dollar over the last five years. These eye watering figures are merely the latest consequence of Erdoğan's economic mismanagement which is this article's primary focus.

**From Turkish Delight to the lira's plight: Boom and bust in the Turkish economy**

Turkey has been a paradigm boom-and-bust economy over the last three decades. In 1996 for instance, following years of investment into the country and relative growth, the IMF highlighted concerns over the poor-health of the country's banking sector and warned over a looming financial crisis. Then, as fireworks fell to mark the turn of the millennium, the international banking community began to suspend interbank credit lines to many Turkish banks, having devastating implications on the wider economy. The loss of credit lines for Demirbank – one of the country's largest banks – for example forced them to sell a stake in their government securities portfolio, subsequently acting as the impetus for a wider sell off in the securities market, raising the cost of borrowing for Ankara. This crisis reached its zenith on the 30 November 2000 after the Turkish Central Bank (the CBRT) announced that it would suspend emergency credit lines, deepening the crisis. By 6 December, Demirbank had collapsed.

Following the ensuing credit crunch, The IMF provided a USD $10.5bn line to Turkey which it used to buy up lira and regain some of the lost ground that it had suffered within the crawling peg exchange rate. However, by February 2001, as factions between the President and Prime Minister worsened both parties declared to the nation that there was "a serious crisis". Trust across domestic and international markets subsequently collapsed. And just hours after these infamous remarks, the Istanbul Stock Exchange fell by around one-sixth while interbank interest rates increased a gargantuan 8,000%. The CBRT was also burning through foreign exchange reserves like it was going out of fashion as the country's current account deficit also soared. Accordingly, the CBRT took the lira off the crawling peg exchange rate and allowed it to float freely in the FX market. While many analysts saw this as necessary, it led to the lira losing around one-third of its value against the dollar, further exacerbating Turkey's financial crisis. The IMF's premonition had been realised. Turkey was in deep trouble.

In the wake of Turkey's economic crisis of 2002, Erdoğan's Justice and Development Party (AKP) took power. Shortly after, Erdoğan deregulated many of the barriers-to-entry for foreign investors which attracted considerable levels of FDI. However, while Turkey enjoyed an average annual growth rate of over 3% between in the decade following the crash, the current account deficit grew from USD $600 million to USD $58 billion, indicative of Turkey's monumental reliance on the appetite of foreign investors.

Though some of the ground lost during the 2002 crash was gained in the boom period of the noughties and early teens, by 2018 the fragile Turkish economy was back in a bust from which it is yet to recover. The Turkish delight was turning truly sour and by late 2018, headaches caused by the growing current account deficit; the high levels of debt denominated in foreign currencies; the plummeting lira; and the disastrous socio-economic impact of many of Erdoğan's political projects had developed into a migraine. Enter Erdoğan 's medicine…unorthodox monetary policy.

**Enter Erdoğan**

Central to Erdoğan's unorthodox monetary policy was his campaign against interest rates which he called the "mother of all evil". As such, the President committed to continually lowering rates in the run up to the 2023 elections. Any dissenting policy makers were swiftly ejected by Erdoğan whose executive power enabled him to hire and fire at will. Accordingly, he delivered on his commitment to cut interest rates, despite inflation continually rising. Between June 2021 and October 2022 for example, inflation rose from 17.5% to 85%, yet the CBRT cut interest rates from 19% to 12% over this period. Indeed, with inflation soaring over the summer of 2022, one senior economist at Goldman Sachs maintained that in order for Turkey to achieve their target inflation rate of 5%, interest rates would need to rise to 26%. No such monetary tightening ever came.

The market's rejection of this unorthodox approach was manifested though the lira's sell-off, which further rose the cost of living for the import-heavy country while household savings were also erased. With Ankara attempting to address the rising cost of living, in December 2021, Erdoğan announced a 50% hike in the country's minimum wage to 4,250 lira per month (c.$275) though this served only to fuel the wage-price spiral.

As such with the value of the lira plummeting, many Turks began depositing their wages and converting their savings into foreign currencies – primarily the US dollar. This process further exacerbated pressure on the lira as the sell-off continued. Last year for example, it was estimated that around half of deposits in Turkish accounts were held in foreign currencies, and this trend will likely continue as the economic situation deteriorates given post-election uncertainty. In an attempt to counter this however, Ankara has placed stricter controls on companies' exchanging FX and established savings account which promises to safeguard depositors against further depreciations in the lira.

With investors weighing on the continuation of Erdoğan's 'unsustainable' policies given his re-election, the lira dropped over 1.2% against the US dollar during Monday's session. This comes as the

CBRT's currency reserves have dropped by some $27bn since January as policy makers frantically attempt to keep the lira afloat. With official data suggesting that Turkey has just over $100bn left in FX and gold reserves, their vital lifeline is increasingly running dry. Moreover, as JP Morgan recently noted when one considers Turkey's net reserves – which removes liabilities – such reserves are in effect zero and even negative when accounting for borrowed money from the country's banking system. As investors weigh on these considerations, the sell-off of the lira has merely continued.

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Having secured another five years and inflation still in excess in 40%, perhaps then it was time for Erdoğan to go back to the fundamentals of economics? Seemingly not. During his acceptance speech for example, the AKP leader continued his commitment to lower interest rates declaring that "if anyone can do this, I can do it…"[the CBRT's interest rate] has now been reduced to 8.5% and you'll see inflation will also fall." With Erdoğan doubling down, the lira plummeted as Turkish credit-default-swaps and bond yields rose. Hiçbir şey değişmiyor.

In Turkey, a famous idiom goes 'Sütten ağzı yanan yoğurdu üfleyerek yer'. This is the Turkish equivalent to the English saying, 'once burnt, twice shy'. Though while the last five years have seen Erdoğan deliver a strong burn to the Turkish economy, there is no sign of any shyness. His renewed campaign against interest rates suggests that the heat of Turkish inflation will merely continue to run hot with burns. As we enter Erdoğan's next term, it's clear then…

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