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Vol. 6, No. 5, September - October 2022

The Turkish Economy in Flames

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This November, Turkish President Recep Tayyip Erdoğan's Justice and Development Party (AKP) will mark two decades in power. Apart from making Islam the dominant unifying glue of the nation and embracing less advantaged segments of society, to a great extent, Erdoğan owes his success at the ballot box to the economic prosperity that was felt during his first decade in office.

From Prosperity to Stagnation

During AKP's first decade in power (2002-2012), many underprivileged Turks managed to ameliorate their socio-economic status and became richer. This prosperous environment bolstered local entrepreneurship as well as foreign investment. As a result, in less than ten years, the Turkish economy and its entire infrastructure made significant progress and grew substantially. By building subway systems, bridges, and highways Erdoğan managed to directly improve the daily lives of the Turkish people. However, this steady positive trend began to shake in 2013 when the Gezi Park protests erupted. What had started as a local environmental protest has turned into an 85-days long opposition demonstration campaign against the government's excessive centralization attempts. The government's harsh stance at the time, and police suppression of the protests, sparked the first serious diplomatic friction between the West and Ankara.

Since the Gezi Protests in 2013 Turkish economy has entered stagnation. This is reflected by the devaluation of the Turkish Lira vis-à-vis the US Dollar. At the end of the Gezi Park protests in September, one US Dollar could be exchanged for two Turkish Liras. A trend of gradual deterioration continued in 2015 when Erdogan lost his parliamentary majority and had to form a coalition with the Nationalist Movement Party (MHP). Unsurprisingly, this coalition halted the peace process between the Turkish government and the Kurdistan Workers Party (PKK). A military operation against the PKK in country's southeast and eastern regions resulted in Lira's further devaluation to three Liras/\$US. This steady negative trend accelerated when Turkey was devastated with a failed coup attempt on July 15, 2016. The massive purge that was launched right after the failed coup attempt against the coup perpetrators and the opposition figures such as the Kurdish People's Democratic Party (HDP) leaders

Selahattin Demirtaş and Figen Yüksekdağ deepened the fragmentation of the society. A new aggressive foreign policy driven by the MHP emerged in this tense environment that resulted in Turkey's extra-territorial military operations in northern Syria and led to a further devaluation of the Turkish Lira to four Liras per \$US.

The Rift with the West

However, in retrospect, despite the Turkish Lira's relative decline, the real economic crisis took place when Turkey and the United States engaged in a diplomatic dispute when Ankara refused to free the American Pastor, Andrew Brunson, who was held in the Turkish prison under espionage charges. Ankara's unwillingness to free Brunson and its usage of the American pastor as a bargaining chip - to extradite the Turkish cleric Fethullah Gülen to Turkey due to the charges that he had apparently orchestrated the failed coup attempt - pushed the Trump administration to impose sanctions against Turkey. In this framework, as the US Senate began to make necessary preparations for preventing credit transfers from international finance institutions to Turkey, the Turkish ministers of interior and justice were blacklisted by the US government. These unprecedented developments accelerated Turkish Lira's devaluation to 6.95 Liras vis-à-vis one US Dollar.¹

The vulnerable Turkish economy began to crumble even further when the COVID-19 pandemic erupted. The aviation and tourism sectors, which are considered among the most important sources of national income, fell considerably in the wake of global lockdowns bringing down the Turkish economy. These negative trends have deepened the crisis following a new diplomatic crisis with the West further due to Turkey's reluctance of stopping the refugee influx into Europe via Greece and its purchase of the Russian made S-400 anti-ballistic missiles. The latter, in particular, pushed the US to impose the CAATSA* sanctions against the Turkish Defense Industry Agency (SSB).

Tension with the EU escalated when the Western countries' ambassadors to Turkey – including those of the EU, Canada, New Zealand, and the US - jointly criticized the Turkish judiciary for the continuous detainment of Turkish philanthropist Osman Kavala since 2017 for his role in the Gezi Park protests. Western perceptions of this infamous event as an example of the arbitrary nature of the Turkish judicial system deterred the influx of new Western foreign investment to Turkey.²

A Misleading Economic Strategy

Trust in the Turkish economy further eroded when President Erdoğan openly intervened in the Turkish Central Bank's independent interest rate hike policy. Using unprecedented means to acquire full control on the Turkish Central Bank, Erdoğan pressured the governors in office and caused them to resign. This brought to light the instability in Turkey's monetary policy. In less than two years, from July 2019, Erdoğan nominated three different consecutive governors.³ The same phenomenon was also seen in the Turkish Ministry of Finance. Lütfi Elvan who was welcomed by the business circles as a saviour of the Turkish economy in 2020 was replaced with

* Countering America's Adversaries Through Sanctions Act - CAATSA.

the current Minister of Finance Nureddin Nebati in December 2021 - who has failed to gain the confidence of the market due to his anti-interest rate hike policy.

Even though cardinal economic principles indicate that raising the interest rate would slow or reverse the currency's devaluation, Erdoğan adopted the exact opposite strategy. With his famous byword, "the interest rate is the reason, and the inflation is the consequence" Erdoğan sought to defend his anti-interest rate hike policy based on Islamic principles.⁴ While this new economic theory has failed to deliver a remedy to Turkish economy, so far, the current Central Bank governor Şahap Kavcıoğlu has met his president's expectations. Today, despite criticism, under Kavcıoğlu, the Central Bank tends to decrease the interest rate instead of raising it. For example, on September 22, the Turkish Central Bank lowered the interest rate to 13 percent.⁵ Following this populist act, the Turkish Lira reached an all time low: 18.56 Turkish Lira/US Dollar.⁶ The current status of inflation should alarm Ankara. According to the Turkish Statistics Organization (TÜİK) July 2022 inflation rate stood at 79.6 percent.⁷ However according to the independent scholars' platform ENAG the inflation rate is over 176 percent.⁸ Indeed, this huge gap between the two statistics, despite the fact that the trend of extreme rising prices can be witnessed in the Turkish market on a daily basis, raises questions regarding the credibility of the government.

The Cost of the Living for Citizens

Though the cost of living affects almost every Turkish citizen, the Turkish TV channels and the mainstream newspapers prefer not to cover this story in a critical manner due to enormous government pressure. Instead of functioning as the watchdog of the democracy, these media organs tend to report only the latest developments in the market without criticizing the government for its fiscal policies. The voices of the ordinary citizens who suffer from the high prices cannot be heard through these channels.

As a result, many Turkish citizens use social media to voice their concerns. Apart from expressing their disappointment through Twitter and Facebook, new web-based YouTube TV channels have emerged to fill the lacuna created by the uncritical mainstream media. In contrast with the institutionalized TV channels, the YouTube-based ones conduct street interviews with ordinary citizens. Once presented with a microphone and questions about their hardships in life, many Turks are willing to provide short interviews explaining their difficulty in ending a month with a very limited income and high prices. Striking comments like not being able to buy meat, chicken or fish products, or the necessity of buying them from unauthorized vendors in small portions constitute the vast majority of these complaints.⁹ While these middle-class-originated grievances highlight the seriousness of the deteriorating economy, the situation of the weaker social classes is alarming. Many Turks that belong to lower segments of the society state that they fast daily to minimize their portions while the consumption of flour, pasta, rice, bulgur, and other grains rose dramatically. The fruit and vegetable sector is also affected by the high prices. Many Turks complain that they cannot buy fruits and vegetables by weight in bulk, but instead they are buying them individually.¹⁰

The severity of the economic situation can also be understood by examining the traditional Turkish food market. The famous Turkish bagel "simit" which was sold in

the market for Lira in 2018 can be bought today for four Liras. The dramatic price jump has influenced consumption behaviors dramatically. While many Turks complain of the high prices of simit, stronger households tend to donate simits to the needy. Once a rare phenomenon, "askıda simit" (simit on hold) today can be seen in many bakeries in Turkey. Accordingly, a "simit donor" buys a certain number of simits and places them in a certain location in the bakery so that the needy can approach and take the simit free of charge.¹¹ Another creative solution was also seen at the famous Turkish Baklava stores. Given the radical price increase of pistachios and walnuts many Baklava stores which complain from the radical decrease in their sales have begun to market their latest product: the 'empty baklava'. While many Turks are irritated with this new phenomenon, some baklava stores are satisfied with the results.¹²

In addition to food prices, inflation also affects transportation, restaurants, textiles and real estate values. According to TÜİK the housing price index stands at 96.41 percent. The COVID-19 pandemic, along with the devaluation of the Turkish Lira and with high interest rates decreased supply in the construction sector. Yet due to demographic growth the demand for housing continued to rise steadily. As a result, the real estate prices in Istanbul rose by 209.62 percent, while other prominent industrialized cities like Antalya (210.27 percent), Diyarbakır (166.1 percent), İzmir (166.41 percent) and the capital, Ankara (150.73 percent) also followed the trend.¹³ Apartment rent prices have risen on top of the housing shortage. However, the sharp price rises in the market creates sociological problems between the landlords and the tenants. Given the rising inflation many landlords demand a higher rent while the tenants are not willing to pay the new price. At the same time, most tenants prefer to stay rather than have to pay a higher price for rent elsewhere. Indeed, many tenants prefer to have a legal war with their landlords that could take several years. Any tactic used to survive this economic turmoil is a valid one.¹⁴

Many Turks who cannot afford rent tend to move back to their parents' homes. Indeed, this phenomenon has paved the way for serious sociological problems, such as where new couples are unable to get married and start their independent lives. Moreover, the increasing number of rich foreigners and refugees who come from Russia, Ukraine, Iran, and Qatar tend to pay higher rent compared with Turks. This shrinks the supply of apartments leaving many Turks who cannot buy homes stuck in desperation.

Certainly, this feeling of hopelessness is deepening due to the rising electricity prices. In 2016, while Turkish citizens paid 40 Kuruş (Cent in terms of Liras) per KW/h this tariff rose to 1.37 TL in 2022. In addition, if a household consumes more than 150 KW/h in a month than the tariff for a higher consumption raises their rate to 2.06 Liras. Unsurprisingly many Turks who received astronomical electricity bills in February of this year organized street protests and burned their bills in the city squares.¹⁵ However, this did not push the government to change its position.

This gloomy picture has pushed some citizens to take radical actions. While many educated Turks choose to leave Turkey for better working conditions in the EU and other countries, the vulnerable segments of the society make unpredictable moves. For instance, on May 31, an anonymous citizen set himself on fire next to one of Istanbul's most well-known tourist spots, the Galata Tower. While the mainstream TV

channels and newspapers tended to ignore this groundbreaking event, only a few internet news portals provided the news to their readers while stressing that “the reason of the act is unknown.”¹⁶ In retrospect, the efforts to censor the event could easily be seen, since the identity and any further medical information of the victim was not shared with the public after his admission to the hospital.

Indeed, the Turkish government seeks to minimize the public discourse on the cost of living and the deteriorating economy. Thus, at the end of May, the AKP initiated a new bill seeking to silence critical social media. Accordingly, thanks to the new reform that will be enacted in the Turkish Penal Code, a person could be imprisoned for “threatening the well being of the society by deliberately disseminating fake news.” The Turkish Journalists’ Syndicate slammed the bill by stating that - if passed by parliament - the bill will deepen censorship in the country.¹⁷

Conclusion

President Erdoğan faces the most challenging situation of his career in twenty years. According to the latest public surveys that were conducted by various companies, Erdoğan's AKP still maintains a plurality of support. However, for the first time, the AKP (roughly – 30 percent) and its nationalist allies, the MHP (8 percent) cannot reach a majority together. Despite this promising picture for the opposition, the anti-Erdoğan camp still has not officially produced its own candidate to challenge the Turkish president. At this stage the secularist CHP (25 percent), the nationalist İyi Parti (15 percent), the Kurdish HDP (11 percent) along with Ali Babacan's DEVA (3 percent) manage to pass 51 percent of the pie.¹⁸ However, given the political rift between the Turkish nationalists and the Kurds, the fragility of the anti-Erdoğan bloc remains the most important question of Turkey's near future.

In the meantime, by highlighting his ambitious infrastructure projects that have been built throughout the years, Erdoğan attempts to survive politically by reminding the Turkish people of the prosperous days of his rule. While enjoying most of the credit for this prosperous past, the Turkish president also seeks to distract his people's attention to other issues besides the economy. The conversion of the Hagia Sophia from museum to a mosque and igniting the political crisis with Greece in the Eastern Mediterranean and the Aegean Seas around the sovereignty question of the Greek islands next to the Turkish mainland, can be seen as part of Erdoğan's latest daring maneuvers to remain in power. In the meantime, in the absence of a unifying official opposition candidate for the presidency, the Turkish people continue to countdown to the June 2023 elections. Perhaps this will be the last chance to stop Turkey's brain drain ramifications of which will be only seen in the long run.

The opinions expressed in MDC publications are the authors’ alone.

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Notes

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