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NEOLIBERAL UNSHARED GROWTH REGIME OF TURKEY IN THE POST-2001 PERIOD

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ABSTRACT

After the 2001 crisis, Turkey continued to pursue a radical market-oriented reform strategy that followed the philosophy of the Washington Consensus. By the early 2000s the government had already liberalised the capital account, privatised many banks and enterprises, and kick-started the processes of financialisation. The government had also withdrawn from redistribution and social justice policies. Gross domestic product (GDP) growth in the post-2001 period was relatively high, but it was a "jobless" growth caused by substantial productivity increases generated largely by intensifying the work process rather than by technological advancements. Today, Turkey is still characterised as a country with very high income inequality. The economic growth in the post-2001 period benefited the society very unequally. This type of growth regime harbours great economic risks and is socially unjust. The development of Turkey is vulnerable thanks to the high current account deficit, high currency mismatch particularly in the enterprise sector, high income inequality, high unemployment, and an unsatisfactory development of the industrial sector despite some limited successes. We recommend a new development regime with selective capital controls, a balanced current account, an active industrial policy by the government, stronger unions and employer associations combined with coordinated wage bargaining on the sectoral level, and, last but not least, redistributive policies aiming to achieve a more equal income distribution.

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1. INTRODUCTION

After two decades following an industrialisation strategy based on import substitution, the Turkish government, in the 1980s, initiated trade and financial liberalisation and launched an export-oriented economic strategy.[1] Between 1989 and 1991 it liberalised the capital account. In the 1990s and especially in the early 2000s, the Turkish economy was characterised by deep instabilities. The financial crisis in February 2001 caused a sharp contraction of GDP and a drastic rise of unemployment. Only in the post-2001 period relatively stable and high GDP growth rates could be achieved. Due to its economic performance and its market-oriented open economy, Turkey has been labelled the "promising star" (The Economist, 2005). In 2011 a CEO of one of the largest conglomerates in Turkey characterised the country as the "China of Europe" (Hermann, 2011). Despite these apparent successes, this paper questions the sustainability of Turkey's growth performance in the post-2001 period. We assert that Turkey's macroeconomic regime might have been defective, and that it might not be able to sustain growth in the long-term. In fact, it inherits great social and economic fragility compiling to considerable economic risk. The recent social unrest observed also reflects this.[2]

First, this paper will present a short economic history of Turkey and second, its economic development of the 1990s and especially of the post-2001 period. And thirdly, this paper will give a detailed description of the Turkish growth regime and portray future development scenarios.

[1] Turkish government initiated an extensive liberalisation program in January 1980. For example, trade libreralization, privatizations and domestic financial liberalization in some areas were among the major pillars of this program.

[2] This paper was mainly completed at the end of the year 2012, before the beginning of the nation-wide anti-government protests in late May 2013 and the subsequent political tensions in Turkey.

2. A SHORT ECONOMİC HİSTORY OF TURKEY

The Republic of Turkey was founded in 1923. Between 1923 and 1950 the government began to aim at fostering "national economic sovereignty" in the long-term (Öniş & Riedel, 1993, p. 9). To achieve this, it focused on supporting the private sector by establishing investment banks and providing tax relieves and subsidies to encourage private investments. In the 1930s however, the government abandoned this strategy due to its insufficient success. After this up until the 1950s, the government implemented an economic system often referred to as ètatism which included elements of central planning.[3] Throughout this period, Turkey had a public-sector dominated economic structure. Most of the enterprises, especially the strategic ones, were owned by the state.

Between 1950 and 1960 the private sector increased its share of the economy and state planning began to fade out despite the large amount of public enterprises. Other characteristics of this period were high inflation combined with a real appreciation of the Turkish Lira (TL)[4], a deterioration of the trade balance, and an increase in external debt. In 1958 the government initiated a stabilisation program which decreased the inflation rate. Nevertheless, a political unrest escalated in the late 1950s. As a result of this turmoil the military took over the government and the country fell into a dictatorship in May 1960. The establishment of new political parties were allowed in February 1961.

Following this between 1960 and 1980 the government took on a bigger role and emphasised the development of key industries in the economy (Öniş & Riedel, 1993). To achieve this, the government implemented import substitution and promoted industrialisation as its most important development strategy. Throughout this period, the share of industries contributing to GDP increased mainly due to state-owned enterprises. Despite the import substitution strategy the trade deficit increased along with foreign indebtedness. In the late 1960s, conflicts between right and left wing groups increased. In 1971, as a result of this political instability the military forced the government to resign and organized the establishment of a new government. This new government lasted until October 1973, when general elections were held. During the 1970s foreign debt in Turkey increased sharply which led to a severe debt crisis at the end of the 1970s. After that, the Turkish government signed two stand-by agreements with the International Monetary Fund (IMF) in 1978 and in 1979. Both agreements, however, were not pursued, because the Turkish government did not fulfil the IMF's demands. Yet, the government initiated a program for structural-adjustments where it favoured export-oriented development and market

[3] Öniş and Riedel (1993, p. 10) argued that ètatism is considered "a unique mixture of capitalism and socialism" by the Turkish government.

[4] In January 1, 2005, the currency unit of Turkey changed from TL to New Turkish Lira (YTL) by deleting six zeroes from the currency. The currency had been called YTL for some years. Recently, the currency of Turkey is called TL again.

liberalisation. Among other things, the government deregulated the domestic financial system and relaxed international capital controls slightly. Mounting instabilities in the economic and the political sphere led to another military takeover in September 1980 lasting up until November 1983 when new general elections were held. During this time the military regime supported the liberalisation process, devalued the currency sharply in order to promote exports and lifted most import restrictions. As a result, export performance improved during the 1980s and the current account deficit turned into a surplus by the end of the 1980s. Until the end of the decade, economic growth was stable in Turkey.

During the 1990s, volatile short-term capital in-and-outflows led to boom-bust cycles in Turkey. Subsequently two financial crises occurred in 1994 and 2001 which led to substantial contraction of economic activity, very high unemployment rates and social unrest.

3. THE DEVELOPMENT REGİME OF THE 2000S

3.1. Demand, GDP growth and employment

In contrast to the period between 1990 and early 2000s which was characterised by financial crises, the Turkish economy experienced stable and strong GDP growth in the post-2001 period. At first glance this led to believe that the economic performance improved (see Table 1). During the post-2001 period private consumption was the largest component of aggregate demand (corresponding to the shares of aggregate demand found in other countries) and rose slightly in the 2000s (see Appendix I). The rapid expansion of consumer loans and credit cards played an important role in this development. For instance, retail loans (the sum of consumer loans and credit cards) as a percentage of final consumption expenditure increased drastically from 5.6 per cent in 2003 to 21 per cent in June 2007 (Central Bank of the Republic of Turkey / CBRT, 2007a).

The second largest component of aggregate demand was gross fixed capital formation measured as a percentage of GDP. It was lower on average in the post-2001 period than in the 1990s, and it continued decreasing in this period (Rodrik, 2009; The World Bank, 2012).

The share of government consumption in aggregate demand was limited, due to the small size of the public sector in Turkey.

Turkey's external balance of goods and services is especially interesting. In the 1990s it has been negative in most years and later deteriorated exceptionally in 2011 where a very high deficit of 8.9 per cent of GDP persisted and an even higher current account deficit was observed (The World Bank, 2012) (see Appendix II).

Table 1: Turkey - main macroeconomic indicators

Years	Real GDP growth rate (%)	Inflation rate (%) CPI[a]	Inflation rate (%) GDP deflator	Employment growth rate (%)	Unemployment rate (%)	Consolidated budget balance/GDP (%)	Outstanding domestic public debt/GDP	Public foreign debt/GDP (%)
1990	9,3	60,3	58,2	1,7	8,0	-2,3	14,5	27,6
1991	0,7	66,0	59,2	3,9	8,2	-4,0	15,5	28,1
1992	5,0	70,1	65,2	0,9	8,5	-3,2	17,8	27,1
1993	7,7	66,1	68,4	-5,2	9,0	-5,0	18,0	26,0
1994	-4,7	106,3	104,7	7,5	8,6	-2,9	20,7	39,4
1995	7,9	93,6	86,0	2,8	7,6	-3,0	17,5	31,9
1996	7,4	80,4	77,2	2,9	6,6	-6,2	21,3	28,9
1997	7,6	85,7	81,5	0,1	6,8	-5,8	21,8	26,7
1998	2,3	84,6	138,0	2,6	6,9	-5,5	16,5	20,1
1999	-3,4	64,9	54,2	1,2	7,7	-8,9	21,9	22,0
2000	6,8	54,9	49,2	-2,2	6,5	-8,2	21,9	24,0
2001	-5,7	54,4	52,9	-0,3	8,4	-12,4	50,9	36,4
2002	6,2	45,0	37,4	-0,8	10,4	-11,9	42,8	37,2
2003	5,3	25,3	23,3	-1,0	10,5	-8,8	42,7	31,4
2004	9,4	10,6	12,4	-7,7	10,8	-5,4	40,2	24,7
2005	8,4	7,7	7,1	2,2	10,6	-1,3	37,7	17,7
2006	6,9	9,6	9,3	1,8	10,2	-0,6	33,2	16,4
2007	4,7	8,4	6,2	1,5	10,3	-1,6	30,3	13,8
2008	0,7	10,1	12,0	2,2	11,0	-1,8	28,9	12,6
2009	-4,8	6,5	5,3	0,4	14,0	-5,5	34,6	15,7
2010	9,0	6,4	5,7	5,4	11,9	-3,6	32,1	13,7
2011	8,5	10,4	8,6	6,3	9,8	-1,3	29,9	19,9

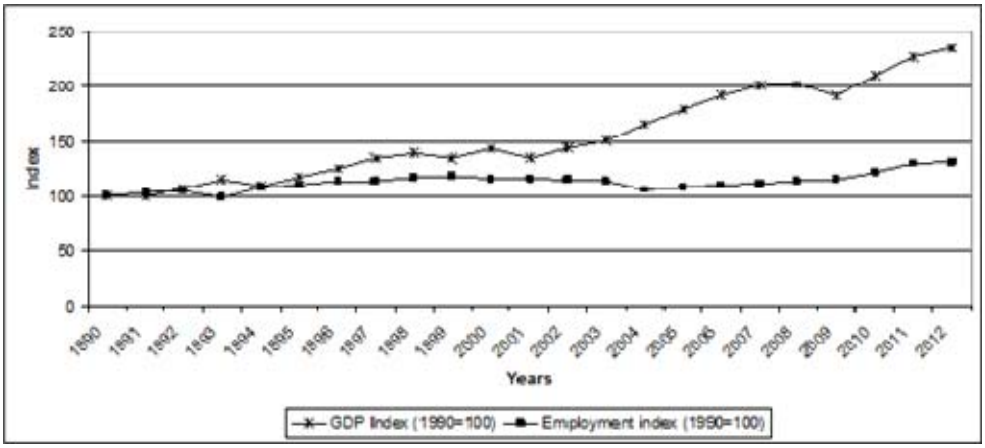
aCPI: Consumer price index

Source: Annual macro-economic database/ AMECO (2012); CBRT (2012a, 2012b); Republic of Turkey Ministry of Development (2012); Republic of Turkey Ministry of Finance (2012); Republic of Turkey Prime Ministry Undersecretariat of Treasury (2012); Turkstat (2012a); authors' calculations.

The average growth rate between 2002 and 2007 was 6.8 per cent (The World Bank, 2012), but looking at overall growth during the 2000s or the earlier decades the result seems less impressive.[5] As depicted in Diagram 1 below Turkey experienced an almost "jobless growth" in a sense that increase in employment was so slow compared to the increase in real GDP. Official unemployment rates usually remained above 10 per cent in the post-2001 period (The World Bank, 2012). In reality, however, unemployment rates were much higher. For example, Aydıner-Avsar and Onaran (2010) pointed out that the number of discouraged workers in Turkey increased dramatically in the post-2001 period. According to their estimates their share in the total labour force was around 2.7 per cent in 2007.

[5] When the 2001 crisis and the global crisis of 2008-2009 are considered, the average growth rate of the 2000s becomes 3.8 per cent. The average growth rates in the 1960s, 1970s, 1980s and 1990s were about 6.4 per cent, 4.7 per cent, 4.1 per cent and 4 per cent, respectively (The World Bank, 2012).

Diagram 1: Real GDP and employment indices in Turkey (1990=100)



Source: AMECO (2012); authors' calculations

Between 2000 and 2007, the number of people employed in the industrial sector increased from 3.8 million to 4.3 million. In the service sector employment rose from 10 million to 11.6 million, whereas in the agricultural sector employment decreased from 7.8 million to 4.9 million (Republic of Turkey Ministry of Development, 2012). Thus it becomes obvious that the service sector and the industrial sector could not absorb the loss of employment in agriculture in this period. Many people who left the agricultural sector were employed in the service sector as informal labour in urban regions (Yeldan, 2011).[6]

After 2001 radical market-oriented policies especially in the labour market were accompanied by persistent high unemployment rates in Turkey. It does not come as a surprise that working conditions for most workers are very unstable for example, temporary employment accounted for around 13.4 per cent of total employment in 2011 (Eurostat, 2012).

In the manufacturing sector, high productivity increases are related to the relatively low creation of employment in the post-2001 period. Turkey is in fact one of the countries with the highest productivity increases among the countries of the Organisation for Economic Co-operation and Development (OECD) (OECD, 2010). Between 2001 and 2011 industrial production increased by approximately 72.9 per cent (IMF, 2012a; authors' calculations), whereby employment rose only by approximately 24.6 per cent within the industrial sector (AMECO, 2012; Republic of Turkey Ministry of Development, 2012; authors' calculations). It has been argued that the "great entrepreneurial spirit of the Turkish people" (OECD,

[6] The share of agricultural sector employment in total employment was around 36 per cent; the share of industrial sector employment around 17.7 per cent and the share of services sector employment around 46 per cent in the year 2000. In 2011, the share of agriculture decreased to around 25.5 per cent; the share of industry increased to around 19.5 per cent and the share of services increased to around 55 per cent of total employment (AMECO, 2012; Republic of Turkey Ministry of Development, 2012; authors' calculations).

2010, p. 110) has played an important role in this trend. It has also been stressed that a surge in foreign direct investments (FDI) combined with an increase in foreign competition have led to technological progress and know-how, and the incentive to produce more efficiently (OECD, 2006, 2008a, 2010). Other explanations have been much more critical for instance, The World Bank (2006, p. 15) argued that "part of the increase in productivity since 2001 has been due to the increased working hours per worker rather than increased factor productivity per worker". This implies that work intensification played a considerable role in the productivity growth per worker in the manufacturing and service sectors. Yeldan (2008, p. 4) further argued that domestic industries became more and more dependent on imports which led to an "adaptation of increasingly capital intensive and foreign technologies" which had a negative impact on employment. Bağımsız Sosyal Bilimciler (2005) suggested that high productivity was caused by privatisations and restructuring of enterprises. These modifications led to a decrease in employment and did not lead to new investments or technological progress sufficiently enough, whereby the work burden increased. Again this suggests that the intensification of work and not the improvements of technology, as it has been argued by others, contributed most to the increase in productivity. Similarly, the CBRT implicitly stressed this issue as follow: "[...] as a result of increased capital deepening and *more efficient utilization of [the] labor force* by manufacturing firms due to increased competition, labor productivity increased substantially in recent years [emphasis added]" (CBRT, 2007b, p. 36).

3.2. Integration into the world market

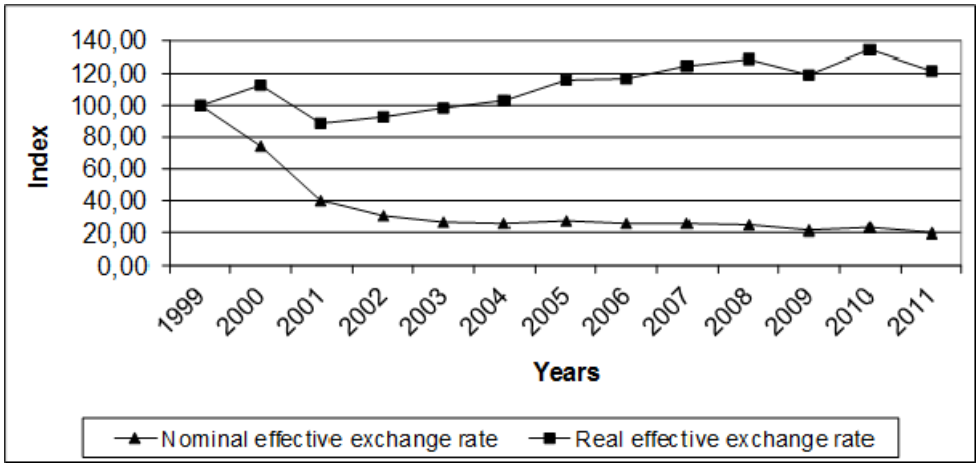
Turkey was one of the countries integrated in the Bretton Woods system. After the breakdown of this system in the early 1970s, Turkey implemented various types of exchange rate regimes until recently.

In the early 1970s, a managed floating exchange rate regime was introduced; however, the TL became unstable. After the crisis in the end of the 1970s the structural adjustment program in 1980 allowed the TL to devalue sharply to promote exports in Turkey. After this, a crawling-peg exchange rate regime was introduced. In May 1981, Turkey again switched back to a managed floating exchange rate regime aiming to reduce short-term volatility. Until 1988 the TL gradually devalued in line with the inflation rate keeping the real exchange rate unchanged. In 1999, a crawling-peg exchange rate regime was announced again to support the disinflation program introduced in collaboration with the IMF. After the economic crisis in 2001, this regime was also abandoned and since then, Turkey's official exchange rate regime has been a free-floating one.

During the 1990s the nominal effective exchange rate of the TL experienced extreme depreciations which culminated into a currency crisis in 2001. After 2001 the nominal exchange rate became, compared to the 1990s, relatively stable. In the second half of the 1990s the real effective exchange rate of the TL appreciated but then sharply depreciated during the currency crisis in 2001. In the post-2001 period the real effective exchange rate signalled a permanent and

substantial real appreciation until 2008 after which the real external value of the TL remained, despite some fluctuations, at a stable level (see Diagram 2).

Diagram 2: Nominal and real effective exchange rate indices (1999=100)[ab]



[a] Increase shows appreciation
[b] Based on the following trading partners of Turkey: European Union (EU) 15 and Australia, Canada, United States (US), Japan, Norway, New Zealand, Mexico and Switzerland
Source: Eurostat (2012)

As part of the structural adjustment program in the 1980s export-oriented production and liberalisation took place. For example, the capital account has been fully liberalised between 1989 and 1991. In combination with this, the central bank increased interest rates to slow down depreciation and to control persistent inflation (Boratav, Yeldan, & Köse, 2001). In the 1990s and 2000s large capital inflows led partly to a high current account deficit due to the "overvalued Turkish Lira instigating imports and hampering exports" (Ok, 2008, p. 8). The current account deficit reached unsustainable levels in 2011, for example reaching 9.9 per cent of GDP (see Appendix II). Also competition from other emerging economies, such as the East Asian countries, made industrial development more difficult in Turkey. At the same time Turkey sought to integrate into the world market which is associated with a high dependency on imports for exports. To a large extent, Turkey imported intermediate goods from East Asia in USD and exported finished goods to the EU receiving Euros (Sönmez, 2009). According to Sönmez (2009) due to this trading structure the Turkish industrial production was dependent on imported intermediate goods and, therefore, was very vulnerable to exchange rate movements between the Euro and the USD.

Looking at the current account it is noteworthy that the income balance is substantially negative because Turkey has a negative foreign asset position and interest revenues and profits flow abroad. Nevertheless, net transfers were positive due to high remittances (see Appendix III).

Net FDI inflows remained relatively low until the mid-2000s and increased substantially in the following years (see Appendix III).[7] Yeldan (2006, p. 8) stressed that FDI increased sharply from 2005 onwards because of the "privatizations receipts plus real estate and land purchases of the foreigners".[8]

Portfolio inflows to Turkey fluctuated during the 1990s and the 2000s but gross and net flows became substantially bigger during the latter.[9] Looking at the composition of portfolio inflows to Turkey, the share of equity portfolio inflows was negligible compared to the share of debt security inflows during most of the years in the 1990s. In the post-2001 period, equity portfolio inflows were much larger compared to the 1990s, and debt security inflows accelerated even more.

Gross and net other investment inflows like, bank credits measured as a percentage of GDP, fluctuated largely in the 1990s. In the post-2001 period, those inflows increased at an accelerating pace up until the global financial crisis occurred in 2008 and increased again in the following years.

The CBRT often intervened in the foreign exchange market in the 2000s, as in the 1990s, but it did not prevent the TL to depreciate gradually in the second half of the 1990s and 2000s.[10] It is obvious that the central bank tried to stabilise the exchange rate in an environment of unstable capital flows where unwanted appreciation pressures are present.

[7] Before the 2000s, net FDI in Turkey was quite low and never increased above 1000 million USD annually in the 1990s, whereas in the post-2001 period, it accelerated. It increased from 2005 million USD in 2004 to 8967 million USD in 2005, and reached 19941 million USD in 2007. After a sharp decline in the period of 2009-2010, it increased again to 13406 million USD in 2011 (CBRT, 2012a; authors' calculations).

[8] For example, large sales in the telecommunication sector in 2005 and of large enterprises in 2006 to foreigners and the increasing foreign purchases of parts of the domestic banking sector in 2007 were the factors which highly contributed to the rising FDI inflows. The block sale of Turk Telecom (6.5 billion USD) in November 2005 was the largest privatisation in that year. In 2006, the two large privatisations were the block sale of TÜPRAŞ (4.1 billion USD) and the block sale of ERDEMİR (2.7 billion USD). In 2007 the sale of the T. Halkbank was 1.8 billion USD (see Republic of Turkey Prime Ministry Privatization Administration, 2008). When, for example, the structure of FDI inflows in the period of 2007-2011 is decomposed, it can be observed that on average annually about 42.3 per cent was in the field of financial and insurance activities, whereas only 22.6 per cent went to the manufacturing sector (CBRT, 2012a; authors' calculations).

[9] For example, the ratio of gross portfolio inflows as a percentage of GDP increased from 0.6 per cent in 2002 to 3.0 per cent in 2005. Due to large portfolio outflows from Turkey in the years 2001 and 2002, net portfolio inflows in these years as a per cent of GDP were negative at around -2.3 per cent and -0.3 per cent, respectively. In 2005 the ratio reached 2.8 per cent of GDP. After 2005, both gross and net portfolio inflows as a per cent of GDP declined and turned negative in 2008. Then in the following years net inflows became positive again (CBRT, 2012a; The World Bank, 2012; authors' calculations)

[10] Total net foreign exchange purchases in the period of 2002-2011 summed up to 76.2 billion USD and the central bank's gross foreign exchange reserves account for 77.8 billion USD, as of 2011 (CBRT, 2011a, 2012a).

3.3. Credit expansion and bubbles in Turkey

Between 1989 and 2001 the Turkish economy was characterised by boom-bust cycles which were stimulated externally. After capital account liberalisation was implemented in 1989, Turkish banks began to increase borrowing from foreign markets due to much lower interest rates and re-lend those funds at much higher interest rate in the domestic market (see Diagram 6), after converting foreign currency to domestic currency. Foreign ownership in the Turkish banking sector also stimulated capital inflows.[11] As a result of this, a currency mismatch and maturity mismatches occurred in banks' balance sheets making the Turkish banking system much more vulnerable to capital outflows and subsequently to exchange rate depreciation.[12] The restructuring program of the banking sector implemented after the 2001 financial crisis aimed to establish regulations of the EU standards. After this the Turkish banking sector has become more resilient to these fragilities, however, extensive indirect vulnerabilities remain.

As mentioned earlier, in the post-2001 period banks expanded their credits drastically and the indebtedness of private households increased. External lending, especially in form of consumer loans, also contributed to the rapid credit expansion. For example, consumer loans increased from 0.9 per cent of GDP in 2001 to 12.5 per cent of GDP in 2011, whereby, housing loans – measured as a proportion of consumer loans - increased from 0.2 per cent to 5.5 per cent of GDP in the same period.[13] As an additional item to consumer loans, credits extended via individual credit cards almost quadrupled as a percentage of GDP during the period between 2001 and 2011 from 1.1 per cent of GDP in 2001 to 4.2 per cent in 2011. Even though absolute levels of consumer loans, in comparison to developed countries, are still quite low one has to be keep in mind that more than half of the consumer loans are taken by low and lower middle income

[11] Ownership of foreign financial institutions in Turkey started to increase at the end-1980s. Increasing foreign ownership in the banking sector eased the entry of foreign capital in Turkey (Çakar, 2003). Share of foreign ownership based on paid-up capital in total banking shares reached 24.9 per cent in 2012, while this ratio increased to 42.8 per cent when the publicly offered shares of the Turkish banking sector held by foreigners are included (CBRT, 2012d). Asset and credit shares of foreign banks in Turkish banking sector also increased since the 1990s. Asset share of foreign banks in total banking sector assets was 3.5 per cent and credit share of foreign banks in total banking sector credits was 3.5 per cent in 1990 (Türkiye Bankalar Birligi, 2005). In 2012, asset share increased to 13 per cent of total banking sector assets and credit share increased to 14.5 per cent of total banking sector credits (Türkiye Bankalar Birligi, 2013; authors' calculations).

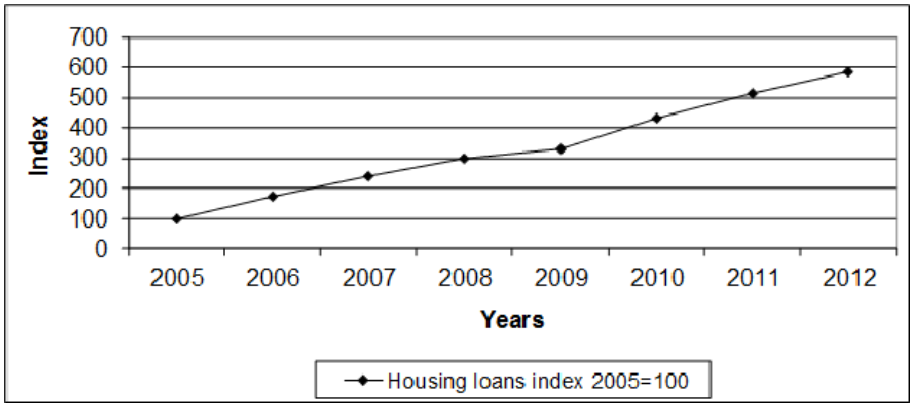
[12] For instance, Özatay and Sak (2002, p. 16) reported that the ratio of liquid foreign exchange assets to foreign exchange liabilities declined from 44.8 per cent in 1995 to 34.4 per cent in September 2000.

[13] As a share of total loans, consumer loans increased from 6.9 per cent in 2001 to 28.3 per cent in 2011; in the same period, housing loans - as a part of consumer loans - increased from 1.7 per cent of total loans to 12.3 per cent. Credits extended via individual credit cards increased from 7.5 per cent to 9.5 per cent of total loans in this period. Correspondingly, credits to enterprises decreased from 92.9 per cent to 61.1 per cent of total loans (CBRT, 2012a; authors' calculations).

groups (see CBRT, 2012d). The risks associated with debt-financed consumption have become obvious after the outbreak of the subprime crisis and the Great Recession it caused in the US, United Kingdom (UK), Spain and many other countries. Credits extended to enterprises[14] also increased from 13.1 per cent to 27.0 per cent of GDP in this period (CBRT, 2012a; authors' calculations).

The 2000s demonstrated clear tendencies towards a real estate bubble partly driven by large capital inflows. The enormous expansion of housing loans during the 2000s supported this argument as depicted in Diagram 3 below. Until recently, extensive statistical data about the development of house prices in Turkey did not exist. But according to the new House Price Index (HPI, 2010=100), which considered house prices of all regions in Turkey, house prices increased over 10 per cent each year (CBRT, 2012c).[15] The development of stock market prices also demonstrated a tendency towards a bubble in Turkey during the post-2001 period.[16]

Diagram 3: Housing loans (TL + foreign exchange + foreign exchange indexed) by domestic deposit banks, index 2005=100)



Source: CBRT (2012a); authors' calculations

[14] "Credits to enterprises" denotes the credits taken by non-financial companies and individual corporations from deposit money banks and investment and development banks.

[15] An indication for a real estate bubble also can be found in the sharp increase of employment in this sector. Taking employment in 2004 as 100, employment in the building and construction sector increased until 2011 to almost 180. In the agricultural and manufacturing sector the increase was below 120 and in the service sector around 130 (AMECO 2012, authors' own calculation). In addition, real estate price hikes has been reported by some national as well as international journals and newspapers lately. For instance, Roberts (2012) from The New York Times points out a recent real estate bubble and its accumulated risks in Turkey by referring to the well-known economist Daron Acemoglu. In this article, the resemblance of the real estate bubble in Turkey to the ones in the US and Spain before the global crisis is mentioned as well.

[16] From 2001 to 2007, the stock price index (January, 1986=1) of 100 selected stocks traded at the Istanbul Stock Exchange (ISE) increased by around 375 per cent. In 2008 and 2009, the index decreased to some extent. However, it increased again sharply from 2009 to 2010 by 58.2 per cent and continued increasing in 2011 (CBRT, 2012a; authors' calculations).

Gross external debt in Turkey was around 39.7 per cent of GDP in 2011, compared to 57.7 per cent of GDP when the currency crisis in 2001 escalated. On the other hand, short-term external debt was around 8.4 per cent of GDP in 2001 and increased to 10.4 per cent of GDP in 2011. Official foreign reserves of the central bank were around 10.1 per cent of GDP in 2011 (CBRT, 2012a; The World Bank, 2012; authors' calculations).

The household sector has not been allowed to borrow from abroad nor use foreign exchange credits or foreign exchange-indexed loans from domestic banks since 2009.[17] Therefore, the private household sector does not suffer from high levels of debt denominated in foreign currency.

Between 2001, the year of the big financial crisis, and 2011 foreign indebtedness within the enterprise sector decreased from 17.3 per cent to 14 per cent of GDP. Foreign indebtedness within the government sector also decreased from 20.9 per cent to 10.7 per cent of GDP during the same period. In contrast to this, external borrowing in foreign currency increased within the financial sector from 7.3 per cent of GDP in 2001 to 13.4 per cent of GDP in 2011 (CBRT, 2012a; The World Bank, 2012; authors' calculations).[18] The decline of foreign indebtedness within the government sector could be explained by a reduction of government spending combined with increased privatisation.

Dollarisation mainly in the forms of domestic foreign currency deposits and domestic foreign currency loans are important in Turkey. Foreign exchange deposits was 29.5 per cent of total domestic deposits of deposit money banks and 14.7 per cent of GDP in 2011 (CBRT, 2012a; authors' calculations).[19] Domestic foreign currency loans (extended by deposit money banks as well as by investment and development banks) in Turkey was around 24 per cent of total domestic loans and 10.8 per cent of GDP in 2011 according to the CBRT statistics and authors' calculations.

In the post-2001 period, due to the reforms after the crisis, the banking sector avoided excessive foreign exchange risks and hedged a large part of its foreign exchange and maturity risks (Alp & Elekdağ, 2011).[20] However, the enterprise

[17] See the amendments to the Decree No. 32 in 2009 that is based on Law No. 1567 Regarding the Protection of the Value of Turkish Currency in Official Gazette No. 27260 (2009). This started to eliminate the foreign exchange rate risk in household's balance sheets. Households' foreign exchange long position became 24.2 per cent of GDP (CBRT, 2012a; 2012d; authors' calculations).

[18] The relative decline in foreign indebtedness of the enterprise sector reflects the Amendments to Decree No. 32, which aimed at decreasing the borrowing of enterprises from foreign branches and affiliates of Turkish banks by easing domestic borrowing conditions in foreign currency. The goal was to decrease foreign debt of Turkey (CBRT, 2009). Firms have been encouraged to borrow from domestic banks in foreign currency instead of borrowing from abroad.

[19] We can expect that banks use these foreign exchange deposits as loans to firms. But we do not know the exact figures as the foreign deposits also could be invested abroad.

[20] For example banks have been creating an on-balance sheet short position by borrowing long-term foreign exchange loans from abroad, transforming them into TL and giving

sector increased its absolute level of foreign indebtedness substantially after 2001, culminating to a significant currency mismatch.[21] The enterprise sector's main sources of foreign exchange borrowing have been domestic as well as foreign banks.[22]

Looking at foreign indebtedness together with domestic credits denominated in foreign currency, the risk of currency mismatch is very high especially within the enterprise sector. Even though most of the foreign debt within the enterprise sector is long-term, the share of foreign debt measured as a percentage of total financial debt within the enterprise sector was 56.7 per cent in August 2012 (CBRT, 2012d), which is extremely high. In case of a sharp real depreciation, the enterprise sector's balance sheet deterioration would indirectly affect the banking sector. Turkish banks usually hedge a high proportion of their currency mismatch, nevertheless, a high currency mismatch may remain in the financial sector. The public sector has also accumulated foreign exchange risks in the 2000s. Foreign exchange short position within the public sector measured as a percentage of GDP was 9.6 per cent in September 2012 (CBRT, 2012d; The World Bank, 2012; authors' calculations). Turkey's overall foreign exchange short position reached 11.1 per cent of GDP in September 2012 (CBRT, 2012d). These figures demonstrate that Turkish economy is still very vulnerable. In the scenario of a real depreciation of the TL the real debt burden would drastically increase and could eventually lead to a so called twin-crisis in which a balance of payment crisis is accompanied by a financial crisis within the domestic system.

3.4. Wage development and inflation

A change in the price level depends on changes in costs and disequilibria between aggregate demand and supply when enterprises do not change the quantities produced. In the long-term, cost factors become the anchor of the price level. It should be mentioned that higher costs will lead to higher prices even without excess demand because there is a direct price-price effect. For example, if oil prices increase, prices would go up even when the economy is

long-term housing credits in TL (CBRT, 2007a). CBRT also reports that the banks have been compensating this currency mismatch by their off-balance sheet assets.

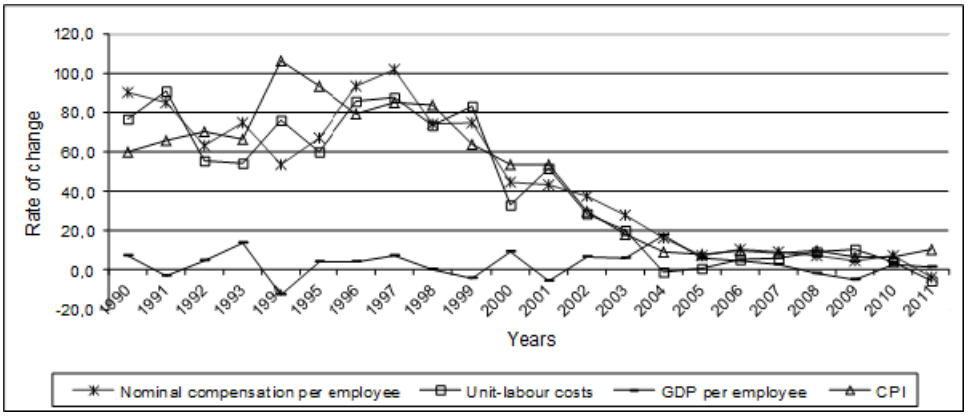
[21] Net foreign exchange short position of the enterprise sector as a per cent of GDP was 16.9 per cent in September 2012 (CBRT, 2012d; The World Bank, 2012; authors' calculations). A "short position" in a balance sheet means the foreign exchange assets are less than foreign exchange liabilities. A "long position" means the opposite.

[22] Amendments to Decree No. 32 allowed domestic enterprises, which do not have any foreign exchange revenues, to borrow from domestic banks in foreign currency. Before this amendment, only exporting enterprises and enterprises with foreign exchange revenues were subject to this privilege. Such a policy may reduce foreign debt in foreign currency, but at the same time increases domestic credit in foreign currency and does not reduce overall currency mismatch. As intended by this regulation, external borrowing of the enterprise sector from foreign banks and foreign branches and affiliates of Turkish banks has declined from June 2009 onwards. However, enterprise sector's domestic borrowing in foreign currency increased.

stagnating and lacks demand. This is true with all types of cost increases (Herr, 2009; Keynes, 1930).

Unit-labour costs are the domestic anchor for nominal prices. Diagram 4 below supports this argument.[23] Since 1980, inflation has been very high in Turkey, and declined significantly in the post-2001 in comparison to earlier years. Changes in nominal compensation per employee -the main factor of unit-labour cost development- and changes in unit-labour costs are highly correlated to the inflation rate. This is firstly because in the short-term demand-and-supply inequalities can influence the price level. Secondly, exchange rate movements lead to a change in overall prices via changes in import prices. Thirdly, changes in the prices for food and natural resources influence the domestic price level.

Diagram 4: Changes in nominal compensation per employee, GDP per employee, unit-labour costs, and CPI in Turkey



Source: AMECO (2012); CBRT (2012a, 2012b); authors' calculations

For many countries, including Turkey, the nominal exchange rate is the external anchor of the price level. The exchange rate pass-through in Turkey was very high and fast estimated to be around 45 per cent in six-months-time in the period before 2001 (Kara & Öğünç, 2005). In the post-2001 period, it declined to some extent. For example, Volkan, Saatçioğlu, and Korap (2007) estimated the exchange rate pass-through was around 35 per cent in 18-months-time during the period between 2003 and 2006. Additionally, Kara and Öğünç (2011) estimated it to be around 15 per cent in a one-year-time frame during the period

[23] The percentage change in unit-labour costs ($\dot{u}$) depends on the percentage change in nominal wages ($\dot{w}$) minus the percentage change in labour productivity ($\dot{\pi}$). So we get $\dot{u} = \dot{w} - \dot{\pi}$. The relevant labour productivity is the medium-term one which does not depend on business cycle effects. As price level changes ($\dot{P}$) in the medium term depend very much on changes in unit-labour costs ($\dot{P} \leftarrow \dot{u}$) it follows $\dot{P} \leftarrow \dot{u} = \dot{w} - \dot{\pi}$. For example, an increase of the nominal wage rate by 5 per cent and an increase of productivity by 2 per cent will lead to an inflation rate of 3 per cent.

between 2002 and 2011. These estimates demonstrated that the exchange rate is significant for the development of the price level (Kara & Öğünç, 2011). In 2011 the price level increased in spite of falling wage costs which strengthens this argument even further (see Diagram 4).

The exchange rate pass-through depends on several factors. First of all, the import quota is important. In Turkey imports as a percentage of GDP were around 29.3 per cent in 2011 (The World Bank, 2012) which demonstrates that a depreciation will influence the price level substantially. Second, when workers pressure to adjust nominal wages to compensate for a decline in real wages caused depreciation, a depreciation-wage-price spiral would set in motion. This did partly occur in Turkey before 2001, where a large nominal depreciation of the TL led to such drastic declines in real wages that nominal wages had to adjust. In this case, the exchange rate became the driving force of high inflation. Such a scenario is often combined with high budget deficits financed by the central bank, which injects domestic monetary wealth into the economy. This domestic wealth is then directly exchanged into foreign currency which further stimulates the depreciation-wage-price spiral mentioned above. Such a scenario demonstrates that very high inflation rates are usually not driven by excess demand for goods, but rather by cost factors (see for such a scenario Fischer, Sahay, & Végh, 2002; Robinson, 1938). Thus we can support the argument that the relatively high budget deficits in Turkey, especially between the mid- 1990s and mid-2000s (as documented in Table 1), contributed to the problem of high inflation in Turkey.[24]

Our analysis is very much in line with the arguments of the Turkish central bank. According to the inflation reports of the CBRT exchange rate movements, wage developments, and changes in energy and food prices were the main determinants of inflation between 2006 and 2011 (CBRT, 2006a, 2008a, 2011b).

The nominal wage rate per hour should increase corresponding to medium-term or trend macroeconomic productivity changes[25] plus the targeted inflation rate of the central bank. This wage norm should become a guideline for wage increases in all industries.[26] This way, wages would be perfectly compatible with the targeted inflation rate. Whenever the wage norm is realised, monetary policy

[24] We do not argue that budget deficis always lead to inflation. For example, the high budget deficits in many Western countries during and after the Great Recession did not lead to inflation – even when financed by the central bank.

[25] This is important as statistically measured productivity depends on the business cycle. It decreases during recession as firms cannot or do not want to fire employees in line with drops in demand and production. It increases in the first phase of a boom as firms can increase output to a certain degree without additional labour input.

[26] The wage norm, the percentage change of nominal wages ($\hat{w}_n$) for a macroeconomic functional increase in nominal wages, looks as follows: $\hat{w}_n = \hat{\pi}_{\text{medium-term and total economy}} + \hat{P}_{\text{target of central bank}}$

would be exempt from various obligations and could therefore focus on supporting GDP growth. Certainly, this wage norm is only applicable when the nominal exchange rate, which serves as the external anchor for the price level, is relatively stable. On the one hand, volatile exchange rate movements would make the realisation of the suggested wage norm very difficult or impossible. On the other hand, changes in wages which diverge fundamentally from the suggested wage norm would not allow a stable exchange rate. Therefore, a country like Turkey needs both: a stable nominal wage development supporting low inflation rates and a relatively stable exchange rate.

Labour markets alone are not able to adjust wages automatically in line with the suggested wage norm described above. Hence, certain labour market institutions are needed to support a functional wage development. The collective bargaining system in Turkey is based on two different levels. In the public sector, negotiations are at sectoral level, while in the private sector, negotiations are mainly at the enterprise level (see for this part Visser, 2011).[27] The legislation enacted in 1982, which entails more restrictions on wage bargaining than previous ones, is still in force. Trade union density measured by the total amount of members in trade unions as a percentage of total employees, was around 35.3 per cent in 1975 and dramatically decreased to 5.8 per cent in 2008. This legislation also did not entail an extension mechanism[28] of wage bargaining agreements to workers who are nonunionized. Additionally, most unions are politically divided in Turkey. Through weak union movements, collective bargaining remains too weak to establish a wage development according to the wage norm. A national minimum wage is set by the government after tripartite consultations.[29] Statutory minimum wage as a percentage of average monthly earnings of a worker in Turkey was 50.0 per cent in 2010 (Eurostat, 2012). This figure is the highest among the EU member states and the US. However, Turkey is

[27] Moreover, the rights of association and collective bargaining in Turkey are different in the private and public sectors. Since 1980, private sector employees have the right of collective bargaining and since 1990, they have the right of association with minor restrictions, whereas the public sector employees have these rights but they are very limited. For instance, there are restrictions on the content of the collective bargaining agreements and some groups of employees are excluded from these agreements. Similarly, since 1990, private sector employees have the right to strike, whereas the public sector employees have this right but regulated to a great extent (Visser, 2011).

[28] An extension mechanism is a system in a country's labour market in which collective bargaining agreements of certain segments of the workforce become a reference point for the wage settlements of workers who are not legally bounded by these agreements. Some country examples are Austria, Belgium, France and Germany.

[29] Turkey has a statutory minimum wage system since 1971. In 1995, a tripartite council, called the Economic and Social Council, was established with the aim of forming a sound social dialogue between government, employer associations and trade unions on social and economic policy decisions of the government. From 1995 onwards, the involvement of trade unions and employer associations in government decisions exists, but it is restricted, and is neither frequent nor on a regular basis. Recently, additional organisations, such as Labour Council, the Tripartite Consultation Board, the Minimum Wage Committee, and the Supreme Arbitration Board are in charge of enhancing the social dialogue in the wage bargaining system.

one of the countries with the lowest monthly minimum wage level (lower than 500 Euro) in this group of countries (Eurostat, 2012). This implies that average gross monthly earnings of workers are significantly low in Turkey in international comparison. In Turkey wage bargaining and wage coordination have been substituted by minimum wage agreements. Further, wages in the informal sector, which accounted of around 42.1 per cent of total employment in 2011 (Turkstat, 2012b), are highly influenced by minimum wages as pointed out by The World Bank (2006).

3.5. Monetary policy

From the 1980s until the late 1990s, the monetary authorities targeted the money supply by controlling monetary aggregates, like M1 and M2, to achieve price stability in the medium-term. Additionally, the Turkish central bank attempted to control the exchange rate, and therefore implemented many different exchange rate regimes (see section 3.2). In early 2002, the Turkish central bank began to implement an implicit inflation targeting strategy, which was accompanied by a floating exchange rate regime. Correspondingly, the central bank aimed at decreasing the annual inflation rate to 35 per cent, which was based on the CPI (CBRT, 2002). In January 2006, the CBRT introduced an explicit inflation targeting strategy with point targets and aimed to be in bound within a 2 per cent uncertainty band around the target. Shifts both above and below the target were to be avoided. However, target rates of 5, 4 and 4 per cent in the following years could not be achieved as the inflation rates were always a few percentage points higher (see Table 1). The CBRT usually attributed the failure to realise the inflation targets to external factors, including increasing food and energy prices (see CBRT, 2008b). In the following years the CBRT was more successful.

The inflation targeting strategy did not prevent high current account deficits, domestic bubbles and the instability of the financial sector. Due to these failures, the central bank modified the inflation targeting strategy in November 2010 by adding a financial stability objective to its price stability objective. In order to accomplish financial stability, two intermediate targets were introduced: restricting domestic credit expansion and restraining short-term foreign capital inflows (Kara, 2011; Özatay, 2011).[30]

The aim of this policy modification was "to bring the economy to a soft landing (avoid a “sudden stop”) and to rebalance the composition of growth, without hampering the price stability objective" (Kara, 2011, p. 2). Nevertheless, in 2011, the inflation rate mounted to 10.4 per cent, far above the target rate of 5.5 per

[30] In order to achieve these intermediate targets, additional policy instruments were introduced. Overnight borrowing rates were decreased and the interest rate corridor between the overnight borrowing and lending rates was enlarged. The aim of this policy move was to increase the volatility of short-term interest rates, which is supposed to restrict carry trade activities of international financial investors. On the other hand, the central bank aimed at restricting domestic credit growth, which is stimulated by low interest rates, by introducing higher reserve requirement ratios on TL and foreign exchange deposit accounts.

cent (CBRT, 2012b). The new policy framework of restraining the domestic credit volume as a percentage of GDP was not successful either. For instance, deposit money bank loans was 39.4 per cent of GDP in 2010 and increased to 44.2 per cent in 2011.(CBRT, 2012a; authors' calculations).

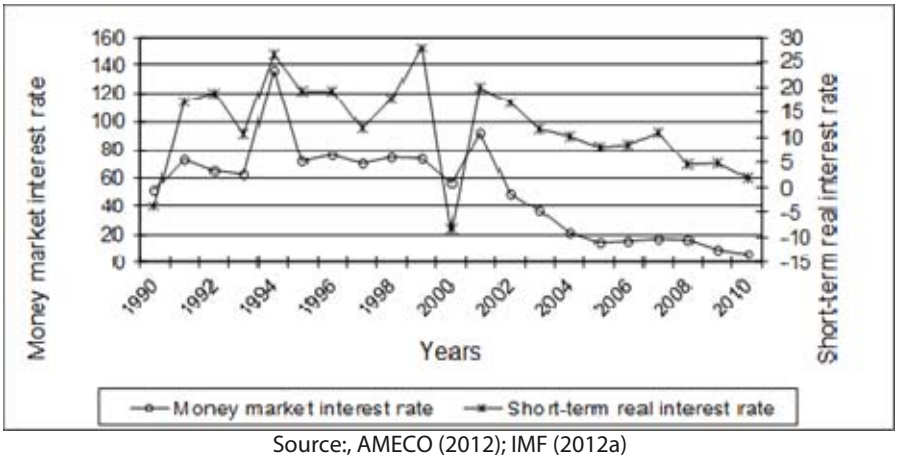
For a country like Turkey it is an illusion to follow an inflation targeting strategy and thereby neglect the exchange rate and the current account. Volatile exchange rate movements influence the real value of the external debt and also lead to unacceptable price level shocks. Therefore it is not surprising that the Turkish central bank aimed to stabilise the exchange rate. After 2002, when Turkey experienced an economic upswing with high capital inflows, the CBRT intervened heavily in the foreign exchange market to avoid a further appreciation of the TL to undermine its effects on the already high current account deficit. In contrast to this, in 2008 and 2011, the CBRT reduced its foreign reserves to fight against a weakening of the TL.[31] Overall the CBRT accumulated high foreign exchange reserves in the post-2001 period because of the large capital inflows and its half-hearted strategy to prevent an unsustainably high current account deficit.[32] Turkey – as many other emerging market economies – suffered from very high capital inflows in the 2000s.

Although it is evident that the real interest rates were lower in the post-2001 period compared to the 1990s, they remained higher than in most other emerging economies during the same period. This phenomenon can be attributed to the low credibility of the disinflation program and high exchange rate risk premium relative to other countries (Kannan, 2008). In May-June 2006 real interest rates increased and remained high after due to turbulences in the international financial markets and, correspondingly, due to the declining risk appetite of the financial investors towards emerging economies (CBRT, 2006b). Interest rates decreased to a low level in Turkey only after 2007 due to the capitalist centres' low interest rate policies following the Great Recession (see Diagram 5).

[31] The CBRT's gross foreign exchange reserves declined from 71.6 billion USD in 2007 to 69.8 billion USD in 2008, and from 80.7 billion USD in 2010 to 77.8 billion USD in 2011 (CBRT, 2012a).

[32] As many central banks, the CBRT sterilized the liquidity effects of its foreign exchange market interventions through various market and non-market based operations. According to Löffler, Schnabl, and Schobert (2010), this brought the Turkish central bank together with many other central banks into a domestic debtor position, which under certain conditions can make monetary policy difficult.

Diagram 5: Nominal money market interest rate and short-term real interest rate*



Source:, AMECO (2012); IMF (2012a)

* The short-term real interest rate for the year 1997 is obtained from Berument and Malatyalı (2001), due to the unavailable data in public sources.

Turkey completed its last IMF program in May 2008. After that, a Post-Program Monitoring (PPM) intensively discussed with the IMF was put in action in October 2008. It aimed to increase the resistance of the Turkish economy against the recent stress in the world financial markets by continuing structural reforms and tight monetary policy (IMF, 2008). The first round of the PPM discussions ended in May 2010. Following this the IMF report emphasized the need to tighten fiscal policy to support a tight monetary policy. This report put emphasis on the need to restrain the credit expansion and to accumulate foreign exchange, because most foreign capital inflows were short-term in structure (see IMF, 2010). After that a second round of discussions began which lasted up until February 2011. The corresponding IMF report pointed out that the Turkish economy has become much more vulnerable due to the shorter maturity of capital inflows and to Turkey's increasing dependence on these inflows (IMF, 2012b). The IMF criticised the recent monetary policy framework of the CBRT arguing it became "increasingly activist" (IMF, 2012b, p. 19).

During the last two decades monetary policies were changed frequently in Turkey. Also, the inflation targeting strategy, which was implemented during the 2000s, was extensively modified because most inflation targets could not be met in most years after 2006 nor could they prevent high current account deficits or reduce domestic financial fragility. Exchange rate movements, which were most important for the Turkish economy throughout the time, dominated monetary policy directly or indirectly through their effects on the price level, the current account and the domestic asset market. Monetary policy would have been much easier and most likely more successful when Turkey would have implemented international capital controls to prevent a high current account deficit and to disconnect domestic interest rates from the international market. But these objectives did not match the philosophy of the Turkish government's economic strategy after the crisis in the early 2000s.

3.6. Fiscal policy

At the end of the 1990s the budget deficit increased (see Table 1) due to three main reasons (see Ertuğrul & Selçuk, 2001). First, in 1998 the Russian crisis affected the reputation of the TL and forced the CBRT to increase interest rates in order to prevent a drastic depreciation of the TL. Hence, the interest rate increases had a negative impact on GDP growth. Second, government increased spending due to the general elections in 1999. And third, a severe earthquake caused large destructions in Turkey in 1999. Budget deficits escalated and so did inflation. The central bank indirectly financed the public households by ensuring credits to commercial banks which in turn provided credit to the government.[33] The creation of money in the domestic currency together with high inflation rates led to capital flight and a cumulative depreciation-inflation-wage-price spiral, as mentioned above.

Turkey has a long tradition of financing part of the public debt from abroad to slow down inflation and also to pay lower interest (as long as the exchange rate does not collapse). At the end of the year 2000 when the crisis was starting, Turkish government's foreign debt was 16.2 per cent of GDP (CBRT, 2012a; The World Bank, 2012; authors' calculations). It is understandable that Turkey welcomed foreign credit but one has to keep in mind that this strategy makes the Turkish economy more vulnerable. After the crisis, the government could not fulfil its foreign debt obligations and had to seek credit from the IMF.

After the crisis in February 2001, the government initiated a "strengthened" stabilisation program in collaboration with the IMF, which lasted up until May 2008. The main objectives of this program were strict fiscal policy with the goal of 6.5 per cent primary surplus of GDP and a tight monetary policy through inflation targeting (Telli, Voyvoda, & Yeldan, 2006). During the post-2001 period public deficits improved through strict fiscal policies. Nevertheless, budget deficits measured as a per cent of GDP remained high in spite of high GDP growth rates in some years. The elections held in 2007 was a factor undermining the budget balance. The OECD announced "transparency shortcomings" in the Turkish government budget (OECD, 2008a, p. 41). High interest rates, especially before 2008, burdened public households. For example, 23.9 per cent of total public expenditures were interest payments in 2007 (Bağımsız Sosyal Bilimciler, 2008).

Privatisations supported lower public debt in per cent of GDP during the 2000s (see Table 1). Public expenditures did not increase sufficiently in the areas which are highly in need of development, such as infrastructure or education. The insufficient supply of public goods were partly caused by the IMF stand-by agreements, that focused mainly on structural reforms in areas like social security, education, retirement and health insurance. Therefore, these agreements relieved the burden of the government and left these areas as new profit opportunities for the private sector (Bağımsız Sosyal Bilimciler, 2008; Yeldan, 2008). Overall, fiscal

[33] The share of government bonds and bills in the total claims of the deposit money banks was around 14.9 in 1998; it increased to about 19.0 per cent in 2000 and escalated to 37.1 per cent in 2001 (CBRT, 2012a; authors' calculations).

stabilisation led to fading social and other infrastructure in Turkey in the post-2001 period.

3.7. Inequality in Turkey

Taking the average of the Gini coefficient values in years 2007, 2009 and 2011, in Turkey the Gini coefficient based on market income was around 0.46 on average in the late 2000s, which is close to the OECD average (OECD, 2012; Turkstat, 2012c; 2013; authors' calculations). However, the Gini coefficient based on disposable income in the late 2000s was 0.41 and this figure together with the unemployment rate makes Turkey one of the countries with the highest social differentiation in the OECD world (see Diagram 6).[34] If bad working conditions for many employees are also taken into account, it becomes obvious that Turkey suffers a severe social crisis.

Other measures of income inequality and poverty also do not display a brighter picture. Turkstat (2012e) reported that according to relative income poverty[35] figures 16.1 per cent of the population was below the poverty line in 2011.[36] In comparison, Turkey had the second highest relative income poverty among all OECD countries after Mexico in the mid-2000s (OECD, 2008b).[37] According to OECD, when Turkey's relative income poverty together with material deprivation[38] figures around the year 2000 were considered, poverty condition in

[34] In 1994 the Gini coefficient based on disposable income was 0.49 (Turkstat, 2007). After the 2001 financial crisis, it was 0.44 in 2002 and decreased in the following years up until 2005. In 2006, it increased to 0.43 (Turkstat, 2006, 2007, 2012d). In 2010 and 2011, it did not change much and remained at around 0.40 (Turkstat, 2012d, 2013). These press releases and reports of Turkstat also show that disposable income inequality based on Gini coefficient has been higher in urban areas than rural ones in the period between 2002 and 2011, except the year 2005. These figures imply that income inequality only temporarily decreased in some years in the post-2001 period, but no continuous decline can be observed. Based on these data sources, authors' calculations show that the Gini coefficients of the period 2002-2006 and 2007-2011 are the same with a value around 0.41. It also should be kept in mind that the shrinking agricultural sector added to the moderate decrease of the Gini coefficient in some years – an effect which can be observed in many developing countries.

[35] This indicator is defined here as the share of the population with a disposable income that is below 50 per cent of the median income.

[36] This rate was reported as 13.9 per cent for urban areas and 15.7 per cent in rural areas (see Turkstat, 2012e).

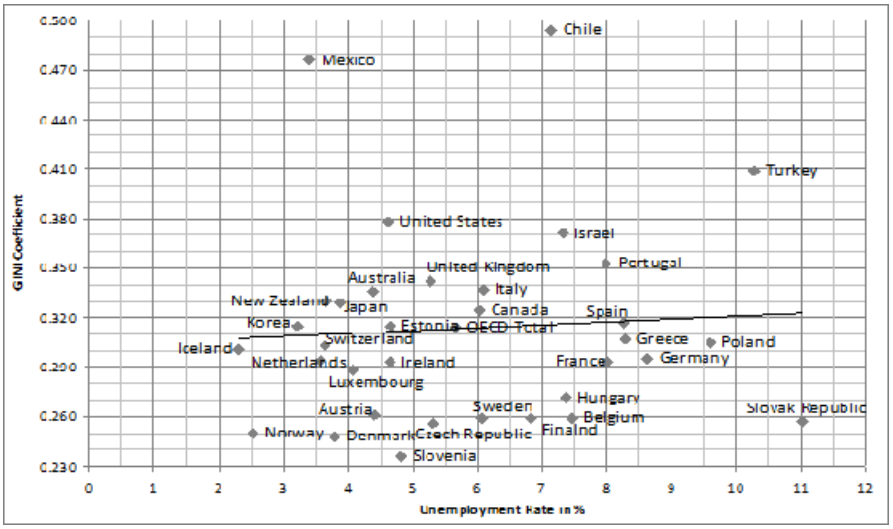
[37] This ranking is based on the relative income poverty definition in footnote 35.

[38] Material deprivation does not have a commonly accepted definition, but it usually refers to a condition that an individual or household lacks basic material needs for participating in society (see for these dimensions OECD, 2008b; Turkstat, 2012e). Considering the items of material deprivation, basic leisure as commonly defined by the OECD and Turkstat as "having one week holiday away from home per year", 86.5 per cent of the population was reported as lacking this leisure in 2011 (Turkstat, 2012e). According to this report, 41.6 per cent of the population was in need of housing repair that is considered to be a part of housing deprivation in 2011. In terms of financial stress, 61.8 per cent of the population is recorded as having problems in paying bills in 2011 by this report. Turkstat also shows that in 2009, 17.3 per cent of the population was living under permanent poverty (households

Turkey was one of the most severe ones in the OECD world (OECD, 2008b). And the situation for large parts of the society did not improve during the 2000s and early 2010s.

Turkey is characterised by a government that imposes very limited redistribution policies, even in comparison to very radical market economies like the US or the UK. The OECD (2008b, p. 104) reported that the cash benefits system in Turkey was one of the "least progressive" one among the OECD countries in the mid-2000s. And there are deep regional differences in Turkey.[39]

Diagram 6: Gini coefficient of disposable income and unemployment rate 2007*



* Gini coefficient late 2000s

Source: OECD (2012)

A very unequal income distribution causes not only problems for the social sustainability, but also directly for the economy itself because it can decrease aggregate demand since the rich have a lower propensity to consume than the poor. In other words, when middle to low incomes decrease further, aggregate consumption is negatively affected which in turn reduces aggregate demand and thus output. Turkey compensated the lack of demand by increasing private household debt. Such a development, however, is not sustainable as demonstrated by the subprime crisis and the Great Recession. Economic catching-up must not be combined with increasing income inequality. For example, South Korea and other East Asian countries show that a very successful development strategy is not only possible with a relatively equal income

below 60 per cent of the median disposable income) and this figure increased to 18.5 per cent in 2010.

[39] The eastern, north-eastern and south-eastern regions are the poorest regions of Turkey; the richest are the western regions, particularly the north-west region. There are more poor people in rural areas than the cities (Turkstat, 2012f).

distribution, but also an equal income distribution supports development (Stiglitz, 1996) (see Korea in Diagram 6).

4. NEOLIBERAL UNSHARED GROWTH REGIME OF TURKEY AND İTS PERSPECTİVES

In the early 2000s reforms towards a more radical market-oriented development changed the Turkish economy and its society without a doubt. Macroeconomic policies were successful in terms of low inflation rates, relatively stable exchange rates and low fiscal deficits. Additionally, deregulation stimulated economic growth in the period after the 2001 crisis. But GDP growth was not high enough to reduce unemployment in Turkey. Overall, the policies followed by the Turkish government in this period were very much in line with the philosophy of the Washington Consensus, which was developed by the IMF, US Treasury, World Bank and other institutions in the 1980s. Paul Krugman (1995) characterised this neoliberal consensus as sound money (macroeconomic stability in a Victorian style) and free markets (deregulation, liberalisation and privatisation). Despite of Turkey's economic successes in the post-2001 period, Turkey's growth regime is socially unjust and economically most likely not sustainable.

First, let us look at the growth drivers of the 2000s. Dani Rodrik (2009, p. 18) referred to the growth in Turkey as "foreign-borrowing led growth". Actually, foreign capital inflows increased domestic credit and thereby influenced investment dynamics and stimulated aggregate demand and output. However, capital inflows also created a large current account deficit that depressed aggregate demand and output. The net effect of capital inflows and Turkey's integration into the international financial market is difficult to determine. FDI inflows increased investment demand only to a relatively small extent because a large part of FDI existed of mergers & acquisitions and thus only changed ownership. Equity portfolio investment takes usually place in secondary markets and therefore does not add even one lira to the funds an enterprise can invest.

Secondly, high productivity growth rates in this period draw a too rosy picture and was only partly associated with technological advancement. Productivity increases were largely related to restructuring after privatization and intensification of work. This source of productivity increases has limitations and leads to indecent working conditions.

Thirdly, the main driver of demand was private household consumption. As such this is not a problem at all. However, it becomes a problem when high household demand is financed by consumption credit and also associated with high real estate investment. There are tendencies in Turkey, which signal a real estate bubble and an unsustainable level of household debt.

This brings us to the fourth point. Financialisation tendencies are clearly observed in Turkey. We understand under "financialisation" in Turkey a role of the domestic financial system which does not serve industrial development, which is integrated to the world financial system in a dangerous way, which leads to real estate and stock market bubbles, which attracts an increasing part of income, and which leads to corporate governance strategies based on short-term profit maximization, cost-cutting measures and precarious jobs creating. Such a finance-driven development model contrasts sharply with the industry-driven development model of the East-Asian miracle countries (see Stiglitz, 1996; Stiglitz & Uy, 1996). We judge that an industry-driven model for an emerging economy like Turkey would be more promising than a model based on financialisation.

Fifthly, Turkey has a long history of external fragility and balance of payments triggered financial crises. We believe this history is not over. In the post-2001 period government foreign debt measured as a per cent of GDP decreased - which is a positive development- but is still substantial. Also, official foreign exchange reserves are high, and the level of foreign debt within the private household sector remains low. Nevertheless, large foreign debt and dollarisation created a currency mismatch within the enterprise sector. The domestic financial system cannot be judged stable because it has “bad” debtors. An economic shock and a drastic exchange rate depreciation can trigger a financial crisis in Turkey. Following this, a fall in GDP growth might lead to an escalating non-performing loan problem.

Sixthly, Turkey lacks important labour market institutions, which guarantee a wage development according to the wage norm. The lack of strong trade unions and employer organisations, and the lack of a widespread wage bargaining process demonstrate that Turkey’s labour market remains weak. This makes it difficult to establish a macroeconomic functional wage development. Minimum wage development became a substitute for wage bargaining. Whereby, the lack of strong unions added to high wage dispersion in Turkey. Existing labour market institutions make the price stability more fragile.

Seventhly, inequality is disturbingly high in Turkey. Thus Turkey, with its still existing social model, does not seem to be on the way to West European countries, but rather on the way to emerging economies with a deep split in society between poor and rich. And such an extreme split has many negative consequences.

Another more sustainable and successful development regime in Turkey is possible.[40] Such a regime would change macroeconomic policy in many different ways.

[40] See for such regimes Herr and Kazandziska (2011); Dullien, Herr, and Kellermann (2011) and Herr and Priewe (2005).

The Turkish economy has to be protected from external instabilities caused by Turkey's integration into the world market. Of key importance is its integration into international financial markets. The best way to reduce external vulnerability is to control capital imports and restrain debt accumulated in foreign currency within all economic sectors (Williamson, 2005). Controls on capital imports would reduce the degree to which the central bank has to intervene or to implement sterilisation policies which can sometimes have negative effects. Many theoretical and empirical studies demonstrated that full capital account convertibility does not contribute to long-term growth, but rather increases instability without doubt (Rodrik, 1998; Stiglitz, 2004). Certain types of FDI have positive effects on the economy and therefore, should be allowed. Nevertheless, Turkey should stop selling more of its financial institutions to foreigners and simultaneously should steer FDI to the industrial sector.

We also advise Turkey to maintain a balanced current account in the medium-term. An overvaluation of the TL would benefit the middle classes, which then could buy foreign cars and other things more cheaply. However, it would depress aggregate demand, GDP growth and employment. The best policy would be pursuing a cautious real depreciation of the TL in order to balance the current account or to have a slight current account surplus. We do not argue in favour of an import substitution strategy. Turkey should stimulate and support its exports further, but on the same note should limit its export surpluses. We also suggest implementing a managed floating plus exchange rate strategy. This would require a combination of capital controls, central bank interventions in the foreign exchange market and an interest rate policy that allows the exchange rate to remain at a level which supports a balanced current account in the medium-term and at the same time avoids large exchange rate swings. Selected FDI inflows can be combined with a balanced current account, for example, when the central bank intervenes in the foreign exchange market and sterilises unwanted liquidity effects. China has a successful history of such a policy (Herr, 2010). Portfolio investment is not very useful for a country like Turkey; foreign credit should be strictly controlled as well.

Of key importance for development is a stable financial system, which serves the real economy. The majority of profits should be made through industrial production. A low real interest rate should prevail as income in the financial system. Earning high incomes from speculation and other activities in the financial market should be restricted. Turkey has actively supported and passively accepted financialisation processes in its economy. Commercial banks in Turkey are allowed and even encouraged to engage in capital market activities, insurance activities as well as leasing and factoring activities (see Banking Regulation and Supervision Agency / BRSA, 2011). Financialisation does not lead to sustainable growth, but to asset price bubbles, instability and income inequality. To prevent financialisation it is important to separate commercial banking from the activities of investment banks and non-bank financial institutions. Commercial banks should not be allowed to finance non-bank

financial institutions to any extent. Also, proprietary trading and the selling of credits should be radically restricted for commercial banks. Commercial banks should follow a business model that focuses on financing enterprises and (to a sustainable extent) households. Such a financial system as well as a monetary policy which supports growth, plays an important role to stabilise investment. Additionally, real estate financing has to be regulated. Development banks could help to allocate credits efficiently in technologically, ecologically and socially preferable sectors.[41]

Turkey does not have stable labour market institutions. Statutory minimum wages to a large extent substitute the wage bargaining system. It is recommendable that minimum wages adjust every year according to macroeconomic medium-term productivity increases plus the inflation target of the central bank. Nevertheless, minimum wage policy has limitations. For example, a statutory minimum wage is not immune to a situation where a shortage of labour (even in some professions) pushes wages up. To improve sustainable macroeconomic performance, labour market institutions including strong unions and employer associations, which take macroeconomic developments into account during wage bargaining processes, are a precondition. Turkish labour market institutions need to establish wage bargaining on the sectoral level and to organise better wage coordination. Therefore, economic policy should strengthen unions and employer associations and wage bargaining on a sectoral level. Extension mechanism of wage bargaining should give equal conditions for all enterprises in an industry. The law of one price, also for wages, is an important element to stimulate technological development and innovation because it pressures unproductive enterprises to become more efficient or to exit the market. Simultaneously, it allows productive enterprises to realise higher profits which encourages their growth. A functioning wage bargaining process should also leave the extent of wage dispersion to the bargaining partners. Usually strong unions limit wage dispersion compared to a purely market-driven wage bargaining process.

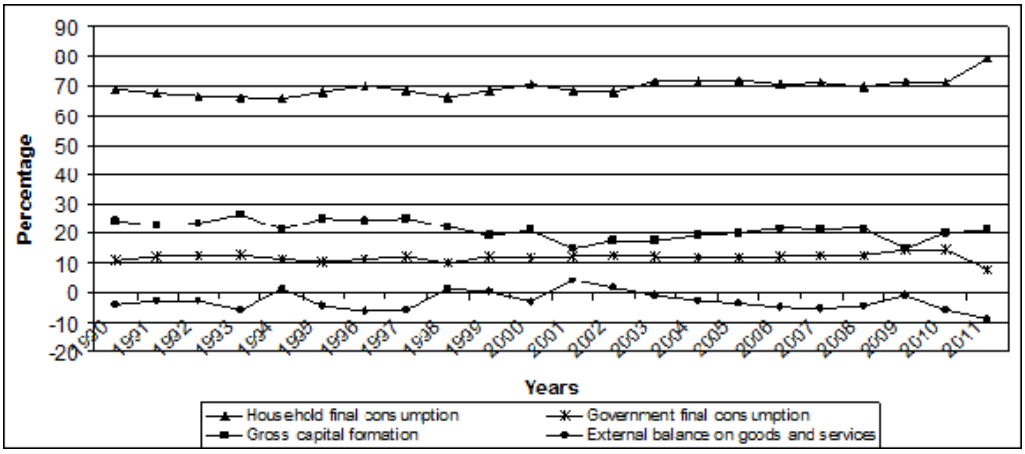
Turkey needs to stimulate productivity increases and innovation in various areas of the industrial sector. Considering Turkey as a middle-sized country with a population of about 74 million it is not sufficient enough to have a big service sector, financial sector and a productive agriculture. The exchange rate should - what we have learned from David Ricardo- be used as a general protection against foreign competition. Further, policies in the tradition of Friedrich List should support key domestic industries beyond the scope of attracting selected FDI. A combination of tariffs and industrial policy is needed to give the domestic enterprises in a latecomer country a chance to develop. Industrial policy should

[41] Furthermore, the financial system is not supervised and regulated by a single institution in Turkey. The regular banking, leasing and factoring activities are under the authority of the Banking Regulation and Supervision Agency (BRSA), while the capital market activities are ruled by the Capital Market Authority. It would be better to have supervision and regulation in one institution.

be directed towards high value added sectors. For instance, establishing technology clusters as in Taiwan and Malaysia would enable exporting firms to upgrade technology relatively fast and cheaply and hence would make them more competitive. Beyond this, Turkey should improve its infrastructure, and provide research and education as public goods. Natural monopolies do not need to be privatised. They can help to stabilise the investment dynamic of an economy.

Last but not least, Turkey has to actively change disposable income distribution to guarantee social cohesion in the society and sustainable economic prosperity. A more equal income distribution will foster demand and can trigger a stable consumption-demand-output process which also leads to high investment and productivity increases. For this, market income distribution should be changed by increasing the role of wage bargaining and by reducing wage dispersion. Also, financialisation tendencies, including possibilities to earn high incomes by financial intermediation or speculation, should be controlled. The Turkish government has to engage actively to influence income distribution. This includes, for example, policies to create a more equal disposable income distribution by a progressive tax system, competition policy to reduce rent seeking and the delivery of public goods in the fields of education, research and transportation.

Appendix I: Composition of aggregate demand in per cent of GDP in Turkey



Source: The World Bank (2012)

Appendix II: Turkey - External sector indicators

Years	Current account/GDP (%)	imports/GDP (%)	imports growth (%)	exports/GDP (%)	exports growth (%)	International trade[3]/GDP (%)	Net FDI inflows/GDP (%)	Net portfolio investment inflows (GDP) (%)	Net other investment inflows[3]/GDP (%)	Net errors and omissions/GDP (%)	Reserve assets/GDP (%)	Change in nominal effective exchange rate index[4] (1999=100) (%)	Central Bank's gross foreign exchange reserves (million USD)
1990	-1.7	17.6	33.1	13.4	3.2	30.9	0.5	0.4	1.9	-0.3	-0.6	-26.3	5758.5
1991	0.2	16.6	-5.3	13.8	3.1	30.5	0.5	0.4	-2.5	0.6	0.8	-36.4	4912.9
1992	-0.6	17.3	10.9	14.4	11.0	31.7	0.5	1.5	0.3	-0.7	-0.9	-41.3	6100.6
1993	-3.6	19.3	38.8	13.7	7.7	33.0	0.3	2.2	2.4	-1.2	-0.2	-32.4	6277.2
1994	2.0	20.4	-21.9	21.4	16.2	41.7	0.4	0.9	-4.6	1.4	-0.2	-63.5	6926.9
1995	-1.4	24.4	29.8	19.8	8.0	44.2	0.5	0.1	2.1	1.4	-2.7	-40.0	12042.8
1996	-1.3	27.8	20.5	21.5	22.0	49.4	0.3	0.3	2.4	0.8	-2.5	-42.2	16336.1
1997	-1.4	30.4	22.4	24.6	19.1	55.0	0.3	0.9	2.5	-0.5	-1.8	-41.1	18809.8
1998	0.7	30.2	2.3	21.3	12.0	51.6	0.2	-2.5	2.0	-0.3	-0.2	-40.7	19718.4
1999	-0.4	29.3	-3.7	19.4	-10.7	48.7	0.1	1.4	0.5	0.5	-2.1	-35.7	23177.0
2000	-3.7	33.1	21.8	20.1	16.0	53.2	0.0	0.4	3.2	-1.0	1.1	-25.8	25597.0
2001	1.9	23.3	-24.8	27.4	3.9	50.8	1.5	-2.3	-5.6	-1.1	6.6	-46.1	18882.0
2002	-0.3	25.6	20.9	25.2	6.9	50.8	0.4	-0.3	0.4	-0.3	0.1	-23.8	27006.0
2003	-2.5	24.0	23.8	23.0	16.9	47.0	0.4	0.8	1.1	1.5	-1.4	-12.5	33724.0
2004	-3.7	26.2	29.8	23.8	11.2	49.7	0.5	2.0	2.0	0.3	-1.1	-3.4	36809.0
2005	-4.6	25.4	12.2	21.9	7.9	47.2	1.9	2.8	4.2	0.6	-4.8	5.8	49300.0
2006	-6.1	27.6	8.9	22.7	6.6	50.3	3.6	1.4	3.0	0.0	-2.0	-6.6	58332.0
2007	-5.9	27.5	10.7	22.3	7.3	49.8	3.1	0.1	4.4	0.2	-1.9	2.5	71618.0
2008	-5.7	28.3	-4.1	23.9	2.7	52.2	2.3	-9.7	3.1	0.6	0.4	-4.1	69715.0
2009	-2.2	24.4	-14.3	23.3	-5.0	47.7	1.1	0.9	0.5	0.7	-9.1	-11.8	70039.0
2010	-6.1	29.8	29.7	21.1	3.4	47.8	1.0	2.2	4.8	0.4	-2.0	5.8	80496.0
2011	-9.8	29.3	-2.4	21.0	-5.9	50.0	1.7	2.8	4.0	1.5	-0.1	-14.3	77780.0

Source: CBRT (2012a, 2012e); Eurostat (2012); The World Bank (2012); authors' calculations

Appendix III: Turkey's Balance of Payments, Analytical Presentation*, 1990-2011

(Million US Dollars)																						
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CURRENT ACCOUNT	**-2.625**	**250**	**-974**	**-6.433**	**2.631**	**-2.339**	**-2.437**	**-2.638**	**2.000**	**-925**	**-9.920**	**3.760**	**-626**	**-7.515**	**-14.431**	**-22.309**	**-32.249**	**-38.434**	**-41.524**	**-13.370**	**-46.643**	**-76.906**
Exports[a]	12.959	13.593	14.715	15.345	18.106	21.636	32.067	32.110	30.741	29.031	30.825	34.729	40.719	52.394	68.535	78.365	93.613	115.361	140.800	109.647	120.902	143.397
Imports[b]	-22.407	-20.883	-22.791	-29.426	-22.273	-34.788	-42.331	-47.158	-44.779	-38.802	-52.882	-38.092	-47.109	-65.883	-91.271	-111.445	-134.669	-162.213	-193.821	-134.497	-177.347	-232.538
Balance on Goods	-9.448	-7.290	-8.076	-14.081	-4.167	-13.152	-10.264	-15.048	-14.038	-9.771	-22.057	-3.363	-6.390	-13.489	-22.736	-33.080	-41.056	-46.852	-53.021	-24.850	-56.445	-89.141
Services: Credit	8.083	8.446	9.564	10.919	11.076	14.939	13.057	19.248	23.183	16.370	19.463	15.203	14.031	17.952	22.941	26.898	25.549	28.930	35.564	33.922	34.743	38.959
Services: Debit	-3.117	-3.282	-3.757	-4.179	-4.024	-5.319	-6.400	-8.336	-9.665	-8.868	-8.088	-6.067	-6.146	-7.441	-10.144	-11.742	-11.994	-15.647	-17.816	-16.606	-19.250	-20.685
Balance on Goods and Services	-4.482	-2.126	-2.269	-7.341	2.885	-3.532	-3.607	-4.136	-520	-2.269	-10.682	5.773	1.495	-2.978	-9.939	-17.924	-27.501	-33.569	-35.273	-7.534	-40.952	-70.867
Income: Credit	917	935	1.012	1.135	890	1.488	1.577	1.900	2.481	2.350	2.836	2.753	2.486	2.246	2.651	3.644	4.418	6.423	6.889	5.164	4.477	3.952
Income: Debit	-3.425	-3.598	-3.637	-3.879	-4.154	-4.693	-4.504	-4.913	-5.466	-5.887	-6.838	-7.753	-7.040	-7.803	-8.260	-9.483	-11.074	-13.531	-15.253	-13.355	-11.616	-11.725
Balance on Goods, Services and Income	-6.990	-4.789	-4.894	-10.085	-379	-6.737	-6.534	-7.149	-3.505	-5.806	-14.684	773	-3.059	-8.535	-15.548	-23.763	-34.157	-40.677	-43.637	-15.725	-48.091	-78.640
Current Transfers	4.365	5.039	3.920	3.652	3.010	4.398	4.097	4.511	5.505	4.881	4.764	2.987	2.433	1.020	1.117	1.454	1.908	2.243	2.113	2.355	1.448	1.734
CAPITAL ACCOUNT																		**-8**	**-61**	**-51**	**-51**	**-30**
FINANCIAL ACCOUNT	**4.037**	**-2.397**	**3.648**	**8.903**	**-4.257**	**4.565**	**5.483**	**6.969**	**-840**	**4.829**	**9.584**	**-14.557**	**1.172**	**7.162**	**17.702**	**42.685**	**42.689**	**49.287**	**34.707**	**10.065**	**58.929**	**66.594**
Direct Investment Abroad	16	-27	-65	-14	-49	-113	-110	-251	-367	-645	-870	-497	-143	-480	-780	-1.064	-924	-2.106	-2.549	-1.553	-1.464	-2.466
Direct Investment in Turkey	684	810	844	636	608	885	722	805	940	783	982	3.352	1.082	1.702	2.785	10.031	20.185	22.047	19.504	8.411	9.038	15.872
Portfolio Investment- Assets	-134	-91	-754	-563	35	-466	-1.380	-710	-1.622	-759	-593	-788	-2.096	-1.386	-1.388	-1.233	-3.987	-1.947	-1.244	-2.711	-3.524	2.688
Portfolio Investment- Liabilities	681	714	3.165	4.480	1.123	703	1.950	2.344	-5.089	4.188	1.615	-3.727	1.503	3.851	9.411	14.670	11.402	2.780	-3.770	2.938	19.617	19.298
Equity Securities	89	147	350	570	989	195	191	8	-518	428	489	-79	-16	905	1.427	5.669	1.939	5.138	716	2.827	3.468	-986
Debt Securities	592	567	2.815	3.910	134	508	1.759	2.336	-4.571	3.760	1.126	-3.648	1.519	2.946	7.984	9.001	9.463	-2.358	-4.486	111	16.149	20.284
Other Investment- Assets	-409	-2.563	-2.438	-3.291	2.423	-383	331	-1.750	-1.464	-2.304	-1.939	-601	-777	-986	-6.983	-553	-13.479	-4.969	-12.058	10.987	7.012	11.395
Monetary Authorities	361	29	36	-60	-18	-102	-117	-98	-95	-98	1	-39	-30	-28	-24	-16	0	2	2	2	4	2
General Government																	-42	-116	-32	-31	-29	-108
Banks	-769	-2.595	-2.474	-3.231	2.441	-281	1.448	-976	-942	-1.839	-1.574	233	643	348	-5.324	-149	-11.018	-3.389	-10.255	6.396	13.158	-408
Other sectors	-1	3	0	0	0	0	-1.000	-676	-427	-367	-366	-795	-1.390	-1.306	-1.635	-388	-2.419	-1.466	-1.773	4.620	-6.121	11.909
Other Investment- Liabilities	3.199	-1.240	2.896	7.655	-8.397	3.939	3.970	6.531	6.762	3.566	10.389	-12.296	1.603	4.461	14.657	20.834	29.492	33.482	34.824	-8.007	28.250	19.807
Monetary Authorities	-535	-939	255	1.036	1.362	1.556	1.255	1.026	571	-231	619	735	1.336	497	-209	-787	-1.268	-1.450	-1.791	-901	-553	-1.965
General Government	-393	-201	-1.645	-2.177	-2.962	-2.131	-2.108	-1.456	-1.655	-1.932	117	-1.977	-669	-2.194	-1.163	-2.165	-712	82	1.742	1.602	3.580	1.982
Banks	2.279	396	2.100	4.495	-7.053	1.973	3.046	2.232	3.195	2.655	3.736	-9.644	-2.016	2.846	6.564	10.524	11.704	3.736	9.457	514	27.254	9.982
Other sectors	1.848	-496	2.186	4.301	256	2.541	1.777	4.729	4.651	3.074	5.917	-1.410	2.952	3.312	9.465	13.262	19.768	31.114	25.416	-9.222	-2.031	9.808
Current, Capital and Financial Account	1.412	-2.147	2.674	2.470	-1.626	2.226	3.046	4.331	1.160	3.904	-336	-10.797	546	-353	3.271	20.376	10.440	10.845	-6.878	-3.356	12.235	-10.342
NET ERRORS AND OMMISSIONS	**-468**	**948**	**-1.190**	**-2.162**	**1.832**	**2.432**	**1.499**	**-987**	**-713**	**1.302**	**-2.661**	**-2.127**	**-758**	**4.450**	**1.071**	**2.824**	**185**	**1.170**	**4.120**	**4.147**	**2.733**	**11.356**
GLOBAL BALANCE	944	-1.199	1.484	308	206	4.658	4.545	3.344	447	5.206	-2.997	-12.924	-212	4.097	4.342	23.200	10.625	12.015	-2.758	791	14.968	1.014
RESERVE ASSETS	**-944**	**1.199**	**-1.484**	**-308**	**-206**	**-4.658**	**-4.545**	**-3.344**	**-447**	**-5.206**	**2.997**	**12.924**	**212**	**-4.097**	**-4.342**	**-23.200**	**-10.625**	**-12.015**	**2.758**	**-791**	**-14.968**	**-1.014**
Official Reserves	-896	1.199	-1.484	-308	-546	-5.005	-4.545	-3.316	-216	-5.726	-354	2.694	-6.153	-4.047	-824	-17.847	-6.114	-8.032	1.057	-111	-12.809	1.813
Use of Fund Credits and Loans	-48	0	0	0	340	347	0	-28	-231	520	3.351	10.230	6.365	-50	-3.518	-5.353	-4.511	-3.983	1.701	-680	-2.159	-2.827
Exceptional Financing																						

(*) Counterpart items in the old presentation are included in reserve assets.

[a]Data excludes insurance and freight costs

[b]Data excludes insurance and freight costs

Source: part of the table in CBRT (2012e)

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