Banking Crisis and Economic Effects of the Banking Crisis in Turkey

Sevilay Konya, Sadife Güngör, Zeynep Karaçoğ

Abstract—Turkish economy is occurred depending on different factors from time to time and the banking crises of different magnitudes. Foremost among the factors which hinder the development of countries and societies—crises in the country's economy. Countries' economic growth rates affect inflation, unemployment and external trade. In this study, effect of November 2000, February 2001 and 2008 banking crisis on Turkey's economy and banking crisis will be examined and announced as conceptual. In this context, this study investigates Turkey's GDP, inflation, unemployment and foreign trade figures. Turkey's economy affected have been identified from 2000 November 2001 February and 2008 banking crisis.

Keywords—Banking crises, Turkey's economy, economic effects, Turkey.

I. INTRODUCTION

In many countries where the economies are open to foreign countries and the exchange has expanded rapidly, many consecutive financial crises occurred. Europe Monetary Crisis (1992-93), Latin America “Tequila Crisis” (1994-95), Turkey Crisis (1994), South East Asia Crisis (1997-98), Russia Crisis (1998), Brazil Crisis (1999), Turkey Crisis (2001), Argentina Crisis (2002) are only some of the many crises [1]. The last occurred economic crisis is between 2008-2009. 1929 World Economic Crisis is one of the biggest crises. Kundeberger has mentioned that this 1929 crisis was very wide, very deep and very long due to the nonexistence of the last authority which has an international function [2]. The origin of the financial crises generally from the banking sector, the deep exposure of the system, the bankruptcy in the finance of the investment, the shaking of the trust for the international institutions cause the saving decrease and capital flight to foreign countries. The capital flights cause the speculative attacks as well as the collapse of the financial system. In conclusion, the banking crises decrease the effect of the monetary policies and deepen the economic recession [3].

The banking crises shall be explained as conceptual in this study, and the effects of 2000 November 2001 February, and 2008 Banking crises occurred in Turkey shall be investigated in this study. GDP, inflation, unemployment and foreign trade numbers of Turkey after 2000 have been investigated within this frame. It has been determined that the economy of Turkey has been affected from 2000 November 2001 February and 2008 Banking crises.

II. CONCEPTUAL FRAMEWORK

The crisis word which its etymologic root is based on “crisis” word in Greek, has been used simultaneously with the “crisis” and “depression” words in social sciences field. The crisis in economic respect means that the unanticipated or unknown developments may present results that may significantly affect the companies in micro level and the state in macro level [4]. The integration process of the national and international markets which started after Second World War and gained acceleration after 1990, has brought along the financial crisis phenomenon. In this period when some developed and developing countries liberalize their financial system and open their capital accounts to foreign countries, the international movements of the capital have increased whereas the long-term crises which their severity and incidences expand rapidly have occurred [5].

Michael Bordo (1987) has expressed the financial crisis as the fear of the bankruptcy of some financial institutions, a change in expectation or attempt for converting the real estate or non-liquid assets into money [6]. Schwartz (1995) has expressed the financial crisis as a situation which is based on the fear of the failure in payments from any prices, excessive public intervention is made for finding cash, the occurrence of the reserve pressure in banking system and the banks recall the given credits and do not give any new credits and sell their assets [7]. The main line of the financial crises which are seen widely in rising markets in four groups as [8];

- Monetary Crises,
- Banking Crises,
- Foreign Debt Crises and Systemic financial crises.

These crises generally follow each other therefore no discrimination can be made among them with very sharp lines. Banking crisis occurs in the case of the prevention of the performance of the liabilities of banks actually or potentially caused by the bank failures or pressure of the state for making intervention to this failure [9]. Some present approaches connect the economic crises of one country to the global developments. It is possible to divide the banking crises into two as old and new type crises. While there were debt crises and banking crises in the 1980s, payment balance crises occurred which results with devaluation between 1950 and 1980. Old type crises are the monetary crises which cause decreases in foreign currency reserves or with devaluation. New type crises are the debt crises or banking crises which

S. Konya and S. Güngör are with the Selçuk University, Taşkent Vocational School Department of Foreign Trade, Konya, Turkey (phone: +90-332-497-1404; fax: +90-332-497-1406; e-mail: sevilaykonya@selcuk.edu.tr, sadifegungor@selcuk.edu.tr).

Z. Karaçoğ is with the Selçuk University, Faculty of Economics and Administrative Sciences, Department of Economics, Konya, Turkey (phone: +90-332-223-4363; fax: +90-332-241-0046; e-mail: zkaracog@selcuk.edu.tr).
cause the debt payment problems after 1980s and old type crises are generally the crises which arise from the payment problems of state expenditures [10]. New type crises in other words banking crises occur in the situation that the banks do not fulfill their liabilities and in case of bank failures and bank bankruptcies, in case of leaving the bank due to the sense and fear for not receiving their deposits or in the cases where the government intervenes with socialization operation and in case of existence credits which are not returned in wide sense [11].

Honohan (1997), classifies the banking crises which spread to a wide zone, as three “indications” General macroeconomic failures, microeconomic failures and regional crises which are seen in a system ruled by the public. In these crises, the depositors, persons or institutions giving credit to the banks and bank shareholders want to withdraw their funds due to the current loss of trust. The failure of one bank may not affect the whole banking system; however, the possibility of reflection of single bank crises to whole financial system and economy in the rate of the size of the share of the bank in crisis within the banking system and to convert into a systemic crisis, is pretty high [12].

III. LITERATURE REVIEW

In our literature study, the studies made related to the banking crises are considered. The banking crises are the primary subject among the most discussed subjects in the literature with the occurrence of the financial crises. Fischer and Martin, Fischer and Chenard, and Weller have expressed that at least two third of IMF member countries have confronted problems in important banking sector, a loss has occurred with the amount of over 250 billion dollars, and three-fourth of IMF member countries (approximately 130 countries) have confronted with problems in important banking problems [13].

Goldstein and Turner (1996), has mentioned about the factors which are efficient in banking crises. These are mobility in internal and external macroeconomic variables, increase in bank liabilities depending on the term and currency clash, excessive increases in credits and capital entries, sudden decreases in asset prices, financial liberalization applications with weak infrastructure, dense public intervention and loss in the controls made on the credit, wrong foreign currency regimes, accounting weaknesses and current deficits in structural infrastructure [14]. According to the idea which is present by the economists like Friedman, Schwartz, and Cagan, the high inflation causes panic in the panic sector [15].

In their study, Caprio and Klingebiel (1996), has expressed that the banking crises occur once in twenty-five years after 1945, the banking crises number has increased after 1970, and 69 banking crises are seen in the countries which are developing and industrialized after the 1970s. [16]. In their study including 47 countries Hoggart, Reis and Saporta (2001), has presented that the crisis occurs in the developed countries after economic expansion and in the developing countries, the manufacture may continue its efficiency in the expansion period [17].

Altıntaş (2004), has investigated the reasons for the banking crisis and economic costs. He has expressed that the banking crises cause the financial costs and manufacture losses [18]. In this study, Afsar (2007) has dealt with the crisis in Turkish Banking sector [19].

IV. ECONOMIC EFFECTS OF THE BANKING CRISIS IN TURKEY

Under this title, banking crises which affected Turkish economy or happened in Turkey economy have taken part. The possible effects in the country economy have been tried to be commented through the tables.

A. November 2000 Economic Crisis and Its Effects on Turkey

The crisis which has happened in Turkey on November 2000, has been actualized in a very different period for Turkey. This period is a period where an actual stabilization program is applied, a decrease is observed in the inflation rate and the studies related to the restructuring of banking system, financial measurement occurs against the rising of the current transactions and positive messages are expressed by doing the ordinary interviews related to the IMF stabilization programme [20].

22 November crisis is a crisis aroused from the financial system, and its actor is the banking sector. This interaction in the finance markets has turned into the crisis through the triggering made by the banking zone. The efforts of the banks for closing the vacant positions caused the public and private bank to worry about the loans. The increase in the risk premiums on the debt interest of Turkey in external markets causes a problem in external debts of the banks [21].

In our study, GDP, inflation, unemployment and foreign trade has been selected as the canals which 2000 November crisis affects Turkish economy. GDP values have been considered both as thousand TL and growth speed. As the inflation, variable CPI has been selected, index values of CPI have been given and its change among years are given as % In the unemployment numbers, the number of unemployed persons and unemployment rates has been identified. While expressing the foreign trade numbers, the import and export values are considered separately. These variables are expressed as thousand $. Under the foreign trade variable, foreign trade volumes have taken part. Table 1 shows how 2000 November crisis affects Turkish economy and GDP and growth rate.

<table>
<thead>
<tr>
<th>Years</th>
<th>GDP (current prices, thousand TL)</th>
<th>GDP growth speed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>7 762 456 069</td>
<td>106,7</td>
</tr>
<tr>
<td>1996</td>
<td>9 408 345 270</td>
<td>90,3</td>
</tr>
<tr>
<td>1997</td>
<td>10 460 439 833</td>
<td>95,2</td>
</tr>
<tr>
<td>1998</td>
<td>12 460 439 833</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>14 595 915 540</td>
<td>49,0</td>
</tr>
<tr>
<td>2000</td>
<td>166 658 021 460</td>
<td>59,3</td>
</tr>
</tbody>
</table>

Source of data: [36]
When Table I is considered, it was determined that GDP in Turkey had shown a sustainable increase since 1995 till 2000 as thousand TL. With the effect of the crisis in 1999 and 2000, it is seen that a decrease exists in GDP growth speed according to other years. In Table II, the inflation change of Turkey between 1995-2000 is shown.

The inflation in Turkey is sustainable, and it is not always fed from the same sources. Since 1995, the acceleration in money substitute phenomenon has strengthened the connection between the devaluation or devaluation expectation and the inflation. The increase in the foreign currencies has started to affect the inflation within latest two months [22]. CPI has shown a constant decrease as % from 1995 till 2000. CPI performed a major increase as a value in 2000 when compared to previous year.

An agreement was made with IMF in 1999 against the accumulated economic and structural problems and debt spiral. Since the beginning of 2000, the inflation prevention and economic stabilization program have started. Such program did not conform to the reality of Turkey because for an inefficient economy which has lived with inflation for long years; the prices are determined as low [23]. Unemployment numbers in Turkey are considered in Table III.

Together with the last quarter of 2000, the high unemployment, the real low prices and the mistakes of IMF’s policies in the crashed stock market and in social problems, the touchiness in finance has a role in the crash of the economy [24]. In 1999 when the crisis effect is started to be seen, and a big earthquake occurred in Turkey, the unemployment rates have reached the highest level. The foreign trade course between 1995-2000 is shown in Table IV.

While the effect of the crisis in Asia continues in 1997, the start of the crisis in Russia on 1998 and the effects of these crises on Turkey and the election made at the same time and two big earthquakes have caused a narrowness in the activities.

Table I shows the numbers in Turkey are considered in Table III.

Table II shows the inflation rates in Turkey (1995-2000).

Table III shows the unemployment in Turkey (1995-2000).

Table IV shows the foreign trade in Turkey (1995-2000).

Table V shows the foreign trade in Turkey (1995-2000).

Table VI shows the GDP in Turkey (2001-2007).

The export has increased as % 2.7 in 1998 and has decreased as % 1.4 in 1999. The import has decreased as % 5.4 in 1998 and has decreased as % 11.4 and has reduced to 40 671 272 in 1999. Therefore, the foreign trade volume has decreased [25].

The effects of 2001 February crisis on Turkish economy shall be evaluated within the frame of GDP, inflation, unemployment, and foreign trade.
reduction has occurred in GDP rate which is calculated with the current prices. Although 6.2% growth rate occurred in 2002, the level before the crisis could not be reached. High growth speed with rate of %5.3 in 2003, %9.4 in 2004, %8.4, in 2005, %6.9 in 2006 and %4.7 in 2007 has been observed.

**TABLE VII**

<table>
<thead>
<tr>
<th>Years</th>
<th>Consumer Price Index</th>
<th>% Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>418 081 170</td>
<td>54.4</td>
</tr>
<tr>
<td>2002</td>
<td>606 217 697</td>
<td>45.0</td>
</tr>
<tr>
<td>2003</td>
<td>759 590 774</td>
<td>25.3</td>
</tr>
<tr>
<td>2004</td>
<td>824 902 377</td>
<td>8.6</td>
</tr>
<tr>
<td>2005</td>
<td>892 372 465</td>
<td>8.2</td>
</tr>
<tr>
<td>2006</td>
<td>978 040 222</td>
<td>9.6</td>
</tr>
<tr>
<td>2007</td>
<td>1 064 107 761</td>
<td>8.8</td>
</tr>
</tbody>
</table>

Source of data: [36]

In Table VII, the inflation rates between 2001-2007 are given. After the crisis, the inflation rates in Turkey has been in %10 level.

As can be seen in Table VII, since 2004 the inflation has reached to numbers with single rigid. In 2004, CPI rate has decreased below %10 by being %8.6. In Table VIII, the unemployment rates in Turkey between 2001-2007 are mentioned.

**TABLE VIII**

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of unemployed (Thousand)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1967</td>
<td>8.4</td>
</tr>
<tr>
<td>2002</td>
<td>2464</td>
<td>10.3</td>
</tr>
<tr>
<td>2003</td>
<td>2493</td>
<td>10.5</td>
</tr>
<tr>
<td>2004</td>
<td>2385</td>
<td>10.8</td>
</tr>
<tr>
<td>2005</td>
<td>2388</td>
<td>10.6</td>
</tr>
<tr>
<td>2006</td>
<td>2328</td>
<td>10.2</td>
</tr>
<tr>
<td>2007</td>
<td>2376</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Source of data: [36]

2001 February crisis has particularly affected the banking sector. This situation caused the educated persons to be unemployed. The unemployment in Turkey is very high. Despite the economic growth, the unemployment did not decrease [29].

In Tables IX and X, the foreign trade values between 2001 and 2007 are mentioned for expressing the effect of 2001 February crisis on the foreign trade.

**TABLE IX**

<table>
<thead>
<tr>
<th>Years</th>
<th>Export (thousand $)</th>
<th>% Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>31 334 216</td>
<td>12.8</td>
</tr>
<tr>
<td>2002</td>
<td>36 059 089</td>
<td>15.1</td>
</tr>
<tr>
<td>2003</td>
<td>47 252 836</td>
<td>31.0</td>
</tr>
<tr>
<td>2004</td>
<td>63 167 153</td>
<td>33.7</td>
</tr>
<tr>
<td>2005</td>
<td>73 467 408</td>
<td>16.3</td>
</tr>
<tr>
<td>2006</td>
<td>85 534 676</td>
<td>16.4</td>
</tr>
<tr>
<td>2007</td>
<td>107 271 750</td>
<td>25.4</td>
</tr>
</tbody>
</table>

Source of data: [36]

The crisis in 2001 has caused a reduction in national income, and the loss in TL value and the reduction in domestic demand has directed the companies to external market, and therefore the export has affected positively. In 2001, the export had increased as %12.8 and had become 31 334 216 thousand dollars. In 2002, it had increased as %15.1 and had increased to 36 059 089 thousand dollars. The major change in export has started after this. Particularly in 2003 and 2004, the increase rate has reached to very high rates like %31.0 and %33.7 respectively. As the result of this, when compared to 2002, it has increased as %75 within two years and has become 63 167 153 thousand dollars in 2004. With a specific suspension in 2005 and 2006, the export has increased as %16.3 and has become 85 534 676 thousand dollars. In other words, a record increase of %137 has occurred in export after the crisis. The factors affecting the export, have also affected the import. The import has decreased at the rate of %24 with the effect of the crisis after the high rated crisis in 2000. Since 2002, it has shown a continuous increase. The import which has increased as %24.5 and has become 51 533 797 thousand dollars in 2002, has achieved a high increase rate till 2004 and has increased to 97 539 766 thousand dollars. The import has shown an increase in the rate of %19.7 and %19.5 in 2005 and 2006 respectively and has increased to 139 576 174 thousand dollars. After the crisis, the import has increased at the rate of %168. Despite these developments in import and export, the foreign trade deficit has increased due to the higher imports than exports. The foreign trade deficit which reduced till 10064.9 million dollars in 2002, has increased to 62791.0 in 2007 [30].

C. 2008 Financial Crisis and Effects on Turkey's Economy

The root of the global crisis which first occurred in the USA in 2008 September and spread to the whole world, includes the biggest real estate and credit balloon. Although the crisis has occurred as a mortgage crisis at the beginning, it has turned into a liquidity crisis in the following stage [31].

On 15 September 2008, one of the financial institutions Lehman Brothers company has announced bankruptcy. The demand of other big investment companies for benefitting from the short-term liquidity opportunities by FED has increased the risk perception and the funding costs have increased with the lockout of the worldwide interbank money markets. Accordingly, the non-limitation of the effects of these developments with the USA, has shown that the financial crisis might transform into a global crisis [32].
The effects of 2008 financial crisis shall be considered within the frame of GDP, inflation, unemployment, and foreign trade.

In Table XI, the growth rate of Turkish economy has been mentioned from 2008 till the present day. Major decreases have occurred in the growth rates of 2008 and 2009 with the effect of the global crisis. In 2008 when the first effects of the crisis, the annual growth rate of Turkey became % 0,7 in 2008. In 2009 when the actual effects of the crisis are felt, the Turkish economy has reduced the rate of % 4,8.

In Table XII, the inflation rates of Turkey have been shown from 2008-2014. The inflation has decreased as of the moment when the effect of the crisis is felt. The highest inflation rate was seen in 2009 when the effect of the global crisis is felt. The inflation of the Turkish economy in 2009 became % 8,8. From this data, it is seen that the highest number is in 2009 when the effect of the crisis is felt.

In Table XIII, the unemployment numbers between 2008 and 2014 in Turkey, are tried to be explained. While the global economic crisis affects the labor markets of the developed and developing economies; the effects of Turkey on the labor market, have occurred. The depression of the economic activities in world-wide and the decrease in the demand has affected the manufacturing structure of Turkey. As depending on this economic depression, some enterprises chose to dismiss workers [34]. When the unemployment rates and unemployed numbers between 2009-2014, are considered, it is seen that the highest number is in 2009 when the effect of the crisis is felt.

In Table XIV, the foreign trade balance of Turkey from 2008-2014 is shown. The global financial crisis has affected Turkey in terms of foreign trade. The global recession means the decrease in global income per capita and the decrease in the world demand for our products. The effect of the export is important in sustaining the finance of current deficit and economic growth in the Turkish economy. The increase in the foreign trade deficit which is one of the most important elements of the import has resulted in a decrease in the export after the crisis, has put Turkey economy which has already the high and increasing current deficit problem in a difficult position [35]. When the export of Turkey is considered, the export has decreased at the rate of % 22,6 in 2009 when the crisis is felt and has become 140 928 022 thousand dollars. The import has narrowed in the rate of % 30,2 in 2009 and has become 140 928 022 thousand dollars.

V.Conclusion

In this study, three important crises are considered in terms of the Turkish economy. 2000 November 2001 February and 2008 crisis have studies on the basis of GDP, inflation, unemployment, and foreign trade and the effects of this crisis on the macroeconomic variables have been expressed.
2000 November and 2001 February crises are the crises which we can qualify as the twin crises. The reason of the crises arises from the deficits in the finance sector. Without getting over the effects of 2000 November crisis, the political stress between the Prime Minister and President of the period has caused 2001 February crisis. The effects of the crises have given a shock to our economy; Decreases occurred in GDP numbers in the years of crisis. The inflation phenomenon in Turkey is constant, and as of 2004, the inflation has reduced to the numbers with single rigid. The qualification of two crises has affected the banking sector, therefore, the number of the unemployed has increased. However, the most important element here is; there are many university graduates who are dismissed from the banks in bankruptcy. With the effect of 2000 November and 2001 February crises, there are depressions in foreign trade. However, Transition to the Strong Economy program is announced in 2002, therefore, the unemployment rates increased in 2009 when the effect of the crisis is felt. The inflation which has decreased to one rigid number in 2004 with the effect of 2008 financial crisis, has again reached to the numbers with two rigid in 2008. In 2008 when the crisis has occurred, the Turkish economy has achieved a small growth, and in 2009 our economy has growth in a negative way, in other words, it has narrowed.

Finally, 2000 November 2001 February and 2008 crises have affected the fundamental macroeconomic sizes in the Turkish economy.

REFERENCES


