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AUGUST 2016 NO: 20

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AFTER THE FAILED COUP ATTEMPT

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SETA | FOUNDATION FOR POLITICAL, ECONOMIC AND SOCIAL RESEARCH
Nenehatun Caddesi No: 66 GOP Çankaya 06700 Ankara TÜRKİYE
Phone:+90 312.551 21 00 | Fax :+90 312.551 21 90
www.setav.org | info@setav.org | @setavakfi

SETA | İstanbul
Defterdar Mh. Savaklar Cd. Ayvansaray Kavşağı No: 41-43
Eyüp İstanbul TÜRKİYE
Phone: +90 212 315 11 00 | Fax: +90 212 315 11 11

SETA | Washington D.C.
1025 Connecticut Avenue, N.W., Suite 1106
Washington, D.C., 20036 USA
Phone: 202-223-9885 | Fax: 202-223-6099
www.setadc.org | info@setadc.org | @setadc

SETA | Cairo
21 Fahmi Street Bab al Luq Abdeen Flat No 19 Cairo EGYPT
Phone: 00202 279 56866 | 00202 279 56985 | @setakahire

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ABOUT THE AUTHORS

Mevlüt TATLIYER
Mevlüt Tatliyer is an assistant professor in Istanbul Medipol University. Tatlıyer received his B.S. degree in Management Engineering from Istanbul Technical University (2007), his M.A. degree in Financial Economics from Istanbul Bilgi University (2010) and his PhD degree in Economics from Istanbul University (2014). Dr. Tatlıyer's research interests involve international economics, macroeconomics and behavioral economics. In addition, Dr. Tatlıyer authored a Turkish book titled "The Evolution of Economic Thought and Economic Policy", published by Nobel Publications in November 2015.

Nurullah GÜR
Nurullah Gür received his BA and MA in Economics from Marmara University in 2006 and 2008, respectively. Mr. Gur got his PhD at the University of Essex in 2012. Gür is currently a faculty member at Istanbul Medipol University Department of Economics & Finance. He has numerous articles published in international journals with a focus on economic development and finance-real sector relations. His articles were published in journals such as Journal of Comparative Economics, Journal of International Trade and Economic Development, Progress in Development Studies, Eurasian Economic Review, Economics Letters, Applied Economics Letters and Emerging Markets Finance and Trade.

ABSTRACT

Turkey has lived through the biggest trauma in its recent history, as the members of the Gülen Terror Organization (FETÖ) attempted a coup d'état on July 15, 2016. However, the heroic people of Turkey managed to quell this sordid attempt by literally standing unarmed against flying bullets and tank shells. Together with the people were the police, loyal soldiers and politicians, first and foremost being the president Recep Tayyip Erdoğan. As a country which has just survived a coup attempt, Turkey has astonished many with its political resilience. While systematically neutralizing coup plotters in multiple governmental organizations, such as the military, judiciary, bureaucracy, health and education sectors, which had been infiltrated by the FETÖ, the government preserved its functionality and managed to perform as normal. In the same vein, to the astonishment of many, the Turkish economy showed great resilience in the aftermath of the failed coup attempt. Even in the first working day after the coup attempt, there was no panic in the financial markets. The Turkish lira only marginally lost its value against the US dollar and there was no rush on banks or bonds. In fact, the effect of the coup attempt on the financial markets was barely discernable. The Turkish democracy and economy have survived major setbacks in recent years and proved their resilience, the true extent of which has been understood more clearly in the light of the failed coup attempt.

The Turkish policymakers managed this crisis in a calm and professional manner. While immediate actions were taken to meet the needs of the financial markets, it was also clearly underlined that the Turkish economy would continue to work within the rules of the market. In addition to these policy actions, a well-functioning financial system, strong public finances, a dynamic real sector and a moderate current account deficit helped the Turkish economy to stay afloat against the failed coup attempt.

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INTRODUCTION

After the failed coup attempt in Turkey on 15th July 2016, some worried about whether the Turkish economy could survive the political turmoil, as the prospects of the global economy were already bleak. However, the performance of the Turkish economy, until now, has been positive in this respect. The Turkish economy survived the 2008-09 global financial crisis successfully with splendid economic growth rates of around 9 percent in 2010 and 2011. Its later growth performance was in no way disappointing, as the world economy failed substantially and Turkey's trade partners, especially those in Europe, were in a very bad shape economically. Moreover political turmoil in Syria has engulfed Turkey's south. Two terror organizations, the DAESH and the PKK, have been escalating violence in Turkey since 2015, as they ruthlessly carried out suicidebomber attacks and targeted soldiers and police officers, causing great social distress in Turkey.

However, Turkey has beaten expectations once more and grew in this highly tumultuous year by 4 percent, surpassing even most of the emerging countries. So, even though the world economy is expected to suffer sluggish growth rates in the years to come, economic indicators show that the Turkish economy is strong enough to offset the turmoil caused by the failed coup attempt. In fact, the market reaction in the first week of the failed coup attempt reflected how resilient the Turkish economy is as there was no rush on banks or bonds and the Turkish lira only marginally lost its value against the US dollar.

Moreover, the Turkish policymakers managed this crisis in a calm and professional manner. While immediate actions were taken to meet the needs of the financial markets, it was also clearly underlined that the Turkish economy would continue to work within the rules of the market.

In this SETA Analysis, we first give a snapshot of the Turkish Economy. Secondly, we take an overview of actions taken by policymakers to ensure the efficient functioning of the economy and to relieve financial markets after the failed coup attempt. Thirdly, we analyze the current state of the financial system, public finance and real sector to understand how the Turkish economy stood firmly against the failed coup attempt. Finally, we evaluate the positions taken by the international credit rating agencies against the Turkish Economy, before concluding remarks in the last section.

SNAPSHOT OF THE TURKISH ECONOMY

Turkey is the 17th largest economy in the world with a GDP of over 800 billion US dollars as of 2015. In addition, Turkey boasts a young population of around 79 million with a median age of just over 30. While Turkey's gross domestic product (GDP) has climbed over 10.000 US dollars in the first decade of this century, its GDP per capita based on purchasing power parity (PPP) level is around 20.000 US international dollars as of 2015.[1] Although, like other emerging countries, the middle-income trap has loomed large at this point of its economic journey, Turkey has great ambitions to become a fully industrialized and wealthy country in a

1. See World Bank, World Development Indicators: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD

short time span of 20-30 years. Turkey has been investing for years in strategic industries to develop its industrial base and knowledge level, the main prerequisite to surmounting the middle-income trap. Therefore, it is no surprise that, despite the dismal economic outlook of the world economy and a very unfavorable atmosphere in the whole region, not to mention the failed coup attempt, the prospects of the Turkish economy are still promising.

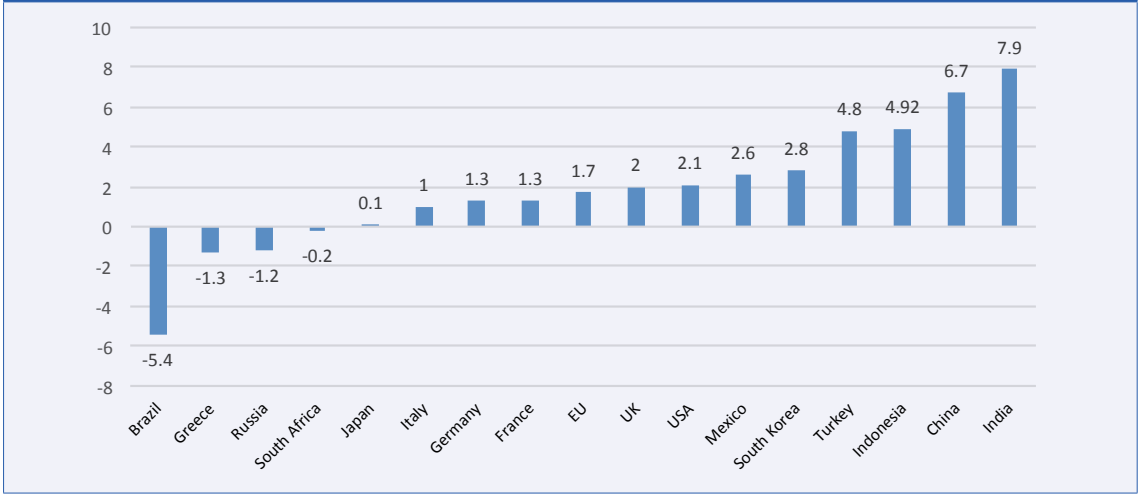
The Turkish economic growth averaged out a stunning 6.8 percent from 2002 to 2007, as Turkey recovered from the 2000-01 financial crisis. In this period, the average economic growth rate of the EU or OECD countries were far below that of Turkey. In the wake of the 2008-09 global financial crisis, Turkish average economic growth rate declined as the world economy slowed down by a significant extent. The EU countries were particularly hard hit as their economies barely grew in the 2008-2015 period, with only a 0.4 percent annual growth. To put this into perspective, in real terms Turkey has been one of the best performers in the world with an annual economic growth rate of 3.4 percent in the period 2008-2015. In addition, the Turkish economy has been growing relatively well for the last few quarters, compared to other G20 countries. For example, as seen from Figure 1, the Turkish economy fared significantly better than that of most G20 countries with a 4.8 annualized GDP growth rate in the first quarter of 2016.

TABLE 1. ECONOMIC GROWTH RATES OF SELECTED COUNTRIES/AREAS

COUNTRY/AREA	2002-2007	2008-2015	2002-2015
Turkey	6,8	3,4	4,8
Argentina	5,4	3,6	4,4
Belgium	2,4	0,7	1,4
Brazil	3,9	2,2	2,9
Germany	1,4	0,9	1,1
Spain	3,5	- 0,4	1,3
France	1,8	0,4	1,0
UK	2,8	0,9	1,7
Greece	4,1	- 3,7	- 0,4
Italy	1,1	- 1,1	- 0,1
Japan	1,6	0,2	0,8
Mexico	2,8	2,0	2,4
South Korea	5,0	3,1	3,9
Malaysia	5,9	4,6	5,2
South Africa	4,6	1,9	3,0
European Union	2,3	0,4	1,2
OECD	2,5	0,9	1,6
World	3,7	2,2	2,8

Source: World Bank.

FIGURE 1. GDP ANNUAL GROWTH RATE OF SELECTED COUNTRIES/AREAS (Q1 2016)



Source: Trading Economics

The relatively stable and strong growth performance of Turkey in the last seven decades has resulted in a much higher GDP per capita, albeit Turkey has a long way to go as an emerging country. Following the stagnation of the industrialized countries in terms of economic growth in the last decades, Turkey has managed to shrink the GDP per capita gap with these same countries. In 1990, the Turkish GDP per capita was around a fourth of that of OECD countries on average, around 4.400 and 16.550 US international dollars respectively, with the global average around 5.400 US international dollars. With its strong growth performance, Turkey surpassed the global average in 2004. As of 2015, the Turkish GDP per capita (PPP) stood at around 20.000 US international dollars, much higher than the global average of 15.500 US international dollars. Moreover, the Turkish GDP per capita is now around one-half of the OECD average of around 40.000 US international dollars, a much different picture compared to just 25 years earlier.

TABLE 2. THE PERCENTAGE GDP PER CAPITA (PPP) SHARE OF TURKEY RELATIVE TO SELECTED COUNTRIES/AREAS

COUNTRY/AREA	1990	2000	2015
Belgium	23,3	33,0	44,6
Brazil	67,0	104,0	127,7
Germany	23,3	35,0	41,5
Spain	32,4	42,6	56,8
France	25,4	35,9	49,4
UK	25,4	34,0	47,5
Greece	33,5	48,3	73,5
Italy	24,3	35,0	54,7
Japan	23,1	35,9	52,6
Mexico	73,7	90,3	113,6
South Korea	52,6	51,5	56,8
Malaysia	65,7	72,8	73,0
South Africa	66,3	118,5	149,0
EU	29,7	41,3	52,1
OECD	26,8	37,1	49,3
World	82,0	118,2	126,9

Source: World Bank.

It is interesting to compare countries with Turkey. In 1990, Turkish GDP per capita was just two-thirds of that of Brazil. Turkey surpassed Brazil in the wake of the 2008-09 global financial crisis and now Turkish GDP per capita is one-fourth higher. On the other hand, the relative position of Turkey against struggling countries of Europe has ameliorated significantly in the last decades. In 1990, Turkish GDP per capita was just one-third of that of Greece. However, as Greece struggled to grow and foundered in the wake of the 2008-09 global financial crisis, Turkey closed the gap to a significant extent. As of 2015, Turkish GDP per capita is three-quarters of that of Greece, with a significant chance that Turkey will surpass Greece in the near future in terms of GDP per capita.

While GDP per capita has increased tremendously in the 2000s in Turkey, this prosperity has been shared by the whole Turkish population, more or less equally, as poverty declined significantly. The proportion of individuals whose income is below 4.3$ per day reduced from 30.3 in 2002 to 1.62 in 2014.[2] Moreover, Turkey has made tremendous progress in becoming a fully-fledged welfare state as social protection expenditures expanded markedly in the 2000s, from around 8.5 to over 14 percent of GDP. In this period, an almost universal health care system has been introduced and pension system has become much more efficient. In addition, the minimum wage has increased more than 70 percent in real terms, contributing greatly to the wellbeing of the less wealthy and a clear indication of the strong fundamentals of the Turkish economy.

In the 2000s, the Turkish economy made great strides, which amounted to an extensive transformation. While there are various structural obstacles to surmount such as high current

2. See Turkish Statistical Institute: http://www.turkstat.gov.tr/UstMenu.do?metod=temelist

account deficit and technology gap, the Turkish economy grew substantially stronger compared to just a decade or two earlier. For example, the informal economy has shrunk from over 50 to around 30 percent in the last decade and the process is still ongoing. In addition, the Turkish economy managed to generate more than 7 million non-agricultural jobs in the last decade from around 14 to over 21 million, which amounts to a great achievement.

The 2008-09 global financial crisis hit the Turkish economy hard in 2009, just like almost every country in the world. However, in the following two years the Turkish economy bounced back spectacularly with an average growth rate of around 9 percent, globally comparable only to China or India. The world economy slowed down markedly and European economies descended into economic stagnation and even misery in the following years. To make matters worse, the whole region around Turkey has plunged into chaos and even civil war. Surrounded by countries with enormous economic, social and political troubles, Turkey managed to grow by over 3 percent annually between 2012-2014, while European economies, as well as numerous other countries in the world, were deep into recession. Moreover, to the great surprise of many, the Turkish economy expanded by 4 percent in 2015. Its travel and tourism revenues dwindled, and traditional export markets shrank as neighboring economies, especially in Europe, foundered, yet Turkey managed to diversify its economy and export markets. Moreover, note that this economic growth came at a time that the terror organization PKK escalated violence markedly in Turkey. Thereby, in a period in which no one would be surprised by a deep stagnation, the Turkish economy showed great resilience and surprised many, not by stagnation but a healthy economic growth performance normally only to be seen in the "good times".

ACTIONS OF THE ECONOMIC MANAGEMENT TEAM AFTER THE FAILED COUP ATTEMPT

Turkey has lived through the biggest trauma in its recent history, as the members of the Gülen Terror Organization (FETÖ) attempted a coup d'état on July 15, 2016. However, Turkey managed to quell this sordid attempt by the actions of its heroic people who literally stood unarmed against flying bullets and tank shells, fighting with their bare hands. They were joined by police, loyal soldiers and politicians, the first and foremost being the president Recep Tayyip Erdoğan. As a country which has just survived a coup attempt, Turkey has astonished many with its political resilience. While systematically neutralizing coup plotters in multiple governmental organizations, such as the military, judiciary, bureaucracy, health and education sectors, which had been infiltrated by the FETÖ, the government preserved its functionality and managed to perform as normal.

The Turkish democracy and economy have survived major setbacks in recent years and proved their resilience, the true extent of which has been understood more clearly in the light of the failed coup attempt.

In the same vein, to the astonishment of many, the Turkish economy showed great resilience in the aftermath of the failed coup attempt. Even in the first working day after the coup attempt, there was no panic in the financial markets. The Turkish lira only marginally lost its value against the US dollar and there was

no rush on banks or bonds. In fact, the effect of the coup attempt on the financial markets was barely discernable. The Turkish democracy and economy have survived major setbacks in recent years and proved their resilience. With this failed coup attempt, the true extent of the resilience of the Turkish democracy and economy has been understood more clearly.

It was absolutely vital to take necessary steps and give relevant messages to soothe the financial markets at such a critical time. The policymakers managed this process well in a calm and professional manner. The statements were to the point and the policy actions met the needs of the financial markets. In his statements, Turkish Deputy Prime Minister Mehmet Şimşek underlined that the policymakers were implementing best practices and Turkey was committed to the market economy.[3] Şimşek assured that capital controls were out of the question.[4]

After the announcement of a state of emergency, Şimşek emphasized that this decision would not affect the daily life of people, and that the Turkish economy would work within the rules of the market. With regard to the concerns of foreign investors, Şimşek stressed that: "We will not work outside of the market rules, all market institutions will operate in full strength. Do not believe speculations. If there is a worry, they should call us, we are open to it, and we can meet them."[5]

In addition, the Central Bank of the Republic of Turkey (CBRT) took immediate actions to ensure the efficient functioning of the banking sector and to relieve financial investors. In a written statement, the CBRT initially announced the following measures[6]:

1) The Central Bank will provide banks with needed liquidity without limits.

2) Commission rate for the Intraday Liquidity Facility will be zero.

3) Banks will be allowed to place foreign exchange deposit as collateral without limits for needed Turkish lira liquidity.

4) Banks' current foreign exchange deposit limits of around 50 billion US dollars may be increased and utilization conditions (collateral and cost) may be improved if deemed necessary.

5) All markets and systems (the Electronic Fund Transfer and the Electronic Security Transfer and Settlement systems) will be left open until final settlement of transactions.

6) Market depth and prices will be closely monitored.

7) All measures will be taken to ensure financial stability, if deemed necessary.

The monetary policy committee of the CBRT held their regular monthly meeting on 19 July. To simplify its monetary policy, the CBRT has narrowed the interest rate corridor by reducing the overnight lending rate, which is the rate at which banks borrow from the CBRT overnight, since March 2016. The CBRT, taking a bold step, reduced the overnight lending rate from 9 to 8.75 percent and continued to narrow the interest rate corridor. This move from the CBRT gave a clear message to the financial markets that everything is going normally, despite the failed coup attempt. In addition, in order to expand the utilization of its rediscount credit facility, the CBRT increased the overall limit of rediscount credits from 17 to 20 billion US dollars.[7] This action also gave confidence to the financial markets regarding the proper functioning of the credit mechanisms.

3."Turkey's economy after the coup", *Aljazeera*, 23 July 2016.

4."Turkish capital controls 'out of question'", *Anadolu Agency*, 20 July 2016.

5."Turkey's economy to continue within market rules, deputy PM says", *Daily Sabah*, 21 July 2016.

6."Press Release on Financial Markets, *The CBRT*, 17 July 2016. http://www.tcmb.gov.tr/wps/wcm/connect/tcmb+en/tcmb+en/main+menu/announcements/press+releases/2016/ano2016-27

7."Press Release on Rediscount Credit", *The CBRT*, 25 July 2016. http://www.tcmb.gov.tr/wps/wcm/connect/tcmb+en/tcmb+en/main+menu/announcements/press+releases/2016/ano2016-30

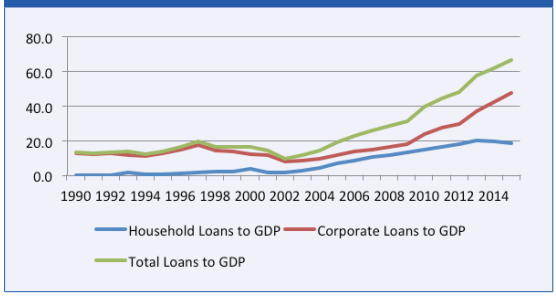
Immediate actions taken by the Turkish policymakers were appreciated by international financial agencies, including the International Monetary Fund (IMF). In an interview with Bloomberg, IMF Managing Director Christine Lagarde said quick reaction by Turkey's central bank and financial authorities successfully calmed financial markets following the failed coup attempt. Lagarde said that: "Turkish authorities, central bank, finance ministers and treasury operations have all reacted very strongly, in a concerted way, in order to make sure that there would be liquidity available, that the banks would function." Lagarde stressed that market reaction to the attempted coup had been moderate due to these measures.[8]

In addition to these policy actions, a well-functioning financial system, strong public finances, a dynamic real sector and a moderate current account deficit helped the Turkish economy to stay afloat against the failed coup attempt. In the following section, we focus on these factors subsequently.

THE SAFE AND SECURE FINANCIAL SYSTEM OF TURKEY

The Turkish financial system was almost totally liberalized in the 1980s without establishing the required financial infrastructure. After having endured financial troubles and two major financial crisis in 1994 and 2001, Turkey finally set out to establish financial infrastructure via several regulations and supervisory institutions such as Banking Regulation and Supervision Agency (BRSA) and Savings Deposit Insurance Fund (SDIF). Having learnt the lesson from the financial troubles suffered, the Turkish financial system has become much more resilient than that of most countries in the world. That is why the Turkish financial industry stayed totally intact in the aftermath of the 2008-09 global financial crisis as financial industries around the world experienced hard times and even faced numerous bankruptcies, such as Lehman Brothers, as well as bail-outs, such as massive insurance company AIG.

FIGURE 2. LOANS TO GDP RATIOS



Source: CBRT. These figures reflect the loans of the deposit banks. The participation banks have approximately 5 percent share in the total banking industry for the last decade. So, this fact should also be taken into account when assessing the extent of the banking industry in Turkey.

While the Turkish financial system has been reinforced and fostered substantially, the financial industry has expanded tremendously in the 2000s (see Figure 2). In the 1990s, total loans of the deposit banks to GDP ratio was less than 15 percent on average. In addition, the household loans to GDP ratio was only 1.5 percent on average in the 1990s, which is very meager. In the aftermath of the 2001 financial crisis, total loans to GDP ratio decreased even further to 9.8 percent in 2002. However, as the Turkish economy recovered very quickly in the following years, the financial industry expanded very rapidly, corporate loans to GDP ratio surged staggeringly from 7.9 to 47.7 percent as of 2015. The increase was even more dramatic for the household loans to GDP ratio, which skyrocketed from 1.9 to 18.9 percent. Taken together, total loans to GDP ratio increased six-fold to 66.6 percent from only 9.8 percent. If we take into account participation banks, then the total loans to GDP ratio increases to over 70 percent as of 2015. As a result

8."Lagarde Says Markets Calmed by Turkish Moves After Coup Bid", *Bloomberg*, 18 July 2016.

of this huge expansion, the total asset size of the whole banking sector in Turkey leapt from 0.4 to over 2.3 trillion Turkish liras in the last decade, which amounts to a stunning five-fold increase.[9]

Moreover, while expanding tremendously, the Turkish banking sector has been able to improve its loan quality to a great extent. In the last decade, the non-performing loans (NPL) ratio has decreased from 6.0 to just 3.0 percent, which is a great success. As of 2015, the NPL performance of Turkey is better than numerous countries such as France (4.0 percent) and Spain (6.3 percent) and it is considerably lower than the European Union average of 5.6 percent (see Table 3).[10]

TABLE 3. NPL AND CAPITAL TO ASSETS RATIOS OF SELECTED COUNTRIES/AREAS

COUNTRY/AREA	NPL RATİOS	CAPİTAL TO ASSETS RATİOS
Turkey	3,0	11,0
Argentina	1,7	12,3
Belgium	3,7	6,6
Brazil	3,3	8,5
Germany	2,3	5,9
Spain	6,3	7,4
France	4,0	5,8
UK	1,4	6,3
Greece	34,7	6,8
Italy	18,0	6,1
Japan	1,6	5,8
South Korea	0,6	8,0
Malaysia	1,6	10,5
South Africa	3,1	7,0
EU	5,6	7,6
OECD	3,0	7,0
World	4,3	10,3

Source: World Bank.

9. "Financial Services Sector in Turkey", *Republic of Turkey Prime Ministry Investment Support and Promotion Agency,* June 2016. http://www.invest.gov.tr/en-US/infocenter/publications/Documents/FINANCIAL.SERVICES.INDUSTRY.pdf.

10. See World Bank, World Development Indicators: http://data.worldbank.org/indicator/FB.AST.NPER.ZS

The strength of the Turkish banking sector is even more apparent when the bank capital to assets and capital adequacy ratios are considered. The capital adequacy ratio in Turkey as of 2015 stands firmly above 15 percent[11], which is significantly higher than that of most countries, not to mention the troubled banks of Europe and the US. Bank capital to assets of the Turkish banking industry is 11 percent, almost twice as much as that of several European countries including France, Italy and UK, and considerably higher than the OECD average for that ratio.

The Turkish banking sector is not only financially robust, but also highly profitable compared to that of many countries and as far as historical records are concerned. Return on Equity (ROE) ratio for the Turkish banking sector stood at a stunning 13.6 percent, which is considerably higher than that of numerous countries, including the UK (6.7 percent), France (6.8 percent) and the US (only 3 percent). The situation is no different for the ratio of Return on Assets (ROA). This ratio is 1.5 percent for Turkey while it is only 0.4 for the US, the UK and France, amounting to almost one-fourth.[12] Thereby, the Turkish banking sector is extremely strong with an abundance of capital compared to other countries, and at the same time, it is highly profitable, reflecting the strong fundamentals and bright prospects of the Turkish economy.

PUBLIC FINANCE

Restructuring of the Turkish financial system in the post-2001 period was supported by establishing sound macroeconomic governance. On the fiscal policy side, Turkey targeted to have high primary surplus, and to reduce Turkey's public debt burden to the Maastricht Criterion of 60 percent. As can be seen from Figure 3, the

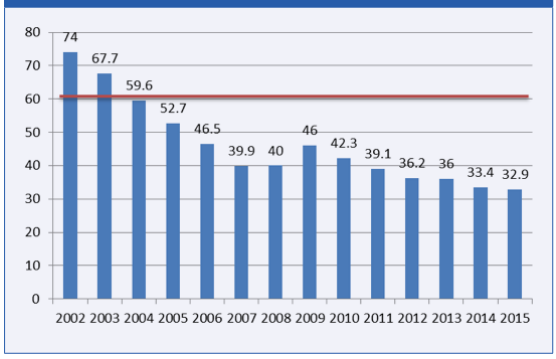
11. Financial Services Sector in Turkey, ibid.

12. Financial Services Sector in Turkey, ibid.

EU defined debt stock to GDP ratio decreased from 74 percent in 2002 to 59.2 percent at the end of 2004 and met the Maastricht criteria. As of 2015, public debt as a share of GDP stood at only 33 percent in Turkey, while it is 249 percent for Japan, 178 percent for Greece, 104 percent for the US and 90 percent for the EU (see Figure 4). These figures indicate that the fiscal position of Turkey is very strong.

While the interest burden was very high in the 1990s, as real interest rate of total domestic debt stock was more than 30 percent, it diminished tremendously as real interest rate plummeted to single digit levels in the 2000s. Moreover, Turkey has wiped off all debt owed to the IMF by paying the last installment of 421 million US dollars in 2013, which marked the end of the 52 year debt history with the IMF.

FIGURE 3. PUBLIC DEBT AS A SHARE OF GDP FOR TURKEY



Source: Undersecretariat of Treasury
Note: Red line denotes the Maastricht Criterion of 60 percent.

FIGURE 4. PUBLIC DEBT AS A SHARE OF GDP OF THE SELECTED COUNTRIES

Source: IMF World Economic Outlook

This relaxation in public finance opened the way for development-friendly public expenditures. Infrastructure investments and public expenditures on education and health have increased considerably since 2002. All these public expenditures have increased the living standards of Turkish citizens considerably in the last decade, while, due to a heavy burden of public debt, most of the developed countries took austerity measures after the 2008-09 global financial crisis, which led to an increase in poverty and income inequality in these countries. Rising poverty and income inequality even paved the way for severe demonstrations and strikes in the USA, UK, France and Greece.

THE REAL SECTOR

The real sector was highly stable in Turkey before the failed coup attempt, as important indicators related to the performance of the real sector refer clearly. Although the capacity utilization rate of manufacturing industry decreased to 59 percent in the wake of the 2008-09 global financial crisis, it rebounded swiftly to around 75 percent and poised thereabouts, alluding that the crisis passed at a tangent to Turkey.

The real sector confidence index also followed a similar pattern. It scaled down significantly to less than 60 after the 2008-09 global financial crisis, only to rebound tremendously in a very short time span. This index has been hovering around 100 since September 2015, indicating that the real sector has an optimistic outlook about the Turkish economy. This optimistic outlook is reflected in the firm entry and exit rates. The firm entry rate has been well above the firm exit rate since January 2013. This huge difference between the number of newly established firms and the number of liquidated firms indicates that there are attractive profit opportunities for entrepreneurs in various markets.

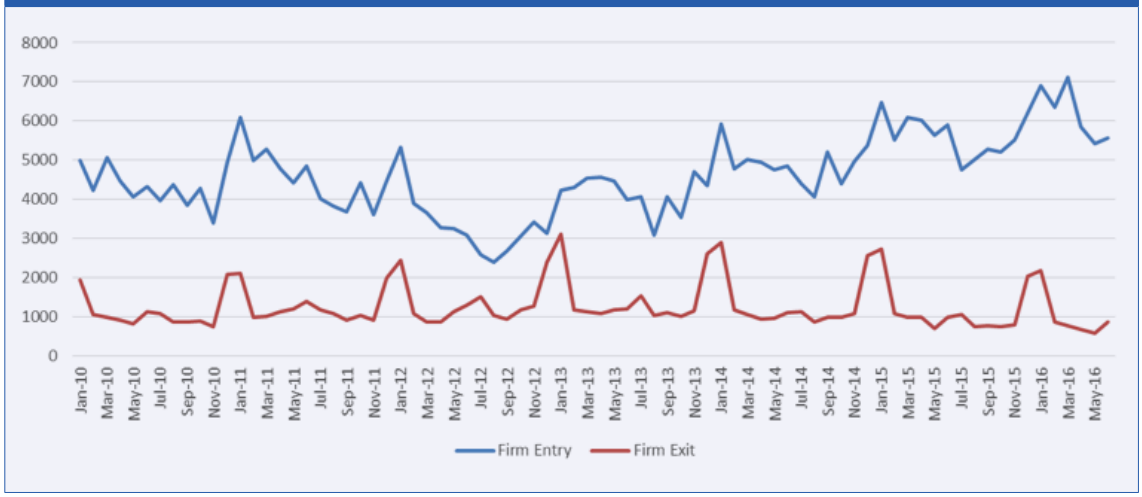
FIGURE 5. CAPACITY UTILIZATION RATE OF MANUFACTURING INDUSTRY

Source: CBRT

FIGURE 6. REAL SECTOR CONFIDENCE INDEX

Source: CBRT

FIGURE 7. FIRM ENTRY AND EXIT RATES



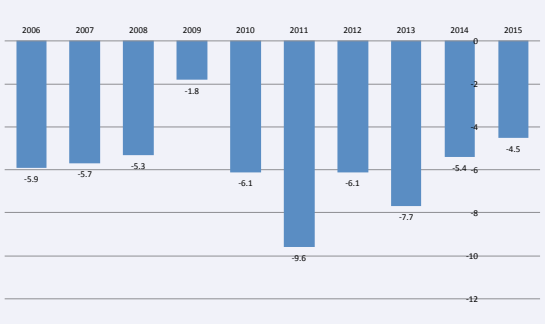
Source: CBRT

All these indicators show that the current situation of the Turkish real sector provides a robust image, which is confirmed further by the signals from the real sector. In a joint conference, the Turkish business leaders stated that the failed coup attempt would not deter investment decisions and investors would exert more effort.[13] Giant international companies (such as BP, Mercedes-Benz, Shell, Coca Cola, Vodafone, Unilever, P&G, Pepsico, Alianz and Unit International), which have had business operations in Turkey for many years, gave a clear message that they had full confidence in the Turkish Republic and its economy and would continue to make their planned investments.[14]

CURRENT ACCOUNT DEFICIT

Current account deficit has been regarded as the Achilles heel of the Turkish economy, as Turkey relies on foreign capital inflows to finance the current account deficit, making it vulnerable to global economic fluctuations. However, although current account deficit and economic growth rates moved in the same direction until two years ago, with higher economic growth rates resulting in a widening current account deficit and lower economic growth rates reducing current account deficit, the economy has been growing in tandem with narrowing current account deficit for the last two years. To put this into numbers, current account balance as a share of GDP decreased from -7.7 percent in 2013 to -5.4 percent in 2014, before shrinking to -4.5 percent in 2015.

FIGURE 8. CURRENT ACCOUNT BALANCE AS A SHARE OF GDP



Source: Trading Economics

The main reason behind the dwindling current account deficit in recent years is falling oil prices, considering that its increase in the 2000s culminated in the widening current account deficit in the first place.[15]

Giant international companies which have had business operations in Turkey for many years, gave a clear message that they had full confidence in the Turkish Republic and its economy and would continue to make their planned investments.

Turkey is highly dependent on imported energy. Therefore, cheap oil is a boon for the Turkish economy. However, Turkey should not and cannot rely on cheap energy; accordingly the Ministry of Energy has been exerting intensive effort, despite the falling energy bill, to diversify domestic energy resources and to reduce Turkey's high dependence on imported energy, which will also help to narrow the current account deficit to a significant extent.

13. "Turkish business leaders talk up country's future", *Anadolu Agency,* 18 July 2016.

14."International investors reiterate their trust in Turkey's economy", *Daily Sabah*, 24 July 2016.

15. Mevlüt Tatlıyer, "Determinants and effects of current account deficit in Turkey", *Akademik Bakış Dergisi*, Mart-Nisan 2014.

CREDIT RATING AGENCIES

The credit rating agencies (CRAs) were regarded as one of the main culprits of the global financial crisis. The CRAs, especially S&P, Moody's and Fitch, have been criticized mostly due to their biased decisions and their non-transparent behaviors. Many economists accuse the CRAs of misleading investors and governments, and thus paving the way for the global financial crisis.[16] Despite these criticisms, the CRAs have continued to make the same mistakes as most of the developing countries, including China, Russia and Turkey, have argued that the major CRAs make politically motivated decisions.

The CRAs, especially S&P, Moody's and Fitch, have been criticized mostly due to their biased decisions and their non-transparent behaviors.

The CRAs did not give a good account of themselves again after the failed coup attempt in Turkey. Without making a detailed analysis and monitoring developments in the financial markets, Standard and Poor's (S&P) downgraded Turkey's credit rating from "BB+" to "BB". On the other hand, Moody's has placed Turkey's credit rating on review for a possible downgrade after the failed coup attempt.[17] These decisions, especially of S&P, were highly criticized by policymakers and the Turkish financial sector. Şimşek underscored that S&P's decision was a mistake, as well as being a rushed one.[18] In addition, Economy Minister Nihat Zeybekci said that this downgrade decision of S&P is incomprehensible. Adnan Bali, the general manager of the largest private bank in Turkey (İşbank), also criticized these decisions by indicating that they were "politically motivated" decisions.[19]

When we take a look at the current state and structure of the Turkish economy, there is no valid economic reason to downgrade Turkey's credit rating, which was also stressed by the former Deputy Prime Minister of Turkey, Ali Babacan.[20] Economic agents do not expect any further rating downgrade after the firm stance of the Turkish economy against the failed coup attempt[21] as the policymakers have stressed constantly that the Turkish economy was on the rails and Turkey would be back to its economic reform agenda immediately. Turkey, which will be further strengthened by ongoing economic reforms, is still an attractive emerging market for both portfolio and foreign direct investments.

CONCLUDING REMARKS

In the last decade, the Turkish economy has endured a number of political and economic challenges, as has the world economy. However, the Turkish economy proved its resilience time and again as it bounced back swiftly in the aftermath of the 2008-09 global financial crisis with a spectacular annual growth performance of around 9 percent in the 2010-11 period. Moreover, the Turkish economy has become one of the top performers in terms of economic growth

16. Nurullah Gür, "The G20 and the governance of global finance", *SETA Analysis*, March 2015.

17. "Moody's to review Turkey's credit rating for downgrade", *Wall Street Journal*, 18 July 2016.

18. "Turkey's economy to continue within market rules, deputy PM says", *Daily Sabah*, 21 July 2016.

19. "Now it is banks' turn to take stance against coup plotters: İşbank CEO", *Hürriyet Daily News*, 22 July 2016.

20. "Babacan says no reason to reduce credit rating", *Daily Sabah*, 22 July 2016.

21. "Turkey not expecting rating downgrade from Moody's: Investment agency head", *Hürriyet Daily News*, 25 July 2016.

in the world for the period 2008-15 as the world economy slowed down to a significant extent and European countries have plunged into economic stagnation. Although the outlook of the world economy has deteriorated further and the neighborhood of Turkey has increasingly been plagued by political (particularly in the South) and economic (particularly in Europe) problems, not to mention Turkey's own escalating problems inflicted by the PKK, the DAESH and the GTO, the Turkish economy fared relatively well in the 2012-15 period with a 3.3 percent annual economic growth rate, along with economic as well as political stability, to the astonishment of many. Moreover, the Turkish economy grew by a staggering 4.8 percent year-on-year, surpassing most of the G20 countries in the first quarter of 2016.

Turkey quelled the sordid coup attempt of 15 July spectacularly with its citizens, police, soldiers and politicians, especially the president Recep Tayyip Erdoğan. In tandem with this democratic victory, the Turkish economy showed the glimpses of its resilience in the aftermath of the attempt, such that the economy and financial system have worked very well without any instability; as if nothing major took place just a matter of days earlier. The Turkish economy survived serious challenges and actually fared markedly better than that of numerous countries, especially in Europe, in the last few years. It now faces a bigger challenge. However, Turkey, with its strong and healthy economy and financial system, has the required strength and resolution to overcome this challenge too, as the immediate aftermath of the failed coup attempt has attested.

Turkey has lived through the biggest trauma in its recent history, as the members of the Gülen Terror Organization (FETÖ) attempted a coup d'état on July 15, 2016. However, the heroic people of Turkey managed to quell this sordid attempt by literally standing unarmed against flying bullets and tank shells. Together with the people were the police, loyal soldiers and politicians, first and foremost being the president Recep Tayyip Erdoğan. As a country which has just survived a coup attempt, Turkey has astonished many with its political resilience. While systematically neutralizing coup plotters in multiple governmental organizations, such as the military, judiciary, bureaucracy, health and education sectors, which had been infiltrated by the FETÖ, the government preserved its functionality and managed to perform as normal. In the same vein, to the astonishment of many, the Turkish economy showed great resilience in the aftermath of the failed coup attempt. Even in the first working day after the coup attempt, there was no panic in the financial markets. The Turkish lira only marginally lost its value against the US dollar and there was no rush on banks or bonds. In fact, the effect of the coup attempt on the financial markets was barely discernable. The Turkish democracy and economy have survived major setbacks in recent years and proved their resilience, the true extent of which has been understood more clearly in the light of the failed coup attempt.

The Turkish policymakers managed this crisis in a calm and professional manner. While immediate actions were taken to meet the needs of the financial markets, it was also clearly underlined that the Turkish economy would continue to work within the rules of the market. In addition to these policy actions, a well-functioning financial system, strong public finances, a dynamic real sector and a moderate current account deficit helped the Turkish economy to stay afloat against the failed coup attempt.

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