GLOBAL CRISIS AND ITS EFFECTS ON TURKEY

Gazi Erçel
Governor
Central Bank of the Republic of Turkey

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A general survey of worldwide financial crises from 1970 to 1998 reveals that they take one of two forms, the banking crisis and the foreign exchange crisis. They are like unruly twins, and when they arrive in an economy together, there are certain to be significant costs. The Latin American crises of the 1970s and 1980s, the Scandinavian banking crisis of the early 1990s, the Turkish crises of 1978 and 1994, the Mexican crisis of 1995, and the Asian and Russian crises of 1997--all have demonstrated that the costs can turn out to be very high.

Output loss in GDP terms is hardly ever less than 5 percent and may go as high as 18 percent. The average financial crisis costs 14-15 percent of GDP in lost output.

It takes three to six years to recover from a crisis, and somewhat less in the developed countries. This is because their output loss is small, and can be made up more quickly than that of the less developed countries.

The IMF has calculated that the money cost of the global crisis should be $1 trillion in 1998, and $l.5 trillion in 1999.

In addition, the IMF has emphasized that by September 1998 there were no less than eight departures from the fundamental scenario drawn up for the world's economies the previous April. These were:

1) The continuing deterioration of Japan's economy,

2) increasing volatility in Asia's financial markets,

3) pressure on the Chinese yuan,

4) the financial crisis in Russia,

5) wide swings in the stock markets of Europe and the United States,

6) the increasing speed of crisis transmission,

7) the increased volatility of yen/dollar parity, and

8) The suspension of intermarket fund flows in the hope of avoiding crisis.

By early October, all these factors had brought the world to a situation where the risk of global stagnation had been transformed from theory into reality. The IMF-World Bank annual meetings held in early October tool place in an atmosphere of near panic. For those moments, it was both natural and interesting to observe such behavior on the part of financial sector managers who had lost money, economic authorities of advanced countries whose decision-making processes were nullified by a vacuum of world political leadership, and representatives of developing countries whose access to international fund flows had suddenly dried up.

But things began to move again and decision making resumed rapidly once the meetings ended. Policies were devised to halt the adverse trend. And now, although everything seems to be under control, some risks are still evident.

Particularly striking is the Asian crisis, which does not follow the pattern of normal cyclical fluctuations. Since it does not exhibit the usual "V" type fluctuation, the lowest point in the curve cannot be reliably predicted. Since the problems in Asia are rooted in inventories, in significant accumulations of debts, positions, expectations, deficits, or surpluses, they cannot be solved by strategy of increasing the flow of funds. The losses incurred by the removal of speculative bubbles remain a serious threat due to the fact that overinvestment was one of the causes of the crisis. Asia cannot put the crisis behind it unless three conditions can be satisfied at the same time: exports must be increased, interest rates must come down, and the exchange rates must be stabilized.

The United States still retains its reputation as a "safe haven," as does Europe as well. But both regions expect an output drop in 1999. China remains in a critical situation. And for Brazil, there are question marks concerning next year although this year it seems to have been saved.

In addition, a number of practical stratagems or theoretical analyses whose wisdom had until today been accepted in international financial and banking circles are now being questioned. In particular, such matters as the liberalization of capital movements, banks' policies with respect to international credit, the meaning of government guarantees, the whole subject of exchange rate policy, and the auditing practices, soundness, and transparency in banking systems are being debated. In some cases new policies are being formed.

In the years ahead, all of us together will follow these matters, witness the changes, and contribute to the reflections that will emerge. When we evaluate the effects of the present global crisis on Turkey, I think there is one principle that should be written down and underlined several times, and kept firmly in mind when analyzing the short- and medium-term effects. The pursuit of realistic, powerful, and sound macroeconomic policies is the single most important condition for minimizing the bad effects, or even taking advantage of such crises.

I believe that the short-term effects of the crisis on Turkey will be much less severe than expected. My reasons lie in the fundamentals of the Turkish economy. I think it will be useful to review them briefly.

Most important, I think, is that the Turkish economy is less thoroughly globalized than the economies of similar countries. Although this lesser degree of globalization will have some disadvantages in the medium term, here and now it protects Turkey from both the direct and the contamination effects of ongoing crises elsewhere in the world.

A second advantage is that Turkey owns high caliber executives who are experienced in handling crises, large or small. All the structural features of our economy, such as the balance of payments, economic growth, the functioning of our market system, the dynamism of our private sector and our banking sector, and the sound infrastructure of the latter, are shields protecting us from the effects of crises.

A third advantage is that Turkey's exchange rate policy is conducted in a stable and predictable manner. As a floating rate regime, it does not interfere with the competitiveness of our real economy. This exchange rate regime has been one of the most significant reasons Turkey has been able to avoid the foreign exchange crisis. We have had ample opportunity to observe what happened when opposition to a policy like Turkey's prevailed in many countries, especially in Asia.

The aggregate credit stock of the banking system, and the direction and magnitude of changes in its level, have to be carefully monitored.

During times of crisis, the Central Bank provides liquidity as needed to preserve market confidence and avoid any panic.

Short-term interest rates are one of the most important instruments of the Central Bank. When pressures begin to build up in the markets, or a problem arises in the balance of payments, the interest rates will adapt themselves to the situation. The level of reserves will always be high.

All these features serve as shock absorbers to insulate Turkey from the negative effects of external shocks. As a result, the effects of the global crises on the Turkish economy have been small. For the medium term, other factors become more important, and if they are directed or handled correctly, it may be possible to profit from a crisis in the medium term. The factors important for the medium term are:

- The pursuit of sound macroeconomic policies;
- The realization of structural reforms;
- The building up of the financial sector;
- Continuous access to foreign credit; and
- Political stability.

The success of policy implementation in these areas will determine the quality of the effects in the medium term.