

# Globalization, Crises and Policy Reform: Lessons from the Turkish Experience

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**ABSTRACT.** Ukraine and Turkey, located on the south and north of the Black Sea, have so far not been able to develop a strategic economic partnership. Prior to 2002, the Turkish economy had been characterized by volatile growth rates, high inflation and a weak fiscal position. These, along with political instability (and coups), led to a number of financial and economic crises culminating in a major one in 2001. Following the latter, structural and macroeconomic reforms were implemented with persistence. Positive results were attained in a relatively short period of time. The reforms strengthened Turkey's economic resilience in the face of the global financial crises of 2007/8. This paper 1) analyzes the level of bilateral relations between Ukraine and Turkey, and it gives a comparative description of main macroeconomic indicators of these countries; 2) analyzes the principal factors influencing the development of the strategic partnership between countries Turkey and Ukraine in the economic sphere; 3) presents a selective background of the Turkish economy with a view to underline key macroeconomic weaknesses prior to 2001 crises; 4) reviews and assesses macroeconomic and structural reforms in Turkey after 2001 which made it among the least affected countries when the global crises hit the world economy; 5) presents key lessons learned from the Turkish experience which may prove valuable for policy design and implementation for Ukraine and other emerging economies.

**KEYWORDS.** Globalization, crises, policy reform, macroeconomic and structural reforms, macroeconomic indicators, bilateral relations, Ukraine, Turkey.

## Introduction

This paper selectively reviews the macroeconomic management experience of Turkey with a view to present lessons learned for Ukraine. The

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two neighbours separated by the Black Sea have strategically linked economies. The global economic developments present some common as well as differentiated environmental aspects to the two economies; in particular, the global financial crises and the following economic slowdown have set apart their economic performances.

### **Slowdown in the world economy following the financial crises**

Recently, the main characteristic of the world economy has been falling growth rates. Despite expansionary monetary policy and low interest rates in industrialized nations, the global economy has lost its momentum. This is partly attributable to uncertainties arising from geopolitical crises. The upturn at the end of the year 2014 remained modest despite the decline in the oil price in the fourth quarter. While growth in the U.S.A. and the U.K. proved robust, the development in the euro zone and Japan was disappointing. On the other hand, growth in emerging and developing economies slowed from 4.7% to 4.4% curbed by China's slower pace of expansion, the lack of growth in Brazil and the weaker development of Russia due to sanctions, as well as by structural problems in some cases. By contrast, the pace of growth in India and Eastern Asia increased over the course of the year<sup>2</sup>. Global growth in 2014 was a modest, 4 percent, reflecting a pickup in growth in advanced economies relative to the previous year and a slowdown in emerging market and developing economies. Growth is projected to be stronger in 2015 relative to 2014 in advanced economies, but weaker in emerging markets, reflecting more subdued prospects for some large emerging market economies and oil exporters<sup>3</sup>.

Historically speaking, the recovery after the 2009 recession has been the longest: global output has still not reached the pre-crisis level. However, it should be stated that while certain progress has been made, business is definitely recovering very slowly. Moreover, it is necessary to take into account that economic growth in developing countries, which used to be the driving force of the global economy, on the contrary continues to slow, while the developed countries clearly show positive trends of growing consumer and investment demand.

Yet, given the existing macroeconomic imbalances, it would be too early to state that the developed countries have overcome the crisis. The

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<sup>2</sup> Macroeconomic Development: General Conditions [Electronic resource]. — Available from: [http://report.conti-online.com/pages/management-report/economic-climate/ec-macroeconomic/ec-macroeconomic\\_en.html](http://report.conti-online.com/pages/management-report/economic-climate/ec-macroeconomic/ec-macroeconomic_en.html)

<sup>3</sup> Uneven Growth: Short- and Long-Term Factors [2015] [Electronic resource]. — Available from: <http://www.imf.org/external/pubs/ft/weo/2015/01/>; International trade center [Electronic resource]. — Available from: <http://www.intracen.org/news/Trade-for-Sustainable-Development-Forum-to-spotlight-supply-chain-sustainability/>; UNCTAD [Electronic resource]. — Available from: <http://unctad.org/en/Pages/Home.aspx>; United nations statistics divisio [Electronic resource]. — Available from: <http://unstats.un.org/unsd/default.htm>

current risks are related to the high public and, in some cases, private debt, and high unemployment that greatly exceeds the pre-crisis level. In this regard, as admitted by the G20 leaders, the long-term stability of the global economy is not possible without a set of measures designed to ensure balanced growth in the countries that form «the pole of savings» and «the pole of consumption»<sup>4</sup>.

### **Ukraine's transition to a market economy and the global crises**

Ukraine faced the global financial crises as it was in the process of transition towards a market based economy and developmental challenges. Further, the Ukrainian economy was significantly affected by the global crises indicating that there were deficiencies in Ukraine's economic fundamentals.

Prior to the global crises, Ukrainian GDP showed a positive dynamic starting with the year 2000 (5.58% average annual change) until 2009 when the GDP dropped by 15.1% which was a direct consequence of the world financial crisis. Inflation in Ukraine remains relatively high and volatile (10-20 percent annually with the lowest level in 2002 (0.7%) and the highest ones in 2000 (28.2%) and 2008 (25.2%)). The current account balance had a surplus during 1999-2005 period with the highest value in 2004 (6.9 billion US dollars) and a deficit during 2006-2009 with the lowest value in 2008 (12.8 billion US dollars)<sup>5</sup>. Economic instability has a direct impact on demography; the population has been steadily declining every year, dropping from 52 million people in 1992 to 42.7 million in 2014.

The transformation of the Ukrainian economy into a market based one is not complete yet. Being in the transition stage of its development, Ukraine continues to experience problems connected with the development of the institutional framework which, in turn, nourish political and economic instability. One of the consequences of weak institutional governance is the significant size of the informal sector widely used by Ukrainian citizens to earn additional income<sup>6</sup>. The failure to build strong democratic institutions has also impacted the country's economic performance<sup>7</sup>. In ad-

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<sup>4</sup> *Trunin P.* The macroeconomic development of, and prospects for, the G20 countries [Electronic resource]. — Available from: [http://www.lowyinstitute.org/files/trunin\\_the\\_macro-economic\\_development\\_of\\_and\\_prospects\\_for\\_the\\_g20\\_countries.pdf](http://www.lowyinstitute.org/files/trunin_the_macro-economic_development_of_and_prospects_for_the_g20_countries.pdf)

<sup>5</sup> Economic development of the Ukraine: a guide to selected information sources [Electronic resource]. — Available from: <http://www.loc.gov/tr/business/ukraine/introduction.html>

<sup>6</sup> *Williams C., Round J.* Out of The Margins: Re-Theorizing The Role Of The Informal Economy In Ukraine. *International Journal of Economic Perspectives*, 3(1), 45-58. Retrieved July 13, 2010, from ABI/INFORM Global sources [Electronic resource]. — Available from: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2290067](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2290067)

<sup>7</sup> *Jonavicius L.* Why Ukraine and Georgia Have Not Used The «Window of Opportunity»? Neo-Institutional Analysis of Transformational Stagnation In Georgia and Ukraine. *UNISCI Discussion Papers*, (19), 12-37. Retrieved July 13, 2010. [Electronic resource]. — Available from: <http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?lang=en&id=96430>

dition, in spite of its rich agricultural resources and favourable location at the intersection of Western Europe and Asia, Ukraine has not yet reached the desired and expected economic progress due in part to its dependence on Russian natural gas and oil, ongoing political instability, and the internally economic crisis: the annexing of the some territory and the armed conflict in the east of country.

Ukraine's continuing transition process towards a market economy and the fact that its economy has been significantly damaged by the global financial crises indicates that the experience of economic development and macroeconomic management in Turkey may provide lessons learned to its northern neighbour.

### **Turkey's economic development and macroeconomic management experience**

Turkey is a democratic, constitutional republic with a diverse cultural heritage. It is the world's 17<sup>th</sup> largest economy, a G20 member, and the third most populous nation in Europe (approximately 76.0 million) after Germany and Russia. Given its strategic geographic location and trade agreements with other countries, Turkey offers opportunities to access other markets in the region, both through partnering with Turkish companies which are established in those other markets, and through its position as a regional hub. Turkey is an increasingly significant actor regionally and globally, a member of the North Atlantic Treaty Organization (NATO), a candidate for European Union accession. Turkey is also a founding member of the International Monetary Fund/World Bank, the United Nations and many of its agencies, and is a member of the Organization for Security and Co-operation in Europe (OSCE), the Organization for Economic Co-operation and Development (OECD), the World Trade Organization (WTO) and the Organization of Islamic Cooperation (OIC).

Turkey is a Muslim country with a strong secular political system. Its performing economy and stable political system made it popular among Middle Eastern Arab countries<sup>8</sup>. Turkey enjoys strong economic fundamentals, a young entrepreneurial population and a dynamic market. Its economy is underpinned by a strong financial system and is well-rounded, featuring rich agricultural and mineral resources, a robust manufacturing industry and a strong services sector. While its lack of oil creates economic risks, Turkey's geographic location provided a historical bridge between continents for transportation and trade.

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<sup>8</sup> Babakr M. Turkey's Economic Development: Luck or Wise Administration? [Electronic resource]. — Available from: [http://strategicoutlook.org/publications/Turkey's\\_economic\\_development.pdf](http://strategicoutlook.org/publications/Turkey's_economic_development.pdf)

Turkey has been considered as an emerging market of broad interests to Ukraine. It is also a priority market in the Government of Ukraine's strategies for international education and the field of science and technology, and for infrastructure. Since its foundation, Turkey's foreign policy has largely focussed on maintaining strong relations with the West and developing and improving relations with neighbouring countries. Turkey's location also shapes its foreign policy objectives as it continues to expand cooperation with partners on strategic and security issues in the region. Globally, Turkey is expanding its footprint and taking a more active role in international organizations and platforms.

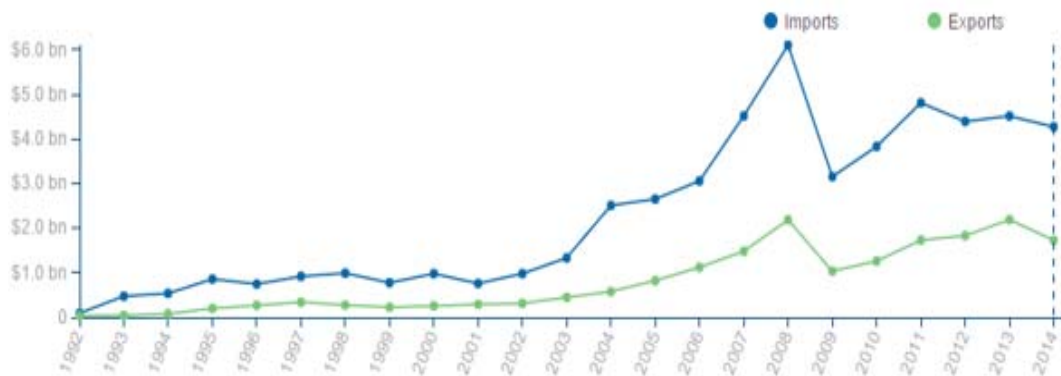
It is necessary to recall Turkey's ambitious plans. «Horizon 2023» represents the Turkish Government's ambitious plans for Turkey's economic and social development through 2023 — the 100<sup>th</sup> anniversary of the Turkish Republic. Embodied in Vision 2023 is Turkey's ambition to: join the European Union; develop as a knowledge-based economy; grow further as regional manufacturing hub, particularly in higher-end products; provide a safe and secure energy conduit from the Caucasus and Middle East to Europe; serve as a transportation corridor to Asia and the Middle East. Turkey's ambitious plan to become a top ten economy by 2023, however, Turkey still needs to remove long-standing barriers to doing business if it hopes to realize this goal.

### **I. Comparative characteristics of the macroeconomic development in Turkey and Ukraine**

Ukraine and Turkey have longstanding diplomatic relations. Turkey is a very important trade and economic partner of Ukraine. As a consumer of the Ukrainian export goods Turkey ranks second among all our trade partners. Turkey was the 2<sup>nd</sup> largest export market for Ukraine (6.6% of Ukraine exports) and the 9<sup>th</sup> largest import market for Ukraine (2.4% of Ukraine imports) in 2014<sup>9</sup>. For the year 2014 bilateral trade in goods amounted to \$ 4.859 billion (Figure 1). The positive trade balance for Ukraine was \$ 2.263 billion. Ukraine's exports to Turkey amounted to \$ 3.561 billion. Turkey's import to Ukraine amounted to \$ 1.298 billion. The bilateral trade in services in 2014 between Ukraine and Turkey was \$ 281.8 million.

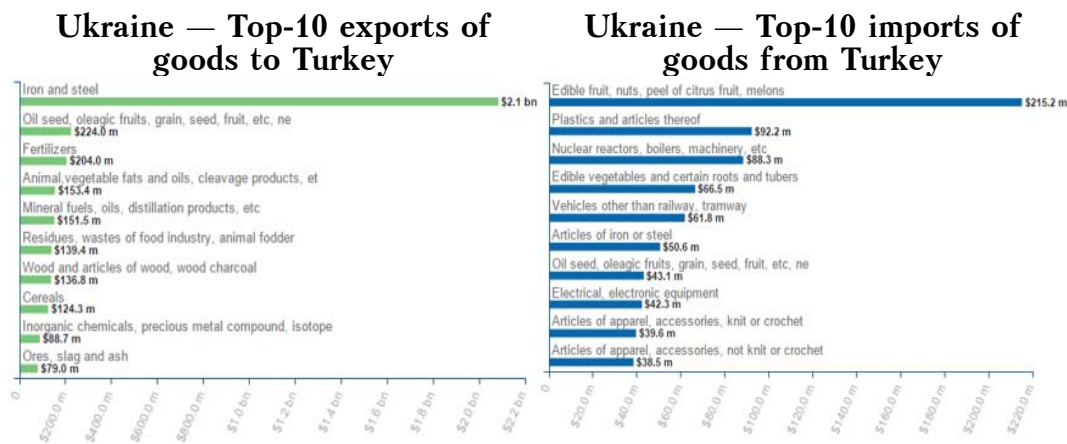
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<sup>9</sup> International Trade in Goods based on UN Comtrade data. Developed by the Department for Business Innovation and Skills (UK) [Electronic resource]. — Available from: <http://comtrade.un.org/labs/BIS-trade-in-goods/?reporter=804&commodity=TOTAL&year=2014&flow=2>; Observatory of economic complexety. Learn More About Trade in Ukraine [Electronic resource]. — Available from: <https://atlas.media.mit.edu/en/profile/country/ukr/>; Observatory of economic complexety. Learn More About Trade in Turkey [Electronic resource]. — Available from: <https://atlas.media.mit.edu/en/profile/country/tur/>



**Fig. 1.** Turkey trade in Total of all HS commodities with Ukraine since 1992<sup>10</sup>  
*HS – Harmonized System Codes*

Unfortunately, Ukrainian exports products carry low levels of value added (Figure 2, 3). Moreover, Turkey's trade partners significantly higher more diversified than Ukraine (Figure 4).



**Fig. 2.** Ukraine exports and imports of goods with Turkey in 2014<sup>11</sup>

<sup>10</sup> International Trade in Goods based on UN Comtrade data. Developed by the Department for Business Innovation and Skills (UK) [Electronic resource]. — Available from: <http://comtrade.un.org/labs/BIS-trade-in-goods/?reporter=804&commodity=TOTAL&year=2014&flow=2>; Observatory of economic complexity. Learn More About Trade in Ukraine [Electronic resource]. — Available from: <https://atlas.media.mit.edu/en/profile/country/ukr/>; Observatory of economic complexity. Learn More About Trade in Turkey [Electronic resource]. — Available from: <https://atlas.media.mit.edu/en/profile/country/tur/>

<sup>11</sup> World exports and imports of goods [Electronic resource]. — Available from: [http://atlas.cid.harvard.edu/explore/tree\\_map/export/ukr/all/show/2013/](http://atlas.cid.harvard.edu/explore/tree_map/export/ukr/all/show/2013/); International Trade in Goods based on UN Comtrade data Developed by the Department for Business Innovation and Skills (UK) [Electronic resource]. — Available from: <http://comtrade.un.org/labs/BIS-trade-in-goods/?reporter=804&commodity=TOTAL&year=2014&flow=2>

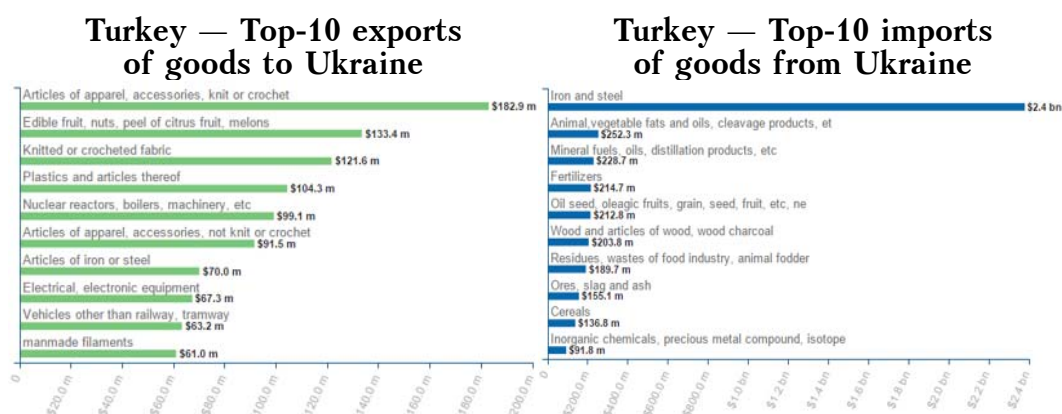


Fig. 3. Turkey exports and imports of goods with Ukraine in 2014<sup>12</sup>

According to the official statistics, the volume of the Turkish investments to Ukraine in 2014 was \$ 198,7 million. There are about 500 Turkish companies active in Ukraine.

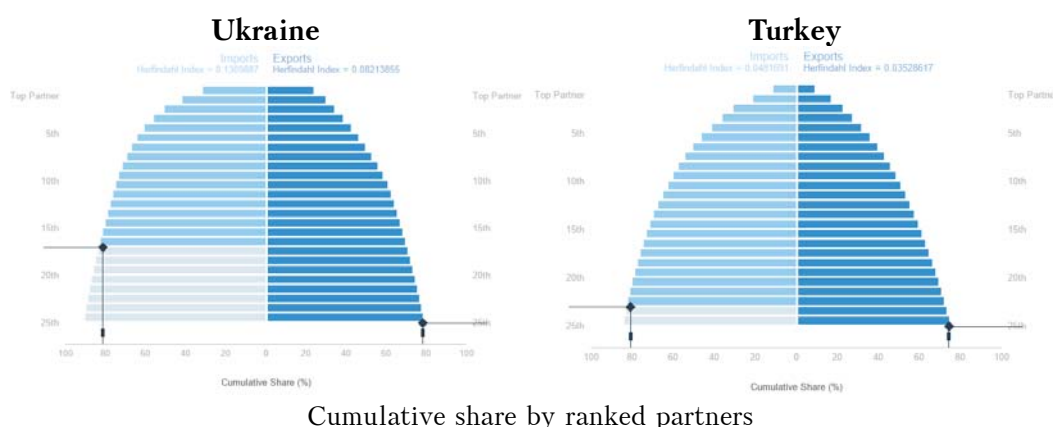


Fig. 4. Partner concentration of trade in countries<sup>13</sup>

Table 1 presents comparative balance of payments accounts of Turkey and Ukraine. Turkey's external trade and investment flow figures are significantly higher than those of Ukraine. However, at the same time,

<sup>12</sup> Source: ibidem.

<sup>13</sup> Authors and data sources: Ukraine. Partner concentration of trade in 2013 [Electronic resource]. — Available from: <https://unite.un.org/ideas/sites/unite.un.org.ideas/files/public/completed/comtradeBK/index.html#Ukraine>; Turkey. Partner concentration of trade in 2013 [Electronic resource]. — Available from: <https://unite.un.org/ideas/sites/unite.un.org.ideas/files/public/completed/comtradeBK/index.html#Turkey>

Turkey runs significantly larger current account deficits compared to Ukraine.

*Table 1 Balance of payment statistics of Turkey and Ukraine*<sup>14</sup>

№	Indicator	Units of measurement	2010		2011		2012		2013		2014	
			Ukr.	Turk.	Ukr.	Turk.	Ukr.	Turk.	Ukr.	Turk.	Ukr.	Turk.
<b>I Current account</b>												
1.1.	Current account balance (U.S. dollars)	U.S. dollars	-3,0 billion	-45,3 billion	-10,2 billion	-75,0 billion	-14,3 billion	-48,5 billion	-16,5 billion	-64,7 billion	-5,3 billion	-46,5 billion
1.2.	Current account balance (percent of GDP)	Percent of GDP	-2,2	-6,2	-6,3	-9,7	8,2	6,2	9,0	7,9	-	-
<b>II Exports of Goods and Services</b>												
2.1.	Exports of Goods and Services (U.S. dollars) – credits	U.S. dollars	-65,6 billion	157,4 billion	83,7 billion	183,7 billion	86,5 billion	205,5 billion	81,7 billion	208,9 billion	65,3 billion	219,5 billion
2.2.	Exports of Goods and Services (percent of GDP)	Percent of GDP	48,2	21,5	51,3	23,7	49,2	26,1	44,6	25,4	-	-
<b>III Imports of Goods and Services</b>												
3.1.	Imports of Goods and Services (U.S. dollars) – debits	U.S. dollars	69,6 billion	197,2 billion	93,8 billion	252,7 billion	100,9 billion	248,5 billion	97,4 billion	266,0 billion	70,7 billion	257,9 billion
3.2.	Imports of Goods and Services (percent of GDP)	Percent of GDP	51,2	27	57,5	32,6	57,4	31,5	53,1	32,3	-	-
<b>IV Direct Investment</b>												
4.1.	Direct Investment – net acquisition of financial assets (U.S. \$)	U.S. dollars	692,0 million	1,5 billion	192,0 million	2,4 billion	980,0 million	4,1 billion	430,0 million	3,6 billion	548,0 million	7,0 billion
4.2.	Direct Investment – net incurrence of liabilities (U.S. \$)	U.S. dollars	6,5 billion	9,1 billion	7,2 billion	16,2 billion	8,2 billion	13,3 billion	4,5 billion	12,5 billion	847,0 million	12,5 billion
<b>V Portfolio Investment</b>												
5.1.	Portfolio Investment: Assets (U.S. dollars) net acquisition of financial assets	U.S. dollars	17,0 million	3,5 billion	48,0 million	2,7 billion	72,0 million	2,7 billion	5,0 million	2,6 billion	1,0 million	741,0 billion
5.2.	Portfolio Investment: Liabilities (U.S. dollars) net incurrence of liabilities	U.S. dollars	4,4 billion	19,6 billion	1,6 billion	19,5 billion	4,8 billion	38,4 billion	8,8 billion	21,4 billion	-2,7 billion	20,9 billion
<b>VI Reserve Assets</b>												
6.1.	Reserve Assets (U.S. dollars)	U.S. dollars	8,5 billion	12,8 billion	2,5 billion	1,8 billion	-7,6 billion	20,8 billion	-3,6 billion	9,9 billion	12,4 billion	-484,5 million

Recent global experience reveal persistent risks associated with fiscal imbalances and excessive levels of government debt, increased volatility of financial flows and exchange rates, and too rapid growth of the stock market and real estate market. Due to the global crisis, majority of the emerging markets suffered a significant slowdown in economic activity.

<sup>14</sup> IMF Data Mapper [Electronic resource]. — Available from: <https://www.imf.org/external/datamapper/index.php>; Global federation of Competitiveness councils [Electronic resource]. — Available from: [http://decoder.thegfcc.org/explore/data?utf8=✓&dimension\\_id=1&indicator\\_code=NE.IMP.GNFS.ZS](http://decoder.thegfcc.org/explore/data?utf8=✓&dimension_id=1&indicator_code=NE.IMP.GNFS.ZS)



Being an open and free-market economy, integrated with the global economic and financial system, Turkey was no exception. Turkey was also adversely affected by the declining external demand and falling international capital flows. The comparative characteristics of the fiscal accounts of Turkey and Ukraine are presented in the table 2.

*Table 2 Fiscal monitor of Turkey and Ukraine*<sup>15</sup>

№	Indicator	Units of measurement	2010		2015		2020	
			Ukraine	Turkey	Ukraine	Turkey	Ukraine	Turkey
<b>I</b>	<b>Fiscal indicators</b>							
1.1.	Net lending/borrowing (also referred as overall balance)	% of GDP	43,3	33,3	-4,2	-1,4	-2,2	-0,9
1.2.	Primary net lending/ borrowing (also referred as primary balance)	% of GDP	-4,1	0,3	1,2	1,4	1,6	1,4
1.3.	Cyclically adjusted balance	% of Potential GDP	-2,8	-2,8	-2,2	-1,3	1,6	1,4
1.4.	Cyclically adjusted primary balance	% of GDP	-1,2	0,9	2,9	1,5	1,6	1,4
1.5.	Revenue	% of GDP	43,4	33,3	42,8	36,1	1,6	1,4
1.6.	Expenditure	% of GDP	49,2	36,7	47,1	37,5	42,5	36,3
1.7.	Gross debt position	% of GDP	40,6	42,3	94,1	33,4	71,0	32,8
1.8.	Net debt	% of GDP	38,5	34,7	91,5	25,9	70,1	27,3

Monetary policies of the Turkish Central Bank played a crucial role in securing macroeconomic balances, and most importantly reining in inflation over the last decade. Having been one of the major concerns of the Government for more than 3 decades, inflation has finally been brought down to single digits by mid-2000s. CPI inflation was 6.16% last year. It is forecasted to settle down around 5% in 2014. Turkey has been extremely careful with its budget for the last decade. Once peaked at almost 17% in 2001, EU-defined general government budget deficit/GDP ratio was 2.6% in 2011 and Turkey met the Maastricht criteria of 3% while outperforming 18 EU Countries (Central government budget deficit/GDP ratio was 1.3% in Turkey in 2011 and Turkey outperformed 23 EU Countries)<sup>16</sup>. While net public debt to GDP ratio was 90.5% in 2001, 42.3% in 2010, it decreased to 33.4% in the reporting year, which was below the level in 21 EU Countries and the Maastricht

<sup>15</sup> Built on the basis data IMF Data Mapper [Electronic resource]. — Available from: <https://www.imf.org/external/datamapper/index.php>; Global federation of Competitiveness councils [Electronic resource]. — Available from: [http://decoder.thegfcc.org/explore/data?utf8=✓&dimension\\_id=1&indicator\\_code=NE.IMP.GNFS.ZS](http://decoder.thegfcc.org/explore/data?utf8=✓&dimension_id=1&indicator_code=NE.IMP.GNFS.ZS)

<sup>16</sup> Ministry of Foreign Affairs Republic of Turkey [Electronic resource]. — Available from: <http://www.mfa.gov.tr/prospects-and-recent-developments-in-the-turkish-economy.en.mfa>

Criterion of 60%. The composition of the debt stock has also been improved and become more resilient to fluctuations in interest and exchange rates as well as capital flows.

*Table 3 Turkey and Ukraine: Macroeconomic Summary*<sup>17</sup>

№	Indicator	Units of measurement	2010		2015		2020	
			Ukraine	Turkey	Ukraine	Turkey	Ukraine	Turkey
<b>I Gross domestic product (GDP)</b>								
1.1.	Real GDP growth	Annual change percent	0,3	9,2	-5,5	3,1	4,0	3,5
1.2.	Nominal GDP	Billions of U.S. dollars	136,0	731,5	85,4	752,5	134,7	1000
1.3.	GDP based on PPP	Billions of current international dollars	352,0	1200,0	353,3	1600,0	461,9	2100,0
1.4.	GDP based on PPP per capita	Current international dollars per capita	7700	16200	8300	20200	10900	25200
1.5.	GDP based on PPP, share of world	Percent of World	0,4	1,3	0,3	1,4	0,3	1,4
1.6.	Implied PPP conversion rate	National currency per current international dollar	0,9	3,1	1,2	5,2	1,5	6,9
<b>II Inflation</b>								
2.1.	Inflation rate, end of period consumer	Annual change percent	9,4	8,6	33,5	6,6	5,0	6,0
2.2.	Inflation rate, end of period consumer prices	Annual change percent	9,1	6,4	26,7	7,0	5,0	6,0
<b>III People</b>								
3.1.	Population	Millions of people	45,6	73,1	42,7	77,7	42,2	81,7
3.2.	Unemployment rate	Percent	8,1	11,1	11,5	11,4	8,0	11,0
<b>IV Current account</b>								
4.1.	Current account balance (U.S. dollars)	Billions of U.S. dollars	-3,018	-45,312	-1,216	-31,719	-3,112	-50,807
4.2.	Current account balance (percent of GDP)	Percent of GDP						
<b>V Government finance</b>								
5.1.	General government net lending/borrowing	Percent of GDP	-5,8	-3,4	-4,2	-1,4	-2,2	-0,9
5.2.	General government gross debt	Percent of GDP	40,6	42,3	94,1	33,4	71,0	32,8

<sup>17</sup> Built on the basis data IMF Data Mapper [Electronic resource]. — Available from: <https://www.imf.org/external/datamapper/index.php>; Global federation of Competitiveness councils [Electronic resource]. — Available from: [http://decoder.thegfcc.org/explore/data?utf8=✓&dimension\\_id=1&indicator\\_code=NE.IMP.GNFS.ZS](http://decoder.thegfcc.org/explore/data?utf8=✓&dimension_id=1&indicator_code=NE.IMP.GNFS.ZS)

Turkey has had major macroeconomic and social achievements in the last decades. The main sources of growth in the last decade came from the favourable situation of the international economy and successful macroeconomic policies in Turkey. Price stabilization and liberal reforms during the last decade followed by adjustment of fiscal and external imbalances paved the way for economic growth. Recovery was aborted by the global economic crisis in 2008 and since then the economy experienced wild fluctuations with fading growth prospects. The deceleration of the world economy, and particularly of China, more recently, were decisive for the slowdown of the Turkey economy. Prospects for economic development of Turkey and Ukraine presented in the table 3.

Turkey has the world's 18th largest nominal GDP, and 17th largest GDP by PPP<sup>18</sup>. While many economies have been unable to recover from the recent global financial recession, the Turkish economy expanded by 9.2% in 2010, and now is at the level 3.5, thus standing out as the fastest growing economy in Europe, and one of the fastest growing economies in the world. In 2013 Turkey had a «huge current account deficit and high external financing need»<sup>19</sup>.

The economy of Ukraine is an emerging free market, with a gross domestic product that fell sharply for the last years. Ukraine's Economic growth remained weak for the last two years. The unemployment rate increased to 11,5 percent at the beginning of 2015 as a result of the economic crisis. To support the banking industry, World Bank is actively working with the Government and the National Bank of Ukraine and other financial regulators on strengthening the policy and regulatory role of the state in the financial sector, while consolidating state ownership of financial institutions.

The process of globalization of the world economy, which has become complementary, interdependent and more integrated, has two main components: globalization of markets and globalization of production<sup>20</sup>. The results of world markets globalization include reception of competitive advantages by the countries with higher economic development level, enhancement of destabilization factors, interdependence of national markets, loss of control of peripheral states over their own national markets and appearance of global hyper-competition, which is beneficial for the central countries.

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<sup>18</sup> Report for Selected Countries and Subjects. IMF World Economic Outlook Database, April 2015. 14 April 2015. Retrieved 12 July 2015.

<sup>19</sup> Turkish Lira continues to fall despite intervention [Electronic resource]. — Available from: <http://www.hurriyetdailynews.com/turkish-lira-continues-to-fall-despite-intervention.aspx?PageID=238&NID=57816&NewsCatID=344>

<sup>20</sup> *Yatsenko Olga*. Globalization determinants of raw materials markets development [Electronic resource]. — Available from: [http://iepjournals.com/journals\\_eng/19/2013\\_4\\_Yatsenko\\_eng.pdf](http://iepjournals.com/journals_eng/19/2013_4_Yatsenko_eng.pdf)

In such terms of globalization, the main task is the struggle for full-fledged long-term operation, minimization of financial, economic, social, demographic, political and ecological risks with parallel preservation and establishment of competitive advantages which are able to secure further development and adaptation to the global economy, as well as to ensure competitiveness of national economic system and its components – regional economies represented by all market bodies.

### **III. The principal factors influencing the strategic development of the partnership between Turkey and Ukraine in the economic sphere**

With the purpose of defining the principal factors influencing the strategic development of the partnership between Turkey and Ukraine in the economic sphere for the period up to 2023, the SWOT analysis has been conducted. External opportunities and threats for strategic cooperation between the countries, along with their strong and weak points, have been defined on its basis. The results of the analysis conducted prove the availability of positive and negative factors influencing the strategic development, combination of the action of which presents the countries with the need for an alternative choice of one of two option scenarios and the type of a development strategy respectively. On this basis, strategic goals of developing the partnership between Turkey and Ukraine in the economic sphere are defined. Among the main external possibilities favouring the strategic cooperation, we can note the following: 1) geo-strategic location of the country; 2) membership in the European Union; 3) common institutionalized framework for conducting of trade and economic activity which creates a transparent framework for business (membership in the WTO and the other international organizations); 4) growing interest to social and political, economic and cultural features of the countries; 5) creation of competitive regional clusters (implementation of energy projects, construction of gas compressor stations, storage facilities. etc.); 6) the availability of free global niches in the respective global market segments, where the countries are already competitive and have the possibility to create joint ventures (service industries, energy, engineering, agriculture, high-tech industry, etc.).

External threats include: 1) change of the geopolitical and geoeconomic balance of power; 2) conflicts at regional level (in neighbouring countries); 3) illegal migration; 4) expansion of foreign commodity producers which can lead to the national entrepreneurship inhibition and capital outflows.

Concerning the internal factors, strong points of the strategic Turkish-Ukrainian cooperation include: 1) advantages related to the geo-

graphical location of countries (transit opportunities); 2) considerable explicit and hidden economic potential of the countries' development; 3) relatively stable exchange of goods between countries (Ukraine benefits from the low price of its goods and their high quality); 4) the availability of high-level strategic council; 5) mobility of education and science items; 6) media cooperation; 7) activation of travel and recreation branch (environmental, ethnic, recreation tourism); 8) favourable climatic conditions and resources potential for the agricultural sector development; 9) high level of concentration of high-potential human capital assets.

The weaknesses include: 1) disparities of trade and regional flows caused by difference of economic development of two countries; 2) export asymmetries (raw nature of Ukrainian export); 3) evaluation of national currencies, both Turkish lira and hryvnia; 4) the certain decrease of the level of bilateral contracts; 5) destabilization of the social, political and economic situation in Ukraine causing decrease of the country investment attractiveness; 6) decrease of the pace of economic development in Turkey.

In conditions of combining internal strong spots and external opportunities (S+O) of the strategic development of the partnership between Turkey and Ukraine in the economic sphere, the best possible scenario should be expected. Full visa regime liberalization, intensification of trade and economic relations will take place, along with creation of the free trade area, which will provide the regional leadership (of Turkey in Eurasia and of Ukraine in Eastern Europe). For the stated scenario implementation it is recommended to choose the multilateral diplomacy strategy which in the short term will provide the Business as usual strategy implementation, and in the long term will provide the efficient and sustainable economic development of bilateral relations between the countries.

The combination of internal strong spots and external threats (S+T) can lead to the relations' pragmatics intensification on economic grounds and symmetric economic mutual dependency of the countries. Within this context, the optimal choice will be applying a 'drop' economic diplomacy in combination with a parliamentary diplomacy.

In conditions of combining internal weak spots and external opportunities (W+O), reload of Turkish and Ukrainian relations with provision of a more active political nature to them, and the certain business association activation can take place. Key possibilities of the development of two countries' bilateral relations in such case will be related to intensification of the role of global market relations, which will not always take place for the public benefit. An optimal strategy for this sector will

be intensification of the parliamentary diplomacy at one level with traditional diplomacy.

Combining internal weaknesses and external threats (W+T), key factors stand out as the destabilization of bilateral relations, entrepreneurship demotivation due to a considerable number of obstacles, mutual perceptions of either country by another in the light of threats, decrease of the countries' investment attractiveness. A possible strategy of bilateral relations may become the minimizing relations for realization of national interests at first-priority directions.

Thus, it could be concluded that the strategic development of the partnership between Turkey and Ukraine in the economic sphere for the period up to 2023 should be based on three principles: 1) activation and intensification of a political and security dialogue, 2) optimization of trade and economic and investment cooperation, 3) cooperation in energy sphere. It is clear that on this stage Ukraine is interested in such cooperation more than Turkey. However, Turkey may realize that Ukraine has a considerable potential of purchasing power over the long term which will be enhanced if the political and economic situation in the country gets stabilized. The efficient bilateral cooperation by means of economic diplomacy can potentially enhance the leadership of role of Turkey in Eurasia and of Ukraine in Eastern Europe.

#### **IV. Turkey: Macroeconomic Background**

This section presents a selective background of the Turkish economy with a view to assess and underline key macroeconomic weaknesses leading to the financial crises of 2001.

##### *4.1 Financial Repression Episode<sup>21</sup>*

In the pre-1980 period, especially after 1960s, financial policies were highly repressionist in Turkey. Financial repression can be defined as "governments' intervention in the financial markets with various tools" under a certain policy objectives" (Yulek 1996). This regime entails a transfer of economic surplus to investors from the savers by putting an 'artificially low' cap on the interest rates (Figure 1).

During the Democratic Party governments of 1950s, although nominal and real interest rates were reduced, the financial markets (then consisting of bank deposits) deepened relatively as demonstrated by the conventional indicators. This led to a considerable rise in the credit volume. The government channelled funds to SEEs with some conventional and some other quite original (like the establishment of the *Amortiza-*

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<sup>21</sup> This section relies on Yulek (1998a).

*tion and Credit Fund*) methods at under market rates. A complex system of central bank refinancing was established.

Given the structure of the central bank balance sheet during the period, central bank credits became the main determinant of the monetary expansion. Thus in effect, monetary policy was used for the purposes of resource allocation which was determined by the developmental priorities of the government and the central bank functioned more or less as a development agency.

During the first half of the decade, rapid monetary expansion led to high GNP growth rates and the rise in inflation rate was limited. The growth of seignorage was rapid during this half but the growth rate of deposits was as twice high indicating a 'financialization' of the economy despite low interest rates. In the period between 1955 and 1957, the growth rate of seignorage exploded without producing commensurate rises in the deposits and the GDP.

Consequently, this second sub-period earmarked the rise of inflation rates. Interestingly, although officially an economically liberal party, the government heavily supported the SEE investments in the industrial sector. The share of credits extended to the SEEs in the total has risen considerably after 1954. The situation was more visible for long term credits.

In 1960s, following a military coup, State Planning Organization was established and in 1963, five-year development planning practice was launched. The plans were based on macroeconomic balancing as well as policies regarding priority sectors.

In the 1963-1979 period (the so-called "planned period"), import substitution was the basis of the development and industrialization strategy. Imports could only be made through government permits obtained through a heavy licensing procedure. Duties and tariffs on the other hand were used to protect domestic industries from foreign competition and provide rents to domestic industries.

During this period, another important feature to note was the development of a complicated system of directed credit. The rediscount policy of the central bank continued to be a major tool and a detailed sectoral interest rate system was established. The volume of credits to industry increased considerably and various channels were devised to provide the SEEs with funds –and especially patient funds- for investments. The central bank's developmental functions of the 1950s were thus reinforced in addition to the establishment of other financial institutions for the same purpose.

In spite of the low nominal interest rates and drastically low and negative real interest rates, financial deepening, measured by the conventional indicators, again continued to rise within a narrow menu of

financial assets and markets. This, together with the similar phenomenon during 1950s, indicates that development in the real economy has a positive effect on the financial deepening. The Turkish experience thus appears to be an interesting case in need of further study on the celebrated question of the direction of causality between real economic development and financial development as well as the role of government in the financial markets<sup>22</sup>.

During this period, in spite of growth volatility, the growth performance of the economy on an average basis has been impressive compared to other, developed, OECD economies of the period. This issue is particularly important as the growth performance of the country during these repression years is also superior to its performance in the post-liberalization period. Thus, similar to the Japanese experience (Yulek, 1997) the Turkish experience, incorporating high real growth rates under financial repression, provides a case challenging the now conventional wisdom and again proves to be one worth of further study.

However, in spite of those positive impacts, import substitution policies, also led to foreign exchange problems. As the incentives for exports were largely missing, the dependence on imported raw, intermediate and capital goods caused continued imports and thus drainage of foreign exchange reserves exposing Turkey a major current account crises at the end of 1970s.

The facts that industrial policies did not successfully eliminate import dependence and that export orientation was lacking played key roles in this. The capital account was entirely closed with strict capital controls. There was simply no market for foreign exchange except the nominal currency rates determined by the central bank. In addition, due to expansive monetary policies, inflation remained high. These two facts combined the real value of the Turkish Lira appreciated, further punishing exports and forcing the deterioration of the current account deficit. All of this led to a severe current account crisis in late 1970s.

#### *4.2. Financial and Capital Account Liberalization in 1980s*

Following the severe current account crises during 1978-1979 the new Government, again following a coup, in 1980 launched a wide-ranging liberalization and external orientation program. The external orientation covered the reversing of the import substitution based inward oriented development strategy. On the other hand, the liberalization component covered domestic prices of goods and services, privatization, financial liberalization, trade liberalization and capital account liberalization.

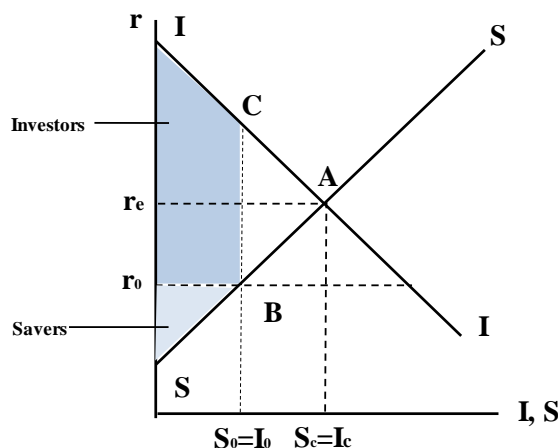
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<sup>22</sup> See Stiglitz (1994) for a discussion of the role of government in the financial markets. Reinhart (2012), among others, emphasize that governments of developed economies have recently been emphasizing resorting to financial repression policies for fiscal, rather than developmental, reasons.



Consequently, the financial markets in Turkey have undergone drastic reforms after 1980. This, firstly covered liberalization of the interest rates along with the ideas of Mc Kinnon (1973) and Shaw (1973) who argued that low interest rates following repression policies limited the supply of saving (Figure 5) and thus financing needed for the investments (Yulek, 1998b). Liberalizing would raise the equilibrium interest rates ( $r_0$  to  $r_e$ ) and restore the savers' and investors' surpluses; but at the same time it would reduce the constraints (and excess demand) on the supply of funds increasing the total level of investment that would enhance the growth prospects of the economy.

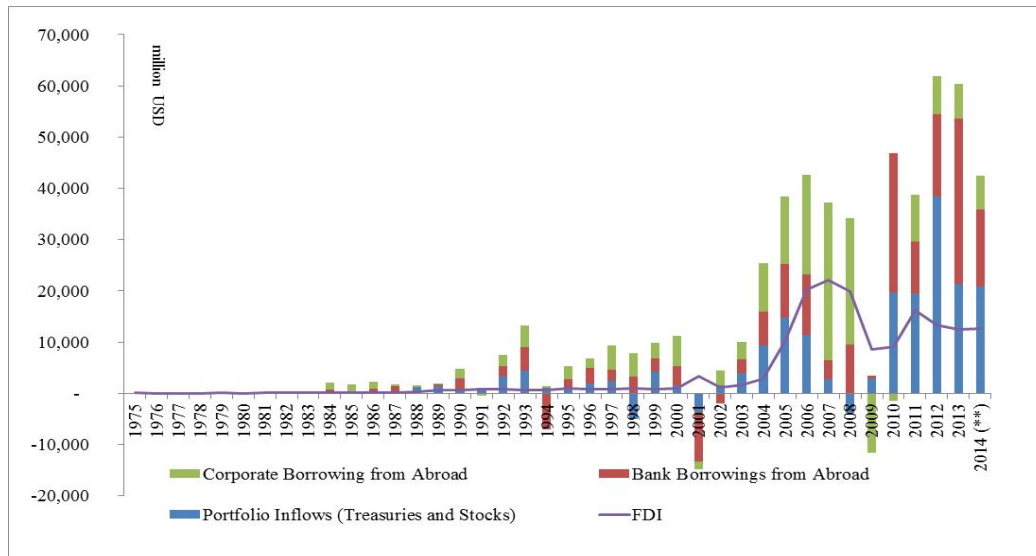
Financial liberalization program in Turkey also encompassed new financial markets (reopening of the Stock Exchange, introduction of secondary markets for government and corporate bonds) and new institutions (investment banks, leasing companies).



**Fig. 5.** Financial Repression and Liberalisation<sup>23</sup>

An important part of the liberalization program concerned the capital account. The Turkish economy before the year 1980 has featured strong capital and foreign currency restrictions. These restrictions were entirely abolished through two decrees in 1989 and 1990. In consequence capital inflows and outflows whether for portfolio or direct investment (FDI) reasons were fully liberalized whereas prior to 1980, even holding foreign currency by citizens above a very low threshold was forbidden. After the liberalization of the capital account, capital inflows grew substantially from almost nil prior to 1990 (Figure 6).

<sup>23</sup> Yulek (1998b)



**Fig. 6.** Capital Inflows (1975- 2014)<sup>24</sup>

Following the liberalization, Turkish financial markets expanded rapidly. Total assets of the banking sector grew along with the stock exchange capitalization and the market for government paper. However, financial liberalization in Turkey was not without pains. Hasty liberalization has led to a number of problems such as the banker's crises of the early 1980s. The reason was inadequate regulation and supervision in the banking sector. For example, in the early years of the liberalization, small entities, called the 'bankers' emerged that freely collected deposits from the general public. These bankers mostly consisted of unqualified businessmen who lacked adequate financial skills and sometimes ethics. During a few years, a Ponzi scheme developed where cash inflows into the bankers were enough to service the earlier deposits. But over time the system collapsed causing a financial crisis (Yulek, 1998b).

#### 4.3 The Lost Years: 1990s

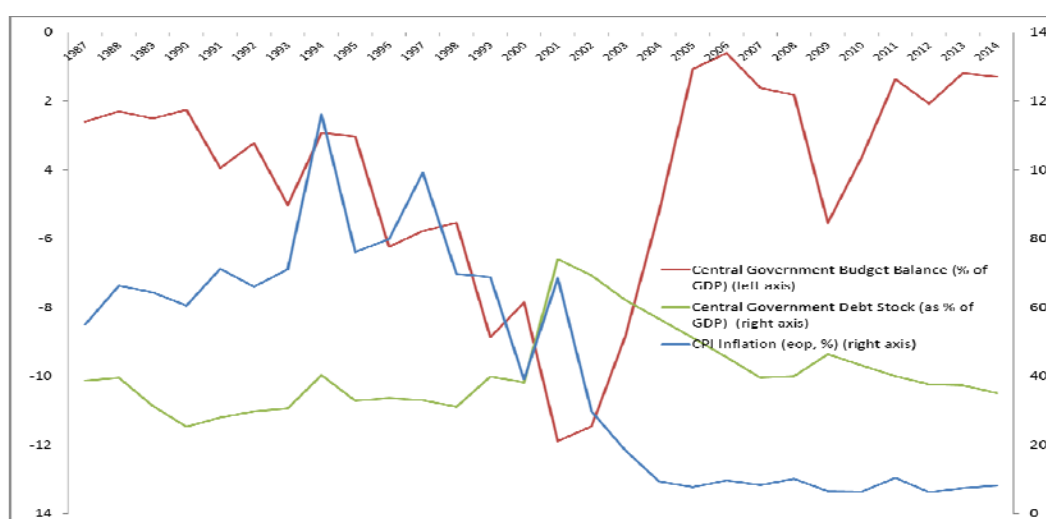
The rapid liberalization in the 1980s created some conditions that, in addition to the ones in 1980s, led to a number of financial and economic crises in Turkey in during 1990s and 2001.

In 1990s, while external orientation and rapid development progressed, Turkey's budgetary discipline worsened and budget balances deteriorated sharply (Figure 3). As the markets had been liberalized, increasing borrowing requirements of the Treasury had to be met at mar-

<sup>24</sup> Turkish Central Bank

ket interest rates. The monetary financing of the fiscal deficit continued but was limited under the ‘monetary program’ of early 1990s (which consisted of setting targets for the central bank balance sheet in order to control the money supply and inflation) that led to increasing central government debt stock along with increasing inflation by mid 1990s. (Figure 7)

This was a typical case of ‘fiscal dominance’ which refers to inflation created by monetary financing of uncontrolled fiscal deficits (Nachega, 2005). Sargent and Wallace (1973) developed a model that formalized how fiscal unsustainability could lead to monetary expansion and thus inflation. Aghevli and Khan (1977), on the other hand, developed a dynamic model where deficit financing drives inflation and estimated it on the Indonesian data.



**Fig. 7.** Turkey: Central Government Budget Balance, Debt and Inflation

On the other hand, bank regulation and supervision did not improve adequately during the 1990s. This led to a weakening of the quality of bank lending portfolios both because of risk management skills and behaviour of the Turkish banks as well as some corrupt lending practices. In addition, currency mismatches between assets and liabilities of the banks created risks that materialized during the times of devaluation of the Turkish Lira.

In 1994, Turkey experienced a currency crisis with the Turkish Lira depreciating by more than 80 percent in the first week of April 1994. The reason that triggered the devaluation was rapidly increasing liquidi-

ty in an effort to monetize the central government debt, and reduce interest rates. Similarly, in the financial crises of 2001, the Turkish Lira depreciated by 56 percent in two days in February and by 134 percent between February and October. In both cases banking crises followed due to the problems mentioned above. In both cases again, the government had to increase policy interest rates to unprecedented levels such as 1.000 percent (annualized) in 25 March 1994 and 4.000 percent (annualized) on 21 February 2001 in order to stabilize the capital outflows and reshuffling of portfolios in favour of foreign currency assets.

Meanwhile, fiscal dominance increased in Turkey with increasing expenditures, increasing losses of state owned banks that reflected on the budget deficit and servicing of the public debt. This can best be demonstrated as in 2001 the total interest expenditures reached over 90 percent of total tax revenues.

All in all, during the financial liberalization period, while Turkey's exports multiplied and overall development and infrastructural stock progressed steadily, import dependence remained and the country experienced a number of fiscal, financial and economic crises. Political instability which remerged in late 1980s also remained.

## **V. Macroeconomic Reform and Implementation in Turkey (2001-2014)**

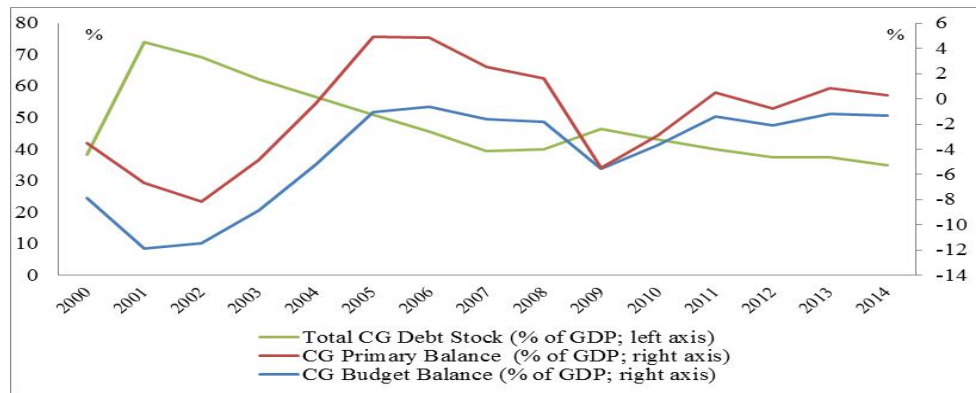
Following the financial crises in 2000/2001, Turkey once more launched a macroeconomic and structural reform program. The main features of the program were fiscal and monetary reforms as well as banking sector reforms. Some other structural reforms such as establishment of independent regulatory bodies in the non-financial areas were also implemented). This section reviews these reforms with a view to how Turkey's macroeconomic and structural aspects were strengthened increasing its resilience vis-a-vis the global financial crises. Key policy weaknesses are also reviewed.

### *5.1 Fiscal Consolidation and Reform*

In the aftermath of 2001 crises, Turkey ran a fiscal reform programme largely based on fiscal consolidation. With a view to strengthen the sustainability of the public debt, Turkey ran primary fiscal surpluses at the order of 6 percent of GDP for a sustained period of time (Figure 4)

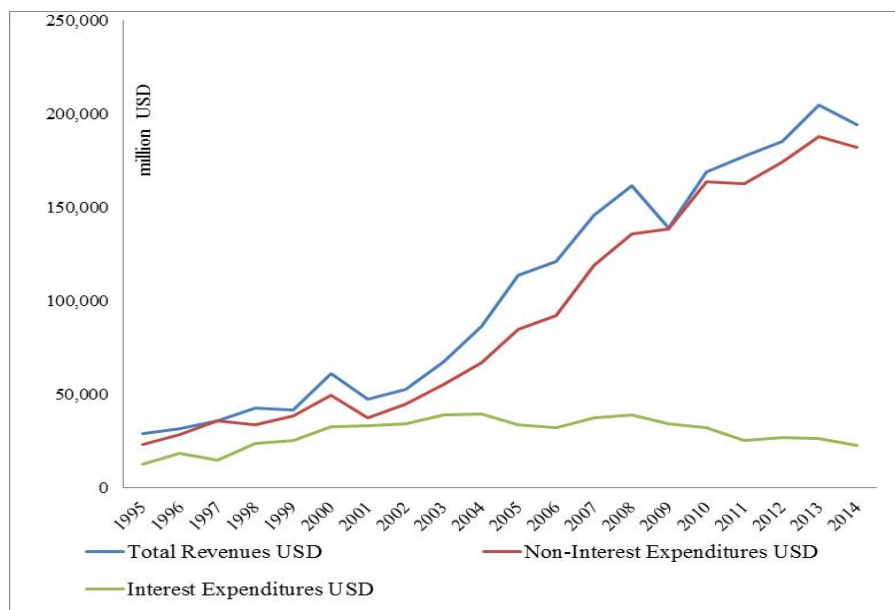
The improvement in fiscal accounts was supported by substantial increase in cash based revenues (Figure 9) and controlled non-interest expenditures. Revenues from an ambitious privatization program supported the tax revenues. In addition, interest rates and thus the Treasury's borrowing costs fell in response to improving risk perception regarding the

Turkish treasury and falling inflation rates. This led to a rapid improvement of public debt stock relative to the GDP (Figure 8).



**Fig. 8.** Primary Surplus, Budget Deficit and Public Debt

Thus, when the global crises emerged in 2007/2008 Turkey had a quite strong fiscal position, in fact one of the best performances in Europe. This is probably one of the critical positive factors in the positive response of the Turkish economy to the effects of the global crises.



**Fig. 9.** Central Government Revenues and Expenditures

### *5.2 Monetary Policy and Currency Regime*

One of the key aspects of the Turkish reforms was Central Bank independence. Turkey's experience with high inflation necessitated decoupling of monetary policy from political interference and fiscal dominance. The central bank independence which became an international norm especially after 1990s have been incorporated in the reforms through the new Central Bank Law of 2001.

After a period of preparation, inflation targeting was launched 'informally' in 2005 and formally in 2006. Under a typical inflation targeting framework, the central bank was to have one target (inflation) and one tool (policy rate). This would be communicated clearly to the public through a communication strategy (Mishkin, 2001).

Another related reform was shifting to floating currency. Under an IMF program in 1999, the currency regime in Turkey was converted to a 'tablita' regime from a managed float (Gürmez, and Yılmaz, 2007). However, the inflation differentials between Turkey and the US and European currencies caused continued overvaluation of the TL in real terms. The launch of the floating rate in February 2001 led to an immediate devaluation of the Turkish Lira from 0.687 TL to 1,072 TL within 21-23 February 2001. Subsequently, the TL/US dollar parity depreciated to 1.61 in October.

By letting the currency float, the central bank relieved itself from the task to defend the nominal value of the TL. Thus, the central bank could now concentrate solely on the inflation which was identified as the only target. Thus, floating rate regime can be considered as part of the decision to adopt the inflation targeting regime.

### *5.3 Financial Sector and Other Structural Reforms*

Following the financial crises in 2000/2001, that comprised the collapse of a number of banks and strain on others, Turkish authorities implemented banking sector reforms.

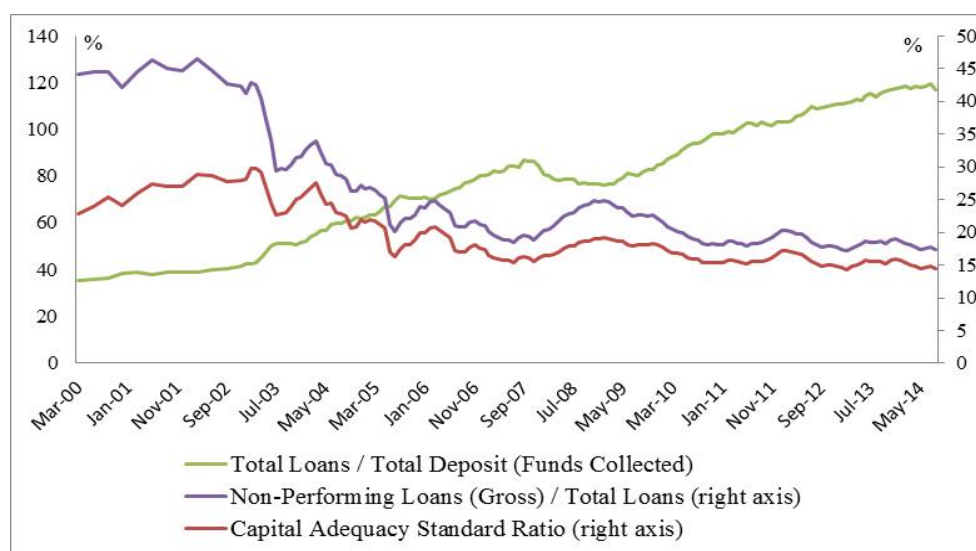
The capital adequacy ratios in Turkey had been high even before the crises. However, the mismatch in the foreign currency denominated assets and liabilities of the bank balance sheets and bad loans in certain banks were the drivers of the banking crises. The weaknesses in the supervision and regulation of the banking sector thus had been seen as the key driver of the banking crises.

Consequently, the primary components of the reform were the establishment of an independent banking regulation and supervision agency; improved capitalization of weak banks; forced close down and resolution of banks with bad portfolios through the deposit insurance fund; and keeping the capital adequacy ratios above the Basel threshold rates. Three large state banks whose capital eroded were recapitalized and

were managed under a single board until their balance sheets became acceptable. The newly established Banking Regulation and Supervision Board closely monitored the banks' compliance with its requirements sometimes on a day by day basis.

All this led to quickly improving balance sheets, risk management attitudes and decreasing NPLs in the banking sector. Simultaneously the Turkish banking system quickly expanded while NPLs fell (Figure 10). With the dominating borrowing requirement by the government decreasing the banks had to resort to the private sector to market its funds. As a result, from 30 percent, the ratio of loans to deposits increased to 80 percent in 2007.

The regulation and supervision agency kept its monitoring very close and quite strict on the banks in the rest of the years after its establishment. This has increased cost of compliance and even complaints from the banking sector. However, due to that performance of the agency, at the time when the financial crises hit the world in 2007 and 2008, the Turkish banking sector enjoyed uniquely strong financial position and was not influenced negatively by the global crises except for the slowing economy reducing the demand for credit.

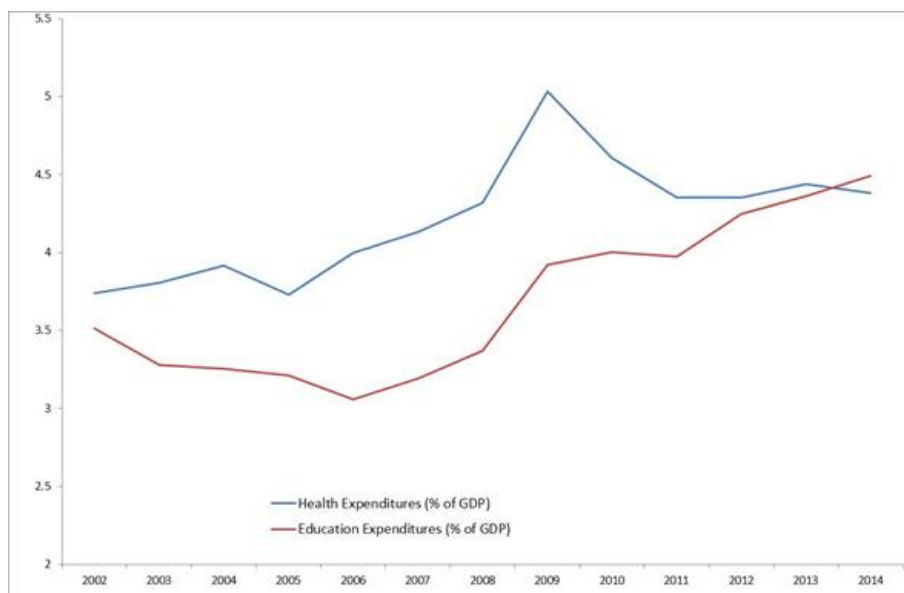


**Fig. 10.** Improvements in the Banking Sector

The governments after 2002 implemented other structural reforms also. Among them is the social security reform, health reform and the independent regulation and supervision of certain sectors. Most of these reforms were socially oriented. For example, in the health sector univer-

sal health coverage was granted to the entire population in order to reduce disparities in health outcomes. Different management structures of government hospitals were combined under one system and management. Similarly, the fragmented system of social security was organized around a combined system that covered retirement and health benefits. (IMF, 2004)

On the other hand, as the fiscal position improved, this was positively reflected on the quality of expenditures as well. In particular, health and education expenditures increased (Figure 11). Privatization of certain state owned commercial enterprises and electricity generation and distribution facilities both generated once-off budgetary revenues as well as leading to efficiency gains. Further, the government could allocate funds to elsewhere as investments to meet the rapidly growing demand for generation capacity was met by the private sector following the liberalization of the electricity market in 2008.



**Fig. 11.** Public Health and Education Expenditures (% of GDP)

### **Developments in the Current Account Balance**

Current account deficit and the net international investment position, which shows the cumulated effect of the current account deficit is currently seen as the key vulnerability factor for the Turkish economy. A high current account deficit increases the potential costs of a sudden capital outflow from the country which may happen due to factors such as interest rate hike decisions by the Federal Reserve Board of the USA.



While the fiscal and financial consolidation progressed, Turkish economy had the growing current account deficit as one weakness that persevered. Turkish exports have multiplied by four between 2002 and 2008. However, during the same time imports also multiplied based on consumer goods, intermediate goods including energy, and the capital goods. The result was rapidly increasing trade deficit, and, driven by it, the worsening current account deficit both in value and as ratio to GDP.

A number of factors contributed to the worsening of the current account deficit in Turkey. Firstly, increasing income level and confidence led to increasing consumer spending and thus domestic demand and thus demand for imports. Secondly, increasing economic activity led to demand for physical investments by the government as well as the firms which again triggered import demand. Thirdly, increasing capital inflows caused an appreciation of the real value of the Turkish Lira, which in turn increased the competitiveness of the imported goods, vis-a-vis domestically produced ones.

## VI. Turkey's Response to the Global Crises and Why Turkey Weathered the Storm Easier than Other Economies

The global crises of 2007/2008 that covered many of the developed and developing economies came through two key channels: deteriorating bank balance sheets and deteriorating fiscal positions. Countries from a wide spectrum, such as USA, Italy, Spain, Ukraine, Hungary and Greece, were negatively affected by the global crises largely in terms of bank collapses and fiscal deterioration (Figure 12).

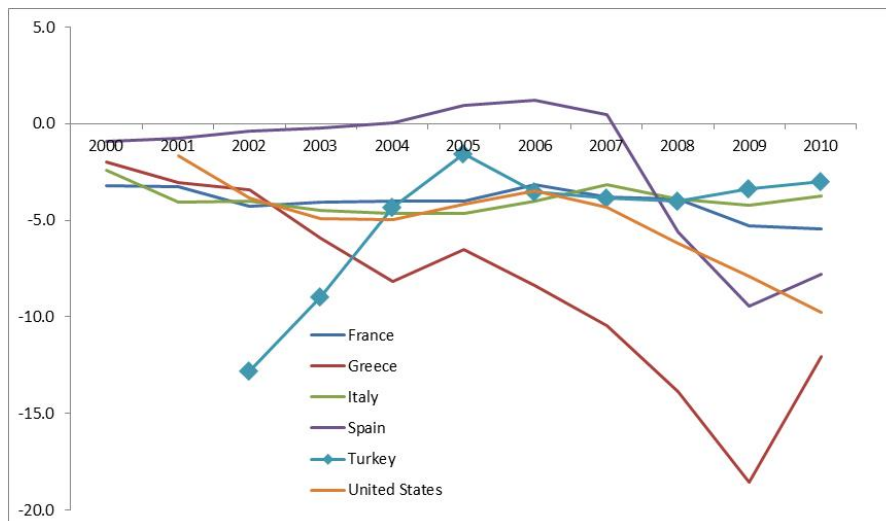
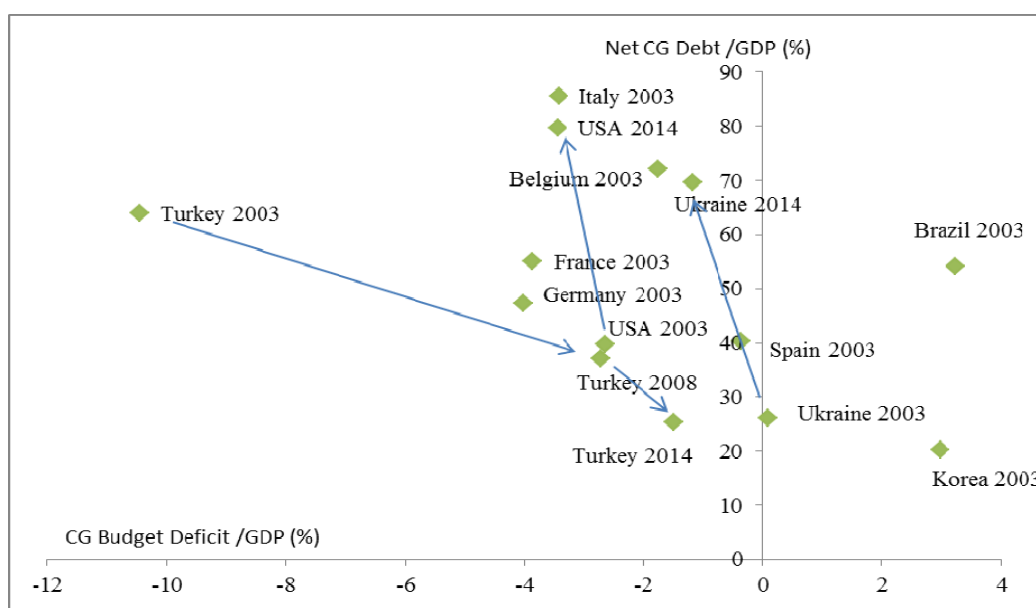


Fig. 12. Budget Deficit (% of GDP) in Selected Countries

Turkey, on the other hand, met the crises with a relatively strong position on both fronts due to fiscal and banking reforms that were implemented prior to the global crises. This is probably the key reason why Turkey has not been influenced badly by the international shock (Figure 8, 9 and 10) that damaged a lot of developed and developing economies (Figure 13). Figure 13 shows the trajectory of the fiscal reform in Turkey compared to selected developed and developing economies including Ukraine. The improvement in Turkey's budget deficit and public debt continued to improve even after the emergence of the global crises. On the other hand in many countries fiscal positions on both fronts have deteriorated after the crises. (Figure 12 and 13). This may be interpreted to indicate two factors at play. Firstly, hidden fiscal liabilities may prove fatal when external shocks hit a country. Secondly, coordinating reforms in the financial sector and fiscal domain must have served the Turkish economy well; during the global financial crises, some countries (such as Greece) saw the first damage in the fiscal domain subsequently propagating to the banks. Others (such as Spain) saw an opposite process. Thus, based on Turkish experience compared to that of other mentioned countries, it can be argued that effective crises prevention requires coordinated reforms on both fiscal and financial domains.



**Fig. 13.** Turkey Fiscal Reform Trajectory

## Conclusions

Global growth in 2014 was a modest 3,4 percent, reflecting a pickup in growth in advanced economies relative to the previous year and a slow-down in emerging market and developing economies. The key characteristics of the economic development no growth surge for global economy.

Turkey is one of the most dynamic economies in the world that is growing very fast and it is a major player in the Middle East. Country has potential to grow and become an effective contributor to the world economic growth. Dynamic growth market means that the country has a large population with appearances of a strong manufacturing and service industries. In addition, Turkey's population, which is above 77 billion people, provides the country with a powerful workforce and a populous internal consumer. Effective management and administration of financial sector, its geographic location, stable political system, transparent government institutions, security and political system of its neighbours are major reasons behind Turkey's economic success during the last decade.

There is a polar situation that can be traced in Ukraine. The economy of Ukraine is an emerging free market, with a gross domestic product that fell sharply for the last years. The population has been steadily declining every year, dropping from 52 million people in 1992 to 42,7 million in 2014. The unemployment rate increased to 11,5 percent at the beginning of 2015 as a result of the economic crisis. Ukraine has not yet reached the desired and expected economic progress due in part to its dependence on Russian natural gas and oil, ongoing political instability, and the internally economic crisis: the annexing of the some territory and the armed conflict in the east of country.

Turkey has a long history of economic crises, volatile growth and political uncertainty. The economic and financial reforms following the 2001 crises and their successful implementation have increased the resilience of the Turkish economy to internal and external shocks. This is supported by its resilience to the global crises of 2007/8. The key conclusions are that strengthened fiscal position on both budget and debt levels, improved banking sector regulation and supervision on top of careful monetary policies are key requirements for resilience. Moreover, piecemeal and uncoordinated reforms in these fields will not be sufficient to build resilience; reforms in these areas should be implemented simultaneously.

Turkish reform and implementation experience provides lessons learned for Ukraine and other emerging economies. Simultaneous strengthening of the fiscal balances (including elimination hidden liabilities), the banking sector and the monetary policy are the crucial requirements for forming resilient macroeconomic fundamentals in the face of risks from external shocks.

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