

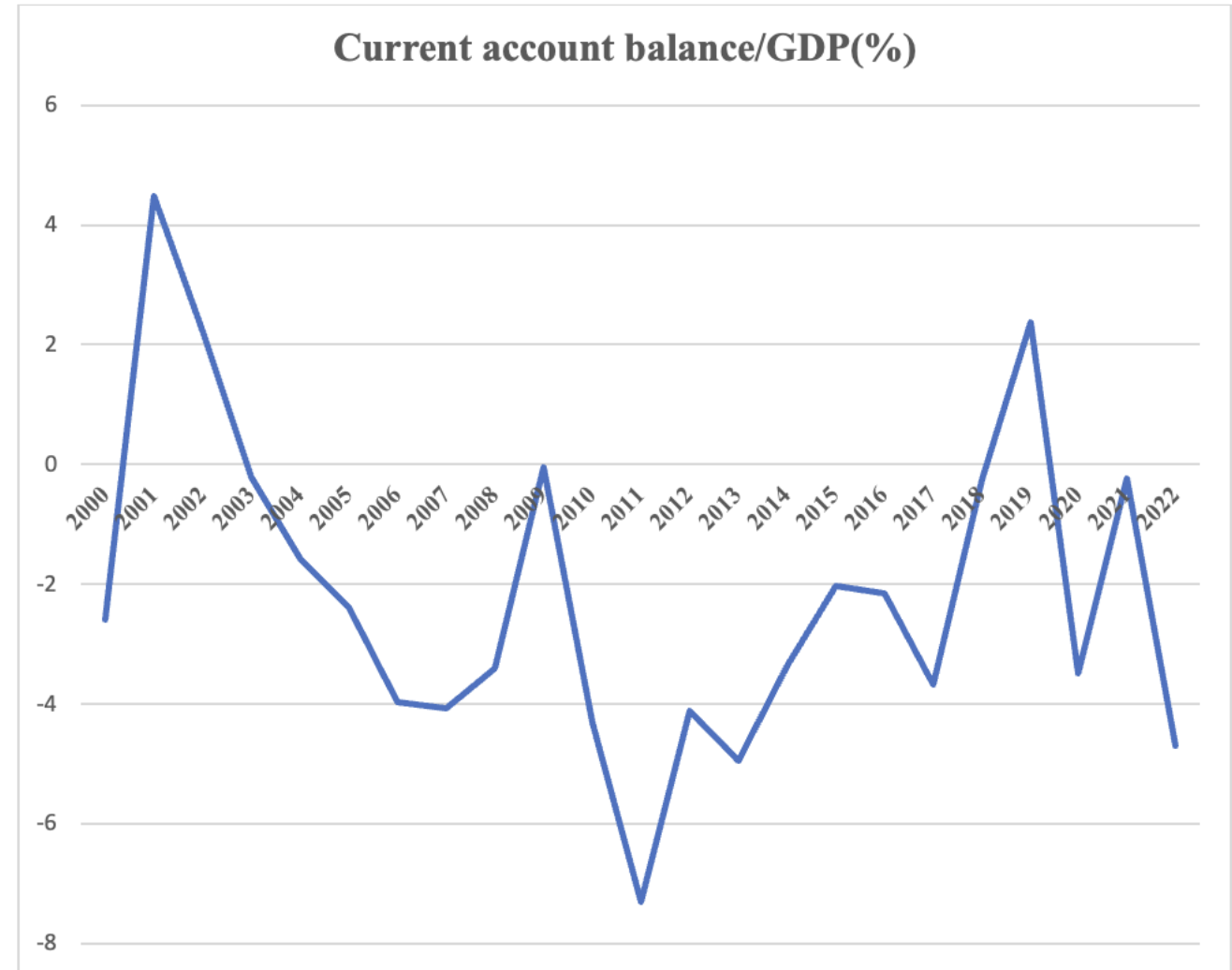
Currency shocks and rising inflation under
an authoritarian regime:
Rising income inequality in Turkey

Cem Oyvat

University of Greenwich

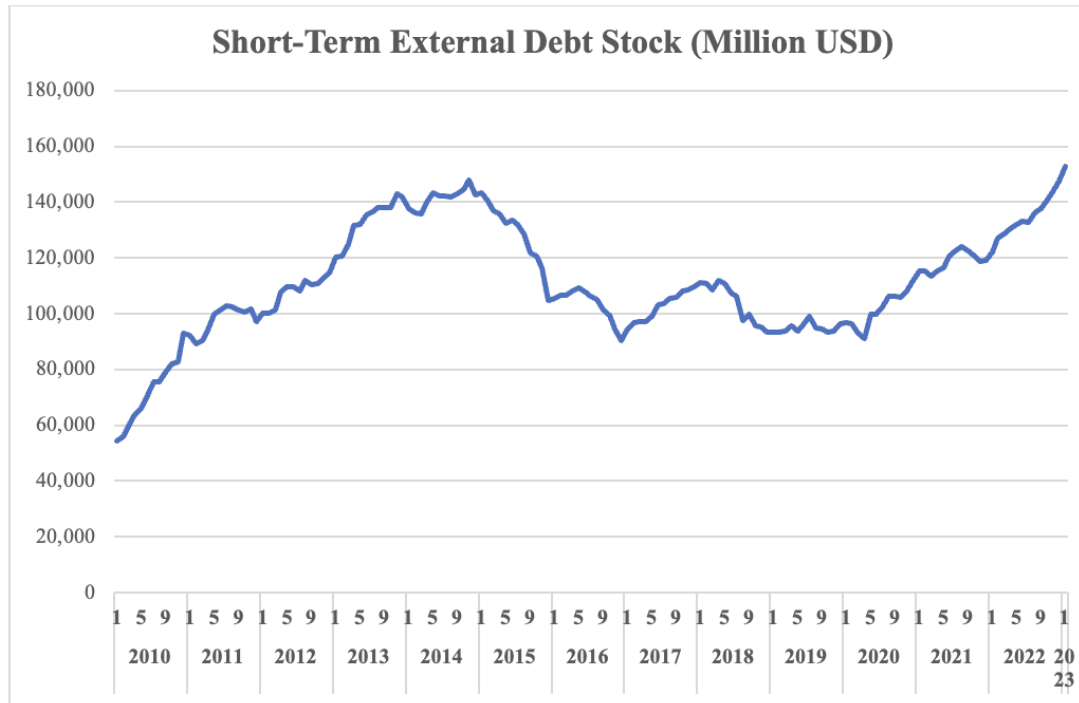
Turkey's economic model has been dependent on capital flows

- Significant current account deficits between **2003-2017**.
- Financed by/was possible with
 - **2003-2008**
 - Foreign direct investment: 45.7% of CA deficit
 - **2010-2018 Q2**
 - Foreign portfolio investment: 36.8%
 - Other investments (includes external debt): 41.1% of CA deficit.
 - **2020-2021**
 - Other investments (includes external debt): 87.0%
 - Depletion of reserve assets: 21.1% of CA deficit.



Rising fragilities...

Rising short term external debts (billion USD)



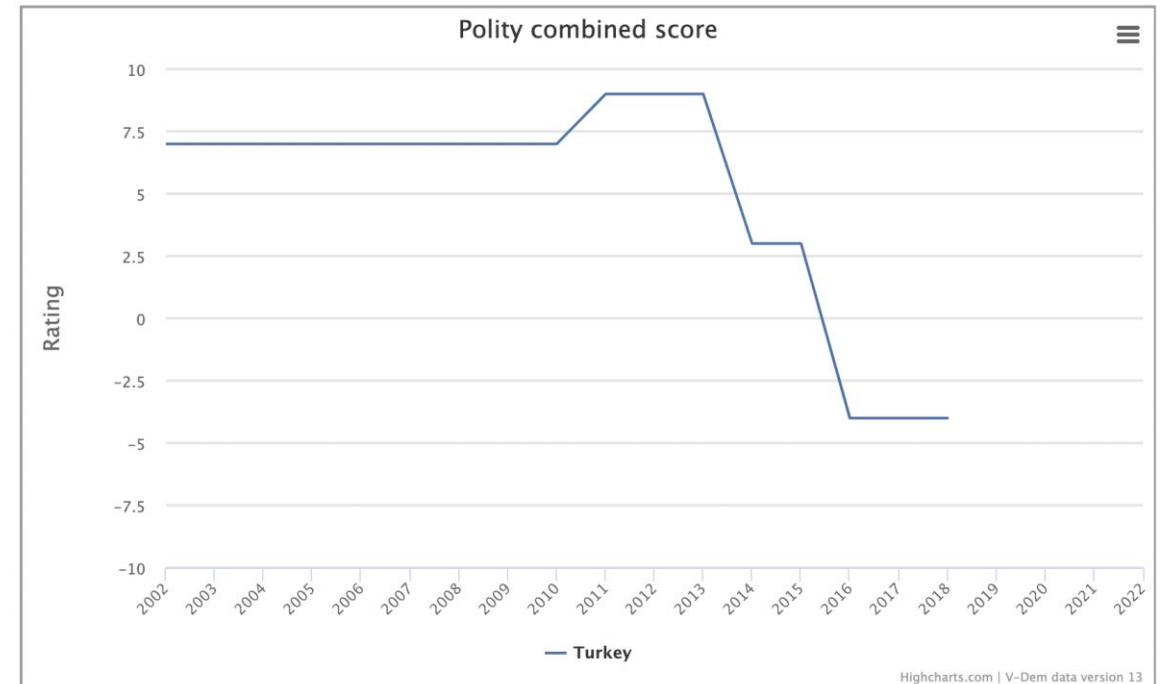
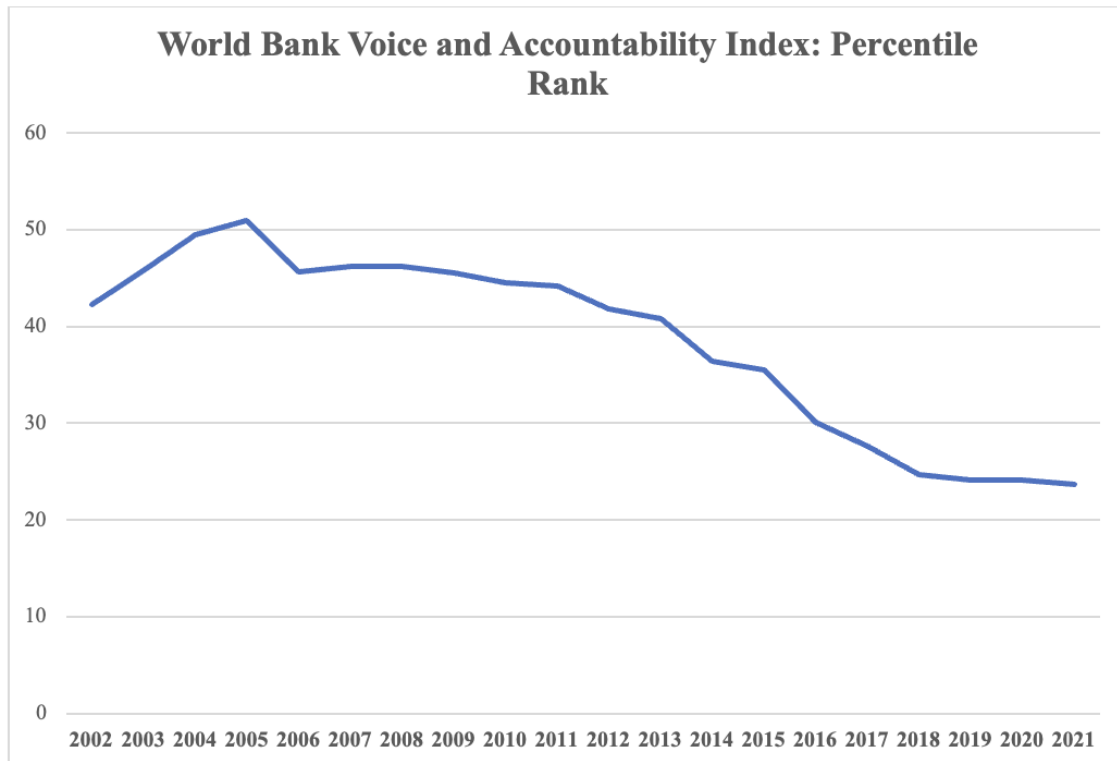
Depletion of reserve assets (Decline in net reserves excluding swaps)



An authoritarian 'one-man regime'



- According to **Freedom House** (Political rights, civil liberties)
- 2002-2017: Partly free
- 2018-2023: Not free
- **One-man/person regime:** Venice Commission(2017); DW(2016) Bloomberg(2018)



Tayyip Erdoğan: Interest rate is the cause, inflation is the outcome (since 2014)

- Erdoğan (28/05/2014): Interest rate is the cause, inflation is the outcome... Inflation in Turkey is not demand-led it's a full supply-led inflation.
- Erdoğan (15/05/2018): The lower the interest rate, the lower the inflation... If we lower the interest rate all input prices will go down.
- Erdoğan (01/12/2021): Interest makes rich richer, poor poorer.



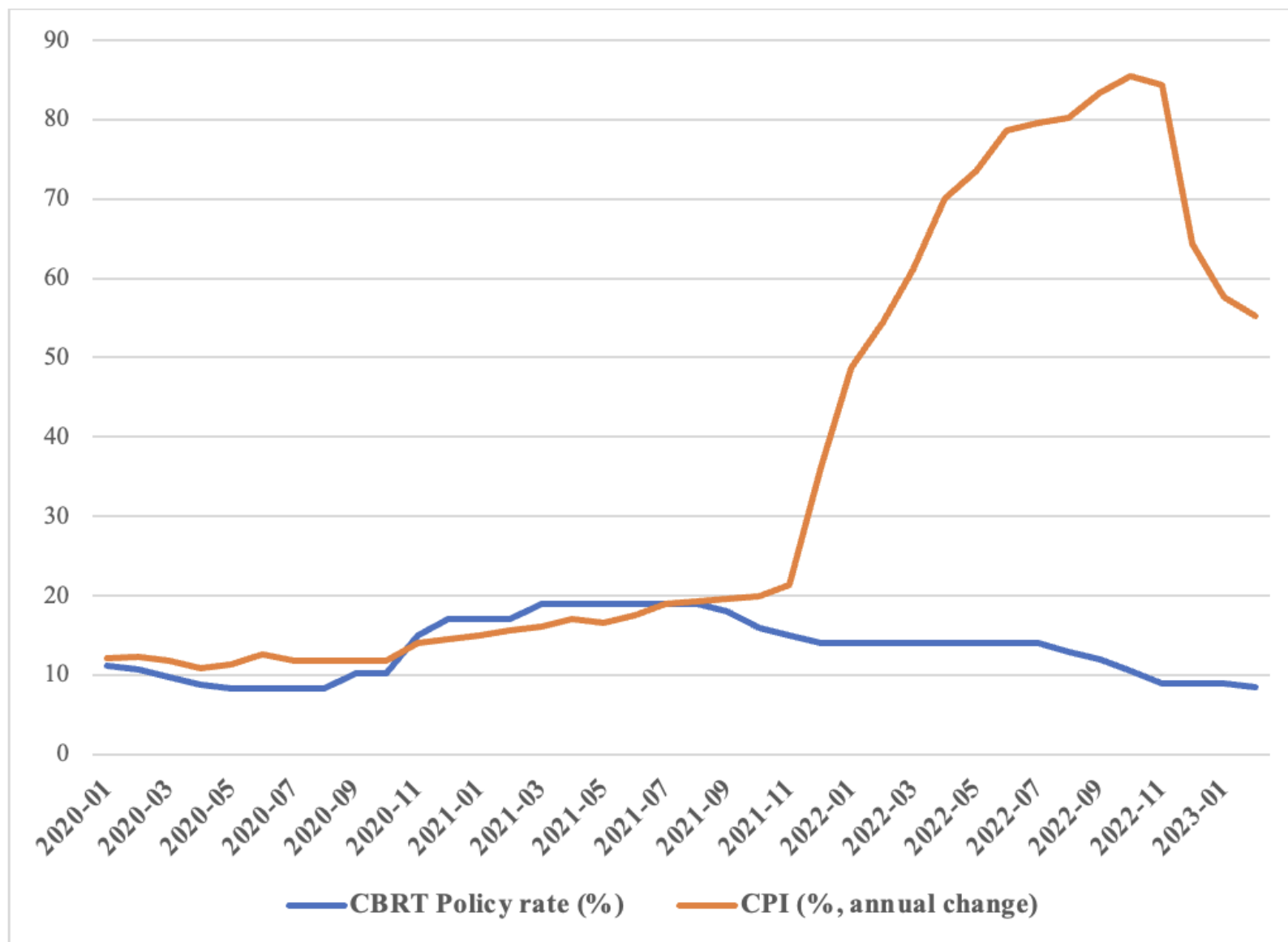
Decline in policy rate under 'one-man regime'

- Chairman of CBRT changed 4 times between 2016-2021.
- Murat Çetinkaya (2016-2019), Murat Uysal (2019-2020), Naci Ağbal (2020-2021), Şahap Kavcıoğlu (2021-...)
- Erdoğan achieved significant declines in policy rate under Kavcıoğlu.
- Never backed by theoretical framework. Not connected with the literature that could support Erdoğan's argument (e.g. Post-Keynesian literature, Kaldor, 1982; Hein, 2008).



Decline in policy rate

- Even **Monetary Policy Committee** never explicitly base their decision on Erdoğan's approach on inflation.
- In **CBRT 2021, 2022 annual reports**: Decline in interest explained by uncertainty in global growth, pursuing growth in employment
- Rising inflation due to supply chains, global food prices
- Weakening research department in CBRT.
- Number of CBRT working papers: 46 in 2013; 21 in 2018; 3 in 2022, 0 in 2023 so far.

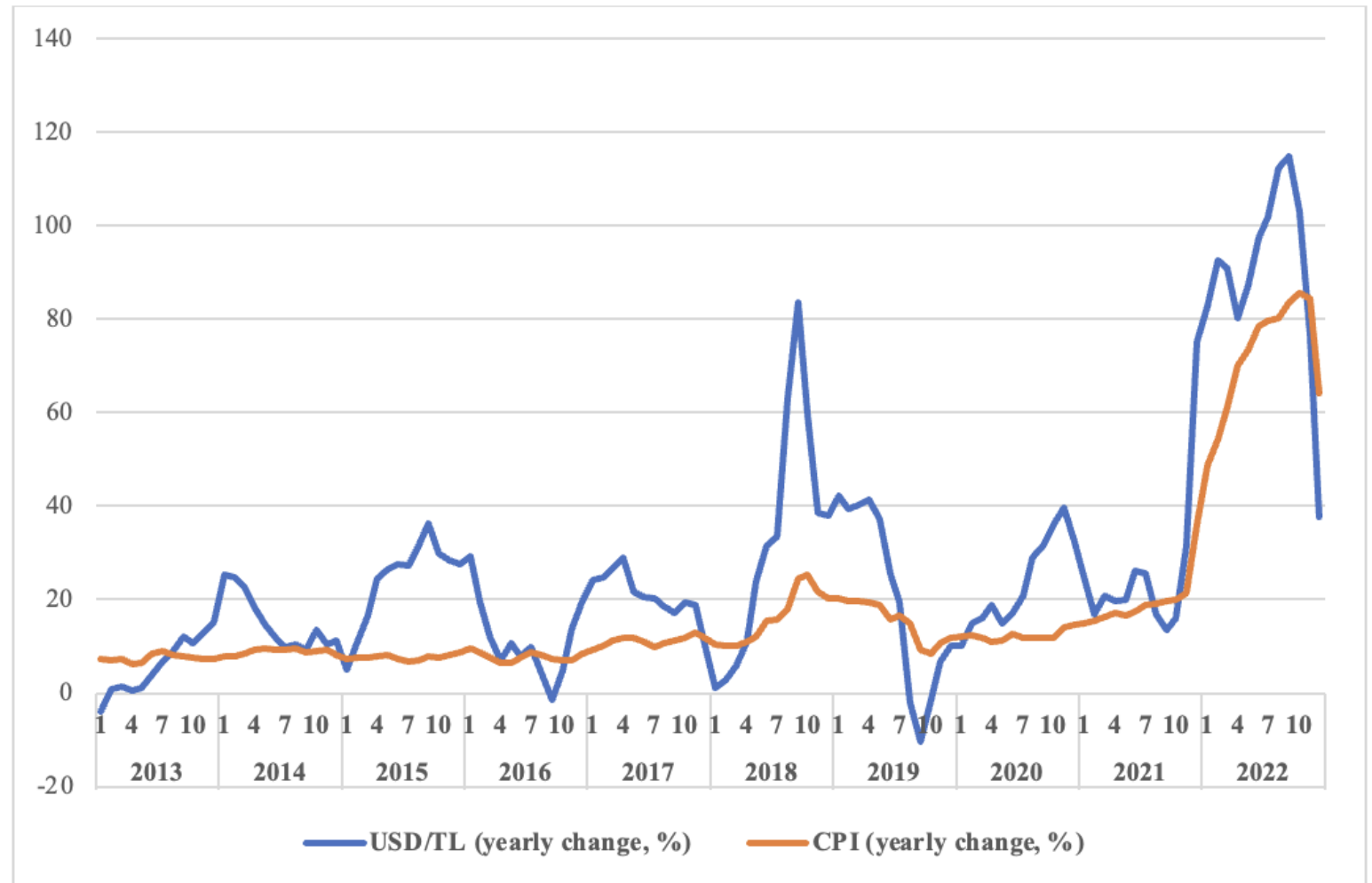


Response to the decline in policy rate (%15 =>%14) in 17/12/2021

- 25% increase in USD/TRY rate in three days
- **To stop rising USD/TRY rate**
- KKM TL deposit protection scheme (followed by several measures to expand it)
- Financial/capital account regulations (mandatory sale of export revenues to CBRT, increasing bureaucracy for purchase of foreign currency)



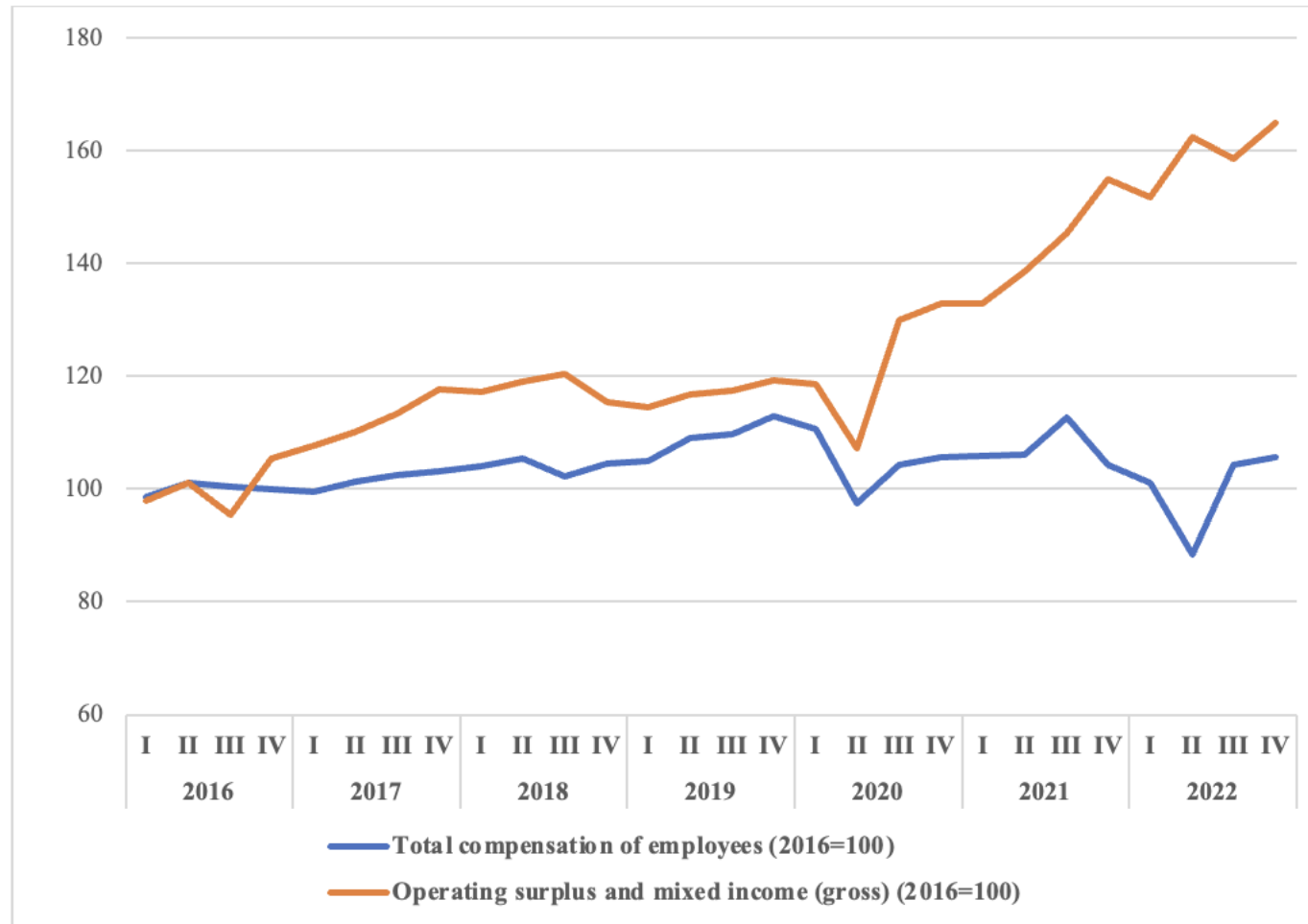
Annual change in USD/TRY rate and CPI in Turkey



Compensation of workers/GDP (%)

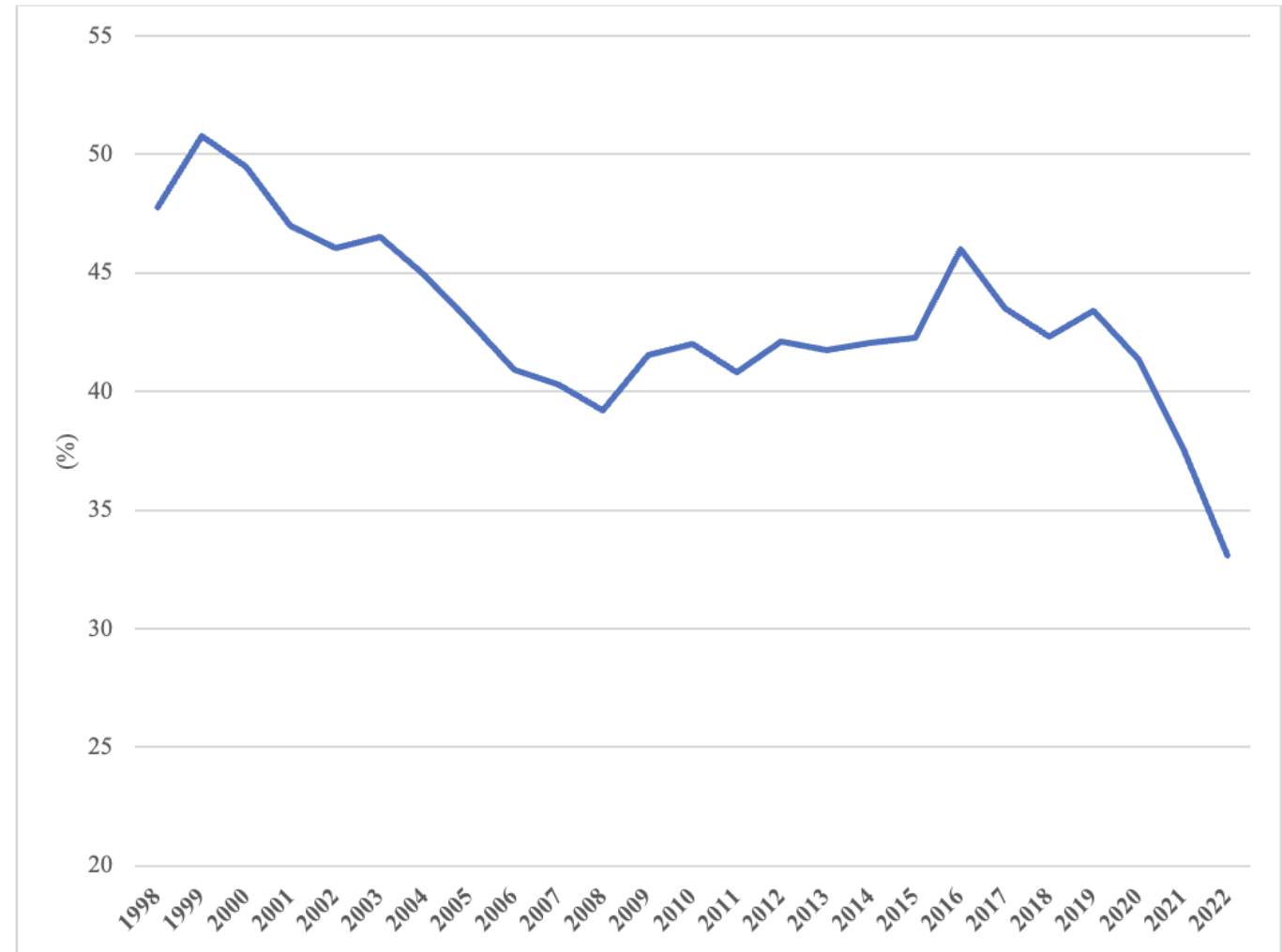


Compensation of employees, operating surplus and mixed income (deseasoned, adjusted for price deflator)



Adjusted labour share (%)

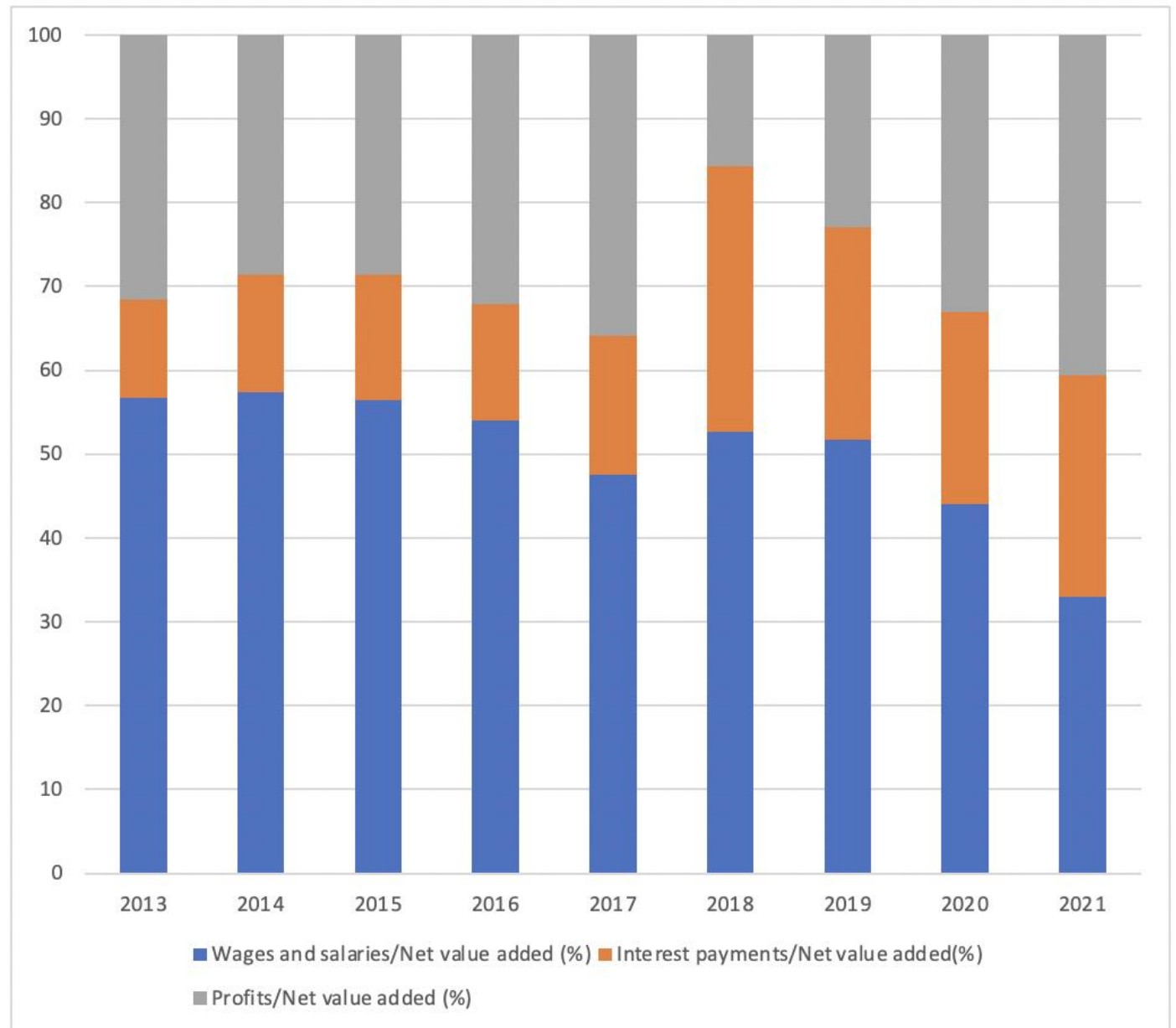
- $\text{Total income of self-employed} + \text{labour income of self-employed} / (\text{GDP} - \text{taxes on products and production} + \text{subsidies})$



Notes: The graph shows " $(\text{Total income of self-employed} + \text{labour income of self-employed}) / (\text{GDP} - \text{taxes on products and production} + \text{subsidies})$ ". Authors own calculations from TURKSTAT's GDP by income and employment data, ILO and TURKSTAT's 2002-2005 Household Budget Surveys (HBS) and the 2007-2021 Income and Living Conditions Surveys (ILCS).

ISO 1st 500
and 2nd 500

Top 1000
firms in
industry



Deterioration of labour movements

- Postponement/suspension of strikes due to “national security” or “health” reasons
- Under AKP rule
- Strikes including 194,000 workers postponed
- Only 87,000 workers managed to strike (Çelik, 2022)

Number of workers involved in strikes and lockouts per 100,000 employees

1991	1914.7	2001	102.8	2011	3.7
1992	717.0	2002	45.7	2012	4.9
1993	83.2	2003	15.0	2013	100.8
1994	53.8	2004	33.2	2014	39.6
1995	2181.9	2005	30.9	2015	44.2
1996	57.5	2006	17.1	2016	13.7
1997	73.3	2007	205.8	2017	19.4
1998	115.4	2008	48.5	2018	7.6
1999	32.6	2009	24.2	2019	3.9
2000	187.8	2010	5.8	2020	2.8
				2021	2.6

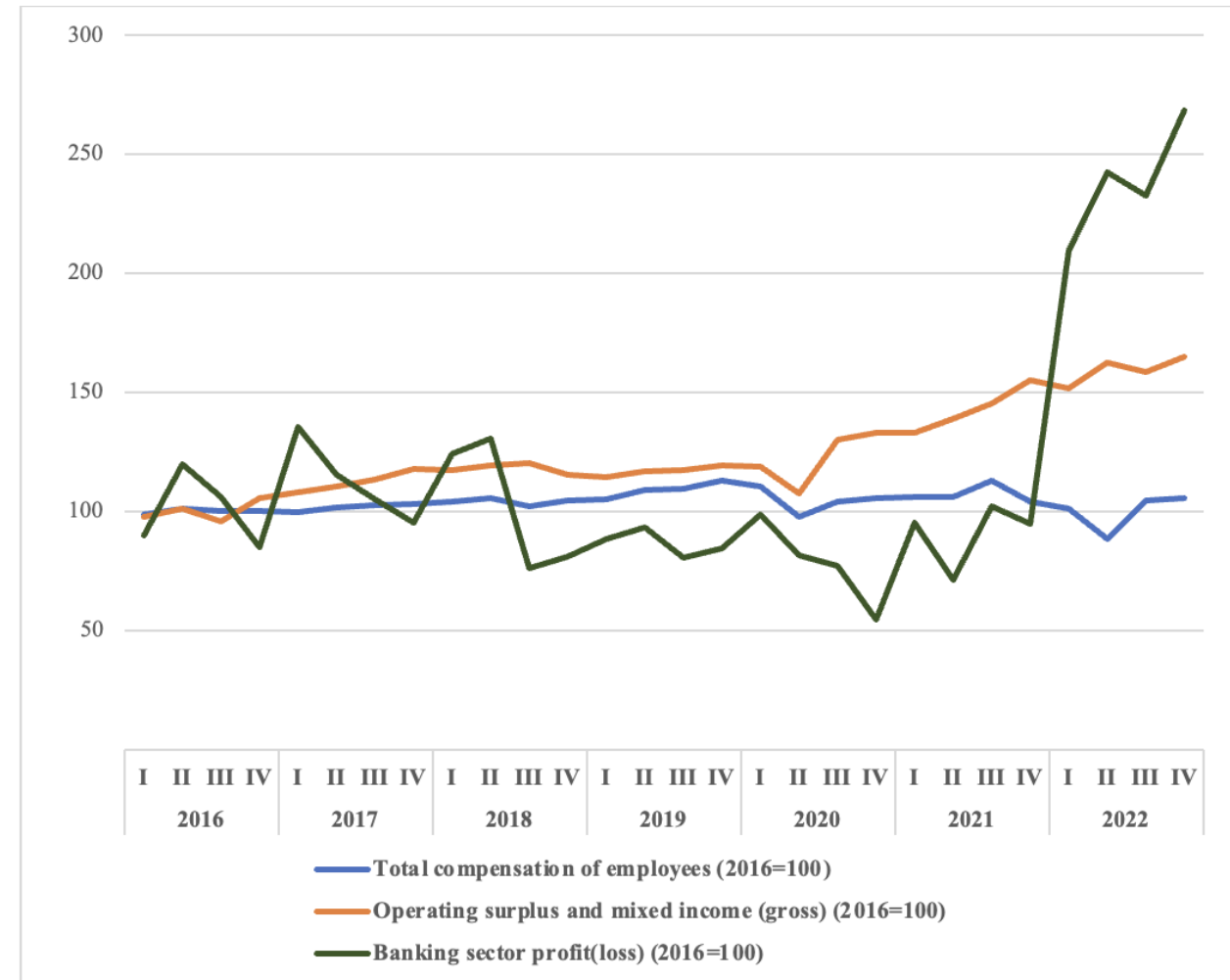
Notes: Author's calculations based on Turkstat(2022), Ministry of Labour and Social Security(2022) and ILO(2022).

Doubt on inflation data

- Rises for wages of civil servants determined by Turkstat's CPI
- 4 Turkstat chairs in 5 years. Reduction in transparency of data in May 2022.
- Turkstat's CPI used for wages in private sector bargaining
- **In 2021**
- **Turkstat CPI: 36.1%,**
- Turkstat PPI: 79.9%, ENAG e-CPI: 82.8%
- **In 2022**
- **Turkstat's CPI: 55.2%,**
- Turkstat PPI: 97.7%
- ENAG e-CPI: 137.6%, Istanbul Chamber of Commerce CPI: 92.97%

Booming financial incomes

- 21.8% growth in finance and insurance sector in 2022.
- 366% growth in financial sector profits (TL, 2022)



Thank you!!