The Limits of Dependent Financialization and the Crisis of Turkish Economy

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Abstract

Turkey's economy has slipped into a recession in the amidst of intensified adverse global economic conditions for the emerging capitalist countries (ECCs) in 2018. The first phase of crisis began with a currency crisis. Turkish Lira lost more than 40 per cent of its value against the U.S. Dollar in the first eight month of 2018. The second phase consisted of the rapid increase of inflation that emerged as a result of the spreading effects of the currency crisis on the economy and a series of company insolvencies. In addition, a substantial interest rate increase in September 2018 led to a major credit crunch, particularly in the TL-denominated credit market. The next phase may be a harsh austerity program, which is likely to be implemented after the upcoming local elections on 31 March 2019.

This paper argues that the current crisis of Turkish economy can be framed as the crisis of dependent financialization. In line with the existing heterodox literature, I suggest that the concept of dependent financialization is suitable for the ECCs, especially for those whose domestic production is highly dependent on the imported goods and economic growth mostly relies on capital inflows, and who have a high rate of dollarization (or euroization), such as Turkey. The notion of dependent financialization also refers to the hierarchical character of global economic and financial system.

In order to support this argument, the paper will explain the main dynamics and internal contradictions of the dependent financialization regime in Turkey in four phases and analyze the latest developments in the crisis by focusing on the post-2013 period. The first phase of dependent financialization, the period between 1989 and 2001, was characterized by the liberalization of capital movements that is an integral part of the generic neoliberal project. The second phase came after the 2001 crisis, and was characterized by the growth of household indebtedness, a new phenomenon in Turkey, despite the fact that the household debt to disposable income ratio was still lower than most of the mature capitalist countries. The third phase took place after 2008 global financial crisis. The significant feature of this third phase was a sharp increase in foreign exchange denominated debt level of the private non-financial companies (NFCs). The fourth phase covers the post-2013 period, when household indebtedness level first peaked and then declined, and NFCs' foreign exchange denominated loans became unsustainable due to the tightening of financial conditions for the ECCs.

Keywords: Dependent financialization, currency crisis, Turkey

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