GLOBAL ECONOMY AND TURKEY: 2016 AND BEYOND

İrrespective of whether Advanced or Emerging Market Economies(EMEs), The number one problem of the global economy is not being able to generate a satisfactory sustainable growth. Consumption and investment demands are rather weak, despite the fact that the cost of capital is zero or even in some major economies is negative. Furthermore, ironically, despite literally free Money, government debt is on the rise.

At the onset of the crisis, policy response of the authorities was to take strict austerity measures. Because the diagnosis made was the crisis was the result of the excess debt burden of mainly private sector. As a corollary, while fiscal policies were consolidated, burden of tackling the problem fell on the monetary policy. Major central banks of the advanced economies adopted what is now known as Quantities Easing. Today the combined size of balance sheet of four central banks has increased by five folds to around 17 trillion dollars.

Has this policy worked? To a limited extent yes. It was effective in containing further deterioration and deepening the crisis and buying time for the politicians to address the structural problems. However it cannot be said that politicians used the time effectively. Cheap or rather free money policy did not generate inflation but as was mentioned above, it also did not generate the expected growth and acceptable level of employment. The reason being that already high level of household and corporate indebtedness has not led to borrowing and the weak capital structure made the banks hesitant to lend. Both demand and supply side problems in credit market still exist.

In an unpredictable and volatile environment where commodity prices and world trade appears to be weak, China and other EMEs are slowing and capex is visibly falling in heavy industrial sectors of mining, shipbuilding, steel and aluminum due to the already existing excess capacity. That is why academic world as well as the business community are worried about the appropriateness of the present policies. The worry is that, if another recession comes central banks will have little or no ammunition to deal with it.

While the European Central Bank, Bank of Japan, Bank of England and some other small ones continue priming money and keeping interest rates in negative zones, the FED has embarked on a policy rate hike cycle. Markets are closely following the developments. For the time being ample liquidity will prevail.

Turkey being an open economy, is and will be definitely going to be effected by the developments in the global economy through trade, capital flows and expectations channels. Relatively high inflation and therefore high interest rates and high unemployment are sources of worry in Turkey. Current account deficit is declining in some part due to falling petroleum and gas prices. However considering the high dependency of Turkish manufacturing industry on imported raw materials and semi-finished goods, one should keep in mind the tradeoff between current account deficit and growth rate.

By international standards Turkey have reasonable growth. But 3 to 4 percent growth rate compared to its own past performance is not satisfactory. Available data indicates that Turkey entered a new growth era. That is, high growth cycle ended because of changing global financial conditions and Turkey's own structural problems. Global and regional developments, domestic politics and pace of structural reforms will determine whether Turkey will further slowdown or not in the medium term. In the short term, growth performance will be dependent on the level of investment and savings to finance it Turkey's own saving is not high. Therefore in 2016 capital flows into the country is crucial.

Presently level of economic activity is weak. Level of nonperforming loans are increasing, in the corporate sector court bankruptcy postponement files should be watched closely.