



A Hiccup in Turkey's Prolonged Credit Fueled Economic Transition: A Comparative Analysis of Before and After the August Rout

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Abstract

Purpose: The study attempts to analyze the impact of economic and non-economic factors on the Turkish economy which was plunged into a currency crisis in August 2018 due in most part to sanctions and tariffs imposed by the U.S.

Design and Methodology: Turkey's economy is characterized as one with high inflation and persistent chronic deficits. The study was based on a literature review of the adverse impact of America's weaponizing dollar and abuse of sanction power on Turkish economy. The study analyzes developments that laid the foundation for the collapse of Turkey's a decade-long credit-fueled economy. The broad analysis of Turkey's most severe currency shock since the unprecedented 2001 economic crisis looks at various exogenous and endogenous aspects.

Findings: The study shows that Turkish economy possesses instability-inflicting imbalances such as high inflation, growing budget deficit, massive dollarization, alarming levels of external debt, and chronic current account deficit. The study concludes that the causes of Turkey's gloomy economic situation are not all homegrown, its lackluster performance is blamed on attacks of non-economic basis. Another key finding is that Turkey is in desperate need of foreign capital flows as Turkey's options to service its massive external debt through foreign borrowing have become substantially limited since the 2018 August rout.

Practical Implications: In general terms, interest rates are of great importance as a monetary policy tool, but in Turkey, the relationship between the U.S. and Turkey sometimes plays a more pivotal role in determining the interest rate elevation and the consequent spike in inflation. The article offers insights to government authorities who should commit to structural and fiscal reforms to put the economy back on the right track for a faster recovery, or else let it collapse beyond repair.

Originality/Value: The conclusions and findings in this study impact the perspective of the Turkish central bank with regard to policy responses under economic and financial distress that may arise from economic, non-economic, political and non-political driving and contributing factors. Because of premature and late responses, Turkish citizens are a lot poorer now than they were prior to the August rout in 2018.