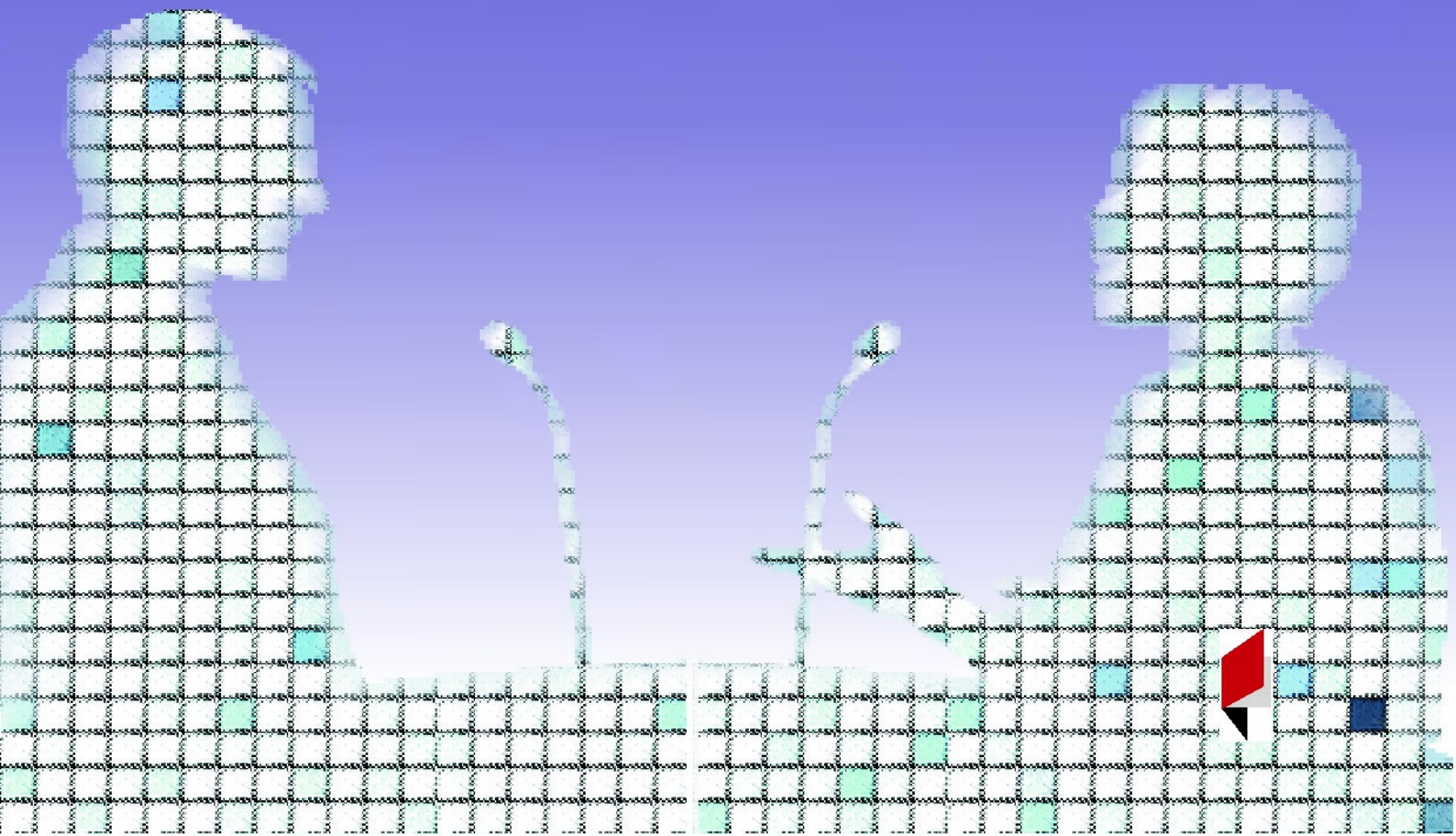
Critical Debates in Social Sciences

Edited by
Bedriye TUNÇSİPER
Ferhan SAYIN



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INTRODUCTION AND FINANCIAL LIBERALIZATION: ARGUMENTS WITH ADVANTAGE AND DISADVANTAGE

Since the 1950s, traditional policy recommendations enabled governments in the developing countries to support development through interventions in the financial sector. In the early 1970s, this policy, which was defined as financial pressure, was heavily criticized. The financial pressure strategy that was applied after the Second World War, led to inefficiency in capital distribution and weakening in financial brokerage activities. In the early 1980s and mainly in the 1990s, liberalization of capital movements between the countries emerged and in relation to that private capital movements increased significantly. This process started in developed countries and was also recognized in developing countries (Santana, Garcia, 2004).

McKinnon (1973) and Shaw (1973) are opposed to government interventions that are imposed in developing countries across the 1960s and 1970s for leading to price and quantity distortions such as high reserve requirement, administrative credit allocation, and the ceilings imposed on interest rates. They especially focused on the negative effects of the ceiling implementation on deposits and credit interest rates. Determining a ceiling on the interest rates leads to low or negative reel interest. This reduces savings and funds provided by the financial intermediaries within the

official financial system. In addition, low-interest rates affect the marginal efficiency of capital. There is no incentive for bankers to allocate loans by taking the marginal efficiency into consideration. Therefore, credit allocation is made at the banks' discretion in a way that prevents the effective distribution of debt-able funds. High reserve requirement and directed credit program further increase the adverse effects. In short, the McKinnon Shaw model considers financial pressure to be an imbalance phenomenon that blocks the optimal resource allocation function of the markets (Andersan, Tarp, 2003).

In the 1980s and 1990s, financial liberalization in developing countries has been part of the overall movement to give markets a greater role in development. Financial reforms have gone far beyond the free interest policy proposal of Washington Consensus. In this process, governments also allowed the use of foreign currency instruments and the opening of capital accounts at various degrees. In addition to the domestic market for central banks and government borrowing, overseas markets facilitating the borrowing of the private sector have also expanded (World Bank: 207). With financial liberalization and the abolishment of restrictions on foreign capital movements, an economic growth that exceeds the domestic savings level would be carried out. Increased competition in the financial sector through foreign bank entrances along with the transfer of technology and the removal of obstacles in relation to foreign direct investment would encourage domestic savings and growth (Masci, 2008). Thus, the biggest obstacle, especially for the countries which have not provided capital accumulation and have low savings rates, would be exceeded.

The view that financial liberalization promotes economic growth by strengthening financial development is quite common. However, some authors argue that financial liberalization leads to excessive risk-taking behavior, increases macroeconomic volatility, and therefore, causes more frequent crises (Lukas, 2013; p. 2). The cause of the financial crises in last two decades is associated with financial liberalization. Also, researches put forward that insufficient/unsuccessful macroeconomic policies are the main causes of the crisis (Samman, Azmeh, 2016).

In the process of financial liberalization, the competition emerging in the banking sector eliminates monopolist profits due to the removal of ceilings and reduction of entry barriers at the interest rates of deposits. This situation encourages banks to choose a much riskier loan portfolio. The banking sector, which operates at a high risk, is a source of financial fragility, as seen in many banking crisis attacks (Demirgüç-Kunt,

Detragiache, 1998).

According to Neo-structuralists, after the financial liberalization process, resources would be transferred from the unorganized financial markets to the banking sector. They suggested that due to the mandatory provisions of the official banking sector, there would be a development that reduces the supply of loans, and therefore the positive effects expected from financial liberalization would not realise.

The Post-Keynesian opinion disagrees with the traditional approach that emphasizes the potential benefits of financial integration while arguing that the increase in capital movements would create instability and would increase the likelihood of a financial crisis in addition to rendering management of economic policies more difficult. Financial globalization creates opportunities for investment financing yet it is a source of great economic instability for real variables such as production and employment at the same time. The increasingly liberalized financial markets, which are much integrated and function with the influence of global players, have become a big global "Casino" (Ferrari, Filho, 2008).

Minsky, with his ‘Financial Instability Hypothesis’, criticized financial liberalization as a financial market policy. According to the hypothesis, additional liquidity resulting from liberalization might be used in speculative projects rather than efficient areas. Thus, while short-term gains are achieved, also unstable conditions emerge for both the banking sector and national currency. Increasing real interests with the liberalization of domestic financial markets cause larger capital inflows from abroad. This means more liquidity and business investment. Thus, sectors that have not previously reached credit can access credit. The large capital entry in relation to high real interest causes abundance of the liquidity and excessive value of national currency which creates speculative financing and prepares the basis for instability. Overvalued national currency disrupts foreign trade and prevents growth of exports. Meanwhile, the additional liquidity is directed to the short-term assets which contributed to the expansion of the financial sector through speculative gains., Thus, real sector investments are decreased because funds are diverted to the financial sector rather than the real sector. In other words, the financial sector keeps growing thanks to the real exchange rate and asset market gains while creating the conditions for the real economic slowdown. The increased speculative financing causes a higher risk of default for borrowers, while the excessive value of the national currency also increase the risk of devaluation. The risks involved are

inherent to the financial liberalization. Firstly, while the financial sector grows, the real sector slows down. Secondly, because of the overvalued currency which encourages debt in foreign currency, the risk of devaluation increases the risk of default for those who are indebted in foreign currency. Monetary authority either exhibits a tighter monetary stance or uses official reserves against the possibility of withdrawal of short-term funds due to increased risks. The increase in interest rates and the depletion of reserves means that the economy slows down even more. This process inevitably leads to devaluation.

Public budget is also affected by the increasing likelihood of a crisis caused by short-term financial market gains in relation to speculative financing based on large amounts of capital inflows. On the one hand, the slowing economy reduces budget revenues. On the other hand, the costs of supporting the banking sector and national currency create pressure on the budget.

Increasing the likelihood of a crisis arising from short-term financial market gains affects the public budget as a result of speculative financing based on large amounts of capital inflows. On the one hand, the slowing economy reduces budget revenues, on the other hand, the banking sector and the increase in the costs to support national money creates pressure on the budget.

Destabilizing macro trends, such as speculative credit expansions or excessive valuation of national currency, have increased the national banks' default, maturity, exchange and interest rate related risks while making banking and currency crises more likely. Therefore, developing countries become more vulnerable after financial liberalization (Weller, 1999). In this study, these assessments will be analysed from the Turkish dimension.

1. DEVELOPMENTS RELATED TO FINANCIAL LIBERALIZATION AND FOREIGN EXCHANGE REGIME IN TURKEY IN THE POST-1980 PERIOD

In the context of financial development and economic growth nexus, several reforms have been undertaken in varying countries in relation to the financial pressure analysis of McKinnon and Shaw and ‘Conditionality’ of international financial institutions such as, the International Monetary Fund (IMF) and the World Bank (WB). In Turkey,

with 24 January Decisions in 1980, which are supported by the IMF, the necessary measures for domestic and foreign financial liberalization were implemented.

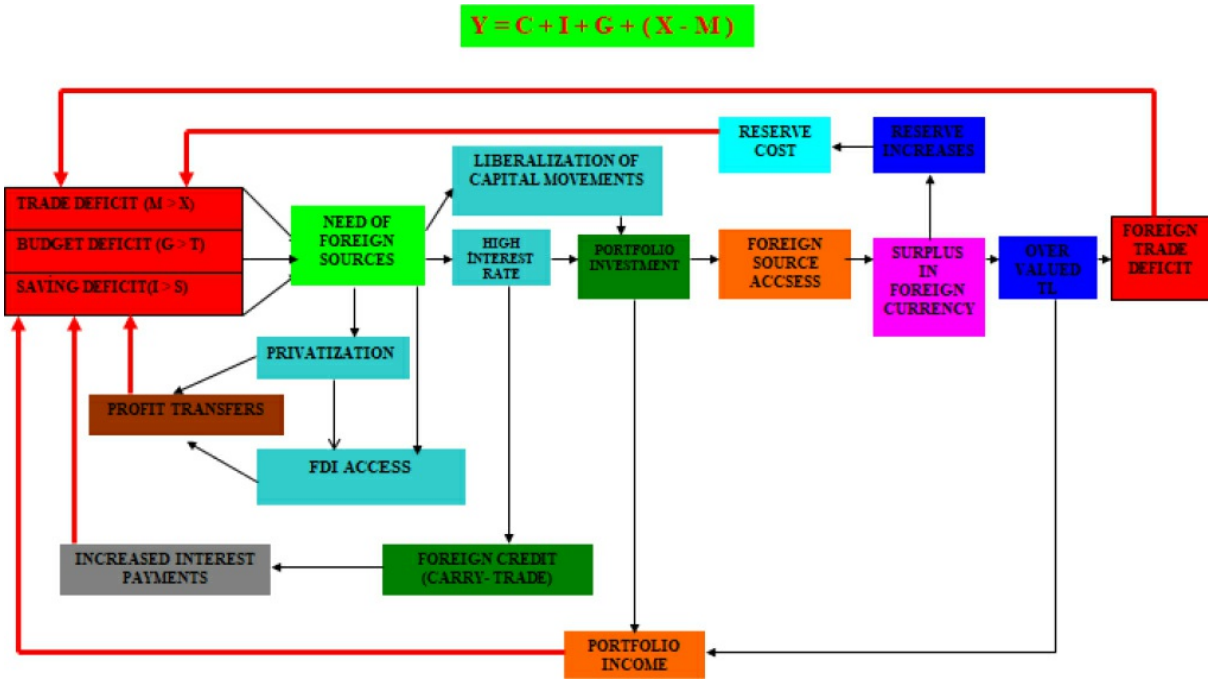
With the framework of 24 January decisions, foreign exchange regime and imports were liberalized while intensive measures to encourage exports were taken. A series of decisions have been implemented regarding the free determination of interest rates on the market, free price application to enable public economic enterprises (KIT in Turkish) to function independently from the overall budget and financial system. In early 1988, dramatically adverse developments in foreign exchange management emerged and caused price differences, up to 20%, in exchange rates across the official and parallel markets. Due to liberalization, demand for imports and foreign debt increased in a way that increased the demand for foreign currency. However, the anticipated expansion in supply of foreign exchange was not realized at the desired level. Therefore, a foreign debt crisis emerged. While this debt crisis was overcome with the measures taken, a radical decision on the foreign exchange regime was taken to increase Turkey's foreign currency resources and as the final step of financial liberalization. A significant improvement in 1989 was the further liberalization of the foreign exchange regime with the resolution No:32 published in the Official Gazette dated 11.8.1989. Thus, Turkey completed the IMF transition country requirements and has joined the country group VIII. which is the group of countries with convertible currencies

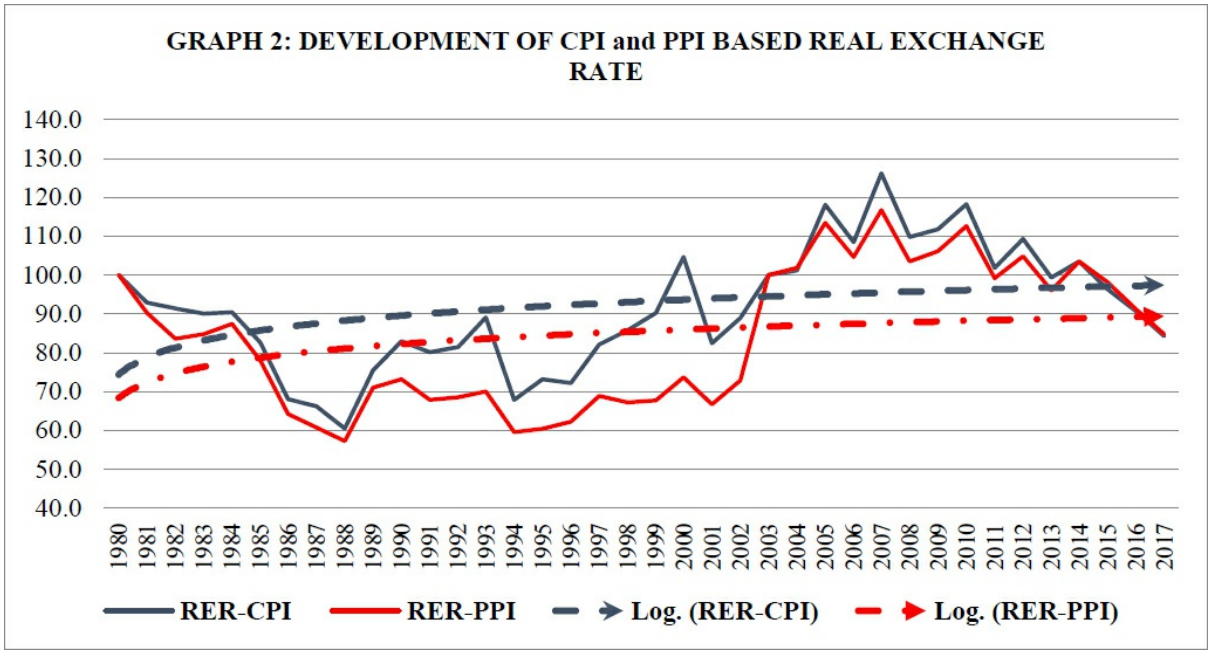
There has been no change in the method of determining the exchange rate from 1989 to 1994. During this period, the Central Bank's foreign exchange market interventions were to close the gap between the official exchange rate and free market rates while stabilizing the currency rates. The determination of exchange rates in this way is called a controlled (guided) setup system, i.e. controlled fluctuation.

In June 1999, with the negotiations with the IMF, the Close Monitoring Agreement was transformed into a programmed and financially assisted stand-by agreement and the framework is drawn for macroeconomic policies to be implemented during the period 2000-2002. In this context, the exchange rate regime changed to crawling pegs (sliding parity) regime. The aim was ensuring a realistic level of exchange through increasing the value of the currency basket at the targeted rate of inflation. However, on February 21 in 2001 with the crisis, the Floating Exchange Regime was adopted.

According to the new programme, the floating exchange rate regime would be based on the conditions of supply and demand foreign exchange rates. The interventions of the central bank in foreign exchange markets would only be possible in order to compensate for excessive fluctuations in the short-term exchange rates; and the content and size of the intervention would not affect the long-term balance value of the exchange rate. In Table 1, the exchange rate policies in Turkey during the period after 1980 are given. As seen from the table, different exchange rate regimes have been tested in Turkey during the period of financial liberalization after 1980. However, the exchange rate policy which over evaluates the national currency (overvalued TL) dominates the period. During the 1980-1988 period, the exchange rates were allowed to increase in high tempo for the promotion of exports while in the period of 1989-2000 undervaluation is generated especially in order to control inflation. In 2000 and 2001, with the IMF program, the exchange rate was announced in advance and the floating parity system was implemented. In this period, exchange rates were changed at the targeted inflation rate whereas the inflation realized more than the targeted, thus exchange rates remained under-valued. The implementation of the inflation targeting strategy, along with the transition to the floating exchange rate regime after 2001, brought forward a fairly novel economic climate for the Turkish economy compared to the past periods. In result of the high real interest rates required by the inflation targeting strategy and the expansionary policies imposed by the FED, intense short-term foreign capital inflows continued in the era of over-valued TL. Foreign exchange rates remained valuable until 2013 when the FED announced its strategy to leave expansionary monetary policy. Thereby, a new era started with the announcements of the USA regarding increase of interest rates. The macroeconomic conditions affecting the exchange rates in Turkey are examined in detail below.

Graph 1: Basic Openings and Financing Channels in the Turkish Economy





Source: Developed by Yasar Uysal.

Table 1: Exchange Rate Policies Applied to Periods in Turkey During the Internal and External Liberalization Process

Period	Exchange Rate Regime	Exchange Rate Policy
1980-1988	Daily Rate Application	Missing Value TL
1989-2000	Managed (Dirty) Surge	Overvalued TL
2000-2001 (February)	Sliding Parities	Overvalued TL
2001 -2013	Floating Exchange Rate Regime	Overvalued TL
2013-2018	Floating Exchange Rate Regime	Missing Value TL

Source: Prepared by Nilgun Acar Balaylar.

2. MACRO CONDITIONS WHICH AFFECTING EXCHANGE RATES IN TURKEY

It can be argued that the increase in goods, services and capital flows across countries around the world, which intensified the globalization process in particular after 1989, as well as the acceleration of development of information technologies, has brought forward varying facilities and difficulties for all countries. In this context, the rapid development of financial markets and the global electronic transfers of billions of dollars on daily basis have resulted that global developments are as effective as national elements in determination of exchange rates of countries. Therefore, today, it is not possible to explain developments in exchange rates only with national factors. The basic argument would be as follows: The factors that affect the exchange rates are inflation, interest and risk levels of countries (such as the budget status, current balance, central bank reserves, foreign debt level, etc.); and, speculative foreign capital inflows and outflows which depend on foreign exchange regimes of countries in relation to the degree of liberalization.

When it comes to Turkey's peculiarity as a developing country, many internal and external factors affecting the exchange rates should be mentioned. Turkey, gives deficits in foreign trade balance since 1947, state budget since 1972 and current transactions balance since 2002, and it is a country with extremely low level of savings. That is said, the external debts increase rapidly due to its characteristics of being a late-developer in terms of technological production and high dependency on external input and resources. Therefore, Turkey is a country with very important structural problems.

It is clear that it is quite difficult to achieve stability in real exchange rates in Turkey with such economic structure. As such, demand of high

growth rates, result in large current account deficit due to structural problems. The increasing current account deficit strengthens expectations for the rise of exchange rate. In association with these developments, the short-term speculative capital (hot money) starts to outflow. Then, domestic economic agents increase demand for foreign currency which might lead to foreign currency crises. It would not be wrong to argue that the crises that occurred in 1994, 2001 and 2018 followed this path.

It is possible to explain the developments regarding the exchange rates in Turkey with the following figure. In the context of the Keynesian approach, there are three fundamental areas of equilibrium in a country's economy. These are investment-savings, export-import (foreign trade) and public income-expenditure (budget) balance. If one or both of the balances have the deficit in one country, the other balances give surplus thus the deficit is closed. Yet, in Turkey, all of them give deficits. In other words, investments are more than savings, imports are more than exports and budget expenditures exceed revenues. In such a case, country requires external resources. If it is read backward, it can be said that these deficits are given because outsources could be found.

As previously highlighted, Turkey has liberalized its capital account with a law numbered 32 that was implemented in 1989. Thus, external resources can enter to Turkey. Source input from abroad is realized through three main channels. These are direct foreign investments to produce goods and services, portfolio investments in stocks and bonds to make money from money, and foreign loans and external debts given to Turkey in order to gain interest. When a large amount of foreign currency enters in country, the foreign exchange reserves increase. This reserve, which is accumulated by the central bank, weakens the perception of risk of exchange and gives confidence to global speculators. However, there is a cost to keep this reserve, that is resource outflow from the country. Meanwhile, increasing reserves raise the real value of TL against the currency (over-valued TL). This development, which makes imports attractive, discourages exports, and leads to an increase in the foreign trade deficit. Alongside portfolio earnings (interest and share value increase), over-valued TL provides additional earnings for global speculators through buying foreign currencies back much cheaper, namely currency gains. Thus, more resource leaves the country than that enters. On the other hand, direct foreign capital, which comes to the country to produce goods and services, transfers funds to the origin country through profit transfers. Economic agents which borrow externally due to the high interests in the country, also pay interest abroad in exchange of the funds they use.

In short, sources from abroad, along with the money and earnings transfers, take more than they have brought. Thus, Turkey, which is directed toward outsourcing to close the resource deficit, is becoming in need more external resources every day. Like a drug addict, this increases the fragility, creates crises at frequent intervals, making it difficult to see the future of economic units.

Shortly, depending on the structural conditions of the economy, the developments in foreign exchange rates in Turkey greatly affect the deficit, external deficits, and external sources of entry-outs. Of course, global developments and global conductance are also effective in this process.

In short, capital inflows take out more than they bring in as capital and interest payments. Thus, Turkey, which inclined towards external funds in order to close the resource deficit, becomes in need of more external resources every day. Like a drug addict, this increases the fragility, creates crises at frequent intervals, making it difficult for economic units to foresee the future.

To sum up, in relation to the structural conditions of the economy, saving deficit, external deficits, and capital inflows and outflows affect the foreign exchange rates in Turkey. By all means, global developments and conjunctures are also effective in this process.

3. DEVELOPMENT OF REAL EXCHANGE RATES IN TURKEY AND ITS MACRO REFLECTION

The Table 2 shows the current dollar rate and real effective setup (RER) data published by the TCMB. The RER data for the 1980-2002 period in the table were obtained by converting 1995 based data to 1980 base. Data for 2003 and later are based on 2003. As can be seen from data, the current dollar increased in all the years between 1980-2001. In the period between 2003-2011 the rate is generally regressed while after 2012, the trend keeps increasing.

TABLE 2: Development of Current Dollar Rates and Real Effective Rates

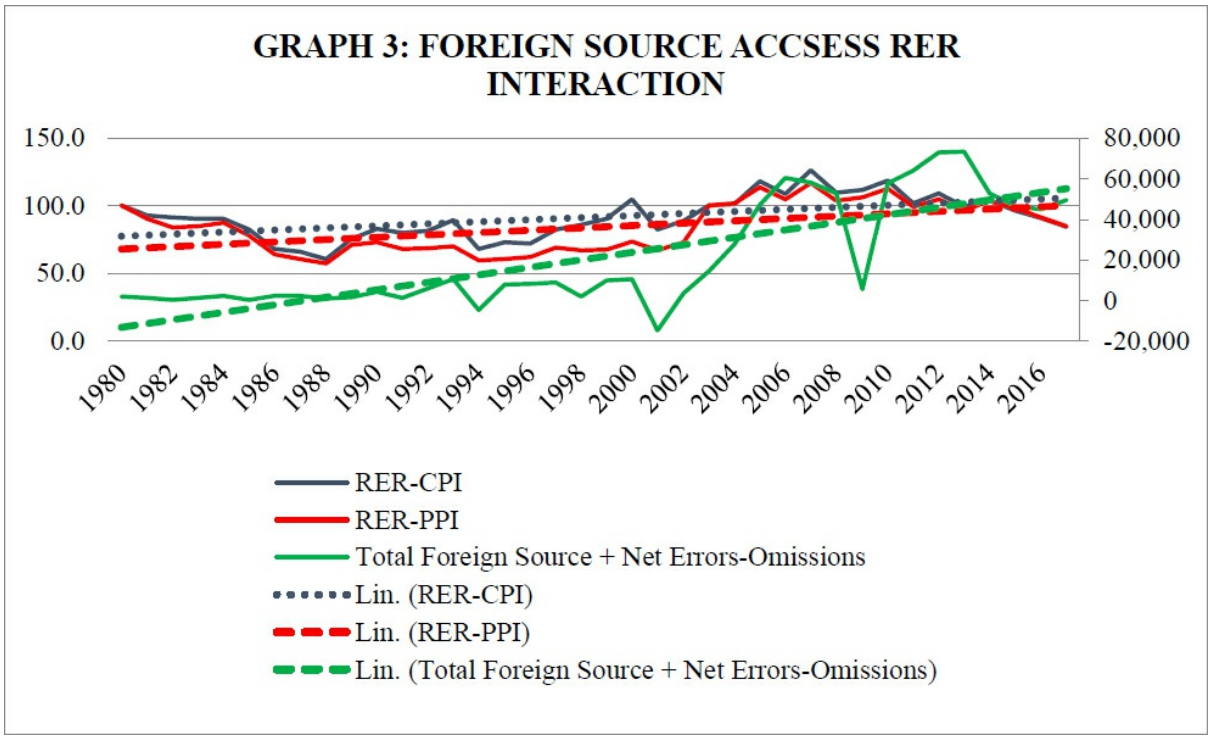
YEAR	Current Dollar/TL	RER - CPI	RER - PPI	YEAR	Current Dollar/TL	RER - CPI	RER - PPI	YEAR	Current Dollar/TL	RER - CPI	RER - PPI
1980	77	100,0	100,0	1993	11.058	89,1	70,0	2006	1,435	108,5	104,5
1981	112	92,9	90,2	1994	29.848	67,8	59,6	2007	1,305	126,1	116,6
1982	164	91,4	83,6	1995	45.952	73,1	60,3	2008	1,296	109,7	103,5
1983	228	90,0	84,8	1996	81.796	72,1	62,3	2009	1,551	111,8	106,1
1984	368	90,4	87,4	1997	152.805	82,1	68,8	2010	1,504	118,2	112,6
1985	525	82,6	78,0	1998	262.233	85,7	67,1	2011	1,674	101,8	99,1
1986	680	68,0	64,2	1999	422.152	90,2	67,7	2012	1,797	109,3	104,8
1987	861	66,1	60,7	2000	626.712	104,6	73,6	2013	1,903	99,3	96,0
1988	1.431	60,5	57,2	2001	1.231.322	82,4	66,7	2014	2,190	103,5	103,5
1989	2.125	75,5	70,9	2002	1.513.102	88,9	72,8	2015	2,722	96,4	98,1
1990	2.612	82,9	73,1	2003	1.500.269	100,0	100,0	2016	3,024	90,7	91,2
1991	4.184	80,0	67,8	2004	1.429.202	101,0	101,7	2017	3,651	84,1	84,8
1992	6.888	81,4	68,5	2005	1.344.025	118,0	113,3	AVG.	--	91,5	84,0

Source: Central Bank of Republic of Turkey, https://evds2.tcmb.gov.tr/index.php?/evds/archiveMarket

The assessment of the data has to be careful because RER data have two different base years (1995 and 2003). In this context, between 1981-1988 both PPI and CPI have regularly declined, namely, TL depreciated. Between 1989-1993 Turkish lira gains value whereas with the 1994 current account crisis it loses considerable value. After the crisis, the TL has begun to gain value: both CPI and PPI based RER have increased and exceeded the 1993 level by 2000.This is when the IMF-supported three-year disinflation program with foreign exchange anchor started to be implemented. Then, in February 2001, Turkey's economy experienced a new current account deficit crisis, in which the banking system's accumulated problems also played an important role, and TL has lost considerable value again.

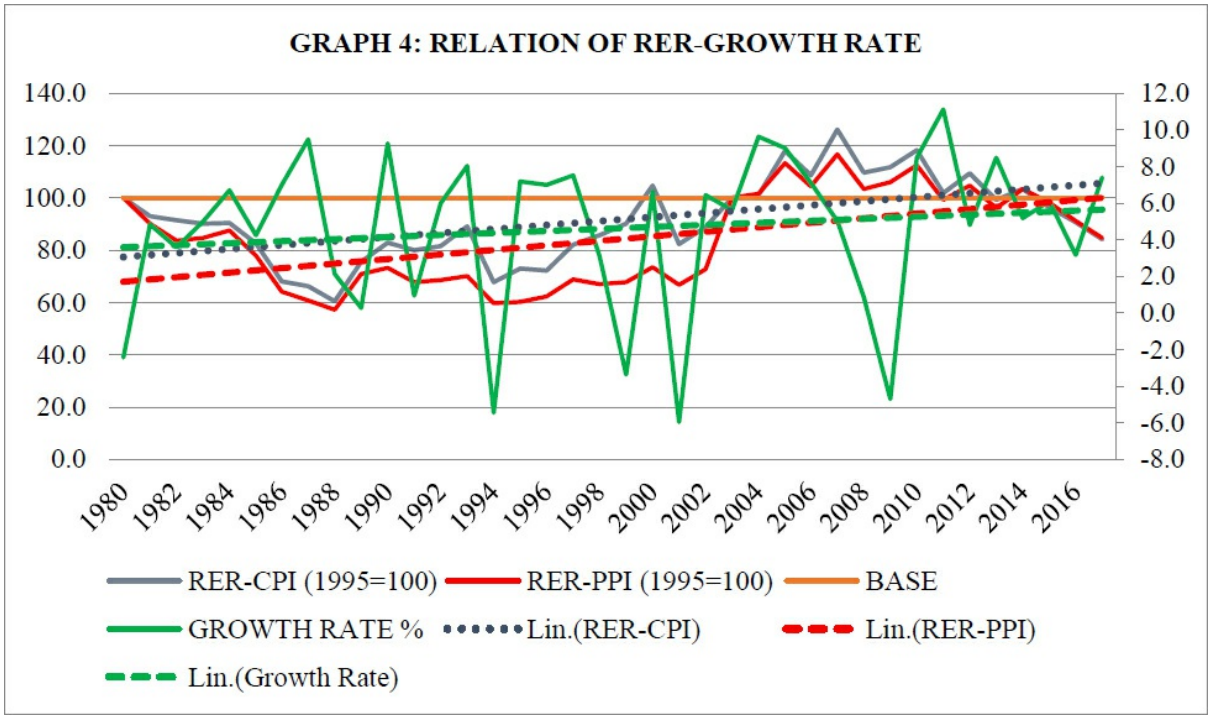
Following the crisis, the elections were held in November 2002 and after ensuring political stability and as a result of the Program of Transition to Strong Economy which was implemented by the new government, re-entry of the external funds was generated. Therefore, TL regained value. Indeed, from 2003 to 2014, except 2013, RER was always over 100, thus the TL remained valuable. However, after 2014, the USA announced that they would first reduce the liquidity which was supplied in order to boost the economy after 2008 crisis, and then would call it back eventually. Therefore, foreign capital inflow towards Turkey started to reduce and TL again began to lose value and this process continued until the end of 2017.

When examining the development of current and real rates in Turkey, it is seen that foreign inflows are very decisive. Following Graph 3, it can be seen that there is a quite strong interaction across the RER and direct foreign investment, portfolio investment, and other channels (deposits, loans, borrowing) as well as the sum of the capital inflow. Hence, the correlation coefficient is significant as between total outsource input and CPI based RER 0,66, and PPI based RER 0,73, respectively. Thus, global liquidity conditions and Turkey's attractiveness/ repulsion levels are key determinants of real exchange rates.

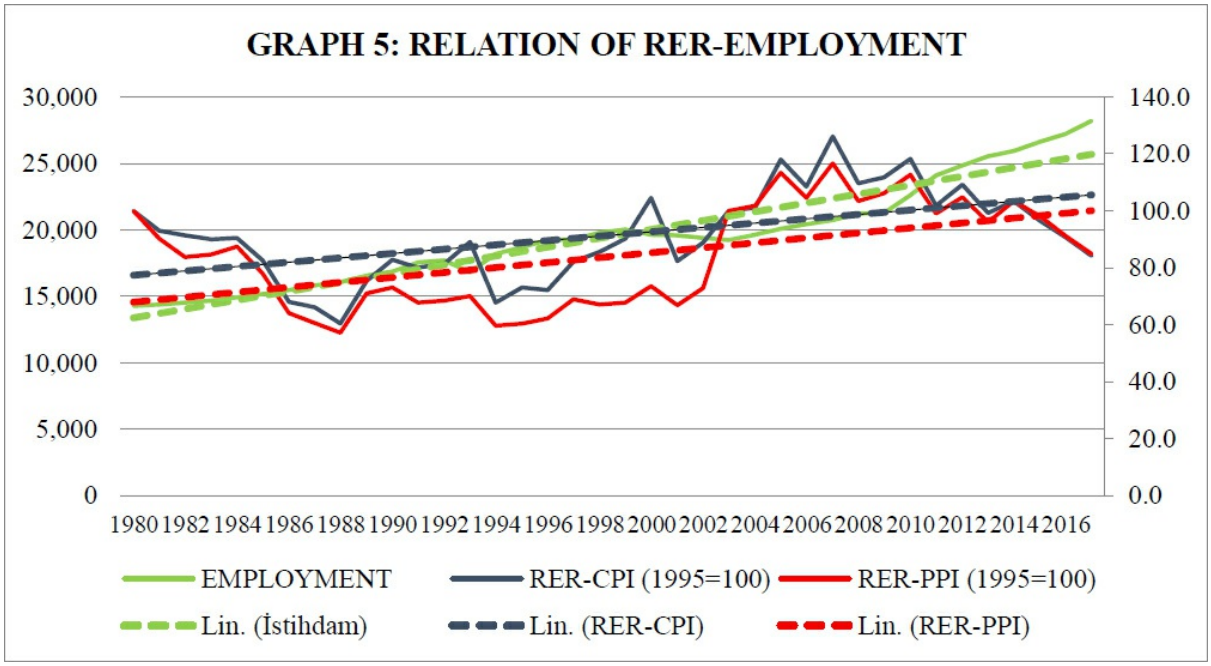


4. REAL EXCHANGE RATE AND MACRO REFLECTION IN TURKEY

The topic we will first discuss in this title shall be the interaction between real rates and growth. As can be seen in Graph 4, there is a very limited interaction between the CPI and PPI based real currency index and the growth rate of GDP. The correlation coefficients between the growth and the CPI-based real-currency index are very low, such as 0,12 and 0,16, respectively. Therefore, trying to accelerate growth by keeping the real rates low does not seem to make much sense especially to Turkey.



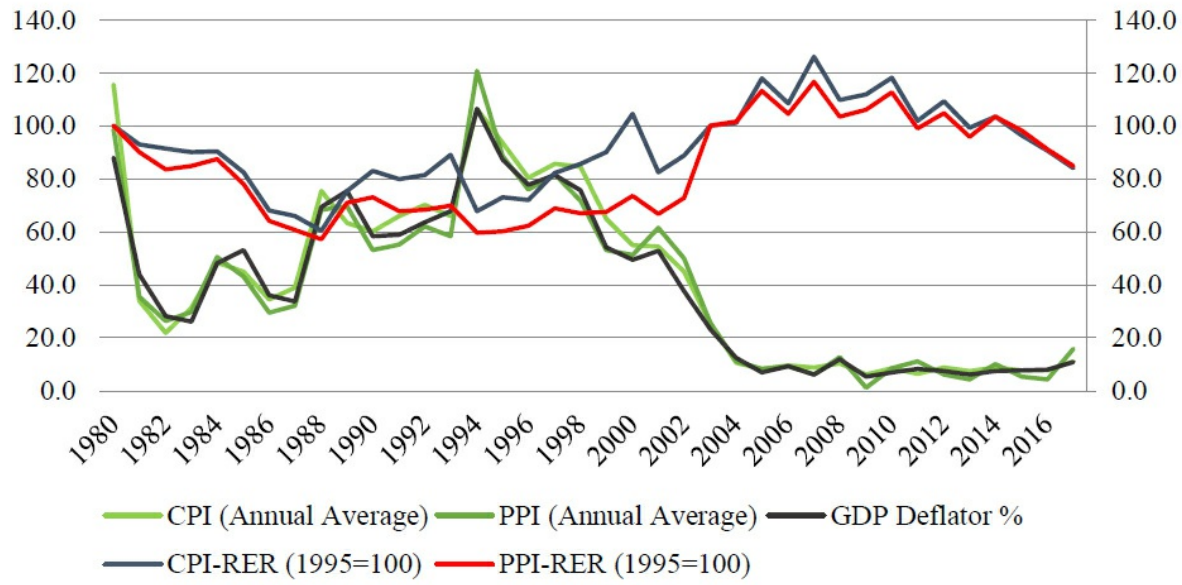
In Graph 5 which reveals the interaction between the RER and the employment, interaction is much powerful than the growth. In addition, correlation coefficients between employment and CPI-based real exchange index are calculated as 0,41 and 0,44, respectively. Therefore, ensuring the increase in employment by keeping the real rates low, in part, seems more meaningful.



With the help of Graph 6, when examining the interaction between the RER and the inflation indicators, the increase in RER in other words TL's

valuation seems to reduce inflation. Correlation coefficients are calculated between CPI-based RER and CPI inflation as -0,63, and between PPI based RER and PPI inflation as -0,74. This data reveals that because of the high dependence on external inputs, the increase in the rate of exchange increases inflation more through the PPI channel, thus, the cost inflation becomes more significant in the periods of exchange rates increase. The increases by %46 in PPI and %24 in CPI in September 2018, which followed the exchange rates increase in August in 2018, confirm this situation.

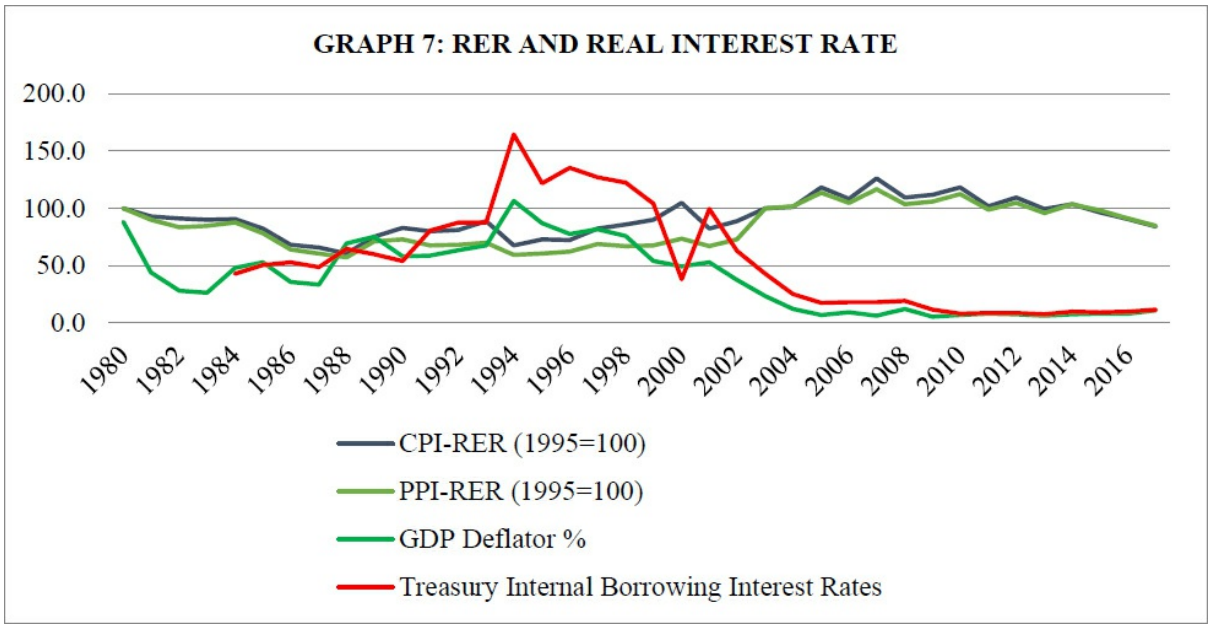
GRAPH 6: INDICATORS OF RER AND INFLATION



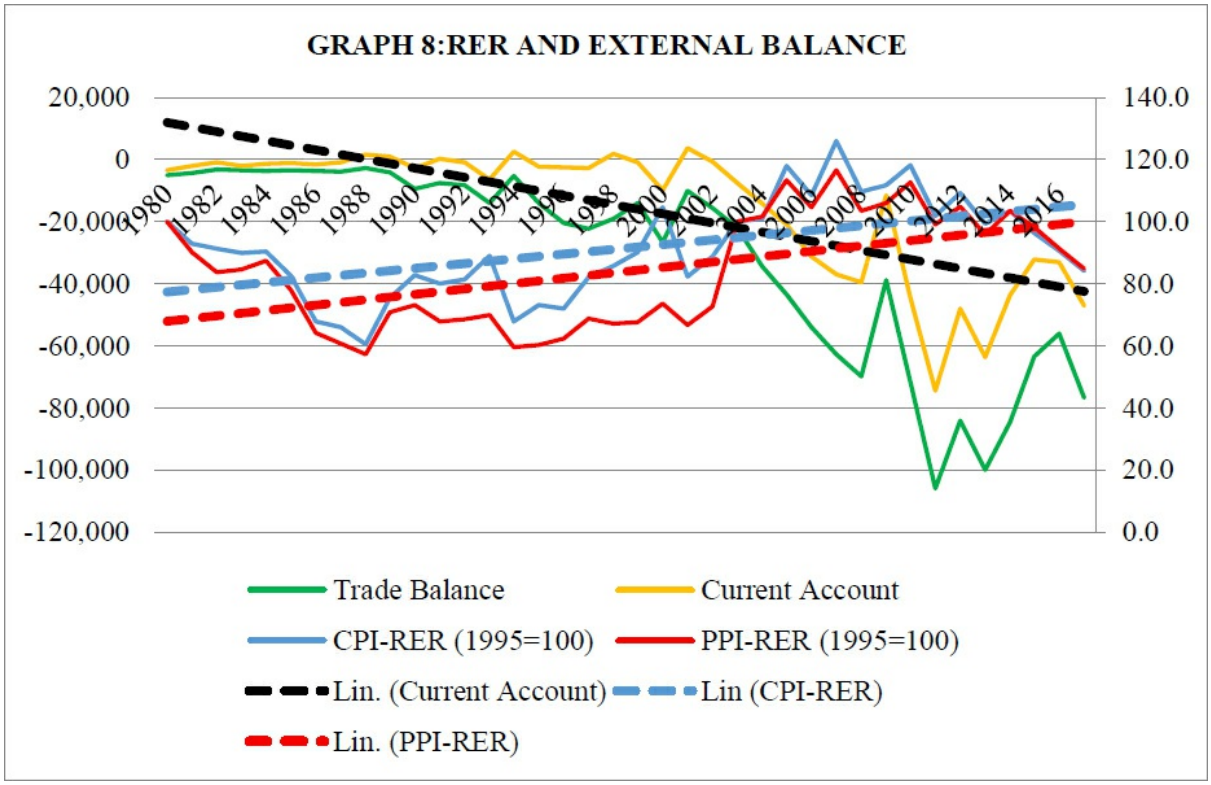
In the framework of global and national developments, it will not be wrong to say that interest rates have become the most critical variable for all economies because interest differences have become one of the most important reasons for global speculative capital movements. After the 1989 period, a much larger portion of the foreign resource that came to Turkey take the form of state bonds, deposits, loans and borrowing channels, thus interest bearing instruments, confirms this situation.

In Graph 7 the development of the RER with deflator inflation and treasury internal borrowing rates (after 1984) are given. As can be seen from here, as the RER rises, the value of the TL increases, inflation and interest rates experience significant regressions. Correlation coefficients are calculated between CPI-based RER and interest as -0,66, between the PPI-based RER and the interest rate as -0,80 and between deflator inflation and interest as 0,92. These data are important because they state that

increasing RER causes interests to decline. Moreover, the relationship between the interest and inflation is stronger, thus the permanent way to lower interest is to decrease inflation.

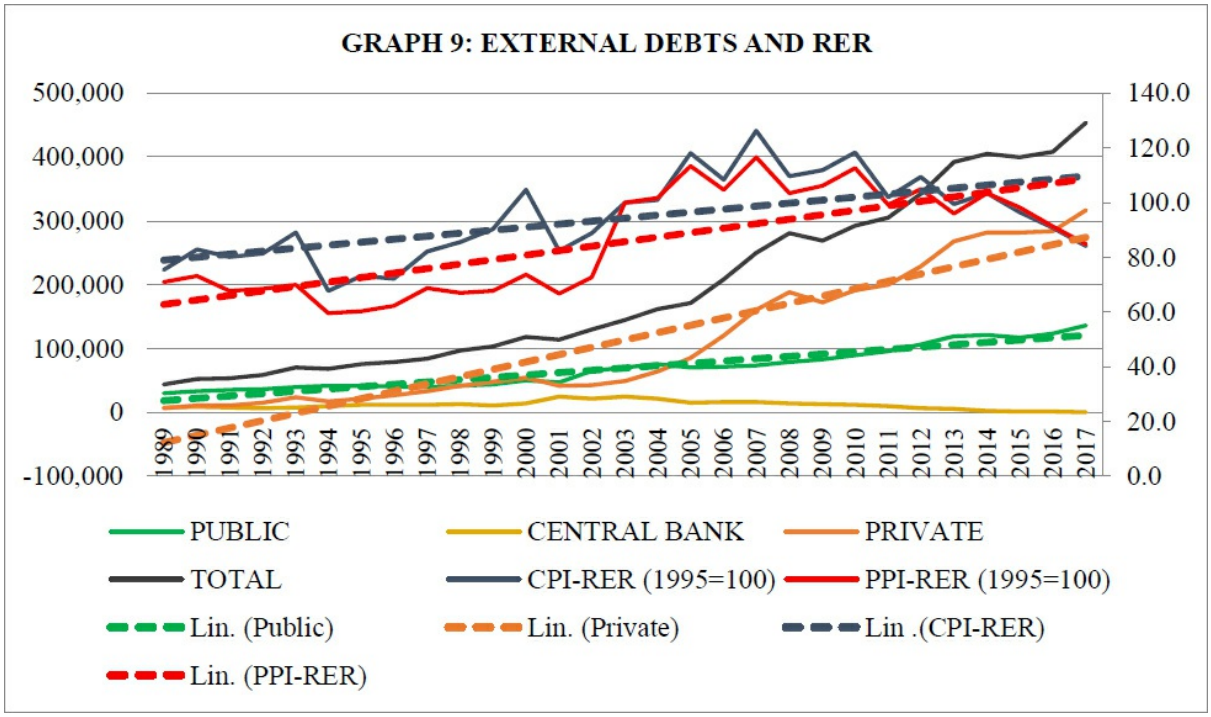


An important area to be expected to interact with the RER is the external balance. As can be seen from Graph 8, as long as RER rises (TL gain valuable) foreign trade deficit and current account deficit increase. Trend lines reveal the interaction between these variables in a more pronounced way.



On the other hand, the correlation coefficients emerged between CPI-based RER and foreign trade balance-0,62, between the current balance-0,59. Again the correlation coefficient emerged between the PPI-based RER and the foreign trade balance-0,6752, between current balance-0,6769. These data are important in terms of the significant role of the exchange rates in the high-rate of external deficit in Turkey.

In Graph 9 the development of external debts and the RER after 1989 are shown. It is understood that Turkey's foreign debt has increased rapidly and significantly from the private sector channel. Correlation coefficients are calculated between CPI-based RER and total external liabilities 0,51, PPI-based RER 0,68. Therefore, there is a correlation between the RER and external debt use, which can be considered to be high.



When a general evaluation is made, it can be said that real exchange rates in Turkey have significant effects on macroeconomic variables. When this interaction mechanism is tried to be put systematically;

It can be argued that significant foreign resource entry to the country is due to high interest, that raises the RER and makes TL valuable, so foreign trade and current balance deficit grows, as a result of the entry of relatively cheap imported goods, inflation and interests decrease with the contribution of the competition inside. It is understood that these developments have limited impact on growth which is dominated by the consumption whereas they have intense positive impacts on employment for their expansive effects on the services sector, Therefore, external debts rapidly increase and approach to hazardous levels.

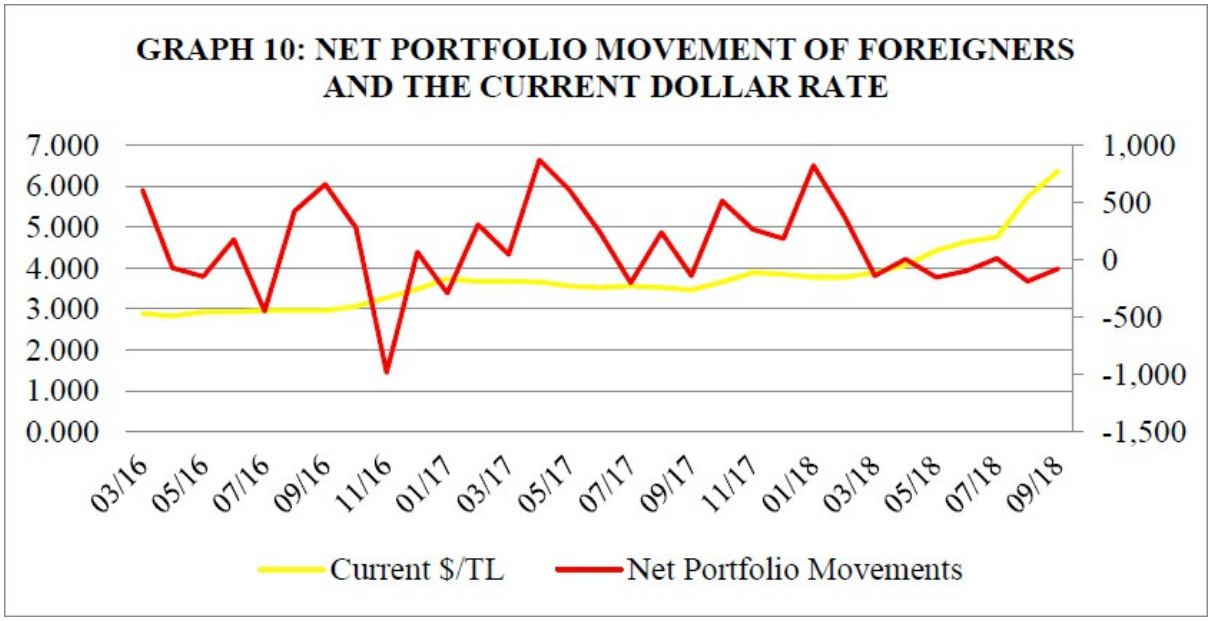
5. AUGUST 2018 ROAD TO TURBULENT

Turkey entered in serious exchange rate turbulence in August 2018. It will not be wrong to say that it is an expected development, although the time of realization was unknown. This is due to;

1. The presence of relatively high inflation compared to the rest of the world,
2. The relatively high rates of interest in Turkey within the Global dimension,

3. Large-quantity outsourcing, especially as a result of global liquidity abundance,
4. In relation to the previous, decline of real exchange rates,
5. Increased foreign debt stock due to the foreign resource that came to the country is more debt-generating than direct investments,
6. After the expansion of the liquidity generated by the entrance of the external source, the explosion of internal consumption and the direction of the resources to more construction,
7. Cannot create a sustainable real response for external resources that are used,
8. The start of the contraction of global liquidity and increase of global interest rates following these developments,
9. Despite the increase in Turkey's need for outsourcing, a reduction in supply of outsourcing,
10. The large increase in demand for foreign currency,
11. Increase in exchange rates,
12. Increase in inflation,
13. Increase in interests (Negative interest for domestics!),
14. The decline in internal demand,
15. Slowing down on growth,
16. Reduction in corporate profits, hence tax revenues,
17. More increasing outsourcing needs,

is the process that is experienced. The following Graph 10 shows that in May and after then, the current dollar rate increases rapidly but foreigners have not performed an important net portfolio investment outflow.



In short, foreign currency turbulence and high rate exchange rate increase that started in August in Turkey emerged because of domestic entrepreneurs' demand for foreign exchange rather than foreign factors; and, domestic residents' direct investment and portfolio investments shifted towards abroad. Undoubtedly, this process has not been a process triggered by the outflows of foreign speculators in relation to the current account deficit as it was the case for Turkey in 1994, 2001, and even in the last quarter of 2008. This is so because the crises erupted before that phenomenon has been present. In other words, this time the crisis is created by the private sector which has an unprecedented external debt and an open position.

Thus turbulence experienced in the month of August 2018 is a reflection of the lack of comprehension regarding the change in the world's conjuncture, refusing to see that the growth based on land rentier, construction and consumption would not be sustainable anymore, and avoiding to accurate and timely measures, and last but not least, it is a result of consuming more than what is produced.

6. CONCLUSION

Within the framework of the examinations and assessments conducted in this study;

1- With the financial liberalization that is imposed by the globalist developed countries to developing countries,

2- With the development of theories that support the liberalization through scientific approaches,

3- The populist governments which feel close to the premature liberalization in order to fulfil their high consumption promises,

4- The speculative capital which is the result of the mobilization of global financial capital seeking more lucrative investment areas, and originates from where capital-liquidity is abundant,;

a) Inflation, in relation to that high-interest rate,

b) Shallow stock exchanges,

c) Insufficient savings,

d) High consumption expectancy,

e) Unsustainable external input-product dependency which is due to mismatch in production-consumption pattern,

has abundantly flown into developing countries. In this flow, petrodollars had a big role between 2000-2007. After the 2008 crisis, expansionary policies imposed by the FED had importance.

Turkey benefited from this global climate and conjuncture, because of;

1. High Interest paid,
2. Since the 2000-2008 period is an IMF-anchor,
3. Because negotiations with the EU are being carried out and it acts as an anchor,
4. Political stability is ensured,
5. Economic relations are concentrated with the Gulf countries (Qatar, U. Arab Emirates),
6. The economy grows rapidly,
7. The central bank has large gross reserves,
8. The public balances draws a healthy image,

So Turkey has seen a lot of outsourcing inflows because it has both profitable and repayment opportunities. Thus,

1. Foreign credit/resource utilization increased due to interest advantage.
2. Real rates regressed.
3. Internal demand exploded, boom happened in construction.
4. Very frequent elections/referendum were held, populism applications

increased.

5. Foreign trade and current balance deficit have grown.
6. External liabilities increased, and debt conversion rates increased.
7. It was thought that it would last forever that this would not end.

At this point;

1. Financial liberalization in Turkey is premature.
2. Although this liberalization can provide temporary improvements in the country's macroeconomic conditions, the necessity of balancing/correction after a period of time is born and the country almost regularly suffers from financial crises of foreign currency.
3. The main reason for this is that Turkey's financial liberalization has not been used to develop and transform the production structure, but rather to increase consumption and non-productive construction.
4. From past to today, with external resource input, consumption is not proportional to production potential in Turkey, after today, less consumption is not compatible with the production of the necessity of balancing/correction was born.
5. Turkey is at the point of making a choice between saving the day and editing the future. Images and statistics make it difficult to be hopeful.

Turkey on the other hand;

- ♦ Shouldn’t use external resources for more consumption,
- ♦ Shouldn’t redirect external resources to areas that are not guaranteed to pay the capital and interest,
- ♦ Shouldn’t provide the advantage of imported products and inputs by allowing real rates to remain low,
- ♦ The theory of financial liberalization (MacKinnon-Show) does not apply to countries with high inflation and severe structural problems.

Overall, Turkey has to prefer to grow with domestic savings, not just with foreign sources.

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