

Postcard Turkey

- *Turkey has reasons to be pessimistic near-term: optimistic longer term. The challenge is to get there from here.*

Economists love to talk economics with other economists, if not always with non-economists. But in Istanbul last week I had no option: almost every person I met, economist or not, wanted to talk economics. For the Turks are worried.

Turkey's near-term economic issues are serious: inflation, according to the IMF, will likely average nearly 7½% this year; the current account deficit 4½%. Growth is currently dependent entirely on domestic demand, fuelled by credit, much of it from abroad. Turkey is not alone in this – many hitherto well-performing Asian economies are now similarly credit-dependent; but Turkey's overall position is particularly problematic. Understandably, Turkey was recently identified by S&P as one of the 'Fragile Five' (along with Peru, Colombia, Venezuela, and Argentina).

It was no surprise therefore to hear Turks repeatedly express concern that should the lira, already down by some 35% in trade-weighted terms since 2010, depreciate further, this will do material damage to many company balance sheets and, in turn, to the banking sector. Some identified the energy, and even more the construction, sectors as being at particular risk.

If everyone wanted to talk economics, however, even more did they want to talk politics – albeit more guardedly. Here opinion seemed to be more or less evenly split between pessimists and optimists – although this was just before last Saturday's Ankara bombing (which followed those in Diyarbakir in June and Suruç in July).

The pessimists have many arguments. They argue that, since 2011, President Erdogan's autocratic style of government has led to a progressive weakening of many institutions, including the central bank, the media, the regulatory institutions, the armed forces, and the judiciary. They see this as having accelerated following the polls last June when, for the first time since 2002, the AKP party failed to win a majority, and the four parties that then entered parliament failed to form a coalition. In short, the pessimists fear for Turkey's political stability.

The optimists, for their part, also have a list of some length: they point mainly to the longer term, where a number of the auguries are quite good. The population is young; there is continuing scope for economic catch-up; and Turkey is next to (comparatively) stable Europe, which is good both for exports and for competition. But most intriguingly perhaps, they say that the tide in favour of closer ties with the EU seems to be turning, not least because Europe has a palpably increased need of Turkey in helping to manage the growing refugee crisis.

Paradoxically, the refugee crisis is, potentially at least, good for Turkey. Currently Turkey is home to an estimated 2 million refugees – 300,000 or so in camps, the rest mainly in the cities. The majority are Syrians and, being co-religionists, they fit comparatively easily into Turkish society.

These refugees are issued with 'temporary protection cards', which give them right of access to social services, but not the right to work – although many work illegally. Instituted at a time when it was expected that the refugee situation would be temporary, this policy is now starting to cost serious money. But European governments badly want to avoid these refugees moving on into Western Europe; and last week the EU showed that it is willing to pay for them to do so, offering Turkey up to €1 billion in the first instance for this year and next to defray some of the costs of continuing to host these migrants. Longer term Turkey may demand – and conceivably may get – more help, both material and political.

Overall, Turkey appears to be on a cusp. A former empire, Turkey has considerable historical, cultural, and institutional depth on which to draw in difficult circumstances. And it has a number of factors that should stand it in good stead over the long term. But at the same time it has a range of conjunctural issues that would stretch any nation – let alone one with difficult domestic politics, and neighbours that are disintegrating in civil war with escalating involvement of the major powers.

Turkey's challenge is how to get from 'here' to 'there': and right now, whether Turkey will succeed in this looks, to this economist at least, like being anyone's guess. ■



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