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LIBERAL PERSPECTIVE: ANALYSIS

NO: 12, JANUARY 2019

TURKISH ECONOMY AND THE NEW ECONOMIC PROGRAM

ISSUES AND POLICY ALTERNATIVES

Friedrich Naumann STIFTUNG FÜR DIE FREIHEIT

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ISSUES AND POLICY ALTERNATIVES

In collaboration with
Friedrich Naumann Stiftung.

Freedom Research Association

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FOREWORD

Turkish Lira has depreciated around 30% between July 25 and August 12, becoming the third most depreciated currency around the world in 2018. Following the sudden shock, the new government unveiled a set of measures under the banner of "Total Fight against Inflation". Then, to raise a more comprehensive response to the immediate economic challenges, the minister of economy announced the "New Economic Program" (NEP) and provided the medium-term economic goals of Turkey.

However, some of the targets and measures planned in the NEP were criticized by the economic experts. Among the chief concerns were the misdiagnosis of the problems and the lack of clarity of the road map to be applied.

Senior economists, bureaucrats, and academics have long been pointing out that the current economic woes are not the result of today but of the continuing policy preferences, thus, Turkish economy can only find long-term stability via certain structural reforms instead of quick interventions. Turkey can permanently solve its economic problems only through realizing a comprehensive set of social, political and economic reforms.

At Freedom Research Association (FRA), the "structural reforms" are one of our major concerns. In 2017, we invited bureaucrats, business people, academics and policymakers in the first Economic Freedom Audit of Turkey in 2017 and we have drawn a set of policy proposals under 5 main themes to overcome the middle-income trap.

After the government announced the New Economic Program, FRA's Economic Freedom Center organized two PolicyTalks in Istanbul and Ankara. PolicyTalks is one of our major initiatives, where we bring together a diverse stakeholder profile to discuss a given policy issue. We organized two PolicyTalks on November 3rd and 24th to discuss the measures to be taken vis-a-vis the severe economic crisis Turkey is facing today and the trade-offs/merits and shortcomings of the NEP.

In this report, you will find a comprehensive summary of the issues discussed in the meetings and a detailed analysis of the NEP. The report contains a summary of the views shared in the meetings and does not exclusively reflect the views of the organizing institutions. It is our sincere hope that this study (and those alike) would contribute to a more sensible public debate and policy-making process. I would like to thank, in particular, Mr. Murat Çokgezen and Mr. Murat Öztürk for their invaluable support and contributions during the preparation of this report as well as our long-term partners Friedrich Naumann Foundation (FNF) and International Republican Institute (IRI) for their cooperation.

Medeni Sungur
Executive Director

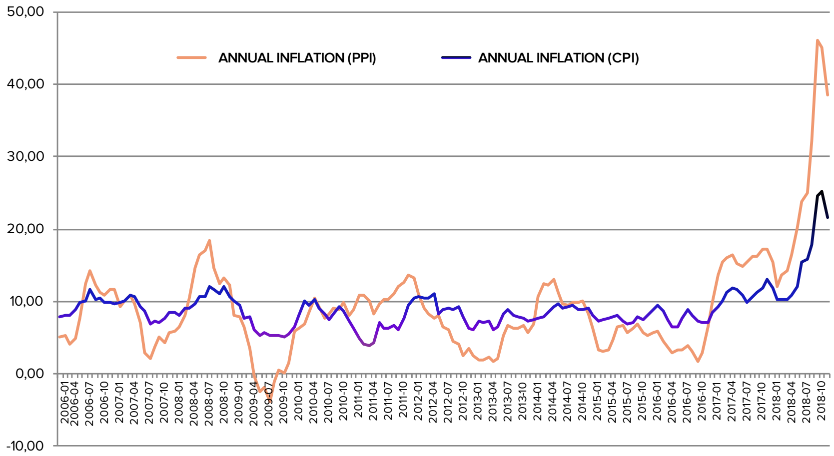
TURKEY'S ECONOMIC OUTLOOK IN 2018: WHY THE "CRISIS" TALK?

Turkey's fundamental economic indicators have significantly deteriorated in 2018. Many economists interpreted that as a sign of a recession or a nearing recession. In fact, the debate has evolved to circulate a single question: How much worse could the Turkish economy get? One of those indicators that foretell recession was the breakdown of price stability. The inflation rate which has been around 10% throughout the 2000s has quickly risen to 25% in 2018 (Graph 1).

A similar trend has been observed in the producer prices. Yet, even more strikingly, the rise in producer prices has been consistently higher than the rise in consumer prices since the beginning of 2017. As we approached the end of 2018, the discrepancy went as high as 100 % (Graph 1). In other words, producers have not been able to reflect the increased production costs to prices. In such case, three options, which all signify negative social and economic outcomes, were available for the producers: (1) Giving up (partly) their profits, (2) exiting the market due to losses and (3) reflecting the rising costs to prices.

The inflation rate which has been around 10% throughout the 2000s has quickly risen to 25% in 2018

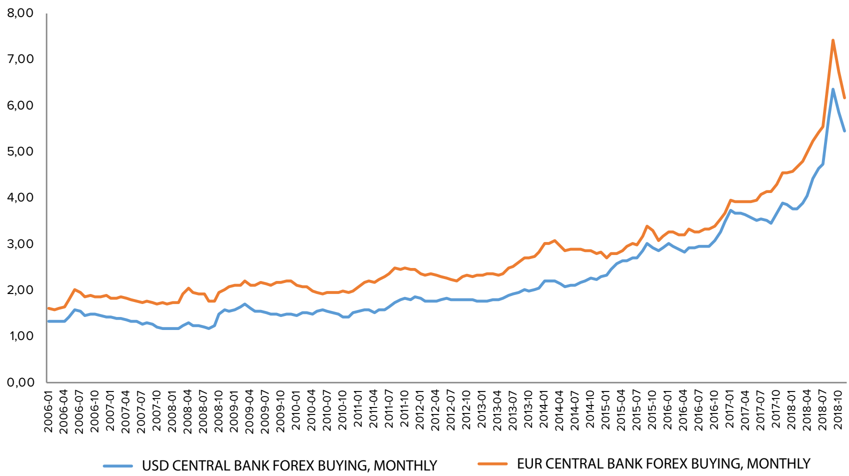
GRAPH 1. 2006 - 2017 INFLATION AND INTEREST RATES (MONTHLY)



Rising inflation prompted higher nominal interest rates which, in turn, added fuel to the inflation rate in the next quarter while real interest rates followed a different trajectory and have been quite low since 2010, even negative at certain periods. Credit interests, on the other hand, reached eight years high in real terms at the end of 2018 (Graph 1).

Rising exchange rates have been another indicator of worsening economy in Turkey. The exchange rate of Turkish Lira (against US dollar) has gone up 80% in one year, from 3.47 in September 2017 to 6.37 in August 2018. Although TRY has later recovered to 5.44; this was still 40% higher than its value in the previous year. A similar trend was observed with regards to EUR/TRY (Graph 2). The situation at hand had destructive implications for a) the Turkish private sector whose long-term

GRAPH 2. NOMINAL EXCHANGE RATES (2006-2018, MONTHLY)

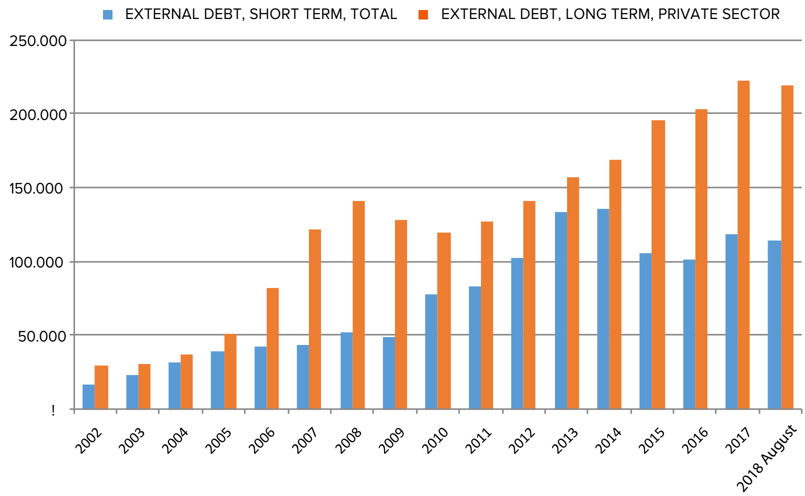


debt has doubled and short-term debt increased even more since 2009 (Graph 3) and b) the Turkish manufacturing industry which largely relies on imported inputs.[1] Newspapers started to swell with news of Turkish companies seeking bankruptcy protection, one after another.[2]

1 In July 2017, the percentages of intermediate goods and investment goods within overall imports were 74% and 14% respectively.

2 For one estimate, the number of companies seeking bankruptcy protection has surpassed 3000. (https://www.sozcu.com.tr/2018/yazarlar/nedim-turkmen/konkordato-ilan-eden-sirket-3-bini-gecti-2654564/). Although this figure has been found controversial, the fact that the government enacts new regulation making it harder for firms to obtain the protection (for more information http://www.hurriyet.com.tr/ekonomi/konkordatoya-yeni-duzen-41017180) confirms that the figures are somewhat worrying.

GRAPH 3. PRIVATE SECTOR DEBT (MILLION DOLLAR)

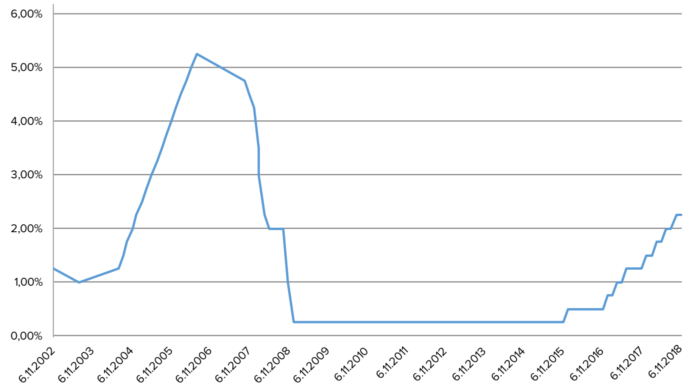


WHY ARE WE "HERE"?

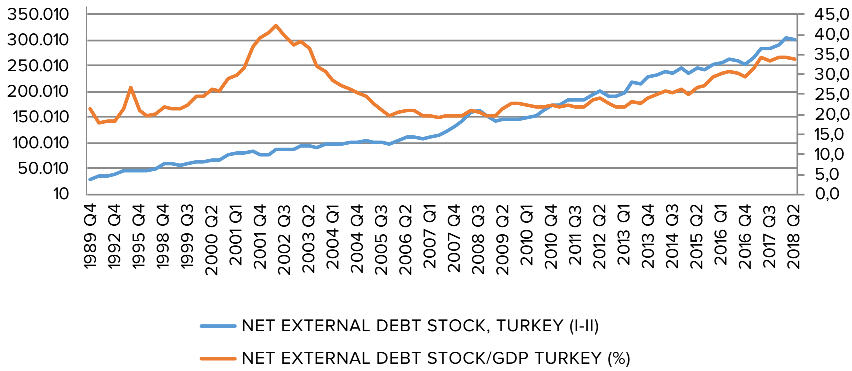
The most important reason why the Turkish economy is currently in turbulence, according to the economists, is FED's interest rate hike since 2015. Following the 2008 global meltdown, the US and the EU central banks had swiftly dropped interest rates (Graph 4). As nominal interest rates neared zero, there has been excessively abundant credit availability all around the world for a few long years. Turkey's external debt to GDP ratio, as one of the main beneficiaries of easy credit, has seen the highest point in the last 15 years (Graph 5).

This was not peculiar to Turkey. In fact, most developing nations (primarily China) benefitted from the very low interest rates in the US (plus EU and Japan) and enjoyed high growth rates. On the other hand, easy credit inflated their debts. The

GRAPH 4. FED INTEREST RATES



GRAPH 5. EXTERNAL DEBT (1989-2017)



debt to GDP ratio for developing markets has seen 50%, the highest point since 1980.[3]

3 Global debt now worse than before financial crisis, says IMF, https://www.theguardian.com/business/2018/apr/18/global-debt-now-worse-than-before-financial-crisis-says-imf

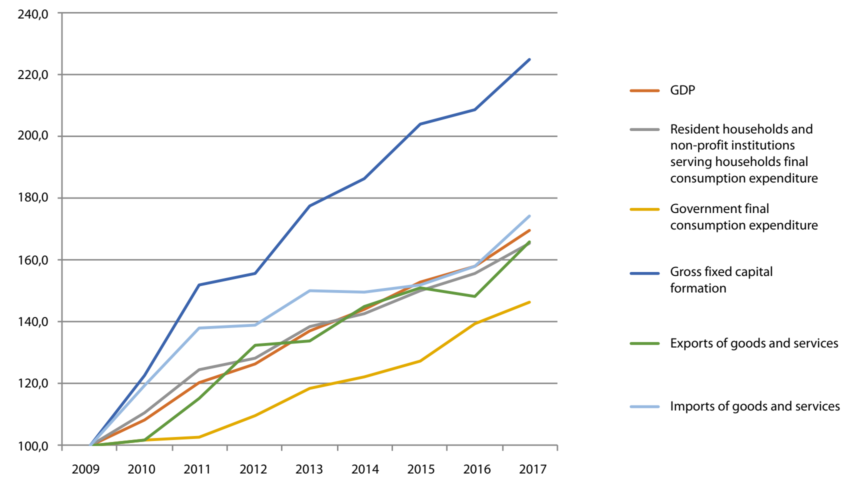
Low interest rates fueled the investment expenditures in Turkey (Graph 6). Between 2009 and 2017, investment expenditures increased by 125% while the GDP growth is around 70% - the most important reason for the hike is a 2009 revision to the calculation methodology, which changed the status of certain items from consumption expenditure to investment expenditure. The fastest growing item under investment expenditures was the construction investments (Graph 7). Government endlessly subsidized the labor-intensive construction sector in a bid to fight unemployment. Additionally, the growth of construction sector directly helped the growth of other related industries such as construction materials and furniture. Falling interest rates and prolonged payback terms helped fuel the sales of newly constructed apartments. In addition to the housing, construction expenditures of the public were also increasing. The percentage of the public construction expenditures within the overall public investments has steadily risen from 72% in 2000 to 83% in 2014.[4]

Increased spending in the economy grew imports. Between 2009 and 2017, import expenditures increased by 74%. This increase mainly included the investment goods and semi-finished producer goods which are used as inputs for the manufacturing sector.[5] On the other hand, exports increased by 66% in the same period, driving the current account deficit to alarming heights. In other words, the growth largely originated from

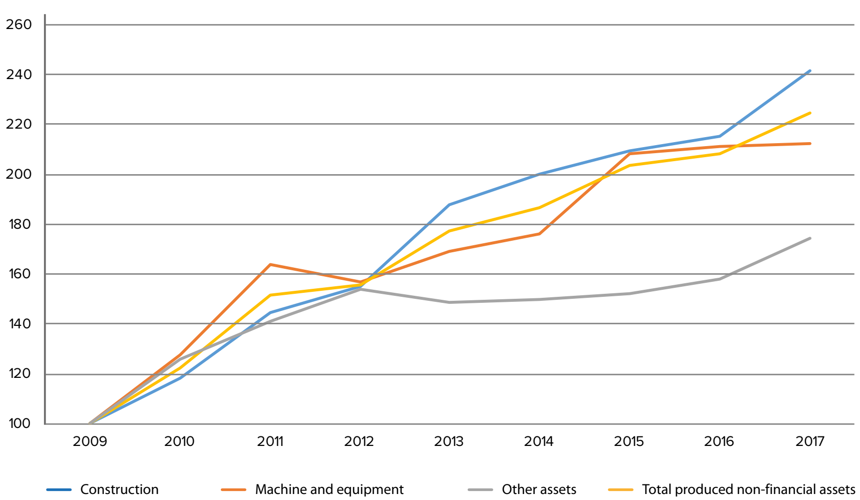
4 Statistical Agency of Turkey (TÜİK), Economic and Social Indicators (1950-2014)

5 See footnote 1.

GRAPH 6. GDP IN CHAIN LINKED VOLUME, index and percentage change by expenditure approach, 2009-2017



GRAPH 7. GROSS FIXED CAPITAL FORMATION IN CHAIN LINKED INDEX AND PERCENTAGE CHANGE 2009-2017 [2009=100]



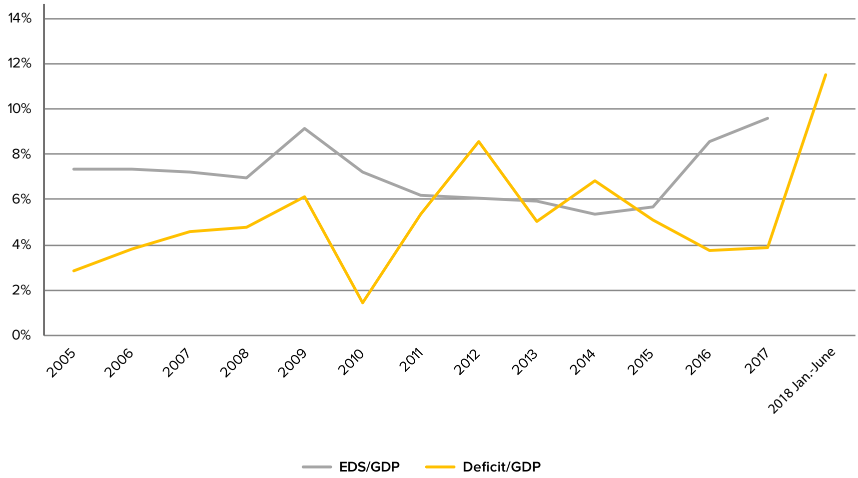
FED's decision to raise interest rates has signaled the end of paradise for the developing markets.

the domestic market. In fact, the low-interest period was an opportunity to make investments that will increase Turkey's international competitiveness. However, economic agents in Turkey could not seize this opportunity.

FED's decision to raise interest rates has signaled the end of paradise for the developing markets. Interest rates have risen nine times between October 2015 and October 2018, from 0.25% to 2.25% (Graph 4) which has driven the value of US dollar upwards. Currencies of emerging countries, which have been borrowing aggressively during the easy credit period, started to depreciate quickly. In this regard, Turkish Lira and Argentine Peso diverged negatively from other emerging market currencies.[6] The main reasons were the government's late reaction to raise interest rates and the "Pastor Brunson Crisis" with the US. Although Turkish Lira later recovered substantially in response to Turkish Central Bank's interest rate hike and the resolution of pastor Brunson crisis with the United States, it has lost 40% of its value against the dollar as compared to the previous year.

6 In order to get more information about the depreciation of emer- ging market currencies against the US dollar particularly diverging Turkish Lira and Argentinean Peso: http://fingfx.thomsonreuters.com/gfx/ rngs/GLOBAL-CURRENCIES-PERFORMANCE/0100301V041/index.html
As a result of these developments, the Argentine economy entered into crisis and had to sign a $57bn deal with the IMF. Argentina gets biggest loan in IMF's history at $57bn, https://www.theguardian.com/world/2018/sep/26/argentina-imf-biggest-loan

GRAPH 8. EXTERNAL DEBT SERVICE (EDS) AND CURRENT ACCOUNT DEFICIT



As is the usual case with each crisis period, credit abundance after 2009 left Turkey with a foreign currency shortage. External debt service and the current account deficit reached a more critical level than in the 2009 crisis. Turkey needed an annual foreign exchange inflow as high as 20% of GDP to be able to finance its due debts and current account deficit (Graph 8).

Rising interest rates in the world and the increased risks in Turkey accelerated the capital outflow and the reserves started to diminish after 2014. Although the short term debts decreased as a result of the rising interest rates, the reserves decreased faster (Table 1). That was a signal that the Turkish economy was becoming more sensitive to a potential economic crisis.

TABLE 1. EXTERNAL DEBT AND THE TRAJECTORY OF RESERVES

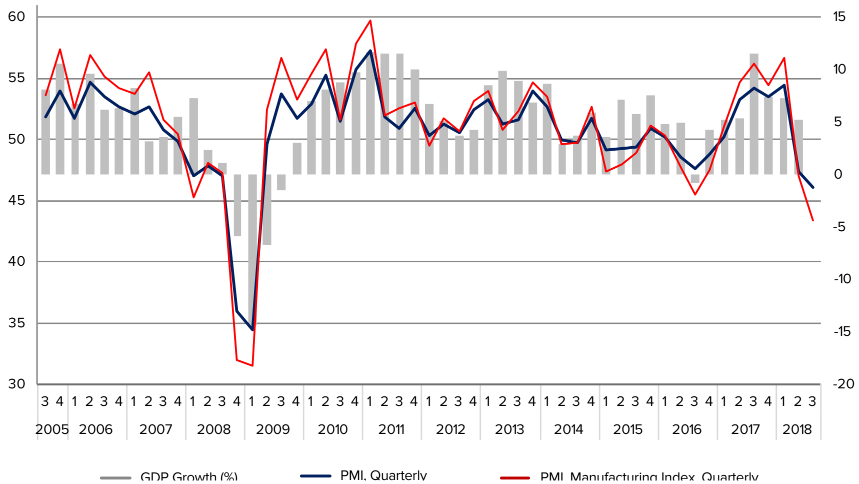
Period	Short-term External Debt (Billion Dollars) (1)	Gross Reserve Including Gold (Billion Dollars) (2)	Gross Reserve Excluding Gold (Billion Dollars) (3)	(2/1)	(3/1)
2002	16.4	27.8	26.7	169	162.7
2004	32.2	37.6	36	116.39	111.8
2010	77.2	86	80.7	111.3	104.5
2014	135.1	126.4	106.3	93.6	78.7
2017	118.6	107.7	84.1	90.8	70.9
2018 June	120.4	98.4	75.6	81.8	62.8
2018 Sept	116.8	84.7	67	72.5	57.4

EXPECTATIONS FOR 2019 - 2020

The negative expectation is another significant indicator of further economic problems because negative expectations of consumers and firm operatives lead to delayed investment and consumption.

In October 2018, the Consumer Confidence Index(CCI), which measures the current economic situation assessments of consumers (personal and general) and their propensity of spending and savings in the near future, fell almost to the levels of the global economic crisis in 2009. A similar trend has been observed in the Purchasing Manager Index (PMI), which is a barometer of business sector expectations. PMI dropped to

GRAPH 9. PMI, QUARTERLY AVERAGES AND ANNUAL GDP GROWTH (%)



42.7 in September 2018, the lowest level observed since March 2009 (Graph 9).

What will happen next will be directly affected by global developments and the policy preferences of the government in Turkey.

The most important external factor will be whether FED will keep increasing the interest rates. Higher interest rates will appreciate the dollar which, subsequently, will increase the input costs and the debt burden. Although there are different signals from the United States on this issue, it is expected that the interest rates will be increased to 2.5% in December.[7] EU

7 https://www.bloomberg.com/news/articles/2018-11-08/fed-stands-pat-on-interest-rates-ahead-of-expected-december-hike, https://www.businessinsider.com/federal-reserve-statement-on-inter-

The first thing that needs to be done to get out of the economic recession is to accept the problem, create a damage report and to provide a roadmap to solve this damage in the short term.

is the largest trading partner of Turkey. EU's growth rate has seen a 10-year high of 2.4% in 2017. Nevertheless, it is expected that its growth rate will gradually decline to 1.7% in 2020.[8] Similarly, China will also be affected by interest rate hikes and its growth expected to slow down.[9] Overall, there are strong signals that global economic activity will slow down in the near term which could further deepen the economic problems in Turkey or delay a strong recovery.

The most important factor that would determine what happens next will be the decisions of the policy-makers in Turkey. However, policymakers are not expected to take the necessary steps to meet the requirements of the economic situation until the upcoming local elections of March 2019. The only reference available for the potential steps after the elections is the New Economy Program. In the following sections, we shall discuss what needs to be done to get out of the crisis and the compatibility of the NEP with the necessary measures that should be taken in order to overcome economic crisis, respectively.

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est-rates-november-2018-2018-11, https://www.bankrate.com/banking/federal-reserve/fomc-recap/

8 https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2018-economic-forecast_en

9 http://www.oecd.org/economy/china-economic-forecast-summary.htm

WHAT NEEDS TO BE DONE TO OVERCOME THE CRISIS? WHAT SHOULD BE DONE IN ORDER TO OVERCOME THE CRISES?

The first thing that needs to be done to get out of the economic recession is to accept the problem, create a damage report and to provide a roadmap to solve this damage in the short term. The government has so far followed a policy that denies the existence of an economic problem. The policy of denial, which is arguably taken for political reasons, creates a negative atmosphere for the outsiders (economic agents and professional economists who do not possess the information the government has), and perhaps, leads to the problem being perceived incorrectly as worse than it is. At this stage, pursuing a transparent policy will prevent imminent risks to be perceived worse than they currently are and the potential problems with the negative perception.

Turkey's major problem in the previous crises were wasteful government spending and associated deficits. Currently, there is no serious problem regarding the budget deficit. On the contrary, the Turkish Government has been found quite successful in that area. Likewise, the smaller and weaker banking sector in the past heightened the impacts of crises. 2001 reforms have created a comparatively stronger banking sector. The current problem is the irrational private sector investments prompted by the availability of easy credit and Turkey's fiscal

> **pursuing a transparent policy will prevent imminent risks to be perceived worse than they currently are and the potential problems with the negative perception.**

The real sector in Turkey is extremely indebted. If unpaid, the burden will be transferred to the banking sector. Eventually, it is expected that at least part of the debt will be borne by the government.

policies. Now, due to higher interest and exchange rates, the value of private sector debt and the cost of maintaining it have significantly increased in terms of Turkish Lira.

While some of the increased risks have been transferred to the public through certain arrangements such as the Credit Guarantee Fund and the impacts of the debt crisis on banking sector has been delayed, the ratio of nonperforming loans to total loans has continued to rise.[10] A new regulation in November allowed banks to transfer their doubtful receivables (from the housing sector) to the Central Bank through securitization.[11] Despite these measures, which aim to ease the pressure on credit markets, the banks closed the credit taps.[12]

All in all, Turkey's current problem can be formulated as follows: The real sector in Turkey is extremely indebted. If unpaid, the burden will be transferred to the banking sector. Eventually, it is expected that at least part of the debt will be borne by the government. No one knows what plans are being made. How and who to bail out should be very carefully planned and implemented. Furthermore, it should not be forgotten that bankruptcy is a natural part of the market economy and it is

10 https://www.finansalgoz.com/2018/11/takipteki-alacaklar.html

11 https://www.sozcu.com.tr/2018/yazarlar/cigdem-toker/ekonomiye-buyuk-operasyon-2763801/

12 Banking Regulation and Supervision Agency (BDDK), https://www.bddk.org.tr/Veriler/Haftalik-Bulten/11

an opportunity to eliminate poorly managed companies. Socializing the losses while individualizing the profits is deeply contrary to the market logic of market mechanism. Yet, despite the positive long-term outcomes, politicians cannot and will not risk social unrest caused by a bankruptcy epidemic. In this case, there should be a rigorous cost-benefit analysis when deciding which debts are to be borne by the public. Bailing out everyone should not be an option.

Another very important question to be answered in the short run is how to finance our way out from the crisis. Viable options here are a) increasing interest rates and borrowing from abroad or b) a standby agreement with IMF. The anti-IMF discourse of government so far and the strict rules of IMF which leave politicians little room for movement makes the latter unlikely for now. The alternative is to borrow with very high interest rates as we did in October 2018 (7.5%). When deciding the course of action, the government must regard long-term economic interests of Turkey instead of short-term political gains.

Whichever source of finance the government decides to embark on, slowing down the economic machine is inevitable. Some of the large investments should be postponed or suspended. Reductions in non-investment public expenditures will also be unavoidable. Otherwise, there will be problems in the budget balance due to the tax losses that may arise as a result of the possible slowdown in economic activity. Moreover, slowdown policies are also essen-

Socializing the losses while individualizing the profits is deeply contrary to the market logic of market mechanism.

tial for the gradual breakdown and withdrawal of high-inflation expectations.

A current account or a foreign exchange deficit is fundamentally a saving deficit problem. In fact, after the change made in national income calculations in 2009, savings rates increased from 15 percent to 25 percent in one night as some consumption items became investment items. However, this increase should not have adequately convinced policymakers that they have developed schemes such as Individual Pension System (IPS). Although IPS is a well-thought system, its appeal has been limited. The reasons for low appeal should be explored and its deficiencies should be corrected. Domestic savings must be increased.

Politically, we should be avoiding conflicts and cooperate more with neighbors and Western countries. The confrontational politics with both neighbors and the West have exacerbated the recent economic problems in Turkey. In the past, policies which were tried to be legitimized via concepts like “regional leadership” brought many economic problems. Avoiding such tensions in the new period will be a more rational choice of foreign policy.

The confrontational politics with both neighbors and the West have exacerbated the recent economic problems in Turkey.

Finally, it should be kept in mind that crises create an excellent opportunity for structural transformations in the economy. In 2001, Turkey learned and implemented important concepts such as the independence of the central bank, independent regulatory institutions, and inflation targeting. In time, these institutions and concepts performed important functions in strengthening the Turkish economy. However, it has been observed that in recent years, they lost their functions and all the decisions in the economy were centralized in the executive. The re-functionalization of economic institutions during the recovery period and the abolition of the implementation of all economic decisions from a single center will make the policy implementation more compatible with the requirements of the economy and create a better impression for potential investors.

Protection of property, rule of law and the freedom of expression are crucial for a sustainable economy. In the early stages of economic development, there may be rapid growth in countries where these concepts are ignored (i.e Stalin's USSR or Korea in the 70s). However, these concepts become ever more important as the level of welfare increases. Internationally recognized indicators suggest a sharp decline in Turkey's performance in these fields, especially in the last 5-6 years. Improvements here will contribute to a positive change in domestic and foreign investors' perception of Turkey.

IS NEP COMPATIBLE WITH WHAT NEEDS TO BE DONE?

The Finance Minister Albayrak met with the managers of major financial institutions in London in early September when the above-mentioned negative developments unfolded. Turkish Central Bank has taken a long-awaited – but, unfulfilled, due to government pressure- step and has increased interest rates.

Then, the government announced the NEP on 21 September 2018, which includes the macroeconomic targets for 2019-2021 and the policies and measures to be taken to achieve these targets. This program was a roadmap revealing how the Turkish government defined the current economic reality and what are they planning to get the country out of this situation.

In fact, according to the Article 16 of Law No. 5018, since 2006, the governments have been preparing Medium Term Programs (MTPs), which set out the official objectives of the main macro-economic aggregates for the next two years. NEP is a revised version of MTP.

Bearing the sub-title of “balance, discipline and transformation”, the main purpose of NEP is described as a) to re-establish price and financial stability in the short term, b) to balance the economy and to ensure budget discipline and c) to achieve economic growth in the medium term through sustainable growth and equitable sharing. It was argued that the program consisted of a measurable, realistic, transparent and consistent set of policies based on market economy (p. 4).

NEP pointed out that “…the deterioration of risk perception towards developed countries since the second quarter of 2018, the rate of increase in FED’s interest rates and the slowing of international capital flows due to FED’s interest rate hike…”(p.4) as well as the chronic and deepening fragility is weakening the Turkish Economy. In other words, the government admitted for the first time there are problems in the economy, which they had been denying until then. This change has been perceived as a positive step, which might suggest potential corrective measures. However, the heavy reference to non-economic factors as the source of economic problems prompted the following reasoning: “The government sees no problem with the current economic structure and policies. The political developments referenced as the source of the problem are over. Thus, no steps will be taken towards the economy”

There are 12 main targets in the NEP. These include (1) reduction of inflation, (2) establishment of Public Finance Transformation and Exchange Office within the Ministry of Treasury and Finance for the purpose of reducing the costs and expenditures, reducing the costs and expenditures in the public, and improving the quality of revenues; (3) keeping budget deficit under 2% of GDP for the next 3 years (4) to reduce the public expenditures, (5) to suspend or slow down some large projects, (6) to register the informal economy for tax purposes and to improve the tax collection efficiency, (7) to strengthen the financial structure of the banking sector, 8) to initiate an economic transformation based on localization in export, tourism and industrial products, (9) to increase tourism revenues, (10) to restructure the institutions within the economic administration and to build trust via merit and performance based human resource management, (11) to establish the Turkish Financial Services Board for the regulation and audit of financial services, (12) to create necessary qualified human capital to sustain and support the macroeconomic objectives in the NEP.

Projections related to some basic macroeconomic parameters such as growth, inflation, and unemploy-

TABLE 2. NEP GOALS

Year	Growth	Inflation	Unemployment	Budget Deficit/ GDP	Primary Surplus / GDP
2018	3,8	20,8	11,3	1,9	
2019	2,3	15,9	12,1	1,8	0,8
2020	3,5	9,8	11,9	1,9	1
2021	5	6	10,8	1,7	1,3

ment budget deficit were also made in NEP (Table 2). In accordance with the general expectations, a gradual slowdown in the growth rate and a gradual decline in the rate of inflation are expected. These expectations are generally found "realistic" with minor exceptions but whether the government will be able to meet these targets is doubtful, especially due to the local elections in 2019. Similarly, while significant cuts in public expenditures are foreseen - and it is difficult to see an increase in productivity within a few years - how growth and employment targets will be achieved has been questioned by many different experts.

NEP concurs cost-push inflation and a "Total Struggle Against Inflation" program is set forth. In the fight against inflation, it is stated that the independent central bank will use all the available tools for price stability and this will be supported by fiscal discipline. Various administrative measures were included in the fight against inflation. Their effectiveness has been much debated but the government heavily relied on these measures. In the fight against inflation (through administrative measures) which was symbolized by the “onion warehouse raids” in the public opinion, a partial decline was achieved due to the decline in oil prices and tax cuts. However, the annual CPI remained at 21.62% (PPI 38.54%) as of November. The main question in minds was whether the decline would be permanent if the tax cuts were removed at the end of 2018.

The budget deficit was aimed to be less than 2% of the GDP, and the public sector funding in 2019 was expected to generate 76 billion Turkish Liras. It was stated that the planned savings to be made in the budget will be ensured by the suspension of the projects that have been tendered but not yet started, the realization of the mega projects by international financing through direct foreign investment, and the arrangements for more efficient and financial efficiency of public-private partnerships.

These spending cuts in investments are in line with the expectations and are likely to occur as they are related to political decisions but there is a very low probability of cuts in the current and social security expenditures especially because of the upcoming local elections in March 2019.

Other administrative measures in NEP on public finance include reassessing incentives, public housing, leasing and construction of public buildings, reducing the expenditures of state-owned enterprise (SOE) and revolving funds.

Also, it is stated that the Tax amnesty, which has become frequent in recent years will not be applied and the tax base will be broadened. ‘No tax amnesty’ is a political decision and can be realized in the short term. However, broadening the tax base seems unlikely in the short or even medium term, as it is politically difficult to enforce. In addition, there is a question of how the current political will, which did not or could not take these measures during its 16 years of power alone, can make these decisions that are politically risky in the next few years.[13]

Another question mark on the NEP targets was related to the growth target. The growth rate should be negative in the last quarter in order for the growth rate to decelerate to the targeted level of 3.8% from 6.3% in the first half of 2018, which seems likely. However, if the decline inboth the current account deficit and the budget deficit persist, it is unlikely that the 2.3% target in 2019 will be achieved.[14]

Similarly, NEP argues that “...a framework is designed to limit macro-financial risks and to lead the economy towards a sus-

13 Even though the program says that tax amnesty will not be applied, the public expectation for amnesty expectation is still very much alive (http://vergisitesi.com/yeni-vergi-affi-2019-vergi-affi-ne-zaman-baslayacak.html ziyaret 22.12.2018). In addition, the government signaled that the government could loosen its commitments once again extending the zoning amnesty until the year end, which was supposed to expire on October 31, 2018.

14 Notably, experts raised criticism towards certain consistencies with regards to the calculation methodology of growth for 2019 and beyond. (https://www.dunya.com/kose-yazisi/yepe-dayandirilan-hesaplamalarda-akil-almaz-hatalar-yapiliyor/428510, last-visited (22.12.2018)

tainable growth path by keeping the financing need at reasonable levels in a period when domestic and external financing opportunities are limited" with regards to growth. On the other hand, the question remains about how the growth will be financed in an economy where the financing opportunities are limited and the financing need will be kept at reasonable levels.

Another question mark on the NEP targets was related to the growth target. The growth rate should be negative in the last quarter in order for the growth rate to decelerate to the targeted level of 3.8% from 6.3% in the first half of 2018, which seems likely. However, if the decline inboth the current account deficit and the budget deficit persist, it is unlikely that the 2.3% target in 2019 will be achieved.

The program states that the decline in the current account deficit will continue as a result of the introduction of practices that prioritize exports and tourism revenues. There has been a swift decrease in the current account deficit but it is because of decreasing imports rather than export growth and is a sign of a contraction in the economy. An increase in exports may be expected due to the depreciation of Turkish Lira, but the extent of its impact is debatable as all the emerging market currencies depreciate. Other measures to reduce the deficit in the NEP include increasing R & D investments in identified priority areas, encouraging the production of advanced technology and biotechnology products, advancing in the defense industry, promoting export, developing international cooperation, energy saving and development of resources and development of tourism. There is no clarity here as to how, when and with which resources these policies will be carried out.

The finance sector is another area NEP focused and designed policies on. In the program, it is stated that the banking sector is in good condition in terms of capital adequacy ratio, non-performing loans, foreign currency open position, and equity profitability. However, attention is drawn to the increasing risks of the banking sector due to the fluctuations in exchange rates and interest rates - the high level of foreign exchange liabilities of the sector and the fact that 51% of these debts are due to domestic banks.

The measures envisaged for the banking sector are mainly aimed at preventing the disruption of the real sector through banks. In this respect, several administrative measures were provided including the restructuring of unpaid loans, Turkey Real Estate Bank support to the housing sector, export subsidies to the private sector through Development Bank of Turkey and Eximbank credits.

Although the banking sector figures do not indicate a significant risk in the first phase of the unfavorable developments in the economy, the banking sector might face significant problems due to the deepening recession, halting flow of foreign resources and increasing problems in the credit payments. It is obvious that the programmers are aware of this risk. It is not possible to find clear answers in the program to the questions that cannot be answered independently of the political preferences such as how to implement these measures aiming banks to continue lending in order to revive the stagnant real sector and to prevent its debt problems from deeply affecting the banking sector or which banks and companies to be supported.

Finally, under the subsection of programs and projects, NEP devises medium and long term initiatives aiming a stronger society and a more qualified human capital which would support the economic targets.

Although some of the objectives mentioned here are well-founded, they are evaluated as general expressions and promises that can only be realized in the long term.

Apart from the objectives, several important criticisms addressed the NEP. These are concentrated as follows:

- Under IMF agreements, a program is given to countries and finance is provided to implement it. The governments are audited as to what extent they comply with the program. NEP is presented as an alternative to the IMF programs. It is estimated that the two boards (Financial Stability and Development Committee and Public Finance Change and Transformation Office) mentioned in the program were established to fulfill the audit function. It is thought that trust in government commitments will provide financial resources. However, it seems difficult for a program, where both the practitioner and the supervisor is the same government, to provide adequate confidence and to create sufficient resources.
- Evidently, one of Turkey's most important economic problems is the low savings rate. Of course, it is not easy to increase savings in a shrinking economy. Yet, no suggestions have been made on how to increase the savings in the long term.

As a result, NEP is a document that contains many correct goals and policies prepared in good faith but cannot sufficiently justify or adequately explicate –perhaps because it was prepared in hurry– how policies will be implemented.

- The rule of law, property rights and the development of democratic rights have never been mentioned in the program.

- As a result, NEP is a document that contains many correct goals and policies prepared in good faith but cannot sufficiently justify or adequately explicate –perhaps because it was prepared in hurry– how policies will be implemented. Perhaps more importantly, there is no answer to the question "what is the guarantee of the government doing what it promises in this program?" With these features, NEP is considered to have a low ability to persuade potential investors.

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ISSUES AND POLICY ALTERNATIVES

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