

REFLECTIONS OF THE GLOBAL ECONOMIC CRISIS ON THE COUNTRIES OF PIIGS AND TURKEY'S MACROECONOMIC VARIABLES

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Abstract

In the study, the reflections of the global economic crisis on the five fragile countries of the Euro Zone (Portugal, Ireland, Italy, Greece, Spain) and Turkey's macroeconomic variables has been analyzed. For the analysis mentioned variables such as real GDP growth, unemployment rate, inflation rate, current account balance, budget deficit and consolidated government borrowing will be used.

Keywords : *Global Economic Crisis, PIIGS countries, Euro Debt Crisis*

JEL Classification : *H6, G01, O52*

KÜRESEL EKONOMİK KRİZİN PIIGS ÜLKELERİ VE TÜRKİYE'NİN MAKROEKONOMİK DEĞİŞKENLERİNE YANSIMALARI

Özet

Bu çalışmada küresel ekonomik krizin, PIIGS ülkeleri olarak adlandırılan Euro Bölgesi dahilindeki beş kırılğan ekonomiye sahip olan Portekiz, İrlanda, İtalya, Yunanistan ve İspanya ekonomileri ile Türkiye ekonomisi makroekonomik değişkenlerine olan yansımalarının analizi yapılmaktadır. Söz konusu analiz için ülke ekonomilerinin büyüme oranı, enflasyon oranı, işsizlik oranı, cari işlemler açığı, bütçe açığı ve kamu borç stoklarının milli gelir içindeki payı gibi makroekonomik değişkenler kullanılacaktır.

Anahtar Kelimeler : *Küresel Ekonomik Kriz, PIIGS ülkeleri, Euro Borç Krizi*

JEL Sınıflaması : *H6, G01, O52*

1. INTRODUCTION

The global economic crisis that started to show its effects in the middle of 2007, led to the fall of stock markets, and the collapse of large financial institutions . With these events, economies of many countries have shrunk and serious economical and social problems have appeared. The crisis seen firstly in USA housing market has started to affect all countries' economies in many ways in

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a short time. The economic crisis has hit the various Member States of the European Union to a different degree.

In this study the effects of the global economic crisis on the PIIGS (Portugal, Ireland, Italy, Greece, Spain) countries's and Turkey's growth, inflation, unemployment, trade volume, budget deficit and debt stock, and how this question is handled by the European Union and which strategies are followed for crisis management will be discussed.

2. GLOBAL ECONOMIC CRISIS AND THE GLOBALIZATION OF THE CRISIS

The mutual characteristic of economic and financial crisis types is causing unsustainable economic imbalances and considerable fluctuations in capital asset prices or exchange rates. A number of factors can trigger financial crisis. The first view is that crises are an intrinsic part of the business cycle and result from shocks to economic fundamentals. However, severe credit events do not happen every cycle. Increased uncertainty materialized into increasing premium on short-term liabilities and a squeeze in available liquidity. When premium reach a very high level, the liquidity problem moves into a solvency problem, capital shortages and bankruptcy, unless public authorities intervene¹.

Crisis have affected integrated economies negatively from the past to present. There have been many crisis with different degrees of influence since the beginning of 19th century. Among these crises are the 1929 financial crisis, Latin America, East Asia and Russia crises. Currently we are experiencing the 2008 crisis. Globalisation has caused capitalism to spread crisis globally. In the globalising world, contagiousness is not limited to commercial relations. The contagiousness of crisis takes place via financial relations and is far more widespread and influential.

In the USA from the late 1990s as a result of the increasing housing demand, low interest rates, accessibility and flexibility of loans in the mortgage market which grew rapidly following 2001, the share of subprime mortgages was 8, 7 per cent in total credits in 2001 whereas it rose to 20, 1 per cent in 2006 and credit volume increased threefold and reached to \$ 600 billion². Otherwise subprime mortgage lending is estimated to have funded more than 5 million home purchases, including access to first-time homeownership for more than an estimated 1 million households. Young and minority households have been among the primary beneficiaries. These are key benefits in view of the longstanding U.S. policy goals for increased homeownership. The increased homeownership has also stimulated a corresponding amount of new home construction³.

While the ratio of floating rate mortgage loans was increasing among mortgage loans, the share of subprime mortgage loan among these loans also increased in the same period. The increasing housing demand and artificial increases in housing prices have caused asymmetric information and misled both beneficiaries and loan agencies.

The interest burden created by lower initial but gradually increasing interest rates has increased the possibility of going on default for sectors with low repayment capacity and disruptions in interest and capital repayments have been observed.

¹ D. Furceri - A. Mourougane, **Financial Crises: Past Lessons and Policy Implications**, OECD Economics Department Working Papers, No. 668, OECD publishing, 2009, p. 5.

² Insider Mortgage Finance, **2009 The Mortgage Market Statistical Annual**, Vol: 1, Insider Mortgage Finance Publishing, Bedhesha, 2010.

³ Dwight M. Jaffe, **The US Subprime Mortgage Crisis: Issues Raised and Lessons Learned**, Commission on Growth and Development, WP No: 28, 2007, p. 3.

Because of the interruption of repayments, fund flow to the stock exchange has disrupted and lenders started to take possession of homes. However, as a result of the increase in the number non-performing loans, surplus supply in housing market and liquidity problem emerged when home sales became impractical.

Rapid falls in the prices of assets affected all national and international investors. Hence, when problems emerging in loan market spread capital markets, an atmosphere of uncertainty and loss of credibility affected loan markets, interbank markets and capital markets, obstructed corporations which operate in international markets from finding new funds. This situation put extra pressure on banks' capital competence ratios, caused financial decay, bankrupts and bank mergers. These negative developments apply not to only American financial houses but also European financial houses.

Liberalising capital movements created pressure both on American and European banking systems and European banks dominating the international markets were affected negatively and the crisis globalised⁴. The growing atmosphere of uncertainty and loss of credibility prevented loan mechanism from operating which constrained the borrowing means of real sector and increased borrowing costs considerably.

The most adverse reflection of crisis is the downward movement of country growth rates. IMF has stated that the deceleration in the global economy deepened and thus lowered growth forecast twice since April 2012. IMF forecast that the world economy would achieve the lowest growth since 2009 with 3, 3 per cent. The Fund, which lowered the growth forecast from 3, 5 per cent to 3, 3 per cent, stated that the risk of global deceleration is high.⁵ According to IMF World Economic Outlook Update January 2013, the growth rate of developed countries was 1, 6 per cent, whereas it was 6, 3 percent for developing countries and emerging markets in 2011. In 2012 the rate of developed countries was 1, 3 per cent while it was 5, 1 per cent for developing countries and emerging markets. IMF forecast the 2013 growth rate of developed countries as 1, 4 per cent and for developing countries and emerging economies this rate would be 5, 5 per cent. IMF's forecast of EU for 2013 has been revised downward since October 2012 and the forecast is 0, 2 per cent⁶.

Developed economies shrank 3, 4 per cent in 2009 and among the groups affected most by the crisis is European Union. In this period the Euro zone shrank by 4, 1 per cent and thus experienced its greatest shrink in history. The Euro zone which shrank the least in developed economies and had the slowest growth projection became the central agent of the global crisis. The Euro zone has had to experience slow growth and struggle with the huge borrowing crisis of the member countries and the bankruptcy risk of countries such as Greece, Spain and Ireland since 2010.

Euro is the shared currency of the Euro zone and its monetary policy is followed by European Central Bank which leads all member countries to be closely connected and the spread of negative developments occurred in one Euro zone country to the other Euro zone countries in a short time. Besides, the high integration level of EU countries' finance and real sectors increases the level and speed of interaction. Hence, borrowing crises burst out in Greece in the second quarter of 2010 affected the Euro zone countries and created negative developments in PIIGS short for Portugal, Ireland, Italy, Greece and Spain. Together with the acceptance of Euro, decay in spending discipline and the opportunity of borrowing with low rate interests became a problem. When the 2007

⁴ Belgin Akçay, **21. Yüzyılın İlk Finansal Krizi**, Ankara, Seçkin Yayıncılık, 2012, s. 266.

⁵ International Monetary Fund, **World Economic Outlook, Coping with High Debt and Sluggish Growth**, October, 2012, p. 190.

⁶ International Monetary Fund, **World Economic Outlook, Update**, January, 2013, p. 2.

crisis was faced, Maastricht criteria have been violated constantly and there were countries where bubbles appeared.

2. FIVE FRAGILE COUNTRIES OF THE EURO ZONE (PIIGS – PORTUGAL, IRELAND, ITALY, GREECE AND SPAIN) AND TURKEY

The reasons of the global crisis vary from country to country. In these 5 fragile countries of the Euro zone the reasons may be as follows:

Expansionary monetary policies followed in Greece for many years have brought along monetary and macroeconomic imbalances. The reason for the crisis facing Greece is related to both internal and external issues. Internal factors are: high public spending, low public revenues, weakness in structural policies and not competing with international production. Among the external factors are falling foreign investments, insufficient amount of capital to use in manufacturing within the country and the European Union's pressure towards adapting its rules and criteria. Moreover, Greece has gone far beyond reality while notifying the indicators (between 1997 and 2003) to be a member of the European zone.⁷

In Ireland, which is the first country to fall into recession in the European Union together with the global financial crisis, a ten-year growth period based on domestic demand was experienced.

From 2006 and on, together with instabilities in the banking sector which started in residential sector and reflected in other sectors and decreasing foreign trade partners the crisis became more apparent. The load of financial sector in the country's economy and dependency on external sources increased the impact of the crisis. Furthermore, rapid depreciations, panic in markets created by intense austerity measures taken in the public sector and the increase of layoffs following the crisis have all contributed⁸. Italy faced crisis as a country with high public borrowing stock in the Euro zone. The weakness of public finance made the economy more fragile. Although budget performance recovered thanks to the consolidation measures taken both in the pre-crisis and post-crisis period, high borrowing stock leaves Italy vulnerable against shocks. The main concern about Italy is the low growth performance. The high borrowing rate of interest keeps the debates of borrowing sustainability alive. What makes the outlook negative is the perception that there are structural problems behind the low growth performance and it will not be easy to get over these problems. The reason for this perception is Italy's loss of productivity. Another reason is thought to be government policies⁹.

Portugal became the first Euro zone country to violate the rules of budget deficit/GDP and public borrowing stock/GDP. The long term recession in Portuguese economy has made it more difficult to recover the public finance. Together with the increase in public sector bond yields it has become a country closer to crisis. Behind high public borrowing stock, interest issue and monetary indiscipline of Portugal are a problem of growth¹⁰, because Portugal has the lowest growth rate in the Euro zone.

⁷ Serap Durusoy – Ömür Şamiloğlu, "AB'nin Zayıf Ekonomik Halkası Yunanistan'ın Ekonomik Krizi Dinecek Mi?" **Alternatif Politika**, Cilt: 4, Sayı: 1, Şubat 2012, ss. 90-91.

⁸ Republic of Turkey, Secretary-General of the EU, **Avrupa Birliği'nde Küresel Finansal Krize Karşı Alınan Önlemler ve Birliğin Rekabet Gücünün Arttırılmasına Yönelik Girişimler : Euro Rekabet Paketi**, Ankara, 2011.

⁹ Mehmet Hondur, "Maliye Politikaları ve Bütçe Uygulamaları", **SDE Analiz**, 2012, 30.

¹⁰ Jay H. Bryson, "European Debt Crisis: What's Next" **Wells Fargo Securities Economics Group Special Commentary**, 4 January 2011.

Right after the crash in property and construction sectors, a comprehensive structural adjustment reform was implemented in Spain. Exorbitant private sector borrowings triggered deleveraging in household and non-financial organisations. Troubles related to high unemployment rates before the crisis still continue. Public finance is far from sustainable levels.

In Turkey who is a candidate country is part of the global system and has been affected by the global crisis as a result of close economic relationships with the Union.

Turkish economy struggled to get rid of crisis causing elements to a great extent after the liquidity crisis in 2001 and made a great economic breakthrough between 2003 and 2007 and grew 27 quarters uninterrupted before the crisis. The support provided by IMF, accelerating privatization, positive impacts of increase in foreign investment and high valued Turkish Lira restrained inflation. Moreover, in the post- liquidity crisis period banking sector was strengthened and a regulatory and monitor structure was set up. Then new GDP series was explained in March 2008 and thus increasing GNP caused many economic indicators to look good. It was thought that all the positive developments would be sustainable. However, on 20 October 2008, Turkish Prime Minister Mr. Erdoğan said “The global crisis will hopefully only touch and pass Turkish economy”. Has the crisis really touched and passed Turkish economy? Or has it caused damage on macroeconomic variables?

Yet, in 2007 when the expectation management was in its climax the global crisis burst out. In the period when negative indicators increased in the global markets, the fact that any measures were not taken in Turkey affected consumers’ spending decisions negatively. The fact that the global crisis was felt more in the European Union zone, which constitutes almost 50 per cent of our export, affected our export performance negatively and has started to decrease considerably since November 2008. This decrease in export which contributed significantly to the growth performance affected production and employment negatively. The fact that a lot of measures stimulating the domestic demand were after the extinguishing the fire against the global crisis in the financial system phase deteriorated public budgets of the countries. Deficits were financed by public borrowing. Increasing public borrowing should be decreased especially in borrowing or EU countries in order not to weaken trust in the economy and increase concerns about sustainability.¹¹

3. ECONOMIC AND FINANCIAL OUTLOOK OF PIIGS COUNTRIES AND TURKEY

3.1. GROWTH

While the growth rate was 2,8 percent for developed economies, it was 8,7 percent for emerging markets and developing countries in 2007. And while the developed economies shrank at a rate of 3,5 percent, the growth rate of emerging markets and developing countries decreased to a rate of 2,7 percent in 2009¹².

According to the IMF World Economic Outlook Update dated January 2013, the growth rate of 2011 was 1,6 percent for developed countries and 6,3 percent for developing countries and emerging markets. The aforementioned rate was stated to be 1,3 percent for developed countries and 5,1 percent for developing countries and emerging markets in 2012. IMF estimated the growth rate of developed countries as 1,4 percent and of developing countries and emerging economies as

¹¹ Fatih Ozatay, *Finansal Krizler ve Türkiye*, 3. Baskı, İstanbul, Doğan Kitap, 2011, 67.

¹² International Monetary Fund, *World Economic ...* October, 2012, a.g.e., p. 190.

5,5 percent in 2013.¹³ The same report states that while the growth rate of the Euro Region is 1,4 percent in 2011, the shrinkage rate is 0,4 in 2012. It is projected that the Euro Region will shrink at a rate of 0,2 percent in 2013.¹⁴

3.1.1. Portugal

Having a growth rate of approximately 3 percent when the crisis arose, Portugal started to shrink in the last quarter of 2008 and the greatest shrinkage rate was approximately 4 percent in the first quarter of 2009. The economy, which shrank throughout 2009 and accelerated towards the end of the year, started to have a positive growth in 2010. However, this success in growth was temporary. The Portuguese economy closed 2011 with a shrinkage of 3 percent (Figure 1).

While the Portuguese economy shrank at a rate of 2,7 percent due to the decrease in domestic demand in 2009, the stagnation affected the unemployment negatively and maximized it in such a way that it had never been observed in history. The pre-crisis imbalances subsisted especially due to the increase of external deficit low productivity and the decreasing competitive capacity. The crisis also affected the public finance and maximized the budgetary deficit and debt ratio at highest levels of recent years.

3.1.2. Ireland

Having a negative growth in the first quarter of 2008, the Irish economy shrank at a rate of 7 percent in the last quarter of 2008 and at a rate of 6 percent in the first quarter of 2009. Following the shrinkage of the last quarter, the Irish economy started to grow towards the end of 2010. GDP increased at a rate of 2,9 in the last quarter of 2011 and additionally, the performance difference between sectors aimed at the domestic market and export-oriented sectors was sustained. The average growth rate of the country could not reach 2 percent in 2012 (Figure 1).

3.1.3. Italy

Towards the end of 2007, the Italian economy receded from the growth of 2,5 percent that occurred in the first quarter and entered into a process of shrinkage. Following the shrinkage of the last three quarters in 2008, the Italian economy which experienced the highest shrinkage rate of 7 percent in the first and last quarter of 2009 started to have a positive growth in 2010. The Italian economy, which had a shrinkage rate of 0,7 percent in the last quarter of 2011 compared to the previous quarter, experienced a limited growth of totally 0,4 percent in 2011 under the influence of the shrinkage of 0,2 percent that occurred in the third quarter (Figure 1).

Since the serious GDP shrinkage that occurred in the last quarter of 2011 and negative expectations regarding the labor market and high atmosphere of uncertainty in financial markets caused the postponement of expenditure and investment plans, Italy started 2012 with an effect of negative growth at a rate of 0,5 percent.

3.1.4. Greece

While the Greek economy grew with a rate of approximately 1 percent throughout 2008, it experienced a negative growth and constant shrinkage in 2009. Having the most remarkable public debt among the PIIGS countries, Greece had a shrinkage of 7,4 percent in the first quarter of 2010 and of 5 percent in the first quarter of 2011. Greece experienced a much more serious shrinkage than expected in the last quarter of 2011. The data of quarters show that the real GDP decreased at

¹³ International Monetary Fund, **World Economic ...** January 2013, p. 2.

¹⁴ A.g.e. p. 2.

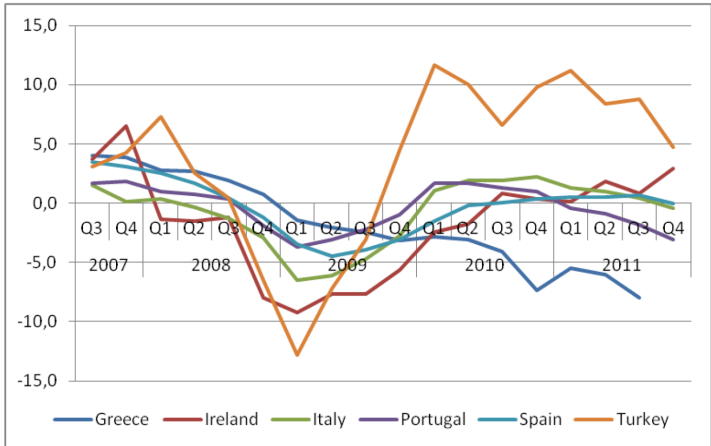
a rate of 7,5 percent in the last three months of 2011, compared to the same period of the previous year. The shrinkage in the real GDP was recorded as 6,9 percent on the annual basis (Figure 1).

It is estimated that the growth will regress at a considerable rate due to both the serious decrease in the domestic demand and the export performance which was worse than expected in 2012. It is anticipated that as well as the increasing unemployment and disposable income of salary deductions in the private sector, the precautions that are taken to enhance the public finance will repress the domestic demand. On the other hand, it is estimated that low business and consumer sensitivity index values and difficulties of firms and households to attain credits will cause the postponement of the increase in the consumption for a little longer. According to previous estimations, the recovery that is expected to occur this year is expected to start in 2013 together with the revival of economic activities at the least¹⁵.

3.1.5. Spain

Involving important structural imbalances, the global crisis has created a turning point in terms of the Spanish economy that has been growing constantly and considerably for the last ten years and caused the formation of a very serious shrinkage in the economy as from the second half of 2008. The growth rate of Spain that was 3,5 percent in the first quarter of 2007 decreased to a rate of 1,2 percent in the last quarter of 2008 due to a constant shrinkage. The negative course in the Spanish economy, which shrank at a rate of 4,5 percent in the second quarter of 2009, continued until the last quarter of 2010. Having a continuous shrinkage for eight quarters, the Spanish economy had a growth of approximately 0,4 percent in 2011 (Figure 1). IMF estimates that the country will shrink at a rate of 1,8 percent in 2012 and at a rate of 0,3 percent in 2013.

Figure 1.: PIIGS Countries and Turkey-Gross Domestic Product (%) (Quarterly change over same quarter, previous year)



Source: OECD, National Accounts Statistics database.

3.1.6. Turkey

The Turkish economy had a decreased growth rate in the second quarter of 2007 due to factors such as global financial turbulences, general elections, presidency elections and the production, consumption and investment decions in economy were affected negatively in this process.

¹⁵ Republic of Turkey, Ministry of EU, Spring 2012.

Additionally, the failures of determining the economic policy that would give a new acceleration to the economy as from 2006 and making an agreement with IMF even though the Stand-By agreement had been expired in May of 2008, as well as the deceleration of the EU membership process increased the uncertainties in economy. Besides, the thought that the global crisis would only be limited with developed countries (decoupling) obviated the development of prevention packages in spite of the crisis. As a result of all these omissions, the economy shrank at a rate of 7 percent in the last quarter of 2008 and at rates of respectively 14.7 and 7.8 percent in the first and second quarters of 2009¹⁶.

This condition is an important indicator of how the global crisis deepened in the Turkish economy, which had a growth of 7 percent in the same period of 2008. Negative effects of the crisis were observed on the growth rate throughout the year. Starting to recover in 2010, our economy showed a growth of approximately 8 percent and entered into the tendency of current account deficit expansion in the period of 2010-2011. However, the weakness on the domestic demand continued. The growth started to decelerate just before 2012.

As well as a growth rate of 3,4 percent that was observed in the first quarter of 2012 compared to the same period of the previous year, a growth rate of 3 percent was observed in the second quarter and of 1,6 percent in the last quarter. The Turkish economy grew at a rate of 1,4 percent in the 4th quarter of 2012 compared to the same quarter of 2011. The growth rate was distinctly under the market expectation of 2,3 percent. The Turkish economy had a growth of 2,2 percent on the annual basis in 2012 (Figure 1).

3.2. INFLATION

According to the Maastricht Convergence Criteria, the inflation rate of the European Union member and candidate countries could be 1,5 points greater than the average of three countries with the lowest inflation rate within the European Monetary System at the utmost. According to this criteria, there was an inflation of approximately 2 percent in the European Union. Considering the numbers on the basis of countries, on the other hand, it is seen that the price maintenance was provided even in today's problematical countries between 2002-2007.

The inflation decreased all over the world due to the global shrinkage in 2009. IMF, which estimated that consumer prices would increase at a rate of 0,1 percent in developed countries and 5,3 percent in developing countries, anticipated that a decrease would be observed on petroleum prices at a rate of 38 percent and on ware prices outside of petroleum at a rate of 24 percent in 2009, compared to the previous year¹⁷. The consumer prices, which were 3,3 percent in 2008, 0,3 percent in 2009 and 1,6 percent in 2010 in the Euro Region, increased in the following years¹⁸. The publication of IMF dated October 2012 degraded the 2011 accurement of the Euro Region from 2,7 percent to approximately 2,3 percent in 2012 and 1,6 percent in 2013¹⁹.

¹⁶ TÜSİAD, **2010 Yılına Girerken Türkiye Ekonomisi**, İstanbul, TÜSİAD Yayın No: TÜSİAD-T/2009-12/497, 2009, s. 29.

¹⁷ International Monetary Fund, **World Economic Outlook, Update**, July, 2009, p. 2.

¹⁸ International Monetary Fund, **World Economic Outlook, Slowing Growth, Rising Risks**, September, 2011, p. 198.

¹⁹ International Monetary Fund, **World Economic ...** October, 2012, a.g.e., p. 198.

3.2.1. Portugal

While Portugal experienced a high current account deficit and weakness of the banking sector that triggered the crisis, the inflation had occurred at a level of 2,4 percent in digit numbers before the crisis. The inflation, which increased to 2,7 percent in 2008, became -0,9 percent in 2009. The rate of the country inflation remained approximately 1 percent under the effect of the shrinkage in following years (Figure 2).

As it was observed in the World Economic Outlook of IMF dated October 2012, the inflation estimation of Portugal is 0,7 percent for 2013 and 1,5 percent for 2017²⁰.

3.2.2. Ireland

The inflation rate, which remained approximately 3 percent in Ireland before the global crisis, became negative as from the second month of 2009. It remained approximately – 2 and 3 percent until the last quarter of 2010 and increased to a level of 1 percent in 2011. The inflation rate returned to the pre-crisis level throughout 2012 (Figure 2). However, the core inflation remained low throughout 2012 in spite of high energy prices, indirect taxes and the increase in prices being managed. It is estimated that the inflation will recede to 1,2 percent in 2013²¹. As it was observed in the World Economic Outlook of IMF dated October 2012, the inflation estimation of Ireland is 1 percent for 2013 and 1,8 percent for 2017²².

3.2.3. Italy

The first effect of the global crisis on inflation rates of the Italian economy was upward and the inflation rate increased to a level of 4 percent in the midst of 2008. Remaining low throughout 2009, the inflation rate became 0,5 percent in the last quarter of the year, which is not considered negative. The inflation rate, which did not exceed 2 percent in Italy whose inflation rate remained positive just like Greece among PIIGS countries during the period being analysed throughout 2010, became 3-4 percent in 2012 (Figure 2).

As it was observed in the World Economic Outlook of IMF dated October 2012, the inflation estimation of Italy is 3 percent for 2013 and 1,4 percent for 2017²³.

3.2.4. Greece

In Greece, the prices were repressed downward and decreased from 2 percent as from the end of 2008 to 0,7 percent in the last quarter of 2009, due to the economic activity deficit and salary deductions that were accompanied by the global crisis. The inflation rate, which was in the range of 5-6 percent in the midst of 2010, decreased to 0,3 percent at the end of the year, due to the shrinkage that was experienced throughout 2012 (Figure 2). It is estimated that the inflation rate will become negative in 2013 in case that this course continues.

²⁰ A.g.e. p. 198.

²¹ Republic of Turkey, Ministry of EU, Spring 2012.

²² International Monetary Fund, **World Economic ...** October, 2012, a.g.e., p. 198.

²³ A.g.e., p. 198.

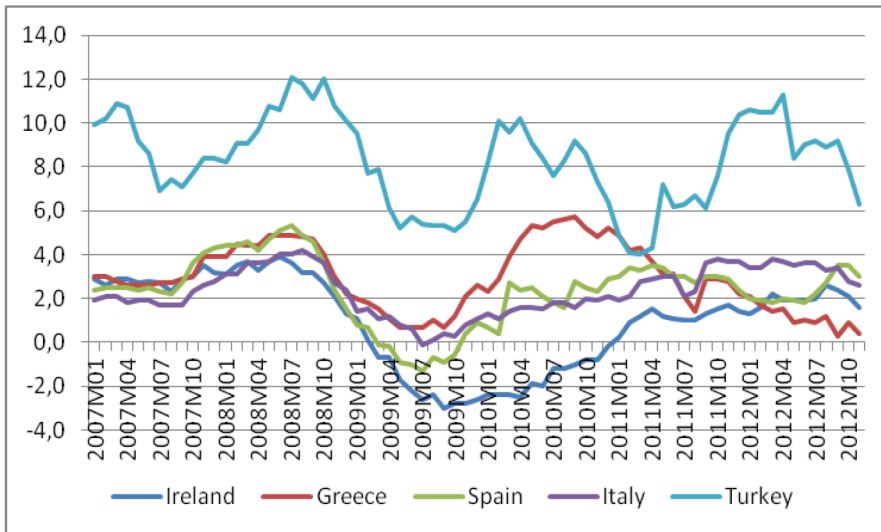
As it was observed in the World Economic Outlook of IMF dated October 2012, a shrinkage is expected for Greece in 2013. The inflation rate is estimated to be -1,1 percent for 2013 and 0,6 percent for 2017²⁴.

3.2.5. Spain

The economic shrinkage of the Spanish economy that was accompanied by the global crisis showed a parallelism with Portugal and the inflation rates became negative in Spain throughout 2009, just like Portugal that had a negative growth. The rates returned to the levels of 2,5 percent before the global crisis following 2009. However, the inflation rates remained at levels of 2 percent until the last quarter after the deceleration that was observed in growth in 2012 and became 3,5 percent at the end of the year (Figure 2).

As it was observed in the World Economic Outlook of IMF dated October 2012, the inflation estimation of Spain is 2,4 percent for 2013 and 1,4 percent for 2017²⁵.

Figure 2.: PIIGS Countries and Turkey - Inflation Rates
(monthly data - annual rate of change)



Source: Eurostat

3.2.6. Turkey

Being different from PIIGS countries, Turkey is a country that experienced the double-digit inflation rates, however, did not have negative inflation rates during the period being analysed. On the other hand, the global crisis made a positive contribution to the struggle with inflation. As well as the crisis, the shrinkage in domestic demand caused the inflation rate to tend to decrease in Turkey and the decreasing inflationary pressures gave the opportunity of applying a monetary policy

²⁴ A.g.e., p. 198.

²⁵ A.g.e., p. 198.

supporting the economic recovery without causing the Central Bank to deviate from the primary goal of price maintenance.

The inflation rate, which was 10,5 percent in the first quarter of 2007, receded 1 point in the first quarter of 2008. The most important decline in inflation started in the second quarter of 2009 and remained in the range of 5-6 until the end of the year. The inflation, which reached a rate of 9 percent in 2010, started to decrease in the last quarter of the year and decreased to a level of 4 percent in the first quarter of 2011 (Figure 2). As it was observed in the World Economic Outlook of IMF dated October 2012, the inflation estimation of Turkey is 6,5 percent for 2013 and 5 percent for 2017²⁶.

3.3. EMPLOYMENT

According to the data of Eurostat, the unemployment rate in the Euro Region reached 10,9 percent by the end of March 2012, which is the highest rate that has been recorded since 1999, when Euro started to be used. The rate in question was 0,8 percent in February 2012. In the Euro Region where austerity measures, budgetary cuts and policies of recovering the public finance have affected the labor markets negatively, the number of unemployed individuals has maximized²⁷.

IMF estimated that the unemployment rate would increase from 7,5 percent to 10 percent in the Euro Region and to 2,6 percent across the globe, due to the significant shrinkage that occurred in employment in 2009²⁸. According to the report of IMF dated October 2012, on the other hand, while the unemployment rate of the Euro Region was explained as 10,2 percent for 2011, the estimation of 2012 was 11,2 percent and the estimation of 2013 was 11,5 percent²⁹.

3.3.1. Portugal

In Portugal where the pre-crisis unemployment rate was 9 percent, the unemployment rate which remained in the range of 8-9 percent throughout 2008 started to increase in 2009 and reached double-digit numbers at the end of the year. The unemployment rate, which fluctuated at the level of 12 percent throughout 2009, increased to 12,3 percent at the end of 2010 due to the deterioration of labor market and failure of applying policies aimed at increasing the employment. According to the employment data of 2011, the unemployment rate which exceeded 14 percent in the last quarter of the year increased to 16,5 percent at the end of the year (Figure 3). The unemployment rates in question show that citizens and employers carry the cost of crisis in the country.

3.3.2. Ireland

Ireland is among PIIGS countries that experienced the most negative effects of the crisis, in terms of the unemployment rate. The unemployment rate, which was 4,5 percent in the first month of 2007, increased to 8,6 percent at the end of 2008. This rate reached double-digit numbers in the second month of 2009 and have increasingly continued until today. Exceeding 13 percents throughout 2010, the unemployment rate reached 15 percents in 2011. Since redundancies increased as a result of decisions that were made in the public sector and developments in financial

²⁶ A.g.e., p. 198.

²⁷ Republic of Turkey, Ministry of EU, **Euro Bölgesinde İşsizlik**, Mayıs, 2012, p. 2.

²⁸ International Monetary Fund, **World Economic Outlook, Crisis and Recovery**, April, 2009, p. 65.

²⁹ International Monetary Fund, **World Economic ...** October, 2012, a.g.e., p. 66.

sector, the employment shrank and the unemployment rate reached approximately 14,5 percent in 2012 (Figure 3). In 2013, on the other hand, it is anticipated that the employment will have an increase, even if just limited, and the unemployment rate will decrease to 13,6 percent³⁰.

3.3.3. Italy

The unemployment rate of Italy, which was approximately 6 percent in 2007, showed an increase of 1 point until the end of 2008 and increased to double-digit numbers in the beginning of 2012. As a result of the deficiency of precautions that were taken in struggle with unemployment, the unemployment rate in Italy reached approximately 11 percent at the end of 2012 (Figure 3). This rate is the highest unemployment rate for Italy for the last twelve years.

3.3.4. Greece

Among the PIIGS countries, Greece is the country with the highest unemployment rate, which reached 27 percent in 2012. Even though the unemployment rate decreased to 7,5 percents in Greece, which was involved in the crisis with an unemployment rate of approximately 8,5 percent, in 2008, it reached double-digit numbers in the last quarter of 2009. When the unemployment rate maximized as 20 percent for Spain among the PIIGS countries in 2011, the rate in question was 15 percent in Greece. Greece reached the maximum unemployment rate of Spain in the first quarter of 2012 and the rate became 22 percent. The unemployment rate of Greece, which passed Spain among the PIIGS countries in terms of employment inefficacy, was 27 percent in 2012 (Figure 3).

The reforms aimed at the labor market in Greece are expected to enable the employment to attain stability and contribute to the formation of new employment facilities in the medium term. In addition to this, it is estimated that the employment will not be able to attain stability before 2013 and the recovery will be slow.

3.3.5. Spain

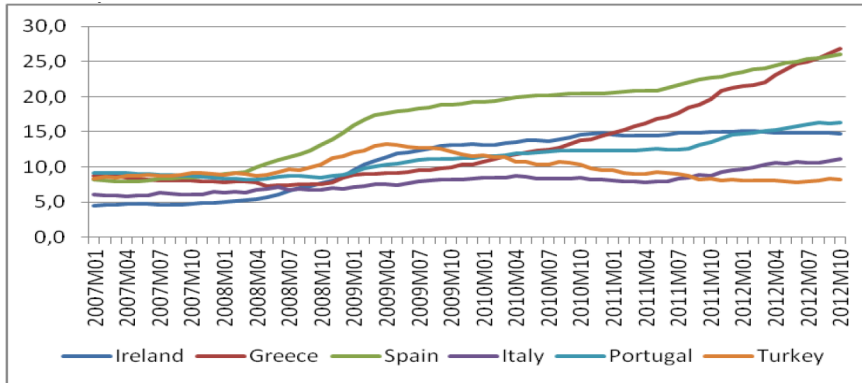
The unemployment rate of Spain, which remained approximately 8,5 percent before the global crisis, reached double-digit numbers in the midst of 2008. Increasing approximately to 19-20 percent at the end of 2009 from 14 percent in the beginning, the unemployment rate reached 26 percent in the last quarter of 2012 (Figure 3). As is seen, the condition in Spain's labor market was perverted worse than estimated and the low wage rise and increase in the income tax burden of recent years have become the most important problems of employment.

Since Spain enables the dismissal of workers with dual structure contract in the labor sector easily, the unemployment rate of Spain displays more severe fluctuations compared to other developed countries. The unemployment rate, which reached 24,3 percent by April 2012 and increased to a level of 51 percent within the young population, not only toughens up the economic shrinkage, but also causes social resistances against structural reforms that are required by Spain and worsens the general view³¹.

³⁰ A.g.e., p. 66.

³¹ Hondur, a.g.e., s. 29.

Figure 3. PIIGS Countries and Turkey - Unemployment Rates (monthly data)



Source: Eurostat

P.S.1: Seasonally adjusted data,

P.S.2: Unemployment according to ILO definition - Total

3.3.6. Turkey

Unemployment is a chronic problem that has always been encountered in the Turkish economy. Even though some initiatives have been made regarding the unemployment problem in certain periods, this problem becomes apparent especially during and after the crisis.

In spite of its high growth performance and increasing export in 2000s, the Turkish economy has failed to provide employment at the required level. The high growth rates have been accompanied by the rates of high unemployment and participation in low labor force and the rigidity being displayed by open unemployment rates after the crisis of 2001 in spite of the high growth has caused the formation of a dual structure between the developed areas of economy where advanced technology and high growth prevail and inactivated traditional (and unrecorded) areas of economy³².

According to the definition of ILO that was approximately 9 percent in 2007, the unemployment rate reached double-digit numbers in the last quarter of 2008 and increased to a rate of 13 percent until the summer months of 2009 (Figure 3). The fact that the unemployment rate was stabilized above 14 percent in our country during 2009-2011 strengthens the opinion that unemployment rates will be high in this crisis just like in the previous crisis and the “non-growing growth period” will be experienced again. Reforms aimed at the labor market are expected to enable the employment to attain stability and contribute to the formation of new employment facilities in the medium term. In addition to this, it is estimated that the employment will not be able to attain stability before 2013 and the recovery will be slow.

3.4. CURRENT ACCOUNT DEFICIT

While the global crisis decreased the capital flows and increased the continual public deficits in the PIIGS countries, the current account deficits have considerably expanded. As a matter of

³² Hakan Ercan ve diğerleri, **Kriz ve Türkiye: Kriz Tedbirlerinin Etki Değerlendirmesi**, Ankara, Uluslararası Çalışma Örgütü, 2010, s. 10.

fact, the international capital flows decreased when public finance indicators were corrupted and credit rating institutions decreased the credit of the country. Being one of the international rating institutions, S&P decreased the grade of Greece, which was BBB+ in 2009, to BB+ in 2010 and B in 2011. Regarding Ireland, on the other hand, it decreased the grade, which was AA in 2009, to A in 2010 and BBB+ in 2011.

On the other hand, the developments in the world trading volume have become no longer pleasant together with the global crisis. The world trading volume decreased at a rate of 10,4 percent in 2009. According to the estimation of IMF regarding 2012, the trading volume will change at a rate of 3,2 percent compared to the previous year and 4,5 percent for 2013. In the Euro Region, following a regression of 1,4 percent compared to the national income in 2008, the foreign trade volume had a regression of 2,1 percent in 2010³³.

The effect of developments in the world trade upon the proportion of the current account balance of the Euro Region to the national income was observed as the increase of the ration of 2011 at a rate of 0,4 percent. While the 2012 projection of the current account balance has a surplus at a rate of 1,1 percent, the 2013 projection has a surplus at a rate of 1,3 percent³⁴.

3.4.1. Portugal

Portugal is among the PIIGS countries that experienced the problems of public debt and current account deficit throughout the period when it lost acceleration in growth. The proportion of the current account deficit, which was 10,1 percent in 2007, to the national income increased to a level of 12,6 percent in the following year. Entering into the process of recovery, the current account deficit lost 3 points and declined to a level of 7 percent in 2011, and then to a level of 2,9 percent in 2012 (Figure 4).

According to the estimation of IMF regarding Portugal's current account deficit rate, it will be 2,9 percent in 2012 and 1,7 percent in 2013³⁵.

3.4.2. Ireland

The current account deficit of Ireland, which was approximately 5 percent in 2007, reached to a level of 6 percent together with the global crisis and had a surplus in 2010. The current account deficit had a surplus inasmuch as 1 percent of the national income in 2011 (Figure 4).

The projection of Ireland's current account balance for 2012 and 2013 has a surplus of respectively 1 and 1,7 percents³⁶.

3.4.2. Italy

The global crisis did not have an important effect upon the current account deficit in Italy. While 2,9 percent of the national income was accrued as current account deficit in 2008, this rate was 2,2 percent in 2009. Since the rate in question, which exceeded 3 percent in 2010 and 2011,

³³ International Monetary Fund, **World Economic ...** October, 2012, a.g.e., p. 201.

³⁴ A.g.e., p. 227.

³⁵ A.g.e., p. 66.

³⁶ A.g.e., p. 66.

had a deficit of 1,5 percent in 2012, a recovery is expected in the current account deficit under the effect of the recovering foreign trade balance (Figure 4).

The projection of Italy's current account balance for 2012 and 2013 is expected to have a surplus of respectively 1,5 and 1,4 percent³⁷.

3.4.3. Greece

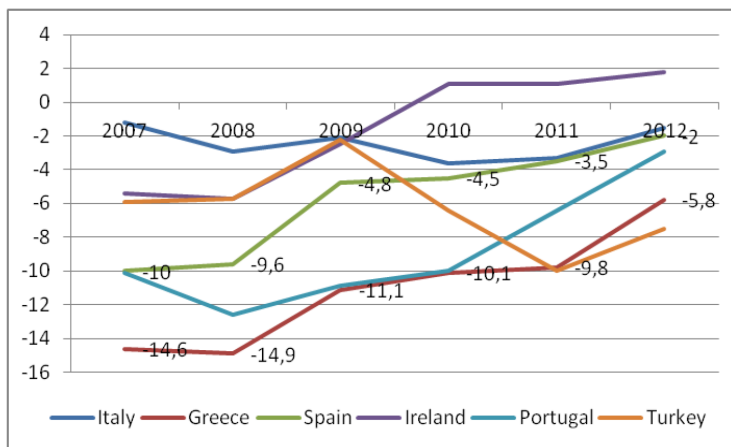
Greece is the country with the maximum current account deficit among the PIIGS countries. The country, which had a current account deficit inasmuch as 14,6 percent of the national income in 2007 and 15 percent in 2008 before the global crisis, regressed its current account deficit to 10 percent of the national income during the process of global crisis. This rate became 5,8 percent in 2012 (Figure 4).

Being accepted as the environmental economics of Europe due to its high current account deficit, Greece imports considerable amounts of capitals. The fact that the competitive capacity loss of Greece in key sectors of industry was against the countries within the Union at a rate of 85 percent and against third countries at a rate of 15 after joining the European Union explains the export losses considerably³⁸.

3.4.5. Spain

Having a current account deficit inasmuch as 10 percent of the national income in 2007, Spain had a decline of 5 percent in the current account deficit in 2009 and the deficit became 3,5 percent in 2011 and 2 percent in 2012 (Figure 4).

Figure 4.: PIIGS Countries and Turkey – Current Account Balances (%GDP)



Source: IMF, October 2012

3.4.6. Turkey

Export-based growth model and high current account deficit caused Turkey to be affected by the crisis. However, since Turkey is a country with a fragile economy in terms of the share of

³⁷ A.g.e., p. 66

³⁸ Nilgün Erdem – Ferda Dönmez Atbaşı, “Finans Sermayenin Kriz Döngüsü: Merkez-Çevre Yakınlaşması”, *Ankara Üniversitesi SBF Dergisi*, Cilt 66, No. 4, 2011, s. 47.

its current account deficit within the national income, the crisis had a positive effect in this area. Import showed a higher rate of decline compared to export in the first years of the crisis and thus, a serious decrease was observed on the current account deficit. While a part of the shrinkage in import was caused by the drop in energy prices, another part was caused by the deficiency of economic activities.

The decline of the current account deficit in a period when the global crisis decreased the external financing opportunities prevented the possible troubles in terms of the financing of deficit. The current account deficit was inasmuch as 6 percent of the national income in 2008 and 2,5 percent of the national income in 2009. The current account deficit that is inasmuch as 10 percent of GDP, which upgraded the Turkish economy among the world economies in terms of current account deficit/GDP in 2011, basically indicates a problem of foreign trade balance, since the deficit in the trade balance is higher than the current account deficit (Figure 4).

The projection of IMF regarding Turkey's current account deficit is respectively 7,5 and 7,1 percent for 2012 and 2013³⁹.

3.5. BUDGET DEFICIT

As well as the problem of current account deficit, PIIGS countries also have the problem of budget deficit. The solution of these problems is to regulate the exchange. However, since the members of the European Economic and Monetary Union started to Euro instead of the national currency, the opportunity of seeking a solution to the debt crisis by means of monetary policy has been dissipated⁴⁰.

According to the Maastricht Convergence Criteria, the general budget deficit of the European Union member and candidate countries should be less than 3 percent of GDP. Germany, France, Italy and England violated the Maastricht Criteria of 3 percent during the years when Euro had just started to be used. According to this indicator, while Greece has the greatest budget deficit, Portugal is on the limit. Among the countries that struggle with the debt crisis today, while Ireland has started to have a budget surplus as from 2003, Spain has started as from 2005. Almost a great majority of countries, except for Greece, provided the budget deficit criteria by 2007 (Figure 5). However, the number of countries providing the budget deficit decreased together with the global crisis.

3.5.1. Portugal

Portugal failed to provide the Maastricht Criteria regarding the budget deficit of 3 percent throughout the crisis. The rate, which was 3,1 percent in 2007, decreased to 10,2 percent in 2009, lost 0,5 points in the following year and reached 9,8 percent. Precautions aimed at decreasing the expenses and increasing the income regarding the social security, which were taken against the crisis in 2012, brought along positive results aimed at shrinking the budget deficit, but stopped the growth (Figure 5).

³⁹ International Monetary Fund, *World Economic ...* October, 2012, a.g.e., p. 66.

⁴⁰ İlhan Dağdelen, "Avrupa Bütünleşme Sürecinde Yunanistan'ın Borç Krizi", *Ankara Avrupa Çalışmaları Dergisi*, Cilt: 10, No:2, 2011, s. 11.

3.5.2. Ireland

Being a country that had budget surplus before the global crisis, Ireland reached record numbers among the PIIGS countries in terms of the proportion of the budget deficit to the national income. The budget deficit/GDP rate that was 7,4 percent of the national income in Ireland reached 30 percents in 2010 and the incomppliance with the Maastricht Criteria maximized. The proportion of the budget deficit to the GDP is expected to be approximately 8 percent in 2012 (Figure 5).

3.5.3. Italy

While Italy had a budget deficit inasmuch as 2,7 percent of the national income in 2008 when the first effects of the crisis were felt, it started to violate the Maastricht Criteria with its budget that had a deficit inasmuch as 3,4 percent of the national income in 2009. The budget deficit was respectively inasmuch as 4,5 and 3,9 percent of the national income in 2010 and 2011 (Figure 5).

It is estimated that the precautions of strict fiscal policy that were applied during 2010-2011 will continue in 2013 as well and increase the noninterest surplus/GDP rates to 4,5 percent. The general budget deficit/GDP rate that is anticipated for 2013 is 1,1percent. It is estimated that interest expenditures will decelerate and continue to increase. As a consequence, the budget is expected to reach the structural balance in 2013.

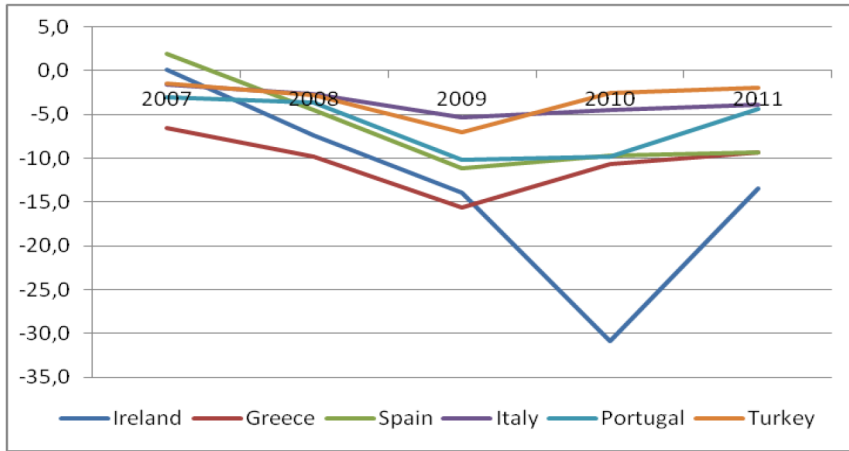
3.5.4. Greece

Greece is the country that was affected by the crisis at the utmost not only among the PIIGS countries, but also the European Union countries. Considering the budget deficit in order to see the extent of the decay in public finance indicators of Greece that was completely affected by the crisis; it is seen that the country has failed to comply with the Maastricht Criteria with its budget deficit/GDP rate since 2007. The rate in question, which was 15,6% in 2009, became 10,7 percent in 2010 and decreased to 9,4 percent in 2011 (Figure 5). Unless the country overcomes the debt crisis, the budgetary discipline will not be provided.

3.5.5. Spain

Spain, which had a budget surplus before the global crisis, is among the PIIGS countries being seriously hit in terms of budget. It is seen that the public finance is no more sustainable in the Spanish economy, whose growth was replaced by shrinkage in 2008. The proportion of the budget deficit to the national income increased to a level of 11,2 percent in 2009 and remained between 9-10 percent in 2010 and 2011 (Figure 5).

In parallel with the shrinkage in growth and as a result of deductions that were made to support the real sector in 2009, a decrease was observed on tax revenues. Besides, budget expenditures were actualized at levels that were anticipated in the budget independently from the economic shrinkage. The shrinkage of economy caused the shrinkage of budget deficit and reincrease of the tax base. Additionally, this balance became even worse with crisis prevention packages.

Figure 5. PIIGS Countries and Turkey – Budget Deficits (Annual - GDP%)

Source : Eurostat

3.5.6. Turkey

Turkey has consistently provided the Maastricht Convergence Criteria regarding the budget deficit since 2004. Public revenues rapidly decreased during the period when the economy shrank due to the global crisis and the budget deficit/GDP rate increased to a level of 7 percent under the effect of fiscal stimulus preventions that were performed in this process in 2009. It regressed to 2,6 percent in 2010 and 2 percent in 2011 (Figure 5).

3.6. PUBLIC DEBT

The expansionary policies that have been followed since 2008 in order to remove the global crisis brought along new crisis dynamics. Fiscal policy was loosened to enable the wheels to rotate in economy again. Taxes were decreased, expenditures were increased and the budget deficit was met through loan. The loan was serious due to the importance of the program being applied. When economies of the developed countries with high rates of loan started to decelerate again, the expectations about the convertibility of debts were ruined and loan costs increased. Especially the concerns about countries of the Euro Region increased. In the same period, USA witnessed political disputes to increase the debt ceiling and the credit rating was broken for the first time in history⁴¹.

Since public debts, which are already very high in PIIGS countries, generally have negotiations in terms of the structure of debts (term structure, currency structure, local-foreign creditors and interest structure of contracts) in majority of these countries, the financial fragility has rapidly increased in the aforementioned countries from 2008 until today. The difficulty of PIIGS countries to convert their debts left the financial institutions that keep the bonds of these countries in a difficult situation, as well. Thus, the European banking system has taken a great risk.

⁴¹ Zafer, Sezgin, "Küresel Krizin İkinci Perdesi: 2011 Avrupa Borç Krizi", *İşletme Araştırmaları Dergisi*, 4/2, 2012, ss. 141-2.

3.6.1. Portugal

In Portugal, which could not provide the Maastricht Convergence Criteria regarding the public debt even before the global crisis, the proportion of the public debt that was 68 percent in the first quarter of 2007 to the national income increased to a level of 72 percent towards the end of 2008. In the country, which is one of the symbols of the convertibility of global crisis into debt crisis, while the public debt/GDP rate was 83 percent at the end of 2009, it started to exceed 100 percent in the beginning of 2011. The rate in question increased to 120 percent in the third quarter of 2012 (Figure 6).

3.6.2. Ireland

When the crisis arose, the public debt/GDP rate was 25 percent in Ireland, which does not violate the Maastricht Criteria regarding public debt/GDP, in the first quarter of 2007. While the rate in question was 33 percent in the first quarter of 2008, it increased to 45 percent in the last quarter. The proportion of the public debt to the national income was 65 at the end of 2009. The public debt/GDP rate, which was 78 percent in the first quarter of 2010, reached 100 percents at the end of the year. The public debt reached 120 percents within the national income of the country in 2012 (Figure 6).

3.6.3. Italy

Italian economy was seriously affected by the debt crisis in the Euro Region. In Italy where the public debt stock/GDP rate was approximately 105 percent in 2007 and 2008, the rate in question increased and became 115 percent in 2009 and 118 percent in 2010. It is expected to maximize with a rate of approximately 127 percent in 2012 (Figure 6). This increase will be supported by the contributions of Italy to the firewall, which is formed as a recovery fund of the Euro Region. In addition to this, it is estimated that the increasing noninterest surplus will cause the public debt stock/GDP rate to be in tendency to decline in 2013⁴². The rapid increase of government bond interests in last months of 2011 caused the increase of the borrowing costs of Italian banks.

3.6.4. Greece

Principal reason for the debt crisis of Greece is the problems regarding the budget policies and financial discipline. Greece has tried to sustain the debt cycle with the low-interest financing opportunities provided by Euro instead of relieving the burden of public debt for many years⁴³. However, the fact that the economic growth is basically caused by the external debt has created very serious increases in public debts of this country in the medium and long term.

Having the highest proportion of public debt to the national income among the PIIGS countries, Greece had a rate of 109 percent in the first quarter of 2007, 121 percent in the first quarter of 2009 and 133 percent in the first quarter of 2010. The increase still continues today (Figure 6).

The possibility for other European Union countries such as Portugal, Ireland, Italy and Spain to be involved in the crisis following the debt crisis in Greece caused the decrease of bond prices,

⁴² Republic of Turkey, Ministry of EU, Spring 2012.

⁴³ Dağdelen, a.g.e., s. 4.

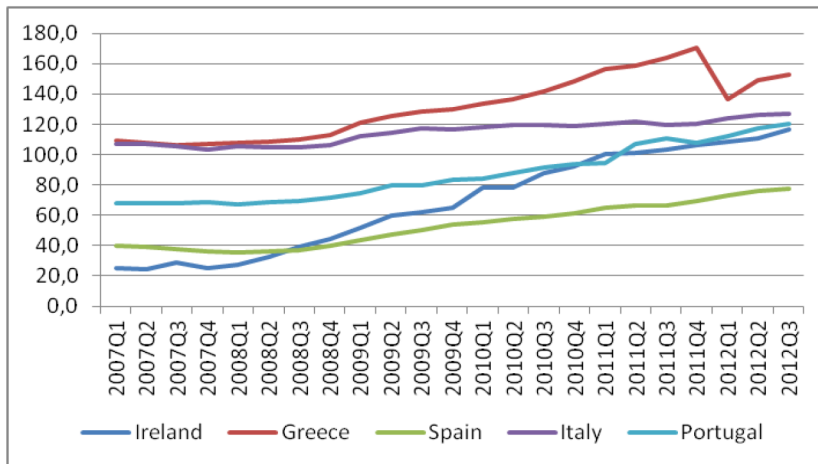
increase of interest rates and consequently loan costs and increase of the share of public debt within GDP in some countries⁴⁴.

3.6.5. Spain

In Spain, which has the least significant debt problem among the PIIGS countries, the proportion of the public debt stock to the national income did not exceed 40 percent in 2007 and 2008. However, the country diverged from the Maastricht Criteria regarding the public debt in the last quarter of 2010 and the rate in question reached 77 percent in the third quarter of 2012 (Figure 6).

The aggravation of debt crisis in the Euro Region increases the risk premium of Spain. Besides, it is estimated that the decay in bank statements will obstruct the financing of the real economy and public finance. Considering the fact that the country intensely imports energy, the possibility for excessive increase of oil prices to have negative effects upon the Spanish economy should not be ignored.

Figure 6.: PIIGS Countries - General Government Gross Debt (%GDP)



Source: Eurostat

3.6.6. Turkey

A decay has started in indebtedness rates in parallel with the increase in the budget deficit of Turkey during the process of global crisis. The decay in public debt ratios and increasing risk premium include risks such as the decrease in the trust in economy, postponement of investments and loss of economic stabilisation.

Turkey has consistently provided the Maastricht Convergence Criteria regarding the public debt since 2004. Concerning the proportion to the national income, while the public debt was 59,6 percent in 2004, it decreased to the level of 39,8 percent before the crisis. The extended term structure of loans, increase in loans in terms of Turkish Lira and decrease in the public debt stock as a proportion to the national income are the explicit indicators of the positive progress that has been made in public debt indicators in recent years.

Efforts were made to abide by the target of decreasing the share of floating-rate securities that were sensitive to the change in market interests within the debt stock and remove the corruptive

⁴⁴ Republic of Turkey, Secretary-General of the EU, a.g.e., ss. 3-5.

effect of the public debt, which was expected to be formed in the long term and in terms of Turkish Lira, upon the public debt of the exchange increase within the scope of the strategic criteria application of the Treasury.

Even though the fact that high budget deficits and indebtedness rates being encountered in countries of the Euro Region are not experienced by Turkey continues to separate Turkey from these economies positively, only a partial decrease has been observed on interventions aimed at softening the blow of the global crisis and public savings, and as well as high rates of noninterest deficits and additional measures aimed at the banking sector, the increasing debt-service costs have increased the public debt. While the proportion of the total external debt stock to the national income decreased to 38 percent before the global crisis, the same value apparently increased to 43 percent in 2009. The proportion of the total external debt to the export, which is an important criteria in repayment of external debts, reached a critical value due to the regress of export in 2009. On the other hand, the increase in interest rates, which form the risk premium of the debt, made a negative effect upon the proportion of the total external debt interest service to the export.

However, some additional increases were performed on some expense items in order to decrease the effects of the global crisis in 2008. As a result of the shrinkage in the economic activity, the premium collection of the social security system was unable to attain the goals and a distinct increase was observed on the deficit of the social security system. As a result of all these developments, the budget deficit, debt burden and rate of converting the internal debt by the Treasury showed a greater increase than anticipated. The increase of finance charges in the private sector and deterioration of expectations due to the developments in global markets have caused the suspension of future investments. Private sector has started to pay off old debts instead of becoming indebted even further, due to the shrinkages in both supply and demand fronts.

As well as meeting the need of public finance in Turkey, external resources have been sustaining the private sector investments since 2004. While the external debt stock of the public that has no saving deficit decreases in total, it remains the same in absolute, and private sector debts rapidly expand in terms of both its share in total and in absolute. It is possible that the public sector meets the saving deficit by means of resources drawn from the private sector rather than decreasing the expenditures. Indebtness of this sector makes our economy dependent on external resources. Besides, private sector also gets the opportunity of making speculative profit when it obtains these external resources with a lower interest and abstains from investment⁴⁵.

As a consequence, when the private sector attempted to restart savings in the midst of 2009, the public sector deficit rapidly increased. Thus, the condition of the period before 2005 started to be experienced again and the private sector started to finance both the public deficit and current account deficit.

4. CONCLUSION

During the designment of the Economic and Monetary Union in 1993, the European Union countries developed a series of precautions and mechanisms such as the formation of the Maastricht Convergence Criteria and European System of Central Banks in order to ground the common currency policy on strong bases. The Stability and Growth Pact, which was signed in Dublin in 1998, guaranteed that countries that do not use Euro will apply monetary and financial policies, which will not spoil the stability of Euro. However, there is an uncertainty regarding the penalties and sanctions to be applied in case of the violation of the Stability and Growth Pact. For instance,

⁴⁵ Binhan Elif Yılmaz, *Türkiye'nin Değişmeyen Kaderi: Borç Çıkmazı*, İstanbul, Derin Yayınları, 2008, ss. 241-2.

the fact that great economies of the Union such as Germany and France violated the principle of budget deficit, which is among the Maastricht Criteria, in 2002-2004 and no sanction mechanism was brought up to the agenda at this point enables other members of the union to violate the rules.

While the monetary policies started to be managed by the European Central Bank when Euro was accepted by 17 countries, an important problem aroused when the fiscal policies started to be managed by member governments. Accordingly, while the monetary aspect of the Economic and Monetary Union was exactly about the European Union policy, the economic aspect remained within the authority of member countries.

The removal of the exchange risk after the acceptance of Euro accelerated the capital movements and a distinct convergence was accrued in nominal interests. The increasing inflation suggests that economic units enable today's countries with debt problem to become indebted with a lower cost compared to Germany in 2000s and it is even possible to observe negative real interests from time to time⁴⁶. Some countries of the Euro Region such as Greece, which does not have steady macroeconomic balances, had the opportunity of becoming indebted with very low interests after being included in the Monetary Union. Being used as a shared currency, Euro has become a main factor in deepening of the crisis. Thus, a negative development that occurs in one Euro Region affects other countries of the Euro Region in a short time, as well. Even the increases in a possible extreme scenario regarding the exclusion from Euro should be evaluated as a development that might threaten the future of the monetary union.

Europe separates from the global crisis negatively. Factors such as the highness of Europe-originated risks, low expectation of growth, concerns about the sustainability of public debts of the PIIGS countries and capital need of financial institutions increase the fragility of the global economy. Socialization of the debts of some financial institutions caused the considerable increase of the public debt and emanation of anxieties regarding the repayment of this debt, which resulted in encountering with the problem of debt in countries with high debts such as Greece, Ireland, Portugal, Spain. As well as the fact that credit rating institutions lower the grade of these countries, the uncertainty of the disputes about who will undertake the cost of the crisis make it difficult for the European Union to overcome this crisis.

The debt burden of the PIIGS countries to other countries of the European Union has become unmanageable. How these countries, which are obliged to struggle with high debt rates, will overcome this crisis is determined through the decisions that are made in meetings between France and Germany. A new phase started in the debt crisis when Italy and Spain, which are the third and fourth greatest economies of the Euro Region, started to be affected by the debt crisis. It is inevitable for the region economy to be affected by the problems of these two central countries due to intensive commercial and financial connections. The magnitude of these two countries increases not only the amount of financial resources that would be necessary in case of the explanation of a possible recovery package, but also the burden and responsibility of Germany and France, which are creditor countries.

According to the general agreement, all countries should act in a cautious way in the present conjuncture. It is also thought that monetary and fiscal policies that are applied within the context of struggling with global crisis and supports for the finance sector should prevent risks regarding the price maintenance, financial maintenance and financial sustainability in the medium and long term. In this context, many countries form their medium-term programs and goals and design their strategies concerning the post-crisis period. The efficient international coordination of these strategies has become the fundamental determinant of the recovery in the world economy.

⁴⁶ Hondur, a.g.e., ss. 34-35.

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