IMPACTS OF THE DIFFERENTIATION BETWEEN THE USA AND EU POLICIES ON TURKISH ECONOMY

Prof.Dr.Serap DURUSOY*

The ECB has taken monetary actions to get away from the risk of deflation that may persist for a long time because of the weak growth chart in the Euro zone, the problems within the banking sector. Against such an economic climate as emerged, they have disclosed their new economic policy actions including some recovery measures, after their meeting held on June 5, 2014. In this sense, the actions package has included a series of LTRO (Long Term Refinancing Operation) for the purpose of encouraging the credits extended to the household and non-finance private sector looking out for the target, asset-based security transactions, ECB interest rate cut, fixed rate application, and fully-dedicated tenders. The ECB has also decided to focus their efforts for the direct purchases from the asset-based financial products market. It is no doubt that the most important expected announcement of the ECB is related to the interest rates. Having decided to apply interest rate cut, the ECB has disclosed that they lowered their policy interest from 0,25 percent to 0,15 percent, and the deposit rate to below zero so that these would be applicable as of June 11, 2014. Moreover, they have aimed to bring the inflation back to around 2 percent through the measures taken to eliminate the risk of deflation. The expectation that there will be favorable developments in the market following such decisions as made by the ECB have caused disappointment against the inflation data obtained in July, which in turn caused the growth and inflation figures to be revised. ECB started to purchase assets on 9th March, and announced that they would make asset purchases valued at 60 billion Euro each month from both the public and private sectors. The program is expected to be maintained not earlier than the end of September, 2016.

Indeed at last week's meeting, Draghi explained ECB will continue asset purchases until 2017.

On the part of the USA, there was applied an interest rate cut, first to diminish the impact of the crisis, and also they announced their first quantitative easing package as valued at 600 billion US Dollar in 2008. In March, 2009, they announced a package for the mortgage backed securities valued at 750 billion US Dollar and the purchase of bonds valued at 300 billion US Dollar. With 2,3 trillion US Dollar, there were made the 2nd Quantitative easing (QE2) as of 2011 in USA, and the 3rd Quantitative easing in 2012 (QE3).The USA stated that they would set a target unemployment rate of 6,5%, and target inflation rate of 2%, and they would continue to supply liquidity for the economy somehow until the country could achieve this figures. Indeed, in the coming week Fed meeting, Quantitative easing program will clarify how it will be shaped.

Although such policy followed by the FED to get out of the recession caused the countries' economies to be fragile, such economies as Turkey with inadequate foreign exchange reserves found the chance to buy cheap dollars from the market. Pointing out, however, that maintaining the bond purchases does not lead to provide something useful for the economy with the macroeconomic data getting closer to the required level, the FED indicated that the Quantitative easing program would be terminated as of January, 2014. However, this also raised the concerns of money and fund outflows from the emerging market economies. Hence, following the indication of bond decrease, in the economy report for August by Morgan Stanley, there has been mentioned about a group of countries called the "Fragile Five"(which includes Turkey, Brazil, Indonesia, South Africa, and India). This five-group has common characteristics in terms of double deficit, higher inflation, their reliance on hot money. Considering the fact that the fluctuations of the global risk appetite, and the volatility of portfolio flows will keep continuing in the following period, such market economies as Turkey can no more find cheap US dollars in the market, with the decreased bond purchases.

On the other hand, since the recovery has not started yet in the member countries of the European Union, although the USA economy has already gone into recovery process, the maintenance by the ECB of the decision on a quick monetary expansion will cause the US Dollar to rise in value, and will lead to fluctuations of the financial markets in Turkey. In that period, although the depreciation in Turkish Lira is construed so that Turkey can increase its exports, it will leads to much higher costs for Turkey that makes approx. 45% of its exports in Euro, and 65% of its imports in US Dollar, and realizes only around 35% of the external debt valued at around 390 billion US Dollar in Euro, with the depreciation of Euro against the US Dollar. The US Dollar growing stronger will cause a negative impact on the revenue by increasing the costs incurred by the manufacturers. On the other hand, considering that 60% of the tourism receipts are made in Euro, it is certain that the tourism receipts will also get lower. In this sense, the expectation that the asset purchases will get accelerated with the interest rate cuts incoming from the European front further increases the panic in Turkey, while the markets cannot get over with the uncertainty of orientation of the FED towards decreased asset purchases. To crown it all, if the orientation of the new government towards increasing the pressures on the interest rate cut is topped onto that, the Central Bank will have hard times to bring forward the interest rate increase despite the exchange rate leap, and different voices from the economy management will well increase the stress on the market. Consequently, all these events will leads to negative differentiation of TRY from the emerging currencies.