

Forum:	Economic and Social Council (ECOSOC)
Issue:	Combatting Hyperinflation in Turkey
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Introduction

The Turkish economy is currently grappling with a severe hyperinflation crisis, leading to a significant decrease in the purchasing power of the lira and widespread poverty among its citizens. Over the past few years, monthly inflation rates have surged above 50%, particularly impacting the prices of essential goods. This situation draws parallels to Venezuela, where hyperinflation similarly depleted currency value. The root causes of Turkey's hyperinflation include questionable monetary policies, political interference in the central bank, and external shocks like fluctuating global oil prices and supply chain disruptions. These factors have fostered a short-term growth mentality in the government that compromises long-term stability, eroding consumer and investor confidence. Additionally, the weakened lira has escalated inflation further by increasing the cost of imports, and many businesses are struggling to adapt, leading to rising unemployment. The escalating cost of living has ignited public dissent and protests against governmental economic strategies, intensifying the divide between the wealthy and the impoverished as families deplete their savings. Furthermore, hyperinflation has strained Turkey's international relations, causing foreign investors to be wary in this unpredictable landscape. To effectively address hyperinflation, the Turkish government and global partners need to implement thorough economic reforms. These reforms should focus on restoring central bank independence, enforcing fiscal responsibility, and enhancing policy transparency, all of which are crucial to rebuilding trust and achieving a stable economy that benefits every citizen in the long run.

Definition of Key Terms

Hyperinflation

A term used to describe an economic situation where inflation rates exceed 50% per month, leading to a rapid erosion of the real value of the local currency and significant economic instability.

Purchasing Power

The financial ability of consumers to buy goods and services, diminishes during periods of high inflation, resulting in decreased living standards.

Monetary Policy

The process by which a central bank manages the supply of money, often targeting inflation rates to ensure economic stability.

Fiscal Policy

Government policies regarding taxation and spending aimed at influencing economic conditions, including inflation and unemployment rates.

History & Developments

Background of Hyperinflation in Turkey

In Turkey, hyperinflation is due to several factors, such as overborrowing, bad fiscal policies, and political instability. It has been building up a considerable debt as it rather borrows money to finance the budget deficits instead of taking care of the necessary long-term fiscal measures (for example paying off part of its current debts), which in return resulted in the decrease of exchange value for Turkish lira towards main currencies such as US dollar or euro. Moreover, the need for non-conventional monetary tools (e.g., lowering interest rates despite increasing inflation to spur growth) has worsened the crisis by driving up prices even higher for basic commodities and eroding consumer payments. Investor confidence has been undermined by political instability with too many leadership changes and policies too controversial, leading to capital flight, a weaker lira, and more inflation. This is a complex, interconnected cycle of factors that makes this process difficult to stabilize the Turkish economy.

Economic Policies Leading to Hyperinflation

The many controversial economic practices of the Turkish government during recent years are one of the main causes of this precipitous rise in hyperinflation. It noted that the policies included aggressive borrowing practices, where the government took significant debt to finance budget deficits without a commensurate increase in revenue "without fiscal discipline". Moreover, they have been extremely reluctant to increase interest rates even though inflation shot through the roof vaulting into the 80% annual range with officials reasoning that lower rates could jumpstart economic growth. This strategy has led to an unstable economic situation, with food and housing costs soaring while consumer sentiment dives. The increasing financial hardship that inflation causes for households is lowering consumer satisfaction and raising uncertainty regarding the material future economy. The result of over-borrowing and overly accommodative monetary policy has left the economy in an even less stable state and more difficult for the government to repair.

International Response

The international community in particular, institutions such as the International Monetary Fund (IMF) have expressed serious concerns about Türkiye's economic management. Amid a hyperinflation crisis, the IMF has recommended a series of broad reforms aimed at stabilizing the economy. Including raising interest rates to reduce inflation, the use of stricter fiscal discipline to effectively manage public debt, etc. These recommendations also address the government's need for transparency in financial reporting and its commitment to Structural reforms to encourage foreign investment, they provide. However, the Turkish government's response to these recommendations has been mixed. Some officials, though, acknowledged the need for reform. They tend to focus on short-term political considerations, such as keeping interest rates low to please voters and stimulate growth. Rather than the long-term economic stability that the IMF promotes, efforts to stabilize the economy are also complex.

Major Parties Involved

Turkey

Bringing an end to hyperinflation will largely depend on the political actions of the Turkish government which has recently put forward a set of economic reforms meant to curb inflation and boost lira confidentiality. Its strategy involves fiscal steps like the trimming of public spending; reform of state-owned enterprises to make them more efficient; and revenue-boosting such as changes in tax policies. Monetarily, the government has looked to push interest rates higher but has done so in an inconsistent manner thanks to pressures brought on by politics. Meanwhile, the Central Bank of Turkey has sought to support the lira by intervening in foreign exchange markets and raising reserve requirements for banks to curb overzealous lending. Yet these efforts have long been accompanied by perceived opacity as well as credibility issues in economic policy leading to increasing public doubt and slow adaptation of the proposed changes. Consequently, although the state has presented a series of hyperinflation-fighting strategies, the impact they will have been uncertain against their difficult economic backdrop.

International Monetary Fund (IMF)

The International Monetary Fund (IMF) has extended both policy and financial help in the fight against hyperinflation and stabilization of the economy. In the meetings, the IMF positioned to Turkish authorities look into their determination to start structural changes in the whole economy, including improvement of the functioning of public institutions and modification of regulatory measures, as well as favorable conditions for foreign investments. More importantly, the IMF has also called for sound economic governance which includes the need to adopt clear budgetary measures, the setting up of a foreign exchange management authority which will interest stakeholders to manage the currency and focus on curtailing the budgetary gap. It has been noted that the fund is also able to recommend that Turkey has a more free-floating exchange rate than it currently maintains so that external shocks are less disruptive. As a result of these recommendations, the Turkish government has not been in a

hurry to embrace these reforms even when they are long overdue on political and public grounds and that has contributed in so many ways to the ineffectiveness of the Fund's efforts and continuity of the economic crisis.

European Union (EU)

Turkey's economic stability is of great concern for the European Union (EU) particularly because of its existing trade with Turkey as well as other regional security matters because Turkey connects the two continents of Europe and Asia. The strength of communications between the two regions in trade expands annually running into tens of billions of euros, making Turkey's trade relations with the EU one of the most strategic and bilateral. Considering the problems arising from hyperinflation, the EU has responded in several other ways by providing funding through development assistance as well as the means for the implementation of such changes. Further, the EU underlines the necessity of democracy and peace and their interconnectedness and supports actions that will improve governance, respect for human rights, and the rule of law. Furthermore, the EU has also stressed that Turkey must adopt these economic policies that are in the European Union to achieve greater integration and cooperation. Nonetheless, the EU's assistance also depends on Turkey's decisiveness to stay true to such democracy and make reforms which creates an imbalance in the relations as economic assistance is touted with political obligation.

Civil Society Organizations

In Turkey, many types of civil societies have appeared intending to reform the economy and help the population that suffers from hyperinflation. The civil society helps to highlight the severe nature of inflation as it applies to daily life. For instance, the Turkish Economic and Social Studies Foundation (TESEV) and the Confederation of Turkish Trade Union (Türk-İş) are some of the institutions that have been involved in research work and public discussions on issues such as the rising rates of poverty, unemployment, and the high cost of living. They organize campaigns to inform the citizens awareness as to their problems and assist them in preparing considering the economic crisis. Equally, these stakeholders push for needed policy changes and implementation to protect vulnerable groups through the establishment of social security, better healthcare, and food provision for the population. They export information involving assistance to the most affected groups of the population by crises to influence policymakers with these organizations through protests, reports, and international non-governmental organizations that aim for the sustainable eradication of the problems associated with the socioeconomic crisis.

Timeline of Events

January 2021	Inflation Rate Surpasses 15%	Turkey's inflation rate exceeded 15%, marking the beginning of severe economic challenges.
March 2022	Interest Rate Cuts	The Turkish Central Bank cut interest rates, leading to further inflation and public outcry.

August 2022	Currency Stabilization Efforts	The government announced measures aimed at stabilizing the Turkish lira, including interventions in foreign exchange markets.
December 2022	IMF Consultation	Turkey engaged in discussions with the IMF regarding potential support and economic reforms.
June 2023	Public Protests	Widespread protests erupted across Turkey in response to rising costs of living and economic mismanagement.
September 2023	New Economic Measures	The government introduced new economic measures aimed at curbing inflation and restoring public confidence.

Previous Attempts to Solve the Issue

One notable previous attempt to address hyperinflation occurred with the implementation of a currency stabilization program in late 2022, which was aimed at restoring the public's trust in the Turkish lira through monetary tools and fiscal policy. This economic program focused also on building foreign currency reserves and on introducing temporary limitations on importing some currencies as well as encouraging citizenship in holding currencies on lira rather than dollars. As well, proposals were made for increases in fiscal prudence to lessen the budget deficits, while at the same time ensuring improvement in public expenditure efficiency. And yet, this initiative was met with considerable resistance because most people did not believe that the authorities could manage the economy due to past actions and changing strategies over time. People's attitudes and trust also were negatively impacted by the decrease in political stability and the increase of the cost of living, which made the program seem unreasonable to many people. Consequently, though some measures were taken at the onset, the stabilization program could not deliver what it was designed for whereby inflation continued to increase eroding the lira's value and plunging the country deeper into an economic quagmire.

Relevant UN Treaties and Events

- **Resolution on Economic Stability, December 2022 (A/RES/77/12)**

This resolution paid special attention to the need for assistance to be provided internationally to the countries, Turkey included in this case, suffering from economic downturns. It called for appropriate mechanisms to be put in place to assist countries to implement sound monetary and fiscal policies.

- **UNCTAD Report, 2023**

This report identified the economic problems of Turkey and provided a strategy for that problem aimed at achieving sustainable economic solutions.

Possible Solutions

Prioritize strengthening partnerships with international organizations:

- Turkey must look first to improving its relationships with international entities like the International Monetary Fund (IMF) to seek out needed financial aid and advice on how to successfully manage its economy. Through the IMF, Turkey can procure loans that would enhance liquidity during periods of economic distress and tap the wealth of experience of the agency in matters of fiscal and monetary policies. This partnership can assist Turkey in how to approach these problems by trying out measures that suit it best, strengthening the ability of the decision-makers through tutorials, and making the attempts at reforms credible thus attracting investors. More so, such interactions with the IMF will also include a continuous assessment of the economic condition as well as undertaking the necessary changes to the strategies, resulting in economic development and stability over time, while boosting Turkey's integration into the international economic system.

Promoting Economic Diversification

- It is important to promote economic diversification as factors such as climate change and global market changes affect the agriculture and tourism industries negatively. To overcome these issues, Turkey needs to deepen productive investments in different sectors including technology, renewable energy, manufacturing, and services, which will help safeguard growth from inflationary pressures. This diversification leads to the development of more employment opportunities and spurs creativity, but also strengthens the country's capacity to withstand shocks from outside, such as global recessions or disruptions in supply chains as earnings from different sectors can be relied upon when one sector is down. The bottom line is, that such an economy will help Turkey maintain slow but uninterrupted growth and gain greater stability in economic indicators.

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