ULUSLARARASI İLİŞKİLER | INTERNATIONAL RELATIONS

Volume 21, Number 84, 2024, p. 65-83
https://doi.org/10.33458/uidergisi.1578799

Financial Turmoil, Uncertainty, and Institutions: Turkey's Political Economy in Crises

Serhan YALÇINER
Ph.D., Post-Doctoral Research Fellow, Department of Finance, University of Illinois at Urbana-Champaign, Illinois, USA
E-Mail: serhany2@illinois.edu
Orcid: 0009-0002-0165-2441

Abstract

Financial turmoil damages national and global economies, but the causes of financial crises vary, with a combination of financial and political factors creating them. By asserting that every financial crisis necessarily involves political aspects, this study aims to certify that the poor policy response of Turkey, which has relied heavily on a "president over institutions" approach, has contributed to the ongoing severe currency and debt crises. Focusing on the two predominantly domestically induced crises of 2001 and 2018, this article analyzes secondary literature and data to put forth a framework that combines the fiscal policy response with a look at the country's institutional strength and shows how financial uncertainty and instability exacerbated the conditions of the ongoing 2018 crisis. The study also finds that deteriorating political institutions in Turkey, marked by a lack of governmental efficacy that has led to compromised financial and fiscal sustainability, has played a considerable role in the onset of the 2018 crisis.

Keywords: Financial Crises, Political Institutions, Democratic Backsliding, Institutional Strength, Authoritarianism

Research Article | Received: 22 August 2022, Last Revision: 10 October 2024, Accepted: 18 October 2024

Introduction

The Turkish economy has been grappling with an ongoing financial crisis since late 2018, marked by a sharp decline in growth rates and the onset of a severe currency and debt crisis accompanied by an acute credit crunch. Despite the global economy experiencing a slight softening in 2018, Turkey's trajectory was disproportionate, positioning itself as the most notably declining economy, succumbing to a fully blown crisis followed by a recession.[1] The crisis signified the collapse of Turkey's economic growth model characterized by sustained high investment levels funded by escalating foreign debt. Regrettably, the political response fell short of implementing pertinent structural reforms that could have alleviated the financial

1 The Turkish Lira lost 31% of its value against the US Dollar in 2018. The depreciation triggered a bankruptcy wave, which hurt hundreds of firms and increased the official unemployment rate by 2.78% –the highest since 2009 (Akçay and Güngen 2019).

strain. While the favorable global trends of 2019 and the Central Bank's interest rate increases have temporarily eased the situation, the policy response, heavily reliant on President Recep Tayyip Erdoğan, resulted in a lax monetary policy. The subsequent onset of the Covid-19 pandemic further exposed the economy's instability, depleting the Central Bank reserves and causing the Turkish lira to hit record lows (Orhangazi and Yeldan 2021: 460-503).

Concurrently, Turkey suffered from a dramatic institutional deterioration, marked by a lack of political neutrality and stability. The "president over institutions" approach in policymaking, coupled with pervasive corruption, contributed to severe financial turmoil and uncertainty. Having president over institutions in a state apparatus describes an approach to governance in which the head of state, typically the president, assumes a dominant role in decision-making and policy implementation, often to the detriment of the autonomy and independence of various government institutions, including the legislative, judicial, and administrative branches. It implies a concentration of power in the executive office, potentially undermining the system of checks and balances and reducing the effectiveness of democratic institutions (Adar and Seufert 2021).

At the heart of the analysis of Turkey's debt and currency crises lies fundamental questions: What were the primary drivers of these crises? Were they predominantly influenced by regional or global economic recessions, or did the inherent institutional weaknesses and potential nepotistic interventions within Turkey's political system exacerbate vulnerabilities in its financial structure, making it more susceptible to a monopolistic transformation where only the economically robust entities could thrive? To address these questions, it is pertinent to begin by acknowledging the international dimension, recognizing that the global economic environment can have a significant impact on any country's financial stability. However, it is essential to emphasize that this study primarily focuses on the domestic dimension of the 2001 and 2018 crises. The decision to concentrate on domestic factors stems partly from a deliberate effort to contribute a nuanced perspective to the debate regarding the simultaneous influence of domestic and international factors on financial crises.[2] While acknowledging the multifaceted nature of triggers for financial crises, this study recognizes the significance of both domestic and international dimensions. However, the emphasis on domestic factors in this analysis is not arbitrary; rather, it is a methodological choice driven by the desire to offer a more in-depth and focused examination of the internal dynamics within Turkey's political and economic landscape. The primary objective is to understand why effective policy responses did not emerge in the face of the economic challenges. This study then aims to delve into the intricate interplay between domestic political institutions and financial crises within the context of Turkey, offering insights into how these crises were influenced by and, in turn, influenced the nation's institutional landscape. By doing so, it attempts to shed light on the factors contributing to the delayed or ineffective policy responses to these financial crises in Turkey, with a particular emphasis on the domestic factors that played a role in shaping the outcomes.

2 For further reading on the simultaneous role of domestic and international factors in emergence of financial crises, please see Wade 2000; Cizre and Yeldan 2005; Özmen and Özel 2024; Söylemez-Karakoç and Angın 2024.

Emphasizing the interplay of political institutions and financial crises, a framework discussing the relationship between Turkey's 2001 and 2018 debt and currency crises and its institutional defects may help us understand what went wrong with the policy response. The comparative analysis of the 2001 and 2018 financial crises holds significance for several reasons. Firstly, they represent significant episodes in Turkey's economic history, allowing for a comprehensive assessment of the country's financial vulnerabilities across different time periods. The 2001 crisis was one of the most severe in Turkey's modern history, was rooted in domestic economic and political factors, and led to an International Monetary Fund (IMF) bailout. In contrast, the 2018 crisis, influenced by both domestic and international factors, was marked by its distinct characteristics, including currency depreciation, high inflation, and political tensions. By juxtaposing these two crises, we can gain insights into the evolving nature of financial vulnerabilities and the changing dynamics of Turkey's political and economic landscape. Secondly, focusing on the domestic political dimension is essential in understanding the unique aspects of each crisis. Political institutions play a pivotal role in shaping policy responses to financial crises, and assessing how Turkey's domestic political context influenced these responses is crucial. In essence, this study aims to provide a nuanced understanding of Turkey's economic challenges by exploring the domestic political dimension of the 2001 and 2018 financial crises.

This study builds on the argument that the system granting unlimited and unchecked power to the president over institutions and continual democratic backsliding[3] significantly contributed to the ongoing crisis wreaking havoc on the Turkish economy. The 2017 constitutional referendum, which transitioned Turkey from a parliamentary to a presidential system, played a critical role in this shift. Under the new system, the president holds significant executive powers, including the authority to issue decrees, appoint key officials without parliamentary approval, and dissolve parliament. Furthermore, checks and balances, such as judicial independence, have been weakened, with increased control over the appointment of judges to key courts. These developments have curtailed institutional autonomy and facilitated a governance model where decision-making is concentrated in the executive branch, contributing to the erosion of democratic safeguards. Investigating how accurately the growing body of research on political institutions and financial turmoil would apply to the ongoing currency and debt crisis of Turkey, it seeks answers to the following questions: (1) What role do the political institutions in Turkey, or lack thereof, play in the escalation of the crisis from a major depreciation of the currency to a fully blown financial crisis, including corporate debt defaults and contraction of economic growth? (2) How does the current crisis compare to or differ from the other "made in Turkey" crisis of 2001 in terms of both the political economy of Turkey, and the political and financial dynamics at global scales?

3 Democratic backsliding refers to the gradual erosion or weakening of democratic principles, norms, and institutions within a political system, resulting in a reduction in political freedoms, the concentration of power, and a departure from the fundamental principles of democracy, such as the rule of law, separation of powers, and protection of civil liberties. It often involves the decline in the quality of democracy, leading to an increase in authoritarian tendencies and undermining the stability and effectiveness of democratic institutions. One example would be post-1989 Hungary that was gradually dismantled under the rule of Viktor Orbán and his Fidesz party. The replacing regime was "*not outright dictatorial, yet less than democratic*"—which may also apply to Turkey under Erdogan and Poland in the aftermath of the electoral triumph of Jarosław Kaczyński's PiS-party in 2015 (Bermeo 2016: 5-19; Mechkova, Lührmann and Lindberg 2017: 162-69; Wolkenstein 2022: 1-15).

The systematic unfolding of this study commences with a concise overview of the theoretical literature on the determinants of financial crises and the crucial role played by political institutions. Acknowledging that well-established purely financial/international factors leading to turmoil, it puts the emphasis on the quality of policy response, or lack thereof, highlighting its correlation with the strength of political institutions. Exploring a potential framework from an institutional perspective on crises, the study proceeds to examine the two crises as triggered largely by domestic determinants. Assessing the similarities and differences between them through both domestic and global indicators of political economy, the study aims not to provide a comprehensive account of the crises but, more narrowly, to delve into the impact of political structure. It concludes by briefly examining the catalytic role of democratic backsliding in Turkey's economic well-being.

What Drives Financial Crises? The Role of Political Institutions

A financial crisis is defined as "a sharp, brief, ultra-cyclical deterioration of all or most of a group of financial indicators –short-term interest rates, asset (stock, real estate, land) prices, commercial insolvencies and failures of financial institutions" (Kindleberger 1987). As Pepinsky (2014: 265-284) points out, "financial crises are necessarily political." Policy responses to crises are naturally driven by the acuteness of the crisis or the technical constraints of state finance. However, financial crises should mostly be evaluated as the sources of political battles, and financial responses of state apparatus should be analyzed considering the political context in which financial adjustment decisions are made (Pepinsky 2014). The study of the financial crises in Turkey, therefore, must acknowledge the critical role that institutions play in shaping a nation's economic and political landscape.

Financial crises, no matter how politically driven, are complex phenomena influenced by a confluence of domestic and international factors. The 2001 financial crisis in Turkey, for instance, stands as a testament to the intricate interplay between these forces. Under the auspices of an IMF program, Turkey implemented structural reforms aimed at stabilizing its economy. Notably, the creation of autonomous regulatory institutions emerged as a pivotal aspect of these reforms (Özel 2015). The international dimension, represented by the IMF, not only provided financial support but also exerted a significant influence on the restructuring of domestic regulatory frameworks (Bakir and Öniş 2010: 77-106). This underscores the critical role of international institutions in shaping the response to financial crises, with implications for the evolution of regulatory structures and mechanisms within the nation.

Similarly, the 2018 financial crisis in Turkey accentuated the ongoing significance of international factors in the face of economic turmoil. Post-2008, decisions made by major central banks such as the Federal Reserve (Fed) acquired heightened importance in shaping national responses to economic challenges (Rey 2015). The Fed's interest rate hikes, as an example, reverberated globally and influenced Turkey's response strategies. The interconnectedness of financial markets meant that actions taken by central banks beyond national borders could have cascading effects (Obstfeld et. al. 2010: 57-94). Understanding the dynamics of financial crises, therefore, necessitates a nuanced examination of the interactions between domestic policies and international monetary conditions. In the case of Turkey, the 2018 crisis underscored the continued relevance of global factors in shaping and, at times, constraining domestic economic decision-making.

This global context extends beyond the economic realm, delving into the intricate connection between political institutions and financial crises over the last two centuries (Gallo, Stegmann, and Steagall 2006: 193). Financial crises in this period have often been rooted more directly in political challenges than purely economic ones. Dysfunctional political institutions, fading governmental transparency and accountability, and breakdowns in regulatory oversight or the rule of law can lead to the implementation of unsustainable financial policies (Gallo, Stegmann, and Steagall 2006). While the crisis literature on national economies has traditionally focused on the financial aspect,[4] the political and institutional dimensions remain relatively under-researched. The prominence of poorly functioning political institutions in the eruption of financial spasms over the last few decades calls for a more substantive research focus. The Turkish example vividly illustrates how democratic backsliding, a regime change, diminished political accountability and stability, and habitual political corruption have collectively made a distinctive impact on a nation's financial well-being.

Acknowledging the inseparable nature of politics and economics, scholars of political economy emphasize their symbiotic coexistence and the profound effect on a nation's economic health and prosperity. Inclusive economic institutions are more likely to bolster growth, and, most importantly, such institutions cannot exist separately from political institutions (Acemoglu and Robinson 2006: 115-131). The conventional wisdom asserts that regional and global political risks significantly affect economic outcomes, such as inflation, unemployment, and volatility (Alesina and Rodrik 1994; Bloomberg and Hess 2001; Fowler 2006; Boutchkova et. al. 2012). This phenomenon becomes further exacerbated where political institutions fail to provide a robust capacity for stability and efficiency. The empirical analyses of data demonstrate that political institutions such as democracy, electoral accountability, rule of law, and checks and balances, are in a systemic and statistically significant relationship with financial crises (Alesina and Drazen 1991; Hicken, Satyanath, and Sergenti 2005; Bernhard and Leblang 2008; Beck and Levine 2008; Kleibl 2013; Gandrud 2014). Where policy responses are not backed by institutional strength, which would produce legally binding bank insolvency procedures, economies lack the appropriate controls to avoid an escalation and/or contagion within the financial system and a potential credit crunch (Ostrup, Oxelheim, and Wihlborg 2009).

"Strong institutions" commonly allude to those that demonstrate robustness, capacity, and comprehensiveness in fulfilling their intended functions, particularly regarding governance, economic stability, and the rule of law. These institutions exhibit attributes such as transparency, accountability, and a clear separation of powers. In contrast, "weak institutions" encompass those that exhibit deficiencies in these aspects, including a lack of transparency, inefficiency, susceptibility to political influence, and inadequate safeguards to prevent abuses

4 For an academic survey of the theoretical and empirical literature on financial crises, please see Allen et. al. 2009: 97-116.

of power.[5] Weak political institutions are characterized by a susceptibility to nepotistic tendencies, manifesting in the formulation of fiscal practices marked by oscillation and contradiction, diverging from a coherent alignment with economic realities. Such institutional frailty undermines the integrity and stability of fiscal decision-making, resulting in practices that may prioritize personal or vested interests over consistent and sound economic principles (Gauthier and Goyette 2016; Ragauskas and Valeskaite 2020).

Deteriorating political institutions additionally bring a byproduct that is in most cases a severe repellent to financial markets: uncertainty. While political uncertainty takes many different shapes and forms such as changes in the government[6] and in its domestic and foreign policy, in anocracies (also known as electoral autocracies), election results produce very little, if any, uncertainty. The probability of a turnover of a major veto player is relatively low, coalitions are rarely in office, and mass media is extensively owned or controlled by the state apparatus (*e.g.,* post-2002 Turkey, Venezuela, Brazil). For such political regimes, one must emphasize the unpredictability of policies, policy responses, and the broader context in which elections occur when discussing political uncertainty (Levitsky and Way 2002; Hoeffler and Collier 2005).

When financial policy decisions and political governance are concentrated in the hands of a select group of elites or a single ruler, rather than being upheld by enduring and effective institutional frameworks, it raises concerns about uncertainty in financial markets and foreign investor perceptions (Heinrich and Kutter 2014: 130). The specific deficiencies in the Turkish context that undermine confidence include, among others, the lack of transparency, insufficient accountability, and compromised independence of key institutions. These shortcomings in governance structures create an environment where economic decisions may be driven by discretion rather than established rules, causing uncertainty that can have detrimental effects on the national economy. In contrast, when examining successful instances of foreign direct investment (FDI), we see that they are often closely linked to countries implementing national industrial policies aimed at guiding the development of specific industries through strategic interventions. This approach underscores the necessity for developing nations to establish a secure and adaptable policy environment *vis-à-vis* FDI.[7]

As the political climate deteriorates through the erosion of political institutions, its consequences reverberate throughout the business landscape, impacting not only the nation's financial stability but also the operational landscape of firms, including multinational enterprises

5 It is important to note that this distinction is not meant to oversimplify the complex reality of institutional dynamics, but rather, to provide a practical framework for analysis. Institutions encompass a broad range, including legislative bodies, regulatory agencies, judicial systems, and other government structures that collectively shape the governance and economic stability of a nation. The use of the terms "strong" and "weak" institutions is intended to serve as a simplified categorization to facilitate the discussion of how institutional characteristics can affect a nation's response to financial crises.

6 In a recent study, Nyugen, Castro, and Wood (2022: 417-438) find that banking and currency crises are more likely to occur within one year after elections.

7 In the context of a financial crisis, the primary concern is stabilizing the immediate economic situation. However, attracting FDI requires developing nations to establish a secure and adaptable policy environment. This dual approach recognizes the need for both short-term crisis management and long-term structural adjustments to foster sustained economic growth (Saleh 2023).

(MNEs). The relationships between democratic decline, policy failures and responses, and the exacerbation of financial crises are multifaceted. These institutions play a critical role in shaping the overall stability of financial systems, as they underpin the checks and balances that safeguard against economic downturns (Doyran and Gomez-Gonzalez 2023).

The implications of democratic decline extend beyond policy responses; they encompass the broader landscape of business operations, investment, and financial stability. Furthermore, some studies assert that democratization tend to implement policies that indirectly attract FDI, *e.g.*, by fostering education (Gallego 2010: 228-243) and openness to trade (Aidt and Gassebner 2010). The countries that struggle to maintain a stable democracy and lack democratic capital and robust democratic institutions, on the other hand, may be source of uncertainty for potential investors.[8] This underscores the significance of political and institutional factors in creating an environment conducive to FDI (Doyran and Gomez-Gonzalez 2023).

Although many MNEs have been in good terms with autocracies as the nature of their product portfolio demands an autocratic regime (*e.g.* De Beers, Rand diamonds), the fluctuation in financial and political institutions is generally a red flag for foreign investors. In an economy where fiscal sustainability does not go hand in hand with financial sustainability due to weak institutions, MNEs would prefer to allocate their investments to countries that offer some location-specific advantages (Trevino, Daniels, and Arbelaez 2002).

Li and Resnick (2003) suggest that autocrats also tend to give a boost to large monopolistic groups due to the political or kinship connections. Although democratization may not eliminate those connections *per se*, it is very likely to pose some difficulties. In the absence of sound institutions like checks and balances, monopoly takes place and shortly becomes detrimental. Under poor financial governance, monopolies exist constantly and widely, which trigger income inequality with a huge gap between the rich and poor. This chain reaction is very likely to set the stage for a financial crisis as only a small portion of the population will possess purchasing power whereas the rest will live in poverty. A large portion of the population cannot afford the products, which in turn leads to a decline in demand (Foster and McChesney 2012: 30). In addition, democracy is likely to give voice to a larger share of the population, which makes them less likely to approve monopolies. Democratization tends to give the public an incentive to be in favor of market liberalization, as it provides an insurance against the undesirable consequences of capital inflows for certain groups of the population (Lacroix, Méon, and Sekkat 2018).

On the other hand, it must be noted that the relationship between uncertainty and investment is not uniform across all sectors and is influenced by factors such as risk appetite and expected profit margins. Likewise, the relationships between democracy and economic growth and FDI and democracy both have a nuanced and context-dependent nature. The existing body of research reflects a spectrum of findings, with some studies indicating positive

8 Democratic capital measured by a nation's historical experience with democracy, and the incidence of democracy in its neighborhood, appears to reduce exit rates from democracy and raise exit rates from autocracy. Higher democratic capital stimulates growth by increasing the stability of democracies (Persson and Tabellini 2009).

associations, others revealing inconclusive outcomes, and some even suggesting potential negative correlations.[9]

The following section examines these theoretical underpinnings in the context of Turkey's financial landscape. The comparison of the 2001 and 2018 financial crises provides a lens into the economic and institutional parameters that influenced the severity and duration of these crises.

Turkey's Crises: A Comparison of the 2001 and 2018 Financial Crises through Economic and Institutional Parameters

Turkey has faced financial crises in the past two decades, notably in 2001, 2009, and the ongoing 2018 crisis. The first two crises led to a 5% decline in real GDP on each occasion before a V-shaped recovery.[10] The current crisis, however, has been more protracted and severe, resulting in a roughly 10% erosion in real GDP.[11] Since the 2009 crisis "was triggered by an unprecedented foreign demand shock, while domestic macroeconomic balances and the financial sector were sound" (Rawdanowicz 2010: 5), for this study's purposes, it is left out of the scope. It was mainly a product of an exogenous crisis widely referred to as "the Great Recession," started after the bursting of the housing bubble in the United States (US) real estate market.

The 2001 crisis in Turkish economy erupted in late November 2000 just at the midst of an exchange rate-based stabilization program. Although the interactions with the IMF provided some relief to financial markets, it could not prevent average interest rates from increasing fourfold by the end of December as compared to early November levels (Özatay and Sak 2002). The suffocating conditions came to end in February 2001, when the head of government, Prime Minister Bülent Ecevit made the official announcement of an acute political crisis which inevitably triggered a panic in the markets. The overnight rates sharply increased to unprecedented levels, and the exchange rate system collapsed in just three days, which made Turkey declare the implementation of a floating exchange rate system (Özatay and Sak 2002).

9 For instance, Barro (1996) and Acemoglu et al. (2019) explore the relationship between democracy and economic growth, with Barro highlighting a positive connection and Acemoglu et al. emphasizing the need for careful consideration of institutional quality. Similarly, the link between FDI and democracy has been studied by Jensen (2003) and Li and Resnick (2003) with differing conclusions. Regarding uncertainty and investment, Bloom et. al. (2009) provide insights into sector-specific variations and the role of risk appetite, and suggest that the influence of uncertainty on investment is contingent upon the risk appetite of investors, which can differ markedly between sectors. This is particularly relevant in the context of financial FDI, where investors with a high-risk appetite may place less emphasis on the degree of uncertainty when their expectations regarding profit margins are favorable (Kindleberger 2017).

10 In a V-shaped recovery, an economy that has undergone a sharp downturn quickly rebounds with strong growth. These recoveries are typically driven by a major shift in economic activity, resulting from a rapid adjustment in consumer demand and business investment.

11 *Trading Economics*, https://tradingeconomics.com/turkey/gdp, (accessed July 24, 2022).

Figure 1. The Economic Indicators of Turkish Economy in 2001 and 2018 Crises

Year	*External Debt ($ Bn)*	*Government Debt to GDP Ratio %*	*GDP ($ Bn)*	*Inflation Rate %*	*Private Consumption ($ Bn)*	*FDI Inflows ($ Bn)*
1997	84.72	44.29	189.83	85.67	129.16	0.81
1998	96.95	30.3	275.97	84.64	178.19	0.94
1999	101.78	-	256.39	64.87	169.31	0.78
2000	116.8	51.6	274.3	54.92	183.63	0.98
2001	112.95	75.5	201.75	54.4	130.81	3.35

2015	399.95	27.4	864.32	7.67	518.78	19.26
2016	409.42	28	869.69	7.78	516.67	13.84
2017	456.56	28	859	11.14	503.45	11.19
2018	445.97	30.2	778.47	16.33	437.4	12.51
2019	440.8	32.6	761	15.18	432.89	9.57
2020	435.9	39.7	719.95	12.28	408.55	7.83
2021	444.32	42	815.27	19.6	451.85	-
2022	451.2*	-		79.6**	-	-

**March 2022, ** July 2022*

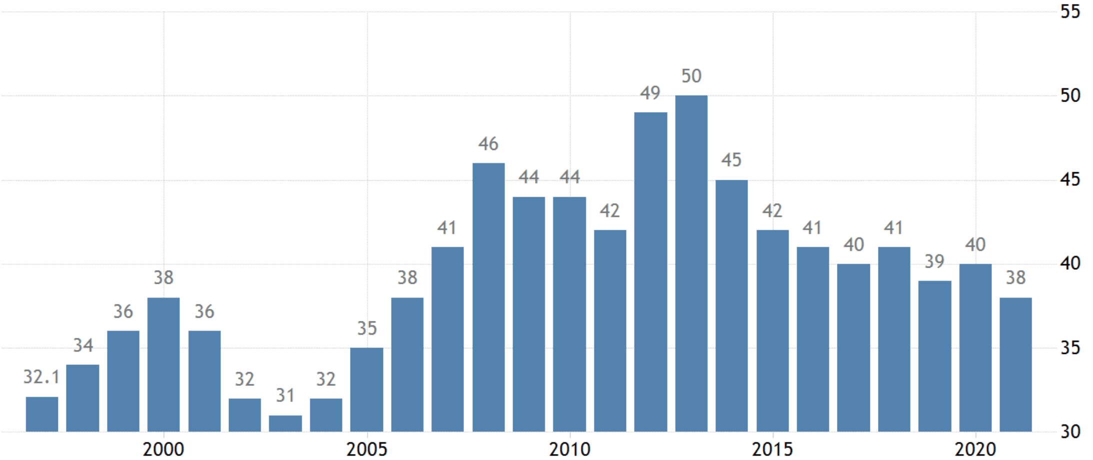
Source: Trading Economics (Accessed August 1, 2022).

One of the primary financial factors that played a significant role in the eruption of crisis was the rapid increase in both the external and overall debt of Turkey. Specifically, external debt increased in three years from $84.7 billion in 1997 to $116.8 billion in 2000 (Figure 1). While other indicators were relatively stable, the decline in the fiscal balance that started in 1995 further deteriorated the government's fiscal deficit significantly from 1997 to 2000. As the banking system had a role in funding the government's deficits, banks increasingly borrowed offshore to lend lira to the government, which increased the foreign exchange debt as a percentage of GDP. Such a rapid increase in debt hence was due primarily to a high primary deficit in the first half and borrowing at high interest rates in the second half of 1990s (Noble 2018).

Factors influencing the likelihood of a crisis may initially appear predominantly financial. However, the risk premium on external debt in Turkey was evidently impacted by the backdrop of political instability. In the 1990s, Turkey underwent two presidential and four general or local elections, incurring significant expenditures that strained budgetary discipline. Additionally, the failure to segregate financial and political governance, which could have potentially curtailed the crisis's spillover effects, contributed to the heightened risk premium on foreign debt interest. As a result, the insufficient institutional framework within the Turkish governmental structure contributed to the escalation of external debt (Yilanci and Özcan 2008: 91-98).

The deteriorating influence of external debt stock showed a similar, if not stronger, effect in the 2018 crisis as well. The jump from $400 billion in 2015 to $456.6 billion in 2017 was not accompanied by an increase in GDP, a macroeconomic environment bolstering stable economic growth and money flow, or a monetary policy ensuring sustainability (Gümüş 2019: 38). Relatively different from the 2001 crisis, however, the aggravating factor for the ongoing debt crisis has been the fact that it was initially triggered by a currency crisis. A political strain between the US and Turkey in the summer of 2018 over the arrest of an American pastor induced a sudden outflow of both foreign and domestic capital causing a sharp depreciation of the currency (Orhangazi and Yeldan 2021: 487). As many companies applied for bankruptcy protection and banks were expected to fund a significant amount of outstanding debt, the currency crisis rapidly turned into a debt crisis. The Turkish economy was already in recession by early-2019 and came to a deadlock, as attempts to control capital in foreign exchange markets were imposed to deter speculation on the Turkish lira (Akçay 2018).

Figure 2. Turkey Corruption Perceptions Index



The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean).

Source: Trading Economics (Accessed July 24, 2022).

In addition to the given economic determinants, significant disparities in the political landscape, particularly pertaining to the political regime, distinguished the two crises. The political landscape during the 2001 crisis in Turkey witnessed a culmination of institutional defects, marked by a weakening of political institutions. The presidency's role was largely ceremonial at the time, and the political system was more parliamentary in nature. The crisis led to political upheaval, with the resignation of the then Prime Minister Ecevit and a subsequent dissolution of the coalition. It also laid bare the vulnerabilities of a political system ill-equipped to handle economic shocks (Öniş 2009).

Pervasive corruption emerged as a significant undermining factor resulting from the institutional defects. As measured by international transparency rankings, Turkey was on the top of the corruption rankings in Europe in 1999. The International Management Development Center (IMDC) ranked Turkey's governmental transparency as 44 out of 46 countries in 1997 (Koch, Chaudhary, and Bilquess 2002: 480). The Corruption Perceptions Index (CPI) also demonstrates that the Turkish governance in late 1990s and early 2000s had a poor record of corruption (Figure 2).

Following the outbreak of the 2001 crisis, Turkey experienced a severe political crisis that brought a financial and political uncertainty in 2002. Prime Minister Ecevit's illness escalated the turmoil, and his refusal to step down caused the resignation of more than fifty members of the Parliament. Finally, the coalition dissolved and the Parliament voted in July to hold the elections in November 2002. The financial crisis succeeded by a state crisis prevented a sound governmental action to deal with corruption. After almost two decades, corruption was still a factor increasing political uncertainty as Turkey was confronted with a corruption investigation in December 2013.[12] As Figure 2 indicates, beginning from 2015, Turkey's transparency rating has been constantly decreasing to the point that it dropped down in 2021 to the level it was in 2000.

One of the major underlying reasons for this decline is that the post-2013 Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) governments have been structurally flawed. As Akçay (2021: 81) puts it, their defects have been a combination of a regime crisis and a crisis of state, illustrating the intricate interplay between political governance and policy outcomes. The direct connection between these crises and policy failures becomes evident in three phenomena: compromised decision-making processes, increased politicization of economic policies, and a disregard for institutional autonomy.

In the aftermath of the 2013 corruption scandal, a series of high-profile dismissals and replacements within key government positions occurred, disrupting established decision-making structures. These changes were not solely based on merit or competence but were perceived as responses to political loyalty, contributing to a compromised decision-making environment (Özbudun 2015: 42-55).

The centralization of power in the presidency, particularly after the transition to an executive presidential system in 2018, materialized as a *de facto* "president over institutions" approach, led to a more direct involvement of President Erdoğan in economic policymaking. The concentration of power enabled the president to take unilateral actions in economic

12 For a detailed work studying uncertainty and offering an EPU index that contains the text and digital archives for six Turkish newspapers from 1998 to 2017, please see Şahinöz and Coşar 2018: 1517-1520.

policy, such as appointing central bank governors and economic ministers without institutional checks, often leading to unorthodox monetary policies. For instance, frequent interventions in interest rate decisions, despite inflationary pressures, have undermined the central bank's independence, contributing to currency depreciation and volatility in financial markets. Additionally, this centralized control has weakened investor confidence, as the lack of transparency and accountability has resulted in erratic economic policies, further exacerbating inflation, unemployment, and public debt. Rather than relying on technocratic expertise, economic decisions increasingly reflected political considerations. The insistence on lowering interest rates even in high inflationary periods demonstrated a prioritization of short-term political goals over sound economic principles (Taskinsoy 2022).

Erdoğan's persistent push for lowering interest rates, even in the face of escalating inflation, became a defining feature of the economic policy landscape during the 2018 crisis. In the conventional economic playbook, a period of soaring inflation typically prompts central banks to raise interest rates to curb rising prices and stabilize the currency. However, Erdoğan's unconventional stance contradicted this established wisdom. His belief in the theory that high interest rates cause inflation led to a series of interventions pressuring the central bank to adopt a policy of aggressively cutting interest rates. This insistence on interest rate cuts during a period of rampant inflation raised concerns among economic experts, who argued that it undermined the central bank's independence and jeopardized its ability to implement effective monetary policies (Frankel 2022). Erdoğan's unyielding position on interest rates exemplified the challenges of maintaining sound economic governance when political considerations outweigh traditional economic principles. This clash between economic orthodoxy and political expediency contributed to the complexities of navigating the 2018 crisis and exacerbated the economic downturn.[13]

Finally, the heightened turnover rate of central bank governors between 2019 and 2021 serves as a concrete illustration of the disregard for institutional autonomy. The governmental intervention has been boosted to the extent that the regulatory authority has become enormous (Öztürk and Reilly 2022). The rapid replacements – four governors in less than two years – were often perceived as responses to policy disagreements or perceived loyalty issues, undermining the independence of the central bank and compromising its ability to implement effective monetary policies.[14]

13 Following the presidential and general elections in May 2023, Turkey's central bank has implemented a substantial increase in its key interest rate for nine times in a nine-month time frame—the last increase of March 21st, 2024 was a lofty 500 basis points, reaching 50%. This move signified an assertive monetary tightening, a notable shift following Erdogan's departure from his longstanding resistance to stringent policy measures. Emphasizing its commitment to addressing the soaring inflation, which reached almost 59% in August 2023 and is anticipated to persist into the coming two years, the central bank stated its readiness to implement additional rate hikes as necessary. The cumulative increase in rates between June 2023 and March 2024 amounted to 4,150 basis points (*Trading Economics* (accessed April 3, 2024)).

14 In July 2019, the Central Bank Governor, Murat Çetinkaya, was dismissed by President Erdoğan as he refused to lower interest rates. The next governor Murat Uysal's tenure lasted only about 14 months until November 2020 when he was divested after the lira plunged to record lows. His predecessor, Naci Agbal, was also sacked after just four months in March 2021. https://www.tcmb.gov.tr/wps/wcm/connect/TR/TCMB+TR/Main+Menu/Banka+Hakkinda/Tarihce/Baskanlar, (accessed October 9, 2024).

In examining the responses to the 2001 and 2018 crises, on the other hand, a comparative analysis reveals distinct approaches to economic challenges, with the former marked by fragmented decision-making under a parliamentary system and the latter characterized by concentrated power and a more direct intervention by President Erdoğan.

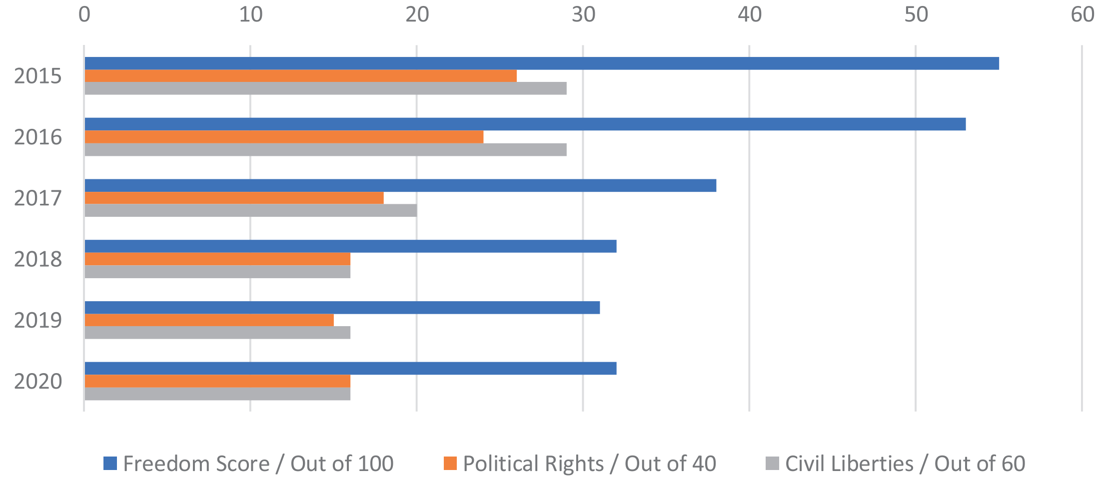
The leadership's response to the 2001 crisis was marked by an inability to navigate the economic challenges effectively. The political turmoil and a state of uncertainty resulting from Prime Minister Ecevit's illness and subsequent refusal to step down created a vacuum of decisive action. The ensuing elections in November 2002 led to a political transformation but highlighted the challenges in responding to crises under a fragmented political structure (Cizre and Yeldan 2005).

Conversely, during the 2018 crisis, President Erdoğan's concentrated power allowed for a swift and direct intervention. However, this centralization of power came at a cost. The financial policy apparatus became highly politicized, exemplified by the increased turnover rate of central bank governors, undermining the independence and effectiveness of economic governance. The prioritization of political survival over institutional soundness and the shift to a more authoritarian structure complicated the formulation and execution of effective economic policies (Akçay 2021).

The entire causality, of course, did not stem from the political factors only. The economic upturn experienced during 2010-2011, fueled by substantial capital inflows and easily accessible credit, faded away around 2012. After this period, the AKP not only reinterpreted the global credit constriction and financial instability as a conspiracy targeting the emerging "New Turkey" but also sought to disseminate more extensively the methods of financial calculation. Following the unsuccessful coup attempt in July 2016, a state-backed expansion of credit served to temporarily defer economic challenges for approximately a year. This approach offered an avenue for reorienting the behavior of small and medium-sized enterprises, as well as households, within the framework of state-driven financial discipline (Güngen 2020: 118-133). The policy response to the tightening of 2018 was once again an expansion and discipline by credit. This strategy that necessarily required capital inflows and cheap credit, however, was the one that financially paved the way for the crisis in the first place (Güngen 2020).

Another potential indicator that signals the conditions of crisis was the FDI inflows to Turkish economy. As in its external debt, Turkey's FDI inflow was also driven by a large variety of circumstances including both financial and political settings. The inflow was quite limited until the immediate aftermath of the 2001 crisis once the international capital benefited from the ensuring IMF Program (Dufour and Orhangazi 2009: 103). The FDI inflow tripled in a year following the crisis (Figure 1).

Figure 3. Freedom House Indicators: Turkey 2015-2020



Source: https://freedomhouse.org/reports/publication-archives, *(accessed June 26, 2022)*.

The post-crisis economic landscape was predominantly shaped by the IMF policies that prioritized privatization, attracting FDI through the provision of 'location-specific advantages'. On the flipside of the coin, as the Figure 1 indicates, foreign investors gradually drew away from Turkey between 2015 and 2020, as those advantages faded away. Simultaneously, Turkey experienced a decline in all indicators of democracy measured by the Freedom House (Figure 3).

Conclusion

This comparative analysis of Turkey's financial crises in 2001 and 2018 unveils a complex interplay between political dynamics and economic challenges. While acknowledging the impact of global economic environments, the emphasis on domestic factors aimed to provide a nuanced perspective on the internal dynamics shaping the outcomes. The study focused on dissecting the intricate connections between political landscapes, leadership responses, and policy frameworks, aiming to shed light on why effective policy responses were absent or ineffective in the face of economic adversities.

The contrasting political landscapes of the two crises highlight the evolution of Turkey's governance structures and the shifting dynamics of executive authority. The 2001 crisis, rooted in a culmination of external debt, fiscal imbalances, and a backdrop of political instability, served as a critical turning point. Pervasive corruption and a severe political crisis further exacerbated the financial turmoil, showcasing the vulnerabilities embedded in the political and economic structures of the time. The subsequent political upheaval and institutional restructuring marked a transformative period, but the challenges in responding to crises within a fragmented political structure persisted.

Conversely, the 2018 crisis unfolded in a markedly transformed political landscape. The concentration of power in the presidency, exemplified by the transition to an executive presidential system, allowed for swift but politically influenced interventions. The centralization of power, while providing quick responses, led to the politicization of financial policy apparatus and a prioritization of political survival over institutional soundness. Together with all other central agencies including, but not limited to, the bureaucracy, the military, the judiciary, and the economy, the whole state apparatus has become a uniformed administration (Adar and Seufert 2021). This shift towards authoritarian consolidation complicated the formulation and execution of effective economic policies. To crown it all, as the Turkish economic growth model almost entirely depends on capital inflows and access to cheap credit sources, once the global economy experienced a narrowing in 2018, Turkey was among the emerging markets that suffered the most.

Five years after the introduction of the new system, the Parliament is appallingly weaker, the separation of powers gone, the institutions including the judiciary entirely crippled, the economy caught into an everlasting crisis, and the social and political cleavages among the population deepened by the authoritarian practices of the ruling apparatus. In such a poorly structured institutional governance, it becomes exceedingly difficult to implement a robust and sustainable financial plan to bolster a national economy. As evident in the recent attempts by the Turkish Central Bank,[15] the obstinate policy response to crises lacking a coherent rationale comes with fatal consequences. While the ruling party tends to put the blame on international speculators plotting against Turkey, renowned economists such as Daron Acemoglu[16] contend that the underlying mechanism of the prolonged crisis mainly lies in the institutional decay signaling a dysfunctional economy to the markets, and the lack of structural reforms such as a reinforced and competency-driven financial governance, further labor market flexibility, and diversified incentives for FDI, with a solid emphasis on rule of law.

In conclusion, the research highlights the need for a comprehensive understanding of the nexus between political governance and financial stability. The lessons drawn from these crises offer valuable insights for policymakers, emphasizing the importance of balancing political power with institutional autonomy to foster a resilient and effective response to economic challenges. The interplay between domestic and international politics exists in juxtaposition with financial dynamics, and Turkey is by no means an exception. As Turkey navigates the complexities of its economic landscape, and announces return to "rational economics,"[17] these findings contribute to the ongoing discourse on the intricate relationship between political institutions and financial stability.

15 In mid-August 2022, the Central Bank, serving under a full control of the President, declared a shock cut to interest rates despite the inflation rate soaring to a 24-year high and the lira currency fell into near a record low. See at https://www.bloomberg.com/news/articles/2022-08-18/turkey-delivers-shock-rate-cut-as-inflation-set-to-peak-over-80, (accessed August 18, 2022).

16 Acemoglu, Daron. 2023. Türkiye İki Büyük Tehditle Karşı Karşıya. *DW Türkçe*. June 2. https://www.dw.com/tr/daron-acemoğlu-türkiye-iki-büyük-tehditle-karşı-karşıya/a-65807250, (accessed October 18, 2023).

17 Shortly after his appointment as the new minister of finance, Mehmet Simsek announced the policy shift in a press conference in June 2023: "Turkey has no choice but to return to rational ground." https://www.politico.eu/article/turkey-finance-minister-mehmet-simsek-return-to-rational-economic-policy-inflation, (accessed October 18, 2023).

References

Acemoglu, Daron and James A. Robinson. 2006. Economic Backwardness in Political Perspective. *American Political Science Review* 100: 115-131.

Acemoglu, Daron, et. al. 2019. Democracy Does Cause Growth. *Journal of Political Economy* 127, 1: 47-100.

Acemoglu, Daron. 2023. Türkiye İki Büyük Tehditle Karşı Karşıya. *DW Türkçe*, June 2. https://www.dw.com/tr/daron-acemoğlu-türkiye-iki-büyük-tehditle-karşı-karşıya/a-65807250 (accessed October 18, 2023).

Adar, Sinem, and Günter Seufert. 2021. Turkey's Presidential System after Two and Half Years: An Overview of Institutions and Politics. *Stiftung Wissenschaft und Politik Research Paper 2*.

Aidt, T. S., and M. Gassebner. 2010. Do Autocratic States Trade Less? *World Bank Economic Review* 24, 1: 38-76.

Akçay, Ümit and Ali Rıza Güngen. 2019. The Making of Turkey's 2018-2019 Economic Crisis. *HWR Berlin*, Working Paper No. 120.

Akçay, Ümit 2021. Authoritarian Consolidation Dynamics in Turkey. *Contemporary Politics* 27, 1: 79-104.

Akçay, Ümit. 2018. Neoliberal Populism in Turkey and its Crisis. *IPE Berlin Working Paper*, No. 100/2018, Berlin: Institute for International Political Economy.

Alesina, Alberto and Allen Drazen. 1991. Why are Stabilizations Delayed? *The American Economic Review* 81, 5: 1170-1188.

Alesina, Alberto and Dani Rodrik. 1994. Distributive Politics and Economic Growth. *Quarterly Journal of Economics* 109: 465-90.

Allen, Franklin, et. al. 2009. Financial Crises: Theory and Evidence. *Annual Review of Financial Economics* 1: 97-116.

Bakir, Caner, and Ziya Öniş. 2010. The Regulatory State and Turkish Banking Reforms in the Age of Post-Washington Consensus. *Development and Change* 41, 1: 77-106.

Barro, Robert J. 1996. Determinants of Economic Growth: A Cross-Country Empirical Study. *NBER Working Papers*, No. 5698.

Beck, Thorsten, and Ross Levine. 2008. *Legal Institutions and Financial Development*. Berlin, Springer.

Bermeo, Nancy. 2016. On Democratic Backsliding. *Journal of Democracy* 27, 1: 5-19.

Bernhard, William, and David Leblang. 2008. Cabinet Collapses and Currency Crashes. *Political Research Quarterly* 61, 3: 517-531.

Blomberg, S. Brock, and Gregory D. Hess. 2001. Is the Political Business Cycle for Real? *Journal of Public Economics* 87: 1091-121.

Bloom, Nick, Stephen Bond, and John Van Reenen. 2007. Uncertainty and Investment Dynamics. *The Review of Economic Studies* 74, 2: 391-415.

Bloomberg. 2022. Turkey Delivers Shock Rate Cut Despite Inflation; Lira Plunges. https://www.bloomberg.com/news/articles/2022-08-18/turkey-delivers-shock-rate-cut-as-inflation-set-to-peak-over-80 (accessed August 18, 2022).

Boutchkova, Maria et. al. 2012. Precarious Politics and Return Volatility. *The Review of Financial Studies* 25: 1111-1154.

Cizre, Ümit, and Erinç Yeldan. 2005. The Turkish Encounter with Neo-liberalism: Economics and Politics in the 2000/2001 Crises. *Review of International Political Economy* 12, 3: 387-408.

Doyran, Mine Aysen, and Jose Gomez-Gonzalez. 2023. Political and Institutional Determinants of Foreign Direct Investment (FDI) Inflows in Latin American Countries, 1995-2020. Available at SSRN: http://dx.doi.org/10.2139/ssrn.4617587, (accessed October 18, 2023).

Dufour, Mathieu, and Özgür Orhangazi. 2009. The 2000-2001 Financial Crisis in Turkey: A Crisis for Whom? *Review of Political Economy* 21, 1: 101-122.

Foster, John Bellamy, and Robert W. McChesney. 2012. *The Endless Crisis: How Monopoly-Finance Capital Produces Stagnation and Upheaval from the U.S.A. to China*. New York, Monthly Review Press.

Fowler, James H. 2006. Elections and Markets: The Effect of Partisanship, Policy Risk, and Electoral Margins on the Economy. *Journal of Politics* 68: 89-103.

Frankel, Jeffrey. 2022. Turkey's Inflation Mostly Results from Its Own Policies. https://www.jeffrey-frankel.com/2022/11/25/turkeys-inflation-mostly-results-from-its-own-policies, (accessed October 16, 2023).

Gallego, F. A. 2010. Historical Origins of Schooling: The Role of Democracy and Political Decentralization. *Review of Economics and Statistics* 92, 2: 228-243.

Gallo, Andrés, Juan Pablo Stegmann and Jeffrey W. Steagall. 2006. The Role of Political Institutions in the Resolution of Economic Crises: The Case of Argentina 2001-05. *Oxford Development Studies* 34, 2: 193-217.

Gandrud, Christopher. 2014. Competing Risks and Deposit Insurance Governance Convergence. *International Political Science Review* 35: 195-215.

Gauthier, Bernard, and Jonathan Goyette. 2016. Fiscal Policy and Corruption. *Social Choice and Welfare* 46: 57-79.

Gümüş, Ersin 2019. Examination of Financial Sustainability in Turkey (2002-2018). *Journal of Finance and Bank Management* 7, 2: 37-46.

Güngen, Ali Rıza. 2020. Turkey's Financial Slide: Discipline by Credit in the Last Decade of the AKP's Rule. in *Turkey's New State in the Making: Transformations in Legality, Economy and Coercion*, eds. Pınar Bedirhanoğlu et. al. London, Zed Books: 118-133.

Heinrich, Mathis, and Amelie Kutter. 2014. A Critical Juncture in EU Integration? The Eurozone Crisis and Its Management 2010-2012. In *Moments of Truth: The Politics of Financial Crises in Comparative Perspective*, eds. Francisco Panizza and George Philip. New York, Routledge: 120-140.

Hicken, Allen, Shanker Satyanath and Ernest Sergenti. 22005. Political Institutions and Economic Performance: The Effects of Accountability and Obstacles to Policy Change. *American Journal of Political Science* 49, 4: 897-907.

Hoeffler, Anke, and Paul Collier. 2005. Democracy and Resource Rents. *Economics Series Working Papers-GPRG-WPS-016*, University of Oxford, Department of Economics.

Jensen, Nathan M. 2003. Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment. *International Organization* 57, 3: 587-616.

Kindleberger, Charles P. 1987. Financial Crisis. In *The New Palgrave Dictionary of Economics*, eds. Steven Durlauf and Lawrence E. Blume. London, Palgrave Macmillan.

Kindleberger, Charles P. 2017. *Manias, Panics, and Crashes: A History of Financial Crises*. London, Routledge.

Kleibl, Johannes. 2013. The Politics of Financial Regulatory Agency Replacement. *Journal of International Money and Finance* 75, 2: 552-566.

Koch, Levent, M. A. Chaudhary, and Faiz Bilquess. 2002. February 2001 Crisis in Turkey: Causes and Consequences. *The Pakistan Development Review* 40, 4: 467-486.

Lacroix, Jean, Pierre-Guillaume Méon, and Khalid Sekkat. 2018. Do Democratic Transitions Attract Foreign Investors and How Fast? *ASSA Annual Meeting: Conference Paper*.

Levitsky, Steven, and Lucan A. Way. 2002. The Rise of Competitive Authoritarianism. *Journal of Democracy* 13, 2: 51-65.

Li, Quan, and A. Resnick. 2003. Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries. *International Organization* 57, 1: 175-211.

Mechkova, Valeriya, Anna Lührmann and Staffan I. Lindberg. 2017. How Much Democratic Backsliding? *Journal of Democracy* 28: 162-69.

Noble, Simon-Peter. 2018. Turkey: The 2001 Financial Crisis. https://seekingalpha.com/article/4212301-turkey-2001-financial-crisis (accessed June 8, 2022).

Nyugen, Thanh C., Vitor Castro, and Justine Wood. 2022. Political Environment and Financial Crises. *International Journal of Finance and Economics* 27, 1: 417-438.

Obstfeld, Maurice, et. al. 2010. Financial Stability, the Trilemma, and International Reserves. *American Economic Journal: Macroeconomics* 2, 2: 57-94.

Orhangazi, Özgür and A. Erinç Yeldan. 2021. The Re-making of the Turkish Crisis. *Development and Change* 52, 3: 460-503.

Ostrup, Finn, Lars Oxelheim and Clas Wihlborg. 2009. Origins and Resolution of Financial Crises: Lessons from the Current and Northern European Crises. *Asian Economic Papers* 8, 3: 178-220.

Öniş, Ziya. 2009. Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of Neo-liberal Restructuring in Turkey. *Review of International Political Economy* 16, 3: 409-432.

Özatay, Fatih, and Güven Sak. 2002. The 2000-2001 Financial Crisis in Turkey. https://www.researchgate.net/publication/242034963 (accessed June 16, 2022).

Özbudun, Ergun. 2015. Turkey's Judiciary and the Drift Toward Competitive Authoritarianism. *The International Spectator* 50, 2: 42-55.

Özel, Işık. 2015. Reverting Structural Reforms in Turkey: Towards an Illiberal Economic Governance? *Policy Brief* 22.

Özmen, Ümit, and Soli Özel. 2024. The Return of the State and Its Alla Turca Version. *Uluslararası İlişkiler* 21, 83: 5-23

Öztürk, Sevinç, and Thomas Reilly. 2022. Assessing Centralization: On Turkey's Rising Personalist Regime. *Southeast European and Black Sea Studies*.

Pepinsky, Thomas B. 2014. Financial Crises and the Politics of Adjustment and Reform. In *Handbook of the International Political Economy of Monetary Relations*, eds. Thomas Oatley and W. Kindred Winecoff. Cheltenham, Edward Elgar Publishing: 265-284.

Persson, Torsten, and Guido Tabellini. 2009. Democratic Capital: The Nexus of Political and Economic Change. *American Economic Journal: Macroeconomics* 1, 2: 88-126.

Politico. 2023. Turkey's New Finance Chief Announces Return to 'Rational' Economics, https://www.politico.eu/article/turkey-finance-minister-mehmet-simsek-return-to-rational-economic-policy-inflation (accessed October 18, 2023).

Portes, R. and H. Rey. 2005. The Determinants of Cross-border Equity Flows. *Journal of International Economics* 65, 2: 269-296.

Ragauskas, Rimvydas, and Ieva Valeskaite. 2020. Nepotism, Political Competition, and Overemployment. *Political Research Exchange* 2, 1: 1-16.

Rawdanowicz, Lukasz. 2010. The 2008-09 Crisis in Turkey: Performance, Policy Responses, and Challenges for Sustaining the Recovery. *OECD Economics Department Working Papers*, No. 819.

Rey, Hélène. 2015. Dilemma Not Trilemma: The Global Financial Cycle and Monetary Policy Independence. *NBER Working Paper Series*, No. 21162.

Şahinöz, Saygın and Evren Erdoğan Coşar. 2018. Economic Policy Uncertainty and Economic Activity in Turkey. *Applied Economic Letters* 25, 21: 1517-1520.

Saleh, Emad Alchikh. 2023. The Effects of Economic and Financial Crises on FDI: A Literature Review. *Journal of Business Research* 161.

Söylemez-Karakoç, Büşra, and Merih Angın. 2024. Mitigating the Political Cost of Financial Crisis with Blame Avoidance Discourse: The Case of Turkey. *Uluslararası İlişkiler* 21, 83: 41-59.

Taskinsoy, John. 2022. Economic Meltdown in Turkey: Great Divergence Fueled by Erdogan's Quixotic Policies. Available at SSRN:

http://dx.doi.org/10.2139/ssrn.4190664, (accessed October 21, 2023).

Trevino, Len J., John H. Daniels and Harvey Arbelaez. 2002. Market Reform and FDI in Latin America: An Empirical Investigation. *Transnational Corporations* 11, 1: 29-49.

Wade, Robert. 2000. Wheels within Wheels: Rethinking the Asian Crisis and the Asian Model. *Annual Review of Political Science* 3: 85-115

Wolkenstein, Fabio. 2022. What is Democratic Backsliding? *Constellations*: 1-15.

Yilanci, Veli, and Burcu Özcan. 2008. External Debt Sustainability of Turkey: A Nonlinear Approach. *International Research Journal of Finance and Economics* 20: 91-98.