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Reflections of the Economic Policies Adopted by Industrial Countries in the Aftermath of the 2008 Global Financial Crisis on Turkey*

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Abstract: The purpose of this study is to analyze the monetary and exchange rate policies adopted by industrial countries in the post-2008/9 global financial crisis and to question whether any steps to eliminate the effects of the crisis were taken as well as to discuss the possibility of a potential currency war to arise in-between the countries. By reason of these evaluations, the monetary and exchange rate policies exercised in a selected sample of industrial countries and the probable subsequent effects of them on Turkey will be briefly explained.

Key words: financial crisis; currency wars; monetary policy; exchange rate policy
JEL codes: E31, E42, F62, G01

1. Introduction

The basic research question raised by this study concerns the following two forms of economic policies implemented in industrial countries, namely the exchange rate-based monetary policy and the fiscal policy. In addition to that, the financial market reforms of the post-global crisis era are scrutinized. Looking further back from now, daily economic routine seems to have continued as if no financial crisis of any sort has ever been experienced. The stock values in the stock market appreciated and the interest rates in financial markets showed an upward tendency. There being no virtual consideration of and lessons drawn from the previous crisis, risky financial products were reintroduced into the market and the profit margins of the Investment Banks re-took a booming turn.

The question atop the economic agenda is whether the effects and impacts of the 2008 crisis were totally eradicated and precautions to hinder a revival were taken or whether an economic downfall is likely in case of a new crisis. In many a country including the developed countries unemployment rates still continue high and capacity utilisation rates within manufacturing industry remain constant. Public sector deficit is also soaring.

This paper questions whether any radical switch of policy was undertaken in terms of monetary and exchange rate policies implemented in industrial countries within the post-2008 global financial crisis period; explores whether the financial reforms to eliminate the effects of a prospective crisis were initiated, and finally discusses the potential influence of those variables on Turkish economy.

In post-2008 global financial crisis period, the monetary and exchange rate policies of the industrial countries

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did not undergo transformative changes. In each of the countries, monetary policy did not suffice by itself to escape a period of depression, which necessitated the collaboration of fiscal policy. As a consequence of this double helix economic recovery program, a hope and an expectation among economists appeared towards the possibility of applying New Keynesian school thoughts alongside those of the Neo-Classical school of thought or a return back to the Keynesian School. However, the prevalent economic policy within the industrial countries is oriented more towards the Neo-Classical school of thought and the belief in the resolving capacity of the monetary policy in terms of economic problems looms larger (Brady, 2012).

On the other hand, at a period when the effects of the financial crisis in international markets have not yet been dispelled and when countries debate how to resolve their own economic problems, the argument that cross border currency wars could re-emerge is a hot discussion topic in economic literature.

On September 27, 2010 in the city of Sao Paulo at a conference meeting concerning the effects of exchange rate policies on business problems, Brazilian Finance Minister Guido Mantega claimed that the world is in the midst of a currency war and this thorny conflict suppresses the competitiveness of the Brazilian economy, whereby the term "currency war" was coined (Financial Times, FT.27.09.2010).

The key point here is the question of whether a currency war will break out in the middle of a real global crisis.

Another problem at hand is the high debt-to-GDP ratios of industrial countries, particularly in Europe. This case is especially urgent in Eurozone countries. At the core of the debt problems lies the structure of the Euro currency and cross border differences in terms of development. A high debt-to-GDP ratio is perceived as an indicator of economic crisis.

2. Monetary and Exchange Rate Policies

In the background of the assertive statement "*we're in the midst of an international currency war*" by the Brazilian Finance Minister stands the appreciation of the Brazilian national currency "Real". There is a widespread consensus and unanimity among researchers that Brazilian Real appreciated immoderately. However, as in Colombia, Thailand and many other industrial countries including Japan, an excessive appreciation in the value of a currency creates problems (Klein & Teng, 2010, p. 3).

Additionally, the low interest rate policy and the increasing liquidity exports in the US accelerated the flow of capital towards other countries. Capital flows led to an accrual of foreign exchange in the exchange market of many countries, thereby appreciating the national currency, which resulted in cheaper imports and larger current account deficits. Mantega regarded the industrial countries as the sole responsible of this cycle and emphasized that it was on purpose and a conscious design that the Brazilian Real appreciated excessively.

Following these explanations, the internationally debated question is whether the world trade will be subject to a danger of breakdown via devaluations perpetuated by currency wars, as was experienced during the 1930s. Subsequent to these debates, the US, Republic of China, and other Asian and Pacific countries convened to bring up a resolution as a countermeasure to the policies augmenting competitiveness by way of exchange rate manipulations (Dullien, 2012, p. 2).

Despite the aforementioned resolution, the debates persist and the concern over a currency war in the case of a crisis and at a critical juncture remains on the agenda. Hereof, the monetary and exchange rate policies of China, the US and the Euro zone countries will be analyzed.

2.1 The Frame of the Republic of China

The Republic of China is faced with two significant problems; the first is inflation, and the second is the pressure to revalue the national currency.

Since the 2008 global financial crisis, China put in circulation $586 billion, an amount equal to approximately 16% of its GDP as of 2007 to abate the effects of the crisis by means of expansionary monetary and fiscal policies. This in turn led to a drastic monetary and credit expansion in the Chinese market. China alone expanded its M2 money supply by 28% in 2009 and increased its credit volume by 100% as compared to 2008. The increasing money supply in circulation caused an equivalent escalation in inflation. Although the official statistics of the year 2010 display a 3% rate of inflation, real inflation rate is more than twice that number. The estimations for the real inflation rate are centred on 7% (Klein & Teng, 2010, p. 4).

Just in 2010, the discount rates soared by 0.5% for five times and by 15% in total and the benchmark interest rate hit a 6%.

From 2005 onward, China fixed its currency onto the US dollar within the frame of pegged exchange rate system. Whereupon, a period of "managed floating" based on supply and demand in the foreign exchange market ensued, which favoured not only the accumulation of the US dollar but the creation of a currency basket in a way to protect the national currency. With the appreciation of the Chinese currency Renminbi (RMB) by 20% before the 2008 financial crisis and the eruption thereof ended the reform policies and RMB was re-fixed to the US dollar.

A cheaper exchange rate policy, i.e., deliberately keeping the value of a currency comparatively low, gained Chinese economy an edge by boosting the exports and paving the way for current account surplus.

From the perspectives of the US and the Europe, Chinese exchange rate policies triggered trade imbalances to the detriment of other countries.

As a consequence of the pressures coerced by western countries, China appreciated the value of RMB somewhat but refrained from undertaking the required and market-proper arrangements.

2.2 The Frames of Europe and the USA

The primary tasks of the European Central Bank are to manage the monetary policy with respect to the domestic market conditions, and to implement policies aimed at sustaining monetary stability of the Euro as well as ensuring favourable market conditions for the European Banks to effectively operate.

The European economy divided into two fractions following the global financial crisis. Whereas the economies of some countries worsened, in some others like Germany the economy kept its vitality. As an extension of this, some Euro zone banks experienced great capital challenges on the one hand and on the other they became more dependent on the European Central Bank. Indeed, the European Central Bank aims at monetary stability, but the exchange rate policy is, rather than being the target of the European Central Bank, strongly correlated with the market expectations based on supply and demand (Burgstaller & Feigl et al., 2010, p. 49).

The optimistic expectations in Euro zone countries or the pessimistic expectations in the US consolidate the Euro currency by improving the investment environment and attracting capital flows from the overseas markets. The pessimistic expectations in the Euro zone weaken the Euro currency by prompting capital outflows towards the US. The US monetary policy is oriented towards preventing domestic unemployment. The US recovery packages introduced in the aftermath of the global financial crisis could not reduce unemployment and the monetary policy forestalled the fiscal policy once again.

The rebirth of the Keynesian thought was being celebrated until two years ago, but it is widely accepted to have died by now. This is because an expansionary fiscal policy aiming to escape conjunctural bottlenecks is not effective anymore and the attempts to raise employment do not yield any success. In this context, there has been a turning back to monetary policy with an expectation to harvest better crops (Hagemann, Kramer, 2011, p. 476).

As is already known, FED transferred $600 billion to the American economy within the frame of Quantitative Easing by way of buying treasury bonds in the capital markets to provide for liquidity demands, an act that led to a higher inflation rate (Federal Reserve Bank St Louis, 2011).

The export of large volumes of liquidity reserves by the US weaken the dollar currency and harm the trading partners. However, that kind of liquidity reserve exports are considered to be a means of American monetary policy and viewed as standard conduct. The following quote from the former American Treasury Secretary is quite noteworthy in that sense; "*Dollar is our currency but your problem*".

3. Currency Wars

Recent rumours on currency wars are focused more on a possible cross border competitive devaluation, and trade wars or exchange rate manipulations. The most significant among those possibilities is the incidence of a cross border competitive devaluation.

In the classical sense of the word, currency wars denote the competitive devaluation among countries. As a result of devaluation, countries gain competitive advantage against the trading partners of the other country by means of their currency. But, if each country behaves that way, not any one of them will benefit from this strategy. As each country moves towards devaluation to their best interests, the aggregate utility will amount to zero.

Two conspicuous problems arise at that point: first is the accumulation of foreign exchange reserves in the emerging economies and the second is the current account imbalances to appear in some countries.

In Table I is a list of foreign exchange reserves of some selected countries in three discontinuous years, 1995, 2009, and 2012. Taken all together in the aggregate, the total exchange reserves of the People's Republic of China, Taiwan, Hong Kong, and Macau sum up to approximately 3.3 trillion US dollars. Chinese foreign exchange reserves climbed up to $307.5 billion in 2009 from $228 billion back in 1995 and this number remained at a level of $301.20 billion by 2012. The reason for this increase in foreign exchange reserves of China is the steadily low value of the Chinese Renminbi in the face of the US Dollar and the PRC constantly purchasing US dollars in the foreign exchange markets to protect the national currency and inflating the dollar reserves. Among the leading countries boosting their foreign exchange reserves are Japan, Switzerland, Brazil, France, and Turkey.

Table 1 Foreign Exchange Reserves of Some Key Countries

Countries	1995 FX Reserves Billion US Dollars	2009 FX Reserves Billion US Dollars	2012 FX Reserves Billion US Dollars
China	228	307.5	301.20*
Japan	193	104.9	1.272
USA	175	404	153.80
Germany	122	180	262
Singapore	69	188	191
Switzerland	69	135.3	525.0
Italy	61	132	190.30
Fransa	59	133	183.60
Brazil	51	239	378.70
England	49	404	132.70
Turkey	50	75.0	112.10

Note: *China+Hong Kong

Source: The World Bank, World Development İndicators (WDI) Welt auf einen Blick, Wirtschaft, Wahrungsreserven und Goldreserven, Statistika 2013-03-01.

The goal of the countries in boosting their foreign exchange reserves is not to receive a larger share from the world trade by manipulating the exchange rate of their currency but rather to protect and if need be, support the value of their currency in case of a global crisis.

There are two possibilities for the emergence of an international currency war (Mathes et al., 2013, pp. 3-28). According to the first scenario, the US will trigger the onset of a currency war and not one single country will be able to resist the doom. It should be noted here that the dollar reserves in other countries impose a pecuniary obligation on the US, namely those dollar reserves are the Federal debts. Based on this rationale, an increase in money supply by the US in a way to prompt dollar inflation might seem like an appealing policy. This is because the worldwide dollar reserves depreciate in real terms and the US gets rid of its debt.

If ever the world countries perceive the US intentions as malicious, they might be tempted to replace the dollar reserves with other foreign exchanges in a way to protect the exchange rate of their currency. In this case, the value of the dollar in international foreign exchange markets will rapidly depreciate. This scenario does not seem very likely however. This is because the US already has every opportunity to borrow with his own foreign exchange reserves and the rate of interest to this borrowing is relatively low. It is also known that the real rate of return for creditors is negative.

It is possible to get rid of debt through inflation. However, balancing the possibility of getting rid of debt through inflation against the long-term reliability of the dollar, the US could hardly afford to lose its worldwide dollar reserve status.

On the other hand, the US will be deprived of the seignior age income to flow from around the world. The US should not be expected to engage in practices contrary to his own interests in economic terms, from a position to cover the current account deficit by himself. For these reasons, this scenario does not seem rational.

A second scenario is about the Chinese government putting her dollar reserves, previously accumulated in order to weaken and gain some power against the dollar, on the foreign exchange markets. In this scenario, China will be the perpetrator of the crisis. However the Chinese government will be damaged by this act. Because, this selling of the dollar reserves on the international foreign exchange markets by China will depreciate the dollar and thus reduce the value of the foreign exchange reserve in her own safety box. The depreciated dollar will strengthen the competitiveness of the US, and via an additional foreign trade advantage the US will be better able to meet the balance of payments.

In case the US dollars put on the market by China will lead to dollar inflation, the Federal Reserve Bank could collect those dollars by using various monetary policy tools and thus provide price stability. This is due to the fact that the dollar reserves held by the Chinese government are smaller than the US GDP and this does not present a problem for the US. From the perspective of China, this kind of a foreign exchange policy does not seem reasonable and it is likely to do more harm than good for the Chinese economy.

If China pegs her currency to the US Dollar within the frame of fixed exchange rate system, she will either ignore the US (i.e., benign neglect) as if she has no foreign exchange policy or significantly increase the dollar amount in order to depreciate the exchange rate of her currency.

As long as China pegs her national currency Renminbi to the US Dollar within the frame of fixed exchange rate system, the US will challenge the Chinese economy via his expansionary monetary policy. In fact, the US with his current exchange rate policy forces the Chinese government to adopt a floating exchange rate policy. By adopting a floating exchange rate policy, China will lose her contribution to the US external balance.

Analyzing the possible exchange rate developments between Eurozone countries and the US, provided that the US follows expansionary monetary policy in the short run, a capital flow from the US to the Eurozone will begin and the Dollar will depreciate in the face of the Euro. This will increase the competitiveness of the US against the Euro countries. Under the circumstances, the US balance of payments will recover whereas those of the Euro countries will deteriorate. However, such a recovery is likely only in the short run. In the long run, the liquidity expansion may trigger a rise in inflation, placing the inflation problem back on the US agenda. This may reverse the positive contribution via the liquidity expansion to the external balance. Higher interest rates will encourage capital inflows and the rising commodity prices will eliminate the profit margin previously gained by competitive advantage.

If a country will use the foreign exchange rate as a strategic weapon, expansionary monetary policy will provide an advantage in the short run, whereas in the long run it will be disadvantageous due to a threat of inflation. A monetary policy oriented towards long-term price stability is always advantageous. Such kind of a policy will strengthen the price mechanism and enhance the competitiveness of the industrial sector as well contributing to the recovery of the external balance.

In assessment, the US wishes to stimulate his economy by way of liquidity expansion and prefers monetary policy, knowing that fiscal policy will be of no avail to that end. The purpose here is to balance the US public deficit as much as possible.

From now on, the European Central Bank will no longer feel imprisoned under the burden of high levels of debt and will not pursue a loose monetary policy in terms of exchange rate policy and conservation of the price stability will be the top priority (Weber, 2011, p. 9).

Due to the liquidity expansion in Europe and the US, the cheap dollar inflows to China will continue, and the pressure of revaluation on Renminbi will mount, and the fight against inflation will accelerate as long as the Chinese Renminbi is pegged to the US Dollar. The only way for China to escape this cycle is to abandon the fixed exchange rate policy.

In case China wishes to configure her national currency as an international reserve currency, she should apply a monetary policy oriented towards price stability, and liberalize the financial system and cease controlling the capital movements in a one-way direction to serve her interests. If these policies are enacted, Renminbi will become the third largest reserve currency of the world.

Developing countries has always sought to increase their competitiveness by following a weak exchange rate policy, thereby soaring their exports.

However, due to the cheap capital flows from the US and Europe in the post-2008 financial crisis period, the exchange rates of the developing countries have been subject to a revaluation pressure.

In view of the circumstances, these countries will either purchase foreign currency by intervening in their own foreign exchange markets or resort to international capital controls.

The exchange rate movements in developing countries or the currency wars will be left behind and will not cause a worldwide exchange rate crisis.

4. Financial Market Reforms

After the 2008 global financial crisis, two views confronted each other in terms of economic policies. According to the first view, the root of the financial crisis is nested in the employment of incorrect monetary and fiscal policies. In other words, the crisis is the systemic crisis of the economic policies.

The second view is based on the allegation that the global financial crisis stems from the structure of capital markets wherein a lack of control and supervision and absence of necessary legal arrangements pervade. Our analysis is on this latter view.

After the global crisis and in various meetings, the G20 reached a consensus on taking measures to eliminate global imbalances and providing supervision and control over the financial sector (Dullien, 2012, p. 1). What is significant here is that the decisions taken are aimed at increasing the efficacy of economic policies and prevention of the emergence of a new crisis in the future.

The G20 resolutions are mainly centred on three core areas:

(1) Eliminating financial imbalances, i.e., ensuring a stable and balanced growth,

(2) Supervising and controlling the practices of banks and other financial institutions that may lead to a crisis in the financial markets,

(3) Carrying out the necessary reforms that will accompany the financial markets well into the 21st century and contributing to the economic development.

No steps have been taken so far regarding the first resolution on elimination of global imbalances. Industrial countries have not yet collaborated on designation of appropriate fiscal and monetary policies to reach strong, stable and balanced economic growth figures and improve cross border cooperation. That is why the Current Account Balance in Germany for example, record a surplus whereas many other industrial countries still run a deficit. The US current account deficit in the post-crisis period decreased to a certain extent. Yet, there is still a deficit of approximately 3% of the GDP. Chinese current account surplus as of 2007 was an excess of 11% of the GDP whereas it fell to 8% and 5% in 2008 and 2011 respectively. This is due to the weakening of the US economy after the crisis and the low level of capital inflows to China from 2008 onwards.

According to the International Monetary Fund (IMF) estimates, the US current account deficit will rise again from 2012 on (IMF: 2011- b).

The current account surplus particularly in China and Germany creates an imbalance among other countries in the global process. The reciprocal promises to eliminate cross border current account imbalances ended in failure. However, the European countries have made a contract by the name of “Europe six-pack” to eliminate the current account imbalances among themselves. The purpose here is to investigate the foreign trade imbalances and to take the imbalance-corrective measures. According to this principle, the current account surplus countries will limit their excess amount of balance to a maximum of 6% of their GDP. On the other hand, the current account deficit countries will limit their deficit amount of balance to a maximum of 4% of their GDP (Bundesministerium für Wirtschaft und Technologie, 2012).

As for the elimination of current account imbalances of the countries and adoption of measures to accelerate investments in balance deficit countries, and the statements issued by G20 countries in the post-crisis period, no initiatives have yet been undertaken.

Generally speaking, financial market reforms were prioritized in this period and the most crucial attempt in that sense has been the regulation of bank capital requirements. The regulation of bank capital requirements after the 2008 financial crisis has involved the most intriguing and comprehensive structural change and they have been dubbed the Basel III financial regulatory reforms.

4.1 Basel III Financial Reforms

The financial system rules following the 2008-2009 global financial crises were arranged under the title “Basel III”.

Transferring those rules into the field of application however, will take a long time. Basel III reforms, originally prepared for the EU have also been adopted by the US Federal Reserve Bank and the FED declared that the US banks will also comply with these rules (Whyat, 2011).

Although the Basel III reforms are highly complicated, it is possible to outline the basic premises (Deutsche Bundes Bank, 2011).

(1) *Improving the quality of banks' common equity capital:* Within the frame of new rules, a new and stringent outline based on common equity capital is drawn with a focus on stronger common equity capital formation. The previously designated hybrid-capital is no longer accepted as strong common equity capital.

(2) *Creation of an additional buffer zone:* A "capital conservation buffer" or "countercyclical buffer ratio" will be formed to protect the capital in the future. Capital conversation ratio is composed of the 2% of the risk-weighted assets in a bank's balance sheet. In case banks fall into the buffer range and cannot meet capital requirements, constraint on their discretionary distributions will be imposed. In case the credit growth of the national banks pose a threat and the weight of the threat exceeds the limit of 2.5% of the risk-weighted assets, countercyclical buffer ratio will be carefully monitored by the national supervisory authorities.

(3) *Increasing the quantitative capital requirements:* The up-to-now 2.5% level of risk-weighted assets of the banks must be deposited at a level of 4.5% of risk-weighed assets as hard core capital from 2015 onwards. In addition, to protect the risk-weighted assets the capital conversation ratio of 2% will be raised to 7% by 2019.

(4) The equity capital conservation ratios of the banks that may change based on cyclical developments may increase up to 13% by 2019 (Bundes Bank, 2011). The goal here is ensuring stability in financial sector and strengthening the bank equity capitals against economic crisis.

4.2 "Financial Institutions" with Key Roles in the System

Structural regulations in systemically important financial institutions have just begun. To that end, international agreements on the general requirements have been reached and the provisions of these agreements have been transferred by the Financial Stability Board to the field of application (FSB, 2011).

In 2011 using various methods, 29 systemically important financial institutions (G-SIFIS) were identified on a global scale. Based on size and distribution of risk networks, these institutions should allocate equity capitals at a ratio of 3.5% of their risk-weighted assets as risk premium. Additional equity capital requirements are expected to be enforced from 2016 to 2019.

4.3 Hedge Funds

After the global financial crisis, the hedge funds in both the EU countries and the US have been subject to very strict rules and regulations. Hedge funds were bound by restrictions. "Alternative Investment Funds Managers Directive" was established in the EU and "Dodd-Frank Act" was legislated in the US. Besides these institutions, establishment of a control center on derivatives and derivative markets in the future and placement of restrictions on Hedge Fund participation by Commercial Banks have been settled upon (Dullien, 2012, p. 10).

Fund suppliers in the EU have to specify the details regarding the origin of those funds, the minimum requirements for liquid capital as well as the equipment of sufficient and qualified personnel. Also, professional investors must inform their national agencies on issues such as the securities management, the supply amount reached of the securities, investment strategies and risk management.

In the US, highly stringent control mechanisms on Hedge Funds have been created and following the 2008 global financial crisis all the decisions settled by G20 countries in this field have been enforced.

4.4 Securities Market

The reforms in this area could be more quickly implemented. In 2009, the EU established the "Capital Requirements Directive II" within the frame of capital adjustment regulation on securitization. According to this regulation, the securities lenders have to keep a 5% of credit in their safety vault or show an amount commensurable to that in their balance sheet.

The US regulations in this field are based on Dodd-Frank Act. Bank Audit Committees stipulate the securities lending bank to hold a 5% of the credit risk in securitization.

Supervision and auditing of swaps and other similar transactions are carried out by Commodity Futures Trading Commission. In both the EU Commission and the US securitized products have been under supervision and subject to auditing since 2008 (Dullien, 2012, p. 11).

The attempts for reform in financial sector in the post-2008 global financial crisis era could be summarized as follows:

Table 2 The Reform Efforts in Post-crisis Financial Sector

The Predicted Reform Efforts	The USA	The EU
Current Account Imbalances in terms of Eliminating Global Imbalances	No measures taken	Limited measures taken
Financial Auditing Structure	Necessary measures taken	Necessary measures taken
Capital Requirements	Effort are underway	Effort are underway
Hedge Funds	Necessary measures taken	Necessary measures taken
Securitization	Necessary measures taken	Necessary measures taken
Financial Stability Committees	Established	Established
IMF Resources	Increased	Increased

Source: Dullien S. (2012), Anspruch und Wirklichkeit der Finanzmarktreform: Welche G20-Versprechen wurden umgesetz? Study, IMK 26, Märtz

Considering the reform efforts described in Table II, international financial reform efforts led by G20 countries seem to be successful. However, there is a problem here: Could a globally strong, stable and balanced economic growth be secured in the near future with the measures taken in order to control and direct the international financial sector led by G20 countries, or will there be some other crises similar to 2008/2009 global financial crisis?

Two opposing streams of thought exist on this issue (Weber, 2011, pp. 3-5). Some economists believe that the origins of the financial crisis rest in only the financial system and they argue that the crises are the results of mistakes made in the financial system. The crisis is presumed to have emerged from low capital requirements and erroneous incentives of the financial system. Therefore, it is expected that no crisis will ever be experienced again provided that the problems of the financial sector are resolved and the necessary supervision is carried out.

In this context the most prominent causes of the global financial crisis are the high levels of capital requirements that whet the banks' appetite in the financial market, the ventures of the banks into very risky investments, the possibility of making unlimited profits in the market, presence of highly reliable large-scale institutions investing in the market, and the belief that in case of the business facing setback the government will implement a bailout plan.

A number of other economists emphasized another aspect of the crisis and claimed that in addition to the global financial crisis wrong macroeconomic practices led to a crisis (Busch et al., 2012, p. 8). The liberalization of labor markets since the 1970s disrupted the income distribution in many industrial countries and led to polarizations. Income distribution in the industrial countries improved very slowly and displayed an ill-balanced structure. Therefore an increase in income due to the adequate growth of demand could not be procured. In order to eliminate the unemployment resulting from all those developments, central banks and financial institutions in many countries connived to the ferocious growth in financial innovations and the credit expansion in the housing sector. The expectation here was to achieve a demand growth in economies with additional credits, but it did not actualize.

This situation engendered over-borrowing in the US households as well as the over-inflation of the housing prices and the final demand was triggered via credits in countries such as the US, England and Spain. Germany and Japan confronted this development more cautiously.

Following the introduction of many innovations in the financial markets, potentially high-profit yielding speculative activities of the capital markets came into prominence instead of the lendings to the real sector.

5. Reflections of Economic Policies Adopted in Developed Countries on Turkey

The reflections of the economic policies adopted by the industrial countries in post-2008/2009 financial crisis era on Turkish economy manifest themselves in three spheres:

(1) Financial markets and capital outflows

(2) Demand contraction for the export of Turkish goods and services due to the monetary and fiscal policies adopted in industrial countries

(3) Exchange rate policies of the industrial countries

2008/2009 financial crisis affected all the countries over the world especially through the channel of strong financial interactions reined by the US. The elapsing time period revealed that the developing countries such as Turkey were less affected by the crisis in comparison to the advanced industrial countries.

The US prioritizes the expansionary monetary policy and the FED has taken a decision to keep the interest rates within the 0%-2.5% corridor until 2015. They also support the housing sector by depreciating the long-term interest rates.

The US GDP increased by 2.1% in 2012. The average growth rate for 2013 is estimated at 1.7%. Besides, the inflation rate for 2012 realized at 2.1% and it is expected to be 1.8% for 2013 (İfo İnstitut, 2013, p. 10).

Under the circumstances, the absence of any change in the expansionary monetary policy of the US in the short-term and the secondariness of the fiscal policy in the medium-term eliminate the possibility of a recurrence of liquidity abundance in the near future.

In this case, an overvalued exchange rate policy in Turkey, i.e. the overvaluation of the Turkish Lira as was experienced before will end and a more realistic exchange rate policy will emerge. However, the attraction of the imports will continue and the growth of imports will expand the current account deficit. It will be compulsory to embrace a production-aided industrial policy.

The US and the G20 countries have engaged in comprehensive reform movements in order to control the capital flows in their financial markets and exert supervisory control over their banks. In parallel, Turkey has to restructure her own supervision and control mechanisms within the capital markets. It is a must for a balanced and stable growth that Turkey apply capital controls to avoid the destructive effects of speculative international capital movements in the future.

After the crisis, international credit channels contracted, flow of funds were disrupted and local banks and companies suffered hardships in recruiting external financing (Kibritçioğlu, 2010). With the reinstitution of economic stability on a global scale, it is possible to say that the crisis environment is left behind and the international capital movements begin anew.

On the other hand, despite the gradual formation of a stable economic environment in the Euro zone, the application of restrictive fiscal policies in many European countries contracts domestic demand, but there are attempts to boost exports and savings. Due to this, the GDP ratios in the Euro zone increased by 0.4% in 2012. This figure is estimated at 0.5% in 2013. The inability to overcome the economic recession in the European countries will negatively affect the foreign trade between the EU countries and Turkey. In this case, Turkish exports to the Europe will decrease. The foreign trade deficit resulting from the trade between the EU and Turkey is estimated to expand to the detriment of Turkey. The adoption by The European Central Bank of a monetary policy oriented towards price stability and the probability of the FED following an expansionary monetary policy are interpreted as signs that exchange rate policies could no longer be manipulated as political tools. The absence of any possibility of a currency war relieves Turkey of the burden to take additional measures towards that end. Turkey increased her foreign exchange reserves to $112 billion as a measure against a potential global crisis.

6. Conclusion

After the financial crisis, all the economic agents operating in international markets expressed various opinions on the achievement of continuous growth rates in the world economy and prevention of another crisis and made commitments on the reforms to be implemented. Both the US and the EU took additional measures to regulate the financial markets and to ensure control and supervision in these markets. The adequacy of those additional measures to prevent a future crisis is still controversial. But nothing has yet been done regarding the macroeconomic imbalances, especially the Current Account Imbalances among countries that are regarded as crisis factors. Whereas Germany, China, and Japan record a current account surplus, other industrial countries run current account deficits.

The US prioritizes expansionary monetary policy in order to increase employment figures. Fiscal policy is not considered to be an effective tool as it is oriented more towards controlling public deficits.

The EU countries are not expected to exercise a lower exchange rate policy to gain competitive advantage as a result of feeling constrained due to high debt levels. The Euro zone monetary policy is intended for ensuring price stability. Therefore exchange rate policy is secondary to price stability.

The capital inflows to China will increase through the channel of liquidity expansion in the US and the EU, which will in turn boost the pressure on Renminbi for revaluation leading to acceleration of the war against inflation in China. The only way to avoid this for the Chinese government is to abandon the fixed exchange rate policy and free the demand and supply for foreign exchange. If China could ensure price stability, and liberalize the financial sector, and give up on capital controls, the Chinese Renminbi could become a world reserve currency.

In developing countries, a cheaper exchange rate policy will not persist as it was. However, the speculative currency attacks from the US and the Euro zone towards countries such as Turkey could lead to overvaluation of the national currency.

In that case, Turkish Central Bank will intervene in the foreign exchange market and preserve the foreign exchange value of the Turkish currency as well as prevent an increase in cheap imports. This is because controlling current account deficit is mostly dependent on Turkey to be able to domestically produce her inputs for semifinished goods.

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