# ‘Erdonomics’: Economic Brilliance or Disaster in the Making?

When a country has seen four central bank governors and three finance ministers in two and a half years, an average Joe would assume that the economy is in trouble. In Turkey's case, Joe is right, witnessing 36% inflation and a 44% loss in value of the Turkish Lira last year (1) (2). However, the president and the finance minister aren't worried; in fact, they see this crisis as a side effect to achieve growth under their economic framework. Moreover, Turkey is headed by the same president who was at the helm of affairs during Turkey's economic miracle from 2002 to 2007. So how did Turkey get here? Will Erdogan's plan materialise or become a cautionary tale in a textbook case study?

’Erdonomics’ is President Erdogan's economic theory which goes against conventional economic wisdom, and this is precisely the core of the problem. In essence, when inflation heats up an economy, central banks tend to raise the base interest rates to slow down investment and encourage consumers to postpone spending, thereby controlling prices. This would allow time for supply constraints or other external factors to ease and help avoid the dystopian effects of possible hyperinflation. On the other hand, Turkey has lowered interest rates since last September from 19% to 14% (3) in November. Theoretically, this has two significant effects: 1) the obvious increase in consumption and investment pushing up inflation, and 2) the depreciation of the domestic currency as demand moves to foreign currency, which has higher returns - this is especially pronounced when other countries raise interest rates (such as the US recently). Overall, Turkey is facing the brunt of these effects, particularly the latter.

Then why has Erdogan stuck to low-interest rates? There are a few reasons. He is expecting the depreciation of the Lira to benefit exports as Turkish products become cheaper to foreign consumers. This would spur growth and employment, shadowing the effects of inflation. It worked well; Turkey saw record exports last year with a 33% year on year increase (4). However, the problem is that Turkey is heavily dependent on imports of raw materials for its industry and production of consumer goods. Therefore, exporters also have higher production costs which cut their profits, neutralising any positive impacts on growth. Moreover, Erdogan has also always been of the view due to political and religious affiliation that high-interest rates are dangerous; small business owners are an essential part of his voter base, and they would prefer lower interest rates.

Like most problems in the world, the worst effects are faced by the everyday consumer; for example, these increases in prices have caused shortages in food and fuel, and producers are hoarding supplies due to price fluctuations. Furthermore, unemployment rates among the youth are situated at 22.3% (5), foreign investors have lost confidence in the country's currency, and the government's borrowing costs have increased. There have also been interventions in the currency market which have temporarily halted the depreciation spiral; however, inflation continues to grow.

The government is stubborn, firing central bank governors who aren't devoted to these policies (6); the earlier finance minister, Lutfi Elvan, a technocrat who was one of those few voices in the cabinet who were not in line with the president, resigned last December - he was replaced by a loyalist who is committed to low-interest rates.

An economic experiment is what closest describes Turkey's monetary policy. However, the question is not whether these policies will eventually work, it's whether the cost of such a recovery path was worth the trouble it's putting Turks through.

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