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CURRENCY CRISES AND HUMANITARIAN FUNDS: WELFARE AND MONETARY DYNAMICS IN TURKEY

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ABSTRACT: The fiscal and institutional heritage of Turkey sets a narrow room for policy regulation to impose guarantees to currency competitiveness. The paper considers financial features, empirical inflation drivers, and novel monetary instruments in the recent economic chronology of Turkey; aiming to present an association between currency volatility and the humanitarian context of the EU-Turkey agreement. Specifically, the prevalence of informal economies, housing market transformations, and the accumulation of high-interest bearing private debt appear as influential policy variables within the current model for welfare provision. At the intersection of humanitarian funds and state-defined aims, it strikes as strategically important to preserve the real value of allocated funds from cash transfer programs such as the ESSN.
Keywords: currency crisis, inflation, humanitarian funds, real value, welfare provision

KUR KRİZLERI VE İNSANİ FONLAR: TÜRKİYE'DE REFAH VE PARASAL DİNAMİKLER

ÖZ: Türkiye'nin mali ve kurumsal mirası, para biriminin rekabet edebilirliğine garantiler yüklemek için politika düzenlemesi için sınırlı bir alan sunmaktadır. Bu çalışma, Türkiye'nin son ekonomik kronolojisindeki finansal özellikleri, enflasyonun ampirik itici güçlerini ve yeni parasal araçları ele alıyor ve nihayet para birimi oynaklığı ile AB-Türkiye anlaşmasının insani bağlamı arasında bir ilişki sunmayı amaçlıyor. Özellikle, kayıt dışı ekonomilerin yaygınlığı, konut piyasası dönüşümleri ve yüksek faiz getiren özel borç birikimi, mevcut refah sunumu modelinde etkili politika değişkenleri olarak görünmektedir. İnsani yardım fonları ile devlet tarafından tanımlanan amaçların kesiştiği noktada Acil Sosyal Güvenlik Ağı (ESSN) gibi nakit transfer programlarından tahsis edilen fonların gerçek değerini korumak stratejik olarak önemlidir.

Anahtar Kelimeler: Kur krizi, enflasyon, insani yardım fonları, sosyal yardım

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1. INTRODUCTION

Currency fluctuations regularly affect the evolution of macroeconomic fundamentals in the historiography of Turkey. Despite the lack of severe hyperinflation episodes, high and chronic inflation has been a periodic feature of state financial accounts. This paper surveys the association between the volatility of the Turkish lira and the welfare attributes of the Turkish humanitarian regime, considering the role of currency crises in contemporary challenges of political economy.

First, a historical account portrays Turkish debt dynamics and financial evolution from an import-substitution growth standard to construction centred industrialization. The legacy of high public debt and foreign borrowing that had often characterized past state administrations arguably extends to the present day. With the modernization of state finance, the development model of the 1980s attempts to break from this pattern by the combination of capital liberalization and the sheltering of strategic export-producing sectors. Whereas unsustainable fiscal balances negatively influence currency dynamics over the 1970-2000 interval, macroeconomic fundamentals are deemed relatively stable up to the final years of this era. The first significant debacle of the modern lira manifests over 2000-2001 by the effect of international financial crises and a misaligned stabilization scheme under the supervision of the IMF. In the ensuing consolidation process, sustained high interest rates evoke the problem of currency over-valuation which enables cheap FX borrowing and gradually builds up the import dependency of Turkey. A construction-centred economic model further eventuates that the growing FX funds are only weakly embedded in the national economy. The developments foresee recent crisis events as well, typified by weakened export products and foreign currency indebtedness.

Progressing to recent time periods, the paper observes the monetary management of this financial configuration by the Central Bank of the Republic of Turkey (CBRT). Over the past decades, an inflation targeting monetary regime has repeatedly exceeded its pre-specified rates. Along with the identification of various inflation drivers, the long-term contribution of an expectation formation component deserves fundamental consideration - not least as it directly interacts with the chronology of the Turkish debt identity. To facilitate a balanced public finance and produce currency stability guarantees, the CBRT has introduced novel monetary instruments. Comments are presented on the asymmetric interest corridor and reserve option mechanism, as well as overall reserve structure and their relationship to statistically notable inflation drivers.

The paper proposes that similar structural queries equally appear inside the humanitarian context of the EU-Turkey agreement and particularly what concerns patterns of wealth allocation. In other words, the pillars of the financial review are suited to inform an enquiry into real wealth constituents with strategic welfare properties in a humanitarian setting. The paper studies the intersection of international humanitarian funding and state-defined aims, with specific regard to the cash transfer mechanism of the Emergency Social Safety Net (ESSN) and the opportunity it entails to preserve the real value of the allocated funds. Overall, the prevalence of informal economies, housing market transformations, and the accumulation of high-interest bearing private debt appear as influential policy variables within the current model for welfare provision.

2. CURRENCY CRISES AND ECONOMIC INSTITUTIONS

In analysing the legacy of the Turkish public debt profile, Taskinsoy (2019a) detects ‘addiction to foreign borrowing’ already at the time of the Crimean war with sustained high costs to the Ottoman state administration. In 1881 the Ottoman Public Debt Administration is established to collect reparation payments, with strong European and especially British governing influence up to the First World War. Shortly after, as the Turkish Republic is declared the Paris Convention of 1925 delineates that the state shall assume Ottoman debt payments, completing the final such transfer only as of 1954 (Taskinsoy 2019a).

In turn, within the *modern* economic chronology of Turkey, Orhangazi and Yeldin (2021) describe the early 1980s development model as ‘import substitution industrialization’, subsequently abandoned in favour of aperture to international trade whereby tax and credit incentives boost an export-oriented growth model and full capital liberalization completes by 1989.

For this period, Akçay et al. (2001) review the fiscal profile of the state (1970-2000) to propose that a nonstationary debt-to-GNP ratio reflects on the continuous presence of an 'unsustainable fiscal outlook'. The authors remark that the consolidated budget deficit is often merely half of total state borrowing requirements, and indeed this measure exercises no permanent statistical influence over the inflation rate. Instead, they design a scaled 'public sector borrowing requirement' (PSBR) that compensates for scarce data at the time and better reflects on real fiscal deficits. Already at this stage, the results confirm the consensus view that fiscal imbalances are the 'main culprit' to inflation dynamics – although the authors remind of the *inertial* nature of inflation with a long-term expectation formation component. The statistical strength of expectations is recorded for more recent time periods via the empirics of Kara et al. (2017), expounded in the related section.

Over the late 1990s, a period of stable macroeconomic fundamentals concludes as Turkey is exposed to the contagion effect of the Asian and Brazilian financial crises. The ensuing stabilization package by the International Monetary Fund (IMF) prescribes an austerity and disinflation-based programme to stabilize the lira, including the establishment of the fixed exchange rate currency board of the CBRT (known as 'tablita'). Orhangazi and Yeldan (2021) rightfully remark that this approach permits – if not encourages – speculative capital flows and a continuously widening current account deficit, a deep financial crisis resulting by February 2001 after which the Lira devalues by 51, GDP contracts by 7, and inflation soars by 62 percentage points. Currency fluctuations are of strategic importance throughout this period – Taskinsoy (2019a) confirms that chronic inflation within the 60-80 percent margin exacerbates the 2000-01 lira crisis at the aggregate costs of 30% of GDP. He agrees that the stabilization package of the IMF had been heavily misaligned, even drawing on the original criticism of Keynes vis-a-vis financial watchdog institutions that often 'compel' world inflation on the economic periphery.

In the post-2001 consolidation episode the government institutes a 'neoliberal structural reform' whereby fiscal policy is *contracted* and high interest rates produce an overvalued exchange rate. In addition, the state fosters swift privatization to recover a budget surplus and regain capital stability (Orhangazi & Yeldan 2021). Recalling the seminal paper of Giavazzi and Pagano (1990), the elements of this recovery process might classify as an 'expansionary fiscal contraction' mechanism. Initially regarded as a success story, this path is now understood to have unleashed a cycle where the continuous appreciation of the lira preserves a negative current account balance and incentivizes the high import proportion of intermediate and capital goods, having established the *import dependency* of Turkey (Figure 1).

Up to the Global Financial Crisis (GFC) of 2008, the appreciating lira overstates the real GDP of Turkey in dollar terms which attracts foreign capital and facilitates a growth model 'centred around a construction boom' (Orhangazi & Yeldan 2021). Consequently, the traditional influence on export industry is replaced by a construction-centred and import-dependent development model with capital shifting away from productive intermediates. The authors characterize this process as premature de-industrialization and 'jobless growth' where capital injections and investment shift to sectors with low value-added production. For instance, the traditionally strong textile industry experiences the gradual downgrading of its export competitiveness. Instead, cheap foreign denominated liquidity is primarily employed in the construction sector, its economic share growing from 7% to 17% between 2004-17. Crucially, to finance this economic shift external borrowing by construction and real estate companies extends from $1.5bn in 2006, to $26bn by 2018 (Orhangazi & Yeldan 2021).

These institutional precursors reflect on the 'original sin' of Turkish indebtedness, the term conceptualized by Eichengreen and Hausmann (1999) to explain how foreign currency (FX) funds are drawn to compensate for incomplete domestic markets with impaired borrowing capacity in local denominations. Combined, import dependency and excessive FX borrowing aggravate the challenge of economic consolidation. Recollecting the analysis of Reinhart and Rogoff (2009) on banking crises, the global nature of the GFC makes it 'far more difficult for many countries to grow their way out through higher exports, or to smooth the consumption effects through foreign borrowing'.

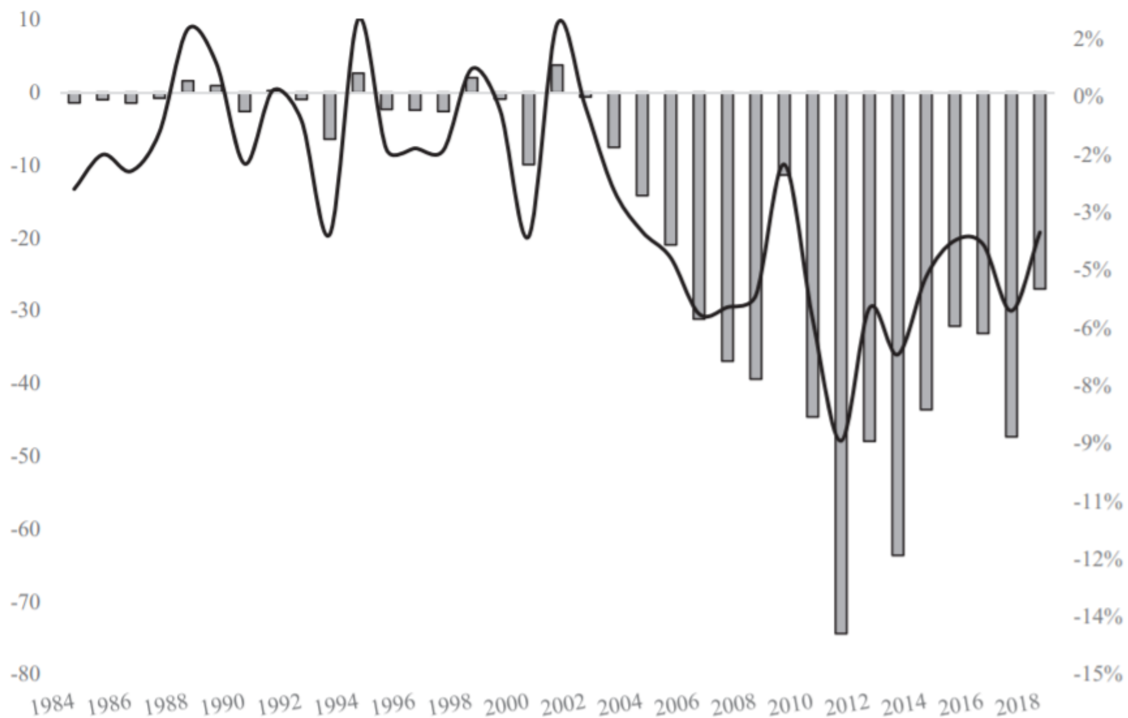

Figure 1: Current Account Balance, Turkey

Source: Orhangazi & Yeldan (2021) from CBRT data (*left: bn$; right: %gdp*)

Before turning to recent currency dynamics, it is instructive to review statistical crisis predictors up to the events in 2008. Ari & Cergibozan (2018) study a twenty-four-year interval (1990-2014) and identify leading determinants of currency crises in the inflation rate, portfolio investments, and foreign capital flows – these three policy variables serve as 'early warning systems' to anticipate adverse episodes. Moreover, their statistical approach suggests that currency crises before 2001 primarily result from *internal* imbalances, subsequent shock events often externally induced via contagion. Similarly, Cömert and Yeldan (2018) analyse macroeconomic fundamentals preceding Turkish crises and confirm the monetary nature of currency shocks before the GFC. Incidents in 1994 and 2001 are financially driven with high government deficits and the monetary burden of high inflation and interest rates at times 'feeding each other'. In turn, the shocks of the 2008-09 interval operate across the real sector and expose the weakness of the import-based growth model as well as the vulnerable profile of high private debt. Following the global financial crisis, low interest rates generate cheap borrowing costs which initially allows an expansionary recovery. Nevertheless, the relative over-valuation of the lira once again poses a structural problem. To the renewed appreciation pressure, the push factors result from the global introduction of quantitative easing policy and interest rates converging to the zero lower bound in advanced economies. Simultaneously, the pull factor is determined by high domestic interest rates in Turkey near 10% which nonetheless seem vital to keep the inflationary pressure under control. Nevertheless, the conditions re-emerge to allow a degree of speculative arbitrage over the lira whilst further augmenting the foreign indebtedness of the private sector (Orhangazi & Yeldan 2021).

The external conditions of abundant global liquidity and low interest rates combine with an internal policy shift relative to the institutional history of Turkey. The change of policy regime and the renewed lira crisis induce a modified economic paradigm where Turkey completes the final loan payment to the IMF as of May 2008 – the country officially distanced from the institution ever since. Nonetheless, Taskinsoy (2019a) contends that this is not a 'true economic graduation' as Turkey is characterized by 'elongated addiction to the US. dollar' with a sustained need to attract foreign currency capital. The absence of autonomous graduation is also detectable leading up to the most recent currency crisis as residents increase

their FX holdings by twenty percent (Aug'18 – Apr'19), the net FX position of private firms remains high, and foreign borrowing is essential to cover debt obligations (Taskinsoy 2019a). Simultaneously, FDI alone falls by 40 points in 2017, confirming the mounting need to recover FX resources (Figure 2):

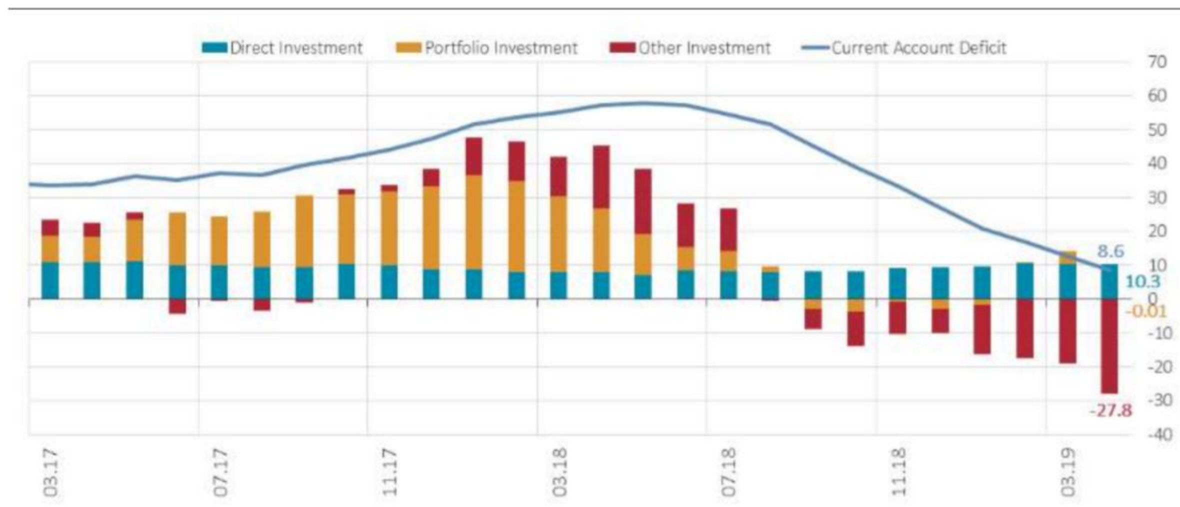

Figure 2: FDI and Investment flows

Source: Taskinsoy (2019a) from CBRT data

The need for reliable FX funding is problematic as, for instance, the IMF might demand conditions that do not suit the specific needs of Turkey. Relative to the 2001 crisis, the present volatility of the lira is aggravated by the abandonment of 'expansionary contraction' strategy as recent economic policy is frequently characterized by low fiscal discipline (Orhangazi & Yeldan 2021). The 10th of August 2018 documents a single day drop of 18% in the value of the currency – by this point, the current account deficit is 5.8 percent of GDP, total foreign currency debt peaks at the value of $457bn, and the major portion ($146bn) of maturing debt is owed by the private sector and banks (Arbaa & Varon 2019). With a third of lending by Turkish financial intermediaries conducted in FX, the four largest banks lose 6-8 percent of stock value on the event day, as well as the Eurozone bank index drops by 4.3 percentage points induced by contagion. Studying cumulative abnormal returns in 2018, Arbaa & Varon (2019) further register abnormal losses of 38 percent for a *three-day* period for Turkish banks. As a side note, within the Eurozone, banks situated in countries which are the 'most committed to the monetary union' are affected to the greatest extent, rather than banks with the strongest direct exposure to Turkish financial markets.

Overall, recent currency dynamics display most of the culprits of previous crisis intervals, namely premature de-industrialization, excessive private debt, an impaired fiscal profile, and the expectations-driven inflation premium. Next, the task is to observe how monetary instruments address this challenge – the subsequent discourse specifying which of these financial variables are influential in the Turkish welfare context.

3. MONETARY INSTRUMENTS

As the previous section considered policy attributes at distinct crisis intervals in Turkey, it is instructive to examine current monetary dynamics as well as the use of novel tools in central banking. Kara

et al. (2017) reveal that the inflation-targeting monetary regime of Turkey repeatedly exceeds targets (4-7%, 2006-16) with consumer price inflation (CPI) growing at the yearly average of 8.2% (Figure 3):

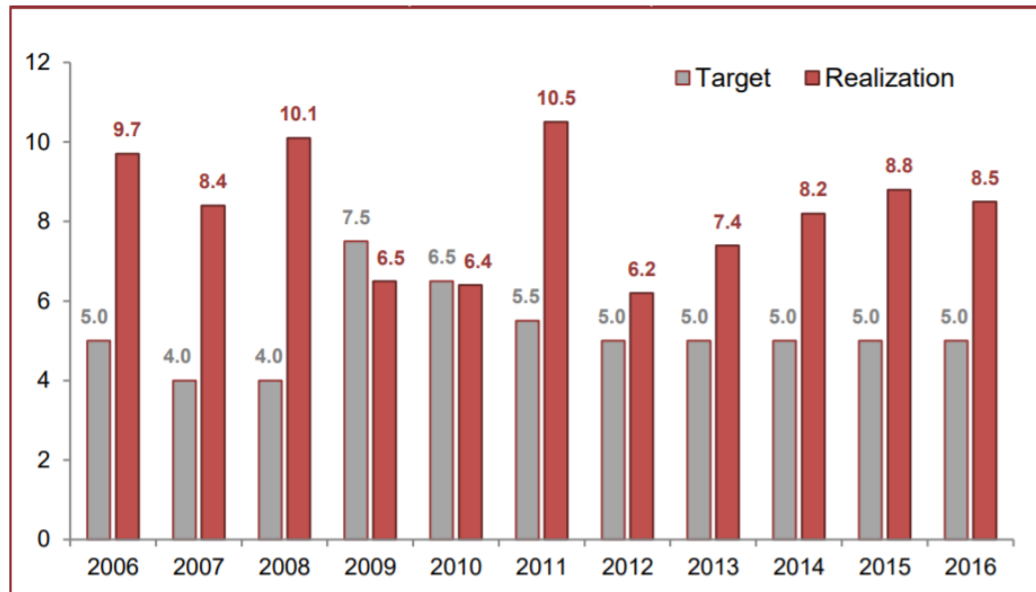

Figure 3: Consumer price inflation (% CPI) vs. targets

Source: Kara et al. (2017) from Turkstat and CBRT data

The authors then design a reduced form, time varying parameter Philips Curve to capture the statistical strength of different inflation drivers. They find that the likely candidates of the output gap (0.50) and real wage shocks (0.16) significantly lead inflation movement, even if the size of their impact is moderate. In the focus period, the exchange rate pass-through to import prices varies between 13-18 percent, whilst the import price pass through to inflation reduces 12-9 percent. The implication is that the exchange rate is a major push factor in driving inflation, which the findings confirm detecting a 2-points average impact per year (4-point maximum taken in 2015). Additionally, as the actions of the policy regime often prioritize tax hikes over expenditure cuts, fiscal policy contributes to inflation by 0.8 points (or for instance, 1.4-points in 2016). The 4-point constant term which is unexplained in the model, the authors attribute to expectation formation in pricing due to weak monetary guarantees of price stability – an expectation driver already identified in the institutional chronology of Turkey, and an important factor to explain the 'chronic' nature of inflation.

To mitigate the recurring volatility of the Turkish legal tender, the CBRT introduces monetary tools regarded as novel even in the context of macroprudential reforms. It is a global trend following the GFC that the monetary mandate extends beyond price stability to target wider shock resistance. As the former deputy governor of the CBRT Murat Uysal points out, in this period expansionary capital inflows continue to place appreciation pressure on the lira contributing to weakened export products and an import-heavy private industry (Uysal 2017). Two instruments stand out to address this configuration: a specifically tuned interest rate corridor and the so-called reserve option mechanism (ROM). The 'asymmetric interest corridor' is specified as 'the differential between the overnight lending and borrowing rates charged by the CBRT on its operations', used as a macroprudential instrument (Uysal 2017). Simply put, the width of the corridor is set by the 'ceiling' of the overnight lending rate and the 'base' of the borrowing rate (Kara & Ekinci 2018). The corridor allows short-term interest rates to temporarily differ from the policy rate on either end, to assist efficient capital flow management. In terms of reserves, the ROM is introduced to enable banks to hold a percentage of required lira buffers in foreign currency (FX) or gold – this is to stabilize 'excess capital flow volatility' in a market-based mechanism without necessitating open FX auctions from the part of the central bank (Kara & Ekinci 2018). In fact, the ROM is often proposed as a

'market friendly automatic stabilizer'. For instance, if strong capital inflows lower FX borrowing costs this prompts banks to hold more of their reserves in foreign tender, mitigating exchange rate volatility without direct state interference (Uysal 2017). In essence, the corridor stands to treat the volatility of capital flows and ROM would alleviate the real impact of these flows on macroeconomic fundamentals.

Concerning the empirical literature about ROM, the contribution of Aslaner et al. (2015) captures whether its automatic stabilizing feature is indeed effective. Since the inception of the mechanism up to 2014, banks had accumulated beyond $50bn of reserves on CBRT accounts with the portion of ROM gold holdings also steadily increasing. The authors establish that two factors explain ROM utilization by financial intermediaries: first, the relative cost of lira against foreign currency funding. Second, the reserve option coefficient (ROC) set by the CBRT and specified as 'the amount of foreign currency/gold for meeting one unit of required (lira) reserve'. In line with the original objective the coefficient would be kept constant, however Aslaner et al. (2015) emphasize that such a breakeven ROC is based 'more on theory' than empirical findings. Interestingly, FX liquidity holdings do *not* significantly drive ROM utilization by banks. Instead, short-term movements in the relative cost of lira funding matter, proxied in the paper by the overnight money market rate and the weighted average cost of CBRT funding. The authors conclude that short-term policy movements within the interest corridor undermine the automatic stabilization feature of ROM, despite that the corridor is an essential instrument of monetary flexibility to address capital flow volatility. Therefore, the authors propose to broadly fix the cost of holding lira reserves by adjusting the remuneration of reserve requirements, for instance altering it in concert (one-to-one) with the short-term market interest rates (Aslaner et al. 2017).

As Taskinsoy (2019b) records, it is the Bretton Woods system to conclusively establish the position of the US. dollar as the world reserve currency. Within the financial edifice of Bretton Woods the dollar becomes the 'key currency in the settlement of international payments', having served as the sole legal tender tied in value proportions to gold (Bayram et al. 2017). In the contemporary economic climate, the major portion of foreign exchange volumes continues as dollar denominated whereas approximately half of global currencies are in 'tight trading range' to the dollar. Regarding the global composition of foreign reserves, the two most popular reserve currencies are the dollar (62 percent) and the euro (20 percent), albeit the dominance of the dollar has decreased from a peak 80 percent share (Taskinsoy 2019b). Recently, gold holdings have regained popularity in central banking as a reserve asset with beneficial safe-haven and store of value characteristics. Following the GFC for the first time in two decades, central banks have emerged as net buyers of gold. Forex reserves are in continuous use to guarantee the credibility of a floating exchange rate policy, a relevant query for Turkey given its autonomous monetary regime. Moreover, the reserve structure of the CBRT is strategic in performing its monetary mandate due to the prevalence of foreign funding in the Turkish private industry.

On similar lines, Kilci (2019) studies CBRT reserves in relation to financial stability and argues that the reserve volume is a decent crisis predictor, as well as an essential instrument to stabilize the lira under shock events. Earlier studies approximate reserve adequacy via import measures and short-term capital flows – for instance, Yaman (2003 in Kilci 2019) argues that over 1988-2002 reserve levels in Turkey had been 'higher than optimum'. In the post-2008 climate, Bayram et al. (2017) calculate optimal reserve holdings in four monetary regimes including Turkey, considering the top four reserve currencies (dollar, euro, sterling, yen) and gold as the fifth asset. They propose that the CBRT shall increase its gold holdings given 'outstanding performance' over the GFC and reduce dollar holdings to strengthen its monetary profile. The empirics of Kilci (2019) integrate later periods as well, characterized by the recurrent volatility of the lira. She notes that the IMF applies two criteria to measure reserve adequacy: first, the optimal reserve volume determined as 25% of annual imports. Second, net international reserves are compared against short-term financial obligations, producing a debt tolerance metric of the 'capability to rollover external debt'. Kilci demonstrates adequate reserve levels for the 2011:Q3 – 2018:Q4 period by the first measure but postulates insufficient reserve volume by the second approach which she holds as the more relevant for it sets the optimal 'buffer stock' in crisis events. The reserve level continues to be relevant as it conditions monetary efficacy to stabilize the lira in the case of external policy spill-overs and/or domestic inflationary pressure.

The dilemma of reserve composition considers portfolio elements with different store of value attributes, a query which relates to the allocation of the humanitarian budget. Overall, financial dollarization appears as problematic in Turkey exacerbating 'original sin', raising the real value of debt,

and impairing the efficacy of the monetary mandate. Conversely, as the humanitarian budget of the EU-Turkey agreement operates with the most popular reserve currencies with attractive monetary features, the funding source might provide unique opportunity within the Turkish welfare regime – prescribing the subject to the remaining section.

4. HUMANITARIAN FUNDS AND WELFARE

Absolute and relative currency value intersect with the humanitarian context on various dimensions – the informal economy and wealth accumulation patterns providing one such theoretical link. There is an extending body of empirics to examine economic transformations in Turkey resulting from refugee migration waves. Tanrikulu (2020) unveils positive association with the price level in Turkey (2012-20), the strongest increase in CPI observed for South-eastern Anatolia. Erdem (2019) equally finds that the CPI rate is often 1-2 percentage higher in border regions relative to the Turkish average (2008-2018). However, 'price reductions in the post-immigration era have also been recorded, particularly in the informal labour-intensive sectors' (Tanrikulu 2020).

In fact, the conclusions of Konuk and Tümen (2016) stand in contrast to these findings. Utilizing Turkstat data, the authors contend that refugee migration had induced the general decline of the price level by a 2.5 percent margin. The *channel* of such price reductions is the mediation of labour cost advantages as refugees might supply inexpensive labour primarily in sectors where informality is the dominant form of employment. In fact, for these sectors the observed average price reduction is 4% whereas prices in the *formal* labour-intensive sectors are virtually unchanged (0.4%). The alternative inflation channel of a positive demand shock is excluded by the authors, controlling that the price decline is about 7 percent for elementary food products and 2 percent for luxury items.

Overall, regional variation is present regarding this simple relationship between the price level and the welfare regime. In terms of the reverse channel, Çelik et al. (2020) test CBRT and TurkStat data (2004-20) and find that unit increases in economic growth and inflation reduce informal labour (0.233 and 0.039), whereas a unit growth of unemployment induces a proportionate growth of the informal workforce (0.991) – implying nearly perfect substitutability across official and undeclared labour forms. Upon the refugee shock wave the formal employment of Turkish citizens followed a slightly increasing trend, reflecting on the fact that refugees lack access to formal job openings and the added competition manifests especially for unofficial jobs (Del Carpio & Wagner 2015). This economic diversification was paired with the empirical trend of residential change, most importantly an 11 percent average price increase in high quality housing rent (Tumen 2016), denoting an interaction across economic and social identities.

Recently, the volatility of the lira has intensified the policy discussion over the treatment of the refugee crisis, the administrative competition growing for an impaired set of resources. Informal labour identities are relevant in this respect due to empirical substantiation to the argument that the unofficial economic sector acts as a 'buffer zone' in crisis episodes. Specifically, Kahlayar et al. (2020) elaborate on the exposure of the informal sector to four types of financial crises in Turkey – namely internal, external, currency and banking. The authors employ time series analysis (1980-2011) utilizing data on GDP, terms of trade, a size estimate of informal economies and crisis variables inserted as a dummy. The results demonstrate a permanent positive effect on the size of the informal sector, with a 4-7 average percentage growth in the first three years. The initial response is stronger to internal than to external and to banking relative to currency crises; but similar long-term effects are determined. Specifically, it takes a 1–2-year lag following a currency crisis to impact the informal economy near the average marginal value.

Overall, the informal economic identity of refugees and the resulting existential precarity constitute a link from currency crises to the humanitarian landscape. Oba et al. (2019) analyse the income structure of the poor in Turkey, pointing out that property and school tuition are often financed by the accumulation of high interest-bearing financial debt. The authors postulate that *income* inequality is relatively well understood but *wealth* inequality less so, despite its insightful characteristics to inform policy action. Accordingly, they define wealth as a 'stock of assets' with ownership features and earning periodic interest, income simply set as the current flow of earnings and one aspect of wealth. Two other wealth sources are specified as intergenerational transfers and crucially, state created opportunity. In this latter aspect, funding

sources with currency denominations that hold nominal worth present an opportunity particularly given the wealth structure of the poor with proportionately high emphasis on social transfers (Figure 4):

	TOTAL	FIRST QUINTILE	LAST QUINTILE
Wages and salaries	49,7	39,7	51,4
Casual	2,5	14,5	0,4
Entrepreneurial	19,8	16,9	23,7
Agricultural	5,0	8,9	3,7
Non-agricultural	14,8	8,0	20,0
Rental income	3,1	1,2	4,3
Property income	2,5	1,4	3,4
Social transfers	19,6	**20,5**	14,7
Pensions and survival benefits	18,0	12,8	13,8
Other social transfers	1,6	**7,7**	0,8
Inter-household transfers	2,5	4,5	2,0
Other	0,2	1,3	0,0

Figure 4: Structural breakdown of household income (%, with overlaps)

Source: Oba et al. (2019) from TUIK data, 2016

In terms of the overall financialization of the Turkish economy, the authors stress how it is expected to exacerbate wealth inequality as debt volumes rise and debt refinancing becomes more costly. They designate this process as the 'socialization' of private debt whereby earnings from work lose nominal worth, intergenerational transfers do not constitute a reliable income source; and access to property and consumption is realized by periodic debt accumulation. This, in turn, provokes a 'wealth redistribution mechanism' where the wealth structure of lower income groups is the most exposed to financial and currency crises – a relevant query not least as Turkey scores highest on income GINI within the OECD in 2019 (Oba et al. 2019).

The housing sector constitutes another link where the monetary profile of Turkey connects to the humanitarian scene. Balkan et al. (2018) argue that housing is strategic in the evolution of social networks with direct labour implications, whilst housing evolution reshapes the industrial character of a city and reflects on the level of congestion in public services. Whereas initially refugees had been expected to prioritize affordable rental accommodation over home ownership, as it had become clear that an early resolution to the Syrian war is excluded a second wave of demand is typified by refugees seeking permanent homes. Studying rentals and the 'quasi-experiment' of a positive demand shock, the authors examine the *first wave* where refugees still cluster in well-defined provinces defining clear treatment and control regions (Balkan et al. 2019). Reviewing the Survey of Income and Living Conditions (2010-13), the findings demonstrate a 2-5 percent increase in housing rent for control regions, almost entirely due to high quality and high-rent housing – in agreement with the earlier study of Tumen (2016). In fact, no statistically significant impact is detected on the rents of lower-quality accommodation. Erdem (2019) also notes the steady increase in the number of housing sales in border regions with rents on average 3-4 percentage points higher in refugee populated provinces (2013-15).

In conclusion, informal labour and a degree of residential clustering frequently define the economic identity of refugees. Therefore, in the midst of the recurring currency crisis it is important to revisit the 'welfare mix' encoded in the Turkish humanitarian setup. In this regard, Yilmaz (2019) highlights the three policy domains of social assistance, employment, and health. He argues that the legal status of 'temporary protection' delineated by the state, as well as the contours to the EU-Turkey agreement strengthened the public policy mandate vis-a-vis that of humanitarian agencies who recently specialize in protection work where the welfare regime is otherwise weak. Yilmaz holds the welfare state of high capacity for social

assistance and healthcare, but less effective to address *employment* which he argues is disregarded by *both* the public and humanitarian domains.

In tandem with currency dynamics, a humanitarian initiative to consider is the Emergency Social Safety Net (ESSN) from 2016 onwards amounting to the largest unconditional cash transfer program in the history of Turkey. As an UCT scheme, the ESSN exhibits the advantages of regularity, predictability, and low programming costs, whereas its effectiveness has been documented as similar to in-kind relief (Gentilini 2016 in Cetinoglu & Yilmaz 2021). On this basis, the humanitarian pattern of recent years is that cash is becoming the preferred instrument of international donor institutions such as the DFID, the World Bank or ECHO (Cetinoglu & Yilmaz 2021). Generally, the ESSN is a product of the 2016 EU-Turkey agreement which the European Commission has declared as the 'biggest humanitarian project it has ever funded' (European Commission 2016) – initially set at a value of €348mn and totalling €1.5bn as of February 2020 (Cetinoglu & Yilmaz 2021). On the side of recipients, this has been equivalent to a monthly flat benefit of 120 lira, with marginal nominal updates over recent years but insufficient to halt real value inflation. The ESSN has become a central element to the Turkish humanitarian concept, yet the authors argue that it comes with certain compromises. Specifically, it might enlarge the 'assistance and protection divide' in so far as to qualify, refugees need to possess a registered address or one of either temporary or international protection statuses. It is possible to demarcate four areas where the ESSN contradicts the 'socioeconomic reality' of Turkey, identified by Cetinoglu & Yilmaz (2021). First, in that it requires two-staged registration for eligibility despite that a large portion of refugees stay unregistered for prolonged intervals. Second, by its reliance on targeting - those who shift province for working purposes find it hard to change the location of their registration. Third, and crucial in the recent currency crisis the level of payments has declined from the daily value of $1.3 in initial program stages to $0.5 as of November 2020, 'well below the World Bank's indicator of extreme poverty'. Fourth, a relevant factor regarding housing and the wealth structure of the poor, the scheme 'categorically' excludes many refugees without an official address. In turn, one-third of participants who do benefit from the ESSN 'reported that they spent the cash benefit directly on rent' (Maunder et al. 2018 in Cetinoglu & Yilmaz 2021), as well as many rent increases might be instituted by landlords upon taking notice of an ESSN beneficiary.

To close with a discussion on the upcoming evolution of the humanitarian scene, Cetinoglu (2019) argues that the 'state-led humanitarianism' of Turkey stands in contrast to the 'interventionist' model of the West, yet the two approaches equally design a 'weak' protection framework. Globally, Western humanitarianism is often criticized as an 'instrument of interventionism' fitting in the framework of financial globalization and drawing an asymmetric balance between donors and receivers. At the same time, by the gradual resolution of the refugee crisis from 2015 Turkey has become the second largest government donor after the US., reshaping the global 'humanitarian configuration' and aspiring to position itself as a humanitarian state. Cetinoglu (2019) contends that in seeking businesses, values and political alliances, the Turkish approach is akin to the Western model although placing more emphasis on value-based outcomes vis-a-vis concepts of efficiency or investment return. For instance, a cornerstone of the European refugee policy is to stress regions of origin and cultural affinity even if such terms would not theoretically integrate into international refugee law – essentially outsourcing humanitarian protection. Turkey, in turn, emphasizes the same cultural affinity to position itself as the leading authority in treating the refugee crisis as a dominantly internal affair. Overall, the current protection status offered to refugees results in ambiguity regarding the time scale and conditions of long-term integration (Yilmaz 2019). The present paper discussed this ambiguity in terms of recent monetary dynamics, with specific regard to informal economies, private debt structure, and the housing sector – structural factors that the policy regime ought to consider when enacting its decisions.

5. CONCLUSION

Turkey's institutional and fiscal heritage demarcates a narrow room to navigate monetary regulation to treat capital flow dynamics and impose guarantees to currency competitiveness. As a recurring pattern, high foreign debt levels and fiscal imbalances strongly manifest to the present day. Together with a misaligned stabilization program, the deep lira crisis at the start of the millennium (2000-2001) has conclusively established the discontinuation of a prior export-led growth model. In the subsequent consolidation attempt to recover economic fundamentals, the structural character of the economy shifts to

a construction-centred and import-led standard, coupled with accelerating private debt in foreign denominations.

Consequently, the Turkish economy experiences the slow accumulation of fundamental imbalances with the appreciation of the lira, the downgrading of export competitiveness, and the crowding-out of traditionally strong industrial links in the national economy such as those within textile. Following the global financial crisis of 2008-2009, fiscal mismatches further contribute to exceeding inflation targets and the repeating currency crisis episodes. Overall, the paper has considered how these financial features and macroeconomic fundamentals shape the inflation profile of the Turkish legal tender, together with the identification of empirically notable inflation drivers.

Subsequently, the research observed novel monetary instruments that aim to control capital flow volatility and address elements of the financial exposure. For instance, the CBRT has introduced the reserve option mechanism as a proposed automatic market stabilization tool, which invites banks to hold a portion of reserve portfolios in foreign currency denominations or gold. In view of the discussed imbalances within the Turkish economy, the composition of reserves appears as strategic to recover monetary credibility and integrate long-term currency stability guarantees.

More specifically, the paper has argued that in the political economy of Turkey, it is vital to turn capital flows to the advantage of fiscal stability and one such opportunity arises within the humanitarian context of the EU-Turkey agreement. To this end, the study has specified concrete links between currency volatility and the attributes of the Turkish welfare regime. The prevalence of informal economies, housing market transformations, and reliance on high-interest bearing private debt for wealth accumulation have been identified as influential policy components within the humanitarian scene. To treat the resulting existential precarity, the cash transfer scheme of the ESSN provides unique opportunity to preserve the real value of the allocated funds. Overall, the theoretical links specify influential target variables when policy objectives are set within the current system for welfare provision, as well as the broad economic growth directives of Turkey.

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