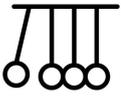


TURKEY'S UNHEARD VOICES

# **The 2008 Global Economic Crisis and Its Impact on Turkey**

**ECONOMICS**

**AHSEN ORUÇ**



## Abstract

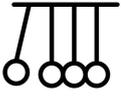
This study examines the causes of the 2008 Global Economic Crisis, its global effects, and its impact on the Turkish economy. The crisis, which began in the United States and deepened particularly due to the subprime mortgage crisis and vulnerabilities in the financial sector, rapidly spread across the world. In Turkey, consequences such as a slowdown in economic growth, an increase in unemployment, and a contraction in foreign trade were observed. However, the monetary and fiscal policies implemented, along with measures aimed at protecting the banking system, contributed to limiting the effects of the crisis. The study demonstrates that economic stability is achievable through sustainable policies and a strong financial structure.

## General Overview of the Crisis

What do you think is the most significant problem in our country or in the world? There are dozens of possible answers that anyone could list: hunger, war, disease, gender inequality, climate change. One of these problems is the economy. The worsening economic conditions both in our country and abroad are making people's living conditions increasingly difficult. In order to understand one of the largest crises forming the basis of this problem, we need to go back 18 years to the "2008 Global Economic Crisis."

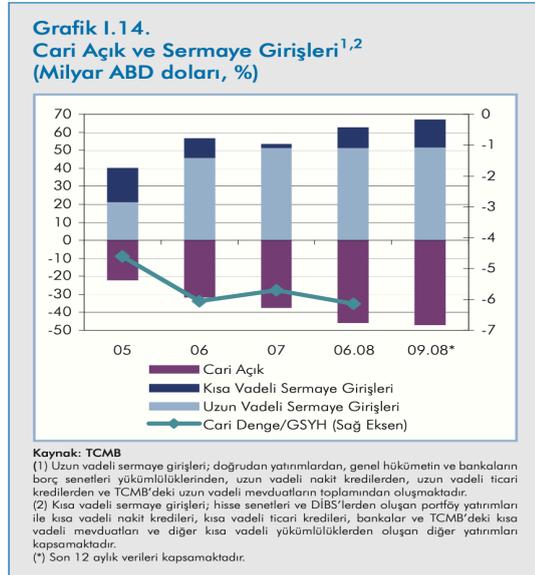
Considered the largest economic crisis after the Great Depression of 1929, this crisis originated in the United States. However, although everything seemed to be proceeding normally, the exact foundation of the crisis remains complex. Many sources, as also stated in the Central Bank of the Republic of Turkey's 2008 Financial Stability Report, argue that the crisis occurred due to the bankruptcy of one of the largest banking institutions, Lehman Brothers, in September 2008. Nevertheless, it is also believed that the "subprime mortgage crisis" that took place a year before was one of the main factors behind this situation, and even the starting point of the crisis. It is put forward that loans granted in the United States to low income groups with poor credit ratings triggered the crisis. However, the United States was not the only country affected. Among the countries that suffered the greatest losses were China and South Korea, which had some of the highest export rates and experienced contractions in demand. In addition, countries such as Saudi Arabia and Russia, whose revenues depend on oil exports, experienced a 60 percent decline in income.

Although the effects of this major crisis are not as intense as they were during the 2008 to 2009 period, they continue to be felt globally. While not to the same extent as other developed countries, we are also among the countries that have been exposed to these effects.



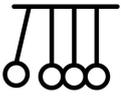
## How Did It Affect Turkey?

As might be expected, the impact of the crisis on our country was not as dramatic as it was for countries such as China, which had highly advanced trade relations with the United States. When we examine the macroeconomic indicators, we see that while Turkey's economy grew by 4.7 percent in 2007, one year before the crisis, it increased by only 0.9 percent in 2008 following the crisis. Moreover, in 2009, the economy contracted by 4.7 percent. Turkey was also negatively affected in terms of foreign trade, and one year after the crisis began, the unemployment rate rose to 16.1 percent. The reasons for this were the decline in production and the downsizing of firms. As these factors came together, the Turkish lira gradually lost value.



The graph titled “Current Account Deficit and Capital Inflows,” which I have presented alongside, is taken from the 2008 Financial Stability Report of the Central Bank of the Republic of Turkey. The graph shows that starting from 2005 and particularly up until 2008, the current account deficit increased significantly. As a countermeasure, an increase in capital inflows was observed. However, the rise in capital inflows is an indicator of the country's growing external dependence.

There are many other consequences that can be mentioned, such as the increasing difficulty of obtaining credit and the decline in consumption. Naturally, the combination of all these factors significantly reduced the welfare level of the population in our country. This situation placed substantial pressure and responsibility on the banking system and exposed banks to risk. Nevertheless, through the decisions taken and stabilization measures implemented, the banking sector managed to maintain its strength.



## Post Crisis Recovery

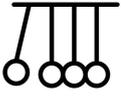
I am not sure how accurate it would be to say that our country is currently in a much better economic position; however, it is certain that the decisions taken during the recovery process contributed to overcoming the effects of the crisis.

On a global scale, one of the most fundamental objectives, also emphasized by the Central Bank of the Republic of Turkey, was to maintain stability. In line with this objective, economic stimulus packages proved highly beneficial both abroad and in our country. The aim was to revitalize investment initiatives in the private sector and thereby contribute to the economy. Efforts were also made to establish balance in taxation and public expenditures. Regulatory adjustments were implemented in systems to address deficiencies in risk management.

When we examine the actions taken by the Central Bank of the Republic of Turkey nationwide, one of the greatest supports in overcoming the remnants of the crisis was the preservation of the overall strength of the banking system. Balancing the current account deficit through capital inflows and maintaining credit activity in a controlled manner, rather than bringing it to a complete halt, helped to neutralize the challenges brought about by the situation. As a result of these measures, although the economy did not reach a perfect state, they contributed to minimizing the consequences of the crisis and gradually strengthening our export capacity and domestic demand..

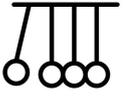
## Conclusion

In conclusion, in my view, the 2008 Global Economic Crisis clearly demonstrated that economic systems are far more fragile than assumed and that countries cannot act entirely independently of global developments. The contraction experienced in Turkey, the rise in unemployment, and the weakening of foreign trade created significant pressure on society in the short term, making the impact of economic stability on daily life more visible. Nevertheless, I believe that the balancing measures adopted and the steps taken to preserve the banking system played an important role in limiting the long term effects of the crisis. The most important lesson to be drawn from this crisis is that economic stability can only be achieved through sustainable policies, a strong financial structure, and conscious risk management.



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