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CAUSES OF 2008 FINANCIAL CRISIS
AND ITS EFFECTS IN THE WORLD
AND TURKEY

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ABSTRACT

Economic crises can be defined as economic shrinkages in countries, a decrease in the purchasing power of public, economic indicators and harsh fluctuations that reveal themselves with increased unemployment rate, especially in private sector and labor markets and affect negatively the national economies in terms of macro scale and firms in terms of micro scale; so mess up the efficient process of the market mechanism. However, it is obvious that the economic crisis that revealed itself for the first time in the last quarter of 2007 and spreads in all around the world in 2008 has a difference from the other economic crisis in the history: it can be evaluated as sociological as much as financial and economical and because of this, it would be more reasonable to define it as “global crisis” to make a more comprehensive research.

In this paper, it is going to be analyzed that the factors which are the reasons of the beginning of 2008 Global Crisis with the economic and political atmosphere that formed especially in Europe and America after the year 2000 accompanied with the economic datas, the economic effects of the crisis on the countries in general; and its effects in Turkey with more details according to this, its conclusions and its effects that still keep going today are going to be researched.

Key words: financial crisis; mortgage; unemployment

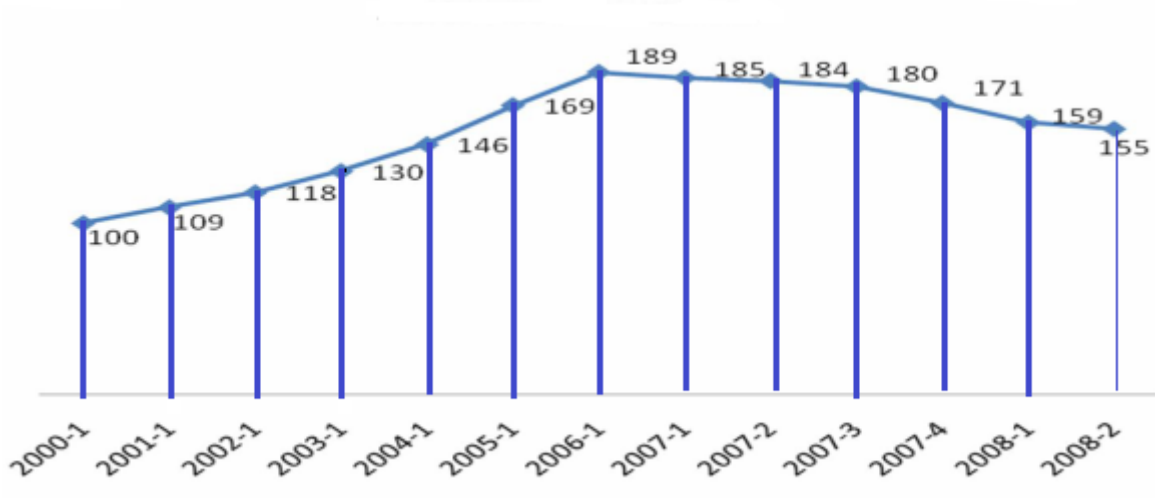
2008 FINANCIAL CRISIS

1. Causes of 2008 Financial Crisis

1.1. Fluctuations on Housing Prices and Mortgage Credits

It was observed that there was a really dramatically increase in oil prices and decrease in US dollar between 2000-2007. The house prices have also increased during this period. Because of that positive atmosphere, US banks have given Sub-prime mortgages (mortgages with high risk and high interest rate). The main problem is that FED has increased the interest rates periodically during that time and as a conclusion, the people could not pay their debts back to the banks. This has caused banks to levy the houses of people and that made the price of the houses decreased fast.

Figure 1. US House Price Index



Source: IMF (International Monetary Fund)

1.2. Expansion of Credit Derivative Markets

. SWAPs ve FORWARDS which are the most popular derivative markets products have given opportunity to the banks to transfer their risks to the other third parties especially to Hedge Funds before 2008. Just because of that reason the volume of the credit derivative markets has increased to 10 trillion dollars during that period. In addition to that, the European banks have also bought those derivative products and that has become the reason of the spread of financial crisis first to Europe, and next to all around the world.

1.3. Credit Rating Agencies

Before the crisis, credit rating agencies have given high grades to the mortgage based securities and insurance companies have insured these securities faultily and investment banks have sold these securities also to the customers with sub-prime mortgages. Therefore, the markets get in a fragile situation that any single mistake would cause a domino effect and collapse the market system by increasing the risk of both the lender and borrowers.

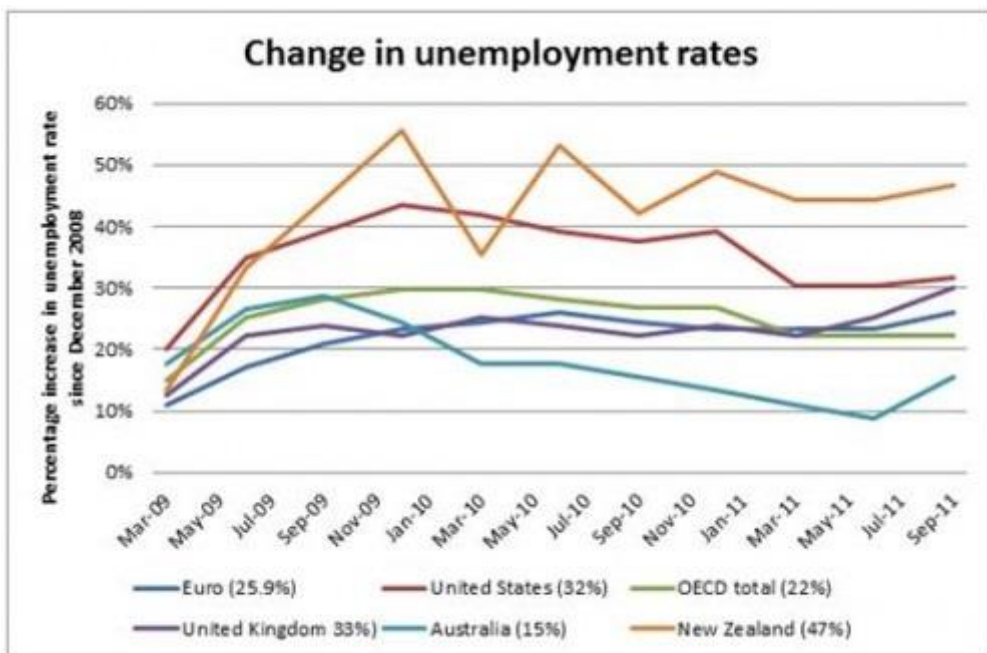
2. Effects of 2008 Financial Crisis in the World and Turkey

Even the strict provisions were tried to made central banks and banks through monetary and fiscal policies all around the world, it was too late. The crisis had many effects all around the world such as that the most important ones are the increases in unemployment rates and decreases in economic growth rates.

2.1. Increase in Unemployment Rates

Unemployment rate in United States has climbed out 6,5% around the end of 2008 and has increased to 10% in the following next two years. Even there were some specific increases in also Europe, Greece and Spain were the countries that affected mostly by the economic crisis (Greece 12% and Spain 18% respectively in 2008) when the OECD average was 11%.

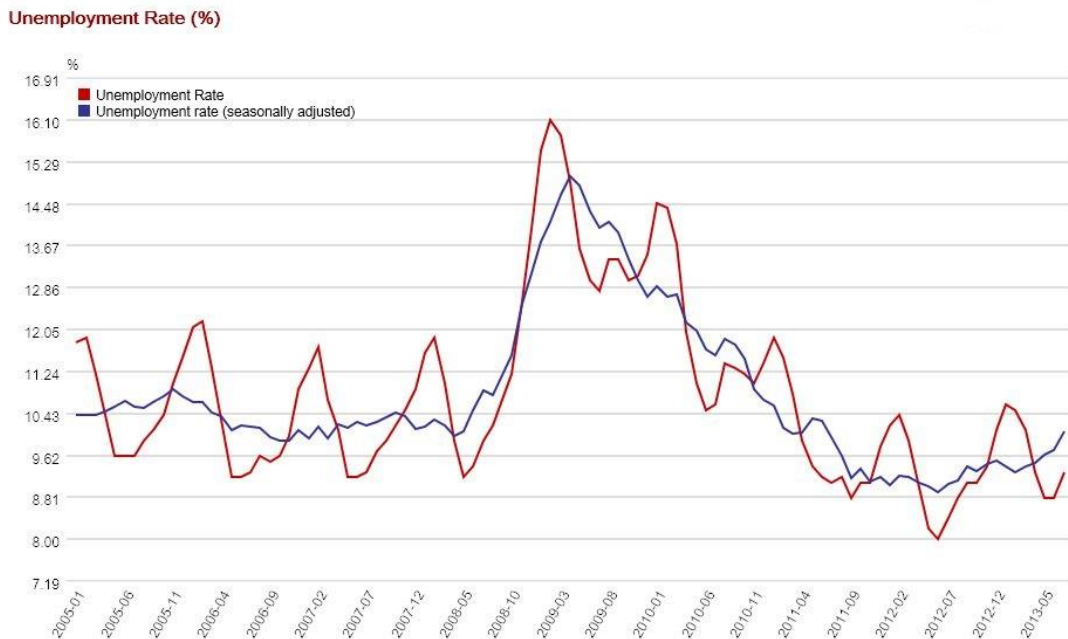
Graph 1. Unemployment Rates in OECD Countries



Source: OECD (Organization for economic co-operation and development)

The economic crisis has affected Turkey, as well. The unemployment rate that was below 10% before 2008 has increased to 14, 5% because of the financial crisis

Graph 2. Unemployment Rates in Turkey

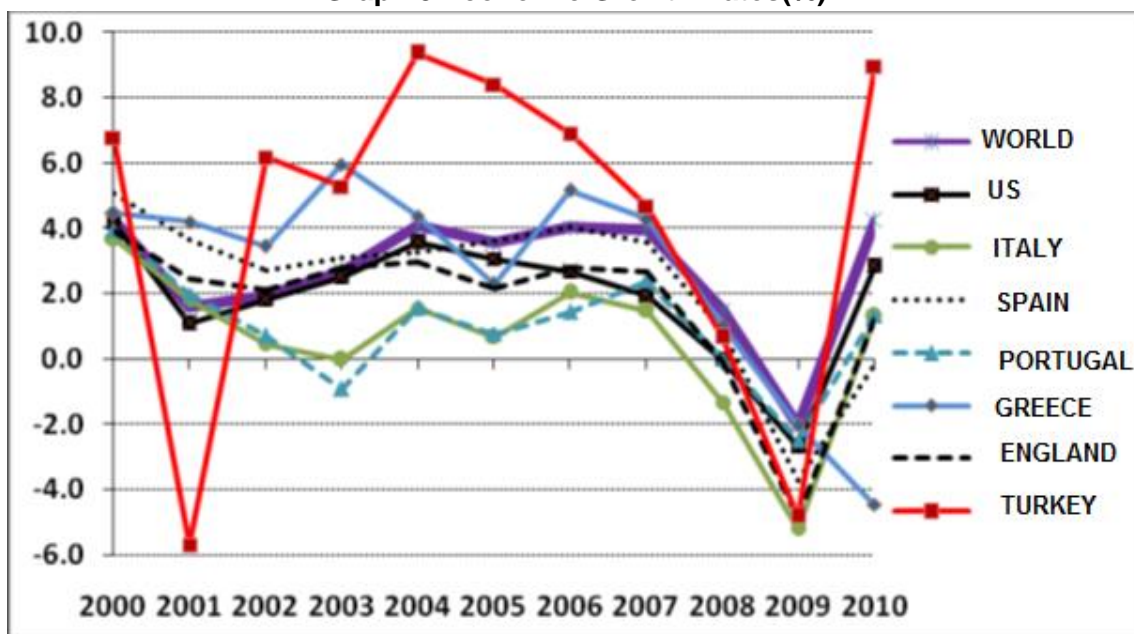


Source: Turkey Data Monitor

2.2. Decrease in Economic Growth Rates

The effect of the 2008 Financial Crisis on the real sector so badly and as a conclusion of that, there were dramatic decreases observed on the economic growth rates in especially developed countries. On the other hand, Turkey has endured the difficult situation faster than the other European countries and United States.

Graph 3. Economic Growth Rates(%)



Source: World Bank

As it can be seen from Graph 3, Turkey has effected from the financial crisis prominently in terms of growth rate. However, the rate has increased back to the old level which is 8.4%.

3. The Original Reasons Behind The Success of Turkish Economy

Unfortunately, Turkey has been passing through political turbulences during last 10 years due to some reasons.

It was also proven that Turkish government has used some illegal ways to keep its economy stable such as weapon smuggling, money laundering and also illegal ways of privatization of some government agencies like Turkish Electricity Distribution Corporation and some natural gas distributing companies. Even though economy was seemed to keep stable for some years, because of these reasons and also political issues, Turkish economy is passing through very difficult times today. For instance, the economic growth rate of 2014 was 2.7% and the unemployment rate is around 10%.

4. Conclusion

As a conclusion, the whole world has affected from the 2008 Financial Crisis badly. Even though, the political leaders and the central banks have tried to take some precautions to minimize the effects, they have not fall short. In addition to that, what we have learnt from history is that after economic crisis, poor people get poorer and rich people get richer. The gap between the rich and the poor has been increasing dramatically since 2008. Also, the number of the child workers is still around 168 million nowadays.

On the other hand, Turkey has affected by the financial crisis through increase in unemployment rate and the decrease in economic growth rate and fluctuations in economic indicators. However, the economic indicators have had a positive trend to become stable quickly again in compare with European Countries and United States.

Most importantly, even though Turkey has a potential to pass through its economic problems with its own economic dynamics, as long as the governmental and political problems are not solved, the core economic problems will proceed and get worse in the future.

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