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*The impact of inflation on economic behavior  
of citizens and government policies in Türkiye*

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## ***Historical Background and Current Situation***

Historically, inflation has been a persistent economic challenge for Türkiye. For over half a century the country grappled with periods of high inflation, in some years surpassing 100%, which in turn had a negative impact on the purchasing power of its citizens and adversely affected multiple economic sectors. The factors contributing to inflationary pressures ranged from currency volatility to demand-side pressures. The effort to control inflation was historically done by the Central Bank of the Republic of Türkiye (CBRT) whose effectiveness in implementing monetary policies was sometimes conflicted with the fiscal policies of the government. Furthermore, several structural issues, including a large informal economy and challenges in the labor market played a role in shaping inflation dynamics and economic behavior of citizens.

While Türkiye's inflation rate stabilized at ten percent twenty years ago, it started rising again in 2017. It was due to the fact that even before the onset of the pandemic, Türkiye grappled with the challenge of warding off a recession rooted in excessive debt and a sharp depreciation of the Turkish Lira. Elevated energy costs, supply-chain disruptions caused by the pandemic, and the Ukraine conflict led to central banks worldwide to respond by raising interest rates to address soaring inflation in 2021.

In contrast, Erdogan pursued a divergent strategy for Türkiye's economic challenges, advocating for keeping interest rates low to mitigate the risk of a recession. Notably, in a televised address at the close of 2021, Erdogan defended low interest rates, stating: "They complain we keep decreasing the interest rate. Don't expect anything else from me. As a Muslim, I will continue doing what our religion tells us. This is the command" <sup>1</sup>. Defying both conventional wisdom and academic economic theories, Turkish President Erdogan has adopted a resolute stance by reducing interest rates in the face of substantial inflation, a strategy colloquially known as "Erdoganomics".

As a consequence, inflation has been rapidly increasing since the second half of 2021 when the CBRT decided to cut key rates amid the decline of the Turkish lira (TRY) against most currencies. According to Turkish Statistical Institute, Consumer Price Index (CPI) for November 2023 increased by 61.98% on an annual basis. While this change in the general index signified a notable upward trend in prices, it was lower than a respective CPI figure of 84.39% for November 2022. The sharp rise was fueled by 37.50% inflation in housing and utilities costs; 40,70% increase in clothing and footwear prices; and annual inflation for foods and non-alcoholic beverages of 67.16%. Prices of transportation, alcoholic beverage, and tobacco increased by over 70%. The cost of education and health services increased by 80%. Inflation in hotels, cafes, and restaurants segment went up by considerable 92.86%<sup>2</sup>. High inflation forced everyone to adapt to the evolving economic landscape by cutting expenses or supplementing their income in order to mitigate financial challenges. The citizens are afraid that it will take several years for the inflation rate to return to the level that Türkiye had 10 or 20 years ago. Figure 1 shows the annual percentage rate of change in Consumer Price Index (CPI) in Türkiye in the past 20 years.<sup>3</sup>

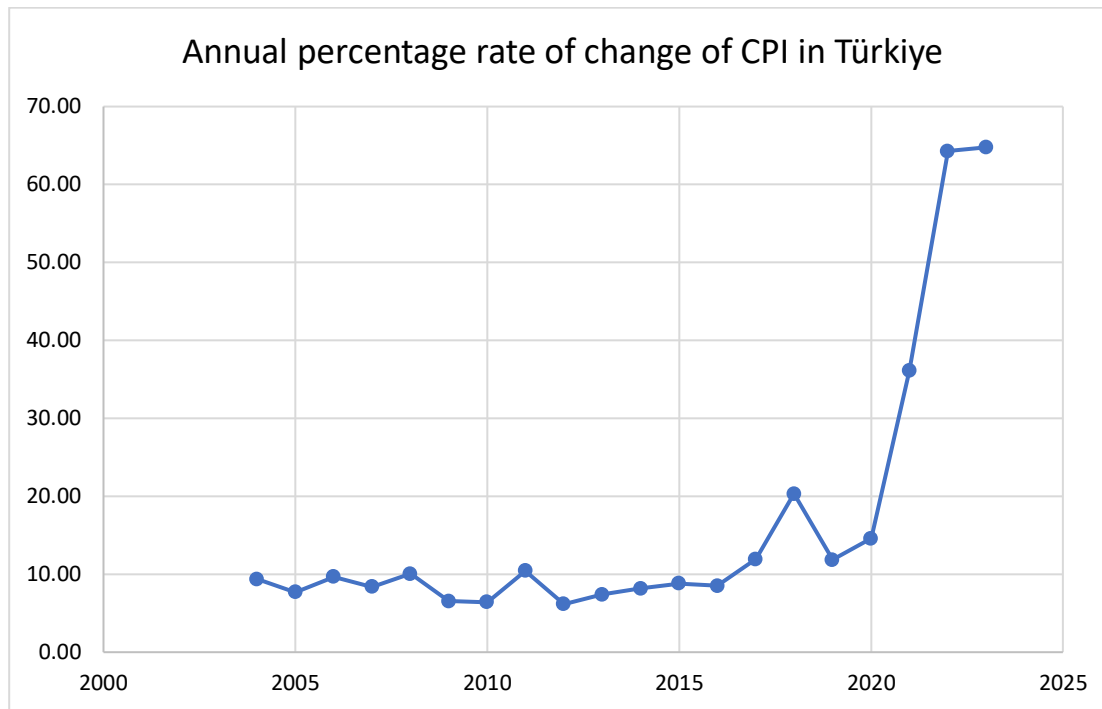
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<sup>1</sup> [www.bloomberg.com/news/articles/2021-12-19/turkey-s-erdogan-says-islam-demands-lower-rates-and-so-does-he](https://www.bloomberg.com/news/articles/2021-12-19/turkey-s-erdogan-says-islam-demands-lower-rates-and-so-does-he)

<sup>2</sup> <https://data.tuik.gov.tr/Bulten/Index?p=Consumer-Price-Index-November-2023-49661&dil=2>

<sup>3</sup> <https://data.tuik.gov.tr/Kategori/GetKategori?p=enflasyon-ve-fiyat-106&dil=2>

Figure 1



### ***Inflation Impact on Economic Behavior***

Being a resident of Türkiye in 2022 and 2023, the author had an opportunity to experience first-hand the impact of price increases on daily lives of both ordinary and affluent citizens and the ways they chose to navigate the challenges posed by inflation. In short, coping with high levels of inflation requires a combination of practical lifestyle adjustments and strategic financial planning, taking into account socio-economic status.

One of the repercussions of inflation in Türkiye is a change in buying behavior and moving towards cheaper products and services. In the wake of rising prices, one of most impacted sectors is fashion industry as consumers curtail expenditures on high-end clothing. The tandem impact of inflation and Turkish lira devaluation forces many citizens to postpone travel plans, as the financial burden becomes more pronounced. This shift in consumer behavior reflects a pragmatic response to economic realities, as individuals prioritize financial security and practical spending.

The reassessment of financial priorities is not limited to shying away from luxury goods and expensive vacations. Notably, second-hand durable goods are increasingly being purchased by the growing fraction of population. For instance, according to Ipsos Anti-Crisis Report, one in three computer purchases in Türkiye were second-hand in July 2023. 47% of surveyed Turkish people say they are using washing machine and iron less in to conserve electricity. 44% indicate that they don't order take-out food but resort to home-cooking instead<sup>4</sup>. The inflation makes people create new recipes with fewer ingredients that are cheaper and do not require long cooking. As cutting cost has its limit, another way to fight inflation lies in diversifying the sources of income.

Usually, ordinary citizens seek to supplement their income by taking on additional part-time work or moving to other locations that offer higher salaries. The vast majority of people do not resort to drastic

<sup>4</sup> <https://www.ipsos.com/en/inflation/feeling-pressure-turkey>

changes in lifestyle and job mobility due to high cost of relocation, importance of staying close to the family, and career concerns. For them, working part-time in transportation, retail stores or hospitality services in such positions as driver, cashier, server, or sales associate is a popular choice. Simultaneously, inflation has intensified a trend for individuals from the areas with high unemployment to make a move towards large cities and the coastal areas to seek employment in the booming tourism and hospitality sector that fully recovered after COVID-19 pandemic. Employment in hotels and resorts of coastal regions in various capacities such as drivers, hotel staff, chefs, and tour guides are especially popular since employers often provide room and board as part of the compensation package.

However, due the nature of seasonal jobs in the hospitality sector of coastal economies, employment opportunities are limited to peak tourist season that spans from May to November. Outside busy season, most temporary workers have to return to their home communities only to find out that their savings are increasing being eroded by rising prices. Inflation forces some of them to explore entrepreneurial endeavors, which is possible with newly acquired skills from cosmopolitan coastal and city work environments.

Inflation induced migration represents not only a shift in occupation but also a cultural adaptation as many individuals choose to move out of hometowns to live close to work, reshaping their newly adopted communities with a rich tapestry of diversity and their unique experiences from life, often in another province of Türkiye. Although pursuing alternative income streams and job mobility helps mitigate the impact of inflation on overall financial stability, it may lead to stress that has a negative influence on one's mental health and overall quality of life. According to the 2022 Global Happiness Report, only 42% of respondents in Türkiye said they were very or relatively happy, the lowest level of 30 countries<sup>5</sup>. This figure is a long way down from 2011 when 89% of residents of Türkiye described themselves as very or relatively happy.

While most citizens have not lost hope that one can adapt to high inflation and economic instability in the foreseeable future, some residents of Türkiye have given up and decided to emigrate in search of a better life. According to the international Migration Release of the Turkish Statistical Institute released in July 2023, the number of emigrants in 2022 increased by 62.3% compared to the previous year and reached 466.914. When the age distribution of emigrant population from Türkiye was analyzed, the most numerous group was in the 25-29 age range, reflecting the intention of young people to leave the country<sup>6</sup>.

While wealthy citizens of Türkiye do not feel high pressure to emigrate, they have to employ various investment strategies to protect and multiply their capital. Such asset classes as real estate, foreign assets, precious metals, currencies, and cryptocurrencies become increasingly popular as a hedge against the impact of inflation. In the absence of trust in equity markets in Türkiye, investment in real estate is a favored strategy to preserve wealth. Both residential and commercial real estate act as a tangible hedge against inflationary pressures in Türkiye. Prices of real estate are unofficially cited in U.S. dollars and the general belief is that they appreciate over time even in stable currencies. The unintended consequence of real estate appreciation lies in a substantial decrease in rent affordability for locals and a closure of numerous areas to applications for residency permits from foreign nationals.

Diversifying into stable foreign currencies and investments denominated in foreign currencies is another hedge against domestic inflation. More recently, many investors have turned to crypto as a store of value and have benefited from the progress in blockchain industry. In fact, Türkiye ranks fourth globally in crypto transaction volume, at approximately \$170 billion over 2022, behind the

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<sup>5</sup> <https://www.ipsos.com/sites/default/files/ct/news/documents/2022-04/Global%20Happiness%202022%20Report.pdf>

<sup>6</sup> <https://data.tuik.gov.tr/Bulten/Index?p=International-Migration-Statistics-2022-49457&dil=2>

United States, India, and the United Kingdom<sup>7</sup>. In response to such unprecedented growth, amidst a years-long boom in crypto trading, as soaring inflation and a plunging lira currency drives demand for alternative assets, Ankara will introduce new rules to regulate the crypto market, as the country seeks to get off an international financial crime Financial Action Task Force (FATF) grey-list status.

While “rich get richer”, the surge in prices has a direct negative impact on the daily lives of ordinary Turkish citizens, eroding their purchasing power and sparking widespread discontent. Inflation remains one of the main contributors to the increasing inequality in Turkish society, a worrisome trend. Political observers agree that persistent inflation has posed a severe threat to the ruling of Erdoğan and almost cost him presidency. To address the issue of high inflation, the government can implement prudent fiscal policies, reduce public spending and increase taxes. However, such steps may not prove popular with the voters who hope for either government intervention or market forces to adjust the salaries upwards in line with rising cost of living.

### ***Impact of Government Interventions and Market Forces***

In 2022 alone, higher consumer prices combined with devalued lira forced the government to increase the minimum wage twice in 2022. The minimum wage in Türkiye was increased by a further 34% in July 2023 in an effort to combat rising inflation. Specifically, Turkish Government raised the gross monthly minimum wage to TRY 13,414 (EUR 521) or equivalent net monthly minimum wage of TRY 11,402 (EUR 443)<sup>8</sup>. Since more than 30% of Türkiye’s workforce live on the minimum wage, according to Turkish officials, the increases provided a buffer against the erosion of purchasing power of the most vulnerable people of Türkiye. Not surprisingly, President Erdoğan stated the minimum wage would be adjusted upwards once again in 2024<sup>9</sup>. Whilst popular, such a move would be in contradiction with the anti-inflationary policy of the CBRT.

In a shift to counter the country's staggering inflation, CBRT led by the Governor Hafize Gaye Erkan, opted for yet another hike at its December 2023 rate-setting meeting. This move increased the policy rate (the one-week repo auction rate) to 42.5% and sent the signal for further tightening steps in rates for establishing the disinflation course<sup>10</sup>. According to the CBRT, global economy, the stickiness of services inflation, inflation expectations, demand, production, cost, as well as monetary and financial conditions were the major driving factors behind inflation. While the bank expects the inflation will decrease to 36 percent in 2024 and 14 percent for 2025, the upper bounds of the forecasts are significantly higher, reflecting substantial uncertainty<sup>11</sup>.

Such uncertainty combined with high current level of inflation significantly affects hiring processes and decision-making by all types of employers. A number of organizations are forced to apply multiple wage raises throughout the year to protect employee purchasing power. Such raises are necessary to both hire and retain qualified candidates in a tight labor market. In addition to competitive compensation packages, the employers have to provide flexible work arrangements, opportunities for career advancement and development, financial support through stipends and childcare benefits, and

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<sup>7</sup> <https://www.chainalysis.com/blog/middle-east-north-africa-mena-cryptocurrency-adoption/>

<sup>8</sup> <https://news.bloombergtax.com/daily-tax-report-international/turkey-labor-ministry-announces-increase-in-minimum-wage-for-second-six-months-of-2023>

<sup>9</sup> <https://www.duvarenglish.com/minimum-wage-hike-to-happen-once-in-2024-in-turkey-says-erdogan-news-63420>

<sup>10</sup> <https://www.tcmb.gov.tr/wps/wcm/connect/en/tcmb+en/main+menu/announcements/press+releases/2023/ano2023-51>

<sup>11</sup>

[https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB%20EN/Main%20Menu/Announcements/Remarks%20by%20Governor/2023/SpeechG02\\_11\\_2023](https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB%20EN/Main%20Menu/Announcements/Remarks%20by%20Governor/2023/SpeechG02_11_2023)

regularly updated retention and engagement policies. While such adjustments amount to a reasonable “silver lining” to employees in the short and medium run, ever increasing salaries contradict the policy of lowering inflation in the long run.

### ***Conclusion***

Inflation in Türkiye is not merely a statistical figure but a dynamic force that shapes the daily lives of its citizens and their trajectory in the economic journey. The historical struggle against inflation underscores the resilience and determination of the nation, as it charts a course forward in the face of economic challenges. A combination of practical lifestyle adjustments and strategic financial planning has mitigated the impact of high levels of inflation on Turkish citizens and multiple government interventions are beginning to manifest signs of a positive turn in the ongoing efforts to address what is no longer “the elephant in the room”. Meanwhile, as the dance with inflation continues, Türkiye remains in a state of constant adaptation, seeking the right moves to ensure prosperity for its citizens.