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**Keywords:** Turkey, Covid-19, unemployment, inequality, poverty.

## Evaluating the impacts of the COVID-19 pandemic on income distribution and poverty in Turkey

by Ayşe Aylin Bayar, Öner Günçavdı and Haluk Levent

### Executive Summary

As the Covid-19 virus takes hold of countries all over the world, economies are falling into a deep recession. The recent World Economic Outlook by the World Bank forecasts that Turkey's GDP is likely to contract by 5 % in 2020. Unlike this, the Minister of Finance and Treasury has recently announced a 0.3 % growth rate in 2020. Governments worldwide, under the impact of the outbreak, introduce massive fiscal measures mostly to revive economic growth. However, the impacts of the pandemic on inequality and poverty are likely to be unprecedented, and this issue is largely ignored. What the world economy needs is an inclusive economic growth policy coupled with a comprehensive redistribution component. The objective of this policy brief is to present the results of the likely impact of the Covid-19 pandemic on unemployment, inequality, and poverty in Turkey. Using data from the Survey of Income and Living Conditions in 2017, the brief is based on an empirical examination to estimate the impacts of the pandemic on unemployment in different sectors and on inequality and poverty. The results show that **the pandemic is likely to cause a dramatic increase not only in unemployment but also in inequality and poverty in Turkey.**

### 1. Introduction

As the Covid-19 virus spread all over the world, it hit the world economy in an unprecedented way and has prompted many governments to introduce policies and measures to cope with the undesirable impacts of the outbreak. Despite all these efforts, the world economy is still expected to shrink by 4.4 % in global GDP (World Bank, 2020). In the same report, Turkey is also expected to contract by 5 % in 2020.

Losses in output are not the only results of the pandemic. The World Bank, for example, warns governments of the danger of increased inequality and poverty problems. As governments mostly put emphasis on policies for reviving economic growth, the Covid-19 outbreak is likely to cause millions of people all over the world to fall into extreme poverty. The recent simulation of the Bank forecasts that 40-60 million people -

most of them from Sub-Saharan African and South Asian Countries- face this danger (World Bank, 2020). But the same danger is present for emerging market economies such as Turkey.

The outbreak of the Covid-19 pandemic was officially announced on the 11th of March 2020 in Turkey, and various containment measures - including lockdown at home and bans on domestic and international travel, taking education from the classroom and lecture halls to home - were immediately implemented after this announcement. **The Turkish economy was inevitably hit by these measures, but the timely response of the government seemed sufficient** for the country to avoid facing a tragedy that some European countries, such as Italy, Spain, and the UK, faced during the pandemic. Turkey initially performed relatively better in implementing containment measures than other countries in Europe, but eventually felt the unprecedented economic burden of the pandemic and became helpless to implement efficient and inclusive containment policies to combat the pandemic. It is now evident that despite a tremendous rise in the number of people infected, **the government is unable to give a decisive support to any lockdown measure today due to prevailing economic difficulties**. Besides, **the government has not been as successful in the compensation for entire economic losses and dealing with the adverse effects of the pandemic on inequality and poverty**. The purpose of this brief is to introduce a method of measuring the likely impacts of the Covid-19 pandemic on income distribution and poverty in Turkey.

## 2. Containment measures and their impacts

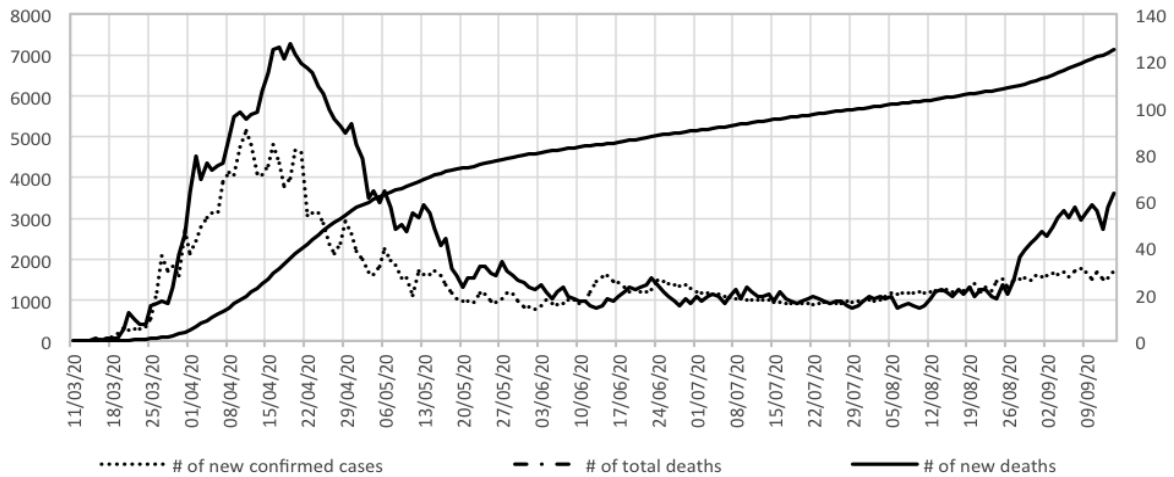
Turkey was exposed to the pandemic relatively late and had time to revise the actions to be taken timely. Like many countries, Turkey gradually closed its borders to neighbouring countries, then suspended outward and inward international flights and reduced the mobility of people at certain ages and on certain days. The government tirelessly reminded people to maintain a 2-meter social distance between individuals in public and wearing medical masks outside became mandatory. All shopping malls were closed to reduce physical contact between people. Education from pre-school to universities was taken from classroom & lecture rooms to on-line spaces. Offices, those of mostly white-collar workers, were taken home; restaurants and business meetings were replaced with online deliveries and video conferences. Businesses (mostly in the service sector) that require face-to-face physical contact with people was, to a great extent, suspended for some time. In accordance with these changes in our daily life, the consumption behaviour of people also changed drastically. As the spread continued at full speed in April and May, the government adopted further measures such as lockdowns (the first lockdown for four days long was declared in only 30 metropolitan cities and Zonguldak on the 23rd of April), the ban on traveling in and out of big cities became active starting from the end of the March till the mid-June, and curfews if necessary in certain circumstances.

**After April 2020, the pandemic was controlled, and its spread, to great extent, slowed down.** The official death toll began to decline significantly. This was seen as an opportunity to relax some of the containment measures by many sector representatives which were badly affected by the spread and its economic outcomes. They then increased their pressure on the government to remove some of the Covid-19-related measures that previously either halted or slowed down economic activities in their industries. As the economic cost mounted, the government finally decided to gradually open-up the economy at the beginning of June. The economy immediately responded to the change and started to revive in the third quarter of the year. Besides, the measures undertaken between March and June significantly paused the spread of the virus (see Figure 1)[1].

The data on the initial period of the pandemic that became available during the summer shows the extent of the fall in economic activities. Gross domestic product performance in the second quarter gives us a good representation regarding the economic extent of the lockdown period. It seems from Figure 2 that the overall economy contracted by almost 10 percent in the second quarter. This unprecedented contraction was accom-

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Figure 1 - COVID-19 cases and deaths toll in Turkey



Source: Authors

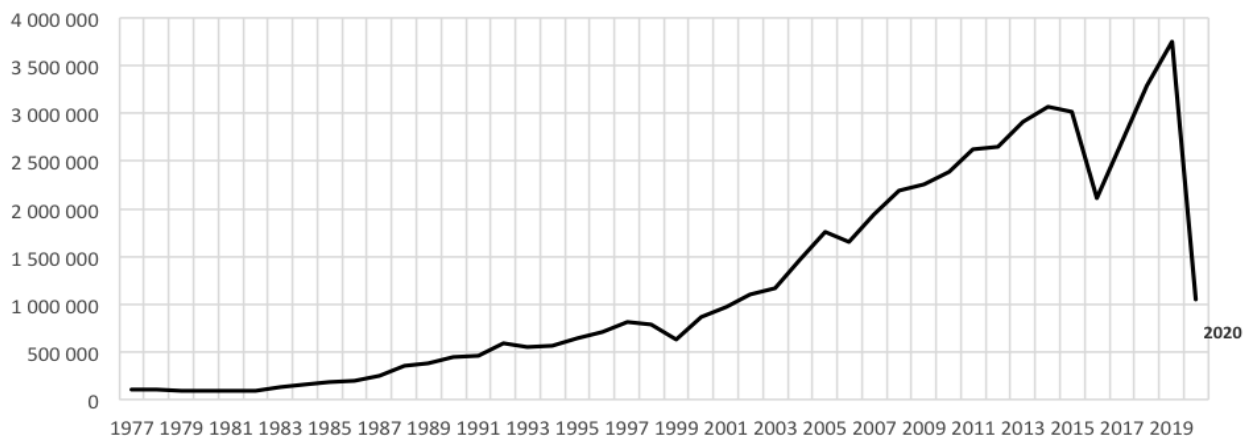
panied by a decline in service sector production by almost 25 percent. This was the highest decline in comparison to other sectors. The fall in industrial output was of only 17 percent in the same period.

Meanwhile, perhaps most importantly, tourism constitutes an important source of foreign currency income in the Turkish economy, and produced income of over \$30 billion in 2019 and contributed significantly to close the current account deficit. There had been an expectation of \$50 billion income in 2020 before the pandemic emerged. To have a concrete idea of the extent of the hit by the pandemic, a drastic fall in the number of tourists visiting Turkey in 2020 can be seen in Figure 2.

There have been, albeit not many, several comprehensive estimates of the impact of the pandemic by Turkish researchers. Assessing the impacts of the pandemic before observing the ex-post data requires some assumptions regarding the transmission mechanism of the impact of the pandemic on different economic activities and employment types. Many of these studies propose different scenarios that introduce different impact sizes and different mechanisms (Çakmaklı vd, 2020; Çelebioğlu, 2020).

Taymaz (2020), for example, estimates the likely effects of the pandemic on employment in different sectors by using a well-known Input-Output approach. In this study, Taymaz (2020) generally divides all available industries

Figure 2 - The number of Tourists



Source: Central Bank of Turkey, retrieved from <https://evds2.tcmb.gov.tr/index.php?/evds/serieMarket>

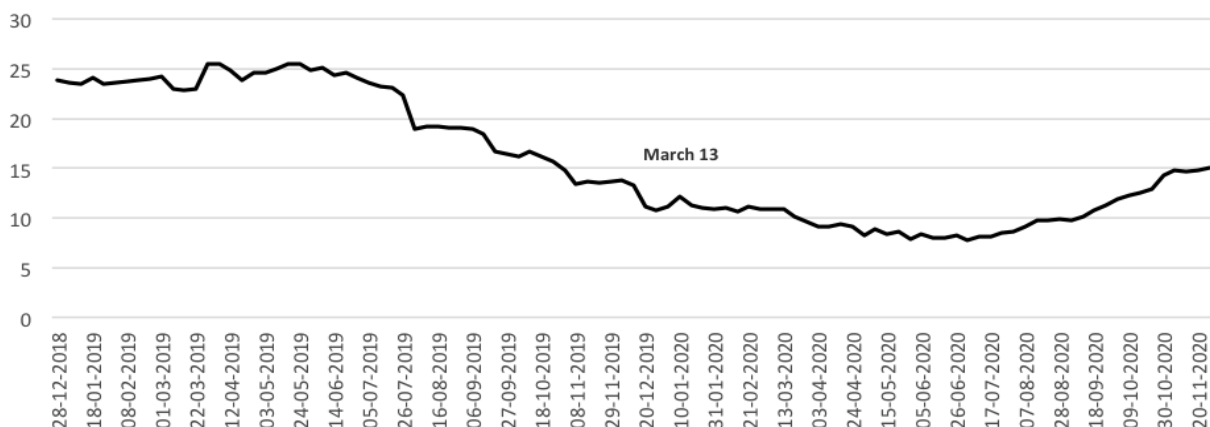
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as the sectors affected by the pandemic and sectors unaffected by the pandemic, and he estimates a 49 percent fall in value added produced by the affected industries. He simulates the impact of the pandemic under hypothetical circumstances and finds a 19-29% decline in non-agricultural employment. He also suggests that approximately 4% of GDP would be sufficient to eliminate the unemployment caused by the pandemic. Elgin et al. (2020) however calculate the financial size (which is almost 2% of GDP) of economic measures undertaken by Turkey. It is obvious in comparison with Taymaz (2020) that this ex-post figure would be insufficient to compensate for losses in employment. Using a heuristic approach, Özatay and Sak (2020) offer a relatively pessimistic view and estimate a 20% contraction in GDP if the pandemic were to last 6 months. Luckily, national income statistics announced in August that their expectations on losses in income for the period of the first wave of the pandemic did not come true, and an ex post fall in GDP remained only at the 10 percent level. If the pandemic lasts one year, these estimated losses in income would reach 30% of GDP. Using the data from the Survey of Income and Living Condition, Bayar et al. (2020a) estimate that annual economic growth would fall by -3.5% only if the pandemic lasts until the end of June 2020. According to this relatively optimistic view, the government would have had time to revive economic growth for the rest of the year if the right measures were put into action and the pandemic was significantly controlled.

### 3. Fiscal and monetary measures

To compensate for the economic fallout from the coronavirus, the Turkish government promptly announced a 100 billion TL fiscal aid [2]. However, the extent of this fiscal aid programme has not been adequately high, and its scope was limited by leaving the most vulnerable strata of the Turkish society such as poor and economically dependent women untouched (see Bayar et al., 2020c). Unlike earlier economic crises such as the 2008-2009 sub-prime mortgage crisis, fiscal responses by governments became mandatory in this outbreak. This is basically because the pandemic poses an impact on both supply and demand sides of economies. There are needs for medical supplies, for subsidising small and medium sized firms, for financial support to keep people employed were immediate short run requirements on the supply side after the outbreak started. Turkey has also forgone some public revenue through the cancellation of taxes and deterred social security & tax payments and debt servicing of households and firms. Cheap credit and easy access, especially to public banks, were made possible for households and firms to revive domestic demand. In addition to the tremendous expansion in the money supply, the Central Bank continued to lower the interest rate as in Figure 3. Lowering the interest rate and an expansion in domestic credit inevitably paved the way for an excess demand for foreign currency and caused the Turkish Lira to continuously depreciate.

Figure 3 - BIS overnight rates (%)- Weekly



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The Turkish government took another immediate action to compensate for the impacts of the pandemic. Decree 7244 [3], for example, proposes to reduce the impact of the Covid-19 pandemic on economic and social life. Among others, some measures in this decree are worth noting due to their impacts on income distribution. The decree included financial measures to support minimum wage in order to decrease the cost of employment for employers. Dissolving labour contracts were also prohibited for 3 months from March, but employers were also given the right to let workers without payment. If so, 39 TL payment per day (1170 TL per month approximately) were granted to those who were not eligible to receive the unemployment benefit. Besides, the short-term working allowance was given to all workers who were employed in the firms' scaling-down or stopping their production. By April 22, 270 thousand companies, comprising over 3 million employees, applied for short-term employment allowance [4]. This number of applicants alone is sufficient to prove how serious the employment effect of the pandemic would have been. However, not all employees are able to apply for this allowance. In order to become eligible to apply, first, an employee must have paid 450 premiums to unemployment insurance funds. Second, he or she must have been employed for 60 days before the application. And most importantly, the eligibility for application does not cover non-registered employees, self-employed, unpaid family workers and immigrant workers. To meet this need, Turkey has also given away 1000 TL (approximately \$150) cash support to 2.1 million poor households through the direct cash support system.

The short-term working allowance has presently become a rare measure that contains a limited amount of cash transfers to a very limited number of people. However, it is quite significant even with its current scope. Bayar and Günçavdı (2020), for example, estimate that the headcount ratio as a poverty measure will likely decrease to 17.3% from 22.3 % if the short-term working allowance is allowed for paying individuals in need. Expected improvement in poverty with this payment is apparent and certain, and its scope must be extended to have further mitigation impact on poverty and inequality.

In addition, the government initiated a **Social Assistance and Solidarity Campaign** to raise money to help households in need. Nearly 180 million TL (approximately \$26 million) were donated to this campaign by individuals, private as well as public institutions. The government later put approximately 350 million TL (about \$51 million) additional funds into this campaign. However, the financial sizes and the scope of all these measures have been insufficient to cover all costs of the pandemic.

Interestingly, this pandemic unearthed the unrest of the central government versus the opposition just after losing the local election to the opposition party in 2019. Big municipalities, such as Istanbul, Ankara, İzmir and Antalya, are currently governed by the mayors affiliated with the opposition party. These cities are also economically better off in comparison to the rest of the country, and more than 60 % of national income are generated there. Immediately after the pandemic erupted in March, the mayors of these cities initiated public relief campaigns, which were independent from the central government. They constituted the food aid programmes to households whose head lost his/her jobs due to the pandemic, and began to accept money from the public to finance these programmes. However, the central government interpreted all these efforts as actions to mitigate its authority, and took over the authority of the municipalities, particularly those that are governed by the opposition party, to organise aid campaigns and accept donation from the public.

Direct cash support measures of the government have, to a great extent, been under the stress of the shortage of adequate finance. Before the pandemic broke out, the government had been under severe financial pressure, and had difficulties to spare additional finance at the beginning of the outbreak. But, the Turkish government was smart enough to re-direct the financial burden of the pandemic to the shoulders of the financial market. In particular, the Central Bank of Turkey sharply increased the money supply to hold the financial markets as liquid as possible; low-interest credits were made available for households and small sized enterprises by the banking sector, particularly public banks. The purpose of this credit is to revive domestic



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demand hit badly by the pandemic. Real estate, vehicle trade, durable goods in general, and tourism sectors were preferably chosen as the sectors to redirect additional spending. In fact, they were the sectors that were badly hit by the pandemic, and have long been the key sectors for the economic growth model of the present government. Besides, their voices were easily heard due to their “closeness” to the “top” of the current political governance system in Turkey.

However, **the adverse distributional effects of all these measures inevitably came about.** First of all, all households do not have the same abilities to access credit and equal capabilities to pay back. These differences certainly generate an uneven asset accumulation, and these measures implemented through the credit market pave the way for unfair welfare gains by allowing middle- and high-income households for more and cheap consumption. Secondly, reviving domestic demand particularly for non-tradable goods allows for a rise in prices, and feeds general prices up in the economy. This channel of transmission eventually becomes important for a country already having a high inflation problem, without mentioning its impact on the real exchange rate [5]. Our simulation in what follows is unable to capture these impacts on inequality, but we expect that they certainly expose a deteriorating effect on income distribution.

#### 4. Measuring the impacts of the Covid-19 outbreak on income distribution and poverty

As the Covid-19 hit the Turkish economy, it also exposed the various weaknesses of the economy. Income distribution is one of these weaknesses, and had started long before the pandemic had broken out. However, the pandemic can be expected to widen the existing disparities in Turkish society and to deteriorate the distribution of income. So far, none of the existing studies has attempted to quantify the impacts of the Covid-19 pandemic on income distribution. The advantage of our research is the use of micro-level data from the Survey of Income and Living Conditions (TurkStat, 2017) which allows for a study on measuring the likely impacts of the outbreak on income distribution.

Bayar et al. (2020a, 2000b) have been the first empirical attempts to estimate the impact of the Covid-19 pandemic on income distribution and poverty. Their estimates are based on the use of microeconomic data, the Survey of Income and Living Conditions, and involve measuring the impacts of the outbreak on the well-being of individuals and households, rather than on the economy or industries at the macro level.

	Assigned impact factors	Likely losses in employment	
		I	II
		Regular employee	Causal employee
1. Agriculture, forestry and fishing	Normal (3)	0.1	0.3
2. Mining and quarrying	Normal (3)	0.4	0.4
3. Manufacturing	Bad (2)	0.4	0.8
4. Electricity, water, gas, steam and air conditioning supply	Normal (3)	0.2	0
5. Construction	Very bad (1)	0.6	0.8
6. Wholesale and retail trade	Good (4)	0.2	0
7. Transport, storage	Normal (3)	0.3	0.1
8. Accommodation and food service activities	Very bad (1)	0.6	0.8
9. Information and communication	Very good (5)	0	0
10. Financial and insurance activities	Bad (2)	0.3	0.8

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11. Real estate activities	Very bad (1)	0.7	0.8
12. Professional, scientific and technical activities	Bad(2)	0.4	0.8
13. Administrative and support service activities	Bad (2)	0.3	0.8
14. Public administration and defence; compulsory social security	Normal (3)	0	0
15. Education	Normal (3)	0	0
16. Human health and social work activities	Very good (5)	-0.3	-0.3
17. Arts, entertainment and recreation	Very Bad (1)	0.7	0.8
18. Other service activities	Bad (2)	0.5	0.8
Source: Authors' assumptions based on SILC 2017 microdata			

Bayar et al. (2020a) propose different sizes of shocks to industries and to the labour market, and they accordingly assign different impact coefficients to industries as well as employment types (see Table 1). Under this relatively comprehensive scenario, the pandemic in Turkey is likely to increase the unemployment rate among the non-agricultural workers to 33 % from 15.1 % in 2019. In addition to these astonishing results, fall in employment, entrepreneurial and self-employment income are likely to be drastic. Entrepreneurial and self-employment income, for example, are expected to decline by 70% or more in 2020 (see Table 2).

	Very bad (1)	Bad (2)	Normal (3)	Good (4)	Very good (5)	TOTAL
Total employment	2.287.000	4.539.400	10.974.100	1.646.000	1.886.100	21.332.600
# of regular employees	1.121.800	3.687.400	4.077.500	1.645.000	1.822.100	12.353.800
# of causal employees	188.200	59.000	445.600	1.000	9.000	702.800
Changes in employment and income (number of people and %)						
Losses/gains in regular employees	-1.625.200	-1.657.600	-691.500	0,00	392.000	-3.582.300
Losses in causal employee	-752.800	-220.000	-110.400	0,00	0,00	-1.083.200
Losses/gains in entrepreneur income	-70,00	-44,00	8,00	0,00	15,00	
Losses/gains in self-employed income	-75,00	-60,00	3,00	0,00	10,00	
Source: Authors' calculation based on SILC 2017 microdata.						

The distributional impact of the pandemic appears to be dramatic as well. As seen in Table 3, the Gini coefficient, as the well-known measure of inequality, is likely to rise to 0.450 in 2020 from 0.404 in 2018; almost a 5 points increase in two years. Turkey was indeed very successful in managing to improve income distribution from around 0.46 at the beginning of the 2000s to the levels below 0.39; almost 6-point improvement in 18 years. The Covid-19 pandemic however exposes Turkey to the risk of losing all these improvements just in a year.

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Poverty, as measured by the headcount ratio, is at an increase in Table 3, jumping from 13.2 % in 2018 to 24.9 % in 2020. This extraordinary jump in poverty, corresponding to an almost 89% increase, is likely to take place in a year.

**Table 3 – Income distribution and poverty measures under the hypothetical shock**

	Presumed Present condition	After the shock
Gini Coefficient	0.404	0.450
Headcount Ratio P0 (%)	13.2	24.9
Poverty Gap P1 (%)	26.4	42.9
Poverty Line (TL)	7983.4	7983.4
Poor (thousand)	10.385	19.604
Total Population	78.795.330	78.795.330
Source: Authors' calculation based on SILC 2017 microdata.		

The second measure of poverty is the poverty gap ratio, and shows how severe being poor is. The poverty gap ratio measures the distance of the income level of poor households from the poverty line; the longer the distance, the more severe being poor is. A high poverty gap ratio is also considered as the high cost of reducing the severity of poverty. Any policy to reduce the severity of poverty necessitates more financial resources to bring the income level of poor households close to the level of the poverty line. **In the case of having a high poverty gap ratio, the cost of combating poverty by reducing its severity would inevitably be high.** In Table 3, the poverty gap ratio in the present condition is 26.4%, but it is expected to increase to 43.9% under the effects of the pandemic. This is a clear indication of a jump in the severity of poverty. New economic conditions after the outbreak may lead to nearly a 62.9% jump. This level of poverty gap, in the end, requires a tremendous amount of funding to reduce its severity.

A simple calculation of the financial size of the policy combating the rise in poverty gives an idea about how much burden a poverty reduction policy brings to the shoulders of the government. Based on the results in Table 3, \$12 billion additional financial support (approximately 1.6 % of GDP) is required to bring the income of all poor households to the level of the poverty line. The pandemic also increased the number of poor. It is necessary to support the income of these extra 9 million poor individuals with 5.6 billion additional funds (around 0.75% of GDP).

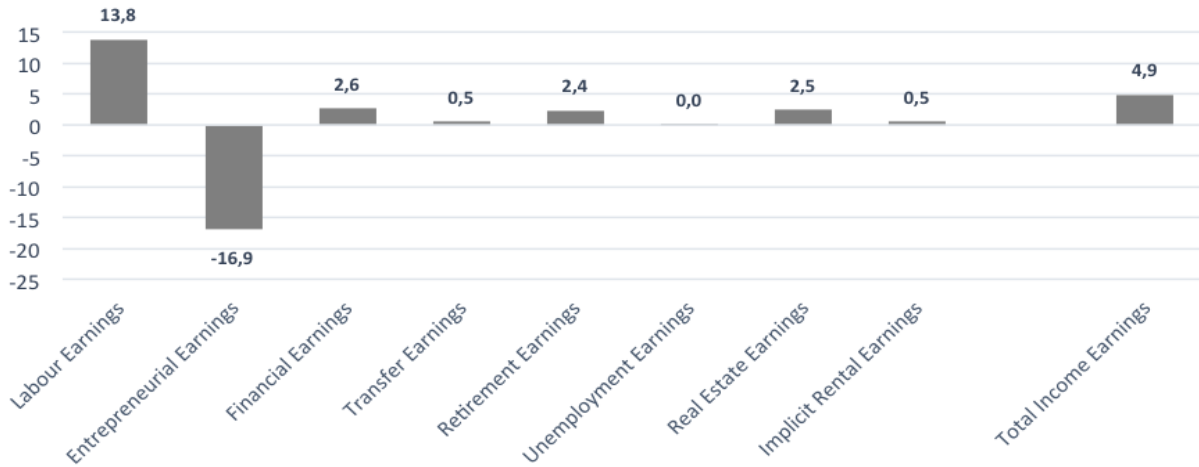
Another important issue in this study is to examine which income source is responsible for most of the dramatic increase in inequality. Figure 4 shows the positive contributions of almost all income groups, except entrepreneurial income, into the change in inequality between the states before and after the outbreak. The pandemic is most likely to deteriorate income distribution by increasing the contributions of almost all income groups [6]. However, the contributions of two income groups, namely labour and entrepreneurial income groups, are likely to pose the most distinctive effects on the change in inequality. Both impacts are in opposite directions though. In the results in Figure 4, labour income is likely to increase inequality and is accounted for almost 14 % of the change in income distribution. This is mainly because the pandemic affects mostly both low-income regular workers and casual employees and deteriorates the within-group distribution by reducing the income of these employees more than that of high-income workers.

The most striking result of our simulation appears in the impact of the entrepreneurial income group, which poses an improving effect on overall inequality. In Figure 4, this effect is likely to cause a 16.1 % reduction in the change in inequality. **This improvement must not immediately be considered as a positive impact of the pandemic, but it should rather be attributed to the structure of the entrepreneurial income group.** Almost 90 % of the enterprises in this group can be considered as small-size artisans, and they most likely have been affected by the pandemic much more than others (see TURKONFED, 2020). Most probably, some of these en-



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Figure 4 – The decomposition of a change in inequality into its sources – Jenkins’ Approach



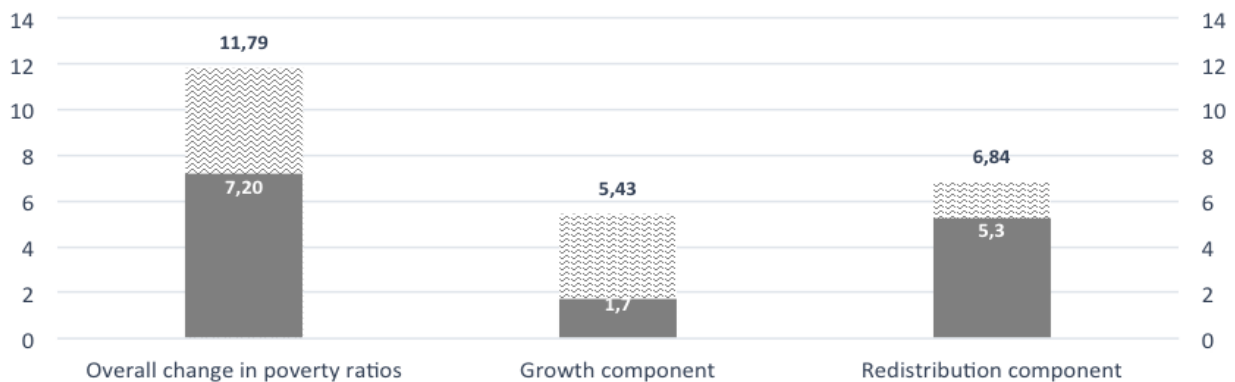
Source: Authors’ calculation based on SILC 2017 microdata

terprises have gone out of business after the pandemic broke out, and then the share of the small enterprises was likely reduced within the group, and the distribution of the entrepreneurial income group became better than before. Besides, this improvement in distribution is actually taken as a clear indication of how seriously the entrepreneurial income group, most particularly small enterprises, has been affected by the pandemic and the containment policy. The result also implicitly implies that various fiscal supports given to these small-artisan business enterprises would be considered to be appropriate.

Increased poverty has been a concern of policy-makers all over the world, and sustainable and inclusive growth is considered to be necessary for recovery. However, **the deterioration in poverty at the extent seen under the effect of the pandemic, and drastic jumps in the poverty gap ratio immediately reveal a need for concern about distributional policies.** To decide how vital, the distributional policy in the Turkish case is, it would be possible to calculate the contributions of both economic growth and redistribution into a change in poverty. For the time being, the Datt-Ravallion method of decomposition is the best method that can be used for this purpose (see Datt and Ravallion, 1992).

Both measures of poverty, namely the headcount ratio and poverty gaps, are decomposed into their growth and redistribution components, and the results are reported in Figure 2. The left-hand side of Figure 5 shows

Figure 5 - The decomposition of poverty measures - Datt-Ravallion decomposition



Source: Authors

a change in the headcount ratio together with its growth and redistribution components, whereas the components of the poverty gap ratios and a change in it are placed on the right-hand side of Figure 5. It seems that the size of the change in the headcount ratio is higher than that of the poverty gap ratio. Besides, **the contributions of the re-distributional component are the more dominant in both cases**. This could imply that distributional policies would be more influential than the policy stimulating economic growth alone.

### 5. Conclusion and policy implications

The Covid-19 pandemic constitutes a worldwide undesirable circumstance and requires intense and wide-scale international cooperation among countries, institutions, and people in sharing information and medical experiences on a possible treatment. In some respect, even this simple requirement has so far been very difficult to comply with for the Turkish government. In particular, **Turkey has shown less eagerness to share the real number of people infected and death due to the pandemic with international organizations and even with its own public**. This lack of cooperation made it extremely difficult for some European countries to assess the risk-level of their citizens being infected when travelling to Turkey on holiday. In the end, some of them such as Germany, put a ban on traveling to Turkey in the summer. This was also one, albeit small, of the reasons why the number of foreigners visiting Turkey declined in the summer of 2020. Despite the intention of creating the image that Turkey was safe for traveling, the country unintentionally ended up in a position where the Minister of Foreign Affairs had to try to convince his European counterparts to remove this ban. Only a couple of days ago, partly due to the announcement by the Istanbul Mayor on the number of burials in İstanbul, the minister of Health was pursued to share the exact figures on the number of people infected, and announced the number of infected patients exceeding 28 thousand. The rise in this number, which was previously announced to be around 7-8 thousand, surely dumbfounded the public.

The Covid-19 pandemic certainly deteriorates income distribution and poverty in Turkey, and the efforts by the government seem to remain short in eliminating these deteriorations. **The government has so far found no way-out due to its low fiscal capability**. There are several reasons for this, namely:

i) **The current level of fiscal deficits is already high** and it had already been rising before the pandemic broke out in March. The deteriorating effects of the outbreak on the fiscal balance are estimated to be TL 22.6 billion (about \$3.3 billion, almost 0.4 % of GDP). The reason for having such a modest figure in terms of deficit is that Turkey, along with Italy, the UK, France, and Spain, was the country that put excess weight on credit and monetary policy, rather than on fiscal policies, to economically support the infected groups (IMF, 2020). Despite this modest cost, Turkey had proposed to have an annual budget deficit at the amount of approximately TL140 billion for 2020. However, within the first five months of the year, the budget deficit reached almost half of this target [7].

ii) **The government has faced difficulties to obtain additional borrowing abroad**. Turkey had been caught by the pandemic in an already prevailing economic crisis. Excessive borrowing as before was seen as inappropriate by international investors, especially when considering the insistence of the government on high economic growth and low-interest-rate policy. The **increased political involvement in economic management**, and the insistence on claims that contradict fundamental relationships in economic science, such as that a high-interest rate is the cause of ongoing inflation, **shook the confidence in the governance of the economy**. Furthermore, capital flows into the Turkish economy slowed down. Moreover, the losses of foreign currency reserves in the Central Bank due to some experimental policy practices and irrepressible depreciations in the Turkish Lira beginning from 2018 had already paved the way for the ongoing economic crisis and capital slow-down. Finally, Turkey's debt stock in the first quarter of 2020 seems to have reached \$430 billion, which is almost 57 % of GDP (Central Bank of Turkey). This debt stock alone is enough for international investors to ration credit to Turkey, which has been exposed to increased political risk at home and abroad.

iii) **Turkey has been dying-up international reserves** that are highly required to support the credit expansion in a condition where no additional finance abroad exists.

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Our empirical examination implies that **it is necessary to have additional financial support to households (particularly poor ones) and entrepreneurial groups (particularly the small-size-artisan group)**. The result reveals that the entrepreneurial income group, along with the labour income group, are likely to be the most badly affected income groups by the pandemic. In particular, small-size artisan businesses are likely to be affected more than others. The result implies that providing various fiscal supports to these small-artisan businesses would be advised.

Another important empirical finding of the examination indicates there is a **danger of an increase in the poverty rate and in the severity of poverty due to the pandemic**. This finding implies that macroeconomic policies reviving economic growth must be as inclusive as possible for the mostly affected-groups. Besides, macroeconomic policies should be accommodated with policies at the micro level. It seems that **Turkey is most likely to require a re-distributional policy to control a drastic increase in poverty along with measures reviving economic growth**. To reduce the severity of being poor in the short term, poor households are likely in need of financial support. A **direct cash support programme or a formal and enduring framework for income support, such as basic income, would be really helpful**.

**Turkey is more than ever in need of international cooperation**. Increased unemployment, a low economic growth rate, and deteriorated income distribution constitute real challenges for the government, and solving them requires additional financial resources from home and abroad. In order to find these resources, **Turkey can immediately start negotiations with international creditors** for the postponement of debt payment and can apply to the IMF for credit at a relatively low-interest rate under certain reform conditions. **If not, the government should revise its priorities in terms of expenditure** in the current public budget and raise its finances by postponing and/or giving up some expenditure. Nowadays, infrastructural investment has been accomplished in Turkey through the public-private partnership scheme and treasury guarantees provided to projects' owners. Payments to such projects constitute an excess burden on the public budget and can be postponed and/or re-negotiated with investors.

### Notes

1. There is ongoing debate in Turkey on the numbers of people affected by the pandemic On the 25th of November 2020

2. TL 75 billion of this package was used to finance fiscal measures undertaken, and TL 25 billion was directed to the amount in the credit guarantee funds. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#T>

3. Decree 7244 was the first comprehensive legislative action taken after the official announcement of the pandemic on the 17th of April 2020. <https://www.resmigazete.gov.tr/eskiler/2020/04/20200417-2.htm>

Dünya Newspaper, 16 May 2020; <https://www.dunya.com/kose-yazisi/covid-19-salginina-karsi-alinan-ted-bir-ve-onlemler-iii/470450>

4. <https://www.aa.com.tr/tr/turkiye/bakan-selcuk-kisa-calisma-odenegine-su-ana-kadar-3-milyonu-askin-basvuru-oldu/1814696>

5. A change in the sectoral composition, particularly in favour of non-tradable goods, distorts relative prices, and eventually creates pressure on the domestic currency to rise. In the case of Turkey, the government has not recently been keen on allowing for an increase in nominal foreign exchange, and has occasionally been intervening in the foreign exchange market by selling foreign exchange from public bank-backed up by Central Bank. High Import dependence and the indebtedness of the private corporations in foreign exchange could be considered as the reason for these interventions by the government.

6. Jenkins (1995) decomposition is usually applied to understand the sources of a change in inequality between two distinctive points in time. Unlike this conventional usage of this decomposition, we attempt to

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distinguish the sources of a change in income distribution between two different states of the economy, and to estimate the main sources of a change in inequality between the states of the economy before and after the Covid-19 outbreak. In this estimation we consider each state of the economy as if it is the data from a different year. The main source of the change between these states of the economy can easily be attributed to the impacts of the Covid-19 pandemic, as we did here.

7. See <https://www.paraanaliz.com/2020/turkiye-ekonomisi/cetin-unsalan-yazdi-butce-acigindaki-garip-detaylar-48143/>

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# COVID-19 MED BRIEFS

## **CMI-FEMISE “COVID-19 MED BRIEFS”**

*The recent coronavirus crisis threatens the health, economies and societies of all countries, regardless of level of development. In the South Mediterranean countries the fight against the pandemic is even more complicated. It must be done with limited health and economic resources compared to other regions. In addition, it takes place in a unique social and geopolitical context.*

*Cooperation and EU-Med strategies in key sectors are needed. Therefore, CMI and FEMISE have decided to join forces and launch this series of Policy Briefs to pave the way for thematic analyses and prescriptions, which will be explored throughout this series.*



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*This Policy Brief is produced as part of the series of Policy Briefs on « Responding to the Challenges of COVID-19 in the Mediterranean » that is undertaken in partnership between FEMISE and the Center for Mediterranean Integration (CMI).*

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