

The New Turkish Lira

presented by

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Info on Me

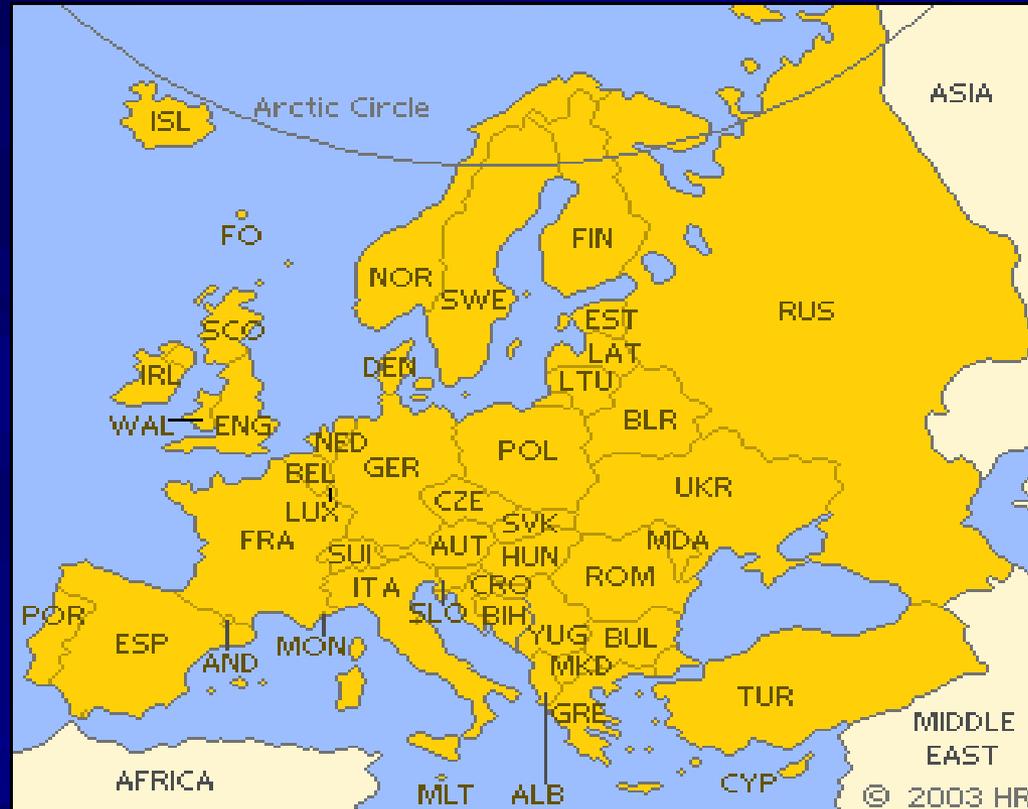
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- Research Interests: Growth and Development, Public Economics, Political Economics
- Teaching Interests: Macroeconomics, Money and Banking, Economic Development

Info on Turkey

- Original name: Türkiye
- Capital city: Ankara
- Biggest city: Istanbul
- Founder: Mustafa Kemal Atatürk
- Official language: Turkish
- Political System: Parliamentary Democracy



Where is Turkey?



Types of Inflation

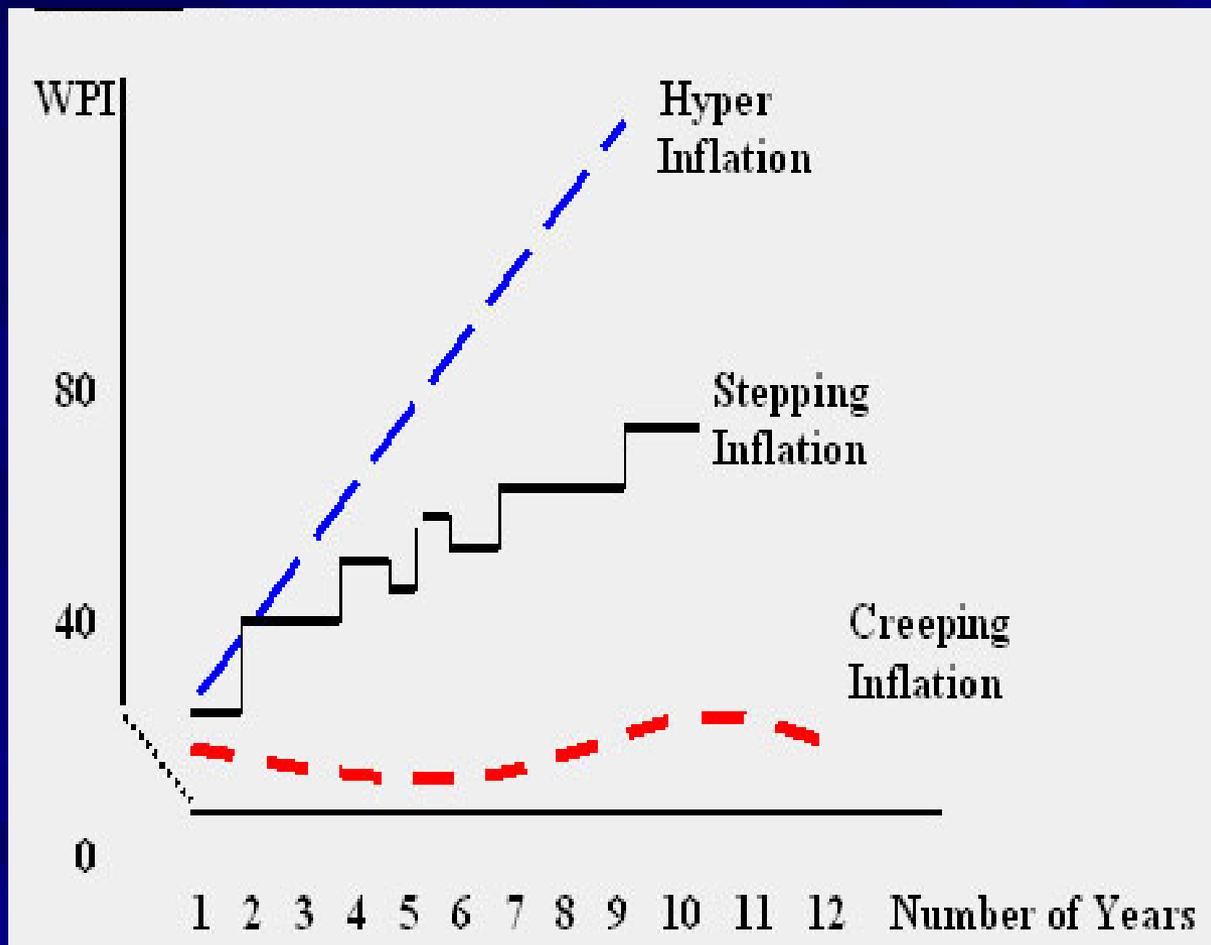
When inflation is classified according to its course of development, it is possible to identify three types:

- **Creeping inflation**
 - One-digit inflation

- **Stepping inflation**
 - Two-digit inflation

- **Hyperinflation**
 - Two- or three-digit inflation

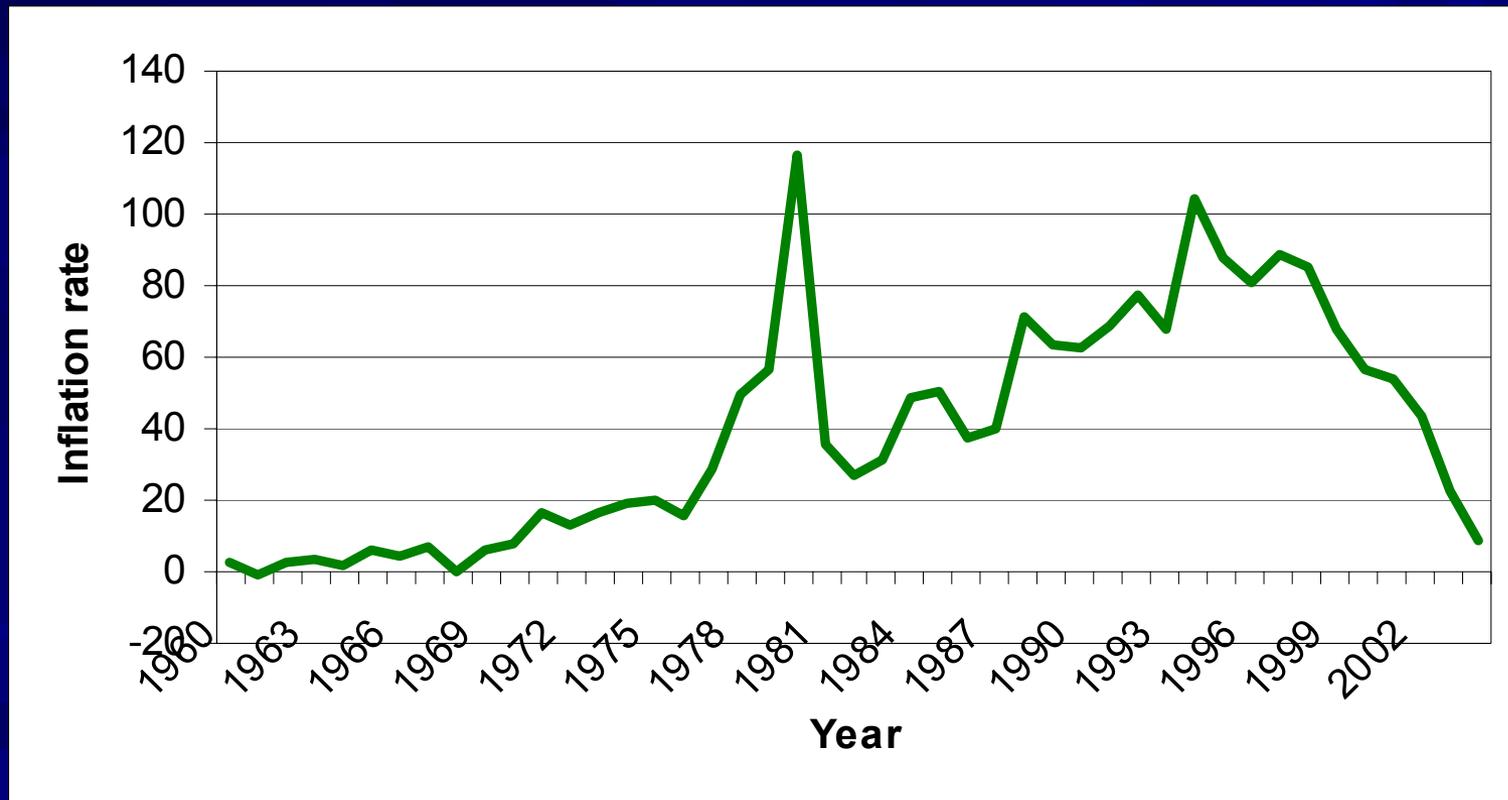
Types of Inflation on a Graph



Severe Hyperinflation around the World

- **Hungary** (at the end of WWII): 4.19×10^{16} per month
(prices double every 15 hours)
- **Yugoslavia** (1993 - 94): 5×10^{15} per month
(prices double every 16 hours)
- **Greece** (1941 - 44): 8.55×10^9 per month
(prices double every 28 hours)
- **Germany** (early 1920s): 3.25×10^6 per month
(prices double every 49 hours)

A First Look at Inflation in Turkey



Stepping Inflation in Turkey

- Turkey has suffered from *stepping inflation* for more than 25 years
- **Stepping inflation is sustainable** - people update their expectations and behave accordingly

Inflation and Currency

As prices rise steadily, economic values are expressed in ever larger numbers

- A bottle of drinking water: 300,000 TL
- Movie ticket: 7,500,000 TL
- Toyota Corolla: 32,900,000,000 TL (32 billion)
- Turkish GDP in 2002: 273,463,167,795,000,000 TL
(273 quadrillion)

Inflation and Currency

As a result:

- New banknotes in larger denominations were put into circulation nearly every 2 years since 1981
- The highest-denominated banknote used in Turkey was 20,000,000

Problems with the Old Currency

- Low credibility of Turkish Lira
- Problems in accounting and statistical records, data processing software and payment systems

Redenomination of the Turkish Lira

- Remove 6 zeros
- The new currency: Yeni Türk Lirası (YTL)
(The New Turkish Lira)
- Conversion Rate: TL 1,000,000 = YTL 1

Details of the Redenomination Operation

- New Turkish Lira and new coins were put into circulation on 1 January 2005
- Throughout 2005, Turkish Lira and New Turkish Lira banknotes and coins were concurrently in circulation
- In 2009, “New” before the “Turkish Lira” will be removed, and the use of the expression of “TL” will be reintroduced

Concurrent Use of TL and YTL

- Prices were displayed in terms of both TL and YTL
- Businesses accepted both currencies during that period
- Why? So that the currency conversion process would be accomplished in its natural course

Why did Turkey wait until 2005?

- Transition to new currency units is performed along with a stabilization program in general, and following the successful results of the program on the inflation front
- Since the successful implementation of the current stabilization program has produced favorable results, it was deemed appropriate to start the operation in early 2005

Benefits of Redenomination

- Technical and operational problems arising from the use of figures with multiple zeros will be settled
- Determination in bringing inflation down to single digits permanently will be better comprehended
- Transition to single-digit inflation will restore the credibility of Turkish currency
- The habit of using coins will develop

Cost of Redenomination

Time and Menu Costs

- Increases in transaction time
- Changing prices in labels/menus/catalogs
- Changing laws/regulations
- Changing balance sheets/accounting records
- Changing software

What if Inflation Comes Back?

- This is a worry many people share
- If Turkey suffers from high inflation in the future, zeros would come back!
- That would mean that redenomination program would only be an extra cost to the economy

Other Countries Who Redenominated Their Currencies

- **Brazil** – 18 zeros in 6 operations (1967/70/86/89/93/94)
- **Argentina** – 13 zeros in 4 operations (1970/83/85/92)
- **Israel** – 9 zeros in 4 operations (1980/85)
- **Bolivia** – 9 zeros in 2 operations (1963/87)
- **Peru** – 6 zeros in 2 operations (1985/91)
- **Ukraine** – 5 zeros in 1 operation (1996)
- **Poland** – 4 zeros in 1 operation (1995)
- **Mexico** – 3 zeros in 1 operation (1993)
- **Russia** – 3 zeros in 3 operations (1947/61/98)
- **Iceland** – 2 zeros in 1 operation (1981)