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

- Hyper Inflation
- Stepping Inflation
- Creeping Inflation

WPI

Number of Years
Severe Hyperinflation around the World

- **Hungary** (at the end of WWII): $4.19 \times 10^{16}$ per month
  (prices double every 15 hours)

- **Yugoslavia** (1993 - 94): $5 \times 10^{15}$ per month
  (prices double every 16 hours)

- **Greece** (1941 - 44): $8.55 \times 10^9$ per month
  (prices double every 28 hours)

- **Germany** (early 1920s): $3.25 \times 10^6$ 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)