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## What If Turkey Imposes a Curfew Due To COVID-19

### 1. Introduction

Our policy note, “What can we do to manage the economic consequences of COVID-19?”, was published in Dünya newspaper on March 23<sup>rd</sup>, 2020.

In the last five days, from that publication date up to now (March 28<sup>th</sup>, 2020), the number of cases worldwide increased by 75 percent, and the number of deceased people by 86 percent, respectively. The number of cases has surpassed 650,000 and the number of deaths exceeded 30,000. By the time you will be reading this note, the numbers will have increased even more.

It took fifty days for the number of cases to reach 100,000. It took thirteen days to reach a second 100,000. It took four days thereafter to reach a third 100,000. The fourth 100,000 needed only three days. The fifth took three days. The sixth 100,000 reached in two days. COVID-19 is spreading rapidly and the number of casualties is increasing with it.

COVID-19 in Turkey is spreading faster than amongst its peers. The current figures should not mislead anyone. In the last five days, the number of cases in Turkey increased by 384 percent, and the fatalities caused by the virus rose by 191 percent. It is striking that, for the past five days, the spread of the virus in our country is above the world average.

The increasing rate of COVID-19 overtime reveals that voluntary social distancing measures do not work well enough. Social distancing measures are not for eliminating the disease, rather slowing down the spread, and consequently, providing time for prompt test kits and/or the development of a vaccine to ensure that the health infrastructure does not collapse meanwhile.

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However, these numbers now indicate the necessity of transitioning from a “voluntary” to a “compulsory” social distancing measure.

Recent measures taken in Turkey also show that we are heading towards a mandatory social distancing measure from a voluntary one. This policy note aims to assess the economic consequences which will arise if such mandatory measures are implemented and to provide a framework for the follow-up measures that can be taken.

## **2. Three fundamental questions**

Our principal perspective in Özatay and Sak (2020) was that with the measure of voluntary social distancing a significant portion of businesses/factories would remain open. Since the days of writing that note, developments have shown that the mentioned argument is no longer valid. Yet, what difference does it make?

First, it had better to underline what has not changed so far. Moss’s (2004) emphasis on “the function of the government as the ultimate risk manager” is more essential today than yesterday. The systemic risk on the economy both in the field of public health and welfare of the nation should be skillfully managed by the government to a certain extent, and a portion of the risk faced by individuals and businesses needs to be socialized. However, the implementation framework on how to manage the associated risk has changed because the inputs within the model has been altered as the number of cases has increased rapidly and the compulsory social distancing measure has become necessary.

With the mandatory social distancing measure, maintaining a volume of economic activity for a temporary period of time by providing purchase guarantees for companies producing final goods and services is no longer a realistic approach. As highlighted in Özatay ve Sak (2020), “at that stage, the basic principle will be to ensure the lives of those in value chains rather than maintaining the volume of the economic activities as much as possible.” In order to sustain the lives of employees, business owners, and businesses that produce added value, in the previous note it was noted that “other measures suggested above can be applied for this case, as well. Nevertheless, it is also apparent that further research on the program design will be necessary for dealing with a more severe scenario.” That further research is this work.

From this point forward, it is useful to approach the issue by thinking around three questions and seeking their answers:

- I. In the face of the COVID-19 global outbreak, what kinds of new goods and services are required and what kinds of change in economic functioning are needed to preserve people’s livelihoods?
- II. How can an economic package be designed to protect the welfare of employees and allow them to return back to work in the next production period?
- III. By transferring the resources of enterprises from one production period to another in a healthy manner, what can be done to ensure that their “next day” activities continue?

These three fundamental questions which are updated versions of Frydman and Phelps (2020) must be dealt around two fundamental assumptions: Firstly, whether a voluntary or compulsory social distancing measure is being implemented, and secondly, whether global cooperation mechanisms work or not. While the public curfew assumption is considered as a

fact, additional questions and approaches due to whether global cooperation is in effect has been neglected in order not to complicate the search for answers.

### **3. Searching for answers**

#### **3.1. New range of goods and services production**

, Primarily, the effective battle against the public health problem comes in the first place. Forward projections allow us to predict how many patients will increase and how many intensive care beds will be required under different scenarios. While tackling a public health crisis of this scale, instead of passively explaining what is happening day by day, taking tally along the way, it is necessary to focus on a plan based on future projections. These projections will guide us on how vigilant we should be under normal circumstances.

In the framework based on future projections, preventing the collapse of the health system is of primary importance. When the system collapses, the possible economic impact will be much more negative alongside the further spread and prolongation of the disease. At this point, what needs to be planned is to ensure the production of more hospital beds, intensive care beds, trained personnel, personal equipment (masks, gloves, and clothes), and cleaning materials.

In the face of this public health crisis, the government must mobilize all the country's resources as soon as possible and take the necessary measures for transforming the firms by adjusting incentives accordingly. As an example of such a planning, on March 26<sup>th</sup>, 2020, the United States' Department of State released a statement for easy visa issuance to all medical personnel who have particularly knowledge and experience in the fight against COVID-19 (<https://travel.state.gov/content/travel/en/News/visas-news/update-on-h-and-j-visas-for-medical-professionals.html>). Turkey also needs to take a more active stance with regards to this kind of forward planning. For example, necessary preparations to convert hotels and university dormitories to hospitals for temporary use should be made in advance. .

It should be noted that while such planning needs the support of public health and infection specialists, it cannot be left only to medical professionals. Even though the State Planning Organization (DPT) was closed down, it is still possible for Turkey to bring together such planning capacity. On the other hand, it is necessary to calculate the volume of the required monetary support for the production of new goods and services listed under this heading. At this stage, we can state that our estimated amount is not too high.

#### **3.2. Maintaining livelihoods**

Secondly, it is crystal clear that not only those of the minority of workers who are insured but also those who lost their jobs, who have to go out and work every day in order to survive, who have to migrate periodically to work as temporary workers in agriculture, and the immigrants/refugees in our country, need minimum income support in this period. It is also obvious that this extraordinary period will last more than three months. Considering that the effects became visible in March, it is essential to ensure that no one feels alone in this extraordinary period of compulsory social distancing that is likely to continue until June 2020. The matter of income support in economies with low saving rates like Turkey is gaining more importance.

According the statement of the World Health Organization (WHO), developing a vaccine for COVID-19 will take sometime between twelve to eighteen months. Before this, an easily

instrumental and inexpensive COVID-19 test can be expected. Nevertheless, in any case, it is clear that confinement or other social distancing measures will not disappear anytime soon.

Obviously, the success of mandatory social distancing depends on the fact that nobody feels obliged to step outside to make money. In this framework, providing minimum payments to each family member will first and foremost be a public health measure, thus preventing the pandemic from further affecting our society.

Consequently, will attaching employment guarantees to the support for businesses lighten the burden? No.. In Turkey, 95 percent of businesses are micro-enterprises with less than twenty employees. Furthermore, 66 percent of enterprises employing those with compulsory insurance have fewer than four employees. And these only include the employees registered in the social security system, kind of a privileged minority in countries like Turkey

This kind of temporary support cannot be expected from the current insurance mechanism which was designed for regular times, based on the condition of paying premiums or working in a workplace for a certain period of time and also waiting for the application. Here, numerous automated support mechanisms are called for.

Today, the fundamental reason of being unprepared all over the world is due to the lack of institutional infrastructure to combat a global pandemic. To act and take measures “as if it exists” will only widen the problem.

How huge could this type of monetary support be? For addressing this question, the existing liabilities of citizens must first be considered. Domestically, a citizen’s liability is another citizen’s asset. Let us assume that the liabilities are postponed. In other words, let us delay the payments of rent, loan interests, and deposit interests for three months. Similarly, taxes and other obligations to the government is to be postponed (this problem is also addressed for enterprises in Section 3.3).

Let us begin with the number of households. According to 2018 figures, Turkey has around 23 million households. Let us imagine that the government provides 2000 Turkish liras for each household (mostly for food expenses as rent, electricity, heating, transportation, and health expenses would not be included). The total figure will reach 46 billion liras, or 1.1 percent of 2019’s Gross Domestic Product (GDP). This is the total for one month. A quarterly period of three months would therefore amount 3.3 percent of the GDP. The important point to emphasis is the need for this support to be distributed to households according to their number of members. Taking data from 2018, the average household has 3.4 inhabitants. As a result, those below this average would require less whereas those above this average would require more support.

Another alternative is using labor data. According to the latest labor force data sets, 28 million people (individuals who are self-employed, employers, earn wages and salaries, and informal workers) work while 4.5 million people are unemployed. As mentioned above, those working in agriculture, food, health and similar sectors would continue to work. In this case, there are approximately 18 million employees who would be paid and still 4.5 million unemployed. A similar budget burden emerges if 2000 liras would be paid per worker.

As a contextual comparison: Turkey’s support packet during the 2008 global crisis was 1.2 percent of its GDP (Özatay, 2016, Table 8-3 and its resources provided there). During that

time the only issue was economic contraction. Currently, however, we are faced with a much larger problem with public health taking center stage. Nevertheless, the calculated support in question is not great that the government cannot handle.

### **3.3. Saving businesses for later**

Thirdly, transitioning the entire production capacity of the country from this period to another with as little damage as possible needs be discussed. It is an indisputable fact that a completely undamaged transition is impossible.

A production period, from a schematic perspective, is the process that starts by bringing all inputs together through operating cash capital and/or bank and commercial loans of businesses, and then producing final goods and services with its employees by utilizing these inputs. As a result, each production period creates a series of receivables and debts. The length of a production period varies one from sector to another one. Considering that the average production period is three months, confinement or other social distancing measures would be expected to affect businesses for more than one production period. In this situation, it would not be possible for the business to plan ahead on its own.

The government must come up with various plans for businesses operating in different sectors. Three types of businesses can be considered here: the first are those that need to continue operating intensively. The second are the businesses that are in need of support for transitioning to help the managing health crisis itself and the process. The third are other businesses.

#### **3.3.a. Businesses required to continue operating**

These will primarily be health sector, agricultural businesses, food, cleaning materials, medical equipment, and packaging industry companies. The aforementioned and their personnel working must continue their duties.

The headlines that emerge from this framework are: measures to be taken on how to protect the health of these employees, how will employees commute, how to ensure the accommodation of employees in hotels if necessary, providing the supply of inputs required for production, transportation of manufactured products, and how people in need of these products can reach them.

#### **3.3.b. Businesses that need to be transformed**

Secondly, there are the enterprises mentioned in 3.1, which are related to the “new range of goods and services production.” In other words, more planning is required for businesses needing to transform themselves in order to support the current public health crisis response itself and the healthy management of the process. For example, these selected businesses include hotels and student dormitories to be converted to hospitals, and the ones that can produce materials, protective tools, and other equipment currently required.

In addition, in this period, it will be necessary to plan all of the transformation projects- such as businesses operating digitally on food or other item ordering platforms- to support the strict implementation of compulsory social distancing measures.

Also, considering the difficulty of bringing patients together due to geographic barriers, it is essential to have plans for transferring patients to the appropriate facilities by means of

hospital airplanes, equipped ambulances and trained personnel. Mobilizing companies may be considered to provide such services.

Furthermore, considering that agricultural harvests will begin in the next few weeks, additional planning is required. Harvesting has been mainly realized by seasonal workers coming from the east with their families, and recently by Syrian seasonal workers. This time around, however, organizing the harvest will be more costly because these employees are unlikely to come with their families. The government needs to incorporate this issue into its plans of support.

All in all, for giving businesses the right incentives in this extraordinary period, a dense planning/organizational capacity is required.

### **3.3.c. Protecting the working capital base of companies**

Thirdly, apart from the aforementioned businesses, the remaining enterprises must be considered. If the production of goods and services is to be halted for one or more production periods, it is essential that businesses with their existing capitals can be brought to the next production period as back to regular times. Here, there is a necessity to find a solution considering the fact that each debt in the system is linked to another enterprise's receivables. All commercial debts, including bank loans, taxes, and rent can be considered to be postponed altogether. Such a measure might work because it would delay debt payments and the collecting of those receivables. Or, a system that would enable the government to take over all receivables may be considered. In this situation, a package of measures should be considered for the healthy functioning of the banking system.

As considered for individuals, the vitality of businesses requires support. Here, the essential aspect is to provide grants and interest-free credits according to the businesses' volume to each business that is anticipated to start the next production period with higher indebtedness. The aim is to find the measures that ensures the vitality of the business after the break in production. Especially considering the weight of Small and Medium-Sized Enterprises (SMEs) in the Turkish economy, there is a need for a free working capital support program based on past turnover. The main hurdle for Turkey here might be the lack of data due to informal economy. This aspect makes measures easy to apply in developed countries like Denmark and Canada, and problematic in countries like ours (Ornelas, 2020).

## **4. Conclusion**

With the onset of the compulsory social distancing measure and its prolongation, the government will not only have to provide income support but also temporarily restructure the production of goods and services via an intensive organizational effort.

Developing countries like Turkey, where the savings rates are low, institutional infrastructure is weak, and informality is high, would struggle with COVID-19 more than developed nations. The government should take a proactive attitude compared to Germany to compensate the negative impact of confinement or other social distancing measures in Turkey. The fact that Turkey being caught by the global outbreak after a highly comprehensive structural government change makes capacity building of the state administration even more of an important issue.

A vital question is how the required resources will be provided. While dealing with the sourcing issue, we must remember what was discussed towards the end of the second

section: "... additional questions and approaches due to whether global cooperation is in effect has been neglected in order to not complicate the search for answers." Of course, global solidarity and cooperation with international institutions would alleviate the resource problem. However, in the absence of such a source, it is clear that the situation depends on whether we have our hands tied. Nevertheless, even if such a source was available, we would still have a resource deficit.

The source in discussion is expressed in Özatay ve Sak (2020). First of all, the Ministry of Treasury and Finance would issue Treasury Bills (T-Bills). By making a temporary change in the law, T-Bills would be bought by the Central Bank and a monetary expansion would occur. If a portion of GDS's could be sold to banks then monetary expansion could be limited. As underlined in Özatay ve Sak (2020), we are living in an era where the world takes unprecedented measures. In this context, our form of financing should be described as an extraordinary measure, and how the monetary expansion would be revoked after a temporary period should be explained from the very beginning.

Another point not addressed yet but needs to be considered is the question of debts to foreigners of residents. According to the data of the Central Bank, our external debt to be paid in the next twelve months is 172 billion dollars. Out of this figure, 32 billion dollars is owed by the government and 50 billion dollars by private financial institutions. If these two debts are excluded, then the monthly payment is roughly 7.5 billion dollars, with them included the monthly payment is 14.3 billion dollars. These figures do not include the amount of foreign currency necessary to finance the current account deficit. We can assume that the Central Bank would pay the government's debts while private banks and large companies' commercial relations would finance a portion of their debts. Still, however, additional sources would be needed. Only with global solidarity and cooperation could the sourcing problem be alleviated.

Until a viable test and/or vaccine is found, this policy note hopes to highlight a framework of measures to manage households and businesses that are impacted due to social distancing measures introduced from the onset of the COVID-19 global pandemic. Clearly, what we have not discussed but needs to be addressed is the effects of sourcing from global cooperation.

## References

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