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THEEFFECTS OF JANUARY 24 DECISIONS AND FINANCIAL LIBERALIZATION ON BASICMACROECONOMIC INDICATORS SUMMARY This study examines Turkey’s maineconomic indicators of financial liberalization policies implemented in theperiod after 1980 in Turkey and it analyzes the impact on the economy.

The study consists of three mainparts. In the first chapter; the concept offinancial liberalization is explained; the liberalization process is evaluatedwith a historical dimension and its development in the world. In the second chapter; the financialliberalization process implemented under decisions of January 24 in Turkey’seconomy has been mentioned as the main line with fundamental reform carriedout. In the third and last chapter; financial liberalization, one of the main economic indicators of Turkey’s GrossNational Product, has examined the effects on the trade balance and foreigndebt stock data and financial liberalization has reviewed the results in thisregard. PART1 – Meaning of Financial Liberalization and Its Historical Period Financial liberalization is theperiod in which the limits separating financial markets are lifted andinternational capital flows accelerate. Essentially, this process started inthe 1940s at the beginning of the international markets, but accelerated mainlyin the 1980s. The liberalization policies implemented in the framework ofliberal policies and the restrictions on the financial structure have beenabolished.

As a result, it is aimed to establish more efficient and competitivemarkets and a durable economic structure as well as to gain momentum in

growth. With 1. World War, Great Depressionand 2. World War, the international financial system started to becomecongested.

In order to overcome this problem, the Bretton Woods agreement wassigned in 1944, when the United States decided to establish the InternationalMonetary Fund (IMF) and the International Bank for Reconstruction andDevelopment (IBRD) to create an international trade and production system inthe town of Bretton Woods. The mandatory fixed exchangepolicies implemented under the Bretton Woods agreement have made it difficultfor countries to address internal and external equilibrium problems they face. The liquidity problem caused by the dollar in the beginning of the 1970s, theshaking of confidence in the US dollar with the decrease of the power in the USeconomy, the rapid increase in the prices of consumer goods between 1972 and1973 and more importantly, The Bretton Woods system has been destroyed.

The1970s constitute the beginning of a new era in the international financialsystem. Following the collapse of BrettonWoods and the fixed exchange rate system, countries continued to maintain theirown monetary policies while at the same time opening their doors to largevolumes of capital. From the second half of the 1970s, the liberalization ofoppressed markets and the unlimited mobility of the capital have taken thedeveloping countries into a system of “ Liberalization” as a new worldstrategy at the end of the 1980s.

The financialliberalization process first gained depth in developed countries such as theUS, Japan, and the UK, depending on the outcomes of the “

Stability andStructural Adjustment” programs in many developing countries, especiallyin the Latin American countries in the direction of IMF and World Bankproposals. The three most important goals of these programs, called structuraladjustment programs, are as follows; 1 – To ensure macroeconomicstability, 2 – To liberalize the goods andfactor markets, 3 – Reduce the weight of the economyin the economy. The reason why financialliberalization comes to the fore is that the capital of developed countriesneeds new and profitable investment areas. For this purpose, the free movementof capital gained speed, especially financial capital itself, which willprovide higher profitability began to flow rapidly towards developing countriessuch as Turkey.
Economic liberalization, in otherwords globalization, aims at a world in which production factors, goods andservices, investment and management and information travel around the worldwithout the obstacle.

In the cultural sense, the fusion of different culturesmeans that people’s lifestyles, preferences and value judgments are similar. Financial liberalization is oftenthe removal or abolition of controls and restrictions on the banking andfinancial system by governments to attract developed countries’ financialactivities to their own countries. It can also be expressed as the abolition ofrestrictions or interventions that impede the spontaneous functioning of thefinancial system, either by means of monetary or fiscal policy instruments orby other different elements of pressure. PART 2 – TheTurkish Economy Liberalization Process – 24 January Decisions Turkey, as a result of foreignexchange decrease emerged in 1953, which

means the quota of importsubstitution, import bans and high tariff walls were adopted.

Inflationarypolicies and overvalued exchange rate policy continued until the 1958operation, increasing violence. At the beginning of the planned period, importsof non-durable goods such as food and textiles were replaced by domesticproduction, in other words the first phase of importation was completed. However, during the period of industrialization based on the importsubstitution covering the 1963-80 period, the second stage, intermediate andinvestment goods, could not be produced. Oil shocks in the period 1973-1974and high inflation in the West led to deterioration of the terms of trade andincreased current account balance deficits. Excessive valuation of the TL bythe exchange rate policies applied has not been prevented. In order to providebalances, imports have been put under pressure with necessary means, andforeign exchange controls have been increased. Until 1980, a relativelyclosed-off economic model was implemented, yet the crisis of the externalconjuncture was not able to escape from the crises or stagnation.

Foreign trade in Turkey before 1980, financial markets and some commodity markets state-controlled and remaineddominated by banks in the financial sector. The deepening crisis conditions inthe years 1977-1979 to adapt the economy to the global economy and has ledTurkey to take new decisions for to stabilize. The 24 January Decisions that aimsto involve economic development strategies such as the opening of the economy, the promotion of foreign capital, the reduction of government interventions, limitation of

the economy in the economy, controlling inflation, encouragingprivate sector capital accumulation, has put into practice. The result of 24th January1980 Decisions, which are also called, “ Economic StabilizationProgram”, are as follows; – Taking inflation undercontrol and pulling it down quickly, – Realization offoreign exchange income through realistic exchange rate policy and improvementof balance of payments by overcoming foreign exchange decrease, – Following theindustrialization policy for export, emphasis on export of industrial products, – Release of interestrates – More investment byattracting foreign capital to the country with various incentives, – The reduction of therole of the state in economic activities and the reduction of the interventionof the economy, – Reducingunemployment by targeting investments that increase employment, – Tax reform toincrease tax revenues and ensure justice in taxation.

When we look at the economicstabilization program implemented in Turkey’s economy before considering theshort-term goal and liberal qualities that we see transport. However, judgingby the January 24th decisions, it has not been directed specifically to long-termtargets, partly by setting short-term goals. These measures, which encouragedanti-inflationist and outward opening, gave positive results since thebeginning of 1981. In 1981, the private sector started two new applications. The Central Bank started to declare the “ daily exchange rate” sinceApril 30, and in July the Capital Markets Law entered into force.

As the 24 Januarystabilization program has targeted, the rate of money supply growth hasgradually decreased in the first three years. The fact that

the Central Bankloans were used less frequently than in previous years was effective. With thecommencement of the creation of resources through the banking system, thepublic sector has begun to leave its place in the private sector. As a result ofthe implementation of the decisions, a relative decline in inflation rate hasbeen observed. The inflation rate, which was 107. 2% in 1980, dropped to 36. 2%in 1981 and to 25. 2% in 1982.

A devaluation was made immediatelyafter the January 24th decision was taken. The limits on foreign investment andparticipation amounts have been lifted and the investment fields in whichforeign capital can participate have been expanded. In addition, as a firststep in 1980, the stamp on imports has been reduced to 1 percent and the importregulations have been simplified. Interests are released. Strictmonetary policies and competition from bankers have led small banks to enterinto interest racing. In 1982, Turkey experienced its first post-liberalizationof the financial crisis and is steeped in several small banks with most bankers. The next part of the study willinclude developments or changes in the basic macro variables in the economy.

PART3 – The Effect on Financial Disabilities on Basic Macroeconomic Ind? cators Liberal-based economic policies areparticularly useful in terms of basic macroeconomic indicators. 3. 1- Gross National Product (GNP) Gross national product; is the sumof the value of a country’s citizens for a certain unit of total goods andservices they produce over a given year. The reason for the “ citizenship” distinction is that it is different from the Gross Domestic Product (GDP). GDPalso covers the final goods and

services produced by foreign nationalsoperating in that country. In other words, GNI is the value obtained bydeducting GDP from the income of citizens of an international country who aresent to the country by adding their income to GDP and sending the foreignerswho work in the country to their country.

National income is calculated withcurrent prices and fixed prices. The effects of inflation are not considered incalculations made at current prices. It is calculated on the current values?? of the goods and services produced. In calculations made at fixed prices, basically any year is taken and the real increases excluding the inflation rateare calculated. In the macroeconomicanalysis, since the beginning of 1990s, globalization has gained momentum andproduction factors and capital have moved beyond the borders of the country, interest has focused on GDP, which represents the total income generated withinthe borders of a country, rather than the GNP, which expresses the income ofcitizens of a country.