Role of imf in turkey’s crises of 2000 and 2001

The role of IMF in Turkish crises of 2000 and 2001 is very controversial. On one hand, this international financial institution has participated in the development of a program for the reform of Turkish economic sector and provided financial assistance of over $28 billion for the country. " From July 1999 to-date, the aggregate value of the IMF's officially approved assistance to Turkey amounted to 31. 9$ billions, and the realized value of disbursements reached to 28. 2$ billions. " (Erinc Yeldan. BEHIND THE 2000/2001 TURKISH CRISIS: Stability, Credibility, and Governance, for Whom?

Retrieved on May 1, 2006 from URL: http://papers. ssrn. com/sol3/papers. cfm? abstract_id= 290539) On the other hand, IMF's experts failed to predict both crises before they started. In many ways, thefailureof reforms can be contributed to the inability of IMF to develop the program for reformation of the economic sector. Ziya and Rubin (2003) argue that IMF is institution which should be blamed for both Turkish crises: " the IMF itself-the key institution involved in the Turkish stabilization and reform program-should share a significant part of the blame for the outbreak of the two successive crises.

" In order to make a conclusion about the benefit of IMF support for Turkey, it is necessary to investigate the final recipients of IMF's financing in the country. Themoneywhich was received by Turkey was primarily channeled into two directions: to Treasury for fiscal purposes and in order to strengthen its reserve positions; to the Central Bank of Turkey in order to increase its currency reserves. The major purpose for which Central Bank of Turkey used its reserves was financing problem banks which did not meet their liquidity requirements and were almost bankrupt.

The other part of the money received by Turkey was targeted at Treasury; however, this money was also channeled to assist failed banks because Treasury issued treasure debt instruments to these banks. As the result, all of the money provided by IMF was channeled to the banking sector of the country. This fact makes it clear that the primary purpose of IMF funds in Turkey was to assist the banking sector. There are some hidden motives in it. As the result of this development, foreign debt of Turkey reached the highest levels.

It increased by over $20 billion during these three years, and Turkey was forced to start paying large amounts of money to service the debt. At the same time, Turkey had to repay its short-term obligations. Thus, IMF has managed to achieve its strategy in Turkey created to make it more “ marketable” in the eyes of the foreign investors. The short-term debt of the country declined greatly, but Turkey had to pay 16. 8% of its GNP to service its debt. This action cannot be considered wise because Turkey became very vulnerable after such a large increase in its foreign debt.

IMF also played a controversial role in the development of banking sector in Turkey. According to IMF’s regulations, Central Bank of Turkey was not allowed to take any actions which could possible cause inflation. “ One of the main tenets of the stabilization program was the “ no sterilization rule” as a safeguard against possible monetary indiscipline in order to add credibility to the disinflation program. ” (Ziya, Rubin, 2003, p. 11). This rule was considered universal by IMF experts.

However, they did not take into consideration that at certain times it might be crucial to “ pump” some money into the banking sector, even if there is a danger of higher inflation. For example, some of the banks which suffered liquidity needed support from Central Bank of Turkey. They could solve some of their financial problems with the help of additional resources. However, Central Bank was not allowed to provide assistance to them in such a way. This policy led to bankruptcy of the largest commercial bank in Turkey. Alper and Onis (2002) also consider IMF’s policy one of the major reasons of financial crises in Turkey.

The authors present well-supported criticisms of IMF’s policy in relation to client countries and argue that this policy is not efficient in the present era ofglobalization. The researchers mark that IMF did not realize that full capital account liberalization in Turkey would have a negative impact on the economy because Turkey did not have a well-formed businessenvironmentyet and was not able to attract enough foreign investments. Alper and Onis (2002) conclude that IMF bears primaryresponsibilityfor opening Turkey’s capital account before time for that came.

Timing is the crucial factor when it comes to liberalization, and IMF failed to choose the right timing. There is no evidence supporting the fact that IMF resisted full opening the capital account of Turkey, and thus it is possible to conclude that it fully agreed with this policy. However, it is necessary to say that the authors also put a part of blame for the crisis on the Turkish politicians. As they mark, prior to crisis, IMF did not have real power in the country and it was only providing recommendations to it concerning the possible development of monetary policy.

At the same time, IMF needed to realize long before reaching a stand-by agreement with Turkish government that thiscoalitiongovernment would not be able to conduct the necessary reforms. First, they were too expensive. Second, the government did not have a sincere desire to implement the program. Experts of IMF needed to understand it much earlier than the crises started. As the result of investigations, it is possible to conclude that IMF’s actions towards Turkey turned out wrong in many ways. The program was developed without understating of its possible consequences.

The major mistakes made by IMF in regard to Turkey can be summarized in the following way: • IMF did not manage to provide adequate amount of resources to Turkey. The amount which was given did not answer the needs of the sector which was being reformed. Instead of giving the money for the development of the economic sector, the money was provided to decrease the dependence on the short-term debt and thus get a better credit rating, disregarding the potential negative consequences of this action.

• Inability to obtain necessary information for successful implementation of the program. Even though IMF launched a very large-scale program in Turkey, it did not provide adequate research of conditions which could place obstacles for the development of the program. Therefore, the assistance which IMF provided for Turkey was not enough to ensure adequate development of the projects chosen for the reform. Information is crucial in economic reforms development. Unfortunately, IMF did not consider it important in this case.

• Application of the same principles and approaches to all of the countries for which IMF was providing assistance. It is common truth that international financial organizations, like IMF, are characterized by bureaucratic principles and attitudes. It is difficult for such large organizations to apply different principles to different client countries. As a result, those actions which are proposed by IMF are oftentimes “ cliches”. They do not always meet the objectives of a specific country, like it happened in case of Turkey. • Inability to determine the sequence of economic reforms.

Even though experts of IMF did their best to come up with a well-developed plan of economic reforms for Turkey, they did not manage to make a correct decision concerning the sequence of reforms. Conclusion In conclusion, it is necessary to mark that Turkey’s crises of both 2000 and 2001 had a deep impact on Turkish economy. Even though the first crisis of 2000 was not as powerful as the second one, it also left a large number of people unemployed and decreased the wages for other people. Crisis of 2001 had a severe impact on the economy, because a large number of jobs were lost as the result of it, and many companies collapsed.

Both of the crises had a large impact on the banking system of Turkey. Many banks became bankrupt during the crises; those banks which survived suffered large amounts of losses. At the same time, the crises had positive impact on the economy as well, as it was shown in the research. All of the reforms which followed the crises were enforced by the government after it realized that the previous program was not working. Financial crises of 2000 and 2001 became a peculiar trigger for further reforms. One of the major reasons of financial and economic crises in Turkey was liberalization of financial market regulation.

Among other factors, it created major problems for the financial sector in the country. Many policies carried out by Turkish government officials did not work in the new environment. The major flaws of financial markets regulation in Turkey include inability to adapt to the economy integrating into the global market, bureaucracy in many levels of financial institutions organization structure, and failure to adopt important legislation in the areas regulating activities of financial institutions. IMF has played a very important role in the financial crisis in Turkey.

Its program was supposed to provide assistance to the country’s government in its reformation of the economic system. Unfortunately, IMF did not manage to fully realize its potential in its assistance to Turkey prior to crises. The lessons of the financial crises in Turkey have proved that bureaucratic organizations have a hard time helping developing countries in achieving theirgoals. IMF’s experts used the same tools for regulating monetary systems of different countries without conducting necessary research of specifics of these countries.

As a result, in the case of Turkey, IMF’s recommendations failed entirely because they were not fine-tuned for Turkey’s economy. It is very important for international organizations to ensure in future that they provide support to their client countries based on the history and current situation in those countries. In case if it is not done, financial crises similar to the ones which happened in Turkey under IMF’s guard will happen in future.

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