BEHIND THE 2000/2001 TURKISH CRISIS:
Stability, Credibility, and Governance, for Whom?

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Turkey experienced a very severe economic and political crisis in November 2000 and again in February which deepened and continued to-date. The IMF has been involved with the macro management of the Turkish economy both prior and after the crisis, and provided financial assistance of 20.6$ billions in net terms between 1999 and 2002.

The official stance is that the crisis was the result of the failure of the public sector to maintain the austerity targets and the failure to fully implement the free market rationale of globalization. I argue in this paper, however, that contrary to the official wisdom, the current economic and political crisis is not the end result of a set of technical errors or administrative mismanagement unique to Turkey, but is the result of series of pressures emanating from the process of integration with the global capital markets. I document the fragility indicators of the Turkish financial and the fiscal system, and show that the dis-inflation program led to an increase of the vulnerability of the financial system throughout 2000/2001. I further argue that the recent wave of structural reforms destined for stability and credibility, serve, in fact, mainly the interests of the foreign financial capital, and primarily aim at securing the debt obligations of the Turkish arbiters.

Key words: *economic and political crisis, Turkey, speculation-led growth, globalization, stabilization, IMF conditionality*

After going through a series of short-term cycles of instability—crisis—(unsustained) growth—instability throughout the 1990's, Turkey entered a period of severe economic-*cum*-political crisis starting in November 2000. Even though the making of the Turkish crisis had been the topic of many excellent analyses thus far,[1] I find it pertinent to offer a thorough evaluation of the official policies of crisis management before and during the crisis, and to evaluate the utilization of the IMF's financial support over 1998-to-date. Thus, rather than a historic portrayal of events leading to the crisis of 2000/2001, it is the purpose of this paper to provide an indebt analysis of the real (hidden) objectives of the economic/social/political policies implemented under the supervisio of the IMF throughout the course of the crisis.

The economic dimensions of the crisis are presented in Table 1. The real gross domestic product (GDP) which has fallen by 5% in 1999, expanded at a rate of 7.4% in 2000; but drifted into negative quarterly rates of growth following the first quarter of 2001. Of the expenditures over gross domestic product the deepest slump was witnessed in fixed investments, with contractions of –41.5% and –50.2% in the second half of 2001. Fixed investment expenditures are observed to follow their contractionary trend during the first two quarters of 2002 with rates of real growth of –26% and –1%.

<Table 1 here>

Despite the competitive depreciation of the Turkish Lira (TL) throughout 2001, exports did not score a meaningful surge (annual rate of growth being 7.4%), and imports dwindled by as much as 24.8%. Consequently, following the contraction of the demand for foreign exchange from the real sector, the current account balance tilted to a surplus reaching to 1.4% of the GDP.

The most direct indicators of the crisis over the financial markets were the rapid rate of depreciation of the TL, and the sudden hike of the rates of interest on the government's debt instruments (GDIs). After the second quarter of 2001, the US$/TL nominal parity has increased by quarterly rates of 96.5%, 116.5%, and 114.5%, and stabilized only after November of 2001. On the other hand, it is observed that the rise in the *real* rate of interest of the GDIs reached to 117.5% in the first quarter of 2001. The real rates of interest on the GDIs are observed to turn negative during the last quarter of 2001, and continued to rise once again after the second quarter of 2002.

Turkey has used a total *net* sum of 20.6$ billions from the IMF funds since the beginning of 2000. Through the course of utilization of these funds Turkey was conditioned to introduce a set of measures that go beyond the standard policies of austerity, and was directed to re-orient not only its economic, but also its political apparatus, as well. As a matter of fact, the new set of policies which were introduced formally on April 14, 2001 under titles such as "national program", and then "transition to the strong economy program" (TSEP) asserted that "… the

[1] See, e.g., Akyüz and Boratav, 2002; Boratav and Yeldan, 2002; Yeldan, 2002; Celasun 2002; Alper and Öniş, 2002; Cizre and Yeldan, 2002; Voyvoda and Yeldan, 2002; Turkish Independent Social Scientists Association-Economics Group, 2001; Ertugrul and Selcuk, 2001; Gencay and Selçuk (2001), Yentürk, 2001; Alper, 2001; Uygur, 2001; Boratav, 2001; Ersel, 2000, Yenal, 2000; Celasun, 2001; Yeldan, 2001a, 2001b, 2001c, 2001d and 2001e. Most of the analyses on the crisis are presented at the International Development Economics Associates, *IDEAs* website, (http://www.ideasnetwork.org) and the Turkish Independent Social Scientists Association-Economics Group web site (http://www.bagimsizsosyalbilimciler.org/iktisatg.htm).

main aim of the program (was) to eliminate the instability due to lack of trust and to… construct the necessary legal infrastructure so as to re-organize the public administration and the economic decision making processes. Accordingly, it would "… no longer be possible to go back to the old ways of decision making".[2]

Understanding the Main Causes of the Crisis

At this point I find it necessary to highlight –unfortunately, once again—the main causes and the structural sources of the crisis in the Turkish context, as an emerging market. The crisis, which first revealed itself as a warning signal in November of 2000, and erupted in full scale in February, 2001, is explained in the official circles and in the popular media as a result of "…the failure of the Turkish bureaucracy to implement the necessary structural adjustment reforms on time, thereby disturbing the market agents and letting foreign capital to leave the country." According to this view, the 2000 stabilization program was carefully thought and planned, and yet, Turkey failed to meet its targets. Thus, "the crisis is the end result of Turkey's failure to follow its program", and the problem is due to "Turkey's bad record in terms of doing its homework in time, which deserves to be severely penalized".

This view which portrays Turkey as a misbehaved student in the global markets has also been reflected in the official documents of the post-February 2001 crisis era, and as such, has become the main ideological theme of the measures of new conditionality. As a vivid example of this official rhetoric one can cite the words of Mr. Kemal Dervis, who has resigned from his post as a vice-Chair of the World Bank in the immediate aftermath of the February crisis and assumed a leading role as the new State Minister:

> *"…With the implementation of a more stringent fiscal policy, the crisis might perhaps have been alleviated. Unfortunately, the fiscal policy had not been strong enough, and the current account deficit widened"*[3]

According to this remark, the main source of the Turkish crisis was the rapid widening of the current account deficit. This interpretation, without doubt, is true given the numerical indicators of the crisis. The current account deficit which was 1.3$ billions in 1999, erupted to reach 9.8$ billions in 2000. The deficit in the current account, which reached to 4.8% as a ratio to the national product, is one of the clearest *indicators* of the crisis. Yet, the main issue here is to discuss the main *reasons* behind this deterioration, rather than highlighting the deterioration itself, which is merely an *end-result*! In fact, the proposition set forth by Mr Dervis accusing the lax fiscal administration as the main source of the current account deficit does not fit with the facts. Data from the consolidated central budget and other fiscal accounts clearly underscore that the public sector had not suffered from a deficit exceeding the planned or foreseen magnitude, and that, during 2000 and 2001, the Turkish government had in fact followed a strongly contractionary policy in terms of meeting its overall expenditures. Table 2 documents these facts very openly.

<Table 2 here>

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[2] *Transition to the Strong Economy Program*, Undersecretariat of Treasury, (http://www.treasury.gov.tr).
[3] Panel presentation of Mr. Kemal Dervis, Middle East Technical University, Ankara, 27 February 2002.

Data on the 2000 and 2001 consolidated budget revenue and expenditure realizations disclose that fiscal accounts were in line with the targeted values. Fiscal data tabulated in Table 2 reveal that realizations of budgetary revenues exceeded their targets by 3.6% in 2000 and by 5.1% in 2001. Expenditures, on the other hand, are observed to be lower than their targeted limit by 0.2% in 2000, and exceeded their target only marginally, by 1.7% in 2001. Thus, during both years, the public sector has succeeded in attaining its fiscal targets and increased its non-interest (primary) budget surplus to 6.1% of the GNP in 2000 and to 6.7% of the GNP in 2001. This "success" in the fiscal balances was the direct end-result of the severe contraction in public investments and other social expenditures, as well as the enactment of extraordinary earthquake taxes over 2000.

Thus, the official/popular explanation of the crisis in terms of "excessive fiscal deficits" is totally flawed, and serves only to the propaganda for masking the dynamics behind the evolution of the crisis. Yet, a close inspection of the pre-crisis macroeconomic balances of the Turkish economy clearly underscores that the continued volatility and disruption in the economy should not be regarded as the result of a few technical errors in fiscal administration or bureaucratic mismanagement, but should be viewed as a direct outcome of the neo-liberal policies of the post-1980s which have sought to leave the domestic economy to the unfettered market forces, which are excessively myopic, excessively erratic, and are subject to herd-behaviour.

The 2000 dis-inflation programme had, in fact, dispossessed the Central Bank off its traditional tools of austerity by limiting the monetary expansion only to increases in the stock of net foreign assets. According to this rule, the liquidity generation mechanism available to the CB practically meant a regime of *semi*-currency board in monetary operations. Within this mechanism the monetary policy is restricted to the direction of the foreign exchange flows, and as such, the most important element to be able to sustain the liquidity needs of the economy relied on the continuation of inflows of international speculative financial capital. Thus, operating under conditions of freely open and unregulated capital account (since 1989), the domestic rate of interest became totally depended upon availability of foreign capital, and the domestic asset markets were left defenceless against speculative runs of the financial arbiters.

In this regard, a closer inspection of the *residents'* and *non-residents*' financial transactions of purchase and sale of securities in the Turkish and the world asset markets reveal interesting observations, disclosing the speculative and disruptive nature of the adjustment mechanisms involved. In Figure 1a I portray the residents' sale of securities abroad (inflows of foreign exchange) and their purchases of securities from the world market (outflows of foreign exchange); while Figure 1b portrays non-residents' purchases of securities from the domestic market (inflows of foreign exchange), and sales (outflows of foreign exchange). Finally in Figure 1c, I offer data on the in- and out-flows of short-term foreign credit obtained by the domestic banking system from abroad. All the data are tabulated from the *Balance of Payments Statistics* of the Central Bank of Turkey, and are given in monthly series.

<Figure 1a>
<Figure 1b>
<Figure 1c>

The paths of the security sales and purchases by the residents and non-residents over the pre- and post-crisis era openly reveal the erratic and volatile behaviour of the speculation-led arbiters. It is clearly observed that while the net flows are relatively small in magnitude, the gross volume of transactions is quite substantial. Furthermore, it is also interesting to note that during both the November 2000 and February 2001 crisis episodes, the outflow of foreign capital was mostly led by the non-residents, while the residents' behaviour was much smoother.

According to calculations in Akyüz and Boratav (2002) and Boratav and Yeldan (2002), over January to November of 2000 the net cumulative sum of foreign inflows by the non-residents reaches to +15.2$ billions. If we accept that roughly 9.8$ billions of this magnitude was used in financing of the current account deficit of 2000, it is understood that the net inflows of non-residents were instrumental in covering the net capital flight of the residents, which reached to a cumulative net sum of 5.2$ billions over the same period. Furthermore, during the course of the year the banking sector had succeeded in increasing the net inflows of foreign credit by 4.7 billions $ to reach a total of 11.1$ billions. During this process total short term debt stock of the banking sector had increased to 16.9$ billions from its level of 13.2$ billions. Thus, during the course of the program, much of this accumulated short term debt had financed residents' capital flight.

The lure of the uncontrolled flows of speculative gains clearly unleashed all its might throughout 2000, during when the currency risk was eliminated and the whole liquidity generation mechanism was based on the short term, hot money inflows. Yet, with the "loss of markets' trust on the programme", the foreigners would start to pull their financial capital out of Turkey. In the last week of November, 2000 alone, Turkish financial markets had lost 5.3$ billions via non-residents' short-term speculative operations. In fact, with this rapid change of direction, net flows of non-residents' foreign capital would turn to –8.7$ billions after November. This means that following November 2000, Turkish asset markets' loss of foreign exchange reached to 23.9$ billions (15.2 + 8.7) during the course of the crisis.

It is evident that, faced with these numbers, not only a financially shallow emerging market economy such as Turkey, but no economy in the world could endure the disruptive consequences of such financial shocks. Yet, the 2000 dis-inflation programme has completely ignored the fragile conditions of the Turkish financial and asset markets, and exclusively disabled both the monetary (the Central Bank) and the fiscal (the Treasury) authorities from utilization of their traditional tools of austerity by way of rendering them powerless against the speculative forces of the markets, all in the name of *good governance*. And, the crisis was in fact the end result of the culminating pressures of this fragile environment.

It is worth at this juncture to note that reversals of capital flows are often associated with deterioration of the macroeconomic fundamentals in the recipient country. However, as the Turkish episode documents, such deterioration often results from the effects of capital inflows themselves as well as from external developments, rather than from shifts in domestic macroeconomic policies.

In sum, muddled with short sighted myopia and speculative herd behavior of domestic and foreign financial arbiters, the IMF-directed Turkish disinflation episode all too clearly spells

the dangers of restricting the monetary policy of an economy to speculative in-and-out-flows of short term foreign capital, which by itself, is excessively liquid, excessively volatile, and is subject to herd psychology. The program, by dismantling all the tools of stabilization and monetary control of the Central Bank, has left the economy defenceless against a speculative run and a "sudden stop". Trapped within the confines of a pre-announced program of exchange rate devaluation, and of a monetary rule administered effectively by short term arbitrage speculation, the Turkish Central Bank's monetary effectiveness was reduced to the miniscule role of an "accounting officer". Under this role, the CB lost all its power to steer the economy in the advent of a disruptive shock or a change in the investors' perceptions leading to a "sudden stop".

Financial and Fiscal Fragility of the Turkish Economy

As summarized above, both the dis-inflation program of 2000 and the *Transition to the Strong Economy Program* (TSEP) of May 2001 had rested their macroeconomic balances on a very fragile macroeconomic environment, and deliberately aimed at hauling of the banking (and the financial) sector out of the crisis, first and foremost.[4]

I tabulate the so-called fragility indicators of the Turkish economy in a longer time span in Table 3. As can be witnessed from the Table, the Turkish economy rested on a quite shallow and unbalanced financial base throughout the whole 1990s. In this context, one of the important elements of the culminating process of external fragility regards the path of the ratio of short term foreign debt to Central Bank's international reserves. This ratio is interpreted as one of the crucial leading indicators of external fragility and has recently been called as the "most robust predictor of a currency crisis" in Rodrik and Velasco (1999). It is alarming to note that in Turkey this particular ratio has never fallen below the 100% mark since the opening of capital account in 1989. Thus, the Turkish financial system had been operating constantly under the "danger zone" for the past twelve years as far as this indicator is concerned.

What is crucial in Table 3 is that the disinflation program had actually severed the fragility as signalled in this indicator. Let alone turning this path to a favorable trend, the 2000 program which aimed at disinflation (and stabilization!) caused an increase of external fragility with a rise of this indicator to 112% in June, and to 145% by December of 2000. This level was the highest score since 1993, just before the 1994 financial crisis. Yet, the authors of the *Letter of Intend* had envisaged that possible increases in CB reserves would be able to match the increase in outstanding short term foreign debt, and that Turkey would be able to remain sound externally. However, all of this deterioration in the external accounts would in fact be realized in spite of the 4$ billions reserve assistance obtained from the IMF in late November 2000. Yet all this generous external support would not suffice to generate stability to the domestic macro environment, and the Turkish asset markets would drift to the worst economic crisis in its history in February of 2001.

[4] For an empirical evaluation of the 2001 crisis management serving the interests of the banking system, see Yeldan, 2001e.

Another indicator of external fragility of the 2000 disinflation program was realized in the current account balance of the domestic economy. The ratio of the current account *deficit* to the Central Bank's international reserves was on the order of 5.9% by the end of 1999. This indicator had been on a continuous worsening trend throughout 2000, and increased to 28% in June, and to 49.7% by the end of the year. As a ratio to the GNP, the deficit in the current account reached to 5% in 2000, from its modest level of 0.7% in 1999. Thus, the disinflaiton program which had been implemented under the initial conditions of a relatively stable external environment, had resulted in a severe deterioration of the external balances of the Turkish economy through the course of 2000.

In then meantime it is observed that the TSEP rested its crisis management strategy only on contractionary fiscal policies destined to attain significant non-interest (primary) budget surpluses. The TSEP aimed at increasing the ratio of the primary budget surplus to the GNP to 5.1% in 2001, up from its realized level of 4.6% in 2000. For this purpose, it stated that it would maintain the rate of increase of the non-interest expenditures under the rate of growth of the overall GNP throughout 2002 (art. 87). Yet, the program does not admit for any new taxation measures, and instead rely exclusively on fiscal austerity and severe contraction of the non-interest (social) expenditures of the public sector. However, given that the interest costs almost exhaust all of the tax revenues of the consolidated budget in 2000 and 2001, it should be clear that the burden of the debt servicing could not be lessened via primary budget surpluses alone. As a matter of fact, despite the surplus in the primary balance of the consolidated budget, *net new domestic borrowings* have been gradually increasing. The net new domestic borrowing was kept at the level of 7.5% to the gross national product in 2000. Yet, this ratio increased very rapidly reaching to 12.7% in 2001. Consequently, achievement in the primary surplus targets, chief among the macroeconomic indicative targets, was not enough to slow down the borrowing requirements and to maintain the desired balance in the public sector accounts.

Furthermore, although the targeted values of the 2000 and 2001 public expenditure program were achieved, burden of the interest repayments (expenditures) on the domestic financial markets continued to increase. Interest expenditures as a ratio of tax revenue increased to 77.1% in 2000, and reached to 103.3% in 2001. Under the crisis management targets, interest expenditures were fixed as 88.1% of the tax revenue in 2000, and 109% in 2001. In 2002, it was anticipated that target of interest expenditures would reach to 73.9% of the tax revenue targets. It is clear that while the public sector consolidated budget in the last Letter of Intent persisted the policy of "facilitating a smooth roll-over of the government's domestic debt" with a targeted primary surplus, it does not suggest any realistic measures to decrease the burden of interest spending program on the public disposable income.

In the last row of Table 3, I underscore one of the most striking indicators of *Ponzi-finance* attitudes of the Turkish fiscal authorities: *the ratio of the net new domestic borrowings to the domestic debt stock.* It can be read from the Table clearly that, since 1995 –with the exception of 2000—the Turkish Treasury had been engaged in *net* new borrowing reaching to almost half of its already incurred stock of debt. The net new domestic borrowing of 2001 had added to the existing debt stock as much as 70%. The real meaning of the objective of "debt turn-over" is thus very clear: the central budget is being utilized mainly as an instrument of transferring real income to the rentier classes rather than regulating domestic savings and investment targets. In other words, the budget in Turkey has now turned into an instrument of

transferring real resources to the financial sectors, rather than financing social infrastructure and economic growth.

Speculative-Led Growth Patterns

The main source of the contested fragility of the Turkish financial sector can be traced back to the 1989 decision to eliminate all the regulations on the capital account (the infamous Article 32). This decision has liberalized all external financial transactions of the Turkish economy vis-à-vis the rest of the world and led the domestic asset markets to be totally dependent on the short term, speculative movements of foreign capital flows. Consequently, finance had been alleviated over industry and the real sphere of the economy, and the financial sector drifted to the speculation of the short term capital flows in a process which had been characterized as *casino capitalism.*

Under such a structure, the Turkish economy has offered speculative *arbitrage* rates reaching at times over 100% during the 1990s. This financial arbitrage can be calculated as the end result of an operation that converts initially the foreign exchange into Turkish Liras at the rate ER, and after earning the rate of interest R offered in the domestic asset markets, is re-converted back to the foreign currency at the prevailing foreign exchange rate. Algebraically we calculate the net arbitrage gain as

$$\frac{1+R}{1+ER}-1$$

Thus, during the course of the operation, financial speculators would gain domestic rate of R, and lose at the rate of depreciation of the ER. He net difference between the two prices would give us the net financial arbitrage gain. I calculate the evolution of such gains in Figure 2. Here, the main hypothesis is that the financial arbiters would financially invest their foreign monies at the domestic instrument which would bring the highest rate of return in the domestic asset markets (most of the case the GDIs). According to our calculations portrayed in the Figure, Turkey has offered real rates of 100% in January 1996; 60% in December 1998; 80% in March 2001, and became one of the leading emerging markets in the world of financial speculation!

<Figure 2 here>

It would definitely be unrealistic to expect fixed investments to be allocated to the industrial activities within an economy offering such rates of return to the speculative financial transactions. As a matter of fact, throughout the 1990s fixed investments destined to the manufacturing industries virtually stagnated and did not exceed their real 1990 levels as of 2001. Consequently the share of manufacturing investments in the total had receded continuously. (The average of 2001 being 22%, in contrast to the 1970s which averaged 40%). These phenomena are depicted in Figure 3.

<Figure 3 here>

Under these conditions, it is clear that whatever was growth performance of the economy during the post-capital account liberalization, it had to be based on speculative-led patterns a la Grabel, 1995.

Portrait of the IMFs Financial Assistance and Its Disposition

Both the *Transition to the Strong Economy Program* and the *Letter(s) of Intend* that followed were administered under close supervision and financial assistance of the IMF. 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. I tabulate the detailed breakdown of these disbursements in Table 4.

Table 4. Breakdown of the IMF's Financial Assistance to Turkey, 1999-2004

1999 July-December, Staff Monitored Follow-up
2000-2002 Stand-by
2000 November / December Extra Reserve Facility following the November 2000 crisis
2001 February / March Extra financing in response to the February 2001 crisis
2002-2004 Stand-by
11 September Extra financing due to the international crisis

Total Approval: 31,930 milyon $

Realized Disposiitons (annually)

1999	288	millions $
2000	1.408	billions $
2001	11.564	billions $
2002 (end of August)	12.908	billions $

Total Disposition :	*28.168*	billions $

Payments of Capital :

2001	1.128	billions $
2002	6.391	billions $

Total Payments	*7.519*	billions $

Net usage : Total usage – Payments
28,168 billions $ – 7,519 billions $ = 20,649 billions $

Approved until the end of 2004:

2002 (August-December)	1.654	billions $
2003 (Annual)	1.052	billions $
2004 (Annual)	1.052	billions $
Total	---	
	3,759	billions $

Distribution of Aggregate Dispositions over 1999-2002 (August)

IMF's Disbursement	28.2	billions $
Payments of Capital	-7.6	billions $
Net usage of funds	20.6	billions $

(Exchange rate correction)	1.0	billions $
Usage from IMF's Stocks	21.6	billions $
Interest Payments to the IMF	1.0	billions $

Functional Distribution of the Funds

a) Budget Financing	11.9	billions $
b) Reserve Support to the CB	7.6	billions $
c) Reserves of the Treasury	1.1	billions $

	20.6	billions $

Source: Undersecretariat of Treasury (*http://www.treasury.gov.tr*). I am further indebted to Nazif Ekzen for his invaluable help in the construction of this table.

Given the above data, it is understood that netting out the payments of capital in 2000 and 2001, Turkey received a total sum of 20.6$ billions from the IMF during the crisis. According to the Program conditions, 11.9$ billions of this sum were used by the Treasury in budgetary finance of its domestic debt management; 7.6$ billions were used by the Central bank in strengthening its reserve position; and 1.1$ billions were used by the Treasury in its own reserves. It was also made clear by the Central Bank's governor Süreyya Serdengeçti, that the resources obtained from the IMF were to be used first and foremost in "… successful management of the failed banks taken under the control of the saving deposit fund, and to sustain the roll-over of the domestic and foreign debt repayments" (TSEP, may 2001).

Again in this conjuncture, the government has decided to issue treasury debt instruments (GDIs) totalling 8$ billions plus 4.3 katrillions TL (approx. 4$ billions) to the failed banks taken under the control of the *Saving Deposit Fund*, and a total of 25.8 katrillions TL (approx. 25$ billions) (again in GDIs) to the public banks which had deteriorated asset positions due to "duty losses". Thus, throughout the months following the eruption of the February crisis, the government is observed to transfer an aggregate sum of approximately 40$ billions of fiscal resources to the banking sector. This sum reaches to one-fourths of the aggregate Turkish GNP.

Thus, it is clear that the funds obtained from the IMF are to be utilized primarily by the banking sector and with the exclusive aim of "debt roll-over". In fact, a close inspection of the patterns of foreign debt accumulation reveals the main attributes of this judgement firmly. Table 5 narrates this issue.

<Table 5 here>

Accordingly, total foreign debt of Turkey has increased to 125.9$ billions by the second quarter of 2002, up from its level of 102.9$ billions in 1999. Despite this rise in the aggregate debt stock, it is observed that Turkey's *short-term liabilities* of foreign debt have (been) reduced over the course of the same period: the stock of short-term foreign debt which stood at 22.9$ billions at the end of 1999, and increased to as much as 28.3$ billions at the end of 2000, was reduced to 15.2$ billions in 2002. It is understood that the underlining factor in this operation has been the domestic banking sector's performance in debt repayments. During this process, total short term debt stock of the banking sector had increased to 16.9 billions $ in 2000, from its level of 13.2 billions $. Yet, following the crisis they "succeeded" in bringing their short-term debt down to 7$ billions by mid-2002.

Thus, throughout the post-crisis adjustments, while the Turkish financial system has increased its total debt obligations with accumulated borrowings from the IMF, it was simultaneously conditioned to repay its short-term debts to the foreign creditors. And all of this was trumpeted under the motto of "gaining credibility and trust in the foreign financial markets". In other words, the IMF-backed austerity program had primarily aimed at securing repayments of Turkey's short-term foreign debt and succeeded achieving this outcome to a great extend.

Here an issue of particular interest is the fact that while the share of short-term debt in the total was on a declining trend, Turkey continued to suffer from increased *debt servicing costs*. During 2000/2001, Turkey's debt servicing costs increased to 16.8% of the GNP (from 11%),

and to 70.1% of its export earnings (from 69.3%). Table 6 discloses the debt service cost ratios of Turkey under the crisis period.

Table 6. Costs of Foreign Debt Servicing

	2000	2001
Ratio of Foreign Debt Servicing (%)	37.2	43.3
Total foreign debt / GNP (%)	59.7	78.6
Foreign debt servicing / GNP (%)	11.0	16.8
Foreign debt servicing / Exports (%)	69.3	70.1
Gross Reserves of CB / Tot. for. debt (%)	18.7	16.3

Source: Central Bank of Rep. Of Turkey (http://www.tcmb.gov.tr).

Conclusion: Stability and Credibility, for Whom?

In conclusion, it is observed that the 2000/2001 crisis administration in Turkey primarily works as a debt-management program. In this sense, it is understood that the main purpose of the IMF-led salvation packages that are hailed as big successes in the international media is actually an operation of foreign debt roll-over, aiming at gaining the confidence of the international arbiters and financial speculators.

We observe that what lies behind the colourful jargon of "effective and transparent government", "good governance", and "credibility" is a set of structural transformations to ultimately satisfy the needs and demands of the foreign capital centers, rather than the strategic requirements of the domestic economy. In essence, this model depends on the contractionary monetary and finance policies, and assumes an open (i.e. dependent on foreign capital) economic structure ensuring the liberalization of the international capital flows. In this model what is really meant by the concept of "stabilization" is to establish an exchange rate system purified from devaluation risk, and to maintain a high real return in the national financial markets to attract the inflow of foreign capital.

Under this structure, the central banks are set to be "autonomous" and all their instruments of intervention are restricted, so that hey could not undertake any role apart from "maintaining price stabilization". Fiscal policies, on the other hand, are to be directly focused on the objective of "budget with a primary surplus". As result of these policies, boundaries of the public space are severely restricted, and all traditional economic and social infrastructural facilities of the public sector are being left to the strategic interest area of foreign capital at the cost of extraordinary cuts in public spending and investments.

The neo-liberal thought dictates that in order to take advantage of the benefits of "globalization", national central banks with autonomous monetary, interest and exchange rate policies should not be a hindrance to international capital flows. The real objective of this philosophy is to make the central banks to be in charge of maintenance of price stability and to sustain the level of high real returns in the national financial markets. In so doing, rents allocated to the rent owners would be secured. Public finance, on the other hand, is limited to take all measures directly to enlarge the interest area of international capital.

Departing from all these observations, it is clearly seen that the IMF-led adjustment program that is implemented in Turkey with a media propaganda that portrays it as "having no alternatives", is actually part of a larger project defining Turkey's role in the new international division of labor as a peripheral economy wherein industrialization and development targets are abandoned; domestic commodity and asset markets are integrated with the global markets under marginalized conditions; and where the domestic economy has been left unprotected and open to external shocks.

Turkey is increasingly surrendered to the ordinances of global capital…

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