Version-1
15-Mar

Country Profile: Turkey
Macroeconomic Policy and Recent Economic Performance

Teoman Pamukcu
University of Luxembourg

and

Erinc Yeldan
Bilkent University, Ankara

1. Recent Macroeconomic Developments

In this chapter we will first provide a general overview of the recent macroeconomic developments in Turkey. Turkey's post-1990 history of macroeconomic and political developments is a case study in persistent difficulties, conflicting policy adjustments and wide fluctuations in real output, investment, and trade flows. This observation pertains despite the overall thematic continuity with the ambitious programme of economic liberalization and market-led adjustments put into full force during the early 1980s led by the military government and its civilian successors.

After a decade of failed reforms and deteriorated macroeconomic performance, Turkey entered the millennium under a new austerity programme which was put into effect in December 1999. The International Monetary Fund (IMF) was involved with both the design and supervision of the programme, and has provided financial assistance totaling $20.6 billion *net*, between 1999 and 2002.

The aim of the December 1999 programme was to decrease the inflation rate to a single digit by the end of 2002. It relied exclusively on a nominally pegged (anchored) exchange rate system for disinflation, which has been a major concern for Turkish policy makers for over three decades. In November 2000, however, one year after introducing the program, the country experienced a very severe financial crisis. More than six billion USD of short-term capital fled the country, creating a severe liquidity shortage and sky-rocketing interest rates.

In early December 2000, the government requested access to the Supplemental Reserve Facility of the IMF. Only then could continued implementation of the program be secured, as the markets seemed to have calmed down. However, on February 19, 2001, shortly after this arrangement with the IMF, Turkey suffered from a full-fledged financial crisis and the Central Bank declared the surrender of the pegged exchange rate system on February 22, 2001, thereby letting the exchange rates free float.

The Turkish crisis, which came in the aftermath of an exchange rate-based disinflation attempt, followed all the well-documented empirical regularities of such programs: a demand-based expansion accompanied by rising and usually unsustainable trade and current deficits followed by a contractionary phase – in the form of a liquidity squeeze, sky-rocketing interest rates, and negative growth (see e.g. Amadeo, 1996; Calvo and Vegh, 1999). The main weakness of the 2000 disinflation program was its exclusive reliance on speculative short-term capital inflows as the source of the liquidity generation mechanism. Overlooking the existing structural indicators of financial fragility and resting the liquidity generation mechanism on speculative in- and out-flows of short term foreign capital, the program has left the economy defenseless against speculative runs and a "sudden stop."[1]

[1] The underlying elements of the disinflation program and the succeeding crises are discussed in detail in Erinç Yeldan, "On the IMF-Directed Disinflation Program in Turkey: A Program for Stabilization and Austerity or a Recipe for Impoverishment and Financial Chaos?," in Nese Balkan (ed), *The Ravages of Neo-Liberalism: Economy, Society and Gender in Turkey* (New York: Nova Science Club, 2002), pp.1-28; Korkut Boratav and Erinç Yeldan, "Turkey, 1980-2000: Financial Liberalization, Macroeconomic (In)-Stability, and Patterns of Distribution," CEPA and The New School for Social Research, mimeo.(2002) at <http://www.bilkent.edu.tr/~yeldane/crisis.htm>; Ahmet Ertuğrul and Faruk Selçuk, "A Brief History of the Turkish Economy, 1990-2000," (*Russian and East European*

Under the deepening fragility, what triggered the crisis came from a controversial paper by Stanley Fischer[2], the then Deputy Director of the Fund. Fischer had argued, based on the experiences of the Turkish November 2000 and the Argentinean 2001 crises that the currency regimes based on soft-pegs (as had been the case for Turkey under the IMF programme) were not sustainable. Thus he called for either full flexibility or full dollarization. This critique to the theoretical basis of the IMF-led austerity programme, coming from the in-circles itself, created havoc and torpedoed the deeply fragile macro balances.

With the collapse of the program in February 2001, a new round of stand by is initiated under the direct management of Mr. Kemal Dervis, who resigned from his post at the World Bank as Vice Chair and joined the then three-party coalition cabinet. Finally, in the November 2002 elections the AKP has come to power with absolute majority in the parliament and, despite its otherwise election rhetoric, embarked in a new and intensified adjustment programme with the IMF staff.

The current IMF program in Turkey relies mainly on three pillars: (1) fiscal austerity that targets achieving a 6.5 percent surplus for the public sector as a ratio to the gross domestic product; (2) contractionary monetary policy (through an *independent* central bank) that exclusively aims at price stability (via *eventually* inflation targeting); and (3) structural reforms consisting of many of the customary IMF demands: privatization, large scale layoffs in public enterprises, and abolition of any form of subsidies.

According to the logic of the program, successful achievement of the fiscal and monetary targets would enhance "credibility" of the Turkish government ensuring reduction in the country risk perception. This would enable reductions in the rate of interest that would then stimulate private consumption and fixed investments, paving the way to sustained growth. Thus, it is alleged that what is being implemented is actually an *expansionary* program of *fiscal contraction.*

On the monetary policy front, the Central Bank of Turkey was granted its *independence* from political authority in October 2001. Since then the central bank announced that its sole mandate is to restore and maintain price stability in the domestic markets and that it will follow a disguised inflation targeting until conditions are ready for full targeting. Thus, over 2002 and 2003 the central bank targeted net domestic asset position of the central bank as a prelude to full inflation targeting.

Finance and Trade ,vol 10, No.37, pp. 6-28 (2001); Barry Eichengreen, "Crisis Prevention and Management: Any New Lessons from Argentina and Turkey?," (2001) *mimeo.* (Background Paper for the World Bank's *Global Development and Finance*); Ramazan Gençay and Faruk Selçuk, "Overnight Borrowing, Interest Rates and Extreme Value Theory," Bilkent University, Department of Economics Discussion Paper No 01-03 (March 2001); Emre Alper, "The Turkish Liquidity Crisis of 2000: What Went Wrong?," (*Russian and East European Finance and Trade,* vol 10, No.37, pp 51-71 (2001);; Erinç Yeldan, *Küreselleşme Sürecinde Türkiye Ekonomisi: Bölüşüm, Birikim, Büyüme* (İstanbul: İletişim Publications, 2001).

[2] Stanley Fischer, "Exchange Rate Regimes: Is the Bipolar View Correct?," International Monetary Fund at: <http://www.IMF.org>, January, 2001. A revised version of the paper later appeared as "Distinguished Lecture on Economics in Government," *Journal of Economic Perspectives*, Vol.15, No.2 (Spring, 2001), pp.3-24.

The growth path of the Turkish economy over the post-2001 period had been erratic and volatile, mostly subject to the flows of hot money. In 2003 the economy has grown by 5.8% in real terms. Price movements were also brought under control through the year and the 12-month average inflation rate in consumer prices has receded from 29.7% in 2002 to 9.3% in 2004, and from 50.1% to 11.1% in wholesale prices. 2003-2004 has also meant a period of acceleration of exports, and export revenues have reached $62 billions over 2004. Nevertheless, with the rapid rise of the import bill over the same period, the deficit in the current account reached $15.6 billion (or about 5.3% of GDP in 2004). Table 1 documents the main macro indicators of the Turkish economy under close IMF supervision.

Table 1. Key Macroeconomic Indicators, Turkey

	2002	2003	2004
GNP Growth Rate	7.8	5.9	9.7[1]
GNP (Billions $)	181.7	238.9	283.9[1]
Inflation (CPI, 12 months averages)	29.7	18.4	9.3
Inflation (WPI, 12 months averages)	50.1	25.5	11.1
Consolidated Budget Debt Stock (Billions $)	148.5	202.7	226.8[2]
Domestic Debt (Billions $)	91.7	139.3	159.1[2]
Foreign Debt (Billions $)	56.8	63.4	67.7[2]
Total Debt Stock (Billions $)	130.3	145.8	153.2[1]
Foerign Trade Balance (Billions $)	-15.6	-22.2	-34.5
Exports (Billions $)	35.9	47.1	62.7
Imports (Billions $)	51.5	69.3	97.2
Current Account Balance (Billions $)	-1.5	-8.1	-15.6
Current Account balance / GNP (%)	-0.8	-2.8	-5.3
Unemployment Rate (Open, %)	10.3	10.5	10

1. 2004, quarter 3.
2. 2004 November.

Source: TR Central Bank (www.tcmb.gov.tr); Undersecretariat of Treasury (www.treasury.gov.tr)

I-1. Patterns of Economic Growth

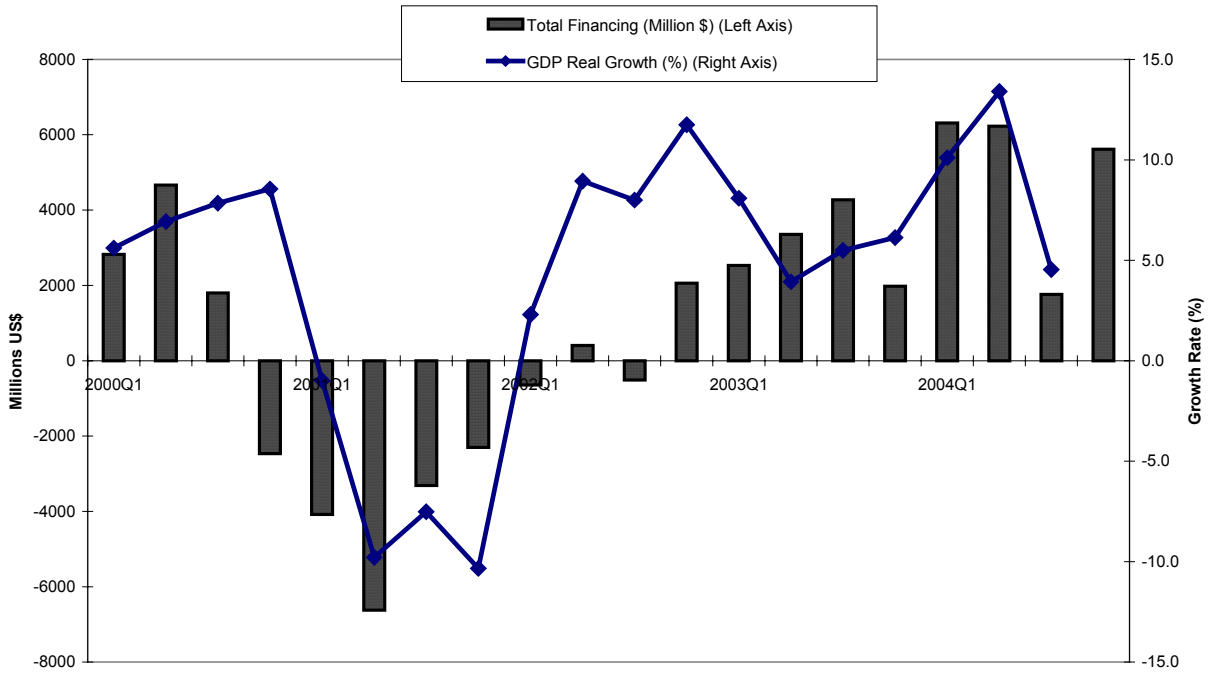
Turkish gross domestic product has reached to $284 billion by the fourth quarter of 2004. Growth, while rapid, was not free from problems. In fact, the two key characteristics of the recent upswing in economic activity were that (i) it was mostly fueled by inflows of hot money, hence was *speculative-led*; (ii) it was accompanied by high rates of unemployment; hence was of the *jobless-growth* type.

Firstly, when we study the balance of payments (BOP) statistics closely, we see that the growth performance of the economy depended directly on inflows of international finance capital. Over 2004 the finance account of the BOP displayed a net surplus of

$16,848 million. In contrast, the same figure was 7,091 in 2003, and only $1,161 million in 2002. If we add the unrecorded foreign exchange flows of $3.067 million displayed under the "net errors" account, we reach a total sum of $19,8 million of liquid inflow into the Turkish economy in 2004. This magnitude is on the order of twenty-folds compared to 2002, and clearly signals the fragility of the sources of growth.

In Figure 1 we depict the dependence of growth on the financial capital flows. On the left-hand side of Figure 1, we numerate the financial capital inflows in quarterly periods. The financial capital flows are expressed as the sum of the finance account and the net errors and omissions terms of the balance of payments statistics. On the right-hand side we have the growth rate of the GDP. The Figure discloses the dependence of the growth rate cycles to the in- and out-flows of financial capital very clearly. At times of heavy inflows of foreign finance capital, as in third quarter of 2000 and second and third quarters of 2004, GDP growth was rapid. Declines in the growth rate are directly related to the outflows of foreign finance capital as in 2001.

Figure 1. Balance of Payments Finance Account + Net Errors and Omissions (Millions $) and Real Growth Rate of GDP (%)



Thus, the Figure closely depicts the overall dependence of the GDP growth on the direction of the flows of foreign finance capital. In this sense, it would only be proper to characterize the ongoing Turkish growth patterns as being driven by speculative finance.

1-2. Jobless Growth

A second key characteristic of the post-2001 Turkish growth is its jobless nature. The rate of open unemployment was 6.5% in 2000 and it increased to 10.3% in 2002. The unemployment rate remained at that plateau despite the rapid surges in GDP and exports. Open unemployment is a severe problem, in particular, among the young urban labor force reaching 26%.

Table 2 tabulates pertinent data on the Turkish labor market.

Table 2. Developments in turkish Labor Market (1,000 persons)

			2003				2004			
	2002	2003	Quarter I	Quarter II	Quarter III	Quarter IV	Quarter I	Quarter II	Quarter III	Quarter IV
15+ Age Population	48,041	48,912	48,587	48,799	49,022	49,250	49,482	49,694	49,944	50,189
Labor force participation rate (%)	49.6	48.3	47.5	49.4	50.5	47.1	45.9	49.2	50.6	48
Civilian Labor Force	23,818	23,640	23,088	24,115	24,739	23,206	22,732	24,457	25,265	24,297
Civilian Employment	21,354	21,147	20,244	21,696	22,411	20,811	19,902	22,188	22,874	21,870
Unemployed	2,464	2,493	2,844	2,418	2,328	2,396	2,830	2,269	2,390	2,428
Unemployment Ratio (%)	10.3	10.5	12.3	10.0	9.4	10.3	12.4	9.3	9.5	10
Underemployed	1,297	1,143	1,161	1,113	1,149	1,166	1,175	1,002	1,010	764
Underemployment Ratio (%)	5.4	4.8	5.0	4.6	4.6	5.0	5.2	4.1	4.0	3.1

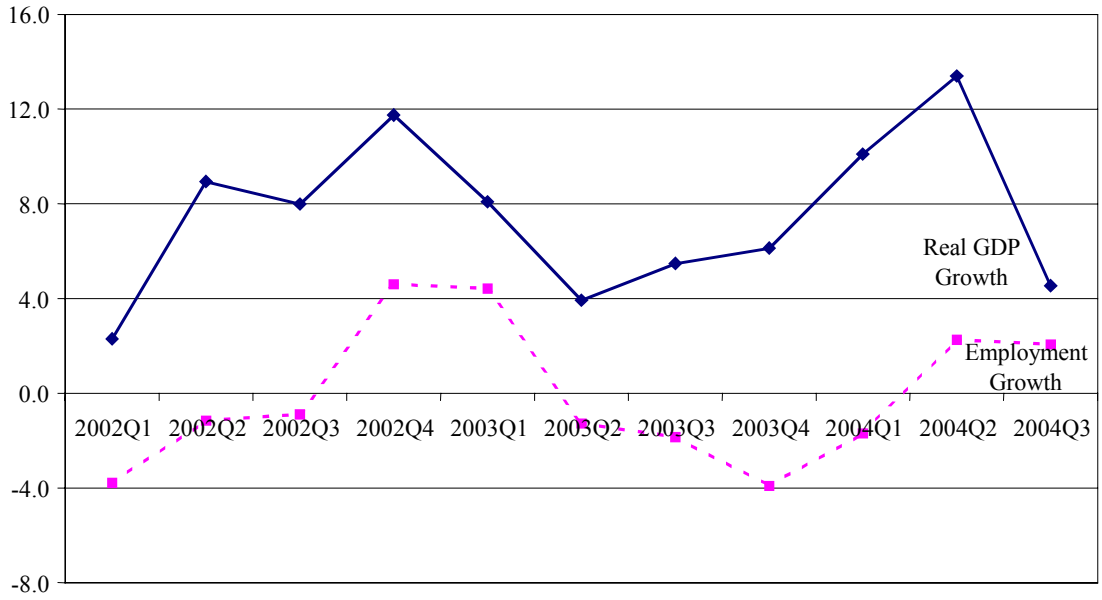
Source: State Institute of Statistics, Household Labor Force Surveys.

The civilian labor force (ages 15+) is observed to reach 50.2 millions people as of 2004. On the other hand, the participation rate fluctuates around 46% to 50%, due mostly to the seasonal effects. It is known, in general that, the participation rate is less than the EU averages. This low rate is principally due to the size of the discouraged workers who had lost their hopes for finding jobs. If we add the SIS data on the *underemployed* people, the excess labor supply (unemployed + underemployed) is observed to reach 13.1% of the labor force.

Yet the most striking observation on the Turkish labor markets over the post-2001 crisis era is the sluggishly slow performance of employment generation capacity of the economy. Despite the very rapid growth performance across industry and services, employment growth was minimal. This observation, which actually is attributed to many developing economies as well,[3] is characterized by the phrase *jobless-growth* in the literature. In Turkey this problem manifests itself in meager employment generation despite the very rapid growth conjuncture especially after 2002. In fact, annual rate of growth of employment *y-o-y* had been observed to be *negative* in many quarters over this period. Figure 2 discloses these observations.

[3] See, e.g., UNCTAD, *Trade And Development Repor*t, 2002 and 2003).

Figure 2. Annual Growth in Real GDP and in Employment



In Figure 2, we plot the quarterly growth rates in real gross domestic product and contrast the y-o-y annualized rates of change in labor employment. In order to make comparisons meaningful, the changes in labor employment is calculated relative to the same quarter of the previous year.

The figure discloses that between 2002.I and 2004.III the average rate of growth in real GDP was 7.5%. In contrast the rte of change of employment averaged *minus 0.1%* over the same period. Over the eleven quarters portrayed in the figure, GDP growth was positive in all periods. Yet, labor employment growth was negative in 7 of those 11 quarters.

These observations can be generalized for individual sectors as well. In industry, for example, the sector's value added growth has surpassed 9% on the average over 2002 to 2004. Yet the increase in labor employment was only 1.5% per annum on the average. Industrial sectors grew in cumulative terms by 25% over the same period, and yet could increase aggregate employment by only 7%. The industrial sectors, while played the role of the engine of output end export growth, could not prove the same role in generating employment for the displaced labor out of agriculture and other primary activities.

In Table 3 we contrast the employment performance of the individual sectors over the post-2001 crisis era. As can be observed, over 2002 and 2003 the annual averages for aggregate employment disclose a *reduction* of, respectively, 170,000, and 207,000 people. Due to the fall in the participation ratio over the same period, this fall in employment did not turn into a massive rise of the unemployment ratio. Thus, the discouraged workers who voluntarily chose to move out of the job market prevented a further rise of the unemployment problem.

Table 3. Sectoral Employment (1,000 persons)

	Sectoral Employment				Increase in Employed		
	2001[a]	2002[a]	2003[a]	2004[a]	2002-2001	2003-2002	2004 - 2003
Agriculture	8,105	7,623	7,390	7,414	-482	-234	24
Un-paid family labor	4,348	4,023	3,768	3,779	-325	-255	11
Industry	3,767	3,913	3,838	3,955	146	-75	116
Construction	1,114	957	1,046	1,025	-156	89	-21
Services	8,545	8,970	9,116	9,316	424	146	200
Civilian Labor Total	21,524	21,354	21,147	21,709	-170	-207	562
15+ Age People	47,150	48,041	48,912	49,827	891	871	915

Source: SIS Household Labor Force Surveys.
a. Average for the year.

The average for 2004 reveals a rise in employment of 564,000 workers. Due to the demographic pressures, however, over the same period (2004 – 2003) the number of people in the 15+ age group has increased by over a million people. As the participation ratio was realized at 48% in this period, the number of unemployed has receded by only 17,000 people. When this fact is contrasted against the expected growth of 8-9% in real GDP over 2004 as a whole, one is bound to raise concerns about the dynamics and employment capabilities of such growth.

II. Macroeconomic Prices

In this section we will discuss the patterns of the key macroeconomic prices, namely the exchange rate, rate of interest and the inflation rate.

The most successful aspect of the post-2001 crisis adjustment efforts clearly lies on the dis-inflation front. Inflation rate, both in consumer and producer prices, has been brought under control by 2004. As of February 2005, the rate of inflation stands at 10.5% for producer prices, and 8.7% for consumer prices. Over the year 2005 as a whole the Central Bank's inflation target is set at 8% for consumer prices.

Figure 3. Inflation Rate (%)

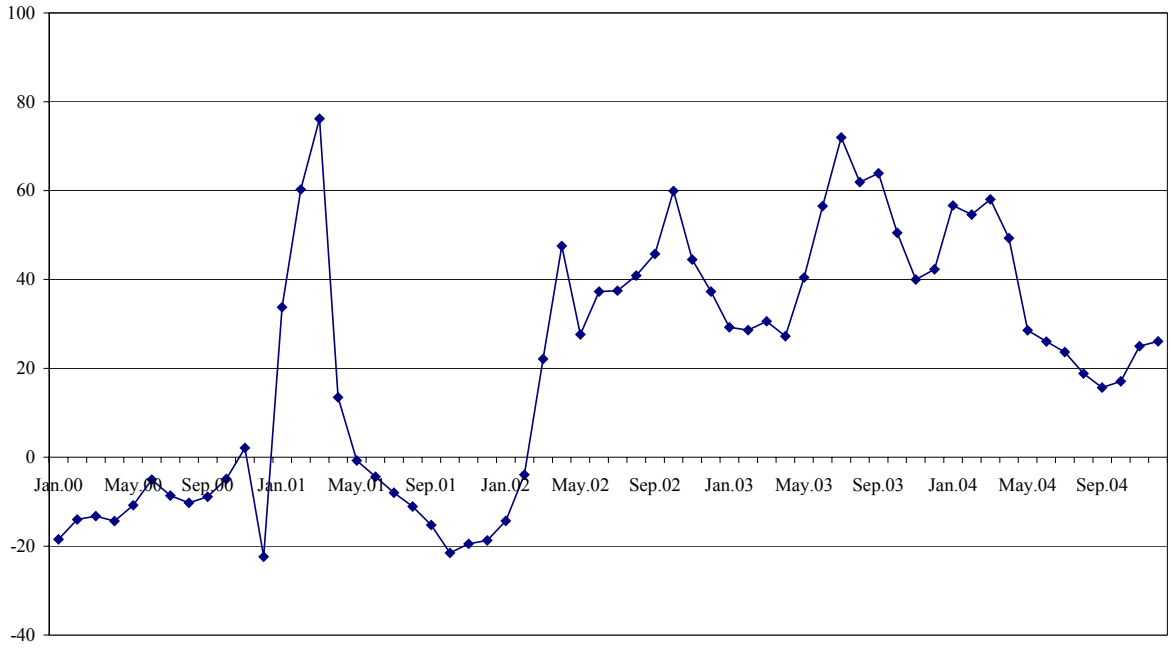
Despite the positive achievements on the dis-inflation front, rates of interest remained slow to adjust. The real rate of interest remained above 10% over 2004 and generated heavy pressures against the fiscal authority in meeting its debt obligations. The persistence of the real interest rates, on the other hand, had also been responsible in attracting heavy flows of short term speculative finance capital over 2003 and 2004. This pattern continues into 2005 at an even stronger rate.

From the point of view of international finance speculators, clearly what matters is the *net rate of return* on financial arbitrage. This *financial arbitrage* can be calculated as the end result of an operation that converts initially the foreign exchange into Turkish Liras at the initial rate of exchange, and after earning the rate of interest R offered in the domestic asset markets, is re-converted back to the foreign currency at the then prevailing foreign exchange rate. Algebraically, this net arbitrage gain is calculated as

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

Thus, during the course of the operation, financial speculators would gain domestic rate of R, and lose at the rate of depreciation of the Lira, ε. The net difference between the two prices would give us the net financial arbitrage gain. We calculate the evolution of such gains in Figure 4. Here, the main hypothesis is that the financial arbiters would financially invest their foreign monies at the domestic instrument that would bring the highest rate of return in the domestic asset markets (most of the case the GDIs).

Figure 4. Speculative Financial Arbitrage (%)



According to the calculations portrayed in Figure 4, Turkey has offered real rates of 80% during the February crisis of 2001; 60% in December 2002; 75% in the summer of 2003; and became one of the leading emerging markets in the world of financial speculation! While the US and the OECD interest rates were at 2.5 – 4 % levels, Turkey continued to offer arbitrage gains over dollar-denominated assets reaching 30%. Such returns enabled Turkey to attract huge sums of speculative finance capital with a significant "hot" component during especially 2003 and 2004.

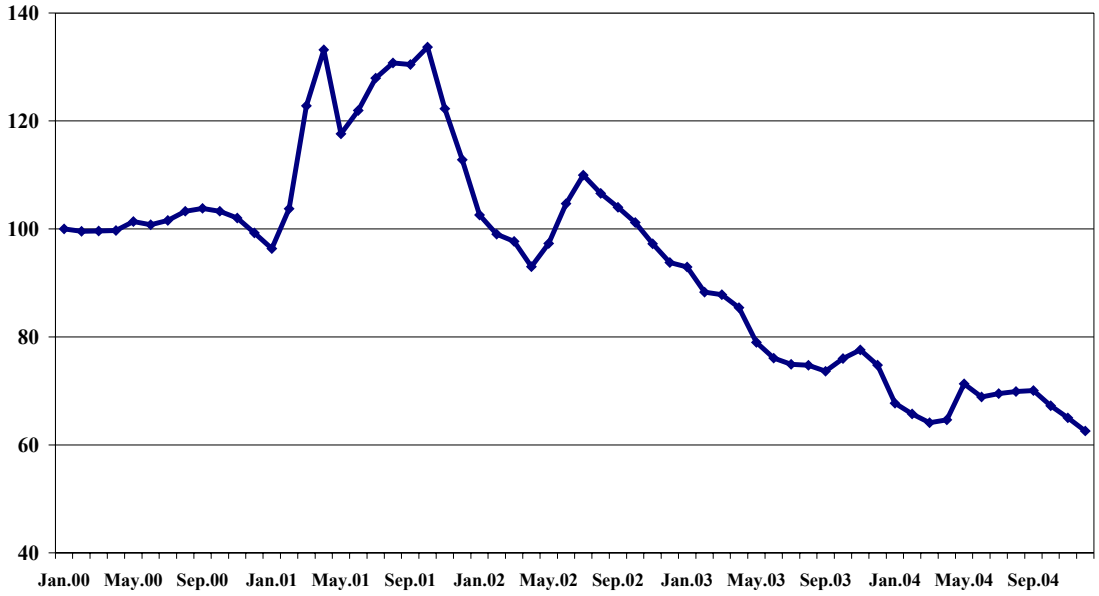
It would definitely be unrealistic to expect fixed investments to be allocated to the industrial activities within an economy offering such rates of return to the speculative financial transactions. As a matter of fact, in the aftermath of the 2001 crisis, fixed investments destined to the manufacturing industries virtually stagnated and did not exceed their real 1998 levels as of 2004.

II_1. The Behavior of The Real Exchange Rate

The most direct effect of the surge in foreign finance capital over this period was felt in the foreign exchange market. The over-abundance of foreign exchange supplied by the foreign financial arbiters seeking positive yields led significant pressures for the Turkish Lira to appreciate. As the Turkish Central Bank has restricted its monetary policies only to control price inflation, and left the value of the Lira to be determined by the speculative decisions of the market forces, the Lira appreciated by as much as

50% in real terms against the US$ and by 25% against Euro (in producer price parity conditions). The path of the real value of the Turkish Lira against the US$ is portrayed in Figure 5 below.

Figure 5. Index of the Real Exchange Rate (TL/US$)
January 2000 =100



It can be argued that one key aspect of this tendency towards appreciation of the Lira is due to the de-regulated, excessively open regime of the Turkish capital account. After the 1989 decision to de-regulate the capital account and to fully liberalize the financial markets, Turkey opened its domestic markets to the speculation of international finance capital. In this structure the Central Bank has lost its control over the money markets. The exchange rate and the interest rate actually became an exogenous variable, totally dependent on the decisions of international arbiters. This financial structure has trapped the Turkish economy in a policy of overvalued exchange rates and very high real interest rates, as argued above.

Yet, the Turkish financial markets are too shallow to absorb the excesses of the hot money inflows and such speculative attacks hold the necessary adjustments in the Lira at bay. Thus, in spite of the "free floating" characteristic of the foreign exchange regime, the Lira is observed not to float at all, and the Lira continues to appreciate at the expense of deepening current account deficits.

III. Foreign balances and Dynamics of Foreign Debt

The structural overvaluation of the TL, not surprisingly, manifests itself in an ever-expanding trade and current account deficits. As traditional Turkish exports lose their competitiveness, new export lines emerge. These are mostly import-dependent, assembled-part industries, such as automotive parts and consumer durables. They use the advantage of cheap import materials, get assembled in Turkey at low value added and then are re-directed for export. Thus, being mostly import-dependent, they have a low capacity to generate employment. As traditional exports dwindle, the newly emerging export industries are not vigorous enough to close the trade gap.

Consequently, both in 2003 and 2004 Turkey has witnessed expanding current account deficits, with the figure in 2004 reaching a record-breaking magnitude of $15.4 billion, or 5.3% as a ratio to the aggregate GDP. The latest data indicate that from February 2004 to February 2005, the cumulative current account deficit has already reached $17 billion. Thus, the strong pressures towards deterioration of the current account balance seem to persist at the time of writing of this report.

The mode of deficit finance relies on a fragile path and places the economy on an unsustainable razor's edge. The recent data on Turkish foreign economic relations are depicted in table 4 below. Here we tabulate the key indicators from the balance of payments (BPO) statistics and draw lessons with regards to debt accumulation.

Table 4. Selected Indicators On Balance of Payments and Foreign Debt (Millions US$)

	2001	2002	2003	2004	Total over 2001-2004
Exports (fob)	34,373	40,124	51,206	66,896	192,599
Imports (fob)	-38,106	-47,407	-65,216	-90,726	-241,455
Trade Balance	-3,733	-7,283	-14,010	-23,830	-48,856
Current Account Balance	3,390	-1,522	-8,037	-15,451	-21,620
Finance Account Balance	-14,643	1,161	7,091	16,811	10,420
Non-Residents' Portfolio Investments in Turkey	-3,727	1,503	3,955	9,209	10,940
Residents' Portfolio Investments Abroad	-788	-2,096	-1,386	-1,139	-5,409
Net Errors and Emissions	-1,671	149	5,043	2,982	6,503
Change in Reserves (-: Increase)	2,694	-6,153	-4,097	-824	-8,380
Foreign Debt Stock	113,895	130,353	145,805	153,160	
Short Term Foreign Debt Stock	16,403	16,424	23,013	29,316	
Ratio of Short Term Foreign Debt Stock to Central Bank Reserves (%)	86.8	60.7	68.2	81.4	

Source: TR Central Bank (www.tcmb.gov.tr)

Data reveal that in 2004 Turkey has given a trade deficit of $48.8 billion, and a current account defect of $15.5 billion. Both magnitudes are record highs for the entire Turkish economic history.

In the meantime, foreign debt stock has increased from $113.8 billion in 2001 to $153.2 billion in the third quarter of 2004. This means an increase of $40billion over a period of les than three years. It is striking to note that this extraordinary expansion of the debt stock is very little to do to finance the current account deficit. In fact, summing over the post-2001 crisis period, the cumulative current account deficit reaches to only $21.6 billion. Thus, the expansion of the foreign debt stock was almost twice faster than the foreign exchange needs of the real sector.

Where did the additional demand for foreign exchange come from? The data in table 4 reveals that in the same period *short-term debt* has accumulated rapidly and reached to $29 billion. This means an increase of $13 billion in 2001 to 2004.III. These developments can only be understood in the context of the speculative transactions of the finance sector. BOP data indicates that the finance account has depicted a net surplus of $10.4 billion over 2001-2004. A significant portion of this inflow was due to non-residents' portfolio investments into Turkey. While the residents export financial capital at the magnitude of $5.4 billion, the net inflow was in positive figures. In addition, we will also interpret the *net errors and omissions* term of the BOP accounts as an indicator of *domestic hot money flows*. Under this interpretation, the total sum of net speculative finance capital flows reach to$17.4 billion over the three years of the post-crisis adjustments.

In the context of the Turkish disinflation episode, Table 4 portrays one of the important elements of the culminating process of external fragility: the path of the ratio of short term foreign debt to Central Bank's international reserves. This ratio is regarded 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). The lure of the uncontrolled flows of speculative gains clearly unleashed all its might throughout post-2001 adjustments, during when the Turkish economy has been converted into a *bastion of speculative bonanza*, and the whole liquidity generation mechanism was based on the short term, hot money inflows.

Postscript on the Turkish 2001 crisis

At this point we would also like to extend our concerns on the structural sources of the external fragility that Turkish economy is suffering from. There is confusion in the Turkish literature regarding the diagnostics of the 2001 crisis: many researchers make confusing remarks regarding the *causes* versus the *triggering* mechanisms. The underlying *cause* of the Turkish currency crisis originated not because the fiscal and/or monetary authorities failed in following the main targets of the program; on the contrary, the crisis conditions emerged in due course, and mainly as a result, of the increased fragility in the financial system. This fragility, in turn, was generated by the uncontrolled and excessively volatile capital flows with an exceedingly speculative ("hot") component. Factors such as weak prudential regulation over the banking sector; increased corruption within various layers of the bureaucracy; or large persistent fiscal deficits were definitely instrumental in aggravating the situation. But none of them could have been the *cause* per se. Given the underlying causal fragility, there would always be such an individual factor *triggering* the bust, and in the Turkish context, the underlying cause of the meltdown was ultimately the external

fragility generated by the unregulated in- and out-flows of financial capital which were excessively mobile, excessively volatile, and subject to herd psychology.

To be able to take better account of the disruptive mechanisms of this structural fragility, we have to note the famous *tri-lemma* underlying an open economy that the international economists are fond of. In an open economy, the monetary authority can independently choose only one of the three following instruments: the nominal exchange rate, the interest rate, and the stock of money, leaving the determination of the other two to the interplay of the market forces. As discussed above, liberalization of the capital account intrinsically necessitate a higher rate of return on domestic assets in comparison to the rate of depreciation of the domestic currency against the foreign currencies. This commitment stimulates further foreign inflows, and the domestic currency appreciates inviting an even higher level of hot money inflows into the often shallow domestic financial markets. The initial bonanza of debt-financed public (*e.g.* Turkey) or private (*e.g.* Mexico, Korea) spending escalate rapidly, and severe the fragility of the shallow financial markets in the home country. Eventually the bubble bursts and a series of severe and onerous macro adjustments are enacted through very high real interest rates, sizable devaluations, and a severe entrenchment of aggregate demand, while the short term "hot money" flows have already rushed out of the country leaving it broke and deprived of the traditional tools of adjustment and austerity. Elements of this vicious cycle are further studied in Polanyi-Levitt (2001), Adelman and Yeldan (2000), Kaminsky and Reinhart (1999), Calvo and Vegh (1999), Dornbusch, Goldfajn and Valdés (1995), Velasco (1987), Diaz-Alejandro (1985), and more recently referred to as the *Neftci-Frenkel cycle* in Taylor (1998) (following Neftci (1998) and Frenkel (1998)).

Is Turkey the Next Argentina?
International Herald Tribune, 4-5 December 2004.
by Erinc Yeldan and Mark Weisbrot,

Foreign money has been pouring in to Turkey at a rapid pace, fueling an economic expansion that has many investors and analysts praising the country's policies and reforms. But those who remember a similar excitement about Argentina in the early 1990s, which was followed by one of the most disastrous collapses in Latin American history, should be wary.

Indeed the parallels are striking. Argentina's growth in the early 1990s was also spurred by foreign capital inflows, and it also led to an overvalued currency that helped destroy the country's manufacturing base. And even during the country's growth years, when it was the IMF's poster child, there was little job creation.

Turkey's economy actually shrank in the years 1998-2001, with a 9.5 percent plunge in the last year. In response to the crisis the government borrowed heavily from the IMF -- $31.8 billion between 1999 and the present -- and adopted a set of policies that the Fund advocated. These policies brought about very high real interest rates, a reduction in the government's fiscal authority and spending, increased foreign borrowing, a floating exchange rate, and a rise in the local currency. They also resulted in privatization of state-owned industries (and consequent unemployment), and a removal of agricultural and other subsidies.

Supporters of these policies point to the economic recovery since 2001. The Turkish economy grew by an average of 7 percent annually in 2002-2003, and is expected to grow at the same rate 2004. Inflation, which was at 68.5 percent in 2001, has been brought to a projected 11.4 percent for 2004.

But beneath these numbers, a crisis looms. The expansion has been driven by a huge inflow of capital from abroad, $10.9 billion in 2003 (4.6 percent of the economy) and $12.5 billion in just the first eight months of 2004. These are overwhelmingly speculative, short-term inflows -- not direct investment, for example, which would expand the country's productive capacity and create jobs. Foreign direct investment has in fact fallen since 2000. The country is very vulnerable to a serious economic downturn when the inflow of foreign money goes dry.

These kinds of massive speculative capital inflows have a habit of reversing themselves, as they did in Asia in 1997, setting off the Asian financial crisis and a regional depression. In such situations, investors eventually begin to worry about the sustainability of such borrowing and debt. Any number of external events could trigger such an exodus from Turkey: for example, if U.S. and world interest rates rise, as they undoubtedly will from their current historic lows, safe assets such as U.S. Treasury securities will become much more attractive.

The influx of speculative money from abroad has also pushed the Turkish currency (the lira) to an overvalued level. This, too, is a bubble waiting to burst. In the meantime it has devastated traditional Turkish industries that are typically labor intensive by making imports artificially cheap, thus aggravating the unemployment problem. The lira had risen 139 percent against the dollar between 2000-2003.

The country's public debt is unsustainable at 70 percent of the economy. In order to sustain it presently, the IMF has the government running a primary (excluding interest) budget surplus of 6.5 percent. This is extremely high (compare to 3.0 percent for Argentina and 4.25 percent for Brazil), and prevents the government from making necessary investments in human capital and infrastructure.

Another devastating part of the IMF program is high interest rates: the Treasury’s debt instruments which are the leading assets in the Turkish financial markets carry an interest rate of 26 percent (still very high at 15 percent in real (inflation-adjusted) terms). Compare this to 2 percent in the U.S. -- it is easy to understand why businesses in Turkey are reluctant to borrow and invest in productive capacity.

In short, the policy makers have created an economy that runs on a speculative bubble. It would be nice if the majority of the Turkish people at least got some of the benefits of bubble-driven growth for as long as it lasts. But unfortunately, this has not been the case. Since 2000, the unemployment rate has risen by almost 4 percentage points to 10.5 percent, and real wages have actually fallen.

As Turkey and the EU continue negotiations on the possibility of EU accession, the Turkish government should re-examine its unsustainable economic policies of the last five years. Continuing these IMF-supported policies in the hopes of garnering credibility with the EU may be dangerous. Ironically, such policies could lead to an economic failure that would actually doom Turkey's chances to join the European Union.

Erinc Yeldan is Professor in the Department of Economics, Bilkent University, in Ankara, Turkey.
Mark Weisbrot is Economist and Co-Director at the Center for Economic and Policy Research (CEPR) in Washington, DC.

IV. Fiscal Policy and Debt Management

In comparison to many developing nations, Turkey experienced relatively modest sizes of accumulated fiscal debt by 1996. However, two additional factors increased the gravity of the problem: one was the realization by fiscal authorities that continued seignorage extraction through monetization was no longer feasible; that is, the Treasury had almost fully exploited the *Laffer curve* (Yeldan, 1997; Selcuk, 1996). Thus, the deficit had to be increasingly financed by domestic sources through bond issues at very high real rates of interest to cover the risk premia. Secondly, the maturity of the domestic debt was very short which gave way to an intensive Ponzi financing mode of debt management. These factors combined led to excessively high interest rates, crowded out private investors, and caused significant strain on the domestic markets.

Currently Turkey is in the midst of an IMF-led austerity programme that relies primarily on fiscal restraint. The fiscal authority has a clear mandate to generate a primary budget surplus (not counting the interest expenditures) of 6.5 percent for the public sector as a whole[4] as a ratio to the gross national product (GNP). Spanning over a planning horizon 2001 to 2007, the primary surplus target is regarded necessary by the fiscal authorities to reduce the massive debt burden and the fragilities it imposes on the financial and the real commodity markets. Needless to assert, the current fiscal policy administration has important implications on both the macroeconomic environment and the microeconomic mechanisms of resource allocation, employment, and tax incidence.

IV-1. Macroeconomic Equilibrium of the Public Sector in Turkey

The post-1990 macroeconomic balances recorded an unprecedented rise in the fiscal gap. The period witnessed a series of reluctant and failed attempts of tax reform. The succession of short-lived, coalition governments are all observed to rely on indirect taxation as budgetary revenues. We document the main fiscal indicators of the public sector in table 5, where we present the relevant data in fixed 1987 prices using the wholesale price indexes. Thus, a direct comparison can be made across years as the effects of price inflation are sterilized.

<insert Table 5 here>

It can be directly noted that during the 1988-1992 period the major breakdown has accounted in the factor revenues item. These are the net factor income generated by the state economic enterprise system. Factor revenues of the state declined by NewTL 6 billion in these 4 years measured in real 1987 prices. This amount is approximately 3% of the GNP of the period. Thus, in four years, the Turkish public sector has lost revenue sources reaching nearly to 3% of the gross national product. This loss is significant not only in terms of its size, but also in terms of the shortness of the duration.

[4] The primary surplus target is set at 5 percent for the central consolidated budget.

Following this period, transfer expenditures increased by almost 2-folds in real terms. The major item in this account is the interest payments. The rise in the domestic debt gave way to a rapid build up of interest rates which increased from 2.8% of the GNP in 1992, to 4.6% in 1993, and then to 6% in 1994. As fiscal deficits continued to be securitized, the stock of government debt instruments (GDI's) grew rapidly to reach 20.2% of the GNP in 1997. By comparison, the stock of GDI's only reached to 11% by mid-1992, disclosing that the size of the domestic debt stock increased by 2-folds as a share of the GNP in just five years.

On the revenue side, there had been modest improvements in tax revenues. Between 1990 and 1996, revenues from direct taxes increased following the increase in the GNP. After 1997, however, they remained at the same level in real terms. The major increase of tax revenues after 1997 came from indirect taxation. In the meantime the share of indirect taxes in the total rose to 69% in 2003. This ratio was 53% in 1990. Thus, over the analyzed period, the government had to increasingly rely on indirect taxation, as its tax administration capacity could not be expanded by increasing the direct income tax base.

All these developments led to a sharp decrease in the disposable income of the public sector especially after the 2001 crisis. The PSBR as a ratio of GNP stood around 10% on the average over 1990-1993. The peak of this ratio was witnessed in 1993, just before the financial crisis of 1994 (12.0%). Even though there were some improvements in the borrowing requirements of the state under the 1994/1995 crisis management, the PSBR rose again to an alarming rate of 9.4% in 1998, and to 15.5% in 1999. From Table 1 it can be read that over the period 2000-2003, the public disposable income declined by 30 percent *in real terms*. Such a decline had clearly devastating effects and generated strong pressures on the public sector borrowing requirement (PSBR).

In this context, it is important to note a fundamental change in financing of the PSBR, breaking away with the pre-financial liberalization period of the 1970's and 80's. Data on the financing patterns of the PSBR suggest that, under the financially repressed conditions of the 1970's and early 1980's, deficit financing through central bank advances (monetization) was the most direct method. However, after the embarkment of financial liberalization reforms and especially with freeing of the interest rates, the Turkish private sector faced with a new element: the *real interest rate*. In the meantime, the public sector found it much easier to finance its borrowing requirements from domestic borrowing through issues of the government debt instruments. This enabled the successive governments to by-pass many of the legal regulations and the protocols constraining their fiscal operations. Consequently, with the advent of full-fledged financial liberalization in 1989, the PSBR financing relied almost exclusively on issues of GDI's to the internal market –especially to the banking sector. So in this sense, the financial liberalization thus far seemed to serve mainly for the purpose of this mode-switching for the treasury in sustaining the financing requirements of its deficit, away from the central bank sources of monetization, to more reliance on securitization.

The process of financial deepening was thus directly shaped by the financing needs of the public sector. In early 1990s the government granted a series of incentives to the

banking sector for holding its debt instruments (GDIs). First of all the GDIs could be used as collateral and be held against the liquidity requirements. This process led to two important consequences: *first* and foremost, it substituted the fiscal policy against the monetary policy and hindered the central bank's capacity to conduct monetary policy; and *second*, it enabled the Treasury to assume a monopoly power to regulate the distribution of domestic credit and crowded out the private sector.

One direct consequence of the regime switching to finance the PSBR was the unprecedented rise in the stock of securitized debt (the stock of issues of GDI's). Stock of GDI's was only about 6% to the GNP in 1989, just when the liberalization of the capital account was completed. It grew rapidly, and reached almost 20% by 1997. Currently the securitized debt stock is 54.5% to the GNP.

This accumulation was inescapable for the successive governments of the post-Reform era, as the foreign borrowing opportunities were limited. As noted in Table 5, net foreign borrowing of the fiscal government as a ratio of GNP was meager, and turned negative after 1994. Thus, securitization of the fiscal debt was possible only through the domestic sources.

The underlying characteristic of the domestic debt management was its extreme short termism. The net domestic borrowings, as a ratio of the stock of existing debt, hovered around 50% through the 1990's. This ratio increased to 67% in 1992, and to 70.2% in 2001. Thus, the public sector has been trapped in a short term rolling of debt, a phenomenon characterized as *Ponzi-financing* in the fiscal economics literature. This mode was clearly on an unsustainable basis and gave rise to the so-called confidence crises of the 1990's. (Özatay, 1998).

Under these conditions the fragility of the domestic asset markets gave way to high rates of real interest. Interest payments as a ratio of GNP increased very rapidly. From 1990 to 1996, the share of interest expenditures on domestic debt in aggregate GNP increased by 300%. In 1996 this ratio stood at 9 percent. In the second half of the decade, interest costs as a ratio to the GNP rose to as much as 21% in the crisis of 2001, and bounced back to 14.8% in 2003. One can contrast this magnitude, for instance, with the aggregate value added of the agricultural sector, whose share from the GNP is just only 15%. Thus, interest payments reach almost to aggregate agricultural value added, a sector which accounts for about half of the size of the active labor force!

The burden of the interest costs has been severe on the budgetary balances of the central government. As a ratio of GNP, the balance on the central government budget shows deficits ranging from 3.0% (1988), to 17.9% (2001). What is interesting, however, is that the primary budget shows a *surplus* for the most part over 1994-2003. This was possible through a severe squeeze of the public consumption and investment expenditures. We turn to a deeper analysis of the consolidated budget in the next section.

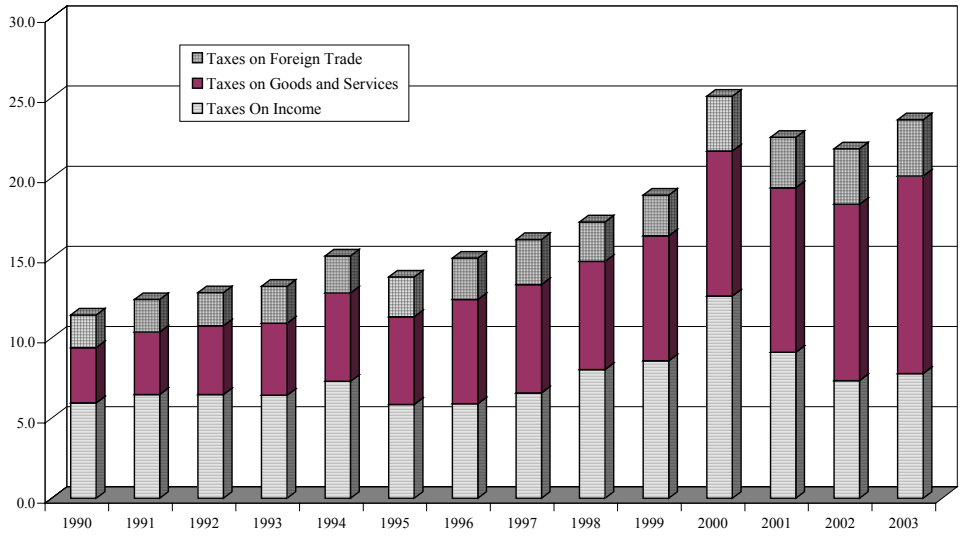
IV-2. Budgetary Equilibrium: Fragilities and Perspectives

We tabulate the selected components of the consolidated budget in Table 6.

<Insert Table 6 here>

On the revenue side one witnesses a significant effort in raising tax revenues, both in real terms and also as a ratio to the GNP. Much of this effort can be explained by the rise in the share of taxes on goods and services, while the contribution of direct income taxes to the budgetary revenues are observed to fall especially after 2000. Figure 6 discloses these developments. Here we observe that as a ratio to GNP, taxes on goods and services and on foreign trade yield about 70% of total tax revenues. Taxes on foreign trade are around 3.5% of total GNP.

Figure 6. Components of Budgetary Taxes
(As Ratio to the GNP, %)



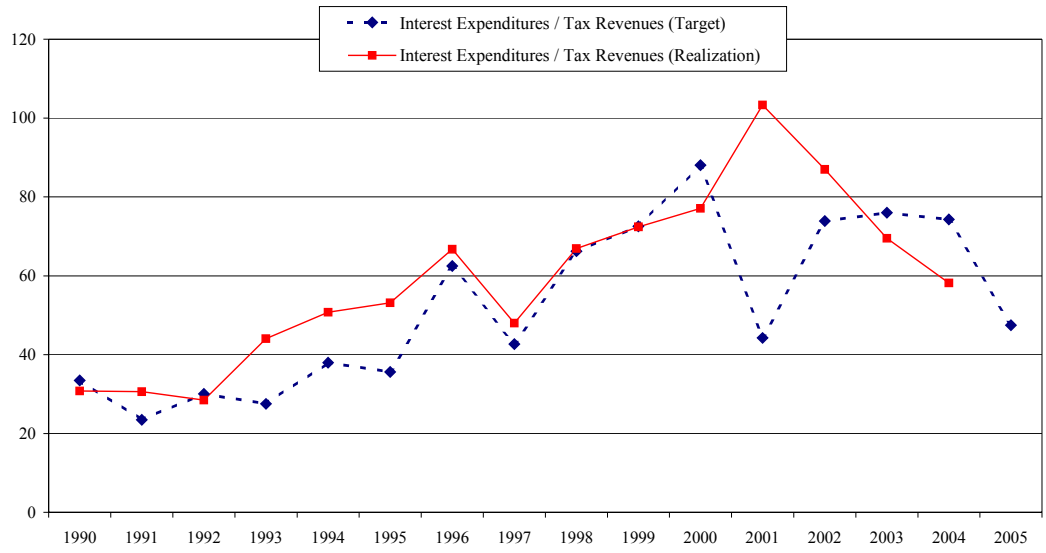
IV-3. Structure of Expenditures

Data reveal a secular rise in the budget deficit through the 1990s. The peak is reached in the aftermath of the 2001 crisis with a ratio of 16.9% to the aggregate GNP. Under the post-crisis administration the deficit is now reduced to 11.2% of the GNP. As discussed above, much of the increase in aggregate budget expenditures is explained by the increased costs of debt servicing. Interest costs on consolidated budget debt were openly 20% of total expenditures in early 1990s. Their share rose continuously to reach 50.6% of total budgetary expenditures in 2001.

Interest burden necessarily claims a big share of the budget revenues. In fact, a comparison of the interest costs as a ratio of aggregate tax revenues –targeted and realized—disclose the structural constraints over the Turkish fiscal policy openly: Interest expenditures as a ratio of tax revenues reached 103.3% in 2001, and 77.1% in 2002. Under the crisis management targets, interest expenditures were fixed as 88.1% of the tax revenues in 2000, and 109% in 2001. In 2004, it was anticipated that the target of interest expenditures would be lowered to 59% of the tax revenue targets.

(See Figure 7 on the evolution of the ratio of interest costs to total tax revenues, both as targeted appropriations and also as end-of-year realizations).

Figure 7. Interest Expenditures on Public Debt / Tax Revenues (Targets and Realizations, %)



Thus, even though interest costs continued to claim an increasing portion of tax revenues over the 1990's, none of the governments showed the political will to tackle the problem of debt re-consolidation directly. Under conditions of maintaining the debt turnover via only primary surpluses, the fiscal authority has been deprived of any viable funds to sustain public services on health, education, protection of the environment, and provision of social infrastructure.

As a result, the boundaries of the public space are severely restricted, and all fiscal policies are directed to securing debt servicing at the cost of extraordinary cuts in public consumption and investments. We see these trends clearly from Table 6 above. If one focuses on non-interest expenditures, it can be understood that such expenditures have increased as a ratio to the GNP from 13.4 percent in 1990 to 22 percent in 2003. Much of this increase, however, has been due to the unprecedented rise in the financing requirement of the social security institutions. As a ratio to the GNP, transfers to the social security institutions were marginal until 1999, at less than 1 percent. After then the deficits of the social security institutions rose rapidly and reached 4.5 percent to the GNP in 2003.

All of these meant a heavy toll on the needed public investments on health, education and public infrastructure. Within total expenditures, public investments' share has fallen from 12.9 percent in 1990, to 5.1 percent in 2003. As a ratio to the GNP, public investments stand at less than 2 percent currently. From Table 6 we calculate that in 2003 interest expenditures reached 7.4-folds of public investments. The burden of interest costs on public funds is immense and needs acute attention.

IV-4. Dynamics of Public Debt

As we discussed above, the Turkish public sector has resorted to *domestic* debt finance rather than the foreign sources in financing the PSBR. Thus, the securitized stock of domestic debt which stood at NewTL3.3 billions ($29.3 billions) in 1996, increased to NewTL194.4 billions ($139.3 billions). This shows a cumulative increase of 4.7-folds in 7 years. Thus, aggregate public debt stock increased its ratio to GNP from 37.7% in 1996 to 81.7% in 2003. Even though the 2003 ratio seems to have recovered somewhat in comparison to the immediate post-crisis level of 88%, much of this recovery had been due to the appreciation of the TL which enabled a lower burden of the foreign debt measured in domestic currency. Thus, sustainability of this trend is yet to withstand the test of currency depreciations in the future. Table 7 depicts this information.

Table 7. Public Sector Net Debt Position (Billions New TL)

	2001	2002	2003	2004.Q2	2004.Q3
Total Public Sector Debt (NET) (1)-(2)	160.6	216.4	251.4	265.4	
(1) Total Public Sector Debt (Gross)	190.6	257.6	297.7	318.2	
Domestic Debt	125.5	154.8	201.3	215.9	
Consolidated Budget	122.2	154.8	194.4	209.2	217.6
Foreign Debt	65.1	102.8	96.4	102.3	
Consolidated Budget	55.8	92.9	88.5	94.4	97.1
(2) Net Public Assets of the Public Sector	29.8	41.2	46.2	52.7	
GNP	176.4	275.0	356.7	384.4[a]	
As % Ratio of the GNP:					
Total Public Sector Debt (NET)	91.0	78.7	70.5	69.0	
Total Public Sector Debt (Gross)	108.0	93.7	83.5	82.8	
Domestic Debt	71.1	56.3	56.4	56.2	
Consolidated Budget	69.3	56.3	54.5	54.4	
Foreign Debt	36.9	37.4	27.0	26.6	
Consolidated Budget	31.6	33.8	24.8	24.6	

Source: Undersecreteriat of Treasury (*www.hazine.gov.tr)* ; TR Central Bank, *(www.tcmb.gov.tr)*

a. Total over four quarters..

IV-5. Inertia of Real Interest Rates

Against the background of debt accumulation, all macro policies in Turkey right now are aligned to attain the 6.5% primary surplus. The algebraic logic behind the primary surplus target is actually extremely simple, and relies on the following debt equation in reduced form:

$$\Delta d = d(i - \dot{y}) - z$$

where, d: ratio of the debt stock to the GDP
i: real interest rate
$\dot{y}$: real rate of growth of GDP
z: primary surplus ratio to the GDP

and Δd denotes the time rate of difference in debt/GDP ratio.

Given the Turkish macroeconomic realities of 2004, letting $d = 0.82$ (aggregate public debt to GDP ratio, see Table above); $\dot{y} = 5\%$ (as targeted in a series of *letters of intend* over 2001 to 2006); and $z = 6.5\%$; one can easily find that in order for the debt/GDP ratio to remain constant ($\Delta d = 0$), the maximum real rate of interest should not exceed **12.9%**. This is the maximum possible real rate of interest on the government's debt instruments (GDIs) if the debt ratio could ever be constrained.

The inertia of high real interest rates in the Turkish context can only be explained by reference to the mode of integration of the Turkish asset markets to the global financial economy at large. Turkey, like many of the other peripheral countries of late capitalism, has integrated with the world financial markets as a "new emerging market". Simply put, the logic of the international financial system is that such young "emerging" markets should be able to offer significantly high real returns to global finance capital. The fierce competition among such economies often leads to a *race to the bottom* in order to attract inflows of short term liquid capital. In consequence, the flow of such funds necessitate maintenance of higher and higher real interest rates.

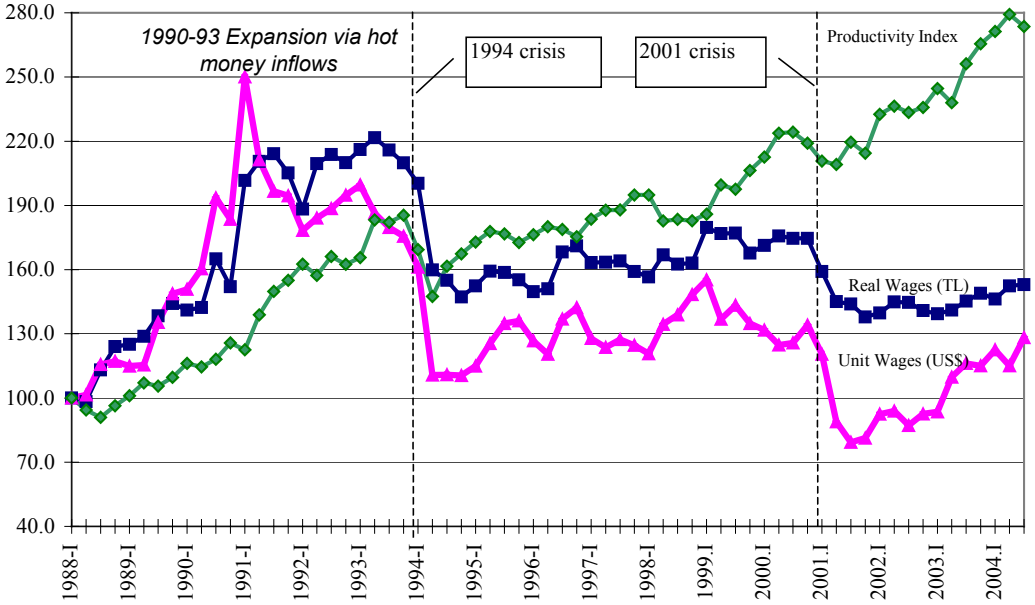
Under these conditions, the simple algebra of debt dynamics reveal that the Turkish debt burden would not be handled via achieving primary surplus targets and fiscal prudence alone, but would require a detailed *re-structuring* of the terms of Turkish debt obligations with both the IMF and the banking community.

V. Labor Markets and the Position of Wage-Labor

In the preceeding pages of this report we indicated that Turkish economy is suffering from a deep external fragility which manişfests itself with the excessive inflows of finance capital. The leading factor that stimulates this inflow is the very higjh rates of financial arbitrage that the Turkish economy is offering in the world capital markets.

Such a transfer of the financial surplus through very high real interest rates offered to the financial system would, no doubt, call for repercussions on the primary categories of income distribution. It is clear that creation of such a financial surplus would directly necessitate a squeeze of the wage fund and a transfer of the surplus away from wage-labor towards capital incomes, in general. It is possible to find evidence of the extend of this surplus transfer from the path of the private manufacturing real wages. We portray the dynamics of the private manufacturing real wages in Figure 8, denominated both in Turkish Lira, and also in the US$ terms. The figure further contrasts real wages against labor productivity.

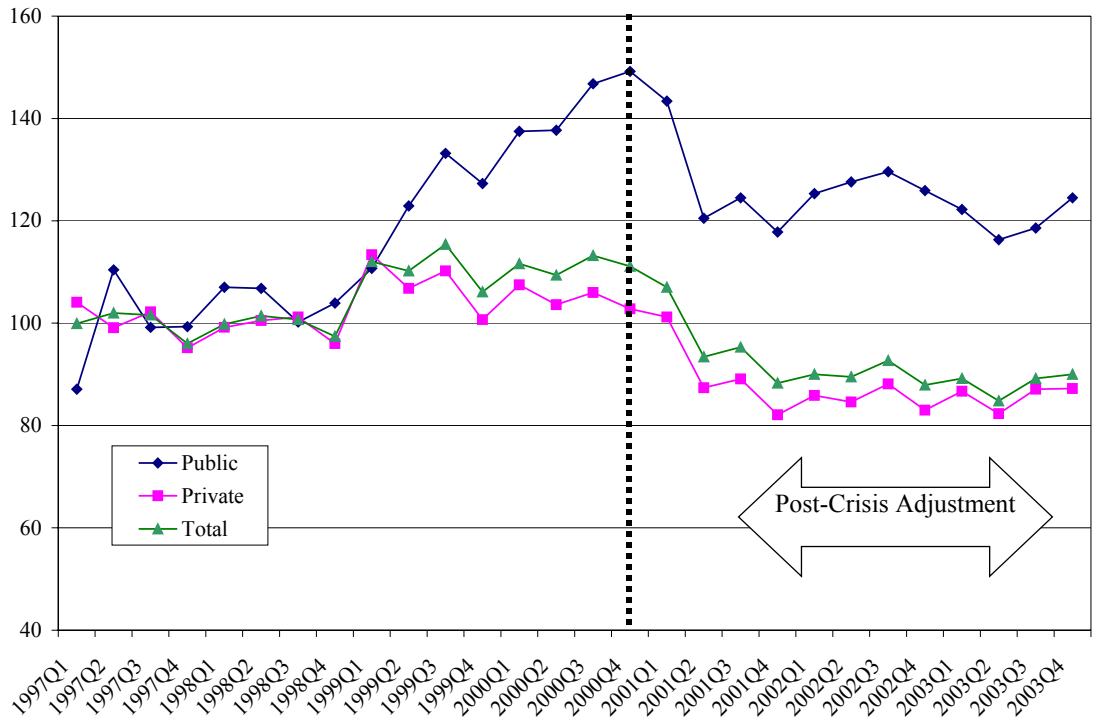
Figure 8. Productivity and Real Wages in Turkish Private Manufacturing



After a brief surge over 1990-1993, real wages had plummeted during the 1994 financial crisis, and in a sense have borne the brunt of adjustment of the crisis. During 1995-2000, private manufacturing real wages have kept their momentum in general, although they could not recover their pre-1994 crisis levels. However, after the 2000/2001 wave of crises, real wages in private manufacturing faced a second cycle of contraction. This contraction was especially pronounced in US$ terms. In the meantime productivity gains in private manufacturing accelerated especially after the first quarter 2002. It is known that this productivity surge is due mostly to labor shedding (see Table 2 above on rates of unemployment), rather than increased labor efficiency originating from advances in technology. As of the last quarter of 2003, index of labor productivity scored 1.77-folds higher than real wages in TL, and 2.29-folds higher than the unit wage costs in US dollars.

The real wages contracted severely after the 2001 February crisis and this downward trend was maintained throughout 2002 and 2003. Calculated from 2000 to mid 2003, the decline in the private manufacturing real wages reached to 19.6%. The decline of wages in the public manufacturing sector has been 15.4% during the same period. Viewed from a longer time horizon, if the index of real wages were assumed 100 in 1997, it is observed that they fell to 82.2 index points in the private manufacturing sector. (See Figure 9.)

Figure 9. Real Wage Indexes in Manufacturing (1997=100)



A close inspection of Figures 8 and 9 together is especially informative. This exercise shows very clearly, how in the Turkish economy speculative financial gains were financed through squeezing of real wages. Each rapid rise in the financial arbitrage is closely associated with a downward movement of real wages and involves a direct transfer of labor incomes towards capital, both domestic and foreign.

VI. Concluding Comments

In conclusion, it is observed that the 2000/2001 crisis administration in Turkey primarily works as a debt-management program. Turkish growth pattern over the post-2001 crisis period displays two key characteristics: *first*, it is speculative-led in nature; *second*, it has limited job creating capacity.

Yet, beyond this observation, the tacit dilemma faced by the Turkish authorities is simple, yet bitter: in order for the output growth to be continued, the economy had been addicted to short term foreign finance which in turn necessitates relatively high real interest rates to be offered as a "new emerging market" in the global financial markets. Yet, high real rates of interest run counter to the objective of debt sustainability via successful primary surplus operandi. Availability of cheap foreign exchange lured by attractive real returns thus far has become instrumental in reducing costs of imported intermediates and lowering inflationary expectations. It has also

been the sole source of output growth in an otherwise contractionary macroeconomic environment.

However, the fact that such sources of growth virtually depend on the speculative caprices of the financial arbiters, and that the increased fragility of the Turkish macroeconomic environment signals an unsustainable output performance for the days to come. Such "speculative-led" characteristics of the Turkish growth cycle resemble the 1990-93 and the 2000.I-2001.I cycles of (unsustainable) growth—crisis—post crisis adjustment, with bitter lessons that hopefully should have been well-understood by now. Yet, the pleasures of cheap foreign exchange bonanza together with high real rates of interest are too dear for the myopic speculators, domestic and foreign alike, and the dangers of such speculation-led accumulation seem, unfortunately, not to be appreciated yet by the so-called market participants.

References

Agenor, Pierre-Richard and Peter Montiel (1999) *Development Macroeconomics*, New Jersey: Princeton University Press.

Alper, Emre (2001) "The Turkish Liquidity Crisis of 2000: What Went Wrong?" *Russian and East European Finance and Trade*, forthcoming.

Amadeo, Edward J. (1996) "The Knife-Edge of Exchange-Rate-Based Stabilization: Impact on Growth, Employment and Wages" *UNCTAD Review*, 1-26.

Atiyas, Izak (1995) "Uneven Governance and Fiscal Failure: The Adjustment Experience of Turkey" chp 9 in L. Frischtak and I. Atiyas (eds) *Governance, Leadership, and Communication: Building Constitutiences for Economic Reform* Washington D.C.: The World Bank.

Balkan, Erol and Erinç Yeldan (1998) "Financial Liberalization in Developing Countries: The Turkish Experience" in Medhora, R. and J. Fanelli (ed.) *Financial Liberalization in Developing Countries* Macmillan Press.

Boratav, Korkut (2001) "2000-2001 Krizinde Sermaye Hareketleri" *Iktisat, Isletme ve Finans*, No 186, pp.7-18.

Boratav, Korkut and Erinç Yeldan (2001) "Turkey, 1980-2000: Financial Liberalization, Macroeconomic (In)-Stability, And Patterns of Distribution" CEPA and The New School for Social Research, mimeo.

Boratav, Korkut, Oktar Türel and Erinç Yeldan (1996) "Dilemmas of Structural Adjustment and Environmental Policies under Instability: Post-1980 Turkey" *World Development*, 24(2): 373-393.

Bruno, Michael (1993) *Crisis, Stabilization and Economic Reform: Therapy by Consensus* London: Oxford University Press.

Calvo, Guillermo (2001) "The Economics of Sudden Stop" University of Maryland, mimeo.

Calvo, Guillermo and Carlos A. Vegh (1999) "Inflation Stabilization and BOP Crises in Developing Countries" in J. Taylor ve M. Woodford (ed) *Handbook of Macroeconomics*, North Holland: 1531-1614.

Calvo, Guillermo, Leonardo Leiderman and Carmen M. Reinhart (1996) "Inflows of Capital to Developing Countries in the 1990s" *Journal of Economic Perspectives*, 10: 123-139.

Celasun, Oya, Cevdet Denizer and Dong He (1999) "Capital Flows, Macroeconomic Management, and the Financial System: The Turkish Case, 1989-97" *mimeo.*

Cizre-Sakallıoğlu, Ümit and Erinç Yeldan (2000) "Politics, Society and Financial Liberalization: Turkey in the 1990s" *Development and Change*, 31(1):481-508.

Corbo, Vittorio (1985) "Reforms and Macroeconomic Adjustments in Chile During 1974-84" *World Development*, 13: 893-916.

Corbo, Vittorio and Leonardo Hernandez (1996) "Macroeconomic Adjustment to Capital Inflows: Lessons from Recent Latin American and East Asian Experience" *The World Bank Research Observer*, 11(1): 61-85.

Diaz-Alejandro, Carlos F. (1985) "Good-Bye Financial Repression, Hello Financial Crash" *Journal of Development Economics*, 19:1-24.

Dornbusch, Rudiger (1995) "Progress Report on Argentina" in Dornbusch and S. Edwards (eds) *Reform, Recovery and Growth: Latin America and the Middle East*, Chicago: Chicago University Press.

Dornbusch, Rudiger and Alexander Werner (1994) "Mexico: Stabilization, Reform, and No Growth" *Brookings Papers on Economic Activity*, 1: 253-315, March.

Dornbsuch, Rudiger, Ilan Godfajn and Rodrigo Valdés (1995) "Currency Crises and Collapses" *Brookings Papers on Economic Activity*, Vol 2: 219-270, June.

Ersel, Hasan (2000) "Ekonomik Istikrar ve Yapısal Uyum Programımının Neresindeyiz?" *Iktisat, Işletme ve Finans*, August 173: 7-28.

Edwards, S. and A. Cox Edwards (1991) *Monetarism and Liberalization: The Chilean Experiment* Chicago: Chicago University Press.

Ekinci, Nazım (1998), "Türkiye Ekonomisinde Gelişmenin Dinamikleri ve Kriz", *Toplum ve Bilim* No.77: 7-27.

Frenkel, Roberto (1998) "Capital Market Liberalization and Economic Performance in Latin America" Center for Policy Analysis, New School for Social Research, Working Paper Series III No 1, May.

Frenkel, Roberto (1995) "Macroeconomic Sustainability and Development Prospects: Latin American Performance in the 1990s" *UNCTAD Discussion Papers,* No. 100, August.

Frenkel, Roberto and Jose M. Fanelli (1998) "Argentinian Economy in the 1990s" in Medhora, R. and J. Fanelli (ed.) *Financial Liberalization in Developing Countries* Macmillan Press.

Grabel, Ilene (1995) "Speculation-Led Economic Development: A Post-Keynesian Interpretation of Financial Liberalization Programmes in The Third World" *International Review of Applied Economics* 9(2): 127-249.

Kaminsky, Lizondo and Reinhart (1998) "Leading Indicators of Currency Crises" *IMF Staff Papers*, 45 (March): 1-48.

Neftçi, Salih (1998) "FX Short Positions, Balance Sheets, and Financial Turbulence: An Interpretation of the Asian Financial Crisis" Center for Policy Analysis, New School for Social Research, Working Paper Series III No 4, June.

Öniş, Ziya and A. Aysan (2000) "Neoliberal Globalization, the Nation-State and Financial Crises in the Semi-Periphery: A Comparative Analysis" *Third World Quarterly*, 29(1): 119-139.

Özatay, Fatih (1999) "The 1994 Currency Crisis in Turkey," *Policy Reform*, 1(1): 1-26.

Patinkin, Don (1993) "Israel's Stabilization Program of 1985, Or Simple Truths of Monetary Theory" *Journal of economic Perspectives*, Spring, 7(2): 103-128.

Rodrik, Dani and Andres Velasco (2000) "Short Term Capital Flows" Proceedings of the *Annual World Bank Conference on Development Economics*, pp.59-90, Washington Dc.: The World Bank

Taylor, Lance (1998) "Lax Public Sector, Destabilizing Private Sector: Origins of Capital Market Crises" Center for Policy Analysis, New School for Social Research, Working Paper Series III No 6 July.

Uygur, Ercan (2001) "Krizden Krize Türkiye: 2000 Kasım ve 2001 Şubat Krizleri" Türkiye Ekonomisi Tartışma Metni, No: 2001/01, Ankara.

Velasco, Andres (1987) “Financial Crises and Balance of Payments Crises: A Simple Model of Southern Cone Experience” *Journal of Development Economics*, 27(1-2): 263-283, October.

Yeldan, Erinç (2001a) *Küreselleşme Sürecinde Türkiye Ekonomisi: Bölüşüm, Birikim, Büyüme*, Istanbul: Iletişim Publications.

Yenal, Oktay (2000) “Türkiye Ekonomisi Üzerine Değerlendirmeler” *Iktisat, Işletme ve Finans*, December.

Yentürk, Nurhan (1999) “Short term Capital Inflows and Their Impact on Macroeconomic Structure: Turkey in the 1990s”, *The Developing Economies*, 37(1): 89-113.