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## IMF Stabilization Programs and their Effects on the World Economic Crises

Tulin Demiroglu<sup>a\*</sup> Murat Karagoz<sup>b</sup>

<sup>a</sup>Fatih University, Istanbul, 34524, Turkey

<sup>b</sup>Yıldız Technical University, Istanbul, Turkey

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### Abstract

The aim of this study is that analyzing the relationship between IMF Stabilization Programs and its effect on the experienced world economic crises. The Great Depression and World War I and II faced by the world caused to be deeply shaken of the economies. Eventually, the countries were forced to create barriers against each other to protect the war-damaged economies. The world countries agreed with establishment of IMF to surpass the economic crisis. This article is concentrated on a question is that “Whether the IMF stabilization Programs effected positively or triggered into worse situation and crisis the war-damaged economies?” The examples crises are Mexican Crisis in 1994, South-eastern Asia Crisis in 1997, Russian Crisis in 1998, Argentina Crisis in 2001 and Turkey Crises in 1994, 2000 and 2001.

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### 1. Introduction

The regulation of international monetary system has been needed by the countries due to the financial problems and IMF was established by 44 countries in 1944 in Bretton Woods. While the institution was regulating the borrowing and lending actions between the countries proposes some programs to the borrowing countries. These

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\* Corresponding Author; tel:  
e-mail: [tulin\\_demiroglu@hotmail.com](mailto:tulin_demiroglu@hotmail.com)

programs aim to cover the borrowing countries' imbalances and instabilities in their economies while consider about the lending countries.

Some countries have faced with the economic crises after application of the IMF stabilization programs. In this study, Mexico, South East Asia, Russia, Argentina and Turkey crises have been analyzed. The common feature of these crises was occurred after applying the stabilization programs.

## 2. The Mexico crisis in 1994

There is a need of overview in the economy of Mexico before the touching on the stabilization programs. Usta (2013) stated the country nationalized the oil wells in 1938 which has been owned by foreign investors. It could be mentioned that the nationalization of the oil wells has affected the economy in positive side and the country accelerated industrialization policy by concentrating on the economical growth after the World War II. However, Petroleum Crisis erupted in 1973 which affected the country negatively as the other oil-exporting countries in the world. As seen in Table 1 the external debt reached to high levels which rose from \$6 billion to \$97.4 billion in 1970 and 1985 respectively. The country intercepted rising of prices and wages temporarily by applying the heterodox stabilization program in 1987.

Table 1. External debts in Mexico (1970 – 2001)

Years	External Debt (Billion Dollars)
1970	6
1980	57,4
1982	86
1985	97,4
1995	166,6
1996	157,5
1997	148,7
1998	159,9
1999	167,3
2000	158,5

(Fistik, 2003)

Edwards (1997) stated in the adaptation process of stabilization program capital inflows and exchange rates have been increased as a positive relationship. The national currency lost its value and the exchange rate increased from 2.2 in 1987 to 2.28 in 1988. If the effect of increasing prices is eliminated the real exchange rate index demonstrates that the losing value of domestic currency was at higher level in a year which rose from 67.17% to 82.39% in 1987 and in 1988. Another aim of the program was to reduce the external debt by applying some policies like privatization, encouraging export etc. According to Table 1 the external debt increased to \$166.6 billion in 1995 by contrast with controlling the huge burden of external debt.

The based on heterodox policy program was successful to decrease the inflation from 159.2% to 51.7% in a year. While decreasing the rate of external debt to GDP was successful by reducing from 61.5% to 49.7% the internal debt to GDP ratio increased approximately by 2% from the year of 1987 to 1988. The interest rates were approximately decreased by 42% in six years after the application of the program and external and internal debts to GDP were reduced. On the other side, current account balance could not be treated due to insufficient external financial aid and transferring out of the sources by refunding external debt.

The decreasing reserves and needing for external financing imperilled sustainability of the program and the

second program needed to be applied at the end of 1988 which was called as The Pact for Stability and Growth in 1989 to 1994. The program intended sustainability growth instead of inflation and the prices were readjusted. The Pact for Economic Solidarity Program in 1987 was insufficient to eliminate inflation and the government applied to nominal peg exchange rate system to eliminate the inflation in 1988. The program was successful until 1995 and the inflation has been decreased step-by-step from 51.7% in 1988 to 7.1% in 1994.

The rate of increasing export decreased from 38.8% to 4.4% while the rate of increasing import increased from %16.4 to 26.2% in 1987 and in 1992 respectively. The appreciation of domestic currency caused reducing profit of export and being advantage of import. The export was unsuccessful to cover the import and caused to turn the current account balance in negative side at the same years. Mexico was expected to reduce current account deficit by applying stabilization program which would increase export while decrease import. However, on the other side, domestic currency value decreased which aroused import and decreased export in contrast to expectation. Tornell (1999) emphasized that another reason for the imbalances of current account is reduction of national savings.

Yıldırım (2003) emphasized that upsurge of current account deficit dragged the investors into negative expectations about sustaining of the deficit. Negative expectations cause to seen the market is in uncertainty. The stabilization program increased the foreign direct investment and that reached to 10.973 million dollars in 1994. Increasing foreign direct investment caused to be seen that the growth was increasing in the country. However, foreign sources cannot ensure the sustainability of growth in the economy. Even though increased foreign investment is seen in positive progress which causes fragile structure of economy of the country. Any unexpected negative shocks on economy trigger foreign sources flight out of the country. As a result, the economy is coming to sensitive structure against sudden shocks which would trigger the country into financial crisis.

The Mexico has felt in huge external debt and high level of inflation due to Petroleum Crisis before the first applying of the stabilization program. The IMF suggested the heterodox policies to eliminate the high inflation rate and cover the debt. The oil wells were privatized to cover the high amount debt, however, on the other side; the income of country has been decreased. Consequently, the external debt went in harder position. The nominal exchange rate system attracted the foreign capital into the country; however, decreasing interest rates did not satisfy the investors. Even though the GDP is seen in positive growing the speculative foreign capitals and privatization revenues could be the reason. In addition, controlling the inflation policy was successful. The success could be tight to the capital inflows due to able to control the prices with high artificial capital in the country. The controlling exchange rates, increasing export, interest rate and decreasing high level deficit policies were unsuccessful. The reason of unsuccessful of the program could be not well managing the high amount capital as internal reason and the high interest rates in US as the external reason. According to the case of Mexican Crisis, the government foreign currency liability is greater than the national currency liability which may cause the crisis. The reserves should be able to cover the currency in circulation and short term deposits to prevent the speculative effect against the national currency. Also the weakness of the banking sector may cause growth of the crisis. The Mexico was weak against the external shocks. In addition, the country experienced political shock on 23<sup>th</sup> March 1994. The presidential candidate of ruling party was killed who named Luis Colosio.

### **3. The South East Asia crisis in 1997**

The five Southeastern Asia countries had experienced to apply the IMF Stabilization Programs before the crisis in 1997 which were Korea, Indonesia, Malaysia, Philippines, and Thailand.

The policy of financial liberalization has been begun towards the end of 1980s in the Southeast Asian Countries. The risk was increased by overvalued currency and increased financial market transactions in the kind of foreign currency. The Asia Countries have been adopted contraction of public sector in the financial system. The increasing of interest rate, foreign investment inflows, holding assets of financial institutions and borrowing from foreign resources were contracted and the credits were managed (Topallı, 2006).

The rate of credits increased from 1990 to 1997 in all the countries. Especially, the bank credits in Malaysia aroused in huge amount from 7.36% to 106.91% in 1990 and in 1997 respectively. Another significant rising was in Thailand that increased to 116.33% in 1997. Both of the countries exceeded 100% can be interpreted that the banks borrow from foreign resources to ensure credits for private sector. Korea was the most stabile country by increasing the credits approximately 14% between the years of 1990 and 1997. In addition, the rate of investment is a significant point. If the credits are not used in efficiency would cause to increase the rate of non-refundable credits.

The Southeastern Countries has expanded in the different systems. The South Korea, Thailand and Japan was focused on the expansion of state sponsored or large companies based in the bureaucracy while the Hong Kong and Singapore gave priority to market mechanism (Topalli, 2006). Korea and Thailand experienced decline while the Singapore and Hong Kong were in the structure of protection prone to rise in the GDP growth rate from 1991 to 1997. Korea growth rate decreased from 9.13% to 5.47% by fluctuated declining structure and the growth rate of Thailand decreased from 8.18% to -0.43% year by year. On the other side Hong Kong growth rate increased from 4.97% to 5.29% and the GDP in Singapore rose 7.27% to 7.55% at the same years. According to the examples countries, giving importance to the market mechanism is more successful than the policy of based on large companies on the GDP growth rate. However, it should not be forgotten that the GDP growth rate is affected by huge capital inflows.

The Asia Countries captured the success with the export-oriented industrialization strategy which concentrated on the low cost labor force and entered into the US, Japan and European Union Countries. The competitiveness of export was augmented by adoption and low value of dollar (Hacıslamoğlu, et al., 1998). Corsetti et al. (1998) noted that the appreciation of US dollar against Japanese Yen and European currencies reversed the export and competitiveness in Asia Countries in 1995s. The deficit of current account and balance of payment increased while the countries had not experienced high inflation. The growth rate of countries was approximately %7 in 1990s means that the high growth rate was made vulnerable the countries. The high growth rate causes an increase in consumption by creating an optimistic picture in the market.

The inflation rate is a significant factor for investment and saving in the countries. Kuroyanagi et al. (1996) found that if the inflation rate was over %30 annually in a country which called as high-inflation country and faced with debt crisis. On the other side, if the rate was below %15 annually in a country that called as low-inflation country and was protected to fall in debt crisis. Asian Countries had no problem of inflation rates. The rates were not high levels as an example Indonesia had the lowest inflation rates. Even the rate decreased from 4.40% to 2.66% in 1991 and 1997 respectively the most of the problems in the countries were the high levels of deficits due to losing the power of export. The other reason of the deficit could be exchange rate and interest rate problems. The interest rates were lower level in Korea and Malaysia. Korea had negative side interest rates 0.5% and 0.6% in 1990 and in 1991 respectively which inflation rates exceeded interest rates in two years. The foreign investors tend to go out from the country due to negative earnings on their investment.

The higher debt ratio of short-term to aggregate debt means that the short-term debt is high. If the ratio is high the country is in huge amount of debt. Especially, the debts of Malaysia and Philippines were approximately doubled from June 1990 to June 1997. Malaysia debt was \$25.66 billion in 1990 and increased to \$56.45 billion and Philippines debt was from \$33.34 in 1990 billion to \$58.75 billion in 1997. In addition to the high rate the private inflows were at high levels which triggered economies in more fragile structure.

Any unexpected economic shock affects the all Southeastern Asia Countries. The reasons of the crisis scheduled in chronological order in 1997. Cieleback (1998) stated Hanbo Steel Company in Korea went in bankruptcy with \$6 billion in January. The first company of Thailand came to be unable position to cover its foreign debt at the beginning of February. The Central Bank of Malaysia contracted the loans to the “purchasers of property” towards the end of March. The overnight interest rates increased to 15% in Philippines at the mid-June. The USA pressured on Indonesia to depreciate its domestic currency against the Dollar in July. In addition, Thailand devaluated its

domestic currency on July and The Southeastern Asia Crisis was begun from Thailand by devaluating its currency 40% and spread to other countries.

The applied policies of Southeastern Asia Countries were concentrating on fixed exchange rate regime and financial liberalization. The pegged exchange rate policy caused loss value of the domestic currencies at high levels. Even though the depreciation encourages the export which aims to cover current account deficit at high levels depreciation causes the loss of confidence against the country by foreign investors. The losing confidence triggers the foreign investors to flight their capital out which causes the liquidity problem and weakness against the external shocks. In addition, the financial liberalization policy causes to be seen the economy of country is in positive situation and that triggers to increase the consumption by consuming the foreign reserves. The consuming depended on foreign reserves causes the fragile structure of the economy against any unexpected capital outflows. High interest rate policy also was applied, however, the regime could not be successful and the rates were not raised at high levels. On the other side, the flowing credits to the private sector and government guarantee on the credits brought the moral hazard problem. In addition, removing the guarantee caused to trigger the economy into crisis.

#### **4. The Russia crisis in 1998**

The collapse of Soviet Union caused the loss of confidence and political instability. Russian Federation undertook the high debt amount of Soviet Union. Inflation rate reached to %874.6 in 1993. The Soviet Era debt was 108.6 billion dollars while the Federation debt was 11.3 billion dollar in 1994. The ratio of total government debt to GDP reached to %74.1 at the same year. The Federation applied to a stabilization program due to huge amount of external debt and high rates of inflation along with political instability in 1994.

Wiel (2013) stated the Stabilization Program concentrated on decreasing high level inflation and external debt. After the application of the program the Soviet Union debt decreased from \$108.6 billion to \$91.4 billion in 1994 and 1997 respectively. However, Russian Federation debt was in the continuous upward trend. The rate of total government debt to GDP decreased half-and-half at the same years. It can be mentioned that the Federation went in debt to cover the union debt. Even though the total government debt went in higher debt amount the rate of total debt to GDP was in decreasing-prone between the years of 1994 and 1997. The Asian Crisis in 1997 affected the economy of Russia in negative side and that energy prices in Russia decreased which caused to decrease income of the country. The stabilization program answered positively on inflation rates which decreased from %874.6 to %14.8 in 1993 and in 1997 respectively. However, on the other side the interest rates could not be under controlled and reached to %69.3 in 1996. Exchange rates were aimed to be appreciated to attract the foreign investments. However, Rouble lost its value at high levels and depreciated from %0.99 to %5.78 in 1993 and in 1997 respectively. While the policy on inflation rates was successful the interest rate and exchange rates could not be successful.

The loss of domestic currency manifested on the current account balance. The current account was in surplus as 8.4 billion dollars in 1994 which decreased to 2.1 billion dollars in 1997. The net direct and portfolio investment tended to rise after the year of 1996. The direct investment rose from 1.5 to 1.7 billion dollars and the portfolio investment rose from -2.4 to 18.5 billion dollars in 1995 and in 1997 respectively. However, net international reserves went in negative side and decreased from 0.1 billion dollars to -0.2 billion dollars. Consequently, the country experienced high level of capital outflow.

After the financial liberalization in 1991 many banks were established in Russia. These banks had an opportunity to operate with high profit margins through high yielding currency transactions. There was a relationship between the government and some big firms called as “crony capitalism” which harmed principle of transparency in the banking sector and prevented the government to enclose its economic problems. The amount of short term foreign debt of a country against its export or GDP is high means that there is a liquidity risk in that country and the country is crisis prone country. The weakness was generally seen on the crises. Chiodo et al. (2002), Russian foreign liability increased from 7% in 1994 to 17% in 1997 after the borrowing from foreign markets.

Malkoc (1998) stated Russian government was provided 21 billion dollars financial assistance in 19<sup>th</sup> July 1998. The government applied to the decreasing inflation and contraction monetary policy and continued to keep the Rouble worth, did not devalue domestic currency. After the privatization process Russian enterprises were handled by the workers and especially executives and many of the executives adopted Soviet Management which was not effective in the market economy. Another problem was the lack of capital investment. The main problems of the economic growth were insufficient capital investment, undesired to sell the enterprises and lack of information for the foreign investors. The rate of M2 of GDP was approximately 12-17% (Komulainen, 1999). The rate of M2 of GDP shows the currency in circulation in the market and the low rate means that liquidity is in low level in the country.

The Russian economy was affected by the external shocks such as foreign investors' panic risk and decreasing oil prices due to dependence of capital inflows. However, the exchange rate system just could be broken out by the government fault and a crisis in the banking sector. The exchange rate system was devastated by the external shocks at the end of 1997 (Suppel, 2003).

Russia applied financial liberalization policy in 1990s as the other developing countries to be able to struggle with financial problems in the economy. The policy seems to be remedy for financial problems which could bring more financial problems into the economy due to other problems. If the country applied to the policy which has structural problems could drop into worse economic structure. Further more if the country faces with other significant problems like political instability would cause mistrust of investors both foreign and domestic and the liquidity would slip out of the country. The Russia Economy experienced similar situation in 1992. The country had already structural problems and was in negative effects of Soviet Union. Even though Russia has survived with the problems the country could not hurdle and felt into the crisis in 1998. In addition, the negative external shocks caused to fell the country in unsuccessful economic position.

## **5. The Argentina crisis in 2001**

Onder (2002) emphasized that sources of the underground and aboveground, especially oil sources which brought economical development before 1930s. Argentina had concentrated on the revenue of export. The dependence of the economy to export revenues bought sensitive of the economical structure. Onder (2002) stated that the sector of industrialization was financed by foreign resources and the economy was depended on the external trade and foreign resources inflows. The dependence of external sources means that the country has fragile structure against external shocks. Thus, the Great Depression in 1929 was a major blow for the economy of Argentina by virtue of weakness economical structure.

The inflation rate increased from %160 to %373.7 and public deficit rose from \$2.6 billion to \$14 billion in 1979 and 1983 respectively which clearly indicate the country faced with high inflation rate and high public deficit. The high inflation and public deficit problem were in huge amount by the beginning years of 1980s. While the deficit could be decreased to 5.5 billion dollars the inflation could not be controlled and reached to huge levels as %688 in 1984. When coming to the years of 1980, the public deficit came to chronic deficit position. The problem brought the need of international agreement which was signed with IMF under the name of Austral Plan in 1985. The application of financial liberalization policy has been begun formally by the plan. Onder (2002), the government could not control the prices and wages and also the capital inflows were in low level.

Hanke (2001), the country applied fixed exchange rate policy as the other developing countries by the economic program in 1991. The regime was called as "Convertibility Law" (Currency Board) and the applying reason of regime was to eliminate the hyperinflation. In this regime 1 Peso equalized to 1 US dollar. The domestic currency started to be appreciation due to the fixed exchange rate regime which would create a competition problem in external trade. If the real exchange rate index assumes 100 in 1990 that the rate was rising continuously from %104.5 to %163.7 in 1991 and 1996 respectively which caused decreasing value of the domestic currency.

Hacıhasanoğlu (2005), the program contained the reforms which were; monetary, financial, public sector, social security and trade. Social security reform may be called as privatization policy due to the system was privatized after the plan. Financial and trade reforms were depended on the policy of liberalization. The monetary reform aimed to apply peg exchange rate regime to control the high inflation rates. All these reforms concentrated on covering the high public deficit. The monetary base based on the international reserves of Central Bank. The Central Bank could only apply the policy to protect the rate and work as currency board. The Central Bank was eliminated to finance the public deficits, the foreign currency was lead to use in market transactions and the liquidity assets were let to keep in foreign currency by the law (Ucgoz, 2005).

The international reserves tended to rise and increased from 6 billion dollars to 18.1 billion dollars in 1991 and 1996 respectively. The policy of decreasing inflation was successful and the inflation rate declined from %84 to %0.1 in 1991 and 1996 respectively. Even the international reserves begun to decline in 2000 the inflation rate was going in negative side %1.5 in 2001. Tufekci (2008) stated that Mexican Crisis pushed up the interest rates from 3% in 1994 to 25% in 2001. The reforms were successful in the first years. Feldstein (2002), however, the budget deficit increased in later years and the deficit was intended to cover by increasing taxes or borrowing which disturbed the public financial discipline. The Mexico crisis and rising interests in US caused the direction of the short term capital movements in negative position. The privatization policy could be seen as temporary solution for the liquidity or deficit problems.

The trade balance was in positive side by \$8.175 thousands and the export was almost triple of import in 1990. The trade balance reached to \$5.652 thousands in negative side by import exceeding export with %8.42 and %6.2 respectively in 1994. Feldstein (2002), the country has been in continuously deficit of current account balance after trade and financial liberalization. The trade balance was in negative side from the beginning of 1992 until 1999. The external debt was continuously increasing from 62.3 to 146.3 billion dollars in 1991 and 2000 respectively. The IMF has suggested the privatization policy and Social Security System was in significant position for the country. Yeldan (2005) stated that the Social Security System has been privatized by the intense pressure of IMF which caused the imbalances of public finance.

The external public debt was 52.739 million dollars which consisted of %27.8 of GDP in 1991. After the convertibility plan, even though the external debt was increasing continuously the percentage of the debt against GDP was floating slightly until 1998. After year of 1998 the external debt reached to 85.657 million dollars as the rate %30.05 of GDP and internal debt %20.85 of GDP in 2000. The country dropped into huge aggregate debt as %50.9 of GDP in 2000 which meant that the life standard lowered half and half. Following the high debt, the interest payment increased from 3.984 million dollars to 11.507 million dollars in 1992 and in 2000 respectively. Tufekci (2008) defended that the overvalued Peso also increased the consumption excessively which caused increasing of the import and current account deficit. The country could not create resource to finance its external debt. IMF suspended the financial assistance due to unfulfilled criteria. The interrupted financial assistance triggered the country in trouble economic position.

The growth of the economy in Argentina had fluctuation structure between the years of 1990 and 1998. The country had %2.2 growth rate in negative side in 1990. After applying the peg exchange rate regime, the rate turned in positive side as %10.5 in 1991. The rate went in positive side until the year of 1994. However, the economy of country had still affected by any external shock and the Mexican Crisis begot the economy turned in negative side as %2.85 in 1995. The country went in hard economic position in 1999. DTM (2002), the foreign investors started to worry about their receivables in 1999. The country risk position increased against the other rising markets until 2001. The account withdrawn caused the decreasing %18 in the account of banking system in 5 months which was experienced due to Tequila (Mexico) crisis in 1995. The Peso performed a sharp depreciation and the banking sector went in crisis. The economy shrank 2%20 from 1998 to 2002 (IMF, 2005). The capital inflows decreased from 28.588 million dollars to 6.157 million dollars in 1999 and 2001 respectively.

Tufekci (2008) stated that the massive capital movements became the decisive factor of economy by financial liberalization in 1990 in Argentina. In fact, the country has already applied foreign resources umpteen times since 1930s. The country had no policy which would solve the fragile economic structure. In addition, the high rate ratios and interest rates dragged the country into a debt spiral which could not be resolved. The agricultural resources could be an advantage and any other policies could be applied to protect the country against the external shocks. If care is taken IMF suggested the tight monetary policy to Argentina. Actually, the country needed the policy which would concentrate on the fragile economic structure. The natural resources were in significant position for the country. The important amount of revenue was provided by export which directly gave the economy dependence to the foreign sources. The IMF maybe could analyze the advantages and disadvantages of the country and then suggest the policies country-specified.

## **6. The Turkey crisis in 1994, 2000 and 2001**

Turkey became a member of IMF on 11<sup>th</sup> March 1947 and the first agreement was signed on 1<sup>st</sup> January 1961. The country had experienced to sign 19 agreements with IMF until now.

The Crisis of April 1994 should be analyzed since the economy of 1980s. The liberalization policies came to be popular position around the world. The IMF was suggesting on the liberal policies to the countries which faced with economic recession. The policies proposed to increase the effect of market mechanism instead of government interventions on the economy. Ozturk et al. (2005) stated that the IMF stabilization program signed on 24<sup>th</sup> January 1980 aimed to reduce the effect of government intervention on the economy by concentrating on the market economy.

Table 2 reported the suggested free interest rate policy by IMF did not work on interest rates and rose from %33 to %74.8 in 1980 and 1993 respectively. The controlling prices were quitted and the value of the domestic currency was decreased at high level. If the exchange rate assumes that equal to 100 in 1980 it is clear the currency devaluated to 180.2 in 1993. In contrast the export exceeded the import which lagged behind much of the import and the external trade deficit increased continuously. On the other side, controlling inflation policy was successful and decreased from %101.4 to %38.85 in 1980 and in 1987 respectively. However, after the year the inflation tended to increase and reached to %66.2 in 1993.

The policy suggested decreasing the money supply. However, the government could not be successful and the money supply reached to 533.048 YTL in 1993 while was 1.072 YTL in 1980. On the other side, the country encouraged the investments to attract the foreign sources and the capital inflows increased from 97 to 821 million dollars in 1980 to 1988 respectively. However, the policy could not be successful and budget deficit continued to increase due to borrowing with high interest rates. The interest payment increased from %0.6 to %5.8 and the budget increased from %-3.1 to %-6.7 of GNP in 1980 and 1993 respectively. In addition, the current account balance went in harder deficit and rose from %-1.4 to %-7.9 in 1988 and in 1994 respectively.

The formation of financial crisis was triggered by overvalued domestic currency, rising budget deficit and reduction of foreign currency reserves. As a result, the scarcity is occurred in liquidity. The overnight interest rates jumped from %69.63 to %92.04 from 1993 to 1994 respectively. The country could not be rescued to fall in crisis and faced with crashes in the economy in 1994.

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**Table 2.** Some economic indicators in Turkey (1980 – 1994)

Years	Inflation	Exchange rate (1980=100)	Annual interest rate on saving deposits (%)
1980	101,4	100	33
1981	34	102,6	35
1982	28,4	109,4	50
1983	31,39	118,5	45
1984	48,4	123,1	45
1985	44,95	136,5	55
1986	34,62	112,5	48
1987	38,85	125,3	58
1988	73,7	136,5	83,9
1989	63,27	143,5	58,8
1990	60,3	160	59,4
1991	65,9	160,6	72,7
1992	70,1	175,9	74,2
1993	66,2	180,2	74,8
1994	106,26	164,4	95,56

(Karagoz, 2009)

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On the other side, Mexico also ran in crisis in December 1994 at the same year of crisis in Turkey. After the crisis capital inflows increased due to the high interest rates between the years of 1995 and 1997 and also the current account felt into deficit at the same years. Domestic currency has continued to depreciate by approximately double depreciation in every year while the inflation rate was higher than the depreciation rate. Topallı (2006) stated that capital inflow was encouraged by the overvalued domestic currency and interest rate arbitrage based on high real interest rate and overvalued domestic currency increased the import and consumption, export and fixed capital investment affected negatively. The interest rates on saving deposits were at high levels as approximately %90 from 1994 to 1998.

As summary, the most of economic indicators in the country was in negative side by 1998. Even though approximately doubled rising of the budget income the budget deficit continued to rise by virtue of high increased expenditure. While the expenditure reached to 15.500 million TL and the deficit actualized as 3.697 million TL the income was 11.887 million TL. The capital movements were in negative side as 840 million dollars and the ratio against GNP actualized as %0.22. In addition the aggregate debt to GNP reached to %46.8 which means each individual born in debt as the same ratio. The other economic indicators which were overnight interest rates and the exchange rates actualized as %79 and 261 TL respectively. The inflation could not be under controlled and reached to %84.6 in 1998. The country decided to apply another IMF stabilization program to decrease the inflation in July 1998. Keeping interest rates in high levels was not successful in the program. The rates actualized as %46.7 and %45.6 in 1999 and in 2000 respectively. The capital inflows increased in those years despite the low interest rates. Serdengeçti (2002) stated even though the capital inflows increase the economy become vulnerable position against the external shocks. The overnight rate in the interbank stroke up to increase from 13<sup>th</sup> November and it was %81.45 in 15<sup>th</sup> November. The rising of interest rates decreased the value of bonds which was in risky position in the banks'

balance sheets. The banks went into the liquidity problem and sold the government bonds which created thrust on the overnight rates (Eren et al. 2001). The crisis of November 2000 was the currency-liquidity crisis.

Turkey applied another IMF stabilization program in 2001 with the aim of controlling liquidity. The liquidity which was created by the Central Bank's open market operations would be determined by net domestic assets application. The aim was to limit the public sector credits. According to the program money supply would be determined by capital inflows and interest rates in the market. If the capital inflows were high then the interest rates would fall which would cause reduction of new capital inflows and if *visa versa* then the new capital inflows would be increased (Imer, 2003). However, the interest rate was %62.5 and capital movements actualized as -14.198 million dollars in 2001. Another important indicator was the rate of aggregate debt to GNP. The rate increased %58.9 to %78.3 in 2000 and in 2001 respectively.

The overnight rate was in high levels on November 2000 crisis. The domestic and foreign fund maturity was shortened by virtue of risk premium after November crisis and the interest rates were in the highest level on February even though it was decreased on January. The political tension between the Prime Minister and President triggered the speculative attack and the foreign currency crisis aroused on February 2001. The overnight rate increased to %6200 in the interbank market as approximately %4018.6 in 21<sup>st</sup> February. Uygur (2001) stated the foreign reserves of the Central Bank were 27.94 billion dollar in 16<sup>th</sup> February and decreased to 22.58 billion dollar one week later. The Central Bank floated the exchange rate in 21<sup>st</sup> February.

The February 2001 crisis was the foreign currency crisis which caused the collapse of fixed exchange rate regime (Imer, 2003). The trust against the government was lost because interest and exchange rates could not be decreased to the desired level and performed privatization process. The government depression and November 2000 crisis triggered the February 2001 crisis. Karluk (2002) emphasized the economy was contracted approximately %9, national income decreased 51 billion dollar, the per capita income decreased to 725 dollar, 1.5 million people were unemployed, inflation was over %70, the interest payment of treasury increased %101 and the debt burden of internal and external increased after the February crisis.

Kansu (2004a), the policies from April 1994 crisis to 2000-2001 crises were to apply the high interest rate policy for increasing the capital inflow and prevent the capital outflow and insure fully the bank accounts. The interest rates on saving accounts were at high levels especially after the 1994 crisis. While the interest rates were approximately %74 in 1992 and in 1993 after 1994 crisis the rates increased to %96.6 in 1997. It can be emphasized that the applying high interest rate policy was successful for 5 years. However, the rates intended to fall again before 2000 crisis as %46.7 and %45.6 in 1999 and 2000 respectively. The rates were seemed a tendency to increase slightly as %62.5 in 2001. Tufekci (2008) stated that the capital movements of Turkey have a similar structure with the other developing countries. The high growth rate was based on import, the public expenditures were at high levels in Turkey and the country was not successful for attracting the foreign capital between 1990 and 2000.

The arrangements in the banking sector had affected the formation of November 2000 and February 2001 crises negatively. The banks stroke up financing public sector deficit because of high inflation and public borrowing need and accelerated borrowing from foreign resources with the process of financial liberalization. The public banks were in dominant position in the system and the arrangements and controlling of banking system was not sufficient (Yay, 2001).

The existing problems had to be analyzed and resolved carefully by spreading in time in the banking system in Turkey. However, IMF and World Bank forced the Turkish Banking System overly rapid transformation by ignoring the fact. The excessive forcing caused the confidence depression between the banks and the banks intercepted lines of credit to each other which triggered the liquidity crisis in the banking sector. The November 2000 crisis and February 2001 crisis have been significant damage on Turkey economy. The reason of the destruction was the balance disturbance between inflation, exchange rates and interest rates so the applied stabilization program in 2000 (Topalli, 2006).

The main objectives of the stabilization programs in Turkey were financial liberalization, high interest rates and overvalued exchange rates to attract the foreign capital. On the other side, IMF gave guarantee the banking sector to protect the credits which could not be paid. However, the policy caused to seen moral hazard problem in the country. The financial liberalization policy were successful with high interest rates, however, the country could not be rescued to fall in crises due to fragile structure.

## 7. Conclusion

Considering the crisis policies of IMF concentrates on the liberalization policies. Especially, financial liberalization policies around the world - the countries are already inevitable in an interaction- increased sensitive structure the economy against each other. Any financial movements in a country affected directly the others' economies. On the other side, the policy caused the countries facing with the fragile structure against the external shocks. Fixed exchange rate policies caused to fall the exchange rates in uncontrollable position which directly disturbed the trade balance and current account balance. Because, addition with exchange rate policy the trade liberalization policy was suggested to the countries to apply. The privatization policies and devaluation of the domestic currency policy were applied to cover the budget deficits. However, these policies were not worked and the depreciation of currencies could not be controlled and the budget deficits could not be covered due to disturbing the external trade. IMF also gave guarantees to the governments and banks that if any unpaid credits have been occurred the institution would cover their damages. The guarantee caused to give uncontrolled credits in the market that did not need to risk analysis on the credits. The guarantees caused to consumption the credits uncontrolled and moral hazard problem has been occurred in that countries. The financial liberalization policy was applied and the countries had huge foreign resources to use in order to credits. Any external shocks caused to capital flow out directly and the countries fell into liquidity problems. The other policy was the free or high interest rate policies to attract the foreign resources into the countries. However, the policies also triggered the countries into fragile structure against the external shock.

In this study, the crises in developing countries have been analyzed. There is a significant point that the policies were determined by the countries which had high quotas in IMF accounts. The quotas gave high advantages to the countries when the policies were suggesting to the countries. The policies were determined in terms of their economical structures. The policies did not work in developing countries due to their structural differences. IMF has ignored the structural differences of the countries and suggested the policies by supposing their economies were strong against the external shocks. Every country has its own social and economic characteristics and should be examination of the historical development and political infrastructure. Therefore the stabilization programs should be prepared in the form of country-specified to catch more successful in the applied policies.

Actually, IMF programs have tended to be less strongly tied to quotas in recent years. At the same time, emerging and developing countries have kept asking for more say in Fund's decisions, irrespective of their potential needs in terms of the finance. In fact, the rising emphasis on the surveillance role of the IMF is consistent with greater weight given to the last purpose of quotas clarifying voting rights – relative to the others. These moves may have complicated the discussions on IMF quotas, as the overlap between the different functions of quotas has loosened over time, suggesting different formulas for each function. Of course, there is an undeniable fact that the countries should struggle to apply the suggested policies. And also, the political environment is an important issue for the stabilization of their economies.

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