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TURKEY'S FEBRUARY 2001 CRISIS:
PRELUDE, ANATOMY, CONSEQUENCES AND PROSPECTS

BY

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INTRODUCTION:

The objective of this study is to present an analysis of the facts associated with the Turkish economic crisis of February 2001, its repercussions on the Turkish economy and the policy responses of the Turkish authorities to the crisis.

This research has provided an in-depth analysis of the major economical factors that led to the February 2001 economic crisis in Turkey. As such it presented a better understanding and knowledge about the specific reality and situation of the Crisis and the factors that influenced both its emergence and perpetuation.

Such investigation may help in developing better understanding of the economic problems in Turkey and in the adoption of preventive interventions to limit its recurrence and expansion. Moreover the findings of this research may be used to pave the way for further intensive investigations or similar comparative research in other countries in the region.

The thesis will also investigate what can be considered the main underlying factor in the origins of the crisis in Turkey: namely the banking crisis within the system. As the Thesis will show, the banks and especially the state-owned ones, have been important elements

in the politics of Turkey. These banks had fostered a culture of material advantage, personal relations, dependency, and loyalty, especially in the distribution of subsidies to farmers.

The repercussions of the crisis were immediate, in the aftermath of the February 2001 crisis, the Turkish economy contracted by 2%, the Turkish Lira was devalued 30% against the U.S Dollar and the Central Bank lost 25% of its reserves. Finally, interest rates skyrocketed and the inflation rate reached 50%¹.

A stabilization program, later strongly supported by an IMF (International Monetary Fund) Stand-By loan was launched on May 15, 2001. The new program which was formulated and implemented by a new team of technocrats led by a former World Bank official, Kamal Dervis, sought to project a better picture of the Turkish economy.

The problems in Turkey did not suddenly arise in February of 2001. They arose under successive governments during the decades of the 1980's- 1990's, leading to a progressive decline in the political and economic environment. There have been repeated economic crises, and widespread economic instability. There have also been social,

¹ Aliriza, Bulent. 1999, June 10. The New Government Approved. www.csis.org.turkey.

political, and economic underpinnings as well as social, political, and economic consequences.

After World War II, the U.S. pledged to defend Turkey against the spread of communism. It was at that time that Turkey became a member of NATO. Turkey wanted to prove itself to the West, and under the secular successors of Kemal Ataturk, the founder of modern day Turkey, sought to modernize and align with western ideals². Turkey was important to the U.S. during the Korean War, the Cold War, the Second Gulf War as well as in the peacekeeping operation in Bosnia. Turkey has taken part in humanitarian efforts such as the Somalia Operation Restore Hope, and Turkey has steadfastly supported the Iraqi oil embargo, at great cost to the Turkish economy and people³. In addition to playing an active role in NATO, successive Turkish governments sought to obtain EU (European Union) support for Turkey admission to the EU.

Turkey first made an application to the EU as early as 1963 but has repeatedly been turned down, even as other countries have been admitted on shorter notice. The Turkish economic burden on the EU's

² Kanter, Arnold. 1996, July 4. Turkey at the Crossroads. The Forum for International Policy-
ffip.com/Turkey/

³ Ibid.

budget represents the greatest obstacle for its membership in the union⁴.

While Turkey so far has failed in its bid to have full EU membership it has signed a series of agr ments that freed its trade with the EU⁵.

⁴ European Union Country Report. 1999.

⁵ Relations Between Turkey and the European Union. www.mfa.govt.tr

OVERVIEW OF THE TURKISH ECONOMY / STRUCTURE OF THE ECONOMY SINCE THE EARLY 80s

This chapter is mainly about the corruption in the Turkish banking sector and its direct correlation with the problems of the Turkish economy.

CORRUPTION IN THE TURKISH BANKING SECTOR:

Commercial banks offer an approximate picture of a country's economy because they finance much of its real assets⁶. An alternative source of finance capital is the stock market. However even though the Turkish Stock Market is relatively active (compared to the countries of the region), traditional lending (at least up to the early 1980's) remained the principal source of working capital for most enterprises. Firms generally opted to raise capital through commercial bank loans rather than open themselves up to stock markets, where outside investors would require information about

⁶ Clement M. Henry and Robert Springborg. 2001. Globalization and the Politics of Development in the Middle East. Page 85.

their investments.⁷

This dependency on commercial banks financing rather than stock market financing is a characteristic of the German banking model where the banking sector is more autonomous (as opposed to the Anglo-American where the main financing source is through the stock market).⁸

However (by the mid-1980's), despite its historic ties to the German model, Turkey seemed to have started moving toward the diversified Anglo-American model especially due to the fact that its stock market is becoming by far the most active market in the region, and offers an alternative to finance capital, that is dominated by a small number of holding companies and commercial banks.

Until the 1980's Turkish Capitalism seemed largely inspired by the German model, yet its commercial banking system also retained a significant public sector. Turkey's structural adjustment loan (from the IMF) for the financial sector was not fully disbursed in 1988 because the government could not carry out certain commitments concerning the reform of Ziraat Bankasi, the public sector agricultural bank that

⁷ Ibid. Page 86.

⁸ Ibid. Page 87.

holds a quarter of Turkey's commercial banks deposits. Ziraat is also the government's principal patronage vehicle for rallying votes from the countryside.⁹ In 2000 Turkey received yet another structural adjustment loan in return for a commitment to reform the Ziraat Bank¹⁰.

One of the underlying factors in the origins of the February 2001 crisis in Turkey was the banking system. The banks, and especially the state-owned ones, have been important elements in the politics of Turkey. Corruption was at the core of the banking system especially within the state owned agricultural banks. Loans were given to farmers based on the criteria of winning loyalty or additional votes for elections and not on credit worthiness. In fact about 43 percent of all employed persons in Turkey work in agriculture.

Many analysts argue that the corruption in the banks is one of the main problems in the Turkish economy. An operation dubbed "Hurricane" was conducted (end of year 2000) by Interior Minister at that time Sadettin Tantan in order to try to clean up the banking sector. Tantan was cooperating with the Bank Supervisory and

⁹ Ibid. Page 93.

¹⁰ Ibid. Page 93.

Regulation Body (BDDK) under the direction of Zekeriya Temizel. BDDK was created under pressure from the IMF and the World Bank¹¹.

By the end of 2000, ten banks whose funds had been defrauded by the bank owners or business partners of the owners were taken over by the Turkish state. It was obvious that the banking system was too much correlated with the government in Turkey, and one notices that the supervisory boards of the banks included retired army generals¹². Loyalties were repaid with credits, and the whole arrangements among the banks, the government and the agriculture segments of the economy were paid for by printing more money, driving up inflation and increasing the national debt¹³.

In 1980, Turgut Oezal, the minister of economics at that time, then the prime minister until 1989, then president until his death in 1993, abolished any obligation to prove the origin of foreign exchange. He also approved high export subsidies. These conditions (mainly abolishing the obligation to prove the origin of foreign exchange)

¹¹ Ibid. Pages 3,4.

¹² Ibid. Page 5.

¹³ Ibid. Page 5.

made Turkey an attractive center for money laundering¹⁴.

In 1992, Dogan Gueres assumed the position of the chief of the general staff, and in 1993, Demirel became president and Tansu Ciller became prime minister. Under their rule, special units somewhat like death squads, terrorized the Kurds in southeast Turkey. Certain Mafia leaders such as Alaatin Cakici, fascists such as Tugrul Tuerkes, and those Kurdish chiefs who chose to remain loyal to the state, such as Sedat Bucak, became quite rich and powerful, the latter amassing a private army of more than a thousand men¹⁵. State bureaucrats and policemen assumed control of drug trafficking. These people have little to fear because of their close ties with the army¹⁶. The interlacing of the army and big business is a tradition in Turkey. Some supposedly non-profit organizations, such as the Foundation for the Stabilization of the Turkish Security Forces, enjoy tax exemption but in reality are large business enterprises which hold shares in European and American companies such as Goodyear, Mobil, Shell, Renault, and Tuerk Telekom¹⁷.

¹⁴ Ibid. Page 5.

¹⁵ Ibid. Page 6.

¹⁶ Ibid. Page 7.

¹⁷ Ibid. Page 7.

There is a severe division between the rich and the poor in Turkey. The richest twenty percent of the population holds more than half of the wealth, and the poorest twenty percent barely gets by on five percent of the wealth. A third of the population lives at the poverty line, and for about twenty percent, hunger is a daily reality. Many people have two jobs and work almost around the clock in order to keep their families alive¹⁸.

THE APRIL 1994 CRISIS:

According to Oya Celasun of the World Bank, difficulties started to arise as early as 1989, in fact there were remarkable policy mistakes committed on the monetary front which were aimed at controlling the growing domestic debt¹⁹. In order to lower the very high levels of domestic public debt the Turkish Treasury decided on cutting of interest rates on Treasury Bills. Several auctions of short term maturity were cancelled and the Treasury started to rely on cash advances from the Central Bank (which started to loose its reserves). This was the major trigger behind the crisis of April 1994, where the

¹⁸ Ibid. Page 8.

Turkish Lira was devalued by 50 % in one day²⁰.

THE NOVEMBER 2000 CRISIS:

In November / December 2000 there were increasing signs that the financial system is heading for another crisis, the origins of which were embedded in the banking system. In fact interest rates were pushed to more than 1,700 percent²¹. By December 2000, ten banks were in receivership (e.g taken over by the Central Bank), and the IMF was urging Turkey to close more banks²². Many of the failed banks apparently were involved in corrupt deals, making unsound loans to businesses owned by the bank officers and directors, as well as to politically connected persons.

The Central Bank of Turkey was losing its reserves (more than half), selling off its reserves to other banks, bailing them out, resulting in increases in the exchange rate. The Central Bank injected about \$6 billion into the economy in December 2000 rather than moving to step

¹⁹ Celasun, Oya. April, 1998. The 1994 currency crisis in Turkey. Page 1. www.worldbank.org

²⁰ Ibid. Page 3.

²¹ Beams, Nick. December 6, 2000. Turkish banking crisis: another indication of global turbulence. Page 1-2. www.wsws.org

²² Ibid. Page 2.

up bank closures²³. This cash infusion came against a disinflationary program adopted by the Turkish government at that time which banned domestic credit creation. Banks and other institutions began cutting back on credit, thus dramatically increasing overnight (inter-loans) bank interest rates. It seemed that the deterioration of Turkey's financial situation did not bother the policy makers in the profit making banking sector too much, as long as there was access to capital²⁴.

This atmosphere of uncertainty was one reason behind the eruption of the February 2001 crisis, which will be examined in details in the coming Chapter.

²³ Ibid. Page 1.

²⁴ Celasun, Oya. April, 1998. The 1994 currency crisis in Turkey. Page 24. www.worldbank.org

ANATOMY OF THE FEBRUARY 2001 CRISIS

This chapter will mainly tackle the February 2001 crisis- the prelude, the anatomy and the consequences.

PRELUDE TO THE FEBRUARY 2001 CRISIS:

The Three Party Coalition Government:

When Prime Minister Bulent Ecevit, the leader of the Democratic Left Party (DLP), was asked to form a new government on May 3, 1999, Ecevit couldn't reach a coalition agreement until the end of the month. On May 29, 1999 Ecevit announced his three-party coalition formula with Delvet Bahcelli, the leader of the Nationalist Action Party (NAP) and Mesut Yilmaz, the leader of the Motherland Party (MP)²⁵.

The dream seemed to be coming true: an unlikely but durable three-party coalition took office, drew up a disinflation program with the IMF, became a candidate to join the European Union and set about all manner of reforms with zeal²⁶.

²⁵ Aliriza, Bulent. 1999, June 10. The New Government Approved. www.csis.org.turkey.

²⁶ The Economist. February 2001. "Turkey on the brink again". Page 1.

The Disinflation Program:

In collaboration with the IMF, the new Turkish government of Ecevit launched a disinflation and fiscal adjustment program for the years 2000-2002. The Turkish authorities have decided to embark on a strong program designed to free the country from the high inflation that had plagued the economy for two decades, to restore macroeconomic fundamentals, and to address the long-standing structural weaknesses in the economy²⁷.

The large adjustment in the primary fiscal balance was meant to help re-establish fiscal solvency and reduce inflation. With full implementation, the program should have restored Turkey's credibility vis-à-vis markets. In particular, rigorous implementation of the budget, and the mobilization of resources through the privatization program which are necessary to lower the need for domestic borrowing and hence support the decline of interest rates²⁸.

²⁷ International Monetary Fund, December 22, 1999. "IMF approves US\$4 Billion Stand-By Credit for Turkey". Press Release No. 99/66. www.imf.org/turkey

²⁸ Ibid.

Program Summary:

Turkey's economic program centered on an ambitious goal: freeing Turkey from inflation and enhancing the prospects for growth and for a better standard of living for all sectors of society. The persistent cause of inflation in Turkey has been the weakness of public finances, as the large and sustained primary deficits that emerged during the 1970s and continued during the 1980s and 1990s were, to a large extent, counterbalanced by Central Bank money injection²⁹.

The government's program rests on three pillars: up-front fiscal adjustment, structural reform, and a firm exchange rate commitment supported by consistent income policies. The fiscal adjustment is necessary because the weakness of public accounts is the ultimate factor behind high inflation. Structural reform is needed to make the fiscal adjustment sustainable; improve economic efficiency; and, through increased privatization receipts, facilitate the decline of public debt. A firm exchange rate commitment and consistent income policies are needed to bring

²⁹ Ibid.

inflation and interest rates down more rapidly, particularly in the first phase of disinflation.

The main fiscal goal for 2000 was to raise the primary surplus of the public sector-which includes the consolidated central budget, the extrabudgetary funds, the local government, the nonfinancial state enterprises, the central bank, and the so-called duty losses of state banks-to 2.2% of GNP in 2000 (or 3.7% excluding earthquake-related expenses, which are estimated at about 1½% of GNP). Fiscal policy was to be complemented by a more active and diversified debt management policy and through the acceleration of privatization, so as to contain the burden of interest payments³⁰.

Monetary and exchange rate policies were to be guided by two considerations. First, disinflation and a rapid decline in interest rates required that the monetary and exchange rate developments become more predictable to reduce uncertainty on the value of financial investment for both residents and nonresidents. Second, to avoid being locked into a monetary and exchange rate framework that may lead to unnecessary rigidities in the long run,

³⁰ Ibid.

the program called for a transparent and pre-announced exit strategy from this exchange rate regime³¹.

Structural reforms were designated to make the fiscal adjustment implemented in 2000 under this program sustainable over the medium term, to lower the burden of interest payments on public sector debt, to improve transparency and economic efficiency, and to reduce the contingent liabilities of the public sector. In the fiscal area, reforms will aim at strengthening public finances, providing better services to the population over the medium term, reducing inequalities in the tax burden, and reducing waste in public expenditure. To address distortions built up in the agricultural sector, the government aimed to phase out existing indirect support policies over a two-to-three year period and replace them with a direct income-support program. In the area of privatization, the government was committed to disengage further from economic activity, raising sizeable receipts for debt reduction, through major privatization operations in the key sectors of telecommunications and energy³².

³¹ Ibid.

The program was working well. Inflation was falling from almost 100% a year to the mid-30s. Debt-servicing aside, the government was running a healthy and growing budget surplus on the primary account.³³

However, the outlook has turned much gloomier. In May 2000, the government coalition came to blows over the selection of a new president. In November 2000, a banking crisis brought the country to the verge of financial collapse before the IMF rose to the rescue with a \$7.5 billion loan³⁴.

Then, on February 19th 2001, the prime-minister stormed out of a meeting with the president (Ahmed Necdet Sezer), leading to a political feud. The markets, naturally enough, took the news badly: within two days, the Istanbul index had fallen by 63% from its peak, having plunged by 18% on that day alone. The local traders, like Turks in general, feared that internal fighting would distract or even topple the government, and hence bring Turkey's much-needed

³² Ibid.

³³ The Economist. February 2001. "Turkey on the brink again". Page 1.

³⁴ International Monetary Fund, December 21, 2000. Press release No. 00/80: IMF Approves Third and Fourth Turkey Reviews and US\$ 7.5 Billion Supplementary Reserve Facility Credit. www.imf.org.

economy to a collapse³⁵.

The irony is that the latest crisis, had little substance. Ahmet Necdet Sezer, the president (elected in May 2000), apparently admonished Bulent Ecevit, the prime minister, for his half-hearted pursuit of corrupt politicians during a meeting at the National Security Council on February 19th, 2001³⁶. Sezer accused Ecevit of protecting his governmental associate from corruption probes and impeding the progress of eradicating corruption in the Turkish banking system. Sezer pushed for further corruption probes and publicly said that no person is untouchable³⁷. Ecevit, no doubt feared that too ardent an investigation into several suspect ministers would prompt the collapse of his already awkward coalition.

Reportedly, Ecevit stormed out of the meeting at the National Security Council because of coming under fire from Sezer. He made an emotionally charged speech in front of his parliamentary group: "It's clear, the president and I have serious political differences. We are still obliged to work together, and whatever happens, we must

³⁵ The Economist. February 2001. "Turkey on the brink again". Page 1.

³⁶ Aliriza, Bulent. 2001, March 5. Corruption at the Core. www.csis.org/turkey

³⁷ Aliriza, Bulent. 2001, March 5. Corruption at the Core. www.csis.org/turkey

ensure the work of the state continues”³⁸.

Ecevit seemed genuinely surprised that this disagreement has sent the markets tumbling, and held a press conference to say that he would not allow his differences with the president to interfere with the disinflation program³⁹.

Unfortunately, the program's fate was out of Ecevit's hands. Jittery investors (many of them foreigners) pulled \$5 billion out of Turkey on February 19, 2001 alone. At that rate, the central bank's foreign reserves of around \$20 billion would soon have run out⁴⁰.

Consequently, on February 22, and at the request of IMF officials (namely Stanely Fischer, First Deputy Director of the IMF, and one of the architects of the relationship with Turkey who by coincidence was visiting Turkey during the crisis) the government announced it would allow the Turkish lira to float freely. In other words, the government decided to devalue and abandon the currency peg (a vital component of the disinflation economic program) in order to prevent a total banking collapse during the night of February 22-23⁴¹. Since the

³⁸ Aliriza, Bulent. 2001, March 5. Corruption at the Core. www.csis.org/turkey

³⁹ The Economist. February 2001. "Turkey on the brink again". Page 1.

⁴⁰ Aliriza, Bulent. 2001, March 5. Corruption at the Core. www.csis.org/turkey.

⁴¹ Ibid.

government's chief method of taming inflation has been to devalue the lira gradually along a predetermined path, the risk was that inflation would jump⁴².

The last time Turkey faced a similar situation was in December 2000. At that time the IMF averted a total collapse of the Turkish banking sector by approving a supplementary reserve facility credit for USD 7.5 billion⁴³.

The cost of borrowing began to increase again and access to funds became expensive. Foreign capital was going out of the country, and Turkey found itself in a vicious circle of wobbling banks and spiraling interest rates. As a condition of its life-saving loan, the IMF insisted that the government clean up the banks and speed up privatization to lure back foreign investment⁴⁴.

It was the government's slow progress on both these fronts (cleaning up banks and privatization) since November 2000, rather than the dispute between Ecevit and Sezer that scared investors. The sale of a 33.5% stake in Turk Telecom, the state-owned fixed-line monopoly, and a 51% stake in Turkish Airlines, a state-owned airline failed to

⁴² Ibid.

⁴³ International Monetary Fund, December 21, 2000. Press release No. 00/80: IMF Approves Third and Fourth Turkey Reviews and US\$ 7.5 Billion Supplementary Reserve Facility Credit. www.imf.org.

his initial comments, Ecevit was confronted by key ministers of the three coalition parties in a show of solidarity⁴⁹. The crisis, on the eve of major government debt auctions, was a blow for Ankara as it was entering a crucial phase in a 3-year IMF plan to cut inflation which reached hundred percent annually in the 1990s. In fact, on February 20, 2001 the Treasury held what was supposed to be its biggest auction of treasury bills, with the aim of selling the Turkish lira equivalent of about USD 4.5 billion. The government needed the money to help redeem \$5.8 billion worth of domestic debt maturing on February 21. Failing to raise the money from the markets, the government would have been forced to print money in violation of its IMF disinflation plan⁵⁰.

On February 22, and after the request of IMF officials (namely Stanley Fischer, First Deputy Director of the IMF) to allow the Turkish lira to float freely, the Istanbul stock market had plunged, interest rates increased dramatically and foreign investors started rushing to exit from the Turkish market⁵¹.

⁴⁸ Turkey, Country Analysis Brief. July 2002. www.eia.doe.gov

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ The Economist, March 2001. "New man new hope". Page 3.

The currency duly shed over a third of its value (Table 1), and inflation, which fell from 100% to the mid 30's in the year 2000, rose to an annual 50%, while the economy contracted by 2%⁵². Yet Mr. Ecevit failed to sack a single minister, not even those against whom allegations of corruption prompted his row with the president. Indeed, he did not even re-shuffle any ministerial portfolios. Instead, he blamed the IMF and its "outdated techniques" for Turkey's economic woes⁵³.

⁵² Ibid.

⁵³ Ibid.

Table 1: Comparative Exchange Rate of the Turkish Lira against the US Dollar During the Month of February 2001

Date	Turkey, Turkish Lira, TRY / U.S.A., US Dollar, USD	U.S.A., US Dollar, USD / Turkey, Turkish Lira, TRY
Feb-28	998802.40	0.0000010
Feb-27	1072474.00	0.0000009
Feb-26	1057430.00	0.0000009
Feb-23	1075404.00	0.0000009
Feb-22	687090.80	0.0000015
Feb-21	687090.80	0.0000015
Feb-20	686229.80	0.0000015
Feb-19	685325.80	0.0000015
Feb-16	685325.80	0.0000015
Feb-15	681591.70	0.0000015
Feb-14	678755.30	0.0000015
Feb-13	678210.60	0.0000015
Feb-12	679735.65	0.0000015
Feb-09	677453.77	0.0000015
Feb-08	677798.50	0.0000015
Feb-07	675419.80	0.0000015
Feb-06	674801.30	0.0000015
Feb-05	673472.20	0.0000015
Feb-02	673472.20	0.0000015
Feb-01	673002.20	0.0000015

THE FINANCIAL AND POLITICAL ASPECTS OF THE CRISIS:

The Crisis undermined the country's credibility at a time when it was trying to join the European Union. The perception was that Turkey simply lacked the political will to reform its economy⁵⁴.

The challenge to Turkey's political establishment was not just facing up to the economic crisis but dealing with popular demands to get things in order. Public opinion appeared to be siding with President Sezer, seen as a white knight in Ankara's political arena. On the other

⁵⁴ Bird Maryann, The Time, March 2001. "A Clash, Then a Crash. Turkish leaders' dispute over corruption and bank reforms ignites an economic and political crisis". Page 17.

hand, it was Ecevit's job, not Sezer's, to keep the unwieldy coalition together⁵⁵. The Turkish military, which watched the clash in stunned silence, probably would have preferred a cabinet reshuffle and perhaps a national-unity government with a few members of its own choosing⁵⁶.

For its part, the U.S. applauded Ankara's decision to float the lira, saying its NATO ally--an important bulwark in a volatile region--had been achieving important macroeconomic and structural goals and would continue to do so⁵⁷.

The road to the European Union was never going to be easy for Turkey, given such problems as its human rights record, its use of the death penalty, the Kurdish conflict and the military's role in the political sphere. Still, the February 2001 events were a wake-up call to the politicians that they have little alternative but to press forward--and that failure to do so will be mercilessly punished by the markets. An unstable Turkey is bad for everybody⁵⁸.

Following the economic "turbulence" which hit Turkey, the

⁵⁵ Ibid.

⁵⁶ Ibid..

⁵⁷ Ibid.

⁵⁸ Ibid.

government had to react to safeguard the situation. Ecevit succeeded to make a cabinet change and the former World Bank official, Mr. Kamal Dervis, was called home to Turkey in March 2001 and named Economy Minister. Confronting crippling debt, corruption and a lira that had lost nearly 50% of its value, Dervish, 52 years old, set about implementing a recovery plan backed by nearly \$16 billion from the IMF and the World Bank. Recent figures show the economy still faced daunting obstacles, but Dervis' actions, notably in bank reform, led a U.S. Treasury Department official to declare Turkey's reform efforts "remarkable"⁵⁹.

REPERCUSSIONS OF THE FEBRUARY 2001 CRISIS AND TURKISH POLICY RESPONSES:

This chapter will explore the ramifications of the February 2001 crisis, focusing on the reforms that the Turkish Government implemented in the aftermath of the Crisis and the IMF responses to the Crisis and to the Turkish reforms.

⁵⁹ Orecklin Michele, *The Time*, October 2001. World Beaters: People to watch in international business".
Page 20.

IMF BAILOUT TALKS:

A delegation from the International Monetary Fund (IMF) and the World Bank arrived in Ankara (beginning of April 2001) to discuss ways to help Turkey deal with the ramifications of the February 2001 crisis, and in general put the banking sector and the economy on sounder basis. The delegation, headed by Lalit Raina from the World Bank, visited the Treasury, Central Bank and the Banking Supervision and Inspection Agency. The delegation also met with officials from state banks⁶⁰.

The meetings mainly focused on the liquidity problem of the state banks. Officials of the delegation underlined that this was the major problem in the banking sector, adding that they would make this a priority and work to bring a solution to the problems⁶¹.

IMF officials pointed out that a consortium led by the IMF and the World Bank had solved the liquidity problem of the banking sector in South Korea, Thailand and Malaysia during the Asian Monetary crisis⁶². It was also pointed out that Turkey could obtain a long-term loan with favorable conditions from a consortium composed of foreign

⁶⁰ IMF in Turkey for Bailout Talks. APRIL4, 2001. www.worldtribune.com.

⁶¹ Ibid.

banks as a part of the IMF and World Bank support.⁶³

TURKEY'S REVISED ECONOMIC RECOVERY PROGRAM:

On March 3, 2001, Kemal Dervis, former vice-president of the World Bank in charge of poverty alleviation programs, was appointed as the Minister of Economy to lead the government's new economic recovery program. Untainted by corruption, an outsider to both Turkish politics and to the IMF, and yet a strict observer of the neoliberal recipes with their latest twist "against poverty and corruption," Dervis seemed to be the perfect choice for the IMF⁶⁴. Before taking his job (as minister of economy), Dervis spent 24 years living in the US, where he worked for the World Bank.

In March, Kamal Dervis was hailed as a Superman and charged with rescuing the Turkish economy.

The IMF was a key player in the months following the February 2001 crisis, the second to hit Turkey in 2 years (after the December 2000 crisis). In fact, on May 15, 2001, and pursuant to the setting by the Turkish government of a strengthened program to address the

⁶² Ibid.

⁶³ Ibid.

root causes of the country's economic problems, the Executive Board of the International Monetary Fund (IMF) approved an augmentation of Turkey's three-year Stand-By Arrangement by US\$8 billion⁶⁵, bringing the total to US\$19 billion. The Board's decision was made in conjunction with the completion of the reviews of Turkey's new economic program. This decision was based on the strengthened program prepared by the new economic team in Turkey⁶⁶. Full implementation of this program was projected to restore macroeconomic stability and address the structural root causes of the country's problems, thereby laying the foundations for the resumption of growth. The Turkish program aimed at strengthening confidence, addressing the costs arising from the crisis by increasing the primary fiscal surplus, speeding up the reform of the banking sector, and undertaking wide-ranging structural reforms. Decisive implementation of the program's policies, together with the availability of significant additional external support, was supposed to initiate a virtuous cycle characterized by lower interest rates, stronger public finances, and a

⁶⁴ World Bank Visit Reminds Turkey of Critical Tasks. February 17, 2002. www.turkishdailynews.com/FrProbe

⁶⁵ International Monetary Fund, May 15, 2003. Press release No.01/23. IMF Approves Augmentation of Turkey's Stand-By Credit to USD 19 Billion. www.imf.org/turkey.

⁶⁶ Ibid.

recovery of economic activity⁶⁷. The emphasis on banking reform was appropriate, especially given the structural weaknesses in this area that were seen during the recurrent crises (especially during the December 2000 crisis). The elimination of public sector banks' large overnight exposure (the banks were highly indebted on short-term periods), their thorough re-capitalization, and the overhaul of their governance structure went a long way to strengthen the financial sector. In addition, measures to privatize key companies and reform major domestic markets, including the telecommunications, electricity, natural gas, tobacco, and sugar markets, and to enhance governance and improve transparency, were essential elements of the program⁶⁸. The program's macroeconomic policies were strong, in particular the major fiscal effort that the Turkish authorities were applying to re-establish fiscal solvency. On monetary policy, the adoption at that time of the new central bank law gave the central bank operational independence in the pursuit of price stability. Before a full-fledged inflation targeting framework was put in place, monetary policy focused on the control of monetary aggregates in the context of

⁶⁷ Ibid.

⁶⁸ Ibid.

a floating exchange rate framework⁶⁹.

The new program Turkey sealed with the IMF in May 2001 had technical differences from the one that was introduced in late 1999, but its essence, i.e. structural reform, was unchanged⁷⁰.

The New Program (May 2001)⁷¹:

The revised program aimed at cushioning the short-term macroeconomic impact of the recent turmoil, while laying the foundation for the resumption of disinflation and growth. To achieve these goals, the authorities had adopted a three-layered strategy: 1) structural policies to correct the distortions underlying the crises, enhance transparency in economic management, and improve governance in both the public and private sectors; 2) fiscal and monetary policies to restore financial stability and facilitate disinflation; and 3) a strengthened social dialogue to promote wage moderation and social protection.

The program's structural policies were geared toward a fundamental change in the way business was done in Turkey. A major bank

⁶⁹ Ibid.

⁷⁰ Ibid.

restructuring was implemented, which aimed at removing the structural weaknesses highlighted during the recent crisis. It included recapitalization of banks under government control, accompanied by measures to enhance governance in public and private banks to prevent past problems from recurring. Fiscal transparency was increased and the role of the private sector in the economy was strengthened through the removal of obstacles to privatization and the promotion of foreign direct investment. In addition to taking steps to facilitate the privatization of Turk Telekom, the government was implementing measures to reform the sugar, tobacco, and natural gas markets, and sell the state enterprises operating in these sectors.

The program included a major fiscal adjustment effort, needed to help finance the additional interest costs arising from the increase in debt.

The fiscal measures aimed to strengthen the primary fiscal position of the public sector, reduce the government's immediate borrowing requirement, and ensure the long-term sustainability of public debt.

The government continued also efforts to involve the social partners in supporting the program, in part through incomes policies aimed at

⁷¹ Ibid.

supporting disinflation and removing some of the existing distortions in the public sector wage structure.

Monetary policy pursued disinflation under a floating exchange rate framework. It centered on the pursuit of monetary aggregates, but over time the authorities shifted to a full-fledged inflation-targeting regime⁷².

These very strong domestic measures were complemented by additional external financing and private sector involvement. The additional financing from the international financial institutions in support of the authorities' program not only fulfilled financial requirements, but also helped in reassuring markets. To boost confidence further, the program included voluntary private sector involvement, in line with the authorities' strong preference for market solutions.

Johannes Linn's (World Bank Vice president) visit in February 2001, looked specifically focused on one part of this reform, namely the regulations which enabled Turkey to attract the foreign direct investment (FDI) that had largely eluded the country; instead, it was flowing into other transitional economies, such as the former Eastern

⁷² Ibid.

bloc countries, where liberalization attempts emerged much later than they did in Turkey⁷³. By not taking full advantage of FDI, Turkey missed opportunities to create more jobs, improve productivity and competitiveness, and raise living standards. This had also contributed to the country's heavy external debt burden⁷⁴. Indeed increased FDI inflows were viewed as a key to extracting the country from its severest recession in fifty years, as economic policies at home were unlikely to allow a forceful recovery. Layoffs in the private sector were anticipated to continue as job cuts in the public sector gained momentum.

It was essential that the three-way coalition government (Ecevit, Bahçelli and Yılmaz) ruling during that period, adhered with those reform policies, as it had pledged to the IMF and to the World Bank. The government has adopted a new action plan for improving the investment environment and promoting FDI, envisaging steps ranging from cutting red tape for company formation and investment approval procedures, to simplification of the tax and investment incentive

⁷³ World Bank Visit Reminds Turkey of Critical Tasks. February 17, 2002. www.turkishdailynews.com/Fr

⁷⁴ Ibid.

regime, and strengthening protection of intellectual property rights⁷⁵.

Another important step in this regard was the arrangements undertaken to increase transparency and good governance in the public sector and the elimination of corruption in public services which according to many observers was a major impediment to foreign investment⁷⁶.

Transparency and good governance in the public sector was one of the many difficult-to-implement reforms ahead for Turkey. A public procurement law, which was effective as of January 2003, overhauled procurement procedures, which have given way to wide-scale corruption in the country. A tobacco law phased out subsidized purchases of tobacco from that year on, and did hurt farmers. The steps taken to downsize the unproductive state sector did hurt the masses⁷⁷.

The decision taken by the IMF Executive Board on May 15th 2001 (which consisted of the IMF increasing Turkey's three year stand-by arrangement by USD 8 billion), was replaced on February 4, 2002 by another decision consisting of approving a three-year US\$16

⁷⁵ Ibid.

⁷⁶ Ibid.

billion stand-by credit for Turkey to support the government's economic program for 2002-2004. This decision enabled Turkey to draw US\$9 billion from the IMF immediately⁷⁸.

The arrangement with Turkey replaced the previous stand-by credit, which amounted to a total of US\$19 billion. Total disbursements to Turkey under the previous stand-by credit came to about US\$15 billion. The remaining undisbursed US\$4 billion were folded into the new arrangement and were included in the total amount⁷⁹. This decision was a recognition by the international community of Turkey's success in developing and implementing a bold and comprehensive economic reform program. The authorities were committed to doing what was necessary for the country's economic and financial recovery through continued steadfast policy implementation⁸⁰.

The IMF commended the Turkish authorities on the considerable progress they have made in implementing their ambitious economic reform program. They have moved successfully to a floating

⁷⁷ Ibid.

⁷⁸ International Monetary Fund. February 4, 2002. Press Release No. 02/7. "IMF Managing Director Sees Impressive Commitment by Turkey to Economic Reforms, Executive Board Approves USD 16 billion Stand -By Credit. www.imf.org/turkey.

⁷⁹ Ibid.

exchange rate regime, set a clear course toward debt sustainability through a greatly improved fiscal position, and achieved important progress in banking sector restructuring, public sector reform, and preparations for privatization. In parallel with the associated strengthening in the perceptions of markets, these policies have laid the basis for a resumption of growth⁸¹.

Observers have said that Turkey was able to secure the \$16 billion loan deal (after the February 2001 crisis) with the IMF thanks mainly to its importance as a strategic ally of the U.S. (and not only due to the efforts of the new Economy Minister), but having done that, the challenge has just emerged⁸². Turkey was reminded of that reality during World Bank Vice President Johannes Linn's five-day trip to Turkey (after the crisis). Linn was paying a regular visit to contact government officials and business leaders in Turkey, to have consultations on the ongoing economic reform program at that time, which was aimed not only at tackling the problem of chronically high inflation, but also establishing the framework and mechanisms that

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² World Bank Visit Reminds Turkey of Critical Tasks. February 17, 2002. www.turkishdailynews.com/Fr

made the economy resilient against crises, and provided for sustainable growth⁸³.

OPPONENTS OF THE NEW REVISED RECOVERY PROGRAM:

Much of the Turkish population regarded Dervis as a financial magician for having -- at least for a while -- stabilized Turkey's markets and its hitherto free-falling currency. To build confidence in the international financial community, Turkey has given him unprecedented power to manage its economy and direct the nation's central bank⁸⁴.

But some of his government colleagues were opposed to his policies and sought his replacement. The anger within Turkey's bitterly divided three-party coalition stemmed not so much from the terms of that rescue package -- to which they had readily signed up -- but the discovery that the international lenders actually considered the agreement binding. The IMF and the World Bank had postponed the release of part of the rescue package (\$3.2 billion) to reinforce that

⁸³World Bank Visit Reminds Turkey of Critical Tasks. February 17, 2002. www.turkishdailynews.com/Fr

⁸⁴ International Monetary Fund. February 4, 2002. Press Release No. 02/7. "IMF Managing Director Sees Impressive Commitment by Turkey to Economic Reforms, Executive Board Approves USD 16 billion Stand-By Credit. www.imf.org/turkey.

message. The delay caused panic in Turkish markets, with senior politicians accusing Dervis of treachery and assailing the IMF for trying to "dictate" to Turkey. But two serious economic crises in eight months -- both touched off by political benefits in Ankara -- have brought Turkey to the brink of collapse. For some time, the IMF has been indicating its unhappiness with the slow pace of implementation - or, in some cases, non-implementation - of the reforms it has requested⁸⁵.

What ultimately triggered the postponement in releasing funds was mainly the curious insistence of Communications Minister Eniz Oksuz on firing the newly created Telecom board, the organization created to guide the national phone company, Turk Telekom, to a long-awaited privatization. Oksuz wanted a board dominated by his own far-right National Action Party (NAP). This clearly violated stipulations that board members must be nonpartisan and have high-level management experience in the private sector⁸⁶.

NAP leader Devlet Bahçeli had offered to compromise only if Dervis was removed from post, according to Turkish press reports.

⁸⁵ Business Week. July 24, 2001. "Turkey Trot: Forward, Backward, Round in Circles".

⁸⁶ Ibid.

However, several days of seesawing markets and soaring interest rates forced the NAP to accede to IMF demands. Prime Minister Bulent Ecevit then confirmed that Dervis would be staying in office⁸⁷.

Ecevit's Democratic Left Party (DLP) and the third party in the coalition, the center-right Motherland Party (MP), were both solidly behind both Dervis and his rescue program. They were also committed to fulfilling Turkey's long-held dream of entering the European Union⁸⁸.

However for the NAP, which preached the politics of extreme nationalism, the interference of foreign individuals, organizations and businesses in Turkish affairs was not welcomed. The NAP's ability to boil down complex political and economic problems to a simple argument of Turks versus the world had found increasing resonance among Turkey's poorly educated rural population. The party had promised to refrain from publicly criticizing Dervis, but given its record and the belief of many senior party members that Dervis was a traitor to Turkey, the relationship with Dervis remained problematic⁸⁹.

⁸⁷ Ibid.

⁸⁸ Ibid.

⁸⁹ Jon Gorvett. July 2001. IMF -Backed Reforms Separate Economy From Politics, Face Opposite of Turkey's Ruling Elite. Washington Report on Middle East Affairs. www.wrmea.com.

Meanwhile, the NAP's actions had badly damaged market confidence in Turkey. A sale of eight-month Treasury bonds at the height of the crisis saw yields reach 95%. Before the IMF and the World Bank released the \$3.2 billion trench, fears that the rescue package was in danger sent yields soaring to 116%, though they had dropped to 104%⁹⁰.

Dervis' new economic program (launched in March-May 2001) was called the "National Program." It pledged that the major public banks would be merged and privatized in three years. State subsidies to farming would be stopped, public expenditure would be cut by nine per cent and state-owned telecommunication, airlines, petroleum, steel, tobacco and spirits, sugar, natural gas and electricity distribution industries would be privatized and opened to global markets⁹¹. There was no mention about tax reforms that would raise revenue from the propertied classes, nor any measures against mass layoffs⁹².

As in every capitalist crisis, the February crisis meant a reconfiguration of classes. On the side of capital, the crisis unleashed

⁹⁰ Ibid.

⁹¹ Ibid.

the contradictions between financial and industrial capital. One of the main issues was the post-crisis increase in interest rates on loans given by banks to industrial capital. The state made a huge effort in managing the conflict so as to assure the unity of the capitalist class. On April 9 2001, the government announced extra measures for small businesses⁹³. The measures included giving small businesses extra time to pay their term interests, their taxes and social-security premiums as well as lowering the interest rates on their loans to pre-crisis levels⁹⁴.

None of these measures, however, were enough to pacify small business owners who were already on the brink of bankruptcy. More than 4,000 firms were closed down and 443,000 people lost their jobs after the crisis⁹⁵. On April 11, angry demonstrations by thousands of small tradesmen and artisans in Ankara turned into a riot. Hundreds of demonstrators were injured and over 100 arrested in clashes with police. The government seized the opportunity to ban all

⁹² Ibid.

⁹³ Business Week. July 24,2001. "Turkey Trot: Forward, Backward, Round in Circles".

⁹⁴ Ibid.

⁹⁵ Ibid.

demonstrations in Ankara for one month⁹⁶.

Among other things, the small business owners' riot revealed the degree of marginalization induced by the latest crisis. Different from previous crises, it was not only the working class but also broad sections of the middle classes that were affected this time⁹⁷.

⁹⁶ Ibid.

⁹⁷ Ibid.

Labour opposition:

The workers' and professionals' organizations together took to the streets under the banner of "The Labour Platform" three days after the small businessmen's riot⁹⁸. The Labour Platform was a broad coalition of all the major trade-union confederations, pensioners' and professionals' associations in Turkey. As such it was not a new development in Turkish history. Throughout the 1990s, such coalitions were formed to fight against the neoliberal agenda. It was the first time, however, that a labour coalition in Turkey came up with an alternative program of its own⁹⁹.

Written by a group of left-wing intellectuals, the Labour Program is a comprehensive policy package calling for the consolidation of public debt, control of short-term international capital movements, an end to privatization, tax reform, planning of industrialization and import controls. It had the merit of showing that Dervis' "National Program" was not the only alternative¹⁰⁰.

However, the union alternative had its own problems, too. Even as a

⁹⁸ Ibid.

⁹⁹ Ibid.

reform program, some of its items tended to blur rather than raise class consciousness. Instead of debt cancellation it called for consolidation of public debts; instead of capital controls in general it asked for the control of short-term capital movements only; its discourse against corruption was not much different from the one that had been used by the ruling classes. In other words, it did not address the connection between Turkish corruption and global capitalism in such a comprehensive way as to foster an anti-capitalist politics. The language of the program thus reflected the intricate compromise among the various components of the Labour Platform, which included not only workers and civil servants, but also middle-class professionals (medical doctors, dentists, engineers, architects, etc); and nor only leftist, but also centrist, Islamist and nationalist trade-union confederations¹⁰¹.

The Labour Platform, however, remained the most important organized channel of resistance against the neoliberal agenda in Turkey. With a government every day claiming to be "struggling against poverty and corruption," though, it was more than ever important for the labour to emphasize that there can be no struggle

¹⁰⁰ Ibid.

against poverty without a struggle against exploitation, and no struggle against corruption without a struggle against global capitalism¹⁰².

BANKING REFORMS:

However the reforms conducted in the Banking sector were not so ineffective. The government did respond to the calls for reforms in the banking sector. In fact the World Bank reacted positively to the news that the Banking Regulation and Supervision Agency had stepped in to close two small investment banks and took over five small banks that were Insolvent in 2001 ¹⁰³.

The government had sold off one of the banks, while a second had attracted offers from a number of international players. Another eight banks were consolidated into two in the hope of better attracting bidders. Banking Supervisory Board Chairman Engin Akcakoca promised to restructure the banking sector by the end of 2001, with

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ International Monetary Fund. January 11, 2002. New Brief No.02/1. IMF Welcomes Turkey's Bank Recapitalization Scheme. www.imf.org/turkey.

banks under administration either sold off or liquidated¹⁰⁴.

Other key steps in the banking cleanup included closing one of the largest state-owned banks, Emlak Bank, and transferring its assets to two other state banks, Ziraat and Halk. The IMF was calling for both banks to be privatized¹⁰⁵.

On January 11, 2002 the IMF welcomed the strong emphasis on measures to ensure the soundness of the banking system in the Turkish government's economic program¹⁰⁶. A sound banking sector in the opinion of the IMF would ensure the confidence of depositors, a return to normal credit growth, and reduced pressures on interest and exchange rates. Sound and profitable banks would contribute revenue to the budget, enhance public debt sustainability, and set the stage for economic recovery.

The Turkish authorities implemented major financial sector reforms. The regulatory and supervisory frameworks were overhauled. The large state banks were rehabilitated, and a large number of insolvent private banks were taken over by the Savings

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ International Monetary Fund. January 11, 2002. New Brief No.02/1. IMF Welcomes Turkey's Bank Recapitalization Scheme. www.imf.org/turkey.

Deposit Insurance Fund (SDIF) and their owners had lost their stakes¹⁰⁷. The 2001 market turbulence and a worsening economic environment led to losses in banks and undercapitalized banks were required to bring in new capital. However, the prospect of additional loan losses had created a need to put in place additional measures to safeguard the private banking system.

The government's new bank support scheme was designed to help the remaining private banking system survive the depressed state of the economy, while still making bank owners fully liable for all losses the banks have incurred. It therefore involved no bailout of private bank owners with public funds. The scheme was part of the new economic program supported by the IMF. The scheme started with rigorous targeted valuations of all banks' loan portfolios to identify possible losses and capital shortfalls. Losses were fully borne by existing owners, and banks were asked to bring in additional capital. The government prepared, through the SDIF, to match private contributions of new equity and also provided convertible subordinated loans to enhance banks' capital position. While government shares had preferential status, the scheme was designed

¹⁰⁷ Ibid.

to give private owners incentives to rehabilitate their banks, and also provided the SDIF with appropriate ways of selling its shares in due course. Regulations by the Bank Regulation and Supervision Agency (BRSA) provided details of the scheme, which was fully transparent¹⁰⁸.

The scheme was considered necessary at that point, given the likely scarcity of new capital from existing owners or new investors in Turkey and abroad under the market conditions at that time. The scheme was designed to show government support of the banking system, while minimizing overall public sector costs. The IMF supported this scheme as the least cost solution to deal with remaining banking sector weaknesses.

¹⁰⁸ Ibid.

CONCLUSION:

The previous sections presented a general overview of the Turkish economy since the early 1980's, they also examined the events leading to the currency crisis of February 2001, starting by the corruption in the Turkish banking system, to the April 1994 currency crisis, and finally the November 2000 banking crisis.

In brief, the banking crisis of November / December 2000 coupled with an overvalued exchange rate provided the setting against which the February 2001 crisis occurred.

This thesis argues that one main underlying reason behind the crisis of February 2001 was the growth in corruption within the governmental bodies, especially within the state- owned banks. I further argue, that the conflict between President Sezer and Prime Minister Ecevit, which triggered the February 2001 crisis, was only the spark which ignited the flames. The banking sector of Turkey at the beginning of 2001 was too fragile to escape the repercussions of political conflict.

The immediate consequence of the conflict was the appointment of renowned economist Kamal Dervis as Minister of Economy. Dervis in agreement with the IMF spearheaded the efforts to lead the economy out of the crisis. The reforms he sought to implement focused on thoroughly reforming the banking sector and intensifying the privatization drive in Turkey. The reform package could not be applied fully because of political opposition from within the three party coalition that controlled the Turkish government.

The reform policies of Kamal Dervis saw divisions within the three party coalition. These reforms were supported by the Democratic Left Party, led by Bulent Ecevit, and the Motherland Party of Mesut Yilmaz, who saw in Dervis's plan a greater hope in achieving EU membership. Dervis's reform package was, however, opposed by the far right National Action Party (NAP) led by Delvet Bahceli, the third party in the coalition, which preached the politics of extreme Turkish Nationalism. The NAP beliefs were against any interference of foreign individuals, organizations or businesses in Turkish affairs. For them, Dervis was adamant to apply IMF policies even if they did not serve Turkey's interest.

What are the prospect for the future?

There are some signs that the Turkish economy has began to recover from the February 2001 crisis. Investors' confidence in Turkish stocks has been on the rise as evidenced by the improvement of share prices, especially after the November 3, 2002 parliamentary elections. Whereby Turkey's 58th government won the vote of confidence in Parliament and took office on November 28, 2002. Stock Markets reacted favorably to the election of a strong single-party government¹⁰⁹. The fact that the new government was led by moderate Islamist party did not shake the confidence of the investors. Furthermore inflation has come down from the heights it reached in early 2001. In May 2003 it reached 30.7% yearly compared to 50% yearly in early 2001¹¹⁰. The decline in the value of the Turkish Lira has been stopped. In fact the exchange rate has slightly improved during the month of June 2003, reaching 1.411.717 TL / USD by end of June down from 1.438.091 TL / USD in the beginning of the month¹¹¹.

¹⁰⁹ IMF. Turkey's letter of intent. April 5, 2003.

¹¹⁰ Yapi Kredi Bank. Monthly Bulletin, June 2003.

¹¹¹ www.ExchangeRate.com.

Progress is also being made on the privatization front, albeit at a slow pace. In fact Turkey's privatization board approved recently (end of June 2003) the \$605 million sale of a majority stake in chemicals firm Petkim to local Standart Kimya, the first big sale of 2003¹¹².

Exports rose by 27.3% in March 2003 compared to the same month of 2002, to stand at USD 3.7 billion, whereas imports rose by 44.8% to reach USD 5.6 billion¹¹³.

Nevertheless a careful look at the recent history of the Turkish economy reveals a series of crises that had their origins in the structural problems of the Turkish economy and the continued involvement of politicians in economic matters to promote narrow economic interest (e.g corruption and nepotism).

Fears of a new crisis in Turkey are always present, having in mind that the Turkish Treasury is still resorting to the sale of new issues of treasury bills to cover maturing bills and bonds. In fact, by the end of June 2003, the Turkish treasury easily sold a net of Turkish Lira (TL) 6,083.2 trillion (c/v USD 4.3 billion) in 413-day and 140-day lira debt

¹¹² Treasury sells enough debt to meet big redemption. July02, 2003. www.turkishdailynews.com.

¹¹³ Yapi Kredi Bank. Monthly Bulletin, June 2003.

against a redemption of TL 5,681 trillion¹¹⁴. During May 2003, strong demand in the bond and bill markets was evidenced especially from the individual investors who shifted to government debt instruments with relatively high yields in contrast with other investment alternatives¹¹⁵. This high confidence of investors in the Turkish bond and bill issues, may backfire on the whole economy if for any reason the political stability is shaken; thus investors will panic and loose confidence and funds will outflow from the Turkish market paving the way for a new crisis.

¹¹⁴ Treasury sells enough debt to meet big redemption. July02, 2003. www.turkishdailynews.com.

¹¹⁵ Yapi Kredi Bank. Monthly Bulletin, June 2003.

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