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‘International Monetary Fund: Ministrant or Hindrance for the countries in crisis?’

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Abstract

The purpose of this dissertation is to critically evaluate the financial assistance programs designed and implemented by the International Monetary Fund (IMF or Fund) so as to support countries in financial crisis. Changes such as the financial globalization and the recent deterioration of the global economic and financial conditions led to the radical transformation of the global economy. As responses to such changes countries are forced to ask for financial help from international financial institutions in exchange for policy reform. The fact that such programs have either succeed or failed in helping countries escape from crisis is related to multidimensional factors. Providing a variety of case studies but also an extensive analysis of the recent crisis experienced by Turkey, we approach the methods of economic reform and their impact. The analysis suggests that the effectiveness of the IMF-imposed economic and fiscal policies is highly depended on the specific peculiarities of each country. It's not only the countries that need to be reformed but also the Fund which needs to revise its role and structure.

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Chapter 1: Introduction

1.1. Background of the study

The recurrent financial crises experienced recently by European countries but also by other countries on the semi-periphery of the international economic system after their exposure to financial globalization during the 1990s, had raised deep questions concerning both crisis prevention and crisis resolution mechanisms. As a result, the role played by the Fund as a key institution at the center of the international monetary and financial system had been intensively disputed. Taking into consideration the fact that the Fund had been largely involved in many crises cases around the world, pushing for capital account liberalization, this is reasonably justified.

Acting as the "World Central Bank" and the "lender of last resort", the Fund has provided financial assistance with reciprocation short-term adjustment mechanisms as well as longer term reforms (conditionality). This in turn has raised great waves of skepticism on the part of borrowing countries but also spread suspiciousness in the ordinary people in the countries that were involved. On the lenders' side, major concerns have been generated in relation to the effectiveness of the IMF lending to countries whose commitment to reform appear to be rather questionable. From the lenders' perspective, serious considerations arise involving the utilization of financial assistance, which imposes a major burden on their taxpayers. Indeed, the Fund's role in crisis prevention and resolution processes have been vigorously questioned and subjected to vocal criticism (Abbotta, Andersenb, & Tarp, 2010). This is also the case of Greece, whose engagement with the Fund is still nowadays a keenly-debated issue even if there had been almost two years after its initiation. This was like food for thought for me and this way started a research about the IMF, which finally lead to this more or less relative study.

1.2 Aims and objectives

The overall aim of this study is to critically analyze and evaluate the assistance programs developed and implemented by the Fund in this new globalized context. It will also be attempted to identify the extent to which such programs can help the borrowing-country to overcome crisis conditions using the cases of countries from different regions around the world as well as Turkey as an extended case study. The factors that had led to ''successful'' or ''failed'' implementation of such programs will be also examined.

1.3Structure of the dissertation

The paper is organized as follows. In order to see the nature and the limits of the IMF involvement in the process of crisis prevention and resolution, we provide some case studies of countries' collaboration with the IMF. This constitutes the first part of this study, which paves the way for the second. Beginning with a short part referring to the role of the IMF in the contemporary world economy by analyzing briefly its main activities, we continue by examining three broad case studies. At first, we refer to three typical examples of Latin America countries that had made arrangements with the Fund. Brazil and Uruguay had managed throughout their engagement with the Fund to become ''success stories'' of it vis-a-vis Argentina which is widely accepted to be a failure of the Fund. We proceed with case studies from the Asian region, including Korea as a clear success of the IMF in stabilizing the economy vis-a-vis Indonesia and Malaysia where due to various adverse circumstances the results of the program were not satisfactory. Finally, after evaluating two cases of economies in transition, Poland and Russia, where the Fund had played a major role when asked, we come up with some concluding remarks regarding all the above-mentioned cases and their peculiarities.

The second part of this study examines the role of the Fund before, during and after the 2000-2001 financial crises in Turkey, which will be the focal point of our analysis.

The contrasting element of these recurrent crises after the intervention of the Fund and also the social outrage that followed constitute the main reasons of the selection of Turkey. In this part, an overall view of the relations between the IMF and Turkey will be attempted by analyzing them from their initiation. The central target in this part is to examine whether the crises of November 2000 and February 2001 were affected by the presence of the Fund in Turkey. For this purpose, the 1999 staff monitoring program's main components will be analyzed followed by the results of its implementation. Proceeding with the crisis that followed it, which is a vital part of this analysis, we also refer to the vulnerable points of it, as they were identified by many political and also economic analysts. However, crises in Turkey paved the way to restructuring, as it is proved by the statistical and academic evidence discussed below (chapter 3). Consequently, a critical view of the Fund's involvement in Turkey's process of capital account liberalization is required. The study is supported by statistical data and diagrams, taking feedback not only from the website of the IMF but also from many Turkish official websites.

Chapter 2: The International Monetary Fund and the process of capital account liberalization

2.1: The International Monetary Fund in the contemporary world economy

The IMF is a high-level organization with a fundamental role in the international monetary system. Created just after the Second World War in order to reconstruct national economies, its main responsibility lies in the ‘’**supervision of the international monetary system so as to guard exchange rate stability and support its members in the way to eliminate exchange restrictions that hamper trade’’** (Brau & McDonald, 2009). While constituting the world’s central institution for monetary and financial cooperation among governments and central banks, IMF’s main mission is still to ‘’provide the global public good of financial stability’’ through providing the ground for cooperation on international monetary problems, facilitating the growth of international trade, and thus promoting job creation, economic growth, and poverty reduction, promoting exchange rate stability and an open system of international payments, and lending countries foreign exchange when needed (IMF a, 2011).

IMF is a major global regulator of economic policy, acting on behalf of the common interests of all sovereign member states so as to assist in maintaining a proper international economic order. The Fund’s principal priorities as set out by the Articles of Agreement[1] are:

- promoting international monetary cooperation
- facilitating the expansion and balanced growth of international trade
- promoting exchange stability
- assisting in the establishment of a multilateral system of payments, and

[1] The IMF was formally organized on December 27, 1945, when the first 29 countries signed the Articles of Agreement.

- making resources available (with adequate safeguards) to members experiencing balance of payments difficulties (IMF e, 2011).

Although its statutory purposes remained the same from its initiation in 1943, IMF's role in the contemporary world economy, could be summarized as: avoid contagious effects from developing to other countries aiming at preventing worldwide financial crises and encourage and enforce general policy reform even if it is not directly connected to countries' financial system (IMF a, 2011; IMF c, 2011)

During all these years IMF had a major role in many of the most important events around the world mainly through its policy advice approach. In order to give prominence to the wide range of its activities, we will refer briefly to them. First of all is the IMF **surveillance** which aims at fiscal transparency, low inflation and fosters economic and financial conditions and a monetary system that does not tend to produce erratic disruptions. By surveillance IMF refers either to the bilateral surveillance developed as an annual consultation with each member or to the multilateral, meaning the supervision of the international monetary system, as it has already been mentioned (Brau & McDonald, 2009; IMF b ,2011)

The second milestone of the Fund is the provision of **technical cooperation and institution building**. The Fund provides advice mainly throughout economic governance practices that help prevent crises and also transfers skill to the member countries both in macroeconomic and financial level. Such activities are usually accompanied by the IMFs third main action, **financial assistance (lending)**. Taking into consideration the absence of a clearly defined international lender of last resort and an institutionalized sovereign bankruptcy procedure, the responsibility had fallen to the IMF. The assistance usually takes the form of temporary loans with resources derived from countries quota subscriptions that help countries overcome balance of payments problems ''without resorting to measures destructive of national or international economic prosperity'' (Brau & McDonald, 2009). In such cases IMF acts as a mediator between developing countries and international financial markets and advanced industrial democracies (Copelvitch, 2010).

Focusing on the role of the Fund as a lender, it is crucial to mention the **conditionality** that it embodies. This way, the loans are being provided to cover a government's payment deficit while requiring the acceptance to undertake policy reforms aimed at closing the rest of the financing gap. A conditional loan enables the borrower to continue servicing its external debt while undertaking policy adjustments designed to ensure longer term debt sustainability and also generate economic growth. All member states of the Fund are eligible for financing but since 1970's middle income developing countries known as ''emerging markets'' are the primary borrowers (Copelvitch, 2010; IMF d, 2011).

As far as the ways of financing are concerned, which are commonly known as **facilities** or **programs**, there exist a wide range depending on the specific circumstances of individual countries. **Stand-by arrangements (SBA)** are provided in order to tackle short-term balance of payments problems. Arrangements under the **Extended Fund Facility (EFF)** enable IMF to assist countries facing longer-term difficulties (usually 3 years) and as a result require more extensive structural economic reforms. **Supplementary Reserve Facility (SRF)** was established in response to the Asian financial crisis and was particularly designed for countries facing ''severe balance of payments difficulties arising from a sudden loss of market confidence accompanied by market flight and a share drain in international reserves'' (Copelvitch, 2010). In October 2008, **Short-term Liquidity Facility (SLF)** was introduced and provided immediate financial assistance to the Fund's members. Later on, on March 2009, SBA and SLF were replaced with **Flexible Credit Line (FCL)** which aims at providing pre-emptive financial assistance for the purposes of crisis prevention (Copelvitch, 2010; IMF d, 2011).

In addition to the above-mentioned facilities there are also long-term loans (5-10 years) to very low income countries especially provided in the mid-80's under **Structural Adjustment Facility (SAF)** or under **Enhanced Adjustment Facility (ESAF)** .However in 1999 the SAF and ESAF were replaced with the **Poverty Reduction and Growth Facility (PRGF)** which is fully financed from a separate dedicated trust fund, rather than from IMF main quote resources. Recently, the

Poverty Reduction and Growth Facility were replaced by the **Extended Credit Facility**, which is more appropriate in case of exogenous shocks or other crises. In addition, the **Rapid Credit Facility**, was also introduced to provide fast low-access financing with partial conditionality to meet urgent balance of payment needs, and the **Standby Credit Facility**, to provide financing to low-income countries that have experienced short-term financing and adjustment needs. These reforms have enabled the Fund to respond quickly to member countries facing economic and financial distress as a result of the global financial crisis (Copelvitch, 2010; IMF d, 2011).

IMF lending policies have raised substantially over the last two decades in response to the variation in the composition of international capital flows but also over time and between cases in accordance with the shifts in the composition of private international lending to the Fund's borrower countries. The Fund has emergency procedures in place to help provide financing at short notice. The **Emergency Financing Mechanism**[2] was used in 1997 during the Asian crisis; in 2001 for Turkey; in 2008-09 for Armenia, Georgia, Hungary, Iceland, Latvia, Pakistan, and Ukraine; and in 2010 for Greece (IMF d, 2011).

Today, structural adjustment programs (SAPs) of every kind guide repentant countries to their place in the global economy. Nevertheless, there is a huge rub encompassed while engaging to such programs. Though sometimes these processes stimulate economic growth and skill transfer, there are also cases that they introduce market based volatility into fragile ''emerging markets'' and ''homogenize the global culture'' (Pfeifer, 1999).

2.2 IMF Successes and Failures: Some case studies

It is widely accepted that IMF has not always been right and successful. Even worse, it is far from being perfect considering its institutional weaknesses. During the years

[2] It is used in cases where'' a member country faces an exceptional situation that threatens its financial stability and a rapid response is needed to contain the damage to the country or the international monetary system''. (International Monetary Fund website, 2011)

and while providing financial assistance to its members, the Fund had missed important chances. However, it remains still broadly effective and achieves great results while facilitating the expansion of growth of the international trade and thereby contributing to the promotion and the maintenance of the increase of employment and real income. Indicatively, it is mentioned that between 1950 and 2006 the world trade volume has been increased by 6,5% on average annual rate. In this way, it contributed in a growth in the real world gross domestic product (GDP) averaging about 4% a year, the fastest growth in the recorded history. According to Brau and McDonald, this is attributed up to a large extent to the IMF. Furthermore there are also economists that emphasize its role as a ''machinery for consultation and collaboration on international monetary problems'' (Abbotta, Andersenb, & Tarp, 2010; Brau & McDonald, 2009, Evrensel, 2002).

On the other hand, the case studies that will follow confirm that most developing countries' governments eventually respond to the combination of international pressures, external and domestic economic crises by initiating economic reforms in the context of IMF programs, but due to weak compliance record of them, such programs are coming into fire. The mixed picture concerning the effectiveness of the Fund supported programs contributes to the prevalence of this argument. Consequently, there is an ongoing debate regarding the internal reform of the institution itself together with the arguments stemming from the failures of the Fund in specific countries. Taking into consideration both arguments against and for the contribution of the Fund in the contemporary world economy, we provide a variety of borrowers' case studies that will help us form a pluralistic opinion (Brau & McDonald, 2009; Pop-Eleches, 2009).

2.3 Case study 1: Latin America

2.3.1 Brazil

In **Brazil,** IMF managed to reverse quickly a fear-induced closure of the country's access to international capital markets that would have destroyed economic stability and growth as a new government was coming into power. Although in 1998-1999 it has not succeeded in its initial defense of a fixed exchange rate, the flexible exchange rate policy that was quickly adopted in response helped the economy escape from recession and debt default (Brau & McDonald, 2009).

However, we cannot ignore the Fund's unjustified flexibility toward the regional authorities' insistence for a managed float of the currency which finally lead to a large loss of reserves and currency in the winter of 1999. Because of this fact what followed was a renegotiation and eventually a tightening of fiscal and monetary policy accompanied by a new governor of the Brazilian Central Bank. The result was a real recovery in the economy and a stable public sector debt. In the mid-1999 Brazil adopted an inflation-targeting regime accommodated in the initial program through changes in the monitoring arrangement. Together with the adoption of IMF staff consultation bands and a floor for international reserves, measures that constituted the novel characteristics of the program, these were the only monetary policy elements of conditionality of it. We should also notice the instrumental initiatives of the Fund in strengthening the credibility of the Central Bank and securing a sustained reduction in the inflationary expectations (Brau & McDonald, 2009; Goldstein, 2003).

In combination with the spread of the crisis from Argentina, in 2001 Brazil became vulnerable again and responded with a destabilization of the economy. A desire for cancelation of the existing program and a replacement of it with a new 15-month one was manifested in July the same year and in August 2001 it was finally approved. Nevertheless, the pronouncement of the program had not brought positive effect on the investors' assessment of the country's economic prospects. Along with the deterioration of the global financial conditions after the 11th of September 2001 terrorist attack, the situation had not improved until mid-2002 (Brau & McDonald, 2009).

Despite the fact that the year 2002 started with difficulties as financial and economic conditions continued to deteriorate, in the summer of the same year, there was a rapid adjustment of the external current account and a rising trade surplus mainly due to the political consensus. Credibility was further acquired as Brazilians continued to implement the inflation-targeting framework with a flexible exchange rate policy. At this time, the amount of financing provided by the IMF can be characterized as a strategic variable as it offered a level of financing that exceeded investors' expectations and signal a high level of IMF confidence in the prospects of the program. We should also mention at this point that this was the largest program ever financed by the Fund, reaching $30 billion or 752% of Brazil's quota (Brau & McDonald, 2009; Goldstein, 2003).

Its implementation resulted in the restoration of the confidence in the domestic market which lead to a steady improvement in the market conditions accompanied by a stabilization and recovery period of the exchange rate and a reduction in 'spreads' on the Brazilian debt. In April 2003 Brazil regained access to the international capital markets, credits taken by the strong economic team that had the responsibility (Brau & McDonald, 2009; Goldstein, 2003).

After the 2002 program, a successor precautionary arrangement was followed so as to provide a gradual transition out of IMF programs. This innovative characteristic caused limited decline in the primary surplus target and allowed for social spending. By September 2005, Brazil managed to repay its outstanding obligations and since then growth rate has been increasing. Brazil's experience shows that the ownership of the economic policies by the domestic authorities is a crucial element for the success of the program but the consistency of the implementation is also required. In that case, despite the initial flexibility shown by the Fund, it was proven that ''IMF improved the odds of success'' (Brau & McDonald, 2009).

2.3.2 Uruguay

To continue with a classic case of financial contagion, **Uruguay** was in front of a big challenge: to deal simultaneously with a bank run and a sovereign debt crisis in 2002-2003. IMF's task was to overcome the huge financial system disruption caused by large deposit withdrawals from domestic banks triggered by the crisis in Argentina. This was facilitated by the fact that in Uruguay there was deep commitment to comply with the rule of law as a core cultural value. Recovering from the crisis of confidence in its banking system, Uruguay supported by the Fund managed to became a ‘’success story’’ of it. What this ‘’story’’ reveal about the IMF strategies and programs is that there is room for developing and adopting innovative solutions even in the crisis context in which it is essential to incorporate peculiarities of the local circumstances in the policy response level. In the context of the Uruguayan crisis, IMF had full ownership of the program even if the government had changed; there was strong commitment of the authorities referring mainly to the political system and the civil society, leading to strong political consensus and very little political criticism compared to other countries. In addition to these, a core element of its success was that the right people were responsible for the right jobs. Finally Uruguay’s collaboration with the Fund demonstrates clearly that countries should always try and take advantage of favorable times to implement policies aimed at eliminating existing vulnerabilities (Vines & Gilbert, 2004).

2.3.3 Argentina

In the neighbor **Argentina**, IMF program of 2000-2002 is broadly characterized as a failure. The program was based on a variant of a fixed exchange rate policy that reflected the preferences of domestic authorities. The problem was that the economic and financial policies which sustained the program were not implemented and finally failed. What followed were a deep recession and a debt default, unemployment and sharp increase of poverty (O. Krueger, 2002; Vines &Gilbert, 2004).

However, the fundamental cause of the tragedy in Argentina was the large and persistent excess of the public spending over recurring revenues that had led to the unsustainable accumulation of the public debt. Crucially important was also the sovereign default that fatally undermined the basis for Argentina’s financial and economic stability. The margin between the sustained success of Argentina’s stabilization and reform strategies and the tragic collapse of 2001 was far from insurmountable (Vines & Gilbert, 2004).

In Argentina, the build-up of the debt had occurred largely before the Fund programs were established or can be seen as the subsequence of the recognition of the fiscal losses that had been effectively incurred before the program was established. Given this background, IMF failed to discourage effectively those build-ups of the government debt, which was proved to be the relative weakness of it as a means for persuading countries to maintain more responsible policies. The Fund should have used whatever leverage it had to press Argentina to run responsible fiscal policies in relatively good times so as to lessen the risk of potentially serious difficulties when economic conditions turned less favorable (Meltzer, 2002; Vines & Gilbert, 2004).

To continue with Argentina, we should recognize the Fund's correct movement to commit substantial additional financial support in December 2000 until January 2001 as a last chance for the country to demonstrate sufficient fiscal discipline in order to persuade financial markets of its longer-term fiscal sustainability. However, the supplementary support provided in August and December 2001, can be seen only as serious mistakes. The mistake lies in the fact that the dialogue between the Fund and the government was based on the assumption that the measures needed to be implemented were might somehow be indeed implemented, without specifying clearly the way of implementation, proving to the point the absence of a reasonable framework. Negative was also the impact stemming from the fact that the Fund's disbursements related to performance through the third quarter and the end of 2001 would had been held. This in turn did not encourage the Argentinian authorities to face up to the reality of their situation and to the tough but necessary decisions implied by this reality. The Fund should have pressed at an earlier stage for a revision of the Convertibility Plan so as to manage in a more suitable way the inevitable problems in the financial system (Vines & Gilbert, 2004).

The main criticism referring to the Fund when it comes to the Argentinian case is that, despite the fact that domestic authorities' interests and perceptions of reality were distorted by the impeding catastrophe, it continued to extend and expand its support even after any reasonable chance of success had vanished. Even the more dire consequences from a shift to an alternative strategy so as to assure payments viability like in Korea or Brazil can partly explain-but not excuse-the reluctance of the Fund to see the issue clearly and act appropriately. IMF should had better guidelines concerning how to handle potential cases of exceptionally large support incorporated in a reasonable framework accompanied by more effective adherence of these guidelines (O. Krueger, 2002; Thirkell-White, 2005; Vines & Gilbert, 2004).

2.4 Case study 2: The Asian breakdown

It is now becoming obvious that in the Mexican crisis of 1994-1995, contagious effects to other Latin American countries were limited. There was not widespread collapse of the exchange rate regime but only a period of pressure on the currency and stock markets. On the contrary, contagion in Asia in 1997-1998 was much stronger and was a crucial factor in both the Indonesian and Korean currency crisis. Generally speaking, in the Asian context, IMF programs are under questioned effectiveness because of the several ''failures''. The overshooting of the Thai baht was not avoided despite the Fund's intervention. IMF also failed to stop contagion spreading from Thailand to Indonesia, Malaysia and Korea.

2.4.1 Korea

The market failure that caused the **Korean** crisis in late 1997 was unexpected. As in many other countries, there was disagreement about the macroeconomic policy that would be followed leading to a problematic 'nature' of agreement. The outcome was more a set of political bargains than a technically unquestionable consequence of the Fund's code of conduct (Brau & McDonald, 2009; Thirkell-White, 2005).

IMF's economic arguments were defensible but there were by no means entirely compelling. Its governance reforms were not necessary and didn't seem to enhance market confidence. It is vital to mention that at this particular time Korea was in need for a more concerted approach to the debt problem rather than satisfying the long-term demands of the Fund's most important shareholders(Brau & McDonald, 2009; Thirkell-White, 2005).

At the same time, Fund-mandated reforms had a wide ranging impact shaped by Korean views in democracy, clean government, economic justice, nationalism while economic efficiency was not a determining factor while selling the program to the population. As a result, due to the wide acceptance of the program both in political and social level, Korean case can be characterized largely as a success. IMF managed to convert a danger of financial collapse to an opportunity for major reform, similar to what happened some years later in Turkey. IMF response was quick, substantial and effective because of the Korean government's decisive crisis management and the willingness of the Korean people to support such reforms (Brau & McDonald, 2009; Thirkell-White, 2005; Vines & Gilbert, 2004).

2.4.2 Indonesia

On the contrary, **Indonesia** is a clear failure of the Fund to prevent overshooting of the currency. Despite the initial success of the rupiah deprecation, IMF had not managed to avoid the crisis spreading from the economy to the political scene. It didn't anticipate that its actions were effectively providing support for regime change. The crucial point is that it should have realized the presence of the political power in Indonesia because the political disruption that ensued was massively costly in economic terms. The Fund intervention does not yet seem to have delivered the corruption-free economic governance that they promoted and the civil society relationship with the IMF (Thirkell-White, 2005).

The Fund's internal agenda clearly had not leave much space for accommodating the authoritarians but was it really responding to civil society or was it really responding more to the imperatives of the Executive Board[3] politics? To conclude with, since the economic justifications for the Fund's governance agenda proved weak, the

[3] ''The Executive Board is responsible for conducting the day-to-day business of the IMF. It is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman.'' (International Monetary Fund website, 2011)

arguments toward the position that the IMF was inclined to see this crisis in terms of rent-seeking gained momentum. Hence, the political authority of the Fund in this case remained under question (Thirkell-White, 2005).

2.4.3 Malaysia

Malaysia constitutes a different case further emphasizing the wide-ranging significance of financial globalization; at least as promoted by the Fund. Initially, the Malaysian leadership rejected IMF-style approaches to crisis and introduced capital controls in September 1998 to prevent further outflows of capital and allow a more reflationary macroeconomic policy. Regarding the peculiar political and economic Malaysian background and the ongoing debate between orthodox and heterodox economics, we can argue that government's arguments were a clear challenge to the IMF. In fact, government attacked Fund's technical credentials and its attack amounted to a criticism of IMF legitimacy, of the decisions made and the ways in which IMF made them (Thirkell-White, 2005).

The overall approach emphasized successful heterodox policies in Asian's past and accused the IMF of closing off potential heterodox solutions in the future while in the same time brought up social and political aspects of the debate about policy in Asia and used poor performance in Indonesia and Korea to justify such claims. The problems there laid in the Malaysian corruption and authoritarianism which undermined these claims despite the fact that in theory remain logical (Thirkell-White, 2005).

2.5 Case study 3: Transition economies experience

2.5.1 Poland

Moving in the region of Europe, we will analyze the cases of Poland and Russia as both countries faced a transition period from communism to market economy. IMF experts provided to Russia and Poland modern analysis and expert policy advice but also pressed western creditors for a generous reduction of the Polish debt and a fast removal of trade barriers to West European markets. In both cases the domestic governments wanted to gain IMF support so as to secure new credits, and benefit from the Bretton Woods institutions' enlisting their professional authority in supporting their policies within theirs. Nevertheless, as always, the sequence of reforms, their content and the speed have been formed mainly by the initial circumstances and the peculiar domestic political and institutional factors (Gomulka, 1995).

Poland's ''big bang'' in 1990 was a tight example of a country tackling the challenges of transition. While trying to leap to a market economy in the midst of a rapidly deteriorating economic situation where rampant inflation and a not serviced external debt were prevalent, Poland had some major advantages compared to other countries in transition; shorter history of communism than in Soviet Union and still remained elements of a market economy in small trade and agriculture as well as in broader public awareness of markets (Brau & McDonald, 2009; Tiongson, 1997).

In the case of Poland, the team that the Fund formed was skilled and persistent, composed among others by the Deputy Prime Minister and a distinguished scholar on centrally planned economies, providing extensive knowledge of the system that was to be transformed. Furthermore, the team was taken advice by executives from the World Bank and Harvard professors. The immediate objectives were halting inflation, resolving the external payments crisis, eliminating shortages, liberalizing foreign trade, regaining international credibility, and also establishing current account convertibility. As any program, it had its vulnerabilities. Though, all were eliminated leading to the characterization of Poland as the '' Phoenix Miracle'' (Brau & McDonald, 2009; Hanna Gronkiewicz-Waltz, 2003).

Poland's success in the collaboration with the IMF can be explained by the appropriate policy design, the widespread domestic and political support and trust in the solidarity-led government, the exceptionally strong ownership of the program from the government as well as the consistent policy implementation. A crucial ''success'' element of the program considers being the technical assistance provided by the Fund, with a focus on general macroeconomic policy advice, fiscal policy issues, central banking, and economic and financial statistics (Hanna Gronkiewicz-Waltz, 2003) .

So despite initial concerns on its feasibility, stemming from the initial decline in output, the slow pace of privatization and the introduction of excessively generous unemployment benefits which artificially inflated the number indexation of pensions, Poland proved to be a pioneer example that influenced the economic strategies subsequently adopted by several transition economies. Poland was the first country to embark on radical transformation from central planning to a market-based system and has therefore been able to reap the benefits earlier than other transition economies (Brau & McDonald, 2009; Hanna Gronkiewicz-Waltz, 2003; Tiongson, 1997).

2.5.2 Russia

The **Russian** case is a rather controversial one and can either be characterized as a ''macroeconomic failure or as a transformation success''. (Gomulka, 1995)Due to the communist past and the peculiarities that it embodies, there was much discussion and confusion about the policies and strategies that should have been followed: less shock and more therapy; more shock and more therapy; or gradualism. What prevailed was a very radical reform which included: fast liberalization of most prices at least at the federal level aimed at replacing the central planning with market coordination; liberalization of the foreign exchange market and internal convertibility of the ruble which improved the mobility of resources and the quality of prices; privatization and structural and institutional changes. What is important to mention here is that the entire bureaucratic obstacles toward the cooperation between Russia and the IMF had been removed (Gaidar, 1997; Gomulka, 1995).

In the beginning IMF made the most serious technical mistake: it underestimated the difficulties of coordinating fiscal and monetary policies while wanting to maintain a common post-Soviet economic space. This made it impossible to devise and implement a serious stabilization program which only came in the summer of 1992 with a decision to support national currencies (Gaidar, 1997; Gomulka, 1995; Odling-Smee & Pastor, 2002).

So, the first arrangement came in June 1992 and took the form of a stand-by program which lasted until January 1993.Due to the uncoordinated activities of branches of power there was widespread diarchy crises that lead to a legislative and economic chaos. This in turn provoked a sharp increase of inflation that reached 25% and remained at that high level for much of the 1993. As inflation is a central indicator of the performance for the IMF, the Russian hyperinflation demonstrates a clear program failure. However, this was enough for the IMF to start realizing the situation in Russia although this is not obvious from the allocation of credits that followed (Gaidar, 1997; Odling-Smee & Pastor, 2002).

With the resolution of the diarchy crisis in October 1993 and the adoption of a new constitution in December the same year, new opportunities for a stabilization policy appeared. While the government took some measures that paved the way for economic revival, the Fund found itself under severe criticism for excessive tightness and dogmatism of the stabilization program implemented in the post socialist countries. In the case of Russia, this was translated into a sincere willingness to assist nascent reforms together with a hesitation due to the concern about the viability of the stabilization efforts undertaken. Nevertheless, as the government rejected the radical disinflation program, IMF issued a regular Structural Transformation Facility (STF) tranche. Over the summer of 1994, monthly growth rates of consumer prices steadily decreased from 26% in August 1993 to 4,5% in August 1994 as a result of the tight financial policy implemented in 1993 and early 1994. Despite the doubling of the monthly growth rates of the money stock in April 1994, what followed showed that the ‘’softness’’ of the requirements from the Fund’s side only had financed the capital outflow from Russia (Gaidar, 1997; Odling-Smee & Pastor, 2002).

As inflation rose again to 20% per month, leading to large poverty rates and losses in hard currency reserves, the government realized that the soft monetary policy had a high price. IMF in turn started collaborating with the government for a new serious and tight stabilization program. It called for a complete rejection of direct credits to the budget at the expense of the central bank's loans and a sharp decrease of net internal assets rates. The program revealed a clear orthodox character but it started being implemented under extremely unfavorable conditions, provoked by the failure in carrying out the 1994 economic policies. Together with the Chechenya war in December 1994, it spread a feeling of pessimism in Russia (Gaidar, 1997).

By the end of 1995 monthly inflation rates dropped to 3%, gross hard currency reserves grew more than fivefold and poverty rate decreased as direct results of the financial stabilization. Though the program did not provide any regulation of the exchange rate, the U.S dollar depreciated against the ruble by more than 10% over May-June 1995, while the drop in the real rate was 25%. A speculative play against the ruble was on the scene. At the same time, the government, the central bank and the IMF rightly took the decision to introduce a new element to the program by introducing a currency board which allowed a rapid stabilization of the currency market and brought stability and predictability to the dynamics of the ruble exchange rate (Gaidar, 1997).

Finally, despite the major mistakes in the beginning of 1995, the overall result of the year was the maintenance and the strengthening of the monetary stability. What followed was the mitigation of inflation to 22% in 1996 and a sharp decrease in the interest rate on state treasury bills of the year. The high costs of the political turbulence followed by the fall of communism were at last left behind. Overall we can argue that the most important problem in the case of Russia is that the IMF did not properly relate the problems of revenue flows of the oil and gas industries with the macro economy and international financial system of Russia (Gaidar, 1997; Gomulka, 1995).

2.6 Conclusion- the essence of IMF recovery programs

The IMF has been a long way from its beginnings in 1945. It now has to deal with issues that exceed the limits of economics such as geopolitics and wealth distribution inequality which were certainly not the focus of their work at the end of the World War II. Through time, the Fund has been able to assist countries overcome crises throughout its main facilities while providing financial assistance. During this effort, IMF coped with remarkably different situations. The economic problems faced by the eight countries analyzed in this study were very distinct. Each one was unusual and what was a weakness in one country was not a problem in another. What is more, IMF negotiated policy programs suited to each country's unique situation and specifically designed to overcome its difficulties. This is contradictory to the ''one-size-fits-all'' approach that IMF opponents accuse for. However its policy advice role as it has been evaluated above demonstrates that it was not successful every time (Brau & McDonald, 2009).

In each case, success was due primarily to the commitment of the country's policy-making authorities. So happened in Brazil where the key factor was the consistency of the implementation. An alternative strategy policy was adopted when the program went seriously off track and was beyond repair. This case confirmed once again the argument that there are no magic policy formulas. What is vital is the presence of right decisions being taken at the right time leading this way in a large success coming out of the collaboration with the IMF. This was also the case of Uruguay where bank run and a sovereign debt crisis were outreached due to the full ownership of its program.

Contradictory was the situation in Argentina, where even with a large Fund-supported program, there was significant risk that the country might not be able to avoid a disastrous crisis. The problem lays in the fact that there wasn't clear understanding of the need for a stop-loss trigger that would force a shift to an alternative policy strategy if the preferred strategy was not working. As a result, at the behest of the Argentinian authorities whose interests and perceptions of reality were distorted by impeding catastrophe, the Fund continued to extend and expand its support even after any reasonable chance of success had vanished. The fact that Argentina faced more dire consequences from a shift to an alternative strategy to assure payments viability than Korea in 1997-8 or Brazil in 1999 can partly explain- but not excuse- the reluctance of the Fund to see the issue clearly and act properly (Vines & Gilbert, 2004).

A basic approach has been also applied in several cases in the Asian region. For example, in Korea it rapidly became apparent that the initial commitment of official support and the policy efforts of the Korean authorities were insufficient to stem a rapid outflow of capital. When the policy strategy changed and the Korean authorities decided to manage the crisis seriously, society and politicians accepted and supported the reforms. Despite the fact that Korea delayed to overcome the external payments crisis, it managed to regain market access and enjoy spectacular economic recovery as a result of a successful IMF engagement (Brau & McDonald, 2009; Thirkell-White, 2005).

If the Korean program was largely a success, the Indonesian one looks a lot more like a failure. Economic crisis quickly became political crisis as the political situation was very different both within government and outside it. If the Fund's agenda in Korea was mostly politically significant in theory, its Indonesian program was enormously significant in practice as it was designed to attack political patronage and corruption. What is vital to mention is that in this case there is still widespread disbelief regarding the motivation of the Fund intervention. The Malaysian situation was different again signaling political problems for the Fund (Brau & McDonald, 2009; Thirkell-White, 2005).

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Russia and Poland represent typical transition cases where international financial organizations have been helpful by providing modern analysis and expert policy advice. So did happen with the IMF. The sequence of the implemented reforms as well as the speed of transition has been decided largely according to the initial conditions and the new targets set. Poland managed to become a pioneer while transforming its economy and achieving macroeconomic stability even if the implemented reforms were not covered by formal performance criteria. Russia represents a mixed case as far as the result of the IMF program is concerned. Because of the peculiar political and economic background of the country, we can easily recognize many difficulties faced throughout transition and also point out the failure of the Fund to some of them with the macroeconomic policy finally followed(Gaidar, 1997; Gomulka, 1995).

To conclude with, the lessons derived from the IMF-supported rescue programs are particularly important. Each IMF-supported crisis recovery program when it is designed and finally approved has a probability of success that is never 100 percent as information is asymmetric and there are many future unknown variables that can provoke failure if not handled appropriately. The success is to design a program which compromises the first-best technical solution of the problem and is widely acceptable to the country politically. However, at this part we had just proved that economics is by nature an inexact science. Success or failure is determined by many factors, economic and political but also social and geopolitical, making it every time a challenge for the managers of the Fund to approach each country's vulnerabilities.

Chapter 3: Turkey in the era of Capital Account Liberalization: the role of IMF

3.1 Introduction: Long history involvement

The first stand-by arrangement that Turkey contracted with the IMF was placed in 1961. As the economic boom ended suddenly in the mid-fifties, agricultural production and the primary foreign exchange earning sector was weakened and thus provoked a substantial fall in the real gross domestic investment. This was the origin of Turkey's economic crisis and the need for external loans which was provided eventually through the IMF-imposed stabilization programs. Nine stand-by arrangements took place between 1961 and 1970. Due to the improvement in the balance of payments and reduction in imports during this period, the proposed amount of funds, SDR (Special Drawing Rights)[4] 90 million, have not been used by the 1961, 1962 and 1965 stand-by arrangement. Finally, the 1964 and 1969 stand-by arrangements were cancelled leading to the utilization of only SDR 29 million over the proposed amount of SDR 48.5 million(Table 3) (Karagol, 2008).

The above-mentioned arrangements were completed in due time and only SDR 31 million were used. Although the 1964 stand-by arrangement was revised two times, it was eventually cancelled and the proposed funds were not used. The 1969 stand-by was also cancelled since a new government came to power and intended to prepare a new program. The new government's program had provisions for reforming institutions and harmonizing policies. Finally, with these two arrangements only SDR 29 million were used over the proposed amount of SDR 48.5 million (Karagol, 2008).

Due to the first and second oil crises of 1973 and 1979, Turkey rescheduled its debt with consecutive agreements signed with the Organization for Economic

[4] Special Drawing Rights (SDRs) are supplementary foreign exchange reserve assets defined and maintained by IMF. Not a currency itself, they represent a potential claim on the currencies of IMF member states for which they may be exchanged.

Cooperation and Development (OECD) in 1978 and with commercial banks in 1979 and 1980. With these agreements, both the government debts and commercial debt repayments were rescheduled. Despite the fact that the relief brought about by the capitalization of interest payments in rescheduling content, rescheduling increased Turkey's external debt stock in the 1970s. Due to these developments, Turkey intended to have IMF stand-by at the end of 1970s and the beginning of 1980s. Because of the poor performance criteria, the 1978 and 1983 stand-by arrangement were cancelled and in 1979 and 1984 new stand-by arrangements took place. These arrangements were also cancelled because of the same reason. As a result, only a total of SDR 545 million were used over 1 SDR billion (Karagol, 2008).

Following a period of financial disorder at the end of 1970s, the Turkish government announced a structural adjustment policy in 1980. The 1980 structural adjustment program introduced selected radical policies. There was a shift in an export-led industrial and economic model, followed by integration into the international economy which in turn brought liberalization of the foreign trade system. During this period, Turkey improved the balance of payments and appeared to have high growth rates. The 1980 stand-by was completed successfully while the entire proposed amount of money was used (Karagol, 2008).

In the beginning of the 1990s, public expenditure was increased due to populist policies, such as increasing the public wage bill, implementing generous agricultural support policies, supporting poorly performed state owned economic enterprises (SEE), meeting the increased cost of military operations in the South-eastern region of the country, and making increased interest payments after 1992. The government preferred to focus on short-term solutions rather than more structural changes. However, these policies did not solve the problem but only postponed it. The budget deficit did not decrease but increased. The snowball effect on domestic debt stock and the interest payments on domestic debt steeped up whilst on the revenue side, there was no considerable improvement. Turkey had another stand-by in 1994 but this arrangement was cancelled in 1995 because of poor performance (Karagol, 2008).

As it was primarily argued before, in the decades following the World War II, the Turkish economy was characterized by heavy regulation and protection from foreign competition. Apart from that, state involvement in the commercial activity was significant with 11.5% of the value added in the economy to be produced by state owned firms in 1985 and almost the same percentage in 1991. Turkey’s economic performance in terms of growth was relatively poor with high levels of inflation that seem to be one of the most important problems for many years. As a matter of fact, inflation fluctuated between 30% and 50% during 1980’s, rising to an average of over 75% during 1990’s. One of the main reasons that lie behind this extremely high inflation rates is the chronic budget deficits, financed in part by printing money. The situation was continuously being triggered by the fractious political environment that encompassed 15 governments, ten of which were coalition or minority governments (Bredenkamp, Josefsson, & Lindgren, 2009).

Focusing on the 1990’s, which has been characterized as a lost decade for Turkey, the economy found to be trapped within mini cycles of growth-crisis-stabilization while most of the signs of growth were eventually artificial. In the first half of the decade, inflation reached 70% while in the second half registered a record with 80%-90%. However the thorn in the Turkish economic environment was the fragile financial structure and the poorly supervised and weak banking system. The low capital adequacy ratio in combination with the uncovered short-term position against the exchange rate risk had led to a financial sector highly exposed to risks. At the end of 1990s, Turkey failed to implement many of the measures accompanying reform. Coupled with political instability, this led to a crisis, mainly due to government failure to implement the necessary institutional changes needed for a market economy. Foreign currency expenditure grew as a result of the liberalization of imports while revenues in foreign currency shrank (Yeldan, 2002).

In a nutshell, the problematic characteristics of the 1990's can be described as : price inflation under conditions of a crisis-prone economic structure, persistent and rapidly expanding fiscal deficits, marginalization of industrial relations and severe erosion of moral values with increased public corruption. It is more interesting look at the situation in real terms in the Table 1.

Table 1: Inflation, GNP per capita and growth rate in the 90's

	End of year change in WPI (percent)	End of year change in CPI (percent)	GNP per capita (US$)	GNP growth rate (percent)
1990	48.6	60.4	2,710	9.4
1991	59.2	71.1	2,666	0.3
1992	61.4	66.0	2,766	6.4
1993	60.3	71.1	3,093	8.1
1994	149.6	125.5	2,195	–6.1
1995	64.9	78.9	2,841	8.0
1996	84.9	79.8	3,005	7.1
1997	91.0	99.1	3,110	8.3
1998	54.3	69.7	3,247	3.9
1999	62.9	68.8	2,836	–6.1

Source: Gokhan Capoglu, Anatomy of a Failed IMF Program, 2004

The gross national product (GNP) declined by 9.5 percent in 2001, and the GNP per Capita fell to $2,103 at the end of 2001 from $2,986 in 2000. Growth rates have been unstable ranging from 9.4% to -6.1%. The public sector indebtedness increased considerably in the 1990s (Capoglu, 2004).

As we see in Table 2 the ratio of total public debt to GNP increased from 29% in 1990 to 61% in 1999. In the same time period, the ratio of domestic debt to GNP increased from 6% to 42%.The dramatic increase in public debt stemmed from high real interest rates averaging 32% during the period 1992-1999 leading to increasing budget deficits (Capoglu, 2004).

Table 2: Primary and Overall Deficit of the Consolidated Public Sector (% of GNP), 1994–2000

	1994	1995	1996	1997	1998	1999	2000
Interest payments	10.1	9.1	11.9	11.0	16.4	22.1	21.9
Primary balance	1.0	3.9	–1.3	–2.0	0.8	–2.0	2.3
Public sector borrowing requirement	9.1	5.2	13.1	13.1	15.6	24.2	19.1
Unpaid duty losses	–1.6	–1.1	–3.1	–3.0	–4.6	–8.2	–10.0
Net debt of the public sector	44.7	41.3	46.5	42.9	44.5	61.0	58.9

Source: Gokhan Capoglu, Anatomy of a Failed IMF Program, 2004

The ratio of interest payments to GNP increased from 9.1% in 1995 to 22.1% in 1999 which was also a major sign that a stabilization program was a foregone conclusion.

Table 3 sums up Turkeys' long history of involvement with the IMF.

Table 3: Arrangements with the IMF: 1948-2008

	Date	Cancellation	Number of Months	Amount (SDR Millions)	Disbursed (SDR Millions)	Disbursement rate (%)	Arrangement type
	1948		12	5	5	100	Gold tranche
	1953		12	10	10	100	Gold tranche
	1954		12	20	20	100	Gold tranche
	1957		12	13.5	13.5	100	Gold tranche
	1958		12	25	25	100	Gold tranche
1	1961		12	37.5	16	42.6	Stand-By
2	1962		9	31	15	48.4	Stand-By
3	1963		11	21.5	21.5	100	Stand-By
4	1964		11	21.5	19	88.4	Stand-By
5	1965		12	21.5	0	0	Stand-By
6	1966		12	21.5	21.5	100	Stand-By
7	1967		11	27	27	100	Stand-By
8	1968		9	27	27	100	Stand-By
9	1969		12	27	10	37	Stand-By
10	1970		12	90	90	100	Stand-By
11	1978	1979	24	300	90	3	Stand-By
12	1979	1980	12	250	230	92	Stand-By
13	1980		36	1,250	1,250	100	Stand-By
14	1983		12	225	56.3	25	Stand-By
15	1984	1984	12	225	169	75	Stand-By
16	1994	1996	14	610	460	75	Stand-By
17	1999		36	1,5038	11,738	78	Stand-By and SRF
18	2002		36	12,821	11,914	92.9	Stand-By
19	2005		36	6,662	Continuing		Stand-By

*the arrangement of 2005 ended in 2008
Source: Ozlem Arpac, Graham Bird, Turkey and the IMF: A case study in the political economy of policy implementation, 2009

3.2 The 1999 Staff Monitoring Program

Ecevit's coalition government, newly elected in April 1999 put together a bold program, which the IMF backed under a stand-by arrangement in December 1999. It is vitally important that this is the first time in the Turkish history that a coalition government appeared to be positive towards the implementation of an IMF program. The agreement was already in valid from July the same year including a Staff Monitoring Program with rather ambitious targets. It aimed at improving fiscal balance and reducing long-lasting inflation. Throughout closer supervision and control of IMF, Turkey had to bring inflation down to 25% by the end of 2000, 12% by the end of 2001 and to 7% by the end of 2002. The main pillars of this exchange rate based disinflation (ERBS) program as stated in the ''Letter of Intent'' of

December 9, 1999 were: a **tight fiscal policy** accompanied by an incomes policy in line with the target of inflation, a **monetary policy** formulated so as to decelerate inflation and also **structural reforms** especially with regards to privatization. The program was going to be supported by a 4 billion dollars stand-by (Alper & Onis, 2003; Capoglu, 2004; Yeldan, 2002; IMF f, 1999).

Exchange Rate and Monetary Policy

The program called for the adoption of a monetary approach to the balance of payments so as to determine a **liquidity generation mechanism** as well as bring equilibrium in the balance of payments. This is the framework of most of the IMF programs as it expects the real exchange rate to be in long run equilibrium at its purchasing power parity level. Therefore the program announced that the rate of the currency depreciation would be set in line with a pre-announced schedule so as to check the evolution throughout the year. This way, the Central Bank of the Republic of Turkey formed an exchange rate basket consisting of 1 US$+ 0.77 Euro which was going to be 20% for the first year going together with the targeted change in the wholesale price index. This is regarded as the backbone of the program in the attempt to break the inflationary inertia. By July 2001, exchange rates would be allowed to float within a band of -7.5% to +7.5%. This band would widen by this percentage also every six months with final objective to reach ±22.5% by December 2002 (Capoglu, 2004; Yeldan, 2002)

The innovative aspect of the Turkish ERBS program was the existence of an **exit strategy** which could enable Turkey to move off the crawling peg exchange rate system in a timely manner. This is a unique element with regards to the IMF previous programs implemented in Mexico and Brazil for example (Alper & Onis, 2003).

Fiscal Policy

The upper priority of the fiscal policies implemented was to create sustained primary budget surpluses that could reduce the ratio of government debt to GNP gradually.

The target for the first year was 2.2% for the budget surplus and 3.7% of GNP for the last two years of the program implementation. The plan involved also reduction in government indebtedness of 6.4% of GNP, from 61% in 1999 to 54.6% in 2002. The introduced measures that were implemented consisted of **one-time taxes** and **expenditure cuts** so as to increase the revenues (Capoglu, 2004; Yeldan, 2002).

Structural Reform

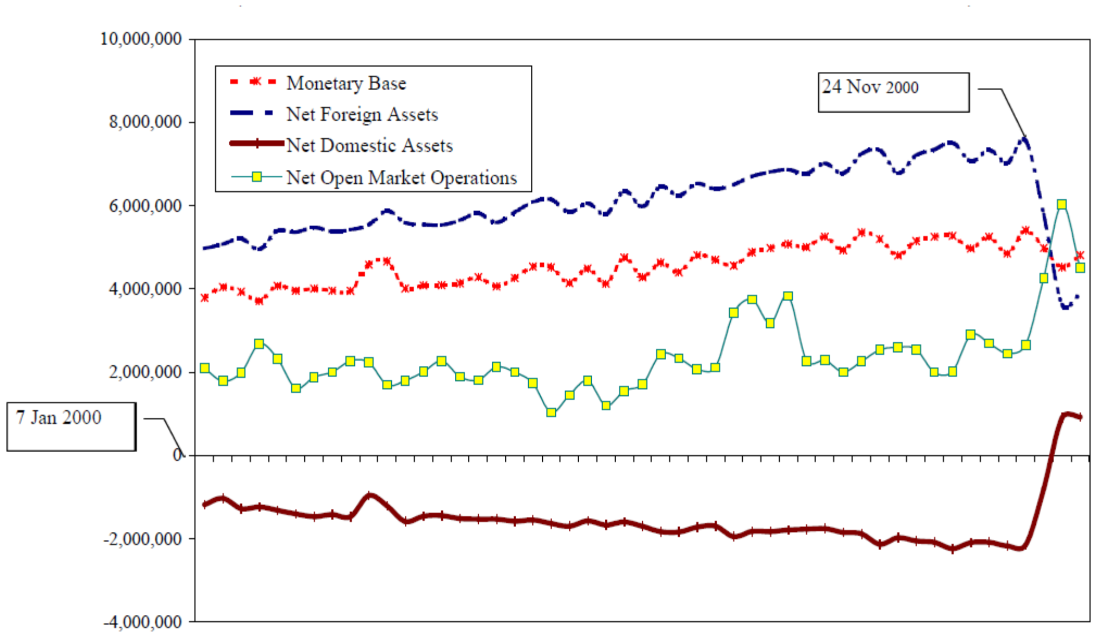
The structural changes of the program covered areas such as social security, agricultural policies and most importantly privatization. At first was the enactment of a **new social security law** so as to prevent the early retirement. As far as the agricultural support prices, these would not be set higher than 35% of the world prices at least in the first year of the implementation. However, at the end, the existing agricultural price support system should have been replaced with a direct income support system for the producers. The third component included **large-scale privatizations** referring mainly to the energy and natural gas distribution networks and the state banks (Capoglu, 2004).

3.3Results

As a matter of fact, the liquidity mechanism operated successfully the first ten months of the program implementation. Figure 1 below shows progressively the monetary base, open market operations, the net foreign assets, and the net domestic assets of the Central Bank, as measured by the end-of-week observations, January 7 to December 1, 2000.

Figure 1: Monetary Base, Net Domestic Assets, Net Foreign Assets and Net Open Market Operations

(7 Jan 2000- 1 Dec 2000, End-of-week Observations, Millions TL)



Source: Eric Yeldan, On the IMF-Directed Disinflation Program in Turkey, 2002

It is obvious that the Central Bank proved to be really successful in its role of currency board until November where we had the first sign of the forthcoming crisis. Overall, the Central Bank had conducted its open market operations within the limits of the program (Yeldan, 2002).

However, the unavoidable appreciation of the Turkish Lira and the explosion of foreign capital inflows were the major facts that led to the deepening of the financial fragility of the domestic economy. We cannot neglect also the impact of the Customs Union that Turkey signed with the EU as a factor which in combination with the aforementioned, had led to the rapid expansion of the current account deficit to 9.5 billion dollars by the end of 2000. During the first eleven months of 2000, while exports had remained almost stable, imports had risen by 37% doubling this way the trade deficit to 25 billion dollars. The favorable conditions of 1994 Treaty on the Customs Union were reversed in 2000 not only due to the faster rate of appreciation of TL vis-a-vis the currency basket, but also because of the depreciation of the Euro vis-a-vis the dollar (Yeldan, 2002).

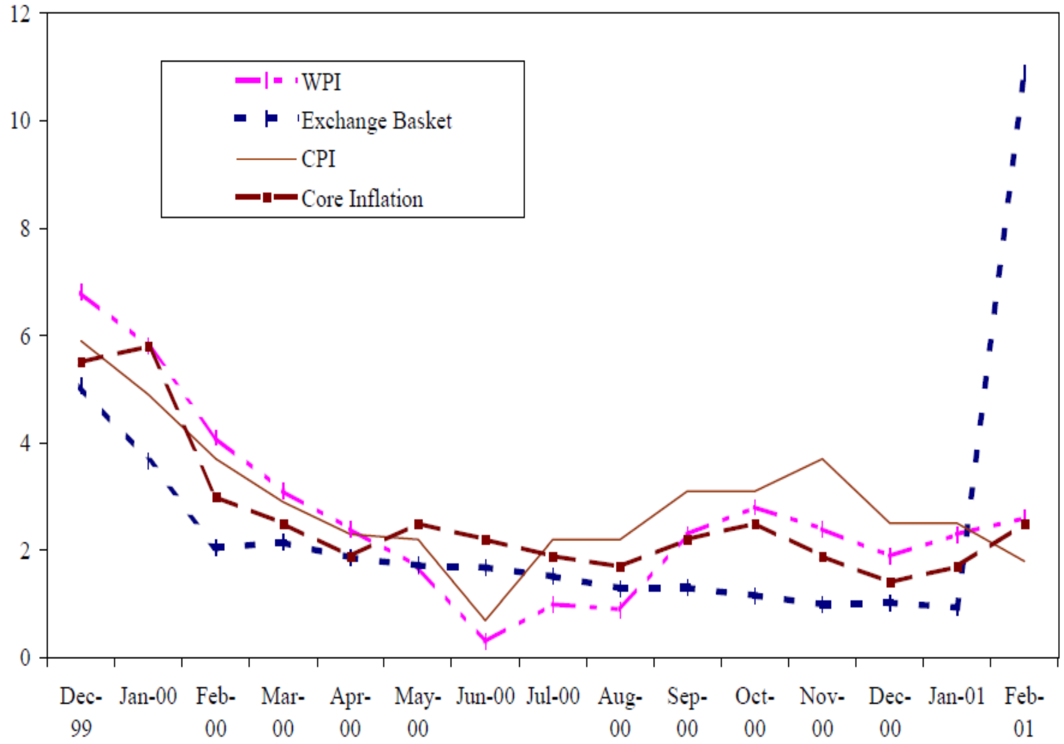
By November 2000, IMF representatives expressed their concerns on the sustainability of the program referring mainly to the current deficit. Similar were also the signs coming from the external investors' willing to liquidate their assets in Turkish Lira. The knock out came in November 2000 when the net external assets fell abruptly. It is necessary to mention that the Turkish financial system has been operating constantly under ''the danger zone'' from the past twelve years as the ratio of short-term foreign debt to the Central Bank's international reserves has been rose secularly. Indeed during the implementation of the dis-inflation program this ratio rose up to 112% in June 2000 and to 147% by December 2000 (Yeldan, 2002).

We can handily argue that the program itself increased the financial fragility of the domestic asset market. The conditions had led the commercial banks to increase their bond financing activities, increasing this way the fragility of the financial sector against uncovered interest risk (Yeldan, 2002; Yeldan, Bretton Woods Project, 2008).

With regards to the macroeconomic effects of the dis-inflation program, Figure 2 makes evident that the upper goal, the reduction of the consumer and wholesale price indexes (CPI, WPI) had been materialized especially in the second half of 2000. The core inflation rate as measured by the change in private manufacturing industry prices, has fluctuated around the aggregated WPI and CPI. The annualized rate of inflation reached to 33% in WPI, and 39% in CPI (Ertugrul & Yeldan, 2003).

Figure 2: Prices and Exchange Rate Basket under the 2000 Disinflation Program

(Monthly % Change)



Source: Ahmet Ertufrul, Eric Yeldan, On the structural weaknesses of the post-1999 Turkish dis-inflation program, 2003

The macroeconomic performance of the Turkish economy under the IMF program is depicted in the Table 4 below.

Table 4: Macroeconomic Developments in Turkey under the 2000 Disinflation Program and Beyond

A. Rate of Growth (%):	1998	1999	2000.I	2000.II	2000.III	2000.IV	2000	2001.I	2001.II
GDP	3.1	-4.7	5.6	6.4	7.8	8.3	7.2	-2.2	-9.3
Agriculture	8.4	-5.0	1.8	2.3	1.9	12.2	4.1	8.9	-4.9
Industry	2.0	-5.0	2.8	4.0	9.8	5.5	5.6	-1.3	-8.5
Construction	0.7	-12.7	-1.3	4.3	11.1	6.7	5.6	-7.4	-10.1
Domestic Trade	1.4	-6.3	10.1	11.0	13	11.6	11.6	-3.8	-11.5
Financial Institutions	6.9	6.5	2.1	1.4	0.7	-0.4	0.9	-5.3	-10.1
Consumption Expenditures									
Private	0.6	-2.6	4.3	4.7	9.9	5.8	6.4	-3.4	-11.5
Government	7.8	6.5	-0.7	12.6	9.7	5.7	7.1	-0.2	-5.7
Gross Fixed Capital Investment									
Private	-8.3	-17.8	8.9	15.9	19.7	15.9	15.4	-12.6	-32.2
Government	13.9	-8.7	10.8	21.8	21.6	19.9	19.7	-5.8	-32.1
B. Balance of Payments (Billions US$)									
Exports	31.220	29.325	7.580	7.976	7.775	8.333	31.664	8.168	8.805
Imports	45.440	39.773	11.363	13.957	14.186	14.535	54.041	10.251	9.416
Current Account Bal.	1.984	-1.360	-2.272	-3.264	-1.359	-2.925	-9.820	-0.540	1.152
Capital Account Bal.	-0.755	4.670	3.435	4.535	2.966	-1.491	9.445	-3.138	-6.373
Portfolio Investments	-6.711	3.429	2.091	1.608	2.333	-5.010	1.022	-2.867	-0.347
Short Term Capital	1.398	0.759	1.117	0.782	0.348	1.788	4.035	-1.337	-5.015
Long Term Capital	3.985	0.344	0.247	1.955	0.712	1.362	4.276	-0.508	-1.121
Outstanding For. Debt	96.890	103.344					117.844	114.569	111.921
Short Term Debt	21.217	23.472					28.912	26.636	22.767
Long Term Debt	75.673	79.872					88.932	87.932	89.154

Source: Ahmet Ertufrul, Eric Yeldan, On the structural weaknesses of the post-1999 Turkish dis-inflation program, 2003

Given the 1999 deflation, the boost of the gross domestic product is clearly visible. Rate of growth of GDP accelerated from 5.6% in the first quarter, to a score of 8.3% in the last quarter of 2000. The annual rate of growth averaged 7.2% in 2000, with commerce and trade services registering 11.6%, and industry and construction both growing by 5.6%. The boom in consumption demand was evident especially with its peak in the third quarter. Investment demand, both public and private, likewise registered a strong upturn over their contraction in 1999 (Yeldan, 2002).

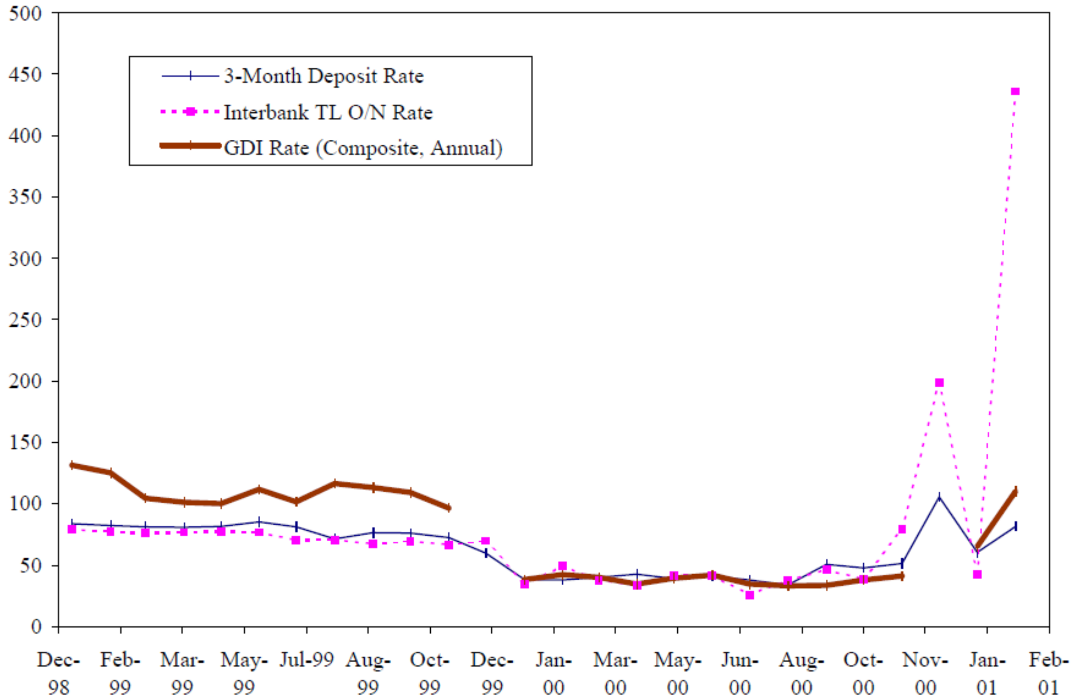
Balance of payments statistics reveal the main source of the growth of 2000. Over the whole year, commodity imports have been increasing at a rate of 35.9%, while export growth remained at only 7.9%. The deficit on the current account which was 1.4 billion dollars in 1999 has widened abruptly to 9.7 billion dollars by the end of

2000. The current account deficit was initially targeted at 2.8 billion dollars, and was revised upward to 5 billion dollars. Thus, the realized current account deficit has exceeded its revised target by 1000% over the program implementation. The deficit on the current account was primarily covered by the capital account surplus totaling 9.4 billion dollars. Both short and long term capital were instrumental in bringing foreign capital into the domestic asset markets, while the aggregate foreign debt outstanding jumped by 12.3%, from 103.3 billion dollars to 116.1 billion dollars within 2000 (Bredenkamp, Josefsson, & Lindgren, 2009; Ertugrul & Yeldan, 2003).

The increased inflows of foreign capital have been instrumental not only in financing the current account deficit, but also in the expansion of domestic liquidity. Given the no-sterilization rule and the constraints on the net domestic asset position of the Central Bank, inflows of foreign capital called for an expansion of the monetary base in line with the increase in net foreign assets. Coupled with the elimination of the currency risk, these developments led to a sharp decline in the real rates of interest, especially in the early phases of the program.

Figure 3 depicts the routes of the rates of interest from December 1998 until February 2001. The decline in the rate of interest offered on the government debt instruments (GDIs) is impressive. The rate of return on GDIs which was ranging between 100% and 120% throughout the post-1994 crisis period has dropped suddenly to 30%-40% just within the beginning of the program. This sudden drop of the GDI rates of return suggests the presence of a significant risk premium on the existing levels. Both the deposit and the overnight inter-bank rates of interest followed similar path, and the asset markets operated with marginally positive real interest rates in the first three quarters of 2000 (Bredenkamp, Josefsson, & Lindgren, 2009; Ertugrul & Yeldan, 2003).

Figure 3: Behavior of Interest Rates under the Disinflation Program



Source: Eric Yeldan, On the IMF-directed disinflation program in Turkey, 2001

3.4 Crises emergence

As a result, the economic program that was already implemented was threatened in November 2000. The crisis manifested itself when liquidity problems both in public and private banks appeared. More specifically, the liquidity deficits of the banking sector provoked speculations in the market while this tension increased the demand for foreign exchange. However the problem became more obvious when the overnight interest rates increased to three-digit levels (Figure 3), proving to the point the problematic financial intermediation (BRSA, 2009).

Despite the fact that the Central Bank supported the banks in financial terms and took this way the risk of foreign currency reserve loss, it was finally proved that the only way to achieve stability in the markets was the transfer of selected banks to the Sustainable Development Innovations Fund (SDIF). As a result, the reserve losses of the Central Bank stopped (BRSA, 2009).

Unfortunately the undertaken measures had not managed to bring the desirable stability in the markets and because of the increasing demand for foreign exchange, Central Bank intervened. Even though there was an effort to limit the Turkish lira liquidity and protect the exchange rate regime, the overnight exchange rates exceeded 1000 %. The payments system collapsed as the public banks hadn't fulfill their money obligations and capital and money markets supported the process. In February 2001 Turkey faced the most severe economic and financial crisis and a floating exchange rate regime was announced (BRSA, 2009).

3.5The vulnerabilities of the 99' strategy

There are three main areas under which we can summarize the unfavorable factors that had led to the collapse of the program. These are considered to be the unfavorable initial conditions that policy designers had not taken into serious consideration, especially with regards to the risks that evolved.

3.5.1 High level of public sector borrowing

The problem in the case of Turkey was the pre-existing unsustainable domestic debt dynamics as shown by the high level of public sector borrowing requirements of 24.2% of GNP in 1999 (Table 2). Taking into account this fact, we can argue that designers did not pay much attention to the sustainability of the debt dynamics which may have been more important than reducing the inflation rate. The chronic large budget deficits limited the Treasury's freedom to act and thus force the Treasury to focus on reducing the borrowing costs at the expense of fulfilling its bank supervision duties satisfactory. This is also a major reason that speeded the collapse of the program (Alper & Onis, 2003; Capoglu, 2004).

3.5.2 Overvaluation of the currency

As it was pointed out by the previous experiences of Latin American countries, the rate of inflation aligns slowly to the pre-announced exchange rates and as a result leads to the overvaluation of the currency during the implementation of the program.

So did happen in Turkey, where the overvaluation of the currency in combination with the trade and current account deficits widening, increased the country's independence on capital inflows. Turkey entered the program with an already overvalued currency by 27% in terms of CPI and 9% in terms of WPI. This is considered to be a fatal mistake because as inflation was slowly converging with the pre-announced exchange rates, it caused 20% overvaluation of the Turkish Lira with respect to CPI and also 10% with respect to WPI. Consequently, the current account deficit widened to a record level of 9.8 billion dollars or 5% of GNP within the first year of the implementation (Capoglu, 2004).

3.5.3 Fragility of the banking system

Despite the fact that the fragility of the Turkish banking system was underlined by the IMF's study prior to the initiation of the program, the designers underestimated this danger by deciding to tackle the banking reform simultaneously with the stabilization program. The major vulnerable points of the banking system are summarized as following: maturity mismatch, banks' large open foreign positions, and low capital adequacy ratio (CAR).Even if the establishment of an independent supervisory and regulatory body (BRSA) came in August 2000, the Agency had run out of time to design and implement a viable strategy for banking reform and finally the liquidity crisis of November 2000 and the final crash of February 2001 had not been avoided.

3.6 Crises as an opportunity for major restructuring

The turmoil resumed in February 2001, with the cost of short-term money reaching 7,500%, the currency peg was abandoned. As a consequence, Turkish Lira had been depreciated by 50% and the economy entered a deep recession. The immediate challenge in the aftermath of the November 2000 and February 2001 crises was how to restore confidence and credibility in the Turkish economy. The governments' first movement was to formulate a new team headed by the senior executive of World Bank, Kemal Dervis. This new core team had to create a new economic program in order to repair the damages of the banking system, stabilize the budget in response to the huge costs of those repairs and also find a way to replace the exchange rate peg. The national program was based on strict fiscal control and front-end loaded structural reforms. On May, 15 Dervis submitted a new ''Letter of Intent'' to the IMF in order to announce the **''Strong Economy Program''** which aimed at transforming ''the old days of policy making'' (Arpac & Bird, 2009; Bredenkamp, Josefsson, & Lindgren, 2009; IMF g, 2001).

In less than a year, nineteen laws and regulations were enacted so as to ensure the sustainability of the structural reform that it was going to take place. Crucial in this procedure presumed to be the **independence of the Central Bank** as well as laws concerning the reform of banking system, fiscal discipline, the overhauled agricultural policy and most importantly the control of the public debt. The key elements of this program can be summarized as:

- Major financial and operational restructuring of the public banks, resolution of the failed banks, strengthening of the private banking system and also strengthening the framework of the supervision, carried out by the BRSA through a comprehensive restructuring program
- New fiscal measures and improvements in the transparency of the budgets accounts
- A comprehensive privatization program especially in the telecommunications, electricity, natural gas, sugar and tobacco sectors
- Incomes policies evolving a strict control of public sector payments and a more dynamic role for the government with respect to the private sector payments (Bredenkamp, Josefsson, & Lindgren, 2009).

This program was supported by a new credit line of 7.5 billion dollars under a Supplementary Reserve Facility (SRF) in 2001. Following their recapitalization and downsizing under new type of management, state banks became highly profitable and this way alleviated the Treasury from their dividends. As for the private banks, they managed to increase their profitability after the successful operational and financial restructuring process that was followed. Quite helpful was also the passage of a new banking law that brought regulations and supervisory techniques in line with the international standards and European recommendations. The restoration of confidence in the banking sector was verified by increased levels of profitability and transparency, the consolidation of the banking sector and the strengthened capital structure (BRSA, 2009; Bredenkamp, Josefsson, & Lindgren, 2009; Evrensel, 2004).

Moving now in the real economy, the first signs of recovery were visible in late 2001 and the first half of 2002, when industrial production began rising, output gathering was strengthened and inflation had fallen by 30%. Especially after the 9/11 events, stock market took off. What is more, the growth rates gained great momentum and in the field of fiscal discipline, government has committed to align with the Maastricht criteria. In Table 5 we can see clearly the recovery and stability indicators that followed the deep recession (Bredenkamp, Josefsson, & Lindgren, 2009).

Table 5: Turkey's Crucial Macroeconomic Indicators, 1980-2006

	1980 – 1989	1991 – 1995	1996 – 2000	2001	2002	2003	2004	2005	2006	2002-2006
Inflation	51,7	78,8	74,1	54,2	45,1	25,3	8,6	8,2	9,6	19,4
PSBR/GNP	5,0	8,8	9,3	16,4	12,7	9,4	4,7	-0,4	-2,6	4,8
FDI inflows	n.a	756,6	846,4	3352	1.137	1752	2847	9673	19919	5646,6
Privatization Revenues	n.a	432	907	120	537	187	1283	8222	8096	3665

*PSBR: Public Sector Borrowing Requirement. According to the Maastricht criteria, the PSBR/GNP ratio should be lower than 3%

Source: Ziya Onis, Ismail Emre Bayram, Temporary Star or Emerging Tiger? Turkey's Recent Economic Performance in a Global Setting, 2008

However, market confidence in the governments' long-term ability to service its debt proved difficult to restore. The currency tumbled again and interest rates remained high. Positive in this direction was the government's overall commitment to continue with further reform. In February 2002 the existing IMF arrangement was superseded by a new, three-year stand-by accord. The floating currency policy was retained, tights fiscal targets were extended up to 2004 and greater attention was paid on the details of the structural reform of the program. The Fund pledged a total of 17 billion dollars, including around 4 billion dollars still outstanding the previous accord. Of this amount, 9 billion dollars were released immediately while 6 billion dollars were used to repay the Fund for the SRF of 2000. Turkey became IMF's largest creditor owing some 20 billion dollars at the end of 2002. The November 2002 elections caused a delay in the release of further IMF loans. It is vital to mention that the new government was unwilling to accept IMF conditions and this caused prolonged negotiations. Finally, in April 2003, credit was released and also continued until 2004 but with some delays (Yeldan, Bretton Woods Project, 2008; Ugur, 2008).

Unfortunately, the time passed and Turkey had not managed to meet the preconditions of the IMF referring to those of tax administration, pension scheme and banking system. Government needed more time to draft social security reform and pass them parliamentary and this was a factor acknowledged by the IMF. At this time, there was a shift in the mood of cooperation between Turkey and the IMF which was reflected to the ''Letter of Intent'' of April, 26 2005, requesting a new stand-by agreement (IMF h, 2005). Turkey was in need of IMF and the Fund agreed to lend up to 10 billion dollars in 2005 through an agreement that would end in 2007. There was also an agreement of delayed repayment of previous obligations worth of 3.7 billion dollars from 2006 to 2007. By the end of May 2006, Turkey was aligning with a good pace in line with the IMF standards (Yeldan, Bretton Woods Project, 2008).

As stated in the Letter of Intent, in 2006 begin the explicit targeting of inflation. Nevertheless in its initiation it had not managed to hit the target at least in the first two years of its life. The targeted and actual inflation rates as well as indicators of inflation expectations are given in Table 6 below.

Table 6: Inflation and Real Interest Rates: Turkey 2002-2007

	2002	2003	2004	2005	2006	2007
Inflation Target (%)	35	20	12	8	5	4
Inflation Turn-out (%)	29.7	18.4	9.3	7.7	9.6	8.4
Expected Inflation (% at start of year)	48.3	24.9	13.1	8.4	6.5	6.8
Real interest rates (%)	30.5	33.9	15.3	6.0	11.6	7.0

Source: Mehmet Ugur, Turkish economic policy under AKP government: an assessment for 2002-2007, 2008

At the same time, the new government had also begun a democratization reform in the context of EU-Turkey relations. This commitment to the EU perspective was a crucial actor of credibility for the economic policy framework (Ugur, 2008).

The transformations in the institutional structure of the economy were of major importance. In this process, it was proven that transparency and accountability measures as well as improvements in the tax administration were crucial. This way, Turkey managed to attract significant levels of foreign direct investments (FDI) which can be also seen as an effort to clear EU perspective. Moreover, privatization revenues found to be increased, contributing to better economic performance, increased efficiency, and development of the capital market and also broaden the property ownership. In this respect, the favorable global liquidity conditions were of great help (Karagol, 2008).

Notwithstanding the enormous strides that have been made, Turkey still faces significant economic challenges. More specifically, Turkey is highly exposed to global financial shocks. It is mainly reliable on foreign investors to finance its large current account deficits and its foreign exchange reserve position is less strong than many of its peers. Persistently high unemployment is a major vulnerability while the public debt burden is still comparatively large. IMF's contribution to successful outcomes especially after 2001 is widely accepted but it seems that the effects started enervating particularly due to the global economic crisis conditions (Onis & Bayram, 2008).

3.7 Conclusion-the evaluation of the IMF support

Due to the IMF long history of involvement in Turkey crises from 1961 until 2008, we can argue that it was involved both in the economic and political history of Turkey with the conditionality that it embodied. Throughout 19 arrangements since membership, Turkey stands in the first top five lending countries of the IMF. Turkey has managed to recover from three serious economic crises under the supervision and the financial help of IMF until the 1980's. However, the premature opening of the capital account in Turkey caused deterioration of the Turkish economic performance results during 1980's. In hindsight, it was proven that this premature capital account liberalization delayed the reform process in Turkey as the early exposure to financial globalization provoked the underlying imbalances which were mostly rooted in Turkey's domestic politics (Alper & Onis, 2003).

In the aftermath of the 1994 crisis, the Fund was actively involved in the reform implementation level through country staff reports which underlined deficiencies concerning fiscal and financial fragilities that were later responsible for the subsequent crisis of November 2000 and February 2001. As a result, Fund's role in this period can be characterized as consultative even though it was involved in the policy process imposing key policy changes in the desired direction (Alper & Onis, 2003).

As for the 1999 Staff Monitoring Program, the initial conditions of the Turkish economy in real terms reflected major structural fragilities especially in the financial sector. The deterioration of main macroeconomic indicators was obvious with 11.6 budget deficit –GNP ratio and interest costs on domestic debt reaching 13.7 of the

GNP in 1998 and 1999 respectively. In addition to the fiscal deterioration, accrued duty losses of the public banks reached 12% of the GNP in 2000. These accrued but unpaid duty losses constituted a heavy pressure on the liquidity requirement and increased the disinflationary effects on the interest rates (Yeldan, 2002). All in all, the program was introduced in an uncertain environment both politically and economically. Due to information problems, the Fund provided lopsided financial assistance based on unjustified and simplistic assumptions (Alper & Onis, 2003).

Given the weak political ownership and the scale of the adjustment involved, far more emphasis should have been placed on the problem of the banking sector than that of the budget deficit one so as to avoid the so-called paradoxical element of Turkey's engagement with the IMF: the fact that during the implementation of the program, two crises occurred. We cannot place the sole responsibility on the IMF but on the other hand we can ''accuse'' the Fund of underestimating the fragility of the Turkish financial sector. Purportedly, the program should have envisaged the effect of the possible liquidity squeeze on the interest rates and also in the fiscal balance. The speculative herd behavior both of domestic and foreign financial arbiters had led to this IMF-directed disinflation episode which clearly spells the dangers of restricting the monetary policy of an economy to speculative in-and-out-flows of short-term capital, which by itself, was excessively liquid and volatile. The program which dismantled all tools of stabilization and monetary control of the Central Bank, had left the economy exposed to a speculative run and a ''sudden stop''. Under these conditions, it was not a surprise that the program collapsed fourteen months after its initiation when the ''uneasy speculators'' shifted their focus and decided to reverse their flows, leaving the country illiquid and dried out (Alper & Onis, 2003; Ertugrul & Yeldan, 2003; Yeldan, 2002).

Finally, when looking at the post-2001 crisis period, we find also various criticisms referring to the Fund. Apart from what has already been mentioned, overall, according to Alper and Onis (2003) IMF failed to provide the appropriate assistance in time in the case of Turkey. Nevertheless, the root of the problem can be found in the domestic political scene which was misjudged by the Fund's economic team. In addition to this, in the relevant literature, the most frequently criticism found to be that IMF focuses on fiscal prudence at the expense of real economic recovery which sometimes leads to an artificial recovery and outbreaks another crisis in the near future. So did happen in Turkey where the Fund did not pay much attention on measures tackling chronic problems that would lead to long-term growth (Alper & Onis, 2003).

Continuing with the post crisis period, IMF in collaboration with the newly elected government of 2001 introduced a new economic program with comprehensive structural changes that Turkey needed. So, after the restructuring of the financial sector, fiscal discipline and budgetary balance were achieved through the years, under the guidance of the IMF. Until 2007, when the last agreement with the IMF ended, Turkey had managed to come up with unexpected growth rates and inflation has fallen to its lowest level in a generation. The strong presence of the Turkish economy market in the global scene is a strong verification of the good progress (Onis & Bayram, 2008).

However, Turkey entered 2008, the year of the global economic crisis, with severe disequilibrium and increased external debt burdens. The generally favorable conditions of 2002-2007 that were conducive to the rapid growth performance are not present now. Turkey has to cope with the current turbulence and the consequent decline of credit in the global financial markets with a strained labor market and intensified external fragility. As most of the developing countries around the world, the adjustments that lay ahead so as to secure the economic stability under such a darkening external environment would be costly and difficult. The question reasonably raised is whether Turkey needs a new stand-by agreement or in denial of malevolent scenarios will be the next ‘’emerging tiger’’ in the global scene (Onis & Bayram, 2008).

Chapter 4: Conclusions

The world has experienced a new breed of economic crisis during the 1990s. The north-American crisis and much more evidently the Asian crises were unlike any seen before. This new type of crises that flooded the open capital markets worldwide arose from complex dysfunctions, meaning not only macroeconomic imbalances but also financial crises that revealed institutional and banking weaknesses. IMF was called upon to bail out countries that had not managed to escape on their own way. In this new globalized context the Fund had come up with multidimensional assistance programs. Transparency, regulation and efficiency are requested through various facilities with reciprocation financial assistance. After analyzing three broad case studies per continent and also taking into consideration several empirical studies that had to do with the effectiveness of such programs, we made with some concluding remarks regarding each case separately (Brau & McDonald, 2009; Vines & Gilbert, 2004).

Undoubtedly, the managers of the Fund are challenged to find mechanisms in order to manage the international economy while protecting it against collective risks. At the same time it is vital not to compromise the sovereignty of national governments but help markets smooth and work effectively. As a result, IMF while trying to secure international financial stability throughout providing solutions to problems that transcend the boundaries of a nation-state comes under heated discussion. This way, its ''proponents'' claim that the main problems in the world economy require multilateral cooperation in order to be resolved. Just as in the European Union, the well-being of one country is strongly correlated with the well-being of others and vice versa. Such ''spillovers'' –good or bad-are transmitted across neighbor countries. The Fund's ultimate aim remains to offer economic and also financial opportunities while using transparent and effective tools (Brau & McDonald, 2009).

Although there has been made much effort in this direction, IMF is a long-life institution which needs constant reform. Due to the fact that its decisions have not only economic but also normative and political context, its actions affect and are being affected by broader social processes. This is the main argument used by the Fund's opponents, meaning the fact that the organization itself does not accept ''the politics of its role'' (Thirkell-White, 2005). Additionally, there are also contrasting views in a large part of the academic community with Stiglitz sticking out proposing IMF as one of the ''discontents'' in the context of globalization (Gaidar, 1997; Stiglitz, 2002).

After analyzing multifarious recovery programs provided by the IMF, we came up with useful comments and remarks as an evaluation of them. Taking into consideration the results but also the effects of such lending programs, it should be stated that there is no '' magic formula'' that can be adopted so that a country avoids a financial trap. The above-mentioned cases of lending programs demonstrate clearly that the Fund had been engaged either in success or failed economic recovery programs during time. As it has already been mentioned, the outcome of a program is highly depended on the initial conditions under which it was implemented referring mainly to factors known as political economy. As a result, a possible criticism could refer to false evaluation of crucial social, political and economic factors of the borrowing-country. Each country is and should be handled like a unique circumstance. Each program should be structured after an extended analysis not only of the economic but also of many other political and social initial conditions of the country. Moreover, IMF has to make possible financial and economic opportunities eligible and at the same time become aware of threats and eliminate them (Dollar & Svensson, 2000).

An overall evaluation of the IMF programs suggests that the Fund has been proven helpful under some circumstances while there are others that made matters worse. The ongoing debate about its function rationally exists. Actually, success or failure to the degree that it comes from inside-the-country factors depends highly on the social commitment, meaning people's desire to accept Fund's assistance even if it is painful, stable political environment, referring mainly to politicians who know the limits of collaboration acting on the interests of their country and finally, on the country’s capacity to respond successfully to radical changes the Fund requests for (Dollar & Svensson, 2000).

To conclude with, the Fund, 67 years after its establishment continues to be involved in the process of capital account liberalization of its members in the new globalized economic environment. Nevertheless, the modes of reform used are not suitable each time. Over the longer term, there is a need for further reform and development of the institution’s governance agenda. The institution itself should go ahead reforming its strategies so as to correspond to the constantly developed needs of its members towards the challenges of globalization. This way the IMF could be more useful in helping developing countries overcome significant challenges. Despite the fact that Turkey and Greece are not comparable either in economic or in political terms, just as it happened in Turkey, the Fund now has to cope with challenging crisis in Greece. Rebound can be achieved but confidence and national unity are essential (Thirkell-White, 2005; Vines & Gilbert, 2004).

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