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IMF STABILIZATION PROGRAMS

AND

THEIR EFFECTS ON THE EXPERIENCED WORLD ECONOMIC CRISES

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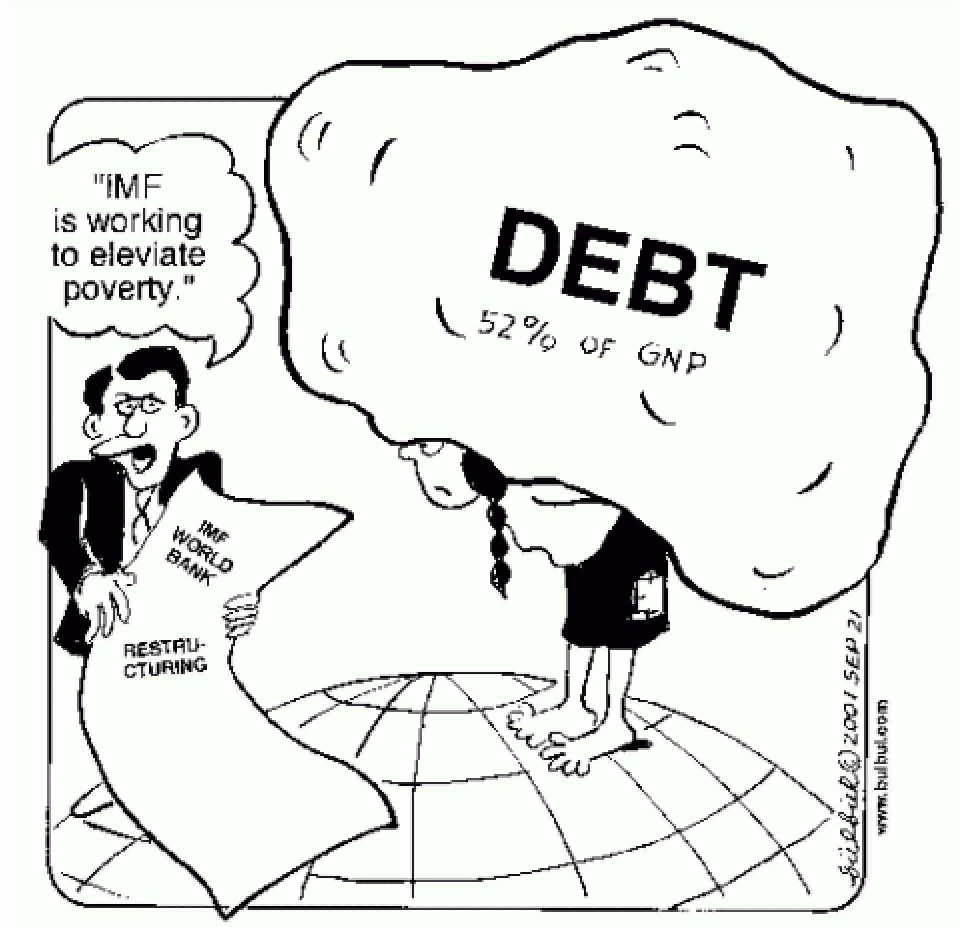
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APPROVAL PAGE

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I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Arts.

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AUTHOR DECLARATIONS

1. The material in this thesis which has not been submitted for any academic award.

2. The literature review has been conducted on the several articles and books.

Tülin DEMİROĞLU

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ABSTRACT

Tülin DEMİROĞLU **June 2014**

IMF STABILIZATION PROGRAMS AND THEIR EFFECTS ON THE EXPERIENCED ECONOMIC CRISES

The aim of this study is that the relationship between IMF Stabilization Programs and its effect on the experienced world economic crises. It has been analyzed about the IMF as theoretical and historical and its stabilization programs to better understand how IMF impacts on the economies. The literature survey of stabilization programs are applied in this study.

The Great Depression and World War I and II faced by the world which has served as the base for establishment of the International Monetary Fund. Many countries tried to save their deteriorating economies during these times by creating a barrier to each other. In this study, the foundation of IMF will be analyzed in details and whether the proposed stabilization programs affected and triggered the countries' economies into the crises. The world economic crises will be analyzed after applying the stabilization programs. The stabilization programs' effect will be investigated in each economic crisis as the crisis of Mexico, South East Asia, Russia, Argentina, and Turkey.

There have been conducted many studies about the IMF and its stabilization programs. However, in this study it will be concentrated on the basic features of proposed stabilization programs whether dragged the economies into the crises. At the end of the thesis, it would be touched on the stabilization programs weaknesses and giving suggestion particularly for improvements the policies.

Key words:

IMF, stabilization programs, economic crises**.**

KISA ÖZET

Tülin DEMİROĞLU **Haziran 2014**

IMF İSTİKRAR PROGRAMLARI VE DÜNYADA YAŞANAN EKONOMİK KRİZLER ÜZERİNE ETKİSİ

Bu çalışmanın amacı IMF istikrar programları ve dünyada yaşanan ekonomik krizler üzerine etkileri arasında ilişkiyi araştırmaktır. IMF politikalarının ülke ekonomileri üzerindeki etkisini daha iyi anlayabilmek için öncelikle tarihi ve önerdiği istikrar programları teorik olarak açıklanmıştır. Bu çalışmada istikrar programları üzerine literatür taraması yapılmıştır.

Dünyada yaşanan Büyük Buhran ve I. ve II. Dünya Savaşları IMF'nin kuruluşunu sağlamıştır. Birçok ülke savaşta zarar gören ekonomisini koruyabilmek için birbirine karşı bariyer oluşturdu. Bu çalışmada detaylı olarak IMF'nin kuruluşu ve önerdiği istikrar programlarının ülkeleri etkileyerek krize sürükleyip sürüklemediğini araştırmaktadır. IMF istikrar programlarını uyguladıktan sonra yaşanan dünya ekonomik krizleri analiz edilecektir. IMF istikrar programlarının Meksika, Güney Doğu Asya, Rusya, Arjantin ve Türkiye ekonomik krizleri üzerine etkileri araştırılacaktır.

IMF ve istikrar programları hakkında birçok çalışma yürütülmüştür. Ancak bu çalışmada özellikle önerilen istikrar programlarının temel özelliklerine ve bu programlarının ülkeleri krize sürükleyip sürüklemediği üzerinde durulacaktır. Tezin sonunda IMF istikrar programlarının eksik yönlerine ve geliştirilmesi gereken yönlere kişisel tavsiyelere değinilecektir.

Anahtar Kelimeler

IMF, istikrar programları, ekonomik krizler

LIST OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

IMF	International Monetary Fund
SDR	Special Drawing Rights
USSR	Union of Soviet Socialist Republics
GAB	General Agreement to Borrow
NAB	New Arrangements to Borrow
SBA	Stand-by Arrangements
EFF	Extended Fund Facility
ESAF	Enhanced Structural Adjustment Facility
SRF	Supplementary Reserve Facility
SLF	Short-Term Liquidity Facility
GDP	Gross Domestic Product
GNP	Gross National Product
NAFTA	North American Free Trade Agreement
VAT	Value Added Tax
CA	Current Account
NA	Not Available

INTRODUCTION

The regulation of international monetary system has been needed by the countries due to the financial problems. The Gold Standard Period was begun in 1815 in which the Great Britain was on financial pole of the world. However, the country has lost its superiority after the World War I by the virtue of losing its financial resources in the war time. The America gained the advantage through not participating in the war and protected its financial resources. After the superiority of America, the financial speculative in the market in US ended the Gold Standard Period and triggered the Great Depression in 1929. The countries have suffered by these events as financially and agreed with foundation of international monetary system to regulate the financial activities between the countries. As a result, the IMF was established by 44 countries in 1944 in Bretton Woods.

The IMF regulated the financial activities around the world since its establishment. While regulating the borrowing and lending actions between the countries the institution proposes some programs to the borrowing countries. These programs aim to cover the borrowing countries' imbalances and instabilities in their economies while consider about the lending countries.

Some countries have faced with the economic crises after application of the IMF stabilization programs. In this study, Mexico, South East Asia, Russia, Argentina and Turkey crises have been analyzed. The common feature of these crises was occurred after applying the stabilization programs. These stabilization programs intended to propose the financial liberalization and fixed exchange rate regime as in general. The fixed exchange rate regime has given a guarantee to the lenders implicitly which brought the moral hazard problem. These programs have not been researched that it was applicable for the countries in terms of their economic structure and caused to trigger the countries into the crises.

1. THE HISTORY OF INTERNATIONAL MONETARY SYSTEM

The applications and rules of the International Monetary System have been regulated by the countries and the system has aimed to regulate the borrowing and lending problems to each other. In this section it will be begun to analyze the system by starting from the Gold Standard Period in which the Crisis Period was begun. The countries were in consensus for establishment of new international monetary system against damaged effects of the crisis which was the Bretton Wood System. At the end of this section the last international system is the Variable Rate Policy and the New Term will be discussed.

1.1. The Gold Standard Period

Eğilmez (1996) stated that The Great Britain defeated Napoleon in 1815 and the Gold Standard Period prevailed from 1815 to the beginning of World War I in 1913 (p. 17). The Silver Period was ended by the beginning of the Gold Standard Period. The Great Britain was the major power in the world as financially. Eichengreen (2008) emphasized that the pole of world center was especially Great Britain in those years –"The world's leading economic power and the main sources of foreign finance". In the event the other countries transmitted to the Gold Standard System (para. 3). The countries intended to prosecute the world economic power due to preserve themselves against financial speculative attacks.

The gold stock was limited in the nature and in contrast there was any restriction for paper money. Even though the money supply could be increased by printing money the limited gold could not be able to cover the supply of money. According to Üçgöz, S. (2005), Eichengreen B. (2008) and O'DriscoU Jr., G. P. (2012) during the war, the countries have suffered to convert their national currency to the gold. They attempted to finance the cost of war by printing money. Increasing money supply caused hyperinflation. The confidence of paper money has been removed by occurrence hyperinflation instead of inflation and the countries attempted to exchange their money to gold at the end of war. The existence of full convertibility in the Gold Standard System brought dependence of money supply to stock of the gold. Due to the devastating economical effects of the war and limited stock of the gold forced to disuse gold and directed the countries to seek other remedies at the end of the World War I.

The Gold Standard Period has been prevailed in long time. In spite of some advantages of the standard like contracting the extent of money supply there were some disadvantages;

- The limitation of the gold stock has limited improvement of world trade.
- The limitation of the gold stock has caused speculation against the gold and the countries have been suffered about their parities by these speculations (Eğilmez, 1996, p. 17-18).

1.2. The Period of Great Depression in 1929

Nerozzi (2011) stated Great Depression was the first enormous crisis which the world countries have been encountered and led to collapse of the Gold Standard Period (pg. 57). The reason of the crisis should be sought in USA due to be the world power. If the pure of world power is triggered into worse economic situation the economies of the other countries would be affected directly or indirectly in negative side. Duman (2011) sought the reason of crisis and found that the crisis grew out of the broken up of New York Stock Exchange in America (p. 1). The depression was broken out by Fed which cut down the loan eligibility to prevent the speculations between the years of 1927 and 1929. This action triggered declining in business investment and circulation of money and bank money. Hence the liquidity declined in the world financial market and depression came out in 1929 (Viner, 1931, p. 187). Even though the FED declined the liquidity in the world market to protect the countries from speculations the policy has brought failure to FED and which caused the world drop into enormous crisis in 1929.

O'DriscoU Jr. (2012), Duman (2011), Üçgöz (2005), Friedman and Schwartz (1963) stated that after the war, The Great Britain was in bore as financially due to the devastating effects of the war. America did not participate to the World War I and used its financial resources to lend the war countries which needed to finance their war spending. America lent money to countries which participated to the war as well as continued to print money based on gold in contrast to the other countries. As a result, The Great Britain lost its financial superiority due to devastating effects of the war and America became the financial pole of world center due to not participate the war and protecting its resources. However, America lost out its credibility to the world by the Great Depression. The crisis stroke up with downfall of global trade and capital flows in the financial sector. As a result of the crisis the excessive tumble has been appeared in the industrial production and level of employment in America. Because of the America was the world center the world countries have drifted in panic. The international trade has been cut off straight away; the countries relinquished the gold standard, resorted to competitive devaluations, enhanced their custom tariffs, its' economies have been contracted and life standards have been tumbled.

After the collapse of the gold standard there was no way to change and exchange the international currencies. Seyidoğlu (2003), France and some countries proceeded with gold standard, Great Britain and some countries (most of them consisted of British Colony) and the United States devaluate its currency against the gold (p. 527). According to Güran and Aktürk (1999), the competitive actions in international trade and currency regulations which were run by the countries to protect their countries enforced world countries to enter into an agreement with regulating these competitive actions (p. 28-30). The actions have given huge damages to the countries which agreed with regulating the system to protect the economies.

1.3. The Period of Bretton Wood System

The countries have suffered as financially, the gold and currency reserves have been in harm on account of World War I and the Great Depression. The European

Countries agreed with intervention of the government was indispensable in capital market after 1930s which led off “the regime of foreign exchange control” (Üçgöz, 2005, para. 2). According to the countries in those years if the government controls the capital market the speculation effects due to exchange rates could be hold under control and the negative effects of the speculations in the capital market could be reducible at minimum level.

The government interventions were preceded at the Bretton Woods Conference in 1944 until to the present. Üçgöz (2005), before the World War II, the Gold Standard was collapsed and the intervention of government in the capital market has already been emerged. The revival of economies which have been brought along by the intervention has been interrupted by World War II in 1939. The reason of the war was the destructive effect of the Great Depression on Germany. The European Countries agreed that a formal international collaboration has been obligatory to eliminate the destructive effects of the World War II before the end of the war (p. 2). The World War II showed that if an enormous crisis occurred in the world the countries suffer to overcome the negative effects of the crisis. Hence, the countries were like minded to establish a foundation which should regulate the international financial system.

Nerozzi (2011) stated the countries came in consensus to surrender to take any competitive action and establish a formal financial institution (p. 1). The Congress performed in July 1944 with the participation of 44 countries in the state of New Hamphire town of Bretton Woods in USA and agreed to establishment of International Monetary Fund, IMF in short form with World Bank. Üçgöz (2005), because of both institutions established together which called as “Bretton Woods Institutions” or “Bretton Woods Twins” (p. 8). Even though the tasks of World Bank and IMF are similar the World Bank concentrates on the ameliorating of poverty by improving the economies in the world. The IMF tended to regulate the finance system in the world. Ekpenyong (2007) stated that the World Bank ensures long term financial support while the IMF finances the imbalances of balance of payments and provides technical assistance (p. 2).

There were two approaches at the meeting to regulate the international monetary policy. One of them was created by John Maynard Keynes called as The Plan of Keynes who is a famous economist in England and the second one was created by Harry D. White called as The Plan of White who was a senior executive in the USA treasury.

The Keynes Plan was concentrated on the balance of payment problems in the area of international finance. The countries would be responsible rather its balance of payments run in surplus as much as the country has external deficit. The World Bank would act as today's IMF and all the Central Banks of countries would be tied to The World Bank. The World Bank would have a reserve called as "bancor" and all the currencies would be affiliated to the bancor and the bancor would be tied to the gold. While the gold would be able to be convertible to bancor, the bancor could not be exchanged to the gold. As a consequence all the currencies would be connected to the gold. International payment problems would be eliminated in terms of bancor parity (Karluk, 1998, p. 417). Keynes also emphasized that the institution would be kept away from the political pressures. The weakest part of the Keynes Plan has not enlightened about the exchange rates (Schwartz, 2000, p. 27). The lack of the Keynes Plan was a significant point for the countries. If there is any policy about exchange rates how the countries protect themselves against the speculative actions which are taken by the other countries. Even though the America was the major power in the world the Keynes Plan had a significant lack point which has been ever discussed in the Plan.

Karluk (1998) stated the White Plan proffered to found the stable and fixed exchange rate system with dollar-based (p. 417). The devaluation would be restrained by the IMF. The currency fluctuation rate could be -/+1% and if it would be higher than 10% the country would have to have an approval of the institution. The currency devaluation policy would be implemented by just the countries which experiences balance of payment deficits (Parasız 2000, p. 93). Karluk (1998) stated that the reserve would be "unitas" and 1 unitas would be equal to 10 dollars (p. 417). And also all the currency would have a parity in terms of gold. The value of dollar has been linked to gold and 1 ons was equal to 35 dollars. The USA would have to have 25% gold reserve with full convertibility. The fund would be governed by the countries which have the highest quotas on the fund (Öztürk, p. 100).

Meltzer (1991) defended that the America lied on the financial pole of the world center at the end of World War I by “holding three-fourths of the global monetary gold stock” (p. 54). The gold stock is a significant point for the countries. If a country holds high stock of gold would handle the major economic power in the world and the economic power means that the country would have arbiter in the world. Öztürk stated the country intended to lend money to countries through formal financial institutions instead of directly (p. 98). The country’s significant position brings regulation power of the international financial policies. As a result of financial power the White Plan was approved by the congress. If it should be specified as a footnote that IMF originated SDR in 1969 means IMF came close to act as Centre Bank which justifies The Plan of Keynes over time (Üçgöz, 2005, p. 9).

Hayaloğlu and Artan (2011) stated that the experts concentrated on the pushing forward liberalization of world trade while obstacle the competitive devaluation applications and requisite of repairing the war-torn economies (p. 134). The major issues of the institution as follows;

- Fixed exchange rate system to avoid the competitive deflation policies (Krueger, O. A., Fischer S. & Sachs D. J., 2003, p. 307). The Exchange rate system has been changed over time and the countries came in free to choose the exchange rate system.

- Turgut (2006) stated the international financial collaboration established to eliminate the balance of payment problems and encourage high employment with economic growth (p. 4). If a member country faces with imbalances of balance of payment the institution would be position to ensure financial aid to cover the problem.

- Hayaloğlu and Artan (2011), ensuring balanced economic growth of international trade and liberalization of trade.

- Ensuring sufficient international liquidity (p. 134)

The institution main goals were settled as above, however, its objectives have gone into changes and modifications in terms of the countries changed needs and expectations over time.

1.4. The Variable Rate Policy and The New Term

The Bretton Woods System has worked almost trouble-free approximately until 1960s. The USA had the major financial banker in the world between the years of 1944 and 1958. Because of the country had the surplus of balance of payments, also high stock of gold and low dollar reserves. In these years were called as "dollar shortage" period. The country turned to furnish deficit of balance of payments between 1959 and 1971 and this term called as "dollar glut" (Hall, 2011, p. 298). After the year of 1971 the country has never came into "dollar shortage" period due to loss of the balances of dollar in the market. Fukumoto (2011) noted that there have been occurred abundances of dollar in the world market. Hereby the countries tended to convert the handled dollar to the gold immediately owing to forfeit the confidence against dollar. This has run speculation in the world market (p. 852). The USA disturbed the convertibility rate by increasing the printing dollar. Öztürk stated that the currency has rolled excessive depreciation in the international market and USA propounded to devaluation its currency to member countries in the IMF. The USA was not entitled to devaluation its currency as unilateral because of the unique currency linked to the gold. Any member country did revaluation their currency and USA abolished the linkage of dollar to gold. The dollar has been let to fluctuate in the free market and also industrialized countries have. As a result, the Bretton Woods System collapsed in March 1973 (p. 108). The wrong policy of USA which was high rate of dollar against its gold stock caused to collapse the Bretton Woods Sytem. Hall

(2011) emphasized that especially, the dollar was in high expansion between the years of 1969 and 1973 (p. 299).

The weaknesses of the system can be followed as;

- Liquidity Problem: Although the world trade has been extensive in the system, the gold and the liquidity sources were limited to compass the "growth output and trade". Bodro (1993), the liquidity gap intended to recover by dollar which resulted the loss of confidence against dollar (p. 31). As a result the gap could not be able to be cover and the system collapsed.

- The Problem of External Balance: The Bretton Woods System has been in essence of fixed exchange rate and devoid of adjustment of the external balance. The only way of the external balance was adjustment of the rates. The countries was refraining the devaluation of their currencies until it must be done and the surplus countries were undesirous of applying to the revaluation which thrusts the deficit countries to apply devaluation (Ertürk, 2001, p. 367-370). There was an unclear situation about the exchange rates when the rates had to be adjusted. The unclearness caused to drop the external balance into problem.

- The Gain of Emission: The emission gain is that gain between the currency value and the cost of production. The gain was acquired by USA as an advantage to world center (Ertürk, 2001, p. 367-370). The gain has an important superiority for economy of the country which is major power in the world. The gain was an advantage for the USA while was disadvantage for the other countries.

- The Problem of Waste of Resources: The limited resources was used to produce of gold, however, the gold was retrained in the Central Banks instead of exerting for economic development of developing countries (Ertürk, 2001, p. 367-370). The developing countries could not cover its problems and the problems came into worse situation due to insolvency. However, the insolvency of the problems affects all world economic situations and brings the whole world into worse situation. The developed countries still ignore the problem.

- The Speculation Problem: The only currency linked to gold was dollar and if the USA ran in deficit of balance of payments, the countries tended to convert their hold dollars to gold as a reaction to the deficit which caused the speculation in the world market (Ertürk, 2001, p. 367-370). Negative imbalances of balance of payments triggers the countries in the loss of confidence against the dollar and which causes panic in the market. As a result speculative pressure occurs on the dollar.

- Underdeveloped Countries Problems: The Bretton Woods System could not be able to transfer the real sources and its applications were not feasible to these countries (Ertürk, 2001, p. 367-370). It means that the system was applicable and feasible for the other countries. However, underdeveloped countries also need to be developed at least developing and developed countries.

After collapse of the Bretton Woods System in the year of 1973 the developing member countries implemented Flexible Exchange Rate System. The underdeveloped countries have pursued them to apply the policy. The relinquishing of fixed exchange rate by passing through the flexible system was fetching the discussions whether the IMF was necessary in the years of 1980s (Eğilmez, 1996, p. 20). Even though these arguments were escalated the oil crises steepened in 1974 which triggered the countries in both inflation and unemployment problems. Organization of Petroleum Exporting Countries (OPEC) raised the prices of oil triple in 1974 and supplied its fund to developed financial markets. However, the underdeveloped countries were not able to repay the funds at the end of the maturity. The IMF started up with new arrangements to regulate the complicated lending and borrowing as international. In this position, if a country aspires to borrow from the international market which should get through the control of IMF. The fragmentation of eastern bloc, passing through the market economy, the improvement of technology and the growth of the world financial sector were the reasons which exposed the globalization of the capital and money flows in the area of international. The IMF regulations have been in modifications over time. There is no international money system which depends on the same rate system. There are different rate systems (such as fixed or floating rate system) and applications which can be determined by the countries today (Soyak, A. & Bahçekapılı, C., 1998, p. 48-61). All the countries have distinctive economic system. The rate system cannot be unique for all the countries. Any other external power should not make strict obligation on the countries whether the fixed or floating exchange rate should be applied.

2. THE ESTABLISHMENT OF INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) established on 27th December 1945 with an agreement in the name of “Articles of Agreement of The International Monetary Fund” in the Bretton Woods Congress. 44 countries participated to the congress and 29 of them signed the agreement. Its operation started on 1st March 1947 as formally. At the first day, the countries which signed the agreement were; Brazil, Bolivia, Belgium, Canada, China, Colombia, Costa Rica, Czech Republic, Ecuador, Egypt, Utopia, France, Greece, Guatemala, Honduras, Iceland, India, Iraq, Luxemburg, Norway, Paraguay, Philippines, Poland, South Africa Union, United Kingdom, United States, Uruguay, Yugoslavia. After the day, Iran and Dominican Republic and on 31st Chile, Cuba, Mexico and Peru signed.

Christine Lagarde has been selected in 2011 as the President of the institution who is from France. Jim Yong Kim has been selected in 2012 as the President of World Bank who is from South Korea.

2.1 The Main Objectives of IMF

The objectives of IMF have been changed over time. Some objectives turned in contrast side, some changed completely and some modified according to needs of the member countries. The main task which has been never changed that extricates the member country from imbalances economic situation. The imbalances of an economy disturb the stabilization in the country. Solomon (1977), the IMF task was to conduct the new international monetary system as properly. At the first time of foundation, the institution’s goals were as follows;

- The regulation of the international monetary system in which improving the cooperation of monetary

- Ensuring the improvement and growth of international trade in balance by utilizing the resources of member countries efficiently to ensure and keep the high employment and real income
- Regulation of exchange rate policies and hinder the competitive exchange rate policies
- Regulation of payment system in the international area to develop the world trade
- Generating international fund to help the countries which have in balance of payments difficulties or run in financial crisis like providing short-term loans
- Regulate the countries balance of payments imbalances.
- Providing financial resources to the countries which run in financial crisis
- If a member country experiences payment difficulty the institution behaves as an intermediary between two parties to quench the problem.
- Ensuring financial supports for the policies of macroeconomic and structural adjustments to the member countries which are in collaboration with World Bank.
- Establishing an economic order in which all national currencies can be converted to each other by removing control on the exchange rates (p. 1-12).

The two main IMF principles were stabilization and convertibility by restriction of competitive devaluation and elimination of the restriction on the international trade (Sönmez, 1998, p. 306). It can be concluded that the institution concentrates on stabilization. At the first of foundation, expansionary monetary policy was applied; however, tight monetary policy came to be applied position over time. The reason can be searched that the resources were declined due to vary of financial crises in the world.

2.2 The Changing Role of IMF

The policies of IMF have been changed from its first goals. The reason of the changing was changes of the world. The needs, resources, financial positions, economic and political situations have been undergone change over time. Hence, the goals of institution had to modify due to cover the expectations of the countries. Turgut (2006) emphasized that the role of IMF has run in many alterations over time especially after the collapse of Bretton Woods System in 1973. In the event its today role is very divergent. When at the fist established it was concentrated on the stabilization of exchange rates. However, the countries had tended to internalize the floating exchange rate system after 1973. Its role on the exchange rates has been restricted while its effectiveness was augmented on international liquidity and balance of payments disequilibrium. The IMF proceeds to sustain its main goal which was the regulation of international financial market. Because the IMF was at important international position for the countries which tended to borrow from the other countries (p. 4-5). The institution had to provide financial assistance to lend the other countries which faced the deficit of balance of payments.

There have been some modifications on the role of IMF on 1st April 1978 which follows as;

- Karluk (2002), the responsibility of member countries on exchange rates regulations were broadens with the conditionality of considering about the other member countries' expediencies. As a result of the responsibility the countries would interfere on the exchange rate market to extinguish speculation (p. 506). The countries would prefer fixed exchange rate regime or flexible exchange rate policy. At the point, the IMF would oversee the member countries exchange rate policies.

- The institution was concentrated on the balance of payments disequilibrium, in contrast after 1980s audited the programs under the name of structural adjustment.

- Its position came to the last resort on the financial crises to lend.

- The IMF interfered to the market if it has come down bad position, however now it is indispensable in the international financial market.

- In contrast the IMF recommended the expansionary monetary policy “such as increasing expenditures, reducing taxes, or lowering interest rates” to revive the economy, it ensures funds with the conditionality of contraction monetary policy such as “cutting deficits, raising taxes, or raising interest rates” today (Stiglitz, 2002. P. 12-13).

2.3 The Financial Resources of IMF

Heretofore, it’s been mentioned about the establishing of IMF and its objectives. One of the objectives was to provide financial resources to the member countries. So, how the institution ensure this resources? It has to generate the resources to underpin the member countries as financial and technical. Jha and Saggar (2000) stated the institution also was responsible for governing successfully its resources to ensure liquidity to the member countries as an “International Lender of Last Resort” (p. 580).

Öztekin (2009) stated the countries have to furnish subscription to be a member of the institution and the subscription of the countries specifies its quotas (p. 33). The rate of quotas defines arbiter position of the countries on the decisions of IMF. Üçgöz (2005) noted the second resource of IMF is borrowing from the countries (p. 19).

Öztürk (2009) reported that the quotas are specified by the IMF for every country as in the form SDR (p. 8). Eğilmez (1996) stated the quota is membership fee or like a share of capital (p. 27). The quotas are important resources on the IMF financial resources. Jha, R. and Saggar, K. M. (2000), the quotas generate its amount of liquidity of the Fund and determine the amount of loan which will be used by a member country (p. 580). They are counted up by foreign trade volume, total reserve and national income of the member countries. A country applies to be a member of IMF and after the acceptance of the country as a member have to defray the fiscal resources. 25% of the payment should exist with an international reserve money or gold which is called as “reserve tranche” and rest of the payment with its own currency (Seyidoğlu, 2003, p. 563-565). The determination of quotas are significant for the countries due to getting the whip hand of financial assistance, the distribution amount of new SDR (Special Drawing Rights) and the voting power in the IMF decisions. Ekpenyong (2007) stated that it should be noted that even though significant of the gold has been diminished after 1973 in which the Bretton Woods System collapsed still it is a significant asset for IMF (p. 6). The gold is a natural resource and whatever goes around the world as financially even though its price goes down or up would protect its value forever due to is valuable resource.

The quotas should be revised in every five years. If any changes have been occurred in economy of a member country could apply to be rearranged its quotas. The revision is important due to provided facilities for the member countries. The first total quota amount of IMF was 8.8 billion dollar. The first 10 countries which had the highest quota amount as billion dollars were United States (2.750), England (1.300), USSR (1.200), China (550), France (450), India (400), Canada (300), Holland (275), Belgium (225), and Australia (200) (Üçgöz, 2005, p. 20). The USA had the highest quota when the IMF quotas were determined at first foundation of the institution as today. Having the highest quota meant that having the most arbiters on the decisions of IMF.

The calculation of quotas has gone in some changes. The first formula was Bretton Woods Formula which was;

$$Q = (0.014 + 0.025R + 0.05P + 0.2276.VC) * (1 + C / Y)$$

The variables showed the member countries of

Y: Gross Domestic Product

R: The Average Annual Reserves

P: The annual average of current external payment in previous five year period and

C: The annual average of current foreign income in previous five year period and

VC: The standard deviation of changes in current foreign income

in the term of increasing quota (Eğilmez, 1996, p. 27).

The new calculation of quotas is:

CQS = (0.5*Y + 0.3*O + 0.15*V + 0.05*R) k

CQS: Calculated Quota Shares

Y: A combination of the average of three years PPP (Purchasing Power Parity) and GDP at market rates respectively 0.60 and 0.40

O: “The annual average of the sum current payments and current receipts (goods, services, income, and transfers) for a five year period”

V: “Variability of current receipts and net capital flows (measured as a standard deviation from the centered three-year trend over a thirteen year period”

R: The average of twelve months over a year in official reserves

K: The factor of compression as 0.95 (IMF, 2008).

Every part of 100.000 SDR in the quota of IMF of each member countries grants 1 vote to the country. The higher vote rate provides higher arbiter to a member country. Table 1 demonstrates 10 member countries which have the highest quotas and votes in the IMF. The United States has still the highest quota and following that the highest vote. The United Kingdom has lost its power over time and felt in fourth highest country from the second one. Another important point is that India, Holland, Belgium and Australia have felt from the 10 biggest countries list and Italy, Saudi Arabia, Japan and Germany has been included in the 10 biggest countries list. The total quotas reached to 238.118 millions of SDR

TABLE 1. THE AMOUNT OF QUOTAS AND VOTING POWER FOR 10 COUNTRIES WITH TURKEY

	QUOTAS		VOTES
MEMBER COUNTRY	MILLIONS OF SDR	PERCENT OF TOTAL	PERCENT OF TOTAL
UNITED STATES	42.122,4	17.69	16.75
JAPAN	15.628,5	6.56	6.23
GERMANY	14.565,5	6.12	5.81
UNITED KINGDOM	10.738,5	4.51	4.29
FRANCE	10.738,5	4.51	4.29
CHINA	9.525,9	4.00	3.81
ITALY	7.882,3	3.31	3.16
SAUDI ARABIA	6.985,5	2.93	2.80
CANADA	6.369,2	2.67	2.56
RUSSIAN FEDERATION	5.945,4	2.50	2.39
TURKEY	1.455,8	0.61	0.61
TOTAL(EXC:TURKEY)	130.501,7	54,80	52,09
TOTAL	238.118	100	100

(http://www.imf.org/external/np/sec/memdir/members.aspx, 20.05.2014)

The IMF provides facilities to its member countries as assistance not as a credit. Hence, its assistance should be able with low interest and cost. It should apply to the suitable “mixing” way which consists of costless source (quotas) and cost source (loan) to govern its finance successfully (Eğilmez, 1996, p. 29). According to the principles if a country falls into any imbalances of economic indicators IMF tends to have used quota of the member country. If the quota is not able to cover its deficit then the institution applies another remedy to rescue the member country from deficit which is loan. Seyidoğlu (2003) stated the loans cannot exceed 60% of the total quotas (p. 576).

The General Agreement to Borrow (GAB) was signed between the IMF and 10 industrialized countries (America, Germany, Japan, France, England, Italy, Canada, Holland, Belgium, and Sweden) to provide financial source to the Fund when there has been an obstacle which disrupt the international monetary system in 1962 (Öztekin, 2003, p. 36-37). The countries had better financial positions against the other countries and which was also called as developed countries. The countries came to the lender position due to the better financial position. Üçgöz (2005) reported that the New Arrangements to Borrow (NAB) also was signed between the Group of Seven Countries and IMF to double amount of the resources in a case of emergency under GAB (p. 22-23). The Group of Seven countries were consisted by United States, Canada, Germany, Italy, France, Japan and England which established on 22th September 1985. The Russia has joined after foundation of the group and the number of countries aroused to 8. As a result, the IMF aims to get profit at the end of period. The revenues consist of four sources which are:

- The commission which is provided by the member countries
- Service commission
- The interest rate which is provided by SDR
- The payment of 0.5% commission when the member countries utilize from the account of general resources or SDR

The expenditures of IMF consist of three stages which are:

- The payments to countries which provide loans to the IMF
- The interest payments for loans
- The transfers to the account of reserve against special imminent harm (Üçgöz, 2005, 24-26).

The institution had to calculate its revenues and expenditures and make right decisions. The goal of IMF was also to protect its financial position and had to be power as financially due to its resort lender position.

2.4 Special Drawing Rights (SDR)

The International Monetary Fund needed to have currency in the international area. In the Gold Standard System, gold was the basic currency measurement tool which was not suitable for improvement of world trade. After Gold Standard Period, the international currencies based on dollar and USA increased the money supply which caused to collapse of Bretton Woods System. After that IMF decided to improve a reserve currency in the international financial area and Special Drawing Rights (SDR) accepted as IMF reserve currency in 1969.

International Monetary System was in the problem of liquidity since the inception. The problem of first system which was gold standard did not satisfy the growth of world trade due to the limited gold stock. After collapse of the system IMF was founded to meet the liquidity problem with “pure dollar system” in which dollar was the unique currency linked to the gold. However, the system also did not satisfy the international trade due to the depreciation of dollar. As a result of these unsuccessful experiences IMF has generated the Special Drawing Rights (SDR) which is “unit of account” as well as a sort of additional reserve and called as “paper gold” in 1969. The reserve currency devised independent from the political effects and pressures (Ekpenyong, 2007, p. 1).

The SDR is an uncovered reserve tool means that there is no exigency to print out as equivalent of gold or dollar. When new SDR is issued it will be sufficient to record on IMF accounts of the countries (Seyidoğlu, 2003, p. 572). The IMF issues SDR in terms of the increasing demand of international liquidity and estimates the next period liquidity demand in every five years (Üçgöz, 2005, p. 26-27). At this position the supply of SDR is a significant position for financial market and IMF has to make right decisions when calculates the needs of international liquidity. The liquidity demand and sources should be taken into consideration to balance the world financial market. Ekpenyong (2007) stated that the SDR is allocated in terms of quota rate of the member countries by IMF Board of Governors (p. 5). At this point, the quota rate of a member country comes to significant position for SDR allocation as well as vote power.

The SDR is another advantage that the member countries are able to borrow each other without applying to IMF and its stabilization programs. If a member country borrows from another member country the borrower country is charged with international interest rate. At another side the lender country has an obligation to take the SDR until triple of its initial SDR amount. Aydın (2004) emphasized that SDR assures to attain the other international currencies to the member countries by paying its interest rate through IMF instead of obtaining financial source or fund from IMF. The interest rate is calculated due to international interest rate of the five biggest countries which have the highest amount of quotas in the IMF. At the first times there has been an obligation for the member countries to not decline a precise amount of the quotas. The obligation has been eliminated since 1981. However, the countries to which SDR transferred have to accept until the total amount of SDR reaches 300% of the initial amount (p. 1).

At the first improvement, SDR based on dollar indirectly and at this stage, it can be said that the international reserve currency was not on the applicable position due to be like "pure dollar system". Thus, it has been awareness and calculation of SDR based on the currencies of 14 industrialized countries which was called as "basket currency" system. Eğilmez (1996) stated that at the first time, the SDR was linked to the gold. 1 SDR equaled to 1 US Dollar means 35 SDR equaled to 1 ons gold. However, its value has risen due to devaluations of dollar. Its value calculating was changed and adjusted due to method of "basket currency" in 1974 in which 14 industrialized countries' currencies were attended. However, the five international currencies have been attended to US Dollar, German Mark, Japanese Yen, French Franc and British Pound since 1981 (p. 34). After the Euro was adopted as common currency in the Europe Union, the value of SDR has been consisted of Euro, US Dollar, Japanese Yen and British Pound since 2000. According to applications of the Fund the international currencies which will be included to calculation of SDR will be revised in every five years.

There are two principles to select the international currencies:

- The country should have larger exporter of goods and services
- The common use of international transactions and foreign exchange markets (Seyidoğlu, 2003, p. 573).

The SDR is needed to be recalculation in every five years by virtue of changing of the countries' economies. It's important for the countries to be in the five biggest countries with high economic position in IMF. The revision is an advantage for the member countries to be in the five biggest countries.

The SDR is not a significance position in the international liquidity yet due to the increasing supply of dollar. The dollar still beholds as a standard international currency. However, this function is decaying over time because of its value is changing suddenly and frequently. The SDR is expected to keep more significance position in the international monetary system over time on account of being a reserve tool under the international audit. As noted in significance footnote that a group of countries (as Libya, Myanmur and Seyel Island) have linked their national currencies to SDR which adopted the fixed exchange rate system (Aydın, 2004, p. 1). The changing value of dollar affects the economy of countries. However, the countries which apply the flexible exchange rate are able to eliminate the negative effects of value changes. At another side, SDR is made positioned as international reserve currency and the supply of SDR is calculated in terms of the international liquidity needs while the dollar is supplied in terms of USA currency needs.

2.5 The Using of Credit Sources of IMF

The IMF has been found to ensure credits to the member countries which face imbalances in the economy. The institution ensures fund from member countries and use its financial sources when they need. Eğilmez (2002), the facility of IMF is not in the form of borrowing. If a member country tumbles into shortage of balance of payments the country executes changing its national currency to the other country which its currency is more valuable and in due course the amount is in exchange. The utilization of the other country's currency is called as "purchase" and reimbursement of the amount is called as "repurchase". In the recent years the IMF provides fund in the form of debt directly by furnishing SDR (p. 9). There are some conditions which have to be covered and applied to provide fund from IMF.

However, if a country decides to borrow from another member country would be charged with international interest rate without any condition.

Üçgöz (2005) emphasized that the IMF ensures its financial resources to all its member countries in the form of variety of policy and amenities under the same conditionality which is called as “the right of equal assent” (p. 29). A member country has to apply to the IMF to overcome the balance of payment disequilibrium or anticipating the threat of falling into the imbalances. After the application experts of the IMF analyze the country economic position and makes a decision about credit facilities for the country whether should be used or not. The analyzed economic position is that the balance of payment, international reserve position, improvements of the reserves (Öztürk, 2009, p. 8). Even though the country falls into imbalances or expects to fall should be able to be in position to repay the loan. The experts analyze the imbalances of balance of payment and its reserves for repayment. The important point is that imbalances should be able to be covered and the reserves are able to pay the credits. Another significant point is that the accepting of other conditions which suggested by IMF.

The IMF credits are generally in short term to encompass the external payment deficit of its member countries. However, if structural adjustment and adaptation is necessary to cover the deficit the Fund provides credit in a medium term. Videlicet, the resources of the Fund are provided under certain conditions temporarily if the member countries encounter balance of payment disequilibrium (Üçgöz, 2005, p. 29).The conditions are:

- The country has to have a problem of balance of payment
- The loan is in short term form
- The country has to accept the conditions of IMF

If the member country falls into disequilibrium of balance of payment should follow some procedures to apply IMF. Öztürk (2009) touched on the procedures which are:

- Giving an intent letter to the IMF in which the economic program will be applied by the member country.
- Making a Stand-By Adjustment or an extended arrangement
- The economic criteria are determined by the IMF which the member country have to be in the position to ensure
- Determining the facilities and the installment and reimbursement
- The member country has to ensure “deed committed” to the IMF which is equal to the amount of used credit in the form of its own currency.
- Analyzing the country applications (p. 8).

The IMF regulates its arrangements in two basic programs which are Stand-by Arrangements (SBA) and Extended Fund Facility (EFF). Stand-By Arrangements are regulation in which the subjects are negotiated to figure out the balance of payment disequilibrium between the member countries and IMF (Üçgöz, 2005, p. 29). The Stand-By Arrangements is granted in the period of 1-2 years, maximum 3 years means that the short term facilities. The using installment is in every 3 months in terms of the performance criteria have been met. The maximum limit of the arrangement is 100% of the member country quota. The important difference of the Stand-By Arrangement from an agreement is that if the member country did not accomplish the performance criteria or conditions the IMF has a right to countermand the using facility unilaterally (Öztürk, 2009, p. 8). In the point, ensuring the performance criteria which are determined by IMF is very important to get loan and continuing to get the loan. If any problem is occurred in the performance criteria or repayment of loan the member country would be fall in worse economic position by virtue of being cut of the loan. All the economic strategic plans would be changed the way or fell down.

Drawing first tranche does consider any strict conditionality called as reserve slice position which is used by the member country when faces not significance balance of payment disequilibrium. The position is calculated as its own international currency in the Fund, quota and by extracting used facilities which have been used but not paid back yet in the form of its own currency (Öztürk, 2009, p. 8). The reimbursement of loans scheduled between 3¼ to 5 years. The installment of fund is close related to performance of the member country. If balance of payment disequilibrium is not able to be covered in 1-2 years then longer term arrangement will be advised to the member country. The EFF program is longer term arrangement which is in 3 years period and reimbursement of loans scheduled between 4 ½ to 10 years (Özgür, 2009, p. 87). The EEF program is suggested when the country falls into more significance imbalances and gives an opportunity to the member country to cover its debt with long term payment schedule. However, unforgettable that if the repayment schedule has long time the country would have more interest burden.

IMF takes into consideration performance of the country which was mentioned in the arrangement before the administration of each installment. Eğilmez (1996) stated the performance criteria are:

- Net international reserves of the Central Bank
- Net domestic borrowing of the public sector
- Net domestic assets of the Central Bank
- According to the requirements and the state of other economic aggregates (p. 41-42).

Net international reserves demonstrate the repayment power of the country, net domestic borrowing shows the public sector debt in the country. Net international reserves concentrate on the currency stocks while the domestic assets do concentrate on illiquidity sources. According to the indicators, IMF decides that the country is able to repay or not.

The IMF has discerned that Stand-By Arrangements and Extended Fund Facility programs are not applicable for underdeveloped countries. The Structural Adjustment Facility (SAF) in 1986 and Enhanced Structural Adjustment Facility (ESAF) (which was changed to program of Poverty Reduction and Growth Facility (PRGF) in 1999) were founded to dope out these countries' financial problems. The interest rate of programs is 0.5% and reimbursement between 5 to 10 years by exception of first five years. The IMF has continued to develop new programs in different amounts, rates and terms. Supplementary Reserve Facility (SRF) was arranged with in short term, high amount and rates in 1997 (Hutchison, 2001, p. 9, Barro & Lee, 2002, p. 7-8).

Özgür (2009) stated that Short-Term Liquidity Facility (SLF) was founded for strong economies to cover their short term liquidity problems on October 29, 2008 which breaks out for developing of the external capital markets (p. 87).

The International Monetary Fund sets the facilities in terms of the economic positions of countries. The strong economies need short term loan while underdeveloped countries apply to the institution for longer term loan. The facilities are varied to cover the imbalances of different economies by regulating repayment maturity.

2.6 The Provided Opportunities to the IMF Member Countries

Almost all of the member countries utilize facilities of IMF especially Turkey, Asia and Latin American countries. These countries have same economic and structural problems which based on high inflation, internal and external debt, public budget deficit and social injustices. The IMF facilities are in three groups as General, Special and Temporary Opportunities.

2.6.1 General Opportunities

The member countries utilize from different IMF arrangements in terms of qualification of their financial needs. The general policies are Reserve Tranche Position, Credit Slices and Stand-By Application, Extended Fund Facility and Extended Financing Account. The first facility is Reserve Tranche Position which is applied when the country faces not very significant balance of payment problem. This arrangement is not depended on any conditionality and charged any cost because the member country withdraws its own reserve position which consists of the 25% of its quotas (Eğilmez, 1996, p. 42-43). The easiest way to have a facility is the Reserve Trance Position. The country is able to withdraw the facility due to its own reserve. Eğilmez (2002) stated the second facility is Credit Slices and Stand-By Application in which the country applies for its balance of payment problem in short term and has to fulfill some performance criteria. The loan of program is used for 1 to 2 years once every 3 months in installment and reimbursement is between 3 ¼ - 5 years (p. 7). Öztekin reported the interest rate is 0.5% for the programs except with Reserve Tranche Position (p. 42). The IMF does not ensure the payment of facility at once. The significant point is that the country has to continue the performance criteria to get the aggregate loan. Aydın (2004) stated the resources of IMF credits are the rights of credits which consist of four tranches and every tranche is equal to 25% of the member country quotas (p. 2).

TABLE 2. CREDIT SLICES

25%	I	II	III	IV
RESERVE SLICES	25%	25%	25%	25%

(Üçgöz, 2005, p. 32)

The conditionality of getting IMF sources ascends in every tranche. Eğilmez (1996) emphasized the first credit tranche provided to the member country at one time and reimbursement is 3 ¼ - 5 years (p. 43-44). Eren (2000) noted the using of upper credit tranches depends on conditionality like installment, performance criteria, consultation and reimbursement is in 3 ¼ - 5 years (p. 107). The EFF program is longer term arrangements - mid-term programs which is in 3 years period and reimbursement of loans scheduled between 4 ½ to 10 years. The program's aim is to eliminate the problem of external payment which in consequences of the problem of structural and macroeconomics. The installment is depended on the performance criteria as in the regulation of Stand-By. The maximum limit is 300% of the member country (Öztürk, 2009, p. 8). Seyidoğlu (2003) stated the Enlarged

Access Policy (EAP): The member country has to be in large deficit of external payment and apply to serious programs to overcome the disequilibrium (p. 569).

2.6.2 Special Opportunities

The opportunities have been evolved to compensate negative shocks which affect the member countries' economies. Compensatory and Contingency Financing Facility (CCFF) occurs two parts as understood its name. Compensatory Financing Facility (CFF) ensures credit to cover declining of export and services income and eliminating the excess rising of grain import (Seyidoğlu, 2003, p. 569-570). Contingency Financing Facility is the same with the Compensatory Financing Facility. The difference between two programs is that the Contingency Financing Facility will be applied with in addition to an existing IMF program. The reimbursement is 3 to 5 years (Eğilmez, 2002, p. 7). Alpago (2002), the maximum limit of arrangement is % 45 for an export product if more than one export product the limit is 55% of the member country quota (p. 55). Parasız (1996), Additional Financing Facility (ADD) is an additional resource of a stabilization program by reimbursement in 3,5 to 5 years (p. 100).

Another aim of IMF and World Bank is to eliminate poverty of the member countries and international development of socio-economic. Because of the target the institution has incubated different projects in terms of development level of countries. Öztürk (2009), these programs are Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF) (p. 8). Eğilmez (1996) stated that Structural Adjustment Facility (SAF) ensures credits to the underdeveloped countries in collaboration with World Bank to cover balance of payment disequilibrium. The facility has low interest rate and long term (p. 47). A member country has to face balance of payment deficit continuously and be in the 19 countries which are the lowest income. And also the country already has to have put into action a mid-term macroeconomic structural program. Seyidoğlu (2003) reported that the Enhanced Structural Adjustment Facility Trust (ESAFT) was developed in order to enable sustainable economic growth as an additional facility to the Structural Adjustment Facility for the underdeveloped countries in 1987 (p. 570-571). The conditionality is the same with SAF. Öztürk (2009), the maximum limit is 50% of the member country's quota and reimbursement is 5-10 years (p. 8). The program name was replaced as Poverty Reduction and Growth Facility (PRGF).

The Buffer Stock Financing Facility (BSFF) was established to ensure finance for the member countries which had in International Tin Arrangement in 1969. The program intended to stabilize good prices for the member countries which have been in buffer stock agreement. The member country's balance of payment runs in deficit in a consequence of decreasing good prices. The arrangement ensures reliance on the countries by avoiding export of goods without reducing prices. This action causes harm for import countries of these goods and there have to be created opportunities for exported countries to eliminate the harm (Alpago, 2002, p. 56).

Supplemental Reserve Facility (SRF) was improved to cover the balance of payment disequilibrium which is caused by extent and short term external financing problem. Öztürk (2009), the reimbursement is 2.5 years and %3-5 additional interest will be charged at the program. The additional interest is calculated by adding 300bp on the basic IMF interest rate for the first year and if it is not paid it will be added 50bp for every 6 month beginning from the 12th month. The additional interest rate cannot exceed 500bp (p. 8).

2.6.3 Temporary Opportunities

The temporary opportunities have been developed to cover balance of payment problems in short term which are arose by the temporary economic events. The Systemic Transformation Facility (STF) was evolved for Russia and Former Soviet Union Countries with Eastern Europe Countries to overcome the process of changing system seamlessly. The facility is an additional program to another arrangement which reimbursement is between 4 ½ to 10 years (Eğilmez, M., 1996, Alpago, H., 2002 & Öztürk, İ., 2009). The Emergency Assistance (EA) is utilized by the member countries which faces the problem of balance of payment appeared in consequences of natural disaster. There is no any conditionality related to installment and performance criteria and reimbursement is 5 years (Eğilmez, 2002, p. 8). The limitation is 25% of the member country's quota; however it can be increased until 50% exceptionally. The interest rate is IMF basic interest rate without additional interest and repayment is 5 years (Öztürk, 2009, p. 8).

3. STABILIZATION PROGRAMS

The economic stability means that there has not surfaced any critical fluctuation in general economic activity as contraction and excess declining. The fluctuations of gross national product, employment and the price level are at minimum level. The enhancement of inflation, level of unemployment and balance of payment deficit cause economic instability. The countries tend to apply to the stabilization programs if encounter any disequilibrium in financial and real sector of economy. The basic reasons are accelerating inflation, shortage of balance of payments, serious disequilibrium in the financial and real sector.

The stabilization programs are distinguished in two parts as Orthodox and Heterodox Policies. The programs have been improved against the comprehensive macroeconomic objectives as achieving full employment, price stability, balance of payment equilibrium, sufficient growth rate and justice distribution of income to eliminate the disequilibrium between aggregate demand and supply (Bayraktutan, Y. & Özkaya, M. H. 2002, p. 2).

3.1 Orthodox Policies

The Orthodox Policies comprise restricting growth rate of money supply as demand side, higher interest rate, increasing income, removal of trade barriers, more reliance on the market mechanism, restricting public spending and increasing taxes, increasing capacity utilization as supply side, removal of subsidies and saving investment incentives. The policy emphasizes that inflation and balance of payment disequilibrium are aroused by excess demand not because of structural characteristics of less developed countries (Dornbusch, 1992, p. 9). In another sense, the policies ignore the effect of structural characteristics on the economies and build the proposals for solution on this theory.

Bayraktutan, Y. and Özkaya, M. H. (2002) stated the main reasons of inflation and balance of payment deficits consist of three factors in the Orthodox Model:

- Rapid increases in the money supply
- Overvalued exchange rate
- Resource spending deficits of the public sector (p. 2).

The tools are used to cover balance of payment disequilibrium and decline inflation in orthodox stabilization programs which are:

- Tight monetary policy
- Decreasing public deficits
- Devaluation of exchange rate
- Releasing prices
- Removal of subsidies

The policy approaches from one side to the problem and concentrates on restricting demand and ignores structural characteristics of the countries. All the strategies are related to decrease the demand. There is any strategy which is related to distinctive economic structure of the countries.

3.2. Heterodox Policies

If Orthodox Policies have seen unsuccessful to cover the high chronic inflation and made existence crisis deeper in developing countries the heterodox programs were applied. Parasız (2009), the heterodox programs were improved in which contain revenues policies as temporary controlling of wages and prices, controlling of public sector to cover budget deficit, applications of monetary reform, interest, congealing or controlling exchange rates and revision of existing contracts in the mid-1980s (p. 136).

The policies main goal is to decline inflation rapidly and permanently which is applied against the inflation called as “shock treatment” without causing a decline in the level of economic activity and employment. Chronic high inflation means that the high inflation holds over and gets continuity. The chronic high inflation goes through the hyperinflation then the shock policies will be applied. Blejer and Cheasty (1988) stated that the policy intends to disconnect the link between the inflation of yesterday and today (p. 868). Kiguel, M. A. and Liviatan, N. (1992) emphasized the tools of policy have three in ways:

- Congealing the prices and wages to obstacle the hyperinflation in short term
- Fixed exchange rate
- Fiscal discipline to eliminate budget deficits by getting help from monetary reform (p. 36).

3.3. IMF Stabilization Programs

The IMF is an international financial institution which ensures the member countries financial assistance to cover their balance of payment disequilibrium and converge back their healthy economic structure. The institution provides the form of sustainable debt from unsustainable deficits. The institution provides this financial assistance in the form of stabilization or structural adjustment programs. Taylor (1984), the programs intend to cover three issues:

- The most important is that ameliorating balance of payments by reducing deficit of external trade or attracting external capital
- Decreasing inflation by contraction monetary and fiscal policies
- Ensuring sustainable growth in the economy by liberalization (p. 235).

Parasız (2002) stated that the financial assistance is engrossing with the stabilization programs in terms of orthodox model generally (p. 157-159). The IMF stabilization programs contain such policies which are:

- Exchange rate policy
- Fiscal policy
- Monetary policy
- Trade policy
- Removing price controls and the control of wages

3.3.1 Exchange Rate Policy

According to IMF, there are two external imbalances as “temporary” and “permanent”. If there is a permanent imbalance then intervention of IMF on exchange rates would be necessary which the situation is seen in underdeveloped countries. The exchange rate policy intends to change relative price structure by devaluation. In this wise, the balance of payment deficit will be covered by raising export (Parasız, 2002, p. 165). The rising export covers import and current account balance would be in positive side. Öztürk (2009), another way is to increase the market interest rates which aim to encourage saving, decrease aggregate demand, prevent slipping out of capital and rationalization of the use of credit (p. 7).

3.3.2 Fiscal Policy

Üçgöz (2005), the fiscal policy comprises covering budget deficit, declining pressures of aggregate demand, reducing public spending and subsidies and increasing taxes in general (p. 55). The policy can be separated in two titles as reducing public sector spending and increasing income of public sector. The public spending generally is eliminated by printing money. However this action causes the increasing of price level and decreasing export. Because of this effect IMF stabilization programs shove covering of the deficit through private financial markets instead of printing money as well as reducing the spending if it’s possible. The second way is to increase public sector income in which IMF stabilization programs intend to cut subsidies, decreasing aggregate demand and increase taxes and price of public goods and services (Öztürk, 2009, p. 7).

3.3.3 Monetary Policy

The policy controls aggregate money supply and expansion in the volume of credit by tight monetary policy. The interests will be raised to prevent flight of capital, to increase savings, to control domestic inflation and decreasing consumption demand. The export will increase while the import decreases and the aggregate demand will be in reduction by increased domestic prices. As a consequence of increased export the balance of payment deficit would be covered in terms of the policy (Öztürk, 2009, p. 5). Bayraktutan, Y. and Özkaya, M.H. (2002) emphasized the policy defends more reduction of public sector credits than private sector credits (p. 7).

3.3.4 Trade Policy

The policy intends liberalization of trade by decreasing tariffs, removal of export encouragement and liberalization of capital movements (Parasız, 2002, p. 165). Even though decreasing tariffs will cause reduction of public sector income the policy purposes to increase the efficiency by inserting domestic producers into foreign competition and ensures that domestic manufacturers use foreign inputs at a lower cost (Bayraktutan, Y. & Özkaya, M.H., 2002, p. 7).

3.3.5 Removing price controls and the control of wages

The removing price controls policy aims to decrease public subsidies, strengthen structure of the state owned financial institutions and rationalize functioning of the economic system. Furthermore, the taxes will increase in a consequence of removing price controls from the price controlled goods. The pressure on aggregate demand and production cost will be decreased by the control of wages. The county will be more competitive at the international level for its goods and services through the policy. At the IMF stabilization programs prevent the wages in system of wage setting (Bayraktutan, Y. & Özkaya, M.H., 2002, p. 7).

4. THE EXPERIENCED WORLD ECONOMIC CRISES AND THE EFFECT OF IMF ON THE CRISES

4.1.The Concept of Economic Crisis and the Effect of IMF Stabilization Programs on the Crises

The crisis is a comprehensive concept in which all macro and micro fundamentals have been demolished by unforeseen developments in the economy. There would be occurred serious consequences which will affect the government at macro level and the firms at micro level (Özbek, 1999, Aktan & Şen, 2001). Kibritçioğlu (2001) noted that according to different and detailed perspective, the crisis emphasizes intense fluctuations on prices or amounts of any goods, services, production factors or financial market (p. 174).

The crises are separated into two parts in terms of influenced sectors:

- Real sector crises which are raised as a significant fluctuations in production and/or employment
- Financial crises are financial market crashes which disrupts efficient functioning of markets.

According to theoretical and experimental studies the financial crises are longer and more effective negatively (Takım, 2011, p. 338).

Many studies have been conducted about countries' crises in developing countries in the 1990s. Uygur (2001) stated the following symptoms are determined as signs of crisis:

- Short-term External Debt / Foreign Exchange Reserves
- Current Account Deficit / Foreign Exchange Reserve
- Open Position of Banking Sector / Foreign Exchange Reserve
- Bank Loans / Foreign Currency Reserve

- M2Y / Exchange Rate Reserve
- Surge in Capital Flows (p. 18).

Even though it's unknown when and in what form a financial crisis will appear unsustainable economic policies, fluctuations in the financial sector and external market can be the reasons. Whatever reasons of the crises, its consequences are falling of GDP, the impoverishment of society, running in harm of investors by increasing fluctuations in financial markets.

Many studies have been conducted about reasons of the crises by Eichengreen (2008), Stiglitz (1996), Radelet, Sachs, Cooper and Bosworth (1998) et al. They concluded that financial liberalization is reason of the crises to which developing countries participated in subsequent from developed countries. The process of financial liberalization was started from 1970s and accelerated in the 1980s. The removal of barriers between markets of national financial and international financial has triggered rapid financial integration in the world.

The greater return expectation of investors in developed countries, the desire of financing its growth from foreign sources in developing countries are providing a rationale for the movement of capital. However uncontrolled capital inflows reduce the effectiveness of monetary policy to achieve macroeconomic targets (Takım, 2011, p. 338). The reasons of crises were depended on real economic variables as demand, improvement of technology and profit margin until the middle of twentieth century. In the recent years, there have been emerged in variety types of crises. The types of crises are in the market of currency and foreign exchange markets, stock market and banking sector (Boratav, 2004, p. 107). Even though the crises are in different markets all of the crises are related to monetary markets. The crises affect the way of money flow and its value.

There have been experienced many financial crises around the world in accelerated process of financial integration after 1990s. Some of serious crises were; The Mexican Crisis in 1994, Southeastern Asian Crisis in 1997, Russian Crisis in

1999, Argentinean Crisis in 2001, Turkey Crises in 1994, 2000 and 2001. The most basic feature of these crises was that emerging when IMF stabilization programs have been implementing. The experienced crises reveal the necessity of questioning implemented economic policies as well as recommended policies by IMF.

If the financial crises in 1990s were compared with the previous year's crises and there have been found some differences. In the 1990s portfolio investment was flowed towards rising market economies. The countries were able to borrow foreign resources facilely with financial liberalization and implemented policies. The form of debt was in the nature of short term borrowing which created instability in the financial system of rising market economies. The foreign capital flows increased the value of domestic currency consequently while the export decreased the import increased and the current account deficit was increased. The policies of overvalued domestic currency and high interest were applied to sustain foreign capital investment which triggered the crises.

4.1.1 The Mexico Crisis in 1994 and the Effect of IMF Stabilization Programs on the Crisis

There is a need of overview in the economy of Mexico before the touching on the stabilization programs. It should be noted that the country is a founding member of the IMF. Usta (2013), stated the country nationalized the oil wells in 1938 which has been owned by foreign investors (p. 7). It could be mentioned that the nationalization of the oil wells has affected the economy in positive side and the country accelerated industrialization policy by concentrating on the economical growth after the World War II. However, Petroleum Crisis erupted in 1973 which affected the country negatively as the other oil-exporting countries in the world. The external debt reached to high levels in 1980s. Table 3 demonstrates the external debt which rose from %6 to %97.4 in 1970 and 1985 respectively.

On the other side, according to the Table 4 the country faced with high inflation rates after the year of 1972. Even though the inflation had not turned into hyperinflation problem the rates were at high levels. The GNP per capita went in positive side between the years of 1955 and 1981. After the country felt in high external debt the rate turned in negative side and actualized as %-2 and the inflation reached to %86.2 between the years of 1981 and 1988. As a result, the Mexico could not cope with high debt and inflation and applied the first stabilization program in 1987 which called as The Pact for Economic Solidarity.

TABLE 3. EXTERNAL DEBTS IN MEXICO (1970 – 2001)
(BILLION DOLLARS)

YEARS	1970	1980	1982	1985	1995	1996	1997	1998	1999	2000
EXTERNAL DEBT	6	57.4	86	97.4	166.6	157.5	148.7	159.9	167.3	158.5

(Fıstık, 2003, p. 28)

The country intercepted rising of prices and wages temporarily by applying the heterodox stabilization program in 1987. The exchange rate, wages and prices were aroused at the beginning of the program and announced that there would be no rising for two months. At the end of two months an agreement was made that minimum wages, good prices of public economic enterprises, exchange rates and prices of partial private sector would be arranged gradually (Ortiz, 1991, p. 292).

TABLE 4. LONG TERM ECONOMICAL PERFORMANCE IN MEXICO
(1955 – 1993)

PERIOD	GNP per capita (%)	INFLATION
1955 - 1972	3.1	3.9
1972 - 1981	3.6	20.6
1981 - 1988	-2.0	86.2
1988 - 1992	1.5	21.1
1993	-1.2	9.7

(Hacıhasanoğlu, 2005, p. 20)

The country adopted strategies of economic stabilization and growing under leadership of private sector by reducing efficiency of public sector in the economy between 1987 and 1993. The main ingredients of the program were;

- Participating the country into international competition
- Privatization and trade liberalization
- Nominal peg exchange rate regime
- A comprehensive structural reform program which consisted of tight monetary and fiscal policies
- Restructuring the external debt
- Comprehensive social and economical agreement between the government, private sector and unions to determine the rising of prices, exchange rates and wages (Hacıhasanoğlu, 2005, p. 23).

Krueger and Tornell (1999) stated that in the "Pacto" application there has been an agreement between the government and labor unions and private sector officials about minimum increasing of wages, depreciation of national currency, increasing of prices of public sector goods which would be determined annually or monthly (p. 6). Güloğlu and Altunoğlu (2002), the country privatized 18 public banks, released interest rates, limited credits and removed banks' obligation of liquid retention (p. 7).

Edwards (1997) stated in the adaptation process of stabilization program capital inflows and exchange rates have been increased as a positive relationship. (p. 8-9). The national currency lost its value and the exchange rate increased from 2.2% in 1987 to 2.28% in 1988. If the effect of increasing prices is eliminated the real exchange rate index demonstrates that the losing value of domestic currency was at higher level in a year. As seen in Table 5 the index rose from %67.17 to %82.39 in 1987 and in 1988.

Another aim of the program was to reduce the external debt by applying some policies like privatization, encouraging export etc. According to Table 3 the external debt increased from %97.4 in 1985 to %166.6 in 1995 by contrast with controlling the huge burden of external debt.

TABLE 5. EXCHANGE RATE IN MEXICO (1987 – 1994)

YEARS	PESO/DOLLAR EXCHANGE RATE	REAL EXCHANGE RATE INDEX
1987	2.210	67.17
1988	2.281	82.39
1989	2.641	84.24
1990	2.945	87.68
1991	3.071	98.34
1992	3.115	108.14
1993	3.106	114.82
1994	3.446	NA

(Kehoe, p. 138, Hacıhasanoğlu, 2005, p. 142)

The based on heterodox policy program was successful to decrease the inflation from %159.2 to 51.7% in a year. As seen in Table 6 while decreasing the external debt to GDP was successful by reducing from %61.5 to %49.7 the internal debt to GDP increased approximately by %2 from the year of 1987 to 1988. The interest rates were approximately decreased by %42 in six years after the application of the program and external and internal debts to GDP were reduced. On the other side, current account balance could not be treated due to insufficient external financial aid and transferring out of the sources by refunding external debt.

The decreasing reserves and needing for external financing imperiled sustainability of the program and the second program needed to be applied at the end of 1988 which was called as The Pact for Stability and Growth in 1989 to 1994. The program intended sustainability growth instead of inflation and the prices (wages, exchange rate, and the good prices of public economic enterprises) were readjusted. The Pact for Economic Solidarity Program in 1987 was insufficient to eliminate inflation and the government applied to nominal peg exchange rate system to eliminate the inflation in 1988. As seen on the Table 6 the program was successful until 1995 and the inflation has been decreased step-by-step from %51.7 in 1988 to %7.1 in 1994. Bahçeci (1997) stated the new term was begun by applying the program and open market operations were exercised by releasing rates. However, transferring out of sources due to external debts affected negatively the improvement of internal borrowing market. The country changed exchange rate regime from fixed regime to controlled exchange rate regime (p. 49-52).

TABLE 6. SOME OTHER ECONOMIC INDICATORS IN MEXICO (1987 – 1994)

YEARS	INTEREST RATES (%)	EXTERNAL DEBT/GDP (%) (EXCEPTION OF IMF)	INTERNAL DEBT/GDP (%)	INFLATION (%)	REAL GROWTH – GDP (%)
1987	122.0	61.5	16.5	159.2	1.7
1988	52.3	49.7	18.7	51.7	1.2
1989	40.6	40.5	23.9	19.7	3.5
1990	26.0	31.7	23.5	29.9	4.5
1991	16.7	26.1	19.7	18.8	3.6
1992	16.9	22.2	12.9	11.9	2.8
1993	11.8	23.0	12.0	8.3	0.6
1994	30.0	24.2	13.2	7.1	3.5

(Hacıhasanoğlu, 2005, p. 27, Üçgöz, 2005, p. 81,83).

The rate of increasing export decreased from %38.8 to %4.4 while the rate of increasing import increased from %16.4 to %26.2 in 1987 and in 1992 respectively. The appreciation of domestic currency caused reducing profit of export and being advantage of import. The export was unsuccessful to cover the import and caused to turn the current account balance in negative side at the same years. Krueger and

Tornell (1999) emphasized that another reason for the imbalances of current account is reduction of national savings (p. 10). Mexico was expected to reduce current account deficit by applying stabilization program which would increase export while decrease import. However, on the other side, domestic currency value decreased which aroused import and decreased export in contrast to expectation.

Yıldırım (2003) emphasized that upsurge of current account deficit dragged the investors into negative expectations about sustaining of the deficit (p.74). Negative expectations cause to seen the market is in uncertainty. Table 7 shows that the country had current account surplus due to had higher export than import in 1987. After the application of stabilization program the import increased from %16.4 to %20.3while the export was decreasing from %38.8 to %13.6 in 1987 and in 1994 respectively. The current account balance was 2.9 billion dollars in 1987. However, the balance turned in negative side as % 29.5 in 1994 due to the negative effect of increased import and decreased export.

TABLE 7. CURRENT ACCOUNT BALANCE AND ITS COMPONENTS IN MEXICO (1987-1994)

YEARS	THE INCREASE IN EXPORT (%)	THE INCREASE IN IMPORT (%)	C.A. BALANCE (BILLION DOLLARS)
1987	38.8	16.4	2.9
1988	2.8	52.4	-3.8
1989	12.9	25.5	-6.1
1990	17.6	22.9	-7.5
1991	1.7	22.1	-14.9
1992	4.4	26.2	-24.8
1993	9.9	1.5	-23.4
1994	13.6	20.3	-29.5

(Üçgöz, 2005, p. 83)

The financial liberalization in 1990s and fixing Mexican Peso to US dollar in 1991 caused increasing of capital inflows. Fixed exchange rate regime lent wings to foreign investors and tended to invest in Mexican market. GAO (1996) stated that the movements of capital increased aggregate demand in the market, prices of stock market and real estate. The capital flows shifted the income away from savings to consumption in 1990s. The private sector savings to GDP were %16 in 1989 and decreased to %12 in 1994 (p. 44). Chang and Velasco (1998), the private sector credits to GDP were %26.13 in 1991 increased to %41.47 in 1994 while the non-refundable credits were %7.26 of aggregate in 1993 increased to %9.02 in 1994 (p. 51-52). According to the data the private sector savings decreased, credits and unpaid credits increased that income could not be able to cover the consumption. As a result, the private sector triggered into debt and the debt ratio of private sector was increased.

The growth of GDP was in the way of positive growing in spite of current account was going deeper debt year by year. Table 8 demonstrates the growth rate was in negative side as %3.8 before the applying program and turned in positive side by actualizing %4.5 in 1994. The rising of GDP can be associated with high capital inflows into the country. Thus, while foreign direct investment was continuing to flow into the country the GDP growth turned back in negative side with higher rate as 6,2% in 1995. Edwards (1997) noted that even the actualized reforms the growth of Mexican economy was %3.3 between 1988 and 1994 against %7.1 growth of Chile and %4.1 growth of Colombia (p. 3). After the application of stabilization program in 1987 the growth of Mexican economy was in low level against Chile and Colombia. The program was not in positive effect on growth of the economy.

The stabilization program increased the foreign direct investment and that reached to 10.973 million dollars in 1994. Increasing foreign direct investment caused to be seen that the growth was increasing in the country. However, foreign sources cannot ensure the sustainability of growth in the economy. Even though increased foreign investment is seen in positive progress which causes fragile structure of economy of the country. Any unexpected negative shocks on economy trigger foreign sources flight out of the country. As a result, the economy is coming to sensitive structure against sudden shocks which would trigger the country into financial crisis.

According to Table 8 the current account deficit to GDP rate increased from %6.4 in 1993 to %7.7 in 1994. The government changed its domestic debt strategy and begun to sell it's based on dollar bonds (Tesobond) instead of based on Peso bonds (Cetes). The public domestic debt stock in dollar was increased by selling of Tesobonds and the rate of Tesobond/aggregate debt reached about 50% between April-November 1994 (Üçgöz, 2005, p. 83-84).

Güloğlu and Altınoğlu (2002) noted that Central Bank reserves decreased from 25.110 billion dollars in 1993 to 6.278 billion dollars in 1994 (p. 121). If a central bank liquid assets ratio against short term liabilities was in low level in an economy which causes transferring banking crisis into foreign currency crisis. The short term liabilities in the form of foreign currency instead of domestic currency cause to increase risk of investor panic (Hacıhasanoğlu, 2005, p. 41-45). Any unexpected economic shock would slip out of foreign currency due to which tends to flight out in any shock.

The government short term liabilities were higher than its assets in liquid form which caused panic in the market and triggered formation of the crisis. The growth was 0.6% in 1993 and 3.5% in 1994 which could be caused by high capital inflows as shown in Table 6. Üçgöz (2005), the program was successful for price stabilization and fiscal discipline. The inflation decreased to one digit (p. 83). Table 6 shows the rising of prices was over %100 in 1987 and decreased to %18.8 and %7.1 in 1991 and in 1994 respectively. Even though successful of the program on inflation the capital outflows and liquidity could not be controlled and the country triggered into the financial crisis in 1994.

Krueger and Tornell (1999) stated the increasing of private sector crisis; increasing interest rates in US, political turmoil have reduced the confidence in

Mexican Economy (p. 1). The low rate devaluation increased uncertainty of the economy. As a result, the investors have sold the bonds indexed to dollar which have been launched to the market to prevent the capital flight. The government run in the problem of liquidity by the effect of both devaluation and sold bonds (Bahçeci, 1997, p. 52-54). IMF and Mexico government could not predict any crisis signals in 1994. The currency devaluation followed foreign currency reduction which triggered formation of the financial crisis (Akdiş, 2002, p. 8).

TABLE 8. SOME ECONOMIC INDICATORS IN MEXICO (1986 – 1995)

YEARS	C.A. DEFICIT (% GDP)	C.A. (Billions of Dollar)	GDP Growth (%)	NET INFLOWS OF FOREIGN DIRECT INVESTMENT (Million of U.S Dollars)
1986	NA	NA	-3.8	NA
1987	NA	NA	1.9	NA
1988	1.4	-2.4	1.2	NA
1989	2.8	-5.8	4.1	NA
1990	3.0	-7.5	5.2	2.549
1991	5.1	-14.6	4.2	4.742
1992	7.4	-24.4	3.5	4.393
1993	6.4	-23.4	1.9	4.389
1994	7.7	-28.8	4.5	10.973
1995	NA	NA	-6.2	9.526

(Topallı, 2006, p. 54, Máttar, J., Brid, M. J. C. M. & Peres, W., 2002, p. 10-16).

TBB (2001) mentioned the reasons of the crisis in 1994 were;

- The financial liberalization in 1990s
- The macro imbalances of internal and external
- The problems of banking sector

- The IMF encouraged banking sector for risky credits
- The liquidity problems in the public debt management
- Trying to cover huge balance of payment deficit by short term capital inflows
- Appreciation of exchange rate
- The increased interest rates in US
- Insecurity political developments
- Domestic debt was based on dollar against Peso (p. 2)

The reasons of crisis can be separated into two parts as domestic and international. The domestic reason was capital inflows as approximately 2 million dollars between 1990 and 1993. Most of the capital inflows directed into stock market. The Mexico stock market had in huge capital with effect the entrance in NAFTA in the beginning of 1994. The domestic interest rates stoke up to be decreased by huge capital inflows and increasing of reserves. The Central Bank controlled exchange rates which caused real appreciation, the import increased and the export decreased due to trade liberalization and reduction of tariffs in 1994 (Üçgöz, 2005, p. 82-83). Hacıhasanoğlu (2005), the international reason was external economic shocks. The demand of investment funds was increased in developed countries due to their strong growth dynamics in those years and the developed countries applied tight monetary policy which caused increasing of interest rates. And also the rising interest rates in the US in 1994 increased the cost of borrowing and new export goods for Mexico (p. 31).

The external reasons affected the crisis as well as the internal reasons. The most significant external reason was capital flows. Although the capital inflows seen to affect the economy in positive side huge capital outflows trigger the countries into crisis due to liquidity shortage. The country has no impact power on external factors and falls to vulnerable situation which cause panic in international market as well as domestic market. Political developments in a country also were important for other countries. If any uncertainty situation or unexpected shock is occurred in political environment the foreign investors would tend to flight out rapidly.

Topallı (2006) stated that reduction of private savings and current account deficit were caused by undervalued national currency, unfavorable political development and banking sector problems (p. 56). Undervalued currency increases import, import excesses export and current account deficit increases and also causes capital outflow. On the other hand, any significant negative political development creates mistrust in the market. Reduction of private savings also triggers the liquidity shortage as well as banking sector problems.

The only reason of formation of crisis in Mexico was not the budget and current account deficits due to imbalances of capital movements also the reason could be financial fragile of the country. Another reason was Tesobonds stock which exceeded Central Bank reserves (Hacıhasanolu, 2005, p. 41-45).

As mentioned above one of the reasons of Mexican crisis was problem of the banking sector. There has been consisted of non-competitive banking sector by nationalizing the banks. Even though this fault has been tried to cover by privatizing the banks they were unsuccessful to manage the credits availability and risk (Topallı, 2006, p. 55). The credits could not be distributed efficiency in the market. The risk of credits could not be analyzed in the right form by private banks. The banks are in very significant position for liquidity of the government. If any problem is occurred in the banking sector directly affects the amount of liquidity in the country.

The fundamental of Mexican crisis was financial liberalization which caused the increasing of bank credits and loans. The privatization of banks has enabled the loans of foreign sources. The Latin America countries have borrowed from foreign sources in the short term and the policies of using the loans were inefficient (Corsetti, G., Pesenti, O. & Roubini, N. 1998a, p. 24-25). The debt tried to be cover with short term credits which borrowed from foreign resources. Also, the loans could not be used to cover the debts with useful policies.

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

4.1.2 The Southeastern Asia Crisis in 1997 and the Effect of IMF Stabilization Programs on the Crisis

The Southeastern Asian Countries consist of 49 countries. The five of the countries are analyzed exception of Turkey and Russia which are Korea, Indonesia, Malaysia, Philippines, and Thailand. The occurrence of crisis in any country in the area causes to spread the shock to the other countries.

The five Southeastern Asia countries had experienced to apply the IMF Stabilization Programs before the crisis in 1997. Korea began applying the programs at the beginning of 1960s. Mussa M. and Savastano M. (1999) noted that the country experienced 9 stabilization programs between the years of 1973 and 1997 (p. 14). Krueger, O. A., Fischer S. and Sachs D. J. (2003) mentioned the country applied the liberalization policies by concentrating on regional and international financial system, interest rates and fixed exchange rate regime in the late of 1980s (p. 320 – 329). Philippines became acquainted with IMF Stabilization Programs by the beginning of 1970s. Mussa M. and Savastano M. (1999), the number of 12 stabilization programs were applied in the period of 1973 – 1997 (p. 14). Balbosa (1992) mentioned the country applied two stabilization programs in 1980s. The main policies were fixed exchange rate regime, liberalization of trade policy, high interest rates and privatization (p. 42 – 45). Indonesia and Thailand became the members of IMF in 1971 and applied the numbers of 10 and 8 IMF stabilization programs between the years of 1972 and 1997 respectively (Evrensel 2002, p. 571 – 575). Indonesia was an oil-exporting country and also gave importance to the agriculture sector. The policies in Indonesia, Thailand and Malaysia were financial liberalization and fixed exchange rate regime. The IMF Stabilization Programs on Five Asian Countries have focused on the financial liberalization and fixed exchange rate regime under the tight monetary policy.

As mentioned the policy of financial liberalization has been begun towards the end of 1980s in the Southeast Asian Countries. The risk was increased by overvalued currency and increased financial market transactions in the kind of foreign currency (Topallı, 2006, p. 60). The financial liberalization causes the free capital movements between the countries. Foreign investors have any restrictions to invest on the other countries which apply to the financial liberalization strategy. As a result, the investors aim to maximize their profits and where the profits would be at maximum level the investors would enter in. The foreign currency circulation triggers the market in speculative position and the market would be in risk. In addition, if the country has no strong financial system to eliminate the negative effects of the speculation which would be faced with financial crisis.

Topallı (2006) stated the Asia Countries have been adopted contraction of public sector in the financial system. The increasing of interest rate, foreign investment inflows, holding assets of financial institutions and borrowing from foreign resources were contracted and the credits were managed (p. 60). The credits tended to flow private sector. The Table 9 demonstrates the bank credits for private sectors in five Asian Countries. The rate of credits increased from 1990 to 1997 in all the countries. Especially, the bank credits in Malaysia aroused in huge amount from %7.36 to %106.91 in 1990 and in 1997 respectively. Another significant rising was in Thailand that increased to %116.33 in 1997. Both of the countries exceeded %100 can be interpreted that the banks borrow from foreign resources to ensure credits for private sector. Korea was the most stabile country by increasing the credits approximately %14 between the years of 1990 and 1997. In addition, the rate of investment is a significant point. If the credits are not used in efficiency would cause to increase the rate of non-refundable credits.

TABLE 9. THE RATE OF BANK CREDITS TO GDP FOR PRIVATE SECTOR FOR FIVE ASIA COUNTRIES (1990-1997)

YEARS	1990	1991	1992	1993	1994	1995	1996	1997
KOREA	52.54	52.81	53.34	54.21	56.84	57.04	61.81	69.79
INDONESIA	49.67	50.32	49.45	48.9	51.88	53.48	55.42	69.23
MALAYSIA	7.36	75.29	74.72	74.06	74.61	84.8	93.39	106.91
PHILIPPINES	19.17	17.76	20.44	26.37	29.06	37.52	48.98	56.53
THAILAND	64.3	67.7	72.24	80.01	91.0	97.62	101.94	116.33

(Topallı, 2006, p. 67)

The countries experienced high level of private inflows between the years of 1990 and 1996. As seen in Table 10 the private inflows were higher than the reserve changes for four countries in South East between 1990 and 1996. If Malaysia and Thailand is seen examples that even though the private inflows were at high levels its effect on the reserve changes were low level by 60.1 billion dollars and 47.8 billion dollars respectively. The exceeded %100 rate of bank credits for private sector could be ensured by the private inflows.

TABLE 10. RESERVE CHANGES AND PRIVATE INFLOWS IN ASIAN COUNTRIES (1990 - 1996) (BILLION DOLLARS)

COUNTRIES	CHANGE IN RESERVES (1990 - 1996)	PRIVATE INFLOWS (1990 - 1996)
INDONESIA	10.8	60.2
KOREA	19.2	79
MALAYSIA	17.3	60.1
THAILAND	24.4	47.8

(Chinn, Dooley, Shrestha, 1999, p. 665)

The Southeastern Countries has expanded in the different systems. The South Korea, Thailand and Japan was focused on the expansion of state sponsored or large companies based in the bureaucracy while the Hong Kong and Singapore gave priority to market mechanism (Topallı, 2006, p. 60). Korea and Thailand experienced decline while the Singapore and Hong Kong were in the structure of protection prone to rise in the GDP growth rate from 1991 to 1997. As seen in Table 11 that Korea growth rate decreased from%9.13 to %5.47 by fluctuated declining structure and the growth rate of Thailand decreased from %8.18 to %-0.43 year by year. On the other side Hong Kong growth rate increased from %4.97 to % 5.29 and the GDP in Singapore rose %7.27 to %7.55 at the same years. According to the examples countries, giving importance to the market mechanism is more successful than the policy of based on large companies on the GDP growth rate. However, it should not be forgotten that the GDP growth rate is affected by huge capital inflows.

The Asia Countries captured the success with the export-oriented industrialization strategy which concentrated on the low cost labor force and entered into the US, Japan and European Union Countries. The competitiveness of export was augmented by adoption and low value of dollar (Hacıislamoğlu, M. L. & Silahşör, H. S. 1998, p. 7). The export is in significant position for current account balance in a country. The increasing of export ensure to the country having current account surplus. It would be meaningful to mention that export-oriented strategy brings success to the applied country.

TABLE 11. GDP GROWTH RATE FOR ASIAN COUNTRIES (1991-1997)

YEARS	1991	1992	1993	1994	1995	1996	1997
KOREA	9.13	5.06	5.75	8.58	8.94	7.1	5.47
INDONESIA	6.95	6.46	6.5	15.93	8.22	7.98	4.65
MALAYSIA	8.48	7.8	8.35	9.24	9.46	8.58	7.81
PHILIPPINES	-0.58	0.34	2.12	4.38	4.77	5.75	9.66
THAILAND	8.18	8.08	8.38	8.94	8.84	5.52	-0.43
SINGAPURE	7.27	6.29	10.44	10.05	8.75	7.32	7.55
HONG KONG	4.97	6.21	6.15	5.51	3.85	5.03	5.29

(Topallı, 2006, p. 60, Corsetti, G., Pesenti, O. and Roubini, N., 1998 p. 39)

Corsetti, G., Pesenti, O. and Roubini, N. (1998) noted that the appreciation of US dollar against Japanese Yen and European currencies reversed the export and competitiveness in Asia Countries in 1995s. The deficit of current account and balance of payment increased while the countries had not experienced high inflation. The growth rate of countries was approximately %7 in 1990s means that the high growth rate was made vulnerable the countries. The high growth rate causes an increase in consumption by creating an optimistic picture in the market (p. 5-12). The current account balance is a significant indicator to interpret the position of an economy. Table 12 emphasizes the rate of current account balance to GDP. For instance, even though growth rate actualized as %7.1 in Korea in 1996 the rate of current account balance to GDP was in negative side and increased from %2 to %4.8 in 1995 and 1996 respectively. If the increased consumption is covered by the foreign capitals the economy would be in fragile structure against the speculation of foreign investors or any external shock then which would push the capital out.

The inflation rate is a significant factor for investment and saving in the countries. Kuroyanagi M., Yano J., Nakanishi Y. (1996) et al. found that if the inflation rate was over %30 annually in a country which called as high-inflation country and faced with debt crisis. On the other side, if the rate was below %15 annually in a country that called as low-inflation country and was protected to fall in debt crisis (p. 8).

TABLE 12. THE RATE OF CURRENT ACCOUNT BALANCES TO GDP FOR FIVE ASIAN COUNTRIES (1990 - 1996)

YEARS	1990	1991	1992	1993	1994	1995	1996
KOREA	-0.9	-3.0	-1.5	-0.1	-1.2	-2.0	-4.8
INDONESIA	-2.8	-3.7	-2.2	-1.2	-1.4	-3.2	-3.3
MALAYSIA	-1.9	-8.5	-3.4	-4.2	-5.7	-7.7	-6.5
PHILIPPINES	-6.1	-2.3	-1.9	-5.5	-4.8	-2.6	-3.5
THAILAND	-8.5	-7.7	-5.9	-5.3	-8.1	-7.6	-7.5

(Topallı, 2006, p. 62).

Asian Countries had no problem of inflation rates. The rates were not high levels. As seen in Table 13 Indonesia had the lowest inflation rates. Even the rate decreased from %4.40 to %2.66 in 1991 and 1997 respectively the most of the problems in the countries were the high levels of deficits due to losing the power of export. The other reason of the deficit could be exchange rate and interest rate problems.

TABLE 13. INFLATION RATE FOR FIVE ASIAN COUNTRIES (1991 - 1997)

YEARS	1991	1992	1993	1994	1995	1996	1997
KOREA	9.30	6.22	4.82	6.24	4.41	4.96	4.45
INDONESIA	4.40	4.69	3.57	3.71	5.28	3.56	2.66
MALAYSIA	9.40	7.59	9.60	12.56	8.95	6.64	11.62
PHILIPPINES	18.70	8.93	7.58	9.06	8.11	8.41	5.01
THAILAND	5.70	4.07	3.36	5.19	5.69	5.85	5.61

(Corsetti, G., Pesenti, O. and Roubini, N., 1998 p. 39)

It should be noted that the interest rates on saving, investment, capital inflows should not be forgotten. The high real interest rates are positive effect on saving and capital inflows. The interest rates were lower level in Korea and Malaysia. Table 14 reported that Korea had negative side interest rates %0.5 and %0.6 in 1990 and in 1991 respectively which inflation rates exceeded interest rates in two years. The foreign investors tend to go out from the country due to negative earnings on their investment.

TABLE 14. INTEREST RATES (%)
FOR FIVE ASIAN COUNTRIES (1990 – 1997)

YEARS	1990	1991	1992	1993	1994	1995	1996	1997
KOREA	-0.5	-0.6	2.2	2.1	0.6	1.5	3.5	6.9
INDONESIA	12.2	15.4	17.7	10.8	0.3	8.3	9.5	8.2
MALAYSIA	4.8	5.6	7.6	5.8	4.6	4.9	6.0	6.9
PHILIPPINES	9.9	5.6	10.7	7.3	4.6	6.6	6.7	9.5
THAILAND	8.2	9.1	7.3	7.6	5.4	7.3	9.0	9.2

(http://data.worldbank.org/indicator/FR.INR.RINR?, 02.06.2014)

The higher debt ratio of short-term to aggregate debt means that the short-term debt is high. If the ratio is high the country is in huge amount of debt. If Table 15 is analyzed it will be seen that the short-term debt in all five Asia Countries were aroused from June 1990 to June 1997. The countries felt into more debt from 1990 to 1997. Especially, the debts of Malaysia and Philippines were approximately doubled from June 1990 to June 1997. Malaysia debt was $25.66 billion in 1990 and increased to $56.45 billion and Philippines debt was from $33.34 in 1990 billion to $58.75 billion in 1997. In addition to the high rate the private inflows were at high levels which triggered economies in more fragile structure.

TABLE 15. SHORT-TERM DEBT/AGGREGATE DEBT RATIO FOR FIVE ASIAN COUNTRIES (1990 – 1997)

COUNTRIES	INDONESIA	KOREA	MALAYSIA	PHILIPPINES	THAILAND
JUNE 1990	51.60	66.45	25.66	33.34	60.18
JUNE 1994	61.10	72.53	59.12	44.17	74.29
JUNE 1997	59.02	67.85	56.45	58.75	65.68

(Topallı, 2006, p. 65)

Moskow (2001), the investment rate was in high level in 1990s in the Asian Countries (p. 51). Asian countries were in growth slope structure in the investment rates with exception of Indonesia before the crisis in 1997 which were reported in Table 16. Malaysia actualized the high growth rate of investment in spite of impending crisis which rose from %31.34 to %42.84 in 1990 to 1997 respectively. It is worth to recall Table 10 that the reason of low amount of change reserves in spite of high amount of private inflows could be the high investment rates in Malaysia. Korea had high amount of private inflows and the reserves changes were in low levels between the years of 1990 and 1996 as reported in Table 10. Despite the structure of prone to falling inflation rate and high capital inflows the growth of GDP and investment rates were at low levels and also current account were in deeper deficits at the same years. According to Corsetti, G., Pesenti, O. and Roubini, N. (1998), the investment was fronted in the real estate sector instead of production. The rate of nonperforming loans was 15% in 1996 in Thailand, Korea, Indonesia and Malaysia (p. 14).

TABLE 16. INVESTMENT RATES (% of GDP)
FOR FIVE ASIAN COUNTRIES (1990 – 1997)

YEARS	1990	1991	1992	1993	1994	1995	1996	1997
KOREA	36.93	38.90	36.58	35.08	36.05	37.05	38.42	34.97
INDONESIA	36.15	35.50	35.87	29.48	31.06	31.93	30.80	31.60
MALAYSIA	31.34	37.25	33.45	37.81	40.42	43.50	41.54	42.84
PHILIPPINES	24.16	20.22	21.34	23.98	24.06	22.22	24.02	24.84
THAILAND	41.08	42.84	39.97	39.94	40.27	41.61	41.73	34.99

(Corsetti, G., Pesenti, O. and Roubini, N., 1998 p. 39-43)

The high investment rates is significant, however, the efficiency of investment rate is the measure factor for productivity of the investment. The efficiency is measured by the rate of capital / output that if the ratio is high the efficiency of investment low as a negative relationship. As seen in Table 17 the rate was low level in the both period 1987-1992 and 1993-1996 by exception of Indonesia and Philippines. However, the efficiency of investment rate was begun to increase in the period of 1993-1996. Even though Indonesia and Philippines had high investment rates which tended to decrease from the period of 1987 – 1992 to 1993 – 1996. For instance, Table 17 reports the rate of Philippines decreased from %6.0 to %5.5 at the same years.

TABLE 17. INCREMENTAL CAPITAL OUTPUT RATIO
FOR FIVE ASIAN COUNTRIES (1990 – 1996)

YEARS	1987 - 1992	1993 - 1996
KOREA	3.8	4.9
THAILAND	3.4	5.1
INDONESIA	4.0	3.8
MALAYSIA	3.7	4.8
PHILIPPINES	6.0	5.5

(Corsetti, G., Pesenti, O. and Roubini, N., 1998 p. 39-43)

The production level is significant for growth of the economy. If the country concentrates to the real estate sector the rate of credits would increase and the risk of non-refundable credits would increase. In addition, the production level would be in decline due to the high rate of investment on real estate. On the other side, the export is related with the production. If the production is in low level would cause to increase the import and decrease the export. As a result, the current account balance would tend into the negative side. Topallı (2006) stated the disruption of investment and the Central Bank trying to retrieve troubled banks in Asia caused the capital outflow and increasing the demand of foreign reserves (p. 68). Capital outflows directly cause to decline the liquidity in the country. The increasing foreign reserves affect the exchange rate and the national currency tends to be depreciated against the foreign currency. In general, the depreciation of the domestic currency encourages the export and hampers the import which ensures current account surplus in the country. As seen in Table 18 the nominal exchange rates were depreciated in all five Asian Countries between the years of 1990 and 1997. Indonesia was the highest depreciated country as approximately %50 depreciation of the domestic currency. However, the high rate of depreciation causes to loss of confidence against the domestic currency by the investors and causes the acceleration of capital outflow.

TABLE 18. NOMINAL EXCHANGE RATES (TO THE US DOLLAR) FOR FIVE ASIAN COUNTRIES (1990 – 1997)

YEARS	1990	1991	1992	1993	1994	1995	1996	1997
KOREA	707.8	733.3	780.7	802.7	803.5	771.3	804.5	951.29
INDONESIA	1843	1950	2030	2087	2161	2249	2342	2909
MALAYSIA	2.70	2.75	2.55	2.57	2.62	2.50	2.52	2.81
PHILIPPINES	24.31	27.48	25.51	27.12	26.42	25.71	26.22	29.47
THAILAND	25.59	25.52	25.40	25.32	25.15	24.91	25.34	31.36

(Corsetti, G., Pesenti, O. and Roubini, N., 1998 p. 39)

The countries applied to the contraction monetary policy before the crisis in 1997. Another aims of the program were the stimulating the saving rates and decreasing the consumption level. However, Korea and Indonesia were not successful to increase the saving rates of GDP. Referencing Table 18, Indonesia saving rates of GDP decreased from %31.75 to %27.98 in 1990 and 1997 respectively.

TABLE 19. SAVING RATES (% of GDP)
FOR FIVE ASIAN COUNTRIES (1990 – 1997)

YEARS	1990	1991	1992	1993	1994	1995	1996	1997
KOREA	35.69	35.74	34.88	34.91	34.60	35.14	33.60	33.06
INDONESIA	31.75	31.10	33.41	28.66	29.52	27.65	27.50	27.98
MALAYSIA	29.07	23.24	30.06	27.70	33.81	34.65	37.81	39.34
PHILIPPINES	17.85	17.76	18.16	17.29	20.32	17.16	19.35	18.77
THAILAND	32.33	34.83	33.73	34.26	33.89	33.25	33.22	32.64

(Corsetti, G., Pesenti, O. and Roubini, N., 1998 p. 39)

The prices of bonds, stocks and land were pioneer in the crisis decreased after the first elevated in the asset market. The non-bank financial intermediaries and firms has borrowed in short term in US dollar and lent to the speculative investors in Thailand. The banks have gone into the same situation and lent it to the institutions which were in high risk investment (Krugman, 1998, p. 25). The banks and financial institutions have sustained the activities under the government guarantee and assumed to get the maximum profit from the projects. The Asian Countries experienced high investment rate with inefficiency used credits. The high rate of short term debt, increasing bank credits and non-refundable credits and inefficiency investment caused the occurrence of the crisis.

Any unexpected economic shock affects the all Southeastern Asia Countries. The reasons of the crisis scheduled in chronological order in 1997. Cieleback (1998) stated Hanbo Steel Company in Korea went in bankruptcy with $6 billion in January. The first company of Thailand came to be unable position to cover its foreign debt at the beginning of February. The Central Bank of Malaysia contracted the loans to the "purchasers of property" towards the end of March. The overnight interest rates increased to %15 in Philippines at the mid-June. The USA pressured on Indonesia to depreciate its domestic currency against the Dollar in July (p. 224). In addition, Thailand devaluated its domestic currency and applied to IMF for financial aid on July.

The Southeastern Asia Crisis was begun from Thailand by devaluating its currency 40% and spread to other countries. The foreign investment in national currency (like bond, stock) was converted to the US dollar in the crisis time. In addition, the investment of resources has shifted from trade goods to non trade goods. As a result the limited supply of real estate prices was increased excessively until the end of government guarantee. The removal of guarantee has engendered bankruptcy of the system (Topallı (2006) p. 59 - 69). There were some differences in the East Asian Countries which had not experienced budget deficit and the inflation was in low level. However, the countries experienced lack of demand and high debt level of firms. The problems were in micro level which triggered the country in macro level problems and crisis (Kansu, 2004, p.123). The foreign investors are sensitive against any shock in invested country. After the crisis, the foreign investors exchange domestic currency to the dollar to protect their investment which causes the liquidity problem. Topallı (2006) emphasized the firms and government had not the strong infrastructure for the high amount capital inflows which caused collapse of the system (p. 60).

There were different perspectives to determine the reasons of Asia Crisis. One of them was the structural factors which triggered the macroeconomic imbalances in South Korea, Indonesia, Malaysia, Philippines, Thailand, Singapore, Hong Kong, China, and Taiwan. These factors were current account deficits, foreign borrowing, growth and inflation rate, savings and investment rates, budget deficits, real exchange rate, foreign reserve amounts, debt and the rate of return, excessive lending by banks, credit extensions, capital inflows and outflows and political instability (Corsetti, G., Pesenti, O. & Roubini, N. 1998a, p. 1).

The second reason was that even though there were any macroeconomic imbalances the pessimistic perspectives of the investors caused panic in the banking sector. And the third reason was the disequilibrium of banks and financial institutions balances. The mismatches of maturity and the currency, non refundable credits, not protected bank's portfolios against risk pushed the crises (Bello, W. & Rosenfeld, S., 1990, p. 73). The mismatch of maturity means that borrowing in short term and lending in long term and the mismatch of currency means that borrowing in foreign currency and lending in national currency. If the national currency has been depreciated then the mismatch of currency would push the bankruptcy of institutions due to the liquidity problem.

The main reason of the crisis was imbalances of private sector. The public financial position was strong and the debt of public sector was in low level in contrast to the crisis of Turkey in 1994 and Russia in 1998. The reason of balance of payment imbalance was not over consumption like the crisis of Mexico in 1994 which was expansion of unsustainable investment (IMF 2002).

Çolak (2002) stated that even though the Southeastern Asia Countries experienced low inflation and high growth rate they were felt into the crisis by virtue of fixed exchange rate regime, the problems of financial and banking sectors, structural disturbances of banks and the firms in banking and financial sectors (p. 159). It can be said that the high growth rate can be ensured by high capital inflows which means the growth rate cannot be evaluated singly by ignoring other factors.

The providing low cost funds for the financial institutions and commercial sector from foreign resources were intended by rapid financial liberalization in the Asian Countries in 1990s. However, if it was analyzed there were structural problems on the banking and financial sector before the Asian Crisis. These problems were lack of surveillance and weak arrangements, low capital adequacy rate, lack of assurance agreement, absence of regulatory institution, wrong projects, credits based on bribery, lack of transparency which caused the increasing of non refundable credits. The governments have guaranteed the liability of banking sector as explicit or implicit to sustain the growth rate and ensured direct subsidy or credits to some firms and industries (Corsetti, G., Pesenti, O. & Roubini, N., 1998, p. 2-3). The guarantees of liability by the governments caused moral hazard problem. If the creditor knows that its credits would be paid either debtor or government who would not need to analyze the risk of debtor. As a result, the creditor would ensure credits to the market without analyzing the risk of debtor. In this case, the creditors would concentrate on their profits which would be ensured from credits by ignoring the risk of non-refundable.

The common reason of Asian Crisis between 1987 and 1995 was that long term investment financed by short term borrowing and this caused the liquidity problem in the countries. The high rates of short term debt against international reserves demonstrate the international liquidity problem which causes the loss of confidence of foreign investors and the risk of financial crisis arises (Kansu, 2004a, p. 149). As a result, the countries should analyze its short-term and long-term liabilities to not fall in any liquidity problem. In addition, the kind of currency should be attached importance while borrowing from foreign resources and lending in the home country.

The Asian Crisis is an example that the IMF has triggered the problems of economies into worse situation by virtue of lack of stable and rationale theory to cover the economical problems. The IMF stabilization programs proposed the contraction policy in Asian countries which caused the reduction of income and as parallel the import decreased. The economical problems of Asian Crisis spread to the neighbor countries due to the Southeast Asian region countries were integrated to each other. The decreasing demand of oil and other goods affected the countries negatively which export the oil and the goods. The crisis was spread instead of being in controlled by virtue of lack of stable and rationale IMF theory. The Southeast Asian crisis caused to decrease the demand of oil and its prices thus the crisis spread to Russian (Kansu, 2004b, p. 178). The declined export caused to fall the current account balance into negative side.

IMF defended that the reason of Southeast Asian crisis was mistaken economic policies implemented by the countries and insisted to sustain the liberalization of capital movements and traditional stabilization policies. However, the situation became in risky position for capital movements to the countries in which the economic structure was not strong, the structural adjustments could not be implemented such as banking and finance sectors (Tobin, J. & Rains, G., 1998, p. 16). The IMF Vice President Stanley Fisher argued that reasons of the crisis were growth of external deficit, long term application of fixed exchange rate system and excessive external debt pressures on the exchange rates. In addition, the investors assumed that the fixed exchange rate regime was the exchange rate guarantee which caused moral hazard problem (Turgut, 2006, p. 8). Even though the IMF has defended itself against the formation of Asian Crisis the institution is still criticized seriously;

- Demir (1999), the IMF has declared the reasons of Asian crisis as the balance of payments deficits, overvalued domestic currency, rising prices of stock and real estate, weakness of banking sector (p. 185- 187). However, these problems were occurred in association with the implemented policies to attract the foreign capitals and rapid capital inflows in the countries.

- The basic feature of IMF approach to crisis was that assuming the freely functioning financial markets would provide efficient resource allocation. However, the theory did not work in the Asia crisis.

- Even though the Asian countries were inspected in every year before the crisis by IMF there has not been any argument about the mistaken policies of Asian countries in contrast IMF acknowledged the implemented policies by the countries (Demir, 1999, p. 185 – 187).

- Demir (1999) The IMF asserted that fixed exchange rate policy was fault after the crisis (p. 186). However, the high interest rate and fixed exchange rate regime were recommended to the countries by IMF to encourage the foreign capital inflows.

- According to Arın (1998), IMF was criticized that the stabilization programs were arranged to rescue the lenders instead of Asian economies (p. 7).

- The IMF proposed high interest rates policy to the countries which faced foreign currency crisis. The policies would be supported by tight fiscal policies. According to the policy money supply was contracted in the banking sector, taxes would be increased and public expenditures would be reduced. The aim of the policy was that controlling depreciation of domestic currency and preventing foreign capital outflow (Demir, 1999, p. 185 – 187). However, the process of depreciation of domestic currency could not be controlled which caused value loss of foreign institutions and accelerated foreign capital outflow.

- Even though East Asian crisis based on the micro level problems the IMF proposed the macro level solutions. The countries was experiencing problems in the firms and in the real and fiscal sectors as micro level the IMF suggested the high interest rate policy which further deepened the problems (Stiglitz, 2002b, p. 133-137).

As a result, IMF defended itself that Asian Countries implemented the mistaken economic policies. However, the policies applied by the countries were suggested by IMF. The IMF had suggested expansionary fiscal policies when it was first established. However, IMF changed its strategy and suggested the tight fiscal policies to the countries. The tight fiscal policies are including money contraction in the market which causes increasing of taxes and decline in public expenditure. In addition, high interest rate and financial liberalization policies were suggested by the intuition to protect the capital outflow and depreciation of domestic currency. The decreasing of money supply in the market and value loss of domestic currency caused the liquidity problem in the banking sector and the countries could not prevent the capital outflow.

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

4.1.3 The Russia Crisis in 1998 and the Effect of IMF Stabilization Programs on the Crisis

The establishment of Russia Federation and that becoming a member of IMF is not based on too many years ago. The Union of Soviet Socialist Republic collapsed after the resignation of president in 25th December 1991. The Russia Federation became a member of IMF in 1st June 1992. Topallı (2006) stated that Russia Federation has enforced many reforms for democratic structure and free market economy. However, the economy of Russia had structural problems which had affected the growth negatively (p. 69). All of the prices, interest rate and exchange rate were released in the economy and prices of the goods were determined in terms of supply and demand in the market in 1992. The Russia Ruble was convertible, private sector had permission to operate in the banking system and foreign investors had permission in the Russia financial market due to financial liberalization. The privatization was increased and the private sector covered 70% of the economy. The custom duty was decreased, quantitative restrictions were removed and liberalization was performed by the end of license application in the external trade (Malkoç, 1998).

Topallı (2006) noted that the savings in the banking accounts were in low level by approximately 10-12% as real in the economy of Russia (p. 73). The reason was that the low inflation policy failed the credibility among people. The bankruptcy of financial institutions decreased the credibility of Russian Banks between the years of 1992-1993 which also caused the capital outflow (Komulainen 1999, p. 9). The collapse of Soviet Union caused the loss of confidence and political instability. Russian Federation undertook the high debt amount of Soviet Union. Inflation rate reached to %874.6 in 1993. The Soviet Era was 108.6 billion dollars while the Federation debt was 11.3 billion dollar in 1994. The ratio of total government debt to GDP reached to %74.1 at the same year. The Federation applied to a stabilization program due to huge amount of external debt and high rates of inflation along with political instability in 1994.

Wiel (2013) stated the Stabilization Program concentrated on decreasing high level inflation and external debt (p.1). The other aims of the program were;

- Bringing out government bonds based on Ruble to cover budget deficit
- Financial liberalization
- Applying nominal peg exchange rate regime
- Restriction of money supply
- Restriction credits for private sector
- Application of tight monetary policy (Pinto & Ulatov, 2010, p. 5 – 6).

After the application of the program the Soviet Union debt decreased from $108.6 billion to $91.4 billion in 1994 and 1997 respectively as reported in Table 20. However, Russian Federation debt was in the continuous upward trend. The rate of total government debt to GDP decreased half-and-half at the same years. It can be mentioned that the Federation went in debt to cover the union debt. Even though the total government debt went in higher debt amount the rate of total debt to GDP was in decreasing-prone between the years of 1994 and 1997.

TABLE 20. EXTERNAL DEBT IN RUSSIA (1994 – 1998)
(USD BILLIONS)

YEARS	1994	1995	1996	1997	July 1998	December 1998
SOVIET ERA DEBT	108.6	103.0	100.8	91.4	91.8	93.6
NEW RUSSIA DEBT	11.3	17.4	24.2	32.1	51.2	51.4
TOTAL GOVERNMENT DEBT	127.5	128	143.3	153.6	176.4	164.3
AS % of GDP	74.1	37.5	36.2	35.7	42.5	126.4

(Süppel, 2003, p. 16).

In an economy, high inflation affects production in negative side. The cost of input products and other costs increase which causes to tend the firm run away from production due to high production cost. In addition, if GDP and real wages decrease at the same time the purchasing power is decreasing. Thus, Russia experienced the similar situation in 1990s. The Asian Crisis in 1997 affected the economy of Russia in negative side and that energy prices in Russia decreased which caused to decrease income of the country. The stabilization program answered positively on inflation rates. As seen in Table 21 the rates decreased from %874.6 to %14.8 in 1993 and in 1997 respectively. However, on the other side the interest rates could not be under controlled and reached to %69.3 in 1996. Exchange rates were aimed to be appreciated to attract the foreign investments. However, Ruble lost its value at high levels and depreciated from %0.99 to %5.78 in 1993 and in 1997 respectively. While the policy on inflation rates was successful the interest rate and exchange rates could not be successful.

TABLE 21. SOME ECONOMICAL INDICATORS IN RUSSIA FEDERATION (1993 – 1999)

YEARS	INFLATION RATES (%)	INTEREST RATES (%)	EXCHANGE RATES (Per US Dollar)
1993	874.6	NA	0.99
1994	307.6	NA	2.19
1995	197.5	72.3	4.56
1996	47.7	69.3	5.12
1997	14.8	14.8	5.78
1998	27.7	19.6	9.71
1999	85.7	-19.0	24.62

(http://data.worldbank.org/indicator, 03.06.2014)

Another subject of the stabilization program was capital movements towards into the country. The high and rising capital inflows covered the government budget deficits and increased the real exchange rates. The appreciation of currency affected negatively competitiveness of manufacturers, investment and current account deficit. The financing of public deficits and external debts have depended on the capital inflows. The devaluation of ruble devastated the government financial position and the banking system due to the exchange rate regime. There was a maturity mismatches and 80% of the government bonds maturity consisted less than one year in October 1997. The banking sector was in huge foreign currency deficit as over 40 billion dollars while the aggregate capital of Russian Banks was 36 billion dollars at the same month. Additionally the maturity of foreign liabilities of banks was less than one year with amount of 11.8 billion dollars while the assets were about 6 billion dollars. And also the banks intended lending actions to the public sector (Süppel, 2003, p. 24- 28).

The Russian Federation has applied the contraction monetary policy. A tool of the policy was increasing the savings. As seen in Table 22 the saving rates of GDP was decreasing year-by-year. While the rate was %30 in 1994 decreased to %22 in 1997. Even though the depreciation of the domestic currency the high interest rates in 1995 and in 1996 encouraged the foreign direct investment and that rose from %0.2 to %1.2 in 1994 and in 1997.

TABLE 22. SAVING AND FOREIGN DIRECT INVESTMENT RATES IN RUSSIA (1990 – 1999)

YEARS	SAVING RATES (% of GDP)	FDI RATES (% of GDP)	GDP GROWTH RATE (%)
1994	30	0.2	-12.6
1995	28	0.5	-4.1
1996	27	0.7	-3.6
1997	22	1.2	1.4
1998	17	1.0	-5.3
1999	28	1.7	6.4

(http://data.worldbank.org/indicator, 03.06.2014)

The portfolio investment and the net international reserves were in negative side between the years of 1994 and 1995. According to Table 23 the net international reserves and portfolio investment actualized as -9.3 and -2.4 billion dollars respectively. Chiodo, J. A. and Owyang, M. T. (2002) stated that the government performed negotiations to cover debt of the Soviet Union by acquiring confidence of the foreign investors against the country in 1996. The Russian Economy was stable in a way in 1997 (p. 10).

The loss of domestic currency manifested on the current account balance. The current account was in surplus as 8.4 billion dollars in 1994 which decreased to 2.1 billion dollars in 1997 as reported in Table 23. The net direct and portfolio investment tended to rise after the year of 1996. The direct investment rose from 1.5 to 1.7 billion dollars and the portfolio investment rose from -2.4 to 18.5 billion dollars in 1995 and in 1997 respectively. However, net international reserves went in negative side and decreased from 0.1 billion dollars to -0.2 billion dollars. Consequently, the country experienced high level of capital outflow.

After the financial liberalization in 1991 many banks were established in Russia. These banks had an opportunity to operate with high profit margins through high yielding currency transactions. There was a relationship between the government and some big firms called as "crony capitalism" which harmed principle of transparency in the banking sector and prevented the government to enclose its economic problems.

TABLE 23. SOME ECONOMIC INDICATORS IN RUSSIA (1994 - 1998) (USD BILLIONS)

YEARS	1994	1995	1996	1997	1998/1	1998/2
CURRENT ACCOUNT	8.4	7.5	11.8	2.1	-5.7	6.4
NET DIRECT INVESTMENT	0.4	1.5	1.7	1.7	0.3	1.2
NET PORTFOLIO INVESTMENT	0.0	-2.4	4.4	18.5	8.1	0.5
NET INTERNATIONAL RESERVES	0.1	-9.3	1.4	-2.0	1.7	3.6
AS % OF FOREIGN EXCHANGE RESERVES	50.4	86.3	90.8	79.0	86.4	

(Süppel, 2003, p. 26).

Another problem was that the banking sector could not be able to cover sustainable economic development as financially (Malkoç, 1998, p. 35). In addition, the risk analysis of credits is very important issue in the banking sector. The management, credit analysis, following the credit, collecting deposit skills and information were not effective in the banking sector which brought the banks in unhealthy financial position. Malkoç (1998), the government tended to short term borrowing by the reasons of;

- Increased deficit on the current account balance, external debt, principal and interest rate payments
- Decreased tax income
- The problems of banking sector

- Lack of institutional and legal infrastructure for free market economy
- The public deficit
- Outstanding wages
- Delayed reforms of social security (p. 51)

The amount of short term foreign debt of a country against its export or GDP is high means that there is a liquidity risk in that country and the country is crisis-prone country. The weakness was generally seen on the crises. Chiodo and Owyang (2002), Russian foreign liability increased from 7% in 1994 to 17% in 1997 after the borrowing from foreign markets (p. 9).

The currency experienced collapse as 20% against US dollar in October 1994 which was called as “Black Tuesday”. The Russian Economy experienced boom on the value of stocks and bonds by participating of the foreign investors in the asset market between the years of 1995 and 1997 and their confidence on the stabilization program. The stabilization program intended to strengthen fiscal structure of the country such as reduction of government deficit, increasing the revenues, and decreasing the cost of state activities. The collection of tax problems was raised in the economy which was complicated, infertile and incoherent. Low income of public sector and weakness of controlling mechanism triggered the country into corruption (Süppel, 2003, p. 11-14).

Malkoç (1998) stated Russian government was provided 21 billion dollars financial assistance in 19th July 1998. The government applied to the decreasing inflation and contraction monetary policy and continued to keep the Ruble worth, did not devaluate domestic currency. In 17th August Russian Central Bank;

- Suspended the payables of private institutions up to 90 days term
- Prohibited the foreign investors transactions in the short term foreign market
- Suspended the payment of government bonds

to protect rapidly dissolving reserves and intercept the tumble in the stock market. As a result, Ruble devaluated 33%, the trading volume decreased in the stock market and the foreign capital out flowed which caused the reduction of reserves. In 3rd September the government explained that Ruble was let in free floating (p. 50-53).

The Ruble experienced high level of loss value against dollar from 0.99 to 9.7 in 1993 and in 1998 respectively. Even after the crisis in 1998 the appreciation continued rapidly and reached to 24.62 levels in 1999. Even though GDP experienced positive growth as %1.4 in 1997 turned again in negative side as %5.3 at the crisis year. In addition, the rate of government debt to GDP aroused from %35.7 to %126.4 between the years of 1997 and 1998. Inflation rates reached to %27.7 and %85.7 in 1998 and in 1999. Even though interest rates rose to %19.6 in 1998 the profitability of the interest turned in negative side against the inflation and actualized as %-19 in 1999. Saving rates, foreign direct investments and current account balances experienced declining at the crisis time.

The loss of confidence in the financial market is a significance factor for the crisis. Topallı (2006), the international reserves of the country and solvency of treasury were diminished by its weak position of financial and balance of payment. The reasons of financial problems were the disorders of tax system, unfavorable tax collection, and tax evasion, mistaken sectors for the budget funds and delayed and slow structural adjustments and reforms (p. 71). Even though the structural reforms were applied the country has been unsuccessful for the stabilization and balance in the economy. Malkoç (1998) stated the problems as;

- Decreased GDP and production
- Continuous and high inflation
- Decreased financial income
- Fault exchange rate policies
- The problems of external financial help
- Privatization
- Fault government spending

- Decreased real wages
- Decreased savings
- Decreased energy prices (p. 30).

The reasons of high budget deficits were problems of tax collection by virtue of common informal economy, the structure of social security system and high military spending due to huge army. The government intended to cover the debt by short term borrowing. The situation caused the expectation that the government could not be able to enclose its debt (Topallı, 2006, p. 72). Negative expectations causes the loss of confidence against the country and the speculative actions emerge in the market. In addition to non-confidence, short term borrowing would cause the liquidity problem in the country.

After the privatization process Russian enterprises were handled by the workers and especially executives and many of the executives adopted Soviet Management which was not effective in the market economy. Another problem was the lack of capital investment. The main problems of the economic growth were insufficient capital investment, undesired to sell the enterprises and lack of information for the foreign investors. The rate of M2 of GDP was approximately 12-17% (Komulainen, 1999, p. 8-10). The rate of M2 of GDP shows the currency in circulation in the market and the low rate means that liquidity is in low level in the country.

The Southeast Asian Crisis triggered Russian Ruble into speculative position in 1997. The interest rates also were high in US and Germany in which the investors acted as prudently and the pressure on the government was increased. The increased interest rates raised Russian income problem and its interest owed quickly. The investors created pressure on the exchange rate by virtue of fear that the government would devaluate the currency to cover its debt (Chiodo, J. A. & Owyang, M. T., 2002, p. 9-15). The investors were disturbed by;

- Outstanding wages in 1998
- The new government was unsuccessful for the structural reforms

- Privatization problems
- IMF postponed the financial assistance for reforms

The country also was dragged into the crisis by decreased energy prices which were not affected by political and structural changes. The structural problems were weakness of public system, the lack reforms in the public system, increased consumption expenditure against low budget income and budget deficits (Babic, A. & Zigman, A., 2001, p. 15). The reduction of government income would cause the increasing of money supply (Chiodo, J. A. & Owyang, M. T., 2002, p. 15-16). The government would tend to coin currency to cover its debt. The high rate of money supply causes to decrease the value of domestic currency. Komulainen (1999) emphasized that the money market was collapsed in 1998. The main reason of the crisis was longstanding budget deficit (p. 18). The insolvency of budget deficit brought the treasury in unhealthy financial position. The reasons of expectations about the devaluation were the Asian Crisis experience and political instability.

The Russian economy was affected by the external shocks such as foreign investors' panic risk and decreasing oil prices due to dependence of capital inflows. However, the exchange rate system just could be broken out by the government fault and a crisis in the banking sector. The exchange rate system was devastated by the external shocks at the end of 1997 (Süppel, 2003, p. 31).

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

4.1.4 The Argentina Crisis in 2001 and the Effect of IMF Stabilization Programs on the Crisis

The economy of Argentina should be analyzed from the year of 1930 due to better clarifying the reasons of the crisis in 2001. The country has had natural wealth which gave advantages for economic developments. Önder (2002) emphasized that sources of the underground and aboveground, especially oil sources which brought economical development before 1930s (p. 1). The country had concentrated on the revenue of export. The dependence of the economy to export revenues bought sensitive of the economical structure. Önder (2002) stated that the sector of industrialization was financed by foreign resources and the economy was depended on the external trade and foreign resources inflows (p. 1). The dependence of external sources means that the country has fragile structure against external shocks. Thus, the Great Depression in 1929 was a major blow for the economy of Argentina by virtue of weakness economical structure.

The Period of Peron (1946 – 1955) was a significant period for the economy of Argentina. The Great Depression demonstrated that the dependence of foreign sources policy should be diminished to be protected from the external shocks. Alexander (1969) stated the dependence of the external sources was aimed to be eliminated in the period. The industrialization sector was operated by the government. In addition, the policy disregarded the agricultural sector. However, the policy was not successful and the economy came to be opened position for the foreign capital in 1950 (p. 13)

Önder (2002), after the overthrow of the ruling in 1955 the political environment was divided two opposite political approaches that one defended and the other one criticized the Peron policies (p. 1). The complicated political environment was dominated in the country. Lewis (1990), the inflation rate reached to 100% in 1958 and “New Peso” was passed towards at the end of 1960s (p. 32). The complicated political environment has been ended by being selected the government defended the policy of Peron in 1973. Even though the government policy was elimination of external dependence the country could not be able to protect its economy and the Petroleum Crisis affected the inflation, growth of economy, etc. negatively at the same year. The Argentina Economy came in insolvency economical position.

The Table 24 emphasizes the inflation rate and public deficit between the years of 1975 and 1992 in Argentina. If Table 24 is analyzed the inflation rate increased from %160 to %373.7 and public deficit rose from 2.6 billion dollars to 14 billion dollars in 1979 and 1983 respectively which clearly indicates the country faced with high inflation rate and high public deficit. The high inflation and public deficit problem were in huge amount by the beginning years of 1980s. While the deficit could be decreased to 5.5 billion dollars the inflation could not be controlled and reached to huge levels as %688 in 1984.

As pointed out above the Argentina had experienced inflows of foreign resources and which applied the policy of financial liberalization after the 1970s. As seen in Table 24 when coming to the years of 1980, the public deficit came to chronic deficit position. The problem brought the need of international agreement which was signed with IMF under the name of Austral Plan in 1985. The application of financial liberalization policy has been begun formally by the plan. Önder (2002) stated IMF lay down as conditions in Austral Plan which were;

- The prices and wages had to be in control
- The public deficit had to be covered
- The custom rate would be declined
- Encouraging the export
- Encouraging the foreign investment (p. 1)

Önder (2002), the government could not control the prices and wages and also the capital inflows were in low level (p. 1). Following the applying of the plan was failed and Sachs (1990) which has been lost its popularity in 1987 (p. 113). According to the Table 24 the inflation rate reached to %385.4 and the public deficit %8.1 when the plan was applied in 1985. In the first year, the program resulted in positive developments; the inflation rate was declined to %81.9 and the deficit 4.1 billion dollars in 1986. However, the success of the plan could not be sustained and the inflation rate and deficit went into hard position as %174.8 and 6.5 billion dollars in 1987 respectively. The economy faced with hyperinflation and high public deficit as %4923.6 and 21.8 billion dollars in 1989 respectively. The government decided fixing domestic currency to dollar.

TABLE 24. INFLATION RATE AND PUBLIC DEFICIT IN ARGENTINA (1975 – 1991)

YEARS	INFLATION RATE (%)	PUBLIC DEFICIT (BILLION DOLLARS)
1975	100	10.6
1976	550	7.2
1977	169.2	2.8
1978	171	3.2
1979	160	2.6
1980	101	3.6
1981	104	8.5
1982	165	7.8
1983	373.7	14
1984	688	5.5
1985	385.4	8.1
1986	81.9	4.1
1987	174.8	6.5
1988	387.7	7
1989	4923.6	21.8
1990	1343.9	3.3
1991	84	1.8

(Önder, 2002, p.1)

Hanke (2001) emphasized the regime eliminated Central Bank and domestic currency only could be printed for equivalent of the foreign currency (p. 1). The aim was to limit coining money and control the money supply which also would ensure controlling the increasing of inflation. Hanke (2001), however, the high foreign reserves are required to be successful of the regime. If the country has not high foreign reserves then the country would have current account surplus or attract foreign portfolio by applying high real interest to control the overvalued domestic currency (p. 2). The country had to apply the high real interest policy due to having no high international reserves which was 6 billion dollars in 1991. Tüfekçi (2008) stated that the Argentinean enforced the high real interest policy due to having current account deficit (p. 73).

Tüfekçi (2008) emphasized that Argentinean Economy tended to financial instruments and monetary indicators became more significant such as interest, inflation and exchange rate in 1990s (p. 71). Hanke (2001), the country applied fixed exchange rate policy as the other developing countries by the economic program in 1991. The regime was called as “Convertibility Law” (Currency Board) and the applying reason of regime was to eliminate the hyperinflation. In this regime 1 Peso equalized to 1 US dollar (p. 1). The main objective of plan was that possessing strong domestic currency whereby economical and financial stabilization. The stabilization would be provided by the fixed exchange regime as synchronizing the domestic currency exactly to the US dollar (Üçgöz, 2005, p. 73-74).

The domestic currency started to be appreciation due to the fixed exchange rate regime which would create a competition problem in external trade. The fiscal balance had to be in control in order to limit the expansion of domestic credit by the convertibility plan. (Üçgöz, 2005, p. 73-74). Table 25 demonstrates the exchange rates and the decreasing value of domestic currency between the years of 1991 and 2002. Even though the Convertibility Regime applied in 1991 - even in too small compared - the equalization of currency could not be provided exactly until the year of 1995. The regime could be completed just for one and then the regime broken in 1996. If the real exchange rate index assumes 100 in 1990 it is clear that the rate was rising continuously from %104.5 to %163.7 in 1991 and 1996 respectively which caused decreasing value of the domestic currency.

Hacıhasanoğlu (2005), the program contained the reforms which were; monetary, financial, public sector, social security and trade (p. 53). Social security reform may be called as privatization policy due to the system was privatized after the plan. Financial and trade reforms were depended on the policy of liberalization. The monetary reform aimed to apply peg exchange rate regime to control the high inflation rates. All these reforms concentrated on covering the high public deficit.

The monetary base based on the international reserves of Central Bank. The Central Bank could only apply the policy to protect the rate and work as currency board. The Central Bank was eliminated to finance the public deficits, the foreign currency was lead to use in market transactions and the liquidity assets were let to keep in foreign currency by the law (Üçgöz, 2005, p. 73-74). The deficits were tended to be covered by the financial and trade liberalization policy. The plan aimed to increase the foreign reserves by foreign investments under the name of financial liberalization policy and the export under the name of trade liberalization. Kaya (2001) stated the releasing policies were implemented in external trade regime and price and amount restrictions has been removed on export and import which especially was beneficial in agricultural sector in 1992 (p. 5-7).

Thus, as seen in Table 25 the international reserves tended to rise and increased from 6 billion dollars to 18.1 billion dollars in 1991 and 1996 respectively. The policy of decreasing inflation was successful and the inflation rate declined from %84 to %0.1 in 1991 and 1996 respectively. Even the international reserves begun to decline in 2000 the inflation rate was going in negative side %1.5 in 2001. Tüfekçi (2008) stated that Mexican Crisis pushed up the interest rates from 3% in 1994 to 25% in 2001 (p. 73).

The market forces were let to operate the system by removing the price controlling and other non-price limitations in the market. The government customized 90% of public enterprises between 1991 and 1994 and most of its revenues were tended to cover the public deficit.

TABLE 25. SOME OTHER ECONOMIC INDICATORS IN ARGENTINA (1991 – 2002)

YEARS	INFLATION (%)	NOMINAL EXCHANGE RATE (PESO/DOLLAR)	AVERAGE REAL EXCHANGE RATE INDEX (1990=100)	INTERNATIONAL RESERVES (BILLION DOLLARS)
1991	84	0.9985	104.5	6
1992	17.5	0.9905	165.5	10
1993	7.4	0.9985	178.0	13.9
1994	3.9	0.9995	169.5	14.3
1995	1.6	1.0000	163.2	14.3
1996	0.1	0.9995	163.7	18.1
1997	0.3	0.9995	176.3	22.3
1998	0.7	0.9995	171.2	24.8
1999	-1.8	0.9995	178.2	26.3
2000	-0.7	0.9995	185.6	25.2
2001	-1.5	0.9995	185.7	14.6
2002	41	3.3200	72.0	10.5

(Hacıhasanoğlu, 2005, p. 143, IMF, 2003)

The private pension system has been put into practice, the incentives and subsidies have been reduced in the public sector. The rate of VAT, consumption and income tax were increased consequently provided improvement on the public sector balance (Kaya, 2001, p. 5-7). Tüfekçi (2008) touched on the results of public sector reform which were;

- The subsidies were declined or removed for the public enterprises
- Provided recovery for institutions efficiency and its services conditionality
- Resources were allocated for the budget deficit before the tax reform (p. 74)

The reforms were successful in the first years. Feldstein (2002), however, the budget deficit increased in later years and the deficit was intended to cover by increasing taxes or borrowing which disturbed the public financial discipline (p. 14). In addition, the privatization policy provided resource for the public budget. DTM (2002) stated the Argentina economy acquired 15 billion dollars foreign capital inflow through the privatizations in the first two years of the program (p. 1-5). However, the privatization resources were in the discontinued structure. Feldstein (2002), the financial problem was tried to cover by borrowing with high interest rates (p. 14). DTM (2002), the policy increased the aggregate saving volume and on the other side caused appreciation of real exchange rate. The Mexico crisis and rising interests in US caused the direction of the short term capital movements in negative position (p. 1-5). The privatization policy could be seen as temporary solution for the liquidity or deficit problems. A public institution is privatized and the country has high revenue thanks to the policy. However, the revenue is ensured for once and the country would give up the permanent income. The income of future generations would be consumed in that time.

In evidence of the statement that the trade balance was in positive side by 8.175 dollars and the export was almost triple of import in 1990. The trade balance reached to 5.652 dollars in negative side by import exceeding export with %8.42 and %6.2 respectively in 1994. Feldstein (2002), the country has been in continuously deficit of current account balance after trade and financial liberalization. The covering of current account deficit went in hard position due to;

- Decreasing revenues of privatization which began in 1991
- Economic recession in 1998
- Increasing external debt
- Paid high interest on debts since 1980
- Excessive borrowing (p.19)

The trade balance was in negative side from the beginning of 1992 until 1999. The external debt was continuously increasing from 62.3 to 146.3 billion dollars in

1991 and 2000 respectively. The IMF has suggested the privatization policy and Social Security System was in significant position for the country. Yeldan (2005) stated that the Social Security System has been privatized by the intense pressure of IMF which caused the imbalances of public finance. The IMF directed and supervised the transfer consumption from public resources to the System. The cost of the system rose from 12.4 billion dollars to 23.4 billion dollars in 1993 and 2001 respectively which caused the declining of public premium revenues (p. 1).

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TABLE 26. THE BALANCE OF TRADE AND EXTERNAL DEBT IN ARGENTINA (1990 – 2001)

YEARS	IMPORT/GDP (%)	EXPORT/GDP (%)	BALANCE OF TRADE (THOUSANDS OF DOLLAR)	EXTERNAL DEBT (BILLION DOLLARS)
1990	5.32	15.65	8.157	N.A
1991	4.44	6.32	3.575	62.3
1992	6.61	5.47	-2.583	62.7
1993	7.13	5.61	-3.603	72.2
1994	8.42	6.22	-5.652	85.7
1995	7.83	8.20	962	98.6
1996	8.77	8.83	188	109.8
1997	10.40	9.03	-4.019	124.9
1998	10.50	8.84	-4.970	141.4
1999	9.01	8.23	-2.200	144.5
2000	8.82	9.24	1.193	146.3
2001	7.56	9.88	6.223	140.3

(Tüfekçi, 2008, p. 67)

As seen in Table 29 the external public debt was 52.739 million dollars which consisted of %27.8 of GDP in 1991. After the convertibility plan, even though the external debt was increasing continuously the percentage of the debt against GDP was floating slightly until 1998. After year of 1998 the external debt reached to 85.657 million dollars as the rate %30.05 of GDP and internal debt %20.85 of GDP in 2000. The country dropped into huge aggregate debt as %50.9 of GDP in 2000 which meant that the life standard lowered half and half. Following the high debt, the interest payment increased from 3.984 million dollars to 11.507 million dollars in 1992 and in 2000 respectively.

TABLE 29. THE PUBLIC DEBTS IN ARGENTINA (MILLION DOLLARS) (1991 – 2001)

YEAR	EXTERNAL DEBT	AGGREGATE DEBT STOCK	EXTERNAL/ GDP (%)	AGGREGATE DEBT STOCK /GDP (%)
1991	52.739	66.015,60	27.80	34.80
1992	50.678	70.237,92	22.15	30.70
1993	53.606	72.370,22	22.67	30.60
1994	61.268	86.757,28	23.80	33.70
1995	67.192	94.697,74	26.04	36.70
1996	74.113	106.410,65	27.23	39.10
1997	74.912	110.408,22	25.58	37.70
1998	83.111	122.270,14	27.80	40.90
1999	85.362	134.832,24	30.14	47.60
2000	85.657	145.087,91	30.05	50.90
2001	99.955	167.129,53	37.20	62.20

(Tüfekçi, 2008, p. 57).

Tüfekçi (2008) defended that the overvalued Peso also increased the consumption excessively which caused increasing of the import and current account deficit. The country could not create resource to finance its external debt (p. 19). IMF suspended the financial assistance due to unfulfilled criteria. As seen in Table 30 the IMF has never provided the approved amount. Especially, the agreement in 1998 is on significant position that the approved amount was provided any amount. The second important agreement was signed in March 2000. Even though the approved amount was 10.85 million SDR the due amount was remained on 3.881 million SDR by virtue of unfulfilled criteria. The interrupted financial assistance triggered the country in trouble economic position.

TABLE 30. THE LAST AGREEMENTS OF ARGENTINA WITH IMF (MILLION SDR)

THE DATE OF AGREEMENT	APPROVED AMOUNT	DUE AMOUNT
APRIL 1996	720	613
FEBRUARY 1998	2.08	0
MARCH 2000	10.85	3.881
JANUARY 2001	6.087	5.875

(Evirgen, 2004, p. 1)

The growth of the economy in Argentina had fluctuation structure between the years of 1990 and 1998 as reported in Table 31. The country had 2.2% growth rate in negative side in 1990. After applying the peg exchange rate regime, the rate turned in positive side as 10.5% in 1991. The rate went in positive side until the year of 1994. However, the economy of country had still affected by any external shock and the Mexican Crisis begot the economy turned in negative side as 2.85% in 1995. The country went in hard economic position in 1999. DTM (2002), the foreign investors started to worry about their receivables in 1999. The country risk position increased against the other rising markets until 2001. The IMF interfered to the country and required to use all resources for debt payment to renew the confidence of foreign capital. While the economy was going into worse situation even though the IMF officials predicted that the fixed exchange rate regime could not be maintained in Argentine they did not provide any sustainable policy to Argentina. The IMF officials sustained to provide stabilization program to Argentina and the country triggered into the crisis. The sustaining of currency board system affected the export of Argentina negatively which caused the rising of external debt and the bankruptcy of economy (p. 1-5).

The account withdrawn caused the decreasing 18% in the account of banking system in 5 months which was experienced due to Tequila (Mexico) crisis in 1995. Consequently, the Central Bank was given broad authority about rediscount to financial institutions and restructuring the troubled banks in exceptional circumstances. Another banking reform was to reduce the number of banks (Hacıhasanoğlu, 2005, p. 57-58). The Peso performed a sharp depreciation and the banking sector went in crisis. The economy shrank 20% from 1998 to 2002 (IMF, 2003).

TABLE 31. SOME OTHER ECONOMIC INDICATORS
IN ARGENTINA (1990 – 2001)

YEARS	CA BALANCE (BILLION DOLLARS)	GROWTH RATE (%)	INTEREST RATES (%)	NET INTEREST PAYMENT (MILLION DOLLARS)
1990	NA	-2.2	NA	NA
1991	-0.4	10.5	NA	NA
1992	-6.5	9.6	NA	3.984,39
1993	8.0	5.7	NA	3.412,84
1994	-11.0	5.84	7.0	4.038,21
1995	-5.2	-2.85	14.2	4.782,40
1996	-6.8	5.53	10.6	5.588,00
1997	-12.2	8.11	9.8	6.824,87
1998	-14.5	3.85	12.6	7.772,82
1999	-11.9	-3.40	13.1	9.591,12
2000	-8.8	-0.49	9.9	11.507,72
2001	-4.4	-4.40	29.1	13.088,21
2002	6.6	-11.0	16.2	NA

(Hacıhasanoğlu, 2005, p. 61, http://data.worldbank.org/indicator, 04.06.2014)

Kaya (2001), the efficiency of economy was increased by the privatization revenue but the hidden unemployment emerged by lying off 164.000 people in the public sector (p. 5-7). Table 32 shows that unemployment rate has been increasing continuously since 1990. The rate reached to 16% for two years in 1995 and 1996 which was the highest rate in 5 years. Even though the unemployment was seemed to be decreased after 1996, the employment rate also decreased from 2.07% to 1.75 % in 1996 and 1997 respectively. Table 32 also demonstrates the growth of aggregate population, labor and employment levels. Even though the population increased approximately 0.5 million individuals in every year the unemployment rate rose at high levels from %9.2 to %14.59 in 1990 and in 2000 respectively. Unemployment rate could not be controlled and rose 17.97% in 2001. On the other side, IMF intercepted the payment due to the unfulfilled criteria. Hacıhasanoğlu (2005), Argentina announced that could not be able to pay the international liabilities at the end of December. The convertibility regime was left in January 2002 which caused the depreciation of domestic currency and banking sector crisis (p. 71-72).

TABLE 32. LABOR FORCE MARKET IN ARGENTINA
(MILLION) (1990 – 2001)

YEARS	AGGREGATE POPULATION	LABOR	EMPLOYMENT	UNEMPT.	UNEMPT RATE
1990	32.581	12.09	10.98	1.11	%9.2
1991	33.038	11.08	10.38	0.7	%6.32
1992	33.495	11.46	10.63	0.83	%7.24
1993	33.948	11.74	10.68	1.07	%9.11
1994	34.396	11.92	10.52	1.5	%12.58
1995	34.835	12.31	10.30	2	%16.25
1996	35.266	12.53	10.45	2.07	%16.52
1997	35.689	12.97	11.23	1.75	%13.49
1998	36.102	13.08	11.50	1.58	%12.08
1999	36.505	13.46	11.64	1.81	%13.45
2000	36.896	13.78	11.76	2.01	%14.59
2001	37.274	13.91	11.40	2.5	%17.97

(Tüfekçi, 2008, p. 62)

Argentinean lost out its accessibility on a large scale in 2000, experienced intensive capital outflow and the banking system went in trouble position in 2001. Üçgöz (2005) stated that the Argentina was the biggest booming market borrower at the end of 2000. The country could make transaction in the market through rationale debt management (p. 75-76). Hacıhasanoğlu (2005), while the capital inflows were increasing in other region countries after 1999 (p. 71-72), the Argentina experienced the most capital outflows as in 2000 and 2001. Table 33 demonstrates that the capital inflows decreased from 28.588 million dollars to 6.157 million dollars in 1999 and 2001 respectively.

TABLE 33. THE FOREIGN CAPITAL INFLOWS IN ARGENTINA (1998 – 2001)

YEARS	1998	1999	2000	2001
FOREIGN CAPITAL INFLOWS (MILLION DOLLARS)	13.969	28.588	12.328	6.157

(www.ekonomistim.com, 01.04.2014)

The reason of the collapse of convertibility program was composition of fixed exchange rate and huge budget deficit which increased the public deficit rapidly. The Argentinean forfeited access to the international credit markets. Another aspect was that there has been an occurred real imbalance on the exchange rate by devaluation of the country's trade partner's currencies against the Argentinean fixed exchange rate regime. The situation firstly affected external trade then investment negatively and the country drifted into economic recession and devaluation (Hacıhasanoğlu, 2005, p. 73). Calvo, A. G., Izquierdo, A. and Talvi, E. (2002) agreed with these aspects and supplemented that the imbalances of real exchange rate affected the competition negatively besides the capital inflows were ceased suddenly. Perry, G. and Serven, L. (2003) defended that Argentinean Crisis basic reasons were;

- The economic contraction due to result of deflationary adjustments to compete against the external shocks in the fixed exchange rate (Currency Board System) regime
- High public deficits and borrowing in foreign currency against overvalued domestic currency and supplying to the market with high interest rates
- Could not be provided the necessary flexibility in the labor market
- The ever-growing current account deficits

- The Mexican crisis in 1994 and The Asian crisis in 1998
- Continuous strengthening of the US dollar
- The weakness of banking sector

Tüfekçi (2008) stated that the most important reason of crisis was the weakness of programs against the external shocks (p. 76). The negative effectiveness of Mexico and Asian Crises proved that the country was still in fragile and weakness structure in spite of the suggested stabilization programs by IMF. The two main reasons of crisis were overvalued exchange rate and huge external debt. The overvalued exchange rate decreased export, increased import and disrupted the external trade balance. The country needed borrowing to pay the interest on its debt. Feldstein (2002) defended the country firstly felt into default and then had to devaluate its currency, Peso (p. 15). Another problem could be the budget discipline could not be provided permanently which means Argentinean chronic budget problem. Hacıhasanoğlu (2005), in addition, the financial growth rate was higher than the production growth (, p. 72-77).

The Russian crisis also affected the economy of Argentina negatively. Most of the countries changed their exchange rate regime as floating exchange rate regime in the term of crises. However, the Argentina's solid economic structure could not adopt the new improvements due to the currency board regime (DTM, 2002, p. 1-5). If the Argentina relinquished the Convertibility Plan previously its economy would be in better situation. There was a pressure on the industrialization sector which caused the decreasing of nominal and real wages. The Argentina insisted to sustain the plan however the Fund had responsibility to discourage applying the program or to provide policies which would be success for the efforts of stabilization and reforms (Üçgöz, 2005, p. 75).

Tüfekçi (2008) stated that the massive capital movements became the decisive factor of economy by financial liberalization in 1990 in Argentina (p. 68). In fact, the country has already applied foreign resources umpteen times since 1930s. The country had no policy which would solve the fragile economic structure. In addition, the high rate ratios and interest rates dragged the country into a debt spiral which could not be resolved. The agricultural resources could be an advantage and any other policies could be applied to protect the country against the external shocks. If care is taken IMF suggested the tight monetary policy to Argentina. Actually, the country needed the policy which would concentrate on the fragile economic structure. The natural resources were in significant position for the country. The important amount of revenue was provided by export which directly gave the economy dependence to the foreign sources. The IMF maybe could analyze the advantages and disadvantages of the country and then suggest the policies country-specified.

4.1.5 The Turkey Crises in April 1994, November 2000 and February 2001 and the Effect of IMF Stabilization Programs on the Crises

Turkey became a member of IMF on 11th March 1947 and the first agreement was signed on 1st January 1961. The country had experienced to sign 19 agreements with IMF until now. The economy of Turkey should be analyzed since the establishment of Turkey Republic to reveal the effect of IMF stabilization programs on the crises. It should be cleared structure of the economy before interpreting the reasons of the crises.

In contrast, The Ottoman State had not improvement in industrial sector which was successful in agriculture and trade sector in the 19th century. However, the state had high external debt. In addition, the political and economical instability was dominated which caused to ended the industrial sector at the end of the century (http://metalworkers.tripod.com). The country had in mess and the Liberation War begun on 19th May 1919. The Liberation War had just ended and the economy of Turkey had debt burden which was heritage by Ottoman State in 1923. After the establishment of Turkey Republic which faced with an external shock which was Great Depression in 1929. The government decided to apply Industry Plan and the First Five Year Industry Plan was implemented in 1934. The policy contained the establishment of industrial enterprises and expropriation of large firms. The Second Five Year Industry Plan was prepared due to successful of the first plan. However, the II World War obstructed applying the plan in 1939. Even though the country did not crusade the war the most of revenue flowed to the army and the production level was decreased due to most of male population joined with army in 1940s. Gündüz (2012) stated that the taxes were increased, inflation and prices increased due to decreasing supply of goods and the government intervention was dominated on the economy. The government encouraged the savings and came to be able to cover its external debts (p. 1). After the war Turkey has tended to apply the liberalization policies as the other world countries. The agricultural and industrial improvements, the policies of attracting foreign sources, increasing money supply and the policy of restricting of import were successful and the external debts could be covered in 1954. However, the country has applied the consumption-oriented policies which increased the credits in agricultural and industrial sector. In addition, the investments were unsuccessful and the foreign reserves melted which caused to increase the inflation. Even though the country turned to apply the tight monetary policy was unsuccessful to avoid high inflation. As a result, the first agreement with IMF was signed in 1961. There have been signed two agreements with IMF which were in 1970 and 1980.

The Crisis of April 1994 should be analyzed since the economy of 1980s. The liberalization policies came to be popular position around the world. The IMF was suggesting on the liberal policies to the countries which faced with economic recession. The policies proposed to increase the effect of market mechanism instead of government interventions on the economy. Öztürk and Yakışır (2005) stated that the IMF stabilization program signed on 24th January 1980 aimed to reduce the effect of government intervention on the economy by concentrating on the market economy (p. 1). Tokgöz (2001) emphasized the other aims of the program were:

- Decreasing the supply of money and applying free interest rate policy
- Devaluation of Turkish Lira on high level
- Decreasing of public consumption and covering the budget deficit
- Decreasing the subsidies at minimum level and controlling the prices

- Applying the flexible exchange rate policy
- Encouraging the foreign capital inflows
- Encouraging the export based on industrialization (p. 192 – 193).

Table 34 reported the suggested free interest rate policy by IMF did not work on interest rates and rose from %33 to %74.8 in 1980 and 1993 respectively. The controlling prices were quitted and the value of the domestic currency was decreased at high level. If the exchange rate assumes that equal to 100 in 1980 it is clear the currency devaluated to 180.2 in 1993. In contrast the export exceeded the import which lagged behind much of the import and the external trade deficit increased continuously. On the other side, controlling inflation policy was successful and decreased from %101.4 to %38.85 in 1980 and in 1987 respectively. However, after the year the inflation tended to increase and reached to %66.2 in 1993.

TABLE 34. SOME ECONOMIC INDICATORS IN TURKEY
(1980 – 1994)

YEARS	ANNUAL INTEREST RATE ON SAVING DEPOSITS (%)	EXCHANGE RATE (1980 = 100)	INFLATION (%)
1980	33	100	101.4
1981	35	102.6	34
1982	50	109.4	28.4
1983	45	118.5	31.39
1984	45	123.1	48.4
1985	55	136.5	44.95
1986	48	112.5	34.62
1987	58	125.3	38.85
1988	83.9	136.5	73.7
1989	58.8	143.5	63.27
1990	59.4	160	60.3
1991	72.7	160.6	65.9
1992	74.2	175.9	70.1
1993	74.8	180.2	66.2
1994	95.56	164.4	106.26

(Karagöz, 2009, p. 20)

The policy suggested decreasing the money supply. However, the government could not be successful and the money supply reached to 533.048 YTL in 1993 while was 1.072 YTL in 1980 in terms of Table 35. On the other side, the country encouraged the investments to attract the foreign sources and the capital inflows increased from 97 to 821 million dollars in 1980 to 1988 respectively. However, the policy could not be successful and budget deficit continued to increase due to borrowing with high interest rates. The interest payment increased from %0.6 to %5.8 and the budget increased from %-3.1 to %-6.7 of GNP in 1980 and 1993 respectively.

TABLE 35. BUDGET AND CAPITAL MOVEMENTS IN TURKEY
(1980 – 1994)

YEARS	CONSOLIDATED BUDGET/GNP (%)	INTEREST PAYMENT/GNP (%)	CAPITAL INFLOWS (MILLION DOLLARS)	MONEY SUPPLY (THOUSAND YTL)
1980	-3.1	0.6	97	1.072
1981	-1.5	0.9	338	2.140
1982	-1.5	0.8	167	3.174
1983	-2.2	1.5	103	3.979
1984	-4.4	2.0	271	6.215
1985	-2.2	1.9	234	9.953
1986	-2.7	2.6	364	15.590
1987	-3.5	3.0	655	24.459
1988	-3.0	3.9	821	39.127
1989	-3.3	3.6	1.512	63.938
1990	-3.3	3.5	1.861	97.956
1991	-5.3	3.8	1.967	174.068
1992	-4.3	3.7	1.820	306.478
1993	-6.7	5.8	2.063	533.048
1994	-3.9	7.7	1.478	1.202.032

(Istemihan & Bulungiray, 2005, p. 2, Kargı, 2007, p. 74)

Table 36 demonstrates the growth rate and changes of GNP in the economy of Turkey after 1980. The country had negative growth rate as %2.8 when the stabilization program was applied. In the ten years, the growth rate turned to positive side and actualized as %9.4 in 1990. The rate tended to decline in 1991 and 1992, however turned again prone to rise and rose to %8.1 in 1993. At the same time GNP was increasing continuously and increased from 50.87 billion dollars to 97.677 billion dollars in 1993. The important point of the positive rising on the rate and GNP was the high amount of capital movements into the country due to high levels of interest rates.

TABLE 36. GNP AND GROWTH RATE IN TURKEY
(1980 – 1995)

YEARS	GNP (BILLION DOLLARS)	GROWTH RATE (%)
1980	50.87	-2.8
1985	63.989	4.3
1990	84.592	9.4
1991	84.887	0.3
1992	90.323	6.4
1993	97.677	8.1
1994	91.733	-6.1
1995	99.028	8.1

(Öztürk & Yakışır, 2005)

On the other side, the import was in structure that exceeded the export and the balance of external trade was in ever-increasing debt. As seen in Table 37 the import actualized %56 and the export was %28.7 while the external trade was in deficit as 4.999 billion dollars in 1980. The export decreased to %19.5 and the import actualized %53.5 while the external trade deficit reached to 14.072 billion dollars 15 years later. The program could not be successful on the external trade and the deficit continued to decline year-by-year.

There was a relationship between the public sector borrowing and the banking sector problems in 1990s. The banks tended to lend the government instead of real sector because of rising public sector deficit, inflation, capital insufficiency in banking sector and structural problems. The banks financed the public budget deficit by virtue of the high real interest rate earning of domestic borrowing notes. The requirement of borrowing in public sector caused to increase differences between internal and external interest rates and short term capital inflows. The banks tended to borrow from foreign resources with low interest rates and lent the government with high interest rates as an opportunity (Seyidoğlu, 2003, p. 147). Bahçeci (1997) stated that the investment was tended to earn interest rate income with the high interest rates in the market instead of production activities which affected the country's real investment and long term growth negatively in 1994 (p. 129).

TABLE 37. TRADE BALANCE IN TURKEY (1980 – 2004)

YEARS	EXPORT (%)	IMPORT (%)	BALANCE OF EXTERNAL TRADE (BILLION DOLLARS)
1980	28.7	56	-4.999
1985	11.6	5.5	-3.385
1990	11.5	41.2	-9.343
1995	19.5	53.5	-14.072
2000	4.5	34	-26.728
2001	12.8	24	-10.065
2002	15.1	24.5	-15.495
2003	31	34.5	-22.087
2004	33.5	40.4	-34.419

(Öztürk & Yakışır, 2005)

Banks did not lend the capital to real sector to increase the productivity. The capital was flowed to the government to cover its debt by the banks. As a result financial activities were encouraged instead of production. Table 38 emphasizes the saving and investment rates of GDP and also the current account balances before the crisis in 1994. Before the stabilization program the public saving was not able to cover the public investments which meant that the investors tended to borrow credits from other sources. After the program, the saving rates came to cover position the public investment. Even though the rate was in positive side at the crisis time declined from %2.9 to %0.5 in 1991 and in 1994 respectively. On the other side, the positive improvements could not be seen at the rate of private savings and investments. The program was not successful on the private savings and the private saving decreased while the private investment increased. As a result, the private sector went in higher debt position by decreasing %8 in five years. In addition, the current account balance went in harder deficit and rose from %-1.4 to %-7.9 in 1988 and in 1994 respectively.

TABLE 38. SAVINGS, INVESTMENTS AND CURRENT ACCOUNT (%GDP) (1988 – 1994)

YEARS	SAVINGS (S)		INVESTMENT (I)		S - I		CURRENT ACCOUNT BALANCE
	PUBLIC	PRIVATE	PUBLIC	PRIVATE	PUBLIC	PRIVATE	
1988	1.4	17.6	5	15.4	-3.6	2.2	-1.4
1989	3.1	15.6	4.8	16.5	-1.7	-0.9	-2.6
1990	6.7	12.5	4.9	17	1.8	-4.5	-2.7
1991	7.5	10.3	4.6	17.8	2.9	-7.5	-4.6
1992	7.1	9.5	4.2	19.1	2.9	-9.6	-6.7
1993	6.3	8.9	4.2	17.8	2.1	-8.9	-6.8
1994	5	10.7	4.5	19.1	0.5	-8.4	-7.9

(Hacıhasanoğlu, 2005, p. 146)

The country has changed its economic policy from import substitution strategy to industrialization strategy based on free market in 1980s. The exchange rate was determined by market conditions in the interbank foreign exchange and foreign currency. The capital inflows increased after the financial liberalization in 1989. The capital slipped from real sector to finance sector speculatively due to rising interest rates by the financial liberalization and public sector debt (Kansu, 2004a, p. 155). If Table 35 is recalled that even though the capital inflows were increased to 2.063 million dollars and also the money supply increased to 533.048 YTL the budget deficit could not be covered in 1993.

The banks' open positions have been increased by the financial liberalization process in 1990s by virtue of borrowing from foreign resources. The banks tended long term borrowing bonds for domestic borrowing; overnight debts were financed by short term accounts and external liabilities in a consequence of applied stabilization program. The banks encountered high interest due to the maturity mismatches (Yay, 2001, p. 1244-1245). The maturity mismatches means borrowing in short-term and lending in long-term which causes the liquidity problem in the country.

The government also changed the policy of financing public deficit to decrease the domestic interest rate and extend the maturity in 1993. The debt of Treasury in Central Bank was canceled and Treasury was given facility to use short term advances. Thus, the treasury used the Central Bank sources to finance its debt increasingly (İmer, 2003, p. 33) which raised the issues because of being in the term of banks open positions and current account deficits were at high level (Kansu, 2004a, p. 160-165). The Central Bank withdrew 6 trillion TL in the market by open market operations and borrowed 13 trillion TL in the interbank market in 3-7 January 1994. However, demand of foreign currency could not be reduced and 2.4 billion US dollars were released to the market on October. The excessive pressure on foreign currency decreased the Central Bank reserves. (Yıldırım, 2003, p. 82). The formation of financial crisis was triggered by overvalued domestic currency, rising budget deficit and reduction of foreign currency reserves. The overnight interest rates jumped from %69.63 to %92.04 from 1993 to 1994 respectively. The country could not be rescued to fall in crisis and faced with crushes in the economy in 1994.

The crises were open economy crises after 1990s in Turkey. There were free capital movements and the policy of high interest rates – low exchange rate based on short term foreign capital. The growth terms were supported by capital inflows (Topallı, 2006, p. 77). The country faced with economic crisis on 5th April 1994 and the indicators of the economy turned in declining side from the years of 1993 to 1994. As seen in Table 33 the growth rate actualized in negative side from %8.1 to %-6.1. The GNP decreased from 97.677 million dollars to 91.733 million dollars in a year while the inflation jumped to %106.26 in 1994 which can be seen in Table 36. The value of domestic currency increased which caused to flight out of the foreign capital. The capital inflows decreased from 2.063 million dollars to 1.478 million dollars. The interest rates increased to %95.56 and also the interest payment rose to %7.7 in 1994. In addition, the Central Bank almost doubled the printing money and supplying reached to 1.202.032 YTL in 1994. The high rate of inflation, interest rates, huge debts and money supply could not be controlled. In addition, the panic environment influences the foreign capitals directly and the capital outflows come to be uncontrolled position. As a result, the scarcity is occurred in liquidity. Topallı (2006) stated that the crisis was liquidity crisis with the reasons of;

- Increasing the public primary budget deficit in 1990-1993
- Increasing of real labor cost
- Appreciation of national currency
- Increasing of short term external liability
- Increasing of current account deficit (p. 78)

Table 39 analyzes the consolidated budget balance since April 1994 crisis in Turkey. While the consolidated budget deficit was 133.857 million TL in 1993 the deficit increased approximately doubled as 316.622 million TL after the year of crisis. As seen in Table 35 the budget deficit ever-increasing in the following years of the crisis. It is noteworthy that the expenditure was increased in huge amounts while the revenue could not cover the deficit. It can be said that the revenues such as direct and indirect taxes, non-tax revenues, and domestic debt income could not be increased as much as the expenditures which are current, investment and transfer expenditures. Tüfekçi (2008) stated that the increasing of public expenditure reasons could be the personnel expenditures and transfer payments. Even though the formation of the crisis of 1994 the budget expenditures could not be decreased. On the other hand, the investment expenditures were at low level in the public expenditures which showed that the Keynesian view was effective in short term (p. 26-27).

There is an important point about the public expenditures indicators which is the ratio of public deficit to GNP. Pakdemirli (2002) emphasized that interpreting of the ratio would be more healthy for the economic assessment due to elimination of the inflation (p. 28). Tüfekçi (2008) mentioned the share of public expenditures in the aggregate revenue increased from %17.3 in 1990 to %23.1 in 1994. While the share of private consumption and investment expenditures were decreased the share of personnel and transfer expenditures were increased. Especially, the share of social security expenditures were at high levels and the share of education and healthy expenditure were at low level (p. 27-28).

TABLE 39. THE CONSOLIDATED BUDGET IN TURKEY
(1993 – 2000)

YEARS	BUDGET REVENEU (MILLION TL)	BUDGET EXPENDITURE (MILLION TL)	BUDGET BALANCE (MILLION TL)
1993	351.392.000	485.249.000	-133.857.000
1994	745.116.000	897.296.000	-152.180.000
1995	1.394.023.000	1.710.645.000	-316.622.000
1996	2.702.034.000	3.940.162.000	-1.238.128.000
1997	5.750.096.000	7.990.748.000	-2.240.652.000
1998	11.887.552.000	15.585.376.000	-3.697.824.000
1999	18.973.292.000	28.017.791.000	-9.044.499.000
2000	33.756.000.000	46.602.000.000	-12.846.000.000

(Üçgöz, 2005, p. 98)

Table 40 shows the constantly falling healthy expenditures after the 1994 crisis. The expenditure decreased from %4 in 1992 to %3.3 in1997. The education expenditures also felt from %20 in 1992 to %8 in 1997. The budget deficit to GNP was increased from 3.3% in 1990 to 3.9% in 1994. The education expenditures are important to be able to raise the education level and educate the individuals who are able to provide beneficial service to the country.

The Topallı (2006) emphasized that the basic reasons of the crisis were unsustainable current account deficit, increasing of open positions in the banks and the government’s efforts to keep interest rates under pressure (p. 78). Table 37 shows the external balance trade balance between 1992 and 2000 in Turkey. Before the formation of 1994 crisis the external deficit decreased from -14.083 million dollar in

1993 to -5.165 million dollar in 1994. However, the crisis caused the external deficit was almost tripled to -14.072 million dollar in 1995 and preceded to rise due to the high amount rising of import. The overnight rates reached %106.34 in 1995 due to the crisis pushed further up.

TABLE 40. THE SHARE OF HEALTHY AND EDUCATION EXPENDITURES TO CONSOLIDATED BUDGET IN TURKEY (1992 – 2000)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
HEALTHY EXPENDITURES (%)	4,0	3,9	3,5	3,3	3,3	3,3	3.5	2,8	2,3
EDUCATION EXPENDITURES (%)	20,0	16,7	13,5	12,3	9,4	8,0	13,5	12,2	10,1

(www.bumko.gov.tr, 14.05.2013)

It should be remembered that the external trade balance is a part of current account and if the external trade balance is in deficit which would also cause the deficit in current account balance. The external trade to GNP ratio indicates the degree of openness of a country. Table 41 also shows the import and export to GNP ratios. Even though the export/GNP ratio increased from 8.4% in 1993 to 13.8% in 1994 the rising could not cover the high amount of import.

The advantage of fixed exchange rate regime is to eliminate the pessimistic expectations about inflation in the future. The countries finance its development with the capital movement by applying the fixed exchange rate policies. The banks and firms are encouraged to borrow from foreign resources by reduction of the exchange rate risk and releasing interest in these applications. The disadvantage of the regime is that the domestic currency is appreciated excessively and current account deficit is increased in consequences of the import and export is affected negatively. Turkey was affected by disadvantages of the exchange rate policy in 1994 which triggered the country in crisis.

TABLE 41. EXTERNAL TRADE BALANCE IN TURKEY
(MILLION DOLLARS) (1992 – 2000)

YEARS	IMPORT	EXPORT	EXTERNAL TRADE BALANCE	IMPORT/GNP (%)	EXPORT/GNP (%)
1992	22.871	14.714	-8.157	14.3	9.2
1993	29.428	15.345	-14.083	16.2	8.4
1994	23.270	18.105	-5.165	17.8	13.8
1995	35.709	21.637	-14.072	20.8	12.6
1996	43.627	23.224	-20.403	23.6	12.6
1997	48.559	26.261	-22.298	25.4	13.7
1998	45.921	26.973	-18.948	22.4	13.2
1999	40.671	26.587	-14.084	21.8	14.2
2000	53.131	30.721	-22.410	26.5	15.3
2001	41.399	31.334	-10.065	28.0	21.7
2002	51.554	36.059	-15.465	27.4	19.7

(Üçgöz, 2005, p. 97, http://ekutup.dpt.gov.tr)

Imer (2003) stated that the exchange rate was hold at low level against the depreciation of TL for the purpose of public sector borrowing and controlling the inflation (p. 32). The exchange rates were depreciated as seen in Table 34. However, keeping the ratio of depreciation of national currency against foreign currency below the rate of inflation causes the appreciation of the national currency in real terms. Though they were not actually, the strategy caused the appreciation of the domestic currency. Table 42 shows that the domestic currency was depreciated approximately %54 against the dollar while the inflation actualized as %88.1 in 1995. The lower depreciation of national currency against inflation caused the appreciation of Turkish Lira. After 1994 crisis domestic currency has continued to depreciate by approximately double depreciation in every year while the inflation rate was higher than the depreciation rate. Topallı (2006) stated that capital inflow was encouraged by the overvalued domestic currency and interest rate arbitrage based on high real interest rate and overvalued domestic currency increased the import and consumption, export and fixed capital investment affected negatively (p. 78). The interest rates on saving deposits were at high levels as approximately %90 from 1994 to 1998. The import actualized at higher amount than export in 1995. If increasing of import is higher than increasing of export current account runs in deficit. The application of overvalued currency and high interest rate strategies increase import and also encourage short term capital inflows which are the reasons of formation of financial crisis in a country.

TABLE 42. INFLATION, INTEREST AND EXCHANGE RATES IN TURKEY (1990 – 2001)

YEARS	INFLATION (%)	INTEREST RATES ON SAVING DEPOSITS (%)	INTERBANK OVERNIGHT INTEREST RATES (%)	EXCHANGE RATES USD=TL
1990	60,3	59,4	62,72	2.613,0
1991	66,0	72,7	59,87	4.182,0
1992	70,1	74,2	67,77	6.888,0
1993	66,1	74,7	69,63	10.986,0
1994	106,3	95,6	92,04	29.760,0
1995	88,1	91,3	106,34	45.986,0
1996	80,3	93,8	74,33	81.623,0
1997	85,7	96,6	77,93	152.421,0
1998	84,6	95,5	79,0	261.415,0
1999	64,9	46,7	60,9	418.823,0
2000	54,9	45,6	198,85	626.716,0
2001	54,4	62,5	59,0	1.231.322,0

Tüfekçi, 2008, p. 44, Öztürk, 2009, p. 55)

Table 43 emphasizes parts of the balance of payments between the years of 1990 and 2001. The capital inflow was 4.037 million dollar in 1990. However 3.000 million dollars of the capital inflow were the short-term capital. Despite the rising of interest rates to %95.6 in 1994 which was unable to prevent capital outflow due to the crisis. The capital movement was in huge amount as decreasing from 8.903 million dollars to -4.257 in 1993 and in 1994 as respectively while the short-term capital outflow was -5.127 million dollars. On the other side, Mexico also ran in crisis in December 1994 at the same year of crisis in Turkey. After the crisis capital inflows increased due to the high interest rates between the years of 1995 and 1997 and also the current account felt into deficit at the same years.

TABLE 43. BALANCE OF PAYMENTS IN TURKEY (1990 – 2001)

YEARS	C.A. BALANCE (MILLION $)	C.A. BALANCE/ GNP (%)	CAPITAL MOVEMENTS (EXCEPTİON RESERVES) (MILLION $)	CAPITAL MOVEMENTS/GNP (%)	SHORT-TERM CAPITAL MOVEMENTS (MILLION DOLLAR)	SHORT-TERM CAPITAL MOVEMENTS/GNP (%)
1990	-2.625	-1,74	4.037	2,65	3.000	1,97
1991	250	0,17	-2.397	1,58	-3.020	-1,99
1992	-974	-0,62	3.648	2,27	1.396	0,87
1993	-6.433	-3,6	8.903	4,95	3.054	1,69
1994	2.631	1,99	-4.257	3,21	-5.127	-3,93
1995	-2.339	-1,38	4.565	2,7	3.713	2,16
1996	-2.437	-1, 33	5.483	4,76	2.737	3,23
1997	-2.638	-1,37	6.969	4,52	77	0,91
1998	1.984	0,96	-840	0,22	1.398	1,27
1999	-1.360	-0,73	4.935	2.21	759	0,41
2000	-9.819	-4,91	9.610	4,68	4.035	2,00
2001	3.396	2,33	-14.198	-9,69	-11.006	-7,73

(Tüfekçi, 2008, p. 42)

As summary, the most of economic indicators in the country was in negative side by 1998. The budget deficit was continuously rising as seen in Table 39. Even though approximately doubled rising of the budget income the budget deficit continued to rise by virtue of high increased expenditure. While the expenditure reached to 15.500 million TL and the deficit actualized as 3.697 million TL the income was 11.887 million TL. The Table 40 demonstrates the healthy expenditures in consolidated budget were %4 and decreased to %3.3 in 1992 and 1997 respectively. On the other side, the education expenditures also decreased from %20 to %8 in 1992 and 1997 respectively. The capital movements were in negative side as 840 million dollars and the ratio against GNP actualized as %0.22. In addition the aggregate debt to GNP reached to %46.8 which means each individual born in debt as the same ratio. The other economic indicators which were overnight interest rates and the exchange rates actualized as %79 and 261 TL respectively. Even though the ratio of private banks reached to %50.5 between 1991 and 1997 the deficit could not be covered. The inflation could not be under controlled and reached to %84.6 in 1998.

The country decided to apply another IMF stabilization program to decrease the inflation in July 1998. The program was close monitoring agreement and the officials of IMF would review the economic indicators in every 3 months. The purposes of the agreement for 1.5 years were:

- Getting the inflation under control
- Encouraging export
- Encouraging capital inflows
- Keeping the interest rates at high level
- Applying fixed exchange rate policy
- Ensuring higher growth rate

The first action was applying the fixed exchange rate regime to attract the foreign sources. İmer (2003) stated the value of Turkish Lira depended on 1 US dollar and 0.77 Euro to keep interest in high level which would increase the capital inflows (p. 35). If Table 34is recalled it can be seen that the policy of decreasing inflation has not been successful. The inflation decreased %84.6 in 1998 to %64.9 in 1999. Before the applying program and the crisis in 1994 inflation was %66.1 in 1993. Even though the program eliminated the 1994 crisis negative effects on inflation the program could not be successful to decrease the high inflation rate in the country. And also keeping interest rates in high levels was not successful in the program. The rates actualized as %46.7 and %45.6 in 1999 and in 2000 respectively. The capital inflows increased in those years despite the low interest rates. However, the capital inflows were in the form of short-term which caused fragile structure of the economy.

Topallı (2006) stated that the inflation could not be fetched on the desired level and the fixed exchange rate regime appreciated the domestic currency at the end of November 2000 (p. 83). While the inflation was %54.9 the exchange rate increased from 418.823 TL to 626.716 TL in 1999 and in 2000 respectively. As seen in Table 44 the net foreign capital inflows in fluctuated structure at upward trend and rose from 684 million dollars to 982 million dollars in 1990 and 2000 respectively. On the other side the Central Bank Reserves were increasing until 2000 and actualized as 22.172 million dollars in 2000.

TABLE 44. FOREIGN CAPITAL INFLOWS AND RESERVES OF CENTRAL BANK IN TURKEY (1990 – 2001)

YEARS	NET FOREIGN CAPITAL INFLOWS (MILLION DOLLARS)	GROSS OFFICIAL RESERVES OF CENTRAL BANK (MILLION DOLLARS)
1990	684	5.972
1991	810	4.918
1992	844	6.116
1993	636	6.213
1994	608	7.112
1995	885	12.391
1996	722	16.273
1997	805	18.419
1998	940	19.721
1999	783	23.177
2000	982	22.172
2001	3.266	18.787

(www.worldbank.org, 02.04.2013)

The 5 banks had devolved to Savings Deposit Insurance Fund for strengthening banking sector before the program (Kansu, 2004a, p. 179). Table 45 indicates the changing of Turkish Banks status between 1986 and 2001. While the rate of private banks and foreign banks were increasing the rate of public banks and development and investment banks decreased. Yeldan (2001) emphasized that according to the IMF program in 1999 the external debts of bankrupt banks and also bankrupt credits of international banks in the Turks Banks were guaranteed by IMF (p. 575). The insurance of accounts triggered the banks to use resources with high interest rates and the high interest rate risk burden was charged to Savings Deposit Insurance

Fund. And also some of bank owners used the accounts for financing of their own companies which created the moral hazard problem (Çolak, p. 2002, 169).

TABLE 45. THE STATUS OF TURKISH BANKS (%) (1986 – 2001)

YEARS	PRIVATE BANKS	PUBLIC BANKS	FOREIGN BANKS	DEVELOPMENT AND INVESMENT BANKS	TRANSFERRED BANKS TO SDIF
1986-1990	43.9	44.1	3.4	8.6	-
1991-1997	50.5	38.9	3.5	7.1	-
1998-2001	52.3	33.6	4.2	4.6	5.3

(Tüfekçi, 2008, p. 32)

The exchange rate as in the form of stabilization tool encourages the borrowing in foreign currency and increases the exchange rate risk. The investors guess that the country can sustain exchange rate regime as long as borrowing from foreign resources. If the investors lost confidence against the country the short term speculative capital outflow accelerates. After the application of the program the capital inflows increased. Most of the capital consisted of banks and private sector foreign resources borrowing and direct foreign investment was limited. The stabilization programs based on exchange rate regime ensures guarantee implicitly to who tends to borrow in foreign currency and government ensures guarantee to private sector about changing in exchange rate. These guarantees triggered the moral hazard problem. Even though the capital inflows increase the economy become vulnerable position against the external shocks (Serdengeçti, 2002, p. 3-8).

The only deviated indication from its objective was the current account deficit in the program. The reason was overvalued domestic currency by virtue of outstanding capital inflows' pressure on the real exchange rate. Consequently while the import of good consumption was increasing the current account was in huge deficit as 9.8 billion dollar. Even though the IMF and government was in aware that the banking sector had a fragile structure the banking sector reforms has not put in action before applying the stabilization program (Yentürk, 2003, p. 22). Besides the Central Bank did not intervene the rising interest due to the increase in demand of foreign currency in November by citing the net domestic assets which let to deterioration in already unhealthy banking sector (Topallı, 2006, p. 10).

The economy could not be taken on the way of close monitoring agreement. The budget deficit increased approximately quadruple despite the budget income was increased threefold from 1998 to 2000. Tüfekçi (2008) mentioned the share of public expenditures in the aggregate revenue reached to %37.5 in 2000 (p. 27). The current account balance turned in negative side again in 1999 and reached to 9.819 million dollars in 2000. Although the capital movements were in positive side in 1999 and in 2000 the high volume of short term capital movements reached to 4.035 million dollars against the capital movements as 9.610 million dollars in 2000. The high level of short-term capital movements brought the economy in weakness position against the speculative attacks. In addition, aggregate debt to GNP reached to %58.9 in 2000 and the growth rate actualized as %-6.1 in 1999. The country could not be defend its economy and fell in economic crisis in November 2000. On the other side the external trade balance was turned back deficit amount of 1994 in 1999 which was -14.084 million dollars the crisis of November 2000 triggered increasing of the deficit again which reached to 22.410 million dollar in 2000.

The overnight rate in the interbank stroke up to increase from 13th November and it was %81.45 in 15th November. The transferring 5 banks to Savings Deposit Insurance Fund increased the problems in the banking sector. Demir Bank started to dispose domestic borrowing bonds which hold approximately 10% of domestic borrowing notes stock and was issuing 15% of the notes. As a result the prices of domestic borrowing notes decreased, interests increased and the foreign investors sold their notes (Uygur, 2001, p. 16-17). The rising of interest rates decreased the value of bonds which was in risky position in the banks' balance sheets. The banks went into the liquidity problem and sold the government bonds which created thrust on the overnight rates (Eren, A. & Süslü, B., 2001, p. 12). The crisis of November

2000 was the currency-liquidity crisis. The banking sector was a main factor in the crisis. The reasons were;

- Discontinuity of economic policies and the policies failed to generate solution
- The liabilities of banks based on foreign currency
- The management of debt based on Domestic Borrowing Bonds (Çolak, 2002, p. 169).

Other reasons of the November 2000 crisis could be the capital inflows in the form of short-term, appreciated domestic currency and high inflation rates. Besides, increased aggregate debt and chronic high short-term debt could be the reasons of the crisis. The rate of aggregate debt to GNP increased from %46.8 in 1998 and %58.9 in 2000. Table 46 indicates that after the financial liberalization rate of short-term debt to aggregate debt increased and turned into chronic problem in Turkey. The rate was %19.4 in 1990 and actualized approximately %22 for 10 years.

TABLE 46. THE AGGREGATE RATE AND SHORT-TERM DEBT RATES IN TURKEY (1990 – 2001)

YEARS	AGGREGATE DEBT/GNP (%)	SHORT-TERM DEBT/ AGGREGATE DEBT (%)
1990	32,2	19,4
1991	33,2	18,1
1992	34,7	22,8
1993	37,0	27,5
1994	50,1	17,2
1995	42,6	21,4
1996	42,9	21,6
1997	43,3	21,0
1998	46,8	21,6
1999	54,4	22,4
2000	58,9	23,9
2001	78,3	14,2

(www.worldbank.org, 02.04.2013)

The program was successful which began to be implemented before the crisis of November 2000. However, continuously increasing of prices, increasing demand and energy prices, increasing external payment deficit by excessive appreciation of TL, slow developments in the reform of public and privatization, distrust against the currency board application and political uncertainties caused the reduction of foreign financial capital. The reduction of capital inflows decelerated the increasing of liquidity and short term interest rates increased (Seyidoğlu, 2003, p. 149).

Even though the capital went out as 840 million dollars in 1998 turned into positive side in 1999 again and actualized 9.610 million dollars in 2000 despite the low interest rates. The reason of capital outflows in Turkey could be the formation of Asia crisis in 1998. The country had current account surplus as 1.984 million dollars at the same year. Nearly half of capital inflows in 2000 were in the form of short-term which caused the sensitization of country's economy against the external shocks. Thus, the formation of 2000 crisis caused the outflow of capital. While the capital movements actualized as -14.198 million dollars the short-term capital movements were -11.006 million dollar. Excessive capital outflows cause the liquidity problems in the countries. Speculative capital movements create fragile structures in the economies. Another important issue was the current account deficit. The current account deficit was at high level in 1993. In the year of formation of 1994 crisis the current account actualized as 2.631 million dollars. However, after the crisis the account turned into deficit as -2.339 million dollars and continued into deficit until 2000 exception of the year of 1998. Even though the country had economic growth the current account was in deficit which shows the import side growth. Table 47 shows that the growth rate was in negative as 6.1% in 1994 and in positive side from 1995 to 2000 with exception of the year of 1999. It can be emphasized that even though there is high growth rate in a country the country could be triggered into crisis. For example, Turkey had 7.9% growth rate in 1993 and could not escape falling in crisis in 1994.

Turkey applied another IMF stabilization program in 2001 with the aim of controlling liquidity. The liquidity which was created by the Central Bank's open market operations would be determined by net domestic assets application. The aim was to limit the public sector credits. According to the program money supply would be determined by capital inflows and interest rates in the market. If the capital inflows were high then the interest rates would fall which would cause reduction of new capital inflows and if vise versa then the new capital inflows would be increased (İmer, 2003, p. 35). However, the interest rate was %62.5 and capital movements actualized as -14.198 million dollars in 2001. Another important indicator was the rate of aggregate debt to GNP. The rate increased %58.9 to %78.3 in 2000 and in 2001 respectively.

TABLE 47. THE GROWTH RATE IN TURKEY (1993 – 2000)

YEARS	1993	1994	1995	1996	1997	1998	1999	2000
GROWTH RATE (%)	7.9	-6.1	8.0	7.1	8.3	3.8	-6.1	6.3

(Üçgöz 2005, p. 98)

The overnight rate was in high levels on November 2000 crisis. The domestic and foreign fund maturity was shortened by virtue of risk premium after November crisis and the interest rates were in the highest level on February even though it was decreased on January. The political tension between the Prime Minister and President triggered the speculative attack and the foreign currency crisis aroused on February 2001. As seen in Table 34 the overnight rate increased to %6200 in the interbank market as approximately %4018.6 in 21st February. Uygur (2001) stated the foreign reserves of the Central Bank were 27.94 billion dollar in 16th February and decreased to 22.58 billion dollar one week later. The Central Bank floated the exchange rate in 21st February (p. 23).

The February 2001 crisis was the foreign currency crisis which caused the collapse of fixed exchange rate regime (İmer, 2003, p. 36). The trust against the government was lost because interest and exchange rates could not be decreased to the desired level and performed privatization process. The government depression and November 2000 crisis triggered the February 2001 crisis. Karluk (2002) emphasized the economy was contracted approximately %9, national income decreased 51 billion dollar, the per capita income decreased to 725 dollar, 1.5 million people were unemployed, inflation was over %70, the interest payment of treasury increased %101 and the debt burden of internal and external increased after the February crisis (p. 477).

Kansu (2004a), the policies from April 1994 crisis to 2000-2001 crises were to apply the high interest rate policy for increasing the capital inflow and prevent the capital outflow and insure fully the bank accounts (p. 169-170). The interest rates on saving accounts were at high levels especially after the 1994 crisis. While the interest rates were approximately %74 in 1992 and in 1993 after 1994 crisis the rates increased to %96.6 in 1997. It can be emphasized that the applying high interest rate policy was successful for 5 years. However, Table 39 shows that the rates intended to fall again before 2000 crisis as %46.7 and %45.6 in 1999 and 2000 respectively. The rates were seemed a tendency to increase slightly as %62.5 in 2001. Tüfekçi (2008) stated that the capital movements of Turkey have a similar structure with the other developing countries. The high growth rate was based on import, the public expenditures were at high levels in Turkey and the country was not successful for attracting the foreign capital between 1990 and 2000 (p. 42). The capital movements were 8.903 million dollar in 1993. However short-term capital movements were at high levels as 3.054 million dollar at the same year. Tüfekçi (2008) stated that the most of capital movements was short-term and speculative and the aim of capital movements was mostly the interest rate revenue in Turkey which caused the deterioration of macroeconomic balances and the emergence of unhealthy structure (p. 42).

The arrangements in the banking sector had affected the formation of November 2000 and February 2001 crises negatively. The banks stroke up financing public sector deficit because of high inflation and public borrowing need and accelerated borrowing from foreign resources with the process of financial liberalization. The public banks were in dominant position in the system and the arrangements and controlling of banking system was not sufficient (Yay, 2001, p. 1244). The net foreign capital inflows increased from 783 million dollars to 3.266 million dollars in 2001. The financial liberalization process was begun in 1989. Table 43 shows that the foreign capital inflows were 684 million dollars before the financial liberalization. However, after the liberalization process capital inflows started to increase in form of the fluctuation and reached to 940 million dollars in 1998, but jumped to 3.266 million dollars in 2001.

The existing problems had to be analyzed and resolved carefully by spreading in time in the banking system in Turkey. However, IMF and World Bank forced the Turkish Banking System overly rapid transformation by ignoring the fact. The excessive forcing caused the confidence depression between the banks and the banks intercepted lines of credit to each other which triggered the liquidity crisis in the banking sector. IMF vice president Stanley Fisher misconstrued the liquidity crisis by interpreting foreign currency crisis. In this context, the IMF conjectured the liquidity crisis as speculative attack against the Turkish Lira and recommended the Central Bank to not provide liquidity in the system in order to stem the tide of speculative demand on foreign currency. Eventually, firstly the interests increased at high level and then the liquidity crisis was transformed into foreign currency crisis. IMF suggested the floating exchange rate regime and the cost of mistaken diagnostic was devaluation of domestic currency as well as increasing the interest and inflation (Topallı, 2006, p. 9). As a result the interest rates increased from %45.6 to %62.5 in 2000 and in 2001 respectively. At the same time the value of domestic currency has been decreased from 626.716 in 2000 to 1.231.322 in 2001.

The November 2000 crisis and February 2001 crisis have been significant damage on Turkey economy. The reason of the destruction was the balance disturbance between inflation, exchange rates and interest rates so the applied stabilization program in 2000. The interest rates were decreased and converted negative interests as artificially which caused the individuals and firms increased expenditures in the form Turkish Lira with the effect of low interest bank loans before November 2000. The interest rates rose excessively and the rising interests dragged banks and firms' finance into bad positions with the November crisis. On the other hand, the government gave guarantee to apply the stabilization program as stable which impelled the banks and firms to borrow on foreign currency consequently the open positions in the institutions increased (Topallı, 2006, p. 9).

Some mistakes have been applied in the process of application of program. The monetary and fiscal policies applied to reduce the aggregate demand because of the main aim of the program were to reduce the inflation. However, the Central Bank intended rising consumption instead of encouraging the savings by applied monetary and interest policy. While the annual inflation was in the level of 50% the interest rates were reduced below %40 additionally which caused to decrease the consumer credit interest rates and encourage the expenditure and not encourage the savings. And also the financial tools for income have been eliminated by keeping in low level of exchange rates. Eventually, savings account was squandered with consumption expenditure which was needed for investment and production in Turkey. The wasted savings account triggered the formation of liquidity crisis rather quickly.

In the latest crises private foreign fund inflows increased in these countries in the form of borrowing. These capitals caused the monetary expansion, increasing demand, high inflation, and appreciation of domestic currency and increasing of import. As a result the loss of confidence against the interest rate and liberalization policy may expose the crises (Uygur, 2001, 18).

The main objectives of the stabilization programs in Turkey were financial liberalization, high interest rates and overvalued exchange rates to attract the foreign capital. On the other side, IMF gave guarantee the banking sector to protect the credits which could not be paid. However, the policy caused to seen moral hazard problem in the country. The financial liberalization policy were successful with high interest rates, however, the country could not be rescued to fall in crises due to fragile structure. In addition, the high amount of capitals causes to create pessimistic outlook in the market. As a result, the consumption increases and foreign debt increases also. If any shock is occurred in the country or out of the country would trigger the capital outflow and falling into liquidity problem. Thus, Turkey has experienced the same situation at many times. The country already has been in high debt before the stabilization programs. The programs have triggered the country higher debt burden instead of decreasing the debt.

5. CONCLUSION

The countries which are examined in this study became acquainted with IMF stabilization programs after falling into economic deadlock. The II World War disturbed the economies of all the countries in the world. Although the countries struggle to protect its' economies and increase the standard of livings of the individuals any country could not ignore and protect itself against the advances around the world. Thus, this study indicates that every shock in the countries affected each other negatively which is an undeniable fact.

The referring of the economic problems in individual countries from the beginning that the first country is Mexico experienced high external debt and high levels of inflation after the Petroleum Crisis in 1973. The Southeastern Asian Countries felt in high debt burden and experienced high inflation rates. The Russian Federation faced with high external debt burden and high inflation rates after the collapse of the Soviet Union in 1991. Argentina was affected highly by the Great Depression in 1929 and the political instability triggered its economy into chaos in 1955. In addition, Petroleum Crisis in 1973 confounded the country thoroughly. As a result, the country fell in high public debt and high levels of inflation. Turkey had experienced Liberalization War in 1919. After the establishment of Republic, the country had high debt burden from Ottoman State. In addition, even though the country did not join the II World War, the ordinary of economy was disturbed by flow the revenues to the army and faced with high debt and inflation problems. As mentioned, the countries have already felt in economical problems before the application of the stabilization program. The IMF main goal was that recues the countries from bottleneck.

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

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

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

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