

Turkey Kriz Presentation: Q & A
10/13/03

Was Turkey required to adopt any monetary policies as a condition for the IMF to give aid?

IMF never gives money for “free”. Some of the conditions that Turkey was asked to implement are pension reform, reform in agriculture sector, improvement of tax policy and administration, fiscal management and transparency, speeding up of the privatization process, strengthening the banking sector and banking regulation. (thanks, Jordan!)

Does this crisis affect Turkish entry into the European Union?

Not directly. In 1999 the European Union accepted Turkey as a candidate for membership. To become a member Turkey has to have a stable economy and also has to conform to certain criteria with respect to human rights and democracy.

In december 2002 the European Union accepted 10 new members, but not Turkey. The main reason for not letting Turkey enter the EU was because Turkey was still violating the criteria with regards to democracy and human rights. They decided to review Turkey’s entry again in december 2004. (thanks, Irmo!)

When the Turkish lira didn’t adjust appropriately relative to other currencies (US\$) or Lira didn’t devaluate to what it is supposed have to, what did the Turkish government do besides selling its revenues as a way to try to stabilize its currency?

Besides selling government bonds, the Turkish government pursued a gradual but continual devaluation policy. However this gradual devaluation was not sufficient, as the high inflation actually meant that the lira had to be devalued a lot more.

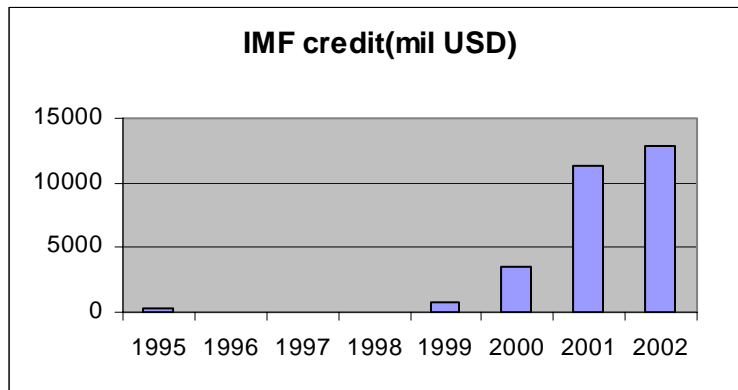
In addition, the government also made arrangements with the IMF for a \$7.5 billion loan after one of the major Turkish banks failed. However the respite was only temporary. The government did not get around to reforming the corrupt banking system, which was the underlying problem. Thus investors lost confidence in Turkey and the lira plummeted. (thank, Daniel!)

Did the Turkish crisis spread to other countries in the area (contagion)?

The Turkish crisis had a limited spread to the other countries in the area. This was because the economy of Turkey is relatively small, compared to her neighbors. (Furthermore, most of her trade is done within Europe, thus the contagion was very much limited to Europe.) The country most exposed to the Turkish crisis was Germany. However, the amount of investment that soured hovered around \$10bn only, which was nothing to Germany. Other less wealthy countries in the region were slightly affected but the overall contagion is not severe. (thanks, Daniel!)

<http://www.guardian.co.uk/business/story/0%2C3604%2C443062%2C00.html>

How much aid did the IMF give Turkey?



(Between the Fall of 1999 and the Spring of 2001 the IMF committed more than \$11B to Turkey.)

The most notable component of the IMF aid that was given to Turkey was the \$7.5 billion IMF emergency funding package (over and above an original \$4 billion stand-by loan). This package helped to temporarily reduce panic in the months prior to the crisis. (thanks, Eric!)