THE ROLE OF THE IMF IN CRISES AND THE CASE OF TURKEY:
Is the IMF Preventer or Creator of Crises?

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ABSTRACT
The crises have shaken public confidence in the IMF as a key crisis lender and manager. Therefore, its role and functions have been questioned by policy-makers and economists, in light of crises and increased globalization. This paper, studies the role that the IMF can play in our new global economic environment. The paper concludes that there will be more crises as long as we do not take necessary measures to restructure international financial system and to establish mechanisms to prevent, not just to manage crises after it happens, and that we should start with restructuring the IMF.

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KEYWORDS
IMF, crisis, stabilization policies, Turkey, emerging markets

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1. INTRODUCTION

The Bretton Woods Institutions--the IMF and World Bank--were born out of the conference in Bretton Woods, New Hampshire in July 1944. The hope was that through international cooperation and openness to foreign trade, the world could avoid the kinds of destructive economic policies that had contributed to the Great Depression and the outbreak of war.

Since 1944, the IMF has grown from an initial 40 member countries to 182 today. During this time, the economic landscape has undergone major changes: the breakdown of fixed exchange rates and oil price shocks in the `70s; the Latin American debt crisis in the `80s; the collapse of the Soviet Union with its legacy of central planning in the early `90s; and financial crises in Asia, Russia, and Latin America in the second half of the `90s.

Globalization offers unprecedented opportunities to boost growth and living standards, but it also brings with it two key challenges: (1) finding ways to better prevent financial crises and resolve those that inevitably occur; and (2) finding ways to better spread the benefits of growth, as the gap between rich and poor countries continues to widen. IMF’s managing director Eduardo Aninat who presented a paper at a conference discusses the role of the IMF and emphasized the importance of globalization. His following statement is interesting: "In addition, our leadership capabilities and our ability to devise approaches for a more inclusive global community are being tested, as never before, by the social, political, and ethical dimensions of globalization. What worries me; however, is that the momentum for reform of the international monetary system, so evident
only last year is waning in major economic powers as the global economy enjoys a return to calm with healthy economic growth. Do we really need another crisis to grab again the attention of policymakers? "

Globalization and integration of financial markets, which had begun in the 1980's in line with the implementation of floating exchange rate system in many countries after the break-down of the Bretton Woods monetary system, have accelerated more in the 1990's. Within this context, the 1990's have witnessed considerable financial crises, the first of which was the failure of Exchange Rate Mechanism (ERM) of the European Union. In the 1992-1993 period, the Italian Liret and the British Pound have been withdrawn from the ERM, other three currencies have been devalued, and the floating margin have been widened to a great extent.

On the other hand, during the Mexican Crisis in 1994, the peso has been considerably devalued, the country has come to the brink of default, and the crisis has spread into Argentina and Brazil. In the literature, this contagion effect is known as "Tequila effect".

In 1997, the world witnessed the sharpest financial crisis to hit the developing countries since the Latin American debt crisis in 1982. The East Asian Financial crisis, which began with a speculative attack on the Thai Baht, spread across East Asia. As a result, the Thai Baht, the Malaysian Ringgit, the Indonesian
Rupiah, the Philippine Peso, the Singapore Dollar, the Korean Won, the Hong Kong Dollar and the Taiwan Dollar have depreciated to a great extent.¹

The East Asian crisis was unique in terms of the severity of the contagion effects and the speed of spread. The crisis pushed many countries into recession and high unemployment. For example, the economies of Indonesia, Thailand and Korea contracted by -13.7%, -9.4%, and -5.8% respectively in 1998. The "herding behavior" caused by the crisis prompted a massive reversal of capital flows from the region. In a study by Bank Negara Malaysia (1999:560), it is stated that, according to an estimate by the IMF, "net private capital inflows into Asia in 1997 fell sharply to US$ 34.2 billion from US$ 101.2 billion in 1996, due mainly to a net decline in net portfolio investments, which included short-term and long-term lending."

In 1998 and 1999, some countries in other regions have also experienced crises, and consequently the IMF supported these countries. Within this framework, the Russian Rubble was devalued in August 1998; fixed exchange rate system implemented in Brazil was abandoned in January 1999.

And the last but not the least, Turkey faced with a severe crisis in 2001, after a banking and liquidity crisis in 2000.

After the crisis of 1994, Turkey could not have solved all the structural problems, partly because of political instability. In 1998, the Turkish Government signed a Staff-Monitoring Agreement with the IMF, followed by a Stand-By

¹ See Bank Negara Malaysia (1999: 559-561)
Agreement at the end of 1999. In line with this agreement, an "inflation stabilization program" was put into implementation. The program was seen to be successful until August 2000. With the incredibility problem in the banking sector and the massive capital outflow --usual at the year-end period-- the Turkish economy has had a serious banking crisis in November 2000. Without identifying the problems leading to the banking crisis, there has been a temporary improvement in the economy due to help of the Supplementary Reserve Facility from the IMF. However, after a public spat between the Prime Minister and the President in February 19, 2001, investors pulled out, and three days later the peg was abandoned and the Turkish Lira went into free fall. Shortly, the IMF failed again to foresee and prevent another crisis.

The emerging-market crises have shaken public confidence in the IMF as a key crisis lender and manager and also increasingly as a monitor of compliance with international financial standards.

In line with these developments, it has been widely argued that there is a need for reform of the Bretton Woods twins, especially of the IMF. Within this context, this study will focus on the role that the IMF can play in our new global economic environment. The plan of the study is as follows: In the second section, foundation and purposes of the IMF have been examined. The third section reviews the basic traditional role of the IMF, set up in the Articles of Agreement. In the next section, the new challenges created by globalization have been analyzed. The paper concludes with a general evaluation on the evolving role of the IMF.
2. THE ROLE OF THE IMF

2.1. Foundation and Purposes of the IMF

The IMF was conceived in July 1944 at a United Nations conference held at Bretton Woods, New Hampshire, U.S.A. when representatives of 45 governments agreed on a framework for economic cooperation designed to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.²

During that decade, as economic activity in the major industrial countries weakened, countries attempted to defend their economies by increasing restrictions on imports; but this just worsened the downward spiral in world trade, output, and employment. To conserve dwindling reserves of gold and foreign exchange, some countries curtailed their citizens' freedom to buy abroad, some devalued their currencies, and some introduced complicated restrictions on their citizens' freedom to hold foreign exchange. These fixes, however, also proved self-defeating, and no country was able to maintain its competitive edge for long. Such "beggar-thy-neighbor" policies devastated the international economy; world trade declined sharply, as did employment and living standards in many countries.

As World War II came to a close, the leading allied countries considered various plans to restore order to international monetary relations, and at the Bretton Woods conference the IMF emerged. The country representatives drew up the charter (or Articles of Agreement) of an international institution to oversee the

² For the history and founding purposes of the IMF as well as its operations and organization, please see the
international monetary system and to promote both the elimination of exchange restrictions relating to trade in goods and services, and the stability of exchange rates.

The IMF came into existence in December 1945, when the first 29 countries signed its Articles of Agreement.

In the decades since World War II, apart from rising prosperity, the world economy and monetary system have undergone other major changes—changes that have increased the importance and relevance of the purposes served by the IMF, but that have also required the IMF to adapt and reform. Rapid advances in technology and communications have contributed to the increasing international integration of markets and to closer linkages among national economies. As a result financial crises, when they erupt, now tend to spread more rapidly among countries.

In such an increasingly integrated and interdependent world, any country's prosperity depends more than ever both on the economic performance of other countries and on the existence of an open and stable global economic environment. Equally, economic and financial policies that individual countries follow affect how well or how poorly the world trade and payments system operates. Globalization thus calls for greater international cooperation, which in turn has increased the responsibilities of international institutions that organize such cooperation—including the IMF.

The IMF's purposes have also become more important simply because of the expansion of its membership. The number of IMF member countries has more than quadrupled from the 45 states involved in its establishment, reflecting in particular the attainment of political independence by many developing countries and more recently the collapse of the Soviet bloc.

The expansion of the IMF's membership, together with the changes in the world economy, has required the IMF to adapt in a variety of ways to continue serving its purposes effectively.

Countries that joined the IMF between 1945 and 1971 agreed to keep their exchange rates (in effect, the value of their currencies in terms of the U.S. dollar, and in the case of the United States, the value of the U.S. dollar in terms of gold) pegged at rates that could be adjusted, but only to correct a "fundamental disequilibrium" in the balance of payments and with the IMF's concurrence. This so-called Bretton Woods system of exchange rates prevailed until 1971 when the U.S. government suspended the convertibility of the U.S. dollar (and dollar reserves held by other governments) into gold. Since then, IMF members have been free to choose any form of exchange arrangement they wish (except pegging their currency to gold): some now allow their currency to float freely, some peg their currency to another currency or a group of currencies, some have adopted the currency of another country as their own, and some participate in currency blocs.
At the same time as the IMF was created, the International Bank for Reconstruction and Development (IBRD), more commonly known as the World Bank, was set up to promote long-term economic development, including through the financing of infrastructure projects, such as road-building and improving water supply.

The IMF and the World Bank Group—which includes the International Finance Corporation (IFC) and the International Development Association (IDA)—complement each other's work. While the IMF's focus is chiefly on macroeconomic performance, and on macroeconomic and financial sector policies, the World Bank is concerned mainly with longer-term development and poverty reduction issues. Its activities include lending to developing countries and countries in transition to finance infrastructure projects, the reform of particular sectors of the economy, and broader structural reforms. The IMF, in contrast, provides financing not for particular sectors or projects but for general support of a country's balance of payments and international reserves while the country takes policy action to address its difficulties.

2.2. The Basic Role of the IMF

The IMF is a cooperative intergovernmental monetary and financial institution with near universal membership. Its policies and activities are guided by its charter, known as the Articles of Agreement (the Articles), and are conducted under a decision-making structure that has evolved over the years. The IMF is

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3 For a detailed information on the policies and activities of the Fund, please see IMF (1998).
unique among intergovernmental organizations in its combination of regulatory, consultative, and financial functions, which derive from the purposes for which it was established: to promote international monetary cooperation; to facilitate the balanced growth of international trade; to promote exchange rate stability; to assist in the establishment of a multilateral system of payments and in the elimination of foreign exchange restrictions that hamper the growth of world trade; to make its resources available to its members to correct balance of payments imbalances without resorting to trade and payments restrictions; and to provide a forum for consultation and collaboration on international monetary problems. Thus, the IMF is concerned not only with the problems of individual countries but also with the working of the international monetary system as a whole. Its activities focus on promoting policies and strategies through which its members can work together to ensure a stable world financial system and sustainable economic growth.

The Articles effectively place the IMF at the center of the international monetary system. The IMF provides a forum for international monetary cooperation, and thus for an orderly evolution of the system, and it subjects a wide area of international monetary affairs to covenants of law, moral suasion, and understandings. The IMF must also stand ready to deal with crisis situations, not only those affecting individual members but also those representing threats to the international monetary system.

IMF policy and practice are constantly evolving in response to new challenges, most recently the further globalization of capital markets and the increased risk of financial crises and their spillover effects.
As an immediate response to the Asian financial crisis, in late 1997 the IMF established a new credit facility--the Supplemental Reserve Facility (SRF)--to address potentially large but short-term financing needs that emanate mainly from the capital account, reflecting a loss of market confidence. To make its financial assistance more expeditious, the IMF put into use during the Asian financial crisis the rapid procedures of the Emergency Financing Mechanism that had been set up in the aftermath of the Mexican crisis in 1995.

3. GLOBALIZATION AND CHANGING ROLE OF THE IMF

3.1. Globalization and New Challenges

The financial crisis that erupted in Asia in mid-1997 led to sharp declines in the currencies, stock markets, and other asset prices of a number of Asian countries; threatened these countries' financial systems; and disrupted their real economies, with large contractions in activity that created a human crisis alongside the financial one. In addition to its severe effects in Asia, the crisis has put pressure on emerging markets outside the region; contributed to virulent contagion and volatility in international financial markets. The IMF is charged with safeguarding the stability of the international monetary system. Thus, a central role for the IMF in resolving the Asian financial crisis was clear, and has been reaffirmed by the international community in various multilateral fora. The IMF’s priority was also clear: to help restore confidence to the economies affected by the crisis.
In line with the crises, it has been argued among economists and policy makers that globalization might have led to, if not, have been effective on, the crises.\(^4\)

Globalization has created new challenges for the IMF. Two of the most important, and most difficult, are how to strengthen the global financial system—so that it becomes less prone to financial crises and more able to cope with crises when they occur—and how to advance the fight against poverty in low-income countries.

Globalization has yielded great benefits for many countries and people around the world. Integration into the world economy is an essential part of any strategy to enable countries to achieve higher living standards\(^5\). But globalization, by increasing the volume and speed of international capital flows, has also increased the risk of financial crises. And at the same time, the risk has risen in those low-income countries, which have not yet benefited substantially from globalization, will fall further behind as living standards rise elsewhere.

3.2. Strengthening the International Monetary and Financial System

The financial crises in emerging markets in the mid- and late 1990s were a reminder of the risks associated with globalization—even for economies that have benefited immensely from the process and that, in many respects, are well managed. The economies hit in the 1997–98 Asian crisis, in particular, had gained enormously over several decades from international trade, foreign direct

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\(^4\) For a through analysis on the relationship between globalization and crises, see Krugman (2000).
investment, and access to increasingly integrated international financial markets. The crises exposed not only policy weaknesses in the crisis countries themselves, but also flaws in the international financial system, driving home two facts of life:

- Investors may retreat quickly and massively if they sense shortcomings in domestic economic policies. Once investors—domestic or foreign—lose confidence, capital inflows can dry up, and large net outflows can precipitate a financial crisis.

- A crisis in one country or region can rapidly spill over into other economies.\(^6\)

To reduce the risk of future financial crises and to promote the speedy resolution of those that do occur, the IMF says that it has been working with its member governments, and with other international organizations, regulatory bodies, and the private sector, to strengthen the international monetary and financial system. The IMF states that the reforms on strengthening financial sectors; developing internationally accepted standards and codes of good practice; encouraging openness and publication of data; increasing the transparency and accountability of the IMF; involving the private sector in crisis prevention and resolution are either being implemented or under way.

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\(^5\) See Alp (2002), ch.3 for a comprehensive review of international financial integration and its effects.
4. CRITIQUES OF IMF POLICIES

The IMF had come under criticism over its policy response to the regional financial crisis. These included the view that the effectiveness of the IMF program was hampered because insufficient attention was given to the need to provide up-front liquidity support to the crisis-affected countries. In addition, many observers noted that the IMF programs were skewed toward a tightening of fiscal and monetary policies, which failed to restore confidence and actually aggravated the economic contraction. Many viewed that the fiscal tightening was inappropriate because East Asian countries did not suffer fiscal deficits. On the other hand, monetary contraction led to high interest rates, resulting in a further weakening of the banking system.

Another criticism for the IMF was that it overloads the Stand-by Arrangement (SBA) programs with too many structural reforms, at a time when the priority should be to facilitate economic recovery. There was a lack of attention paid to the sequencing of policies or to the setting up of a proper institutional framework to ensure the successful implementation of the measures introduced.

Overall, the IMF was faulted for applying the principle of "one size fits all". Its SBA programs used in Latin America were applied to Asia although Asia had significantly different economic conditions, with fiscal surpluses and high savings. The IMF was also faulted for not paying sufficient attention to the social

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6 For a detailed discussion on spill over effect and systemic risk, see Alp (2002), p.198-204.
implications of the crisis. As a result, the IMF programs imposed high financial and social costs to the crisis-affected countries.

Many people agree on all these critiques as we do. However, we would like to put more emphasis on the case of Malaysia and that of Turkey, since the causes and nature of these crises are different from others.

After the Asian crisis, Malaysia had refused IMF assistance and advice. Instead of implementing IMF’s prescription, Malaysia imposed capital controls in an effort to eliminate speculative trading in the Ringgit and stabilize the economy. Consequently, Malaysia suffered less severe economic problems than the other countries embroiled in the Asian financial crisis. In his famous book, “The Malaysian Currency Crisis: How and Why it Happened?” Malaysian Prime Minister Mahathir Mohamad is very critical on the policies implemented by the Minister of Finance and the central bank. Contrary to his view –that is to provide relief to the banks and their clients – the central bank announced some measures to tighten the situation even further. With his own words “What the minister of finance, together with the central bank, had done was to implement a virtual IMF policy without the IMF loans; namely, a combination of tight monetary and fiscal policies, raising the interest rate to defend the exchange rate, attempting to strengthen the banking system through more stringent prudential standards and cutting down public expenditure to improve the current-account balance. As a result of the
implementations of these standard IMF prescriptions, Malaysia’s economy plunged deeper into recession.”

The President of the National Chamber of Commerce and Industry of Malaysia, Dato Seri Abdul Rahman Maidin, makes a discrimination between the Asian crisis and other crisis, especially the crises in Latin America, stating that “the problem in East Asia was not imprudent government, as in Latin America; the problem was partly an imprudent private sector and most importantly speculative trading in currencies by international currency speculators.” Despite these different natures, the IMF treated the Asian crisis like other crises where countries could not meet their balance of payment obligations. Accordingly, the IMF made loan arrangements to enable countries to meet foreign payments (largely to private banks in these cases) on the condition that the recipient countries adopt structural adjustment policies. Maidin (2002) also states that “the Fund also failed to manage an orderly roll-over of short-term loans, which was most needed; and it forced governments in South Korea and Indonesia to guarantee private debts owed to foreign creditors.”

As we all know, the frequency, virulence and global spread of financial crises in the 1994-1999 period has led to the most serious rethinking about the structure of the international financial system since the breakdown of the Bretton Woods system. Regarding the need for reforming the international financial system, Stanley Fischer, who had been the First Deputy Managing Director during

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the period of crises, proposes that the role of the role of the IMF as international lender of last resort should be strengthened through the further development of the Supplemental Reserve Facility (SRF) and, particularly, the Contingent Credit Line (CCL). According to Fischer (2000), this strengthening the role of the IMF as international lender of last resort through its activities as crisis lender and crisis manager "should help reduce the frequency and virulence of the crises the system experienced as international capital mobility has increased".

This conclusion sounds very good. We do welcome a proposal that will help reduce the frequency and virulence of crises. However, we disagree on his proposal that the IMF should play the role of international lender of last resort. First, because the IMF can not act as a lender of last resort, since it is not an international central bank. In other words it can not freely create international money. Increasing the quotas and strengthening the SRF and CCL will not suffice to play the role of international lender of last resort.

Second, when Fischer (2000, p.19) address the complains of Kindelberger (1996, p.188) that the IMF is too slow in emergencies, he states that the IMF has demonstrated the ability to move very rapidly in recent years, using the Emergency Financing Mechanism introduced after the Mexican crisis. Fischer argues that "the main constraint on the IMF's ability to act in time to avert a crisis is that governments delay too long in approaching the IMF, in part because

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10 The SRF was introduced by the IMF at the end of 1997 and it is subject to policy conditionality and can make short-term loans at penalty rates to countries in crisis. On the other hand, the CCL, established in April 1999, was designed to provide a line of credit to countries struck by contagion from an external crisis.
excessive delay is a characteristic of governments that get into crises, but also because these governments hope somehow to avoid taking actions that a Fund program would require."

Fischer is not right on this, at least in the Turkish case. The crisis that Turkey experienced in November 2000 was a liquidity crisis, even if not caused, at least accelerated by the decision of the Central Bank of Turkey of not giving liquidity into the system. During the crisis, Istanbul Stock Exchange Index has decreased by 50% in ten days, the Central Bank had to sell about 6 billion dollars of its reserves, and overnight interest rates have increased up to 300-400% level (even close to 1000% for a moment).

INSERT FIGURE 1 HERE

The central bank, after giving liquidity of about 6 billion dollars (3.4 quadrillion Turkish Lira), most of which was used to buy foreign exchange from the central bank at the fixed exchange rate, has suddenly decided at the end of November to stop providing liquidity. The changes in central bank reserves can be observed in Table: 1.

INSERT TABLE 1 HERE

According to the governor of the central bank at that time, the reason for this decision was the limit on the net domestic assets imposed by the IMF. However, when this decision was announced, the limit on the net domestic assets,
which was -1.2 quadrillion Turkish lira, had already been exceeded more than 50, reaching at -1.9 quadrillion Turkish lira.

Fischer's argument about the constraint on the IMF's ability to act in time to avert a crisis was not valid in the Turkish case, since Turkey was implementing a program supported by an IMF Stand-by agreement. Forget about playing the role of the international lender of last resort, by insisting on the limit on net domestic assets, the IMF did not let the domestic lender of last resort, the Central Bank of Turkey, play its role.

Putting limits on net domestic assets may be acceptable during the normal times, especially in a fixed exchange rate system. However, if there is a danger of systemic risk, these kinds of limits should be ignored and the central bank should provide liquidity as the lender of last resort. The Central Bank of Turkey could use the discount window and provide credit directly to the bank having liquidity problem, namely Demirbank. However, it did not so and stopped providing liquidity into the system. Moreover, all of the market maker banks did not offer any rates and the Central Bank canceled the license of Demirbank to operate in interbank money market. Briefly, there was no way to go for Demirbank, and it was left alone with its destiny. The destiny was to be taken over by the Deposit Insurance Fund.\(^\text{12}\) However, this destiny was not only that of Demirbank, but also that of the Turkish financial system. The liquidity crisis has turned into a banking crisis.

\(^\text{12}\) Demirbank, which had been fifth largest bank before takeover by Deposit Insurance Fund, has been sold to HSBC, which had been negotiating with Demirbank to buy it just before takeover.
After all these had happened, the IMF has come up with a huge amount of SRF. The amount of the SRF was really unusual and over the quota. However, the IMF has come after everything had happened.

Yes! There was a delay, but not that of the Turkish government in approaching the IMF, because the IMF had already been in Turkey and everything was under its control. The IMF has delayed to act to prevent crisis. Just easing the limit on net domestic assets would be sufficient, at least to prevent the spread of the liquidity crisis. Actually, the Central Bank was also responsible for this crisis, since it provided liquidity to the banks that had no liquidity problem, instead of providing direct credit to the bank with liquidity problem through the discount window.

In a paper published in February 2001, just before the crisis in February 2001, Günal (2001a) has argued that, as claimed in endogenous money approach and financial instability hypothesis, the Central Bank, acting as a lender of last resort, should not close its discount window and should provide liquidity into the banking system. If the central bank closes the discount window and does not provide liquidity, another Minsky type liquidity crisis will happen. The November 2000 crisis has proven that the money supply in Turkey is endogenous and that if the Central Bank does not accommodate, the crisis will become inevitable. Günal (2001a) has concluded that, "if we do not learn from crises and do not solve structural problems led to the crisis, it will reoccur depending on the conditions and
policies to be implemented”. Unfortunately, another crisis happened in February 2001.\textsuperscript{13}

Briefly, the IMF has not played any role during the crisis, except for causing crisis to deepen and to turn into a systemic one by insisting on limiting net domestic assets. The IMF just watched and then came with the SRF. Actually, as happened in the Asian crisis, this SRF was used to a great extent for repayment of the IMF loan and of the credits given by the international banks.

In conclusion, the IMF can not play the role of the international lender of last resort. It can not prevent any crisis, because it delays in acting in time to avert a crisis. The IMF comes up after everything happens. As seen in the Turkish crisis in November 2000, its one-fit-all prescriptions such as limiting net domestic assets do not work, and even has adverse effects, during crisis.

Within this context, the IMF should reform first itself, instead of crisis hit countries. It should analyze each country in a different manner and take into account the characteristics and structural problems of each country and even of each crisis.

Last but not least, the government and bureaucrats of the countries experiencing problems or crises should negotiate with and convince the IMF on country-specific conditions and solutions for problems, instead of leaning with the wind, the IMF.

\textsuperscript{13} See Günel (2001b) for a discussion on causes and effects of February 2001 crisis in Turkey.
In a paper presented in 2001, Fischer points out the relationship between current account deficit and crisis and states that the reason behind the crisis Turkey experienced in November 2000 was high current account deficit as well as structural problems in the banking sector. He concludes that the necessary measures could not have been taken on time.\textsuperscript{14} We do agree with him on the delay, but do not agree on who delayed. As Yeldan (2003)\textsuperscript{15} mentions, the IMF knew that there were high current account deficits, but they closed their eyes because other indicators were performing very well. The Turkish government and economy management are responsible for this crisis, due to the fact that they implemented the program as directed, not that they delayed or that they did not implement the program.

However, their fault was not to discuss and convince the IMF on giving up the fixed exchange rate system due to current account deficit problem, and to let the Turkish lira to float at the beginning of January 2001. If they did so, the February 2001 crisis might not happen; at least its effects would not be so severe.

\textbf{5. CONCLUSION}

The financial crisis that erupted in Asia in mid-1997 led to sharp declines in the currencies, stock markets, and other asset prices of a number of Asian countries, threatened these countries' financial systems; and disrupted their real economies, with large contractions in activity that created a human crisis alongside the financial one.

\textsuperscript{14} See, Fischer, 2001, s.18-19
As a result of these developments, it has been widely argued that there is a need for reform of the IMF, charged with safeguarding the stability of the international monetary system. The role of the IMF had already been discussed since the collapse of Bretton Woods system in the early 1970s. These discussions have gained momentum in parallel to the crises experienced in the 1990’s. Although, the IMF responded to the crises and helped restore confidence to the economies affected by the crisis. However, its role and functions are questioned by policy-makers and economists, in light of crises and increased globalization.

The Asian crisis has underscored, on the one hand, the need for the countries to strengthen their economic and financial systems to reduce their vulnerability to external shocks, and the need for restructuring the international financial system.

In the preface to the Turkish edition of his famous book, “the Return of Depression Economics”, Paul Krugman finishes his words with this question: "Yesterday Asia, today Turkey; who will be the next?". We may not know who the next will be. However, we can be sure that there will be more crises as long as we do not take necessary measures to restructure international financial system and to establish mechanisms to prevent, not just to manage crises after it happens.

And we should start with restructuring the IMF…

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Figure: 1  Interbank Overnight Interest Rates (2000)

Source: The Central Bank of the Republic of Turkey
Table 1: Central Bank Reserves  
(October-December 2000, Weekly, Million $)

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Source: Central Bank of the Republic of Turkey (CBRT), weekly bulletins.