Chapter 11
The Role of IMF–Turkey Relationship on Strategic Investment Decision

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ABSTRACT

The International Money Fund was established as an intermediary to overcome the 1929 World Economic Depression and economic destruction of World War II, balance payment problems, imbalance of international monetary system, and shrinking international trade. However, the role of the IMF has changed with the new developments in the world economy, and after 1980 with its applications called “structural adjustment program,” IMF has increased its effectiveness, and it has become an important authority on the crisis occurred with the globalization. In this chapter, the historical development of IMF and Turkey’s relationship and its effects on the Turkish economy is discussed. The economic conditions led Turkey to apply to the IMF and all of the agreements made between IMF and Turkey, and as a result of those, the macroeconomic parameters of the Turkish economy are evaluated. The effects of the IMF stability program on the Turkish economy, applied by Turkey as a result of the agreements made with IMF, are analyzed with VAR econometrical model. The effects of IMF loans on balance of payments, current account deficits, economic growth, and inflation rates are analyzed. The macroeconomic parameters are compared with t test to find out if there is any meaningful difference on those parameters between the periods with agreements made with IMF and the periods without any agreements.

INTRODUCTION

In 1929, World Economic Crisis and immediately after II. With the emergence of World War II, international economic relations have entered into a narrow bottleneck, and there has been a great collapse in international trade, employment and living standards. These events brought up the need for the establishment of a new international monetary system, the stabilization of exchange rates through this system, the liberalization of world trade, and the solution of the international reserve problem (Clavin, 2000).
1944, a conference was held in the town of Bretton Woods, New Hampshire, USA, under the leadership of developed countries such as the United States and the United Kingdom, to respond to these needs and to create the international monetary system. In this context, the Bretton Woods system was created and the establishment of the IMF was decided. Established in 1945 as an international monetary and financial institution, the IMF is also the main creator of international liquidity, creating an alternative value measure called SDR.

The main purpose of the IMF is to ensure international monetary stability and to meet the short-term debt needs of countries. The IMF has been designed to support countries that have suffered from a balance of temporary payments to prevent import restrictions due to these difficulties. In addition to this basic objective, the obstacles in the 1950s were removed, such as the elimination of barriers on the fund, capital and commodity movements, the provision of the necessary free market power to fulfill its functions, price incentives, the protection of industry, and the elimination of state interventions.

However, due to the crises in the world economy, it is seen that the classical functions of the IMF have changed in time. The IMF has become an institution that provides financial resources to solve the balance of payments problems of the developing countries rather than the advisory mechanism that directs the developed countries. IMF loans have become an important source of financing for countries with economic instability. Countries are implementing IMF-supported stabilization programs in times of economic instability in order to ensure economic stability and to resolve financial crises. Especially the crises that occurred after 1990s affected many countries globally and countries like Brazil, Mexico, Argentina, Thailand, Indonesia, South Korea, Russia had to steal the door of IMF (Stone, 2004).

Depending on these developments shaping the world economy in 1947, Turkey became a member of the IMF, have begun to increase their trade relations with other countries and has been integrated into the outer world. However, the country has faced structural problems as in other developing countries. The programs implemented to solve these problems have often been implemented with the support of the IMF. Not having an emerging economic structure is located between Turkey and the IMF, most applicant countries. Turkey in the last 65-year period from date to date is a member of the IMF, has 19 agreed with the IMF but close to half of these arrangements could not be completed due to failure to fulfill Turkey’s borrowing requirements. Turkey has benefited from approximately 42.5 billion dollars in IMF resources in this process (Yeldan, 2006).

In this study, especially in terms of our country to assess the IMF’s role in the world economy, the IMF-Turkey relations were analyzed systematically taken up into a whole. The purpose of this study, the IMF is Turkey’s establishment of close relations with the IMF since the process of examining the historical context of its relations with the IMF, Turkey has benefited much from the IMF, the economy, especially of the credit economic growth, the effects of Turkey’s economy, the current account deficit, inflation and the effect on the balance of payments is to analyze in the axis.

THE FOUNDATION AND PURPOSE OF THE IMF

The IMF was born on December 27, 1945, when 29 countries signed the Bretton Woods agreement, and began financially on 1 March 1947. 80% of the fund quota is committed. The IMF has a Convention on International Monetary Fund. The Articles of Association, consisting of 31 articles and various annexes, encompasses various provisions ranging from the organization of the Fund to its functioning, from relations with member countries to the Fund staff. Since 1944, the IMF Treaty has undergone significant