

# **ECONOMIC AND POLITICAL INTERACTION OF 2001 CRISIS: IMPLICATIONS FOR 2008 RECESSION?**

**Hidayet KESKİN, Hakan M. KİRİŞ, Canan ŞENTÜRK, Onur DEMİREL**

**Süleyman Demirel University, TURKEY**

## **Abstract**

As it is known, Turkey experienced a severe economic crisis in the year 2001. This economic crisis has been costly for the Turkish economy and has typically been accompanied by a collapse of output and employment as well as striking declines in real wages. Not only economic insufficiencies and bottlenecks but also political uncertainty had sizeable impacts in the formation of economic crisis. The 2001 Crisis interestingly caused a set of catastrophe and it is worthy to analyze its emergence, mal-administration, and wide damage on the Turkish economy and to show the structure that transformed political climate in the post-crisis period. The interaction of political and economic dimensions of 2001 crisis also accompanies strong implications for 2008 recession and this paper finally discusses lessons of 2001 crisis for 2008 recession through the lenses of interplay between politics and economics.

**Keywords:** Turkish 2001 Crisis, Political Instability, Economical Insecurity

## **Introduction**

Economic policy is one of the favorite topics of the “introduction parts”. The intervention of political power to economy or the effects of economic structure on policy, with other words the telescopic structure of politics and economy is a well known point. From the past to present, with the formation of the interactions founded by different ideologies between the mode of production and governments have made it necessary to include the external factors as well as the internal ones in today’s flattened world. Today it’s not a surprise to see that a deep crisis that emerges somewhere geographically so far from a country can drive the country into both economic and political crises by the integrated financial markets. In this context, the economic crises are also called global crises because, a crisis that has emerged in any economy as an effect of the globalization can expand rapidly to others by the interconnected fiscal markets.

Both the relationships between political stability - economic growth and political instability - economic uncertainty have certain results. Political instability causes some effects on economy such as increases in inflation and unemployment rates, decline in growth rates, declines in the maturities of internal and foreign debts, increase in the cost of debts, slowdown in investments, rises on capital flight and the flight of human capital,

rise in the problems with servicing of loans and problems like preferring seignorage instead of tax income. There is also a very close relation between political instability and macro economic uncertainty in Turkey. Turkey has faced a deep banking and foreign exchange rate problems in November 2000 and February 2001 crises and in that process political stresses loomed large.(Kibritçioğlu 2002) Confronting of economic crises with political instabilities and ambiguities can be accepted as the leading factor causing the chronicity of the problem.

**Table 1. Anatomy of Economic Crises in Turkey**

	<b>Before 1980</b>	<b>After 1980</b>
<b>Causes and Characteristics of Crises</b>	Balance of payment crises caused by structural problems	Financial crises caused by external shocks (currency crises, liquidity crises)
<b>Reflections of crises to real economy</b>	Restricted	Wide scale and diffuse
<b>Economy Policy</b>	Import substitution Industrialisation	Export Oriented Industrialisation
<b>Stabilisation measures against crises</b>	Contractionary budget and fiscal policy applications	Contractionary monetary policy applications
<b>Capital Flow</b>	Restricted and have no main role to create crises	Unrestricted and one of the main factor of crises
<b>Banking Sector</b>	Under public control and have no effect to create crises	A Liberal and relatively less controlled system and in the position of one of the main actors of crises
<b>Public Sector Borrowing Requirement</b>	In the framework of development plans and at a sustainable level	Unsustainable level
<b>Foreign Trade Deficit</b>	Creating with structural reasons	Creating with external impacts
<b>Financing of Government Budget</b>	Taxes and long term foreign credits	Short term foreign credits and intensive domestic loan

**Source:** Adopted from Ercan UYGUR, “Krizden Krize Türkiye: 2000 Kasım ve 2001 Şubat Krizleri”.

The reasons of recent crises that repeat very often and form rapidly can be explained with the fact that these crises emerge in the banking systems or financial markets. The effects of the crises can be more severe especially in developing countries. As the developing countries do not have effective operating, deep and healthy financial markets, the markets in these countries become more vulnerable to speculations. When the uncontrolled funds suddenly enter to the developing markets, these markets react positively more than they should. However, the sudden exit of these funds produces a shock effect on the markets and in turn an economic crisis. After the crisis, the confidence to the governments in these countries declines. Crisis abolishes the stability in the country and causes a deep distrust. While this environment of distrust causes speculative movements to turn into shocks, the

shocks turn into crises. Thus a developing country begins to experience the shock/ crisis spirals together.

Turkey has met the financial crises after applying export oriented economy strategy in order integrate to the globalization process. Therefore it is better to examine the crises in Turkey anatomically in two phases - before and after 1980.

Before 1980's, the crises emerged in Turkey can rather be explained with the structural features of Turkish economy. However the crises emerged of post 1980 period particularly that of 1990s, are characterized as external crises. As an example, two important economic crises that Turkey has experienced in November 2000 and in February 2001 can be given. The crisis in February 2001 is the sequel and the second wave of the November 2000 crisis.

## **1. Political And Economic Improvements Towards 2001 Crisis**

### **1.1. Turkish 1999 Elections and 57th Government**

Parliamentary and local elections were held together at 18 April 1999 in Turkey. This election were affected by problem of terror in Turkey's southeast region so, as nationalist left Democratic Left Party (DSP) became the first party and Nationalist Action Party (MHP) as nationalist right, became the second at this election results. Turan emphasizes that Prime Minister Ecevit gained great reputation because Öcalan had been captured before 1999 elections.(Turan 2004) However, studies show that electoral behaviours influence not only conjuncture but also economical conditions. Especially the first party which gained elections was different for three elections during 1990s. Economic circumstances were more important than ideological opinion for Turkish electorate. The table below indicates Turkish 1999 MP's Election results.

**Table 2 . Turkish 1999 Election Results**

<b>Party</b>	<b>Ballot</b>	<b>Percentage</b>	<b>MP</b>
<b>DSP</b>	6.919.670	22,19	136
<b>MHP</b>	5.606.583	17,98	129
<b>FP</b>	4.805.381	15,41	111
<b>ANAP</b>	4.122.929	13,22	86
<b>DYP</b>	3.745.417	12,01	85
<b>CHP</b>	2.716.094	8,71	-
<b>HADEP</b>	1.482.196	4,75	-
<b>BBP</b>	456.353	1,46	-
<b>Independents</b>	270.265	0,87	3
<b>Others</b>	1.059.608	3,4	-

Source: Adapted from <http://www.tbmm.gov.tr>

Moderate right Motherland Party (ANAP) became the forth at 1999 elections and the third partner of 57th government. Republican People's Party (CHP) couldn't gain right of representation at the parliament for the first time of its all history. Furthermore, the first

party's voting rate was less than 25 percent. This fragmented political landscape was one of the initial causes of political instability.(Eren and Bildirici 2001) To the election results at the parliament five political parties gained right of representation. On the other hand 1999 elections made formation of a coalition necessary. Thus 57<sup>th</sup> Turkish Government (later called *Milliyetçi Anasol*) was formed by DSP, MHP and ANAP at 28 May 1999. In the government program, Prime Minister Bülent Ecevit explained the reason of the coalition of these three parties as such:

*“With this tendency, our society has shown that they have a desire for tolerance, compromise and cooperation rather than instability, conflict and polarization.”*

57<sup>th</sup> Government gathered former opponent political groups. Government's aim was a competitive market economy in the economic sphere. In other words a stable economy would be made up. However, at this three party coalition government, administration of economy was shared among these three parties.

At government, having over thirty ministries, Ministry of Finance, Labor and Social Security were given to ANAP, Ministry of Industry and Trade was given to MHP. In addition to this, Turkish Treasury, Banking Regulation and Supervision Agency (BDDK), Central Bank, Ziraat Bank, Capital Markets Board (SPK), Halk Bank, Development Bank, Emlak Bank were given to DSP, Undersecretary of Foreign Trade, EXIMBANK, Turkish Accreditation Agency were given to MHP, administration of customs, Privatization Administration, the duty of coordination in the public collective agreements were given to ANAP. That's why, administration of economy was fragmented.

In the progressing period that the three parties, having different perspectives, couldn't maintain in cohesion created instability at markets. Also this situation caused great delay infrastructure reforms. IMF postponed the third credit tranche putting up the argument that infrastructural reforms were delayed. National Security Council (MGK) held at the date of 21 February 2001 the tension between President Ahmet Necdet Sezer and Prime Minister Bülent Ecevit triggered February 2001 economical crisis.([www.belgenet.com](http://www.belgenet.com))

## **2. Economic And Political Faktors Of Novemvber 2000 And February 2001 Crises In Turkey**

### **• Increases in Public Borrowing**

There were sharp increases both foreign and domestic loans in Turkey so dynamic of the debt became unsustainable. Total public debt was 170 million dollars at the end of the 2001 and its 60 million dollars was foreign debt, 110 million dollars was domestic debt.(Özbilen 2001)

### **• Central Bank's Situation**

The exchange rate basket is anchored to 1 dollar + 0.77 Euro in the disinflation programme of 2000. The Central Bank of Turkey declared that Turkish Lira would depreciate against the basket by 2.1% in the first quarter and 1.7%, 1.3% and 1% in the

second, third and fourth quarters respectively. It was planned an exchange rate appreciation rate of 0.9% in the beginning of 2001 and to abandon the anchor programme and continue with floating exchange rate in July 2001 but the realizations do not allow the application of these predictions.(Ongun 2002)

November 2000 crisis is caused by public bank's and institutional investor's excessive demand for foreign currency. There was a 6.1 billion dollars reduction at Turkish Central Bank foreign currency reserve between November 17 and December 5. Turkish Central Bank's gross foreign currency reserves reduced 18.3 billion dollars and total net foreign currency reserves reduced 13 billion dollars. In consequently applied IMF programme became insecurity with November 2000 crisis. Banks financial structures get worse because of high interest rates and all of this reasons composed February 2001 crisis. Consequently in the framework of IMF's stabilization program's targets didn't catch.

The confidence loss of the applied programme due to the November Crisis, and worsening of fiscal structure of the banks due to high interest rates constitute the basic reasons of the February Crisis.(Alp 2001)

- **Problems of Banking Sector**

Private trade banks had an important role to creating November 2000 crisis. The most important reason of November 2000 crisis was private banks foreign currency demand. They tried to close their open positions with foreign currency. On the other hand the main actor of February 2001 crisis was public banks. Re-construction of public banks was delayed and their financial situation gets worse. At the same time public banks demand foreign currency and to cause a new crisis.

- **Increases in Foreign Trade Deficit**

One of the main reasons of November 2000 and February 2001 crises was vast foreign currency demand. Foreign currency demand is caused by foreign trade deficit. Fixed currency policy created enormous foreign trade deficit so foreign currency demand increased. Turkey's foreign trade indicators of years 2000, 2001 and 2002 are given in Table 3.

**Table 3. Foreign Trade (Annual, Million USD)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Export</b>	27.775	31.334	35.761
<b>Import</b>	54.503	41.399	51.203
<b>Foreign Trade Volume</b>	82.278	72.733	86.964
<b>Foreign Trade Deficit</b>	-26.728	-10.065	-15.442
<b>Export/Import</b>	51.0	75.7	69.8
<b>Export/GNP</b>	13.9	21.5	19.9
<b>Import/GNP</b>	27.3	28.4	28.5

Source: <http://www.dtm.gov.tr/dtmadmin/upload/EAD/IstatistikDb/eko01.xls>, 08.03.2008.

There was a major increase in imports of Turkey in 2000. This development effected foreign trade deficit negatively. The interest rates fall down because of the implicated

stabilization program. So delayed consumption desires actualized. Besides, over-valued TL caused relatively cheap foreign goods.

Turkey's export increased to 27.8 billion dollars in 2000 from its 1999 level of 26.6 billion dollars. The rate of export increase was 4.5%. But export increase is relatively less than import increase. Limited increase in exports based on over-valued TL. Because of over-valued TL, Turkey's export good became expensive and they lost competitive advantage.

#### • Capital Movements

A sudden capital outflow may lead to liquidity problems and hence cause output losses in emerging market economies such as Turkey and brings about an equal amount of reduction in the foreign exchange reserves (Alper and Sağlam 2001).

The increase in the trade deficit in Turkey made especially the foreign investors worry about the sustainability of the programme that caused a high level of capital outflow from Turkey. This increased the foreign exchange demand rapidly and triggered crisis.

Despite the increase in interest rates capital fled out of the country. The capital flight had negative effects on foreign exchange reserves and the reserves decreased. As the result of these all, the pressure on foreign exchange increased (Ergi 2001).

In 2000, the long-term capital movements increased by 114.3% and short-term capital movements increased by 431.6% ([www.foreigntrade.gov.tr](http://www.foreigntrade.gov.tr)).

The economy enjoyed a net capital inflow of \$12.5 billion during the first 10 months of 2000 on account of a large inflow by non-residents which financed not only the mounting current account deficits, but also net outflows by residents and increases in reserves (Akyüz and Boratav 2003). The reasons of the foreign capital inflows are the plausibility of the support to the stand-by treaties signed with the IMF, the confidence on nominal exchange rate and more crucially the continuation of positive arbitrage income for hot money despite the decrease in interest rates.

However the confidence on the stability programme has started to diminish since the second half of the year 2000 in Turkey. First alerts of capital movements revealed with negative net capital flows in September 2000. The capital outflow was interpreted as a signal of economy wide crisis.

Briefly, a financially shallow emerging market economy such as Turkey could not endure the disruptive consequences of such financial shocks. Yet, the 2000 disinflation program completely ignored the fragile conditions of the Turkish financial and asset markets, and denied both the monetary (the Central Bank) and the fiscal (the Treasury) authorities' utilization of their traditional tools of austerity, rendering them powerless against the speculative forces of the markets, all in the name of *good governance* (Cizre and Yeldan 2005).

- **Political Instability and Haziness**

Economy reacting according to the political atmosphere showed a fragile structure. The factors like 1999 Earthquake, 2000 and 2001 economical crises, United States' Iraq operation, the illness of Prime Minister Ecevit, disruption of DSP which was the greatest party in the coalition government and the parliament, the chaos of other parties caused complication in Turkish economy.

In Turkish case irregular economy and corrupted political structure are the main sources of crises. Thus black hole in economy, continual debt public deficit, in great scale, corruptions, unproductiveness, lack of synchronization between agriculture and industry increase the size of crises (Yakin 2001).

- **Negative Atmosphere Created by 1999 Earthquake**

The earthquake occurred in Marmara on August 17<sup>th</sup> 1999 had many direct and indirect adverse effects on the industry and the economy.

## **1. The Crisis Process**

The first crisis of the inflation targeting was experienced on November 22<sup>th</sup> 2000. The reason of it was a speculative attack. The attack increased the interbank overnight interests up to 873%. The basic reason of liquidity shortage is the additional demand of banks trying to close their year-end short positions. The foreign exchange demand has risen because of the increased liquidity demand of banks towards foreign exchange (Tunca and Karabulut 2001).

With the increase in foreign trade deficit, foreign investors lost their confidence to the applicability of foreign exchange regime. A shock in the economy appeared when foreign investors sold securities net worth of which is \$5.2 billion and repatriate it. With \$2.9 billion additional help of the IMF between December 2000 and January 2001 temporary stabilization of capital movements was acquired. Until February 2001 a total of \$6.3 billion of capital outflow was experienced. The total capital outflow as the result of November 2000 and February 2001 crises were \$11.5 billion. \$10.3 billion of this outflow was foreign capital outflow. This shows the size of negative shock that Turkey encountered because of capital flows. These figures explicitly show the effect of capital movements on the formation of financial crises. During capital movements a deflection of approximately 12% of GNP occurred.

The November 2000 crisis was overcome by additional liquidity injection of the Central Bank, high inflation rates, high level of foreign exchange sales and the additional reserve of \$7.5 billion of the IMF's commitment (Yeşilada, Noordijk, Nelson 2004). However the problems in the economy persist and the Treasury continued borrowing with high interest rates. These loaded extra difficulties on the programme. (Tunca and Karabulut 2001) After the November 2000 crisis, the fragility of the economy and the risks of fiscal sector have increased (Ergi 2001).

The reconstruction process of public banks was sluggish. In the process public banks kept collecting deposits with high costs, borrowing from money market and financing through short term repo (Erdoğan 2001).

### **3.1. February 2001 Crisis**

After the speculative attack in November 2000, Turkey experienced a political crisis on February 19<sup>th</sup> 2001 and following the crisis a second speculative attack (Tunca and Karabulut 2001). The Central Bank persisted in its net domestic asset target and caused the deepening of crisis (Şamiloğlu 2002). As a result of second speculative attack in February 2001 the interbank interest rates risen to 6200%. The Central Bank intervene the market with \$5.36 billion but couldn't stop the speculative attack (Tunca and Karabulut 2001). The Central Bank decided to leave exchange rate to floating on February 22<sup>nd</sup> as the demand to foreign exchange has climbed to a record level that cannot be supplied (Uygur 2001).

In February 2001 crisis the financial markets were locked, the payment system collapsed, and foreign exchange demand continued to rise. The interest rates increased rapidly (Şamiloğlu 2002). The increase in foreign exchange has caused the contraction of domestic demand. Besides the government suffered loss of prestige with two crises one after another (Şamiloğlu 2002). Turkey has signed 16 programmes with the IMF and most of them were left aside. In the February 2001 crisis another IMF programme ended in failure (Alp 2001). Therefore the "Disinflation Programme" supported by the IMF was abandoned. Instead the "Transition to Strong Economy Programme" applying floating exchange rate is used (Akyüz and Boratav 2003).

## **2. Economic And Political Atmosphere After 2001 Crisis**

### **4.1. Economic Situation after 2001 Crisis: Growth and Foreign Trade**

Turkey experienced a serious contraction as a consequence of the financial crisis occurred in 2001. The new macroeconomic policies and structural reforms introduced in the aftermath of the crisis, which have been redesigned as a 3-year-forward economic programme in the beginning of 2002, have caused a significant improvement in the economy.

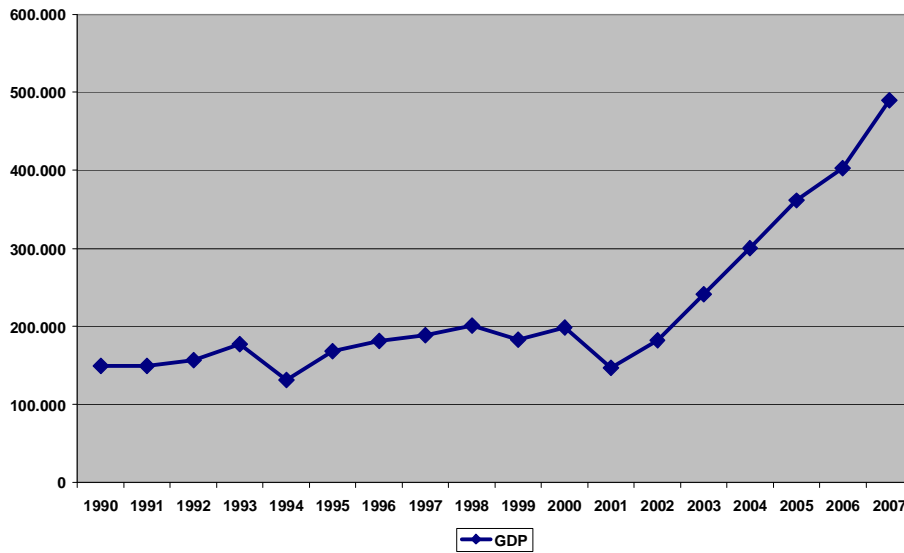
2001 crisis created serious impact on real sector. With sharply increasing interest rates, source transfer has ceased to real sector and economic uncertainty has obstructed investments. Furthermore a reduction in domestic demand occurred, many enterprises borrowed with foreign exchange faced with the risk of bankruptcy (Seyidoğlu 2003).



After rapid economic contraction in 2001, Turkey economics entered growth process again. Economic stability and affirmative expectations achieved by monetary and fiscal policy implemented after crisis and structural accommodation contributed to beginning of growth process in all sectors, especially industry sector ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)).

In Turkey, a fluctuating growth process has been realized in the last ten years. In this process, the main developments that affected the economic performance have been the high real interest rates, the public sector imbalances, inflation volatility, macroeconomic instability, crises in Asia and Russia, the earthquake in 1999 and the financial crisis in 2001([ekutup.dpt.gov.tr](http://ekutup.dpt.gov.tr)).

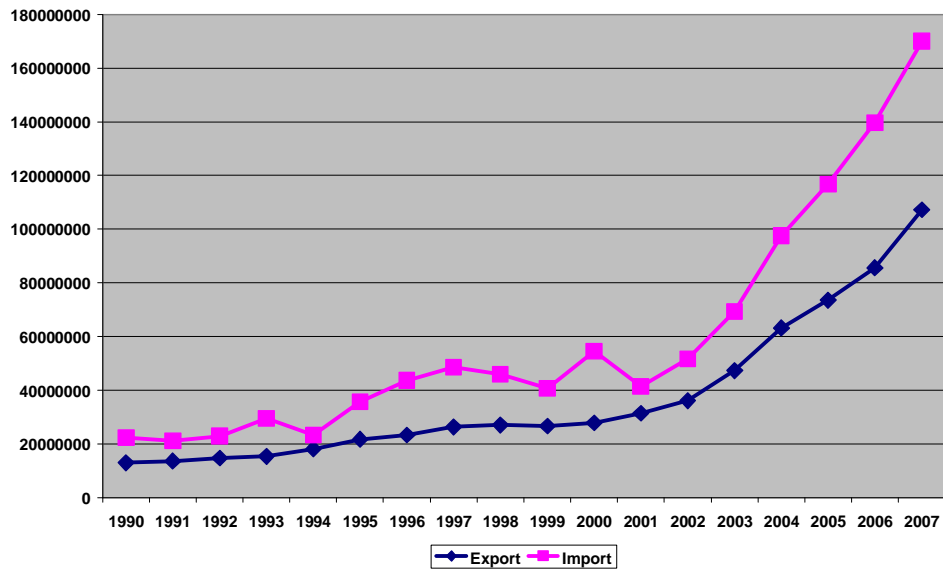
**Graphic 1. Movements of GDP (Annual, Million USD)**



**Source:** Adapted from the data available in Turkish Statistical Institute.

As illustrated in Graphic 1, GDP has a sudden decrease during 1994 crisis. Again the decrease in GDP in 1999 that can be accepted as the reflection of financial crises in Asia and Russia is striking. After 2000 and 2001 crises, a sharp decrease in GDP is observed. After the crisis in 2001 a decrease of 9.5% in national income was experienced and the economy faced with a significant contraction. The new macroeconomic policies and structural reforms introduced in the aftermath of the crisis have caused a significant improvement in the economy. Nonetheless national income has achieved level before crisis in 2003. Continuous economic growth which started in the first quarter of 2002 has carried on second quarter of 2006 and so growth process is observed in economy during 18 periods. During 2002-2006 period, while economy grew by 7.2 percent on the average, employment increased by 0.7 percent on the average annually. One of the main factors behind this development can be counted as low growth rate of imports due to the slowing down of total domestic demand especially in the second half of 2006 and continuation of exports increase owing partly to the increase in real exchange rate (DPT, 2008).

**Graphic 2. Movements of Export and Import (Annual, Thousand USD)**



**Source:** Adapted from the data available in Turkish Statistical Institute.

As a result of the depreciation of Turkish Lira after the floating exchange rate regime and the decrease in domestic demand because of the crisis, the enterprises tend to make export. Compared to previous year; Export in 2002 was realized with an increase of 14.1% and was \$35.8 billion. On the other hand import in 2002 was \$51.2 billion compared with in 2001 (ekutup.dpt.gov.tr). The increases of export in 2001 and 2002 have continued in 2003 with a higher pace. Therefore in 2003 export has increased by 31% and reached to the level of \$47.3 billion. This level made Turkey the largest 24<sup>th</sup> exporter in the world. Besides, the increase rate of 31% made Turkey the second country in terms of export growth among top 30 export countries. The reasons of the increase in exports may be listed as the continuation of the increase in production despite the low domestic demand, the continuation of the decreases in the costs of real workforce and the of productivity, finance easiness as a result of interest rate decreases, positive reflections of dollar/euro parity developments, and cost advantage resulted from low increase rates in the prices of energy.

In 2005 it is observed that the export of Turkey has increased to \$73.5 billion with a growth rate of 16.3% and the imports have increased to \$116.8 billion with a growth rate of 19.7% ([www.foreigntrade.gov.tr](http://www.foreigntrade.gov.tr)).

After 2002 Turkey has faced with an economic crisis although the gap between imports and exports increases. The reason of this can be attributed to positive effect of political stability and partly to the “certainty” environment.

**Table 4. Key Indicators of Macroeconomic Performance: A Comparison of Pre-Crisis and Post-Crisis Period**

	<b>Pre-Crisis</b>	<b>Post-Crisis</b>
<b>Growth</b>	Slow and fragile	High and more likely to be sustainable; unusually rapid growth of 8.6% in 2001 and 9% in 2004 (and also 6.1% in 2006)
<b>Inflation</b>	Chronically high	Low; reduced to single digit levels
<b>Budgetary Deficit</b>	Unusually large	Considerably reduced; large primary surplus; in line with the IMF targets of 6.5%; close to Maastricht requirements
<b>Banking Sector Performance</b>	Poor	Significantly improved
<b>Debt- GNP</b>	Unusually large	Large, but significantly reduced
<b>Dependence on Short- Term Capitals</b>	High	Still high; but risks of crisis considerably reduced due to an improved macroeconomic environment and tighter regulation of the banking system
<b>Current Account Deficit</b>	Large	Large in spite of a significant increase in exports
<b>Inflows of Foreign Direct Investment</b>	Limited	Significant increase with a certain time-lag
<b>Privatization</b>	Limited	Significant increase again with a certain time-lag
<b>Productivity Improvement as a Source of Growth</b>	Weak	Strong

**Source:** Adapted from ÖNİŞ, Ziya, "Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of the Neo-liberal Restructuring in Turkey". International Studies Association, Annual Convention. San Diego, California, USA (March 2006). <[http://www.allacademic.com/meta/p98591\\_index.html](http://www.allacademic.com/meta/p98591_index.html)>, 24.02.2008.

#### **4.2. Political Atmosphere after 2001 Crisis**

There is no doubt that economical crisis in the late 2000 and 2001 changed political panorama in Turkey. With the economical crisis, the conflicts among the three partners of 57<sup>th</sup> government increased. The leading cause of these conflicts was Kemal Derviş<sup>6</sup> who was called urgently from abroad in 2 March 2001 and became minister of state responsible for economical administration. It was announced that Derviş's responsibility

<sup>6</sup> Kemal Derviş was graduated from London School of Economics. He attended a Ph.D program at The Princeton University at USA. Derviş became economy and international relations adviser of Bülent Ecevit till 1973 to 1976. He was attended to World Bank in 1978. See also <http://www.biyografi.net/kisiyrinti.asp?kisiid=1352>, 19.11.2006.

included Turkish Treasury, Central Bank, Ziraat Bank, Capital Markets Board (SPK), Halk Bank, Development Bank, Emlak Bank, Banking Regulation and Supervision Agency (BDDK).

These improvement decreases the prestige of the 57<sup>th</sup> government significantly. Derviş acted as the fourth partner of the government. The ministers having difference of opinion were made to resign. For instance Transport Minister Enis Öksüz, member of MHP, and Minister of State Yüksel Yalova, member of ANAP. Besides Justice and Development Party coming to power at the 2002 elections founded in August 2001.

Derviş announced early election while Prime Minister was lining in hospital. These resulted in political instability and a rise economical fragility.

Derviş, Hüsamettin Özkan who was deputy prime minister and DSP's sorehead and İsmail Cem who was Foreign Affairs Minister decided to act together. Hence The Party of New Turkey was formed. However, Derviş left this decision later.

Before 2002 elections three new parties emerged as the candidate for power: Justice and Development Party, Young Party and New Turkey Party.

**Table 5. Turkish 2002 and 2007 Election Results**

	2002 Elections	MP's 2002	2007 Elections	MP's 2007
<b>AKP</b>	34.3	365	46,5	341
<b>CHP</b>	19.4	178	20,8	112
<b>DYP</b>	9.54	-	5,4	-
<b>MHP</b>	8.38	-	14,2	71
<b>GP</b>	7.25	-	3	-
<b>DEHAP</b>	6.22	-	-	-
<b>ANAP</b>	5.13	-	-	-
<b>Independents</b>	0,9	8	5,2	26
<b>Others</b>	8,88	-	4,7	-

Source: Adapted from Mehmet Turgut, **18 Nisan 1999 ve 3 Kasım 2002 Genel Seçimleri Değerlendirmesi**, Boğaziçi Yayınları, 2. basım, İstanbul 2003, s.174.

The early election was held on 3 November 2002 in Turkey. The partners of 57<sup>th</sup> government couldn't coped with economical and political crises that's why, they couldn't reach threshold. Becoming the first party in 1999 DSP's voting rate decreased around 1 percent at 2002 elections. Also ANAP regressed to 5 percent and MHP moved backward its own traditional voting rate 8 percent.

### **3. The Lessons Of 2001 Crisis And Implications For 2008 Recession Expectation**

The 2001 Crisis interestingly caused a set of catastrophe and it is worthy to analyze its emergence, mal-administration, and wide damage on the Turkish economy and to show the structure that transformed political climate in the post-crisis period. The interaction of political and economic dimensions of 2001 crisis also accompanies strong implications

for 2008 recession and it is discussed the lessons of 2001 crisis for 2008 recession through the lenses of the interplay between politics and economics in this paper.

Taking into account recent economic evidence, it is important question that “how can be affected Turkish economy by the recession expectations in all over the world, especially in the U.S. economy in 2008?” There are some possible scenarios for current economic situation caused by recession expectation.

Firstly, if there is a recession in the U.S. economy, Turkish economy will be seriously affected. If the reforms do not implement and indiscipline of fiscal policy exists, there will be new economic crisis in Turkish Economy. Especially in real economy, there will be a reduction with export decline. Application of futile policies will cause economic recession, increase inflation and unemployment.

On the contrary, secondly, if the reforms implement and disciplines of monetary and fiscal policy provide, the recession will create serious impact on Turkish economy. However, slowdown effect caused by this situation on economic growth and employment will not reason a new economic crisis.

After the 2001 crisis, political policies which focused on economy are main factors of economic stability. For this reason, government’s increased voting rate in Turkey 2007 elections dedicate to political policies which based on economics. Briefly, economy-focused political policies provide protection from external shocks. Otherwise, applications of populist policy have occurred an economic crisis such as 2001 crisis in Turkey, regardless of whether external shock or not.

## **6. Conclusion**

Uncontrolled short term capital flows increased especially in 1990s with globalisation has encountered the developing countries like Turkey with high risks. In order to attract capital floes developing countries have applied high interest and exchange rates. These in turn increased economic instability (Stiglitz 2003). The financial crises both the developed and developing countries have experienced revealed that the applications of fixed exchange rate are open to speculative attacks (Bordo and Flandreau 2001).

One of the basic reasons of the crisis in Turkey is some weak parts of the stability program applied. Especially “the lack of political will” looms large. In fact these deficiencies caused the failure of the programme targets and the formation of crisis.

Although the IMF is not the sole responsible of these crises intensified in the era of globalisation with the policies it applied and made countries to apply the Fund seems like one of the actors who contributes the formation of crises in the era of financial globalisation (Öniş 2003). One of the critiques towards the Fund is that it applies the same prescription to all countries and it neglects country-specific conditions (Stiglitz 2002).

The expectation and desire of “economic stability” were very effective in the formation of one-party-government and a two-party-parliament after 2002. Also the improvements in economic indicators after 2002 emphasises the accuracy of this expectation.

In the process of stable growth of economy after the crisis it is significant that the policy makers and implementers have necessary will and endeavour to furnish a stable structure as well as the economic policies.

It appears that economic stability together with political stability comes with the governance and the administration of the economy in one political party in the 2002 election. The economy replied the increasing confidence in the market and decreasing uncertainty in a positive manner and entered to a permanent growth tendency. This constitutes a clean example of reciprocal interaction between economic and political orientation.

## References

Akyüz Yılmaz and Korkut Boratav (2003), “The Making of the Turkish Financial Crisis”, *World Development*, Volume 31, Issue 9.

Alp Ali (2001), “Bankacılık Krizleri ve Krizlere Karşı Politika Önerileri”, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı I*, Year:7, Volume: 41.

Alper C. Emre and İsmail Sağlam (2001), “The Transmission of A Sudden Capital Outflow: Evidence From Turkey”, *Forthcoming in Eastern European Economics*, Vol. 39, No. 2, 29-48.

Bordo Michael D. and Marc Flandreau (2001), “Core, Periphery, Exchange Rate Regimes, and Globalization”, *CEPR Discussion Papers* 3077.

Cizre Ümit and Erinç Yeldan (2005), “The Turkish Encounter With Neo-Liberalism: Economics And Politics In The 2000/2001 Crises”, *Review of International Political Economy*, Volume 12, Number 3, August 2005 , 387-408.

DPT (2003), “Ön Ulusal Kalkınma Planı 2004-2006”, (accessed January 10, 2008), [available at <http://ekutup.dpt.gov.tr/plan/o-ukp.pdf>].

DPT (2008), 2008 Annual Programme, (accessed March 07, 2008), [available at <http://ekutup.dpt.gov.tr/program/2008i.pdf>]

DTM (2001), <http://www.dtm.gov.tr/dtadmin/upload/EAD/IstatistikDb/eko01.xls>, (accessed March 08, 2008).

Erdoğan Niyazi (2001), “Türkiye’de Ekonomik Kriz ve Bankacılık Sistemi”, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı I*, Year: 7, Volume: 41.

Eren Ercan and Melike Bildirici (2001), ‘Türkiye’de 1990 Sonrası İktisadi Krizlerin Siyasal ve İktisadi Nedenleri’, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı I*, Year: 7, Volume: 41.

Ergi Mustafa (2001), “Dünya’da ve Türkiye’de Krizin Anatomisi”, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı II*, Year: 7, Volume: 42.  
<http://www.belgenet.com/eko/21subat01.html>, (accessed 09.10.2006).

Ongun M. Tuba (2002), “Türkiye’de Cari Açıklar ve Ekonomik Krizler”, Der. Ömer Faruk Çolak, *Kriz ve IMF Politikaları*, Alkım Yayınevi.

Öniş Ziya (2003), “Neo-Liberal Küreselleşmenin Sınırları: Türkiye Açısından Arjantin Krizi ve IMF’ye Karşılaştırmalı Bir Bakış”, edited by: Ahmet Köse, Fikret Şenses, Erinc Yeldan, *İktisat Üzerine Yazılar II. İktisadi Kalkınma, Kriz ve İstikrar*, İletişim Yayınları.

Öniş, Ziya, "Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of the Neo-liberal Restructuring in Turkey", *International Studies Association, Annual Convention*. San Diego, California, USA, (accessed February 24, 2008), [available at [http://www.allacademic.com/meta/p98591\\_index.html](http://www.allacademic.com/meta/p98591_index.html)]

Özbilen Şevki (2001), “Türkiye’de İktisadi Krizin Temel Nedenleri ve Bir Mali Sistem Reformu”, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı I*, Year:7, Volume: 41, (accessed December 02, 2007), [available at <http://www.econturk.org/Turkiyeekonomisi/malikriz.pdf>].

Şamiloğlu Famil (2002), Küreselleşme Sürecinde Türkiye’nin Finansal Kaynak Sorunu, Gazi Kitabevi.

Serdengeçti Süreyya (2002), "Şubat 2001 Krizi Üzerine Düşünceler: Merkez Bankası Bakış Açısından Çıkarılacak Dersler" Konulu Açış Konuşması, ODTÜ Konferansı, (Ankara, 11 Eylül 2002)/(Pdf), (accessed January 02, 2008), [available at <http://www.tcmb.gov.tr/yeni/evds/konusma/tur/2002/ODTU.htm>].

Seyidoğlu Halil (2003), “Uluslararası Mali Krizler, IMF Politikaları, Az Gelişmiş Ülkeler, Türkiye ve Dönüşüm Ekonomileri”, *Doğuş Üniversitesi Dergisi*, Cilt 4, Volume 2, pp. 141-156.

Stiglitz Joseph E. (2003) , “Globalization and growth in emerging markets and the New Economy”, *Journal of Policy Modelling*, Volume 25, Issue 5.

Stiglitz Joseph E.(2002), Küreselleşme Büyük Hayal Kırıklığı, Mart Yayınları.

Tunca Zafer and Gökhan KARABULUT (2001), “Küreselleşme Kriz ve Türkiye”, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı II*, Year:7, Volume:42.

Turan Ali Eşref (2004), Türkiye’de Seçmen Davranışı – Önceki Kırılmalar ve 2002 Seçimi, Bilgi Üniversitesi Yayını.

Turgut Mehmet (2003), 18 Nisan 1999 ve 3 Kasım 2002 Genel Seçimleri Değerlendirmesi, Boğaziçi Yayınları.

Uygun Ercan, “Krizden Krize Türkiye: 2000 Kasım ve 2001 Şubat Krizleri”, *Türkiye Ekonomi Kurumu Tartışma Metni*, No: 2001/1, (accessed October 09, 2008), [ available at <http://www.econturk.org/Turkiyeekonomisi/krizdenkrize.pdf>]

Yakin Gaffar (2001), “Krizlerin Siyasi Sebepleri ve Güven Faktörü”, *Yeni Türkiye Dergisi Ekonomik Kriz Özel Sayısı I*, Year: 7, Volume: 41.

Yesilada, Birol, Peter Noordijk and Hal Nelson (2004), "Lessons Learned from the Financial Crisis in Turkey: Implications for Economic and Political Stability" *Paper presented at the annual meeting of the American Political Science Association, Hilton Chicago and the Palmer House Hilton, Chicago, IL, Sep 02, 2004*, (accessed March 07, 2008), [available at [http://www.allacademic.com/meta/p59699\\_index.html](http://www.allacademic.com/meta/p59699_index.html)].

<http://ekutup.dpt.gov.tr/eg/2002.pdf> , (accessed November 21, 2006).

<http://www.foreigntrade.gov.tr/IHR/genel/genel.htm>, (accessed April 14, 2006).

<http://www.biyografi.net/kisiayrinti.asp?kisiid=1352>, (accessed November 19, 2006).

<http://www.tbmm.gov.tr>, (accessed March 07, 2008).

<http://www.foreigntrade.gov.tr/ead/ticaret/trk00/dsticTRekoweb00.htm>, (accessed November 12, 2006).