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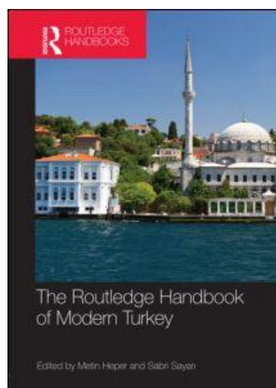

THE ROUTLEDGE HANDBOOK OF MODERN TURKEY

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Liberalization

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LIBERALIZATION[1]

Bülent Gültekin

Introduction

For most of its history since 1923, Turkey has followed a development strategy and economic policies based on the dual beliefs that industrialization is essential and that the state needs to protect emerging Turkish industries from foreign competition. The founding elites of the Republic, motivated by a strong sense of mission to build a nation from the remnants of an exhausted and backward empire, extended their paternalism to economic policies. The state had the central role in economic policymaking and actively engaged in the industrialization process, not only indirectly by building the infrastructure, but also actively by building state-owned enterprises in key strategic industries.

Turkey adopted the multiparty system in 1946. Four years later the Democratic Party won the election with a promise to liberalize the economy, including privatizing state-owned enterprises. By the time the Democratic Party was toppled by a coup in 1960, state intervention in the economy was at an all-time high. The share of public investments in the manufacturing industry and the expansion of state-owned enterprises would not be surpassed in any other period of the Republic.

After 1960, successive governments had different political leanings, that is, liberal, pro-market/private sector, or social democrat. However, with minor variations, they followed essentially similar policies, which included the use of five-year development plans. By 1980 the Turkish economy was a textbook case of an import substitution economy with a highly repressed financial system.[2]

Macroeconomic imbalances combined with steadily rising inflation and periodic balance of payments crises have been key characteristics of the Turkish economy during this period. Virtually every decade ended with a standby agreement with the International Monetary Fund (IMF). However, the impact of the 1979 crisis was deeper than in the previous cases. The country defaulted on its foreign debt, and the Turkish population experienced shortages of many basic staples. For ordinary citizens who had become accustomed to decades of improved standards of living, the crisis transformed Turkey into an economy of shortages within a year, while political protests and violence escalated in the streets.

It was in the midst of this unstable situation that Prime Minister Süleyman Demirel announced yet another stabilization program on 24 January 1980, following two unsuccessful

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standby agreements with the IMF in the previous two years. This program, soon to be known as the January 24 program, set in motion the most comprehensive economic reforms in the history of the Turkish Republic. While there have been significant gains from economic reforms since then, Turkey has continued to experience macro imbalances and to suffer from costly financial crises. This chapter summarizes the liberalization process, which is still in progress.

Liberalization process since 1980

The January 24 program, prepared by a handful of bureaucrats under the direction of Undersecretary of the State Planning Organization Turgut Özal, had a more ambitious target than that of a standard IMF stabilization package designed to deal with a currency crisis. This program aimed for strategic shifts in exchange rate and internal price policies coupled with major structural reforms to sustain them. The ultimate goal was to liberalize the Turkish economy by replacing the inward-looking import substitution regime with an export-oriented open market economy and by reducing or by removing the state controls over the economy and the financial sector through a series of deregulations. The basic tenets of this program, later known as the Washington Consensus, essentially involved liberalization of trade and exchange regimes and the financial sector, and structural adjustments with privatization at the center.[3]

Trade and exchange rate regime

Turkey's trade regime underwent a complete reversal with the January 24 program. Promoting exports became the top priority. Exporters were granted generous tax rebates for exports, and they had access to preferential credit through the Central Bank for activities and investments supporting exports. Moreover, exporters were allowed to import raw materials and semifinished products without customs duties.

After 1984 the government moved to using exchange rate policy more aggressively for promoting exports. Tax rebates were gradually lowered and were eliminated completely in 1988. Exim Bank, an export-import bank, was established to finance foreign trade.

Policies aimed at promoting exports were effective in boosting exports within a very short period, not only by volume but also by shifting its composition toward manufactured goods. By 1985 the share of manufactured goods had risen to 75 percent, from 35 percent in the previous year. Export markets were diversified beyond the traditional European markets toward the Middle East and North Africa.

Concerning imports, adjustment policies aimed to implement a less restrictive import regime by permitting a larger number of items to be legally imported. Competition from the flow of imports was to reduce oligopolistic and monopolistic tendencies, especially in small domestic markets. By 1989 all import restrictions were lifted. The new import regime also had a significant positive impact on the quality of domestic products.

Turkey reached an important milestone in January of 1995 by entering into a Customs Union with the European Union (EU). Despite the fact that EU tariffs on imports from Turkey had been removed long before the treaty was signed, the Customs Union's subtle impact on Turkish exports was seen after the 2001 financial crisis. The deep depreciation of the lira and the severe contraction of domestic markets following the crisis had led to a surge of exports to EU markets, but the volume of exports continued to be higher than before the crisis even after the domestic market resumed growing within a year and the lira appreciated significantly. This was due to the improved competitiveness of the Turkish manufacturing industry in response to

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the increased competition from the EU after Turkey joined the Customs Union.[4] A decade after the country entered the Customs Union, the EU had become the destination for over 60 percent of Turkish exports. On the other hand, the Customs Union also caused a bias toward imports relative to exports.

Turkey's export volumes have been impressive, rising to a level of US$132 billion in 2008 from $2.9 billion in 1980. The figure declined to $102 billion in 2009, indicating the contraction in world trade triggered by the 2008 financial crisis. The shift in the overall composition of Turkish exports has also been impressive, from mainly agricultural products in the 1980s to highly diversified manufacturing goods today. Turkey's integration into world markets has been remarkable; its foreign trade to gross domestic product (GDP) ratio rose from less than 10 percent in the 1970s to over 40 percent by 2009.

Turkey had minimal success in attracting direct foreign investment (FDI) until recently. Despite all efforts, annual FDI had exceeded $1 billion only once before 2005. FDI soared in 2005, and by the end of 2009, $78 billion FDI had flowed into Turkey. Roughly $50 billion was used to acquire private firms and also state-owned enterprises through the government's privatization program. The financial, service, and real estate sectors attracted over 80 percent of FDI inflows during this period, while the manufacturing sector captured only 18 percent. Some argue that the surge in FDI was due to the positive investment climate created by the start of accession talks with the EU and the political stability achieved after the 2002 elections. The elections resulted in the Justice and Development Party (JDP) replacing a dysfunctional coalition government with a parliamentary majority. Despite their campaign promises to discard the IMF-supported stabilization program left from the previous government, they continued it. Turkey also substantially benefited from the worldwide savings glut during this asset bubble period.

While trade liberalization policies have been successful in increasing the level of exports, there are two serious concerns. First, there have been persistent and large trade and current account deficits since 2001, both in absolute terms and as a ratio to GDP. The export/import ratio rose steadily from 1980 to 1989. Since then, it has been volatile, with a declining trend except for two short-lived peaks after the 1994 and 2001 devaluations. Such persistent current account deficits raise questions about the sustainability of economic growth in the medium term.

Second, the performance of Turkey relative to countries with key emerging markets in terms of growth rates and the technological composition of its manufactured goods is not encouraging. Turkey has a lower ratio of high-tech exports/total exports ratio. If this trend continues, the competitive advantage of Turkey, currently based on lower wages, will disappear as other emerging countries move up in the value chain.

Financial sector liberalization

The second pillar of the liberalization process was financial sector reforms. The 1980 program aimed at immediately liberalizing the interest rate and foreign exchange regimes. It also called for the building of money and capital markets, a competitive banking system, and regulatory agencies to oversee the liberalized financial system.

In July 1980 banks were allowed to set their own deposit rates freely. It took nearly eight years with several false starts, various trials and errors, and a financial crisis to establish a well-functioning market for Treasury debt, and thus the determination of short-term interest rates by the market. However, the institutional development of the regulatory and supervisory system did not progress in line with the rapid deregulation of the financial sector. The initial

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reforms in 1980 were launched with minimal regulatory and supervisory capacity, and before the crisis of 1982, there were no serious efforts to improve the regulations.[5]

The Central Bank introduced an interbank money market to facilitate asset-liability management of banks in 1986 and commenced open market operations the following year. The Treasury debt market was established to enable the Treasury to oversee debt management and thus prevent the Central Bank from directly financing the Treasury.

The Central Bank adopted the policy of setting daily exchange rates and allowed banks to fix their own rates within a band. In 1984 banks were allowed to accept foreign exchange deposits; the following year, they were free to set their own exchange rates; and by 1990 the capital account was fully freed.

Lessons from the financial crisis of 1982 were not lost on policymakers. The government responded to the crisis by speeding up the formation of the Capital Market Board, which was founded in 1981 and had been on the drawing board since 1961, for regulating and supervising capital markets as well as developing capital markets. The Istanbul Stock Exchange opened in 1986. Once the Central Bank eliminated interest rate restrictions on corporate bonds in 1987, new instruments such as commercial paper were introduced and others were revived. Mutual funds were allowed for the first time in 1987.

The government introduced new financial instruments to familiarize the public with using long-term financial assets. The Mass Housing and Public Participation Fund, an extrabudgetary fund in charge of financing housing developments and public infrastructure projects, introduced long-term revenue-sharing certificates against the income generated from infrastructure projects.[6] The objective was to shift the portfolio composition of households away from real assets, mainly gold, to financial instruments and to eventually pave the way for the government's privatization program.

By the end of the 1980s Turkey had laid the foundations for financial markets with basic institutions and a regulatory structure. The country had a viable stock exchange, brokerage houses, a legal framework for securities markets, and regulatory agencies to supervise the system. Accounting standards were improved to conform to internationally accepted standards and auditing standards were introduced and required for companies issuing securities to the public.

Turkey's financial system deepened, measured by the significant increase in the relative size of financial assets to GDP for the next few decades following the 1980 program. The composition of financial assets, on the other hand, followed severe distortions caused by the massive fiscal imbalances of the public sector from the middle of the 1980s to the financial crisis in 2001. There was currency substitution on a large scale due to rising and volatile inflation for most of this period.

The capital account liberalization in August 1989 finally changed the exchange rate regime that had been enacted in 1930 as a temporary response to the deterioration of external balances after the Great Depression. Without a proper regulatory structure and with ever-increasing public sector deficits in the wake of increased domestic political competition, this was an immature decision and set the stage for financial crises for the next decade.

The poor macroeconomic environment and inadequate regulatory framework limited the improvements expected from the liberalization reforms. Banks, the primary beneficiary of the deepening and expansion of the financial system, moved from lending to the corporate sector to financing the government's deficit. By 1998, banks were holding about 90 percent of the cash debt and 70 percent of the domestic debt stock of the Treasury. The situation being such, macro imbalances were largely financed by short-term capital inflows intermediated by the banking system. Ironically, the Treasury's shift from borrowing from the Central Bank to

borrowing from financial markets did not reduce inflation, as successive governments continued with irresponsible fiscal policies. It simply created a new class of rent seekers: private commercial banks.

A sudden reversal of capital flows in early 1994 led to a run on the banks. The result was the first currency crisis and the second banking crisis since 1980. The crisis of 1994 did not lead to a major policy shift for the financial markets or in macro policies.[7] There was a pervasive yet misplaced belief that the crisis was a result of policy mistakes by the government. At the same time, the Treasury created a moral hazard problem by assuming the private debt of Turkish banks to foreign banks and by bailing out insolvent banks. A combination of a highly generous deposit insurance scheme with a bias toward keeping failing banks in the system and political intervention deterred prudent behavior. Eventually, the domestic and international banking systems became more aggressive in taking risks. The commercial banking system's unhedged foreign exchange positions grew from $3.6 billion in 1997 to $12.6 billion at the end of 1999 as Turkish banks relied on borrowing abroad and domestic foreign exchange deposits to finance the public sector debt. Macro policies were equally irresponsible. By 1999 the public sector borrowing requirement had shot up to 15.1 percent and the current account deficit to 5 percent of GDP, the country's highest since 1980.

On the warnings of the US Treasury Department, the coalition government initiated an exchange rate-based stabilization program designed by the IMF in 1999.[8] The IMF program was seriously flawed from its inception and collapsed in February of 2001, causing massive failures in the financial system. By 2003 the Savings and Deposit Insurance Fund of Turkey had taken over 20 banks, comprising one-third of the total assets of the banking system. This, the third financial crisis following financial liberalization in Turkey, was the costliest financial crisis in the history of the nation and one of the worst in emerging markets. The bailout of the banking sector alone cost the taxpayers $53.2 billion, or 36 percent of the GDP. During the second banking crisis in 1994, only three banks, with a 6.7 percent market share of deposits, had been liquidated.

Soon after, a new IMF-sponsored stabilization program was implemented. This time, the program focused on developing autonomous agencies to regulate the financial and other sectors as well as requiring an independent status for the central bank. Turkey's financial sector had suffered from politicization of the regulatory structure, weak enforcement, connected lending to group companies, inadequate bank capital for risk exposure, full deposit insurance, problematic banks that were allowed to survive, and pervasive corruption. The new consensus was that economic liberalization should be supplemented by institutional development to derive the expected benefits from such programs.

The Turkish economy performed well in terms of growth until the global financial crisis of 2008. The JDP followed the 2001 IMF program despite their election promises and paid more attention to budget discipline than had previous governments. The country's financial system has weathered the initial impact of the recent global financial crisis better than anticipated. Enforcement of capital adequacy regulations and lessons learned from the 2001 crisis led to a strengthened capital structure enabling the banking system to withstand shocks. On the other hand, Turkey experienced one of the worst drops in GDP among all countries in 2009. In a pattern similar to previous post-crisis cycles, foreign exchange exposures had been on the rise since 2003 due to opportunities for carry trade with foreign loans and syndication credits. While banks maintained their foreign exchange exposures, the nonfinancial sector now owned two-thirds of the country's total foreign debt stock. It might be too early to draw conclusions as to whether the structural and regulatory reforms since 2001 have had a permanent effect.

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Privatization program

Privatizing state economic enterprises (SEEs) is the third pillar of the liberalization process. The first SEEs were formed in 1933, inspired by the German and Soviet experiments of industrialization by means of large state holding companies. By 1980 the Turkish state owned 450 large enterprises, hundreds of unconsolidated subsidiaries, and over 50 joint ventures with domestic and foreign investors in a vast array of industries and companies.

Turgut Özal's rise to power as prime minister with a landslide victory in the 1983 election allowed him to execute his radical program announced in 1980. The Turkish economy was about to change track; the private sector was to replace the state as the driving force for economic development, and the state would not continue to invest in areas where the private sector could invest. Furthermore, as the state sector became smaller vis-à-vis the growing economy, the government would privatize the SEEs.

The privatization program evolved in three distinct phases in Turkey following its inception in 1986: the initial preparation phase from 1986 and 1991; a dormant period from 1991 to 2004; and an accelerated phase after 2004. These phases reflect the evolution of the political and economic environment. As might be expected, the objectives of the program changed substantially over this period.

The privatization program had a slow start. As in the case of most early large-scale privatization programs, there were serious challenges during the initial stage. First, there was strong resistance from almost every segment of society. Second, the ruling party was not united behind the idea of privatization. Third and most importantly, there was no clear strategy or plan for action. Finally, there was a shortage of experienced staff to execute the program. By 1988 the privatization agency had organized itself for the task and come up with a privatization strategy. The objective of the program at this initial stage was to improve the efficiency of the SEEs for eventual divestiture to the private sector along the lines of the British privatization program. The strategy during this stage was to offer the state's minority shares in joint ventures with the private sector to the public while restructuring the SEEs. It was thought that the public offering of privately controlled companies at this stage would develop capital markets to absorb the future waves of privatization of large, restructured SEEs.

By the time the agency was ready to move forward with the program, however, Özal's Motherland Party (ANAP) had begun to experience political difficulties following the 1987 elections. Former politicians who had been banned from political activity by the military coup of 1980 came back to Parliament and formed a strong opposition block against Özal. The artificial stability of Turkey's politics, made possible by the ban on former politicians by the 1980 coup, soon disappeared, and Turkey again entered a politically intense period. There were two referendums and five general and interim elections for Parliament between the last quarter of 1986 and the first quarter of 1989. The privatization program became the target of severe attacks. The legal framework of the privatization program was continuously contested in the courts, as were many privatization decisions, by opposition parties, labor unions, and employees of SEEs. Economic policies were not consistent during this period.[9]

While the program made little progress in privatizing companies, the public offerings had a significant impact on the development of capital markets, especially the Istanbul Stock Exchange and the private sector. Privately held corporations imitated the public offerings and went partially public. Overall, the activities of the privatization agency were instrumental in the development and deepening of capital markets by supplying equity and long-term debt instruments. Its role of developing human capital and new institutions in the sector was equally important.

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The Motherland Party suffered a setback in the nationwide municipal elections in 1989. Soon after, Prime Minister Özal left his party without an heir apparent to become president. Faced with increased political competition, the once reformist Motherland Party quickly regressed to the old habits of populist Turkish politics for the remainder of its time in power until November 1991. The privatization program was no longer a priority during this period.

With the exception of two short bursts of activity to satisfy the conditionality of the IMF standby agreements in 1994 and 2000, not much happened on the privatization front during the next decade. The objective of improving the efficiency of the SEEs was entirely abandoned or forgotten. Interestingly, the most delicate negotiations of the power-sharing agreements for the coalition governments that ruled the country from 1991 to 2002 involved dividing the SEEs among the coalition partners. Successive governments used SEEs for political patronage, as the political and economic policy-setting environment regressed back to that of the 1970s. The resulting ambiguity of the privatization program led to the deterioration of the assets and governance of the SEEs.

After the collapse of the IMF-designed program in 2001, the new IMF program forced Turkey to sell state assets to meet budget targets. In a strange twist of fate, the failure of the privatization program now left Turkey with substantial state assets at the time of the worldwide asset bubble that started around 2004. Many of the SEEs were sold at prices unimaginable just a few years earlier. Gross revenues of the privatization program during 2004–09 were $30.4 billion, compared to $9.5 billion from 1986 to 2003.

The Turkish privatization program was one of the largest programs of its kind until post-Communist countries began privatization programs in the 1990s. It has been ongoing for almost a quarter of a century and is thus also one of the longest-lasting programs in the non-post-Communist world, and yet to be completed. The program helped develop capital markets, and state ownership in the economy decreased substantially, mostly due to the growth in the private sector and the diversion of public investment in industrial sectors. The success of the privatization program in terms of efficiency gains is not obvious, at least in the short run. It is likely that the private sector can use the privatized assets more efficiently. However, the process itself has been far from efficient. Rather, it has been disorderly, slow, painful, without a strategic vision, and marred in some instances by allegations of corruption.[10]

There are no reliable studies measuring the cost associated with such an inefficient process. If the net proceeds from the privatization program are a rough indication of the efficiency of the process, results are unimpressive. According to the Privatization Administration, as of 31 December 2009, sources of funds to the agency were $43 billion. Of this figure, $28 billion was from sales of equity and assets, $4 billion was dividend income from portfolio companies, and $10 billion from debt issues. Uses of funds were $41 billion, of which $10 billion was for capital injections into portfolio companies, $11 billion to pay back loans and principal, and $19 billion for transfers to the Public Participation Fund. The Treasury essentially received $19 billion to cover the deficit of one of the extrabudgetary funds. In the end, it appears that the Turkish privatization program has been one of liquidating state assets.

Conclusions and appraisal

According to the established wisdom of the 1980s, if enlightened policymakers liberalized the economy and reduced the role of the state, free markets, capitalism, and democracy would deliver sustainable economic growth and prosperity. Turkey was one of the early executers of these policy prescriptions. The results are somewhat mixed. On one hand, the liberalization policies and economic reforms successfully changed the structure of the economy. Exports grew from

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$2.9 billion in 1980 to $132 billion before the worldwide financial crisis. Today Turkey has the sixteenth-largest economy in the world—an open economy with a vibrant private sector and a dynamic entrepreneurial class.

Despite these important gains, there are still serious challenges facing Turkish policymakers. The average real growth rate of GDP in Turkey was 4.2 percent during 1981–2009, both lower and more volatile compared to the growth rate of 4.9 percent achieved during 1960–80. Since 1991, the growth rate has dropped to 3.6 percent and has become yet more volatile. Per capita GDP growth has been too low to significantly improve the welfare of the average citizen. Job creation has not kept up with demographic changes, and the inequality of income distribution has not improved. Inflation declined to around 10 percent only in 2004, after fluctuating within a band of 31 percent to 106 percent since 1981. The performance of the Turkish economy does not compare well with that of the fast-growing economies of East Asian and Latin American countries. Turkey trails these economies on the basis of some key performance measures for the long term, including research and development spending, development of human capital and education, level of domestic savings, and ratio of high-tech products in exports.

Incomplete reforms and the liberalization of financial markets without first stabilizing the economy, combined with the untimely opening of the capital account, made the Turkish economy more vulnerable to external shocks. The liberalization and deregulation of markets did not change the behavior of policymakers. Increased capital inflows following financial liberalization allowed policymakers to pursue unsustainable policies for longer periods, thus eventually leading to deeper and costlier economic crises. Except for brief periods, chronic fiscal deficits and financial imbalances continued in the same manner as before.

The new wisdom of economic reform calls for a balanced role of government vis-à-vis markets, in which it promotes and regulates markets, provides an institutional and physical infrastructure, and promotes education, innovation, and technology. Turgut Özal and those who came after him failed to develop the institutional infrastructure to sustain the reforms necessary for transforming the Turkish economy into a modern one. Özal's penchant for fast action without the constraints imposed by traditional bureaucracy and budget discipline eventually undermined the very reforms he initiated. Under incompetent leaders who imitated Özal, this style of action led the way to worse corruption and crony capitalism.

Reforms requested by the IMF after the 2001 crisis reflect this new, revisionist view. Furthermore, there is a prevalent belief that prospects of joining the EU will provide an even stronger incentive for Turkey to continue with further structural reforms.

The establishment of independent regulatory agencies is an important and crucial step in the right direction. It is a necessary but not a sufficient condition. As the recent subprime market crisis in the United States has demonstrated, building up such institutions is fundamentally far more challenging, and neither compulsory IMF prescriptions in the wake of crises nor EU incentives are adequate. It is not a coincidence that macro imbalances and rent seeking in the Turkish economy began in 1950. The founding elites of the Republic were fading from power around this time, and their economic and political *dirigisme* was replaced by a parliamentary system with supposedly market-oriented policies. However, the new system and its successive governments were unable to establish a viable constitutional framework wherein a market system could function in tandem with parliamentary democracy.

Free elections do not necessarily distribute economic power equally or equitably. In a country like Turkey, where economic power is not restrained by constitutional institutions, an independent judiciary, and traditions, powerful interest groups using their wealth can easily influence politicians, civil servants, and even the public. The parliament represents a coalition of interest groups with exceedingly wide authority operating under a weak legal framework.

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Consequently, the budget discipline and supervision of public spending that characterized the early Republican era have been long forgotten. According to Yenal (2010), the last 60 years of economic mismanagement and the resulting crises have reduced the long-run growth potential of the country to 4 to 4.5 percent, which is perhaps 2 to 2.5 percent lower than the sustainable growth rate that might have been seen in the absence of the crises.

Global liquidity and the resulting asset bubble after 2003 allowed Turkey to finance its record current account deficits with ease and to resume its growth soon after the 2001 crisis. With the changing global outlook after the recent worldwide financial crisis, it is too early to say if Turkey is on a sustainable path of growth. The country needs to reform its political structure and to upgrade its educational system and economic policymaking in order to compete with high-growth emerging economies and catch up with advanced ones.

Notes

1 I would like thank Hülya Eraslan, Oktay Yenal, and Kamil Yılmaz for their comments, and Mimi Xue for editorial assistance.
2 See Krueger and Aktan (1992).
3 For a detailed analysis of the reforms during the first decade, see Arıcanlı and Rodrik (1990); Atiyas and Ersel (1994); and Rodrik (1991).
4 See İzmen and Yılmaz (2009); and Taymaz and Yılmaz (2007).
5 The largest banks initially colluded to determine a consensus interest rate on deposits. Smaller banks did not follow their lead and entered into fierce competition for deposits. These small banks issued large numbers of discounted, newly introduced certificates of deposit (CDs) to brokers, who then sold them to the public directly. Soon brokers began to issue their own promissory notes, collateralized by these CDs and other corporate bonds. They were essentially securitizing CDs and long-term corporate bonds. The situation eventually turned into a Ponzi scheme, as the payment of interest to the public on CDs came from the sale of new CDs. Inevitably, the system collapsed. The result was the first financial crisis of the deregulated era. The liabilities of five banks were taken over by the government at a cost of 2.5 percent of GDP in 1982. To prevent the leading banks from exploiting their market power, the Central Bank moved in to set the rates, occasionally adjusting them to maintain positive real interest rates. This policy lasted until 1988.
6 Revenue-sharing certificates were an innovative instrument used to finance the completion of dams for electricity generation. (The return on the incremental investment for completing a dam a few years early was extremely high.) The other objective was to introduce non-interest-bearing instruments for those who believed usury was illegal in Islam. However, this instrument was eventually so widely abused that the Public Participation Fund became a burden on the budget.
7 Despite warnings from the Central Bank, the Çiller government delayed implementing a stabilization program until after the local elections in April 1994. While policy mistakes triggered the crisis, the real cause of the problem was the unsustainable macro policies that were not reversed in time. A few figures indicate the seriousness of the situation by the end of 1993. Interest and principal payments on the public debt were equal to 43 percent of tax revenues in 1988, rising to 104 percent in 1993. For the same period, the public sector borrowing requirement went up from 4.8 percent of GDP to 10.2 percent; the real appreciation of the lira was over 20 percent, and real wages increased by 250 percent in the private sector and 300 percent in the public sector.
8 The IMF program was inherently inconsistent and poorly executed. See Yenal (2001); and Akyüz and Boratav (2003).
9 The privatization program was one of the first to suffer because of political uncertainties. Another problem within the government was the lack of a clear consensus about the privatization program. The architect of the economic restructuring after 1980 was Turgut Özal, who was also a champion of privatization. During the second term of his office as prime minister, he was often too busy with domestic politicking to attend closely to various other matters. There was no second-in-command to oversee the economy as Özal himself had done during the 1980–82 period when he was deputy prime minister in the military-controlled government. After the 1987 elections this role was divided between the deputy prime minister and the ministry of state in charge of the economy. The lack of clear lines of

authority slowed down the decision-making process. Everything had to go to the prime minister for a final decision. When the prime minister was absent from meetings, the Supreme Planning Council became less efficient in coordinating various government economic agencies.

10 Ercan and Öniş (2001); Gültekin (1993); Karataş (2001); Ökten and Arın (2006).

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