Institute for Regional and International Studies

THE CRISIS IN TURKEY

SIMEON HRISTOV

May 2001
Sofia

THE CRISIS IN TURKEY

(Since February 2001)

The relations between the President Ahmet Necdet Sezer and the Prime Minister Bulent Ecevit have been straining over the past nine months. The main reason for this was the fact that the President Sezer had permanently vetoed government's decisions, and the Prime Minister had considered that by such acts the President exceeded his powers. On February 19, 2001 for the first time in the history of the Turkish National Security Council, the contradictions between the President and the Prime Minister became public which lead to an immediate negative reaction of the financial markets.

The last financial and economic crisis in Turkey burst out straight after the regular monthly meeting of the National Security Council on February 19 and reached its peak on February 21-22. The basic factors for the crisis could be arranged in three clusters: economic problems, political factors and pending issues of the society.

Coming into power in 1999 the coalition government of Ecevit achieved significant results. The population has been encouraged that eventually the country will have stable leadership to cope with the chronic inflation, the big budget deficit and the high interest rates. The major stock exchange index registered an increase of nearly 650 % in 1999 – 2000. An agreement with the IMF was concluded in December 2000 for support of the government's anti-inflationary program amounting to USD 11 billion. The country was at last given the status of candidate for accession to the EU. Along with the public expectations, Ecevit began a series of investigations on cases of corruption (e.g. in the energy sector – the White Energy graft case). This provided him with the necessary public support without which the coalition government would not resist the negative social effects generated by the economic stabilization program.

The basic problem of the stabilization program is the financial and economic sector adjustment from working in conditions of high inflation and permanent refinancing of banks at the expense of state guaranteed foreign credits (till 1999) to working in conditions of low inflation, free competition and without state guarantees. In fact, the adoption of the stabilization program itself and the IMF assistance were necessitated by the danger of the state ceasing its guarantees on credits and the refusal of the major foreign creditors to further finance this system. In conditions of high inflation and high interest rates, under which the Turkish economy used to develop until 1999, the so-called interest lobby was bound to success. It had been specialized in receiving enormous profits at the expense of the state-owned banks and enterprises and its interests were badly affected by the stabilization program. The last but not least in these conditions was the successfully working system for drawing out private banks through own companies and their refinancing at the expense of state guarantees on bank deposits.

The restructuring of the banking sector directly affected a number of partisan interests, which turned the reform in this sphere into a struggle among parties for protection of their interests by economic groups.

A substantial problem in the stabilization program appeared to be the fixed exchange rate of Turkish lira (TL) within certain limits and the controlled by the Central bank increase in the exchange rate of 25 % in 2000 given the declared inflation of 40 % and real inflation of about 50 %. This overestimation of Turkish lira lead to significant rising of production costs, incompetitiveness resulting in increased foreign trade deficit which in the end of 2000 exceeded the exports. The policy of pegging the national currency to the US dollar cracked yet in November last year, but despite of this fact the government did not undertake the necessary measures to revise its monetary policy. Because of this reason the crisis from February this year strongly affected the financial sector and urgent monetary measures were to be taken, including escape from the fixed and declaring floating exchange rate.

The privatization of the Turkish Airlines, Telekom, some state-owned banks and turning down the state monopoly on tobacco products, sugar and liquor made interests collide which lead the privatization process to a deadlock and did not provide the scheduled income into the state budget. The uncertain measures in the sphere of privatization and removal of the state monopoly over some sectors of economy lead to reducing confidence of international financial institutions in the government’s determination to convey the economic reforms. The pace of economic reforms slowed down. The government spent the resources of the state-owned banks. This, on its turn, lead to the reluctance of the Prime Minister to allow an investigation of the state-owned banking sector. Besides, there is an overwhelming belief in the country that the Prime Minister prefers the arising problems to be diverted rather than solved.

On February 19 the Turkish President accused the government of passive struggle against corruption and attempts for avoiding investigations of banks. These accusations gave reasons for political crisis to occur, which immediately reflected on traditionally volatile Turkish financial markets. Just a few hours after the announcement the major index ISE-100 of the Istanbul Stock Exchange lowered by 14 %. The daily fluctuations of the index varied between 12 – 14 % and on February 20, 2001 a record fall of over 18 % was registered reaching the level of 7180 which had been the lowest since 8 November 1999. For three subsequent days the index lost more than 30 % of its value. The panic reflux of capitals amounting to about USD 5 billion provoked a liquidity crisis and paralyzed the currency exchange markets in the country. The Central bank was forced to spend more than USD 7.6 billion, which exceeded 1/5 of the currency reserves, in order to maintain the exchange rate. For example, during the currency-financial crisis that captured Turkey in November last year the total amount of the currency interventions by the Central bank was about USD 6 billion. The profitability of the state equities suddenly rose from 64 % to 154.6 % on 21 February 2001, which had been the highest level for the last two years. The increase in profitability of state bonds jeopardized the implementation of the government anti-inflationary program supported by the IMF through financial assistance amounting to USD 11 billion. Considering general economic standing of the country and trying to limit the demand for foreign currencies, the Central bank drastically rose repo interest rate on daily deposits from about 60 % before the crisis gradually to 760 %, 1107 %, 5000 % reaching the record level of 7500 % on February 21, 2001. The crisis in Turkey had a negative impact on Euro, which on February 20, 2001 devaluated by nearly 2 % to 0.9064 USD comparing to the highest level of the preceding week. Regardless the verbal support on behalf of the Turkish authorities, the single currency retreated from its positions. It is because of the growing concerns that if the EU enlarges by including Turkey and some other volatile economies, the successful implementation of future reforms in the Union will be substantially threatened. The leading rating agencies that closely follow the development of the financial crisis in the country put Turkish ratings under observation. On February 22, 2001 Moody’s lowered Turkish rating position for debt denominated in foreign currency and bank deposits from positive to stable. Fitch decreased the long-term rating for debt denominated in local/ national currency from BB to B+ and put all the ratings of the country under observation in negative perspective. S&P lowered long-term and short-term rating of Turkey from B+ and B to B and C, respectively. The long-term rating of Ziraat Bankasi has been also decreased from B to C, and the short-term rating C has been reaffirmed. The long-term ratings of Export Credit Bank of Turkey, Turkiye Is Bankasi, Osmanli Bankasi and Korfezbank have been decreased from B+ to B, and the short-term – from B to C.

According to market analysts, the financial crisis that captured Turkey, would not have serious negative implications on foreign banks since they have reduced their credit expositions after the crisis in the end of 2000 and will not face the necessity to increase their reserves.

The rapid crisis development forced the government to undertake measures for introducing free floating regime for the Turkish lira from February 22, 2001 aiming to overcome the continuing financial crisis. The decision lead to devaluation of the national currency by approximately 40 %. The Central bank exchange rate on February 23, 2001 was about 900 000 Turkish liras for 1 USD. ISE-100 Index increased by 10 % after the record decrease of 18 % on February 22. The inter-bank interest rate also decreased from 5000 % and varied between 1000 % and 2000 %. This level however is still too high and poses serious threat to the banking sector in the country, which has not recovered yet from the crisis in late 2000.

The measures undertaken by official Ankara to release the Turkish lira exchange rate eased the pressure on economy but fed up inflation - the biggest problem of the country, and rose the price of financing foreign debt service, payments on which are about USD 15 billion for the current year. The relatively positive aspect is that the Central bank will not have to maintain the exchange rate at the expense of its foreign currency reserves, but will use these reserves for foreign debt payments. The lost investors' confidence, both local and foreign, could hardly be restored in such unstable investment environment. Devaluation gave time credit to the government but it would not restore the investors' trust. Introducing floating exchange rate of Turkish lira will have serious implications on the economic reforms program. Doubtlessly, it will be substantially amended, particularly in regard to inflation and other macroeconomic indicators projected for 2001. The first effect of the devaluation will be the rising prices of oil products, raw materials, and consequently of consumer goods. This price increase will affect mostly small and medium enterprises and farmers that already suffer seriously by the economic reforms commenced two years ago. In mid-term however, the devaluation of Turkish lira will increase the competitiveness of Turkish businesses and will facilitate increasing exports and growing profit from tourist business. The other positive effect will be the decreasing domestic debt denominated in Turkish liras.

What is typical for the present crisis is that, despite the troubles most banks met (including state financial institutions such as Ziraat Bankasi), they faced no charges because such measures would have unpredictable consequences.

The market analysts expect Turkey and IMF to work out a new monetary program restricting Central bank's currency interventions.

The close correlation between economics and politics in Turkey is predetermined by the planning model of national economy – 70 % of the real sector works on state tenders. The traditionally strong influence of the political conjuncture played a significant role in current crisis escalation.

Just after the elections on April 18, 1999 were held, three ideologically different parties made a coalition, thus bringing about confrontation among economic interests and groups, mainly in the sphere of banking, energy industry and privatization.

After the Nationalist Movement Party (MHP) came to power it started attempts for occupying economic areas and creating its own lobby in the economic sector of Turkey, as well as reorienting a part of the capitals in domestic and foreign scale.

The strongest clashes of interests between the Nationalist Movement Party (MHP) and Motherland Party (ANAP) appeared in restructuring the state-owned sector of economy and banking reform. The competing interests of the two parties in privatization actually lead to its temporary stalemate, especially in regard to strategic deals – TURKTELECOM and Turkish Airlines, where interests of military were also concerned.

Assessing the reasons for the bad financial standing of banks as a preliminary phase of the banking sector restructuring obviously lead to affecting partisan interests. On the other hand, it is evident that political parties strive for imposing their interests through economic groups that participate in bank privatization.

The environment of mutual distrust between the Nationalist Movement Party (MHP) and Motherland Party (ANAP) slowed down the pace of the legislative program directly related to the implementation of the economic reform.

The lack of joint coordination of the activities of state economic authorities could be regarded as one of the important causes for the government's inefficiency. In this respect, it is worth considering the Deputy Prime Minister Mesut Yilmaz's proposal for transferring all economic departments under the authority of a single party from the government.

Corruption reaching the highest levels of power is perceived as major reason for the outburst of a new crisis, just three months after the previous one. Though being ready to fight corruption, the government always states that it is politically responsible for the stability of the country, therefore it is inconsistent and undetermined in its measures. Obviously, each radical approach in this aspect would increase government's political rating but it would also cause serious economic disturbances at high social cost.

This understanding of political responsibility could explain the government attempt for interfering the work of the judicial system – the case against the Virtue Party (Fazilet) and the White Energy graft case (energy sector operation).

The Virtue Party prohibition will surely bring about preliminary elections and political instability, respectively, which will have crucial impact on the economic situation in the country and will reflect on political parties' arrangement.

The delicate character of the coalition does not allow the Prime Minister to influence the cadre policy of the government. In case, for example, that the Minister of Energy and Energy Resources, Ersumer (from Motherland Party ANAP) is forced to resign this automatically would jeopardize the coalition stability. A chain reaction is also possible, i.e. the Motherland Party (ANAP) demanding the resignation of the Minister of Transportation and

Ccommunications, Yoksjoz (Nationalist Movement Party) on allegations of hampering privatization of TURKTELECOM, Turkish Airlines, etc.

Obviously President, military and judiciary support a more radical approach for fighting corruption since they just share the political responsibility and because of that reason the Government is being under pressure of these institutions.

The parties from the ruling coalition at this phase show inability to achieve civic contract in matters of economic reforms. On the other hand, a substantial part of the society is also unable to understand the importance of this reform as well as to accept the high social cost of its implementation.

The foreign policy problems of the country are not to be omitted. The government was severing relations with the EU during the last months. There is significant discord on the role and performance of Turkish armed forces within European Multinational Forces. Instead of constructive dialogue, as a result of which in December 1999 the country was included in the group of countries applying for EU membership, Turkey turned back to its old style of behavior accusing the EU of being prejudiced against it.

Frictions with Greece on air space issues were resumed. The last US bombings on Iraq lead to misunderstandings with the US. The risk of political and economic instability in a country of such strategic importance for the US is a serious concern for Bush administration. Turkey is a NATO member, an EU applicant and an ally of crucial importance for the USA in the Middle East and the Caspian region. Bush administration is well aware that the financial crisis could easily overthrow the coalition government in Turkey. For this reason on February 22 the US Secretary of Treasury stated that official Washington would continue to support the IMF program for economic reforms in Turkey.

Definitely, in terms of foreign policy, Ecevit’s government is inconsistent and indecisive. Turkey’s stance on Cyprus and Aegean questions, its reaction on European Foreign and Security Policy as well as the inadequate attitude of the Government and the Meclis towards the passing by the French Parliament of Law on Armenian Genocide, served as negative external factors which affected country’s credit and investment rating in political risk perspective.

The basic problem of society at present - and meanwhile an impediment to reforms – is corruption, which turned out to be principle of the political system and a major factor opposing the establishment of democratic rule according to Western standards. Corruption in Turkish society is deeply rooted and is equally displayed in the highest state authorities at all levels, in state-owned and private sector, as well as in the interrelation between the ordinary citizen and the typical bureaucratic apparatus of the country. The country’s political system is corrupted in-depth under the principle of clientelism and state- and private sector funding. There is a series of examples revealing that **corruption**:

- is being set on ideological grounds in the struggle between political parties;
- serves as direct way for parties illegal funding;
- is being used as means for ethnic system regulation;
- is one of the impediments to the government's legislative program.

A basic means for fighting corruption is promoting rule of law. Sezer's election for President could be considered a symptomatic start in this regard. Enacting a State Supervising (Controlling) Council on his behalf is a signal for checking up not only single state organs but also the political system as a whole and the illegal funding mechanisms. It is quite probable this Sezer's move to be supported by military and a part of the state elite. Corruption in social and political system directly results in general disrespect of law both by elite and ordinary citizen. A typical characteristic of ethno-psychology has been established assuming that everything could be achieved through bribery and laws should not be abided by all.

The basis of corrupted society, in fact, is democracy simulation, practiced by the present government.

Confidence in institutions and their capacities turned out to be an important factor for the stabilization program failure and the subsequent crisis. The program itself was elaborated because of the running out credibility in government policy in late 1999 on behalf of international creditors. Direct IMF intervention in government activities (planning the legislative program, drawing up the budget, supervising expenditure distribution, national currency exchange rate, etc.) is a major characteristic of the credibility gap.

According to some comments on the crisis, there is a tendency for presenting it as IMF failure. It is assumed that the model of low inflation is inapplicable in Turkey. Therefore certain circles attempt for changing the way of integration in the EU.

The last, but not least, concern is the withdrawal of foreign private investments due to the excessive political and economic risk as well as to a number of instances of uncivilized reaction of Turkish society, civic organizations, political parties and state elite against some decisions of foreign parliaments and governments. A typical example in this regard is the reaction to the adoption of Law on Armenian Genocide by the French Parliament which affected not only the imports and investments of French commodities and capitals but also a number of other Western companies unaware of future reaction against their own countries.

First government measures to overcome the crisis are focused on declaring the coalition sustaining, resuming government activities and emphasizing the necessity for state authorities united actions. It has been reiterated that the crisis is being caused by the conflict within the National Security Council, that it is not government's fault, not regarding the volatile balance, mistakes made and the need for substantial corrections.

The Central bank Governor and the Chairman of the Chancellery of the Exchequer, that resigned later on, were accused of having direct responsibility for the crisis.

The Government envisages as next steps making corrections in budget parameters, stabilization program and agreement with the IMF as well as eventual Cabinet changes. The changes in budget parameters are to be made after March of this year and will affect the projected inflation, foreign (external) payments (considering the new exchange rate of USD), the growth rate and the budget expenses as well.

The stabilization program and the agreement with the IMF will reflect the most substantial changes – floating exchange rate of Turkish lira, increased inflation, expectations for a zero or a negative economic growth rate. Most probably the program will be rescheduled for 3 – 5 – year term whereas one-digit inflation is being expected in late 2003 – 2004; the Fund's sources will be increased substantially (an increase of some USD 25 billion in balance of payments is being expected). Structural reform measures will be speedily carried out under direct intervention and control of the IMF. Privatization of major enterprises will be completed this year.

Banking reform and privatization of state-owned banks will be speeded up. Thus the Government will seek opportunities to excess the projected income from privatization.

Apparently, at this phase, the issue of personal changes in Government is quite delicate, though such changes may well happen after the situation gets back to normal.

The Motherland Party move all economic ministries to be headed by its members has been completely rejected. This understanding of Mesut Yilmaz clearly demonstrates that the government acts in discordance and Ministers serve their own partisan interests.

Considering the possibilities for political crisis or pre-term elections, the coalition partners will probably undertake measures for Cabinet reforms mainly because its strong vulnerability to charges of corruption and the expected difficulties in new budget and stabilization program implementation. Most likely these measures will affect Ministers of the economic team as well as the Ministers of labor and social care.

One could expect that the Government will be truly consolidated in its efforts for settling down serious problems in economic and political sphere and will make it undertake accorded actions with other authorities.

TURKISH GOVERNMENT MEASURES FOR CRISIS RESOLUTION

The economic crisis in Turkey from late February affected most crucially the financial sector, small and medium enterprises. The impact on the population income was also crucial and hence the effect on the aggregated consumption. As first attempt to find a way out of the crisis the Prime Minister Bulent Ecevit included a new State Minister in the Cabinet – Kemal Dervis. The latter is given wide powers in economic sphere. He took control over the Bank Supervising Council, Halkbank, Ziraat Bankasi, Kalkinma Bankasi, the Central Bank, the Chancellery to the Exchequer and the Capital Exchange Council. Kemal Dervis is being regarded by the financial and political elite in Turkey and abroad as indisputable figure and expert with great experience in banking and macroeconomics.

Dervis has finished high school in France, graduated from a University in England and specialized in the USA. For the period 1973 – 1976 he served as Economic Advisor to the then government of Ecevit. Since 1978 he has been working at the World Bank where he reached the position of World Bank Vice-President.

The initial expectations concerning Dervis' activities were influenced by the escalated social tension, the domestic political instability and the fragile balance of power in the coalition government. The new Minister announced as his basic priorities correcting the economic program of the government, updating the agreements with IMF and the World Bank, urgent corrections in the state budget, intensifying privatization and establishing more precise control over the inter-bank market by the Central Bank. Following the trend of technocrats coming into policy-making, Dervis undertook urgent consultations for making an expert team aiming to establish new rules for the functioning of the basic state institutions. The assignments of this team were to elaborate a new stabilization program of the Turkish government. On the basis of analyzing the economic situation in the country some changes occurred regarding macroeconomic indicators of the state budget – inflation of 40 - 50 %, economic growth rate of - 2 %, USD exchange rate 1 USD = 1 065 000 Turkish lira. There was an obvious necessity for reconsidering the stand-by agreement with IMF. As a result of the economic crisis the Turkish government has lost the trust of business circles as well as of society as a whole. The social tension escalated to the level of social outburst. The real income of population has shrunk by over 60 %. The exchange markets remained stagnant. In the middle of March the market index was showing a steady trend to decrease (to 7136 points, a decrease of 32.64 points compared to February 1, 2001). The foreign and domestic debts - USD 115 billion and USD 60 billion, respectively - turned out to be in an extremely bad condition. The amount of the foreign debt reached 65 % of GNP. In such an environment the headed by Kemal Dervis expert team started work.

For the purpose of having consultations at expert and state level Dervis undertook a series of visits in Western Europe and the USA. On March 22 he was in Germany, on March 23 – in Switzerland, from March 25 to 29 - in the USA, on March 29 – in France. Dervis was made to understand that support would be ensured only if the Turkish government undertake concrete measures. A new IMF approach to the country has emerged. All the Fund's assistance was conditioned with providing necessary legal framework and political system reforms. In this regard, Turkey faced the following preliminary conditions:

- Establishing legal framework for a new national economic program;
- Concrete measures for restructuring state-owned banks;
- Releasing the exchange rate;
- Setting up expert non-partisan economic teams;
- Elaborating a new national economic program;
- Signing a Letter of Intent with IMF.

During his visit to Washington Dervis pointed out that within two-week time the Turkish Parliament should pass 15 laws of high importance for the country. The efforts of the majority in the Meclis (the Turkish Parliament) were aimed to adopting new laws and amending some existing laws:

1. Bill on Amendment and Supplement to 2001 State Budget Bill;
2. Amendments to the Banks Bill;
3. Bank Bankruptcies Bill;
4. Central Bank Bill;
5. Bill on the State Debt to State-owned Banks;
6. Bill on Closing Down Budget and Extra-Budget Funds
7. Credits Bill
8. Credit Adequacy Bill
9. Tobacco Bill
10. Sugar Bill
11. State Tenders Bill
12. Nationalization Bill
13. Turktelecom Bill
14. Civil Aviation Bill
15. Petrol and Gas Market Bill.

The corrections in laws are aimed mainly to synchronize them with the European legislation, adopting amendments to the state budget in regard to the changed country's balance of payments, imposing new tax rates, strident limitation of government spending, fostering financial control and effective utilization of budget and extra-budget funds, intensifying the procedure for insolvency announcement and liquidation of 13 banks that are under the control of the State Depository Fund.

Kemal Dervis announced the long expected national economic program on April 14 under the title of Program for Transition to Strong Economy. The main objectives of the program are:

- Fighting inflation;
- Restructuring the real sector through intensified privatization;
- Short-cutting public expenses to reduce domestic debt;
- Rehabilitating the banking sector by cutting off the political influence on cash flows management;
- Increasing productivity and improving organization of labor;
- Projected GNP growth rate of – 3 % in 2001 and 5 % in 2002;
- Inflation rate of 57.6 % in 2001 and 16.6 % in 2002.

The measures outlined in the new program could be summarized as follows:

- Restructuring bad debts of state-owned banks by emitting state bonds managed by the Chancellery of the Exchequer;
- Suspending the practice of using state-owned banks capital for political purposes;
- Reducing the expenses of state-owned banks mainly by cutting down the staff;
- Improving private banks capital adequacy by special state control over their activities; a law is also envisaged to regulate the bank merger procedures as well as amendments in taxation laws aiming to introduce preferential tax rates;
- Improving the organization of labor, cutting down the staff and branch offices of 13 banks that under the supervision of the State Depository Fund. Speedily sale of those that have attracted strategic investors;
- Privatization of Turktelecom and state-owned Turkish Airlines;
- Introducing regular control on behalf of the Parliament over the state debt condition;
- Economies in the expenditure part of the budget of about 10 % compared to the previous year (there will be freeze in civil servants appointment, except for those in defence, health care and education; limitation of bonuses, additional remuneration for extra work and free food);
- Conducting strict fiscal policy aiming to limit the “shadow economy”
- Optimizing the system of public tenders emphasizing on transparency of tenders and strict compliance with undertaken commitments on behalf of the contractors;
- Providing foreign financial assistance of about USD 14 billion;
- Introducing a floating exchange rate;

- Approving/ adopting wide-scale programs for encouraging foreign investors aiming to improve the investment climate in the country.

It should be noted that the new program envisages profound reforms in state government and is a declaration for substantial liberalization of economy and its establishment on real market grounds. Its ultimate goal is creating conditions for sustainable economic growth, efficient management of resources and opening the market to foreign markets along the principles of competitiveness.

A new visit of Kemal Dervis to the USA followed afterwards (April 26 – May 1) for participating in IMF session. As a result of the meetings held with IMF Executive Director Horst Koeler, European Department Director Michael Depler, US Federal Reserve Director Paul O'Neal, Turkey negotiated a credit packet of USD 10 billion. An agreement with IMF was reached on de-blocking other USD 4.3 billion along previous agreements.

In parallel to it, draft laws were introduced to the Turkish government – a draft law on the privatization of Turktelecom and a draft law on amendments to the Law on banks and banking. 99 % privatization of Turktelecom is envisaged. The state will keep 1 %, which has been classified by the Law as "golden share/ stake". The State will be the odd man in taking decisions concerning national security and communication satellites exploitation.

On May 4, 2001 Turkey deposited in IMF a Letter of Intent, accompanied by a Letter of Political Guarantees, signed by the party leaders of the governing coalition. By this attempt political leaders undertake responsibility and guarantee the implementation of the new economic program and in general terms reaffirm therein-projected macroeconomic indicators for GNP growth, inflation rate and current budget deficit.

On May 15 the IMF Executive Council approved the Letter of Intent as a result of which a decision was taken that IMF and the World Bank would extend to Turkey credits for USD 12.044 billion and USD 2.450 billion, respectively. The payments will be conveyed in the following pattern:

- May 15 – USD 3.9 billion;
- June 25 – USD 2.262 billion;
- July 25 – USD 1.562 billion;
- September 20 – USD 3.214 billion;
- November 15 – USD 3.124 billion
- December – USD 1.350 billion.

Additional credits do not constitute a new stand-by agreement but extend the one signed in 1999. Meanwhile, the World Bank envisages to increase the assistance provided to Turkey from USD 5 billion to USD 6.2 billion.

Straight after the approval of the Letter of Intent the first transfer of USD 3.9 billion has been made, USD 2.4 billion of which will directly foster the currency reserve of the Turkish Central Bank.

Before preparing the new economic program, the Letter of Intent and negotiating financial aid, Turkey went through intense political strife and social collisions.

Interested mainly in its surviving, the governing coalition reached relatively quickly a consensus on stabilization measures. On April 29 the Democratic Left Party held its fifth regular congress. On the eve of the congress media showed indicators for serious intra-party opposition dissatisfied by the Ecevit’s seizure of party leadership. Generally, however, the congress was held in a totalitarian atmosphere and Sema Piskinsut running for Secretary-General was not even allowed taking the floor. In his speech to the congress Bulent Ecevit emphasized on government’s activities and underlined achievements in fighting crime and corruption. In the end, by nearly an overwhelming majority he was reelected Secretary-General and he proposed politicians loyal to him in party governing bodies.

The Nationalist Movement Party (MHP) demonstrated its support for the new economic program, but the strong standing and performance of Dervis in the Cabinet politically frustrates its leaders. The swift privatization of Turktelecom and the state-owned Turkish Airlines, terminating agriculture subsidies, reducing the Minister of Transportation and Communications influence in telecommunications and excluding political control on state tenders system are the key issues causing MHP unrest. The economic interests of MHP leaders have been affected and it determines to a great extent the negative attitudes towards the economic policy conducted by Kemal Dervis’ expert team. Under the pretext that reforms badly affect MHP basic electorate’s interests, MHP leaders launch media campaign aiming to defend party economic interests. This could explain MHP Chairman Devlet Bahceli rigid reactions against Dervis’ persistence a special article to be included in the new Telecommunications Bill regulating license-granting procedure as a priority of the Supreme Council on Telecommunications and not a priority of the Ministry of Transportation and Communications. On a MHP Chairmanship meeting on May 12 the issue of eventual withdrawal from the governing coalition was discussed. Finally, however, there was an overwhelming stance that it was not the proper moment to leave the coalition though party interests had been seriously affected by Dervis’ program.

On his behalf, the Motherland Party (ANAP) leader Mesut Yilmaz avails himself of Dervis vigor activities in order to divert public attention from investigations on the White Energy graft case, in which the former Minister of Energy Cumhur Ersumer is involved. Yilmaz is extremely sensitive to this issue because accusations of corruption namely lead to his resignation as Prime Minister in 1998.

As a result of charges of corruption on April 27, 2001 Cumhur Ersumer was made to resign. As key motives for this act he pointed out his conviction that these allegations will not stand in court as well as his unwillingness the case to be assumed as an attack against his party. According to Mesut Yilmaz' statements the indictment suffers serious shortcomings and the whole campaign on White Energy Case has been launched by "power" Ministries reminding the activities of Gestapo (the Secret Police of Nazi Germany). On these grounds stand the contradictions between Motherland Party (ANAP) and top military and between Motherland Party and Nationalist Movement Party (MHP). At the current phase in Motherland Party there is a significant consolidation and the support for Mesut Yilmaz is unquestionable.

The Government's activities on the preparation of draft laws on Turktelecom privatization and Banking law amendments were hampered because of the discords between Motherland Party (ANAP) and Nationalist Movement Party (MHP). The conflicts were also determined by the overdone cautiousness and the strife for party interests defense at any rate.

In the meanwhile opposition parties attempted to avail themselves of the critics to the Government, but in practice they did not offer an alternative to the economic policy conducted by Dervis.

The Virtue Party (Fazilet) represented by its leader Recai Kutan demanded the resignation of Ecevit government and forming a new coalition government. According to some top party politicians the one to be blamed for the bad economic situation in Turkey are external/ foreign forces interested in cheap sale of Turkish national wealth. Such opinions were widely covered by media and obviously the grassroots of Turkish population affiliate themselves with these views. Meanwhile, the case for prohibiting Virtue Party is under way. In the first place, accusations against it relate to the fact that it is a direct ancestor of the prohibited Islamic Welfare Party and these accusations have enough grounds considering the judicial practices in Turkey. The Court's decision is likely to be influenced by the political motive of keeping the status quo in Parliament, evading Meclis adjourning and pre-term elections.

On her behalf, the leader of the True Path Party (DYP) Tansu Ciller estimated the new economic policy of the government as futureless and inexplicit. According to some DYP representatives the government measures are very slow and retarded.

The non-parliamentary represented National Republican Party (CHP) is before a split and still has no clear stance on the economic program. The policy conducted by Deniz Baykal lead to the outflow of experienced party cadres that have potential for establishing new socially oriented formation. Taking into consideration the restrictive policy of Kemal Dervis economic team and the expected high social cost of reforms, a new left party will surely be presented in the next parliament.

Business circles in Turkey were active in all processes of crisis regulation. Opinions of representatives of the biggest business associations varied and were being polarized many times over the last three months – from appeals for immediate resignation and prosecution of respective Ministers to complete support for the expert team of Kemal Dervis. At their meetings representatives of TUSAID (Association of Turkish Industrials and Businessmen) and TOBB (Association of Turkish Exchange Markets and Chambers of Commerce) expressed unanimity of opinions on the need for concrete government measures aiming to gain control over the economic crisis. Business circles are seriously bothered by eventual political destabilization of the country, considering the possibility of declaring a state of emergency or introducing new military regime. The general statement of the associations mentioned above, shared by the most important Turkish businessmen Rahmi Koc, is that Dervis should be given a chance to implement the new economic program.

Against this background the trade unions in Turkey united on the so-called Labor platform, intensified their activities and organized large-scale protests demanding swift government measures against unemployment, poverty and retailers' and small producers' bankruptcies. Devaluation of Turkish lira lead to a significant fall in population's purchasing power, rapid shrinkage of consumption and substantial losses for medium and small business. Though civil servants salaries are being indexed and updated, it could be stated that the status of petty clerks is also bad and they are most vulnerable to eventual personnel cuttings in the huge Turkish bureaucratic apparatus. However, the trade unions capacity to cause political changes is restricted due to the particular characteristics of the country and mainly because of the significant influence of "power" Ministries on state government (which gives them chance to use uncontrolled force for restraining social protests) and the relative lack of organization of trade unions as united public force.

Though the difficulties population faces, one could be impressed by the high public rating of Kemal Dervis. Media present him as rescuer of the country and his activities are always covered in positive sense. According to some official social surveys in the beginning of May this year if elections were held then a party headed by Dervis would have gained absolute majority (51.7 %). About 60 % of Turkish population assess Dervis' work as successful. Therefore, it could be stated that Kemal Dervis' personality embodies the hopes of Turks for a better life and expertise in economic policy thus turning itself in a detached political symbol. Popularity and confidence in Dervis increase in inverse proportion to confidence in political parties of the governing coalition. This process however can develop within certain limits because the parties of coalition rely on their parties rank-and-file, especially in the country. In this regard, Dervis could hardly win the sympathies of conservative provincial supporters of Nationalist Movement Party (MHP) and Motherland Party (ANAP).

On May 16, 2001 in an interview with the Financial times Kemal Dervis explicitly stated that in case of eventual failure of the economic program launched by him he will resign immediately. By receding from political conflicts and his unwillingness to participate in parties he further deepens the impression of general public that he is a non-partisan expert and patriot devoted to his country. Democratic Left Party leader Ecevit accepts positively Dervis' expansion in government because it is of primary importance for him not to allow political destabilization that may escalate into new economic crisis. Yet, definitely, Dervis' popularity worries Ecevit mainly because of the volatile balance of power in the coalition government. Political complexes of Motherland Party and Nationalist Movement Party leaders are obvious. The strongest reaction under the form of discrediting campaign against Dervis could be expected on behalf of MHP using every failure to launch political attack.

Returning of Kemal Dervis to Turkey as State Minister can be perceived as Ecevit's brilliant political move in view of keeping the political status quo in the country. Against the background of the concluded agreement with IMF and the World Bank Dervis won public trust. However, considering the immense National Debt of Turkey, the real esteem of his work at the moment is only burdening additionally the balance of payments with new credits extended for the payment of previous ones. In this regard, the success of the new stabilization program and the complete implementation of endeavored legislative reforms will be of crucial importance.

Some more profound and moderate analyses on the government's Program for Transition to Strong Economy have already happened to appear. The major critic is directed to mainly monetary character of the program. It is underlined that in fact there is a shift of priorities from the real producing sector to the banking sector which will inevitably increase unemployment and will negatively affect the population's social security.

Generally, the situation in Turkey in late May 2001 could be considered as quite critical. The major risks stem from the perspective that, in case of program reforms failure, the country would capsulate on religious and nationalistic basis, which would draw it further away from Europe.

The Turkish political and economic crisis outburst will inevitably affect economies in transition, such as Bulgarian. The direct impact on Bulgarian economy will not be substantial provided that the crisis will not expand to developing markets. Turkish investments in Bulgaria are likely to decrease as well as the volume of bilateral trade. As far as Bulgarian export to Turkey comprises predominantly of raw materials and electricity, that Turkey needs, there will hardly be any significant fall in their amount. Meanwhile, precise assessment of Turkish investors in Bulgaria will be necessitated, especially in regard to insolvency potential.