

**THE IMPACT OF THE IMF-SUPPORTED STABILISATION PROGRAMMES ON
INFLATION IN DEVELOPING COUNTRIES:
THE EXPERIENCE OF TURKEY IN LAST DECADE**

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Özet: Bu çalışma, ülkemizde 1980'li yıllarda uygulanan IMF destekli istikrar programlarının enflasyon üzerindeki etkisini araştırmaktadır. Enflasyon özellikle son yirmi yıldır Türk ekonomisi için en önemli problemlerden biridir ve hala önemli bir problem olarak yerini muhafaza etmektedir. Geçen yıllarda, IMF destekli istikrar programlarının gelişmekte olan ülkelerin makro göstergeleri üzerindeki etkilerinin ölçülmesi iktisatçıların önemli ölçüde dikkatini çekmiştir. Bu amaçla farklı ölçüm metodları kullanılarak yapılan çalışmaların çoğu IMF programlarının gelişmekte olan ülkelerde enflasyonu artırdığı ya da enflasyonu azaltıcı yönde herhangi bir pozitif etkiye yolaçmadığını göstermiştir. Benzer bir şekilde, IMF programları Türkiye' de de enflasyon problemine köklü bir çözüm sağlamadı. Enflasyon hala Türk ekonomisi için önemli bir problem olmaya devam etmektedir. Enflasyonu bertaraf etmeyi amaçlayan ilk çaba kapsamlı bir mali, ekonomik ve sosyal reformu gerektirmektedir.

Abstract: This study explores the impact of the IMF-supported stabilisation programmes on inflation in Turkey during 1980s. Inflation has been one of the most important economic problems for the Turkish economy for last two decades and it still keeps its place as an important economic problem in this decade. The measurement of the impact of the IMF supported stabilisation programmes on macroeconomic indicators of beneficiary countries has received considerable attention among economists for last two decades. The majority of studies done in recent decades by using different approaches in order to measure the impact of the IMF programmes led to increase or zero effect on inflation in these countries. Likewise, the IMF programmes in Turkey have not provided a radical solution to inflation although in the initial years of the programmes some reduction in inflation have been seen. Inflation is still continuing to be one of the most important economic problems for the Turkish economy. If any attempt is taken to solve inflation in Turkey in future, first of all it requies a comprehensive fiscal, economic and social reform.

I. Introduction:

Inflation has been one of the most common features of the Turkish economy since the 1950s. In the 1960s and early 1970s, Turkey achieved a lower inflation rate through the direct control of prices and exchange rates. However, in mid-1970s a heavy investment programme for SEEs was carried out mainly through short-term foreign borrowing and worker's remittances despite the oil shock in 1974. Expansionary domestic policies, combined with declining public revenue due to the lag in the collection of tax receipts, erosion of tax base, and price freezes on the products of SEEs, enlarged budget deficits. With foreign borrowing opportunities drying up, the central Bank credits became the major source of the financing public deficits. Consequently, inflation sharply accelerated, and reached almost 50 percent in 1978 and 65 percent in 1979 respectively.

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The objective of the IMF-supported macroeconomic stabilisation programme in Turkey, put into practice on January 24th 1980, was not only to stabilise the economy in the short-run through lowering inflation and reducing balance of payments (BOP) deficit, but also to realise the structural transformation of the Turkish economy¹. The policy measures of the 1980-stabilisation programme², supported by a three-year IMF stand-by loan³, which consisted of reducing trade restrictions, and giving priority to export sector, devaluation of Turkish lira, control of Central Bank credits, increasing interest rates, reducing of government deficits, curbing monetary expansion, greater hospitality to foreign investment, and dismantling of price controls.

In previous decades, one of the central queries has been about the IMF stabilisation programmes whether they have achieved their broad objectives accurately. For this purpose, a number of studies have been conducted to measure the effect of IMF stabilisation programmes on beneficiary countries' main macroeconomic indicators, such as the rate of inflation, the current account, overall BOP, and the rate of real economic growth through using different approaches. The majority of recent empirical studies on the impact of the IMF stabilisation programmes have focused on cross-sectional studies rather than case studies, since case studies are an extremely time-consuming and expensive way to obtain evidence about programme effects (Goldstein and Monteil 1986; Khan 1990).

This study deals with the assessment of the impact of the stabilisation programme of 1980 on inflation in Turkey. Section 2 of the study explores the empirical studies which have been undertaken to measure the effect of the IMF-supported macroeconomic stabilisation programmes on inflation. The section starts with some background explanations relating to the approaches used in

¹ See for further details, OECD (1980, 1981); Senses (1981, 1988); Ramazanoglu (1985); Onis (1986); Saracoglu (1987); Boratav (1987); Margulies and Yıldızoglu (1988); Rodrik (1990a); Asikoglu and Uctum (1992); Onis and Riedel (1993); and Canevi (1994).

² As the investigated period, 1980-86 period has been chosen. The main reason for choosing this period is due to fact that this is the period during which intense implementation of the stabilisation programmes occurred. Some authors take the stabilisation period as in Turkey (1980-84) (Boratav 1987), whereas others such as Kopits (1987) takes 1980-85, Senses 1988 takes 1980-86. Here we tried to delimit the investigation of the stabilisation policy measures between 1980 and 1986.

³ Under the stand-by arrangement with the IMF, Turkey received an amount of SDR 1.25 billion for over three years in the mid-1980. This amount was the highest credit extended up to that point by the IMF, representing a 6.5 million times higher value than the Turkish quota with the IMF. After that, subsequent stand-by arrangements with the IMF were done in 1983 and 1984. They provided to Turkey the additional amount of SDR 0.4 billion (See, eg. Onis (1986), Onis and Riedel (1993); Onis and Webb (1994)).

the measurement of the impact of the IMF programmes and then gives some empirical examples of the effect of the programmes on inflation. Section 3 of the study assesses the impact of the IMF programme on inflation in Turkey while Section four provides a critique of the IMF programmes. The final section of the study provides a conclusion.

II. Empirical Studies on the Impact of the IMF Stabilisation Programmes on LDCs:

In the literature, the most commonly used approaches to measure the impact of the IMF-supported macroeconomic stabilisation programmes (hereafter the IMF programmes) have consisted of the before-after approach, the with-without approaches, the actual-versus-target approach, comparison-of- simulations and generalised evaluation approach (see Goldstein and Monteil 1986; Khan 1990; Killick *et al.* 1991).

The before-after approach is used to compare the programme country's macroeconomic performance before and after adoption of an IMF programme. In this approach, annual averages of macroeconomic indicators are taken as key factors in evaluating the impact of the programmes. This approach can provide information on whether IMF programmes were associated with progress on the initial situation of beneficiary countries' macroeconomic indicators.

Reichmann and Stillson (1978) examined 79 IMF programmes implemented during 1963-72 by using the before-after approach based on a two-year comparison and they found that inflation came down in 6 out of 11 programmes where there was an important contraction in domestic credit. However, in a majority of the programmes, involving devaluation, inflation was much higher. Another study done by Killick *et al.* (1991:31) examined the effect of the IMF programmes in 16 programme LDCs, covering the 1979-85 period, by using the before-after approach and they concluded that "over 40 percent of the programmes were associated with an increase in the rate of inflation -even in the longer term".

Although the before-after approach can be implemented easily, its weakness is that all observed changes are ascribed to the programmes. This approach may be useful in understanding what happened in programme countries, but not why it happened.

As for the with-without approaches, it is used to compare the macroeconomic performance in a sample of programme countries with the macroeconomic performance in a control group of non-programme countries. In this approach it is assumed basically that programme and non-programme countries have the same external environment. Thus, by comparing the performance of countries with and without the programme, the effects of non-programme determinants will be cancelled out.

Donovan (1982), using the with-without approach, examined a sample of 78 IMF programmes implemented during 1971-80 period in 44 programme countries and found that the annual rate of inflation, measured by consumer prices, increased with the adoption of an IMF programme in both one-year and three-year comparison periods.

However, this approach ignores the differences in the initial economic conditions of the beneficiary countries and non-programme countries, and attributes all differences in results to economic programmes.

The comparison-of-simulations approach compares simulated performance of the 'IMF-type' stabilisation policies with alternative policy packages. The problem with this approach is that the parameters in the econometric models may not remain invariant to changes in the policy regime, so that it would be incorrect to treat such parameters as fixed across policy simulations. Furthermore, the confidence or credibility effects are automatically captured by the outcome-based approaches but not necessarily by a model based approach.

Khan and Knight (1985) compared the effect of demand management policies vis-à-vis the combined package of demand management and structural policies on the target indicators by using the comparisons of simulations approach. The simulations of combined package showed that structural policies would help to reduce short-term adverse effect of programmes on inflationary consequences of devaluation. They also found that long-term impacts of IMF programmes on inflation were more favourable than short-term effects.

The actual-versus- target approach is used to compare the success of a IMF programme against its targets which are written into the IMF programme. However, this approach does not take into

account whether the success achieved is more than would have occurred without the programme or whether unexpected non-programme events affected the results.

Reichmann (1978) studied 21 IMF programmes which were implemented in 18 LDCs during 1973-75 by using the actual-versus-target approach, and found that in only nine cases there was a reduction in inflation and in the majority of these cases the target figures were exceeded.

A newly developed method is the generalised evaluation approach, which establishes a link between changes in targeted variables, for instance inflation, with lagged values of these variables and with programme and external variables. In this approach, a dummy variable is included to capture the effect of an IMF programme. Although this approach provides the estimation of the effect of the IMF programme directly, it only gives information about the direction of effects of the programme through the sign of the dummy variable.

Goldstein and Monteil (1986) applied the generalised evaluation approach to a sample of 68 programmes for 58 programme LDCs between 1974 and 1981. They found a reduction in inflation associated with the IMF programmes.

Table 1 represents a summary of the studies relating to measurement of the effect of IMF programmes on inflation by using different approaches. With two exceptions, the programmes have resulted in no or negative effects on inflation.

Table 1: Empirical studies on the impact of the IMF programmes on inflation

Study-Year	Time Period	Number of Programme	Number of Countries	Method ^a	Effects on inflation ^b
Reichmann and Stillson-1978	1963-72	79	-	Before-after ^c	0
Reichmann -1978	1973-75	21	18	Actual-versus-target	+
Connors-1979	1973-77	31	21	Before-after	0
Donovan-1981	1970-76	12	12	With-without	-
Donovan-1982	1971-80	78	44	With-without	-
Killick-1984	1974-79	38	24	Before-after	-
Zulu and Nsoli-1985	1980-81	35	22	Actual-versus-target	-
Goldstein and Monteil-1986	1974-81	68	58	Before-after	-
				With-without	-
				Generalised evaluation	+
Gylfason-1987	1977-79	32	14	With-without	0
Pastor-1987	1965-81	-	18	Before-after	0
Khan and Knigth-1981, 1985	1968-75	-	29	Comparison and simulations	-
Loxley-1984	1971-82	38	38	With-without	-
Khan-1990	1973-88	315	69	Before-after ^d	0
				With-without ^d	0
				Generalised Evaluation ^d	0
Killick <i>et al.</i> -1991	1979-85	-	16	Before-after ^d	-

a-Comparison over one-year periods, unless otherwise noted

b-Direction of change; (+) shows reduction in inflation , (-) shows increase in inflation , (0) indicates no effect

c-Comparison over two-year bases.

d-Comparison includes over one-year as well as two-years

Source: Khan (1990), Table 1, 2, 3 and Killick *et al.* 1991

As Killick (1984:241) points out, monetary expansion is an important factor which explain inflation in a number of LDCs. Therefore, it is expected therefore that the tighter monetary policies associated with the IMF programmes should lower inflation. However, the IMF programmes focus mainly on the domestic credit component of money. If the programmes can improve the BOP and than lead to an increase in the foreign assets of the banking system, this will create a source of monetary expansion. Furthermore, the IMF programmes frequently comprise devaluations, reductions in subsidies, higher prices for the products of parastatal bodies, increases in agricultural producer prices, and other measures. Consequently, the increase in the domestic price level is inevitable, at least, in the short-run.

III. The Impact of the Stabilisation Programme of 1980 on Inflation in Turkey:

The policy measures of the stabilisation programme of 1980 against the inflation were not only to lessen the fiscal deficits through expenditure restricting and revenue augmenting policies, but they also intended to reduce the velocity of circulation of money through liberalisation of interest rates, along with flexible exchange rate policy.

In the first year of the stabilisation programme, inflation went up rather than decreased, reaching its zenith point of over 100 percent. This resulted largely from the adjustment of relative key prices such as the exchange rate, interest rate and the product prices of the SEEs in the initial year of the programme. The devaluation of the Turkish lira, removing the price control committee, allowing the SEEs to balance their budgets through raising prices of their products brought about increases in inflation.

In 1981 and 1982, tight demand management policies showed their desirable impact on inflation. As shown in Table 2, the rate of inflation, measured by the implicit GNP deflator, wholesale and consumer prices, sharply dropped from 104.0, 108.5 and 110.1 percent in 1980 to 42, 36.7 and 36.5 percent in 1981, and 26.7, 25.2 and 30.8 percent in 1982 respectively.

However, Rodrik (1990a) narrates this story in an other way. He is of the view that two major causes were responsible for the reduction in inflation. Firstly, sharp changes in relative prices were imposed on a society left temporarily docile by the military government. To him, these relative-price changes were the counterpart to the fiscal and monetary contraction of 1980-82. These tended to reduce the public sector deficit and private absorption. Secondly, the Turkish government enjoyed a favourable external debt condition compared to the other nations that suffered from crisis after 1982, along with massive capital inflows. All these developments in early 1980s required less need for inflationary finance and thus allowed relatively painless reduction in inflation.

After the sharp reduction in 1981 and 1982, the rate of inflation could not be reduced below 25 percent and inflation measured by consumer prices averaged 42.3 percent during 1983-86, reflecting the sign of chronic inflation process.

Table 2 points to the development in inflation in the pre- and post-stabilisation programme of 1980 in Turkey. The inflation, measured by an implicit GNP deflator, wholesale prices and consumer prices, on average was higher in the 1980-86 period than that in 1973-79. For instance, while the implicit GNP deflator increased by 31.9 percent on average between 1973 and 1979, it averaged 46.5 percent in the 1980-86 period.

However, the inflation of 1980 could be seen as an exception since the relative price changes occurred in Turkish economy (Onis 1986; Onis and Ozmucur 1990; Onis and Webb 1994). When we compare the average inflation of pre-1980 with that of post-1980 by excluding the inflation of 1980, again the average inflation of post-1980 is higher than that of pre-1980. For instance, while the average inflation, measured by the implicit GNP deflator, in the 1974-79 period was 33.9 percent, it averaged 37 percent between 1981 and 1986.

Alternatively, when we compare the three years before of the stabilisation programme with the three years after of it, it seems that stabilisation programme of 1980 reduced inflation significantly. While the inflation averaged 46.3 percent between 1977-79, it reduced on average to 32.4 percent in the 1981-83 period.

Table 2: Selected Price Indicators of Turkey, as annual percentage change, 1973-1986

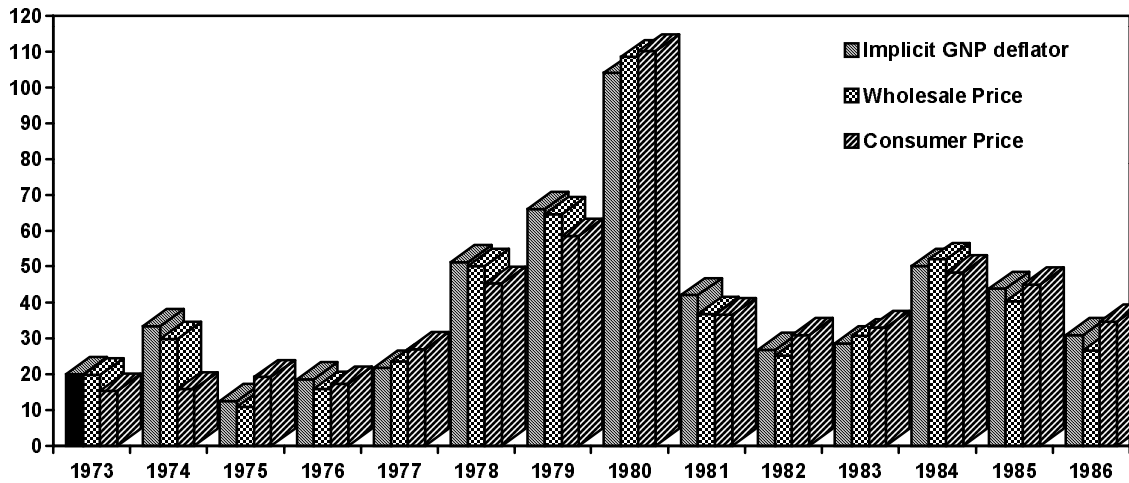
Years/Indicators	Implicit GNP Deflator	Wholesale Price	Consumer Price
1973	20.0	19.7	15.4
1974	33.3	29.8	15.8
1975	12.5	10.9	19.2
1976	18.5	15.9	17.3
1977	21.8	23.5	27.0
1978	51.2	50.1	45.2
1979	66.1	64.7	58.7
Average (1973-79)	31.9	30.6	28.3
1980	104.0	108.5	110.1
1981	42.0	36.7	36.5
1982	26.7	25.2	30.8
1983	28.6	30.6	32.9
1984	50.1	52.0	48.3
1985	43.8	40.2	44.9
1986	30.9	26.6	34.6
Average (1980-86)	46.5	45.6	48.3

Source: The IMF International Financial Statistics 1987 and 1991

Plotting the information in Table 2, we get figure 1, which very clearly shows the differences of the two periods -pre reforms and post reforms. Even if the effect of price adjustment of 1980 on inflation is taken as an exception, it is clear that the inflation of post-1980 is higher than pre-1980. In particular, after 1982, inflation began to increase significantly.

As shown in Figure 1, under the stabilisation programme, the Turkish economy had a poorer inflation performance compared with the pre-stabilisation period.

Figure 1: The change in selected price indicators, 1973-1986



Public sector deficits were the fundamental force behind the inflationary process and it continued to expand due to insufficient tax revenues and increasing public expenditures. On revenue side, due to administrative and fiscal inefficiency and inefficient tax system and collection, tax revenues could not be increased in line with inflation.

Although a realistic pricing policy was introduced for SEEs under the stabilisation programme of 1980, their financial requirements could not be solved due to their losses and thus they continued to be an important factor in expanding budget deficit in the post-1980 period. In addition, domestic and foreign interest payments did not permit reduction in public expenditure. After 1983, external finance was replaced by domestic borrowing to finance public sector deficits. This was done by issuing government bonds at high interest rates. Moreover, the real devaluation of the lira, by increasing the domestic cost of foreign borrowing, increased foreign public sector debt burden substantially. Furthermore, the political difficulty of increasing taxes and reducing public sector expenditures combined with the use of budgetary policies for generating support before elections, widened public sector deficits and thus led to a continued inflationary process (Little *et al.* 1993).

The using of exchange rate as anti-inflationary tool was risky and ultimately ineffective, since the fiscal deficit could not be kept under control. A prerequisite for an anti-inflation policy at the Central Bank, in the presence of high budget deficits, was letting the exchange rate float (Rodrik 1990a; Onis and Webb 1994:170). In addition, strong expansionary influences in the economy as a result of improvement of the current balance capital inflows exceeded outflows, put pressure on monetary expansion after 1983.

Turkey's inflation experience may be explained in a large part by the needs of public finance: public sector deficits have been financed at the margin by the inflation tax but the revenue from this tax has declined as a result of the decrease in public holdings of base money. Therefore, whatever the role of internal elements, a comprehensive fiscal reform will have to be at the core of any attempt to reduce inflation to reasonable levels in Turkey (Rodrik 1990a:26).

IV. Critique of the IMF-Supported Macroeconomic Stabilisation Programmes:

In recent decades the IMF-supported macroeconomic stabilisation programmes have been criticised substantially in terms of their philosophy, approach, analytical framework, programme and conditionality. Perhaps the most important critique of the IMF programmes is by the structuralist economists, who arguing that the apparent failure of IMF programmes may be traced back to the IMF's adherence to tight the demand management approach to the BOP, output and inflation disequilibria, and its reliance on monetary restraint and devaluation as an instrument for restoring inequilibrium (Kirkpatrick and Onis 1985).

The IMF programmes have also been criticised in terms of their impact on the main macroeconomic variables. To Killick (1982), the IMF programmes appear to have a very limited impact on the BOP, GDP and income distribution. He makes the point "...programmes are associated with a modest short-term improvement in the current account but of low statistical significance; ... there is actually stronger evidence of a positive effect on GDP growth but again statistical significance is generally low; programmes probably result in a net short-run increase in the inflation rate, rather than the desired reduction, but significance is once more low" (Killick 1982:37).

Likewise, the IMF stabilisation programme of 1980 in Turkey recorded highly poor performance in terms of inflation. In most LDCs, the poor performance of the IMF programmes was due to lack of local expertise (Foxley and Whitehead 1980). The authors criticised the Fund programmes on the basis of the Latin American experience in IMF stabilisation programmes. They add “...after about 25 years of Fund-assisted stabilisation policies the region’s performance has not improved and local economic policy-makers (however skilled and resourceful they have become) have not learnt how to emancipate themselves from disproportionate reliance on adjustment assistance from outside agencies” (Foxley and Whitehead 1980: 825).

The restrictive demand management policies of IMF stabilisation programme through incomplete wage indexation to inflation, increasing product prices of SEEs, and cutting agricultural support prices, led to a regressive redistribution of income from popular sectors towards profits, rents, and interest income in Turkey (Taylor 1990; Rodrik 1990a). In particular, positive real interest rates on deposits was used in generating a group of rentiers who directly benefited from the stabilisation programme as well as adding to the ruling party’s base of support (Onis and Webb 1994). As a result, the IMF stabilisation policy measures turned the primary relations of income distribution against the working class and peasantry as well as civil servants in Turkey (Boratav 1987:22).

Heterodox stabilisation programmes, which were implemented in Israel, Argentina, Peru and Brazil during 1985-86, could be an alternative to the monetary approach implemented by the IMF. The main objective of these programmes is to decrease inflation in less than one year by avoiding a recession and maintaining the existing income distribution. According to the Heterodox Programmes, hyperinflations are not only because of the excessive demand, but also because of the inertia and expectations. This could happen if everyone expects the inflation to rise to a certain extent in the near future, they would bargain for an increase in nominal wages greater than expected inflation. In addition, the producer would continue to increase prices higher than the anticipated inflation. To shatter this expectation cycle, a price jam is suggested to shake the public expectations of persistent inflation to a halt⁴.

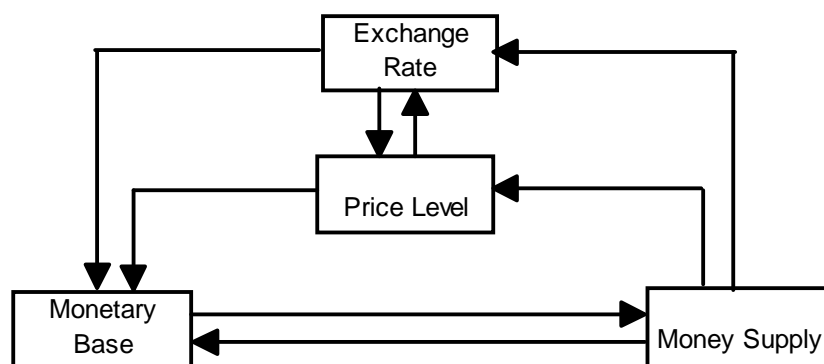
⁴ See more details of the heterodox policies: Blejer and Leviaten (1987), Blejer and Cheasty (1988), Cakman and Capan (1991).

The poor implementation of IMF programmes is another factor that adds to the stream of criticism with regard to the IMF programmes. Stabilisation policies may be painful at least in the short-term. The success of programmes depends on the credibility and sincerity of the governments that apply the reform programmes. There is likely to be hostility against reforms such as devaluation, increasing prices, cutting government expenditure and reducing wages, from opposition parties and pressure groups.

Many LDCs need to import intermediate inputs and capital goods for production process to continue. Devaluation increases the import prices and thus the inputs if domestic production depends on import materials. This leads to an increase in the prices of final goods and services, which ultimately is passed on in the form of tax to the consumer. In this way, the devaluation is itself an inflation booster. For the persistent inflation in semi-industrialised countries like Turkey, one well-known argument is that devaluation tends to increase the domestic price of imported goods which leads to an increase in prices and then to wages. Therefore, the higher domestic inflation rate then requires further devaluation to maintain the international competitiveness of the export goods. This rationale is named as the vicious circle hypothesis⁵. According to the vicious circle hypothesis, under a floating exchange rate system, an initial disturbance can create an exchange rate-inflation spiral. A study done by Onis and Ozmucur (1990) concluded the existence of a vicious circle in the explanation of the post-1980 inflation in Turkish economy by using a four variable vector autoregressive (VAR) model, including money, price, exchange rate and exports. Figure 2 points to the principal links and the transmission mechanism of the vicious circle. Although devaluation of the Turkish lira initially aimed to raise the competitiveness of the Turkish exports, it later led a cumulative process of inflation, and further devaluation of the lira.

⁵ The vicious circle hypothesis argues that, “under a floating exchange rate regime, an initial disturbance (either domestic or foreign) can set into motion a cumulative process of inflation and exchange rate devaluation, through which the exchange rate effect is rapidly translated into domestic prices and costs and back to the exchange rate” (Onis and Ozmucur 1990: 135-36).

Figure 2: The vicious circle model of persistent inflation



Source: Onis and Ozmucur (1990:137).

In addition, the continuous real depreciations of the lira resulted in a great burden on the central government budget by increasing the domestic currency cost of the debt service. While the total debt service / central government revenue ratio was equal to 15 percent in 1981-83, it reached to almost 40 percent in 1986. Furthermore, the foreign debt payments by absorbing an increasing share of public expenditure limited the public expenditures for essential services such as health and education (Celasun 1990; Rodrik 1990a)

Celasun (1990) argues that the interest rate policy of post-1980 sharply increased the lending rates for non-preferential credits, which soared almost 30 percent in real terms. Consequently, the share of non-performing loans in the banking system expanded considerably. Furthermore, the refinancing of interest payments led private sector credits to increase and increased the liquidity problems of the Turkish private sector further.

The restriction on the expansion of domestic credit, a main aim of the IMF, is mainly through increases in the interest rates, but an increase in the interest rate raises investment costs. Therefore, it reduces the investment in the country. For instance, in Turkey “High interest rates certainly have contributed to the investment crawl, but there is perhaps a more fundamental issue,I suspect that the fall in absorption and the export boom are a 180-degree reversal from the traditional stimuli to investment in Turkey. In the good old days of ISI, private investment probably responded mostly to public sector capital formation ... as well as domestic consumer demand according to an accelerator. Both these motors were taken away for most of the past decade (1980s), so it is not surprising that

private capital formation has been flat” (Taylor 1990:271). Low level of investment is not only a source of low capital formation, but also low employment.

The IMF programmes are also criticised in terms of negative impact particularly on children and women. In this context, it is argued, notably by UNICEF, that the programmes have no guarantee of employment and/or of preserving basic needs. IMF programmes, by cutting government expenditure and subsidies, imposing wage restrictions and raising prices, effect living conditions of people negatively. Although there is no detailed study concerning the social impact of the IMF-supported stabilisation programme of 1980 in Turkey, as Stewart (1991:1861) argued, IMF programmes have affected negatively the welfare of poor, slowing and reversing progress in nutrition, health and education in a number of LDCs. In Africa, for instance, “...poverty has deepened and inequity has increased because of the adjustment-related release of market forces, cuts in government budgets for social expenditure, retrenchments, and introduction of user fees on health and education” (Centre for Development Research 1995:I). UNICEF’s ‘adjustment with a human face’ has suggested an alternative policy package to deal with distributional problems; a more expansionary macro stance, pursuit of meso policies to suggest disadvantaged groups, adoption of new technologies in the social sector such as oral rehydration for cholera and low cost health delivery systems, direct compensatory programmes such as public work programmes to benefit groups that have been badly affected and improved welfare monitoring. public intervention is required to sustain welfare.

On the other hand, the argument in favour of the IMF programmes is that LDCs usually have proceeded to the IMF during the time of economic crisis, accelerating inflation, and / or accumulating foreign debt. As in the case of Turkey, the IMF programmes are adopted as the last resort, but an adverse economic environment makes their potential weak. Consequently, the IMF programmes obtain insufficient fruit.

V. Conclusion:

Despite partial successful disinflationary process in early 1980s, inflation showed a poor performance under the IMF programmes compared with the pre-programme period. Except the initial two-three years of the programme, inflation remained in high rates through 1980s as well as up to now.

Large budget deficits, exchange rate adjustments, and non-competitive pricing of the SEEs appear to be the fundamental factors behind persistent inflationary process on the Turkish economy. In general, persistence of high rates of inflation in the Turkish economy during 1980s may be explained by following arguments:

Expanding budget deficits were the primary reason behind the inflationary process. An important proximate cause of widening budget deficits is the losses incurred and the consequent financing requirement of the SEEs, which may be identified as one of the persistent, structural problems of the Turkish economy. Despite large rises in the prices of their products, the losses incurred by these enterprises appear to have magnified during 1980s. The central budget deficit continued to widen due to the failure to increase tax revenues in real terms in line with inflation. Feedback from the budget deficit to the inflation rate constitutes one principal component of the inflationary process in Turkey.

Increases in key relative prices, such as exchange rate, interest rates, the product prices of the SEEs, led to cost-push inflationary pressures in the Turkish economy during 1980 through the transmission mechanisms of the imports of the intermediate goods, working capital, and important domestic inputs, respectively. In addition, the existence of political pressures on the monetary authorities about not to be pursued a restrictive led to an inefficiency in monetary policy.

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