

# Currency and Financial Crises in Turkey 2000 -2001: Bad Fundamentals or Bad Luck?

F. Gulcin Ozkan

First published: 14 April 2005

<https://doi.org/10.1111/j.1467-9701.2005.00691.x>

Accessibility issue? [Request accessibility update.](#)



## Abstract

This paper attempts to explore the underlying causes of twin crises experienced by Turkey in November 2000 and February 2001. We study an extensive set of leading indicators of crises that are drawn from the existing literature. Our results identify three sets of vulnerabilities in the Turkish economy in triggering the financial crisis and bringing about the collapse of the Turkish lira. These are: first, the weak external position caused by excessive debt burden combined with the loss of competitiveness; second, the weak fiscal position resulting from the record levels of interest payments on domestic borrowing; and most importantly, third, weaknesses in the financial and banking sector. Given these observations, we argue that the success of financial sector reform is instrumental not only for putting the economy on a sustainable recovery path but also for reducing the likelihood of similar crises in the future. The general lesson to be drawn from this experience is that a sound financial system is a pre-condition for the successful operation of a fixed exchange rate regime.

## REFERENCES

Akyuz, Y. and K. Boratav (2001), 'The Making of the Turkish Financial Crisis', Paper presented at the Financialization of the Global Economy conference (The University of Massachusetts, Amherst).

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Bogazici University).

[Google Scholar](#) 

---

Atiyas, I. and S. Sayin (1998), 'A Political Economy Perspective on Turkish Budget Deficits', *Bogazici Journal*, 12, 1, 55-79.

[Google Scholar](#) 

---

Bensaid, B. and O. Jeanne (1997), 'The Instability of Fixed Exchange Rate Regimes When Raising the Nominal Interest Rates is Costly', *European Economic Review*, 41, 1 461-78.

[Google Scholar](#) 

---

Blanchard, O. (1990), 'Suggestions for a New Set of Fiscal Indicators', OECD Department of Economics and Statistics Working Papers, No. 79.

[Google Scholar](#) 

---

Calvo, G. (1996), 'Capital Flows and Macroeconomic Management: Tequila Lessons', *International Journal of Finance and Economics*, 1, 207-24.

[Google Scholar](#) 

---

Chalk, N. and R. Hemming (2000), 'Assessing Fiscal Sustainability in Theory and Practice', IMF Working Papers, No. 00/81.

[Google Scholar](#) 

---

Corsetti, G., P. Pesenti and N. Roubini (1998a), 'What Caused the Asian Currency and Financial Crisis? Part I: A Macroeconomic Overview', NBER Working Paper No. 6833.

[Google Scholar](#) 

---

Corsetti, G., P. Pesenti and N. Roubini (1998b), 'What Caused the Asian Currency and Financial Crisis? Part II:

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Cuddington, J. T. (1997), 'Analysing the Sustainability of Fiscal Deficits in Developing Countries' (mimeo, Georgetown University).

[Google Scholar](#) 

De Grauwe, P. (2000), *Economics of Monetary Union* (Oxford: Oxford University Press).

[Google Scholar](#) 

Edwards, S. (1993), 'Openness, Trade Liberalization and Growth in Developing Countries', *Journal of Economic Literature*, 31, 3, 1358-93.

[Web of Science®](#)  [Google Scholar](#) 

Eichengreen, B. (2001), 'Crisis Prevention and Management: Any New Lessons from Argentina and Turkey' (mimeo, background paper for the World Bank's Global Development Finance 2002).

[Google Scholar](#) 

Eichengreen, B., A. K. Rose and C. Wyplosz (1993), 'The Unstable EMS', *Brookings Papers on Economic Activity*, 1, 51-143.

[Google Scholar](#) 

Ekinci, N. K. (2000), 'The IMF and Reforming the Public Sector in Turkey', METU ERC Working Papers, No. 00/04.

[Google Scholar](#) 

Ertugrul, A. and F. Selcuk (2002), 'Turkish Economy: 1980-2001', in A. Kibritcioglu, L. Rittenberg and F. Selcuk (eds.), *Inflation and Disinflation in Turkey* (Aldershot: Ashgate), 13-40.

[Google Scholar](#) 

Flood, R. and P. Garber (1984), 'Collapsing Exchange Rate Regimes: Some Linear Examples', *Journal of*

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Greenaway, D. (1993), 'Liberalising Foreign Trade through Rose Tinted Glasses', *The Economic Journal*, 103, 208-22.

[Web of Science®](#) | [Google Scholar](#)

IMF Staff Country Report, Turkey: Selected Issues and Statistical Appendix (February 2000), No. 00/14.

[Google Scholar](#)

Kamin, S., J. Schindler and S. Samuel (2001), 'The Contribution of Domestic and External Factors to Emerging Market Devaluation Crises: An Early Warning Systems Approach', International Finance Discussion Papers, No. 711 (Board of Governors of the Federal Reserve System, September).

[Google Scholar](#)

Kaminsky, G. and C. M. Reinhart (1999), 'The Twin Crises: The Causes of Banking and Balance-of-Payment Problems', *American Economic Review*, 89, 3, 473-500.

[Web of Science®](#) | [Google Scholar](#)

Krugman, P. (1979), 'A Model of Balance of Payments Crises', *Journal of Money, Credit, and Banking*, 3, 311-25.

[Web of Science®](#) | [Google Scholar](#)

Mishkin, F. (2001), 'Financial Policies and the Prevention of Financial Crises in Emerging Market Countries', NBER Working Paper No. 8087.

[Google Scholar](#)

Mitton, T. (2002), 'A Cross-firm Analysis of the Impact of Corporate Governance on the East Asian Financial Crisis', *Journal of Financial Economics*, 64, 215-41.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

OECD (2001), Economic Surveys: Turkey.

[Google Scholar](#) 

OECD (2002), Economic Surveys: Turkey Supplement No. 1.

[Google Scholar](#) 

Onis, Z. (2000), 'The Turkish Economy at the Turn of a New Century: Critical and Comparative Perspectives' (mimeo, Koc University, Istanbul).

[Google Scholar](#) 

Ozatay, F. and G. Sak (2002), 'The 2000–2001 Financial Crisis', Paper presented at the Brookings Trade Forum 2002: Currency Crises (Washington, DC).

[Google Scholar](#) 

Ozkan, F. G. (2003), 'Explaining ERM Re-alignments: Insights from Optimizing Models of Currency Crises', *Journal of Macroeconomics*, 25, 4, 491–507.

[Web of Science®](#)  | [Google Scholar](#) 

Ozkan, F. G. and A. Sutherland (1995), 'Policy Measures to Avoid a Currency Crisis', *The Economic Journal*, 105, 510–20.

[Web of Science®](#)  | [Google Scholar](#) 

Ozkan, F. G. and A. Sutherland (1998), 'A Currency Crisis Model with an Optimizing Policy Maker', *Journal of International Economics*, 44, 339–64.

[Web of Science®](#)  | [Google Scholar](#) 

Radelet, S. and J. Sachs (1998), 'The East Asian Financial Crisis: Diagnosis, Remedies, Prospects', *Brookings*

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Rodrik, D. and A. Velasco (2000), 'Short Term Capital Flows', Annual World Bank Conference on Development Economics Proceedings.

[Google Scholar](#) 

Yeldan, E. (2001), 'On the IMF-Directed Disinflation Program in Turkey' (mimeo, Bilkent University).

[Google Scholar](#) 

Yildirim, N. (2002), 'Turkey's Debt Dynamics' (in Turkish) (mimeo, Bahcesehir University).

[Google Scholar](#) 

## Citing Literature



[Download PDF](#)

### ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

### HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



**Manage Preferences**

**Accept All**

**Reject Non-Essential**