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Stiglitz: Turkey should avoid an IMF deal if conditions are not suitable

By Global Research
Global Research, February 08, 2009
Today's Zaman 8 February 2009

Region: Middle East & North Africa
Theme: Global Economy

Turkey has to carefully consider its own situation and the global financial environment before signing a stand-by deal with the International Monetary Fund (IMF) and avoiding a deal would be a better option if the conditions presented by the IMF are in conflict with what the global and domestic situation requires, Nobel Prize-winning economist Joseph Stiglitz has said.

Stiglitz was interviewed by the Anatolia news agency yesterday. Noting that existing stand-by models do not sufficiently cover the needs of countries, he said the IMF's classical stand-by models are not very helpful in rescuing countries from the effects of the crisis. He stated that, contrary to what many contend, IMF stand-by deals do not improve the credit rating of a country. The lack of sufficient control and supervision, which were among the primary causes of the global crisis, according to Stiglitz, largely stemmed from the IMF's suggestions in its stand-by agreements that countries loosen their control over their economies. He added that a country's credit rating falls more when it ends a stand-by deal than it rises when a deal is signed with the IMF.

Countries that have signed agreements with the IMF recently have had virtually no other choice, but Turkey is quite different from these nations, the renowned economist underlined.

Many countries that made deals with the IMF had a large burden of public debt, he said, noting that Turkey is relatively in much better condition. He furthered his criticism of the IMF, saying the institution had failed to predict that the lack of corporate governance would lead to a crisis and that the IMF lacks knowledge of ways to help countries in trouble flee the fallout of the crisis. Stiglitz also said the Turkish financial sector has been in very good shape thanks to the strict discipline it has maintained since the 2001 financial crisis, thus making Turkey more immune to the shock of the global meltdown to a certain extent. He said it was less vulnerable than the US and the European Union.

Many Turkish businessmen, especially the Turkish Industrialists and Businessmen's Association (TÜSİAD), were pressuring the government to forge a deal with the IMF as an anchor of confidence and a source of more than $20 billion in loans that could be delivered as low-cost loans to nonfinancial sectors. Turkey is currently in talks with the IMF. The IMF and Turkish officials continued high-level talks during the Davos summit last week, but negotiations came to a halt as Turkey turned down some of the IMF's new conditions after finding them dissatisfactory. Prime Minister Recep Tayyip Erdoğan said a few of the IMF's demands, which he avoided making public in order "not to harm mutual respect," were unacceptable.

Stiglitz commented on the Turkish banking system, saying Turkish banks had not sustained much damage from the global financial turbulence since they only had a limited amount of external loans in the liabilities sections of their balance sheets. Additionally, he said, lower risks due to the low penetration of mortgage loans in Turkey also protected Turkish banks from being subjected to the harsh impact of the crisis.

The highest risk item for Turkey, Stiglitz noted, is the decline in Turkish companies' exports as the demand in their traditional markets falls. Turkey will, however, probably be one of the least affected countries, he acknowledged. Currently teaching at Columbia University, Stiglitz is among the most important scholars of economics in the world. He was formerly the chief economist of the World Bank and the chairman of the US government's Council of Economic Advisors during the Clinton Administration.

Fitch: An IMF deal is not a must

Stiglitz is not alone in his claims that a stand-by is not sine qua non for recovery from the crisis. Fitch Ratings, a leading global credit rating agency, shares the same view. Edward Parker, the head of the emerging Europe team in Fitch's sovereign group, said on Wednesday that a deal with the IMF may make positive contributions to the Turkish economy but is not a necessary condition. "We would see an IMF deal as a positive development for Turkey," he said. "But if one was not agreed they might be able to find other financing, and it would not alone be enough for negative ratings action."

Prime Minister Erdoğan, too, said as he was announcing a suspension of negotiations with the IMF at the Davos summit that he was expecting the deal to be reached in 2009, "but it is not the end of the world if no agreement is reached."