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IMF Stabilization Programs and their Effects on the World Economic Crises

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Abstract

The aim of this study is that analyzing the relationship between IMF Stabilization Programs and its effect on the experienced world economic crises. The Great Depression and World War I and II faced by the world caused to be deeply shaken of the economies. Eventually, the countries were forced to create barriers against each other to protect the war-damaged economies. The world countries agreed with establishment of IMF to surpass the economic crisis. This article is concentrated on a question is that "Whether the IMF stabilization Programs effected positively or triggered into worse situation and crisis the war-damaged economies?" The examples crises are Mexican Crisis in 1994, South-eastern Asia Crisis in 1997, Russian Crisis in 1998, Argentina Crisis in 2001 and Turkey Crises in 1994, 2000 and 2001.

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Keywords: IMF, stabilization programs, economic crises.

1. Introduction

The regulation of international monetary system has been needed by the countries due to the financial problems and IMF was established by 44 countries in 1944 in Bretton Woods. While the institution was regulating the borrowing and lending actions between the countries proposes some programs to the borrowing countries. These

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programs aim to cover the borrowing countries' imbalances and instabilities in their economies while consider about the lending countries.

Some countries have faced with the economic crises after application of the IMF stabilization programs. In this study, Mexico, South East Asia, Russia, Argentina and Turkey crises have been analyzed. The common feature of these crises was occurred after applying the stabilization programs.

2. The Mexico crisis in 1994

There is a need of overview in the economy of Mexico before the touching on the stabilization programs. Usta (2013) stated the country nationalized the oil wells in 1938 which has been owned by foreign investors. It could be mentioned that the nationalization of the oil wells has affected the economy in positive side and the country accelerated industrialization policy by concentrating on the economical growth after the World War II. However, Petroleum Crisis erupted in 1973 which affected the country negatively as the other oil-exporting countries in the world. As seen in Table 1 the external debt reached to high levels which rose from $6 billion to $97.4 billion in 1970 and 1985 respectively. The country intercepted rising of prices and wages temporarily by applying the heterodox stabilization program in 1987.

Table 1. External debts in Mexico (1970 – 2001)

Years	External Debt (Billion Dollars)
1970	6
1980	57,4
1982	86
1985	97,4
1995	166,6
1996	157,5
1997	148,7
1998	159,9
1999	167,3
2000	158,5

(Fıstık, 2003)

Edwards (1997) stated in the adaptation process of stabilization program capital inflows and exchange rates have been increased as a positive relationship. The national currency lost its value and the exchange rate increased from 2.2 in 1987 to 2.28 in 1988. If the effect of increasing prices is eliminated the real exchange rate index demonstrates that the losing value of domestic currency was at higher level in a year which rose from 67.17% to 82.39% in 1987 and in 1988. Another aim of the program was to reduce the external debt by applying some policies like privatization, encouraging export etc. According to Table 1 the external debt increased to $166.6 billion in 1995 by contrast with controlling the huge burden of external debt.

The based on heterodox policy program was successful to decrease the inflation from 159.2% to 51.7% in a year. While decreasing the rate of external debt to GDP was successful by reducing from 61.5% to 49.7% the internal debt to GDP ratio increased approximately by 2% from the year of 1987 to 1988. The interest rates were approximately decreased by 42% in six years after the application of the program and external and internal debts to GDP were reduced. On the other side, current account balance could not be treated due to insufficient external financial aid and transferring out of the sources by refunding external debt.

The decreasing reserves and needing for external financing imperilled sustainability of the program and the

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