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TITLE : The Effects of IMF Arrangements Upon Increment of
Stabilization Policy's Credibility :The Case of Turkey

ABSTRACT

Economics is a science which tries to predict economic behaviour of individuals, firms and governments. The variables which are observed in quantity are commonly used in econometric models. The behaviours of economic actors also includes psychological effects so that to quantify these effects like credibility becomes an important issue in economics. Since credibility has an important effects upon macroeconomic variables, it is tried to be measured by new econometric techniques. Credibility issue in economics is closely related with expectations. Economic actors forecaste future macroeconomic variables according to their expectations.

Because of the lack of liquidity, the flow of international capital among countries became limited during the 1970's. When the countries which are mostly developing or less developed countries, are in need of capital started to make arrangements with International Monetary Fund (IMF). By doing that they try to give impression of that they are credible country. Because credibility is important tool to reach targeted macroeconomic variables such as inflation, growth, unemployment etc. The more economic actors trust the stabilization program, the more it will be successfull.

Credibility of IMF programs positively related with the degree of ownership of programme and the additional capital inflows with which it is associated. The size of additional capital flows will depend basically on the size of Fund loans. Because it is assumed that IMF programs have a catalytic effect which is influenced by credibility. That's why governments try to make arrangements with Fund during the crises. They want to get more capital inflow to their countries. In addition to that IMF becomes lender of last resort in crises period. The liquidity, given from IMF prevents the crises get worse. IMF tries to be successful in program applications by imposing conditionality.

It is argued that IMF has signalling effect in promoting international capitals to the countries which have signed arrangements with IMF. This study aims to assess whether IMF arrangements increase the countries (the case study of Turkey) credibility of stabilization policies or not. At the same time the effect of credibility on Turkish stock market is investigated.

Keywords: IMF, Stabilization Policies, Credibility, Expectation and Uncertainty