THE COMPARATIVE EFFECTS OF 2000-2001 FINANCIAL CRISES AND 2008 GLOBAL CRISIS ON THE TURKISH ECONOMY

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ABSTRACT

The economic crisis of 2000-2001 was proved to be demolishing for Turkey after the abundance of currency peg in the same year. The crisis in question stemmed from insufficient implementation of regulations, inadequate depth of the capital markets, lack of assessment of risk, excessive lending to incorporated institutions by national banks, restricted interest rates, monitored foreign exchange operations, limited foreign asset holding, lack of competition, barriers to foreign entry & low liquidity, chronic inflation and a deficit in balance of payments. However, the crisis that Turkey faced 2008-2009 was quite different than the previous ones. The sparking effect begun in the USA at the mortgage market, the fail of the mortgage market negatively influenced the capital, stock and derivative markets and spread the world. Thus, this study aims to analyze and reveal the reflections of the 2000-2001 and 2008-2009 crises.

Keywords: Turkey, Economic Crisis, Economic Reflection, Economic Analysis

JEL Classification: E20, F41, G01, G21, O11

2000-2001 FİNANSAL KRİZİ İLE 2008 KÜRESEL KRİZİNİN TÜRKİYE EKONOMİSİ ÜZERİNE KARŞILAŞTIRMALI ETKİLERİ

ÖZET

2000-2001 ekonomik bunalımı, kur çipasının da terk edilmesi ile Türkiye'nin ekonomik düzeni açısından yıkıcı olmuştur. Söz konusu olan 2000 – 2001 bunalımı mevzuatın yeterince uygulanmamasından, sermaye piyasalarının yeterince derin olmamasından, risk değerlemesinin eksikliğinden, bankaların yakın ilişki içinde bulunduğu kurumlara aşırı kredi sağlamalarından, kısıtlı faiz hadleri, gözetim altındaki kur politikası, rekabet eksikliği, likiditenin ihtiyaçtan az olması, kronik enflasyon, ödemeler dengesi ve dış ticaret açıklarının ciddi seviyelerde olmasından kaynaklanmıştır. 2008-2009 ekonomik bunalımının ateşleyici etkisi ABD'de mortgage piyasasında ortaya çıktı. Mortgage piyasasında ortaya çıkan başarısız sonuçlar sermaye, hisse ve türev piyasalarını hayli olumsuz etkiledi ve böylece dünya genelinde yayılmaya başladı. Bu nedenle, bu çalışmanın amacı, adı geçen ekonomik bunalımları analiz etmektir.

Anahtar Kelimeler: Türkiye, Ekonomik Bunalım, Ekonomik Etki, Ekonomik Çözümleme

JEL Sınıflandırması: E20, F41, G01, G21, O11

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1. Introduction

The Republic of Turkey began to integrate her economy and deregulate her financial markets with that of the world in 1980s. Before the regulation period, the Turkish economy and financial markets were considered under the government constraints with excessive public involvement. The general properties of the said period were high inflation, interest and exchange rates; heavy tax burdens, instable liquidity amount and limited entry to the Turkish economic and financial sector. The relatively inadequate interest rates and high inflation, caused by primarily expansionary fiscal and monetary policies, brought about negative real interest rates and precluded households from depositing their savings in the formal banking sector. Thus, this low level of savings in the banking sector and high level of government debt facilitated the dependence on foreign credits in order to compensate the credit deficit that was affecting the Turkish economy negatively. Therefore, it was evident to make a sweeping and far reaching structural reform program (Günçavdı, Küçükçifçi: 2005). Therefore, in order to make structural changes, to decrease inflation and interest rates, as well as to secure economic growth and financial stability a program was introduced by the government with the support of the IMF. However, the program failed and caused the November 2000 and February 2001 financial crises. The economy and the real sector were affected adversely.

Another economic crisis affected Turkey began in 2008. Yet, this time the case was too different. In 2000 and 2001, the crises stemmed from the own structural and financial constraints of Turkey and it was possible to find international financial sources and assistance to manage both of the crises. Furthermore, the International Monetary Fund (IMF) and Turkey agreed on a standby program, made structural changes and put the economy back on its track. However, the situation in 2008 was quite different. The crisis began in the mortgage market in the United States of America (USA) with excessive lending to investors who were incapable of paying it back. With the burst of the mortgage bubble, the crises expanded to the entire world financial markets and this chain reaction had an adverse effect on Turkey too.

In November 2000 and February 2001 crises, the situation resulted from the concerns made up by the Turkish economy and it was possible to ease the crises with foreign financial back up. Yet, in 2008, the crisis began in the USA and expanded the world. Thus, this time, it is not likely to acquire foreign back up right away, simply since the crisis soared in other countries, economies and financial markets. Furthermore, it will not be possible to prevent the negative effects of the crisis with international trade implementations, since it is not going to be easy to create demand abroad. Consequently, this paper attempts to explain the November 2000 – February 2001 and 2008 crises and compare them depending on sweeping national and international publications.

2. Pre-2000-2001 Crises Period and the Stabilization Program of 1999

Developing economies with inadequate economic structures, financial frameworks and shallow markets might suffer from high volatility of output growth, irrational investment decisions, financial crises, extreme economic and social aftermaths. The economic crises of November 2000 and February 2001 were the worst ones that Turkey faced since the World War II, leading to a decrease in the Gross Domestic Product (GDP) by 10% in one year. After the Asian crisis of 1997 and Russian crisis of 1998, Turkey established an agreement with the IMF on an exchange rate based stabilization program on December 9, 1999. The aim of the program was to reduce the inflation and interest rates, which were so high for years, to one digit figures and instigate economic growth in order to decrease the burden of government. The program was to be designed as to resolve Turkey's internal and external debt and budget concerns and to find solutions to economic and financial constraints. In order to eliminate the economic constraints, commercial and financial reforms were introduced. The exchange rates were set free and all quantitative restrictions such as quotas, licensing and import substitution policies were abandoned. Such precautions as tax refunds and subsidies to foster exports were begun to be implemented. Moreover, cooperation with IMF and the World Bank (WB) were initiated in order to gain credit in the international arena, because the GDP decreased by 5%, the consumer price index realized as nearly 65% and the interest rates were 97% which meant a great burden for the government in the domestic debt market (Ertürk: 2003; Cizre, Yeldan: 2005).

The fundamental purpose of the stabilization program of 1999 was to foster strength and efficiency in the economy and financial markets. In order to prompt foreign entry and financial liberalization, the economic restrictions were lifted. The compulsory deposit rates and credit fixing brought to an end, uniformly applied accounting principles were introduced, external auditing became mandatory, foreign investment and foreign exchange transactions were liberalized and the financial institutions were authorized to borrow abroad. During 1980 – 2000 period, the government debt market grew at a great pace focusing mainly on the domestic market. In the said period it was highly profitable to borrow abroad and exchange the amount in Turkey in order to benefit from high interest rates and take advantage of arbitrage gains. Therefore, it is possible to say that the return on investment in the financial market was immense, but, thanks to the high amount of foreign debt, the economy became quite vulnerable (Günalp, Çelik: 2006; Günay, Tektaş: 2006; Yıldırım: 2002, El-Gamal, İnanoğlu: 2005; Günçavdı, Küçükçifçi: 2005).

Beginning from 1996, the duty losses of public banks amounted immensely, the deficit of the social security institutions grew substantially reaching at 5% of the Gross National Product (GNP) and tax amnesty attained 5% of the GNP as well. Henceforth, in order to put the economic balance on the right track, a new stabilization or disinflation program was introduced in 1999. The main characteristics could be stated as (Keyder: 2001);

• Financial sector adjustment (restructuring and reform in the sector),

• Using nominal exchange rate as the pillar (the crawling peg regime was intended to use),

• Far reaching indexation in the government sector,

• Managing the fiscal performance for a sweeping public sector consolidation,

• Implementation of a structural reform in the social security system, government budget expenditures, agricultural sector and infrastructural investments,

• Intensified privatization,

• Banknote issue only in compliance with foreign exchange purchases by the Central Bank of the Republic of Turkey (CBRT) and no sterilization by monetary policy.

The program was devised to tackle the inflationary stagnancy by adopting a pre – declared crawling peg exchange rate regime. The fiscal targets of the program were aimed at forming primary budget surpluses which would lower the ratio of government debt to GNP gradually through the program implementation. Structural changes in various fields such as social security, agricultural policies and privatization were other parts of the restructuring program. The overvalued Lira was another significant concern, since it was expanding the amount of consumption, creating trade and current account deficits as well as increasing the fragility of the banking system (Çapoğlu: 2004).

3. An Analysis of November 2000 and February 2001 Crises

The Republic of Turkey is a developing country that has been experiencing an economic and financial restructuring process for about two decades in order to assure economic growth and financial efficiency in the financial markets. However, this process was interrupted by successive crises. The first one was a banking crisis in 1994, which was the forerunner of the forthcoming ones. Though, Turkey was following an IMF backed disinflation period, she suffered two substantial crises one in November 2000 and the other one in February 2001. As a result of these crises, the economy was hard – hit, the money, capital and stock markets weakened as well as the financial system almost collapsed (Yörük, Erdem, Erdem: 2006; Bahmani – Oskoee, Karacal: 2006). Prior to 2000s, the economic and financial structure of Turkey was an underdeveloped and weak one. The period before 2000s can be best identified by high regulation, restricted interest rates, controlled foreign exchange operations, limited foreign asset holding, low intensity of competition, barriers to foreign entry and insufficient liquidity, chronic inflation, and a deficit in balance of payments. Therefore, the situation was wide open to capital flight as a result of inadequate economic and financial conditions. In order to manage the vulnerable economic condition in 1981 Capital Markets Board and in 1986 the Istanbul Stock Exchange were established (Günay, Tektaş: 2006; Şengönül, Thorbecke: 2005; Alper, Berumet, Malatyalı: 2001; Günçavdı, Küçükçifçi: 2005).

The Turkish economy has experienced economic difficulties since 1990s, especially with the beginning of 2000s when the exchange rate based disinflation program was deteriorated by two successive economic crises. The crises emerged in an overvalued domestic currency, inconsistent trade deficits and immense capital outflows as well as subjected the country to the most intensive economic crises in her history. The financial sector could be considered as the fundamental effective factor for these crises owing to its weak structure, failing to render sufficient funds to prevent the crises and outflow of capital, as well as inadequate regulative precautions. However, the government, with the 1999 program, aimed to launch financial reforms, decline inflation, creates a financial structure to lead local savings to domestic industries and generate more production as well as economic growth. Nonetheless, apart from the expected outcome, the result was economic crises, decline in output and negative reflections on the whole economy (Günçavdı, Küçükçifçi: 2005). Through the end of 1999, Turkey with initiating an exchange rate dependent disinflation program supported by a three – year standby agreement with the IMF. Tight fiscal and monetary policies, a structural reform and a sound exchange rate commitment were envisaged as anchors of the program which also to be backed by the Central Bank implementations as well. The program was began with sound resolution and it seemed to be in expected sequence with falling interest inflation figures. However, only 11 months after the initiation of the program, it failed with a severe liquidity shortage. Having been unable to tackle the turmoil, the program was abandoned in February 2001 as the internal debt market entirely failed. The pegged exchange rate was left to float and finally a new agreement made with the IMF amounting to $18[1] billion. The IMF released the credit on one condition: Turkey was to introduce good governance into both public and private sectors. Though the exchange rate based disinflation program was at first accomplished in reducing inflation and nominal interest rates; the crawling peg was bringing about considerable situations. First, the commercial deficit was amounting and second, international financial arbitrage was implemented comprehensively owing to overvalued local currency. In addition, the structural weaknesses of the banking sector and currency mismatches intensified the situation (Ekinci, Ertürk: 2007; Ertürk: 2003).

The 1999 program was designed to be remedy for the entire economy, but, it was not carried out with adequate structural implementations and consistent courage. First of all, the financial reforms have not created an important change in financial implementations of corporations and on the contrary cause to cheap cost investments. The financial operations focused primarily on domestic debt market by abandoning ordinary financial activities, inconsistence in returns stemming from asymmetric information and lack of appropriate agencies, and leading to credit constraints for domestic real sector investments. This also means that in the pre – crisis period the financial sector, especially the banking industry lost its significance

[1] This amount is the second largest credit given by the IMF after releasing $30 billion to Brazil in 2002.

in supplying the economy the necessary financial strength it needed. Moreover, the financial sector, with its changing role in the economy, was directed to meet the financial necessities of the public sector, the government debt instruments dominated the financial markets and created the fundamental output growth in the financial market (Günçavdı, Küçükçifçi: 2005).

After the end of a three – year standby agreement with the IMF in December 1999, Turkey began the application of a new one at the beginning of January 2000 which aimed to lower the inflation to 25% in 2000 and to single figures at the end of 2002 as well as to decrease the public debt. Although, the program was designed to stabilize and enhance the economic order it collapsed in November 2000 resulting from a liquidity crisis which stemmed from a sudden capital outflow. The slowdown in economic indicators were felt in the second half of the year 2000 as the capital inflow began to reduce, short term bank loans decreased, interest rates inclined to increase and the destructive crisis took the stage to threaten the economy and the Central Bank did not manage to hinder the crisis with the low foreign exchange reserves it possessed. Also, the fragile structure of the banking sector and excessive lending to affiliated institutions, political instability and the earthquake of 1999 intensified the crisis. In addition, the program implemented failed to foresee the possible economic risks: weak financial system (this period, banks were possessing nearly 90% of outstanding Treasury instruments and using low – cost foreign credits to back up their portfolios and the Treasury also let the banks to expand their net open foreign exchange position)[1], shortage of foreign reserves, appreciation of TL, widening deficit of current account and a growing potential for devaluation that would spark the crisis. Therefore, at the end of 2000 the expected results were revealed as increase in exchange rates resulting from devaluation, decrease in capital inflow and increase in capital outflow, lessening of economic activities, trade deficit stemming from formerly highly appreciated local currency, worsening balance of payments and amounting exchange risks. The crisis began at the end of the year, thanks to tourism revenues acquired in the summer period, but, the $25 billion foreign exchange reserves and $7,5 supplemental reserves of the Central Bank were far less to prevent the crises. Yet, there is another factor to be stressed is the late intervention of the Central Bank. Excessive risk and fragility in the banking industry were evident. However, the Central Bank did not take an action to intervene the money and capital markets in this vulnerable period to preserve the value of the Turkish currency and asset prices depending on the agreement made with the IMF. Thus, the system rested on only the foreign capital inflow and when enough of foreign capital did not back the program and the debt market was very shallow with the low liquidity, the system failed. Eventually, in November 2001, overnight

[1] By September 2000, the net open foreign exchange position of the banks in the Turkish Banking Industry was $200 million. However, the regulatory limit was $2 billion. Therefore, the current open foreign exchange status of the banking industry in the said period was ten- fold of the pre – announced limit (Çapoğlu: 2004).

interbank interest rates sky-highed to 2000% as an aftermath of a liquidity crisis in the banking sector. In the forthcoming panic period people tended to exchange the Turkish currency with the foreign currencies and the currency peg could only be relinquished by the financial back up of the IMF who had previously opposed the instrument (Ekinci, Ertürk: 2007; Ertürk: 2003; Günay, Tektaş: 2006; Özkan: 2005; Çapoğlu: 2004).

At the beginning of the program net international reserves began to rise, but it turned out to be insufficient as of February 2001. The $25 billion reserve of the Central Bank Republic of Turkey fell in short. With regards to exchange rate, the nominal anchor and pre-declared crawling peg regime were introduced. However, mismatching with economic and trade conditions the exchange rate adjustment failed as well as deteriorated the inflation and interest rates.

Even though, the liquidity crisis of November 2000 was prevented to become a far more dangerous one for the economy with IMF support, it had deteriorated the banking system and lead to a huge perilous growth in the public debt stemming from sudden increases in the interest rates to preserve the peg. However, it was another reason that triggered the sweeping crisis in February 2001. When a public quarrel emerged between the President and the Prime Minister on the regulation of banks, a sudden panic in financial markets drove investors to hold foreign currency and the Turkish Lira lost half of its value against the foreign currencies all of a sudden, many banking and other industrial corporations went insolvent as well as a substantial number of white and blue collar laborers became unemployed. The rate of unemployment rose day by day and GNP per capita reduced 50% over a night. The financial sector collapsed and the real sector was forced to reduce their production. The interest rates increased, the Turkish currency devaluated by half, many laborers became unemployed and a substantial number of firms closed down. 20 banks were transferred to Saving Deposits Insurance Fund (SDIF), the Banking Regulation and Supervision Agency (BRSA) was established in order to regulate, monitor and rehabilitate the financial sector. Moreover, the cost of the crises in the financial sector was $50 billion to the economy alone (Ertürk: 2003; Ozkan: 2005; Yıldırım: 2002; Günay, Tektaş: 2006; Alper, Berumet, Malatyalı: 2001).

The decline in confidence level particularly that of the foreign investors combining with delays in privatization, in structural reforms of banking sector affected economy and financial sector considerably. High current account and trade deficits, foreign exchange shortage and duty losses of the public banks intensified the process. Moreover, the inflation rate and interest rate remained higher, real sector continued to operate on low capacity utilization, unemployment rose and the Turkish currency lost half of its value over a night (Keyder: 2001).

4. Certain Impacts of November 2000 and February 2001 Crises on the Turkish Economy

As stated before, with the adoption of 1999 program, a resolute stabilization package was initiated with the promotion of the IMF. The program aimed to decrease the inflation rate and secure economic growth with a sound exchange rate commitment, tight monetary control, fiscal adjustments to tackle inflationary pressures and make structural alternations to liberalize economy. Yet, the result was not the expected one, the process failed on November 2000 and intensified in February 2001.

Table1: Inflation rates, GNP per Capita, Growth Rates, Current Account Balance, Exports, Imports, Trade Balance and Foreign Debt (1991 – 2001)

Year	WPI %	CPI %	GNP per Capita $	Growth Rate %	Current Account Balance	Exports	Imports	Trade Balance	Foreign Debt
1991	59,2	71,1	2.666	0,3	250	13593	-20883	-7290	50489
1992	61,4	66	2.776	6,4	-974	14715	-22791	-8076	55592
1993	60,3	71,1	3.093	8,1	-6.433	15345	-29426	-14081	67356
1994	149,6	125,5	2.195	-6,1	2.631	18106	-22273	-4167	65601
1995	64,9	78,9	2.841	8.0	-2.339	21636	-34788	-13152	73278
1996	84,9	79,8	3.005	7,1	-2.437	32067	-42331	-10264	79386
1997	91.0	99,1	3.110	8,3	-2.638	32110	-47158	-15048	84234
1998	54,3	69,7	3.247	3,9	1.984	30662	-44714	-14052	96264
1999	62,9	68,8	2.836	-6,1	-1.340	28842	-39027	-10185	103125
2000	32,7	39.0	2.986	6,3	-9.821	30721	-52680	-21959	118503
2001	88,6	68,5	2.103	-9,5	3.392	34373	-38106	-3733	113592

Reference: Undersecretariat of Treasury, Turkish Statistical Institute (TURKSTAT), State Planning Organization (SPO)

The reflections could be summarized as (Özkan: 2005; Keyder: 2001; Ekinci, Ertürk: 2007; Ertürk: 2003, Günay, Tektaş: 2006);

- Macroeconomic position: Fixed exchange regime proved to be disastrous, interest and inflation rates did not decrease as envisaged. The Turkish currency devaluated by half, production and employment declined as well as the trade deficit and balance of payments were adversely affected. The economic growth rate declined from (%) 8.0 in 1995 to -9,5 in 2001 (Table 1),

- The current account balance was damaged by the crises. The trade balance and the current account balance were (million $) -10.264 and -2,437 in 1996, -21.959 and -9.821in 2000 and -3.733 and 3.392 in 2001 (Table 1),

• The economy as observed from the growth rate, current account and trade balances and almost 30% inflation rate was far behind being competitive,

• The exchange rate devaluation depreciated the value of Lira, thereby, the commitments made to counterparts abroad on foreign exchange decreased the debt payment ability of both public and private parties,

• The total foreign debt of Turkey, $50 billion in 1991 rose to $114 billion in 2001 (Table 1),

• The government was forced to borrow from abroad in order to repay the previous credits. However, this situation made the Turkish economy more dependent on foreign counterparts and vulnerable in a possible crisis,

• The banking corporations were borrowing credits abroad, exchanging the amount in Turkey and benefiting from a considerable return on arbitrage gains with the high exchange rate. However, as a result of both crises, the banks lost their repayment capacity and 20 banks were transferred to Saving Deposits Insurance Fund (SDIF) in order to be restructured and privatized later. Some of the banking corporation was liquidated. Apart from the real sector of the economy, it cost $50 billion to restructure the banking industry,

• The banking corporations grasped the importance of focusing on ordinary banking activities, rather than focusing on the government debt market,

• GDP per capita declined by 50%, the demand on goods and products decreased and the production slowed down,

• The inflation and interest rates remained high and failed to be reduced (inflation rate was nearly 30% and the interest rates were high enough to cover the difference at the end of 2001),

• The domestic debt as a percentage of GDP (Domestic Debt/GDP) increased from 21.9 in 1998 to 29.0 in 2000 (Source: SPO),

• The interest payments in domestic borrowing (Interest Payments/GDP) rose from 10.51 in 1998 to 14.77 in 2000 (Source: SPO),

• The current account deficit realized as $9,8 billion in the year of 2000, exceeding the targeted $2,8 billion,

• The net debt of the public sector attained to 93,3% of the GNP, which was targeted as 93,3% of the GNP in the 1999 program,

• The banking corporations were lending immense amount of credits to their affiliated corporations and those affiliated corporations were using the banks a means of financial source. After the crises, the Banking Regulation and Supervision Agency was established in order to monitor the financial sector, make sure that the previous detrimental incidents would not repeat and secure the credibility lost in the banking industry,

- The liberalization of the Central Bank and its independence in its applications were devised to be realized in the forthcoming years,
- The CBRT failed to manage the currency crises by intervention to the markets late in order to fully comply with the IMF rules. However, it was the IMF to decide to abandon the currency peg at the end,
- The failure of the IMF policies became evident, but the financial assistance was obtained from IMF again ($18 billion).

As a result the economic and financial crises of November 2000 and February 2001 had an immense adverse impact on the Turkish economy and financial sector. The Turkish economy was subject to substantial current account and trade deficits, high inflation and interest rates affecting the investments in the real sector negatively, goods and services production declined and this increased the unemployment, the foreign debt amount of Turkey and the cost of borrowing domestic markets rose, the Turkish currency was devaluated by 50% and the growth rate of the Turkish economy declined considerably. After, defining the facts of November 2000 and February 2001 crises, the subject of next sections will be to discuss the fundamentals and reasons of 2008 crisis and compare them to each other.

5. Global Crisis of 2008-2009

The global economy faces one of the worst crises recently. In the first decade of 2000s the global economic environment led investors, businesses and consumers to expect a promising future and ignore the financial risks. Housing and asset prices used to be convenient, risky assets were devised and marketed as not being risky as well as leverage increased. Therefore, when the housing prices fell short of expectations, the sub-prime mortgage market collapsed and the economic arena was wide open for an economic crisis. With regards to rapid global commercial, economic and financial integration and intense and unsophisticated interactions among financial and economic institutions, the crisis of 2008 managed to move across assets, markets and economies easily (Blanchard: 2008). The financial crisis has revealed the regulation and supervision weaknesses of economic systems. The recent progress in the financial markets has exposed that; it is necessary (Sacasa: 2008);

- to find a batter way evaluate systematic risk and avoid the reiteration of it,
- to develop transparency and disclosure of risks taken by market actors,
- widen the cross – institutional and cross – border range of regulation,
- to establish mechanisms for more effective and concerted actions.

The crisis did not start all of a sudden, but began as a result of inadequacy of economic and financial agencies. First of all, the global macroeconomic imbalances led to lower interest rates during the past decade, involving more risk taking and contributed to the formation of asset price bubbles around the world. Second, variations in the financial sector framework and the failure of risk management to comply with financial renovations during the past 20 years instigated systematic instability in markets. Eventually, leveraged financial institutions, taking risks without avoiding systematic risk constituted the way to crisis (Sacasa: 2008). Furthermore, one can state that 2008 crisis is a defining moment for the global financial system and relations among countries. The institutional, economic and financial environment alternates at a quick and unpredictable rate. The changes happening in the global economic and financial order are not driven by a center point, but, are a series of different reactions to global financial developments. Therefore, market failures and policy mismatches become unavoidable. Also, during the process, the inadequacy of today's multilateral coordination became evident. Afterwards, the simultaneous and large delivering of the housing sector, the financial sector and the insufficient consumer demand in the USA triggered the process. To be more specific (El – Erian: 2008);

- The first part of the crisis began in 2006 in the housing market. The immediate damage was first felt in the housing sector of the economy, which has the weakest capital support, least transparent, due to sup-prime mortgages in the USA. This was partly a reflection of disbelief in the modern risk management techniques that was insufficient in the expansion of derivative and structured products,

- The uneasiness began in the financial sector in 2007. At the beginning, the financial institutions searched and generally accomplished in benefiting from new capital and support their troublesome balance sheets. However, as they accumulated capital, they recognized the losses gradually. But the accelerated decline in the housing market spread to the financial system and intensified the situation,

- With these negative impacts and shot down of businesses, prices and unemployment rose and availability of credits declined.

Regulators and central banks failed to sufficiently intervene in the crisis. The systematic risk grew and the asset price bubbles burst out. During last decade, some economies maintained continuously large current account surpluses which created a great demand for financial assets issued in various countries, especially the USA. This affected the low real interest rates worldwide, which in turn stimulated substantial risky credit growth. In the USA, the credit debt amount of households and non-financial businesses grew from 118 to 173 percent of GDP between 1994 and 2007. The increase of the credit debt of households accelerated more since 2000 and rose from 98 to 136 percent of the disposable income. During the same period, similar ratios increased from 120 – 180 percent in England and from 72 – 91 in the € zone (Sacasa: 2008).

The deepening financial crisis expanded to emerging markets such as China, India and Brazil. Some governments in the world have announced precautions, including the USA, Japan Europe, China and India. The European commission declared that 16 countries in the € zone might subject to 1, 9% of contraction in 2009. It could also be stated that Eastern Europe, South East Asia and Latin America will be affected by the crisis in 2009. The economies affected by the crisis so far are Belarus, Hungary, Iceland, Latvia, Pakistan, Serbia, Ukraine, China, El Salvador as well as Turkey. Therefore, some recommendations to respond the crisis could be as[1];

- action should be taken by governments to bring stability in financial markets and reacquire credit flow,
- fiscal policies such as expansion in government spending and tax cuts to instigate consumer demand,
- liquidity support to emerging economy by the IMF,
- assistance to low income and underdeveloped countries to eliminate the negative effects of fuel and food prices,
- devising new codes and institutions that would lower the systemic risks (Blanchard: 2008),
- Ensuring transparency, disclosure and collection of information from all institutions concerning economy and efficient auditing (Blanchard: 2008),
- New precautions and codes to be implemented nation wide (Blanchard: 2008).

With the impact of 2008 crisis, financial markets are still under stress and the global economy is leading to one of the worst economic turmoil for decades. The amounting prices and unemployment as well as declining consumer demand and international trade, influence the global economic and financial equilibriums negatively. The IMF, once projected a possible deterioration in USA originated assets $1.4 trillion, has later revised her estimate to $2.2 trillion. In order to prevent, further deteriorations, monetary and fiscal policies shall be more supportive in all troublesome economies. It is anticipated that the advanced economies will subject to the severest contraction; a contraction of nearly 1.5% in the USA, 2% in the € zone and 2.5% in Japan. Emerging and developing economies are envisaged to suffer substantial setbacks such as 6% in China and 5% in India. When the world output is considered, 0.5% shrinkage is expected[2].

The crisis in financial markets that began in late 2007 and intensified in 2008 sub – prime mortgage market in the USA and has expanded to other markets and rest of

[1] Opinion of IMF managing director Dominique Strauss – Kahn, www.imf.org (last accessed 20.02.2009).
[2] Opinion of IMF Chief Economist Olivier Blanchard, www.imf.org (last accessed 20.02.2009).

the world, has led to a global recession and continues to go worse. As it can be observed from Table 2, global output and trade dropped considerably through end of 2008.

Table 2: IMF Projections (year over year percentage change)

			Projections	
	2007	**2008**	**2009**	**2010**
World Output	5.2	3.4	0.5	3.0
Advanced Economies	2.7	1.0	-2.0	1.1
USA	2.0	1.1	-1.6	1.6
Euro area	2.6	1.0	-2.0	0.2
Germany	2.5	1.3	-2.5	0.1
France	2.2	0.8	-1.9	0.7
Italy	1.5	-0.6	-2.1	-0.1
Spain	3.7	1.2	-1.7	-0.1
Japan	2.4	-0.3	-2.6	0.6
UK	3.0	0.7	-2.8	0.2
Canada	2.7	0.6	-1.2	1.6
Other Advanced	4.6	1.9	-2.4	2.2
Newly Industrialized	5.6	2.1	-3.9	3.1
Emerging & developing	8.3	6.3	3.3	5.0
Africa	6.2	5.2	3.4	4.9
Central & Eastern	5.4	3.2	-0.4	2.5
CIS[1]	8.6	6.0	-0.4	2.2
Russia	8.1	6.2	-0.7	1.3
Eluding Russia	9.7	5.4	0.3	4.4
Developing Asia	10.6	7.8	5.5	6.9
China	13.0	9.0	6.7	8.0
India	9.3	7.3	5.1	6.5
ASEAN – 5	6.3	5.4	2.7	4.1
Middle East	6.4	6.1	3.9	4.7
Western Hemisphere	5.7	4.6	1.1	3.0
Brazil	5.7	5.8	1.8	3.5
Mexico	3.2	1.8	-0.3	2.1

Reference: IMF, World Economic Outlook, January 2009

The continuation of the economic and financial crisis, has caused the asset values decrease sharply in advanced and emerging economies, reduced the household wealth and thus negatively affected the consumer demand. Moreover, the crisis associated with a high level of uncertainty has instigated businesses and households, to suspend their investments and expenditures and to decrease demand

[1] Common Wealth of Independent States

for capital and consumer goods. For this reason, economic and financial measures shall be taken in order to put the economic system back on its track. Therefore[1];

• Stronger policies shall be devised to revive the financial sector. Credit markets must be reinforced by way of liquidity provision, capital injection and disposable of troublesome assets,

• With regards to monetary policy, central banks shall take significant precautions as cutting interest rates and enhancing credit provisions,

• Within the framework of fiscal policy, measures must be designed to prevent the widening of fiscal deficits and economic cycles. Also, government spending and subsidies shall be increased and tax reduction could be another option as well.

One of the most important properties that distinguish the world economic crises of today from the previous experiences is the effect of the economic crisis mostly on less developed and emerging economies. Contrary to this situation this crises is felt intensively by the developed economies. For instance, the impact of the 1992 currency crisis of the European Currency Mechanism mostly experienced by the developed countries had lasted for a short period, but on the contrary the crisis that are experienced by mostly the emerging economies, such as the one begun with 1994 Mexican Crisis and also with the 2000-2001 crises experienced by Turkey have lead to much grave results when compared to the experiences of the developed countries (Bleaney, 2005). When the impacts of the crisis of today are considered, nearly an inverse situation rises. Since, the first impacts of the global crisis started with the problems emerged in the sub-prime mortgage market; the countries which affected by the crisis severely are the developed countries. The most significant reason of this trend is the mortgage markets – especially the most risky sub-prime mortgage markets and the financial derivative markets expected to produce assets lied on credits, which widely exist in these developed countries. Yet, another important reason why the emerging economies have been affected relatively less until this phase of the crisis is the reforms that these countries have implemented so far in financial and banking sectors as a result of the crises experienced especially in the last decade (Özkan, 2008).

It would be significant to compare the 2001 and 2008 crises with respect to their characteristics in order to comprehend the distinctions between these crises. The detailed information related to this issue is presented in Table 3.

[1] Opinion of IMF Chief Economist Olivier Blanchard, www.imf.org (last accessed 20.02.2009).

Table 3: Characteristic Features of the Two Crises (2001, 2008-9)

	2001	2008-9
1. Type of the crisis	Twin	Balance of Payment
2. World economic environment		
• The phase of the international medium-term cycle	Passage towards downturn	Downturn
• Capital flows towards "emerging market economies"	Increasing very fast	Decreasing
3. Domestic conditions		
• The phase of the national medium-term cycle	Downturn	Downturn
• Exchange rate regime prior to the crisis	Sliding peg	Almost free float
• Magnitude of the shock coming from capital account	16.7 $ billion	43.2 $ billion
4. Deficits, debt and inflation prior to crisis		
• CAB / GDP,	% 3.7	% 5.9
• Public Sector Deficit / GDP,	% 8.6	% 1.5
• Domestic Public Debt / GDP,	% 30.9	% 30.3
• Foreign Debt / GDP,	% 50.7	% 57.9
• Public Foreign Debt / Total Foreign Debt,	% 53.0	% 36.1
• Annual inflation rate,	% 49.2	% 11.5
5. Dating the crisis (start / end)	Feb. 2001 / Feb. 2002	Aug. 2008 / not ended yet
6. Duration of the crisis (months)	13	?

Reference: Oktar Türel, O.(2009), "Economic Crises in Turkey in Retrospect and Prospect: A Comparative Analysis of Failures in 1994, 2000-1 and 2008-9, Presented at Conference on "CRISIS, RESTRUCTURING THE WORLD ECONOMY AND TURKEY", 50th year of Department of Economics, METU October 2, 2009. Ankara / Turkey.

6. The Economic Situation in Turkey during 2008 Crises

Through the end of the year 2000, upon the reflections of economic slowdowns in various national economies, the central banks of primarily the USA, Japan and the EU countries began to follow loose monetary policies and reduced the interest rates. The loose monetary policies followed, resulted in, on the one hand an expansion in asset prices, on the other hand promoting long term investment primarily in the mortgage sector by means of incurring liabilities with low interest rates. The banks in various countries, in order to increase the demand for housing credits, diversified the housing credit instruments and made the borrowing conditions flexible, even facilitated the clients who did not possess the ability to pay them back, borrow above the possible limit. In this period, the continuation of long term interest rates barrowing with low costs instigated the demand for high risk and high return instruments, mainly the sub – prime mortgage instruments. However, these sorts of instruments, not having a liquid secondary market and not monitored adequately, prevented the precise pricing of risks. The insufficiency of regulation, informing and monitoring operations in the financial sector and its existence far behind the fast changing business world led to excessive risk taking, maturity mismatches and asset price inflation[1].

The Federal Reserve of the USA began to raise the interest rates alter the first half of 2004 in order to avoid inflationary effects. The demand for housing began to slow down in mid 2005 and the increase in housing prices caused to stagnancy in the USA economy; thereby leading to difficulties in paying back housing credits. Also, the decline in real estate prices decreased the possibility of selling the real estate and compensating the credit debt. With the decline in confidence for the mortgage instruments, the investors tended to focus on low risk treasury instruments. Thus, this brought about a liquidity strain in financial markets since it became even more difficult to meet the short term liquidity needs of both financial institutions and, personal and corporate investors. Later, the liquidity strain in the market resulted in losses in the balance sheets of the corporations. Thanks to globalization and excessive dependence of national economies to each other, this facilitated the spread of the crisis on the global base[2].

Regarding to the Turkish Economy, over the last two decades, integrated with an outward oriented approach, the Turkish Republic has experienced a comprehensive economic transformation and began to make significant breakthroughs. A new economic program was declared in April 2001 after the previous economic and financial crises, especially focusing on the financial sector. Since then, the overall target of the economic policies is to accomplish a sustainable growth, reinstating macro economic balances, decreasing the unemployment, restructuring the financial sector, securing the financial discipline and preserving stability in exchange markets. Therefore, it is possible to state that Turkey focuses substantially on structural reforms. Beginning from the financial sector and with a pronounced privatization process, comprehensive reforms involving agriculture sector, social security, energy and telecommunications have continued. Macro economic trends have been positive since 2002, for, the rate of inflation was reduced to a single digit figures, secured a stable growth and attained consistency in economic indicators. Today, Turkey is one of the largest economies in the world. As a result, in the previous 7 years, she has recorded an economic growth rate of nearly 7% annually. Interest and inflation rates, which are still high in comparison to some Western countries, keep declining continuously and economic policies are also supported by fiscal expansion and monetary loosening. Productivity growth was around 10% in the manufacturing industry and it is also notable to stress that industrial and durable goods constitute the bigger part of the merchandise produced[3].

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[1] YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).
[2] YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).
[3] Prospects & Recent Developments in the Turkish Economy (www.mfa.gov.tr)

After the financial crises of 2000-2001, Turkey entered an era of significant growth and structural change. Beginning especially from 2002, the annual growth rate has been considerable. The public debt stock dropped from 74% of the GDP at the end of 2002, to 39 % of the GDP in 2007, a strong reform program was initiated involving an exchange rate float, financial sector rehabilitation, accelerated privatization, revenue administration reinforcement, investment climate enhancement, energy sector reformation, and social security reform. Therefore, one could state that confidence was secured[1].

The fiscal and monetary policies have been maintaining resolutely to reinforce the economic growth. Within the framework of globalization, Turkey has been pursuing far – reaching economic policies in order to integrate her economy with that of the world. The economic policies of the government has focused on international trade, imports and exports as well as implementing efficient privatization policies in order to be an influential actor in her region and beyond[2]. However, owing to global economy, a problem beginning in a part of the world is likely to affect other economies positively or negatively. Furthermore, the financial crisis of 2008 began in the USA, spread to advanced economies then the other parts of the world, including Turkey. There are some views stating that the global crisis did not affect the Turkish economy significantly, but, with the figures presented in Table 4, one can comprehend that the situation is reverse of what is thought.

The Turkish economy has been doing well since the year of 2002. However, if Table 4 is analyzed, the figures suggest that some negative changes occurred from 2007 to 2008 and 2008 to 2009. The GDP amount was $530.6 billion in 2006, $655,9 in 2007 but could only rose to $700 billion at the end of 2008 owing to the global crisis. The capacity utilization rate was 81.8% in 2006 and 81.1% in 2007, but dropped to 64.7% in 2008 which is below the 2002 level. The CPI was 9.7% in 2006, decreased to 8.4% in 2007, but again rose to 10.1% in 2008. The rate of WPI was 11.6 in 2006, decreased to 5.9% in 2007, but rose to 8.1% in 2008. The unemployment rate was 10.6% in 2002 and 12.3% at the end of 2008. It is evident that the rate of unemployment is more in comparison to 2001 crisis. The budget deficit was $3.8 billion in 2006, increased to $10.6 billion in 2007 and realized as $13 billion in 2008. The internal debt stock increased from $175 billion in 2006 to $211 billion in 2008 and the external debt stock increased from $206.5 billion in 2006 to $289.8 billion in 2008. The import volume increased from $139.6 billion in 2006 to $201.8 billion 2008; the export volume increased from $85.5 billion in 2006 to $132 billion 2008, thereby, increased the trade deficit from $54billion in 2006 to $69.8 billion 2008. The reserves of the CBRT was $60.9 billion in 2006, amounted to $71.3 billion in 2007, but as a result of the 2008 global financial crisis the CBRT was supposed to intervene in financial markets, therefore the CBRT reserves could

[1] Recent economic performance of the Turkish Economy (www.worldbank.org.tr)
[2] Prospects & Recent Developments in the Turkish Economy (www.mfa.gov.tr)

only increase to $73 billion and fell short of the increase of 2006 – 2007 period. With respect to these figures, it is obvious that the crisis is influential in 2009 too. The change in figures from 2008 to 2009 is substantial. The amount of GDP, income per capita, inflation, internal and external debt, foreign trade volume, unemployment and the CBRT reserves declined considerably. This means that 2009 would be a difficult year for Turkey and solutions have to be devised as to put the economy on the right track in 2010.

Table 4: Figures Related to the Turkish Economy

USD	2002	2003	2004	2005	2006	2007	2008	2009[1]
GDP (billion $)	181,7	239,2	392,9	483,9	530,6	655,9	700	600
Income percapita ($)	2619	3383	5.799	7.027	7.609	9.305	10.000	8.000
Capacity Utilization%	75,4	78,4	81,5	80,3	81,8	81,1	64,7	70.4[2]
CPI	29,7	18,4	9,3	7,7	9,7	8,4	10,1	10
WPI	30,8	13,9	13,8	2,7	11,6	5,9	8,1	8.9
Unemplymt%	10,6	10,5	10,3	10,3	9,9	9,9	12,3	16.1[3]
Budgt Deficit (billion $)	27,8	26,5	21,3	7,2	3,8	10,6	13	11.9
Internal Debt (billion $)	100	130	158	182	175	195	211	180
External Debt (billion $)	130	145	162,3	170,6	206,5	247,2	289,8	265[4]
Imports (billion $)	-51,6	-69,3	-97,5	-116,8	-139,6	-170,0	-201,8	-67
Exports (billion $)	36,1	47,3	63,2	73,5	85,5	107,2	132,0	44.5
Foreign Trade Deficit	-15,5	-22,1	-34,4	-42,3	-54,0	-62,8	-69,8	-22.5[5]
Current Accont Defct	-1,8	-8,0	-15,7	-22,6	-32,2	-38,0	-41,4	-2.6
FDI (billion $)	0,6	0,7	2,9	9,8	19,9	21,9	17,7	2.3
CBRT Reserves (billion $)	26,7	33,6	36,0	50,5	60,9	71,3	73,0	67.2

Reference: Web pages of the Turkish Statistical Institute, State Planning Organization of Turkey, Central Bank of the Republic of Turkey, Undersecretariat of Treasury, Undersecretariat of Foreign Trade.

According to the reports revealed by the Turkish Statistical Institute, in April 2009, the number of businesses established in Turkey decreased 24.6% in

[1] Figures as of February - May 2009.
[2] Figure as of May 2009
[3] Figure as of March 2009
[4] Figure as of May 2009
[5] Figure as of April 2009

comparison to April 2008 (the number of businesses established decreased from 4699 to 3541). The monthly production index decreased 17.6% in December 2008 in comparison to December 2007. The sharpest decline was observed in capital goods production with decline of 31.2%. The capacity utilization rate declined 12 points and realized as 70.4% in May 2009 with comparison to May 2008. The primary reason of the decline in capacity utilization rate is the deficiency of domestic and external demand. The shortage of raw materials, financial inadequacies, challenges on laborers and insufficiency of energy sources are secondary reasons. The domestic market demand deficiency affected 49.8% and external demand affected 28.5 %. With respect to employment, the amount of the population capable of working rose by 860,000 in February 2009, in comparison to the previous year; attaining to a total of nearly 50,500,000 of the entire 71 million. The rate of unemployment rose by 4 points and 1,125.000 in March 2009 In comparison to March 2008 and attained 3,802,000 unemployed laborers. In addition to this, regarding to temporary foreign trade data, unit value of exportation declined 9.6% and of importation declined as 5.9% in December 2008, when compared to December 2007. However, a data much more significant than all, is the decline in the GDP growth rate by 13.8% which is a sound indicator of the reflection of global crisis in Turkey[1].

With regards to the situation of Turkey and compare today to past, it is evident that the debt stock is still too high. Economies with high debt stocks, both internal and external, are always subject to crisis. Therefore, fiscal policy might be developed as to decrease the public expenditure and increase the public revenue by tax reforms and decreasing unregistered economy. It is possible to state that the financial institutions are at the center of the crisis. The high losses, insolvencies, high risk premiums of financial institutions negatively affect the confidence and demand of consumers. Also, financial support such as tax reduction, subsidies and low interest credits could be supplied to corporate investors to preserve consumer demand and create more jobs to bring down unemployment[2]. Some measures that could be implemented are[3];

- Recapitalization and restructuring of troublesome assets and financial institutions,
- Capital injection to markets by governments in order to revive demand,
- Policies to decrease interest and inflation rates, to foster corporate and personal investment, thereby, enhancing production, exports and national revenues as well as reducing trade and current deficits shall be operated,

[1] The reports of the Turkish Statistical Institute, www.tuik.gov.tr.
[2] YILMAZ, Durmus; Governer of the CBRT, The Global Financial Crisis and its Reflections on Turkey(www.tcmb.gov.tr).
[3] IMF Global Financial Stability Report, January 2009 (www.imf.org).

- Foreign and internal debt stock must be lowered in order to improve long term structural investments,
- Loose or tight, fiscal or monetary policies shall be devised for each case,
- New regulations, codes and control mechanisms shall be constituted, the notification of public by government institutions and avoidance of asymmetric information must be secured,
- New financial policies to reinforce the economy an international corporation to prevent such issues shall be implemented,
- Unregistered economy must be taken under control to increase tax revenues,
- FDI policies shall focus on greenfield operations more than privatization.

7. Conclusion

Turkey is an emerging economy that has been subject to economic and financial re-engineering process for about two decades in order to secure economic growth and financial stability. Furthermore, this process has been interrupted with substantial crises. The first important crisis was the 1994 one which was the signal of the forthcoming economic turmoil. Although, an IMF lead stand – by program was followed, the November 2000 and February 2001 crises were experienced. The conditions of the Turkish economy at that time could be best defined with high regulation, high interest rates, monitored foreign exchange operations, limited foreign asset ownership, low competition, barriers to foreign investment, insufficient liquidity, chronic inflation and trade deficit.

After completing a 3 - year IMF lead austerity plan, Turkey began to implement a new economic program in 2000. Though, the program was devised to stabilize and develop economic process, it proved to be a failure in November 2000 as a result of a liquidity crisis that emerged as a sudden capital outflow. As the capital outflow began, short term bank loans decreased interest rates increased and the economic production dropped considerably. Moreover, the exchange rates sky – rocketed, economic activities slowed down, the Turkish currency devaluated by 50%, the negative balance of balance of payments and current deficit increased, total debt stock amounted, many banking corporations were transferred to SDIF due to financial difficulties and insolvency, inflation and interest rates remained high and the failure of the IMF policies coasted Turkey to $50 billion.

As the years proceeded, the economy in Turkey restored its order at a stability point. However, this time, in 2008, the economic conditions in the world, especially in the developed countries were not promising. The 2008 world economic crisis did not start suddenly. First, the global macroeconomic inequalities brought about lower interest rates in the past decade, resulted in risk taking and caused the formation of asset bubbles. Second, the failure of risk management directed the investors to comply with wrong financial and investment decisions. Finally, the leveraged financial corporations, taking risk without preventing the systematic risk paved the way to the world economic crisis of 2008. The first part of the crisis began in the USA in the housing market with excessive lending to weak investors. This was followed by the difficulties began in financial sector in 2007. With the insolvency of a substantial amount of credits and decline in the prices of financial instruments, the crisis began and spread the rest of the world afterwards.

By all means, the crisis affected the Turkish economy as well. But, this time the situation is quite different from the 2001 crisis; because, the crisis of 2001 stemmed from the core deficiencies of the Turkish economy and financial sector. Moreover, it was also possible to borrow credit abroad and finance the crisis and secure demand in other countries for the Turkish merchandise in order to increase production, employment and revenues. However, in 2008 crisis the situation began in the USA, spread the Western economies and affected almost every state in the world. Thus, this time we have to devise our own solutions with our own sources.

Although, the economic situation began to revive after 2002 and attained a nearly 7% of economic growth, low inflation and unemployment rates, this scene has begun to change since 2008. Some claim that Turkey was not affected by the 2008 world crisis significantly, but, the reality is so different. The GDP and income per capita decreased; inflation, budget deficit, debt stock, current account, foreign trade deficit increased; and the CBRT reserves decreased. Therefore, it is possible to state that the world crisis of 2008 had a substantial impact on the Turkish economy.

Since certain situations require certain solutions, the government shall devise a special economic rehabilitation plan to avoid the further impacts of 2008 crisis. Some cures could be as to restructure the troubled assets and financial sector; supply capital and tax deduction to secure demand in markets; new policies to reduce inflation, interest rates, budget deficit and trade deficit should be devised; loose or tight, fiscal or monetary policies shall be pursued according to contingency; facilitate the entry of foreign capital; instigate greenfield operations and tax reduction in certain sectors to increase demand.

One could state that the macroeconomic – financial interaction constitute the fundamentals of the global economic crisis recently. The operation of global economy of today demonstrates considerable distinctions when compared to previous periods. First one of these distinctions is the fast advancement of financial globalization since 1970s. Yet, the second important distinction is the overemphasis of globalization on the financial interaction channels more than the traditional interaction channels. The unmonitored and disorderly growth in the extensive financial sector which was also supported with the developments in the field of information and communication technologies made a substantial impact in the eruption and expansion of this crisis. With regards to this, one could conclude that the financial monitor mechanisms are considerable. The extensive financial liberalization operations developed in the last two decades have adversely affected the supervision of the financial markets; as a result of this, the inclination of the financial institution towards taking more risks has soared. Since the financial supervision is insignificant and also it is implemented with out of the authority of the central banks, the continuously rising risky situation of the financial markets in this period was not absorbed by the monetary policies. When the importance of the financial globalization is considered, it is evident that the achievement of global coordination within the financial supervision would be a substantial determinant at the success process of the reform program in the post – crisis period.

One of the pronounced results of the last crisis era is the bankruptcy of an important number of banking and financial institutions or their confrontation with serious bankruptcy risks. The influence of the crisis widened with every great bankruptcy and the other institutions having close ties with the bankrupt institutions encountered with the risk of downturn. This “domino effect” reduced the confidence in the financial markets considerably and widely contributed to the long lasting process of the crisis. With this regard, one can conclude that the financial reforms shall be implemented in order to reinforce the financial infrastructure to compete with financial risks and bankruptcy.

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