

With or without the IMF? The ups and downs of the Turkish political economy since 2000

In memory of the late Kemal Derviş

This is the summary of the online public event held on 4 October 2023.

You can access the [podcast here](#) and the [video here](#).

Summary by Dr Arzu Kırcal Şahin



On October 4, 2023, Contemporary Turkish Studies and the European Institute organised an online public event titled **"With or without the IMF? The ups and downs of the Turkish political economy since 2000."**

The speakers were **G. Kemal Ozhan**, Senior Economist at the Bank of Canada and Research Economist at the National Bureau of Economic Research; **Selva Demiralp**, Professor of Economics at Koç University, Director of the Koç University-TUSIAD Economic Research Forum and founding partner at Ethos Economics Consulting; **Sinan Ülgen**, Director and founding chairman of the think tank Centre for Economics and Foreign Policy Studies (EDAM), Senior fellow at Carnegie Europe in Brussels and Managing Partner of the consultancy Istanbul Economics.

Yaprak Gürsoy, Professor of European Politics and Chair of Contemporary Turkish Studies at LSE, chaired the event and warmly welcomed everyone present and mentioned that the event would discuss developments in the Turkish political economy since the early 2000s in honour of the late Kemal Derviş.

Derviş, a renowned economist with a career at the World Bank and the UNDP, played a crucial role in stabilising the Turkish economy after the 2001 economic crisis. This event aimed to compare the economic reforms of the early 2000s with the current state of the Turkish economy, highlighting Derviş's legacy as a benchmark for success.

Professor Gürsoy mentioned that Dr G. Kemal Ozhan and Sinan Ülgen would provide insights into Kemal Derviş's character and vision. She emphasised Derviş's contributions to our understanding of global politics, economic development, academia, and civil society's involvement in public policy.

Professor Gürsoy, who had not met Derviş personally, heard stories about his humility and modesty, and she believed he would have preferred an event focusing on his vision rather than himself.

Dr G. Kemal Ozhan expressed his gratitude to the organisers and proceeded to share his thoughts. He mentioned that he would be focusing on the late Kemal Derviş's economic thoughts and drew from his own experiences of working with him. He emphasised that his views were his own and not representative of his employers.

Kemal Derviş had an extraordinary career, starting as an assistant professor at Princeton and later working at the Middle East Technical University. He held various positions within the World Bank, including Vice President for Poverty Reduction and

Economic Management and Vice President for the Middle East and North Africa region. He also served as the Minister of Economic Affairs in the Republic of Turkey's government and was a member of the Turkish Parliament. Later, he became the head of the United Nations Development Program and Vice President and Director of the Global Economy Program at Brookings in Washington, DC.

Kemal Derviş had significant contributions to economics and public policy, focusing on international cooperation, global governance, climate change, inequality, and productivity. Derviş believed in the beneficial role of policy in improving economic outcomes and was aware of the need for policy to address economic and political disorganisation. Dr Ozhan stressed Derviş's commitment to addressing frictions in the market economy. For example, Derviş's measure of economic growth extended beyond GDP, as he also emphasised the importance of fighting poverty and promoting equal opportunities. This vision also translated to Derviş's approach to the economic crisis in Turkey, where public investment in education and health increased during the reform years when he was the Minister of Economic Affairs.

Kemal Derviş's belief in the crucial role of international cooperation was highlighted, particularly considering recent global events. Dr Ozhan discussed Derviş's ideas on European integration and engaging Turkey in this process, emphasising Turkey's place in Europe. He also touched on Derviş's vision vis-à-vis the significance of multilateralism.

Dr Ozhan concluded by mentioning his own research on international cooperation and the impact of sanctions on economies. He emphasised international and intra-national trade-offs when implementing sanctions and the potential role of international cooperation in navigating these trade-offs.

Professor Selva Demiralp expressed her gratitude for the opportunity to speak at the event and shared her personal email exchange with Kemal Derviş in 2013 when she started writing a weekly column in a Turkish newspaper. In one of her columns, she used a metaphor to explain economic concepts, and Derviş unexpectedly reached out to her, expressing his appreciation and encouragement. Professor Demiralp emphasised the importance of Derviş's support in boosting her confidence as she

ventured into communicating complex economic ideas to a broader audience. She expressed her gratitude for his contribution to her professional development.

She then proceeded to discuss the Turkish economy since 2000 and highlighted the similarities and differences between the current economic situation and the one during the 2001 crisis. She noted that both instances involved a shift from highly accommodative policies to more orthodox ones after the crisis. However, she pointed out that the current approach lacked specific solutions and accountability compared to the transition program implemented by Derviş.

Professor Demiralp raised concerns about whether the current economic measures represented a genuine U-turn or a temporary detour, depending on future political decisions. She emphasised the need for clear policies and solutions to address the economic challenges.

She also discussed key characteristics of the Derviş era, including swift decision-making and structural reforms in the banking sector. She noted that while some problems in the banking system persisted, the reforms implemented during Derviş's time had led to a healthier banking system and has mitigated against future problems, including potential risks in the financial system in the current era.

Professor Demiralp touched on issues like inflation and budgetary discipline, highlighting how reforms in the past had positive impacts on these areas. However, she expressed concerns about the recent increase in inflation and the need for maintaining budgetary discipline.

Professor Demiralp called for specific actions, including institutional independence, transparency, anti-corruption measures, and structural reforms, to address the current economic challenges. She stressed the importance of returning to rationality and transparency in economic policies and urged more concrete actions to secure the country's economic stability.

Finally, Professor Demiralp shifted the discussion to the current situation and the need for the IMF. She explained that the idea of the midterm economic plan was to create something like an IMF standby agreement but with more independence. However, she

expressed that the current midterm plan is not as direct, or solution oriented as the 2001 IMF agreement.

She stressed that obtaining IMF approval is not just about signing an agreement for a specific amount of money but also about attracting foreign direct investment and capital inflows due to IMF endorsement. Presently, the main problem is the erosion of credibility, characterised by inconsistencies in monetary policy and changes in leadership at the Central Bank, which have deterred foreign investors seeking a stable economic environment.

While the government announced securing funding from the World Bank, Professor Demiralp noted that the details differ from the previous era, with funds allocated for project-based applications. Consequently, there has been no significant capital inflow from either the World Bank or international private investors. Professor Demiralp suggested that if the current government fails to gain enough credibility to attract sufficient capital inflows, the IMF could become a viable option due to dangerously low reserve levels, though it's not yet clear if this will be the chosen route.

Sinan Ülgen expressed his congratulations to the Contemporary Turkish Studies for organising the event, emphasising the event's significance for those who knew Kemal Derviş and those who appreciated his values and contributions. He highlighted Kemal Derviş's deep interest in public policy, not just as an economist but also in political and economic reforms at home and on global issues like global governance. Ülgen mentioned his involvement in providing feedback on Derviş's book on global governance and his ability to engage in conversations on various topics, showcasing his polymath nature.

Ülgen also discussed Derviş's passion for improving the future of Europe and his involvement in the convention on the future of Europe. He emphasised Derviş's skill as a communicator, both domestically and internationally, which played a crucial role in managing expectations and building credibility.

One of the most remarkable traits of Kemal Derviş, according to Ülgen, was his humility and approachability, regardless of a person's background or status.

Ülgen then delved into his personal experience of working with Derviş in establishing the EDAM policy think tank in 2005. He highlighted their successful collaboration in setting norms and structures for policy research in Turkey, even without substantial funding or government support.

Ülgen also mentioned the creation of the Bodrum Round Table, an event series that brought global conversations to Turkey and provided a Turkish perspective on global issues. He credited Derviş's extensive global network for attracting influential participants to their events.

In conclusion, Ülgen regretfully noted that despite their efforts, Turkey's public administration culture remained resistant to external input from policy think tanks like EDAM. He suggested that with Derviş's continued presence and network, they might have achieved a more inclusive policy environment in the country.

The event concluded with a question-and-answer session with the audience, where a variety of issues were discussed. This portion of the event included debates on the resistance to economic reforms from vested interests, the significance of international perceptions in the success of economic reforms and investments, the future of the Customs Union between Turkey and the EU, and the role of the media and the rule of law in strengthening the economy.