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TURKEY'S WINTER OF DISCONTENT

Although the weather in Ankara has been exceptionally warm, the Turkish Government can be forgiven if it is feeling the chills of winter. Serious problems in the preaccession negotiations with the European Union (EU); a looming energy shortage with the likelihood of imminent power cuts; a widening anticorruption drive focusing on the banking sector threatening the traditional cozy arrangements between politicians, bureaucrats, businessmen and media moguls; and, finally, a grave financial upheaval and emergency talks with the IMF, have produced an atmosphere of crisis in Turkey. The three-party coalition headed by ailing Prime Minister Bulent Ecevit, which has been in office for 18 months, is looking distinctly rattled, and it is far from clear whether it is capable of tackling the growing problems.

The Financial Storm

The deepening financial crisis, which began on November 17, was apparently triggered by interbank speculation by irresponsible Turkish bankers "playing" the fluctuating interest rate market. With the big Turkish banks cutting credit lines to the smaller ones as cover against the possibility of their failure – 10 private banks have recently been taken into receivership – and the foreign investors pulling out en masse, panic spread in the markets as the interbank overnight lending rate soared astronomically. As the Central Bank tried to fund the market with short-term, extremely high-interest bond sales, Turkey lost more than 10 percent of its \$23 billion foreign exchange reserves in the first week of the crisis alone and more than \$6 billion by December 1. At the same time, the previously booming stock market dipped below 7,500, less than half its value compared with the beginning of the year. The growing tension in the markets was reflected in an incident where a Turkish investor, upset about slumping prices in the stock market, shot his broker after a heated argument.

Outside factors, such as rising oil prices and the depreciation of the euro against the dollar, which changed Turkey's trade balance dramatically, contributed to the gloom. Turkey's current account deficit for 2000 was estimated by Lehman Brothers as likely to be \$10 billion, compared with a \$1.4 billion surplus last year. Nevertheless, the government argued that the sudden loss of confidence was not justified by economic fundamentals and pointed to the news that industrial production had increased by 9.7% and that GDP growth in the third quarter of 2000 had reached 7.4%. In an effort to calm the markets, Ecevit announced the long-delayed privatization of Turk Telekom, as well as a World Bank-recommended package to "cool the economy." He also released the text of a letter he had received from World Bank President James Wolfensohn, pledging continued support to Turkey's reform program, and claimed that the recent turmoil was caused by "the high inflation and interest rate lobbies," which were trying to stop Turkey from reducing inflation. Ecevit said, "I am not the only one who says the economy is on track. The IMF, which is very careful about these issues, and the World Bank also do."

Treasury Undersecretary Selcuk Demiralp and Central Bank Governor Gazi Ercel, who have been consistently upbeat about the Turkish economy, also claimed that the current crisis was temporary and that Turkey would have early access to World Bank loans totaling \$1 billion and around \$3 billion from the IMF Supplemental Reserve Facility (SRF). A high-level IMF team arrived in Ankara on December 3, but stocks continued to fall when the markets opened after the weekend although there was a partial rebound the following day. Investors clearly recognized that even if an emergency package were provided quickly, it would be tied to requirements for even-stricter IMF-prescribed controls. That would inevitably mean a further restructuring of the troubled banking sector as well as a tightening of belts at a time when workers and civil servants, already uneasy about their living conditions because of the restrictions of the current IMF standby agreement, were out on the streets demonstrating.

What makes this particular financial crisis different to earlier crises and especially difficult for the Ecevit government is the linkage to the ongoing banking scandal. The upheaval occurred soon after shocking revelations of alleged fraudulent activity in the banking sector following the takeover of the collapsed private banks, and there is little doubt that the revelations contributed directly to the massive loss of confidence. Moreover, the questionable and allegedly illegal practices of the collapsed banks are estimated to have created an additional exposure for the state as ultimate guarantor of more than \$10 billion that will be very difficult to recover. With Turkish TV screens filled with the images of previously influential and untouchable bankers - with friends in high political and bureaucratic positions - in handcuffs and innumerable rumors and published reports of further tales of embezzlement to come, it was no surprise that a financial squall turned into a storm.

The Prolonged Honeymoon

Until very recently, the coalition of Ecevit's Democratic Left Party (DLP), the Nationalist Action Party (NAP), led by Devlet Bahçeli, and the Motherland Party (MP), led by Mesut Yılmaz, enjoyed an exceptionally prolonged honeymoon. To a great extent, this was a product of the willingness of the powerful Turkish media barons to praise and protect a government with which they enjoyed close and profitable business relations. The government and the mass media jointly cultivated the impression of an unusually cooperative coalition pursuing the hitherto elusive goal of economic stability with success and determination.

The government also benefited from the virtual irrelevance of the parliamentary opposition. The Islamist Virtue Party (VP), the third-largest grouping in the Turkish Grand National Assembly (TGNA), remains incapacitated by the very real fear that it will soon share the fate of its immediate predecessor, the Welfare Party (WP), which was pushed out of office in 1997 after sustained military-led pressure, and then banned from politics. The only other opposition party represented in the TGNA, the True Path Party, (TPP), headed by Tansu Ciller, also has not recovered from its ignominious expulsion from office in 1997. Thus, with "no alternative" to the current coalition, as Ecevit repeatedly emphasized, and a happily compliant media "controlling" public opinion, there was no guardrail to prevent the government from stumbling into the crisis with no obvious democratic remedy in sight.

Prime Minister Ecevit and Deputy Prime Minister Yılmaz had previously worked in tandem in the coalition headed by the latter which had taken over after the fall of the WP-TPP coalition and governed Turkey until Yılmaz had been forced out of office by the TGNA over corruption allegations in November 1998. The two men resumed their partnership in office after the April 1999

elections, this time with Bahçeli's NAP. However, with Ecevit's pronounced indulgence towards Yılmaz helping to ensure the smaller MP an equal number of cabinet seats, the lucrative energy portfolio, and the retention of many of Yılmaz's favorites in key bureaucratic positions, the Ecevit coalition was inevitably led down the path of "crony capitalism" which has been the forte of both the MP as well as the TPP throughout the past 15 years.

The Cancer of Corruption

There has long been a consensus in Turkey that corruption is an all-pervasive and corrosive feature of Turkish life, as well as a threat to Turkish democracy and Turkey's desire to be a full member of the Western community of nations. However, at the same time, everyone also seemed to believe that, precisely because corruption permeated virtually every aspect of Turkish life and involved so many "powerful" individuals interconnected throughout the system by mutual interest, it could not be tackled effectively by any Turkish government. Although Ecevit and Bahçeli share a reputation for honesty and integrity, the reality is that corruption - petty and grand - has managed to thrive and grow under their government and attempts to challenge it were forestalled individually and collectively by the beneficiaries of the existing system.

However, when two other men with impeccable reputations - Interior Minister Sadettin Tantan and Zekeriya Temizel, chairman of the Banking Regulation and Supervision Agency (BRSA), established at the insistence of the IMF- launched a new anticorruption effort with the symbolically important support of President Ahmet Necdet Sezer, and the discreet but effective backing of the military establishment at the end of summer, things began to change. There were a number of highly publicized operations against corruption with evocative names like Hope, Parachute, Whale, Iceberg and Octopus. Operation Hurricane saw the arrest of former President Suleyman Demirel's nephew, Murat, and other directors of Egebank, as well as Nail Kecili, a prominent public relations executive with links to the highest levels of the Turkish government during the past decade. With expanding probes into alleged improprieties in Egebank and the other collapsed private banks - including Etibank, linked to the giant Sabah media group - now under government receivership, and more than 100 bankers and businessmen in custody, there was a growing feeling that Turkey may have finally begun to "clean up" its system. However, Bahçeli had once compared corruption to "cancerous cells, which damage social and political tissue," and just like initial cancer treatment, the current cleanup inevitably "shook" the body politic.

It is significant that the anticorruption drive began soon after Demirel was replaced by Sezer, as president. In addition to being the first Turkish president without a previous military or political background, Sezer also brought to a job recently associated with exaggerated pomp and allegedly corrupt cronies, a preference for modesty and humility as well as honesty and incorruptibility. The "Sezer difference" was demonstrated after his assumption of the presidency on May 16 by his insistence on stopping his official limousine at red lights and downsizing security, domestic personnel and expenditures at the Presidential Palace. Sezer also moved quickly to demonstrate his independence from Ecevit and the ruling coalition, which had turned to him after the failure of its effort to keep Demirel in office. In August, he twice vetoed the proposed government decree, with the power of law that would have permitted the arbitrary dismissal of civil servants. Defending the principle that the government had to bow to the rule of law and arguing that the government would be better advised to enact the appropriate legislation, Sezer faced the government down despite bitter criticism from Ecevit and his coalition partners, who went so far as to hint at possible moves to curb Sezer's powers and even to force him to resign. Polls at the end of his first six months in office, however, confirmed Sezer's growing popularity in contrast to the people's low opinion of the

government. While it is impossible to evaluate the extent of Sezer's role in initiating or sustaining the current anticorruption drive, the least that can surely be said is that it is inconceivable that it could have been carried out in the same fashion under his predecessor.

Just before the presidential elections in April, the Chief of Staff, General Huseyin Kivrikoglu, had a publicized meeting with the directors of the Association for the Struggle against Corruption, where he was reported to have stressed that the new president had to be "honest and noncontroversial." His comment was widely interpreted as effectively shutting the door to Mesut Yilmaz's widely known but unannounced presidential aspirations. During the following months, the military interest in corruption continued to grow and the problem was duly elevated to the National Security Council (NSC) agenda in September. It was subsequently reported that corruption was identified as a major threat in the military's national security assessment document, the first such change since February 1997 when fundamentalism was identified as a major threat, along with separatist terrorism. Just in case anyone had missed these messages, Kivrikoglu commented during a courtesy visit to the new speaker of the TGNA, Omer Izgi, at the beginning of October that the anticorruption drive would continue until Turkey was a country that all Turks could be proud of.

Successful Treatment?

Although attention has inevitably been diverted to the financial crisis, it is noteworthy that there is growing recognition in Turkey, as well as among interested outside observers, that the eradication of the root causes of the current emergency has to include, as a matter of priority, the problem of corruption. However, while a majority of the Turkish people wholeheartedly supports the anticorruption drive, they have yet to be convinced that the process will be permitted to continue to its logical end without interference. After all, skeptics argue, Mesut Yilmaz, who was brought down as prime minister over banking corruption allegations and who had to undergo numerous parliamentary investigations last summer, is deputy prime minister in the government overseeing the anticorruption effort. Moreover, Yilmaz, as well as another deputy prime minister, Husamettin Ozkan from the DLP, continue to be dogged by widespread rumors and published stories linking them to the activities of some of the individuals apprehended or questioned. It would indeed be ironic if Bulent Ecevit, who won the 1973 and the 1999 elections as the personification of the national yearning for justice and honesty has ignored allegations of widespread corruption by his close colleagues or their associates for the sake of "stability" - his recent constant refrain.

Consequently, it still remains to be seen whether the corrupt quadrangle of businessmen, media, politicians, and bureaucrats, with its tentacles in Turkish political and economic life, will finally be broken up in the name and the interest of the long-suffering Turkish public. For his part, the popular and independent-minded Tantan has declared that his main objective is nothing less than "to uncover the political and high-level bureaucratic connections involved in corruption. It is obvious that corruption on this scale cannot survive without protection from political and bureaucratic interests. There is no other way to cleanse government and politics. It must be done." However, he also cautioned that, "People who are worried by this struggle are waiting for an opportunity to go back to their old habits and mentalities and divert our people from the fight." Unless and until the fight against corruption is won, no amount of external financial or political assistance will be sufficient to transform Turkey into a full and prosperous member of the Western community of nations or a transparent and reliable partner in the global free-market system.

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