ABSTRACT

The literature on the exchange-rate-based stabilization has focused almost exclusively in Latin America. Many other countries however, such as Egypt, Lebanon and Turkey; have undertaken this sort of programs in the last 10-15 years. I depart from the existing literature by developing a model specifically for the 2000-2001 heterodox exchange-rate-based stabilization program in Turkey: When the government lowers the rate of crawl, the rate of domestic credit creation is set equal to the lower rate of crawl, bond sales finance the fiscal deficit, and money growth occurs only through capital inflows. Without appealing to high intertemporal elasticity of substitution, the model does very well at replicating the magnitude of the current account deficit (5.5% of GDP predicted vs. 5% of GNP actual), the peak in total consumption spending (10.08% predicted vs. 9.6% actual), average growth rate in total consumption spending (6.7% predicted vs. 6% actual), the peak in durables spending (37.06% predicted vs. 39.5% actual), and the average growth rate in durables spending (24% predicted vs. 27.4% actual) observed in Turkey following the inception of the program.