**FOR AGENDA**

EBS/84/192

CONFIDENTIAL

September 7, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Turkey - Staff Report for the 1984 Article IV Consultation and Midterm Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Turkey and the midterm review of its stand-by arrangement. Draft decisions appear on pages 18-20.

It is proposed to bring this subject to the agenda for discussion on Wednesday, October 10, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Tyler (ext. 75175) or Mr. Kopits (ext. (5)8814).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TURKEY

# Staff Report for the 1984 Article IV Consultation and Mid-Term Review of Stand-By Arrangement

Prepared by the European Department and the Exchange and Trade Relations Department

Approved by Geoffrey Tyler and W.A. Beveridge

September 6, 1984

## I. Introduction

Discussions for the Article IV consultation and the mid-term review of the stand-by arrangement were conducted in Ankara during June 14-July 6, and August 6-9, 1984. 1/ The Turkish representatives included officials of the Under Secretariat of the Treasury and Foreign Trade, Ministry of Finance and Customs, the State Planning Organization, and the Central Bank of Turkey. There were meetings with the Deputy Prime Minister in charge of Economic Affairs, the Under Secretary of the Treasury and Foreign Trade, the Under Secretary of the State Planning Organization, and the Governor of the Central Bank.

Turkey continues to avail itself of the transitional arrangements under the provisions of Article XIV.

A one-year stand-by arrangement in an amount of SDR 225 million (52.4 percent of the new quota) was approved by the Executive Board on April 4, 1984. This arrangement replaced the earlier one-year stand-by arrangement, also in the amount of SDR 225 million (52.4 percent of the new quota) covering the period June 24, 1983 to June 23, 1984. The earlier arrangement was cancelled on request by Turkey on April 4, 1984.

Financing of the existing stand-by arrangement is entirely from ordinary resources. Turkey purchased SDR 56.25 million, the first of four equal installments, upon approval of the arrangement. A second purchase of SDR 56.25 million was made on August 14, 1984. Purchases after August 25, 1984 are subject to the completion of the present review.

Since January 1, 1980, the World Bank has approved five structural adjustment loans (SAL) of which the first four SALs, for a total of US$1,180.3 million, have been disbursed. The fifth SAL for US$376 million

1/ The two visits were staffed by G. Tyler (Head, EUR), G. Kopits (EUR), R. Pownall (ETR), Mr. Saracoglu (RES), M.Z. Khan, P. Thomsen (both EUR), and Mrs. S. White (SEC). Mr. Milanovic (World Bank) participated in the first visit.

was approved in June 1984. The total amount can be utilized in two installments; the first installment of US$250 million is available on approval, of which US$41 million has been drawn so far, while the remainder will be available in January 1985 following a review by the Bank. The Fund and Bank staff remain in continuing close contact to ensure consistency between the Fund stand-by arrangements and the Bank SALs.

## II. Developments in 1983 and Prospects for 1984

### 1. Domestic economy

The growth rate of real GNP slowed down to 3.2 percent in 1983 from 4.6 percent in 1982 (Table 2). Although export volume increased more than projected, the real foreign balance made a negative contribution to growth as remittances declined and the volume of imports rose sharply. The growth of domestic demand accelerated to 4.3 percent in 1983, led by private consumption and by increases in stocks. Private consumption, which had begun to recover in 1982, was influenced by an increase in the share of real private disposable income in national income and the development of negative real interest rates during the year. The slower growth in fixed investment expenditure mainly reflected the slowdown in public investment following budgetary restraint. On the production side, poor weather reduced agricultural output by 0.3 percent in 1983 after an impressive growth in 1982. The most buoyant sectors in 1983 were industry and services, where output increased by 7.6 percent and 4.4 percent, respectively.

Inflation accelerated in 1983 especially toward the end of the year. While the average annual increase in wholesale prices was about 31 percent compared with an increase of 27 percent in 1982, prices, by the end of 1983, were 40 percent higher than a year earlier (Table 3). The chief explanatory factor was an expansionary monetary policy which accommodated price increases stemming from a further deterioration in the terms of trade and a rise in domestic demand. There were revisions to a number of wage settlements, including a supplementary wage adjustment in November for some public sector employees, which led to average wage increases (net of income tax) of nearly 30 percent in that sector. Private sector wages lagged behind, increasing by about 20 percent.

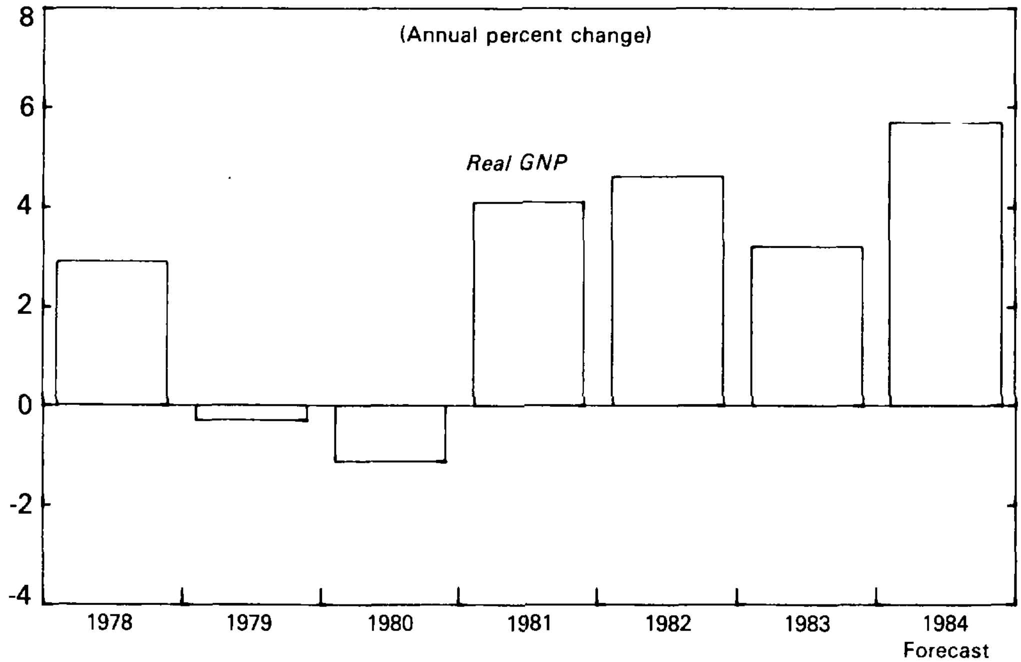
On the basis of a favorable outcome in agriculture and industry during the first half, the forecast of growth in 1984 is now 5.7 percent. The balance of payments during the first half is consistent with the projected contribution by the real foreign balance of nearly 2 percent, which is expected to offset some deceleration in domestic demand.

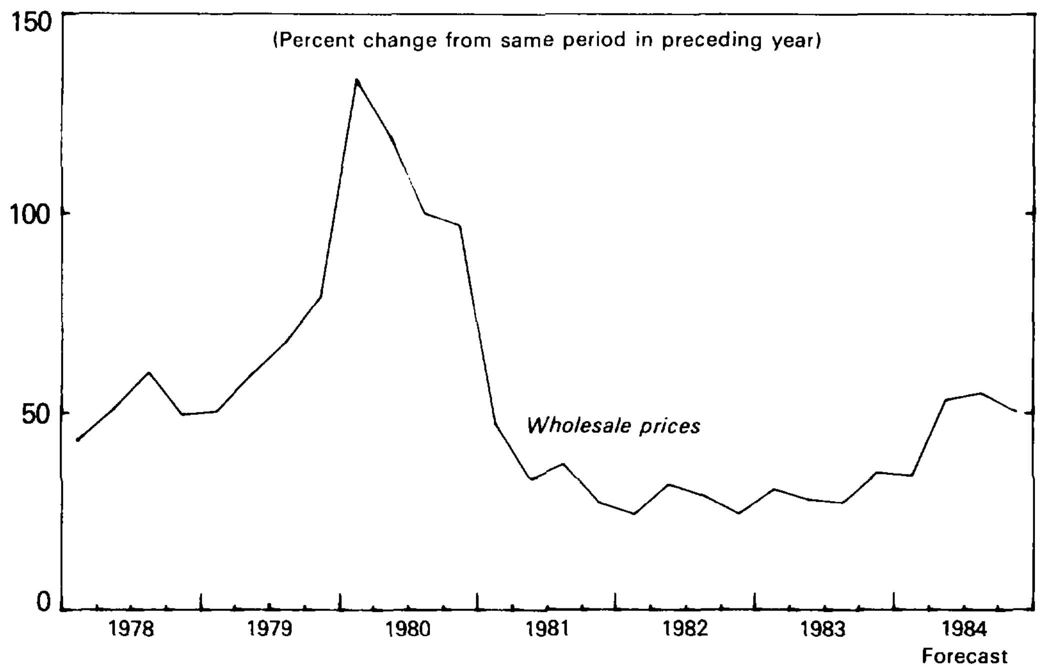
Inflation during the first six months of 1984 has been higher than programmed, with wholesale prices in June being 58 percent higher than a year earlier. The most significant factor during the first half of 1984 was the increase in agricultural product prices, especially of fresh fruits and vegetables, as a consequence of export liberalization and

CHART 1

TURKEY

## GROWTH AND INFLATION




Sources: State Planning Organization, State Institute of Statistics; and Fund staff estimates.

higher export market prices. Other important factors included overdue and substantial increases of administered SEE prices and higher import prices resulting from the nominal effective depreciation of the lira of 23 percent between end-December 1983 and end-June 1984. The monthly rate of inflation peaked in April and monthly increases during the second half of the year are expected to be substantially less than in the first half. The average annual increase in wholesale prices is forecast to be 48 1/2 percent in 1984 with prices rising by about 2 percent per month by the end of the year (Chart 1). The official forecast of a 39 1/2 percent annual increase in the GNP deflator appears to understate substantially the likely rate of inflation.

Wage adjustments in the first half of 1984 averaged 29 percent. Income tax reductions announced by the Government will increase disposable wages by another 8 percent on average. However, there is some pressure to revise the 1984 wage adjustments in view of the present inflation; public sector wage rates were increased by 10 percent at mid-year.

2. Balance of payments and external debt

a. Balance of payments

The overall balance of payments in 1983 registered a deficit of US$0.1 billion compared with a projected surplus of close to US$0.4 billion. Underlying this result was a current account deficit, which rose to US$2.2 billion compared with a projected deficit of US$0.6 billion and an actual deficit of US$1.3 billion in 1982 (or 4.3 percent of GNP in 1983 compared with 2.3 percent in 1982). Net capital inflows at US$2.5 billion were much higher than expected. Developments in the first six months of 1984 indicate that this deterioration has been reversed. Export receipts were 32 percent higher than in the same period last year and imports were only 8 percent higher. The forecast current account deficit for 1984 is US$1,250 million (2.9 percent of GNP) (Table 4).

The disappointing trade performance in 1983, which showed a deficit of US$3.5 billion compared with US$3.0 billion in 1982, stems from several factors. There was a sharp decline in dollar export prices, particularly for agricultural products. Other factors were a contraction of some markets in the Middle East and a reduction in export credits. Export volumes continued to increase, however, although at 13 percent the rise was not as sharp as in previous years; this increase stems mainly from Turkey's improved competitiveness and some exporters' willingness to reduce prices. The value of imports rose by 4.4 percent mainly due to a sharp increase in volume partly triggered by a drought; import prices were lower. However, the terms of trade declined by 6 percent (Table 5). Workers' remittances, which had reached US$2.2 billion in 1982, fell to US$1.6 billion, partly offset by an increase of about US$100 million in workers' foreign exchange deposits, which are recorded in the short-term capital account. The overall decline in these foreign exchange inflows from workers is attributable to a weakening of other currencies against the U.S. dollar, to declining employment in those countries, and to expectations of a depreciation of the Turkish lira.

Net medium- and long-term capital inflows declined sharply in 1983 to only about one half of their level in 1982 as special official assistance was scaled down and project credit disbursements were slower than anticipated. However, syndicated medium-term borrowing from banks was considerably more than in 1982 reflecting Turkey's higher credit standing. Net short-term capital inflows, including errors and omissions, were sharply higher at US$1.5 billion. Over US$0.4 billion was accounted for by inflows under the Dresdner scheme for workers' deposits and US$0.1 billion in the form of convertible Turkish lira accounts. Other factors were the increasing use of overdrafts, particularly by the Central bank, and a greater use of trade credits by the commercial banks. An important component of errors and omissions is the counterpart of freight and transportation charges paid to Turkish carriers and included in the c.i.f. component of imports; in 1983 this is estimated at some US$0.25 billion. At end-1983 gross official reserves amounted to US$1.1 billion equivalent to about six weeks' of imports.

The program projections for 1984 assume a 22 percent rise in the dollar value of exports and a 6 percent increase in imports, with no change in the terms of trade. Workers' remittances are expected to remain at about US$1.6 billion. (Foreign exchange inflows into the Dresdner scheme and foreign currency accounts with domestic banks are expected to increase sharply.) Other services and transfers should remain at about their 1983 level. The outcome on trade account is thus forecast to improve by US$0.8 billion to show a deficit of US$2.8 billion, and the current account deficit should be reduced to US$1,250 million. Net medium- and long-term capital inflows are expected to rise with the acceleration of projects with foreign financing and disbursements from the World Bank under SAL IV and V. The forecast also allows for some increase in private investment capital. The net increase in short-term financial indebtedness, including workers' saving schemes, is to be contained to US$0.9 billion, consistent with a manageable debt service profile. Overall, the balance of payments is projected to register a surplus of US$620 million.

Performance in the first six months of 1984 was encouraging. Export receipts rose by 32 percent compared with the same period in 1983, and imports rose by only 8 percent. To some extent this trade performance reflected special factors such as the unwinding of leads and lags in anticipation of a devaluation late in 1983, and the fact that exporters were aware that export rebates would be reduced on April 1. Workers' remittances were some 21 percent lower in the first quarter than during the same quarter in 1983, but by contrast the Dresdner Bank scheme attracted an inflow from expatriate workers that was some six times larger. Disbursements under program loans have proceeded according to expectations, but project disbursements have been slow, reflecting delays on some projects due to severe weather.

b. External debt

Total outstanding external indebtedness rose by 3.5 percent in 1983 to reach US$18.3 billion (35.9 percent of GNP). 1/ Medium- and long-term indebtedness at US$15.5 billion was virtually unchanged as the dollar value of debt to official creditors, mostly OECD members, declined after 1982. This reflected both lower disbursements under special assistance programs and the declining dollar value of debt denominated in other currencies. Much of the increase in medium- and long-term debt since 1980 was attributable to increased use of Fund credit and disbursements from the IBRD. Medium-term indebtedness to foreign banks rose by about US$300 million in 1983 (Table 6).

Short-term indebtedness rose by about US$700 million in 1983, with US$434 million attributable to the Dresdner scheme and a further US$60 million to convertible Turkish lira accounts. The only other item which showed any significant increase was the use of overdrafts by the Central Bank. This small increase in short-term borrowing reflects continued caution by the authorities; as a percentage of the total, short-term indebtedness fell to 15.7 percent in 1983 compared with 24.9 percent in 1979.

## III. Economic Policies

### 1. Overview

Following the successful implementation of the 1980-82 stabilization program, which combined restrictive demand management and increased price flexibility--including flexibility in interest rates and the exchange rate--there were major slippages in 1983 brought about in large part by a relaxation in financial policies. The rise in domestic demand was accommodated by excessive credit creation and sharp cuts in nominal interest rates. These expansionary policies, contributed to the upsurge of domestic inflation and the deterioration in the external situation.

In response to the increasing external and internal imbalance, from the end of 1983 onwards the newly elected Government introduced a number of corrective measures. It raised interest rates, depreciated the lira, and began a round of overdue adjustments in administered prices. Almost concurrently, the authorities launched a far-reaching liberalization of the trade and payments system.

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1/ It seems likely that official data under-record outstanding indebtedness. Studies currently underway, with IBRD and Fund assistance, should lead to more accurate data.

While the external liberalization, along with the exchange rate depreciation, provided the basis for a significant improvement in the foreign trade account, it imposed an added burden on monetary control. Inability to sterilize the buildup of net foreign assets in the banking system made it difficult to contain cost-push inflationary pressures. Hence, further compensatory action has been taken recently in the fiscal and monetary areas to drain the remaining excess liquidity.

## 2. Monetary policy

### a. Recent developments

Against the background of a financial crisis that left a number of commercial banks in a strained liquidity position, and encouraged by a marked slowdown in the rate of inflation, monetary policy was relaxed considerably after the middle of 1982. An increasing rate of credit expansion was accompanied by nonobservance of legal reserve requirements. In 1983, there was a two-step reduction in interest rates on time deposits: in January the after-tax weighted average time deposit rate was cut from 36.4 percent to 33.6 percent, followed in July by a further cut to 29.6 percent; in contrast, the after-tax personal sight deposit rate was raised from 3.8 percent to 16 percent. Meanwhile, preferential and nonpreferential lending rates declined broadly. In recent Board discussions on Turkey, stress had been placed upon the need for flexible market-oriented policies which keep credit expansion within appropriate limits and which would maintain positive real interest rates. Note was taken of the difficulties of sterilizing money creation through the balance of payments.

In the second half of 1983, with inflation accelerating, time deposit rates became increasingly negative in real terms. Given insufficient growth in their liquidity and a strong demand for credit, partly from enterprises in difficulty, several commercial banks turned to the Central Bank for assistance, which in the course of the year extended LT 70 billion in special credits to banks and discounted about LT 140 billion of commercial bills for private enterprises. This led to a strong expansion in base money that was dampened only slightly by a small rise in the Central Bank's net foreign liabilities. While the annual growth rate in broad money supply (M2) had fallen to 31 percent by the end of 1983, the estimated demand for money rose by less than 27 percent owing to both depressed interest rates on time deposits and deceleration in the growth of real output, resulting in a significant buildup of excess liquidity. 1/

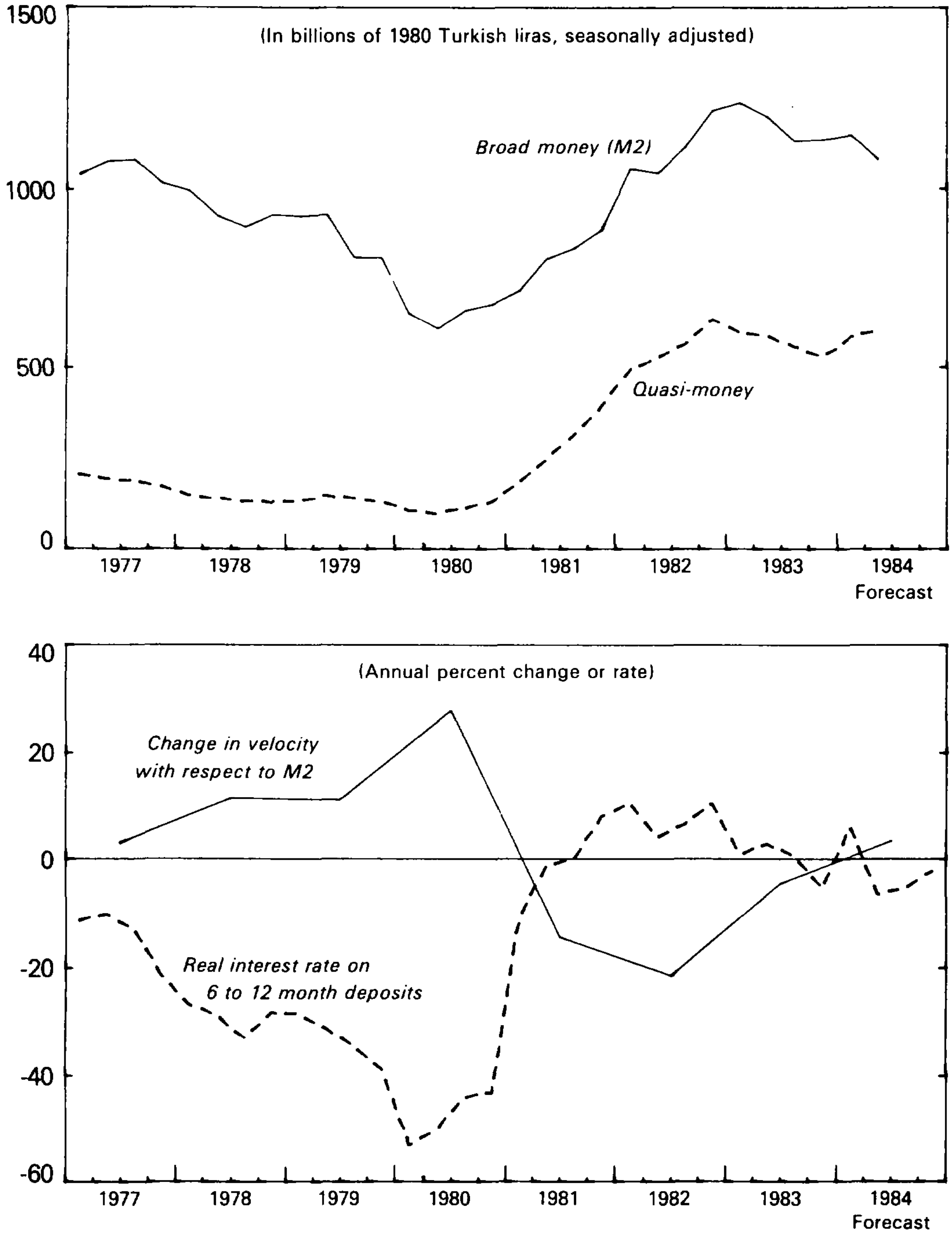
The new Government took immediate steps to correct the monetary disequilibrium and to reduce certain inefficiencies in financial intermediation. It authorized the Central Bank to establish and review ceilings on bank deposit rates at least every three months, while permitting banks

1/ For an analysis of this development, see "Interest Rate Liberalization and Money Demand in Turkey" (DM/84/32, 5/9/84).

CHART 2

TURKEY

## SELECTED MONETARY INDICATORS




Sources: Central Bank of Turkey, State Planning Organization, State Institute of Statistics; and Fund staff estimates.

to set nonpreferential lending rates freely. On December 19, 1983, time deposit rates were raised substantially, a wider choice of maturities (allowing for frequent interest payments) was introduced, and all sight deposit rates were unified at 5 percent. The highest interest yield was 49 percent for three-month deposits, with lower rates for longer maturities in conformity with the targeted reduction in the inflation rate. Effective January 1, 1984, the withholding tax rate on interest income was cut to 10 percent. As a result, the after-tax average yield on time deposits and CDs is estimated to have increased to 44 percent, which was positive in real terms at the time of the increase. Concomitantly, the annual interest yield on reserves held against time and commercial deposits was raised to almost 40 percent and the yield on reserves against demand deposits was reduced to 6 percent, from 18 percent earned previously on all reserves (Table 8).

The effective cost of borrowing rose by much less than deposit rates--to about 60 percent on nonpreferential long-term loans--because of the reduction in the financial transactions tax from 15 percent to 3 percent. Moreover, in line with the objective of phasing out the direct availability of Central Bank credit for export and certain investment activities and replacing them by loans from commercial banks, preferential reserve requirement ratios (20 percent and 15 percent, respectively, as against the general ratio of 25 percent) were introduced for such commercial bank loans.

The foregoing measures were complemented by limits on the Central Bank's net domestic assets which were believed consistent with a significant reduction in the rate of inflation during 1984. However, although the program ceilings were not exceeded, monetary growth was greatly above target during the first half of the year (Table 9). By mid-year, M2 was 45 percent higher than a year earlier, compared with a programmed increase of 30 percent. This can be explained by two developments. First, the reserve money multiplier rose above the assumed 2.35 level largely reflecting a 20 percent decline in the currency-deposit ratio since the end of 1983. Second, and more important, the monetary authorities failed to sterilize an accumulation of net foreign assets of some LT 100 billion in excess of the amount envisaged by the program, resulting from stepped-up foreign exchange sales by commercial banks to the Central Bank. In this regard, it is worth noting that by June 1984, M2X (broad money expanded to include domestic liabilities of the banking system in the form of foreign currency deposits by residents) rose by almost 50 percent compared with a year earlier, as a result of an increase of more than US$300 in foreign exchange deposits of exporters, Turkish contractors and workers abroad.

In May some measures were taken to contain the excessive rate of monetary expansion. Time deposit rates (in particular, three-month deposit rates) were adjusted upward by one percentage point on average, while commercial bank lending rates increased by more; the penalty rate for insufficient reserves was raised substantially (from 1.5 percent to 5.5 percent monthly). In addition, the Central Bank entered into a gentlemen's agreement with the seven largest commercial banks, whereby the latter would purchase one-year government bonds (with a 45 percent tax exempt yield) in an amount equivalent to 10 percent of the increase in deposits. These measures, however, proved insufficient to reduce the liquidity overhang, which had contributed to the rise in inflationary pressures.

b. Second half of the 1984 program

In order to reverse the upsurge in the rate of inflation in the first half of 1984, the proposed monetary program for the second half calls for virtually full absorption of excess liquidity by the end of the third quarter. As part of this effort, begun in early July, the Government began selling six-month bonds to both commercial banks and the nonbank public (bearing 53 percent to 55 percent interest yield) and sales are expected to reach LT 80 billion. The liquidity requirement ratio was increased from 10 percent to 15 percent, and the two largest government-controlled banks, which together conduct more than one half of all commercial bank activities, were instructed temporarily to cease new lending until directives were issued to the commercial banks regarding appropriate future growth of credit. Also, ceilings on the Central Bank's net domestic assets are now supplemented by measures to contain the growth of its net foreign assets with a view to fulfilling an indicative reserve money target. Specifically, the Central Bank eliminated the premium it had paid previously on foreign exchange purchases from commercial banks and raised the maximum and minimum ratios of the banks' foreign assets to trade-related foreign liabilities from 40 percent to 50 percent and from 10 percent to 20 percent, respectively. Finally, interest rates on three- and six-month deposits were increased to 52 percent and 53 percent, respectively, raising the effective average yield on time deposits and CDs to 45.4 percent.

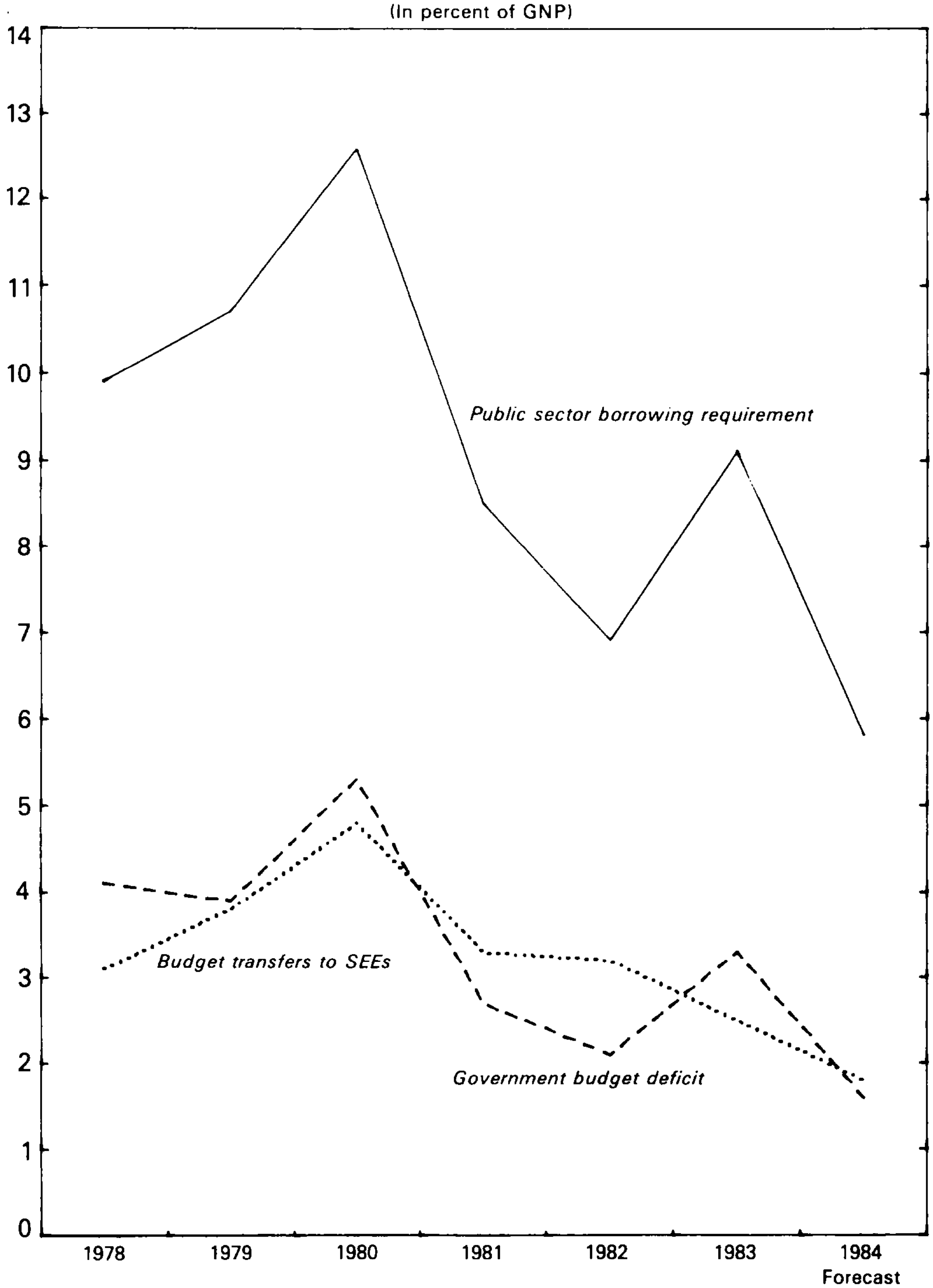
The program assumes a 5.7 percent annual growth in real GNP and an annual inflation rate of 48.4 percent (decelerating to a monthly rate equivalent to less than 30 percent on a compounded annual basis by end-1984). The projected increase of 46 percent in annual average M2X implies a 7.4 percent rise in income velocity compared with 1983. Assuming a 2.45 reserve money multiplier with respect to M2 during the second semester, reserve money is targeted to rise by 35 percent for the year as a whole. This target is to be accomplished by limiting the increase in the Central Bank's net domestic assets to LT 142 billion during the second half of 1984 (compared with an actual increase of LT 173 billion in the first half) and limiting the accumulation of net foreign assets to about US$190 million (on top of US$440 million accumulated in the first semester). The flow of net credit to the public sector is subject to a ceiling of LT 68 billion in the second half, which is heavily affected by crop purchases, (as against LT 38 billion actually extended through June). The Government will consult with the Fund if the growth of monetary aggregates or the level of interest rates develop in a way which endangers the success of the program.

CHART 3

TURKEY

## SELECTED PUBLIC SECTOR INDICATORS

(In percent of GNP)




Sources: Turkish authorities; and Fund staff estimates.

As indicated above, credit controls in Turkey center mainly on the net assets of the Central Bank rather than those of the banking system as a whole. In many respects this complicates the efficient use of monetary instruments. The staff believes that it would be preferable for the authorities to place more emphasis on controlling the NDA of the whole banking system. Unfortunately, data in a form that would permit the operation of a monetary program based in NDA of the whole banking system are not available quickly enough to permit their use as performance criteria. The authorities are currently taking steps to improve the speed with which commercial banks report.

## 3. Public finance

The improvement in budgetary performance since 1980 has been welcomed in Board discussions, although some doubts had been expressed about the accuracy of 1983 data. However, it has been consistently noted that the improvement was based more on expenditure constraint than revenue improvement. Better SEE performance had been welcomed but it was generally believed that structural reforms still had some way to go. A reclassification of some budget items has, in fact, substantially changed the picture of budget performance in 1983. Instead of the continued improvement shown by earlier data, the latest figures show a sharp deterioration last year. In 1984, however, a substantial recovery is projected and the PSBR is expected to decline to 5.4 percent of GNP, the lowest figure for many years.

### a. The consolidated budget

The presentation of the consolidated budgets for 1980 to 1984 has been substantially changed as the authorities and the staff have addressed a number of classification problems inherent in the earlier presentations. Essentially the problems were that the counterpart of certain borrowings was shown above-the-line as a nontax revenue and, for 1983 and 1984 only, all interest payments had been shown below-the-line. 1/ With the reclassification, the budget deficit has been revised upwards for all years between 1980 and 1984. More important, the new version shows a substantial deterioration in 1983 compared with 1982, whereas earlier data had shown an improvement. However, for 1984, under the new presentation there is a larger improvement in the deficit relative to GNP than projected at the beginning of the year, reflecting the changed presentation and additional limitations on expenditure during the second half of the year (Chart 3).

Revenue from direct taxes increased by only 16 percent in 1983, well below the inflation rate of about 30 percent. The major reasons were the reductions in marginal rates for personal income tax and the reduction in the corporate income tax rate from 50 percent to 40 percent. Total revenue

1/ The reclassification is discussed in some detail in the report on Recent Economic Developments. The staff is continuing to work with the authorities on a presentation in line with that normally used in Fund papers.

is estimated to have decreased from the equivalent of 19.6 percent of GNP in 1982 to 18.8 percent in 1983. In 1984, total tax revenue is expected to decrease further in real terms because of reductions in some tax rates: marginal income tax rates have been decreased by five to six percentage points; corporate enterprises have revalued their assets in accordance with a new law, resulting in increased depreciation allowances; the withholding tax on interest income has been reduced from 20 percent (30 percent for certificates of deposit) to 10 percent; and the financial transaction tax has been reduced from 15 percent to 3 percent. 1/ To prevent too great a reduction in the real level of revenue the authorities increased motor vehicle taxes and is selling land on which dwellings have been illegally built as well as goods confiscated in customs warehouses. As a result, total tax revenue is projected to increase by about 40 percent; however, that still implies a significant decrease in real terms to the equivalent of 17.9 percent of GNP (Table 10).

On the expenditure side, other current expenditure, investments and transfers to the SEEs all decreased significantly in real terms in 1983. 2/ On the other hand, nominal interest payments almost doubled, partly on account of the large nominal depreciation of the lira, and transfers to other than the SEEs increased by 125 percent due to appropriations associated with the construction of the Ataturk Dam and emergency aid to earthquake victims. Total expenditure relative to GNP increased for the first time in four years, from 21.6 percent in 1982 to 22.1 percent. In 1984, in order to reduce the size of the deficit, all groups of expenditure have been decreased significantly in real terms with the exception of interest payments, which once again are expected to double in nominal terms. The current projections for 1984 take into account planned savings of LT 200 million that are to be realized through restrictions on the use of appropriations during the second half of 1984. Transfers to the SEEs are subject to a ceiling of LT 330 billion in 1984, but are expected to be kept to LT 300 billion, a decline of 36 percent in real terms.

The budget deficit increased from the equivalent of 2.1 percent of GNP in 1982 to 3.3 percent in 1983, but the cash deficit decreased from 2.5 percent to 2.1 percent of GNP following a substantial increase in deferred payments. In 1984, the deficit is projected to decrease to the equivalent of 1.6 percent of GNP, a major decline from the 1983 level. However, the improvement in the overall result will again have to rely on reductions in expenditures, especially investment, given the decline in the real level of revenue. Moreover, interest payments are becoming increasingly burdensome. In 1980 they comprised only 3 percent of total expenditure; in 1984 this ratio is forecast to be 11 percent.

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1/ See the report on Recent Economic Developments for a discussion of the rationale underlying each of these changes and of their impact on revenue.

2/ In 1982 the fiscal period was from March to December as the budget was changed to a calendar year basis. For comparisons including 1983, the 1982 data have been adjusted to reflect a period of 12 months.

b. State economic enterprises

The small surplus on the SEEs current operations recorded in 1982 turned into a deficit equivalent to 1.3 percent of GNP in 1983, partly because necessary price adjustments were delayed. This, combined with a significant increase in fixed investment, resulted in an increase of about 55 percent in the financing requirement, to LT 961 billion. Transfers from the budget were subject to a ceiling of LT 292 billion and the SEEs access to borrowing from the Central Bank was limited to financing of grain purchases by the Soil Products Office. The increase in the deficit was financed through increased use of foreign borrowing and other short-term domestic borrowing, including arrears. In 1984, the financing requirement is expected to decrease from the equivalent of 8.4 percent to 6.1 percent of GNP reflecting significant reductions relative to GNP both in the deficit on the current operations and in fixed investments (Table 11). 1/ The financial position of the SEEs has been helped by large price increases during the last months of 1983 and the first half of 1984.

The Government is continuing and strengthening policies designed to improve the efficiency of the SEEs. In particular they are obliged to operate in a more competitive environment by paying market rates for working capital and other loans, without exchange risk guarantee. As a result of the trade liberalization measures, they have to compete more with imported products. In addition, direct assistance by way of budget transfers has been substantially reduced in real terms. Moves to improve operational efficiency of SEEs are being helped by World Bank assistance for selected enterprises.

4. External policies

It has been a recurrent theme in Board discussions on Turkey that one factor behind the weaknesses in the balance of payments has been the inward-lookingness of the economy. Production and investment has been based mainly in domestic demand and export production has been relatively small. Equally, domestic production has been heavily protected by tariffs and by restrictions on imports. Significant progress in opening up the economy has been made since 1980, but it was generally believed that more liberalization was desirable.

The authorities undertook a wide-ranging reform of the exchange and trade system at the beginning of 1984. 2/ The import regime was considerably simplified and import restrictions sharply reduced. All goods are now freely importable except those explicitly prohibited or subject to prior permit and about 75 percent of goods imported under special authorization in 1983 are now freely importable. Procedures for import

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1/ Four government enterprises that had been classified as decentralized government agencies prior to 1984 were reclassified as SEEs in 1984.

2/ A full description can be found in Recent Economic Developments and in the Request for the Stand-By Arrangement (EBS/84/42, 3/7/84).

payments were also simplified and the use of acceptance credits is now permitted. Advance import deposits, guarantee deposits, remain in force but are to be eliminated by end-1984. The very substantial import liberalization has not been followed by a rapid increase in the value of imports, suggesting that the previous high degree of restriction was unnecessary as long as the domestic economy was adequately controlled. Export procedures were simplified. Also, the rates of tax rebates granted to exporters were reduced to 80 percent of their previous level on April 1, 1984 and this ratio is scheduled to be reduced to 55 percent by September 1, 1984.

The exchange system was also changed significantly. Commercial banks can now perform foreign exchange operations on their own account and retain foreign exchange purchased in proportion to their foreign exchange liabilities. The surrender requirement on exports has been lowered from 100 percent to 80 percent and that on invisible receipts eliminated. Such foreign exchange earnings may be deposited in foreign exchange accounts and used without restriction. Limitations on travel have been greatly reduced. The long-standing requirement that payment in Turkish liras be made when opening letters of credit for imports has been abolished. Foreign investment regulations have been simplified, and investment abroad by Turkish residents under any form can be undertaken with official authorization up to specified limits. Barriers on foreign borrowing by banks and enterprises have been considerably reduced.

The authorities view these reforms as a first step toward a completely open foreign trade sector and an elimination of exchange controls. A complete review of the exchange and payments system is planned for 1985 and the authorities hope to liberalize further. Because of the January measures, the effective level of protection of domestic industry has been considerably reduced. By contrast, recent measures taken by some of Turkey's main trading partners, the EEC, the United States and Sweden, have limited access to these markets, particularly for textiles. The Turkish authorities expressed concern about the effect on their efforts to expand exports and contrasted the measures with the easier access to the Turkish market.

The authorities recognize the importance of a flexible exchange rate policy in maintaining external competitiveness. Frequent small adjustments to the exchange rate, based on relative price movements in Turkey and abroad and on movements in other exchange rates, have been practiced since mid-1981. The official exchange rate is determined daily by the Central Bank on the basis of relative price movements and other exchange rates, but actual transactions take place at a rate which is set by the commercial banks and which is allowed to fluctuate within a band of ± 6 percent 1/ around the official exchange rate. As a result of this new policy and the continued adjustment of the exchange rate the lira has depreciated by about 23 percent against the U.S. dollar between end-1983 and end-June 1984. In real effective terms, on an export-weighted basis,

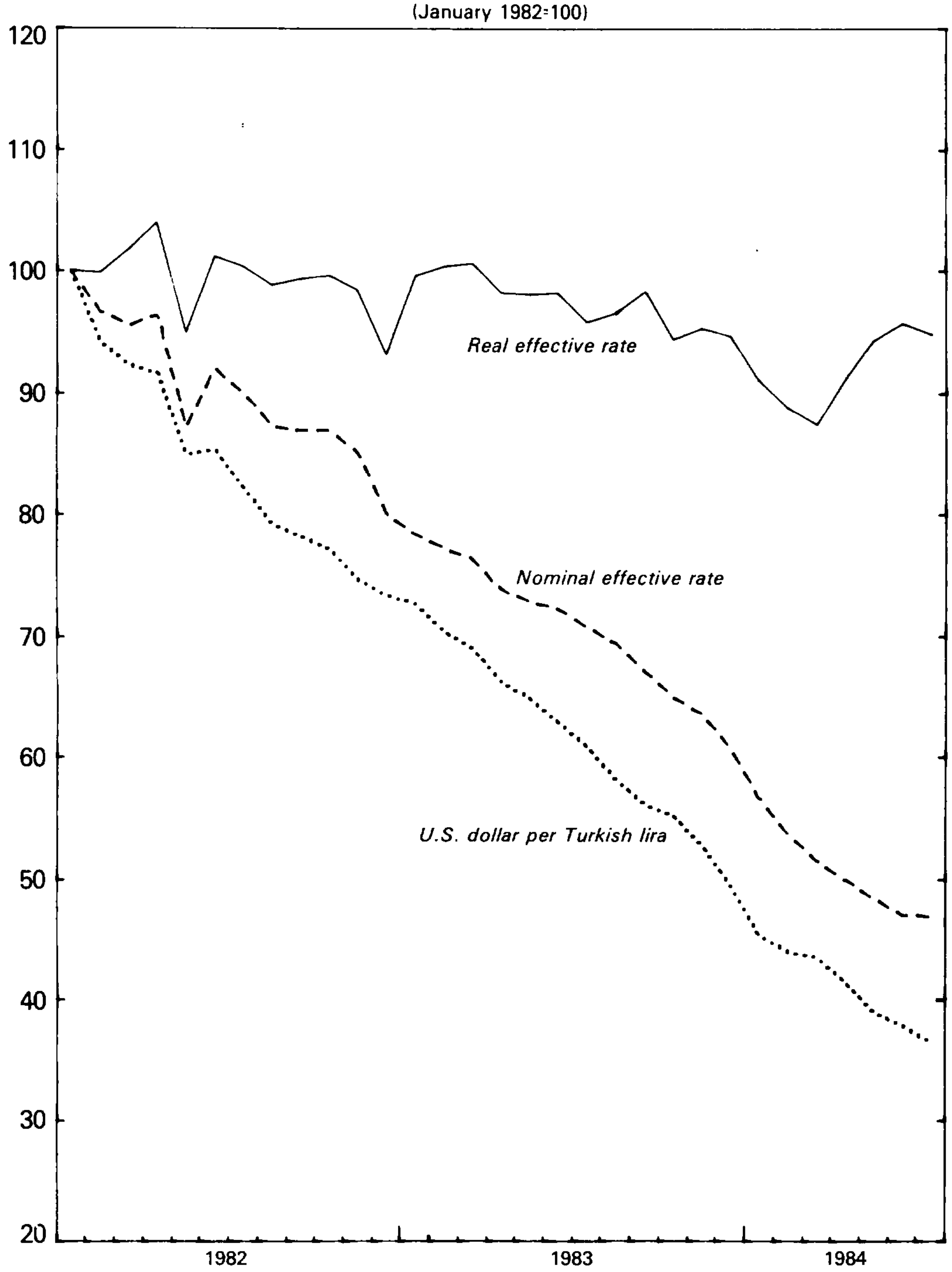
1/ A wider band of ± 8 percent has been permitted for transaction in banknotes since early February.

CHART 4

TURKEY

## EXCHANGE RATE DEVELOPMENTS

(January 1982=100)




Sources: IMF, *International Financial Statistics;* and Fund staff estimates.

the lira had depreciated by about 8 percent to March; however, since then the continued nominal depreciation has been insufficient to offset the upsurge in domestic inflation (Chart 4).

On April 14, 1984 the authorities introduced a foreign exchange risk insurance scheme (FERIS), designed to encourage the private sector to utilize foreign loans for export-oriented projects by providing insurance against exchange risk for the repayment of interest and principal. The difference between the lira cost of the loan at the time it is contracted and the lira cost of repayments will be covered by the resources of the scheme, which derive from the difference between the cost of the foreign loan and the domestic interest rate charged, effectively about 33 percent per annum at present. On the basis of likely future movements in the exchange rate, the subsidy element in the scheme would give rise to a multiple currency practice. Only four World Bank loans totalling about US$166 million undisturbed have been authorized to be disbursed through the scheme and the authorities do not intend to use the scheme in its present form for any further foreign loans. However, as interest repayments will fall due before the end of the stand-by arrangement the authorities request any waiver that may be necessary to permit future purchases by Turkey under the current arrangement. In view of the limited use to be made of the scheme and the intention not to use it further in its present form, the staff recommends that a waiver under the stand-by arrangement be granted and a temporary approval under Article VIII be granted.

The authorities intend to limit external borrowing in 1984 to levels consistent with the projected balance of payments and the objective of containing the growth in debt service over the medium term. In 1984 debt service after debt relief is projected to amount to 30 percent of exports of goods and nonfactor services, as against 32 percent in 1983. In 1985, mainly because of repayments of rescheduled debt, the debt service burden is projected to rise. Projections for 1985 and beyond are discussed in Appendix III. Under the stand-by, limits have been established on the contracting of new nonconcessional public and publicly-guaranteed foreign borrowing in the maturity range of 1-12 years (see Table 12). 1/ Although short-term foreign debt is a small proportion of total foreign debt, the authorities recognize the need to control short-term borrowing and propose to limit the increase in outstanding debt of the nonfinancial public sector and the banking system to no more than US$0.9 million between end-1983 and end-1984. This is larger than the earlier limit of US$500 million (see EBS/84/42). However, the new limit has been set in relation to a broader definition and includes all short-term debt except foreign exchange deposits of residents, including workers abroad. The latter are designed to encourage transfers from Turkish workers abroad and limits on them would be undesirable. The

1/ Excluding purchases from the Fund and commitments for certain projects such as the Ataturk Dam. Three contracts for the latter were recently signed with German and Swiss banks with guarantees by official export credit agencies. All these loans are at terms of 19 years and are not expected to be disbursed in 1984.

earlier ceiling excluded some pre-export credits and some minor Central Bank liabilities. The new ceiling has been designed to maintain the same degree of restrictiveness as in the original formulation but takes account of the fact that acceptance credits have been rising rather rapidly since the liberalization of exchange controls. A modification of the performance criterion is proposed in the draft decision.

## IV. Performance Criteria

In the period to June 30, 1984 all performance criteria were met. Economic developments are in line with projections with the important exception that prices and monetary aggregates have grown much more rapidly than projected. As a result monetary policy is to be significantly tighter in the second half of the year (see Section III-2 above).

The Program contains the following quantitative performance criteria, which are set out in Table 12.

(1) Limits on the net domestic assets of the Central Bank with sub-ceilings on Central Bank credit to the public sector through December 31, 1984. These limits are combined with the obligation to avoid new deficiencies in reserve requirements obligations of the commercial banks at existing levels of 25 percent for general deposits, 20 percent for deposits equivalent to export credits, and 15 percent for deposits equivalent to certain medium- and long-term investment credits.

(2) A limit on budgetary transfers to the SEEs.

(3) A limit on the contracting of new nonconcessional public or publicly-guaranteed external debt, excluding purchases from the Fund, in the maturity range of more than one year and up to and including 12 years for the period ending December 31, 1984; a limit on the increase in 1984 of outstanding short-term debt of the nonfinancial public sector and all short-term debt of the Central Bank and the Commercial banks, including normal trade credits and reserve related liabilities with the exception of savings schemes for workers abroad and foreign exchange deposits.

In addition the program also contains the following nonquantitative performance criteria:

(1) If monetary aggregates or interest rates develop in a way that endangers the success of the program the Government will consult with the Fund and reach such understandings as may be necessary.

(2) The continuation of a flexible exchange rate policy under which the Central Bank will determine the buying rate of the lira daily in the light of developments in international currency markets and in domestic relative to foreign prices.

(3) The requirement of the elimination by December 31, 1984 of import guarantee deposits.

(4) The standard performance criterion on trade and payments.

Finally, in accordance with Decision No. 7678-(84/62) (April 20, 1984), paragraph 4(i) of the stand-by arrangement is amended to bar any purchases under the arrangement while Turkey has any overdue financial obligation to the Fund.

## V. Staff Appraisal

After three years of sustained progress, the Turkish economy suffered a significant setback in 1983 in terms of the rate of inflation and the deficit on the current account of the balance of payments. The principal policy factors behind the reversal were financial, both monetary and fiscal. The authorities therefore faced a difficult task in 1984. The balance of payments must improve quickly, since substantial repayments of previously rescheduled foreign debt begin this year and increase in subsequent years, and the rate of inflation should be reduced. The Government that assumed office at the end of 1983 decided that an integrated approach, based on an open market-oriented economy, was required. It therefore acted to institute major new policies in several areas. Inevitably, it will take time for some of the many policy changes to show their full effect.

External results so far in 1984 support the overall external projections of the authorities. The trade forecast is likely to be overfulfilled, with exports very buoyant and the import bill relatively restrained. Workers' remittances are expected to fall short of target but this should be compensated for by a large inflow from workers into foreign exchange accounts. The latter trend reinforces the need to follow policies that will maintain confidence in the lira. Capital account transactions reflect the much improved standing of Turkey in international capital markets, which must be safeguarded if the large debt repayments in the years ahead are to be financed. The balance of payments target, which provides for an increase in the net reserves of the banking system, should help in this respect.

External policies have been important in the improvement in the balance of payments. Exchange rate policy has maintained the competitive position of exports and of domestic production against imports, and the easing of controls has helped exports. The authorities intend to continue with an exchange rate policy that will maintain a competitive external sector. The very sharp reduction in import controls is a very welcome and courageous move by the authorities. It should improve resource allocation and in the short term has not led to an unmanageable surge of imports. Equally, the relaxation of controls on invisibles has not resulted in any marked increase in invisible payments.

Domestically, developments in output are satisfactory but adverse price trends dominate the economy and, if the past acceleration in the rate of price increase is not reversed, inflationary expectations could become deeply embedded. Apart from the possible development of some demand-pull elements, the factors behind the price increases were largely policy induced. Increases in SEE and tradable goods' prices are essential elements of changes in the relative structure of prices. Increases in agricultural prices are partly seasonal but they also reflect the opening up of the economy at an appropriate exchange rate and the movement of domestic prices toward international levels. It is crucial that the relative price changes not be reversed by a general inflationary spiral and domestic financial policies must be strictly implemented in the second half of the year to prevent this. The broad Government aim of reducing the annual rate of inflation in the final months of the year below 30 percent is appropriate, but will require substantial effort. There is encouraging evidence of a deceleration in the most recent price data.

The Government must place great weight on monetary policy since monetary expansion in the first half of the year has so far financed the inflation and permitted the excess liquidity that built up during the period of weak monetary policy in 1983 to persist. The excessive monetary expansion in the first half of 1984, which occurred despite the Central Bank's adherence to its own credit ceilings, resulted from an unexpectedly large increase in the latter's net foreign asset position combined with a sizable rise in the reserve money multiplier. At the same time, the real demand for money declined as the acceleration in the rate of inflation eroded the increase in real interest rates of December 1983. The authorities were slow to react to the deteriorating monetary situation and it was not until May 1984 that the Central Bank took limited action to mop up some commercial bank liquidity through bond sales, and an increase in some interest rates. These measures were insufficient, however, and it became clear that more had to be done. In July, there were major moves to absorb bank liquidity by changes in banks' liquidity requirement ratio, further bond sales, a tightening of credit controls, and restraining the increase in the net foreign asset position of the Central Bank. In August interest rates on some deposits were increased. Based on these policies, it is expected that the existing excess liquidity will be virtually all absorbed during the third quarter.

The staff has discussed with the authorities the weaknesses of using Central Bank credit as the control mechanism. It reluctantly recognizes that data on net domestic assets of the whole banking system are too delayed at present to provide a workable ceiling. It is convinced, however, that the authorities should act quickly to permit the use of such a ceiling. In the meantime, it welcomes the intention of the authorities to review monetary targets and credit ceilings if broad monetary aggregates deviate from the trends currently believed consistent with the economic program.

The revised presentation of budget data shows a significantly different pattern of performance than suggested heretofore. It now seems that in 1983 there was a quite sharp reversal of the improvement that occurred in 1980-82. However, in 1984, provided targets are realized, the improvement over 1983 will exceed that envisaged at the beginning of the year, although this will only return the relative position to that pertaining in 1982. The staff believes that more emphasis will have to be given to fiscal policies. A satisfactory end-result in 1984 will again require expenditure restrictions, especially on investment, to make up for revenue shortfalls. If the failure to achieve planned revenue collections continues, additional revenue sources will be required. In this general context the staff believes that the authorities should re-examine the earlier decision to reduce rates of income tax again in 1984 and should proceed rapidly with the proposed introduction of a value added tax.

The SEE performance is planned to improve in 1984 and during the remainder of the five-year plan. Financially, this is reflected in the reduction in budget transfers to the SEEs, despite the substantial increase in prices above the level originally envisaged. Measures to improve managerial and operational efficiency are continuing, in part with technical assistance provided by the World Bank.

Medium-term scenarios suggest that foreign debt servicing should remain manageable. However, the extent to which the authorities will be able to achieve their ambitious growth targets will depend crucially upon the increase in exports. The authorities consider it will be possible to obtain an annual growth of the volume of exports of more than 10 percent over the next five years. Growth of this magnitude may prove difficult to achieve, although there are several factors working in Turkey's favor, such as its small present market shares and its special advantages in Middle East markets. The scenarios also indicate that careful attention will need to be given to the short-term foreign debt position.

To summarize, the thrust of the Government's policies are clearly correct. The main success so far has been in the external sector. The rate of inflation in the first half of 1984 was worrisome and it is essential that price performance be improved in the second half. Short-term policies have been adjusted to reduce the rate of inflation and there are signs that prices have begun to decelerate. However, it is essential that tight financial policies be persevered with and tightened if necessary. In the longer run, structural policies must operate to ensure that external gains are consolidated, with strong export growth the key to external stability and a satisfactory growth rate in the economy.

In the light of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

## I. 1984 Consultation

1. The Fund takes this decision relating to Turkey's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article IV consultation with Turkey, in light of the 1984 Article IV consultation with Turkey conducted under Decision No. 5392-(77/63), adopted on April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The Fund welcomes the major liberalization of the exchange and trade system as described in EBS/84/192 and grants approval for any multiple currency practice that may arise under the operation of the Foreign Exchange Risk Insurance Scheme until December 31, 1985 or the next Article IV Consultation with Turkey, whichever is the earlier. The Fund urges Turkey to terminate the remaining bilateral payments arrangement with a Fund member as soon as possible.

## II. Stand-By Arrangement

1. Turkey has consulted with the Fund in accordance with paragraph 4(g) of the stand-by arrangement for Turkey (EBS/84/42, Supplement 4, April 5, 1984), and the letters of the Minister of State and Deputy Prime Minister, annexed to the stand-by arrangement, dated March 12, 1984 and March 28, 1984, in order to reach understandings with the Fund regarding policies and measures which Turkey will pursue through April 3, 1985 and to establish

performance criteria subject to which purchases may be made by Turkey during the remainder of the stand-by arrangement.

2. The letter of the Minister of State and Deputy Prime Minister, dated September 4, 1984, shall be attached to the stand-by arrangement for Turkey and the letters of March 12 and March 28, 1984 shall be read as modified by the letter of September 4, 1984.

3. Turkey will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Turkey's currency in the credit tranches beyond 25 percent of quota:

a. during any period in which the data at the end of the preceding period indicate that:

(i) the limit on net domestic assets of the Central Bank referred to in paragraph 9 of the communication of September 4, 1984 and specified in the table attached to that communication is not observed; or

(ii) the limit on net Central Bank credit to the public sector referred to in paragraph 9 of the communication of September 4, 1984 and specified in the table annexed to that letter is not observed; or

(iii) the limit on the increase in outstanding foreign debt of the nonfinancial public sector and the banking system of up to and including one year described in paragraph 2 of the communication of September 4, 1984, which includes all normal trade-related credits and reserve liabilities of the banking system with the exception of savings schemes for workers abroad, and foreign exchange deposits is not observed.

b. if the understandings in paragraph 3 of the communication of September 4, 1984 are not observed.

4. The Fund finds that Turkey may make purchases under the stand-by arrangement notwithstanding any multiple currency practice that may arise from the operation of the Foreign Exchange Risk Insurance Scheme.

5. Paragraph 4(i) of the stand-by arrangement for Turkey (EBS/84/42, Supplement 4) shall be amended to read as follows:

> "(i) during the entire period of this stand-by arrangement, while Turkey has any overdue financial obligation to the Fund, or if Turkey........."

Table 1. Turkey: Selected Economic and Financial Indicators, 1981-84

| | Actual 1981 | Actual 1982 | Revised Estimate 1983 | 1984 Projection EBS/84/42 | 1984 Current Projection |
|---|---|---|---|---|---|
| | | | (Annual percentage change, unless otherwise specified) | | |
| **National income and prices** | | | | | |
| GNP at constant prices | 4 | 4 1/2 | 3 1/4 | 4 1/2 | 5 3/4 |
| GNP deflator | 42 | 27 1/4 | 27 1/2 | 29 | 39 1/2 1/ |
| Wholesale prices | 36 3/4 | 27 | 30 1/2 | 29 | 48 1/2 |
| **External sector (in U.S. dollars)** | | | | | |
| Exports, f.o.b. | 61 1/2 | 22 1/4 | -1/4 | 17 1/4 | 22 1/4 |
| Imports, c.i.f. | 13 | -1 | 4 1/2 | 7 3/4 | 5 1/2 |
| Non-oil imports, c.i.f. | 25 | 1/2 | 9 1/4 | 14 | 10 1/2 |
| Export volume | 68 3/4 | 37 | 13 1/2 | 16 3/4 | 22 1/4 |
| Import volume | 11 1/2 | 7 3/4 | 12 | 8 3/4 | 5 1/2 |
| Terms of trade (deterioration -) | -5 1/4 | -3 | -6 | 1 1/4 | -- |
| Nominal effective exchange rate (depreciation -) | -21 | -25 | -22 1/2 | ... | ... |
| Real effective exchange rate (depreciation -) | -8 | -11 3/4 | -1 3/4 | ... | ... |
| **Government budget 2/** | | | | | |
| Revenue, excluding grants | 53 | 28 1/2 | 26 1/4 | 29 1/2 3/ | 40 1/2 |
| Total expenditures | 40 | 25 3/4 | 34 | 24 1/2 3/ | 30 |
| **Money and credit** | | | | | |
| Domestic credit 4/ | 34 1/4 | 12 1/4 | 26 1/4 | 23 | 21 |
| Public sector (net) | 30 3/4 | 10 | 8 1/2 | 15 3/4 | 16 3/4 |
| Private sector | 39 1/2 | 15 1/4 | 53 | 30 1/2 | 25 1/2 |
| Broad money (M2) | 72 1/2 | 69 3/4 | 37 3/4 | 31 1/2 | 42 1/4 |
| Velocity (GNP relative to $M_2$) | -14 1/4 | -21 1/2 | -4 1/2 | 2 1/2 | 3 1/2 5/ |
| Interest rate on time deposits 6/ | 37 1/2 | 37 1/2 | 30 | 37 | 44 1/2 |
| | | | (In percent of GNP) | | |
| Public sector borrowing balance | 8 1/2 | 7 | 9 | 3 1/2 3/ | 5 3/4 5/ |
| Central government budget balance | 2 3/4 | -2 | -3 1/4 | 1/4 3/ | -1 1/2 5/ |
| Central government cash balance | -1 1/4 | -2 1/2 | -2 | 1/4 3/ | -1 5/ |
| Domestic financing | 1/2 | -1/4 | 1/4 | 1 1/4 3/ | -- |
| Foreign financing | 3/4 | 2 3/4 | 2 | -1 1/2 3/ | 1 1/4 5/ |
| Financing requirement of SEEs | 9 1/2 | 7 1/4 | 8 1/2 | 6 | 6 5/ |
| Gross domestic investment | 21 3/4 | 20 1/2 | 20 3/4 | 20 1/2 | 19 3/4 5/ |
| Gross domestic savings | 16 3/4 | 17 1/2 | 16 1/2 | 18 1/2 | 17 1/4 5/ |
| External current account deficit | 4 | 2 1/4 | 4 1/4 | 2 1/4 | 3 |
| External debt, at year-end | 28 1/2 | 33 | 35 3/4 | 44 1/2 | 43 |
| Debt service ratio 7/ (in percent of foreign exchange earnings) | 23 1/2 | 26 3/4 | 31 3/4 | 28 3/4 | 30 |
| Interest payments 7/ (in percent of foreign exchange earnings) | 15 | 16 | 16 3/4 | 13 1/2 | 14 |
| | | | (In millions of SDRs, unless otherwise specified) | | |
| Overall balance of payments | -55 | 251 | -132 | 633 | 650 |
| Gross official reserves (weeks of imports) | 8 | 6 | 6 | 9 | 6 |
| External payments arrears, at year-end | 320 | -- | -- | -- | -- |

Sources: Turkish authorities; IMF Executive Board papers; and staff estimates.

1/ Official forecast. In the staff view, this underestimates the likely increase in the deflator. Since the official figure has been used to calculate the ratios to GNP for 1984 given below, the latter are probably higher than they should be. The calculation of velocity would be affected in the opposite direction.
2/ For 1981, fiscal-year data (March-February); for 1982, these data refer to the ten-month period March-December scaled up by 1.2; and for 1983 and 1984, calendar year.
3/ Fiscal data appearing in EBS/84/42 are not strictly comparable due to the reclassification of certain items.
4/ December over December of previous year; refers to domestic credit of Central Bank.
5/ See footnote 1.
6/ Average effective interest rate on 6-month deposits.
7/ After debt relief.

Table 2. Turkey: National Expenditure and Production

| | Actual 1983 | Actual 1980 | Actual 1981 | Actual 1982 | Revised Estimate 1983 | Projection in EBS/84/42 1984 | Revised Forecast 2/ 1984 |
|---|---|---|---|---|---|---|---|
| | (In billions of liras; at current prices) | (Percentage change in volume from preceding year) | | | | | |
| Consumption | 9,585.1 | -3.4 | 0.6 | 3.9 | 4.3 | 3.9 | 5.0 |
| Public | 1,157.0 | 8.8 | 0.9 | 2.0 | 1.3 | 3.9 | ... |
| Private | 8,428.1 | -5.1 | 0.6 | 4.2 | 4.7 | 4.0 | ... |
| Fixed investment | 2,179.4 | -10.0 | 1.7 | 3.5 | 2.9 | 5.0 | 6.5 |
| Public | 1,314.4 | -3.7 | 9.4 | 2.2 | 1.7 | 4.5 | ... |
| Private | 865.0 | -17.3 | -8.7 | 5.5 | 4.8 | 5.7 | ... |
| Stockbuilding 1/ | 196.1 | (3.9) | (0.8) | (-1.0) | (0.3) | (-0.2) | (-0.2) |
| Total domestic demand | 11,960.6 | -1.2 | 1.6 | 2.8 | 4.3 | 3.5 | 4.7 |
| Foreign balance 1/ | 475.6 | (0.2) | (2.5) | (1.7) | (-1.2) | (1.0) | (1.0) |
| GNP | 11,485.0 | -1.1 | 4.1 | 4.6 | 3.2 | 4.5 | 5.7 |
| | (Share of GNP, in percent) | | | | | | |
| Agriculture | 17.9 | 1.7 | 0.1 | 6.4 | -0.3 | 3.5 | 3.5 |
| Industry | 27.0 | -5.9 | 7.6 | 4.6 | 7.6 | 6.6 | 8.6 |
| Construction | 3.9 | 0.8 | 0.4 | 0.5 | 0.6 | ) | 0.2 |
| | | | | | | ) 3.5 | |
| Services | 45.1 | -0.3 | 5.4 | 3.6 | 4.4 | ) | 5.6 |
| GDP at factor cost | 93.9 | -1.0 | 4.7 | 4.3 | 3.8 | 4.4 | 5.6 |
| GNP at market prices | 100.0 | -1.1 | 4.1 | 4.6 | 3.2 | 4.5 | 5.7 |

Sources: State Planning Organization; and IMF staff estimates.

1/ Contribution, in percentage points, to growth in GNP.
2/ Revised forecast of expenditure made by staff assuming unchanged foreign balance and stockbuilding contributions and proportional increase of remaining components.

Table 3. Turkey: Price Developments

(Percent change over average for corresponding period of preceding year)

| | Wholesale Prices 1/ | Consumer Prices 2/ General | Consumer Prices 2/ Istanbul | Implicit GNP Deflator |
|---|---|---|---|---|
| 1978 | 52.6 | ... | 45.3 | 43.7 |
| 1979 | 63.9 | ... | 58.7 | 71.1 |
| 1980 | 107.2 | ... | 110.2 | 103.8 |
| 1981 | 36.8 | ... | 36.6 | 41.9 |
| 1982 | 27.0 | ... | 30.9 | 27.4 |
| 1983 | 30.5 | 31.4 | 32.5 | 27.4 |
| 1984 Current forecast | 48.4 | ... | ... | 39.4 |
| 1982 Q1 | 26.1 | ... | 31.2 | ... |
| Q2 | 30.2 | ... | 34.4 | ... |
| Q3 | 24.7 | ... | 27.6 | ... |
| Q4 | 22.4 | ... | 30.5 | ... |
| 1983 Q1 | 30.6 | 29.0 | 30.5 | ... |
| Q2 | 28.2 | 29.7 | 29.3 | ... |
| Q3 | 27.3 | 30.5 | 31.4 | ... |
| Q4 | 35.0 | 35.8 | 38.2 | ... |
| 1984 Q1 | 34.4 | 35.7 | 37.7 2/ | ... |
| Q2 | 52.3 | 49.0 | ... | ... |

Sources: Turkish authorities; and IMF staff estimates.

1/ Shows the Under Secretariat of the Treasury and Foreign Trade WPI annual figures for 1978-81 and quarterly figures for 1982; the later figures relate to the new State Institute of Statistics, WPI.
2/ State Institute of Statistics (new index 1978-79 = 100), except for Istanbul's figures up to 1982.

Table 4. Turkey: Balance of Payments, 1981-84

(In millions of U.S. Dollars)

| | 1981 | 1982 | 1983 | Projection EBS/84/42 | Current Projection |
|---|---|---|---|---|---|
| | | | | 1984 | |
| Trade balance | -4,230 | -3,097 | -3,507 | -2,900 | 2,750 |
| Exports, f.o.b. | 4,703 | 5,746 | 5,728 | 6,800 | 7,000 |
| Imports, c.i.f. 1/ | -8,933 | -8,843 | -9,235 | 9,700 | 9,750 |
| Balance on services and transfers | 1,888 | 1,844 | 1,314 | 1,890 | 1,500 |
| Workers' remittances | 2,490 | 2,187 | 1,554 | 1,900 | 1,620 |
| Interest payment (before debt relief) | -1,443 | -1,565 | -1,512 | -1,350 | -1,400 |
| Tourism | 277 | 262 | 284 | 325 | 310 |
| Other services and transfers (net) | 564 | 961 | 988 | 1,015 | 970 |
| Current balance | -2,324 | -1,252 | -2,193 | -1,010 | -1,250 |
| Capital account (long- and medium-term) | 1,196 | 1,119 | 602 | 825 | 919 |
| Project and suppliers' credits | 642 | 754 | 508 | 900 | 775 |
| Program loans | 480 | 495 | 326 | 350 | 575 |
| Private foreign capital 2/ | 129 | 90 | 143 | 175 | 175 |
| Petroleum loans | -- | 25 | -- | -- | -- |
| Loans from banks | -35 | 20 | 365 | 500 | 575 |
| Eurocurrency loans | (--) | (45) | (285) | (500) | (575) |
| Other | (-35) | (-25) | (-80) | (--) | (--) |
| Special assistance under the auspices of the OECD | 315 | 487 | 283 | 200 | 175 |
| Debt repayments (before debt relief) | -1,185 | -1,502 | -2,023 | -1,880 | -1,936 |
| Debt relief | 850 | 750 | 1,000 | 580 | 580 |
| Principal | (600) | (650) | (930) | (580) | (580) |
| Interest | (250) | (100) | (70) | (--) | (--) |
| Short-term credits, errors and omissions 1/ | 1,057 | 410 | 1,450 | 850 | 950 |
| Of which: Dresdner Bank deposits | 108 | 344 | 433 | 400 | 600 |
| SDR allocations | 24 | -- | -- | -- | -- |
| Overall balance | -65 | 277 | -141 | 665 | 619 |
| Financing | 65 | -277 | 141 | -665 | -619 |
| Net use of Fund resources | 335 | 205 | 193 | -45 | -44 |
| Increase in net official reserves other than arrears and IMF (-) | -270 | -482 | -52 | -620 | -575 |
| Memorandum items: | | | | | |
| Current account balance adjusted for c.i.f. element paid to Turkish carriers | -2,124 | -1,002 | -1,943 | -710 | -950 |
| Current account balance in percent of GNP | -3.9 | -2.3 | -4.3 | -2.3 | -2.9 |

Sources: Turkish authorities; and Fund staff estimates.

1/ Includes c.i.f. element paid to Turkish carriers.
2/ Includes imports with waiver.

Table 5. Turkey: Foreign Trade

| | 1981 | 1982 | 1983 | Projection 1984 |
|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | |
| Exports, f.o.b. | 4,703 | 5,746 | 5,728 | 7,000 |
| Imports, c.i.f. | 8,933 | 8,843 | 9,235 | 9,750 |
| Oil and oil products | 3,871 | 3,748 | 3,665 | 3,590 |
| Non-oil | 5,062 | 5,094 | 5,570 | 6,160 |
| | (Percent change from previous year) | | | |
| Total exports | | | | |
| Value | 61.6 | 22.2 | 0.3 | 22.2 |
| Price | -4.2 | -1.5 | -12.5 | -- |
| Volume | 68.7 | 24.0 | 13.4 | 22.2 |
| Total imports | | | | |
| Value | 12.9 | -1.0 | 4.4 | 5.6 |
| Price | 1.2 | -0.9 | -6.8 | -- |
| Volume | 11.6 | -0.1 | 12.0 | 5.6 |
| Oil imports | | | | |
| Value | 0.4 | -3.2 | -2.2 | -1.9 |
| Price | 14.6 | -9.6 | -10.6 | -4.0 |
| Volume | -12.4 | 7.1 | 9.4 | 2.0 |
| Non-oil imports | | | | |
| Value | 24.9 | 0.7 | 9.3 | 10.6 |
| Price | -10.9 | 5.4 | -4.0 | 2.4 |
| Volume | 40.2 | -4.4 | 13.9 | 7.9 |
| Terms of trade | -5.3 | -0.6 | -6.1 | -- |

Source: State Planning Organization.

Table 6. Turkey: Outstanding External Disbursed Debt, 1979-83

(In millions of U.S. dollars: end of period)

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| | | | (By maturity) | | |
| Total outstanding disbursed debt 1/ | 14,234 | 16,227 | 16,841 | 17,720 | 18,343 |
| Medium- and long-term | 10,638 | 13,722 | 14,667 | 15,474 | 15,454 |
| Short-term | 3,596 | 2,505 | 2,174 | 2,164 | 2,889 |
| | | | (By borrower) | | |
| Medium- and long-term | | | | | |
| Government 1/ (including SEEs) | 7,047 | 10,197 | 11,199 | 12,170 | 12,126 |
| Central Bank | 3,232 | 3,307 | 3,227 | 3,074 | 3,070 |
| Private sector | 359 | 218 | 241 | 230 | 258 |
| Short-term | | | | | |
| Government (including SEEs) | 40 | 25 | 63 | 73 | 20 |
| Central Bank | 1,104 | 1,448 | 1,154 | 1,031 | 1,499 |
| Private sector | 2,452 | 1,032 | 957 | 1,060 | 1,370 |
| | | | (By lender) | | |
| Medium- and long-term | | | | | |
| Multilateral agencies | 2,445 | 3,242 | 3,857 | 4,550 | 4,952 |
| IMF | 630 | 1,054 | 1,322 | 1,455 | 1,572 |
| IBRD, IDA, IFC | 1,180 | 1,438 | 1,783 | 2,115 | 2,488 |
| European Investment Bank | 471 | 447 | 427 | 420 | 393 |
| European Resettlement Fund | 148 | 253 | 287 | 384 | 399 |
| Islamic Development Bank | 16 | 35 | 23 | 117 | 42 |
| OPEC Fund | -- | 15 | 15 | 40 | 40 |
| Int. Fund for Agric. Development | -- | -- | -- | 19 | 18 |
| Bilateral lenders | 4,370 | 6,026 | 6,712 | 7,115 | 6,566 |
| OECD countries | 3,976 | 5,253 | 5,901 | 6,146 | 5,613 |
| OPEC countries | 55 | 392 | 449 | 587 | 535 |
| Other countries | 339 | 381 | 362 | 382 | 418 |
| Commercial banks | 3,464 | 3,436 | 3,257 | 3,229 | 3,362 |
| Private lenders | 359 | 1,018 | 841 | 580 | 608 |
| Short-term | | | | | |
| Islamic Development Bank | 40 | 25 | 63 | 73 | 20 |
| Bilateral lenders | 308 | 620 | 459 | 68 | 14 |
| Commercial banks 2/ | 575 | 608 | 407 | 335 | 588 |
| Private lenders 2/ | 2,673 | 1,252 | 1,245 | 1,688 | 2,267 |
| Of which: deposits of citizens abroad 3/ | (961) | (908) | (946) | (1,402) | (1,898) |
| | | | (By type of credit) | | |
| Medium- and long-term | | | | | |
| Project and program credits | 6,815 | 9,268 | 10,569 | 11,665 | 11,484 |
| Eurocurrency loans | 659 | 763 | 651 | 720 | 1,002 |
| Rescheduled debt | | | | | |
| Convertible Turkish lira deposits | 2,269 | 2,137 | 2,077 | 1,996 | 1,886 |
| Bankers' credits | 429 | 429 | 429 | 429 | 429 |
| Third party reimbursement claims | 107 | 107 | 100 | 84 | 45 |
| Suppliers' arrears (NGTAs) | -- | 800 | 600 | 350 | 350 |
| Private credits | 359 | 218 | 241 | 230 | 258 |
| Short-term | | | | | |
| Public sector | | | | | |
| Bankers' credits | 18 | 10 | -- | -- | 2 |
| Third party reimbursement claims | -- | -- | -- | -- | -- |
| Overdrafts | 244 | 254 | 69 | 48 | 164 |
| Dresdner Bank program | 344 | 365 | 473 | 817 | 1,251 |
| Petroleum credits | 308 | 620 | 459 | 68 | 14 |
| Other 4/ | 230 | 224 | 216 5/ | 171 | 88 |
| Private sector | | | | | |
| Convertible Turkish lira deposits | 617 | 543 | 473 | 585 | 647 |
| Acceptance credits | 435 | 377 | 230 | 276 | 318 |
| Pre-export financing | -- | 112 | 254 | 199 | 254 |
| Suppliers' arrears (NGTAs) | 1,400 | -- | -- | -- | -- |
| | | | (In percent) | | |
| Memorandum item: | | | | | |
| Ratio of total outstanding debt to GNP | | | | | |
| Including IMF | 20.1 | 27.8 | 28.6 | 33.1 | 36.0 |
| Excluding IMF | 19.2 | 26.0 | 26.3 | 30.4 | 32.9 |

Source: Data provided by the Turkish authorities.

1/ Includes purchases from IMF.
2/ Includes acceptance credits and pre-export financing, which are estimated to be distributed equally between commercial banks and private lenders.
3/ Dresdner Bank program and convertible Turkish lira deposits.
4/ Includes short-term credits from Islamic Development Bank.
5/ Includes pre-export financing of $38 million.

Table 7. Turkey: Projected Debt Service Payments on Existing Medium- and Long-Term Debt, 1983-88 1/

(In millions of U.S. dollars)

| | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| International organizations, excluding IMF | 435 | 492 | 582 | 662 | 676 |
| Principal | 205 | 261 | 313 | 364 | 404 |
| Interest | 230 | 231 | 269 | 298 | 272 |
| Bilateral lenders | | | | | |
| OECD countries | 837 | 825 | 756 | 691 | 612 |
| Principal | 601 | 624 | 585 | 548 | 496 |
| Interest | 236 | 201 | 171 | 143 | 116 |
| Other countries | 163 | 123 | 141 | 145 | 136 |
| Principal | 119 | 81 | 105 | 116 | 112 |
| Interest | 44 | 42 | 36 | 29 | 24 |
| Commercial banks | 734 | 1,093 | 914 | 849 | 849 |
| Principal | 380 | 787 | 679 | 679 | 746 |
| Interest | 354 | 306 | 235 | 170 | 103 |
| Private sector | 81 | 138 | 106 | 92 | 81 |
| Principal | 51 | 109 | 85 | 76 | 69 |
| Interest | 30 | 29 | 21 | 16 | 12 |
| Debt service payments, excluding IMF | 2,250 | 2,671 | 2,499 | 2,439 | 2,354 |
| Principal | 1,356 | 1,862 | 1,767 | 1,783 | 1,827 |
| Interest | 894 | 809 | 732 | 656 | 527 |
| IMF 2/ | 395 | 423 | 465 | 444 | 402 |
| Repurchases | 221 | 263 | 336 | 361 | 358 |
| Charges | 174 | 160 | 129 | 83 | 44 |
| Debt service payments, including IMF | 2,645 | 3,094 | 2,964 | 2,883 | 2,756 |
| Principal | 1,577 | 2,125 | 2,103 | 2,144 | 2,185 |
| Interest | 1,068 | 969 | 861 | 739 | 571 |
| Memorandum item: | | | | | |
| Debt relief | 580 | 150 | -- | -- | -- |
| Principal | 580 | 150 | -- | -- | -- |
| Interest | -- | -- | -- | -- | -- |

Sources: Data provided by the Turkish authorities; and Fund staff estimates.

1/ Projections are based on disbursed and undisbursed external debt as of December 31, 1983.

2/ Based on purchases outstanding as of December 31, 1983 and on the assumption that all purchases will be made under the current stand-by arrangement.

Table 8. Turkey: Selected Interest Rates

(In percent per annum)

| | End-Dec. 1981 | End-Dec. 1982 | Jan. 1 1983 | July 1 1983 | Jan. 1 1984 | Sept. 1 1984 |
|---|---|---|---|---|---|---|
| Central Bank | | | | | | |
| Interest on required reserves | | | | | | |
| Sight deposits | 20 | 12 | 18 | 18 | 6 | 6 |
| Time deposits | 26 | 18 | 18 | 18 | 39.6 | 39.6 |
| Discounts and advances | | | | | | |
| Short-term rates | | | | | | |
| General | 31.5 | 31.5 | 31.5 | 28 | 48.5 | 52 |
| Agriculture | 20 | 18 | 18 | 18 | 25 | 25 |
| Exports | 27 | 31.5 | 31.5 | 26.5-30 | 35 | 45 |
| Long-term rate | | | | | | |
| General | 31.5 | 33 | 33 | 29.5 | 50.5 | 52 |
| Commercial banks | | | | | | |
| Deposit rates | | | | | | |
| Personal sight deposits | 5 | 5 | 20 | 20 | 5 | 5 |
| Time deposits, 3 months | 45 | 45 | -- | -- | 49 | 53 |
| Time deposits, 6 months | 50 | 50 | 40 | 35 | 47 | 52 |
| Time deposits, 12 months | 50 | 50 | 45 | 40 | 45 | 45 |
| "Scheduled" lending rates | | | | | | |
| Short-term rates | | | | | | |
| General | 36 | 36 | 36 | 32 | 50 | 55-62 |
| Agriculture | 22 | 20 | 20 | 20 | 27.5 | 28 |
| Exports | 27 | 31.5 | 31.5 | 26.5-30 | 35 | 42-49 |
| Long-term rates | | | | | | |
| General | 41 | 41 | 41 | 34 | 52 | 58-62 |
| Agriculture | 24 | 22 | 22 | 22 | 28 | 28 |
| Memorandum item: | | | | | | |
| Effective 6-month deposit rate 1/ | 37.5 | 37.5 | 32 | 28 | 42.3 | 46.8 |

Source: Central Bank of Turkey.

1/ After deduction of withholding tax.

Table 9. Turkey: Monetary Developments and Program

| | December 1982 | December 1983 | 1984 Program: March EBS/84/42 | March Actual | June EBS/84/42 1/ | June Actual | Proposed for second half: September | December |
|---|---|---|---|---|---|---|---|---|
| | *(In billions of Turkish liras at end of period)* | | | | | | | |
| Expanded broad money (M2X), estimate | ... | 3,030 | ... | 3,555 | ... | 3,977 | 4,279 | 4,681 |
| Broad money (M2) | 2,306 | 3,018 | 3,280 | 3,475 | 3,447 | 3,857 | 4,104 | 4,471 |
| Reserve money | 943 | 1,282 | 1,396 | 1,418 | 1,467 | 1,603 | 1,675 | 1,825 |
| Net foreign assets | -39 | -43 | -24 | 21 | -8 | 106 | 115 | 185 |
| Net domestic assets | 982 | 1,325 | 1,420 | 1,406 | 1,475 | 1,498 | 1,560 | 1,640 |
| Credit to public sector, net | 585 | 634 | 680 | 634 | 696 | 672 | 710 | 740 |
| Credit to private sector | 395 | 604 | 653 | 612 | 692 | 683 | 708 | 758 |
| Other items, net | 2 | 87 | 87 | 161 | 87 | 142 | 142 | 142 |
| | *(Percent change from corresponding period of previous year)* | | | | | | | |
| Broad money (M2) | 62 | 31 | 30 1/2 | 38 | 30 | 45 | 44 | 48 |
| Reserve money | 47 | 36 | 31 | 34 | 30 1/2 | 42 1/2 | 41 1/2 | 42 1/4 |
| Memorandum item: | | | | | | | | |
| Reserve money multiplier 2/ | 2.45 | 2.35 | 2.35 | 2.43 | 2.35 | 2.41 | 2.45 | 2.45 |

Sources: Central Bank of Turkey; and Fund staff estimates.

1/ See revised performance criteria in Supplement 2 (3/29/84).
2/ Calculated with respect to M2.

Table 10. Turkey: Consolidated Central Government Budget 1/

(In billions of Turkish liras)

| | 1980 | 1981 | 1982 | 1983 | Projection 1984 |
|---|---|---|---|---|---|
| Revenues | 838 | 1,329 | 1,424 | 2,156 | 3,028 |
| Direct taxes | 471 | 768 | 826 | 1,149 | 1,485 |
| Indirect taxes | 279 | 422 | 479 | 784 | 1,028 |
| Nontax revenues | 88 | 139 | 119 | 223 | 515 |
| Expenditures | 1,073 | 1,503 | 1,575 | 2,533 | 3,290 |
| Personnel | 321 | 390 | 440 | 667 | 855 |
| Other current | 176 | 255 | 280 | 390 | 475 |
| Interest payments | 28 | 67 | 77 | 180 | 355 |
| Of which: | | | | | |
| Foreign borrowing | (9) | (34) | (53) | (130) | (215) |
| Domestic borrowing | (19) | (33) | (24) | (50) | (140) |
| Investment | 170 | 310 | 344 | 463 | 630 |
| Transfers to SEEs | 213 | 214 | 233 | 292 | 300 |
| Other transfers | 165 | 267 | 201 | 541 | 675 |
| Budget balance | -235 | -174 | -151 | -377 | -262 |
| Increase in accounts payable, net | 15 | 87 | -30 | 131 | 70 |
| Cash balance | -220 | -87 | -181 | -246 | -192 |
| Financing | 220 | -87 | 181 | 246 | 192 |
| Foreign borrowing, net | 74 | 41 | -18 | 26 | -15 |
| Receipts from loans | 81 | 63 | 36 | 177 | 235 |
| Payments on loans | -7 | -22 | -54 | -151 | -250 |
| Central Bank, net | 103 | 39 | 32 | 72 | 100 |
| Domestic borrowing, net | 48 | 88 | 130 | 109 | 136 |
| Receipts from loans | 78 | 115 | 164 | 139 | 206 |
| Payments on loans | -30 | -27 | -34 | -30 | -70 |
| Others | -5 | -81 | 37 | 39 | -28 |
| Memorandum items (in percent of GNP): | | | | | |
| Revenues | 18.9 | 20.3 | 19.6 2/ | 18.8 | 17.9 |
| Of which: | | | | | |
| Tax revenues | (16.0) | (18.2) | (17.9) 2/ | (16.8) | (14.9) |
| Expenditures | 24.2 | 22.9 | 21.6 2/ | 22.1 | 19.4 |
| Of which: | | | | | |
| Transfers to SEEs | (4.8) | (3.3) | (3.2) 2/ | (2.5) | (1.8) |
| Budget balance | -5.3 | -2.7 | -2.1 2/ | -3.3 | -1.6 |
| Cash balance | -5.0 | -1.3 | -2.5 2/ | -2.1 | -1.1 |

1/ For 1980 and 1981, fiscal year data; for 1982, the data refers to the ten-month period March-December, only; for 1983 and 1984, calendar year.
2/ For comparative purposes, the ten-month fiscal data have been multiplied by 1.2.

Table 11. Turkey: Operations of the State Economic Enterprises

| | 1980 | 1981 | 1982 | 1983 | Projection 1984 1/ |
|---|---|---|---|---|---|
| | (In billions of Turkish liras) | | | | |
| Sales revenue | 1,146 | 1,767 | 2,650 | 3,568 | 5,618 |
| Current expenditures | 1,184 | 1,800 | 2,640 | 3,717 | 5,619 |
| Wages and salaries | 238 | 314 | 370 | 464 | 697 |
| Purchases of goods and services | 898 | 1,390 | 2,135 | 2,981 | 4,633 |
| Taxes | 15 | 41 | 57 | 117 | 118 |
| Other | 33 | 55 | 78 | 155 | 171 |
| Profit on current operations | -38 | -33 | 10 | -149 | -- |
| Capital expenditures | 459 | 616 | 684 | 943 | 1,189 |
| Fixed investment | 281 | 406 | 533 | 772 | 961 |
| Increases in stocks | 178 | 210 | 151 | 171 | 228 |
| Depreciation | 23 | 28 | 48 | 131 | 163 |
| Overall surplus | -474 | -621 | -626 | -961 | -1,026 |
| Total financing | 474 | 621 | 626 | 961 | 1,026 |
| Budgetary transfers | 149 | 241 | 205 | 292 | 300 |
| Transfers from price stabilization fund | 30 | 74 | 76 | 108 | 120 |
| Borrowing from Central Bank | 50 | 32 | 31 | -6 | -- |
| State Investment Bank | 16 | 16 | 59 | 22 | 20 |
| Foreign borrowing 2/ | 67 | 122 | 104 | 314 | 296 |
| Short-term borrowing | 161 | 136 | 151 | 231 | 291 |
| Memorandum items: | | | | | |
| Duty losses | 75 | 110 | 107 | 188 | 219 |
| Profit on current operations after compensation for duty losses | 37 | 78 | 117 | 39 | 219 |
| | (In percent of GNP) | | | | |
| Profit on current operations | -0.9 | -0.5 | 0.1 | -1.3 | -- |
| Profit on current operations after compensation for duty losses | 0.8 | 1.2 | 1.3 | 0.3 | 1.3 |
| Total investment | 10.3 | 9.4 | 7.8 | 8.2 | 7.0 |
| Fixed investment | 6.3 | 6.2 | 6.1 | 6.7 | 5.7 |
| Overall surplus | -10.7 | -9.5 | -7.2 | -8.4 | -6.1 |

Sources: Turkish authorities; and staff estimates.

1/ Four government enterprises that had been classified as decentralized government agencies prior to 1984 have been classified as SEEs in 1984.
2/ Including lira counterpart of IBRD structural adjustment loans.
3/ Imputed duty losses resulting from the retention of price controls by the Government for social reasons. Actual compensation for duty losses from the budget may differ from imputed duty losses.

Table 12. Turkey: Quantitative Performance Criteria

| | Net Domestic Assets of the Central Bank | | Net Central Bank Credit to the Public Sector | |
|---|---|---|---|---|
| | (In billions of Turkish liras) | | | |
| | Limit | Actual | Limit | Actual |
| A. Credit ceilings | | | | |
| 1984 January-March 1/ | 1,400 | 1,392 | 675 | 632 |
| March 2/ | 1,420 | 1,406 | 680 | 621 |
| April-June 1/ | 1,459 | 1,447 | 685 | 655 |
| June 2/ | 1,489 | 1,470 | 696 | 649 |
| July-September 1/ | 1,512 | | 693 | |
| September 2/ | 1,560 | | 710 | |
| October-December 1/ | 1,627 | | 736 | |
| December 2/ | 1,640 | | 740 | |
| | | Limit | | |
| B. Budgetary transfers to SEEs | | | | |
| 1984 January-December | | 330 | | |
| | | Limit | | |
| | (In billions of U.S. dollars) | | | |
| C. Contracting of new nonconcessional public and publicly guaranteed foreign borrowing with a maturity range of more than 1 year and up to and including 12 years | | | | |
| 1984 January-December | | 1.5 | | |
| D. Increase in outstanding foreign borrowing of the nonfinancial public sector and banking sector of up to and including one year | | | | |
| 1984 January-December | | 0.9 | | |

Source: IMF staff.

1/ Average of last reporting date in each month.
2/ Average of each weekly reporting date during the month.

Table 13. Turkey: Synthesis of Main Program Relationships and Assumptions

| | Revised Outcome 1983 | EBS/84/42 Projection 1984 | Current Projection 1984 |
|---|---|---|---|
| | (In millions of U.S. dollars) | | |
| Increase in foreign reserves (-) | -52 | -620 | -575 |
| Net purchases from IMF | 193 | -45 | -44 |
| Overall external deficit (+) | 141 | -665 | -619 |
| Plus capital inflows | 2,052 | 1,675 | 1,869 |
| Current account deficit (+) | 2,193 | 1,010 | 1,250 |
| Plus exports | 5,728 | 6,800 | 7,000 |
| Plus net invisibles | 1,314 | 1,890 | 1,500 |
| Program imports | 9,235 | 9,700 | 9,750 |
| | (Annual percentage change, unless otherwise indicated) | | |
| Value of imports | 4 1/2 | 7 3/4 | 5 1/2 |
| Import prices | -6 3/4 | -3/4 | -- |
| Import volume | 12 | 8 3/4 | 5 1/2 |
| Nominal GNP | 31 1/2 | 34 3/4 | 47 1/4 1/ |
| Real GNP | 3 1/4 | 4 1/2 | 5 3/4 |
| GNP deflator | 27 1/2 | 29 | 39 1/2 1/ |
| Wholesale prices | 30 1/2 | 29 | 48 1/2 |
| Velocity of M2 | -4 1/2 | 2 1/2 | 3 1/2 2/ |
| Broad money (M2) | 37 3/4 | 31 1/2 | 42 1/4 |
| Reserve money | 38 1/4 | 29 | 35 |
| Reserve money multiplier (level) | 2.40 | 2.35 | 2.43 |
| Interest rate on time deposits 3/ | 30 | 37 | 44 1/2 |
| | (In billions of Turkish liras) | | |
| Change in reserve money | 339 | 395 | 543 |
| Change in Central Bank's net foreign assets | -4 | 110 | 228 |
| Change in Central Bank's net domestic assets | 343 | 285 | 315 |

Source: Turkish authorities, and Fund staff estimates.

1/ Official forecast, which, in the staff view, understates the likely increase in the deflator.

2/ Calculated on the basis of the official GNP deflator forecast. If, instead, the projected wholesale price inflation is applied, the velocity is to increase 10 1/4 percent.

3/ Average after-tax interest rate on six-month deposits.

ATTACHMENT

September 4, 1984

Dear Mr. de Larosière:

1. Turkey's stand-by arrangement was approved on April 4, 1984. My letters of March 12 and March 28, 1984, described the economic program of Turkey and it was agreed that in the second half of 1984 Turkey would review with the Fund economic developments and progress in implementing the programs.

2. As described in the letter of March 12, 1984, there was a sharp deterioration in the current account of the balance of payments in 1983, with the deficit reaching US$2.2 billion, or 4.3 percent of GNP. Policies in 1984 were therefore directed, inter alia, at sharply reducing the deficit. Results so far this year are very encouraging. Exports for the first semester of 1984 are 32 percent higher than in the same months of 1983 and imports are 8 percent higher. Also, the sum of workers' remittances and net deposits under the Dresdner deposits scheme was higher in the first four months of 1984 than in the same months of last year. However, the continued trend for more of this total to come by way of Dresdner deposits statistically reduces the recorded improvement in the current account. On capital account, it is expected that new medium- and long-term foreign borrowing will be some US$600 million more than in 1983, reflecting our improved standing in international capital markets. Overall, the forecast result for 1984 is a balance of payments surplus in excess of US$600 million compared with a deficit of US$141 million in 1983. This would permit net repayments to the Fund and an increase of almost US$600 million in the net reserves of the banking system. Debt service remains manageable and the limits on foreign debt described in paragraph 2 of the letter of March 12, 1984, have been adhered to. The limits on short-term foreign debt in paragraph 2 of the letter of March 12, 1984 excluded normal trade credits, reserve-related foreign liabilities of the banking system, and savings schemes for workers abroad. To control short-term foreign debt more efficiently, it is considered that a wider coverage of such debt is desirable. A new limit has been set relating to all foreign borrowing of the nonfinancial public sector and banking sector up to and including one year, with the exception of liabilities relating to savings schemes for workers abroad and foreign exchange deposits, so that the increase in outstandings will not exceed US$900 million in 1984.

3. An important element in the strength of the trade account has been exchange rate policy. In order to maintain the competitive position of the Turkish economy, an active exchange rate policy has been pursued, which has prevented an erosion of the real effective exchange rate despite the increased rate of inflation in the first half of 1984. To ensure the maintenance of international competitiveness, the Central Bank of Turkey will continue to determine its buying rate daily in light of developments in the international capital markets and in domestic relative to foreign prices. If this exchange rate policy is not followed, the Government will consult with the Fund and reach such understandings as may be necessary.

4. The Government remains committed to an open external sector, which is regarded as essential for a sustained and permanent improvement in the balance of payments. The liberalization of the trade and payment system

described in the letter of March 12, 1984 has been implemented. It is our intention to continue this liberalization in 1985 but the exact scope of further action will be decided toward the end of the year when the impact of the current liberalization can be measured more exactly. However, in line with our undertaking in my letter of March 12, 1984, we intend to eliminate the system of import guarantee deposits by December 1984.

5. In the domestic sector, current trends in output suggest that real GNP will increase by 5.7 percent this year. So far, weather conditions have been favorable and the decline in real value added that occurred in the agricultural sector in 1983 should be reversed in 1984. In addition, industrial activity is expected to accelerate further. We are projecting a small increase in the growth of real consumption, which will still permit a stronger growth of real fixed investment and the planned improvement in the foreign balance.

6. An unsatisfactory feature so far in 1984 has been the trend of prices. An acceleration in the first half was to be expected, given the liquidity overhang that had been permitted to develop since mid-1983, the need for substantial increases in SEE prices to improve their profit position and movements in the exchange rate required to maintain a competitive export sector. However, the impact of these factors has been greater than had been expected and their effect has been augmented by particularly sharp increases in prices of some agricultural products. The result is that wholesale prices in July 1984 were 55 percent higher than a year earlier and the increase in consumer prices was 56 percent. (In both cases, the price increases are measured by the new indices of the State Institute of Statistics.) For the remainder of the year, an improved performance is expected, and indeed data for June and July indicate that the improvement has already begun. The factors mentioned above should be less important in the second half of the year. Prices of agricultural products should decline as the harvest is marketed, SEEs are now in a fundamentally better financial position and monetary policy has been tightened. By the end of the year, the monthly rate of price increase should decline to about 2 percent.

7. The monetary policy described in the earlier letter has been adhered to. In fact, as described below, in important respects policies have been tightened. However, the limits on net domestic assets of the Central Bank as a means of controlling the growth of final monetary aggregates, in particular M2, have not proved completely satisfactory. Reserve money has increased faster than planned because of the larger accumulation of net foreign assets by the Central Bank than had been assumed. Moreover, the reserve money multiplier with respect to M2 has increased to 2.41 at the end of June 1984, compared with the assumption of 2.35 in the program. Also, on the strength of external liberalization, commercial banks had accumulated a substantial amount of foreign exchange deposits of residents. As a result of these factors, M2 at the end of June 1984 was 45 percent greater than a year earlier compared with a program target of an increase of 30 percent, and foreign exchange deposits of residents are estimated

to have increased by about US$300 million. The large growth rate in broad money obviously helped accommodate the acceleration in the rate of inflation.

8. The Central Bank has already taken compensatory action. On May 14, 1984 interest rates on three-month and six-month deposits were increased from 49 percent and 47 percent per annum to 52 percent and 48 percent per annum, respectively. The Central Bank rediscount rate was increased by 3.5 percentage points to 52 percent for general rediscounts and by 2 percentage points to 42 percent for export credits. Advances on bonds are now charged at 50 percent per annum, compared with 22 percent per annum previously. The penalty for nonobservance of the cash reserve requirement was increased from 1.5 percent to 5.5 percent per month. In addition, the seven largest banks have agreed to invest 10 percent of the future increase in their deposits in government bonds, which will be sterilized. The latter measure should substantially decrease the growth of liquidity during the remainder of the year. Further steps have been taken since July 1, 1984, to drain liquidity from the economy. First, the liquidity requirement of the banking system has been raised from 10 percent to 15 percent. Second, the Treasury has begun the sale of six-month government bonds (bearing an average 54 percent interest yield) to commercial banks and to the nonbank public, and expects to receive LT 80 billion from these sales. Third, interest rates on six-month deposits and three-month deposits have been raised by 4 percentage points and 1 percentage point, respectively, to 52 percent and 53 percent. Fourth, steps have been taken to reduce the rate of the new lending by commercial banks. Finally, the Central Bank has reduced the exchange rate at which it will buy foreign exchange from the commercial banks to make such sales unattractive and will take further measures, if necessary, to maintain a net foreign asset position consistent with the monetary program. The Government intends to ensure through regular appraisals of economic developments that monetary policies, including interest rate policies, remain consistent with the aim of reducing the rate of inflation, maintaining a satisfactory external position and stimulating domestic savings and investment.

9. With respect to credit expansion during the remainder of the year, the Government believes that the growth of final monetary aggregates must be tightened. In the light of developments in the first five months of the year and the policy changes described above, the quarterly limits for September and December 1984, on the net domestic assets of the Central Bank annexed to the letter of March 12, 1984 have been amended. The new limits are set out in an annexed table to this letter. It is assumed in drawing up the targets that the net foreign assets of the Central Bank will now increase by about US$630 million between end-December 1983 and end-December 1984. It is also assumed that no buildup of reserve requirement deficiencies will be permitted, and that the reserve requirements of commercial banks will not be changed from existing levels of 25 percent for general deposits, 20 percent for deposits equivalent to export credits, and 15 percent for deposits equivalent to certain medium- and long-term investment credits. The reserve money multiplier with respect to M2 has been assumed to average 2.45 percent during the remainder of the year.

Finally, it is assumed that commercial banks will accumulate about US$400 million in foreign exchange deposits of residents (including workers living abroad) during 1984. If the growth of monetary aggregates or interest rates develop in a way that endangers the success of the program, the Government will consult with the Fund and reach such understandings as may be necessary.

10. The Government is determined that firm monetary control will be accompanied by tight fiscal policies. In addition to the measures described in the letter of March 12, 1984, a new purchase tax on motor vehicles is being introduced and LT 200 million of expenditure cuts have been ordered, in addition to those previously introduced. A rearrangement of budget data to reflect the normal classification of such data in Fund practice shows that as a percentage of GNP the deficit of the consolidated budget rose from 2.1 percent in 1982 to 3.3 percent in 1983. Allowing for additional appropriations required because of higher-than-expected prices and wages, the consolidated budget deficit, under the new classification, should decline to 1.5 percent of GNP in 1984. The public sector borrowing requirement as a ratio of GNP would decline to 5.8 percent of GNP compared with 9.1 percent in 1983 and 6.9 percent in 1982.

11. The Government has rigorously implemented its plan to improve the efficiency of the State Economic Enterprises and the Public Economic Enterprises and to ensure that their finances are on a sound basis. In particular, as mentioned above, very substantial readjustments were made to their prices in the first half of 1984. It was recognized that these increases would influence the rate of inflation but they were essential in light of the failure to adjust prices sufficiently earlier and to ensure that the call of the enterprises on the budget will be reduced. Despite a price level in 1984 significantly higher than envisaged when the 1984 budget was established, transfers from the budget in 1984 are expected to be kept below the agreed limit of LT 330 billion.

12. The Government of Turkey believes that the policies set forth above are adequate to achieve the objectives of the program but will take any measures that may become appropriate for this purpose. The Turkish authorities will remain in close contact with the Fund staff on developments and progress in implementing these policies. In addition, Turkey will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund in such consultations.

Yours sincerely,

Kaya Erdem
Minister of State and
Deputy Prime Minister

## Turkey: Fund Relations

(As of September 30, 1984, unless otherwise
July 31, 1984, indicated for specific items)

I. Membership Status

(a) Date of membership: March 11, 1947

(b) Status: Article XIV

### (A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 429.1 million

(b) Total Fund holdings of Turkish liras: SDR 1,848.52 million (430.8 percent of quota)

(c) Fund credit: SDR 1,451.69 million (338.3 percent of quota)
Of which: Under tranche policies: SDR 1,424.83 million (332.04 percent of quota)
CFF: SDR 26.86 million (6.3 percent of quota)

(d) Reserve tranche position: SDR 32.28 million

III. Current Stand-By

(a) Current stand-by
(i) Duration: from April 4, 1984 to April 3, 1985.
(ii) Amount: SDR 225 million
(iii) Utilization: SDR 112.50 million
(iv) Undrawn balance: SDR 112.50 million

(b) Previous stand-by arrangements approved during the last ten years:
(i) Two-year stand-by arrangement in the amount of SDR 300 million approved on April 24, 1978. Utilization: SDR 90 million; cancelled on July 19, 1979.
(ii) One-year stand-by arrangement in the amount of SDR 250 million approved on July 19, 1979. Utilization: SDR 230 million; cancelled on June 17, 1980.
(iii) Three-year stand-by arrangement in the amount of SDR 1,250 million approved on June 18, 1980. Fully disbursed; completed as planned.
(iv) One-year stand-by arrangement in the amount of SDR 225 million approved on June 24, 1983. Utilization: SDR 56.25 million; cancelled on April 4, 1984.

IV. SDR Department

(a) Net cumulative allocation: SDR 112.3 million (as of July 31, 1984).

(b) Holdings: SDR 6.40 million.

(B) Nonfinancial Relations

V. Exchange rate arrangement: flexibly managed floating exchange rate. Unapproved exchange practices subject to Article VIII, Sections 2 and 3: bilateral payments agreement with Iran.

VI. Last Article IV consultation was discussed by the Board on June 24, 1983 (EBS/83/98); the Board discussed and approved the current stand-by arrangement on April 4, 1984 and approved a waiver of Article V, Section 3(b)(iii). Turkey is on the 12-month consultation cycle.

VII. Technical assistance:

CBD: An advisor provided since July 1983 for one year to assist in the development of an external debt management system in cooperation with the World Bank. His term has been extended for one year. A second advisor was made available for three months to provide statistical support in the same area.

Table 14. Turkey: Fund Position During Period of Arrangement

| | Estimated outstanding on September 31, 1984 | Oct.-Dec. 1984 | Jan.-Mar. 1985 |
|---|---|---|---|
| | (In millions of SDRs) | | |
| Transactions under tranche policies (net) 1/ | | 6.99 | -6.99 |
| Purchases | | 56.25 | 56.25 |
| Ordinary resources | | (56.25) | (56.25) |
| Borrowed resources | | (--) | (--) |
| Repurchases | | 49.26 | 63.24 |
| Ordinary resources | | (13.75) | (13.75) |
| Supplementary finance resources | | (35.52) | (49.49) |
| Transactions under special facilities (net) 2/ | | -8.95 | -8.95 |
| Purchases | | -- | -- |
| Repurchases | | 8.95 | 8.95 |
| Total Fund credit outstanding (end of period) | 1,460.41 | 1,458.45 | 1,442.50 |
| Under tranche policies 1/ | 1,442.50 | 1,449.49 | 1,442.50 |
| Special facilities 2/ | 17.91 | 8.96 | -- |
| | (As percent of quota) | | |
| Total Fund credit outstanding (end of period) | 340.3 | 339.9 | 336.2 |
| Under tranche policies 1/ | 336.1 | 337.8 | 336.2 |
| Special facilities 2/ | 4.2 | 2.1 | -- |

Source: International Monetary Fund.

1/ Ordinary and borrowed resources.
2/ Compensatory financing facility.

## Medium-Term Scenario for External Debt and the Balance of Payments

### 1. The Five-Year Development Plan

The principal goals of the 1985-89 Five-Year Plan are economic growth and stability that will permit a fuller utilization of domestic human and material resources. Acceleration of annual real GNP growth to 7 percent by 1989, after averaging 6.3 percent over the plan period, is expected to lead to reductions in the unemployment rate to less than 14 percent (from an estimated 16.5 percent rate at present) and in the rate of inflation to 10 percent by the end of the period. As shown in Table 1, the most dynamic component of aggregate demand is fixed capital formation, especially in the private sector, which is to rise on average 10.8 percent yearly--equivalent to more than twice the estimated 1983-84 annual average increase. The external sector is to make a very small net contribution to output growth.

The medium-term scenario for external debt and payments that emerges from the plan provides for a continued current account deficit of about US$1.4 billion yearly. Underlying the external imbalance is a primarily supply-determined real export growth rate that rises from 9.5 percent in 1985 to 12.1 percent in 1989, an apparent constant output elasticity of import demand of 1.3, a moderate deterioration in the terms of trade, and a rise in invisible receipts (including workers' remittances) slightly above the assumed world rate of inflation.

The current account deficit, debt service obligations, plus the targeted accumulation of foreign exchange reserves (US$0.8 billion between the end of 1983 and the end of 1989) are assumed to be financed partly with new medium- and long-term borrowing of about US$2-2.5 billion yearly, about two thirds of which from official sources--including project-related credits from all sources. These capital inflows are to be supplemented with a tripling of foreign direct investment (from a rather modest level of US$0.1 billion in the current year) over the plan period and with net short-term credits of up to US$1.1 billion yearly--close to one half in the form of Dresdner Bank deposits by Turkish workers abroad. As a result, external debt is projected to total US$25.3 billion by end-1989, namely, US$7 billion above the level outstanding at end-1983. Short-term obligations will comprise 36 percent of the total (Dresdner Bank deposits, 17 percent), compared to 16 percent at present (Dresdner Bank deposits, 7 percent). After peaking at almost 33 percent in 1985, the debt service ratio (excluding amortization of short-term debt) is forecast to decline below 20 percent by 1989.

### 2. Alternative medium-term scenarios

As in previous staff reports on Turkey, three alternative medium-term scenarios have been simulated on the basis of a computational model: 1/ a "growth" scenario, based on the GNP growth target set for the plan; an

1/ For a discussion of the methodology, see EBS/83/98 (5/20/83).

"adjustment" scenario, which assumes that the external current account deficit is eliminated by 1988; and a mixed scenario that combines elements of the other two scenarios.

The three scenarios have a number of assumptions in common. Export and import prices and interest rates (in terms of U.S. dollars) are consistent with those assumed for the Fund's most recent medium-term World Economic Outlook exercise. Export prices are assumed to increase 5 percent and import prices 3 percent in 1985, and to converge to a 4 percent world inflation rate thereafter. The average interest rate on new borrowing (equivalent to LIBOR plus 1.5 percentage points until 1986, and 1 point afterward) is expected to decline in several steps from 11.5 percent in 1985 to 8 percent in 1988-89.

The growth rate in the volume of merchandise exports is projected to fall from 22 percent this year to 12 percent in 1985 and decelerate to 8 percent from 1988 onward (while the annual growth of industrial country demand drops to about 3 percent). This is based on the assumption that Turkey may find it increasingly difficult to gain market shares. The output elasticity of import demand is assumed to be maintained at 1.4 through 1987 and drop to 1.3 in subsequent years, reflecting a rather low longer-term propensity to import by historical standards.

Assumptions regarding the rest of the invisible account, and official inflows, direct investment, and reserve movements in the capital account, are adopted mainly from the five-year plan. However, it is assumed that new medium- and long-term debt is amortized as follows: five-year grace and ten-year repayment period on official credits, and three-year grace and four-year repayment period on commercial credits. Short-term inflows are reduced below the relatively high levels assumed under the plan, in line with the reduction of imports in each scenario below planned imports.

3. Results and implications

Regardless of the scenario under consideration, Table 2 indicates that in 1985 the debt service ratio will exceed 33 percent because of the bunching of maturities from past debt rescheduling agreements, and total debt outstanding will stand at about US$20.5 billion. From 1986 onward, adherence to the growth target set for the five-year plan would result in a near doubling of the current account imbalance, a debt service ratio of 22 percent, and total outstanding debt of US$25.6 billion by the end of 1989. In contrast, a balanced current account beyond 1987 would reduce the debt service ratio below 20 percent by 1989, as envisaged in the plan document, while the stock of debt would remain around US$20 billion; however, the average annual real GNP growth would fall 1.5 percentage points below the planned growth rate. The mixed scenario would, as expected, combine some external adjustment with a 5.1 percent average annual growth rate; the debt service ratio would decline to 20.5 percent and total debt rise to US$22 billion.

The scenarios also differ with respect to the increase in short-term foreign debt. Under the growth scenario, the net increase in such debt remains at the order of US$1.0 billion at the end of the period. In contrast, with the adjustment scenario, short-term foreign debt stabilizes by the end of the period, at a lower cumulative level. Short-term debt of the size implied by the growth scenario could present some dangers. It is true that about half of the increase would be in the form of workers' foreign exchange deposits and that the very large increase in the value of trade would necessitate a significant increase in the level of trade related credits. However, as experience in the 1970s in Turkey has shown, undue reliance on short-term foreign borrowing is potentially dangerous.

It must be emphasized that the scenarios merely illustrate the mathematical implications of the assumptions embodied in them. Actual experience different than that assumed for interest rates, output elasticity of imports, or direct investment, for example, would lead to debt results different than those contained in the scenarios. A difference between all the alternative scenarios and the official projections is that from 1987 onward the latter contain a higher growth rate for exports than the former. If the official projection for export growth could be achieved, debt servicing would be less manageable earlier but more manageable later under the "growth" scenario than the staff projections suggest. Equally, if the export growth assumed in the staff scenarios cannot be achieved--and it is a growth rate that assumes significant increases in Turkey's market shares--it would not be easy to obtain or to service the capital inflow that the official targets for GNP growth would require. The above considerations emphasize the need for substantial structural adjustments in the economy to ensure a high and sustained growth of exports; the official projections seem to embody such adjustments and export growth.

There is one final point. All scenarios assume that the level of debt outstanding at end-1983 is accurately measured by current official Turkish statistics. There is some evidence that the latter may have understated the true position, although it is not possible to know by how much. If the end-1983 debt was higher than official data show, the scenarios would correspondingly understate future debt service.

Table 15. Turkey: Medium-Term Scenario Under the Five-Year Plan, 1983-89

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|
| External indicators (in millions of U.S. dollars, unless otherwise specified) | | | | | | | |
| Current account balance | -2,193 | -1,250 | -1,282 | -1,365 | -1,410 | -1,438 | -1,383 |
| Interest payments | 1,512 | 1,400 | 1,400 | 1,420 | 1,450 | 1,490 | 1,575 |
| Amortization of medium- and long-term debt 1/ | 1,200 | 1,577 | 2,175 | 2,168 | 2,279 | 2,385 | 2,047 |
| Gross medium- and long-term borrowing 1/ | 1,852 | 2,277 | 2,009 | 2,025 | 2,330 | 2,460 | 2,225 |
| Total debt outstanding at year-end | 18,343 | 19,993 | 20,828 | 21,715 | 22,826 | 23,991 | 25,269 |
| Debt service ratio (in percent of foreign exchange earnings) | 31.7 | 30.1 | 32.8 | 29.5 | 27.0 | 24.4 | 19.6 |
| Export volume growth (annual percent change) | 13.4 | 22.2 | 9.5 | 9.9 | 10.5 | 11.2 | 12.1 |
| Import volume growth (annual percent change) | 12.0 | 5.6 | 6.8 | 7.8 | 8.4 | 8.9 | 9.2 |
| Macroeconomic indicators (annual percent change at constant prices, unless otherwise specified) | | | | | | | |
| GNP in market prices | 3.2 | 5.7 | 5.3 | 5.9 | 6.4 | 6.8 | 7.0 |
| Public consumption | 1.3 | 3.6 | 4.8 | 5.0 | 5.3 | 5.5 | 5.7 |
| Private consumption | 4.7 | 4.9 | 4.5 | 5.2 | 5.7 | 6.0 | 6.2 |
| Public fixed investment | 1.7 | 4.9 | 5.6 | 6.2 | 7.0 | 7.4 | 7.6 |
| Private fixed investment | 4.8 | 6.1 | 8.2 | 10.0 | 11.3 | 12.1 | 12.7 |
| Domestic demand | 4.3 | 4.0 | 5.1 | 5.7 | 6.2 | 6.6 | 6.9 |
| Foreign balance (percent contribution to GNP growth) | -1.2 | 1.7 | 0.1 | -- | 0.1 | 0.1 | - |

Source: State Planning Organization.

1/ Including Fund purchases and repurchases.

Table 16. Turkey: Alternative Medium-Term Scenarios, 1983-89

(In millions of U.S. dollars, unless otherwise specified)

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|
| "Growth" scenario | | | | | | | |
| Current account balance | -2,193 | -1,250 | -1,146 | -1,104 | -1,305 | -1,502 | -2,024 |
| Interest payments | 1,512 | 1,400 | 1,627 | 1,594 | 1,675 | 1,652 | 1,757 |
| Amortization of medium- and long-term debt 1/ | 1,200 | 1,577 | 2,125 | 2,103 | 2,240 | 2,470 | 2,154 |
| Gross medium- and long-term borrowing 1/ | 1,852 | 2,277 | 1,827 | 1,711 | 2,208 | 1,703 | 3,197 |
| Total debt outstanding at year-end | 18,343 | 19,993 | 20,690 | 21,328 | 22,357 | 23,619 | 25,562 |
| Debt service ratio (in percent of foreign exchange earnings) | 31.7 | 30.1 | 33.3 | 29.3 | 27.7 | 26.2 | 22.4 |
| Export volume growth (annual percent change) | 13.4 | 22.2 | 12.0 | 10.0 | 9.0 | 8.0 | 8.0 |
| Import volume growth (annual percent change) | 12.0 | 5.6 | 7.4 | 8.3 | 9.0 | 8.9 | 9.2 |
| Real GNP growth (annual percent change) | 3.2 | 5.7 | 5.3 | 5.9 | 6.4 | 6.8 | 7.0 |
| "Adjustment" scenario | | | | | | | |
| Current account balance | -2,193 | -1,250 | -900 | -600 | -300 | -- | -- |
| Interest payments | 1,512 | 1,400 | 1,613 | 1,547 | 1,563 | 1,451 | 1,415 |
| Amortization of medium- and long-term debt 1/ | 1,200 | 1,577 | 2,125 | 2,103 | 2,240 | 2,421 | 2,005 |
| Gross medium- and long-term borrowing 1/ | 1,852 | 2,277 | 1,626 | 1,357 | 1,583 | 1,850 | 2,116 |
| Total debt outstanding at year-end | 18,343 | 19,993 | 20,445 | 20,579 | 20,602 | 20,363 | 20,282 |
| Debt service ratio (in percent of foreign exchange earnings) | 31.7 | 30.1 | 33.2 | 28.9 | 26.9 | 24.6 | 19.6 |
| Export volume growth (annual percent change) | 13.4 | 22.2 | 12.0 | 10.0 | 9.0 | 8.0 | 8.0 |
| Import volume growth (annual percent change) | 12.0 | 5.6 | 5.1 | 6.4 | 6.0 | 6.8 | 7.9 |
| Real GNP growth (annual percent change) | 3.2 | 5.7 | 3.6 | 4.6 | 4.3 | 5.2 | 6.1 |
| Mixed scenario | | | | | | | |
| Current account balance | -2,193 | -1,250 | -1,000 | -800 | -600 | -500 | -500 |
| Interest payments | 1,512 | 1,400 | 1,619 | 1,566 | 1,603 | 1,519 | 1,523 |
| Amortization of medium- and long-term debt 1/ | 1,200 | 1,577 | 2,125 | 2,103 | 2,240 | 2,442 | 2,064 |
| Gross medium- and long-term borrowing 1/ | 1,852 | 2,277 | 1,706 | 1,497 | 1,753 | 2,135 | 2,351 |
| Total debt outstanding at year-end | 18,343 | 19,993 | 20,545 | 20,879 | 21,202 | 21,463 | 21,882 |
| Debt service ratio (in percent of foreign exchange earnings) | 31.7 | 30.1 | 33.2 | 29.0 | 27.2 | 25.1 | 20.5 |
| Export volume growth (annual percent change) | 13.4 | 22.2 | 12.0 | 10.0 | 9.0 | 8.0 | 8.0 |
| Import volume growth (annual percent change) | 12.0 | 5.6 | 6.0 | 7.2 | 6.4 | 7.8 | 7.3 |
| Real GNP growth (annual percent change) | 3.2 | 5.7 | 4.3 | 5.1 | 4.6 | 6.0 | 5.6 |

Sources: State Planning Organization; and Fund staff estimates.

1/ Including Fund purchases and repurchases.

## Statistical Issues

### 1. Coverage, currentness, and reporting of data in IFS

| | | Latest Data in August 1984 IFS |
|---|---|---|
| Real sector | - National accounts | 1982 (partial) |
| | - Prices | April 1984 |
| | - Production | n.a. |
| | - Employment | n.a. |
| | - Earnings | n.a. |
| Government finance | - Deficit/surplus | 1981 |
| | - Financing | 1981 |
| | - Debt | 1980 |
| Monetary accounts | - Central Bank | November 1983 |
| | - Deposit money banks | November 1983 |
| | - Other financial institutions | November 1983 |
| External sector | - Merchandise trade: values | December 1983 |
| | - Merchandise trade: prices | 1983, 4th quarter |
| | - Balance of payments | 1982 |
| | - International reserves | April 1984 |
| | - Exchange rates | June 1984 |

During the past year, the reporting record of the IFS correspondent has been rather irregular.

### 2. Outstanding statistical issues

#### Government finance

Only annual data up to 1981 are available in IFS. Data up to 1983 have been promised for the 1984 GFS Yearbook and IFS.

#### Monetary accounts

Currentness of money and banking data could be improved. Monthly cabled data for demand and time deposits cannot be used presently for publication, due to classification problems.

#### External sector

Reporting of some data on merchandise trade is relatively slow and revisions of annual data are not always speedily carried over into monthly and quarterly data.

3. Technical assistance in statistics

There was a technical assistance mission on balance of payments to Turkey in November 1982.

It has been agreed that a technical mission visit Turkey to discuss the presentation of budget data.