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EBS/83/17

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January 21, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Turkey - Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review of the stand-by arrangement for Turkey. A draft decision appears on page 17.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TURKEY

Review of Stand-By Arrangement

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

(In consultation with other Departments)

Approved by Brian Rose and Subimal Mookerjee

January 20, 1983

I. Introduction

A three-year stand-by arrangement for Turkey in an amount equivalent to SDR 1,250 million (416.7 per cent of the present quota) was approved by the Executive Board and became effective on June 18, 1980 (EBS/80/126, 6/4/80, and Sup. 3, 6/19/80). Under the arrangement, Turkey has thus far made ten purchases totaling SDR 1,060 million. As of December 31, 1982, prior to the tenth purchase, the Fund's holdings of Turkish liras amounted to 539.7 per cent of Turkey's quota of SDR 300 million.

The midterm review of the program for the second year was completed at EBM/82/25 (2/26/82) on the basis of EBS/82/19 (1/29/82); and the program for the first half of the third year was approved at EBM/82/115 (8/23/82) on the basis of EBS/82/130 (7/26/82). Failure by Turkey to observe a performance criterion on the banks' reserve requirement obligations led to suspension of the purchase scheduled for October 1982 until the approval of a waiver and modification of criteria at EBM/83/10 (1/12/83) on the basis of EBS/82/230 (12/13/82) and Supplement 1 (1/4/83).

A staff team consisting of Geoffrey Tyler (Head), Leif Hansen, George Kopits, Leigh Alexander (all EUR), Naheed Kirmani (ETR), and Ann Phillips (TRE) visited Ankara between December 1 and 15, 1982, to review developments in 1982 and to discuss a program for the remaining period of the stand-by arrangement. Firouz Vakil (IBRD) also participated in the discussions. The Turkish representatives included officials of the Ministry of Finance, the State Planning Organization, the Ministry of Commerce, and the Central Bank of Turkey. The head of the mission also met with the Minister of Finance, the Minister of Commerce, and the Governor of the Central Bank.

In the attached letter to the Managing Director, the Minister of Finance discusses policies that the Government intends to undertake and outlines the macroeconomic targets for 1983 to cover the remaining period of the stand-by arrangement ending on June 17, 1983. The next purchase under the arrangement (SDR 100 million) is subject to Board approval of the credit limits and of other policy understandings proposed by the Minister of Finance, and would become available on February 18, 1983 following satisfactory completion of the present review. The final purchase (SDR 90 million) is to be available on April 29, 1983. The phasing of the remaining purchases under the stand-by and resulting Fund holdings of Turkish liras through the end of the stand-by are shown in the table attached to Appendix I.

Since January 1, 1980, the World Bank has approved three structural adjustment loans for a total amount of US$879.5 million, of which US$723.2 million has been disbursed through November 30, 1982 (out of total disbursements of US$1,213.5 million during that period). Disbursement of the second tranche under the third structural adjustment loan is contingent on further progress on SEE reform and import liberalization.

II. Developments in 1982 and Prospects for 1983

1. Domestic economy

During 1982, GNP is estimated to have grown by 4.4 per cent in real terms, which is slightly above the preceding year's growth rate. In contrast to earlier estimates, less than one fourth of this growth performance can be ascribed to domestic demand (Table 2). Notwithstanding the present world recession and continued deterioration in Turkey's terms of trade, the net contribution of the foreign balance was estimated at 3.5 percentage points--an increment of almost a full percentage point above its contribution in 1981. The small contribution of domestic demand derives mainly from depletion of inventories, although both real consumption and real fixed investment, principally in the public sector, grew significantly less rapidly in 1982 than originally planned, increasing, respectively, by 3.1 per cent and 3.0 per cent. As neither the growth of domestic activity nor the employment opportunities abroad could absorb the growth in the civilian labor force, the unemployment rate is estimated to have risen in 1982.

In 1983, real GNP is targeted to increase by 4.8 per cent, primarily on the strength of domestic demand. In spite of only about 70 per cent utilization of industrial capacity, private fixed investment is projected to rise by 6.5 per cent in response to investment incentives and increased business confidence. The expected rise in investment should be made possible by an assumed increase in the private savings ratio. The level of stocks is not expected to change greatly. With industrial output projected to increase by 5.5 per cent, the ensuing increment in the demand for labor would not be adequate to employ the increase in the labor force. Consequently, the unemployment rate is expected to widen further in 1983.

A central part of the stabilization program has been the reduction in the rate of inflation. The increase in the wholesale price index for the 12-month period ending November 1982 was 21 per cent, as against 27 per cent for the same period ending November 1981 (Table 3), but the slowdown in wholesale prices does not seem to have been fully passed through at the retail level and the measured consumer price inflation fell only marginally in 1982. The unweighted mean of the three major consumer price indexes rose by 29 per cent over the 12-month period ending November 1982; the comparable rate of increase was 31 per cent in the preceding year.

In the wake of several years' cuts in real wages, in 1982 the change in nominal wages appears to have been broadly in line with the rate of price inflation. Between January and October 1982, nominal wages increased by about 23 per cent, resulting in a 2 per cent reduction in real terms (deflated by the average of consumer price indexes for the same period).

For the year as a whole, the implicit GNP deflator is estimated to have risen at an annual average rate of somewhat less than 30 per cent, which compares favorably with both the midyear program target of 32-33 per cent and the 1981 increase in the deflator of 42 per cent. The official target for 1983 has been set at 20 per cent, while wages are expected to rise around 22 per cent for public sector employees and a similar increase is expected to be awarded to unionized workers by the High Arbitration Court.

2. Balance of payments and foreign debt

The current account of the balance of payments experienced a sharp improvement in 1982, with the deficit being reduced by more than half to an estimated US$1.1 billion, equivalent to about 2 per cent of GNP (Table 4). The deficit was well below the original and revised program targets (US$1.8 billion and US$1.4 billion, respectively). The value of exports, estimated at US$5.8 billion, was in line with the program target, despite a significant decline in export prices, mainly of agricultural products. As in the previous year, manufactured exports were the major source of expansion, as exporters continued to make inroads in Middle Eastern markets. Imports are estimated to have declined in value terms by about 4 per cent compared with 1981, and were significantly below the revised program target for 1982. The decline in oil prices and a slower-than-expected expansion in real domestic expenditure contributed to this development. Also, increasing confidence in the Turkish economy is believed to have resulted in a reduction in import prices through elimination of risk premiums charged by foreign suppliers. The better-than-expected performance on the trade balance more than offset the shortfall in the surplus on the services account. The latter was due primarily to lower receipts (in terms of U.S. dollars) from workers' remittances, reflecting the appreciation of the U.S. dollar vis-à-vis European currencies, as well as other factors such as the impact of the recession in Western Europe and the effect on confidence of the Kastelli bankruptcy.

Medium- and long-term capital inflows in 1982 fell considerably short of the revised program target. The main factors were the slower-than-expected disbursements under the OECD special assistance program and of an agricultural prefinancing credit, and less private foreign investment. A small overall deficit was incurred, compared with the mid-year expectation of a small overall surplus. After taking into account net purchases from the Fund, an increase in net official reserves was registered. By end-November 1982, gross reserves reached SDR 1,007 million, equivalent to about two months of estimated 1982 imports.

For 1983, the authorities forecast a further reduction in the current account deficit to about US$900 million (1.8 per cent of GNP). Given the very sharp improvement already achieved in 1982, they consider it realistic to plan for a slower pace of external adjustment in 1983 compared with the previous year, which would also permit a somewhat higher rate of expansion of real domestic expenditure, particularly private investment. The current account deficit forecast for 1983 is less than that envisaged under all three scenarios in the medium-term balance of payments perspectives discussed in EBS/82/130 (7/26/82).

Export growth in 1983 is projected to decelerate to 17 per cent (in dollar terms), mainly because export volumes are likely to expand less rapidly (11 per cent). The authorities considered that, while there is still room to expand market shares, mainly in the Middle East, it would be difficult to sustain the extraordinary performance of the past two years when annual increases in volumes of over 40 per cent were realized. They indicated that continuing recession and increasing protectionism in traditional markets also argued for a deceleration in the growth of export volume. The authorities forecast an increase in import values of about 13 per cent, based on the expectation of a faster growth of domestic demand (particularly of private investment), an increase in oil import prices of 3 per cent, and the impact of the policy of gradual import liberalization. As a result, the trade deficit is expected to widen by US$100 million to US$2.9 billion. It is to be noted that, in the event of no increase in oil prices, imports would be lower, ceteris paribus, by about US$140 million compared with the official projections. For this reason and because the authorities may have overestimated the volume of imports, the staff considers that the trade deficit could turn out to be somewhat less than the official forecast. With regard to the services account, the surplus is projected to increase by over US$300 million on the basis of a modest recovery of workers' remittances, lower interest payments, and continued expansion of receipts of Turkish contractors abroad. Net capital inflows in 1983 are currently projected to be about US$300 million below the previous year, owing mainly to higher debt repayments and a lower level of program loans. The projected overall deficit of US$130 million in 1983 is expected to be financed by net purchases from the Fund, and no reserve accumulation is programmed.

Outstanding external disbursed debt amounted to US$17.5 billion at end-1981, equivalent to about 30 per cent of GNP (Table 5). Multilateral agencies and official bilateral sources accounted for about two thirds of total outstanding. Of the total, US$2.1 billion, or 12 per cent, constituted short-term debt, in contrast to the position in 1978 when short-term debt accounted for half of total outstanding debt. The marked improvement in the structure of debt reflected pursuit of cautious debt management policies and the impact of rescheduling operations. Debt service payments, net of debt relief but including new borrowing after 1982, are projected to rise steadily from about US$2 billion (23 per cent of exports of goods and services) in 1982 to about US$4 billion in 1985/86 (26-27 per cent of exports of goods and services), as the impact of debt relief tapers off (Table 6). The medium-term debt service outlook was discussed in greater detail in EBS/82/130 (7/26/82). With a view to improve coordination and control, and preparatory to the resumption of medium-term borrowing from international financial markets, in 1982 a special committee was set up comprising senior representatives of the Ministry of Finance, the State Planning Organization, and the Central Bank under the chairmanship of the Vice Governor of the Central Bank in charge of foreign exchange. This committee will, inter alia, review all applications from Turkish entities for external borrowing and consider such questions as the purpose of the borrowing, the suitability of the Turkish entity as a borrower, the timing of the operation, and the expected terms and conditions.

III. Economic Policies

1. Overview

By the time of the mid-1982 review discussions, the key elements of the Government's program were to bring about a considerable reduction in the rate of inflation and a substantial improvement in the current account of the balance of payments, while at the same time maintaining a real rate of growth of GNP of about 4 1/2 per cent. For 1982 as a whole, the GNP deflator was expected to increase by a little over 30 per cent (and somewhat less for the wholesale price index) and the current account deficit was forecast to be reduced to about US$1.4 billion (2 1/2 per cent of GNP). The main policies envisaged to bring this about were: (i) a significant tightening of monetary policy together with firm restraint on incomes; (ii) maintenance of a competitive exchange rate; (iii) measures to restrain domestic demand in general, and demand by the public sector in particular; (iv) a reduction in the high dependence on energy imports; and (v) a liberalization of the import regime. Although the implementation of these policies was mixed, with particularly monetary policy deviating sharply from plan (see below), as described in the previous section, performance in 1982, broadly speaking, met the targets, and in the balance of payments significantly exceeded them.

For 1983, the Government intends to continue with the current thrust of policies, with the aim of continuing growth, reducing the rate of inflation further, and achieving a further reduction in the current account deficit. To these ends, fiscal and monetary policies will continue to emphasize restraint, interest rates will be maintained at positive real levels and exchange rate policy will be operated flexibly to ensure a competitive external sector. The authorities believe that with these policies the inflation rate will be reduced to around 20 per cent in 1983, the rate of growth of real GNP will increase to around 5 per cent and the external current account deficit will decline to below US$1 billion or less than 2 per cent of GNP.

2. Monetary policy

While the credit limits established under the stand-by arrangement for the third quarter of 1982 were all observed, reserve money and M_2 rose considerably faster than envisaged, mainly as the result of a substantial and unexpected injection of liquidity through the balance of payments. Also, the bankruptcy in late June 1982 of a major nonbank financial institution (Kastelli), through the effect on confidence, put severe pressure on a number of banks, and Turkey was not able in the period through September 1982 to meet a performance test on the absorption of liquidity from the banking system through the stricter enforcement of, and increase in, reserve requirements. The absorption of bank liquidity in the period to end-September 1982, at some LT 13 billion, fell short of the amount programmed by about LT 10 billion. In response to these developments, the authorities took steps to mop up liquidity through bond issues to banks and agreed to contain the growth of Central Bank credit below the amount previously envisaged for the fourth quarter of 1982. In view of this, the Executive Board agreed to a waiver and to a modification relating to the reserve requirements (EBS/82/230, 12/13/82 and Supplement 1). Also, the Turkish authorities decided to reduce the fourth quarter limits on the net domestic assets of the Central Bank and on net Central Bank credit to the public sector.

These revised credit limits were all respected. Having failed to observe the performance test on the absorption of liquidity from banks through the stricter enforcement of reserve requirements in the third quarter, the test was observed through the fourth quarter, with the actual absorption of bank liquidity of some LT 13 billion being equal to that programmed. 1/ Also, during the first half of December, the Treasury sold special bonds in an amount of LT 10 billion to those banks whose deposits had risen unusually rapidly as a result of developments since June. However, the injection of liquidity through the balance of payments continued through the fourth quarter and the year-on-year growth of reserve money in the second half of 1982 was 47 per cent compared with 33 per cent in the program and 51 per cent in the first half of the year. M_2 was 60 per cent higher in the second half of 1982 compared with 40 per cent in the program and 65 per cent in the first half of 1982. Notwithstanding, prices were broadly in line with program targets. In part, this was due to delays in the adjustment of prices of some important public enterprise goods and services. Also, some lag in the

1/ As at the end of 1982, deficiencies in the observance of reserve requirements (net of a long-standing shortfall of a publicly owned bank which has been consolidated) was LT 45 billion, compared with LT 72 billion at the end of May 1982.

response of prices to the development of the monetary aggregates should normally be expected. However, with the recorded rate of inflation declining somewhat faster than foreseen at midyear, while deposit rates remained basically unchanged, the demand for money strengthened much more than assumed in formulating the credit program, but--especially given the size of the overshooting of the monetary targets--it is possible that all of this will not have been matched by increased demand for liquidity.

The credit limits that the Minister of Finance is proposing for the period January-May 1983 are set out in Table 12. They have been drawn up within a framework, taking into account the possible liquidity overhang from 1982, which is designed to provide for a rate of monetary expansion for 1983 as a whole which would be broadly consistent with the official targets for inflation and real economic growth.

The NDA limits being proposed are estimated to be consistent with a year-on-year growth in reserve money of 43 1/2 per cent and M_2 of 44 1/2 per cent for the period January-May 1982 against 47 per cent and 60 per cent, respectively, in the second half of 1982 (Table 7). The average growth of M_2 for 1983 as a whole is targeted at 35-36 per cent, which, allowing for an increase in real GNP of nearly 5 per cent and assuming a decline in the velocity of circulation of M_2 of about 7-8 per cent, would be consistent with a rate of increase in the GNP deflator of some 20 per cent. The assumption about the decline in velocity, and therefore the inflation target, may be optimistic, given the recent measures to reduce deposit rates (see below). On the other hand, interest rates on deposits continue to be positive in real terms and there will be a substantial carry-over effect from the decline in velocity in the second half of 1982. Also, the ratio of M_2 to GNP is still very low by historical standards. The monetary program also assumes: (i) that there will be a continued injection of liquidity through the balance of payments during the first five months of 1983; and (ii) that no new build up of reserve requirement deficiencies will be permitted and that the new reserve requirements (see below) will be maintained through the remainder of the stand-by arrangement. The stipulations under (ii), which serve as performance criteria, form the basis for the assumption about an unchanged reserve money multiplier in the period to the end of the stand-by. Also, as on previous occasions, the Government will consult if developments in the balance of payments should result in a significantly faster growth in reserve money than provided for in the program.

Many of the assumptions underlying the present program are subject to margins of error, particularly in view of the structural changes in the financial system which have taken place or are being implemented in response to the financial crisis precipitated by the Kastelli bankruptcy. These measures include:

(i) the adoption of a new banking law, which provides for increased levels of equity capital, better management of banks through the requirement of certain qualifications for senior managerial personnel, better supervision of bank deposits and credits, and the introduction of a new deposit insurance scheme;

(ii) a reform of interest rate policy. The present system, which has resulted in very high real rates on time deposits and on nonpreferential credits (Table 8), will be replaced by a system where the nine largest banks (those with more than 3 per cent of total deposits) will be encouraged to jointly establish interest rates, varied according to types of deposits and loans. Rates determined by these banks will be legally binding, but smaller banks will be allowed to exceed these rates by up to 5 per cent. The rates established under the new system (effective from January 1, 1983) resulted in lower rates on time deposits, but a substantial increase on sight savings deposits. However, allowing for a 5 percentage points reduction in the withholding tax on interest rate income (except on certificates of deposits for which the withholding tax was raised by 5 percentage points to 30 per cent), the reduction in the after tax rate on time deposits was rather modest (Table 8). The "scheduled" lending rates were not reduced, but it is the expectation that part of the savings in the average costs of deposits to banks following the reduction in deposit rates will be passed on to customers through lower compensating balances required in connection with the extension of bank credits; and

(iii) a reorganized system governing the cash reserve and liquidity requirements of the banking system. This system was described in detail in Supplement 1 to EBS/82/230. First, the highly differentiated cash reserve requirements with different rates for sight and time deposits (35 per cent and 30 per cent, respectively) and substantially lower rates for deposits used for credits for specific purposes have been replaced by an equivalent single rate of 25 per cent. The interest rate paid on required reserves under the new system will be 1 1/2 per cent per month, compared with 1 per cent for reserves against sight deposits and 1 1/2 per cent for reserves against time deposits previously. Second, the liquidity ratio varying from 10-15 per cent according to the size of the bank and being monitored only once a month has been replaced by a single rate of 10 per cent and will now be monitored on an average daily basis.

The authorities are aware that it is difficult to judge the reaction of economic agents to such a wide-ranging set of measures and stand ready to take action should developments deviate significantly from those programmed.

3. The public finances

The public sector has been somewhat weaker than expected at midyear, mainly because of tax collection problems in the consolidated budget. The shortfall in tax revenue is estimated to have been partly offset by continued expenditure restraint and partly by a smaller-than-programmed reduction in net budgetary arrears. Transfers from the budget to SEEs for the period March-December 1982, at LT 232.6 billion, were slightly below the limit of LT 233 billion agreed, as a performance criterion, with the Fund. Revised estimates for SEE accounts for 1982 showed a somewhat higher financing requirement than expected at midyear, mainly because of higher stockbuilding, but also a higher profit than earlier expected. Notwithstanding the slippage in the Government and SEE accounts compared with midyear expectations, the public sector borrowing requirement is still expected to show a significant improvement in relation to GNP in 1982 compared with the year before, declining to 5 1/2 per cent from 6 1/2 per cent. The public sector domestic borrowing requirement, on the other hand, remained unchanged at 4 1/2 per cent of GNP (Table 9).

Based on the budget for 1983, as approved in mid-December 1982, and the 1983 program for SEEs, a further improvement in public finances is targeted for 1983 with only a small nominal increase in the public sector borrowing requirement and a small reduction in the domestic borrowing requirement. In relation to GNP a reduction of 1 percentage point in these ratios to 4 1/2 per cent and 3 1/2 per cent, respectively, is scheduled. As is explained below, some of the assumptions underlying the consolidated budget and the SEE accounts may not be firm, but it is the expectation that deviations from the assumptions on individual items will be compensated in other areas and not affect the total balance materially. As a share of GNP, fixed investment of the public sector is estimated to have remained unchanged at 10 1/2 per cent in 1982 compared to 1981 and is budgeted to stay at the same level in 1983; it is the expectation, however, that the realization of total public sector fixed investment in 1983 will be less than targeted and show no increase in real terms, therefore showing some decline in relation to GNP.

a. The consolidated budget

In 1982 the Central Government's financing requirement (scaled up to a 12-month basis, and including transfers to SEEs) is estimated to turn out as expected in EBS/82/130 (about 1 1/2 per cent of GNP), despite a shortfall of revenue compared with the previous projection (an increase of only 26 per cent against 39 per cent). However, budget expenditures are forecast to grow by only 27 per cent against 36 per cent and will amount to less than 92 per cent of original appropriations. In addition, instead of a reduction in net budgetary arrears of LT 45 billion, no change is foreseen in the present estimate. In relation to GNP, revenue is estimated to fall to 20 per cent in 1982, from 21 per cent in 1981, and expenditures to 21 1/2 per cent from 22 1/2 per cent (Table 10).

The budget for 1983, as approved in mid-December 1982, implies a reduction in the cash deficit to 1.3 per cent of GNP. The revenue estimate for 1983 assumes an increase of 36 per cent with a particularly sharp increase in nontax revenue, which is expected to almost double. Tax revenue, on the other hand, is forecast to increase by about 28 per cent, implying an elasticity to GNP of 1.09 against 0.92 in 1982 and 1.23 in 1981. The increase in tax elasticity in 1983 is expected to come about solely as a result of a strengthening of tax administration and an improvement in the ratio of tax collection to tax assessments. Tax measures for 1983, on the other hand, all have resulted in a reduction in tax rates. Thus, the personal income tax rate of the first LT 1 million has been reduced from 39 to 35 per cent; the corporate tax rate from 50 to 40 per cent (in respect of income accrued in 1982); and the fiscal balance tax from 2 to 1 per cent. It was realized that the assumptions about revenue collection in 1983 were on the optimistic side, but the Turkish authorities emphasized that, to the extent that revenue collection should not improve as anticipated, the authorities would, as in 1982, stand ready to cut appropriations to keep the financing balance close to that foreseen in the budget.

In fact, it was the expectation that actual expenditures in 1983 in relation to appropriation would be roughly the same as in 1982. Public expenditures were therefore not expected to increase in real terms and in relation to GNP to decline to about 20 1/2 per cent. The authorities stressed that no increase in real terms was planned for transfers to SEEs in 1983 and in line with this the authorities will limit transfers to SEEs in the period January-May 1983 to LT 110 billion. This is a performance criterion under the stand-by arrangement. No real increase was foreseen for investment outlays in the consolidated budget. The number of Government employees is to be strictly controlled and the increase in wage rate is to be limited to 22 per cent.

In the financing of the budget, the Treasury had decided to improve the maturity structure of the public debt by broadening the range of Treasury bonds. As from December 1982, the Treasury has issued five-year and two-year bonds with tax-free interest of 34 per cent and 32 per cent, respectively. These issues have been well received by the market.

b. State Economic Enterprises

For 1982, a new strategy was adopted for the operation of SEEs. First, it was decided to give priority to operational results; second, managers in certain enterprises were given greater autonomy to manage and adjust prices; third, transfers to SEEs were limited and, in the case of nonpayment by SEEs of taxes, social security contributions, or amortization of foreign debt, such arrears are deducted before payments are made from the budget; and, finally, borrowing from the Central Bank has been limited to one SEE, the Soil Products Office, for financing of its grain purchases. This new strategy is producing encouraging results, but some important structural problems still remain to be dealt with. Profits of SEEs for 1982 are now forecast to be higher than the estimate at midyear and are, in relation to GNP, expected to go up to 0.5 per cent compared with 0.1 per cent in 1981 (Table 11). Estimated total investment of SEEs, although somewhat higher than expected at midyear because of slightly larger stockbuilding, is at 6.8 per cent of GNP substantially below the 9.4 per cent recorded in 1981.

The program for SEEs for 1983 foresees a further increase in profits to 0.6 per cent of GNP. The substantial price increases implemented for important products such as electricity, coal, petroleum, cement, textiles, sugar, and transportation fares in late 1982 and a continuation of a flexible pricing policy in 1983 are expected to underpin this result. Although the policy of hiring only one new employee for every two vacancies arising is still in effect in existing plants, total employment in SEEs is expected to increase by nearly 3 per cent in 1983 following a 3 1/2 per cent increase in 1982, mainly because of demand for new investment projects coming into operation. According to the 1983 program, total SEE investment is forecast to show no increase in real terms and to decline marginally in relation to GNP. It is expected that the program figure will be held to as the policy is now firmly established that the investment program is essentially a cash limit. Greater access to the Central Bank or to higher-than-planned transfers from the budget will not be permitted to compensate for shortfall in self-financing or in financing from other sources.

With respect to the structural measures, as the planned reform is proceeding too slowly, the World Bank has delayed the release, scheduled for late 1982, of the second tranche of the third structural adjustment loan. A Government Committee is currently examining proposals to improve the overall operations of the SEEs and it is expected to report to the Prime Minister before the end of May 1983. It is not possible at this stage to know what the final recommendations will be, but the Government is committed to continue strengthening the economic efficiency and the finances of the SEEs to ensure that they do not put undue pressure on the economy.

4. External policies

The pursuit of a flexible exchange rate policy has been a crucial factor in the external improvement in the past two years. Between June 1981 and December 1982, the real effective exchange rate was depreciated by about 15 per cent (Chart). For the remainder of the stand-by arrangement, the Government is firmly committed to continuing its policy whereby the exchange rate for the lira is determined in the light of developments both in international currency markets, and in domestic relative to foreign prices, with the aim as a minimum of maintaining existing external competitiveness. If the exchange rate is not adjusted accordingly, the Government will consult with the Fund.

As indicated in the memorandum on policies for the third year of the stand-by arrangement, attached to the letter of July 20, 1982 from the Minister of Finance (EBS/82/130, 7/26/82), the Government will continue to pursue cautious debt management policies. During the period July 1-December 31, 1982, the contracting of new nonconcessional public and publicly guaranteed foreign borrowing in the maturity range of 1-10 years amounted to US$0.26 billion compared with the ceiling of US$1 billion for the period July 1, 1982-June 17, 1983.

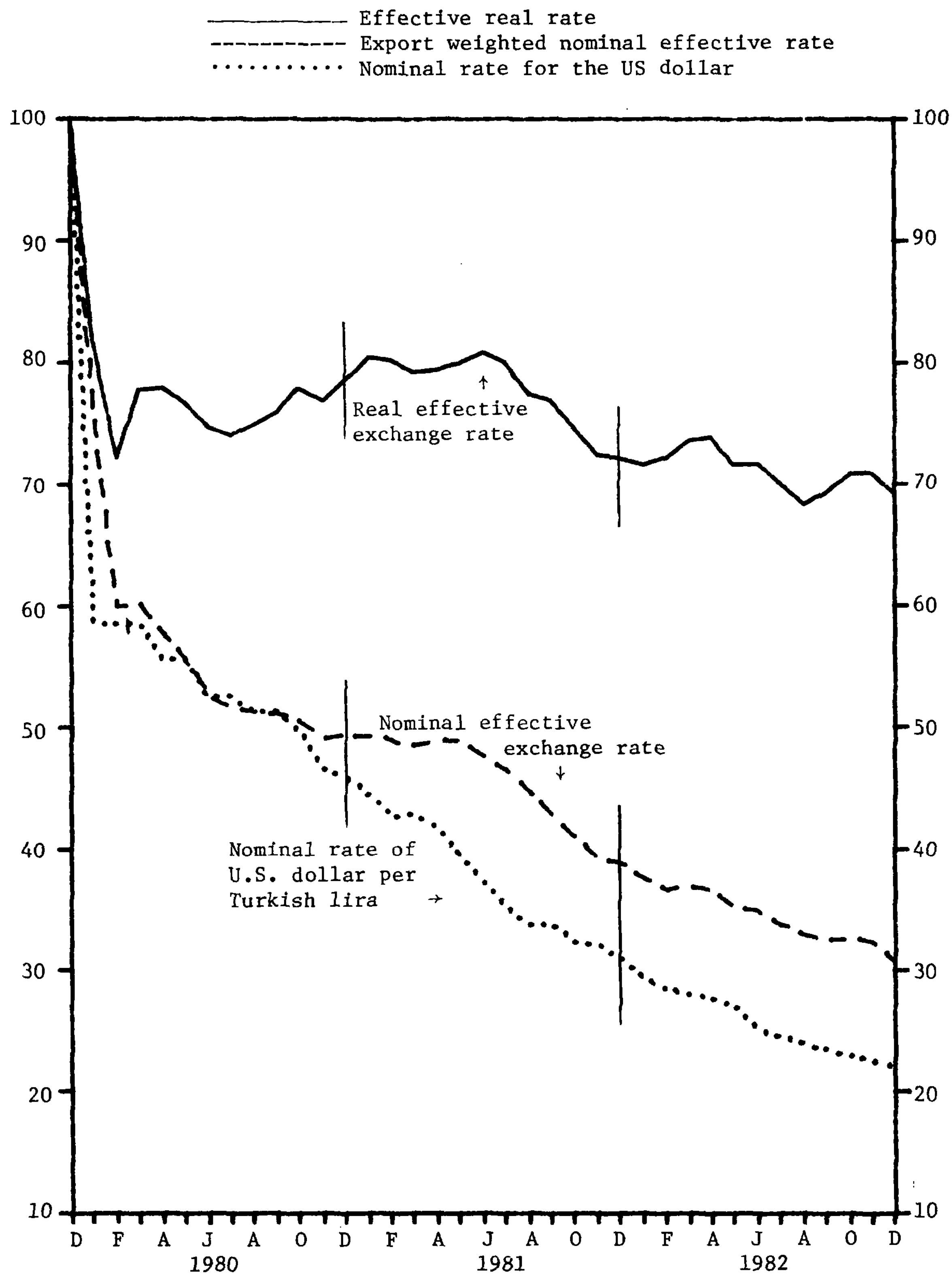
During 1982, certain exchange restrictions were liberalized. In line with the program target, external payments arrears were eliminated.

The operation of the "export retention scheme" covering specified exports had given rise to a multiple currency practice through a provision allowing participants to sell ("transfer") foreign exchange obtained under the scheme to a third party at a freely determined rate; Fund approval of the multiple currency practice had been granted until December 31, 1982. On December 19, 1982, the export retention scheme was modified to remove features which gave rise to the multiple currency practice; the right of exporters to "transfer" foreign exchange to a third party was abolished, and henceforth exporters can only use foreign exchange obtained under the scheme to meet their own import requirements following normal import procedures. With regard to invisibles, the restriction on trips per person for tourist travel was reduced from once every three years to once every two years. Furthermore, travelers were permitted to take out, or bring in, the Turkish lira equivalent of US$100 in Turkish banknotes and coin compared with the previous limit of LT 1,000. Finally, the bilateral payments agreements with two nonmembers (Albania and the U.S.S.R.) were terminated at the end of 1982. With regard to the bilateral payments agreement with Iran, for which Fund approval has been granted until June 30, 1983, the authorities reiterated their intention not to renew this agreement in a form which retains features constituting exchange restrictions subject to approval under Article VIII.

On the trade side, the Government has espoused a policy of import liberalization and a reduction in reliance on export subsidies granted through credit and fiscal preferences. Measures undertaken in this regard in 1982 were described in the memorandum of policies for the third year of the stand-by arrangement, attached to the letter dated July 20, 1982 from the Minister of Finance (EBS/82/130). Under the 1983 import regime, items under about 30 tariff lines were shifted from the less liberalized list (List II) to the more liberalized lists (List I and the "Fund" list). Items under 26 tariff lines, the importation of which had previously been effectively prohibited, were added to List II. Import guarantee deposits were reduced as follows: the general rate of 20 per cent was lowered to 15 per cent and the special rate applicable to imports of public sector and industrialists' own requirements was lowered from 10 per cent to 7.5 per cent; in addition, the rates applicable to coal imports were reduced to 1 per cent. Procedures for extending the period of validity of import licenses were improved. Finally, tariffs for items under 7 tariff lines were significantly reduced.

The authorities indicated that, although fewer items were liberalized under the 1983 regime than in 1982, the new import regime should be viewed as a further step in the gradual process of liberalization undertaken since 1980. While products not specified under established lists were in principle prohibited, a number of special schemes existed under which importation of unlisted items could be effected, e.g., investment and export encouragement schemes, and the imports-with-waiver scheme. Moreover, an "administrative liberalization" had occurred in the past year, deriving from a speedier issuance of import licenses, and although the impact of this policy was difficult to quantify, it was considered

Turkey
Exchange Rate Developments
(Dec. 1979=100)



Sources: IMF, International Financial Statistics; and staff calculations.

important. A working group was undertaking studies on rationalization and reduction of tariffs. Finally, the authorities indicated that acceleration of the pace of trade liberalization, including reduction of export incentives, would be encouraged if other countries did likewise. In this regard, they expressed strong concern about protectionist measures abroad, particularly in Turkey's traditional markets in the European Community. In response to the imposition by the EC in April 1982 of a definitive anti-dumping duty of 12 per cent on Turkish exports of cotton yarn, a 15 per cent import surcharge was imposed on imports of certain iron and steel products from the EC. The surcharge was abolished in August, following bilateral agreement between Turkey and the EC on price and quantity provisions governing Turkish cotton yarn exports to the EC in 1982. The Turkish authorities indicated that subsequent measures by the EC and its individual members affecting Turkish exports of certain textile products, snails, and raisins, together with issues related to the size of the EC quota for 1983 on Turkish cotton yarn exports, had again generated concern on the part of both the Government and the public. In response, a 15 per cent import surcharge on certain iron and steel and plastic products from the EC had been imposed in December. The authorities stated that this surcharge was regarded as a temporary measure, to be lifted following resolution of the trade issues with the EC.

IV. Performance Under the Stand-By Arrangement, and Performance Criteria for 1983

All the performance criteria were met during the second half of 1982, with the exception of the performance criterion relating to the amount of absorption of bank liquidity through the stricter enforcement of and increase in reserve requirements of banks at the end of September 1982. A waiver of this performance criterion was granted on January 12, 1983. As part of additional policy measures both the net domestic assets of the central bank and net central bank credit to the public sector for the last quarter of 1982 were held below the original limits. Furthermore, with the reorganization of the system governing cash reserve requirements of the commercial banks, the legal cash reserve requirements were changed, effective January 1, 1983; the performance criterion relating to the maintenance of existing cash reserve requirements was accordingly modified to refer to the new ratio effective January 1, 1983. Finally, for purchases before February 18, 1983, a waiver was granted relating to the reaching of understandings on the credit ceilings to apply for 1983. The abovementioned waivers and modification were spelt out in EBS/82/230 and Supplement 1, and were approved by the Executive Board on January 12, 1983.

The following performance criteria, the quantified components of which are set out in Table 12, are applicable for the remaining period of the stand-by arrangement. Items (e)-(h) have already been established as performance criteria in earlier Board decisions.

a. Limits on net domestic assets of the central bank through May 1983.

b. Limits on central bank credit to the public sector through May 1983.

c. A limit on budgetary transfers to the SEEs through May 1983.

d. Avoidance of new deficiencies in reserve requirements obligations of banks.

e. Maintenance of the new, uniform cash reserve ratio of 25 per cent, effective January 1, 1983.

f. A limit on the contracting of new nonconcessional public or publicly guaranteed external debt in the 1-10 years' maturity category for the period July 1, 1982-June 17, 1983.

g. The maintenance of external competitiveness.

h. The standard performance criterion on trade and payments restrictions.

V. Staff Appraisal

The improvement in the Turkish economy that began in 1981 continued during 1982, and helped by a satisfactory result in agriculture, real output increased by more than 4 per cent. The rate of inflation declined and the deficit on the current account of the balance of payments was further reduced to the equivalent of 2.0 per cent of GNP. This sustained recovery was assisted by the availability of substantial official assistance, especially through the OECD consortium, but was in major part the result of a substantial policy effort in both the domestic and external sectors of the economy. The authorities have initiated the process of structural adjustment that will be essential to carry the economy to the stage where a satisfactory external position can be sustained in conditions of reduced external aid, but to safeguard the longer-term position more progress will be needed.

The improvement in the balance of payments has been achieved mainly through a sustained growth in export volume. Export performance in 1982 continued to benefit from the flexible exchange rate policy that depreciated the real effective exchange rate modestly during 1982 as a result of a substantial depreciation of the nominal effective exchange rate during the year. The rate of growth of export volume decelerated in 1982 (although it exceeded the program target) and this trend is forecast to continue in 1983, which is to be expected given the very rapid increase obtained in 1981. However, the second half of the 1980s will see a phasing out of official assistance and its replacement by less concessional lending, which emphasizes the necessity of maintaining export growth around the rate projected for 1983, especially since employment targets would require some increase in the rate of economic growth in the period ahead. The staff therefore welcomes the intention of the authorities to continue their policy of exchange rate adjustment to maintain competitivity.

Monetary policy faced difficult problems in 1982 when the authorities were faced with a larger-than-targeted injection of reserve money through the improved balance of payments and a substantial increase in demand for Central Bank credit because of the Kastelli crisis. The result was a sharp increase in M_2 despite actions to mop up some of the unexpected increase in reserve money. So far, price developments do not show any evidence that monetary aggregates are at excessive levels although that possibility exists. The program for 1983 has been drawn up on the basis that the velocity of circulation will again decline, partly as a result of continued positive real interest rates, and that there will be an injection of liquidity through the balance of payments in the first half of 1983. The latter is particularly difficult to forecast accurately and there is therefore a provision for consultation with the Fund in the event that the program assumption is significantly different from actuality.

A number of institutional changes have been or are being introduced into the banking system, including a new banking law, a reform of interest rate determination and their levels, and a change in cash reserve and liquidity requirements. The staff considers that these changes are desirable and it particularly welcomes the elimination of the system of highly differentiated reserve requirements. Similarly, the changes in interest rates, involving decreases of very high rates and increases in some low rates, should rationalize the structure of interest rates, while still leaving the level for time deposits positive in real terms. While there is some inevitable uncertainty about the monetary program, the authorities have indicated their intention to consult with the Fund if developments differ significantly from the program.

Although there was some fiscal slippage compared with expectations at the time of the last review, by most measures the Government sector declined in relative importance in 1982, and a further such decline is expected in 1983. In particular, the public sector borrowing requirement declined by one percentage point as a proportion of GNP and a similar fall is forecast for 1983. It was, perhaps, disappointing that revenues did not grow to the extent hoped for and there is probably some doubt about whether 1983 revenue projections can be achieved. However, the Government has shown determination in reducing expenditure to compensate for revenue shortfall.

Welcome progress has been made in improving the financial position of the SEEs. Tighter financial control, a marked slowdown in the rate of increase of investment, controls of the size of the labor force, higher prices for goods and services produced, and a reduction in access to central bank credit, all worked to increase profits and to reduce the level of real transfers to SEEs as a proportion of GNP. However, the staff is disappointed at the slow progress being made in deciding upon further structural reforms, which also delays the release of World Bank funds to Turkey, and hopes that the studies currently underway are finalized and implemented during the course of this year.

The trade and payments regime continues to be simplified, although it still remains relatively complex. For 1983, more items have been moved to the liberalized list. In addition, a change in the retention quota regulations has removed the sole multiple currency practice and the authorities have indicated that they hope to terminate the one remaining bilateral payments agreement with a Fund member during 1983 when reviewing the bilateral trade agreement with that member. The staff hopes that the trade and payments liberalization effort will be continued in order to further open up the economy and thereby promote efficiency.

In the light of the foregoing, the following draft decision is proposed for adoption by the Executive Board.

Review of stand-by arrangement

1. Turkey has consulted with the Fund in accordance with paragraph 4(b) of Executive Board Decision No. 7189-(82/115), August 23, 1982 and paragraph 8 of the letter from the Minister of Finance of Turkey dated July 20, 1982 (EBS/82/130, July 26, 1982) in order to reach understandings with the Fund regarding policies and measures that Turkey will pursue during the remaining period of the stand-by arrangement for Turkey (EBS/80/126, Supplement 3, 6/19/80).

2. The letter from the Minister of Finance of Turkey dated January 3, 1983 shall be annexed to the stand-by arrangement for Turkey, and the letter of July 20, 1982, together with the Memorandum attached thereto, shall be read as supplemented by the letter of January 3, 1983. Accordingly, the understandings referred to in paragraph 4(b) of Executive Board Decision No. 7189-(82/115) relating to the net domestic assets of the Central Bank of Turkey and the net Central Bank credit to the public sector shall be those referred to in paragraph 6 of the attached letter of January 3, 1983. Moreover, the understandings referred to in paragraph 4(c) of Executive Board Decision No. 7189-(82/115) shall be supplemented by the understandings described in the final sentences of paragraphs 4 and 6 of the attached letter of January 3, 1983 relating to transfers to the state economic enterprises, and the reserve requirements of banks, respectively.

Turkey: Fund Position

(As of December 31, 1982)

Quota:	SDR 300 million	
Fund holdings of Turkish liras:	SDR 1,619.2 million or 539.7 per cent of quota, of which:	
	CFF	SDR 90.3 million, or 30.1 per cent of quota
	Oil facility	SDR 11.4 million, or 3.8 per cent of quota
	SFF	SDR 1,080.0 million, or 360.0 per cent of quota
SDR holdings:	SDR 0.1 million; (0.01 per cent of net cumulative allocation of SDR 112.3 million)	
Distribution of profits:	US$24 million	
Gold distribution:	129,230 fine ounces	

Attachment

Turkey: IMF Position, March 1982 to May 1983

(In millions of SDRs)

	Actual value date			Proposed during period	
	Mar. 3 1982	Apr. 30 1982	Aug. 26 1982	6 months to end-Feb. 1983	3 months to end-May 1983
Purchases	100	100	100	200 1/	90
Stand-by arrangement	100	100	100	200 1/	90
Ordinary resources	(--)	(--)	(--)	(--)	(--)
Borrowed resources	(100)	(100)	(100)	(200) 1/	(90)
Repurchases	...	...	...	61	41
Stand-by arrangement	...	...	...	31	17
CFF and Oil Facility	...	...	...	30	24
Net purchases	100	100	100	139	49
Fund holdings 2/ Total (cumulative)	1,517	1,589	1,650	1,789	1,838
Holdings in per cent of quota	505.7	529.8	550.2	596.4	612.8
(Excluding CFF and Oil Facility)	(452.0)	(481.7)	(511.3)	(567.5)	(591.9)

Source: Staff projections.

1/ Purchases of SDR 100 million (originally scheduled for October 1982) disbursed in January 1983, and SDR 100 million expected at end-February 1983.

2/ At end-period. Holdings in per cent of quota are based on total holdings to two decimal places in relation to Turkey's quota of SDR 300 million.

January 3, 1983

Dear Mr. de Larosière:

1. On behalf of the Government of Turkey, I am writing to you to describe the policies and measures to be followed during the period from January 1, 1983 to the end of the stand-by arrangement on June 17, 1983 and, in accordance with paragraph 8 of my letter to you dated July 20, 1982 to propose limits on (a) the net domestic assets of the Central Bank and (b) net Central Bank credit to the public sector during the above period.

2. Substantial progress continues to be made in achieving the objectives of the stand-by arrangement. In the domestic sector, a real growth rate of 4.4 per cent is expected to be recorded for GNP in 1982, following the increase of 4.3 per cent in 1981. Within the overall growth in 1982, it is noteworthy that the agricultural and energy sectors grew by 4.7 per cent and 9.9 per cent, respectively. As a result of our policies, real domestic expenditure was restrained and increased by only 1 per cent in 1982, thereby releasing resources for a substantial improvement in the foreign balance. The continued growth of real GNP was accompanied by a further decline in the rate of inflation from an average of more than 40 per cent in 1981 to one of less than 30 per cent in 1982. In the external sector, exports are estimated to increase by more than 40 per cent in volume in 1982, following an increase of 69 per cent in 1981, while the corresponding increases in import volume are only 4 per cent and 12 per cent, respectively. These trade results, combined with further growth in net invisible receipts (despite a rise in interest payments) are expected to lead to a current account deficit in 1982 very substantially lower than the $2.3 billion deficit recorded in 1981. As a percentage of GNP the deficit in 1982 would be about 2 per cent compared with 4.0 per cent in 1981. Net capital inflow should be about US$200 million below the 1981 level but should almost cover the current account deficit. After net Fund purchases there should be a small increase in net international reserves. In short, in 1982 there was satisfactory growth, a further decline in the rate of inflation, and a greatly improved balance of payments.

3. For 1983, the Government intends to continue with the current thrust of policies, with the aim of continuing growth, reducing the rate of inflation further and again achieving a reduction in the current account deficit of the balance of payments. To these ends fiscal and monetary policies will continue to emphasize restraint, interest rates will be maintained at positive real levels to encourage savings and an efficient allocation of resources and exchange rate policy will be operated flexibly to ensure a competitive external sector. Policies will aim at producing a growth of 4.8 per cent in real GNP and a reduction in the rate of inflation to 20 per cent. Given the very large reduction in the current account deficit in 1982, it would be reasonable to have a smaller improvement in 1983, thereby permitting slightly greater growth rates for domestic expenditure, especially private investment. As a proportion of GNP, it is expected that the current account deficit in 1983 should decline to 1.8 per cent.

4. With respect to budgetary policy, expenditures in 1982 were equivalent to 21.6 per cent of GNP, compared with a ratio of 22.6 per cent in 1981. In 1983, the present budget proposal implies a reduction in the ratio to 20.5 per cent, assuming that the rate of inflation is reduced to 20 per cent. The cash deficit as a percentage of GNP rose in 1982 to 1.7 per cent but it is expected to decline to 1.3 per cent in 1983. For the public sector as a whole, the financing requirement in 1982 is substantially less in real terms than in 1981, and a further such reduction is planned for 1983. Continued efforts are being made to reduce budget transfers to the SEEs. The measures that have been described to you in earlier letters, designed to prevent excessive investment or inappropriate means of financing, remain in force. In particular, the policy is firmly established that the investment program is essentially limited to a stated nominal level. Greater access to the Central Bank or to higher than planned transfers from the budget will not be permitted to compensate for shortfalls in enterprise self-financing or non-public sector borrowing targets. Budgetary transfers to the SEEs for the whole of 1983 are to be kept within limits that will not result in an increase in such transfers in real terms. For the period January to May 1983, in line with the aim, budgetary transfers to the SEEs will not exceed LT 110 billion.

5. In addition to ensuring that the financial operations of the SEEs do not put pressure on the economy, the Government is taking steps to improve their overall operations. A Government Committee is currently examining proposals to this end and it is expected to report to the Prime Minister before the end of May 1983. It is not possible at this stage to know what the final recommendations will be, but the Government is firmly committed to continue strengthening the economic efficiency and the finances of the SEEs.

6. The Government intends to continue with a monetary policy consistent with a reduction in the rate of inflation in 1983 to 20 per cent. Monetary targets will be established in line with this projected rate of inflation and a real growth rate of 4.8 per cent of GNP. Proposed limits have been established on the net domestic assets of the Central Bank and Central Bank credit to the public sector for the period January-May 1983. These are presented in an annexed table. In drawing up these credit targets it has been assumed that the net foreign liabilities of the Central bank will decrease by about US$35 million between end-December, 1982 and end-May, 1983. It is understood that if the change in net foreign liabilities were to differ significantly from this projection, the Government will consult with the Fund. It is also a basis of the program that no new build up of reserve requirement deficiences will be permitted.

7. Proposals are under preparation to reorganize the banking system. The financial strength of banks is to be increased by raising the minimum levels of equity capital of commercial banks. The qualifications required of the higher levels of bank managements are to be revised. In general, the supervision of bank deposits, credits and general operations is to be strengthened and a new deposit insurance scheme is to be introduced. The system of determining interest rates is also to be changed so as to give

a greater role to market forces. The present, somewhat disorderly system has resulted inexcessively high real interest rates on deposits--given the decline in inflation rate--to levels that permit little possibility of profits to banks and that lead to lending rates that discourage productive activities. The banks will be encouraged to jointly establish interest rates, varied according to types of deposits and loans, which will attract deposits and ensure adequate and profitable lending by the banks. It is expected that while the new rates will be lower than existing ones, they will still be positive in real terms.

8. For practical purposes external payments arrears have been eliminated. The Government intends to ensure that such arrears do not reoccur during the remaining period of the stand-by arrangement. The export retention scheme has been modified to remove features which give rise to a multiple currency practice. As a further step toward import liberalization, the 1983 import regime provides for an increase in the number of products which may be imported, a shift in a number of items from the less liberalized to be more liberalized list, and a reduction in import guarantee deposits. The Government intends to continue the process of import liberalization and to reduce reliance on export subsidies, taking into consideration protectionist policies abroad.

9. As stated in my letter of July 20, 1982, the restoration of external competitiveness has played a decisive role in fostering Turkey's external adjustment. The Government intends to continue its policy whereby the exchange rate for the lira is determined daily in the light of developments both in international currency markets and in domestic relative to foreign prices, with the aim as a minimum of maintaining existing external competitiveness. If the exchange rate is not adjusted accordingly, the Government will consult with the Fund and reach such understandings as may be necessary.

10. The Government of Turkey believes that the policies set forth above are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. 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,

Adnan Baser Kafaoglu
Minister of Finance

Turkey: Limits on the Net Domestic Assets of the Central Bank and on Net Central Bank Credit to the Public Sector 1/

(In billions of Turkish liras)

	Limits on	
	Net domestic assets of the Central Bank	Net Central Bank credit to the public sector 2/
January-March 1983 3/	1,014	617
March 1983 4/	1,029	623
April-May 1983 3/	1,052	625
May 1983 4/	1,062	625

1/ The concepts used in calculating these limits and adjustments to be made are set forth in a separate technical memorandum. The limits will be reduced by the amount of any net cumulative disbursements of balance of payments support loans after May 25, 1979 which are not included in the foreign liabilities of the Central Bank or for which a corresponding deposit in a blocked account of the Central Bank has not been made or maintained in full.

2/ Net Central Bank credit to the public sector is defined as the net of all Central Bank assets and liabilities to all public sector entities, comprising, inter alia, the Central Government, the annexed budget, the Monopolies Administration, revolving funds, local authorities, and all State Economic Enterprises. Amounts of repayments of principal and interest in respect of the Central Government's and other public sector entities' external debt, which have not by the due date been deposited with the Central Bank, are also included in the Central Bank credit to the public sector.

3/ Average at last reporting date in each month.

4/ Average of each weekly reporting date during this month.

Table 1. Turkey: Selected Economic and Financial Indicators, 1980-82

	Actual 1980	Actual 1981	Program in EBS/82/19 1982	Program in EBS/82/130 1982	Revised estimate 1982	Program/official projection 1983
	(Annual percentage changes, unless otherwise specified)					
National income and prices						
GNP at constant prices	-1	4 1/2	4 1/2	4 1/2	4 1/2	4 3/4
GNP deflator	101	42	25	32-33	27	20
Consumer prices	93	35	...	...	...	...
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	29	62	24 1/2	24 1/2	23 1/4	17 1/4
Imports, c.i.f.	56	13	12	7 1/2	-3 3/4	12 3/4
Non-oil imports, c.i.f.	21	25	13	11	-4 3/4	16 1/2
Export volume	11	69	21	21	40	11
Import volume	-1	12	4 1/2	5	4	7 1/2
Terms of trade (deterioration -)	-26 1/2	-5	-1/2	1/2	-5	--
Nominal effective exchange rate (depreciation -) 1/	-51	-21	...	...	-21 1/2	...
Real effective exchange rate (depreciation -) 1/	-21 1/2	-8	...	...	-4	...
Government budget 2/						
Revenue and grants	68	61	35	39	26 1/2	23
Total expenditure	79	29 1/2	35	35 1/2	27	33
Money and credit						
Domestic credit of Central Bank 1/	53	34	...	20	12	22
Government	50	31	...	12	10	10
Private sector	57	40	...	31	15	37
Money and quasi-money (M_2) 3/	57	59	...	50	62	35
Velocity (GNP relative to M_2)	27	-7	...	-8	-18 1/2	-7
Interest rate (annual rate, one-year savings deposit)	33	50	...	...	50	...
	(In per cent of GNP)					
Overall public sector deficit	-10	-6 1/2	-5 1/4	-5	-5 1/2	-4 1/2
Central government savings	-1/2	4	4	3 1/4	3 1/4	3 3/4
Central government budget deficit (including transfers to SEEs)	-4 1/4	-1/4	-1 1/4	-1 1/2	-1 3/4	-1 1/4
Domestic bank financing	4	--	1 1/2	1 1/4	1 3/4	1 1/2
Foreign financing	1/4	1/4	-1/4	1/4	--	--
Financing requirement of SEEs	-10 1/4	-8 3/4	-5 1/4	-5	-5 3/4	-5 1/4
Gross domestic investment	26 1/2	24 1/2	24	23 1/2	21 1/2	21 1/2
Gross domestic savings	20 1/4	20 1/2	21	21	19 1/2	19 3/4
Current account deficit	-6 1/4	-4	-3	-2 1/2	-2	-1 3/4
External debt	28	30	33	33	33	...
Debt service ratio	26	23 1/2	23	23	23	...
Interest payments (in per cent of exports of goods and services)	12 1/2	15	14	13 1/2	14 1/4	13
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	-300	-50	-250	25	-45	-120
Official reserves (months of imports)	2	2	1 1/2	2	2	...
External payments arrears (end-period)	1,266	320	--	--	--	--

Sources: Turkish authorities; and staff estimates.

1/ December over December of the previous year.
2/ Ten-month budget figures for 1982 scaled up by 1.2.
3/ Average for the year.

Table 2. Turkey: National Expenditure and Production

	1981	Actual 1980	Actual 1981	Estimate in EBS/82/130 1982	Current estimate 1982	Program 1983
	(In billions of liras)	(Percentage change in volume from preceding year)				
Consumption	5,222.3	--	3.1	3.7	3.1	4.2
Public	700.1	9.0	4.0	8.1	2.7	8.4
Private	4,522.3	-1.2	2.9	3.0	3.1	3.5
Fixed investment	1,250.9	-10.9	3.0	6.0	3.0	5.7
Public	761.2	-2.3	7.5	6.8	2.4	5.2
Private	489.7	-20.0	-3.4	5.0	4.0	6.5
Stockbuilding 1/	321.7	(2.5)	(-1.4)	(-0.9)	(-2.2)	(-0.2)
Total domestic demand	6,794.9	0.1	1.7	3.4	0.9	4.2
Foreign balance 1/	-230.6	(-1.2)	(2.6)	(1.0)	(3.5)	(0.6)
GNP	6,564.3	-1.1	4.3	4.4	4.4	4.8
	(Share of GNP, in per cent)					
Agriculture	21.5	1.7	0.3	3.2	4.7	3.4
Industry	21.1	-5.4	7.2	6.4	3.3	5.5
Construction	6.2	0.8	0.4	4.0	0.6	4.9
Services	42.2	-0.4	5.4		4.1	
GDP at factor cost	91.0	-1.0	4.2	...	3.8	4.7
GNP at market prices	100.0	-1.1	4.3	4.4	4.4	4.8

Source: State Planning Organization.

1/ Contribution, in percentage points, to growth in GNP.

Table 3. Turkey: Price Developments

	Wholesale prices	Cost of Living: Ankara 1/	Cost of Living: Istanbul 1/	Cost of Living: Istanbul 2/	Implicit GNP Deflator
		(Per cent change over average for corresponding period of preceding year)			
1978	52.6	53.4	61.9	...	43.7
1979	63.9	62.0	63.5	...	73.3
1980	107.2	101.4	94.3	75.6	103.3
1981	36.8	34.0	37.6	35.9	41.9
1982 Jan.-Nov.	25.8	28.2	33.0	35.1	...
1982 November	21.1	27.1	28.0	30.6	...
1982 Estimate	...	...	...	...	26.8
1983 Program	...	...	...	...	20.0
		(Per cent change over average for corresponding quarter of previous year)			
1981 Q1	57.9	57.7	51.3	42.6	
Q2	35.0	28.5	37.9	32.7	
Q3	37.2	29.2	34.7	36.2	
Q4	27.5	27.7	30.7	33.6	
1982 Q1	26.1	26.2	33.7	37.8	
Q2	30.2	30.2	37.2	40.2	
Q3	24.7	28.3	31.7	31.5	

Source: Turkish authorities.

1/ Ministry of Commerce.
2/ Wage-earners' index of Istanbul Chamber of Commerce.

Table 4. Turkey: Balance of Payments, 1980-83

(In millions of U.S. dollars)

	Actual 1981	Projection in EBS/82/19 1982	Projection in EBS/82/130 1982	Current Projection 1982	Forecast 1983
Trade balance	-4,230	-4,150	-3,750	-2,800	-2,900
Exports, f.o.b.	4,703	5,850	5,850	5,800	6,800
Imports, c.i.f.	-8,933	-10,000	-9,600	-8,600	-9,700
Services balance	1,888	2,350	2,340	1,670	1,995
Workers' remittances	2,490	2,850	2,700	2,250	2,350
Interest payment (before debt relief)	-1,443	-1,450	-1,400	-1,500	-1,420
Tourism	277	350	350	230	275
Other services (net)	564	600	690	690	790
Current balance	-2,342	-1,800	-1,410	-1,130	-905
Capital account (long- and medium-term)	1,049	1,135	1,435	1,045	735
Project and suppliers' credits	642	850	750	725	750
Program loans	480	500	500	487	250
Private foreign capital 1/	129	235	235	100	100
Loans from banks	-182	--	200	70	135
Of which:					
Acceptance credits (net)	(-147)	(--)	(--)	(--)	(--)
Eurocurrency loans	(--)	(--)	(200)	(45)	(155)
Other	(-35)	(--)	(--)	(25)	(-20)
Special assistance under the auspices of the OECD	315	400 2/	400 2/	263 2/	350 3/
Debt repayments (before debt relief)	-1,185	-1,400	-1,400	-1,350	-1,850
Debt relief	850	550	750	750	1,000
Principal	(600)	(450)	(650)	(650)	(930)
Interest	(250)	(100)	(100)	(100)	(70)
Short-term credits, errors and omissions	1,204 4/	400	--	35	40
SDR allocations	24	--	--	--	--
Overall balance	-65	-265	25	-50	-130
Financing	65	265	-25	50	130
Net use of Fund resources	335	320	320	200	130
Increase in net official reserves other than arrears and IMF (-)	-270	-55	-345	-150	--

Source: Information provided by the Turkish authorities; and staff estimates.

1/ *Includes imports with waiver.*
2/ Represents amount expected to be disbursed from 1981 pledges only.
3/ Represents amount expected to be disbursed from 1982 pledges only.
4/ Includes import prefinancing and other short-term facilities.

Table 5. Turkey: Total External Disbursed Debt, 1977-81

(In millions of U.S. dollars)

End of period	1977	1978	1979	1980	1981
Total outstanding debt (disbursed only)	11,227	14,416	14,234	16,202	17,544
By borrower:					
Government	4,876	6,884	7,514	10,031	11,963
Central Bank	5,584	6,606	6,053	5,333	4,858
Other Government 1/	359	420	308	620	459
Private sector	258	356	359	218	264
Other 2/	150	150	--	--	--
By maturity:					
Medium- and long-term debt	5,134	7,240	10,678	13,722	15,433
Project and program credits	4,469	6,397	6,855	9,268	11,312
Convertible Turkish lira deposits (rescheduled)	--	--	2,269	2,137	2,077
Eurocurrency loans	407	487	659	763	651
Bankers' credits	--	--	429	429	429
Third-party reimbursement claims (rescheduled)	--	--	107	107	100
Suppliers' arrears (rescheduled)	--	--	--	800	600
Private credits	258	356	359	218	264
Short-term debt	6,093	7,176	3,556	2,480	2,111
Suppliers' arrears	1,580	1,560	1,400	--	--
Convertible Turkish lira deposits	2,267	2,860	617	543	473
Acceptance credits	560	862	435	377	230
Dresdner Bank schemes	173	363	344	365	473
Petroleum credits	359	420	308	620	459
Overdrafts	240	341	244	254	69
Third-party reimbursement claims	107	107	--	--	--
Other 2/	807	663	208	321	407
By creditor:					
Multilateral agencies	1,707	2,185	2,485	2,285	4,079
IMF	409	622	630	1,054	1,322
World Bank, IDA, and IFC	810	945	1,180	1,438	1,902
European Investment Bank	398	447	471	447	416
European Resettlement Fund	90	145	148	253	300
Islamic Development Bank	--	26	56	60	86
OPEC Fund	--	--	--	15	15
Kuwait and Saudi Development Funds	--	--	--	18	38
Bilateral lenders 3/	2,762	4,212	4,370	5,983	7,233
OECD countries	2,465	3,871	3,976	5,253	6,340
OPEC countries	27	26	55	349	348
Other countries	270	315	339	381	545
Commercial banks	4,138	5,353	5,122	5,097	4,794
Private lenders 4/	2,280	2,336	2,067	1,638	1,323
Other	340	330	190	199	115
Memorandum item:					
Ratio of total outstanding debt to GNP (in per cent)	23	27	20	28	30

Sources: Data supplied by the Turkish authorities; the World Bank; and staff estimates.

1/ Includes bilateral official loans to state enterprises.

2/ Includes short-term trade credits and credit lines established under bilateral arrangements with Iran and Iraq.

3/ Includes both commercial credits and loans from governments.

4/ Includes unrescheduled arrears on suppliers' credits.

Table 6. Turkey: External Debt Service Projections

(In billions of U.S. dollars)

	1982	1983	1984	1985	1986	1987	1988
A. On estimated outstanding debt (including undisbursed) at end 1981							
Gross debt service payments	3.0	3.4	3.2	3.3	3.0	2.5	2.1
Principal	(1.5)	(2.1)	(1.9)	(2.1)	(1.9)	(1.7)	(1.5)
Interest	(1.5)	(1.3)	(1.3)	(1.2)	(1.1)	(0.8)	(0.6)
Debt relief	0.8	1.0	0.6	0.2	--	--	--
Principal	(0.7)	(0.9)	(0.6)	(0.2)	(--)	(--)	(--)
Interest	(0.1)	(0.1)	(--)	(--)	(--)	(--)	(--)
Net debt service payments	2.2	2.4	2.6	3.1	3.0	2.5	2.1
Principal	(1.8)	(1.2)	(1.3)	(1.9)	(1.9)	(1.7)	(1.5)
Interest	(1.4)	(1.2)	(1.3)	(1.2)	(1.1)	(0.8)	(0.6)
B. On new borrowing during 1982-88 1/		0.2	0.4	0.6	0.9	1.2	1.4
Principal		(--)	(--)	(0.1)	(0.2)	(0.4)	(0.7)
Interest		(0.2)	(0.4)	(0.5)	(0.7)	(0.8)	(0.7)
A. + B. Total		2.6	3.0	3.7	3.9	3.7	3.5
Principal		(1.2)	(1.3)	(2.0)	(2.1)	(2.1)	(2.2)
Interest		(1.4)	(1.7)	(1.7)	(1.8)	(1.6)	(1.3)
As per cent of exports of goods and services 2/	23	24	24	27	26	22	19

Source: Turkish authorities; and IMF staff calculations.

1/ The amount of new borrowing under the central scenario described in detail in the discussion of medium-term balance of payments perspectives in EBS/82/130 (7/26/82). The assumed terms of new borrowing are an average maturity of 10 years with a grace period of 3 years and an average interest rate of 10 per cent.

2/ Based on export growth rates under the central scenario described in EBS/82/130.

Table 7. Turkey: Monetary Developments and Program

	Dec. 1981	May 1982	Dec. 1982 Program EBS/82/130	Dec. 1982 Actual	May 1983 Proposed program	(Year) 1981	1982 1st half Actual	1982 2nd half Program EBS/82/130	1982 2nd half Actual	1983 Jan.-May Proposed program
	(In billions of Turkish liras)					(Percentage change over previous year or corresponding period of previous year)				
Reserve money	641	731	827	943	1,040	48	51	32 1/2	47	43 1/2
Net foreign assets	-163	-138	-155	-32	-22					
Net domestic assets	804	869	982	975	1,062					
Credit to public sector	(537)	(554)	(602)	(592)	(625)					
Credit to private sector	(380)	(432)	(500)	(438)	(512)					
Other items, net	(-113)	(-117)	(-120)	(-55)	(-75)					
M_2	1,286	968	...	2,073	...	59	65	41	60	44 1/2

Sources: Turkish authorities; and IMF staff.

Table 8. Turkey: Selected Interest Rates

(In per cent per annum)

	1979	1980	1981	1982	1983
	End-December			June 1	January 1
Commercial banks					
Deposits rates					
Commercial and public deposits	--	--	--	--	--
Sight deposits	3	5	5	5	20
Time deposits (12-month)	20	33	50	50	45
"Effective yield" on time deposits 1/	16 3/	26 1/2 3/	37 1/2 3/	37 1/2	36 4/
"Effective cost" of borrowing 2/					
General, long term	50	75	74	70	...
Export credits	...	25	32	40	...
"Scheduled" lending rates					
Short term, general	19	31	36	36	36
Short term, agriculture	14	22	22	20	20
Short term, exports	...	22	27	31 1/2	31 1/2
Long term general	20	36	41	41	41
Long term, agriculture	16	24	24	22	22
Central Bank					
Interest paid on required reserves					
Sight deposits	5	10	20	12 1/2	}19 1/2
Time deposits	8	16	26	19 1/2	
Rediscounts and advances					
Short term, general	10 3/4	26	31 1/2	31 1/2	31 1/2
Short term, agriculture	11 1/2	19 1/2	20	18	18
Short term, exports	11	17 3/4	27	31 1/2	31 1/2
Long term, general	14	28 1/2	32 3/4	32 3/4	32 3/4

Sources: Central Bank of Turkey; and staff estimates.

1/ After deduction of withholding tax.
2/ Staff estimate. Includes, in addition to "scheduled" lending rate, net contribution to Interest Rate Rebate Fund, financial transactions tax, commission charged by bank, and compensating balance required by bank.
3/ 25 per cent withholding tax.
4/ 20 per cent withholding tax.

Table 9. Turkey: Public Sector Borrowing Requirement

(In billions of Turkish liras)

	1981	1982 Budget	1982 Estimate in EBS/82/130	1982 Current estimate	1983 Budget
Central Government financing balance 1/	-18	-109 2/	-143 2/	-144 2/	-141
Plus transfers to SEEs 1/	214	243 3/	243 3/	242 3/	316
Less taxes paid by SEEs 3/	-42	-49	-75	-79	-106
Plus financing balance of SEEs 3/4/	-580	-443	-467	-498	-578
Public sector borrowing requirement	-426	-358	-442	-479	-509
Foreign borrowing of Central Government 1/	13	-18 2/	28 2/	-10 2/	-9
Foreign borrowing of SEEs 3/5/	122	68	103	81	118
Public sector domestic borrowing requirement	-291	-308	-311	-408	-400
Memorandum items:			(In per cent of GNP)		
Public sector borrowing requirement	6½	4¼	5	5½	4½
Public sector domestic borrowing requirement	4½	3½	3½	4½	3½

Source: IMF staff estimates from official data.

1/ Fiscal-year basis ending February in 1981 and December in 1982 and 1983.
2/ 10-month figures scaled up to an annual rate.
3/ Calendar-year data.
4/ Defined as total investment less profit less depreciation.
5/ Including lira counterpart of IBRD structural adjustment loans.

Table 10. Turkey: Consolidated Budget 1/

(In billions of Turkish liras)

		1982 March-December			1983
	1981	Budget	Estimate in EBS/82/130	Current estimate	Budget
Revenues	1,378	1,665	1,600	1,450	2,364
Expenditures	1,482	1,715	1,674	1,571	2,505
Personnel	390	490	450	440	695
Other current	255	346	300	280	498
Investment	290	372	364	360	555
Transfers	547	508	560	491	757
Of which: to SEEs	(214)	(233)	(231)	(233)	(316)
Budget balance	-104	-50	-74	-121	-141
Change in accounts payable, net	86	-41	-45	1	--
Financing balance	-18	-91	-119	-120	-141
Foreign borrowing	13	-15	24	-8	-9
Domestic borrowing	113	106	95	128	150
Central Bank	(53)	(40)	(30)	(-8)	(35)
Other	(60)	(66)	(65)	(136)	(115)
Use of bank deposits (+)	-108	--	--	--	--
Memorandum items:		(In per cent of GNP)			
Revenues	21.0	23.2 2/	21.1 2/	20.0 2/	21.6
Expenditures	22.6	23.8 2/	22.1 2/	21.6 2/	22.9
Of which: transfers to SEEs	(3.3)	(2.9)	(2.7)	(2.8)	(2.9)
Budget balance	-1.6	-0.6 2/	-1.0 2/	-1.7 2/	-1.3
Financing balance	-0.3	-1.1 2/	-1.5 2/	-1.7 2/	-1.3

Source: Ministry of Finance.

1/ For 1981, fiscal year data (March-February); for 1982, the data refer to the ten-month period March-December only; for 1983, calendar year.
2/ For comparative purposes, the ten-month data have been multiplied by 1.2 in order to put them broadly on a twelve-month basis, but with transfers to the SEEs estimated separately.

Table 11. Turkey: Accounts of the SEEs

(In billions of Turkish lira; calendar year basis)

	1981	Program 1982	Estimate in EBS/82/130 1982	Current estimate 1982	Program 1983
Sales revenue	1,767	2,601	2,544	2,556	3,386
Total expenditure	1,759	2,554	2,518	2,510	3,318
Wages and salaries	314	380	376	402	500
Purchases of goods and services	1,390	2,103	2,077	2,034	2,730
Other	55	71	65	74	88
Profit/loss before taxes	8	47	26	46	68
Duty losses 1/	-111	-83	-98	-94	-109
Operational profit	119	130	124	140	177
Total investment	616	540	541	590	706
Fixed investment	406	472	496	496	611
Increase in stocks	210	68	45	94	95
Depreciation	28	50	48	46	60
Financing requirement	580	443	467	498	578
Budgetary transfers	241	243	243	242	316
Taxes	-42	-49	-75	-79	-106
Borrowing from Central Bank	32	20	25	40	13
State Investment Bank	16	34	34	34	40
Foreign borrowing 2/	122	68	103	81	118
Transfers from Price Stabilization Fund	50	50	60	77	80
Short-term borrowing	161	77	78	103	117
Memorandum items: (in per cent Of GNP)					
Profit/loss before taxes	0.1	0.5	0.3	0.5	0.6
Total investment	9.4	6.2	6.0	6.8	6.5
Financing requirement	8.8	5.2	5.1	5.7	5.3

Source: Ministry of Finance.

1/ Losses resulting from the retention of price controls by the Government for social reasons.

2/ Including lira counterpart of IBRD structural adjustment loans.

Table 12. Turkey: Quantitative Performance Criteria

(In billions of Turkish liras)

a. Credit ceilings

	Net domestic assets of the Central Bank			Net Central Bank credit to the public sector		
	Limit	Revised 5/ limit	Actual	Limit	Revised 5/ limit	Actual
1982 July-September 1/	935	...	930	590	...	584
September 2/	955	...	933	595	...	586
October-December 1/	975	958	951	600	595	591
December 2/	982	972	972	602	600	595
1983 January-March 1/	1,014	...	...	617	...	...
March 2/	1,029	...	...	623	...	...
April-May 1/	1,052	...	...	625	...	...
May 2/	1,062	...	...	625	...	...

b. Budgetary transfers to SEEs

	Limit	Actual
1982 March-December	233	232.6
1983 January-May	110	...

c. Contracting of new non-concessional public and publicly guaranteed foreign borrowing with a maturity range of 1-10 years	Limit	Actual
	1.0 3/	0.26 4/

Sources: Turkish authorities and IMF staff.

1/ Average of last report date in each month.
2/ Average of each weekly reporting date during the month.
3/ July 1, 1982 - June 17, 1983.
4/ July 1, 1982 - December 31, 1982.
5/ As described in EBS/82/230 (12/13/82) and Supplement 1 (1/4/83).

Table 13. Turkey: Synthesis of Main Program Relationships and Assumptions 1/

	Estimated outcome 1982	Projection 1983
	(In millions of U.S. dollars)	
Increase in foreign reserves (-)	-150	--
Net purchases from IMF	200	130
Overall external deficit (+)	50	130
Plus capital inflows	1,080	775
Current account deficit	1,130	905
Plus exports	5,800	6,800
Plus net invisibles	1,670	1,995
Program imports	8,600	9,700
	(Percentage change)	
Total value of imports	-3 3/4	12 3/4
Import prices	-7 1/2	5
Import volume	4	7 1/2
Elasticity of imports to GNP	(0.9)	(1.6)
Real GNP	4 1/2	5
GNP deflator	27	20
Nominal GNP	32 1/2	25 3/4
Velocity of M_2	-18 1/2	-7
M_2	62	35
Reserve money multiplier	2.11	2.12
Reserve money	48 1/2	34 1/2
	(In billions of Turkish liras)	
Increase in reserve money	302	255
Change in Central Bank net foreign assets	131	43
Permissible increase in NDA of Central Bank	171	212

Source: IMF staff.

1/ Although the figures for 1983 are for the year as a whole; the program covers only the period January - May 1983.