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May 20, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Turkey - Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Turkey and its request for a stand-by arrangement equivalent to SDR 225 million. Draft decisions appear on page 19.

This subject has been tentatively scheduled for discussion on Wednesday, June 22, 1983.

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. 74313).

Att: (1)

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INTERNATIONAL MONETARY FUND

TURKEY

Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

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

(In consultation with other Departments)

Approved by L. A. Whittome and Subimal Mookerjee

May 19, 1983

I. Introduction

Discussions for the Article IV consultation and the proposed use of Fund resources were conducted in Ankara on March 17-April 1, 1983 by a staff team consisting of Geoffrey Tyler (Head), Leif Hansen, George Kopits, Leigh Alexander (all EUR), Naheed Kirmani (ETR), and, as secretary, Margaret Wallace (EUR). 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 had discussions with the Minister of Finance and the Governor of the Central Bank.

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

A three-year stand-by arrangement with Turkey for an amount equivalent to SDR 1,250 million (416.7 per cent of the present quota) was approved by the Executive Board on June 18, 1980 (EBS/80/126, 6/4/80, and Sup. 3, 6/19/80). The midterm review of the program for the third year was completed at EBM/83/43 (3/4/83) on the basis of EBS/83/17 (1/21/83). Turkey has purchased the full amount available under the stand-by arrangement, with the last of 12 purchases taking place on May 2, 1983 for the equivalent of SDR 90 million. As of April 30, 1983, prior to the twelfth purchase, the Fund's holdings of Turkish liras amounted to 589.5 per cent of Turkey's quota of SDR 300 million.

In a letter from the Minister of Finance to the Managing Director dated May 18, 1983 (annexed), Turkey requests a new one-year stand-by arrangement in an amount equivalent to SDR 225 million (75 per cent of the present quota). Financing of the proposed stand-by would be SDR 185.6 million from ordinary resources and SDR 39.4 million from borrowed resources. Purchases would be available in four equal tranches of SDR 56.25 million with the first available following approval of the stand-by arrangement, and the remaining three in October 1983, February 1984, and April 1984. The resulting Fund holdings of Turkish liras,

assuming that repurchases are effected on schedule, are shown in the table attached to Appendix II. A waiver of the limitation in Article V, Section 3(b)(iii), of the Articles of Agreement would be required.

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$775.0 million has been disbursed through April 30, 1983. Negotiations for a fourth structural adjustment loan for an amount of US$300 million are proceeding.

II. Developments in 1982 and Prospects for 1983-84

1. Domestic economy

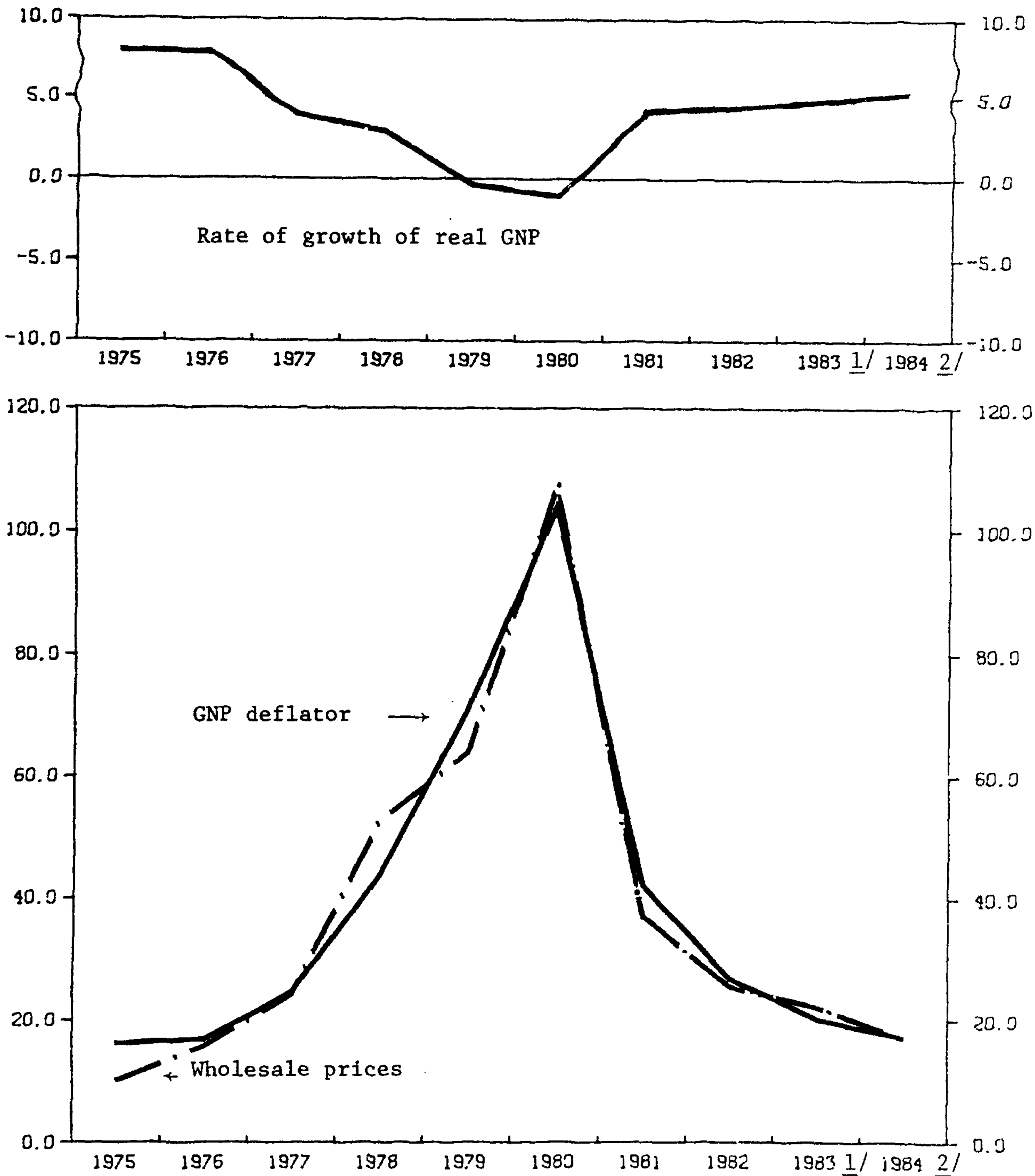
The determined implementation of the 1980 stabilization program led to a marked improvement in the performance of the economy in 1981-82. After declining in each of the two previous years, GNP grew by 4.2 per cent in 1981 and by 4.4 per cent in 1982, while the rate of inflation as measured by the increase in the GNP deflator fell from over 100 per cent in 1980 to 27 per cent in 1982 (Chart 1).

By contrast with 1981, the major contribution to GNP growth in 1982 came from domestic demand, which rose by 2 1/2 per cent, notwithstanding the negative contribution of over 1 per cent arising from the running down of inventories (Table 2). Private consumption picked up strongly, boosted by a substantial increase in farm incomes and a small rise in the real after-tax incomes of employees. Following a turnaround in the latter part of 1981, real private fixed investment increased by 5 1/2 per cent in 1982 with particularly rapid growth in agriculture and transportation. The growth of public sector demand slowed, with strict expenditure limits constraining the growth of real public fixed investment to less than 1 per cent. The upswing in domestic demand was reflected in a more rapid growth of imports, and export growth slowed following the extremely high increase in 1981. As a result, the contribution of the real foreign balance to growth, although still sizable, was reduced from 2 1/2 per cent in 1981 to about 2 per cent in 1982.

On the production side, the most rapid increase was in agriculture where a record harvest enabled value added to rise by 6.7 per cent. Total employment increased at about the same rate as in 1981 (0.8 per cent), but insufficiently to offset the growth of the labor force, and the rate of recorded unemployment rose by 1/2 per cent to about 17 1/2 per cent.

Real GNP is forecast to increase by 4.8 per cent in 1983 and by 5.3 per cent in 1984. In both years, the contribution of the real foreign balance will be reduced compared with 1982. A further rise in real after-tax incomes is expected to stimulate private consumption, while private fixed investment should benefit from the somewhat lower real interest rates, a further rise in capacity utilization, and increased business confidence. In 1983, private consumption and fixed investment are expected to increase by 4 1/2 and 7 per cent, respectively. Public

CHART 1
TURKEY
GROWTH AND INFLATION
(ANNUAL PERCENTAGE CHANGE)



Sources: State Planning Organization and Ministry of Commerce.
1/ Official estimate.
2/ Forecast.

fixed investment is targeted to rise by 5.2 per cent in 1983 with priority to be given to energy, agriculture, and transportation. This target represents an upper limit and covers mainly the completion of existing projects; as in 1982, the actual outcome will probably be lower. The rate of unemployment may rise to around 18 per cent.

In 1982 the rate of inflation continued to decline, as the rate of increase of the GNP deflator fell from almost 42 per cent to 27 per cent. It is forecast to decline to 20 per cent in 1983 and to 17 per cent in 1984. To improve the quality of price statistics, a new consumer price index (prepared with technical assistance from the OECD) was published in April 1983, and a new wholesale price index is scheduled for publication in the latter part of the year (see the recent economic developments paper). The reduction in the forecast rate of inflation for 1983 should be assisted by the High Arbitration Court's 1983 award of a wage and salary increase slightly over 20 per cent.

To reduce reliance on imported energy over the medium term, energy prices have been adjusted in line with world market prices since 1980, considerable efforts have been made to develop lignite and hydroelectric resources and energy projects have been accorded priority in the public investment program. The share of oil in total energy consumption declined from 51 per cent in 1980 to 47 per cent in 1982. By 1990, its share is estimated to decline to 37 per cent in the absence of new domestic discoveries. A revised Oil Law was passed in March 1983 to facilitate foreign participation in oil exploration.

2. Balance of payments and external debt

a. Balance of payments

In 1982 Turkey experienced a marked improvement in its external payments, surpassing significantly program targets. The current account deficit declined by more than one half to US$1.2 billion (2.2 per cent of GNP) as against the original forecast of US$1.8 billion, principally because of lower import prices (Table 4). The value of exports (up 22 per cent) was broadly on target, with further gains in market shares in Middle Eastern countries more than compensating for lower agricultural export prices. The surplus on services remained unchanged, as a 12 per cent decline in workers' remittances and some increase in interest payments was offset by increases in other invisibles, including receipts from construction. The decline in remittances is somewhat deceiving since deposits by workers in savings accounts with the Dresdner Bank and in convertible Turkish lira deposits are recorded as short-term capital inflows. The total of these deposits and remittances rose from US$2.5 billion in 1981 to US$2.6 billion in 1982. Moreover, in 1982 the depreciation of the deutsche mark reduced their value in dollar terms.

Net medium- and long-term capital inflow increased by about US$0.2 billion in 1982 to US$1.2 billion, with larger gross inflows from all sources more than matching an increase of about US$0.3 billion in repayments after debt relief. Net short-term inflows, including net

errors and omissions, were substantially less (down US$1.0 billion) than in 1981, when leads and lags appear to have moved in Turkey's favor. Net official reserves (other than IMF accounts) improved by US$0.5 billion in 1982. At the end of 1982 gross official reserves stood at US$1.1 billion, equivalent to about six weeks of merchandise imports.

For 1983, the current account deficit is officially projected to decline to US$0.6 billion on the basis of a 3 per cent improvement in the terms of trade, assuming a fall in the price of oil to US$32 per barrel and increased export prices, and further expansion of export market shares in the Middle East. The overall forecast of the trade account was accepted by the staff mission. However, it felt that the impact of lower oil prices had probably been underestimated and thought the export growth to Middle Eastern markets was optimistic in the light of lower oil revenues and increased competition from other exporters. (For a more detailed discussion of exports to the Middle East see Appendix III.) A forecast rise of US$0.2 billion in the surplus in invisibles reflects mainly declining interest payments. Remittances and other invisible receipts are expected to increase slightly.

Net capital inflows of all kinds are expected to decline by about US$0.4 billion in 1983. Debt repayments (after debt relief) are forecast to rise, official inflows to decline, and loans from commercial banks to increase. Net official reserves (other than the IMF account) should again increase by about US$0.5 billion.

The preliminary projection for 1984 reduces the current deficit to US$0.3 billion, based on increases of about 7 per cent in the volume of imports and 10 per cent in the volume of exports. Projected imports should permit the forecast increase in real output.

b. <u>External debt</u>

Total external disbursed debt rose in 1982 by 4.7 per cent to US$17.6 billion, or one third of GNP (Table 5); the depreciation of West European currencies vis-à-vis the dollar, kept the increase below what it would otherwise be. The growth was entirely medium and long term, with outstanding short-term debt virtually unchanged at US$2.1 billion, accounting for only 12 per cent of total debt, compared with 50 per cent in 1978. Following the major rescheduling of short-term debt in the late 1970s, the authorities have been cautious on short-term borrowing.

Of the increase of some US$800 million in medium- and long-term debt in 1982, about 80 per cent originated from multilateral sources, and the remainder from bilateral (government) sources. Growth of the latter has decelerated, mainly because of a scaling down of the special assistance program under OECD auspices, with both pledges and disbursements sharply lower than in the previous two years. The importance of the assistance provided by OPEC countries has increased. Thus, OPEC countries held 8 per cent of outstanding bilateral medium- and long-term debt in 1982, compared with almost none in 1979. In addition, the Islamic Development Bank has increased lending to Turkey, in part to finance oil and fertilizer imports by Turkey from member states of the Organization of the Islamic Conference.

For the first time since 1979, Turkey resumed medium-term syndicated commercial borrowing in 1982, but on a relatively modest scale, and outstanding indebtedness to foreign commercial banks declined marginally. The authorities recognize that they will need to increase borrowing from international capital markets as the special official assistance programs are inevitably scaled down. Their strategy is to expand banking relationships worldwide and to approach international markets in an orderly fashion when borrowing opportunities arise on terms and conditions considered attractive. External confidence is crucial to the success of this strategy. A welcome development is that recently official export credit and insurance agencies of OECD countries have re-established credit for Turkey.

Debt service payments based on existing debt are presented in Table 6. Possible medium-term trends in debt service which take into account new borrowing are discussed in Appendix IV. The ratio of debt service on foreign debt, excluding short-term debt, to foreign exchange earnings is forecast to decline from 26.8 per cent in 1982 to 25.0 per cent in 1983 and should decline again in 1984. Thereafter, debt service is affected by increased amortization as rescheduled debt falls due for repayment. The projections are sensitive to a number of assumptions including the ratio of imports to GNP and the rate of growth of exports. They suggest that, provided export growth can be maintained at levels not too far below those expected in 1983 and provided gross access to foreign capital can increase somewhat above recent levels, the debt service ratio should decline further, while at the same time maintaining acceptable growth rates. However, increased loans from commercial banks will be essential as concessional official loans decline.

In recent years, there has been some improvement in debt monitoring, and more comprehensive data is now available. Nevertheless, deficiencies remain. While fairly timely information is available on the contracting of public and publicly guaranteed debt, monitoring of loan disbursements is less systematic. There are two main sources of difficulty: first, reporting of actual disbursements by end-users, particularly SEEs, is less than timely; second, the collating of data is still done manually, leading to additional delays and difficulties. As a result, the major exercise of compiling and collating debt statistics is still done only once a year. The authorities are therefore in the process of computerizing debt statistics and setting up a more systematic classification and reporting process. In this regard, they have requested technical assistance from the World Bank and the Fund in the near future.

III. Economic Policies

1. General introduction

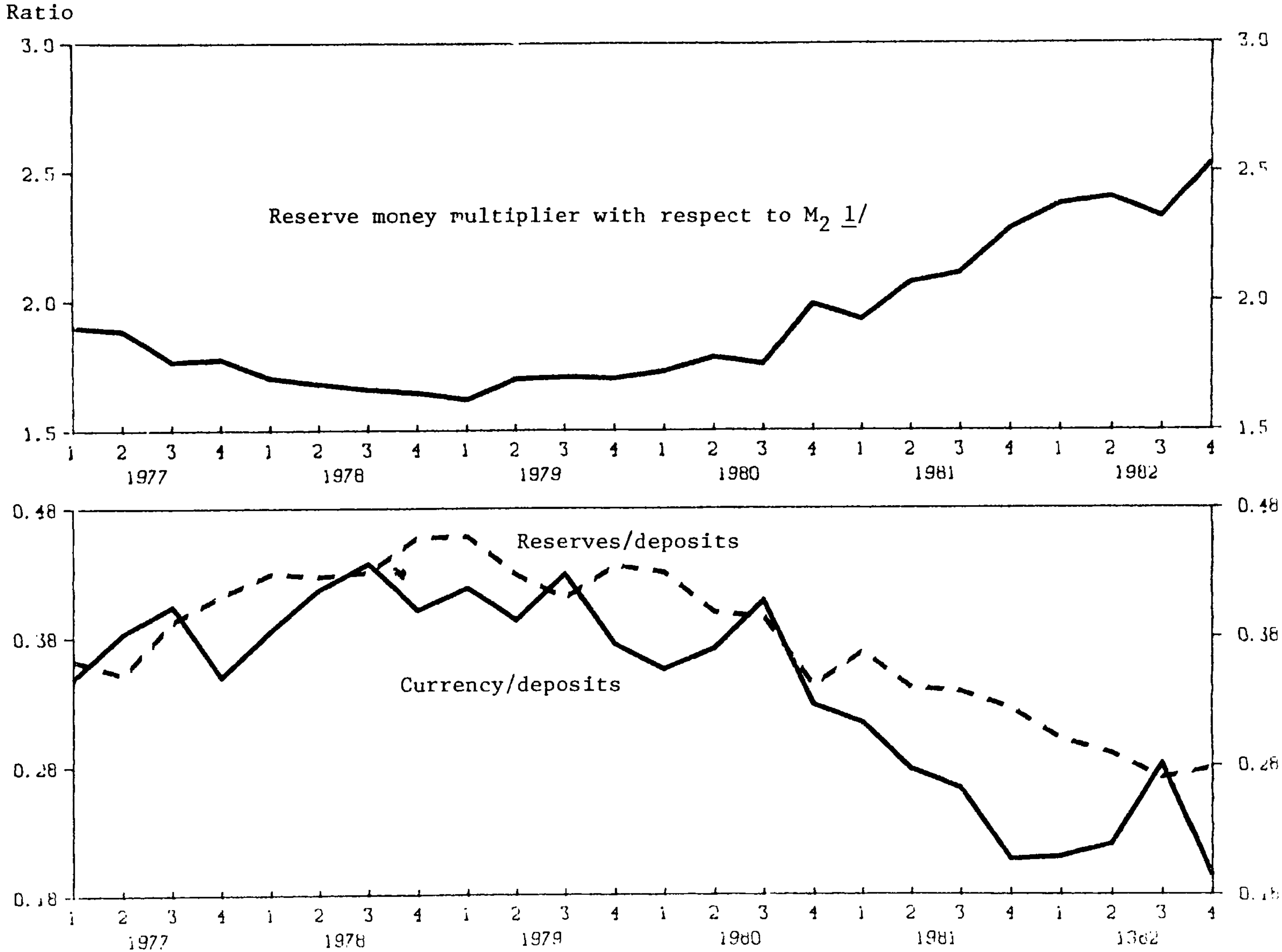
The substantial progress in 1980-82 was based on three major sets of policies. First, domestic demand was controlled through appropriately tight financial and incomes policies, freeing resources for exports and reducing the rate of inflation. Second, external policies aimed at opening the economy to greater foreign competition to improve efficiency while maintaining, through exchange rate policy and other incentives, a competitive export sector. Third, the programs incorporated structural elements designed to improve economic efficiency. It is clear that all of these policies have been successful, but to varying degrees. It is perhaps understandable that those having an immediate impact on inflation and the balance of payments have been emphasized and have been more rapidly effective than those designed to bring medium-term structural improvements. However, the authorities are now taking greater action to implement structural policies and are, for example, currently introducing new laws dealing with the banking system and the SEEs. It will be essential to persist with these efforts. At the same time, although greatly improved, the problems of inflation and the balance of payments are not fully solved and appropriately restraining demand management will still be necessary, as will the maintenance of a competitive export sector.

2. Monetary policy

As part of the 1980 stabilization program, monetary policy was given a much more active role. With interest rates determined directly by the Central Bank, but changed infrequently and too little, attempts at controlling credit had been largely ineffective and monetary policy almost completely accomodative during the 1970s. By 1980 it was evident that quantitative restrictions alone could not satisfy the dual aims of reducing inflation and improving the external accounts without severely squeezing domestic activity. Measures to increase domestic savings were necessary in order that domestic credit could expand sufficiently to support economic activity without endangering the inflation target. The 1980 stabilization program therefore included a freeing of interest rates to supplement limits on domestic credit expansion from the Central Bank.

Despite the freeing of interest rates, monetary policy continued to be based on quantitative restrictions on Central Bank credit. This policy was only partly successful and, particularly in 1982, monetary aggregates rose faster than intended. There were two reasons for this: (i) a sharp increase in reserve money (49 per cent) caused by a larger-than-expected inflow of funds through the balance of payments, which it was difficult to neutralize; and (ii) the reserve money multiplier increased much faster than expected both as a result of a decline in the currency-to-deposit ratio induced by the higher interest rates on deposits and, more importantly, as a result of a decline in the reserves-to-deposit ratio partly related to widespread nonobservance by banks of legal reserve requirements (Chart 2). The problems caused by the collapse of the Kastelli brokerage firm in June 1982 added to the monetary difficulties

CHART 2
TURKEY
RESERVE MONEY MULTIPLIER
(END OF PERIOD)



Source: Staff estimates from official data.

1/ M_{2A} + Certificates of Deposits.

as this necessitated support to several banks and made it impossible for the Central Bank to force them to make up their shortfalls in reserve requirements. Broad money 1/ rose on average by 62 per cent in 1982 after an increase of 59 per cent in 1981. Notwithstanding, the rate of inflation continued to decline. With real interest rates increasing, the demand for money appears to have increased sharply (Chart 3) and certainly much more than expected when the monetary targets for 1981 and 1982 were established.

Although interest rate policy played a major role in the stabilization, the system of free interest rates did not work perfectly. Excessive competition for deposits among banks, particularly following the Kastelli bankruptcy, together with financial difficulties in many firms, partly caused by the high real rates for nonpreferential credits which forced banks to roll over credits and capitalize interest payments, created financial difficulties for many banks. The Government therefore decided in late 1982 to reform interest rate policy. According to the new system the nine largest banks establish interest rates, but after prior consultations with all banks including the Central Bank. Rates determined by the nine banks are then publicly announced by the Central Bank. Also, to make monetary policy more efficient and help stabilize the money multiplier, the Government on January 1, 1983 reorganized the system of reserve and liquidity requirements by replacing the highly differentiated reserve requirement ratios by a single rate of 25 per cent and reducing the liquidity ratio from 10-15 per cent to 10 per cent, but monitoring it more effectively (see the recent economic developments paper). The authorities are continuing to explore methods for simplifying monetary controls and making them more effective.

a. Recent developments and proposed program

The credit limits for the first quarter of 1983 were all met, and, with the external injection of liquidity being slightly below program, reserve money rose marginally less than assumed (44 per cent against 45 per cent). However, because of an unexpected increase in the reserve money multiplier, M_2 rose faster in the first quarter of 1983 than assumed (54 per cent against 47 per cent) (Table 7). The credit limits established for the remainder of the present stand-by arrangement (for April-May 1983) are consistent with a further slowdown in the rate of growth of reserve money to about 42 1/2 per cent. However, despite some expected decline in the reserve money multiplier, M_2 is now expected to be about 48 1/2 per cent higher than in the corresponding period of the previous year (compared with an increase of about 41 1/2 per cent projected in the original program). The framework within which the program for the first five months of 1983 was determined was an average growth of M_2 of 35-36 per cent for the whole of 1983, which, allowing for an increase in real GNP of nearly 5 per cent and assuming a decline in the average velocity of circulation of M_2 of about 7-8 per cent, was believed to be consistent with the target for the rate of increase in the GNP deflator of 20 per cent. The forecast decline in average velocity in

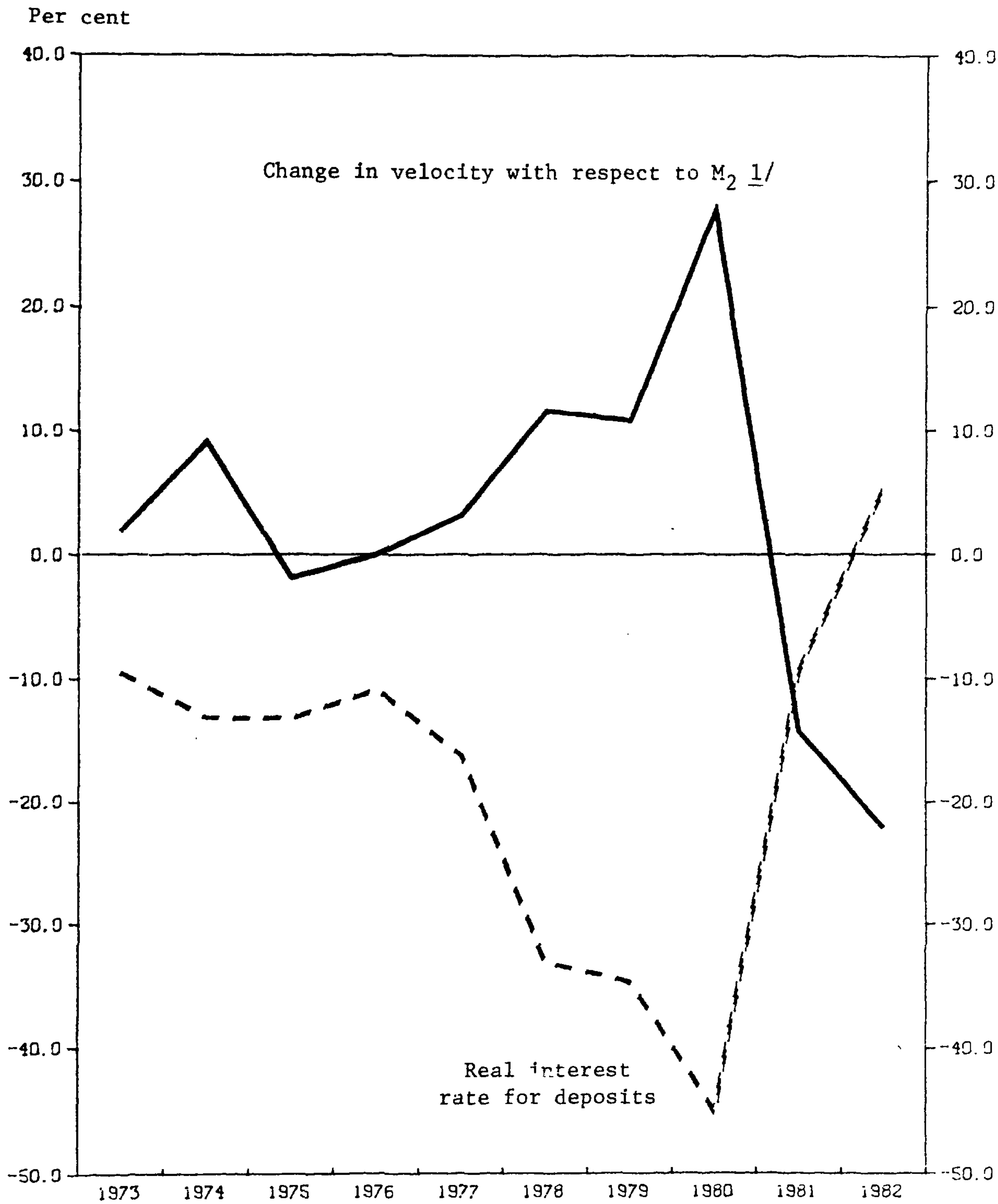
1/ On the M_{2A} definition used in the monetary program.

1983 followed a decline of 18 per cent in 1982 and was mainly due to the carry-over effect from 1982. Comparing end-1983 with end 1982, M_2 velocity would increase by about 2 1/2 per cent.

As stressed in EBS/83/17, many of the assumptions underlying the program were subject to margins of error, particularly in view of the structural changes in interest rate determination and in liquidity and reserve requirements being implemented at the beginning of 1983. The interest rates established under the new system resulted in lower rates on time deposits, but a substantial increase in the rate paid on sight deposits. However, allowing for a 5 percentage point reduction in the withholding tax on most interest rate income, the reduction in the after-tax rate on time deposits was rather modest (Table 8), and on those deposits real interest rates remain strongly positive. Nominal lending rates were not reduced, but it is expected that part of the savings in average costs of deposits to banks will be passed on to customers through lower compensating balances. There is not yet any evidence of this happening, mainly because the savings in costs on deposits will only gradually be felt, since the new lower deposit rates are only paid on deposits lodged after January 1, 1983. The authorities expect that a substantial reduction in lending costs would only be felt from midyear. They are reluctant to press banks to reduce deposit rates further to reduce lending costs until there is more evidence on the reaction to the initial decline. So far, total demand for money seems to have kept up well, since the decline in the rate of growth of time deposits has been more than compensated for by an increase in sight deposits in response to the increase in interest rates on them. This increase seems to have led to a decline in the currency-to-deposit ratio, which was the main reason for the increase in the reserve money multiplier in the opening months of 1983. As planned, the change in the liquidity and reserve requirements did not lead to a signficant change in the effective level of bank reserves and the shortfall in reserve requirements was reduced slightly in the first two months of 1983.

The starting point for the credit program agreed for the first seven months of the new stand-by arrangement (June-December 1983) was the framework program for 1983 agreed in December 1982. The assumption of the increase in velocity with respect to the through-the-year increase in M_2 of about 2 1/2 per cent was maintained, as were the targets for the rate of growth of real GNP and of the GNP deflator. However, given the increase in the reserve money multiplier in the opening months of 1983, a slower growth of reserve money than envisaged in the original program was deemed necessary. With an unchanged assumption regarding the external injection of liquidity, a reduction in the previously targeted growth of net domestic assets of the Central Bank was desirable. The permissible increase in NDA of the Central Bank during 1983 was therefore reduced from LT 212 billion to LT 195 billion. The credit limits proposed for the period June-December 1983 are set out in Table 12. A synthesis of the main program relationships and assumptions appears in Table 13 and Appendix V.

CHART 3
TURKEY
DEMAND FOR MONEY



Source: Staff estimates from official data.

1/ M_{2A} + Certificates of Deposits.

These limits are consistent with a sustained decline in the rate of growth of both reserve money and M_2 during the course of 1983. By the fourth quarter the increases on a year earlier are expected to be 24 1/2 per cent for both reserve money and M_2, compared with 44 per cent for reserve money and 54 per cent for M_2 in the first quarter of 1983. The monetary program also assumes for 1983: (i) an injection of liquidity of US$225-250 million through the balance of payments; and (ii) no new buildup of reserve requirement deficiencies and an unchanged reserve requirement ratio of 25 per cent. The stipulations under (ii) serve as performance criteria and, as under the previous stand-by arrangement, the Government will consult if external developments lead to a significantly faster growth in reserve money than provided for in the program.

In March 1983, under the existing banking law, the Government replaced the management of three of the smaller banks that had been in financial trouble since the Kastelli bankruptcy. More fundamentally, the Parliament in early April passed a law which enables the Government to reform the banking system by decree within a period of six months. Decrees are expected shortly which will provide for increased equity capital, better management through the requirement of certain qualifications for senior managerial personnel, better supervision of bank deposits and credits, and a new deposit insurance scheme.

3. Public finances

The financial position of the public sector deteriorated sharply in the 1970s. The ratio of the public sector borrowing requirement to GNP rose from less than 2 per cent in 1972-73 to nearly 11 1/2 per cent in 1977 and remained at around 10 per cent in 1978-80. Public sector investment as a share of GNP also rose rapidly, reaching a peak of 14 1/2 per cent in 1980 (Chart 4). SEE investment increased particularly sharply to a peak of nearly 11 per cent of GNP in 1980. Following the introduction of the stabilization program, a significant improvement took place, first in the SEE accounts and, following the tax reform in 1981 and much improved expenditure control, in the consolidated budget. The PSBR fell to 5 1/2 per cent by 1982 (Table 9). For 1983 the target is a reduction to 4 1/2 per cent of GNP and the authorities intend to reduce it to about 3 1/2 per cent in 1984. Public sector investment was also reduced, with a particularly sharp reduction in SEE investment. By 1982, as a share of GNP, total public sector investment had declined to 11 1/2 per cent and SEE investment had been reduced to 7 1/2 per cent. For 1983 total public sector investment is forecast to remain at the 1982 level.

a. The consolidated budget

Central government finances deteriorated significantly in the 1970s as the increase in expenditure, from 22-23 per cent of GNP in the early 1970s to 27 per cent in 1979, was not matched by an increase in the tax ratio (Chart 5), which rose by only about 2 percentage points. Consequently, the budget deficit widened from 1 1/2 per cent of GNP in the early 1970s to about 4 per cent in 1979. In 1980, despite a decline in the share of expenditure in GNP, the budget deficit increased further as

the tax ratio continued to fall. However, in 1981, as a result of the tax reform, the ratio of revenue to GNP increased significantly, while because of better control, expenditures (particularly on transfers to SEEs) were reduced further in relation to GNP. On a cash basis the budget was almost in balance, partly because of deferrals of payments into 1982, which kept the cash deficit artificially low. In 1982 the cash deficit in relation to GNP widened to 1.6 per cent of GNP from 0.1 per cent in 1981 as delayed payments were made. However, the budget balance, which was not affected by the deferral of payments from 1981 to 1982, improved slightly from 1.4 per cent of GNP to 1.2 per cent. The outturn for 1982 was slightly better than forecast in EBS/83/17 (1.7 per cent of GNP for both the cash and budget deficits), with revenue slightly higher, and expenditure marginally lower (Table 10).

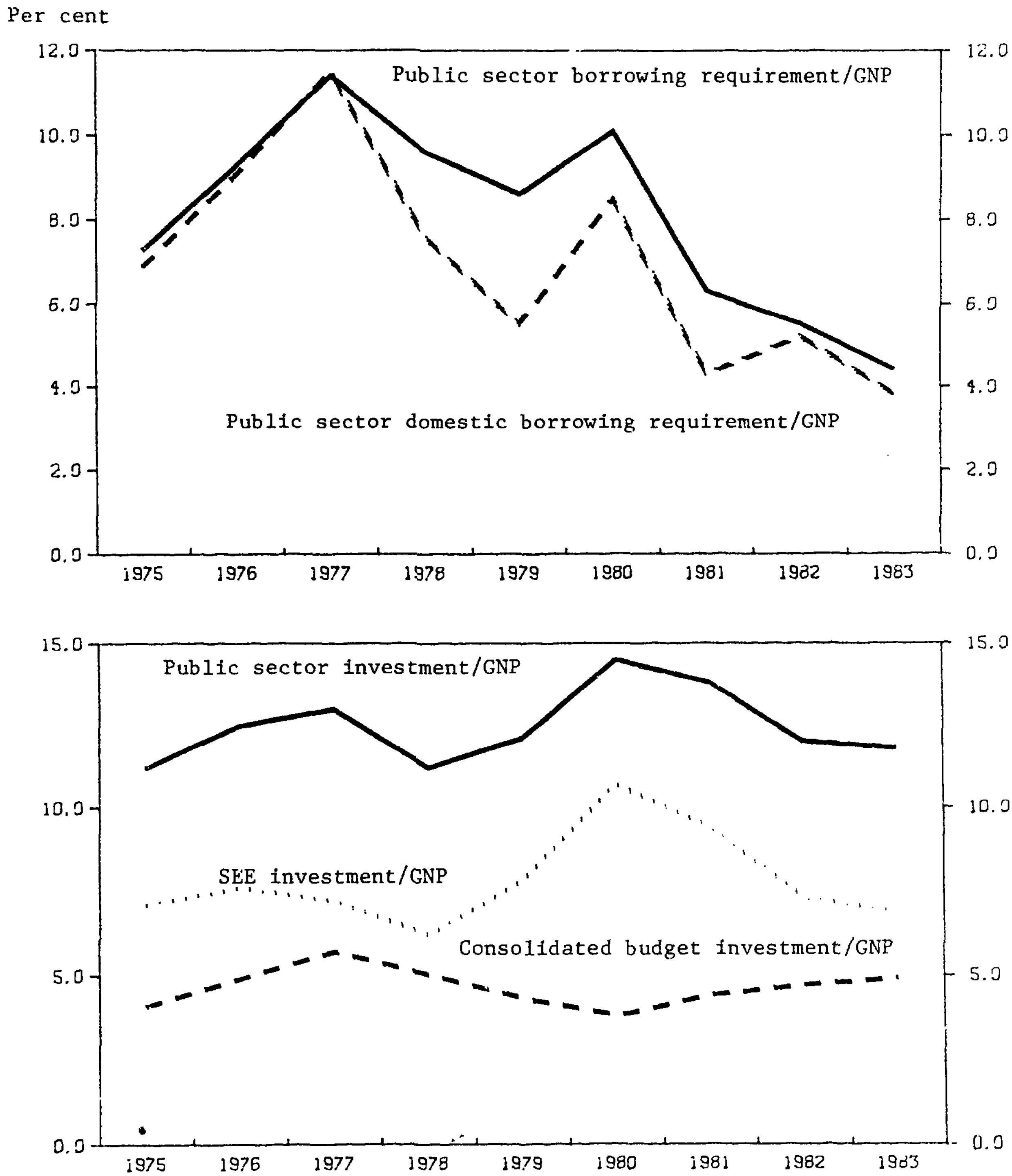
The current estimate of the 1983 budget foresees a further decline in the deficit to 0.6 per cent of GNP and in the cash deficit to 0.8 per cent of GNP, mainly as a result of continued expenditure restraint. As a share of GNP, expenditures are expected to decline to 20.8 per cent, from 21.5 per cent in 1982, which represents only a very slight increase in real terms. For the period January-December 1983 a limit of LT 292 billion on transfers to SEEs has been established as a performance criterion. This corresponds to no increase in real terms and a slight decline, to 2.7 per cent, in relation to GNP. Estimated revenue for 1983 is practically unchanged as a percentage of GNP. Tax revenue is expected to increase by 26 1/2 per cent, implying an elasticity to GNP of 1.03 against 0.98 in 1982 and 1.23 in 1981. This increase in buoyancy is expected to come about mainly as a result of a strengthening of the tax administration and of measures linking the incomes of self-employed to the taxpayer's wealth. On the other hand, reductions have been made in several tax rates (e.g., income tax and corporate tax). The authorities are aware that it may not be possible to implement the measures to improve tax collection fully in 1983, although every effort will be made to do so, but they stressed that they would stand ready to cut appropriations to keep the financing balance close to the planned level. For 1984 the authorities intend to move to approximate balance in the consolidated budget. As an important part of this effort they intend to reduce real transfers to the SEEs.

While the financing requirement of the consolidated budget was primarily met from Central Bank sources in the 1970s and in 1980, such borrowing has since declined significantly in absolute terms. Part of the financing requirement has been covered by sales of government bonds and bills with attractive tax-free yields. In late 1982 and early 1983, the Treasury improved the maturity structure of the public debt by broadening the range of government bonds and by issuing new five-year and two-year bonds with tax-free interest rates of 34 per cent and 32 per cent, respectively. These new bonds have been well received.

b. State economic enterprises

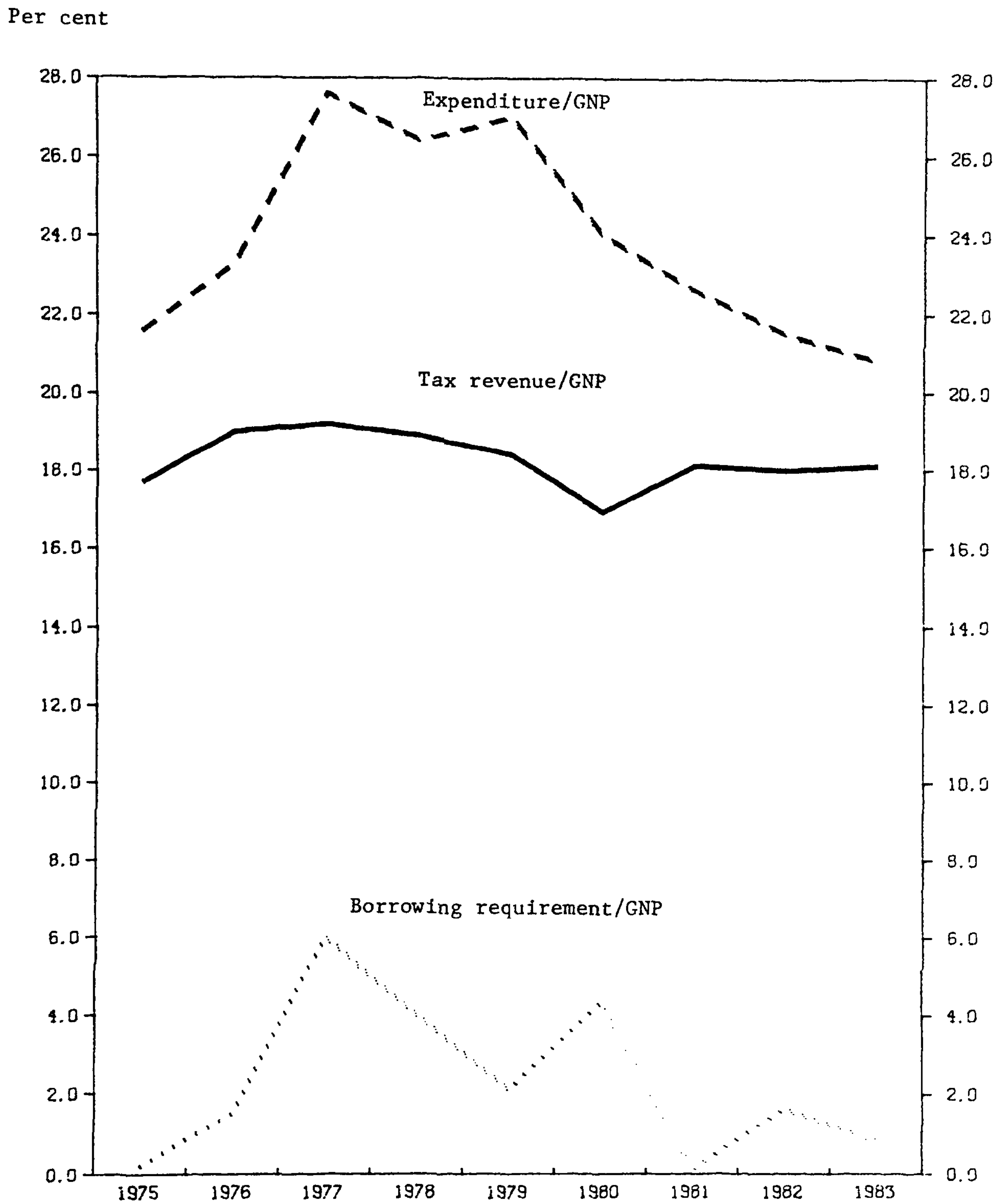
An important element in the deterioration in the central government accounts during the 1970s was a weakening in the financial position of

CHART 4
TURKEY
PUBLIC SECTOR INDICATORS
(PERCENT OF GNP)



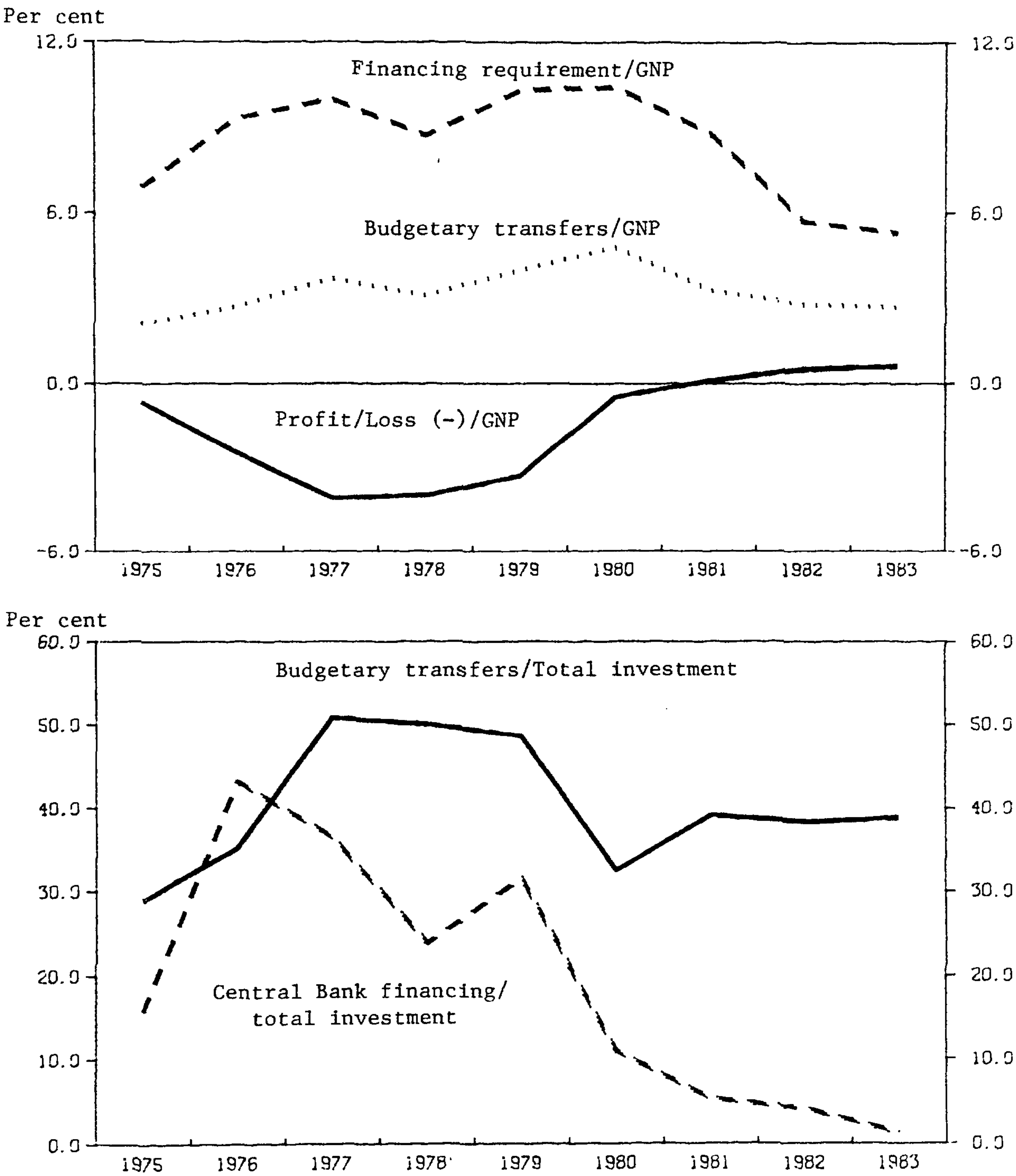
Source: Staff estimates from official data.

CHART 5
TURKEY
CONSOLIDATED BUDGET INDICATORS
(PERCENT OF GNP)



Source: Ministry of Finance.

CHART 6
TURKEY
STATE ECONOMIC ENTERPRISE INDICATORS



Source: Ministry of Finance.

the SEEs (Chart 6). With their financing burden on the budget approaching critical proportions, very large corrective increases in their prices were announced in January 1980. At the same time, a restructuring of operational policies was initiated under which greater autonomy was given to management to set the prices of all but a few basic goods and services according to commercial principles. This was supplemented in mid-1981 with a flexible pricing policy for some government-controlled SEE prices. Also, steps were taken to improve the quality of management, to reduce overstaffing, and to rationalize investment. Overall, considerable progress was made, although it occurred most with respect to financial performance, while improvement in management, investment control, and overstaffing was less evident. A new strategy was introduced in the 1982 program, under which priority was given to operational results while ceilings were put on investment programs.

The operational situation of the SEEs improved from a deficit of more than 3 per cent of GNP in 1979 to an estimated surplus of 0.5 per cent of GNP in 1982. At the same time, total investment was reduced from more than 10 per cent of GNP in 1980 to 7.3 per cent in 1982. This is slightly higher than estimated in EBS/83/17, mainly because of higher stocks (primarily sugar, grain, and fertilizer stocks). The financing requirement was reduced from more than 10 per cent in 1980 to 6 per cent in 1982 (Table 11). In 1983 operational profits are expected to rise to 0.6 per cent of GNP and investment and the financing requirement in relation to GNP are forecast to fall to about 7 per cent and 5 1/2 per cent, respectively.

A law to deal with the fundamental problems of the SEEs was passed in May 1983. It introduces, inter alia, a clearer distinction between the types of public enterprises, the main one being between State Economic Enterprises (SEEs) to be operated on commercial principles, but totally owned by the Government and established by law, and Public Economic Enterprises (PEEs) with activities related to public service, e.g., producing monopoly goods or basic goods and services. Clear guidelines on ownership are introduced into the system and improved quality of the boards and managerial staff is required. The law also requires compliance with the annual investment and financing programs and, as a general rule, prices are to be determined freely by the enterprises. Provisions are also to be introduced to strengthen the capital structure and an entirely different personnel regime, distinct from that for the Civil Service, is envisaged for employees of SEEs and PEEs.

Slow progress in implementing structural reforms led the World Bank to delay the release, scheduled for late 1982, of the second tranche of the third structural adjustment loan. However, following the passage of the SEE reform law, the tranche was released. The World Bank has agreed to provide technical assistance at the enterprise level to help improve operating efficiency in the SEEs.

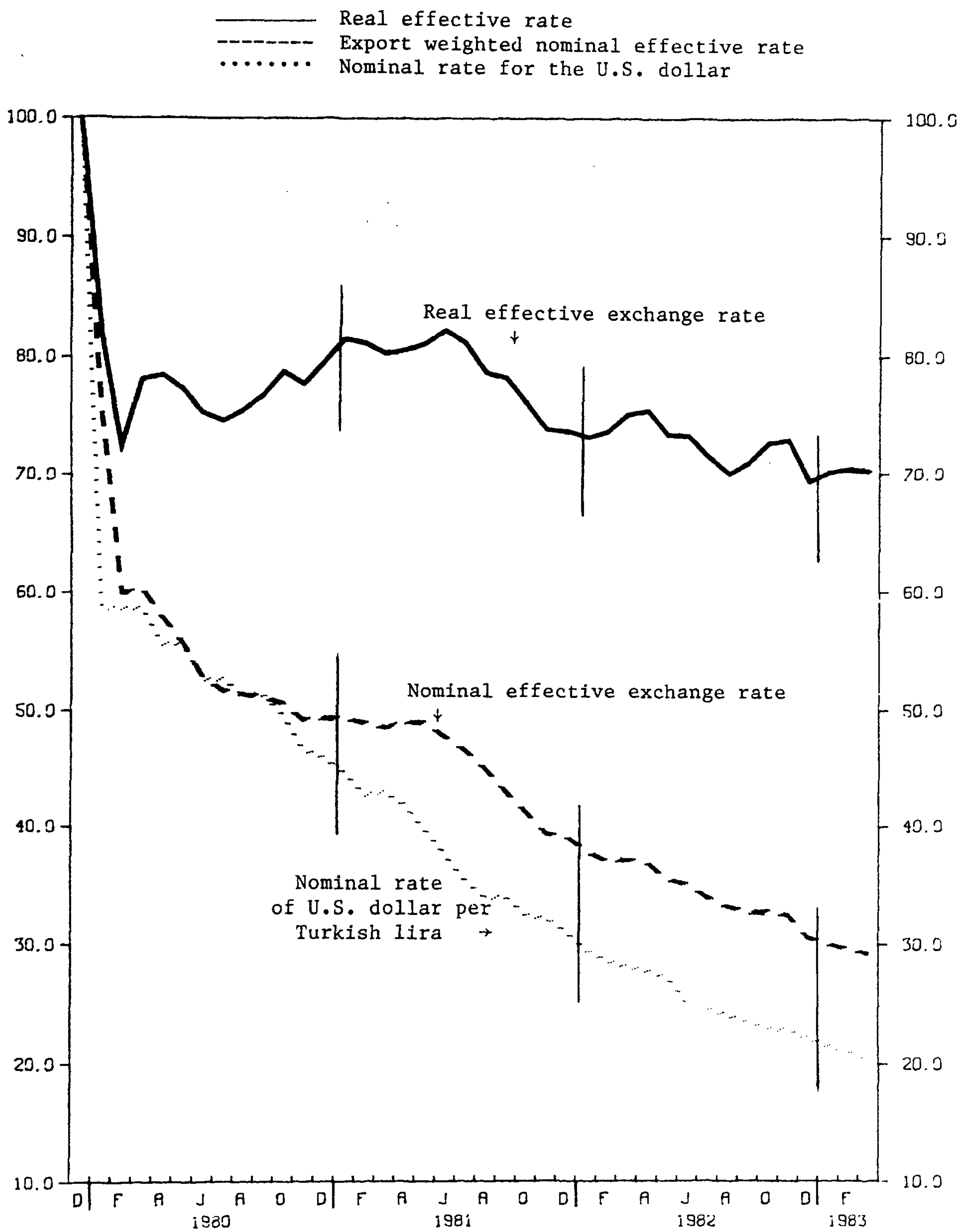
4. External policies

A key element of external strategy has been a flexible exchange rate policy. Following a major devaluation of the lira by 33 per cent in January 1980, the frequency of exchange rate adjustments was increased during 1980 and early 1981. Since May 1981 the exchange rate has been adjusted daily, in the light of developments both in international currency markets and in domestic relative to foreign prices, taking into account the competitiveness of exports. The effective exchange rate, measured in terms of an export trade-weighted basket, depreciated between May 1981 and March 1983 by about 40 per cent in nominal terms, and by 13 per cent in real terms (Chart 7). Between February 1980 and March 1983 the real effective depreciation amounted to 3 per cent. The authorities are firmly committed to a continuation of this flexible exchange rate policy.

Since the last Article IV consultation, the authorities have taken steps to liberalize the exchange and trade system and reduce its complexity. External payments arrears were eliminated in 1982. Multiple currency practices were abolished as follows: (1) in August 1981, the preferential exchange rate applicable for transfers to students studying abroad was abolished; (2) in November 1981, the preferential exchange rates for imports of fertilizer, pesticides, and chemicals to produce them were abolished; and (3) in December 1982, the multiple currency practice arising from the operation of the export "retention" scheme was eliminated by prohibiting the sale of foreign exchange obtained under this scheme at a freely determined rate. For invisibles, the limitation on tourist travel abroad was eased from one trip per person every three years to one trip every two years. The permissible export and import of notes and coin was increased from LT 1,000 to the equivalent of US$100 per trip. Bilateral payments arrangements with nonmembers were terminated at the end of 1982. In 1982, the permissible foreign exchange positions of commercial banks were increased. In 1983 exporters were permitted to keep 5 per cent of exchange proceeds in sight foreign exchange deposits with commercial banks. Existing restrictions on payments and transfers for current international transactions are maintained under Article XIV. However, the bilateral payments arrangement with Iran constitutes an exchange restriction subject to Fund approval under Article VIII; such approval has been granted until June 30, 1983 (EBM/82/115, 8/23/82).

The authorities have opened up the economy to foreign competition by reducing protection and export incentives. To this end, (1) the import quota list was abolished in 1981 and affected items were shifted to the licensable lists; (2) during 1982-83 a number of import items were shifted from the relatively less liberalized list to the more liberalized lists; this was a modest liberalization; (3) more importantly, there was an "administrative" liberalization in the form of a speedier issuance of licenses, particularly for inputs and raw materials used in export production; (4) the extension period of import licenses was increased in 1982 from 8 months to 12 months; (5) the rates of advance ("guarantee") import deposits were steadily reduced from 25-40 per cent in 1979 to 1-15 per cent by early 1983. On the export side, in 1982 the

CHART 7
TURKEY
EXCHANGE RATE DEVELOPMENTS
(DEC 1979=100)



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

preferential interest rate on export credits was increased from 27 per cent to 31.5 per cent, and subsidies from the Interest Rate Rebate Fund were reduced in stages from 35 per cent to 25 per cent for industrial exports, and from 25 per cent to 5 per cent for other exports.

The authorities have decided to accelerate trade liberalization to bring about a more fundamental change over the medium term by replacing the current licensing system with a rationalized set of tariffs, at an appropriate exchange rate. A program for phasing out import licensing over a period of five years will be established before the end of 1983. As a first step a substantial proportion--on a trade-weighted basis--of existing items will be shifted by January 1, 1984 from the less liberalized list to the more liberalized lists. Commodities not presently identified in either list will be included in one of the lists. In addition, the Government intends to reduce the rates of advance ("guarantee") import deposits by half by the end of 1983 and to eliminate such deposits by June 15, 1984.

The authorities reiterated concern about protection in their traditional markets in the EC. Discussions on trade issues are continuing between Turkey and the EC, especially regarding limitations on exports by Turkey of cotton yarn and certain textiles. The Turkish surcharge of 15 per cent on imports from the EC of iron and steel and petrochemical products imposed in December 1982 continues.

The Government is aware of the need to continue with cautious external debt management policies. Accordingly, it will limit the contracting of new nonconcessional public and publicly guaranteed foreign borrowing (excluding purchases from the Fund) in the maturity range of 1-12 years to US$1.2 billion for the period ending December 31, 1983. The ceiling is not comparable to the one in the current stand-by because the definition has been broadened and the coverage made comprehensive. The upper limit of the ceiling has been raised to 12 years, compared with 10 years under the current stand-by; the definition of the public sector now includes the Central Bank, and financing of all types and from all sources is included--except for concessional loans as defined by DAC criteria, and purchases from the Fund. In determining the amount of the ceiling, account has been taken of financing for certain large projects for energy and infrastructure; the exact timing for contractions of some projects is not yet firm, but there could be some bunching of contractions, although disbursements will be spread out over a number of years. Account has also been taken of Turkey's attempts to re-establish its presence in the international capital markets. The impact on debt service of the estimated new borrowing has been taken into account in the medium-term scenarios described in Appendix IV. The ceiling for 1984 will be established early in that year and will take into account developments in 1983.

The Government does not currently consider short-term foreign debt to be a problem and will continue with its cautious stance in this regard. It intends to limit short-term foreign borrowing of the nonfinancial public sector and the banking sector, so that the increase

in outstanding short-term debt between end-1982 and end-1983 will not exceed US$500 million. This limit does not include normal trade credits, for which reliable data are in any case not available. Of the recorded short-term debt, the only major exclusion relates to the savings schemes for workers abroad (e.g., the Dresdner Bank program) which are registered as liabilities of the banking system. These schemes are essentially geared to encouraging savings of Turkish workers abroad and direct control of these amounts is not feasible. Other exclusions from outstanding short-term debt are minor and relate to certain liabilities of the banking system--balances on bilateral accounts and reserve-related items, which together amounted to US$68 million at end-1982. The main increases in short-term debt subject to the ceiling are currently expected to derive from a Euroloan for the Istanbul Petroleum Refinery later in the year, loans from the Islamic Development Bank and the European Resettlement Fund, and increases in acceptance credits and pre-export financing. In determining the ceiling for 1983, a flexible approach has been taken, and the ceiling for 1984 will be set in the light of the experience in 1983.

Finally, as mentioned earlier, the Government is attempting to improve the debt-reporting mechanism and has requested World Bank and Fund technical assistance in this area.

IV. Performance Under 1980-83 Stand-By

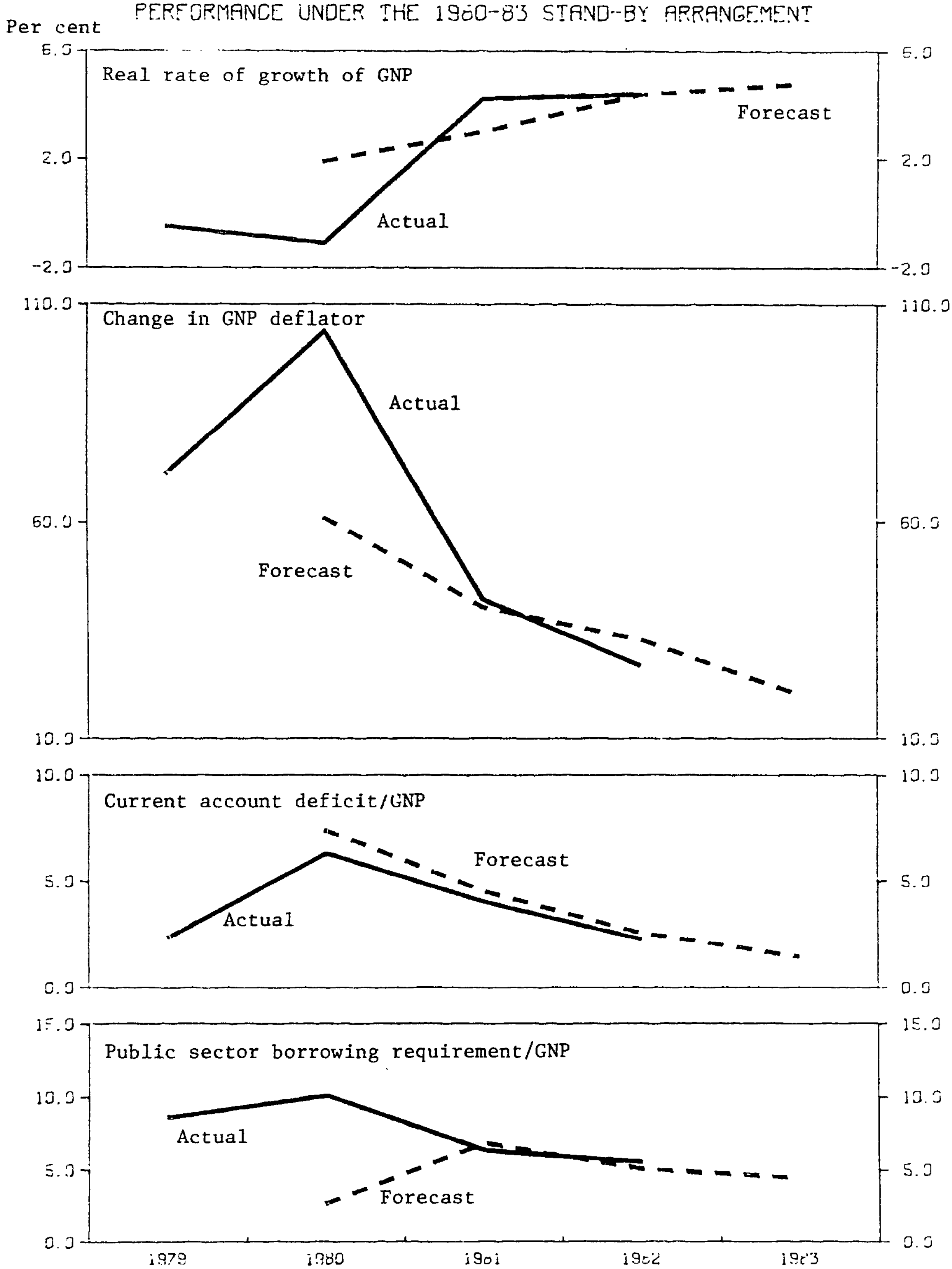
The program in support of which the current arrangement was approved on June 18, 1980, aimed at restoration of medium-term viability of the balance of payments, control of inflation, resumption of domestic growth, and greater reliance on market forces. The program has been successful, especially with regard to external adjustment and reducing inflation, although progress on the structural side has been less rapid. External current receipts, led by a very strong growth of exports, rose from 9 per cent of GNP in 1980 to 17 per cent in 1982 and a forecast 21 1/2 per cent in 1983. The current account deficit was reduced from 6.3 per cent of GNP in 1980 to 2.2 per cent in 1982 and a projected 1.4 per cent in 1983. The rate of inflation was brought below 30 per cent in 1982 from more than 100 per cent in 1980, and is forecast to be around 20 per cent in 1983. Following two consecutive years of decline, real GNP grew by more than 4 per cent in both 1981 and 1982 and a growth of 4.8 per cent is forecast for 1983 (Chart 8). These results were achieved by the monetary, fiscal, and exchange rate policies described earlier.

Observance of performance criteria under the stand-by arrangement have been reported in periodic reviews with the Fund. Since the last review in March 1983 (EBM/83/43), all the performance criteria have been met; the quantitative components are presented in Table 12.

CHART 8

TURKEY

PERFORMANCE UNDER THE 1980-83 STAND-BY ARRANGEMENT



Source: Turkish authorities and staff estimates.

V. Performance Criteria for Proposed Stand-By Arrangement

The following performance criteria, the quantified components of which are set out in Table 12, are applicable for the proposed stand-by arrangement.

(1) Limits on the net domestic assets of the Central Bank and on Central Bank credit to the public sector through December 31, 1983, combined with the maintenance of the 25 per cent cash reserve requirement ratio of the commercial banks and avoidance of new deficiencies in reserve requirement obligations of banks in 1983.

(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 1 year and up to and including 12 years for the period ending December 31, 1983; a limit on the increase in 1983 of outstanding short-term debt of the nonfinancial public sector and the banking system, excluding normal trade credits, and certain foreign liabilities of the banking system such as savings schemes for workers abroad.

(4) The continuation of the past flexible exchange rate policy under which the exchange rate of the lira is adjusted daily in the light of developments in international currency markets and in domestic relative to foreign prices, with the aim as a minimum of maintaining existing external competitiveness.

(5) A program of trade liberalization under which (i) the Government will formulate by the end of 1983 a program for phasing out restrictive import licensing over a period of five years; (ii) a substantial proportion, on a trade-weighted basis, of existing items will be shifted by January 1, 1984 from the less liberalized list (List II) to the more liberalized lists (List I and the "Levy" List); and (iii) the rates of advance ("guarantee") import deposits will be reduced by one half by the end of 1983, and such deposits will be eliminated by June 15, 1984.

(6) The standard performance criterion on trade and payments restrictions.

Purchases under the stand-by after December 31, 1983 will, in addition, be subject to a review with the Fund in early 1984. At that time, the progress made during the first half of the program period will be assessed and a more detailed description of the targets and policies to be followed during the remainder of the stand-by period will be given. At this review the quantitative performance criteria for items (1)-(3) above, to be applicable for the second half of the stand-by period will be established, together with understandings on any other matters, as necessary.

VI. Staff Appraisal

The stabilization program introduced at the beginning of 1980 and continued during the period of the three-year stand-by arrangement that is now ending has brought substantial results. The adjustment measures have reduced the inflation rate from three digits to 27 per cent in 1982, the decline in output has been reversed with growth exceeding 4 per cent per annum in 1981-82, and the deficit on the current account of the balance of payments has fallen from 6 1/4 per cent of GNP in 1980 to slightly more than 2 per cent in 1982. For the current year, more progress should be obtained on all these fronts. It was possible to achieve all this because the authorities resolutely persisted with monetary and fiscal policies embodying appropriate restraint and in the external sector they ensured Turkish competitiveness through exchange rate policy while at the same time taking steps to open the domestic economy to greater competition.

After three years of tough and successful policies, there are some in Turkey who ask--understandably--for a relaxation that would permit significantly higher growth rates, particularly in view of the admittedly difficult unemployment situation. Equally, there are some who react to protectionist trends abroad by resisting the continued opening of the domestic market to foreign competition. The staff fully supports the determination of the Government to continue along the successful path of the last three years, based on the view that the underlying problems of the economy have not been solved--although they have been greatly lessened--and that the external environment would not permit at this stage a sharp resurgence of activity in Turkey. Moreover, the success in the Turkish economy has been more marked in the area of short-term demand management than in structural change. The latter has certainly occurred, and commendably so, but it will be necessary to persist with and strengthen structural policies.

The staff is convinced that external policies have been crucial in sustaining the stabilization. In particular, exchange rate policy, which has included a gradual depreciation of the real effective exchange rate, has encouraged a continued and high rate of growth of export volume. The export sector has taken advantage of this competitiveness by mounting a strong export drive, especially in nearby markets, that has led to very large increases in exports of goods and services. However, it seems probable that demand in such markets will at best grow more slowly in the period ahead and, equally, other exporters will strive to increase their market shares. Turkey will continue to have geographical and other advantages but it is clear that export competitiveness is essential and the staff welcomes the intention to continue with existing exchange rate policies.

The staff has commented in previous reports on the desirability of opening up what has been a relatively protected domestic market to greater foreign competition. The relatively complex systems of import controls and export incentives have offered considerable indirect protection, although there has been a gradual liberalization. The staff

welcomes the liberalization measures, including the elimination of the multiple currency practices. The remaining exchange restriction subject to approval under Article VIII pertains to the bilateral payments agreement with a Fund member. As the Turkish authorities have not indicated the timing of its termination, the staff is not recommending extension of approval for this bilateral payments arrangement. The staff hopes that it will be terminated as soon as possible. The stated intention of the Government to phase out restrictive import licensing over a five-year period and to reduce it substantially as an initial step by January 1, 1984 is particularly welcome. The intention to halve import guarantee deposits by the same date and to eliminate them by June 15, 1984 is also an important step. The staff is convinced that protection by way of a rationalized tariff regime at an appropriate exchange rate will greatly benefit the economy in the longer run.

The foreign debt position has improved markedly in the last four years, when the major portion of new foreign borrowings has been on concessional terms. Looking ahead, the inflow of concessional loans will inevitably decrease, while gross repayments will be high. An improved current account is essential and is being obtained. However, there must be access to a greater inflow of capital on market terms if the balance of payments position is to be sustainable, although gross borrowing must be controlled to avoid the recurrence of debt servicing difficulties. A return to commercial borrowing is occurring but for the moment the constraint is more on the supply of loans. In terms of debt management policies a most pressing problem is a more efficient and rapid recording mechanism. In this regard, the staff supports the efforts of the authorities to improve the debt recording system. Staff projections of future debt service suggest that present trends in the external sector are manageable, although it is clear that sustained export growth and success in structural policies are key elements. The staff would again emphasize the essential need for prudence in building up the amount of short-term debt.

The external improvement has been supported by demand management. Incomes policy has been adequately tight and has reduced cost-push pressures from labor costs. Most important has been a combination of monetary and fiscal policies that has, on the one hand, reduced the relative demands of the public sector on resource use and, on the other hand, has slowed down the growth of monetary aggregates and thereby supported a sustained reduction in the rate of inflation. The improvement in public finances is amply described by most of the public sector statistics. The cash deficit of the budget, transfers to the SEEs, the level of their investment, and the PSBR have all declined relative to GNP. Already this has permitted an increase in private sector expenditure, especially for investment. The biggest disappointment has perhaps been the slow growth of budget revenue relative to projections, although the staff appreciates that below target collections have been matched by reductions in expenditures. Public sector targets for 1983 and provisional projections for 1984 aim at continuing the recent progress. The financial performance of the SEEs has improved markedly. Selling prices have been increased, excessive investment has been reduced, budget transfers have declined in

real terms, and production efficiency has improved. But this sector must increase its productivity further. Financial targets for 1983 and 1984 assume more progress and the staff welcomes this. However, it is crucial that structural improvements be implemented rigorously. The law recently passed offers the basis for further structural change and the World Bank is to assist in this process.

On January 1, 1983, improvements were made in monetary controls by the simplification of reserve requirements and some rationalization of interest rates. The authorities recognize the need for increasing the financial strength of the banks, improving the efficiency of their operations, including cost reductions, and lowering the present high level of real lending rates. The new banking law provides the authorities with the legal means of introducing further measures of banking reform and it is highly desirable that these be decreed and implemented as rapidly as possible.

Perhaps the most difficult area at the moment relates to judgments in quantitative monetary policy. On the one hand, the inflation target and the external aims mandate the continuation of a tight monetary policy. On the other hand, the pressing need to increase output and consequently employment, within these constraints, is strong. Added to this is a changing monetary environment resulting from a diversity of factors, including shifts in real interest rates, the confidence problems arising from the Kastelli crisis, and the changes in some of the monetary mechanisms, e.g., reserve requirements. In the staff's view, recent changes in monetary indicators, especially the reserve money multiplier, demand greater restraint in credit expansion of the Central Bank than seemed necessary a few months ago. The current 1983 targets are significantly lower than those proposed earlier. While the program assumes a decrease in the average velocity of circulation compared with 1982, this partly represents a carry-over from 1982 trends, and in 1983 there is to be an increase in velocity through the year. For all this, the staff is most conscious of the importance of monetary developments and fully agrees with the authorities that they must review monetary policy if the assumptions underlying it should prove to be incorrect. Indeed, it is the uncertainty about monetary developments that casts some shadow over the possible evolution of 1983-84.

As regards the program for the proposed stand-by arrangement and its performance criteria, the staff believes they are appropriate in the present and prospective economic situation of Turkey.

It is recommended that the next Article IV consultation with Turkey be held on the standard 12-month cycle.

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

I. 1983 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 1983 Article XIV consultation with Turkey, in the light of the 1983 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 steps taken by Turkey to liberalize the exchange and trade system as described in EBS/83/98. The Fund urges Turkey to terminate the remaining bilateral payments arrangement with a Fund member as soon as possible.

II. Stand-By Arrangement

1. The Government of Turkey has requested a stand-by arrangement for the period of one year beginning June , 1983 for an amount equivalent to SDR 225 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/98.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Turkey: Stand-By Arrangement

Attached hereto is a letter dated May 18, 1983 from the Minister of Finance of Turkey, requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Turkey intend to pursue for the period of this stand-by arrangement, and understandings of Turkey with the Fund regarding a review that will be made of the progress in realizing the objectives of the program and of the policies and measures that the authorities of Turkey will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period of one year from June .., 1983, Turkey will have the right to make purchases from the Fund in an amount equivalent to SDR 225 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 56.25 million until October 28, 1983, the equivalent of SDR 112.5 million until February 24, 1984, and the equivalent of SDR 168.75 million until April 27, 1984.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Turkey's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources until purchases under the arrangement reach the equivalent of SDR 185,558,686, and then from borrowed resources only provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Turkey will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Turkey's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

a. during any period in which:

(i) the limit on net domestic assets of the Central Bank referred to in paragraph 8 of the attached letter and specified in the table annexed to that letter; or

(ii) the limit on net Central Bank credit to the public sector referred to in paragraph 8 of the attached letter and specified in the table annexed to that letter; or

(iii) the limit on budgetary transfers to State Economic Enterprises referred to in paragraph 6 of the attached letter is not observed; or

b. during any period in which the understandings with regard to the exchange rate of the lira referred to in paragraph 10 of the attached letter are not being observed; or

c. if the understandings with regard to the maintenance of the reserve requirement ratio of the commercial banks and the avoidance of new deficiencies in reserve requirements, both referred to in paragraph 8 of the attached letter are not being observed; or

d. if the limit on the contracting of new nonconcessional public and publicly guaranteed external debt in the maturity range of more than one and up to and including twelve years described in paragraph 11 of the attached letter is not observed; or

e. if 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 11 of the attached letter is not observed; or

f. if the understandings with regard to import liberalization measures described in paragraph 12 of the attached letter are not observed; or

g. during the period after December 31, 1983 until the policies of the program have been reviewed and suitable performance criteria have been established in consultation with the Fund as contemplated by paragraph 13 of the attached letter, or, after such performance criteria have been established, while they are not being observed; or

h. during the entire period of this stand-by arrangement if Turkey

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes new bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Turkey is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Turkey and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Turkey's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Turkey. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Turkey and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Turkey, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Turkey will consult the Fund on the timing of purchases involving borrowed resources.

8. Turkey shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. a. Turkey shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Turkey's balance of payments and reserve position improves.

b. Any reductions in Turkey's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Turkey shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Turkey or of representatives of Turkey to the Fund. Turkey shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Turkey in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 13 of the attached letter, Turkey will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by and while Turkey has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or the request of the Managing Director, concerning Turkey's balance of payments policies.

May 18, 1983

Dear Mr. de Larosière,

1. The stand-by arrangement that the Fund granted to Turkey in June 1980 for a three-year period is coming to an end. The resources available to Turkey under the arrangement were of great importance in permitting us to carry through the program of stabilization and structural reform which was instituted in January 1980. Very great progress has been made since then. The two most striking features are the improvement in the balance of payments from a deficit on current account of US$3.7 billion in 1980, equal to 6.3 per cent of GNP, to a deficit of only US$1.2 billion in 1980, equal to only 2.2 per cent of GNP, combined with a reduction in the average rate of inflation from more than 100 per cent in 1980 to 27 per cent in 1982. In addition, it was possible to reverse the trend in real growth from a decline in 1980 to increases of more than 4 per cent in 1981-82. Moreover, although there is still much to be done, important progress has been made in improving government finances, strengthening the financial position of SEEs and raising their efficiency and in introducing reforms in areas such as banking. These achievements are more noteworthy given the background of world recession, deteriorating terms of trade for Turkey and problems in international capital markets.

2. However, while the future can be looked at with some confidence, the Government realizes that continued progress will require a sustained effort. The recovery in the world economy has by no means been firmly established. Turkey must gradually make the transition from relatively great dependence on concessional capital inflows to more reliance on normal market borrowings. In addition, there is the need for continued implementation of structural reforms, including the opening of the economy to more foreign competition. In these circumstances, Turkey believes that a continuing close relationship with the Fund is desirable and requests a one-year stand-by arrangement to follow the completion of the existing three-year arrangement in an amount equivalent to SDR 225 million. In requesting the arrangement, the Government would emphasize that the reasons for wanting the relationship with the Fund to continue are not solely financial in character. Indeed, even if the requested amount were fully utilized, the net use of Fund resources over the twelve-month period would be very modest relative to the use of Fund resources during the current stand-by arrangement. The economic program which the new arrangement would support is described below.

3. Developments in 1982 and projections for 1983 were detailed in my letter of January 3, 1983. There have been no major changes in estimates of the 1982 outcome since then. In brief, real output increased by 4.4 per cent and prices, as measured by the GNP deflator, were 27 per cent higher than in 1981. Externally, the deficit in the current account of the balance of payments declined from US$2.3 billion in 1981 to US$1.2 billion in 1982; as a proportion of GNP the decline was from 4.0 per cent to 2.2 per cent. The external result was supported by the sustained growth of exports, with volume increasing by an estimated 34 per cent and value by 22 per cent. In contrast, the value of imports fell

by 2 per cent, as price declines exceeded the volume increase of 6 per cent. At the end of 1982, gross official international reserves, on the IFS basis, amounted to US$1.1 billion, US$0.3 billion less than a year earlier, and equal to about 6 1/2 weeks of merchandise imports. For 1983, the projected increase in real GNP remains at 4.8 per cent and the price target is for an increase of about 20 per cent. To support the price target, wage rate increases have been established in the range of 20-22 per cent. In the external sector, however, it should be possible to reduce the current account deficit by more than seemed possible when I wrote to you in early January. The revised target is a deficit of about US$650 million, or 1.4 per cent of GNP, which is based on projected increases of 10.5 per cent in the volume of exports and 7 per cent in the volume of imports. This faster payments adjustment should be facilitated by the recent reduction in oil prices although lower oil prices may weaken demand in important Turkish export markets. Our policies will continue to be designed to maintain export growth at adequate levels.

4. For 1984, the Government believes that further progress should be made in reducing the current account deficit in the balance of payments, lowering the rate of inflation, continuing wage restraint, and strengthening the public finances through a mix of demand management and structural policies. At this stage, it is not possible to put precise targets on all the policy variables, which shall need to be considered by the new Government that will be elected in November 1983. However, it is clear that the basic thrust of the policies that have been pursued during the period of the current stand-by arrangement and that will be continued during the remainder of 1983 should not be changed in 1984. Our present projections put the increase in real output in 1984 at 5.3 per cent, with an increase in prices of about 17 per cent. As regards the current account of the balance of payments, in the light of our future debt servicing obligations a reduction in the deficit to about US$300 million would seem warranted.

5. Appropriate fiscal policies have been an important component of the stabilization program. Budget expenditures as a proportion of GNP declined to 21.5 per cent in 1982 compared with 22.6 per cent in 1981. For 1983, the ratio is projected to decrease further to 20.8 per cent. The cash deficit in the 1983 budget is equal to only 0.8 per cent of GNP, compared with 1.6 per cent in 1982. On the revenue side, performance in 1982 fell below expectation, which was compensated for by reduced expenditure. For 1983, a number of measures have been taken to improve collections. Inevitably, it may not be possible to make them fully effective this year, although every effort will be made to do so. Whatever the outcome, the firm intention is to compensate for any revenue shortfall by appropriate reductions in expenditures. For the public sector as a whole, the financing requirement in 1982 was equivalent to 5.5 per cent of GNP. For 1983 it is planned that this ratio will decline to 4.4 per cent of GNP. For 1984, the Government considers that the budget should be in approximate balance and that the financing requirement of the public sector as a whole should be no more than 3.5 per cent of GNP.

6. A significant and sustained improvement in the finances of the SEEs has been an important factor behind the improvement in the budget. In 1982, SEEs generated profits equal to 0.5 per cent of GNP and in 1983 the target is 0.6 per cent. Excess investment is being eliminated and in 1982, investment was equal to 7.3 per cent of GNP compared with 9.4 per cent in 1981. For 1983, the ratio is expected to be 6.9 per cent and its absolute level no greater in real terms than last year. Moreover, the investment target is largely established in nominal terms and normally increases will not be permitted. Nor will greater central bank or budgetary financing be permitted to cover shortfalls in self-financing or nonpublic sector borrowing. For 1983, transfers from the budget will be limited to LT 292 billion and for 1984, it is intended that such transfers will decrease in real terms.

7. In addition to an improvement in financial performance, further steps are being taken to improve operating and managerial efficiency in the SEEs. A decree governing the SEE reform has now been enacted. It introduces, inter alia, a clearer distinction between the types of public enterprises, the main one being between State Economic Enterprises (SEEs) to be operated on commercial principles, but totally owned by the Government and established by law, and Public Economic Enterprises (PEEs) with activities related to public service, e.g., producing monopoly goods or basic goods and services. Clear guidelines on ownership are introduced into the system and improved quality of the boards and managerial staff is required. The law also requires compliance with the annual investment and financing programs and as a general rule prices are to be determined freely by the enterprises. Provisions are also introduced to strengthen the capital structure and an entirely different personnel regime, compared with that for the Civil Service, is envisaged for employees of SEEs and PEEs. Turkey intends to avail itself of technical assistance from the World Bank.

8. Tight monetary policy has been crucial in obtaining the results of the stabilization program, particularly in reducing the rate of inflation. For 1983, consistent with the inflation target of 20 per cent and a real growth rate of 4.8 per cent, limits have been established for the period until end-December 1983 on the net domestic assets of the Central Bank, with a subceiling on central bank credit to the public sector. These limits are set out in an annexed table. In drawing up these targets it has been assumed that net foreign liabilities of the Central Bank will decrease by US$225-250 million between end-December 1982 and end-December 1983. It is understood that if the change in net foreign liabilities were to differ significantly from the above path, the Government will consult with the Fund. It is also a basis of the program for the remainder of 1983 that no new buildup of reserve requirement deficiencies will be permitted and that the reserve requirements of the commercial banks will not be changed from the existing ratio of 25 per cent. If either of these bases should prove incorrect, the Government will consult with the Fund. Although no quantitative credit limits can be established for 1984 at this time, the Government believes that the basic thrust of monetary policy should not be weakened next year.

9. The enabling law concerning the reform of the banking system has now been passed by the Parliament. The new law will permit, inter alia, the passage of decrees requiring increased capitalization of the commercial banks, improved quality of managerial staffs, and better supervision of bank operations. It is intended to introduce under the law a deposit insurance scheme. The Government intends to introduce the various reforms as rapidly as possible. As described in my letter of January 3, 1983, action was taken on January 1, 1983 to improve the interest rate system. Deposit rates have been reduced, but because the reductions apply only to new deposits the borrowing costs of the commercial banks have not yet fallen on average sufficiently to allow significant reductions in lending rates. However, such reductions are expected to occur in the second half of this year.

10. The restoration and maintenance of external competitiveness have been key factors in strengthening the balance of payments. In particular, the Government has followed a policy whereby the exchange rate for the lira has been 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 this exchange rate policy is not continued, the Government will consult with the Fund and reach such understandings as may be necessary.

11. With the expected reduction in concessional foreign borrowing in 1984 and onward and its replacement by market borrowing, the need for nonconcessional credits will increase. Consequently, borrowings of the latter kind will rise above the very modest levels obtained in the last few years. However, debt service will remain high and excessive borrowing should be avoided. The Government will limit the contracting of new nonconcessional public and publicly guaranteed foreign borrowings, excluding purchases from the Fund, in the maturity range of more than one and up to and including twelve years during the period of the stand-by arrangement ending December 31, 1983 to no more than US$1.2 billion. At present, the Government does not consider that short-term foreign debt is a problem. However, to avoid any possibility of such a problem emerging, the Government intends to limit foreign borrowing of the nonfinancial public sector and the banking sector of up to and including one year so that the increase in outstandings in 1983 will not exceed US$500 million. This limit will exclude normal trade credits, reserve related foreign liabilities of the banking system, and saving schemes for workers abroad. To improve the timeliness and accuracy of debt recording, a new system of debt reporting and recording is being examined and computerization will be introduced. The Government expects to avail itself of World Bank technical assistance in this area.

12. The Government is convinced of the need to strengthen the competitiveness of the economy and that one element in achieving this is to open up the domestic economy and reduce the protection currently given to domestic production. To this end, liberalization of the trade and payments system has continued. In January 1983, items under 29 tariff lines were moved from the less liberalized to the more liberalized

lists and imports are now permitted for some items that previously could not be imported. Import guarantee deposits were reduced and some tariffs were reduced. The Government believes, however, that over the medium term a more fundamental improvement in the import system is desirable. In particular, it considers that the licensing system should be gradually replaced by a rationalized set of tariffs (at an appropriate exchange rate). Such a program for phasing out import licensing over a period of five years will be established before the end of 1983. As the first step in the program, a substantial proportion (on a trade-weighted basis) of existing items will be shifted on January 1, 1984 from the less liberalized list (List II) to the more liberalized lists (List I and the "Levy" List) and commodities not at present included in either list will be included in one of the lists. The Government intends to reduce all rates of import guarantee deposits by half by the end of 1983 and to eliminate such deposits commpletely by June 15, 1984. The Government also considers that export subsidies granted through fiscal and credit preferences should be reduced further, taking into account export incentives provided by other countries. The Government of Turkey does not intend to introduce any new multiple currency practices, or impose any new or intensify existing restrictions on payments and transfers for current international transactions or enter into any new bilateral payment agreements with Fund members; furthermore, Turkey does not intend to introduce any new or intensify existing restrictions on imports for balance of payments purposes.

13. 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 economic developments and progress in implementing the various structural reforms. Turkey will consult with the Fund early in 1984 with regard to economic developments and progress in implementing structural reforms as well as the program relating to 1984. 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 on such consultations.

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/
June-September 1983 3/	1,095	640
September 1983 4/	1,114	646
October-December 1983 3/	1,151	654
December 1983 4/	1,170	657

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 of last reporting date in each month.

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

Turkey: Fund Relations

(As of April 30, 1983)

Date of membership:	March 11, 1947
Quota:	SDR 300 million
Fund holdings of Turkish liras:	SDR 1,768.6 million or 589.5 per cent of quota, of which: CFF: SDR 71.6 million, or 23.9 per cent of quota Oil facility: SDR 5.7 million, or 1.9 per cent of quota SFF: SDR 1,271.3 million, or 423.8 per cent of quota
SDR holdings:	SDR 4.7 million (4.2 per cent of net cumulative allocation of SDR 112.3 million)
Distribution of profits:	US$24 million
Gold distribution:	129,230 fine ounces
Exchange system:	The currency of Turkey is the Turkish lira. The Turkish authorities do not observe margins in respect of exchange transactions and Turkey follows a flexible exchange rate policy by which exchange rates for the lira are adjusted from time to time. On April 30, 1983, the official buying and selling rates for the U.S. dollar, the intervention currency, were LT 208.00 and LT 212.16, respectively, per US$1.
Last consultation:	The staff report for the 1981 Article IV consultation with Turkey (SM/81/178, 8/24/81) was considered by the Executive Board on Wednesday, September 9, 1981 (EBM/81/121).

Table 1. Turkey: IMF Position, January 1983 to May 1984

(In millions of SDRs)

	Actual value date			Proposed during period			
	Jan. 17 1983	Mar. 9 1983	May 2 1983	2 months to end-June 1983	4 months to end-Oct. 1983	4 months to end-Feb. 1984	3 months to end-May 1984
Purchases	100.00	100.00	90.00	56.25	56.25	56.25	56.25
Stand-by arrangement	100.00	100.00	90.00	56.25	56.25	56.25	56.25
Ordinary resources	(--)	(--)	(--)	56.25	56.25	56.25	16.81
Borrowed resources	(100.00)	(100.00)	(90.00)	--	--	--	39.44
Repurchases	...	...	...	25.18	50.94	71.83	35.54
Stand-by arrangement	...	...	...	10.51	41.99	53.92	26.59
CFF and Oil Facility	...	...	...	14.67	8.95	17.91	8.95
Net purchases	100.00	100.00	90.00	31.07	5.31	-15.58	20.71
Fund holdings 1/ Total (cumulative)	1,719.18	1,789.15	1,858.95	1,889.66	1,894.98	1,879.40	1,900.11
In per cent of present quota	573.1	596.4	616.6	629.9	631.7	626.5	633.4
(Excluding CFF and Oil Facility)	539.2	567.5	593.8	609.0	613.8	614.5	624.4
In per cent of proposed quota	400.6	417.0	433.4	440.4	441.6	438.0	442.8

Source: Staff projections.

1/ At end-period. Holdings in per cent of quota are based on total holdings in relation to present quota of SDR 300 million and proposed quota of SDR 429.1 million.

Turkey: Direction and Composition of Exports

The sharp increases in exports in recent years have been accompanied by marked structural shifts in composition and direction, as a result of diversification into manufactured products and toward Middle Eastern markets. Thus, the share of nontraditional and processed agricultural products and manufactures in total exports more than doubled from 27 per cent in 1978 to 60 per cent in 1982, at the expense of traditional agricultural export crops (Table 2). There has been rapid expansion in a variety of product lines, including meat and live animals, textiles and clothing, cement, iron and steel, metal products and machinery, and electrical equipment. Exports of these products have been increasingly directed toward regional partners. In particular, there has been a spectacular expansion of exports to four oil-producing countries--Iran, Iraq, Saudi Arabia, and Libya--which, together, absorbed more than half of the increase in Turkish exports in the past five years; as a result, their share in total exports more than quadrupled from 8 per cent in 1978 to 35 per cent in 1982. A variety of products has been exported to these countries. Thus, for example, over the five-year period 1978-82, about three fifths of the increase in exports to Saudi Arabia was accounted for by live animals and meat. In the case of Iran, well over two fifths of the increase was attributable to textiles and iron and steel; another one fifth to barley, meat, and sugar; and the remainder to other manufactured products. For Iraq, cement accounted for roughly one fifth of the increase, agricultural and livestock products for a further one fifth, and manufactures for the remainder. For Libya, there has been a relatively more even growth of various products. In addition to these four main regional partners, exports to other countries in the region, particularly Kuwait, Algeria, and Egypt, have also picked up, albeit less dramatically. Concomitantly, because growth rates to other markets has been much slower, the share of the traditional markets in the European Communities has declined from 48 per cent in 1978 to 30 per cent in 1982, and the share of East European countries has also fallen significantly. The Turkish authorities attributed the relatively slow growth of exports to traditional markets to depressed demand conditions in them, to the heavier weight of agricultural exports which have been affected by price declines, and to protectionist pressures in the EC.

The Turkish authorities envisage continued diversification of exports toward agroindustrial and manufactured products as part of the process of building up a broader-based export sector. They do not consider that recent developments in world oil prices will lead to a reversal of the gains achieved in the past few years in Middle Eastern markets, partly because some of the products exported are considered essential goods, and also because of the geographical and cultural advantages enjoyed by Turkish exporters. Although growth of exports to Middle Eastern markets is expected to decelerate compared with the spectacular increases achieved in the past few years, the authorities consider that there is still room for further expansion of market shares in the Middle East. This is because Turkey's share in imports of the four main regional partners is still relatively small--around 2 per cent--and because export possibilities in other Middle Eastern and North African countries have not yet been

fully explored. They noted that, despite the rapid export expansion of the past few years, exports still constitute only about 11 per cent of total GNP and a negligible proportion of world exports.

Table 2. Turkey: Composition and Direction of Exports, 1978-82

	1978	1982	1978	1982
	Value (in millions of U.S. dollars)		Shares (in per cent)	
Total exports	2,288	5,746	100.0	100.0
Commodity composition:				
Agricultural products	1,543	2,141	67.4	37.3
Of which:				
Cereals and pulses	262	337	11.5	5.9
Fruits and vegetables	561	659	24.5	11.3
Industrial crops	618	741	27.0	12.9
Live animals	102	414	4.4	7.2
Processed and manufactured products	621	3,430	27.1	59.7
Of which:				
Processed agricultural products	95	568	4.2	9.9
Textiles and clothing	321	1,056	14.0	18.4
Leather products and hides	40	111	1.7	1.9
Chemical products	24	148	1.0	2.6
Glass and ceramics	30	104	1.3	1.8
Cement	41	207	1.8	3.6
Iron and steel	21	362	0.9	6.3
Metal products and machinery	18	143	0.8	2.5
Electrical equipment and products	4	75	0.2	1.3
Motor vehicles	7	27	0.3	1.9
Mining products	124	175	5.4	3.0
Export markets				
European Community	1,090	1,755	47.6	30.5
Other OECD countries	417	801	18.2	13.9
Eastern Europe	324	323	14.2	5.6
Major regional partners	182	1,994	7.9	34.7
Iran	45	791	1.9	13.8
Iraq	69	610	3.0	10.6
Libya	50	235	2.2	4.1
Saudi Arabia	18	358	0.8	6.2
Other countries	275	873	12.1	15.3
Exports/GNP			4.4	10.8

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

Turkey: Medium-Term Scenarios for External Debt and the Balance of Payments

The Turkish stabilization effort has been supported by financial assistance from multilateral institutions, including the Fund, as well as other official sources. Thus far the effort has been successful in improving the balance of payments but equally it has been associated with an accelerated rate of economic growth, permitted by the adoption of an export-oriented strategy. However, the growth rate has not been sufficient to prevent an increase in unemployment. Given relatively large expected increases in the labor force, future growth rates of between 5 and 6 per cent may be needed to obtain a satisfactory employment situation. A crucial question is whether such a growth rate would be consistent with a viable balance of payments and foreign debt position. In this regard it is significant that in the mid-1980s repayments of rescheduled debt obligations will be relatively large. To help ascertain the potential trade-offs that lie ahead, a computational model has been used to simulate various scenarios involving alternative policy approaches--beyond the period of the new stand-by arrangement. The calculations must be regarded as illustrative since they cannot be more robust than the underlying assumptions on which they depend.

The results imply that under certain assumptions the current account could be brought close to equilibrium after 1984 only at some cost in increased unemployment. On this scenario, the real GNP growth rate would have to be reduced to less than 5 per cent until 1988, while the debt service ratio would gradually drop to 20 per cent (Table 3). Alternatively, adoption of a 5.5 per cent growth target would result in a rebound in the current account deficit to about US$1 billion by 1988, while the debt service ratio would remain at 22 per cent. These outcomes are based on two critical assumptions regarding trade developments: export volume would grow 9 per cent yearly between 1986 and 1988, and the GNP elasticity of imports would remain at 1.3.

Hence, a third scenario is examined assuming that the export growth rate gradually declines to 5 per cent as gains in market shares taper off, while the elasticity of imports with respect to GNP is reduced to 1.2 after 1985 and to 1.1 in 1988 reflecting the impact of structural measures. As a result, by 1988 the growth rate of GNP would be constrained to 3.3 per cent even allowing for a current account deficit of US$0.5 billion. These scenarios suggest that the necessary conditions for attaining the twin objectives of growth and external stability are the continuation of an export-oriented strategy and policies that result in lesser import dependence, presumably through investment programs involving energy and other key sectors.

1. Methodology and assumptions

Foreign exchange earnings, the terms of trade, and the terms of borrowing are treated exogenously, as they are determined by the rest of the world or through domestic policy measures. Similarly, the stream of disbursements and the debt service on commitments outstanding at the

beginning of the forecasting period are given, the latter being determined by amortization schedules and an interest rate assumption. Also, official borrowing, direct investment inflows, and accumulation of reserves during the period are assumed. Upon setting a current account target, the model solves for the level of new borrowing from commercial sources, the resulting debt service, and the permissible growth of merchandise imports. It also calculates the gross borrowing required to finance the current account deficit, amortization of outstanding debt, accumulation of reserves, plus direct capital outflows. Alternatively, instead of starting with a current account target, the model can solve in an iterative manner for the current account balance, as well as for gross borrowing and debt service payments, that are consistent with the level of imports determined by a target output growth rate.

For the two basic scenarios the annual growth rate in the volume of merchandise exports is projected to decline from 10 per cent to 9.5 per cent in 1985, and 9 per cent thereafter. Meanwhile, workers' remittances and other invisibles are assumed to rise on average by 6 per cent annually in nominal terms. The terms of trade are assumed to continue to move in favor of Turkey (albeit at a decreasing rate) through 1985; subsequently, price increases are assumed to average 6 per cent for exports and 7 per cent for imports. The elasticity of imports to GNP is assumed to decline to 1.3 from 1984 onward--following actual values of 2.8 in 1981, 1.5 in 1982, and 1.4 estimated for 1983.

The interest rate on new borrowing and that on existing adjustable-rate debt has been set at 10 per cent. Future official program and project credits are assumed to be repayable in ten equal yearly installments after five years' grace. New medium-term commercial borrowing is repayable in five yearly installments, following a two-year grace period. Disbursement of medium- and long-term borrowing from official sources is assumed to decline to US$1.5 billion next year, and then gradually to US$1 billion by 1988, as program loans are to be replaced partly by project credits--to an increasing extent from commercial sources, on the basis of Turkey's renewed access to international capital markets. Outstanding short-term debt is assumed to be kept constant at US$2 billion after 1983. Direct capital inflows are assumed to almost quadruple--from a rather low level--between 1982 and 1988 due to the liberalization of foreign investment statutes. The accumulation of official reserves is targeted at about US$0.2 billion yearly after 1983, which means that international reserves would be maintained at a level equivalent to slightly less than two months of merchandise imports.

2. The "adjustment" scenario

Under the "adjustment" scenario, the current account is in balance, following the deficits programmed for 1983 and 1984 and a US$0.1 billion deficit in 1985 (Table 3). Given the bunching of maturities after 1984, this constraint results in a cutback in the growth of imports, which in turn is likely to be associated with an 0.7 percentage point annual deceleration in the GNP growth rate in 1985 and 1986. However, the growth rate would recover to 5 per cent by 1988. The ensuing slowdown

in the pace of borrowing would lead to a reduction in the debt service ratio (excluding amortization of short-term debt) from almost 27 per cent in 1985 to 20 per cent in 1988. Between the end of 1982 and the end of 1988, Turkey's external indebtedness would rise by only 1 per cent per year on average, which implies a significant reduction in real terms.

3. The "growth" scenario

The "growth" scenario envisages a 5.5 per cent annual target GNP growth rate beyond 1984, assumed to be the minimum required to hold the rate of unemployment constant. Thus, merchandise imports increase 7.2 per cent yearly, which imposes an added financing requirement with a feedback on debt service payments. By 1988, the current account deficit becomes US$1 billion, the outstanding debt rises to more than US$21 billion, and the debt service ratio is 22 per cent. The gross borrowing requirement rises to US$3.3 (excluding the rollover of US$2 billion in short-term debt) as against the "adjustment" scenario where the financing requirement stabilizes around US$2.2 billion. Clearly, in the absence of further corrective action, these trends would subsequently accelerate sharply, casting doubt on Turkey's ability to meet the increasing financing gap from borrowed resources.

4. The mixed scenario

A sensitivity test of the "growth" scenario with respect to marginal changes in certain key assumptions reveals that future balance of payments and external debt developments will be influenced particularly by the growth rate of export volume and the GNP elasticity of imports (Table 4). A 10 per cent increase (decrease) in the export growth rate or decrease (increase) in the elasticity of imports leads to: US$0.5-0.6 billion reduction (rise) in the current account deficit, US$0.6 billion reduction (rise) in the gross borrowing requirement, and US$1.2 billion reduction (rise) in the debt outstanding by 1988. The debt service ratio falls (rises) by more than 1 percentage point in response to the increase (decrease) in the export growth rate, and by less than 1 percentage point due to the decrease (increase) in the elasticity of imports.

In view of these simulations, and because of the likely rigidities in export performance and import dependence introduced in the above scenarios, a third scenario is presented based on the assumptions of a gradual fall in the export growth rate to 5 per cent and a decline in the GNP elasticity of imports to 1.1 by 1988. A policy approach that allows for a moderate rise in the current account deficit, from US$0.2 billion in 1985 to US$0.5 billion in 1988, to accommodate the deceleration of the export growth rate, would result in a reduction of the GNP growth rate to 3.3 per cent by the end of the period. Whereas other debt indicators would fall between those shown for the two other scenarios, the debt service ratio would increase to nearly 23 per cent because of lower export earnings (Table 3).

5. Policy implications

The foregoing exercise, while subject to a number of caveats, contains several broad policy implications. Above all, the results underscore the importance of continuing the momentum of export growth of the last three years through the rest of the decade. The latter would entail significant further growth in market shares, which presupposes a competitive exchange rate and a sustained export drive. A realistic exchange rate policy, coupled with adequate interest rates, would also assist in attracting workers' remittances.

In addition, it seems clear that priority must be given to structural measures, particularly those affecting the energy sector and the demand for petroleum imports so that the elasticity of imports to output can be reduced. More generally, the investment program and pricing policies must be geared toward increasing the supply of tradables in the economy. Also, everything should be done to encourage direct capital inflows and to increase the confidence of commercial banks with respect to lending in Turkey.

Table 3. Turkey: Medium-Term External Debt and Payments Scenarios, 1982-88

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

	1982	1983	1984	1985	1986	1987	1988
"Adjustment" scenario							
Current account balance	-1,158	-645	-300	-100	--	--	--
Gross medium- and long-term borrowing	2,136	2,205	1,853	2,197	2,043	2,189	2,240
Amortization of medium- and long-term debt	980	1,231	1,453	2,067	2,023	2,169	2,250
Interest payments	1,466	1,300	1,299	1,324	1,384	1,431	1,452
Total debt outstanding at year-end	17,638	18,316	18,666	18,796	18,816	18,836	18,826
Debt service ratio (per cent of foreign exchange earnings)	26.8	25.0	24.2	26.6	23.7	22.2	20.2
Growth of export volume (in annual per cent change)	34.4	10.5	10.0	9.5	9.0	9.0	9.0
Growth of import volume (in annual per cent change)	6.4	6.9	7.0	6.0	5.1	6.3	6.5
Real GNP growth (in annual per cent change)	4.4	4.8	5.3	4.6	3.9	4.8	5.0
"Growth" scenario							
Current account balance	-1,158	-645	-300	-248	-451	-692	-960
Gross medium- and long-term borrowing	2,136	2,205	1,853	2,345	2,493	2,910	3,320
Amortization of medium- and long-term debt	980	1,231	1,453	2,067	2,023	2,199	2,369
Interest payments	1,466	1,300	1,299	1,331	1,422	1,526	1,629
Total debt outstanding at year-end	17,638	18,316	18,666	18,944	19,415	20,127	21,077
Debt service ratio (per cent of foreign exchange earnings)	26.8	25.0	24.2	26.6	24.0	23.0	21.8
Growth of export volume (in annual per cent change)	34.4	10.5	10.0	9.5	9.0	9.0	9.0
Growth of import volume (in annual per cent change)	6.4	6.0	7.0	7.2	7.2	7.2	7.2
Real GNP growth (in annual per cent change)	4.4	4.8	5.3	5.5	5.5	5.5	5.5
Mixed scenario							
Current account balance	-1,158	-645	-300	-200	-300	-400	-500
Gross medium- and long-term borrowing	2,136	2,205	1,853	2,297	2,343	2,609	2,820
Amortization of medium- and long-term debt	980	1,231	1,453	2,067	2,023	2,189	2,330
Interest payments	1,466	1,300	1,299	1,329	1,409	1,491	1,557
Total debt outstanding at year-end	17,638	18,316	18,666	18,896	19,216	19,636	20,126
Debt service ratio (per cent of foreign exchange earnings)	26.8	25.0	24.2	26.8	24.3	23.6	22.7
Growth of export volume (in annual per cent change)	34.4	10.5	10.0	8.5	7.0	6.0	5.0
Growth of import volume (in annual per cent change)	6.4	6.9	7.0	6.1	5.0	4.2	3.6
Real GNP growth (in annual per cent change)	4.4	4.8	5.3	4.7	4.2	3.5	3.3

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

Table 4. Turkey: Sensitivity Test of Medium-term "Growth" Scenario, 1988

Change in Selected Assumptions	Current account balance	Gross borrowing	Debt outstanding at year-end	Debt service ratio (per cent of foreign exchange earnings)
	Deviation from Basic "Growth" Scenario			
	(In millions of U.S. dollars)			
Interest rate 1/				
10 per cent increase	-151	184	426	1.1
10 per cent decrease	142	-176	-408	-0.9
Growth rate in export volume 2/				
10 per cent increase	568	-624	-1,198	-1.3
10 per cent decrease	-502	550	1,061	1.3
GNP elasticity of imports 2/				
10 per cent increase	-575	628	1,202	0.8
10 per cent decrease	532	-590	-1,156	-0.7
Memorandum item:				
"Growth" scenario benchmark	-960	3,320	21,077	21.8

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

1/ Applied to debt contracted after 1982.
2/ Applied to exports or imports after 1984.

Turkey: Summary of the Economic Program under the Proposed Stand-by

Overall objectives

1. An increase in real GNP of 4.8 per cent in 1983 and 5.3 per cent in 1984 is targeted, compared with a growth of 4.4 per cent in 1982.

2. The rate of inflation, as measured by the GNP deflator, is expected to decline to 20 per cent in 1983 and further to 17 per cent in 1984, compared with 26.5 per cent in 1982.

3. The current account deficit of the balance of payments is to be reduced from US$1.2 billion (2.2 per cent of GNP) in 1982 to US$0.6 billion (1.4 per cent of GNP) in 1983 and further to US$0.3 billion in 1984.

Principal elements

1. Public sector finance

The overall public sector deficit is to be reduced in 1983 by 1 percentage point to 4.4 per cent of GNP. For the consolidated budget, the budget and cash deficits are forecast to decline to 0.6 per cent and 0.8 per cent, respectively, of GNP. Tax revenue is expected to increase by 26 1/2 per cent in 1983, partly as a result of a strengthening of the tax administration and of measures linking the incomes of self-employed to the taxpayers' wealth. Expenditure control is an important element in the program, and, should the revenue projections prove optimistic, expenditure appropriations will be cut to keep to the target for the deficit. With regard to the State Economic Enterprises (SEEs), operational profits are expected to rise somewhat to 0.6 per cent of GNP, while the financing requirement is to be reduced from 6 per cent in 1982 to 5.6 per cent in 1983. The SEEs are subject to cash limits on investment expenditures. Budgetary transfers to the SEEs are limited to LT 292 million in 1983, representing no increase in real terms, and the policy is to bring about a real decline in such transfers in 1984. Legislation to deal with the fundamental problems of the SEEs was passed in May 1983.

2. Monetary policy

The monetary program is designed to bring about a deceleration in the average rate of growth of reserve money from 48 1/2 per cent in 1982 to 33 per cent in 1983, and reducing the growth of broad money to 38 1/2 per cent in 1983 from 62 per cent in 1982. Net domestic assets of the Central Bank and net Central Bank credit to the public sector are subject to quarterly ceilings. The program also assumes for 1983: (i) an injection of liquidity of US$225-250 million through the balance of payments; and (ii) no new buildup of reserve requirement deficiencies, and an unchanged reserve requirement ratio of 25 per cent.

In early 1983, improvements were made in monetary controls by a simplification of the reserve and liquidity requirements and a rationalization of interest rates. Most interest rates continue to be relatively high in real terms. A new law was passed in April 1983, which enables the Government to reform the banking system by decree.

3. External policies

a. A key element in the program is the pursuit of a flexible exchange rate policy to support the balance of payments and export objectives.

b. A program of import liberalization is envisaged, which includes: (i) formulation by the end of 1983 of a program for phasing out restrictive import licensing over a period of five years; (ii) a substantial portion, on a trade-weighted basis, of existing items will be shifted by January 1, 1984 from the less liberalized to the more liberalized import lists; and (iii) rates of advance import deposits will be reduced by one half by the end of 1983, and such deposits will be eliminated by June 15, 1984.

c. The Government will follow cautious external debt management policies. Limits on short-term and medium- and long-term (1-12 years) foreign borrowing are performance criteria under the program. In addition, the debt reporting mechanism will be improved, with technical assistance from the World Bank and the Fund.

4. Review

There will be a review with the Fund in early 1984, which will provide detailed targets and policies for 1984 and set the performance criteria for the remainder of the program.

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

	Actual 1980	Actual 1981	1982 Estimate in EBS/83/17	1982 Prelim. Outturn	1983 Program in EBS/38/17	1983 Revised estimate
	(Annual percentage changes, unless otherwise specified)					
National income and prices						
GNP at constant prices	-1	4¼	4½	4½	4 3/4	4 3/4
GNP deflator	101	42	27	26½	20	20
Consumer prices	93	35	...	31	...	22
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	29	62	23¼	22¼	17¼	15
Imports, c.i.f.	56	13	-3 3/4	-2¼	12 3/4	7½
Non-oil imports, c.i.f.	21	25	-4 3/4	3/4	16½	13½
Export volume	11	69	40	34½	11	10½
Import volume	-1	11½	4	6½	7½	7
Terms of trade (deterioration -)	-26½	-5¼	-5	-1	—	3¼
Nominal effective exchange rate (depreciation -) 1/	-51	-21	-21½	-21½	...	...
Real effective exchange rate (depreciation -) 1/	-21½	-8	-4	-4	...	...
Government budget 2/						
Revenue and grants	69	62	26½	26½	23	25½
Total expenditure	78½	39½	27	25½	33	21½
Money and credit						
Domestic credit of Central Bank 1/	53	34	12	12	22	20½
Government	50	31	10	10	10	11
Private sector	57	40	15	15	37	35
Money and quasi-money (M_2) 3/	57	59	62	62	35	38½
Velocity (GNP relative to M2)	27	-7	-18½	-18½	-7	-9½
Interest rate (annual rate, one-year savings deposit)	33	50	50	50	...	...
	(In per cent of GNP)					
Overall public sector deficit	-10	-6½	-5½	-5½	-4½	-4½
Central government savings	-½	4¼	3¼	3	3 3/4	4
Central government budget deficit (including transfers to SEEs)	-4¼	—	-1 3/4	-1½	-1¼	-3/4
Domestic bank financing	4	—	1 3/4	2	1¼	1¼
Foreign financing	¼	—	—	-½	—	-½
Financing requirement of SEEs	-10¼	-8 3/4	-5 3/4	-6	-5¼	-5½
Gross domestic investment	26½	24½	21½	22½	21½	22½
Gross domestic savings	20¼	20½	19½	20¼	19 3/4	21¼
Current account deficit	-6¼	-4	-2	-2¼	-1 3/4	-1¼
External debt	28	28½	33	33	...	...
Debt service ratio	26	23	23	27	...	25
Interest payments (in per cent of exports of goods and services)	12½	15	14¼	16	...	13
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	-300	-50	-45	250	-120	350
Official reserves (months of imports)	2	2	2	1½	...	...
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

	Actual 1982	Actual 1980	Actual 1981	Estimate in EBS/83/17 1982	Preliminary Outturn 1982	Official Estimate 1983	Forecast 1/ 1984
	(In billions of liras)	(Percentage change in volume from preceding year)					
Consumption	6,875.7	-3.4	3.0	3.1	4.2	4.3	4.4
Public	950.0	8.8	0.8	2.7	3.2	3.6	3.5
Private	5,925.7	-5.2	3.4	3.1	4.3	4.4	4.5
Fixed investment	1,633.3	-10.0	1.7	3.0	2.6	5.9	6.5
Public	991.9	-3.7	9.4	2.4	0.8	5.2	6.0
Private	641.4	-17.2	-8.8	4.0	5.4	7.0	7.3
Stockbuilding 2/	381.0	(3.6)	(-1.1)	(-2.2)	(-1.2)	(-0.1)	(0.3)
Total domestic demand	8,827.0	-1.3	1.6	0.9	2.5	4.3	4.9
Foreign balance 2/	-170.1	(0.2)	(2.5)	(3.5)	(1.9)	(0.4)	(0.3)
GNP	8,656.9	-1.1	4.2	4.4	4.4	4.8	5.3
	(Share of GNP, in per cent)						
Agriculture	19.3	1.7	0.3	4.7	6.7	3.4	...
Industry	25.1	-5.8	7.2	3.3	3.2	5.5	...
Construction	4.1	0.8	0.4	0.6	0.5	4.9	...
Services	44.2	-0.2	5.4	4.1	4.2		
GDP at factor cost	92.7	-0.9	4.2	3.8	4.3	4.7	...
GNP at market prices	100.0	-1.1	4.2	4.4	4.4	4.8	...

Source: State Planning Organization.
1/ Staff forcast based on information provided by the Turkish authorites.
2/ 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	103.9
1981	36.8	34.0	37.6	35.9	41.8
1982	25.2	28.4	32.7	34.5	26.5
1983 Estimate	...	...	...	...	20.0
1984 Forecast	...	...	...	...	17.0
	(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	...
Q4	22.4	28.6	28.9	30.3	...
1983 Q1	24.8	30.7	25.4	28.0	...

Source: Information provided by the Turkish authorities.

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

Table 4. Turkey: Balance of Payments, 1981-83

(In millions of U.S. dollars)

	Actual 1981	Projection in EBS/82/19 (1982)	Projection in EBS/83/17 (1982)	Current Estimate (1982)	Projection 1983
Trade balance	-4,230	-4,150	-2,800	-2,988	-2,800
Exports, f.o.b.	4,703	5,850	5,800	5,746	6,600
Imports, c.i.f.	-8,933	-10,000	-8,600	-8,734	-9,400
Services balance	1,888	2,350	1,670	1,830	2,155
Workers' remittances	2,490	2,850	2,250	2,187	2,250
Interest payment (before debt relief)	-1,443	-1,450	-1,500	-1,566	-1,370
Tourism	277	350	230	262	275
Other services (net)	564	600	690	947	1,000
Current balance	-2,342	-1,800	-1,130	-1,158	-645
Capital account (long- and medium-term)	1,049	1,135	1,045	1,202	760
Project and suppliers' credits	642	850	725	754	875
Program loans	480	500	487	495	350
Private foreign capital 1/	129	235	100	104	130
Petroleum loans	--	--	--	25	--
Loans from banks	-182	--	70	89	285
Of which:					
Acceptance credits (net)	(-147)	(--)	(--)	(69)	(50)
Eurocurrency loans	(--)	(--)	(45)	(45)	(255)
Other	(-35)	(--)	(25)	(-25)	(-20)
Special assistance under the auspices of the OECD	315	400 2/	263 2/	487	100
Debt repayments (before debt relief)	-1,185	-1,400	-1,350	-1,502	-1,980
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 3/	400	35	233	275
SDR allocations	24	--	--	--	--
Overall balance	-65	-265	-50	277	390
Financing	65	265	50	-277	-390
Net use of Fund resources	335	320	200	205	135
Increase in net official reserves other than arrears and IMF (-)	-270	-55	-150	-482	-525

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/ Includes import prefinancing and other short-term facilities.

Table 5. Turkey: Outstanding External Disbursed Debt, 1978-82

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

	1978	1979	1980	1981	1982
			(By maturity)		
Total outstanding disbursed debt 1/	14,416	14,234	16,227	16,841	17,638
Medium and long term	7,230	10,638	13,722	14,667	15,474
Short term	7,186	3,596	2,505	2,174	2,164
			(By borrower)		
Medium and long term					
Government 1/ (including SEEs)	6,704	7,047	10,197	11,199	12,170
Central Bank	170	3,232	3,307	3,227	3,074
Private sector	356	359	218	241	230
Short term					
Government (including SEEs)	10	40	25	63	73
Central Bank	1,894	1,104	1,448	1,154	1,031
Private sector	5,282	2,452	1,032	957	1,060
			(By lender)		
Medium and long term					
Multilateral agencies	2,175	2,445	3,242	3,857	4,550
IMF	622	630	1,054	1,322	1,455
IBRD, IDA, IFC	945	1,180	1,438	1,783	2,115
European Investment Bank	447	471	447	427	420
European Resettlement Fund	145	148	253	287	384
Islamic Development Bank	16	16	35	23	117
OPEC Fund	--	--	15	15	40
Int. Fund for Agric. Development	--	--	--	--	19
Bilateral lenders	4,212	4,370	6,026	6,712	7,115
OECD countries	3,871	3,976	5,253	5,901	6,146
OPEC countries	26	55	392	449	587
Other countries	315	339	381	362	382
Commercial banks	487	3,464	3,436	3,257	3,229
Private lenders	356	359	1,018	841	580
Short term					
Islamic Development Bank	10	40	25	63	73
Bilateral lenders	570	308	620	459	68
Commercial banks 2/	1,302	575	608	407	335
Private lenders 2/	5,304	2,673	1,252	1,245	1,688
Of which: deposits of citizens abroad 3/	(3,223)	(961)	(908)	(946)	(1,402)
			(By type of credit)		
Medium and long term					
Project and program credits	6,387	6,815	9,268	10,569	11,665
Eurocurrency loans	487	659	763	651	720
Rescheduled debt					
Convertible Turkish lira deposits	--	2,269	2,137	2,077	1,996
Bankers' credits	--	429	429	429	429
Third party reimbursement claims	--	107	107	100	84
Suppliers' arrears (NGTAs)	--	--	800	600	350
Private credits	356	359	218	241	230
Short term					
Public sector					
Bankers' credits	333	18	10	--	--
Third party reimbursement claims	107	--	--	--	--
Overdrafts	341	244	254	69	48
Dresdner Bank program	363	344	365	473	817
Petroleum credits	420	308	620	459	68
Other 4/	340 5/	230	224	216 6/	171
Short term					
Public sector					
Bankers' credits	333	18	10	--	--
Third party reimbursement claims	107	--	--	--	--
Overdrafts	341	244	254	69	48
Dresdner Bank program	363	344	365	473	817
Petroleum credits	420	308	620	459	68
Other 4/	340 5/	230	224	216 6/	171
Private sector					
Convertible Turkish lira deposits	2,860	617	543	473	585
Acceptance credits	862	435	377	230	276
Pre-export financing	--	--	112	254	199
Suppliers' arrears (NGTAs)	1,560	1,400	--	--	--
Memorandum item:					
Ratio of total outstanding debt to GNP (in per cent)					
Including IMF	27.5	20.1	27.8	28.6	33.1
Excluding IMF	26.3	19.2	26.0	26.3	30.4

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 TPAO acceptance credit of $150 million.
6/ Includes pre-export financing of $38 million.

Table 6. Turkey: Projected Debt Service Payments on Existing Medium- and Long-Term Debt, 1/ 1983-88

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988
International organizations, excluding IMF	420	422	478	569	612	592
Principal	194	203	259	312	349	352
Interest	226	219	219	257	263	240
Bilateral lenders						
OECD countries	816	811	766	680	577	502
Principal	619	605	585	529	448	399
Interest	197	206	181	151	129	103
Other countries	99	93	78	96	104	99
Principal	64	62	51	71	82	79
Interest	35	31	27	25	22	20
Commercial banks	496	647	1,077	824	736	659
Principal	105	305	792	620	595	578
Interest	391	342	285	204	141	81
Private sector	104	76	128	99	85	75
Principal	59	46	104	80	71	64
Interest	45	30	24	19	14	11
Debt service payments, excluding IMF	1,935	2,049	2,527	2,268	2,114	1,927
Principal	1,041	1,221	1,791	1,612	1,545	1,472
Interest	894	828	736	656	569	455
IMF 2/	330	366	385	402	344	240
Repurchases	177	227	271	318	294	216
Charges	153	139	114	84	50	24
Debt service payments, including IMF	2,265	2,415	2,912	2,670	2,458	2,167
Principal	1,218	1,448	2,062	1,930	1,839	1,688
Interest	1,047	967	850	740	619	479
Memorandum item:						
Debt relief	1,000	580	150	--	--	--
Principal	930	580	150	--	--	--
Interest	70	--	--	--	--	--

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, 1982. The projections assume LIBOR of 10 per cent for dollars, 5.25 per cent for Deutsche marks, and 3.25 per cent for Swiss francs.

2/ Based on purchases outstanding as of March 31, 1983. SDR amounts converted to U.S. dollars at the rate of SDR 1 = US$1.08.

Table 7. Turkey: Monetary Developments and Program

	December 1982 Old definition	December 1982 New definition 1/	March 1983 Program EBS/83/17	March 1983 Actual Old definition	March 1983 Actual New definition 1/	May 1983 Program EBS/83/17 Old definition	May 1983 Program EBS/83/17 New definition 1/	Proposed program 2/ September 1983	Proposed program 2/ December 1983
	(In billions of Turkish liras)								
Reserve money	943	943	1,004	1,000	1,000	1,040	1,040	1,110	1,181
Net foreign assets	-32	-32	-25	-23	-23	-22	-22	-4	11
Net domestic assets	975	975	1,029	1,023	1,023	1,062	1,062	1,114	1,170
Credit to public sector	(592)	(592)	(623)	(624)	(624)	(625)	(625)	(646)	(657)
Credit to private sector	(438)	(395)	(484)	(467)	(418)	(512)	(465)	(492)	(533)
Other items, net	(-55)	(-12)	(-78)	(-68)	(-19)	(-75)	(-28)	(-24)	(-20)
M_2	2,073	...	2,128	2,272	...	2,205	...	2,420	2,540

Memorandum items:

	January-March 1983 Program EBS/83/17	January-March 1983 Actual	Program EBS/83/17 April-May 1983	Proposed program June-Sept. 1983	Proposed program Oct.-Dec. 1983	Average Actual 1982	Average Proposed program 1983
	(Percentage change from corresponding period of previous year)						
Reserve money	45	44	41	30	24½	48½	33
M2	47	54	42	37½	24½	62	38½

Sources: Turkish authorities; and IMF staff.

1/ Small revisions were made to the procedure for computing the reserve money tables with effect from December 1982, the main effects of which were to change the distribution between credit to the private sector and "other items, net."

2/ Based on the new definition.

Table 8. Turkey: Selected Interest Rates

(In per cent per annum)

	End-December			June 1	January 1
	1979	1980	1981	1982	1983
Commercial banks					
Deposits rates					
Commercial bank 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	26½	37½	37½	36
"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	31½	31½
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	12½	) 19½
Time deposits	8	16	26	19½	)
Rediscounts and advances					
Short term, general	10 3/4	26	31½	31½	31½
Short term, agriculture	11½	19½	20	18	18
Short term, exports	11	17 3/4	27	31½	31½
Long term, general	14	28½	32 3/4	32 3/4	32 3/4

Sources: Central Bank of Turkey; and staff estimates.

1/ After deduction of withholding tax; 25 per cent prior to 1983 and 20 per cent from 1/1/83.

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. Data are not yet available to permit a calculation for 1/1/83.

Table 9. Turkey: Public Sector Borrowing Requirement

(In billions of Turkish liras)

	1981	1982 Estimate in EBS/83/17	1982 Current estimate	1983 Estimate in EBS/83/17	1983 Current estimate
Central Government financing balance 1/	-7	-144 2/	-139 2/	-141	-90
Plus transfers to SEEs 1/	214	242 3/	242 3/	316	292
Less taxes paid by SEEs 3/	-41	-79	-60	-106	-80
Plus financing balance of SEEs 3/4/	-580	-498	-523	-578	-604
Public sector borrowing requirement	-414	-479	-480	-509	-482
Foreign borrowing of Central Government 1/	12	-10 2/	-54 2/	-9	-50
Foreign borrowing of SEEs 3/5/	122	81	83	118	120
Public sector domestic borrowing requirement	-280	-408	-451	-400	-412
Memorandum items (in per cent of GNP):					
Public sector borrowing requirement	6.3	5.5	5.5	4.7	4.4
Public sector domestic borrowing requirement	4.3	4.7	5.2	3.7	3.8

Source: IMF staff estimates from official data.

1/ Fiscal-year basis ending February in 1981 and December in 1982 and 1983.
2/ Ten-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)

	1981	1982 Estimate in EBS/83/17	1982 Current estimate	1983 Estimate in EBS/83/17	1983 Current estimate
Revenues	1,389	1,450	1,465	2,364	2,205
Expenditures	1,482	1,571	1,552	2,505	2,265
Personnel	390	440	425	694	630
Other current	255	280	275	493	425
Investment	290	360	338	560	530
Transfers	547	491	514	758	680
Of which: to SEEs	(214)	(233)	(233)	(316)	(292)
Budget balance	-93	-121	-87	-141	-60
Change in accounts payable, net	86	1	-29	--	-30
Financing balance	-7	-120	-116	-141	-90
Foreign borrowing	12	-8	-45	-9	-50
Domestic borrowing	103	128	161	150	140
Central Bank	(53)	(-8)	(32)	(35)	(35)
Other	(50)	(136)	(129)	(115)	(105)
Use of bank deposits (+)	-108	--	--	--	--
Memorandum items (in per cent of GNP):					
Revenues	21.2	20.0 2/	20.3 2/	21.6	20.2
Expenditures	22.6	21.7 2/	21.5 2/	22.9	20.8
Of which: transfers to SEEs	(3.3)	(2.8)	(2.8)	(2.9)	(2.7)
Budget balance	-1.4	-1.7 2/	-1.2 2/	-1.3	-0.6
Financing balance	-0.1	-1.7 2/	-1.6 2/	-1.3	-0.8

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 12-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	1982 Estimate in EBS/83/17	1982 Current estimate	1983 Estimate in EBS/83/17	1983 Current estimate
Sales revenue	1,767	2,556	2,480	3,386	3,285
Total expenditure	1,759	2,510	2,434	3,318	3,217
Wages and salaries	314	402	378	500	470
Purchases of goods and services	1,390	2,034	1,974	2,730	2,648
Other	55	74	82	88	99
Profit/loss before taxes	8	46	46	68	68
Duty losses 1/	-111	-94	-102	-109	-109
Operational profit	119	140	148	177	177
Total investment	616	590	633	706	752
Fixed investment	406	496	508	611	625
Increased in stocks	216	94	125	95	127
Depreciation	28	46	64	60	80
Financing requirement	580	498	523	578	604
Budgetary transfers	241	242	242	316	292
Taxes	-41	-79	-60	-106	-80
Borrowing from Central Bank	32	40	25	13	8
State Investment Bank	16	34	12	40	14
Foreign borrowing 2/	122	81	83	118	120
Transfers from Price Stabilization Fund	74	77	76	80	79
Short-term borrowing	136	103	145	117	171
Memorandum items: (in per cent of GNP)					
Profit/loss before taxes	0.1	0.5	0.5	0.6	0.6
Total investment	9.4	6.8	7.3	6.5	6.9
Financing requirement	8.9	5.7	6.0	5.3	5.6

Source: Ministry of Finance.

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

2/ Including lira counterpart of IBRD structural adjustment loans.

Table 12. Turkey: Quantitative Performance Criteria

(In billions of Turkish liras)

	Net domestic assets of the Central Bank		Net Central Bank credit to the public sector	
	Limit	Actual	Limit	Actual
A. Credit ceilings				
1983 January-March 1/	1,014	1,014	617	613
March 2/	1,029	1,027	623	620
April-May 1/	1,052	...	625	...
May 2/	1,062	...	625	...
June-September 1/	1,095	...	640	...
September 2/	1,114	...	646	...
October-December 1/	1,151	...	654	...
December 2/	1,170	...	657	...
B. Budgetary transfers to SEEs	Limit	Actual		
1983 January-May	110	60 3/		
January-December	292	60 3/		
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	Limit	Actual		
	(In billions of U.S. dollars)			
July 1, 1982-June 17, 1983 4/	1.0	0.3 5/		
Beginning of new stand-by arrangement to December 31, 1983	1.2	...		
D. Increase in outstanding foreign borrowing of the nonfinancial public sector and banking sector of up to and including one year				
Change end-December 1982 to end-December 1983	0.5	...		

Sources: Turkish authorities and IMF staff.

1/ Average of last reporting date in each month.
2/ Average of each weekly reporting date during the month.
3/ January-March 1983
4/ The limit for this period includes loans of up to and including ten years only.
5/ July 1, 1982-March 31, 1983.

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

	Outcome 1982	Projection 1983
	(In millions of U.S. dollars)	
Increase in foreign reserves (-)	-480	-525
Net purchases from IMF	205	135
Overall external deficit (+)	-275	-390
Plus capital inflows	1,435	1,035
Current account deficit	1,160	645
Plus exports	5,745	6,600
Plus net invisibles	1,830	2,155
Program imports	8,735	9,400
	(Percentage change)	
Total value of imports	-2¼	7½
Import prices	-8	½
Import volume	6½	7
Elasticity of imports to GNP	(1.4)	(1.4)
Real GNP	4½	5
GNP deflator	27	20
Nominal GNP	32	26
Velocity of M_2	-18½	-9½ 1/
M_2	62	38½
Reserve money multiplier	2.11	2.20
Reserve money	48½	33
	(In billions of Turkish liras)	
Increase in reserve money	302	238
Change in Central Bank net foreign assets	131	43
Permissible increase in NDA of Central Bank	171	195

Source: IMF Staff.

1/ Between end-1982 and end-1983, velocity of M_2 increases by 2½ per cent.