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AGENDA

EBS/84/192
Correction 1

CONFIDENTIAL

October 9, 1984

To: Members of the Executive Board

From: The Secretary

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

The following corrections have been made in EBS/84/192 (9/7/84):

Page 2, 3rd full para., lines 4 and 5: for "projected...domestic demand."
read "projected contribution by the
real foreign balance of 1 percent.
Domestic demand may increase at a
slightly higher rate than in 1983."

Page 9, para. 2, penultimate line: for "5.4 percent" read "5.8 percent"

Page 13, 1st full para. line 12: for "US\$166 million undisturbed"
read "US\$166 million undisbursed"

Page 21, Table 1, column 2, line 7: for "37" read "24"

Page 24, Table 4, under "Financing": for "Increase...and IMF (-)"
read "Increase in net reserves of
the banking system other than IMF (-)"

Page 29, Table 9: add as heading of first column "End of Period"

Pages 38 and 39: revised

Page 40, Table 14, 1st heading: delete "Estimated"

Corrected pages are attached.

Att: (9)

INTERNATIONAL MONETARY FUND

TURKEY

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

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

Approved by Geoffrey Tyler and W.A. Beveridge

September 6, 1984

I. Introduction

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

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

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

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

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

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

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

II. Developments in 1983 and Prospects for 1984

1. Domestic economy

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

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

On the basis of a favorable outcome in agriculture and industry during the first half, the forecast of growth in 1984 is now 5.7 percent. The balance of payments during the first half is consistent with the projected contribution by the real foreign balance of 1 percent. Domestic demand may increase at a slightly higher rate than in 1983.

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

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

3. Public finance

The improvement in budgetary performance since 1980 has been welcomed in Board discussions, although some doubts had been expressed about the accuracy of 1983 data. However, it has been consistently noted that the improvement was based more on expenditure constraint than revenue improvement. Better SEE performance had been welcomed but it was generally believed that structural reforms still had some way to go. A reclassification of some budget items has, in fact, substantially changed the picture of budget performance in 1983. Instead of the continued improvement shown by earlier data, the latest figures show a sharp deterioration last year. In 1984, however, a substantial recovery is projected and the PSBR is expected to decline to 5.8 percent of GNP, the lowest figure for many years.

a. The consolidated budget

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. Performance Criteria

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

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

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

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

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

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

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

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

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

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

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

^{1/} Official forecast. In the staff view, this underestimates the likely increase in the deflator. Since the official figure has been used to calculate the ratios to GNP for 1984 given below, the latter are probably higher than they should be. The calculation of velocity would be affected in the opposite direction.

^{2/} For 1981, fiscal-year data (March-February); for 1982, these data refer to the ten-month period March-December scaled up by 1.2; and for 1983 and 1984, calendar year.

^{3/} Fiscal data appearing in EBS/84/42 are not strictly comparable due to the reclassification of certain items.

^{4/} December over December of previous year; refers to domestic credit of Central Bank.

^{5/} See footnote 1.

^{6/} Average effective interest rate on 6-month deposits.

^{7/} After debt relief.

Table 2. Turkey: National Expenditure and Production

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

Sources: State Planning Organization; and IMF staff estimates.

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

2/ Revised forecast of expenditure made by staff assuming unchanged foreign balance and stockbuilding contributions and proportional increase of remaining components.

Table 3. Turkey: Price Developments

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

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

Sources: Turkish authorities; and IMF staff estimates.

1/ Shows the Under Secretariat of the Treasury and Foreign Trade WPI annual figures for 1978-81 and quarterly figures for 1982; the later figures relate to the new State Institute of Statistics, WPI.

2/ State Institute of Statistics (new index 1978-79 = 100), except for Istanbul's figures up to 1982.

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

(In millions of U.S. Dollars)

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

Sources: Turkish authorities; and Fund staff estimates.

^{1/} Includes c.i.f. element paid to Turkish carriers.

^{2/} Includes imports with waiver.

Table 9. Turkey: Monetary Developments and Program

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

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

1/ See revised performance criteria in Supplement 2 (3/29/84).

2/ Calculated with respect to M2.

EBS/84/192
Corrected:
10/5/84

Table 10. Turkey: Consolidated Central Government Budget 1/

(In billions of Turkish liras)

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

1/ For 1980 and 1981, fiscal year data; for 1982, the data refers to the ten-month period March-December, only; for 1983 and 1984, calendar year.

2/ For comparative purposes, the ten-month fiscal data have been multiplied by 1.2.

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

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

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

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

Yours sincerely,

Kaya Erdem
Minister of State and
Deputy Prime Minister

Turkey: Fund Relations
(As of September 30, 1984, unless otherwise
indicated for specific items)

I. Membership Status

- (a) Date of membership: March 11, 1947
- (b) Status: Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 429.1 million
- (b) Total Fund holdings of Turkish liras: SDR 1,857.24 million
(432.8 percent of quota)
- (c) Fund credit: SDR 1,460.41 million (340.3 percent of quota)
Of which: Under tranche policies: SDR 1,442.50 million
(336.1 percent of quota)
CFF: SDR 17.91 million (4.2 percent of quota)
- (d) Reserve tranche position: SDR 32.28 million

III. Current Stand-By

- (a) Current stand-by
 - (i) Duration: from April 4, 1984 to April 3, 1985.
 - (ii) Amount: SDR 225 million
 - (iii) Utilization: SDR 112.50 million
 - (iv) Undrawn balance: SDR 112.50 million
- (b) Previous stand-by arrangements approved during the last ten years:
 - (i) Two-year stand-by arrangement in the amount of SDR 300 million approved on April 24, 1978. Utilization: SDR 90 million; cancelled on July 19, 1979.
 - (ii) One-year stand-by arrangement in the amount of SDR 250 million approved on July 19, 1979. Utilization: SDR 230 million; cancelled on June 17, 1980.
 - (iii) Three-year stand-by arrangement in the amount of SDR 1,250 million approved on June 18, 1980. Fully disbursed; completed as planned.
 - (iv) One-year stand-by arrangement in the amount of SDR 225 million approved on June 24, 1983. Utilization: SDR 56.25 million; cancelled on April 4, 1984.

IV. SDR Department

- (a) Net cumulative allocation: SDR 112.3 million.
- (b) Holdings: SDR 0.46 million.

(B) Nonfinancial Relations

- V. Exchange rate arrangement: flexibly managed floating exchange rate. Unapproved exchange practices subject to Article VIII, Sections 2 and 3: bilateral payments agreement with Iran.
- VI. Last Article IV consultation was discussed by the Board on June 24, 1983 (EBS/83/98); the Board discussed and approved the current stand-by arrangement on April 4, 1984 and approved a waiver of Article V, Section 3(b)(iii). Turkey is on the 12-month consultation cycle.
- VII. Technical assistance:

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

Table 14. Turkey: Fund Position During Period of Arrangement

	Outstanding on September 30, 1984	Oct.- Dec. 1984	Jan.- Mar. 1985
<u>(In millions of SDRs)</u>			
Transactions under tranche policies (net) <u>1/</u>		6.99	-6.99
Purchases		56.25	56.25
Ordinary resources		(56.25)	(56.25)
Borrowed resources		(--)	(--)
Repurchases		49.26	63.24
Ordinary resources		(13.75)	(13.75)
Supplementary finance resources		(35.52)	(49.49)
Transactions under special facilities (net) <u>2/</u>		-8.95	-8.95
Purchases		--	--
Repurchases		8.95	8.95
Total Fund credit outstanding (end of period)	1,460.41	1,458.45	1,442.50
Under tranche policies <u>1/</u>	1,442.50	1,449.49	1,442.50
Special facilities <u>2/</u>	17.91	8.96	--
<u>(As percent of quota)</u>			
Total Fund credit outstanding (end of period)	340.3	339.9	336.2
Under tranche policies <u>1/</u>	336.1	337.8	336.2
Special facilities <u>2/</u>	4.2	2.1	--

Source: International Monetary Fund.

1/ Ordinary and borrowed resources.

2/ Compensatory financing facility.