

**FOR
AGENDA**

EBS/83/98
Correction 1

CONFIDENTIAL

May 25, 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

The following correction has been made in EBS/83/98 (5/20/83):

Page 28, following para. 13, add: "Yours sincerely, Adnan Baser Kafaoglu,
Minister of Finance" followed by
the word "Attachment"

A corrected page is attached.

Att: (1)

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 non-concessional 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 completely 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.

Yours sincerely,

Adnan Baser Kafaoglu
Minister of Finance

Attachment