

SM/79/58

CONTAINS CONFIDENTIAL
INFORMATION

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To: Members of the Executive Board
From: The Secretary
Subject: Turkey - Recent Economic Developments

This paper provides background information to the staff report on the 1978 Article IV consultation discussions with Turkey, which was circulated as SM/79/43 (2/9/79) and Correction 1 (2/12/79) and is tentatively scheduled for discussion on Wednesday, February 28, 1979.

Att: (1)

Other Distribution:
Department Heads

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Turkey - Basic Data

<u>Area</u>	780,576 sq. km.			
<u>Population (1978)</u>				
Total	43.0 million			
Active population	16.4 million			
<u>Gross national product (1978; at current prices)</u>	LT 1,300 billion			
<u>GNP per capita (at LT 25 = US\$1)</u>	US\$1,200			
<u>Sector share in gross domestic product in 1977</u>				
(In per cent, at current prices)				
Agriculture	26			
Industry and construction	25			
Other	49			
<u>Selected economic indicators (annual average increase in per cent)</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
GNP at constant prices	8.0	7.7	4.0	--
GNP at current prices	25.5	25.1	29.0	50
By main sectors, at constant prices				
Agriculture	10.9	7.7	-0.6	4
Industry	8.9	9.1	6.6	-4
General wholesale price index	10.1	15.6	24.1	51
Cost of living index (Istanbul)	21.2	17.4	26.0	62
Reserve money (on a basis of annual averages)	25.4	30.6	33.6	42
Exports (f.o.b., U.S. dollar values)	-8.6	39.9	-10.5	31
Imports (c.i.f., U.S. dollar values)	25.5	8.2	13.0	-21
<u>Central government finance (in billions of liras; fiscal year)</u>				
Tax revenue	95.0	127.1	167.4	240.3
Total revenue, excluding domestic borrowing	109.1	143.8	187.6	276.2
Total expenditure, excluding repayments	116.0	157.0	235.3	310.0
<u>Balance of payments (in millions of U.S. dollars)</u>				
Exports, f.o.b.	1,401	1,960	1,755	2,300
Imports, c.i.f.	-4,739	-5,129	-5,797	-4,600
Trade balance	-3,338	-3,169	-4,043	-2,300
Workers remittances	1,312	983	982	975
Other invisibles, net	120	-198	-574	-400
Goods and services, net	-1,906	-2,384	-3,635	-1,725
Gross official reserves, end of period	1,064	1,118	757	989
External debt	4,750	7,422	11,225	13,500
<u>IMF</u>				
Quota	SDR 200 million			
Fund holdings of Turkish liras (end-January 1979)	SDR 677.7 million (338.8 per cent of quota)			
Cumulative allocation of SDRs	SDR 71.0 million			
Holdings of SDRs (end-January 1979)	SDR 11.0 million			
Buying rate (s' March 1978)	LT 25 = US\$1			

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

TURKEY

Recent Economic Developments

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Prepared by the European and Exchange and
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During the mid-1970s the growth of activity in Turkey was relatively rapid, but the expansion was accompanied by growing external imbalance, which led in the course of 1977 to severe payments difficulties and large arrears in payments and transfers. In early 1978 the Turkish Government, facing an extremely difficult economic situation, introduced a stabilization program, including a 23 per cent devaluation of the currency and supporting fiscal and monetary measures, which in April 1978 was supported by a stand-by arrangement with the Fund.

This paper reviews the recent economic developments. Output and expenditure are dealt with in Chapter I, prices in Chapter II, the public finances and money and credit in Chapters III and IV, the balance of payments and external debt in Chapter V, and the exchange and trade system in Chapter VI.

I. Developments in the Domestic Economy

1. Introduction

During the first three five-year development programs (1962-1977), the Turkish economy has experienced two extended periods of rapid industrial growth which in each case ended in a major tightening of the external constraint. During these years economic policies have generally put great emphasis on a rapid process of industrialization, which is regarded as necessary in order to absorb a fast-growing labor force and to bring Turkey in line with the stage of economic development of other European countries. Industrialization in Turkey has in many cases led to the establishment of import-substituting industries; a large part of the inputs for the industrial sector have to be imported, while outputs are almost fully geared toward the domestic market, where demand has been buoyant. Foreign exchange earnings, which stem mainly from agricultural exports and workers' remittances have been insufficient in the past to meet the sharp increases in the demand for imports which are inherent in this kind of policy. The resulting deterioration of the external position led in 1970 and in 1977/78 to a severe constraint on the economic development of Turkey.

After the 1970 foreign exchange crisis, the Turkish economy continued to grow rapidly until mid-1977 despite a renewed deterioration of the current account since 1974. Domestic demand was buoyant throughout the period 1974-76 and economic growth was hardly affected by the period of world recession. The annual growth rate of real GNP in the years 1974-76 on average was 7.7 per cent, well above the medium-term trend of 6.9 (1962-76). The aim of fostering a rapid industrialization of the economy was well reflected in sharp increases in fixed investment, especially in those made by the public sector, but the main factor contributing to the growth of domestic demand in this period was consumption (Table 1).

In the course of 1977 the economic situation changed. Bottlenecks on the import side started to develop, resulting from a shortage of foreign exchange, and capacity utilization in industry fell. At the same time the inflation rate accelerated sharply, leading to an erosion of nominal incomes. The increase in domestic demand in 1977 mainly stemmed from public sector expenditures; private investment stagnated and private consumption rose substantially less than in the previous three years.

The deceleration in the growth of activity already apparent in 1977 continued in 1978. The annual program drawn up at the beginning of the year envisaged a real growth of GNP by 6.1 per cent in 1978. Domestic expenditures were expected to increase by 1.7 per cent, thus permitting a substantial improvement in the current account on the balance of payments. Fixed investment was projected to increase by 5.5 per cent and consumption by 2.1 per cent. Preliminary estimates of the national accounts for 1978 prepared by the State Institute of Statistics in November 1978 pointed to an increase of GNP in volume terms of 3 per cent. Total fixed investment was estimated to have declined by 12.1 per cent; with fixed investment by the public sector declining by 16.9 per cent. Private consumption--which is calculated in the Turkish national accounts as a residual item--was estimated to have increased by 3.8 per cent. It seems possible that the deceleration in economic growth was in fact more severe than the November national accounts estimates suggest. This view appears to be supported on the production side especially by data of output in the private manufacturing industry and of developments in the construction sector, and on the demand side by the available information with regard to real income developments. Data on price increases imply that the implicit GNP deflator in the November 1978 estimates, which amounted to 34.3 per cent, was an underestimate; the development of the wholesale price and cost of living indices suggests an increase of about 50 per cent. The data presented below differ, therefore, from the latest official estimates. They imply that with the exception of public consumption all the domestic demand components showed a reduction in real terms in 1978, with the decline in investment activity being particularly pronounced (Table 2). 1/

2. Supply

a. Industrial production and construction

Industrialization has been given the highest priority in Turkey's development planning. Industries owned and operated by the public sector account for about 30 per cent of value added in manufacturing industry. As a rule, public sector ownership and operation extends to those areas of the economy that are considered of vital importance but where the private sector is reluctant to invest. Most of the public sector industries are operated as State Economic Enterprises (SEEs). A large part of private sector industry is concentrated in and around Istanbul. With the exception of textiles and leather clothing, manufacturing industry is primarily geared to the protected and profitable domestic market. The import dependence is generally high in manufacturing, not only in respect of machinery but also of raw materials. Exports of manufactured goods in the period 1974-77 represented on average only 8 per cent of the value added in the manufacturing sector, and 35 per cent of total export earnings in this period. 2/ The value of exports was higher than that of imports only in the

1/ The view that, in nominal terms, GNP rose by between 45 and 50 per cent is compatible with the development of the monetary accounts (see Chapter IV). It involves an increase in the income velocity of money, which seems plausible in the light of the sharp rise in inflationary expectations.

2/ Based on the Turkish classification of exports which classifies a number of agricultural products which have gone through a simple processing as manufactured goods. Excluding processed agricultural products, manufactured goods (largely textiles) amounted, on average, to about 27 per cent of total exports in the period 1974-77.

foodstuffs, textile, and clothing industries; in most other branches of industry, the import/output ratio exceeded the export/output ratio substantially. ^{1/} The share of basic consumer goods is about 49 per cent of manufacturing production, intermediate goods 38 per cent, and investment goods (including consumer durables) 13 per cent.

In the period 1974-76 the value added in the manufacturing, mining, and energy sectors which represented about 25 per cent of GDP, increased on average by 8.7 per cent, somewhat less than the average calculated for the period 1962-76 (Table 3). However, in international comparison, the growth of industrial production was fairly high. In 1977 the rate of increase in industrial production declined to 6.9 per cent; there were substantial increases for various basic consumer goods, cement, and paper, but the output of iron and steel, artificial fertilizers, and cotton fabrics belonged to a group that showed a sharp fall (Table 4). The slowdown in the growth rate of production in manufacturing industry became more marked in the second half of 1977 and there was a sizable decline in the degree of capacity utilization. ^{2/} Especially in the latter part of 1977 production was adversely influenced by (i) a shortage of raw materials as the financing of imports became a bottleneck, (ii) slackening demand, (iii) shortages of electricity, and (iv) strikes resulting from labor disputes.

The recent development of output in the manufacturing industry is difficult to assess as official data are scanty. Output figures for various intermediate goods showed substantial decreases in the first half of 1978 (Table 4). The declines in the output of the investment good industry, especially the machinery and automotive industries, are likely to have been even larger. As the foreign exchange shortage worsened, priority was given by the authorities to the imports of oil and fertilizer. There was a lack of imported inputs for the manufacturing sector that had increasingly severe implications for the growth of production in this sector as stocks of such products were used up. In real terms, imports of raw materials and (semi) finished industrial goods declined in 1978 by an estimated 30 per cent; excluding the imports of mineral fuels and fertilizers the decrease was about 40 per cent. Besides the slackening of domestic demand, exports of industrial goods showed a decrease of about 5-10 per cent in volume terms in 1978; the decline was particularly noticeable in the first quarter of 1978 and was not fully offset by a recovery later in the year. In view of a reported further decline in capacity utilization in 1978, the sharp decrease in recorded imported inputs, and the available production figures for the first

^{1/} Although this assessment is based upon the 1973 input-output table, there is reason to believe that in general it still holds; relative buoyant domestic demand together with a real effective appreciation of the Turkish lira formed no incentive to increase the relative share of exports in the period since 1973.

^{2/} A survey among 2,000 enterprises in the private and public sectors carried out by the State Institute of Statistics showed that, from the sample in the fourth quarter of 1977, 42 per cent of the firms in the private sector were working at a capacity below 60 per cent and only 23 per cent at a degree of capacity utilization of more than 80 per cent; in the public sector, on the other hand, 29 per cent of the enterprises were working at the end of 1977 below a capacity of 60 per cent, and 49 per cent at a capacity of 80 per cent or more.

half of 1978, it is possible that output of manufacturing industry declined in 1978 by about 5 per cent, with a sharp fall especially in production in the investment goods (including consumer durables) industry. If this is so, it would be the first such decline in manufacturing output since 1949. The decline in activity is likely to have been especially severe in the private sector industries; output of the State Economic Enterprises may well have increased.

The construction sector plays an important role in the Turkish economy because of the influence it exerts on other sectors. The share of value added in total GDP amounted in 1977 to about 6 per cent. Value added in the construction industry rose in 1977 by 5.5 per cent in real terms after an average yearly increase of 7.6 per cent in the period 1974-76. The demand for new buildings as measured by the amount of construction permits issued (in terms of floor area) declined in 1977 (Table 5). For 1978, data on construction permits are not yet available, but official estimates imply a sharp fall in investment in the housing sector, while investments in practically all other sectors of the economy are also expected to have declined. It seems possible, therefore, that a decline in value added in the construction sector, also of about 5 per cent, occurred in 1978.

b. Agricultural production

Despite the rapid expansion of the industrial sector, agriculture remained a crucial sector in the Turkish economy. Although in 1977 it contributed only 21 per cent to GDP, the agricultural sector accounted for 59 per cent of commodity export earnings, and 60 per cent of total employment. The major crops grown in Turkey are cereals, industrial crops (such as cotton), tobacco, sugar beet and oil seeds, fruits, and vegetables. Despite the installation of irrigation plants, the output of the agricultural sector is still largely dependent on weather conditions. The emphasis given to industrialization led to a fall in the share of agriculture in total fixed investment in the first two five-year plans (1962-72) and reached its lowest level of below 10 per cent of total fixed investment in the early 1970s. During the third five-year plan, increased recognition of the need to improve irrigation facilities led to sharp rises in investment in the agricultural sector.

Favorable weather conditions and improved production techniques, together with the more widespread use of fertilizer and pest control led to sharp increases in agricultural output in the period 1974-76. The average annual growth rate in this period was 9.6 per cent, well above the growth rate of GDP. There was a slight decline in production in 1977 but the level of output remained remarkably high. Production of cotton and hazelnuts showed substantial increases, while the output of most other major crops remained unchanged or declined (Table 6). In 1978 the value added in the agricultural sector is estimated to have increased by 4 per cent. The further increase in crop production stemmed mainly from tobacco and olive oil, both of which have a high value added; the harvest of olives shows rather large yearly fluctuations. There was also an important increase in the production of livestock in 1978.

3. Domestic demand

a. Investment

Fixed investment accounts for about 23 per cent of GNP. About 50 per cent represents investment by the public sector. In the period 1974-76 the annual growth of total fixed investment averaged 16.8 per cent in real terms (Table 2). Strong increases in investment activity were registered in agriculture, mining, and the energy and service sectors. The average annual increase in investment in manufacturing industry in this period amounted to 12.2 per cent, most of which occurred in the public sector; private manufacturing investment has shown little rise since 1975 (Table 7). The share of public investment in total fixed investment rose from 48 per cent in 1973 to 51.5 per cent in 1976. In 1977 real fixed investment rose by 6.9 per cent as a result of a continued high level of investment activity by the public sector (13.2 per cent) at a time when total private investment was beginning to stagnate. Investment by the private sector in agriculture, which had risen fairly strongly in the previous three years and had been the main factor behind the growth of private investment in 1976, declined by 14.9 per cent, while private investment in the manufacturing industry showed virtually no growth for the third year in a row.

In 1978 total fixed investment fell sharply, with public investment declining by about 17 per cent and private investment by 6 per cent. Investment activity in general was hampered in 1978 by the foreign exchange shortage as an important part of investment in machinery and equipment is imported. Investment activity in the public sector was influenced by a lack of finance together with a sharp acceleration in prices of investment goods that eroded the volume represented by nominal appropriations. With the exception of the energy sector, public investment in all sectors of the economy declined; reductions in investment in the agricultural sector (-27 per cent) and manufacturing industry (-30 per cent) were substantial. The same sectors (agriculture and manufacturing industry) showed sharp declines in private investment. Private investment in manufacturing industry was adversely influenced by the existence of large overcapacities, which were mainly due to a shortage of raw materials and a slackening in demand. Private investment in the agricultural sector was probably affected by the development of rural incomes in the past two years; after substantial real increases in the period 1974-76, the rise in rural incomes in 1977 and 1978 was completely eroded by inflation. The decline in housing investment (-8 per cent) was influenced by the fact that the relative amount that buyers could finance through the banks had been lowered at a time when prices of houses increased substantially.

Stockbuilding in 1977 took place mainly in the public sector and reflected predominantly the accumulation of agricultural commodities, especially wheat and tobacco, which were partly exported in 1978. It is likely that in the early part of 1977 also some accumulation of imported raw materials occurred. The decline in inventories that took place in the private sector in 1978 largely reflects worsening shortages of essential raw materials for the manufacturing sector. The decline in gross fixed investment and stockbuilding were the main factors behind the decline of 5 per cent in total domestic expenditures in 1978.

b. Consumption ^{1/}

Consumption was buoyant in the period 1974-76 and increased at an average annual rate of 8.5 per cent in those years. The development of private consumption which amounts to nearly 70 per cent of GNP was influenced in particular by the buoyancy of farmers' incomes which benefited from increases in support prices for agricultural products as well as large increments in production. In 1976 also large wage increases which occurred both in the public and private sectors contributed to the increasing demand for consumer goods. The rise in private consumption slowed down in 1977 to 3.2 per cent, below the growth rate of GNP. Farmers' incomes did not increase in real terms as support prices rose only moderately while agricultural production stagnated. Real incomes in general were affected by the sharp acceleration in inflation toward the end of the year. Private consumption is estimated to have declined by nearly 2 per cent in real terms in 1978. Steep nominal increases in incomes were eroded in the course of 1978 by a continued rapid rise in prices and by taxation. Fixed income recipients, farmers, and public sector employees probably experienced declines in real disposable income. The latter development partly reflected the incomes policy of the Government with regard to civil servants' salaries and agricultural support prices. The growth rate of public consumption is estimated to have decelerated to 3 1/2 per cent in 1978.

4. Labor market

The rapid growth of the population ^{2/} in Turkey has created problems connected with urbanization, provision of welfare services, and, above all, employment. The majority of employment remains within the agricultural sector (Table 8), but the number of people working in this sector shows a declining trend. The increases in employment in the nonagricultural sector were not sufficient in the past to absorb the growth rate in the labor force and the migration of workers to the cities. As a result, the unemployment rate showed an upward trend despite the emphasis of economic policy on industrialization and the net emigration of workers abroad.

In the period 1975-78 the domestic labor force grew at an average annual rate of 1.5 per cent, ^{3/} while employment increased at an average rate of 0.9 per

^{1/} Private consumption in the Turkish national accounts statistics is calculated as a residual item; adequate data on disposable income of private households are not available.

^{2/} In recent years (1975-78) Turkey's population has been growing at an average annual rate of about 2 1/2 per cent.

^{3/} Excluding the number of workers abroad. A considerable part of the labor force consists of self-employed and their family members. The figures shown in Table 8 are estimates of the State Planning Organization (SPO), unless otherwise indicated. The labor force supply figures are based on estimates of population growth rates, changes in age structure of the population, expected migration abroad, changes in the participation of women, etc. Employment data are based on estimates of employment opportunities resulting from the sectoral growth rates as calculated in the various development plans. The true level of unemployment is often quoted to be much higher, among other things due to a high level of underemployed labor not reflected in the official data.

cent per annum. As a result, the unemployment rate rose from 12.3 per cent of the labor force in 1975 to 14.3 per cent in 1978. The growth rate of the labor force reflected partly the fact that the possibilities to export the structural labor surplus to European countries have decreased considerably since 1974, due to the recession and the slower growth rates that these countries experienced afterward. In face of this development, the Government has promoted the export of labor to Middle Eastern countries, especially Libya and Saudi Arabia. As a result, the net emigration of workers, which reached a lowest point of 4,419 in 1975, increased in 1976 to 10,558 and to 19,084 in 1977 (Table 9). In recent years, the total number of workers abroad was equivalent to about 4 1/2 per cent of the domestic labor force.

The industrial sector (manufacturing, mining, and energy) accounts for about 33 per cent of employment in the nonagricultural sector and for 13 per cent of total employment. In the period 1974-76 the increase in industrial employment amounted to on average of 3.8 per cent per annum. The average annual growth of labor productivity (output per employee) amounted to 4.7 per cent (Table 10). The increase in employment of 5.4 per cent in 1977 occurred at a time when the rise in industrial production dropped to 6.9 per cent. According to the already-mentioned survey in manufacturing industry, a decline in the number of wage earners in the private sector in the course of 1977 was more than compensated by an increase of workers in the public sector. The number of employees working in SEEs increased by nearly 9 per cent between end-1976 and end-1977.

With regard to 1978 the official estimate shows a further increase in industrial employment of 2.5 per cent. In view of the decline in capacity utilization and layoffs in the private sector industries, this increase may be overestimated. The layoffs in the private sector were probably broadly offset by an increase in employment in the SEEs where, in contrast to private industries, employment policies are subject to many considerations not related to strict economic considerations. As a result, the production per employee in the industrial sector shows a decline in 1978. The increase in employment in the service sector reflects among other things a further increase in the number of civil servants in 1978. Total employment is estimated to have increased by 0.5 per cent in 1978, at a time when the labor force continued to grow at an annual rate of 1.5 per cent; as a result, the unemployment rate rose to 14.3 per cent.

Table 1. Turkey: Use of Resources

(At constant prices expressed as contribution to
percentage changes in GNP) 1/

	1974	1975	1976	1977	1978 <u>2/</u>
GNP	7.4	8.0	7.7	4.0	--
Net imports	3.7	3.3	1.1	2.7	-5.4
Total domestic expenditure	11.1	11.3	8.8	6.7	-5.4
of which:					
Gross fixed investment	2.3	4.3	2.8	1.5	-2.7
Public	1.2	2.6	1.6	1.5	-2.1
Private	1.1	1.7	1.2	--	-0.6
Stockbuilding	2.1	0.5	-1.4	0.9	-2.0
Consumption	6.7	6.5	7.4	4.3	-0.7
Public	-0.4	1.9	1.8	2.1	0.5
Private	7.1	4.6	5.6	2.2	-1.2

Sources: State Planning Organization; and staff estimates.

1/ Changes as percentage of GNP in the preceding year.

2/ Staff estimates.

Table 2. Turkey: National Accounts

	<u>1977 level</u>		<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978 1</u>
	In billions of Turkish liras	In per cent of GNP	Percentage change				
<hr/>							
			<u>(At 1976 prices)</u>				
Consumption	581.0	83.4	8.4	7.9	9.1	5.3	-0.8
Public	98.8	14.2	-3.0	17.4	15.4	16.8	3.5
Private	482.2	69.2	10.3	6.5	8.0	3.2	-1.6
Fixed capital investment	156.0	22.4	13.1	23.8	13.6	6.9	-12.1
Public	85.2	12.2	13.9	29.7	15.6	13.2	-16.9
Private	70.8	10.2	12.4	18.4	11.5	0.1	-6.4
Final domestic expendi- tures	737.0	105.8	9.2	10.8	10.0	5.6	-3.2
Stockbuilding <u>2/</u>	16.0	2.3	2.1	0.5	-1.4	0.9	-2.0
Total domestic expendi- tures	753.0	108.1	11.3	11.1	8.4	6.4	-5.0
Foreign balance <u>2/</u>	-56.5	-8.1	-3.7	-3.3	-1.1	-2.7	5.4
GNP	696.5	100.0	7.4	8.0	7.7	4.0	--
			<u>(At current prices)</u>				
Consumption	705.5	81.7	42.6	25.0	25.3	27.8	50.8
Public	120.0	13.9	27.7	36.0	32.4	41.8	45.0
Private	585.5	67.8	45.2	23.3	24.0	25.3	52.0
Fixed capital investment	199.7	23.1	36.6	46.2	36.8	36.8	36.0
Public	107.7	12.5	39.7	53.3	39.9	43.2	29.0
Private	92.0	10.6	33.8	39.6	33.7	30.0	45.0
Final domestic expendi- tures	905.2	104.8	41.5	28.6	27.5	29.7	47.6
Stockbuilding <u>2/</u>	19.9	2.3	2.9	1.1	-1.1	1.5	-1.9
Total domestic expendi- tures	925.1	107.1	44.2	28.9	25.6	30.7	44.7
Foreign balance <u>2/</u>	-61.1	-7.1	-5.4	-4.1	-1.9	-3.5	2.1
GNP	864.0	100.0	37.8	25.5	25.1	29.0	50.0

Sources: State Planning Organization; and staff estimates.

^{1/} Staff estimates.

Table 3. Turkey: Origin of Gross Domestic Product
(At 1968 prices)

	<u>1977</u> Share of GDP	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u> ^{1/}
		Percentage change from previous year				
Agriculture, fishing, and forestry	21.4	10.3	10.9	7.7	-0.6	4.0
Industry	30.9	7.4	8.9	9.1	6.6	-4.0
Manufacturing	21.6	7.2	8.8	9.0	6.5	-5.2
Mining	1.6	10.8	5.5	4.9	8.2	4.9
Energy	1.8	11.8	17.1	18.4	10.6	4.4
Construction	5.9	6.1	8.5	8.3	5.5	-5.0
Services	44.8	8.7	8.0	8.2	6.1	3.6
Transportation and communications	9.6	9.2	8.4	9.2	7.3	3.4
Trade	13.4	10.9	9.5	8.9	4.8	1.0
Public services	8.7	6.5	5.8	7.0	6.0	5.0
Other services	13.1	7.9	7.7	7.5	6.7	5.5
Import taxes	2.9	4.0	8.2	10.0	-5.1	-34.3
GDP (market prices)	100.0	8.5	8.9	8.5	4.4	0.2
GNP (market prices)	100.9	7.4	8.0	7.7	4.0	--

Sources: State Institute of Statistics; and staff estimates.

^{1/} Partly staff estimates.

Table 4. Turkey: Volume of Industrial Production
(Percentage change over corresponding period a year earlier)

	1975	1976	1977	1978	1977		1978
					1st half	2nd half	1st half
Manufacturing: selected products							
Pig iron	-1.2	1.8	-14.9	...	-2.2	-27.3	-9.3
Steel ingots	8.3	0.6	-15.6	...	-2.6	-28.2	-19.4
Rolled products	-6.7	3.2	1.7	...	6.6	-13.6	-4.1
Coke	2.2	56.0	-40.6	...	-13.5	-56.1	-4.8
Cement	19.1	15.8	12.8	...	18.9	7.3	7.3
Artificial fertilizers	-9.0	9.5	-7.0	...	13.0	-22.9	-32.5
Paper and cardboard <u>1/</u>	9.4	-2.7	19.4	...	15.3	17.5	-5.6
Cotton fabrics (in millions of meters) <u>1/</u>	1.0	-3.3	-12.7	...	5.9	-29.3	-9.7
Glassware <u>1/</u>	8.6	9.3	14.3	...	1.6	28.3	13.1
Sugar	-12.3	47.7	10.0	...	94.6	-13.4	-10.7
Tobacco	0.3	-0.7	10.8	...	13.6	8.0	-6.7
Alcoholic beverages <u>2/</u>	11.7	14.2	29.0	...	36.7	20.9	-5.9
Mining, fuel, and energy: selected products							
Iron ore (ungraded product)	0.2	21.9	-29.2	...	-30.2	-28.4	12.6
Coal (ungraded product) <u>1/</u>	-4.8	-0.4	-0.3	...	-4.7	4.4	--
Lignite	10.0	17.5	-5.2	...	14.9	-20.2	10.3
Crude petroleum	-6.6	-17.0	1.6	...	-4.4	8.0	-4.4
Diesel oil	8.3	1.4	-0.6	...	0.8	-2.1	-10.4
Fuel oil	0.4	8.7	10.2	...	13.5	7.0	-1.0
Electricity (in millions of kilowatt hours) <u>1/</u>	16.0	16.7	12.4	...	17.3	8.0	2.8
Total industrial production (at constant prices)							
Mining	9.0	9.3	6.9	-3.8 <u>3/</u>	...	...	...
Manufacturing	5.5	4.9	8.2	4.9	...	...	...
Energy	8.8	9.0	6.5	-5.2 <u>3/</u>	...	...	...
	17.1	18.4	10.6	4.4	...	...	...

Source: Ministry of Finance, Monthly Economic Indicators.

1/ Public sector only.

2/ Excluding wine.

3/ Staff estimate.

Table 5. Turkey: Building Sector 1/

	1977	1974	1975	1976	1977
	Percentage changes				
<hr/>					
Occupancy permits issued; floor area (in thousands of square meters)					
Residential buildings	11,466	-11.1	17.5	4.2	17.1
Of which: Houses	2,361	-12.4	2.5	9.9	4.0
Apartments	9,105	-10.7	22.5	2.6	21.0
Commercial buildings	1,660	-10.6	23.3	21.5	11.7
Industrial buildings	709	25.1	-5.3	25.0	-7.5
Others	324	-28.2	52.5	-31.4	41.5
 Total	 14,159	 -9.8	 17.9	 6.1	 15.4
 Construction permits issued; floor area (in thousands of square meters)					
Residential buildings	22,312	-20.4	18.4	23.1	-0.4
Of which: Houses	5,079	-18.3	16.5	4.2	-5.8
Apartments	17,233	-21.2	19.2	30.6	1.3
Commercial buildings	3,211	-9.3	30.3	51.9	-7.5
Industrial buildings	2,023	-24.1	-1.0	10.5	7.1
Others	1,426	-18.2	43.7	16.9	5.4
 Total	 28,972	 -19.8	 18.8	 24.7	 -0.5

Source: Ministry of Finance, Monthly Economic Indicators.

1/ Due to problems with the data processing, the Turkish authorities could not provide figures for 1978.

Table 6. Turkey: Agricultural Production

	1975	1976	1977	1978	1975	1976	1977	1978
	In thousands of tons				Percentage changes			
Major crops:								
Cereals								
Wheat	13,275	14,850	14,958	15,030	34.1	11.9	0.7	0.5
Barley	4,500	4,900	4,750	4,800	35.1	8.9	-3.1	1.1
Industrial crops								
Cotton	480	475	575	525	-19.7	-1.0	21.1	-8.7
Tobacco	193	314	250	288	7.8	62.7	-20.4	15.2
Sugar beet	6,949	9,400	9,000	9,600	21.8	35.4	-4.3	6.7
Oil seeds								
Cotton seeds	768	760	920	840	-19.8	-1.0	21.1	-8.7
Sunflower seeds	488	550	460	515	16.2	12.7	-16.4	12.0
Fruits and nuts								
Hazelnuts	317	245	290	300	29.9	-22.7	18.4	3.4
Citrus fruits	958	986	967	979	6.4	2.9	-1.9	1.2
Olives	561	1,097	404	1,000	-33.2	95.5	-63.2	147.5
Value added in agriculture (at constant prices)	...	...	...	...	10.8	7.7	-0.4	4.0 ^{1/}

Source: Data provided by the Turkish authorities.

^{1/} Staff estimate.

Table 7. Turkey: Gross Fixed Investment by Sector

(At 1976 prices)

	Private sector						Public sector					
	1977 Share in total private investment	1974 Percentage change from previous year	1975	1976	1977	1978	1977 Share in total public investment	1974 Percentage change from previous year	1975	1976	1977	1978
Agriculture	14.5	-0.3	15.9	71.2	-14.9	-12.2	11.2	21.1	21.7	31.3	21.4	-26.7
Mining	0.4	-1.6	-1.4	-10.4	-5.3	-3.3	7.0	10.4	18.6	46.2	7.5	-8.9
Manufacturing industry	29.4	23.7	-0.2	-0.5	0.4	-10.7	23.0	5.4	64.0	-3.9	12.7	-30.1
Energy	0.3	-11.4	--	-40.7	14.3	-32.0	14.9	15.2	12.6	43.3	12.1	15.4
Transport and communications	20.4	37.8	51.1	31.9	8.5	4.4	25.0	14.8	21.7	13.0	18.7	-15.8
Housing	31.3	-0.2	32.8	-4.0	3.9	-7.7	2.2	9.7	117.9	-2.5	12.8	-2.6
Others	3.7	7.5	0.5	6.2	-5.7	-1.3	16.7	20.6	14.8	15.6	5.1	-27.8
Total	100.0	12.4	18.4	11.5	0.1	-6.4	100.0	13.9	29.7	15.6	13.2	-16.9

Source: State Planning Organization.

Table 8. Turkey: Labor and Employment

	1962	1972	1975	1976	1977	1978
<u>(In thousands)</u>						
1. Population (mid-year)	28,930	36,350	40,350	41,090	42,130	43,000
2. Domestic labor force <u>1/</u>	13,133	15,013	15,692	15,925	16,161	16,411
3. Employment	11,693	13,017	13,768	13,810	13,986	14,060
Agriculture	8,790	8,407	8,563	8,380	8,360	8,365
Nonagricultural sectors	2,903	4,610	5,205	5,430	5,626	5,695
Industry	995	1,491	1,691	1,763	1,859	1,860 <u>2/</u>
Construction	300	454	501	520	537	530 <u>2/</u>
Transportation	261	391	451	479	496	506
Commerce	366	537	600	621	632	639
Services and other	981	1,737	1,962	2,047	2,102	2,160
4. Unemployment (2 - 3)	1,440	1,996	1,924	2,115	2,175	2,351
Of which: Disguised unemployment in agriculture	950	900	900	900	740	720
<u>(Ratios)</u>						
Unemployment rate (in per cent of domestic labor force)	11.0	13.3	12.3	13.3	13.5	14.3
Workers abroad (in per cent of domestic labor force)	0.2	4.4	4.4	4.4	4.4	...
<u>(Changes in per cent)</u>						
Domestic labor force	...	...	1.5	1.5	1.5	1.5
Employment	...	...	1.7	0.3	1.3	0.5
Agriculture	...	...	0.7	-2.1	-0.2	0.1
Nonagricultural sectors	...	...	3.6	4.3	3.6	1.2
Total unemployment	...	...	-0.3	9.9	2.8	8.1

Sources: State Planning Organization; and staff estimates.

1/ Includes males and females between the ages of 15 and 64.

2/ Staff estimates.

Table 9. Turkey: Number of Workers Sent Abroad Through the Turkish
Employment Office

	1973	1974	1975	1976	1977	1978 January-June
Germany, Federal Republic of	103,793	1,228	640	2,101	2,413	741
France	17,544	10,577	25	6	15	4
Austria	7,083	2,501	226	672	583	36
Switzerland	1,109	770	229	281	246	172
Netherlands	1,994	1,503	32	98	83	26
Australia	886	1,138	401	339	542	383
Libya	)	)	2,121	4,098	8,582	4,571
	) 3,411	) 2,494				
Others	)	)	745	2,963	6,620	3,957
Total	135,820	20,211	4,419	10,558	19,084	9,870

Source: Ministry of Finance, Monthly Economic Indicators.

Table 10. Turkey: Employment and Productivity in
the Industrial Sector

(Percentage change over corresponding period a year earlier)

	Production <u>1/</u>	Employment	Production per employee	Memorandum items:	
				Daily wages insured workers <u>2/</u>	Indication development unit labor costs
1974	6.6	4.6	3.0	35.7	31.7
1975	9.0	2.5	6.3	26.3	18.8
1976	9.3	4.3	4.8	37.5	31.2
1977	6.9	5.4	1.4	27.2	25.4
1978	-3.8 <u>3/</u>	-- <u>3/</u>	-3.8	49.4	55.3

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

1/ Value added in manufacturing industry, mining, and energy sector at constant market prices.

2/ Manufacturing industry only; for 1978 all workers in period January-September.

3/ Staff estimates.

II. Prices and Incomes

1. Price developments

Since the early 1970s, the Turkish economy has experienced strong inflationary tendencies with yearly price increases in the 15-30 per cent range. ^{1/} Apart from external factors, the underlying inflationary pressures especially reflected a sustained rapid growth of domestic demand, together with large deficits of the public sector financed to a substantial extent by recourse to the Central Bank. In the fourth quarter of 1977 there was a substantial surge in the rate of inflation. Prices continued to rise rapidly throughout 1978; the average increase in the general price index that year was probably about 50 per cent, which was presumably also the increase in the course of 1978.

Expressed by the cost of living indices for Ankara and Istanbul, the pace of inflation was relatively steady between mid-1975 and mid-1977 (at an annual rate of about 17 per cent). When price increases started to accelerate in the second half of 1977 also the difference in development between the two indices became more pronounced. In 1978 the cost of living index for Ankara advanced on average by 53 per cent, while for Istanbul it was 62 per cent (Table 11). After average increases of 10 per cent and 16 per cent in 1975 and 1976, respectively, wholesale prices accelerated to an average 24 per cent in 1977 and to 51 per cent in 1978. This development reflected in particular the sharp rise in prices for raw materials and semifinished products.

The acceleration in the inflation rate in 1978 was partly attributable to the lack of foreign exchange, which in the absence of adequate restraint in domestic demand led to shortages of inputs for the manufacturing industry and caused in particular a sharp rise in prices for raw materials and semifinished products. Price developments were affected by the devaluation of the Turkish lira in September 1977 and March 1978 and by the increase in the stamp duty on imports in January 1978. In late 1977 and 1978 they were further influenced by various price increases of products of the State Economic Enterprises; the increases were intended to lower their operating deficits. The development of wages and wage costs in 1978, in particular in the private sector, also contributed to the price spiral. Together with the existence of shortages and excessive profit taking, the income development of wage earners in the private sector could possibly explain the fact that the increase in the cost of living in Istanbul where the major part of private industries is concentrated was significantly higher in 1978 than in Ankara.

The Turkish authorities exercise influence on prices, especially those of basic goods and services, essentially by establishing prices of goods and services provided by the State Economic Enterprises (SEEs). In the past the

^{1/} Assessment of price developments in this chapter is based on three series prepared by the Ministry of Commerce: the wholesale price index and the consumer price series for Ankara and Istanbul. These indices are not entirely satisfactory as regards coverage and weights. Recently, the Ministry of Commerce has started to publish a new wholesale price index based on 1,000 commodities (old index: 95 commodities). The new index is for the time being only available with a considerable time lag.

adjustment of these prices has often been delayed. For example, it was not until 1977 that prices of petroleum products were raised to reflect approximately the late 1973 increase in crude oil prices and that prices charged by the SEEs in general were increased to cover the rise in domestic costs resulting from the depreciation of the lira since July 1975. Measures were taken in October 1977 to increase a number of controlled SEE prices, such as for petroleum products, cement, iron and steel, and paper products, the prices of which were raised by 50 to 100 per cent. In the course of 1978 another round of price adjustments took place in a further attempt to bring SEE prices to a more cost-oriented level. Thus, in March 1978 the prices of iron and steel products, electricity, petrochemical products, and transportation services were raised with increases ranging between 30 and 85 per cent. Later in the year the prices of some processed food products, coal, electricity, and paper were increased and in September 1978 the prices of petroleum products were raised once again, this time by 25-84 per cent, and the price of sugar was increased by 45 per cent.

In March 1978 a list of manufactured goods for which price increases need to be approved by the authorities, was re-established. A "Price Control and Coordination Committee" was established in September 1978. Emphasis is put on the avoidance of unjustified price increases by imposing ceilings on profit margins. In November 1978 a list of maximum prices for certain manufactured goods was issued.

2. Wages and salaries

Wage statistics in Turkey are inadequate. Official data relate only to workers covered by the social insurance system which represent only about 30 per cent of employment in the nonagricultural sector, and do not include the supplementary wage costs which have shown an increasing share in total wage costs over recent years. 1/ There are no data available on salaries in the private sector--which are generally higher than those in the public sector--nor are there any data on the distribution of national income for recent years. 2/ The comments in the following paragraphs should be read in that light.

1/ The official data with respect to average daily wages for workers covered by the social insurance system include basic wages, production-related premiums, and overtime pay. Unofficial data published by the Employers' Confederation indicate that for 1977 average daily wages were about 70 per cent higher than the official data, resulting from supplementary wage costs which consist of the employers' contributions to the social security system, yearly bonuses, severance pay, and other fringe benefits. The share of supplementary wage costs in total wage costs shows an increase over recent years resulting in larger wage increases since '975 than is reflected in the official wage statistics. In the public sector bonuses and severance pay may not exceed certain legal maxima, whereas in the private sector these matters are subject to bargaining.

2/ As a result also, information with regard to the income development of the large group of self-employed persons outside the agricultural sector in Turkey is lacking.

a. Private sector

According to official data, the increase in average daily wages of insured workers in the private sector showed a strong acceleration in 1976 to about 35 per cent after increases of about 2 per cent in each of the years 1973-75 (Table 12). As a result, the rise in real wages jumped to 15 per cent in 1976. This development was, according to the data, partly reversed in 1977, when nominal wages advanced by 21.5 per cent, resulting in a decline in real wages by over 2 per cent; the latter development reflected the very sharp and unanticipated increase in prices in the last months of 1977. In the wage bargaining round that started in late 1977, demands for large wage increases were put forward, which was not surprising in view of the sharp acceleration in the inflation rate that was taking place at that time, and the fact that wage contracts in Turkey do not normally contain index clauses. The degree of union membership is fairly high in Turkey (nearly 90 per cent). The Government has so far not attempted to exercise an influence on the outcome of the wage bargaining in the private sector, and wage settlements have been left to agreement between the two social partners. Many settlements were reached in the early part of 1978 on a sector-by-sector basis. In various cases the settlements followed prolonged strikes and were retroactive to the expiration dates of the previous contracts. The settlements covered in general a period of two years, and although they varied from sector to sector, on the whole the increases were substantial. ^{1/} In view of this outcome it is likely that on average workers in the private sector, despite the accelerating pace of inflation, have not experienced a real decline in income in 1978.

b. Public sector

In the public sector average daily wages of insured workers showed the same strong expansion in 1976 of about 35 per cent as in the private sector. Wages continued to advance at that rate in 1977, leading also in that year to a substantial increase in real wages. In 1978 the Government, for the first time in Turkish history, intervened in the wage negotiations in the public sector (SEEs) and reached an overall agreement with the largest trade union confederation (Turk-Is). The agreement had the form of a social contract and it envisaged the maintenance of real incomes of the almost half a million workers in this sector. It formed a guideline for the individual unions affiliated with Turk-Is and had no legal bearing. The first effort to introduce an incomes policy resulted in wage increases for 1978 ranging from 40-80 per cent. The average nominal increase in wages and salaries of SEE employees in 1978 is estimated at 48 per cent, which would imply that they probably suffered a reduction in real disposable income as the initial substantial rise in wages and salaries was eroded by a rapidly accelerating inflation and by high marginal tax rates on wage and salary incomes.

^{1/} For example, in the metal industry after a strike that was the largest in Turkish labor history with a loss of 27.5 million man-hours of work, agreement was reached in February 1978 providing a 300 per cent increase in gross income in two steps over a period of two years, ending August 1, 1979. The number of workers covered by this agreement is 40,000.

The rise in salaries of civil servants in 1978 was significantly less than the prevailing inflation rate. Salaries of government employees were originally raised by 17 per cent in the 1978 budget. Since October 1, 1978 civil servants have received an additional allowance in order to compensate for the increase in fuel prices ^{1/} (LT 750 to LT 1000 per month, which is equal to an average salary increase of about 10 per cent). Then, effective November 1, 1978, salary scales were adjusted upward at all levels, with adjustments ranging between 18 and 55 per cent. Together with the effect on civil servants' salaries of the increase in minimum wages as from January 1, 1978, the average increase in salaries of government employees in 1978 is estimated at about 35-40 per cent.

c. Minimum wages

The Government participates in a tripartite committee that determines the level of the minimum wages. Minimum wages for nonagricultural workers, which for the last time had been changed in mid-1976, were increased by 83 per cent effective January 1, 1978 (Table 13). As most workers covered by collective agreements were already receiving wages in excess of the increased minimum wage level, the primary effect fell in particular upon a large group of low-paid civil servants. Effective February 1, 1978 the minimum wage level for agricultural and forestry workers was raised by 80 per cent.

3. Agricultural support price policy and farm incomes

The Government establishes agricultural support (floor) prices to guarantee a basic market for the sales output of farmers. The relative role of the supported market varies from product to product and from year to year. Under this policy, support prices for several agricultural commodities are fixed annually. The appropriate agency (a State Economic Enterprise, a State Monopoly, or a Sales Cooperative) is directed to purchase any amount of the product offered at that price. The commodities purchased by these agencies are then exported or traded domestically at the going market price or, in certain cases (e.g., wheat for bread), at a fixed price. Funds for the purchases are provided through short-term credit from the Central Bank when the intervening agency is an SEE or a State Monopoly. Funds for Sales Cooperatives are provided through the Agricultural Bank, which refinances itself at the Central Bank. Any losses incurred by the intervening agencies in purchasing, storing, and selling the commodities in question are in the last resort funded by the Government.

After substantial increases granted in 1973 and 1974, the rate of increase in support prices slowed down (Table 14). The agricultural price policy for major crops such as cotton, wheat, and tobacco did not follow, however, the development of prices in the world markets, where price increases since 1974 have on average been substantially smaller than those in support prices. Together with substantial increments in production, farm incomes experienced significant increases in real terms in the period 1974-76. The total value of purchases by the various agencies during this period was about 20 per

^{1/} This allowance was also granted to old-age pensioners.

per cent of the value added in farming and livestock. In 1977 support prices were raised very moderately (between 5 and 15 per cent) while agricultural production stagnated. The total value of support purchases in 1977 increased, however, by 34.1 per cent as a larger part of agricultural production was supported than in 1976. According to the national account statistics, value added in the agricultural sector (at current prices) rose by 24 per cent in 1977 in line with the inflation rate. This seems to imply that farmers obtained for the remaining part of their sales production price increases which were substantially higher than the 1977 increases in support prices. In 1978 support prices were raised more sharply but the increases fell short of the very steep general inflation rate. The total value of payments to the agricultural sector resulting from interventions amounted to LT 67.6 billion, an increase of 38 per cent over 1977 and equal to 23 per cent of value added in farming and livestock that year. Value added in the agricultural sector is estimated to have increased by about 35 per cent, which means that rural incomes generally did not keep up with the rate of inflation in 1978.

Table 11. Turkey: Price Developments
(Percentage change over preceding period) 1/

	Wholesale prices			Cost of living		Implicit GNP deflator
	General	Food- stuffs and fodder	Industrial raw ma- terials and semifinished products	Ankara	Istanbul	
1973	20.5	21.6	19.0	15.8	14.0	22.1
1974	29.9	35.6	21.8	15.4	23.9	28.3
1975	10.1	17.2	-1.2	19.0	21.2	16.1
1976	15.6	15.0	16.6	16.4	17.4	16.2
1977	24.1	22.8	26.4	22.5	26.0	24.0
1978	50.8	...	...	53.3	61.9	50.0 <u>2/</u>
1977 1st quarter	5.1	6.0	3.5	5.3	4.8	...
2nd quarter	5.9	5.0	7.7	4.8	4.8	...
3rd quarter	5.1	2.9	9.2	6.7	8.6	...
4th quarter	14.3	13.2	16.3	16.4	19.8	...
1978 1st quarter	12.4	13.9	9.9	7.4	13.8	...
2nd quarter	11.0	8.8	15.0	14.0	11.3	...
3rd quarter	10.0	6.0	16.6	15.7	11.8	...
4th quarter <u>2/</u>	9.0	...	...	9.2	11.7	...

Source: Ministry of Finance, Monthly Economic Indicators.

1/ Quarterly rates are not seasonally adjusted.

2/ Staff estimate.

Table 12. Turkey: Average Daily Wages of Insured Workers 1/
(Percentage change over corresponding period a year earlier)

	1973	1974	1975	1976	1977	1978 <u>2/</u>
Nominal wages						
Private sector	23.2	24.6	24.0	34.6	21.5	...
Public sector	26.4	24.8	27.9	34.5	34.8	...
Total	24.0	25.5	25.3	34.7	27.1	49.4
Real wages <u>3/</u>						
Private sector	7.2	4.1	3.2	15.1	-2.2	...
Public sector	10.0	4.3	6.5	15.1	8.5	...
Total	7.9	4.9	4.3	15.2	2.3	-5.3

Source: Ministry of Finance, Monthly Economic Indicators.

1/ Insured workers constitute about 12 per cent of total employment and about 30 per cent of employment in the nonagricultural sector.

2/ January/September 1978.

3/ The cost of living indices for Ankara and Istanbul were used to deflate nominal wages.

Table 13. Turkey: Minimum Daily Wages 1/

	Nonagricultural sectors	Agriculture
	(In Turkish liras)	
1972	25	19
1974 (August)	40	33
1976 (June)	60	50
1978 (January/February)	110	90
	(Percentage changes)	
1974 (August)	60.0	73.7
1976 (June)	50.0	51.5
1978 (January/February)	83.3	80.0

Source: Information provided by the Turkish authorities.

1/ For workers of 16 years of age and above.

Table 14. Turkey: Agricultural Support Prices

	1974	1975	1976	1977	1978	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
						Percentage change over previous year				
<u>(In kurus per kilogram)</u>										
Hazelnuts	1,350	1,400	1,450	1,650	2,150	43.6	3.7	3.6	13.8	30.3
Cotton <u>1/</u>	783	800	1,008	1,075	1,350	41.3	2.2	26.0	6.6	25.6
Raisins	1,000	1,000	1,050	1,200	1,750	50.4	--	5.0	14.3	45.8
Sugar beet	40	50	58	63	80	33.3	25.0	16.0	8.6	27.0
Tobacco <u>1/</u>	3,129	3,720	4,323	4,630	5,259	46.0	18.9	16.2	7.1	13.6
Tea <u>1/</u>	625	750	850	1,000	1,200	38.9	20.0	13.3	17.6	20.0
Pistachio nuts	2,500	2,650	... <u>2/</u>	... <u>2/</u>	5,500	38.9	6.0	...	...	...
Olive oil	1,750	1,750	1,800	2,300	3,000	48.9	--	2.9	27.8	30.4
Dried figs	500	600	700	800	1,050	25.0	20.0	16.7	14.3	31.3
Wheat <u>1/</u>	214	243	261	280	315	78.3	13.6	7.4	7.3	12.5
Rye	158	172	180	190	250	75.6	8.9	4.7	5.6	31.6
Barley <u>1/</u>	153	157	173	183	260	73.8	2.6	10.2	5.8	42.1
Oats <u>1/</u>	146	159	166	177	230	75.9	8.9	4.4	6.6	29.9
Rice <u>1/</u>	425	475	525	... <u>2/</u>	... <u>2/</u>	25.0	11.8	10.5	...	...
<u>(In billions of Turkish liras)</u>										
Memorandum item: Total value of support purchases	20.1	28.4	36.6	49.1	67.6	14.7	41.6	28.8	34.1	37.6

Sources: Ministry of Finance; and State Planning Organization.

1/ Average price.2/ Not supported.

III. Public Finance

1. Introduction

The public sector in Turkey includes not only the Central Government, local authorities, and other public agencies, but also, through the State Economic Enterprises, a large share of manufacturing industry and the financial, transportation, and communications sectors. The public sector is responsible for about half of total fixed investment in Turkey, with the Central Government itself responsible for investment in energy, education, highway construction, irrigation, water supply, etc., while SEE investment accounts for almost half of total public sector investment. The financial position of the SEEs is an important determinant of central government expenditure under the consolidated budget. When the SEEs experience financial difficulties, as in recent years, there is a consequent increase in transfers and subsidies from the consolidated budget to the SEEs, and substantial recourse by the SEEs to borrowing from the Central Bank, while the resulting deficits in the consolidated budget also contribute to the need for borrowing from the Central Bank by the Central Government itself. As described in Chapter IV, Money and Credit, the large deficit financing was the main determinant of monetary developments in the period 1976-78.

2. Consolidated budget 1/ of the Central Government

a. Expenditures

Total expenditures of the Central Government rose rapidly in 1976 2/ (35.1 per cent) and especially in 1977 (50.3 per cent), and in both years exceeded the nominal rate of increase in GDP (Tables 15 and 17). As a consequence the share of central government expenditure in GDP rose from 22.3 per cent in 1975 to 27.5 per cent in 1977. Part of the increase took the form of current expenditures, and was related to increases in the number of civil servants and in their salaries. The wage bill accounts for some two thirds of current expenditures in Turkey's budget. The bulk of the increase, however, was due to the policy of promoting public investments in order to sustain high domestic growth rates. Investment expenditures rose by more than 50 per cent in both 1976 and 1977, implying strong gains in real terms. In addition, transfer payments increased, especially in 1977 (65.5 per cent), in large part because of the financial difficulties of the State Economic Enterprises (SEEs) and their increasing need for subsidies and other transfers from the Central Government.

The consolidated budget for fiscal year 1978 envisaged a severe curtailment of central government expenditures. The budget proposal originally introduced by the former government provided for expenditure authorizations of LT 260 billion, but this was modified by the new government to LT 266.4 billion to accommodate a 17 per cent increase in civil servants' salaries (about LT 10 billion), partly offset by a 5 per cent reduction in other selected categories of expenditure. The projected 17 per cent increase over the estimated outcome for fiscal

1/ Comprises the general budget plus several annexed budgets of government agencies.

2/ The fiscal year runs from March 1 to the end of February.

year 1977 would have represented a cut in real terms, in light of the rate of inflation assumed when the budget was drawn up (some 35 per cent to 40 per cent in terms of annual averages). The main element of the intended budgetary stringency was a tight control over investment expenditures, which were programmed to rise only 21 per cent over the previous fiscal year, while appropriations for transfers were raised only 22 per cent: it was hoped to achieve this moderation in the growth of transfers by improving the financial position of the SEEs. As regards current expenditures, the Government intended to follow a restrictive policy with regard to the hiring of new personnel.

In the course of fiscal year 1978, additional expenditure appropriations of some LT 140 billion were voted, raising the total to LT 407 billion. Part of the additional appropriations was designed to accommodate increases in expenditure caused by the higher rate of inflation than had been assumed, and the granting of an additional salary increase for civil servants with effect from November 1 1978, ranging between 18 and 55 per cent. The authorities have attempted to maintain strict control over expenditure growth by keeping payment authorizations below the appropriated amounts. Data for the first seven months of fiscal year 1978 (March through September) indicate that in this period the authorities were able to exercise effective control over the growth of expenditures, despite the higher than expected rise in prices. Total expenditures were about 35 per cent above the same period a year earlier. On the basis of these results, the authorities have forecast an expenditure total of LT 310 billion for the fiscal year 1978 as a whole (compared to the adjusted appropriations total of LT 407 billion and the original budget of LT 271.4 billion). This would be an increase of 32 per cent over the estimated outcome for 1977, and would imply a severe cut in real terms, in view of the estimated inflation rate of about 50 per cent. It would also reduce the share of total consolidated budget expenditures in GDP from 27.5 per cent in 1977 to 24.1 per cent in 1978 (Table 17). In practice, however, the growth of expenditures probably accelerated in the latter five months of the fiscal year, as a result of the October and November 1978 increases in salaries and pensions and the impact of continuing inflation on government purchases of goods and services. For these reasons, therefore, expenditures may have exceeded the estimate. In addition, the sharp increase in the "errors and omissions" item of the budget, during the period March-September 1978, indicates that there has been an increase in unrecorded expenditures.

b. Revenues

Total tax and nontax revenues of the consolidated budget rose strongly in 1976 and 1977, and their share in GDP rose from 21 per cent in 1975 to 21.9 per cent in 1976 (Tables 16 and 17). The most buoyant growth was in revenue from direct taxes, especially the personal income tax, as a result of high inflation rates pushing taxpayers into higher brackets of the progressive tax system. In addition, improvements in the tax assessment and collection system, which have traditionally been a weak element in Turkey's public finances, led to a reduction in tax evasion and contributed to the growth of revenues. The yield from categories of tax revenues tended to increase roughly in line with the pace

of inflation. Taxes on imports, however, rose less than the nominal increase in recorded imports, because a rising proportion of total importing were exempt from some types of import tax. As a result, the slower rise in indirect taxes offset somewhat the strong increase in direct taxes, and the rise in total revenues (to 21.9 per cent of GDP in 1977) was much less than the rise in expenditures (to 27.5 per cent of GDP in 1977).

The budget for fiscal year 1978 was based on an estimated 35 per cent increase in total revenues, to LT 250.9 billion. Most of the increase in revenues was expected to come from the automatic effect of progressivity and rising nominal incomes. In addition, the Government abolished various exemptions and deductions from import taxes. Changes in assessment procedures for real estate taxes, which would make it possible to base assessments on current market values, were also expected to cause an increase in revenue. Moreover, the yield from taxes on monopolies was expected to increase in 1978 as a consequence of the increase (in September 1977) of monopoly prices for tobacco and alcohol. The main measure in the tax field, however, was a proposed far-ranging tax reform, which if enacted in its original form would have yielded an additional LT 20 billion of net revenue in fiscal year 1978. This tax reform proposal (which did not receive legislative approval in 1978) was intended to produce greater tax equity, by increasing various tax exemptions in order to alleviate the tax burden on wage and salary earners, while increasing the net tax revenue by other changes in personal and corporate income taxes and other taxes. In the course of 1978 the Government modified the proposed tax reform in ways which it was hoped would make it more acceptable to the legislature, but which had the effect of reducing the estimated net revenue gain to about LT 5 billion. However, passage of the revised tax reform bill was not secured by the end of the year and further modifications have been made in an attempt to have it accepted by the legislature in early 1979.

Despite the inability to enact the tax reform, there was a vigorous rise in total revenues in the first eight months of fiscal year 1978, in excess of the budgetary estimates. In part this reflected the deliberate conservatism of the initial estimates, but the main explanation was the significantly higher increase in prices and incomes ^{1/} than had been assumed when the budget was drawn up. In the period March-October total tax revenues were 42.8 per cent higher than a year earlier, and there were particularly high increases in personal income tax revenue (LT 21 billion, or 48 per cent) and taxes on goods (LT 8.5 billion, or 50 per cent). For fiscal year 1978 as a whole, however, the revenue total is forecast by the Turkish authorities to show a less marked improvement (Table 16). Personal income tax revenue is expected to continue to rise, as a consequence of the November 1978 increase in salaries of civil servants and related measures. However, it is expected that the financial difficulties of the SEEs will affect the level of taxes collected from them, and the growth of revenue from import taxes is expected to be sluggish, in view of the low increase in recorded imports and the rising proportion of goods that are exempted from taxes.

^{1/} Income taxes are collected with a year's lag, with the exception of taxes on salaries, which are withheld at source.

c. Financing of the consolidated budget deficit

The consolidated budget deficit almost doubled from LT 6.9 billion in 1975 to LT 13.2 billion in 1976, then more than tripled to LT 47.7 billion in 1977 (Table 15). The increase in the cash deficit of the Central Government was, however, less marked because of a significant change in advanced and deferred payments. Advance payments, including advances to contractors for public investment projects, rose relatively modestly in both 1976 and 1977, despite the large increase in public investment in these two years. More importantly, the Central Government began in 1976 to postpone payment of its bills for goods and services purchased in the domestic economy ("deferred payments"). As a result, net advance payments in 1975 and 1976 gave way to sizable net deferred payments (LT 10.7 billion) in 1977, thus partially financing the consolidated budget deficit of LT 47.7 billion, and leaving a cash deficit of LT 36.9 billion (Table 15). Due to an increase in errors and omissions ^{1/} by LT 4.9 billion, however, the total borrowing requirement amounted to LT 41.9 billion in 1977. To some extent the borrowing requirement was covered by tax-free domestic bond issues to commercial banks, which could hold them in partial fulfillment of their liquidity and reserve requirements. Despite this, however, the Government's recourse to borrowing from the Central Bank, which amounted to LT 9.8 billion in 1976, accelerated to LT 31.3 billion in 1977.

The improved budgetary position in the first seven months of fiscal year 1978 resulted in a consolidated budget deficit of LT 12.7 billion, compared to LT 23.8 billion in the corresponding period of fiscal year 1977. The Government deferred payments of bills to a larger extent than in 1977 (on a net basis), and thus the cash deficit was reduced to LT 4.9 billion. The error and omissions item rose sharply, however, and the borrowing requirement amounted to LT 19.3 billion in the first seven months of fiscal year 1978. Approximately LT 19.1 billion was financed by borrowing from the Central Bank (including use of counterpart funds). For the fiscal year as a whole, the authorities forecast a consolidated deficit of LT 33.8 billion and a cash deficit of LT 29.7 billion. The official estimate makes no assumption about the item "errors and omissions," which amounted to LT 14.4 billion in the period March-September; if this remained unchanged for the remainder of the fiscal year, the borrowing requirement for FY 1978 would amount to about LT 44 billion. In the period February-December 1978, central government borrowing from the Central Bank amounted to about LT 36.9 billion.

3. Finances of the State Economic Enterprises

The State Economic Enterprises (SEEs) constitute a very important sector of the Turkish economy. For many years the development strategies of Turkish governments have been based, to a considerable extent, on the promotion of industrialization by means of state-owned enterprises. The investments of the SEEs

^{1/} The item "errors and omissions" in Turkey's budget presentation is necessary because, in the initial estimates of budgetary outcome, most expenditures are recorded on an authorization or commitment basis, while most revenues are recorded on a cash basis. By the time the budget accounts are finally closed, some five years later, the amounts under "errors and omissions" are reclassified, mostly as expenditures, but partly by adjustments to revenue and financing items.

are concentrated in manufacturing industries, energy, mining, transportation, and the communications sector. In addition, the SEEs occupy an important position in the financial sector. As a result, the SEEs account for the total production of coal, sulphur, copper, and plastic raw materials, and a large portion of the production of electricity, lignite, iron and steel, and crude oil. The SEEs account for about one half of industrial production, and a substantial share of fixed investment (23 per cent in 1977, 20 per cent in 1978).

The finances of the SEEs as a group have often been a source of difficulty for the central government budget and for the Turkish economy. In part this stems from the fact that their investment plans have been formulated largely in terms of the global planning and development priorities of the Central Government, as defined in successive medium-term national plans, and considerations of economic viability or profitability have been regarded as secondary. In addition, the provision to the SEEs of price and other subsidies and transfers from the budget, as well as their privileged tax treatment and ready access to low interest bank credits, have given the SEEs less incentive to operate efficiently or profitably. Finally, the fact that the SEEs operate in many crucial sectors has meant that the prices of some of their products have been politically sensitive. For example, it was not until September 1977 that domestic oil product prices were raised to reflect approximately the 1974 increase in crude oil prices, and that prices of SEE products in general were increased to cover the rise in domestic costs that resulted from the exchange rate depreciations that had occurred since 1975. This problem of the tardiness, and sometimes inadequacy, of price adjustments for SEE products and services, has contributed significantly to the sharp deterioration in their financial position in recent years.

Since 1973, the SEEs as a group have registered growing losses, which rose sharply to LT 16.9 billion in 1976 and LT 36.2 billion in 1977 (Table 18). At the same time, investments by the SEEs rose substantially in both 1976 and 1977, to LT 62.9 billion in 1977 (Table 19) when they accounted for 31 per cent of total gross investment in the Turkish economy. The problem of financing these investments, despite rising net operational losses, was alleviated to some degree by large increases in current and capital transfers from the central government budget, price subsidies, and other subsidies. In total, budgetary assistance for the SEEs more than quadrupled from LT 12.6 billion in 1975 to LT 59 billion in 1977 (Table 19). Nevertheless, the borrowing requirement of the SEEs also rose, from LT 12.8 billion in 1975 to LT 37.5 billion in 1977. The bulk of the borrowing requirement was satisfied by borrowing from the Central Bank, either directly or indirectly via the State Investment Bank, at concessional rates of interest.

For 1978 the authorities had programmed an improvement in the financial position of the SEEs, largely on the basis of planned increases in prices for SEE products, and an assumed 25 per cent increase in SEE wages. In practice, however, some important price increases (petroleum products, sugar) were not implemented until September, and the wage bill of the SEEs rose about 56 per cent, while the higher inflation rate than had been assumed led to a sharp increase in other SEE costs. As a result, the SEE losses rose from LT 36.3 billion in 1977 to LT 53.5 billion in 1978 (Table 18). The fixed investments of the SEEs rose only 14.8 per cent in value in 1978 (implying a sharp decline

in real terms), and investment in stocks was much reduced, with the result that total investment declined about 10 per cent in value to LT 56.9 billion. Although transfers and subsidies from the Central Government were increased to LT 76 billion, the total borrowing requirement of the SEEs rose to LT 47.6 billion. Borrowing from the Central Bank amounted to LT 18.5 billion.

4. The financing of the public sector deficit

The public sector includes, in addition to the Central Government and the SEEs, a number of other public bodies, such as local authorities, State Monopolies, and revolving funds. Reliable data on the finances of the public sector as a whole for 1977 and 1978 are not available. Rough staff estimates suggest that on a calendar year basis the total borrowing requirement of the public sector in 1977 was about LT 83 billion, of which LT 59 billion was satisfied by borrowing from the Central Bank. In calendar year 1978 total public sector borrowing from the Central Bank amounted to approximately LT 56 billion.

Table 15. Turkey: Consolidated Budget 1/
(In millions of Turkish liras)

	1975	1976 Provisional outcome	1977	1978 Official fore- cast	1977 Mar.-Sept. Provisional outcome	1978
Revenues	109,093	143,757	187,608	276,233	103,046	158,240
General revenues	105,399	140,746	183,757	272,233	100,529	155,233
Annexed budget	3,694	3,011	3,851	4,000	2,517	3,007
Expenditures	-116,006	-156,967	-235,270	-310,000	-126,856	-170,921
Budget deficit (-)	-6,913	-13,210	-47,662	-33,767	-23,810	-12,681
Deferred payments (+ incr. ase)	-583	3,762	15,120	)	6,157	14,952
Advanced payments (- increase)	-4,809	-5,080	-4,405	) 4,100	-6,340	-7,122
Cash deficit (-)	-12,305	-14,528	-36,947	-29,667	-23,999	-4,851
Financing items (net)	14,450	17,231	41,895	--	-31,537	-19,261
Central Bank	4,723	9,800	31,300	2/ ...	27,400	2/19,100
Other borrowing and change in cash position	9,727	-2,851	10,595	...	4,137	161
Errors and omissions <u>3/</u>	-2,145	-2,703	-4,948	...	-7,544	-14,410

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year runs from March 1 to end-February.

2/ Staff estimates based on Central Bank balance sheets. Data are not strictly comparable: e.g., the estimate for March-September 1978 is based on balance sheets for February 24 and September 29.

3/ The item "errors and omissions" is due mainly to expenditures being recorded mostly on a budget basis and revenues mostly on a cash basis. When the budget accounts are finalized, after about five years, the amounts under errors and omissions are reclassified as expenditures, revenues, or financing items.

Table 16. Turkey: Consolidated Budget Revenues^{1/}
(In millions of Turkish liras)

	1974	1975	1976	1977	1978 Budget pro- posal	1977 Mar.-Oct.	1978	1978 Collec- tion estimates
Taxes on income	29,401	43,516	59,288	86,920	117,200	57,492	83,982	133,351
Income tax	22,432	33,626	46,589	68,924	93,250	43,717	64,793	108,801
Corporate income tax	3,819	5,247	6,341	8,117	11,500	6,784	9,687	11,501
Capital gains tax on real property	358	493	702	1,303	1,300	835	997	1,401
Fiscal balance tax	2,793	4,150	5,656	8,576	11,150	6,156	8,505	11,651
Taxes on wealth	727	876	1,061	1,818	2,600	1,251	1,466	2,171
Real property tax	281	344	347	835	1,200	634	648	901
Motor vehicle tax	187	194	246	326	450	231	296	421
Inheritance and gift taxes	259	338	469	657	950	386	522	851
Taxes on goods	13,114	20,733	26,660	29,745	42,160	16,992	25,540	43,281
Production tax	5,575	7,344	10,614	13,049	16,500	8,141	10,914	18,151
Petroleum production tax	1,304	2,294	1,179	1,195	1,200	724	719	1,151
Production tax on monopoly	2,709	6,797	9,083	7,250	13,000	2,731	7,716	15,001
Sales tax	658	854	1,104	1,565	1,850	931	1,340	2,151
Sugar consumption tax	672	644	739	725	1,100	500	578	821
Motor vehicle purchase tax	805	983	1,485	1,600	2,000	1,058	1,117	1,501
Real property purchase tax	1,357	1,798	2,442	4,347	6,500	2,868	3,147	4,501
Revenue from abolished taxes	34	18	14	14	10	40	8	11
Taxes on services	7,343	9,976	13,595	17,571	23,850	10,896	14,333	22,851
Banking insurance transactions tax	3,416	4,570	6,257	8,491	11,000	4,964	7,001	11,801
Transportation tax	240	386	343	402	450	304	295	451
PTT service tax	163	257	260	168	460	134	420	51
Building construction tax	121	184	249	227	350	157	209	31
Pool tax	28	22	1	7	4	4	5	1
Stamp tax	2,521	3,525	5,112	6,624	9,500	4,248	5,179	7,901
Fees	855	1,031	1,375	1,652	2,086	1,082	1,225	1,801
Taxes on imports	14,572	19,907	26,450	31,319	43,906	18,408	24,684	38,611
Customs duty	3,757	4,927	6,250	6,118	7,760	4,050	4,280	6,501
Customs duty on petroleum	329	758	503	737	780	426	405	711
Single and cut-off tax	215	126	80	147	190	91	60	111
Production tax on imports	4,363	5,548	9,069	9,591	11,700	6,385	6,261	8,901
Production tax on petroleum imports	3,016	4,275	4,298	5,895	5,800	2,783	2,833	5,811
Stamp duty on imports	2,500	3,505	5,277	7,781	15,496	4,209	9,563	14,321
Wharf duty	316	768	971	1,049	1,180	463	644	1,211
Foreign travel expenditures tax	77	--	1	1	1,000	--	638	1,011
Total tax revenues	65,157	95,009	127,055	167,374	229,716	105,038	150,005	240,311
Nontax revenues^{2/}	3,827	9,772	10,669	13,881	15,528	8,773	25,421	30,511
Special revenues and funds	480	20	2,168	779	2,009	774	364	1,411
Other revenues	509	598	853	1,724	...	.	.	1,091
Annexed budget revenues	1,962	3,695	3,011	3,851	3,795	2,848	3,360	4,011
Total consolidated budget revenues	71,935	109,094	143,756	187,609	251,048	117,433	179,150	276,211

Source Information provided by the Turkish authorities

^{1/} The fiscal year starts on March 1.

^{2/} Includes property income, interest, fines, surpluses of government enterprises, etc

Table 17. Turkey: Developments in Consolidated Budget Revenues and Expenditures

	1975	1976	1977	1978
	(In per cent of GDP)			
Total revenues	21.0	21.8	21.9	21.5
Tax revenues	18.3	19.3	19.6	18.7
Of which: Direct taxes	8.6	9.2	10.4	10.5
Indirect taxes	9.7	10.1	9.2	8.1
Nontax revenues ^{1/}	2.7	2.5	2.4	2.8
Total expenditures	22.3	23.8	27.5	24.1
Current expenditures	12.6	13.2	14.3	13.0
Investment expenditures	4.2	5.1	6.2	4.9
Transfers	5.5	5.5	7.0	6.2
	(Increase in per cent over previous year)			
Total revenues	51.7	31.8	30.5	47.2
Tax revenues	45.8	33.7	31.7	43.6
Direct taxes	47.3	35.9	47.0	52.7
Personal income	50.1	38.6	47.9	57.9
Corporate income	37.4	20.9	28.0	41.7
Other income	47.4	35.9	52.2	35.9
Wealth	20.5	21.1	71.3	19.4
Indirect taxes	44.4	31.8	17.9	33.3
Taxes on goods	58.1	28.6	11.6	45.5
Taxes on services	35.8	36.3	29.2	30.1
Taxes on imports	36.6	32.9	18.4	23.5
Nontax revenues ^{1/}	107.8	18.6	21.2	77.4
Total expenditures	...	35.1	50.3	31.8
Current expenditures	...	32.7	41.4	36.3
Investment expenditures	...	52.7	56.8	18.8
Transfers	...	27.0	65.5	34.2

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

^{1/} Includes special revenues and funds, and annexed budget revenues.

Table 18. Turkey: Profit and Loss Account of
Operational SEEs

(In millions of Turkish liras)

	1975	1976	1977	<u>1978</u> Estimate
Wages and salaries	28,348	42,122	61,341	95,524
Purchases of goods and services	75,029	115,022	133,790	214,652
Depreciation	4,592	6,224	12,007	10,451
Other provisions	<u>1,290</u>	<u>1,362</u>	<u>1,787</u>	<u>1,543</u>
Total provisions	109,259	164,730	208,925	322,170
Sales revenue	92,866	132,786	155,891	264,772
Increase in stocks	<u>12,034</u>	<u>15,072</u>	<u>16,794</u>	<u>3,902</u>
Total income	104,900	147,858	172,685	268,674
Loss (-)	-4,359	-16,872	-36,240	-53,496

Source: Ministry of Finance.

Table 19. Turkey: Financing of Investments by
State Economic Enterprises

(In millions of Turkish liras)

	1975	1976	1977	1978 Estimate
Fixed investment	26,177	35,495	46,148	52,985
Stock changes	<u>12,034</u>	<u>15,072</u>	<u>16,795</u>	<u>3,902</u>
Total investment	38,211	50,567	62,943	56,887
Own resources, transfers, and subsidies				
Gross profit (- loss)	-4,359	-16,872	-36,240	-53,496
Taxes	-1,129	-1,304	-1,608	-3,099
Depreciation	4,592	6,224	12,007	10,451
Changes in accounts receivable (net)	-8,562	-21,867	-28,656	-25,650
Changes in accounts payable (net)	11,375	9,197	3,376	10,512
Budgetary transfers	10,479	18,352	31,693	38,860
Price subsidies (duty loss)	1,049	7,038	21,741	31,947
Other subsidies	1,060	3,131	5,637	5,320
Transfers from petroleum fund	2,634	1,128	1,890	3,500
Other items (net)	<u>8,269</u>	<u>6,359</u>	<u>15,646</u>	<u>-9,064</u>
Total own resources and transfers	25,408	11,386	25,486	9,281
Borrowing				
From Central Bank (net)	)	21,500	<u>1/</u> 24,900	<u>1/</u> 18,500 <u>1/</u>
From State Investment Bank (net)	)	11,741	10,278)
Other, including net foreign borrowing	) 12,803	5,940	2,279	) 29,106 <u>2/</u>
Total borrowing	12,803	39,181	37,457	47,606

Source: Information provided by the Turkish authorities.

1/ From Central Bank balance sheets.

2/ Preliminary.

IV. Money and Credit

1. Main monetary features of 1977-78

The main monetary aggregates have shown an increasingly rapid expansion in the course of the 1970s. In the period 1971-76 the rate of increase of the money supply averaged 25-30 per cent, after increases in the 1960s, which typically were about 15 per cent per annum (Tables 20 and 21). In 1977 and 1978 there was a further acceleration to 35-40 per cent. The main influences behind the increasingly rapid expansion of domestic liquidity on the supply side were large public sector deficits which caused the net domestic assets of the Central Bank to expand rapidly. The decrease in net external reserves offset this in part although the private sector supplemented its liquidity until recently with major inflows of short-term funds from abroad. The velocity of circulation declined in 1977, but rose strongly in 1978, presumably in response to the acceleration of inflation. As in other countries, monetary stabilization against a strong momentum of inflation has proved to be difficult and its success is by no means assured.

The growth of reserve money has generally exceeded that of the money supply. In 1978 the growth of reserve money was considerably faster than that of the money supply, partly under the influence of higher reserve deposit requirements and their more strict observance (after an increase in the penalty interest rate involved). The velocity of circulation of reserve money has shown smaller variation than that of the money supply.

2. Monetary policy

The formulation of monetary and credit policy rests largely with the Government which exercises its influence through borrowing to meet the residual financing needs of the public sector, through direct control over the Central Bank's credit and external payments policy, as well as through its power to issue regulations concerning commercial banks' dispositions and in respect of most interest rates. Apart from commercial banks, the Treasury and many other public sector and quasi-public sector entities have direct access to Central Bank credit.

Public sector borrowing regularly accounts for the main part of Central Bank credit. Central Bank lending to the Treasury to finance the consolidated budget is restricted by law to 15 per cent of total budgetary appropriations, but this limitation has not proved an effective restraint. Direct Central Bank lending to the SEEs and State Monopolies reflects both the remaining financing of their operating deficits and the accumulation of commodity stocks (including seasonal crop purchasing operations by public sector agencies). The Central Bank's purchases of State Investment Bank bonds have in recent years represented a growing involvement of the Central Bank in the financing of the SEEs' fixed investments.

The access of commercial banks to credit from the Central Bank is subject to rediscount limits, established separately for each bank. The limits have usually not been fully utilized. Banks must observe both cash reserve requirements (15 per cent since February 1978) and reserve deposit requirements. The

latter are differentiated by categories of liabilities. There are certain exemptions (notably resources used for medium-term credit to priority sectors) from the reserve deposit requirements, and lower rates apply in respect of deposits channeled as credits to specified further categories of borrowers (inter alia, approved investment projects in underdeveloped regions, short-term agricultural credits, and credits to small businesses). ^{1/} However, there have frequently been reserve deficiencies, a practice that has been encouraged by the very low penalty rate of the Central Bank. The penalty rates from 1974 until September 1977 were 4 per cent per annum in respect of requirements for time deposits and 7 per cent in respect of requirements for sight deposits.

Outside the framework of monetary policy but of major monetary significance in recent years are the import and external borrowing regimes. The regulations (described in Chapter VI) have not been changed drastically in the period under review, ^{2/} but the large amount of accumulated import deposits (the "waiting room") in respect of import applications and payments arrears has considerably influenced domestic liquidity as the typical waiting period has grown longer.

The stance of monetary policy at the beginning of 1977 was exceptionally easy. The strong expansion of Central Bank credit to the Treasury, the agricultural purchasing agencies, and other public sector entities provided the basis for ample bank liquidity augmented by the still significant net borrowing from abroad in the form of convertible lira accounts and acceptance credits. The exchange rate guarantee on convertible liras provided by the Central Bank contributed significantly to the rapid growth of liquidity, because increases in deposits on account of exchange rate changes were not blocked. Nevertheless, demand was buoyant also for Central Bank credit to the private sector, especially rediscounting of commercial bills by the banks. The excessive domestic demand was for some time reflected in a steep rise in imports, but eventually transfers of foreign exchange could not be made and arrears began to mount rapidly. Requests for withdrawal of maturing convertible lira deposits could not be met and new inflows under this scheme ebbed rapidly.

In the second half of 1977 it became apparent that steps were needed to tighten monetary and credit policy. In September 1977 the Council of Ministers decided to increase the reserve deposit requirements by 5 percentage points to 25 per cent for time deposits and to 30 per cent for sight deposits. At the same time, the penalty interest rates were raised from 4 to 8.5 per cent and from 7 to 11.5 per cent, respectively. The banks, however, were allowed to adjust gradually (in the course of 1978) to the new requirements, and there was no increase in the reserve deposit requirements for banks which purchase government bonds at a rate corresponding to 10 per cent of any increase in their deposit liabilities since the issuance of the new requirements. Efforts were also made to market more Treasury bills and government bonds. The effect of these steps in 1977 appears to have been slight.

In its stabilization program, the new Government, which took office at the beginning of 1978, recognized that a much stronger effort was essential to bring

^{1/} Since April 1977, convertible lira deposits of over \$5 million with maturities of two years or more are exempt from reserve deposit requirements.

^{2/} Some guarantee deposit rates were increased in September 1977.

the excessive monetary expansion under effective control. The target formulated for the growth of reserve money for the period April 1978 to April 1979 was 25 per cent, compared with a growth of 47 per cent from December 1976 to December 1977. Selectivity in favor of priority borrowers in access to and cost of domestic credit was further emphasized. In line with the rate of depreciation, importers were required to increase their deposits in respect of import applications and deposits related to overdue foreign exchange transfer requests which had arisen under the "cash-against-goods" system. With regard to the convertible lira scheme, the exchange risk would continue to be covered by the Central Bank on rollovers of convertible lira accounts with maturities of one year or more, up to a limit of the stock existing at the end of February 1978. However, it was decided that the increase in liquidity associated with the exchange rate guarantee would be blocked. The Central Bank's rediscount rates were raised by 1-5 percentage points in April 1978. In June 1978 the access of commercial banks to Central Bank credit was subjected to tighter restraint. The Government furthermore authorized increases in deposit and lending rates of the banks and on August 7, 1978 it raised the penalty rate on reserve deficiencies to 14 per cent, irrespective of whether reserve deficiencies applied to time or sight deposits.

3. Main monetary developments

a. The Central Bank accounts in 1977 and 1978

In both 1977 and 1978, the main contribution to the growth of reserve money (Table 22) again came from the public sector. In the period April 1977-March 1978 the net domestic assets of the Central Bank and its credit to the public sector rose particularly rapidly. The annual rate of increase was consistently in excess of 60 per cent in that period. In 1977 Central Bank credit to the public sector rose by LT 59.4 billion and in 1978 by LT 55.5 billion. Credit to the Treasury and Monopolies Administration (i.e., the consolidated budget) rose by LT 40.9 billion in 1977 and by LT 35 billion in 1978. The latter figure includes the local currency counterpart of arrears amounting to LT 13.0 billion, appropriated by the Treasury. As a result of the debt rescheduling arrangements, these arrears became liabilities of the Treasury rather than of the Central Bank. However, since there was no actual flow of funds from abroad, this arrangement was tantamount to borrowing by the Treasury from the Central Bank. In addition, it appears that the Treasury received domestic currency advances of about LT 5 billion from the Central Bank in respect of program loans to be disbursed in 1979.

Lending to the Soil Products Office--which carries out support purchases of cereals and some other agricultural products--rose by LT 6.4 billion in 1977 and LT 2.9 billion in 1978. Lending to other State Economic Enterprises, either directly or through the intermediary of the State Investment Bank, rose by LT 18.5 billion in 1977 and by LT 15.6 billion in 1978.

Central Bank credit to the private sector, mainly to the deposit money banks, rose by LT 25.5 billion in 1977 and by LT 36.6 billion in 1978. Credit to agriculture rose by LT 9.1 billion in 1977 and by LT 8.5 billion in 1978.

Commercial bills discounted by the Central Bank rose by LT 13.6 billion in 1977 and by LT 13.4 billion in 1978. Convertible lira deposits (net of amounts blocked) rose by LT 2.8 billion in 1977 and by LT 14.7 billion in 1978, mainly as a result of exchange rate changes.

The increase in reserve money stemming from credits to the public and private sectors was absorbed partly by the growth in the net foreign liabilities of the Central Bank and by increasing import deposits. Net foreign liabilities of the Central Bank, less valuation adjustments, rose by LT 45.3 billion in 1977 and by LT 17.3 billion in 1978. To an important extent these increases in foreign liabilities represent arrears in respect of commercial and financial transactions against which private banks and importers have placed deposits in the Central Bank. Deposits against letters of credit not yet authorized (the "waiting room") were approximately unchanged in 1977, but rose by LT 20.5 billion in 1978, largely on account of the need to augment previous import deposits in line with the devaluation. In 1978 there was a noticeable shift in "other items net," reflecting, inter alia, a reduction in the profit of the Central Bank.

b. The deposit money banks

There are in Turkey 38 deposit money banks, of which 11 were founded under special laws, 4 are foreign banks, and the remaining 23 are commercial banks. Total bank credits rose by 26 per cent in 1977 and, in the period September 1977 to September 1978, by 22 per cent. Of this lending, the overwhelming proportion is to the private sector. Deposits with these banks rose by 31 per cent in 1977 and by 25 per cent in the period September 1977 to September 1978 (Table 23).

c. Interest rates

Interest rates were raised in April 1978 (Table 24). The basic discount rate was increased from 9 per cent to 10 per cent. The interest rate on sight savings deposits, the largest single category of bank deposits, was left at 3 per cent per annum. A new three-month to six-month time deposit was introduced bearing an interest rate of 9 per cent, while the 12-month deposit rate was raised from 9 to 12 per cent.

Nonpriority lending rates were also increased. The general bank loan rate was raised from 11 1/2 to 16 per cent. Taking into account transactions taxes and commissions, as well as the need to maintain compensatory deposits, the actual rate is in excess of 23 per cent. However, a wide range of borrowing facilities for priority sectors at preferential interest rates is provided and the subsidization was further expanded in 1978. For instance, banks can refinance with the Central Bank their advances in respect of exports of manufactured goods at the special rate of 10 per cent per annum. This rate is further subsidized by way of an interest cost refund of 6 percentage points to the final borrower (8 percentage points in underdeveloped regions) and 1 percentage point to the lending institution. An Interest Differentiation Fund was established in February 1978 to which the commercial banks are obliged to contribute.

Lending rates on bank credits with a contractual term to maturity of five years or more may be freely agreed between the borrower and the bank; however, the banks may use for such credits only resources accruing in the form of deposits with maturities of four years or more, the interest rate on which is also freely negotiable.

The interest rate on short-term Treasury bonds (which may be presented for redemption at any time without loss of interest) was raised from 11 to 14 per cent tax free. In June 1978 the private sector was permitted to raise the yield on new bond issues from 18 to 21 per cent (subject to tax).

Table 20. Turkey: Reserve Money, Money Supply, and GDP, 1972-1978

	1972	1973	1974	1975	1976	1977	1978
Reserve money							
Average amount (in billions of Turkish liras)	29.3	39.3	51.6	64.7	84.5	112.8	141.1
Annual rate of change	33.2	34.1	31.3	25.4	30.6	33.6	30.1
Money supply							
Average amount (in billions of Turkish liras)	46.5	59.8	77.5	99.9	128.0	174.2	221.1
Annual rate of change	24.3	28.6	29.6	28.9	28.1	36.1	32.1
GDP							
In billions of Turkish liras at current prices	232.1	295.2	409.7	519.2	659.0	856.1	1101.1
Annual rate of change	24.1	27.3	38.8	26.7	27.0	29.9	28.1
Ratios							
Money supply (÷) reserve money	1.59	1.52	1.50	1.54	1.51	1.54	1.54
GDP (÷) money supply	4.99	4.94	5.29	5.20	5.15	4.91	5.03
GDP (÷) reserve money	7.92	7.52	7.94	8.02	7.80	7.59	7.80

Sources: Central Bank of Turkey, Monthly Bulletin; Ministry of Finance, Monthly Economic Indicators; and staff estimates.

1/ Staff estimates.

Table 21. Turkey: Development of Selected Monetary Aggregates

	1974	1975	1976	1977	1978 Estimates			
Amounts at the end of the year (in bil- lions of Turkish liras, with rates of increase in per cent shown in paren- theses)								
Reserve money	58.4(28)	77.1(32)	93.1(21)	137.3(47)	200.8(46)			
Money supply <u>1/</u>	90.0(28)	118.5(32)	151.5(28)	210.6(39)	290.0(38)			
Money and quasi-money <u>2/</u>	128.1(24)	168.0(31)	210.8(26)	282.8(34)	382.0(35)			
Consolidated bank deposits <u>3/</u>	99.1(23)	132.4(34)	162.8(23)	213.3(31)	275.0(29)			
Of which:								
Commercial sight deposits	22.6(41)	32.1(42)	45.0(40)	63.0(40)	82.0(29)			
Sight savings deposits	39.8(20)	52.8(33)	63.6(21)	83.9(32)	102.0(22)			
Total private sector time deposits	25.0(20)	30.4(22)	34.2(12)	40.3(18)	52.0(29)			
Consolidated bank credit <u>3/</u>	118.4(33)	171.5(45)	245.7(43)	351.1(43)	460.0(31)			
Quarterly rates of increase (between averages, expressed as annual rates in per cent, seasonally adjusted)								
	1977				1978			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Reserve money	27	62	44	43	38	45	26	(67)
Money supply <u>1/</u>	33	64	36	26	39	32	24	(54)

Sources: Central Bank of Turkey, Monthly Bulletins; Ministry of Finance, Monthly Economic Indicators; and data provided by the Turkish authorities. End-1978 estimates and seasonal adjustments by IMF staff.

1/ Turkish definition of M1 includes notes and coin circulation outside banks, commercial sight deposits, and sight savings deposits; interbank deposits are excluded.

2/ Turkish definition of M2 includes M1 above plus sight deposits of the public sector as well as all time deposits of public and private sectors.

3/ Entire banking system net of transactions between the Central Bank and other banks.

Table 22. Turkey: Reserve Money

(End of period; in billions of Turkish liras)

	1975	1976	1977	1978
Reserve money	77.1	93.1	137.3	200.8
Foreign assets of the Central Bank	18.1	23.7	16.3	28.9
Gold	2.1	2.1	2.1	3.9
Foreign exchange	15.5	21.2	14.2	25.0
Reserve position in the Fund	--	--	--	--
SDRs	0.5	0.4	--	--
Foreign liabilities of the Central Bank	20.9	54.9	105.8	185.4
Convertible lira accounts	15.0	29.4	38.1	71.5
Bankers' credits	0.1	6.8	7.6	8.5
Dresdner Bank workers' remittance scheme	--	0.9	3.5	8.9
Third party reimbursements (overdue)	--	--	3.9	6.3
Noncommercial arrears	--	--	5.6	6.0
Rescheduled (guaranteed) commercial arrears	--	--	--	13.0
Other commercial arrears	--	3.9	29.0	32.0
Overdue acceptances	--	--	0.2	3.1
Overdrafts	0.8	2.0	4.6	8.7
IMF	3.7	6.5	7.9	15.6
BIS	--	2.5	3.7	0.2
Other	1.4	2.9	1.7	11.6
Net foreign assets of the Central Bank	-2.8	-31.2	-69.5	-156.5
Credit to the public sector by the Central Bank	60.3	89.5	142.9	204.4
Short-term credit to the Treasury	16.8	21.7	45.2	56.6
IMF (net)	3.7	3.7	3.7	3.7
Counterpart funds of rescheduled foreign debt	--	--	--	18.1
Other Treasury accounts, net	1.3	-0.4	2.6	3.8
Monopolies Administration, net	1.7	6.2	14.2	20.5
Soil Products Office	6.0	12.2	18.6	21.5
SEE borrowing through SIB	6.1	14.6	27.9	32.3
Special Fund (SEEs)	7.1	7.1	7.1	7.1
Other SEE borrowing	1.5	8.3	13.5	24.7
Consolidated public debt	16.1	16.1	16.1	16.1
Credit to the private sector	44.8	71.9	97.4	134.0
Agricultural sales cooperatives	11.9	13.3	21.2	16.8
Agricultural credit cooperatives	0.7	2.3	3.3	5.8
Other agricultural bills	0.2	0.4	0.6	1.5
Special agricultural financing	4.0	6.4	6.4	10.0
Commercial bills	9.1	16.2	29.8	43.2
Convertible lira accounts	15.0	29.4	35.9	71.0
Blocked convertible lira accounts	--	--	-3.7	-24.1
Consolidated private sector debt	3.9	3.9	3.9	9.8
Deposits against letters of credit	-16.5	-31.7	-30.1	-50.6
Other items, net	-9.1	-9.8	-6.8	2.4
Net domestic assets of the Central Bank	79.5	119.9	209.4	290.2
Devaluation account	0.4	4.4	17.4	67.1

Sources: Weekly statements of the Central Bank of Turkey; IMF, International Financial Statistics; and information provided by the Turkish authorities.

Table 23. Turkey: Credit and Deposits of Deposit Money Banks

(In billions of Turkish lira; end of period)

	1975	1976	1977				1978		
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.
Total bank credits	138.953	183.762	190.025	202.582	209.835	231.476	239.967	254.346	255.482
Of which:									
Private sector	123.900	163.630	171.568	184.059	189.468	209.915	217.288	230.723	...
Public sector	15.053	19.132	18.457	18.523	20.367	21.561	22.679	23.623	...
Total deposits	132.374	162.845	163.010	174.165	186.100	213.261	214.407	219.545	232.332
Of which:									
Sight deposits	98.414	124.371	123.135	133.659	144.350	168.097	167.319	167.042	...
Time deposits	33.962	38.474	39.875	40.506	41.750	45.164	47.088	52.503	...
Credits of 13 large banks	94.853	124.379	130.883	137.303	142.636	154.037	160.278	167.412	175.026
Deposits of 13 large banks	94.108	123.150	132.658	137.963	143.355	157.302	164.517	167.857	184.140

Source: Ministry of Finance, Monthly Economic Indicators.

Table 24. Turkey: Selected Interest Rates

(In per cent)

	As from Mar. 1, 1973	As from Nov. 26, 1973	As from Oct. 1, 1974	As from Apr. 1, 1978
Central Bank rediscount rates				
Rediscounts and advances				
against bills	8.0	8.5	9.0	10.0
Agriculture, exports, small				
industry	6.0	7.0	8.0	8.0
Medium-term credits	9.0	9.0	10.5	11.5
Banks' maximum lending rates				
General interest rate	10.5	10.5	11.5	16.0
Medium-term credits	12.0	12.0	14.0	16.0
Agricultural credits				
General rate	9.0	9.0	10.5	10.5
Medium- and long-term credits	9.0	9.0	10.5	10.5
Export credits	9.0	9.0	10.5 <u>1/</u>	--
Credits to artisans	9.0	9.0	10.5	10.5
Central Bank priority credits	...	...	...	14.0
Maximum deposit rates <u>2/</u>				
Commercial deposits (0-4 months)	--	--	--	--
Commercial deposits (4-6 months)	--	--	--	--
Savings deposits, demand deposits				
(0-3 months)	2.5	2.5	3.0	3.0
Savings deposits (3-6 months)	4.0 <u>3/</u>	4.0 <u>3/</u>	6.0 <u>3/</u>	6.0
Savings deposits (6-12 months)	--	--	--	9.0
Savings deposits (12-24 months)	7.0	7.0	9.0	12.0
Savings deposits (24 months or				
more)	9.0	9.0	... <u>4/</u>	--
Savings deposits (2-3 years)	--	--	--	16.0
Savings deposits (3-4 years)	--	--	--	20.0
Savings deposits (4 years or				
more)	--	--	... <u>4/</u>	... <u>4/</u>

Source: Central Bank of Turkey.

1/ Export credits refinanced fully or partly through the Central Bank and exempt from expenditure tax as provided for in the Decree for the Inducement and Development of Exports are subject to a maximum rate of 9.0 per cent. Medium-term credits with the same features are subject to a maximum rate of 12.5 per cent.

2/ Since March 1973 banks are not permitted to pay interest on commercial deposits, irrespective of maturity. Instead, a new system of differential maximum rates for savings deposits was set up in order to promote long-term savings.

3/ Three-twelve months.

4/ To be determined by the bank and the depositor.

V. Balance of Payments and External Debt

1. Introduction

There was a sharp turnaround in Turkey's balance of payments in 1974 foreshadowing a period of rapidly worsening balance of payments developments. The overall balance, which had shown a surplus of over US\$900 million in 1973, recorded a deficit of US\$364 million in 1974 which widened substantially in the following years to reach US\$2,500 million in 1977 (Table 25). The sizable official reserves that had been accumulated by 1973 were rapidly eroded, and by the end of 1977 there had been a huge increase in Turkey's short-term indebtedness to over US\$6,500 million, of which about US\$2,100 million represented payments arrears.

To some extent, these unfavorable developments resulted from special factors, such as the situation in Cyprus, problems over military aid, a deterioration in the terms of trade--resulting from the combination of the rise in world oil prices and more slowly rising Turkish export prices--and a decline in workers' remittances. But the main cause of the external crisis was the stagnation of exports during a period when Turkey pursued a forceful domestic growth policy causing imports to rise rapidly. The failure to make timely adjustments eventually resulted in the limitation of official payments beginning in early 1977 and the emergence of very large payments arrears.

In 1978 there was a severe tightening of the external financing constraint. The inflow of fresh money from international markets in 1978 dropped considerably, while the suspension of new export credits from foreign export credit guarantee institutions, in view of the large amount of commercial arrears, resulted in a reduction of suppliers' credits. The situation was relieved to an extent as a result of Turkey's success in securing new petroleum loans and substantial program credits from foreign official sources. The rescheduling of official debts to most member countries of the OECD for Turkey also afforded considerable relief. Nevertheless, the substantial reduction in capital inflows brought about a decline in the current account deficit from US\$3,600 million in 1977 to US\$1,700 million in 1978. Exports of manufactures remained at their 1977 level, but there was a substantial increase in agricultural exports, which was attributable to the shipment of large stocks of wheat and cotton. As a result, total exports rose by 30 per cent. Officially recorded imports, however, fell from US\$5,800 million in 1977 to US\$4,600 million in 1978, implying a decline in volume of about 30 per cent. These figures possibly overstate the decline in the volume of total imports to some extent since imports not officially recorded in the trade statistics probably rose considerably. The external payments difficulties led to the development of a sizable parallel market for foreign exchange where the lira has been traded at a discount. This market is mainly fueled by workers' remittances and other current receipts and has emerged as an important vehicle for imports by the private sector, both those recorded in the official statistics and those not recorded.

2. Exchange rate development

Following the depreciation of the Turkish lira by 40 per cent in August 1970, the exchange rate remained virtually unchanged in terms of the U.S. dollar until mid-1975. Subsequently, the lira was devalued in small steps in 1975, 1976, and 1977. On March 1, 1978 the lira was devalued again against the U.S. dollar by 23 per cent and the buying rate was established at LT 25.00 per US\$1.

The value of the lira has fallen to a much greater degree vis-à-vis the currencies of the other countries which play an important role in Turkey's external trade. In effective trade-weighted terms, the lira declined in value by 8 per cent in 1975, by 4 per cent in 1976, by 13 per cent in 1977, and by 33 per cent in 1978 (Table 26). Thus, on average in 1978, the value of the lira had declined since the last quarter of 1970 by 53 per cent; by the end of the year the decline amounted to 57 per cent. However, the decline in the value of the lira did not fully compensate for the loss in Turkey's competitiveness, measured by relative costs in Turkey and abroad. Turkey's wholesale prices rose considerably faster than a weighted average of the wholesale prices of its trading partners implying that there was a "real" effective appreciation of the lira in this period. The "real" effective appreciation since 1970 amounted on average in 1978 to 22 per cent and by the end of 1978 to 34 per cent (Table 26).

Competitiveness has also, however, been affected by changes in border taxes. On January 1, 1978, the stamp duties on imports was raised from 9-9.5 per cent to 22.5-25.0 per cent. Tax rebates on exports have been changed from time to time--mainly in an effort to restore profitability of exports. Taking into account the changes in these rebates in 1978, the "real" effective appreciation of the rate for exports subject to rebates amounted on average in 1978 to 38 per cent and by the end of 1978 to 48 per cent. Thus, both in the case of exports subject to rebates and in the case of exports that do not benefit from these rebates there has been a significant loss of competitiveness since the last quarter of 1970. 1/

A reliable time series on the exchange rate in the parallel market is not available, but the discount on the Turkish lira in this market is reported at times to have been substantial.

3. Trade accounts

The Turkish trade deficit has widened substantially in recent years. In 1977 it amounted to US\$4,050 million compared with only US\$770 million in 1973 (Table 27). Approximately one half of this reflected increases in prices and deterioration in the terms of trade. 2/ The volume of exports contracted by close to 10 per cent between 1973 and 1977, while the volume of imports, mainly investment goods and raw materials, rose by more than 70 per cent in

1/ This loss was less pronounced for goods that were made subject to the tax rebate scheme in the period 1970-77.

2/ The increase in the world oil price in 1973-74 raised the import bill by about US\$500 million in 1974 and about US\$1 billion in 1977.

response to ambitious investment and growth targets set in annual programs. Measured at 1973 prices, the trade deficit increased from US\$769 million in 1973 to US\$2,400 million in 1977. In this period there was a steep increase in import prices of about 60 per cent between 1973 and 1977, while export prices rose by 45 per cent, resulting in a 10 per cent deterioration in the terms of trade.

In 1978 the trade deficit narrowed sharply to US\$2,300 million. The volume of exports rose by about 30 per cent while there was a decline in the volume of imports also by about 30 per cent. The trade deficit measured at 1973 prices reverted approximately to its 1973 level. The terms of trade deteriorated further in 1978.

a. Exports

Turkey's exports have fluctuated from year to year as a result of sharp changes in the demand for and supply of agricultural products. In some periods exports of these products have been held back by an unwillingness to adjust support and minimum export prices in line with fluctuations in world market prices. Exports of industrial products at times have been held back by inadequate profitability and strong demand conditions at home.

(1) Agricultural exports

Agricultural exports increased sharply in 1976 reflecting largely the improvement in demand for and the increase in world market prices of Turkey's exports, particularly for cotton and cotton textiles, making it possible for Turkey to export stocks accumulated during the previous two years (Table 28). Tobacco exports, though much higher than in 1975 were adversely affected in the second half of 1976 by minimum export prices established by the Government that were uncompetitive in world markets, and large stocks of tobacco were carried over into 1977. ^{1/} A similar situation existed with respect to wheat. A favorable hazelnut crop made increased quantities of hazelnuts available for export in 1976.

In 1977 agricultural exports declined by 17 per cent (Table 28). This was due mainly to a steep decline in cotton and tobacco exports, which together had accounted for over 50 per cent of agricultural exports in the previous year. The volume of cotton exports fell to almost one third of the volume shipped in 1976 on account of both higher domestic consumption and a marked reduction in acreage in 1975/76 following a decline in world market prices and in the domestic support price in real terms. A 35 per cent increase in the world market price of cotton compensated for part of the loss in volume (Table 29). Exports of tobacco declined by 30 per cent in 1977. Tobacco exports were affected again by the discrepancy between domestic support prices and world market prices. The failure to export tobacco at the world market price led to the accumulation of large stocks in the hands of the State Monopoly. The officially set minimum export price for tobacco was lowered in September 1977 and an export tax rebate of 10-15 per cent was introduced both

^{1/} Turkey exports oriental tobacco. Its competitors are Greece, Yugoslavia, and Bulgaria.

on cotton and tobacco exports effective from September and October 1977, respectively. (These rebates were abolished again with effect from March 1, 1978.) Among other agricultural products, there was some increase in exports of cereals, mainly wheat, but large stocks still remained in the hands of the Soil Products Office since the 1977 harvest was again a good one for cereals. Hazelnut exports continued to increase in 1977, while exports of livestock and products declined sharply.

Agricultural exports rebounded strongly in the first 11 months of 1978 exceeding their level during the comparable period of 1977 by close to 50 per cent. ^{1/} This improvement was mainly due to an 80 per cent increase in exports of cotton reflecting low domestic consumption, an increase in the acreage planted in 1977, and the prospects of a bumper cotton crop in late 1978. Unusually ample stocks of cereals also enabled Turkey to make large shipments abroad. While the world market price of hazelnuts firmed considerably in 1978, export prices for tobacco and especially cotton fell.

(2) Industrial exports

Industrial exports (including mining and quarrying products) showed an improvement by 18 per cent in 1976 over the results of the previous year, but were no higher than in 1974 (Table 28). This improvement reflected almost exclusively higher textile exports. Textile exports (mostly cotton textiles) had constituted between a third to one half of Turkey's industrial exports in recent years. The increase in Turkey's textile exports in 1976 represented largely the revival in world demand for cotton textiles after the stagnation in 1975. Exports of many other industrial products, notably processed agricultural products which were affected by marketing and quality problems, petroleum products, leather and hides, and cement, declined in 1976, while there was a modest increase in the value of exports of other industrial products taken together. The value of the major categories of industrial exports remained much the same in 1977, with the exception of exports of processed agricultural products which showed some improvement, and exports of chemicals which declined for the first time in recent years. There was a continued sharp drop in exports of petroleum products largely as a result of an increase in domestic demand for these products.

Industrial exports declined by about 5 per cent in the first 11 months of 1978 compared with the first 11 months of 1977. ^{1/} The reduction in exports of manufactures was particularly pronounced in the first two months of 1978, which were marked by exchange rate uncertainties. The export performance improved in the course of 1978, partly in response to incentives that entitled exporters of manufactures to receive preferential foreign exchange allocations to cover their import needs for export production as well as production for the very profitable domestic market. However, exports of manufactures remained hampered by the shortage of imported inputs and, more importantly, inadequate profitability. Some manufactures are reportedly exported at substantial losses. Exports of mining products showed some improvement in 1978.

^{1/} A breakdown of exports for the entire 12-month period is not yet available.

Exports of manufactures enjoy export tax rebates which are mainly intended to compensate exporters for direct and indirect taxes paid, but are also adjusted according to export profitability considerations. The share of exports subject to rebates rose from 31 per cent in 1974 to 50 per cent in 1977 (Table 30). In early 1977, tax rebates on cotton yarn were reduced from 25 per cent to 10 per cent and, with effect from March 1, 1978, all tax rebates on manufactures were lowered by 20 percentage points. However, pressure on export profitability led to an increase in rebates by 10 percentage points in July 1978. Presently, export tax rebates range from 5 per cent to 35 per cent with an average rate of about 15 per cent compared with about 20 per cent in the period 1975-77.

b. Imports

The value of imports which had risen by 25 per cent in 1975 rose by a further 8 per cent in 1976. In real terms the increase amounted in 1976 to 10 per cent, since there was a slight decrease in import prices measured in terms of U.S. dollars (Table 27). The value of imports of raw materials and finished goods rose by 15.4 per cent in 1976 mainly reflecting a continued strong increase in the value of imports of mineral fuels (Table 31). Imports of equipment goods rose by almost 19 per cent in value.

Turkey's imports totaled US\$5,796 million in 1977, 13 per cent more than in 1976 in value terms. In volume terms the increase did not exceed 4 per cent (Table 27), which by historical standards is low in relation to a growth of GDP also of 4 per cent. Unrecorded imports, which traditionally are believed to be large, may have shown a further increase. Recorded imports began to decline in the the last quarter of the year and averaged US\$430 million per month compared with an average of US\$500 million per month during the preceding three quarters. In the final quarter of 1977 there were increasing payment irregularities. The accumulation of payments arrears was estimated at US\$1,850 million in 1977. Arrears rose sharply following the limitation of official foreign exchange transfers to essential commodities, with effect from March 1977, and the widening of the scope for imports under the "cash-against-goods" scheme (for details see section on short-term foreign debt).

The breakdown of imports by commodities for 1977 shows that imports of mineral fuels rose by 30 per cent to US\$1.5 billion, constituting 25 per cent of the total import bill (Table 31). Imports of fertilizers and minerals also rose sharply in 1977, while imports of equipment materials showed no significant change. Imports of agricultural products remained low because of excellent crops in Turkey.

Officially recorded imports fell sharply in 1978 as a result of the disappointing developments of current receipts and severe borrowing constraints abroad. The value of imports is estimated at US\$4,600 million for the entire year. This represents a decline of about 20 per cent in value terms and a cut of at least 30 per cent in volume terms (Table 27). Imports were particularly low in the third quarter of 1978, amounting to about US\$270 million per month, but rose to a monthly average of US\$500 million in October-December

1978. 1/ Preliminary data on the breakdown of imports in the first nine months of 1978 suggest that imports of equipment materials and raw materials other than mineral fuel fell most sharply (Table 31); they declined by about 40 per cent in volume terms. Imports of petroleum declined by only 10 per cent (12 per cent in volume). Smuggling financed through the black market for foreign exchange probably rose strongly again in 1978 but no data are available which permit an assessment of its size.

4. Workers' remittances and other invisibles

Workers remittances totaled US\$983 million in 1976, a drop of over US\$300 million from the previous year (Table 32), and remained approximately at this level in 1977 and 1978. While the decline in the number of Turkish workers employed in Western Europe, particularly in the Federal Republic of Germany, clearly had an important bearing on the development of workers' remittances since 1974, the political instability in Turkey in recent years, as well as speculation concerning changes in the exchange rate, is likely also to have had a significant effect. 2/

It is conceivable that remittances have been channeled through convertible lira accounts to an increasing extent from 1976 onward. It appears that deposits made in 1977 and 1978 were almost exclusively funds of Turkish nationals working abroad. Moreover, during 1976 an arrangement was made between the Central Bank of Turkey and the Dresdner Bank in Germany to attract savings of Turkish workers. The inflow of savings under the Dresdner Bank scheme has risen from US\$50 million in 1976 to US\$130 million in 1978.

In the course of 1977, as noted above, there was also an increase in activities on the black market for foreign exchange which appears mainly to be supplied by earnings of Turkish workers abroad. Official remittances declined sharply in the first half of 1978 despite the exchange rate adjustment of March 1978. Apparently, the black market had become increasingly attractive for remitting funds. In the second half of 1978, workers' remittances rose by US\$300 million partly because of a facility introduced in July which enabled Turkish workers abroad to purchase cars, trucks, and tractors made in Turkey against foreign exchange. These automobiles could be freely resold on the domestic market at a substantial profit.

1/ The most recent data indicate imports of US\$600 million in December compared with an average of US\$360 million for the first 11 months. The staff has no information about this sharp increase in recorded imports and the commodity distribution.

2/ In an attempt to remedy this situation, the exchange rate applicable to remittances was raised, effective September 1, 1976, resulting in a premium of 9.3 per cent over the rate applicable to other current transactions (excluding exports subject to tax rebates). This measure, however, had no noticeable impact on the inflow of remittances in the remaining months of 1976. The premium was reduced to 2.9 per cent on March 1, 1977. A separate rate was again established for workers' remittances with the exchange rate adjustment effective September 21, 1977, resulting in a premium of 3.9 per cent. The premium was abolished with effect from March 1, 1978.

As a result of the rapid accumulation of short-term debt, interest payments have risen sharply; on an accrued basis, they amounted to about US\$150 million in 1975, US\$300 million in 1976, US\$600 million in 1977, and US\$750 million in 1978 (Table 25). ^{1/} In May 1978, debt service on loans with maturities of more than one year extended or guaranteed by governments of member countries of the OECD Consortium for Turkey and falling due between June 1978 and June 1979 was rescheduled. This resulted in a relief of interest payments of about US\$100 million in 1978.

Net income from tourism, which was around US\$40 million in 1975, was negative by US\$27 million in 1976 and by US\$60 million in 1977, as a result of a sharp increase in tourism expenditures by Turkish nationals abroad. Turkey's gross annual income from tourism, which averaged about US\$200 million during 1974-77, is very low compared with that of many Southern European countries. However, the official figures may understate total revenues which may have been increasingly diverted into the black market. This supposition is supported by the fact that, despite higher foreign arrivals in Turkey in 1976 and 1977 and rising prices, officially recorded receipts per traveler fell. In 1978 gross revenues from tourism failed to rise, but net revenues improved strongly because of a sharp decline in tourism expenditures following the restrictions placed on travel abroad by Turkish nationals, as well as the imposition of a 50 per cent tax for purchases of foreign exchange for travel abroad in March 1978. Net revenue from tourism in 1978 is now estimated at US\$140 million.

Lower expenditure for transportation because of the decline in imports and lower profit transfers contributed to the increase of the surplus in the services account from US\$400 million in 1977 to US\$575 million in 1978.

5. Capital account ^{2/}

Between 1974 and 1976, Turkey attracted rapidly rising amounts of medium- and long-term foreign finance. The net inflow of nonmonetary capital, mainly project and suppliers' credits from bilateral sources and international organizations, increased from US\$291 million in 1974 to US\$854 million in 1976 (Table 25). An important new development were Euro-market borrowings for a petroleum pipeline and other investment projects. These loans were fully disbursed by 1977. Direct foreign investment, however, has declined since 1975. Commercial banks increased their net working balances held abroad by US\$182 million in 1975 following the permission given to a number of banks to hold such net balances of up to US\$20 million. In 1976 their net foreign position deteriorated by US\$96 million.

^{1/} Turkish official data for cash interest payments are considerably lower; they do not fully reflect interest on convertible liras and other short-term debts paid directly by Turkish commercial banks. The staff estimates measured above are accrued interest payments before debt relief. They exclude interest on arrears other than those in respect of loans guaranteed by governments of member countries of the OECD Consortium for Turkey which have been rescheduled. It has been assumed that interest on arrears with respect to nonguaranteed debts will accrue only after arrangements are made.

^{2/} Inflows of funds into convertible lira deposits are treated in this chapter in the section dealing with the monetary authorities.

In 1977, net inflows of nonmonetary capital rose almost twofold to US\$1,531 million. This was partly attributable to new short-term trade financing through acceptance credits amounting to US\$710 million, 1/ which replaced the inflow of other short-term bank credits of previous years. In 1977 there was also an accumulation of overdue bills for oil shipments amounting to US\$365 million. Disbursements of project and suppliers' credits fell by almost 20 per cent. This decline was related to delays in the realization of projects because of insufficient own foreign exchange resources for the importation of goods and services required for project implementation and, occasionally, the lack of Turkish lira funds. External debt repayments rose sharply, from US\$119 million in 1976 to US\$214 million in 1977 on account of increases in amortization in respect of all categories of medium- and long-term loans. Net working balances of commercial banks held abroad declined by US\$89 million in 1977.

Net inflows of nonmonetary capital are estimated to have amounted to US\$690 million in 1978. Disbursements of project and suppliers' credits remained sluggish throughout 1978 as a result of Turkey's inability to make some of the necessary downpayments for imports and the suspension of new official export credit guarantees. Turkey received net fresh acceptance credits of US\$250 million 2/ in 1978 and a credit line of US\$135 million for oil imports. The emergence of substantial arrears with respect to acceptance credits has probably contributed to the fact that there has been no net increase in acceptance credits from mid-1978 onward. In 1978, Turkey utilized about US\$100 million of program credits from foreign governments and international organizations compared with an annual average of US\$3 million in the period 1974-77. Turkey's overdue oil payments of about US\$365 million to Iraq and Libya were rescheduled in mid-1978. Payments of about US\$60 million in respect of these debts were made in 1978. Accrued amortization payments rose from US\$214 million in 1977 to US\$430 million in 1978 mainly on account of maturing Euro-currency market loans and suppliers' credits from private sources. However, the rescheduling arrangement of May 1978 with the member countries of the OECD Consortium for Turkey resulted in a relief of amortization payments of about US\$200 million.

6. Monetary authorities

Between 1974 and 1977, Turkey's balance of payments deficits rose from US\$364 million to US\$2,466 million (Table 25). As a result, gross foreign reserves fell from US\$2,120 million at the end of 1973 to US\$750 million in December 1977, excluding nonconvertible foreign exchange and transitory accounts (Table 33). This was the equivalent of less than two months of 1977 imports. Gross reserves rose sharply in the third quarter of 1978 on account of the inclusion in reserves of amounts committed as cover for outstanding import letters of credit and valuation changes, but declined toward

1/ Acceptance credit financing was permitted in late 1976 for a number of important commodities.

2/ This includes an acceptance credit of US\$100 million shown under petroleum loans in the liabilities of the monetary authorities.

the end of the year when the import letters of credit fell due. Reserves amounted to US\$990 million at the end of December 1978. Foreign liabilities of the Central Bank 1/ rose from US\$229 million in December 1977 to US\$5,480 million on December 31, 1977, including commercial arrears of US\$1,700 million (this excludes overdue oil payments of US\$365 million for which no deposit with the Central Bank had been made). They amounted to US\$7,186 million at the end of 1978. 2/

In 1975 and 1976 foreign banks placed about US\$1,650 million of convertible Turkish lira deposits with Turkish commercial banks (Table 25). 3/ The inflow of convertible liras from banks came virtually to a halt in 1977 when difficulties with respect to the servicing of convertible lira deposits arose. However, Turkish nationals working abroad continued to increase their convertible lira deposits by more than US\$200 million per year in 1977 and 1978. In the period 1976-77 foreign banks extended substantial short-term bankers' credits to the Central Bank of Turkey, established large overdraft facilities, and entered into export prefinancing arrangements (recorded under overdrafts and other foreign liabilities) totaling about US\$650 million. In 1978, there was only a small net increase in these short-term facilities, but the Central Bank of Turkey received a medium-term Euro-currency market loan of US\$100 million guaranteed by the Libya Arab Foreign Bank. Petroleum loans extended to the Central Bank by Libya and Iran amounted to US\$93 million. The BIS extended a short-term credit of US\$190 million in 1976-77 which had been almost fully repaid by the end of 1978. Deposits by Turkish workers in the Federal Republic of Germany placed with the Central Bank of Turkey through the intermediation of the Dresdner Bank amounted to about US\$170 million between mid-1975--when the scheme was started--and end-1977. They increased by a further US\$130 million in 1978.

Turkey purchased US\$390 million from the Fund under the oil and compensatory financing facilities in 1975-76. Purchases from the Fund in 1978 amounted to US\$180 million under the stand-by arrangement of April 1978 and the compensatory financing facility.

1/ Convertible lira deposits though formally a liability of Turkish commercial banks are considered in this chapter to be a liability of the Central Bank because of the exchange rate guarantee arrangement. For more details on the convertible Turkish lira scheme, see the section on short-term foreign debt in this chapter and Chapter VI, Exchange and Trade System.

2/ This figure includes an increase in the U.S. dollar value of outstanding liabilities of about US\$600 million in 1978, a medium-term Euro-loan of US\$100 million, an acceptance credit of US\$100 million, and a rescheduled overdue oil payment of US\$45 million. The liabilities in respect of the last two loans were taken over by the Central Bank from the Turkish Petroleum Office (TPAO) toward the end of the year.

3/ In some cases accrued interest was not transferred abroad but was added to existing convertible lira deposits. In the balance of payments this is recorded as an outflow of interest payments financed by an increase in convertible lira deposits.

Deposits in the Central Bank in respect of commercial arrears began to accumulate in 1976 and reached US\$1,712 million ^{1/} by the end of 1977. In 1978 commercial arrears continued to rise though more slowly; the increase is estimated at about US\$400 million.

7. External debt

Total disbursed foreign debt of the public and private sectors rose four-fold from US\$3,300 million to an estimated amount of US\$13,500 million between December 1974 and December 1978 (Table 34), reflecting the current account deficits experienced during this period. At the same time, the maturity profile of Turkey's external debt deteriorated because of the accumulation of short-term foreign liabilities mainly by the Central Bank. The share of disbursed debt with maturities of less than one year rose from 7 per cent at the end of 1974 to 44 per cent in December 1977, while the proportion of loans with maturities of more than 10 years declined from 85 per cent to 32 per cent during the same period. The maturity profile improved somewhat in 1978 because of the rescheduling of arrears of about US\$700 million in respect of official and officially guaranteed commercial credits and oil debts to Iraq and Libya of US\$365 million. The new maturities of these debts are in the range of 3 1/2 to 7 1/2 years.

The rapid buildup of foreign debt led to an increase in the ratio of disbursed external debt (average stock during the year) to GDP from 10 per cent in 1974 to 23 per cent in 1978. Debt service also rose extremely fast from about US\$230 million in 1974 to US\$1,250 million in 1978 before debt relief and US\$950 million after debt relief. The ratio of debt service to merchandise exports and workers' remittances increased from 8 per cent in 1974 to 29 per cent in 1978 (after debt relief).

a. Stock of debt

(1) Medium- and long-term debt

Outstanding disbursed medium- and long-term public debt amounted to US\$4,670 million at the end of 1977 and was estimated to have increased to US\$5,150 million in December 1978 (Table 35).

Undisbursed loan balances increased to US\$2,800 million at the end of 1977, up by more than US\$1,000 million compared with 1976. This development reflected large new loan agreements with the IBRD. West Germany, Japan, some CMEA countries, and private sources mainly in the United Kingdom, France, and Switzerland and the slowdown in gross disbursements experienced in 1977 (Table 35).

New loan agreements signed in 1978 include program loans from the IBRD of US\$150 million, West Germany of US\$80 million, and the United States of US\$50 million, a medium-term Euro-currency loan of US\$100 million guaranteed

^{1/} This excludes overdue oil payments of US\$365 million for which no deposit had been made with the Central Bank.

by the Libyan Arab Foreign Bank, project loans from the IBRD of about US\$200 million, and suppliers' credits of about US\$250 million from foreign private sources. In mid-1978 an agreement was reached with Romania for the provision of a program loan of US\$240 million to be disbursed over three years and a project credit of US\$50 million for downpayments on a joint refinery project. Disbursements in respect of the two Romanian loans have been minimal in 1978. Repayments are expected to be made in part in the form of exports.

(2) Short-term debt

There was a very large increase in short-term foreign liabilities mainly incurred by the Central Bank. While at the end of 1974 short-term foreign liabilities had amounted to US\$229 million, they rose to US\$1,388 million on December 31, 1975, and to US\$3,342 million on December 31, 1976 (Table 36). Short-term foreign debt increased to US\$6,555 million at end-December 1977, including arrears of about US\$1,700 million recorded in the Central Bank and arrears in respect of oil payments of US\$365 million. About US\$200 million of this increase of US\$3,200 million in 1977 can be attributed to valuation changes. Short-term liabilities rose to US\$8,376 million at the end of 1978 including arrears of about US\$2,200 million. The increase in the U.S. dollar value of liabilities denominated in other foreign currencies contributed about US\$600 million to the total increase of US\$1,800 million in short-term foreign liabilities in 1978.

Convertible Turkish lira deposits 1/ which were estimated to have amounted to about US\$2,900 million at the end of December 1978 account for about one third of the stock of short-term debt (Table 36). In 1977, arrears in respect of maturing convertible lira deposits and interest payments began to emerge. Such arrears amounted to about US\$240 million in December 1978 including some overdue interest. As about 90 per cent of convertible Turkish lira deposits are denominated in Swiss francs and deutsche mark, the decline in the U.S. dollar in 1977 and 1978 vis-à-vis these two currencies contributed about US\$600 million to the increase in the value of the stock of convertible lira deposits from US\$1,781 million at the end of 1976 to an estimated US\$2,900 million in December 1978. A large majority of the deposits outstanding in December 1978 had maturities of less than one year. In March 1978, the exchange rate guarantee was limited to the amount of deposits outstanding as of this date, including overdue deposits, and to such maturing deposits which are extended for at least one year. However, it appears that this ceiling has not been strictly implemented and that the new deposits made after March 1978 2/ continue to enjoy the exchange rate guarantee, provided their maturity is at least one year.

In April 1976, a scheme was established by the Central Bank of Turkey and the Dresdner Bank in the Federal Republic of Germany to channel savings of Turkish workers in Germany to Turkey through the intermediation of the

1/ For more details on the institutional aspects of the convertible Turkish lira scheme, see Chapter VI, Exchange and Trade System.

2/ Presumably by Turkish nationals working abroad.

Dresdner Bank. Under this scheme deposits in the Dresdner Bank by Turkish workers can be withdrawn in Germany (in deutsche mark) or in Turkey (in Turkish liras). Interest rates on these deposits include a significant premium ^{1/} which is borne by the Central Bank of Turkey. Deposits under the Dresdner Bank scheme rose from US\$53 million at the end of 1976 to US\$173 million at the end of 1977 and US\$360 million in December 1978 (Table 36).

Short-term deposits of foreign banks with the Central Bank of Turkey (bankers' credits) rose above US\$400 million in 1976, but remained approximately at this level through mid-1978. In August 1978, bankers' credits of about US\$90 million were reportedly transferred to overdraft accounts for technical reasons. Therefore, in order to derive the actual amount of bankers' credits outstanding at the end of 1978 an amount of about US\$90 million of overdrafts would have to be added to the figure of US\$333 million reported by the Central Bank (Table 36). Overdrafts reported by the Central Bank rose from US\$150 million at the end of 1975 to US\$283 million in December 1978 but, as mentioned above, include about US\$90 million of bankers' credits and probably some export prefinancing. Overdrafts in a narrow sense probably do not exceed US\$100 million.

Outstanding purchases from the Fund--other than the gold tranche--amounted to US\$409 million at the end of 1977 and was composed of purchases of US\$317 million under the oil facility and US\$92 million under the compensatory financing facility made in 1975 and 1976. Credit from the IMF rose to US\$622 million at the end of December 1978 on account of purchases of US\$90 million under the compensatory financing facility and US\$110 million under the stand-by arrangement of April 1978.

In the first half of 1978, Turkey reached agreement on a short-term loan of US\$150 million for oil imports from Iran and a loan of US\$300 million to be used for oil imports from Libya over the next five years with annual tranches of US\$60 million. Turkey has undertaken to repay at least part of these loans through higher exports to Iran and Libya. Net utilization of the loans constituting liabilities of the Central Bank amounted to US\$93 million in 1978.

In 1976 Turkey incurred an estimated amount of US\$234 million of arrears in respect of import payments (Table 36). The accumulation of arrears of US\$1,843 million in 1977, composed of overdue oil payments of US\$365 million and other commercial arrears of US\$1,478 million, raised the total stock of arrears to US\$2,077 million by the end of the year. Commercial arrears continued to rise by about US\$375 million in 1978 and, together with a valuation adjustment of about US\$100 million, raised the total stock of deposits in the Central Bank in respect of arrears to US\$2,194 million in December 1978 excluding the rescheduled overdue oil payments. This figure is composed of three elements. An estimated amount of US\$250 million represented so-called "third-party reimbursement claims," i.e., claims by Turkey's foreign correspondent banks which had effected payments to other banks but have not been reimbursed. An amount of US\$125 million reflected overdue bankers' acceptance credits. The bulk of arrears, an estimated amount of US\$1,816 million, was

^{1/} Interest rates range from 7 per cent to 11 per cent.

related to the "cash-against-goods" import scheme. Under this scheme, which was extended considerably in early 1977 when official foreign exchange transfers were limited to essential goods, importers apply for the foreign exchange transfer and make the necessary Turkish lira deposits up to two months after the arrival of the imports. Normally, the transfer of foreign exchange is made by the Central Bank within a few days. However, beginning in 1976, a large backlog of such applications began to emerge. It is believed that some of the import payments have actually been made through the parallel market for foreign exchange but the outstanding applications and deposits constitute contingent foreign liabilities of the Central Bank. With effect from November 1978, existing and new deposits outstanding for more than six months carry an exchange rate guarantee from the Central Bank.

Beginning in late 1976, Turkey permitted acceptance credit financing for imports. Acceptance credits are credits with maturities of normally 180 days extended by a foreign bank for the financing of imports. The stock of acceptance credits grew rapidly to about US\$1,150 million between early-1977 and mid-1978 when growing overdue payments caused a leveling off in the growth of acceptances. The stock of bankers' acceptances amounted to US\$1,125 million at the end of 1978, including an acceptance credit of US\$100 million for oil imports, the liability in respect of which the Central Bank assumed from the Turkish Petroleum Office (TPAO) toward the end of the year, and overdue acceptances of US\$125 million reported by the Central Bank (Table 36). It is believed that actual overdue acceptances are probably higher. In early 1978 Turkey received a short-term credit line of US\$135 million from a major foreign bank for oil imports. It was recently renewed for a period of two years.

b. Debt rescheduling

In May 1978, a Working Party of the OECD Consortium for Turkey including Japan 1/ and Turkey reached agreement on the rescheduling of arrears incurred between January 1, 1977 and May 20, 1978 in respect of interest and principal on official and officially guaranteed debts, and interest and principal on official and officially guaranteed debts with maturities of more than one year falling due between May 21, 1978 and June 30, 1979. 2/ This multilateral

1/ Australia and Spain also rescheduled their claims according to the terms agreed by the Working Party.

2/ The representatives of the 14 creditor countries of the Consortium plus Japan agreed to recommend that their governments or appropriate government agencies reschedule payments of interest and principal on official and officially guaranteed loans contracted before January 1, 1978 as follows: (a) for loans with over one-year maturities, 80 per cent of the principal and interest in arrears from January 1, 1977 to May 20, 1978 and those falling due before June 30, 1979 to be paid over a 7 1/2-year period, including three years of grace, the balance of 20 per cent to be paid in four equal semiannual installments beginning on December 31, 1978; (b) for loans with one-year maturities or less, 80 per cent of principal and interest in arrears from January 1, 1977 to May 20, 1978 to be paid over a 5 1/2-year period, including two years of grace, the balance of 20 per cent to be paid in four equal semiannual installments starting on September 30, 1978. Turkey undertook to refrain from granting more favorable terms to any other creditor country in respect of debts of comparable terms.

rescheduling agreement is being implemented by bilateral agreements between Turkey and each participating creditor country. By end-1978 agreements had been reached with almost all of the member countries of the Working Party. These agreements resulted in debt relief of about US\$300 million in 1978 and are expected to reduce cash payments for debt service by US\$170 million in 1979 (relief of interest payments of US\$100 million and US\$70 million, respectively). The total amount of arrears falling under the rescheduling arrangement is not yet known but has provisionally been estimated at US\$700 million.

Turkey is presently in the process of negotiating with more than 200 creditor banks a rescheduling of an estimated US\$2,100 million of convertible Turkish lira deposits, ^{1/} including presently overdue deposits, and about US\$425 million of bankers' credits. The proposed new maturities are six to seven years including three years of grace. The package being negotiated with foreign banks would include the provision of new Euro-currency loans of about US\$500 million and a three-year schedule for the payment of the third-party reimbursement claims of about US\$250 million. Some foreign banks have also expressed interest in refinancing some of the commercial arrears not falling under the arrangement with the OECD Consortium for Turkey.

In early 1978, Libya agreed to reschedule US\$48 million of overdue oil payments; the new maturity is five years. The liability in respect of this debt was assumed by the Central Bank from the TPAO in December 1978. A similar agreement was reached with Iraq in August 1978 for the rescheduling of arrears of US\$317 million of the TPAO with a new maturity of 3 1/2 years. An amount of about US\$60 million in respect of this loan was repaid in 1978. Payments of these rescheduled debts are intended to be made mainly in the form of exports.

c. Debt service

The buildup of Turkey's short-term foreign indebtedness between 1975 and 1978 is reflected in a steep rise in debt service payments--mainly interest--from US\$230 million in 1974 to an amount of US\$945 million in 1978 after taking into account an estimate of about US\$300 million for debt relief resulting from the rescheduling agreement of May 1978 with the OECD Consortium countries (Table 37). As a result, the ratio of total debt service to merchandise exports and workers' remittances increased from 8.0 per cent in 1974 to 29.0 per cent in 1978. The debt service ratio is expected to rise slightly above 40 per cent of exports of goods and workers' remittances in 1979 and to remain approximately at this level throughout the early 1980s.

^{1/} This comprises all deposits held by foreigners with the exception of about US\$75 million of deposits falling due after December 31, 1980.

Table 25. Turkey: Balance of Payments, 1974-1978

(In millions of U.S. dollars)

	1974	1975	1976	1977	1978 Preliminary
Exports (f.o.b.)	1,532	1,401	1,960	1,755	2,300
Imports (c.i.f.)	-3,777	-4,739	-5,129	-5,797 1/	-4,600 1/
Trade	-2,243	-3,338	-3,169	-4,043	-2,300
Workers' remittances	1,426	1,312	983	982	975
Interest payments	-102	-150 2/	-300 2/	-570 2/	-750 2/
Tourism	42	46	-27	-63	140
Profit remittances	-71	-36	-83	-116	-58
Other services (net)	231	260	212	175	268
Services (net)	1,526	1,432	785	408	575
Current account	-719	-1,906	-2,384	-3,635	-1,725
Project and suppliers' credits	269	322	570	470	400
Program credits	2	--	8	3	100 3/
Private foreign capital	88	158	27	67	40
Imports with waiver	58	98	135	101	100
Acceptance credits (net)	--	--	--	710	150
Euro-loans (SEEs)	--	95	233	29	--
Petroleum loans (net)	--	--	--	365 4/	30 5/
Debt repayments	-126	-117	-119	-214	-430
Debt relief	--	--	--	--	300
(Interest)	(--)	(--)	(--)	(--)	(100)
(Amortization)	(--)	(--)	(--)	(--)	(200)
Capital (net)	291	566	854	1,531	690
Errors and omissions	64	-243	-277	-362	135
Overall	-364	-1,593	-1,807	-2,466	-900
Monetary authorities 6/	364	1,775	1,711	2,460	900
Assets	444	616	-243	560	-200
Liabilities	-80	1,159	1,954	1,900	1,100
IMF (net)	--	243	148	--	180
CTLs	-80	846	790	260	200
BIS	--	--	150	40	-180
Dresdner Bank scheme	--	--	53	102	145
Bankers' credits	--	7	406	-29	-50
Overdrafts	--	--	150	90	40
Commercial arrears	--	--	234	1,478	375
Reimbursement claims	(--)	(--)	(--)	(204)	(50)
Overdue acceptances	(--)	(--)	(--)	(--)	(125)
Nonrescheduled other arrears 7/	(--)	(--)	(234)	(1,274)	(-500)
Rescheduled other arrears 7/8/	(--)	(--)	(--)	(--)	(700)
Euro-loan, guaranteed by Libya	--	--	--	--	100
Other liabilities	--	63	23	-41	50
Petroleum loans (net)	--	--	--	--	240 9/
Commercial banks	--	-182	96	6	

Sources Data provided by the Turkish authorities, and staff estimates.

1/ Includes probably some interest on acceptance credits

2/ Staff estimate of accrued interest.

3/ West Germany US\$35 million, and other program loans including IBRD US\$65 million.

4/ Overdue oil payments to Iraq and Libya.

5/ Includes credit of US\$135 million from "Regie Renault" and bank consortium, repayment of US\$60 million of overdue oil payments to Iraq, and adjustment for the transfer of the liability in respect of the rescheduled oil debt to Libya of US\$45 million from the Turkish Petroleum Office (TPAO) to the Central Bank.

6/ Net of valuation changes

7/ Overdue applications for foreign exchange transfers under the "cash-against-goods" scheme

8/ An amount of about US\$700 million was rescheduled in the course of 1978

9/ Comprises an acceptance credit for oil imports of US\$100 million, oil credits from Iran and Libya of US\$95 million and rescheduled oil debt to Libya

Table 26. Turkey: Effective Exchange Rate

(1970 4th qtr. = 100.0) 1/

Average during period	1970	1974	1975	1976	1977	1978		
	4th qtr.					March 1	End-Dec.	Annual average
Trade weighted effective exchange rate	100.0	90.7	83.7	80.2	69.7	45.6	43.2	46.8
Export weighted effective exchange rate for exports subject to rebates	100.0	94.4	83.7	78.8	71.2	52.8	47.9	52.7
"Real" trade weighted effective exchange rate <u>2/</u>	100.0	143.2	130.2	132.0	130.7	108.1	133.7	122.2
"Real" export weighted effective exchange rate for exports subject to rebates <u>2/</u>	100.0	149.0	130.2	129.7	133.5	125.2	148.2	137.9

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

1/ A decrease in the index indicates an effective depreciation of the Turkish lira.2/ Taking into account price developments abroad and in Turkey.

Table 27. Turkey: Trade Balance

(In millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978 ^{1/}
A. At current prices						
Exports, f.o.b.	1,317	1,532	1,401	1,960	1,755	2,300
Imports, c.i.f.	<u>-2,086</u>	<u>-3,778</u>	<u>-4,739</u>	<u>-5,129</u>	<u>-5,796</u>	<u>-4,600</u>
Trade balance	-769	-2,246	-3,338	-3,169	-4,041	-2,300
B. At 1973 prices						
Exports, f.o.b.	1,317	1,224	1,113	1,442	1,206	1,582
Imports, c.i.f.	<u>-2,086</u>	<u>-2,807</u>	<u>-3,161</u>	<u>-3,477</u>	<u>-3,606</u>	<u>-2,533</u>
Trade balance	-769	-1,583	-2,048	-2,035	-2,400	-951
C. Price effect (A-B) on:						
Exports	--	308	288	518	549	718
Imports ^{1/}	<u>--</u>	<u>-971</u>	<u>-1,578</u>	<u>-1,652</u>	<u>-2,190</u>	<u>-2,067</u>
Trade balance	--	-663	-1,290	-1,134	-1,641	-1,349
D. Change in trade balance due to change in:						
Export volume	166	-94	-138	413	-319	545
Export prices	266	308	7	146	114	--
Import volume ^{2/}	-117	-722	-476	-474	-456	1,725
Import prices ^{2/}	-406	-971	-485	84	-211	-528
Memorandum items:						
Exports/imports (1973 prices; in per cent)	63.1	43.6	35.2	41.5	33.4	62.4
Export volume index	100.0	92.9	84.5	109.5	91.5	120.1
Export unit price index	100.0	125.2	125.9	135.9	145.4	145.4
Import volume index	100.0	134.6	151.5	166.7	172.9	121.4
Import unit price index	100.0	134.6	149.9	147.5	160.7	181.6
Terms of trade ^{3/}	100.0	93.0	84.0	92.1	90.5	80.1

Sources: Ministry of Finance, Monthly Economic Indicators; and staff estimates.

^{1/} Staff estimate.

^{2/} Minus sign indicates increase.

^{3/} (Export unit price index/import unit price index) X 100.

Table 28. Turkey: Commodity Composition of Exports

(In millions of U.S. dollars)

	1975	1976	1977	1977 Jan.-Nov.	1978 Jan.-Nov.
Agricultural products	<u>793</u>	<u>1,254</u>	<u>1,041</u>	<u>865</u>	<u>1,289</u>
(In per cent of total)	(56.6)	(64.0)	(59.4)	(58.2)	(67.6)
Cotton	230	438	214	171	308
Tobacco	183	251	176	140	162
Hazelnuts	154	204	251	224	283
Raisins and figs	64	73	100	82	116
Citrus fruits and vegetables	34	64	55	45	43
Seeds and oil seeds	11	15	17	16	11
Cereals	1	38	81	61	192
Livestock and products	41	63	37	34	55
Fishery products	13	12	12	10	22
Other	62	96	98	82	97
Industrial products	<u>503</u>	<u>595</u>	<u>586</u>	<u>527</u>	<u>505</u>
(in per cent of total)	(35.9)	(30.4)	(33.4)	(35.4)	(26.5)
Textiles	127	265	260	236	256
Processed agricultural products	129	98	136	122	93
Petroleum products	36	16	--	--	--
Leather and hides	65	60	52	48	36
Chemicals	33	44	34	29	21
Glass and ceramics	18	21	28	24	26
Cement	24	16	9	8	15
Nonferrous metals	13	17	20	19	10
Iron and steel products	20	22	15	10	20
Other	38	36	32	31	28
Mining and quarrying products	<u>105</u>	<u>110</u>	<u>126</u>	<u>95</u>	<u>113</u>
(In per cent of total)	(7.5)	(5.6)	(7.2)	(6.4)	(5.9)
Chromium ore	52	55	...	25	23
Raw borates	28	30	...	47	63
Other	25	25	...	23	27
Total exports	<u>1,401</u>	<u>1,960</u>	<u>1,753</u>	<u>1,487</u>	<u>1,907</u>

Sources: State Planning Organization; Ministry of Finance, Monthly Economic Indicators; and information provided by the Turkish authorities.

Table 29. Turkey: Export Volume and Unit Values of
the Main Agricultural Exports

(In thousands of tons and U.S. dollars per ton)

	1974	1975	1976	1977	1978 <u>1/</u>
Cotton					
Volume	183	267	414	151	280
Unit value	1,331	864	1,059	1,417	1,200
Tobacco					
Volume	112	66	75	62	65
Unit value	1,820	2,779	3,343	2,839	2,750
Hazelnuts					
Volume	113	90	138	157	160
Unit value	1,535	1,712	1,468	1,599	2,000

Sources: Ministry of Finance, Monthly Economic Indicators; information provided by the Turkish authorities; and staff estimates.

1/ Staff estimates based on actual data for January-November 1978.

Table 30. Turkey: (Export Tax Rebates

	Total exports	Exports subject to tax rebates	Tax rebates	Share of exports subject to tax rebates in total exports	Share of tax re- bates in exports subject to tax rebates	Share of tax rebates in consolidated budget expenditures
	In millions of Turkish liras				In per cent	
1970	6,408	1,733	290	27.0	16.7	1.0
1971	9,091	1,825	385	20.1	21.1	1.0
1972	11,876	3,210	711	27.0	22.1	1.5
1973	18,038	7,380	1,053	40.9	14.3	1.8
1974	21,197	6,479	920	30.6	14.2	1.3
1975	20,075	7,412	1,379	36.9	18.6	1.2
1976	30,768	14,434	3,117	46.9	21.6	1.9
1977	31,339	15,575	3,400	49.7	21.8	1.5
Jan.-Sept. 1978	34,041	15,300	2,267	45.0	14.8	1.5

Sources: Information provided by the Turkish authorities; 1977 Annual Program; and IMF, International Financial Statistics.

Table 31. Turkey: Commodity Composition of Imports, 1974-1978

(In millions of U.S. dollars)

	1974	1975	1976	1977	1977 Jan.-Sept.	1978 Jan.-Sept.
Agricultural products	<u>276</u>	<u>162</u>	<u>36</u>	<u>48</u>	<u>29</u>	<u>6</u>
(In per cent of total)	(7.3)	(3.4)	(0.7)	(0.8)	(0.6)	(0.2)
Cereals	245	141	5	6	3	2
Coffee, tea, and spices	19	6	18	36	24	1
Live animals and animal products	7	9	4	2	2	2
Others	5	6	9	4	...	1
Raw materials and finished goods	<u>1,677</u>	<u>2,068</u>	<u>2,386</u>	<u>2,935</u>	<u>2,250</u>	<u>1,704</u>
(In per cent of total)	(44.4)	(43.7)	(46.5)	(50.6)	(50.4)	(54.0)
Mineral fuels	763	811	1,126	1,470	1,074	957
Fertilizers	101	48	99	250	180	136
Textiles	101	118	107	110	88	54
Chemical products	233	365	387	369	293	216
Paper	38	41	47	45	40	21
Animal and vegetable oils	17	124	104	21	19	18
Others ^{1/}	424	561	516	705	556	302
Equipment materials	<u>1,164</u>	<u>1,741</u>	<u>2,070</u>	<u>2,023</u>	<u>1,617</u>	<u>1,098</u>
(In per cent of total)	(30.8)	(36.7)	(40.4)	(34.9)	(35.9)	(34.8)
Machinery and equipment	877	1,345	1,455	1,388	1,097	764
Means of transport	287	396	615	635	520	334
Minerals	<u>661</u>	<u>768</u>	<u>637</u>	<u>790</u>	<u>604</u>	<u>345</u>
(In per cent of total)	(17.5)	(16.2)	(12.4)	(13.6)	(13.4)	(10.9)
Total	3,778	4,739	5,129	5,796	4,499	3,153

Source: Ministry of Finance, Monthly Economic Indicators.

^{1/} Mainly iron and steel products.

Table 32. Turkey: Workers' Remittances

	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
<u>(In millions of U.S. dollars)</u>					
1973	198.7	248.7	451.0	284.8	1,183.2
1974	289.5	275.8	549.6	311.3	1,426.2
1975	286.2	231.1	494.2	300.8	1,312.3
1976	186.7	212.8	319.0	264.2	982.7
1977	215.4	238.7	310.4	217.5	982.0
1978	159.3	183.1	315.9	316.7 <u>1/</u>	975.0 <u>1/</u>
<u>(Percentage change over previous year)</u>					
1973	65.3	90.6	48.5	53.4	59.9
1974	45.7	10.9	21.9	9.3	20.5
1975	-1.1	-16.2	-10.1	-3.4	-8.0
1976	-34.8	-7.9	-35.5	-12.2	-25.1
1977	15.4	12.2	-2.7	-17.7	-0.1
1978	-26.0	-23.3	1.8	45.6 <u>1/</u>	-0.7 <u>1/</u>

Source: Ministry of Finance, Monthly Economic Indicators.

1/ Staff estimate.

Table 33. Turkey: Gross Official Reserves

(In millions of U.S. dollars)

End of period	Convertible foreign exchange	Gold	Reserve position in the Fund	SDRs	Total inter- national reserves
1973	1,889	151	46	34	2,120
1974	1,619	153	46	42	1,860
1975	886	146	--	32	1,064
1976	952	145	--	21	1,118
1977	603	154	--	--	757
1978 March	716	157	--	--	873
June	773	157	--	--	930
September	1,132	157	--	2	1,289
December	840	149	--	--	989

Sources; Central Bank of Turkey; and IMF, International Financial Statistics.

Table 34. Turkey: Disbursed External Debt

(In millions of U.S. dollars)

	Dec. 1974	Dec. 1975	Dec. 1976	Dec. 1977	December 1978 1/ Total	Rescheduled
Short-term debt and IMF	<u>229</u>	<u>1,388</u>	<u>3,342</u>	<u>6,555</u>	<u>8,376</u>	<u>1,000</u>
Monetary authorities	229	1,145	2,951	5,071	6,454 3/	745
Of which: arrears	(--)	(--)	(234)	(1,712)	(2,175)	(700)
Short-term trade financing	--	--	--	1,075	1,290	255
Of which: arrears	(--)	(--)	(--)	(365)	(--)	(--)
IMF	--	243	321	409	622	--
Medium- and long-term debt	<u>3,050</u>	<u>3,362</u>	<u>4,080</u>	<u>4,670</u>	<u>5,150</u>	<u>470</u>
International organizations	598	734	1,107	1,272	...	--
Bilateral sources	...	2,413	2,458	2,692	...)	470
Foreign private fi	...	120	187	352	...)	
Euro-currency market	--	95	328	357	406 4/	--
Total disbursed external debt	<u>3,279</u>	<u>4,750</u>	<u>7,422</u>	<u>11,225</u>	<u>13,526</u>	<u>1,470</u>
Memorandum item:						
Maturity structure of external debt (in per cent): 1/						
Debt with maturity of:						
Less than one year	7.0	18.0	29.6	44.0	38.7	--
One to five years	1.5	15.4	20.0	19.3	22.8	21.3
Five to ten years	6.1	5.3	5.3	4.9	10.7	78.7
Ten years and more	85.4	61.3	45.1	31.8	27.8	--

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

1/ Partly staff estimates.

2/ New maturities of 3 1/2 to 7 1/2 years.

3/ Excludes Euro-loan of US\$100 million to the Central Bank guaranteed by Libyan Arab Foreign Bank.

4/ Includes Euro-loan of US\$100 million to the Central Bank guaranteed by Libyan Arab Foreign Bank.

Table 35. Turkey: Medium- and Long-Term External Debt

(In millions of U.S. dollars)

	Debt outstanding on Dec. 31, 1975		Debt outstanding on Dec. 31, 1976		Debt outstanding on Dec. 31, 1977		Debt outstanding on Dec. 31, 1978	
	Disbursed	Total	Disbursed	Total	Disbursed	Total	Disbursed	Total
By debtors	3,362	4,517	4,080	5,805	4,670	7,500	5,150	1/ ...
Public sector	3,083	4,144	3,685	5,331	4,035	6,690	...	...
Central Bank	--	--	--	--	--	--	100	2/ ...
Private sector	279	373	390	474	635	917	...	...
By creditors	3,362	4,517	4,080	5,805	4,670	7,500	5,150	1/ ...
International organizations	734	1,451	1,107	1,872	1,272	2,021	1,453	2,421
IBRD	271	807	368	992	488	1,167	607	1,511
IDA	144	195	163	194	180	193	185	193
IFC	43	53	118	133	116	124	115	127
EIB	241	360	372	467	398	444	438	476
Other	35	35	85	85	90	93	108	114
Official bilateral sources	2,413	2,771	2,458	3,321	2,692	4,154	...	...
OECD Consortium countries	...	...	2,054	2,479	2,173	2,735	...	...
United States	1,181	1,274	1,189	1,280	1,235	1,343	...	...
West Germany	484	614	500	724	553	804	...	...
Canada	60	60	80	103	88	218	...	...
France	102	162	83	132	72	133	...	...
United Kingdom	88	90	64	72	72	76	...	...
Other	...	...	138	168	153	161	..	..
Other countries	...	...	404	842	519	1,419	...	...
Japan	...	...	108	173	172	410	.	...
U.S.S.R.	260	260	258	342	265	340	...	...
Other CMEA	.	...	5	203	9	494	...	...
Other	..	...	33	124	73	175	..	...
Private bilateral sources	120	144	187	265	352	945	..	...
United States	...	..	30	32	43	80	...	..
West Germany	...	...	22	41	46	65	...	..
Canada	..	..	25	30	42	34	...	...
France	..	...	1	1	54	189	..	...
United Kingdom	..	...	14	14	44	202	...	...
Switzerland	..	..	59	59	64	155	..	..
Other	...	...	36	88	59	220	..	...
Euro-currency market	95	150	328	347	357	385	406	1/ ..

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

1/ Staff estimates.

2/ Euro-loan guaranteed by the Libyan Arab Foreign Bank

Table 36. Turkey: Short-Term Foreign Debt

(In millions of U.S. dollars)

	1974	1975	1976	1977	December 1978	
	December				Total	Rescheduled
Short-term liabilities of monetary authorities						
Convertible liras	145	991	1,781	2,268	2,900	--
Of which: overdue	(--)	(--)	(--)	(289)	(241)	(--)
BIS	--	--	150	190	10	--
Dresdner Bank scheme	--	--	53	173	362	--
Bankers' credits <u>2/</u>	--	7	413	384	333	--
Overdrafts <u>2/</u>	--	--	150	240	283	--
Commercial arrears	--	--	234	1,712	2,175	700
Reimbursement claims	(--)	(--)	(--)	(204)	(250)	(--)
Cash against goods <u>3/</u>	(--)	(--)	(234)	(1,508)	(1,800)	(700)
Overdue acceptance credits	(--)	(--)	(--)	(--)	(125)	(--)
Other liabilities <u>2/</u>	84	147	170	104	163	--
Oil credits <u>2/</u>	--	--	--	--	238 <u>4/</u>	45
Subtotal	229	1,145	2,951	5,071	6,464	745
Short-term trade financing						
Acceptance credits	--	--	--	710	900	--
Credit line for oil imports	--	--	--	--	135	--
Oil debt of TPAO <u>5/</u>	--	--	--	365 <u>6/</u>	255	255
Subtotal	--	--	--	1,075	1,290	255
IMF	--	243	391	409	622	--
Total short-term debt and IMF	299	1,388	3,342	6,555	8,376	1,000

Sources: Central Bank of Turkey; and staff estimates.

1/ New maturities of 3 1/2 to 7 1/2 years.2/ There are frequent changes in the classification of liabilities as bankers' credits, oil credits, overdrafts, and other foreign liabilities. The latter two categories also contain export prefinancing by foreign banks.3/ Deposits made against goods imported under the "cash-against-goods" scheme and in respect of which no foreign exchange transfer has yet been made are assumed to represent commercial arrears. It is believed that part of this amount has already been paid through the parallel market for foreign exchange, but nonetheless there is a contingent liability to make transfers abroad.4/ Includes an oil loan of US\$63 million from Libya. Also included are the outstanding balance of US\$100 million of an acceptance credit from a bank consortium, a loan of US\$30 million from Iran, and a rescheduled overdue oil payment of US\$45 million to Libya. The liabilities in respect of these loans were taken over by the Central Bank from the Turkish Petroleum Office (TPAO) toward the end of the year.5/ Turkish Petroleum Office.6/ Overdue as of December 1977 but rescheduled in 1978.

Table 37. Turkey: Debt Service

(In millions of U.S. dollars)

	Interest <u>1/</u>	Amortization <u>2/</u>	Debt relief <u>3/</u>	Total	In per cent of exports of goods and workers' remittances
1974	102	126	--	228	8
1975	150	117	--	267	9
1976	300	119	--	419	14
1977	570	214	--	784	29
1978	750	495	300	945	29
1979	1,000	700	170	1,530	43

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

1/ Estimated accrued.

2/ Excludes repurchases of IMF credit and payments of rescheduled arrears.

3/ Staff estimate based on terms of agreement of May 20, 1978 with the member countries of the OECD Consortium for Turkey.

VI. Exchange and Trade System

1. Exchange rate system

Since July 8, 1975, when Turkey ceased to maintain prescribed margins around the central rate of LT 14.0 = US\$1, the Turkish lira has been depreciated several times (Table 38). Since March 1, 1978, the official rates for the U.S. dollar have been LT 25.0 = US\$1 buying and LT 25.50 = US\$1 selling.

Official quotations are also established for a number of other currencies. These quotations have been adjusted only at infrequent intervals. This has frequently given rise to excessive spreads (of up to 15 per cent) between the cross rates for these currencies and the U.S. dollar in Turkey and corresponding rates in international foreign exchange markets, constituting a multiple currency practice. With effect from September 20, 1978, the Central Bank of Turkey undertook to change quoted rates for foreign currencies (other than the U.S. dollar) on a weekly basis, whenever any quoted rate deviated by more than 2.25 per cent from its cross rate vis-à-vis the U.S. dollar in international markets. The weekly cross rate adjustments were suspended in early November 1978 causing again the emergence of cross rate differentials of up to 10 per cent in November/December 1978.

Since November 1978, all export earnings may be converted at the exchange rate prevailing at the time of export licensing, registration, or customs declaration or the exchange rate in effect on the day of conversion. This constitutes a multiple currency practice.

From March 1, 1978 onward, purchases of foreign exchange for tourism have been subject to an exchange tax of 50 per cent resulting in an effective exchange rate of LT 37.5 = US\$1, constituting a multiple currency practice. ^{1/}

Exports of manufactures enjoy export tax rebates of 5 per cent to 35 per cent. Imports are subject to a stamp duty of 22.5 per cent or 25 per cent. The rebates, the stamp duty, and the tax on travel abroad result in a wide array of effective exchange rates (Table 39).

There has developed a large and active parallel market for foreign exchange. This market is mainly fueled by workers' remittances and finances illicit imports or recorded imports, payment of which is shown to be in arrears. The Turkish lira has been traded on this market at a sometimes substantial discount.

2. Imports and import payments

All commercial imports require import licenses. The licensing procedures differ according to the classification of the goods to be imported among various import lists. Import licenses are issued to registered importers

^{1/} The separate effective exchange rate on workers' remittances was abolished with effect from March 1, 1978. It had been reintroduced in September 1976. The effective premium amounted to 9.3 per cent between September 1, 1976 and February 28, 1977; 2.9 per cent between March 1, 1977 and September 20, 1977; and 3.9 per cent between September 21, 1977 and February 28, 1978.

(import merchants), industrialists (manufacturers importing for their own needs), State Economic Enterprises, and government departments. Private individuals and corporate bodies are required to secure an import certificate issued by the Ministry of Commerce before submitting applications through the authorized banks for licenses to import goods for commercial purposes. The license permits, in principle, the necessary foreign exchange payment to be made. Turkey's import regime relies on a positive listing system. All commodity imports are classified, in the first instance, into two major categories in terms of the type of financing involved, i.e., programmed imports which are financed with the country's own foreign exchange resources, and self-financing imports which are mainly imports financed with project credits, private foreign capital, and "imports with waiver." Programmed imports are divided into those financed in convertible currencies and those conducted under bilateral payments agreements. The former are further divided into liberalized and global quota lists. The liberalized list is in two parts, List I and List II. Liberalized List I comprises mainly raw materials for industrial production which are not produced in Turkey. Import licenses in respect of goods on Liberalized List I are issued freely and without quantitative restrictions. 1/ Liberalized List II is composed mainly of raw materials produced in Turkey and semifinished goods for industrial production including export production. Imports on Liberalized List II need prior approval of the ministry concerned which generally permits the importation if domestic production does not provide the required types of goods in terms of quality or sufficient quantity. 1/ The quota list comprises mainly investment and consumer goods. Licensing procedures for imports on the quota list are complex. 2/

1/ Applications for import licenses may be submitted at any time to authorized banks, which transfer them to the Central Bank for issuance of the import licenses.

2/ The list of import quotas contains quotas for registered importers and for industrialists. Quotas for registered importers and industrialists are allocated twice a year. Imports on the quota list are subdivided into two broad categories--imports which do not, and imports which do, require a permit from a specified public body. Foreign exchange allocations for all quota imports within the quantitative limit established for each quota item are made by the Ministry of Commerce. Some of the quota imports also require a certificate confirming that the articles are not manufactured by local industry and do not exist in the local market in sufficient quantity or that their quality is unacceptable; this certificate is issued by the Ministry of Industry and Technology.

Registered importers have to submit their applications for goods not requiring a permit through an authorized bank and the Central Bank to the Ministry of Commerce during the first two months of each semester. The Ministry of Commerce issues a foreign exchange allocation letter valid for four months, and an import license must be secured from the Central Bank within the period of validity of the foreign exchange allocation letter. Applications for imports against industrialists' quotas where no permit is required have to be submitted through the Chambers of Commerce and Industry to the Ministry of Commerce in April and in September of each year.

Applications for quota imports requiring a permit from a specified public authority must be submitted to the responsible body by importers and by industrialists. An import license must then be secured from the Central Bank within the period of validity of the exchange allocation.

The licensing system and high import duties (see section 4 below) provide domestic industry with a substantial degree of protection against imports. At the beginning of each calendar year, an import program is announced, in which a broad breakdown, in value terms, of the various categories of imports during the year is given. The program also contains product lists for the liberalized and global quota categories. 1/ The 1978 import program envisaged a total value of imports of US\$4,850 million compared with US\$5,800 million in 1977 and US\$5,000 million in 1976. 2/

Imports on the liberalized lists were projected at US\$2,750 million and imports on the global quota list were programmed at US\$1,100 million in 1978. Self-financed imports were expected to amount to US\$900 million. The total import program for 1978 fell short of the program for 1977 by 16.4 per cent. In the 1978 import program, ten products, mainly chemicals and some less important manufactured goods, were shifted from Liberalized List I to Liberalized List II, and a number of items, mainly manufactured goods, were shifted from the quota list to Liberalized List II.

The value of actual imports exceeded the programmed level by 2.5 per cent in 1976 and coincided with planned imports in 1977. In 1978, officially recorded imports fell short by about 5 per cent vis-à-vis programmed imports. The reduction in imports concerned mainly investment goods which are included in the quota list. Goods on Liberalized Lists I and II accounted for about US\$3,000 million or close to 70 per cent of total imports in 1978 and were somewhat higher than their programmed level. The share of petroleum within imports on the liberalized lists was about 40 per cent.

Payments for imports may be made against letters of credit, documents, or goods ("cash-against-goods" scheme with payment upon customs clearance). In the case of import payments against letters of credit or documents, all importers with the exception of government departments are required to prepay in local currency, when submitting an application for an import license, the equivalent of the foreign exchange for which they have applied. The prepayments are transferred to the Central Bank by the authorized bank within five days. In the case of import payments against goods the deposits of the local currency counterpart and the foreign exchange transfer have to be made within two months from the date of customs clearance.

In addition, guarantee deposits are payable irrespective of the method of payment. The guarantee deposits were increased to a maximum of 30 per cent of the value of the merchandise in September 1977. The public sector is exempt, however, and in many cases only a symbolic deposit of 0.1-1 per cent is required of other importers. The deposit remains blocked until the goods

1/ There is no list in respect of goods imported under bilateral payments agreements, although quotas are established under each agreement. These quotas contain only goods which are included in the liberalized or global quota lists. (Turkey has bilateral payments agreements with Albania and the U.S.S.R.)

2/ The 1979 import program was published recently. The overall level of imports is programmed at US\$5,000 million.

have been cleared through customs and the foreign supplier paid. In December 1978, outstanding guarantee deposits amounted to about 5 per cent of total import applications.

In 1976 the financing of certain imports 1/ through acceptance credits with a minimum maturity of 180 days was permitted. Upon maturity of the credit, authorized commercial banks could effect the repayment from their own foreign exchange sources or deposit the Turkish lira value with the Central Bank for the transfer of the foreign exchange. The list of goods eligible for acceptance credit financing was reduced in February 1978, but industrialists facing import bottlenecks were again given free access to acceptance credit financing in October 1978. In October 1978 banks were obliged to use half of their overall acceptance credit financing for imports of petroleum and fertilizer. Furthermore, they had to meet all foreign exchange needs arising from acceptance credit financing from their own foreign exchange sources. Banks can still apply at the Central Bank for the foreign exchange transfer but in this case lose the right of carrying out acceptance credit operations.

Following the permission granted to some domestic banks in 1975 2/ to hold a foreign exchange position of up to US\$20 million, the majority of import payments have been made through commercial banks rather than the Central Bank. (Banks normally receive and may retain export receipts and receipts in respect of most invisible transactions.)

In 1977 important departures from the official import regime occurred which continued throughout 1978. Beginning from March 1977, the Central Bank restricted severely foreign exchange transfers for imports other than essential commodities (e.g., petroleum and other important raw materials and pharmaceuticals). Turkish banks were required to limit transfers to specified amounts for certain commodities determined from time to time by the Central Bank upon instruction from the Ministry of Finance. At the same time, the scope for imports with payment against goods ("cash-against-goods" scheme) was widened, leading to a very rapid buildup of overdue applications for foreign exchange transfers in respect of goods having entered the country under this scheme. It is believed that part of these imports have probably been paid through the black market for the Turkish lira. However, the corresponding Turkish lira deposits with the Central Bank constitute a contingent foreign liability of the Central Bank. 3/ In March 1978 the "cash-against-goods" scheme was confined to import needs of industrialists. In November 1978 the importer's liability to increase his deposits following an exchange rate adjustment was limited to adjustments made during the first six months of the

1/ Mainly important raw materials.

2/ The number of banks permitted to hold a foreign exchange position is now 18.

3/ In March 1978, the withdrawal of "cash-against-goods" deposits was permitted. Though it can be assumed that a considerable amount of the imports in respect of which the deposits are outstanding has already been paid through the black market, no withdrawals took place.

life of the deposits. In addition to the US\$1,800 million of "cash-against-goods" deposits--of which about US\$700 million has been rescheduled following the agreement of May 1978 with the member countries of the OECD Consortium for Turkey--there are about US\$2,000 million of letters of credit awaiting authorization by the Central Bank.

Special arrangements for the allocation of foreign exchange for the import needs of exporters have been created since late 1977. 1/ Beginning from October 1977, exporters of manufactures and mining products have been entitled to preferential foreign exchange allocations equivalent to up to 25 per cent of the value of their exports for their own import needs. In November 1978 subcontractors of exporters were admitted to this scheme. Exporters' privileges were further broadened in July 1978 when they were entitled to use their foreign exchange earnings for the payment of up to twice the amount of inputs imported under the "cash-against-goods" scheme for their export and domestic production and the production needs of their subcontractors. 2/

Furthermore, manufacturers who have export orders in hand, or are willing to guarantee exports of a specific value, were allowed in July 1978 to arrange for credits abroad in order to finance their import needs, up to 50 per cent of the value of the export orders in hand or 50 per cent of their export commitment. They are to be allowed to do this, subject to the conditions that they will (a) repay out of their export earnings the external credits they might have arranged; and (b) settle such credits within one year from the date of the import of the inputs. Since under the present economic circumstances it is not easy for Turkish manufacturers to secure foreign exchange credits abroad, the Government provides to them foreign exchange conversion authorizations from the Export Promotion Foreign Exchange Fund established in 1970.

In September 1978 a special fund of US\$60 million was established for the importation of imports for industrial production.

Imports without an allocation of foreign exchange may be permitted by the customs authorities, the Central Bank, or the Ministry of Finance, under certain conditions. Separate limits and conditions apply to imports of goods for personal use, and of professional instruments and machines, by persons having resided abroad for employment or study (imports with waiver). The conditions for these imports were tightened in February 1978. Imports of automobiles, tractors, or professional machinery, etc., without payment of foreign exchange may be permitted by the Central Bank or the Ministry of Finance, provided that certain conditions are met relating to residence abroad and to remittance and sale to authorized banks in Turkey of foreign exchange.

1/ Between October 1977 and March 1978 some of these arrangements were also available for foreign holders of convertible Turkish lira deposits.

2/ During the course of 1978 further measures of minor importance were introduced inter alia facilitating exporters' access to small imports up to a value of US\$50,000.

3. Exports

Exporters are required to sell to a bank in Turkey the foreign exchange proceeds of goods exported within three months from the date of export or within ten days from the date on which the foreign exchange is placed at their disposal. Turkish banks are entitled to retain the foreign exchange subject to the US\$20 million limit on the foreign exchange position of each individual bank. The requirement to surrender 25 per cent of export receipts to the Central Bank (to be used for special allocations to exporters), introduced in October 1977 with respect to exports of manufactures, was effectively abolished in November 1978. Since November 1978 export earnings may be converted at the exchange rate prevailing at the time of conversion or, if more favorable, prevailing at the time of export licensing, registration, or customs declaration (exporters are paid the difference between the two exchange rates from a special fund operated by the Central Bank).

Exporters are permitted to export a specified list of commodities on credit terms against payment in convertible currency and subject to a bank guarantee. Exports of a few essential items such as cereals, oil, textiles, cattle meat, timber, etc., require an export license to ensure adequate domestic supplies. Commercial export prices must conform to the checklist of prices fixed at intervals by the Ministry of Commerce on the basis of prices obtaining in domestic and foreign markets.

Turkey maintains an export tax rebate scheme mainly for industrial products. The rebates are expressed as a percentage of the c.i.f. value of exports. Fresh fruit, vegetables, processed foods, and frozen meat are also included in the export tax rebate scheme. At various times between 1975 and March 1978, exports of cotton, tobacco, hazelnuts, potatoes, garlic, and olive oil also enjoyed export tax rebates. In principle, the amount of rebate of payment is limited to the actual amount of direct and indirect taxes paid, but the level of rebates is also influenced by export profitability considerations. Exporters receive rebate payments from the Central Bank after submitting shipping and other supporting documents. The eligible product items are classified into nine categories, and the basic rebate rates range between 5 and 30 per cent. For the majority of product items, if the annual value of exports exceeds US\$1.8 million, the rebate rate is raised by 5 percentage points, while for others such a limit is fixed at US\$1.4 million.

Two important changes in the export tax rebate scheme took place in 1978. In March the important agricultural commodities (cotton and tobacco) were excluded from the scheme and all rebates were reduced by 20 percentage points, but in July export tax rebates were again increased by 10 percentage points.

The share of exports subject to tax rebates increased from 30.0 per cent in 1974 to 50.0 per cent in 1977 and declined to 45 per cent in 1978. The average rate of export rebates (i.e., the premium in terms of Turkish liras per unit of foreign currency in transactions subject to export tax rebates) rose from 14.2 per cent in 1974 to 20.8 per cent in 1977 and fell to 15 per cent in 1978.

Other tax incentives include the exemption of export earnings from income and corporation taxes and the exemption of export goods from the production tax. Exporters of specified goods also have access to credit at preferential interest rates from the Export Promotion Foreign Exchange Fund established in 1970.

Beginning from late 1977 a number of special arrangements for the allocation of foreign exchange to facilitate the importation of inputs for export production have been put into force (see the section on import payments).

4. Tariff regime

In addition to customs duties, imports are subject to a stamp duty which was raised in January 1978 from 9-9.5 per cent to 22.5-25.0 per cent, depending on the type of product. The stamp duty of 22.5 to 25.0 per cent is applied to imports from all CONTRACTING PARTIES to the GATT without discrimination. Imports from other countries are subject to a stamp duty of 25 per cent. The stamp duty has been applied since February 1963 under a periodic GATT waiver from Article II of the GATT. The latest waiver was granted in January 1978 and is valid until December 31, 1979. Under the provision of this waiver, the duty rate is not to exceed 25.0 per cent and the continued application of the duty is to be accompanied by commensurate efforts to remove progressively quantitative restrictions on imports. Other taxes levied on imports are a customs surcharge of 15 per cent of the applicable customs duty, a quay duty of 5 per cent, and a production tax ranging from 10 to 75 per cent when domestically produced goods are subject to the same tax. When customs duties are zero, other taxes on imports are not payable. There exist some duty reductions or exemptions for about 30 items of foodstuffs and raw materials and public sector imports are largely exempted from tariffs and duties (including the stamp duty).

5. Invisibles

Payments for invisibles require exchange licenses to be issued by the Central Bank. These have been granted liberally for a considerable number of purposes. The transfer of income related to foreign investments approved under the Law for the Encouragement of Foreign Investment (No. 6229) is permitted freely.

The purchase of foreign exchange by Turkish nationals traveling abroad was made subject to a tax of 50 per cent (this includes travel fares) with effect from March 1, 1978. Since September 1977 the allowance or exchange for tourist travel has been reduced progressively from US\$600 per person per calendar year to US\$500 per person for one trip every three calendar years; travelers are not allowed to leave the country unless they are carrying at least the equivalent of US\$200 in foreign exchange. The annual limit for foreign exchange allowance for business travel was reduced from US\$5,000 to US\$2,500 per person except for exporters. Exchange for travel abroad for other purposes is sold up to specified limits.

In July 1978 Turkish nationals working abroad were permitted for a limited period to buy one domestically produced car, truck, or tractor with foreign exchange for which there is no repatriation obligation. By exercising this right they lose eligibility for imports without foreign exchange allocation ("imports with waiver") for a period of five years. The manufacturers of the cars, trucks, and tractors sold under this scheme were entitled to preferential allocations in respect of the foreign exchange received.

International transit through Turkey by road recently was made subject to a foreign exchange conversion requirement equivalent to US\$300 per transport unit without any claim to reconversion.

6. Bilateral trade and payments agreements

Turkey has bilateral payments agreements with Albania and the U.S.S.R. 1/ The latest position in the clearing accounts is as follows:

	<u>1978</u>
	In millions of U.S. dollars
Albania	-- <u>2/</u>
U.S.S.R.	-25

In mid-1978 Turkey concluded bilateral credit and trade agreements with Iran, Libya, and Romania. Under these agreements Turkey would receive petroleum and other raw materials as well as investment goods over a period of up to five years and would repay at least part of the loans through exports.

7. Regulations on external borrowing and lending

With the exception of the borrowing by the Government from foreign governments and government agencies, and from international institutions, all private and public sector borrowing is regulated. All borrowing must be approved by the Ministry of Finance in consultation with other competent ministries, and the Ministry of Finance may issue a guarantee of the transferability of the foreign exchange. It is up to the intermediating bank to guarantee the repayment in liras. Some banks were given the authority to engage in acceptance credit financing of certain imports without quantitative limit, and exporters were permitted in July 1978 to arrange for credits abroad in order to finance their import needs up to 50 per cent of the value of their export revenues. All exchange rate guarantees with the exception of the stock of convertible liras outstanding in March 1978 were abolished in early 1978.

1/ The bilateral payments agreement with Egypt expired in April 1976 and settlements with Egypt were placed on a convertible currency basis.

2/ The amount is negligible and the agreement has been inoperative during the past five years.

In an annual plan drawn up by the Ministry of Finance the total amount of private and public sector borrowing abroad from private sources, including suppliers' credits, and the sectors eligible to contract foreign loans as well as the characteristics of investment projects are specified. The general guidelines for the approval of external borrowing, including suppliers' credits, are as follows: (a) borrowing must be in conformity with the targets and principles as envisaged in the five-year development plans and the annual programs; (b) investment projects must be undertaken in the sectors included in the table on investment incentives published in the annual plans; (c) borrowing must be obtained in one of the convertible currencies sold and bought by the Central Bank; (d) the amount of the borrowing must not exceed 60 per cent of the total value of the project, except that this ratio is 80 per cent for projects to be undertaken in underdeveloped regions, and 90-95 per cent in the case of investments in the shipping industry and the import of ships; (e) borrowing must carry a minimum maturity period of two years; and (f) the rate of interest must not exceed the Euro-dollar rate (the London Interbank Offered Rate--LIBOR) by more than 1.75 per cent.

Nonresidents including Turkish workers abroad 1/ may open demand and time accounts in convertible Turkish liras with Turkish commercial banks which use these funds for domestic medium-term lending. Interest rates on these funds must not exceed the six-month LIBOR by more than 2 1/4 per cent. On March 1, 1978 it was announced that the exchange rate guarantee on convertible lira deposits would be confined to the existing stock of deposits, including overdue deposits and rollovers, provided they are for a minimum period of one year. However, this limitation of the exchange rate guarantee does not seem to have been enforced strictly and the inflow of funds by Turkish nationals working abroad continued in 1978. In 1977 and 1978 arrears developed with respect to repayments of some maturing convertible lira deposits and some interest payments.

Authorized banks with deposits exceeding LT 2 billion are permitted to incur an overall foreign exchange position (in currencies purchased and sold by the Central Bank) of up to US\$20 million. Banks can lend the foreign exchange in Turkey for use in importing capital goods and raw materials for investment purposes.

Foreign capital invested in Turkey under the terms of the Law for the Encouragement of Foreign Investments (No. 6224) or the Petroleum Law (No. 6326, as amended) is accorded preferential treatment, provided that the enterprise in which the investment is to be made is deemed to contribute to the economic development of the country, or will operate in a field of activity open to Turkish private enterprise and will not entail monopoly or special privilege. Under this law, transfers of profits or repatriation of capital are not restricted, but are subject to approval. In addition to investments under Law No. 6224 and Law No. 6326, as amended, foreign investors do not enjoy any transfer facilities for earnings or liquidation proceeds. Funds accrued or accruing to nonresidents which are not transferable under the existing exchange

1/ In addition, Turkish workers in Germany may open foreign exchange accounts with the Central Bank of Turkey denominated in any convertible currency through the intermediation of the Dresdner Bank in Germany.

control regulations are held in blocked accounts. Subject to individual permission, blocked assets and balances may be used within Turkey for specified purposes.

Transactions in securities, including their export and import, require approval when nonresident interests are involved. There are special facilities for the acquisition by Turkish workers abroad of Turkish shares and bonds.

Capital transfers abroad by residents are subject to approval, and are not normally permitted. There is no regulation prohibiting the granting of suppliers' credits by Turkish exporters, but such credits, in practice, are not provided because exporters do not possess the necessary financial means. Residents are not normally permitted to acquire foreign securities or real estate.

Table 38. Turkey: Exchange Rate Adjustments

		<u>Buying</u>	<u>Selling</u>
		Turkish lira per U.S. dollar	
1971	December 22	14.00	14.28
1975	July 8	14.25	14.535
	August 14	14.50	14.79
	August 28	14.75	15.045
	October 28	15.00	15.30
1976	March 15	15.50	15.81
	April 2	16.00	16.32
	October 28	16.50	16.83
1977	March 1	17.50	17.85
	September 21	19.25	19.635
1978	March 1	25.00	25.50

Source: Data provided by the Turkish authorities.

Table 39. Turkey: Present Exchange System

(Turkish lira per U.S. dollar)

	Effective exchange rate
Exports without rebates (mainly traditional exports)	25.0
Exports with rebates (mainly manufactures)	26.25-33.75 <u>1/</u>
Imports	31.25 <u>2/</u>
Workers' remittances	25.0
Tourism (inflow)	25.0
Tourism (outflow)	37.5 <u>3/</u>
Other	25.0

Source: Staff calculations.

1/ The range of export tax rebates is 5 to 35 per cent.

2/ Based on stamp duty of 25 per cent but excluding tariffs and other import duties which amounted to 22.5 per cent of the value of imports in 1977. The public sector is largely exempt from import duties.

3/ Special tax of 50 per cent.

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