

EBS/65/11
Supplement 1

CONFIDENTIAL

January 29, 1965

To: Members of the Executive Board
From: The Secretary
Subject: Turkey - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement with Turkey agreed at Meeting 65/7, January 29, 1965.

Att: (1)

Stand-by Arrangement with Turkey

1. Annexed hereto is a letter dated November 21, 1964 from the Minister of Finance of Turkey, which sets forth the policies and intentions which the authorities of Turkey will pursue.
2. In consideration of the policies and intentions set forth in the annexed letter, the International Monetary Fund agrees to a stand-by arrangement to support these policies and intentions.
3. From February 1, 1965 until December 31, 1965, Turkey will have the right to purchase from the Fund currencies of other members in exchange for its own currency in an amount equivalent to US\$21.5 million; provided that purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of US\$8 million before May 1, 1965, the equivalent of US\$16.6 million before August 1, 1965, and the equivalent of US\$20 million before October 1, 1965. The amounts prescribed in this paragraph 3 shall be augmented by amounts equivalent to repurchases in respect of purchases under this stand-by arrangement, unless when any such repurchase is made Turkey informs the Fund that it does not wish the stand-by arrangement to be augmented by the amount of that repurchase. The right of Turkey to make purchases under this stand-by arrangement shall, to the extent that such purchases would increase the Fund holdings of Turkish liras above the level of the quota of Turkey, be subject to paragraph 10 of the annexed letter.
4. Turkey will pay charges for this stand-by arrangement in accordance with the decisions of the Fund of December 23, 1953, April 27, 1959 and May 23, 1962.
5. Turkey and the Fund will remain in close consultation during the period the stand-by arrangement is in effect. This consultation may take the form of correspondence and visits of officials of the Fund to Turkey or of representatives of Turkey to Washington, D.C. In addition, Turkey will keep the Fund informed of developments in the exchange, trade, credit, and fiscal situation through reports at intervals or dates requested by the Fund during the period the stand-by arrangement is in effect.
6. Subject to paragraph 3 above, Turkey will have the right to engage in the transactions covered by the stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally (under Article XVI, Section 1(a)(ii)) or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Turkey. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and Turkey and agreement has been reached on the terms for the resumption of such purchases.

7. Not later than three years after each purchase by Turkey under this arrangement, Turkey shall repurchase from the Fund an equivalent amount of Turkish liras; provided that if the Turkish liras held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 7. Repurchases shall be made in gold or convertible currencies acceptable to the Fund in accordance with the Fund's decision of July 20, 1962.

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November 21, 1964

Dear Mr. Schweitzer:

1. In a letter dated November 6, 1963, on behalf of the Turkish Government I submitted to the International Monetary Fund a request for a stand-by arrangement for the period February 15, 1964 to December 31, 1964 in the amount of US\$21.5 million. The International Monetary Fund agreed to the Government's request in its Executive Board Meeting 64/4 on February 8, 1964. The letter mentioned that the first five-year plan (1963-67) for the economic development of Turkey began to be implemented in 1963 and described the main goals of the plan, which constitute the broad guidelines for the Turkish Government's economic policy. In brief, these are the attainment of an average annual increase of 7 per cent in real gross national product; the maintenance of relative price stability; lessening of unemployment; the achievement of steady advances in health and education, and the strengthening of Turkey's external payments position.

2. Recently, the Turkish authorities have reviewed economic developments in 1964 and prospects for 1965 with the staff of the International Monetary Fund during discussions for the 1964 Article XIV Consultations with Turkey. It was explained to the staff that, partly because of an exceptional cereals crop, gross national product expanded by 7.2 per cent in real terms in 1963. However, for reasons described below, the rate of growth in gross national product in 1964 will be considerably less than in 1963. This year has been a difficult one. The pace of expansion in economic activity slackened in the first half of 1964, owing mainly to noneconomic factors, which cannot be assessed quantitatively. Production and domestic consumption of certain products failed to expand as expected. At the same time, the Government was confronted with a troublesome foreign exchange situation. Gold and net foreign exchange reserves were reduced in 1963 by some US\$40 million and amounted to US\$46.1 million at the end of that year. In June 1964 they totalled US\$50.1 million compared with \$60.1 million a year earlier and US\$67.7 million in June 1962.

3. The Turkish Government considered that, in the circumstances, expansionary fiscal and monetary policies were called for, and a number of steps were adopted, particularly in the monetary field, in order to help stimulate a revival of economic activity. In implementing these measures the authorities were fully aware of the need to keep the monetary situation under constant review. It has now become clear that the pace of economic activity has quickened and that some degree of restraint is again required in order to further the continuing objectives of monetary policy, attainment of the development plan's objectives and, at the same time, the safeguarding of price stability.

4. The objective of the Turkish Government's fiscal policy is to achieve steady increases in revenue in order to provide resources for development and at the same time, to ensure that expenditures are financed

from noninflationary sources. In the fiscal year ended February 29, 1964 there was a budget surplus of LT 80 million, which was achieved partly through efforts to raise revenue from domestic sources and partly through a reduction in expenditures. For the current fiscal year, revenue has so far been less than anticipated but, nonetheless, the Government intends using every endeavor to avoid a deficit. The budget for the 1965 fiscal year which has not yet been submitted to the Parliament provides for substantial increases in both revenue and expenditures. The Turkish Government hopes that negotiations with trading partners who are members of the OECD Consortium for Turkey will enable it to handle the increase in budgetary expenditures attributable to the heavy burden of external debt repayment due in 1965 without impairing the contribution of fiscal policy to the attainment of Turkey's economic objectives. To help ensure that budgetary expenditures are financed from noninflationary sources, my Government intends to continue the present practice of reviewing the implementation of the budget at intervals of four months.

5. As mentioned above, Turkey's gold and net foreign exchange reserves declined substantially in 1963. Various measures have been adopted to help expand exchange earnings and some results may already be seen. Nevertheless, the low level of reserves at the end of 1963 and the fact that, allowing for seasonal factors, they have not risen so far in 1964, has created serious problems. It was necessary to utilize our second line of reserves by using the resources of both the International Monetary Fund and the European Fund. In addition, the Government felt obliged to restrain imports by tightening quantitative restrictions.

6. Over the first three quarters of 1964 prices remained fairly stable showing, if anything, a slight tendency to fall. However, in the last quarter of the year there are signs that the measures to ease bank credit and increase liquidity were contributing to a reversal of this tendency. Accordingly, the emphasis of monetary policy is being modified from expansion to restraint. The monetary authorities propose a series of selective measures to keep the growth in bank credit consistent with the over-all objectives of economic policy.

7. Developments so far in 1964 indicate the difficulties Turkey faces in attempting to pursue the objectives of a realistic development plan with limited external reserves. In particular, the low level of reserves means that there is relatively little scope for adapting domestic economic policies to changing conditions without also impairing the attainment of the plan's objectives. In view of this, the Turkish Government would greatly welcome continued reliance on the support of the International Monetary Fund. Accordingly, the Government of Turkey requests a stand-by arrangement for the period February 1, 1965 to December 31, 1965 in an amount of US\$21.5 million to be augmented by the amount of any repurchases in respect of purchases under the requested arrangement. Purchases under this stand-by arrangement will not exceed the equivalent of US\$8 million until April 30, 1965, of US\$16.6 million until July 31, 1965 and of US\$20 million until September 30, 1965.

8. The Turkish Government recognizes the desirability of reappraising the economic situation as a whole whenever Central Bank credit or commercial bank credit reach certain levels. The Government will review with the International Monetary Fund both the country's economic position and the appropriate policy measures it proposes to take under the circumstances if, at any time before June 30, 1965, total Central Bank credit to the banking system reaches the amount of LT 1,895 million, or of LT 2,245 million at any time before December 31, 1965 or if at any time before June 30, 1965 total commercial bank credit exceeds the volume of such credit registered on December 31, 1964 by LT 750 million, or by LT 1,500 million at any time before December 31, 1965. To facilitate the Treasury's operations in 1965, the Turkish Government intends to use its borrowing facilities at the Central Bank up to the full amount available under the present law, namely the equivalent of 5 per cent of general budget appropriations. Should the Treasury's borrowing reach the equivalent of the above mentioned legal maximum as determined by the budget when it is approved by the Parliament, at any time during the fiscal year 1965, the Government will review with the International Monetary Fund the country's economic position and the appropriate policy measures it proposes to take under the circumstances. A similar review will be undertaken if the combined total of Central Bank advances to the Sümerbank, Sugar Corporation and Monopolies Administration reaches LT 600 million during the period January 1, 1965 to April 30, 1965, or LT 700 million in any other month of 1965. In 1964 owing to the record 1963 crops it was necessary to make special adjustments to the amount of Central Bank credit which the Soil Products Marketing Organization (TOFRAK) could use to help finance its purchases of domestically grown cereals. The Government anticipates that the amount of such advances, LT 749 million at the end of October 1964, will have been reduced to LT 310 million by June 30, 1965 and, for the season beginning June 1, 1965, proposes to grant the Organization a new facility at the Central Bank in the amount of LT 250 million. Central Bank credit to the Soil Products Marketing Organization and the Meat and Fish Agency to finance purchases of US surplus commodities under PL 480 will continue to be granted under the conditions established for the 1962, 1963 and 1964 stand-by arrangements.

9. Before making purchases under the stand-by arrangement with the International Monetary Fund, the Turkish Government will discuss with the Managing Director the particular currencies to be purchased from the Fund.

10. If at any time during the period of the requested stand-by arrangement, situations should arise requiring the reappraisal referred to in paragraph 8 of this letter, Turkey will consult the Fund prior to any further drawings under the stand-by arrangement and will agree with it on the terms on which such further drawings may be made.

11. May I conclude by re-emphasizing the determination of the Turkish Government to pursue fiscal and monetary policies that will contribute to the attainment of our development objectives and will promote relative

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price stability. The continued support of your Organization will be of great assistance in these efforts and in helping Turkey maintain a stable trade and payments system.

Sincerely yours,

/s/ F. Melen
Minister of Finance

Mr. Pierre-Paul Schweitzer
Managing Director
International Monetary Fund
Washington 25, D.C.