



EBS/82/130

CONFIDENTIAL

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To: Members of the Executive Board

From: The Acting Secretary

Subject: Turkey - Review of Stand-By Arrangement and Exchange System

Attached for consideration by the Executive Directors is a report on the review of the stand-by arrangement for Turkey. Draft decisions appear on pages 19 through 22.

This subject has been tentatively scheduled for discussion on Monday, August 23, 1982.

Att: (1)

INTERNATIONAL MONETARY FUND

TURKEY

Review of Stand-By Arrangement and Exchange System

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

(In consultation with other Departments)

Approved by L. A. Whittome and Subimal Mookerjee

July 23, 1982

I. Introduction

A three-year stand-by arrangement for Turkey in an amount equivalent to SDR 1,250 million (625 per cent of the then quota, 416.7 per cent of the present quota) was approved by the Executive Board and became effective on June 18, 1980 (EBS/80/126, 6/4/80, and Sup. 3, 6/19/80). Under the arrangement Turkey has thus far made eight purchases, totaling SDR 860 million. These drawings brought Fund holdings of Turkish liras as of June 30, 1982 to 525 per cent of the present quota of SDR 300 million.

The mid-term review of the program for the first year of the stand-by took place at EBM/81/14 (1/28/81) on the basis of EBS/81/2 (1/4/81); a program for the second year of the arrangement was approved at EBM/81/121 (9/9/81) on the basis of EBS/81/180 (8/24/81); and the mid-term review of the program for the second year was completed at EBM/82/25 (2/26/82) on the basis of EBS/82/19 (1/29/82). Discussions with Turkish officials on the program for the third year of the arrangement were held in Ankara June 2-15, 1982 by a staff team consisting of Peter Hole (Head, EUR), Leif Hansen (EUR), Naheed Kirmani (ETR), Leigh Alexander (EUR), and, as secretary, Isabel Jones (EUR). Firouz Vakil (IBRD) also participated in the discussions. The Turkish representatives included officials of the Ministry of Finance, the State Planning Organization, and the Central Bank. The head of the mission also met with the then Deputy Prime Minister, Mr. Ozal, and with the then Minister of Finance, Mr. Erdem.

In the attached communication to the Managing Director, the present Minister of Finance, Mr. Kafaoglu, reviews developments so far under the stabilization program and sets out the Government's principal policy intentions for the third year of the arrangement (Appendix II). The next purchase under the stand-by is subject to Board approval of the credit limits being proposed by the Minister of Finance, as well as of other proposed policy understandings, and would become available following satisfactory completion of the present review. The proposed phasing

of the remaining purchases under the stand-by and the prospective development of Fund holdings of Turkish liras in the period until the end of the stand-by are set out in the table attached to Appendix I.

Total disbursements by the World Bank to Turkey in 1980 and 1981 amounted to US\$774 million, including US\$475 million under two structural adjustment loans (for US\$575 million). A third structural adjustment loan, of US\$304.5 million, was approved in May 1982 and is being made available in two installments. The first installment, of US\$200 million, was released in May; the second is to be made available toward the end of the year, conditional on satisfactory progress having been made on SEE reform, on import liberalization, and on rationalizing the public investment program and containing its size.

II. Performance to Date under the Stand-By

1. Overview of 1980-81

During 1980-81, the authorities made a generally determined effort to implement the stabilization program being supported by the stand-by arrangement, and this effort met with considerable success. Particularly graphic results were achieved in 1981 when all major elements of the program were implemented with resolution: (i) forceful application of a flexible exchange rate policy lowered the real effective exchange rate significantly; (ii) interest rates were increased sharply, becoming positive in real terms; (iii) a major reduction was brought about in the public sector's borrowing requirement; (iv) monetary policy was generally restraining; (v) energy prices were raised substantially; and (vi) the growth of wage costs was held in check by a firm incomes policy.

Thereby, most of the crucial program targets were met or exceeded (Annex, Table 1). Adjustment of the exchange rate and of interest rates helped to bring about an impressive growth in exports (+62 per cent) and workers' remittances (+20 per cent), as well as a marked turnaround in short-term capital flows. The increase in external current receipts (to the equivalent of 13 per cent of GNP, from 9 per cent of GNP in 1980) combined with a reduction in the volume of oil imports to permit both a sizable increase in the volume of non-oil imports and a reduction in the current account deficit to 4 per cent of GNP from 6 1/4 per cent of GNP in 1980. The resulting greater availability of goods, together with improved incentives to save, complemented the more determined program of demand and incomes restraint in bringing downward pressure to bear on prices, and the rate of rise in the GNP deflator slowed to 42 per cent from more than 100 per cent in 1980. The strengthening in the real foreign balance, meanwhile, contributed importantly to an upturn in activity, and real GNP, after falling for two consecutive years, expanded by close to 4 1/2 per cent. With private investment remaining

subdued, and with little growth of output in agriculture and construction, the rate of unemployment remained high (about 15 per cent of the labor force) but appeared to stabilize.

2. First half of 1982: program implementation

On the occasion of the end-1981 review of the stand-by, the authorities affirmed their determination to persevere in 1982 on the existing policy course. Three key elements of the continuing program were to be a decrease in the rate of monetary expansion, a further reduction in the deficit of the public sector--to be achieved through a reduction in the financing requirement of the state economic enterprises (SEEs)--and a vigorous implementation of exchange rate policy. Thereby, the expectation was that the current account deficit could be reduced to some 3 per cent of GNP and the average rate of inflation brought down to about 25 per cent in 1982, while maintaining real GNP growth at broadly the same rate as in 1981. During the first half of the year all performance criteria other than the standard one on trade and payments restrictions (see page 6 below) were observed and most of the broader policy intentions fulfilled. There was, however, some loss of control over monetary policy which led to an undesirably rapid growth in domestic liquidity.

a. Monetary developments

The evolution of the monetary situation in the first half of 1982 differed in a number of important respects from what was envisaged at the beginning of the year. Most notably, the year-on-year increase in broad money (M2), at 65 per cent, was considerably faster than originally foreseen (45 per cent) and more rapid even than the rate of monetary expansion in 1981 (Table 8). This surge stemmed from two principal factors: a stronger-than-programmed growth in reserve money (51 per cent versus 45 per cent) and an unanticipated increase (of approximately 10 per cent, year on year) in the ratio of M2 to the monetary base (i.e., the reserve money multiplier).

The relatively rapid growth in reserve money came about in the wake of a stronger-than-projected development of the balance of payments, which resulted in a reduction of some LT 50 billion (approximately US\$350 million) in the Central Bank's net foreign liabilities compared with the increase of about LT 40 billion assumed in the original program. In response to this development, the Central Bank held the increase in its net domestic assets significantly below the limits established under the stand-by (Table 7) but was able thereby to compensate for only about one half of the unexpected injection of liquidity through the external accounts (Table 8). The margin under the limits would have been somewhat greater but for a crisis of confidence in the financial system in the latter part of June which was triggered by the bankruptcy of Turkey's largest nonbank financial intermediary and which led the

Central Bank to extend exceptional assistance on a modest scale to a number of banks. The sharp increase in the reserve money multiplier in the first half of 1982, meanwhile, occurred after a period in which the relationship between the monetary base and M2 appeared to have stabilized. It resulted primarily from a failure on a fairly sizable scale by some banks to observe reserve requirements ^{1/} at a time when some other banks reduced significantly the level of their excess reserves.

Not all of the faster-than-programmed increase in M2 is likely to have fueled the demand for goods and services. With deposit rates of interest remaining significantly positive in real terms (Table 9), the demand for money balances may also have risen at a faster pace than that (5 per cent) assumed in the original program. This possibility is suggested by a continued sharp growth of time deposits which was mirrored in a further divergence, in the period under review, in the rates of growth of M1 and M2. ^{2/} In addition, there appears to have been some reintermediation of the banking system in financial transactions, especially following the failure of a number of institutions in the parallel money market at the beginning of the year. This said, a large part of the overshooting of the M2 target is unlikely to have been matched--other than temporarily--by an increased demand for liquidity; part will have added directly to demand pressures, and part will have left some overhang of liquidity.

b. The public finances

Fragmentary data only are available on the development of the public sector's finances since the turn of the year. During January-February 1982 (the two final months of the 1981 fiscal year) central government revenue fell considerably short of earlier expectations primarily owing to substantial deferrals of tax payments by the company sector--both with and without the prior approval of the Ministry of Finance. As a result, total central government revenue (on a cash basis) ended the fiscal year 7 per cent below the authorities' expectation in early December. The authorities responded to the shortfall both by cancelling some planned expenditures--on an accruals basis, expenditures were held 3 per cent below the December estimate and, for the first time in a decade, below even the original budget appropriation--and by deferring some payments to the 1982 fiscal year. At the same time, there was a

^{1/} As of the end of May 1982, deficiencies in the observance of reserve requirements (net of a long-standing shortfall of a publicly owned bank which is being consolidated) had reached LT 52 billion, or 15 per cent of total reserve requirement obligations.

	1980		1981		1982
	1st half	2nd half	1st half	2nd half	1st half
	Percentage change over corresponding period of previous year				
M1	48	56	46	32	31
M2	51	56	60	59	65

stronger-than-normal increase in accounts payable at the end of the fiscal year, as government agencies--set on notice that unused appropriations would not, as in the past, be restored--stepped up the rate of utilizing appropriations. Thereby, the Government was left with an artificially small cash financing deficit, equivalent only to 1/4 per cent of GNP, or 1 percentage point of GNP less than expected in December (Table 5). In fiscal 1982, which will run for only ten months in order that from 1983 onward the fiscal and calendar years may coincide, a sizable part of the buildup in accounts payable at the end of fiscal 1981 is to be reversed. Correspondingly, the Government's financing deficit is now expected to be higher than in 1981, but little changed (at about 1 1/2 per cent of GNP on a 12-month basis) from the earlier projection for 1982. Provisional data on developments in the opening months of the fiscal year were broadly consistent with such an outturn.

Few firm data are yet available on the development of the SEEs' accounts this year. With a view to bringing about a sizable reduction in the borrowing requirement of these enterprises, in 1982 SEE managers have been instructed to focus above all on operational results and to fulfill their investment programs only to the extent that they can satisfactorily fund them. In addition, the Government has again decreed that 50 per cent of the employment positions falling vacant in eight key enterprises are to be cancelled. The Turkish representatives were broadly satisfied with the response to date to the new guidelines. In particular, necessary price adjustments were being made more rapidly than in the past. ^{1/} Transfers from the budget to the SEEs in the period to end-June, meanwhile, were held comfortably below the limit agreed as a performance understanding with the Fund.

c. External policies

Exchange rate policy remained central to the adjustment effort during the period under review. Consistently with a performance understanding, the authorities depreciated the lira in amounts fully sufficient to compensate for price differentials between Turkey and its main partner countries. By the end of June 1982, the index of the real effective exchange rate is estimated to have been somewhat lower than at the beginning of the year (Chart). Prudent external debt management policies likewise continued to be followed. Agreement was reached with some 200 commercial banks on a two-year extension of the grace period on rescheduled debt amounting to some US\$3 billion (thereby postponing the first repayment of principal to the second half of 1984), and in the year to mid-1982 there was no contracting of new nonconcessional public and publicly guaranteed foreign borrowing subject to the ceiling agreed with the Fund. Over the same period the remaining external payments arrears--which at their peak in March 1980 had totaled US\$2,350 million--were for all practical purposes eliminated.

^{1/} Between late December and late April price increases totaling some 15-27 per cent were announced for coal, coke, paper, pig iron, lignite, cement, railway tariffs, gasoline, and fuel oil.

During the period under review, Turkey entered into a bilateral payments agreement with Iran for a period of 12 months beginning in June 1982. This agreement constitutes an exchange restriction subject to Fund approval under Article VIII. The Turkish authorities indicated that the purpose of the new agreement was to provide a reciprocal credit line to facilitate trade, and restrictive elements were not intended. They stated that in the event of renewal, any features which constitute exchange restrictions under Article VIII would be removed.

3. Recent economic developments

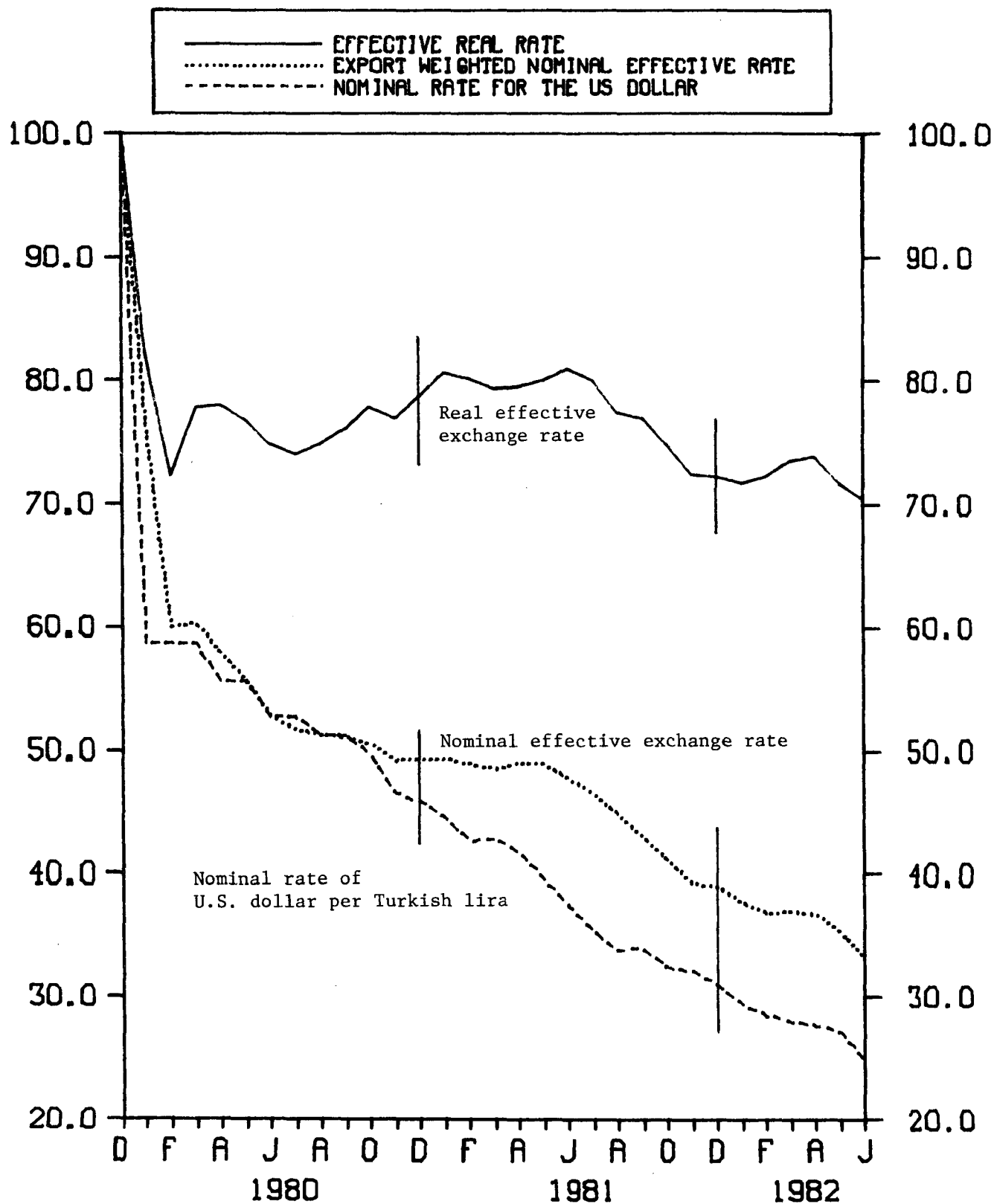
With some slippage in the implementation of a key part of the policy program, economic performance since the turn of the year has been more mixed than in 1981.

The balance of payments has continued to strengthen, and faster than initially foreseen. Exports in January-April were 27 1/2 per cent higher than in the corresponding period of 1981, while imports in fact fell by 8 per cent. The Turkish representatives considered the restoration and maintenance of a competitive exchange rate to be the principal factor underpinning the export effort; together with restraint over domestic demand and the provision of preferential credits to exporters, this had considerably strengthened the relative profitability of production for the external market and given Turkish industry a new outward orientation. As in 1981 (Tables 11 and 12), the growth in exports in the opening months of 1982 was again led by manufactures--the range of which is becoming steadily wider--and directed primarily to markets in the Middle East and North Africa. The development of imports, meanwhile, largely reflected erratically low deliveries of oil. In addition, there was a significant fall in import prices, not only for oil but also for non-oil items, as--with foreign exchange transfers now proceeding smoothly--the premium above international prices formerly incurred by Turkish importers appears to have been reduced or removed. While the trade deficit thus continued to fall, invisible earnings and net capital inflows changed little from their level in the same period of 1981. As a result, gross international reserves remained essentially unchanged over the seasonally weak first half of the year, and external liquidity strains were much less marked during the traditionally difficult April-June quarter.

The growth in domestic economic activity in the opening months of 1982 appears to have been sustained at about its 1981 pace. In industry, capacity utilization has increased somewhat further and there is some hope that private sector investment may begin to recover this year from its major 1978-80 slump (Table 2). In agriculture, a bumper crop is forecast, leading to an expectation that GNP growth for the year may now exceed the 4 1/2 per cent rate originally targeted.

Inflation, however, has turned up. Between the fourth quarter of 1981 and the second quarter of 1982 the year-on-year rate of rise in wholesale prices quickened from 27 1/2 per cent to 30 per cent, while the corresponding rate of increase in an average of three consumer prices

TURKEY EXCHANGE RATE DEVELOPMENTS (DEC 1979-100)



Sources: IMF, International Financial Statistics and staff calculations.

indices moved up from about 31 per cent to 36 per cent (Table 3). Some special influences have been at play, including exceptional or once-for-all increases in certain food prices (which have a large weight in the index) and the steady adjustment of SEE prices in the opening months of 1982 compared with virtually no change in such prices in early 1981. ^{1/} But the extremely rapid rate of monetary expansion from around the turn of the year cannot but have been a basic force also.

III. Medium-Term Balance of Payments Perspectives

The progress made over the past 18-24 months in stabilizing the economy and restoring the basis for sustainable growth needs properly to be seen against the external financing task that confronts the authorities in the medium term. This remains sizable. A discussion of its order of magnitude, and of the possible implications for the growth of exports and GNP in the period ahead, is set out in Appendix III.

In essence, over the next few years exceptional balance of payments assistance to Turkey--which since 1980 has been running at more than US\$2 billion a year--must be expected to fall away, possibly to around one quarter of its recent level by 1986 (Appendix III, Table 2). Bilateral and multilateral program aid is likely to decline as both OECD special assistance and IBRD structural adjustment lending wind down; the current stand-by with the Fund terminates in mid-1983; and debt relief will taper off sharply after 1983. Over the same period, the schedule of debt amortization payments will be much higher than in the recent past, rising immediately in 1983 by some US\$0.5 billion. In addition, there will be a need to acquire foreign exchange to maintain reserves at broadly their present level in relation to imports.

A striking shift is thus in prospect in the balance between the above-listed financing sources and needs--from a net provision of external finance of perhaps US\$200 million in 1982 to a net drain of foreign exchange of possibly around US\$1.8 billion in 1985 and again in 1986. Only part of this shift can be expected to be counterbalanced by enlarged inflows of capital in other forms (project credits, direct investment, loans from banks, etc.). Accordingly, the current account deficit will need to be reduced further, probably by at least half in nominal terms between 1982 and 1986. Given this constraint, and allowing for an estimated increase in debt interest payments to almost US\$2 billion by 1986, staff estimates suggest that, with an elasticity of imports to GNP of only slightly more than unity, the volume of exports would need to rise by rather more than 10 per cent a year between 1982 and 1986 if real GNP were to expand at a rate (close to 5 per cent) which would be sufficient to prevent unemployment from rising further.

^{1/} With the nonrecurrence or unwinding of these influences, the rate of inflation moderated in May and June.

IV. Program for the Period Ahead

1. Priorities and policy implications

In the light both of developments in the first half of 1982 and of the medium-term adjustment task, and given that structural rigidities continue to impede the adjustment process, the program for the third year of the stand-by arrangement is designed to address three principal concerns. Paramount importance is given to bringing down the rate of inflation. While the authorities are encouraged by the deceleration recorded in May and June and look for a good harvest to exercise a moderating influence on food prices later in the year, they have no illusions about the threat that the recent upsurge in prices poses for the stabilization effort unless quickly reversed. Monetary policy, accordingly, will be tightened appreciably and a firm policy of incomes restraint maintained. At the same time, export growth must continue to be nurtured and the balance of payments strengthened further if the economy is to be able, over the next few years, to finance the investment and intermediate goods that will be needed to support a reasonable rate of economic growth. Attainment of this objective will require that a competitive exchange rate be rigorously maintained; that domestic demand in general, and the claims on resources of the public sector in particular, be restrained; and that policies be continued to reduce the still very high dependence on imported energy. The third concern of the authorities is to open up the economy more to foreign competition. This would be expected to contribute positively to adjustment over the medium term by improving the allocation of resources, by reducing the anti-export bias that still exists, by strengthening the impact of key policy instruments such as interest rates and the exchange rate, and by bringing downward pressure on prices. The authorities therefore intend to press ahead more vigorously to liberalize the import regime.

Key elements of the Government's program, which is spelled out in detail in the memorandum attached to the letter from the Minister of Finance, are reviewed below. A synthesis of the main program relationships and assumptions is set out in Table 15. The authorities believe that with the program the inflation rate will be brought down substantially in the second half of 1982 and the considerable improvement already witnessed in the external current account sustained; in addition, the basis will be laid for the further relatively rapid growth in exports and deceleration in inflation that is needed in 1983. For 1982 as a whole, the expectation is that the rate of rise in the GNP deflator will now amount to a little over 30 per cent, or 10 percentage points less than in 1981; that the current account deficit will be reduced by close to US\$1 billion (nearly double the reduction originally foreseen) to the equivalent of about 2 1/2 per cent of GNP; and that the rate of economic growth will be at least the same as in 1981. No formal projections have yet been made for 1983. The outlook for the economy and the implications for the evolution of the stabilization program will be reviewed with Turkish officials in December 1982 and a report submitted for Board consideration in early 1983.

2. The monetary program

The rate of monetary expansion is to be reined back sharply in the period ahead. Toward this end, a number of measures have been announced to drain liquidity from the banking system. These include (i) the establishment of a schedule, commencing in June, for the orderly payment by the banks of deficiencies in their current observation of reserve requirements; (ii) an increase in the effective reserve requirement ratio against deposits used for granting preferential credits; (iii) an increase in the reserve requirement ratio against time deposits to the extent that the interest rate offered on six-month deposits is in excess of 50 per cent; 1/ and (iv) an increase in the penalty rate on reserve deficiencies from 35 per cent to 54 per cent (annual rate) for the first month in arrears, with an additional 5 percentage point penalty for each subsequent month in arrears.

Taking into account the estimated impact of these measures on the reserve money multiplier, and assuming a slight fall in the net foreign liabilities of the Central Bank over the course of 1982 as a whole, proposed limits have been drawn up on the net domestic assets of the Central Bank for the period July-December 1982 which should result in a marked deceleration in the rate of domestic liquidity expansion while at the same time permitting the Central Bank to finance the substantial harvest that is in prospect. The limits are set out in Table 7. They are intended to be consistent with a reduction in the year-on-year growth in M2 to about 40 per cent in the second half of 1982 from 65 per cent in the first half, and with a deceleration in the through-the-period rate of M2 growth to less than 10 per cent (actual rate) between June and December from close to 25 per cent between December 1981 and June 1982. On this basis, the average growth in M2 for 1982 as a whole would approximate 50 per cent (Table 8). Allowing for an increase in real GNP of 4 1/2-5 per cent, and assuming a reduction in the velocity of circulation of M2 of about 8 per cent, 2/ this would be consistent with a rate of rise in the GNP deflator of about 32-33 per cent (and in the wholesale and consumer price indices of somewhat less). This would be higher than the original program target (25 per cent) but still an important improvement on the 42 per cent inflation rate of 1981.

1/ Designed essentially as a prudential measure to curb overly aggressive competition by banks for deposits, this is also expected to lead to some absorption of bank liquidity.

2/ This assumption, which would be much the same as the reduction evidenced in 1981, may be somewhat conservative, taking into account (i) the still extremely low ratio of M2 to GNP by historical standards; (ii) the Government's intention to continue the policy of allowing interest rates to be established in response to market forces, which has resulted in positive rates in real terms on deposits; and (iii) the further reintermediation of the banking system in financial transactions that may perhaps be expected following the recent crisis of confidence in the financial market.

As on previous occasions, many of the assumptions underlying the present program are inevitably subject to wide margins of error, not least because basic relationships in the monetary accounts are currently undergoing substantial structural change. In view of this, the credit program is again being limited to a six-month period. In addition, two formal understandings have been built into the program as safeguards. First, a time path for the absorption of bank liquidity through the stricter enforcement of and increase in reserve requirements has been agreed, and if at either the end of September or the end of December 1982 this is not observed the Government will consult with the Fund before requesting a further purchase. Second, the Government will also consult if the development of the balance of payments should again result in a significantly faster growth in reserve money than is provided for in the program.

It should be noted, moreover, that the foregoing program was drawn up before the recent confidence crisis. As of mid-July, the total amount of exceptional assistance provided by the Central Bank in the wake of this crisis had reached LT 10-15 billion, or the equivalent of rather more than 10 per cent of the programmed growth in gross Central Bank credit in the second half of the year. While further assistance may be needed in the coming period, 1/ the Turkish authorities have informed the staff that both the proposed credit program and the rectification of reserve requirement deficiencies remain feasible, and indeed need to be held to.

As to the sectoral distribution of credit, the proposed sublimit on Central Bank credit to the public sector provides for a much smaller increase (6 per cent, actual rate) in credit to that sector than to the private sector (17 per cent). Within the public sector component, moreover, borrowing by the Treasury has been cut back from original plans, and much the larger part of the proposed increase in credit to the public sector is now intended for the official wheat purchasing agency, which is expected to be a substantial exporter this year.

3. The public finances

Consistently with the monetary program and with the need to restrain both the growth of domestic expenditure and, within this, the public sector's relative claims on available resources, the Government's fiscal

1/ The amount of such assistance will depend primarily (i) on the extent to which the proceeds of maturing certificates of deposit issued by particular commercial banks and held by now-failed nonbank financial intermediaries are not redeposited in the issuing banks by the recipients (i.e., depositors in the nonbank intermediaries); and (ii) on the extent to which any resulting deposit squeeze cannot be counteracted by such banks. The authorities have put in place a scheme which is designed to make it relatively more attractive for the depositors in question to extend the remaining maturity of the certificates of deposit rather than have them encashed on maturity.

program is designed (i) to hold the public sector's domestic borrowing requirement (PSDBR) ^{1/} essentially unchanged in nominal terms in 1982, with an increase in the financing requirement of the Central Government being approximately offset by a reduction in that of the SEEs; and (ii) to achieve this by reducing the share of public sector expenditure in GNP. In relative terms, the PSDBR is targeted to fall to the equivalent of 3 1/2 per cent of GNP, from 4 1/2 per cent of GNP in 1981 and 8 1/2 per cent of GNP in 1980 (Table 4). Whereas roughly two thirds of the reduction between 1980 and 1981 derived from a cutback in the share of central government expenditure in GNP, the further reduction programmed in 1982 rests on an expected fall in stockbuilding by the SEEs. Fixed investment of the public sector, by contrast, is set to rise further in relation to GNP.

a. Central government budget

In 1982 the Central Government's financing requirement (scaled up to a 12-month basis, and including transfers to the SEEs) is now expected to be slightly larger than was forecast in December (1 1/2 per cent versus 1 per cent of GNP) (Table 5). Revenue is projected to grow somewhat faster than expenditure (39 per cent versus 36 per cent, at an annual rate), with neither varying much in proportion to GNP; but a shift of some size is now expected in the change in accounts payable as the stock of deferred payments accumulated at the end of fiscal 1981 is run down.

The revenue estimates rest crucially on a strengthening of tax administration and an improvement in the ratio of tax collection to tax assessments. In the latter connection, the Government expects to collect a sizable proportion of the tax payments which it allowed to be deferred, temporarily, in 1981 and it does not intend to approve new deferments on any important scale in 1982. On this basis, tax receipts are now projected to rise significantly faster than in December, with their implied elasticity to GNP reaching about 1.15, against 1.25 in 1981 when major tax increases were introduced and 1.00 on average during the latter part of the 1970s. As to expenditures, outlays for current purposes and especially for investment are set to rise faster than GNP, but this is expected to be counterbalanced, relative to GNP, by a much slower increase in transfers. The Turkish authorities reaffirmed their determination to hold outlays further below appropriations in 1982 than in 1981.

b. State Economic Enterprises

The major strengthening in the public finances in 1982 is looked for from a reduction of some 20 per cent in nominal terms in the financing requirement of the SEEs. This is to be achieved essentially through

^{1/} I.e., the public sector borrowing requirement less foreign borrowing, the proceeds from which are for the most part earmarked for imports of investment goods and thus give rise to little net claim on domestic resources.

a substantial reduction in stockbuilding, following an unexpectedly strong accumulation of inventories--particularly of oil, wheat, steel, and sugar--in 1981. The slower rate of stock accumulation is expected to be facilitated by a strong increase in exports--which on the basis of existing and prospective contracts are projected to reach at least US\$800 million (including US\$375 million of wheat and sugar exports), compared with less than US\$450 million in 1981--as well as by direct policy action to reduce large stocks of fertilizer. A recently announced reduction, from 5 per cent to 2 per cent, in the interest rate subsidy received by the SEEs on their borrowing from the commercial banks is expected to work to the same end. Fixed investment, meanwhile, is to be held about 8 per cent below its 1981 level in real terms under guidelines formally limiting the enterprises' investment programs, and overall profits are projected to increase moderately further. All told, the claims of the SEEs on the budget and on nonbudgetary resources are thereby projected to decline by the equivalent of nearly 4 percentage points of GNP between 1981 and 1982 (Table 6).

With the shift to greater managerial autonomy in 1982, the foregoing projections, although refined since December, remain subject to wider margins of error than usual. The Turkish representatives said that they were now more confident than in December about the estimated profit outturn and level of fixed investment. While they agreed that stockbuilding could well turn out again to be higher than projected--and to the extent that it did, the reduction in the financing requirement would, of course, be less than targeted--they did not think that any likely slippage would negate the program. In order to keep abreast of the situation in these circumstances, the Government would continue to monitor developments closely on an ongoing basis and planned to conduct two full balance sheet reviews during the second half of the year.

Transfers from the budget to the SEEs are to continue to be strictly contained in the second half of 1982 in line with understandings reached with the Fund at the beginning of the year. In addition, direct access to Central Bank credit is being limited under the monetary program. More fundamentally, the Government is now moving to speed up the process of managerial and institutional reform. Following authorization by the Consultative Assembly in June 1982 to reorganize the SEEs by decree, reform measures are being finalized under which manufacturing SEEs will be removed from direct ministerial control, directed to operate on strictly commercial principles, permitted to issue equity capital, and enabled to raise the quality of their management through the offer of competitive salaries and longer contracts. While dramatic results are not foreseen in the short run, the measures are looked upon to lead to a substantial improvement in SEE performance over time.

c. Public investment

Notwithstanding the planned cutback in real terms in fixed capital formation by the SEEs, total public sector investment in 1982 is projected to rise by more than 6 per cent for a second consecutive year. As noted

in EBS/82/19, this was seen as justified on grounds of the composition of the program, the limited risk of crowding out private sector investment, and the expectation that the increase in investment would be more than matched by an increase in public savings. The authorities recognize, however, that a continuation of this trend over the medium term would be inimical to the stabilization and restructuring effort. Accordingly, they intend, over the 1983-85 period, to reduce the relative size of public investment in total investment, while continuing to focus on high priority projects in the energy, infrastructural, and agricultural areas and concentrating resources on a smaller number of projects to shorten completion times. The World Bank supports this plan. As a condition for releasing the second tranche of its third structural adjustment loan later this year, the Bank would want to be assured, inter alia, that the public investment program for 1983 was no larger in real terms than that for 1982, and that the investment funds disbursed in the first half of 1982 had been concentrated on the higher priority projects.

4. Incomes policy

As part of its program to reduce inflation and ensure competitiveness, the Government will continue to exercise restraint over the development of incomes. Increases in the salaries of government employees are being limited to 25 per cent net of tax in 1982, and the High Arbitration Court has set before-tax wage increases of 25-30 per cent for all other wage earners. Similarly, increases in agricultural support prices are generally being held to 25-30 per cent.

5. External policies

The Government remains firmly convinced that the maintenance of an appropriate exchange rate is crucial if progress is to continue to be made at the required pace toward external adjustment. It therefore intends to continue its policy whereby the exchange rate for the lira is determined daily in the light of developments both in international currency markets and in domestic relative to foreign prices, with a view as a minimum to maintaining external competitiveness. If the exchange rate is not adjusted accordingly, the Government will consult with the Fund and reach such understandings as may be necessary.

Exporters currently benefit from a variety of fiscal and credit preferences. ^{1/} These complicate monetary management, discriminate against small and medium-sized producers, pay little regard to net as opposed to gross export earnings, and occasionally lead to disorderly export behavior. Now that Turkish producers have established footholds in foreign markets and that the export drive has gathered momentum, the Government has begun to reduce the reliance placed on these incentives. Toward this end, the interest rate on export credits has been increased

^{1/} In mid-1981 the average subsidy rate on industrial exports was estimated by the IBRD at about 11 per cent, roughly half of which derived from low-cost credits.

from 27 per cent to 31 1/2 per cent; subsidies from the Interest Rate Rebate Fund have been reduced; and, with effect from January 1983, tax rebates for exports will be related to value added for goods with an import content of at least 20 per cent. The Turkish representatives noted that the speed at which further progress could be made would to some extent depend on the level both of import restrictions faced by Turkish exporters in industrial country markets and of export subsidies provided by the industrial countries to their exports of agricultural products to third markets.

In view of the high debt service burden, the Government will continue to pursue cautious debt management policies. Preparatory to the resumption of medium-term borrowing from international financial markets, an ad hoc committee has been set up to evaluate all proposed borrowings and to oversee placements on the market. As in the two preceding years, the Government will limit the contracting of new nonconcessional public debt of up to ten years' maturity to US\$1 billion during the third year of the stand-by.

The Government is well aware of the inefficiencies and distortions resulting from the present high degree of protection granted to production for the domestic market, and it firmly intends to build on the steps taken during the past two years to open up the economy to foreign competition. The plan is to shift increasingly from the current licensing system of import control to one relying on tariffs and to reduce these tariffs over time. As a first step, a number of industry studies are at present under way which will provide a basis for the selective easing of import restrictions. In addition, the general import regime will be liberalized significantly further from January 1983.

6. Energy policy

Turkey's dependence on imported energy is a prime source of structural imbalance in the external accounts, with imports of oil in 1981 absorbing more than 80 per cent of receipts from exports. In view of this, and recognizing the medium-term implications of a more normal rate of economic growth for the energy balance, the Government intends to press ahead with the development of domestic energy resources, mainly hydroelectricity and lignite, and to utilize the price mechanism to promote energy conservation and the substitution of domestic for imported fuels. Accordingly, investments in energy have the largest share (34 1/2 per cent, up from 32 per cent in 1981) in the 1982 public investment program, and the Government is continuing its policy of adjusting energy prices to reflect changes in its cost to the economy. Thus, petroleum and fuel oil prices were increased by 4-10 per cent in December, 5 per cent in February, and 10-14 per cent in June. With this approach the share of oil in primary energy consumption is expected to fall to 44 1/2 per cent in 1982, from 47 1/2 per cent in 1980.

7. Performance criteria

During the third year of the stand-by arrangement, purchases will thus be subject to the following performance criteria:

(a) quarterly limits on net domestic assets of the Central Bank and central bank credit to the public sector, with the limits for the period after December 1982 to be determined in a review with the Fund early in 1983;

(b) the absorption of bank liquidity, under an agreed schedule, through the stricter enforcement of and increase in banks' reserve requirements;

(c) a limit on budgetary transfers to the SEEs in the period March-December 1982;

(d) the maintenance of external competitiveness;

(e) a limit on the contracting of new nonconcessional public or publicly-guaranteed external debt of up to 10 years' maturity; and

(f) the standard performance criterion on trade and payments restrictions.

V. Near-Term External Outlook

The authorities consider that, with the foregoing program and the continuation of its basic thrust in 1983, a further sizable reduction in the external current deficit can reasonably be expected in 1982 and again in 1983 without impinging on the inflow of investment goods and raw materials needed to sustain the rate of economic growth.

With competitiveness strengthened, domestic demand being held in restraint, and trade agreements with neighboring countries being enlarged, exports in 1982 are officially projected to increase by about 25 per cent. The Turkish representatives characterized this as a somewhat conservative estimate, especially in view of performance in January-April and the prospect of substantial agricultural exports later in the year. Workers' remittances, which fell slightly in the opening months of 1982, are now forecast to reach a lower total than at the beginning of the year, but other invisible earnings are expected to be somewhat stronger than anticipated earlier. All told, external current receipts are projected to reach the equivalent of at least 16 1/2 per cent of GNP, against 13 per cent of GNP in 1981. Following an easing in import prices and in the level of debt interest payments in comparison with earlier expectations, officials expect to finance the targeted increase of 5 per cent in the volume of imports while being able now to reduce the current account deficit to about US\$1.4 billion, or 2 1/2 per cent of GNP (Table 10).

A deficit of this order, which the staff considers entirely plausible, should not give rise to any financing problems. Medium- and long-term capital inflows already received or in the pipeline, together with an expected US\$200 million Eurocurrency export prefinancing credit, are estimated to cover the gap and, in fact, leave a very small overall surplus. Purchases under the stand-by, in these circumstances, are expected to permit a moderate increase in foreign reserves, to the equivalent of a little over two months of imports at the end of the year. The staff concurs with the authorities' view that such an increase is desirable, especially considering the buildup in payments pressures that is expected after mid-1984, the uncertainties that exist concerning the future price of oil, and the need for some reserve cushion to proceed more vigorously with structural reform, particularly in the field of import liberalization.

Looking beyond 1982, a number of considerations--in addition to continuation of the stabilization program--may be expected to support the export effort. Following an initial learning experience and an upgrading of product design and quality, Turkish producers are now better placed to exploit market opportunities than they were before. In addition, Turkish companies now hold construction contracts of more than US\$10 billion in the Middle East and North Africa and can be expected to rely heavily on Turkish materials in fulfilling them. Manufacturing exports, meanwhile, have become increasingly diversified and thereby less vulnerable to changes in either foreign or domestic demand. At the same time, Turkey remains a marginal supplier in most markets and its export base is still relatively small, so that sizable increases in percentage terms remain feasible. Turkish officials generally look for one further year of relatively rapid export growth before that growth subsides toward a rate more closely approximating that of export markets. The present tentative expectation is that exports in 1983 could increase by about 20 per cent and the current account deficit be reduced by perhaps a further US\$0.5 billion. A reduction of the latter order, to the extent that it strengthened external creditworthiness and permitted some further increase in reserves, would position the economy reasonably well in terms of the profiles sketched in Appendix III to face the difficult payments period commencing after mid-1984.

VI. Staff Appraisal and Proposed Decisions

In the period since the last review of the stand-by, the performance of the Turkish economy has been mixed. Measured against the critical benchmarks of export growth and current account improvement, external adjustment has continued to exceed initial targets and to underpin a recovery of domestic activity. Inflation, however, instead of decelerating further, has turned up. These results mirror the relative efficacy of policy implementation in the latter part of 1981 and the opening months of 1982, when external and fiscal policies continued to contribute much as planned to the stabilization effort, while monetary expansion was undesirably rapid and added to an upward push already being given to prices by a number of special factors.

Unless quickly reversed, the upsurge in inflation cannot but pose a threat to the considerable progress made thus far toward restoring the basis for sustained growth of output and employment in the medium term. The authorities well recognize this and have rightly given foremost priority in the new program to bringing inflation down. Toward this end, a much-needed set of measures to drain liquidity from the banks has been introduced which, together with the proposed limits on central bank credit, portend a sharp deceleration in the rate of monetary expansion in the second half of 1982. As a practical matter, the proposed degree of monetary tightening is as much as seems feasible in the circumstances; equally, given the expansion of liquidity that has already occurred, it comes close to the minimum needed if a further significant decline in inflation is still to be achieved in 1982.

There is thus little room for slippage from the monetary targets. Yet the monetary program will not be easy to administer in the period ahead. There is first the possible need for additional assistance from the Central Bank to commercial banks in the wake of the recent failure of the country's largest nonbank financial intermediary. At the same time, the economy is entering the peak season for workers' remittances and faces the prospect of a sizable exportable agricultural surplus. In the former connection, the authorities have taken some steps to try and minimize the need for further exceptional assistance. In the latter connection, they have indicated that if the development of the Central Bank's net foreign assets should be stronger than anticipated, they will limit the increase in net domestic assets by a broadly comparable amount. To the extent that this may not prove feasible, it is essential that the authorities mop up liquidity through open market operations or marginal reserve requirements. In this context, the staff attaches considerable importance to the undertaking in the letter from the Minister of Finance to consult with the Fund if the development of the balance of payments were in fact to result in a significantly faster growth in reserve money than is provided for in the program.

Consistently with the monetary program, and with the need to restrain the growth of domestic demand, the public sector's domestic borrowing requirement is to be held largely unchanged in nominal terms in 1982 at the much reduced level to which it was brought down in 1981. This is clearly desirable and necessary. The projection for the central government's financing deficit hinges on a relatively strong increase in revenues following deferrals in tax payments in 1981. If tax collections should not improve as anticipated, the authorities must stand ready, as last year, to cut appropriations. As to the SEEs, restrictive limits are being retained on budgetary transfers and on direct access to central bank credit. In addition, pricing policies and the operational position of the enterprises are being strengthened and their investment programs cut back in real terms. The major question mark, especially following last year's experience, concerns stockbuilding. It is central to the achievement of continued fiscal restraint that this be held in check as programmed. Toward this end, the authorities must monitor ongoing developments vigilantly and not hesitate to influence production, purchasing and pricing decisions if major deviations occur from the plan.

The broad principles that have guided external policies with such success in the recent past are to continue to apply in the period ahead. Adequate and timely adjustment of the exchange rate, which together with demand restraint has strengthened the relative profitability of production for export, is to remain a cornerstone of the adjustment effort. Interest rates, the adjustment of which in conjunction with that of the exchange rate has contributed to a substantial increase in workers' remittances and prompted a turnaround in short-term capital flows, are to continue to be determined in response to market forces. Energy prices, whose upward adjustment has helped to stem a further rise in an already onerous oil import bill, are to continue to be adjusted in line with international costs.

Against this background, and with an export momentum still under way, a further sizable improvement in the balance of payments can reasonably be expected in the program period. By the end of the stand-by the external accounts should thereby be positioned at least as well as--if, indeed, not better than--could have been expected at the outset to meet the difficult payments period that looms after mid-1984 when exceptional financial assistance tapers off and the benefit of debt relief disappears. This said, very substantial gross inflows of capital will, of course, still be needed in the middle years of the decade. In this connection, it remains crucial, over the next two years, for the authorities to replenish and enlarge the existing pipeline of project credits if the stream of capital inflows that can be counted on after mid-1984 is to be sufficient to limit the recourse to more general external payments financing to a feasible amount.

With the strengthening foreseen in the external position in the upcoming period, the opportunity arises not only to add judiciously to the reserves but also to reduce the protection currently afforded to production for the domestic market. This would further reduce the anti-export bias that still exists, improve the allocation of resources, and exert downward pressure on domestic prices. Equally, on the export side, the opportunity arises to reduce the reliance both on preferential credits, which greatly complicate the operation of monetary policy, and on selective tax rebates, which give rise to distortions. The authorities share this view and intend to build on the limited steps taken to date in both directions. This is very much to be welcomed and should be boldly pursued.

In sum, the priorities for the final year of the stand-by arrangement have been appropriately set and a coherent policy program put together to achieve them. If this program is forcefully implemented and deviations from it promptly addressed, progress should continue to be made at an adequate pace toward stabilizing the Turkish economy and positioning it to meet the major financing task that is to be faced in a few years time.

* * * * *

In the period under review, Turkey entered into a one-year bilateral payments agreement with a Fund member which is inconsistent with Article VIII. In view of Turkey's expressed intention not to renew this agreement in a form which retains features that constitute exchange restrictions subject to approval under Article VIII, the staff recommends Board approval of the agreement. Upon approval, the agreement would not be inconsistent with the performance criterion on trade and payments restrictions in paragraph 3(f) of the stand-by arrangement for Turkey (EBS/80/126, Sup. 3, 6/19/80).

* * * * *

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

Review of stand-by arrangement

1. Turkey has consulted with the Fund in accordance with paragraph 3(e) of the stand-by arrangement for Turkey (EBS/80/126, Supplement 3, 6/19/80) as modified by paragraph 3(b) of Decision No. 6836-(81/67), April 24, 1981, paragraph 3(b) of Decision No. 6945-(81/121), September 9, 1981, and paragraph 2 of Decision No. 7062-(82/25), February 26, 1982, in order to establish performance criteria subject to which purchases may be made by Turkey during the third year of the stand-by arrangement.
2. The letter from the Minister of Finance of Turkey dated July 20, 1982, setting forth the objectives and policies which the authorities of Turkey will pursue for the third year of the stand-by arrangement, shall be annexed to the stand-by arrangement for Turkey, and the letter of June 2, 1980, annexed

to the stand-by arrangement, supplemented by the letters of April 15, 1981, July 22, 1981, and January 27, 1982, shall be read as supplemented by the letter of July 20, 1982.

3. Pursuant to paragraph 2(c) of the stand-by arrangement, purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 960 million until October 29, 1982, the equivalent of SDR 1,060 million until February 18, 1983, and the equivalent of SDR 1,160 million until April 29, 1983.

4. Turkey will not make any purchase under the stand-by arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of its currency resulting from purchases of supplementary financing or borrowed resources beyond 12 1/2 per cent of quota during the third year of the arrangement:

(a) during any period up to December 31, 1982, in which the limits on net domestic assets of the Central Bank of Turkey or its credit to the public sector specified in the table appended to the memorandum attached to the annexed letter of July 20, 1982, are not observed;

(b) during any period after December 31, 1982, in which understandings have not been reached or are not being observed on

(i) the net domestic assets of the Central Bank of Turkey, and

- (ii) net Central Bank credit to the public sector;
- (c) during any period in which the limit on new foreign borrowing specified in paragraph 10 of the memorandum attached to the annexed letter is not being observed, or in which understandings relating to:
 - (i) the exchange rate of the Turkish lira, referred to in paragraph 5 of the annexed letter;
 - (ii) reserve requirements of banks, referred to in the penultimate sentence of paragraph 3 of the annexed letter and in the penultimate sentence of paragraph 3 of the memorandum attached to the annexed letter; and
 - (iii) net transfers from the budget to the state economic enterprises referred to in paragraph 5 of the January 27, 1982 letter from the Minister of Finance of Turkey

have not been reached or, having been reached, are not being observed.

Exchange system

Turkey has recently entered into a bilateral payments agreement with a Fund member which is subject to approval under Article VIII. The Fund notes Turkey's intention not to renew

this agreement in a form which retains features which constitute exchange restrictions subject to approval under Article VIII. In the circumstances, the Fund grants approval of this bilateral payments agreement until June 30, 1983.

Turkey: Fund Position

(As of June 30, 1982)

Quota:	SDR 300 million
Fund holdings of Turkish liras:	SDR 1,575.3 million or 525.1 per cent of quota, of which:
	CFF SDR 108.9 million, or 36.3 per cent of quota
	Oil facility SDR 26.4 million, or 8.8 per cent of quota
	SFF SDR 980 million, or 326.7 per cent of quota
SDR holdings:	SDR 0.01 million; (0.01 per cent of net cumulative allocation of SDR 112.3 million)
Distribution of profits:	US\$24 million
Gold distribution:	129,230 fine ounces

Attachment

Turkey: IMF Position, March 1982 to May 1983

(In millions of SDRs)

	Actual		4 months to		Proposed		
	Mar 3 1982	Apr 30 1982	Aug 31 1982	Nov 30 1982	Feb 28 1983	May 31 1983	
Purchases	100	100	100	100	100	90	
Stand-by arrangement							
Ordinary resources	100	100	100	100	100	90	
Borrowed resources	(--)	(--)	(--)	(--)	(--)	(--)	
	(100)	(100)	(100)	(100)	(100)	(90)	
Repurchases	--	--	39	26	35	41	
Stand-by arrangement							
CFF and Oil Facility	--	--	11	11	20	17	
	--	--	28	15	15	24	
Net Purchases	100	100	61	74	65	49	
Fund holdings 1/							
Total (cumulative)	1,517	1,589	1,650	1,724	1,789	1,838	
Holdings in per cent of quota	505.7	529.8	550.2	574.7	596.4	612.8	
(Excluding CFF and Oil Facility)	(452.0)	(481.7)	(511.3)	(540.8)	(567.5)	(591.9)	

Source: Staff projections.

1/ At end-period. Holdings in per cent of quota are based on total holdings to two decimal places in relation to Turkey's quota of SDR 300 million.

July 20, 1982

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. de Larosière:

1. On behalf of the Government of Turkey I attach a statement on the policies and measures to be followed during the third year, June 18, 1982-June 17, 1983, of the stand-by arrangement for Turkey approved by the Fund in June 1980.

2. The progress made during the first year of the stand-by toward restoring the basis for a sustainable and adequate rate of economic growth has been built on over the past twelve months. During 1981 a particularly gratifying strengthening was achieved in the external accounts. At the same time, the rate of inflation was more than halved and a much needed upturn in economic activity recorded. More recently, while the balance of payments has continued to improve and the rate of economic growth has been sustained, inflation has turned upward. In part, this latter development is the result of special factors, but the Government has no illusions about the threat that it poses for the stabilization effort unless quickly reversed. We fully intend to take the action needed to ensure that it is reversed and, mindful of the still large external imbalance, to adhere to the adjustment course on which Turkey set out at the beginning of 1980.

3. The Government's foremost priority in the period ahead is to bring down the rate of inflation. This will require an appreciable tightening of monetary policy. Toward this end a number of important measures have been taken to drain liquidity from the banking system, including a stipulation that the banks should make good a substantial part of the shortfall in their current observation of reserve requirements and an effective increase in these requirements. These measures are designed to achieve a marked deceleration in the rate of monetary expansion while at the same time leaving room for the Central Bank to finance the very substantial harvest that is now in prospect. In the drawing up of the credit program for the second half of this year, a time path for the absorption of liquidity through the stricter enforcement of and increase in reserve requirements has been agreed, and if at either the end of September or the end of December 1982 this is not observed, the Government will consult with the Fund. The Government will also consult with the Fund if the development of the net foreign assets of the Central Bank during the second half of the year were to result in a significantly faster growth in reserve money than is provided for in the program.

4. In line with the tightening of monetary policy, and in order to avoid a relative crowding out of the credit needs of the private sector, the public sector borrowing requirement in 1982 is to be held broadly unchanged in nominal terms and recourse of the Treasury to central bank credit is to be reduced below original plans.

5. Restoration of external competitiveness has played a decisive role to date in fostering Turkey's external adjustment. The Government intends to continue its policy whereby the exchange rate for the lira is determined daily in the light of developments both in international currency markets and in domestic relative to foreign prices, with a view as a minimum to maintaining external competitiveness. If the exchange rate is not adjusted accordingly, the Government will consult with the Fund and reach such understandings as may be necessary.

6. While Turkey's balance of payments situation is much improved, and while the prospects are good for achieving equilibrium in the overall balance of payments in 1982 after allowing for bilateral inflows of balance of payments assistance under the auspices of the OECD, financial support will continue to be needed from the IMF. This will enable the Government to strengthen its still vulnerably low level of external reserves and to position the economy both to press forcefully ahead with liberalizing the import regime in 1983 and to meet the much-enlarged debt service burden that will emerge after mid-1984 when the benefit of present debt rescheduling arrangements disappears.

7. During any period (a) through December 31, 1982 in which the quantitative limits on the expansion of net domestic assets of the Central Bank or net central bank credit to the public sector specified in paragraph 4 of the attached memorandum have been exceeded; or (b) in which the limits on external payments arrears as specified in paragraph 12 or on foreign borrowing specified in paragraph 10 of the attached memorandum are not being carried out, Turkey will consult with the Fund to reach new understandings.

8. The Government of Turkey will reach understandings with the Fund not later than February 18, 1983 on the limits on (a) the net domestic assets of the Central Bank and (b) net central bank credit to the public sector which will apply during the period after January 1, 1983, as well as on other matters as necessary.

9. The Government of Turkey believes that the policies set forth in the attached memorandum are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Turkey will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.

Yours sincerely,

Adnan Baser Kafaoglu
Minister of Finance

Attachment

Memorandum of the Government of Turkey on Certain
Aspects of its Economic and Financial Policies for
the Third Year of the 1980 Stand-By Arrangement

1. Turkey's program of economic stabilization and restructuring, in support of which the current three-year stand-by arrangement came into effect in June 1980, has now been in place for more than two years. With the crucial help of financial support from official and bilateral creditors, it has so far met with at least as much success as was hoped for at the outset. In 1981 the encouraging progress made during the first year was carried forward substantially further. Most importantly, external current receipts, led by a very strong growth in exports, rose to the equivalent of 13 per cent of GNP from 9 per cent of GNP in 1980 and the current account deficit was reduced from 6 per cent of GNP to 4 per cent of GNP, while at the same time the rate of inflation, as measured by the GNP deflator, was brought down to nearly 40 per cent from more than 100 per cent. The improvement in the real foreign balance underpinned a revival of economic growth and real GNP expanded by nearly 4 1/2 per cent following two consecutive years of decline. Underlying these results were three main policy achievements: the public sector borrowing requirement was reduced substantially; the growth of domestic credit was restrained and interest rates increased sharply in reflection of market forces; and the effective exchange rate of the lira was depreciated steadily to promote the profitability of production for exports relative to that for the home market. In the opening months of 1982 the external accounts have continued to strengthen. However, owing to a number of special influences and to an undesirably rapid growth in the monetary aggregates from around the turn of the year, the rate of inflation has quickened.

2. The Government of Turkey is determined to press on with the program of economic adjustment and to address any deviations from that program. The most pressing task at present is to arrest and reverse the recent resurgence of inflation in order to avoid an erosion of the progress made thus far and to strengthen the basis for sustained growth of output and employment in the medium term. Toward this end a tightening of demand management is required. At the same time, efforts must be continued to reduce the still unsustainably large external imbalance of the economy, to improve the efficiency of resource allocation, and to deregulate economic and financial activity. Against this background the program for the third year of the stand-by provides, inter alia, for: (i) a marked tightening of monetary policy and more vigorous implementation of the instruments of monetary control, aimed at bringing about a sharp deceleration in the rate of liquidity expansion in the second half of 1982; (ii) steadfast application of the flexible exchange rate policy; (iii) a further reduction in the public sector's domestic borrowing requirement, to be achieved mainly by a reduction in the claims on financial resources of the SEEs; and (iv) continued application of incomes policy restraint. With this program, the Government expects to reduce inflation significantly in the second half of 1982, and further in 1983, while maintaining at least the same rate of real economic growth in 1982 as was achieved in 1981. It also expects to reduce the external current deficit substantially further.

3. The Government is keenly aware that, following a surge in the money supply in the first half of 1982, which had its origins both in an unexpected injection of liquidity through the balance of payments and in the emergence of a shortfall by the banks in the observance of their reserve requirements, monetary expansion must now be reined back sharply if the objective for inflation is to be achieved. Accordingly, the monetary program for the second half of 1982 envisages a reduction in the year-on-year growth of broad money to around 40 per cent on average in this period compared with an estimated increase of 65 per cent in the first half of the year. At the same time, however, the Central Bank will need to meet very substantial seasonal demands for credit in the coming months to finance what promises to be a record harvest. In order to reconcile these two imperatives, the Government will strictly limit the recourse of other borrowers, including the Treasury, to central bank credit and it has introduced a number of important measures to drain liquidity from the banking system and thus reduce the lending capability of the commercial banks. These latter measures include: (i) the establishment of a schedule for the orderly payment by the banks of deficiencies in their current observation of reserve requirements; (ii) an increase in the effective reserve requirement ratio applicable both to the stock of and to future increases in deposits used for the granting of preferential credits; (iii) an increase in the reserve requirement ratio against time deposits from a minimum of 30 per cent at present to up to 40 per cent on six-month deposits to the extent that the interest rate on such deposits is in excess of 50 per cent; and (iv) an increase in the penalty rate on reserve deficiencies from 35 per cent to 54 per cent (annual rate) for the first month in arrears, with an additional 5 percentage points penalty for each subsequent month in arrears. In addition, commercial banks' rediscount lines with the Central Bank have been reduced by close to 25 per cent. The Government is determined to ensure that the existing reserve deficiencies of the banks are made good and to prevent any new deficiencies from arising, and it intends to ensure that the liquidity and reserve requirements effective at present are maintained. The Government also intends to continue the policy of allowing deposit interest rates to be established in response to market forces, which has resulted in positive rates in real terms.

4. Consistently with the target for monetary expansion, and taking account of the projected impact of the foregoing measures, limits have been established for the last two quarters of 1982 on the net domestic assets of the Central Bank and on central bank credit to the public sector. These limits are presented in the annexed table. The program is based on an expected increase in real GNP of at least 4 1/2 per cent in 1982 and is believed to be consistent with a rate of rise in the GNP deflator in 1982 of somewhat more than 30 per cent. This is thought likely to correspond to a rather slower rate of rise in the wholesale and consumer price indices. The credit program also assumes that there will be a small reduction in net foreign liabilities of the Central Bank during the course of 1982 as a whole, but with an increase in such liabilities in the second half of the year. To the extent that the anticipated increase in net foreign liabilities does not materialize, the Central Bank will limit the growth of its net domestic assets by a broadly comparable amount.

5. With a view to guarding against a relative crowding out of the private sector and to limiting the public sector's claims on available resources, the credit program for the second half of 1982 provides for a much larger increase in credit to the private than to the public sector while the fiscal program for 1982 provides for a further reduction in relative terms (to about 3 1/2 per cent of GNP, from 4 1/2 per cent of GNP in 1981) in the public sector's domestic borrowing requirement. The central government budget for 1982, which will apply only for a ten-month period in order that from 1983 onward the fiscal and calendar years will coincide, aims to consolidate the improvement recorded in 1981, when the deficit was reduced to 1 1/2 per cent of GNP from more than 4 1/2 per cent of GNP in 1980. The current expectation is that the 1982 deficit, expressed at an annual rate, will differ little from that of the previous year in relation to GNP. Firm expenditure discipline, which contributed so importantly to the stabilization effort in 1981, will continue to be observed; indeed, budgetary expenditures are to be held below original appropriations in order to reduce the recourse of the Treasury to central bank credit in the second half of the year. At the same time a relatively large increase is projected in tax revenues, predicated on a further strengthening of tax administration and an improvement in the ratio of tax collection to tax assessments. In the latter connection, the Government intends to collect a significant proportion of the tax payments which it permitted to be deferred, temporarily, in 1981 and it does not intend to approve new deferments on any important scale in 1982. In addition, the interest charged on approved deferments has been increased from 24 per cent to 32 per cent. While there was an increase in budgetary payments arrears in 1981, this was largely of an administrative nature and did not represent a forced deferral of payments. A significant part of this build-up has already been run down, and the Government does not intend to accumulate net budgetary arrears in 1982.

6. The major strengthening in the public finances in 1982 is looked for from a reduction in nominal terms in the financing requirement of the SEEs. This is to be achieved primarily by a reduction in stockbuilding, which is expected to be facilitated by a projected strong increase in exports. A reduction from 5 per cent to 2 per cent in the interest rate subsidy received by the SEEs on their borrowing from the commercial banks should work to the same end. Fixed investment by the SEEs, meanwhile, is expected to fall in real terms and their overall profits to increase moderately under the new policy approach whereby (a) managers are being given virtually full autonomy to manage and to adjust prices; (b) the principal focus is to be placed on operational results; and (c) the investment programs of most of the enterprises take the form essentially of ceilings. Indications to date suggest that SEE managers are responding well to this new approach; in particular, necessary price adjustments are being made much more frequently than in the past. In order to expose the enterprises to greater market disciplines and to limit their burden on the budget and Central Bank, budgetary transfers to the SEEs are being strictly limited in line with understandings reached with the Fund at the beginning of the year and direct access to central bank credit is being

limited to the official wheat purchasing enterprise. Following authorization by the Consultative Assembly in June 1982 to reorganize the SEEs by decree, the Government is now moving to speed up the process of managerial and institutional reform. The reform measures will focus primarily on the manufacturing SEEs, which will be (a) directed to operate on commercial principles; (b) administered by semiautonomous boards of directors, with government participation; (c) permitted to issue equity capital; and (d) enabled to improve the quality of their management through selection on merit and through the offer of longer tenure and competitive salaries. In the meantime, the Government intends to conduct three full-scale within-the-year reviews of ongoing SEE performance in 1982 and to continue to monitor developments closely on a current basis.

7. The Government is continuing to exercise restraint over the development of incomes. Increases in salaries of government employees are being limited to 25 per cent, net of tax, in 1982 and for all other wage earners the High Arbitration Court has set before-tax increases ranging from 25 to 30 per cent. Increases in agricultural support prices announced thus far likewise fall mainly in the 25-30 per cent range.

8. The Government's energy policy is to reduce reliance on energy imports by an accelerated development of indigenous energy resources, mainly hydroelectric power and lignite, and to restrain energy consumption by pricing policies and other conservation measures. The share of energy investment in the 1982 public investment program has been increased to 34 per cent from 32 per cent in 1981. Domestic prices of energy have been raised frequently over the past 18 months and are now in line with international prices.

9. Notwithstanding the marked improvement in 1981, the balance of payments will need to be strengthened further over the next few years in order to meet the imports required to sustain a reasonable rate of economic growth at a time when exceptional assistance is expected to taper off and the room for maneuver provided by debt relief to diminish. Hence it remains essential to realize a relatively high growth of exports on a continuing basis. The Government believes that the pursuit of a flexible exchange rate policy, together with domestic demand restraint, will provide the basis for an expansion in exports in 1982 of around 25 per cent and a further reduction in the current account deficit to about US\$1.4 billion (2 1/2 per cent of GNP). It should be noted that this is expected to be achieved despite increasing difficulties facing certain traditional Turkish exports as a result of weak demand for certain products, protectionism in industrial country markets and heavily subsidized competition from industrial countries' agricultural exports in third markets. The total financing expected to be available in 1982, including use of the Fund's resources, is expected to cover the current account deficit and permit reserves to increase to a level equivalent to about two months' imports. The Government believes that the moderate increase in reserves that this implies will provide a desirable element

of flexibility, considering that the economy is still in the process of restructuring and liberalization and that uncertainties regarding world oil prices and the international economic outlook continue to loom large.

10. In view of the high debt service burden, the Government of Turkey will continue to pursue cautious debt management policies. The Government will limit the contracting of new nonconcessional public and publicly guaranteed foreign borrowing in the maturity range of up to and including ten years to US\$1 billion during the third year of the stand-by arrangement. The limit excludes rescheduling loans, the special assistance program loans provided under OECD auspices, and borrowing by the Central Bank of Turkey.

11. The Government is aware of the need to reduce the protection granted to production for the domestic market, in order to open up and strengthen the viability of the economy. Steps in this direction have been taken during the past two years by, inter alia, abolishing the import "quota list," increasing the number of products which may be imported, shifting items from the less liberalized to the more liberalized list, and reducing import guarantee deposits. The Government intends to continue import liberalization under the 1983 import regime. In this direction, as an additional step, industry studies are being undertaken to assess areas where measures to reduce protection may be taken in the near future. The Government also intends to reduce the reliance placed on export subsidies granted through fiscal and credit preferences, taking into consideration the export incentives provided by other countries. Toward this end the preferential interest rate on export credits has already been increased from 27 per cent to 31.5 per cent. Subsidies from the Interest Rate Rebate Fund have been reduced in stages from 35 per cent to 25 per cent for industrial exports and from 25 per cent to 5 per cent for other exports. With effect from January 1983, tax rebates for exports will be related to value added for products with a minimum (duty-free) import content of 20 per cent.

12. The Government of Turkey wishes to reiterate its resolve not to introduce any new multiple currency practices, or impose new or intensify existing restrictions on payments and transfers, or enter into any bilateral payments arrangements with Fund members or impose any new or intensify existing restrictions on imports for balance of payments reasons during the course of the stand-by arrangement. External payments arrears, which in March 1980 amounted to US\$2.4 billion, have for all practical purposes been eliminated, both through rescheduling operations and some settlements in foreign exchange. Claims outstanding are small and will be speedily settled once verified. The Government will ensure that no new external payments arrears are accumulated during the rest of the stand-by arrangement.

Turkey: Limits on the Net Domestic Assets of the Central Bank
and on Net Central Bank Credit to the Public Sector 1/

(In billions of Turkish liras)

	<u>Limits On</u>	
	<u>Net domestic assets</u> <u>of the Central Bank</u>	<u>Net Central Bank credit</u> <u>to the public sector</u> <u>2/</u>
July-September 1982 <u>3/</u>	935	590
September 1982 <u>4/</u>	955	595
October-December 1982 <u>3/</u>	975	600
December 1982 <u>4/</u>	982	602

1/ The concepts used in calculating these limits and adjustments to be made are set forth in a separate technical memorandum. The limits will be reduced by the amount of any net cumulative disbursements of balance of payments support loans after May 25, 1979 which are not included in the foreign liabilities of the Central Bank or for which a corresponding deposit in a blocked account of the Central Bank has not been made or maintained in full.

2/ Net Central Bank credit to the public sector is defined as the net of all Central Bank assets and liabilities to all public sector entities comprising, inter alia, the Central Government, the annexed budget, the Monopolies Administration, revolving funds, local authorities, and all State Economic Enterprises. Amounts of repayments of principal and interest in respect of the Central Government's and other public sector entities' external debt, which have not by the due date been deposited with the Central Bank, are also included in the Central Bank credit to the public sector.

3/ Average at last reporting date in each month.

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

Turkey: Medium-Term Balance of Payments Perspectives

Introduction

1. The progress that has been made over the past two years toward stabilizing the Turkish economy and restoring the basis for sustainable growth has rested primarily on the implementation by the authorities of a coherent adjustment program. A vital complementary role has also been played, however, by the availability of substantial financial assistance in the form of bilateral and multilateral program credits, purchases from the Fund, and reschedulings of commercial and official debt. The significance of such assistance is brought out in Table 1. At US\$3.6 billion in 1980 and US\$2.2 billion in 1981 (line 1), total balance of payments assistance covered 34 per cent and 20 per cent, respectively, of Turkey's import bill plus accrued debt servicing obligations (line 10); in 1982 the corresponding amounts are projected at US\$2.1 billion and 17 per cent. Without such support the partial recovery in the volume of imports in 1980-82 from the drastic decline recorded in 1978-79 (line 11) would not have been possible. The resulting greater availability of goods has played an important role in facilitating the process of economic restructuring--including, in particular, the greater export orientation now under way (line 12)--in supporting the level of activity and employment (line 13), and in helping to bring down the rate of inflation (line 14).
2. Turkish policy makers must now allow for such exceptional assistance to fall steadily away over the next few years. Bilateral and multilateral program aid is likely to decline--perhaps to half its 1982 level by 1986--as both OECD special assistance and IBRD structural adjustment lending wind down; the current stand-by arrangement with the Fund terminates in mid-1983; and debt relief, while initially rising as a result of the recent extension of the grace period on previously rescheduled commercial bank debt, will taper off sharply after 1983. All told, balance of payments assistance to Turkey could thereby decline from more than US\$2 billion in 1982 to around US\$0.5 billion in 1986 (Table 2, line 1).
3. Over the same period the schedule of debt amortization payments (before allowing for the debt relief taken into account above) will be sharply higher than in the recent past, with an immediate jump occurring in 1983 (Table 2, line 3). In addition, there will be a need to acquire sufficient foreign exchange to be able to maintain reserves at about their present level in relation to imports (Table 2, line 4).
4. A striking shift is thus in prospect in the balance between the financing sources and needs identified above--from a net provision of external finance of some US\$200 million in 1982 to a net drain of foreign exchange of around US\$1.8 billion in 1985 and again in 1986 (Table 2, line 6).

Issues

5. To what extent can this shift be counterbalanced by enlarged inflows of capital in other forms (project credits and direct investment, loans from banks, trade credits) and to what extent will it require further reduction of the current account deficit? 1/

6. To the extent that a reduction in the current account deficit would be required, what would be the implications for the growth of activity and employment on given assumptions regarding the growth of foreign exchange earnings?

7. Alternatively, given a path for the current account that can be financed on a sustainable basis, what rate of export growth would be required for imports, and thus activity, to increase sufficiently rapidly to prevent unemployment from increasing over the medium term?

Method and results

8. In order to examine these issues, three hypothetical profiles for the external current balance over the period 1982-86 are postulated and the implications of each for the questions posed above are explored on a given set of assumptions. The different profiles provide for the current account deficit (I) to remain unchanged at US\$1.4 billion; (II) to be reduced by half; and (III) to be eliminated. The auxiliary assumptions are largely judgmental; past relationships--e.g., of imports to GNP-- are too erratic to serve as a guide, and the economy is in the process of substantial structural change. The estimating technique is essentially mechanical and the results, which are summarized in Table 3, should be seen as indicating broad orders of magnitude rather than precise quantities.

9. The trade-off between financing and adjustment (the issue raised in paragraph 5) is examined in section A of Table 3. It is assumed, in this connection, that new debt incurred after end-December 1981 has an average maturity of 10 years with a grace period of 3 years (line 3); this would be broadly in line with the current situation, the implication being that a lengthening in the terms of commercial debt would be offset by reduced reliance on longer-term concessional credits. It is also assumed that project credits and private capital inflows (line 4) increase by some 10 per cent a year; this is likely to require the steady replenishment and enlargement of the "pipeline" of project credits. On this basis, and given that other identified capital and financing flows develop as suggested in Table 2, the residual financing need that would have to be met from "commercial" sources (primarily bank loans and trade credits) would total nearly US\$6 billion over the four years 1983-86 if the current account deficit were unchanged; a little over US\$4 billion if the deficit

1/ A sizable negative shift (of US\$1.6 billion) in the balance of the financing flows in question also occurred between 1980 and 1982. Virtually all of this was offset by a reduction in the external current deficit.

were halved; and somewhat less than US\$2.5 billion if the deficit were eliminated (line 5). Benchmarks against which the feasibility and sustainability of such financing might be judged are given in lines 6-9.

10. Estimates of the growth of real GNP that would be feasible in each scenario (the issue raised in paragraph 6) are set out in section B of Table 3. The key assumptions are as follows:

(i) the volume of exports increases by 10 per cent a year on average, export prices rise by 5 1/2 per cent in 1983 slowing to 3 1/2 per cent by 1986, and the terms of trade deteriorate fractionally each year. The postulated growth in export volume would entail continued gains in export market shares but would not be implausible if exchange rate and demand management policies remain on their present track and if there is no major disruption in Turkey's rapidly growing markets in the Middle East and North Africa.

(ii) new debt incurred after end-1981 carries an average interest rate of 10 per cent. Given the interest service due on debt outstanding at end-1981, total interest payments in 1986 would thereby range from US\$1.7 billion if the current account deficit had been eliminated to US\$2.0 billion if it had remained unchanged.

(iii) earnings from other invisibles increase by about 10 per cent a year, with a relatively slow growth in workers' remittances but a continued rapid growth of earnings from transportation, increased receipts from tourism, and rising profit remittances from Turkish contractors abroad.

(iv) the elasticity of real imports to real GNP averages 1.2. A critical component is the elasticity of oil imports which is estimated at close to 1.0 in light of the stepped-up conservation program now being put in place.

On the foregoing basis, if no reduction in the current account deficit were to be required, the volume of imports could increase at a rate which would be consistent with a growth of real GNP of about 5 1/2 per cent a year on average during 1983-86. If the deficit needed either to be halved or to be eliminated, the growth of real GNP would be constrained to around 4 1/2 per cent and to 3 1/2 per cent, respectively.

11. Estimates of the growth of exports that would be required, given the different current account constraints, if unemployment is not to increase further over 1983-86 (the issue raised in paragraph 7) are set out in section C of Table 3. The Turkish labor force is currently growing at a rate of rather more than 2 per cent a year. In addition, significant scope exists for productivity increases as existing capacity is used more fully and the quality of technology and capital equipment is improved. In view of this--and allowing for some shift toward greater labor-intensity of production--a rate of real GNP growth of around 5 per cent a year would seem to be needed to prevent unemployment from increasing

from its current 15 per cent rate. For growth of this order to be attained during 1983-86, the volume of exports would need to increase by about 9 per cent a year if the external current deficit could remain unchanged, by some 10 1/2-11 per cent a year if the deficit were to be halved, and by about 12 per cent a year if it were to be eliminated.

Assessment

12. The prospective balance of capital and financing flows suggests that Turkey must reduce its current account deficit significantly further in the period to 1986 but perhaps need not eliminate the deficit altogether.

13. A current account profile which envisaged no reduction in the deficit would not be sustainable. The residual financing that would need to be met from commercial sources would total four times the scheduled amortization of debt to the commercial banks (US\$6 billion against US\$1.5 billion) and would require a doubling in the banks' exposure in Turkey if, say, three quarters of it had to be provided by banks. Moreover, while the debt service ratio would rise relatively moderately (from 23 to 27 1/2 per cent), it would be accelerating rapidly at the end of the period.

14. A current account profile which eliminated the deficit over the period to 1986 ought to give rise to no financing difficulties. The residual financing need would be relatively small and nearly half would be covered if the banks rolled over maturing debt. At the same time the adjustment of the current account would greatly strengthen creditworthiness. Adjustment of such an order would, however, constrain the permissible growth of real GNP to a rate (3 1/2 per cent a year) which could not but entail a continued increase in unemployment. It is obviously questionable whether this would represent a sustainable situation.

15. An intermediate current account profile, similar to that specified in scenario II, would permit a rate of economic growth (about 4 1/2 per cent) which was more viable from the employment standpoint. The financing task that it would imply for 1985 and 1986 would, however, be sizable and might well suggest the need for a faster and larger reduction in the current account deficit than that posited in the scenario in question.

Sensitivity analysis

16. It bears emphasizing that the foregoing conclusions hinge not only on data (e.g., on debt servicing) which can be estimated with some degree of confidence, but also on a large number of assumptions. Three of the most crucial assumptions concern (i) the prospective increase in project credits and private capital inflows during 1983-86; (ii) the growth in the volume of exports; and (iii) the elasticity of imports to GNP.

17. How would the picture change--taking Scenario II, in which the current account deficit is to be halved between 1982 and 1986--if each of these assumptions were modified somewhat?

(i) If project credits and private capital inflows were to increase 5 percentage points a year faster/slower than assumed (i.e., by 15 per cent or 5 per cent, respectively), the cumulative financing task would be reduced/increased by about \$0.6 billion, with most of the reduction/increase occurring in the two final years of the period.

(ii) If the volume of exports were to increase 2 1/2 percentage points a year faster/slower than the 10 per cent rate assumed above, the feasible growth of real GNP would be increased/reduced by about 1 percentage point (to about 5 1/2 per cent/3 1/2 per cent).

(iii) If the elasticity of imports were 0.2 points lower/higher than assumed (i.e., 1.0 or 1.4, respectively), the feasible growth of real GNP would be increased/reduced by about 1 percentage point (to 5 1/2 per cent/3 1/2 per cent).

18. The sensitivity of the results to reasonable changes in the assumptions is thus significant. But unless two or more of the assumptions were to prove invalid in a way which worked in the same direction and by a significant amount, the assessment in paragraph 12 would remain valid.

Table 1. Turkey: The External Constraint, 1977-82

(In billions of U.S. dollars)

	1977	1978	1979	1980	1981	1982
1. Balance of payments assistance	0.4	0.8	1.5	3.6	2.2	2.1
Program credits <u>1/</u>	(0.4)	(0.3)	(0.5)	(1.6)	(0.8)	(0.9)
Debt relief <u>2/</u>	(--)	(0.3)	(0.9)	(1.4)	(0.9)	(0.7)
IMF (gross)	(--)	(0.2)	(0.1)	(0.6)	(0.5)	(0.5)
2. Other capital flows	0.9	0.9	1.0	1.9	1.7	1.0
Project and private capital	(0.7)	(0.6)	(0.6)	(0.7)	(0.8)	(1.0)
Loans from banks	(0.7)	(0.4)	(-0.4)	(0.2)	(-0.2)	(0.2)
Other	(-0.5)	(-0.1)	(0.8)	(1.0)	(1.1)	(--)
3. Debt amortization <u>3/</u>	-0.2	-0.5	-0.9	-1.7	-1.3	-1.5
4. Increase in reserves (-)	<u>2.3</u> <u>4/</u>	<u>0.3</u>	<u>0.1</u>	<u>-0.1</u>	<u>-0.3</u>	<u>-0.4</u>
5. Financeable current account deficit (in per cent of GNP)	3.4 (7)	1.5 (2 3/4)	1.7 (2 1/2)	3.7 (6)	2.3 (4)	1.4 (2 1/2)
6. Exports	1.7	2.3	2.3	2.9	4.7	5.9
7. Interest payments <u>3/</u>	-0.3	-0.5	-1.0	-1.1	-1.4	-1.4
8. Other invisibles	<u>1.0</u>	<u>1.3</u>	<u>2.1</u>	<u>2.4</u>	<u>3.3</u>	<u>3.7</u>
9. Financeable imports	5.8	4.6	5.1	7.9	8.9	9.0
Memorandum Items:						
10. Line 1 in per cent of lines 3+7+9	6	14	21	34	20	17
11. Change in volume of imports <u>5/</u>	3	-30	-7	13 1/2	3 1/2	5
12. Change in volume of exports <u>5/</u>	-18	23	-16	11	49	21
13. Change in real GNP <u>5/</u>	4	3	-1/2	-1	4 1/2	4 1/2
14. Change in GNP deflator <u>5/</u>	25	44	73	101	42	32-33

Source: IMF staff.

1/ Bilateral and multilateral; includes petroleum loans.

2/ Principal and interest.

3/ Before debt relief; includes IMF.

4/ Including accumulation of arrears.

5/ In per cent.

Table 2. Turkey: "Identified" Financing Sources and Needs, 1982-86

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986
1. Balance of payments assistance	2,100	1,865	1,230	600	450
Program credits	(900)	(700)	(650)	(450)	(450)
Debt relief <u>1/</u>	(750)	(950)	(580)	(150)	(--)
IMF (gross)	(450)	(215)	(--)	(--)	(--)
2. Other capital flows	1,190	...	...	...	...
3. Amortization of debt <u>2/</u>	-1,535	-2,079	-1,883	-2,088	-1,895
4. Increase in reserves (-)	<u>-345</u>	<u>-200</u>	<u>-250</u>	<u>-300</u>	<u>-350</u>
5. Financeable current account deficit	1,410	...	...	...	...
Memorandum Item:					
6. Lines 1+3+4	220	-414	-903	-1,788	-1,795

Source: IMF staff.

1/ Principal and interest.

2/ Before debt relief. Applies to debt outstanding and undisbursed at the end of 1981. Includes IMF.

Table 3. Turkey: Medium-Term Balance of Payments Perspectives

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986
A. Financing task					
1. Current account balance I	-1,410	-1,410	-1,410	-1,410	-1,410
II	-1,410	-1,225	-1,050	-825	-700
III	-1,410	-1,050	-700	-350	--
2. Identified financing flows, net (Table 2, line 6)	220	-414	-903	-1,788	-1,795
3. Amortization of new debt incurred after 1981	--	--	--	-100	-250
4. Project and private capital	<u>975</u>	<u>1,075</u>	<u>1,175</u>	<u>1,300</u>	<u>1,425</u>
5. Residual financing need I	-215	-749	-1,138	-1,998	-2,030
(= 1+2+3+4) II	-215	-564	-778	-1,413	-1,320
III	-215	-389	-428	-938	-620
Reference Items:					
6. Amortization of bank debt	140	75	185	595	595
7. Debt outstanding to banks	4,855	...	...	...	...
8. Total debt outstanding I	19,000	20,300	21,600	22,800	23,900
II	19,000	20,100	21,000	21,700	22,200
III	19,000	20,000	20,500	20,700	20,400
9. Debt service ratio <u>1/</u> I	23	— 24 1/2 —		— 27 1/2 —	
II	23	— 24 —		— 26 1/2 —	
III	23	— 23 1/2 —		— 25 —	
B. "Feasible" growth of real GNP <u>1/</u>					
(assuming growth in I		— 5 3/4 —		— 5 1/4 —	
real exports of II		— 4 1/2 —		— 4 1/2 —	
10 per cent a III		— 3 1/2 —		— 3 1/2 —	
year)					
C. "Required" growth of real exports <u>1/</u>					
(consistent with I		— 8 1/2 —		— 9 1/2 —	
growth in real GNP II		— 11 —		— 10 1/2 —	
of 5 per cent a III		— 13 —		— 11 1/2 —	
year)					

Source: IMF staff.

1/ Annual averages, in per cent, for 1983-84 and 1985-86.

Table 1. Turkey: Selected Economic and Financial Indicators, 1979-82

	1979	1980	1981		1982	
	Actual	Actual	Program in EBS/81/180	Current estimate	Program in EBS/82/19	Revised Program
(Annual percentage changes, unless otherwise specified)						
National income and prices						
GNP at constant prices	-1/2	-1	3	4 1/2	4 1/2	4 1/2
GNP deflator	72 1/2	101	40	42	25	32-33
Consumer prices	63	93	...	35	...	...
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	-1	29	44	62	24 1/2	24 1/2
Imports, c.i.f.	10	56	7 1/2	13	12	7 1/2
Non-oil imports, c.i.f.	5	21	14	25	13	11
Export volume	-16	11	33	49	21	21
Import volume	-7	13	-1 1/2	3 1/2	4 1/2	5
Terms of trade (deteriora- tion = -)	--	-16	-1/2	-1/2	- 1/2	1/2
Nominal effective exchange rate (depreciation = -) 1/	-40	-51	...	-21	...	...
Real effective exchange rate (depreciation = -) 1/	-4	-21 1/2	...	-8	...	...
Government budget						
Revenue and grants	76 1/2	68	74	61	35 2/	39 2/
Total expenditure	75	79	46	39 1/2	35 2/	35 1/2 2/
Money and credit						
Domestic credit of						
Central Bank 1/	43 1/2	53	40	34	...	20
Government	54	50	33	31	...	12
Private sector	29	57	52	40	...	31
Money and quasi-money (M ₂) 3/	54	57	53	59	...	50
Velocity (GNP relative to M ₂)	12	27	-5	-7	...	-8
Interest rate (annual rate, one-year savings deposit)	20	33	...	50	...	...
(In per cent of GNP)						
Overall public sector						
deficit	-10	-10	-5 1/2	-6 1/2	-4 1/4	-5
central government savings	3 4	-1/2	3 1/4	4	4	3 1/4
Central government budget						
deficit (including trans- fers to SEEs)	-3 1/2	-4 1/4	-2	-1/4	-1 1/4	-1 1/2
Domestic bank financing	3 1/4	4	2 1/2	--	1 1/2	1 1/4
Foreign financing	1 4	1/4	-1/2	1/4	-1/4	1/4
financing requirement of SEEs	10 1/4	-10 1/4	-7	-8 3/4	-5 1/4	-5
Gross domestic investment	24 1/2	26 1/2	24	24 1/2	24	23 1/2
Gross domestic savings	22	20 1/4	20	20 1/2	21	21
Current account deficit	-2 1/2	-6 1/4	-4 1/2	-4	-3	-2 1/2
External debt	16	28	...	30	33	33
Debt service ratio	13	26	...	23 1/2	23	23
Interest payments (in per cent of exports of goods and services)	12 1/2	12 1/2	...	15	14	13 1/2
(In millions of SDRs, unless otherwise specified)						
Overall balance of payments	-550	-300	-750	-50	-250	25
Official reserves (months of imports)	2	2	...	2	1 1/2	2
External payments arrears (end-period)	1,770	1,266	...	275	--	--

Sources: Turkish authorities; and staff estimates.

1/ December over December of the previous year.

2/ Ten-month budget figures scaled up by 1.2.

3/ Average for the year.

Table 2. Turkey: National Expenditure and Production

	<u>1980</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> <u>1/</u>
	In billions of liras	Percentage change in volume from preceding year			
Consumption	3,538	-0.5	--	3.1	3.7
Public	544	3.1	9.0	4.0	8.1
Private	2,994	-1.3	-1.2	2.9	3.0
Fixed investment	862	4.5	-10.9	3.7	6.0
Public	482	7.1	-2.3	6.2	6.8
Private	380	-19.5	-20.0	0.6	5.0
Stockbuilding <u>2/</u>	<u>280</u>	<u>(0.2)</u>	<u>(2.5)</u>	<u>(-1.7)</u>	<u>(-0.9)</u>
Total domestic demand	4,680	-1.0	0.1	1.6	3.4
Foreign balance <u>2/</u>	<u>-245</u>	<u>(0.6)</u>	<u>(-1.2)</u>	<u>(2.7)</u>	<u>(1.0)</u>
GNP	4,435	-0.4	-1.1	4.3	4.4
Agriculture		2.8	1.7	0.4	3.2
Industry		-5.6	-5.5	9.1	6.4
Construction		4.2	0.8	0.4	) 4.0)
Services		<u>-0.3</u>	<u>-0.4</u>	<u>4.1</u>	<u>)</u>
GNP at market prices		-0.4	-1.1	4.3	4.4

Source: State Planning Organization.

1/ Forecast.

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

Table 3. Turkey: Price Developments

	Wholesale prices	<u>Cost of living</u>			Implicit GNP Deflator
		Ankara <u>1/</u>	Istanbul <u>1/</u>	Istanbul <u>2/</u>	
<u>(Percentage change over average for preceding year)</u>					
1978	52.6	53.4	61.9	...	43.7
1979	63.9	62.0	63.5	...	73.3
1980	107.2	101.4	94.3	75.6	103.3
1981	36.8	34.0	37.6	35.9	41.9
<u>(Percent change over average for corresponding quarter of previous year)</u>					
1981 Q1	57.9	57.7	51.3	42.6	...
Q2	35.0	28.5	37.9	32.7	...
Q3	37.2	29.2	34.7	36.2	...
Q4	27.5	27.7	30.7	33.6	...
1982 Q1	26.1	26.2	33.7	37.8	...
Q2	30.2	30.2	37.2	40.2	...

Source: Turkish authorities.

1/ Ministry of Commerce.

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

Table 4. Turkey: Public Sector Borrowing Requirement

(In billions of Turkish liras)

	1980	1981		1982	
		Estimate in EBS/82/19	Current estimate	Program in EBS/82/19	Revised Program
Central Government financing balance <u>1/</u>	-192	-80	-18	-109 <u>2/</u>	-143 <u>2/</u>
Plus transfers to SEEs <u>1/</u>	213	214	214	243 <u>3/</u>	243 <u>3/</u>
Less taxes paid by SEEs <u>3/</u>	-15	-37	-42	-49	-75
Plus financing balance of SEEs <u>3/4/</u>	<u>-458</u>	<u>-507</u>	<u>-580</u>	<u>-443</u>	<u>-467</u>
Public sector borrowing requirement	-453	-410	-426	-358	-442
Foreign borrowing of Central Government <u>1/</u>	7	-33	13	-18 <u>2/</u>	28 <u>2/</u>
Foreign borrowing of SEEs <u>3/5/</u>	<u>67</u>	<u>113</u>	<u>122</u>	<u>68</u>	<u>103</u>
Public sector domestic borrowing requirement	-379	-330	-291	-308	-311
Memorandum items: (in per cent of GNP)					
Public sector borrowing requirement	10	6 1/4	6 1/2	4 1/4	5
Public sector domestic borrowing requirement	8 1/2	5	4 1/2	3 1/2	3 1/2

Source: IMF staff estimates from official data.

1/ Fiscal-year basis ending February, except in 1982.

2/ 10-month budget figures scaled up to an annual rate.

3/ Calendar-year data.

4/ Defined as total investment less profit less depreciation.

5/ Including lira counterpart of IBRD structural adjustment loans.

Table 5. Turkey: Consolidated Budget 1/

(In billions of Turkish liras)

	1980	1981		1982 Mar.-Dec.	
	Actual	Estimate in EBS/82/19	Current estimate	Program in EBS/82/19	Revised program
Revenues	855	1,485	1,378	1,665	1,600
Expenditures	<u>1,063</u>	<u>1,525</u>	<u>1,482</u>	<u>1,715</u>	<u>1,674</u>
Personnel	335	435	390	490	450
Other current	162	320	255	346	300
Investment	167	320	290	372	364
Transfers	399	450	547	508	560
Of which: to SEEs	(213)	(214)	(214)	(233)	(231)
Budget balance	<u>-208</u>	<u>-40</u>	<u>-104</u>	<u>-50</u>	<u>-74</u>
Change in accounts payable, net	16	-40	86	-41	-45
Financing balance	<u>-192</u>	<u>-80</u>	<u>-18</u>	<u>-91</u>	<u>-119</u>
Foreign borrowing	7	-33	13	-15	24
Domestic borrowing	207	145	113	106	95
Central Bank	(109)	(85)	(53)	(40)	(30)
Other	(98)	(60)	(60)	(66)	(65)
Use of bank deposits (+)	-22	-32	-108	--	--
<u>Memorandum items</u> (in per cent of GNP)					
Revenues	19.3	22.4	21.0	23.2 <u>2/</u>	21.1 <u>2/</u>
Expenditures	24.0	23.0	22.6	23.8 <u>2/</u>	22.1 <u>2/</u>
Of which: transfers to SEEs	(4.8)	(3.2)	(3.3)	(2.9)	(2.7)
Budget balance	-4.7	-0.6	-1.6	-0.6 <u>2/</u>	-1.0 <u>2/</u>
Financing balance	-4.3	-1.2	-0.3	-1.1 <u>2/</u>	-1.5 <u>2/</u>

Source: Ministry of Finance.

1/ For 1980 and 1981, fiscal year data (March-February); for 1982, the data refer to the ten-month period March-December only. Beginning in 1983 the fiscal and calendar years will correspond.

2/ For comparative purposes, the ten-month data have been multiplied by 1.2 in order to put them broadly on a twelve-month basis, but with transfers to the SEEs estimated separately.

Table 6. Turkey: Accounts of the SEEs
(In billions of Turkish liras; calendar year basis)

	1980	1981		1982	
	Actual	Estimate in EBS/82/19	Current estimate	Program in EBS/82/19	Revised program
Sales revenue	1,146	1,780	1,767	2,601	2,544
Total expenditure	1,169	1,787	1,759	2,554	2,518
Wages and salaries	238	321	314	380	376
Purchases of goods and services	898	1,417	1,390	2,103	2,077
Other	33	49	55	71	65
Profit/loss before taxes	-23	-7	8	47	26
Duty losses <u>1/</u>	-75	-102	-111	-83	-98
Operational profit	52	95	119	130	124
Total investment	459	534	616	540	541
Fixed investment	281	408	406	472	496
Increase in stocks	178	126	210	68	45
Depreciation	24	34	28	50	48
Financing requirement	458	507	580	443	467
Budgetary transfers	149	238	241	243	243
Taxes	-15	-37	-42	-49	-75
Borrowing from Central Bank	50	22	32	20	25
State Investment Bank	16	27	16	34	34
Foreign borrowing <u>2/</u>	67	113	122	68	103
Transfers from Price Stabiliza- tion Fund	30	46	50	50	60
Short-term borrowing	161	98	161	77	78
<u>Memorandum items</u> (in per cent of GDP)					
Profit/loss before taxes	-0.5	-0.1	0.1	0.5	0.3
Total investment	10.4	8.1	9.4	6.2	6.0
Financing requirement	10.3	7.7	8.8	5.2	5.1

Source: Ministry of Finance.

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

2/ Including lira counterpart of IBRD structural adjustment loans.

Table 7. Turkey: Credit Limits

(In billions of Turkish liras)

	Net domestic assets of the Central Bank		Net Central Bank credit to the Public Sector	
	Limit	Actual	Limit	Actual
1982 January-March <u>1/</u>	849	829	548	539
March <u>2/</u>	863	838	554	553
April-June <u>1/</u>	900	867	571	557
June <u>2/</u>	920	884	582	564
July-September <u>1/</u>	935	...	590	...
September <u>2/</u>	955	...	595	...
October-December <u>1/</u>	975	...	600	...
December <u>2/</u>	982	...	602	...

Source: Turkish authorities and IMF staff.

1/ Average of last reporting date in each month.

2/ Average of each weekly reporting date during the month.

Table 9. Turkey: Selected Interest Rates

(In per cent per annum)

	1979	1980	1981	1982
	End-December			June 1
Commercial banks				
Deposit rates				
Commercial and public deposits	--	--	--	--
Time deposits (6-12 months)	12	15	50	50
"Effective yield" on time deposits <u>1/</u>	9 1/2	12	37 1/2	37 1/2
"Effective cost" of borrowing <u>2/</u>				
General, long term	50	75	74	70
Export credits	...	25	32	40
"Scheduled" lending rates				
Short term, general	19	31	36	36
Short term, agriculture	14	22	22	20
Short term, exports	...	22	27	31 1/2
Long term, general	22	36	41	41
Long term, agriculture	18	24	24	22
Central Bank				
Interest paid on required reserves				
Sight deposits	8	8	20	12 1/2
Time deposits	16	16	26	19 1/2
Rediscounts and advances				
Short term, general	10 3/4	26	31 1/2	31 1/2
Short term, agriculture	11 1/2	19 1/2	20	18
Short term, exports	11	17 3/4	27	31 1/2
Long term, general	14	28 1/2	32 3/4	32 3/4

Sources: Central Bank of Turkey; and staff estimates.

1/ After deduction of 25 per cent withholding tax.

2/ Staff estimate. Includes, in addition to "scheduled" lending rate, net contribution to Interest Rate Rebate Fund, financial transactions tax, commission charged by bank, and compensating balances required by bank.

Table 10. Turkey: Balance of Payments, 1980-82

(In millions of U.S. dollars)

	1980	1981	1982	
			Projection in EBS/82/19	Current projection
Trade balance	-4,999	-4,230	-4,150	-3,750
Exports, f.o.b.	2,910	4,703	5,850	5,850
Imports, c.i.f.	-7,909	-8,933	-10,000	-9,600
Services balance	1,319	1,888	2,350	2,340
Workers' remittances	2,071	2,490	2,850	2,700
Interest payments (before debt relief)	-1,138	-1,443	-1,450	-1,400
Tourism	212	277	350	350
Other services (net)	174	564	600	690
Current balance	-3,680	-2,342	-1,800	-1,410
Capital account (long- and medium-term)	2,342	1,129	1,155	1,435
Project and suppliers' credits	547	642	850	750
Program loans	377	430	500	500
Private foreign capital <u>1/</u>	148	129	235	235
Petroleum loans	215	50	--	--
Loans from banks	165	-147	--	200
Of which:				
Acceptance credits (net)	(-58)	(-147)	(--)	(--)
Eurocurrency loans	(223)	(--)	(--)	(200)
Special assistance under the auspices of the OECD	996	360	400 <u>2/</u>	400 <u>2/</u>
Debt repayments (before debt relief)	-1,556	-1,185	-1,400	-1,400
Debt relief	1,450	850	550	750
Principal	(980)	(600)	(450)	(650)
Interest	(470)	(250)	(100)	(100)
Short-term credits, errors and omissions	941	1,124	400	--
SDR allocations	27	24	--	--
Overall balance	-370	-65	-265	25
Financing	370	65	265	-25
Net use of Fund resources	461	335	320	320
Increase in net official reserves other than arrears and IMF (-)	-91	-270	-55	-345

Source: Turkish authorities.

1/ Includes imports with waiver.2/ Represents amount expected to be disbursed from 1981 pledges only.

Table 11. Turkey: Geographic Distribution of Foreign Trade

(In millions of U.S. dollars)

	1979	1980	1981	1979	1980	1981
	Exports			Imports		
EC countries	1,098	1,242	1,503	1,828	2,268	2,520
Of which:						
Germany	495	604	643	631	837	940
France	137	164	216	313	377	400
Italy	213	218	246	473	300	372
United Kingdom	103	104	148	227	317	434
Other OECD countries	349	438	761	1,236	1,316	1,760
Of which:						
United States	105	127	268	378	442	589
Japan	22	37	25	227	113	206
Eastern Europe	301	491	327	613	757	796
Of which:						
U.S.S.R.	127	169	194	108	181	164
Major regional partners	188	324	1,422	1,199	2,924	3,277
Of which:						
Iran	12	85	234	176	803	514
Iraq	113	135	559	579	1,237	1,564
Libya	43	60	442	209	778	789
Saudi Arabia	20	44	187	235	106	410
Other countries	325	415	690	193	645	580
Total	2,261	2,910	4,703	5,069	7,910	8,933

Source: State Institute of Statistics, Monthly Bulletin of Statistics.

Table 12. Turkey: Commodity Composition of Exports

(In millions of U.S. dollars)

	1977	1978	1979	1980	1981
A. Agricultural products	<u>1,041</u>	<u>1,543</u>	<u>1,344</u>	<u>1,672</u>	<u>2,220</u>
(In per cent of total)	(59.4)	(67.4)	(59.4)	(57.5)	(47.2)
Cereals and pulses	<u>120</u>	<u>262</u>	<u>169</u>	<u>181</u>	<u>326</u>
Fruit and vegetables	<u>440</u>	<u>561</u>	<u>648</u>	<u>754</u>	<u>795</u>
Hazelnuts	251	331	353	395	302
Dried fruit	110	145	166	212	234
Citrus fruit	42	44	53	87	125
Other	37	41	76	60	134
Industrial crops and forestry products	<u>432</u>	<u>618</u>	<u>448</u>	<u>606</u>	<u>813</u>
Cotton	210	348	228	323	348
Tobacco	176	225	177	234	395
Other	46	45	43	49	70
Live animals and sea products	<u>49</u>	<u>102</u>	<u>79</u>	<u>131</u>	<u>285</u>
B. Processed and manufactured products	<u>586</u>	<u>621</u>	<u>785</u>	<u>1,047</u>	<u>2,290</u>
(In per cent of total)	(33.4)	(27.1)	(34.7)	(36.0)	(48.7)
Processed agricultural products	<u>136</u>	<u>110</u>	<u>151</u>	<u>209</u>	<u>412</u>
Manufactured products	<u>450</u>	<u>511</u>	<u>634</u>	<u>838</u>	<u>1,878</u>
Textiles and clothing	260	309	378	424	803
Hides and leather industry	52	40	44	50	82
Forestry industry	...	1	2	4	20
Chemical industry	33	24	24	76	94
Rubber and plastic industry	3	2	3	16	72
Petroleum products	...	--	--	39	107
Glass and ceramics	27	30	37	36	102
Cement	9	41	45	40	198
Iron and steel industry	14	21	31	34	100
Nonferrous metals industry	20	12	14	18	30
Metal products and machinery	14	18	18	30	85
Electrical equipment and products	3	4	5	11	26
Motor vehicles	10)	9)	33	50)	159
Other	5 )	)		10)	
C. Mining and quarrying products	<u>126</u>	<u>124</u>	<u>132</u>	<u>191</u>	<u>193</u>
(In per cent of total)	(7.2)	(5.4)	(5.8)	(6.6)	(4.1)
Total (= A + B + C)	<u>1,753</u>	<u>2,288</u>	<u>2,261</u>	<u>2,910</u>	<u>4,703</u>

Sources: State Institute of Statistics; and State Planning Organization.

Table 13. Turkey: Total External Disbursed Debt, 1977-81
(In millions of U.S. dollars)

End of period	1977	1978	1979	1980	1981
Total outstanding debt (disbursed only)	<u>11,227</u>	<u>14,416</u>	<u>14,234</u>	<u>16,202</u>	<u>17,544</u>
By borrower:					
Government	4,876	6,884	7,514	10,031	11,963
Central Bank	5,584	6,606	6,053	5,333	4,858
Other Government <u>1/</u>	359	420	308	620	459
Private sector	258	356	359	218	264
Other <u>2/</u>	150	150	--	--	--
By maturity:					
Medium- and long-term debt	<u>5,134</u>	<u>7,240</u>	<u>10,678</u>	<u>13,722</u>	<u>15,433</u>
Project and program credits	4,469	6,397	6,855	9,268	11,312
Convertible Turkish lira deposits (rescheduled)	--	--	2,269	2,137	2,077
Eurocurrency loans	407	487	659	763	651
Bankers' credits	--	--	429	429	429
Third-party reimbursement claims (rescheduled)	--	--	107	107	100
Suppliers' arrears (rescheduled)	--	--	--	800	600
Private credits	258	356	359	218	264
Short-term debt	<u>6,093</u>	<u>7,176</u>	<u>3,556</u>	<u>2,480</u>	<u>2,111</u>
Suppliers' arrears	1,580	1,560	1,400	--	--
Convertible Turkish lira deposits	2,267	2,860	617	543	473
Acceptance credits	560	862	435	377	230
Dresdner Bank schemes	173	363	344	365	473
Petroleum credits	359	420	308	620	459
Overdrafts	240	341	244	254	69
Third-party reimbursement claims	107	107	--	--	--
Other <u>2/</u>	807	663	208	321	407
By creditor:					
Multilateral agencies	<u>1,707</u>	<u>2,185</u>	<u>2,485</u>	<u>2,285</u>	<u>4,079</u>
IMF	409	622	630	1,054	1,322
World Bank, IDA, and IFC	810	945	1,180	1,438	1,902
European Investment Bank	398	447	471	447	416
European Resettlement Fund	90	145	148	253	300
Islamic Development Bank	--	26	56	60	86
OPEC Fund	--	--	--	15	15
Kuwait and Saudi Development Funds	--	--	--	18	38
Bilateral lenders <u>3/</u>	<u>2,762</u>	<u>4,212</u>	<u>4,370</u>	<u>5,983</u>	<u>7,233</u>
OECD countries	2,465	3,871	3,976	5,253	6,340
OPEC countries	27	26	55	349	348
Other countries	270	315	339	381	545
Commercial banks	4,138	5,353	5,122	5,097	4,794
Private lenders <u>4/</u>	2,280	2,336	2,067	1,638	1,323
Other	340	330	190	199	115
Memorandum item:					
Ratio of total outstanding debt to GNP (in per cent)	23	27	20	28	30

Sources: Data supplied by the Turkish authorities; the World Bank; and staff estimates.

1/ Includes bilateral official loans to state enterprises.

2/ Includes short-term trade credits and credit lines established under bilateral arrangements with Iran and Iraq.

3/ Includes both commercial credits and loans from governments.

4/ Includes unrescheduled arrears on suppliers' credits.

Table 14. Turkey: Debt Service Payments on Disbursed and Undisbursed Debt at December 31, 1981: 1982-86

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986
International organizations	<u>597</u>	<u>177</u>	<u>839</u>	<u>899</u>	<u>953</u>
Principal	276	393	439	532	628
Interest	321	384	400	367	325
Bilateral lenders					
OECD countries	<u>525</u>	<u>697</u>	<u>711</u>	<u>750</u>	<u>581</u>
Principal	355	510	517	583	442
Interest	170	187	194	167	139
Other countries	<u>107</u>	<u>113</u>	<u>122</u>	<u>104</u>	<u>113</u>
Principal	70	79	82	68	81
Interest	37	34	40	36	32
Commercial banks	<u>597</u>	<u>512</u>	<u>612</u>	<u>995</u>	<u>911</u>
Principal	137	75	187	595	597
Interest ^{1/}	460	437	425	400	314
Private sector	<u>137</u>	<u>159</u>	<u>163</u>	<u>234</u>	<u>206</u>
Principal	53	72	78	160	147
Interest	84	87	85	74	59
Short-term debt	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
Principal	--	--	--	--	--
Interest	200	200	200	200	200
Net debt service payments	<u>2,163</u>	<u>2,458</u>	<u>2,647</u>	<u>3,182</u>	<u>2,964</u>
Principal	891	1,129	1,303	1,938	1,895
Interest	1,272	1,329	1,344	1,244	1,069
Debt relief	<u>750</u>	<u>950</u>	<u>580</u>	<u>150</u>	--
Principal	650	950	580	150	--
Interest	100	--	--	--	--
Gross debt service payments	<u>2,913</u>	<u>3,408</u>	<u>3,227</u>	<u>3,332</u>	<u>2,964</u>
Principal	1,541	2,079	1,883	2,088	1,895
Interest	1,372	1,329	1,344	1,244	1,069

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

^{1/} Assumes LIBOR of 14 per cent.

Table 15. Turkey: Synthesis of Main Program
Relationships and Assumptions

	1981 Actual	1982 Program
(In millions of U.S. dollars)		
Increase in foreign reserves (-)	-270	-345
Net purchases from IMF	335	320
Overall external deficit (+)	65	-25
Plus capital inflows	2,277	1,435
Current account deficit	2,342	1,410
Plus exports	4,703	5,850
Plus net invisibles	1,888	2,340
Program imports	8,933	9,600
(Percentage change)		
Total value of imports	13	7½
Import prices	8	2½
Import volume	4½	5
Elasticity of imports to GNP	(1.0)	(1.1)
Real GNP	4½	4½
GNP deflator	42	32-33
Nominal GNP	48	38-39
Velocity of M ₂	-7	-8
M ₂	59	50
Reserve money multiplier	7	7½
Reserve money	48	40
(In billions of Turkish lira)		
Increase in reserve money	212	186
Change in Central Bank net foreign assets	1	8
Permissible increase in NDA of Central Bank	211	178

Source: IMF staff.