

EBS/82/130
Supplement 1

CONFIDENTIAL

August 19, 1982

To: Members of the Executive Board

From: The Secretary

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

The attached supplement to the paper on the review of the stand-by arrangement for Turkey (EBS/82/130, 7/26/82) has been prepared on the basis of additional information.

Att: (1)

INTERNATIONAL MONETARY FUND

TURKEY

Review of Stand-By Arrangement and Exchange System
Supplementary Information

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

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The following information has become available since the issuance of EBS/82/130 (7/26/82):

1. Prices

Following an acceleration in January-April 1982 and some slackening in May and June, the rate of inflation moderated further in July. Over the three-month period May-July, the year-on-year rate of increase in wholesale prices was 27.1 per cent (compared with 30.2 per cent in April-June and 26.1 per cent in January-March). The corresponding rate of increase in an average of three consumer price indices was 34.0 per cent (against 35.9 per cent and 32.9 per cent, respectively).

2. Monetary developments

During July 1982, reserve money increased by nearly LT 68 billion (or 9 per cent) and at the end of the month reached almost LT 823 billion, 44 per cent more than at the end of July 1981. This increase was considerably larger than that envisaged in the monetary program.

The surge in reserve money stemmed both from an unexpected reduction of LT 15 billion in the Central Bank's net foreign liabilities and from a larger increase in its net domestic assets than had been foreseen. The fall in net foreign liabilities resulted partly from a stronger-than-expected balance of payments outturn and partly from net sales of foreign exchange to the Central Bank by domestic banks hard pressed for liras in the wake of the confidence crisis in late June. The unexpectedly large increase in net domestic assets, meanwhile, reflected three principal factors: (i) larger than projected borrowing by the Soil Products Office (the official wheat purchasing agency), against the background both of a very substantial crop and of an apparently lower level of purchases by private merchants than had been anticipated; (ii) an unusually sharp fall in "other items (net)"--comprising mainly a large number of miscellaneous deposit accounts in the Central Bank

whose total value is set against gross central bank credit in deriving the figure for net domestic assets (see Table 8, page 48 of EBS/82/130); and (iii) further special assistance to the commercial banks in the face of the confidence crisis.

The staff has been in contact with the Turkish authorities who, while noting the very considerable force of special factors in the monetary data for July, have indicated that they are concerned with the rapid expansion of the monetary base and are exploring ways to rein it back.

3. Public finance

Provisional data on the development of the consolidated budget accounts in the first three months of the 1982 fiscal year indicate that tax revenue was 36 per cent higher than in the corresponding period of 1981, while the growth of total expenditure was held to 15 per cent. Both of these rates of increase were lower than those--of 43 per cent and 36 per cent, respectively--projected by officials for the fiscal year as a whole. During the first three months of the fiscal year there was also, as expected, a substantial reduction in the outstanding level of the Central Government's accounts payable.

4. External developments

Following a quickening in the year-on-year rate of growth in May and June, exports in the first half of 1982 were 30 per cent higher than in the same period of 1981. Import growth, meanwhile, strengthened somewhat in May-June, but for the half year as a whole imports were still somewhat lower (by 3 per cent) than in the first half of 1981.

The authorities have continued to adjust the exchange rate on a daily basis. Thereby, in the period between end-June and mid-August the nominal effective exchange rate of the lira was lowered by about 4 per cent.