

September 11, 1981 - 81/171

The Chairman's Summing Up at the Conclusion of the  
1981 Article IV Consultation with Turkey  
Executive Board Meeting 81/121 - September 9, 1981

Executive Directors commended the Turkish authorities for the results of the stabilization effort achieved so far, most notably the reduction of inflation and the rapid growth in foreign exchange earnings. This success was seen as largely reflecting adjustments in the exchange rate, interest rates, and the prices of public enterprises' goods and services, and more generally the greater reliance on market forces in each of these areas. The key role played by the program of monetary restraint was also noted. Directors observed, however, that the need for further adjustment continued to be large and pressing, particularly in view of the continuing pressures on the balance of payments and the level of external debt, and also in view of the recent reduction in the level of concessional aid, and they saw a need to strengthen the policies initiated to date if the objectives of the 1980 program were to continue to be achieved.

Most Directors felt that the program the authorities intend to pursue in the period ahead was going in the right direction in view of the adjustment task that had to be faced, and that the program deserved the support of the Fund. They urged the authorities to implement this program fully. In particular, it was seen as crucial to achieve the intended improvement in the public finances. The importance of holding budget expenditures to the level of appropriations, and of reducing both the operational loss and investment outlays of State Economic Enterprises as planned, was stressed. In that connection, Directors welcomed the Government's intention to limit budgetary transfers to the SEEs in fiscal 1981 to the same nominal level as in fiscal 1980, and they encouraged the authorities to monitor systematically the SEE accounts to see that the discipline imposed by such limits was not being circumvented. They emphasized the crucial importance of resolving the deep-seated problems related to the existence and functioning of the SEEs: quality of management, overstaffing, rationalization, increasing competitiveness, increasing flexibility in pricing policies, etc.

In general, Directors expressed satisfaction with the implementation of monetary policy, particularly the adoption of a flexible interest rate policy and the recent change in credit allocation in favor of the private sector. However, they noted with concern the recent acceleration in monetary expansion, emphasizing the importance of moderating the growth in broader monetary aggregates if the planned reduction in inflation was to be achieved. Directors welcomed the recently announced measures to cope with this problem and urged the authorities to keep policies in this area under close scrutiny. They stressed the importance of continued implementation of a flexible interest rate policy to ensure that a broad range of positive real rates was achieved.

With regard to the balance of payments outlook, Directors believed that the Government's program, if fully implemented, could bring about a significant reduction in the external current deficit. They noted, however, that if the growth in foreign exchange earnings was to be sustained at a sufficiently rapid rate, it would be essential for the flexibility afforded by the new exchange rate regime to continue to be utilized forcefully in order to improve competitiveness. Directors stressed the importance for the medium-term balance of payments outlook of reducing the energy bill and expressed satisfaction with the policy measures taken in this area since early 1980, including the steep increases in domestic energy prices and the stepped-up efforts to develop domestic energy resources. They noted the importance of continued capital inflows and, in particular, of concessional assistance on an adequate scale to support the program.

Noting with satisfaction the recently announced reduction in multiple currency practices, Executive Directors expressed the hope that Turkey would be able to follow practices which would facilitate the elimination of the remaining restrictions on payments and transfers for current international transactions and to eliminate arrears in international payments.