

February 25, 1982 - 82/25

Statement by Mr. de Groote on Turkey
Executive Board Meeting 82/25
February 26, 1982

On behalf of my Turkish authorities I wish to express my appreciation to the staff for their concise and highly analytical presentation and for their assessment of the Turkish economy, with which the Turkish government broadly concurs.

The determined effort of the Turkish authorities to implement all elements of the stabilization program, sustained continuously for one and a half years, has yielded encouraging results. A balanced application of fiscal, monetary and external policies has reversed the downward trend of recent years and put the economy back on the right track while reliance on market forces has resulted in a much better allocation of resources. Despite adverse circumstances such as a low world demand and reduced medium- and long term capital inflows, the authorities were able to meet or even exceed all important program objectives for 1981: the inflation rate was brought down to less than 40 percent, exports grew by about 65 percent, receipts from workers' remittances continued to increase, and GNP growth reached 4.4 percent in real terms.

A stringent incomes policy supported by strict fiscal and monetary policies sharply curtailed domestic demand, allowing a significant winding down of inflation. The steep increase in interest rates induced a major shift from consumption to savings, and also attracted workers' remittances into domestic savings on an increasing scale. These remittances and the expanding exports were both a response to the new flexible exchange rate policy which brought considerable relief to the external sector. Performance in this sector has exceeded even the most optimistic assumptions at the beginning of last year.

The sectoral distribution of the goods exported suggests that the manufacturing sector was the major contributor to the export boom of 1981. Agro-based industries and processed petroleum products also helped to increase the share of manufactured exports up to 48 percent, although until very recently this sector was thought to have very limited export potential. This growth of manufactured exports was realized mostly through penetration of new markets, as illustrated by their geographic distribution which shows important progress in the Middle Eastern markets. In addition, the amount of engineering contracts increased fivefold in 1981. These are substantial improvements for an economy that was until recently not export oriented and not competitive. The staff has convincingly argued that this development is not a one-time phenomenon and that further export growth can be expected.

In the most recent period, the authorities have redoubled their efforts in the area of public finance, where progress had lagged behind expectations. More effective control of expenditures, the tax reform and a more effective tax collection have markedly reduced the central government's budget deficit. Additional improvements were also achieved in the management of the SEE's, where efforts during 1981 were concentrated on the autonomy of price setting and on cutting down the number of SEE's which were eligible to receive subsidies. In spite of these improvements, credit from the Central Bank to the SEE's increased, and in 1981 three enterprises absorbed about 70 percent of the credits granted by the Central Bank to all SEE's. The authorities are thus fully aware that further action is needed in this area.

Turning now to the Government's program for 1982 as detailed in the staff paper, the authorities are determined to continue to pursue their tight adjustment policies, because they are aware that considerable adjustment still remains to be accomplished. They realize that the share of GNP attributable to foreign exchange earnings should continue to increase in the coming years in order to permit the further growth of imports and thus of the economic activity which is an essential prerequisite to bringing down the high level of unemployment. One of the pillars of this adjustment effort will be a realistic exchange rate policy, while tight monetary and fiscal policies supported by incomes policy will ensure that growth in domestic demand remains below the rate of growth of GNP.

While continuing present policies to achieve the above objectives, the authorities at the same time will focus on three areas where they feel that performance has been somewhat less satisfactory: the control of monetary expansion, the agricultural export sector, and the SEE's.

As the staff has indicated, the authorities have been forced to relax somewhat their control over the rate of monetary expansion during the first half of 1982 in order to safeguard the maintenance of agricultural production. Indeed, the non-payment of farmers due to insufficient financing, had it been allowed to occur, would have led to a decrease in agricultural production, which was contrary to the stated objectives of the Government. When preservation of the main objectives of the program required a small temporary deviation in one of the instruments, the Government properly took a pragmatic course and allowed the deviation to occur. The authorities have clearly stated, however, that they expect to offset this credit expansion in the second half of 1982. They fully realize the inflationary dangers of too rapid a monetary expansion, which could jeopardize the re-orientation toward the export sector.

To foster further export growth, the authorities will continue to look closely at the export prospects of the agricultural sector. They feel that there is still sizable potential, not yet satisfactorily realized, in this sector.

The authorities also intend to reinforce further the financial position of the SEE's. They fully realize that the stabilization of the Turkish economy cannot be considered entirely successful until the SEE's are being operated on a rational basis subject to the play of market forces. As I have stressed repeatedly, such a transition can only be accomplished gradually. The authorities are dissatisfied with the improvements which have so far been accomplished within the SEE's, and have already shown their determination to resolve this issue by maximizing management skills, exposing the enterprises to market forces gradually, and reducing their financial dependence on the budget. The government hopes to improve the operation of the SEE's by emphasizing operational profits and de-emphasizing the realization of investment plans.

The government is aware that its actions cannot be effective unless the substantial savings generated by the flexible interest rate policy are supplemented with capital inflows. Their ultimate objective of a self-sustaining economy with less reliance on official assistance can only be achieved if Turkey has at its disposal ample capital flows during the recovery phase. The timely availability of aid already pledged is critical in view of the tight credit conditions which prevail in commercial markets. The authorities are confident that progress in their adjustment effort will allow them to eliminate arrears in 1982. So far, Turkey has laid a new foundation for a sustained recovery which should lead in the medium term to a balanced growth.