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INFORMATION

January 28, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Turkey - Staff Report for the 1986 Article IV Consultation

The attached supplement to the staff report for the 1986 Article IV consultation with Turkey has been prepared on the basis of additional information.

Mr. Tyler (ext. 8850) is available to answer technical or factual questions relating to this paper prior to the Board discussion on Friday, January 30, 1987.

Att: (1)

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INTERNATIONAL MONETARY FUND

TURKEY

Staff Report for the 1986 Article IV Consultation
Supplementary Information

Prepared by the European Department

Approved by L. A. Whittome

January 28, 1987

The following additional data on recent developments are based on information provided by the Turkish authorities, supplemented in a few cases by press reports.

The wholesale price index of the State Institute of Statistics in December 1986 was 24.5 percent higher than a year earlier compared with an increase of 26 percent in the twelve months to November 1986. Money supply (M2) on the last Friday in December 1986 was 42 percent higher than a year earlier. The twelve month rate of increase for the last Friday of the month increased each month following a trough of 36 percent in August 1986. In January 1987 the Central Bank reduced interest rates on bank deposits by one to three percentage points, with the rate on 12-month deposits moving from 48 percent to 45 percent. In response, some banks have begun to reduce their lending rates. Legislation has been passed to increase motor vehicle tax rates by 50 percent and doubling the motor vehicle purchase tax. Additional receipts from these measures have already been included in the revenue estimates for the 1987 budget.

In the external sector, trade data are available for October on a customs basis. Exports in October 1986 were 7 percent less than in October 1985 and the cumulative total for January-October 1986 was 8.5 percent less than in the same months of 1985. For imports, the corresponding movements were a decline of 14 percent in October and an increase of less than 1 percent in January-October.

A number of changes have been made to the trade and payments system. Non-bank foreign exchange dealerships can now be established; previously, only banks could deal in foreign exchange. The system of export rebates has been simplified by reducing the number of rates of rebate from 10 to 5. This rearrangement is not expected to change the total amount of rebates. The additional amounts of rebates that were provided when an exporter's volume exceeded specified dollar amounts have been reduced, with the highest rate, on export value in excess of \$50 million being reduced from 10 percent to 6 percent. The system of premium payments for exports has been expanded. Premia will be paid on exports of 46 scheduled items, and the additional total cost of the premia is expected to be of the order of \$150 million or about 2 percent

of the forecast value of exports in 1987. Conditions regarding the extension of export credits have been liberalized for exporters with proven export experience.

On the import side, the surcharge on imports that must contribute to the support and price stabilization fund has been raised from 2 percent to 4 percent. The rate of stamp duty on imports has been increased from 4 percent to 6 percent. The number of items which when imported must contribute to certain funds (the "Funds list") has increased and contribution rates have been changed. Most of these items were previously subject to licensing (on the "Funds list" they are not so subject) but a few could previously be freely imported. Rates of customs duty on the 15 items that were previously greater than 50 percent have been reduced to 50 percent or below.