DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

SM/85/332

CONTAINS CONFIDENTIAL
INFORMATION

December 18, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Turkey - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Turkey. A draft decision appears on page 22.

It is proposed to bring this subject to the agenda for discussion on Monday, January 13, 1986.

Mr. Kopits (ext. 8814) or Mr. Mohammad Khan (ext. 8801) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

TURKEY

Staff Report for the 1985 Article IV Consultation

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

Approved by L. A. Whittome and J. T. Boorman

December 17, 1985

I. Introduction

Discussions for the Article IV consultation were conducted during September 6-20 and November 8-9, 1985. 1/ The Turkish representatives included officials of the Undersecretariat of the Treasury and Foreign Trade, the State Planning Organization, the Ministry of Finance and Customs, and the Central Bank of Turkey. There were meetings with the Deputy Prime Minister, the Undersecretary of the Treasury and Foreign Trade, and the Governor of the Central Bank.

Turkey continues to avail itself of the transitional arrangements under the provisions of Article XIV.

A one-year stand-by arrangement in an amount of SDR 225 million (52.4 percent of the new quota) was approved by the Executive Board on April 4, 1984. This arrangement replaced the earlier one-year stand-by arrangement also in the amount of SDR 225 million (52.4 percent of new quota) covering the period June 24, 1983 to June 23, 1984. The earlier arrangement was canceled on request by Turkey on April 4, 1984.

Financing of the most recent stand-by arrangement was entirely from ordinary resources. Turkey purchased SDR 56.25 million, the first of four equal installments, upon approval of the arrangement. Second and third purchases of SDR 56.25 million each were made on August 14 and November 1, 1984. The remaining SDR 52.25 million available under the arrangement remained unpurchased when the stand-by lapsed on April 3, 1985, because a performance criterion had not been met.

1/ The first visit was staffed by Messrs. G. Tyler (Head, EUR), G. Kopits (EUR), L. Garamfalvi (FAD), R. Pownall (ETR), M. Z. Khan (EUR), and Mrs. A. Evans (EUR). Mr. B. Milanovic (World Bank) also participated. The second visit was staffed by Messrs. G. Tyler and G. Kopits (both EUR).

Since January 1, 1980 the World Bank has approved five structural adjustment loans (SALs) for a total of US$1,556 million in the fiscal years (July 1-June 30) 1980-85, all of which has been disbursed. Project lending has continued, and totaled US$2,575.5 million in new commitments for the fiscal years 1980-85. In fiscal 1985, the Bank approved an Agricultural Sector Adjustment Loan of $300 million, the first of several planned sector adjustment loans. Appendix IV details World Bank relations with Turkey in recent years. The Fund and Bank staff remained in close contact to ensure consistency between the Fund stand-by arrangements and the Bank SALs and there has been frequent cross participation in missions.

II. Recent Economic Developments

In sharp contrast to the preceding three years, economic performance in 1983 was poor. Growth of GNP decelerated to 3.3 percent, the downward trend in inflation established in the previous years was reversed as the 12-month rate of inflation increased to 40 percent by end-year, and the current account deficit widened sharply to US$1.9 billion (3.7 percent of GNP) compared with US$0.9 billion (1.8 percent of GNP) in 1982. 1/ The principal reasons lay in the easing of both fiscal and monetary policy. The present Government, which came into power in November 1983, embarked upon a program aimed at reducing the rate of inflation and improving external performance, while at the same time introducing structural reforms to bring Turkey closer toward an open market economy. These aims were widely accepted in the 1984 Article IV consultation, although many Executive Directors urged that demand management policies be further tightened.

1. Developments in 1984

Developments in 1984 were mixed--real GNP grew rapidly and the external current account improved, but inflation continued to rise (Chart 1). Growth of real GNP rebounded to 5.9 percent, reflecting a resurgence in exports and a further acceleration in domestic demand, as well as a good result in agriculture (Table 2). In volume terms, exports increased by almost 24 percent while imports grew by 15 percent. Developments in domestic demand reflected the continuing strength of consumption coupled with an increase in fixed investment. Both private and public expenditures contributed toward the increase in consumption. Private consumption grew at 5 percent for the second consecutive year, despite a slight slowdown in the growth of real private disposable income, probably reflecting negative developments in real interest rates for much of the year (Table 3). Slippages in

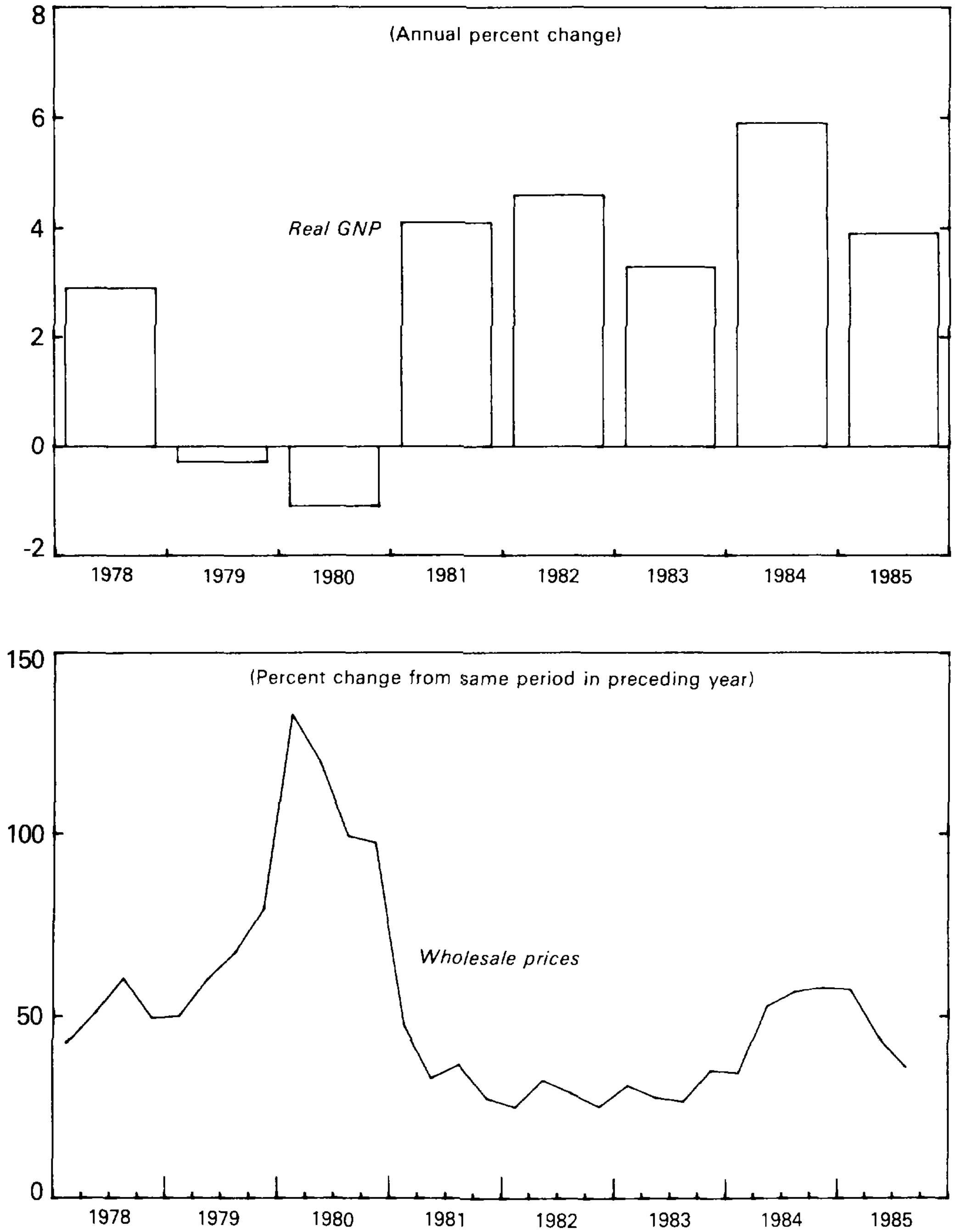
---

1/ All balance of payments data are based on a reclassification instituted by the authorities with technical assistance from the Fund staff. For details of the new system, see the recent economic developments paper.

CHART 1

TURKEY

GROWTH AND INFLATION



Sources: State Planning Organization, State Institute of Statistics, and Fund staff estimates.

budgetary control and efforts to complete ongoing infrastructural investment expenditures contributed to the increase in public consumption and investment. Buoyant external and domestic demand led to an increase of over 9 percent in industrial production.

The average inflation rate in 1984 as measured by the wholesale price index was 50 percent compared to about 31 percent in 1983 (Table 8). A sharp rise in inflation during the first six months reflected the impact of overdue SEE price adjustments, a significant depreciation of the lira, and higher prices of agricultural products following trade liberalization. Somewhat stronger efforts to control monetary expansion and smaller SEE price increases and exchange rate adjustments contributed to the deceleration in inflation during the second half of 1984.

Externally, export growth was good (higher by 25 percent in dollar terms), while imports grew somewhat more slowly (up 16 percent) (Table 5). Travel receipts rose by 30 percent and workers' remittances by 19 percent. The increase in tourism may reflect to some extent a better statistical coverage, but the main reason appears to be a recognition that Turkey has become more attractive, especially for nearby countries, in the light of a more competitive exchange rate and because of increased hotel capacities. Although interest payments on foreign debt increased, the current account deficit fell from US$1.9 billion (3.7 percent of GNP) in 1983 to US$1.4 billion (2.8 percent of GNP) in 1984. Net medium- and long-term capital inflow rose sharply from US$0.3 billion in 1983 to US$1.2 billion in 1984, principally because of larger balance of payments loans and higher borrowing by the commercial banks and the private sector, and despite a sharp decline in debt relief under earlier reschedulings. In contrast, short-term capital movements were roughly in balance, compared with a net inflow of US$1.0 billion in 1983, the change arising chiefly from the extension of loans to a Middle East trading partner and the liquidation of convertible Turkish lira deposits. Inflows through the "Dresdner Scheme," whereby Turkish workers in West Germany can deposit foreign exchange with the Central Bank of Turkey, increased to US$528 million, compared with US$433 million in 1983, despite the strengthening of the dollar against the deutsche mark. Gross official reserves rose to about US$2.0 billion at end-December 1984 compared with US$1.4 billion a year earlier. However, this increase was more than accounted for by a revaluation of gold holdings by almost US$700 million. (Gold is now valued at a market-related price.) Gross reserves of the whole banking system at end-1984 totaled US$3.9 billion, equivalent to about four months of imports at the 1985 level.

There were four important features of the external result in 1984. First, although an improvement on 1983, the current account failed to show the recovery originally planned. 1/ Second, it was encouraging that, for the year as a whole, exports and invisible receipts continued to improve strongly. Third, although trade performance for the whole year was satisfactory, in the final quarter export growth rates were declining and imports growing more strongly, perhaps reflecting the real effective appreciation that had occurred through most of the year (see Section III). Finally, improved confidence in Turkey in international capital markets permitted a larger medium- and long-term inflow at a time when debt relief was phasing out (none is available in 1985) and when debt repayments had reached a high level.

Total outstanding external indebtedness rose by nearly US$3 billion in 1984 to reach US$21.2 billion (43 percent of GNP). This was the largest increase for several years and reflects medium- and long-term borrowing by the Government and State Economic Enterprises as well as a considerable buildup of short-term debt, notably foreign exchange deposits under the Dresdner Scheme and at the commercial banks, which increased by nearly US$1 billion alone. Trade-related short-term debt also rose by about US$1 billion, but the ratio of this debt to total trade at about 12 percent is still quite low by international standards. Overall, outstanding short-term debt rose from US$2.9 million in 1983 to US$4.5 million in 1984 (there was a decline of about US$600 million in convertible Turkish lira deposits) and as a proportion of total debt from 16 percent to 23 percent. Although gross international reserves of the banking system strengthened, their ratio to short-term debt declined slightly to about 72 percent. The increase in medium- and long-term debt was about US$1.1 billion. Debt service payments after debt relief amounted to US$3.1 billion equivalent to 25 percent of exports of goods and services and private transfers.

2. Developments in 1985 and prospects for 1986

For 1985, the authorities aimed at a strong growth rate of GNP (5.5 percent), a reduction in the rate of inflation (although it was realized that initially the introduction of a value-added tax would work against this), and a decline in the current account deficit to about US$0.7 billion. In the event, performance in the first quarter was generally poor for both prices and the current account deficit, but in the second and third quarters, progress was made, although, as described later, there are grounds for believing that financial policies will need to be strengthened if the improvements are not to be reversed.

As anticipated, inflation accelerated during the first quarter of 1985. At end-March wholesale prices were 60 percent higher than a year

---

1/ The original projections were made on the old statistical basis and they have not been converted to the new classification. However, the recorded improvement was probably several hundreds of millions of dollars below the original target.

earlier compared to 54 percent at end-December 1984. In the second and third quarters, price increases decelerated and by September 1985 the increase in the WPI compared with a year earlier was down to 37 percent, mainly reflecting developments in agricultural prices, especially of fruit and vegetables which are important in this sub-index. Agricultural prices were only 27 percent higher than a year earlier in September, while nonagricultural prices, which were also decelerating, were still 41 percent higher and those of manufactured goods 37 percent higher. Nonagricultural prices benefited from a slower increase in SEE prices compared with 1984 when there had been sizable price adjustments.

It remains unclear whether the gains in reducing inflation can be consolidated. The authorities hope that the deceleration will change inflationary expectations, but they agreed with the staff that some of the reasons behind the improvement may be reversed, for example, trends in agricultural prices. They also accept that under existing monetary conditions, including the real level of interest rates, there is evidence of excess liquidity, which could lead to a reacceleration of prices if inflationary expectations strengthened. This obviously has implications for future financial policies.

The latest official estimates of growth in real GNP show an increase of 3.9 percent in 1985, considerably below the earlier projections. Partly it is explained by a reduction in the growth rate of agricultural output, but there was also a considerable slowdown in industrial output and, presumably, in the growth of domestic demand. It is not particularly easy to see why domestic demand should have slowed and there are some grounds for thinking that the final GNP outcome may exceed the latest estimate. Against that, the relatively modest increase in imports in 1985 (see below) tends to support the lower GNP estimate.

In early 1985, results in foreign trade continued the poorer performance of the last part of 1984 and the first quarter trade deficit was US$655 million, compared with US$325 million a year earlier. In part, this was the result of special factors but it probably also reflected the real effective appreciation of the lira during most of 1984. Subsequently, however, exports picked up and import growth slowed down. For the nine months to September 1985, the value of exports was up 13 percent with that of imports only 5 percent higher. Slower growth in domestic demand and a relatively sharp depreciation of the real effective exchange rate after February were probably the main factors at work. For the year as a whole the authorities are predicting that export value will increase by 12 percent and import value by 6 percent over 1984. Receipts from tourism have been particularly buoyant and for the whole year are forecast to increase by 82 percent or some US$450 million while the official estimate for workers' remittances is an increase of 2 percent. For the current account as a whole, the forecast deficit is now US$0.8 billion (1.5 percent of GNP). The current account forecasts appear to the staff to be in line with data for the first nine months and with developments in the domestic economy. The only way in which the whole year results could slip would seem to be a strong import surge in the last months of the year. On capital account, 1985 marks the end of debt relief under rescheduling agreements. However, there is expected to be a net inflow of long-term capital of US$0.1 billion, of which US$760 million would represent new financial credits, and a net inflow of short-term capital of US$0.9 billion. The large increase in short-term inflow relative to 1984 results mainly from the non-occurrence of the large liquidation of convertible Turkish lira deposits that took place in 1984. There is expected to be an overall surplus of US$0.2 billion, almost all of which would be used to meet repurchases from the Fund.

For 1986, the authorities are projecting an increase of about 5 percent in GNP, an increase in prices of about 25 percent during the 12 months and a current account deficit of about US$0.7 billion, resulting inter alia from increases of 9.5 percent and 6.5 percent in the values of exports and imports, respectively. Provided the growth of the domestic economy is not higher than planned, the forecast for imports appears in line with past relationships to GNP. Equally, the growth in export volume, which is less than that of 1985, should be achievable, provided the real exchange rate policy of 1985 is continued and that excess domestic demand is not permitted to emerge thereby pre-empting export supplies. However, a sharp and sustained fall in the price of oil could adversely affect countries which are important markets for Turkey's exports. Conversely, the value of Turkey's imports would be less than is now assumed. Exchange rate policy will be particularly important since the projections imply a continued increase in Turkey's market shares, admittedly from levels that are still low relative to the size of its economy. The forecasts of invisibles sensibly assume that the growth of tourism will moderate in 1986 and that the increase in the dollar value of workers' remittances will be small. On capital account, the targeted gross borrowing should not present problems, unless there were unexpected developments adversely affecting lenders' confidence in Turkey. Thus, if planned policies are rigorously implemented, the external targets should be achievable. Domestically, the biggest doubts must relate to the inflation target. As discussed below, monetary expansion is currently much faster than appears consistent with the inflation target of 25 percent and it may not be easy to change the path of monetary policy by as much and as quickly as is intended. It seems probable that the 1986 targets will be achieved only with a substantial tightening of financial policies accompanied by some further real effective depreciation of the lira.

III. Economic Policies

At the 1984 consultation discussion, Executive Directors were encouraged by the marked improvement in Turkey's external payments position, particularly as this had been achieved at a time when the exchange and trade system had been considerably liberalized. They remained concerned, however, about the re-emergence of inflationary pressures, urged the implementation of tighter monetary and fiscal policies, and noted that adequate control over liquidity was crucial to the attainment of the Government's inflation objectives. Directors also regretted the deterioration in the fiscal deficit in 1983 and emphasized the importance of attaining the objectives of fiscal policy in 1985, particularly the importance of effective expenditure cuts. While Directors commended Turkey on improving its international creditworthiness, they noted that the external debt position appeared vulnerable in the medium term and emphasized that the evolution of short-term obligations should be carefully monitored. They therefore attached great priority to improving the current account and exercising caution in contracting further external debt. Directors commended the Turkish authorities for the significant reduction in import licensing at the beginning of 1984, and for their plans to implement further trade liberalization. They regretted that a number of trade restrictions had been imposed on Turkish goods by other industrial countries.

1. Monetary policy

a. Policy issues in 1984 and 1985

In 1984 monetary aggregates expanded particularly strongly, with broad money (M2) increasing by 57 percent in the 12 months to end-1984 (Table 9). Moreover, the lira equivalent of foreign exchange deposits rose even more rapidly because of the easing of foreign exchange controls, so that broad money including foreign exchange deposits (M2X) increased over the period by 73 percent. These increases were substantially above the authorities' targets of 51 percent and 59 percent, respectively.

Weaknesses in the control mechanisms of the Central Bank were an important factor explaining the inability to remain within the targets. The Central Bank operated by targeting (a) limits on its own net domestic assets, consistent with (b) indicative reserve money limits, given an assumed change in its net foreign assets, and (c) the targeted level of M2, through an assumed value of the reserve money multiplier. However, for most of 1984-85, the Central Bank either found it difficult to contain reserve money within targeted levels because of sales of foreign exchange to it by commercial banks and the financing requirements of the budget and/or was faced with a multiplier significantly higher than expected. There has been considerable discussion in recent years on the desirability of moving toward a control mechanism working on net domestic assets of the banking system. The authorities have believed that the statistical base for monitoring this aggregate has not been timely enough. Events in 1984-85 strongly support the view that the current system needs modification.

During 1984, especially in the first half, the commercial banks were heavy sellers of foreign exchange to the Central Bank, resulting in an unanticipated increase in reserve money, while at the same time, the multiplier rose in part because the nonbank public shifted from cash to deposits at the commercial banks (Chart 2). From mid-1984 onward, the authorities took a number of steps to tighten monetary control. First, the Central Bank discouraged the banks from selling foreign exchange by making its buying rate marginally less profitable for them. Second, the minimum foreign exchange cover requirement was raised to 20 percent. Third, the legal minimum liquidity requirement rate was raised from 10 percent to 15 percent. Fourth, treasury bonds were sold to the banks--large banks were required to purchase one-year government bonds in an amount equivalent to 10 percent of any increase in deposits--and the nonbank public, instead of the Central Bank. This last measure, along with a virtual embargo on rediscounts, helped reduce the level of net domestic assets of the Central Bank by nearly LT 100 billion below the end-1984 ceiling. However, the measures were less successful in containing the increase of net foreign assets, and they did not prevent the reserve money multiplier from rising substantially. Efforts to slow down the growth of money supply were accompanied during the year by several small increments in nominal interest rates on three- and six-month deposits, thereby increasing the demand for money. However, for most of the year, real interest rates were negative (Table 10). Both the staff team and the authorities agreed that by end-year there was excess liquidity in the economy.

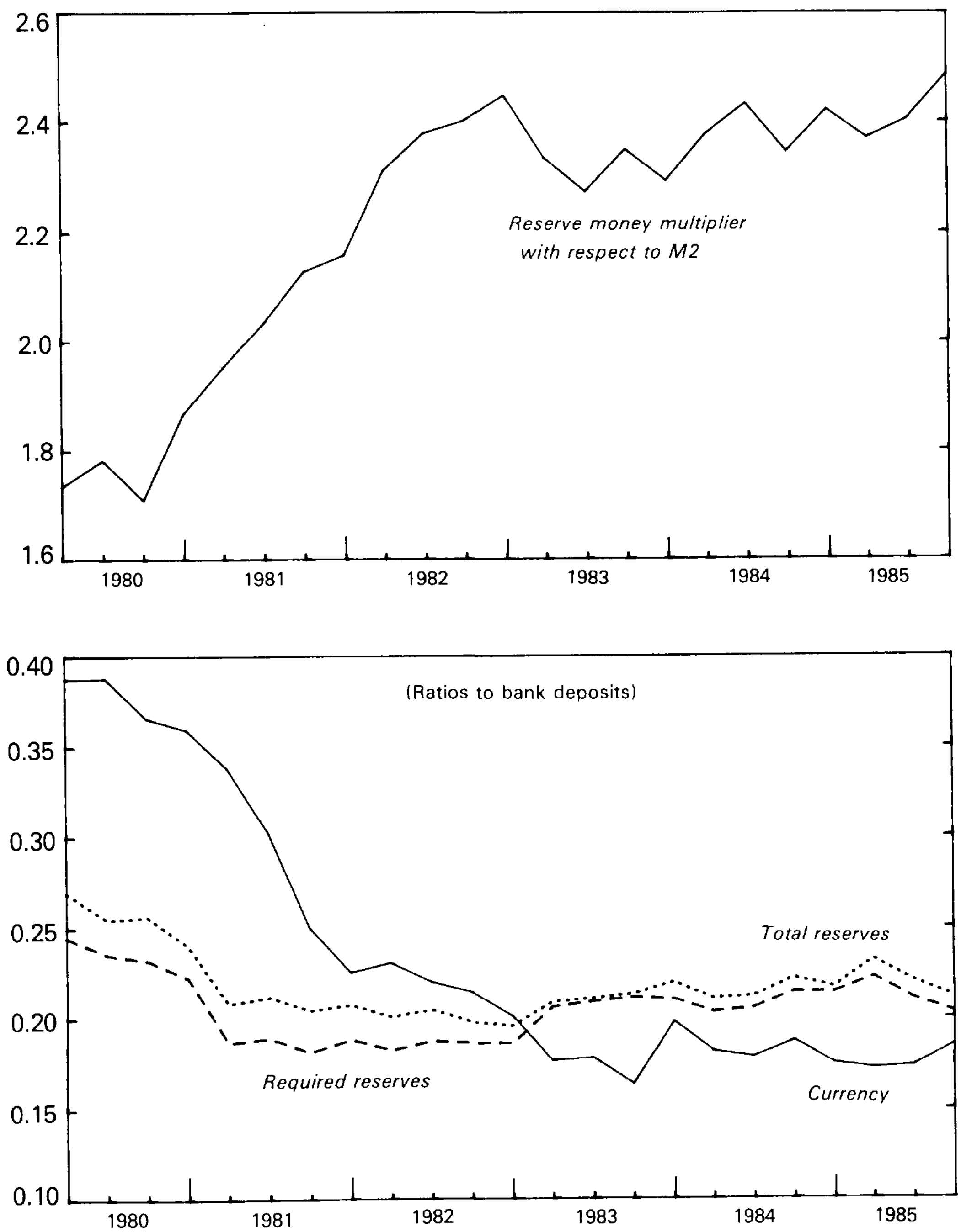
In 1985, the rate of monetary expansion continued unabated and at end-September M2 was 64 percent higher than a year earlier and M2X was estimated to be 74 percent higher. The authorities ascribe the continued strong expansion partly to difficulties in restraining the growth of various components of reserve money and partly to an increase in the multiplier. In the former connection, short-term central bank advances to the Treasury increased by LT 320 billion between January and September 1985 (as against less than LT 150 billion in 1984 as a whole). In addition, during the summer, the Central Bank extended about LT 90 billion in credit to the private sector to finance the purchase of the cereal crop. These factors contributed to a 57 percent rise in reserve money by end-September 1985, compared with a year earlier, despite the attempt to dampen base money growth through weekly auctions of one-year government bonds (totaling more than LT 500 billion in face value) to commercial banks and other financial institutions. The strong expansion of broad money was also attributable to a further rise in the multiplier, owing in part to a cut in the effective reserve requirement ratio (discussed below).

In the first quarter of 1985, real interest rates on deposits were negative (Chart 3), although commercial banks' real lending rates remained positive. Subsequently, they became positive as the rate of inflation decelerated while nominal interest rates were reduced by smaller amounts and with a lag. At the same time, the yield curve was changed so that twelve-month deposits gave the highest return and three-month deposits the lowest. Currently, the after-tax interest rates are 40.5 percent for three-month deposits, 45 percent for six-month

CHART 2

TURKEY

RESERVE MONEY MULTIPLIER AND DEPOSIT RATIOS[1]



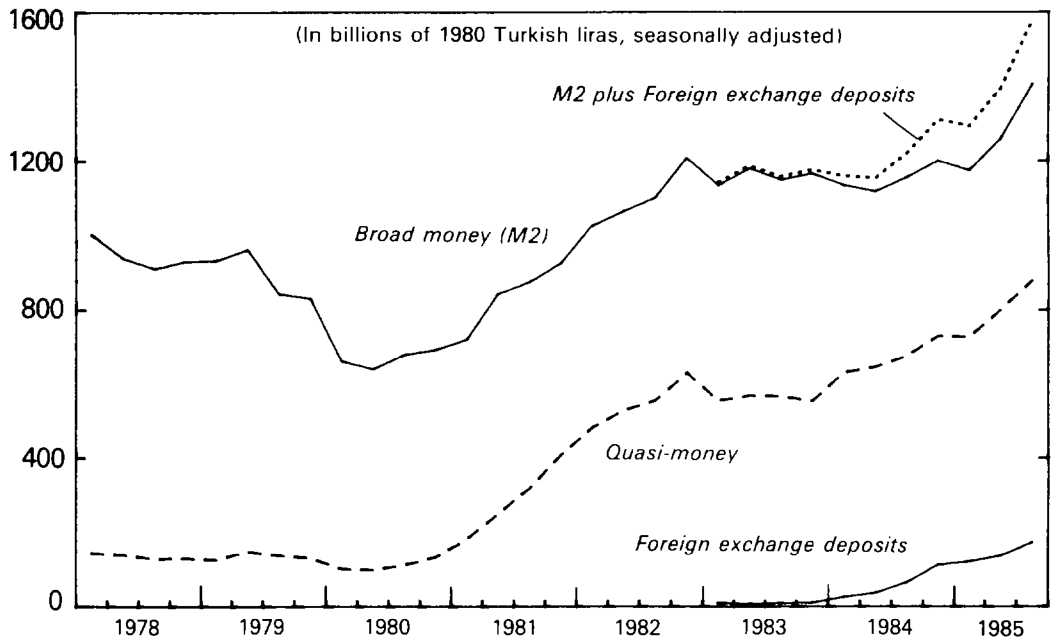
Sources. Central Bank of Turkey, and Fund staff estimates

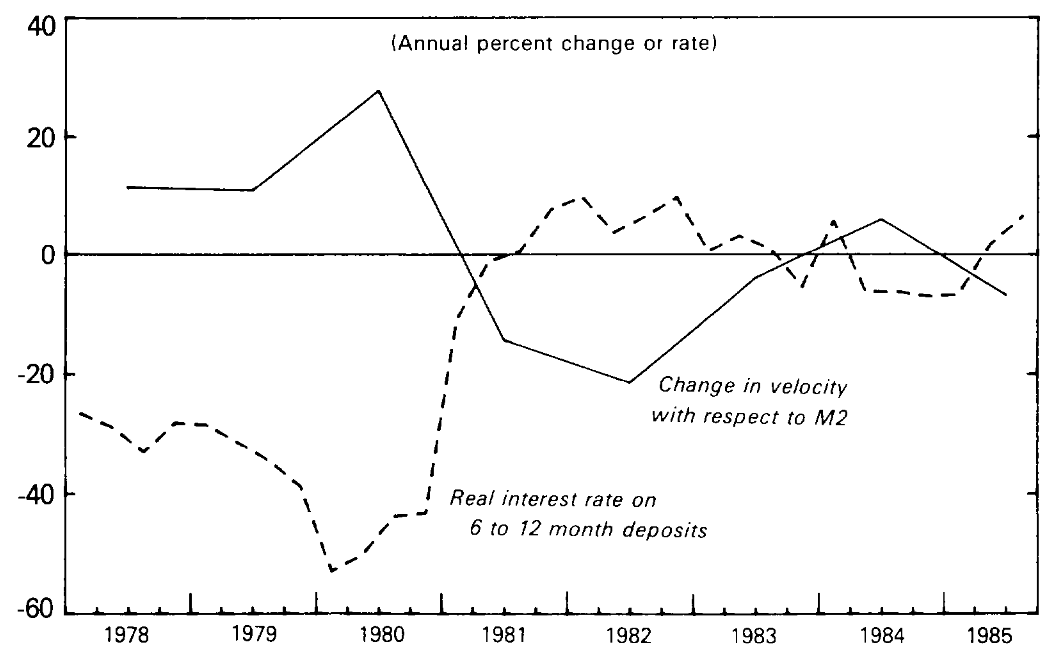
[1]Seasonally adjusted centered quarterly data

CHART 3

TURKEY

SELECTED MONETARY INDICATORS





Sources: Central Bank of Turkey, State Planning Organization, State Institute of Statistics, and Fund staff estimates.

deposits, and 49.5 percent for twelve-month deposits. There has been a significant drift of deposits from highly liquid three-month deposits to less liquid twelve-month deposits because of the change in the yield curve.

The velocity of circulation declined sharply during 1985. In part this was probably due to the move to positive real interest rates described above. To some extent also, it may result from an increasing degree of monetization of the economy. However, such explanations did not seem a sufficient explanation to either the authorities or the mission. Another, and worrisome, possibility was that the declining trend of velocity of circulation was temporary, in which case the rate of inflation might reaccelerate unless the rate of increase of broad money was sharply and quickly decreased. The authorities recognized this danger and indicated that they aimed to slow down the rate of expansion of M2 and to keep real interest rates at least at present levels.

During 1985, several institutional changes were introduced. The Government has now given the Central Bank the authority to establish deposit rates. The Bank examines these rates each month, taking into account price developments and to a lesser extent the rate of interest determined at the weekly auctions of government securities. The Central Bank is in the process of reforming the reserve requirement system by gradually eliminating the rate of interest paid on required reserves and at the same time reducing the reserve requirement ratio in order to reduce the cost of financial intermediation. In March legal reserve requirements, previously set at a 25 percent general rate and 15 percent and 20 percent preferential rates, were unified at 21 percent and the compliance period was reduced substantially. The unified rate was further cut in two steps to 19 percent in July and October. In a parallel move, the monthly interest rate on required reserves was first changed from 0.5 percent on reserves againt sight deposits and 3.3 percent on reserves against time deposits, to a uniform 0.5 percent weekly rate, and after several additional cuts it is presently 0.1 percent. While the staff mission supported the reform in principle, it believed that it would have been better to delay the reduction in the reserve ratio, which increases the reserve money multiplier, until the growth in M2 had slowed down. Finally, the various reforms of the banking system are continuing and a study is close to conclusion that will lead to measures to reduce the lag by the commercial banks in reporting their data to the Central Bank. The staff mission believes that the reform process should gradually make an important contribution to the efficiency of monetary policy.

b. The 1986 monetary program

At the end of 1985, the Central Bank will release publicly its monetary program for the coming year. Specifically, it will announce the targets for M2 and its components and reserve money (calculated at a constant reserve requirement ratio). Subsequently, in the course of the program year, the year-end targets will be revised quarterly on the basis of actual developments in the relevant macrovariables, including monetary aggregates. The principal operational target, monitored on a continuous basis, will continue to be reserve money. Thus, the problems associated with predicting future levels of the reserve money multiplier will continue. Their significance is increased by the authorities' intention to further reduce--circumstances permitting--by about 1 percentage point a quarter the reserve requirement ratio, while phasing out altogether interest payments on reserves. The Central Bank will continue with the practice of reviewing interest rates on bank deposits on a monthly basis.

Based on year-end targets of 25 percent for the rate of inflation and 5 percent for real GNP growth and an average 10 percent real after-tax interest rate on deposits, the authorities project a 35 percent increase in nominal demand for M2 beween end-1985 and end-1986, which implies a 2 1/2 percent decline in velocity. Accordingly, the authorities will target the growth of M2 between 30 percent and 40 percent during that period, aiming at the lower end of the range in the early part of the year.

The staff mission welcomed the authorities' decision to follow a more formal approach to monetary programming and to monitor closely its implementation. The M2 target set for end-1986 seems about right, although this judgment is predicated on the assumption that the rate of buildup of foreign exchange deposits with commercial banks will not be faster than that of M2. Perhaps the greatest source of uncertainty is the authorities' ability to bring down the rate of monetary expansion as swiftly as implied in the program in the opening months of 1986 from the high present rate of over 60 percent, since this will imply a very sharp deceleration in the growth of reserve money.

The staff mission recognized the merits of adopting a more flexible interest rate policy based primarily on technical considerations, as well as the unification and gradual reduction of the reserve requirement ratio for structural reasons. However, a premature reduction in deposit rates not accompanied by a clear decline in inflationary expectations could reduce the real demand for money. Moreover, additional cuts in the reserve requirement ratio may increase the reserve money multiplier and thus the growth of M2. The reduction in the growth of reserve money would be difficult to accomplish without a significant containment of the public sector financing requirement. The authorities shared the staff's view about the need to exercise caution in these areas.

2. Fiscal policy

The presentation of the consolidated budget in Turkey did not take a form that could readily be used for economic analysis, and for the purposes of Fund papers it has been normal to transform the data into the Fund format. During staff missions over the last two years, Turkish officials and the staff have improved the method of transformation. All data in this report are on the new basis, and therefore not comparable with data in earlier reports.

For the public sector as a whole, the borrowing requirement rose to 8.6 percent of GNP in 1984, and is expected to fall to 4.6 percent in 1985 and is forecast to be 3.9 percent in 1986 (Table 11). This improving trend occurred mainly through the reduced relative financing requirements of the budget although the SEEs, local administrations, and some new extrabudgetary funds (see below) also contributed (Chart 4).

Budget performance deteriorated sharply in 1984 with the deficit increasing to 4.9 percent of GNP (3.2 percent in 1983). The deterioration was primarily due to the weakness of revenue with both direct and indirect taxes declining as percentages of GNP. Total revenues and grants fell from 18.7 percent of GNP in 1983 to 15.4 percent in 1984. This decline necessitated strong efforts to contain expenditures, particularly by reducing investment, and the ratio of total expenditure to GNP declined from 21.9 percent in 1983 to 20.3 percent in 1984.

For 1985 the authorities initially hoped to have a balanced budget, but it became clear during the first half of the year that this would not be possible (Table 12). In the second quarter the forecast of the deficit was raised to LT 250 billion (0.7 percent of GNP). Later the expected deficit was increased to LT 520 million and most recently to LT 635 billion (2.3 percent of GNP). Two major factors underlay these revisions. First, collections of direct taxes continue to fall short of expectations and despite encouraging receipts from indirect taxes (mainly the VAT) total revenues and grants are expected to show only a slight increase as a percentage of GNP. Second, it has proved impossible to contain real expenditures as hoped, although as a percentage of GNP they are forecast to decline to 18.0 percent. The authorities believe that revenue collection will gradually improve because of the information on incomes obtained through VAT collections and from a major effort to strengthen the cadre of tax inspectors. They also note that the five-year program of reducing tax rates was completed in 1985, although in 1986 there will be some adjustment of the scales to allow for the impact of inflation. Fears that receipts from the newly introduced VAT might not equal the forecast were not borne out.

The budget for 1986 envisages a deficit of LT 460 billion or 1.3 percent of GNP. Revenues are forecast to increase by 53 percent and expenditures by 43 percent. Increased rates will apply for a number of taxes (transactions tax, motor vehicles tax, petroleum tax). In addition, corporations and individuals other than wage and salary earners whose tax is withheld at source, will make an advance tax payment equal to half of the VAT that they pay each month. Also, the VAT will be extended in June 1986 to foodstuffs at a rate of 3 percent. On the expenditure side, salaries are forecast to increase by 31 percent but investment by 49 percent. The projections are perhaps weakest with respect to the new advance tax payments, which may be difficult for the payees to finance, and for the VAT collections. In addition, the estimate for wages and salaries may be low if the rate of inflation cannot be kept within the official target.

The problems of the SEEs have been a perennial concern in Board discussions on Turkey. However, the performance of the SEE sector was significantly better in 1984-85 than in previous years (Table 13). In both years, the SEEs as a group showed profits, transfers to them from the budget declined in absolute terms and quite strongly relative to GNP, and the group's financing requirement as a percentage of GNP fell from 4.5 percent in 1983 to a forecast 3.2 percent in 1985. However, the authorities believe that further improvements are required. The SEEs are persisting with realistic pricing policies, including a gradual elimination of a large subsidy on fertilizer production, and are taking steps to improve managerial efficiency. World Bank programs are paying particular attention to structural changes in the SEEs.

An important new element in the public sector has been the establishment of several new extrabudgetary funds, in particular the Housing Fund and the Public Participation Fund. 1/ The former obtains resources from earmarked taxes outside the budget and makes loans to the private sector for housing construction and the latter obtains resources from the sales of revenue-sharing bonds backed by the profits of certain public sector entities (e.g., the Bosphorous Bridge and various dams) and its principal expenditures are for investment in the public sector. In 1985, estimated incomes of these two funds approached LT 400 billion, by no means a negligible amount relative to the budget. Clearly, therefore, it will be necessary to coordinate the operations of the funds with the rest of the public sector. In 1984-85, the funds ran net surpluses, thereby reducing the net borrowing of the public sector. However, these surpluses could easily be reversed in the future and it would be unfortunate if this occurred at a time when public sector restraint was necessary.

The Government has embarked on a wide-ranging plan to privatize the industrial sector SEEs. Studies are under way to determine which SEEs are best suited for sale and what improvements are necessary to make them attractive to purchasers. At present, no specific timetable has been established but the Government would like to proceed as rapidly as possible.

3. External sector policies

a. Exchange rate policy

For a number of years Turkey has conducted a flexible exchange rate policy, adjusting the value of the Turkish lira on the basis of

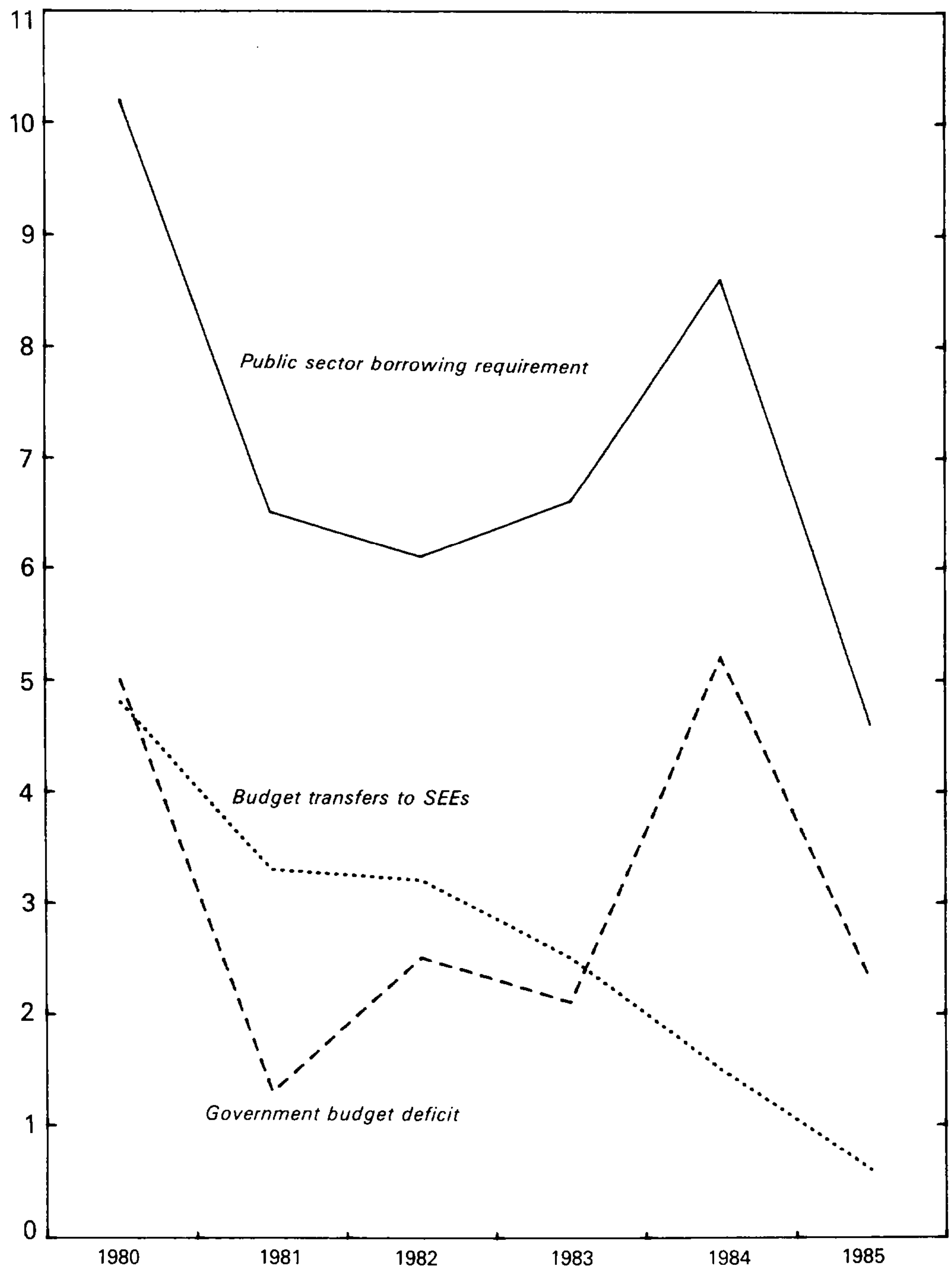
1/ A new fund to finance investment in defense industries has just been announced.

CHART 4

TURKEY

SELECTED PUBLIC SECTOR INDICATORS

(In percent of GNP)



Sources: Turkish authorities; and Fund staff estimates.

inflation differentials with major trading partners and developments in partner country exchange rates. A primary objective has been to encourage the growth of exports and to allow transition to a more liberal import regime. In January 1984 there was a real effective depreciation of 4 percent over December 1983 and further depreciations in real terms in February and March totaling almost 4 percent (Chart 5). However, over subsequent months this depreciation was eroded such that by December 1984 the real effective exchange rate (REER) had appreciated almost 5 percent over the level of December 1983. The authorities explained that at the time of the depreciation in January 1984 they had agreed with the staff that a sharp depreciation had been necessary to provide a boost to exports, and support the major liberalization of the exchange and trade system. During subsequent months, when it became clear that inflation was rising much more rapidly than expected, the authorities were unwilling to accelerate the rate of nominal exchange rate depreciation out of concern for exacerbating inflationary pressures, although they recognized that trade performance seemed to be sensitive to the exchange rate. The monthly rate of growth of exports had been quite strong in early 1984 but this had fallen off in later months and import growth had picked up over the year as the real effective exchange rate had appreciated.

As a means of introducing greater flexibility into exchange rate determination, since July 1, 1985 the Central Bank has allowed the commercial banks to determine their own buying and selling rates for foreign currency. However, the Central Bank continues to quote exchange rates at which it will buy or sell foreign exchange from the commercial banks and it is unlikely that the rates set by the banks will deviate significantly from these rates.

b. External debt policies

In discussing the evolution of official external debt disbursed and outstanding and external debt policy, the staff mission pointed to a number of trends which might give some cause for concern if not arrested in the near future. Total external debt had increased by about US$4 billion between 1980 and 1984 to about US$21 billion, equivalent to 42 percent of GNP (Table 6). The obvious consequence was that there would be a considerable burden of external debt service for several years; at present external debt servicing absorbs some 28 percent of exports of goods, services, and private transfers (Table 7). 1/ An important feature of this development has been a sharp growth in short-term debt since the beginning of the decade. Although much of the latter is the legitimate and normal counterpart to the pronounced growth of trade during this period, a considerable portion represents foreign exchange deposits at the Central Bank, through the Dresdner scheme, and

1/ The implications of some alternative scenarios for domestic growth and foreign trade and their impact on the debt service ratio are set out in Annex II and summarized in Section 3.d. below.

at commercial banks. Although gross official reserves and reserves of the banking system have strengthened considerably since 1980, the cover these afford in relation to short-term debt has fallen sharply. Official reserves amount to only slightly over 50 percent of total short-term debt. The potential volatility of foreign exchange deposits in particular suggests the need for a tighter control over their growth. The present policy of requiring the commercial banks to cover only 20 percent of their foreign currency deposit liabilities with foreign exchange assets may not be adequate. A reserve requirement and withholding tax on interest payments, comparable to those on domestic currency deposits, would discourage excessive increases in foreign exchange deposits.

In relation to medium- and long-term debt, the Turkish representatives stated that the Government which took office in late 1983 was committed to carrying through a number of investment projects outlined in the five-year plan. This would involve considerable recourse to foreign financing, the bulk of which was expected to be contracted in 1985. Medium- and long-term borrowing had been relatively modest in 1984, and had remained within the stand-by ceiling. It was expected that about US$3 billion in medium-term borrowing would be contracted in 1985 to finance infrastructural projects such as the second Bosphorus bridge, expansion of the oil pipeline from Iraq, and the purchase of several airplanes. Much of this financing will be in the form of medium-term suppliers' credits, or through syndicated Eurodollar borrowing. Official borrowing in subsequent years is expected to be considerably smaller. The authorities did not consider that the recent rise in external indebtedness would place an unmanageable strain on their debt-servicing ability, and with no further major project borrowing envisaged they considered that the debt service ratio would decline toward the end of the decade.

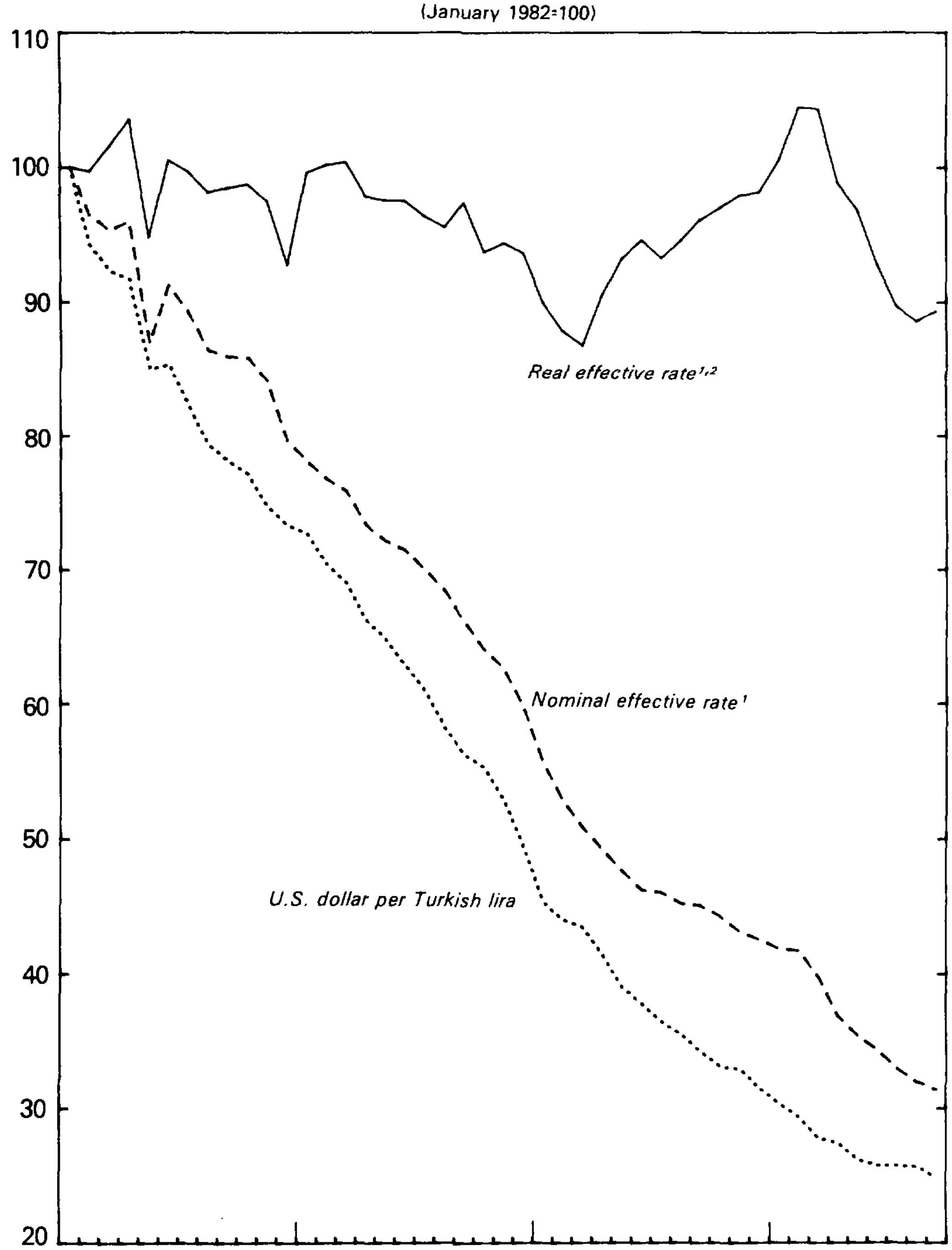
The authorities emphasized that they were committed to maintaining a cautious approach, but stated that they did not share the staff's concerns about the growth in foreign exchange deposits. The decision to offer foreign exchange accounts at the Central Bank to expatriate workers through the Dresdner scheme and the granting of permission to commercial banks to offer foreign currency accounts was part of the process of external liberalization, designed to encourage foreign exchange inflows which could be used for the legitimate needs of the economy. These deposits had been used to some extent to finance trade on considerably more favorable terms than those available commercially, for example. Furthermore, although these deposits are denominated in foreign currencies, the authorities do not regard them as fully comparable to external debt. Most of these deposits are held by expatriate workers for financing transactions in Turkey. These workers were thought to have little intention of withdrawing their deposits in foreign exchange. The authorities do not contemplate new regulations, such as reserve requirements, as this may be seen as signaling a change of policy causing inflows to lessen. They consider that the cover requirement of 20 percent is adequate and noted that the banks had

CHART 5

TURKEY

EXCHANGE RATE DEVELOPMENTS

(January 1982=100)



Sources: IMF, *International Financial Statistics;* and Fund staff estimates.

[1]Trade-weighted index.

[2]Adjusted by relative wholesale prices.

chosen to deposit a considerably greater portion than this with the Central Bank. There were substantial penalties for banks not adhering to the 20 percent requirement. They also noted that a considerable part of the growth in foreign exchange deposits occurring in 1984 was a direct result of the liquidation of convertible Turkish lira deposits and therefore not a net addition to external liabilities. The staff responded that the authorities ought not to discount the possibility of tighter regulations if the need arose, particularly as the cover requirement in force does not involve much cost to the commercial banks as it can be placed on the Eurodollar market, or deposited with the Central Bank at the same interest rate.

c. Exchange and trade policies

The authorities indicated that the major liberalization of the exchange and trade regime of early 1984 had been carried further in 1985. In particular, the import regime, which was in many respects already quite liberal, had undergone further change. There are now only three commodities whose imports are totally prohibited: narcotics, weapons and ammunition, and weapon components. The list of goods requiring permission was also shortened considerably with a corresponding rise in the number of goods which are importable after payment of a specific duty. All other goods may be imported freely. In addition, average rates of import duty were lowered considerably and many goods are not dutiable. There was an increase in the rate of stamp duty from 1 percent to 4 percent on a very narrow category of imports. This was mainly imposed for revenue purposes rather than in an attempt to influence imports. The rates of guarantee deposits (advance import deposits) were also reduced by 25 percent on April 1 and August 1; a further 25 percent reduction was planned for December 1. Exports are virtually free of restriction and the system of preferential export credits was abolished in early 1985. The rates of export tax rebate were also lowered in early 1985 with the effect that the maximum rate of rebate is now about 17 percent compared with 30 percent in 1984. However, export tax rebates for agricultural goods ranging from 2.5 percent and 5 percent were introduced on July 1. Turkey continues to maintain a bilateral payments arrangement with Iran.

The foreign exchange risk insurance scheme introduced in April 1984, and initially judged to involve a multiple currency practice, is still in effect. Subsequent discussions determined that the scheme as modified would not constitute a multiple currency practice as the authorities stated that the scheme would be self-financing without recourse to government subsidies.

The Turkish authorities were concerned that Turkish exports were continuing to face protectionist pressures in several markets, particularly at a time when the Turkish market had been greatly opened. Restrictions affecting a number of exports, most notably textiles, had been quite severe in 1985, especially in the European Communities, the United States, and Sweden. Textile exports had fallen by 18 percent in value in the first half of 1985 compared with the same period in 1984 and certain other exports had also contracted. The authorities stated that they were trying to reach agreement with their major trading partners under the terms of the Multifibre Arrangement, but no concrete results were yet in place.

d. Medium-term scenarios for external debt and the balance of payments

The scenarios contained in Appendix II suggest that on the current conditions under which Turkey can borrow externally, the debt service ratio would be likely to decline over the period immediately ahead to a level of 18-20 percent in 1990. However, the "growth" scenario, which implies an upward trend in the current account deficit, would show a rising debt ratio thereafter. All the scenarios show short-term foreign debt increasing as a proportion of total debt since it is assumed that emigrants' remittances to foreign exchange accounts will continue.

The scenario calculations are to be interpreted with caution insofar as they are based on a set of assumed behavioral and technical relationships within the Turkish economy, as well as assumed developments in the rest of the world. Obviously, none of the assumptions is likely to be exactly realized. Notwithstanding this caveat, the scenarios help illustrate the major policy alternatives that Turkey will face over the medium term.

It must be remembered that all the scenarios assume high export growth. The results suggest that even with unchanged real effective exchange and real domestic interest rates--set implicitly at their present levels in all scenarios--the planned 6 3/4 percent average annual real GNP growth rate over the period 1987-90 would present difficulties in the post-1990 period from an external payments standpoint in the absence of additional structural changes. Alternatively, balance in the external current account would emerge at the cost over some three years of some 1 1/2 percentage point drop in the average annual growth rate--to a rate insufficient to contain a further rise in the rate of unemployment. The mixed scenario is adequate to meet the dual objective of reasonably high growth and external stability: real GNP growth rate averaging 5 3/4 percent during 1987-90, combined with a US$0.5 billion annual current account deficit.

IV. Performance Under the 1984 Stand-By Arrangement

On April 4, 1984 the Executive Board approved a one-year stand-by arrangement for an amount of SDR 225 million; an amount of SDR 168.8 million was purchased under the arrangement. The economic and financial program envisaged a considerable improvement in the external current account deficit from about US$1.8 billion in 1983 to US$1.0 billion in 1984, 1/ stabilizing the rate of inflation and achieving a growth of GNP of the order of 4 1/2 percent.

The results of the program were mixed. While the outcome on the external current account showed an improvement of some US$500 million compared with 1983, this was considerably less than projected. 1/ GNP growth at nearly 6 percent was better than projected, but the inflation outcome was disappointing, with wholesale prices on average about 50 percent higher than in 1983, compared with a program target of 29 percent. As explained in Section III, the performance of the consolidated budget was seriously off track. In contrast to the consolidated government budget, the finances of the State Economic Enterprises improved with a turnaround in before tax profits and the ceiling on transfers from the Central Government was adhered to. Despite adherence to the monetary performance criteria on net domestic assets of the Central Bank, monetary aggregates expanded significantly faster than planned, for the reasons described earlier, calling into question the effectiveness of net domestic assets of the Central Bank as a control instrument.

In the external sector, limits on foreign debt were met, and the authorities operated a flexible exchange rate policy. There was a further liberalization of the exchange and trade system during the program period and the standard performance criterion on the exchange and trade system was adhered to. 2/ The authorities did not, however, meet the undertaking to eliminate import guarantee deposits by December 31, 1984.

V. Staff Appraisal

After a sustained improvement in both the domestic and external sectors during 1980-82, there was a setback in 1983, which the new Government endeavored to reverse in 1984. While there was an improvement in the balance of payments in that year, the rate of inflation accelerated. Weak financial policies, which resulted in a large increase in the budget deficit to 5 percent of GNP and an average annual increase in M2 money of 50 percent, were important influences

---

1/ New classification.

2/ In EBS/84/192 (9/7/84), the Staff Report for the 1984 Article IV Consultation and Mid-Term Review of Stand-By Arrangement, it was reported that the introduction of a foreign exchange risk insurance scheme (FERIS) might result in a multiple currency practice depending on the size of the government subsidy in the scheme. Approval was granted under Article VIII for the introduction of the scheme and it was determined that purchases under the stand-by arrangement could be made notwithstanding the introduction of the scheme. Subsequent meetings with the Turkish authorities provided a clearer understanding of the operation of FERIS and it was determined that FERIS does not constitute a multiple currency practice.

behind the inflation, although there were special factors such as catch-ups in SEE prices. Since 1985 is the first year in which the servicing of foreign debt does not benefit from earlier rescheduling agreements it was essential that domestic and external performance improve during 1985 if international confidence in Turkey was to be retained and improved. The record shows that useful gains were made in the balance of payments and price performance, although not as great as the Government had hoped.

Domestically, the growth of real GNP in 1985 is likely to be lower though there is still some doubt about the exact outcome. Inflation declined sharply during the course of the year and the increase on a year earlier fell to 37 percent in September 1985. This decline occurred despite the introduction of the VAT in January 1985 but was assisted by satisfactory agricultural supply and probably by some improvement in the terms of trade. While the decline in the inflation rate is encouraging, it owed much to a very sharp decline in agricultural prices, which could be reversed. Finally, there is currently ample liquidity in the economy to accommodate a resurgence of inflation. If the authorities wish to engineer a further slowdown in prices, it will be essential to follow financial policies that will mop up excess liquidity as quickly as possible. In particular, interest rates on deposits must be kept positive in real terms and steps taken to slow down the rate of growth of reserve money.

Externally, the balance of payments improved in 1984 following a weakening in the previous year, although the improvement was not as great as had been planned. In 1985 the current account deficit is expected to be reduced to about 1.6 percent of GNP. There have been several important factors behind the improvement. One has been an exchange rate policy that has broadly maintained competitiveness and it will be essential that this policy continue. Two other important factors have been a doubling of tourist receipts in two years and a rise in workers' remittances from the trough in 1983.

Developments in the capital account have shown that Turkey has so far been able to manage the shift from the gross inflows provided by debt relief to a situation in which normal sources of long-term capital have permitted the large debt repayments and a buildup of gross foreign reserves to a satisfactory level. Moreover, the new borrowing has not resulted in any future bunching of debt repayments. However, short-term foreign debt has increased quite sharply, with the sustained rise in emigrant deposits and the increased finance for the much higher levels of foreign trade. The staff is convinced that a continuation of this strong upward trend in short-term maturities would be harmful and believes that consideration should be given to measures that would slow down short-term inflows.

Medium-term debt projections by the staff point to the difficulty of reconciling a very high growth rate with the containment of the current account deficit and underscore the need for strong export growth. It may be difficult to achieve the growth rates that some in Turkey see as necessary to reduce the level of unemployment and to increase living standards unless the rate of domestic savings can be increased. There are implications for financial policies as well as for the need for structural changes.

Turkey maintains several exchange restrictions under the transitional provisions of Article XIV, residual restrictions on invisibles payments, and a bilateral payments agreement with one Fund member. The progress made and the intention of the authorities to continue the liberalization of the restrictive system is welcomed. Mention has been made of the flexible exchange rate management. The export and import regimes have been liberalized further in 1985, invisible payments are largely without restriction and capital transaction can be made with a great amount of freedom. The import guarantee deposits were reduced substantially in 1985.

While the above economic developments are welcome, there are some troubling question marks in the area of financial policies. Public sector finances, in particular, remain weaker in 1985 than the authorities intended. On the positive side, the budget deficit as a percentage of GNP was reduced below the high level of 1984, although by not nearly as much as originally hoped, and the results of the new VAT are encouraging. However, direct tax collections continue to be disappointing, with a further decline expected relative to GNP and it has been necessary again to maintain stringent controls on fixed investment. SEE performance has been encouraging, with reduced reliance on budget transfers and improved profit performance, which reduced SEEs' borrowing requirements as a percentage of GNP. Structural reorganizations are continuing but there is still considerable work to be done.

The Government has expanded the public sector by setting up several new extrabudgetary funds, mainly to finance housing and public investment. Since at present the resources of the funds come from taxes and/or sales of debt-type securities to the private sector, they operate as an extension of the budget in economic terms. While their results in 1984-85 were not expansionary, it will clearly be essential that future operations not run counter to overall budget policy. In particular, it would be unfortunate if surplus resources accumulated in the funds so far were fully spent in 1986 thereby adding to the impact of the expected budget deficit. The funds may become a useful instrument for generating additional domestic savings since they have some features that may attract new savers; however, their operations are of a size that the impact on the overall public sector cannot be ignored.

Although the goal of reducing the consolidated budget deficit in 1986 by 1 percent of GNP (from 2.3 percent to 1.3 percent of GNP) seems to be broadly adequate, there are two worrisome aspects. One relates to the feasibility of implementing the budgetary objective as it relies on doubling corporate income tax receipts (predicated on a simultaneous rate increase and an acceleration of tax payments) and on a near doubling of VAT receipts. The second area of concern involves the programmed result elsewhere in the public sector, which largely offsets the reduction in the consolidated budget deficit, resulting virtually in no improvement in the public sector balance in real terms in 1986.

Monetary developments in 1984 clearly point to an overhang of liquidity at the end of the year, which it was thought must be absorbed if inflation was to be reduced. In the event, monetary expansion has proceeded at a much faster rate than nominal expenditures, with a consequent sharp decline in the velocity of circulation of broad money, which can be explained only partly by the emergence of a relatively high level of real interest rates. In the staff's view, there is a strong and imminent danger that the decline in velocity could be reversed through an upward trend in inflation. This would mean that the rate of expansion of broad money must be reduced sharply and quickly. Equally, there would not appear to be any scope for reducing the level of real interest rates at this time.

The authorities intend to reduce the rate of increase of broad money significantly in 1986. However, this will not be easy. They also intend to maintain a high level of real interest rates. The fact that the Central Bank is being given greater freedom to implement monetary policy should increase its effectiveness and the ongoing reform of the banking system should assist the Central Bank in implementing its policies. The associated reform of the reserve requirement system is in principle welcomed by the staff. However, there must be doubts about the speed with which the reserve requirement ratio is being reduced at a time when reserve money is expanding rapidly and the multiplier is already high. Unless the rate of monetary expansion is reduced quickly, the success of the 1986 economic program will be in doubt. Looking ahead the ability to use monetary policy to constrain expenditures is likely to require further changes in the techniques of monetary control.

There have been significant improvements in economic data--balance of payments, budget, foreign debt--since the last consultation, in part assisted by Fund technical assistance. The authorities are continuing these efforts to produce more accurate and timely data and are making considerable strides in computerization throughout the Administration.

In summary, while results in 1985 were mixed, there were encouraging elements. The authorities' policies for 1986 are based on the assumption that there should be a further improvement in the balance of payments and another reduction in the rate of inflation. The staff fully supports these aims. It does, however, have some doubts about whether the financial policies will be strong enough and considers that at the least the authorities must stand ready to adjust them quickly if the progress of 1985 shows signs of being reversed.

With the improved balance of payments position, the Turkish authorities do not consider that access to Fund resources is needed. They still wish to remain in close contact with the Fund and it has been agreed that there will be regular staff visits during 1986.

It is recommended that the next Article IV consultation with Turkey be held on the standard 12-month cycle.

VI. Proposed Decision

In the light of the foregoing, the following draft decision is proposed for adoption by the Executive Board.

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Turkey, in the light of the 1985 Article IV consultation with Turkey conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Turkey maintains exchange restrictions under the provisions of the Fund's Article XIV. The Fund welcomes the continued liberalization of the exchange and trade system described in SM/85/332. The Fund urges Turkey to terminate the remaining bilateral payment arrangement with a Fund member as soon as possible.

Table 1. Turkey: Selected Economic and Financial Indicators, 1982-86

	1982	1983	EBS/84/192 Projection 1984	Actual 1984	Preliminary Estimate 1985	Official Projection 1986
			(Annual percentage change, unless otherwise specified)			
National income and prices						
GNP at constant prices	4 1/2	3 1/4	5 3/4	6	4	5
GNP deflator	27 1/2	27 1/2	39 1/2	50	43 1/2	27
Wholesale prices	27	30 1/2	48 1/2	50	42	32
External sector (in U.S. dollars)						
Exports, f.o.b.	22 1/4	-1/4	22 1/4	25	12	9 1/2
Imports, f.o.b.	-1	4 1/2	5 1/2	16	6	6 1/2
Non-oil imports, f.o.b.	1/2	9 1/4	10 1/2	28	8	...
Export volume	24	14 1/2	22 1/4	23 1/2	10	8
Import volume	--	12	5 1/2	15 1/2	4	6 1/4
Terms of trade (deterioration -)	-1	-6	--	1/2	--	1
Nominal effective exchange rate (depreciation -)	-25	22 1/2	...	-31 1/2	-30	...
Real effective exchange rate (depreciation -)	-11 3/4	-1 3/4	...	-3 1/4	3	...
Government budget 1/						
Revenue, excluding grants	28 1/2	26 1/4	40 1/2	28 1/2	54	54 3/4
Total expenditures	25 3/4	34	30	47 1/4	30 1/2	42 1/2
Money and credit						
Domestic credit 2/	12 1/4	26 1/4	21	10	34	...
Public sector (net)	10	8 1/2	16 3/4	15 1/2	13 1/2	...
Private sector	15 1/4	53	25 1/2	-11 1/2	-25	...
Broad money (M2)	69 3/4	37 3/4	42 1/4	50	60	35
Velocity (GNP relative to M_2)	-21 1/2	-4 1/2	3 1/2	6	-6 1/2	-2 1/2
Interest rate on time deposits 3/	37 1/2	30	44 1/2	44 1/2	45	40
			(In percent of GNP)			
Public sector borrowing requirement	6 1/2	8	5 3/4	8 1/2	4 1/2	4
Central government budget balance	-2	-3 1/4	-1 1/2	-5	-2	-1 1/4
Central government cash balance	-2 1/2	-2	-1	-5 1/4	-1 1/2	-1 1/4
Domestic financing	-1/4	1/4	--	3 1/2	2 1/4	2 1/2
Foreign financing	2 3/4	2	1 1/4	1 3/4	-3/4	-1 1/4
Financing requirement of SEEs	3 1/2	4 1/2	6	3 3/4	3 1/4	2 3/4
Gross domestic investment	20 1/4	20 1/4	19 3/4	20	19	19 1/2
Gross domestic savings	17 1/2	16 1/2	17 1/4	17	17 1/2	18
External current account deficit	1 3/4	3 3/4	3	2 3/4	1 1/2	1 1/2
External debt, at year-end	33	35 3/4	43	42	42 1/2	...
Debt service ratio 4/(in percent of foreign exchange earnings)	25	28	30	25	28	28 1/4
Interest payments 4/ (in percent of foreign exchange earnings)	16	15	14	13 1/2	13	12 1/2
		(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	16	90	650 5/	122	200	339
Gross official reserves (weeks of imports)	7 1/2	8	6	8	6	...
External payments arrears, at year-end	--	--	--	--	--	--

Sources: Turkish authorities; IMF Executive Board papers; and staff estimates.

1/ For 1981, fiscal-year data (March-February); for 1982, these data refer to the ten-month period March-December scaled up by 1.2; and for 1983 and 1984, calendar year.
2/ December over December of previous year; refers to domestic credit of Central Bank.
3/ Average effective interest rate on 6-month deposits.
4/ After debt relief.
5/ On the basis of balance of payments classification used prior to recent revisions.

Table 2. Turkey: National Expenditure and Production

	Actual	Actual			Projection in EBS/84/42	Revised Estimate Forecast	Forecast
	1984	1981	1982	1983	1984		1985
	(In billions of lira; at current prices)	(Percentage change in volume from preceding year)					
Consumption	15,155.6	0.6	3.9	4.7	3.9	4.9	3.8
Public	1,619.0	0.9	2.0	1.7	3.9	3.8	4.4
Private	13,536.6	0.6	4.2	5.0	4.0	5.0	3.8
Fixed investment	3,322.9	1.7	3.5	3.0	5.0	3.0	2.8
Public	1,986.7	9.4	2.2	1.9	4.5	1.0	-0.1
Private	1,336.3	-8.7	5.5	4.7	5.7	6.2	6.9
Stockbuilding 1/	351.6	(0.8)	(-1.0)	(0.2)	(-0.2)	(-0.5)	(-1.0)
Total domestic demand	18,830.1	1.6	2.8	4.5	3.5	4.9	2.6
Foreign balance 1/	513.3	(2.5)	(1.7)	(-1.3)	(1.0)	(0.8)	(1.2)
GNP	18,316.8	4.1	4.6	3.3	4.5	5.9	3.9
	(Share of GNP, in percent)						
Agriculture	18.4	0.1	6.4	-0.1	3.5	3.7	2.6
Industry	27.9	7.6	4.6	8.2	6.6	9.3	4.7
Construction	3.8	0.4	0.5	0.6	)	0.5	0.4
					) 3.5		
Services	44.9	5.4	3.6	4.7	)	5.8	2.7
GDP at factor cost	95.0	4.7	4.3	4.1	4.4	5.8	3.0
GNP at market prices	100.0	4.1	4.6	3.3	4.5	5.9	3.9

Sources: State Planning Organization; and IMF staff estimates.
1/ Contribution, in percentage points, to growth in GNP.

Table 3. Turkey: Macro Balance

(At constant 1985 prices)

	1982	1983	1984	1985	Percent Change Over Previous Year 1/ 1981	1982	1983	1984	1985
	(In billions of Turkish liras)								
GNP	24,060.2	24,844.6	26,318.5	27,344.9	4.1	4.6	3.3	5.9	3.9
Foreign balance	633.5	948.4	743.8	426.8	(2.5)	(1.7)	(-1.3)	(0.8)	(1.2)
Total domestic demand	24,693.7	25,793.0	27,062.3	27,771.7	1.6	2.8	4.5	4.9	2.6
Total investment	4,870.7	5,047.8	5,241.5	5,211.2	5.3	-1.4	3.6	3.8	-0.6
Fixed investment	4,525.3	4,659.4	4,852.2	5,098.6	1.7	3.5	3.0	4.1	5.1
Public	2,784.4	2,836.1	2,914.7	3,057.4	9.4	2.2	1.9	2.8	4.9
Private	1,740.9	1,823.3	1,937.5	2,041.2	-8.7	5.5	4.7	6.3	5.4
Stockbuilding	345.4	388.4	389.3	112.6	(0.8)	(-1.0)	(0.2)	(--)	(-1.1)
Public	105.7	-36.4	1.3	-211.4	(-0.2)	(-1.0)	(-0.6)	(0.2)	(-0.8)
Private	239.6	424.8	388.0	324.0	(1.1)	--	(0.8)	(-0.1)	(-0.2)
Total consumption	19,823.0	20,745.1	21,820.8	22,560.5	0.6	3.9	4.7	5.2	3.4
Public disposable income	4,097.9	3,876.8	4,315.9	4,576.4	25.1	5.9	-5.4	11.3	6.0
Public consumption	2,079.9	2,115.4	2,268.6	4,335.8	0.9	2.0	1.7	7.2	3.0
Public savings	2,018.1	1,761.4	2,047.3	2,240.6	82.0	11.1	-12.7	16.2	9.4
Public investment	2,890.1	2,799.7	2,916.0	2,846.0	17.6	-5.4	-3.1	4.2	-2.4
Public savings deficit (-)	-872.1	-1,038.4	-868.7	-605.4					
Private disposable income	19,962.3	20,967.8	22,002.6	22,768.5	0.3	4.3	5.0	4.9	3.5
Private consumption	17,743.1	18,629.8	19,552.2	20,224.7	0.6	4.2	5.0	5.0	3.4
Private savings	2,219.2	2,338.1	2,450.4	2,543.8	-2.0	5.2	5.4	4.8	3.8
Private investment	1,980.6	2,248.1	2,325.5	2,365.2	-9.7	4.9	13.5	3.4	1.7
Private savings deficit (-)	238.6	90.0	124.9	178.6					
Memorandum items:									
Private savings ratio	11.1	11.2	11.1	11.2					
Domestic savings/GNP	17.6	16.5	17.1	17.5					
Fixed investment/GNP	18.8	18.8	18.4	18.6					

Sources: State Planning Organization, and IMF staff estimates.
1/ In parentheses, contributions in percentage points, to growth in GNP.

Table 4. Turkey: Balance of Payments, 1980-86

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985 Proj.	1986 Forecast
A. Current account	-3,408	-1,919	-935	-1,898	-1,407	-813	-695
Merchandise exports, f.o.b	2,190	4,703	5,890	5,905	7,389	8,270	9,050
Merchandise imports, f.o.b.	-7,513	-8,567	-8,518	-8,895	-10,331	-10,925	-11,640
Trade balance	-4,603	-3,864	-2,638	-2,990	-2,942	-2,655	-2,590
Other goods, services, and income: credit	762	1,316	2,038	2,041	2,366	2,950	3,250
Shipment	-30	283	717	564	653	660	680
Travel	326	380	373	420	548	1,000	1,150
Other	406	653	948	1,057	1,165	1,290	1,420
Other goods, services, and income: debit	-1,738	-1,946	-2,639	-2,734	-2,945	-3,270	-3,565
Shipment	-237	-187	-219	-198	-278	-300	-345
Travel	-104	-103	-149	-128	-277	-400	-500
Interest	-1,138	-1,442	-1,565	-1,511	-1,586	-1,700	-1,785
Rescheduled	-470	-250	-100	-70	--	--	--
Other	-668	-1,193	-1,465	-1,441	-1,586	-1,700	-1,785
Other	-259	-213	-706	-897	-804	-870	-935
Total goods, services, and income	-5,579	-4,494	-3,229	-3,683	-3,521	-2,975	-2,905
Private unrequited transfers: credit	2,166	2,559	2,189	1,569	1,901	1,950	2,000
Workers' remittances	2,071	2,490	2,140	1,513	1,807	1,850	1,900
Imports with waiver	95	69	49	56	94	100	100
Private unrequited transfers: debit	-13	--	--	-20	-16	-17	-20
Official unrequired transfers	18	16	105	236	229	229	230
B. Long-term capital	2,047	1,093	1,084	349	1,159	131	391
Direct investment	18	95	55	46	113	115	180
Other long-term capital	2,029	998	1,029	303	1,046	16	211
Resident official sector	1,554	425	230	-136	245	-790	-1,121
Drawings on loans received	2,110	1,645	1,833	1,792	1,794	860	550
Balance of payments loans	1,373	315	902	622	1,002	760	450
Rescheduled debt--OECD Consortium	1,450	850	750	1,000	580	--	--
Principal	980	600	650	930	580	--	--
Interest	470	250	100	70	212	--	--
Other	287	480	181	170	212	100	100
Repayments on loans received	-1,556	-1,220	-1,603	-1,928	-1,549	-1,650	-1,671
Principal on loans refinanced by OECD	-980	-600	-650	-930	-580	--	--
Other	-576	-620	-953	-998	-969	-1,650	-1,671
Deposit money banks	-72	-69	45	-15	187	-134	--
Other sectors	547	642	754	454	614	940	1,332
Total, Groups A plus B	-1,361	-826	149	-1,549	-248	-682	-304
C. Short-term capital	92	-307	-83	958	36	882	653
Resident official sector	226	287	-2	844	-189	239	343
Deposit money banks	96	-447	-95	18	66	423	310
Other sectors	-230	-147	14	96	159	220	--
D. Net errors and omissions	1,247	648	-75	507	317	--	--
Total, Groups A through D	-22	-485	-9	-84	105	200	349
E. Counterpart items	19	68	27	180	20	--	--
Total, Groups A through E (overall balance)	-3	-417	18	96	125	200	349
F. Total change in reserves	3	417	-18	-96	-125	-200	-349
Net use of Fund resources	422	268	133	78	-139	-204	-313
Other	-419	149	-151	-174	14	4	-36
Memorandum item:							
Current account deficit in percent of GNP	-5.3	-3.3	-1.7	-3.7	-2.8	-1.6	...

Source: Central Bank of Turkey.

Table 5 . Turkey: Foreign Trade, 1982-85

	1982	1983	1984	1985 1/
	(In millions of U.S. dollars)			
Exports, f.o.b. 2/	5,890	5,905	7,389	8,270
Imports, f.o.b. 2/	8,518	8,895	10,331	10,925
Imports of oil products	3,748	3,665	3,637	3,725
Non-oil	4,770	5,230	6,694	7,200
	(Percentage change from previous year)			
Total exports				
Value	22.2	0.3	25.1	11.9
Price	-1.5	-12.5	1.2	1.5
Volume	24.0	14.6	23.6	10.3
Total imports				
Value	-1.0	4.4	16.1	5.7
Price	-0.9	-6.9	0.6	1.4
Volume	-0.1	12.1	15.4	4.3
Oil imports				
Value	-3.2	-2.2	-0.8	2.4
Price	-9.6	-10.6	-4.1	-1.4
Volume	7.1	9.4	3.5	3.9
Non-oil imports				
Value	0.7	9.6	28.0	7.6
Price	5.4	-3.8	3.9	2.9
Volume	-4.4	14.0	23.2	4.5
Terms of trade	-0.6	-6.0	0.6	0.1

Source: State Planning Organization.

1/ Projection.
2/ Including transit trade.

Table 6. Turkey: Outstanding External Debt Disbursed, 1980-84

(In millions of U.S. dollars; end of period)

	1980	1981	1982	1983	1984
			(By maturity)		
Total outstanding disbursed debt 1/	16,222	16,823	17,638	18,420	21,245
Medium- and long-term 2/	13,722	14,667	15,474	15,368	16,695
Short-term	2,500	2,156	2,164	3,052	4,550
			(By borrower)		
Medium- and long-term	13,722	14,667	15,474	15,368	16,695
Government (including SEES)	10,197	11,199	12,197	12,040	13,555
Central bank	3,307	3,227	3,047	3,070	3,140
Private sector	218	241	230	258	—
Short-term	2,500	2,156	2,164	3,052	4,550
Government (including SEES)	640	504	141	194	215
Central bank	828	695	963	1,543	2,448
Private sector	1,032	957	1,060	1,315	1,887
			(By lender)		
Medium- and long-term	13,722	14,667	15,474	15,368	16,695
Multilateral agencies	3,242	3,857	4,550	4,932	5,442
IMF	1,054	1,322	1,455	1,572	1,426
IBRD, IDA, IFC	1,438	1,783	2,115	2,488	3,028
European Investment Bank	447	427	420	393	370
European Resettlement Fund	253	287	384	399	554
Islamic Development Bank	35	23	117	22	12
OPEC Fund	15	15	40	40	40
Int. Fund for Ag. Development	0	0	19	18	12
Bilateral lenders	6,026	6,712	7,115	6,566	7,230
OECD countries	5,253	5,901	6,146	5,613	6,093
OPEC countries	392	449	587	535	602
Other countries	381	362	382	418	535
Commercial banks	3,436	3,257	3,229	2,262	3,673
Private lenders	1,018	841	580	608	350
Short-term	2,500	2,156	2,164	3,052	4,550
Islamic Development Bank	20	45	73	20	65
Bilateral lenders	620	459	68	14	—
Commercial banks	608	407	335	588	1,460
Private lenders	1,252	1,245	1,688	2,430	3,025
Of which:					
Deposits of citizens abroad 3/	(908)	(946)	(1,402)	(1,898)	(2,322)
			(By type of credit)		
Medium- and long-term	13,722	14,667	15,474	15,368	16,695
Project and program credits	9,268	10,569	11,665	11,498	12,196
Eurocurrency loans	763	651	720	902	1,508
Rescheduled debt	3,473	3,206	2,859	2,710	2,440
CTLDs	2,137	2,077	1,996	1,886	1,668
Bankers' credits	429	429	429	429	422
TPRCs	107	100	84	45	--
Suppliers' arrears	800	600	350	350	350
Private credits	218	241	230	258	551
Short-term	2,500	2,156	2,164	3,052	4,550
Public sector	1,468	1,199	1,104	1,737	2,663
Bankers' credits	10	0	0	65	195
Overdrafts	254	69	48	164	417
Dresdner Bank program	365	473	817	1,251	1,778
Petroleum credits	620	459	68	14	0
Other	219	198	171	243	273
Private sector	1,032	957	1,060	1,315	1,887
CTLDs	543	473	585	647	61
Acceptance credits	377	230	276	318	703
Pre-export financing	112	254	199	254	414
Fixed deposit accounts	--	--	--	83	544
Other	--	--	--	13	165
Memorandum items					
Total outstanding debt	16,222	16,823	17,638	18,420	21,245
Debt excluding IMF	15,173	15,519	16,183	16,848	19,775
Ratio of total outstanding debt to GNP					
Including IMF	25.04	28.58	32.82	35.96	42.48
Excluding IMF	23.41	26.34	30.12	32.89	39.63

Sources: Data provided by the Undersecretary for Treasury and Foreign Trade; and the Central Bank of Turkey.

1/ Includes purchases from IMF.
2/ Excludes military debt and rescheduled military debt and outstanding debts under former bilateral payments arrangements with certain Eastern European countries.
3/ Estimated.

Table 7. Turkey: External Debt Service

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985 Proj.
Interest	1,138	1,442	1,565	1,511	1,586	1,700
Amortization of medium- and long-term debt 1/	1,711	1,327	1,731	1,996	1,900	1,964
Less: debt relief	1,450	850	750	1,000	580	--
Total	1,399	1,919	2,546	2,687	2,906	3,664
	(In percent of exports of goods and services and private transfers)					
Before debt relief	55.7	32.2	32.5	38.5	29.8	27.8
After debt relief	27.3	22.3	25.2	28.0	24.8	27.8

Sources: Turkish authorities; and IMF Treasurer's Department.

1/ Includes repurchases of Fund credit.

Table 8. Turkey: Price Developments

(Percent change over average for corresponding period of preceding year)

	Wholesale Prices 1/	Consumer Prices 2/		Implicit GNP Deflator
		General	Istanbul	
1978	52.6	...	45.3	43.7
1979	63.9	...	58.7	71.1
1980	107.2	...	110.2	103.8
1981	36.8	...	36.6	41.9
1982	27.0	...	30.9	27.4
1983	30.5	31.4	32.6	27.4
1984	50.3	48.4	50.6	49.8
1985	...	...	...	43.6
1982 Q1	26.2	...	31.2	...
Q2	30.0	...	34.4	...
Q3	24.7	...	27.6	...
Q4	22.4	...	30.5	...
1983 Q1	30.4	29.0	30.5	...
Q2	28.8	29.7	29.3	...
Q3	28.5	30.5	31.4	...
Q4	36.0	35.8	38.2	...
1984 Q1	34.4	35.7	37.7	...
Q2	51.4	49.1	52.6	...
Q3	55.4	55.4	58.6	...
Q4	55.6	51.9	52.3	...
1985 Q1	57.3	55.4	60.0	...
Q2	43.7	44.0	46.8	...
Q3	36.9	38.4	...	...

Sources: Turkish authorities; and IMF staff estimates.

1/ Shows the Under Secretariat of the Treasury and Foreign Trade WPI annual figures for 1978-81 and quarterly figures for 1982; later figures relate to the new State Institute of Statistics, WPI.

2/ State Institute of Statistics (new index 1978-79 = 100), except for Istanbul's figures up to 1982.

Table 9. Turkey: Monetary Developments

End of Period 1/	1982	1983	1984 Program 2/	1984 Actual	1985 3/ March	1985 3/ June	1985 3/ Sept.
	(In billions of Turkish liras at end of period)						
Broad money (M2X) 4/	2,324	3,041	4,850	5,275	5,982	6,954	7,775 5/
Broad money (M2)	2,306	3,018	4,580	4,754	5,389	6,114	6,908
Reserve money	943	1,282	1,950 6/	1,912	2,238	2,506	2,794
Net foreign assets	-39	-43	390	447	-142	-296	-186
Net domestic assets	982	1,325	1,560 7/	1,465	2,379	2,802	2,980
Credit to public sector, net	585	634	740 7/	730	2,169	2,204	2,604
Credit to private sector	395	604	660	543	297	353	312
Other items, net	2	87	160	192	-87	246	64
	(Percent change from corresponding period of previous year)						
Broad money (MX2) 4/	...	31	59 1/2	73 1/2	67 1/2	72 1/2	74 5/
Broad money (M2)	62	31	51 1/2	57 1/2	55	58 1/2	64
Reserve money	47	36	52	49	56 3/4	56 1/4	56 1/2
Memorandum item:							
Reserve money multiplier 8/	2.45	2.35	2.35	2.49	2.41	2.44	2.47

Sources: Central Bank of Turkey; and Fund staff estimates.

1/ Last Friday of the period, except for 1982-84, when data relate to penultimate Friday.
2/ See EBS/84/237 (November 23, 1984).
3/ Data on reserve money components are not comparable to those of previous years because of revaluation of foreign assets and liabilities and assumption of certain SEE and private sector liabilities by the Central Government on December 31, 1984.
4/ M2 plus foreign exchange deposits with deposit money banks.
5/ Preliminary estimate.
6/ Indicative ceiling.
7/ Binding ceiling.
8/ Calculated with respect to M2.

Table 10. Turkey: Selected Interest Rates

(In percent per annum)

	End-Dec. 1982	Jan. 1 1983	July 1 1983	Jan. 1 1984	Sept. 1 1984	March 1 1985	July 1 1985	Sept. 1 1985
Central Bank								
Interest on required reserves 1/								
Sight deposits	12.7	19.6	19.6	6.2	6.2	27	23.3	16.2
Time deposits	19.6	19.6	19.6	47.6	47.6	27	23.3	16.2
Discounts and advances								
Short-term rates								
General	31.5	31.5	28	48.5	52	52	52	52
Agriculture	18	18	18	25	25	28	28	28
Exports	31.5	31.5	26.5-30	35	45	52	52	52
Long-term rate								
General	33	33	29.5	50.5	50.5	50.5	50.5	50.5
Commercial banks								
Deposit rates								
Personal sight deposits	5	20	20	5	5	5	5	5
Time deposits, 3 months	45	--	--	49	53	53	48	45
Time deposits, 6 months	50	40	35	47	52	52	52	50
Time deposits, 12 months	50	45	40	45	45	45	56	55
"Scheduled" lending rates								
Short-term rates								
General	36	36	32	50	53.5-62	53.5-62	53.5-64	53.5-64
Agriculture	20	20	20	27.5	28	28	30	30
Exports	31.5	31.5	26.5-30	35	42-52	42-52	53.5-64	53.5-64
Long-term rates								
General	41	41	34	52	52-62	52-62	53.5-66	53.5-66
Agriculture	22	22	22	28	28	28	28	28
Memorandum items:								
Effective 6-month deposit rate 2/	37.5	32	28	42.3	46.8	46.8	46.8	45
Increase in wholesale prices over preceding 12 months	32	32	27	40	57	60	38	37

Source: Central Bank of Turkey.

1/ Compounded statutory weekly or monthly rate.
2/ After deduction of withholding tax.

Table 11. Turkey: Public Sector Borrowing Requirement

	1984	1985 1/	1986 2/
	(In billions of Turkish liras)		
Consolidated budget	902	635	460
SEEs	711	884	930
Local administrations	80	-37	29
Extrabudgetary funds	-113	-215	-45
Total	1,580	1,268	1,414
	(As a percent of GNP)		
Consolidated budget	4.9	2.3	1.3
SEEs	3.9	3.2	2.6
Local administrations	0.4	-0.1	-0.1
Extrabudgetary funds	-0.6	-0.8	-0.1
Total	8.6	4.6	3.9

Source: Data suplied by the Turkish authorities.

1/ Revised program.
2/ Provisional projections.

Table 12. Turkey: Consolidated Central Government Budget, 1980–85 1/

(In billions of Turkish liras)

	1981	1982	1983	1984	1985 Program	1985 Revised Program	1985 Actuals Jan.-June	1986 Prelim. Projections
Total revenues and grants	1,330	1,424	2,157	2,831	4,265	4,280	1,906	6,550
Tax revenues	1,191	1,305	1,934	2,369	3,584	3,695	1,567	5,750
Direct taxes	(768)	(826)	(1,149)	(1,381)	(1,909)	(1,867)	(775)	(2,800)
Indirect taxes	(423)	(479)	(785)	(988)	(1,675)	(1,828)	(792)	(2,950)
Nontax revenues	139	119	223	405	606	510	298	760
Grants	--	--	--	57	75	75	41	40
Total expenditures	1,503	1,575	2,533	3,731	4,465	4,915	2,037	7,010
Current expenditures	1,193	1,231	2,070	3,048	3,665	4,045	1,705	5,715
Personnel	(390)	(440)	(667)	(877)	(1,200)	(1,225)	(563)	(1,600)
Other current expenditure	(255)	(280)	(390)	(595)	(730)	(850)	(228)	(1,275)
Interest payments	(67)	(77)	(180)	(375)	(605)	(605)	(330)	(1,135)
Transfers to SEEs	(214)	(233)	(292)	(275)	(225)	(175)	(100)	(150)
Other transfers	(267)	(201)	(541)	(926)	(905)	(1,190)	(484)	(1,555)
Investment expenditures	310	344	463	683	900	870	332	(1,295)
Surplus (+) or deficit (-) on commitment basis	-173	-151	-376	-900	-200	-635	-131	-460
Changes in arrears (increase +, decrease -)	87	-30	131	-56	-50	--	-285	--
Surplus (+) or deficit (-) on cash basis	-86	-181	-245	-956	-250	-635	-416	-460
Financing	86	181	245	956	250	635	416	460
Foreign (net)	41	-18	26	319	-130	-205	-98	-420
Drawings	(63)	(36)	(177)	(555)	(280)	(205)	(138)	(260)
Amortization	(-22)	(-54)	(-151)	(-236)	(-410)	(-410)	(-236)	(-680)
Domestic (net)	127	162	181	611	380	840	458	880
Central bank advances	(39)	(32)	(72)	(190)	(175)	(175)	(265)	(100)
Treasury bills	(38)	(74)	(-98)	(284)	(50)	(320)	(196)	(360)
Other domestic 4/	(50)	(56)	(207)	(137)	(155)	(345)	(-3)	(420)
Other	-82	37	38	26	--	--	56	(--)

Source: Data supplied by the Turkish authorities.

1/ For 1980 and 1981, fiscal year data (March-February); for 1982, the data refer to the ten-month period March-December only; and for 1983, 1984 and 1985, to the calendar year.

2/ Receipts from loans, mainly from the banking sector.

Table 13. Turkey: Operations of State Economic Enterprises, 1/ 1980-85

(In billions of Turkish liras)

	1980	1981	1982	1983	1984	Estimate 1985
1. Operating revenues	1,176	1,841	2,726	3,704	6,483	9,914
Sales of goods and services	1,146	1,767	2,650	3,596	6,310	9,679
Subsidies 2/	30	74	76	108	173	235
2. Operating expenses	1,169	1,759	2,583	3,630	5,845	8,971
Wages and salaries	238	314	370	464	719	978
Other goods and services	898	1,390	2,135	2,973	4,862	7,711
Other operating expenses	10	32	30	38	41	14
Depreciation	23	23	48	155	223	268
3. Operating surplus (+) or deficit (-) (1-2)	7	82	143	74	638	943
4. Nonoperating revenues	213	214	233	292	275	175
Transfers 3/	213	214	233	292	275	175
5. Nonoperating expenses	--	--	--	--	--	--
6. Income before direct taxes (1-2+4-5)	220	296	376	366	913	1,118
7. Direct taxes	15	41	57	126	117	319
8. Income after taxes (6-7)	205	255	319	240	796	799
9. Net acquisition of capital assets	436	593	636	759	1,491	1,663
Fixed investment	281	406	533	769	1,169	1,623
Increase in stocks	178	210	151	145	545	308
Depreciation	-23	-23	-48	-155	-223	-268
10. Overall surplus (+) or deficit (-) (8-9)	-231	-338	-317	-519	-695	-864
11. Financing 6/	231	338	317	519	695	864
Foreign (net)	68	122	140	138	177	220
Domestic (net)	163	216	174	381	518	644
Central Bank	(50)	(32)	(31)	(-5)	(-56)	(20)
State Investment Bank	(16)	(16)	(59)	(28)	(36)	(35)
Other domestic 4/	(97)	(168)	(84)	(358)	(538)	(589)
Memorandum items:						
Duty losses 5/	75	110	107	199	335	416
Operating surplus after compensation for duty losses	82	192	250	273	973	1,359

Sources: Turkish authorities; and staff estimates.

1/ Includes only nonfinancial enterprises.
2/ Transfers from the Stabilization Fund.
3/ For 1981 and 1982, data for transfers from the Central Government provided by government accounts are different from those included in SEEs accounts. In the present table, central government data are used. The corresponding adjustment is made in "other domestic" financing item.
4/ Mostly short-term borrowing.
5/ Imputed duty losses resulting from the retention of price controls by the Government for social reasons. Actual compensation for duty losses from the budget may differ from imputed duty losses.
6/ Data differ slightly from those in Table 11. The latter include revisions subsequent to this table and also include financial SEEs. Revisions for other data in this table are not yet available.

Turkey: Fund Relations
(As of November 30, 1985)

I. Membership Status

(a) Date of membership: March 11, 1947

(b) Status: Article XIV

(A) Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 429.1 million

(b) Total Fund holdings of Turkish liras: SDR 1,623.27 million (378.3 percent of quota)

(c) Fund credit: SDR 1,226.44 million (285.8 percent of quota)
Of which: Under tranche policies: SDR 1,226.44 million (285.8 percent of quota)

(d) Reserve tranche position: SDR 32.27 million (7.5 percent of quota)

III. Stand-by Arrangements

Stand-by arrangements approved during the last ten years:

(i) Two-year stand-by arrangement in the amount of SDR 300 million approved on April 24, 1978. Utilization: SDR 90 million; cancelled on July 19, 1979.
(ii) One-year stand-by arrangement in the amount of SDR 250 million approved on July 19, 1979. Utilization: SDR 230 million; cancelled on June 17, 1980.
(iii) Three-year stand-by arrangement in the amount of SDR 1,250 million approved on June 18, 1980. Fully disbursed; completed as planned.
(iv) One-year stand-by arrangement in the amount of SDR 225 million approved on June 24, 1983. Utilization: SDR 56.25 million; cancelled on April 4, 1984.
(v) One-year stand-by arrangement in the amount of SDR 225 million approved on April 4, 1984. Utilization: SDR 168.75 million; expired on April 3, 1984.

IV. SDR Department

(a) Net cumulative allocation: SDR 112.31 million.

(b) Holdings: SDR 0.44 million.

(B) Nonfinancial Relations

V. Exchange rate arrangement: flexibly managed floating exchange rate. Unapproved exchange practices subject to Article VIII, Sections 2 and 3: bilateral payments agreement with Iran.

VI. Last Article IV consultation was discussed by the Board on October 10, 1984 (EBS/84/192). The request for the last stand-by arrangement was discussed by the Board on April 4, 1984 (EBS/84/42); the Board approved the stand-by arrangement and a waiver of Article V, Section 3(b)(iii). The mid-term review of the arrangement was discussed by the Board on October 10, 1984 (EBS/84/192). The Board also approved the modification of the arrangement on December 7, 1984 (EBS/84/237). Turkey is on the 12-month consultation cycle.

VII. Technical assistance:

CBD: An advisor provided since July 1983 for one year to assist in the development of an external debt management system in cooperation with the World Bank. His term was extended for one year. A second advisor was made available for three months to provide statistical support in the same area.

STAT/FAD: A staff team was in Ankara in early December 1984 to review the fiscal data for use in consultations and use of Fund resources discussions.

STAT: A staff member was in Ankara in December 1984 to assist in the classification and compilation of the balance of payments, in light of the recent external liberalization measures.

Medium-Term Scenarios for External Debt and the Balance of Payments

1. Methodology

The medium-term scenarios presented below are based on an annual computational model of Turkey's external sector, including the domestic savings-investment relationship. The following inputs are treated exogenously over the scenario period: foreign exchange earnings, invisible payments other than interest, the terms of trade, the pattern of disbursement and debt service on obligations committed at the beginning of the scenario period, the level of borrowing from official sources, direct investment, emigrant deposits and accumulation of reserves. Given these data, the model lends itself to two alternative applications. In one, upon setting an external current account target, the model solves for the level of imports, the level of gross borrowing from commercial sources, and the resulting debt amortization and interest payments. In the other, upon setting a growth target and hence the level of imports, the model solves for the current account balance, as well as for gross borrowing and debt service payments. In each case, the model also traces the stream of domestic savings and investment in the public and private sectors that would be consistent with the external balance.

The "growth" scenario, which follows the latter approach, is predicated on the real GNP growth target of the current five-year development plan. In contrast, the "adjustment" scenario envisages a balanced external payments position on current account toward the end of the decade. The mixed scenario combines a more gradual decline of the current account gap, stabilizing at US$0.5 billion, with a moderate growth performance.

2. Exogenous variables and parameters

All three scenarios have a number of assumptions in common. The point of departure is the official estimate for 1985 and forecast for 1986. 1/ From 1987 onwards, export and import prices are assumed to rise 7 1/2 percent yearly and the average rate of interest to remain at 9 percent (including a 1 percent point spread over LIBOR on commercial credit)--in accordance with the medium-term scenario in the Fund's World Economic Outlook. Other major exogenous variables and parameters are broadly consistent with those underlying the five-year plan. For the external sector, growth of export volume is projected at 10 percent yearly, implying continued gains in market shares, and the apparent GNP elasticity of import demand is set at 1.3, which is slightly below the average for

1/ External debt outstanding at end-1984 is comprised of all short-term liabilities (reported by the Central Bank of Turkey) and medium- and long-term liabilities (Undersecretariat of Treasury and Foreign Trade) including net Fund credit, rescheduled military obligations, and liabilities outstanding from former bilateral clearing agreements with Eastern European countries (World Bank).

recent years. Internally, the ratio of fixed investment to GNP is assumed to rise by almost 2 percentage points over 1985-90 with the private sector share in investment rising 4 percentage points; both the ratio of public disposable income to GNP and the private savings ratio are assumed to remain unchanged. Implicitly, both the real exchange rate and the average real domestic interest rate are held at their current levels.

Assumptions regarding invisible transactions (other than interest payments), the level of official inflows, direct investment, and reserve movements are also in line with those contained in the plan. The stock of trade-related short-term credits is derived as a proportion of the total value of merchandise trade. In addition, the amortization of new medium- and long-term debt is assumed to take place as follows: five-year grace and ten-year repayment period on official credits and three-year grace and four-year repayment period on commercial credits.

3. Scenario results and sensitivity test

Under all three scenarios, the ratio of debt service (amortization of medium- and long-term obligations plus interest payments) to gross foreign exchange earnings is expected to decline from a peak of 29 percent in 1985, which marks the end of debt relief under previous rescheduling agreements, to around 18-20 percent in 1990 (Table 1). However, these ratios would diverge in the post-scenario period, reflecting with a lag--determined by the grace and amortization profile of new medium- and long-term borrowing--significant variations in the current account balance, gross borrowing and total accumulated debt under alternative scenarios. In particular, the growth scenario after 1990 would lead to a rising debt service ratio. While the "adjustment" scenario leads to a relatively small nominal increase in the stock of debt (about US$2.8 billion over 1985-90), the "growth" scenario implies a considerable rise (US$7.1 billion) in debt outstanding, totaling US$30.2 billion in 1990, reflecting the marked increase to US$1.8 billion in the current account deficit and the increase to US$3.8 billion in the annual gross medium- and long-term financing requirement.

In all scenarios the proportion of short-term obligations in total debt outstanding would rise from one-fifth at end-1984 to around two-fifths at end-1990. However, the danger of excessive short-term indebtedness--attributable to a large extent to the trade expansion following the recent external liberalization--is mitigated by the fact that about one half of all short-term obligations is comprised of foreign exchange deposits of Turkish citizens living abroad--held through the Dresdner Bank scheme or with local commercial banks. Furthermore, the ratio of short-term liabilities to gross reserves is expected to decline over the scenario period; in 1990, reserves would be equivalent to two import weeks less than at present under the "growth" scenario, and to almost one week less than the current level of 14 import weeks under the other scenarios.

Internally, the "adjustment" scenario is consistent with a domestic savings ratio of 21 percent at the end of the decade, compared to 18 1/2 percent for the "growth" scenario and 20 1/4 percent for the mixed scenario. Concomitantly, the fiscal balance 1/ ranges from a small surplus in 1990 under the "adjustment" scenario to a deficit of 2 1/2 percent of GNP under the "growth" scenario. The mixed scenario entails a more gradual decline in the deficit to 1/2 percent of GNP by the end of the decade.

In order to gauge the sensitivity of the results with respect to certain critical numerical assumptions, the "growth" scenario has been recalculated separately with marginal alterations in each assumption and in the growth target over the period 1987-90. The deviations from the base scenario tested are: 1 percentage point in the interest rate, 1 percentage point in the growth of exports, 0.1 in the GNP elasticity of imports, 1 percent change in the terms of trade and 0.5 percentage point alteration in the GNP growth rate (Table 2). While none of these alternatives is more likely to materialize than the base assumptions, the scenario results appear to be particularly sensitive to the export growth and terms of trade assumptions. Interestingly, the external effects of the simulated reduction (increment) of 0.1 in the GNP elasticity of imports are identical to those of a 0.5 percentage point reduction (increment) in GNP growth.

4. Policy implications

The scenario calculations are to be interpreted with caution insofar as they are based on a set of assumed behavioral and technical relationships within the Turkish economy, as well as assumed developments in the rest of the world. Obviously, none of the assumptions is likely to be exactly realized. Notwithstanding this caveat, the scenarios help illustrate the major policy alternatives that Turkey will face over the medium term.

The results suggest that even with unchanged real effective exchange and real domestic interest rates--set implicitly at their present levels in all scenarios--the planned 6 3/4 percent average annual real GNP growth rate over the period 1987-90 would present difficulties in the post-1990 period from an external payments standpoint in the absence of additional structural changes. Alternatively, balance in the external current account, which in the model requires a small fiscal surplus, would emerge at the cost of some 1 1/2 percentage point drop in the average annual growth rate--insufficient to contain a further rise in the rate of unemployment. The mixed scenario, which in the model involves a lesser degree of fiscal restraint, is adequate to meet the dual objective of reasonably high growth and external stability: real GNP growth rate averaging 5 3/4 percent during 1987-90, combined with a US$0.5 billion annual current account deficit.

1/ The fiscal balance is defined on a national accounts basis as the sum of the consolidated overall balance of the general government (including extrabudgetary funds and local governments) and the net profits of State Economic Enterprises.

The analysis implies that prudent demand management may not be enough to ensure the rate of growth contained in the current five-year plan. The trade-off between growth and the external constraint would, however, be eased with structural reform particularly in the development of domestic capital markets and promotion of direct investment from abroad. Measures aimed at broadening capital markets would raise the private savings ratio to support a higher rate of capital formation and output growth, obviating an increase in the current account deficit. If channeled into activities where it complements the use of domestic resources, direct investment would not only (a) first provide an additional source of external financing, but also (b) eventually strengthen the country's export performance and/or reduce its import dependence--probably at a lower debt service cost than incurred with commercial borrowing. It will be equally important to ensure that the export sector remains competitive. The above considerations emphasize the importance of a continuation of the Government's intention to maintain both appropriate demand management and structural policies.

Table 1. Turkey: Alternative Medium-Term Scenarios, 1984-90

(In billions of U.S. dollars, unless otherwise specified)

	1984	1985	1986	1987	1988	1989	1990
"Growth" scenario							
Current account balance	-1.4	-0.8	-0.7	-0.8	-1.0	-1.4	-1.8
Interest payments	1.6	1.7	1.8	2.0	2.1	2.2	2.4
Amortization of medium- and long-term debt 1/	1.3	2.1	2.3	2.4	2.6	2.4	2.6
Gross medium- and long-term borrowing 1/	2.3	2.0	2.1	2.4	2.8	3.2	3.6
Total debt outstanding at year-end 2/	22.1	23.1	24.2	25.1	26.3	27.9	30.2
Share of short-term debt (in percent of total debt)	20.3	24.3	28.1	30.8	33.2	34.2	35.3
Debt service ratio 4/ (in percent of foreign exchange earnings)	24.8	28.8	28.0	26.4	24.2	20.9	19.6
Real GNP growth (annual percent change)	5.9	3.9	5.0	6.4	6.8	7.0	7.1
Domestic savings ratio (in percent of GNP)	17.1	17.5	17.9	18.6	18.7	18.7	18.5
Fiscal balance ratio 5/ (in percent of GNP)	-3.3	-2.2	-2.3	-1.9	-1.9	-2.2	-2.4
"Adjustment" scenario							
Current account balance	-1.4	-0.8	-0.7	-0.4	-0.2	--	--
Interest payments	1.6	1.7	1.8	2.0	2.0	2.0	2.1
Amortization of medium- and long-term debt 1/	1.3	2.1	2.3	2.4	2.6	2.4	2.5
Gross medium- and long-term borrowing 1/	2.3	2.0	2.1	2.1	2.0	1.9	1.9
Total debt outstanding at year-end 2/	22.1	23.1	24.2	24.7	25.1	25.4	25.9
Share of short-term debt (in percent of total debt)	20.3	24.3	28.1	31.0	34.3	36.9	40.4
Debt service ratio 4/ (in percent of foreign exchange earnings)	24.8	28.8	28.0	26.3	23.8	20.1	18.1
Real GNP growth (annual percent change)	5.9	3.9	5.0	4.5	4.8	5.6	6.6
Domestic savings ratio (in percent of GNP)	17.1	17.5	17.9	19.2	20.0	20.7	21.2
Fiscal balance ratio 5/ (in percent of GNP)	-3.3	-2.2	-2.3	-1.4	-0.6	-0.1	0.2
Mixed scenario							
Current account balance	-1.4	-0.8	-0.7	-0.6	-0.5	-0.5	-0.5
Interest payments	1.6	1.7	1.8	2.0	2.0	2.1	2.2
Amortization of medium- and long-term debt 1/	1.3	2.1	2.3	2.4	2.6	2.4	2.5
Gross medium- and long-term borrowing 1/	2.3	2.0	24.2	2.2	2.3	2.4	2.5
Total debt outstanding at year-end 2/	22.1	23.1	24.2	24.9	25.6	26.4	27.4
Share of short-term debt (in percent of total debt)	20.3	24.3	28.1	30.9	33.9	35.8	38.4
Debt service ratio 4/ (in percent of foreign exchange earnings)	24.8	28.8	28.0	26.4	24.0	20.4	18.7
Real GNP growth (annual percent change)	5.9	3.9	5.0	5.3	5.5	6.2	6.2
Domestic savings ratio (in percent of GNP)	17.1	17.5	17.9	19.0	19.5	19.9	20.3
Fiscal balance ratio 5/ (in percent of GNP)	-3.3	-2.2	-2.3	-1.6	-1.1	-0.9	-0.5

Sources: Central Bank of Turkey, Undersecretariat of Treasury, State Planning Organization, World Bank, and Fund staff estimates.

1/ Includes Fund purchases or repurchases.
2/ Includes certain rescheduled military debt and obligations outstanding from former bilateral clearing agreements with Eastern European countries.
3/ Including Dresdner Bank deposits, CTLDs, and estimated foreign exchange deposits held in local commercial banks by workers living abroad.
4/ Amortization of medium- and long-term debt plus all interest payments, after debt relief.
5/ Consolidated overall balance of general government (including the extrabudgetary funds and local governments) plus net surplus of state economic enterprises, on national accounts basis.

Table 2. Turkey: Sensitivity Test of
Medium-Term "Growth" Scenario, 1990

Selected Assumptions 1/	Current Account Balance	Gross Borrowing 2/	Debt Outstanding 3/	Debt service ratio 4/
	(In millions of U.S. dollars)			(Percent of foreign exchange earnings)
Interest rate				
8 percent	-1.6	3.6	29.7	18.9
10 percent	-2.0	4.0	30.8	20.5
Growth of export volume				
11 percent	-1.0	2.9	28.6	18.6
9 percent	-2.6	4.6	31.8	20.7
Elasticity of imports				
1.2	-1.2	3.1	28.9	19.2
1.4	-2.4	4.4	31.6	20.1
Terms of trade				
1 percent gain	-0.9	2.8	28.3	18.7
1 percent loss	-2.8	4.8	32.2	20.6
Deviation in GNP growth 5/				
Minus 0.5 point	-1.2	3.2	28.9	19.2
Plus 0.5 point	-2.4	4.4	31.5	20.1
Base "growth" scenario	-1.8	3.8	30.2	19.6

Sources: Central Bank of Turkey, Undersecretariat of Treasury and Foreign Trade, State Planning Organization, World Bank, and Fund staff estimates.

1/ Alternatives to assumptions and GNP growth target in base "growth" scenario over period 1987-90.
2/ Medium- and long-term obligations.
3/ Includes rescheduled military debt and obligations outstanding from former bilateral clearing agreements with Eastern European countries.
4/ Amortization of medium- and long-term debt plus all interest payments.
5/ Deviation (in percentage points) from annual real growth rate in five-year plan.

Turkey - Statistical Issues

1. Outstanding statistical issues

a. Prices

The situation on price statistics has improved considerably due to the revisions by the State Institute of Statistics in the consumer price index and the wholesale price index which are now available with base 1981 and 1978-79, respectively.

b. Government finance

The 1984 GFS Yearbook includes data for the consolidated Central Government through 1981; however, there are no data published on financing and debt by type of debt holder. Also, data have not been received on the operations of provincial and local governments. The 1985 Yearbook will include consolidated central government data for revenue, expenditure, and lending minus repayments for 1983 and 1984. Data for 1982 have not been made available due to a change in the fiscal year that year.

c. Monetary accounts

There seem to be difficulties in collecting data on external accounts of financial institutions, notably the external liabilities of the Central Bank and the deposit money banks. A recent technical assistance mission on balance of payments statistics in Turkey recommended a review of the reporting system for the balance sheets of the Central Bank and the deposit money banks.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Turkey in the October 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Turkey, which during the past year have been provided on an irregular basis.

Status of IFS Data

		Latest Data in December 1985 IFS
Real Sector	- National Accounts	1981 (GDP only 1983)
	- Prices	September 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1981
	- Financing	1981
	- Debt	1981
Monetary Accounts	- Monetary Authorities	June 1985
	- Deposit Money Banks	June 1985
	- Other Financial Institutions	June 1985
External Sector	- Merchandise Trade:	
	Values	
	Exports	June 1985
	Imports	June 1985
	Prices	Q3 1984
	- Balance of Payments	1984
	- International Reserves	October 1985
	- Exchange Rates	October 1985

IBRD Lending to Turkey Since 1980

World Bank lending to Turkey in the period 1980-85 changed both in scope and content in comparison with prior years. The change in scope is reflected in an increased amount of Bank lending, both in real terms and as percentage of total World Bank lending. The change in content reflects the introduction in 1980 of Structural Adjustment Loans (SALs) which, being nonproject-specific and thus more macro-oriented and quick disbursing, differ from project-oriented IBRD loans.

Table 1 summarizes the evolution of the World Bank relations with Turkey in 1980-85, and compares it with the previous six years (1974-79). Total loan commitments and gross disbursements to Turkey more than doubled in real terms. As a percentage of total IBRD lending, loans to Turkey increased from 4.1 percent (in terms of commitments) and 5.7 percent (in terms of disbursements) in 1974-79 to 6.6 percent and 6.7 percent, respectively, in 1980-85.

Table 1. Turkey: IBRD Lending to Turkey by Fiscal Years 1/

	1974-79	1980	1981	1982	1983	1984	1985	1980-85
			(In millions of U.S. dollars)					
Commitments	1,284.0	600.0	722.0	647.9	669.4	794.3	698.5	4,132.1
Gross Disbursements	858.8	224.3	408.3	491.1	497.1	465.3	773.7	2,859.9
			(In millions of 1980 U.S. dollars) 2/					
Commitments	1,789.0	600.0	661.8	582.1	594.0	688.3	604.8	3,731.0
Gross Disbursements	1,160.5	224.3	374.2	441.2	441.1	403.2	669.9	2,553.9
			(As percentage of total Bank lending)					
Commitments	4.1	7.8	8.2	6.3	7.1	5.8	6.1	6.7
Gross Disbursements	5.7	5.1	8.1	7.8	7.3	5.4	9.0	6.6

Source: World Bank.

1/ The fiscal year of the World Bank is July 1 to June 30.
2/ Deflated by U.S. wholesale price index.

This major increase in lending to Turkey coincided with the introduction of SALs. Since February 1980 (the date of SAL I) through the end of FY 1985 total commitments under SALs amounted to $1.556 billion, or 38 percent of total lending. Five SALs were approved, one in each fiscal year, starting with fiscal 1980. In addition, the Bank approved an Agricultural Sector Adjustment Loan of $300 million in FY 1985, the first of several planned policy based sector adjustment loans.

In terms of their policy content, the five SALs covered a broad range of development-related issues. Table 3 summarizes the policy content of the five SALs. The first SAL--approved less than one month after the Government's announcement of the major stabilization program of January 25, 1980--addressed a broad spectrum of issues. Its conditionality ranged from debt and trade issues to policies affecting the financial sector and public investments. As the first of the series, SAL I paid special attention to the initiation of studies of the different segments of the economy, thus laying the groundwork for more substantial action in subsequent years.

The two following SALs concentrated more narrowly on the public sector. SAL II addressed primarily issues of fiscal policy (particularly measures to enhance tax collection, and to make preparatory steps toward introduction of a value-added tax), and the legal framework of the SEEs. SAL III continued in this vein, emphasizing in particular the need to limit budgetary transfers to SEEs, and to make public investments expenditures more in line with the available resources, while improving the quality of public investment.

The last two SALs reverted again to a broader range of policy areas. Conditionalities were now couched in more specific terms of policy measures and quantifiable targets. The three areas present in both SALs IV and V were trade (emphasis on import liberalization), finance (financial sector reforms), and public investments (constraining their growth and concentrating on high-priority projects).

As an inspection of Table 3 shows, the policy areas where the Bank's involvement was most significant include trade, financial sector, fiscal area, public investments, SEE reform, and external debt management. It is also in these areas (although not exclusively) that the Government has since the inception of the stabilization process in 1980 proceeded to enact a number of important policy changes.

Table 2. Turkey: Project Lending by Sector 1980-85

	Commitments		Disbursements	
	($mn.)	(Percent)	($mn.)	(Percent)
Agriculture 1/	768.9	29.9	249.1	20.2
Energy	567.2	22.0	287.4	23.4
Industry	642.2	24.9	540.8	43.9
Transport	392.0	15.2	115.2	9.4
Other sectors	205.4	8.0	37.9	3.1
Total project	2,575.7	100.0	1,230.4 1/	100.0

Source: World Bank.

1/ Includes Agricultural Sector Adjustment Loan in 1985.
2/ Project disbursements equals total disbursements minus SAL disbursements minus $73.1 million of non-SAL program loans disbursed in 1980.

In project lending, agriculture, energy, and industry accounted for more than three quarters of commitments and almost 90 percent of total disbursements in the 1980-85 period (see Table 3). Industrial lending was the most important, both in terms of committed ($642 million) and disbursed ($541 million) amounts, although in the last three years there was a decline in industrial lending, and a corresponding increase in the share of project lending in transportation, energy, and in particular, agriculture.

Table 3. Turkey: SAL Conditionality

Amount (in$)	SAL I (February and October 1980)/1 275m	SAL II (April 1981) 300m	SAL III (May 1982) 304.5m	SAL IV (May 1983) 300.8m	SAL V (May 1984) 376m
Trade	Adequacy of policy for achieving real export growth of 10% p.a. Review credit, and risk insurance of exports.			Progress in import liberalization.	Progress in elimination of quantitive restrictions and rationalization of tariff structure.
Industry	Start the study for rationalization of industrial protection.				
Debt	Completion of the study on debt management.				Progress in installation of the computerized debt system.
Fiscal	Adequacy of measures to increase domestic resource mobilization and to eliminate deficit financing for the public sector in 1980.	Progress in enacting the VAT law (VAT to be introduced in 1982). Progress in tax collection.			
Financial	Study of the financial sector.			Progress toward reduction of financial transaction tax.	Financial sector reforms (elimination of transaction tax, standard accounting system, issue of Treasure bonds to the public, opening of the Stock Exchange).
Public Investments	Public investments in accord with resources and official investment criteria.		Focus on high priority projects. Constrain the real amount of public investment to its 1982 level. Progress in developing project preparation, and evaluation capabilities.	Rationalization of public investments and focus on high priority projects (85% of the funds on the latter).	Progress in carrying out results of the study on public investments.
Energy		Adequacy of energy policy (petroleum products to be priced at world levels).			Preparation of the energy action plan.
SEEs		Implementation of SEE reform. Approval of legal changes allowing greater authority to SEEs. New SEE hirings to conform to 1981 Program.	Progress in SEE legal reform. Budget transfers to SEE to be less than TL 47 billion (1982 budgeted level).		
General Macro				Progress in development of 1984 Annual program.	Preparation of the Fifth FYP compatible with SAL process.

Source: World Bank

/1 Note: SAL I was composed of two parts, February 1980 ($200m) and October 1980 ($75m).