1. In accordance with its terms of reference the Committee has conducted the consultation with Turkey under Article XVIII: 12(b). The Committee had before it (a) a basic document (MGT(61)5) and (b) documents provided by the International Monetary Fund as mentioned in paragraph 2 below. In conducting the consultation, the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 24 April 1961. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Turkey. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Turkey. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Turkey under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the Executive Board decision of December 28, 1960, taken at the conclusion of its recent consultations with Turkey, and particularly to paragraph 5, which deals with the restrictive system of Turkey. On the same date, the Fund entered into a one year stand-by arrangement that authorized the Government of Turkey to draw the equivalent of $ 37,500,000 in currencies held by the Fund. This arrangement, together with a $ 50,000,000 credit provided by the OEEC, is intended to help the Turkish Government maintain and reinforce the stabilization program begun in 1958. To this end, the Turkish Government decided upon additional reforms affecting expenditures through the government budget,
"the collection of revenue, and operations of the banking system with regard to interest rates, the accumulation of savings, and the extension of credit. Implementation of the stabilization program has resulted in some improvement in the external payments position, but the foreign exchange reserves must be considered low in relation to Turkey's imports and external payments obligations. The general level of restrictions of Turkey which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Turkey. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Turkey

3. In his opening statement (the text of which is given in Annex A) the representative of Turkey outlined the changes in his country's economic situation and foreign trade regime since the last consultation in 1957. He explained that in line with the economic stabilization programme put into effect by Turkey in the autumn of 1958, the foreign trade system had been substantially modified. The complicated licensing system in force up to 1958 had been considerably simplified, and at present about 53 per cent of all imports were liberalized. The volume of foreign trade effected under bilateral trade and payments agreements had declined from 23 per cent in 1958 to 14 per cent at present. Barter transactions, still widely in use in 1958, were now prohibited. Discrimination had been eliminated. Further efforts were being made to liberalize imports to the full extent permitted by the reserves situation. Further progress had been made in April 1961 with the liberalization of many types of invisible transactions such as commissions, brokerage, business travel expenses, advertising, technical assistance expenses, etc.

4. It was recognized that the maintenance of import control measures might have an incidental protective effect for local industries. Counter-measures were being taken by the Government to avoid the development or expansion of uneconomic production. For these reasons, the import restrictions were not detrimental to the interests of other contracting parties, and did not go beyond the extent permitted by the terms of the General Agreement.

5. Since the stabilization programme was put into effect, equilibrium between supply and demand had partly been established. Increased exports, supplemented by foreign aid and credits, had made possible an increasing volume of imports. On the other hand, despite the increased volume of exports, export earnings had not reached the expected level, largely
because of the worsening of the terms of trade and measures of subsidization, etc. in force in importing countries. The trade deficit continued to be one of the most important causes of the balance-of-payments deficit. At the same time Turkey was faced with huge repayment obligations on her foreign debt.

6. The representative of Turkey explained that the task of expanding the country's foreign trade was complicated by the narrow range of exports on which it depended. Per capita income in Turkey was still very low; the rate of economic growth was insufficient; population was increasing by some 700,000 per year. The economy urgently required development and diversification. Only a moderate improvement in the reserve position was expected to result from the continuing implementation of the Internal Stabilization Programme.

7. The stabilization programme could lead to the gradual elimination of the harmful effects of the past expansionist policy and prepare the ground for a long-term development programme. Under the programme, annual imports of $518 million were envisaged, and imports would be selected in the light of the essential requirements of the Turkish economy in development. Import controls would be necessary in order to ensure adequate supplies of capital equipment and raw materials.

8. The balance of payments difficulties experienced by Turkey at present were not likely to disappear in the near future, and consequently Turkey would continue to be obliged to exercise a close watch on its imports. In conclusion, the representative of Turkey emphasized his Government's firm belief in a liberal, non-discriminatory and multilateral system of foreign trade, harmonized with the needs and capabilities of Turkey.

9. The Committee expressed appreciation of the clear and informative statement by the representative of Turkey, and welcomed the measures taken by Turkey in connexion with the internal stabilization programme for expanding trade and simplifying trade control procedures.

Balance-of-Payments Position and Prospects

10. Members of the Committee noted a welcome increase in estimated export earnings, from $330 million in 1960, to $350 million in 1961 and to $367 million in 1962. They noted, however, that the 1960 figure was somewhat below the average in preceding years and enquired about the reasons for the decline in 1960. The representative of Turkey explained that exports in 1959 had been particularly high, partly owing to a favourable harvest of pulses in the 1958-59 season, and increased availabilities of other exportable items from stocks held over from 1958, and partly owing to the better marketing conditions abroad. Measures taken by the Turkish authorities which acted on internal prices had also had the effect of stimulating exports. The lower export realization in 1960 was due primarily to a poor cereal harvest in the 1959-60 season and lower external prices for tobacco.
11. Referring to the point made by the Turkish representative on the heavy dependence of Turkey for the major share of its export earnings on a few agricultural commodities and raw materials, some members of the Committee enquired about possibilities for diversifying production and exports. The representative of Turkey explained that although there existed some possibilities for the diversification of production, for example through establishment and expansion of the chemical industry, an early and significant shift in the structure of the country's economy away from agricultural and raw materials production, was unlikely. There existed possibilities, however, for increased exports of certain commodities such as peaches, oranges and certain other fresh fruits, certain vegetables, eggs and fish, items which the country was in a position to produce competitively. While in some cases, e.g. pulses, larger exports could be achieved through an expansion of production and an improvement in marketing methods, an expansion of many other exports was hampered by restrictions and measures having a similar effect which were in force in a number of importing countries.

12. The Turkish Government was aware of the need to take appropriate measures to increase the country's export capacity and improve the competitiveness of Turkish goods on foreign markets, and the internal stabilization measures had already led to increased quantities of goods becoming available for export. Multiple currency practices had been abolished, and the currency had been devalued in August 1960 to £T 9.00 per US $ 1. An Export Financing Corporation was soon to be established, and an Export Promotion Centre, largely financed with foreign assistance, had recently been opened. Many export formalities had been abolished. Continuing attention was given to the improvement of production and marketing techniques. These efforts, in the opinion of the Turkish representative, should help to ensure the attainment of the export targets set for the coming years.

13. In discussion of other items on current account, a member of the Committee enquired about possibilities of increasing revenue from tourism. The representative of Turkey explained that at present income from tourism was still small although increasing. Efforts were being made to attract tourists to the country and to expand and improve tourist facilities in Turkey. As a result of these measures, receipts from tourism were expected to show further increases in coming years.

14. Members of the Committee noted that despite increased export earnings, the trade balance was expected to show a growing deficit, from an estimated $ 166.9 million in 1960 to $ 168.6 million in 1961 and $ 184.7 million in 1962. In view of the already very large payments obligations on foreign debt amounting to $ 120.5 million in 1961 and $ 113.6 million in 1962, or about one third of envisaged export earnings for each of these years, it did not appear in the interest of Turkey to finance the trade deficits through borrowing. The representative of Turkey explained that his Government shared this concern over the high level of payments falling due in the next few years. The Government
had decided therefore, not to seek or accept short- or medium-term loans for alleviating the balance-of-payments deficit.

15. A member of the Committee enquired whether the large scale investment in recent years in industries producing import substitutes was expected to result in a reduction in overall import demand. The representative of Turkey stated that although these investments might have had an import saving effect, experience had shown that as a rule overall import needs were likely to grow with increasing industrialization. It was expected therefore that the country's import requirements would also continue to show an upward trend. Furthermore, import saving was not the main criterion in Government investment allocation decisions; other important objectives of investment policy were to increase employment, to raise income and to expand export capacity. Consequently no effort had or was being made to channel investment primarily into import saving industries.

Alternative measures to restore equilibrium

16. Members of the Committee welcomed the expressed intention of the Government of Turkey to continue to implement the stabilization programme of 1953. They noted the statement in the IMF Executive Board Decision of 28 December 1960 that "an energetic and purposeful execution of the anti-inflation measures and reforms contained in the Government programme was essential for the achievement of the objectives of the Turkish economic policy" and invited information on the measures which had been taken by the Government. The representative of Turkey explained that in the monetary field, interest rates had been raised considerably in August 1960 in order to stimulate savings. In November 1960 the Central Bank rediscount rate was raised for most types of papers from 6 to 9 per cent. Minimum reserve requirements prescribed by the monetary authorities were raised to 50 per cent for demand deposits and to 40 per cent for time deposits. A new par value of £T 9.00 per $ 1.00 was established in August 1960 and multiple currency practices were eliminated. Also price controls were removed. In the fiscal field, Government expenditures for the fiscal year 1960 and investment expenditures in the public sector, were reduced. While the budget for fiscal year 1960 showed a deficit of approximately £T 700 million, the budget for 1961, although providing for increases in both revenues and expenditures, was to be balanced.

17. Members of the Committee noted that in the past the State Economic Enterprises had incurred losses which often had had to be covered through Central Bank or Treasury financing. They enquired whether the balance envisaged in the budget for 1961 made allowance for possible operating deficits and for investment expenditures of such enterprises. The representative of Turkey stated that such subsidization would be discontinued in view of its inflationary effect. To deal with the large accumulated debt of these enterprises, a Consolidation Law had been passed, which liquidated all accounts between these enterprises. The remaining debts of these enterprises were to be paid by the Treasury, for which provision was made in the Central Government budget. Various
assistance would be given these State Economic Enterprises in rationalizing their operations so as to avoid future deficits. Investments of the State Economic Enterprises were in future to be better co-ordinated with other capital expenditures in the economy, in accordance with the integrated development programme which was being drawn up by the State Planning Agency, established in July 1960 as part of the Office of the Prime Minister. The implementation of this programme would begin in 1962.

19. In reply to questions, the representative of Turkey confirmed that the figure of gross investment which represented 13 per cent of GNP, embraced all investment including those made by the State Economic Enterprises. He noted that while a higher level of investment would undoubtedly be desirable, even the present level of 13 per cent of GNP was difficult to maintain on account of low level of per capita income and rapid rise in population. Past levels of investment, expressed as a percentage of GNP, were as follows:

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20. Members of the Committee noted that the balance of payments estimates for 1961 and 1962 showed a considerable increase in private investment from $23 million in 1960 to $50 million in 1961 and to $40 million in 1962. They enquired about the Government's policy towards foreign investment. The representative of Turkey explained that the increase in private long-term investment which had been forecast for these years was due mainly to increased investment outlays by foreign petroleum companies. For example, in 1960 $30 million was expected to be spent by petroleum companies on refinery construction and related investments. A further $10 million of private foreign investment expenditures in 1960 was expected to result from the transfer by Turkey to petroleum companies of the equivalent of $10 million in liberalized local currency in payment of arrears. Only $10 million was for other private foreign investment projects. The Government would welcome private foreign investment in all sectors of the economy. The favourable treatment already granted to foreign investors was to be further strengthened by additional incentives to foreign investors. A new law would be placed before Parliament shortly.

System and methods of the restrictions

21. Members of the Committee welcomed the progress which had been made by Turkey in simplifying import procedures. They also welcomed the expansion of imports in each of the successive import programmes put into effect since the commencement of the stabilization programme. They noted that the import programme for 1961 also provided for further increase in imports, from under $500 million in 1960 to $518 million in 1961. Members of the Committee enquired in this connexion what provision had been made for increasing not only the quantity of goods
imported, but also the range of importable goods, noting the statement of the representative of Turkey that in the interest of meeting the normal and development needs of the country, the composition of imports in the next few years would have to be kept unchanged. They asked whether this implied that goods which had not so far been imported would not be included in future import programmes, and if this were to be the case, what provision had been made to permit the importation of at least token quantities of restricted items in accordance with the provisions of paragraph 10 of Article XVIII.

22. The representative of Turkey explained that the statement he had made referred to the general order of magnitude of import allocations between capital goods, raw materials and consumer goods. There was no intention to restrict imports to those categories of goods which had been permitted entry in previous import programmes, nor was the actual percentage distribution of the major import categories definitely fixed; at present about 45 per cent of total import outlays were allocated for capital goods and 45 per cent for raw materials and 10 per cent for consumer goods. The percentage allocation of total import outlays between the different categories of goods might for example have to be changed in accordance with new investment priorities which might follow from the adoption of the integrated development plan at present being studied by the Planning Agency. Also, it was hoped that it would be possible in the near future to increase the liberalized sector from about 53 per cent of the import volume at present to about 55 per cent, or possibly 58 per cent. The Turkish authorities were aware of the desirability of maintaining established channels of trade by permitting at least token imports of restricted items, moreover, it was also recognized that such imports were important for maintaining the domestic prices at reasonable levels. Consequently, the Government had in its different import programmes established quotas which permitted imports of at least token quantities of items which still remained subject to restriction. The only import prohibitions applied by Turkey were those imposed in accordance with Article XX of the General Agreement.

23. Members of the Committee invited information on the administration of import programmes particularly with respect to the measures the Government envisaged to take, should import outlays for the liberalized sector exceed the import estimates. The representative of Turkey explained that import programmes were primarily based on estimates of the country's external reserves. After allowance was made for estimated imports of liberalized items, allocations were made for the restricted sector for a six-monthly period. In case imports in the liberalized sector should exceed the estimates, additional foreign exchange would be made available if necessary, despite the strains which this might place on the balance of payments. It was felt that a re-imposition of restrictions would have particularly undesirable effects on trade. Although there was always a possibility that import estimates for the liberalized sector might be exceeded, as for example early in 1960, the Government had so far been successful in estimating the total import demand for the liberalized sector.
24. Members of the Committee enquired about the reason for the retention of the licensing requirement for liberalized imports. The representative of Turkey explained that the licensing requirement was being maintained to permit the monetary authorities to keep import tendencies under constant review, and was not considered to impede the import trade, since licences were granted automatically upon application. In response to a question whether the adoption of a "negative list" was being considered as an alternative to the present system of enumerating permitted imports, the representative of Turkey said that so far no active consideration had been given by the Government to change to a "negative list" system. This did not, however, exclude the possibility that Turkey would consider such an alternative when restrictions were further reduced.

25. In clarification of various points raised by members of the Committee, the representative of Turkey stated that the requirement of an "importer's certificate" as a prerequisite for importers (except industrial users or the public sector) to engage in import trade was not a measure to restrict imports. The certificate did not constitute an import licence but was a measure to ensure orderly trade. Such certificates were issued by chambers of Commerce and Industry. The requirement for commercial importers to deposit 10 per cent of the value of the licence application when applying for a licence applied to liberalized goods as well as to restricted goods. This requirement had been maintained partly as a counter-inflationary measure and partly as a means of discouraging hoarding. The practice of effecting exchange transfers for payments against goods possibly with a delay of six months, but to provide exchange transfers for imports financed under letters of credit immediately, was a measure originally adopted to curb certain abuses by traders and to absorb excess liquidity. In the light of the progress made in Turkey in curbing inflationary pressures, the continued application of this measure might have to be reviewed.

26. Members of the Committee noted that, notwithstanding the progress made in reducing the proportion of trade carried on under bilateral agreements, Turkey continued to operate a considerable number of trade and payments agreements. They expressed the hope that it would soon be possible for Turkey to make further progress in reducing the share of trade conducted under bilateral agreements. The representative of Turkey again stated that his Government firmly believed in a liberal, non-discriminatory and multilateral system of foreign trade. He stated that efforts were being made to move towards an increasingly multilateral system of foreign trade and, wherever possible, to terminate existing bilateral agreements. He also pointed out that as a result of the internal stabilization measures applied by Turkey, it was becoming increasingly impracticable and undesirable to conduct trade and payments on a bilateral basis. The share of trade effected under bilateral agreements had already declined from about 23 per cent in 1957 to about 14 per cent at present.
Further, in the bilateral agreements with Finland, Yugoslavia and Israel, a first step had been made towards multilateralizing trade and payments, since the agreements stipulated that half of the payment for commercial transactions was to be settled in free convertible currencies. Steps were being taken to terminate the bilateral payments agreement with Switzerland. He explained that it was the Government's intention, in line with the improvement in the country's reserve position, to rely less and less on bilateral arrangements. There was in effect no discrimination for restricted items between imports from the free exchange area and the bilateral area, since all commodities importable under bilateral agreements also appeared in the list of permitted imports from the free exchange area. On the other hand, import liberalization did not apply to bilateral account countries. In clarification of information in one of the background papers, the representative of Turkey stated that no preferential import treatment was in fact given to imports from countries which made agricultural products available to Turkey under surplus disposal schemes.

Effects of the Restrictions

27. Members of the Committee welcomed the statement by the representative of Turkey that his Government was aware of the need to counteract any undesirable incidental protective effect which the balance-of-payments import restrictions might have in domestic industries.
28. The Committee thanked the delegation of Turkey for the frank and open manner in which they had engaged in this consultation and for the clear and precise manner with which the Turkish import system had been explained. The Committee welcomed the statement that the Government of Turkey firmly believed in a liberal, non-discriminatory and multilateral system of foreign trade. They expressed gratification at the success achieved by the Turkish authorities in implementing the internal stabilization programme and the progressive relaxation of restrictions. The Committee expressed the hope, however, that Turkey would soon find it possible to move further in import liberalization and in simplifying the somewhat unnecessarily complicated import control system at present in force. The Committee also expressed the hope that it would be possible for Turkey to further reduce the share of trade conducted under bilateral agreements.

29. The representative of Turkey expressed appreciation for the spirit of understanding and sympathy with which the Committee had conducted the consultation. He stated that he would convey all the comments and suggestions that had been made by members of the Committee in the course of the consultation, to the attention of his Government.

Annexes

I. Statement by the representative of Turkey.

II. IMF Board Decision of 28 December 1960 (Spec(61)53).