1960 Consultation Under Article XVII:12(b) with Turkey

IF Executive Board Decision at Conclusion of IMF-Turkey Consultation on 28 December 1960

1. The Government of Turkey has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. In 1960 agricultural production was satisfactory, but the growth of industrial production and trade has slowed down under the influence of the political events earlier this year. Prices and wages remained stable in 1960 although the money supply increased by some 25 per cent between the middle of 1959 and the middle of 1960. This expansion was associated until late spring 1960 mainly with lending by the Central Bank to meet the cash needs of the budget. In the second and third quarters of 1960 the Central Bank gave large credits to commercial banks to enable them to meet withdrawals of deposits. The large expansion in money supply did not result in price increases because of the exceptional public demand for liquidity.

3. On assuming office the present Government declared its intention to continue implementing the stabilization program of 1958. It has accordingly reduced both the expenditures in the budget for fiscal 1960 and the investment expenditures of the public sector. The interest rates of the banks were raised substantially in August 1960 to reduce demand for credits and speed up the return of funds withdrawn from the banks. In addition the Government has reviewed existing fiscal, credit, and investment policies and institutional arrangements and decided to introduce such corrective measures in those fields as will facilitate sustained economic growth in conditions of stability and as well strengthen Turkey's external payments position. The Fund believes that an energetic and purposeful execution of the anti-inflationary measures and reforms contained in the new Government program, as submitted to the Fund, is essential to the achievement of the objectives of Turkish economic policy.

4. The balance of payments on goods and services account continues to show a substantial deficit in 1960 as imports rose and exports, owing to a large reduction in the export of cereals, will be below the 1959 figure. This deficit as well as the large amortization payments on external debts are covered by external assistance in the form of grants and loans. In order to achieve an improvement in the balance of payments the Government is introducing several measures to expand exports and to increase invisible earnings. The Fund urges a determined execution of these measures.

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To be held in April 1961.
5. In August 1960 with the establishment of a new par value Turkey completed the process of exchange rate unification started in August 1958. The Fund welcomes this step. Turkey continues to rely heavily on restrictions to restrain import demand, although progress has been made in reducing discrimination. The Fund believes that further progress can be achieved in removing bilateral agreements especially those with Fund members.

6. In concluding the 1960 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Turkey.