Committee on Balance-of-Payments Restrictions

1963 CONSULTATIONS UNDER ARTICLE XVIII: 12: (b) WITH

TURKEY

International Monetary Fund Executive Board

Decision Taken at the Conclusion of the Fund's Consultation with TURKEY on 8 February 1963

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 1962 the gross national product in real terms was about 5 per cent higher than in 1961, partly because of good harvest and increased government investments, but partly because industrial production and trade, starting with late summer, emerged from the stagnation experienced in the previous two years. Wholesale prices and cost of living indices, after some increases early in 1962 attributable to the 1961 drought, remained relatively stable. There was a substantial expansion of credit, and money supply grew by nearly 9 per cent between the end of 1961 and the end of October 1962, following an 8.5 per cent rise in 1961. Until the end of October, government expenditures were fully met from noninflationary revenue, and although revenue is falling short of the budget estimates the Government expects to ensure a balance for the fiscal year as a whole by an appropriate reduction in noninvestment expenditures so as not to interrupt the impetus of its development program.

3. Late in 1962 the Government adopted a comprehensive Five-Year Development Plan to achieve an accelerated rate of growth in the national income to eliminate unemployment and to strengthen, in due course, the external payments position of Turkey. The implementation of the Plan, which is to commence with the beginning of fiscal 1963, necessitates a sharp increase in savings and investment and continued heavy reliance on external assistance. To meet increased expenditures from noninflationary sources and to stimulate the expansion of production and investment, the Government has decided to increase tax revenue through a reform of the fiscal system, including the introduction of new taxes. Further and encouraging steps are being taken to improve the operational efficiency and financial soundness of the State Economic Enterprises and to ensure a more economic utilization of the resources entrusted to their management. The Fund believes that, to ensure the attainment of the objectives set out in the Plan, it is essential that internal price stability be safeguarded by appropriate fiscal and monetary measures. The Fund welcomes, therefore, the Government's policy to review the budget at intervals of four months, with a view to maintaining a balance between revenue and expenditure. The Fund also
believes that credit conditions should be followed with care and that, if necessary, early steps should be taken to prevent an expansion in credit which might lead to an upward price movement and discourage savings. The strengthening of public confidence in the national currency is of the utmost importance to the implementation of the Plan.

4. In the first ten months of 1962 both exports and imports were well above the comparable levels of 1961. Exports benefited from higher earnings from tobacco and fruits, and also from increased sales of new products, which reflect the efforts of the Government to improve foreign exchange earnings. The rise in imports was largely caused by increased inventories of cereals and crude oil. Despite the improvement in exports for the year as a whole, a deficit on goods and services account of about $230 million is now expected by the Government. It is being covered by foreign governmental assistance suppliers' credits and by direct private investments. At the end of December 1962 monetary reserves amounted to about $84 million. The large dependence of Turkey on external assistance emphasizes the urgent need to expand exports.

5. During 1962 Turkey relaxed restrictions in respect of invisible transactions, notably those affecting tourist expenditures and blocked lira accounts held by nonresidents. The restrictive system governing imports has not been materially altered. However, in the import program recently announced for 1963, some items were transferred from the liberalized list to the quota list. The Fund notes that Turkey has reaffirmed its intention to liquidate bilateral payments agreements with Fund members, and reiterates its view that conditions are favorable for early action in this sphere.

6. A multiple exchange rate, involving exchange for foreign travel, is expected to be removed in the framework of a tax reform to be introduced shortly. The Fund urges early action on this matter since its continuation will weaken confidence in Turkey's currency.

7. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Turkey.