1965 CONSULTATIONS WITH
TURKEY

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with Turkey on 29 January 1965

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. Economic activity slackened in the first half of 1964 owing to noneconomic factors, but resumed its upward course in the second half in response to a return of business confidence, expansionary measures taken by the authorities, and good harvests of the main cash crops. Real gross national product expanded 5.6 per cent compared with a rise of 7.5 per cent in 1963 and the average annual rate of growth of 7 per cent aimed at in the Five-Year Development Plan (1963-67). Over most of the year prices were stable.

3. The budget approved for the fiscal year 1964 provided for a substantial expansion in total expenditures and for their financing from noninflationary sources. However, by October 1964 it was clear that revenue would be less than expected; the authorities accordingly took steps to reduce expenditures and, while a deficit is still forecast, it is to be financed from noninflationary sources. The budget for the fiscal year 1965, as submitted to the Parliament, proposes further increases in both expenditures and revenue. The Fund welcomes the efforts being made to improve revenue collections as well as the continuance of the policy of reviewing the budget's implementation every fourth month, in order to insure a balance. Determined enforcement of taxes at existing rates could greatly assist the Government in its efforts to finance development by noninflationary means. The Fund welcomes the plans to effect substantial improvements in the operations and financial situation of the State Economic Enterprises by early 1966, since the inadequate performance of this large sector has considerably hindered the achievement of the objectives of the development plan in conditions of internal price stability.

4. Commercial bank credit was fairly stable over the first eight months of 1964 but subsequently began to expand at a faster rate as economic activity revived. Central Bank credit also expanded considerably largely because of the increased requirements of the Treasury and the organizations concerned with marketing of agricultural products. By November the authorities considered some change of emphasis desirable.
and restraining action was implemented. The Fund believes this adjustment in monetary policy was timely, and hopes that the authorities will take such further measures as may be required to maintain relative price stability, to continue the strengthening of public confidence in the national currency and to encourage the accumulation of savings with the banking system.

5. Turkey's balance of payments situation continued to be difficult in 1964 and further use of second-line reserves in the form of a short-term credit from the European Fund as well as drawing on the Fund's resources was necessary. At the same time, the authorities took steps to restrain imports. As a result, monetary reserves which amounted to $46.1 million at the end of 1963, did not decline further in 1964. Some improvement in foreign exchange earnings is anticipated in 1965 partly because of the steps taken to encourage exports and invisible receipts. However, debt service is expected to be equivalent to more than half estimated export earnings. The Fund welcomes the measures taken to expand foreign exchange earnings but considers that further determined effort is greatly needed.

6. During 1964 a significant number of items were transferred from the liberalized list to the quota list and guarantee deposits were increased. The Fund hopes that domestic credit and fiscal measures and an expansion of exports will enable a gradual liberalization of the restrictive system in the period ahead. The bilateral trade and payments agreement with Iran was terminated. The Fund welcomes the proposed termination of the remaining bilateral agreements with Finland, Israel and Yugoslavia, and urges Turkey to continue to reduce its reliance on bilateralism.

7. The Fund does not object on a temporary basis to the multiple currency practices arising from the tax levied on exchange purchased for foreign travel and on the cost of transportation and will review this matter during the next consultations.

8. In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Turkey.