INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH TURKEY ON 13 FEBRUARY 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Turkey, pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. The rise in gross national product at constant prices is estimated to be 8.4 per cent in 1966 compared with 4.9 per cent in 1965. This reflects a record agricultural year and a substantial increase in industrial production stimulated by a large increase in private and public investment. Prices remained stable throughout the year with the help of a restrictive credit policy in the first half of the year, and of a sharp rise in imports as well as in domestic production. The maintenance of price stability was also aided by a slowdown in wage increases which, however, still tend to exceed the increase in productivity.

3. With a substantial budget deficit in prospect for the fiscal year ending February 1967, the Turkish authorities took a number of decisions to limit expenditure. Nevertheless, the remaining deficit is adding to internal pressures on resources. The Fund therefore welcomes the decision of the Government to ask Parliament's approval for a substantial increase in tax revenue and to seek also by other revenue-raising measures to ensure a balanced budget in 1967-68. Progress has been made in improving the economic performance of the SEE but they continue to rely excessively on Central Bank financing. Measures designed to strengthen their financial structure and their rate of savings are essential to sound implementation of the development program.

4. In the first half of 1966, credit expansion was moderate and the money supply increased only slowly. In the second half, however, Central Bank advances rose sharply, both to the public sector and to the banking system, and there was also a sharp expansion in commercial bank credit. The monetary expansion represents a threat to internal price stability. The Fund therefore welcomes the Government's decision to pursue a restrictive credit policy in 1967.

5. The increase in economic activity halted the improvement in the balance of payments. Export earnings increased somewhat, though internal demand pressures diverted supplies of exportable commodities to the domestic market, and there was a large rise in workers' remittances. Imports, however, rose substantially, and
the deficit on goods and services account increased from $80 million in 1965 to
$175 million in 1966. Turkey continued to benefit from external assistance and
the net inflow on capital account was about the same as in 1965. Nevertheless
the reserves of gold and net foreign exchange fell by $33 million to a low
level. In view of the importance which the strengthening of the balance of
payments plays in the further development of the economy, the Fund urges Turkey
to make further efforts to increase foreign exchange earnings and so provide
a basis for the liberalization of the restrictive system.

6. The Fund does not object on a temporary basis to the multiple currency
practices involved in the special treatment accorded to remittances from workers
abroad to Turkey and the tax levied on exchange purchases for foreign travel
and on the cost of transportation. It will review these matters again at the
next consultation. The Fund notes that bilateral payments arrangements continue
to be maintained with three Fund members and urges that they be terminated.