INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH TURKEY ON 27 JUNE 1969

1. This decision is taken by the Executive Board in concluding the 1968 consultation with Turkey pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. The rise in gross national product in Turkey in 1968 is estimated to be 6.6 per cent at constant prices, compared with 6.1 per cent in 1967. This increase reflects a substantial increase in industrial production and buoyant investment activity; there was only a small increase in agricultural output. Wholesale prices rose on an annual average basis by 4.6 per cent, or somewhat less than in 1967; wage increases continued to exceed increases in productivity.

3. Government revenue continued to increase in 1968, but expenditures rose still more sharply and, despite a cutback in government expenditures in the final months of the fiscal year, the outturn of the budget shows a substantial deficit. The cash position of the Treasury deteriorated and it was compelled to increase its borrowings both from the banking system, including the Central Bank, and from government suppliers. The 1969 budget provides for a sharp rise in recurrent and investment expenditures. While noting recent measures to increase revenue, the Fund welcomes the policy of the Government to conduct quarterly reviews of budgeted expenditures as well as the outlays of the public sector as a whole. This should help ensure budgetary equilibrium and maintenance of internal price stability. The financial performance of the State Economic Enterprises continues to present problems and the Fund believes that the attainment of the economic objectives of Turkey would be facilitated by improving the efficiency of these enterprises.

4. In 1968 there was a substantial expansion of credit, primarily to finance the operations of agricultural marketing organizations and investment activity. This caused a heavy strain on available resources. For 1969 the Government has adopted a tighter credit program. The Fund believes that this program, by reinforcing the measures in the fiscal field, will tend to constrain the pressure on resources. To stimulate savings, but also to achieve better resource allocation, the Fund believes that the monetary authorities should pursue a more flexible interest rate policy.

5. The balance of payments on current account deteriorated sharply in 1968. Imports rose by 12 per cent, but exports declined by 5 per cent. The reduction in exports reflected certain marketing difficulties in respect of traditional exports, but nontraditional exports also registered a decline. Workers' remittances rose and there was some improvement in earnings from tourism. To keep outgoing payments within the limits set by current earnings and the inflow of foreign capital, Turkey
was compelled to tighten quantitative and cost restrictions on payments for imports and other transfers. In 1969, further measures have been taken to stimulate exports and there has been some additional tightening of external restrictions. In order to strengthen the balance of payments and reserve position, the Fund urges that more positive measures should be taken to direct investment policy toward production for export and considers that the complex trade and payments system should be reformed.

6. The Fund does not object on a temporary basis to the multiple currency practices presently in effect in Turkey, and will review them not later than on the occasion of the 1969 Article XIV consultation with Turkey. The Fund notes that a bilateral payments agreement with a member has been terminated, but urges that the remaining two agreements be terminated at an early date.