1. This decision is taken by the Executive Board in concluding the 1971 consultation with Turkey pursuant to Article XIV, Section 4, of the Articles of Agreement.

2. In 1971, GNP is provisionally estimated to have increased by 9.2 per cent at constant prices, compared with 5.5 per cent in 1970. A sharp rise in workers' remittances accounted for nearly 2 percentage points of the 1971 rise in GNP. Another favorable factor was an abundant harvest. On the other hand, unsettled conditions, and a related weakness in investment demand, limited the growth of output in the nonagricultural sectors to a rate below the trend of the 1960s. The slowdown in industrial production was largely overcome in the course of the year, but construction activity continued to stagnate. Total fixed investment at constant prices increased by only 3.4 per cent, while its share in GNP declined. Prices increased by about 23 per cent during 1971, compared with an average annual rate of increase of about 5 per cent in the preceding decade. Major causes were a very large budget deficit, together with a substantial balance of payments surplus. Additional factors were the delayed impact of the August 1970 devaluation and the increase in administered prices for a large number of commodities. The Fund believes that to achieve the economic and social targets of its development plan the Government should accord very high priority in 1972 to the objective of restoring relative price stability.

3. Total money supply is estimated to have increased by about 23 per cent during 1971. An exceptional balance of payments surplus, the large budget deficit, and the need to finance substantial purchases of cereals were major factors contributing to this outcome. The Fund welcomes the intention of the Turkish authorities to bring about a slowdown in the growth of monetary aggregates and urges them to take all the necessary steps, including possible changes in compulsory reserve requirements, to keep the expansion within limits compatible with the restoration of reasonable price stability.

4. The Annual Program for 1972 aims at a sharp increase in fixed investment, particularly in the public sector, where it is to be financed by domestic borrowing well above past levels, together with increased tax revenues. But the fiscal policy envisaged may be incompatible with the restoration of price stability if adequate resources for the planned level of private investment in 1972 are to be provided. An incomes policy aimed at limiting the growth of consumption appears essential to ensure balanced growth in 1972 and over the longer run.
5. The balance of payments on current account improved markedly in 1971, the main contributing factors being a continued sharp rise in workers' remittances and a 15 per cent rise in export earnings, in part attributable to the record harvest. Income from tourism, although rising, was below planned targets, and it continues to be urgent to strengthen Turkey's earnings from this source as well as from exports. Official reserves are estimated to have increased by about US$360 million during 1971, and by the end of the year they amounted to more than 6 months of imports. The Fund believes that it is now possible for Turkey to make further progress in the liberalization of trade and payments, and hopes that the last remaining bilateral payments agreement with a Fund member will soon be terminated.