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GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TURKEY

1. In accordance with its terms of reference the Committee has conducted the consultation with Turkey under Article XVIII:12(b). The Committee had before it (a) a basic document (MGT(61)5) and (b) documents provided by the International Monetary Fund as mentioned in paragraph 2 below. In conducting the consultation, the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 24 April 1961. The present report summarizes the main points discussed during the consultation.

Consultation with the international Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Turkey. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Turkey. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Turkey under Article XIV of the Fund Agreement and the background material prepared in connexion with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the Executive Board decision of December 28, 1960, taken at the conclusion of its recent consultations with Turkey, and particularly to paragraph 5, which deals with the restrictive system of Turkey. On the same date, the Fund entered into a one year stand-by arrangement that authorized the Government of Turkey to draw the equivalent of \$37,500,000 in currencies held by the Fund. This arrangement, together with a \$50,000,000 credit provided by the OEEC, is intended to help the Turkish Government maintain and reinforce the stabilization program begun in 1958. To this end, the Turkish Government decided upon additional reforms affecting expenditure through the government budget,

"the collection of revenue, and operations of the banking system with regard to interest rates, the accumulation of savings, and the extension of credit. Implementation of the stabilization programme has resulted in some improvement in the external payments position, but the foreign exchange reserves must be considered low in relation to Turkey's imports and external payments obligations. The general level of restrictions of Turkey which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Turkey. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Turkey

3. In his opening statement (the text of which is given in Annex I) the representative of Turkey outlined the changes in his country's economic situation and foreign trade régime since the last consultation in 1957. He explained that, in line with the economic stabilization programme put into effect by Turkey in the Autumn of 1958, the foreign trade system had been substantially modified. The complicated licensing system in force up to 1958 had been considerably simplified and at present about 53 per cent of all imports were liberalized. The volume of foreign trade effected under bilateral trade and payments agreements had declined from 23 per cent in 1958 to 14 per cent at present. Barter transactions, still widely in use in 1958, were now prohibited. Discrimination had been eliminated. Further efforts were being made to liberalize imports to the full extent permitted by the reserves situation.

4. It was recognized that the maintenance of import control measures might have an incidental protective effect for local industries. Counter-measures were being taken by the Government to avoid the development or expansion of uneconomic production. For these reasons, the import restrictions were not detrimental to the interests of other contracting parties, and did not go beyond the extent permitted by the terms of the General Agreement.

5. Since the stabilization programme had been put into effect, equilibrium between supply and demand had partly been established. Increased exports, supplemented by foreign aid and credits, had made possible an increasing volume of imports. On the other hand, despite the increased volume of exports, export earnings had not reached the expected level, largely

because of the worsening of the terms of trade and measures of subsidization, etc. in force in importing countries. The trade deficit continued to be one of the most important causes of the balance-of-payments deficit. At the same time Turkey was faced with huge repayment obligations on her foreign debt.

6. The representative of Turkey explained that the task of expanding the country's foreign trade was complicated by the narrow range of exports on which it depended. Per capita income in Turkey was still very low; the rate of economic growth was insufficient; population was increasing by some 700,000 per year. The economy urgently required development and diversification. Only a moderate improvement in the reserve position was expected to result from the continuing implementation of the Internal Stabilization Programme.

7. The stabilization programme could lead to the gradual elimination of the harmful effects of the past expansionist policy and prepare the ground for a long-term development programme. Under the programme, annual imports of \$518 million were envisaged, and imports would be selected in the light of the essential requirements for the development of the Turkish economy. Import controls would be necessary in order to ensure adequate supplies of capital equipment and raw materials.

8. The balance of payments difficulties experienced by Turkey at present were not likely to disappear in the near future, and consequently Turkey would continue to be obliged to exercise a close watch on its imports. In conclusion, the representative of Turkey emphasized his Government's firm belief in a liberal, non-discriminatory and multilateral system of foreign trade.

9. The Committee expressed appreciation of the clear and informative statement by the representative of Turkey, and welcomed the measures taken by Turkey in connexion with the internal stabilization programme for expanding trade and simplifying trade control procedures.

Balance-of-payments position and prospects

10. Members of the Committee noted a welcome increase in estimated export earnings from \$330 million in 1960 to \$350 million in 1961 and to \$367 million in 1962. They noted, however, that the 1960 figure was somewhat below the average in preceding years and enquired about the reasons for the decline in 1960. The representative of Turkey explained that exports in 1959 had been particularly high, partly owing to a favourable harvest in the 1958-59 season and the increased availabilities of other exportable items from stocks held over from 1958 and partly owing to the better marketing conditions abroad. Measures taken by the Turkish authorities which acted on internal prices had also had the effect of stimulating exports. The lower export realization in 1960 was due primarily to a poor cereal harvest in the 1959-60 season and lower external prices for tobacco.

11. Referring to the point made by the Turkish representative on the heavy dependence of Turkey for the major share of its export earnings on a few agricultural commodities and raw materials, some members of the Committee enquired about possibilities for diversifying production and exports. The representative of Turkey explained that although there existed some possibilities for the diversification of production, for example through probable establishment and expansion of a chemical industry based on petroleum by-products, an early and significant shift in the structure of the country's economy away from agricultural and raw materials production, was unlikely. There existed possibilities, however, for increased exports of certain commodities such as peaches, oranges and certain other fresh fruits, certain vegetables, eggs and fish, items which the country was in a position to produce competitively. Expanded exports of these products were also expected through the expansion of the canning industry. While in some cases, e.g. pulses, larger exports could be achieved through an expansion of production and an improvement in marketing methods, an expansion of many other exports was hampered by quantitative restrictions and other non-tariff barriers having a similar effect, which were in force in a number of importing countries.
12. The Turkish Government was aware of the need to take appropriate measures to increase the country's export capacity and improve the competitiveness of Turkish goods on foreign markets, and the internal stabilization measures had already led to increased quantities of goods becoming available for export. Multiple currency practices had been abolished and the currency had been devalued in August 1960 to £T9.00 per US\$1. An Export Financing Corporation was soon to be established. and an Export Promotion Centre, largely financed with foreign assistance, had recently been opened. Many export formalities had been abolished. Continuing attention was given to the improvement of production and marketing techniques. These efforts, in the opinion of the Turkish representative, should help to ensure the attainment of the export targets set for the coming years.
13. In the discussion of other current account items, a member of the Committee enquired about possibilities of increasing revenue from tourism. The representative of Turkey explained that at present income from tourism was still small although increasing. Efforts were being made to attract tourists to the country and to expand and improve tourist facilities in Turkey. As a result of these measures, receipts from tourism were expected to show further increases in coming years.
14. Members of the Committee noted that despite increased export earnings, the trade balance was expected to show a growing deficit, from an estimated \$166.9 million in 1960 to \$168.6 million in 1961 and \$184.7 million in 1962. In view of the already very large payments obligations on foreign debt amounting to \$120.5 million in 1961 and \$113.6 million in 1962, or about one third of envisaged export earnings for each of these years, members of the Committee enquired whether Turkey intended to finance the trade deficits through commercial credits or other short-term borrowing. The representative of Turkey explained that his Government was concerned over the high level of payments falling due in the next few years. The Government had decided not to seek or accept short- or medium-term commercial credits or loans.

15. A member of the Committee enquired whether the large scale investment in recent years in industries producing import substitutes was expected to result in a reduction in overall import demand. The representative of Turkey stated that, although these investments might have had an import saving effect, experience had shown that as a rule overall import needs were likely to grow with increasing industrialization. It was expected therefore that the country's import requirements would also continue to show an upward trend. Furthermore, import saving was not the main criterion in Government investment allocation decisions; other important objectives of investment policy were to increase employment, to raise income and to expand export capacity. Consequently no effort had been or was being made to channel investment primarily into import saving industries.

Alternative measures to restore equilibrium

16. Members of the Committee welcomed the expressed intention of the Government of Turkey to continue to implement the stabilization programme of 1958. They noted the statement in the IMF Executive Board Decision of 28 December 1960 that "an energetic and purposeful execution of the anti-inflationary measures and reforms contained in the new Government program, as submitted to the Fund, is essential to the achievement of the objectives of Turkish economic policy" and invited information on the measures which had been taken by the Government. The representative of Turkey explained that in the monetary field, interest rates had been raised considerably in August 1960 in order to stimulate savings. In November 1960 the Central Bank rediscount rate was raised for most types of paper from 6 to 9 per cent. Minimum reserve requirements prescribed by the monetary authorities were raised to 50 per cent for demand deposits and to 40 per cent for time deposits. A new par value of $\text{£}9.00$ per $\text{\$}1$ was established in August 1960 and multiple currency practices were eliminated. Also price controls were removed. In the fiscal field, Government expenditures for the fiscal year 1960 and investment expenditures in the public sector, were reduced. While the budget for fiscal year 1960 showed a deficit of approximately $\text{£}700$ million, the budget for 1961, although providing for increases in both revenues and expenditures, was to be balanced.

17. Members of the Committee noted that in the past the State economic enterprises had incurred losses which often had had to be covered through Central Bank or Treasury financing. They enquired whether the balance envisaged in the budget for 1961 made allowance for possible operating deficits and for investment expenditures of such enterprises. The representative of Turkey stated that such subsidization would be discontinued in view of its inflationary effect. To deal with the large accumulated debt of these enterprises, a Consolidation Law had been passed, which liquidated all accounts between these enterprises. The remaining debts of these enterprises were to be met from the Central Government budget over a period of years. Various forms of assistance would be given to these State economic enterprises in rationalizing their operations so as to avoid future deficits. Investments of the State economic enterprises were in future to be better co-ordinated with other capital expenditures in the economy, in accordance with the integrated development

programme which was being drawn up by the State Planning Agency, established in July 1960 as part of the Office of the Prime Minister. The implementation of this programme would begin in 1962. Members of the Committee welcomed these plans of the Turkish Government.

18. In reply to questions, the representative of Turkey confirmed that the figure of gross investment which represented 13 per cent of GNP, embraced all investment including those made by the State economic enterprises. He noted that while a higher level of investment would undoubtedly be desirable, even the present level of 13 per cent of GNP was difficult to maintain on account of the low level of per capita income and rapid rise in population. Past levels of investment, expressed as a percentage of GNP, were as follows:

<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
12	10	10	11	12	15	16	12	9	9

19. Members of the Committee noted that the balance-of-payments estimates for 1961 and 1962 showed a considerable increase in private investment from \$23 million in 1960 to \$50 million in 1961 and to \$40 million in 1962. They enquired about the Government's policy towards foreign investment. The representative of Turkey explained that the increase in private long-term investment which had been forecast for these years was due mainly to increased investment outlays by foreign petroleum companies. For example, in 1960 \$30 million was expected to be spent by petroleum companies on refinery construction and related investments. A further \$10 million of private foreign investment expenditures in 1960 was expected to result from the release by the Turkish authorities to petroleum companies of that amount in the local currency in payment of arrears to be used for investment purposes in Turkey. Only \$10 million was for other private foreign investment projects. The Government would welcome private foreign investment in all sectors of the economy. The favourable treatment already granted to foreign investors was to be further strengthened by additional incentives to foreign investors. A new law would be placed before Parliament shortly.

System and methods of the restrictions

20. Members of the Committee welcomed the progress which had been made by Turkey in simplifying import procedures. They also welcomed the expansion of imports in each of the successive import programmes put into effect since the commencement of the stabilization programme. They noted that the import programme for 1961 also provided for further increase in imports, from under £500 million in 1960 to £510 million in 1961. Members of the Committee enquired in this connexion what provision had been made for increasing not only the quantity of goods imported but also the range of importable goods, noting the statement of the representative of Turkey that in the interest of meeting the normal and development needs of the country, the composition of imports in the next few years would have to be kept unchanged. They asked whether this implied that goods whose import had been prohibited because they had not been included in past import programmes would also be excluded from future import programmes. If this were the case, could not the Turkish Government allow the importation of at least token quantities of restricted items in accordance with the provisions of paragraph 10 of Article XVIII?

21. The representative of Turkey explained that the statement he had made referred to the general order of magnitude of import allocations between capital goods, raw materials and consumer goods. There was no intention to restrict imports to those categories of goods which had been permitted entry in previous import programmes, nor was the actual percentage distribution of the major import categories definitely fixed; in 1959 about 48 per cent of total import outlays were allocated for capital goods and 42 per cent for raw materials and 10 per cent for consumer goods. Percentage allocation of total import outlays between the different categories of goods might, for example, have to be changed in accordance with new investment priorities which might follow from the adoption of the integrated development plan at present being studied by the Planning Agency. It will be said that it would be possible in the near future to increase the liberalized sector from the present level of about 53 per cent to, for example, 55 or 58 per cent of total imports. The Turkish authorities were aware of the desirability of maintaining established channels of trade by permitting at least token imports of restricted items, and recognized that such imports contributed to maintaining domestic prices at reasonable levels. Consequently, the Government had in its different import programmes established quotas which permitted imports of at least token quantities of some items which still remained subject to restriction. Although import licences for certain products might not be issued during a particular year the only import prohibitions applied by Turkey were, strictly speaking, imposed in accordance with Article XX of the General Agreement

22. Members of the Committee invited information on the administration of import programmes particularly with respect to the measures the Government envisaged taking should the required import outlays for the liberalized sector exceed the import estimates. The representative of Turkey explained that import programmes were primarily based on estimates of the country's external reserves. After allowance was made for estimated imports of liberalized items, allocations of exchange were made for the restricted sector for a six-monthly period. In case imports in the liberalized sector should exceed the estimates, additional foreign exchange would be made available if necessary, despite the strains which this might place on the balance of payments. It was felt that a re-imposition of restrictions would have particularly undesirable effects on trade. Although there was always a possibility that import estimates for the liberalized sector might be exceeded, as for example early in 1960, the Government had so far been successful in estimating the total import demand for the liberalized sector.

23. Members of the Committee enquired about the reason for the retention of the licensing requirement for liberalized imports. The representative of Turkey explained that the licensing requirement was being maintained to permit the monetary authorities to keep import tendencies under constant review, and was not considered to impede the import trade, since licences were granted automatically upon application. In response to a question whether the adoption of a "negative list" was being considered as an alternative to the present system of designating permitted imports, the representative of Turkey said that so far no active consideration had been given by the Government to change to a "negative list" system. This did not, however, exclude the possibility that Turkey would consider such an alternative when restrictions

were further reduced. Members of the Committee urged that the Government of Turkey consider the abolition of the licensing requirement for liberalized imports and the adoption of a "negative list" for controlling imports in the restricted sector.

24. In clarification of various points raised by members of the Committee, the representative of Turkey stated that the requirement of an "importer's certificate" as a prerequisite for importers (except industrial users or the public sector) to engage in import trade was not a measure to restrict imports. The certificate did not constitute an import licence but was a measure to ensure orderly trade. Such certificates were issued by Chambers of Commerce and Industry. The requirement for commercial importers (and also for industrial importers when importing outside their industrial quotas) to deposit 10 per cent of the value of the licence application when applying for a licence applied to liberalized goods as well as to restricted goods. This requirement had been maintained partly as a counter-inflationary measure and partly as a means of discouraging hoarding. The practice of effecting exchange transfers for payments against goods possibly with a delay of six months, but to provide exchange transfers for imports financed under letters of credit immediately, was a measure originally adopted to curb certain abuses by traders and to absorb excess liquidity. In the light of the progress made in Turkey in curbing inflationary pressures, the continued application of this measure might have to be reviewed.

25. Members of the Committee noted that, notwithstanding the progress made in reducing the proportion of trade carried on under bilateral agreements, Turkey continued to operate a considerable number of trade and payments agreements. They expressed the hope that it would soon be possible for Turkey to make further progress in reducing the share of trade conducted under bilateral agreements. The representative of Turkey again stated that his Government firmly believed in a liberal, non-discriminatory and multilateral system of foreign trade. He stated that efforts were being made to move towards an increasingly multilateral system of foreign trade and, wherever possible, to terminate existing bilateral agreements. He also pointed out that as a result of the internal stabilization measures applied by Turkey, it was becoming increasingly impracticable and undesirable to conduct trade and payments on a bilateral basis. The share of trade effected under bilateral agreements had already declined from about 23 per cent in 1958 to about 14 per cent at present. Further, in the bilateral agreements with Finland, Yugoslavia and Israel, a first step had been made towards multilateralizing trade and payments, since the agreements stipulated that half of the payment for commercial transactions was to be settled in free convertible currencies. Steps were being taken to terminate the bilateral payments agreement with Switzerland. He explained that it was the Government's intention to rely less and less on bilateral arrangements. There was in effect no discrimination for restricted items between imports from the free exchange area and the bilateral area, since all commodities importable under bilateral agreements also appeared in the list of permitted imports from the free exchange area. On the other hand, import liberalization did not apply to bilateral account countries. In clarification

of information in one of the background papers, the representative of Turkey stated that no preferential import treatment was in fact given to imports from countries which made agricultural products available to Turkey under surplus disposal schemes.

Effects of the restrictions

26. Members of the Committee welcomed the statement by the representative of Turkey that his Government was aware of the need to counteract any undesirable incidental protective effect which the balance-of-payments import restrictions might have on domestic industries.

General

27. The Committee thanked the representative of Turkey for the frank and co-operative manner in which he had engaged in this consultation and for his clear and precise explanation of the Turkish import system. The Committee welcomed the statement that the Government of Turkey firmly believed in a liberal, non-discriminatory, and multilateral system of foreign trade. The Committee expressed gratification at the steps taken by the Turkish authorities to implement the internal stabilization programme and at the success so far achieved in certain fields. The Committee expressed the hope that the programme would be pursued vigorously. The Committee noted with satisfaction the relaxation of restrictions thus far achieved and expressed the hope that Turkey would soon find it possible to make further progress in liberalizing imports and in simplifying its import control system. The Committee also expressed the hope that it would be possible for Turkey to reduce further the share of trade conducted under bilateral agreements and welcomed the intention of the Turkish authorities to terminate existing bilateral agreements wherever possible.

28. The representative of Turkey expressed appreciation for the spirit of understanding and sympathy with which the Committee had conducted the consultation. He stated that he would convey all the comments and suggestions that had been made by members of the Committee in the course of the consultation, to the attention of his Government.

Annexes

- I. Statement by the representative of Turkey.
- II. IMF Board Decision of 28 December 1960.

ANNEX I

Opening Statement by the Representative of Turkey

A consultation on import restrictions under Article XII was held in 1957 between the GATT and Turkey. Since that time, a substantial change has taken place in the Turkish economy. A stabilization programme was introduced in the autumn of 1958. This programme was revised and carried into a more rigid scheme in 1960¹. In line with the stabilization programme, the foreign trade régime of the country has also been converted to a system entirely different from that applied prior to the autumn of 1958. A comparison between the old and the new régimes may easily prove that the one presently in force has been mainly directed to the elimination of prejudices previously suffered by imports.

Up to 1958 the foreign trade of Turkey was subject to a complicated licensing system and more than 23 per cent of the imports were being carried out through bilateral trade and payments agreements. Barter and attached transactions were widely in use.

Today, 53 per cent of the imports of Turkey are liberalized and the volume of transactions made through bilateral agreements has fallen from 23 per cent to 14 per cent. Discriminatory practices, barrier and similar transactions are prohibited. Imports of commodities subject to quantitative restrictions are determined on a semi-annual basis by import programmes, and all importers are entitled to participate in general allocations on equal terms, and these allocations may be used for imports from any country.

Turkey is trying to liberalize its imports progressively in conformity with its foreign payments capacity and its economic policy. It must be recognized that, while implementing such a liberalization scheme, careful consideration should be given to avoiding drastic changes which may create harmful effects on the delicate state of the balance of payments and on the whole economic activity of the country. On the other hand, it is true that this policy may give rise to somewhat protective effects in favour of a number of industries.

But we are confident that these measures have not so far resulted and, furthermore, may never result in impairing the regular channels of trade with other contracting parties, and appropriate counter measures are also being taken to avoid uneconomical and wasteful production tendencies.

¹Government policy and the measures taken under this programme are set out in the supplementary written statement submitted by the representative of Turkey annexed to this statement.

Therefore, in view of the explanation I have already given, I wish to emphasize the fact that the system which is progressing towards a sustainable degree of liberalization is in no way detrimental to the interests of other contracting parties, and the genuine level of restrictions under reference does not go beyond the extent necessary to stop a serious decline in monetary reserves

Consequently, we believe that the present system is in conformity with the obligations stipulated in Articles XII and XVIII of the General Agreement.

Thus far, I have attempted to point out that the principles on which the Turkish import régime in process of improvement is actually based. Now I would like to give you a brief outline of the spectrum of the Turkish economy and its foreign trade sector taking shape under these conditions over the past three years

Since the commencement of the stabilization programme the equilibrium between supply and demand has been partially established. After some fluctuations, the level of prices appears to be stabilized.

In the foreign trade sector, implementation of continuous and successive import programmes have made possible a regular and steady in-flow of commodities. Relative expansion of the export trade, foreign aid and credits have assisted in achieving a greater volume of foreign trade.

However, the other side of the medal is not as bright. The desired equilibrium in the balance of payments, suffering greatly under huge debt instalments, is out of reach. I wish to be allowed to add that during this period, although a promising increase has been recorded in export trade, its revenue, due to the limitations created by unfavourable terms of trade subsidizing policies and other handicaps all agricultural and raw-material-producing countries are faced with, has not reached the expected level. Consequently, the gap of the trade balance has continued to be one of the most important factors of the balance-of-payments deficit.

One may be interested in the future prospect of the actual restrictive system. Turkey stands as one of the have-not countries. It has a demographic problem with more than 20 million people, recording a yearly 3 per cent increase (in absolute figures 700,000). Per capita income is very low and its rate of progress is insufficient. These problems and their consequences have serious economic and social repercussions. On the other hand, the whole economy of Turkey is subject to the risks and dangers arising from its agricultural and raw-material-producing character. The economy, as in similar cases, is in need of diversifying its production.

We are endeavouring, under very difficult and sometimes unsurmountable handicaps, to expand and improve our foreign trade activities within a very narrow range of possibilities.

Turkey is faced in regard to its balance of payments with the difficult task of finding a solution for a satisfactory compromise between the necessity of providing needed funds for imports of commodities, which are crucially indispensable for the proper functioning of our economy, and the huge debt instalments. Its balance of payments continues to be in disequilibrium and notwithstanding certain seasonal foreign exchange accumulations, no marked increase of reserves is recorded. Yet as the Government continues to implement the internal stabilization programme an improvement, though modest, can be expected in these reserves

There is no need to explain why we cannot isolate the foreign trade policy of Turkey, or of any country, from its overall economic set-up. The cost Turkey is actually paying, due to an experience of a system isolated sectorial economic policies and the 1951 liberalization adventure, has been sufficiently catastrophic. Therefore, the foreign trade policy and balance-of-payments problems of Turkey must be looked upon and analysed through wider angles, namely from the point of view of the exigencies of the present stabilization programme and the future development programme.

We believe that the present stabilization programme, after eliminating gradually the harmful effects and remnants of the inflationary expansionist policy, will prepare the proper ground for a long-term development programme directed to a sustainable and beneficial growth. Turkey's stabilization programme, which has been agreed upon after long and meticulous discussions with international organizations, envisages an annual import of 510.0 million dollars worth of goods which should be selected with a view to supplying the Turkish economy with commodities which may contribute to its functioning in the best possible way.

The correlation calculated between the percentage of development of the Turkish economy and its import needs is such that Turkey's capacity to import certain capital equipment and raw materials should never fall under this level, and the composition of this import volume should also be carefully controlled.

The findings and recommendations of the competent bodies of the organizations are that Turkey's balance-of-payments difficulties are not likely to discontinue in the next two or three years. This tight position will, undoubtedly, oblige Turkey at the present time to continue exercising a close vigilance on its import level and import composition.

ADDENDUM TO ANNEX I

Measures Taken by the Turkish Authorities under the Stabilization Programme

Statement Submitted by the Representative of Turkey

A. Money and credit policy

During the period prior to 4 August 1958, commercial banks were obliged to deposit to the Amortization Fund 15-20 per cent of their time deposits and 20-25 per cent of demand deposits. But these percentages were low and the corresponding amounts were allocated to financing State economic enterprises. Therefore, the system exercised had no effect in limiting credit expansion.

When the stabilization programme was announced, the Government had to freeze commercial banks' credits on 30 June 1958 level. It was tried to control credit by administrative measures. However these measures proved to be unsuccessful.

In view of the above mentioned situation, a bill for the effective control of credit has been prepared and submitted to Parliament for approval.

According to this bill:

- counterparts of deposits are to be deposited to the Central Bank to the amount of 50 per cent for demand deposits, and to 40 per cent for time deposits. These are the maximum limits, effective limits are to be fixed by the Committee for Regulation of Bank Credits, due account being taken of business conditions

- new percentages are applicable to new deposits

- new credits can be given to the agricultural sector out of these counterparts by a decision of the Committee for Regulation of Bank Credits, subject to the approval of the Government

It is believed that this system will greatly help in solving the credit problems of the economy in the best possible way.

Interest rates

In August 1960, the Government increased interest rates substantially in order to provide a stimulation to savings and to help to achieve a more appropriate distribution of credit. This measure was taken under a recently promulgated law which authorizes the Government, on the recommendation of the Committee for Regulation of Bank Credits, to modify interest rates in conformity with the needs of the economic situation. The rediscount rates of the Central Bank have also been raised.

The National Protection Law which had had an adverse and harmful effect on the proper functioning of the price system, has been abolished.

The Government is firmly decided to pursue fiscal and monetary policies directed to sustain internal stability.

B. Budget

The budget for fiscal year 1961 is expected to be balanced. To achieve this end income, corporation, production and real estate taxes as well as tax procedure laws have been modified.

The goal of budgetary policy will be to limit Government expenditures to a level which does not exceed current revenues. Budgetary expenditures over the next years will not be allowed to rise more than in proportion to the anticipated increase in gross national production. This should facilitate the flow of resources into investments in the other sectors of the economy, thus helping to attain a more balanced growth.

The above mentioned measures have already permitted the Turkish economy to achieve gradual stability. The Turkish Government intends to continue to pursue these measures and to achieve internal price stability and an economic use of national resources in order to build up exchange reserves and to eliminate the existing restrictions.

C. Other measures taken

The Government, realizing the urgent need for acceleration of the economic growth, has set up the State Planning Agency in order to prepare a long run development plan and to co-ordinate its implementation

Up to now no long term development plan existed within the framework of which investments of the public sector and overall development policy were carried out. By 1962, it is expected that investment policies will be carried out within the framework of a five-year development plan.

During the period of transition before the State Planning Agency is fully operative primary emphasis in the selection of investment projects to be included in the transitional programme will be placed upon those projects which promise to strengthen the balance of payments.

ANNEX II

IMF Executive Board Decision at Conclusion of IMF-Turkey Consultation
on 28 December 1960

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 1960 agricultural production was satisfactory, but the growth of industrial production and trade has slowed down under the influence of the political events earlier this year. Prices and wages remained stable in 1960 although the money supply increased by some 25 per cent between the middle of 1959 and the middle of 1960. This expansion was associated until late spring 1960 mainly with lending by the Central Bank to meet the cash needs of the budget. In the second and third quarters of 1960 the Central Bank gave large credits to commercial banks to enable them to meet withdrawals of deposits. The large expansion in money supply did not result in price increases because of the exceptional public demand for liquidity.
3. On assuming office the present Government declared its intention to continue implementing the stabilization program of 1958. It has accordingly reduced both the expenditures in the budget for fiscal 1960 and the investment expenditures of the public sector. The interest rates of the banks were raised substantially in August 1960 to reduce demand for credits and speed up the return of funds withdrawn from the banks. In addition the Government has reviewed existing fiscal, credit, and investment policies and institutional arrangements and decided to introduce such corrective measures in those fields as will facilitate sustained economic growth in conditions of stability and as will strengthen Turkey's external payments position. The Fund believes that as energetic and purposeful execution of the anti-inflationary measures and reforms contained in the new Government program, as submitted to the Fund, is essential to the achievement of the objectives of Turkish economic policy.
4. The balance of payments on goods and services account continues to show a substantial deficit in 1960 as imports rose and exports, owing to a large reduction in the export of cereals, will be below the 1959 figure. This deficit as well as the large amortization payments on external debts are covered by external assistance in the form of grants and loans. In order to achieve an improvement in the balance of payments the Government is introducing several measures to expand exports and to increase invisible earnings. The Fund urges a determined execution of these measures.
5. In August 1960 with the establishment of a new par value Turkey completed the process of exchange rate unification started in August 1958. The Fund welcomes this step. Turkey continues to rely heavily on restrictions to restrain import demand, although progress has been made in reducing discrimination. The Fund believes that further progress can be achieved in removing bilateral agreements especially those with Fund members.
6. In concluding the 1960 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Turkey.