RESTRICTED
BOP/R/107
6 November 1979
Limited Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

REPORT ON THE 1979 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TURKEY AND EXAMINATION OF THE TURKISH STAMP DUTY

1. In accordance with its terms of reference, the Committee has conducted a consultation with Turkey under Article XVIII:12(b) and has examined the Turkish request for an extension of the Turkish Stamp Duty Waiver (L/4840). The Committee noted that the previous consultation with Turkey under the same provisions had been held on 25 January 1978 (see BOP/R/99). In conducting the consultation the Committee had before it a basic document supplied by the Turkish authorities (BOP/199), a request for the extension of the Stamp Duty Waiver (L/4840), and a report on the Turkish Stamp Duty submitted in accordance with the decision of the CONTRACTING PARTIES of 17 April 1978 (L/4779 and Corr.1). It also had before it a background document provided by the International Monetary Fund dated 16 February 1979, and supplementary background material dated 19 September 1979.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 30 October 1979. This report summarizes the main points of the discussion and sets forth the Committee's views concerning the Stamp Duty, together with the draft decision attached.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund has been invited to consult with the CONTRACTING PARTIES in connexion both with the regular consultation with Turkey and with regard to the Stamp Duty. The representative of the Fund made a statement concerning the position of Turkey, as follows:

> "Since 1977 Turkey has experienced severe external payments difficulties which resulted in a sharp decline in imports of about 30 per cent in real terms in 1978. The limited availability of imported raw materials placed severe constraints on manufacturing output and capacity utilization was very low. The latest official estimates suggest that total output rose by 3 1/2 per cent in 1978. Notwithstanding that there was a very good harvest, this may be an overly optimistic estimate.
>
> "The external payments situation remained extremely difficult in the early months of 1979. In the first six months of the year, the recorded value of imports was 7 per cent higher than in the corresponding period a year ago but, taking into account the sharp rise in prices of imported oil and industrial materials, this is likely at best to have implied no change in volume. The resultant import shortages probably continued to affect manufacturing output adversely.

"In the absence of adequate restraint on domestic demand, the lack of foreign exchange and the associated shortages of imports for manufacturing industry contributed to an acceleration in the inflation rate from about 25 per cent in 1977 to about 50 per cent in 1978. Various price indices have more recently shown somewhat divergent movements; however, the rise in the wholesale price index (a key indicator of price movements) accelerated from a rate of about 50 per cent in the course of 1978 to about 65 per cent in the course of the 12 months through July 1979. In March and April 1979 the inflation rate was influenced by substantial increases in the prices of goods and services sold on the domestic market by the State Economic Enterprises and the Monopolies Administration and this was also the case in June. The price increases were necessary to curb the sharply rising operating losses of these enterprises.

"Official data on the development of wages so far in 1979 are not yet available. Some recent wage settlements concluded in the public sector seem, however, to imply increases well in excess of those concluded in the second half of 1978. In addition, minimum wages were again raised sharply; those for non-agricultural workers were increased on May 1, 1979 by 64 per cent and those for agricultural and forestry workers on June 1, 1979 by 78 per cent. Settlements so far concluded in the private sector appear to provide for wage increases and fringe benefits together amounting to an annual increase of about 100 per cent in the first year of the contracts. However, the most important negotiation will be for the metalworkers, which is yet to take place. The officially determined support prices payable by the designated purchasing agencies for various agricultural products have been raised by considerable amounts.

"The payments situation in the first half of 1979 continued to be very strained despite an increase in the dollar value of exports by 22 per cent. The increase in the value of exports was attributable almost exclusively to higher exports of industrial products which rose by as much as 60 per cent over the very depressed level in the corresponding period of 1978. The favorable performance of industrial exports was attributable to special measures taken in the second half of the previous year, notably the widening of the scope of retention measures and the introduction of special foreign exchange allocation schemes for exporters of manufactures. The payments difficulties were alleviated in the first half of 1979 by the disbursement of program loans from the World Bank, the United States and Germany. Despite this, Turkey was unable in these months to fully observe the schedule established in May 1978 for the servicing of debts, including payments arrears, to governments and government institutions. In the first five months of 1979, there was a further net increase in other arrears amounting to about US$150 million.

"The payments situation eased in the summer months of 1979, though the outlook is far from comfortable. The special exchange premia for invisibles introduced on April 10, 1979 (and described in the supplement to the staff report on Recent Economic Developments which has been circulated to the GATT) resulted in a substantial inflow of foreign exchange from workers' remittances, tourism, and other invisibles. Exports and receipts from invisibles have continued to do reasonably well following the further substantial modification of the exchange system, including the introduction of a two-tier official market for foreign exchange, involving a major depreciation of the currency. The external situation was further eased as a result of agreement by about 20 industrial countries, which met under the chairmanship of the Secretary-General of the OECD, to provide support amounting to approximately US$900 million to finance Turkey's urgent import requirements as soon as possible after the conclusion of a new stand-by arrangement with the Fund. Moreover, shortly after the conclusion of a new stand-by arrangement with the Fund it was further agreed to reschedule public and publicly guaranteed debt and to reschedule the short-term debt of the commercial banks. A new loan amounting to US$400 million was negotiated with foreign commercial banks.

"The financial program in support of which the Fund granted a stand-by arrangement on July 19, 1979 aims at a substantial lowering of the rate of monetary expansion during the period of the stand-by arrangement. It essentially relies on more flexible pricing policies of the State Economic Enterprises to avoid further deterioration in their profitability and on greater control over public sector expenditures and borrowing. Interest rates, though still considerably below prevailing inflation rates in Turkey, have been raised to more realistic levels. The program most importantly also relies on more flexible exchange arrangements designed to ensure the maintenance of competitiveness of the Turkish economy.

"In general, Turkey has not resorted to an intensification of the import restrictions, although delays of transfers for import payments have been extensive. In 1978 some minor commodities were shifted to somewhat more restrictive lists within the liberalized sector, while other imports were shifted from the quota lists to the liberalized list. The rate of tax rebates has been changed from time to time in the course of 1978 and 1979 and import deposit requirements have been modified.

"In the view of the Fund, Turkey should work toward a liberalization of the import regime as soon as conditions permit. However, in view of the present extremely difficult balance of payments situation, progress can only be expected to be achieved gradually. The Fund believes that the stamp duty should be replaced by alternative measures in the context of a comprehensive program to restore external and internal balance."

Opening statement of the representative of Turkey

4. In his opening statement, the full text of which is annexed to the report, the representative of Turkey analyzed the international and domestic developments which in recent years had negatively affected the Turkish balance of payments. He described the results of the stabilization programme adopted in 1978 and explained the objectives of the 1979 programme which aimed at reducing the public sector deficit and at improving the balance of payments. In particular, he noted the importance of the Stamp Duty in the context of the stabilization programme as a source of revenue for the country. He added, that the Turkish authorities were aiming at replacing the Stamp Duty by a value-added tax system. This involved a long process of preparation and training, but this process was well under way. He concluded by requesting an extension of the waiver to maintain the Stamp Duty until the end of the Fourth Five-Year Plan on 31 December 1983.

Parts I and II

Balance-of-payments position and prospects and alternative measures to restore equilibrium

5. Members of the Committee thanked the Turkish representative for a very clear and comprehensive statement. They expressed sympathy and understanding for the multitude and complexity of problems facing the Turkish economy. They noted that there had been reinforced international co-operation to find solutions to the difficulties in the Turkish economic situation, which were aggravated by the current state of the world economy. It was recognized that the present balance-of-payments situation was extremely difficult and that progress towards equilibrium and trade liberalization could only be expected to be achieved gradually. It was pointed out that in its basic document for the consultation the Turkish authorities had indicated a growth in GNP in 1978 of 3.5 per cent; it was asked whether this estimate had been revised and whether any estimates existed for 1979 and 1980. The representative of Turkey said that GNP figures for 1978 had been deflated by some 30 per cent. No major increases in GNP were expected for 1979, due to the slack economy and the rising unemployment, which reached nearly 20 per cent in 1979. As for 1980 the overall GNP target in the development plan was 8 per cent per annum. It was explained that the plan set the intentions of the Government; whether these could be achieved would depend on internal and external factors.

6. It was noted that the current rate of inflation was very high and it was asked whether the Turkish authorities were taking measures to contain this rate, especially with respect to demand inflation. In this context it was remarked that a major component of Turkey's recent inflation had been increases in wages and fringe benefits ranging up to 100 per cent, especially

in the public sector. In the IMF documentation it was stated that a key set of wage negotiations were due late in 1979 with metal workers, and it was asked whether these negotiations had been concluded. The representative of Turkey said that major wage negotiations had taken place in 1978 and that there had been large wages and salary increases in 1978 and 1979. However, as the rate of inflation was around 60 per cent and the wage increases had averaged 30 per cent in 1979, the increases amounted to a reduction in real income. These increases were insignificant compared to other monetary aggregates and could not explain the present rate of inflation. The representative of Turkey added that wage increases in the public sector did raise the cost structure in the economy. It was a very sensitive issue and the Turkish Government had to come to a social contract with the public sector; it remained an area of major concern. The representative of Turkey added that the losses incurred by State Economic Enterprises were one of the main causes of domestic inflation in recent years. In the past the prices practised by the State Economic Enterprises had been kept artificially stable and low in an effort to reduce inflation. In 1978 and 1979 the pricing policies had been made very much more flexible.

7. Members of the Committee noted that the stabilization programme set ceilings on the growth of the money supply and introduced various measures concerning interest rates. Real interest rates seemed to be negative in early 1979 and it was asked whether this was still the case. It was also asked whether more market-oriented interest rates would not serve to control inflation and whether the Turkish authorities had plans to move in this direction. The representative of Turkey replied that from 1974 until April 1978 there had been no increases in interest rates in Turkey at all. Thus rates were constant and negative. In 1978 with the changes in policy there were substantial increases in interest rates. This policy was pursued in 1979 and there were further large increases including in the discount rates. Nevertheless, they were still negative; with a rate of inflation of 60 per cent it was hardly possible to adopt more market-oriented rates. Such a policy was only possible when prices were stable or showed only small increases. The representative of Turkey stressed that this change in interest rate policy had had a very favourable response; time deposits had increased by 60 per cent and overall bank deposits by 50 per cent. Members of the Committee noted that the Turkish Central Bank credit had expanded at a rate of over 36 per cent in July 1979 and asked whether this figure was expected to fall in the coming months. The representative of Turkey replied that the stabilization programme also set limits to Central Bank credits, and stated that the limits would be maintained. So far the limits had been observed and it was hoped that in the coming months the tendency would be kept. The Government was committed in the stand-by arrangement with the International Monetary Fund not to lower the reserve requirement of banks. Re-discount rates had increased from 10 per cent to 10.75 per cent for short-term credits, and 11.5 to 14 per cent for medium- and long-term credits.

8. Members of the Committee referred to the new exchange rate policy which consisted of a dual exchange rate: one for transactions in agricultural goods and petroleum and another for manufactured goods. It was asked whether this policy had been successful in making Turkish exports more competitive. It was also asked whether the Turkish authorities intended to unify these rates in future or make use of a more flexible foreign exchange regime. The representative of Turkey replied that the two-tier exchange rate system of LT 36 and LT 47 to $1 was part of the new stabilization programme and had been introduced after two successive depreciations of the Turkish lira. Whether these two rates would be unified in the future would depend on a number of political factors which could not be foreseen. It was significant that the black market rate at the moment was aligned to the rate for manufactured goods exports i.e. LT 47. It would of course be desirable to see the gap between LT 36 and 47 diminish in the future.

9. Members of the Committee commented on the reduction of imports in real terms in 1978 and asked what effect it had had on the Turkish economy. The representative of Turkey replied that the reduction in imports was due to the severe shortage of foreign exchange rather than import restrictions, and that its effect on economic growth had been severe.

10. Members of the Committee also asked about the results to date of measures taken to increase receipts on invisibles account especially tourism and workers' remittances. The representative of Turkey said that despite Turkey's very favourable geographical situation with regard to tourism net receipts from tourism had been negative until 1977. Measures had been taken in 1978 to control this deficit; Turkish tourists were not permitted to travel abroad more than once every three years. This had helped to turn the balance to a surplus of US$145 million in 1978; the surplus expected for 1979 was US$200 million. Another factor that had contributed to an improvement in invisibles was the measures taken to encourage workers' remittances which had increased substantially. They had reached in the first eight months of 1979 $1.3 billion and by the end of the year the figure estimated was $1.7 billion.

11. Questions were also asked as to what measures were envisaged to promote foreign investments. The representative of Turkey explained that the law on foreign investments was liberal in its essence; however, there had been complaints of delays due to administrative bottlenecks. The new code of investment in Turkey provided for 100 per cent ownership for foreign investors in the tourism sector. Export promotion sectors would also be allowed to have 100 per cent foreign ownership. The new investment code was ready and needed to be approved by the new government. It was not expected that any policy changes would be introduced by the new government.

12. Other questions were asked with respect to investment policies in particular in fields where Turkey enjoyed comparative advantages, such as agriculture and tourism. The representative of Turkey replied that investment

priorities, especially under the budgetary constraints now prevailing, were focussed on energy projects and export-oriented industries. Other types of investment projects would have to be delayed in view of the limits set to Central Bank lending. Investment in tourism and agriculture would be carefully limited for the time being. The representative of Turkey pointed out that for the first time in 1978 there had been a policy change in favour of export-oriented industries. Measures taken under the stabilization programme had led to increases in exports especially of manufactured goods. The new exchange rate system had been accompanied with a retention scheme which allowed exporters to retain up to 50 per cent of export proceeds. In order to reinforce export competitiveness it was necessary to curb domestic demand. Policies had been adopted to curb inflation. Budgetary measures, credit and monetary measures had been taken. In 1979 budgetary expenditure had increased by only 23 per cent compared to 1978 which, with a rate of inflation of 60 per cent, amounted to a reduction in expenditure. Measures had also been adopted to forbid additional budgetary appropriations. It was expected that the budgetary deficit in 1979 would be of the order of LT 61 billion.

13. Members of the Committee noted from the basic document that the Turkish authorities intended to increase the domestic savings rate through monetary and fiscal measures and asked whether there were any figures or projections in this area. The representative of Turkey replied that domestic savings in 1979 were expected to show an increase of about 15 per cent.

14. Questions were posed concerning arrears in debt servicing which had developed early in 1979. The representative of Turkey said that the avoidance of additional arrears constituted a performance criterion in the stand-by arrangement Turkey had concluded with the International Monetary Fund. No further arrears beyond the $150 million incurred early in 1979 were expected. Members of the Committee commented on the level of imports projected for 1979 and 1980. Some projections indicated that Turkey would suffer a current account deficit of $2.3 billion in 1980, for which financing was not yet apparent for $1.5 billion, and asked what plans the Turkish authorities had to finance this deficit. The representative of Turkey said that the financing obtained through the OECD would only be used partly in 1979 i.e. some $500 million. The balance would be used to finance the current account deficit in 1980.

15. In reply to questions posed concerning the rôle of the price of oil in the Turkish economy and the relationship of oil import to Turkey's overall energy needs, the representative of Turkey said that petroleum made up 51 per cent of Turkey's energy supply. In 1978 the oil imports bill had amounted to $1.7 billion, which was 85 per cent of total export receipts. He went on to explain that the basic weakness of the Turkish economy was well illustrated by the following figures: up to 1973, 69 per cent of imports were covered by export receipts. But from 1974 on, this percentage changed considerably falling to 29 per cent, some years 35 per cent, and last

year 42 per cent. While up to 1973, the deficit was covered by invisible receipts, mainly from workers' remittances, from 1974 on, the gap was so large that external borrowing became an absolute necessity. If Turkey were to import all of her oil requirements in the current year, in view of world prices, she would have to pay US$3 billion, which would far exceed total Turkish export receipts.

16. The representative of Turkey added that the Turkish economic difficulties had four fundamental sources: oil prices and the energy crisis; considerable increase of prices for investment equipment; decrease of Turkish exports due to the industrial countries' economic recession but mainly protectionist attitudes against Turkish exports, e.g. EEC restrictions on Turkish textile products; defense expenditures costs, due essentially to the United States embargo. The representative of the European Community was aware of the importance of the Community's market for Turkish exports and referred to the tariff and other provisions contained in the Agreement of Association. Referring to the textile market, he stated that the exceptionally high relative level of penetration of this market by low-cost imports from various origins had led the Community to moderate the growth of its imports. He was confident, however, that the situation at the textile market in the Community would improve, thus permitting increases in imports from Turkey within a reasonable period of time.

Parts III and IV - System and Methods of Restrictions and Effects of the Restrictions

17. Members of the Committee asked questions concerning the import régime and in particular on the proportion of imports which were covered by the liberalized list under automatic licensing as opposed to prior approval requirement. The representative of Turkey said that the bulk of imports were under the liberalized list. He went on to explain that for every calendar year an import programme was prepared by the State-planning organization and announced at the beginning of the year by the Ministry of Commerce. The programme classified imports into two categories: (1) the list of liberalized goods - mainly raw materials and spare parts, (2) lists of goods subject to global quotas. Goods that did not appear on either of the two lists were prohibited. Imports in the liberalized list were sub-divided into two categories. There were no limits as to value or quantity of goods imported under these lists. Licences were issued automatically for imports under list I, but licence applications had to be made for goods under list II and were subject to prior review by the appropriate authorities. Import quotas were reserved for registered importers and for industrialists. Quotas were allocated semi-annually and foreign exchange allocations for all quota imports were made by the Ministry of Commerce. Registered importers had to submit applications through an authorized bank, to the Central Bank and to the Ministry of Commerce in the months of February and August. The Ministry of Commerce issued foreign exchange allocation certificates valid for two months

and an import licence had to be secured from the Central Bank. Applications for imports under industrialists' quotas were submitted through the Chambers of Commerce and Industry to the Ministry of Commerce in April and September of each year. All commercial imports required import licences which were issued by the Central Bank for a period of six months. Import licences were issued to registered importers, industrialists, State-economic enterprises and government departments. Before applying for import licences through the authorized banks private individuals and corporate bodies needed to have an importer's certificate from the Ministry of Commerce. Importers were required to deposit a guarantee when applying for imports; this was refunded when payment for the goods was effected.

18. In reply to a question on import charges the representative of Turkey said that the different charges on imports consisted of a customs duty (unless the product was duty exempt), a stamp duty, a customs surcharge, a quay duty and a production tax. Public sector imports were largely exempted from these charges. In 1970 these charges had amounted to some 50 per cent of the import value. By 1977 they amounted to only 31 per cent of the import value.

19. It was asked whether Turkey's association with the European Communities was expected to have an effect on the level of import restrictions and of exchange control. The representative of Turkey replied that it was too early in the negotiations between Turkey and the European Communities to comment. The Turkish authorities' aim was to freeze Turkey's responsibilities towards the European Community countries at least until the end of 1983.

20. Questions were asked concerning the implementation of a foreign exchange fund which enabled exporters to obtain foreign exchange for imports to be used in realizing their export projects. The representative of Turkey explained that this foreign exchange fund had been introduced when Turkey was under extreme foreign exchange difficulties. It aimed at meeting industries' immediate input requirements. The scheme was still in effect.

21. Members of the Committee noted that the Turkish authorities had requested the extension of the Stamp Duty Waiver. They also noted the view of the International Monetary Fund that the Stamp Duty should be replaced by alternative measures, in the context of a comprehensive programme to restore external and internal balance. They noted that the main function of the Stamp Duty was to provide revenue. It had been and still was the Turkish authorities' intention to replace it in due course with a system of value-added tax to be introduced with a general fiscal reform. Questions were asked as to the prospects of introducing such a reform and in particular it was noted that experimental applications of the VAT had been undertaken in preparation for its general application. It was asked whether any conclusions could be drawn from the results of these experiments. The representative of Turkey said that the VAT experiment had been carried out

to determine the effects of the value-added tax system on the Turkish economy; part of the experiment had been completed. Other aspects of the experiment were to study the effect on prices and costs as well as the administrative implications. The studies had not been completed yet and a final assessment of the results was not expected for another two to three months.

22. Members of the Committee noted that there had been an increase of over 50 per cent in tax revenues during March-August 1979, compared with the same period of the previous years. In this context, and in light of the view of members of the Committee that the Stamp Duty should be liberalized or removed at an early stage, it was asked whether the Turkish authorities did not envisage to reduce the rate of the Stamp Duty. The representative of Turkey replied that there had effectively been a 50 per cent increase in revenue, but measured against a rate of inflation of 60 per cent, it was quite clear that there had been no real increase in revenue. It was not the Turkish authorities' intention to give up any revenue instruments at this stage. A detailed account of the status of the Stamp Duty and of the progress in the plans for a value-added tax reform was contained in the opening statement by the representative of Turkey.

Conclusions

23. The Committee expressed sympathy for the multiplicity of problems facing the Turkish authorities, in particular the worsening situation of oil import bills. The Committee noted the explanations given by the representative of Turkey concerning the difficulties encountered by some of their exports, due to restrictions applied by certain traditional trading partners. It noted with satisfaction the introduction of a stabilization programme and a new orientation in exchange rate, monetary and budgetary policy. Despite the extremely difficult balance-of-payments situation Turkey had not resorted to an intensification of import restrictions. Nevertheless, the Committee recommended that Turkey work toward a liberalization of the import régime. The adoption of a comprehensive programme to restore external and internal balance would bring about the conditions to permit liberalization.

Stamp Duty

24. The Committee noted that there was no change in the fiscal rôle of the Stamp Duty since the last consultation. It shared the view of the Fund that the Stamp Duty should be replaced by alternative measures The Committee further noted that it was the intention of the Turkish authorities to introduce a fiscal reform which, once implemented would obviate the need for the Stamp Duty. The Committee recognized that in the present economic situation of Turkey the immediate removal of the Stamp Duty could not be given first priority. The Committee agreed to recommend to the CONTRACTING PARTIES to grant an extension of the waiver for the application of the Stamp Duty, according to terms contained in the Draft Decision attached in Annex 2.

ANNEX I

Draft Decision

TURKEY - STAMP DUTY

Considering that the CONTRACTING PARTIES, by decision dated 20 July 1963, 11 November 1967, 24 August 1969, 30 January 1973, 3 July 1973, 15 July 1975 and 17 April 1978 waived, subject to specified terms and conditions, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Turkey to maintain as a temporary measure, the Stamp Duty not exceeding a specified ad valorem rate, on imports into Turkey of products included in Schedule XXXVII, until 31 December 1979;

Considering that the Government of Turkey has requested an extension of the waiver to permit the maintenance of the Stamp Duty until the end of the Fourth Five-Year Development Plan on 31 December 1983;

Considering that the Government of Turkey has applied, as from 1 January 1973, the same rates of Stamp Duty to imports from the territories of all contracting parties, and has undertaken to do so in the future;

Taking note of the present extremely difficult balance-of-payments situation;

Taking note that the Government of Turkey had assured the contracting parties that a fiscal reform would be introduced which would enable it to eliminate the Stamp Duty;

Sharing the view of the Fund that the Stamp Duty should be replaced by alternative measures in the context of a comprehensive programme to restore external and internal balance;

The CONTRACTING PARTIES, acting pursuant to the provisions of paragraph 5 of Article XXV of the General Agreement and in accordance with the procedures adopted by them on 1 November 1956;

Decide to waive, subject to the terms and conditions specified hereunder, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Turkey to maintain, as a temporary measure, on imports into Turkey of products included in Schedule XXXVII a Stamp Duty.

Terms and conditions

1. The rate of the Stamp Duty shall not exceed 25 per cent of the value of the imported goods as assessed for the imposition of the customs duty, and shall be lowered progressively, as circumstances permit.

2. The continued application of the Stamp Duty shall be accompanied by commensurate efforts by the Government of Turkey to replace it by alternative measures.

3. The Government of Turkey shall report one year from the date of this waiver on the progress made towards substituting other economic measures for the Stamp Duty.

4. The Decision shall be valid until the removal of the Stamp Duty or until 31 December 1981, whichever date is earlier.

5. If any contracting party considers that the effect of the Stamp Duty maintained under this Decision is unduly restrictive and that damage to its trade is caused or threatened thereby, it may make representations to the Government of Turkey, which shall accord sympathetic consideration to such representations and afford that contracting party adequate opportunity for consultation.

6. If such consultation does not lead to satisfactory results the contracting party concerned may request the CONTRACTING PARTIES to invite Turkey to enter into consultations with them. If, as a result of these consultations with the CONTRACTING PARTIES, no agreement is reached and if they determine that the effect of the Stamp Duty is unduly restrictive and that serious damage to the trade of the contracting party initiating the procedure is threatened or caused thereby, the latter will be released from its obligations to apply to the trade of Turkey concessions initially negotiated with Turkey to the extent that the CONTRACTING PARTIES determine to be appropriate in the circumstances.

ANNEX II

Opening Statement by the Representative of Turkey

In my introductory statement, I should like to present the economic and fiscal considerations that lead my country to make a new request for authorization to apply the stamp duty for the Fourth Five-Year Plan period.

Turkish economic growth performance during the last two decades has been good compared both with other developing countries and OECD area as a whole.

GDP increase during the First and Second Plan periods was more than 6 per cent; and 7.2 per cent during the Third Plan Period (1973-77).

Great strides have also been made towards meeting the basic needs of the population in areas such as education, health care, water supply and roads.

In spite of significant structural changes and comparatively rapid growth, however, there were certain aspects of the pattern of development which increased the vulnerability of the economy: first, the low degree of export orientation, combined with increasing dependence on imports; second, a rapid increase in investment without a commensurate increase in the domestic savings efforts.

In fact, the impressive economic progress was punctuated by a severe balance-of-payments crisis in 1977. Evolution of the crisis dates back to early 1970s.

In 1973, the Turkish economic situation was a good one. GNP had increased by 5.5 per cent. The balance-of-payments situation was comfortable; imports increased by 34 per cent but exports increased by 49 per cent and workers' remittances by 60 per cent, so that there was a current account surplus of $500 million. The country's external debt, moreover, was small and on rather favourable terms, with an excellent maturity structure. The State Economic Enterprises had a small operating surplus and the budget deficit was insignificant.

The sharp increase in oil prices in 1974 and the simultaneous existence of recession and inflation and rising unemployment in the industrial countries, all played a major part in the deterioration of the Turkish economic situation. However, domestic policy responses to these developments played at least as important a rôle.

The sharp deterioration of the international environment was met by an acceleration of the growth of investment and consumption in the domestic economy. The growth rate of public investment in 1974-77, in constant prices, was four-and-a-half times higher than in 1970-73; the growth rate of public consumption nearly doubled. The budget deficit increased; the rate of increase of the money supply accelerated to finance rising expenditures; there was a sharp increase in the rate of inflation.

These developments in the domestic economy were accompanied by and related to unfavourable developments in the balance of payments. Merchandise exports declined in volume terms and grew slowly in terms of value while imports continued to increase rapidly. The growth rates of exports and imports had been roughly equal during 1970-73. During 1974-77, the import growth rate was about four times the growth rate of exports. The slow-down of exports can be explained partly by the unfavourable situation in the market countries, but also resulted from a greater domestic absorption of output in an inflationary situation. Similarly, the explosive growth of imports was partly due to rising world prices, especially oil and industrial commodities, and partly due to a steep rise in the volume of imports.

These problems were aggravated by a decline in workers' remittances, caused partly by the worsening recession in Western Europe, which reduced the demand for employment of Turkish workers. During 1970-73, 439,000 Turkish workers went abroad; during 1974-77, only one tenth as many. The stagnation and decline in remittances also reflected a holding back in remittances by workers abroad in anticipation of major exchange rate adjustments, and their diversion to other channels as the situation worsened.

Large deficits of balance of payments were, to some extent, met by running down of foreign exchange reserves, but mainly by recourse to short-term borrowing.

Short-term external debt which was only $19 million in 1972, and $1.4 billion in 1975 increased to $6.6 billion at the end of 1977. As a result, a crisis of confidence developed, the inflow of external capital dried up, and the boom collapsed by mid-1977.

Thus, the beginning of 1978 witnessed an economic crisis involving severe balance-of-payments and external debt problems, with stagnation of economic activity and output, and increasing idle capacity together with rising unemployment. In early 1978, a stabilization programme was announced which formed the basis of a Standby Agreement with the IMF. The programme was aimed at reducing the public sector deficit and improving the balance of payments:

- prices of State Economic Enterprises were increased,
- interest rates were raised,
- the stamp duty on imports was increased substantially,

- the exchange rate adjusted, and
- a tax reform bill was sent to the Parliament.

Efforts were started to reach agreements with foreign creditors to reschedule debt repayment obligations and to raise new money.

At the year's end, however, the outcome was mixed: in spite of successful action on the different underlying causes of inflation in the framework of the stabilization programme, the different price indexes kept on a rising trend. The wholesale price index rose by 49 per cent in 1978. In interpreting these results one has first to take into account that prices are very sensitive in Turkey to the monetary expansion in the previous twelve months. Monetary expansion in 1977 had, therefore, a delayed influence on the prices in the course of 1978. Certain elements of the policy mix adopted under the stabilization programme, such as the devaluation of the Turkish lira, price adjustments made for the products of State Economic Enterprises, and an increase in interest rates, all resulted in a corrective upward movement of prices. Last, but not least, the unavailability of foreign exchange resulted in output shortages that, in turn, pushed the prices further up.

Foreign trade deficit was reduced in 1978 to $2.3 billion from $4 billion in 1977, and exports, after a drop of 11 per cent in 1977, increased in 1978 by 30 per cent, reaching US$2.3 billion. However, the share of industrial exports declined, due to the foreign exchange crisis that caused severe shortages in imported inputs. Imports decreased by 21 per cent in 1978, remaining at 4.6 billion in dollar terms.

Workers' remittances were maintained at the level of about $980 million reached in the two previous years. The net balance of tourism rose from a deficit of $63 million in 1977 to $145 million in 1978, due to the measures limiting travel abroad.

Real GNP growth is estimated to have been of the order of 3.5 per cent in real terms in 1978.

Fixed investments in current prices rose by 22 per cent in 1978, a figure much below the programme targets and representing a deduction in investment activities in real terms.

The rate of unemployment reached about 15 per cent.

Capacity utilization has further fallen in 1978. Particularly, the chemical industry, electrical equipment and motor vehicle manufacturing industries have been most severely affected. The under-utilization of overall industrial capacity was due by 50 per cent to the lack of foreign exchange, by 15 per cent to the slackening of demand, by 12 per cent to the shortfall of domestic raw materials, and by 8 per cent to the energy shortage.

It is technically imperative that stabilization measures and any devaluation should be accompanied by immediate financial facilities to be put at the disposal of the economy.

There was much slower than anticipated progress in the negotiations for rescheduling part of the large commercial and banking short-term debts which resulted in a long delay in the availability of the new loans. This affected the already very tight foreign exchange situation, aggravated domestic shortages of imported inputs and fueled the rising inflation. At the same time, large wage settlements were granted and there was a delay in the passage of the tax reform bill in Parliament. To sum up, both domestic and international developments played a rôle in this mix and were interrelated.

Stabilization Programme 1979, and short-term prospects

In early 1979, the Government articulated another Stabilization Programme. The objectives are similar to those of the 1978 programme:

- to reduce inflationary pressures and tackle the balance-of-payments problem with a view to fostering the resumption of growth.

Increases in the prices of State Economic Enterprises' products are expected to yield additional funds to curb the rising operating losses of these enterprises.

The 1979 budget, clearly expressed the priority given to fight against inflation. The authorized expenditure level is only 23 per cent higher than the 1978 realized expenditures; which is far below the inflation rate. Budget law, moreover, limits personal increases in the public sector to 3 per cent of the existing allocations of March 1979.

Interest rates for both deposits and lending have been raised substantially.

After a brief experiment with premium exchange rates for tourism and workers' remittances, a new exchange system was introduced in June. A rate of LT 47.1 = $1 applied to all transactions except for oil and fertilizer imports and primary goods exports for which the rate is LT 35.0 = $1. Further, a significant development was the creation of a limited parallel market in respect to foreign exchange receipts from manufactured and mineral exports. Turkish industrial exports can now retain 50 per cent of their foreign exchange earnings and either use it to finance their own import requirements or transfer it to other industrialists at freely determined prices.

On the basis of these measures, a Standby Arrangement was arrived at with the IMF in July 1979 for a period of twelve months.

During 1979, the external trading position is likely to improve as exports and workers' remittances respond to the incentives provided by the exchange rate and other measures. However, the foreign exchange constraints will remain very severe and imports will continue to have to be held at levels much lower than the 1977 level, especially because the recent increase in oil prices, which has a significant impact on the likely availability of foreign exchange for non-fuel imports.

I would like to make a few remarks on the foreign trade policies followed for some time by my country.

Without doubt, the most important aspect of a country's foreign trade policy is the direction and strength of the "bias" inherent in its package of policy instruments. "Bias", I define as the relative profitability of supplying the domestic as compared with the export markets. It depends on the interaction of several policy instruments such as tariffs and quotas on imports, financial incentives to exporters, administrative incentives or disincentives to importers or exporters, and most notably, the exchange rate.

There can be no doubt that for the past decades there has been, at all times, a strong bias against exports in Turkey. This has been the general character of the policies.

In fact, with the exception of brief periods, the official exchange rate during the last thirty years has been persistently over-valued which gave rise to a black market in foreign exchange.

The demand for licensed imports at the official price has exceeded the availability of foreign exchange, which resulted in a rationing of imports. Macro-economic rationale of licensing system in Turkey is to tailor total imports to the availability of foreign exchange. Micro-economic rationale is (1) permitting imports of any given commodity only to the extent that domestic capacity cannot meet the demand, (2) to ensure that the limited amount of official foreign exchange is allocated among different commodities and industries in accordance with the priorities of the Plan and the Annual Programmes.

Therefore, one can hardly talk of a Turkish protectionism. This is evidenced by the fact that, in 1978, very limited shifts were made to somewhat more restrictive lists within the liberalized group, while other imports were shifted from the quota list to the liberalized list. Same is true for 1979 import programme, where 10 per cent increase is foreseen for the liberalized imports against a corresponding decrease in quota lists. The prevailing problem is the scarcity of foreign exchange. Underlying policy concern, therefore, should be to increase foreign exchange earnings by appropriate domestic and foreign trade policies.

Fourth Five-Year Plan envisages 18.6 per cent annual growth rate of merchandise exports. Traditional exports such as cotton, tobacco, hazelnuts and raisins are expected to grow at about 3 per cent per year, and non-traditional agricultural exports at about 11 per cent. The bulk of the increase is expected, thus, to come from manufactures whose target growth rate is 36 per cent.

The volume of merchandise imports is expected to grow at an average annual rate of 10.5 per cent.

The real outcome of these policies will certainly depend on a variety of factors but one should not underestimate the significant policy changes towards export orientation.

There had been a great political resistance to conventional devaluations in Turkey, but recent policy measures and successive devaluations of 1978 and 1979 indicate that it is no more the case.

Given the tightness of the balance-of-payments situation, however, a wholesale reform of the Turkish import system is not feasible in the immediate future.

In my previous remarks, I have pointed to the fact that the increase in stamp duty was a part of the stabilization programme of 1978; ultimate purpose being to increase public sector revenues.

Allow me to give you some figures on the contribution of stamp duty to the public finances: in 1978 revenues of stamp duty amounted to LT 15 billion and the estimates for 1979 is LT 20 billion. This estimation is justified by LT 12 billion realized in seven months of this year.

Taking into account the present economic situation and likely developments of 1980, both the economic theory and common sense suggest that Turkey should not give up any of the revenues in the immediate future and the stabilization programme envisages the maintenance of the stamp duty.

Turkey is not in a position to abolish stamp duty unless it is replaced by compensating measures. As it has been repeatedly expressed, my Government is well on the way to do so. I am referring to value-added tax efforts.

Taking into account that it is of great importance to this audience, I will be more specific on the progress achieved so far on this matter.

Turkey is elaborating for some years now, the draft of value-added tax. Actually many drafts, more precisely five, have been prepared and discussed; six seminars were organized one in West Berlin with the participation of German experts. The draft is at final stage now and will be sent to the Parliament soon.

As you know, value-added tax, to be successful, necessitates a specialized training of parties concerned. A programme of training for the personnel in the administration and accountants and financial counsellors and advisers has been planned. It is evident that any tax effort of this importance puts a new burden on the taxpayers as well as the administration. In order to identify the problems which may arise by the implementation, some taxpayers in Ankara, Istanbul and Izmir have been implementing the provisions of the existing draft on an experimental basis. The results of this experience are being evaluated by three criteria: (1) the impact on the Turkish economy as a whole, (2) effects on prices and cost structure, and (3) administrative feasibility of the system.

On the other hand, the mechanization of tax offices is on the way and programmers and operators for the computers have been trained, and the Federal Republic of Germany and OECD technical assistance programmes for this purpose are being implemented.

I think that serious efforts made so far, demonstrate the importance attached by the Turkish authorities for an early and successful implementation of VAT. But in the meantime Turkey is not in a position to abolish the stamp duty and would like, therefore, to continue to benefit from derogation obtained.

Consequently, my delegation has been instructed to request, pursuant to paragraph 5 of Article XXV of the General Agreement, a waiver to enable Turkey to maintain the stamp duty until the end of the Fourth Five-Year Plan period, which ends 31 December 1983.

My delegation will try to answer the questions which may be put forward by distinguished members of the delegations.