

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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TURKEY - ECONOMIC POLICY MEASURES

The following communication, dated 26 March 1980, has been received from the Permanent Mission of Turkey.

With a view to restoring economic equilibrium, the Turkish Government brought into effect at the end of January of this year a set of measures which, reflecting overall a more liberal approach to the economy and to trade, are consistent with the spirit and letter of the General Agreement.

Annexed hereto is a note describing the main lines of these measures.

ANNEX

At the beginning of 1980, the Turkish economy faced many serious issues demanding bold decisions.

- The rate of inflation, which was around 80 per cent in 1979, was expected to be more than 100 per cent if no action was taken. This inevitably should have worsened the magnitude of the other issues as well.

- Foreign exchange earnings were continuously decreasing vis-à-vis the requirements of the economy. The expected foreign exchange earnings in 1980 would not have been enough to finance the oil bill alone.

- The non-availability of required inputs (including oil) had gradually decreased the capacity utilization in the economy which is now approximately 50-60 per cent, and would have continued to decline if the necessary measures were delayed. Consequently, the lack of production and supply of goods created widespread black market practices.

- Parallel to the decreasing capacity utilization and slowdown in the ongoing investments, the already critical unemployment level had further worsened.

- The continuous operational deficits of the State Economic Enterprises (SEE) had reached unreasonably high levels and the SEE's continued to be a critical drain on the public finances.

- The adverse effects of these issues were also felt on the income distribution which continuously moved against the low income groups.

In the light of the above-mentioned facts, the Turkish Government has decided to take necessary actions in order to reach the following main objectives:

- (a) Alleviate the most critical shortages of foreign exchange
- (b) Reduce inflation
- (c) Increase the rate of capacity utilization and productivity

- (d) Curb domestic consumption by channelling income into savings for investments in export promotion
- (e) Concentrate on ongoing and on few new investments most likely in the short term to remedy existing shortages and constraints.

The general lines of the measures put into effect by the Turkish Government at the end of January 1980, and thus called "January Policy Package", are as follows:

- (a) The Turkish lira was substantially devalued as to completely eliminate the inflationary differentials between Turkey and her trading partners and as to provide a comfortable margin of safety.
- (b) The prices charged and the services provided by twelve State Economic Enterprises have been increased as to provide LT 333 billion net revenue to the Public Sector. The Public Sector's 1980 deficit is, thus, completely eliminated with the obvious favourable implications on the Central Bank's rate of credit expansion. On a gross basis, the consolidated sales revenue of SEE's has been increased by 72 per cent and this represents roughly 20 per cent of 1979 GNP.
- (c) All subsidies - except for the limited industrial uses of electricity, all types of coal, fertilizer and cargo transportation - have been completely abolished. All SEE's have been clearly and legally instructed that, with the above-mentioned exceptions, the prices of their products are no longer administered and that they can freely set their own prices according to the market conditions.
- (d) Encouragement of direct foreign investment has been adopted as a major policy objective and a blanket authority has been transferred by the Council of Ministers to a newly established Department in the Prime Ministry to approve applications under \$50 million. The areas open to foreign investment have been expanded. The criteria and procedures have been reduced. Petroleum exploration, including areas licensed to the National Oil Company, is now open to foreign investment.
- (e) Two options are now provided for non-guaranteed debt, one of which is repayment in ten years including four years of grace. The scheme has been formally announced.

- (f) Customs duties on raw materials and intermediate goods imported as inputs for industrial exports and capital goods have been waived.
- (g) In addition to the aforementioned customs duty exemption for imports of intermediate goods, the stamp duty has been decreased from 25 per cent to 1 per cent. This measure will expectedly eliminate domestic protection to a large extent, encourage competition of the economy, eliminate double pricing and consequently increase industrial exports.