

**TÜSİAD**

**THE TURKISH ECONOMY  
AT THE BEGINNING OF  
1978**

**Türk  
sanayicileri  
ve  
iş adamları  
derneği**

**Turkish  
Industrialists  
and  
Businessmen's  
Association**

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AT THE BEGINNING OF 1978**

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**TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION**

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# **Turkish Industrialists and Businessmen's Association**

«Türk Sanayicileri ve İş Adamları Derneği» or «**Turkish Industrialists and Businessmen's Association**» was founded in August 1971 by the leaders of Turkish Industry.

The Association is a nonprofit and independent Research Institution. Its fundamental purpose is to promote public welfare through free enterprise by bringing together the experiences and views of those engaged in industry and business.

It conducts research in the fields of economic outlook and trends, fiscal and monetary developments, marketing, industrial statistics, international economics, public affairs and other related areas. The Association carries out its research work in a scientific manner and handles confidential information in a discreet manner.

The association brings together leaders in business, labor, academic world and Government at meetings where economic policy, business prospects and executive experience are discussed.

The news media are an important link in the Association's communication chain. The Association releases a great deal of its work through the media, providing the public with objective information upon which to form sound opinion.

The results of the Association research programmes are mailed to associates, academic world, government officials and news media through research reports, a monthly periodical, books and other special publications.

Membership in the Association is voluntary.

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THE TURKISH ECONOMY  
AT THE OUTSET OF 1978

Summary and Conclusion :

At the start of 1978 the most serious danger facing the Turkish economy is the threat of a depression.

Over the past few years, the economy has suffered under an increasing weight of problems, and in 1977 the situation was aggravated by Turkey's increasing inability to meet her foreign currency obligations. The spectre of depression now looms large.

The danger is that if Turkey actually does at some stage plunge into a depression, the cost of rebuilding the economy will be crippling. So it has become of the utmost importance that the measures to be taken to assure economic solvency should be consistent and viable.

At the start of 1978, the situation in the private sector of industry can be outlined as follows:

-- The stagnation in the investment pipeline which has been observed for the last two years is still with us. Large-scale projects of importance for the economy have been suspended.

There are several reasons for this :

-- The industrialization strategy has not yet been properly defined, and the private sector is at a loss to know which sectors of production will be encouraged.

-- The infrastructure of the sixties is inadequate for the industry of the seventies. Energy, communications, transport, selecting sites for new projects: all these problems delay the development of large scale serious industrialization efforts.

-- Negative developments in the field of labour relations, and statutory obligations on employers (e.g. severance pay) inhibit enterprising concerns from hiring more labour and delay labour-intensive investments.

-- The acute foreign exchange shortage obstructs the realization of projects, both at the investment and operational stages.

-- Intermediary financial institutions fail to operate efficiently, so as to contribute effectively to the financing of major projects.

-- The exchange rate policy has the effect of promoting imports while discouraging production and exports.

-- The price controls system governing locally produced commodities and industrial goods favours mere traders at the expense of industrial production.

-- Red tape discourages industrial investments, the expansion of existing plant, and export efforts.

## INDUSTRIAL PRODUCTION COULD STAGNATE OR EVEN RETROGRESS IN CERTAIN SECTORS

The reasons for this are as follows:

- Industrial relations have been turbulent.
- Imports, and procuring raw materials and intermediate goods, have become a serious problem.
- The energy shortage prevents industries from operating regularly and productively.
- The reluctance on the part of the Administration to fix prices works against the private sector's vital interests. The abnormal price variations in the local market provide outrageous profits for a handful of people.
- No solution to these problems can be expected in the short term. But there is a need to decide on priorities and to face the problems seriously.

At the start of 1978, one of the priorities for the economy is the shortage of foreign exchange. Turkey will have to find new sources of foreign exchange as soon as possible. The present shortage is not attributable to Turkey's over-indebtedness, but rather to mismanagement in opting for a policy of short term borrowing.

A fundamental need at the start of the year is to consolidate the country's short term debts, and to find additional hard currency supplies to beef up the reserves.

A basic pre-requisite if this is to be achieved successfully is that Turkey should express her determination to take serious measures to increase her foreign exchange inflow.

One way of doing this is to pay the true value for hard currency coming into the country. As long as the true value is not paid, it will be impossible to increase either export revenues or workers' remittances, and domestic investors will find it more attractive to import a particular commodity rather than to produce it at home.

Parallel to this, administrative controls over other goods and services and the price of money (interest rates) should be discontinued. This will ensure a sound, healthy development in investments and production, and should eliminate the abnormal profits being made by middlemen.\*

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(\*) There should be no confusion between the State's responsibility to protect the consumer through price controls and administrative decisions to fix prices artificially.

The Government must ensure that peace is maintained on the labour front with the utmost impartiality, and fulfil its duties and responsibilities within the limits of the law.

According priority to energy investments is of special importance, and the introduction of a special programme could help here.

In investments, production and exports, all entrepreneurs want to see red tape eliminated as far as possible. Administrative responsibilities now shared by numerous government agencies should be rationalized and exercised by a central authority.

THE EXCEPTIONAL CIRCUMSTANCES PREVAILING AT THE START OF 1978 DEMAND THE ADOPTION OF AN INTERIM PROGRAMME

The interim programme should highlight the following points:

-- In the private sector, priority should be accorded to promoting those projects which are already in the pipeline and which are vital to the economy, rather than to encouraging all kinds of new investment. The policies adopted should ensure the full utilization of the existing industrial capacity.

-- In the public sector, all projects should be shelved, with the exception of energy, communications and transportation schemes and foreign exchange earning investments which can be realized in a relatively short time.

It should be noted in this context that major projects which really affect the nation's economic growth (e.g. steel investments, oil prospecting and drilling and petroleum products industries) should be programmed properly.

It will be virtually impossible to reverse the inflationary trend this year, given that price increases in 1977 neared 50%. What is important is to slow down the rate of inflation.

-- The most effective tool here is the money supply policy. Financing state expenditure from real sources and implementing measures to promote voluntary and statutory savings will help check the price rises.



The Turkish private sector does not date back all that far.

-- Policies since 1950 have induced the agricultural population to make more produce available on the market. This in turn led to an increase in the money supply.

-- The infrastructure needed to develop industry was completed in the sixties.

-- The system of incentives for promoting industry was introduced in 1968.

-- Major industries started production after 1970.

-- At the beginning of 1978, the structure of Turkey's manufacturing industry is enormous, and provides direct employment for 800,000 people with a combined annual production capacity of over TL 400,000m. The total annual sales turn-over of the leading hundred firms in this sector is TL 102,000m. Seventeen of these firms are State Economic Enterprises, and the remaining 83 privately-owned ventures. The average annual sales turn-over among these 83 private concerns is TL 750m., and their average employment capacity is 1,300 workers.

Criticisms can be made of this industrial structure:

-- It is highly dependent on external resources.

-- It is consumer-oriented.

-- At the initial stage, investments in the consumer goods field were considered far more rewarding ventures financially. As a result, intermediate and capital goods industries have been neglected.

How did such a structure come into being?

It was the bureaucrats and technocrats in the public sector who designed the SEE projects, realized them and operated them --and the same men have been stressing their problems and looking for solutions. And it is the same people who have failed to come up with any solutions to the SEE problems.

-- The majority of private sector investments in Turkey operate through licences indirectly secured from the public sector.

-- In all stages of investment and production, the entrepreneur needs the public sector's approval for import licences.

-- Since 1968, all investment projects have become subject to control and "licensing" by the public sector, thanks to the policy of incentive licences.

-- The public sector exercises control over investments by supervising credit instruments.

It emerges from the above that if the present industrial structure is distorted, the major responsibility rests with the public sector, and with the officials who permitted such a structure to emerge.

Criticizing past mistakes will not provide a solution to the problems today: the aim now should be to orient Turkish industry towards a better structure.

How can this be achieved? Is it a simple task?

-- The infrastructure does not meet industry's current requirements, and is inadequate to allow further development. Designed to meet the needs of the sixties, it is incapable of sustaining the load which will be imposed in the eighties, in the fields of energy, communications, transportation, water and urbanization.

-- Domestic savings are insufficient both in terms of quantity and quality for industrial investments to be realized.

Intermediary financial institutions do not perform their function of financing industrialization; rather they are an obstructionist element.

A balance of payments sufficient in structure and magnitude to meet the foreign currency requirements of development consistently has yet to be attained (1).

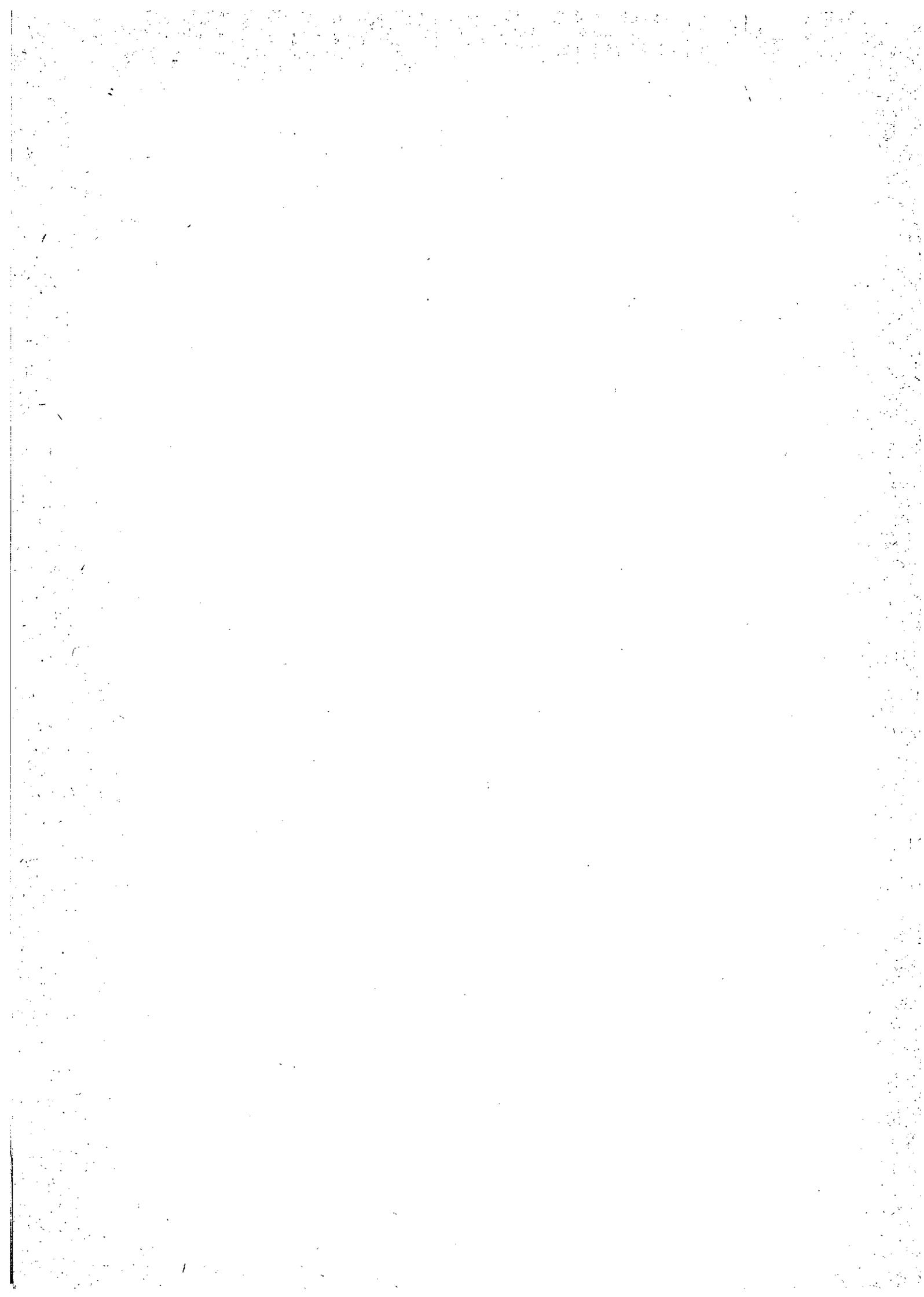
For these reasons, the strategy of the fourth five year development plan and the 1978 interim programme has assumed vital importance.

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(1) During the fourth plan term, the aim should be for minimum imports to be \$10,000m and minimum exports to be \$ 8,000m.

According to studies by Professor Kenan Bulutoglu, at the outset of the fourth plan period, Turkey's share of the volume of world foreign trade, given her population and per capita income, should be at least 1%. This means imports and exports of at least \$10,000m. But at the end of 1976, Turkey's imports accounted only for 0.5% of the volume of world foreign trade, and her exports 0.2%.

Another approach is the share of exports in the Gross National Product. In other countries with conditions similar to Turkey's, this figure is 15-16%, and the share of industrial exports is 7%. But in Turkey, total exports only make up 4.2% of GNP, and industrial exports a mere 1.5%.



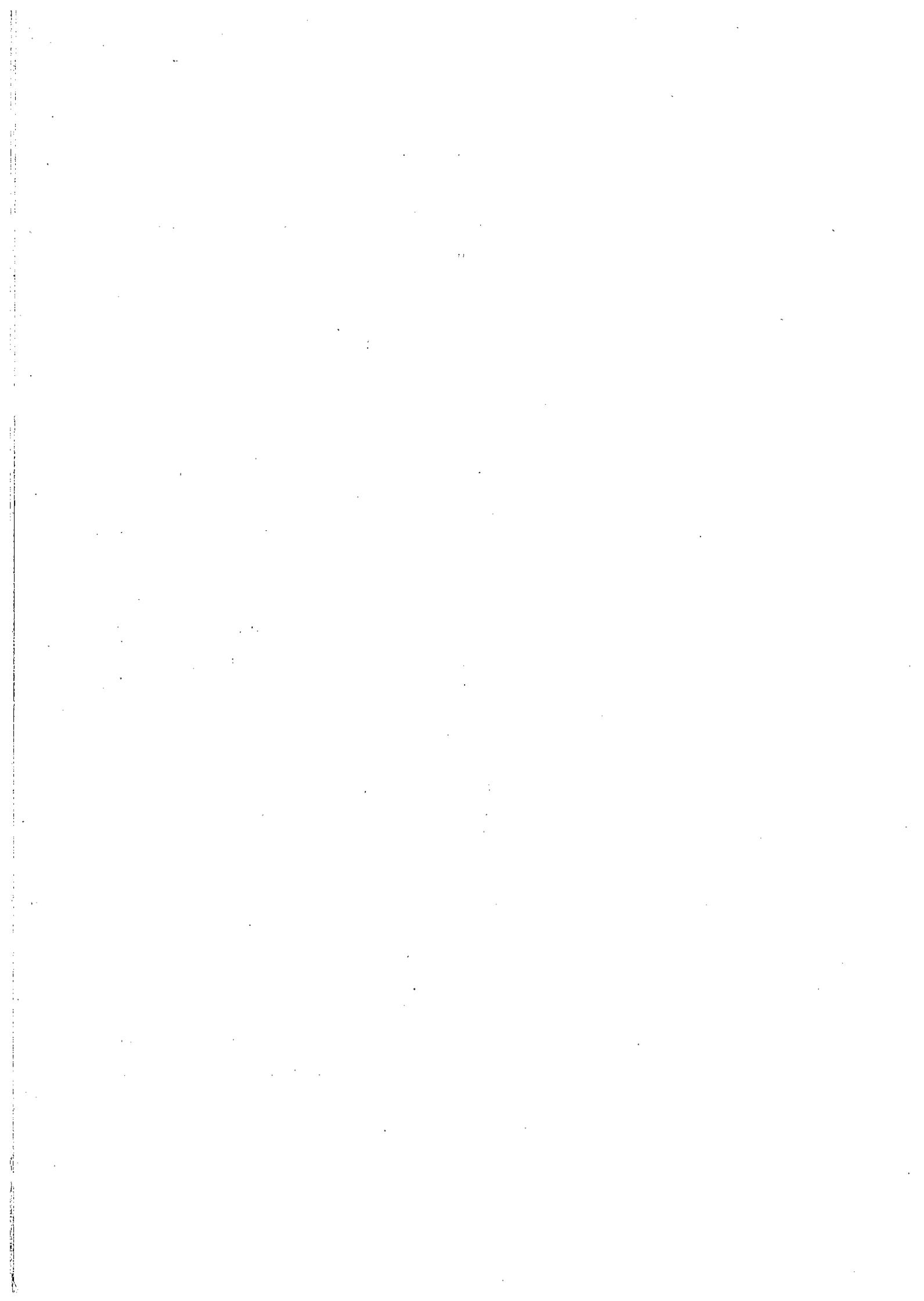
MAIN ECONOMIC INDICATORS

	1975	1976	1977	% Chg.	
				1976	1977
<b>GROSS NATIONAL PRODUCT (TL billion)</b>					
GNP (with current prices)	535.8	670.0	817.4	25.0	22.0
GNP (with 1968 prices)	181.4	195.3	205.1	7.7	5.0
Agriculture	40.9	44.0	44.1	7.6	0.1
Industry	44.3	48.4	51.7	9.3	6.9
-- Manufacturing ind.	38.5	41.9	44.5	9.0	6.0
<b>AGRICULTURAL PRODUCTION (tons '000)</b>					
Wheat	14,750	16,500	16,650	11.9	0.9
Barley	4,500	4,900	4,750	8.9	- 3.1
Tobacco	193	314	254	62.7	-19.1
Sugar-beet	6,949	9,400	9,400	35.3	--
Cotton	480	475	600	- 1.0	26.3
Sunflower	488	550	457	12.7	-16.9
Hazelnut	317	245	273	-29.4	11.4
<b>MONEY-BANKING-CREDIT (TL billion)*</b>					
Money in circulation	40.9	52.1	80.1	27.2	53.9
Money supply	118.5	151.5	196.7	27.8	29.8
Deposits	132.4	162.8	193.5	23.0	18.9
Banking credits	139.0	183.8	216.7	32.2	17.9
Central Bank credits	54.7	96.8	168.7	76.8	74.3
<b>FOREIGN ECONOMIC RELATIONS (\$ million)**</b>					
Imports	4,738.0	5,128.6	5,580.0	8.2	8.8
Exports	1,401.0	1,960.2	1,700.0	39.9	-13.3
Foreign trade balance	- 3,337.0	- 3,168.4	- 3,380.0		
Workers' remittances	1,312.3	982.7	1,000.0	-25.1	1.8
<b>PRICE INDICES***</b>					
Wholesale price index	8.0	22.0	33.3		
-- Foodstuff	10.8	22.1	29.0		
-- Industrial raw material	3.3	21.8	41.2		
Istanbul cost of living	17.2	17.4	44.9		
<b>FIXED CAPITAL INVESTMENTS (Current prices) (TL billion)</b>					
Public sector	53.8	75.2	106.4	39.8	41.5
Private sector	52.9	70.7	90.1	33.6	27.4

(\*) 1977 figures are as of Dec.2, 1977.

(\*\*) 1977 figures are provisional.

(\*\*\*) 12 months percent increases as of November.



## FUNDAMENTAL ISSUE OF 1977: FOREIGN EXCHANGE

The foreign exchange issue has always topped Turkey's most important problems in the past 25 years:

Turkey's macro equilibrium was upset in the following way since 1970 (in million US dollars):

1970	+242
1971	+235
1972	+152
1973	+918
1974	-460
1975	- 1,303
1976	- 1,766
1977	- 2,840

The equilibrium, which was upset quality and quantity-wise in parallel to the expansion and integration of the economy, has become the fundamental problem in 1977.

At the end of 1977, Turkey's foreign exchange resources, expenditures and foreign exchange deficit can be summed up as follows:

	(\$ million)	
	SPO and Finance Min. Estimate	TUSIAD Estimate
<u>Expenditures</u>	<u>6,067</u>	<u>6,477</u>
1. Imports	5,400	5,200
2. Debt instalment	187	187
3. Interest payments	350	350
4. Profit transfers	70	70
5. Tourism expenditures deficit	45	55
6. Other expenditures	15	15
 <u>Resources</u>	 <u>4,246*</u>	 <u>6,477</u>
7. Exports	1,750	1,750
3. Workers' remittances	1,100	950
9. CLD net increase	--	275
10. Project&programme credits	557	557
11. Banker credits	..	247
12. IMF special drawing right	59	14
13. Private foreign capital and off-shore	65	65
14. Other invisibles	225	225
15. Imports with waiver	90	90
16. Import by credit	..	1,735
17. Utilization from foreign currency reserves	400	569

(\*) The difference is due to the failure of the SPO to give a breakdown by sources of the short and medium term credits plus net errors and omissions which add up to \$1,821m.

BALANCE OF PAYMENTS (\$ million)

	<u>SPO</u>		<u>TUSIAD</u>	
	1977 Estimate	1978 Programme	1977 Estimate	1978 Programme
<b>I. CURRENT ACCOUNTS</b>				
<b>A. Foreign Trade</b>				
1. Exports (FOB)	1,750	2,400	1,750	2,200
2. Imports (CIF)	- 5,400	- 4,850	- 5,800	- 4,870
Foreign trade balance	- 3,650	- 2,450	- 4,050	- 2,670
<b>B. Invisible transactions</b>				
1. Foreign debt interest payments	- 350	- 434	- 350	- 434
2. Tourism&travel(net)	- 45	35	- 55	- 25
3. Workers' remittances	1,100	1,250	950	1,000
4. Profit transfers	- 70	- 75	- 70	- 75
5. Service payments on project credits	- 15	- 25	- 15	- 25
6. Other invisibles	225	270	225	270
Invisible trans- actions balance	845	1,021	685	711
<b>C. Infrastructure and off-shore</b>				
	15	19	15	19
Current Accounts Balance	-2,790	- 1,410	- 3,350	- 1,940
<b>II. CAPITAL MOVEMENTS</b>				
1. Foreign debt payments	- 187	- 270	- 187	- 270
2. Private foreign capital	50	50	50	50
3. Project credits	550	850	550	600
4. Imports with waiver	90	100	90	100
5. Programme credits	7	5	7	5
Capital movements balance	510	735	510	485
Overall balance	- 2,280	- 675	- 2,840	- 1,455
-- Reserve movements(+ decrease)	400	--	569	650
-- Special drawing rights	59	--	14	130
-- Short and medium-term credits	1,800	675	2,257	675
-- Net error&omission	21	--	--	--

Balance of Payments :

1. Turkey's exports amounted to \$1,750m in 1977.
2. Imports totalled \$5,800m in 1977.
3. Workers' remittances reached \$950m at the end of 1977. January to November inflows from Turkish workers amounted to \$907m. And in November, such remittances totalled only \$64m despite the fact that it was a month of religious holiday.
4. The SPO had predicted a \$59m utilization from Turkey's special drawing rights (SDR) on the assumption that \$45m of this portion would be made available by the IMF by the end of the year. But this did not come about as a result of inconclusive rounds of talks with the IMF.
5. The overall balance deficit of \$2,840m in 1977 is being financed as follows:

a. Short and medium term credits;

	1977 Jan.-Sept. <u>Realization</u>	1977 <u>Year-end</u>
Convertible lira deposits	100	275
Payment arrears (*)	110	110
Foreign credits from private sources	7	7
Dresdner Bank	107	130
Banker credits	71	--
TOTAL	253	522
Actual imports and payment differences (Credit imports)	1,738	1,735
GRAND TOTAL	1,991	2,257

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(\*) *Payment arrears are overdue debts deferred to a future date. Are applicable in short-term credits and money exchange transactions.*

b. Foreign exchange reserves have been depleted by \$569m.

c. \$14m has been used from IMF special drawing rights.

6. The balance of payments expectations for 1978 are as follows:

a) The export figure, estimated at \$2,400m by SPO, is expected to total not more than \$2,200m. Such a target in the range of \$2,200m would represent a 25.7% increase over the export realization of 1977.

Exports (\$ million)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Estimate 1977</u>	<u>Estimate 1978</u>
I. Agriculture and husbandry products	851.9	792.6	1,254.4	1,030.0	1,400.0
II. Mining & quarrying products	79.0	105.6	110.0	110.0	110.0
III. Industrial products	601.3	502.9	595.8	610.0	690.0
GRAND TOTAL	1,532.2	1,401.1	1,960.2	1,750.0	2,200.0

The stocks of agricultural produce remaining from last year are estimated as follows:

-- Cotton: 350,000 tons  
Estimated price: \$ 1.25 per kilo  
Export value: \$437,500,000

-- Tobacco: 95,000 tons  
Estimated price: \$3.20 per kilo  
Export value : \$304,000,000

-- Wheat: 1,000,000 tons  
Estimated price: \$100 per ton  
Export value : \$ 100,000,000

The estimated foreign exchange revenue through the export sale of these three commodities would be \$ 841,500,000.

b. The import volume can be kept at \$4,870m provided that only essential imports are allowed in to meet the requirements of existing industries along with crude oil and petroleum imports.

Imports (\$ million)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>I</u> <u>1978</u>	<u>II</u> <u>1978</u>
Consumer goods						
-- Fuels	762.6	811.3	1125.7	1600	1750	1750
-- Margarine	16.6	123.4	103.8	20	70	70
Intermediate goods						
-- Chemicals	280.4	423.7	459.0	450	500	500
-- Iron&steel prods.	530.6	679.1	545.7	550	450	450
-- Spares for vehicles	245.9	332.1	517.8	550	300	300
-- Plastic, rubber	135.2	152.4	182.9	250	300	300
-- Fertilizers	100.9	48.4	98.2	250	300	300
-- Other intermedi- ate goods	836.5	813.1	616.0	550	600	600
Investment goods	811.1	1256.9	1344.0	1470	600	1000
Imports with waiver	57.8	98.2	135.5	110	--	--
GRAND TOTAL	3777.6	1438.6	5128.6	5800	4870	5270

c. A net \$25m revenue is predicted in the tourism sector -- the difference between the foreign travel expenditures and tourism income. But compared with the \$55m deficit of 1977, the 1978 figure does not seem realistic. So the tourism balance can again be expected to suffer a deficit this year, on the assumption that the present foreign travel regulations will be maintained.

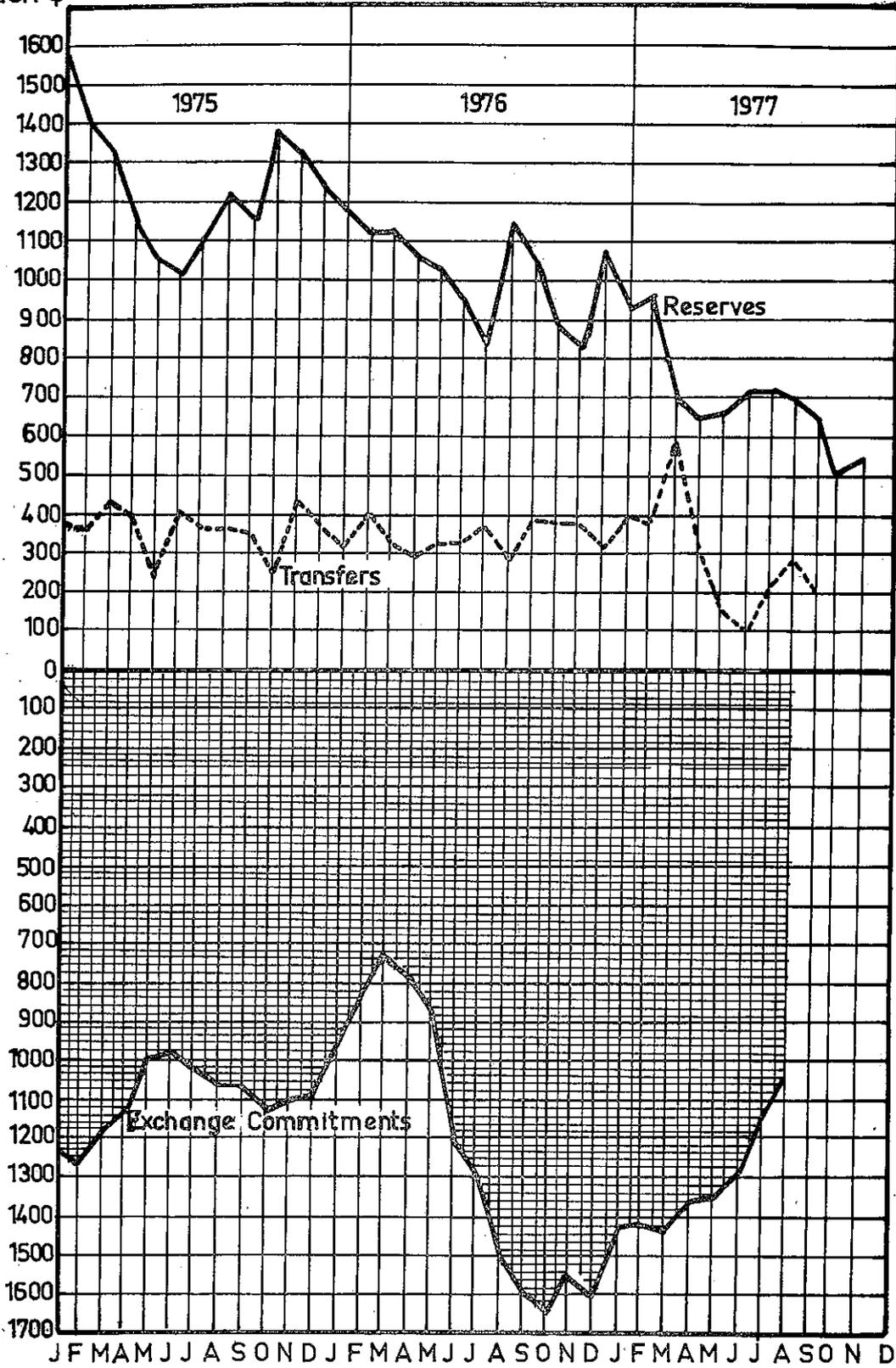
d. Estimating workers' remittances of \$1,250m is unrealistic. Unless radical measures are introduced, the inflow of remittances from Turkish workers could remain around \$1,000m.

e. Project credits this year are expected to be about \$600m.

f. Credits from the IMF in 1978 could reach \$130m on the assumption that last year's overdue \$45m credit as well as new credit facilities will soon be forthcoming.

# TRANSFERS – RESERVES – FOREIGN EXCHANGE COMMITMENTS

MILLION \$



PRICES

A. Prices of basic commodities and services

Price indices, the best indicators of price increases, are proof of the steep price escalation observed last year.

	Wholesale price index		Istanbul cost of living index			
	Index	Inc.	Ministry of Commerce Index	Ministry of Commerce Inc.	Chamber of Commerce Index	Chamber of Commerce Inc.
1970	145.7	6.7	155.6	7.9	152.4	8.2
1971	168.9	15.9	185.2	19.0	170.6	11.9
1972	199.0	18.0	213.7	15.4	194.3	13.9
1973	240.1	20.5	243.6	14.0	227.8	17.2
1974	311.8	29.9	301.8	23.9	281.7	23.7
1975	343.2	10.1	365.8	21.2	357.1	26.8
1976	396.6	15.6	429.6	17.4	423.2	18.5
1977*	565.2	33.1	652.8	40.6	665.4	41.6

(\*) Yearly percent increase as of November 1977

Various indices reflect the 1977 price increases as follows:

Ministry of Commerce - Publication & Conjoncture Department:

Wholesale price index

1976 November / 1977 November = 33.3%

Istanbul cost of living index

1976 November / 1977 November = 45.0%

Ankara cost of living index

1976 November / 1977 November = 39.3%

New wholesale price index

1976 June / 1977 June = 18.0%

Istanbul Chamber of Commerce :

Wholesale price index

1976 November / 1977 November = 38.4%

Istanbul wage-earners cost of living index

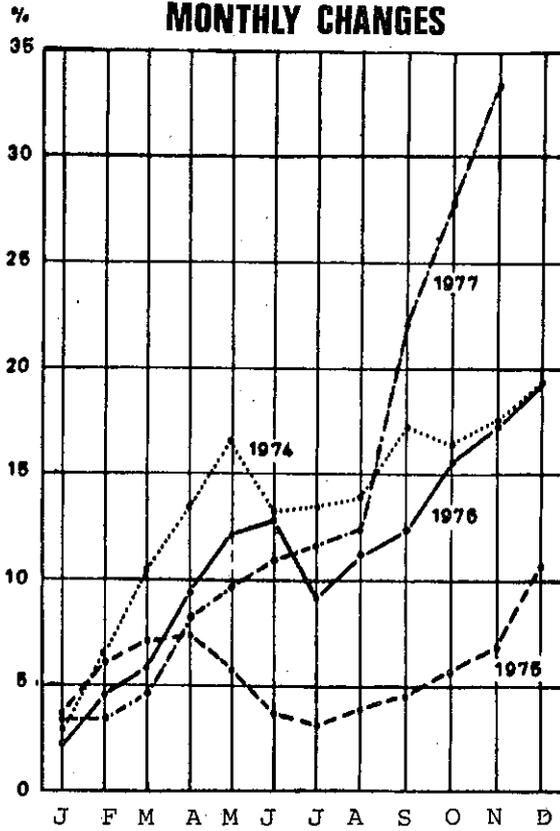
1976 December / 1977 December = 44.4%

State Institute of Statistics :

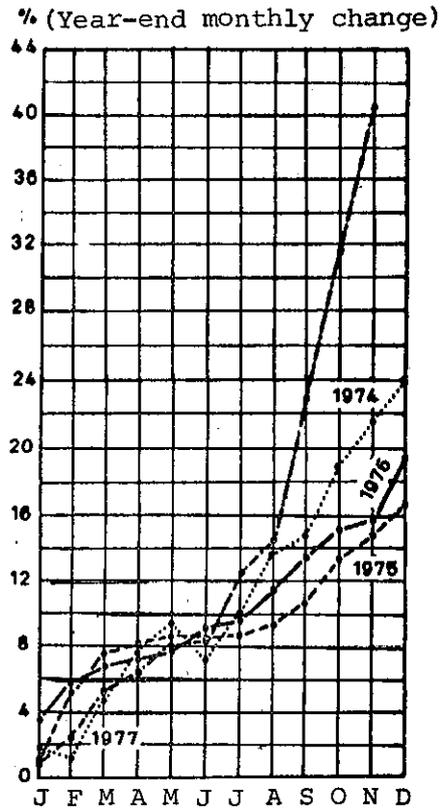
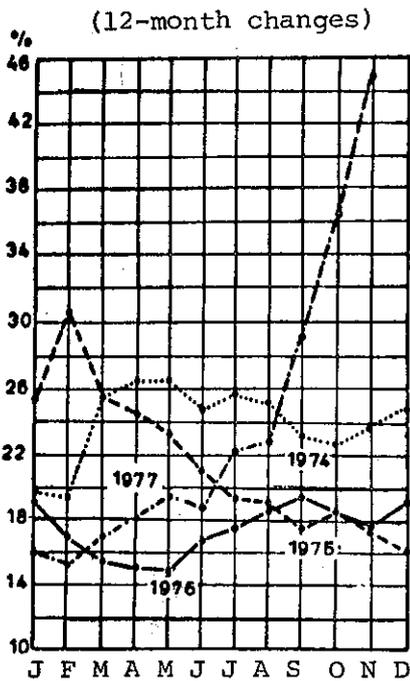
Istanbul consumer goods price index:

1976 October / 1977 October = 40.4%

### WHOLESALE PRICE INDEX YEAR-END MONTHLY CHANGES



### ISTANBUL CONSUMER PRICE INDEX



Developments in consumer prices in 1977 are as follows:

INCREASES IN CONSUMER PRICES (%)

	1977 11-month increase	November 1976/ November 1977 Yearly inc.
Foodstuff	47.3	48.6
Heating & lighting	39.3	45.2
Costumes & furniture	38.0	42.4
Rent & house	27.6	37.0
Maintenance	27.6	37.0
Miscellaneous	36.5	39.5
General	41.6	45.0

Source: Istanbul Chamber of Commerce's cost of living indices.

INCREASE IN WHOLESALE PRICES IN ISTANBUL (1977)

	Dec. 30, 1976	Dec. 30, 1977	Inc. %
<u>Industrial products</u>			
Tin (ingot)	210.00	800.00	280.9
Cement (Portland)	30.00	55.00	83.3
Glass (2 mm)	44.00	51.00	16.0
Construction bars (6 mm)	7.40	12.00	62.2
Metal sheet (0.30 mm)	9.00	14.00	55.5
Pipe (1/1 galvanized)	13.25	23.25	75.5
Brick (8½)	1.90	2.30	21.0
Formica (m2)	280.00	300.00	7.1
Chipboard (8 mm)	325.00	675.00	107.6
Timber (white)	4500.00	7500.00	66.6
<u>Consumer goods</u>			
Sunflower seed oil	13.25	16.75	26.4
Olive oil	23.00	32.50	41.3
Onions	3.50	3.00	-14.3
Cheese	36.25	40.00	10.3
Kashar cheese	45.00	65.00	44.4
Olives	12.00	25.00	108.3
Eggs	1.35	1.70	25.9
Rice	14.50	20.00	37.9
Macaroni	6.75	9.00	33.3
Broad beans	7.00	17.00	142.8
Dried beans	11.00	18.00	63.6
Lentils	6.50	12.50	92.3
Potatoes	3.30	3.00	- 9.1
Steak (kilo)	40.00	60.00	50.0
Turkish salami	70.00	110.00	57.1
Pastirma	90.00	120.00	33.3
Black pepper	75.00	180.00	140.0

The prices of consumer items increased as follows since 1970.

PRICE INCREASES IN MAJOR CONSUMER ITEMS (1970=100)

	1970=100
	<u>1977</u>
Bread	562.2
Rice	484.7
Macaroni	289.3
Potatoes	427.4
Dried beans	585.9
Onions	443.0
Mutton	569.0
Chicken	262.1
Eggs	377.4
Margarine	253.5
Milk	517.9
White cheese	493.7
Yogurt	424.9
Average	437.8

A comparison between consumer prices in Turkey and selected world countries gives the following picture:

AVERAGE INCREASE OF CONSUMER GOODS' PRICES IN DIFFERENT COUNTRIES

	1970=100
Argentina	620
Brasilia	740
Turkey	435
England	350
Mexico	310
Italy	270
Denmark	223
Japan	220
France	205
Australia	205
Sweden	200
Belgium	190
Netherlands	175
Canada	170
USA	160
Germany	150

Source: Compiled by TUSIAD research group, based on figures published in FOOD ENGINEERING INTERNATIONAL journal. Reflects index figures of major consumer items computed according to official rates.

The following indicators give ample reason for the steep escalation in prices since 1970, and especially those in 1977:

BASIC REASONS FOR PRICE INCREASES

	National income index	Increase in money supply		Central Bank credits		Foreign deficit TL m.	Price Index
		TL m.	Index	TL m.	Index		
1970	100.0	13,915	100.0	14,565	100.0	1,956	100.0
1971	110.2	17,032	122.4	16,273	111.7	1,635	115.9
1972	118.4	20,055	144.1	19,534	134.1	112	136.8
1973	124.7	25,332	182.0	27,886	191.4	- 6,594	164.8
1974	134.0	32,860	236.1	45,816	314.6	10,066	214.0
1975	144.6	40,938	294.2	54,756	375.9	27,729	235.5
1976	155.7	52,061	374.1	96,824	664.8	37,950	272.2
1977	163.5	80,139*	575.9	168,750*	1158.6	41,483	333.7

(\*) As of Dec.2, 1977

From 1970 to the end of 1977:

-- Although national income rose 1.6-fold, money in circulation 5.76-fold, and Central credits 11.6 fold, external resources resorted to in one year corresponded to 5% of our national income and 18% of our national budget.

Money supply has been largely affected by the real increases in national income and monetization. The governments should pursue a realistic money supply policy and keep the increase at reasonable limits.

Although there are diversified reasons for the price increases in Turkey, the fundamental reason appears to be the fact that while the real increase in national income has been 64% during the past seven years, the rate of increase in money supply has reached 476%.

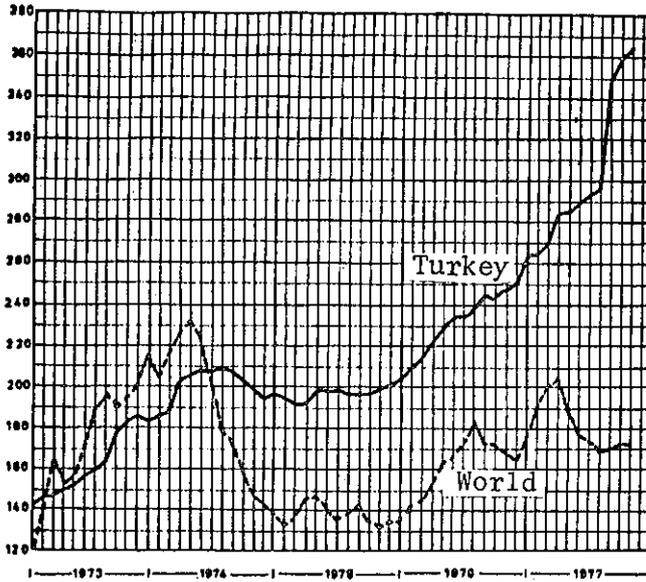
If money supply has really increased by over 50% in 1977, and Central Bank credits by 75%, then a 50% price increase would have to be considered normal.

b. The price of the Turkish lira (exchange rate)

The loss in the value of the Turkish lira is proportional to the rate of inflation. As long as prices in Turkey increase more rapidly than those in other countries, the difference between the value of the lira and those of other currencies rises proportionally.

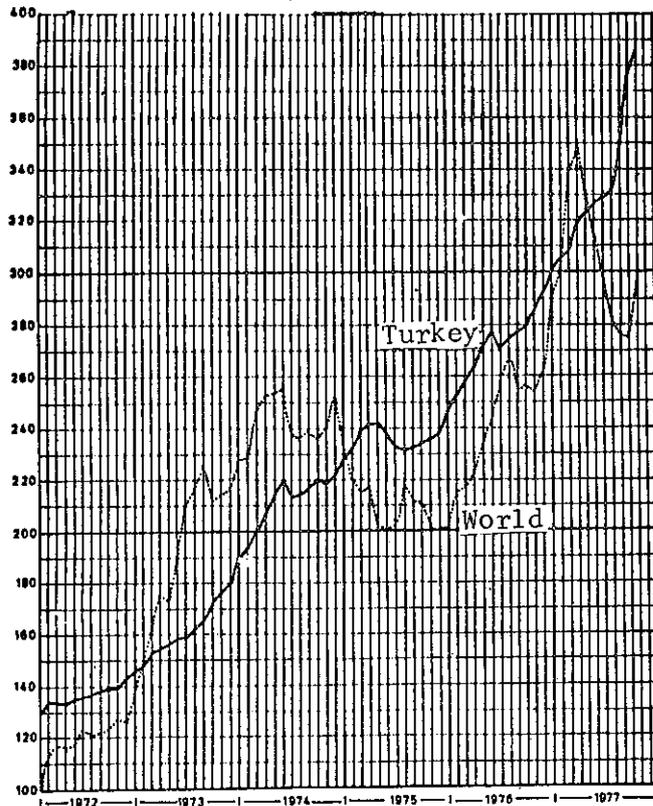
**WORLD & TURKEY'S INDUSTRIAL WHOLESAL  
PRICE INDICES**

( 1970 = 100 )



**WORLD & TURKEY'S WHOLESAL PRICE INDICES**

( 1970 = 100 )



Through such an approach, the following table pictures the declining value of the Turkish lira against the US dollar by making a comparison between the price increases in Turkey and those of the US.

THE WIDENING GAP BETWEEN THE LIRA AND THE DOLLAR BECAUSE OF PRICE TRENDS OF THE TWO ECONOMIES

	Dollar rate (TL)	Turkey price index (2)	U.S. price index (3)	Real parity coefficient according to (2) & (3) (4)	Real rate according to (2)&(3)/TL rates (5)	Dif.between Real and official rates (6)
1970	14.92	100.0	100.0	1000	14.92	0*
1971	14.15	115.9	103.3	1122	16.74	18.3
1972	14.15	136.8	107.9	1268	18.92	33.7
1973	14.15	164.8	122.7	1343	20.04	41.6
1974	13.99	214.0	145.9	1467	21.89	56.5
1975	15.15	235.6	158.4	1487	22.19	46.5
1976	16.16	272.2	165.7	1643	24.51	51.7
1977	19.63	376.5	176.4	2134	31.84	62.2**

(\*) The 1970 devaluation is considered a sound monetary operation.

(\*\*) Figures as of October 1977.

Source: TUSIAD Research Group.

Speaking roughly, as of the end of October 1977, the lira was 62.2% overvalued against the US dollar, which means that the real exchange rate should be one US dollar equals TL 31.84. But this would be a gross mistake because the table above is a general indication of the position of the lira other than being a realistic exchange rate indicator.

The Turkish lira has been readjusted several times against major currencies since 1970.

MONETARY OPERATIONS IN THE VALUE OF THE TL SINCE 1970 :

	<u>US \$</u>	<u>D.M.</u>	<u>S.F.</u>	<u>F.F.</u>	<u>Pound Sterling</u>
1970 official rate	14.85	4.09	3.46	2.69	35.94
1977 year-end official rate	19.25	8.60	8.85	3.90	34.70
Monetary operation's rate	+29.6	+110.3	+155.8	+45.0	- 3.5
Number of monetary operations	13	18	16	18	19

UPS AND DOWNS OF THE TURKISH LIRA

	US \$	D.M.	£	F.F.	S.F.	Austr. Schil.	B.F.	Dutch Guilder	Norwegian Kroner	Danish Kroner	Swedish Kroner	100 Italian Lire	Can. \$
<u>1970:</u>													
Aug. 10	14.85	4.09	35.94	2.69	3.46	0.58	0.30	4.13	2.09	2.00	2.89	2.39	13.95
<u>1974:</u>													
Jan. 1	14.00	5.25	32.30	3.04	4.34	0.72	0.35	5.03	2.46	2.23	3.07	2.28	14.10
Jan. 24	--	--	--	2.80	--	--	--	--	--	--	--	--	--
Feb. 6	--	--	--	--	--	--	--	--	--	--	--	2.14	--
May 14	13.50	--	--	--	--	--	--	--	--	--	--	--	--
Sept. 20	13.85	--	--	2.88	4.60	0.74	--	--	--	--	--	--	--
Sept. 30	--	--	--	--	--	--	--	--	--	--	--	--	--
Nov. 4	--	--	31.81	2.90	4.77	--	0.36	5.17	2.47	2.29	3.11	2.09	--
Nov. 27	--	5.65	--	2.93	5.21	0.79	0.37	5.40	2.59	2.40	3.25	2.04	13.85
<u>1975:</u>													
Jan. 13	--	5.77	32.45	3.13	5.38	0.81	0.39	5.56	2.67	2.44	3.40	2.12	--
Jan. 30	--	5.95	33.0	3.28	5.60	0.84	0.40	5.77	2.79	2.53	3.48	2.16	--
March 6	--	--	--	3.26	--	--	--	--	--	--	--	--	--
Apr. 17	14.00	--	--	--	--	--	--	--	--	--	--	--	--
May 13	--	--	--	3.41	--	--	--	--	--	--	3.52	2.21	--
June 21	--	--	32.32	3.48	--	--	--	--	2.85	2.57	--	--	--
July 4	--	--	32.05	--	--	--	--	--	--	--	--	--	--
July 8	14.25	--	--	--	--	--	--	--	--	--	--	--	--
Aug. 14	14.50	--	--	--	--	--	--	--	--	--	--	--	--
Aug. 28	14.75	--	--	--	--	--	--	--	--	--	--	--	--
Sept. 20	--	--	--	--	--	--	--	--	2.65	2.45	3.35	--	--
Oct. 28	15.00	--	--	--	--	--	--	--	2.65	2.45	3.35	--	--
Dec. 31	15.00	5.95	32.05	3.48	5.60	0.84	0.40	5.77	2.65	2.45	3.35	2.21	13.85
<u>1976:</u>													
Jan. 31	15.00	5.95	31.05	3.48	5.60	0.84	0.40	5.77	2.65	2.45	3.35	2.21	13.85
March 16	15.50	6.15	30.00	3.40	6.12	--	--	--	2.75	--	3.48	1.90	15.50
Apr. 2	16.00	6.40	29.90	3.35	6.35	0.88	0.41	5.96	2.91	2.64	3.65	--	16.25
Oct. 27	16.50	6.85	26.40	3.33	6.80	0.96	0.44	6.50	3.12	2.80	3.90	--	16.95
<u>1977:</u>													
March 1	17.50	7.30	30.00	3.50	6.80	1.03	0.48	7.00	3.32	2.98	4.14	1.98	16.70
Aug. 3	17.50	7.63	30.30	3.57	7.24	1.07	0.49	7.14	3.32	2.91	3.99	1.98	16.30
Sept. 21	19.25	8.27	33.55	3.90	8.06	1.16	0.53	7.80	3.50	3.11	3.93	2.17	17.91
Dec. 2	19.25	8.60	34.70	3.90	8.85	1.16	0.53	7.80	3.50	3.11	3.93	2.17	17.46

Since no free market conditions exist to reflect the real value of the Turkish lira, the only indicator is the fluctuations in the value of the TL in Istanbul, Frankfurt and Zurich markets according to limited supply and demand rules.

But these prices again do not reflect the real value of the TL because of limited supply and demand developments. They can only give an indication of the difference between the official and free market rate of the lira.

As of the end of 1977, the free market rates of major currencies in Istanbul were as follows:

	Official selling rate	Free market rate	Difference
US dollar	19.82	27.00	36.2
German mark	8.77	12.00	36.8
Swiss franc	9.02	12.50	38.6
French franc	4.01	5.25	30.9
Pound sterling	35.39	50.00	41.3

According to the Central Bank, the ups and downs of the TL in Zurich and Frankfurt money markets in 1977 have been as follows:

	Zurich(Swiss franc)		Frankfurt(German mark)	
	Official rate	Free market rate	Official rate	Free market rate
January	6.80	7.54	6.85	--
February	6.80	7.41	6.85	7.14
March	6.80	7.30	7.30	7.27
April	6.80	7.41	7.30	7.27
May	6.80	8.06	7.30	7.27
June	6.80	7.81	7.30	7.27
July	6.80	7.75	7.30	7.54
August	7.24	8.20	7.63	7.55
September	8.06	8.20	7.63	8.33
October	8.06	10.26	8.27	8.51
November	8.06	11.43	8.27	10.00
December	8.85	12.20	8.60	9.76

Gold prices in Turkey are also affected because of the changes in the value of the TL. But it would be wrong to claim that this is the only factor. Nevertheless, changes in the gold prices indicator can give an idea about the proportional changes.

GOLD PRICES IN TURKEY

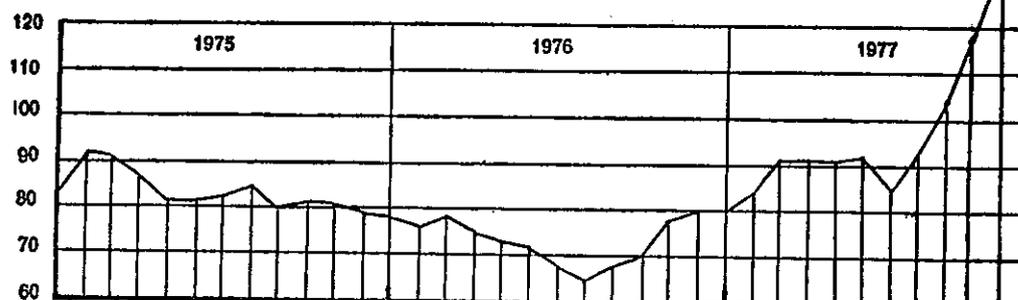
	<u>Ingot gram</u>	<u>Cumhuriyet coin</u>	<u>London market gram*</u>
1970	17.35	117.02	
1971	21.05	139.78	18.34
1972	27.65	183.08	26.24
1973	44.32	298.76	43.78
1974	73.67	509.28	68.93
1975	83.81	597.38	75.63
1976	73.97	518.23	63.38
1977**	134.93	999.44	84.77

(\*) Calculated on official rate by means of gram/TL

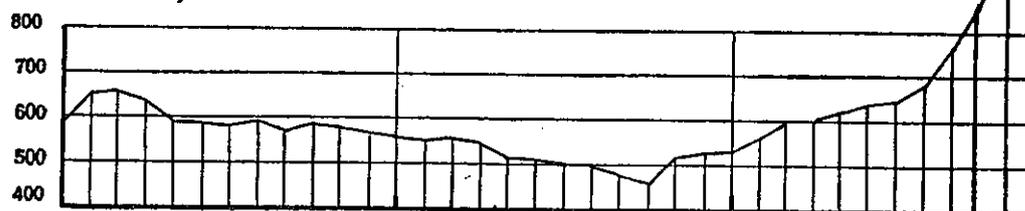
(\*\*) 1977 figures are 11-month figures. Others are yearly averages.

**GOLD PRICES**

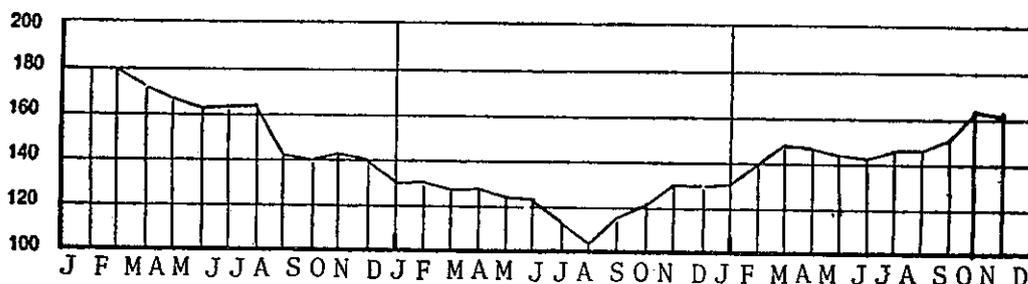
Gold ingot 1 gr.



Cumhuriyet coin 1 TL



London Market (1 ounce/\$)



Some interesting figures can be obtained if the dollar rate of the lira is computed on the basis of the gold prices.

THE DOLLAR RATE OF THE TL ACCORDING TO GOLD PRICES IN TURKEY

	1975			1976			1977		
	Off. rate	\$ against gold		Off. rate	\$ against gold		Off. rate	\$ against gold	
		ingot	coin		ingot	coin		ingot	coin
Jan.	13.85	14.44	16.25	15.00	18.64	21.27	16.50	19.08	20.03
Feb.	13.85	15.93	17.93	15.00	18.36	20.66	16.50	18.65	19.65
March	13.85	15.67	18.17	15.50	18.47	20.85	17.50	18.99	19.91
Apr.	14.00	15.54	18.17	16.00	18.23	20.73	17.50	19.41	20.30
May	14.00	15.04	17.15	16.00	17.98	20.02	17.50	19.75	21.24
June	14.00	15.22	17.62	16.00	17.96	20.12	17.50	20.10	22.21
July	14.25	15.58	17.39	16.00	18.24	21.09	17.50	18.25	21.89
Aug.	14.75	16.10	17.88	16.00	18.78	22.27	17.50	19.88	23.11
Sept.	14.75	17.51	19.84	16.00	18.91	21.33	19.25	20.92	24.46
Oct.	15.00	17.90	20.39	16.50	17.85	18.58	19.25	22.78	26.51
Nov.	15.00	17.61	19.92	16.50	18.68	19.56	19.25	25.75	30.36
Dec.	15.00	17.67	20.09	16.50	18.76	19.63			

c. The domestic price of the TL (interest rate)

The interest rates of the banks were last fixed in 1974, on October first.

Since 1970, changes in the interest rates have been as follows:

	Deposit interest rates		Credit interest rates		
	Sight deposit	Time deposit	Medium-term	Agriculture	Other
1.4.69	2.5	7.0		9.0	10.5
1.11.70	3.0	9.0	12.0	10.5	11.5
1.3.73	3.0	6.0	12.0	9.0	10.5
1.10.74	3.0	9.0	12.5	10.5	11.5

At a time when tax-free negotiable Treasury Bills carry an interest rate of 11% private sector is allowed to distribute 18% interest on the bonds it issues, to insist on a policy of allowing banks to give only 3% interest for sight deposits and 9% for time deposits is a misguided policy, especially when price increases have far exceeded 40%.

Similarly, credit rates have turned into a form of subsidy for those who make use of bank credits.

This is because interest has been used less intelligently as an instrument often in spite of rapid developments in the business world. The fact that interest rates have not been changed in the past three years by public institutions which are in a position to make use of the money-credit system is an important point that must be probed when examining the problems of the economy.

d. Implementation of the two-tier price system:

The most characteristic feature of the 1977 pricing policy has been the two-tier price system arrangement. Efforts by certain public institutions to fix prices arbitrarily, disregarding all economic facts, have led to the emergence of a double-price system.

-- While one US dollar costs the exporter TL35 because of the intricate credit-import mechanism, and while one dollar is sold and bought at TL25 on the free market, it is paradoxical to keep the price of the dollar at TL19 and then pay exporters and allocate foreign exchange on this basis.

-- With motor cars and accessories frequently sold at twice their normal price on the market, permitting the market margins to flow into the pockets of untaxed intermediaries, it is absurd to stop industrialists from reflecting their real cost increases on to their sales prices.

-- In an economy where the rate of inflation has reached 40%, to insist on a 3% interest rate to saving holders is muddled-headed and socially misguided.

-- While the prices of basic goods and services are growing at the expense of the middle and low-income groups, to insist on an unworkable and ineffective price control system for certain industrial goods is inconsistent.

-- Restricting the price adjustments of state economic enterprises to particular institutions and products and thus permitting losses by the SEE corresponding to 10% of the consolidated budget is an example of misguided policy implementation.

MONEY-BANKING-CREDIT

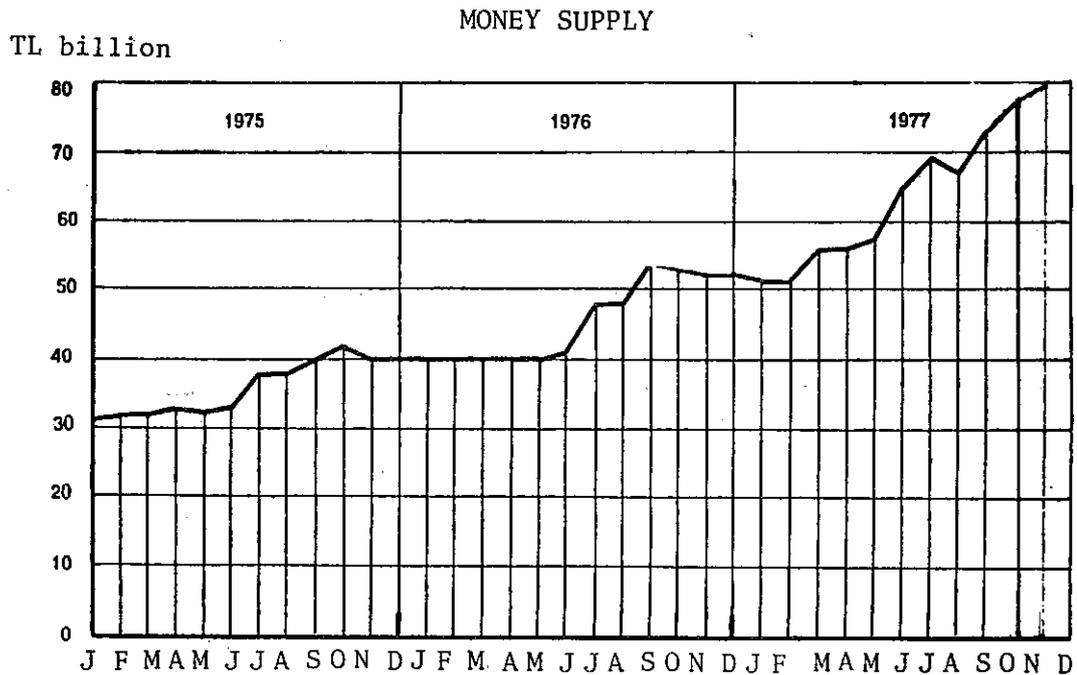
Money in circulation :

Since 1970, increases in money in circulation have been as follows:

	<u>Money supply</u> TL million	<u>Yearly</u> <u>Quantity</u>	<u>increases</u> <u>Percent</u>
1970	13,915		
1971	17,032	3,117	22.4
1972	20,055	3,023	17.7
1973	25,332	5,277	26.3
1974	32,860	7,528	29.7
1975	40,938	8,078	24.6
1976	52,061	11,123	27.2
1977*	80,139	28,078	53.9

(\* ) As of Dec. 2, 1977

The increase in money circulation in 1977 is largely attributed to credits extended by the Central Bank for public sector financing.



FACTORS AFFECTING THE VOLUME OF MONEY IN CIRCULATION

(TL million)

	1975 Dec.	1976 Dec.	1977 Nov.
Gold+foreign exchange reserve	- 6,733	+ 2,311	- 4,450
Credits	+ 8,940	+42,068	+71,926
-- Public sector	+ 9,892	+29,367	+56,319
-- Banks	- 952	+12,701	+15,607
Other assets	+32,355	+27,030	+14,242
Foreign exchange creditors	- 609	- 1,281	- 3,310
Deposits in Central Bank	-10,807	- 7,811	-10,674
Other liabilities	-15,068	-51,194	-39,656
Increase in money supply	+ 8,078	+11,123	+28,078

The increase in the volume of circulated money reached critical dimensions in the first quarter of 1977 and maintained this tempo until the end of the year despite stability measures.

(TL billion)

	1974	1975	1976	1977
Increase in first 6-month period	1.5	0.8	0.4	13.6
Increase in 12-month period	7.5	8.0	11.0	24.4*
Peak point during the year	34.8	42.7	56.0	80.1
Year-end figure	32.8	41.0	52.0	76.5*

(\*) As of Dec.16,1977

Money supply :

Developments in money supply have been as follows since 1970:

	Money supply TL million	Yearly increases	
		Quantity	%
1970	35,268		
1971	43,587	8,319	23.6
1972	53,253	9,666	22.2
1973	70,528	17,273	32.4
1974	90,045	19,517	27.7
1975	118,470	28,425	31.6
1976	151,505	33,035	27.9
1977*	196,666	45,161	29.8

(\*) As of Dec. 2,1977

The money supply increase in 1977, in contrast to the trends of the past years, assumed importance in the first half of the year and maintained this trend until the end of 1977.

Because actually-circulated money and deposit money saw a parallel increase, money supply rose to new heights at the end of the year.

	(TL million)		
	<u>Dec.1975</u>	<u>Dec.1976</u>	<u>Nov.1977</u>
Currently circulating money	32,905	42,466	67,809
Deposited money	85,565	109,039	128,857
Money supply	118,470	151,505	196,666

Deposits :

Bank deposits have grown as follows since 1970:

	Deposits/TL m.		Yearly increases		Yearly increases	
	<u>Savings</u>	<u>Total</u>	<u>Quantity</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>
1970	25,043	36,246	4,177	20.0	5,487	17.8
1971	33,229	48,476	8,186	32.7	12,230	33.7
1972	42,103	62,994	8,874	26.7	14,518	29.9
1973	53,678	80,392	11,575	27.5	17,398	27.6
1974	64,604	99,068	10,926	20.4	18,676	23.2
1975	82,866	132,374	19,262	29.8	33,306	33.6
1976	97,409	162,845	14,543	17.6	30,471	23.0
1976 Nov.	89,243	144,540				
1977 Nov.*	113,220	193,458	23,977	26.9	48,918	33.8

(\*) Provisional figures as of Dec.2,1977

The breakdown of bank deposits by type is as follows:

(TL million)

	Commercial sight deposits	Savings deposits	Other deposits	Total
1970	6,591	25,043	4,612	36,246
1971	8,704	33,229	6,543	48,476
1972	11,901	42,103	8,990	62,994
1973	16,030	53,678	10,684	80,392
1974	22,631	64,604	11,833	99,068
1975	32,095	82,866	17,413	132,374
1976	44,977	97,409	20,459	162,845
1977*	52,103	113,220	28,135	193,458

(\*) Provisional figures as of Dec.2,1977

The increase in bank deposits has come as an unexpected development, given that price increases escalated in 1977 and deposit interest rates were kept at their previous level.

Combined bank deposits (excluding inter-bank deposits) increased by 18.8% during the first eleven months of 1977 to reach TL 193.4 billion. The rate of annual increase in deposits covering the November 1976-November 1977 period was 33.8%. These data indicate that the deposit rate accelerated in 1977. The rate of increase in deposits during the first 11 months of 1976 was 9.2%.

Inter-bank deposits, which are mostly made up of convertible lira deposit accounts, are not included in the figures cited above. When CLD accounts, totalling \$1,991m as of Nov. 1977, are taken into account, total deposits in the 11 months of the year reach TL 232 billion.

At the end of 1977, consolidated deposits (excluding inter-bank deposits) were expected to amount to TL 220 billion, and total deposits TL260 billion.

An examination of deposit types reveals interesting facts. While commercial sight deposits increased by 46.6% during the Nov. 76 - Nov. 77 period, they rose by 15.8% in the first 11 months of 1977. In official deposits, such rates of increase were 42.4% and 37.5% respectively.

In saving deposits, the annual rate of increase was 26.9%, and the 11-month increase 16.2%.

The big increase in commercial deposits has come as a result of the banks' policy of producing deposits (the policy of holding deposits in proportion to the amount of credits) and recycling savings invested in private sector bonds and stocks, which returned to the banking system in the form of commercial deposits.

In saving deposits, the rates of sight and time deposits differ from each other. While sight deposits have increased very slowly, rates of increase in time deposits have been 16.2% annually and 9.9% for the 11-month period, which are relatively low.

The differentiation between the rates of increase of various types of deposits have also affected the composition and structure of bank deposits. In the past few years, while the percentage of savings deposits in overall deposits suffered setbacks, inter-bank deposits, composed of commercial deposits and CLD accounts, have increased. Until a few years ago, savings deposits accounted for two thirds of the total deposit volume, yet at the end of 1977 this rate was expected to have come down to 50%.

Another interesting development has been the decline of time deposits. Until a few years ago, time savings deposits accounted for 40% of the total savings deposits. Now this rate has declined to 30%.

In the past few years, savings deposits, especially time deposits, have declined considerably. This decline can be explained as the public's proclivity to buy high-interest rate, always negotiable Treasury bills and private-sector-issued bonds and shares, which carry high interest rates. Another factor is the public inclination to invest their money into precious stones and immovable assets, because of the high rate of inflation.

Bank credits:

Bank credits have developed as follows since 1970:

	Total Credits TL million	Yearly Increases Quantity	%
1970	37,005	3,823	11.5
1971	42,834	5,829	15.8
1972	55,993	13,159	30.7
1973	75,068	19,075	34.1
1974	95,749	20,681	27.5
1975	138,953	43,204	45.1
1976	183,762	44,809	32.2
1976 November	172,689		
1977 November*	216,748	44,059	25.5

(\*) Provisional figure as of Dec.2,1977

The latest available data on the breakdown of bank credits by sectors date back to October, 1976. Here is the sectoral breakdown of bank credits:

BREAKDOWN OF BANK CREDITS

	<u>TL.million</u>	<u>Percent</u>
PRODUCTION SECTOR	64,894	39.1
Industry	42,579	25.6
Industrial banks	6,302	3.8
Other banks	36,277	21.8
Mining - Other banks	998	0.6
Agriculture	15,426	9.3
Agricultural credit cooperatives	3,332	2.0
Other producers	12,094	7.3
Artisans and small craftsmen	5,891	3.6
HOUSING-PUBLIC WORKS SECTOR	12,962	7.8
Housing construction	2,278	1.4
Local administrations	4,542	2.7
Natural disasters ,for	1,331	0.8
Other constructions	4,811	2.9
PUBLIC FINANCIAL SECTOR	6	0.0
DISTRIBUTION SECTOR	49,923	30.0
Exports	26,202	15.8
Agricultural sales cooperatives	20,147	12.1
Other export credits	6,055	3.7
Tourism	666	0.4
Imports	7,529	4.5
Internal trade	15,526	9.3
UNDISTRIBUTED TO THE SECTORS	38,356	23.1
Credits less than TL 25,000	2,439	1.5
Mortgaged commercial credits	807	0.5
Others	35,110	21.1
CREDITS GRAND TOTAL	166,141	100.0

The breakdown of bank credits by banks is as follows:

BANK CREDITS (TL billion)

	<u>Dec.74</u>	<u>Nov.75</u>	<u>Dec.75</u>	<u>Nov.76</u>	<u>Dec.76</u>	<u>Nov.77*</u>
Total	95.7	128.9	138.9	172.7	183.8	216.7
Agriculture (Ziraat B.)	24.7	31.2	33.2	35.5	37.4	44.1
Industry(2 banks)	4.2	5.2	5.2	6.3	6.4	8.2
Small traders (Halk B.)	2.5	3.8	3.9	6.1	6.3	9.2
Under mortgage (5 banks)	3.9	4.2	4.5	5.0	5.4	6.0
Mixed credits	60.1	84.4	92.0	119.7	128.3	149.2

(\*) Provisional figures as of Dec.2,1977

Bank credits, which stood at TL 183,762m at the end of 1976, rose to TL 217 billion as of December 2,1977. The rate of increase has been 18% between the end of 1976 and Dec.2,1977, and 25½% annually. Considering that the rates of increases were 45.1% in 1975, 29.6% in 1976 and 24.3% in the Jan.-Nov. period of 1977, the rate of increase in 1977 has been comparatively slow.

The rapid increase in bank credits in 1975 and 1976 was attributable to the accumulation of CLD. As explained above, in the first 11 months of 1977, the slow-down in the flow of CLD led to a moderate increase in bank credits. On the other hand, the decision to increase the rate of additional provisions and the Treasury move to borrow from the banking system had a restrictive effect on the expansion of bank credits. Nevertheless, the rate of increase in bank credits is more than the rate of increase in consolidated deposits.

The rate of increase in "specialized credits" is higher than the rate of increase in miscellaneous credits and the general rate of increase in bank credits. In the first 11 months of 1977, while specialized credits rose by 21.7%, bank credits increased by 18% and miscellaneous credits by 16.3%. This is very different from developments in 1976. While increases in specialized credits were then too restricted (12.8% in the first 11 months, and 19.1% annually) miscellaneous credits rose more rapidly (30.1% for the first 11 months and 41.9% annually).

In the past few years, the increase in miscellaneous credits was largely due to the CLD accounts. And since CLD inflow slowed down last year, it also affected the breakdown of credits.

Credits extended by the Agricultural Bank, which showed considerable increases in 1974 and 1975, have also declined. Their proportional share in the total credit volume has gone down. Such credits accounted for 24% of the total credit volume in 1975, for 21.3% in 1976 and for 17.9% in the first 11 months of 1977.

Central Bank credits:

Central Bank credits have increased as follows since 1970:

	Credits* TL million	Yearly increases	
		Quantity	%
1970	14,565	1,645	12.7
1971	16,273	1,709	11.7
1972	19,534	3,261	20.0
1973	27,886	8,352	42.8
1974	45,816	17,930	64.3
1975	54,757	8,941	19.5
1976	96,825	42,068	76.8
1977**	168,750	71,925	74.3

(\*) Excluding credits used from additional provisions.

(\*\*) As of Dec.2,1977

Central Bank credits reached TL 182 billion as of Dec.1977. The public sector share of these credits has been as follows:

- TL 44.5 billion Treasury advance
- TL 26.8 billion special financing
- TL 44.9 billion direct credits
- TL 18.6 billion agricultural produce support credits.

These all add up to TL 136.8 billion.

This means that 75% of the Central Bank credits are available for public sector financing.

In the first 11 months of 1977, Central Bank credits rose by TL 72 billion (rate of increase 65%). Of this increase, 85% or TL 61.6 billion have been used for public sector financing.

CENTRAL BANK CREDITS (TL million)

	<u>1975</u>	<u>1976</u>		<u>1977</u>
	<u>Dec. 31</u>	<u>Nov.</u>	<u>Dec. 31</u>	<u>Dec. 2</u>
<u>TOTAL</u>	<u>65,825</u>	<u>106,891</u>	<u>110,293</u>	<u>182,219</u>
<u>Public sector</u>	<u>32,530</u>	<u>61,624</u>	<u>61,897</u>	<u>118,216</u>
-- Short term Treasury advance	16,761	22,953	21,739	44,517
-- State Monopoly Administration	2,180	7,000	7,000	15,300
-- State Soil Products Office	6,000	12,650	12,200	18,965
-- SUMERBANK				750
-- Sugar Company	1,371	2,740	3,577	5,911
-- Tea Company (CAYKUR)		1,000	1,100	3,224
-- Fish & Meat Agency (EBK)		1,290	1,298	2,200
-- Milk Ind. Corp. (TSEK)		148	237	493
-- Special financing (DYB)	6,050	13,738	14,641	26,833
1975 Budget Law art. 78	(6,050)	(5,826)	(5,826)	(5,682)
1976 Budget Law art. 63		(7,912)	(8,815)	(8,566)
1977 Budget Law art. 62				(12,585)
-- Others	168	105	105	23
<u>Banking sector</u>	<u>22,226</u>	<u>31,798</u>	<u>34,927</u>	<u>50,534</u>
-- Industry	3,158	7,142	7,562	15,172
-- Small crafts	441	1,179	1,202	2,457
-- Agriculture	790	2,791	2,531	3,077
-- Exports	14,133	15,607	16,700	22,367
TSIB exports	(11,971)	(12,255)	(13,320)	(18,683)
Other exports	(2,162)	(3,352)	(3,380)	(3,684)
-- Others	3,704	5,079	6,932	7,461
<u>From additional deposits</u>	<u>11,069</u>	<u>13,469</u>	<u>13,469</u>	<u>13,469</u>
-- Agricultural financing	4,000	6,400	6,400	6,400
-- Special financing (DYB)	7,069	7,069	7,069	7,069

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Source: Turkish Central Bank

Public sector utilization of Central Bank resources has risen nearly two-fold over the level of a year ago.

INCREASES IN CENTRAL BANK CREDITS (first 11 months)

	1976		1977	
	TL m.	%	TL m.	%
Short-term advance to the Treasury	6,192	36.9	22,778	104.8
Special financing	7,688	127.1	12,192	83.3
State Monopoly Adm.	4,820	221.1	8,300	118.6
State Soil Products Of.	6,650	110.8	6,765	55.5
Sugar Company	1,369	99.9	2,334	65.3
Fish&Meat Agency	1,000		902	69.5
Tea Company	1,290		2,124	193.1
Milk Ind. Corp.	148		256	108.0
Agricultural Sales Cooperatives	284	2.4	5,363	40.3
Others	- 63	-37.5	- 82	-78.1
<u>Total public credits</u>	<u>29,378</u>	<u>66.0</u>	<u>61,682</u>	<u>82.0</u>
Industry	3,984	126.2	7,610	100.6
Small crafts	738	167.3	1,255	104.4
Agriculture	2,001	253.3	546	21.6
Exports	1,190	55.0	304	9.0
Others	1,375	37.1	529	7.6
<u>Total special sector credits</u>	<u>9,288</u>	<u>90.6</u>	<u>10,244</u>	<u>47.4</u>
<u>Total credits</u>	<u>38,666</u>	<u>70.6</u>	<u>71,926</u>	<u>74.3</u>

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Source: TUSIAD Research Group

The banking sector's share of Central Bank credits rose to TL 50,000m from TL 35,000m in 1977. This may imply that the banking sector is increasingly making use of Central Bank funds. Yet on the other side of the coin: if what the Central Bank receives from the banking sector is also computed, a different picture emerges. In 1977, the Central Bank has received important amounts of funds from the banking sector for public needs.

In 1974, the Central Bank provided the banking sector with a TL 2.9 billion fund. But the situation was reversed in 1975, when the Central Bank received TL 4.2 billion from the banking sector, and again in 1976, when it received a further TL 6.9 billion. As of December 1977, the amount of funds received by the Central Bank from the banking sector stood at TL 36.6 billion.

WHAT THE CENTRAL BANK GIVES THE BANKING SECTOR AND WHAT IT RECEIVES

(TL million)

	1974	1975	1976	1977*
<u>Outflow</u>	23,845.4	26,083.1	39,364.2	55,984.0
Industrial & commercial bills	8,316.5	9,129.2	16,193.9	26,273.5
Agricultural bills	14,370.4	12,897.5	16,037.3	21,855.0
Advances on bonds	300.0	39.6	628.5	1,432.7
Advances on gold & foreign currency	0.5	0.2	0.1	0.2
Banks' liquidation fund	208.1	167.6	104.5	22.7
Agricultural financing	649.9	3,999.9	6,399.9	6,399.9
Bonds				
<u>Inflow</u>				
Counterpart of bank deposits	19,919.6	28,424.8	34,875.7	48,038.9
Import down payments	977.9	1,923.2	11,480.8	44,634.3
<u>Difference</u>	- 2,947.9	4,264.9	6,992.3	36,689.2

(\*) According to weekly balance sheet of the Central Bank (dated Dec.2,1977)

Capital Market :

The private sector issued following amounts of bonds and stock-shares in 1977 for public sale in quarterly intervals.

(TL million)

Quarterly periods	B o n d s			Stock Shares	
	1975	1976	1977	1976	1977
I	621.8	291.5	82.0	35.0	25.0
II	437.6	279.5	154.5	128.0	159.0
III	150.5	804.0	480.0	52.5	82.0
IV	221.0	262.5	666.5	75.0	..
Yearly total	1430.3	1637.5	1383.0	300.5	336.0*

(\*) Total of first 9 months.

In 1977, while bond supply declined by 15.5%, stockshares supply increased by 12%. Because of the steep price rises, demand for bonds slackened off.

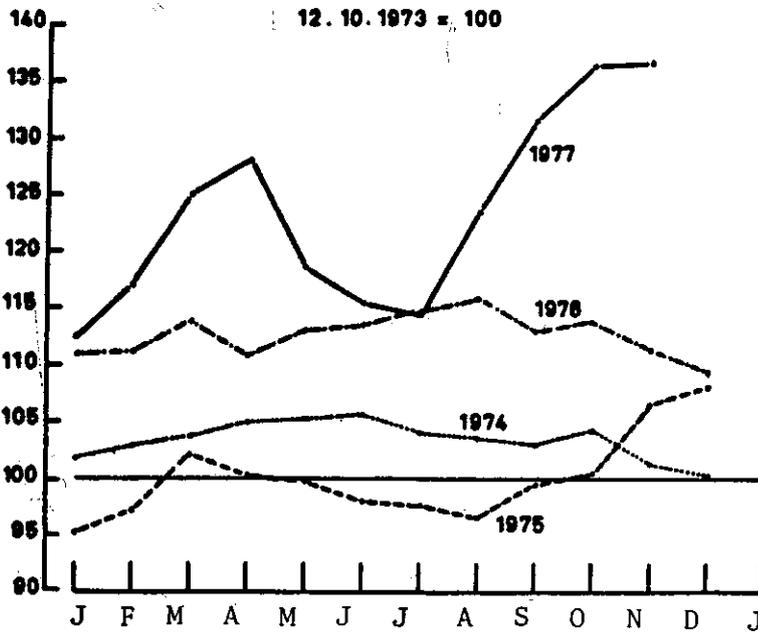
The liveliness in the secondary market during the early months of 1977, later stagnated towards the middle of the year, but again picked up in the second half and maintained this tempo until the end of the year. But the capital market stagnated towards the end of the year and price indices started to fall.

CAPITAL MARKET PRICE INDEX

(12.10.1973=100)

	1974	1975	1976	1977
January	101.97	95.32	110.72	112.26
February	102.84	97.16	111.13	117.37
March	103.66	102.02	113.07	125.47
April	104.92	100.31	110.80	128.39
May	105.10	99.32	113.40	118.07
June	105.27	97.08	113.63	115.42
July	103.79	97.54	114.71	114.66
August	103.67	96.52	115.09	123.51
September	102.96	99.50	112.94	131.84
October	104.22	100.53	113.93	136.56
November	101.30	106.58	111.59	136.74
December	100.19	108.04	109.67	
Yearly average	103.32	99.99	112.56	

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This index has been prepared according to the sales prices of the stockshares of 40 selected firms

PRODUCTION

Agricultural Production :

During the 1977 crop season, production of all agricultural produce, especially cereals maintained the level of the previous year.

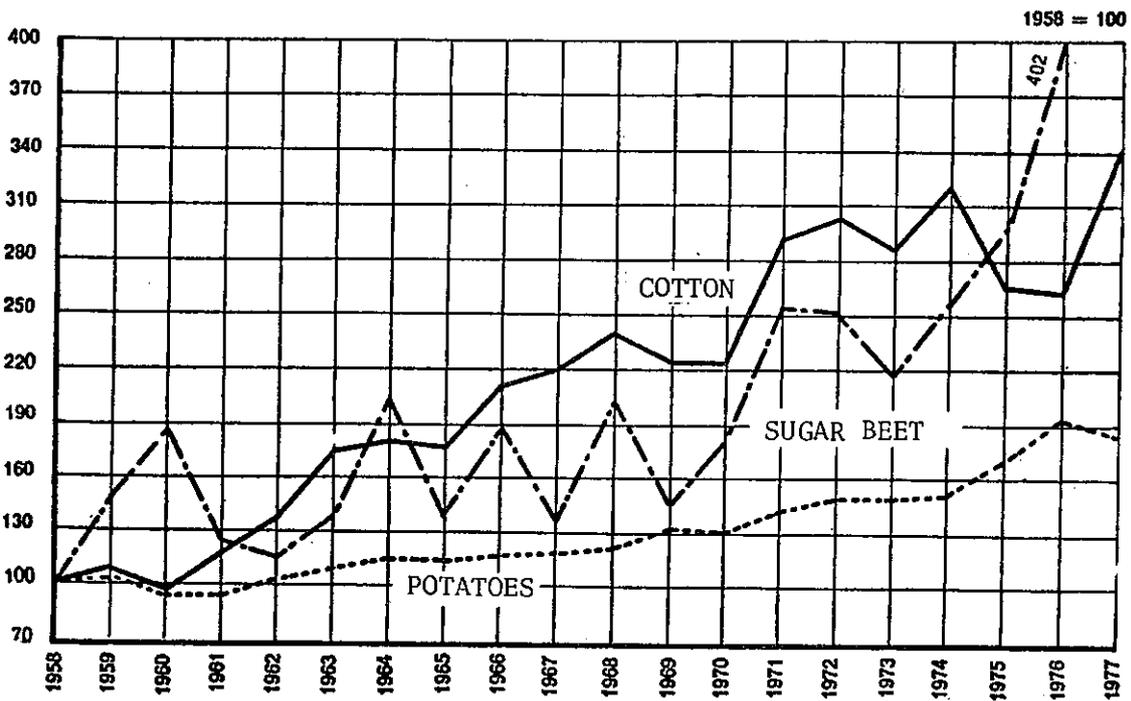
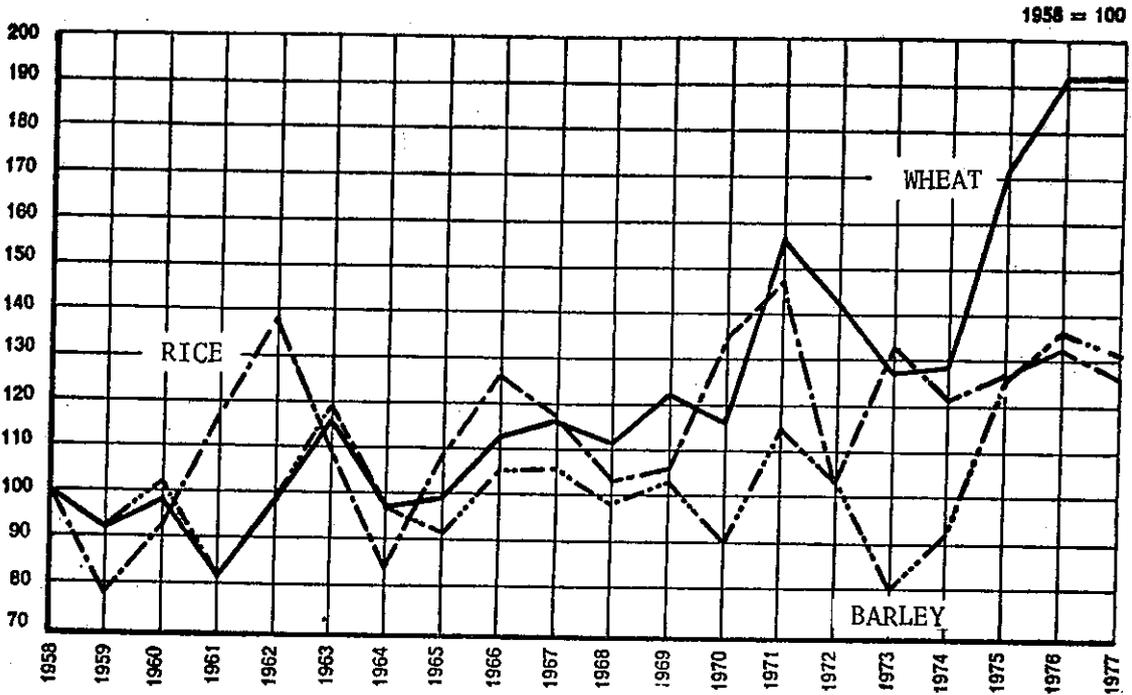
The fact that 1977 was a good harvest year has increased the importance of the issues that were turned over from the previous year on pricing policy, storage and export possibilities.

Agricultural products (1000 tons)

	<u>1975</u>	<u>1976</u>	<u>Chg.%</u>	<u>1977 Nov. Estimate</u>	<u>Chg.%</u>
<u>Cereals</u>					
Wheat	14,750	16,500	11.9	16,650	0.9
Barley	4,500	4,900	8.9	4,750	- 3.1
Rye	750	740	- 1.3	700	- 5.7
Oat	390	400	2.6	375	- 6.7
Maize	1,200	1,310	9.2	1,135	-13.4
<u>Pulses</u>	462	539	16.7	600	11.3
<u>Industrial plants</u>					
Cotton	480	475	- 1.0	600	26.3
Tobacco	193	314	62.7	254	-19.1
Sugar-beet	6,949	9,400	35.3	9,400	--
<u>Oil seeds</u>					
Sunflower	488	550	12.7	457	-16.9
<u>Others</u>					
Hazelnut	317	245	-29.4	273	11.4
Fig	175	188	7.4	208	10.6
Grapes	3,247	3,080	- 5.4	3,360	9.1
Olive	561	1,097	95.5	650	-40.7
Antep nut	31	5	-520.0	30	500.0

Source: SIS

# AGRICULTURAL PRODUCTION INDEX



### Industrial Production :

The latest available data on 1977 industrial production have indicated the following developments:

#### INDUSTRIAL PRODUCTION (tons)

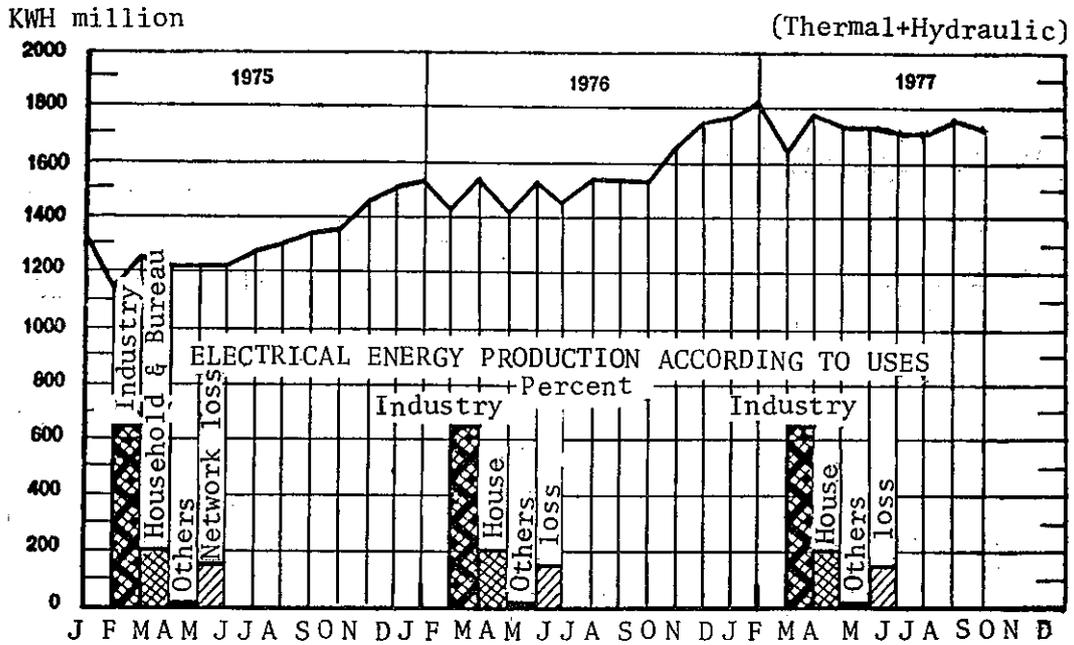
	<u>Jan.-Sept.</u>		<u>%</u>	<u>1976</u>
	<u>1976</u>	<u>1977</u>	<u>Chg.</u>	<u>Yearly</u>
<b>PRODUCTION INCREASES</b>				
Rolled products	648,600	758,600	17.0	1153,527
Pig iron (1)	72,220	87,557	21.2	141,092
Sheet (1)	96,854	147,408	52.2	190,372
Cement	9538,700	10,655,100	11.7	12,382,236
Glass & Bottles	67,838	68,901	1.6	129,627
Paper&cardboard (1)	108,481	125,089	15.3	216,250
Newsprint (1)	38,855	45,764	17.8	79,607
Electricity (million kwh)	13,215	15,175	14.8	18,270
Plate glass	91,900	130,500	42.0	134,000
Sugar	429,800	580,000	34.9	982,327
Cigarette (2)	30,797	34,601	12.4	52,954
Alcohol (1000 lt.) (2)	6,889	9,762	41.7	11,696
Cotton fabrics(1000 mt.)(1)	97,227	102,976	5.9	204,693
Blister copper	17,026	22,073	29.6	28,099
Lignite (1000 tons)	5,025	6,041	20.2	7,440
Gasoline	1449,200	1767,200	21.9	1939,989
Kerosene	345,800	414,000	19.7	521,308
Diesel oil	2574,300	2653,000	3.1	3221,398
Fuel oil	4332,900	4821,300	11.3	5809,606
LPG	253,100	303,300	19.8	344,000
Asphalt (1)	88,973	147,271	65.5	255,600
<b>PRODUCTION DECLINES</b>				
Unprocessed iron	1118,700	858,700	23.2	1518,000
Steel ingot	1069,800	1025,400	4.2	1457,213
Coke (3)	1258,000	916,000	27.2	1936,404
Chemical fertilizers	2139,800	2084,200	2.6	2940,550
Woollen fabrics (1000 mt.)(1)	4,017	2,832	29.5	7,614
Boron minerals (1)	329,621	242,618	26.4	619,404
Crude oil	1972,400	1949,500	1.2	2568,346

(1) Jan.-June period

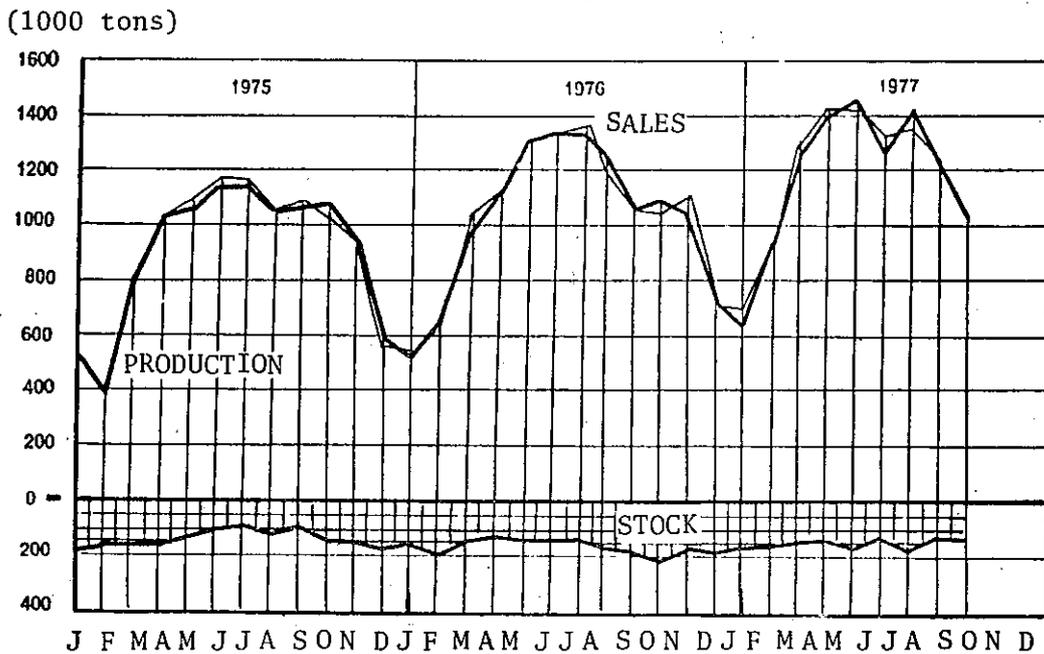
(2) Jan.-July period

(3) Jan.-Aug. period

## GROSS ELECTRICITY ENERGY PRODUCTION & CONSUMPTION



## CEMENT



According to these figures, production increases continued in 1977 except in the coke, wrought iron, crude oil, boron minerals, artificial fertilizers and wool industries.

Facts and figures made available by the State Economic Enterprises for the first nine months of 1977 indicate that their production levels increased in 1977.

9-MONTH PRODUCTION VALUES IN SEEs (Jan.-Sept.)

	Current 1976	Fixed 1977	1976/77
Etibank	2,085,608	2,944,446	+41.2
Turkish Electricity Authority	4,334,000	5,080,500	+17.2
Turkish Coal Board	1,350,126	1,369,469	+ 1.4
Turkish Sugar Company	6,648,777	6,547,140	- 1.5
Turkish Cement Industry Corp.	1,525,412	1,666,756	+ 9.3
Turkish Iron&Steel Works	2,768,696	2,922,285	+ 5.5
TPAO (including crude oil)	7,626,034	8,603,270	+12.8
SEKA	1,853,959	2,030,052	+ 9.5
Eregli Iron&Steel Works	2,748,738	3,222,813	+17.2
Turkish State Monopoly	10,037,048	12,314,964	+22.7
IPRAS refinery	6,113,744	7,336,576	+20.0
PETKIM	824,858	1,466,221	+77.7
Sumerbank	2,451,459	2,308,425	- 5.8
Turkish Nitrogen Ind.	1,051,056	930,214	-11.5
<b>TOTAL</b>	<b>51,419,515</b>	<b>58,743,134</b>	<b>+14.3</b>

(\*) While sugar production figures indicate a 34.9% increase, the decline reported by the Turkish Sugar Industries Corp. raises the question whether some errors have been made in the computation of these figures.

Facts and figures have not yet been made available on the production of the private sector manufacturing industry in 1977.

But production of the private sector manufacturing industry has considerably declined because of two main factors.

These factors, in order of importance, are:

-- strikes and lockouts have almost paralysed the metal goods sector

-- because of foreign currency shortage, imports of raw materials and intermediary goods have adversely affected and in some cases delayed.

According to figures supplied by MESS (The Metal Goods Industry Employers' Federation), strikes in the metal goods industry, in 29 plants involving 11,000 workers, have resulted in a loss of 21.5m worker-hours. Translated, this means a production loss of TL 9,998m. Strikes in this sector have affected the production of TV sets, refrigerators, ovens, enamel-ware, automotive industry goods, allied industry goods, aluminium-ware, telecommunications equipment, bobbins, cables, wires, fittings, boilers, heating apparatus, machinery and casting goods.

For this reason, while total industrial production may show an increase in 1977, production in manufacturing industry must have declined.

National income estimates given by the State Institute of Statistics for the third quarter of the year, indicate that the contribution of the manufacturing industry to the national income has declined to 14.1% in 1977 from 14.6%.

The shares of important activity branches in the national income has changed as follows since 1973: (The following changes have occurred since 1973 in the share of national income contributed by various important job categories):

THE STRUCTURE OF DEVELOPMENT IN TURKEY (Current prices)(%)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
GNP	100.0	100.0	100.0	100.0	100.0
GDP	85.7	86.6	87.4	88.8	89.0
Agriculture	23.6	24.7	25.4	26.3	23.6
Industry	17.2	18.0	17.5	17.2	17.5
-- Manufacturing industry	14.9	15.5	14.9	14.6	14.1
Construction	4.8	4.4	4.6	4.6	4.9
Commerce	11.3	12.2	12.0	12.1	12.0
Communication&Transportation	8.2	8.3	8.1	8.1	8.0

The general structure of production in the Turkish manufacturing industry is as follows:

<u>THE PROPORTIONAL SHARES OF SECTORS PRODUCING CONSUMER GOODS, INTERMEDIATE GOODS AND CAPITAL GOODS (%)</u>			
<u>PRODUCTION</u>	<u>1950</u>	<u>1963</u>	<u>1976</u>
Consumer goods	76.0	59.4	47.7
Intermediate goods	18.0	27.3	36.2
Investment goods	6.0	13.3	16.1
<u>ADDED VALUE</u>			
Consumer goods	72.8	51.6	35.6
Intermediate goods	18.6	33.1	47.0
Investment goods	8.6	15.3	17.4

Source : Ugur Korum, Turkish Manufacturing Industry and Import Substitution p.61 - Table IV.13  
 SPO 1977 Programme- p.110 - Table 57.  
 SIS 1975, Results of the manufacturing industry survey.

The proportional importance of the private sector in manufacturing industry has shown the following trend:

	<u>Employment</u>		<u>Production</u>	
	<u>1950</u>	<u>1975</u>	<u>1950</u>	<u>1975</u>
Sectors producing consumer goods	52.6	62.5	47.9	65.0
Sectors producing intermediate goods	58.2	64.1	63.7	48.1
Sectors producing investment goods	14.1	75.4	26.4	87.6
Total manufacturing industry	48.6	65.0	49.5	62.5

Source: State Institute of Statistics (SIS)



FOREIGN TRADE

Turkey's foreign trade figures since 1970:

(TL million)

	<u>Imports</u>	<u>Exports</u>	<u>Foreign trade deficit</u>
1970	947	588	- 359
1971	1,171	677	- 494
1972	1,562	885	- 677
1973	2,086	1,317	- 769
1974	3,777	1,532	- 2,245
1975	4,738	1,401	- 3,337
1976	5,128	1,960	- 3,168
1977*	5,128	1,487	- 3,730

(\*) 11-month figures

According to the latest available data, Turkey's imports amounted to \$5,218m as of the end of Nov.1977, and exports \$1,487m, resulting in a trade deficit of \$3,731m. Year-end imports were expected to reach \$5,580m and exports \$1,700m with a trade deficit of \$3.380m.

FOREIGN ECONOMIC RELATIONS (Jan.-Nov. (\$'000))

	<u>1976</u> <u>Yearly</u>	<u>J a n u a r y - N o v e m b e r</u>		
		<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>I. FOREIGN TRADE RELATIONS</u>				
<u>A. Imports</u>				
Total imports	5128,647	4366,293	4655,309	5218,565
1. Main imports	4993,124	4275,355	5530,742	5129,980
2. Imports with waiver	135,523	90,938	124,567	88,585
<u>B. Exports</u>				
Total exports	1960,214	1231,522	1750,816	1487,088
1. Agriculture & Husbandry	1254,407	684,000	1111,478	865,055
2. Mining	110,016	96,702	110,118	95,371
3. Industry	595,791	450,820	539,220	526,662
<u>C. Foreign trade deficit</u>				
	3168,433	3134,771	2904,493	3731,477
<u>II. WORKERS MOVEMENTS</u>				
<u>1. Workers' remittances</u>				
	982,743(1)	1212,960(2)	886,754(3)	906,621(4)
<u>2. Workers leaving for foreign countries (person)</u>				
	10,558	3,744	9,087	17,088
<u>III. TOURISM &amp; TRAVEL</u>				
<u>1. Revenues</u>				
(Jan.Sept.)	162,248	150,932	127,829	162,770
<u>2. Expenditures</u>				
(Jan.-Sept.)	165,212	96,597	113,757	201,371
3. Difference	- 2,964	54,335	14,072	-38,601

(1) \$524,348,915 received by banks other than the Central Bank

(2) \$266,037,084 received by banks other than the Central Bank

(3) \$473,609,586 received by banks other than the Central Bank

(4) \$530,301,981 received by banks other than the Central Bank.

## Exports:

Exports in 1977 have fallen 30% short of the programme target, or \$785m less than what had been planned. 1977 exports are \$260m or 13% less than 1976 exports.

Export revenues in the first 11 months of 1977 are \$264m less than the level of a year ago. The difference is due to the following differentiation:

### DIFFERENTIATION IN EXPORT COMMODITIES IN JANUARY-NOVEMBER PERIOD

	<u>1977/76 (%)</u>	<u>\$ million</u>
<b>Decreasing exports</b>		
Tobacco	-38.0	-85.9
Cotton	-58.3	-238.3
Antep nut	-96.0	-11.8
Lemon	-32.2	- 8.8
Chromium ore	-51.5	-26.5
Chemical ind.prods.	-31.3	-13.2
Cotton yarn	- 6.9	- 9.7
<b>Increasing exports</b>		
Cereals	+91.3	+29.4
Raisin	+36.6	+16.3
Dried figs	+37.0	+ 5.6
Hazelnut	+33.8	+56.6
Other fresh fruits	+108.2	+ 6.5
Raw borates	+79.3	+20.5
Food ind.prods.	+90.3	+48.5
Ready-wear garments	+12.6	+ 5.7

### DEVELOPMENT OF PRICES IN EXPORTS DURING JANUARY-NOVEMBER PERIOD

	<u>1977 exports with 1976 prices (\$000)</u>	<u>1977 exports with 1977 prices (\$000)</u>	<u>%</u>
Tobacco	162,419	140,298	-13.6
Cotton	131,171	170,735	30.2
Dried figs	25,725	20,994	-18.4
Raisins	41,719	60,677	45.4
Hazelnuts	207,699	223,767	7.7
Citrus fruits	13,647	15,487	13.5
Lemons	18,958	18,692	- 1.4
Other fresh fruits	11,585	12,508	7.9
Vegetables	8,147	9,888	21.4
Magnesite	9,109	11,608	27.4
Raw borates	43,085	46,514	7.9
Chromium ore	22,907	24,946	8.9
Zinc	1,973	1,480	-25.0
Cotton yarn	105,126	132,182	25.7

EXPORTS BY MAJOR COMMODITIES

	Yearly 1976		Jan. - Nov. 1977	
	tons	\$000	tons	\$000
I. AGRICULTURE AND ANIMAL HUSBANDRY SECTOR		1254,407		865,055
A. Plants		1174,072		817,264
a. Cereals		37,690		61,647
b. Pulses		32,890		30,596
c. Industrial plants		713,048		333,610
-- Tobacco	75,173	251,291	48,574	140,298
-- Raw cotton	380,742	434,245	117,265	170,735
-- Linters	33,005	3,852	23,244	3,021
-- Others		23,660		19,556
d. Fruits&vegetables		375,278		375,094
-- Dried figs	28,535	20,614	36,030	20,994
-- Raisins	98,882	52,629	78,653	60,677
-- Hazelnuts	138,384	203,761	140,743	223,767
-- Antep nuts	4,445	13,104	84	479
-- Other hard shelled fruits	4,289	6,103	1,634	3,346
-- Orange, tangerines	55,986	15,943	48,677	15,487
-- Lemons	98,762	30,789	59,267	18,692
-- Other citrus fruits	6,727	1,114	4,206	600
-- Other fresh fruits	16,003	6,551	28,550	12,508
-- Others	7,102	9,240	5,705	8,656
-- Vegetables	59,542	16,030	32,336	9,888
e. Seeds & oil seeds		14,531		15,708
f. Other plants		635		609
B. Animals & Animal products		62,723		33,650
a. Livestocks		31,237		18,271
b. Wool, animal hair		26,301		11,186
c. Raw skins		4,830		3,886
d. Other animal products		355		307
C. Fishery products		12,263		10,157
a. Edible fishery products		9,329		7,049
b. Other fishery products		2,934		3,108
D. Forestry products		5,349		3,984

	Yearly 1976		Jan. - Nov. 1977	
	tons	\$000	tons	\$000
II. MINING & QUARRYING SECTOR		110,016		95,370
A. Non-metallic products		48,211		65,612
-- Magnesite	55,595	7,757	66,183	11,608
-- Raw borates	426,789	29,762	603,614	46,514
-- Others		9,576		7,490
B. Mining ores		61,711		29,694
-- Chromium ore	608,435	54,943	250,577	24,694
-- Zinc ore	25,958	2,206	17,716	1,480
-- Others		3,962		3,268
C. Fuels		48		64
III. INDUSTRY SECTOR		595,791		526,663
A. Agriculture-based processed products		98,418		122,601
a. Food ind.prods.		65,795		102,294
b. Food industry by-prods.		20,953		13,980
c. Processed tobacco prods.		8		8
d. Processed forestry prods.		4,235		2,350
e. Textile fibres		7,427		3,969
B. Processed petroleum prods.		16,161		7
C. Industrial products		481,212		404,055
a. Cement ind.prods.		16,298		8,438
b. Chemical ind.prods.		44,173		28,990
c. Rubber-plastics ind.prods.		2,567		2,577
d. Leather&hide processing ind.prods.		59,895		47,583
e. Forestry products ind.		1,387		249
f. Textile ind. prods.		265,269		235,843
g. Glass&ceramics ind.		20,884		24,297
h. Iron&steel ind.		22,111		9,775
i. Non-ferrous metals		16,888		19,402
j. Metal goods ind.		4,393		4,542
k. Machinery mfg. ind.		12,064		7,906
l. Electrical appliances ind.		1,095		2,260
m. Motor vehicles ind.		9,330		8,994
n. Other industrial prods.		4,858		3,199
GRAND TOTAL		1960,214		1487,088

The breakdown of exports in January-October period, according to countries and regions is as follows:

	January - October				
	1976		1977		Inc. %
	\$000	%	\$000	%	
I. OECD countries	1209,289	46.8	920,581	69.4	-23.9
A. EEC countries	752,863	46.8	661,222	49.8	-12.2
a. Original 6 members	632,430	39.3	579,812	43.7	- 8.3
-- W. Germany	288,896	18.0	294,426	22.2	+ 2.0
-- Belgium+Luxembourg	65,658	4.1	37,796	2.8	-42.4
-- France	85,430	5.3	68,764	5.2	-19.5
-- Netherlands	49,456	3.1	41,339	3.1	-16.4
-- Italy	142,487	8.8	137,487	10.4	- 3.5
b. New 3 members	120,433	7.5	81,410	6.1	-32.4
-- Denmark	9,436	0.6	6,728	0.5	-28.7
-- U.K.	108,482	6.7	70,115	5.3	-35.4
-- Ireland	2,512	0.2	4,567	0.3	81.8
B. Other OECD countries	456,426	28.4	259,359	19.6	-43.2
-- USA	168,671	10.5	77,843	5.9	-53.8
-- Japan	34,047	2.1	28,022	2.1	-17.7
-- Switzerland	155,820	9.7	83,445	6.3	-46.5
-- Other countries	97,888	6.1	70,049	5.3	-28.5
II. BILATERAL AGREEMENT COUNTRIES	67,587	4.2	57,630	4.3	-14.7
-- USSR	67,470	4.2	57,592	4.3	-14.7
-- Albania	117	--	38	--	--
III. FREE CURRENCY AREA	237,348	14.7	273,282	20.6	+15.2
A. Eastern European countries	71,521	4.4	74,827	5.6	+ 4.6
B. RCD countries	28,478	1.8	40,396	3.1	+41.8
C. Other countries	137,349	8.5	158,059	11.9	+15.1
IV. OTHER COUNTRIES	94,603	5.9	75,384	5.7	-20.0
TOTAL	1608,827	100.0	1326,877	100.0	-17.5

## Imports

In the first ten months of 1977, import payments rose \$563m over the level of a year ago. The following increases in import items contributed to this rise:

### DIFFERENCES IN IMPORT PRODUCTS (Jan.-Nov. period)

	<u>1977/76 (%)</u>	<u>\$ million</u>
Decreasing imports		
Soya bean oil	-19.4	-28.8
Oil and fats	-85.6	-48.9
Textile industry products	-14.8	- 7.9
Increasing imports		
Crude oil	+14.0	+130.4
Coffee	+32.3	+ 5.4
Fuel oil	+122.1	+126.7
Fertilizer	+239.2	+139.5
Rubber-plastics	+42.1	+63.7
Iron&steel	+24.4	+119.5
Motor vehicles	+10.5	+50.4

In the January-October period, no important price increases were observed in Turkey's basic import items. But towards the end of the year, increases were expected to a certain extent in the prices of some goods because of the very nature of the Imports on Credit system.

According to the latest available data, Turkey has been losing its price advantage in the past three years. Turkey's foreign trade rate has gone down to 81.6%.

Foreign trade rate means the ratio of the export price index to the import price index. And the more it goes down from (100), the more it means that the exporting country is losing its price advantage. Because of the world economic crisis of 1972-1973, Turkey was in a most advantageous position for two years, but later lost this position after 1974.

IMPORTS BY MAJOR COMMODITIES

	Yearly 1976		Jan. -Nov. 1977	
	tons	\$000	tons	\$000
<b>I. AGRICULTURE &amp; ANIMAL HUSBANDRY SECTOR</b>				
		77,307		94,080
-- Rice	19,995	4,086	25,500	6,075
-- Merino wool	8,680	19,700	12,088	36,473
-- Skins	3,284	3,214	4,495	5,443
-- Coffee	9,979	16,776	4,162	22,200
-- Cocoa	1,836	3,195	1,029	3,070
-- Others		30,336		20,819
<b>II. MINING &amp; QUARRYING SECTOR</b>				
		1086,525		1151,106
-- Crude oil	11,512,726	1002,470	10,931,594	1066,666
-- Coke	19,790	2,153	19,714	2,274
-- Others		81,902		82,166
<b>III. INDUSTRY SECTOR</b>				
		3829,294		3884,793
1. Agriculture-based processed products				
		146,689		56,343
-- Butter	100	156	496	496
-- Other oils&fats	93,288	59,614	17,751	8,219
-- Textile fibres	21,649	21,367	10,738	12,185
-- Fats	15,876	7,326	7,681	3,246
-- Soya bean oil	62,256	35,699	10,935	6,928
-- Others		22,521		25,269
2. Petroleum products				
		104,086		243,059
-- Fuel oil	653,674	45,947	1111,327	87,382
-- Lubricants	35,661	9,806	84,784	23,368
-- Petroleum gases	229,167	31,901	184,656	30,020
-- Others		16,432		25,269
3. Industrial products				
		3578,519		3585,391
-- Cement		113		167
-- Chemical ind.prods.	2667,681	651,611		699,285
-- (Fertilizers)	913,466	79,074		214,971
-- Rubber-Plastics	208,363	182,907		188
-- Leather&hide ind.prods.	54	462		2,063
-- Forestry products ind.	1,375	2,363		45,796
-- Textile ind.prods.	34,723	58,363		22,275
-- Glass&ceramics ind.prods.	50,396	24,765		609,781
-- Iron&steel	1870,993	345,729	2236,937	89,279
-- Non-ferrous metals	80,542	89,488		14,488
-- Metal goods ind.prods.	4,284	27,641		961,367
-- Machinery mfg.ind.	220,697	1069,791		265,347
-- Electrical appliances	46,702	274,151		529,577
-- Motor vehicles ind.	132,115	517,769		130,807
-- Other industry sectors		134,225		
<b>TOTAL</b>		<b>4640,398</b>		<b>5129,979</b>
<b>IV. IMPORTS WITH WAIVER</b>		<b>98,161</b>		<b>88,585</b>
<b>GRAND TOTAL</b>		<b>4738,559</b>		<b>5218,565</b>

FOREIGN TRADE PRICES (in dollars)

	<u>Export Prices</u>	<u>Import Prices</u>	<u>Foreign trade Limits</u>
1968	100.0	100.0	100.0
1969	100.5	101.4	99.1
1970	99.2	102.5	96.8
1971	106.6	109.2	97.6
1972	116.8	112.5	103.8
1973	145.3	136.6	106.4
1974	191.5	226.4	84.6
1975	192.0	252.6	76.0
1976	197.8	242.3	81.6
Quarterly periods			
1977-I	198.5	255.2	77.8
-II	217.4	261.7	83.1

While imports with waiver were expected to climb dramatically in 1977, facts and figures released by official sources have indicated a trend just the opposite --a development which is quite interesting.

IMPORTS WITH WAIVER AND GRANTS (Jan.-Sept. period)

	<u>Units</u>	<u>1976 \$000</u>	<u>Units</u>	<u>1977 \$000</u>
Tractors	4,312	22,817	4,275	20,481
Cars	14,019	48,792	5,551	20,123
TV sets	8,678	1,651	4,194	1,299
Buses	3	80	12	65
Trucks	8	59	13	172
Modern processing machinery	1,204	1,616	1,400	2,615
Excavators	447	1,254	341	1,141
Textile&knitting machinery	1,337	1,634	1,390	1,373
Others		12,003		16,597
Grants		10,637		4,813
TOTAL		104,274		73,944

BREAKDOWN OF IMPORTS BY COMMODITY GROUPS (\$ million)

	Yearly		Jan.-Nov.		1977/76 % Chg.
	1975	1976	1976	1977	
Investment goods	1,961.1	2,239.1	2,048.1	2,061.6	0.6
-- Construction materials	291.4	242.5	224.8	189.7	-15.6
-- Machinery&equip.	1,669.7	1,996.6	1,823.2	1,871.9	2.7
Consumer goods	203.2	156.4	141.8	155.9	9.9
Raw materials	2,574.4	2,733.1	2,465.5	3,000.0	21.7
Total	4,738.7	5,128.6	4,655.3	5,218.6	12.1

BREAKDOWN OF IMPORTS ACCORDING TO FINANCING SOURCES (\$ 000)

(January-November period)

	1975 \$000	1976 \$000	1977 \$000	1977 % Breakdown	1977 % Increase
Liberalized items					
list	2688,413	2988,160	3657,393	70.1	22.4
Quota list	1066,460	1037,057	1062,242	20.4	2.4
Bilateral agreement					
countries	155,341	86,646	48,626	1.0	-44.0
Programme imports	3910,214	4111,866	4768,261	91.4	15.9
NATO infrastructure	36,396	14,985	38,514	0.7	157.0
Private foreign					
capital	138,885	23,887	39,243	0.8	64.3
Project credits	188,755	379,598	269,919	5.2	-28.9
Surplus imports					
Imports with waiver	90,938	124,566	88,585	1.7	-29.0
a) With waiver	(87,242)	(112,877)	(81,733)	1.6	-27.6
b) Grants	(3,697)	(11,689)	(6,852)	0.1	-41.4
Others	1,105	407	14,049	0.3	245.2
Total	4366,293	4655,309	5218,565	100.0	+12.1

BREAKDOWN OF IMPORTS BY REGIONS (January-October)

	1976		1977		Inc.
	\$000	%	\$000	%	%
I. OECD COUNTRIES	2889,498	69.1	3402,962	69.9	17.8
A. EEC countries	1915,806	45.8	2133,276	43.8	11.4
a. Original 6 members	1565,078	37.4	1757,425	36.1	12.3
-- W. Germany	777,768	18.6	817,290	16.8	5.1
-- Belgium+Luxembourg	81,066	1.9	139,454	2.9	72.0
-- France	248,253	5.9	282,532	5.8	13.8
-- Netherlands	132,750	3.2	132,309	2.7	- 0.4
-- Italy	325,241	7.8	385,840	7.9	18.6
b. New 3 members	350,728	8.4	375,851	7.7	7.2
-- Denmark	13,770	0.3	13,122	0.3	- 4.7
-- U.K.	336,184	8.1	358,543	7.3	6.6
-- Ireland	774		4,186	0.1	440.1
B. Other OECD countries	973,692	23.3	1269,686	26.1	30.4
-- USA	352,836	8.4	411,883	8.5	16.7
-- Japan	173,336	4.2	264,056	5.4	52.3
-- Switzerland	222,981	5.3	288,045	5.9	29.2
-- Other countries	224,539	5.4	305,702	6.3	36.1
II. BILATERAL AGREEMENT COUNTRIES	79,416	1.9	59,343	1.2	-25.0
-- USSR	79,416	1.9	56,638	1.1	-28.7
-- Albania			2,705	0.1	
III. FREE CURRENCY AREA	1106,731	26.5	1271,997	26.1	14.9
A. Eastern European countries	178,755	4.3	201,930	4.2	12.9
B. RCD countries	95,716	2.3	157,908	3.2	64.9
C. Other free currency area countries	832,260	19.9	912,159	18.7	9.6
IV. OTHER COUNTRIES	106,415	2.5	134,797	2.8	26.7
TOTAL	4182,060	100.0	4860,099	100.0	16.4

NATIONAL INCOME

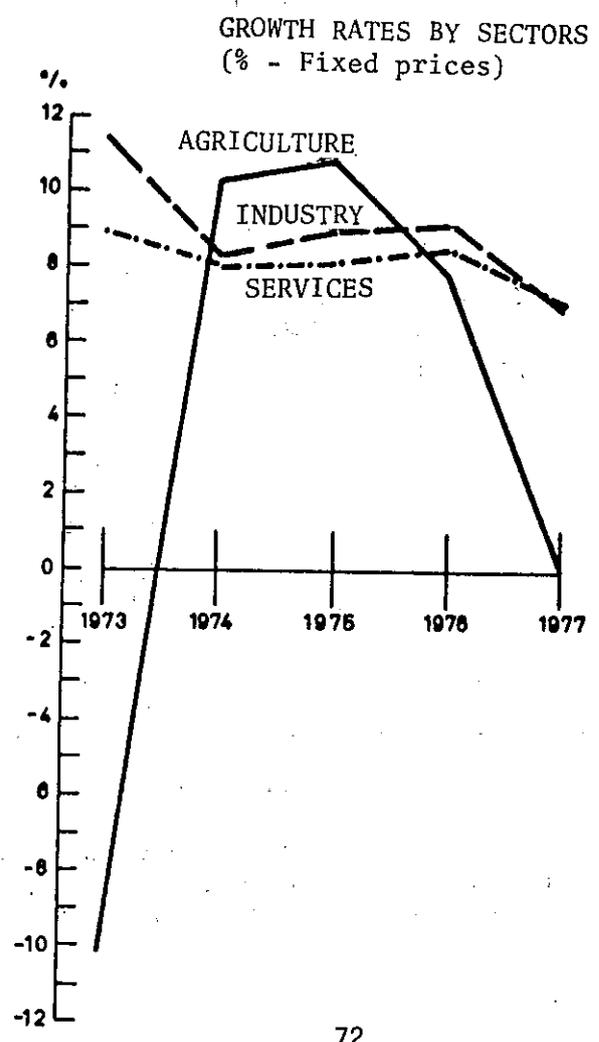
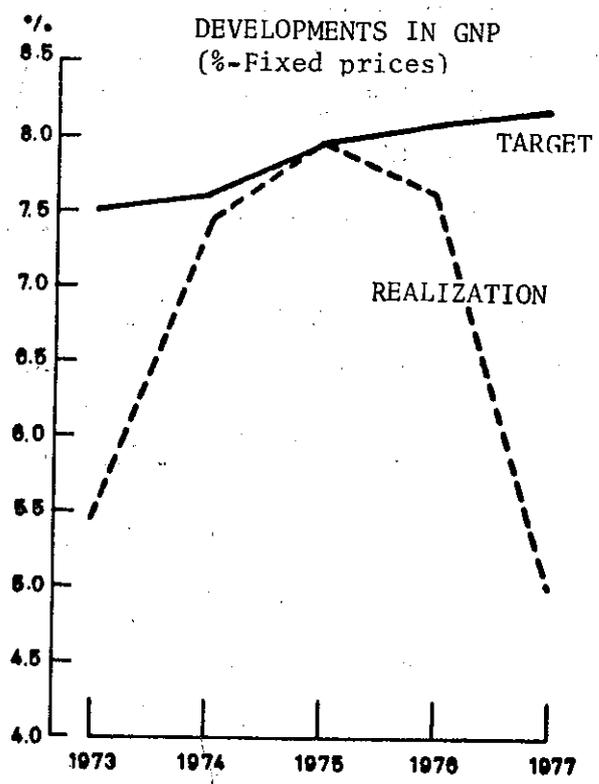
The latest national income estimate for 1977 has been prepared according to 9-month data provided by the State Institute of Statistics, made public on Nov. 15, 1977. This is the second preliminary estimate of national income for 1977.

The following table gives figures on GNP based on current and fixed producers' prices:

GROSS NATIONAL PRODUCT ACCORDING TO PRODUCTION ACTIVITIES  
(By producers prices) (TL million)

	<u>Current</u> <u>1976</u>	<u>Current</u> <u>1977</u>	<u>Rate</u> <u>%</u>	<u>Fixed</u> <u>1976</u>	<u>Fixed</u> <u>1977</u>	<u>Rate</u> <u>%</u>	<u>D e -</u> <u>flator</u>
Agriculture	180,121.9	197,586.3	9.7	44,025.1	44,056.6	0.1	109.6
Industry	138,829.5	174,367.4	25.6	48,386.9	51,749.7	6.9	117.5
Manufacturing industry	120,936.5	150,661.3	24.6	41,940.8	44,457.2	6.0	117.5
Construction	32,238.5	41,508.3	28.8	11,403.3	12,019.8	5.4	122.2
Commerce	86,869.0	105,049.0	20.9	26,478.0	27,909.0	5.4	114.7
Communication	55,365.4	68,020.9	22.9	18,082.8	18,589.0	8.5	113.5
Finance institutions	23,652.9	31,891.2	34.8	5,775.9	6,367.4	10.2	122.3
Housing	26,241.7	34,529.5	31.6	9,067.6	9,722.2	7.2	122.8
Services	34,047.7	40,823.2	19.9	9,988.0	10,693.8	7.0	111.2
(- Relative banking services expenditures)	11,797.5	15,906.6	34.8	3,195.2	3,522.4	10.2	122.3
Sub-total	565,564.1	677,869.2	19.9	170,012.4	178,585.1	5.0	114.2
State services	66,477.5	96,978.0	45.9	16,558.2	17,546.2	6.0	137.6
Sub-total	632,041.6	774,847.2	22.6	186,570.6	196,131.3	5.1	116.7
Import taxation	26,947.4	32,250.0	19.7	6,213.0	7,013.9	12.9	106.0
GDP	658,989.0	807,097.2	22.5	192,783.6	203,145.2	5.4	116.2
Income from abroad	11,048.8	10,302.8	- 6.7	2,543.9	1,948.6	-23.4	121.8
GNP	670,037.8	817,400.0	22.0	195,327.5	205,093.8	5.0	116.2

According to the second national income preliminary estimate of the SIS, the GNP in 1977 rose by 5% in fixed prices and 22% in current prices. The first national income preliminary estimate predicted a 5.5% growth rate in fixed prices and 22.2% in current prices. There are important differences between the first and second national income estimates.



The 5.5% growth rate, predicted under the first estimate was later reduced to 5% under the second estimate. This is explained by the stagnation in economy. Under the second estimate, agricultural production improved by 3%, but manufacturing industry suffered a 3.5% setback in fixed prices. A certain amount of improvement is observed in financial institutions, housing and services. On the assumption of the 12-month data available for 1977, the first national income estimate to be prepared in March 1978 may indicate a growth rate of no more than 4.5% in fixed prices.

Under the last estimate, the GNP implicit deflator is 116.2. But since wholesale and consumer price indices rose by 25-30% in 1977, the GNP figure cited for 1977 in current prices is expected to grow bigger under the next estimates.

The following table gives figures on growth rates in fixed prices of major sectors during the third plan term:

GROWING RATES OF GNP, GDP AND SECTORS (Fixed prices)(%)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977*</u>	<u>1977**</u>
Agriculture	- 9.8	10.3	10.8	7.7	- 3.0	0.1
Industry	12.0	7.7	9.0	9.3	9.8	6.9
Manufacturing industry	12.9	7.3	8.7	9.0	9.4	6.0
Commerce	11.5	10.9	9.5	8.9	7.4	5.4
Construction	7.3	6.2	8.4	8.3	5.9	5.4
GDP	4.4	8.5	8.9	8.5	5.8	5.4
GNP	5.4	7.4	8.0	7.7	5.5	5.0

(\*) July 1977 pre-estimate, based on first 5-month data.

(\*\*) November 1977 pre-estimate, based on first 9-month data.

The following table covers the share of major sectors in GNP in fixed prices during the third plan term:

SHARES OF SECTORS IN GNP (%) (Fixed prices)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977*</u>
Agriculture	21.4	22.0	22.5	22.5	21.5
Industry	24.1	24.2	24.4	24.8	25.2
Commerce	12.8	13.2	13.4	13.6	13.6
Construction	5.8	5.8	5.8	5.8	5.9
Others	35.9	34.6	33.9	33.3	33.8
GNP	100.0	100.0	100.0	100.0	100.0

(\*) November 1977 pre-estimate based on first 9-month data.

The following table gives figures on GNP and GNP per capita income during the Third Plan term in current and fixed prices:

GNP AND GNP PER CAPITA

	<u>Current prices</u> <u>TL m.</u>	<u>Fixed prices</u> <u>TL m.</u>	<u>Fixed inc.</u> <u>%</u>	<u>Current prices</u> <u>TL</u>	<u>Fixed prices</u> <u>TL</u>	<u>Fixed inc.</u> <u>%</u>
1973	309,829.4	156,457.6	5.4	8,049	4,066	2.8
1974	427,097.5	168,012	7.4	10,819	4,256	4.7
1975	535,771.0	181,383.3	7.9	13,269	4,527	6.4
1976	670,037.8	195,327.5	7.7	16,309	4,754	5.0
1977	817,400.0	205,093.8	5.0	19,412	4,868	2.4

As is known, 1977 is the last year of the third plan term, and, as the table indicates, 1977 has been the year of the lowest growth rate. During the third plan term, the targeted average growth rate was 7.9%.

### GROWTH RATES IN PLANNED PERIODS

	<u>Target</u>	<u>Realization</u>
1963-67 (first plan term)	7.0	6.6
1968-72 (second plan term)	7.0	7.1
1973-77 (third plan term)	7.9	6.7

#### National income in 1977 :

In 1978, the following growth rates are expected to be achieved in major sectors in fixed prices:

a) If good weather conditions prevail, offsetting the dry months of October and November with heavy rainfalls in winter and spring, agricultural output may maintain its last year's level. Otherwise, a decline can be expected.

b) Industry cannot be expected to recover easily from the present blockage. The growth rate in the industry sector has declined to 5% in the second half of 1977. It is difficult to expect a bigger growth rate in 1978.

c) In the trading and communications sectors, no large increase over 1977 can be expected because of the special relationship of these sectors to agriculture and industry.

d) Because of the curbs on current expenditures in the national budget, the growth rate of the State services sector in fixed prices will not be higher than 4%, if developments in 1977 are considered.

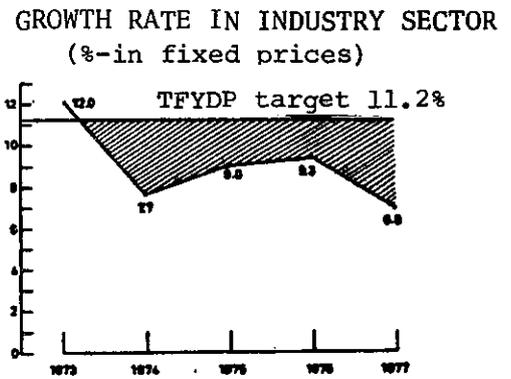
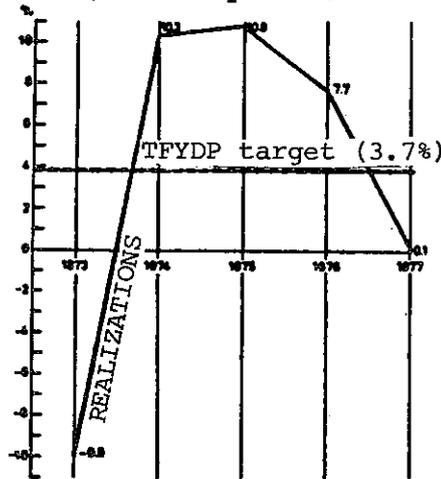
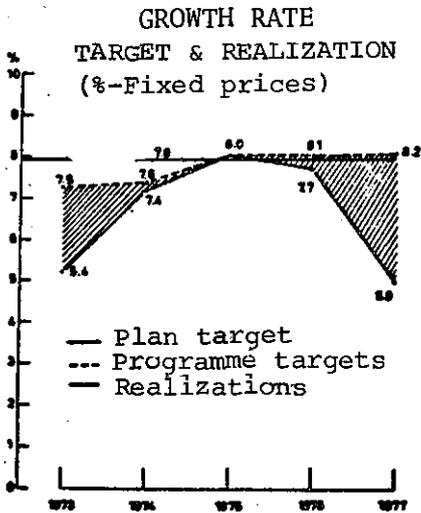
e) Unless a devaluation or a special exchange rate for workers' remittances is planned, factor income from abroad will continue to decline in 1978.

In conclusion, the year 1978 will not be better than 1977.

1978 SECTORAL GROWTH RATE ESTIMATES (%) (Fixed prices)

Agriculture	100.0
Industry	105.5
Manufacturing industry	105.0
Construction	105.4
Commerce	105.4
Communication&transportation	107.0
Finance institutions	108.0
Housing	106.0
Services	103.4
Banking relative service expensitures	108.0
State services	104.0
Import tax	106.0
GDP	104.3
Income from abroad	76.6
GNP	104.0

GROWTH RATE IN AGRICULTURAL SECTOR  
1973-1976  
(%-Fixed prices)



## INVESTMENTS

Developments in fixed capital investments since 1970 have been as follows:

### FIXED CAPITAL INVESTMENTS (TL million) (Current prices)

	Public	Private	Total
1970	14,442	12,900	27,342
1971	16,229	16,000	32,229
1972	20,201	20,372	40,573
1973	25,078	28,338	53,416
1974	35,039	37,926	72,965
1975	53,788	52,915	106,703
1976	75,227	70,739	145,966
1977*	106,397	90,101	196,498

(\*) Realization estimate.

The TL 210.6 billion investment, targeted under the 1977 programme can be achieved provided that:

- the GNP increases by 8.2%
- the total marginal savings ratio rises up to 54%
- a total of TL 34,000m worth of external source is secured.

Since these targets were never achieved in 1977, it is only natural for investments to remain short of the targeted figure.

The following table gives marginal deviations and setbacks observed in 1977 investments from programme targets (in terms of growth rate)

### DEVIATIONS FROM PROGRAMME TARGET IN THE GROWTH RATE OF INVESTMENTS (%)

	Programme target 1 9 7 7	Realization Estimate 1 9 7 7	Deviation from programme target 1 9 7 7	Deviation from programme target 1 9 7 6
Fixed capital	27.3	14.0	-13.3	-17.5
-- Public	41.1	20.6	-20.5	-13.5
-- Private	11.8	6.9	- 4.9	-21.5
Total investments	22.0			
-- Public	28.4			
-- Private	13.9			

FIXED CAPITAL INVESTMENTS (1976 prices) (TL million)

	1 9 7 5			1 9 7 6			1 9 7 7 (Est.)		
	<u>Public</u>	<u>Private</u>	<u>Total</u>	<u>Public</u>	<u>Private</u>	<u>Total</u>	<u>Public</u>	<u>Private</u>	<u>Total</u>
Agriculture	5,977	7,073	13,050	7,849	12,106	19,955	11,623	13,339	24,962
Mining	3,782	355	4,137	5,531	318	5,849	6,478	348	6,826
Manufacturing	18,127	20,828	38,955	17,421	20,717	38,138	21,936	19,288	41,224
Energy	7,782	295	8,177	11,296	175	11,471	12,903	232	13,135
Transportation	15,838	10,097	25,935	17,903	13,319	31,222	19,611	16,229	35,840
Tourism	475	692	1,167	554	610	1,164	754	599	1,353
Housing	1,732	22,231	23,963	1,688	21,352	23,040	1,674	23,382	25,056
Education	4,235	98	4,333	4,737	180	4,917	6,155	190	6,345
Health	1,275	88	1,363	1,637	90	1,727	1,750	70	1,820
Other services	5,723	1,714	7,437	6,611	1,872	8,483	7,849	1,980	9,829
<b>Total</b>	<b>65,046</b>	<b>63,471</b>	<b>128,517</b>	<b>75,227</b>	<b>70,739</b>	<b>145,966</b>	<b>90,733</b>	<b>75,657</b>	<b>166,390</b>

The rates of increases in manufacturing industry investments for the past five years in fixed prices have been as follows:

INCREASE RATE IN MANUFACTURING INDUSTRY INVESTMENTS (%) (Fixed prices)

	<u>Private</u>	<u>Public</u>	<u>Total</u>
1973	18.5	- 1.5	4.1
1974	23.3	4.8	16.2
1975	3.3	40.9	16.3
1976	- 2.1	- 1.6	- 1.8
1977	- 7.4	25.9	8.0

But despite the foreign exchange problem of 1977, the fact that investment imports have risen over the level of the previous year is an interesting development.

BREAKDOWN OF IMPORT BY MAIN COMMODITIES (\$ million)

	<u>1975</u>	<u>1976</u>	<u>January - August</u>		<u>%</u>
			<u>1976</u>	<u>1977</u>	
Investment	1,961	2,239	1,526	1,728	13.2
-- Construction material	291	243	186	118	-36.6
-- Machinery&equipment	1,670	1,997	1,340	1,600	19.4
Consumer goods	203	156	113	108	- 4.7
Raw materials	2,574	2,733	1,685	2,186	29.8
<b>TOTAL</b>	<b>4,738</b>	<b>5,129</b>	<b>3,318</b>	<b>4,022</b>	<b>21.2</b>

According to the latest estimates of the SPO, the realization rate of fixed capital investments in 1977 has been 93%. But this realization is mainly for sectors which are in dire contrast to the structural change. Important setbacks are observed in manufacturing industry and energy investments and education and health investments.

FIXED CAPITAL INVESTMENTS (TL million) (Current prices)

	1976 Programme target	1976 Real.	Real. %	1977 Programme target	1977 Real. est.	Real. %
Agriculture	16,476	19,955	121.1	25,052	29,445	117.5
Mining	7,542	5,849	77.5	10,680	7,844	73.4
Manufacturing	43,065	38,138	88.5	64,302	47,680	74.1
Energy	13,280	11,471	86.4	20,912	15,300	73.2
Communication&transportation	22,259	31,222	140.3	30,560	43,058	140.9
Tourism	2,393	1,164	48.6	3,273	1,694	51.7
Housing	22,930	23,040	100.5	29,119	29,726	102.1
Education	6,675	4,917	73.6	10,002	7,593	75.9
Health	1,785	1,727	96.7	2,713	2,197	81.0
Other services	10,000	8,483	84.8	13,951	11,961	85.7
Total	146,405	145,966	99.7	210,575	196,498	93.3

Public sector's fixed capital investments in 1977

Under the 1977 investment programme, the public sector was to work on 10,591 investment projects with a combined cost of TL 886.4 billion. Projects in the pipeline accounted for 73.7% of these projects (with a combined cost of TL 653 billion) and new projects for 26.3% (with a combined cost of TL 233.4m).

Spending made for projects in the pipeline by the end of 1976 were TL 218.4 billion, and in 1977, a total spending of TL 138.3 billion was envisaged. The balance of the spendings would be TL 619.7 billion.

The breakdown by sector of 1977 projects is shown in the following table. Manufacturing industry investments account for 29.5% of the entire projects, energy investments for 24.7%, communications investments for 17.3%, agricultural investments for 12.4% and others for the remainder.

PUBLIC SECTOR PROJECT GROUPINGS (TL billion)

	<u>On-going work</u>	<u>New Undertakings</u>	<u>Total</u>	<u>Sectors' Share in total %</u>
Agriculture	67.6	41.9	109.5	12.4
Mining	29.6	17.3	46.9	5.3
Manufacturing	230.4	31.1	261.5	29.5
Energy	120.3	89.5	219.8	24.7
Communication	120.4	32.8	153.2	17.3
Tourism	5.3	0.8	6.1	0.7
Housing	3.0	1.6	4.6	0.5
Education	13.6	8.4	22.0	2.5
Health	3.9	1.8	5.7	0.6
Other services	48.9	8.2	57.1	6.4
<b>Total</b>	<b>653.0</b>	<b>233.4</b>	<b>886.4</b>	<b>100.0</b>

According to the SPO analysis of the realization position of public sector projects as of the end of June 1977, public sector agencies have spent TL 33.4 billion of the TL 138.3 billion fund planned for 1977. According to the programme, the rate of realization is 24.1%. This rate was 21.6% in 1974, 29.4% in 1975 and 27.1% in 1976.

The following table gives comparative figures on the public sector's project expenditures since 1973 in current prices:

PUBLIC SECTOR'S PROJECT EXPENDITURES (TL billion) (Current prices)

	<u>Programme</u>	<u>Realization expenditure</u>	<u>Realization rate (%)</u>	<u>Expen. increase Absolute</u>	<u>%</u>
1973	26.6	7.0	26.5	1.5	28
1974	39.6	8.5	21.6	1.5	21
1975	54.5	16.0	29.4	7.4	87
1976	83.5	22.6	27.1	6.6	41
1977	138.3	33.4	24.1	10.8	48

Investment expenditure of public sector agencies until the end of June 1977 in terms of budgetary types are as follows (in comparative terms):

Until the end of June:

-- 22.8% of the appropriations of general and annexed budget administrations

-- 21.2% of the revolving capital departments

-- 25.6% of the State Economic Enterprises

The rates of realization in the corresponding period of 1976 were 22.8%, 26.5% and 31.1% respectively.

A comparison with the corresponding period of 1976 in terms of realization rates reveals that:

-- general and annexed budget departments have maintained the same level.

-- revolving capital departments have fallen 5.3% short of the target.

-- State Economic Enterprises have fallen 5.5% short of the target.

The breakdown and realization position by sector of public investments are set out in the following table:

REALIZATION IN PUBLIC SECTOR INVESTMENTS (as of the end of June)

(TL million)

	1976	1977	1977	Percent real. over programme	
	<u>Real.</u>	<u>Programme</u>	<u>Real.</u>	<u>1976'</u>	<u>1977</u>
Agriculture	1,670	16,114	3,179	19.0	19.7
Mining	1,642	9,000	2,159	27.0	24.0
Manufacturing	5,777	36,019	8,540	29.3	23.7
Energy	3,673	21,781	5,128	29.6	23.5
Communication	5,605	26,678	7,989	30.5	29.9
Tourism	191	1,274	169	23.4	13.3
Housing	355	2,829	573	27.3	20.3
Education	1,293	9,732	1,759	20.2	18.1
Health	384	2,623	565	23.9	21.5
Other services	1,998	12,249	3,317	25.1	27.1
Total	22,588	138,299	33,378	27.1	24.1

Some of the so-called heavy industry projects are handled by SEKA, Turkish Iron&Steel Works and SUMERBANK, which have been going on for some time.

The latest realization figures of new projects in the package of heavy industry projects are as follows:

HEAVY INDUSTRY PROJECTS' SITUATION AS OF OCTOBER 1977 (TL million)

<u>Investing agencies</u>	<u>Project no</u>	<u>Project cost</u>	<u>Expenditure till end October</u>	<u>Real. %</u>
Sugar Co.	13	12,277	619	5
Cement Corp.	18	10,088	857	9
Nitrogen Ind.Co.	15	43,607	1,297	3
MKEK	32	22,329	335	1.5
TUSAS		4,332	21	0.5
TUMOSAN	5	20,377	80	0.4
TAKSAN	5	4,574	39	1
TEMSAN	11	4,670	22	2.3
TESTAS	7	1,930	35	1.9
GERKONSAN	1	1,996	38	1.9
<b>Total of new projects</b>	<b>108</b>	<b>126,183</b>	<b>3,358</b>	<b>2.6</b>

The problem of cost increases in public sector projects

The problem of cost increases in public sector projects has assumed important dimensions because:

- initial cost estimates have been too optimistic,
- price increases have affected the overall cost,
- financial difficulties and/or administrative factors have had a delaying effect, which in turn increased the costs.

According to data provided by public sector agencies handling some 31 important projects and relayed to the SPO:

- the costs of projects which were estimated at TL 87.5 billion on June 30, 1976 have risen to TL 124.0 billion as of June 30, 1977.
- the increase in the 12-month period is TL 36.6 billion.

-- During the same period, only TL 11.6 billion were spent for the said projects.

To underline the importance of the issue, the following table gives the original cost estimates and the revised cost estimates of 63 important public sector projects.

SITUATION OF PUBLIC SECTOR'S 63 IMPORTANT PROJECTS (TL million)

Agencies	Project no	Project cost		Cost increase till 1977	Expenditure made	Money-wise Real. %
		Original cost	1977 cost			
Turkish Sugar Co.	6	5,604	6,539	935	1,204	18.4
Turkish Nitrogen Ind.Co.	1	595	2,190	1,595	148	6.0
Iron&Steel Works	2	4,890	12,620	7,729	12,519	99.0
Turkish Maritime Bank	2	522	1,502	979	935	62.3
Etibank	5	1,427	5,415	3,987	350	6.5
SEKA	5	4,603	9,963	5,360	3,406	34.2
Turkish Coal Board	6	7,639	18,979	11,339	1,032	5.4
Turkish Electricity Authority	7	9,007	42,195	33,187	5,025	11.9
TPAO	2	5,087	20,452	15,365	1,630	8.0
Turkish Railways Authority	3	2,892	4,696	1,804	3,001	63.9
Min.of Public Works	2	9,123	13,020	3,897	991	7.6
Turkish Highways Dept.	2	650	3,786	3,136	1,133	29.9
Sumerbank	2	688	1,276	587	35	0.3
Turkish State Monopoly Adm.	6	2,059	4,503	2,444	558	12.4
Turkish State Water Works	12	12,045	49,792	37,746	6,958	13.9
TOTAL	63	66,836	196,932	130,096	38,932	19.8

Source:SPO

These figures underline the seriousness of the issue, which has come about as a result of delays.

Private sector investments:

The only indicator on the 1977 investments of the private sector is the estimate released by the SPO in June, which is based on a nationwide survey. According to this estimate, 1977 manufacturing industry investments have fallen short of the 1976 investments in current prices.

Expectations for 1978 are equally pessimistic.

The following table, based on a mid-year survey, is interpreted as reflecting some optimistic expectations. The 1977 realization figures of investments are understood to be less than the figures cited in the table:

PRIVATE SECTOR INVESTMENTS IN MANUFACTURING INDUSTRY

(TL million)

	1 9 7 7				77/76		1978 Est.	78/77 Inc.
	1976 Total	Constr.	Mach.& equip.*	Motor Vehicl. Total	% Inc.			
Food	1918.0	690.2	941.1	115.1	1746.4	- 8.9	1270	-27.2
Liquor	109.8	93.9	200.2	28.9	323.0	194.1	220	-31.8
Tobacco	2.1	3.5	0.3		3.9	81.4	3	-13.0
Textile & Clothing	3856.8	532.3	2898.9	30.2	3461.4	-10.3	3265	- 5.7
Leather&hide - Shoe-making	205.8	40.8	136.2	5.0	182.1	-11.5	162	-11.0
Forestry products	550.6	129.9	726.4	14.6	870.9	58.2	151	-82.4
Paper- Printing	903.6	107.0	343.9	20.3	471.3	-47.8	295	-37.4
Chemicals	1368.0	324.7	950.2	30.2	1305.2	- 4.6	995	-23.8
Petroleum products	166.6	51.0	119.4	14.7	185.1	11.1	163	-12.0
Rubber	1186.6	43.1	929.4	3.6	976.1	-17.7	122	-87.5
Plastic	319.5	37.1	222.2	7.1	266.4	-16.6	174	-34.6
Soil products	1878.8	386.9	1030.8	100.3	1518.0	-19.2	1724	+13.6
Iron&steel	2865.5	507.7	1753.3	150.1	2411.1	-15.9	1801	-25.3
Non-ferrous metals	280.4	116.7	581.1	12.1	709.9	153.2	923	+30.2
Metal goods industry	828.3	322.0	632.9	34.0	989.0	19.4	705	-28.7
Machinery industry	1398.1	445.9	1279.8	32.8	1758.5	25.8	2521	+43.4
Electrical machinery	835.7	154.0	515.5	12.5	682.1	-18.4	831	+21.8
Motor vehicles and spare parts	1516.9	342.1	1452.5	168.9	1963.5	29.4	1210	-38.4
Professional & scientific apparatus	6.7		1.0			-85.1	6	+60.0
Other manufacturing industries	44.1	11.1	54.8	2.2	68.1	54.4	93	+36.8
Miscellaneous coming after evaluation	471.7	233.5	509.2	14.7	757.4	60.6	533	-29.6
<b>TOTAL</b>	<b>20716.6</b>	<b>4573.6</b>	<b>15279.3</b>	<b>795.5</b>	<b>20648.5</b>	<b>- 0.3</b>	<b>17174</b>	<b>-16.8</b>

(\*) Year-end estimates (domestic & import)

The survey also covered some projects in the investment stage, which did not respond to the questionnaires. For such investments, TL900m was added for textiles sector, TL 40m for non-ferrous metals, TL295m for machinery manufacturing and TL200m for earthenware goods sector. (Total TL 1,435m.)

Source: SPO special surveys on manufacturing industry (The poll was conducted in June 1977 and reflects the assessment of entrepreneurs for 1977 and 1978).

Incentive licences granted to private sector projects since 1968 have usually been interpreted as a guide to private enterprise's tendency to invest. But of the licences granted between 1968-1977, only 18.4% costing an estimated TL 32,000m, have actually been commissioned. This figure means an average TL 50m cost per investment.

PRIVATE SECTOR PROJECTS GRANTED INCENTIVE LICENCES  
(July 1968 - 31.12.1976)

Number of projects: 3,172  
Combined cost : TL 178,300m.

	Project no	Fixed investment total TL m.	Percent share in total
-- Projects in implementation	784	49,593	27.8
-- Projects which are expected to be realized despite lack of data	<u>771</u>	<u>38,862</u>	<u>21.8</u>
a) Incentive licence granted between 1968-75	265	13,116	7.4
b) Incentive licence granted in 1976	506	25,746	14.4
-- Completed projects	656	32,796	18.4
-- Projects with no hope	42	2,486	1.4
-- Uncertain projects	357	13,800	7.7
-- Projects cancelled	562	40,732	22.9
<b>TOTAL</b>	<b>3172</b>	<b>178,269</b>	<b>100.0</b>

Investment targets of the fourth five year development plan :

Data and information are provided below for the growth rate targets, the composition of the GNP and the breakdown of investments according to the strategy documents of the third and fourth five year development plans.

TARGETS ACCORDING TO THE PLAN STRATEGY (%)

	<u>TFYDP</u>	<u>FFYDP</u>
<u>Development rate</u>		
Agriculture	4-4½	5½-6
Industry	11½-12½	10½-11
Manufacturing ind.	11½-12	10½-12
Consumer goods	6½-7½	7-7½
Intermediate goods	14-15	12-12½
Investment goods	16-17	15-15
Mining		14
Energy		12
<u>The Structure of GNP</u>		
Agriculture	12	17
Industry	36	34
Services	52	49
	<u>100</u>	<u>100</u>
<u>Breakdown of investments</u>		
Agriculture	12	17
Industry	45	43
Services	43	40
	<u>100</u>	<u>100</u>

These figures underline the fact that:

-- During the fourth plan term, growth rates for industry, manufacturing industry, intermediate goods industry and capital goods industry will be reduced.

Planners have considered sufficient a 12% growth rate for the energy sector for an industry which will grow by 11%.

b) In GNP:

- the targeted share of industry was reduced to 34% from 35%
- the share of agriculture was increased to 17% from 12%

c) While the share of industry in the breakdown of investments had been envisaged as 45% during the previous plan term, this rate has been reduced to 43% during the fourth plan term.

The strategy of the fourth five year development plan is understood to have targeted an industrial structure far beyond the targets of the past plan term. The strategy does not claim to bring about a structural change in industry.

During the fourth five year development plan, important changes are expected to be introduced:

a) The projects of the public sector in the pipeline, which are expected to continue into the fourth plan term, are to cost TL 650m in 1976 prices.

b) The obligation of the State Economic Enterprises to increase capacity and to complete pending projects exerts undue pressure on investment policy.

c) In the private sector, many important projects, both quality and quantity-wise, have not been inserted into the investments pipeline in the past two years. This vacuum may adversely affect private sector industrial investments during the fourth plan term.

d) Attractive small investments, which have a distorting effect on the structure of the industry as a natural result of inflationary tendencies, are expected to pose a big question during the new plan term. Remedial measures to eliminate this distortion will be a serious problem.

#### 1978 Programme investment targets:

##### Public sector investments:

Under the 1978 programme, public sector investments are to be reduced both in current and fixed prices. The targeted figure is TL 129,800m, whereas last year's target was TL134,575m. Investments of the general and annexed budget departments have been reduced to TL 60,500m from last year's figure of TL63,845m. And the investment targets of the State Economic Enterprises have been reduced to TL 60.5 billion from TL 62 billion. Important cuts have been made in the funds demanded by investing agencies. The prospecting and exploitation activities of the Turkish National Oil Company (TPAO) have been reduced to TL 1,000m from TL 3,800m, that of the ELBISTAN-AFSIN project to TL 2.6 billion, and of the Iskenderun steel works to TL 2 billion from TL 4.6 billion.

According to recent estimates which took into account the increases in investment deflators, the investments for 1978 can be realized at TL 103,800m. in 1977 prices, which means a 22% setback over 1977.

BREAKDOWN OF PUBLIC INVESTMENTS BY BUDGETARY GROUPINGS  
 (Programme targets in current prices) (TL million)

	1977	1978
General, annexed budget	63,845	60,500
State Economic Enterprises	62,000	60,500
Local governments	6,290	5,500
Revolving capital ins.	2,440	3,300
Total	134,575	129,800

Private sector investments:

Private sector investments in 1978 are projected to exceed the TL 23,000m target of 1977 by a wide margin. In terms of fixed prices, the increase may be TL 6,000m. According to studies conducted on the basis of private sector manufacturing industry polls and the projects approved by the Min. of Industry & Technology in 1977, private sector investments in manufacturing industry are expected to go down to TL 24,552m from TL 27,838m. While manufacturing industry investments are expected to decline, communications sector investments will increase: from TL 5,146m of 1977 to TL 22,176m in 1978. This increase is expected to be facilitated by expected increases in imports of ships and road vehicles. But taking into account the fact that imports are to be curbed in 1978, the realization of such a target seems impossible.

In the sectoral breakdown of private sector investments, important increases are anticipated in the agricultural sector. In 1977, while the private sector was targeted to invest TL 9,690m in this area, its target in 1978 is TL 17,325m in current prices.

The private sector is expected to decrease its investments in energy and tourism, while upping its expenditure in the housing sector. The housing investment target rises from TL26,448 to TL 30,492m in current prices. This means no change in fixed prices.

SECTORAL BREAKDOWN OF INVESTMENTS (Programme targets-Current prices)

Sectors	(TL billion)			
	Public investments		Private investments	
	1977	1978	1977	1978
Agriculture	15.4	14.8	9.7	17.3
Mining	9.0	10.4	1.7	0.4
Manufacturing	36.4	31.5	27.8	24.5
Energy	19.9	25.7	0.9	0.3
Communication	25.4	24.3	5.1	22.2
Tourism	1.5	1.1	1.7	0.8
Housing	2.6	2.2	26.4	30.5
Education	9.7	7.2	0.3	0.2
Health	2.6	3.2	0.1	0.1
Other services	11.8	9.2	2.1	2.7
Total	134.5	129.8	76.0	99.0

Total investments :

The changing picture in the breakdown of private and public sector investments over the previous year has also affected the sectoral distribution of total investments. Agriculture, which accounted for 11.8% of total investments in 1977 has grabbed a 14.1% share in 1978. During the fourth plan term strategy, agriculture is expected to increase its share to 17% of all investments. And the share of industrial investments (mining, manufacturing, energy) has been reduced to 40.6% from 45.7%. Under the new strategy, this share has been fixed at 43%. Thus, the share of the services sector in global investments has gone up to 45.3% from 42.5%.

Manufacturing industry suffered the biggest setback among all the sectors. The share of such manufacturing industry investments in the overall investments went down to 24.5% from 30.6% of 1977. Against this, the share of the communications sector rose to 20.3% from 14.6%.

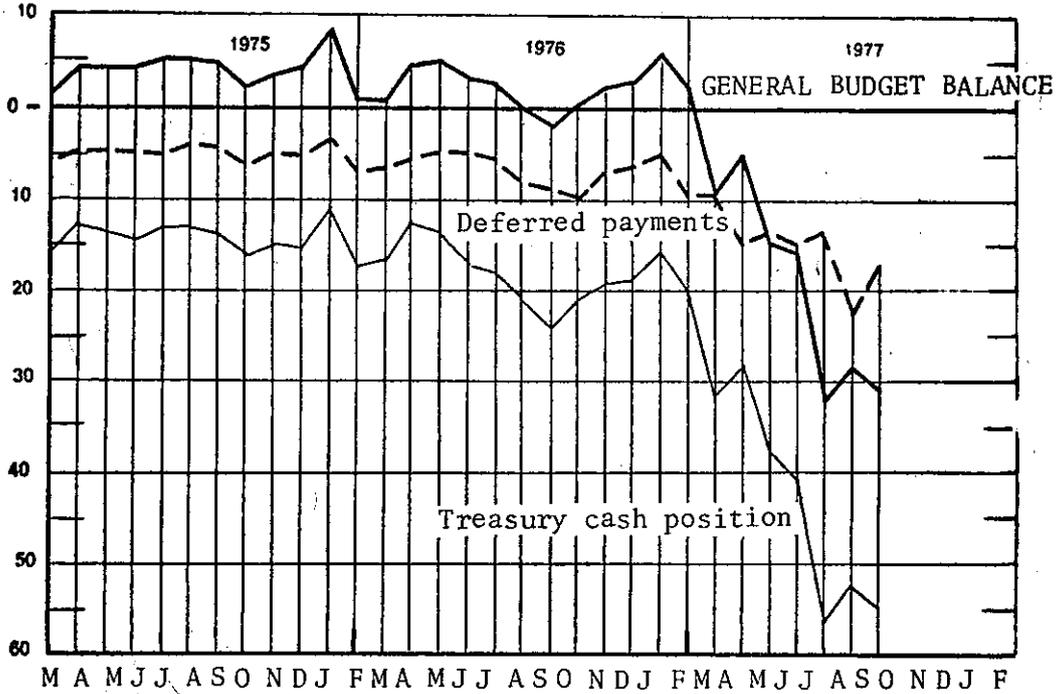
SECTORAL BREAKDOWN OF TOTAL INVESTMENTS (Programme targets - Current prices)

(TL billion)

	<u>1977</u>	<u>%</u>	<u>1978</u>	<u>%</u>
Agriculture	25.0	11.8	32.2	14.1
Mining	10.7	5.1	10.8	4.7
Manufacturing	64.3	30.6	56.1	24.5
Energy	20.9	10.0	26.0	11.4
Communications&Transportation	30.6	14.6	46.5	20.3
Tourism	3.3	1.5	2.0	0.8
Housing	29.1	13.8	32.7	14.3
Education	10.0	4.7	7.4	3.2
Health	2.7	1.3	3.3	1.5
Other services	13.9	6.6	11.9	5.2
<b>Total</b>	<b>210.6</b>	<b>100.0</b>	<b>228.3</b>	<b>100.0</b>

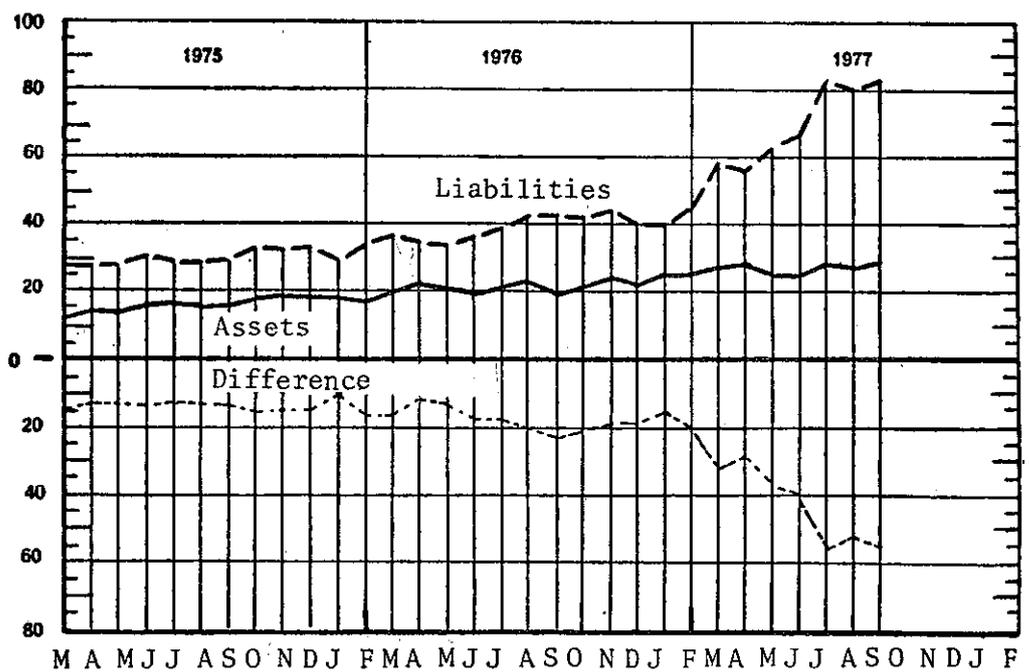
### GENERAL BUDGET

TL million



### TREASURY CASH POSITION

TL million



## PUBLIC FINANCE

### Overall Balance :

The 1977 public sector expenditures and revenues were estimated on the assumption that measures listed under the 1977 programme's "Public Sector Equilibrium" section would be realized during the programme term.

The 1977 expenditure and revenue targets, computed on the basis of current prices, indicate important increases over the 1976 expenditure and revenues. The rate of increase in expenditures, which amounted to TL280,000m is 45.4% and the rate of increase in revenues, which are TL 262,000m is 45.0%. The difference of TL 18,000m between expenditures and revenues was targeted to have been financed through internal borrowing.

### PUBLIC SECTOR OVERALL BALANCE (TL million) (Current prices)

	<u>1976</u>	<u>1977</u>	<u>% Change</u>	
			<u>1976/75</u>	<u>1977/76</u>
Expenditures	192,444	279,739	29.6	45.4
-- Current expenditures	84,615	101,169	32.4	19.6
-- Investment expenditures	87,128	137,407	32.4	57.7
-- Transfer expenditures	20,701	41,163	10.1	98.8
Revenues	180,444	261,739	27.9	45.0
-- Tax revenues	129,770	174,342	33.9	34.3
-- Non-tax normal revenues	10,462	12,718	58.7	21.6
-- Factor income and other re- sources	32,817	59,499	- 1.9	81.3
-- Project revenues	7,395	15,180	77.9	105.3
-- Internal borrowing	-12,000	-18,000	61.6	50.0

Source: 1977 programme.

The 9-month trends in total spendings and revenues, which constitute the major items of the overall balance, indicate that the balance will suffer a huge deficit in 1977.

As of the end of September , the general budget deficit has reached TL 31 billion (30.1% of 9-month revenues) and the consolidated budget deficit TL 24 billion (22.7% of the 9-month revenues).

EXPENDITURE/REVENUE BALANCE (End of September) (TL million)

	<u>General Budget</u>	<u>Annexed Budgets</u>	<u>Consolidated Budget</u>
<u>1975</u>			
Expenditures	51,914	7,947	50,529
Revenues	56,332	10,668	57,667
Balance	4,418	2,721	7,138
<u>1976</u>			
Expenditures	82,904	11,531	81,845
Revenues	80,819	14,517	82,746
Balance	- 2,085	2,986	901
<u>1977</u>			
Expenditures	134,677	18,699	130,096
Revenues	103,466	25,798	105,984
Balance	-31,211	7,099	-24.112

As of the end of September, the fact that the Treasury cash position has suffered a TL 50 billion deficit and that deferred payments has reached TL 18 billion underlines the importance of the domestic financing problem.

CONSOLIDATED BUDGET IMPLEMENTATION (End of September) (TL million)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>Change</u>	<u>%</u>
				<u>1976/75</u>	<u>1977/76</u>
Expenditure	50,529	81,845	130,096	62.0	59.0
Payment	47,218	73,724	113,953	56.1	55.0
Revenues	57,667	82,746	105,984	43.5	28.0
Treasury cash position	-11,405	-20,292	-50,846	-77.9	-150.6
Deferred payments	5,077	9,825	18,378	93.5	87.0

Source: Public Accounts Bulletin.

As of the end of September 1977, the general budget Treasury cash position was TL 2,406m. Advances are also rising as they were in 1975, 1976 and 1977.

In the liabilities section, consignment has increased by 97.3%, deferred payments by 89.7%, short term advances by 76.4% and credit bills by 195.6%. The existing liabilities difference of 1976-1975 has risen to 129.8% from 72.9%.

TREASURY CASH POSITION (End of September) (TL million)

	1975	1976	1977	Percent Change	
				76/75	77/76
ASSETS	15,424	19,732	28,089	4,308	8,357
1. Cash	1,495	986	2,406	2,481	1,420
2. Advance	13,929	20,718	25,683	6,789	4,965
LIABILITIES	29,282	43,692	83,155	14,410	39,463
1. Consignments	8,544	9,550	18,850	1,006	9,300
2. Deferred payments	4,675	9,146	17,353	4,471	8,207
3. Short term advance	14,719	22,608	39,894	7,889	17,286
4. Placement-Bills	1,344	2,387	7,058	1,043	4,671
DIFFERENCE BETWEEN ASSETS & LIABILITIES	13,858	23,960	55,066	10,102	31,106

(\*) This section is quoted from Dr. Oztin Akguc's study, prepared for the Economic&Social Studies Conference Board.

1977 budget implementation :

The 1977 budget was presented by the government as an employment-creating, production-increasing document, which would promote savings, investments and services and maintain stability to the public. In fact, it has turned out to be the opposite. It fell into the red, upset stability, and permitted lavish spending and wastage. During this budget term, the growth rate declined, and the employment situation deteriorated.

DEVELOPMENTS IN CONSOLIDATED BUDGET REVENUES IN 1977 (TL million)

	<u>Foreseen by the budget</u>	<u>Realization estimate</u>	<u>Difference</u>	<u>Real. Est. %</u>
Tax revenues	169,900	172,470	2,570	101.5
Non-tax normal re- venues	19,560	14,659	- 4,901	75.0
Private revenues and special funds	9,976	1,401	- 8,575	14.0
Annexed budget depart- ments' revenues	2,564	2,750	186	107.3
Internal borrowing	18,000	19,500	1,500	108.3
<b>TOTAL</b>	<b>220,000</b>	<b>210,780</b>	<b>- 9,220</b>	<b>95.8</b>

According to the latest figures made available, 1977 consolidated budget revenues will reach TL 210,780m. Even if this estimate proves correct, actual tax collection will be TL 9,220m less than envisaged under the 1977 revenue budget. In other words, revenue realization will be around 95.8%. Revised revenue estimates are optimistic to a certain extent. Budgetary revenues are expected not to be more than the figures estimated by the budget, and internal borrowing is likely not to reach TL 19.5 billion despite all efforts to utilize banking resources. In other words, the 1977 consolidated budget revenues are expected to be less than TL 210 billion.

1977 consolidated budget expenditures :

The 1977 consolidated budget called for a TL 225 billion expenditure. But with additions and increases made throughout the year, the 1977 budgetary appropriations may have reached TL 302 billion.

CONSOLIDATED BUDGET ALLOCATIONS & EXPENDITURES (TL billion)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Programme target (Yearly increase -%)	107.3 (29.1)	153.2 (42.7)	220.0 (43.7)
Budget allocation (Yearly increase -%)	109.3 (30.3)	156.2 (43.0)	232.7 (48.9)
Total with additional allocations (Yearly increase -%)	140.8 (41.2)	196.8 (39.8)	302.5 (53.7)
Expenditure (Yearly increase -%)	116.3 (46.9)	151.5 (30.3)	.. ..

When expenditures far exceeded expectations, the Finance Ministry issued a circular on Sept. 22, 1977 to ensure savings in public spending. The circular, signed by the Prime Minister and addressed to all general and annexed budget administrations, banned demands for fund transfers, froze the recruitment of new personnel to State agencies, suspended all biddings except in cases of emergency, banned L/C for external purchases unless absolutely necessary, and also banned the lease of immovable assets etc. Despite all these restrictions imposed on public spendings, though, expenditure of this kind is still expected to exceed the initial appropriation and reach TL 235 billion.

1977 consolidated budget deficit :

A new budget concept is being promoted by governments in an apparent effort to curtail public awareness of the budgetary deficits. Internal borrowing is to be presented as normal State revenue. Deficits impossible to bridge through internal borrowing are presented to the public as budgetary deficits.

According to this concept, the 1977 consolidated budget is to suffer a deficit of TL 25 billion. But taking into account also those deficits financed through internal borrowing, the 1977 FY budget deficit has risen to TL 40 billion.

In our opinion, internal borrowing cannot be considered a normal State revenue because the effect of such borrowing on the economy can be quite different from those of normal tax revenues. It can be argued that the effect on the economic stability of a budgetary deficit that will be financed through internal borrowing depends on where the State will borrow. But as far as can be ascertained, the State borrows mostly from banks, this was the case in 1977. The Finance Ministry is forced to resort to this procedure. In a disguised attempt, through a government decree published in the Official Gazette on Nov. 7, 1976, banks were permitted to invest their additional provisions in Treasury bills. In terms of effect on the economy, there is no difference between the Government's receiving advances from the Central Bank and selling bills to banks to make use of the additional provisions. This borrowing policy is inflationary. As far as budgetary deficits are concerned, the government should be open-hearted and concede that these deficits that cannot be financed through normal State revenues are really deficits.

#### FINANCIAL BALANCE OF STATE ECONOMIC ENTERPRISES

SEE play an important role in the Turkish economy. According to available data, their total assets are as follows:

	Own resources TL billion	Assets TL billion	Allocated Values TL billion	Allo.Val. Assets %	Revolving Values TL billion
1970	31.1	92.7	44.6	48.2	48.0
1971	40.7	108.9	51.6	47.4	57.3
1972	51.3	128.4	67.5	52.6	60.9
1973	65.0	165.0	91.7	55.6	73.3
1974	73.3	217.8	123.9	56.9	93.9
1975	107.0	302.9	154.9	51.1	148.0
1976	129.3	401.6	204.1	50.8	197.5

The State Economic Enterprises provide direct employment for more than 650,000 people.

EMPLOYMENT IN STATE ECONOMIC ENTERPRISES

<u>Years</u>	<u>Staff</u>	<u>Technical personnel*</u>	<u>Workers</u>	<u>Total</u>
1970	165,738		196,562	362,300
1971	170,601		204,020	374,621
1972	179,921		212,462	392,383
1973	192,360		233,502	425,862
1974	164,007	15,284	324,543	503,834
1975	171,500	24,479	348,399	544,378
1976	187,753	28,871	368,964	585,588
1977 (est.)	203,067	39,089	416,159	658,315

(\*) The number of technical personnel is included in staff between 1970 and 1973.

The production values of the SEE and their annual personnel expenditures (excluding severance pay etc.) are as follows (in current prices - TL billion)

	<u>Production values</u>	<u>Staff expenditures</u>	<u>Percent</u>
1970	21.4		
1971	27.9		
1972	34.4		
1973	45.4	18.9	41.6
1974	71.5	28.3	39.5
1975	92.9	42.1	45.3
1976	127.1	47.2	37.1

The SEE continue to grow bigger, and investments undertaken in the past few years to achieve this end are as follows:

INVESTMENTS OF THE STATE ECONOMIC ENTERPRISES  
(1971 and afterwards consolidated)

	<u>Investment Programme</u>	<u>Investment realization</u>
		(TL million)
1970	4,943	6,153
1971	6,975	7,244
1972	11,059	10,671
1973	12,600	12,915
1974	19,970	16,893
1975	25,035	26,177
1976	38,434	35,495
1977	62,000	--
1977 (revised)	49,448	--

But the State Economic Enterprises are more and more suffering losses:

PROFITS AND LOSSES OF STATE ECONOMIC ENTERPRISES (TL million)

	<u>Total profits</u>	<u>Total losses</u>	<u>Difference</u>
1970	1,332.1	- 1,924.4	- 592.3
1971	1,919.4	- 1,090.4	829.0
1972	2,623.2	- 1,172.6	1,450.6
1973	2,250.7	- 1,897.0	353.7
1974	3,329.2	- 3,732.2	- 403.0
1975			- 4,509.0
1976			-12,733.0
1977			-20,629.0

The State Economic Enterprises resort to public funds to help finance their investments, because they themselves are unable to generate capital. Their financial burden on the Treasury is rapidly increasing, and this in turn leads to economic deterioration.

INVESTMENT AND FINANCING BALANCE IN STATE ECONOMIC ENTERPRISES (TL million)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
<u>Financing requirement</u>				
Difference between resource and payment (loss)	4,509	12,733	20,629	25,000
Investments	26,177	35,495	49,448	60,000
Financing requirement	30,686	48,228	70,077	85,500
<u>Financing resources</u>				
Budget	10,479	18,352	31,911	33,000
Foreign project credits	1,430	3,811	8,741	12,500
State Investment Bank	6,968	11,741	16,979	22,000
Funds	9,852	10,549	9,240	18,000
External borrowing	1,957	3,775	1,206	--

1978 Budget :

Consolidated budget appropriations, growing steadily since 1970 have reached TL260,000m during the 1978 budget term.

CONSOLIDATED BUDGET APPROPRIATIONS (TL billion)

	Current Service Appropriations	Investment Appropriations	Transfer Appropriations	Consolidated Budget
1971	20.0	7.9	10.5	38.5
1972	26.4	9.4	16.1	52.0
1973	28.6	15.6	18.5	62.7
1974	38.2	22.3	23.3	83.8
1975	48.2	30.6	30.5	109.2
1976	78.6	42.4	35.2	156.2
1977	94.8	69.2	68.7	232.7
1978	112.0	65.2	82.7	260.0

The 1978 fiscal year budget calls for a spending of:

- TL 256,000m under the general budget administrations.
- TL 45,100m under the annexed budget departments.

The two add up to TL 301,300m.

But when TL 41,400m worth of Treasury aid, transferred to the annexed budget from the general budget, is deducted from this figure, the consolidated budget appropriations amount to TL 260,000m.

The budgets of the ministries of National Defence, Education, Industry&Technology, Energy, Health&Social Welfare and Rural Affairs in the general budget have preserved their magnitudes.

The Finance Ministry budget, which comprises of various funds, transfers and aid to annexed budget departments, continues to be largest budget item of them all.

General budget revenues account for TL 240,706m of the 1978 budget, domestic borrowing for TL 15,500m and annexed budget revenues for TL 3,793m.

TL 222,370m of the general budget revenues are to be financed through tax revenues, TL 15,528m through non-tax revenues and TL 2,808m through special revenues and funds.

Accordingly, tax revenues will account for 92.3% of the general budget revenues, non-tax revenues for 6.5% and special revenues and funds for 1.2%.

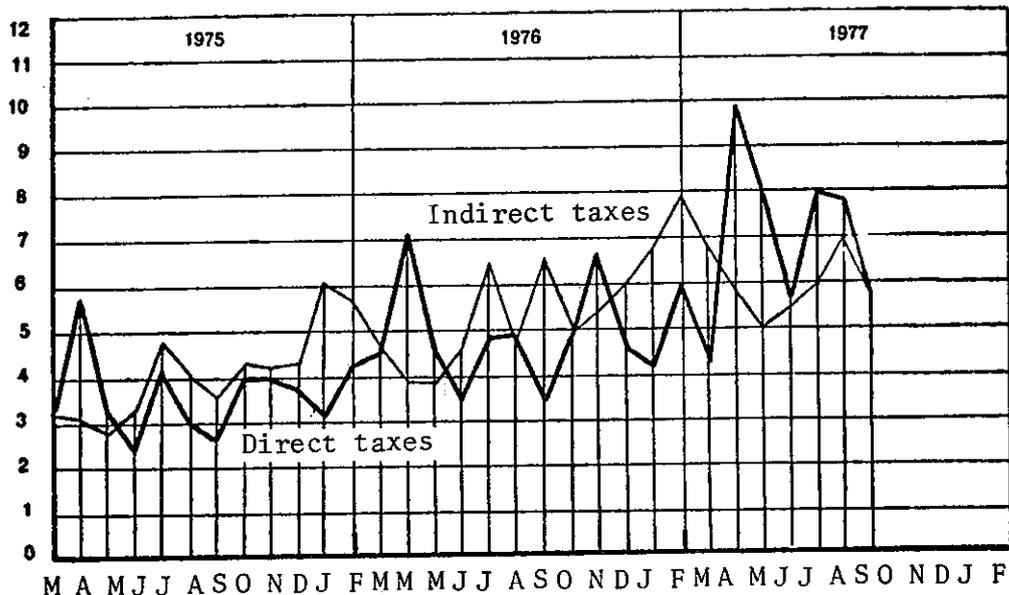
Income tax revenues are expected to account for 52.5% of the tax revenues, which means TL 116,700m if translated into figures.

Taxes over wealth are expected to increase by 26.2% over the previous year, to reach TL 2,600m.

Taxes from commodities are expected to amount to TL 42,160m, which represents a 23.7% increase over the previous year.

TL million

### DIRECT & INDIRECT TAXES



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APPROPRIATIONS FOR GENERAL BUDGET DEPARTMENTS

(TL million)				
Agencies	1977 Appropriation	1978 Proposal	Chg. %	Proportional share 1977(%)
Republican Senate	105.0	169.8	61.6	0.05
National Assembly	429.6	650.0	51.3	0.19
Presidency of Republic	39.7	57.2	44.0	0.02
Comptroller Gen. Office	139.4	153.5	10.1	0.06
Constitutional Court	10.7	11.4	6.8	--
High Court of Appeal	93.4	100.4	7.4	0.04
Prime Minister's Office	1,269.6	1,785.9	40.7	0.55
State Planning Organization	212.8	240.5	13.0	0.09
Council of State	84.6	96.2	13.7	0.04
State Institute of Statistics	182.8	341.4	86.7	0.08
Dept. of Religious Affairs	1,508.7	1,594.8	5.7	0.66
Title Deed & Cadastres Dept.	732.5	764.4	4.4	0.32
Min. of Justice	2,958.0	3,017.0	2.0	1.29
Min. of Defence	42,500.0	52,860.0	24.4	18.50
Min. of the Interior	1,091.0	2,105.1	92.9	0.47
Gen. Dir. of Security	4,938.5	6,169.5	24.9	2.15
Gen. Command of Gendarmerie	3,918.0	4,283.9	9.3	1.71
Min. of Foreign Affairs	1,631.8	1,738.8	6.5	0.71
Min. of Finance	91,042.7	103,559.7	13.7	39.64
Min. of Education	25,655.2	24,977.1	- 2.6	11.17
Min. of Public Works	3,865.8	4,471.1	15.6	1.68
Min. of Commerce	184.2	197.0	6.9	0.08
Min. of Health	6,505.5	7,894.7	21.4	2.83
Min. of Customs & Monopoly	373.7	381.3	2.0	0.16
Min. of Food & Agriculture	4,512.6	4,946.0	9.6	1.96
State Meteorology Gen. Dir.	264.9	319.6	20.7	0.12
Min. of Communication	183.7	177.1	- 3.6	0.08
Min. of Labour	277.7	314.9	13.4	0.12
Min. of Industry & Technology	14,755.8	15,592.5	5.7	6.42
Min. of Tourism & In- formation	830.6	906.4	9.1	0.36
Min. of Housing	2,707.1	1,716.0	-36.6	1.18
Min. of Rural Affairs Land & Resettlement Gen. Dir.	11,257.7	7,732.1	-31.3	4.90
Min. of Energy & Na- tural Resources	954.5	309.9	-67.5	0.42
Min. of Forestry	2,333.3	4,001.6	71.5	1.02
Min. of Sports & Youth	929.9	1,157.0	24.4	0.41
Min. of Cultural Affairs	216.4	233.9	8.1	0.09
Min. of Social Security	946.9	1,120.4	8.3	0.41
Min. of Social Security	47.9	58.0	20.8	0.02
<b>TOTAL</b>	<b>229,693.0</b>	<b>256,206.9</b>	<b>11.5</b>	<b>100.00</b>

1977 BUDGET REVENUES, 1978 BUDGET ESTIMATE AND PERCENT INCREASE  
(TL billion)

	1977 Revenue Estimate	1978 Budget Estimate	Inc. %
Consolidated budget revenue, total	210.8	260.0	23.3
General budget revenue, total	188.5	240.7	27.7
Total tax revenue	172.4	222.3	28.9
Taxes on income	89.3	116.7	30.7
Individual income tax	71.1	92.7	30.4
Corporate income tax	8.6	11.5	33.7
Capital gain tax on real property	1.1	1.3	18.2
Fiscal balance tax	8.5	11.1	31.2
Taxes on property	2.0	2.6	26.2
Real property tax	1.0	1.2	15.4
Motor vehicles tax	0.3	0.4	28.6
Inheritance and gift tax	0.6	1.0	41.8
Taxes on goods	32.5	42.1	29.7
Production tax	13.4	16.5	22.7
Petroleum production tax	1.1	1.2	9.1
Production tax on monopoly goods	9.3	13.0	39.8
Sales & services tax	1.4	1.8	27.6
Sugar consumption tax	1.0	1.1	10.5
Motor vehicles purchase tax	1.6	2.0	25.0
Real property purchase tax	4.6	6.5	41.3
Revenue from abolished taxes	--	--	-37.5
Taxes on services	18.4	23.8	29.5
Banking and insurance transactions tax	8.5	11.0	29.4
Transportation tax	0.4	0.4	12.5
PTT service tax	0.4	0.5	22.7
Building construction tax	0.2	0.3	45.8
Pool tax	--	--	--
Stamp tax	7.2	9.5	31.9
Fees	1.7	2.1	22.7
Taxes on foreign trade	30.2	37.0	22.8
Customs duty	6.4	7.7	20.3
Petroleum customs duty	0.7	0.8	11.4
Fixed tax	0.1	0.2	26.7
Production tax on import	9.5	11.7	23.1
Production tax on petroleum import	5.2	5.8	11.5
Stamp duty on import	7.2	8.6	20.1
Quay duty	1.0	1.2	20.4
Foreign travel expenditure tax	--	1.0	--
Regular non-tax revenue, total	14.6	15.5	5.9
Corporate purse and State share	2.0	1.4	-31.0
Revenues from the State patrimony	2.9	4.0	36.8
Counterpart funds and credits	1.8	2.2	18.0
Penalties	1.1	1.4	26.8
Various revenues	6.7	6.5	- 3.0
Special revenue and funds	1.4	2.8	100.5
Special revenues	0.9	0.6	-33.2
Funds	0.5	2.2	340.6
Domestic borrowing	19.5	15.5	-20.5
Annexed budget revenues	2.7	3.8	37.9



**TÜRK SANAYİCİLERİ VE İŞ ADAMLARI DERNEĞİ**

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