N. Demirtaş

THE TURKISH ECONOMY 1980

TÜSİAD

Türk sanayicileri ve iş adamları derneği

TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION

THE TURKISH ECONOMY 1980

TÜSİAD

Türk sanayicileri ve iş adamları derneği

TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION

"THE TURKISH ECONOMY, 1980" is one of the TUSIAD publications to give brief information on the recent developments in the country.

The report was edited by Ertuğrul İhsan Özol and Dr.Hayri Suat Ürgüplü and prepared by Prof.Dr.Demir Demirgil with the assistance of Erdoğan Çevik. Special thanks are due to TUSIAD economists Oya Enç, Şeref Özgencil and Tufan Çınarsoy for their contributions in their respective fields of specialization. The report was set-up by Güler Bora, Leyla Dinçmen and Meral Akyol.

The reader of this report should be aware that it is not an official statement on the problems of the Turkish Economy as viewed by the Government, nor a reflection of the opinions of the members of TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION.

The main sources used in the preparation of the survey are the various publications of the State Planning Organization, State Institute of Statistics, the Ministries, the EBA Economic Press Agency, and the ANKA News Agency, IMF, OECD, IBRD.

More detailed information, comments and discussions on the subjects covered by this survey are available in various documents of TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION published in Turkish.

The previous publications of these series are:

1) Turkey - An Economic Survey,
   May 11, 1976, 152 p.

2) Turkish Economy - A Bridge Between the Middle East and the West
   October 15, 1976, 110 p.

3) Turkey - An Economic Survey
   April 15, 1977, 230 p.

4) Mid-Year Outlook on the Turkish Economy and Prospects for 1978
   September 1977, 32 p.

5) Turkey's Industrial Sector in Foreign Trade With Special Reference to EEC Relations
   April 1, 1978, 50 p.

6) The Turkish Economy, Prospects for Growth Within Stability
   July 1, 1978, 246 p.

7) The Turkish Economy - 1979
   August 15, 1979, 320 p.

Istanbul, July 25, 1980

THE TURKISH ECONOMY 1980

IS SPONSORED BY
THE LEADING BUSINESS GROUPS OF TURKEY

HOLDING COMPANIES AND CONGLOMERATES

AKER HOLDİNG A.Ş.
AKSU GROUP OF COMPANIES
ALARKO HOLDİNG A.Ş.
ALTINYILDIZ MENSUCAT VE KONFEKSİYON FABRIKALARI A.Ş.
BAYRAKTARLAR HOLDİNG A.Ş.
BORUSAN HOLDING A.Ş.
ÇUKUROVA HOLDİNG A.Ş.
ECZACIBAŞI HOLDİNG A.Ş.
EGE HOLDİNG A.Ş.
ELGİNKAN HOLDİNG A.Ş.
ENKA HOLDİNG A.Ş.
ERCAN HOLDİNG A.Ş.
IŞIKLAR HOLDİNG A.Ş.
KOÇ HOLDİNG A.Ş.
KOÇTUĞ DENİZCİLİK İŞLETMESİ
KUTLUTAŞ HOLDİNG A.Ş.
PROFİLO HOLDİNG A.Ş.
SABANCI HOLDİNG A.Ş.
TEKFEN HOLDİNG A.Ş.
TRANSTÜRK HOLDİNG A.Ş.
YAŞAR HOLDİNG A.Ş.
ZİHNİ DENİZCİLİK VE TİCARET A.Ş.

THE TURKISH ECONOMY 1980

IS SPONSORED BY
THE LEADING BUSINESS GROUPS OF TURKEY

INDUSTRIAL COMPANIES

AEA MÜHENDİSLİK İNŞAAT KOLL. ŞTİ.
AKIN TEKSTİL A.Ş.
AKSA AKRİLİK SANAYİİ A.Ş.
ALBOY AYAKKABI SANAYİ VE TİCARET A.Ş.
ALTINMEKİK SANAYİ VE TİCARET A.Ş.
ANADOLU DENİZ İNŞAAT KIZAKLARI
ANADOLU MAKİNE ENDÜSTRİ VE TİCARET A.Ş.
ASİL ÇELİK SANAYİ VE TİCARET A.Ş.
BEYAZIT GROUP OF COMPANIES
BMC SANAYİ VE TİCARET A.Ş.
B.P. PETROLLERİ A.Ş.
BURLA MAKİNE TİCARET VE YATIRIM A.Ş.
BURSA VİTAMİNLİ YEM SANAYİİ A.Ş.
ÇANAKKALE SERAMİK FABRİKALARI A.Ş.
ÇİMENTAŞ ÇİMENTO FABRİKASI T.A.Ş.
DENİZCİLİK A.Ş.
DOĞUŞ YATIRIM A.Ş.
EAS AKÜMÜLATÖR PLASTİK VE ISI SANAYİİ A.Ş.
EGE YILDIZ PLASTİK BORU SANAYİ VE KOM. ŞTİ.
ELYAFLI ÇİMENTO SANAYİ VE TİCARET A.Ş.
ETİTAŞ
ETMAŞ-ELEKTRİK TESİSAT VE MÜHENDİSLİK A.Ş.
FAKO İLAÇLARI A.Ş.
FEGET FİNANS VE ENDÜSTRİYEL GELİŞMELER T.A.Ş.
FİLMOPLAST PLASTİK SANAYİ VE TİCARET A.Ş.
G.A. BAKER LTD.ŞTİ.
HAZNEDAR ATEŞ TUĞLA SANAYİİ A.Ş.
KARAOĞLU MADENİ EŞYA SANAYİ VE TİCARET A.Ş.
KARASABAN ENDÜSTRİ CİHAZLARI TİCARET VE SANAYİ A.Ş.
KISMET DERİ SANAYİ VE TİCARET A.Ş.

THE TURKISH ECONOMY 1980

IS SPONSORED BY

THE LEADING BUSINESS GROUPS OF TURKEY

KOMİLİ YAĞ-SABUN-GLİSERİN SANAYİ VE TİCARET A.Ş.

KORDSA KORD BEZİ SANAYİ VE TİCARET A.Ş.

KÖYCEĞİZ KROMLARI İŞLETMESİ A.Ş.

LASSA LASTİK SANAYİİ VE TİCARET A.Ş.

LİBAŞ-LİBYA İNŞAAT VE YATIRIM KONSORSİYUMU A.Ş.

LİSA A.Ş.

M.A.N. KAMYON OTOBÜS SANAYİİ A.Ş.

MAT MOTORLU ARAÇLAR TİCARET A.Ş.

MERİÇ TEKSTİL A.Ş.

METAŞ İZMİR METALURJİ FABRİKASI T.A.Ş.

NASAŞ ALİMİNYUM SANAYİ VE TİCARET A.Ş.

OERLİKON KAYNAK ELEKTRODLARI A.Ş.

OTOMARSAN A.Ş.

OTOMOBİLCİLİK VE TİCARET A.Ş.

OTOSAN A.Ş.

OYAK RENAULT

ÖZKÖSEOĞLU ISI SANAYİ VE TİCARET A.Ş.

SANDOZ İLAÇ SANAYİİ LTD.ŞTİ.

SHELL TOPKAPI OIL INDUSTRY AND AUTOMOTIVE SERVICE GROUPS

SİFAŞ SENTETİK ELYAF SANAYİ A.Ş.

SURTEL KABLO SANAYİ A.Ş.

TATKO T.A.Ş.

TEKSTİPLİK SANAYİ VE TİCARET A.Ş.

TETİCO TEKNİK TİCARET LTD.ŞTİ.

TOFAŞ OTO TİCARET A.Ş.

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

TOPKAPI VİTAMİNLİ YEM SANAYİ A.Ş.

TURYAĞ-TÜRKİYE YAĞ VE MAMULATI A.Ş.

TÜRK DEMİR DÖKÜM FABRİKALARI A.Ş.

TÜRK HENKEL KİMYEVİ MADDELER SANAYİ VE TİCARET A.Ş.

TÜRK KABLO A.Ş.

TÜRK PHILIPS A.Ş.

THE TURKISH ECONOMY 1980

IS SPONSORED BY
THE LEADING BUSINESS GROUPS OF TURKEY

TÜRK TRAKTÖR VE ZİRAAT MAKİNALARI A.Ş.
TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş.
UZEL MAKİNA SANAYİİ A.Ş.
ÜLKER GIDA SANAYİ VE TİCARET A.Ş.
ÜNİLEVER-İŞ TİCARET VE SANAYİ TÜRK LTD.ŞTİ.
YENİ KARAMÜRSEL PAZARLAMA A.Ş.
ZETİP KOMBİNE TEKSTİL A.Ş.

BANKS

AKBANK
EGEBANK
OSMANLI BANKASI
T.EMLAK KREDİ BANKASI
PAMUKBANK
TÜRK DIŞ TİCARET BANKASI
TÜRKİYE İŞ BANKASI
TÜRKİYE SINAİ KALKINMA BANKASI
ISTANBUL BANKASI
HİSARBANK
YAPI VE KREDİ BANKASI
T.C. ZİRAAT BANKASI

SECURITIES BROKERAGE AND FINANCE CORPORATIONS

MEBAN MENKUL DEĞERLER BANKERLİK VE FİNANSMAN A.Ş.

PRESS & PUBLICITY GROUPS

CEN AJANS VE PAZARLAMA KOLL. ŞTİ.
MAN AJANS A.Ş.

The Turkish Economy
1980

TABLES

CHAPTER VI
WEAKNESSES AND POTENTIALS OF THE TURKISH ECONOMY

CHAPTER VII
NATIONAL ACCOUNTS, PRODUCTION, INVESTMENT

CHAPTER VIII
FOREIGN TRADE AND PAYMENTS

CHAPTER IX
INFLATION

CHAPTER X
MONEY BANKING AND CREDIT

CHAPTER I

A Brief Retrospective On Factors Responsible For The Present Situation

After a remarkably rapid growth and development for a quarter of a century, Turkey faced in 1979 the worst socio-economic crisis of her modern history.

During this relatively very short period of time Turkey has become a predominantly urban and industrial economy from an overwhelmingly rural and traditional society.

The fact that these developments have taken place within an essentially free and democratic political environment has increased the magnitude of the task, because the competitive nature of the political process has created a constant strain on existing resources and capabilities.

On the other hand, the necessity of building an infrastructure in addition to an industrial structure has increased the strain on existing resources.

It is within these constraints that a 6.5 percent growth rate has been sustained, representing a 4 percent growth rate on a per capita basis.

Faced with growing external imbalances created by the sharp increase in the price of oil and in the prices of imported industrial supplies and investment goods and by the world recession which affected adversely Turkish exports of goods and services and Turkish workers' remittances, Turkish governments had to revise their development strategies and their economic policies. Instead they preferred to sustain the rate of growth during the period 1974-1976 at the expense of internal and external balances and thus postponed the crisis to 1977.

Continuing high domestic demand pressures both as regards consumption and investment accelerated imports and affected negatively the balance of payments.

The increase of current account deficit from 718 million dollars in 1974 to 3.4 billion dollars in 1977 need not have been so pronounced, if more effective policies had been adopted to deal with the impending foreign exchange crisis. The rising external deficit was met first by a reduction of Turkey's convertible foreign exchange reserves, and later by borrowing, mainly on a short term basis, from the Euromarket. When these sources of finance began to dry up in 1977, substantial arrears were accumulated in the foreign payments of Turkey, by the end of 1977, Turkey's short term debt and trade arrears amounted to $ 14.425 million equally divided between short-term and medium-long term: Further rescheduling of the total debt changed the term composition of the total debt which by 1979 went up to $ 15.672 million. The short term debt went down to $ 4 billion, and the medium-long term up to $ 11.629 million.

The foreign payments crisis and the recession following it, were created through two sets of factors.

EXTERNAL FACTORS

1. The effects of the increase of petroleum prices on the balance of payments, on production and on employment.
2. The indirect effects of the petroleum crisis,
   a. Increases of prices of industrial raw materials & investments goods that Turkey had to import.
   b. Recession in the West affected negatively employment and wages of Turkish workers abroad as a result of which workers' remittances decreased.
   c. Recession in the West affected negatively their imports from Turkey.
   d. The terms of trade deteriorated seriously between 1973 and 1979.

INTERNAL FACTORS

1. Encouragement of consumerism during the crisis created excess demand which increased the rate of inflation.

2. Consumerism increased also the pressure on imports.
3. Subsidies given by the Government to a number of commodities including petroleum, encouraged their use and put additional pressure on imports.
4. Deficit financing due to the losses of State Economic Enterprises increased aggregate demand and the rate of inflation.
5. Agricultural support pricing policies increased budget deficits and consequently the rate of inflation.
6. Successive devaluations failed to promote exports and workers' remittances but induced new rounds of price increases.

But above all these reasons, the fact that the commandments or the rules of the game of a mixed capitalistic economy have not been observed for long years is at the root of the crisis.

Infraction of the rules is most serious in the case of the State Economic Enterprises for the simple fact if not for anything else, that differently from private enterprise, the State Economic Enterprise does not have to close down in case it is making considerable losses for successive years. But in balancing the budgets of State Economic Enterprises, it will not simply be sufficient to increase their revenues through increasing the prices of their products. They are mismanaged, work inefficiently and drain away the resources of society as they end up making considerable losses especially since 1974. What has so far been said and written on these Enterprises suggests that a serious re-organization and reform is required.

Budget deficits have been another source of excess demand and of expansion of money supply.

The rates of increase of various incomes far exceed the rates of increase of real output.

In contrast to the expansion of aggregate demand, Gross Domestic Product has decreased by 0.3 percent in real terms in 1979.

It should not then come as a surprise that exports have decreased by 1.2 percent in 1979.

It is obvious that consumerism and excess demand should be scaled down while the productive capacity of the Turkish Economy should be rapidly expanded. A dramatic expansion on the other hand of exports should be realized. For this the required resources must be released to export oriented industries.

In a mixed economy where the market and profitability calculations play an important role, resources will not be attracted to export oriented production if domestic market oriented activity remains much more profitable.

A realistic foreign exchange rate policy is the precondition of this task. Administrative measures and subsidies can not succeed in an atmosphere of extreme excess demand and import rationing.

Together with export promotion a more selective import substitution can start simultaneuously in fields with export potential.

Export promotion should start in the light manufacturing sectors where Turkey can be immediately competitive and does not face important bottlenecks of technology and scale. In these sectors production can be increased rapidly and at a moderate cost, and where an important exportable surplus can be generated quickly. It should be followed by encouragement of those sectors where export potential is known to exist in the long run.

Realistic foreign exchange rate and export expansion alone are not the only remedies for the growth within stability of the Turkish Economy.

In addition to a realistic trade and exchange rate policy where the exchange rate plays the crucial role for trade performance, a domestic resource mobilization policy should aim at generating the real domestic savings for the achievement of growth and industrial deepening.

In this respect, everything cannot be decided and allocated bureaucratically, Administrative measures and subsidies cannot succeed in an atmosphere of extreme excess demand and severe import rationing.

The market mechanism should be able to play an important and constructive role. For this to happen, relative prices in general and the relative price of foreign exchange in particular should reflect the real scarcities constraining the growth of the Economy.

During most of the time the rules of the game of a market economy were ignored, governments tried to solve the problems facing the Turkish Economy especially those related to external balance by furthering bureaucratic interference and quantitative controls.

Turkey started the 1950's with a fully liberal regime and a very rapid rate of economic growth. Balance of payments pressures mounted in 1951 and 1952, as domestic inflationary pressures were dampened by a massive but quantitative restrictions were imposed. Two years of reliance upon quantitative restrictions were followed by multiple exchange rates, export incentives and other efforts to patch up the system. The restrictiveness of the regime increased sharply as inflation rates reached 20-25 percent per year.

In 1958 Turkey embarked upon a stabilization program. Devaluation increased the official exchange rate by more than 200 percent, imports were liberalized, and restrictive monetary and fiscal policies were instituted. Increased export earnings prompted further liberalization after 1960 and Turkey experienced gradually diminishing restrictiveness in her payments regime.

By 1964, however, balance of payments pressures were increasing sharply, and reliance on quantitative restrictions were increased for the remainder of the 1960s.

In 1970 Turkey embarked upon another devaluation/liberalization program followed by a period of liberalization which was not discontinued even during the petroleum crisis, but had to be abandoned when the payments mechanism came to a full stop in early 1977.

THE ORIGINS of a CRISIS: AN ANALYSIS of THE TURKISH ECONOMY FROM 1973 to 1979

The present crisis which started in 1974 and was postponed to 1977, like its predecessors in 1958 and 1970, appears primarily as a foreign exchange crisis. By the end of 1977 Turkey, with an import bill of 5.8 billion dollars, had only 1.753 million dollars of exports. Workers' remittances provided another billion dollars, leaving a huge 3.4 billion dollar gap to be financed. The gap, which had been of similar size in 1976, was financed by massive short-term external borrowing and a complete running down of foreign exchange reserves. By the end of 1977, the situation had become one of acute crisis, with foreign lenders declining to make further loans, commercial arrears close to 2 billion dollars, and the economy unable to grow without imports that could no longer be financed.

The period from 1970 to 1979 marks the third cycle in Turkey's post-war path of industrialization.

The latter half of the 1960's had been characterized by severe foreign exchange shortages and consequently increasingly severe import rationing. While growth performance particularly in the industiral sector was impressive, exports virtually stagnated. Between 1960/61 and 1969/70, exports increased at an annual rate of only 5.9 percent in current dollar value which reflects near stagnation in real terms. Over the same period imports could only grow by 6.7 percent in current dollar value or about 3 percent in real terms compared to an average annual growth rate of real GDP above 6 percent and an annual industrial growth rate of about 10 percent.

While foreign exchange shortages were chronic and net incentives had difted more and more against exports, the situation in 1970 was far less serious than it had been in 1958.The main reason was probablv a still small but signifacant flow of workers' remittances, averaging about 100 million dollars a year since 1965, which compensated for about 40% of the trade deficit. Import substitution was also proceeding relatively successfully, particularly in transport equipment and machinery, and the foreign exchange situation was not really deteriorating rapidly. The timing of the devaluation that occurred in August of 1970 must be explained as much by political as by purely economic factors.

It is quite possible that it was the dismal performance of exports in general and of manufactured exports in particular that constituted the single most important factor leading to the 1970 devaluation. At the State Planning Organization in particular, the failure of any manufactured exports to materialize was perceived as a serious bottleneck to further growth and as an indication that Turkey's industrial development was lacking an important dimension. In fact, when the decision to devalue was made in 1970, it was accompanied by a significant increase in the average value of subsidies to manufactured exports, a fact indicating that the need to start exporting manufactured products was strongly felt by policy makers. The 1970 policy adjustment was a substantial one,increasing the effective exchange rate for imports by about 50%. for traditional agricultural exports by 28% (tobacco, hazelnuts, dried fruits,raw cotton)and for manufactured exports by 7%.

The devaluation was followed by three years of extremely rapid increase in foreign exchange receipts which made possible not only an unprecedented increase in imports but also an even more dramatic accumulation of foreign reserves.

Exports, in sharp contrast to what had happened after 1958, responded vigorously to the 1970 exchange rate adjustment. Their total value increased from 537 million dollars in 1969 to 1317 million dollars in 1973. This represents an annual average growth of 25 percent. Turkish exports had been close to 300 million dollars in 1950 and 1951. Thus in the two decades from 1950 to 1969, total export value failed to double, increasing by only 80% over 19 years, a growth of only 3 percent per annum. In contrast the near tripling of export earnings between 1969 and 1973 constituted an unprecedented achievement.

The overwhelming sources of export expansion in the early 1970s was in the food processing and textile sectors. Exports of processed food products increased from 200 million dollars in 1969 to 390 million dollars in 1973. Exports of textiles including ginned cotton increased from 127 to 391 in the same period. But what is equally significant is that from a base close to zero, significant exports appeared in the following categories of manufactured products: clothing, footwear, inorganic chemicals, cement, glass and glassware and metal products.

Thus the 1970-73 period can be taken as an indication that the potential for export expansion in a wide range of manufactured products exists in Turkey provided the structure of incentives is conducive to such an expansion and provided foreign market conditions are appropriate. Unfortunately neither the structure of incentives nor foreign market conditions remained conducive to export expansion for more than a few years.

In addition to increased exports, Turkey acquired foreign exchange from workers' remittances which increased from 141 million dollars in 1969 to 273 in 1970; 471 in 1971; 740 in 1972; and 1183 in 1973. This represents an annual average growth rate of 70 percent. By 1973, the flow of remittances was financing half of imports. The increase of remittances was only partly a reaction to devaluation. Between 1969 and 1973, the number of workers abroad itself grew at an average annual rate of about 35 percent. On the rough assumption that remittances are proportional to total income earned abroad and noting that nominal income per worker measured in dollars grew at an annual rate of at least 10 percent in dollars, one would estimate a 50 percent annual growth rate. To this was added the redirection into official channels that no doubt followed the devaluation as well as some repatriation of accumulated savings that constituted a direct response to the exchange rate adjustment. The great surge in remittances was dramatic and largely unexpected.

Inflation was moderate in the 1960s, accelerating somewhat towards the end of the decade, but averaging only about 5 percent per annum from 1960 to 1970. The wholesale price index rose by 16 percent in 1971, 18 percent in 1972 and 20.5 percent in 1973, making for an average inflation rate of 18.2 percent per year in the 1970-1973 period. During the same period worldwide inflation, expressed in dollars, also increased substantially but did not average more than 10 percent per year. Relative incentives had thus significantly drifted against exports by 1973 and the price deflated exchange rate had been revalued by about 30 percent.

Between 1973 and 1976, the annual spread between Turkey's domestic inflation rate and worldwide inflation remained between 8 and 10 percentage points. Turkey did start a series of minor exchange rate adjustments in this period, devaluing the Turkish Lira against the dollar by an average of 5 percentage points a year, which did not fully compensate for the inflation differential. The upward drift in the price deflated exchange rate thus continued, slowly but steadily, and by the end of 1976 the real exchange rate was therefore again close to what it had been before the 1970 devaluation.

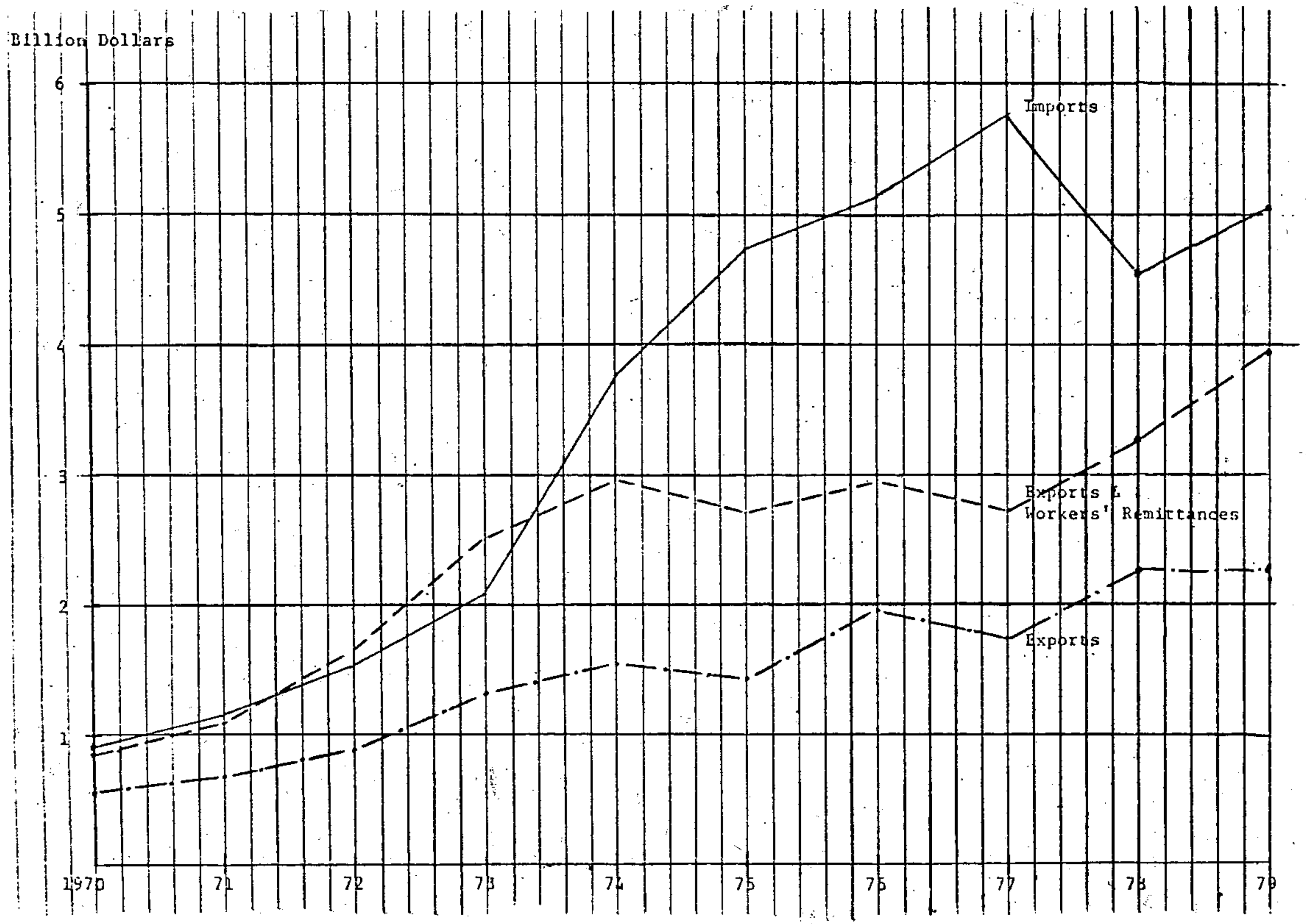
Since 1974, export revenues have grown only very slowly and erratically, officially recorded workers' remittances have declined by about 40%, while imports almost tripled between 1973 and 1977.

As can be observed from Fig. 1, exports and imports were growing at about the same rate between 1970 and 1973 while workers' remittances grew somewhat more rapidly with the sum of exports and remittances actually overtaking the value of imports jumped from 2.1 billion dollars in 1973 to 3.8 billion in 1974, growing by 80% in one year. The foreign exchange gap created by this sharp increase in imports in 1974 was still however moderate, consisting of 819 million dollars or about 2.8 percent of GDP. It is in 1975 that the danger of a major foreign exchange crisis became apparent. In that year, both exports and remittances declined while imports continued to grow rapidly, increasing by 25% over 1974. The foreign exchange gap (imports-exports-remittances) reached 2 billion dollars or about 5.4 percent of GDP.

It is thus quite clear that the crisis was already apparent in 1975 and that the level and growth rate of imports experienced in 1974 and 1975 were inconsistent with the amount of export earnings and remittances that materialized. The situation did not improve in 1976 - or 1977. On the contrary - in 1977 the foreign exchange gap reached 3 billion dollars which at the March 1978 Exchange Rate of 25 TL to the dollar constituted about 9 percent of GDP.

The gap was temporarily closed by massive international borrowing and the running down of the substantial foreign exchange reserves that had accumulated in 1972 and 1973. But by the end of 1977, there were no more reserves to be run down and Turkey's borrowing capacity had reached its limits. The situation was no longer tenable and a major readjustment had become inevitable.

EXPORTS WORKERS' REMITTANCES, IMPORTS 1970 - 1979



While the upward drift in the price deflated exchange rate and the anti-export biased shift in incentives resulting from Turkey's high inflation rate constitute one major element explaining the foreign exchange crisis, there have been other important developments. A significant part of the 1974 upward jump in imports that is apparent in Fig. 1 can be attributed to the oil price increase. Turkey imported about 70 percent of its oil needs during the 1974-1979 period and there is no doubt that the oil price rise has had a major adverse impact on the balance of payments and the economy. In fact, the Turkish government tried to insulate the domestic economy from the effects of the oil price increase by setting up a special fund to subsidize the price of gasoline in the domestic market. While this probably helped keep up real wages and profits domestically, at least for an interim period, it probably heightened the impact of the oil crisis on the balance of payments since it weakened any possible substitution effect against oil-intensive activities. By 1977, oil imports were close in value to total merchandise exports; but how important has the oil price increase really been in explaining the present crisis? Has it been the major cause of the great widening in the foreign exchange gap?

Another development in the middle 1970s that has been suggested as one of the contributing causes of the current crisis is the major investment program undertaken by the government. The aggregate investment rate (as a proportion of GNP) increased steadily during the period, from 18 percent in 1973 to 23.4 percent in 1977. Since investment is relatively import-intensive, this increase has led to additional strain on the balance of payments.

It is important to keep in mind the relative importance of the different shocks that the Turkish economy has undergone in recent years in order to understand the nature of the present crisis and to evaluate future policy choises.

There are a number of lessons to be drawn from the analysis of the 1973-1979 period. Given the variety and magnitude of shocks that Turkey has undergone, and the speed with which they developed, it is understandable why Turkish policy makers and other observers were caught by surprise. The oil price rise, the world-wide recession, and the swing in remittances all contributed to confusing the picture. As the analysis above indicates, under these circumstances it is impossible to estimate the required devaluation for an examination of differential inflation rates. Indeed, when so much is going on, it would seem that any partial-equilibrium analysis is very likely to be misleading and that a general-equilibrium framework is preferable.

CHAPTER II

A SURVEY OF PAST STABILIZATION POLICIES (AUGUST 1977 - NOVEMBER 1979)

DEMIREL's AUSTERITY PACKAGES

The measures taken in August and September 1977 could be divided into three categories:

1- Efforts to try and boost Turkey's exports and correct her balance of payments deficit
2- Weapons to fight inflation
3- Measures designed to step-up the pace of investments, help solve their financing problems and decrease the excessive losses of State-run industries.

Export Promotion

A total of sixteen measures had been introduced to boost Turkey's exports, which had suffered serious settlebacks and dipped to a low level. These involved simplification of export formalities: rearrangement of the "temporary imports system", under which certain basic materials were imported for re-export in the content of the final product; leasing of deposits in foreign countries to help the shipment of samples for a future export deal; furnishing medium-term loans (up to five years) to provide new import rights to exports of industrial goods and minerals (up to 50% of the value of their exports); allowing Turkish firms permission to import goods to the value of 50% of their convertible lira deposits in the Central Bank with a two or more year spread; enlargement of the imports with waiver regime, provided that the goods were confined to those on the Quota and Liberation Lists; providing new facilities to Turkish migrant workers to import their professional equipment; restrictions on the importing of luxury cars through the waiver system(other types of cars might be imported provided that the foreign currency equivalent of the customs duty was converted into Turkish Lira at the Central Bank); special incentives to promote Turkish cargo lines; exchange rate guarantee up to five years for hard cash remitted by Turkish migrant workers; rearrangement of the system of customs duty concessions and exemptions, taking into consideration the needs of the Turkish economy; balancing the difference between the domestic input prices of exporters and those of foreign competitors in order to promote industrial exports; permission for exporters to lease packaging machinery and similar machines so that they could increase their competition chances in foreign markets; measures to save foreign currency sold to Turkish travellers abroad. In addition, it was added that all conceivable measures would be taken to boost exports handled by both the private and the public sectors.

Fight Against Inflation

Measures to combat inflation involved the following:

1. No deficit-financing credits to be furnished by the Central Bank for budget or State-run industries' financing.
2. Additional provisions (of banks deposited at the Central Bank in proportion to their deposits) to be increased by 5%.
3. Import down payment ratios had been increased by 10% for goods under the Liberation Items List 1, and by 5% for goods under the Liberation Items List II and the Quota List. No increase had been ruled in down payments for imports by industrialists under the so-called quotas ear-marked for the sole purpose of industrialists.
4. Production to be boosted and State aid to be provided for the completion of private sector investments and incomplete projects.
5. Credit sales (on an installment basis) had been limited to 12 months (a move designed to curb consumer demand).

Another measure to prevent the outflow of hard cash was introduced when the Government announced that Turks holding a valid passport could not claim more than a total of 600 dollars worth of foreign currency in one year for travelling abroad for tourism purposes. Previously, every Turk was allowed abroad for a tourist trip three times a year.

Investments

The debt-ridden State Economic Enterprises have long been a running sore in the Turkish economy. Their financial losses reached about TL 40,000 million and the Government budget could no longer shoulder this burden. In a move to offset their losses, to provide a new source of revenue for the Treasury and to provide new investment financing means for State-owned industries. price increases had been introduced on a number of basic goods and services. But in doing so, the government had avoided raising the prices of sugar, tea, salt, raw cloth, LPG and coal (for residential heating). Likewise, price of chemical fertilizer had been kept at the same level. and no increases had been imposed on the tariffs of the State-run Railways and Maritime Lines.

The steep price increases on petrol, cement, steel, paper newsprint and other basic goods ranged from 100 to 15%. The extra cash was planned to be used to balance the budget.

ECEVIT's
AUSTERITY PACKAGES

Ecevit government put into implementation stage by stage the long overdue measures to check inflation, curb the foreign exchange drain and promote savings.

Both the devaluation of the Turkish Lira on the 1st of March, 1978 and the related measures as well as the measures introduced in April 1978 need to be assessed as a single package.

Turkey entered 1978 with a stand still in foreign exchange transactions, overdue Convertible Lira Deposits, growing liabilities in the form of imports on credit and some partial attempts for stabilization.

The Ecevit Government was determined to do two things at the same time.

1. Change the structure of the Turkish Economy in a well defined direction.
2. Get Turkey out of the bottleneck she was in.

Structural change required a number of long run measures, while to get out of the bottleneck required short term measures and concessions.

The list of concessions had been prepared by IMF and included the following:

- A devaluation at an appropriate rate.
- Control of the money supply.
- A less ambitious investment target and a smaller budget
- An upward revision of the prices of State Economic Enterprises.

- Limitation of current spending and wages and salaries kept within limits.
- Rationality was to be the basis of agricultural support price policies.

Starting with March 1st 1978, the following measures were taken:

- The 1978 Budget was kept within austerity limits
- There were no new investments in the 1978 Annual Programme. A low rate of growth was accepted.
- The Turkish Lira was devalued.
- Tax deductions on exports were decreased.
- Prices of some SEE products were increased.
- The Import Programme was determined at levels below the 1977 actual level.
- Rates of interest were changed.

Some other measures were taken in accordance with the Government's policy frame:

- Limitations were brought to the use of Convertible Lira Deposits
- Limitations were also brought to Importation on Credit.
- Limitations were brought to private sector's activity in the trade of iron and steel and the exploitation of mines.

Phase I (February - March 1978)

Phase one of the package concentrated on eliminating the guarantee provided by the Central Bank against changes in the exchange rate for convertible lira deposits, on imposing an end to the short term foreign borrowing, on stiffer controls on imports with waiver, on encouraging Turkish workers abroad to channel their savings into the Turkish Economy.

One of the measures was the discontinuance of the Central Bank's guarantee against changes in the exchange rates for convertible lira deposits -- a type of short term foreign credit widely used by private enterprise in Turkey to finance imports.

Another Government measure involved tighter control of imports with waiver.

As of March 1st, 1978, Turkish travellers returning home were not permitted to import anything other than "their personal belongings".

Migrant Turkish workers in particular were encouraged to transfer their savings home in cash rather than to flood the home markets with a variety of consumer goods, such as radios, tape recorders, TV sets, cameras, etc. The public display of such goods imported by returning travellers was banned as of March 1st 1978.

Foreign trips for tourism purposes were restricted to one journey every two years. And the maximum amount of hard currency allotted for each traveller was set at $ 500-down from the previous year's level of $ 600 and from the old time-high of $ 800.

Imports through the "acceptance credit" system have also been hard hit. The list of goods that could be imported with such credits had been narrowed down and several items such as marine vessels built in foreign dockyards, agricultural tractors, CKD parts for motor cars, aircraft and helicopters, telecommunication devices (excluding those used in the manufacture of TV sets), natural and man-made rubber, artificial fibers, marino wool and jute sacks were letf out of the list.

Imports of steel and petrochemicals through acceptance credit were to be handled entirely by the public sector.

Tight - Budget

At the end of Phase I of the package, the 1978 fiscal year budget was pushed through Parliament. This was kept as tight as practical to try and increase State revenues through a series of tax measures and to keep State expenditures as low as possible.

Then came the introduction of the 1978 investment programme, which aimed at a modest growth rate of 6.1% in 1978 and at increasing exports and decreasing imports.

1978 Devaluation

The devaluation announced on the 1st of March, 1978 was just one of the measures taken by the government to check the economic recession and to drag the country back from the bottlenecks.

Under the new parities, the Lira lost 23% of its value against the Dollar, 25% against the German Mark, 27% against the Swiss Franc and 24% against the Pound Sterling. This was Turkey's biggest devaluation since 1970 when the Lira was devalued by 66% against the Dollar. It complemented a 10% devaluation of September 1977 that was widely considered inadequate in banking and business circles.

A day after the devaluation, the Ministry of Finance made a thorough reshuffle of all tax rebate rates for exports. The idea appeared to be to ease the Treasury burden, since with the devaluation, major export commodities would become more competitive in world markets and sell better. Thus rates of tax rebate were considerably lowered and rebates for cotton and tobacco exports completely waived.

Phase II (September 1978)

Phase II contained a reshuffling of the money and credit system. The aim was to promote voluntary savings, curb money supply and to discourage consumer spending.

Interest Rates

The interest rates on bank deposits were increased as a part of the package.

Interest rates for savings deposits were raised and bank credits were made more costly. Banks increased their prime lending rates to 16% from 14% -- which meant that the final cost to the borrower would be around 25%, taking into consideration bank charges, fees and duties. But the Central Bank also created a new fund, the so-called "Interest Difference Rebate Fund", which was used to help finance credits for selected investment projects.

Following these measures corresponding adjustment in the rediscount rates by the Central Bank was announced. General rediscount rate was raised from 9.0% to 10%.

Phase III (March 1979)

The "Economic Rescue Programme" was announced by Prime Minister Bulent Ecevit on March 21, 1979.

The new austerity plan, designed to cure the national economy laid special emphasis on Turkey's own resources to maintain a steady rate of growth in the GNP. It ruled out a devaluation - for some time - and relied almost wholly on domestic remedies.

The six major targets of the Recovery Program were:

1. To ease the critical foreign currency situation.
2. To reduce the rate of inflation
3. To increase use of productive capacity
4. To discourage consumption and channel savings to priority areas
5. To concentrate new investments in certain key areas and give priority to incomplete investments
6. To achieve a just balance in income distribution and to take measures to ease unemployment.

The main policy measures were declared as follows:

- Public spending will be cut down, to effect a slowing down of price increases. Surplus office staff and workers will be reduced under a programme and by exchange among organizations.
- Local administrations will increase their services to help cut down the increase in prices, public transport of state enterprises will be subsidized and encouraged. Reduced fares will be applied on ships and on the railway.
- Regulatory sales of basic goods by municipalities will be reorganized so as not to adversely affect private shopkeepers.
- To step up production, priority will be given to power production and irrigation.
- The technological and productive potential of the Turkish armed forces will be fully utilized.
- The resource of the state and the public will be combined for exploitation of minerals.
- The shift back to coal from fuel-oil will be accelerated.
- Private transport will be temporarily restricted to save fuel.
- Measures will be taken to decrease unemployment and labour-intensive projects will be extended.
- Consumption of luxury goods will be restricted, and producers of such goods will be encouraged to export.

- Firms will be encouraged to profit from increased sales instead of high profits.

- The production and export targets of several key State economic enterprises, have been re-arranged and increased through the revision of the 1979 investment programme.

The Supreme Planning Council has advised the government to promise extra bonuses to the personnel of state economic enterprises who surpassed their production targets. The same ruling has also set new export targets for the same enterprises.

Under another government ruling, the State Economic Enterprises were required to earmark 25% of their increased revenues through higher prices for a new support fund. The fund would in turn be used to cover the operational requirements of enterprises that did not increase the prices of their goods and services.

Multiple Exchange Rate System
for Workers' Remittances and Tourist Currency

On April 10, 1979 the government moved to eliminate the wide cross-rate differences created in the foreign exchange rates of the Lira.

The parity of the Lira against the U.S. Dollar was readjusted in view of the steady rise in the value of the dollar in international markets. The new parity was set at TL 26.50 from the previous value of TL 25.

While other exchange rates remained the same, the Lira was revalued against the Swiss Franc. The new parity to the Swiss currency was set at TL 15.50 instead of the previous TL 16.67.

A second move, apparently designed to attract more hard currency into Turkey, involved a 40% premium for all workers' remittances and hard currency exchanged by incoming travellers at State supervised exchange offices. It also covered additional premiums for hard cash remitted to Turkey. According to a Finance Ministry communique, for all hard currency, the holders of which were under no obligation to transfer to Turkey, an additional TL 10 premium would be paid per Dollar for one month, until May 9. The additional premium would be lowered to TL 5 per dollar in the following month. After June 9, the additional premium system would be discontinued.

Though this operation had been described as "preferential treatment" for workers' remittances and tourist money, this was tentatively an introduction of a multiple exchange rate.

Exporters would continue to pe paid TL 26.50 for every Dollar they remitted home.

Measures Aimed to End Illicit Gold Trading

The Finance Ministry obliged all gold traders to obtain a license from the Ministry.

Gold traders receiving such permit would also be required to hold special books to register all gold transactions. They would keep record of all gold inflow and outflow (sales) as well as the amount and location of gold the trader kept for non-commercial purposes.

Financing of Export Manufacturers' Import Requirements

The Finance Ministry had allowed manufacturers (the so-called exporting industrialists) to use half of their foreign currency revenue for their own import needs. Previously, such manufacturers were allowed to use only 25% of their foreign exchange income for import financing purposes.

Bank Interest Rates

The decision on bank interest rates, effective on May 1, 1979 was taken under the Economy Strengthening Program by the Council of Ministers.

In general, all interest rates on lending, credit, deposits, investments included in the annual program, medium, long and short term credits were increased but interests on credits received by the state sector and cooperatives were unchanged.

INTEREST RATES on BANKING OPERATIONS

Date	Demand Deposits	Time Deposits *(over 1 year)*	Medium Term Credits	Agricultural & Artisans Credits	Others
1. 4.1969	2.5	7.0	-	9.0	10.5
1.11.1970	3.0	9.0	12.0	10.5	11.5
1. 3.1973	3.0	6.0	12.0	9.0	10.5
1.10.1974	3.0	9.0	14.0	10.5	11.5
1. 4.1978	3.0	12.0 - 20.0	16.0	10.5	16.0
1. 5.1979	3.0	20.0 - 24.0	20.0	16.0	19.0

INTEREST RATES of BONDS

Date	Government Bonds	Private Sector Bonds
30.5.1978	11 %	18 %
30.5.1978	14 %	- %
15.6.1978	-	21 %
8.5.1979	18 %	-
11.5.1979	-	25 %

New Procedures on Lending

According to the Central Bank Board of Directors decision on the basis of the decree by the Council of Ministers, the interest on medium and long term credit was increased from 16% to 20%. Short term preferential credits extended by the Central Bank had the interest raised from 14 to 16% and the interest on all other credits was raised from 16 to 19%.

The ratio of the interest banks receive to be transferred to the Central Bank to build the Interest Difference Rebate Fund has also been increased.

The interest rate of agricultural credit extended by the Ziraat Bankasi (Agricultural Bank) has been increased from 10.5% to 14% for short term and from 10.5% to 16% for medium and long term. The interest rate on credit Halk Bankasi (People's Bank) extends to small industrialists and tradesmen has been increased to 15% for short term and 16% for long. The interest on medium and long term credit extended by the Turkiye Emlak Kredi Bankasi (a bank that extends credit to purchase of housing primarily) has been determined as 12%.

Preferential Status of Migrant Workers

It was declared that higher interest rates should be applied to saving accounts opened by migrant workers either by transfer of foreign currency or by exchanging banknotes. The interest on deposits with a term between 1 and 3 years would have 10 points added to the normal interest rate and savings with a term longer than 3 years, 15 points. The difference would be met from the "Interest Difference Refund" The purpose of this practice was to encourage thrift among migrant workers and an incentive to send their savings through legal channels.

Interest Rates for Investment Credits

Amendments were also made in the interest for credits to be extended to investments in the general incentive tables of the annual programs. The table was prepared in a different manner than previous years and the scope has been widened. A determination was made of interest rates of credits to be extended to export oriented fields and mass transportation investment credits to be extended to municipalities.

Rediscount Rates

The Central Bank has redetermined "medium term industrial rediscount credits" and sent the list to banks concerned.

Under the new organization, conditions governing requirements for fixed capital and net assets to receive credit for project investments have become more strict. The previous term of 3 years for operation credit extended by banks has been increased to 5 years. A new requirement on bank's contribution has also been introduced.

The Central Bank has also raised the ceiling on fixed investment amount for projects. The previous ceiling of 10 M (ex customs) has been raised to TL 30 M. In preferential sectors, the previous requirement of fixed investment value (ex customs) that was TL 5 M has been raised to TL 15 M.

All rediscount rates applied by the Central Bank were raised by 1-4%.

Export Oriented Industrial Investments
to Receive Interest Difference Refund

As a measure to increase export possibilities, new incentive principles had been introduced for investments in the industrial sector. Investments in the industrial sector would benefit from a "Interest Difference Refund" in addition to the principles adopted in the General Incentive Table.

Under the above practice, an investor that received credit to realize the export oriented investment would get the interest back from the "Interest Difference Rebate Fund". If it was found out that the credit was used for other purposes, the refund would nat be available.

Stand-by Agreement with IMF

Turkey's relations with the International Monetary Fund (IMF), since late 1977 during the Demirel Government and early 1978 when the Ecevit Government assumed power, was sealed with an agreement in July 1979 after the Executive Board of IMF approved the release of $ 325 million worth of credits to Turkey through a new stand-by arrangement.

Long before Turkey negotiated with the IMF, Western governments and banks made one thing very clear that their aid package would depend on Turkey's reaching an understanding with the Fund.

In 1979, however, Turkey negotiated with the OECD on a priority basis, and obtained aid pledges, then sat around a table with the IMF.

Turkey would be able to use $ 600 to $ 700 million of the total assistance pledged by the OECD and the Western banks in 1979. The remaining part, totalling almost the same amount, would be released in 1980.

Furthermore, a $ 60 million programme credit had been pledged by the World Bank. Thuş, Turkey would have the option of receiving $ 1,000 million worth of fresh loans until the end of 1979.

The Topics of 1979 Letter of Intent

The main commitments made under the 1979 Letter of Intent are as follows:

Turkey promised; to introduce exchange rate adjustements when necessary, to peg the Turkish Lira to a basket of currencies instead of the US Dollar, to limit the public sector borrowings from the Central Bank, to raise the prices of the products and services of the State Economic Enterprises and to improve their management, to restraint bank credits, to push the new tax reform bill through Parliament in order to extend the bugedtary revenues, to keep agricultural floor prices within reasonable limits, to balance wage increase and production output, to promote exports and to discontinue the multiple exchange rate system, to stop bilateral payment agreements with IMF members, to limit foreign borrowings, to limit the current accounts deficit to %4, to lower the inflation rate to less than %35 p.a.

3. REASONS FOR THE FAILURE OF THE AUSTERITY PACKAGES

Evaluated from the above mentioned angles the stability measures taken since August 1977 leave much to be desired, they seem to be slow, hesitant, late, ineffective, and deprived of complementary measures. In many instances, the measures failed because the prerequisites were not provided at the right time.

The accumulation of enough foreign exchange reserves before a devaluation is announced, seems to be the main bottleneck which did not allow an effective outflow and inflow of foreign exchange to take place. This bottleneck induced the reappearance of the black market even in cases where the after-devaluation rate of the foreign exchange was far higher than the last rate at the black market before devaluation.

On the other hand, the expectational inflation became so deeply rooted in the past few years that immediately following the devaluation prices increased nearly as much as the rate of the devaluation if not more. The low level of capacity use, the time lags involved in importing the necessary inputs, and the eagerness of the consumers to buy have all contributed in the rise of prices.

The rate of the devaluations of the currency were soon exceeded by ever rising prices, due to a large extent to the fact that the depreciation of the currency was not supported by additional immediate measures to curb domestic spending.

It is also clear that there should have been immediate further increases in the price of petroleum and other basic products.

However the basic reason for the failure of the stability package is that the policies were half heartedly adopted just to please IMF and they were not followed through. In particular the exchange rate arrangements did not preserve competitiveness of Turkish goods and services partly because the rates of the devaluations were often below the required rate, and partly because no further adjustments were made in order to keep the rate of foreign exchange at a realistic level. On the other hand the lack of additional measures to be coordinated with the devaluations allowed prices to increase at rates much higher than pre-devaluation rates. The main reason for the failure to obtain a sharp reduction in the rate of inflation by the end of 1978 as well as during the whole of 1979 is to be found in the weaknesses of domestic policies, the lack of timing and of coordination between the measures. In the case of Ecevit's policy mix the coexistence of short term measures to manage the economy and long term measures to change the structure of the Turkish Economy towards a direction considerably different from past trends has decreased the effectiveness of domestic policies.

Under these circumstances, the rate of inflation accelerated and with the exchange rate remaining unchanged, the competitiveness of the economy deteriorated. Tardiness in effecting measures to raise public sector revenue meant that the borrowing requirements of the public sector grew sharply and contributed to a very large increase in reserve money, in the last months of 1978 and all along 1979.

APPENDIX TO CHAPTER II

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES
(AUGUST 1977 - NOVEMBER 1979)

1977	
August 16	Prices of monopoly products are increased. (60-120 percent).
September 9	Package of measures: (1) Sales of pig iron, steel ingots, rolled products, sheets, cement and paper have been suspended. (2) Import guarantee deposit rates were increased to 30 percent from 20 percent for Liberalised List I and to 15 percent from 10 percent for Liberalised List II. (3) Prices of oil and oil products, cement, paper, iron, electricity, postal services and domestic air flight fares were increased.
September 12	Turkish tourists are allowed to travel abroad only once every year. The IMF mission departed.
September 14	The Minister of Industry and Technology and the Minister of Interior applied to the Governors of the Provinces in relation to price rises.
September 20	Duties on goods brought by travellers were regulated. New wishes were expressed by the Minister of Finance concerning taxes.

(continued..)

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: -*(Con'd)*

1977	
September 22	The Turkish Lira is devalued against the U.S. dollar by 10 percent. The new parity is TL 19,25 = $ 1. A tax refunding of 5 percent covering a number of export items was issued.
September 23	The right to regulate sales on installment was bestowed to the Ministry of Finance and to the Central Bank. Import guarantee deposit rates were increased.
September 26	Additional reserves against bank deposits were raised
September 27	Talks with IMF started in Washington.
October 3	30-50 percent import possibility against Convertible Turkish Lira Accounts was announced.
October 4	Government salaried personnel cadres were frozen until March 1978.
October 6	The Ministry of Commerce bestowed to Municipalities the duty to conduct price controls. Imports with waiver were made subject to further restrictions.
October 7	The Prime Ministry suspended purchases, auctions and renting of the Public Sector. Hiring of new personnel was discontinued.
October 8	Tax refunding of 10-15 percent and export price guarantee was given to the export of tobacco.
October 11	Imports with waiver of house goods were subject to further restrictions. Imports with waiver of cars was further regulated to preserve vested rights.
October 13	The IMF mission returned. Transportation prices of truck and busses were raised. Goods are to be labelled. A price stability fund is created.

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: - *(Con'd)*

1977	
October 15	Prices of vegetal oil and margarine were increased.
October 17	IMF insists on a lower rate of growth. Issue of new currency was accelerated.
October 18	Imports for 1978 were set at $ 6 billion.
October 19	Discussions with EEC on textiles and cotton thread. Civil servants and pensioners are granted an additional payment of TL 750 - 1000.
November 30	New regulations for the encouragement of exports. Foreign individuals and corporations who have or will deposits in Turkish Banks in the form of Convertible Turkish Lira Accounts are allowed.
December 1	Exports on credit are further regulated.
December 2	The Turkish Lira is further devalued. The minimum wage is raised by 47 percent from TL 75 to TL 110.

1978	
January 27	The 1978 Import Regime is announced. Imports are fixed at $ 4850 million as compared to $ 5800 million in 1977. Under a waiver from GATT stamp duties on imports are increased from 9-10 percent to 22.5-25 percent.
February 1	Sales on installments are further regulated. Interest rate increases to 20 percent.
February 17	Starting with March 1, 1978; (1) Turkish tourists are only allowed to travel abroad once every two years. (2) A travel tax of 50 percent is levied on purchase of foreign exchange and titles of transport. (3) Convertible Turkish Lira Deposit accounts, acceptance credits and foreign credits used to finance imports will no longer benefit from the changes in the value of the Turkish Lira. (4) Shops selling foreign consumer goods are closed. (5) Commercial banks are not longer permitted to utilize CTL deposits for import financing.
February 28	The annual lending rate for long and medium term bank credits is increased from 14 to 16 percent.

(continued..)

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: - *(Con'd)*

1978	
March 1	The Turkish Lira is devalued by 23 percent against the US dollar. The new rate is TL 25.00 = \$ 1 against TL 19.25 = \$ 1, previously. Higher interest rates starting with 1st of April. The interest rate on tax exempt treasury bonds is raised from 11 percent to 14 percent.
March 2	Tax refunding rates on exports are decreased.
March 8	SEE prices are increased for textiles, petro-chemical products, iron and steel, dairy, meat and fish products, railways, airlines and maritime transport.
March 28	Payments for differences of foreign exchange rates in imports against commodities is extended from 3 to 10 months.
April 25	Convertible Lira Deposits to be converted through pre-devaluation foreign exchange rates. The Central Bank increases rediscount rates from 7-10.5 percent to 9.5-13 percent.
May 30	The interest rate on tax-exempt treasury bonds is raised from 11 percent to 14 percent.
June 8	Profit margin for retailers is increased from 10 to 18 percent.
June 15	The Central Bank increases the interest rate on private sector bonds from 18 percent to 21 percent.
July 6	Tax rebates for exports are rearranged. The maximum rate is increased from 25 percent to 35 percent. The scope of goods enjoying rebates is enlarged to include textiles, products of the automotive and shipbuilding industry and other manufactured goods. Exporters are allowed to utilise 25 percent of foreign exchange earnings for financing their import requirements. Exports against acceptance credits are permitted.
September 13	The Government increases the price of fuel and sugar. The price of high octane petrol is raised by 69 percent, regular petrol by 63 percent, diesel fuel by 28 percent.

(continued..)

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: - *(Cont'd)*

1978	
September 19	New foreign capital and foreign credits to benefit from changes in the value of the Turkish Lira. This practice started in 1972, was later discountinued at beginning of 1977.
September 20	The interest rate on time deposits of 2 years and more of tax exempt social security organisations is limited to 14 percent.
September 21	Adjustment of Foreign Exchange Rates
September 30	Adjustment of Foreign Exchange Rates
October 4	Feed prices are increased
October 7	Adjustment of Foreign Exchange Rates
October 17	Adjustment of Foreign Exchange Rates
October 24	Adjustment of Foreign Exchange Rates
October 25	Salary indicators of government employees are changed. An additional allowance of TL 800 to TL 1000 for State employees and old age pensioners is granted to compensate the increase in the cost of living.
November 21	Price increases granted by the Price Control Committee to milk, butter, soap, detergents, automotive products, batteries and consumer durables.

1979	
January 1	Turkish citizens are only allowed to travel abroad once every three years.
January 27	The new Import Regime is announced.
February 27	Private banks are to deposit 50 percent of their foreign exchange income to the Central Bank. The 1979 Budget was enacted as 406.875 million TL.
February 28	Mixed feed prices were increased by an average of 23-35 percent.
March 8	Regulations of State auctions are changed. Provisional guaranties are increased, the limits of participation of foreigners to government auctions are expanded.

(continued..)

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: - *(Cont'd)*

1979	
March 11	List of Encouragement measures for 1979 are announced.
March 19	Price increases for iron-steel, cement, sugar.
March 20	Export price for cement is determined 130 TL per ton below domestic price.
March 21	A program for the Strengthening of the Economy is announced.
March 22	New principles are set for the implementation of the Foreign Capital Law within the limits of Law No. 6224.
March 24	SEE are made liable to create a surplus.
March 24	Foreign pharmaceutical firms were made liable to produce and export active ingredients of pharmaceuticals
March 27	Production and Export targets for SEE were announced.
March 27	A Fund for Oil Exploration for regulation of oil activities is established in the Central Bank.
March 29	Interest rates are raised. The interest rate on tax exempt treasury bonds is raised from 14 percent to 20 percent.
March 31	The Ministry of Industry publishes a list of leading initiatives.
April 1	Exporters are to bring in 45 days their foreign exchange proceeds.
April 5	Minimum wage is being adjusted.
April 5	Official cars of 6-8 cylinders to be replaced with home-made cars.
April 10	The parity of the Turkish Lira against the US Dollar was readjusted to 26,50 from the previous TL 25.00= $ 1. 40% premium for all workers' remittances and hard currency exchanged by incoming travellers at State-supervised exchange offices. In addition a 10 TL premium to the dollar until May 9 reduced to 5 TL thereafter until June 9, 1979. Manufacturers allowed to use half of their foreign currency revenue for their import needs.

(continued..)

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: - (cont'd)

1979	
April 11	All those dealing commercially with any kind of gold are obliged to get permits from the Ministry of Finance.
April 12	Entrepreneurs employing Turkish workers abroad have to transfer half of the income of their workers to Turkey.
April 13	The rates of interest for bank credits have been raised. Interest rates for medium term credits were raised to 19 %, interest rates for priority projects to 16%, and commercial credits to 20%. These rates were 16%, 14% and 16% respectively. Banks will deposit 7% of the commercial credits and 2% of the other two to a special fund to be opened within the Central Bank.
April 16	Interests for loans of medium and long term were raised from 16% to 20%. Interest on short term credit from 14% to 16%. For all other loans interests were raised from 16% to 19%. 10% additional interest will be given to workers who will exchange their foreign exchange into Turkish Liras and deposit them on 1-2 year term into a bank deposit.
April 26	The interest rate on state securities has been raised to 18%.
April 30	Rediscount rates for the Agricultural Sector, small industry and artisans have been raised to 11.5% from 8%. Rediscount rates for Turk Halk Bankası raised to 12%.
May 1	Minimum wage was raised to 180 TL. per day or 5400 per month from 110 per day or 3300 per month.
May 14	Rate of interest on securities of the private sector has been raised to 25 (from 21).
May 23	The export regime for 1970/1980 was announced.
June 1	Minimum wage in the agricultural sector was raised to 160 TL perday from 90 TL.
June 4	Agricultural support prices for all cereals, living stock and wool have been declared.

(continued..)

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES: - (cont'd)

1979	
June 6	Meetings for Turkish-Soviet Union Economic Cooperation have lasted, after signing 7 different agreements.
June 7	Turkey asks for "bridge financing" from the Bank for International Settlements.
June 9	New regulations for the encouragement of exports have been declared.
June 11	Prices of agricultural fertilizers are announced.
June 12	Turkish Lira has been devalued against all foreign currencies (24% on the average) Tax rebates on exports have been lowered. Prices of petrol and alcoholic drinks are increased.
June 13	Prices of all iron-steel products have been increased
July 6	Total import volume for 1979 is being planned to rise to $ 6.4 billion.
July 18	The foreign exchange rates of the Turkish Lira have been readjusted (except the USA $ rate.)
July 20	The Letter of Intent of the Turkish Government was approved by IMF.
August 29	Agreement was made for the postponement of 2.2 billion dollars worth of CLD debts.
October 14	Partial elections were held. The Justice Party won all 5 parliamentary seats.
October 16	Results of elections of Senators: Justice Party 33, Republican People's Party 12, National Salvation Party 4, Nationalist Action Party 1. Distribution of votes: J.P. 47%, RPP 12%, NSP 9%, NAP 6%.
October 17	Prime Minister Ecevit resigned.
November 14	A new government was formed under Prime Minister Demirel.
November 26	Prime Minister Demirel received a vote of confidence (229 Yes, 208 No, 1 undecided).

CHAPTER III

THE MAIN INGREDIENTS OF PRIME MINISTER DEMIREL'S STABILIZATION PROGRAMME

The Demirel Government came into office at the beginning of 1980 and initiated a stabilization programme as of January 25th, 1980.

The stabilization package includes both traditional policy measures and new elements aiming at qualitative changes in the functioning of the economy. Devaluation of the Turkish Lira, price increases for the key products of the State Economic Enterprises, abolishment of subsidies of a number of key commodities and new interest rates for commercial bank credits are the main elements of the first category. A strong move toward more liberal economy by price decontrols both in the public and private sectors, more liberal policy towards private capital both domestic and foreign are the principal elements of the policies in the second category. There are also elements of a third category aiming at improving the deterioration of income distribution through a revision of these laws. This last category includes also some elements alien to the package and introduced during the debates of the 1980 budget in the parliament and the senate, as in the case of the rise of salary coefficients from 25 instead of 22 as has been proposed by the Government.

A SYSTEMATIC CLASSIFICATION of THE POLICY MIX of THE STABILIZATION PROGRAMME

A. MEASURES to INCREASE FOREIGN EXCHANGE EARNINGS

- Devaluation
- Reduction of stamp duties on imports
- Abolishment of import duties for the imported inputs of export products
- Establishment of Price Stabilization and Support Fund
- Encouragement of prefinancing exports
- Automatic adjustment of cross rate differentials
- Additional promotion measures to exporters and industrialists
- New rules for the purchase of offices and residential housing by Turkish workers abroad against foreign exchange.

B. MEASURES CONCERNING PRICE FORMATION

- Abolishment of the Price Control Committee
- Autonomy of State Economic Enterprises in price fixing
- Elimination of subsidies from certain commodities, decrease of the rate of subsidization in the case of some other commodities.
- Exemption of the import of newsprint from import taxes.

- Substantial price increases for every key commodity produced by the State Economic Enterprises
- Price hikes for petroleum products

C. MEASURES RELATED TO INCOME DISTRIBUTION

- Indexation of wages
- Revision of tax rates, tax immunities.

D. MEASURES CONCERNING FOREIGN CAPITAL AND FOREIGN FIRMS

- A frame decree on foreign capital bringing a more liberal attitude to law 6224.

- Payment scheme for non guaranteed foreign commercial debts
- Amendments to the fund decree number 20 (concerning oil production)
- A new policy decision on oil exploration

E. ADMINISTRATIVE MEASURES

- Establishment of the Coordination Committee
- Licensing requirements in exporting reduced
- Abolishment of export registration
- Establishment of the Money and Credit Board
- Establishment of the Foreign Capital Department within the Prime Ministry
- Establishment of the export and Investment Encouragement Department within the Prime Ministry

F. LEGISLATIVE MEASURES

- Abolishment of the decree on the nationalization of the mines
- Abolishment of State monopoly in cigarette manufacturing
- Revision of tax laws
- Authority to issue decrees for encouraging export and investments.
- Abolishment of State monopoly in cigarette manufacturing

THE GOALS of THE POLICY MIX

The goals of this package of measures are to curb the galloping inflation, to improve the balance of payments, to increase national product and employment and to open the economy to the rest of the world.

Will the government succeed in attaining these goals?Much will depend on the success of the government in overcoming the acute foreign exchange crisis, utilizing the existing productive capacity at a higher rate by procuring the required material and energy inputs.

One important factor contributing to success is the fact that inflow of foreign credits and rescheduling of debt at a considerable scale has almost been guaranteed. Mobilization of foreign currency necessary for long run recovery and growth. will necessitate that domestic resources should also be mobilized and employed in the most efficient way.

It can be argued that the market mechanism has also become alien to the Turkish Economic System for such a long period that it will take time to demolish the distorted price mechanism.

ANALYSIS of THE ECONOMIC POLICY MEASURES

The package of policy measures unfolded on January 25, 1980 has been intended to be a shock treatment for the ailing economy. Devaluation of the Turkish Lira and price hikes for all types of petroleum products, coal for industrial use and residential heating, paper, cement and all types of steel products, cigarettes and alcoholic beverages, sugar, railway tickets are a small part of the huge package of measures. Included in the package is the important decision to grant autonomy to the State Economic Enterprises in fixing the prices of their goods and services with the exception of coal, fertilizers and electricity. Price Fixing Control and Coordination Committee established by the former government has been abolished. These two decisions are in accord with government's determination to let the market forces play their role in the formation of prices.

With a decree entitled "Framework for Foreign Capital" a series of measures have been introduced to accelerate and facilitate the inflow of foreign capital. A new national oil policy has been drawn up. This new policy will utilize all available domestic and foreign means for the exploration and production of oil.

Traditional export promotion and monetary measures have also been included in the package. But the monetary measures seem to be the weakest element. The government has sufficed with increasing the lending rates of commercial banks, keeping the interest rates of the Central Bank unchanged.

Administrative measures include the establishment of a Foreign Capital Division and an Export and Investment Promotion and Implementation Division within the Prime Ministry. A new Money and Credit Board has been formed to prepare policy suggestions on monetary policy. The Coordination Board consisting of the undersecretaries of various ministries will coordinate the economic policies and activities of all governmental departments.

Policy measures include also the extension of foreign exchange position of the authorized banks, government decree for the liquidation of non-guaranteed trade arrears and a new decree on foreign exchange allocation to tourists and businessmen.

The Devaluation

With the devaluation of January 25, 1980 the parity between the Lira and US dollar was reduced from TL 47.10=US$1 to TL 70.-=US$ 1. This is the second largest monetary operation of the last decade after the 77.7% devaluation of the Turkish Lira undertaken by the former government on June 1979.

Along with the devaluation, cross rates have been readjusted to eliminate differentials therein.

Measures Complementary to Devaluation

The government introduced also several complementary measures to adjust the economy to the new parity rate. One of the measures is the establishment of Price Support and Stability Fund with the Central Bank. Revenues of the Fund will come from the export earnings of those agricultural products included in the agricultural support purchase scheme. The amount of premium to be collected from the export of these goods will be determined and announced by the money and Credit Board for each export season on advalorem or specific basis.

Amount accumulated at the Fund will be utilized to subsidize agricultural inputs, and for the protection of agricultural producers against fluctuations in prices for the promotion of exports and financing of export oriented projects and for export insurance according to the principles to be laid down by the Money and Credit Board.

In order to reduce the impact of devaluation on the cost of imported input the government reduced the rate of stampduty on imports from 25% to 1%.

For imports which have not yet been cleared from the customs the difference between the old and new rates will be collected by the intermediary commercial Banks and deposited to the special account established at the Central Bank within five days following the payment by the importer.

The time period allowed to the importer to pay the difference in the exchange rates depends on whether the imported goods are on the investment quota or not. Time period allowed for the payment of exchange rate differences is up to three years for investment goods tied to a specific investment project or imported under the investment quota list. In this case the payable amount will be paid in 12 equal installments, the first of which will be paid at the time the goods are cleared from the customs. In the case the imported goods are not tied to an investment project the payable amount will be collected from the importer in four equal installments.

In case of imports for which foreign exchange has not yet been sold by the Central Bank or authorized Banks but for which the Turkish Lira counterparts have been deposited the collection of exchange rate differences will be made as follows: If the goods have not yet been imported the difference will be collected lumpsum at the time of the transfer of the foreign exchange. In case importation has already been affected due differences will be collected at the time of the transfer.

Exports effected prior to the devaluation will be paid at the new rate where foreign exchange earnings are remitted.But the difference between the old and new rates will be deposited at the special Account with the Central Bank. Exporters remitting their foreign exchange earnings one month before the deadline will receive an extra premium of TL 5 per dollar.

Limiting Scope of
The Multiple Exchange System

With the operation the scope of the multiple exchange rate system has been considerably narrowed. Formerly, imports of crude, petroleum products, fertilizers and imputs used in the production of fertilizers were subject to the lower rate of TL 35=US$ 1 along with the exports of agricultural commodities covered by the support purchases scheme. The new policy is that only the imports plus pesticides and insecticides will be subject to a lower rate of TL 55=US$ 1. All other international transactions will be subject to the higher rate of TL 70=US$ 1. Though exports of agricultural commodities covered by the support purchases scheme (tobacco, raisins, hazelnuts, cotton, dried figs, olive oil, molasses, livestock, cereal) will receive the higher rate, a premium to be determined by the Money and Credit Board will be collected from the exporters to be deposited at the Price Support Stabilization Fund established with the Central Bank.

Monetary Policy Measures

Monetary Policy measures of the Stabilization Programme indicate that the government has sufficed by adding 2 to 5 points to the lending rates of the commercial banks. Interest rates charged on the medium and long term credits of commercial banks have been raised from 20% to 22% and the rate on short term credits from 16% to 21%.

LENDING RATES of COMMERCIAL BANKS

	Old %	New %
A. General		
a. Medium and Long term credits *(minimum term 2 years)*	20	22
b. Short term credits	16	21
B. Specific		
a. Agricultural credits extended by ZIRAAT BANKASI *(Agricultural Bank) (including the producers support credit extended by Agricultural Sale Cooperatives Union)*		
-- Medium and Long term credits	16	18
-- Short term credits	14	16
b. Occupational credits extended by TÜRKİYE HALK BANKASI *(People's Bank)* to small industrialists, artisans, merchants and merchant's associations		
-- Medium and Long term credits	16	18
-- Short term credits	15	17
c. Medium and Long term credits extended by TÜRKİYE EMLÂK KREDİ BANKASI *(Housing Credit Bank)* on housing and construction saving	12	14
d. Credits extended by ZIRAAT BANKASI on the sale amount of bonds according to Law 5389	5	5
e. Credits extended by development and investment banks by bonds to be floated with a term of at least 5 years	free	
f. Credits with a term of over 5 years *(inclusive)* subject to a grace period of at least 2 years *(The source of these credits will be the saving deposits in banks with the rates of interest freely determined and the total cannot exceed the subject deposits)*	free	

Pricing Policies

A distinguishing characteristic of the Stabilization Programme is its emphasis on the forces of the market in the determination of prices.

The scope of this policy is manifested with price de-control as its key element. Most dramatic move in this direction is the decision of the government to grant autonomy to the State Economic Enterprises in determining the market prices of their goods and services.

According to the law regulating their operations the State Economic enterprises are *de jure autonomous* in their pricing policies. But the *de facto* situation has frequently been different with governments interfering with adopted policies which kept prices below production costs in order to appeal politically to the public opinion. All this resulted in huge losses.

The government has taken a drastic departure from this policy and aimed at putting the State Economic Enterprises within the orbit of market mechanism. The decision adopted is that with the exception of three commodities considered as basic goods and transportation services all the State Economic Enterprises will be autonomous in determining their prices, and adjust them to changing costs whenever they seem necessary. The three basic goods that will continue to be under government's control are electricity for the production of ferro-chromium and aluminium, coal and all kinds of fertilizers. In addition to these the government will continue to control the prices of the services supplied by the State Railways, Turkish Maritime and Turkish Cargo Lines.

It is true that the problems of the State Economic Enterprises do not end with price increase. The more important task is to reorganize them in such a way that they become profit earning institutions. But this requires much more work and political courage. Over employment, mismanagement, inefficiency, lack of incentives for higher productivity are some of the major problems facing the State Economic Enterprises. Unless these problems are eliminated price hikes may prove to be an illusory and transitory solution.

Export Promotion Measures

The Stabilization Programme includes an important step forward to reorganize all of the export promotion measures implemented in Turkey. Activities concerning export promotion measures had been carried out by two General Directorates for promotion and implementation attached to the Ministry of Commerce and Ministry of Industry and Technology, These directorates have now been abolished and instead a Department for Promotion and Implementation has been established within the organization of the Prime Ministry. This Department will be responsible for all activities regarding promotion of export.

Exporters will submit an export project to the department. If the project is approved it will receive an Export Promotion Certificate. Holders of this certificate will benefit from the following privileges: services of the commercial banks and of the Central Bank in providing credits to the exporter and the services of the insurance companies will be exempted of the Banking and Insurance Tax and of all kinds of stamp duties and fees. Foreign exchange will be allocated to exporters for the import of the raw materials to be used in the production of the commodities pledged to be exported, for the import of the expansion of investment goods, for the expansion of their plants or for the import of goods and raw materials needed by themselves or affiliated industries. But the foreign exchange to be allocated to the exporters for these purposes cannot exceed the FOB value of the export. Imports of the materials to be used in the production of exports pledged will be exempted from all import taxes and duties.

An Export Promotion Fund has also been established with the Central Bank to finance the preparations for export and to finance exports on credit. The revenues of the Fund will come from the import guarantee deposits. 50% of the import guarantee deposits of the importers with the Central Bank will be transferred to the Export Promotion Fund to be used in the financing of exports.

Foreign Investments

Under the new package, the government has launched a series of measures to expedite and facilitate the inflow of foreign capital into Turkey. The new policies also cover oil operations in Turkey.

A decree called "Foreign Capital Frame Decree" introduces several new clauses. According to the decree, foreign investment applications will be considered provided that they:

- help the economic development of Turkey,
- operate in a field which is open to the Turkish private sector,
- do not represent a monopoly or a special privilege.

All foreign investment applications will henceforth be considered by the Foreign Capital Department of the Prime Ministry.

All applications to invest in Turkish banks or to open representative branch offices of foreign banks in Turkey are filed with the Foreign Capital Department. But the final decision shall be made by the council of ministers, which will act upon the recommendations of the finance and trade ministries.

Another decree on foreign investments involved the application of new exchange rates on the capital in cash, in kind and immaterial rights, influx of foreign investors.

Accordingly, capital and credits that have been brought into Turkey before January 25, 1980 and exchanged at the official departments, and capital and credit in kind of machinery and the like that have been ordered to be cleared from the customs before the same date plus immaterial rights on which a final cost evaluation has been made, will be subject to the previous exchange rate of US$ 1 = TL 47.10. Any capital and credit that will be imported after Jan. 25, 1980 will be subject to new rates.

General Rules on Foreign Investments

According to the general rules, any investment in Turkey in which foreign ventures will participate cannot have a fixed investment value of less than US$ 2 M or more than US$ 50 M. The foreign capital equity in the capital of the proposed venture shall not be less than 10% and more than 49%. And foreign capital participation shall be worth at least one million US dollars.

Foreign capital is welcomed in the following fields:

Agriculture

a. Seed production
b. Breeding cattle raising
c. Production of animal feed plants
d. Integrated livestock projects

e. Production of fresh fruit and vegetables for export purposes
f. Other investments that will help promote technological advancements in agriculture.

Mining

All mines with the exception of those who have been taken over by the state by the Mining Act.

Food Industry

All types of food stuff investments provided that 30% of the output 1s exported.

Textiles

a. Knit-wear and ready-ware industries with a 50% export clause,
b. Ready-wear allied industries.

Forestry Products

a. Furniture making facilities with a 50% export clause,
b. Furniture allied industries.

Chemical Industry

Iron and Steel

a. Casting facilities
b. Forcing and pressing facilities

Non-Ferrous Metals

All types of facilities

Motor Vehicles

a. Shipyards
b. Refrigerated trucks and trailers
c. Aircraft and helicopters (with the cooperation of TUSAS)
d. Marine diesel engines
e. Diesel engines (with the cooperation of TUMOSAN).
f. Gasoline-powered engines
g. Bus (40% export clause)
h. Trucks (25% export clause)
i. Automotive allied industry

Metal Goods Industry

30% to be exported

Measuring - Control &
Optical Devices & Tools
Machine Tools,

a. Fields where cooperation of TAKSAN will be sought
b. Other fields

Steam-Water & Gas Turbines

a. Projects in which the cooperation of TEMSAN will be sought
b. Other fields

Industrial Machines
Heavy Duty Machines
Electric Machines

a. Projects in which the cooperation of TEMSAN will be sought
b. Other fields

Electronics Industry

a. Projects to be handled jointly with TESTAS
b. Other fields

Applications for capacity increases will be reviewed by the Foreign Capital Department on the condition that no changes are made in the equity distribution and field of operation.

In investments where the participants of the Islamic Development Fund, the International Finance Corporation (IFC) and similar international organizations are in question, there will be no restrictions regarding the field of operations and the amount of the fixed capital.

In investments to be undertaken by Saudi Arabia, Libya, Iran, Iraq, Kuwait, United Arab Emirates, Bahrain and Qatar in Turkey which are export-oriented, restrictions on the fixed investment amount and the equity participation will be waived. Similarly, all supplementary investments to be undertaken by these same countries will be exempt from the restrictions listed at the outset of the new Foreign Investment Decree (like the fixed investment amount, equity participation, fields of operation and the minimum foreign capital investment).

For investments in the Turkish tourism industry, the restrictive clauses concerning foreign equity participation and the fixed investment limits will be disregarded. But such investments must be of the following nature:

- Tourism complexes larger than 400-bed capacity, and allocation at least 75% of the available capacity to foreign traveller.
- Minimum 400-bed capacity hotels and integrated hotel and motel complexes.

If any foreign venture is 25% owned by Turkish expatriate workers then the same venture can control more than 49% of the equity in any investment it undertakes in Turkey.

Administrative Measures

Several new departments have been formed within the governmental organization in order to carry out the measures of the Stabilization Programme and to coordinate the activities of various ministries.

Hitherto responsibilities concerning foreign capital were scattered among various ministries. The newly established Foreign Capital Department within the Prime Ministry will overtake the responsibilities of the various ministries relating to commerce and industry. Thus, activities concerning promotion measures will be directed from a single department.

Money Credit Board established with the decree # 8/166 on January 24, 1980 will be composed of the undersecretaries of several ministries, the governor of the Central Bank. The Board will be responsible for securing coordination in the implementation of monetary policies, observing the developments in the balance of payments and taking the necessary measures, drafting proposals on agricultural support purchases and their prices, and providing for the distribution of credits according to the principles of the Development Plans. The Board will be chaired by the undersecretary to the Prime Ministry.

The Coordination Committee established within the office of Prime Ministry will be chaired by the Undersecretary of the Prime Ministry and will be composed of the undersecretaries of various ministries including that of the State Planning Organization, the governor of the Central Bank and the secretaries of the various chambers of commerce and industry. The Coordination Board will be responsible with securing coordination among the concerned ministries relating to the implementation of the Development Plans, for preparing the principles of the import and export regimes, for providing coordination in matters concerning external economic relations, and import projects.

Non-Guaranteed Trade Arrears

Along with the government's new Stability Programme, a long-standing Turkish plan for the liquidation of non-guaranteed trade arrears, involving indebtedness incurred principally as a result of cash against goods and cash against documents transactions was set into motion. These debts have been incurred for goods that were imported into Turkey before 30.6.1979. Though payments had to be made before that date, the Central Bank had defaulted because of enormous transfer difficulties.

If Turkey's creditors accept the plan, non-guaranteed trade arrears, also called Suppliers Arrears, may be liquidated in two separate schemes.

The Turkish Lira Option

Such option may be elected for the full amount of the claim, upon satisfaction of such conditions as shall be provided by the relevant Finance Ministry communique. If the creditor accepts payment in the Turkish Lira, then proceeds of these accounts may be used for the following purposes.

a. To finance the Turkish Lira expenses of the staff of the creditor firm (their spouses and members of the family included) for touristic visits to Turkey.

b. Investments in all types of tourism projects.

c. As the new capital injection, operational and/or revolving capital funds of existing and/or would be set up foreign capital firms in their investment and/or expansion projects.

d. To pay for the freight charges of Turkish flag vessels, which are transporting goods between foreign countries.

e. To extend credits to the importing firms which have imported goods into Turkey.

Deferred Foreign Currency Option

Turkey's creditors may also elect to demand payment in foreign currency for their outstanding claims.

If this option is preferred, then payments will be made according to the following schedule.

Number of Months After Acceptance Date	Payment Installments as % of Principal Amount
At the end of the 54th month	7.5
" " " 60th month	7.5
" " " 66th month	7.5
" " " 72th month	7.5
" " " 78th month	7.5
" " " 84th month	7.5
" " " 90th month	7.5
" " " 96th month	7.5
" " " 102nd month	10.0
" " " 108th month	10.0
" " " 114th month	10.0
" " " 120th month	10.0

All payments will be effected in US dollars. In imports effected in currencies other than US dollar, the rate to be used in the conversion of the currency in question to the US dollar is the cross rate applied by the Central Bank at the date this government decree has been promulgated (on Jan. 25, 1980). The applicable interest rate cannot exceed 7% per annum. Trade creditors will have to inform the Turkish intermediary banks within 90 days of their preferences. Creditors shall produce all the relevant data and documents when stating their options. In payments in foreign currency, the intermediary banks shall effect the payments from their own currency positions and shall demand the TL counterpart from the Central Bank at the time of transfer.

In TL payments, for the equivalent of the TL to be deposited at an account in favour of the creditor, those up to US$ 10.000 will be deposited in three bi-monthly installments and those over US$ 10,000 in 12 equal bi-monthly installments.

In rate-guaranteed transactions for which the TL countervalues have been deposited at the Central Bank for transfer, the valid exchange rate will be one dollar equals TL47.10. The Turkish Lira difference between the prevailing rate and the Turkish Liras sent to the Central Bank shall be offset from the special account. If the deferred foreign currency option is preferred, the TL counterparts of the principal amount and the accrued interest shall also be financed from the special account. If the trade creditor opts to make available his TL to an importer in the form of credit, then the maturity period shall not extend 20 years and the annual interest rate no more than 2%.

The elimination of debts incurred as a result of the imports of petrol, petroleum products, fertilizer and fertilizer inputs shall not be subject to the provisions of this liquidation plan. Such debts shall be eliminated through a plan to be devised by the Money-Credit Board.

Non-guaranteed trade arrears incurred as a result of imports affected after 1.7.1979 plus commodities that are subject to sales contracts conforming to international procedures and acceptance import shall not be subject to be provisions of this decree.

Turkey's non-guaranteed trade arrears amount to almost US$ 1.7 billion. The number of claim holders is around 98,000.

The decree on the liquidation of non-guaranteed trade arrears was supplemented by a Finance Ministry Communique, which described in detail what was meant by non-guaranteed trade arrears, the trade creditor, the intermediary bank and other relevant elements.

Expansion of the Scope of Pre-Financing Credits

The ban on interest payments and collateralization of goods against pre-financing credits secured by Turkish exporters was lifted on February 27, 1980 through a Finance Ministry Communique.

The utilization of pre-financing credits was expanded to all agricultural and industrial goods earlier under the economic recovery programme unfolded on Jan. 25, 1980. Decree #25 authorized such credits for export periods up to 9 months in the case of agricultural products and up to 6 months for industrial products.

As a further encouragement of the use of such credits, it was indicated that the authorized Turkish banks would not be subject to the clause requiring payment of supplementary deposit counterparts to the Central Bank, when allowing Turkish exporters to draw up the TL equivalent of the foreign currency brought for pre-financing purposes. They would also not be required to complete the "final purchase act" on the foreign currency in question. If the exports failed to materialize within the given period, the exporter is obliged to deposit the equivalent of the credit on the basis of the prevailing rate of exchange to repay the creditor. Thus the creditor also enjoys an exchange rate guarantee. The circular of the Ministry of Finance authorized LIBOR (London Inter - bank offered Rate) interest payments prevailing for credits up to 9 months in agricultural exports and up to 6 months for industrial exports. Repealing thus the ban on interest for such credits, the Ministry of Finance allows Turkish banks to pay LIBOR interest (which currently ranges between 15.05% for dollar loans up to six months) for all exports and not only tobacco which was exempted from the bank under former practice.

One essential clause was omitted in the ruling; who is going to finance the difference if a monetary adjustment is made in the value of the TL after a certain pre-financing credit is secured. Since the ruling allows the creditor to enjoy full exchange rate guarantee, it is assumed that the borrower will make up the difference when the time comes to repay the loan. But this has not been written into the circular.

The Ministry would soon issue a new circular clarifying this controversial point.

Under the same circular, the Ministry of Finance repealed also the provisions prohibiting collateralization of goods by banks for shipments to be made against pre-financing credits. This action removes one formidable bureaucratic obstacle against the wider use of pre-financing credits.

AMENDMENTS of RULES on FOREIGN INVESTMENTS

In response to pleas that some of the rules of the January 25 decree on the promotion of foreign investments in Turkey were too vague, inelastic and difficult to comply with, the government on the last week of May introduced a set of amendments.

Most of the ground rules have remained unchanged, meaning that the new modifications are of secondary importance, but still yet warranted.

According to one new rule, the lower limit on the fixed foreign capital participation in joint venture projects is being waived. The limit was previously $ 2 M. This means that any investment in which foreign ventures will participate may have a fixed investment value of less than $ 2 M. But the upper limit -- $ 50 M -- has been maintained.

Accordingly, any foreign capital participation can be worth less than $ 1 M --and not at least $ 1 M as was the case previously.

Through a new amendment, the government has allowed foreign capital ventures to increase their capitals only in cases of capacity expansions. If the request for capacity expansion does not exceed a monetary value of $ 50 M, authorization will be granted by the foreign capital division of the prime ministry. A foreign capital venture, in which the foreign partner holds more than 49% of the equity, will apply to the same division for permission to decrease the capital participation of the foreign partner.

Another amendment covers tourist investments. Foreign capital participation in tourist complexes with a more than 400-bed capacity will be permitted provided that 60% of the capacity is ensured for the accomodation of foreign travellers, visiting Turkey. The previous limit was 75%. Foreign investments in yacht tourism with a minimum 60-bed capacity are also permitted.

One basic ground rule has not been changed --foreign investment applications worth more than $ 50 M will again be decided upon by the council of ministers.

According to yet another government decree, exporters are now allowed to directly apply to their intermediary banks to make use of the facilities offered --such as export credits, differential interest rate subsidy, and exemption and exception from taxes, duties and charges.

Previously, such applications were being communiqued to the Central Bank via the Incentives Implementation Department. It was a useless and time-consuming formality.

But the new rule is applicable to those exporters who sell their goods abroad against convertible foreign currency.

Under the amendment, banks are allowed to extend export credits to the exporters of only industrial goods, minerals, fresh fruits & vegetable and other farm products provided that export contracts have already been concluded.

The amount of credit shall not exceed 80% of the export revenue committed by the exporter. The maturity of the credits will vary according to the type of commodities involved:

a. For industrial products, minerals and quarrying products... 8 months.

b. For fresh fruit & vegetables, sea food and farm products subject to price support ... 6 months.

c. For other farm products ... 4 months.

In order to obtain an export credit the exporter will deposit a letter of commitment with the bank involved. And the bank will withhold 15% of the credit as guarantee deposit.

PLAN on THE ELIMINATION of
NON-GUARANTEED TRADE ARREARS AMENDED

A long-standing plan on the elimination of non-guaranteed trade arrears, which was strongly criticised by the claim holders as well as numerous OECD countries and which at one time threatened to shake international confidence in the new economic policies of the Demirel government was finally amended on the last week of May.

In a few words, the ground rules of the amendment can be summed up as follows:

-- Outstanding claims can be turned over to third persons.
-- They can be used for a variety of investment projects in Turkey.

The amendment has also introduced one important clause: what is meant by non-guaranteed trade arrears?

In the previous decree, non-guaranteed trade debts were defined as debts arisen from the goods not covered by export insurance when they were shipped to Turkey and from the already imported goods but transfer of which have not yet been realised. Of these debts, the decree covered only those goods imported into Turkey until June 30, 1979. The new decree has expanded the time-limit and covered the goods that were actually imported into Turkey until *December 31, 1979*.

Non-guaranteed trade arrears will be eliminated under two options: Turkish Lira payment or foreign currency payment.

Any claim holder is now permitted to use the funds to operate trade centers in Turkey, which will be set up within the framework of Law 6224, or to build and/or operate tourist facilities. He can also become a partner to a foreign capital venture by shifting his claims in the appropriate way.

If the Turkish Lira option is preferred, the claim holder can use his funds to pay the freight charges of the ships sailing abroad under Turkish flag between foreign countries, or of Turkish licence-plate trucks travelling between foreign countries.

Ships built at Turkish shipyards may be sold to foreign firms against their claims provided sufficient amount of sheet metal is delivered by the claimant.

For payments in foreign currency, important changes have been introduced: Previously, such payments were decreed to be made only in US dollars: Henceforth, German Mark, British pound Sterling, and French and Swiss Francs may also be used.

Under the previous ruling, the rate of interest to be applied for payment in foreign exchange was not to exceed 7%p.a. In the new practice, rates are determined differently for each currency:

a.	US $ annual interest rate	6%
b.	German Mark annual interest rate	4%
c.	Pound Sterling annual interest rate	8%
d.	French Franc annual interest rate	7%
e.	Swiss Franch annual interest rate	3%

A new alternative has been introduced for those who opt for TL payment. Accordingly, any foreign creditor with an outstanding claim of less than $ 1 M is permitted to transfer his claim to a firm or corporation to be determined by the Central Bank. This is to be done provided that the claim holder agree to transfer his claim at a figure 10% less than over the exchange rate prevailing at the time of the publication of this decree. For claims more than $ 1 M, these can be turned over to firms or corporation which have similar amount of claims.

Under the new decree, any foreign capital venture operating in Turkey under law 6224 is permitted to make use of the outstanding claims of foreign firms to finance imports from foreign based companies other than their partners. Such an option is applicable only in TL payments. All outstanding claims will be calculated at the base currency rate of $ 1 = TL 47.10.

Those who refuse to accept either of these options are liable to loose their claims. Their down payments and runs will be turned over to a special account at the Central Bank.

Those firms which have agreed to the new rules are bound to communicate their preferences to Turkey via intermediary banks before Aug. 30, 1980.

According to a government decree published last week in the determination of the well-head price of crude oil, the prevailing market prices will be taken into consideration.

This rule is intended to protect the oil companies against the adverse effects of international price fluctuations.

Under another amendment, a company which has obtained permission to tap oil in Turkey shall be permitted to use its foreign exchange earnings to finance its oil machinery imports.

In response to pleas that some of the rules of the January 25 decree on the promotion of foreign investments in Turkey were too vague, inelastic and difficult to comply with, the government introduced a set of amendments.

Most of the ground rules have remained unchanged, meaning that the new modifications are of secondary importance, but still yet warranted.

According to one new rule, the lower limit on the fixed foreign capital participation in joint venture projects is being waived. The limit was previously $ 2 M. This means that any investment in which foreign ventures will participate may have a fixed investment value of less than $ 2 M. But the upper limit -- $ 50 M -- has been maintained.

Accordingly, any foreign capital participation can be worth less than $ 1 M -- and not at least $ 1 M as was the case previously.

REFORM IN THE INTEREST RATES POLICY

A government decree published in the Official Gazette first week of June has added a new element to the new economic order launched by the Demirel government last January: interest ceilings are being scrapped entirely in certain cases. The government will no longer intervene with the lending and borrowing rates of the commercial banks, which means that banks are now allowed to freely negotiate the interest rates on time deposits and their credits.

Henceforth, commercial banks will compete with each other and with private brokers to attract the savings of the public. This competition for deposits will increase the efficiency of the entire banking system. The same holds for investors, who will be faced with costlier funds. The era of cheap investible funds is over and investors will have to incorporate more rationalty into their decision-making. Higher interest rates on time deposits are expected to induce savings and help the government to fight inflation on even grounds.

To assure the unhampered functioning of supply and demand, Turkey's Banking Union is barred from setting limits on lending and borrowing rates.

Exporters will continue to enjoy subsidised low cost credits and saving deposits by workers abroad against the sale of foreign exchange will receive a premium of five points above the current rates.

While the minimum reserve requirements on sight and time deposits are increased slightly, banks are allowed to issue deposit certificates, a new and welcome practice for the Turkish banking system.

With the new decision, one of the weakest points of the January stabilization programme has been strengthened. The government now has an increased chance to combat inflation and pull the economy out of its present crisis.

The first sentence of Article 1 of the decree no. 8/900 reads:

> *"Banks (will) freely determine and announce the maximum interest rates on their (various types of) credits."*

It took Turkey more than a decade at the cost of continuous inflation, inefficiencies in the banking system and misallocation of scarce funds for years to put such a policy decision into practice. No longer will the commercial banks be protected from internal competition and operate in a cosy market and no longer will the public be cheated out of their savings. Along with the interest rates on credits, those on time deposits will also be freely determined by the commercial banks.

Yet there are still some exceptions. Interest rates on credits extended from the export promotion fund will be determined by the Money and Credit Board and those on the specialized credits of the specialized banks will be lower compared to general credits by margins equal to the interest rebate rates.

The massive January stabilization programme had sufficed by introducing marginal adjustments into the structure of interest rates. But it was clear from the beginning that such marginal adjustments would neither encourage savings nor curb the expansion of money supply. For the latter purpose the government could do nothing but rely on the IMF limits on the net domestic assets and public sector credits of the Central Bank. There were claims that shortage of money and liquidity hindered economic acitvity. Complaints were mounting. That with the present monetary policy export and production targets could not be attained.

But it would be an inconsistent approach on the part of the government to prop up the business with a cheap money policy while being adamant in doing away with the age old practice of propping up the ailing State Economic Enterprises (SEEs). At the same time the problem of beating inflation required curbing the spending spree of the consumers and channelling investible funds into productive activities.

Two options were available. Either to raise the interest rates on time deposits to the level of inflation or let the forces of the market solve the problem.

The first option was inconsistent with the price decontrol policy. If the government aimed at equalising interest rates to the rate of inflation it would have to change the former when the latter changed.

An important concern for business is whether the interest rates on commercial bank credits will settle below or above the previously determined rates. Indications are that lending rates will rise due to the simple fact that rates on deposits will go up.

With the decrees annual interest rate on sight-saving deposits has been increased from 3% to 5% while the official limits on all categories of time saving deposits have been removed. Banks will freely determine the rates that they will offer to the time deposits of the public. Given that until very recently private bankers were offering higher rates to the savings of the public than the officially determined rates of the commercial banks and given that banks will compete with each other to attract deposits, it is certain that interest rates on time deposits will definitely go up in the short-run.

LENDING RATES of COMMERCIAL BANKS	Prior to Feb. 1,'80	As of Feb. 1,'80	As of July 1,'80
A. No Preferential Credits			
a. Medium and Long Term Credits	20%	22%	free
b. Short-Term Credits	16%	21%	free
B. Preferential Credits			
a. Agricultural Credits extended by the Ziraat Bankası *(including credits by Agricultural Sales Cooperatives)*			
-- Medium & Long-Term	16%	18%	+
-- Short-term	14%	16%	+
b. Occupational Credits extended by Türkiye Halk Bankası *(to small industrialists, artisans, merchants and merchants' associations)*			
-- Medium & Long-Term	16%	18%	+
-- Short-Term	15%	17%	+
c. Medium and Long Term Credits extended by the Türkiye Emlâk Kredi Bankası *(on housing construction)*	12%	14%	+
d. Credits extended by the Ziraat Bankası on the sale amount of bonds according to Law 5389	5%	5%	+
e. Credits by Development and Investment Banks	free	free	+
f. Credits with a term of over 5 years.	free	free	

(+) Equal to the difference between the interest rate to be announced by the bank and the minimum interest rebate date.

Therefore it is not difficult to guess that the lending rates will also go up. The legally determined rate on the non-preferential and long term credits of the commercial bank(which will be effective till beginning of July) is 22%. What enable banks to offer this rate is the fact that they collected deposits at lower rates. With higher rates in deposits it will not be possible to maintain it.

That all interest rates will go up is also partially initiated by the fact that interest rates by the Central Bank to the legal reserve requirements of the commercial banks have been doubled. The rate on the reserve requirements related to sight deposit went up from 5% to 10%, and that on reserve requirements related to time deposits from 8% to 16%.

INTEREST RATES on BANK DEPOSITS	Old	Effective as of July 1, 1980
Interbank deposits	free	free
Public deposits (*excluding deposits of Social Security Organizations*)	0%	0%
Commercial Deposits (*excluding deposits of Cooperatives*)	0%	0%
Saving Deposits		
-- Sight deposits	3%	5%
-- Time deposits		
** *3 months up to 6 months*	8%	free
** *6 months up to 1 year*	12%	free
** *1 year up to 2 years*	20%	free
** *2 years up to 3 years*	22%	free
** *3 years up to 4 years*	24%	free
** *4 years and more*	free	free
-- Other deposits	3%	5%
INTEREST RATES on LEGAL RESERVE REQUIREMENTS DEPOSITED WITH THE CENTRAL BANK		
-- On reserve requirements related to sight deposits and time deposits up to 6 months	5%	10%
-- On reserve requirements related to time deposits extending 6 months	8%	16%

The tight monetary policy strictly implemented by the government since January despite the occasional protests of the business is nothing but a proof of its determination to control inflation. One major motive behind the new policy is the desire of the government to use interest rates as an anti-inflationary policy instrument. Evidently, this purpose will be served to the extent that it encourages savings (discourages consumption) and induces higher volumes of production. Higher interest rates will induce greater volume of savings.

RATE TO BE DEPOSITED TO THE INTEREST DIFFERENCE REBATE FUND WITH THE CENTRAL BANK BY THE COMMERCIAL BANKS FOR THEIR PREFERENTIAL CREDITS	Before July 1,1980	as of July 1, 1980
a. Credits with a term less than 2 years		
-- Export credits	2/21	10%
-- Other credits	5/21	10%
b. Credits with terms longer than 2 years		
-- Promotion credits	2.5/22	15%
-- Others	2.5/22	25%

An interesting aspect of the Turkish money markets is the institution of private bankers which mushroomed in the last couple of years. So far they have managed to successfully compete with the banks by offering higher rewards to savings, so much thanks to the fixed interest rates on private bonds. How will they fare under the new policy? Undoubtedly, much will depend on what will happnen to the prices of bonds and shares

If the interest rates on bonds issued by private firms and governments are not increased and commercial banks offer higher rates on time deposits one may expect a flight from bonds which will put the bankers into a difficult position. Bankers would like to see the government either increase the rates of bonds or to let private firms freely determine the bond interest rates. One may also expect, more or less definitely, an increase in the rates on government bonds, unless the government has already decided to put more money on the market by purchasing its outstanding bonds. But this alternative is highly unlikely, given that at the moment the outstanding volume of government bonds is around TL 145 billion. A more plausible alternative is that the government will increase the interest rate on its bonds.

But when the interest on government bonds go up those issued by private firms will also go up.

Without any doubt the new policy will considerably affect the climate of money market in Turkey and the functioning of the commercial banks. Floating interest rates is a totally, new experience for the banks and therefore it is almost impossible to say how they will be affected and how they will react.

It is highly probable that the competitive position of the banks relative to private bankers will be greatly enhanced and competition between the two groups will be intensified.So far competition among banks was limited to non-price competition. With the new policy, ground has been laid for price-competition. But it is difficult to guess how far banks intend to compete with each other.

As important as the free interest rate policy is the authority given to banks to issue certificate of deposits which will be nothing more than transferrable bonds issues by banks. This again is a totally new practice for the banking system.

ASPECTS of THE NEW INTEREST RATE POLICY

-- Banks are authorized to issue certificate of deposits to bearer.
-- The Turkish Banking Union will not set a limit on interest rates negotiatiable between commercial banks and borrowers.
-- Limits on refunds to be deposited to the differential interest subsidy Fund by the commercial banks are redetermined. Refunds should be deposited within a month. Subsidy Fund will be used to provide low cost credits to exports, export oriented investments and other investments to be promoted. Exports and export-oriented investments will get highly subsidised credits. If the Subsidy Fund do not suffice to meet the demand interest, differences will be paid from the "Selective Credit Fund of the Budget."
-- Interest rates on Central Bank credits to the State Economic Enterprises have been raised to 10% from their previous level of 1%-5%.
-- Saving deposits of expatriate workers abroad against the sale of foreign exchange will get a premium of 5 points above the interest rates offered by commercial banks.

-- Public deposits (excluding the deposits of the social security organizations) and commercial deposits (excluding deposits of the cooperatives) will earn no interest. Deposits of the social security organizations and cooperatives will receive the same rates as saving deposits.

-- Banks shall not use blocked accounts as an excuse to increase lending rates

-- Credits benefiting from the interest Subsidy Fund shall not be used for other purposes specified. Commercial bank extending such credits will be responsible for their utilization in the specified activity.

-- Interest rates earned by the legal reserve requirements of the commercial banks at the Central Bank have been doubled. Legal reserve requirements have also been increased.

-- Central Bank is authorized to modify the new decree by publishing communiques in the Official Gazette.

REDISCOUNT RATES OF THE CENTRAL BANK HAVE BEEN INCREASED

The interest rates to be applied to rediscount and advance operations have been redesigned. Rediscount rates of credits to exports and to industrial investments have been kept low as well as rediscounts to agricultural and artisans credits. In case banks change their interest rates, the Central Bank will follow.

Central Bank Rediscount Rates	New Rate %	Old Rate %
I. Short term credits		
A. In general	26	14
B. Special credits		
1)Agricultural credits:		
a)Agricultural credit cooperatives credits extended from Agricultural Bank resources	22.5	13.5
b)Unions of Agricultural Sales Coope-ooperations extended from the Agricultural Bank resources and credits extended by other banks at the interest Agricultural Bank implements for agricultural credits	20	12.75

2) Occupational credits extended by the Turkish People's Bank to small industrialists, artisans, small merchants and small merchants' associations	18.5	12.5
3) Industrial credits	25	12.75
4) Export credits which enjoy exemption from expenditure tax	17.75	15
II. Medium-term credits (with incentive certificate)		
A. In general	26	15
B. Agricultural credits	25.5	14
C. Credits enjoying exemption from expenditure tax	21.5	17.25
III. Credits with terms over 5 years (with incentive certificate)	28.5	-
IV. Advances on bonds and gold	14.25	14.25

APPENDIX TO CHAPTER III

DECREE ON THE ELIMINATION OF THE NONGUARANTEED TRADE ARREARS

SCOPE

ARTICLE 1 Not transferred, nonguaranteed foreign currency trade arrears for goods actually imported before Dec. 31, 1979, (including unpaid drafts with due date of Dec. 31, 1979 and those transferred but not paid) if accepted by the parties concerned, will be liquidated within the framework of the following conditions.

DEFINITIONS

ARTICLE 2 The meanings of the below definitions for the application of this Decree, are shown against them.

(a) Nonguaranteed Trade Arrears: are the debts arisen from the goods and transactions not covered by payment insurance during importation to Turkey and actually imported to Turkey but transfers and repayments have not been realized. Of these debts:

i) Those, relating to the goods actually imported until December 31, 1979,

ii) Values of the drafts, relating to the importers under acceptance credits, became due by Dec. 31, 1979 including extensions but not paid.

iii) Transactions for which, although transfers are effected by Dec. 31, 1979, payments could not be realised, have been planned to be liquidated as nonguaranteed trade arrears by this Decree.

(b) Creditor Firm: is the real or corporate person domiciled abroad who appears as the creditor of the nonguaranteed trade arrears falling within the scope of this Decree.

(c) Importing firms who has imported to Turkey: is the real or corporate person who has realised actual imports to Turkey that caused the nonguaranteed trade arrears falling within the scope of this Decree.

(d) Parties concerned in the arrear: are the creditor firm and the importing firms who realised imports to Turkey or their authorised representatives.

(e) Own members of the creditor firms: are the spouses, children, mothers and fathers and brothers, sisters (including the mothers and fathers and brothers, sisters of the spouses) of the persons who have worked and/or are working in the firms appearing as the creditor of the nonguaranteed trade arrears falling within the scope of this Decree.

(f) Touristic trips in groups to Turkey: are the touristic travels made through a travel agency in groups of at least 20 persons for the purpose of staying more than 24 hours in Turkey.

(g) Intermediary Bank: is the bank that intermediated the import transaction which caused the nonguaranteed trade arrears falling within the scope of this Decree, and whose name is given on the lists annexed to communique series 1, related to decree no 17 on the Protection of the Value of the Turkish Currency.

(h) The document to be required to choose for the payment in foreign currency alternative: is the document required, if necessary, from the creditors who have chosen repayment in foreign currency alternative, in conformity with the international practices, issued by,

(i) Chartered auditor, or
Accountant, or
Similar institutions, or
Official authorities and ratified by the Turkish Consulates to certify the non-payment of credit.

The ratification of this document by the Turkish Consulates is a must.

TYPES of PAYMENTS for NONGUARANTEED TRADE ARREARS

ARTICLE 3 The nonguaranteed trade arrears falling within the scope of this decree, if accepted by the parties concerned, will be liquidated under the following conditions.

(a) Payment in Turkish Lira.
If the parties concerned wish, they may use the Turkish Liras deposited in their names;

1. To cover the Turkish Lira expenses of touristic trips made to Turkey (in groups) by the own members of the creditor firms (including their sposes and family members).
2. To allocate in the investments of construction of all kinds of commercial or touristic centers within the framework of the Law No. 6224 on Encouragement of Foreign Capital.
3. As foreign partner's capital share, operating and rotating capital of the foreign firms in operation presently and those who have already obtained or will obtain permission for new investment or expansion within the framework of the Law 6224 on Encouragement of Foreign Capital.

4. In paying the freight, to the ships sailing abroad under the Turkish flag and to the road vehicles owned by the firms domiciled in Turkey, for transportation between the foreign countries.

5. For the payment of the ships to be built for exportation in the Turkish shipyards, required that the necessary steel sheets and the engine must be provided by the creditor firm.

6. To extend credit to the firm who made imports to Turkey.

(b) Payment in Foreign Currency

If the parties concerned wish, they may ask their foreign currency claims to be transferred abroad, under the conditions specified below.

Starting from the end of the period mentioned in Article 6 of this Decree, to the creditors who have chosen this alternative, repayments in US dollars, as percentage of the total foreign currency claimed, will be made as follows:

7.5% at the end of 54 months (for small amounts)
7.5% at the end of 60 months
7.5% at the end of 66 months
7.5% at the end of 72 months
7.5% at the end of 78 months
7.5% at the end of 84 months
7.5% at the end of 90 months
7.5% at the end of 96 months
10% at the end of 102 months
10% at the end of 108 months
10% at the end of 114 months
10% at the end of 120 months

For imports made under US dollars, Deutsche Marks, pounds sterling, French francs or Swiss francs, the repayments will be made exactly by the same kind of foreign currency. During the choice of the alternative of payment in foreign currency, the parties concerned have to choose and notify one of these five foreign currencies.

For imports made under foreign currencies, other than these currencies, those currencies will be converted to one of the five above-mentioned currencies according to the choice of the parties concerned.

In converting the other currencies to those five, the cross rate that will be applied by Central Bank of the Republic of Turkey as published on Jan. 25? 1980.

For amounts that payment in foreign currency is chosen the below stated net annual interest rates are applied.

Kind of Foreign Currency	Annual Interest rate % net
US Dollars	6
Deutsche Marks	4
Pounds sterling	8
French Francs	7
Swiss Francs	3

EXCEPTIONS

ARTICLE 4 The nonguaranteed trade arrears can be liquidated under the following conditions other than the above -mentioned article.

(a) The parties concerned who have claims of $ 1 M or equivalent,and who choose the alternative of payment in TL can transfer or assign their claims to well known foreign banks or financial institutions that are accepted and declared by Central Bank of the Republic of Turkey.

These banks or financial institutions can use these transferred or assigned amounts for themselves or for other firms in touristic or commercial centers or other foreign capital investments and in shipbuilding in accordance with the 2nd, 3rd and 5th parapgraphs of Article 3/A. The Turkish Liras to be used in these investments will be paid, 10% less of the current rate of 1 US$ on the date of publication of this Decree.

(b) The parties concerned with claims over 1 M US dollars or equivalent and who choose the alternative of payment in Turkish Lira can transfer or assign these claims to a bank or to another creditor who has also claims over 1 M US$ or equivalent. These transferred or assigned Turkish Liras can be used in the investments stated in the 2nd, 3rd and 5th paragraphs of the Article 3/A. In this case the current rate of 1 US$ on the date of publication of this decree will be applied.

For investments made according to the above stated paragraphs a and b of the foreign partners capital share cannot be transferred within the five years following the completence of the investment.

DOCUMENT REQUIRED IN ORDER TO CHOOSE PAYMENT in FOREIGN CURRENCY ALTERNATIVE

ARTICLE 5 Central Bank of the Republic of Turkey might require the creditors who have chosen payment in foreign currency alternative, to provide documents issued by chartered auditors or accountants or similar institutions or official authorities in conformity with the international practice and ratified by the Turkish Consulates to certify the non-payment of credit. Also, Central Bank of the Republic of Turkey receives a written obligation from the creditor promising that the books, accounts and other required documents related with these credits will be open for checking by a well known accountant firm employed by Central Bank of the Republic of Turkey.

FORM and PERIOD of THE NOTIFICATION

ARTICLE 6 The alternative chosen among those mentioned above (if a firm has more than one transaction, each will be indicated separately) must be sent to Head Office of Central Bank of the Republic of Turkey, until August 30, 1980 in a written form. To this notification in order to be helpful to find the import transaction easily, the information as,

-- The name and the position of the importer,

-- The branch of the intermediary bank,

-- The date of importing and delivery,

-- The bank reference number

-- The kind, quantity and foreign currency value of the goods,

will be enclosed.

Within the said period, it is necessary and satisfactory condition for the parties concerned, to notify their choice of alternative A or B in accordance with the Article 3 of Decree. However, those who have chosen the alternative of payment in Turkish Lira and want to use the Turkish Liras according to 1st and 6th paragraphs of Article 3 are obliged to point out their request at the spur of the application.

If a firm has claims arisen from only one transaction, and if the parties concerned wish, they may ask a part of the claim to be paid in Turkish Lira and the other in foreign currency. This matter must be clearly pointed out during the above said notification and period.

CHANGING the ALTERNATIVE

ARTICLE 7 If the parties concerned who have chosen payment in foreign currency within the period said in Article 6 wish, within one year starting from the date of making choice, they can request from Central Bank of the Republic of Turkey, to make transactions according to the alternative of payment in Turkish Lira. But, in this case, the Turkish Liras can only be used according to the goals stated in the 2nd & 3rd paragraphs of Article 3/A of this decree.

PROCEDURES for THE CHOICE
in FOREIGN CURRENCY

ARTICLE 8 Central Bank of Republic of Turkey transfers the principal amount of the claims according to the due dates shown in part B of Article 3 and transfers the interests by 6 months periods on their due dates, beginning from the end of the period said in Article 6.

In payment of foreign currency, for the transactions which has been transmitted to Central Bank of the Republic of Turkey for transfer and has gained exchange guarantee, the difference between the deposited Turkish Liras and the exchange rate applied during the transfers will be financed from the Special Account that is founded at Central Bank of the Republic of Turkey by Decree no 25 on the Protection of the Value of Turkish Currency.

PROCEDURES for THE CHOICE in TL

ARTICLE 9 In payments in Turkish Lira, the TL equivalent of the claims are deposited by the Central Bank of Republic of Turkey.

(a) One at a time up to 10,000 US$

(b) With 12 installments of two months period for the operations more than or equal to $ 10,000 to a demand deposit account at the intermediary bank. If the Turkish Lira equivalent of the claims that have arisen from transactions equal to or more than $10,000 are extended as credit to the importer firm, and if this is used in paying the exchange differences of the L/C, all kinds of taxes and social security premium by debts, that had arisen before the publication of this Decree, the above said installments and its period is not taken into consideration.

For these transactions it is sufficient for the parties concerned to notify directly Central Bank of the Republic of Turkey or the intermediary banks that they have chosen the payment in Turkish Lira alternative and for intermediary banks to apply to Central Bank of Republic of Turkey.

Central Bank of the Republic of Turkey makes the necessary payments according to application order without waiting the end of the period said in Article 6 of this Decree. The parties concerned may use the TL deposited in their names in conformity with the conditions stated in Article 3/A of this Decree, during the unlimited period. However, the TL payments according to the paragraphs A and B of the Article 4, will be made to the account operated in their names at Central Bank of the Republic of Turkey.

Intermediary bank is responsible for utilisation of these amounts which are deposited by the installments and principles mentioned above in the demand deposits within the framework of the paragraph A of Article 3. No deposits other than these type of credits can be made in these demand deposit accounts.

The intermediary banks may charge, maximum 0.4% of the amounts deposited in the demand deposit accounts for their services, only once.

For these transactions that the TL have been transmitted to Central Bank of the Republic of Turkey and that have gained exchange guarantee, the exchange rate of $ 1= TL 47.10 is applied.

However is the TL are used in the transactions stated in the 2nd, 3rd and 5th paragraphs of Article 3/A and paragraph A of Article 4, the payments are made 10% less of the current rate of $ 1 on the date of publication of this decree, and for the transactions in paragraph B of Article 4 payments are made by the current rate of $ 1. The differences between these exchange rates and the TL transmitted to Central Bank of the Republic of Turkey for transfer will be financed from the Special Account founded by Decree no 25 on the Protection of the Value of Turkish Currency.

PRINCIPLES of EXTENDING CREDIT to THE FIRM WHO MADE IMPORTS to TURKEY

ARTICLE 10 The utilizations according to the 6^{th} paragraph of Article 3/A of this Decree, the credits' maturity is minimum 20 years and annual interest rate cannot exceed 2%. The interest will be applied to the due date and once for all. The grace period may be equal to the maturity. For such credits no additional collateral is required by the banks.

Parties concerned can not request the transfer for the principal amount and the interests of the credit abroad, at the date of maturity or at the date of repayments. But, in the agreements made between the parties concerned, provisions about renewal of this credit can be proposed.

TRANSFER or ASSIGNMENT of THE CREDIT

ARTICLE 11 The creditor firms can not transfer or assign their claims to a third party except under below conditions.

(a) For the transactions stated in paragraphs a and b or Article 4 of this Decree, transfer or assignment is possible.

(b) If the firms, operating under the scope of Law No. 6224, had imported from firms other than their foreign partners and if the payments for these imports have been made to that firms

Head Office or Branches of foreign partners, in this case,claims may be transferred to foreign partners' Head Office and Branches, provided that, the following conditions are satisfied: A document has to be obtained from the original exporter certifying that the debt has been paid abroad by Head Office or Branches of the foreign partners of the importer firm on behalf of importer and another document which has to be obtained from the authorities mentioned in Article 5 of this Decree certifying that the payment had been made by the Head Office and Branches but transfers have not yet realized, must be submitted.

DEDUCTION of THE COMMISSIONS and THE FEES

ARTICLE 12 The commissions and fees of the importer firms, that arise from the imports made to Turkey and that are not paid to the importer firms because of untransferred nonguaranteed trade arrears, are treated within the below stated framework.

(a) The creditor or his authorized representative, may accept the deduction of the commissions or fees that are not transferred to Turkey, from the total amount of the nonguaranteed trade arrears and may request the payment of the outstanding balance by one of the alternatives of payment in Turkish Lira or foreign currency. The exchange rate that will be applied for the fees and commissions is the rate of 1 US$ = 47.10 TL.

(b) The nonguaranteed trade arrears and the commission fee that will be deducted must arise from the same import transaction or transactions.

(c) The import accounts which are still open, because of untransferred said commission fees to Turkey, will be closed by the request of the parties concerned and by the realization of the transactions stated in the paragraphs a and b certified.

THOSE WHO CAN NOT OBTAIN THE DOCUMENT

ARTICLE 13 Those who choose Section B of Article 3 and can not obtain the document that may be required in accordance with Article 5, within the period said in Article 6, can not request payment in Turkish Lira. These amounts will not be refunded to the creditors and will be deposited in the Special Account in Central Bank of the Republic of Turkey.

THOSE WHO CHOOSE NONE of THE ALTERNATIVES

ARTICLE 14 The prices of the goods and guarantee deposits of the parties concerned who made no choice among the alternatives of payment in Turkish Lira on payment in foreign currency or not accepted any of the alternatives within the period said in Article 6, will be transferred to an account that will be opened at Central Bank of the Republic of Turkey, named "Those who choose none of the alternative related with Decree on the payment of Nonguaranteed Trade Arrears."

CLOSING of THE IMPORT ACCOUNTS

ARTICLE 15 Following the completion of the period mentioned in Article 6, the import accounts of the importers are closed by authorized banks and their guarantee deposits if there are any, are refunded, where final accounting has not been done on legal bookkeeping that serves as basis for taxation due to the lack of final foreign exchange sale transactions, fictitious foreign exchange sale will we made by using the applicable rate.

TRANSACTIONS NOT HAVING FOREIGN EXCHANGE RATE GUARANTEE

ARTICLE 16 Those who actually imported before December 31, 1979 but not placed a transfer application at the Central Bank of the Republic of Turkey may choose payment in foreign currency provided that they deposit the Turkish Lira equivalent calculated pursuant to the rate in effect that they guarantee to pay the Turkish Lira differences which might arise within 6 months due to changes in exchange rates and that they procure the required documents mentioned in Article 5.

The concerned parties of the transactions who have actually imported before Dec. 31, 1979 not placed a transfer application at Central Bank of the Republic of Turkey, or the price of the goods and guarantees are not deposited or partially deposited, upon receipt of consent from the creditors, may request to choose payment in Turkish Lira alternative. In this case the Turkish Liras equivalent to the prices of the goods will be refunded to the importer. For the transactions of which the price of goods that are not deposited at Central Bank of the Republic of Turkey no payment will be taken into account. In case of payment in Turkish Lira alternative is chosen, for various reasons if the transaction has no foreign exchange rate guarantee the procedure to be applied will be within this framework.

Upon the receipt of the consent from the creditors, the import accounts of the parties concerned are closed by the authorized banks and the foreign exchange directorates. Guarantee deposits if there are any, are refunded.

PROBLEMS THAT MIGHT ARISE FROM THE IMPLEMENTATION of THIS DECREE

ARTICLE 17 The Ministry of Finance and Central Bank of the Republic of Turkey are authorized to solve the problems and to make necessary clarifications that might arise from the implementation of this Decree. The Ministry of Finance may publish Communique relating to the implementation of this Decree.

TRANSACTIONS DONE or BEING DONE in ACCORDANCE with DECREE No. 8/176 & THE RELATED COMMUNIQUE

Temporary ARTICLE 1 Decree No. 8/176 and the related communique No. 1 & 2 are abolished. However, the transactions done or being done in accordance with Decree No. 8/176 and related communique are valid. For this kind of transactions, the provisions of this Decree and related communique are applied.

The intermediary bank transmits the applications done in accordance with Decree No. 8/176 and the enclosed documents to Central Bank of the Republic of Turkey within one month following the publication of this Decree.

Temporary ARTICLE 2 The provisions of this Decree are not applicable to the imports that benefit from the provisions of liquidation of debts arising from the importation of petroleum, petroleum products, asbestos, fertilizers, fertilizer inputs and Communique Series II, No. 5/4.The debts arising from the imports of these goods are liquidated according to the principles to be determined by the Money - Credit Council.

Temporary ARTICLE 3 The followings realized after 31.12.79 are not subject to the provisions of this Decree.

(a) Nonguaranteed debts of goods actually imported but have not been transferred or maturity not yet expired.

(b) Goods subject to sales contracts in conformity with international practice.

(c) Imports under acceptance credits.

IMPLEMENTATION

ARTICLE 18 This Decree is implemented by the Minister of Finance.

ENTERING into FORCE

ARTICLE 19 This Decree shall enter into force upon publication.

CHAPTER IV

Eventual Effects Of The Economic Policy Measures

The policy measures announced on the 25th January, represent a courageous attack on the serious economic problems facing the country. It is a basic re-orientation of economic policy away from detailed government regulation and control towards greater reliance on market forces, foreign competition, and foreign investment as a means to promote efficiency and better resource allocation, and thus, sustainable economic growth over the medium term.

Given the extent to which the situation has deteriorated it will not be easy to turn it around. The most difficult task may be to reduce inflation, and without success in this respect it will be difficult to restore a viable balance of payments and sustainable economic growth. Dealing effectively with inflation will require firm policies over an extended period. The approach adopted by the Turkish authorities would seem a realistic one in present circumstances. The increase in the supply of goods and services following an injection of foreign credit could spark off a process of disinflation and, gradually the impact of competitive forces should begin to be felt. But to sustain the process, restrictive budgetary and monetary policies are essential, both in 1980 and the years to come.

The recent sharp increase in the prices of State Economic Enterprises will help to maintain appropriate fiscal and monetary policies, but the success of new policy orientation over the medium term will in part depend on the determination of the Government to keep State Enterprises exposed to competition as a means of improving their efficiency and financial position. Another important task in restraining inflationary forces will fall to tax reform, which will have both to aim at reducing the undesirable effect of high fiscal drag on low incomes and more effectively tax incomes in the upper brackets.

It is evident that under the circumstances monetary policy will have to continue a restrictive stance, but it is desirable to create a reasonable expansion of credit to finance production for exports.

Last, but not least, success in reducing inflation will also depend on the movement of wages, salaries and farm prices. Present settlement both in private industry and in State Enterprises seem to have been at least as high as the inflation rate and the fact that wage contracts cover periods of two years will, under the circumstances, complicate the task of reducing inflation. The new policy package does not address itself to this problem directly. Whilst, it will, no doubt, be politically difficult to impose cuts in real wages in order to break the inflationary spiral, the problem needs to be dealt with. As inflation is likely to decelerate late in the year as the supply situation improves, much would be gained by limiting the bargaining period to one year. Moreover, as the process of price deceleration is sparked off, it may become possible to introduce an incomes policy in close consultations with management and labour. An important object of this policy could be to ensure that wage bargaining and other income determination are based on a realistic assessment of the economic situation and the inflation outlook. In case of a two year collective agreement the rate of increase of wages should decelerate the second year.

The balance of payments is another critical element in the situation. For many years, incentives to exporting have been lacking because of an inappropriate exchange rate, excessive domestic demand pressures, and high profits on sales to the domestic market. The new measures suggest that this will now change, and several important measures to this end have already been taken: the devaluation of the Lira and greater incentives to exporters, greater liberalization of imports, and more liberal criteria and attitudes towards direct foreign investment in Turkey.

It is difficult to judge how quickly exports will respond. There are examples from other marginal exporters that exchange rate adjustment and restrictive demand management can lead to a marked and quick increase in exports. But weaker growth of world trade is an unfavorable factor, and import restrictions in other countries may also hamper the rise in exports (about half of industrial exports are affected by such restrictions). Given the large imbalance that has developed (of which an important part consists of the servicing of the large external debt) foreign financial assistance will be required during the next few years. But, as exports and foreign investments respond to the new measures, and as more stable conditions are being restored in the domestic economy, Turkey should in a few years time be able to finance its current external deficit on a commercial basis.

Developing an adequate export volume is not only a question of an appropriate exchange rate, which, whilst providing an economic incentive cannot by itself provide the new export markets that Turkey needs. At least as important will be the development of dynamic, export-oriented participation in the international division of labour.

The restoration of a viable balance of payments will also require an active energy policy while energy prices have been considerably increasing, there may be scope for additional action to encourage energy conservation. In the longer run, Turkey has large reserves of primary energy that can be tapped, particularly hard coal, lignite and hydropower. Known oil reserves are small and the new, more promising finds may be made if prospecting is stepped up. The development of these indigenous energy resources will be both costly and take time. It will be important therefore to develop a national energy strategy that would aid in holding the energy constraint on Turkish economic development within reasonable limits.

The devaluation of the Turkish Lira by 33% against the US$ (and 50% for agricultural exports and oil imports) would seem to compensate for the relative rise in domestic prices since the last exchange rate adjustment in July 1979. The new rate would therefore seem appropriate for the time being, but it is important for exporters that there should be an assurance that the rate will also remain competitive over the longer run. Effective control over domestic inflation will be as important as parity adjustment in this regard.

In brief, the new policy approach represents a realistic attempt at dealing with a difficult situation. As shortages disappear and the economy begins to respond, inflation should decelerate and imports are likely to grow, creating the basis for renewed economic growth in the medium-term.

COMMITMENTS TO STRUCTURAL CHANGES

A more careful analysis of economic policy decision making indicates that structural changes are being planned. The government seems to be determined to rely upon market forces more than anything else to knock economy into shape with the help of a number of short and medium-term economic policy measures.

The reason why Turkey has been requesting a medium-term economic aid programme from the West can best be explained by her intention to carry out a five-year austerity plan, at the termination of which the Turkish economy will have recovered herself solvent. The five-year plan needs to be supported in the strongest financial term as possible, probably through two consecutive standby arrangements with the International Monetary Fund (IMF), one on a three-year basis and the other on a two-year basis.

It was strongly emphasized to the World Bank that the economic recovery programme of the Demirel Government, announced on January 25, 1980 was formulated with the basic truth in mind that unless some substantial and far-reaching measures were taken and strictly observed and enforced to correct the fundamental problems adversely affecting Turkish economic development, stagnation would set in as a permanent feature of the national economy.

There are several policy objectives, which are believed to reflect the government resolution to give the economy a major orientation.

All these objectives need to be examined:

1. Reliance on economic planning up to micro levels and administrative controls to realize planned targets and objectives need to be shed and replaced by greater reliance on market mechanisms and forces.

This is the key economic approach, which differs highly from past practice. State intervention up to micro levels and needless administrative controls have all proved destructive rather than constructive. Price controls have now been waived and market forces have taken over.

As far as the new philosophy goes, the State should not be interventionist, but rather lay down guidelines. It should look after the interests of all groups, and should basically rely upon the dynamism of the private business.

2. The curbing of inflation has more importance and greater priority than the attainment of higher growth rates in the current situation.

In simple terms, the January programme aims at checking the galloping rate of inflation and bringing it down to at least 60% per annum. In the current situation, which is beset by a multitude of problems and difficulties it would be unrealistic to expect a growth rate higher than what was achieved in the similarly difficult periods of the past few years. But this objective runs counter to the argument that Turkey should aim at higher growth rates and should place great emphasis on big investment projects no matter what the cost.

3. Import substitution and projection-oriented policies, which resulted in bias against exports in favour of domestic market, must give way to those which encourage both public and private sectors to improve productivity, and, to the extent feasible,be internationally competitive.

Import substitution has been the cornerstone of Turkey's development policies since 1963. It was generally believed that it was the only way to industrialization, themain target of the Development Plan, but the strategy resulted in uncompetitive and inefficient industries producing for domestic market with no incentives to sell abroad. Emphasis is placed on the importance and necessity of revising this strategy. Further growth can be realized if the economy earns sufficient foreign exchange and this requires an expansion of exports which in turn necessitates a reversal in the development strategy.

4. The essence of our development policy should be to correctly set the rate of exchange and operate an effective exchange rate policy to ensure that foreign trade orientation changes to one where Turkey should rely heavily in the future on export earnings and other foreign currency earning activities, including workers remittances, private foreign investment, tourism and transfer of savings from abroad.

This pledge is a natural consequence of the determination to switch from an inward looking to an outward looking development strategy. Undervalued exchange rate has been one of the most important instruments of the substitution policy. But undervalued exchange rate encouraged import and discouraged export.It has also reducet the competitive power of Turkish exports abroad. Competitive power of the exports can be increased only with a realistic exchange rate. And such a rate will not only stimulate exports but will also favorably affect other types of foreign exchange earnings.

5. Reform of the SEE sector is needed so that it no longer consitutes a drain on the government's budget,nor its investment programmes continue to be one of the basic causes of inflationary pressures.

The SEEs have been notorious for being inefficient and unprofitable. Their operating deficits have always been financed through borrowing from the Central Bank at the cost of inducing inflation with the resultant expansion in the money supply. The problems of the SEEs cannot be simply solved by limiting Central Bank credits to these enterprises. A sweeping reform is required. An action on a lower scale will only bring relief for a temporary period.

6. Since one of the most alarming features of the Turkish economy is the decrease in domestic savings as a per- cent of GDP, domestic resource mobilization- efforts stressing reliance on taxes, augmentation of public and household savings and greater reliance on the banking system and financial mar- kets-needs to be substantially increased.

Partly because of the accelerating inflation, domestic savings have been steadily declining in relation to the GDP. The natural consequence has been that the resources available to the economy for investment purposes declined to an alarming level, and its dependence on external financing has increased. This cannot be an acceptable state of affairs. A healthy eco- nomy is one that relies on its own resources and not on foreign credit to push ahead with its development drive. This does not mean, however that no foreign resources should be sought. Far from that, foreign credits are needed but the viability of the economy not be made dependent on them.

There is no doubt that along with the mobilization of domestic resources, financial markets should be utilized. But this cannot be secured without drastic measures. In order to channel the available resources to productive activities the uncoordinated, unorganized credit market should be reformed The amount of capital circulating in this market has reached considerable proportion. This would not be a matter of con- cern had this capital flown only into productive investments.Far from that,the market financed speculative and unproductive ac- tivities. This placed a severe constraint on the funds avail- able for investment purposes. But simply because lending and borrowing rates in the banking system until recently have been determined by the government much below the rates in the unorganized market, it rapidly expanded.

7. Utilization of existing productive capacity and essen- tial new investments stressing exports and employment or those removing critical infrastructure bottlenecks must be made, with due consideration to the scarcity of resources.

The short run problem is to fully utilize the existing productive capacity rather than expanding it. New investments will be channelled into areas placing a severe constraint to production, such as energy.

These points give the essence of the government's po- licy to pull the economy out of the present crisis. They al- so illustrate the principles that will govern future policies. It should be noted however, that they are not derived from a priori reasoning but from a careful evaluation of Turkey's past economic policies and their implementations.

ESTABLISHING A FREE MARKET ECONOMY:
A LONG TERM TASK

The Turkish business community is in the process of grasping the dimensions and implications of the new Stabilization Programme. This is no easy task because the market mechanism, which Package 80 aims at introducing has become such an alien subject to the normal Turkish businessman that he certainly requires a period of orientation and adaptation before anything else.

Furthermore, one can argue that the market mechanism has also become alien to the Turkish economic system for such a long period that it will take time to demolish the distorted price mechanism and the real and psychological structures it feeds upon. Until the foreign exchange build-up whether through new borrowings and/or increased receipts from workers, exports and other sources reaches a substantial amount to finance all the transfers for vital import needs, it would not be realistic to expect full performance of the market mechanism.

It cannot be expected that the system would automatically restore market mechanism by generating an immediate boost in production. The government as well as the business community are aware that it will take at least six months, may be nine months until production catches up, using the inputs to be imported (which will at least take three months even if all the transfers resumed today), so that any degree of supply and demand equilibrium is created in the market as long as the demand remains high at its present level. Therefore obviously both the price rises and the planned sales tax system aim primarily at nothing but curbing the demand by reducing the incomes. The income policy is a must without which all stability measures, especially in such times of crises are incomplete. If the wage freeze is politically impracticable indirect taxation which the current price increases amount to is the only alternative. Therefore, the only lacking aspect of the package now would be an efficient tax collection system that will have access to all the excess and windfall profits triggered both by the new devaluation and the current price rises.

HAS THE MODEL OF A LIBERAL ECONOMY
BEEN INHERITED FROM THE RECENT YEARS

The Demirel government's drive towards a liberal economic system, which will function according to the rules of the market-place is no new idea, and has been on Turkey's agenda for the past 30 years. This was a model which the defunct Democratic Party subscribed to, but which it never successfully implemented for a number of reasons.

The Justice Party, which has dominated the Turkish political scene for the past two decades is conservative in appearance, but liberal in practice. There are major differences between the J.P. and R.P. which basically manifest themselves in economy.

Immediately after its founding, the Justice Party began to take on the appearance of a successor to the DP.

In the 1965 general elections, the party won a landslide victory and formed a government on its own right. The same feat was repeated at the 1969 elections. But the Justice Party era was interrupted in 1971 when the Turkish armed forces forced the resignation of Demirel.

In programme, personnel and appeal, the Justice Party is as close a successor to the Democratic Party as it is possible to be. The party's programme, is conservative in several important respects, and in others ambitious,

The new economic recovery programme of the Demirel government aims at the decentralization of the economic management. This is in line with the programme of the Justice Party, which proposes transfer of as many functions as possible to the control of local authorities and the gradual creation of strong local administrative units.

Demirel's basic argument centers around one fundamental fact: there is a cake to be eaten by all. But it is a small cake, and if everybody makes a grab for it, there may not be enough. So, the first priority is to enlarge this cake as to ensure a fair distribution.The bigger the cake is,the larger the individual shares may be.

Based on this rationale, the Justice Party programme attaches special significance to a major development drive,construction of roads, harbours, airports, irrigation and housing. This can be done despite the limited resources of the State through external borrowing and an austerity programme at home, by which people will be urged to spend less and save more.The accumulated funds should be channelled to investments, to production.

Subscribing to the need for rapid industrialization, the Justice Party puts primary emphasis on private industry.

The party does not reject the need for using State resources to solve economic problems, but it prefers the principle that the State does not do, but causes to be done. That is, the State shows private enterprise the way, assigns national duties to private concerns.

The Justice Party favours abolishment of import controls and import quotas at the earliest opportunity and does not accept State Planning of private enterprise in industrialization. It wants the State to support it.

Two important social fields in which the party programme makes pronouncements are health and education. In health affairs, the party accepts the idea that Turkey's problems can best be solved by socialized medicine though this must be done in such a way that the development of private medical services will not be harmed, Thus, the most important principle is the right of patients to choose their own doctors.To uphold this principle, the Justice Party has strongly opposed the Full Time Act.

URGE FOR FURTHER INVESTMENTS
VERSUS NEED FOR STABILITY

The economic policies of Demirel seem to have been dictated by economic necessities as well. The Turkish economy, when they assumed office, was faced with a rapidly accelerating rate of inflation, a sharp deterioration in the balance of payments, and a dramatic downturn in the industrial sector, crippled by shortages of imported inputs.

The slowdown in the growth of foreign exchange earnings in the second half of 1979 was further intensifying the already severe bottlenecks in the supply of even the most essential imports for industry as well as agriculture.

These problems were quickly identified. The most urgent task was to contain the runaway inflation and to restore the rapidly external competitiveness. The efficient utilization of Turkey's scarce resources was of paramount importance.

Efficiency and productivity are two key issues. But one has to conceed that these are also closely identified with austerity in the sense that once wastage is stopped and the available resources are directed to priority areas, austerity or belt-tightening becomes as essential ingredient.

Though emphasis this year is on the earliest completion of half-finished projects and others long in the pipeline there are intentions of getting off the ground a series of grandiose schemes, which are hardly compataible with the present capabilities of Turkey. This is a trillion lira (TL 1,000 billion) programme of 1.000 investment projects. Turkey's refining capacity would have to rise to 34 million tons in 1984 from the present 17 million tons. Electricity consumption would rise during the same period from 25 billion kwh to 50 billion kwh.

Lignite production would have to go up to 50 million tons in 1984 from the present 16 million tons and steel production to 14 million tons in 1987 from 3.9 million tons this year. New airports are being planned and the existing port facilities in Rize, Trabzon, Samsun, Istanbul, Gemlik, Izmir, Mersin and Iskenderun will be improved and expanded. Village and rural electrification programmes must press ahead. Some 3000 villages would be put on the grid this year. The spirit is familiar. It represents a faithful continuation of the economic policies of the past two decades.

Turkey is seeking fresh loans from diversified sources to sustain its import programme for 1980.

The growth targets are ambitious especially when the present economic situation and short-term prospects are taken into account. The next few years should be a period of consolidation and stabilization rather than a big jump forward.

Economic policy should concentrate on export development, rather than import substitution which proved so detrimental in the past. The economic stability programme gives the right emphasis to this question, but export development can hardly be achieved when manufacturers tend to make use of the available opportunities at home to earn more.

The emphasis in the short-run is not on accelerating the growth rate. On the contrary, the emphasis is on creating conditions which will eventually lead to growth in a stable, open economic environment. This, the government hopes will in the medium term generate its own momentum and prove its viability also in balance of payments terms. And during the next several years, the efforts will naturally depend to a large extend on the availability of external credits and grants.

THE URGENCY OF INTERNATIONAL ASSISTANCE: IMF, OECD, THE WORLD BANK

CREDITS PLEDGED by OECD MEMBER COUNTRIES

On April 15, 1980, sixteen OECD countries, pledged a total aid of $ 1,161 million to Turkey as credit to be extended in 1980.

Almost half of the total was unconditional "cash" credits. Of the total $ 1.161 M extended, $ 273.7 M were programme credits. Turkey could use this amount only to finance its import programme. $ 237.7 M was export credits to be used in financing imports from the donor countries. But the remaining US $ 649.4 M was in cash and free. Turkey would use this amount in any way it deemed necessary. Commenting on this sum, officials from the Ministry of Finance said that this was more favourable than what was agreed upon formerly.

More surprising was the decision of Japan, one of the dissidents of the March meeting, who raised its contribution to $ 100 M, of which $ 45 M was programme and the remaining export credit to be released through Exim Bank. An announcement by the Foreign Affairs of Japan stated that the volume of credit was increased because stability in Turkey was important for the peace and stability in whole Middle East.

Top contributors, as expected were the USA and West Germany, each with $ 295 M. The USA pledged $ 200 M in cash and $ 95 M as export credit while West Germany $ 221.2 M in cash and $ 73.8 M as programme credits. The amount pledged by West Germany included the $ 200 M used as bridge credits in March. These two countries were followed by Italy with $ 115 M and France, Japan and the EEC with $ 100 M each. The EEC's contribution was totally in cash. A day after the Paris meeting a Central Bank report informed the public that during 1979 Turkey had obtained $ 6.550 M as foreign credits from foreign governments and private bank. The report, built on the statistics of the Ministry of Finance, the State Planning Organization and the Bank itself stated that $ 4.068 M of this total was in the form of debt rescheduling and the remaining $2487 M as fresh money. The next item on the agenda of the government is the problem of securing debt rescheduling, but on a larger scale.

TURKEY's FOREIGN DEBT ACCORDING to YEARS

			1979	
	1977	1978	Outstanding Debt*	Unutilized
I. Medium & Long-Term Debts, Total *(3 years or more)*	4.818	6.933	10.221	2.523
A. To International Organizations				
-International Monetary Fund	400	622	631	-
-I.B.R.D.	488	631	843	787
-I.D.A.	180	189	191	-
-I.F.C.	117	108	92	34
-E.I.B.	398	446	471	172
-E.R.F.	90	145	113	60
International Organizations, TOTAL	1.682	2.141	2.341	1.053
B. To Bilateral Sources				
-Foreign Governments	2.364	3.694	3.832	1.250
-European Money Market	357	467	3.280	220
-Foreign Firms	415	631	768	-
Bilateral Sources, TOTAL	3.136	4.792	7.880	1.470
II. Short Term Debts, Total *(3 years or less)*	6.068	7.748	4.399	-
A. To Public Sector				
-Banker Credits	384	332	18	-
-Overdraft	240	346	244	-
-B.I.S.	90	10	-	-
-Export pre-financing	83	-	-	-
-T.P.R.C.	300	300	300	-
-Dresdner Bank	173	362	344	-
-TPAO's Oil Debt to Iraq	312	255	133	-
-Petroleum Office Acceptance Credit	150	150	-	-
-Others	-	315	487	-
Public Sector, TOTAL	1.732	2.070	1.506	-
B. To Private Sector				
-Acceptance Credit	560	848	435	-
-Cash Against Goods	1,508	1.727	1.816**	-
-C.T.L.D.	2,268	3.102	642	-
Private Sector, TOTAL	4.336	5.678	2,893	-
DEBTS TOTAL	10.886	14.681	14.620	2.523

*Outstanding debt means utilized minus paid-up debt
**Debts rescheduled under the July 25, 1979 agreement are identified within the global figure of short-term debts since they have not yet been officially computed.

BREAKDOWN of THE PLEDGES, 1980
(in US $ million)

COUNTRY	Programme Credits	Export Credits	Cash	Total
Austria	7.5	7.5	-	15
Belgium	8.3	1.6	-	10
Denmark	-	-	4.5	4.5
Canada	10.5	-	-	10.5
Finland	-	-	3.5	3.5
France	50	50	-	100
West Germany	73.8	-	221.2	295
Italy	28.8	23	63.2	115
Japan	45	55	-	100
Luxembourg	0.750	0.250	-	1
Netherlands	16.1	5.4	-	21.5
Norway	-	-	10	10
Sweeden	-	-	10	10
Switzerland	-	-	37	37
United Kingdom	33	-	-	33
United States	-	95	200	295
European Economic Community	-	-	100	100
T O T A L	273.7	237.7	649.4	1161.0

TURKEY and THE WORLD BANK

The Demirel government, which is relying heavily on goverment loans and official international assistance to ball out the national economy, has approached the World Bank with a massive list: $ 2,000 M worth of project credits for the next five years.

The government is demanding World Bank assistance for the following projects:

- TPAO's West Raman enhanced oil recovery project
- Soma and Mersin fertilizer complexes
- Fresh fruit and vegetable export project (which is already being supported by the Bank. But fresh loans are required)
- Erzurum rural development project (designed to improve animal husbandry and farming in the region)
- Black Sea paper works
- Intensive dairy project
- Istanbul mass transport project
- Loans for the Turkish private sector through the Industrial Development Bank (a $ 175 M loan has been asked, which may be granted in the next few months)
- Loans to the Turkish State Investment Bank for various public sector projects.

The World Bank has always been a supporter of Turkey's development efforts. In 1979, the Bank approved four loans totalling $ 312.5 M compared to three loans totalling $ 205 million in fiscal year 1978.

The World Bank lending included loans for an energy evaluation study, grain storage project, ports rehabilitation project and a programme loan to help finance high priority imports.

By the end of 1979, the Bank/IDA had loaned Turkey $1.814M for 54 development projects. Agriculture accounts for 28% of the funds lent for energy, and Development Financial Intermediaries (DFC) for 37%, power for 21% and urban development, transportation, education and tourism for the rest.

Bank lending is aimed at supporting Turkey's efforts to improve its (a) capacity to earn or save foreign exchange, through promotion of industrial and agro-industrial exports: (b) income distribution, employment opportunities and living standards, through rural and urban development: (c) lagging public sector savings through the encouragement of improved management and (d) infrastructure posing bottlenecks for development.

The Bank has also provided Turkey with programme loans- \$ 150 M in 1978 and \$ 200 M in 1980.

7. TURKEY MUST RELY MORE ON HER OWN RESOURCES

What is clear by now is that Turkey must rely more on her own resources than in foreign financing in overcoming the economic crisis. Foreign credits should be sought but should not be made the cornerstone of economic policies. It must be understood that securing foreign credits even on a large scale will only provide a temporary relief and will not solve the fundamental problems of the economy. Turkey must learn to earn foreign exchange in sufficient quantities to finance its import needs and save at a higher rate to finance its investment programmes. This is the only way to a sound and lasting solution to the deep rooted problems.

The success of the stabilization programme in general and of the devaluation in particular depends on the ability of the economy to procure the required imports of raw materials and oil and on the ability of the Central Bank to resume foreign exchange transfers. Immediate resumption of foreign transfers is a must in maintaining the official rate of exchange transfers. Immediate resumption of foreign transfers is a must in maintaining the official rate of exchange at a competitive level with the rate in the free market. The immediate inflow of imported materials is essential in utilizing the existing productive capacity and increasing domestic output.

On the eve of the devaluation the government was in optimistic expectations. With the parity rate fixed at \$ 1=70 TL immediate upsurge in workers remittances was expected. This rate was also expected to secure the flow of all foreign exchange into legal channels and eliminate the illegal foreign exchange market. But the Turkish workers abroad did not respond to the devaluation in the manner they did to the introduction of premiums on their remittances in April 1979. The illegal foreign exchange market reacted fiercely and immediately raised the rate just above the parity in order to preserve its market share in the business.

The reaction of the illegal market is telling. It will not easily accept to be pushed aside. The government will have a hard time in fighting it. Secondly, raising the parity of the Lira is not a very effective weapon in fighting the illegal transactions in foreign exchange. As soon as the parity is raised the market is flexible enough to adjust its rate to the official parity only because it knows that the Central Bank will not be able to meet all the demand for foreign exchange in the economy and that there will be a scope for it to function.

The mistake here is that, as in the former packages, the government relied on government to government credits rather than on money markets. By their very nature government to government credits are largely tied to political concessions and their realisation depend on the approval of the parliaments of donor countries. Thus delays are inevitable. Experiences of the last two years indicate that Turkey should reduce its reliance on government to government credits and plung into international financial markets where obtaining credits is a matter of a day provided that the borrower's credit worthiness satisfy the bankers.

Unfortunately Turkey's present credit worthiness in international financial markets leave much to be desired. This is not only due to the low level of foreign exchange reserves at the Central Bank. The stabilization programme has been approved by the West but with a certain amount of reserve. The failure of the past three stabilization programmes in curbing inflation and equilibriating the balance of payments seriously reduced the confidence in such programmes. Secondly, the inability of the Turkish economy to pay its due foreign debts even after a large scale consolidation, political and social instability and uncertainty surrounding the future of the present government all negatively affected Turkey's credit worthiness.

Despite these unfavorable developments, the situation is hopeful. Turkey is a country with untapped resources and a large potential for development, Persistent and consistent implementation of the stabilization programme will both improve domestic economic conditions and rebuilt Turkey's credit worthiness.

8. MISSING LINKS IN THE POLICY CHAIN

A balanced budget is a prerequisite to fighting inflation, meaning that in increase in budgetary expenditures should be matched with an equal increase in revenues. On the other hand inflation itself is expanding expenditures, threatening deficits in the budget unless mew measures are introduced. The government is well aware that increasing revenues through price hikes to the products of the SEEs will add fuel to the galloping prices and be self defeating. The only solution, is to enact a new tax law and to modernize tax collecting procuderus to eliminate tax evasion.

That the government will agree is crystal clear. A new tax bill has already been drafted but has not yet been pushed through the Parliament.

The evidence is that, in the present talk, the question of wages has replaced that of devaluation. In the forthcoming collective bargaining wage increases should be kept to the minimum in order to minimize their effects on inflation. Parties unanimously agreed that high wage increases in the public sector would mean deficits for the SEEs, which in turn would require further hikes to the prices of their products and services.

Higher interest rates, increased taxes and limits on wage increases in the public sector plus a balanced budget are the policy candidates of the new stand by arrangement that will dominate Turkey's economic affairs from June onwards. They all seem to complement the January stabilisation programme.

As for high growth rate economists, planners and the IMF are sceptical. Given the present foreign exchange shortage it will prove almost impossible for the economy to import all the required raw materials and capital equipment to boost domestic production and investments to attain a growth rate of 6.5%. A general belief is that a more modest and realistic rate must be targetted. This, of course, necessitates a complete revision of the Plan and of the annual programmes.

CHAPTER V

BUSINESS CLIMATE

1. POLITICAL ENVIRONMENT

Turkey has a number of active political parties, of which seven are currently represented in the National Assembly. The two major parties, are the Justice Party (founded in 1961 and now headed by the Prime Minister Suleyman Demirel),and the Republican Peoples' Party (founded in 1923 by Atatürk, and now headed by the former Prime Minister Bülent Ecevit). Although their policies vary to some degree, both strongly advocate economic development with a shared role for private and public enterprises. Coalition governments have been a common feature of the Turkish political life since 1961. The general elections held in October 1973 produced no clear majority among the political parties, so a coalition government with Mr. Bülent Ecevit as Prime Minister ruled the country from January to September 1974. In March 1975, Mr. Demirel, leader of the Justice Party, formed a "Nationalist Front" alliance upon the resignation of the coalition government headed by Mr. Bülent Ecevit. Mr. Ecevit's second government, formed after the elections of June 1977, could not obtain the majority vote in the National Assembly and was replaced by Mr. Demirel's Coalition Government (JP, NSP and NMP coalition: 2.7.1977-5.1.'78). When some JP Assembly members resigned from JP and became independent, the majority required for the continuation of the fifth Demirel government did no longer exist.

Mr. Ecevit formed a government on the 5th of January 1978 with RPP, DP, RRP and some independents. The partial elections made on October 14, 1979 gave the JP a clear victory, it got 47% of the votes. RPP got only 28% of the votes NSP 9% and NMP 6%. Upon these results Mr. Ecevit resigned and a month later Demirel formed a minority government which is still ruling since November 14, 1979.

COMPOSITION of THE SENATE by PARTY

SENATE	Number of Seats Held				As of
	July 1970 Elections	Oct. 1973 Elections	Jan. 1976 Elections	June 1977 Elections	July 1980
Justice Party	101	80	78	64	78
Republican Peoples' Party	34	42	60	76	62
Republican Reliance Party	11	10	4	4	2
Democratic Party	-	6	-	-	-
National Salvation Party	-	3	5	6	7
Nationalist Action Party	1	-	1	1	1
Turkish Workers' Party	1	-	-	-	-
Nation Party	1	-	-	-	-
Independents	1	10	2	1	-
Presidential Appointees	15	14	15	13	10
Life Senators	18	18	19	19	18
Vacancies	-	-	-	-	5
Ex-Presidents of the Republic	-	2	1	1	2
TOTAL	183	185	185	185	185

COMPOSITION of THE GRAND NATIONAL ASSEMBLY by PARTY

NATIONAL ASSEMBLY	Number of Seats Held				As of
	Oct. 1969 Elections	Oct. 1973 Elections	Jan. 1976 Elections	June 1977 Elections	June 1980
Justice Party	257	149	159	189	187
Republican Peoples' Party	144	185	189	213	202
Democratic Party	-	45	24	1	-
Republican Reliance Party	15	13	10	3	1
National Salvation Party	-	48	48	24	22
Nation Party	6	-	-	-	-
Turkish Unity Party	8	1	1	-	1
Nationalist Action Party	1	3	3	16	17
Turkish Workers' Party	2	-	-	-	-
New Turkey Party	6	-	-	-	-
Order Party					1
Independents	11	6	14	4	14
Vacancies	-	-	2	-	5
TOTAL	450	450	450	450	450

2. POPULATION

According to the final results of the 1975 Census the population of Turkey was 40.437.719. Thus the average yearly increase was 2.5 percent, it is estimated that the population figure in 1980 will amount to 46 million.

Mortality, birth and immigration rates show considerable changes that affect the rate of growth of population, its age and regional distributions.

Fertility rate is affected by a number of factors such as education, rate of marriages, agricultural income, women's participation in the labour force and non-agricultural employment opportunities. Crude birth rate was 4.3 percent in 1960 and is estimated to have fallen down to 3.42 percent in 1975, and to 3.22% by 1980.

Death rates are affected by the improvement in health conditions, nutritional conditions and industrialization. Infant mortality has shown a considerable decrease recently from 13.3% in 1965-1970 to 12 percent in 1970-1975. Crude death rate was 2% in the 1960s and has gone down to 1% by 1975.

According to Population Research results the natural net rate of population increase should not have exceeded 2.34 percent on the basis of the 1975 Population Census and fertility and death rates. The sampling results of the 1975 Census have given a 2.34 rate of increase which later became 2.5 percent when the final results of the census were obtained. In view of the decrease in the birth rate and the increase in emigration it is doubtful whether the rate of population increase would continue to be 2.5 percent; either there is over calculation in 1975 or undercalculation in 1970.

EMIGRATION

Massive emigration has been a striking and a beneficial feature of Turkey's recent economic development. By the end of 1979 there were 780.000 Turks legally working abroad and several thousand illegal migrants.

Between 1970-1979 workers' remittances of foreign exchange to Turkey exceeded $ 10 billion at an average rate of $ 1 billion per annum. Turkey was the latest among the Mediterranean countries in the mass migration of labor, that characterized the postwar era. Emigration from Turkey was relatively insignificant until the middle of the 1960's but rose very rapidly thereafter.

URBANIZATION-
INTERNAL MIGRATION

The state of the economy, civil violence, Cyprus - Question are the most outstanding problems facing the Government, today. But Turkey also suffers from certain long term social problems which the electorate expects Demirel and his colleagues to solve. One of these is an acutely unequal income distribution. Another is the accelerating flight from the countryside to the already over-crowded cities.

With a 70% inflation rate in 1979, which could be exceeded in 1980, life is becoming even more difficult for Turkey's small-land holders, fixed income groups and tenant farmers and agricultural laborers, whose income depends on annually fixed agricultural support prices.

As the figures indicate, urbanization was proceeding in the late sixties and early seventies. But in the years preceeding the 1973 oil crisis, Turkey had a safety valve in West Germany and other Western European states which were prepared to mop up much of the surplus labor. This helped to prevent an excessive build-up in the cities of unemployed people coming from the rural areas.

The European labor market is now saturated and the cities in Turkey now have to cope with increasing numbers of people from the countryside. Jobs are still scarce and unemployment is reckoned by a number of unofficial sources to be well over two million.

The problem is currently aggravated by the present recession stemming from the shortage of foreign exchange, and thus of vital raw material inputs to keep industrial plants working.

So with more people arriving in the towns to compete for less jobs, it is hardly surprising that the infrastructure in cities like Istanbul and Ankara, designed for populations a third of their present size, is creaking under the strain.

An indication of where internal migrants come from can be obtained from a Demographic Survey conducted in 1970.

Central Anatolia displays a net migration rate of its rural population equal to 25 and 3.8 per thousand of its urban population.

Eastern Anatolia has migration rates of 20.5 and 6.1 per thousand and Black Sea Region of 13.8 and 0.4 per thousand respectively.

Aegean-Marmara and Mediterranean regions have net rural migrations of 17.8 and 26 per thousand but possessive net migration for their urban centers equal to 18 and 15 per thousand respectively.

DISTRIBUTION of *GECEKONDUs* in TURKEY's MAJOR CITIES

	Percent
Ankara	29.9
Istanbul	19.4
Izmir	11.6
Adana	5.8
Bursa	4.2
Other Cities	29.1

POPULATION

YEAR	Census Year Population	Absolute Increase between Censuses	Annual % Increase between Censuses	Population Estimates for July 1
1975	40.348			40.025
1976				41.131
1977				42.267
1978		5890	0.02725	43.435
1979				44.634
1980	46.238			45.867
1981				47.119
1982				48.404
1983		6663	0.02692	49.725
1984				51.082
1985	52.901			52.475
1986				54.019
1987				55.609
1988		8256	0.02900	57.245
1989				58.929
1990	61.157			60.663

Source: Turkish Industrial Development Bank, publication Nr.26, Nov. 1979.

There has been a considerable increase in urban population which brought the ratio of urban to total population from around 19 percent in 1950 to 36 percent in 1970 and to 44 percent in 1980.

CHANGES in RURAL POPULATION

	Rural Population	Total Population	Annual Change		Rural as % of Total
			Total	Rural	
1950	17.023.336	20.947.188	2.20	2.13	81.27
1955	18.639.638	24.064.763	2.81	1.83	77.46
1960	20.555.202	27.754.820	2.89	1.98	74.06
1965	22.048.415	31.391.421	2.49	1.41	70.24
1970	22.891.068	35.605.176	2.55	0.75	64.29
1975	23.641.194	40.347.719	2.53	0.65	58.59
1980	24.571.117	46.237.959	2.76	0.77	53.14
1985	24.483.792	52.900.712	2.73	-0.07	46.28
1990	24.157.148	61.157.203	2.94	-0.27	39.50

Source: Turkish Industrial Development Bank, Publication Nr. 26, November 1979.

POPULATION CHARACTERISTICS

(1970)

REGION/AREA	Dependency Ratio	% Rate of Literacy[1]	Net Migration Rate per 1.000	Rate of Net Population Increase per 1.000
Turkey				
Total	87.6	53.2	-	25.0
Rural	92.7	45.1	-20.3	27.2
Urban	77.9	67.9	17.4	20.7
Ankara	73.0	79.4	51.4	21.8
Istanbul	56.0	82.0	32.9	12.6
Izmir	60.0	74.0	44.4	14.4
REGIONS				
Central Anatolia				
Rural	96.1	42.9	-25.0	31.0
Urban	88.3	63.4	-3.8	23.5
Black Sea				
Rural	88.7	45.3	-13.8	23.2
Urban	91.6	63.1	-0.4	24.4
Aegean & Marmara				
Rural	77.0	55.2	-17.8	20.9
Urban	71.8	68.8	18.0	15.6
Mediterranean				
Rural	98.8	52.0	-26.0	27.1
Urban	84.8	65.7	15.0	23.0
Eastern Anatolia				
Rural	109.2	30.8	-20.5	34.2
Urban	98.4	50.0	-6.1	31.7

[1]Ages 8 years and over.

Source: Republic of Turkey, Ministry of Health and Social Welfare, School of Public Health, Vital Statistics from the Turkish Demographic Survey (Ankara, 1970).

3. EMPLOYMENT

While 60 percent of the economically active population is still engaged in agriculture and related activities, there has been a perceptible decline in the last fifteen years from 77.1 percent in 1962. This fall of 16.5 percentage points was accounted for partly by an increase of 4.9 percentage points in manufacturing. However, the most rapid increase equal to 10 percentage points has occurred in services, particularly in civil service and commerce. In any case these jobs are probably of very low productivity. Thus 53.3 percent of total employment created during the seventeen years of planned development took place in the service sectors, 38.2 in industry and construction and 8.5 percent in transportation.

The Growth of Employment in the sectors outside of agriculture has amounted to 4.3 percent yearly for the seventeen years of the planned period. Employment in Industry has increased by 4.4 percent on the average while employment in the construction sector has increased by 3.8 percent. The average for the non-agricultural sectors has been affected by the high rate of employment increase in transportation (4.2%) and in services (4.8 percent).

The non-agricultural sectors are far from being able to absorb the increments in the Labor Force Supply. During the last years the yearly increments are not less than 230 thousand. The rate of increase of the non-agricultural employment allows for the creation of employment opportunities for 180 thousand. Year after year the total Labor Force Surplus increased recently by not less than 130 thousand. Total Labor Force Surplus doubled in 17 years from roughly 1.1 million in 1962 to 2.3 million in 1979 or from 8.1 percent of the total labor supply to 14.06 percent respectively.

PERCENTAGE DISTRIBUTION of THE ECONOMICALLY ACTIVE POPULATION

	1962	1979	1962/1979 Change	
Agriculture	77.0	60.5	-16.5	
			absorbed by	*Relative share of the Absorption*
Industry	7.9	12.8	4.9	29.7%
Mining	0.5	0.8	0.3	1.8%
Manufacturing	7.2	11.4	4.2	25.5%
Energy, water	0.2	0.6	0.4	2.4%
Construction	2.4	3.8	1.4	8.5%
Transportation	2.1	3.5	1.4	8.5%
Commerce	2.9	4.4	1.5	9.1%
Banking	0.4	1.4	1.0	6.0%
Services	7.3	13.6	6.3	38.2%
TOTAL	100.0	100.0		100.0%

2363

SECTORAL DISTRIBUTION of MANPOWER DEMAND 1962, 1979

	1962		1979		Change	
	(000)	%	*(000)*	%	Absolute	%
Agriculture	9.740	77.0	9.070	60.4	-670	
Industry	995	7.9	1.925	12.8	+930	4.00
Mining	64	0.5	120	0.8	+56	3.76
Manufacturing	912	7.2	1.707	11.4	+795	3.75
Energy, Water	19	0.2	98	0.6	+79	5.15
Construction	300	2.4	566	3.8	+266	3.80
Transportation	261	2.1	522	3.5	+261	4.16
Commerce	366	2.9	668	4.4	+302	3.60
Banking	52	0.4	209	1.4	+257	8.50
Services	929	7.3	2.046	13.6	+1117	4.75
TOTAL	12.643	100.0	15.006	100.0	+2363	1.00
Non-Agriculture	2.903	23.0	5.936	39.6	+3033	4.30

EMPLOYMENT OPPORTUNITIES
in
NON-AGRICULTURE NON-GOVERNMENT
SECTORS

YEARS	Employment (00C)	% Change
1962	1.974	
1967	2.439	123.6
1972	3.030	124.2
1977	3.712	122.5
1978	3.832	103.2
1979	3.890	101.5
1980	3.948	101.5

EMPLOYMENT OPPORTUNITIES
in
NON-AGRICULTURAL SECTORS

YEAR	Non-Agricultural Sectors		Public, Private Services		Non-Agricultural Sectors	
1962	1974		929		2903	
1967	2439	123.6	1243	133.8	3682	126.8
1972	3030	124.2	1580	127.1	4610	125.2
1977	3712	122.5	1914	121.1	5626	122.0
1978	3832	103.2	1990	104.0	5822	103.5
1979	3890	101.5	2046	102.8	5936	102.0
1980	3948	101.5	2100	102.6	6048	101.9

Between 1962-1977 employment in the non-agricultural non government sectors of the economy comprising Industry, Construction, Transportation, Trade, Banking, Insurance has increased at 4.5-4.8 percent annually. The rate of employment has dropped to 3.2 percent in 1978 and to 1.5 percent in 1979.

Employment in the Public Sector and Private Services increased at 4.2-6.8 percent annually between 1962-1977 but by only 4% in 1978, 2.8% in 1977 and 2.6% in 1980.

Employment in all non-agricultural sectors increased by 4.4 to 5.4% annually. It dropped to 3.5 in 1978 to 2% in 1979 and to 1.9% in 1980.

At present the non-agricultural sectors of the economy provide additional unemployment to 100.000 people annually, a figure too low to be able to absorb the annual increment supply of manpower.

The development strategy of the Five Year Plans has emphasized a high rate of growth of output and labour productivity than that of employment. Although the rate of growth of employment in industry, construction and transportation has accelerated during the Second and Third Plans it has failed to absorb the increments in the labour force. This is partly because the rate of employment growth in Services went gradually down from 8 percent during the First Plan, to 6.4 percent during the Second and 3.9 percent during the Third Plan.

Emigration has greatly eased the pressure on employment in the early 1970's. 135.820 Turkish workers emigrated in 1973, a record year allowing the absorption of the yearly incremental total labor force surplus by emigration. But due to the changing employment conditions abroad, emigration has slowed down and continues at around 20 thousand a year.

There are several reasons for believing that the Plan's implicit estimate of the magnitude of agricultural population and of the rural exodus may be too high. It is based on a rising rate of participation in agriculture as elsewhere; but as education spreads and incomes rise, the employment of children and women is likely to fall rather than to rise. On the other hand, the estimate is predicated on very high growth rates of productivity in agriculture: 5.1 percent per annum in 1972-1977, 9 percent in 1977-1987 and 6.4 percent in 1987-1995. Such increases in producitivty are unlikely to materialize; productivity increases around 3.2 percent for Agriculture seem more likely in the medium term. Thus, the actual extent of disguised and open un-employment in agriculture or the rate of annual exodus may well be less than the estimate, various projections indicate that agricultural labor force might increase slightly by less than one percent per annum.

On the other hand, a strategy of maximizing employment rather than growth can translate into a substantially faster growth of urban employment at the expense of a small loss in growth. It would also have the advantage that through increasing employment the more equal distribution of income could be achieved.

4. LABOR RELATIONS

Collective bargaining and the ensuing agreements related to 23.257 establishments in 1979 covered 100 thousand workers in the Public Sector and 300 thousand in the Private Sector.

The year 1979 has witnessed a large number of strikes. 126 strikes involved 21.011 workers who remained on strike for 10.529 days and caused 1.147.721 work-days to be lost.

WORKERS' and EMPLOYERS' UNION

YEAR	Workers' Union	Number of Members (000)	Employers' Unions	Number of Members
1973	637	2.658.4	104	9.842
1974	675	2.878.6	101	9.647
1975	781	3.328.6	107	8.943
1976	821	3.624.8	111	10.735
1977	863	3.807.6	118	12.514

Source: Ministry of Labor

COLLECTIVE BARGAINING

YEAR	Number of Agreements			Number of Establishments			Number of Workers		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
1972	443	1.160	1.603	1.789	1.879	3.668	278.017	148.428	426.445
1973	551	1.370	1.921	4.211	2.098	6.309	249.901	193.389	443.290
1974	594	1.130	1.724	1.880	2.443	4.323	427.300	174.479	601.775
1975	297	1.597	1.893	1.051	3.877	5.928	91.316	209.002	300.318
1976	790	1.640	2.430	2.807	3.156	5.963	220.956	255.426	476.382
1977	573	1.659	2.232	2.498	3.681	6.179	369.324	220.774	590.098
1978	485	1.440	2.225	1.539	3.802	5.341	280.262	203.879	481.139
1979	774	840	1.614	5.279	17.978	23.257	99.802	298.103	397.905

Source: Ministry of Labour.

NUMBER of WORKDAYS LOST DURING STRIKES

YEAR	Number of Strikes	Number of Workers Participating	Number of days On Strike	Workdays Lost
1972	48	14.879	2.297	659.362
1973	55	12.286	2.209	671.135
1974	110	25.546	4.104	1.109.401
1975	116	13.708	5.601	668.797
1976	58	7.240	3.691	325.830
1977	59	15.682	3.622	1.397.124
1978	87	9.748	4.457	426.127
1979	126	21.011	10.529	1.147.721

Source: Ministry of Labour.

SOCIAL SECURITY POLICY

At the end of 1979 10.9% of total population or 1/3 of the active population 4.8 million people benefit from one or the other of social security programs.

On the other hand, there are 1.5 million people who are getting monthly payments under social security programs.

NUMBER of PEOPLE UNDER THE COVERAGE of SOCIAL SECURITY PROGRAMS

YEAR	Social Insurance	State Retirement Fund	Independent Social Insurance	Special Funds	TOTAL
1973	1.649	850	775	40	3.314
1974	1.800	870	825	45	3.540
1975	1.825	900	850	48	3.623
1976	2.017	1.145	885	57	4.104
1977	2.191	1.175	962	62	4.390
1978	2.206	1.230	1.120	65	4.621
1979	2.220	1.295	1.210	68	4.793

NUMBER of PEOPLE GETTING MONTHLY PAYMENT UNDER SOCIAL SECURITY PROGRAMS

YEAR	State Retirement Fund	Social Insurance	Independent Social Insurance	Special Funds	Others[1]	Total
1972	322.5	167.9	-	2.5	21.1	514.0
1973	336.4	194.1	1.5	2.7	23.7	558.4
1974	362.0	211.5	2.3	3.0	24.0	602.7
1975	380.0	242.0	3.3	3.4	25.0	653.6
1976	409.3	293.5	4.6	4.5	29.0	740.9
1977	860.2	350.0	27.0	5.0	30.9	1.273.1
1978	910.0	395.0	31.0	5.5	31.0	1.372.5
1979	975.0	440.0	34.0	5.9	32.0	1.486.9

Source: SPO, Fourth Five Year Development Plan

(1) People benefiting from social service programs such as Houses for the aged, children, etc.

5. INCOME DISTRIBUTION

Turkey shares with many other developing countries the experience of large income differences. The overall income distribution is highly unequal; the Gini coefficient of net household incomes was estimated at above 0.56 in 1969 and at 0.51489 in 1973.

Comparable data for earlier years are not available and the lack of firm data makes it difficult to judge whether income differences have expanded or reduced. The substantial difference in the rate of growth of real per capita output in various sectors suggests that the differences in income of various groups may have widened. On the other hand, the substantial and rapid growth of emigrant workers' remittances in recent years, much of which goes to the poorest groups, has been working in the opposite direction.

The general picture reveals that 4.1 percent of the households within the lowest income bracket (up to TL 2500/year) get 0.3 percent of total income while 0.6 percent of the households within the highest income bracket (incomes exceeding TL 200,000/yr) get 10.2 percent of total income in Turkey.

INCOME DISTRIBUTION by INCOME BRACKETS,
TURKEY 1973

Income Brackets	% of Households	% of National Income
0 - 2,500	4.1	0.3
2,500 - 5,000	8.1	1.2
5,000 - 10,000	17.8	5.4
10,000 - 15,000	20.0	10.1
15,000 - 25,000	22.5	17.9
25,000 - 50,000	18.1	25.4
50,000 -100,000	6.8	18.6
100,000 -200,000	1.9	10.8
200,000 +	0.6	10.2
Gini coefficient: 0.51489		

Source: SPO, Income Distribution, 1973

The State Planning Organization has recently in the 1980 Programme given the quantitative changes in the functional distribution of income during the 1968-1979 period. No changes of a meaningful magnitude seem to have taken place between 1968-1976 but with the acceleration of inflation serious changes have taken place in the last three years.

CHANGES in FUNCTIONAL INCOME DISTRIBUTION

	1968	1976	1977	1978	1979
I. Agriculture	32.4	31.4	28.9	24.3	20.7
II. Non-Agricultural Wage	19.7	20.7	20.8	18.3	16.8
III. Salaries of Gov't Employees	10.3	11.5	13.2	10.6	10.0
IV. Industry	10.2	7.5	7.6	7.9	7.9
V. Incomes of Services	27.4	28.9	29.5	38.9	44.6
TOTAL	100.0	100.0	100.0	100.0	100.0

They can be outlined as follows: In 1977, there are two distinct movements; a decrease in the share of agricultural income and an increase in the share of the salaries of government employees which enabled this underprivileged class to reach the highest share of this twelve year period (1968-1979) by moving from 11.5 percent in 1976 to 13.2 percent in 1977. The nearest to this maximum was attained in 1972 and 1973 with 12.8 and 12.6 percent respectively. The share of industry on the other hand has gradually decreased between 1968 and 1976 from 10.2 percent to 7.5 and remained at this level in 1977.

The acceleration of inflation in 1978 and 1979 has further deteriorated the position of Agriculture, Labor and Government Employees. It didn't improve in any significant degree the position of industry. The only groups that benefited from the acceleration of inflation were the recipients of different kinds of rents, trade margins, inventory profits, capital gains, speculative profits and last but not least the seigniorage accruing to the State and Governmental institutions through expropriations made possible through financial restrictions.

The final result of all these developments in income distribution by the end of 1979 can be outlined through a comparison of the functional shares of income recipients in 1968 & 1979.

CHANGES in THE SHARES of GDP, 1968-1979

	1968	1979	Change in the Share	1968/1979 %
Agriculture	32.4	20.7	-11.7	-36.1
Non-Agricultural Wage	19.7	16.8	-2.9	-14.7
Salaries	10.3	10.0	-0.3	-2.9
Industry	10.2	7.9	-2.3	-22.5
Services	27.4	44.6	+17.2	+62.8
TOTAL	100.0	100.0	0	

The most serious decrease has taken place in Agriculture. Its share in GDP has decreased by 36.1 percent moving from 32.4 percent in 1968 to 20.7 percent in 1979. The second big looser is Industry. Its share has decreased by 22.5 percent, from 10.2 percent in 1968 to 7.9 percent in 1979. Ironically enough the products of Industry have generated all kinds of rents before reaching the final consumer.

The share of non-agricultural wage has decreased by 14.7 percent moving from 19.7 percent of GDP in 1968 to 16.8 percent in 1979.

Total salaries of government employees decreased by only 2.9 percent moving from 10.3 percent of GDP in 1968 to 10 percent in 1979.

Against all these decreases the share of various services in GDP increased by 62.8 percent, absorbing 44.6 percent of GDP in 1979 from 27.4 percent in 1968.

This represents a major distortion in the Turkish Economy created by a combination of high rates of inflation, decrease in the production and availability of manufactured products, and government interference with the market mechanism which was not coordinated with the necessary flow of supply.

It is not easy to make definite comparisons between the Income Distribution of Turkey and that of other countries. We have used in this respect data available in the publications of the World Bank. 16 countries have been defined as Semi-Industrialized by the World Bank. Nine of them including Turkey have in the last ten years conducted surveys for quantitative assessment of their income distribution. Turkey's income distribution is not as bad as Brazil's or Mexico's but it is more unequal than Korea, Spain, Yugoslavia and Taiwan.

INCOME DISTRIBUTION
of
SEMI-INDUSTRIALIZED COUNTRIES

COUNTRY	YEAR	Percentage Shares of Household Income					
		Lowest 20%	*2nd*	*3rd*	*4th*	*5th Highest 20%*	*Highest 10%*
Brazil	1972	2.0	5.0	9.4	17.0	66.6	50.6
Mexico	1977	2.9	7.4	13.2	22.0	54.4	36.7
TURKEY	1973	3.4	8.0	12.5	19.5	56.5	40.7
Philippines	1971	3.7	8.2	13.2	21.0	53.9	..
Argentina	1970	4.4	9.7	14.1	21.5	50.3	35.2
Korea	1976	5.7	11.2	15.4	22.4	45.3	27.5
Spain	1974	6.0	11.8	16.9	23.1	42.2	26.7
Yugoslavia	1973	6.5	11.9	17.6	24.0	40.0	22.5
Taiwan	1971	8.7	13.2	16.6	22.3	39.2	24.7

A survey conducted recently and covering 1.000 families shows an alarming inequality of income distribution among the inhabitants of Istanbul.

The upper income group constituting 20 percent of the population of Istanbul receives 69% of the total income of the city.

The second 20% of the upper income group just breaks even receiving 21% of the city income.

These two groups together adding up to 40 percent receive almost all (90%) of the total income.

Income Group	Percent of Total Population	It Share From Total Income
1 Highest	20	69.0
2	20	21.0
3	20	4.3
4	20	3.3
5 Lowest	20	2.4

In other words 60 percent of the city population receives only 10% of the city's income.

6. MIXED ECONOMY

STATE-OWNED INDUSTRY

The Turkish Economy is mixed with government enterprises, owning about 47% of the Turkish Industry.

The industries under the "monopolies law" are those exclusively reserved to the state (tobacco products, spirits, utilities, railways, airlines and municipal public transport, opium products), while the private sector has been permitted to engage in production of tobacco products for export.

The Public Economic Sector in Turkey is composed of 240 establishments, comprising 4572 units, representing a nominal non-revalued capital of TL 162 billion and total fixed assets of TL 187 billion. There are large differences in the characteristics of Public Enterprises: 540 units are run with annexed budgets, 279 with special laws, 1952 under the Status of State Economic Enterprises, 506 as Partnerships, 461 as Corporations.

216 under special laws, 124 as companies with more than 50% public ownership, 494 as companies with less than 50% public ownership.

At present, the most important of the 29 State Economic Enterprises (SEEs) engaged in industry and communications include, Sümerbank (mainly textiles), Etibank (mining and mineral processing), MKEK or the Machinery and Chemical Industries (Industrial chemicals, ammunitious, special steels, castings, etc.) TPAO (petroleum), Azot (fertilizers), Maritime Bank,TMO (Cereals Office), TEK (Electricity), TCDD (railways), Petkim (Petrochemicals), THY (Turkish Airlines), TKI (Coal), TUMOSAN (Motor Industry), Taksan (Machine Tools Industry). TEMSAN(Electromechanics), Testas (Electronic Industry), Telesan (Electro-Communications Industry), and TUSAS (Aircraft Industry). Other SEEs include the State Investment Bank, Workers' Investment Bank, the Social Insurance Institution and the State Pension Fund.

Through the SEEs, the Treasury also has interest in some 45 other industrial joint ventures with private capital. Some of these involve foreign corporations - such as Eregli Iron & Steel Mills Corp, Northern Electric - PTT Telecommunications Equipment Plant and Mannesman-Sumerbank Steel Pipe Factory.

The production, price and even employment policies of the SEEs are determined by the government since these agencies are greatly manipulated in pursuing economic policies. Arguments for increased autonomy of these enterprises since the beginning of the planned period failed to convince governments to allow these giants to operate under competitive conditions in the market. Certain rules of economics, however, need to be observed or ensuing losses become inevitable. One of these is the rule that an investing enterprise should be able to finance some portion of the investment cost from its own resources in order to make profits or to keep investing, as the SEEs are required to do.

DISTRIBUTION and MAIN CHARACTERISTICS
of PUBLIC ENTERPRISES

	Number of Establishments	Number of Units	Nominal Capital (mil TL)	Share of Public Ownership (mil TL)	(%)	Total Fixed Assets (mil TL)
Annexed Budget Organizations (universities excluded)	10	540	-	-	100.00	-
Public Economic Enterprises (followed by SPO)	(40)	(3.198)	(148.179)	(146.302)	(98.50)	(147.830)
- Under Special Laws	4	279	69.410	69.410	100.00	5.425
- State Economic Enterprises	18	1.952	61.493	61.493	100.00	106.694
- Anonym Partnerships	6	506	7.500	7.337	97.83	19.325
- Anonym Corporations	12	461	9.776	8.062	82.47	16.386
Other Organizations under Special Laws	14	216	1.041	1.041	100.00	3.351
Companies with more than 50% public ownership	65	124	6.744	6.364	94.37	23.121
Companies with less than 50% public	111	494	6.149	1.685	27.40	12.983
	240	4.572	162.113	155.392	95.85	187.265

Source: SPO

The State Economic Enterprises provide direct employment to 723.000 people.

EMPLOYMENT in STATE ECONOMIC ENTERPRISES

YEARS	Staff + Technical Personnel	Workers	Total
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	179,291	324,543	503,834
1975	195,979	348,399	544,378
1976	216,624	368,964	585,588
1977	225,441	410,758	636,199
1978	250,218	404,840	655,058
1979	273,895	449,100	722,995

WAGES and SALARIES in SEEs

Wages constitute a large proportion of sales revenue,moreover this proportion is systematically increasing. Three possible reasons could be given for the explanation of this tendency. There is excess employment and it goes increasing.The management of SEEs is too liberal concerning wage determination during collective bargaining. Prices are being kept low.

WAGES as PERCENT of SALES REVENUE
(mill. TL)

YEAR	Wages	Sales	Wages/ Sales
1974	19.0	71.5	26.5
1975	28.3	92.9	30.5
1976	42.1	127.1	33.1
1977	61.3	183.3	33.4
1978	102.8	295.0	34.8
1979	153.5	501.2	30.6
1980 (Est.)	235.3	1222.9	19.2

In a few years time wages have attained considerably high proportions in sales revenue indicative of a possible increase in costs.

The SEEs continue to grow bigger, and the investments undertaken in the past few years to achieve such growth are as follows:

PROFIT and LOSS ACCOUNT
of
STATE ECONOMIC ENTERPRISES

(TL. billion)

	1977	1978	1979	1980
Sales Revenue	155.9	256.2	501.2	1222.9
Increase in Stocks	16.8	20.2	24.5	36.5
Total Income	172.7	276.4	525.7	1259.4
Wages & Salaries	61.3	102.9	153.5	235.3
Purchases of Goods & Services	133.8	201.7	414.6	935.6
Depreciation	12.0	20.1	15.4	20.3
Other Provisions	1.8	3.8	2.2	5.6
Total Expenditures	208.9	328.4	585.7	1196.8
Gross Profit or Loss	-36.2	-52.0	-60.0	+62.6
Taxes	-1.6	-1.8	-3.8	-35.7
Depreciation Allow.	12.0	20.1	15.4	20.3
Other Net	17.7	16.8	-9.0	-39.4
Total own Resources	-8.1	-16.9	-58.4	+7.8

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

The State Economic Enterprises apart from public utilities, and transport and communications, provide some 40 percent of value added and of employment in the industry, The State has forced their expansion on the one hand and used them as buffer programmes for employment, with the result that the number of employed has doubled between 1970 and 1979 from 362 thousand to 723 thousand. Even during the 1979 recession total employment in these enterprises rose by 11 percent and within the total technical and office staff by 17 percent.

STATE ECONOMIC ENTERPRISES: FINANCING of INVESTMENT and LOSSES

(bill. TL)

	1977	1978	1979	1980
Fixed Investment	46.1	60.4	98.0	168.5
Stock Changes	16.8	20.2	24.5	36.5
Total Investment	62.9	80.6	122.5	205.0
Own Resources of SEE	-8.1	-16.9	-58.4	+7.8
Total Financing Requirements	71.0	97.5	180.9	197.2
FINANCED by				
Budget Transfers	31.7	40.0	79.7	101.0
Petroleum Fund	1.9	3.8	7.0	10.0
Central Bank	23.2	19.0	51.0	30.6
State Investment Bank	10.3	9.1	14.1	20.0
Foreign Borrowing *(net)*	3.9	25.6	29.1	35.6
TOTAL	71.0	97.5	180.9	197.2

Excess personnel is not the only reason for the deficits of the State Economic Enterprises; lack of timely pricing and mismanagement are the two main causes of deficit. As a result the number of enterprises turning up negative results in their balance sheets as well as the size of the losses have been increasing in recent years. The combined operating deficit of the SEEs rose from 36 billion TL in 1977 to 52 b in 1978 and to 60 b in 1979. But the financing needs were far greater because of large investment programmes. In 1979 fixed investment amounted to 98 billion and stock changes to 24.5 which added to the deficits created 180.9 billion TL of financing requirements 79.7 billion of which was financed by budget transfers, 51 billion by the Central Bank and the remaining 50 billion TL through Petroleum Fund, State Investment Bank and Foreign borrowing.

The main reasons for these alarming claims on the resources of the Economy must be sought in the organization of these enterprises which were centrally directed and whose investment and employment policies followed social objectives rather than the rules of the market. The fact that the SEEs were able to recover their losses, year after year by receiving government subsidies and cheap official loans has had the effect of reducing incentives to follow sound management practices.

THE ROLE of THE PRIVATE SECTOR in INDUSTRY

There were 5.565 private sector establishments in 1977 in manufacturing, employing 462.249 workers or on the average 83 workers per establishment. The average size of establishment has increased from 70.7 workers in 1972 to 83.1 in 1977.

PRIVATE SECTOR MANUFACTURING ESTABLISHMENTS EMPLOYING MORE THAN 10 WORKERS

	Number of Establishments	Number of Workers	Number of Workers per Establishment
1972	5110	361.667	70.7
1973	5560	412.028	74.1
1974	5567	437.219	78.5
1975	5912	451.949	76.4
1976	5737	464.442	80.9
1977	5565	462.249	83.1

Source: SIS, Surveys of Manufacturing Industry.

The share of the private sector in the production, employment and investment of large manufacturing industry has shown a continuous increase. Production in the private sector establishments amounted to slightly more than half in the late 60s, and it attained 65 percent by 1976.

SHARE of THE PRIVATE SECTOR in LARGE MANUFACTURING INDUSTRY

YEARS	Production (Billion TL)			Employment (Thousand)			Industry Investments (billion TL)		
	Tot.	Priv.	%	Tot.	Priv.	%	Tot.	Priv.	%
1964	23.0	13.2	57.3	346	199	57.6	2.0	0.8	40.7
1965	28.6	15.1	52.8	390	220	56.3	1.6	0.8	55.0
1966	34.1	18.1	53.2	410	231	56.3	1.6	1.0	63.4
1967	41.9	21.1	50.5	435	249	57.0	2.2	1.4	63.1
1968	46.8	25.1	53.6	460	265	57.7	2.4	1.6	65.7
1969	59.7	32.3	54.1	480	289	60.1	3.6	1.9	52.3
1970	72.3	41.5	57.4	506	310	61.3	3.8	2.4	62.3
1971	85.4	52.6	60.7	541	334	61.7	4.7	3.0	62.6
1972	104.5	65.6	62.5	576	361	62.6	7.1	4.6	64.5
1973	141.2	89.4	63.3	637	412	64.6	9.2	6.1	66.7
1974	200.2	118.2	59.1	657	428	65.2	10.6	7.1	66.9
1975	253.3	158.3	62.5	699	451	64.6	14.9	9.9	67.0
1976	203.7	197.3	64.9	724	464	64.1	17.1	12.3	72.1

Source: SIS

PERCENTAGE SHARES of the PUBLIC and PRIVATE SECTORS in PRODUCTION and EMPLOYMENT of THE MANUFACTURING INDUSTRY (1976)

(in %)

	PRODUCTION		EMPLOYMENT	
	Public	Private	Public	Private
Food, Beverages, Tobacco	48.2	51.8	57.5	42.5
Food	34.6	65.4	46.6	53.4
Beverages	65.9	34.1	51.0	49.0
Tobacco	88.5	11.5	89.1	10.9
Textiles, Clothing, Leather	13.9	86.1	20.2	79.8
Textiles	14.5	85.5	21.0	79.0
Clothing	2.0	98.0	2.7	97.3
Fur, Leather	-	100.0	-	100.0
Footwear	35.0	65.0	49.2	50.8
Wood Products, Furniture	29.1	70.9	42.7	57.3
Wood Products	29.4	70.6	44.0	56.0
Furniture	26.9	73.1	37.4	62.6
Paper, Printing	49.5	50.5	53.0	47.0
Paper Products	68.9	31.1	74.3	25.7
Printing	10.6	89.4	19.7	80.3
Chemistry, Petroleum, Rubber	55.3	44.7	21.6	78.4
Basic Chemical Products	42.3	57.7	50.3	49.7
Other Chemical Products	3.9	96.1	10.7	89.3
Petroleum Refineries	100.0	-	100.0	-
Petroleum and Coal Products	17.7	82.3	15.7	84.3
Rubber	-	100.0	-	100.0
Other Plastics	2.2	97.8	0.4	99.6
Non-Metallic Minerals	19.3	80.7	20.7	79.3
Pottery, China, Earthenware	19.7	80.3	30.1	69.9
Glass, Glassware	-	100.0	-	100.0
Other	24.7	75.3	24.1	75.9
Basic Metalic Industries	41.2	58.8	66.5	33.5
Iron, Steel	42.6	57.4	64.1	35.9
Non-Ferrous Metals	36.2	63.8	68.8	31.2
Metallic-Products, Machinery	11.7	88.3	24.9	75.1
Metallic Products	2.7	97.3	3.6	96.4
Machinery	24.0	76.0	30.4	69.6
Electrical Machinery	1.8	98.2	9.0	91.0
Transportation Vehicles	12.7	87.3	40.8	59.2
Scientific Equipment	-	100.0	-	100.0
Other Manufacturing Industries	8.9	91.1	18.8	81.2
TOTAL MANUFACTURING INDUSTRY	35.0	65.0	35.2	64.8

Source: State Institute of Statistics

The relative importance of the private sector in manufacturing has increased from 63.7% of the value added in manufacturing in 1963 to 69.6% in 1977.

VALUE ADDED In MANUFACTURING INDUSTRY (1963-1977)

(1968 Constant Producers' Prices)

Percentage Distribution (%)

	Public Sector	PRIVATE SECTOR		Rural Sector	Total
		Large-Scale	Small-Scale		
1963	34.8	40.7	23.0	1.5	100.0
1964	36.6	40.4	21.7	1.4	100.0
1965	34.9	42.2	21.6	1.2	100.0
1966	36.3	41.8	20.7	1.1	100.0
1967	35.9	43.0	20.2	1.0	100.0
1963-1967	35.8	41.6	21.4	1.2	100.0
1968	35.8	43.6	19.8	0.8	100.0
1969	36.6	43.5	19.1	0.8	100.0
1970	37.1	43.5	18.5	0.9	100.0
1971	37.7	43.6	17.9	0.8	100.0
1972	36.6	44.9	17.7	0.8	100.0
1968-1972	36.8	43.8	18.6	0.8	100.0
1973	32.5	46.9	19.9	0.6	100.0
1974	32.0	47.7	19.8	0.5	100.0
1975	31.5	48.4	19.7	0.3	100.0
1976	30.9	49.2	19.7	0.2	100.0
1977	30.3	50.0	19.6	0.1	100.0
1973-1977	31.4	48.4	19.7	0.4	100.0

Source: Istanbul Chamber of Industry

The share of the Private Sector in total fixed investments has shown a gradual increase during the three Five-Year Development Plans rising from 46.55% to 47.30% and 49.62% respectively for the three plans.

In spite of this upward trend related to Five Year averages, yearly data on recent performance indicate a remarkable increase in the share of the private sector in total fixed investments from 1970 on to 1973 but a gradual decrease thereafter from 52 percent in 1973 to 46.76 in 1977, as can be observed from the table below.

Sectoral shares of private investments have shown differing trends, while the share of the private sector increased in Agriculture and Transportation, it decreased in mining, manufacturing, Tourism and Services.

FIXED CAPITAL INVESTMENT
(TL million, 1976 constant prices)

YEARS	Public	%	Private	%	Total
1970	39.775	53.37	34.751	46.63	74.526
1971	36.376	51.24	34.618	48.76	70.994
1972	39.379	50.42	38.772	49.58	78.101
1973	44.028	48.00	47.701	52.00	91.729
1974	50.166	48.34	53.622	51.66	103.788
1975	65.046	50.64	63.471	49.36	128.517
1976	75.227	51.54	70.739	48.46	145.966
1977	83.756	53.24	73.557	46.76	157.313
1978	73.284	52.70	65.889	47.30	139.173
1979	69.816	55.00	57.114	45.00	126.930

Source: State Planning Organisation

RELATIVE SHARE of THE PRIVATE SECTOR
in
TOTAL FIXED INVESTMENTS
(1963-1979)

	1963-1967	1968-1972	1973-1977	1978	1979
1. Agriculture	30.45	38.55	56.68	52.6	50.6
2. Mining	26.33	20.21	7.60	4.4	7.3
3. Manufacturing	67.27	56.49	56.36	54.8	45.1
4. Energy	3.74	7.32	2.93	0.9	1.3
5. Transportation	22.99	30.99	40.48	44.8	39.1
6. Tourism	71.92	67.36	56.15	51.8	46.3
7. Housing	91.66	09.48	93.76	91.6	94.5
8. Education	1.48	2.56	3.15	3.7	6.7
9. Health	4.86	8.63	5.99	3.3	14.4
10. Services	26.81	31.05	22.41	25.2	33.2
TOTAL	46.55	47.30	49.52	47.3	45.0

PRIVATE INVESTMENT IN MANUFACTURING

	TL. Million			% Distribution		
	1978	1979	1980	1978	1979	1980
Food	2.907	3.427	2.730	8.6	8.8	9.3
Beverages	393	596	393	1.1	1.5	1.3
Tobacco	41	30	-	0.1	0.1	-
Textiles	3.986	4.423	1.879	11.8	11.4	6.4
Leather	144	272	363	0.4	0.7	1.2
Forest Products	1.694	2.122	692	5.0	5.5	2.4
Paper	691	789	401	2.0	2.0	1.4
Printing	217	180	130	0.6	0.4	0.4
Chemicals	2.747	5.541	5.158	8.1	14.3	17.6
Petroleum	192	182	131	0.6	0.5	0.4
Rubber, Plastics	1.493	1.390	600	4.4	3.6	2.0
Earth Products	3.846	3.126	1.960	11.3	8.0	6.7
Iron-Steel	6.723	5.736	5.603	19.8	14.8	19.1
Non-Ferrous Met.	441	1.293	1.471	1.3	3.3	5.0
Metal Products	1.561	2.230	2.171	4.6	5.7	7.4
Machinery	1.992	2.403	1.100	5.9	6.2	3.7
Electr.Mach.	1.806	1.581	834	5.3	4.1	2.8
Transport Veh.	2.530	2.802	3.013	7.5	7.2	10.3
Other	261.	154	157	0.7	0.4	0.5
Total	33.853	38.805	29.265	100.0	100.0	100.0

Source: SPO, September 1979, Investment Survey

According to an Investment Survey by the State Planning Organisation, the private sector shows a tendency to invest less in Textiles, Forest Products, Paper, Rubber-Plastic, Earth Products, Machinery and Electrical Machinery in 1980 when compared with 1978 and 1979. On the other hand Chemicals, Non-ferrous metals, Metal Products and Transport Vehicles are sectors where the private sector has shown the tendency to invest a larger share in 1980 in contrast to 1978 and 1979.

The absolute amount of private investment shows a decrease of 19 billion TL. in 1978.

In fact when deflated by the GNP deflator (it is 69.6% in 1979) private investment in Manufacturing expressed in 1978 prices drop from 33.8 billion TL. in 1978 to 22.9 billion in 1979.

CHARACTERISTICS OF PRIVATE INVESTMENT IN MANUFACTURING

	TL. Million			% Distribution		
	1978	1979	1980	1978	1979	1980
Construction Invest.	7.538	7.458	4.726	22.3	19.2	16.1
Domestic Mach.+Equip.	6.904	7.567	5.961	20.4	19.5	20.4
Imported Machinery	12.680	16.234	13.099	37.5	41.8	44.7
Transport Vehicles	802	707	430	2.4	1.8	1.5
Interest Paid	3.375	3.265	2.400	10.0	8.4	8.2
Other Investments	2.552	3.572	2.647	7.5	9.2	9.0
	33.853	38.805	29.265	100.0	100.0	100.0

Source: SPO, September 1979, Investment Survey

There is a relative decrease in construction investment between 1978 and 1980 and a relative increase in imported machinery.

STOCKS IN PRIVATE MANUFACTURING INDUSTRY

	Finished Products	Raw Materials	Total
End of 1978	21.599	33.148	54.747
Beginning of 1978	16.060	29.527	45.587
Change in Stocks	5.539	3.621	9.160
% Change	34.5%	12.3%	20.0%

Total stocks in private manufacturing increased by 20% in the overall. Stock Accumulation has mainly taken place in Finished products (34.5%) than in raw materials. In fact stocks of raw materials increased by only 12.3%.

SECTORAL DISTRIBUTION ACCORDING to SALES & EMPLOYMENT of PRIVATE FIRMS INCLUDED AMONG THE 300 BIGGEST FIRMS

(1978)

(million TL)

	Number of Firms		Sales out of Prod.		Employment		% of Private	
	Private	*Total*	*Private*	*Total*	*Private*	*Total*	*Sales*	*Employment*
1. Mining	4	6	5.069	7.876	5.829	13.671	64.4	42.6
2. Food Beverages, Tobacco	30	38	16.701	31.971	19.131	61.301	52.2	43.3
3. Textiles, Leather	48	61	33.619	40.279	52.408	76.785	83.5	68.3
4. Forestry Products	4	4	1.351	1.351	1.335	1.335	100.0	100.0
5. Paper, Printing	7	8	3.792	6.757	3.019	8.134	56.1	37.1
6. Chemicals, Oil, Coal, Rubber	35	40	24.738	43.255	17.120	45.988	57.2	37.2
7. Cement	24	27	17.348	18.829	25.148	29.182	92.1	86.2
8. Iron Steel & Non-ferrous Metals	25	26	22.814	23.716	15.833	16.453	96.2	96.2
9. Metal Products & Machinery	57	63	38.526	42.590	41.303	52.534	90.5	78.6
10. Automotive	12	12	20.444	20.444	13.775	13.775	100.0	100.0
11. Others	12	15	6.794	26.197	12.204	52.692	25.9	23.2
TOTAL ...	258	300	191.196	263.265	207.105	371.850	72.6	55.7

Source: Istanbul Chamber of Industry.

Istanbul Chamber of Industry has been publishing a list of 100 largest industrial corporations in Turkey every year since 1968. The same list has been enlarged to 300 corporations in 1977.

The list of the 300 largest industrial corporations includes their figures of paid-up capital, number of employees, net income (profit after tax), total turnover and sales out of their own production.

Out of the 300 corporations 42 are under the direct control of the public sector. Out of 258 private firms 159 are registered with the Istanbul Chamber of Industry, 32 are in the Aegean region, 20 in Ankara, 14 in Adana 12 in Bursa. These 258 private firms represent 72.6 percent of the total sales out of their production of the 300 firms and 55.7 percent of total employment.

25.3 percent of the total employment of the 258 private firms is created in Textiles, 20 percent in Metal products and Machinery, 12 percent in Cement.

USE of CAPACITY in INDUSTRY

Use of capacity in 1979 does not show a large decrease.

USE of CAPACITY

(1979)

	Private	Public
Paper	80.0	78.5
Rubber	68.5	-
Chemicals	60.2	79.2
Petroleum Products	33.3	68.5
Fertilizers	50.0	48.0
Cement	76.0	68.0
Iron & Steel	-	61.3
Ceramics	24.6	96.5
Non-Ferrous Metals	40.0	42.5
Machinery	60.0	63.1
Tractors	32.9	10.0
Road Vehicles	50.0	-
Railroad Vehicles	-	77.0

Source: SPO

CHAPTER VI

WEAKNESSES AND POTENTIALS OF THE TURKISH ECONOMY

Growth of the Turkish Economy has been impressive between 1950-1976, raising percapita income from about \$230 in 1950 to \$990 in 1976.

Past performance and the natural and human resources of the country indicate that further developments are feasible.

However, Turkey will have to overcome important constraints, problems and imbalances.

While growth in the last twenty years has been characterized by nearly continous foreign exchange shortages and inflationary pressures, in the next twenty years to these two main problems will be added the problems of employment creation, income distribution and economic management of the economy.

Turkey has a number of advantages which when put to good use could contribute to the further development of the Economy.

Turkey has a relatively large market equal to 4.3% of the European market. The growth of the market was considerably high in the past five years.

Among the semi-industrialized countries Turkey displays a number of advantages but also a number of unfavorable factors.

Turkey has a considerable potential lying in Agriculture and Mining which if wisely used could be conducive to the solution of some of the problems that Turkey is and will be facing.

1. HOW TURKEY COMPARES AMONG THE 18 WEST EUROPEAN MARKETS

The Turkish market shows the highest growth among the 18 West European markets over past five years equal to 68 percent followed by Greece with 39 percent, Portugal with 33 percent, Spain with 29 percent.

The size of the Turkish market is 4.3 percent of West European markets. It is the 6th biggest. Among the semi-industrialized countries the Turkish market is second in size only preceeded by Spain with 8.1 percent.

From the viewpoint of market intensity, defined as per capita richness of market, relative to trans regional average of 1.00, the Turkish market has the lowest intensity of 0.23, followed by Portugal with 0.40, Ireland with 0.69, Greece with 0.72 and Spain with 0.82 percent.

In spite of the high rate of increase of per capita consumption in Turkey equal to 6.3 percent for the past five years, the level of per capita private consumption continues to be the lowest of the 18 countries. In 1978 it was 926 dollars, followed by Portugal with 1.347 dollars, Greece with 2.202 and Ireland with 2.406.

Turkey is faced with the following dilemna increase per capita consumption at a moderate rate but within stability conditions or try to increase consumption and GNP at an ambitious rate with disregard to economic stability. Turkey has followed an expansionist policy which enhanced instability rather than stability and produced a rate of growth of GDP which averaged 7 percent per annum for the last 15 years. The resource balance has been provided through foreign deficits which enabled total resources to increase at 5.5, 7.0 and 8.2 percent per annum for the three five year periods of the recent past.

MARKET INDICATORS of EUROPEAN COUNTRIES
(1979)

Rank by Market Size	Market Size (%)	Market[1] Intensity	Market[2] Growth
West Germany	20.4	1.36	8
France	15.6	1.20	15
United Kingdom	14.7	1.03	3
Italy	13.6	0.96	12
Spain	8.1	0.82	29
TURKEY	4.3	0.23	68
Holland	4.0	1.17	15
Belgium-Luxemburg	3.2	1.29	12
Sweeden	3.1	1.53	3
Switzerland	2.3	1.55	-1
Austria	2.3	1.28	13
Greece	2.0	0.72	39
Denmark	1.7	1.32	11
Norway	1.6	1.57	14
Portugal	1.3	0.40	33
Finland	1.3	1.10	9
Ireland	0.6	0.69	17
Iceland	0.1	1.62	21
Europe	100.0	1.00	13

[1]Per capita richness of market.

[2]Growth over past five years.

Source: *Business Europe*, 25 January 1980.

PER CAPITA CONSUMPTION
in
WESTERN EUROPE
(1978)

COUNTRY	Population 1978 (million)	Private Consumption 1978 ($ billion)	Per Capita Consumption 1978 ($)	Private Consumption (in constant prices) Annual	GDP (in constant prices) % change
Belgium - Luxembourg	10.2	62.0	6.078	2.1	2.1
Denmark	5.1	31.1	6.098	1.5	1.6
France	53.3	289.9	5.439	3.3	2.9
Germany	61.3	353.9	5.773	2.6	2.0
Ireland	3.2	7.7	2.406	2.7	3.8
Italy	56.7	159.4	2.811	1.7	2.1
Netherlands	13.9	77.5	5.575	3.5	2.4
United Kingdom	55.8	184.5	3.306	2.7	0.9
EEC Total	259.5	1.166.0	4.493	2.2	2.1
Austria	7.5	31.8	4.240	2.7	2.8
Finland	4.7	18.8	4.000	1.4	1.7
Greece	9.4	20.7	2.202	4.5	3.6
Iceland	0.2	1.3	6.500	2.2	3.1
Norway	4.1	21.5	5.244	3.5	4.5
Portugal	9.8	13.2	1.347	1.9	2.4
Spain	36.8	101.1	2.747	2.4	2.7
Sweeden	8.3	45.8	5.518	2.0	1.2
Switzerland	6.3	53.2	8.444	0.5	-0.9
Turkey	43.2	40.0	926	6.3	6.7
Non-EEC Total	130.1	347.4	2.670	2.7	2.4
Europe Total	389.6	1.513.4	3.884	2.3	2.1

2. A DIFFICULT TASK AHEAD: AN OUTWARD LOOKING ECONOMY

Turkey is not the only country facing serious economic problems. In the 1970's many countries were affected unfavorably by the world economic situation.

Turkey is not the only country which has to fight for her industrialization and is faced since the end of 1973 with an ever rising oil bill.

Countries like Spain, Greece, Portugal, Yugoslavia, Brazil and Korea are hit by the same unfavorable circumstances.

In fact Turkey is fighting against these unfavorable trends within a democratic, parliamentary regime of freedom. But there are other countries like Spain and Greece which have solved their problems within the limits of parliamentary democracy and were moreover much more successful than Turkey. The only winners of this first rounds of fighting the crisis are not rightist authoritarian regimes like Brazil and Korea.

The World Bank has selected 16 of the more advanced Middle Income countries according to two criteria:

- Manufacturing should account for 20% or more of G.D.P.
- Manufactured goods should account for 20% or more of merchandise exports.

Although few in number, the 16 countries account for about 70% of the total GDP and over half of the total population of the 55 middle income countries.

Among the semi-industrialized countries three broad patterns of development can be identified. The first is marked by very rapid population growth, moderate to fast GDP growth, and a relatively high incidence of poverty. Several relatively large countries are prime examples of this pattern:Brazil, Colombia, Egypt, Mexico, the Philippines and Turkey.

Korea, Taiwan, Hong Kong and Singapore are the typical examples of the second pattern: they have lower population growth rates, and they have achieved remarkably fast GDP growth and have virtually eliminated absolute poverty.

The Southern European countries - Greece, Portugal, Spain and Yugoslavia have a very low rate of population growth,they have maintained a moderately fast GDP growth over a relatively long period and have virtually eradicated absolute poverty.

3. HOW MUCH IS TURKEY SEMI - INDUSTRIALIZED?

Among the 16 seml-industrialized countries Turkey happens to be the fifth from below according to per capita GNP which was 1110 dollars in 1977 in Turkey. Four of the semi-industrialized countries have per capita GNP's below 1.000 dollars while 11 of these countries had much higher per capita GNP going as far up as 3190 dollars in Spain. The average for the 16 countries is 1315 dollars.

A second indicator very much related to the first is the annual growth rate of per capita GNP. The average annual growth has been 4.4 percent for the 16 countries as a whole for the period 1960-1977. Turkey with per capita annual growth of GNP equal to 4.1% is below the average. Five countries have growth rates much lower than Turkey's but ten countries show distinctively higher performance.

During the period 1970-1977 the annual rate of inflation in Turkey was around 20 percent annually, a relatively high figure exceeded only by Argentina with 107.3 percent, Brazil with 28.7%, Israel with 27.5 and Colombia with 21.4, the remaining eleven countries displayed annual rates of inflation much lower than Turkey's.

Two other indicators place Turkey at the bottom of the 16 countries. Turkey's adult literacy rate is 60% the lowest of the group after Egypt with 44%. Life expectancy is 61 and is the lower following Egypt with 54.

Some of the reasons for these low averages are to be found in the demographic indicators. Total fertility rate for 1977 was 4.3 percent higher than 11 out of the 16 countries, and only lower than Mexico (5.7%). The Philippines (5%), Brazil (4.9%), Egypt (4.8%).

Turkey is by far the country with the highest percentage of its labor force employed in agriculture in 1977. But the same was true in 1960 when the percentage of the labor force employed in Agriculture was 78 percent and the highest of the group of 16 countries.

The educational effort displayed by Turkey does not seem strong enough in 1976 numbers enrolled in primary school as percent of their age groups was only 29 percent lower than most of the semi-industrialized countries and only higher than Brazil with only 18 percent.

In higher education Turkey had the lowest percent equal to only 7 percent in 1975. Some countries had attained rates as high as 28% for Argentina, 24% for Israel and 20% for Philippines and Yugoslavia.

Growth of production was relatively successful for Turkey for the period 1970-1977. The annual growth of its GDP has been 7.4% for the period 1970-1977.lower only to Korea (10.4%), Brazil (9.8%), Singapore (8.6%), Hong Kong (8.2%), Egypt(7.9%), and Taiwan (7.7%).

Agricultural production displayed a good performance between 1970-1977 outperformed only by Israel (6.6%), Brazil (5.8%), Yugoslavia (5.5%), Korea (5%), Colombia (4.9%)and the Philippines (4.8%).

The annual rate of increase of industrial production was 8.9% on the average for the period 1970-1977. During the same period of time, industry grew at 17% in Korea, 12.2% in Taiwan, 10.7% in Brazil, and 9.2% in Yugoslavia. Turkey performed in a remarkable way much better than 11 out of 16 semi-industrialized countries.

In spite of this performance Turkey has a long distance to go with respect to industrialization. The gross manufacturing output per capita in 1975, was 247 dollars while Greece had attained 782 dollars and Spain 1510 dollars.

The percentage of manufacture in GDP is one of the lowest of the group: It is 20% for Turkey, and 19 percent for Greece.

On the other hand percentage of labor force in agriculture is 62% for Turkey and constitutes the highest percentage of the group.

Percentage of manufactures in exports is 24% for Turkey, the lowest of the group of semi-industrialized countries.

The structure of demand gives some clues as to the reasons why the Turkish economy os so distorted. Public consumption was 13 percent of GDP in 1977 and private consumption 71 percent which left 16 percent to Gross Domestic Savings. The only countries whose savings are even lower are Israel (7%), Portugal (10%), and Brazil (12%). Even the average for 55 middle income countries is higher in comparison with Turkey's 16%: it is 24 percent.

In exports, Turkey has the lowest performance of the sixteen semi-industrialized and is even lower than the average of 56 middle income countries.

Turkey has been able to arrive at a higher investment rate than its domestic savings would permit, by borrowing. In 1977 at the maximum rate of borrowing from abroad Turkey had a resource balance equal to 8 percent of GDP. The only semi—industrialized countries with higher rates of resource balance in 1977 were as could have been expected Israel (16%), Portugal (15%), Greece and Argentina (10%) each.

From the viewpoint of growth of merchandise Trade, Turkey had the lowest rate for the period 1960 to 1970. It was 1.6% per annum while Korea was able to achieve 35% per annum and Taiwan 24%.

During the same period 55 middle income countries were increasing their exports at 5.4 percent per annum.

During the period 1970-1977 Turkey continued to have a very low growth of exports equal to 0.8%, preceeded only by Portugal which had a negative rate of growth of exports equal to 2.1%. The average for 55 middle income countries was 5.1 percent. Portugal, Turkey and Mexico were the only semi-industrialized countries with rates below the 5.1 average.

Another study investigating details of the composition of industrial goods exports of newly industrialized countries indicates that Turkey is far behind in the exports of investment goods and consumer goods requiring engineering knowledge. On the contrary it is ahead in the exports of clothing and footwear and textiles.

Turkish imports behaved contrary to the remaining 15 countries. All these 15 semi-industrialized countries were forced to decrease their imports after the petroleum crisis. Turkey is the only country among the 16 semi-industrialized ones to increase its imports and raise them to an annual rate of increase of 13.1 percent of the second highest for the period 1970-1977. While these developments were taking place the terms of trade were decreasing from 100 in 1970 to 80 in 1977 for Turkey. The lowest terms of trade for 1977 were recorded for Korea, Turkey, Taiwan, Israel and Spain, while Mexico, Brazil and Hong Kong were able to improve considerably their terms of trade.

The same unfavorable circumstances hit in the same way most of the non-oil exporting semi-industrialized countries. Those countries which tried to solve their problems within the context of a parliamentary democracy had to face more difficulties but they managed like Greece and Spain there is no reason why Turkey could not.

But this does not mean to say that everything could easily be done. While improving her international position Turkey has also to solve some serious internal problems. Improvement of its income distribution is one of them. Among 9 of the 16 semi-inudstrialized countries which conducted income distribution surveys, Brazil is the one with the worst income distribution followed by Turkey, Mexico, the Philippines and Argentina. All policy measures to be taken from here on in the fields of Monetary Policy, Fiscal Policy have to take into consideration the improvement in income distribution.

BASIC INDICATORS of SEMI-INDUSTRIALIZED NATIONS

COUNTRY	Population millions	Area Thousand Square km	GNP Per Capita		Annual Rate of Inflation		Adult Lit. Rate	Life Exp.	1969-71=100 Per Capita Food Prod.
			$	Annual Growth					
	mid 1977		1977	60-77	60-70	70-77	1975	1977	1975 - 77
38 Egypt	37.8	1001	320	2.1	3.5	7.0	44	54	97
48 Philippines	44.5	300	450	2.5	5.8	14.3	87	60	112
58 Colombia	24.6	1139	720	2.7	11.9	21.4	81	62	107
62 Korea	36.0	99	820	7.4	16.7	17.4	91	63	113
70 TURKEY	41.9	781	1110	4.1	5.5	19.9	60	61	107
71 Mexico	63.3	1973	1120	2.8	3.5	16.5	76	65	97
75 China	16.8	36	1170	6.2	4.1	11.0	82	72	
79 Brazil	116.1	8512	1360	4.9	46.0	28.7	76	62	118
82 Argentina	26.0	2767	1730	2.7	21.8	107.3	93	71	108
83 Portugal	9.6	92	1890	6.0	3.0	13.9	70	69	95
84 Yugoslavia	21.7	256	1960	5.6	12.6	16.5	85	69	116
87 Hong Kong	4.5	1	2590	6.5	2.3	8.0	90	72	60
89 Greece	9.2	132	2810	6.2	3.2	13.6		73	122
90 Israel	3.6	21	2850	4.8	6.0	27.5	88	72	114
91 Singapore	2.3	1	2880	7.5	1.1	7.0	75	70	101
92 Spain	36.3	505	3190	5.2	6.3	13.9		73	119
Total	494.2	17.616	1315	4.4			76	64	

DEMOGRAPHIC INDICATORS

	COUNTRY	Crude Birth Rate per thousand		Crude Death Rate per thousand		Percentage Change in		Total Fertility Rate	% of women in Reproductive	Percentage of Married Women Using Contraceptives	
						Birth Rate	Death Rate				
		1960	*1977*	*1960*	*1977*	*60-77*	*60-77*	*1977*	*1977*	*1970*	*1977*
38	Egypt	44	36	19	13	-18.2	-31.6	4.8	44	9	21
48	Philippines	45	35	15	9	-22.2	-40.0	5.0	41	8	22
58	Colombia	46	30	14	8	-34.8	-42.9	3.7	47		49
62	Korea	41	21	13	8	-48.8	-38.5	2.8	47	32	44
70	TURKEY	43	30	16	10	-30.2	-37.5	4.3	42	3	
71	Mexico	45	38	12	8	-15.6	-33.3	5.7	41		21
75	China	40	21	7	5	-47.5	-28.6	2.5	49	36	61
79	Brazil	40	36	11	9	-10.0	-18.2	4.9	43		
82	Argentina	24	21	9	8	-12,5	-11.1	2.9	43		
83	Portugal	24	19	11	11	-20.8	0	2.5	42		
84	Yugoslavia	24	18	10	9	-25.0	-10.0	2.2	45	59	
87	Hong Kong	35	19	7	6	-45.7	-14.3	2.6	46	50	64
89	Greece	19	15	8	11	-21.1	37.5	2.3	40		
90	Israel	27	26	6	7	- 3.7	16.7	3.5	43		
91	Singapore	38	19	8	6	-50.0	-25.0	2.2	51	45	77
92	Spain	21	18	9	9	-14.3	0	2.6	40		

LABOR FORCE in SEMI-INDUSTRIALIZED COUNTRIES

	COUNTRY	Percentage of Population of Working Age (15-64)		Percentage of Labor Force in						Average Annual Growth of Labor Force		
				Agriculture		Industry		Services				
		1960	1977	1960	1977	1960	1977	1969	1977	1960-70	1970-77	1977-2000
38	Egypt	55	56	58	51	12	26	30	23	2.0	2.2	2.2
48	Philippines	52	51	61	51	15	15	24	34	2.1	2.1	2.6
58	Colombia	51	59	51	31	19	23	30	46	2.7	3.5	2.3
62	Korea	54	60	66	45	9	33	25	22	2.9	2.9	1.9
70	TURKEY	55	54	78	62	10	14	12	24	1.3	1.8	2.0
71	Mexico	51	51	55	34	20	25	25	41	2.8	3.3	3.2
75	China	52	63	56	34	11	27	33	39	2.4	1.9	1.6
79	Brazil	54	55	52	42	15	20	33	38	2.7	2.8	2.8
82	Argentina	64	63	20	14	36	29	44	57	1.2	1.2	1.2
83	Portugal	63	63	44	27	29	36	27	37	0.2	0.6	0.7
84	Yugoslavia	63	66	64	42	23	34	13	24	0.9	1.1	0.8
87	Hong Kong	56	65	8	2	52	57	40	41	3.1	3.3	1.4
89	Greece	65	64	56	40	20	27	24	33		0.2	0.4
90	Israel	59	59	14	8	35	37	51	55	3.5	2.3	2.0
91	Singapore	55	65	8	2	23	32	69	66	2.7	3.1	1.4
92	Spain	64	63	42	19	31	42	27	39	0.2	0.9	0.8

EDUCATION in SEMI-INDUSTRIALIZED COUNTRIES

	COUNTRY	Numbers Enrolled in Primary School as percent of age group: Total		Male		Female		Secondary School		Higher Education		Adult Literacy Rate	
		1960	1976	1960	1976	1960	1976	1960	1976	1960	1975	1960	1975
38	Egypt	66	72	80	88	52	56	16	42	5	14	26	44
48	Philippines	95	105	98	102	93	108	26	56	13	20	72	87
58	Colombia	77	106	77	103	77	109	12	35	2	8	63	81
62	Korea	94	109	99	109	89	109	27	63	5	10	71	91
70	TURKEY	75	104	90	114	58	94	14	29	3	7	38	60
71	Mexico	80	116	82	117	77	114	11	37	3	10	65	76
75	China	67				47		37				54	82
79	Brazil	95	90	97	89	93	90	11	18	2	10	61	76
82	Argentina	98	108	98	108	99	108	32	56	11	28	91	93
83	Portugal	131	97	132	99	129	95	20	85	4	12	62	70
84	Yugoslavia	96	97	100	100	91	94	34	55	9	20	77	85
87	Hong Kong	87	121	93	123	79	119	24	50	4	10	70	90
89	Greece	105	105	107	107	103	102	41	83	4	16	81	
90	Israel	98	128	99	127	97	128	48	39	10	24	84	88
91	Singapore	111	110	121	113	101	107	32	55	6	9		75
92	Spain	110	114	106	114	116	115	23	73	4	21	87	

GROWTH of PRODUCTION

(Average Annual Growth Rates)

	COUNTRY	GDP		Agriculture		Industry		Manufacturing		Services	
		60-70	70-77	60-70	70-77	60-70	70-77	60-77	70-70	60-70	70-77
38	Egypt	4.5	7.9	2.9	3.1	5.4	5.2	4.7	5.7	5.1	11.7
48	Philippines	5.1	6.4	4.3	4.8	6.0	8.7	6.7	6.8	5.2	5.6
58	Colombia	5.1	6.4	3.5	4.9	6.0	5.9	5.7	7.5	5.7	8.7
62	Korea	8.5	10.4	4.5	5.0	17.2	17.0	17.2	19.3	8.4	8.5
70	TURKEY	6.0	7.4	2.4	3.4	9.4	8.9	10.7		7.0	9.5
71	Mexico	7.3	5.0	3.9	1.1	9.3	6.2	9.4	6.0	7.1	5.0
75	China	9.2	7.7	3.4	1.5	16.4	12.2	17.3	12.5	7.8	4.5
79	Brazil	5.3	9.8		5.8		10.7				9.9
82	Argentina	4.2	2.9	2.3	2.7	6.0	2.8	5.7	3.0	3.3	3.0
83	Portugal	6.2	5.3	1.3	-0.9	8.8	4.8	8.9	5.0	5.9	7.8
84	Yugoslavia	5.8	7.1	3.3	5.5	6.3	9.2	5.7		6.9	5.4
87	Hong Kong	10.0	8.2		-0.2		6.8		6.3		9.6
89	Greece	6.9	5.0	3.5	2.2	9.4	5.1	10.2	7.0	7.1	5.9
90	Israel	8.2	5.9		6.6		5.3		6.1		5.4
91	Singapore	8.8	8.6	5.0	1.6	12.6	8.6	13.0	9.0	7.7	0.5
92	Spain	7.3	4.8	2.5	1.9	9.4	4.9	9.7		7.2	4.9

INDUSTRIAL STRUCTURE of SEMI-INDUSTRIALIZED COUNTRIES

COUNTRY	Value Added in Manufacturing (in 1970 US $)		Gross Manuf. Output Per Capita in (in 1970 US $)		Distribution of Value Added (1975)				
	1970	*1975*	*1970*	*1975*	Food Agr.	Text. Cloth.	Mach. Transp.	Chem.	Other Manuf.
Korea	1431	3385	111	282	17	24	23	8	28
TURKEY	1896	3426	104	247	48	22			30
Mexico	8636	11633			21	14	19	14	32
Taiwan	1873	3401							
Brazil	9972	17312	229		15	10	30	12	33
Argentina	6777	8635			16	13	24	13	34
Portugal	1847	2323		708	17	19	24	9	31
Yugoslavia	3235	6168	411	991	9	14	24	10	43
Hong Kong	899	1047				98			2
Greece	1642	2365	498	782	15	27	10	7	41
Israel	1101	1517	833		11	17	26	6	40
Singapore	388	638	764	1085	8	5	46	7	34
Spain	9339	15234	868	1510	22	8	18	9	43

BASIC INDICATORS for SELECTED SEMI-INDUSTRIALIZED COUNTRIES

COUNTRY	Population (millions)	GNP Per Capita ($)	Average (60/77) Annual % Growth		Percentage of Manuf. in GDP		Percentage of Labor Force in Agric.		Percentage of Manuf. in Exp.	
			GNP Per Cap.	GDP						
Philippines	44.5	450	2.5	5.5	20	25	61	51	4	24
Korea	36.0	820	7.4	10.0	12	25	65	44	14	88
Turkey	41.9	1110	4.1	6.4	13	20	78	62	3	24
Taiwan	16.8	1170	6.2	9.1	22	37	56	34		85
Brazil	116.1	1360	4.9	8.0	26		52	42	3	25
Greece	9.2	2810	6.2	6.7	16	19	56	40	10	49
Israel	3.6	2850	4.8	8.0	23	30	14	8	61	78
Spain	36.3	3190	5.2	6.4	27	30	42	19	22	69
16 Semi-Indust. countries	494.2	1315	4.4	6.3	25	28	54	39	22	58

STRUCTURE of PRODUCTION of SEMI-INDUSTRIALIZED COUNTRIES

COUNTRY	Agriculture		Industry		Manufacturing		Services	
	1960	*1977*	*1960*	*1977*	*1960*	*1977*	*1960*	*1977*
Korea	40	27	19	35	12	25	41	38
TURKEY	41	28	21	25	13	20	38	47
Mexico	16	10	29	36	23	28	55	54
Taiwan	28	12	29	46	22	37	43	42
Brazil	16	12	35	37	26		49	51
Argentina	17	13	38	45	31	37	45	42
Portugal	25	14	36	45	29	36	39	41
Yugoslavia	24	16	45	45	36		31	39
Hong Kong	4	2	34	31	25	26	62	67
Greece	23	17	26	31	16	19	51	52
Israel	11	7	32	40	23	30	57	53
Singapore	4	2	18	35	12	25	78	63
Spain	21	9	39	38	27	30	40	53
55 Middle-Income Countries	22	15	32	36	22	24	46	49

GROWTH of CONSUMPTION and INVESTMENT

COUNTRY	Public Consumption		Private Consumption		Gross Domestic Investment	
	60/70	70/77	60/70	70/77	60/70	70/77
Korea	5.9	8.3	7.3	6.9	23.1	12.4
TURKEY	6.7	5.3	5.1	7.4	8.8	12.7
Mexico	8.8	11.0	6.7	4.5	9.5	8.1
Taiwan	4.5	4.6	8.3	6.7	16.2	9.1
Brazil	3.6		5.4	9.1	5.3	12.6
Argentina	1.0		4.1	2.9	4.1	1.6
Portugal	7.7		5.5		7.7	
Yugoslavia	0.6	4.7	9.4	7.0	4.7	7.8
Hong Kong	8.7	8.5	8.9	7.9	7.4	9.7
Greece	6.6	8.0	7.1	5.3	10.4	-0.1
Israel	13.8	7.1	7.4	5.6	5.7	2.2
Singapore	12.6	5.9	5.5	7.4	20.5	5.7
Spain	5.5	6.2	7.0	4.7	10.5	4.4
55 Middle-Income Countries	6.4	7.4	5.3	5.4	7.6	8.1

STRUCTURE of DEMAND

(as percent of GDP)

COUNTRY	Public Consumption 1960	Public Consumption 1977	Private Consumption 1960	Private Consumption 1977	Gross Domestic Investment 1960	Gross Domestic Investment 1977	Gross Domestic Savings 1960	Gross Domestic Savings 1977	Exports of Goods 1960	Exports of Goods 1977	Resource Balance 1960	Resource Balance 1977
Korea	15	13	85	62	11	26		25	3	40	-11	- 1
TURKEY	11	13	76	71	16	24	13	116	3	5	- 3	- 8
Mexico	6	12	76	68	20	20	18	20	10	10	- 2	
Taiwan	19	17	68	52	20	27	13	31	11	54	- 7	4
Brazil	12		67	88	22	22	21	12	5	8	- 1	-10
Argentina	9		71	77	22	19	20	23	10	13	- 2	4
Portugal	11	15	77	75	19	25	12	10	17	17	- 7	-15
Yugoslavia	19		49	74	37	33	32	26	14	18	- 5	- 7
Hong Kong	7	7	92	73	19	25	1	20	79	98	-18	- 5
Greece	12	16	77	68	19	26	11	16	9	16	- 8	-10
Israel	18	37	68	56	27	23	14	7	14	36	-13	-16
Singapore	8	10	89	61	11	34	3	29	163	160	- 8	- 5
Spain	7	10	70	69	21	23	23	21	10	15	2	- 2
55 Middle-Income Countries	11	13	69	63	21	25	20	24	16	20	- 1	- 1

GROWTH of MERCHANDISE TRADE

COUNTRY	Merchandise Trade millions $ Exports 1977	Merchandise Trade millions $ Imports 1977	Exports 60/70	Exports 70/77	Imports 60/70	Imports 70/77	Terms of Trade 1970 = 100 1960	Terms of Trade 1970 = 100 1977
Korea	10.047	10.811	35.2	30.7	20.1	12.4	78	76
TURKEY	1.753	5.694	1.6	0.8	5.5	13.1		80
Mexico	4.066	5.489	3.3	1.9	6.4	3.9	87	119
Taiwan	9.349	8.522	23.7	16.7	17.9	13.5	79	80
Brazil	12.054	13.229	5.0	6.5	9.7.	7.9	88	118
Argentina	5.651	4.162	3.3	5.5	0.3	-0.2	101	87
Portugal	2.023	4.963	9.6	-2.1	14.1	0.9	83	86
Yugoslavia	5.254	9.634	7.8	5.4	9.0	4.9	96	94
Hong Kong	9.626	10.457	12.7	6.5	9.2	5.9		104
Greece	2.724	6.778	10.7	13.8	10.9	6.2	92	86
Israel	2.959	4.663	10.9	10.2	8.7	4.7	91	79
Singapore	8.241	10.471	4.2	9.8	5.9	8.1		
Spain	10.230	17.846	11.6	10.4	18.4	4.7	93	80
55 Middle-Income Countries			5.4	5.1	7.1	5.9		

COMPOSITION of INDUSTRIAL GOODS EXPORTS
of
NEWLY INDUSTRIALIZED COUNTRIES

(1975 - %)

COUNTRY	Investment Goods	Consumer Goods	Clothing Footwear	Other Direct Consumer Goods	Textiles (Carpets inc.)	Standart Intermediate Goods	Others
Spain	23.4	5.6	11.4	8.4	4.6	22.3	24.2
Yugoslavia	25.4	3.1	13.2	5.5	6.1	21.1	25.5
Argentina	18.0	7.8	2.8	4.3	0.3	24.9	41.9
Brazil	25.4	6.1	12.2	5.0	12.4	21.1	17.8
TURKEY	2.8	0.5	25.2	2,0	33.6	22.6	13.4
Greece	5.2	1.3	17.8	3.1	17.3	40.1	15.2
Hong Kong	2.8	11.3	45.7	19.7	9.7	0.7	10.0
Portugal	9.0	5.9	18.4	2.5	23.0	15.2	25.9
Taiwan	9.5	9.8	27.8	14.9	15.1	8.5	14.4
Korea	7.0	5.2	32.4	12.3	15.7	14.7	12.7
Developed Countries	31.8	9.4	2.7	4.0	4.6	24.1	23.3
Developing Countries	12,5	5,8	21.8	9.8	14.9	16.2	19.0

INCOME DISTRIBUTION of SEMI-INDUSTRIALIZED COUNTRIES

	COUNTRY	YEAR	Percentage Shares of Household Income					
			Lowest 20%	2nd	3rd	4th	Highest 20%	Highest 10%
48	Philippines	1970 - 1971	3.7	8.2	13.2	21.0	53.9	
62	Korea	1976	5.7	11.2	15.4	22.4	45.3	27.5
70	TURKEY	1973	3.4	8.0	12.5	19.5	56.5	40.7
71	Mexico	1977	2.9	7.4	13.2	22.0	54.4	36.7
75	China	1971	8.7	13.2	16.6	22.3	39.2	24.7
79	Brazil	1972	2.0	5.0	9.4	17.0	66.6	50.6
82	Argentina	1970	4.4	9.7	14.1	21.5	50.3	35.2
84	Yugoslavia	1973	6.5	11.9	17.6	24.0	40.0	22.5
92	Spain	1974	6.0	11.8	16.9	23.1	42.2	26.7

4. TURKEY'S POTENTIAL IN AGRICULTURAL AND MINING PRODUCTS

The Turkish Economy has a number of potentialities which will enable her to sustain her economic growth and attain a favorable balance of payments in the long run.

One such potential is inbuilt in the Agricultural Sector.

Since the establishment of the Republic in 1923, Turkey has pursued a development strategy which has been aimed at modernizing the country in a system of mixed economy, the main emphasis being on industrialization and self sufficiency. Generally, the development of agriculture and mining received less attention than that of industry, transportation and power and little attention was given throughout to employment.

This underemphasis of agriculture is at the same time the basis for its rich potential. Many countries have reached such high levels of productivity in agriculture that the difference between actual production in agriculture and potential one is very small. This is not the case for Turkey: the level of productivity in Turkish agriculture is so low, that the gap between actual and potential production in the agricultural sector is very large.

The importance of the agricultural sector derives from its substantial and varied contribution to the population of the economy - 60 percent of total civilian employment - the bulk of the foreign exchange earnings - 60 percent of export earnings - much of industry's raw materials and a considerable portion of the net domestic product 23 percent of NDP. Although structural and other sources of change can be expected, the perspective which these characteristics reveal is unlikely to change in any substantial way over the medium term.

The world map of agricultural production does not coincide with the world map of consumption of agricultural products. Turkey is one of the countries with export surplus in agricultural products. The net export value is 1.2 billion dollars. The Turkish agricultural sector has potential for further growth and so are the agricultural exports.

COUNTRIES with EXPORT SURPLUS in AGRICULTURAL PRODUCTS (1976)

(millions of dollars)

USA	11.895
Brazil	4.847
Australia	4.828
Holland	2.893
Argentina	2.566
New Zeland	1.730
Thailand	1.637
Denmark	1.417
Malaysia	1.277
Philippines	1.260
Colombia	1.124
TURKEY	1.038
Canada	981
Ivory Cost	937
South Africa	815

COUNTRIES NET IMPORTERS of AGRICULTURAL PRODUCTS (1976)

(millions of dollars)

Japan	10.757
W.Germany	10.562
USSR	7.530
England	7.111
Italy	5.780
Hong-Kong	1.495
E.Germany	1.457
Belgium	1.436
Switzerland	1.323
Iran	1.205
Czechoslovakia	1.078
Sweden	1.069
South Korea	893
Poland	870
Spain	862

Turkey has not benefited from favorable terms of trade. Those agricultural goods which have shown excessive price increases between 1970 and 1977 are agricultural products imported by Turkey not exported.

By order of price increase intensity agricultural products rank as follows:

PRICE INDEX of AGRICULTURAL PRODUCTS, 1977

1970 = 100

Cocoa	633
Coffee	452
Wool	285
Cotton	250
Tea	244
Soya	238
Wheat	195
Rice	189
Copra	179
Maize	161
Sugar	137
Beef	123
Jute	118
General Index of World Inflation...	200

Turkey is one of the major producers of cereals,She ranks 10th in the world with 24.1 million tons, producing 1.5 percent of total world output of cereals. Production tripled in the last forty years from around 8 million tons in 1939. Area under cereals increased by 77.5 percent from 7.7 million hectares in 1939 to 13.6 million hectares in 1977. Yield per hectare increased by 70 percent from 1.042 kg/hect. In 1939 to 1782 kg/pect in 1977.

Apart from the countries having extensive lands for cultivation (U.S.A., China, USSR, and India) and producing 57 percent of world cereal output, Turkey comes after France, Canada, Indonesia, Argentina and Australia.

In wheat production Turkey ranks 8th in world production with 16.5 million tons representing 3.75 percent of world production. Apart from the four giant countries (USSR, USA,China, India) Turkey is preceeded by Canada and France with 4.8 percent and Australia with 4.2%.

Production of wheat quadrupled in 40 years from 4.2 million tons in 1939 to 15 million tons in 1979. Land under wheat increased by 132% from 4 million hectares in 1939 to 9.3 million hectares in 1977, while yield per hectare increased by 71 percent from 1042 kg/hect in 1939 to 1785 kg/hect in 1977.

BIG PRODUCERS of CEREALS
(1978 thousand tons)

COUNTRY		%
1. USA	273.346	17.3
2. China	261.030	16.5
3. USSRS	229.450	14.5
4. India	140.647	8.9
5. France	45.525	2.9
6. Canada	41.686	2.6
7. Indonesia	28.489	1.8
8. Argentina	27.330	1.7
9. Australia	25,494	1.6
10. TURKEY	24.088	1.5
11. W. Germany	23.943	1.5
12. Brazil	23.887	1.5
13. Poland	21.535	1.4
14. Thailand	20.154	1.3
15. Bangladesh	19.314	1.2
16. Romania	18.916	1.2
17. Mexico	17.417	1.1
18. United Kingdom	17.092	1.1
The World.....	1.580.822	100.0

Production of wheat increased by 65 percent on a per capita basis from 240 kg per person in 1939 to 395 kg in 1977.

In the production of cotton Turkey ranked seventh in 1978 with 1339 million tons representing 3.5% of world production, immediately preceeding Egypt with 1175 million tons.

BIG WHEAT PRODUCERS

(thousand tons, 1978)

COUNTRY		%
1. USSR	120.800	27.4
2. USA	48.954	11.1
3. China	44.003	10.0
4. India	31.328	7.1
5. Cañada	21.146	4.8
6. France	21.057	4.8
7. Australia	18.300	4.1
8. TURKEY	16.500	3.7
The World ...	441.474	100.0

COTTON PRODUCERS

(million tons, 1978)

COUNTRY		%
1. USSR	8.500	22.5
2. China	6.300	16.7
3. USA	6.160	16.3
4. India	3.750	9.9
5. Pakistan	1.600	4.2
6. Brazil	1.443	3.8
7. TURKEY	1.339	3.5
8. Egypt	1.175	3.1
The World ...	37.792	100.0

TURKEY's SHARE and RANK
in
THE PRODUCTION of SELECTED AGRICULTURAL PRODUCTS

PRODUCTS	Share in World Production	Rank in World Production	Export* Proceeds ($ million)
Raisins	36.9	1	114.8
Figs	17.7	1	41.5
Hazelnuts	72.6	1	353.0
Opium	20.0	2	11.6
Peanuts	17.5	2	7.8
Sunflower	4.7	4	0.02
Olives	10.5	4	2.8
Olive Oil	9.2	4	38.8
Tobacco	3.6	6	177.0
Rye	1.7	6	6.5
Cotton	4.0	7	232.0
Grapes	4.9	7	1.6
Tea	2.9	8	3.3
Lemons	3.1	8	27.8
Wool	2.0	8	28.2
Wheat	3.1	8	208.3
Sugarbeets	2.3	11	1.3
Barley	1.9	12	1.8
Oranges	2.0	14	14.1

*1979.

Turkey is the third country in Europe after USSR and France with the largest agricultural area. 80 percent of its arable land is under cereals and 8 percent under industrial crops. The total arable land is 28.3 million hectares.

In the production of many products Turkey ranks at the top. Yet many of these products do not occupy an important place in the exports of Turkey.

Turkey received $ 509 million from the exports of raisins (sultanis), figs and hazelnuts in 1979, and $ 409 million from the exports of tobacco and cotton.

Total proceeds from the exports of agricultural products amounted to $ 1.3 billion in 1979 and represented 60 percent of total exports.

Turkey can not be considered to be a rich country in minerals. As for total reserves not much is being done to discover them. Coal production is 8 million tons per year or 0.18 percent of world production.

As for lignite production it is 8.2 million tons or 9.9 percent of world production. Turkey is producing less than some of its neighbors: Yugoslavia, Bulgaria, Greece and Romania.

COAL PRODUCTION and RESERVES

(1977)

(million tons)

	Production	Known Reserves	Total Reserves
USSR	722.0	165.802	3.993.357
USA	607.9	317.451	2.285.763
China	460.0	300.000	1.011.000
Polland	186.1	32.425	45.741
England	122.2	98.877	162.814
India	99.8	21.365	80.953
South Africa	86.0	24.224	44.339
W. Germany	84.6	98.877	162.814
Australia	78.4	25.540	111.865
Czechoslovakia	27.9	5.540	11.573
Canada	23.1	8.463	97.041
France	21.3	1.380	
Japan	18.2	7.443	7.443
South Korea	17.0	890	1.450
Spain	10.7	1.272	2.370
TURKEY	4.4	191	1.291
Romania	7.3	70	590
Belgium	7.1	253	253
The World	2.475.948	1.076.661	8.134.374

On the other hand, Turkey is described as a country rich in poor minerals. The following table indicates that Turkey occupies an important place both in reserves as well as production in Boron. Turkey has 81 percent of the world reserves and supplies 39 percent of world production of boron.

In the case of some other minerals like volfram, Turkey has 3.85 percent of the world reserves but has shown little ability of extracting it.

PRODUCTION and RESERVES of LIGNITE

(1977, million tons)

COUNTRY	Production	Known Reserves	Total Reserves
East Germany	253.7	30.000	30.000
USSR	162.8	107.402	1.720.324
West Germany	122.9	55.521	55.521
Czechoslavakia	93.2	8.234	8.234
Yugoslavia	38.6	17.894	21.647
Poland	37.7	6.449	14.862
Australia	30.3	48.801	86.702
Bulgaria	24.9	4.358	5.198
Greece	23.8	908	1.575
Hungary	22.5	2.900	5.679
U.S.A.	23.0	46.112	638.746
Romania	19.3	1.367	3.900
TURKEY	8.2	2.702	5.991
The World	902.3	340.387	2.628.607

The share of mining in Turkey's exports is around 6 percent and export proceeds amount to \$ 125 million. Imports of mining products excluding oil amount to 2 percent of total imports or \$ 100 million.

TURKEY's RELATIVE WORLD POSITION in MINERALS

	Reserves %	Production %	(million tons) Reserves	Production
Bauxite	4.0	0.8	79,600	567
Antimony	1.65	2.26	69.500	2048
Asbestos	sufficient	0.54	5.320	4
Copper	0.8	0.7	8.000	33.5
Baryte	11.04	variable		
Boron	80.93	39.0		
Mercury	5.9	2.3	6.467	162
Zinc	4.47	1.1	5.750	16.4
Iron Ore	0.44	0.28	11.960	1379
Diatomid	Much	0.4		
Florite	1.0	0.09		
Phosphate	very little	-		
Chromium	3.09	10.0	4.200	329
Lead	1.65	0.9	3.270	4.1
Sulphur	very little	0.05		
Lignite	0.25	1.2		
Manganese	1.27	0.015	9.510	13.5
Magnesite	0.69	4.9	10.380	496
Marble	important	0.9		
Perlite	important	1.35		
Coal	0.32	0.5		
Salt	not known	0.4	172.500	800
Volfram	3.85	-		
Uranium			1.650.000	4.100

CHAPTER VII

NATIONAL ACCOUNTS, PRODUCTION, INVESTMENT

1. PERFORMANCE OF GNP AND GDP IN 1979

The latest estimate by the State Institute of Statistics (SIS) put the growth rate of real GNP in 1979 at a very low level of 0.2% compared to 2.9% in 1978. National income accounts released in April 1980 also show a 69.6% increase in the GNP deflator which is the most comprehensive price index available. A fall in real output with a sharp increase in the rate of inflation only indicate that the economic crisis has deepened in 1979.

The SIS prediction at mid 1979 foresaw a 3.7% growth in the real GNP for 1979; a satisfactory rate for an economy suffering from innumerable difficulties. The prediction however was based on production data for the first quarter of the year and thus could not be taken as definite.

The sharp fall in the growth rate is largely due to the decline in industrial output. Despite efforts of the government to boost up industrial production, national income accounts show that the industry has even failed to maintain its output level. Net output of the sector dropped by 4.7% in 1979, although the Mining and Electricity-Gas-Water sectors both recorded output increases of 4.5% and 4.1% respectively. The figures show that among the industrial sectors manufacturing industry has been hardest hit by the bottlenecks of the previous year. Net output of manufacturing has declined by 6.1% from (in 1968 producer prices) TL 46.1 billion in 1978 to TL 43.3 billion in 1979.

There is a widely held opinion, that the fall in manufacturing output is largerly due to the shortages in energy supplies and imported raw materials, that characterized much of the twelve months of 1979. The first part of the contention is absolutely true but the second part is exaggerated. According to trade statistics the quantity of crude oil imports dropped by 33.2% from 10.7 M tonnes in 1978 to 7.2 M tonnes in 1979. Simultaneously, the quantity of oil turned out by the domestic refineries increased very little. Naturally, oil-fired industrial plants could not escape the dampening effect of the shortages. On the other hand total imports of the economy have increased by 10.2% from $ 4.599 M in 1978 to $5.069 in 1979, but decreased by 6.5% in volume suggesting that the alleged shortage of imported raw materials should be taken with some reservations.

Whatever the exact causes of the recession in the manufacturing sector, its impact on the welfare of the population and implications for economic policy remain unchanged. Industrial sector accounts for a little more than one fourth of the GDP and hence whatever happens to it is likely to affect the rest of the economy. In a country that identifies development with industrialization, economic policies should above all aim at providing the industry with the required raw materials and energy supplies.

National income accounts shown in the table indicate that it was the traditional agricultural sector that saved the face of the economy in 1979. Despite shortages of energy and imported raw materials, the sector succeeded to increase its net output by 2.3% compared to the previous year. In 1979 farming output increased by 2.4%, while forestry almost stagnated and fisheries turned out 3.0% more supplies compared to 1978.

A positive agricultural growth does not imply, however, that the sector is immune to economic and financial crisis. Past experiences show that climatic conditions aside, the sector is heavily influenced by the availability of fertilizers and fuels both of which are largely imported.

It is only natural that a decline in industrial output will negatively affect the income of dealers and distributors. In accordance with this rule, net contribution of the commercial sector to GNP dropped from TL 28.6 billion in 1978 to TL 27.8 billion in 1979 in constant 1968 prices along with the contribution of private professions and services which dropped from TL 10.596 M to TL 10.564 M.

While the domestic industries performed unusually bad in 1979, factor incomes of the economy from abroad soared by a record 52.8%. In constant 1968 prices, factor incomes from abroad increased from TL 1.8 billion in 1978 to TL 2.8 billion in 1979, thanks to the increase in the remittances of Turkish workers abroad who remitted a total of $ 1.694 M in 1979 compared to $ 983 M in 1978.

The burst in the remittances, due to the premiums instituted in April 1979 and other incentives contributed more to

GROSS NATIONAL PRODUCT
by
PRODUCING SECTORS
(at 1968 producer prices)

	1978	1979	% Change
1. Agriculture	44.682.8	45.722.1	2.3
a. Farming	42.905.4	43.930.5	2.4
b. Forestry	1.399.0	1.401.8	0.2
c. Fisheries	378.4	389.8	3.0
2. Industry	53.546.0	51.050.2	-4.7
a. Mining	3.553.4	3.713.3	4.5
b. Manufacturing	46.130.6	43.316.6	-6.1
c. Electricity /Gas/ Water	3.862.0	4.020.3	4.1
3. Construction	12.545.3	13.068.7	4.2
4. Trade	28.654.0	27.851.7	-2.8
5. Communications & Transports	19.793.1	20.287.9	2.5
6. Financial Institutions	6.646.4	6.845.8	3.0
7. Ownership of Dwellings	10.410.6	11.149.8	7.1
8. Private Professions & Services	10.596.0	10.564.2	-0.3
9. (-) Banking Services	3.676.7	3.787.0	3.0
10. Industries - Total (1-9)	183.197.5	182.753.4	-0.2
11. The Public Services	18.628.7	19.415.5	4.5
12. Total (10+11)	201.826.2	202.168.9	0.2
13. Import Taxes	5.363.8	4.449.7	-17.0
14. GDP (at market prices) (12+13)	207.190.0	206.618.6	-0.3
15. Factor Income from Abroad	1.869.1	2.856.5	52.8
16. GNP (at market prices) (14+15)	209.059.1	209.475.1	0.2

the balance of payments than GNP, though it is through their contribution that GDP-0.3% decline was converted to +0.2% increase in GNP.

The big problem now facing the Turkish economy is whether 1980 will be any better. Production figures for the year are not yet available but early signs are that GNP will show a better performance. For one thing, expert opinion is that bountiful rainfalls of April 1980 will favorable effect agricultural output.

Secondly, in the first quarter of 1980 agricultural exports exceeded those of 1979 on the basis of foreign exchange earnings. Similarly, industrial exports have also increased, though slightly.

Thirdly, the government has succeeded in securing a credit pledge of $ 1.161 M from the OECD countries for 1980 which when released will enable the economy to import much needed oil and raw materials. External finances required for the realization of the import programme has already been guaranteed. This implies that foreign exchange will not be a constraint on domestic output.

When viewed within the perspective of the three five year plan periods, the last three years become alarmingly recessionary.

GROWTH RATES of VALUE ADDED
(1963 - 1978)
(Producer's Prices)

	Average 1963-1967	Average 1968-1972	1973-1977	1974	1975	1976	1977	1978	1979
1. Agriculture	3.7	3.6	3.3	10.3	10.9	7.7	-1.2	1.0	2.3
2. Industry	10.6	9.9	9.9	7.7	9.0	9.3	7.0	0.5	-4.7
a.Mining	8.9	5.7	6.8	10.7	5.5	5.0	8.3	1.2	4.5
b.Manufact.	11.7	9.0	8.9	7.3	8.7	9.0	6.6	0.3	-6.1
c.Energy	10.0	8.9	13.3	11.7	16.8	18.1	10.6	2.3	4.1
3. Services	7.5	7.7	7.9	8.2	7.8	8.7	5.8	4.5	1.8
4. GDP	6.5	6.6	6.9	8.5	8.9	8.5	4.4	2.9	-0.3
5. GNP	6.7	7.1	6.5	7.4	8.0	7.7	4.0	3.0	+0.2

The rate of growth of GDP after three years of impressively high performance has dropped to 4.4%, 2.9% and -0.3% respectively for the last three years.

Economic policies as well as unforeseen factors contributed to the postponement of the recessin till 1977. One such factor was the continuity of the flow of workers' remittances, another one was the impressive growth in the agricultural sector for three consecutive years (1974,1975,1976).

All these factors contributed so thoroughly to the growth of the Turkish Economy that as a result growth rates for all three years were well above the average for 1963-1977.

On the contrary, all growth rates for the last three years, with a minor exception in the mining sector for 1977, are well below their 15 year trend and in four cases, three of them in 1979 are negative.

Manufacturing	(1979)	-6.1
Industry	(1979)	-4.7
G.D.P.	(1979)	-0.3

The sequence above being by order of cause and effects.

PREDICTIONS for 1980

It is realistic to assume that the Turkish Economy has hit the bottom of the recession in 1979 and that it will improve in 1980 not to the extent foreseen in the 1980 Programme but considerably above the 1979 growth rates.

GROWTH RATES

		1980	
	1979	Program	TUSIAD Estimate
Agriculture	+2.3	5.5	3.5
Industry	-4.7	9.4	2.0
Services	+1.8	7.6	3.0
GDP	-0.3	7.5	2.9
Factor Income from abroad	52.8	-54.3	0
GNP	0.2	6.5	2.9

Growth in agriculture has been estimated to be 3.5% in 1980 for two reasons. First because the long run trend of the agricultural sector shows a 3.5% growth rate as a yearly average. On the other hand, on a cyclical pattern the Turkish agriculture has progressively moved from a negative rate of 1.2% in 1977 to a 1% positive in 1978 and to 2.3% in 1979.With more imported inputs including oil available to the Turkish agriculture in 1980 it is highly probable to expect a higher growth rate for 1980.

Industry has hit a bottom in 1979 with a decrease of 4.7% due to a number of negative factors:

- Effect of Imports: $ 5 billion of imports were made in 1979. This level is much lower in absolute terms than it was in 1976 and 1977. When deflated for dollar price increases, the 5 billion level is much lower in real terms. A higher import is foreseen for 1980. Imports made so far show a 50% increase in comparison with 1979.

- Effect of Price Stabilization: Following the January 1980 devaluation a series of price hikes took place. The rest of 1980 is expected to show a better price stability which will allow for a better flow of goods.

As for services, they are expected to grow in conjunction with increases in agriculture and industry.

GROSS NATIONAL PRODUCT
(1963 - 1979)
in billion TL

YEAR	Current Producers' Prices	1968 Producers' Prices
1963	66.8	84.2
1964	71.3	87.6
1965	76.7	90.4
1966	91.4	101.2
1967	101.5	105.5
1968	112.5	112.5
1969	124.9	118.6
1970	147.8	125.4
1971	192.6	138.2
1972	240.8	148.5
1973	309.8	156.5
1974	427.1	168.0
1975	535.8	181.4
1976	670.0	195.3
1977	870.2	203.0
1978	1288.7	209.1
1979	2189.8	209.5

IMPLICATIONS of THE GROWTH RATE for PER CAPITA INCOME

Official estimates put the growth rate of GNP at 0.2% in 1979, compared to 3 percent in 1978. Given the high rate of increase of the Turkish population (2.5 percent per annum) there is a decline in per capita GNP in 1979 equal to 2.3%, the first during the period 1962-1979. The lowest rate of increase of per capita income of the period is in 1978.

PER CAPITA GNP
(1962-1979)

YEAR	Population 000	Current Producers' Prices TL	1968 Producers' Prices TL	Real Increase %
1962	28.933	1.991	2.639	-
1963	29.655	2.151	2.839	7.6
1964	30.394	2.346	2.883	1.5
1965	31.151	2.463	2.901	0.6
1966	31.934	2.863	3.168	9.2
1967	32.750	3.099	3.220	1.6
1968	33.585	3.350	3.350	4.0
1969	34.442	3.626	3.443	2.8
1970	35.321	4.184	3.551	3.1
1971	36.215	5.318	3.816	7.5
1972	37.132	6.485	3.999	4.8
1973	38.072	8.138	4.110	2.8
1974	39.036	10.941	4.304	4.7
1975	40.025	13.386	4.532	5.3
1976	41.039	16.327	4.760	5.0
1977	42.078	20.680	4.825	1.4
1978	43.144	29.869	4.846	0.4
1979	44.246	49.491	4.734	-2.3

For a country which happens to have the lowest GNP per inhabitant in the OECD area and which tries not to allow the gap to become larger, the last two years constitute a major drawback.

ANALYSIS of THE MACRO-EQUILIBRIUM of THE ECONOMY

Data used: Data provided by the yearly programmes has been used. It is in current prices. To facilitate the analysis all data has been expressed as percent of total resources in the economy. As for most of the years foreign deficit is positive, GNP percentages are below 100, except in 1973 when the foreign deficit being negative GNP is exceeding 100 percent.

Foreign deficit increased gradually from negative 2.2% in 1973 to 6.6% in 1977, with the emergence of the crisis foreign deficit was abruptly decreased to 2.5% in 1978 and to 1.9% in 1979.

Total investments seem to have contributed much to the crisis by increasing exceedingly rapidly especially between 1973 and 1977.

MACRO EQUILIBRIUM of THE ECONOMY

(in current prices, as % of Total Resources)

	1973	1974	1975	1976	1977	1978	1979
GNP	102.2	97.7	95.1	94.6	93.4	97.5	98.1
Foreign Deficit	-2.2	2.3	4.9	5.4	6.6	2.5	1.9
Total Resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Investments	18.4	19.4	21.8	22.0	23.6	20.3	17.9
- Fixed Capital Investment	17.6	16.7	18.9	20.6	21.4	18.3	15.8
- Public	8.3	8.0	9.5	10.6	11.5	9.5	8.5
- Private	9.3	8.7	9.4	10.0	9.9	8.8	7.3
- Changes in Stocks	0.8	2.7	2.9	1.4	2.2	2.0	2.1
Consumption	81.6	80.6	78.2	78.0	76.4	79.7	82.1
- Public	12.2	10.7	11.3	12.0	12.9	11.3	10.7
- Private	69.4	69.9	66.9	66.0	63.5	68.4	71.4

Source: SPO, Yearly Programmes.

With the crisis total investments went down from 23.6% of total resources in 1977, to 20.3% in 1978 and to 17.9% in 1979. The decrease was felt mostly in the fixed capital investments as stocks did not show a very big change. There was a big build-up of stocks in 1977 a small decrease from 2.2% to 2% in 1978 and a new build-up to 2.1% in 1979.

Both the private as well as the public sector reacted to the economic crisis by reducing their fixed capital investments. The private sector more sensitive to conjonctural changes started to decrease its investments in 1977 while the public sector made yet another jump by increasing in 1977 the share of public investment to 11.5% of total resources. Total consumption increased considerably in 1978 and 1979, as a result of rising expectations concerning prices. Consumption which used to appropriate roughly 78% of total resources jumped to 80% in 1978 and to 82 percent in 1979. Public and private did not react in the same way. Public consumption restricted as it is by availability of tax resources decreased its current expenditures in the same way it has done with public investment. The public sector restricted its current expenditures from 12.9% of total resources in 1977, a record high for the period under consideration, to 11.3% in 1978 and to 10.7% in 1979.

Private consumption which used to get 70% of total resources in 1974 dropped considerably and attained a record low level of 63.5 percent in 1977 which was immediately after changed to 68.4 in 1978 and to 71.4% in 1979.

RESOURCES and THEIR USES: 1978, 1979
within 15 YEAR PERSPECTIVE

RESOURCES and USES
(Annual Percentage Volume Changes)

	1963/ 1967	1968 1972	1973 1977	1978	1979
GNP	6.7	7.1	6.5	3.0	0.2
Total Fixed Investment	9.4	8.1	14.8	-10.9	-8.8
Public	8.5	6.5	16.7	-13.8	-5.2
Private	10.5	9.8	12.8	-6.8	-13.4
Total Consumption	5.2	6.6	6.8	1.2	2.0
Public	7.7	12.3	10.4	-3.3	-1.7
Private	4.8	5.5	6.2	2.2	2.7
Total National Savings	16.2	9.1	6.3	0	-7.2

Total available resources in 1979 did not grow at all. Fixed capital investment which had already declined by 10.9 % in 1978, fell by 8.8 percent in real terms. Public Sector fixed capital investments were reduced by 5.2 percent due to budgetary difficulties and limitations on credit expansion. Private investment declined by 13.4 percent which resulted from a sharper fall in industrial and business investments due to the depressed general economic climate, accompanied by an increase in residential construction because demand for housing in the overcrowded cities continued to grow as investors were looking for inflation - proof assets. In fact new construction increased by 5.6 percent in area according to construction licenses, and 4.5 percent according to occupancy permits. In recent years, there were periods of high growth of the construction sector (27% in 1973, and 1976 according to construction licenses, 20% in 1972, 17.8% in 1975, 15.4% in 1977 according to occupancy permits).

NEW CONSTRUCTION

(According to Occupancy Permits)

YEAR	Million TL	1000 m^2	Chain Index	Cost per m^2 (TL)	Chain Index
1969	2782.6	8023.3	-	347	-
1970	3004.6	8092.8	100.87	371	106.92
1971	3308.3	8068.7	99.70	410	110.51
1972	4247.8	9676.3	119.92	439	107.07
1973	5598.1	10879.8	112.44	515	117.31
1974	7318.2	9809.3	90.16	746	144.85
1975	11648.1	11551.4	117.76	1008	135.12
1976	13306.2	12273.5	106.25	1084	107.54
1977	18818.5	14158.2	115.36	1329	122.60
1978	44662.8	14933.8	105.48	2991	225.06
1979	81148.2	15609.8	104.53	5199	173.82

NEW CONSTRUCTION

(Construction Licences)

YEAR	Million TL	1000 m^2	Chain Index	Cost per m^2 (TL)	Chain Index
1969	6987.3	17987.3	-	388	-
1970	8120.2	19741.7	109.75	411	105.93
1971	7171.4	16909.5	85.65	424	103.16
1972	8686.4	19230.9	113.73	452	106.60
1973	13351.3	24484.5	127.32	545	120.57
1974	15136.0	20347.5	83.10	744	136.51
1975	23669.0	23337.3	114.69	1014	136.29
1976	32682.6	29618.3	126.91	1103	108.78
1977	40338.7	28972.2	97.82	1392	126.20
1978	92729.0	32237.2	111.27	2876	206.61
1979	176330.7	34047.3	105.61	5179	180.08

Investments decreased by 13 percent in the private sector and by 5 percent in the public, during 1979. Investments in Agriculture, Manufacturing Industry, Transportation and Tourism were considerably hit in the case of Private Investment.

The Public Sector decreased its investments in agriculture, housing, education and to a lesser extent in transportation, tourism and health.

Some of these decreases were superimposed on decreases made during 1978.

As a result of these developments the sectoral distribution of investment changed considerably. Investments in agriculture were considerably decreased from 13.7 percent high in 1976 to 8.5 percent in 1979.

Mining on the other hand, showed a relative increase from 3.3 percent in 1975 to 5.4 percent in 1979. Investments in manufacturing industry were decreased gradually from 30.2 percent of the total in 1975 to 22.5 percent in 1979. Investments in energy on the other hand showed a gradual increase from 6.5 percent in 1975 to 11.4 percent in 1979. Investments in transportation continued to increase relatively in spite of the petroleum crisis up to 1978 when it attained 23.8 percent of total investments and equalling investments in manufacturing which attained 23.7 in the same year. Investments in transportation were quickly decreased to 19.8 percent in 1979.

Investments in tourism did not show any appreciable change. Investments in housing increased from 15.7 percent in 1976 to 20.7 percent in 1979. Investments in education decreased considerably from 3.6 percent in 1976 to 2 percent in 1979.

PRIVATE INVESTMENTS

(in 1978 prices, million TL.)

	1978	1979	% Change
Agriculture	15.100	10.146	-32.8
Mining	500	954	90.8
Manufacture	33.850	24.143	-28.7
Energy	240	350	45.8
Transportation	29.800	19.800	-33.6
Tourism	1.260	834	-33.8
Housing	41.500	46.493	12.0
Education	250	303	21.2
Health	100	419	319.0
Other Services	3.500	5.982	70.9
Total Private	126.100	109.424	-13.2
% of Total Investments ..	%48.3	%46.0	

PUBLIC INVESTMENTS

(in 1978 prices, million TL)

	1978	1979	% Change
Agriculture	13.971	10.084	-27.8
Mining	10.860	12.147	11.9
Manufacturing	27.900	29.428	5.5
Energy	25.163	27.145	7.9
Transportation	32.232	27.049	-15.8
Tourism	1.171	968	-17.3
Housing	3.792	2.703	-28.7
Education	6.526	4.223	-35.3
Health	2.946	2.490	-15.5
Other Services	10.400	12.032	15.7
Total Public	134.961	128.269	-5.0
% of Total Investments.......	51.7	54.0	

SECTORAL DISTRIBUTION of FIXED CAPITAL INVESTMENTS (%)

	1975	1976	1977	1978	1979
Agriculture	10.3	13.7	12.7	11.1	8.5
Mining	3.3	4.0	3.8	4.4	5.4
Manufacture	30.2	26.1	24.8	23.7	22.5
Energy	6.5	7.8	8.0	9.7	11.4
Transportation	20.7	21.3	23.3	23.8	19.8
Tourism	0.9	0.8	0.8	0.9	0.8
Housing	18.0	15.7	16.0	17.3	20.7
Education	3.3	3.6	2.8	2.6	2.0
Health	1.1	1.2	1.0	1.2	1.2
Other Services	5.7	5.8	6.8	5.3	7.7

In 1979 Investment-Saving Equilibrium was realized at a level lower by 7.7% than the 1978 equilibrium. In fact fixed capital investment decreased by 9% in relation to 1978. The private sector was more affected than the public.

On the other hand, decrease in savings took place mostly in the public sector where savings in real terms decreased by 17.5% in 1979. Foreign savings decreased by 11.8%, private savings by 1.8%.

As a result of these negative developments private savings ratio decreased to 13.8% percent from 14.7 percent in 1978. Private Marginal Propensity to save became negative in 1979 (-6.2%). Total marginal propensity to save was also affected and turned negative (-42.4%).

INVESTMENTS-SAVINGS EQUILIBRIUM

(in 1978 prices, billion TL)

	1978	1979	% Change
Total Investments	290.8	268.3	-7.7
A. Fixed Capital Investment	261.1	237.7	-9.0
a. Public	135.0	128.3	-5.0
b. Private	126.1	109.4	-13.2
B. Stock Changes	29.7	30.6	+3.0
Total Savings	290.8	268.3	-7.7
A. Total Domestic Savings	255.3	237.0	-7.2
a. Public	86.8	71.6	-17.5
b. Private	168.5	165.4	-1.8
B. Foreign Savings	35.5	31.3	-11.8
Private Savings Ratio	14.7	13.8	
Private Marginal Propensity to Save	48.1	-6.2	
Total Marginal Propensity to Save	46.8	-42.4	

FIXED CAPITAL INVESTMENTS

During the First and Second Five Year Plans the rate of increase of fixed investment was 8.2-8.3 percent on the average. It jumped to 15.1 percent during the Third Plan. Fixed investment decreased by 11.5 percent in 1978 and by a further 8.8 percent in 1979.

Sectoral distribution of total Fixed Capital Investment for 1963-1979 shows the importance attributed to Manufacturing Industry which attracted 20 percent of total fixed investment during the First Plan and attained 28 percent during the Third Plan. There is a relative decrease of fixed investment in Manufacturing in 1979, a relative increase in energy in 1978 and 1979, and a relative increase of investment in housing in 1979. Investment in agriculture decreased considerably.

FIXED CAPITAL INVESTMENTS

(1976 Constant Prices, Million TL.)

YEARS	Fixed Capital Investments	Annual Growth Rate (%)
1963	38.973	
1964	39.620	1.7
1965	41.341	4.3
1966	49.212	19.0
1967	52.985	7.7
1963-1967	222.131	8.2(1)
1968	62.132	17.3
1969	69.023	11.1
1970	74.526	8.0
1971	70.994	-4.7
1972	78.101	10.0
1968-1972	354.776	8.3(1)
1973	91.729	17.4
1974	103.788	13.1
1975	128.517	23.8
1976	145.966	13.6
1977	157.313	7.8
1973-1977	627.313	15.1(1)
1978	139.173	-11.5
1979	126.930	-8.8

(1) Annual Average of the increase for the Five-Year Period.

PERCENTAGE SHARES of SECTORAL INVESTMENTS
in TOTAL GROSS FIXED CAPITAL INVESTMENTS
(1976 Constant Prices)

YEAR	Agriculture	Mining	Manufacture	Energy	Trans-portation	Tourism	Housing	Other (1)
1963	12.8	4.1	24.5	4.9	15.7	0.7	23.8	13.5
1964	14.4	5.6	20.1	6.8	14.3	0.9	22.1	15.8
1965	14.8	7.0	17.4	6.9	14.6	1.5	23.3	14.5
1966	13.1	6.7	18.4	6.4	16.4	1.8	23.0	14.2
1967	14.1	4.7	21.7	7.3	16.4	1.5	20.4	13.9
1963/ 1967	13.8	5.6	20.4	6.5	15.6	1.3	22.4	14.4
1968	13.8	3.1	23.1	8.7	16.2	2.3	18.5	14.3
1969	12.1	3.0	25.1	9.5	16.0	2.2	18.8	13.3
1970	10.6	3.5	25.5	10.6	15.6	2.1	20.6	11.5
1971	9.6	3.3	26.7	8.8	15.4	2.2	22.7	11.3
1972	9.8	3.5	32.1	7.3	16.7	1.6	19.5	9.5
1968/ 1972	11.1	3.3	26.7	8.9	16.0	2.1	20.1	11.8
1973	11.1	3.5	29.8	7.0	17.6	1.7	19.1	10.2
1974	10.6	3.4	30.7	7.0	19.0	1.2	16.9	11.2
1975	10.1	3.2	30.3	6.4	20.2	0.9	18.6	10.3
1976	13.7	4.0	26.1	7.9	21.4	0.8	15.8	10.3
1977	14.8	4.1	24.9	7.9	21.8	0.8	14.9	10.8
1973/ 1977	12.4	3.7	28.0	7.3	20.3	1.0	16.8	10.5
1978	11.1	4.6	24.9	10.1	22.9	0.8	16.8	8.6
1979	8.5	5.8	23.7	12.0	19.1	0.7	20.1	10.3

(1) Education, health, and other services.

FIXED CAPITAL INVESTMENTS

(in 1976 fixed prices, million TL)

	1978			1979			1978			1979		
	Private	Public	Total	Private	Public	Total	Private	Public	Total	Private	Public	Total
Agriculture	8.132.3	7.328.1	15.460.4	5.464	5.289	10.753	12.3	10.0	11.1	9.6	7.6	8.5
Mining	279.4	6.068.7	6.348.1	533	6.788	7.321	0.4	8.3	4.6	0.9	9.7	5.8
Manufacturing	18.996.6	15.657.4	34.654.0	13.548	16.514	30.062	28.8	21.4	24.9	23.7	23.7	23.7
Energy	132.9	13.929.9	14.062.8	194	15.027	15.221	0.2	19.0	10.1	0.3	21.5	12.0
Transportation	14.313.8	17.603.6	31.917.3	9.511	14.773	24.284	21.7	24.0	22.9	16.7	21.2	19.1
Tourism	600.6	558.2	1.158.8	397	461	858	0.9	0.8	0.8	0.7	0.7	0.7
Housing	21.484.7	1.963.2	23.447.9	24.071	1.399	25.470	32.6	2.7	16.8	42.1	2.0	20.1
Education	129.8	3.389.4	3.519.2	157	2.193	2.350	0.2	4.6	2.5	0.3	3.1	1.9
Health	52.1	1.535.9	1.588.0	219	1.298	1.517	0.1	2.1	1.1	0.4	1.9	1.2
Other Services	1.766.9	5.250.1	7.017.0	3.020	6.074	9.094	2.7	7.2	5.0	5.3	8.7	7.2
TOTAL	65.889.1	73.284.4	139.173.5	57.114	69.816	126.930	100.0	100.0	100.0	100.0	100.0	100.0

CHANGES in THE DISTRIBUTION of FIXED CAPITAL INVESTMENTS in 1978 and 1979

In order to pass a judgement on the changes in the distribution of fixed capital investments during 1978 and 1979 we will try to compare it with the realized investments of the recent past covering the years 1973-1977.

SECTORAL DISTRIBUTION of FIXED CAPITAL INVESTMENT (1973-1977 average)

	Private	Public	Total
Agriculture	13.62	10.11	11.83
Mining	0.55	6.68	3.68
Manufacturing	32.66	24.00	28.24
Energy	0.42	34.05	7.38
Transportation	16.12	24.83	20.57
Tourism	1.15	0.87	1.00
Housing	32.40	2.14	16.95
Education	0.22	6.22	3.28
Health	0.14	2.01	1.10
Other Services	2.72	9.09	5.97
TOTAL ...	100.00	100.00	100.00

THE PRIVATE SECTOR

Private investments in agriculture decreased relatively especially in 1979 when they went down to 9.6 percent of total fixed investments.

Private investments in manufacturing industry decreased to 28.8 percent of total private investments in 1978 from 32.7 for the average of the previous 5 years. But it is in 1979 that the decrease became alarmingly big when the percentage went down to 23.7 percent.

Private investments in transportation continued to be relatively high in 1978 (21.7 percent of total private investments) but dropped to 16.7 percent in 1979.

Private investments in housing continued their five year tendencies in 1978, and were raised to 42.1 percent in 1979.

THE PUBLIC SECTOR

Public Investments in agriculture followed their previous average in 1978, but dropped to 7,6 percent in 1979 from 10 percent in 1978.

Public investment in manufacturing industry kept its previous trend while investment in energy were far below their 5 year average which was 34 percent of total public investment. Investments in energy were only 19 percent in 1978 and 21.5 % in 1979.

Public investments in transportation was kept close to the 5 year average (24.83 percent) in 1978, but went down to 21.2 percent in 1979.

INVESTMENT as PERCENT of GNP

Fixed capital investment was very stable between 1970 and 1974 averaging 17.5% in real terms and 17.3% in current prices.

A considerable increase took place in the following three years reaching an all time maximum of 20.8% of GNP in fixed prices and 22.9% in current prices. Compared with these high percentages fixed capital investment dropped to 18% in fixed prices and 20.3% in current prices in 1978 and to 16.4% and 17.4% respectively in 1979.

Both private and public investment decreased two years in a row, Public Investment due to budgetary difficulties and limitations on credit expansion, private investments due to sharp fall in industrial and business investments.

FIXED CAPITAL INVESTMENTS
(as percent of GNP)

	GNP (in 1968 prices)	[in current prices]
1970	18.7	18.3
1971	16.1	16.5
1972	17.2	16.8
1973	18.2	17.0
1974	17.3	17.8
1975	18.7	19.0
1976	20.1	22.8
1977	20.8	22.9
1978	18.0	20.3
1979	16.4	17.4

EVALUATION of THE PROPENSITIES to SAVE

After a considerable improvement for a quarter of a century during which domestic savings as percent of GNP moved rapidly from a low 10 percent in 1950-1955 to 18.6 percent in 1968-1973 there is a definite decrease of the domestic savings ratio in the last five years from 18.6 percent to 17.6 percent, while total savings continued to increase albeit slowly from 19.2 in 1968-1973 to 20.1 percent in 1974-1979 due to a considerable increase in foreign savings from 0.6 percent in 1968-1973 to 2.5 percent in 1974-1979.

SAVINGS as PERCENT
of
GROSS NATIONAL PRODUCT

YEAR	Domestic Savings	Foreign Savings	Total Savings
1950-1955	9.9	2.6	12.5
1956-1961	12.7	1.8	14.5
1962-1967	14.6	2.2	16.8
1968-1973	18.6	0.6	19.2
1974-1979	17.6	2.5	20.1

AVERAGE PROPENSITIES to SAVE

Private Sector	Pr. D. I / G.N.P.	Pr. S. / Pr. D. I.	Pr. S. / GNP
1963 - 1967	0.812	0.105	0.085
1968 - 1973	0.794	0.126	0.100
1974 - 1979	0.807	0.112	0.104
Public Sector	**Pu. D. I. / G.N.P.**	**Pu. S. / Pu. D. I.**	**Pu. S. / GNP**
1963 - 1967	0.188	0.379	0.071
1968 - 1973	0.206	0.418	0.086
1974 - 1979	0.193	0.374	0.072
Turkish Economy	**D. S. / G.N.P.**	**F. S. / G.N.P.**	**T. S. / GNP**
1963 - 1967	0.156		
1968 - 1973	0.186	0.006	0.192
1974 - 1979	0.176	0.025	0.201

Pr. D. I. Private Disposable Income
Pu. D. I. Public Disposable Income
Pr. S. Private Savings
Pu. S. Public Savings
F. S. Foreign Savings
D. S. Domestic Savings
T. S. Total Savings

A more detailed analysis is required for the determination of the sources of the decrease of domestic savings.

Private Savings

The base for private savings is private disposable income. Private disposable income was reduced to 79.4 percent of GNP in 1968-1973 from 81.2 percent in 1963-1967 but during 1974-1979 private disposable income moved up again to 80.7 percent. Private Savings as percent of Private Disposable Income in other terms the average propensities to save out of private disposable income has shown a considerable increase in 1968-1973 by becoming 0.126 from 0.105 in 1963-1967, but dropped considerably thereafter and was reduced to 0.112 in 1974 - 1979.

In spite of this decrease in the propensity to save the relative increase in private disposable income allowed the ratio of Private savings to GNP to show an increase from 0.100 in 1968-1973 to 0.104 in 1974-1979.

Public Savings

The first point to make this connection is the relative decrease in the disposable income of the public sector which after a considerable increase to 20.6 percent of GNP in 1968-1973 from 18.8 percent in 1963-1967 dropped back to 19.3 in 1974-1979.

On the other hand Public Savings as percent of Public Disposable Income decreased in 1974-1979 level (37.4 percent) that not only it fell below its 1968-1973 level but also it shifted below the 1963-1967 level of 37.9 percent.

As a result of these developments Public Savings as percent of GNP moved in 1974-1979 back to their 1963-1967 level of 0.071 after having reached 0.086 in 1968-1973.

Domestic Savings

After having made a serious leap upward in 1968-1973 to 0.186 from a low 0.156 in 1963-1967, domestic savings dropped to 0.176 in 1974-1979. Various factors affected the trend of domestic savings, the primary factor has been the flight from money, which during the recent inflation has lost most of its functions. People have looked for alternatives which could enable them to hedge against inflation such as real estate, land, foreign exchange and consumer durables.

Consumption

Total consumption increased by 3 percent reflecting a further decline in domestic savings. Public consumption fell by 1.7% and private consumption is reported to have increased by 2.5% which in spite of extreme shortages of supply did not produce any decrease in per capita consumption. Given the stringent supply conditions one would have expected a reduction in stocks, but estimates reveal an increase in stocks in general mostly in the private sector, while there has been some decline in the stocks of the public sector.

These differential changes in consumption changed the composition of consumption in favor of private consumption and at the expense of Public Consumption.

In 1978 and 1979 Private Consumption increased to 86.7-86.9 percent of total, equalling the 1974 level which was 86.7%.The reserve is true for Public Consumption. In 1978 and 1979 public consumption expenditures were decreased to 13.1-13.3 percent of the total only to be equal to the 1974 level equal to 13.3.

SHARES OF PUBLIC & PRIVATE CONSUMPTION
IN TOTAL CONSUMPTION

YEAR	Private	Public
1973	85.1	14.9
1974	86.7	13.3
1975	85.5	14.5
1976	84.7	15.3
1977	83.0	17.0
1978	86.7	13.3
1979	86.9	13.1

Agriculture

The growth rate of the agricultural sector is 2.3 percent in 1979. While agricultural production has become less dependent on weather conditions through relative modernization of production methods, farmers have in turn become more dependent on industrial inputs such as fertilizers, chemicals, spare parts for mechanical equipment and fuel for tractors and other machinery. The foreign exchange shortage does not appear to have seriously affected the availability of these supplies.

Industry

Industrial production has been very seriously affected by supply shortages and energy rationing because of the foreign exchange bottleneck.

Credit restriction was an additional depressive factor that influenced the decline in activity, in particular for the private sector which accounts for some 60 percent of industrial value-added.

Indicators of industrial output bear out the decrease of 6 percent based on GNP data.

Data on State Economic Enterprises gathered by the State

Institute of Statistics show declines in 10 out of 14 enterprises. Is Demir-Celik (iron and steel) TEKEL (State Monopolies), Azot Sanayii (Fertilizers) and Caykur (Tea Industry)are the only enterprises which recorded increases in their production in 1979 ranging between 9-20 percent. The decline in production range between 2.5-27.0%. The total production dropped by almost 1 billion TL in constant prices from 136 billion to 135 billion TL or by 0.7%.

AGRICULTURAL PRODUCTION

(Thousand tons)

	1977	1978	1979	% Annual Change 1978	% Annual Change 1979
CEREALS					
Wheat	16.650	16.700	16.700	0.3	-
Barley	4.750	4.750	5.100	-	7.4
Maize	1.265	1.300	1.250	2.7	-3.8
Rice	165	190	200	15.2	5.3
PULSES	804	724	744	-10.0	+2.7
INDUSTRIAL CROPS					
Cotton	575	475	470	-17.4	-1.0
Tobacco	238	297	285	24.8	-4.0
Sugar Beets	8.995	8.837	9.500	-1.8	7.5
Potatoes	2.800	2.750	2.760	-1.8	0.4
OIL SEEDS					
Sunflower	455	460	550	1.1	19.6
Cotton Seed	920	840	800	-8.7	-4.8
OTHERS					
Oranges, Tangerines	1.147	1.018	1.032	-11.3	1.4
Grapes	3.180	3.000	3.200	-5.7	6.7
Apples	900	1.100	1.150	22.2	4.5
Hazelnuts	290	300	310	3.4	3.3
Olives	400	1.100	500	175.0	-54.6
Tea	395	449	485	13.7	+8.0

Production of industrial products of the private sector, are indicative of the same decreasing trend with the exception of lignite, electricity, fertilizers, coke and steel.

PRODUCTION of MAIN STATE ECONOMIC ENTERPRISES
(million TL, 1978 Fixed Prices)

		1978	1979	% Change
T. Cimento	*(Cement)*	3.529	3.106	-12.0
T. Seker Fab.	*(Sugar)*	11.973	11.665	-2.6
SEKA	*(Paper)*	6.497	6.271	-3.5
T. Demir Celik	*(Iron Steel)*	7.930	7.617	-4.0
Eregli Demir Celik	*(" ")*	10.074	9.768	-3.0
Is Demir Celik	*(Iron Steel)*	10.821	12.372	+14.3
Tekel	*(State Monopolies)*	25.970	31.124	+19.3
IPRAS	*(Oil Refinery)*	14.753	13.130	-11.0
PETKIM	*(Petrochemicals)*	5.905	5.722	-3.1
TPAO	*(Oil)*	16.683	12.170	-27.0
Sumerbank	*(Textiles)*	7.335	7.153	-2.5
Azot Sanayii	*(Fertilizers)*	2.785	3.063	+100.0
Caykur	*(Tea)*	6.648	7.224	+8.7
EBK	*(Meat)*	5.134	4.670	-9.0
TOTAL		136.040	135.057	-0.7

Production of individual products bear out the decrease of industrial value added as reflected by GNP data.

Coal and chromite in mining, sugar, meat and feed, cotton textiles, woolen yarn and carpets, wood products some paper items, tires, fuel, cement, copper, ferrochromium, tractors and car have shown decreases reflecting supply shortages and/ or energy rationing because of the foreign exchange bottle-neck.

PRODUCTION of INDUSTRIAL PRODUCTS

		Unit	1978 Production	1979 Production	% Change
MINING					
Coal	(T)	1000 t.	4.295.2	4.051.4	-5.7
Lignite	(K)	1000 t.	9.326.4	11.051.0	18.5
Crude Oil		1000 t.	2.736.3	2.830.8	3.5
Chromite	(K)	1000 t.	212.3	177.3	-16.4
Copper	(T)	1000 t.	115.8	127.3	9.9
Allumina	(T)	1000 t.	74.3	75.1	-1.1
Volfram	(T)	1000 t.	18.1	260.0	
Linkal	(T)	1000 t.	158.9	192.0	20.8
Colamanite	(K)	1000 t.	311.6	335.8	7.8
Sulphur	(KT)	1000 t.	20.0	21.0	5.0
Phosphate	(T)	1000 t.	23.6	26.7	13.1
ENERGY					
Electricity	(T)	GWH	21.726.1	22.523.0	3.7
FOOD					
Sugar	(T)	1000 t.	1.086.6	980.0	-9.8
Meat	(K)	1000 t.	63.6	55.7	-12.4
Milk	(K)	1000 t.	12.6	16.9	34.1
Dried Tea	(T)	1000 t.	89.0	302.0	14.6
Feed	(K)	1000 t.	291.8	272.3	-6.7
TOBACCO, BEVERAGES					
Filtered Cigarettes	(T)	1000 t.	28.0	28.9	3.2
Non-filtered Cigarettes	(T)	1000 t.	22.1	24.8	11.9
Raki	(T)	100 M ℓ	436.2	440.1	0.9
Votka	(T)	"	53.4	53.1	-0.6
Beer	(K)	"	561.3	458.7	-18.3
Vine	(K)	"	69.0	66.1	-4.2
TEXTILES, LEATHER					
Cotton Yarn	(K)	1000 t.	37.9	44.3	16.9
Cotton Textiles	(K)	Mill. m	200.3	190.2	-5.0
Woolen Yarn	(K)	1000 t.	4.2	3.6	-14.3
Woolen Textiles	(K)	Mill. m.	6.7	6.6	-1.5
Hand-made Carpets	(K)	1000 m^2	46.5	69.2	48.8
Machine-made Carpets	(K)	1000 m^2	126.2	110.0	-12.8
Shoes	(K)	1000 pairs	2.495.0	2.828.0	13.3
FORESTRY PRODUCTS					
Wood	(K)	1000 m^3	352.9	339.3	-3.9

(continued)

Table : PRODUCTION of INDUSTRIAL PRODUCTS - *(cont'd)*

		Unit	1978 Production	1979 Production	% Change
PAPER					
Newsprint	(T)	1000 t	77.6	88.8	14.4
Craft paper	(K)	1000 t	46.1	49.0	6.3
Cardboard	(K)	1000 t	36.2	26.3	-27.4
Cigarette Paper	(T)	1000 t	2.0	1.9	-5.0
TIRES					
Car tires	(T)	1000	1.737.0	1.388.8	-20.0
Truck tires	(T)	1000	1.061.4	1.160.7	9.4
Tractor tires	(T)	1000	403.8	392.9	-2.7
Tubes	(T)	1000	1.765.3	1.733.0	-1.8
CHEMICALS					
Borax	(KT)	1000 t	21.1	35.8	69.7
Boric Acid	(T)	1000 t	17.6	10.0	-43.2
Sodium perborat	(K)	1000 t	5.0	5.4	8.0
Salt	(K)	1000 t	989.4	1.079.3	9.1
PVC	(K)	1000 t	36.5	21.5	-41.1
Poliethylen	(T)	1000 t	20.2	17.2	-14.9
Carbon Black	(T)	1000 t	12.5	15.1	20.0
Synthetic Rubber	(KT)	1000 t	15.5	23.7	52.9
Solistiren	(K)	1000 t	7.9	9.0	12.9
Capro-lactain	(T)	1000 t	12.7	16.4	29.1
PETROLEUM PRODUCTS					
Gasoline	(T)	1000 t	2.066.1	1.847.5	-10.6
Diesel Oil	(T)	1000 t	2.670.3	2.421.3	-9.3
Fuel Oil	(T)	1000 t	5.797.3	4.564.7	-21.3
CEMENT					
Cement	(T)	1000 t	15.344.0	13.811.0	-10.0
Acid Refractories	(K)	1000 t	35.0	36.1	3.1
Basic Refracteries	(K)	1000 t	22.3	26.9	20.6
FERTILIZERS & INTERMEDIATE GOODS					
Ammonia	(T)	1000 t	264.1	249.7	-5.5
Sulphuric Acid	(T)	1000 t	282.9	293.6	3.8
Phosphoric Acid	(T)	1000 t	127.6	164.9	29.2
Ammonium Nitrate	(T)	1000 t	1.265.4	1.662.0	31.3
Ammonium Phosphate	(T)	1000 t	1.236.6	1.634.6	32.2
IRON & STEEL					
Coke	(T)	1000 t	1.761.0	2.040.0	15.0
Steel	(K)	1000 t	1.652.9	1.892.0	14.5
Pipes	(K)	1000 t	5.5	7.0	27.3

(continued)

Table : PRODUCTION of INDUSTRIAL PRODUCTS - *(cont'd)*

		Unit	1978 Production	1979 Production	% Change
NON-FERROUS METALS					
Copper (Blister)	(T)	1000 t	26.2	22.3	-14.9
Aluminium	(T)	1000 t	34.4	31.8	-7.6
Zinc	(K)	1000 t	17.3	17.2	-0.6
Ferrochromium	(T)	1000 t	10.6	9.5	-10.4
Ferrochromium	(T)	1000 t	25.0	23.9	-4.4
AGRICULTURAL MACHINERY					
Tractors	(T)	1000 t	17.772.0	14.487.0	-18.5
ROAD VEHICLES					
Trucks	(T)	1000 t	13.144.0	13.367.0	1.4
Camionettes	(T)	1000 t	6.880.0	8.568.0	24.5
Cars	(T)	1000 t	53.590.0	43.808.0	-18.3
Busses	(T)	1000 t	1.416.0	1.698.0	10.9
Minibusses	(T)	1000 t	3.155.0	4.211.0	33.5
RAILROAD VEHICLES					
Locomotives	(T)		52	35	-32.7
Wagons	(T)		516	1.307.0	153.3

(T) Total production
(KT) A part of total production
(K) Production of public enterprises

The composition of production in Manufacturing Industry show a relative shift in favor of consumer goods mainly food. On the other hand, there is a relative decrease in intermediate goods, investment goods and controlling appliances.

THE SIZE of THE INDUSTRIAL MARKET

Industry has recently displayed strong fluctuations due to a combination of causes such as shortage of foreign exchange and ensuing decrease of imported industrial inputs, fuel shortage and inflationary expectations which tend to limit industrial output.

The rate of increase of industrial output has been considerably high in 1977, became negative in 1978 and showed a small increase in 1979.

Imports of industrial inputs played a major role in the de-

VALUE OF PRODUCTION in MANUFACTURING INDUSTRY

(billion TL)

	1979	%
MANUFACTURING INDUSTRY	1421.6	100.0
Consumer Goods Industry	649.2	45.7
1. Food	430.3	30.3
2. Beverages	23.1	1.6
3. Tobacco	46.9	3.3
4. Textile & Clothing	149.0	10.5
Intermediate Goods Industry	561.2	39.5
5. Forest Products	87.8	6.2
6. Pulp and Paper	16.9	1.2
7. Printing	20.7	1.5
8. Hides and Leather	37.4	2.6
9. Rubber	23.4	1.6
10. Plastics	17.1	1.2
11. Chemicals	60.3	4.2
12. Petrochemicals	37.1	2.6
13. Petroleum Products	100.7	7.1
14. Fertilizers	9.7	0.7
15. Cement	18.6	1.3
16. Clay and Cement Prod.	16.6	1.2
17. Glass	8.8	0.6
18. Ceramics	6.3	0.4
19. Iron and Steel	66.9	4.7
20. Non-Ferrous Metals	32.8	2.3
Investment Goods	133.1	9.4
21. Metal Products	47.8	3.4
22., 23. } Machinery	55.6	3.9
24. Electrical Machinery	29.7	2.1
Controlling Appliances	78.1	5.5
25. Electronics	9.7	0.7
26. Road Vehicles	55.9	3.9
27. Railways Vehicles	5.0	0.4
28. Ship Building	6.2	0.4
29. Other	1.3	0.1

Source: State Planning Organization.

THE SIZE of THE INDUSTRIAL MARKET
(mill. $)

	1976	1977	1978	1979
Industrial Output	26.492.1	29.634.6	29.507.8	30.182.3
Imports	3.959.6	4.421.3	3.414.4	3.842.3
Exports	-595.8	-585.8	-621.3	-785.1
Industrial Market	29.855.9	33.470.1	32.922.3	33.239.5
Share of Imports	13.3	13.2	10.4	11.6
Annual % Rate of Increase of :				
- Industrial Output		11.0	-0.4	2.3
- Imports		11.7	-32.8	12.5
- Exports		-1.7	6.1	26.4
- Industrial Market		12.1	-1.6	1.0

THE SIZE of THE MARKETS of THE TURKISH ECONOMY
(mill. $)

	Value of Production	Imports	Exports	Market Size
Agriculture	14.265.2	36.6	1343.6	12.958.2
Mining	642.8	1067.6	132.5	1.577.9
Energy	573.8			
Manufacturing	30.182.3	3842.3	785.1	33.239.5
TOTAL	45.664.1	4946.5	2261.2	47.775.6
Imports with Waiver		123.0		
		5069.5		
Imports as % of the Market Size:	*Agriculture*	0.3		
	Mining	67.7		
	Manufacture	11.6		
	TOTAL	...10.3 (10.6)		

termination of the level of industrial output. Very liberal increase took place in 1977 when imports increased by 11.7 %, while industrial output increased by 11.9 percent. The share of imports in industrial output remained constant at 13.2 percent of the industrial market. In 1978 imports were drastically decreased by 22.8 percent causing industrial output to decrease by 0.4 percent. It can be assumed that stocks of industrial inputs have been used for the production process.But as a result of these contractions the industrial market decreased by 1.6 percent. The share of imports in the industrial market went down from 13.2 percent to 10.4 percent.

A small amelioration took place in 1979 caused mainly by the increase of imports by 12.5 percent, industrial output,favorably affected increased by 2.3 percent those bottlenecks which continued to affect negatively the economy did not allow industrial output to increase more. As a result of these developments the industrial market increased by 1 percent, and the increase in imports allowed the share of imports to rise to 11.6 percent from 10.4 percent in 1978.

The dependence of the markets on imports is high in Mining (67.7 %), low in Agriculture (0.3 %) and rather limited in Manufacturing Industry (11.6 %).

Dependence of the Turkish Economy on Imports is 10.3 percent in 1979 or 10.6 percent if imports with waiver are included.

The relative size of the industrial market in relation with total market is 66 percent as value of production and 69.6 % as market size.

CHAPTER VIII

FOREIGN TRADE AND PAYMENTS

1. FOREIGN TRADE AND PAYMENTS, 1979

In what follows individual subjects related to foreign trade and payments will be dealt with in detail and whenever necessary in a longer perspective. Before going into such detail we will try to take a broader look at the foreign trade and payments of the year 1979.

The current account deficit was somewhat reduced in 1979 to $ 1.1 billion from $ 1.4 billion in 1978. The major burden of the adjustment was carried by imports which were substantially cut back in 1978 and which increased only moderately in dollar value by around 10 percent in 1979.

Foreign Exchange policy contributed to the improvement of the invisible balance by $ 808 million in 1979 as compared to 1978. Net receipts from tourism increased by 27.8 percent, other items by 14.1 percent but then main increase came from workers' remittances which registered a growth of 72.3 percent in 1979.

Capital movements did not show any appreciable balance. Repayments of debts and other negative items brought the balance of capital movements close to a break even so that the current account deficit was reflected in the overall balance which was financed principally through foreign aid flows and medium-term Euro-loans.

2. TURKEY'S FOREIGN TRADE

The volume of foreign trade has shown an increasing trend which pushed the share of Turkish foreign trade in total world trade. The increase in the volume of trade was not equally shared by exports and imports. It was caused by an unusual increase in imports due mainly to the availability of foreign exchange reserves but continued even when the reserves were

BALANCE of PAYMENTS

(Million $)

	1978	1979	% Change
I-Current Accounts			
A. Foreign Trade			
1. Exports	2.288.2	2.261.2	-1.2
2. Imports	-4.599.0	-5.069.4	10.2
Balance of Trade	-2.310.8	-2.808.2	21.5
B. Invisibles			
1. Interest Payments	-389.0	-429.1	10.3
2. Tourism and Foreign Travel	145.4	185.8	27.8
3. Workers' Remittances	983.1	1.694.4	72.3
4. Profit Transfers	-47.0	-42.2	-10.2
5. Project & Service Payments	-56.0	-	-
6. Other Invisibles	253.5	289.2	14.1
Balance of Invisibles	890.0	1.698.1	90.8
C. Infrastructure & Offshore	2.8	9.5	239.3
Current Accounts Balance	-1.418.0	-1.100.6	-22.4
II-Capital Movements			
1. Debt Repayments	-255.7	-442.6	73.1
2. Private Foreign Investment	47.2	86.5	83.3
3. Project Credit	449.8	356.3	-20.3
4. Imports with Waiver	119.7	123.3	3.0
5. Programme Credits	109.9	493.2	348.8
6. Other Capital Movements	561.5	-547.0	-102.6
Balance of Capital Movements	1.032.4	69.7	-93.3
Overall Balance	-385.6	-1.030.9	167.3
III-Reserve Movements	-157.8	-102.9	-34.8
IV-IMF	170.0	3.0	-98.2
V-Short Term and Medium Term Capital Movements	598.9	472.7	-21.1
VI-Errors and Omissions	-255.5	658.1	391.8

Source: Ministry of Finance

nearly depleted. Imports which were amounting to only 6.35% of Gross Domestic Product for the period 1965-1969 jumped to 11.13% for the period 1975-1979 while exports showed no meaningful change. Exports as a percent of Gross Domestic Product was 4.56% in the first part of the period and 5.13% in the second, and dropped to 4% in the last five years.

FOREIGN TRADE as PERCENT of GROSS DOMESTIC PRODUCT

YEARS	Exports	Imports	Foreign Trade
1965 - 1969	4.56	6.35	10.91
1970 - 1974	5.13	9.47	14.60
1975 - 1979	4.04	11.13	15.17

Imports showed a continuous rise from 1970 on, which was interrupted only in 1978 and 1979 as a result of excessive scarcities in foreign exchange. Exports on the other hand followed a different pattern. One can observe a continuous and gradual decrease for the period 1965-1969, a continuous and gradual increase between 1969 and 1973 and another decrease between 1973 and 1979.

EXPORTS, IMPORTS & GROSS DOMESTIC PRODUCT

(Million TL.)

YEAR	Gross Domestic Product	Exports	Imports	Exports in GDP(%)	Imports in GDP(%)
1965	76.440.1	4.173.6	5.193,3	5.46	6.79
1966	90.775.5	4.414.6	6.521.9	4,86	7.18
1967	101.185.4	4.701.0	6.216.8	4.64	6.14
1968	112.190.1	4.467.8	6.934.1	3.98	6.18
1969	124.470.8	4.831.5	6.787.2	3,88	5.45
1970	145.490.8	6.407.7	9.598.1	4.40	6.60
1971	187.133.3	9.090.0	16.474.4	4.86	8.80
1972	232.114.8	11.875.9	21.564.1	5.12	9.29
1973	295.501.4	18.037.4	29.263.3	6,10	9.90
1974	409.746.2	21.197.3	52.310.8	5.17	12.77
1975	519.173,3	20.075.1	68.987.1	3.87	13.29
1976	658.989.0	30.775.5	82.940.8	4,67	12.59
1977	860.313.4	31.338.5	104.881.6	3.64	12.19
1978	1.274.045.4	55.357.9	113.290.1	4.35	8.89
1979	2.055.361.3	75.743.7	178.505.3	3.69	8.68

The relative decrease of exports as percent of GDP between 1965-1969 was partly associated with overvaluation of the Turkish currency but it was partly the result of deliberate government policy based to a considerable extent upon pessimism about the potential for export growth. Part of the disincentive against exports was unintended, it was the result of a certain stringency in imports which created premium in favor of imports as compared with exports.

The relative increase of exports/GDP between 1969 and 1973 was the result of the devaluation of the Turkish Lira in 1970, of the prosperity in the Western World and of price levels either clearly below world price levels or close to them.

The relative decrease of exports during the period 1973-1979 is the result of a number of cumulative factors: domestic price increases have seriously affected exports, a buoyant domestic demand has competed with exports and thus limited the exportable surplus of a number of goods. Parallel to increasing prices, overvaluation of the Turkish currency has attained dangerous dimensions and last but not least the main trade partners of Turkey were in recession which has negatively affected Turkish exports.

The relative stagnation of exports can also be observed by comparing Túrkish Exports to World Exports.

TURKISH EXPORTS as a SHARE of WORLD EXPORTS
(1965 - 1979)

(Million $)

YEAR	Turkish Exports	World Exports	Turkish Exports as a Share of World Exports
1965	464	165.400	0.28
1966	490	181.300	0.27
1967	523	190.600	0.27
1968	496	212.900	0.23
1969	537	243.500	0.22
1970	588	280.300	0.21
1971	677	312.600	0.22
1972	885	376.600	0.23
1973	1317	524.000	0.25
1974	1532	771.700	0.20
1975	1401	796.500	0.18
1976	1960	906.700	0.22
1977	1753	1,030.500	0.17
1978	2288	1,190.500	0.19
1979	2261	(1.500.000)	0.15

Source: International Financial Statistics

TURKISH EXPORTS as PERCENTAGE of WORLD EXPORTS

(1950 - 1979)

	%
1950-1954	0.47
1955-1959	0.34
1960-1964	0.29
1965-1969	0.25
1970-1974	0.22
1975-1979	0.18

Source: International Financial Statistics

Between 1950 and 1978 the share of Turkish exports in world exports has decreased steadily from 0.47 in the first half of the 1950's to 0.22 in the first half of the 1970's and to 0.18% in the second half. Turkey has not been able to adjust to the momentum of world trade while many countries did.

Under these circumstances it should not come as a surprise that exports which were able to finance 81% of total imports in 1965 could cover only 30% of total exports in 1977.

Deterioration in Export/Import ratio was postponed for three years following the 1970 devaluation of the Turkish Lira but fell seriously thereafter.

GROWTH OF TURKEY's FOREIGN TRADE

YEAR	Imports	Exports	Foreign Trade	Trade Balance	Export/Import Ratio
1965	100	100	100	100	81.8
1966	126	106	117	210	68.3
1967	120	113	117	150	76.3
1968	134	107	122	247	65.0
1969	140	116	129	244	67.0
1970	166	127	148	332	62.1
1971	205	146	178	457	57.8
1972	273	191	236	626	56.7
1973	365	284	329	712	63.1
1974	660	330	513	2075	40.6
1975	828	302	593	3084	29.6
1976	897	422	684	2934	38.2
1977	1013	378	729	3744	30.2
1978	804	493	665	2140	48.8
1979	886	487	708	2600	44.6

With 1965 set equal to 100 the import index rose to 886 in 1979 while during the same period the export index rose only to 487.

SHARE OF EXPORTS & IMPORTS
IN TOTAL VOLUME OF TRADE

(Million $)

	Total Volume of Trade	Share of Imports (%)	Share of Exports (%)
1965	1036	55.22	44.78
1966	1209	59.42	40.58
1967	1207	56.72	43.28
1968	1260	60.60	39.40
1969	1338	59.88	40.12
1970	1536	61.69	38.31
1971	1847	63.38	36,62
1972	2448	63.84	36.16
1973	3402	61.32	38,68
1974	5310	71.14	28,86
1975	6140	77,18	22.82
1976	7089	72,35	27.65
1977	7549	76.78	23.22
1978	6887	66.78	33,22
1979	7331	69,15	30.85

3. COMPOSITION OF TURKISH EXPORTS

The composition of Turkish exports is heavily concentrated on agricultural products. In spite of a decrease of agricultural exports from approximately 80% of total products in 1965 to 60% in 1979, agriculture continues to dominate Turkey's exports. Exports of industrial goods on the other hand have doubled their share during the same period from 17.45% in 1965 to 34.7% in 1979.

The following table based on Turkish Classification of Exports, classifies a number of agricultural products which have gone through a simple processing like refining as industrial products. The table below should be interpreted with these qualifications in mind.

TURKEY's EXPORTS by MAIN SECTORS

(Million $)

	Agriculture	%	Mining	%	Industry	%
1965	361.811	78.02	20.999	4.53	80.928	17.45
1966	389.788	79.47	23.345	4.76	77.375	15.77
1967	426.650	81.68	20.738	3.97	74.946	14.35
1968	405.046	81.60	26.043	5.25	65.280	13.15
1969	405.016	75.45	34.845	6.49	96.973	18.05
1970	442.554	75.20	42.679	7.25	103.243	17.55
1971	491.303	72.61	40.113	5.93	145.186	21.46
1972	607.417	68.64	35.091	3.96	242.461	27.40
1973	831.968	63.16	41.714	3.17	443.400	33.67
1974	851.958	55.60	79.831	5.21	600.302	39.19
1975	792.630	56.57	105.565	7.54	502.879	35.89
1976	1.254.408	63.69	110.016	5.61	595.790	30.40
1977	1.041.401	59.41	125.851	7.18	585.774	33.41
1978	1.542.800	67.4	124.100	5.4	621.3	27.2
1979	1.343.600	59.4	132.500	5.9	785.1	34.7

4. EXPORTS, DOMESTIC PRODUCTION AND PRODUCTIVE CAPACITY

There is a distinct negative correlation between Exports/Production rates and overvaluation of the Turkish Lira. As we move away from a major devaluation of the Turkish Lira the Export/Production rate has decreased continuously from 10.6% in 1965 to 7.7% in 1969 the year preceeding the 1970 devaluation.

The 1970 devaluation of the Turkish Lira, the favorable atmosphere of world trade as related to the prosperity of Western countries has favorably affected the share of the Turkish Exports from a low 7.7% in 1969 to 12.9% in 1973.

RELATIONS of EXPORTS to GNP
of
PRIMARY and SECONDARY SECTORS
(Million TL.)

YEAR	GNP in		Exports	Exports / GNP in Agr.+Ind.
	Agriculture	Industry		
1965	23.836.7 15.551.7	39.388.4	4.173.6	10.6
1966	28.853.8 18.574.9	47.428.7	4.414.6	9.3
1967	30.269.9 21.741.3	52.111.02	4.701.0	9.0
1968	31.699.8 24.676.8	56.376.6	4.467.8	7.9
1969	34.113.3 28.471.7	62.585.0	4.831.5	7.7
1970	39.369.8 31.463.6	70.832.8	6.407.7	9.0
1971	50.851.5 40.656.6	91.508.1	9.090.0	9.9
1972	60.654.5 50.847.9	111.502.4	11.875.9	10.6
1973	74.798.5 64.559.5	139.358.0	18.037.4	12.9
1974	107.888.7 91.435.3	199.324.0	21.197.3	10.6
1975	139.127.3 112.295.4	251.422.7	20.075.1	8.0
1976	180.121.9 138.829.5	318.951.4	30.775.5	9.6
1977	223.774.0 178.997.6	402.771.6	31.338.5	7.8
1978	450.171.0 518.021.0	607.191.5	55.357.9	9.1
1979	450.171.0 518.021.0	968.192.0	75.743.7	7.8

With domestic price increases eroding the value of the Turkish Lira and the favorable affects of the devaluation the rate of Exports to Production decreased sharply from 12.9% in 1973 to 7.8% in 1977 and 1979.

Cyclical changes apart, Exports of Agricultural and Industrial Commodities were equal to 9.3% of the sum of GNP in Agriculture and Industry, indicating a slight upward slope for the middle of the period 1965-1979 with the first third having an average of 8.9% and the last third an average of 8.5%.

EXPORTS as PERCENT of GDP
in
AGRICULTURE & INDUSTRY

	%
1965- 1969	8.9
1970 - 1974	10.6
1975 - 1979	8.5

In a more detailed way exports can be assessed as percent of sectoral output. The 1973 Input-Output Coefficients for the Turkish Economy give the following ratios: 0.02 for Agriculture, 0.05 for Mining. As for Industry the sectors with the highest ratios are as follows according to importance 0.1842 for textiles, 0.1556 for Beverages and Tobacco, 0.1195 for Food, 0.0504 for Petroleum Products, 0.0449 for non-ferrous metals, 0.0238 for Metals, 0.022 for Metal Commodities and 0.0207 for Leather. The rest of the sectors display smaller ratios.

5. FOREIGN EXCHANGE EXPENDITURES AND RECEIPTS OF THE MANUFACTURING SECTOR

The Industrialization strategies in Turkey have given undue emphasis to the satisfaction of internal demand rather than to exports. Thus the rate of export proceeds to import expenditures has fluctuated between 13.4-24.8% for the manufacturing industry.

RATIO of VALUE of EXPORTS to IMPORTS

YEAR	for Manufacturing	for the Whole Economy
1970	13.6	62.1
1971	15.0	57.8
1972	17.8	56.7
1973	24.8	63.1
1974	22.1	40.6
1975	13.4	29.6
1976	15.0	38.2
1977	13.6	30.2
1978	18.9	48.8
1979	20.4	44.6

IMPORT DEPENDENCE of INDUSTRIAL PRODUCTION

(million $, 1979)

	Production	Imports	Import Dependence
Textiles, Clothing	3.165.5	20.7	0.7
Food Beverages, Tobacco	10.620.7	33.8	0.3
Forestry Products	1.864.7	1.2	-
Paper	358.1	36.4	10.2
Printing	440.1	3.8	0.9
Leather & Hide	794.1	0.3	-
Rubber & Plastics	859.8	145.0	16.9
Chemicals	1.280.7	524.1	40.9
Petroleum Products	2.139.0	750.4	35.1
Fertilizers	206.2	356.2	172.7
Cement	746.5	3.4	0.5
Glass - Ceramics	319.7	27.7	8.7
Iron, Steel	1.421.3	345.1	24.3
Non-Ferrous Metals	697.3	54.6	7.8
Metal Products	1.015.2	14.4	1.4
Machinery	1.140.3	1.203.3	105.5
Electrical Machinery	772.7	259.4	33.6
Motor Vehicles	1.452.5	220.6	15.2
TOTAL	29.291.4	4.000.4	13.6

The dependence of industrial production to imported inputs while small on the average displays in some sub-sectors quite high percentages. Fertilizers (172.7%), Machinery (105.5%), Chemicals (40.9%), Petroleum Products (35.1%), Electrical Machinery (33.6%), Iron and Steel (24.3%) and Rubber and Plastics (16.9%) are some of the highly dependent sub-sectors.

There are big differences in the Export/Import Ratios of the different subsectors. There are only a small number which exceed the average for the manufacturing industry and not more than two that exceed the national average.

The only subsector which has systematically exported more than it has imported is the Textile Sector, while Glass and Ceramics has shown a remarkable performance by increasing its export/import ratio from 12.4% in 1970 to 134% in 1979. Forestry products and Non-Ferrous metals are two of the sectors with prospects.

RATIO of EXPORTS to IMPORTS
by
SUBSECTORS of MANUFACTURING INDUSTRY

	1970	1972	1974	1976	1979
Textiles	111.3	147.8	183.8	341.7	1887.4
Forestry Products	121.5	64.4	74.2	26.8	391.7
Chemicals	6.2	3.9	6.0	5.6	4.5
Petroleum Products	4.3	73.8	149.1	15.5	-
Glass, Ceramics	12.4	19.8	61.1	82.9	133.9
Non-Ferrous Metals	32.1	14.1	25.9	18.9	26.7
Machinery	0.9	1.0	2.4	1.5	1.0
Electrical Machinery	0.4	0.7	5.4	0.4	1.7
Transport Vehicles	0.3	0.2	2.1	1.5	12.1
Iron & Steel	3.5	5.0	3.6	4.0	9.0
Precision Tools	-	0.1	0.4	0.1	-
Paper	0.02	0.1	47.7	3.5	-
Printing	5.8	3.9	6.4	2.8	-
Total Industry	13.6	17.8	22.1	15.0	20.4

EXPORT PERFORMANCE by
SUB-SECTORS in MANUFACTURING

Exports of industrial goods have increased considerably in the 1970's.

The sub-sector which occupied the first place in export performance and which still is, continues to be textiles.

The second in importance is Chemicals followed by Iron and Steel, Glass, Non-Ferrous Metal Industry and Metal Goods.

The table below gives an insight to the potentialities of the industrial sector, as experienced since 1970.

EXPORTS OF THE MANUFACTURING INDUSTRY
BY SUBSECTORS
(1000 $)

	1970	1972	1974	1976	1979
Textiles	27.537	57.750	149.771	272.695	390.689
Forestry Products	3.099	5.266	16.756	5.622	4.703
Chemicals	11.132	11.880	34.450	46.741	23.546
Petroleum Products	706	22.349	85.891	16.161	-
Glass, Ceramics	1.101	4.017	12.901	20.885	37.078
Non-Ferrous Metals	8.335	5.908	33.968	16.889	14.572
Machinery	1.791	4.081	16.090	16.457	12.445
Electrical Machinery	260	876	983	1.095	4.506
Transport Vehicles	390	272	5.959	9.329	26.600
Iron & Steel	3.271	7.443	19.329	22.111	31.068
Precision Tools	1	21	184	89	-
Paper	2	11	8.091	999	-
Printing	210	175	341	197	-
Total Industry	107.923	246.125	601.325	595.791	785.085

VARIOUS BOTTLENECKS HAMPERING the USE of EXISTING
CAPACITY AS WELL AS THE BUILDING of NEW CAPACITY
in THE MANUFACTURING SECTOR

The Turkish Economy has recently gone through a crisis the dimensions of which threaten to affect negatively the healthy development of the industrial sector as well as the exports of industrial goods.

The low use of capacity and the drop in production that has accompanied it were mainly due to the unavailability of foreign exchange which has limited the imports of inputs, to the bottlenecks created in the supply of raw materials, to the bottlenecks in energy supply, to the difficulties created by labor-capital relations, to the lack of availability of credit and to miscellaneous factors.

6. TERMS OF TRADE

The terms of trade deteriorated in 1974 and more seriously in 1975. They never recovered since then. On the contrary there was even a further deterioration in 1978 and in 1979.

TERMS of TRADE

(in $)

1973 = 100

	Export Prices	Import Prices	Terms of Trade
1974	136.0	147.9	92.0
1975	128.3	165.1	77.7
1976	133.3	167.0	79.8
1977	146.2	184.1	79.4
1978	154.9	209.8	73.8
1979	182.4	247.5	73.7

TERMS of TRADE

(in TL)

1973 = 100

	Export Prices	Import Prices	Terms of Trade
1974	137.6	145.2	94.3
1975	135.4	168.0	80.0
1976	153.0	188.9	81.0
1977	191.5	233.1	82.2
1978	274.1	361.0	75.9
1979	437.5	605.3	72.3

The deterioration was a consequence of export prices increasing less than import prices. In fact prices of Turkish exports increased by only 82.4 between 1973 and 1979 while prices of Turkish imports increased by 147.5%. The rate of increase of import prices was almost twice that of export prices.

As a result the terms of trade deteriorated seriously in 1975, improved slightly in 1976 and 1977 and further deteriorated in 1978 and 1979.

The same trend is present in TL though the increases in prices were more accentuated. Export prices increased by 337.5% between 1973 and 1979 while import prices increased by 505% during the same period. The big drop in the terms of trade came in 1975 followed by a slight improvement in 1976 and 1977 and another decrease in 1978 and 1979.

The terms of trade were relatively favorable for Turkey in the period 1968 - 1973 as can be seen from the table below:

TERMS of TRADE

1968 = 100

(in $)

YEAR	Export Prices	Import Prices	Terms of Trade
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

(in TL)

YEAR	Export Prices	Import Prices	Terms of Trade
1969	100.5	101.4	99.1
1970	118.2	122.8	96.2
1971	155.0	182.2	85.1
1972	171.8	177.2	97.0
1973	219.2	214.8	102.0

FOREIGN TRADE RELATIONS

(million $)

	1976	1977	1978	1979	% Change 77/76	78/77	79/78
Total Imports	5.129	5796	4599	5069	13.0	-20.7	10.2
1. Imports	4.993	5694	4479	4946	14.0	-21.3	10.4
2. Imports with Waiver	136	102	120	123	-24.5	17.0	2.5
Total Exports	1.960	1753	2288	2261	-10.6	30.5	-1.2
1. Agricultural	1.254	1041	1543	1344	-17.0	48.1	-12.9
2. Minerals	110	126	124	132	14.4	-1.4	6.5
3. Industrial	596	586	621	785	-1.7	6.0	26.4
Trade Deficit	3.168	4043	2311	2808	27.6	-42.8	21.5
Current Account Deficit	2.301	3385	1418	1100	47.1	-58.1	-22.4
Workers' Remittances	982	982	983	1695		0.1	72.4
Number of Workers Going Abroad	10.558	19084	18852	23630			

MAIN INDICATORS of THE PATTERN of TRADE

(1950-1979)

(in percent)

	1950	1960	1970	1975	1977	1978	1979
EXPORTS							
Commodity Composition	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural & Animal Products	75.1	70.8	75.2	56.6	59.4	67.4	59.4
Cotton, Hazelnuts & Tobacco	51.7	46.9	57.6	39.5	36.5	39.5	33.5
Animal Products & Fisheries	8.6	9.9	5.7	4.1	2.8	4.6	3.7
Mining&Quarry Prod.	6.8	4.1	7.3	7.5	7.2	5.4	5.9
Industrial Products	18.1	10.6	18.4	35.9	33.4	27.2	34.7
Food & Beverages	6.5	9.7	7.0	8.3	7.3	4.2	6.7
Textiles	-	0.8	4.4	9.5	15.2	14.1	16.7
Geopgraphical Distribution	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EEC Countries	34.8	33.5	40.7	43.9	49.5	47.6	48.6
EFTA	24.5	17.5	17.8	17.9	15.9	13.6	8.2
USA & Canada	17.5	18.4	9.8	11.0	7.5	7.3	4.8
Bilateral Agreemts.	6.3	18.0	16.8	7.0	4.6	4.7	5.6
Middle East Countr.	–	–	11.6	16.8	13.3	15.1	13.5
IMPORTS							
By Use	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Investment Goods	46.0	52.1	47.1	41.4	38.9	34.6	31.5
Raw Materials	33.4	38.3	47.9	54.3	58.0	62.5	66.6
Consumption Goods	20.6	9.6	5.0	4.3	3.1	2.9	1.9
Geographical Distr.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EEC Countries	32.8	35.7	34.3	49.0	42.6	40.7	36.0
EFTA Countries	17.4	17.0	17.4	16.5	15.8	13.2	9.9
USA & Canada	25.7	26.0	23.4	10.0	9.5	6.9	8.4
Biletaral Agreemt.C.	7.5	12.8	13.0	3.0	1.5	1.5	2.2
Middle East Countr.	–	–	6.7	17.8	21.4	11.3	16.6

EXPORT/IMPORT PERFORMANCE

(million $)

YEAR	Total Import	Total Export	Exports of Manufactured Goods
1960	468	321	34
1961	507	346	46
1962	619	381	61
1963	687	368	65
1964	537	411	76
1965	572	464	83
1966	718	490	79
1967	685	522	77
1968	763	496	68
1969	801	537	103
1970	948	588	108
1971	1.171	677	150
1972	1.562	885	246
1973	2.086	1.317	446
1974	3.777	1.532	601
1975	4.738	1.401	502
1976	5.128	1.960	595
1977	5.796	1.753	585
1978	4.599	2.288	621
1979	5.069	2.261	785

7. EXPORTS

Exports of Agriculture and Livestock sector products fell by $ 200 M or by 12.9 percent but there was an increase in exports of the other sectors, 26.4% for Industrial products and 6.5% for Mining and Quarrying products.

EXPORTS

	1978		1979	
	(tons)	(000 $)	(tons)	(000 $)
I. Agriculture & Livestock		1.542.763		1.343.632
A. Crops		1.435.282		1.252.867
a. Cereals		217.043		89.263
-*Wheat*	1.921.199	208.324	686.028	86.152
-*Others*		8.719		3.111
b. Pulses		45.107		79.900
c. Industrial Crops		598.879		423.930
-*Tobacco*	77.335	225.256	69.555	176.971
-*Cotton*	277.885	348.398	150.618	227.824
-*Linters*	31.625	4.484	23.896	4.019
-*Cotton Waste*	215	32	207	177
-*Others*		20.709		14.939
d. Fruits & Vegetables		560.540		647.681
-*Figs (Dried)*	31.547	30.896	34.872	41.504
-*Raisins*	93.019	99.680	75.937	114.822
-*Hazelnuts*	161.570	330.901	134.343	352.998
-*Pistachios*	1.825	7.847	825	4.237
-*Other hard shelled fruits*	3.134	6.298	3.441	5.922
-*Oranges, Tangerines*	44.152	14.120	46.079	17.846
-*Lemons*	86.680	27.894	79.260	34.085
-*Other Citrus Fruit*	9.131	1.806	6.178	1.466
-*Other Fresh Fruits*	23.231	9.291	63.494	24.028
-*Others*	8.92	17.068	8.645	18.862
-*Vegetables*	49.444	14.739	133.850	31.911
e. Seeds, Oil Seeds		12.915		15.850
f. Other Crops		798		1.243

(continued..)

EXPORTS: - *(Continued)*

	1978		1979	
	(tons)	(000 $)	(tons)	(000 $)
B. Livestock & Livestock Products		77.750		62.037
a. Livestock		48.072		40.915
b. Wool, Hair		28.264		20.603
c. Raw Skins, Game skins		1.014		58
d. Other Livestock Products		400		461
C. Fishery Products		24.433		21.740
D. Forestry Products		5.298		6.988
II. Mining & Quarrying Products		124.136		132.481
A. Non-Metallic Quarrying Products		95.154		102.549
B. Mining Ores		25.436		27.901
C. Fuels		3.546		2.031
III. Industrial Products		621.264		785.083
A. Agricultural Manufactured Prod.		110.203		151.080
a. Food and Products		89.446		134.675
b. Food Ind. by-products		5.561		278
c. Processed Tobacco Products		7		-
d. Processed Forestry Products		2.712		3.068
e. Processed Textile Fibres		12.477		13.059
B. Processed Petroleum Products		7		-
C. Manufactured Products		511.054		634.003
1. Cement Industry Prod.		40.474		44.892
2. Chemical Industry Prod.		23.684		23.546
3. Rubber-Plastics Industry Prod.		2.363		3.373
4. Leather-Hide Processing Ind.		40.127		3.632
5. Forestry Products Ind.		580		1.635
6. Textile Industry Prod.		309.112		377.630
-Synthetic, Artificial Fibers	3.157	9.557	3.379	12.638
-Cotton Yarns	80.857	179.657	82.824	217.861
-Synthetic, Artificial Textile	1.275	4.334	1.868	6.876
-Woolen, Hair Textiles	..	12	..	12
-Grey Cloth	910	3.052	847	3.143

(continued..)

EXPORTS: - *(Continued)*

	1978		1979	
	(tons)	(000 $)	(tons)	(000 $)
-Other Cotton Textiles	1.741	9.253	1.152	7.166
-Carpets, Kilims	471	35.593	623	43.897
-Other Textiles	1.884	9.103	2.048	10.404
-Knitted Clothwear	784	7.341	793	9.780
-Ready to wear garments	4.956	50.633	6.303	65.097
-Others		577		756
7. Glass-Ceramics Ind. Prod.		30.121		37.078
8. Iron & Steel		21.160		31.086
9. Non-Ferrous Metals Ind.		11.548		14.572
10. Metal Goods Ind. Prod.		5.631		5.660
11. Machinery Manuf.Ind.Prod.		12.330		12.445
12. Electrical Appliances & Electronics Ind. Prod.		3.689		4.506
13. Motor Vehicles Ind. Prod.		6.075		26.600
14. Other Industrial Products		4.159		7.048
GRAND TOTAL....		2.288.163		2.261.196

SECTORAL RATE of INCREASE in EXPORTS

(%)

	1963/1967	1967/1972	1972/1977	1978	1979
I. Agriculture & Livestock Sector	9.9	7.3	11.4	48.1	-12.9
1. Cereals & Pulses	-4.2	39.8	27.2	117.6	-37.5
2. Fruits & Vegetabl.	11.0	8.3	17.4	27.4	15.6
a. Hazelnuts	9.0	6.8	16.6	31.8	6.7
b. Raisins	8.1	6.1	19.7	32.9	15.2
c. Others	11.8	14.4	17.7	14.0	
3. Industrial Prod.	13.8	5.7	4.9	45.8	-29.2
a. Tobacco	15.3	2.1	6.1	28.1	-21.4
b. Cotton	13.4	7.8	1.9	65.8	-34.6
c. Others	-	18.1	22.2	2.0	-4.4
4. Livestock & Prod.	-9.2	1.1	6.6	109.2	
5. Fishery Products	18.4	9.6	4.8	110.6	
II. Mining & Quarrying Products	17.6	11.1	29.1	-1.4	6.5
III. Industrial Products	3.7	26.5	19.3	6.1	26.2
1. Food & Beverages	2.9	12.9	7.9	-25.4	37.3
2. Textiles	-	57.6	37.1	18.9	22.3
3. Forestry Products	-1.8	27.7	-9.4	10.7	50.0
4. Hides & Leather	28.0	162.8	19.3	-22.8	10.0
5. Chemical Industry	15.5	32.4	26.2	-29.1	0
6. Petroleum Products	56.5	133.3	-100.0	-	-
7. Cement Industry	-100.0	(+)	-9.6	330.9	2.3
8. Glass & Ceramics	-9.3	65.8	49.4	9.7	23.3
9. Non-Ferrous Metals	29.3	-18.7	27.7	-42.4	25.0
10. Iron & Steel Ind.	47.2	34.4	14.4	47.2	47.6
11. Metal Prod.&Mach.	50.5	84.7	28.0	28.1	0
12. Electrical Appliances	(+)	74.2	28.0	22.0	0
13. Vehicles	24.5	86.7	102.2	-33.9	350.0
14. Others	19.8	40.4	5.3	9.5	100.0

EXPORTS to ARAB COUNTRIES

(000 $)

	1972	%	1976	%	1978	%	1979	%
Bahrain	11	-	701	-	1.298	0.1	354	
Morocco	1.138	0.1	3.857	0.2	2.251	0.1	1.109	
Algeria	1.827	0.2	6.121	0.3	3.927	0.2	10.204	0.4
Iraq	16.390	1.9	41.143	2.1	69.466	3.0	113.395	5.0
Kuwait	3.616	0.4	13.139	0.7	16.267	0.7	15.244	0.7
Libya	5.441	0.6	9.766	0.5	48.577	2.1	43.264	1.9
Lebanon	39.149	4.4	55.441	2.8	20.538	0.8	27.034	1.2
Egypt Arab Republic of	2.213	0.3	15.645	0.8	18.865	0.8	49.847	2.2
Sudan	-	-	575	-	2.141	0.1	-	-
Syria	10.452	1.2	32.261	1.6	58.513	2.5	54.859	2.4
Saudi Arabia	1.147	0.1	18.292	0.9	17.504	0.7	19.627	0.9
Tunisia	1.856	0.2	2.301	0.1	23.594	1.0	8.499	0.4
Jordan	522	0.1	13.216	0.7	9.455	0.8	45.148	2.0
Yemen	23	-	125	-	386	-	-	-
Total	83.785	9.5	212.553	10.8	302.781	13.2	388.584	17.2
Iran	12.043	1.3	33.553	1.7	44.732	2.0	11.815	5.2
Pakistan	1.785	0.2	1.923	0.1	7.964	0.3	n.a.	n.a.
Total	13.828	1.5	35.475	1.8	52.696	2.3	n.a.	n.a.
Total Exports	884.828	100.0	1.960.214	100.0	2.288.163	100.0	100.0	100.0

n.a.: not available

Regional distribution of Turkish exports showed interesting developments. The share of exports to OECD countries continued to go down while Bilateral Countries, Free Exchange Agreements countries, Arab Countries, socialist countries went up.

Exports to Arab Countries showed a definite increase recently from 9.5% of total exports in 1972 to 17.2% in 1979.

One major decrease took place in the case of exports to Lebanon which went down to 1.2% of total exports in 1979 from 4.4% in 1972.

Exports to COMECON countries increased to 13.3% of total exports in 1979 from 7.7% in 1973. The increase was considerable in the case of the Soviet Union, Czechoslovakia, Romania and Poland.

EXPORTS to COMECON COUNTRIES

(000 $)

	1973	%	1976	%	1978	%	1979	%
Soviet Union	50.389	3.8	80.991	4.1	105.235	4.6	126.7	5.6
Czechoslovakia	10.804	0.1	13.524	0.7	34.641	1.5	41.4	1.8
Romania	9.608	0.7	30.624	1.6	74.151	3.2	37.8	1.7
Poland	6.380	0.5	15.693	0.8	42.552	1.8	41.9	1.8
Hungary	10.569	0.8	10.004	0.5	42.170	1.8	16.0	0.7
Bulgaria	6.838	0.5	6.871	0.4	11.358	0.5	7.6	0.3
GDR	6.904	0.5	9.034	0.5	13.861	0.6	29.7	1.3
Comecon	101.492	7.7	166.472	8.6	323.968	14.2	301.5	13.3
Total Exports	1.317.083	100.0	1.960.214	100.0	2.288.163	100.0	2.261.2	100.0

8. IMPORTS

Imports showed a remarkably high increase for the period 1972-1977 of 30% on the average but were forced to decrease by 20% during 1978 due to balance of payments problems. In 1979 the rate of increase of imports was kept at 10.4 percent. The rate of decrease in 1978 was much higher in the case of rubber and plastic, iron and steel products, non-ferrous metals machinery, motor vehicles, electrical appliances. In 1979 there were further decreases in iron and steel and motor vehicles.

Imports by commodity groups show the serious distortions brought by the increase of the prices of crude oil. Raw materials imports which were 45% of total imports in 1972, before the price hike went up to 58% in 1977, up to 62.5% in 1978 and 66.6 in 1979 while machinery and equipment went down to 35.3% in 1977, to 31.6% in 1978 to 28.5% in 1979 from a high 44.6% in 1972. The decrease in the share of machinery and equipment was created both by the absolute decrease in the imports of these goods as well as of the serious increase in the payments for oil.

As can be observed from studying imports by major groups of commodities the only group of commodities which registered an increase in 1978 is Imports with waiver. The lowest decrease in dollar value has taken place in the import payments for crude oil. The inputs for industry have been reduced by 23.7% in dollar value but by much more in physical terms, in 1979 inputs for industry increased by 16.6% while imports of crude oil were reduced by 7.8%.

As could be expected the share of self financed imports has gone to the highest level of the last five years while program imports have gone down to their lowest.

Through imports with waiver 120 million dollars worth of imports have entered Turkey in 1978 without official allocation of foreign exchange, mainly by Turkish workers returning from abroad 60 million dollars worth of cars, 12 million worth machinery, 8.8 million of miscellaneous machinery, 6.3 million $ of tractors, 4.3 million $ of generators. As can be expected, in 1979 imports with waiver went up to 123 million dollars.

Turkey's imports by country of origin showed considerable change in 1978 with imports from OECD countries decreasing to 60.7% of total imports from 73.9% in 1975, 69.5% in 1976, 68.4% in 1977. The share of OECD countries' share was further reduced in 1979 to 60.4%.

IMPORTS by COMMODITY GROUPS

(million $)

	1975		1976		1977		1978		1979	
	Value	%	Value	%	Value	%	Value	%	Value	%
INVESTMENT GOODS	1.961	41.4	2.239	43.6	2.255	38.9	1.590	34.6	1.596	31.5
- Construction Materials	291	6.2	243	4.7	206	3.6	138	3.0	152	3.0
- Machinery & Equipment	1.670	35.2	1.996	38.9	2.048	35.3	1.453	31.6	1.444	28.5
RAW MATERIALS	2.574	54.3	2.733	53.3	3.363	58.0	2.876	62.5	3.377	66.6
CONSUMPTION GOODS	203	4.3	156	3.0	178	3.1	133	2.9	96	1.9
Grand TOTAL ..	4.738	100.0	5.128	100.0	5.796	100.0	4.599	100.0	5.069	100.0

IMPORTS by COMMODITY GROUPS
(%)

	1963	1967	1972	1977	1978	1979
1. Investment Goods	45.8	47.2	50.1	38.9	34.6	31.5
- Construction Materials	6.1	4.4	5.5	3.6	3.0	3.0
- Machinery, Equipment	39.7	42.8	44.6	35.3	31.6	28.5
2. Raw Materials	48.8	47.9	45.2	58.0	62.5	66.6
3. Consumption Goods	5.4	4.9	4.7	3.7	2.9	1.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

IMPORTS by MAJOR GROUPS of COMMODITIES
(million $)

	1976	1977	1978	1979	% Composition				% Change		
					1976	1977	1978	1979	77/76	78/77	79/78
1. Agriculture & Livestock	77.3	111.6	50.7	36.0	1.5	1.9	1.1	0.7	44.3	-54.6	-29.0
2. Mining & Quarrying	1.086.5	1.262.2	1.133.8	1068.0	21.2	21.8	24.6	21.1	16.2	-10.2	-5.8
Crude Oil	1.002.5	1.151.6	1.043.5	962.0	19.5	19.8	22.7	19.0	14.8	-9.4	-7.8
3. Industry	3.829.3	4.320.2	3.294.7	3842.0	74.7	74.5	71.6	75.8	12.8	-23.7	16.6
4. Imports with Waiver	135.5	102.4	119.7	123.0	2.6	1.8	2.6	2.4	-24.5	+16.9	2.8
TOTAL	5.128.6	5.796.4	4.599.0	5069.0	100.0	100.0	100.0	100.0	13.0	-20.7	10.2

SECTORAL RATE of INCREASE in IMPORTS

(%)

	1963/ 1967	1967/ 1972	1972/ 1977	1978	1979
I. Agriculture & Livestock	-27.9	6.8	27.0	-54.9	-28.0
A. Crops	-47.8	25.6	28.4	-56.7	-12.8
B. Livestocks Prod.	-9.9	1.1	23.4	-51.8	-20.2
C. Fishery	-	(+)	-	-	-11.0
D. Forestry Products[1]	8.9	-18.4	60.6	-64.1	31.9
II. Mining & Quarry	-3.5	24.5	54.6	-10.2	-5.8
A. Crude Oil	-8.6	27.5	56.2	-9.4	-7.9
B. Others	50.5	11.7	42.1	-16.8	17.8
III. Industry	3.4	17.5	26.1	-22.8	16.6
A. Food & Beverages	-34.8	40.1	-3.4	+42.3	130.0
B. Textiles	9.7	5.2	10.3	-2.5	-8.0
C. Forestry Products	11.4	26.6	21.4	-23.6	..
D. Hides & Leather	-11.0	4.4	7.4	-12.8	
E. Chemicals	13.5	14.8	27.6	-0.9	10.1
F. Petroleum Prod.	4.8	13.4	56.5	23.8	113.0
G. Cement	16.4	-52.8	15.6	-56.1	
H. Non-Ferrous Metals	18.2	18.3	18.4	-56.1	31.0
I. Class & Ceramics	5.1	16.7	4.7	-30.1	-55.6
J. Iron & Steel	-7.8	25.9	36.2	-40.9	-15.5
K. Metal Products & Machinery	5.5	16.2	23.3	-27.3	17.4
L. Electrical	1.3	22.3	19.2	-24.4	15.1
Mach. Ind.	1.3	22.3	19.2	-24.4	15.1
M. Vehicles Ind.	-6.1	24.5	28.9	-29.0	-41.5
N. Other Industry Branches	13.0	6.4	33.3	-40.6	6.0
TOTAL	-	17.7	30.0	-20.7	10.4

IMPORTS by SOURCE of FINANCING
(million $)

	1974		1977		1978		1979	
	Value	%	Value	%	Value	%	Value	%
Program Imports	3.443	91.1	5.287	91.1	4.048	88.0	4.479	88.4
- Liberalization List	2.524	66.8	4.062	70.0	3.200	69.6	3.397	67.0
- Quota List	697	18.4	1.160	20.0	784	17.0	973	19.2
- Bilateral Agreements	222	5.9	64	1.1	64	1.4	109	2.2
Self-Financed Imports	335	8.9	509	8.8	551	12.0	590	11.6
- NATO Infrastructure	24	0.6	39	0.7	12	0.3	11	0.2
- Private Foreign Capital	16	0.4	44	0.8	23	0.5	71	1.4
- Project Credit-Related	236	6.3	310	5.3	394	8.5	356	7.0
- Imports with Waiver*	58	1.5	102	1.6	119	2.6	123	2.4
- Others	1	1.5	14	0.2	3	0.1	29	0.6
GENERAL TOTAL	3.778	100.0	5.796	100.0	4.599	100.0	5.069	100.0

*Imports without official allocation of foreign exchange; mainly by workers' returning from abroad.

IMPORTS

	1978		1979	
	(tons)	(000 $)	(tons)	(000 $)
I. Agriculture & Livestock Sector		50.686		36.170
-*Rice*	37.321	13.087	22.759	7.455
-*Merinos Wool*	5.128	16.656	5.960	18.372
-*Skins*	2.128	3.858	827	1.569
-*Coffee*	1.019	3.337	-	-
-*Cocoa*	1.279	4.222	453	1.644
-*Others*		9.526		7.130
II. Mining & Quarrying		1.133.817		1.067.640
-*Crude Oil*	10.762.108	1.043.515	7.191.343	961.648
-*Ccke Coal*	7.853	891	44.074	3.144
-*Other*		88.411		102.848
III. Industry Sector		3.294.761		3.842.297
1. Agriculture-based processed products		50.032		114.695
-*Butter*	10	9	-	-
-*Other Oils & Fats*	12.482	10.418	15.794	13.633
-*Textile Fibers*	1.934	2.747	12.796	17.817
-*Tallow*	3.606	1.540	860	485
-*Soya Bean Oil*	28.873	21.651	80.538	59.171
-*Others*		13.667		23.589

(continued)

IMPORTS : -*(Continued)*

	1978		1979	
	(tons)	(000 $)	(tons)	(000 $)
2. Petroleum Products		351.668		750.355
-Fuel Oil	699.428	55.172	2.284.226	232.876
-Lubricants	25.317	8.471	57.550	17.279
-Petroleum Gases	358.228	55.759	316.505	51.324
-Others		232.266		448.876
3. Industrial Products		2.893.061		2.977.247
a. Cement Ind. Prod.		86		75
b. Chemical Ind.		759.095		880.309
-Fertilizers	1.755.763	283.266	2.099.221	356.181
c. Rubber and Plastics Ind. Prod.		154.210		145.001
d. Leather and Hide Ind. Prod.		193		333
e. Forestry Products Ind.		1.689		1.155
f. Textile Ind. Prod.		50.050		45.623
g. Glass-Ceramics Ind. Prod.		17.648		27.717
h. Iron and Steel Ind. Prod.	1.475.991	408.430	996.501	345.099
i. Non-Ferrous Metals Ind. Prod.		42.535		54.572
j. Metal Goods Ind. Prod.		20.286		14.425
k. Machinery Ind.		761.410		903.474
ℓ. Electrical Appliances		217.207		250.733
m. Motor Vehicles Ind.		377.727		220.622
n. Others		4.479.264		4.946.107
IV. Imports with Waiver		119.760		123.325
GRAND TOTAL		4.599.024		5.069.432

9. THE TURKEY - EEC ASSOCIATION

THE ANKARA AGREEMENT

The Turkey - EEC Association goes back almost to the beginning of the EEC. Indeed Turkey applied to the Six for the conclusion of an Association Agreement in July 1959. Negotiations led to the signing of the Agreement in Ankara on 12th September 1963. It entered into force on 1st December 1964.

The Turkish Association has two principle objectives. In the short term it aims to reduce the gap between the economy of Turkey and those of the member States of the Community. In the long term the accord envisages Turkey's accession to the Community.

On the first point the Preamble to the Agreement states that the contracting parties are resolved "to ensure a continuous improvement in living conditions in Turkey and in the European Economic Community through accelerated economic progress and the harmonious expansion of trade and to reduce the disparity between the Turkish economy and the economies of the Member States of the Community". The parties equally expressed their determination to take into consideration both "the special problems presented by the development of the Turkish Economy and of the need to grant economic aid to Turkey during a given period".

Also in the Preamble the link existing between the two objectives is affirmed by the Contracting Parties as follows:

> *"Recognizing that the support given by the European Economic Community to the efforts of the Turkish people to improve their standard of living will facilitate the accession of Turkey to the Community at a later date".*

With these objectives in view the Agreement foresaw the progressive establishment of a Customs Union between Turkey and the Community. The agreement provided for three successive stages. These are:

1. The Preparatory Stage
2. The Transitional Stage
3. The Final Stage

Since Turkey's economic situation did not permit immediate accession, the preparatory phase was to be used to strengthen the Turkish economy. During this period, the Six were to make unilateral tariff concessions and provide financial assistance to help achieve this goal. After this phase the Customs Union was to be realised during the Transitional Stage.

THE PREPARATORY STAGE

With effect from December 1964 the Community introduced tariff quotas[1] for four of Turkey's traditional agricultural exports (tobacco, raisins, hazelnuts and dried raisins).These were followed by other concessions for carpets, fresh grapes, citrus fruit, textiles, fish and wine. These concessions contributed to a substantial growth of Turkish exports to the Community during the years 1964 to 1970.

At the same time $ 175 M were provided under the First Financial Protocol mainly for Infrastructure and industrial projects (e.g. The Keban dam and the Bridge over the Bosphorus).

At the end of the five-year Preparatory Stage, Turkey and the Community decided to proceed to the Transitional State and began negotiating an Additional Protocol to this end.

THE ADDITIONAL PROTOCOL

The negotiations for the Additional Protocol were conducted throughout 1969 and 1970, culminating in its signature on Nov. 23rd 1970.

The Additional Protocol fixed the rules for the establishment of a customs union and for closer economic cooperation between Turkey and the EEC over a transitional period of 22 years prior to the final period which witness the accession of Turkey with the status of a full member.

It entered into force on January 1st 1973 but its commercial provisions were applied in advance under an Interim Agreement.

The main points of the Protocol can be summarized as follows:

1. In the industrial field a Customs Union was to be realized in the following way. The Community immediately eliminated all customs duties on Turkish exports except those on a few textile and petroleum products.Turkey undertook to eliminate duties on Community exports according to two timetables, over 12 years for some

[1] Tariff quotas should not be confused with ordinary quotas, for example, using tariff quotas for hazelnuts, Turkey can sell many hazelnuts as she likes. A tariff reduction is applicable on the quota, beyond that the normal tariff is charged.

goods and over 22 years for the others. During the 22 year period Turkey was also to align her customs tariff on the Community's Common Customs Tariff. Quantitative restrictions on trade (mainly quotas) were also to be eliminated over the same period.

2. Various provisions on the closer alignment of Economic Policies (provisions on competition, taxation, approximation of legislation, etc.).

3. For Agriculture it was impossible to proceed to a Customs Union immediately since Turkey and the Community set different agricultural support prices. Thus the Community has made ad hoc tariff concessions for Turkey, while Turkey agreed to adapt her agricultural policy during the Transitional Period. These ad hoc concessions in fact covered the main Turkish products (tariff-free entry for tobacco, raisins and dried figs, tariff reductions for hazelnuts, citrus fruit, wine, etc.).

4. The Free Movement of workers between Turkey and the Community was to be realized in steps between 1976 and 1986. Social security measures in favour of Turkish workers were also included.

Simultaneously, the Second Financial Protocol was signed according Turkey a further 195 million units of account in project assistance.

THE SUPPLEMENTARY PROTOCOL

The Additional Protocol entered into force on January 1st, 1973, the day on which Denmark, the United Kingdom and Ireland entered the European Community. Hence it was immediately necessary to conclude a further Protocol to extend the Association to the three new Member States.

This Protocol also included the following modifications:

1. Increasing the quotas and the values of the Financial Protocol opened in favour of Turkey by the Community.

2. New agricultural tariff concessions in favour of Turkey.

3. Increased facilities for Turkey to protect her industries, especially infant-industries.

The commercial provisions of this agreement were implemented under an Interim Agreement with effect from January 1st 1974. The Protocol has never been ratified by the Turkish authorities because of the deterioration in Turkey-EEC relations. Hence Turkey has not been able to benefit from some of the advantages agreed at the time of the Enlargement, e.g. a supplementary Financial Protocol of 47 million units of account.

PROBLEMS WHICH HAVE ARISEN
in TURKEY - EEC RELATIONS

Fairly soon after the entry into force of the Additional Protocol Turkey-EEC relations began to deteriorate. This was linked to the broader international context of the oil crisis and the ensuing recession in W. Europe. The recession, for instance, meant large increases in Unemployment in Western Europe with a resulting fall in recruitment of Turkish workers.

In addition to this, however, complaints began to be heard in Turkey about several specific problems.

(1) Agricultural Concessions

As the Community launched its Mediterranean policy in the early '70's, agricultural concessions were made to many of the Mediterranean countries. This reduced Turkey's tariff advantage for a number of products. Indeed in certain cases, other states received better tariff concessions than Turkey. (Usually this concerned Morocco, Algeria and Tunisia, which were given better concessions to offset the loss of the tariff-free entry they had previously enjoyed on the market of the ex-colonial State, France). In Turkey, however, apart from the commercial loss involved, this was viewed as a matter of principle. Turkey is an Associated State working towards membership of the Community. As such she should receive better treatment than third countries.

(2) Industrialization

The fear was that the opening of the economy to foreign competition would endanger the whole process of industrialization. Some sectors which had grown up behind protective barriers were concerned whether they could survive free competition. Infant industries in particular were felt to be at risk if they had to compete on equal terms with commodity products from the first. Thus there have been demands for greater flexibility in the Additional Protocol to allow Turkey to re-establish protection for infant industries where necessary.

(3) Textiles

A further cause of friction has been the restrictions placed on Turkish textile exports to the EEC. When the Additional Protocol was signed many people in Turkey - with some encouragement from people in Europe - considered that Turkey would be able to take over the Community textile market. Textile exports to the Community did indeed rise from $ 2 M in 1968 to $ 107 M in 1974. Yet with the coming of the recession and massive redundancies in Western Europe, frictions began. In 1975 the U.K. restricted Turkish cotton yarn exports to 1974 levels. Then in 1977 when the Community was negotiating with all its suppliers under the Multi-Fibre Agreement, the Coomunity asked Turkey to respect ceilings for certain sensitive exports. In September 1978 Turkish exports of cotton yarn to the UK were frozen until the end of the year, because the ceilings were exceeded. The Turkish authorities have repeatedly stated that this - and the whole concept of ceilings -is against the spirit of the Association Agreement.

(4) Social Questions

In negotiating the Additional Protocol, the Turkish authorities had hoped that the Community countries would continue to absorb workers. For it was not possible to create enough jobs in Turkey for all those entering the labor market. When the recession in W. Europe put an end to recruitment of new workers, these expectations were dashed.

Furthermore, the Additional Protocol provided for the establishment of the free movement of labour between December 1976 and December 1986. In December 1976 a four-year first step towards free movement was negotiated. This was to include "second priority" for Turkish workers. This meant that if it was decided to recruit workers from outside the Community for unfilled vacancies, Turkish workers would be given priority. There has been disillusionment in Turkey that this provision has not yet been implemented.

Discontent also centers on the fact that the Social Security provisions in favour of Turkish workers contained in Article 39 have not yet been implemented.

(5) Enlargement

Turkey has been concerned that the enlargement of the Community to include Greece, Portugal and Spain will threaten its competitive position on the markets of the Nine.

New members could seek to delay the Turkish entry into the Common Market or might even block the application of Turkey by using their vetoes in the Council of Ministries.

(6) Financial Aid

To these long-standing issues, the question of financial aid has been added in recent months.The chronic Balance of Payments difficulties have led the Turkish authorities to approach the Community for financial aid to help Turkey realise her objectives during the Fourth Five Year Plan Period (1979-1983).

THE LATEST SITUATION

Many of these issues were raised in the Association Council as long ago as March 1976 by Mr. Caglayangil, the Turkish Foreign Minister then.As a result the Community sought to prepare certain measures to meet the Turkish demands. At the same time it declared its willingness to conduct detailed negotiations on how best to meet some of the other demands. The Community position was presented at the Association Council in December 1976; and included the following points:

1. Further Agricultural concessions, covering such products as olive oil, tomatoe concentrate, hazelnuts and citrus fruit.

2. The Community stated its willingness to accept increased protection for infant industries; greater flexibility in protecting other threatened industries; and preferential agreements between Turkey and developing countries.

3. On the question of free movement, the first stage of four years was agreed. This allowed for "second priority" and for greater mobility for Turkish workers already employed in the Community.

4. A Third Financial Protocol of 310 M units of account[1]

[1] 1 unit of account = approximately $ 1.35 as of April 1979.

5. In addition the Community proposed that the Association be extended to cover economic and commercial co-operation in such field as: export promotion for Turkish products; professional training; encouraging contacts between Turkish and Community industrialists and the transfer of technology.

TURKISH DEMANDS, October 1978

From December 1976 there was something of a lull whilst the Turkish authorities defined their response to the questions raised above and formulated further requests.

In October 1978 a delegation went to Brussels to present the Turkish position. The principal points were as follows:

(1) Request for very substantial financial aid to help Turkey overcome its immediate Balance of Payments' difficulties and to help Turkey realize the targets of the Fourth Plan.

(2) Five year suspension (to coincide with the period of the Plan, 1979-1983) in Turkey's obligations in the fields of tariff reductions, adoption of the CommonCustoms Tariff, etc.

(3) In agricultural trade Turkish products should enjoy a margin of preference over products from third countries.

(4) Various measures in favour of migrant workers, including freer access to the Community labour market.

(5) The removal of all tariff and other obstacles to Turkish industrial exports, A commitment from the Community never again to introduce restrictions on imports from Turkey.

THE COMMUNITY REPLY

The community is currently considering its reply to these points. The Commission made a proposal to the Council of Ministers on February 14th 1979; and the Council is expected to finalize its position in May.

The main items in the Commission's proposal were as follows:

(1) Acceptance of the 5 year suspension period.

(2) The elimination of all tariffs on Turkish agricultural products about according to a timetable lasting approximately 4 to 6 years. This timetable would begin at the end of the suspension period.

(3) In the financial sector, the Third Financial Protocol of 310 M u.a. (around $ 420 M) will enter into force on May 1st 1979. (It was delayed by slowness to ratify on the Turkish side). The Commission proposes that a Fourth Protocol be negotiated now so that it can be ratified in time to follow on immediately from the Third Protocol which expires in October 1981. This should be for "substantially more" than the Third Protocol.

(4) A special co-operation fund of approximately $100 M. This would take the form of grants and could be used for a wide range of co-operative projects (export promotion, professional training, feasibility studies, co-operation in energy research, etc.).

(5) In the social field increased language and technical training for Turkish workers in the Community.

GOVERNMENT POLICY on THE EEC

It has been repeatedly stated that the aim of Turkish policy remains to be a full member of EEC. The realization of this aim, however, depends on further development of the Turkish economy. This development is dependent not only on Turkey's own efforts but also on the help of the Community.

The timetable on Turkey's commitments towards the customs union with the EEC was originally as follows as shown in the following table.

YEAR	Tariff Reductions to EEC %		Alignment with the EEC Common External Tariff (CET)		Liberalized Items Consolidated to EEC	Import Quotas Consolidated to EEC
	12-year List	22-year List	12-year List	22-year List		
1973	10	5				100
1974					35	
1975	10	5				
1976	10	5			40	x10 % 110
1977			20			
1978	10					x10 % 121
1979	10	5				
1980	10		20			x10 % 133
1981	10				45	
1982	10		20			x10 % 146
1983	10	5		20		
1984	10					x10 % 161
1985	10	10				
1986		10			60	x20 % 193
1987						
1988		10	30			x20 % 232
1989						
1990		10				x20 % 278
1991		10	30			x20 % 334
1992						
1993		10				
1994						x20 % 401
1995		10				

TURKEY's TRADE with EEC

	As % of Total Imports						As % of Total Exports						Exports/Imports					
	1974	1975	1976	1977	1978	1979	1974	1975	1976	1977	1978	1979	1974	1975	1976	1977	1978	1979
EEC (The 6)	37.6	41.4	37.3	35.2	36.0	31.4	40.5	37.8	41.1	43.3	42.0	43,4	43.7	27.0	42.4	37.2	58.1	61.6
-West Germany	18.0	22.3	18.4	16.3	17.6	12.4	22.4	21.8	19.2	22.2	22.1	21.9	50.3	28.8	39.8	41.1	62.4	78.5
-Belgium-Luxembourg	2.8	2.7	2.1	2.8	2.1	1.8	4.4	2.2	4.4	3.2	3.4	2.7	63.3	23.4	83.2	35.2	78.7	67.5
-France	6.5	5.9	6.0	5.7	7.8	6.2	4.4	4.4	5.5	5.4	5.5	6.0	27.2	22.2	35.1	28.7	35.6	43.8
-Holland	3.1	2.9	3.3	2.6	2.2	1.7	3.4	3.6	3.2	3.3	3.4	3.3	45.1	36.6	37.9	37.3	76.3	87.6
-Italy	7.2	7.6	7.5	7.8	6.3	9.3	5.9	5.8	8.8	9.8	7.7	9.4	33.3	22.9	44.4	35.9	60.3	45.0
EEC (The 3)	7.6	7.9	8.4	7.4	4.7	4.6	6.3	6.1	7.8	6.1	5.6	5.1	33.7	22.6	35.4	25.2	59.3	49.5
-Denmark	0.5	0.6	0.4	0.4	0.2	0.1	0.8	0.9	0.6	0.5	0.3	0.3	61.7	41.6	59.5	39.4	86.5	90.8
-United Kingdom	7.1	7.2	8.0	6.9	4.5	4.5	5.3	5.0	7.0	5.3	5.0	4.6	30.6	20.4	33.6	23.4	55.5	45.3
-Ireland	-	0.1	-	0.1	-	-	0.2	0.2	0.2	0.3	0.3	0.3	259.0	115.0	207.9	14.6	479.2	957.6
EEC (The 9)	45.2	49.3	45.7	42.6	40.7	36.0	46.8	43.9	48.9	49.5	47.6	48.5	42.0	26.3	40.9	35.1	58.2	60.0

TURKEY's TRADE with EEC

(000 $)

	EXPORTS					IMPORTS				
	1977	1978	% Change	1979	% Change	1977	1978	% Change	1979	% Change
EEC (the 6)	759.940	962.788	26.7	981.287	1.9	2.040.799	1.658.023	-18.8	1.592.553	-4.0
- West Germany	388.810	506.673	30.3	495.069	-2.3	944.874	811.637	-14.2	630.451	22.3
- Belgium-Luxembourg	56.242	76.620	36.2	60.576	-21.0	159.675	97.359	-39.0	89.673	-7.9
- France	94.116	127.383	35.3	137.294	7.8	327.660	357.792	9.2	313.170	-12.5
- Holland	57.485	76.871	33.7	75.377	-2.0	154.184	100.738	-34.7	86.026	-14.6
- Italy	163.287	175.241	7.3	212.971	21.5	454.406	290.497	-36.0	473.233	62.9
EEC (the 3)	108.091	127.289	17.7	116.263	-8.7	429.285	214.625	-50.0	234.987	9.5
- Denmark	8.666	7.374	-14.9	6.448	-12.6	21.996	8.521	-61.3	7.101	-16.7
- United Kingdom	94.324	113.734	20.5	103.035	-9.4	432.838	205.037	-52.6	227.178	10.8
- Ireland	5.101	6.181	21.2	6.780	9.7	4.451	1.067	-76.0	708	-33.7
EEC (the 9)	868.031	1.090.077	25.6	1.097.550	0.7	2.470.084	1.872.648	-24.2	1.827.540	-2.4
TOTAL	1.753.026	2.288.163	30.5	2.261.196	-1.2	5.796.278	4.599.024	-20.7	5.069.432	10.2

VIEW POINTS on THE INTEGRATION
of THE TURKISH INDUSTRY WITHIN EEC

Before entering into the discussion of the future of the relations between Turkey and EEC, it will be useful to bring clarity to the subject on two main issues.

The main question relates to the perspective within which Turkey is envisaging the next 20 years. In other words, what are the expectations towards the year 2000 of Turkey, of the Turkish Industry, of the Turkish entrepreneurs.

The second question relates to the perspective within which EEC member countries are viewing Turkey? What are their expectations of Turkey in the year 2000? Within this expectation model and the overall economic policies where does Turkey stand?

Far exceeding these subjects, when discussing the subject of the integration of the Turkish industry within EEC, it is of utmost importance to take into consideration that it will be a major mistake to base our discussions on the structure, strength and issues of the Turkish industry in 1980 and to try to pass judgements by projecting the past growth trend of the Turkish industry into the future.

If we take the 1980 structure of the Turkish Industry as given there is nothing to be done than sink into a great hopelessness.

Whatever the EEC reality, the Turkish Industry is compelled to change its present structure because the present structure is far from being satisfactory. Turkey is facing serious difficulties in pursuing a sound, and-self sustaining economic growth.

One of the main reasons of these difficulties is the fact that development objectives and instruments were not determined in the most effective manner. Industrialization was adopted as the vehicle to economic development, but the industry created failed to strengthen the economy but on the contrary it pushed her into never ending serious bottlenecks. After half a century of industrialization efforts, the quality of most industrial products leaves much to be desired, their costs are high, their competitiveness and marketability in world markets do not seem promising. This chain of problems is related among other reasons to the industrialization policy which was based mainly on import substitution and was given an inward looking twist. The method of implementation of import substitution instead of being based on a sound protection method through tariffs was carried out under a protective regime of import prohibitions. Consequently, an industry was artificially created and has grown since, unproductive, lacking competitiveness, producing expensive products, using resources in a wasteful way, disturbing the overall equilibrium of the economy, producing diseconomies for the rest of the economy. The growth of industry has absorbed considerable foreign resources, and added to the accumulation of foreign debts and serious balance of payment deficit which are about to bring industrial firms to a complete stand still. In spite of the fact that the main motive behind industrialization was to create an economy less dependent on the rest of the world, after a series of industrialization attempts, as far as the inputs are concerned, the Turkish industry has become more and more dependent abroad.

Some people are not still aware that industrialization, investment, and erection of factories are not targets by themselves but instruments for the economic development and the economic welfare of the Turkish society. They seem convinced that every factor built in advanced countries should have its twin in Turkey.

They do not seem to accept that economic development can be realized with infrastructure, agriculture, transportation and other services developed at the same time than industry by giving appropriate investment priorities to different sectors and branches of the economy.

Interdependence of the Turkish economy with the rest of the world has become vital since 1973 when oil prices soared while consumption of petroleum has increased in Turkey.

The industrialization policies in Turkey have given undue emphasis to the satisfaction of internal demand rather than to exports. The rate of export proceeds to Import Expenditure has fluctuated considerably between 13% and 24.8% for the manufacturing sector and between 30% and 63% for the whole economy.

YEAR	$\frac{X_m}{M_m}$ Ratio of Value of Exports to Imports for Manufacturing	$\frac{X}{M}$ for The Whole Economy	Exports GNP in Agr. + Ind.
1970	13.6	62.1	9.0
1971	15.0	57.8	9.9
1972	17.8	56.7	10.6
1973	24.8	63.1	12.9
1974	22.1	40.6	10.6
1975	13.4	29.6	8.0
1976	15.0	38.2	9.6
1977	13.6	30.2	7.8
1978	18.9	48.8	9.1
1979	20.4	44.6	7.8

The inflation which became double digit since 1971, the persistence of keeping the Turkish Lira overvalued, the recession in the countries of our traditional customers and the increase in oil prices affected negatively, especially the last three years the export/import ration of the manufacturing sector.

In addition to these factors there are a number of structural elements which limit the competitiveness of the manufacturing sector.

(a) The size of the industrial firms is small while such firms are too numerous. This form of industrial organization puts an upward pressure on the cost of industrial goods.

(b) The basic raw materials are overpriced according to world market prices. This too affects negatively the cost of production.

(c) In addition to the small installed capacity, mentioned above, capacity utilization is very low in industry for a number of reasons like difficulties in obtaining raw materials, energy storages, strikes and bureaucratic bottlenecks.

(d) The degree of protection accorded to industrial goods in the form of quotas, import prohibitions and the like and increasing domestic demand has decreased cost consciousness in industry.

(e) The excessive dependence on imports of the manufacturing sector has largely contributed to the deficits in the balance of trade.

(f) Excessive land prices, high rents and other differential rents are negatively affecting prices.

(g) The Turkish industry lacks seriously infrastructure which inhibits seriously the efficiency of its operation.

(h) The capital of the industrial sector is far from being adequate. This forces the enterprises into seeking unconventional ways of financing their operations and increases considerably unit costs.

(i) The Turkish industry has not been able to transfer sufficiently advance technology into Turkey.

(j) The Turkish industry is far from being able to obtain regularly and on a continuous base the minimum of inputs that it needs.

In view of all these negative factors, it is amazing to see that 520 million dollars worth of industrial goods are being exported yearly in the last four years.

These excessively numerous negative factors allow at least for a note of optimism. If some of these factors hampering the healthy growth of the Turkish industry were eliminated by a sounder economic policy, industrial products could become more competitive in world markets.

If these features are the true picture of the state of the Turkish industry not only integration with EEC but even the simple survival of the Turkish Industry is in question.

If the Turkish industry has been able to achieve the present levels of investment production and entrepreneurship it is undoubtedly true to say that in case of elimination of the various bottlenecks, it is highly probable that the growth of this potential strength can attain impressive dimensions.

We must insistently underly that the Turkish industry is far from being able to compete with the industries of the EEC member countries within the frame of existing unfavorable conditions. But one thing should be kept in mind, the present conditions can not continue for ever. It is unrealistic to expect to be able to compete within the existing conditions, because even if the tariff barrier is removed, the Turkish economy will not be able to find the finances to buy goods from EEC member countries unless its industry continues operating.

This model is in flagnant conflict with the interests of EEC countries. EEC member countries will not be pleased from an association with a country which has not the ability to purchase their goods and which on the contrary is in need of credits to make up for the deficiencies of its internal savings. It is inconceivable to expect that the EEC will subsidize Turkey on a continuous base. But it is in the interests of EEC member countries to encourage Turkey to achieve economic viability which will permit her to conduct normal commercial relations with EEC. In the next five years, Turkey is expected to purchase $ 5 billion worth of investment goods annually. Even this magnitude is enough to make Turkey an important customer for EEC. It is not advisable to sacrifice such a customer because the price to be paid under the present world economic conditions by EEC is a little more unemployment and a little more industrial recession.

Thus it is in the interests of both EEC countries as well as Turkey to be able in the medium term to generate resources. This model is moreover in line with the new principles of interdependence.

To sum up: If the minimum requirements existing in our competitors are providēd to the Turkish Industry, the potential for competitiveness can energe without any need for additional support.

But we might stress that the main problem facing the Turkish Industry is the lack of upper level managers. In the training of such personnel, we might use the possibilities existing in EEC member countries.

We might add some words on interdependence. There is no doubt that the interests of EEC is to raise the economic level of Turkey. But it is quite probable that the EEC countries will not contribute to it voluntarily. Turkey ought to be included among the NIC's (New Industrialized Countries) or put differently the Young Japanese, EEC countries might view the specialization of Turkey in certain fields as a threat to their interests.

Textiles seem to be a good example. For long years developing countries were advised to expand and specialize in textiles. But when the developing countries developed this field, they created a panic among the developed countries. The same is true for electronics.

It is the responsibility of Turkey to take the risk of specializing in certain fields. It is not easy ground, but after all competition is a fight and a flight between unequals. But calculated risk is worth taking.

MILESTONES IN TURKEY - EEC RELATIONS

September 12, 1963: The Turkey - EEC Association agreement was signed in Ankara. The Agreement, which entered into force on December 1, 1964 was based on article 238 of the Treaty of Rome. It laid down different stages for the development of the association:

- A preparatory stage (1964-1973), during which the Community helped Turkey to strengthen its economy by means of financial aid and tariff quotas opened for tobacco, dried grapes, dried figs and hazelnuts which re-resent 40% of Turkish agricultural exports to the Community

- A transitional stage enabling a customs union to be established in 12-22 years according to the products;

- A final stage providing the possibility for Turkey to accede to the Community once the economic policies of both partners have been coordinated.

The first financial protocol was signed at the same time as the Ankara agreement. It provided Turkey with aid and loans under special terms totalling 175 million Units of Account (between 1964 and 1969).

November 23, 1970: The additional protocol, proclaiming the opening of the transitional stage, which would eventually enable the two partners to make progress along the road to a full customs union was signed in Brussels. (It came into force on January 1, 1973). The Second Financial Protocol was also signed the same day, enabling an amount of 210 million Units Account to be commited to Turkey until May 23, 1976. (This amount was raised to 257 million Units of Account following the Community's enlargement).

January 1, 1973: As called for under the Additional Protocol, Turkey started to carry out reductions in the customs duties for goods of EEC origin. Duties were decreased by 20% for products which must be completely liberalized in 12 years and by 10% for products to be liberalized in 22 years.

January 1, 1976: Turkey applied the second reduction in duties, as called for under the Additional Protocol.

Late 1976: Relations between Turkey and the Community were strained because of special problems. While the Association Agreement and the Additional Protocol provided for the gradual introduction of the free movement of workers between December 1, 1976 and December 1, 1986, some Community members refused to go along because of their unemployment problems. The Community furthermore, was not in a position to satisfy all Turkish requests relating to financial cooperation and the re-examination of agricultural concessions.

December 20, 1976: At the Association Council meeting,Turkey and the EEC reached a series of partial agreements, to sign the third financial protocol and to adopt preliminary measures in the field of free movement. The Community also showed its willingness to develop its cooperation with Turkey, while accepting that there could be a certain amount of flexibility in the timetable of customs union, in keeping with the specific problems of Turkey.

January 1, 1977: Turkey postponed the tariff adaptions.Under the Additional Protocol, the first planned alignment of Turkey's external tariff with that of the Community in relation to non-Member States was scheduled to be put into operation on this date.

February 3, 1977: The Third financial protocol was initialled. It represented a commitment of 310 million Units of Account until December 31, 1981: 90 million were in the form of loans from the European Bank, granted on its own resources, 220 million in the form of loans on special terms granted by the EIB on a mandate from the Community.

March 15, 1977: The Association Committee met to discuss the issue of Turkish cotton yarn exports to the Community. It argued that the rapid volume increase at low-selling prices of these exports was creating difficulties for undertakings in the Nine.

January 1, 1978: Turkey postponed the application of the third reduction of 10%. (The Turkey - EEC Association Committee agreed in February to this postponement.)

May 25, 1978: Ecevit paid an official visit to Brussels for talks with senior EEC officials. There, he offered a three-point package:Firstly, the EEC should give Turkey more considerably rights than she allows non-member States, and should stand firm on this principle. Secondly, the EEC should not prevent Turkey from developing into an exporter of industrial products. There will have to be a guarantee that Turkish industrial exports to be Community will not be restricted. Thirdly, Turkish workers' premiums in EEC countries should be transferred to Turkey and the Turkish workers in the

Community area should enjoy the same rights as workers from Community countries. Ecevit also proposed new scheme to help develop the Turkish industries: joint investments in Turkey --with Turkish manpower, EEC technology and primarily the petrodollars of oil-- rich countries.

October 29, 1979: Turkey's new premier Demirel announced his government's intention to revitalize Turkey's relations with the Community.

February 6, 1980: The Turkey - EEC Association Council met in Brussels after a break of nearly four years. Turkish foreign minister Hayrettin Erkmen told a press conference that Turkey would apply for membership in the Community before the end of 1980.

CHAPTER XI

INFLATION

1. GENERAL DESCRIPTION

The rate of inflation, as measured by the offical wholesale price index, reached a year-to-year 81.4 percent increase by the end of 1979, with an acceleration of 50 percent during the first quarter of the year.

The largest price increases were recorded in industrial raw materials and semi-finished products, which were 103.4 percent higher at the end of 1979 than twelve months earlier. Food prices also rose rapidly, or by 73 percent compared to the end of 1978.

To some extent, the strong price rises observed in 1978 & 1979 resulted from adjustments of officially controlled prices for a broad range of services, essential inputs for industry, and consumer goods. Price increases also reflected successive devaluations of the Turkish Lira.

These price shocks, resulting in effect from a release of suppressed inflation, were followed fairlv quickly by corresponding adjustments of wages through the collective bargaining process, and increases of farm prices, civil servants salaries and legal minimum wages. Collective bargaining settlements in 1979 have resulted in increases in hourly wages of 100 percent or more for the first year of a new two-year agreement, as well as in improvements of various fringe benefits. These bonus payments and other benefits are not reflected in the published wage statistics.

The strong increase in farm prices in 1979 compared to the preceeding two years was to some extent justified by the increase in the prices of agricultural inputs. But nevertheless these price increases made the task of stabilization policy more difficult.

It is also important to remember that few farmers, particularly those above subsistence level, pay direct taxes and many benefit from subsidies in various forms.

2. INDICATORS OF INFLATION

There are three main indices which can be used as indicators of inflation these are the wholesale price index, the consumer price index and the GNP implicit price deflator. Most of the time all three indices behave quite close to each other. But there are years when they diverge from each other.

TABLE

INDICATORS of INFLATION
(Annual % changes)

	Wholesale Price Index	Istanbul Cost of Living Index	GNP Implicit Deflator
1970	6.7	7.9	11.9
1971	15.9	19.0	18.3
1972	18.0	15.4	16.4
1973	20.5	14.0	22.1
1974	29.9	23.9	28.3
1975	10.1	21.2	16.1
1976	15.6	17.4	16.2
1977	24.1	26.0	25.0
1978	52.6	61.9	44.0
1979	63.9	63.5	69.6

The GNP implicit deflator is the one with the broadest scope as it encompasses all sectors of the economy with their proper relative weights.

Up to the end of 1976 the rate of inflation does not seem to accelerate, we might even talk about a deceleration. But the last three years of the period show a definite acceleration of the rate of inflation.

The GNP implicit deflator has a limitation: it is not calculated on a monthly basis, but yearly.

The following wholesale price index gives the rate of inflation on a monthly base in three different forms: the monthly rate of inflation in comparison with the previous month, the rate of inflation for every month in comparison with the same month of the previous year, and the rate of inflation with respect to the end of the previous year.

WHOLESALE PRICE INDEX

YEAR *Month*		Index	Chain Index	Change with Respect to Corresponding Month of Previous Year	Change with respect to end of year
1963		100		-	-
1970		145.7	6.7	-	-
1971		168.9	15.9	-	-
1972		199.0	18.0	-	-
1973		240.1	20.5	-	-
1974		311.8	29.9	-	-
1975		343.2	10.1	-	-
1976		396.6	15.6	-	-
1977		492.1	24.1	-	-
1978		750.8	52.6	-	-
1979		1230.7	63.9	-	-
1978	*Jan.*	609.0	4.1	38.2	4.1
	Feb.	636.3	4.5	43.3	8.8
	Mar.	664.6	4.4	47.9	13.6
	Apr.	687.7	3.5	47.7	17.6
	May	709.8	3.2	50.6	21.4
	June	722.6	1.8	51.6	23.6
	July	754.5	4.4	57.2	29.0
	Aug.	772.3	2.4	60.2	32.1
	Sept.	804.7	4.2	53.6	37.6
	Oct.	826.8	2.7	50.7	41.4
	Nov.	845.5	2.3	49.6	44.6
	Dec.	869.9	2.3	48.7	48.7
1979	*Jan.*	910.9	4.7	49.5	4.7
	Feb.	955.0	4.8	50.1	9.7
	Mar.	1003.4	5.1	50.9	15.3
	Apr.	1081.8	7.8	57.3	24.4
	May	1132.4	4.7	59.5	30.2
	June	1214.2	7.2	68.0	39.5
	July	1254.1	3.3	66.2	44.2
	Aug.	1295.5	3.3	67.7	48.9
	Sept.	1334.8	3.0	65.8	53.4
	Oct.	1402.8	5.1	69.7	61.2
	Nov.	1513.7	7.9	79.0	74.0
	Dec.	1577.8	4.2	81.4	81.4
1980	*Jan.*	1722.9	9.2	89.1	9.2
	Feb.	2227.9	29.3	133.3	41.2
	Mar.	2326.5	4.4	131.8	47.4
	Apr.	2408.8	3.5	122.6	52.7
	May	2479.7	2.9	119.0	57.1

Source: Ministry of Commerce

ISTANBUL COST OF LIVING INDICES
(1963 = 100)

	Ministry of Commerce Index	Ministry of Commerce Change %	Istanbul Chamber of Commerce Index	Istanbul Chamber of Commerce Change %
1970	155.6	7.9	114.6	9.5
1971	185.2	19.0	134.0	16.9
1972	213.7	15.4	152.0	13.4
1973	243.6	14.0	172.9	13.7
1974	301.8	23.9	213.4	23.3
1975	365.8	21.2	259.2	21.5
1976	429.6	17.4	302.2	16.6
1977	541.3	26.0	396.6	31.2
1978	876.3	61.9	665.6	67.8
1979	1433.1	63.5	1173.5	76.3

WHOLESALE PRICE INDICES
(1963 = 100)

YEAR	General Index	% Change	Food & Feed	% Change	Ind. Raw Materials	% Change
MINISTRY of COMMERCE						
1973	240.1	20.5	225.3	21.5	264.7	19.0
1974	311.8	29.9	305.4	35.5	322.5	21.8
1975	343.2	10.1	357.9	17.2	318.6	-1.2
1976	396.6	15.6	411.6	15.0	371.6	16.6
1977	492.1	24.1	505.6	22.8	469.7	26.4
1978	750.8	52.6	733.7	45.1	779.2	65.9
1979	1230.7	63.9	1092.8	48.9	1460.6	87.4
ISTANBUL CHAMBER of COMMERCE						
1973	236.7	21.0	221.1	24.5	271.3	33.8
1974	300.4	26.9	281.4	27.3	320.6	18.2
1975	334.6	11.4	337.5	11.9	336.4	4.9
1976	392.6	17.3	391.5	16.0	445.0	32.3
1977	504.3	28.5	487.9	24.6	605.0	35.9
1978	774.8	53.6	753.1	54.3	890.8	47.2
1979	1357.0	75.1	1206.0	60.1	1605.0	80.2

COST of LIVING INDICES
(1963 = 100)

	General Index	% Change	Food	% Change	Light& Fuel	% Change	Clothing	% Change
I. ANKARA								
1973	241.2	15.8	228.2	15.7	279.7	14.7	260.8	12.2
1974	278.4	15.4	260.4	14.1	315.5	12.8	304.7	16.8
1975	331.4	19.0	313.3	20.3	331.7	5.2	363.6	19.3
1976	385.9	16.4	375.0	19.7	349.8	5.5	417.8	14.9
1977	472.8	22.5	459.6	22.6	453.1	29.5	501.2	20.0
1978	724.8	53.3	650.0	41.4	760.0	67.7	889.3	77.4
1979	1174.2	62.0	1033.0	58.9	1297.0	70.6	1728.0	94.3
II. ISTANBUL								
1973	243.6	14.0	243.2	14.7	267.7	10.4	238.5	19.8
1974	301.8	23.9	297.4	22.3	338.9	26.6	308.9	29.5
1975	365.8	21.2	378.0	27.1	374.2	10.4	323.3	4.7
1976	429.6	17.4	458.5	21.3	461.2	23.4	340.8	5.4
1977	541.3	26.0	565.0	23.2	610.5	32.4	453.1	33.0
1978	876.3	61.9	864.4	53.0	1096.2	79.5	774.6	71.0
1979	1433.1	63.5	1332.5	54.1	2122.4	93.6	1514.7	95.5

Source: Ministry of Commerce

DOMESTIC TERMS of TRADE[1]

	1972	1973	1974	1975	1976	1977	1978	1979	1980
I	87.0	87.8	92.0	114.9	114.2	113.7	109.1	86.3	688
II	86.0	87.5	92.2	112.9	113.6	110.6	100.8	73.9	
III	79.6	82.5	92.8	110.3	105.5	101.5	93.2	72.4	
IV	82.4	84.4	102.9	112.2	112.2	101.8	85.5	68.6	
Annual Average	83.4	85.1	94.7	112.3	110.8	106.9	97.1	75.3	

Source: Ministry of Commerce, Wholesale Price Indices

[1] Agricultural prices/industrial prices.

PERCENTAGE ANNUAL CHANGES IN WHOLESALE
and
COST of LIVING INDICES

YEAR	Wholesale Price Index			Istanbul Wage Earners' Cost of Living Index
	General	Food	Industrial Raw Materials	
1955	7.1	4.4	14.2	9.7 9.7
1956	16.8	18.4	14.2	11.3
1957	18.7	20.5	13.0	8.4
1958	15.1	7.3	32.6	12.8
1959	19.5	18.8	22.0	23.1
1960	5.2	7.3	1.5	6.6
1961	2.9	6.6	-3.7	4.2
1962	5.6	8.7	-	4.5
1963	4.3	4.3	3.8	10.0
1964	1.2	0.2	2.7	2.0
1965	8.1	10.1	4.9	5.7
1966	4.8	5.4	4.1	4.4
1967	7.6	6.6	9.0	6.1
1968	3.2	2.0	5.3	4.5
1969	7.2	8.1	5.9	4.9
1970	6.7	3.2	12.5	9.6
1971	15.9	14.2	18.5	17.8
1972	18.0	15.2	22.1	14.2
1973	20.5	-21.5	19.0	13.0
1974	29.9	35.5	21.8	22.1
1975	10.1	17.2	-1.2	22.1
1976	15.6	15.0	16.6	16.9
1977	24.1	22.8	26.4	30.6
1978	52.6	45.1	65.9	69.0
1979	63.9	48.9	87.4	76.3

Source: Ministry of Commerce, Istanbul Chamber of Commerce

The Direction and Magnitude of Wholesale Price Changes

The overall percentage change from December 1978 to December 1979 is 81.3. The rate of change is more pronounced in industrial raw materials and semi-finished goods which increased by 103.4% during the same period while foodstuffs and livestock feed increased by 65.7%.

The largest increases were recorded by industrial and mineral oils (127.2%) leather and hides (120.3%), construction materials (110.7%) and fuel (104.4%).

The lowest increases were recorded by pulses (23.1%) and minerals (31.7%).

On a longer perspective with 1963 as the starting point by 1979 the highest increases were recorded by:

Leather and hides	3023
Animals	2735
Fuel	2646
Construction Materials	2422

and the lowest by:

Cereals	884
Papers	1010
Foodstuff (other than cereals and pulses)	1052

WHOLESALE PRICE INDEX
(1963=100)

	1978 Dec.	1979 Dec.	%Change
GENERAL INDEX	869.9	1577.8	81.3
Foodstuffs and Feed			
Cereals	625.5	883.7	41.3
Pulses	1349.5	1661.7	23.1
Others	604.7	1052.4	74.0
Total	631.7	945.1	49.6
Animals	1394.4	2734.8	96.1
Animal Products	994.3	1905.9	91.7
Lirestock Feed	908.9	1261.2	38.7
Total	813.9	1349.0	65.7
Industrial Raw Material and Semifinished Goods			
Fuel	1294.4	2645.8	104.4
Minerals	717.0	1661.4	31.7
Textiles	791.2	1430.4	80.8
Leather, Hides	1371.8	3022.8	120.3
Industrial and Mineral Oils	793.0	1801.7	127.2
Papers	614.2	1010.1	64.4
Construction Materials	1149.8	2422.5	110.7
Total	963.1	1959.1	103.4

CONSUMER PRICE INDICES
(1968 = 100)
(Annual Percentage Increases)

PROVINCE	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Ankara	8.1	16.3	12.9	16.6	18.7	20.1	15.3	28.3	49.5	56.5
Istanbul	6.8	15.7	11.8	15.4	15.8	19.2	17.3	27.1	45.3	58.7
Izmir	7.8	19.7	14.8	16.7	17.5	20.9	16.5	30.1	45.8	57.3
Samsun	7.3	15.9	17.2	16.2	22.6	20.9	16.3	29.5	51.4	52.5
Eskisehir	7.4	14.7	13.0	15.0	16.9	21.3	17.0	28.3	46.5	52.2
Antalya	8.7	15.1	15.0	17.5	22.0	21.4	13.9	27.8	46.0	59.4
Diyarbakır	8.2	16.3	17.1	15.7	18.9	19.3	18.6	25.8	43.3	54.8
Ordu	10.5	16.5	11.3	13.8	22.5	17.6	16.7	28.2	49.4	57.5

Source: State Institute of Statistics

Not all prices have increased at the same rate. Food products have increased relatively more between 1972 and 1975 while prices of industrial raw materials and semi-finished products have increased more during 1975-1979. As a result of these differential price changes the terms of internal trade or food price index divided by industrial price index have increased from 91.8 in 1970 to 112.3 in 1975 and then moved down very quickly to 75.3 in 1979.

INDICES of WHOLESALE PRICES
by
SUBSIDIARY GROUPINGS
(1963 = 100)

YEAR	Index for Food Products	Index for Industrial Raw Materials	Terms of Internal Trade
1970	141.0	153.6	91.8
1971	161.0	182.1	88.4
1972	185.4	222.4	83.4
1973	225.3	264.7	85.1
1974	305.4	322.5	94.7
1975	357.9	318.6	112.3
1976	411.6	371.6	110.8
1977	505.6	469.7	106.9
1978	733.7	779.2	97.1
1979	1092.8	1.460.6	75.3

Source: Ministry of Commerce

Wholesale prices of selected commodity groups give the same analysis on a more disaggragated basis.

As can be followed by the table below vegetal food has not increased as much as livestock, textiles, leather, paper and construction material between 1970 and 1979. The highest increase took place in the prices of leather, followed by construction materials.

WHOLESALE PRICES of SELECTED COMMODITY GROUPS

(1963 = 100)

YEAR	Vegetal Food	Livestock	Textiles	Leather	Paper	Construction Materials
1970	127.0	179.1	123.9	140.5	117.1	151.3
1971	138.4	255.1	158.2	173.8	137.1	166.1
1972	153.4	331.5	189.6	285.2	154.6	187.4
1973	192.1	348.5	275.6	371.3	155.2	208.1
1974	281.6	371.0	341.4	361.8	221.8	252.6
1975	313.9	444.2	299.9	308.7	226.9	274.7
1976	355.4	621.3	397.9	374.1	228.0	383.3
1977	410.3	891.4	489.8	491.5	319.2	642.0
1978	549.3	1322.5	681.3	1047.3	568.3	963.4
1979	816.4	1958.6	1190.1	2230.5	776.3	1675.8
1970-1979	642.8	1093.6	960.5	1587.5	662.9	1107.6

Source: Ministry of Commerce

In addition to price changes of domestically produced goods and services prices of imported goods came as a result of the oligopolistic pricing policies in 1974, and later in 1978 and 1979.

IMPORT PRICES

(1973 = 100)

YEAR	Terms of Trade		Index in TL	% Change	Index in $	% Change
	in TL	in $				
1974	94.8	92.0	145.2	45.2	147.9	47.9
1975	80.0	77.7	168.0	15.7	165.1	11.6
1976	81.0	79.8	188.9	12.4	167.0	1.2
1977	82.2	79.4	233.1	23.4	184.1	10.2
1978	75.9	73.8	361.0	54.9	209.8	14.0
1979	72.3	73.7	605.3	67.7	247.5	18.0

Source: State Institute of Statistics

As a result of the increase of oil prices and the inability of Turkey to increase its export prices in the way it was done by industrialized countries the terms of trade deteriorated for Turkey from 100 in 1973 to 72-74 percent in 1979.

3. THE MAIN FACTORS CONTRIBUTING TO INFLATION

Factors contributing to inflation can be grouped into two categories:

- Factors affecting negatively the supply of goods
- Factors contributing to the increase of aggregate demand.

A. FACTORS AFFECTING SUPPLY

Decrease in the supply of agricultural products

1972	- 0.4%
1973	- 9.8%
1977	- 1.2%

But even positive rates of increase might limit supply if they are much below the population growth rate, such as the 2.3% increase of agricultural product in 1979.

Decrease in the supply of industrial products: the decrease in industrial value added by 6.1% in 1979 is a good example.

Decrease in Gross Domestic Product; in 1979 GDP decreased by 0.3 percent.

Decrease in the imports of commodities; While the TL value or even the dollar value of imports is increasing, imports might be decreasing at the same time in physical quantity. In fact, the volume of imports decreased by 35.2 percent in 1978 and by 13.2% in 1979.

In certain cases, the decrease in supply has been the consequence of inability to increase supply, delays in investment and in building infrastructure, bottlenecks in energy, foreign exchange, raw materials and decreases in production due to strikes and lockouts.

B. FACTORS AFFECTING AGGREGATE DEMAND

1. Foreign Exchange Inflow of Workers Remittances

A large number of factors have been responsible for inflated demand. The inflow of workers' remittances, while useful in increasing foreign exchange reserves caused increases in currency in circulation and in the money supply because no policies have been undertaken towards sterilization of the inflow of workers' remittances.

Workers' remittances are different than any other inflow of foreign exchange because the proceeds in TL of the sales of foreign exchange are received by a very large number of individuals in relatively small amounts and are used for the purchase of land, real estate, consumer durables and other consumer goods.

2. Wages

Nominal wage increases as well as increases in salaries of government employees have also contributed to the increase in demand. Moreover the rate of increase of wages given in the table below do not reflect fully the increases as they are based on social insurance statements which do not take account of the incidence of fringe benefits. According to the Confederation of Employers' Union, nominal wages increased by 47.1 percent in 1976, by 39 percent in 1977 and by 50 percent in 1978.

WAGES (% Change)

	Average Gross Total	Wages of Insured Workers		State Economic Enterprises	
		Public Sector	Private Sector	Wages	Salaries
1970	9.9				
1971	11.3	15	10		
1972	11.6	9	14		
1973	24.0	27	23		
1974	25.5	25	25		
1975	25.3	28	24	35	42
1976	34.8	34	34	59	7
1977	27.1	35	22	27	49
1978	41.9	37	44	86	31
1979	41.5	42.7	40.6	27	14

4. Agricultural Support Prices

Up to 1973, support prices were not of major importance inside overall agricultural income. Payments made to producers through the agricultural support programme amounted to 13% of total agricultural income, in 1974 it jumped to 19.2%, in 1979 it has reached 23.3 percent.

By 1979 the total amount paid to producers through the support programme had reached 100 billion TL.

AGRICULTURAL SUPPORT PRICES
(TL/kg)

	1977	% Change	1978	% Change	1979	% Change
Hazelnuts	16.50	13.8	23.50	30.3	37.50	59.6
Sultanas	12.00	4.3	17.50	45.8	45.00	157.1
Dried Figs	8.00	14.3	10.50	31.2	22.00	109.5
Pistachios	27.00	-	55.00	103.7	150.00	172.7
Wheat *(Average)*	2.90	11.5	3.25	12.1	5.30	63.0
Cotton *(Average)*	10.50	5.0	12.50	19.0	25.00	100.0
Tobacco *(Average)*	50.00	11.1	57.00	14.0	75.00	31.6
Olive Oil *(per liter)*	23.00	27.8	30.00	30.4	(no floor)	
Sugarbeet	0.63	8.6	0.80	27.0	1.30	62.5
Sunflower seeds	6.50	13.0	8.50	30.8	16.00	88.2
Tea	10.00	17.6	12.00	20.0	14.50	20.8
Total Amount paid to Producers (TL billion)	47.6		52.8		103.4[1]	
As % of Agricultural Income	21.7%		17.5%		23.3%	

[1] Estimate

Source: Annual Programmes, State Planning Organization.

5. Net Domestic Credit to the Public Sector

It can be seen that so far financing needs of the Public Sector could only be partially financed through the budget. Governments resorted more and more to the Central Bank for the financing of their deficits. As a result of these policies net domestic credit to the public sector rose considerably as percent of money supply (M2), from 0.13 in 1973 to 0.58 in 1979. The velocity of circulation has also considerably increased from 3.8 in 1973 to 4.1 in 1979.

6. Excessive Increase in the Supply of Money

The situation can be outlined in the following table. Real income increased by 67.8% during the last decade (1970-1979), banknotes issued went 13 times up, Central Bank credits 26 times up, the Budget 27 times up. Prices went up to 845 in 1979 from 100 in 1970.

As a result of excessive increases in the demand side of the equation and excessive decreases in the supply side, too much money chased too few goods, a mass consumption hysteria developed based on inflationary expectations.

MAIN REASONS for PRICE RISES

(Index 1970 = 100)

	National Income	Banknotes Issued	Central Bank Credits	Budget	Prices
1970	100.0	100.0	100.0	100.0	100.0
1971	110.2	122.4	111.7	139.3	115.9
1972	118.4	144.1	134.1	154.4	136.8
1973	124.7	182.0	191.4	201.1	164.8
1974	134.0	236.1	314.6	258.0	214.0
1975	144.6	294.2	375.9	376.6	235.5
1976	155.7	374.1	664.8	543.3	272.2
1977	163.5	559.7	1208.9	943.3	333.7
1978	167.5	816.8	1535.0	1631.9	513.3
1979	167.8	1314.4	2623.4	2735.7	844.7

As can be observed from the table below, the outcome of the domestic savings as percent of GNP being higher at the first half of the decade than at the second half should not be a surprise.

Domestic Savings as
Percent of GNP

1970	18.5	1975	17.8
1971	17.8	1976	17.6
1972	18.3	1977	19.4
1973	20.2	1978	18.3
1974	17.4	1979	16.3
Average	18.4		17.9

The decrease is very obvious for the last three years during which the Domestic Savings ratio dropped from 19.4% in 1977 to 18.3 in 1978 and to 16.3% in 1979.

CHAPTER X

MONEY BANKING AND CREDIT

1. BANKNOTES ISSUED

The rate at which banknotes were issued during 1979 has reached a magnitude never recorded before of 60.9 percent.

	Banknotes issued (Million TL.)	Annual (Million TL.)	Increases %
1970	13.915	-	-
1971	17.032	3.177	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	77.881	25.820	49.6
1978	113.662	35.781	45.9
1979	182.877	69.215	60.9

Increases of banknotes issued were mainly affected by Central Bank Credits to the Public Sector which showed an increase of 58.7 percent.

FACTORS AFFECTING THE VOLUME OF BANKNOTES ISSUED

	1975	1976	1977	1978	1979
Gold-foreign exchange reserves	- 6.733	2.311	3.672	+ 9.422	+ 4.663
Credits	+ 8.940	+42.068	+78.542	+52.187	140.252
- Public Sector	+ 9.892	+29.367	+57.679	+36.934	110.471
- Banks	- 952	+12.701	+20.869	+15.253	29.781
Other Assets	+32.355	+27.030	+21.423	109.556	90.652
Foreign exchange liabilities	- 609	- 1.281	- 2.577	- 3.910	- 12
Deposits in Central Bank	-10.807	- 7.811	-18.199	-36.548	-44.576
Other Liabilities	-15.068	-51.194	-49.703	-94.926	-121.764
Increase in banknotes issued	+ 8.078	+11.123	+25.820	+35.781	+69.215

2. MONEY SUPPLY

Developments in money supply have been as follows since 1970;

	Money Supply TL million	Yearly Increases TL Million	%
1970	35.268		
1971	43.587	8.319	23.6
1972	53.253	9.666	22.2
1973	70.528	17.275	32.4
1974	90.045	19.517	27.7
1975	118.470	28.425	31.6
1976	151.505	33.035	27.9
1977	210.642	59.137	39.0
1978	289.257	78.615	37.3
1979	449.582	160.325	55.4

Deposit money followed quite closely the developments in bank notes issued and money in circulation especially during 1973-1976, and the money supply was similarly affected.

In 1979 the rate of increase of deposit money exceeds the rate of increase of banknotes and coins in circulation, this allowing the banking system to affect the increase of the money supply.

COMPOSITION OF MONEY SUPPLY

(Million TL.)

	1974	1975	1976	1977	1978	1979
Banknotes and Coins in Circulation	26.151	32.905	42.466	62.953	93.817	141.304
Deposit Money	63.894	85.565	109.039	147.689	195.440	308.278
Money Supply	90.045	118.470	151.505	210.642	289.257	449.582
Changes						
Banknotes and Coins in Circulation	5.451	6.754	9.561	20.427	30.864	47.487
Deposit Money	14.066	21.671	23.474	38.650	47.751	112.838
Money Supply	19.517	28.425	33.035	59.137	78.615	160.325
% Change in Money Supply	27.6	31.6	27.9	39.0	37.3	55.4

When looked at it with a longer perspective it becomes clear that ten years of relative stability of the main monetary indicators, there is a serious acceleration in the middle seventies followed by further accelerations. The rate of increase of bank notes issued after remaining stable at around 15 percent, during 1963 to 1972 moves to 30 percent during the first half of the seventies, reaches 50 percent and attaines the record 60 percent in 1979.

MAIN MONETARY INDICATORS
(Annual Percentage Rates of Increase)

	1963-1967 Average	1968-1972 Average	1973-1977 Average	1977	1978	1979
Banknotes Issued	15.5	15.1	31.2	49.6	45.9	60.9
Money Supply	16.8	18.6	31.7	39.0	37.3	55.4
- Banknotes and coins in circulation	15.3	12.9	31.3	48.2	49.0	50.6
- Deposit money	17.8	21.7	31.3	35.4	32.3	57.7
Central Bank Credits	29.2	17.3	57.4	81.1	27.5	60.2
- Public	26.7	21.9	53.6	87.2	23.1	63.6
- Private	33.6	9.1	40.0	60.0	45.4	48.4
Bank Credits	18.4	19.1	32.9	25.9	27.1	54.8
Net Credit Volume	19.8	19.6	38.2	41.7	27.9	56.2
Total Deposits	18.9	24.6	27.6	30.9	32.9	56.5

3. CENTRAL BANK CREDITS

Central Bank credits have increased as follows since 1970:

	Credits 1/ TL. million	Yearly Increase TL. million	%
1970	14.565	1.645	12.7
1971	16.273	1.708	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	175.372	78.547	81.1
1978	223.570	48.198	27.5
1979	358.166	134.596	60.2

1/ Excluding credits used from reserve requirements.

Central Bank credits reached TL.358 billion as of Dec.31, 1979. The public sector's share in these credits has been as follows.

CENTRAL BANK CREDITS
(%Distribution)

	Public Sector	Private Sector	Ag.Sales Cooperatives
1973	51.9	34.3	13.8
1974	51.8	23.8	24.4
1975	59.4	18.7	21.9
1976	63.9	22.3	13.8
1977	68.2	19.7	12.1
1978	70.0	22.5	7.5
1979	70.5	20.8	8.6

SECTORAL DISTRIBUTION
of
CENTRAL BANK CREDITS
(million TL.)

	1973	1974	1975	1976	1977	1978	1979
PUBLIC SECTOR	14.462	23.732	32.530	61.897	119.576	156.524	252.397
Treasury	7.844	12.484	16.761	21.739	45.178	56.639	91.740
State Monopoly Adm.	2.259	2.270	2.180	7.000	15.150	21.350	28.056
Sumerbank	695	1.094	-	-	800	2.000	4.430
Soil Products Office	2.700	6.700	6.000	12.200	18.575	21.495	25.524
Sugar Company	729	976	1.371	3.577	5.974	9.421	15.498
Others	235	208	168	2.740	5.977	13.344	49.208
Special Financing	-	-	6.050	14.641	27.922	32.275	37.941
AGRICULTURAL SALES COOPERATIVES	3.855	11.155	11.971	13.320	21.225	16.777	31.152
PRIVATE SECTOR	9.569	10.929	10.255	21.607	34.571	50.269	74.617
Industrial Credits	1.128	1.534	3.158	7.562	14.732	17.263	25.138
Artisans Credits	421	341	441	1.202	2.351	3.584	5.334
Agricultural Credits	2.540	3.181	790	2.531	3.871	7.146	16.589
Export Credits	1.841	1.119	2.162	3.380	3.536	7.961	8.348
Medium-Term Credits	2.792	3.556	2.415	4.311	5.583	8.108	8.658
Short-Term Credits	847	1.198	1.289	2.621	4.498	6.207	10.550
TOTAL CREDITS	27.886	45.816	54.756	96.824	175.372	223.570	358.166
Uses from Deposit							
RESERVE REQUIREMENTS	650	6.487	11.069	13.469	13.469	17.046	21.741
Agricultural Credits	650	650	4.000	6.400	6.400	9.991	14.491
Treasury	-	5.837	7.069	7.069	7.069	7.055	7.250
GRAND TOTAL	28.536	52.303	65.825	110.293	188.841	240.616	379.907

The private sector has been receiving only 20 percent of the total credits of the Central Bank, having thus gone down from 34 percent in 1973. On the other hand the Public Sector which used to receive only 52% of Central Bank credits in 1973, increased its share to 70 percent in 1978 and 1979 by increasing the credits given to the Public Sector by TL.36 billion in 1978 and by a further TL.96 billion in 1979. Credits to the Private Sector increased by only TL.16 billion in 1978 and TL.24 billion in 1979.

The main recipients of Public Sector Credits are the Treasury, State Monopolies, Soil Products Office, Sugar Company and other State Economic Enterprises.

4. DEPOSITS

Bank deposits have grown as follows since 1970.

	Total Deposits TL. Million	Yearly Increase TL.Million	(%)
1970	36.246	5.487	17.8
1971	48.476	12.230	33.7
1972	62.994	14.518	29.9
1973	80.392	17.398	27.6
1974	99.068	18.676	23.2
1975	132.374	33.306	33.6
1976	162.845	30.471	23.0
1977	213.261	50.416	30.9
1978	283.371	70.110	32.9
1979	443.379	160.008	56.5

The highest growth was recorded by Commercial Sight Deposits which grew by 76.9 percent in 1979 and by time Deposits in the Savings Accounts which increased by 65.4 percent. The breakdown of bank deposits by type is as follows:

	Commercial Sight Deposits	Saving 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	63.027	123.251	26.983	213.261
1978	86.072	160.743	36.556	283.371
1979	152.592	235.330	55.457	443.379

Important changes in the composition of bank deposits have taken place, especially during the escalation of inflation. Sight deposits in the Savings Accounts have decreased from 68.1 percent in 1977 to 61.1 and time deposits have grown to 38.9 in 1979 from 31.9 percent in 1977.

DISTRIBUTION OF DEPOSITS AT BANKS

	1975 TL. Million	%	1976 TL. Million	%	1977 TL. Million	%	1978 TL. Million	%	1979 TL. Million	%
Total Deposits	132.374	100.0	162.845	100.0	213.261	100.0	283.371	100.0	443.379	100.0
Savings Deposits	82.866	62.6	97.409	59.8	123.251	57.8	160.743	56.7	235.330	53.1
Sight	52.770	39.9	63.595	39.0	83.873	39.3	105.347	37.2	143.684	32.4
Time	30.096	22.7	33.814	20.8	39.378	18.5	55.396	19.5	91.646	20.7
Percent composicion of Saving Deposits		100.0		100.0		100.0		100.0		100.0
Sight		63.7		65.3		68.1		64.6		61.1
Time		36.3		34.7		31.9		34.4		38.9

CHANGES IN BANK DEPOSITS

(%)

	Commercial Sight Deposits	Saving Deposits Sight	Saving Deposits Time	Saving Deposits Total	Total Deposits
1975	41.8	32.5	21.5	28.3	33.6
1976	40.1	20.5	12.3	17.5	23.0
1977	40.1	31.9	16.4	26.5	30.9
1978	36.6	25.6	40.7	30.4	32.9
1979	76.9	36.4	65.4	46.4	56.5

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 setbecks, interbank 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 1979 this rate came down to 53%.

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 which carry high interest rates. Another factor is the public inclination to invest their money into gold, precious stones and immovable assets, because of the high rate of ing-lation. This trend has been reserved in 1978 and more so in 1979.

Savings Deposits increased by 46.4 percent in 1979, the highest annual rate of increase of the 70's. But when deflated for price increases savings deposits show a decrease of 19.5 percent. In fact during the last three years savings deposits have decreased by 13.8% in 1977, 15.3% in 1978 and 19.5% in 1979 due to the high rates of inflation especially during the last three years. The Istanbul cost of living calculated on a 12 month base from December to December has shown considerable increases of 46.8% for the end of 1977, 54% for 1978 and 81.8% for the end of 1979.

REAL CHANGES in SAVINGS DEPOSITS

YEAR	Total Savings Deposits (mill. TL)	% Increase	% Increase in the Cost of Living(1)	% Change in Real Savings Deposits
1970	25.043	20.0	9.3	9.8
1971	33.229	32.7	23.4	7.5
1972	42.103	26.7	11.0	14.1
1973	53.678	27.5	19.9	6.3
1974	64.604	20.4	24.4	-3.2
1975	82.866	28.3	16.3	10.3
1976	97.409	17.6	19.3	-1.4
1977	123.251	26.5	46.8	-13.8
1978	160.743	30.4	54.0	-15.3
1979	235.330	46.4	81.8	-19.5

(1) Ministry of Commerce, Istanbul Cost of Living, December to December 12 Months Change.

Positive changes in real savings deposits of considerable magnitude have taken place in 1972, 1975 and 1970, all three years display real rates of interest which are the closest to positive rates. The remaining years of the decade are all displaying real rates of interest which are double digit negatives.

5. BANK CREDITS

The breakdown of bank credits by types is as follows:

COMMERCIAL BANK CREDITS

(TL. billion)

	1974	1975	1976	1977	1978	1979
Specialized Credits	35.6	46.9	55.5	71.1	84.4	136.7
Agriculture(Ziraat B.)	24.8	33.3	37.4	46.6	49.4	79.6
Industry (2 banks)	4.3	5.2	6.4	8.5	13.2	23.8
Artisans (Halk B.)	2.5	3.9	6.3	9.5	13.7	23.1
Mortgage (5 banks)	4.0	4.5	5.4	6.5	8.1	10.2
Commercial Credits	60.1	92.0	128.3	160.3	209.9	319.2
Total Credits	95.7	138.9	183.8	231.4	294.3	455.8

The rate of increase in "specialized credits" is much lower than the rate of increase in commercial credits and the general rate of increase in total bank credits. As a result the share of specialized credits in total credits declined from 37.2% in 1974 to 29-30% in 1978 and 1979.

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

Credits extended by the Agricultural Bank, which showed considerable increasis 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 20% in both 1976 and 1977 and 16.8% in 1978, and 17.5% in 1979.

DISTRIBUTION of BANK CREDITS
to
ECONOMIC SECTORS

	1973	1974	1975	1976	1977	1978	1979
Agriculture	21.5	27.7	28.0	24.9	23.5	20.3	26.2
Industry & Mining	35.8	35.0	38.2	42.1	43.0	44.6	41.6
Construction	3.5	3.6	2.8	2.5	2.4	2.3	2.0
Foreign Trade	9.0	7.9	7.9	7.6	6.4	6.9	6.9
Domestic Trade	11.8	11.0	12.5	13.2	15.1	17.8	15.7
Local Administration	4.6	3.9	3.4	2.6	2.7	2.7	2.2
Miscellaneous	11.9	10.0	6.5	6.4	6.8	5.2	5.3
Interbank	1.0	0.9	0.7	0.7	0.3	0.2	0.3
Total ...	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage distribution of bank credits give additional evidence of the emphasis given to distribution sectors especially in 1974 and 1975. In spite of a decrease in 1979 from 29 percent to 27.9 percent commercial credits have not lost their relative position. On the other hand Production Sectors were receiving 46.4% of total credits in 1971, they receive 39.6 percent in 1979. During the same period Bank credits to industry have dropped from 29.3% of total credits in 1972 to 25.4% in 1979, and credits to agriculture dropped from 14.4% in 1971 to 8.2 percent in 1979.

PERCENTAGE DISTRIBUTION of BANK CREDITS

	1971	1972	1973	1974	1975	1976	1977	1978 Oct.	1979 Oct.
Production Sectors	46.4	45.8	44.0	43.3	38.0	39.1	40.4	41.6	39.6
Industry	28.4	29.3	28.1	28.2	25.1	25.6	26.3	27.0	25.4
Industrial Bank	5.5	5.0	5.0	4.4	3.8	3.5	3.7	4.8	6.0
Other Banks	22.9	24.3	23.1	23.8	21.3	22.1	22.6	22.2	19.4
Mining	0.6	1.0	1.0	1.0	0.5	0.8	0.8	0.9	0.5
Agriculture	14.4	12.7	12.3	11.4	9.6	9.3	9.2	9.2	8.2
Agricultural Credits	4.7	4.3	3.6	3.1	2.3	2.3	2.3	2.2	2.0
Other Producers Coops.	9.7	8.4	8.7	8.3	7.3	7.0	6.9	7.0	6.2
Artisans	3.0	2.8	2.6	2.7	2.8	3.4	4.8	4.5	5.5
Housing	12.5	11.0	9.5	7.6	7.0	7.8	8.2	7.8	7.0
Residential Construction	3.9	3.1	2.5	2.1	1.6	1.4	1.3	1.2	1.1
Local Authorities	5.5	4.7	3.9	3.6	3.2	2.7	2.8	2.7	2.4
Natural Disasters	1.6	1.4	1.3	1.1	0.8	0.7	0.7	0.7	0.7
Other	1.5	1.8	1.8	0.8	1.4	3.0	3.4	3.2	2.8
Public Financial Sector	0.0	0.0	0.1	0.0	0.0	0.0	-	-	-
Distribution Sectors	27.3	27.9	27.4	33.4	34.8	30.9	29.4	29.0	27.9
Export Credits	11.7	10.5	12.1	18.8	19.8	15.8	15.0	14.2	14.4
Agricultural Sales Coop.	7.6	6.1	7.9	15.5	15.7	12.2	12.1	10.1	10.4
Other Export Credits	4.1	4.4	4.2	3.3	4.1	3.6	2.9	4.1	4.0
Tourism	0.4	0.3	0.3	0.6	0.4	0.4	0.4	0.4	0.3
Import Credits	6.4	6.7	5.6	4.2	4.5	4.7	3.9	3.2	2.7
Internal Trade	8.8	10.4	9.4	9.8	10.1	10.0	10.1	11.2	10.5
Undistributed	13.8	15.3	19.0	15.7	20.2	22.2	22.0	21.6	25.5
Credits less then TL.25.000	3.2	3.0	2.5	2.2	1.8	1.3	1.3	-	-
Mortgage Credits	0.9	0.9	0.8	0.6	0.5	0.5	0.4	0.4	0.3
Unclassified	9.7	11.4	15.7	12.9	17.9	20.4	20.3	21.2	25.2
TOTAL CREDITS.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Turkey.

TURKISH BANKING INSTITUTIONS, 1979

(million TL)

NAME of THE BANK	Paid Capital & Reserves	Consolidated	
		Deposits	Credits
Banks Founded by Special Laws			
Denizcilik Bankası	6.599	1.997	3.628
Devlet Sanayi ve İşçi Yatırım B.	1.025	-	1.283
Devlet Yatırım Bankası	5.608	-	79.059
Etibank	11.593	6.012	2.652
İller Bankası	2.104	151	9.067
Istanbul Emniyet Sandığı	14	1.720	880
Sümerbank	7.096	2.028	9.417
T.C. Turizm Bankası	1.499		1.017
T.C. Ziraat Bankası	4.789	99.698	134.445
T. Emlâk Kredi Bankası	1.129	15.135	14.582
T. Halk Bankası	1.146	19.803	29.848
T. Öğretmenler Bankası	220	4.897	3.026
T. Vakıflar Bankası	385	20.486	13.211
Total ...	43.211	171.929	302.117
Investment & Development Banks			
Sınaı Yatırım ve Kredi Bankası	499	-	2.432
T. Sınai Kalkınma Bankası	1.954	-	21.399
Total ...	2.404	-	23.831
Foreign Banks			
Arab-Türk Bankası	241	998	439
Banko di Roma	15	405	280
Hollantse Bank	353	136	147
Osmanlı Bankası	306	8.620	7.564
Total ...	917	10.161	8.430

(continued)

TURKISH BANKING INSTITUTIONS, 1979: - *(Cont'd)*

NAME of THE BANK	Paid Capital & Reserves	Consolidated	
		Deposits	Credits
Commercial Banks			
Akbank	2.519	63.686	42.956
Anadolu Bankası	266	5.715	3.495
Çaybank	2	7	
Demirbank	23	318	254
Denizli İktisat Bankası	28	175	139
Egebank	107	1.152	1.087
Elazığ İktisat Bankası	12	63	24
Eskişehir Bankası	53	634	385
Hisarbank	100	509	358
Istanbul Bankası	268	4.726	3.221
İşçi Kredi Bankası	11	207	119
Kocaeli Bankası	11	179	81
Milli Aydın Bankası	96	619	403
Pamukbank	967	15.115	10.644
Şekerbank	328	4.796	2.353
Türk Dış Ticaret Bankası	105	944	1.036
Türk Ticaret Bankası	614	25.178	15.989
T. Bağcılar Bankası	5	68	32
T. Garanti Bankası	633	17.190	10.370
T. İmar Bankası	260	1.234	950
T. İş Bankası	3.069	108.860	79.968
T. Tütüncüler Bankası	22	337	220
Uluslararası Endüstri ve Ticaret B.	60	1.540	1.297
Yapı ve Kredi Bankası	1.230	54.668	32.176
Total ...	10.798	307.926	207.584
GRAND TOTAL ...	57.330	490.017	541.943

6. CAPITAL MARKET

The private sector issued 3.882 million TL of bonds for public sale during 1979. 80 percent of the bonds were issued during the second half of the year. Compared with 1978 new bond issues increased by 96.6 percent in 1979.

Stocks on the other hand continued decreasing since 1974 a record year when 1.9 billion of stocks have been issued. Stock issues have been declining gradually and were down to 252 million TL in 1979.

ISSUES of BONDS and STOCKS
by
THE PRIVATE SECTOR

(million TL)

YEAR	Stock	Bonds
1970	132	387
1971	85	130
1972	180	350
1973	800	630
1974	1900	470
1975	700	1232
1976	685	1556
1977	450	1383
1978	372	1975
1979	252	3882

In spite of the considerable increase in the issue of private sector bonds when compared with the annual issue of bonds by the public sector, the share of the private sector does not exceed 7 percent on the average for the last five years.

BONDS ISSUED

(billion TL)

YEAR	Public Bonds	Private Bonds	Share of Public	Share of Private
1975	13.9	1.4	90.9	9.1
1976	20.7	1.7	92.4	7.6
1977	40.1	1.6	96.2	3.8
1978	35.5	2.2	94.2	5.8
1979	35.8	4.5	88.8	11.2
Total	146.0	11.4	92.8	7.2

The stock price index in the secondary market displayed a liveliness in the first months of 1978 and 1979 followed by a stagnation during the rest of the year.

CAPITAL MARKET STOCK PRICE INDEX

(January 1974 = 100)

	1975	1976	1977	1978	1979	1980
January	95.26	118.85	118.91	142.21	144.23	101.76
February	96.11	118.57	120.82	144.09	144.25	105.08
March	96.67	121.11	123.65	166.76	144.79	110.80
April	97.86	125.34	136.12	166.05	122.40	104.31
May	97.23	118.00	127.26	159.26	120.40	101.63
June	96.67	119.13	128.05	134.63	121.36	
July	94.58	119.81	128.22	143.21	121.69	
August	96.33	124.15	125.56	135.39	119.05	
September	98.65	126.02	134.48	132.82	119.48	
October	101.24	137.81	139.11	135.55	115.69	
November	104.46	119.19	139.00	138.71	107.66	
December	109.20	117.44	141.93	141.58	107.81	

CHAPTER XI

FISCAL BUDGETARY POLICY

FISCAL YEAR 1980 BUDGET

The Budget bill prepared by the Demirel Government was approved by the National Assembly and became effective as of March 1, 1980. Prior to the deliberations in the Parliament the bill was subjected to a critical review in the mixed budget committee where it received some minor modifications. A total of TL. 739.1 billion proposed by the government in the original draft was increased to TL. 770.0 billion by the committes. Despite this increase the FY 1980 budget is one of the least expansionary budgets.

The mixed budget committee reviewing the budget bill increased total expenditures by TL. 30.9 billion from the proposed TL. 739.1 billion to TL. 770.0 billion. The category of expenditures receiving the highest increase was investments that went up from TL 140.2 billion to TL 159.0 billion. The item that received the second highest increase in the hands of the committee was current expenditures, which was revised upward by TL 8.7 billion. Altogether the committee raised the government's proposal by TL. 30.9 billion.

Although FY 1980 budget gives the impression that it is expansionary, as it envisages a 89.2% increase in total expenditures compared to the previous one, this is almost illusory. The inflationary effect of a budget should be gauged in real terms. Thus, noting that the rate of inflation in 1979 was 69.7% (implicit GNP deflator) the FY 1980 budget is worth only TL. 453.7 billion in 1979 prices.

Needless to say the budget will be non-inflationary provided that it does not run into deficit till the beginning of March 1981. But the government seems to be worried and for a good reason. For one thing, the TL 345.3 billion proposed by the government for current expenditures was determined on the assumption that the coefficient applicable to salaries will be 22 instead of 25. Parliament raised current expenditures by TL 8.7 billion. But this is much less than the burden implied by the unexpected increase in the coefficient from 22 to 25. If the projected additional burden of TL 48 billion on the budget is not far off the mark, current expenditures till the end of the current FY will total more than TL 354 billion and the budget will be in deficit unless the government manages to extract more revenues or cut down its investment expenditures or transfer payments

Therefore, TUSIAD estimates that in its present form, 1980 budget can not be implemented and it should necessarily be modified to increase revenues and expenditures by about 30-40% percent or 225-250 billion TL.

1980 CONSOLIDATED BUDGET

(TL. billion)

	Proposal	Approved	Difference
Expenditures	739.1	770.0	30.9
Current expenditures	345.3	354.0	8.7
Investment expenditures	140.2	159.0	18.8
Transfer payments	253.6	257.0	3.4
Revenues	739.1	770.0	30.9
Tax revenues	620.3	636.3	16.0
Non-Tax normal revenues	50.8	49.4	- 1.4
Special revenues and funds	11.0	21.0	10.0
Annexed budget revenues	12.0	13.3	1.3
International borrowing	45.0	50.0	5.0

1980 CONSOLIDATED BUDGET (BREAKDOWN BY BUDGETARY APPROPRIATIONS)

(TL.billion&

	Proposed FY 1980	Approved FY 1980	Proposed FY 1979	Approved FY 1979
Expenditures	725.5	756.7	385.8	397.3
General Budget	725.5	756.7	385.8	397.3
Annexed Budget	119.5	123.9	77.7	78.9
Total	845.0	880.6	463.5	467.2
Treasury aid	-106.0	-110.6	-67.7	-69.3
Consolidated budget	739.0	770.0	395.8	406.9
Revenues				
General Budget	682.1	706.7	360.8	372.3
Annexed budget	12.0	13.3	10.0	29.6
Internal borrowing	45.0	50.0	25.0	25.0

The government estimate, approved by the National Assembly, is that out of total TL 770 billion, 82% or TL 636.3 will come from taxes. The share of taxes in total revenue was 81.4% in 1979.

Almost 61% of total tax revenues will be direct taxes on incomes. During the last five years the division of total tax revenues between direct and indirect taxes has altered in favour of the former.

	Direct Taxes		Indirect Taxes	
	(TL.million)	%	(TL.million)	%
1974	30.128	46	35.028	54
1975	44.391	47	50.617	53
1976	60.349	47	66.706	53
1977	88.738	53	78.635	47
1978	139.783	57	104.112	43
1979	234.600	58	167.200	42

Non-Tax normal revenues of the government, largely composed of revenues from fixed assets and portfolio investments is estimated to bring TL 49.4 billion. Special revenues and funds will be TL 21 billion, If the revenues of the annexed budget amounting to TL 13.3 billion is added to tax and non-tax revenues, TL 720 billion comes up as revenues from real sources. The government is planning to receive an additional TL 50 billion through internal borrowing, i.e., by selling bonds and securities to the public, thus bringing total revenues to TL 770 billion.

EXPENDITURE PATTERNS IN THE
CONSOLIDATED BUDGETS

(TL. billion)

	1978	%	1979	%	1980	%	Rate of Increase 79 / 80
Current Expenditures	93.7	35.2	169.8	41.7	354.0	46.0	108.5
Investment Expenditures	82.6	31.0	116.8	28.7	159.0	20.6	36.1
Transfer Payments	89.9	33.8	120.2	29.6	257.0	33.4	113.8
	266.2	100.0	406.8	100.0	770.0	89.2	

REVENUES OF THE CONSOLIDATED BUDGET

(TL. billion)

	1980	%
A. Tax revenues	636.2	82.6
Income taxes	391.4	50.8
Wealth taxes	4.1	0.5
Taxes on commodities	97.2	12.6
Taxes on services	50.4	6.5
Import taxes	93.1	12.1
B. Non-tax normal revenues	49.4	6.4
Revenues of state-owned enterprises	2.8	
Revenues from fixed assets and portfolio	6.6	
Interest revenue	27.0	
Penalties	3.7	
Miscellaneous	9.3	
C. Special revenues and funds	21.0	2.7
Total revenues	706.7	
D. Internal borrowing	50.0	6.5
E. Annexed budget revenues	13.3	1.7
	770.0	100.0

Tax revenues as percent of the budget revenues have considerably decreased from about 90% to 80% in the last six years.

	Tax Revenues	Non Tax Normal Revenues	Special Revenues and Funds
1974	93	6	1
1975	90	6	1
1976	90	8	2
1977	91	8	1
1978	80	18	2
1979	80	18	2

APPROPRIATIONS OF GENERAL BUDGET ADMINISTRATIONS

(TL. '000)

	1979 (Actual) (1)	1980 (Proposed) (2)	1980 (Approved) (3)	Difference (3-1)
Republican Senate	299.5	369.6	444.6	145.0
National Assembly	898.0	1.256.8	1.256.8	358.7
Presidency	94.5	172.4	173.0	78.5
Comptroller G.D.	309.6	451.0	470.1	160.5
Constitutional Court	32.1	40.9	41.2	9.0
Prime Minister's Off.	2.290.9	4.216.6	4.216.6	1.925.9
State Planning Org.	237.5	1.493.4	1.493.4	1.268.2
Council of State	157.1	245.7	245.7	88.6
High Court of Appeal	128.4	242.3	243.8	115.3
State Ins.of Statist.	290.7	757.9	757.9	267.2
Dpt.of Religious Affairs	3.138.7	6.424.4	6.448.1	3.309.4
Title Deed & Cads.Dpt.	1.238.7	2.306.2	2.008.2	1.067.4
Min. of Justice	6.362.4	13.498.2	13.498.4	7.135.9
Min. of Defence	64.763.6	113.243.8	113.603.8	48.840.2
Min. of Interior	2.152.7	4.612.8	4.767.1	2.614.4
G.D. of Security	9.975.9	17.574.4	19.670.2	9.694.3
Gen.Com.of Gendarmerie	6.267.8	12.315.9	15.608.9	9.041.0
Min.of For.Affairs	2.098.6	3.637.6	3.657.6	1.559.0
Min.of Finance	182.428.4	340.153.8	351.331.7	147.295.2
Min.of Education	46.052.2	87.930.8	88.255.5	42.203.3
Min.of Public Works	7.217.1	11.738.7	12.607.7	5.390.6
Min.of Trade	486.6	672.9	672.9	186.6
Min.of Health	17.529.5	31.817.6	31.822.6	14.293.0
Min.of Customs & Monopol.	866.8	1.135.4	1.135.4	268.5
Min.of Food & Agricul.	7.358.8	11.348.4	11.358.4	3.999.6
State Meteor. G.D.	452.2	828.7	828.7	376.5
Min. of Transportation	4.433.2	5.713.9	5.735.9	1.302.7
Min. of Labour	707.6	1.162.3	1.218.5	510.8
Min. of Industry	3.612.8	4.774.5	4.780.5	1.167.6
Min. of Tourism	2.631.2	2.765.8	2.774.8	143.6
Min. of Housing	4.449.6	6.590.8	7.602.5	3.152.9
Min. of Rural Affairs	16.708.2	21.118.4	26.921.4	10.213.1
Land & Resettlement G.D.	1.076.6	1.108.1	1.805.1	528.4
Min. of Energy & Nat.Res.	5.539.3	6.734.5	11.734.5	695.2
Min. of Forestry	1.229.4	2.439.1	2.439.1	1.209.6
Min. of Youth & Sports	427.8	531.9	560.3	132.5
Min. of Cultural Aff.	2.485.1	4.210.0	4.286.7	1.801,5
Min. of Social Security	93.4	109.9	109.9	16.5

Expectations and estimations concerning the Budget of Fiscal Year 1980 indicate a deficit of TL 80 billion and a cash deficit of TL 100 billion.

The budget for fiscal year 1980 was accepted in the parliament with an expenditure allocation of TL 770.4 billion. At the end of three months of implementation it is highly probable that the budget will reach TL 830 billion of expenditures. Budgetary deficit will thus reach TL 80 billion.

With the repayment of 20 billions worth of debts to contractors the cash deficit amounts to TL 100 billion.

The cash deficit is expected to be financed through 50 billion sales of securities and through Central Bank Financing of the remaining 50 billion.

CONSOLIDATED BUDGET

(Billion TL.)

	Estimate	Realization	
	1980	1979	1978
Revenues	750.0	500.1	293.4
- Tax	625.0	404.9	245.4
- Non-tax	90.0	91.4	55.5
- Funds	20.0	18.7	2.9
- Annexed Budgets	15.0	10.0	4.9
Expenditures	830.0	608.2	346.0
- Personnel	300.0	188.9	108.0
- Other Current Exp.	100.0	62.5	41.2
- Investments	130.0	107.9	71.2
- Transfer Payments	300.0	248.9	125.6
Budget Deficit	- 80.0	-108.1	- 52.6
- Advances	-	- 1.1	- 15.0
- Deposit Funds	- 20.0	43.2	6.5
- Cash Deficit	-100.0	- 66.0	- 61.1
Financing	100.0	65.4	58.4
- Internal Borrowing	50.0	31.0	16.9
- Central Bank	50.0	34.4	44.2
- Foreign Debt	-	-	- 2.7
- Errors and Omissions	-	0.6	2.7

Recent Trends in Budgetary Allocations

During the last five years Government Budgets as voted, became merely an expression of intentions. Under the impact of inflation the final outturn of public accounts has deviated substantially from original appropriatins. End of the year allocations were higher from original allocations by around 40% in 1975 and 1976, 50% in 1977 and 70% in 1978 and 1979.

BUDGETARY ALLOCATIONS

	Beginning Allocation (Billion TL) (1)	Annual % Increase (2)	End of Year Allocation (Billion TL) (3)	% Increase During The Year (3/1)
1975	108.4	-	149.1	37.5
1976	154.0	42.1	216.4	40.5
1977	225.7	46.6	334.2	48.0
1978	266.3	17.9	455.9	71.1
1979	406.9	52.7	693.2	70.3

Relative Share of the Consolidated Budget in National Output

The relative share of the consolidated budget increased considerably between 1975 and 1977 as percent of GNP from 22.4% in 1975 to 28.3% in 1977 but dropped thereafter to 27.3% in 1978 and to 25.2% in 1979.

The same trend is obvious when expressed on a per capita basis. In 1968 constant prices the consolidated budget was 1013 TL. per capita in 1975, it went up to 1365 TL. in 1977 and dropped thereafter to 1194 TL. in 1979.

RELATIVE SHARE OF THE
CONSOLIDATED BUDGET

(1968 prices)

	GNP (Billion TL.) (1)	Consolidated Budget (Billion TL) (2)	% (2/1)
1975	1814	406	22.4
1976	1953	470	24.0
1977	2030	574	28.3
1978	2091	570	27.3
1979	2095	528	25.2
Per capita	(TL.)	(TL.)	%
1975	4532	1013	22.3
1976	4760	1144	24.0
1977	4826	1365	28.2
1978	4850	1321	27.2
1979	4727	1194	25.3

The decreases in 1978 and 1979 are due to the result of inflation rates being much higher than the increases in the Consolidated Budgets.

REAL GROWTH OF THE
CONSOLIDATED BUDGET

(%)

	1975	1976	1977	1978	1979	5 Year Average
GNP	7.9	7.7	3.9	2.9	0.2	5.9
Cons.Bud.	25.3	15.8	22.2	-0.7	-15.1	9.5

Recent Trends in Budget Revenues

Effective receipts increased considerably in 1975 and in the last two years as a result of fiscal drag, which in the absence of income tax reforms that had been planned but not carried out, has automatically helped to increase the realization rate of budgetary revenues to 107.4% in 1975, to 122.1% in 1978 and to 128.9% in 1979. We can also rightly assume that the probable budget deficit was considerably reduced through the fiscal drag.

BUDGET REVENUES

	Estimates	% Annual Increase	Effective Receipts	% Annual Increase	Realization Rate
1975	108.460	30.4	116.522	54.3	107.4
1976	154.293	42.2	153.727	31.9	99.6
1977	225.931	46.4	200.137	30.2	88.6
1978	266.548	18.0	325.629	62.7	122.1
1979	395.900	48.5	510.318	56.7	128.9

The Tax Burden

The tax burden or more simply stated tax revenues as percent of Gross National Product remained around 16% between 1971 and 1975, then jumped to 19% during the following three years and slightly decreased to 18.5% in 1979.

The increase in the tax burden is related to the elasticity of the tax system to price and income changes.

TAX BURDEN

	GNP	% Increase	Tax Revenues	% Increase	Tax Elasticity	Tax Burden
1971	192.6	30.3	31.4	36.6	1.21	16.3
1972	240.8	25.0	39.0	24.1	0.96	16.2
1973	309.8	28.7	52.0	33.2	1.16	16.8
1974	427.1	37.8	65.2	25.4	0.67	15.2
1975	535.8	25.4	95.0	45.8	1.80	17.7
1976	670.0	25.1	127.1	33.7	1.34	19.0
1977	870.2	29.9	168.2	32.4	1.08	19.3
1978	1288.7	48.2	245.4	45.9	0.95	19.0
1979	2189.8	69.9	404.9	65.0	0.93	18.5

Distribution of Tax Revenues

As has been explained above the share of direct taxes has considerably increased in 1978 and 1979, while indirect taxes have decreased.

Taxes on commodities went down to 15.5% in 1978 from 21.8% in 1975.

Taxes on services also went down from 10.5% in 1975 to 8.9% in 1979 and taxes on foreign trade from 21% in 1975 to 17.3% in 1979.

The increase in the share of income taxes might look as a favorable development at first sight, but considering that a large part of income tax revenues are paid by workers and government employees we can infer that the relative increase in income tax revenues is due to the progressivity of income tax brackets and to the inflationary increase of incomes.

DISTRIBUTION OF TAX REVENUES
(%)

	1975	1976	1977	1978	1979
Taxes on Income	45.8	46.7	52.1	56.5	57.4
Taxes on Wealth	0.9	0.8	1.1	0.9	0.7
Taxes on Commodities	21.8	21.0	17.7	15.5	16.8
Taxes on Services	10.5	10.7	10.5	9.7	8.9
Taxes on Foreign Trade	21.0	20.8	18.6	17.4	17.3
	100.0	100.0	100.0	100.0	100.0

Also, there are many loopholes in the tax system so that at higher income levels and tariff brackets, evasion becomes more prevalent. It is estimated that tax evasion is around 70% of declared incomes and is reported that 600.000 tax payers have declared incomes below minimum wage level.

Consequently, a comprehensive review of the tax system is called for to secure higher revenues within a more equitable distribution of direct and indirect taxes. Also, considering the abnormal high percentage of tax evasion, it is vitally important to modernize the tax administration and to improve the auditing practises and the number of auditers.

CHAPTER XII

ENERGY

During the planned period developments in the energy sector were not sufficient to meet quantitatively and qualitatively the needs of economic development at the required time.Plan targets were not realized and gradually the energy sector in general and electrical energy in particular created bottlenecks for the Turkish Economy.

Notwithstanding per capita primary energy consumption expressed in oil equivalents increased from 432 kg in 1962 to 729 in 1979 but was kept always under pressure.

PRIMARY ENERGY PRODUCTION and CONSUMPTION

(in thousand tons of Oil Equivalent)

YEAR	Total Energy Consumption	Total Energy Production	Production Consumption Rate
1962	12.490	7.956	63.6
1967	16.692	12.387	74.2
1972	23.174	14.438	62.3
1977	33.363	16.836	50.5
1978	33.569	16.794	50.0
1979	32.049		
1980	34.492		

In fact, total primary energy consumption has exhibited an average annual growth rate of about 5.7 while production has not exceeded 5% on the average. Production has been able to cover only 62.5 percent of consumption on the average between 1962-1977.

Known primary energy reserves show that lignite and hydraulic resources are the most important energy resources. But full use of the known reserves were not made and efforts to increase known reserves were far from being satisfactory.

PRIMARY ENERGY CONSUMPTION

(Thousand Tons of Oil Equivalent)

	1962	1967	1972	1977	1978	1979	1980*
Coal	2.430	2.776	2.837	3.122	2.973	3.132	3.416
Lignite	1.001	1.395	2.253	3.900	4.428	4.110	5.250
Oil Products	2.834	5.718	10.826	17.390	17.020	15.660	17.384
Hydraulic	281	595	802	2.148	2.341	2.475	2.558
Imported Electric Energy	-	-	-	123	155	264	400
Total Commercial Energy	6.546	10.484	16.646	26.683	26.917	25.641	29.008
Wood	3.916	3.849	4.051	4.300	4.272	4.028	3.104
Dung	2.028	2.359	2.477	2.380	2.380	2.380	2.380
Total Non-Comm. Energy	5.944	6.208	6.528	6.680	6.652	6.408	5.484
GRAND TOTAL	12.490	16.692	23.174	33.363	33.569	32.049	34.492

*Target

Source: State Planning Organization, IV. Five Year Plan and 1980 Annual Program

TURKEY'S KNOWN RESERVES of PRIMARY ENERGY RESOURCES, 1977

(Thousand Tons)

	Visible	Probable	Possible	Total
Coal	186.154	285.233	904.609	1.375.996
Lignite	3.923.505	1.728.124	279.630	3.931.259
Hydraulic (Gwh)	74.000	-	-	74.000
Crude Oil	57.000	-	690.000	750.000
Asphaltite	17.535	18.390	16.300	52.225
Bituminous	280.000	-	-	5.000.000
Nuclear Energy Resources	-	-	-	-
Uraniam	-	-	-	4
Thorium	-	-	-	380

The share of coal in total energy consumption has fallen sharply since 1962, from 37% to 12% in 1979. The share of lignite has decreased for almost a decade and then started to increase slightly. On the other hand, oil products constitute over 60% of energy comsumption. Hydraulic sources had a share of 4%, and now its share has risen to almost 10%.

Attempts are being made to increase the relative share of coal and decrease the dependence on oil since 1978.

SHARE OF RESOURCES IN TOTAL COMMERCIAL PRIMARY ENERGY CONSUMPTION

	1962	1972	1979
Coal	37.1	17.0	12.2
Lignite	15.3	13.5	16.0
Oil	43.3	65.0	61.1
Hydraulic	4.3	4.8	9.6
Imports of Electricity	-	-	1.0

1. ELECTRICAL ENERGY

Turkey generates about 2.2 billion Kwh of electrical energy annually. However, this domestic production is uncapable of meeting demand. Therefore energy is being imported, from USSR and Bulgaria. In 1979, imports of electrical energy has reached to 1050 million Kwh.

ELECTRICAL ENERGY PRODUCTION

	Point Power (MW)	Energy (Gwh)
1962	725	3560
1967	1241	6217
1972	1951	11242
1977	3376	20564
1978	3641	21726
1979	3900	22522

ELECTRICAL ENERGY (BY SOURCES OF PRODUCTION)

	1962		1972		1979	
	Gwh	%	Gwh	%	Gwh	%
Coal	1520	42.7	1432	12.7	1126	5.0
Lignite	600	16.8	1489	13.3	5045	22.4
Fuel	316	8.9	5116	45.5	6193	27.5
Hydraulic	1124	31.6	3204	28.5	10158	45.1
Total	3560	100.0	11242	100.0	22522	100.0

ELECTRICAL ENERGY (BY SOURCES OF PRODUCTION)

	Coal		Lignite		Fuel		Hydraulic		Total	
	Gwh	%	Gwh	%	Gwh	%	Gwh	%	Gwh	%
1973	1502	12.1	1742	14.0	6578	52.9	2603	21.0	12425	100.0
1974	1516	11.2	2355	17.5	6249	46.4	3356	24.9	13477	100.0
1975	1427	9.1	2686	17.2	5606	35.9	5904	37.8	15623	100.0
1976	1346	7.4	2931	16.3	5579	30.5	8371	45.8	18277	100.0
1977	1266	6.2	3606	17.5	7100	34.5	8593	41.8	20565	100.0
1978	1344	6.2	4382	20.2	6635	30.5	9365	43.1	21726	100.0
1979	1126	5.0	5045	22.4	6193	27.5	0158	45.1	22522	100.0
1980*	1176	4.9	5645	23.7	6768	28.4	0231	43.0	23820	100.0

The relative share of hydro sources in production of electrical energy has been around 30% between 1962 - 1972, and it has fallen well below that in 1973 and 1974. Since then, its share has risen to reach 45% in 1979.

There is a widespread belief that Turkey has a great hydro potential which she can not utilize fully. It is estimated that only about 15-20% of total hydro power is being utilized already. The state institution, State Waterworks (DSI), responsible for hydro sources has a recent survey on the subject. The survey states that somewhat 500 dams and 350 hydroelectric power plants have to be built in order to fully utilize the hydro potential existing in Turkey. However, such high figures will bring as a consequence:

- 5 million hectares of land will be irrigated
- 200 thousand hectares will be protected from overflows
- almost 1 billion m^3 clear water will be provided
- and, nearly 100 billion bulk kwh of electrical energy will be generated.

HYDROPOWER PLANTS in USE

	Electricity Production (million kwh)	Starting Year of Production
SARIYAR	400	1956
SEYHAN	290	1956
KEMER	150	1958
HIRFANLI	400	1959
DEMIRKOPRU	200	1960
KESIKKOPRU	250	1966
GOKCEKAYA	560	1972
KEBAN	5.800	1974
OTHERS	150	-
TOTAL	8.200	-

There are a number of hydropower plants under construction which are planned to start electricity production in a time span up to a decade. Totally, they will generate about 24 billion kwh of electricity. But, on the other hand, a number of thermic centers are being planned which are expected to generate about 35 billion kwh of electricity.

ENERGY PRODUCTION PLANTS
UNDER CONSTRUCTION

Power Plant & Installed Capacity (MW)	Completion Year	Production	
		Average Gwh	Reliable Gwh
1. Combined cycle (60)	1980	180	180
2. Auto-production plant (37)	1979	185	185
3. Geo-thermal (15)	1981	90	90
4. Soma - B (330)	1980	1,980	1,980
5. Yatagan (420)	1980	2,520	2,520
6. Afsin-Elbistan (A) (1360)	1980/82	7,800	7,800
7. Cayirhan (300)	1981	1,800	1,800
8. Y. Catalagzi (150)	1982	900	900
9. Kangal (300)	1982	1,800	1,800
10. Orhaneli (200)	1982	1,200	1,200
11. Auto-production plants (140)	1982	700	700
12. Old Units (-169)	1982		
13. Can (600)	1984/86	3,600	3,600
14. Nuclear (600)	1985	4,200	4,200
15. Afsin-Elbistan (B) (1200)	1985	7,800	7,800
TOTAL (5543)		34,755	34,755
Hydraulic Power Plants			
16. Dogankent (B)(38)	1980	157	0
17. Hasan Ugurlu (250)	1979	900	820
18. Suat Ugurlu (46)	1980	273	206
19. Aslantas (138)	1981	569	360
20. Keban (720)	1980/81	1,678	632
21. Kokluce (90)	1982	584	576
22. Adiguzel (42)	1981	250	150
23. Oymapinar (540)	1982	1,620	412
24. Karakaya (1-2-3) (900)	1983	5,354	5,354
25. Karakaya (4-5-6) (900)	1984/85	2,000	675
26. Altinkaya (700)	1986/87	1,632	1,236
27. Y. Karababa (2400)	1986/88	8,795	7,500
TOTAL (6764)		23,842	17,921
GRAND TOTAL (12,307)		58,597	52,676

2. TURKEY'S OIL OUTLOOK

The oil crisis of 1973, when crude prices went up fourfold has had a devastating effect on the Turkish Economy. Though Turkey was not immediately affected then, many of the present ills can be traced back to that crisis.

Turkey's oil bill has been steadily increasing for the past 12 years, and has recently reached such enormous proportions by Turkish standards that much of the country's export earnings are devoted to financing only oil imports.

Since 1970, oil imports grew considerably, as indicated in the table below:

OIL IMPORTS

(1970-1979)

YEAR	CRUDE OIL Quantity *000 tons*	CRUDE OIL Value *$ million*	PETROLEUM PRODUCTS Quantity *000 tons*	PETROLEUM PRODUCTS Value *$ million*	TOTAL Quantity *000 tons*	TOTAL Value *$ million*
1970	3.478.6	49.1	357.1	15.7	3.835.7	64.8
1971	5.623.9	97.2	557.7	23.2	6.181.6	120.4
1972	6.769.3	124.0	660.3	29.1	7.429.6	153.1
1973	7.827.4	200.1	265.6	17.6	8.093.0	217.7
1974	10.464.5	693.6	475.4	54.6	10.939.9	748.2
1975	8.920.1	718.1	777.0	85.1	9.697.1	803.2
1976	11.512.7	1.002.4	1.032.4	100.0	12.545.1	1.102.4
1977	11.750.4	1.151.6	2.540.5	275.7	14.290.9	1.427.3
1978	10.762.1	1.043.5	2.814.6	345.2	13.576.7	1.388.7
1979	7.191.3	961.6	4.566.7	745.7	11.758.0	1.707.3

Source: Ministry of Trade.

These figures tend to show the enormous jump in Turkey's oil bill in the past five years.

In 1979, Turkey has imported $ 1.707 million worth of crude oil and petroleum products -- a 22.9% increase over 1978.

In spite of decrease of imports of crude oil from an all time high 11.7 million tons in 1977 to 10.8 million tons in 1978 and to a further 7.2 million tons in 1979, dollar value of Crude-oil imports decreased only by 9.4 percent in 1978 and 7.8 percent in 1979.

Total imports of crude oil and petroleum products remained roughly the same at 1.4 billion dollars in 1977 and 1978 and increased to 1.7 billion dollars in 1979.

PRODUCTION

Turkey's annual crude oil production is slightly below 3 million tons. Although it has been around 3.5 million tons per annum before 1975, it has fallen below the 3 million ton level since then.

On the other hand, oil imports have been over 10 million tons for 1976, 1977 and 1978. It has fallen sharply(by) to 7 million tons in 1979.

Consequently, the share of domestic production in total oil consumption has gradually fallen down, from 50% in 1973 to about 20% in 1978. In 1979, however, domestic production has constituted almost 30% of total domestic consumption, due to the low level of imports.

CRUDE OIL:
DOMESTIC PRODUCTION, IMPORTS & TOTAL SUPPLY
(million tons)

YEAR	Domestic Production (I)	Imports (II)	Total Supply (III)	%Share of Dom.Pro. (I/III)
1970	3.542	3.478	7.020	50.4
1971	3.550	5.624	9.174	38.7
1972	3.388	6.769	10.157	33.3
1973	3.511	7.827	11.338	30.9
1974	3.308	10.464	13.772	24.0
1975	3.095	8.920	12.015	26.0
1976	2.595	11.513	14.108	18.4
1977	2.713	11.750	14.463	19.0
1978	2.736	10.762	13.497	20.0
1979	2.834	7.191	10.025	28.3

Within domestic production, about 40% is realized by the TPAO, Turkish national company of oil extraction. Another 50% is claimed by Shell, and the remaining 10% by Mobil.

Total production in 1979 has been 2.831 thousand tons, which represents an increase of only 3.5% over the 2.736 thousand tons production of 1978. TPAO has increased its production by 16%, from 992 thousand tons in 1978 to 1.150 thousand tons in 1979.

CRUDE OIL PRODUCTION
(thousand tons)

YEAR	TPAO		ERSAN		MOBIL-PANOIL		SHELL		TOTAL	
	Quant.	%	Quant.	%	Quant.	%	Quant.	%	Quant.	%
1955	178.6	100	-	-	-	-	-	-	178.6	100
1960	362.5	96	12.7	4	-	-	-	-	375.2	100
1965	701.1	46	41.3	3	443.3	29	348.2	22	1.533.9	100
1970	1.064.0	30	56.7	2	477.4	13	1.943.8	55	3.542.0	100
1975	1.101.6	35	12.7	1	352.3	11	1.628.9	53	3.095.5	100
1976	1.030.1	40	13.2	1	301.9	11	1.250.1	48	2.595.4	100
1977	1.070.1	39	3.7	-	426.0	16	1.213.2	45	2.713.0	100
1978	992.2	36	11.0	-	356.6	13	1.376.5	50	2.736.3	100
1979	1.149.8	41	2.2	-	296.4	10	1.382.9	49	2.834.6	100

Refinery Production

In Turkey, there are four oil refineries with a total oil processing capacity of 17 million tons per annum. They processed a total of 13 million tons of crude oil altogether in 1979 to obtain 11.2 million tons of petroleum products.

CAPACITIES & PRODUCTION OF
TURKISH OIL REFINERIES
(1979)

	Capacity	Production	Capacity Utilization(%)
IPRAS	7.800	7.600	97.4
ATAS	4.400	1.400	31.8
ALIAGA	3.700	3.100	83.8
BATMAN	1.100	1.075	97.7
	17.000	13.175	77.5

Due to the very low level of oil imports in 1979 (because of the foreign exchange constraints), Turkey's refineries operated at 77.5% of their capacity. Turkey has to give top priority to increase domestic production of oil before undertaking investments to increase her refinery capacity.

In view of the recent policy developments and the incentives the Government has provided to encourage foreign private investment to supplement TPAO's own efforts in exploring and developing indigenous oil resources, Turkey will have to invest more and will have to cooperate with experienced foreign companies to produce more crude oil as the world oil prices continue their trend of sharp increase.

Reserves

According to a recent study, Turkey's visible crude oil reserves amount to 57m tons. But at present, Turkey produces only 2.8m tons of crude a year from 1398 wells that were sunk years ago.

Yet another study, by an ad hoc committee has stated that Turkey has probable crude reserves amounting to 600m tons. If this proves the case, Turkey won't be needing to import any crude in the years to come --provided that at least 17m tons of crude is produced a year. The present oil import bill is as high as $3 billion.

Oil Explorations

Foreign and local companies operating in Turkey have a combined total of 270 oil exploration licences --250 in the hands of Turkish companies, the remaining 20 in the hands of foreign companies. The licences have been issued for a total land of 13.9m ha. The TPAO has 243 licences covering an area of 12.7m ha.

In the past few years, however, foreign oil companies, have been searching for oil less and less, while TPAO has concentrated its efforts on geological and geo-physical studies. In the past two years there has been no geological and geophysical study conducted by a foreign oil company.

This is partly because of lack of incentives granted to foreign prospecting. As the following table indicates, foreign oil companies were less interested in Turkey during the past two years than any time in the recent history.

FIELD STUDIES IN TURKEY

	TPAO		Other Companies		Total		% of activity	
	Team	Month	Team	Month	Team	Month	TPAO	Others
GEOLOGICAL FIELD STUDIES								
1969	31	25/30	21	26/30	53	21/30	59	41
1970	28	24/30	35	6/30	64	-	44	56
1971	26	00/30	16	8/30	42	8/30	62	38
1972	24	19/30	10	25/30	35	14/30	70	30
1973	41	27/30	-	-	-	-	-	-
1974	39	17/30	2	7/30	41	24/30	95	5
1975	42	23/30	9	5/30	51	28/30	82	18
1976	40	20/30	2	6/30	51	26/30	96	4
1977	79	14/30	1	22/30	81	6/30	98	2
1978	94	13/30	-	8/30	94	21/30	100	0
1979	79	23/30	-	-	79	23/30	100	0
GEOPHYSICAL FIELD STUDIES								
1969	62	20/30	21	11/30	84	1/30	75	25
1970	27	26/30	26	14/30	54	10/30	51	49
1971	47	26/30	35	25/30	83	21/30	57	43
1972	40	23/30	12	17/30	53	19/30	76	24
1973	44	22/30	8	0/30	52	22/30	85	15
1974	37	00/30	12	5/30	54	12/30	81	19
1975	44	7/30	10	5/30	49	5/30	76	24
1976	64	9/30	11	9/30	75	18/30	85	15
1977	90	7/30	3	20/30	93	27/30	96	4
1978	78	15/30	16	29/30	95	14/30	82	18
1979	79	23/30	-	-	79	23/30	100	0

Oil Drillings

According to the available data, Turkey has only 33 wells to sink for oil prospecting. The following table gives the breakdown of the wells owned and operated by domestic and foreign companies alike.

	1973	1974	1975	1976	1977	1978	1979
TPAO	16	16	13	18	18	27	27
MTA	2	3	3	3	3	3	2
ALADDIN M.E.	1	1	1	1	1	1	1
ERSAN PETROL	2	2	2	2	2	2	2
K.C.A.(SHELL)	2	2	2	2	2	2	1
TOTAL	23	21	21	26	26	34	33

There are not enough wells in Turkey to maintain a steady level of output. Operational wells of TPAO are only 27.

CHAPTER XIII

THE STATE OF THE TURKISH ECONOMY AT MID 1980

1. PRODUCTION

The major problems facing the Demirel government after assuming power in November 1979 was the problem of boosting production and bringing down the rate of inflation.

The policies followed by the government have had some success in curbing price rises but they have not yet proven to be effective in increasing production. The plan of the government was to boost up domestic production by importing all of the necessary oil and raw materials. Oil and raw materials have so far been imported in sufficient quantities but the available production statistics indicate that the industry is still operating much below full capacity and that production volume has in fact decreased.

Production figures for 110 basic commodities in the first quarter of 1980 disclosed by the State Planning Organization indicate that there has been a decrease in the production of 75 commodities compared to the first quarter of 1979. Commodities whose production dropped included coal, copper, electricity, cigarettes, alcoholic beverages, cotton textiles, tyres, paper, electric bulbs, and products of the automobile industry. On the other hand production of tea, gasoline, fuel oil and fertilizers increased slightly.

If the trend continues a considerable decline can be expected in the manufacturing output compared to 1979.

Though the expectation is that agricultural output will hit a record level in 1980, the Turkish Economy cannot afford further decline in its manufacturing output.

USE of CAPACITY (January - April)

Out of 38 commodities only 7 recorded increases in the capacity used. For 31 commodities the use of capacity in the

JANUARY - APRIL CAPACITY USE

	Unit (000)	1979 First Four Months		Capacity use %	1980 First Four Months		Capacity use %
		Capacity	Production		Capacity	Production	
Feed	tons	110.5	115.0	104.1	121.2	108.6	89.6
Cotton Thread	tons	26.1	15.4	59.0	24.1	14.1	58.5
Woolen Thread	tons	2.5	1.2	46.8	2.5	1.1	43.9
Woolen Textile	meters	3.270	2.394	73.2	3.112.9	1.662.0	53.4
Shoes	pairs	1.310	933	71.2	1.310.0	799.2	61.0
Timber	m^3	112.6	95.8	85.1	112.6	77.5	68.8
Chip Plate	m^3	11.3	6.6	58.4	11.3	4.0	35.4
Packing Boxes	unit	500.0	493.4	98.7	500.0	343.7	68.7
Paper	tons	121.3	107.0	88.2	123.8	90.9	73.4
Rubber	units				2.704.5	1.826.5	67.5
PVC	tons	16.500	4.658	29.9	15.600	9.737	62.4
Poliethylene	tons	7.666.7	5.163	67.3	8.100	5.420	66.9
Synthetic Rubber	tons	15.216.6	9.412	61.0	15.217	6.695	44.0
Benzine (ATAS)	tons	201.0	68.4	34.0	201.0	107.0	53.2
Fuel-Oil (ATAS)	tons	707.7	219.7	31.0	707.7	283.0	40.0
Motor-Oil	tons	396.7	155.0	39.1	396.7	224.0	56.5
Crude Oil processed	tons	5.533.3	3.318.6	71.5	5.666.7	4.051.6	79.4
Ammoniac	tons	159.3	101.9	64.0	159.3	116.3	73.0
Sulphuric Acid	tons	418.0	102.3	24.5	592.0	55.5	9.4
Phosphoric Acid	tons	132.7	38.3	28.9	177.8	43.8	24.6
Ammonium Sulfate	tons	53.3	44.3	83.1	120.0	48.1	40.0
Ammonium Nitrate	tons	16.7	23.1	138.3	16.7	22.2	133.2
Ure	tons	170.5	97.7	57.3	170.5	153.0	89.7
Ammonium Fertilizers	tons	1.319.5	596.0	45.2	1.427.7	676.6	47.4
Phosphate Fertilizers	tons	1.241.0	641.6	51.7	1.436.1	476.0	33.1
Cement Private	tons	3.863.3	2.789.8	72.7	3.584.0	1.505.3	42.0

(continued)

JANUARY - APRIL CAPACITY USE : - *(Continued)*

	Unit (000)	1979 First Four Months		Capacity use %	1980 First Four Months		Capacity use %
		Capacity	Production		Capacity	Production	
Cement public	tons	2.464.0	1.575.2	63.9	2.510.0	1.084.1	43.2
Basic Refractories	tons	8.500.0	9.502.0	111.8	11.333.0	8.865.0	78.2
Acid Refractories	tons	13.166.7	11.340.0	86.2	13.166.7	11.056.0	84.0
Coke	tons	1.193.3	728.6	61.0	1.041.7	587.0	56.4
Crude Iron	tons	1.166.7	712.7	61.1	1.016.7	603.1	59.3
Steel	tons	1.033.3	656.3	64.0	1.235.0	734.6	59.5
Zinc	tons	13.3	6.4	48.1	11.2	3.7	33.0
Ferro Chromium	tons	20.2	12.2	60.4	20.2	9.0	44.6
Liquid Alluminium	tons	20.0	10.6	53.0	20.0	10.4	52.0
Blister Copper	tons	22.9	5.2	22.7	22.9	4.5	19.7
Accumulators	units	323.900	88.467	27.3	323.900	68.979	21.5
Tractors	units	20.666.7	4.037	19.5	24.833	5.769	16.2

FOREIGN EXCHANGE BUDGET 1980

	(mill. TL)
Foreign Exchange Income	
. Export Proceeds	2.500
. Workers' Remittances	1.500
. Tourism & Foreign Travel	250
. Other Invisibles	250
. Program Credits	1.800
. Acceptance Credits & Credits against Commodities	700
TOTAL	7.000
Foreign Exchange Outlays	
. Import Transfers *(Liberation)*	4.475
. Import Transfers *(Allocation)*	850
Others	75
Interest Payments	750
Repayment of Debt	850
TOTAL........	7.000
Financing of Imports	
1. Liberalized Items	4.475
2. Allocated Items	850
3. Bilateral Agreements	150
Program Imports	5.475
4. Infrastructure	10
5. Project Credits	580
6. Imports with Waiver	100
TOTAL	6.250

BALANCE of PAYMENTS
(million $)

	January 1979	- March 1980
I. Current Accounts		
A. Foreign Trade		
1. Exports	661.7	699.7
2. Imports	-1.194.5	-1.355.4
Foreign Trade Balance	- 532.6	-655.7
B. Invisibles		
1. Interest Payments on Foreign Debts	-100.7	-102.3
2. Tourism & Foreign Travel *(net)*	12.7	31.2
3. Workers' Remittances	214.2	368.2
4. Profit Transfers	-9.0	-7.8
5. Project Credits Service Payments	-16.2	(..)
6. Other Invisibles *(net)*	59.9	43.7
Invisibles Balance	160.9	333.0
C. Infrastructure & Offshore	0.9	1.0
Current Accounts Balance	-370.8	-321.7
II. Capital Movements		
1. Debt Repayment	-85.2	-87.7
2. Private Foreign Capital	11.9	13.0
3. Project Credits	112.3	142.1
4. Imports with Waiver	29.1	20.0
5. Program Credits	121.1	822.0
6. Other Capital Movements	-197.3	-36.9
Balance of Capital Movements	-8.1	872.5
Overall Balance	-378.9	550.8
III. Reserve Movements (+ = Decrease)	71.2	-456.3
IV. IMF	-13.7	-37.2
V. Short & Medium Term Capital Movements	247.9	159.1
VI. Net Errors & Omissions	73.5	-216.4

Source: Ministry of Finance, June 10, 1980.

first four months of 1980 was much lower than in the corresponding period of 1979.

Increased capacity was recorded in the case of benzine, fuel oil, motor oil, crude oil processed, ammoniac, ure and ammonium fertilizers.

We can expect increases in the use of capacity in the second half of 1980, due to the time lags involved in the import and distribution of inputs.

2. BALANCE OF PAYMENTS

The balance of payments for the first quarter of 1980 shows a deterioration in the balance of foreign trade increasing the deficit from 533 million dollars in 1979 to 656 million dollars in 1980. There is on the other hand an improvement in the invisibles balance which increased from 161 million dollars to 333 million dollars in 1980. As a result of these changes, Current Accounts Deficit went down from 371 million dollars to 322 million dollars.

There is a considerable increase in program credits from 121 in 1979 to 822 million dollars changing the end of March 1979 deficit of 379 millions to 551 million dollars surplus. The overall balance has thus been attained with very limited short term capital movements 159 million dollars in 1980 as contrasted to 248 million dollars in 1979, and with an increase in reserves (456 million dollars) in 1980 instead of a decrease in reserves of 71 million dollars in 1979.

FOREIGN EXCHANGE BUDGET

Foreign Exchange Income is expected to attain $ 7 billion during 1980. Sixty percent of the foreign exchange budget is covered by Export Proceeds, workers' remittances and tourism.

On the other hand, 23 percent of foreign exchange outlays are earmarked for interest payments and repayment of debt.

DEBT REPAYMENT

Debt repayment and interests payments amounted to half a billion dollars in the first four months of 1980. Compared with the four months of 1979, 1980 shows a higher indebtedness of 14.5 million dollars, 4 million more of debt repayment and 11 million more of interest. On the other hand there is 152 million dollars less debt repayment for petroleum. As percent of exports debt repayment and interest amounted to 54.9 percent in January-April 1980. It was 65.3 percent in Jan-Apr. 1979. The share of interest in total repayments was 24.5 % in Jan.-Apr. 1979, it increased to 29.3 percent in Jan.-Apr. 1980.

JANUARY - MAY EXPORTS

	1979		1980	
	Quantity (ton)	Value (000 $)	Quantity (ton)	Value (000 $)
I. Agriculture & Animal Husbandry	-	606,853	-	678,604
A. Cash Crops	-	581,709	-	658,054
. Cereals	-	54,227	-	10,118
Wheat	436,971	52,703	49,263	7,638
Others	-	1,524	-	2,480
. Pulses	-	22,007	-	23,797
. Industrial Plants	-	276,279	-	305,160
Tobacco	42.095	108.830	58.713	161.992
Raw Cotton	107.010	161.325	78.082	134.929
Linter	14.702	2.319	11.422	2.753
Cotton Waste	22	9	194	138
Others	-	3.796	-	5.348
. Fruits & Vegetabl.	-	227.250	-	314.959
Dried Fig	6.004	4.733	4.483	4.901
Raisin	31.222	44.764	34.040	56.299
Filberts	58.715	132.682	49.264	184.029
Pistachio	559	2.359	313	1.718
Other Hard shelled fruits	1.958	2.549	2.661	4.871
Orange,Tangerine	25.938	8.493	25.943	11.369
Lemon	18.789	6.380	43.117	19.948
Other Citrus fruits	4.731	1.023	4.922	1.444
Other fresh fruits	12.160	6.127	13.717	6.024
Other fruits	1.762	4.578	5.481	12.948
Vegetables	60.903	13.562	34.754	11.408
. Seeds & Oil Seeds	-	1.742	-	3.851
. Other Plants	-	204	-	169
B. Animal & Animal Prod.	-	14.174	-	10.556
. Livestock		8.146		6.750
. Wool & Hair		5.842		3.473
. Other Animal Prod.		186		333
C. Fishery Products		7.440		6.452
D. Forestry Products		3.530		3.542

(continued)

JANUARY - MAY EXPORTS: - *(Cont'd)*

	1979		1980	
	Quantity (ton)	Value (000 $)	Quantity (ton)	Value (000 $)
II. Mining & Quarrying		59.981	-	52.278
A. Non-metallic Quarry Products	-	46.922	-	40.424
B. Mineral Ores	-	12.347	-	11.814
C. Fuels		712	-	40
III. Industrial Products	-	344.679	-	373.469
A. Agre-based processed prod.		70.046	-	71.895
. Processed foodstuffs		63.179	-	66.808
. By-Products of Food Ministry		12	-	16
. Processed Tobacco	-	-	-	1
. Processed Forest Prod.	-	1.064	-	1.541
. Processed Natural Fibres suitable for spinning	-	5.791	-	3.470
B. Petroleum Products	-	-	-	3.911
C. Industrial Products	-	274.633	-	297.722
. Cement	-	28.878	-	8.527
. Chemical Prod.	-	7.994	-	16.260
. Rubber and Plastic	-	1.336	-	3.474
. Leather Goods	-	13.526	-	14.668
. Forestry Products Processing Ind.	-	584	-	1.099
. Textiles	-	174.606	-	173.856
. Glass Ceramic canthern ware	-	14.035	-	18.725
. Steel Metallurgy Products	-	10.928	-	13.707
. Non-Ferrous Metal Products	-	5.494	-	7.632
. Metalware Ind.Prod	-	2.080	-	1.750
. Machinery	-	2.817	-	5.101
. Electrical and Electronic appl.	-	1.076	-	4.402
. Transport vehicles and components	-	9.169	-	25.565
. Other Ind. Prod.	-	2.107	-	2.954
GRAND TOTAL ...	-	1.011.513	-	1.104.351

EXPORTS by COMMODITY GROUPS in THE FIRST FIVE MONTHS OF 1980

A comparison of Turkish exports by commodity groups during the first five months of 1980 with those in the same period of 1979 indicates a 11.8% rise in the cumulative value of exports of agricultural and animal husbandry products, beginning it up to $ 678.6 million from a level of $ 606.8 million of last year. This growth mainly generates from a 38.6% increase in exports of fresh fruits & vegetables, rather than those of cereals and industrial plants. As a matter of fact, such traditional Turkish cash crops as wheat, hazelnut and cotton experienced significant drops either quantity or value-wise during the January-May period of 1980. As shown in the below table, Turkey exported 30,000 tons less cotton this year, earning $ 26.4 million less money than last year. Wheat exports declined from 436,971 tons to a mere 49,262 tons. In hazelnuts, although exchange value is higher, the quantity is 10,000 tons less than that of last year.

In exports of industrial products on the other hand, the rise is no more than 8%, mainly due to the rise in the value of manufactured industry products than those of agro-based industries.

FOREIGN TRADE

According to the State Institute of Statistics, Turkey's imports in May 1980 climbed to $ 624.5 million showing an increase of 93.7% from the previous month and 85.4% from the same month of the last year. The total volume of imports in January-May 1980 period, as shown in the below table, attained $ 2,302.3 million showing an increase of 20.1% against the same period of last year.

As for the export performance during the same period, there is no marked increase as the total volume attaining $ 1,104.4 million is only 9.2% higher than the export volume of the same period of last year. As a result, the foreign trade deficit, during the first five months of the year has shown a constantly widening trend having attained $ 1.197.9 million, with an increase of 32.3% over the same period of the last year.

ANALYSIS of 5 MONTH IMPORT PERFORMANCE by ALLOCATION and FINANCIAL SOURCES

A comparative analysis of the 5-month import performance by allocation and financial sources on the basis of figures released by the Trade Ministry (as shown in the below table)

JANUARY - MAY IMPORTS

	1979		1980	
	Quantity (ton)	Value (000 $)	Quantity (ton)	Value (000 $)
I. Agriculture & Livestock		17.212		19.107
- Rice	12.671	4.620	-	-
- Merino	2.269	7.829	2.000	8.140
- Hides	435	650	890	2.246
- Cocoa	234	828	159	570
- Other		3.285		8.151
II. Mining & Quarrying		319.539		630.057
- Crude Oil	2.648.710	271.689	2.914.035	580.323
- Coke	2.000	281	144.122	5.037
- Other		47.569		44.697
III. Industry Sector		1.523.642		1.618.206
1. Agricultural Based Products		23.351		64.562
-Animal & Vegetal Oils	1.549	1.515	12.537	9.323
-Textile Fibers	3.494	4.221	8.426	14.203
-Sugar	..	-	10.500	6.040
-Fats	195	97	791	418
-Soyabean Oil	11.885	8.743	46.357	30.882
-Others		8.775		3.696
2. Petroleum Products		299.581		315.176
-Fuel Oil	1.069.565	90.950	566.567	70.215
-Lubricants	43.832	12.619	4.692	2.132
-Petroleum Gases	161.897	24.218	201.818	68.875
-Others		171.794		173.954
3. Industrial Products		1.200.710		1.238.468
1. Cement		47		155
2. Chemicals		372.475		382.581
3. Rubber-Plastics		62.393		64.203
4. Hides - Leather		140		81
5. Forestry Prod.		492		640
6. Textiles		18.959		29.090
7. Glass, Ceramics		7.091		12.886
8. Iron & Steel		120.962		162.843
9. Non-Ferrous Metal		17.068		25.245
10. Metal Products		5.923		13.503
11. Machines		352.920		318.334
12. Electrical Appl.		89.209		92.757
13. Motor Vehicles		118.921		86.653
14. Other Industries		34.110		49.497
IV. Imports with Waiver		56.508		35.110
GRAND TOTAL .		1.916.901		2.302.480

reveals that Turkish importers are showing a growing preference for liberalized goods than those under the quota lists as direct result of liberalization policies initiated early this year. As a matter of fact, during the analysed period, the value of liberalized imports grew by 33.7% while imports subject to quotas declined by 3.6% as against the value reported for the same period of 1979.

There has also been a marked increase in imports from Bilateral Agreement Countries, and more significantly, in value of capital good imports financed by foreign investors, entering under the Foreign Investment Promotion Law.

As against these, Imports with Waiver undertaken mostly by Turkish migrant labour dropped sharply by 37.3% from a of $ 11.5 million of last year.

JANUARY - MAY PERIOD
IMPORTS

	1979 (000 $)	1980 (000 $)	Changes (%)
1. Liberalized	1,267,327	1,694,253	33.7
2. Quota List	379,675	306,799	-19.2
3. Bilateral Agreement Countries	31,596	42,159	33.4
TOTAL Programmed Imports	1,678,598	2,043,211	+17.8
4. NATO-Infracture	6,970	1.820	-73.9
5. Private foreign capital	12.572	19.870	+58.0
6. Project Credits	150.696	195.209	29.5
7. Surplus	-	-	-
8. Imports with Waiver	56.508	35.109	-37.9
9. Others	11.557	7.258	37.1
TOTAL	1.916.901	2.302.480	20.1

When exports failed to expand and imports surpassed that of the last year, the trade balance was in the red by a larger amount. By the end of May 1980, imports totalled $ 2227.8 M compared to $ 1916.8 M of the last year. Thus, in the first five months of the year trade deficit was $ 1.123.4; $ 217.9.M more than the trade deficit of the same period of the 1979.

Judging by the past experience of the economy and the balance of payments performance till the end of May 1st may safely conclude that by the end of the year the trade balance will again be in the red by a considerable amount. Thanks to the expected inflow of the workers' remittances, and the expected rescheduling of foreign debts which will mean that Turkey will not have to pay all of the due amount on the principal and interest, the invisibles account will close with a surplus. But since the surplus in the invisibles will be less than the trade balance deficit the current account will still be in the red.

Import requirements of the economy will be financed, as in the past years by the credits that will be obtained from the Western countries and through the accumulation of short term foreign debts.

THE TRADE DEFICIT

(million $)

MONTHS	1979			1980		
	Imports	Exports	Deficit	Imports	Exports	Deficits
January	278.9	216.1	62.8	419.5	227.9	191.6
February	389.5	249.2	140.3	586.8	242.4	344.4
March	525.8	196.2	329.6	349.0	229.2	119.8
April	386.6	187.3	199.3	322.4	211.3	111.1
May	335.9	162.4	173.5	550.0	193.6	356.4
TOTAL...	1.916.8	1.011.4	905.5	2.227.8	1.104.4	1.123.4
Export/ Import Ratio	52.8%			49.6%		

More explicitly stated Export proceeds are barely enough to finance half of the import needs.

The present crisis has been eye-opener for most of Turkey's big business, who until a few years ago, gave little though to the export business. In this it does not deserve all the blame as all economic policies were profitable for imports rather than for exports. Since emphasis now is on more and more exports, the only way Turkey can recover economically, restore her international creditworthiness and start servicing her debts, much depends on the private business's ability to expand onto foreign markets.

For too many years, the average Turkish businessman was addicted to the notion that he could sell everything in the domestic markets, at any price. Within that economic framework, it should not seem at all surprising that few businessman, including foreign entrepreneurs, bothered to think about export business.

But in view of the depressed state of the domestic markets many business have started to seek contacts abroad for the marketing of their products. This is partly due to the unavailability of foreign exchange which has greatly reduced the inflow of essential imported inputs into the firms and forced the firms to operate below capacity.

Under these circumstances the provisions allowing exporters of industrial and mineral products to retain 50% of their export earnings for their import financing purposes does constitute a very good incentive.

But all this change of directions is in such strong contrast with the previous business environment that it requires a certain time for business to take the new decisions and opt to shift their operations towards external markets.

WORKERS' REMITTANCES

Workers' remittances increased at a considerably higher rate in February and March 1980, in contrast to lower rates in 1979, but in April and May 1980 there was a considerable decrease due to special premium applied to workers' remittances in April and May 1979.

Months	1978	1979	1980	% Change	
				1979/78	1980/79
January	42.4	83.1	83.3	96.0	0.2
February	43.4	75.4	173.3	73.7	129.8
March	73.5	55.7	111.7	-24.2	100.5
April	55.5	128.6	113.3	131.7	-11.9
May	61.6	639.3	103.2	937.8	-840.0
Jan.-May	276.3	982.1	584.8	255.4	-40.5
Jan.-Dec.	983.0	1969.3	..	72.4	

EXPORTS, WORKERS' REMITTANCES
and
IMPORTS

(million $)

	1979	1980	% Change
Imports	1916.8	2227.8	16.2
Exports	1011.4	1104.4	9.2
Workers' Remittances	982.1	584.8	-40.5
TOTAL	1993.5	1689.2	-15.3
Exports+Workers' Remit. / Imports	104%	75.8%	

With imports during the first 5 months of 1980 exceeding by 16.2% those of the corresponding period of 1979 with exports exceeding those of 1979 by 9.2% and with workers' remittances lower by 40.5% the financing of imports was fully covered in 1979 (104%), but was covered only by 75.8 in the first five months of 1980.

It is true that the difference is due to a large extent to the unusual increase in workers' remittances during the second quarter of 1979.

3. INFLATION

Following the stabilization measures of January 25 State Economic Enterprises and private firms increased their prices. As a result of these price hikes the wholesale price index shot up by a record rate of 29.2 percent in the month of February 1980.

In the following two months, the rate of price increases dropped considerably, The wholesale price index increased by only 4.4% in March by 3.5% in April and 2.9% in May.

It can be assumed that the drop in the rate of inflation is to a large extent due to the tight money policy. But as much as the tight money policy, the decline in the demand following the huge price increases of January and February, and the mushrooming of many consumer durables on the market were equally effective in bringing down the inflation. Reliable official statistics on consumption expenditures are not available but the general belief, commonly shared by the industrialists and businessmen is that huge price increases in February put many commodities beyond the reach of the average consumer, who could do nothing but cut down his consumption of many goods and services. A typical example is the case of PETKIM, the main producer of petrochemicals in Turkey. Primarily due to the decline in demand for its products stocks of this institution reached an unprecedented level-six times higher. The decline in the demand for the products of PETKIM was in turn due to the decline in the demand for consumer goods.

A second reason for the drop in the monthly rate of inflation is the sudden increase in the quantity of many consumer goods on the market, but not because of an increase in the volume of production but because of stocks previously accumulated.

MONTHLY CHANGES in THE WHOLESALE PRICE INDEX (%)

	1979			1980				
	Feb./ Jan.	Apr./ Mar.	May/ Apr.	Jan./ Dec.79	Feb./ Jan.	Mar./ Feb.	Apr./ Mar.	May/ Apr.
GENERAL INDEX	4.8	7.7	4.6	9.2	29.2	4.4	3.5	2.9
A. Foodstuff & Feeds								
1. Cereals	4.2	-0.8	1.9	5.2	31.2	13.7	-3.9	3.6
2. Pulses	1.8	-4.1	-0.4	6.9	14.8	-0.8	-4.0	3.0
3. Others	6.5	9.3	5.2	18.9	33.6	16.8	10.8	7.8
4. Animals	7.5	-2.7	15.5	22.3	10.9	3.4	-0.5	2.2
5. Animal Products	6.5	3.5	1.9	4.9	26.1	-1.6	-3.1	6.4
6. Animal Feeds	0.8	8.3	2.0	6.2	25.3	9.3	-3.7	0.8
TOTAL(1+6)	-4.9	2.4	4.5	10.8	24.5	7.4	-0.3	4.5
B. Industrial Raw Materials								
7. Fuels	1.6	6.5	5.2	10.7	45.1	1.5	7.2	2.3
8. Minerals	7.1	40.8	1.7	3.0	57.1	2.0	1.6	-0.4
9. Textile Mat.	5.7	13.8	13.8	9.3	19.4	-6.6	15.2	-0.2
10. Leather&Hide	15.9	15.8	15.9	2.9	5.2	6.8	3.7	2.5
11. Ind. Mineral Oils	0.2	29.3	29.3	5.3	62.5	3.9	15.0	0.3
12. Papers	0.0	0.4	0.4	1.0	103.1	0.8	-0.4	0.0
13. Const.Mat.	1.8	11.1	11.1	7.0	16.6	4.4	3.7	1.6
TOTAL(7-13)	4.6	15.4	4.9	7.3	34.9	1.2	8.1	1.2

In March, April and May 1980 there is a deceleration in the rate of increase of wholesale prices from 4.4% to 3.5% and to 2.9% respectively. While during 1979 the rates of increase of wholesale prices were much higher in fact they were 5.1%, 7.7% and 4.6% in 1979.

In the massive price hikes reflected in the February wholesale price index industrial prices increased by much more than food prices.

With the exception of February the wholesale price rises of the four months following the policy measures of the 25th of January have been relatively lower than the corresponding rates of the previous three years.

Price rises in March 1980 were higher than 1977, equal to 1978 but lower than 1979.

Price rises in April 1980 were equal to 1978 but lower for 1977 and 1979.

Price rises in May 1980 were higher than 1977 but lower than 1978 and 1979.

PRICE INCREASES DURING
MARCH, APRIL, MAY

Price increases at the wholesale level increased by 11.3% during the three months following the big price hikes of February 1980. They increased by 18.6% in the corresponding period of 1979 and 11.5 in 1978.

Istanbul Cost of Living increased by 11% during the March-May quarter of 1980, 12.5% in 1979 and 10.3 in 1978.

Ankara Cost of Living index of the same quarter went up by 24.9 percent a rate much higher than 14.5% of the corresponding period in 1979, and 16.5% in 1978.

The more recent price data available covers the month of May. All price increases for this month are lower than in '78, 1979 but higher than 1976, 1977.

WHOLESALE PRICE INDEX

Monthly % Change

	General				Food Stuffs				Industrial Raw Mat.			
	1977	1978	1979	1980	1977	1978	1979	1980	1977	1978	1979	1980
January	2.5	4.1	4.7	9.2	2.8	5.6	10.5	10.8	2.0	1.6	3.0	7.3
February	0.9	4.5	4.8	29.2	1.5	3.6	5.0	24.5	-0.2	6.0	4.6	34.9
March	1.0	4.4	5.1	4.4	0.6	1.8	3.8	7.4	1.8	9.6	6.8	1.2
April	3.7	3.5	7.8	3.5	2.9	3.8	2.4	-0.3	5.2	3.0	15.4	8.1
May	1.2	3.2	4.7	2.9	1.2	2.8	4.9	4.5	1.4	3.8	4.9	1.2
June	1.2	1.8	7.2		1.2	1.4	5.0		1.1	2.5	9.9	
July	0.6	4.4	3.3		0.4	1.4	4.0		1.1	9.4	2.4	

QUARTERLY INCREASES
in
PRICES

(March - May)

YEAR	Wholesale	Cost of Living	
		Istanbul	Ankara
1980	11.3	11.0	24.9
1979	18.6	12.5	14.5
1978	11.5	10.3	16.5
1977	6.0	5.4	4.3
1976	7.1	1.7	3.3

PRICE INCREASES in MAY

YEAR	Wholesale	Cost of Living	
		Istanbul	Ankara
1980	2.9	3.0	3.1
1979	4.7	4.4	3.4
1978	3.2	5.2	11.1
1977	1.2	1.6	1.2
1976	2.6	0.4	1.1

4. MONETARY SURVEY: THE FIRST SIX MONTHS OF 1980

A survey of monetary expansion since the beginning of the year reveals, a slower expansion both in the volume of bank notes in circulation and in money supply in 1980, as compared to the same period of 1979.

As can be seen below the rise of bank notes in circulation during the first half of 1980 is 20.9% as against 25.6% in the same period of 1979, the rise in the money supply during the 5-month period of 1980 is 11.6% as against 62.1% in the same period of 1979. However, this slow expansion both in money supply and in the circulation of banknotes does not apply to the expansion in the credit volume, both in the Central Bank credits and commercial bank credits which respectively rose

CENTRAL BANK CREDITS

	31/12/1979	4/7/80	June 1980/ Dec. 1979	June 1979/ Dec. 1978
Advances to the Treasury	91.740	130.037	41.8	22.6
State Monopolies	28.056	32.065	14.3	15.3
SEE's	94.660	113.939	20.4	50.0
State Investment Bank	37.942	38.495	1.5	8.1
Special Financing	21.741	28.443	30.8	2.9
Agricultural Sales Coop.	31.762	22.854	-28.0	-22.6
Agricultural Credit Coop.	14.931	44.726	199.5	46.2
Public Sector	320.832	410.559	27.4	21.8
Commercial Bills	40.747	74.730	83.8	0.3
Advances on Securities	8.437	10.271	21.7	8.0
Medium - Term Credits	8.658	8.525	- 1.5	3.2
Special Export Financing	2.231	3.856	72.8	-30.9
Agricultural Bills	1.047	1.903	81.7	83.6
Private Sector	61.120	99.285	62.4	5.0
Central Bank Credits	382.138	509.844	33.4	18.0
Banknotes in Circulation	182.877	221.061	20.9	25.6
Central Bank Deposit Reserves	98.304	113.269	15.2	
Central Bank Deposits	144.061	196.680	36.5	

to 33.4% and 17.3% in 1980 as against 18% and 5.9% in the same period of 1979.

As far as the Central Bank is concerned, the factors contributing to this expansion are characteristically different from those of the last year, since the expansion in 1979 when Ecevit Government was in power was solely due to the larger credit extended to public sector while in 1980, it is mainly due to credits extended to private sector. As a matter of fact, the public sector credits grew by 21.8% in 31 December by 5%. This year, on the other hand, credits to private sector expanded by 63.5% as opposed to a slower climb (20.3%) in credits to public sector.

The slow expansion in money supply owes its reason more to the sharp decline in the rate of increase of sight deposits in a period of three-digit inflation than to the slower increase in the actual volume of bank notes in circulation. As a matter of fact, total sight deposits including those in the Central Bank rose by 9.7% in January-June 1980 period as against the 18% rise in the same period of 1979. The slower rise in deposits is not confined alone to the sight deposits but also to all bank deposits, the total volume of which went up only TL 31.5 billion (7.1%) in 1980 as against a rise of TL 45.4 billion (16%) in the same period of 1979.

On the credit side, however, it is noteworthy that the rise in the commercial credit utilization has been higher in 1980 than in 1979. As a matter of fact, the total credit volume extended by the commercial banks went up by TL 79.2 billion corresponding to a rise of 17.4% in 1980 as against a rise of TL 17.5 billion (5.9%) in the same period of 1979.

BANK DEPOSITS

The rate of increase of bank deposits during the first-five months of 1980 was much below the rates of the corresponding period of 1979, except commercial sight deposits which increased at 10.9% in both years.

Savings Deposits increased by 7.6 in 1980 as compared with 24% in 1979.

Sight deposits increased by 8.9% in 1980 as compared with 20.5% increase in 1979.

Time deposits increased by only 5.6%. The rate of increase in the corresponding period of 1979 was 30%.

When deflated by the wholesale price index which increased

BANK DEPOSITS

(million TL)

	1978	1979		1980	% Change	
	Dec. 31	June 1	Dec. 31	May 30	1979	1980
Grand Total	322.916	n.a.	489.295	n.a.	-	-
1. Consolidated Deposits	283.371	328.738	443.379	474.812	16.0	7.0
.Savings Deposits	160.743	199.311	235.330	253.237	24.0	7.6
– Sight	105.347	126.991	143.634	156.430	20.5	8.9
– Time	55.678	72.320	91.646	96.807	30.0	5.6
.Sight Com. Dep.	86.072	95.493	152.592	169.206	10.9	10.9
.Other Deposits	36.555	33.934	55.457	52.376	-7.2	-5.6
2. Interbank Deposits	36.545	n.a.	45.916	n.a.	-	-
. Time	33.096	n.a.	34.304	n.a.	-	-
. Sight	6.647	n.a.	11.612	n.a.	-	-

Source: Central Bank of Turkey.

BANK CREDITS
(million TL)

	1978	1979		1980	% Change	
	Dec. 31	June 1	Dec. 31	May 30	1979	1980
Net Credit Volume	457.944	506.825	715.476	826.977	10.7	15.6
1. Bank Credits	294.365	311.802	455.829	535.041	5.9	17.4
Specialized Credits	84.400	89.116	136.667	158.151	5.6	15.7
Agricultural (Ziraat Bank)	49.372	50.664	79.563	84.717	2.6	6.5
Industrial Credits (2 Industrial banks)	13.197	13.435	23.773	36.578	1.8	53.9
Artisanal (Halk Bank)	13.707	16.964	23.088	26.492	23.8	14.7
Mortgage (5 banks)	8.124	8.053	10.243	10.364	-0.9	1.2
Commercial Credits	209.965	222.686	319.162	376.890	6.1	18.1
2. CBT Credits *(direct)*	163.579	195.023	259.647	291.936	19.2	12.4
CBT Credits	241.886	262.568	382.138	460.300	8.6	20.5
CBT Advances	-78.307	-67.545	-122.491	-168.364	-13.7	-37.5

Source: Central Bank

COMMERCIAL BANKS

	Dec. 31 1979	May 30 1980	% Diff.	Dec. 31 1978	May 30 1979	% Diff.
Bank Deposits, Total	443.3	474.8	7.1	283.3	328.7	16.0
. Sight commercial deposits	152.5	169.2	10.9	86.0	95.4	10.9
. Sightsaving deposits	143.6	156.4	8.9	105.3	126.9	20.5
. Time saving deposits	91.6	96.8	5.6	55.3	72.3	30.7
. Others	55.4	52.4	-5.5	36.5	33.9	-7.2
Volume of Credit, Total	716.4	826.9	15.5	457.9	506.8	10.6
. Bank credits, total	455.8	535.0	17.3	294.3	311.8	5.9
Agriculture	79.5	84.7	6.5	49.3	50.6	2.6
Industry	23.7	36.5	54.0	13.1	13.4	2.2
Small traders	23.0	26.5	15.2	13.7	16.9	23.3
On mortgage	10.2	10.3	0.9	8.1	8.0	-1.3
Commercial	319.1	376.9	18.1	209.9	222.6	6.0
. Direct Credit of the Central Bank (Public Sector)	259.6	291.9	12.4	163.5	195.0	19.2
MONEY SUPPLY	449.5	501.9	11.6	289.2	346.0	62.1

by 57% in the first five months of 1980 it becomes obvious that bank deposits decreased by around 32 percent in real terms in the first five months of 1980.

This negative performance of bank deposits is expected to improve after July 1st with the removal of the ceilings on rates of interests of bank deposits.

BANK CREDITS

The rise of bank credits in the first five months of 1980 attained a rate of 17.4% as against 5.9% in the same period of 1979.

Specialized credits increased by 15.7% in 1980 as against 5.6% in 1979.

Commercial credits increased by 18.1% in 1980 as against 6.1% in 1979.

Direct credits of the Central Bank recorded an increase of only 12.4% in 1980 as against 19.2% in 1979.

RECENT DEVELOPMENTS in THE CAPITAL MARKET

Following the economic measures of January 25, 1980, issue of private sector securities amounted to 9 billion TL during February-June 1980.

More recently the annual totals have not exceeded half of the amount issued in the 5 months of 1980. In fact, the annual totals were 1.6 billion TL, 2.2 billion and 4.5 billion for the 1977, 1978 and 1979.

EXPECTED EFFECTS of INTEREST RATE CHANGES

We have labelled above the monetary policy of the January stabilization programme as the weakest element of the chain of measures. The programme had sufficied with marginal increases in the lending and borrowing rates of commercial banks. Discount rates of the Central Bank were also increased on the average by two percentage points.

In an economy experiencing hyper-inflation, such minor adjustments in interest rates are far from curbing consumption (stimulating savings) or channelling investible funds into productive activities. Aware of this fact that the government let the rates on time deposits and credits free, to be determined by the commercial banks and other financial institutions, and increased the rediscount rates of the Central Bank.

The importance of the new interest rate policy for the Turkish economy cannot be overemphasized. Low interest rate policy of the last decade was the primary cause of the decline in the volume of domestic savings and the emergence of a strong unorganized money market. Under the pressure of accelerating inflation, which climbed to 80% in 1979, the cost of holding money increased proportionately and most of the people heavily invested in inflation proof assets, such as gold, foreign currency housing and land. Those who did not have sufficient funds to afford buying land or a house preferred to invest their savings into gold, and even consumer durables rather than depositing with a bank. It is thus no surprise that demand for gold and other interest bearing assets rocketed along with a decline in the volume of domestic savings. National accounts figures published by the State Planning Organization (SPO) portrayed the dangerous trend in domestic savings. Last year the average private propensity to save dropped to 0.13 from 0.15 in 1978.

Another conseauence of low interest has been a flight away from bank deposits to bonds and other financial assets offered by private bankers with higher interest. Thus, in the first quarter of the year saving deposits with a spread of more than one year at the banking system went up only 5.9% compared to 13.4% increase in total deposits. Similarly the ratio of total deposits to GNP dropped from 24.5% in 1977 to 22% in 1978 and to 20.2% in 1979.

This trend of course is as dangerous as the accelerating inflation itself. A decline in domestic savings will reduce the surplus funds available to the society and push down investments unless foreign savings (credits) increase.

For policy purposes it is important to note that the trend in domestic savings run parallel to the trend in prices suggesting that either accelerating inflation induced low savings or declining saving propensity induced more inflation. The new interest rate policy is thus expected to decelerate consumption expenditures and hence price rises.

It is definite that higher interest rates will induce savings but will also increase the cost of borrowing to investors. But this does not necessarily imply that investments will decline. Interest rates are not the sole determinant of the volume of investments. With an increase in the volume of domestic savings investments may pick up when the changes in the other determinants of investments more than offset the adverse effect of higher interest costs.

The distinquishing characteristic of the January stabilization programme was the strong move towards a liberal economy. With the programme the Price Control and Price Determination Committee was dissolved and autonomy was given to the State Economic Enterprises to freely determine their prices without government interference. The object of this move was to give fuller scope to market forces in the determination of prices. An important factor hindering smooth functioning of markets was thus eliminated. But centrally administered interest rate policy could not be consistent with free pricing policy, because by fixing the interest rates the government had in fact fixed one of the most important prices in the economy, namely the price of money. For perfect functioning of markets both the prices of commodities money as well as the exchange rate, had to be left to market forces. The government undertook to adjust the external value of the Lira against foreign currencies almost instantaneously. Under this practice, the exchange rate between the Lira and other currencies has been changed eight times since January 25, 1980.

The practice in fact represents a shift from the fixed exchange rate system to what economists call crawling peg or sliding peg. With the new system adopted one may expect almost weekly adjustments in the external value of the Lira depending upon the difference between domestic price rises and price rises in the trading partners of Turkey.

Given that domestic prices will rise more than foreign prices in near future one may expect frequent mini-devaluations to be undertaken compared to maxi but infrequent devaluations of the past. Given that devaluations are inevitable, it is better to have mini but frequent devaluations rather than having infrequent but maxi ones. The underlying primary argument is that with the mini-devaluations the uncertainty surrounding future exchange rates will be reduced with favorable impact on exports. Against this advantage ofcourse a disadvantage of the adopted system should be considered. If private producers react to devaluation by raising their prices immediately, and their pricing behaviour includes a mark up over the devaluation rate Turkey will have more inflation with the mini-devaluations compared to the previous practice. To this must be added the psychological impact of devaluations. But this argument cannot be much emphasized given that in the course of time public may get accustomed to frequent devaluations and get used to live with them.

Uncertainties will be eliminated, if the dates of the mini-devaluations are pre-determined for instance the first three days of every month.

The primary objective of the mini devaluations is to maintain the competitive power of exports in international markets. The decision to grant autonomy to the SEEs in fixing their prices and limiting their access to Central Bank credits was similarly based on efficiency considerations. It is highly probable that the new interest rate policy will have the same effect on commercial banks. Commercial banks with their thousands of branches work inefficiently in that their personnel and fixed capital expenditures are too high compared to international standards. Once the government control on interest rates are removed they will have to compete for deposits and pay lip service to efficiency considerations.

More efficient economy is desired by all concerned. But whether these will suffice to eliminate all of the inefficiencies surroung the manufacturing industries is still questionable. This difficult problem will not also be solved by merely exposing domestic industries to more foreign competition. Even if they are exposed to foreign competition it will not be possible to reduce long run costs without expanding the size of many plants in the industry which are much below world standards.

5. THE EMPLOYMENT SITUATION AT THE END OF APRIL 1980

Manpower supply continued to increase, it went up to 16.735 thousand at the end of April 1980 from 16.670 thousand at the end of 1979, an increase of 65 thousand. According to statistical information manpower demand increased only by 20 thousand raising thus the non-agricultural unemployment to 1685 thousand or to 14.25% of manpower supply.

Industry absorbed only one thousand people, services 34 thousand and foreign countries 9 thousand.

Detailed analysis of open unemployment in Turkey by the end of 1980 shows that out of 200 thousand, 125 thousand are straight forward unemployed without any specific personal status characteristics.

From the point of view of waiting time around 80 thousand are waiting for more than 6 months to find employment. The rest is equally distributed by 20 thousand for each category.

The bulk of the unemployed are aged 20-29, they number 130 thousand out of 200 thousand.

Most of the unemployed have not had any education after primary school. Their number is 115 thousand. But there are also 25 thousand high school graduates, 28 thousand and classical lycee graduates and 20 thousand artisanal lycee graduates unable to find employment. 83 percent of the unemployed are males.

With recession in Industry, and Construction going on, it is estimated that the number of openly unemployed will go on increasing.

The analysis of openly unemployed presented above does give an indication of the relative importance of the sources of unemployment.

EMPLOYMENT (000)

	April 1980	1979	1978	1977
Population	44.105	43.800	42.850	41.950
Active Population	25.200	25.000	24.200	23.500
%	57.14	57.08	56.48	56.02
Manpower Supply	16.735	16.670	16.429	16.180
Participation to Work Force	66.41	66.58	67.89	68.85
Manpower Demand	14.350	14.330	14.205	14.063
Agriculture	8.370	8.370	8.365	8.360
Industry	1.926	1.925	1.897	8.857
Services	4.045	4.011	3.925	3.827
Abroad	9	24	18	19
Unemployment	2.385	2.340	2.224	2.117
Agriculture	700	700	720	740
Nonagriculture	1.685	1.640	1.504	1.377
Seeking Employment	425	442	535	241
Non-Seeking Employment	1.260	1.198	969	1.136
Excess Manpower (%)	14.25	14.06	13.55	13.10

Source: Anka, May 29, 1980.

ANALYSIS of OPEN UNEMPLOYMENT
(April 1980)

	Male	Female	Total
Total Open Unemployment	184.255	36.573	220.020
Personal Status			
. Waiting for their Military Service	11.755	-	11.755
. Discharged from Military Service	27.652	-	27.652
. Student	9.066	7.185	16.251
. Newly Graduated	3.162	1.059	5.021
. Handicapped	24.411	2.485	26.896
. Old Convicts	7.549	36	7.585
. Returning from Abroad	90	10	100
. Others	100.579	24.990	125.560
Waiting Time			
. 15 days	16.951	3.482	20.333
. 30 days	17.113	3.440	20.561
. 1-2 months	18.399	3.975	22.374
. 2-3 months	17.971	3.759	21.730
. 3-4 months	16.944	3.656	20.600
. 4-5 months	15.320	3.127	18.447
. 5-6 months	15.162	2.817	17.979
. more than 6 months	66.495	12.309	78.804
Age Groups			
. 14 and less	1.101	747	1.848
. 15-19	21.397	10.193	31.590
. 20-24	64.100	12.609	76.717
. 25-29	48.421	6.174	54.595
. 30-34	24.027	3.530	27.577
. 35-39	12.456	1.787	14.243
. 40-44	7.005	889	7.894
. 45-64	5.539	630	6.169
. 65 and more	201	14	215
Education Level			
. Analphabet	9.357	2.472	11.829
. Literate	12.533	3.014	15.547
. Primary School Grad.	103.528	12.230	115.758
. High School Grad.	20.670	4.817	25.487
. Artisanal High Sch. Grad.	471	113	504
. Lyceé Grad.	17.141	11.090	28.231
. Artisanal or Tech.Lyceé Grad.	17.292	2.339	19.631
. After Lyceé Artisanal Education	519	83	602
. University Graduates	2.744	415	3.159

6. BUDGET REVENUES

Tax revenues recorded a 170% increase in April 1980 in comparison with APril 1979. When deflated for 12 months price increases, the real increase in tax revenues amounts to 38.7%. The main items of tax categories do not show any serious deviation from this average except tax revenues from Foreign Trade which did not show any serious movement in April 1980.

The total revenues for March and April on the other hand are far from giving the same impression. The rate of increase of tax revenues for March - April 1980 is 114% in comparison with the corresponding period of 1979. Various tax categories show big deviations from this average. Taxes from services show a rate of increase of 140%, which when translated into fixed prices gives a rate of increase of 0.5%.

Taxes from commodities increased by only 81%, but in real terms showed a decrease of 41.7% deflated on a yearly basis.

Tax revenues from Foreign Trade registered a decrease of 23.8% which when expressed in real terms becomes much more serious.

	April			March-April		
	1979	1980	% Change	1979	1980	% Change
General Budget Revenues	36.1	94.0	160.6	65.7	134.1	104.1
A. Tax Revenues	32.6	88.1	170.2	59.1	126.5	114.1
1. From Income	21.9	59.0	168.7	39.0	84.2	115.9
2. From Wealth	0.2	0.4	129.8	0.4	0.6	41.0
3. From Commodities	3.0	8.1	171.0	6.8	12.3	81.2
4. From Services	3.5	9.5	173.2	5.3	12.7	140.0
5. From Foreign Trade	4.0	0.1	-97.2	7.7	5.8	-23.8
B. Non-tax normal revenues	3.5	5.9	65.6	5.3	7.5	41.6
C. Special Revenues & Funds				1.2	..	-99.8

7. A NOTE ON OIL AND PETROLEUM PRODUCTS

Imports of crude oil have decreased by 4.6 in the first four months of 1980 in comparison with the corresponding imports of 1979.

Production of crude oil on the other hand decreased by 20.3. Total crude oil has thus decreased by 9.2%. Imports of Petroleum products were less than half by end of April 1980 comparison with the corresponding period of 1979, but production is larger by 24.4 percent. But still total petroleum products are smaller by 9 percent.

Rough estimates place the need to 5180 thousand tons and assume it constant for both years.

Thus 80 percent of the needs have been already covered in 1980, in contrast to 87.7 percent in the corresponding period of 1979.

JANUARY - APRIL

(thousand tons)

	1979	1980	% Change
Crude Oil			
Imports	2.347	2.239	-4.6
Production	961	766	-20.3
TOTAL...	3.308	3.005	-9.2
Petroleum Prod.			
Imports	2.014	986	-51.0
Production	2.530	3.148	+24.4
TOTAL...	4.544	4.134	-9.0
Need Assumed Constant	5.180	5.180	
Need for Additional Imports	636	1.046	64.5

8. Construction Activities

During the first four months of 1980 the number of applications for building permits has decreased by 39.1% (from 31.702 in 1979 to 19.299 in 1980).

The construction surface represented by these applications decreased by 25.7% (from 12 million m^2 in 1979 to 8.9 million m^2 in 1980).

Cost of construction as expressed in TL per m^2 has increased by 72.4% in January-April 1980 in Contrast to the corresponding period of 1979.

BUILDING PERMITS

	January-April		%
	1980	1979	Change
Number	19.299	31.702	- 39.1
Surface (000 m^2)	8.913	12.002	- 25.7
Cost (Million TL.)	68.265	53.314	28.0
Unit Cost (TL./m^2)	7.659	4.442	72.4

The number of occupancy permits on the other hand remained the same while the surface in m^2 increased by 7.9% during the four months of 1980 in contrast to the corresponding period of 1979 (from 4.8 million m^2 to 5.2 million m^2 increased by 67.9%.

OCCUPANCY PERMITS

	January-April		%
	1980	1979	Change
Number	18.186	18.200	- 0.1
Surface (000 m^2)	5.160	4.783	7.9
Cost (Million TL.)	40.134	22.160	81.1
Unit Cost (TL./m^2)	7.778	4.633	67.9

Turkish Industrialists and Businessmen's Association

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

TÜSİAD is a non-profit and independent organization. In serving the various groups to which it is accountable, it seeks to improve the quality and effectiveness of free enterprise through development and dissemination of objective information. Also it attempts to create broader understanding of business and economic activity.

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, the academic world and government at meetings where economic policy, business prospects and executive experiences 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, thus trying to provide the public with objective information upon which to form sound opinion.

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

Membership in the Association is voluntary.

WHAT THE «BY-LAW» SAYS :

Objectives and Aims of the Association

The objectives and aims of the Association are to contribute to the democratic and planned development of Turkey. It seeks to accomplish this in keeping with the principles of mixed economy, as envisaged by the Constitution, and in conformity with Atatürk's principles.

The Association recognizes the industrialists as the leading power of the development process. It pursues the aim of bringing together, within the Association, the Turkish industrialists of the public and private sectors, professionals, academicians and businessmen, with the purpose of protecting and strengthening the democratic government and free enterprise. The Association's objectives include every effort required for the organization and development of free enterprise in the interest of the country.

Functions of the Association

- In order to attain its objectives along the lines of the mixed economy principles, the Association emphasizes the vital importance of free enterprise for the national economy and social structure. It urges and encourages free enterprise to discharge its responsibility towards the development of the country, in line with national interests.
- The Association believes that economic, social and cultural development within the economic power of this country can be materialized following the example set forth by the free world and through democratic processes. In addition, it stresses the need that national savings be increased and channeled to a capital market open to the public.
- Acknowledging the urgency of our educational problems, the Association endeavours to be of assistance in the field of education and training.
- With the firm belief that Turkey must have a balanced development in a setting of social security, and that capital, labor and enterprise are complementary essential elements, it contributes to the development of employer-employee relations in order to cause the most profitable and beneficial impact on the overall development of the country.

- Engages in activities to channel investments toward priorities of public interest and toward those productive areas that give impetus to exports and earn foreign exchange, and which contribute to development plans. Cooperates with private and public organizations which are concerned with industrial development.
- Provides guidance and counsel in order that the commercial and industrial enterprises of Turkey, an associate of the European Economic Community can build up competitive power both within and outside the Community.
- With a view towards stimulating the Turkish economy, takes the initiative in learning and evaluating the points of view of the businessmen and keeps those points of view available to be used by the relevant government offices; engages in guidance activities in the reorganization of the industrial structure.
- Makes use of such publicity media as radio and TV, newspapers, books and brochures to promulgate its objectives and activities; arranges meetings, courses, seminars, lectures and conventions.
- Cooperates both with existing and future domestic and foreign private and public institutions, chambers of commerce and industry, stock markets, professional associations, foundations or sets up new leagues with them or establishes organizations under its sponsorship, if and when necessary.

WHAT TÜSİAD DOES :

Ever since TÜSİAD's founding in 1971, it has been a fundamental tenet that the public will share the knowledge developed by the organization's work. It is to everyone's advantage that the public, as well as management, understands how the business institutions work in market economies, and it has been TÜSİAD's special mission to further this understanding among all groups. To do this effectively requires that TÜSİAD be independent, as it is. It draws its financial support from many diverse sources. It studies economics and business, not a spokesman for, but it advocates in general it is «free enterprise». Its published research presents facts; users of these facts develop their own conclusions as to how to apply them. TÜSİAD conferences provide opportunity for participants to share their experiences with each other and with other elements of society, and for society to feed its reactions and opinions back to «free enterprise». TÜSİAD views business, economics and society through a wide-angle lens, focusing its examinations primarily on questions of national and international significance.

This effort is supported by a full-time staff in the Istanbul headquarters. The staff is engaged in producing information through research or communicating information through publications, meetings, news releases, and other channels.

The greatest part of its income is from annual subscriptions by its Associate members and their organizations. And this is a larger sense in which to view the «charitable» nature of TÜSİAD's work. Its certificate of incorporation states that TÜSİAD's fundamental purpose is «to promote public welfare». It pledges TÜSİAD to carry on its work in the open-minded and straight forward spirit which characterizes all efforts to seek, to learn, and to promulgate the truth.

Delivering Information

Publications, meetings and news releases are the primary means by which TÜSİAD shares business and economic intelligence with its various audiences.

- TÜSİAD regularly receives a great variety of statistical series and analyses describing what is happening in significant segments of the economy. They are of special value to Parliament and government members, government officials and private sector executives, economists and other professionals in both the public and private sectors, and the news media.

Publications

TÜSİAD delivers published research and information in a variety or forms - from single sheet tables, charts or text to major studies running to several hundred pages. The flow of this material is continuous throughout the year, with TÜSİAD distributing roughly 200.000 published items annually to members and Associates and others in the country and around the world.

TÜSİAD reports are for lay audiences and considerable effort is devoted to making them clear, concise and objective. Technical jargon is avoided wherever possible, and great care is taken to ensure that research publications present fact and not opinion.

Among TÜSİAD economic series and reports are :

- **GÖRÜŞ**

  A monthly economic review on economic topics. In the best contemporary magazine journalistic tradition, the professionally edited monthly magazine, GÖRÜŞ carries articles by researchers from many fields of endeavour. This is a publication of factual presentation. Every month 5.000 copies have been printed and it has country-wide distribution.

- **«Conjoncture» Reports**

  TÜSİAD economists carefully study the economic conjoncture within Turkey as well as the international development, and publish 3 conjoncture reports. Throughout the years, these reports have had a large range of distribution.

- **Sector studies**

  TÜSİAD also publishes various sector studies which examine both the bottlenecks and the opportunities existing in different sectors of the economy.

- **Occasional Papers on Current Economic Issues**

  As soon as an economic issue gains popularity in the public opinion, TÜSİAD publishes a thorough study on the subject trying to give the most updated information. Such occasional papers (usually ten or so within a year) are highly welcomed by the economic media in Turkey.

- **Annual Economic Country Reports (in English)**

  Every year an Englist Report is published covering the social and economic aspects of the development in Turkey.

- **Monitoring Government Activities**

  The Five Year Development Plans, Yearly Economic programs and the State Budget, which have enormous influence on the state of the Turkish economy, are throughly examined by TÜSİAD in every stages of their development. Each year, TÜSİAD prepares and publishes highly researched studies to present different views for the discussion of these documents and to put forward the unofficial opinion of the business community on these public issues.

Public Information

In keeping with its responsibility to enhance public understanding of the business and economic system, TÜSİAD conducts a very active information program for news media in Turkey and throughout the world.

Releases are drafted for most TÜSİAD studies, presenting the major findings in language and style which are acceptable to the media and understandable to the general public. They are distributed regularly to editors, writers, columnists and opinion leaders of newspapers, magazines, radio and television news syndicates, and wire services here and abroad. Members of the working press are welcome to anything that TÜSİAD publishes and are encouraged to use TÜSİAD as an information resource when facts and perspectives are needed. Senior research specialists devote an appreciable amount of time to assisting news people, either with interviews or with background information.

The press both in Turkey and abroad, make constant use of TÜSİAD research and conference addresses as the factual basis of news stories, editorial comment, feature articles, and broadcasts on the course of business and the economy. This heavy use of TÜSİAD work provides a measure of TÜSİAD acceptance as an objective source of information for the general public as well as for the public and the private sectors.

Seminars

Seminars are important means of communicating information developed by TÜSİAD. They are intensive instructional vehicles designed to broaden participants' understanding of specific issues.

Meetings

Each year TÜSİAD conducts several meetings in various locations around the country. Each session is attended by many members, chief executives of major public and private corporations, university professors, editors of the news media, and very often, government officials. There is no attempt to reach conclusions or formulate plans of action. Rather, the benefit is in the opportunity that the meetings offer all participants to compare experiences and to share with their peers their opinions on the emerging business-social-political issues of the times.

TUSIAD

ADVISORY COUNCIL

Honorary Chairman
Vehbi KOC

Chairman of the Board
KOC HOLDING Co., Inc.

Vice Chairman
Sakip SABANCI

Chairman of the Board
SABANCI HOLDING Co., Inc.

Chairman
Dr. Nejat F.ECZACIBASI

Chairman of the Board
ECZACIBASI HOLDING Co., Inc.

Vice Chairman
Sinasi ERTAN

Chairman
UNION OF AEGEAN REGION
CHAMBERS OF INDUSTRY

Vice Chairman
Dr. S.Sahap Kocatopcu

Chairman of the Board
TURKISH GLASSWORKS
INDUSTRY GROUP

BOARD OF DIRECTORS

President
Ali KOCMAN

Chairman of the Board
KOCTUG LINES Co., Inc.

Vice President
Rahmi M.KOC

Vice Chairman - President
and Chairman of Executive
Committee KOC HOLDING Co., Inc.

Vice President
Asim KOCABIYIK

Chairman of the Board
BORUSAN INDUSTRY Group Of Co.

Treasurer
Selman YASAR

Vice Chairman of the Board
YASAR HOLDING Co., Inc.

Member
Orhan AKER

Chairman of the Board
AKER GROUP OF COMPANIES

Member
Omer Dinckok

Chairman of the Board
AKSU GROUP OF COMPANIES

Member
Sakir ECZACIBASI

Vice Chairman
ECZACIBASI HOLDING Co., Inc.

Member
Nurettin KOCAK

Chairman of the Board
KUTLUTAS HOLDING Co., Inc.

Member
Melih OZAKAT

Chairman of the Board
OZAKAT GROUP OF COMPANIES

Member
Ertugrul SOYSAL

TERCUMAN, Daily Newspaper

Secretary General
Ertugrul Ihsan OZOL
Economist

TÜRK SANAYİCİLERİ VE İŞ ADAMLARI DERNEĞİ
Cumhuriyet Caddesi Dörtler Apt. 18/2 Elmadağ - İstanbul
Tel. : 46 24 12 - 40 12 05 Telex : 22 318 TSAD TR.

Speakers are drawn from business, labor, government, academies, foundations, associations and other sources of expertise. Audiences range around several hundred.

As with TÜSİAD's research, the open conferences deal with forces affecting business and the economy.

The news media are encouraged to cover open conferences, and on occasion edited transcripts are prepared for distribution to members. In addition to their role as communication vehicles, most of the TÜSİAD meetings generate ideas or provide perspective for the research programs.

Promoting Better Understanding Between Business and Government

With the growing need for involvement in public policy issues by private-sector leaders, TÜSİAD carries programs in order to contribute to professional development and communication in this field.

Sharing With Others

In the broadest sense, information developed by TÜSİAD belongs to the country. TÜSİAD publications are not copyrighted, and anybody has the right to quote from or to reprint their material. This is done in the belief that other responsible parties can help TÜSİAD to achieve its mission of creating broader understanding of business and economic activity. Scholars are frequent users of TÜSİAD research findings, and the broad range of publications containing passages from TÜSİAD reports attests to the confidence which the academic community places in TÜSİAD's objectivity and scientific methods.

WHERE TÜSİAD STANDS

In Turkey, the share of the private sector in the value added of the manufacturing industry is 48.4 %.

In the large manufacturing industry the share of the private sector in total production and employment is 65 % and the rest is State Economic Enterprises.

TÜSİAD members, through the associate companies, represent about half of the production and employment of large manufacturing industry.

But also through associate member companies, TÜSİAD has in addition been representing a big share of the private sector banking community, insurance companies, the construction sector and other service sectors.

The members of TÜSİAD are not more than 200, but the number of associate companies is about 1000.

TÜSİAD was founded in August 1971 under the «Voluntary Associations Law» of Turkey. Its membership is voluntary as well, and candidates for membership are according to TÜSİAD's by law carefully examined and eventually accepted by its Board which is composed of leading industrialists and businessmen of Turkey.

Members can only be individuals, therefore companies are represented in TÜSİAD through their main shareholders, presidents, chairman or top managers.

(According to Voluntary Associations law, only individuals can join the Association as members. Juridical persons have no right of membership in voluntary associations, they can only be members of professional associations, where membership is compulsory such as chambers and unions etc...)

The main professional organizations in Turkey are the following :

Chambers of Commerce
Chambers of Industry
Chambers of Commodity Exchange

TURKISH UNION OF CHAMBERS OF COMMERCE, INDUSTRY AND COMMODITY EXCHANGES

(It is compulsory for any businessman or company to join their local chambers.)

Tradesmen's Associations
Craftsmen's Associations
Tradesmen's and Craftsmen's Federations

TURKISH CONFEDERATION OF TRADESMEN AND CRAFTSMEN

(Every person who has professional, commercial and industrial activity must join the local association.)

Chambers of Agriculture

TURKISH UNION OF CHAMBERS OF AGRICULTURE

(This is a country-wide association and it is the top representative of farmers in the country. But all farmers are not members of the local Chambers of Agriculture.)

Employer Associations
Federations of Employer Associations

TURKISH CONFEDERATION OF EMPLOYER ASSOCIATIONS

(For employers, membership is not compulsory in such an union. The Confederation however is the most representative body to run collective bargaining and labour relations on behalf of employers.)

THE FREE ENTERPRISE COUNCIL

This Council has been formed with the participation of :

TURKISH UNION OF CHAMBERS
TURKISH CONFEDERATION OF EMPLOYER ASSOCIATIONS
TURKISH CONFEDERATION OF TRADESMEN AND CRAFTSMEN
TURKISH UNION OF CHAMBERS OF INDUSTRY
TÜSİAD

(The Council is in a position to represent «Free Enterprise» in the country in a broader sense.)

All TÜSİAD members, personally or through their companies are members of at least one chamber and most of them are also members in an employers' union.

State economic enterprises must join their local chambers and may join one employers' union within their field of activity.

Türk sanayicileri ve iş adamları derneği

TÜSİAD

Turkish Industrialists and Businessmens Association

Members

Eli ACIMAN
Hayri ADANALI
Yılmaz ADIGÜZEL
Yılmaz AKAR
Necati AKÇAĞLILAR
Orhan AKER
Öner AKGERMAN
Haydır AKIN
Rüştü AKIN
Cabi AKMAN
Haluk AKSÜYEK
İshak ALATON
Hulki ALİSBAH
Erdem ALP
Tayfur ALTAY
Sadi ARAL
Şener ARAL
Pınar ARAN
Sina ARBEL
Fethi ARMAN
Haydar ARYAL
Oktay ATASÜ
Cemal ATAY
Lütfü BANAT
Pekin BARAN
Rıfat BAYAZIT
Hüseyin BAYRAKTAR
Ziya BENGÜ
Feyyaz BERKER
Fuat BEZMEN
Refik BEZMEN
Alber BİLEN
Dinç BİLGİN
Ahmet BİNBİR
Mustafa BİRGİ
İbrahim BODUR
Cem BOYNER
Osman BOYNER
Fred BURLA
Mücahit BÜKTAŞ
Umur BÜKTAŞ
Ali Rıza ÇARMIKLI
Orhan ÇARMIKLI
Fahir ÇELİKBAŞ
Hulusi ÇETİNOĞLU
Özer ÇİLLER
Oğuz DAĞDELEN
Rasin DEMİRSOY
Ömer DİNÇKÖK
Raif DİNÇKÖK
Faruk DÖLAY
Faruk V.EBUBEKİR
Aydın DÜNDAR
Bülent ECZACIBAŞI
Nejat F.ECZACIBAŞI
Şakir ECZACIBAŞI
Ünver EĞRİKAVUK
Ekrem ELGİNKAN
Tevfik ERCAN
İhsan EREZ
Ayhan ERKAYA
Mümin ERKUNT
Bahri ERSÖZ
Şinasi ERTAN
Muharrem ESKİYAPAN
Ersin Faralyali
İ.Şevki FİGEN
Üzeyir GARİH
Muzaffer GAZİOĞLU
Şaban GAZİOĞLU
Nurullah GEZGİN
Necmettin GÖKÇE
Nihat GÖKYİĞİT
Haluk GÖNENÇER
Erdoğan GÖNÜL
Şadi GÜCÜM
Burhan GÜNERGÜN
Asaf GÜNERİ
Fikret GÜREL
Nuri GÜVEN
Vitali HAKKO
Kemal HARAÇÇI
Kadir HASOĞLU
Hicri HAZNEDAROĞLU
Mehmet HUNTÜRK
Kemal ILICAK
Orhan IŞIK
Turgut IŞIK
Rafet İBRAHİMOĞLU
Fahir İLKEL
Kemal İNCE
Esat Ali İZ
Galip JABBAN
JAK KAMHİ
Firuz KANATLI
Ercüment KARACAN
Oğuz KARAHAN
Demir KARAMANCI
Selahattin KARAOĞLU
Halil KAYA
Nail KEÇİLİ
Eren KEMAHLI
Can KIRAÇ
İnan KIRAÇ
Asım KOCABIYIK
Şahap KOCATOPÇU
Rahmi M.KOÇ
Vehbi KOÇ
Nurettin KOÇAK
Ali KOÇMAN
Halis KOMİLİ
Cemal KULU
Sinan KURANER
Nuh KUŞÇULU
Sabri KÜÇÜKONAT
Metin LEBLEBİCİOĞLU
İzi LEVİ
Ali MANSUR
Kemal MÜDERRİSOĞLU
Bernar NAHUM
Ali NARİN
Halit NARİN
Ali NEYZİ
Kamil OBA
Turhan ONUR
Behçet OSMANAĞAOĞLU
Ergün ÖZAKAT
Melih ÖZAKAT
Korkut ÖZAL
Turgut ÖZAL
Ercümend ÖZDOYURAN
İsmail ÖZDOYURAN
Kemal ÖZDOYURAN
Ahmet ÖSKÖSEOĞLU
Raşit ÖZSARUHAN
Vedat ÖZSEZEN
Bedrettin ÖZTEMİR
Hüseyin ÖZYAVUZ
Hüsnü ÖZYEĞİN
Hüseyin Taşkın PEKCAN
Erol SABANCI
Güler SABANCI
Sakıp SABANCI
Selahattin SABUNCUOĞLU
Altan SAĞANAK
Ahmet SAPMAZ
Faruk SARÇ
Sefa SELGEÇEN
Kamuran SERTEL
Erol SİMAVİ
Dündar SOYER
Ertuğrul SOYSAL
Sabahattin SUNGUROĞLU
Fuat SÜREN
Ayhan ŞAHENK
Sabahattin ŞENOCAK
İbrahim ŞENSOY
Zühtü ŞENYUVA
Turgut ŞEYHUN
Mehmet ŞUHUBİ
Fethi TANALAY
Sabri TANIK
Ziya TANSU
Şarık TARA
Bahattin TATİŞ
Necip TESAL
Çetin TOKCAN
Enis TOKCAN
Nail TOKCAN
Nezih TUNÇSİPER
Kaya TURGUT
Oktay TÜREGÜN
T.Güngör URAS
Ahmet UZEL
Sabri ÜLKER
Ayhan ÜNLER
Günay ÜNLÜSOY
Ferdi VARDARMAN
Mustafa YALMAN
İdris YAMANTÜRK
Tezcan YARAMANCI
Özdemir YARAR
Memduh YAŞA
Selçuk YAŞAR
Selman YAŞAR
Erman YERDELEN
Mehmet YAZAR
Hayrettin YORGANCIOĞLU
Atilla YURTÇU
Tayyaz ZAİMOĞLU
Mazhar ZORLU

TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION

Cumhuriyet Caddesi, Dörtler Apt. 18/2 Elmadağ - İstanbul Tel.: 46 24 12 - 40 12 05

Printed by NURTAN MATBAASI
22 73 27 - 26 46 35 İstanbul Turkey