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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

DEVELOPMENT PERFORMANCE AND PROSPECTS OF TURKEY

November 23, 1965

Europe and Middle East Department

CURRENCY EQUIVALENTS

U.S. $1.00	=	TL 9.00
TL 1	=	U.S. $0.11
TL 1 million		U.S. $111,111

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STATISTICAL APPENDIX

I. BASIC DATA

Area:	296,500 square miles	
Population: Total	31.1 million	1964
Rate of growth	3.0%	1960-64
Population density	104.9 per sq. mile	1964

Gross national product:	1964	1950-64
Total	TL 66.3 billion 1/	
Annual rate of growth	4.0%	5.3%
Per capita	$240	

Gross domestic product at factor cost:	
Total	TL 50.2 billion
of which: Agriculture	38.4%
Industry	18.2%

Percent of GDP at market prices:	1964	1960-64
Gross investment	15.8	15.2
Gross savings	14.4	12.2
Balance of payments current account deficit	1.4	3.0
Investment income payments abroad	0.4	0.4
Government taxation revenue	15.8	14.7
Resource gap as % of investment	9.1	30.4

Money and credit	End of 1964 (TL billion)	Annual rate of increase, 1960-64
Total money supply	14.0	10%
Time and savings deposits	5.1	10.2%
Commercial bank credit to private sector	11.5	10.6%

Prices	Annual rate of increase 1964	1960-64
Cost of living	0.8%	3.6%

Public sector operations (TL million)	1964	Annual rate of increase, 1960-64
Government current receipts	10,907	12.2%
Government current expenditure	6,755	n.a.
Surplus	4,152	n.a.
Government capital transfers	3,330	n.a.
Government investment	2,939	7.8%
Total deficit	2,117	

1/ State Planning Organization, preliminary estimate.

External public debt outstanding ($ million) (end 1964) 1/		
Including undisbursed	1,289	
Excluding undisbursed	919	
Total debt service (1966)	94.3	
Debt service ratio 2/	19%	

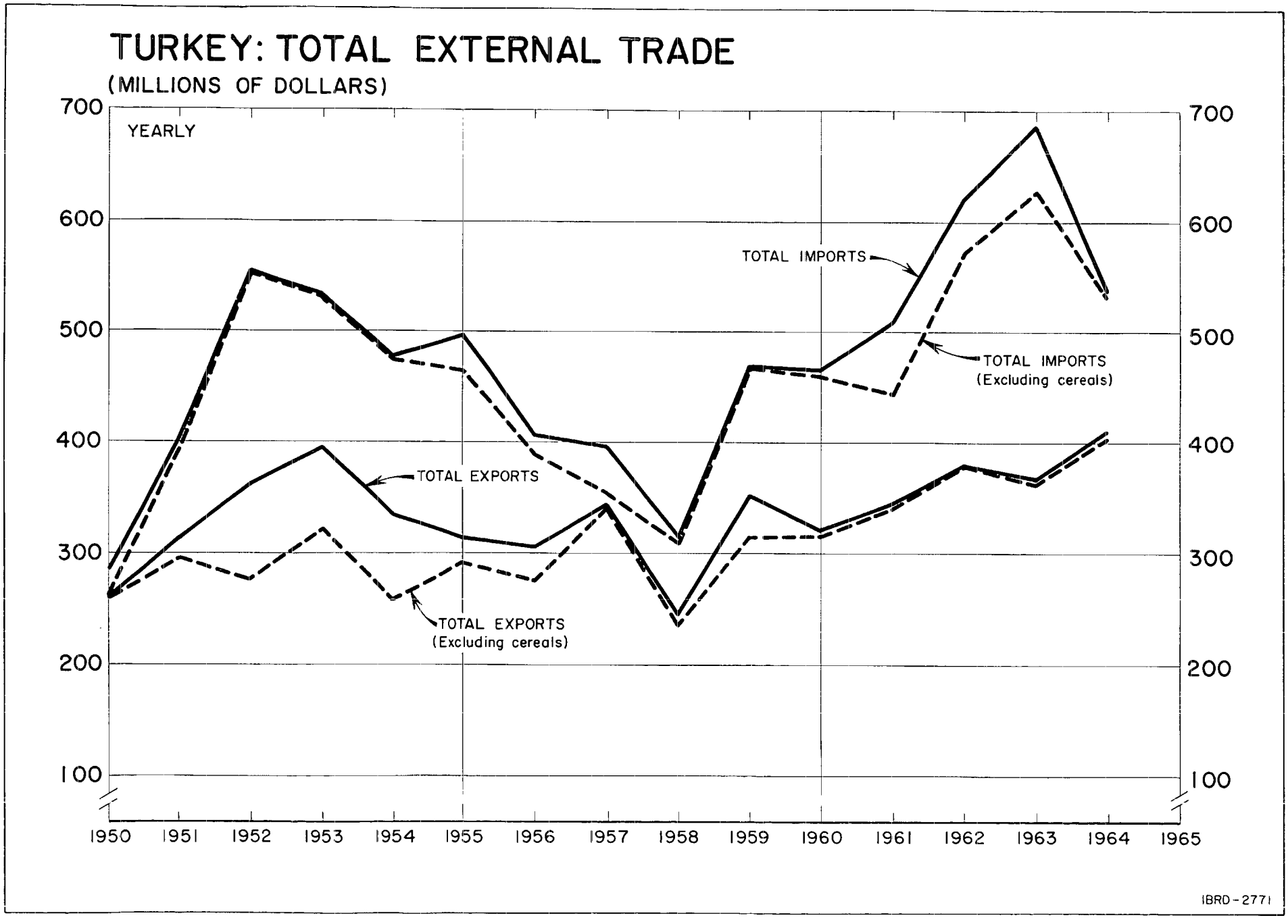
Balance of payments ($ million)	1964	Annual rate of increase, 1952-62 3/
Total exports	411	0.9%
Total imports	537	2.3%
Net invisibles	20	
Net current account balance	- 106	3.2%

Commodity concentration of exports (cotton, tobacco)	1962/63
	40%

Gross foreign exchange reserves (year end)	1964	Average 1961-64
	$144 million (or 3.2 months' imports)	$176 million (or 3.5 months' imports)

External financial assistance 4/	1964	Annual average, 1960-64
Disbursements	$223 million	$257 million

1/ Including major reported additions to April 3, 1965, excluding IMF.
2/ Debt service 1966 as % of export earnings 1964.
3/ Based on averages for 1950-54 and 1960-64.
4/ Excluding private capital inflow.


TURKEY: TOTAL EXTERNAL TRADE
(MILLIONS OF DOLLARS)
YEARLY
700
600
500
400
300
200
100
TOTAL IMPORTS
TOTAL IMPORTS
(Excluding cereals)
TOTAL EXPORTS
TOTAL EXPORTS
(Excluding cereals)
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959
1960
1961
1962
1963
1964
1965
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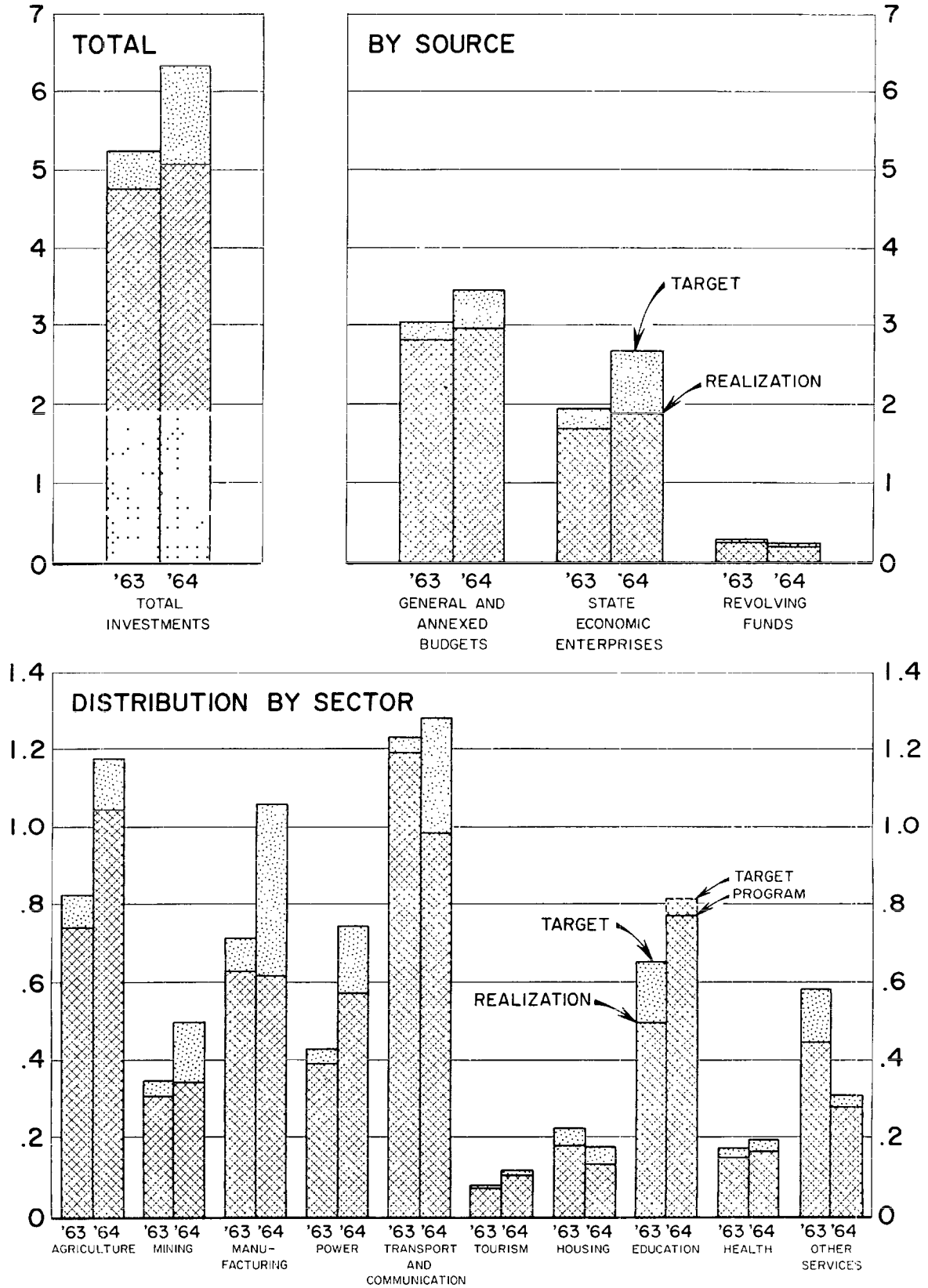
TURKEY: PUBLIC INVESTMENT EXPENDITURE

TARGETS AND REALIZATION, 1963-1964

(THOUSANDS OF LIRAS)



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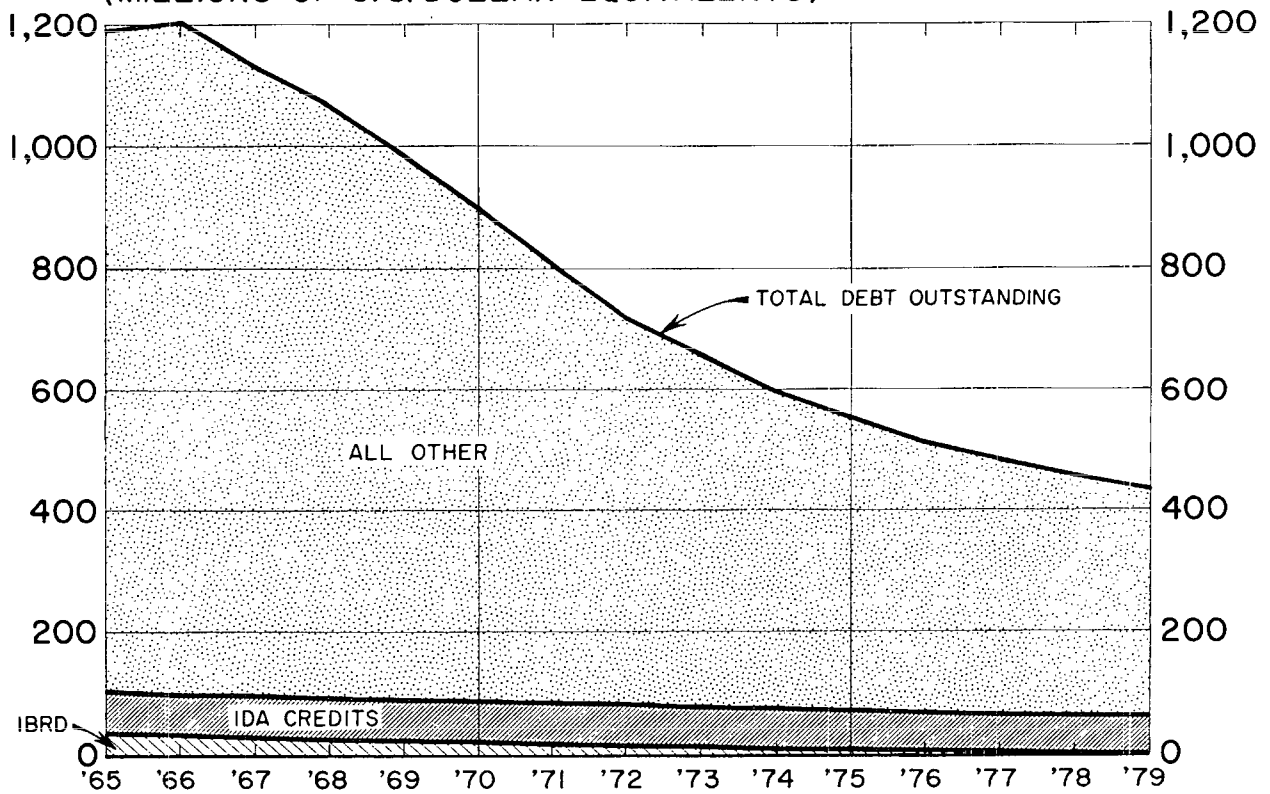
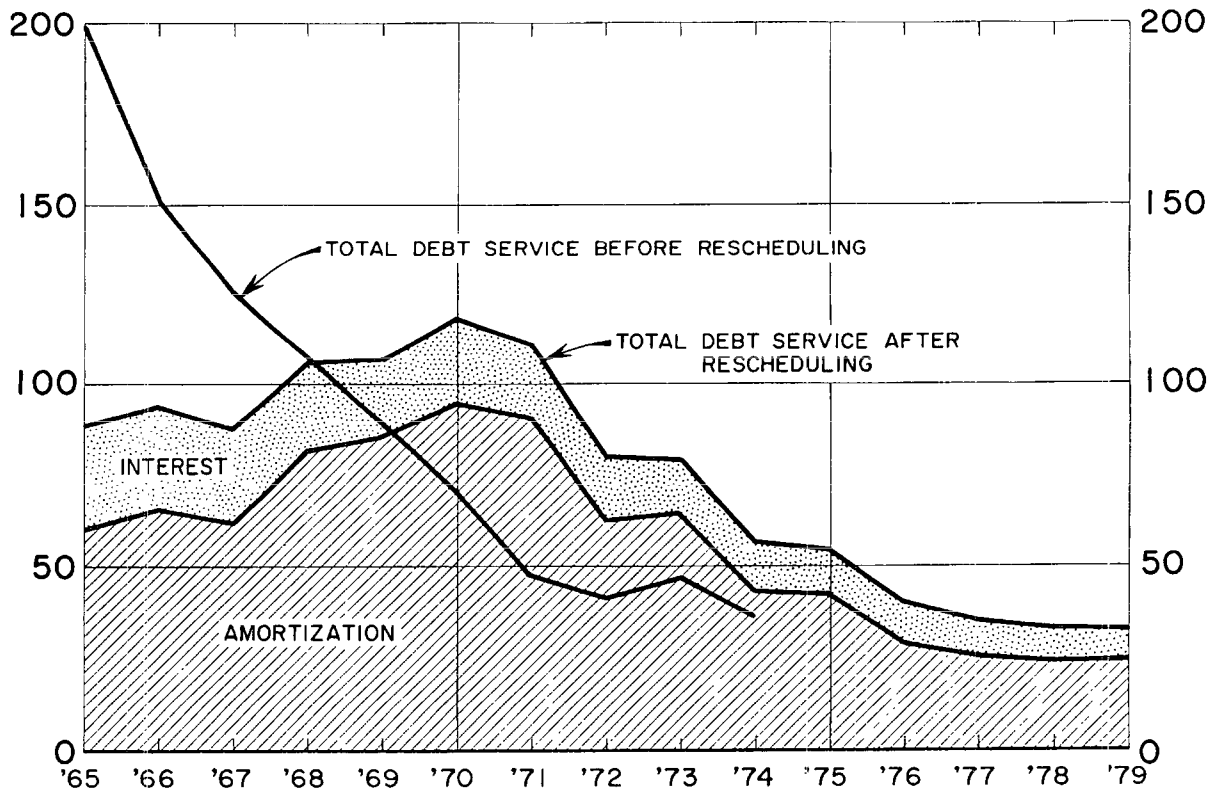
TURKEY: ESTIMATED EXTERNAL PUBLIC DEBT OUTSTANDING*

(MILLIONS OF U.S. DOLLAR EQUIVALENTS)





*Excluding IMF credits.

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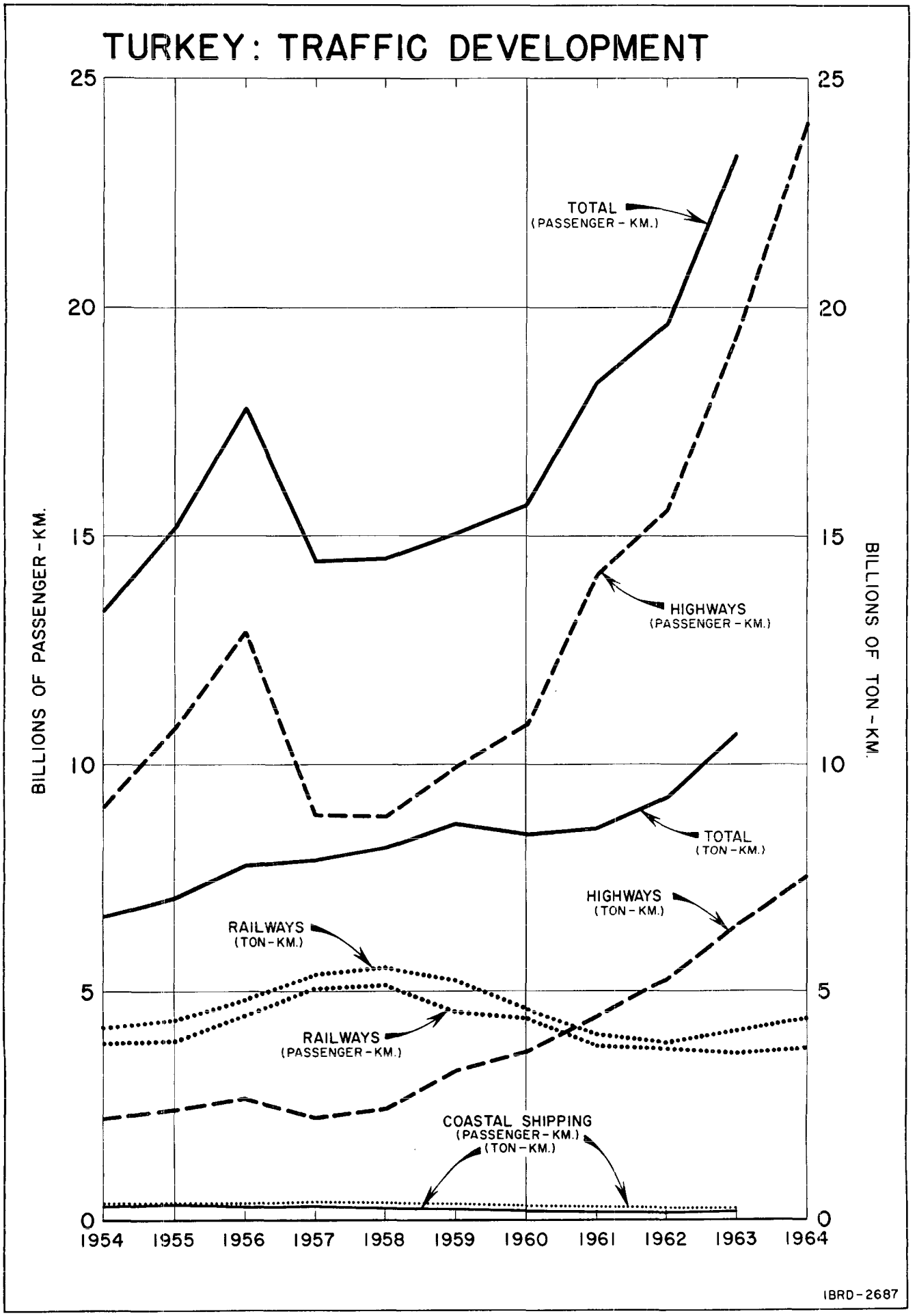
TURKEY: TRAFFIC DEVELOPMENT
BILLIONS OF PASSENGER-KM.
BILLIONS OF TON-KM.
25
20
15
10
5
0
1954
1955
1956
1957
1958
1959
1960
1961
1962
1963
1964
TOTAL (PASSENGER-KM.)
HIGHWAYS (PASSENGER-KM.)
TOTAL (TON-KM.)
HIGHWAYS (TON-KM.)
RAILWAYS (TON-KM.)
RAILWAYS (PASSENGER-KM.)
COASTAL SHIPPING (PASSENGER-KM.) (TON-KM.)
IBRD-2687

SUMMARY AND CONCLUSIONS

Introduction

1. The report presents the findings of a World Bank Mission to review Turkey's development effort and evaluate her future growth potential and creditworthiness. The mission saw much evidence of considerable recent progress in Turkey on a wide front; in more orderly planning for development, in fiscal and monetary responsibility, and in increased output and efficiency in agriculture, industry and services. Balance of payments prospects appear better than foreseeable a few years ago, due largely to an increasing flow of remittances from Turkish workers abroad, and the probability of at least a temporary elimination of oil imports following petroleum discoveries.

2. The mission was unable to quantify its growth expectations with any precision, but firmly believes that it is economically feasible for Turkey to maintain a high and possibly accelerated rate of economic development, provided this objective is given high social and political priority by the Turkish Government and people. Some "hard" decisions are needed: to increase savings, particularly in the public sector; to subject investment proposals to close scrutiny and effective implementation; to improve the performance of the State Economic Enterprises (SEE's); and to secure an accelerated increase of foreign exchange earnings. In all these fields the uncertainties are not the direction of change but the pace of change.

Turkish Planning

3. The concept of planning, incorporated in the 1961 Constitution, is accepted by all political parties and the private sector, within the framework of a mixed economy ("Etatism") with a pragmatic intermingling of State and private enterprise. The High Planning Council, which directs the work of the State Planning Organization (SPO) and provides the formal link between it and the Government, is in a position to influence the current operation and development of the entire economy.

4. The First Five-Year Plan (1963-1967) adopted an overall growth target of 7% per year and envisages investment increasing from 16.3% of GNP in 1962 to 19.4% in 1967, with average savings rising from 12.3% to 16.5% of GNP over the same period. The Plan explicitly recognizes that, despite the proposed saving effort, Turkey will remain very dependent on external financial assistance; the Plan projects an average annual current deficit of $250 million and external debt repayments averaging about $110 million (before the recent debt rescheduling). In the longer range, the external aim is to arrive, by the beginning of 1973, at a position where Turkey can develop satisfactorily without recourse to external aid on concessional terms.

5. The Plan got off to a rather good start. GNP rose by about 7.5% in real terms, in 1963, mainly as a result of a record crop. In 1964, however, GNP rose by only about 4%, due to a combination of unfavorable factors: early in the year, economic activity slackened under the impact of the Cyprus crisis; agricultural production suffered from unfavorable weather; and investment failed to expand as expected because the public sector was unable to start a number of key projects. The projects for 1965 are somewhat better. One of the main merits of the Plan to date has been to facilitate a more orderly development effort. The authorities are able to see more clearly what the problems are and what must be done to strengthen the economy.

6. The mission does not believe that there is any need for major adjustments in the Plan's proposed distribution of investment between principal economic sectors, bearing in mind that important development expenditure, for example education and health, are in Turkey classified as current development expenditures.

7. During these first years, the SPO has understandably devoted most of its attention to the preparation of the interim Plan for 1962, the First Five-Year Plan and the Annual Programs. Currently, however, more attention is being paid to implementation and follow-up. For the Second Five-Year Plan (1968-1972), now in process of preparation, the SPO should be in a much better position than it was in 1962, when planning was an innovation, to advance beyond essentially simple macro-economic and input-output analysis, to the survey of detailed physical accomplishments and requirements sector by sector, if not, in some cases, project by project. Although the overall financial level of investment is still widely regarded in Turkey as the sole determinant of the rate of economic development, there is increasing recognition that economic growth does not depend upon investment alone but also on the full and efficient use of the capacities already installed, i.e. of past investment.

Principal Economic Activities

8. The publication of the Plan has meant in Turkey a revolution in thinking about the place of agriculture. It is now looked upon as having dynamic aspects which are already in motion, with farmers' initiative responsive to Government help, and the potential of becoming a strong sector of a modern economy. The direction and scale of the Plan appear sound, including the decision to spend as much as half the total of agricultural investment on irrigation. The five-year target is to increase the sales values of agricultural output by 4.7% per annum, the increase coming from higher yields by irrigation and better techniques, rather than from an expansion of the total cultivated area or from big changes in the proportions of different crops.

9. The irrigation program is massive but heavy investment in this field is necessary, and is potentially very productive both indirectly and directly. Officials are aware of what needs to be done and the technical personnel involved are efficient and qualified for the task;

but over-extension of the program has made them too thin on the ground. It would be advantageous to reduce the number of starts of new works until the program is in better balance, with more attention paid to the expansion of existing irrigation works and to rapid on-farm development in new projects.

10. Performance of the agricultural sector so far under the Plan has been encouraging. A notable exception to this is the failure to make progress in livestock. The mission's view is broadly that, taking the investment and output targets as a whole, they are being about 80% fulfilled. This means that instead of the Plan's 25% increase in five years (4.7% per year) the mission expects about 20% (say 3.8%). Unfortunately, this is barely sufficient, since the balance between the growth rates of agricultural production and consumption is finely poised. A small change in the average rate of growth of agricultural production, whether caused by a run of good or bad harvests or by Government action, will have very large implications for the balance of payments or for the level of food consumption.

11. Between 1957 and 1962, manufacturing production grew slowly, at 4% per year, probably due to the stabilization program of 1958 followed by the Revolution of 1960. The Plan aimed at increasing net output of manufacturing at a rate of 13% per year between 1963 and 1967. So far, manufacturing output is rising much faster than 4%, but not nearly as fast as the planned 13%. The official estimate that output rose at a rate of 8% during the first two years of the Plan may overstate the position. On new investments, the key projects in the State sectors have been running well behind schedule (1963 and 1964 - 55% of targeted expenditures on investment) and it is doubtful that this investment leeway will be made up. For the five years of the Plan, the mission estimates that manufacturing production will grow by little over 50% - 9% compounded - made up of food and textiles growing by about 5% and intermediate and investment goods by 13%. Inadequate project preparation is, for the medium-term, one of the most disturbing bottlenecks in the expansion of Turkish heavy and complex industry.

12. In general, the prospects for the private sector in manufacturing are good; despite difficulties, vigorous growth has been taking place and should continue. Turkish private light industry is becoming increasingly competitive with the State Economic Enterprises. In more complex industry, lack of know-how and inadequate capital remain big obstacles. This is why partnership with foreign capital is often so important. What is needed is not legal or institutional change but a changing attitude both by the Government, and, indeed, by much of the public. For unless both foreign and domestic private capital is attracted rapidly to more complex industry, output will fall short and Turkey will have deferred or lost an important opportunity to strengthen its balance of payments.

13. The mission analyzed the prospects for the expansion of Turkish minerals, particularly copper, boron and lead-zinc. These are good,

although often entailing a considerable risk. But, almost more important, they also involve considerable technical know-how and sometimes special arrangements to obtain access into tightly-held world markets. Present prospects suggest a modest growth in output and exports between 1964 and 1972; a 10% rise in exports would give an extra $3 million in 1972. If all the opportunities were developed as quickly as possible, exports could more than double and yield an extra $30 million. But this would require encouragement of foreign participation in Turkish mining.

14. The position in energy is very encouraging. The Turkish coal industry is small and not scheduled to expand greatly; but it has considerably improved its efficiency and Turkish coal is cheap by European standards. Turkish electricity is not yet cheap but her hydro-electric potential is huge and supply is expanding very fast. About 85% of the Plan for electricity will probably be completed by the end of 1967. However, the present organizational structure of the industry needs revision. Moreover, the return on investment in the electricity industry taken as a whole has been poor; in recent years it has been able to provide only about 15% of the money needed for its expansion. In the main, this is because, since 1959, the Government has ordered the ETIBANK (an SEE, responsible for generation and transmission) to give discounts on electricity supplies to municipal and industrial consumers. The electricity industry anticipates that these discounts will be abolished next year, in which event ETIBANK should be able to supply 30-40% of the capital required for thermal generation and for transmission.

15. In petroleum, recent oil discoveries have made Turkey potentially self-sufficient in oil within the next 3-5 years, but thereafter production may not keep pace with growing requirements. Refined products are almost completely supplied by local refineries, and further increases in demand can be met by expanding facilities and by construction of an urgently needed pipeline from the oil-fields to the Mediterranean. Howeven, the petroleum industry has been under a cloud of uncertainty revolving around the role of foreign producers; unless resolved, this may adversely affect longer-range exploration activities and production and investment policies.

16. From a physical point of view, transportation in Turkey is, in general, adequate to meet present needs, and transport shortages are not a bottleneck for economic growth. In particular, road construction and improvement have made considerable progress. Ports have ample capacity for present traffic and in most cases for traffic growth. The railroads can move all the traffic offered, though some shortage of wagons still prevails during the three peak months September-November. However, the large financial losses to the Government resulting from providing and operating the various transport facilities are a serious drain on the budget, reducing resources available for public investment, and thus indirectly restraining economic growth.

17. There is an urgent need for a clarification of road-rail policy issues. The Plan envisaged that the railways would take the larger share

in traffic increase but this expectation has not been realized. In both freight and passenger transport, trucks and buses have taken over the main streams of traffic of medium and even long distances between main towns. The railways have been left with a large proportion of short-distance "stopping" traffic and those transits which involve small chance of backhauls. This uneconomic traffic distribution results partly from under-taxation of road transport and partly from the rigidity in railway rate-making, permitting the small and highly competitive truck and bus firms, still unimpeded by social security and other welfare arrangements, to cream off much profitable traffic. The mission suggests that serious consideration should be given to bringing road under taxes to a realistic level by a program, to be implemented over a suitable period of years, for greatly increasing the annual license fees of trucks, buses and taxis.

18. The Plan sets a target of increasing foreign exchange receipts from tourism from the present $8 million to a $100 million a year level by 1972. To achieve this the number of tourists visiting Turkey would have to increase sevenfold and the average amount of foreign exchange received from each tourist will have to double, from about $50 to $100 per person. The Plan proposes a wide range of measures with regard to tourism, from improved foreign advertising to training schemes for guides and hotel staff, but the most important aspect is the underlying strategy to concentrate on facilities for the car tourist and on improving facilities in a few areas. However, progress in tourism has thus far been disappointing. Between 1962 and 1964, the number of tourists actually fell slightly rather than increasing, and in 1964 Turkey listed only $8 million of receipts instead of the $18 million expected for that year in the Plan. Although much could happen before 1972, the best expectations on present indications would see 650,000 tourist visitors providing, say, $65 million, instead of the hoped-for one million visitors providing $100 million.

19. A remarkable and largely unexpected development has been the growth in numbers of the Turkish workers overseas, principally in Western Germany but also in other Common Market countries. In 1961, the remittances sent home by workers were too small to appear in the balance of payments. In 1965, they should be over $40 million; and, by the end of the First Plan, will probably be Turkey's greatest single foreign exchange earner: greater than tobacco, cotton or hazelnuts. This worker migration has been of male labor (95%) and mostly young married men. They go without their families, living very simply, and save a great deal of their income with a view to returning to Turkey in improved circumstances. The second half of 1964 saw the emergence of a system designed to offer simple and financially attractive means for workers to make bank transfers through official channels to their relatives in Turkey. The expectation is that when the system has been completely run-in, some two-thirds of savings will come back in this way. The mission believes that a reasonable assumption would be that the workers' remittances through official channels will rise to about $150 million in 1972 and that the workers' imports of goods under the "imports with waiver" heading will rise to $50 million.

20. Population is now growing at a rate of about 3% per year and, with medical facilities spreading in country districts, it could rise even faster. The need for family planning is accepted, for otherwise the standard of living will rise only slowly and unemployment mount; and a program for instruction in family planning is about to start. However, as the children who will enter the labor force in the next 15 years are already born, no family planning program can reduce the employment problem between now and the end of the Third Plan (1977).

21. Expenditures on education in 1963 and 1964 just about kept pace with the amounts proposed in the Plan and were about double the average of the 1950's. Current and investment expenditure on education is expected to rise very fast; for example, between 1963 and 1967, education investment outlays are planned to rise 80%. But almost none of these educational programs have been properly costed and appraised, and a much more detailed evaluation is necessary to establish priorities.

The State Economic Enterprises

22. There are currently some 132 State Economic Enterprises and the State has substantial participation in another 65 enterprises. The SEE's cover a wide range of economic activities, including mining, manufacturing, electricity, transportation, crop purchasing, banking, pension and insurance funds. Their performance is thus of crucial importance for Turkish economic growth, not only in terms of output increase but also in increasing savings through the generation of greater profits. Moreover, an expectation that an SEE is planning to expand its operations in a particular field may restrain private initiative which might otherwise have occurred.

23. Losses have been consistent in the transport SEE's, while profits after tax in mining, and to a lesser extent in petroleum, have been appreciable. Manufacturing SEE's have generated a small profit, although one that is quite insignificant when compared to the capital employed.

24. After the 1960 Revolution, mixed teams of Turkish and foreign experts were hastily assembled, with the help of OECD and AID, to make proposals for reforms in the SEE's, whose losses had been a principal cause of the inflation of the 1950's. The most obvious outcome of the reorganization effort to date has been the passage of two new laws, 440 and 441 of 1964. Law 440 seeks to give the SEE's autonomy in the price, employment, and day-to-day competitive operations, while retaining in some measure their answerability to ministries and to the Assembly. The law set up a reorganization committee which was given only two years to study and report separately for each of the 132 SEE's on how charters should be rewritten and organizations revitalized. The committee is still engaged on this difficult task. The second law, 441, sets up a State Investment Bank (SIB) to examine the feasibility and profitability of proposed SEE investments; the SIB receives deposits from the surplus funds of the SEE's and transfers from the budget, and issues bonds in exchange for part of the surpluses of the Pension and Insurance Funds.

25. On the organizational side, the prospects are that eventually the SEE's structure will be rationalized and made more efficient and competitive, but the pace of change so far has been slow. In the mission's view, there is no need to wait until proposals for all 132 SEE's are ready. The most important SEE's should be selected and efforts concentrated there. Recently, there have been some signs of improvement. The efficiency of some of the mines and manufactures has improved (coal and cement); greater attention seems now to be paid to the selection of qualified managers; and salary increases have checked somewhat the loss of good men. The efficiency and profitability of the SEE's have to be further improved right across the board if the savings already represented by the investment in their productive facilities are to yield a reasonable flow of goods and services and if the SEE's are to provide from their internal sources a reasonable proportion of the future savings required for their own investment.

Monetary and Fiscal Developments

26. The 1950's in Turkey were marked by heavy inflationary pressure. The principal impetus until the end of 1954 was an unusual increase in credit to the private sector. From 1955 to 1959, the main area of inflationary pressure switched from the private sector to the public sector, the principal credit increase being the extension of Central Bank and commercial bank loans to the SEE's. By 1958, the situation was deemed, both within Turkey and by its creditors, acute enough to require a drastic stabilization program, incorporating both monetary and fiscal measures. In consultation with the IMF, a de facto devaluation of 69% was authorized, and stringent controls instituted over Government expenditures, money and credit. Political instability, however, prevented the full implementation of the stabilization program until after the May 1960 Revolution. Since 1960, Turkey has achieved economic growth, while simultaneously demonstrating its continued concern for monetary and fiscal responsibility.

27. Accelerated economic growth combined with continued financial stability requires an increase of Turkish domestic savings, while the Plan objective of reducing the present dependence on foreign aid required that such savings increase faster than total investment. The Plan implicitly assumed that private savings would increase proportionally with private investment. The principal savings effort was expected to be made in the public sector, including the SEE's. There are, unfortunately, several serious technical problems in measuring both public investment and public savings, but the available data indicate that total public savings available for investment (including Central and local Government surpluses, the surpluses or losses of the SEE's, and the surpluses of the Pension and Insurance Funds) probably fluctuated slightly below 5% of GNP throughout the 1960's and increased to 7% in 1964. The mission's view is that public savings could be raised to 10% of GNP by 1972, provided that the SEE's can be reorganized and reoriented so as to begin providing internally a significantly increasing proportion of their financial requirements and that major efforts are made to improve the tax collection process and agencies.

28. After 1960, an impressive list of new and changed taxes was enacted. Nevertheless, the realized upward shift in Central Government revenue has been both less and slower than planned; current revenue in 1964 was 16.4% of GNP, instead of 19.4% expected in the Plan. All things considered, the mission feels, perhaps somewhat conservatively, that current revenue will not increase faster during the remaining years of the Plan than the 8% originally planned (ignoring the important upward shift planned, but largely unrealized, for 1962 and 1963), unless new and unforeseen steps are taken. This would mean that current Central Government revenue would reach only about 17.3% of GNP by the end of the present Plan (1967), as compared with the target 19.9%. These increased revenues of the Central Government will probably be largely, if not fully absorbed by its own current expenditures, including recurring expenditures associated with development-oriented activities, and its own increased investment.

29. On present indications, progressive closing of the gap between total public investment and total public savings seems to depend more than anything else upon improved performance by the SEE's which, taken as a group, have provided almost none of their financial requirements for new investment out of internally generated funds. However, during the coming seven years, it is open to the Government to place more reliance than has been assumed here on other methods of increasing public savings, of which the two principal ones could be an accelerated increase of tax revenues resulting from new and presently unforeseen fiscal steps, conceivably, the mobilization of more funds through the two institutional savers, namely the Workers Insurance and the Pension Fund. If increased total public savings cannot be realized, however, less ambitious investment targets would have to be accepted if Turkey is to succeed in reducing her reliance on foreign aid and in maintaining her domestic financial stability.

International Trade and Payments

30. Turkey's exports as a percentage of GNP fell from 7% in the early fifties to 5.4% in recent years, and imports from 8.9% to 8.3%. The external payments situation has been difficult since 1954 and Turkey has continued to remain heavily dependent on foreign financial assistance. Previously, Turkey sought to cover a large part of these requirements through suppliers' credits, and the resulting accumulation of heavy short-term repayment obligations culminated in a rescheduling of debt service in 1958.

31. The composition of exports has been changing: cereal exports have disappeared; there has been a steady increase in the export of nuts; cotton declined during the period of inflation but has since been climbing steadily; and lately some new export items have appeared which previously were not exported or exported only in very small quantities. Altogether, exports have exceeded the Plan targets during the past two years and are likely to surpass the target for the current year. Imports also grew, due mainly to higher imports of machines, equipment and metals. Besides foodstuffs, Turkey imports only a limited amount of consumer goods, although there has been some increase of the import of raw materials entering into the production of consumer goods.

32. For the first time in many years, there is a prospect of a substantial increase in foreign exchange earnings, largely attributable to the unforeseen movement of large numbers of Turkish workers to the Common Market countries. But some new export items are also on the horizon which, with proper support and a vigorous export drive, could make a significant contribution to Turkey's foreign exchange earnings in a few years. At the same time, Turkey's traditional export items can be expected to grow at a modest rate. On the import side, the development of the oil and steel industries, as well as some others, is likely to produce substantial new import savings.

33. The mission's estimates indicate that commodity exports may increase to around $500 million in 1972, compared with $411 million in 1964, on the assumption that no special export effort will be made. However, export earnings could be significantly higher in 1972 if Turkey's development efforts were directed toward that end with increased vigor. Much will depend upon future Government policies and upon the emphasis given to the export sector in the Second Five-Year Plan. The most important sources of increased foreign exchange earnings are likely to be on account of invisible transactions, specifically tourism and, most of all, receipts from Turkish workers abroad. These, together with NATO infrastructure and offshore receipts, make it quite possible that total gross foreign exchange earnings could be something over $800 million in 1972; this would represent an annual growth of 6.6 percent between 1964 and 1972. They might be higher by as much as $75-100 million if a special drive to encourage tourism was added to renewed emphasis on commodity exports. Adding private foreign direct investment and PL 480, gross exchange receipts before borrowing might range from $900 to $1,000 million in 1972. Allowing for payments for Turkish travel abroad and interest and profit remittances, this suggests that Turkey could finance imports of around $790 million in 1972, and that on more hopeful assumptions regarding output increase in export commodities plus an export and tourist drive, the figure could reach around $900 million without any new net official borrowing. The lower figure would represent a 4.3% annual growth above the import level of 1960-1964; and the higher figure a 6% growth per year.

The OECD Consortium

34. The Consortium was set up in July 1962, and first met in October 1962. In the three years of its existence, the Consortium has pledged program and project aid (including debt relief and PL 480) rising from $255 million in 1963 to $319 million in 1965, while average maturities increased from 26.9 years in 1963 to 30.4 years in 1965, and average interest rates fell from 2.6% to 2.2%. When, in 1964, it became clear that Turkey could not meet her debt commitments in full, the Consortium arranged a major debt rescheduling, completed early in 1965, which reduced the very heavy repayments due in 1965, 1966 and 1967 by postponing a portion of them until later years.

35. From the Turkish point of view, the amounts of aid, though substantial, have been less than the amounts needed to close the balance of payments gap; and delays in concluding some of the bilateral agreements

accentuated the shortfall. As a result, import quotas had to be reduced and recourse made to short-term borrowing, mainly from the IMF and EMA. Also, Turkey's foreign exchange reserves were drawn down until at one time in 1964 they could have purchased only about a month's imports. It is a prime (and proper) objective of Turkish policy to restore these foreign exchange reserves to a level allowing somewhat more flexibility, to repay some of the IMF and EMA debts so as to reconstitute some of the second line reserves, and to relax the tight import quotas.

36. From the point of view of Consortium members also there have been considerable difficulties. To some of them, the balance of payments gaps revealed in the Annual Programs seemed large and there was great uncertainty as to when the need for foreign aid on concessional terms might actually begin to diminish. To some, too, the amount of aid which they were called upon to contribute was greater than they had expected when they agreed to join the Consortium. Moreover, although the Five-Year Plan involved a large increase in investments in Turkey and many projects were mentioned, it seemed to the donors that few projects had been prepared to the point where funds could actually be committed for them.

37. When the Consortium started work in October 1962, the First Plan was already a fait accompli. Members of the Consortium could raise questions about particular aspects of the Plan, about the Annual Programs, and about implementation; but the overall strategy and objectives had already been determined. In connection with the Second Five-Year Plan, a new and different approach - an approach of partnership between the Government and the Consortium - should be given careful consideration. On the one hand, it would be desirable for the Consortium members to know, at an early stage in the formulation of the Plan, what strategy and objectives the Government has in mind, at what cost and by what means, so that they can express to the Government whatever views they might have on the balance of payments and external aid implications of the program which the Turkish planners have in mind. On the other hand, in order to make its planning realistic, it would be desirable for the Turkish Government to know from the Consortium members what target amounts of Consortium aid it would be reasonable for the Government to use for planning purposes. This means that the Consortium members, instead of determining each year's aid commitments on the basis of an estimate of that year's balance of payments gap, would have to look ahead, at least for planning purposes, to the scale of their aid programs for Turkey over a period of years. In spite of the difficulties, an approach along these lines would seem to offer the best promise of achieving a satisfactory relationship between Turkey and the nations which are providing assistance to its development.

Creditworthiness

38. Turkey's external public debt, including IMF credits, stood in April 1965 at $1,346 million, including undisbursed amounts amounting to about $370 million. Total service on this is estimated to be $94 million in 1966, or over 19% of gross exchange earnings of $489 million in 1964. In 1972, service on existing debt would be $80 million, but starts dropping fairly rapidly from 1974 onwards; in 1972, service on existing

debt would represent 10% of estimated exchange earnings of $800 million for that year and hopefully, the percentage would be lower if exchange earnings were higher, as they might well be if extra effort were to be made.

39. It can be postulated that Turkey will not be making net repayments of debt through 1972. This would imply gross borrowings of at least $661 million during that period to equal repayments of existing debt, including the IMF, and also a grace period of at least eight years on new borrowing. Full service on the whole $661 million of "roll-over" borrowing would become payable in 1980 and would amount to $44 million per year, assuming average terms of 3.6 percent and 30 years' maturity, including eight years of grace. By then, service on existing debt would be reduced somewhat below $33 million per year; and service on both existing debt and "roll-over" borrowing would thus, on the assumptions being used, be around $77 million in 1980, or under 10% of $800 million, which may again be used as a benchmark even though exchange earnings in 1980 could reasonably be expected to be higher.

40. Taking into account Turkey's existing debt service situation and her basic potential for development, continued development lending to Turkey appears justified to finance program aid and well-worked out projects acceptable to the aid givers in amounts exceeding repayments on existing debt. This conclusion, it should be emphasized, assumes long grace periods on repayment of principal, average interest charges which harden only slowly, and no sizable resort to suppliers' credits. In reaching this conclusion, the mission has weighed not only balance of payments magnitudes but also the balance of payments structure. By 1972, and during the seventies, Turkey's exchange earnings could be of growing diversity, with new, nontraditional items becoming of increasing importance, and hence improving the stability of total earnings. On the import side, equipment imports will probably represent by far the largest single category, and one which could be compressed over the short-term in the event of a balance of payments liquidity crisis.

41. The planners expect that after 1972 there will no longer be a need for aid on concessional terms, and that thereafter Turkey's capital requirements can be met through conventional project borrowing. Such an outcome is by no means impossible of achievement. However, it cannot, of course, be firmly predicted, being highly dependent on the strength of the Government which will be administering Turkish economic affairs and the development policies it pursues.

I. INTRODUCTION

1. A World Bank Mission visited Turkey for six weeks in the Spring of 1965 to review the progress being made under the First Five-Year Development Plan, 1963-67, and to evaluate Turkey's future growth potential and creditworthiness. The agricultural members of the mission were provided by the Food and Agricultural Organization of the United Nations under the co-operation agreement between the Bank and FAO. OECD made available a general economist, while a consultant to OECD on Turkey served as Economic Adviser to the Chief of Mission. The mission was instructed to pay particular attention to the effectiveness of Government measures to promote growth and to attempt a judgment on how soon Turkey was likely to obtain her objective of sustained growth without the need for a continuing inflow of foreign aid on concessional terms. The findings of the mission are presented in this report.

2. It may be useful to begin with a broad comparison between the economic situation now and those prevailing at the time of the Bank missions of 1958 and 1961, then to present our general findings, and finally to focus attention on the principal issues we believe to be crucial at this stage of Turkey's development, before discussing them in more detail in subsequent chapters.

3. This mission, in contrast with the two previous ones, saw much evidence of considerable recent progress in Turkey. In contrast with the fifties, GNP is now rising faster, while price increases have been modest. The last few years have seen a significant effort to increase tax revenue (which has risen from 13% to 16-1/2% of GNP) and public savings (which are up from 5% to 7% of GNP), and the balance of payments prospects are distinctly more healthy. These improvements reflect progress not just in one or two fields, but on a wide front; in more orderly planning for development, in fiscal and monetary responsibility, and in increased output and efficiency in agriculture, industry and services.

4. The immediate position of the balance of payments, as compared with the outlook in 1961, has been improved by the large debt rescheduling recently undertaken by the OECD Consortium for Turkey. This has smoothed out the very heavy debt repayments previously due in 1965, 1966 and 1967. But in the longer run, the better prospect for the balance of payments stems largely from two developments not foreseen in 1961: the flow of remittances from Turkish workers abroad and the discovery of substantial oil reserves. Workers' remittances may exceed $40 million in 1965 and could reach $150 million by 1972. Increased oil production over the level of 1961 could make Turkey self-sufficient in petroleum, thus saving imports that would otherwise amount to about an extra $150 million in 1972.

5. The mission finds itself unable to quantify its future growth expectations with any precision. Quantitative or statistical knowledge about essential parameters is too vague to permit construction of a realistic "growth model;" any such attempt would involve heroic assumptions and results of spurious accuracy. And those parameters themselves could be changed markedly by future policy decisions and actions; this is a theme to which we return frequently. Nevertheless, the mission firmly believes that it is economically

feasible for Turkey to maintain a high and possibly somewhat accelerated rate of economic development, provided that this objective is given high social and political priority by the Turkish Government and people. Because of the range of Turkish resources, there is a good potential for diversified growth. However, this also implies on the one hand that problems are more complex than those of a "one crop" economy, and on the other that dramatic growth or breakthrough in any one direction is improbable. To secure accelerated but orderly growth, some "hard" decisions must be taken, now and in the future.

6. Principal among these is a decision to save and invest more out of future increments of income, particularly in the public sector. As discussed in Chapter V, this can be accomplished in a number of ways; which combination of measures will be taken is for Turkey to decide. But unless savings are increased Turkey will not achieve a high rate of self-sustained growth.

7. Savings fail to fructify if they are not well invested. The mission would place good project preparation and execution, in the sense of a close analysis and subsequent scrutiny of each investment proposal taken separately, and systematic follow-up of progress during its implementation, high among the determinants of Turkey's future growth. This could, if Turkey so wished, be a fruitful field for technical assistance for the next few years.

8. Over one-third of Turkey's GNP still comes from agriculture, so her growth in the near future must continue to depend very much on the success of the agricultural program. Under Turkish conditions this means basically success in the program for irrigation, livestock and timber production. In livestock development almost nothing has been achieved, yet livestock represents 10% of GNP. From the enormous areas of Turkish forest only a tiny amount of timber is taken for industrial use. In irrigation the amounts being invested are very large indeed (more than in the production of electric power) but increased production from these irrigation investments is not forthcoming as quickly as it could be.

9. Although agriculture is the biggest sector of the Turkish economy the fastest growth and the most rapid increase in productivity is, of course, expected from industry. Yet, particularly in the case of public investment in the industrial field, the First Five-Year Plan suffers from the weakness that it could not be based on a selection of well-prepared and well-evaluated projects. Now that the projects left over from before the Plan are being completed, there is a hiatus, and industrial investment is behind schedule.

10. Much will depend upon the performance of the State Economic Enterprises (SEE's) whose operations cover a very wide range, including transport, power, mining, manufactures, banking, pension funds, and crop purchasing. Improvement must include both increased efficiency (improved management, modernization of plant, better marketing) and more adequate charges for the goods and services they provide. If the performance of SEE's does not improve, there will be shortfalls in output and shortfalls in savings, with the result that Turkey's growth will be slower and her dependence on concessional foreign aid will be more protracted than it need be.

11. The fact that Turkey is developing as a "mixed economy" with a large role allocated to the Government and the SEE's (public investment is 60% of the total) must not be allowed to impair the growth which can come from the proper encouragement of private enterprise, small-scale as well as large. This sector can grow very fast and should not be neglected. In the larger enterprises an encouraging feature has been the emergence in the past decade of Turkish entrepreneurs who are moving from the traditional commercial ventures into light industry and even into more complex and heavier industry. It is very much to be hoped that the Government and the public will increasingly appreciate the advantages of encouraging this dynamic private enterprise. The supply of savings from inside Turkey to private industrial ventures needs to be improved and the supply of savings and know-how from abroad needs to be encouraged. If these enterprises are successful, the Turkish entrepreneur and the foreigner will reap their substantial rewards but the gain to the people of Turkey from increased production and to the Turkish Government from increased tax receipts will be considerably greater than the private profits.

12. Turkey's objective is not merely economic growth, but growth with a diminishing reliance upon external assistance. The mission believes this to be feasible, provided there is some shift in emphasis in annual programs and in the Second Five-Year Plan towards the promotion of exports and other foreign exchange earners such as tourism.

13. Mention has already been made of the improved prospect for the balance of payments resulting from the flow of remittances from Turkish workers abroad and the discovery of substantial oil reserves. However, even if all goes well on workers' remittances, on petroleum production and also in the development of the still infant tourism industry, the foreign exchange position will continue to be very tight. Turkey's exports are a small and falling proportion of her GNP (now under 6%). She is therefore very vulnerable to a small increase in home demand taking away a large proportion of goods which were previously available for export. Similarly, if the raw materials and capital goods which are needed increase by a small proportion, but all the increase has to be imported, then the percentage increase in imports is large and the percentage increase in exports required to pay for them is even larger. Turkey's export earnings have remained stagnant at around $350 million for the past decade, yet she should be able to compete in world markets in a wide range of goods: agricultural products, minerals, livestock and manufactures. If by 1972 Turkey could be exporting say 3% of her manufacturing output instead of the 1% that seems likely on present prospects, the difference to her export earnings would be an extra $100 million a year. Such an increase would not be easy and may not be possible, but in the past five years Spain has shown what can be done.

14. Thus, to reiterate, the three factors which, in the mission's opinion, are crucial for Turkey's overall prospects are the increase of savings, the more effective use of investment funds ("good project preparation") and an accelerated increase of foreign exchange earnings. Success in these directions would carry with it a decreased dependence on foreign aid. Fundamental to all these is improved performance by the SEE's.

15. The uncertainty, we feel, is not the direction of change in the key factors, but the pace of change. The time horizon of this report has been set at 1972, in line with Turkish planning. As indicated in following chapters, Turkey is likely to be well on the way to becoming a modern, if still relatively poor, industrialized economy by 1972. The mission would not, however, think that its analysis was voided, or that Turkey had "failed," if some of the things identified in this report as hoped for in 1972 did not materialize until, say, 1974 or 1975. But the mission has considerable confidence that they will materialize in the measurable future -- a confidence based principally upon the emergence of an increased sense of economic responsibility (symbolized partly by the State Planning Organization (SPO) and the adherence to domestic financial stability) and also upon the increasing number of vigorous and intelligent young men and women moving into positions of responsibility in both public administration and private enterprise, with respect for the past but their eyes on the future. In the opinion of the mission, the speed with which Turkey approaches its goals of faster growth and economic viability will depend greatly on the stability and determination of the Government in power in the next few years.

II. TURKISH PLANNING

Influenceson Planning

16. The Turkish Military Revolution of May 1960 was partly in response to widespread dissatisfaction with the haphazard and inflationary policies pursued during the 1950's. There was general feeling that the country's development effort had to be organized in a more orderly and systematic manner. In September 1960, the State Planning Organization (SPO) was established as part of the Prime Minister's Office. The concept of planning was incorporated in the new 1961 Constitution and was accepted by all political parties and by the private sector. While there can of course be discussion or disagreement over the shape of the Plan and the manner of its implementation, the principle of planning is now regarded as beyond political controversy.

17. In such a post-revolutionary atmosphere, it is not surprising that planning got off to a good start. A young and competent staff, assisted by a few foreign advisers, was able to produce quickly an interim plan for 1962 and the First Five-Year Plan, 1963-67. The Five-Year Plan was conceived as the first phase of a fifteen-year development effort. It purports to be a comprehensive plan for the development of the entire economy, not simply an investment plan for the public sector.

18. Thus Turkey has embraced an advanced form of national development planning. The basic influences relevant to an understanding of the particular character of Turkish planning may be described as restraints imposed by Turkish history, the aspirations of an agricultural country well into the process of industrialization, fears that an exploding population will absorb economic growth, plus the general circumstances of a nation politically in Europe but economically still in the developing world.

19. The deepest influence is the tradition of "etatism" which results in what is described in Turkey as a mixed economy. "Etatism" must be appreciated in terms of Turkish history. Following proclamation of the Turkish Republic in 1923, Ataturk spent the remaining fifteen years of his life attempting social and industrial modernization at an extraordinary pace. For both military and economic reasons, Turkey adopted Western methods, yet feelings toward the foreigner were understandably ambivalent. Within the past half dozen years, the foreigner had finally broken the Ottoman Empire, defeated Turkey in World War I, occupied Istanbul, and not opposed the Greek invasion of Anatolia in 1920-22. By 1929 most foreigners (particularly the Greeks and Armenians) had been thrust out. Since these groups provided a large proportion of the entrepreneurs, their expulsion left a gap which the new Republic, struggling to industrialize, found hard to fill. So it is understandable that by the early 1930's the Government should have decided that the State must play a major part in the industrialization effort.

20. The concept of "etatism" is not to be identified with socialism; rather it is a pragmatic intermingling of State and private enterprise with the State providing the usual infrastructure of transport and utilities, and also stepping in to fill those gaps in investment in the manufacturing and mining fields which private industry is believed to be unable

or reluctant to undertake. In the mid-1930's, the main sectors which then seemed to need strengthening were light industry, mining and power; hence the establishment of Sümerbank and Etibank, two of the largest State Economic Enterprises.

21. The roots of the population problem also go back to the early days of the Republic, when, under Ataturk's leadership, a population policy was pursued which sought 60 million Turks as soon as possible to strengthen the country's defense and to populate the sparsely settled and poor region of eastern Turkey for prestige, military and economic purposes. That policy has been so successful that, since 1923, population has doubled and is now over 31 million; the rate of net population increase, which has continuously accelerated since World War II, is now about 3% per year. This high rate of population increase imposes a limitation on Turkish aspirations, both to secure a significant increase in income per head and also to provide employment for the expanding labor force. In 1962 the labor force was 12-3/4 million; by 1977 it will be 19-1/4 million, a rise of over 50% in 15 years. Turkey is about to adopt an official program of family planning which appears to have good prospects of being successful, but this cannot reduce the size of the labor force in 1977, for all those workers have already been born. Understandably, therefore, the fear of the present widespread under-employment developing into open unemployment strongly influences Turkey's economic planning.

22. The prime determinants of the planning effort must, of course, be the resources and characteristics of the country and its people. Turkey is a large country, the largest in Europe, but income at $240 per head is the lowest in Europe. The high Anatolian plateau, forming the central part of the country, is dry and hot in summer and snow-covered in winter -- making for a fallow/cereal rotation form of agriculture which it is difficult to transform rapidly. Eastern Turkey, much of it consisting of rocky and nearly barren hills, is still sparsely settled. Its geographic isolation, the previously conservative influence of Islam and language barriers make for inertia; agriculture makes slow headway; and defense considerations have inhibited mineral exploration in eastern areas. The most dynamic and diversified agriculture is concentrated in the coastal areas, and industrial activity quickens toward the west. This pattern of economic development may be graphically illustrated by drawing a line on a map of Turkey from Antalya on the Mediterranean to Samsun on the Black Sea. To the left of that line lies only a third of Turkey's area, but two-thirds of its people and three-quarters of its industrial activity and industrial labor force.

23. In general, Turkey enjoys resources which suggest that potentially her economic progress could be quite rapid. There is in the Republic a tradition of public service and civil administration, albeit somewhat legalistic, going back to Ottoman days. Thus the problem here is not one of establishing a central administration, but rather of its continued evolution to match modern requirements. Secondly, Turkey has a wide array of natural resources, not only agricultural, including the largest timber resources in her geographic region, but also minerals such as iron ore, copper, coal and oil which are already under development, and potential

hydroelectric resources second in Europe only to those of Norway and Sweden. Thirdly, Turkey already has a considerable infrastructure such as railroads, roads, ports, electric power and telecommunications, heavy industry, etc., whose full fruits have yet to be realized. Finally, Turkey is well endowed, relative to most developing countries, with a cadre of intelligent and able people in positions of authority in both the public and private sectors.

A Postwar Retrospect: Continued Evolution

24. Over the past 15 years Turkey has experienced a succession of political and economic changes. While events have not been as kaleidoscopic as they may appear in a brief retrospect, the changes have been rapid, they have influenced Turkish thinking and, in fact, they indicate that the country is continuing its evolution.

25. At the beginning of the 1950's, the economy was growing rapidly, due to considerable increases in agricultural production based on a rapid extension of the cultivated area at the expense of meadows and pastures. The sown plus fallow area varied about 13 million hectares during the 1940's, was 22-1/2 million in 1956, and thereafter rose only slightly. This increase was made possible by the allocation of State and common land to private ownership, and a rise in the number of tractors from under 2,000 in 1948 to nearly 44,000 in 1956. Domestic prices were more or less stable. The exchange rate was TL 2.80 to the U. S. dollar, and net exchange reserves stood at $153 million. There was a sharp increase in exports from $197 million in 1948 to $363 million in 1952, thanks in part to price increases.

26. After 1953 the situation changed radically, and the late 1950's showed a slower rate of growth. Between 1954 and 1959 money supply expanded by 160%, and domestic prices, as measured by available indices, more than doubled; by the end of 1959 net gold and foreign exchange had fallen to $26 million, the exchange rate was TL 9.00 to the U. S. dollar. Exports over the five-year period were stagnant at around $300 to $350 million annually.

27. During this period the principal engine of inflation was the growing deficits of the State Economic Enterprises which were financed largely by Central and commercial bank credit. The General and Annexed Budgets themselves showed no significant deficits. The heavy losses of the SEE's (including crop purchasing agencies and utilities) were traceable largely to new political directives under which they worked, both as to personnel and pricing policies.

28. Although the period was overshadowed by inflationary and balance of payments difficulties, positive achievements were registered. For example, the basic petroleum law was passed in 1954, and the Batman oil refinery began its first full year of commercial operation in 1956. Installed electric generating capacity rose from 517 MW in 1954 to 1,161 MW in 1959. In 1954, the General Directorate of State Hydraulic Works (DSI) was founded, to centralize the work on major irrigation projects. Cement and steel capacity increased.

29. In August 1958, the Government reversed its inflationary policies and adopted a comprehensive stabilization program, drawn up with the help of the IMF and the OECD, involving devaluation of the Turkish lira, domestic credit controls, and consolidation and funding of about $424 million of external commercial arrears and suppliers' credits. This program was supported by external financial assistance of $357 million, of which $215 million constituted new resources. At the end of 1952, external public debt (with an original maturity of over one year) had been reported to be $188 million. At the end of 1960 it stood at $931 million, which includes the 1958 consolidation of commercial arrears and suppliers' credits, and the new stabilization credits.

30. Within Turkey, the program met with public acceptance and initial success. By mid-1959, however, the Government's willingness and/or ability to implement the program had weakened, and in May 1960 the Military deposed the Government and took control, pending a rewriting of the Constitution.

31. The stabilization effort was thereupon renewed as one of the objectives of development planning. The SPO, established late in 1960, began its work on the basis of a resolution entitled "Objectives and Strategy of the Plan," which was approved by both the Government and the Grand National Assembly (Parliament). Since then there have been six governments - National Unity, Constitutional and four Coalitions -- all of which have endorsed the resolution, as have all political parties; inter alia, this resolution states "that it is essential to avoid inflation which sometimes seems like an attractive instrument of forced savings." Inflation has been avoided thus far into the 1960's; in this respect, the development planning period of the 1960's can be regarded as a logical extension of the 1958 stabilization program.

The First Five-Year Plan, 1963-67

32. The "Objectives and Strategy of the Plan" can be summarized as: continuing a mixed economy, but free from direct controls and with suitable encouragement for the private sector; achieving a rate of growth of about 7% per year; creating greater employment opportunities and sufficient technical skills; reducing disparities in incomes, both between individuals and regions; raising savings to finance increased investment expenditures without inflation; preparing institutional reforms for the optimum development of agriculture and industry. While none of these objectives was explicitly given priority, the 7% growth target subsequently became the most important aspiration. Balance of payments performance, as an element in either objectives or strategy, was not mentioned in this statement.

33. The Plan aims to encourage the private sector by suitable incentives and to guide private initiative by indirect measures to meet the planned targets. The Plan gives the division of total investments between the public and private sectors as public 60% and private 40%, with little significant change during the Plan period. There is no clear indication in the Plan of the public and private investment expected in every sector, although the basic philosophy is that State Economic Enterprises (SEE's) will be established or expanded wherever private initiative fails to undertake the projects necessary for realizing Plan targets.

34. The First Five-Year Plan was prepared largely from the "top down." Given the overall growth target of 7% per year, the rate of investment, consumption, public expenditure and revenues, and savings were determined by means of a macro-economic growth model, on the basis of past trends adjusted to desired targets and objectives, and with the difference between planned investment and estimated domestic savings expected to be covered by foreign capital inflow and aid. As a result, the Plan should be regarded as a consistent and interrelated set of economic objectives and not as a detailed investment program. The original planners did not have available an adequate shelf of well-prepared projects or detailed sector studies to work out a physical investment program. Instead, they attempted to work out sector studies by special committees of experts and private businessmen, and the interrelation of the sector programs was checked for consistency by means of input-output studies.

35. The production targets of the First Five-Year Plan are ambitious in comparison with the performance of the economy since 1950, as shown in the following table:

ANNUAL GROWTH RATES
(in percent)

Item	Past Growth Performance 1950-52 to 1960-62 1/	Five-Year Plan Targets 1963-67
Gross National Product (GNP)	5.2	7.0
Agriculture	3.4	4.2
Mining and Quarrying	3.9	9.3
Manufacturing	5.7	12.9
Energy	15.1	13.0
Transport and Communications	9.1	10.5

1/ Based on national income estimates prepared by the State Institute of Statistics, which differ somewhat from those of the SPO.

36. At the end of the Five-Year Plan, the structure of the economy was expected to show important changes. The share of agriculture in the GNP would fall from 43.8% in 1962 to 38.3% in 1967. At the same time, the share of industry, including mining and energy, would rise from 16.8% to 21.4%.

37. To achieve these targets, the Plan envisages investment increasing at a rate of 10.7% per year, from 16.3% of GNP in 1962 to 19.4% in 1967 (Table 31, Statistical Appendix). This implies a considerable increase over the achievement of the past decade, when investment rose only slightly faster than total production. In relation to the planned growth in output, however, the increase in investment is modest, implying a gross capital-output ratio of only 2.6 as an average for the years 1963-67. The Plan document explicitly recognizes that this favorable ratio can be achieved only through better use of

existing idle capacity and greater efficiency in realizing new investments. However, the overall financial level of investment is still widely regarded in Turkey as the sole determinant of the pace of economic development.

38. In absolute terms, and in 1961 prices, gross investment, public and private, during the Plan period was set at TL 59.4 billion distributed as shown in the following table (it should be noted that these estimates make no allowance for increases in stocks):

GROSS INVESTMENTS, 1963-67

Sectors	TL Billion at 1961 prices	Percentage of Total gross investment
Agriculture	10.6	17.7
Mining and Quarrying	3.2	5.4
Manufacturing	10.1	16.9
Energy	5.1	8.6
Transport and Communications	8.1	13.7
Services	3.9	6.6
Housing	12.1	20.3
Education	4.2	7.1
Health	1.3	2.3
Tourism	0.8	1.4
Total	59.4	100.0

39. The planned savings effort, to finance part of the planned investment, envisages that about 27% of the increase in income will be saved; average savings would consequently increase from 12.3% of GNP in 1962 to 16.5% in 1967; otherwise, the balance of payments deficit would increase and/or investments would have to be postponed. It was recognized that this savings target would be difficult to achieve in a country like Turkey, with a high population increase and rising expectations. The Plan therefore suggests tax increases, the greater part of the resulting tax revenue to be used for financing the planned expansion of development expenditures in the public sector. Private disposable income (before private savings) would be allowed to increase 5.9%. The private sector would have to save 11% of this increase in income to finance its own investment. Private consumption would thus not increase by more than 5.4% per year; i.e., by less than 2.5% on a per capita basis.

The Viability Objective

40. Notwithstanding the proposed saving effort described above, the First Plan explicitly recognized that Turkey would remain heavily dependent on external financial assistance, both to finance the planned volume of investments and to meet repayments due on existing external debts. The projected balance of payments over the Plan period shows an average annual current account deficit of about $250 million and external debt repayments averaging

about $110 million (before the recent rescheduling). Hence, it was estimated that some $360 million in external assistance would have to be found each year, on the assumption that no repayments on new borrowing would fall due within the Plan period.

41. In its longer range, 15-year perspective, the Plan document states that the external aim is to move progressively towards balance in external payments. No quantitative estimates are presented, and it is said that the stated aim does not mean that Turkey will cease to import capital at the end of 15 years. On the other hand, the Plan estimates that

> "once targets have been realized towards the end of the Second Five-Year Plan period, development efforts can be pursued without recourse to any exceptional aid. From then on, economic conditions will be such that an increase in the volume of private capital movements and normal bank credits may ensue. It is hoped, therefore, that the foreign capital needs of the Third Five-Year Plan will, under normal conditions, be met by capital movements of this kind. In the following periods any deviations from equilibrium in the balance of current accounts may necessitate resorting to foreign capital and bank credits to cover foreign debt repayments. This would result in Turkey's remaining for some length of time in a 'net debtor' position."

42. In discussions with the mission, officials of the SPO defined "viability" as the ability to develop satisfactorily without recourse to aid on concessional terms. The Plan document itself states:

> "In order to secure the contribution of foreign capital to Turkey's development, measures will be taken to encourage the inflow to this capital. By obtaining increasingly higher amounts of project-bound credit from international financial organizations, it is intended to normalize part of the increasing inflow of foreign capital.
>
> "Efforts will be made to ensure that public debt repayments in connection with the credits obtained so far and those to be obtained in the future may be discharged in a way which will not impede development efforts."

Planning Mechanisms and Techniques

43. The Planning Organization, which is under the direct responsibility of a Deputy Prime Minister, consists of the High Planning Council and the State Planning Organization. The High Planning Council directs the work of the SPO and constitutes the formal link between it and the Government. The Council consists of the Prime Minister (or the Deputy Prime Minister), three ministers, and the four key officials of the SPO. Its function is to advise the Government not only on the Plan, but on a wide range of current problems affecting the economic and social development of the country. Thus the High Planning Council is in a position to influence the current operation and development of the entire economy.

44. The Plan is implemented through a series of Annual Programs, prepared in advance of the annual fiscal budgets, based on the annual tranches in the Plan, adjusted for price changes and in principle for other current developments. Before each Annual Program is prepared, the SPO collects and reviews all investments of more than TL 5 million in the public sector, and makes a broad survey of expected investment in the private sector. So far an inadequate number of well-prepared projects, ready to start, have been submitted to the SPO and, in practice, the Organization is not yet equipped to appraise even these projects in detail. The proposals of Government departments and of the SEE's have therefore not always been sufficiently scrutinized; and hence the allocations in the Annual Programs have in many instances no hard operational content and have been regarded, at least so far, as primarily financial targets which individual departments or enterprises should try to meet.

45. During these first years, the SPO has understandably devoted most of its attention to the preparation of the interim Plan for 1962, the First Five Year Plan and the Annual Programs. Currently, however, more attention is being devoted to implementation and follow-up. So far, all agencies and SEE's report quarterly on the status of their investments, but only in terms of financial expenditures; the SPO has had little knowledge of physical accomplishments to see what investment is actually being done. This weakness is being recognized. Each agency is being requested to prepare quarterly progress reports. The SPO is also preparing more adequate procedures for supervising the execution of major investment projects. The Co-ordination Department, whose role is to follow the implementation of the Plan, is being strengthened. Procedures are also being worked out for the preparation of monthly physical progress reports on all major projects and for regular physical inspection of those under construction.

46. Many of the senior professionals who prepared the original planning documents have since left the SPO. Today, a significant number of the staff is new and the organization as a whole is at present inadequately staffed for the heavy responsibilities with which it is charged.

Performance under the First Plan

47. The Plan got off to a rather good start. GNP rose by about 7.5% in real terms in 1963, mainly as a result of a record crop (see Table 4). In 1964, however, GNP rose by only about 4%, due to a combination of unfavorable factors: early in the year, economic activity slackened under the impact of the Cyprus crisis; agricultural production suffered from unfavorable weather; and investment failed to expand as expected because the public sector was unable to start a number of key projects. The prospects for 1965 are somewhat better: preliminary indications point to an excellent grain crop and the pace of economic activity has improved.

48. The degree of success in implementing the Plan is difficult to determine. In the first place, some shortfalls on Plan targets are not necessarily evidence of poor performance since planning often involves setting targets on the high side both as a goal and a goad. Progress ought to be judged against actual past performance as well, taking into account the extent to which a broader

basis for a higher growth rate in the future is being laid. Moreover, the recent past has been greatly influenced by such exogenous factors as the weather and political events. Last but not least, the statistical information on such key factors as savings and investment is still inadequate to determine clearly their movement during the past three years. Hence, in judging performance, the observer is forced to rely to a considerable extent on qualitative impressions.

49. One of the main merits to date of the Plan has been to facilitate a more orderly development effort. The authorities are able to see more clearly what the problems are and what must be done to strengthen the economy; for example, publication of the Plan led to a change of thinking regarding the place of agriculture in Turkey (paragraph 67). Furthermore, monetary stability has been maintained (paragraph 374), some measures have been taken and other are being considered to improve the operations and financial position of the SEE's (see chapter 4 and paragraphs 397-400); tax revenues have increased substantially (paragraph 386) to provide non-inflationary financing for the Government's development program (paragraph 394); Turkey has devoted more efforts than before to the promotion of exports (paragraph 416), which are exceeding planned targets; and, for the first time in many years, there is a prospect of a substantial increase in total foreign exchange earnings (paragraph 422).

50. The mission does not believe that there is any need for major adjustments in the Plan's proposed distribution of investment between principal economic sectors, bearing in mind that important development expenditures in, for example, education and health are in Turkey classified as current development expenditure.

51. There are, of course, still some weaknesses in the implementation of the Plan, which, if corrected, could materially strengthen the growth process. For example, the efficient execution of the sizeable program for irrigation is still threatened by serious shortcomings (paragraph 100), and very little has yet been done to improve livestock production (paragraph 112). Experience to date indicates that the investment process could be improved, in terms of project preparation and pre-investment analysis (paragraph 144-145), as well as in implementation and follow-up (paragraph 45), particularly in the public sector. To illustrate, the public sector realized only 71% of its 1964 investment program, and the largest shortfall was in the crucial manufacturing sector.

52. Nevertheless, the overall experience during the past three years is encouraging. As for the future, Turkey possesses adequate physical and human resources to permit a high rate of growth. The problem is largely one of appropriate economic policies, and of organization and administration for their efficient implementation.

The Second Five-Year Plan

53. The shape of the Second Plan and the policies it will require could greatly influence Turkey's economic position in 1972 and later. The planners should now be in a much better position than in 1962, when planning was an innovation, to advance beyond essentially simple macro-economic and input-output

analysis to the survey of detailed physical accomplishments and requirements sector by sector, if not, in some cases, project by project. Close scrutiny of project costing and scheduling, for example, is at least as rewarding in terms of economy of resources and successful implementation, as the refinement of essentially mathematical techniques, such as input-output matrixes, which, because of deficiencies of data, are necessarily based on a partial knowledge of reality. Moreover, economic growth does not depend upon investment alone, but also on the full and efficient use of capacities already installed, that is to say, of past investment, which is thus a proper object of attention for planners, as, in a sense, one aspect of Plan implementation.

54. This report makes clear the mission's view that Turkish policies could very usefully give additional emphasis to the growth of domestic savings and of foreign exchange earnings, and consequently its hope that the Second Plan will adopt these as important objectives. The mission also believes that it is unrealistic to plan on the assumption that external aid can be expected readily to fill a resource, or a balance of payments , calculated as a residual shortage of resources required to achieve an income target. Good planning, we believe, involves a realistic assessment of probably available resources, one of which is foreign aid, and an evaluation of the best uses to which those resources can be put.

III. PRINCIPAL ECONOMIC ACTIVITIES

This long chapter discusses plans and progress in selected economic activities of leading importance for Turkey's economic growth. The analyses contained in this chapter are the basis for many of the judgements expressed in chapters VI and VII. Readers who are interested mainly in the general direction and pace of Turkish economic growth may prefer to obtain the mission's findings in capsule from the Summary without reading the whole chapter.

A. AGRICULTURE AND IRRIGATION

Role of Agriculture in the Economy

55. At present, nearly 75% of the active population work in agriculture but produce less than 40% of the GNP. Of the agricultural output about 35% is cereals; 30% livestock products; and 20% the four main export crops -- tobacco, cotton, hazelnuts, and dried grapes. Despite her fast population increase, Turkey has remained largely self-sufficient in foodstuffs with agricultural imports of about $100 million (raw wool and PL 480 grain and edible oil) and exports of about $350 million (agricultural products are nearly 90% of total exports). On the whole, the population is reasonably well-fed and food supply has not been a major policy issue.

56. But can this position be maintained? Population is now growing at about 3% per year and per capita consumption outlays on all goods and services are expected to rise at over 2% per year. On the reasonable assumption that about half the rise in per capita income will be spent on food, total demand for food will rise at about 4% per year; also, there will be a bias towards the more expensive foodstuffs, such as livestock products and fruit. If agricultural output fails to keep pace with consumption, the balance of payments would be severely strained, and there would be difficult questions of whether to use agricultural crops for home consumption or export.

57. In addition to increased output, the other central issue is increased employment. At the moment, there is general under-employment with seasonal shortages of labor often eased by internal migration. But with a fast rising population in rural areas, plus the prospects for continued mechanization and consolidation of fragmented holdings, there is fear of great increases in under-employment and of a faster drift to the towns. So policy-makers tend to favor labor-intensive programs for rural areas, such as investments in rural public works and irrigation schemes.

58. Agricultural Regions. Turkey's natural resources for agriculture are good on average but vary greatly, from fertile sub-tropical areas to large areas of extreme continental climate with long hard winters and hot dry summers. The main areas are:

59. The very productive south coast Mediterranean zone. Here recent development has been very dynamic, especially in the Seyhan Plain where flood control has meant a big increase in the area of irrigated cotton and of citrus and the beginnings of early vegetables. The more traditional crops of the south coast, such as olives and grapes, are being expanded by better grafting. With rapid increases in output, largely from new irrigation projects, the bottlenecks in this region seem to be transport and marketing, not for cotton but for the fruits and vegetables.

60. The agriculture of the west coast Aegean region is well established, particularly in the fertile valleys of the Menderes and the Gediz. The main crops are tobacco and, like the south coast, cotton, grapes, fruits, vegetables and olives. Livestock grazing is important in the woods of the foothills. Output is expanding quite fast and, as in the south coast, marketing is likely to be a bigger bottleneck than production.

61. The Thrace and Marmara region of the northwest coasts is nearest to the big urban centers of Turkey and so has a good local market. The biggest crop is winter cereals, but with some maize, sunflower, sugar beets, and melons grown, as well as grapes and fruit trees. While irrigation possibilities are limited, big production increases could be realized with more fertilizers and improved varieties. Recently much attention has been paid to the possible exports of peaches, fresh grapes and leeks. Livestock products also have good potentialities, both for local markets and for the export of live animals if food and mouth disease could be eradicated.

62. The Black Sea coast is another fertile region with winter cereals, maize and potatoes. Specialist crops include hazelnuts (filberts), tobacco around Samsun, and tea at Rize. Cattle are important. The hills are covered with good forests with a large commercial potential. Again, more fertilizers could yield good increases in the crops.

63. The central plateau of Anatolia covers about a third of Turkey. Here is where the long cold winters and hot dry summers are found; rainfall is inadequate and variable; crop yields are low and very dependent on the climate from year to year. Over 90% of the area is on a half winter cereal/half fallow rotation with animals grazing on the fallow and on the very degraded permanent pastures. This is a poor, backward region where better seeds and fertilizers could raise cereal yields appreciably but where farmers have yet to realize the possibilities. Improvements in livestock are equally slow for they require an integrated program of better breeds, better feeding, control of diseases and organized marketing. In a few parts, irrigation projects will raise the output but the range of crops is limited (forage, sugar beet, apples). It is unlikely to provide much directly for export.

64. The large, remote and mountainous area of eastern Turkey is backward, sparsely populated and very slow to change. Livestock is the most important activity and winter cereals the most widespread crop. For a long time to come there will be great obstacles to development except for a few small irrigation schemes, mainly in the south where pistachio nuts, olives and grapes are already being produced.

The Plan for Agriculture

65. The target for the five years 1963-67 is to increase the sales value of agricultural output by 4.7% per year, or 25% over the period. This would allow for the expected increase in home consumption and for exports to rise by 30%. The main input to achieve this production is an investment program over the five years of TL 11.3 billion, mainly by the Government. The distribution of agricultural investment, which is about 18% of total Plan investments, is described as:

Irrigation and Flood Control	51%
Land Improvement	5%
Mechanization	15%
Livestock	4%
Forestry	9%
Other	16%
	100%

Integrated with these investments there are programs for increased fertilizers, improved seed and pest control, better marketing, more agricultural credit, and land reform.

66. The Plan is to get the 25% increase from higher yields by irrigation and better techniques, rather than from an expansion of the total cultivated area or from big changes in the proportions under different crops. For example, cotton yields are expected to rise in the five years by 38% and wheat, hazelnuts and grapes by 15%. In livestock, too, the Plan is to hold the numbers stable but to increase yields by an average of 30%. In forests, the aim is to change from a policy of conservation to one of productivity and to increase the timber cut by 40%.

67. Achievements. The publication of the Plan has meant in Turkey a revolution in thinking about the place of agriculture. It is now looked upon as having dynamic aspects which are already in motion, with farmers' initiative responsive to Government help, and the potential of becoming a strong sector of a modern economy. The direction and scale of the Plan appear sound, including the decision to spend as much as half the total investment on irrigation.

68. In terms of production, it is too early to start judging the success or failure of the Plan. Statistics are weak, the Plan has only been

running for two years and year-to-year levels of output depend very much on the weather. For what it is worth, the Plan hoped that 1964 output would be 15.6% above 1961 and the actual output for 1964 was said to be 13% above. Wheat and grapes were below target while cotton, tobacco, sugar beet and hazelnuts were well above. On these figures the rate of increase 1961-64 was 3.4% per year which is below the Plan target but well above the 2.1% per year given as the average for 1955-61. Thus the rate of increase may have gone over half way towards closing the gap between the increase of the pre-Plan period and the rate required by the Plan. But weakness of the statistics and the annual fluctuations make for caution in accepting such a conclusion.

69. Apart from the production figures, there are a number of encouraging indicators of achievement in agriculture. Total investments by the Ministry of Agriculture are at over 90% of the Plan and irrigation investment at about 80% of the Plan, a considerable increase over any previous rate. Fertilizer consumption at 530,000 tons in 1964 is still small and behind the target, but five times the 1960 consumption. Tractor utilization appears to be more intensive. Consumption of improved seeds is rising fast, especially in sugar beet, though also behind target. Use of improved fruit tree stocks is, however, much less satisfactory.

70. In recent years, agricultural exports have fluctuated widely with only cotton showing a consistent trend. From 1961 to 1964, the cotton export tonnage increased by 70% to 168,000 tons and cotton export values increased by 60% to $90 million. In the Plan, the 1967 target was only 110,000 tons. On the other hand, livestock exports, from which the Plan expected a good deal, have failed to show any sustained growth. On the import side, the average with wide fluctuations has been about $100 million (wool $18 million, cereals $45 million, edible oils $20 million). The last two have come in under PL 480 and this possibility may have reduced the drive to increase home production of cereals and olive oil.

71. A general judgment on the progress of the agricultural sector so far under the Plan is that the performance has been encouraging. It appears to the mission that investment and technical improvements are running at about 75-80% of the target and this is a level of achievement which should be maintainable. A notable exception to this is the failure to make progress in livestock.

Organization and Policy Issues

72. Organization. At the center, in Ankara, a major review of all public administration is under way and this includes a review of the organization of Government services in all aspects of agriculture, involving several ministries and agencies. In addition, the Ministry of Agriculture is reconsidering its own internal organization. Proposals so far considered in this review seem to be in the right direction but these reforms will require long discussion and even longer to implement. In

the meantime, other changes are being delayed in the process. And the changes being considered will not remove the over-centralization of agricultural staff in Ankara, nor strengthen staff and organization where it is needed most -- at the provincial and field level. It is simply too difficult for the farmer to get answers to his problems. Greater integration and concentration of services will be essential, in particular, if regional development projects are to be successful.

73. Education and Field Work. As most Turkish farmers have no formal agricultural training, the role of the extension workers is crucial. The number under training is expanding fast, but it will take time for them to graduate and become effective in the field. The universities are now producing agricultural specialists at a rate of 1,000 per year. Vocational schools have a shorter period of training. At present they produce 1,000 per year and this will rise to 2,000 after 1966. In the longer-term these programs may cover requirements, but, in the meantime, the shortage will continue. It could be relieved if extension workers were less burdened with administration, had better transport, and were concentrated in the most potentially productive areas with a precise and limited working program; again, a high priority should be given regional development projects in assigning field workers.

74. Land Reform. Until recently, land reform in Turkey meant primarily the distribution into private ownership of land owned by the State or in common. The great expansion of arable land in the 1950's stemmed from the allocation of nine million hectares to private cultivation. But the 1960 Revolution wrote agrarian reform into the Constitution and the First Five-Year Plan put it high on the list of agricultural measures. In 1965, a draft bill was placed before the Assembly but it may well be revised and is unlikely to pass before Autumn 1966. Thus land reform will not affect agricultural output in the First Plan; and, since the reform is expected to take place slowly, province by province, it will have only a marginal effect during the Second.

75. The main provisions of the 1965 draft land reform bill are: (i) Consolidation of scattered holdings. This is only to be compulsory where new irrigation is involved. (ii) Elimination of tenancy, mostly by the sale of tenanted land to the tenant farmer. Exemptions are granted where the landowner cannot farm himself because of, for example, illness or military service. (iii) Reduction of large holdings to a maximum of 250 hectares, and the sale of the excess to small farmers. Exemption can be claimed for large farm holdings which are particularly productive. Valuation of these lands for compulsory sales is to be by a local committee and farmers who buy have 25 years to pay.

76. In most developing countries, a major difficulty in land reform is the lack of a land registry, and this is particularly true in Turkey. Over half the annual four million legal actions in Turkey involve land. The problem of clear title makes any reorganization of land very difficult, as the irrigation schemes have demonstrated. It also hampers the granting

of agricultural credit and makes it difficult to apply direct taxation to agriculture. A cadastral survey was started in Ataturk's time but is going very slowly. By 1964, only seven out of 67 provinces had been completely surveyed and several others partly so.

77. Within the available statistics on agriculture (the official statistics for 1963), what can be said about the issues with which the land reform bill attempts to deal?

78. On land consolidation, the average farming unit is given as a little under five hectares, with two-thirds of the farms split into six to ten scattered parcels. This seems to be particularly true of the cereal/fallow farming of the Anatolian plateau, where consolidation undoubtedly would help speed the adoption of better techniques. But it is bound to be slow and the Government is probably correct in proposing that it should only be compulsory where there are new irrigation schemes.

79. The second issue is tenant farming -- especially share-cropping. According to the official statistics, it is not much of a problem, for less than 10% of farmers have no land of their own. But this does not square with many local surveys, particularly in Anatolia, where perhaps as much as half the land may be share-cropped on an annual and shifting tenancy. Thus land reform might help in reducing the problem of lack of incentive connected with shifting tenancy.

80. The third issue is large landlordism. Turkey is not typically a country of large landlords although with no proper land register it is impossible to say just how many there are. Official statistics say that there are only 400 units over 500 hectares (whether this means ownership units or operating units is not clear) but this does not square with the general view that large absentee landlords are fairly common, especially in the southeast. Perhaps these ownerships are hidden by being distributed around the family, but again, before land reform can deal with this problem, there must be a proper land register.

81. The land reform bill deals with these major issues of land ownership but not with other important land rights which affect productivity. Particularly important are the rights of common grazing on the fallow.

82. Credit. The main institutional source is the Government's Agricultural Bank. In 1963, it had made TL 5 billion of advances through its 617 provincial offices. Of this credit, about 40% was lent direct to farmers, about 30% to 1,617 separate credit co-operatives, and 20% to 223 sales co-operatives. Thus there are a fair number of outlets, though in relation to Turkey's 36,000 villages there is still a long way to go.

83. The 40% loaned directly to farmers is on medium- and long-term at 7% to finance production (70%) and purchase of equipment. The 30% to credit co-operatives are also production loans but short-term and at 9%. The sales co-operatives are mainly for export crops and the 20% loaned to them at 9% is to cover the period between the purchase of the crop from the farmer and the receipts from its sales overseas. In addition, a great deal of credit is advanced by merchants.

84. The growth of agricultural credit appears to be in the right direction. Focusing on the difficulties, loans are often diverted to consumption purposes, there is no tie-up between loans and extension services to see that they are used productively, and the loans are often too small to have much productive effect (most loans by credit co-operatives are below TL 300). The Government is experimenting with loans in kind (seeds and fertilizers) and loans linked to projects (e.g., land-levelling) but lack of extension workers may prevent a rapid expansion of this. Also, it must be remembered that many farmers are already in debt to the merchants and cannot extricate themselves to borrow only for productive purposes from the credit institutions.

85. Marketing Channels. In cereals, about half the crop is consumed on the farm. For the rest, the farmer has the security of a guaranteed price. If the merchant does not offer better, the farmer can sell to the Soil Products Office (TMO) which has large storage facilities.

86. In meat the position is very different. Because it is difficult to transport the meat over long distances to the big towns, farmers sell their animals off the farm to the traveling merchants. The bargaining position of the farmer is weak and he gets a poor price which discourages an increase in livestock production.

87. The organization of fruit and vegetable marketing needs strengthening, especially for exports. There is need for better wholesale markets, disseminated market information, standardized grading and packing, refrigerated transport, and better export credits. The Export Promotion Center has taken part in the adoption of international grading standards, in joining the Transport International Refrigeré arrangements for minimizing frontier formalities on refrigerated goods, and in the distribution of market information by telex and radio. But these are very early steps and compared to Spain or Greece, for example, Turkey has a very long way to go.

88. In the more traditional export crops (tobacco, nuts, raisins, figs) the market is much better, though reports that the quality of Turkey's products has declined relative to its competitors underlines the need for continual attention to standards.

89. Price and Incomes Policy. In the Plan, the principle was laid down that the Government should attempt to influence incomes rather than prices, with a view to maintaining correct income relationships between agriculture and the other economic sectors. It was to do this by action on the prices of inputs as well as of outputs. In addition, it would attempt to smooth out annual or seasonal fluctuations in cereal prices, which are crucial for the economy, by means of appropriate storage measures. The Government in fact has large powers to intervene. The extreme case of Government influence is sugar beet, where all the farming operations are controlled by the State as well as the price of the inputs and the price of the beet. Next are tea and opium where the Government is the monopoly purchaser. In cereals, the TMO floor price gives the State a powerful influence. In export crops, the Government buys half the tobacco and can influence the profitability of nuts and raisins by its credit policy to sales co-operatives. In cotton, the

Government makes its mark, very successfully, with its fertilizer and improved seeds. Where the State influence is weakest is on livestock products and on fresh fruit and vegetables, and these are most likely to have fast expanding demand in the home market and good possibilities for exports.

90. The effect on farmer incomes of the Government policies is difficult to evaluate. Between 1961 and 1964, the prices of agricultural goods rose faster than non-agricultural goods but this might have happened with or without Government influence. It does not appear that, at least during this period, the prices where the Government has influence rose any faster than those where it has none. On the other hand, it is probably true that price fluctuations, particularly for cereals, would have been much wider if there had been no Government intervention, and that there would have been little incentive for producers to maintain even present levels of output.

Irrigation

91. In 1961, when the Plan was formulated, only about 125,000 hectares were under modern irrigation with about another one million hectares irrigated by traditional and inefficient methods which need expensive renovation or sometimes virtually complete replacement to be fully productive. About five million hectares -- a quarter of the present cultivated area -- are thought by the Turkish authorities to be worth modern intensive irrigation. Thus the irrigation potentialities of Turkey are very great and it will take a long time to develop them fully. One of the major difficulties in irrigation development is that construction -- carried forward with engineering efficiency -- outpaces development at the farm level. In focusing on this problem, which Turkey now faces, it should be remembered that the problem was created by accomplishment, not lack of it.

92. DSI, the specialist department which deals with irrigation construction, is part of the Ministry of Power and Natural Resources and is also charged with hydroelectric schemes. In the ten years since it was formed, DSI has become a dynamic and reasonably efficient organization, prospecting and designing projects, constructing them, and operating and maintaining them when they are completed. But its responsibilities end at the construction and maintenance of tertiary canals.

93. Topraksu, the specialist department which deals with the farmers' irrigation problems, is attached to another Ministry (Village Development). It has been in existence only since 1960. Topraksu helps with small canals, field drainage, land-levelling, access roads, and co-operatives. Whereas DSI is well-established and can push its construction ahead with engineering efficiency, Topraksu is new, less well-staffed, and has to deal with the intractable individual farmer. By 1963, DSI's large schemes had brought tertiary canals to 115,000 hectares but Topraksu had completed the on-field work for only 12,000 hectares on those large schemes. This imbalance is recognized and the first steps have been taken to rectify the position. DSI's responsibility for tertiary canals has been increased from canals covering 250 hectares to those covering 100 hectares. Topraksu has had its budget increased and a program has started to train more Topraksu workers on the job. But the need remains for more combined DSI/Topraksu teamwork on each large project.

94. The Plan for Irrigation. The irrigation targets for 1963 to 1967 were divided into new large schemes, to be built by DSI, with Topraksu doing the on-farm work; new small schemes to be built and developed principally by Topraksu; and development of old irrigation, partly in existing DSI large schemes which lacked full on-farm development and others consisting of the modernization of traditional irrigation works.

95. On large schemes, the DSI has now reduced its expectations from the target of 420,000 hectares to 345,000 hectares. Of this reduced total, the mission estimates that some 205,000 to 235,000 will actually be completed by 1967. This is less than the Plan target, but it means that in five years DSI will have tripled the area covered by large modern irrigation projects.

96. For the on-farm work on these large projects, it is difficult to estimate how far Topraksu and the farmers will keep pace with DSI. Over half the schemes are in the Mediterranean and Aegean regions where farmers appreciate the possibilities and things are moving quite fast. By 1967, it is likely that sufficient on-farm development work will have been completed to permit intensive irrigated crop production on some 100,000 to 115,000 hectares of these new large projects. The remaining 120,000 to 135,000 hectares will have some advantage from the extra water but will not yet be intensively cropped.

97. The Topraksu target for small irrigation schemes was 95,000 hectares. About 25,000 hectares had been completed by early 1965, and the mission estimates a likely total by 1967 is 85,000 hectares.

98. The target for improving existing irrigation was 203,000 hectares. This program is just starting. By 1967, some 95,000 hectares will probably have been improved (mission estimate), some by the farmers' own initiative with Agricultural Bank credits and Topraksu assistance.

99. Adding these up, and taking the 120,000/135,000 of unintensive large scheme irrigation at half value, we get a total of 350,000 hectares. The mission estimates that a further 500,000 hectares are likely to be put under irrigation during the Second Plan period.

100. It scarcely needs to be emphasized that the success of this large program depends on many changes being realized: land consolidation; more credits; better instruction of farmers; increased co-operation between the Government agencies; more and better staff and more equipment for Topraksu; DSI undertaking as much as possible of the engineering work right down towards the on-farm development. Some measures have already been adopted by the Turkish authorities to deal with these problems, and these have been taken into account by the mission in its estimates. If these measures could be speeded then the irrigation projects would be more quickly productive. It cannot be emphasized too often that the large amount of capital being invested in irrigation works is not fully utilized until the farmer shifts to intensive irrigated crops.

101. Cost and Yield. The mission has made its own estimates of Government irrigation investment for the First Plan period, 1963 to 1967. If one takes a very optimistic view the figure is TL 3.6 billion, but a "safe" estimate, allowing for possible eventualities, is TL 5.1 billion. This "safe" figure is close to the Plan irrigation investment total of TL 5.4 billion but the similarity of totals conceals very important differences. The Plan's TL 5.4 billion included only TL 320 million (6%) for improving existing networks while the mission suggests that four times as much (TL 1,350 million) are needed for this purpose. Also, the amount suggested by the mission for on-farm development of new large and small projects is much greater than in the Plan. This heavier expenditure for on-farm development is essential for the intensive cultivation which makes the irrigation fully productive. But it does mean that the cost per hectare of fully developed land is about half as much again as the TL 9,400 given by the DSI for their schemes.

102. The mission has estimated the yield from this investment by taking the regional distribution of the projects, the pattern of irrigated crops in those regions, and the present prices of the crops. This gives, in 1967, an annual additional gross value added of about TL 1 billion, which implies a capital-to-output ratio of between four and five to one on the investment. This is not low but is acceptable for irrigation projects.

103. Water Charges. Water rates vary from about TL 50 to TL 300 per hectare according to the crop grown. They also vary from region to region and from year to year. The policy is to collect enough money from the charges to meet the operating and maintenance costs of a project. After a project has been running for ten years, the charges can be increased to cover capital costs -- but no project initiated by the DSI has yet been running that long. If the aim were to recover the cost of the major works over 50 years with interest at 5%, the average charge per hectare for water would need to rise to approximately TL 500, or possibly more depending on the cost of each project. This is a big increase but still not prohibitive in relation to the average gross output of about TL 4,000 per hectare.

104. As well as relating charges to capital costs, the scale of water rates should be such as to encourage intensive cultivation. This could be done by some combination of (i) a fixed charge to discourage the leaving of potentially irrigable land non-watered; (ii) a charge which varied according to the crop grown and was scaled so as to discourage low priority crops; and (iii) where it is practical to measure the water taken, a charge based on the volume used so as to discourage waste and reduce the dangers of water-logging or salinity.

105. Evaluation. The irrigation program is massive but heavy investment in this field is necessary and is potentially very productive, both directly and indirectly. Officials are aware of what needs to be done and the technical personnel involved are efficient and qualified for the task. But over-extension of the program has made them too thin on the ground. It would be advantageous to reduce the number of starts of new works until the program is in better balance, with more attention paid to the exploitation of existing irrigation works and to rapid on-farm development in new projects. If this is done, very productive irrigation of 350,000 additional hectares in 1963-67 and some 500,000 in 1967-72 is both possible and worthwhile.

Fertilizers

106. Turkish fertilizer consumption is very low by comparison with other countries. The following table shows the relative figures for Turkey, Spain and Greece:

Fertilizer Consumption, 1961/62
(metric tons nutrient/1,000 ha. arable land)

	N	P_2O_5	K_2O
Turkey	2.16	0.74	0.07
Spain	15.78	14.86	4.57
Greece	22.51	17.71	2.65

107. The Plan says that an optimum consumption of fertilizer in Turkey is five million tons. By that standard, there is a long way to go. The 1964 consumption was 530,000 tons, which is halfway toward the 1967 target of about one million tons. Even so, the rate of increase in recent years has been extremely fast, increasing over fivefold in four years from the 1960 level of 100,000 tons. Government policy is vital, for the Government produces about half the fertilizer domestically and controls the distribution of both home supplies and imports. As domestic production is expensive, the Government pays a subsidy to reduce the price to the level of imported fertilizer. The Government distributes the fertilizer and makes special credit arrangements to encourage its use. A large demonstration program of 5,000 plots is showing the farmer how to use it and what can be achieved. The farmer benefits from using fertilizers on all crops, but less for wheat than for, say, cotton. This perhaps explains why consumption of nitrogenous fertilizer is above expectation while that of phosphates, which are important for Anatolian cereals, is less than the target.

Improved Seeds and Plants

108. The estimate is that, on average, better varieties could raise yields by 10%. The Plan is to provide 300,000 tons a year by 1967;

in 1964 about 120,000 tons were distributed. The coverage was sugar beet 100%, cotton, tobacco, sunflowers largely but not entirely covered, and cereals and new fruit trees planted 20%.

Livestock

109. Although statistics on livestock must be treated with caution and probably do little more than indicate orders of magnitude, there can be no doubt of the very great importance of livestock production in the Turkish economy. The figures suggest that about 30% of gross agricultural output consists of livestock products, coming mainly from the poor areas of Anatolia and east Turkey. This makes livestock products around 10% of GNP.

110. In the 1950's the area of permanent pasture was reduced by ploughing for cereals, but for most of that time the number of livestock was increasing. This led to excessive overgrazing, and from 1959 to 1961 livestock numbers fell; the resulting net increase was about 25%. Since 1961 the numbers seem to have stabilized at about 75 million sheep, goats and cattle.

111. But the livestock industry is very inefficient and in the long-run big improvements can certainly be made. Possibly half the slaughterings are in Municipal and Government abbatoirs and the rest take place in very primitive conditions. There is a considerable economic loss from by-products, especially from inadequate flaying of hides and skins. Wool and mohair are valuable products, the wool for local carpet manufacture and mohair for export. Merino wool for domestic textiles has to be imported ($18 million per year) so there has been an attempt to develop local Merino flocks. There are today about 500,000 Merinos but the domestic conditions are not very suitable and prospects are not good. The dairy industry produces mainly cheese and yogurt. Fresh milk for the big towns is a relatively recent development and eight new pasturization plants and a milk-drying factory are planned.

112. For all livestock products the yields per animal are very low and the Plan target was for a 31% increase in five years or a rate of 5-1/2% per year. But improvement has been slow in all the interrelated factors: better forage, better breeding, better disease control, better buildings and fencing, and better marketing. Progress has been fastest in the field of disease prevention, but success in one aspect is not enough. Perhaps the program can best be accelerated by concentrating action on a few naturally favored regions such as the Mediterranean region and eastern Anatolia, where all the points can be tackled at once.

Soil Conservation

113. As already noted, the 1950's saw a big increase in the cultivated area and in the numbers of livestock. This increased the problem of overgrazing which the Plan estimated in 1961 as 25% more animals than present pastures can properly feed. In addition, there is, in some parts, continuous natural erosion from steep hillsides and heavy rainfall. The Government has a range of soil conservation schemes including training

programs, loans and assistance for farmers to terrace their land, stubble mulching on cereals, and tree planting. The basic difficulty is to control both the number of animals and the extension of arable cultivation in dangerous areas.

Forestry

114. The Forestry Department is responsible for a huge area of Turkey (10-1/2 million hectares). About 3 to 3-1/2 million hectares consist of potentially productive timber land, which represents a great resource for Turkey; the rest is degraded forest. Within the area defined as forest are to be found about 17,000 "forest villages" and their accompanying crop and pasture land. At present, the forest timber is very under-utilized and the Plan calls for an increase in the output of industrial timber of nearly 60% in five years, from 2.4 million to 4.4 million cubic meters. Progress has been very good and output so far is slightly ahead of schedule; this is mainly because of the very rapid completion of forest access roads. By the end of 1964, some 8,400 km. of new forest roads had been built, compared with the planned 6,500 km.

115. But even if the Plan is met, yields will still be only about half the FAO estimate of possible sustained yields from Turkish forests under good management. To reach the full potential, three main changes are needed. First, on the side of production, the Forestry Department needs to shift its thinking from conservation toward the aim of maximizing the sustained yield. Secondly, on the side of marketing, the Forestry Department has to aim at supplying the type of timber that industry needs and at prices which reflect the true costs of production. At present, the Department offers the timber it happens to have available and puts an arbitrary floor price at its timber auctions. This price tries to cover the expenses of the Department, including such items as capital costs for soil conservation schemes and subsidy costs for timber supplied cheaply to Government departments. Thirdly, a new policy is needed for the forest villages, which comprise about a third of the villages of Turkey. At present they are a liability to the Forestry Department, which has a welfare relationship to them. The men in many of these villages could be most productively employed in the extraction and utilization of timber, and the new policy of emphasizing forest productivity is the hinge to opening this door to them. The Government has started pilot development schemes in a few villages.

Fisheries

116. Considering that demand for protein foods will likely rise faster than average consumption, fishery production could become important in helping to meet this demand and, perhaps, in freeing some meat for export. The Plan estimated a rise of 280% in fishery output over five years, but the catch has not risen as expected. The Government has started to improve port facilities in several places near Istanbul and to make credit available to the industry. The greatest need physically is for refrigerated storage and transport. More fundamentally, fishery production is deterred by the excessive differential between dock prices and retail prices.

Regional Approach

117. The Five-Year Plan identifies several areas which seem suitable for working out regional programs of integrated development in line with the requirements of the overall Plan. The advantage of a regional program -- which should become the objective of planning for them -- is that development activities can be integrated and complemented with a minimum dispersal of resources. So far, active work has started only in the Marmara, Antalya and Cukurova regions and in none of these has a program yet been completely formulated or implementation begun. Any such regional development scheme would have to envisage a complex of related measures, including such matters as extension, irrigation, marketing and processing facilities, and, when appropriate, handling and export facilities in the ports. In the opinion of the mission, this kind of approach, effectively implemented, is one of the most promising ways to facilitate more rapid agricultural development. The SPO is considering what organizational arrangements would best achieve such integrated development.

External Assistance

118. The areas where external assistance is likely to be most useful are irrigation, forestry, and livestock. If the assistance is to be in the form of project aid, there are good opportunities in irrigation and in wood products. It is more difficult to devise projects for livestock but such projects might form part of small regional schemes in potentially very productive areas, preferably areas with good export possibilities.

General Prospects for Future Agricultural Development

119. In Turkey, as in most developing countries, it is hazardous to forecast future agricultural production. The main crop is still cereals, which are very sensitive to the weather. A run of good or bad years in terms of rainfall could make a great difference to the apparent trend. Also, because farmers change their crop pattern from year to year in many regions, forecasts of particular commodities are unreliable. The mission's view is, broadly, that taking the investment and output targets as a whole, they are being about 80% fulfilled. This means that instead of the Plan's 25% increase in five years (4.7% per year) the mission expects about 20% (say 3.8%). Unfortunately, this is barely sufficient since the population is growing at about 3%, and allowing for the increased outlays on food per capita, the mission believes that the total outlay on food will rise at about 4%.

120. On these figures, by 1972 home consumption of agricultural commodities would be beginning to reduce the amount available for export. But these estimates are so broad and have such wide margins of error that too

much reliance must not be placed on them. Important conclusions do, however, follow: (i) that Turkish planning and Turkish efforts are not being excessively devoted to agriculture. The program to devote 18% of total investment to agriculture may be enough but efforts to implement the other aspects of the agricultural plan need to be intensified and speeded; (ii) that whatever may happen to individual commodities, shortages are more likely than surpluses; and (iii) that the balance between the growth rates of agricultural production and consumption is finely poised. A small change in the average rate of growth of agricultural production, whether caused by a run of good or bad harvests or by Government action, will have very large implications for the balance of payments or for the level of food consumption.

Prospects for Agricultural Exports

121. An increase in net export surpluses will not necessarily follow pari passu with increased production, which will likely grow at about 4% per year and possibly higher from the late sixties onwards. Export surpluses will depend to some extent on the incomes policy of the Government. With rising consumption absorbing such a large share of total agricultural production, a small change in the rate of growth in consumption would have a sizable effect on the export availabilities of agricultural products, especially since most of the products consumed domestically are potential exports as well.

122. The prospects for agricultural exports will continue to depend to a large extent on the outlook for the four major export crops, namely cotton, tobacco, hazelnuts and raisins, which have been contributing almost 75% of agricultural export earnings in recent years. Unfortunately, each of these is likely to encounter limited sales opportunities. From a marketing point of view, more promising growth possibilities exist for such presently minor items as citrus, livestock and meat, and timber. Here, however, the problems are twofold: first, to secure sufficient increase of output to assure export availabilities, and second, to establish connections and a reputation for quality and reliability in export markets. Both require a conscious effort greater than now appears likely, but one which could be made within the seven-year period ending 1972. The following paragraphs attempt to estimate the outcome on present indications, without any new impetus not already discernible, and also indulge in more speculative thinking about the possible outcome if new, additional efforts were to be made in certain export fields.

123. Cotton production has become more profitable in recent years following the introduction of better seeds, greater use of fertilizers and increased irrigation. Output has expanded rapidly, as a result both of higher yields and of an increase in the area under irrigation. Exports have registered new records. The prospects are that production will continue to expand, especially on the new areas brought under irrigation, and output should be sufficient to satisfy a substantial increase in domestic demand and to permit a sizable expansion of exports. The problem is likely to be the price situation. At the present time, world production exceeds consumption and

AGRICULTURAL EXPORT PROJECTIONS

Commodity	Normalized Exports, 1961-64			Rate of Growth 1/ (%)	Projections for 1972		
	Quantity (thousand tons)	Unit Price ($/kg)	Value ($ Million)		Quantity (thousand tons)	Unit Price ($/kg)	Value ($ Million)
Agricultural Products			326				410
Principal commodities			(271)				(340)
Cotton 2/	168	0.53	89	3.2	216	0.51	110
Tobacco	68	1.26	85	2.7	84	1.25	105
Hazelnuts 2/	51	0.98	50	5.0	75	0.98	73
Raisins	63	0.27	17	2.3	75	0.27	20
Live animals			16	nil			16
Wool 3/	4.5	0.83	4	2.5	5.5	0.80	5
Mohair 4/	5	1.90	10	2.5	6	1.85	12
Other agricultural commodities			55	3			70

1/ Projected growth of export volume.
2/ Base year: 1964.
3/ Raw wool.
4/ Mohair - not cleaned.

cotton is likely to remain in surplus during the remainder of the decade. The United States accounts for about half of world trade. The operation of its price support program has set a floor to the world market price which has proved to be attractive for many countries, including Turkey. Since world demand is growing at a rate of only 2% per year, competition among suppliers is growing and prices are expected to remain under pressure. So far, Turkey has been able to sell all available surpluses, and should be able to continue to do so, considering that she produces a good quality cotton and that her exports still account for less than 3% of world trade. However, some price concessions may be necessary.

124. The outlook for tobacco remains fair. A continued steady demand from the United States - which has taken about half of total exports in recent years - is expected, though recent concern in the U.S. about the dangers of smoking might be a retarding influence. A favorable factor is the association with the Common Market countries. Under the association agreement, Turkey has been granted preferential tariff quotas for tobacco, eventually to be admitted free of duty. But Turkey will have to compete with Greece, another major exporter of oriental-type leaf, which has obtained similar privileges through association. Under the influence of improved technology, the supply of good quality leaf may be expected to increase sufficiently to keep pace with long-term growth of oriental-tobacco import demand, estimated at close to 3% per year. Prices are assumed to fluctuate around their average level in 1961-64.

125. Turkey is by far the world's largest producer and exporter of hazelnuts (filberts), accounting for some two-thirds of world exports. Production is expected to grow steadily, because the number of bushes is increasing and especially because growers are raising yields with fertilizers and pesticides. During the past decade, exports rose at a rate of about 5% per year, and this could be maintained in the future provided Turkey develops markets in Europe other than Germany, which now takes about half of total exports. Following the record crop last year, prices have fallen and may remain at about the same low level in the long-run in view of the expected expansion of production. Consequently, the export value of hazelnuts, increasing in line with the volume of exports, may reach $70-$75 million by 1972 in comparison with $51 million in 1964.

126. Raisin exports are likely to grow slowly, perhaps parallel with the growth of food consumption in western Europe, i.e., slightly more than 2% annually. This is partly due to the fact that other producers have improved the quality of their raisins and have enhanced their competitive position. Minimum prices are regulated by agreement, renewable each year, between Australia, Greece and Turkey. Currently, prices are favorable and are likely to remain so, except when crops are especially large. Turkey, along with Greece, has a preferential position in the Common Market and will share with Greece the prospect of unlimited duty-free sales later on.

127. Aggregating the estimates for these four principal items suggests that they may be earning around $310 million in 1972, compared with $241 million in recent years, an increase of around 27%.

128. The prospects are that minor exports, such as cereals (mainly barley), seeds, figs, wool, mohair, hides and skins, etc., which taken together, now amount to 8% of total exports, may increase 2 to 3% per year.

129. Agricultural export commodities which can be identified as having good latent growth potential are citrus, fresh vegetables and fruit, livestock and meat, and timber. The production of citrus fruit is growing rapidly but so far the country has not been able to establish itself as a sizable exporter. The production of oranges and tangerines in the Mediterranean area is rising faster than consumption in Western Europe, and competition between producers is growing. Greece and Lebanon have already introduced export subsidies. Spain, Israel and Morocco are at the point of launching ambitious sales programs. Prices may decline 10 to 20% by 1972, unless discussions now under way result in an international agreement to stabilize prices. All in all, it does not seem justified to count on a sizable increase in exports. But the situation could improve if a determined export drive were launched. In this event, total citrus exports could reach, say, $10 million by 1972, compared with less than $2 million in 1964.

130. Present exports of fresh vegetables and fruit other than citrus are very small, some $0.7 million, mainly fresh grapes and peaches. Turkey could export more, especially to the Middle East, provided a determined effort were made to establish efficient marketing. If she succeeded in this field, exports could probably reach some $5 million by 1972.

131. The Middle East, Western Europe, and possibly the Soviet bloc, offer promising markets for live animals and meat. But to keep pace with the increase of domestic consumption, output has to increase at a rate of about 4.5% per year. At present, it seems hardly likely that this increase will materialize. On the other hand, even a small increase in the rate of livestock development, say of 1/2% per year over home consumption, might release, by 1972, exports of the order of $50 million per year. These figures are only indicative, since there is little sign at present of such a rate being reached. They do, however, show the importance of a determined drive to increase livestock output.

132. At the present time, timber is only exported in minute quantities. Forest production is increasing, however, and, given the size of the forest resources, the increase could be rapid if the Government were to pursue its new forest policy vigorously. In this event, the output of timber might well be sufficient to satisfy the growing requirements of the paper and pulp industry and, eventually, to provide a significant surplus for exports.

B. MANUFACTURING

Present Structure

133. Contributing about 14% of GNP, manufacturing in Turkey is somewhat more developed than in Portugal and Algeria -- to use Mediterranean examples -- and somewhat below Greece. Nearly two-thirds of the value added (1962 figures) comes from food processing and textiles, the traditional light industries. Among the more complex and heavy industries, metal products contributed 7% of manufacturing and, taken together, machinery and transport equipment contributed 5% (see Table 32).

134. Reversing the coin, Turkey is a major importer of heavy and complex manufactures and a small exporter of food and textiles. Manufactures are the biggest item in the import bill, and have averaged recently about $400 million, representing about 65% of total imports.[1] Exports of manufactures are much smaller, as indicated by 1964 textile exports, including carpets and rugs, of $4 million.

135. The State Economic Enterprises (see Table 33) account for about half the value added in manufacturing and for a much higher proportion of investment in manufacturing. The main manufacturing SEE's are cement, mills, sugar mills, textile mills, a nitrogen fertilizer plant, a paper mill and a steel mill. The largest metal working capacity is also in State shipbuilding, railway and mechanical shops.

136. The State Enterprises are concentrated in the capital intensive industries, the average value-added per worker in the SEE's being twice that of private industry. But for under-employed labor in many SEE's, this difference would be even more pronounced.

137. Although there are some corporations, most private ventures are family businesses, and mostly active in light industry, especially in textiles. They are family ventures because the capital market is poorly developed, and also because private capital accumulation is low and investors are more interested in real estate, agriculture and trade, than in industry. This impedes industrial growth and, in particular, hinders the switch from light industries to more complex manufactures. In recent years there have been some promising developments of new industries, in part through the support of the Turkish Industrial Development Bank, leading to the establishment of a caustic soda-chlorine plant, several tractor and truck assembly plants, a cable plant and a factory making refrigerators, washing machines, etc. Unfortunately, costs are often high reflecting the high price of many industrial materials such as steel and wood pulp, the small scale of operations and the lack of scientific management. Nevertheless, there are a sufficient number of exceptions to justify some optimism. Thus, in addition to some exports of textiles, small exports of labor-intensive items such as sanitary porcelain and brass valves and fittings have been initiated.

1/ The main elements are: equipment 55%, chemicals 20%, iron and steel 12%, with the remaining 13% mainly metal goods, rubber tires, pulp and paper.

The Plan for Manufacturing

138. Between 1957 and 1962 manufacturing production grew slowly, at 4% per year, probably due to the stabilization program of 1958, followed by the Revolution of 1960. The Plan aimed at increasing net output of manufacturing by 75% between 1963 and 1967, which is a compound rate of 13% per year.

139. The source of this increase was to be a spectacular rise in intermediate products (paper, rubber, plastics, chemicals) and in investment goods (metals, machinery, equipment). While food and textiles were to rise by 7% per year, intermediate and investment goods were to rise at 22% per year, with investment goods alone accounting for almost half of total manufacturing growth (Table 32). This 75% rise in manufactures would provide substantial import substitutions (perhaps $100 million per year) and a useful rise in manufactured exports ($35 million per year more by 1967).

140. Most of the investment was to be concentrated in heavy industry and a major propellant was to be a number of key projects in the SEE's (four pulp and paper mills, Stage I of a petrochemical complex, a triple superphosphate plant, and a nitrogen fertilizer plant). But apart from new investments, the economy would benefit from the increased output of plants completed in the recent past, which include the new steel mill at Eregli, truck and tractor assembly plants, a caustic soda chlorine plant, and a factory making refrigerators and washing machines. Improved utilization of food and textile capacity under-employed in 1962 was also envisaged.

141. On the performance so far it has to be said that manufacturing output is rising much faster than the 4% of 1957-62 but not nearly so fast as the 13% foreseen in the Plan. The official estimate that output rose at an 8% rate during the first two years of the Plan may overstate the position. On new investments, the key projects in the State sectors have been running well behind schedule (1963 and 1964 -- 55% of targeted expenditures on investment) and it is doubtful that this investment leeway will be made up. For the five years of the Plan, the mission estimates that manufacturing production will grow by a little over 50% -- 9% compounded -- made up of food and textiles growing by about 5% and intermediate and investment goods by 13%.

Appraisal of the Plan

142. Because the Plan was produced at great speed and without the benefit of a carefully prepared program of projects for the public sector, it is appropriate to look at it as a preliminary working hypothesis subject to substantial modification in the light of further feasibility studies. On this basis, the general directions proposed for manufacturing investment are reasonable, with perhaps two exceptions. Doubts have arisen about the economic justification for the petrochemicals complex and the soda ash plant and these projects are being further studied. Secondly, one must question the lack of serious analysis of export possibilities in the manufacturing field. The increase in exports of manufactures projected in the Plan is about $35 million per year, but the main increases suggested (pig iron, semi-manufactured copper and rubber tires) are not based on thorough study of the

export potentialities. As a criticism of the direction of investment, this shortcoming should not be given too much weight. Possibilities for exporting more than a very small proportion of Turkish manufactures are probably rather limited in the short-run. This is because most Turkish manufacturers operate in the home market with the protection of tariffs and freight costs from overseas amounting to over 50%. Only a few will feel able to operate in markets where this protection does not apply and where, on the contrary, they will have to pay the ocean freight and also climb somebody else's tariff wall. But under the circumstances, any instance where exports are possible needs careful examination.

143. There are also doubts about the Plan's assumption in regard to private entrepreneurs -- that they will save, borrow and invest at a high rate in manufacturing and will switch the bulk of their investment from light manufacturing and real estate to more complex manufactures. The extent to which this switch will take place in the near future is open to question.

144. On the realization of investment, it is clear that, up to now, project preparation in the public sector has been slow. In large part, this slowness is due to management difficulties in the SEE's. In part, it is due to the hesitations on the use of foreign equity capital (e.g., in pulp and paper). To a lesser extent, delays have come from the time taken to agree upon non-equity foreign finance of a project. In most instances, this finance has been tied to procurement in the lending country; the increase in investment costs which often results from this kind of finance may have reduced the subsequent competitiveness and financial success of some projects.

145. Project preparation is, for the medium-term, one of the most disturbing bottlenecks in the expansion of Turkish heavy and complex industry. The mission believes that technical assistance to the SEE's in this field would be of the highest value. Also, later in this discussion, some suggestions are offered for helping project preparation in the private sector as well.

Private Manufacturing

146. Textiles. Before discussing the general problems of private manufacturing in Turkey it will give some perspective to describe the recent growth of the industry which has seen the greatest emergency of private entrepreneurship: textiles.

147. As in many countries, there are two main sections of the industry, cotton and woolens. Both sections have experienced very rapid growth in the postwar period, with cotton spindles and looms growing faster than the population; by the 1960's Turkey had become self-sufficient in both cotton and woolen manufactures.

148. The cotton industry in 1950 was still very much dominated by the public sector, for the Sümerbank had about half the spindles and looms in its mills and produced significantly more than half the value of output.

Over the next 12 years this position changed significantly; the Sümerbank added 40% to its spindle capacity and 30% to its looms while the private sector increased its spindles by over two and a half times and its looms threefold. So by 1962, the industry was predominantly private enterprise with the SEE's output only about one-third of the total and the poorer quality third at that. Yardage of cotton textiles about tripled in 12 years, but the value of output rose even more because more cloth of finer count is being made, with more dyeing and finishing, and higher quality apparel. Only very small quantities are yet being exported.

149. Less data are available for wool textiles, but growth has been fast and the quality of the product has greatly improved. More suitings are made from finer imported Merino wool and less from coarse domestic wool. There are even very small exports of the specialized wool-mohair mixture cloths. All this is a big change from a decade ago.

150. As for the synthetic fibers, rayon staple and yarn are being used to an increasing extent in the textile mills. Turkey is still an importer of these fibers, but a small nylon producing plant started at Bursa in 1962 and is keen for expansion capital.

151. For the future, Turkey's textile output is likely to grow more slowly than in the 1950's. The major import substitution has taken place; to expand exports at a similar rate is bound to be much more difficult. Inherently, the home demand for textiles is likely to grow somewhat faster than the rate of population growth, say at about 5% per year, with the accent on improved quality and variety. It may be expected, therefore, that output and employment in textiles will grow rather less than consumer expenditures on textiles but industrial expenditure on equipment will grow faster to keep pace with changing fashions.

152. The need to be fashion conscious may become continually greater if export markets are to be tapped and, as important, if a changing Turkish market -- one becoming ever more attuned to fashions abroad as the number of tourists rises and workers return from overseas -- is to be fully exploited. In the race for the textile market so far, the private producer has outpaced Sümerbank in terms of quality, price flexibility, design and salesmanship. The more these continue to count, the stronger the competitive position of the private producer is likely to be.

153. General Problems of Private Manufacturing. The prospects for private industry more generally must be considered within the context of the market in which it operates.

154. The first major influence is import quotas, both on goods which might compete with local manufactures and on the raw materials and equipment needed for production. Raw material quotas are allocated by the Union of Chambers of Commerce, Industry and Commodity Exchanges and capital goods by the Ministry of Finance on the recommendation of the Union. It is understandable that these quota restrictions seem necessary to Turkey while she is so short of foreign exchange, but they do provide both a constraint on growth and an excessive protection to the local producer. Generally, when an item begins to be produced locally, no imports are allowed no matter how high the cost or how poor

the quality of the local product. When allocations are made, the allocations of raw materials may sometimes be inadequate for the industrial expansion expected, especially fibers, plastics and some steel products; the importer often has to buy from an expensive source; and the fast-growing manufacturer has difficulty in getting his quota increased.

155. Quotas freeze the industrial structure, reduce competition and inhibit the emergence of really dynamic entrepreneurs who by drive and efficiency achieve very fast growth and transform the industrial economy. It should be a major aim of the Turkish authorities, as soon as possible, to give up protection by quotas and use other methods such as their system of graduated tariffs to provide the necessary encouragement to production and economy of foreign exchange. A review of the tariff structure is also in order, in terms of protection and as a source of tax revenue. The present aim is to charge only a low duty on raw materials. For more processed items, the tariff rises quite steeply (average duties and charges are about 45%), providing a very high protection on the processing margin. This in turn encourages processing plants of quite uneconomic size.

156. Another and more intractable restraint on private manufacturing is the absence of a capital market. The Government encourages the accumulation of savings by the firms themselves by accelerated depreciation allowances, tax rebates on new industries, and, for large projects, reduced duties on equipment which can only be supplied from abroad. But savings accumulated in other areas like agriculture, commerce and construction do not flow freely into manufacturing. Many of the would-be borrowers are small- or medium-sized family enterprises which do not provide lenders with adequate financial information and carefully prepared projects. And the would-be lenders, the Turkish savers, still like to put their money into real estate and gold. To bridge this gap, important institutional changes will eventually be necessary: revisions in the corporation law to protect minority investors, increased use of chartered accountants, creation of a stock exchange, and establishment of some type of regulatory agency to assure that the capital market operates fairly and effectively.

157. In the meantime, borrowing from private banks is likely to remain expensive. Including all charges and taxes, these funds cost about 18% per year. The one major source of long-term capital on reasonable terms (9%) is the Turkish Industrial Development Bank. IDB lending has been restricted by the shortage of prepared projects and of matching equity funds and by limitations on its own resources which are partly supplied by foreign loans. To aid private manufacturers it might be desirable to set up an institute specialized in feasibility studies and project preparation. While such assistance should be on a fee basis, the whole activity might be supported, at least initially, by an annual Government subsidy. The institute might be associated with the Industrial Development Bank.

158. Because Turkish private firms are still relatively small, and relatively weak from a financial and managerial point of view, a valuable contribution to this sector might be made by foreign investors, preferably in partnership with Turkish capital. An Investment Promotion and Information Center has been established by the Union Chamber of Commerce which has issued a useful investment guide to Turkey and may be in a position to assist foreign investors. Total foreign investments in 1964 amounted to about $25 million equivalent, the amount hoped for in the Plan.

Prospects for the Private Sector

159. In general, the prospects are good. Despite the difficulties described above, vigorous growth has been taking place and will continue. Turkish private light industry is becoming increasingly competitive with the State Economic Enterprises. Given fair competition, the private manufacturer of food, as well as textiles, has little to fear. The new export tax rebates should help appreciably in encouraging exports, as should the new arrangements to supply raw materials to those who need them for exports.

160. In more complex industries, know-how and the capital supply remain big obstacles. This is why partnership with foreign capital is often so important. But the policy of the Government makes this less widespread than it could be. In part, this is because it is not clear where the Government wants to encourage foreign participation and where it wants to undertake the development itself. Cases in point are pulp and paper, petrochemical industries and mining. What is needed is not legal or institutional change but a changing attitude by the Government and indeed by much of the public. For unless both foreign and domestic private capital is attracted rapidly to more complex industries, output will fall short and Turkey will have deferred or lost an important opportunity to strengthen its balance of payments.

Public Sector Manufacturing

161. Elsewhere in this report, we discuss the origins of the SEE's (chapter II), and the attempts which have been made to improve their efficiency and to subject their investment plans to a more intensive scrutiny (chapter IV). Here we are concerned more specifically with the manufacturing SEE's; we shall deal with their general problems, and we shall review recent progress in a few fields where these enterprises have been particularly active -- cement, paper, steel, fertilizers and textiles. The difficulties faced by public enterprises in the manufacturing field, many of which have been pioneering new industries in Turkey, are of long duration and are well known by the Turkish Government. In a nutshell, they express themselves in excessive investment costs, high production costs and prices, poor financial results, difficulties in overall control and administration and difficulties in recruiting and keeping good managers. It is pertinent to look at the most recent years to see what changes, if any, have occurred.

162. In fact, there are signs of real achievement in some enterprises similar to those which may be observed in the public coal mining sector (see Paragraphs 260-264 below). Notable among these are the expansion of the cement industry and the rapid construction and start-up of the new Eregli steel mill. Yet, the record also illustrates the difficulties faced in many cases, such as extremely high investment costs (the new steel mill and the new nitrogen plant), a desire to reserve vast sectors of industry for public enterprises even where growth will be slow and/or more expensive (paper, engineering products), and frequent changes in management (mechanical industries, paper and others). In terms of cost, Turkish prices are seriously above the world level in steel, paper and nitrogen fertilizers (see Table 34) and also in various equipment items. The annual overall profits after taxes in the state manufacturing sector averaged only TL 293 million in 1960-64 as compared with total assets valued at over TL 7,500 million at the end of 1961. Internal cash generation was completely inadequate as compared with the known investment requirements. Moreover, project preparation was seriously behind schedule. The existing situation raises a host of questions: What are the real prospects for improvements in operational efficiency? Will there be enough projects in those growth industries which are now virtually the exclusive domain of state enterprise and from which most of Turkey's future industrial growth will have to come? Will industrial projects be better evaluated than in the past, and will project implementation be pushed with deliberate speed and efficiency? Will it be possible to concentrate the effort of the state in the manufacturing field on certain clearly defined, capital intensive and complex industries where private enterprise, for the moment, is not likely to be forthcoming? Or will there be a continuing threat of state enterprise over a large area, discouraging private initiative and postponing the moment when Turkish private entrepreneurs will be operating on a large scale with the normally attendant benefits of financial strength, flexibility and modern management? The success of the Turkish plans will depend, in no small measure, upon the answers that can be given to these questions.

163. Measures taken by the Government to improve the stature and performance of SEE's including those in the manufacturing sector, are discussed elsewhere in this report (Paragraphs 368-371). The general tenor of the reforms which have been made or are being considered is to give enterprises greater operational autonomy, to institute pricing based upon the market, and to improve financial structures. In theory, these measures taken as a whole represent a great stride in the right direction.

164. It is not possible, however, to achieve solely by legislation the ends sought, in particular, efficient operation and quick response to market forces and technological change. Nor can legislation guarantee a large degree of autonomy for managers or full and objective information to the public on economic and financial results. Nor will it ensure that the state manufacturing enterprises as a group are held to their main task, the development of a limited number of strategic industries, and are given the financial means to this end. Success can only come through a current of popular and political opinion insisting upon deep reforms in the state manufacturing enterprises and upon added scope for private initiative, both Turkish and foreign. In the mission's view, the outcome still hangs in the balance.

165. Cement. Since 1958, cement consumption has doubled (12% per year), but Turkish production has met virtually all the demand. By 1964, production was about 3 million tons; 60% from 12 State mills and 40% from six private mills. The State sector is divided into the Turkish Cement Industries Corporation (1.3 million tons) and two independent State mills (0.4 million tons), one operated by Sümerbank and one by the Mortgage Credit Bank. The State sector is growing faster than the private and increasingly dominates the industry.

166. Until recently, the price of cement was fixed by the Government at a uniform ex-plant level throughout the country. Since February 1965, factories are free to establish their own prices, but in fact the former price pattern still prevails. The present price seems to be rather high, for 11 countries in western Europe had figures below Turkey's price for bulk cement of $17.22 per ton ex-works, while only three had prices above. Price uniformity throughout the country means that the more industrialized areas of western Turkey pay a higher price than would otherwise be justified. The policy of uniformity was designed to subsidize construction in the poorer areas and has been coupled with a policy of building new cement mills in more remote districts. In comparison with the alternative of expanding output from existing mills, this policy in part may have been misguided, but the situation is difficult to analyze without prices for each of the dispersed mills.

167. Expansion plans are under way for new mills, two of which will be in East Turkey. Capacity is also being increased by the conversion of several existing mills from the wet to the dry process. This will save on fuel and will increase output. Three-fifths of the increased capacity is in the Turkish Cement Corporation and another fifth in the "independent" State sector, leaving only one-fifth of the increase for the private sector.

168. The Cement Corporation has a heavy burden of debt with substantial payments falling due within the next few years; nevertheless, the competitive position of the Corporation seems sound. Fixed capital per ton of output has fallen by 44% between 1960 and 1964, and at $37 per ton now looks reasonable by international standards. The profit margin is also satisfactory. In the three years to come, the Corporation will have to borrow another TL 150 to 200 million to finance expansion and improvements. After 1967, further expansion will necessitate yet more borrowing.

169. Nitrogen Fertilizers. The Azot Sanayii SEE is the only important producer of nitrogenous fertilizer in Turkey. At its plant at Kutahya, it produced in 1964 about 150,000 tons of ammonium sulphate and lime ammonium nitrate, both containing about 20.5% N. This was about the full capacity of the plant.

170. Consumption of nitrogenous fertilizer is still very low in Turkey but is expanding fast. It was about 100,000 tons in 1959, doubled to 200,000 tons by 1964 and is expected to be 500,000 tons by 1967. Part of the consumption is met by imports and the Government requires that domestically produced fertilizer must be sold at the same price as imports, the difference being met by a subsidy. In spite of the subsidy, the Azot Sanayii made a loss, due to financial expenses not reimbursable as production costs. In 1963, the subsidy was TL 50 million and the loss TL 9 million.

171. The raw material used at Kutahya is low-grade lignite from the Turkish Coal Enterprises. At the equivalent of U. S. 25 cents per one million B.T.U., it is quite cheap. Nonetheless, the costs of fertilizer production are high because of high labor costs and the very high capital costs of $60 million ($1,800 per ton N.). In part, this was due to the very long construction time for the Kutahya plant of seven years and the uneconomical scale of output. But the main reason appears to be the high price of the machinery and equipment installed. As well as high capital costs, the plant suffers from excessive staff -- it employs 2,400 people for the output of 150,000 tons.

172. The Company plans to increase its effective capacity over fourfold (340,000 tons at 26% N.) by investing $50 million (55% foreign exchange costs). This would considerably improve the capital per ton N. by reducing it from $1,800 to $600. But this would still be very high by international standards and would still leave total costs high. Company calculations indicate a 30% return on this new investment. The mission thinks that this may be somewhat high on two counts. First, the calculation is based on the present import price of TL 440 per ton. But the prices of nitrogenous fertilizers are likely to decline in world markets reflecting new technology and larger plants. Secondly, there are indications that the operating costs used in the Company calculations may be too low.

173. Before expansion proceeds, it is important to check these cost calculations and also the decision to enlarge on the basis of the continued use of lignite as the raw material. With recent changes in technology, investment costs of plant based on lignite may be today as much as 50% above those using natural gas or refinery fuels. In addition, refinery feed stocks (if taxed on the same basis as Turkish lignite) may prove a cheaper raw material.

174. As in Stage I of Eregli steel mill, Stage I of the Kutahya Fertilizer Plan was so expensive that it placed upon the Company a heavy burden of fixed debt. Writing off part of the original investment would put the Company on a sounder basis to expand.

175. Steel. Over 80% of Turkey's steel capacity is in two mills, the Karabuk SEE and the new Eregli mill. Nominally, Eregli is not a SEE but the Government has a substantial participation.

176. Steel production capacity in Turkey is about 900,000 tons of ordinary finished steel, of which about 360,000 tons is the new Eregli capacity specialized in flat products and 550,000 of rods, bars, etc., mainly from Karabuk. This 900,000 ton figure assumes that certain further minor investments are completed, such as a galvanizing line at Eregli and increased rolling capacity at Karabuk.

177. In 1962 and 1963, Turkey's consumption of ordinary steels averaged 550,000 tons. Karabuk was able to supply most of the rods, bars, rails, etc., but as Eregli was not completed, nearly all the flat products were imported. In 1965, however, domestic demand will take only about 60% of capacity in both categories. This gap will be closed in a few years; it appears likely

that Eregli's present capacity will be fully utilized by 1968 and Karabuk's by 1969. Allowing two years for construction, that means starting Eregli's Stage II in 1966 and Karabuk's Stage III or a new steel mill for rods and bars by 1968.

178. At Turkey's stage of development, there is no doubt that a steel industry is justified. But will it be organized to produce steel at a competitive price? For the raw materials (coal and iron ore) the position is reasonable. Turkish coal is delivered at Karabuk and Eregli at prices comparable, or slightly below, the price paid by German mills for Ruhr coal. Turkish iron ore is more expensive partly because of the freight costs. In terms of cost per ton of finished steel, the difference in ore costs is about $10 which is roughly offset by the freight cost of steel imported from Western Europe.

179. The really decisive cost disadvantage of the Turkish steel industry is the very high investment cost of both Karabuk and Eregli. In 1965 prices, Karabuk cost TL 1.3 billion; taking 20% return to cover interest, depreciation, taxes and profits at the 1963 output of 320,000 tons, capital charges alone would be about $90 per ton. This compares with a total cost of similar imported steel c.i.f. Istanbul of about $128.

180. Karabuk steel is currently sold at about $195 per ton, which is considerably above the $128 for imported steel, yet only gives a gross return of 8% on the capital invested instead of the 20% needed for reasonable cover of interest, depreciation, etc.

181. The Karabuk position will be substantially improved by the increase in output to 480,000 tons of finished steel. This will permit economies of $60 a ton, made up of: (i) a reduction of labor charges by $20 a ton, because the new bar and rod mill requires so much less labor; (ii) a reduction in coke costs of $10 a ton, because Karabuk can use all its own coke instead of having to sell its surplus at a subsidized price; and (iii) a reduction in capital charges of $30 a ton, if the return on investment is kept at 8% gross.

182. Accordingly, when Karabuk is working at its full new capacity, its economic price might be $60 per ton below the $195 per ton price charged today. This would mean a price of $135 compared to the present $128 per ton for imports. Of course, if Karabuk were to receive the economic return on investment of 20% gross instead of 8%, the charge would have to be raised to about $170 a ton, i.e., 30% above the present import price. It follows that Karabuk cannot be envisaged as an enterprise which will, at the next stage of expansion, become fully competitive. Nonetheless, the expansion does seem justified in the light of the indirect benefits it will bring to Turkey and of the return on the marginal investment required to carry it out.

183. Eregli Stage I (480,000 ingot tons) is an impressive modern plant. It was brought into production very rapidly, particularly for a developing country, and it appears to be very capably managed, mainly by Turkish staff assisted by a small complement of experienced foreign technicians and workmen. There is ample provision for future capacity expansion. Yet, the financial position of Eregli gives cause for worry since the plant was extremely expensive; the present estimate for the first stage is around $300 million. At 20% gross margin, its capital charges alone would be $166 on each ton of finished steel which is higher than the present total imported price for flat steel c.i.f. Istanbul.

184. If Eregli Stage II were to be completed for another $100 million, the capital costs for the total capacity of 650,000 tons of finished steel would fall to a point where a 20% gross margin would be $120 a ton. This is better than the present $166 but still a very long way from the Company's stated objective of earning a reasonable return on its capital while basing its sales prices on normal import prices c.i.f. Istanbul.

185. If Eregli steel continues to be sold at a price so much above world prices ($202 a ton for plates and $190 for sheets f.o.b. Eregli) it will be a serious handicap to the expansion of Turkey's steel-using industries. Given that this extremely expensive investment has already been partly completed, perhaps the answer would be a financial reorganization which would lighten the financial burden of Stage I and permit the future expansion and operation of the Company on a sound basis.

186. Pulp and Paper. Turkey's present annual consumption of paper appears to be about 5 kg. per head. This is extremely low, for countries at Turkey's level of income typically consume twice as much as this. In part, this low consumption may be due to the high Turkish paper prices which are some 50% above the world level. But consumption is rising fast. It is expected to expand from 140,000 tons in 1963 to 210,000 tons in 1967 and to over 300,000 tons by 1972.

187. At the moment, Turkey's paper requirements are met 80% by domestic production and 20% by imports. Of the 1964 domestic production of 110,000 tons, 100,000 tons of paper and board came from the State Turkish Cellulose and Paper Mills (SEKA), and the private sector supplied only 10,000 tons of corrugated board and low quality wrapping paper. So SEKA dominates the market.

188. Since 1957 SEKA has been trying to meet the rising domestic demand by undertaking a major expansion program at its Izmit pulp and paper factory. By 1961 production began to expand quite fast and between 1960 and 1964 rose 60%. The present output of 100,000 tons is close to the capacity of the plant and future increases will have to come from new installations.

189. The Five-Year Plan recognized that heavy investment would be necessary but did not specify whether it was to be public or private. The present intention is that it should all be public. To meet the estimated domestic consumption of 300,000 tons in 1970-72, SEKA plans to build four new plants by 1969 with a total capacity of 170,000 tons. These new plants would specialize

respectively in semi-chemical pulp; kraft paper; printing-writing paper and board; and newsprint. This is an extremely large program, estimated to cost TL 738 million. Bids are currently being analyzed but, with construction time taken as three to four years, it is clear that completion by 1969 is very tight. The main problems of this expansion are examined below.

190. First, as to timber supply, Turkey's substantial reserves of timber are at present poorly utilized but, properly organized, there is ample good timber to meet, on a sustained yield basis, all Turkey's foreseeable needs and also provide a surplus for export. The shortage of access roads is fast being overcome.(Paragraphs 114-115).

191. But Turkey will not be able to export timber or paper, nor remove the present disadvantage of an internal paper price 50% above world levels, until the Government's price policy on timber sales is changed. Of over 10 million tons of timber currently sold each year, only half a million tons were sold for pulp at an average price of about $17 a ton. This compares with Swedish prices of under $7 a ton and with even lower prices in the U.S. and Canada. A further large quantity of timber is sold for building and other purposes at prices even higher than $17 a ton. As so little Turkish timber is currently used for pulp, scope for expansion is enormous but not while the price remains over double the world price. Subsidized fuel timber for the forest villages is a prime reason for the high price of timber -- six million tons are "sold" to the villages at the entirely nominal price of 25 cents a ton (another 1-1/2 million tons are sold for fuel elsewhere at the more reasonable price of $5 a ton). The Turkish pulp industry should not be required to finance subsidized fuel timber.

192. In part, then, the high cost of SEKA paper production is due to the high timber cost, but in part, too, the high costs are due to low labor productivity. In 1960, the Company had 4,000 employees; by 1964 output had risen by 60% and labor employed by 25% so that labor productivity had improved. But it still remains very low, due in some measure to the reluctance -- for social and political reasons -- of all SEE managers to dismiss surplus workers. Also, SEKA's top management has been changed several times in recent years.

193. On the capital side, the TL 738 million estimated for the four new plants is a tremendous sum for SEKA. In 1964 SEKA assets were valued at TL 363 million, with the long-term debts of TL 118 million. The annual cash generated for new investment was about TL 30 million. Accordingly, to build the four new mills, SEKA would have to raise well over TL 500 million. This would be a huge increase in the capital of the Company and could well imperil its financial stability if the debt content of the new capital were high.

194. The mission believes that the Turkish demand for paper has been reasonably forecast and that Turkey has excellent timber potentialities to meet those needs. It would be very advantageous to push ahead with a program to supply domestic paper requirements and, if possible, to export. But the simultaneous construction of four new paper mills in four years would tax the

management of any of the world's biggest paper combines. The task for the SEKA management must be reduced to reasonable proportions and the mission therefore suggests that foreign private investment might be sought for at least one of the new mills and preferably more. The competition and know-how introduced would help efficiency and lower costs in the SEKA plants; the foreign capital would supply some of the savings Turkey lacks. When referring to foreign private investment the mission has in mind a substantial equity participation giving the foreign company a vital stake (though not necessarily a majority) in the venture.

Exports of Manufactured Products

195. The most important manufactured products being exported are processed agricultural products such as sugar and olive oil, and other manufactures such as textiles and fuel oil.

196. Production and exports of sugar are highly dependent upon Government policy and therefore difficult to project. Currently, sugar is exported at less than the cost of processing the beets. Since agricultural policy is not expected to change rapidly, exports are likely to continue for some time, but on a declining scale. Olive oil has only recently become a significant export item. Production can be expected to grow in line with the increase in the number of trees planted in recent years and also as a result of technological improvements. Future exports are expected to remain about the same as during the past few years because production has not yet reached high quality standards and exports are not always as attractive as the domestic market. Moreover, exports are mostly to other producing countries, mainly Italy and Spain, which import significant quantities from Turkey only when their own crop is below average. Exports could be higher than estimated if a determined effort were made to improve production and to develop wider markets abroad.

197. Exports of petroleum products consist mainly of residual fuel oil, presently in surplus at the refineries. Because of increasing domestic demand for fuel oil, mainly as a replacement for coal in industrial uses and power plants, the refineries may adjust their throughputs so that less profitable fuel oil exports are kept at a minimum. Hence these exports are expected to remain the same and may even decline.

198. About two-thirds of the textile exports are cotton fabrics and the remainder mainly carpets, both of which at present benefit from substantial refunds of various internal taxes when exported. Some fine carpets are produced in Turkey and it seems likely that with a proper sales effort a larger market could be established, particularly when association with the Common Market gives Turkish carpets protection against other oriental-type carpets. Similar opportunities should open up in textile fabrics. Since the wage element is important in the textile industry, Turkey is likely to have an important labor cost advantage over any other member in the Common Market. So far, however, there is little evidence of any market study or other preparatory work in this area. Some cotton gray goods are being exported but, at

the moment, investment in new gray goods plants cannot be expected since better returns can be obtained from the export of raw cotton. Total textile exports, including carpets, have been assumed to increase from an average of $3 million in 1961-64 to $7 million in 1974.

199. Other manufactured exports totaled only about $7 million in 1964. They were mainly processed agricultural commodities such as tea, fig paste, beverages, prepared hides and furs, perfumes and essences, tanning extracts, etc. In addition, exports of certain labor-intensive items, e.g., sanitary porcelain, metal valves and fittings, etc., are being initiated. These exports, taken together, have been assumed by the mission to grow to $16 million by 1972.

C. MINERALS

200. Mining and quarrying provide employment for under 1% of Turkey's active population, but provide 3-1/2% of the GNP and some 6% of exports. Over half the value of output of minerals consists of coal and lignite, which are discussed under Energy. Of the remaining 45% of mineral output, copper accounts for 20%, chrome 10%, and then come iron ore, boracite and pyrites, plus small quantities of a wide range of minerals including mercury, lead, zinc, manganese, antimony, meerschaum, marble, magnesite, etc.

201. The Five-Year Plan's allocation for mineral investment is heavy when compared with its contribution to GNP: 5-1/2% of capital outlays against the 3-1/2% share of GNP. In response to this investment, mineral production was expected to grow at 8.7% per year, value added at 9.3%. Since 1961, when the Plan was prepared, there have been many changes in the world outlook for minerals and for the production possibilities inside Turkey.

202. The Plan did not specify investment as between the public and private sectors. Since 1935, when the Etibank was formed as a State Economic Enterprise to expand Turkish mining and to retain more of the benefits inside Turkey, the SEE's in the mineral field have grown increasingly important. Today the public sector accounts for 75% of mineral production, including all the coal and lignite, all the copper and pyrites, most of the iron ore, and about a third of the chrome, mercury and boracite.

203. The table on page 55 is a summary of the prospects for mineral exports (excluding coal and lignite). Two sets of figures for exports in 1972 have been developed, based on differing assumptions. The striking feature is the big gap between the two. One set indicates export earnings will rise by only about 10% in eight years, from $27 million in 1964 to about $30 million in 1972. In part, this very small rise is due to the mission's judgment that the favorable world metal prices of 1964 will not all be maintained. But on the same price assumptions, if production possibilities are fully exploited, mineral exports could, in those eight years, more than double from $27 million to $56 million. It is the belief of the mission that only the rapid conclusion of partnership agreements between Turkish and foreign private companies in a number of mineral fields could achieve this higher figure.

204. In putting forward these possibilities, the mission is fully aware that a major role is assumed for the SEE's in Turkey's economic development. The mission is also aware that foreign companies once dominated mining in Turkey and it appreciates the natural determination of Turkish authorities to see that this does not happen again. But in many of the specific cases at issue (analyzed below), the technical difficulties are such that foreign skill and capital have a particularly vital part to play if rapid and competitive results are to be realized. In other cases, the imperfections of the world market for the particular metal mean

that it is difficult for anyone not associated with one of the existing large producers to achieve a big expansion in sales.

205. Naturally, the foreigner invests his time and money in Turkey in the hopes of making profits. And he expects to take a reasonable part of those profits back overseas. His participation, however, should so increase total mineral output and total export earnings that, under reasonable partnership arrangements, the benefits to Turkey of these associations should be considerably greater than if she tries to go it alone. The mission hopes that Turkey will be willing to explore the possibilities with prospective foreign investors. Only by a decision to negotiate seriously, on a case-by-case basis, can Turkey determine more precisely what advantages may be obtained by foreign participation in Turkish mining.

Copper

206. Production of unrefined copper has recently averaged about 25,000 tons a year. It comes almost entirely from the two Etibank mines: Ergani, which produces about two-thirds of the total, and Murgul, which produces the other third. At Ergani, the bulk of the output comes from high-grade ore (8%); at Murgul, the ore grade has fallen to 2%. Rather primitive open-cast methods are used, but the mining has been extremely profitable. In recent years, the selling price of copper has been more than double Ergani's costs (without allowance for depreciation), and the 1964 market raised this margin even further. Ergani has been the most profitable Etibank enterprise, providing cash for Etibank's other operations and useful tax payments to the Treasury. Murgul has been less profitable, with gross margins varying between 15% and 30%. At the high 1964 prices, its margin was about half Ergani's.

207. Unfortunately, Ergani's reserves of the rich 8% ore have dwindled to a few years' supply. For some years Etibank has been studying the possibility of exploiting Ergani's 2% ore, which, in comparison to 8% ore, takes four times as much to produce a ton of copper. The erection of a plant using domestically produced milling equipment is under study with the U.S. Export-Import Bank. If all goes well, the output from these two mines in 1970 could rise to 40,000 tons, or close to a 50% increase. But after 1970, as the rich 8% ores finally become exhausted, production will probably fall to perhaps a 30,000 ton level by 1972. The shift to these low-grade ores is bound to mean a sharp drop in the profitability of the Ergani mine with consequent losses of profits to Etibank and taxes to the Treasury; but with the rapid exhaustion of the high-grade deposits there is no alternative.

208. Ergani's production is now exported as blister copper. There are plans to build a copper refinery near the present smelter, using power from the Keban Dam. Value added by exporting refined copper would be about $60 a ton, although the internal price differential is much higher because of protective duties on imported refined copper. The Murgul copper is already

refined and goes into domestic use in Turkey. The refining is done at two tiny plants with a total throughput of 10,000 tons a year. This scale of operation would be quite uneconomic in a free world market.

209. The proposed investments at Ergani and Murgul to mine and mill lower-grade ores are reasonably safe projects. There is a further possibility for copper investment which is technically much more difficult and entails more risk. On the Black Sea coast, west of Hopa, several ore bodies have been discovered containing at least 150,000 tons of recoverable copper; the prospect for further discoveries appears good. There is a marketing problem because the ores are copper-bearing pyrites, and buyers most interested in such ores claim to want them only for acid production. Studies might show the feasibility of erecting a mining and treatment complex in Turkey for extracting a range of separate copper and pyrites concentrates. If this project were then successfully carried through, it could be yielding, say, 15,000 tons of copper by 1972. It is clear that such a project will require the input of considerable capital and, above all, considerable know-how, for the treatment of these ores is technically very tricky. This know-how is unlikely to be available to Etibank, and private capital, partly foreign, seems particularly necessary if these potentialities are to have a chance of rapid realization.

210. The importance of this Black Sea development can be seen by comparing exports in 1972 with and without the Black Sea complex:

Copper (tons)	1964	1970	Without Black Sea Complex 1972	With Black Sea Complex 1972
Production	26,000	40,000	30,000	45,000
Domestic Consumption 1/	10,000	15,000	20,000	20,000
Stock Increases	3,000	-	-	-
Exports	13,000	25,000	10,000	25,000

1/ The rapid increase in the domestic consumption of copper is based mainly on increased electrification in Turkey and increased output of electrical equipment and appliances.

Chromite

211. The third most important mineral in Turkey (after coal and copper), chromite forms about 10% of total mineral output. Two-thirds of the chromite production comes from private mines.

212. Turkish chromite has been important in world markets for several decades; in 1935-39, the country produced 200,000 tons which was some 17% of world production. The market for chromite rose rapidly over the next 15 years, due to the increased use of stainless steel and other steel alloys and to U.S. Government stockpiling. Turkish output increased in proportion, and by 1956 output had risen to 800,000 tons (640,000 tons exported); this was still a little under 20% of the world's supply. After 1958, U.S. stockpiling almost ceased and increased supplies came from Africa and the Soviet Union. As a result, world chromite prices dived. The prices received by Turkey f.o.b. fell by a third, from $37 a ton in 1956 to $24 in early 1965. This fall squeezed profitability in mining and Turkey's exports fell from an average of 500,000 tons in the early 1950's and to an average of 330,000 tons in the early 1960's. The year 1965 is likely to see exports of 400,000 tons or more, but this is an exceptional volume because stocks accumulated in recent years - in hopes of rising prices - are now being sold.

213. In 1961, when the First Five-Year Plan was written, there were great hopes of a recovery for chromite in world prices and consequently in Turkey's production and export earnings. But there now seems little prospect of chromite prices rising much above present levels in the foreseeable future; thus Turkey's exports in 1972 are likely to be about 350,000 tons, earning some $8.4 million.

Ferrochrome

214. Since 1963, Etibank, in partnership with the French Pechiney group, has operated a ferrochrome plant in Antalya. The designed capacity of the plant is 17,000 tons a year, but output has yet to reach 5,000 tons. There have been many difficulties and the plant has operated at a considerable loss. Recent increases in world ferrochrome prices should mitigate this. In the mission's export estimates for 1972, we have assumed exports of 10,000 tons worth $2.8 million. If the operational difficulties can be overcome completely and the necessary marketing outlets secured, the output might be nearer the 17,000 tons designed capacity of the plant, which would be worth $4.8 million. But there are no signs that this is likely.

Boron Minerals

215. Boracite, like chromite, is mainly mined by the private sector. It is all exported in the form of crude plus 50% boron oxide for refining abroad into boric acid and borax. The known economic reserves are over 100 years' supply at the present rate, so there is ample room to expand production.

216. Turkish boron is sold mainly in Europe in competition with major U.S. exporters. Although world prices have declined in the past decade, Turkey is still able to produce and sell profitably. Output has risen sharply, hitting 120,000 tons in 1964 with receipts of $3.3 million.

217. With such large reserves, it is understandable for Turkey to think of capturing more of the crude market, and even of refining and exporting more valuable boron products. Etibank has contracted to build a refinery at Bandirma but there is considerable uncertainty just when this plant will be started and completed, what the quality of the product will be, and whether the costs of production will be such as to be competitive in world markets. Considering that world boron markets are dominated by a few major producers, and that investment costs of large-scale mining and treatment will be substantial, Turkey would almost certainly require a partnership agreement with one of the existing large foreign producers to fully realize its ambitions for boron. These arrangements might start with greatly expanded exports of boron oxide and then later proceed to the refining and export of large quantities of boron products. Public opinion seems at present to be a long way from welcoming this, however, and the mission did not think it sufficiently realistic to list refined products as a possibility for exports in 1972.

218. The mission assumes that Turkey will hold its share of the market, more or less, indicating exports of 175,000 tons worth $4.4 million in 1972. With the participation of a large foreign company, the mission believes the 1972 export of crude boron oxide could be 300,000 tons worth $7.5 million.

Lead and Zinc

219. At present, Turkey's small production of lead and zinc comes from the primitive working of shallow deposits. These are worked by a few small private Turkish operators in the South and southeast of the country and one Etibank operation near Keban. The ores and concentrates are exported and, under agreement with foreign smelters, the refined metals are reimported for Turkish consumption. Neither the exports nor imports are recorded in Turkish trade statistics. The official trade data on exports for 1964 show a figure of $0.1 million; unrecorded exports subsequently reimported were about $1 million.

220. Some foreign observers believe that Turkey has a large lead-zinc potential, enough to support production of at least 40,000 tons per year. The export value of this would be, say, $7 million if exported as concentrates and $10 million if exported as metal. The program would involve extensive expenditure, first on exploration, and then on mining and the large-scale treatment of both high- and low-grade ores; a few years later, a smelting plant could be added to produce metals from the concentrates. Again, if this unproved, large, and very risky investment is to be realized by 1972, the Mission believes that Turkish entrepreneurs would need to be associated with foreign capital and foreign know-how.

221. The possible returns to Turkey are worth pondering. The present prospects are for an increase in recorded exports of lead-zinc ores from 2,500 tons worth $0.1 million in 1964 to perhaps 20,000 tons worth $0.8 million in 1972. With a faster expansion of mining and milling and the operation of a smelter, the exports could be 40,000 tons of metal worth $10 million in 1972. This is a remarkable difference but the mission can only reiterate that this prospect of large new developments in lead and zinc requires both agreement between Turkish and foreign private interests and the active encouragement of the Turkish Government.

Other Metallic Minerals

222. Production and exports of mercury, antimony, manganese and magnesite totaled only $2.2 million in 1964, but this was a considerable rise above the $1.3 million of 1963. The year-to-year fluctuations in world prices for these metals are a big factor in the decision of private operators to mine or not to mine the small and irregular deposits of each mineral. In the past two years, the rising prices of mercury and antimony have stimulated both private operators and Etibank to plan increased capacity. It is difficult to forecast future world prices for these two metals because the antimony market is affected by the operations of Communist China and the demand for mercury by the large amounts used in starting up new chemical plants.

223. The mission assumes that the good prices of 1964 will persist, but not those of 1965 (the 1965 mercury price was extraordinary, more than doubling the 1964 price). We further assume that under the stimulus of these good prices mercury output from private mines will increase considerably after 1970. In antimony mining, where reserves are less, no such expansion is expected. A tungsten project has long been under study by Etibank; by 1972 this could be in operation with exports. If these prospects are realized, the mission's estimate for exports of other metallic minerals is: 1963, $1.3 million; 1964, $2.2 million; 1972, on present prospects, $4.0 million; with faster rise in mercury output and completion of the tungsten project, $7.0 million.

Non-Metallic Minerals

224. These include salt, marble, meerschaum, emery. Exports have been very small, averaging in 1963 and 1964 about $0.6 million. In 1965, a new mine in southern Turkey commenced producing and exporting barite and this could reach 500,000 tons by 1970. More intensive efforts in export markets for the sale of all these non-metallic minerals, especially barite, could yield good results. The mission estimates that if nothing much is done, exports will rise from $0.6 million in 1964 to $1 million in 1972. Intensive efforts could result in exports of, say, $3 million by 1972.

Iron and Bauxite

225. Iron ore production has been rising in recent years, but the present and future needs of the Karabuk and Eregli blast furnaces are such as to make unlikely any significant iron ore exports. A recent bauxite discovery in southern Turkey is unlikely to provide exports by 1972. It could potentially be a source of supply to an aluminum complex, based on cheap Keban power, but the heavy investment required and the lack of any firm plans have led the mission to assume that no production or exports will take place by 1972.

Mining Finance

226. Better financing arrangements for Turkish private mining firms might encourage output and exports in this sector, particularly in such minerals as chrome, mercury, antimony and lead-zinc. Consideration might be given to the organization of a mining finance company, perhaps along the lines of the Industrial Development Bank. Because of the greater risk factor in mining, the mining finance company might stress equity or equity-type investments to a greater extent than does the IDB in the industrial sector.

TURKISH MINERAL EXPORTS, 1964 AND 1972

	1964 Actual Exports			1972 Present Prospects			1972 Possibilities	
	Tons	Unit Price	$ Million	Tons	Unit Price	$ Million	Tons	$ Million
Copper								
-blister	13,004	787	10.2	10,000	600	6.0	25,000	15.0
-refined (value added)	-	60	-	10,000	60	0.6	10,000	0.6
-ore	8,430	33	0.3	20,000	20	0.4	-	-
-cupreous pyrite	95,650	13	1.3	100,000	13	1.3	100,000	1.3
Sub-total			11.8			8.3		16.9
Chromite								
-chromite	356,014	20	7.1	350,000	24	8.4	350,000	8.4
-ferrochrome	5,863	280	1.6	10,000	280	2.8	10,000	2.8
Sub-total			8.7			11.2		11.2
Boron Minerals	118,408	28	3.3	175,000	25	4.4	300,000	7.5
Sub-total			3.3			4.4		7.5
Lead-Zinc								
-ores	2,540	58	0.1 1/	20,000	40	0.8	-	-
-metal	-	-	-	-	250	-	40,000	10.0
Sub-total			0.1			0.8		10.0
Others								
-metallic	-	-	2.3	-	-	4.0	-	7.0
-non-metallic	-	-	0.6	-	-	1.0	-	3.0
Sub-total			2.9			5.0		10.0
TOTAL			26.8			29.7		55.6

1/ Quantities recorded in trade statistics. Larger quantities were exported and re-imported in refined form, neither exports nor imports being recorded in trade statistics.

D. ENERGY

227. The primary energy sources used in Turkey in 1962 were given in the Plan as:

Timber	29%
Animal Dung	25%
Hard Coal	20%
Lignite	8%
Petroleum	15%
Hydroelectric Power	3%
Total	100%

228. Two features of this table are striking: first, that over half the supply comes from burning timber and dung, and second, that only 3% comes from hydro power. The Turkish authorities know that burning all this timber and manure reduces agricultural output and reduces the export potential in both forestry and food products. But it is difficult to vary the habits of generations in many thousands of villages and towns. There is, so far, little sign of change. The figure of only 3% of power from hydroelectric sources is also surprising because Turkish hydro potential is the third largest in Europe. The expansion plans for the electricity industry indicate a rapid increase in hydroelectric output, however, and in about 15 years' time it should supply some 9% of the energy consumed. The Plan figures for the increase in Turkey's energy consumption were:

	Million Tons (hard coal equivalent)	Annual Increase
1950	12.7	
1960	19.3	4.3%
1967	27.0	4.9%
1977	46.0	5.5%

229. To provide this increased energy, the First Plan provided for investments of TL 7.3 billion, including TL 5.0 billion for electricity, TL 1.7 billion for petroleum, and TL 0.4 billion for coal and lignite. Thus energy accounted for about 12% of the total investments specified in the Plan. The performance and prospects in the three major fields are examined below.

Electric Power

230. The official Turkish estimates, which are conservatively based on investigations of individual river flows and possible dam sites, put the present known potential of hydroelectric power which could be economically

developed at over 12,000 MW. Further investigations could well cause these figures to be considerably increased.

231. Despite these great possibilities Turkey today uses very little electricity. In 1963, her consumption was only 117 kw hours per capita, 60% of which was consumed within 125 miles of Istanbul. By way of comparison, consumption in France, West Germany and the United Kingdom averages well over 2,000 kw hours per capita. Some 77% of the electricity consumed in Turkey goes for industrial use. Nearly 70% of the population in Turkey is not served by electricity at all.

232. Although Turkey's per capita electricity consumption is still low, the total demand has grown very fast since World War II. Between 1950 and 1964 it rose at 13.1% per year and even so demand was not met. Indeed, in approximately three-quarters of the centers in which electricity is available the supply is now restricted; less than half the centers are provided with a 24-hour supply; and of the areas that are provided with a 24-hour service, nearly half have restrictions on the connection of new consumers or the amounts of power supplied to existing users.

233. As for future growth in demand, a 1963 survey by Ebasco, a U.S. engineering firm, estimated the increase until 1972 to be at the rate of 13% per annum. Another detailed survey by the U.S.' Batelle Memorial Institute in 1964 put the figure at 14%. These figures appear realistic, especially when account is taken of the present inadequate supply in areas already receiving electricity and of the new areas which will be connected between now and 1972.

234. To meet this fast rising demand, the First Plan proposed to spend some TL 5 billion between 1963 and 1967, nearly 40% of which was to be in foreign currency. Dividing an electricity development plan into five-year sections is bound to be somewhat arbitrary - much will be completed during the period that was started in the years before and much that is started will come into production in the years ahead. But bearing this in mind, there is little doubt that the First Five-Year Plan for electricity is basically sound, both the program to expand generating capacity and the plan for a national electricity grid.

235. Demand for power has reached a point where it is now more economical to transmit power from remote sites where it can be generated at minimum cost than it is to expand the present fragmented system. In 1961, Turkey had in operation nearly 1,000 generating stations ranging in size from 20 kw to 100,000 kw, all of which had to carry an excess of installed capacity over demand to cover emergencies. The erection of 9,000 kms of transmission lines will enable: (i) the location of new generating capacity at the most economic sites, regardless of distance from the consumption centers; (ii) the provision of 24-hour service to almost all consumers, and (iii) the scrapping of

uneconomic high-cost plants or relegating them to stand-by duties, thus lowering electricity costs. The first point is particularly true of hydroelectric sites such as Keban on the upper Euphrates. The Second Plan will see a further extension of the national transmission grid to the point where, by 1972, approximately 95% of Turkey's total requirements of electric power will be supplied from this network. During the First Plan, some 530 towns and cities will be connected to the grid, of which 204 have never had electricity before and 1,000 villages will be newly electrified. The program for electrification of villages is on a modest scale, involving only about 3% of Turkey's total number of villages and only about 2.7% of the total investment program in electricity.

236. Apart from the transmission lines, the other main item in the investment program is increased generating capacity. Here, the accent has been placed on large projects, of which the largest by a considerable margin is the Keban hydroelectric scheme. Keban's initial capacity of 560 MW makes it the biggest hydroelectric project ever undertaken in Turkey. Even so, expenditure on Keban is not a very large proportion of total electricity investments; in the First Plan it amounts to 12% and in the Second Plan to 21%. Prior to the commissioning of Keban, 330 MW of steam and 650 MW of hydroelectric capacity will be added, apart from minor developments in isolated areas.

237. Investment expenditures in the opening two years of the First Plan, 1963 and 1964, have been about 25% below target. There have been shortfalls due to late delivery of equipment by foreign firms, delays in obtaining local and foreign project funds from the Government, and shortages of experienced technical staff because the salary scales are not competitive with private industry. In spite of this, about 85% of the Plan will probably be completed by the end of 1967. If the future expansion plans are to be realized, the provision of funds for agreed projects must be speeded up and technical staff salary scales raised.

238. The mission formed a general impression that the Turkish electricity industry is characterized by professional competence. However, the present organizational structure of the industry needs revision. In principle, planning for the electricity industry is undertaken by a department of the Ministry of Energy and National Resources; generation and transmission is under the Etibank SEE; distribution in urban areas is by the Municipalities, assisted by the Illerbank SEE; and design and construction of hydro-plants are by the DSI, a department of the Ministry of Energy. In practice, there is considerable overlapping and duplication of effort, particularly in planning, but also in operations. For example, the Municipalities own and operate some of the generating plant and the Illerbank some of the transmission network.

239. The National Assembly is discussing a law which would put all the electrical industry (planning, generation, transmission and distribution)

under a new Turkish Electrical Corporation (TEK) with the DSI acting as consultants and contractors for hydroelectric projects. This reorganization should speed up planning, designing and decision making, as well as utilizing the available professional staff to better advantage. However, there is great opposition from the Municipalities who fear the loss of their profits from electricity distribution. It might be best to proceed with the unification of planning, generation and transmission, leaving urban distribution with the Municipalities until its integration has been studied further. There seems much plausibility in the argument that the Municipalities, because they are close to the consumer, are in the best position to deal with his problems.

240. Taken as a whole, the return on investment in the electricity industry has been poor. One result of this is that, in recent years, it has been able to provide only about 15% of the money needed for expansion. The Municipalities have in the past made sufficient money to direct some of their profits from electricity distribution to other purposes, and have still been able to finance all but the major expansions of distribution networks. The failure to earn an adequate return on investment has become particularly noticeable in the case of Etibank during the current period of heavy investment in transmission lines and major thermal generating stations. Even allowing for the unusually high rate of expenditure in this period, the 10-12% of capital obtained from self-generated funds on present tariffs is too low. In the main, this is because since 1959 the Government has ordered Etibank to give discounts of 30% on electricity supplied to Municipalities and 20% on supplies to industrial consumers. The electricity industry anticipates that these discounts will be abolished next year, in which event Etibank should be able to supply 30-40% of the capital required for thermal generation and for transmission. The mission hopes that nothing will occur to delay further the removal of these discounts.

241. Even when the discounts have been removed, there is an urgent need for a review of the rate structure to ensure that the return on investment is adequate and that appropriate differentials are maintained between industrial and other rates. A comparison of electricity prices with those in France, West Germany, Belgium and Italy shows Turkey with the lowest rate for residential consumers and the highest rates for industrial consumers.

Petroleum

242. Self-sufficiency in crude production is likely within the next three to five years, but thereafter production may not keep pace with growing requirements. Refined products are almost completely supplied by local refineries, and further increases in demand can be met by expanding facilities. A cloud of uncertainty has hung over the petroleum industry, however, due to disputes over building and operating a pipe line and, more profoundly, to unsettled policy in regard to the role of private (foreign) operators.

243. When the basic petroleum law of Turkey was enacted in 1954 1/ it was widely accepted that Turkey lacked the capital to develop its oil potential

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1/ Law 6326, later amended by Laws 6558 and 6987.

fully and rapidly. Thus it was assumed that foreign investors would participate in the industry. A licensing arrangement was specified, with specific limitations on holdings (Turkish or foreign).1/ Liberal inducements were offered to foreign investors (such as limiting taxation to 50% of profits calculated on a prescribed basis, including a depletion allowance of 27-1/2% not to exceed 50% of net income). The provisions of the Law were broadly similar to those in vogue in Middle East oil producing areas at the time.

244. Crude oil production began in the early 1950's by a Turkish Government company (Turkiye Petrolleri Anonim Ortakligi - TPAO). TPAO accounted for virtually all the output in Turkey until 1962, when private production began to be significant. The trend of production has been steadily upward, in recent years, with private output growing rapidly, as follows:

	(in thousands of tons)		
	Total	Private	Percent
1962	596	85	14
1963	746	132	18
1964	921	290	31

245. The trend is continuing. During the last quarter of 1964 private producers accounted for almost 40% of total production, and in the early part of 1965 private output closely approached TPAO output.

246. Turkey's crude oil prospects are considered favorable by TPAO and the private oil firms. Both groups are guarded about setting specific reserve or production targets for the near future, yet both believe that a 700 million barrel figure for reserves (equal to more than 100 million tons), recently published in a trade publication, is conservative. Using this conservative reserve estimate, an output of 100,000 barrels per day in a few years is likely as compared with 22,000 barrels per day produced in December, 1964.

247. In refined products, the Batman refinery of TPAO had its first full year of commercial production in 1956 when it produced 275,000 tons of products.2/ By 1964, output had more than doubled to 561,000 tons. The refinery had an input capacity of 600,000 tons, almost equal to TPAO's crude output. Two other refineries came on stream in 1961 (IPRAS at Izmit) and 1962 (ATAS at Mersin). The IPRAS refinery is owned by TPAO and the Cal-Tex group. Its output in 1964 was one million tons using wholly imported crude. The Mersin refinery is controlled by Mobil, Shell, and BP; its output was 500,000 tons using imported crude for about 90% of its input.

1/ There are nine districts, with licenses limited to eight holdings of 50,000 hectares or less, with a maximum total of 150,000 hectares in any one district. Two of the districts are partly (III) or wholly (IV) closed to exploration.

2/ 60% fuel oil, 14% asphalt, 19% gasoline, and the rest diesel.

248. Total refinery capacity is at present over 5 million tons of crude per year (Mersin 3-1/4 million, Izmit 1-1/4 million, Batman 600,000 tons). Both Izmit and Mersin are planning to expand capacity (Mersin formally applied for permission during the mission's visit) so that capacity by 1968 might be estimated at over 7 million tons and could be expanded further when market demands warrant.

249. Imports of mineral fuels and related materials have ranged from $40 million to $77 million between 1958 and 1964, mainly accounted for by refined products until 1960 and by crude oil since then, as indicated in the accompanying table:

MINERAL FUEL IMPORTS

	Tons (thousand)	Value $ Million	Average Unit Value $
1958	861	40.3	46.8
1960	1,268	51.5	40.6
1962	3,090	77.1	25.0
1964	3,527	67.7	19.2

250. The marked rise in import tonnage is due partly to the change in reporting, since petroleum imports prior to 1962 were partly financed under military aid and not included in commercial imports. Also, imports prior to 1962 were largely in refined products. From 1962 onward, imports have been almost wholly crude oil, with lower unit values than refined products.

251. The mission's projections on future requirements are based on crude oil equivalent figures. Total civilian requirements were 3.6 million tons in 1962, almost 4 million tons in 1963 and almost 4.5 million tons in 1964. With growth of 8% per year, consumption would be 6 million in 1968 and 10.5 million tons in 1975. The 6 million ton target for 1968 could be wholly supplied from domestic output, assuming that adequate and reasonably priced transport is available from the oil fields to the refineries. It is less likely that the 1975 target of 10-1/2 million tons could be wholly met from domestic production, unless new reserves are discovered.

252. For purposes of estimating foreign exchange requirements of petroleum imports, the mission estimates import requirements at zero for the years 1968-70 and rising by $7 million per year thereafter. The import projection implies Turkish crude oil production rising from about 6 million tons in 1968 to 8.5 million tons in 1975, as compared with the estimated rise in consumption to 10.5 million tons crude equivalent in 1975.

253. Policy Issues. Petroleum issues have generated very strong feelings in Turkey, and the economic interests of the nation have become beclouded by partisan debate. This in itself is a bottleneck to needed investment; the most immediate result has been a delay in building a much needed pipe line, from the major oil fields in eastern Turkey to the Mediterranean, but the uncertainties may adversely affect longer-range exploration activities and production policy. Since various issues have become diffused, it is best to approach the controversy from an understanding of marketing and pricing arrangements.

254. Refined products in Turkey are marketed by the foreign companies in competition with the Turkish Petroleum Office. This State Organization was set up in 1941 to assure a continuing supply of petroleum products during World War II. In the late 1950's, before import quotas on oil products were relaxed, the Petroleum Office signed a 20-year contract for Cal-Tex to supply its import requirements; the arrangement was later changed so that the requirements could be largely supplied from the IPRAS refinery, which is operated by TPAO and Cal-Tex under a partnership agreement by which TPAO can buy out Cal-Tex at the contract's expiration. The State marketing operation has become less profitable due to a number of factors, including an inability to compete on salaries and wages, basing the selection of agents and dealers at least partly on social and political consideration, and aggressive competition from private firms which offer credit and other inducements to customers. The legislature is now considering a proposal to merge the Petroleum Office and TPAO into an integrated State Economic Enterprise in oil; it is thought an integrated agency would be better able to compete with the large foreign private firms.

255. Product pricing is based on import parity prices (foreign produce prices plus transport, insurance, etc.). Ceiling prices for refinery realizations are set by the Government; wholesale and retail prices include a variety of import duties, excise taxes - varying from product to product - and allowable distribution margins. The effect of the import duties is heavily to favor domestically produced oil. 1/

256. Depending on the product mix and the crude used, the duty differential may range from, say, $1.75 per barrel for heavy crude to, say, $2.40 for a 35° light crude from the Selmo field. As long as TPAO was the sole domestic producer, such import duties offered protection in competition with refineries operating on imported crude - at the expense of the consumer. As Mobil and Shell began to produce more of their refinery output from domestic crude, however, they also began to benefit from such protection. Furthermore, they benefited by a larger amount per barrel because they produced a larger percentage of the more heavily protected light products.

1/ The difference in duties on imported and local crude oil is estimated at approximately:

$4.80 per barrel of gasoline
$2.10 per barrel of kerosene
$3.10 per barrel of diesel oil
$1.50 per barrel of fuel oil

257. This situation is anomalous in that domestic consumers are taxed for the ultimate benefit of foreign interests. In fact, however, the duty protection just about offsets very expensive transport costs, since the crude oil must be moved by rail or truck from the producing fields to the refinery at Mersin at a cost of about $2.00 per barrel. When and if a large capacity pipe line is installed, transport costs can be reduced to 50 cents per barrel or less. At such time, the present high import duty structure will clearly be anachronistic and harmful to Turkey. But to remove it before reduced transport costs become a reality, or other compensatory adjustments are made, may reduce oil company revenues (both to TPAO and private foreign companies) to the extent of endangering prospects for increased oil output in Turkey.

258. The transport task would be enormous if all the oil were to be moved by rail. It would add 100% to the total ton-kilometers handled by the Turkish railways at present, and with the load concentrated in the eastern area. Even if this were physically feasible, it would be far less economic than the construction of a pipe line.

259. The previous government announced that a crude oil pipe line would be built by TPAO. Planning has begun with the help of a foreign engineering firm, but TPAO had not (at least until April 1965), discussed its plans with the private companies. The latter have contended that, since they are likely to be major users of the line (TPAO's 1964 output was fully absorbed at the Batman refinery), they should have a voice in the location, size and equipment of the line, and assurance that rights of access and charges will be reasonable. Questions related specifically to the pipe line are complicated by broader controversies, including oil nationalization, the price of imported crude[1/], and whether or not TPAO should have a privileged position in regard to exploration licenses. The responsible Ministers have urged moderation on both parties. Talks with a view to cooperation were supposed to have begun early in May, but the mission is not aware whether progress is being made. Once agreement is reached, a suitable pipe line probably could be brought into full operation within two and a half years from contract signing, provided finance is available. This is a project of major importance to Turkey and it should be pushed forward as rapidly as possible.

Coal and Lignite

260. Turkey has good reserves of coal and lignite (nearly 100 years' supply at present outputs). Production is adequate for present consumption though none is exported. It is mined by the Turkish Coal Enterprises (SEE), which in 1964 produced 4.5 million tons of salable bituminous coal and 2.5 million tons of lignite. The four big consumers of coal (about one million tons each) were the railways, the electric power stations, the steel industry (for metallurgical coke), and the other industries. Much of the lignite is used near the mines by electric power stations or for fertilizer production.

1/ A provisional discount of about 10% from posted prices was granted by the major importers in June 1964, but the price issue was not considered closed by this action.

261. Over the period from 1964 to 1972, demand for coal is expected to increase from 4.5 million tons to 5.6 million tons, and for lignite from 2.5 million tons to 4.5 million tons. Investments of TL 250 million in coal and TL 120 million in lignite are planned to enable these amounts to be produced. To produce more than 5.6 million tons of coal would mean sinking new pits and these could not be in operation by 1972. But planning for any new pits is held back by uncertainties in the SEE about Turkey's future energy policy, i.e., the role to be played respectively by electricity, oil, coal and lignite.

262. The efficiency of this State-owned coal and lignite industry has been considerably improved in recent years. Coal and lignite prices have increased little in the past five years and are cheap by European standards (e.g., coal prices are below those of West Germany). According to officials of the Coal Enterprises, Turkish coal is sufficiently low in price to be exported to nearby countries, should any small surplus develop.

263. Output per man-shift rose by 44% between 1960 and 1964, turning previous losses into small profits in 1963 and 1964. But the true profit is understated because, by Government decree, a good deal of coal is sold at artifically low prices. The Coal Enterprise loses (i) on its manufacture and sale of coke; (ii) on its sale of coal to gas plants; (iii) on its sale of lignite for fertilizer manufacture; and (iv) on its sale of lignite for household and for some industrial uses.

264. As was said above, the Turkish Coal Enterprise expects to invest TL 400 million in coal and lignite between now and 1972. About a third would have to be financed from fresh borrowings. The company should be able to service this extra debt provided that it can carry out the program agreed by the Government to allow all SEE's to charge the market prices for their products or for the Government to give open subsidies where, for social or other reasons, it wishes to hold particular prices down.

Conclusions on Turkey's Energy Position

265. In view of the mission, the energy position is very encouraging. Turkey's small coal and lignite industry has considerably improved its efficiency and Turkish coal is cheap by European standards. Turkish electricity is not cheap at the moment but the electricity industry is expanding fast to try to keep pace with the increase in demand. The hydro potential is extremely good and the industry has competent technicians. If the reform of the organizational structure can be carried through, electricity prices can be freed, rate differentials adjusted, and the salary scales for technicians can be increased, then the prospects are excellent. In petroleum, the position is more complicated. The recent oil discoveries have opened great hopes that Turkey can become, and perhaps remain, self-sufficient in petroelum products. But political debate has left very uncertain just how and when this will be accomplished.

E. TRANSPORTATION

266. From a physical point of view, transport in Turkey is in general adequate to meet present needs, and transport shortages are not a bottleneck for economic growth. In particular, road construction and improvement have made considerable progress; ports have ample capacity for present traffic and in most cases for considerable traffic growth; the railways can move all the traffic offered, though some shortage of wagons still prevails during the three peak months September-November.

267. However, the large financial losses to the Government, resulting from providing and operating the various transport facilities, are a serious drain on the budget, reduce resources available for investment, and thus indirectly restrain economic growth. In recent years, highway expenditures exceeded revenues from road users by amounts in the order of TL 500 million. In 1964, the deficit of the railways was given as about TL 413 million, and this figure was too low because of inadequate depreciation charges. The loss on coastal and ocean-going shipping totaled about TL 90 million, and the loss on aviation was about TL 18 million. Port operations show a profit, but this is only because depreciation and interest on the investments for these facilities are not charged to the agencies operating them. If proper depreciation charges were accounted for, the total annual loss to the Government on transportation would be well over TL 1 billion. This loss on public transport facilities represented a substantial diversion from possible public investment, which in 1964 totaled TL 5.5 billion.

Roads

268. In the last decade, the improvement of highways has been spectacular. But there are still gaps, both in the State highway network, and even more so in the neglected provincial systems where roads are still below standard. Judging by the 1965 draft budget, the need for putting more emphasis on the improvement of provincial and village roads is now recognized by the Government. It is alarming, however, that a large part of the main system has deteriorated seriously as a result of heavy overloading of vehicles and insufficient road maintenance, and in some instances of either unsatisfactory design or construction below specifications. Heavy investment losses have already occurred, and strong measures, particularly enforcing axle-load control, are urgently needed, otherwise further road investments would be wasted. Consideration should also be given to putting more emphasis on modest betterments of existing roads, rather than, as in the past, on complete reconstruction to high geometric standards for traffice to be expected in 15 to 20 years' time.

Railways

269. Railway deficits, which had been briefly corrected in the stabilization of 1958, began to emerge again in 1959. Since then the rise has been sharp due to competition from the road, old-fashioned equipment, overstaffing and poor management. The railways lag far behind in the execution of the

Five-Year Plan; and as a result, the expected improvement in carrying capacity and efficiency has not materialized. A third of the equipment is over 35 years old; dieselization has only just begun; track is below standard on about 50% of the system. The delay in the execution of the railway program is largely due to the desire of the Turkish authorities to manufacture domestically as much as possible of all railway parts, components and rails. They justify local manufacture by the foreign exchange shortage and the need to encourage local industry. As a policy, local manufacture may have been carried to excess in this case; certainly it has caused serious delays in the railway program. But this big lag in the railways' execution of their investment program does not constitute an immediate threat to Turkey's economic growth - the combined carrying capacity of rail and road along the trunk routes is adequate for Turkey's current needs.

270. More worrying is the absence of a proper plan for the railways. What is needed is a firm reorganization and rehabilitation program based on the railways' expected share of Turkey's total traffic flows. The present "Railway Plan" does not meet this requirement. It is largely a shopping list prepared by the railways of improvements they would like to see made in their system.

271. Apart from a proper rehabilitation plan, there is need for a management reorganization plan, so that the railways can be run as a competitive enterprise. This is currently being studied under Law 440. The Law presents a difficulty, however, in that it requires a similar management structure for all SEE's and this means, for the railways, concentrating both direction and management into a small central committee of railway managers, employees and Ministry civil servants. But in the case of a very large railway network such as Turkey's, the need is to decentralize and to delegate day-to-day management to qualified and experienced personnel in the regional divisions. At the center, policy decisions should be separated into direction and management with direction vested in a Board with a wider representation than that contemplated by Law 440. Indeed, to keep close contact with the market, there should be some user representation on the Board, perhaps via the Chambers of Commerce and Industry. Recommendations along these lines have been made by Dr. Frohne, former President of the German Railways, who is advising the Turkish Government on their railway reorganization. At present, Law 440 is not sufficiently flexible to allow the full implementation of these recommendations.

272. Finally, there is an urgent need for a clarification of road-rail policy issues, to provide a basis for projecting rail traffic expectations. As explained later, road transport enjoys some inequitable advantages, and definition of Government policy towards road transport regulation and taxation is of great importance to the railways: there must be a reasonably reliable railway traffic forecast before there can be a sound long-term investment program.

Ports

273. Over the past decade large investments have been made in port facilities; the program for the main existing ports is about completed and there is ample capacity. However, contracts have recently been let for the construction of three new ports in Antalya, Hopa and Bandirma; and Iskenderun will be extended with the help of U.K. financing. To the mission's knowledge, adequate economic studies, including comparisons of alternatives like lighterage or the use of existing neighboring ports, were not made for any of these projects.

Shipping

274. In the past decade, coastal shipping traffic has declined by half. There is excess capacity and no new investments are needed (with the possible exception of some special vessels like tankers). Higher license fees for trucks could divert back to coastal shipping some of ores and building materials which now go by road. But apart from this, and perhaps for some coastal tourist traffic, the activities of coastal shipping should be curtailed and the TL 80 million loss made in 1964 slowly reduced. In international shipping, the Turkish Cargo Lines, a State Economic Enterprise, also runs at a loss, albeit a much smaller one (1964: TL 11 million) partly due to some of the fleet being old and uneconomic. There are plans to replace some of the very oldest ships by new, and, on the face of it, maritime transport is an enterprise where Turkish wage levels and experience would seem to indicate possibilities of profitable investment. But it would be best not to spend these large amounts of foreign currency until the economic justification for these projects has been properly evaluated. The mission was not able to determine if such an evaluation has yet been made.

Airlines

275. The Turkish Airlines, also a State Economic Enterprise, has a small fleet of 20 aircraft and operates mainly on internal routes, where it has a monopoly. It has made little impact in capturing freight and passenger traffic and operates at a loss, mainly because of the low utilization rates of its aircraft (4-1/2 to 5 hours a day). If Turkish Airlines are to stay in normal international operations, expensive new jets would have to be purchased and this would require careful economic justification. They might stay in international operations by continuing to use their old planes for charter flights - Turkish workers going abroad, tourists coming for package holidays, etc.

276. The airline deficit is being reduced but current efforts to improve efficiency need to continue, especially in connection with the problems of overstaffing, large inventories and unproductive assets. Like many similar large and developing countries, Turkey should have a fast rising internal air traffic. Many possibilities need examining, including perhaps the granting of concessions to private operators to fly small planes in areas with low

traffic density where the State airline would make losses.

Istanbul

277. As Istanbul has by far the biggest urban concentration in Turkey and straddles the link between Asia Minor and Europe, its traffic congestion poses special problems. To solve them means heavy expenditure (e.g., a proposed TL 600 million subway) and there is a need to coordinate plans (at the moment there seems little of this). If the export of fruit and vegetables from Asia Minor is to grow, there is particular need for improved truck and rail ferries across the Bosphorus.

Transport in the Future

278. Total transport has increased considerably over the past years, in line with the country's economic growth. It is not possible to express the increase in a percentage since road transport has taken by far the largest share of the increase, and for this type of transport no reliable statistics are available. The Plan envisaged that the railways would take the larger share of traffic increase but this expectation has not been realized. In both freight and passenger transport, the trucks and buses have taken over the main streams of traffic of medium and even long distances between main towns. Contrary to what one would expect, the railways have been left with a large proportion of short-distance "stopping" traffic and those transits which involve small chance of backhauls. This uneconomic traffic distribution results partly from under-taxation of road transport and partly from the rigidity in railway rate-making permitting the small and highly competitive truck and bus firms, still unimpeded by social security and other welfare arrangements, to cream off much profitable traffic. These developments in road-rail competition indicate that a review of Government transport policy is needed. Of equal import, the developments provide convincing evidence that free enterprise in trucking and busing can produce plentiful, efficient and cheap transport.

279. The intention of transport coordination as expressed in the Plan have not yet been realized. Two draft laws as presently conceived deal almost entirely with the detailed control of road transport by a Government department (regulating carrier authorizations, routes, pick-up and unloading points, rates and charges, and many other aspects of road haulage). Rather than instituting such an elaborate system of direct controls, it would seem better to achieve the desired distribution of traffic by leaving each agency free to compete for that traffic which it can carry most efficiently. But to obtain the most economic means of transport for each route and commodity, equalization of the conditions of competition is a necessity. Over the past five years, vehicle owners paid in license fees and fuel taxes about half of the annual cost of the roads although the situation improved in 1964. Bus fares and truck rates are particularly low along improved routes. For example, the cheapest bus fare for the 450 km. from Ankara to Istanbul is the incredibly low figure of TL 15. Serious consideration should be given to bringing road user taxes to a realistic level by a program, to be implemented over

a suitable period of years, for greatly increasing the annual license fees of trucks, buses and taxis, all of which make profits from the roads.

280. The present license fee for a truck is about TL 200 a year. The mission believes that this could well be raised to, say, TL 10 a day (and buses and taxis proportionately). At this level, the yield would be about TL 400 million a year. This would cover the fiscal losses on the roads, and by diverting some traffic to the railways and coastal shipping, it would also help to reduce deficits there. The mission fully realizes that this is a major policy recommendation with wide repercussions, but notes that the First Plan document states that "the principle of asking those who use highways to pay a reasonable amount towards maintenance and depreciation costs will be adopted." There will be great objections on the part of road transport users to license increases of this magnitude. But TL 10 a day is still a very small proportion of daily receipts for truck and bus operators and, with adequate notice, the necessary adjustments in the road transport industry could be made without dislocation.

Transport Planning

281. At present, responsibility for planning, construction and operation of transport facilities is too widely diffused. The Ministry of Transport and Communications, which is the logical body to control and give guidance on policy and investments, is neither organized nor staffed to take on the task. Fortunately, the reorganization of this Ministry is currently under study and the opportunity could be taken to include in the Ministry a permanent transport coordinating body. It would be a prime objective of that body to draw up, in close cooperation with the SPO and the various agencies involved, a 10-year Transport Plan, the first five years in detail and the later years in more general terms. This coordinating body would need to include very competent and experienced Turkish specialists in the different aspects of transport who might well be supplemented by foreign technical assistance. Until some such body is set up, and a proper plan prepared, transport coordination in Turkey will continue to be much talked about but it will still remain unrealized.

F. TOURISM

282. The contrasts between Turkey's tiny present tourism industry and those of her near European neighbors are striking. For every tourist that now visits Turkey, nearly a hundred visit Italy, Yugoslavia and Greece. Yugoslavia and Greece now each receive about $100 million a year from tourist receipts, and Italy and Spain about $1,000 million. Turkey earns $8 million. Yet Turkey's natural attractions do not compare so unfavorably with her near European neighbors. Her climate is as good, the beaches and the scenery are as attractive, and she has a wealth of historic sites. But all these potentialities are as yet unexploited.

283. Only about 150,000 tourists a year visit Turkey and the biggest group of these are not Europeans but Americans. The typical tourist visiting Turkey is an American who comes by plane to Istanbul, stays an average of about four days in the city and its environs and then leaves the country. Some come to the port of Istanbul on a cruising liner and stay for an even shorter time. There is little sign of the great waves of north European car travelers who tour and stay in the country for over a week, nor of the charter flight visitors who come to a seaside hotel on a package holiday and stay for two weeks.

284. Turkish authorities believe, however, that by 1972 the flow from Europe will grow enough to increase the receipts from tourism from the present $8 million to the $100 million a year level which Greece reached in 1963. This over $90 million increase in receipts from tourism by the end of Turkey's Second Five-Year Plan - remembering that total export receipts now amount to only $400 million - is one of the most important elements in her attaining viability, so it is important to examine with some care the likelihood of success.

285. If this target is to be met, two big changes will have to occur. During the decade 1963-72, the number of tourists visiting Turkey will have to rise to one million: a sevenfold increase. Also, the average amount of foreign exchange received from each tourist will have to double, from about $50 to $100 a person.

286. At first sight, these two targets may appear grandiose, but neither is impossible. Over the decade 1954-63, both Greece and Yugoslavia increased their number of visitors at this rate, and Greece, Italy and Spain all currently have receipts of $100 per tourist or more. The question is: can Turkey in 1963-72 repeat the performance of these other countries?

Attracting the Tourist

287. The reasons why a mass invasion by European tourists has not taken place are various, and they reinforce each other. Turkey remains a long way by car for the visitor from north of the Alps. Until recently, the roads were not good for the whole distance and insurance and customs formalities for cars entering Turkey were not straightforward. This is now changing, but it takes time for the improvements to become widely known. Also, it is still difficult

for a car tourist to make a visit to Turkey part of an attractive and varied round trip, for there have been delays in opening the car ferry service linking Turkey with Italy, Greece and Israel.

288. Secondly, and most important, there are in Turkey very few groupings of tourist facilities of the kind which attract a large and regular flow of holiday makers. The modern tourist expects to find concentrated into a few miles of coast, hotels, motels, camp-sites, beach facilities and night entertainment to complement the natural beauties of sun, sea and sand.

289. Thirdly, most Turkish hotelieres, outside the luxury class, are not yet practiced in providing the standards of accommadation and service expected by the northern visitor.

290. In short, Turkey's tourist industry lacks the overhead facilities and the experience for fast and continued growth. It was an important objective of the First Five-Year Plan to see the worst of these deficiencies rectified.

291. The Plan proposes a wide range of measures in regard to tourism, from improved foreign advertising to training schemes for guides and hotel staff, but the most important aspect is the underlying strategy to concentrate on facilities for the car tourist and to concentrate on improving facilities in a few areas.

292. The experience of other Mediterranean countries suggests that both these decisions were sound. If Turkey is to be visited by over half a million visitors a year, most will come by car and most will want to go to easily accessible and attractive coasts.

293. The three areas on which the First Plan concentrates are:

1. The Coast of the Sea of Marmara.
2. The West Coast Aegean area.
3. The Southwest Coast - Antalya.

294. Of these three, the Marmara area is to receive the largest share of the investment and Antalya by far the least. Again this seems correct. Most tourists will arrive in Turkey via the north and will want to see the historic attractions of Istanbul, before moving on to the nearest beaches, the Marmara Coast. Also, the Marmara area receives the big demand for holiday facilities from the inhabitants of Istanbul itself; and with this larger market, the tourist facilities can be more complete and their financial profitability more secure. In addition, the Marmara area is the one region of Turkey which already has some fair degree of tourist facilities. There is everything to be said for concentrating investment where the returns can be obtained quickly and where part of the overhead costs have already been incurred.

295. The second development area is on the Aegean Coast. It has all the climatic and historic attractions which take tourists to Greece and the Greek Islands. For a tourist who has come into Turkey from the north by car and has visited Istanbul, the Marmara Coast, and Troy, a trip to the Aegean Coast is a natural extension. Also, the area has Izmir, Turkey's second largest port, from which car ferries will link with the neighboring countries.

296. The third development area, Antalya, is to receive much less investment than the other two, and rightly so. Scenically, it is perhaps the most beautiful, but there is no real port and it is a long additional car journey from the other two areas with expensive road installations needed if the trip is to be made pleasant throughout.

297. While development of this strategy naturally will take time, the response from tourists has been slower than expected. In Turkey, as in many countries, the figures on the number of tourists are not exact because of the difficulty of dividing visitors into tourist and non-tourist, but there can be little doubt that the First Plan target - based on an increase of 20% per year - will not be reached. In the years 1962-64, instead of rising by 45% from 166,000 to 240,000, the numbers actually fell by 10%, to 150,000. Even if the planned 20% increase were achieved for the last three years of the Plan, the 1967 total would be 260,000, not 415,000 as foreseen in the Plan.

298. It is probable that one reason for the slow increase in visitors has been political uncertainty. The statistics show that in 1960, there was a marked fall in visitors because of the Turkish Revolution of that year. Similarly, in 1964, some tourists were probably put off by the uncertainties of the Cyprus crisis. It is very much to be hoped that such uncertainties will diminish and disappear for they certainly act as a drag on growth and make a difficult target an impossibility. The second probable reason for the slow build-up in numbers of tourists has been the slow implementation of some of the measures outlined in the Plan, such as training schemes and car ferries, which were all delayed to a greater or lesser extent.

299. Apart from disappointment at the very slow growth in the numbers of tourists, there is equal disappointment at the small amount of foreign exchange passing from tourists into official channels. It remains around $50 a person instead of having risen by now to about $70, as was hoped. There is good evidence of considerable leakage into unofficial channels; with the free market offering up to 30% over the official rate, this is not surprising. The First Plan assumed that by 1967 $100 would be received from each tourist, partly because improved facilities would be bringing new types of visitors who would be staying longer in the country. But the visitors must not only stay and spend, they much change more of their money through official channels.

300. It is understood that the Turkish authorities are considering the reimbursement to tourists of domestic taxes on the goods and services which tourists normally buy, provided that these are paid for with Travelers' Checks. Such rebates are common practice in a number of countries. If Turkey can institute a system which is attractive to tourists, the benefit to the official reserves should be considerable.

The Investment Program

301. In the First Five-Year Plan, the investment program originally put forward for tourism totaled TL 900 million. But since then, the potentialities have become better appreciated. So the target has been increased and now totals about half as much again: say, TL 1.4 billion for the five years 1963-67. Of this sum, about half is expected to be public investment and half private. These figures do not include expenditures on certain highways which are given priority because of tourism. If allowance is made for this, the total expected investment in tourism rises to say, TL 2 billion.

302. In the first two years, the rate of investment lagged behind the program, but this was not surprising considering that the program has progressively been increased. To try to speed things, in 1963 a new Ministry of Tourism was initiated. It is too early to see how big a difference this will make.

303. The biggest single item in the Tourism Plan is investment in construction, especially of hotels and motels which constitute about half the total investment outlays. At first sight, this construction should not be a very difficult task because investment in Turkey has, in the past, been heavily biased towards residential construction, especially of luxury apartment blocks. But there have been some unfortunate experiences with luxury hotel building - delays in construction often have lasted for years - and the hotel-motel program needs to concentrate on finishing quickly any project which is started. Secondly, there are considerable legal and planning difficulties to be overcome, especially with local authorities, before a stretch of coast can begin to sprout tourist construction. These formalities are to be speeded up with the new Ministry and new coordinating committees. Lastly, there is the shortage of capital. The capital market in Turkey is very underdeveloped and insufficient funds have been available for tourist construction on the scale which is planned. To improve the supply of capital, a much larger program of Government loans for private sector tourist facilities (particularly hotels and motels) was started in 1963. The funds come from U.S. AID sources through the Ministry of Finance to the Yakliflar Bank, which administers the loans. Applications for loans are processed by the Tourism Committee composed of ministerial and private sector representatives. In submitting details and costings of a project, the applicant must show that he is putting into the scheme an amount of money at least equal to that which he wishes to borrow, including all the necessary working capital. If the loan is granted, it can be for up to 20 years for construction, but shorter periods for equipment and furniture.

The loan is at 7% interest with a three-year grace period on repayment of principal and interest. These terms are very much better than anything which can be obtained in the open market in Turkey and tourism investment is further encouraged by tax concessions.

304. In the first two years of the operation of these loans, the Tourism Committee has received a rising tide of over 200 applications. The bottleneck has not been lack of funds, but the time taken to analyze, process and identify good projects. Inevitably, this is not a fast process and by the beginning of 1965, only about TL 25 million had actually been disbursed. Clearly, it is too soon to expect to see any results of this program in the form of increased tourist numbers or receipts.

305. Investment in construction forms the main but not by any means the only aspect of the Tourism Plan. Between 1958 and 1965, no fewer than 14 reports on how to improve tourism were made to the Turkish authorities by experts from many countries. They stressed the need for rapid action to establish hotel schools and guide-training courses. Belatedly, a start has been made with one hotel school in Ankara and with a few courses for waiters and guides. But the numbers covered are not impressive and, as with construction, the pace has been slow when measured against the needs and the possibilities.

306. We have noted the delays in starting car ferry services. There was a two-year argument about the feasibility of a Turkish Government Ferry and a long period to negotiate the contract for its construction abroad. Similar delays occurred in starting the private sector services. Finally, the difficulties over Cyprus have meant that, up to now, the link between Izmir and Athens has not been possible. But the ferry-boat terminal at Izmir is now complete and the services are starting, although belatedly and in a truncated form.

307. Apart from these main lines of action, a number of other small improvements have been started which, properly pursued, could yield well in the future. These include increased foreign publicity, the use of military jet runways for charter flights and new arrangements for tourists coming from Yugoslavia, Bulgaria and countries to the east of Turkey.

Prospects

308. When all allowance is made, it must be said that the Turkish tourist boom is off to a very slow start. Between 1962 and 1964, as mentioned, the number of tourist visitors actually fell slightly rather than increasing. Similar poor results show in foreign exchange receipts from tourism. In 1964, Turkey listed only $8 million of receipts instead of the $18 million expected for that year in the Plan. Indeed, Turkey remains in the extraordinary position of having countries all around her which have made a huge success of the business of earning foreign exchange from tourism, yet Turkey still has a deficit on her foreign travel balance of about $10 million in

1962-64. This deficit existed despite the difficulties facing Turks who wish to obtain currency for foreign travel. They can apply for only $200 each, and must pay 50% over the official rate for the money. Yet the foreign exchange spent by Turks traveling abroad (some on pilgrimages) exceeds her tourist receipts.

309. The end of the Second Plan in 1972 is a long way off, and growth rates in tourism in some other countries have been so fast that the target of $100 million by that date cannot yet be completely ruled out. However, it is more realistic to assume a lower figure for 1972. The 1965 program assumes that the 20% annual rise is about to begin and that 1965 will see over 180,000 tourists instead of the 150,000 of 1964. If a 20% per year rise in the number of tourists was now consistently achieved for the rest of the First Plan, and more of their foreign exchange passed through official channels, it would mean by 1967 about 260,000 visitors providing, say $20 million, instead of the 415,000 providing $41 million hoped for in the Plan. By the end of the Second Plan in 1972, a continued 20% per year rise would see 650,000 providing, say, $65 million, instead of the hoped-for one million visitors providing $100 million. To use any more favorable assumption would seem over-optimistic.

G. WORKERS OVERSEAS

310. When the First Plan was prepared in 1961, only a few thousand Turks had obtained jobs abroad and no significant increase was forecast. By the mid-Plan date, June 1965, the number abroad exceeded 160,000, and by the end of the First Plan may be over 250,000. In 1961, the remittances sent home by workers were too small to appear in the balance of payments. In 1965, they should be over $40 million, and by the end of the First Plan will probably be Turkey's greatest single foreign exchange earner: greater than tobacco, cotton, or hazelnuts. This is a remarkable development. But before discussing the balance of payments aspects, it is worth looking at its effect on employment and the acquisition of skills, and at related social questions such as the conditions of Turkish workers abroad and their re-absorption into Turkey.

Employment

311. The employment problem that Turkey will face in the coming decades has not yet shown itself in an acute form. Children born after World War II are only just getting ready to enter the labor force and, further deferring the problem, children have been staying on longer at school. The result has been that figures for the first two years of the Plan, 1963-65, show an increase in the active population of only about 1.5% per year, which is about half the rate to be expected in a few years' time. Even in this period of relatively slow increase in the labor force, the desire for jobs is such that five times as many workers applied for jobs abroad as could finally be placed. In the decade of the first two Plans, 1963-72, some 3-1/4 million extra Turkish workers will be seeking employment. There is no doubt that Turkey can supply all the unskilled workers that Europe will take and that if between a quarter and a half a million of them can find jobs in Europe, it will greatly contribute to Turkey's prosperity.

Types of Jobs

312. At mid-1965 the geographic distribution of the 160,000 Turkish workers abroad was roughly as follows: Germany, 80%; Belgium, 6%; Holland, 5%; Switzerland, 4%; Austria, 3%. From a survey taken in 1963, we have a great deal of information about the position of Turkish workers in Germany.

313. This migration has been of male labor (95%) and mostly young married men (middle 20's). They go without their families, live very simply (sharing rooms in lodging houses) and save a great deal of their income.

314. They work mostly in large groups, in large plants (metal working, assembly), or in construction. They appear well-motivated: anxious to learn the language, to learn new skills and then to go back to Turkey to a better job and to raise a family in a nice house and with better educational prospects for their children.

315. Early reactions of trail blazer groups must be treated with caution, but they are worth recording. On the whole, the German employers expressed satisfaction with the hard-working Turkish labor and were keen to get more of them. There was more complaint from the side of the workers. Over a third complained that they were misled as to the conditions they should expect, or that they could not save enough, or that they did not have enough time for study. The Turkish Labor Exchange Institute and the German Employment Service have had to deal with such a fast growing number of workers that they have had their hands full processing the applications. The programs for preparation courses before the workers leave for abroad and for the maintenance of cultural and other contacts with them while they are in another country have yet to be properly organized.

316. So far, only about 10,000 of the workers abroad have returned. Thus, Turkey has still to receive the benefit of the skills and experience which these men are acquiring, and it has still to face the problem of meeting their expectations when they return. The survey shows that most of them expect to get the job of their choice when they come back (skilled worker, driver, owning a small business). The numbers returning will probably build up to over 100,000 a year and the Turkish authorities have only just begun to tackle this very important question.

Repatriation of Earnings

317. The basic data come from the German survey. The average net earnings of Turkish workers in Germany are about $125 a month (about three times what they would earn at home). Since they are mostly serious young men who have gone abroad to learn and to save, living frugally and keeping very much with their own people, they have a high savings rate - about 40% of their net income: say, $50 a month or $600 a year.

318. The survey showed that even by 1963 two-thirds of them had learned to keep their savings in a German bank account and no less than 80% wanted some simple and financially attractive system for making bank transfers to their relatives in Turkey.

319. Up to the middle of 1964, no such system existed. In fact, the 25-30% discount at which lira could be obtained on the free market meant that no Turk who had worked hard and saved hard to get his money would transfer it at the official rate. The second half of 1964 saw the emergence of a new system designed to meet the needs of the Turkish workers abroad. This was:

a. The rate of exchange on transfer was made effectively 27% above the official rate. As multiple exchange rates are barred, this extra 27% took the form of the worker making a three-year deposit with the Turkish Bank at 9% interest per year tax free, and being able to draw at once an interest-free loan for the three years of the whole 127%. The Turkish authorities are watching the free rate and, if it becomes necessary to alter the terms so as to keep these workers' transfers competitive, they will do so.

b. The actual transfer has been made simple, inexpensive and reliable. If it is done through a bank the time is now down to about two weeks and a confirmation is sent to the Turkish worker as soon as the recipient has drawn the money. If it is done through the Post Office it takes a few days.

c. Apart from the 27% premium and the simple transfer system, workers are encouraged to repatriate their savings through official channels by two other valuable concessions: one on loans for housing and the other on handicraft credits. On housing loans, a worker abroad makes a deposit of between TL 5,000 and TL 10,000 on which he receives 6-1/2% interest. When he is ready to buy his house or apartment (which must be a modest one of not more than 70 square meters' floor space), he can get a loan equal to his own deposit plus up to four times his deposit. The loan is for 20 years, with a two-year grace period on repayment of interest and capital. An extraordinary attraction is that the interest rate on these loans is only 2% whereas on other loans for social housing the rate is 5% (and even 5% is a very low rate in Turkey). The handicraft credits (for buying tools and setting up as a small artisan) are similar to the housing credits but are less generous. Loans are for five years, with a one-year grace period, at 7%.

320. By mid-1965, this new system for transferring remittances was averaging some $4 million a month. For the full year, transfers of over $40 million were indicated, as compared with the estimate of $20 million in the 1965 Annual Program. Transfer at this rate would mean that about half of the estimated savings of the workers abroad in 1965 were coming back through official channels. The expectation is that when the system has been completely run-in, some two-thirds of the savings will come back this way. This is certainly possible provided that the conditions are such as to safeguard the value of the workers' savings and their unhindered access to those savings, and provided that the system covers all countries to which large numbers of Turkish workers migrate.

Numbers Abroad and the Balance of Payments

321. In each of the past three years, the number of Turkish workers abroad has more than doubled. The figures are, very roughly:

mid-1962:	15,000
mid-1963:	35,000
mid-1964:	75,000
mid-1965:	160,000

Clearly, this must level out, but at what level? An SPO estimate made in the 1965 program is:

mid-1967:	250,000
mid-1972:	485,000

Are these figures feasible?

322. This question must be set against the general background of labor migration. Since the war, the economic growth of many European countries has become dependent, to a greater extent than previously, on the import of labor from the less developed Mediterranean areas. In recent years, there have been several million workers involved. In 1963, Germany alone had 830,000 foreign workers and the number has continued to increase to about one million. France has over two million (including over half a million Algerians). Switzerland uses large numbers though, as in France, an important proportion of these are seasonal agricultural laborers from neighboring states. Belgium and Holland also import labor, though on a much smaller scale.

323. Until recently, the bulk of this foreign labor came from Italy, Spain and Algeria, with much smaller numbers from Portugal, Greece, Yugoslavia and Turkey. By 1962 and 1963 a change began to take place. As Italy and Spain became more developed, the numbers of workers they sent abroad ceased to rise so fast, and in the case of Italy, even fell. This gives the opportunity for the supply to be provided more and more by the less developed Mediterranean areas - Greece, Yugoslavia, Turkey, Algeria, Tunisia.

324. In conclusion, the prospect for a continued increase in the number of Turkish workers abroad is tied to economic growth in Europe. Over the short-term, the prospect appears excellent. Germany is anxious to increase its present 125,000 very considerably and talks in terms of an extra 100,000. France is arranging for its first 15,000. This makes the estimate of 250,000 Turks working abroad by 1967, the end of the First Plan, seem reasonable.

325. After that, the position is much more uncertain. For if Turkey were to have as many as half a million workers overseas by 1972, one would certainly need to assume continued fast growth in Europe and so a continued shortage of labor there; also, possibly, that Turkey would have moved on to supply some seasonal agricultural labor as well as long-term labor. On these assumptions, the figure of half a million by 1972 is not impossible for it would mean that Turkey's share of the European market for workers from abroad would have gone up from, say, 5% in 1965 to 10% in 1972 (very roughly). A change of this kind cannot be ruled out, but on the whole, a more likely assumption is that the figure will grow from about 250,000 in 1967 to, say, 400,000 in 1972.

326. How much would these 400,000 repatriate? If they each continued to save $600 a year, the total savings would be $240 million. But by 1972 real wages in Europe will have risen so these savings could be bigger; on the other hand, if some of the Turkish workers abroad were seasonal agricultural labor this would tend to reduce the figures. The mission believes that a reasonable planning assumption would be that workers' remittances through official channels will rise from the likely 1965 figure of something over $40 million to about $150 million in 1972 and that the workers' imports of goods under the "imports with waiver" heading will rise from $10 million to $50 million. This figure for Turkish workers' remittances of $150 million in 1972 can be compared with the present figures for Italy, Spain and Greece of, roughly, $550 million, $250 million, and $200 million respectively.

H. MANPOWER AND EDUCATION

Population

327. Population is now growing at the explosive rate of about 3% per year, and, with medical facilities spreading in country districts, it could rise even faster. The need for family planning is accepted, for otherwise the standard of living will rise only slowly and unemployment will mount. In the past, family planning has been illegal and few Turks have used it consistently; there is, however, widespread illegal abortion (estimated at half a million a year - about one for every three live births) and this threat to the health of mothers is an additional argument for family planning.

328. After a year's delay, the necessary law has been enacted and, when the medical authorities (in the form of the High Scientific Board) have decided which contraceptive methods may be advocated, the program can start. Surveys have shown that most Turks want to use family planning, accept that it is not contrary to their social and religious beliefs, and are anxious for a Government program. The preference appears to be for devices which can be used by women and for instruction via the women's own midwives and doctors.

329. The program is to offer a wide variety of methods and to educate through existing channels of communication and not by establishing special clinics. The program starts with one-week courses of instruction for members of the medical profession, instruction in family planning to all army conscripts, and instruction and facilities for women who attend hospitals for any kind of treatment.

330. As the scheme has yet to start, it is difficult to say how fast it will progress. The hope is that by 1972 half the married couples in Turkey will be regularly using some method of birth control.

Employment

331. As the children who will enter the labor force in the next 15 years are already born, no family planning program can reduce the employment problem between now and the end of the Third Plan. In the 15 years between 1962 and 1977 the labor force is estimated to grow by 6-1/2 million (i.e., by 50%). This projection is on the assumption that increased urbanization and changing habits of rural life will have considerably reduced the proportion of females seeking work. The anticipated changes seem excessive, particularly as family planning will allow women to offer themselves for employment for longer periods. Thus the available labor force may grow by more than 6-1/2 million. Even if industrial production grows at the fast rate assumed in the Plan, the estimate is that only 1-3/4 million extra workers will be required in mining, manufacturing and construction. This leaves around five million extra jobs to be found in Agriculture and Services, an increase of 50% over present employment in those sectors which already have widespread under-employment.

Training

332. In the very long run the education of children is basic to raising the levels of productivity. But in the next 15 years the GNP will depend mostly on the efficiency of those who are already in the labor force, so the training to be provided for them is vital.

333. The largest single employer is the Government. Of the three million workers employed outside Agriculture, nearly a quarter work in the public service or for the SEE's. Generalizations about manpower practices across such a large sector of the economy are bound to be overdrawn. But labor in general is very wastefully used; and for the higher posts, the method of selection has in the past tended to emphasize academic qualifications rather than practical experience. Also, the salary scales are too low to hold good people; the very top grade receives only $3,600 a year, or, say, $4,500 with fringe benefits. An inter-ministerial council has started to examine the utilization of civil service professional and technical personnel. Major reforms are needed and there is likely to be much opposition to change. Only a powerful body will have a chance for success.

334. In large-scale private industry, in contrast, the possibilities of scientific management have captured the imagination of those at the top, perhaps excessively if it is expected to solve too many problems too quickly. But it is most encouraging that universities and institutes are now giving advanced and middle business training, and that bright young men are taking these courses and looking for a career in big business.

335. As well as this recent emergence of professional management, Turkey is seeing the rapid growth of modern trade-unionism. In 1963, the labor law was liberalized and union membership is now about 420,000. Collective bargaining is achieving wage increases at such a rate that the need for wage restraint - to allow the savings required by the Plan - may become an important issue long before 1972.

336. The trade unions join with the Government and the employers in being anxious for much more training within industry but the in-service system at present is rudimentary. Since 1938, the law has required employers of more than 100 workers to set up approved training programs and the State was expected to institute apprenticeship schemes. Almost nothing has happened, except for a few isolated cases like the railway repair shops' training program and the SEE schools for textile operatives.

337. The Plan called for the training by private employers of 22,000 foremen and 234,000 skilled workers between 1963 and 1967. In the first two years only a few thousand workers have received any kind of vocational training, but with technical assistance from ILO and the AID the program is rapidly being formulated.

338. With a system of two years' universal conscription, Turkey has a large army of some 500,000 men. Some 43,000 get practical trade training and a much larger number learn to drive and to handle machinery. The Army provides a

teaching which reduces a 60% rate of illiteracy among conscripts to about 40% after two years. Also, the Army helps primary education in isolated rural areas by allowing conscripts who are lycee graduates to serve their two years as village schoolmasters.

Education

339. Expenditure on education in 1963 and 1964 just about kept pace with the amounts proposed in the Plan. It now accounts for 2.2% of GNP or about 15% of Government expenditure. This is about double the average of the 1950's but still looks rather low in comparison with many other countries. If the Plan targets continue to be met, the proportion will rise quite fast.

340. Primary Education. The five years of primary education (age 6 to 11) cover only about 70% of the children and only part of that 70% emerge literate. There is a great shortage of classrooms (over a quarter of the villages have no school at all); the pupil-teacher ratio is around 50:1; equipment is poor; and the children have to buy their own books. Yet local authorities pay so little of the cost (under 5%) that expenditure on primary schooling accounts for the unusually high proportion of about 40% of the Central Government's educational outlays. The program is to improve primary education and to expand it to cover the isolated rural areas. It is particularly expensive to cover these isolated areas and so the demands of primary education compete severely with other educational needs which the Central Government has to face.

341. Secondary Education. Secondary education is in two stages: age 11 to 14 where some 19% of the age group is covered, and age 15 to 18 where the coverage is only 8%. Until 1960, the secondary system was dominated by the lycees with their classical academic education. The lycee was both prestigious and the only means of access to the universities and to the higher ranks of the public service. Under the Plan a major effort is being made to switch the 15 to 18 year old students towards technical and vocational education.

342. Between 1962 and 1972 students at technical and vocational lycees are due to expand over eightfold while the classical lycees increase less than two and one-half times. But much of this vocational effort will be wasted unless a much closer liaison is established between the school program and the jobs for which the students are intended. The troubles with the present position are many. At the age of 14 it is difficult for children to choose a career as a skilled worker. The classical lycee is still the preferred path and thosewho get put into the vocational lycees are usually disappointed and rebellious. As a result, the drop-out rate is three times as high as in the normal lycee. The instruction is poor because industry easily outbids the school system for the skilled craftsmen who could be good instructors. Also, the training programs have not been geared to the current practices of large-scale Turkish industry. The employers have taken no part in designing the courses and find difficulty in using the students when they complete their course (less than 30% enter the trades for which they have nominally been

trained). Finally, there is no system of further training at work from which the student can benefit. There are very few on-the-job training programs and it is difficult to combine those who have learned their skills by experience and those who have been supposedly trained at a technical lycee. Some of these problems will be ironed out by the passage of time, but if this crash program of vocational schools is not to be very wasteful, it must be better integrated with industry. Even if this is done, it needs considering whether some of the resources being devoted to this expansion might not better be used for vocational training in industry itself of those already in the labor force.

343. Higher Education. Part of higher education is devoted to training school teachers, of which there is a great shortage. Primary school teachers graduate at age 17 from specialist secondary schools. Secondary school teachers usually receive their training at special institutes, some technical and some general. Secondary school teachers usually take university degree courses in addition to their institute training.

344. At the university level of higher education, Turkey has seven State universities with 54,000 students. There are also a number of specialist institutes, and 4,500 Turkish students are overseas. In all, only about 3-1/2% of the relevant age group get higher education and much of it is of poor quality. The classes are large (Istanbul University's student-staff ratio is 70:1); the teachers take additional jobs to supplement their income; instruction is hampered by lack of facilities and by shortage of books translated into Turkish; and courses relevant to Turkey's development are not as modern as one would wish. Yet change may be slow and difficult. Apart from the heavy financial cost involved in any improvements in higher education, it is never easy to combine the desire to preserve academic freedom with the need for rapid modernization.

345. The exception to this ingrained pattern is the Middle East Technical University (METU) outside Ankara, which was established in 1956 with foreign assistance. It now has 3,000 students in science and technology, with good equipment, and a student-staff ratio of 11:1. METU teachers are paid much above the State level and overall direction is in the hands of a non-academic President appointed on a five-year contract. It appears to attract vigorous and talented staff and students, as well as contracts for applied research. It hopes to double its numbers by 1970 and to add a new faculty of land utilization (forestry, agronomy, veterinary science).

Planning and Implementation in Education and Manpower

346. Current and investment expenditure on education is expected to rise very fast for the foreseeable future. For example, between 1963 and 1967 education investment outlays are due to rise 80%. But almost none of these educational programs has been properly costed and appraised. Before priorities can be properly determined in education, a much more detailed examination is necessary.

347. In manpower planning, the weakness is lack of executive authority between the SPO, which draws up the targets and sets down the necessary changes, and the Ministries, SEE's and private entrepreneurs who are expected to implement them. If the programs are to be effective, it is not enough to list the necessary reforms. The instructions must say in detail who is to take action. A powerful secretariat carrying the authority of the Prime Minister needs to be constituted to check continuously that instructions are being fulfilled.

IV. THE STATE ECONOMIC ENTERPRISES

348. There are currently some 132 State Economic Enterprises (SEE's) and the State has substantial participation in another 65 enterprises. Many of the individual SEE's have already been discussed in relation to their particular fields - electricity, mining, manufacturing, transportation, etc. There are also SEE's in other fields of great importance to economic development, such as banking, pension and insurance funds, crop purchasing. The SEE's are grouped together here for a more general discussion because their role in economic development is so important. 1/

349. Of the 60% of total investment allotted to the public sector, more than half is SEE investment. But their importance is even greater than the figures indicate. As pointed out in Chapter III, the manufacturing SEE's are concentrated in those heavy and complex growth industries whose efficient development is essential to the transformation of Turkey into a modern industrial society.

350. More basically, the SEE's embody the Turkish concept of etatism, meaning a pragmatic intermingling of State and private enterprise, with the State providing all the usual infrastructure of transport and utilities, and in the fields of credit and manufacturing stepping in to close those gaps which private enterprise is unable or reluctant to fill. That such a mixed economy should continue is not an issue in Turkey - the Development Plans are framed on this understanding. By nature, however, the SEE's have been the center of debate since their inception.

351. The inreased strength of private enterprise has added fuel to the debate. In the continued discussion in Turkey on whether the State or private enterprise should expand in particular sectors, there comes into play some feeling that private enterprise, especially foreign private enterprise, often does not operate in the best interests of the Turkish public and the Turkish State. Accordingly, the creation or expansion of an SEE sometimes appears as an attractive alternative to those who believe that private investment is likely to lead to excessive private profit or excessive transfers of profit to foreigners abroad. Government policy remains ambivalent on this issue.

352. Another controversial aspect of SEE operations, sometimes seen as an advantage, is that they can be instructed to temper their pricing policies to the needs of the poorer classes or their investment policies to the needs of the less developed regions of the country. This latter argument, of course, is part of a broader issue: how much autonomy should an SEE have? As early as 1938, the year of Ataturk's death, legislation was passed attempting to define the degree of autonomy of the SEE's, but the problem of reconciling management autonomy with control and inspection by the State has remained unsolved.

1/ For background, see the origins of the SEE's in Chapter II, and the growth of manufacturing SEE's in Chapter III.

Evolution of the SEE's

353. Under the legislation of 1938 (Law 3460), the SEE's were left relatively free to expand and diversify as they wished, provided they could get the funds. But the detailed administration of the SEE's was made liable to very considerable control. Responsibility for the appointment of all top managers was given the Council of Ministers; a High Control Board was established to report annually on each SEE's operations and price policy; each SEE was made responsible to a Ministry which had to report on whether the basic aims of the SEE's charter was being fulfilled; Committees of the Grand National Assembly were to review and criticize the reports. As a result of all this, policy direction and responsibility gradually became diffused between the SEE managers and many branches of Government.

354. Successful managers were those who became adept at pleasing the variety of agencies which reviewed their operations. The strict control over SEE administration meant that it was not possible to discharge surplus labor; indeed, an SEE manager would gain more credit for retaining unnecessary workers than for trying to economize on labor costs. The SEE manager also was subject to political pressure to build plants in particular districts. He, for his part, was anxious to enlarge his empire and there was no critical review of his expansion plans nor examination of particular projects to see if the costs were likely to be low or high. So unnecessary capacity was created and often by building plants in areas with few facilities where investment costs were bound to be higher. Also, some SEE's began to diversify into a variety of fields and interweave their operations. In 1951, an IBRD general survey mission to Turkey reported that the SEE's not only had high costs but that their prices were even more out of line. Even with high costs, the SEE's with their monopolistic position had been earning profits to finance their expansions.

355. In the 1950's, the profits of the SEE's (as a whole) began to disappear as the Government tried to hold back the rising cost of living. Many SEE's in transport, power and manufactures were instructed to hold down their prices. At the time, the SEE's involved in crop purchasing often paid generous prices for agricultural products as part of the political and social program of the party in power. Then the SEE's began financing both operating losses and their still uncontrolled investment programs by borrowing from the Central Bank and from commercial banks and by not paying their taxes due to the Government. Thus the SEE's became the major channel through which Government policy created the rapid inflation of the 1950's. Following the 1958 stabilization program, some TL 5.4 billion of the obligations of the SEE's were converted into 100-year debts with nominal interest and a moratorium on repayment. But, even so, many of the enterprises remain heavily over-capitalized.

356. The later 1950's also saw the growth of competition to the SEE's by Turkish private enterprise. In the field of transport, the highly competitive private truck and bus operators took traffic away from the railways and coastal shipping. In light manufacturing, especially textiles, new private plants began producing goods which outsold those of the SEE's, especially on quality and design for the market. Over a very wide field, the private sector began

to hire away from the SEE's and from the Civil Service many of the best managers and technicians, offering better rates of pay and working conditions for creative men.

357. These events of the 1950's, especially the inflation, intensified both domestic and foreign concern for the SEE's. After the 1960 Revolution, mixed teams of Turkish and foreign experts were hastily assembled with the help of OECD and AID, to make proposals for reforms. Before discussing what has come to be a major effort to reorganize the SEE's, it is worth noting that grouping the SEE's together covers over important differences in performance. Composite data on SEE operations are not available, and analysis of the available information is fraught with difficulties and dangers. But for purposes of establishing the recent performance of SEE's by sector, profitability figures seem to indicate clearly that losses have been concentrated on the Transport SEE's and that profits after tax in mining and to a lesser extent in petroleum have been appreciable. Manufacturing SEE's have averaged a small profit although one that is quite insignificant when compared to the capital employed. Unfortunately the losses on the railways have been increasing so fast (TL 222 million in 1961 to TL 413 million in 1964) that they have offset improvements elsewhere. In summary:

	SEE Assets Employed 1961	SEE Profit after Tax Average 1961-64	SEE Profit after Tax 1964
	(in TL Millions)		
Transport (Rail, Ships, Air, PTT)	5,375	-354	-415
Mining and Power (Copper, Iron Ore, Electricity, Coal and Petrol)	3,165	153	+315
Manufacturing (Steel, Cement, Paper, Chemicals, Machinery, Fertilizers, Textiles)	7,580	29	+ 37
Crop Purchasing	n.a.	25	+ 28
	16,120	-147	- 35

The Reorganization Effort

358. The most obvious outcome of the reorganization effort to date has been the passage of two new Laws, 440 and 441 of 1964, which try to control the investment programs of the SEE's and to redefine the administrative controls so that SEE's can concentrate on efficiency and on increased ability to compete. Law 440 set up a Reorganization Committee which was given only two years to study and report separately for each of the 132 SEE's on how

charters should be rewritten and organizations revitalized. The High Control Board is studying the financial participations of the SEE's and will report to the Committee on possible liquidations, mergers and reduction of interlocking interests. Capital reconstruction of each SEE (including revaluation of assets) is being studied by the Committee itself.

359. The role of the Reorganization Committee and how long it will take to complete its work is not very clear. It is composed of senior civil servants who fill other full-time positions of great responsibility so that they can devote only a fraction of their energies to the work of the Committee. Moreover, it has not been given a large or senior secretariat, nor has it been supplemented by much technical assistance. If its job is conceived of as clearing away the old restrictions, primarily by redefining the functions, objectives, and management prerogatives for each SEE, so that each SEE can then make its own detailed proposals on its own new methods of operation, a large Committee secretariat is not so necessary; but, if the concept is that the Reorganization Committee will analyze and make proposals for each SEE, it will need a big staff and a much longer time than two years.

360. Apart from the shortage of staff, the task of the Committee has not been eased by the fact that the High Control Board, which has been inspecting and reporting on the SEE's for over 25 years, has not been overly enthusiastic about the reorganization program. The Committee itself is still struggling with the very difficult task of implementing Law 440 which seeks to reconcile the aim of giving the SEE's autonomy in their pricing, employment and day-to-day competitive operations while retaining in some measure the SEE's answerability to Ministries and to the Assembly. It seems generally agreed that to some degree this outside control or administration must be retained; indeed, the concept of such control is deeply entrenched in Turkey.

361. It is hoped that the Second Law, 441 of 1964, will help to reverse the previous history of uncontrolled SEE expansion and diversification. The Law sets up a State Investment Bank (SIB) to examine the feasibility and profitability of proposed SEE investments. The SIB receives deposits from the surplus funds of the SEE's and transfers from the budget, and issues bonds in exchange for part of the surpluses of the Pension and Insurance Funds. In principle, each SEE which requires outside finance for a project has to go to the SIB for a loan. Before granting a loan, the SIB has to be satisfied that the project is part of the Development Plan and has been approved as such by the SPO and that the project is feasible and economical in its own right.

362. As the SIB has been in operation for a very short time it is not possible to say just how all this will work out in practice. With the previous history of uncontrolled investment the need for a better appraisal is clear. To some extent the existence of the Plan and the SPO provide that check and coordination. But the SPO does not have the time or the staff to investigate fully each proposal and the SPO is naturally concerned more with the need for capacity to carry out the Plan than with the detailed merits of a particular

proposal. To be able to perform its task properly, the SIB must have a staff adequate to look at projects put forward over the whole range of the Turkish economy, for the SEE's work in nearly all fields. There is a great shortage of such people and the SPO and the SEE's themselves are always trying to recruit. Increased technical assistance in this field would be valuable.

363. Another major issue in connection with the SIB is the extent to which it will be allowed to make free and final decisions on whether proposed SEE investments proceed. From the amount of funds available to the SIB, it would appear that about one-third of the SEE investments will be financed by SIB loans and the rest from internal funds or other sources. If the SIB were to function as a normal bank, its influence would be much greater than this one-third figure suggests, for to sanction any loan, it would have to examine the overall creditworthiness of the SEE and could comment on its other investments or operational policies. But under Law 441, the SIB is empowered to consider only the financial feasibility of the particular projects submitted to it and, if the project taken in isolation is sound, it must supply the money. Disputes between the SIB and the SEE on the likely financial feasibility are to be referred to an inter-Agency Arbitration Committee. It is too early to say how effective the SIB will be in influencing SEE investments.

Future Prospects for the SEE's

364. On the organizational side, the prospects are that eventually the SEE structure will be rationalized and made more efficient and competitive, but the pace of change, so far, has been slow. General prescriptions for reform are bound to be of limited use for they have to be applied to the particular circumstances of each SEE and of each plant. 1/

365. Even when a SEE has been financially reconstructed and its functions delineated, it will take years to devise, to institute and to learn to use effectively, appropriate accounting and internal control methods. Senior SEE managers cannot be expected to assume, overnight, new attitudes to cost and efficiency nor acquire at once a new sensitivity to market requirements. Bright new men cannot be quickly trained and recruited. But because the time required for effective change is bound to be long and the task is so diffuse and difficult, the need for a greater sense of urgency is all the more important.

366. There is no need to wait until proposals for all 132 SEE's are ready. The most important SEE's should be selected and efforts concentrated there. Outside consulting help and technical assistance could, if properly used, be a most useful supplement. But, in the main, improvements must depend on Turkish efforts and Turkish attitudes. It would be naive not to expect these to be constrained to some extent by past and present positions of the SEE's and deep-seated feelings regarding the social role of the SEE' and their accountability for Parliament.

1/ The mission notes that Law 440 appears to be aimed rather directly at the manufacturing SEE's. The Law appears to specify an organizational structure that would not be best suited to the special functions of some SEE's, the railways, for example. (See Transportation, Chapter III.)

367. Recently, there have been some signs of improvement. The efficiency of some of the mining and manufacturing SEE's has improved (coal and cement); greater attention seems now to be paid to the selection of qualified men for managerial positions; and salary increases have checked somewhat the loss of good men. But some managers still have the attitude that the easy way out of difficulties is to spend more money on increased capacity. Instead, the efficiency and profitability of the SEE's have to be improved right across the board if the savings already represented by the investment in their productive facilities are to yield a reasonable flow of goods and services and if the SEE's are to provide from their internal sources a reasonable proportion of the future savings required for their new investments.

368. In 1964, the SEE's investment expenditures totaled TL 1.88 billion and they failed to provide for any of this from internal cash flows (i.e., from profits, depreciation allowances, stock changes, etc.). The mission estimates (in chapter V below) that if the SEE's in 1972 retain their present share of about 30% of public investment, they will be investing in that year some TL 3.5 billion. They should be able to provide from their internal cash flow at least TL 1 billion of this. If they do not, the result will be an excessive demand for savings from the rest of the economy, or lower SEE investment with the consequent effects on the growth rate of GNP, or the need for up to $100 million per year additional external aid.

369. Quite apart from the need for the SEE's to improve their efficiency so as to provide savings, their transformation is a vital aspect of Turkey's modernization. It may be useful, therefore, to repeat the main requirements: that the SEE's be concerned mainly with efficiency and competitiveness and not with providing employment or a subsidized service; that SEE managers be given as much autonomy as possible to achieve this aim but be required to justify their investment proposals under intense scrutiny; that the pay and tenure of managers be adequate to attract the right people and that their selection be based on their qualifications and not on political considerations; that SEE accounting, control and financial reporting should be such as to provide management with adequate and prompt information and to enable outside reviewing agencies to see how efficiently each SEE is performing (whether its costs are low and its prices competitive, whether its capital and labor utilization is improving, whether it holds too many stocks, etc.) The reviewing agencies and the public should learn to ask these efficiency questions about the SEE's and to appreciate that this kind of criteria should be used when judging whether an expansion should best take place by private enterprise or by an SEE.

Public or Private?

370. This last point, of course, raises the big issue of the roles to be played by public and private enterprise in Turkey's future development. For large sections of present SEE operations there is little doubt that the expansion must be by the State. This is true of transport and communications, electric power, and coal mining. It is also plain that the SEE's have a big

part to play in crop purchasing, in the supply of credit, and in pensions and health insurance funds. The main area of debate is the division between private and public enterprise in manufacturing and in mining.

371. In chapter III, this question is discussed in more detail as it is found in mining (particularly copper, boron and lead-zinc) and in some manufacturing industries, such as textiles and pulp and paper. The rate of development in mining is particularly important because of the foreign exchange which could be earned. The expansion of manufactures tends to be geared more to home demand and import savings, but the fast and efficient growth of output is nonetheless also very important in this sphere. If Turkey's complex manufactures expand on the basis of high protection, high cost and continuing inefficiency, then her transformation into a modern industrial state will be weak and slow. So hopefully the development of these mining and manufacturing sectors will be undertaken by the method which is the quickest and most efficient. In some cases the SEE's will provide the best path, or could do when suitably reorganized. In others it will be private domestic or private domestic plus private foreign enterprise. In yet others the best expansion will be by the SEE's with foreign help, technical and financial. In other words, from the standpoint of accelerated development, the use in each case of an efficiency rather than an ideological criterion would seem to be the best application of the Turkish "mixed economy" concept.

V. MONETARY AND FISCAL DEVELOPMENTS

Monetary Retrospect

372. The 1950's in Turkey was a period marked by heavy inflationary pressure. It can best be considered in two parts: 1950-54 and 1955-59. The principal impetus until the end of 1954 was an unusual increase in credit to the private sector which rose 240% in four years (as compared with a 120% increase in credit to the public sector). The resulting large increases in the money supply were only partly absorbed by greater domestic production and increased liquidity; a large part spilled over and created growing balance of payments deficits. Although prices were not controlled, the increase in imports helped keep prices relatively stable until the end of 1952. In those three years, however, Turkey's postwar international reserves of $300 million were spent, short-term external obligations and long-term debt increased by almost $100 million to $371 million and the annual level of imports rose almost 80%. In 1953 import restrictions were imposed and both wholesale and consumer prices began rising at increasing rates in spite of attempts to control them. The price of gold in Istanbul had slowly declined from 1945 to 1952 following the end of Turkey's economic isolation during World War II. In 1952 it rose by 12% reflecting both generally increased prices (up 5% over the previous year) and pessimistic expectations about Turkey's future economic stability.

373. In the second half of the 1950's, 1955-59, the main area of inflationary pressure switched from the private to the public sector where from 1955 until the end of 1959 credit increased by 188% (as compared with an 80% increase in credit to the private sector). The principal credit increase was the extension of Central Bank and commercial bank loans to the State Economic Enterprises, not the monetization of Central Government budgetary deficits. These deficits were nominal and required only 15% of the TL 4,640 million credit extended to the public sector during 1955-59.

374. By 1958 both consumer and wholesale prices were over 75% higher than five years earlier and the price of gold was 270% higher than the low reached during 1951. Turkey's external debt had increased to $1 billion and its trade deficit was averaging $150 million per year. By then, the situation was deemed acute enough both within Turkey and by its creditors to require a drastic stabilization program, incorporating both monetary and fiscal measures. In consultation with the IMF, a de facto devaluation of 69% was authorized and stringent controls instituted over Government expenditures, money and credit. Political instability, however, prevented the full implementation of the stabilization program until after the May 1960 Revolution. Prices rose by 15% during 1958 and by another full 20% the following year--the highest in Turkey's postwar era--as the increased import costs permeated the economy and adjustments had to be made in many prices of the goods and services provided by the public sector. Immediately after the Revolution, however, various credit control measures were adopted. Despite a series of different governments, the financial pressures which created the inflationary situation a decade earlier were not allowed

to be repeated. And the result has been that, since 1960, Turkey has achieved a rate of economic growth of over 5% annually while simultaneously demonstrating its continued concern for monetary and fiscal responsibility.

375. These historical developments, and the instruments of financial control used by the Turkish authorities, are discussed in more detail in the annexed "Note on Money, Credit and Prices."

Public Savings

376. The goal of rapid and self-sustained growth involves raising the percentage of resource availabilities devoted to investment, while simultaneously reducing the present dependence on foreign aid. The latter requires that total domestic savings must finance a higher proportion of total investment, and must therefore increase faster than investment. The Five-Year Plan foresaw no significant transfers of savings in either direction between the public and private sectors. So the savings and investment problems of the two sectors can be treated separately. In the private sector, the Plan assumed there would be no rapid change in the portion of private investment which is financed by foreign capital; hence private savings were expected to increase proportionately with private investment. In the public sector, however, the reduction in dependence on foreign aid would mean that total public savings (which include those of the SEE's) must increase more rapidly than total public investment.

Public Savings in the 1950's and since 1962

377. There are, unfortunately, several serious problems in measuring both public investment and public savings.1/

1/ The data on the domestic use of gross and net foreign aid are incomplete and are probably not comparable year-to-year; certainly the years prior to 1962 are not comparable with 1962 and later years. So the figures for foreign aid to the public sector which are required in order to estimate domestically generated public savings are approximations. A second difficulty is that at the time the Plan was prepared Central Government expenditures had traditionally been classified under only two heads: either current or investment. This meant that both headings contained important financial transfers such as internal and external debt servicing, allocations to the State Economic Enterprises and grants to municipal and local government. Not until the annual budget for 1964 was prepared were transfer payments distinguished from expenditures on goods and services. Consequently, the figures on current and investment expenditures on which the Plan was based were ambiguous, as are the Plan's targets for future government expenditures. A third difficulty is that Plan targets for current expenditures were set for both Central and local Government, but total public investment was not separated by Government sectors--Central, local and the State Economic Enterprises. Consequently, it is impossible to impute the exact level of public savings expected to be generated within each government sector. Fourthly, no data are available on investments by the State Economic Enterprises before 1960 although estimates of total public investment exist.

378. For the reasons pointed out in the footnote, total public savings can only be approximately estimated by taking the figures for public investment and subtracting domestic borrowing and an estimate of foreign aid to the public sector. The figures for total public savings thus obtained include Central and local Government surpluses, the surpluses or losses of the State Economic Enterprises, and the surpluses of two large institutional savers (the Pension Fund and the Workers' Insurance). On this basis, the available data indicate that total public savings available for investment probably fluctuated slightly below 5% of GNP throughout the 1950's, and increased to about 7% by 1964.

Prospects for Future Public Savings

379. In Tables 15, 16, and 17, the mission have taken the official data, adjusted them in the manner described and used them to indicate the past level of public savings and their possible future development. Each table includes whatever data are available through 1964, and estimates for the three remaining years of the First Five-Year Plan, 1965-67, as well as for the terminal year of the Second Plan, 1972. These estimates are not just extrapolations of existing trends based on actual results, nor are they suggested targets for the Turkish Government to consider in recognition that the fiscal outcome of the initial two years of the Plan fell short of Plan targets. They represent the mission's view as to one possible set of attainable objectives.

380. On this view, public savings could be raised from the present 7% to 10% of GNP by 1972. The two principal assumptions underlying this estimate are that the State Economic Enterprises can be reorganized and reoriented so as to begin providing internally a significantly increasing proportion of their financial requirements and that major efforts will be made to improve the tax collection process and agencies. The figures we show for 1965-67 and even for 1972 are lower than the targets for the 1963-67 Plan. Nevertheless, if attained - which we believe to be feasible - they would permit a more rapid rate of economic growth than previously sustained for a similar period and simultaneously would permit both a relative and an absolute decline in foreign aid by the end of the Second Five-Year Plan, 1972.

Future Fiscal Prospects in Detail

381. Current Government revenue, as discussed in this section, includes only receipts of the General and Annexed Budgets. It excludes revenues of the municipal and local governments and revolving funds because the data are seriously incomplete; together these amount to about 2% of GNP. Current revenue fluctuated close to 13% of GNP throughout the 1950's while current expenditures lagged behind the rise in GNP, principally because such expenditures are largely salary payments and Government wage rates lagged behind other rising money incomes. Consequently, the surplus of current revenue over current expenditures grew and was used to finance increased public investment.

382. The Five-Year Plan designed a twofold strategy to increase current revenue of the Central Government (General and Annexed Budgets): (i) new taxes and changed tax rates were to become effective during 1962 and 1963 which would shift the total level of revenue significantly upwards from an average 13% of GNP during the 1950's to 18.6% by 1963; and (ii) the new structure of taxation was expected to provide at least an 8% annual increase thereafter, i.e., without any new taxes being applied, tax receipts would rise a little faster than GNP.

383. These new taxes passed after the Revolution of 1960 were the first significant tax changes in a decade. In 1950 the entire antiquated direct tax system had been revised and a uniform income tax adopted for both personal and corporate incomes, with the important exception that all agricultural incomes were exempt; the wartime inflation had wiped out the land tax as a major contributor to Government revenue. In 1961, the effective corporate tax rate was increased from 28 to 36% and in 1962 the structure of individual income tax rates was tilted by slightly lowering the minimum rate from 15 to 10% for incomes less than TL 2,500, stretching out marginal tax rates and increasing maximum averages from 50% for incomes over TL 300,000 to 60% for incomes over TL 500,000. In 1963 deductible family allowances were raised and further increases were authorized to begin in 1966. Prior to 1961 no agricultural or small merchant incomes were taxed (although the latter had been taxed before 1957). Taxation on them was introduced in 1961, and while actual collections only amounted to 3% of total direct taxes in 1963, 350,000 persons were added to the tax rolls.

384. Aside from the revision of taxes, the single most important new revenue source is the compulsory Savings Bond system, introduced in 1962, which alone accounts for about one-quarter of the relative increase in revenues from 13 to 16.4% of GNP. Taxpayers liable to direct taxes are required to accept Savings Bonds equal to 3% of their incomes; these Bonds pay 6% and mature in 10 years but are not legally negotiable for five years. They are, however, openly traded, and TL 100 denominations sell for only TL 28, partly because of their low (6%) nominal interest rate. Parliament is, in fact, presently considering a bill which would: (i) make holders give proof that they acquired their Bonds legally, and (ii) permit the conversion of the Bonds into equity shares of certain State Economic Enterprises.

385. During the 1950's revenues from indirect taxes more or less kept pace with GNP, but since then many major changes have been introduced. The principal measures to increase indirect taxes apply to imported commodities. A stamp duty of 5% on all imported goods was introduced in 1963, custom tariffs were increased substantially, and production taxes were increased on a limited number of imported items, mainly ones competing with domestically produced goods. Other new indirect taxes introduced in 1963 were a Motor Vehicles Tax and a Foreign Travel Expenditures Tax of 50% levied on purchases of foreign exchange. Increased tax rates during 1963 and 1964 applied to: (i) new buildings, (ii) bank and insurance transactions, (iii) petroleum fuels, (iv) inheritances and gifts,(v) stamps required for documents, (vi) radio licenses, and (vii) most of the

consumer goods produced or sold by the Monopolies Administration, e.g., tobacco, salt, tea, beverages, coffee and matches.

386. While this impressive list of new and changed taxes clearly reflected the Government's will to implement its planning policies, several delays occurred in introducing them and by the end of 1964 not all the modifications had become fully effective. Moreover, the Government found it politically impossible to pass certain proposed legislation, especially effective taxation of agricultural incomes although some new tax laws were accepted. As a result, the realized upward shift in Central Government revenue has been both less and slower than planned. In real terms, the annual increases in Central Government revenue amounted to about 17% in 1963 and to 9.0% in 1964, a notable improvement over the results of the previous decade but still well below Plan targets. Current revenue in 1964 was 16.4% of GNP instead of 19.4% expected in the Plan. Although it is true that not all the tax changes have taken effect, the net additional impact when they do will be marginal.

387. Although the rates and structure of taxes in Turkey have been significantly altered during the past few years, they still are not ideally suited to the Turkish economy, especially to its aspirations to generate sufficient Central public savings to permit both an absolute increase of Central public investment and a reduced reliance on foreign aid. During the course of both 1963 and 1964, the Government reduced its original expenditure authorizations so as to not exceed actual revenues when these fell short of budget estimates. In the future it will undoubtedly wish to consider whether more tax changes are desirable. Additional increased rates for income taxes would probably merely encourage new efforts at tax evasion, although there may be room for more effective taxation of agricultural land or incomes. Some changes in indirect taxes, however, appear to be warranted, e.g., road transportation is heavily subsidized vis-à-vis the railroad and substantial new taxes on trucks and buses appear desirable and feasible (see para. 280). This and other changes in indirect taxation would not, however, rapidly increase revenues to the level originally foreseen in the Plan. This would require another major revision of the structure of taxation, particularly of indirect taxation. The mission presumes that the recently appointed Tax Reform Commission will pay close attention to these matters.

388. An equally important necessity is to improve the efficiency of tax collection. The Annual Programs have continually recognized and emphasized this important problem. The Revenue Department of the Ministry of Finance has expanded its training program for accounting inspectors, but the Department is still unable to offer salaries adequate to attract and hold enough officers to make the necessary improvements in tax collection. Parliament is currently considering a bill authorizing increased salaries for such employees, but these may not be sufficient to arrest and reverse the present situation and thereby to create a larger, well-trained and competent professional staff of tax officials.

389. Considering all these aspects and their probable rate of improvement, the mission feels, perhaps somewhat conservatively, that current revenue will increase not faster for the remaining years of the Plan than the 8% annually originally planned (ignoring the important upward shift planned, but largely unrealized, for 1962 and 1963), and probably not any faster during the Second Plan - unless new and unforeseen steps are taken.

390. This would mean that current Central Government revenue would reach only about 17.3% of GNP by the end of the present Plan, 1967, as compared with the target of 19.9%.

391. Government current expenditures (General and Annexed Budgets only) increased more or less in line with GNP throughout most of the 1950's, but principally because of overdue salary adjustments the annual increases since 1960 have averaged 12% annually in current prices, and perhaps 8% annually in real terms.

392. The Plan expected Government current expenditures to increase 8.4% annually largely because of recurring expenditures associated with development-oriented activities. As current revenue was expected to increase similarly, the surplus available for direct investment and financial transfers was apparently also expected to increase at about 8%.

393. The past trend of current expenditures suggests that, even though increased Government wage scales may be warranted for the senior categories of employees, it should be feasible to hold increases in current expenditures to 8% per year in real terms, especially considering the physical difficulties involved in finding adequately trained personnel to fill new permanent posts.

394. In 1963 and 1964, the first two years of the Plan, the Government was successful in providing non-inflationary financing for its development program, and has drawn up the 1965 Budget on the same basis. The table below gives actual data for 1963 and 1964 and the budget provisions for 1965, in TL million.

	1963	1964	1965
	Actual		Budget
Revenue			
General Budget 1/	9,697	10,521	12,432
Annexed Budgets	478	386	587
	10,175	10,907	13,019
Current Expenditure	6,546	6,755	7,975
Government Saving	3,629	4,152	5,044
Direct Investment	2,797	2,939	4,018
Transfers	2,559	3,330	3,077
Overall Deficit	1,727	2,117	2,051
Financed by:			
Counterpart funds of external loans and grants	1,781	1,304	1,540
Domestic long-term bonds	49	200)	
Short-term borrowing and changes in Treasury balance	103	613)	511

1/ Including Savings Bonds.
Source: Data given by the Ministry of Finance to the IBRD Mission.

The State Economic Enterprises

395. Total public investment was planned to increase by an average of 10.6% annually. While the Plan did not break down investment between the Central, municipal and local Governments and the State Economic Enterprises, the outcome of the first two years and the mission's estimates regarding the future suggest that if Government savings increase at 8%, the increased savings of the Central Government will probably be largely, if not fully, absorbed by its own increased investment.

396. It is therefore of the utmost importance that, taken as a group, the non-financial State Economic Enterprises have not yet begun to generate funds to finance a significant amount of their own investments. In normal circumstances, firms cover a major share of their investment by internally generated funds from undistributed profits and depreciation allowances, resorting to additional equity capital or outside loans for the remainder. The State Economic Enterprises as a group make no or little profits - although most of those outside the public transportation sector do not operate at a loss and their depreciation allowances just about cover their financial requirements for new investment out of internally generated funds.

397. The Annual Program for 1963 set a target of increasing aggregate profits of the SEE's from TL 11 million during 1962 to TL 77 million (and decreasing the cash deficit from TL 246 million to TL 147 million), but profits actually fell and a current operating deficit of TL 5 million resulted in 1963 (but conversely the cash deficit was smaller than expected, namely TL 106 million). The 1964 Annual Program set a target of increasing profits to TL 365 million (and realizing a cash surplus of TL 252 million). While profits did increase to TL 161 million, this was considerably below expectations (and a cash deficit of TL 2 million resulted). The Program for 1965 foresees profits increasing to TL 421 million and a cash surplus of TL 375 million.

398. The aggregate profit data mask, however, different and countervailing trends. As pointed out in Chapter IV, most of the loss Enterprises are in the transportation and communications sector in which the State Railways have very large and rising annual losses; these have increased each year from 1960, when they were (after taxes) TL 158 million, to 1964, when they were TL 413 million. The Maritime Bank and Turkish Airways also have deficits, though on a much smaller scale. Also operating at small losses are the Nitrogenous Fertilizer Company and the Soil Products Office. If the State Railways' loss is abstracted, the SEE's picture looks rather different. Net profit (after taxes) of all other Enterprises increased from TL 83 million in 1962 to TL 173 million in 1963 and reached TL 378 million in 1964.

399. The budget for 1965 estimates that the loss of the railways will be decreased by TL 151 million and the profits of the other Enterprises will reach TL 404 million. However, there is no evidence of any new major steps which have been taken beyond those already mentioned in Chapter IV to realize the desired targets. The 1965 Annual Program states only that these targets

should be achieved by the SEE's "solving their business problems" and taking "full advantages of their independence when fixing the prices of their goods and services" (English translation, Vol. V, p. 29). Prices have not been increased and if they were it is quite doubtful whether revenue would rise in face of existing competition, e.g., railway rates in the face of the highly competitive, albeit heavily subsidized, road transport operators. Increased efforts will definitely be required if these organizations are to become a major contributor to increased public savings.

400. The State Economic Enterprises, hopefully, might turn in their first internal cash surplus during 1965 and if the necessary improvements continue should be capable of increasing their cash surplus by about TL 100-200 million each year. Achieving even these modest, albeit unprecedented, surpluses will require even more vigorous reform measures than have thus far been authorized.

Institutional Public Savings

401. The Workers' Insurance and the Pension Fund have provided an annual average of TL 1,000 million during 1963 and 1964. The Workers' Insurance collects from 700,000 non-Government employees over TL 500 million above the funds it pays out as pensions and death compensations. The Pension Fund also has an annual surplus of about TL 500 million above the pension payments and separation allowances it pays annually, derived from the premiums paid by about 450,000 employees in public service (which includes all workers for Enterprises in which the Government has a controlling interest).

402. Their total volume of savings has been increasing somewhat faster than tax revenue, largely because of the rapidly growing number of participating employees - especially for the Workers' Insurance - but also because premiums for both purposes have been increased. Their total savings are expected to increase about 12% annually for several more years, but the rate of annual increase will decline as the proportion of uninsured workers diminishes.

403. The following table illustrates how the surpluses of these funds were utilized during 1963 and 1964.

Pension Fund and Workers' Insurance
Average Annual Use of Surplus Funds, 1963-64
(TL million)

	Pension Fund	Workers' Insurance	Total
Public Sector	370	240	610
Own investments (largely construction)	70	40	110
State Economic Enterprises	300	200	500
Private Sector	130	260	390
Cash and Deposits	-	15	15
Other (largely home loans)	130	245	375
Total	500	500	1,000

Source: Data given to the IBRD Mission by the Pension Fund and Workers' Insurance.

404. About 60% has been made available to the public sector, partly as their own self-financed construction investments, mainly hotels, but mostly by purchasing debentures of the State Investment Bank (and formerly of the Credit and Amortization Fund) which pay 6% interest. About 40% of their savings finance private investment, mostly by providing home loans to participating members.

405. The Government could reduce its borrowing elsewhere and perhaps some of its own need for foreign aid by using a higher proportion of these savings to finance public investment. But, in the absence of an increased flow of funds to these institutions, this would merely shift to some extent the use of domestic savings from private to public use and would not affect the level of total savings.

Overall Result

406. On present indications a progressive closing of the gap between total public investment and total public savings seems to depend more than anything else upon improved performance by the SEE's. However, during the coming seven years it is open to the Government to place more reliance than has been assumed here on other methods of increasing public savings, of which the two principal ones could be an accelerated increase of tax revenues resulting from new and presently unforeseen fiscal steps, and, conceivably, the mobilization of more funds through the Workers' Insurance and the Pension Fund. To the public, both of these appear as an increase in the tax burden, and the political problem of increasing this burden faster and further than is assumed in the mission estimates, as an alternative to an improvement in SEE efficiency, needs no stressing.

407. During the initial two years of the Plan the total public savings gap averaged approximately 2% of GNP (already a small amount when compared with other developing countries where rates up to 4% are not unusual). Due to the measurement problems previously mentioned, it is difficult to estimate with precision the proportion of this which is financed by domestic borrowing and by foreign aid respectively, but the indications are that a fifty-fifty split is probably not far wrong. By increasing total public savings faster than total public investment expenditures, it should be feasible to reduce the public savings gap to less than 1.5% of GNP by 1972, of which one-half percent of GNP could derive from (gross) foreign aid on conventional terms and about one percent could be borrowed domestically from banks and from non-banking institutions (principally the Workers' Insurance and the Pension Fund) without jeopardizing the

Government's objective of maintaining financial stability.[1] If the increased total public savings cannot be realized, however, less ambitious investment targets would have to be accepted, if Turkey is to succeed in reducing her reliance on foreign aid and in maintaining domestic financial stability.

1/ As regards borrowing from banks, neither the First Five-Year Plan nor the subsequent Annual Programs attempted to define the rate either of credit or of monetary expansion which would be consistent with the Plan's other objectives. Instead the planners stated that measures would assure increasing the money supply adequately to provide the appropriate amount for final and intermediate transactions as well as an increased monetization of the rural economy while creating "conditions conducive to stable and non-inflationary development of the economy" (1964 Annual Program, English version, p. 207).

The mission refrained from attempting its own estimate of the acceptable limits for future monetary expansion except for the purpose of roughly visualizing a possible order of magnitude for "safe" deficit financing in the public sector in 1972. From 1961 through 1964 there were no significant inflationary tendencies, and the net foreign exchange reserves were substantially unchanged. Money supply grew around 10% annually, except in 1964 when credit was deliberately relaxed to counter some diminution in economic activity. If, on this basis, a 10% monetary expansion is taken as acceptable to meet the needs of an economy with a rising GNP and growing complexity of production, total credit could be expanded by perhaps 12% annually (assuming a growth of time deposits, which would absorb 2% of the money supply, and no change in exchange reserves). Total bank credit outstanding was TL 16 billion at the end of 1964, and, if expanded at 12% annually for seven years, would become TL 35 billion in 1971. Still using a 12% rate of expansion, this would allow during the year 1972 a growth of total bank credit of around TL 4 billion. This is in no sense either a prediction or a recommendation, but the simple arithmetic being used does suggest that, if 1972 is a "normal" year, with no need for short-term corrective monetary policies and no marked change in foreign exchange reserves, credit expansion in 1972 of something like TL 4 billion could be regarded as "safe". This suggests that, if the public sector needed to borrow from the banking sector something like TL 500 million (which would be roughly one-half percent of likely GNP at that time), it would not deprive the private sector of a very high proportion of the short-term and working capital which, on this perspective, the banking system could provide.

VI. INTERNATIONAL TRADE AND PAYMENTS

Retrospect

408. Turkey's share of exports and imports in world trade has declined from 0.47% and 0.60% respectively in the early fifties to 0.28% and 0.42% in recent years. Simultaneously, Turkey's exports as a percentage of her GNP fell from 7% in the early fifties to 5.4% in recent years, and imports from 8.9% to 8.3%. Nevertheless, Turkish policies have tended to stress import substitution rather than export promotion. In accordance with this policy, although also partly for fiscal reasons, import duties were raised substantially last year and the Government continues to impose quota restrictions.

409. The external payments situation has been difficult since 1954 and Turkey has continued to remain heavily dependent on foreign financial assistance. As shown in the following table, the deficit on current account for the years 1960 to 1964 amounted to $190 million per year on the average. In addition, debt repayments for the same period amounted to almost $100 million per year. Consequently Turkey had to find gross external finance to the tune of some $290 million per year. This is apart from military assistance, which runs at about $125 million annually, but does not enter into the balance of payments statistics.

410. The following table shows the developments in the balance of payments since 1950, on a five-year basis.

Balance of Payments
(Annual averages - $ million)

	1950-54	1955-59	1960-64	1964
Exports	334	313	366	411
Imports	-451	-417	-565	-537
Trade balance	-117	-105	-199	-126
Net invisibles	- 20	- 45	- 41	- 39
NATO infrastructure receipts	-	47	50	59
Current account balance	-137	-103	-190	-106
Financing				
PL 480	-	23	55	32
Imports without foreign exchange	-	-	2	7
Private capital	7	8	28	25
Total	7	31	85	64
Remaining balance	-130	-72	-105	-42
Debt repayments	- 30	-90	- 94	-110
Total	-160	-162	-199	-152
Suppliers' credits	67	86	18	10
Project credits	7	7	33	36
Other credits	97	120	150	145
Total	171	213	201	191
Total balance	11	51	2	39
Change in monetary reserves (-: increase)	+32	+4	-13	-8
Errors and omissions (-: outflow)	-43	-55	11	-31

411. It is interesting to note that, in comparison with the early fifties, the annual trade deficit for the period 1960-1964 increased by $81 million and that this increase occurred at the same time as a shift of the balance in cereal trade, from a net annual export surplus of $45 million during the earlier period to a net import deficit of $33 million in recent years, as shown in the following table.

($ million)

	1950-54	1960-64	Difference
Total exports	334.2	365.6	31.4
Total imports	-451.0	-565.0	114.0
Balance	-116.8	-199.4	82.6
Cereal exports	52.6	4.6	48.0
Cereal imports	- 7.2	- 37.8	30.6
Balance	45.4	33.2	78.6
Other exports	281.8	361.0	79.2
Other imports	-443.8	-527.2	83.4
Balance	-162.0	-166.2	4.2
NATO infrastructure imports	-	26.6	26.6

412. Exports other than cereals have kept pace with the increase in imports of other commodities: the annual deficit on the balance of trade in these other commodities shows an increase of only $4.2 million. Moreover, this does not take into account recent imports for NATO defense works; if these are excluded the balance of trade in commodities other than cereals would show an improvement.

413. The deficit on invisible transactions has increased parallel with the expansion of foreign trade, largely as a result of higher interest payments on external debt. Fortunately, PL 480 financing and NATO assistance have in the meantime been made available and this aid has been more than sufficient to cover the increase in the deficit on trade and on account of invisible transactions. In addition, private capital has financed a larger part of the deficit than before. As a result, the remaining balance to be financed by other means had declined, from an annual average of $129.6 million for the period 1950-54 to $99.4 million in 1960-64. But, because of higher debt repayments, Turkey's gross borrowing requirements rose from $159.2 million to $196 million.

414. Previously, Turkey sought to cover a large part of these requirements through suppliers' credits. The accumulation of heavy short-term repayment obligations on these credits aggravated the external payments

situation in the fifties, culminating in a rescheduling of debt service payments in 1958. With this experience in mind, the Government has refrained from accepting a significant amount of new suppliers' credits in recent years, especially since 1962 after the formation of the aid Consortium under the aegis of OECD. The Consortium has extended long-term loans, largely for program aid, but increasingly for specific projects as shown in the table on page 112.

Exports

415. After the adoption of the stabilization program, exports recovered the ground lost during the late fifties. Last year, they amounted to $411 million and for the first time exceeded the previous record reached in 1953. The most important change which has taken place in their composition over the past ten to fifteen years is the disappearance of cereal exports and the steady increase in the exports of nuts, mainly hazelnuts. Cotton was an important export item during the early fifties but declined thereafter during the period of inflation. During the last three to four years, cotton exports have been climbing steadily; they are now higher than during the fifties, and this year they are likely to surpass tobacco as the most important export item. Lately, some export items have appeared, which are entirely new or were previously exported in only very small quantities; principally petroleum products, sugar, olive oil and a trickle of cotton and wool fabrics. Since 1959, the exports of minerals and ores have remained sluggish, mainly as a result of the weak market for chrome. Altogether, exports have exceeded the Plan targets during the past two years, and are likely to surpass the target for the current year.

416. In the past few years, Turkey has devoted more efforts than before to the promotion of exports. The Government has simplified export procedures and established special credit facilities, at low interest rates, for financing the working capital needed in the production, processing and preparation of exports. Efforts are being made toward greater standardization of export commodities; negotiations are under way for joining the European Cold Storage Chain, which would facilitate the export of fresh vegetables and fruit to Western Europe; and the Export Promotion Center established in 1960 is being strengthened. Recently, two measures have been introduced which hold considerable promise, especially for the export of manufactured goods. Since last year, producers of export goods have been allowed to import freely all raw and packaging materials which go into the production and preparation for export. In 1963, the Government introduced a system of tax rebates on manufactured exports, which started to operate in the course of 1964 with some initial success. All that has been done to date to encourage exports is, however, not yet sufficient to produce a major breakthrough in the export market. Obviously, this is a difficult task, but if pursued with vigor should bring significant results considering the existing export potential, as explained below.

Imports

417. Turkey's imports have fluctuated widely during the post-war period. Thanks partly to foreign assistance, imports rose rapidly in 1959. This made it possible to refill supply lines and remove bottlenecks which were hindering production. The sluggishness of the economy in 1960 and 1961 caused a decline in imports other than cereals. Following a poor crop, cereal imports raised the total in 1961. Imports continued to expand in 1962 and 1963 as a result of continued high cereal imports and a combination of special factors. In 1962, the Government liberalized imports at a time when economic activity was picking up. In addition, the first supplies started to arrive for the construction of the Eregli steel mill, while the newly completed oil refineries began stocking up. Despite some deliberalization measures, imports continued to expand in 1963 as more supplies arrived for Eregli and also because some speculative imports were made in anticipation of new import restrictions.

418. Imports declined in 1964 by some $150 million to $537 million, mainly as a result of smaller imports of surplus agricultural commodities following a good harvest, and smaller imports for Eregli. Also, some new factories producing import substitutes began operations, and import demand was weak due to the sluggishness of the economy earlier in the year and also because of delays in implementing the 1964 investment program.

419. Despite their decline, imports were generally in adequate supply and only a few factories were operating under reasonable capacity. Stocks appeared to be adequate; in some cases they were rather high because factories felt that they must have reserve stocks as a safeguard against an irregular flow of imports. Taking this into consideration, the volume of imports was not excessive and could not be reduced substantially without endangering the pace of production and investment. In fact, besides foodstuffs, Turkey imports only a limited amount of consumer goods. Any cuts would, therefore, have to be made in the imports of raw materials and investment goods. This is further evidenced in the growth pattern of imports since 1959. Total imports increased $67 million, mainly as a result of greater imports of machinery, equipment and metals. There has been some increase in the imports of raw materials which enter into the production of consumer goods, such as textiles and articles in plastic, but these appear to be necessary if the quality of domestic production is to be upgraded to standards acceptable abroad. In the longer run, however, there is room to reduce the imports of metals and oil, as explained below.

Direction of Trade

420. The Common Market countries are Turkey's main foreign market. In December 1964, an agreement for associate membership in the Common Market was signed, which gives Turkey the right to some tariff-free quotas for tobacco, raisins, dried figs and hazelnuts, and financial assistance of up to $175 million over a five-year period.

Prospects

421. One of the objectives of the fifteen-year development perspective outlined in the First Five-Year Plan document is to reduce progressively the current account deficit on the balance of payments after 1967 and thereby to eliminate the need for foreign assistance on concessional terms by the end of the Second Five-Year Plan, i.e., by the end of 1972. The remainder of this Chapter examines this goal on a balance of payments approach, complementing the discussion in Chapter V of fiscal prospects. It should be noted from the outset that any estimates for 1972 must be highly tentative because the economy is currently in a period of transition and change. Actual results will largely depend on the actions and policies - including the shape of the Second Five-Year Plan - of the Government which will come into power following the elections scheduled for October 1965. Moreover, any estimates spanning seven years are subject to wide margins of error, and cannot be read as forecasts, particularly in an agricultural economy like Turkey where weather conditions are so important in determining the actual outcome year by year.

422. For the first time in many years, there is a prospect of a substantial increase in foreign exchange earnings. This improvement is largely attributable to the unforeseen movement of large numbers of Turkish workers to the Common Market countries, already discussed. But some new export items are also on the horizon, which, with proper support and a vigorous export drive, could make a significant contribution to Turkey's foreign exchange earnings in a few years. At the same time, Turkey's traditional export items can be expected to grow at a modest rate. On the import side, the development of the oil and steel industries, as well as some others, is likely to produce substantial new import savings.

Commodity Exports

423. The prospects for agricultural exports are discussed in paragraphs 121 to 132, which concluded that on present indications of likely action, export earnings from this source may increase from $339 million in 1964 to $410 million in 1972. Simultaneously, exports of manufactured products, discussed in paragraphs to , would, on similar indications, remain virtually unchanged in total, with gains in some items being offset by loss of earnings from sugar and molasses. Mineral exports will be highly dependent upon future Government policies; paragraph estimates that they may range anywhere from about $27 million to $55 million in 1972. Within this range, the mission has selected $40 million as representing a neutral estimate, assuming no great change of policies concerning private investment in this field.

424. In sum, the outlook for commodity exports in 1972, on the assumption that no special export effort will be made, indicates earnings increasing from $411 million in 1964 to around $500 million in 1972.

Export Prospects
($ million)

	1964	1972
Agricultural Products	339	410
Manufactured Products	45	42
Minerals	27	40
Total	411	492

425. However, the mission is of the opinion that export earnings could be significantly higher in 1972 if Turkish development efforts were directed toward that end with increasing vigor. For example, more could be achieved in citrus and fresh vegetables, in timber, and possibly in livestock and meat (paragraphs 129 to 132). It is, of course, not possible to quantify such latent potential, but an indicative figure might perhaps be $50 million in additional agricultural exports by 1972. Similarly, vigorous new investment in mining could, the mission believes, lift mineral exports from the $40 million postulated above to some $55 million. The latent potential for exports of manufactures cannot, the Mission feels, be quantified in any meaningful way, but it clearly exists, and such exports could by 1972 very well exceed the $42 million earlier mentioned. In sum, the mission's estimate of $500 million earned from commodity exports in 1972 should be read as not excluding the possibility that they may range higher, say around $575 million. Much will depend upon future Government policies, and upon the emphasis given to the export sector in the Second Five-Year Plan.

426. The mission assumes no significant expansion in trade with the Soviet bloc, in line with past experience. Apparently, the Soviet bloc could absorb more Turkish goods, but the problem so far is to balance this trade with suitable imports; for many years, Turkey has had an export surplus with her eastern European neighbors. Recently, relations with the U.S.S.R. have improved, but whether U.S.S.R. will offer a wider variety of goods and whether this will lead to a significant expansion of Turkish exports remains to be seen.

Invisible Receipts

427. The most important sources of increased foreign exchange earnings are on account of invisible transactions, specifically tourism and, most of all, receipts from Turkish workers abroad.

428. As discussed earlier (paragraph 309), some 650,000 tourists may be visiting Turkey annually by the end of the Second Plan in 1972. They might spend, say $100 per head instead of $50 now, or a total of $65 million. Actual results may belie these estimates, but to use any more favorable assumptions might prove optimistic.

429. The prospects are that, within a few years, Turkish workers abroad could be the greatest single foreign exchange earner, more than cotton, tobacco or any other commodity. Some 150,000 workers are presently abroad, and their remittances through official banking channels are expected to exceed $40 million this year. In addition, imports financed from their earnings, mostly used cars and tools, may reach close to $10 million. Paragraphs 325 and 326 conclude that their numbers may grow to 250,000 in 1967 and to 350,000 to 400,000 in 1972. Assuming that they continue to go without families, their savings may reach some $500 to $600 per year; or about $200 million in total. Of this amount, two-thirds to three-quarters might be transferred through official banking channels provided the effective exchange rate remains competitive with the free rate, the remainder being used mostly to finance imports of goods.

Foreign Exchange Earnings, 1964 and Estimates for 1972

	1964	1972
Exports, f.o.b.	411	500
Gross invisibles		
Tourism and travel	8	65
Workers' remittances	16	200
Official transfers	(9)	(150)
Imports with waiver	(7)	(50)
Other invisibles (net)	5	1
Total invisibles	19	266
NATO infrastructure & offshore receipts	59	50
Total earnings	489	816

430. The mission had no access to information upon which to base any estimate of future NATO infrastructure and offshore receipts; accordingly, they are shown in the table above at a round $50 million for 1972. On this assumption, it seems quite possible that total gross foreign exchange earnings could be something over $800 million in 1972. This is an increase of around $330 million compared with 1964, and would represent an annual growth of 6.6%. They might be higher by as much as $75 to $100 million, if a special drive to encourage tourism was added to a renewed emphasis on commodity exports.

431. In addition to these invisible earnings, foreign private investment may add $30-40 million in 1972, especially if Turkey were to attract foreign investment in mining, manufactures, and tourism.

432. There is also the question of PL 480 assistance, which is currently running at $60 million per year. For the purposes of the present exercise, the mission has simply assumed that PL 480 assistance will remain at $60 million in 1972.[1]

433. Thus the total gross exchange availability to Turkey in 1972, before any debt transactions, may be of the order of $900 million, and might, on hopeful but not necessarily overly optimistic expectations, exceed $1,000 million.

434. Part of available foreign exchange must, of course, be devoted to purposes other than commodity imports. Travel of Turkish nationals abroad may absorb $35 million in 1972. For present purposes, the mission has assumed that other minor invisible items such as diplomatic expenditures, insurance, etc., will be in approximate balance.

435. A much more difficult item to estimate is the financial cost to Turkey of utilizing foreign capital, embodied in interest charges on official borrowing and profit transfers on foreign capital. A meaningful estimate of what this might amount to in 1972 involves some knowledge of the scale and shape of the Second Five-Year Plan, which has not yet been drafted, of the timing of projects during the remaining years of the First Plan and during the Second Plan, and of the terms on which aid will be granted to Turkey in the future; moreover, only time will tell to what extent foreign investors will remit or reinvest their earnings. The present exercise has adopted a figure of $85 million annually as the combined cost of interest charges and profit remittances in 1972, recognizing that it could be somewhat higher or somewhat lower without making much significant change in the exchange remaining for imports.

1/ PL 480 assistance averaged $60 million in 1960-64 and financed mainly imports of wheat and oils and fats. Cereal imports averaged about 500,000 tons per year, close to 6% of wheat production, whereas imports of soybean and cotton seed oil averaged some 48,000 tons, as compared with about 100,000 tons for domestic olive oil production. To some extent, the pattern of agricultural production and of exports and imports has been conditioned by the availability of this assistance. The external payments situation would obviously become difficult in years of poor crops if this aid were suddenly terminated. It is not possible to say how Turkey would adjust in the long run in such an event. This would probably involve a shift in the pattern of production and trade, a slowdown in the rate of growth of consumption and/or a slowdown in the rate of investment, and more borrowing than would otherwise be necessary.

($ million)

	1964	1972	
		Probable	With Extra Efforts
Gross Receipts			
Exports, f.o.b.	411	500	575
NATO infrastructure	59	50	50
Gross invisibles	19	266	295
Foreign investment	28	30	40
PL 480	60	60	60
	577	906	1,020
Less:			
Turkish travel abroad	21	35	35
Interest & profit remittances	39	85	85
	60	120	120
Total	517	786	900

436. This suggests that, after allowing for invisible payments, Turkey could finance imports of around $790 million in 1972,[1] and that, on more hopeful assumptions regarding output increase in export commodities plus an export and tourist drive, the figure could reach around $900 million, without any new net official borrowing.

437. This compares with total imports of $537 million in 1964, which was, however, a year of relatively low imports due to identifiable causes (paragraph 418). It therefore seems more appropriate to take as a base the average annual imports for 1960-64, namely $565 million.

438. On this basis, Turkey's imports in 1972, before recourse to net official borrowing, could be almost 40% above the import level of 1960-64, and perhaps as much as 60% above. If the increase of 40% were evenly spaced throughout the years, it would represent a 4.3% annual growth, compared with a 2.5% growth in actual imports during the past decade. The higher figure would represent 6% per year. However, increases are most unlikely to be evenly spaced, partly because in an agricultural country like Turkey weather conditions can greatly influence the actual outcome in any one year, and partly because Turkey may wish to devote some part of exchange earnings to rebuilding both first and second-line exchange reserves.

1/ Of which $50 million would be imported under waiver by Turkish workers overseas.

439. Whether an average compound rate of import growth of 4.3% per year would be adequate to support a high rate of economic growth cannot be demonstrated by macro-economic analysis in Turkey's case, since the key variables and relationships are known only approximately, with margins of error so wide as to render suspect any seemingly precise result. Historical experience, however, has been that a 2.5% rise in imports was compatible with a growth in GNP of about 5% per year in the past.

440. The mission attempted an estimate of import requirements in 1972 by principal categories. This exercise is discussed in the annexed "Note on Import Prospects". It suggests that, even with a continued high degree of import substitution, import requirements in 1972 might amount in total to $825 million.

441. This suggests that Turkey might, for balance of payments reasons, still be requiring a net inflow of loan capital of the order of magnitude of $40 million in 1972. But it has repeatedly been stressed, in this Chapter and others, that wise development policies and additional effort could accomplish much in Turkey. The need for net loan capital to supplement Turkey's own foreign exchange earnings could conceivably be eliminated in the first half of the 1970's if, simultaneously for a number of exchange earners and in import substitution, things went better than might be conservatively expected. On the mission's own estimates on somewhat hopeful assumptions, to re-emphasize the potentialities, net exchange earnings available for imports could be visualized as reaching $900 million in 1972.

VII. THE OECD CONSORTIUM, EXTERNAL DEBT, AND CREDITWORTHINESS

The Consortium

442. The succession of events begun by the Turkish Revolution of May 1960, and followed by the setting up of the State Planning Organization and the preparation by late 1961 of the draft First Five-Year Plan, were continued in the Spring of 1962 by a Turkish approach to the OECD to send a team to Turkey to review the Plan. Soon thereafter an OECD working party was set up to "examine the ways and means by which an adequate flow of foreign resources, public and private, could best be mobilized in support of the Turkish Development Plan, including the creation of a consortium as soon as possible".

443. The Consortium was set up under the aegis of the OECD in July 1962. It first met in October 1962, held three sessions before the end of the year, four in 1963 and four in 1964. Originally it had nine member countries but now it consists of 14 OECD countries and the IBRD. Representatives of the IMF, the EEC, and the EIB participate as observers. The Consortium's mandate describes it as a de facto association of those ready to make a contribution to the Turkish development program by grants, loans, technical assistance, or by facilitating private investment and commercial credit to Turkey. But the mandate made it clear that participation in the Consortium did not imply any obligation on the part of the countries concerned as far as the nature and amounts of their contributions were concerned.

444. In the three years of its existence, the Consortium has operated by examining the Annual Programs and the expected balance of payments deficit and has tried to fill most of the balance of payments gap by pledges of aid from members. The Consortium has also tried to help by improving technical assistance and facilitating the flow of private investment to Turkey, but its main function has been the pledging of aid. The amount of the pledges and the average terms of this official aid have been as follows:

Pledges[1/]	1963	1964	1965
Program Aid	137	153	154
New Assistance	126	138	101
Debt Relief	11	15	53
Project Aid	51	109	125
total pledges	188	262	279
PL 480	67	28	40
	255	290	319

1/ Bilateral and multilateral agencies, except IMF.
Source: OECD, Consortium/Turkey (65)14.

Weighted Average of Terms of Aid (excluding PL 480 - no repayment)

	1963	1964	1965
Maturity	26.9 years	32.8 years	30.4 years
Grace period for principal repayment	6.6 years	8.2 years	8.0 years
Interest rate	2.6%	2.2%	2.2%

445. These pledges are substantial in amount and the average terms of aid are favorable, although the tied nature of most of the aid means that the terms are harder than they appear on the surface since purchases cannot always be made from the cheapest source. Moreover, there have been considerable delays in translating the pledges into disbursements of funds. In particular, there has been a shortage of projects ready for financing and a very high proportion of the project aid is still to be disbursed. Recently, a Working Party of the Consortium has begun to examine procedures for facilitating the pledging of aid for projects. On program aid, there have also been some delays in signing agreements and disbursing funds. When, in 1964, it became clear that Turkey could not meet her debt commitments in full, the Consortium arranged a major debt rescheduling, completed early in 1965, which reduced the very heavy repayments due in 1965, 1966, and 1967 by postponing a portion of them until later years.

446. From the Turkish point of view, the amounts of aid, though substantial, have been less than the amounts needed to close the balance of payments gap; and delays in concluding some of the bilateral agreements accentuated the shortfall. As a result, import quotas had to be reduced and recourse made to short-term borrowing, mainly from the IMF and EMA. Also, Turkey's foreign exchange reserves were drawn down until at one time in 1964 they could have purchased only about a month's imports. It is a prime (and proper) objective of Turkish policy to restore these foreign exchange reserves so as to allow somewhat more flexibility, to repay some of the IMF and EMA debts so as to reconstitute some of the second line reserves, and to relax a little the very tight import quotas.

447. From the point of view of Consortium members also there have been considerable difficulties. To some of them, the balance of payments gaps revealed in the Annual Programs seemed large and there was great uncertainty as to when the need for foreign aid on concessional terms might actually begin to diminish. To some, too, the amount of aid which they were called upon to contribute was greater than they had expected when they agreed to join the Consortium. Moreover, although the Five-Year Plan involved a large increase in investments in Turkey and many projects were mentioned, it seemed to the donors that few projects had been prepared to the point where funds could actually be committed for them.

448. The Consortium has now dealt with the years 1963, 1964 and most of 1965, so only two years remain to be covered of the First Five-Year Plan. Work has already started in Ankara on the Second Plan, 1968-72, and it may be useful to consider whether the Consortium should have any different approach to this Second Plan than it had to the First Plan.

449. When the Consortium started work in October 1962, the First Plan was already a fait accompli. Members of the Consortium could raise questions about particular aspects of the Plan, about the Annual Programs, and about implementation, but the overall strategy and objectives had already been determined. In connection with the Second Five-Year Plan, a new and different approach - an approach of partnership between the Government and the Consortium - should be given careful consideration. On the one hand, it would be desirable for the Consortium members to know, at an early stage in the formulation of the Plan, what strategy and objectives the Government has in mind, at what cost and by what means, so that they can express to the Government whatever views they might have on the balance of payments and external aid implications of the program which the Turkish planners have in mind. On the other hand, in order to make its planning realistic, it would be desirable for the Turkish Government to know from the Consortium members what target amounts of Consortium aid it would be reasonable for the Government to use for planning purposes. It will not be easy, of course, to make such a partnership approach effective. On the one hand, it would be necessary for the Turkish planners to be quite specific with respect to their investment program and the methods which they envisage for financing it, including the steps to be taken to reduce progressively reliance upon special external aid. On the other hand, it would be necessary for the Consortium members to look ahead, at least for planning purposes, to the scale of their aid programs for Turkey over a period of years, while reserving their right to make a final determination of each year's aid commitments in the light of the Consortium's annual review of Turkey's development performance. In spite of the difficulties, an approach along these lines would seem to offer the best promise of achieving a satisfactory relationship between Turkey and the nations which are providing assistance to its development.

External Debt

450. Turkey's external debt position has been difficult, mainly on account of the substantial amount of suppliers' credits and commercial arrears incurred during the fifties. By the end of 1958, Turkey was unable to meet full service on these debts. In support of the stabilization program, the member countries of OECD agreed to consolidate and reschedule $423.9 million of suppliers' credits and commercial arrears, and recommended that the terms of those suppliers' credits on which deliveries had not yet been made be renegotiated to allow a longer period of repayment (paragraph 29).

451. In subsequent years, Turkey's economic development was supported by a substantial inflow of grant aid and loans repayable in local currency, mostly from the U.S.[1] Thanks to this aid, Turkey was able to limit the amount of new borrowing repayable in foreign currencies despite heavy deficits on the current account balance. The external public debt, including IMF credits of $57 million, now (April 1965) stands at $1,346 million, an increase of $371 million since 1958; or an average increase of about $60 million per year.

452. At the beginning of April 1965, the "pipeline" of committed aid was about $370 million, represented by official loan commitments not fully disbursed, principally on AID and IDA credits, with lesser amounts on Export-Import Bank loans and French, German, United Kingdom, Swedish and other bilateral credits.

453. Turkey's major creditors are listed in the following table, and in detail in Table 1, Statistical Appendix:

	Total Debt Outstanding			
	Net of undisbursed		Including undisbursed	
	$ Million	Percent	$ Million	Percent
Germany	276.5	28.3	291.6	21.7
United States	222.7	22.8	471.9	35.1
EPU-EMA	118.4	12.1	118.4	8.8
United Kingdom	105.3	10.7	113.7	8.4
France	62.1	6.4	90.9	6.8
IMF	57.1[2]	5.8	57.1	4.2
Italy	46.5	4.8	46.6	3.5
All other	44.8	4.6	54.9	4.1
IBRD-IDA	43.1	4.4	100.9	7.5
Total	976.5		1,346.0	

454. Despite the 1959 rescheduling, debt service remained high and during the course of 1964 it became clear that Turkey would have difficulty meeting the relatively large payments due in 1965 through 1967, and a second rescheduling of service payments was undertaken by the OECD Consortium for Turkey (paragraph 445). Debt service after this rescheduling is shown in Table 2, Statistical Appendix.

1/ U.S. Government loans to Turkey repayable in local currency rose from $80 million outstanding (including undisbursed) at the end of 1958 to $410 million at the end of 1964.

2/ Of which $15 million was repaid in July 1965.

Creditworthiness

455. In early 1965, Turkey's external public debt outstanding, excluding drawings on the IMF, but including undisbursed amounts, was almost $1.3 billion, and total service on this is calculated to be $94 million in 1966, or over 19% of gross exchange earnings of $489 million in 1964. By 1972, exchange earnings may be $800 million on what appear to be reasonable expectations, and might be around $900 million on more hopeful assumptions (paragraph 430). In that year, service (including interest, amounting to $17.5 million) on existing debt will still be $80 million, but starts dropping fairly rapidly from 1974 onwards (Table 2). Thus in 1972 service on existing debt would represent 10% of current exchange earnings of $800 million, and hopefully the percentage might be lower.

456. However, Turkey will doubtless be seeking gross new borrowings between now and 1972 which exceed repayments on existing debt, i.e., a net inflow of loan capital for both program and project purposes, which would increase future service charges. The mission, after careful review, has concluded that the available data, as well as information regarding future Government and private policies and actions, are not adequate to permit a reliable estimate at the present time of Turkey's likely requirements for net capital inflow on official loans (additional to PL 480) during the period up to 1972. Nevertheless, in the mission's view, the prospects for continued economic growth in Turkey, which themselves are partially linked to capital inflow to supplement Turkish savings, as well as for increase of export earnings, would warrant continued lending to Turkey.

457. An important question in considering magnitudes of lending is the terms of that lending.

458. In 1964 and 1965, the Consortium pledges averaged 2.2% interest and eight years of grace period for principal repayment (Table, page). The elimination of aid on concessional terms, which is Turkey's policy objective, would of course result in an increase in average interest rates. But such elimination can only be gradual; Turkey's own target date is the end of 1972. If average interest rates rise annually in even steps from the 2.2% average obtaining in 1965 to 5% in 1972, the arithmetic average for the whole period 1965 to 1972 would be 3.6%.

459. It can be postulated that Turkey will not be making net repayments of debt through 1972. This would imply gross borrowings of at least $661 million during that period to equal repayments of existing debt (including the IMF),and also a grace period of at least eight years on new borrowing. Interest on $661 million at 3.6% is $23.8 million. If an illustrative $24 million of interest on new "roll-over" borrowing is added to the 1972 service payments of $80 million on existing debt, the total, $104 million, would be 13% of the mission's estimate of $800 million for probable exchange earnings in that year, and 11.5% of the more hopeful estimate of $900 million.

460. Repayments upon the "roll-over" borrowing would, assuming eight-year grace periods, start in 1973 (on the 1965 borrowings), and thereafter rise steadily until service on the whole $661 million became payable in 1980. Assuming 3.6% and 30 years' maturity (including eight years of grace), this would amount to $44 million per year. But by 1979, the last year for which service payments on existing debt were calculated for mission use, service on existing debt would have been reduced to $33 million per year (from $80 million in 1972). Service on both existing debt and "roll-over" borrowings would thus, on the assumptions being used, total some $77 million in 1980, or under 10% of $800 million, which may again be used as a benchmark, even though exchange earnings in 1980 could reasonably be expected to be much higher.

461. Turkey is not, however, expected to be a capital exporter by 1972, or even later; a more relevant ratio than total service may be interest charges alone, which would, on this arithmetic illustration, be $41.3 million in 1972, or 5.2% of probable exchange earnings of $800 million, and some $33 million in 1980.

462. Taking into account Turkey's existing debt service situation and her basic potential, both overall and in detail, for development (as discussed throughout this Report), continued lending to Turkey (to support a vigorous development effort by Turkey herself) appears justified, to finance program aid and well-worked-out projects acceptable to the aid givers (assuming long grace periods on repayment of principal; average interest charges which harden only slowly; and no sizable resort to suppliers' credits), in amounts exceeding repayments on existing debt. It should be noted that Turkey will also be receiving PL 480 assistance and foreign private investment totaling perhaps $90 to $100 million annually (paragraphs 431 and 432). In reaching this conclusion, balance of payments magnitudes are almost as important as balance of payments structure. By 1972, and during the seventies, Turkey's exchange earnings could be of growing diversity, with new, nontraditional items becoming of increasing importance, and hence improving the stability of total earnings. On the import side, equipment imports will probably represent by far the largest single category, and one which could be compressed over the short-term in the event of a balance of payments liquidity crisis.

463. The planners expect that after 1972 there will no longer be a need for aid on concessional terms, and that thereafter Turkey's capital requirements could be met through conventional project borrowing. Such an outcome is by no means impossible of achievement. However, it cannot, of course, be firmly predicted, being highly dependent on the strength of the Government which will be administering Turkish economic affairs and the development policies it pursues.

A Note on Credit, Money and Prices

Credit

1. Domestic bank credit to the public sector and to the private sector each increased rapidly between 1950 and 1964.

Bank Credit
(TL million)

End of Year	Private Sector 1/	Public Sector: Government 2/	Public Sector: State Economic Enterprises 2/	Public Sector: Total
1950	1,115	423	745	2,283
1951	1,568	472	942	2,982
1952	2,343	501	1,163	4,007
1953	3,044	582	1,462	5,088
1954	3,808	858	1,606	6,272
1955	4,375	1,097	1,812	7,284
1956	4,942	1,461	2,165	8,568
1957	5,741	1,956	3,677	11,374
1958	6,378	1,972	4,537	12,887
1959	6,925	2,208	4,896	14,029
1960	7,229	2,450	4,816	14,495
1961	6,992	1,210	675	8,877
1962	8,911	1,587	887	11,385
1963	10,161	2,109	1,625	13,895
1964	11,493	2,832	1,781	16,106

1/ Excluding Central Bank credit to commercial banks.
2/ Data beginning in 1961 is not comparable with prior figures due to debt consolidation.
Source: Central Bank, Bulletin Mensuel, No. 23 1965, pp. 22-23 and 32-33.

2. As previously indicated, the principal channel for credit expansion during the later 1950's was the State Economic Enterprises. Their need to borrow arose at least partly from the operating losses incurred from pricing and personnel policies prescribed by Government.

3. In Turkey financial institutions and instruments of financial control are not fully developed. So when the stabilization program was begun in 1958, the traditional instruments of monetary policy (open market operations in Government stocks; variations in the reserve ratios required of banks; changes in the rate of interest at which the Central Bank will rediscount bills) were not relied upon to provide an effective restraint upon

credit expansion. The internal debt of the Central Government is small and almost none is held outside the public sector, so open market transactions to influence commercial bank reserves are virtually impossible. As for reserve ratios, authority to vary these rests since 1961 with the Minister of Finance who may require between 20 and 45% for demand deposits and between 10 and 35% for time deposits (of one year or more). However, from 1929 until mid-1964, the effective rates in fact remained unchanged at 20% for both kinds of deposits. The rate at which the Central Bank will rediscount bills has sometimes been varied. In the early 1950's it was at the low level of 3%. In the inflation after 1954 it was raised to 4% in 1955, to 6% in 1956, and finally to 9% in 1960.

4. But in Turkish conditions direct limits on credit have been and continue to remain more important determinants of the level of bank lending than the traditional financial instruments.

Control by Credit Ceilings

5. Following the introduction of the stabilization plan in 1958, several credit ceilings or sign posts have been annually agreed upon between the Turkish authorities and the International Monetary Fund in connection with stand-by arrangements with the Fund.[1] The Central Bank's Board of Directors also sets a credit limit for each member bank; individual credit ceilings for the major borrowing firms are another means of direct control through its Centralized Risk Center.

6. Another important means of affecting both bank and importers' liquidity is the controlled system of pre-deposit requirements for all proposed imports as a guarantee that imports will follow promptly after import licenses are issued. The pre-deposits are blocked in a special account with the Central Bank and only released after imports have cleared customs (except for AID-financed commodities where the pre-deposits are returned when the letter of credit is opened). Pre-deposit rates presently vary from 20 to 100% of the value of the imports, depending on the category of importers (industrialists are favored) and type of commodity (lowest for goods on the quota lists). As a method of direct credit control they affect both the liquidity of the private sector and the cost of imports to the importer.

7. The first stabilization years, 1958 and 1959, showed mixed results. The Government did not fully implement its policies to restrain credit supply and while credit expanded at lower rates than before (13% in 1958 and 9% in 1959), this, added to the existing highly liquid situation, resulted in a 15% price increase during 1958 and a 20% increase the following year. As we have said above, this was not all due to monetary causes but reflected the major devaluation of the Turkish lira in 1958 and the increased prices of imports. The Revolution of 1960 permitted the completion of the stabilization program begun by the former government, and it was essentially accomplished by the end of 1961.

1/ On occasion, the limits established for a given period have been modified by the authorities after consultation with the IMF.

8. During 1961, the Government consolidated TL 5,317 million of loans by the Central Bank and the commercial (primarily public) banks to 26 Government entities and State Economic Enterprises. The purpose of the consolidation was to place the State Economic Enterprises back onto a more normal financial basis for it was recognized that to a large extent the money the SEE's had borrowed had been used to finance current operating deficits resulting in part from Government decrees requiring them to provide goods and services below cost in order to try to restrain the rise in prices. In principle, the Government undertook to amortize this consolidated debt over the next 100 years but all installments have been postponed until after the first two Five-Year Plans are completed in 1972.

9. In 1961, too, the Government, after discussions with the International Monetary Fund and the (then) OEEC, instituted the system of credit ceilings on Central Bank advances and loans to the banking system, the Treasury, Soil Products Office (for the purchase of locally produced cereals), seasonal agricultural needs (Sugar Corporation, Tobacco Monopoly and Sümerbank for cotton) and an overall limit on total lending by commercial banks. In addition, the Central Bank sets limits for borrowing by each commercial bank, as well as credit ceilings for the major firms in Turkey. These credit ceilings for individual firms apply to the amount of their bills which the Central Bank is willing to accept for rediscounting. Through these many direct controls the Central Bank is capable of very extensive selective control over the many types of credit and also over its composition because different limits can be set for firms operating in different economic sectors. In addition to these administratively determined credit ceilings, there is a legal limitation on Central Bank advances to the Treasury. This was set in 1961 at 5% of budget expenditures, repayable in the same fiscal year; in 1965 it was relaxed to 10% of expenditures.

Interest Rate Policy

10. As we have said, during the inflationary era of 1955-60 the rate at which the Central Bank would rediscount bills had been raised from a low of 3% in 1951 to 4% in 1955, then to 6% in 1956, and finally to 9% on November 29, 1960 - except for agricultural and export bills which could be still discounted at 6%. In 1961, with the inflationary pressure reduced, the discount rate was reduced from 9 to 7-1/2%, with a continued preference for agriculture and export bills. At the same time, the maximum rate on ordinary commercial loans was decreased to 10.5% and an especially beneficial rate of 9% was extended for credit on agricultural, export, artisan and small traders' loans. In 1964, a supplementary list of favored industries was added to encourage investments foreseen in Turkey's First Five-Year Plan.

11. These changes in the level and structure of interest rates during 1961 reflected a desire to correct the distortions caused by the inflation. Between 1955 and 1960, prices rose annually at 10 to 20%. As the legal maximum rate of interest in the 1950's was 9% (plus charges) the effective interest rate in the late 1950's was extremely low and sometimes negative. After 1960 price increases slackened and the effective interest rate had

become very high, for the legal ceiling had been raised to 10-1/2% and, after taking into account all commissions, collection fees, correspondence charges, appraisal costs and, above all, the transaction tax of 20% levied on interest, the effective legal rate could attain 19.8%. The Government tried to reduce the rate for some specially favored economic sectors, but even in these cases it is not below 12%.

12. In mid-1964, evidence grew that economic expansion was not progressing as planned (due perhaps partly to political uncertainties surrounding the Cyprus crisis), and the Central Bank took expansionary measures of the kind which are most effective in Turkish conditions, that is, increased credit limits and, to a lesser extent, lower interest rates. Besides increases in the limits on advances to the Treasury, to the Soil Products Office (used to finance crop purchasing) and to the Monopolies Administration, the Bank increased individual credit limits for commercial banks with branches in rural areas; it lowered rediscount rates for loans to the favored economic sectors mentioned previously; and it lowered for the first time since 1936 the required reserve ratio on time deposits from 20 to 10%. These moves were accompanied by increased efforts of Government departments and the State Economic Enterprises to implement their investment projects.

13. The measures appear to have been adequate to help redress the apparent stagnation and to push the economy back onto a higher level of activity. Total commercial bank credit, which had not increased during the first six months of 1964 had expanded by nearly TL 1,500 million by the end of December - an expansion of about 13%. Similarly, the money supply responded pari passu by increasing TL 2,000 million or nearly 17%. Whether increased production and primary liquidity will be able to absorb this extraordinary expansion without significant price rises in 1965 remains to be seen.

14. Taking a longer view, it is the belief of the Mission that the credit controls and monetary instruments described in this and the preceding section, in combination with appropriate fiscal policies, appear adequate to carry out the Plan's objectives of development within a framework of general financial stability.

15. In the preceding section we described the inflationary expansion of credit in the 1950's. Naturally this was accompanied by an increase in the supply of money. Money supply (coins and currency plus demand and sight savings bank deposits) increased by 331% between 1950 and 1957. Annual rates were sometimes greater than 25%.

Money Supply

End of Year	TL Million	Annual Percentage Increase
1950	1,594	13.0
1951	2,018	26.6
1952	2,421	20.0
1953	2,947	21.7
1954	3,372	14.4
1955	4,214	25.0
1956	5,361	27.2
1957	6,867	28.1
1958	7,421	8.1
1959	8,699	17.2
1960	9,256	6.4
1961	10,025	8.3
1962	10,964	9.4
1963	12,167	11.0
1964	13,999	15.0

Source: Central Bank, Bulletin Mensuel, No. 2-3 1965, p.48.

16. Part of this increment was used to finance a 54% increase in production and part a 186% increase in liquidity. Of the increase in liquidity, a considerable portion, unfortunately unmeasurable, was required to finance more intermediate transactions as the economy grew more complex, and as the rural agricultural sector turned more and more away from production for subsistence towards cash crops. Nevertheless, as we have described already, there is no doubt that monetary demand far exceeded domestic supply as both prices and foreign trade deficits showed; the trade deficit in 1957 was $154.8 million compared with a deficit of $22.5 million seven years earlier.

Prices and Wages

17. Relatively stable prices and an almost complete withdrawal of Government price controls are two of the most significant economic developments since the 1960 Revolution. These are particularly notable in light of the opposite experience which occurred throughout most of the 1950's.

18. Consumer prices increased by less than 5% annually between 1960 and 1962, about one-half the pre-1958 rate. The price of gold declined for the first time in eight years and has continued to decrease with the maintenance of relative price stability and increased public confidence in the capacity of the Government to fulfill its promised responsibilities. In 1964, gold stood at 27% under its 1958 peak.

19. While real wages had never ceased rising during the inflationary period they were increased about 10% following the 1960 Revolution. There is no evidence that they have significantly risen or declined since then. In 1964, a skilled and permanently employed laborer might receive as high as $2 per day, but an unskilled coal miner received only $1.22 per day and the average civil servant $67 per month.

20. Consumer price regulations were largely dismantled during 1963 but by 1965 still some 17% of consumer expenditures were for goods and services directly controlled by the Government. The Government still greatly influences some consumer prices through its own trading activities, for example, in wheat purchasing. In 1964, a new law was passed giving the State Economic Enterprises almost complete freedom to determine their own pricing policies, and providing for explicit subsidies if the Government should deem price controls necessary. In practice, few SEE's seem to have had the courage or the experience to adopt flexible price policies. Consumer prices rose by 10% during 1963, reflecting principally the decontrolled price adjustments necessary for food and housing. Turkey is now the only member country of OECD without rent controls. During 1964, consumer prices rose by only 1% - less than any increase since 1951, and wholesale prices were actually 2% lower than a year earlier. The early months of 1965, however, showed rising tendencies in both indices.

A Note on Import Prospects

1. The mission attempted an estimate of import requirements in 1972. This estimate was merely designed as a test of the adequacy of exchange availabilities; it was intended as an indication of orders of magnitude, and should not be regarded as a forecast. In fact, the estimates had to be based on a number of assumptions regarding such factors as the degree of monetary stability, the pace and direction of investment, the growth in income, consumption and savings, etc., which are likely to fluctuate over a period of eight years. Since such factors cannot be predicted accurately, the estimates should be regarded as tentative; their main value lies in providing a convenient framework for discussing the prospects of Turkey's foreign exchange requirements.

2. As shown in the table below, imports were broken down in several commodity groups, to take into account different developments in demand and domestic production.

Imports, 1963 and 1972
($ million)

		1963		1972
Food		95		72
Metals		80		96
Iron and steel	50		10	
Non-ferrous metals	7		43	
Metal products	23		43	
Chemicals		83		153
Other Intermediate Products		141		99
Fuel	66		14	
Textiles	26		35	
Forestry products, pulp & paper	13		7	
Rubber & rubber products	28		33	
Non-metallic minerals	8		10	
Equipment		270		369
Electrical	43		77	
Industrial and agricultural	150		210	
Transport	77		82	
Other		19		36
Total		688		825

3. The estimate assumes that industry will develop rather rapidly and that as a result domestic production will largely replace such imports as steel and paper. It also assumes that domestic production of such items as chemicals and machinery will expand rapidly, although their imports rise steeply. The immediate outlook for substantial import savings is promising in steel as well as in some other fields because a number of new plants which have recently been completed are now gradually being brought into production. Similarly, because of the recent discovery of additional oil reserves, oil imports are likely to decline after 1967, when the pipeline is expected to be completed.

4. It has been assumed that investment will increase at a steady pace. This is implicit in the estimates made by the mission of the import requirements of investment in major sectors of the economy.

Food

5. Imports are likely to remain at about $70 million, which was the average in 1961-64. Following the new emphasis on agricultural development, output is likely to rise sufficiently to satisfy the increase in consumption due to the expected increase in population and in per capita income. In cereals, Turkey is likely to be a net importer, mainly of wheat, except when the crop is a bumper one. Future increases in production will depend almost entirely on improved technology since there are no sizable tracts of new land likely to be put under wheat. Improved technology has shown promising results - in the case of winter wheat yields could be raised by about 500 kgs. per ha., or some 50%. To meet the increase in consumption, however, the application of the new methods would have to be spread to the equivalent of about 400,000 new ha. per year, compared with 8 million ha. now under wheat. This rate of progress is not likely, at least not for the next few years. Hence, the prospects are that, on the average, Turkey's wheat imports in the early seventies are likely to be higher, some 50% and possibly twice as high, as in recent years.

6. On the other hand, the prospects for a substantial increase in the production of vegetable oils are quite good, in particular for the main crops. Cotton seed should follow the expected increase in the cotton crop, and the production of sunflower seed doubled in 1964 following the introduction of orobanche resistant varieties. Olive oil production can also be expected to grow as indicated before. Consequently, Turkey may export some items which the domestic market cannot absorb or which command attractive prices abroad (e.g., olive oil). In return, she may import some fats and oils, such as soybean oil.

7. Wheat and oils and fats are largely imported under PL 480 assistance and it has been assumed that this program will continue at an annual total of $60 million.

Iron and Steel

8. Demand projections are based upon observed typical relationships between the growth in steel consumption and the growth in GNP for countries at approximately Turkey's present stage of development.

9. On a tonnage basis, existing and planned steel capacity is expected to be amply sufficient to meet the demand by 1967, and there is also no reason why such a balance could not be maintained through 1972. Nevertheless, some steel products of special qualities, types and dimensions which cannot be made economically in Turkey will have to be imported. In this respect, it has been assumed that the proportion of imports to total consumption will be about 7.5% in 1967 and rather less than 5% in 1972, and that the import price will average $150 per ton. More detailed studies might reveal that the demand for special steels is likely to increase more rapidly than has been assumed, and that it would be difficult to produce these additional quantities in Turkey at an economic price. In that event, both the imported quantities and the average import price might turn out to be substantially higher than projected.

Non-ferrous Metals

10. Since most of these metals are used in the production of equipment, it could be assumed that their consumption would grow roughly in line with the development of the equipment industries. At the present stage of Turkey's economic development, this assumption would not be entirely correct since the demand of the equipment industries is not for the metals themselves, but for various parts and semi-manufactures. Hence, future demand for non-ferrous metals depends to a greater degree on the pace of development of the local industry producing these intermediary goods. The prospects are that, during the next two or three years, this manufacturing branch will not develop as rapidly as the equipment industries, whose production of such important new items as trucks, tractors, heavy electrical equipment, etc., is expected to rise considerably. Furthermore, these new production lines will be based mainly on the assembly of imported parts, at least initially, and only gradually are they expected to increase the proportion of locally made parts. For this reason it has been assumed that the demand for non-ferrous metals will grow somewhat slower than the production of the machinery industries during the years 1963-67; thereafter, both have been assumed to grow at the same pace.

11. Production prospects for the major non-ferrous metals are discussed in Chapter III (c).

Metal Products

12. The value of the domestic output of metal products in 1963 is estimated at TL 1.42 billion, with imports valued at TL 0.21 billion. Major imported items were prefabricated buildings, cutlery, nails, bolts, nuts, chains and various hand tools.

13. Small establishments predominate in the Turkish metal manufacturing industry. There is substantial tariff protection (35-50%) and much unused capacity. Theoretically, possibilities of import substitution should be promising, but it is not clear under what conditions the existing capacity could be better mobilized. In any event, the growth of the machinery sector in Turkey will bring forth a demand for new products and for products of more advanced design and quality.

14. Lacking a firm basis for projections, we have assumed an 8% per annum non-cumulative growth in demand and a constant proportion of imports to total demand.

Chemicals

15. Imports of chemicals in 1963 totaled about $84 million equivalent. The Turkish chemicals industry is still in its infancy. The main items of domestic production are soaps, pharmaceuticals, paints, tanning agents and nitrogen fertilizers. Some basic chemicals, like sulfuric acid, caustic soda and calcium carbide, are also produced. The most important chemicals plant in Turkey is the nitrogen fertilizer plant which uses domestic lignite. This choice of raw material was probably reasonable at the time construction was initiated; recent technological developments seem to favor production based on refinery feed stocks.

16. The demand for chemicals presently produced in Turkey is growing relatively slowly. In contrast very rapid expansion may be expected in the demand for other kinds of chemicals,particularly fertilizers, man-made fibers and plastics, with a consequent sharp rise in imports. A petrochemicals complex using feed stocks from existing refineries could eventually produce all of these products. Like many other developing countries, Turkey is having great difficulties planning for domestic production in this area, and the necessary studies and other initiatives are seriously behind schedule.

17. For purposes of projection and based upon separate appraisals for the main categories of products involved, the mission has assumed that the total demand for chemicals would grow by nearly 150% between 1963 and 1972, and that the proportion of the total output produced domestically would increase from about 60% in 1963 to about 70% in 1972. Notwithstanding the rapid increase in domestic production, there would be a near doubling of imports to over $150 million equivalent by 1972.

Petroleum

18. As indicated before, production of crude could be sufficient within five years to meet domestic requirements, provided suitable arrangements are worked out for a pipeline from the major fields to the Mediterranean. Because of the current controversy over oil, the outlook for the early seventies is far less certain since this depends on substantial further investments in exploration and drilling, as well as on the degree of success in finding new deposits. Hence, imports are expected to rise after 1970, by about one-half million tons, or $7 million per year.

Rubber and Rubber Products

19. In 1963, a major proportion of all types of tires was still imported. By 1967, most tires should be produced in sufficient quantities in Turkey. It has been assumed that the Turkish production of tires would increase nearly seven-fold between 1963 and 1972. Considering also non-tire uses, the import bill for natural and synthetic rubber might increase from slightly over US $5 million equivalent in 1963 to, say, about $20 million by 1972.

Industrial and Agricultural Equipment

20. Total production in this field is still small, amounting to about TL 0.9 billion compared to imports of TL 1.47 billion. The main products manufactured domestically are (1) tractors and agricultural machinery, and (2) such consumer durable goods as refrigerators, washing machines and sewing machines. Substantial machine tool capacity at the shipyards and other state enterprises is used mainly to satisfy their own requirements. No formula has been found to organize this capacity, much of which lies idle at any one time, for the economical production of machines. The best future production possibilities would seem to exist in diesel engines (particularly truck and bus engines), sundry industrial equipment, and construction equipment (a factory for roadmaking equipment was established in 1965). The Government is encouraging the manufacture of a wide range of industrial equipment in Turkey by various types of preferences. Experience may well show, however, that forced draft development of this sector may be inimical to the objective of supplying Turkish industry with high quality and up-to-date equipment at a reasonable price.

21. We have assumed that total imports would increase from about $150 million in 1963 to $210 million in 1972 and that domestic production would expand two and a half times.

Electrical Equipment

22. Domestic production covers about half of the total requirements. The main items of production are radios and record players (nearly 40% of the total domestic output), batteries, cables, small transformers and electric meters. In 1963, about half of the total imports of electrical equipment was for the power industry and another quarter was telephone and communications equipment. Factories producing consumer durable goods should be able to meet most of the increase in demand in their fields. A new cable factory is being erected at Ismit and a telephone equipment factory is being considered. The existing transformer factory at Ismir is expected to be able to maintain, and possibly to increase its share of the market. On the other hand, greatly increased imports of heavy equipment for the power industry are to be expected and there will be some increase in imports of electrical equipment for the automotive industry and for general industrial use. On an overall basis, imports of electrical machinery might nearly double in spite of a projected three-fold increase in domestic production.

Transport Equipment

23. Next to industrial equipment, transport equipment represents the largest single category of manufactured imports. The domestic industry is occupied mainly with the production of railway equipment, including wagons and coaches, and with truck and bus assembly. The average domestic component of such assembly in 1963 was only about 12%. The estimates for 1972 assume that the Government will adjust present policies which penalize railway traffic in favor of road transport, and that practically all trucks needed will be assembled in Turkey with an increasing proportion of domestic components. On the other hand, it is also assumed that passenger vehicles will continue to be imported, that expenditures on ships and aircraft will be held to a strict minimum, and that increased ship purchases in 1972 will be mainly covered by imports. We have also taken into account that the increased domestic production of trucks will call for substantially increased imports of parts and components totalling perhaps $50 million by 1972.

Table 1

TURKEY - EXTERNAL MEDIUM- AND LONG-TERM /1 PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1964 WITH MAJOR REPORTED ADDITIONS TO APRIL 3, 1965 CLASSIFIED BY CREDITOR COUNTRY OR ORGANIZATION

Debt Repayable in Foreign Currency
(In thousands of U.S. dollar equivalents)

Item	Debt outstanding December 31, 1964		Major reported additions January 1 - April 3, 1965
	Net of undisbursed	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT	919,384	1,193,420	95,540
IBRD loans	35,164	35,164	-
IDA credits	7,975	55,700	10,000
European Payments Union	118,356	118,356	-
Liquidation debt	18,303	18,303	-
Quota credit	5,053	5,053	-
Refinancing 1962/63/65	95,000	95,000	-
Council of Europe	2,654	2,654	-
Eurofima	1,140	1,140	-
United States	222,650	386,411	85,540
Suppliers' credits and consolidated debts	33,714	33,714	-
Government loans			
Export-Import Bank	16,902	30,261	-
AID	172,034	322,436	85,540
United Kingdom	105,309	113,709	-
Suppliers' credits	5,728	5,728	-
Private bank credit	7,840	7,840	-
Government loans and consolidated debts	91,741	100,141	-
Austria (Govt. loans & consolidated debts)	5,718	6,718	-
France	62,080	90,932	-
Suppliers' credits	7,387	7,387	-
Govt. loans and consolidated debts	54,692	83,544	-
Germany	276,516	291,572	-
Suppliers' credits	8,409	8,514	-
Govt. loans and consolidated debts	268,107	283,058	-
Italy	46,496	46,569	-
Suppliers' credits	13,285	13,303	-
Govt. loans and consolidated debts	33,211	33,266	-
Netherlands	11,111	11,111	-
Suppliers' credits	881	881	-
Govt. loans and consolidated debts	10,230	10,230	-
Sweden	3,599	8,650	-
Suppliers' credits	168	193	-
Govt. loans and consolidated debts	3,431	8,457	-
Japan (suppliers' credits)	951	951	-
Switzerland (Govt.loans & consolidated debts)	2,973	4,363	-
Denmark (Govt. loans)	612	2,639	-
Belgium (Govt.loans & consolidated debts)	8,089	8,089	-
Portugal (Government loans)	364	364	-
Norway (Government loans)	409	899	-
Luxembourg (Government loans)	-	100	-
Unknown (suppliers' credits)	4,187	4,187	-
Sino-Soviet bloc	3,033	3,143	-
U.S.S.R.	297	297	-
Czechoslovakia	2,736	2,847	-

/1 Debt with an original or extended maturity of one year or more, excluding IMF.

Statistics Division
IBRD-Economics Department
July 8, 1965

Table 2

TURKEY - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL MEDIUM AND LONG-TERM PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1964 WITH MAJOR REPORTED ADDITIONS TO APRIL 3, 1965 /1

Debt Repayable in Foreign Currency
(In thousands of U.S. dollar equivalents)

Year	Debt Outstanding (beginning of period) including Undisbursed	Payments during Period		
		Amortization	Interest	Total
1965	1,180,687	60,349	28,634	88,983
1966	1,201,965	65,552	28,732	94,284
1967	1,133,091	61,888	26,350	88,238
1968	1,067,699	82,351	24,184	106,535
1969	985,347	85,449	21,799	107,248
1970	899,997	95,517	22,845	118,362
1971	806,529	91,204	19,957	111,161
1972	717,473	62,617	17,494	80,111
1973	657,004	64,035	15,432	79,467
1974	594,847	42.729	13,552	56,281
1975	554,266	42,341	12,381	54,722
1976	511,925	28,903	11,127	40,030
1977	483,022	24,957	10,305	35,262
1978	458,064	24,036	9,603	33,639
1979	434,028	24,050	8,925	32,975

/1 Includes service on all debt listed in Table 1 prepared June 16, 1965 except the following loans for which repayment terms are not available:

Privately-placed debt	Lit 17,400,000 ($ 27,840)
Privately-placed debt	SKr 1,000,000 ($193,311)
Loan from Germany	DM 90,047,000 ($ 22,512,000).

Assuming debts are re-scheduled as proposed by Consortium.

Table 3

NATIONAL PRODUCT AT CURRENT PRICES, 1948-1963
(TL Billion)

	1948	1950	1952	1954	1956	1958	1959	1960	1961	1962	1963
Agriculture	4.7	4.5	6.2	5.9	9.1	15.8	18.5	19.2	19.0	21.8	24.6
Industry	9	1.1	1.5	2.2	3.3	5.4	6.6	6.9	7.6	8.3	9.5
Construction	3	3	5	9	1.2	2.1	2.6	2.9	2.9	3.1	3.4
Commerce	1.0	1.0	1.3	1.8	2.1	2.7	3.3	3.5	3.6	4.1	4.6
Transport Communications	4	5	8	1.0	1.5	2.0	2.8	3.0	3.4	3.8	4.4
Financial Institutions	1	2	2	4	6	9	1.2	1.4	1.3	1.4	1.7
Private Professions	3	4	5	6	1.0	1.3	1.9	2.1	2.4	2.7	3.0
Income from Dwellings	2	3	3	5	7	1.2	1.6	2.0	2.3	2.5	2.8
Government Services	9	9	1.1	1.5	1.7	2.3	3.5	3.6	4.4	4.6	5.5
Domestic Income	8.8	9.0	12.5	14.8	21.3	33.8	42.0	44.7	46.8	52.3	59.3
Income from Abroad	- 0	- 0	- 0	- 0	- 1	- 2	- 3	- 3	- 3	- 3	- 3
Net National Product (factor cost)	8.8	9.0	12.4	14.8	21.2	33.6	41.8	44.4	46.5	52.1	59.1
Indirect Taxes	9	1.0	1.4	1.6	2.0	3.1	4.0	4.4	4.7	5.4	6.2
Net National Product (market prices)	9.7	10.0	13.8	16.4	23.2	36.7	45.8	48.8	51.2	57.4	65.3
Depreciation	3	4	5	7	1.1	1.6	1.9	2.2	2.5	2.9	3.2
Gross National Product (market prices)	10.1	10.4	14.3	17.1	24.3	38.3	47.7	51.0	53.7	60.3	68.5

Source: State Institute of Statistics.

Table 4

NATIONAL PRODUCT AT 1948 PRICES, 1948-1964
(TL Million)

	1948	1950	1952	1954	1956	1958	1959	1960	1961	1962	1963
Agriculture	4.7	4.6	5.8	5.1	6.1	7.3	7.3	7.4	7.2	7.6	8.2
Industry	9	1.0	1.2	1.4	1.5	1.7	1.8	1.8	1.8	2.0	2.1
Construction	3	5	6	7	7	9	1.0	1.0	9	9	1.0
Commerce	1.0	1.0	1.2	1.1	1.3	1.5	1.7	1.7	1.7	1.8	2.0
Transport Communications	4	5	7	8	1.0	1.1	1.2	1.3	1.3	1.4	1.5
Financial Institutions	1	2	2	3	3	4	4	4	4	4	5
Private Professions	3	4	5	5	6	7	8	8	9	9	1.0
Income from Dwellings	2	2	3	3	4	5	6	7	8	9	9
Government Services	9	9	1.0	1.2	1.2	1.4	1.6	1.6	1.8	1.8	2.0
Domestic Income	8.8	9.1	11.4	11.5	13.2	15.5	16.3	16.7	16.8	17.8	19.2
Income from Abroad	- 0	- 0	- 0	- 0	- 0	- 0	- 0	- 0	- 0	- 0	- 0
Net National Product(factor cost)	8.8	9.1	11.4	11.5	13.2	15.5	16.3	16.7	16.8	17.8	19.2
Indirect Taxes	9	9	1.2	1.2	1.4	1.6	1.7	1.7	1.7	1.8	2.0
Net National Product(market prices)	9.7	10.0	12.6	12.6	14.5	17.1	18.0	18.4	18.5	19.7	21.1
Depreciation	3	4	4	5	6	7	7	8	8	9	9
Gross National Product(market prices)	10.1	10.4	13.0	13.1	15.1	17.8	18.8	19.2	19.3	20.5	22.1

Source: State Institute of Statistics

Table 5

EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 TO 1963
(at current prices - TL Million)

	1959	1960	1961	1962	1963 1/	Averages 1950-54	Averages 1955-59	Averages 1960-63
Gross National Product	47727	50970	53720	60301	68490	14182	32431	58371
Current Account Deficit	1455	1422	1636	2442	3283	357	576	2196
Total Available Resources	49182	52392	55356	62743	71774	14539	33007	60566
Total Consumption Expenditure	42491	44876	47562	54030	62133	12812	28635	52152
Private	36521	38369	39962	45116	51524	10681	24547	43743
Public	5970	6507	7600	8914	10609	2131	4088	8408
Total Investment Expenditure	6691	7516	7794	8713	9641	1728	4392	8416
Private	3612	3758	4015	4605	5009	997	2393	4347
Public	3079	3758	3828	4108	4632	730	1987	40
Savings	5236	6094	6158	6271	6358	1371	3816	6220

1/ Preliminary estimates for 1963

Source: State Institute of Statistics

Table 6

EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 TO 1963
(Percentages)

	1959	1960	1961	1962	1963	Averages 1950-54	Averages 1955-59	Averages 1960-63
Gross National Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Current Account Deficit	3.0	2.8	3.0	4.0	4.8	2.5	1.8	3.8
Total Available Resources		102.8	103.0	104.0	104.8	102.5	101.8	103.8
Total Consumption Expenditure		88.0	88.5	89.6	90.7	90.3	88.3	89.3
Private	76.5	75.3	74.4	74.8	75.2	75.3	75.7	74.9
Public	12.5	12.7	14.1	14.8	15.5	15.0	12.6	14.4
Total Investment Expenditure	14.0	14.7	14.5	14.4	14.1	12.2	13.5	14.4
Private	7.6	7.4	7.5	7.6	7.3	7.1	7.4	7.4
Public	6.4	7.4	7.1	6.8	6.8	5.1	6.1	7.0
Savings	11.0	12.0	11.5	10.4	9.3	9.7	11.8	10.7

Source: State Institute of Statistics

Table 7

INVESTMENT, 1950 TO 1963
(at current prices - TL Million)

	1959	1960	1961	1962	1963	Averages 1950-54	Averages 1955-59	Averages 1960-63
Private Investment	3612	3758	4015	4605	5009	997	2393	4347
Total Construction	1985	2081	2108	2386	2528	610	1525	2276
Dwellings	1458	1550	1582	1710	1680	428	1119	1631
Other buildings	489	489	479	615	743	166	377	582
Other construction works	38	42	47	61	105	16	29	64
Machinery and equipment	1626	1677	1908	2218	2481	387	869	2071
Public Investment	3079	3758	3828	4108	4632	731	1987	4082
Total Construction	2412	2736	2810	2906	3447	552	1616	2976
Dwellings	34	21	48	68	93	16	25	58
Other buildings	700	854	910	1011	1429	199	468	1051
Other construction works	1677	1862	1852	1828	1925	337	1123	1867
Machinery and equipment	667	1022	1018	1202	1184	179	371	1107
Total Investment	6691	7516	7843	8713	9641	1728	4380	8429
Total Construction	4397	4817	4918	5293	5976	1162	3141	5252
All machinery and equipment	2294	2699	2926	3420	3665	566	1239	3178

Source: State Institute of Statistics

Table 8

INVESTMENT, 1950 TO 1963

	1959	1960	1961	1962	1963	Averages 1950-54	Averages 1955-59	Averages 1960-63
Total Investment								
Percentage of GNP	14.0	14.7	14.5	14.4	14.1	12.2	13.5	14.4
Private Investment								
Percentage of Total Investment	54.0	50.0	51.2	52.9	52.0	57.7	54.6	51.7
Percentage of GNP	7.6	7.4	7.5	7.6	7.3	7.0	7.4	7.4
Public Investment								
Percentage of Total Investment	46.0	50.0	49.1	47.1	48.0	42.3	45.4	48.5
Percentage of GNP	6.4	7.4	7.1	6.8	6.8	5.1	6.1	7.0
Total Construction								
Percentage of Total Investment	65.7	64.1	62.7	60.7	62.0	67.2	71.7	72.3
Percentage of GNP	9.2	9.5	9.2	8.8	8.7	8.2	9.7	9.0
Machinery and Equipment								
Percentage of Total Investment	34.3	36.0	37.3	39.2	38.0	32.7	28.2	37.7
Percentage of GNP	4.8	5.3	5.4	5.7	5.3	4.0	3.8	5.4
Composition of Private Investment								
Construction	55.0	55.4	52.5	51.8	50.5	61.2	63.7	52.4
Machinery and Equpment	45.0	44.6	47.5	48.2	49.5	38.8	36.3	47.6
Composition of Public Investment								
Construction	78.3	72.8	73.4	70.8	74.4	75.5	81.3	72.9
Machinery and Equipment	21.7	27.2	26.6	29.2	25.6	24.5	18.7	27.1

Source: State Institute of Statistics

Table 9

MONEY, CREDIT AND INTEREST RATES, 1950-1964
(TL million, end of period)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963 I	1963 II	1963 III	1963 IV	1964 I	1964 II	1964 III	1964 IV
MONEY																					
1. Currency and coins	900	1,048	1,146	1,333	1,379	1,805	2,322	2,936	3,052	3,406	3,828	4,140	4,527	4,717	4,587	4,781	4,926	5,075	5,103	5,805	5,835
2. Demand Deposits	245	344	500	570	699	846	1,002	1,143	1,372	1,683	1,746	1,918	1,950	1,868	1,739	1,687	1,999	1,771	1,763	2,071	2,230
3. Sight savings deposits	449	626	775	1,044	1,294	1,563	2,037	2,788	2,997	3,610	3,682	3,967	4,487	4,703	4,654	4,701	5,242	5,203	5,173	5,006	5,934
4. Money supply (1+2+3)	1,594	2,018	2,421	2,947	3,372	4,214	5,361	6,867	7,421	8,699	9,256	10,025	10,964	11,288	10,980	11,169	12,167	12,049	12,039	12,882	13,999
5. Quasi-monetary deposits	683	771	883	1,181	1,196	1,439	1,712	2,156	2,381	3,162	3,815	3,953	4,604	4,696	5,020	4,901	4,908	5,029	5,182	4,807	5,135
6. of which time savings deposits	221	230	185	343	284	319	438	502	497	572	815	1,093	1,161	1,348	1,415	1,460	1,571	1,646	1,691	1,708	1,798
7. Deposits held by private banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4,644	5,260	5,369	5,277	5,252	5,902	5,751	5,667	5,702	6,462
8. of which public deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	364	452	463	452	430	437	425	461	464	441
9. Deposits held by public banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,632	4,158	4,180	4,179	4,205	4,614	4,696	4,784	4,814	5,548
10. of which public deposits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,504	1,991	1,760	1,793	1,761	1,859	1,891	1,941	1,925	2,253
CREDIT																					
Central Bank																					
11. Central Government 1/	263	298	263	242	439	616	892	1,021	1,000	1,135	1,427	100	393	741	811	876	888	1,128	1,327	1,555	1,508
12. State Economic Enterprises	745	933	1,145	1,444	1,562	1,643	1,844	2,566	3,247	3,487	3,546	453	630	667	589	972	1,121	978	818	992	1,144
13. Commercial Banks	132	217	454	478	927	818	987	1,139	1,226	1,200	1,151	604	801	705	1,144	1,192	1,142	1,016	993	1,469	1,488
Commercial Banks																					
14. Private sector	1,115	1,568	2,343	3,044	3,808	4,375	4,942	5,741	6,378	6,925	7,229	6,992	8,911	8,764	9,405	9,714	10,161	10,046	10,054	10,485	11,493
15. Public sector	160	183	256	358	463	650	890	2,046	2,262	2,482	2,293	1,332	1,451	1,586	1,513	1,652	1,725	1,755	1,868	1,936	1,961
16. Total	1,275	1,751	2,599	3,402	4,271	5,025	5,832	7,787	8,640	9,407	9,522	8,324	10,362	10,350	10,918	11,366	11,886	11,801	11,922	12,421	13,454
17. of which private banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,346	4,278	4,327	4,562	4,860	4,904	4,829	4,867	5,112	5,181
18. of which public banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4,978	6,084	6,023	6,356	6,506	6,982	6,972	7,035	7,309	8,273
INTEREST RATES 1/ (percent)																					
19. Central Bank discount or advance rate	4.0	3.0	3.0	3.0	3.0	4.5	6.0	6.0	6.0	6.0	9.0 2/	7.5 3/	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5 4/
20. Ordinary commercial bank lending rate	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	12.0	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
21. Sight deposits (less than 4 months) 5/	4.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
22. Time deposits (6-12 months) 5/	6.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
OTHER																					
23. Number of bank branches	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,716	1,711	1,719	1,720	1,733	1,758	1,761	1,768	1,785	1,899
24. Number of protested bills (during last month of period) 6/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13,925	18,821	17,713	20,621	24,418	23,352	33,272	35,742	29,105	24,705

1/ Beginning in 1961, TL 5,268 million of consolidated debt must be added.
2/ Rate of 6.0 percent maintained for agricultural, export, artisan and small trader's bills.
3/ Rate of 5.25 percent for agricultural, export, artisan and small trader's bills.
4/ Lower rate of 5.25 percent also applied to bills of industries selected by the State Planning Organization and approved by the Committee for the Regulation of Bank Credits.
5/ Before August, 1951, only two basic rates existed; since then, additional rates, varying with the length of time of the deposit, have been introduced.
6/ Only for cities having Central Bank branches.

Source: Central Bank, Bulletin Mensuel and Summary of Money and Credit Statistics; Ministry of Finance, Monthly Economic Indicators.

Table 10

WAGES AND PRICES, 1950-1964
(Annual and quarterly averages)

	Unit or base	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963 I	1963 II	1963 III	1963 IV	1964 I	1964 II	1964 III	1964 IV
1. Real wages	1961 = 100	n.a.	n.a.	n.a.	n.a.	n.a.	86	87	88	91	92	89	100	101	96	95	100	100	96	100	102	99
Cost of living (Istanbul)																						
2. Food	1953 = 100	94	90	96	100	109	114	131	147	162	210	227	242	255	274	273	271	272	274	271	272	275
3. Heating and lighting	1953 = 100	94	90	98	100	104	110	119	134	147	196	225	225	231	233	234	234	234	234	234	236	236
4. Clothing and household articles	1953 = 100	93	99	99	100	105	118	130	154	189	223	227	215	217	223	227	230	231	230	232	230	232
5. Housing	1953 = 100	87	87	87	100	145	188	124	141	159	176	190	224	250	294	300	302	305	307	311	312	307
6. Miscellaneous	1953 = 100	91	92	98	100	108	121	138	159	189	252	249	246	262	260	269	269	269	269	270	268	272
7. General index	1953 = 100	93	91	97	100	110	119	136	152	171	216	229	236	245	259	261	259	263	264	263	261	265
Wholesale prices																						
8. Food	1953 = 100	92	92	96	100	110	115	134	165	170	203	221	248	277	295	304	273	269	279	273	256	267
9. Industrial raw materials and semi-manufactured goods	1953 = 100	89	108	103	100	112	128	146	165	219	267	271	261	261	269	271	271	272	274	272	273	264
10. General index	1953 = 100	91	97	98	100	111	119	139	165	190	227	239	246	260	278	277	264	264	274	270	261	271
11. Gold ingot (Istanbul)	TL/gram	5.20	5.13	5.76	6.48	7.26	9.72	12.31	16.02	18.99	16.56	16.11	15.70	14.85	14.64	14.19	13.74	14.04	14.15	13.67	13.62	13.97

Source: Ministry of Finance, Monthly Economic Indicators and
Istanbul Chamber of Commerce, Price Indices

Table 11

CENTRAL GOVERNMENT REVENUE AND EXPENDITURE 1952-1964
(TL million)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
REVENUE													
1. Total	2016	2015	2275	2652	3084	3929	4523	5971	6423	7958	8239	10090	10923
2. General 1/	1670	1937	2182	2561	2953	3775	4355	5756	5956	7596	7876	9698	10521
3. Annexed 2/	346	78	93	91	131	154	168	215	287	362	363	392	402
EXPENDITURE													
4. CURRENT 3/	1692	1755	1960	2437	2429	2907	3594	4811	5225	6239	5787	6546	6785
5. General	1422	1621	1871	2349	2341	2671	3360	4501	4901	5855	5391	6055	6182
6. Annexed	270	134	89	88	88	236	234	310	324	384	396	491	603
7. DIFFERENCE 3/	324	260	315	215	655	1022	929	1160	1018	1719	2452	3544	4138
8. INVESTMENTS	572	757	697	935	1168	1378	1547	2050	2352	2743	2247	2834	3062
9. General 3/	286	430	354	397	468	530	617	777	909	1310			1605
10. Annexed	286	327	343	538	700	848	930	1273	1443	1433			1457
11. Transfers 4/	-	-	-	-	-	-	-	-	-	-	1680	2536	3251 4/
12. BALANCE (minus)	248	497	382	720	513	356	618	890	1334	1024	1475	1826	2175
FINANCING													
13. Foreign loans and grants 5/	231	112	146	154	189	147	395	630	552	500	1062	1796	1303
14. Domestic long-term bonds	-	125	-	108	75	-	-	-	178	72	-	-	200
15. Other long-term loans and grants	11	98	66	379	91	75	72	-	247	153	80	237	-
16. Implied short-term borrowing or decrease (increase -) in Treasury balance	6	162	170	79	158	134	151	260	357	299	333	-207	672

1/ Includes Savings Bonds and Special Funds but excludes Counterpart Funds.
2/ Excludes transfers from the General Budget and the net revenue of the Monopoly Administration which is included in the General Budget.
3/ Includes U.S. counterpart funds for defense support. Some financial transfers are excluded from current expenditure after 1962 and the data before and after this year are therefore not comparable.
4/ External debt servicing and transfers outside Annual Budgets.
5/ Data not comparable from year to year, except after 1963.

Sources: General Directorate of Accountancy and General Directorate of Revenue.

Table 12

GENERAL BUDGET REVENUE[1/]

(TL million)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
	Actual													Budget
Income Tax	299	394	532	656	840	975	1,154	1,562	1,851	2,051	1,911	2,240	2,419	2,899
Corporation Tax	50	76	77	79	129	135	137	214	238	443	359	415	443	520
Defense Tax on Buildings	5	6	7	9	10	12	15	17	24	38	31	36	92	115
Inheritance and Gift Tax	3	4	6	7	10	12	13	7	10	11	13	14	16	20
Motor Vehicles Tax	-	-	-	-	-	-	-	-	-	-	-	41	51	70
Revenue from Abolished Direct Taxes	57	64	65	67	58	44	45	47	50	83	22	5	2	5
Total Direct Taxes	414	544	687	818	1,047	1,178	1,364	1,847	2,173	2,626	2,336	2,752	3,024	3,629
Import Production Tax	225	220	200	212	170	191	295	711	681	660	837	883	744	960
Domestic Production and Expenditure Tax	162	187	220	282	343	453	453	506	506	506	618	705	744	925
Petroleum Production Tax	81	89	100	97	96	114	115	220	187	213	283	336	554	650
Petroleum Import Treasury Share	-	-	-	-	-	319	272	159	128	135	180	169	182	190
Banking and Insurance Transactions Tax	27	32	45	61	95	110	159	208	227	229	237	342	366	420
Transportation Tax	18	21	25	32	35	44	72	76	27	66	62	64	69	87
PTT. Service Tax	5	4	7	10	7	13	16	22	25	25	27	36	40	48
Customs Duty	191	203	214	247	193	187	249	575	551	612	737	796	948	1,230
Defense Tax and Monopoly Revenues	209	273	284	396	417	450	555	586	634	883	941	1,072	1,193	1,340
Sugar Consumption Tax	137	143	151	139	222	241	243	212	110	300	330	361	408	440
Foreign Travel Expenditures Tax	-	-	-	-	-	-	-	-	-	-	-	98	110	132
Revenue from Abolished Indirect Taxes	5	8	5	5	6	7	6	5	9	7	7	6	20	6
Stamp Duty	50	59	74	84	84	154	181	233	231	241	276	545	565	646
Real Estate Registration Fees	23	31	41	47	48	70	87	85	83	81	106	134	152	170
Other Duties and Fees	33	39	41	51	53	61	75	90	99	116	137	118	132	159
Other Revenues	71	83	90	102	133	167	205	219	267	421	330	564	545	664
Total Indirect Taxes	1,237	1,392	1,497	1,765	1,902	2,581	2,983	3,907	3,765	4,494	5,108	6,236	6,778	8,067
Total Tax Revenues	1,651	1,936	2,184	2,583	2,949	3,759	4,347	5,754	5,938	7,120	7,444	8,988	9,803	11,696
Savings Bonds	-	-	-	-	-	-	-	-	-	406	404	474	535	580
Special Funds	-	-	-	-	-	-	-	-	-	25	15	235	180	205
Counterpart Funds	-	-	-	-	-	-	-	-	-	500	1,062	1,796	1,303	1,540
Grand Total	1,651	1,936	2,184	2,583	2,949	3,759	4,347	5,754	5,938	8,051	8,925	11,493	11,824	14,021

1/ Totals differ slightly from those in Table , which are final figures from the Directorate of Accounting

Source: Ministry of Finance, General Directorate of Revenues, Budget Revenues Bulletin, No. 14, 1965

Table 13

TREASURY CASH POSITION AT END OF FISCAL YEAR
(TL million)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964 1/
1. Assets	273	614	550	560	528	795	774	799	906	949	996	854	1,041	992	1,237
a. Cash and Bank Deposits	147	264	176	183	230	301	408	468	560	397	476	310	392	346	442
b. Advance Payments	126	350	374	377	298	404	366	331	346	552	520	544	649	646	815
2. Short-term Liabilities	495	587	511	557	714	993	1,169	1,286	1,563	1,764	2,179	1,195	1,555	1,558	2,075
a. Short-term advances	11	-	-	-	35	388	495	551	668	656	1,092	-	-	-	622
b. Treasury bills and notes	143	131	71	98	228	128	155	197	231	349	194	339	680	531	729
c. Deposit funds	341	456	440	459	451	477	519	538	664	759	893	856	875	1,027	724
3. Cash balance	-222	+27	+39	+ 3	-186	-288	-395	-487	-657	-815	-1,183	-341	-514	-566	-838
4. Deferred payments	85	91	117	127	174	211	234	319	313	411	412	581	433	512	768
5. Net Treasury Position (3-4)	-307	-64	-78	-124	-360	-499	-629	-806	-970	-1,266	-1,595	-922	-947	-1,078	-1,606

1/ Provisional figures

Sources: Data for 1950-1961 given by the Ministry of Finance to the IBRD Mission; data for 1962-1964: Ministry of Finance, Monthly Economic Indicators

Table 14

PUBLIC DEBTS, 1950-1964
(TL million)

End of Period	General and Annexed Budgets		State Economic Enterprises		Treasury Borrowing	State Investment	Others [1]		GRAND		Total
	Domestic	Foreign	Domestic	Foreign	Domestic	Bank-Domestic	Domestic	Foreign	Domestic	Foreign	
1950	1,412	745	364	25	-	-	15	5	1,791	775	2,566
1951	1,499	724	495	22	-	-	15	4	2,009	750	2,759
1952	1,256	764	685	19	-	-	132	40	2,073	823	2,896
1953	1,066	597	1,107	117	-	-	133	40	2,306	754	3,060
1954	1,264	662	1,029	110	-	-	126	80	2,419	852	3,271
1955	1,332	739	977	159	-	-	246	70	2,555	968	3,523
1956	1,470	898	981	158	-	-	243	121	2,694	1,177	3,871
1957	1,559	1,027	1,323	77	-	-	363	101	3,245	1,205	4,450
1958	1,598	3,246	1,651	263	-	-	360	327	3,609	3,836	7,445
1959	1,634	3,893	1,556	231	-	-	423	279	3,613	4,403	8,016
1960	2,006	4,202	1,903	256	-	-	412	563	4,321	5,021	9,342
1961	8,305 [2]	4,659	216	355	-	-	352	484	8,873	5,498	14,371
1962	9,492	5,819	316	394	-	-	305	376	10,113	6,589	16,702
1963	9,277	5,934	1,308	458	847	669	n.a.	n.a.	12,101	6,392	18,493
1964	9,925	7,716	1,505	465	1,322	858	n.a.	n.a.	13,610	8,181	21,791

[1] Includes Industrial Development Bank, Municipalities, State Maritime Bank and State Airways.
[2] Large increase from 1960 due to debt consolidation in April 1961 of TL 5,406 million owed by the State Economic Enterprises to the Central Bank and other financial institutions.

Source: Central Bank, Bulletin Mensuel.

Table 15

PUBLIC INVESTMENT, 1952-1972 /1
(TL million)

Year	Consolidated Central Government Budget /2	Revolving Funds /3	Municipalities /3	Local Government /3	S.E.E.'s /4	Total /5	Percentage GNP
1952	297	(40)	(30)	(20)	339	726	5.1
1953	374	(50)	(40)	(20)	466	950	5.6
1954	409	(60)	(50)	(20)	544	1,083	6.3
1955	585	(70)	(60)	(30)	540	1,285	6.1
1956	690	(80)	(70)	(30)	701	1,571	6.5
1957	978	(90)	(80)	(40)	713	1,901	6.2
1958	1,059	(100)	(100)	(50)	789	2,098	5.8
1959	1,455	(125)	(140)	(70)	1,289	3,079	6.9
1960	1,633	(150)	(282)	112	1,581	3,758	7.7
1961	1,953	175	177	166	1,268	3,828	7.8
1962	2,009	94	205	137	1,529	4,108	7.4
1963	2,797	242	288	144	1,692	5,163	8.2
1964	2,939	(200)	(320)	(160)	1,884	5,503	8.3
1965	3,250	220	400	180	2,050	6,100	8.7
1966	3,600	250	440	210	2,200	6,700	9.0
1967	3,900	280	480	240	2,400	7,300	9.2
1972	6,300	500	1,050	450	3,500	11,800	11.2

/1 Figures in parentheses are extrapolated.
/2 Data for 1952-62 estimated as 0.72 of reported investment because financial transfers were also included before 1963; the 0.72 is based on the average available for 1963 only.
/3 Assumed to be entirely financed domestically - including transfers from General Budget.
/4 Estimated residually for 1952-59.
/5 Probably includes some financial transfers.

Source: State Institute of Statistics and Ministry of Finance.

Table 16

FINANCING CONSOLIDATED CENTRAL GOVERNMENT INVESTMENT, 1952-72
(TL million)

	General and Annexed Budgets							Over-all Deficit/5		
Year	Current Revenue/1	Revenue as Percentage GNP	Less Current Expenditures/2	Current Expenditures as Percentage GNP	Current Surplus	Less Transfers/4	Less Investment/7	TOTAL	Domestic Short- and Long-term Borrowing	Foreign Grants and Loans/6
1952	2,036	14.2	1,501	10.5	535	445	297	207	- 24	231
1953	2,168	12.9	1,551	9.2	617	487	374	300	188	112
1954	2,321	13.6	1,670	9.8	651	525	409	283	137	146
1955	2,704	12.8	1,829	8.7	875	629	585	339	185	154
1956	3,111	12.8	2,128	8.8	983	735	690	442	253	189
1957	3,976	13.0	2,378	7.8	1,598	902	978	282	135	147
1958	4,543	12.6	3,114	8.6	1,429	1,096	1,059	726	331	395
1959	6,121	13.7	3,986	8.9	2,135	1,441	1,455	761	131	630
1960	6,267	12.8	4,302	8.8	1,965	1,579	1,633	1,247	695	552
1961	7,969	16.3	5,077	10.4	2,892	1,873	1,953	934	434	500
1962	8,287	15.0	5,457	9.9	2,830	1,979	2,009	1,158	96	1,062
1963	10,175	16.2	6,546	10.4	3,629	2,559	2,797	1,727	- 69	1,796
1964	10,907	16.4	6,755	10.2	4,152	3,330	2,939	2,117	814	1,303
1965	11,800	16.7	7,300	10.4	4,500	3,000	3,250	1,750	250	1,500
1966	12,700	17.0	7,900	10.6	4,800	3,000	3,600	1,800	300	1,500
1967	13,700	17.3	8,500	10.8	5,200	3,000	3,900	1,700	450	1,250
1972	20,200	19.1	12,500	11.8	8,450/3	3,500	6,300	1,350	850	500

/1 Including Savings Bonds and Special Funds.
/2 Data for 1952-62 estimated as 0.82 of reported current investment because financial transfers were also included before 1963; the 0.82 is based on the average available for 1963 only, although there are indications that these transfers fluctuated from year to year.
/3 Includes TL 750 million surplus from the State Economic Enterprises.
/4 Principally internal and external debt servicing, grants to municipal and local government, and participations in State Economic Enterprises. Residually estimated as Total Government expenditures minus the adjusted estimates of current and investment expenditures for the years prior to 1963.
/5 Current surplus minus (General and Annexed Budgets) Transfers and Investment.
/6 Data prior to 1962 is probably not comparable with 1962 and later years.
/7 See table of Public Investments, 1952-72, footnote 2.

Source: See Public Finance Tables.

Table 17

FINANCING STATE ECONOMIC ENTERPRISES' INVESTMENT
(Actuals 1962-64, Mission Estimates, 1965-67 and 1972)
(TL million)

Year	Total Investment	Internal Cash Resources of Productive SEE's/1	Self financing of non-productive SEE's (financial institutions)	Credit from S.I.B., Worker's Insurance and Pension Fund	Transfer from General Budget	Foreign Aid: Counterpart Funds	Foreign Aid: Direct Project Financing
1962	1,529	- 246	233	341	240	769	192
1963	1,692	- 106	339	583	380	229	267
1964	1,884	- 2	289	747	645	36	168
1965	2,050	100	300	900	455	45	250
1966	2,200	200	320	1,100	250	50	300
1967	2,400	300	350	1,300	50	50	350
1972	3,500	1,000	600	2,500	-750/2	-	150

/1 Includes the annual cash flows of all non-financial State Economic Enterprises. The State Railways alone accounted for the following annual negative cash flows (TL million): 1962:117, 1963:229 and 1964:240.

/2 Surplus transferred to General Budget.

Table 18

BALANCE SHEETS OF SOME STATE ECONOMIC ENTERPRISES, 31 DECEMBER 1961
(TL millions)

State Economic Enterprises	ASSETS: Fixed	Cash	Inventories	Accounts Receivable	Total	LIABILITIES: Short-term	Consolidated Debts	Long-term Debts	Net Worth
Transport and Communications	3,726.6	69.0	630.5	948.9	5,375.0	1,272.9	500.0	891.1	2,711.0
1. State Railways	2,250.0	16.4	402.7	348.4	3,017.5	634.6	-	466.8	1,916.1
2. Maritime Bank	771.2	14.6	115.5	405.5	1,306.8	285.2	177.8	248.0	595.8
3. Turkish Airlines	111.9	17.3	43.8	33.7	206.7	74.8	61.4	33.0	37.5
4. PTT	237.1	19.1	61.7	104.4	422.3	161.3	21.5	23.8	215.7
5. Maritime Transport Corporation	356.4	1.6	6.8	56.9	421.7	117.0	42.9	119.5	142.3
Mining and Power	936.1	69.1	198.4	610.3	1,813.9	421.9	196.4	516.6	679.0
6. Etibank	936.1	69.1	198.4	610.3	1,813.9	421.9	196.4	516.6	679.0
Coal, Petroleum and Steel	1,300.6	37.7	555.1	419.8	2,313.2	549.8	126.1	480.5	1,156.8
7. Coal Mines	505.5	20.7	283.7	246.8	1,036.7	212.1	126.1	304.1	394.4
8. Turkish Petroleum Corporation	187.9	7.4	46.3	73.9	315.5	39.2	-	10.0	266.3
9. Turkish Iron and Steel	607.2	9.6	245.1	99.1	961.0	298.5	-	166.4	496.1
Manufacturing Industries	2,322.4	86.6	2,268.4	1,940.0	6,617.4	1,988.4	1,543.4	1,434.7	1,650.9
10. Turkish Cement	302.4	7.9	37.0	99.7	447.0	102.9	112.7	103.7	127.7
11. Izmit Paper and Cellulose	159.8	4.1	69.8	49.9	283.6	90.8	-	59.5	133.3
12. Mechanical and Chemical Industries	244.1	10.9	385.6	768.4	1,409.0	716.6	4.6	351.0	336.8
13. *Nitrogen Industry*	514.4	21.9	15.9	30.6	582.8	7.1	169.6	288.2	117.9
14. Sümerbank	556.3	33.1	699.2	361.0	1,649.6	440.1	170.7	224.7	814.1
15. Sugar Industry	545.4	8.7	1,060.9	630.4	2,245.4	630.9	1,085.8	407.6	121.1
TOTAL[1]	8,285.7	262.4	3,652.4	3,919.0	16,119.5	4,233.0	2,365.9	3,322.9	6,197.7

[1] Data is not available for agricultural and financial institutions.

Source: Prime Ministry, State Planning Organization, First Five-Year Development Plan, 1963-1967, Table 41.

Table 19

FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT, 1960-1965
(TL million)

		1960	1961	1962	1963	1964	1965
		Actual					Budget
1.	Investment	1,582	1,261	1,531	1,425	1,884	2,912
2.	Transport and Communication	279	167	359	294	394	575
3.	Mining and Power	307	273	298	370	519	757
4.	Coal, Petroleum and Steel	258	313	374	293	426	764
5.	Manufacturing Industries	320	325	287	209	290	518
6.	Agricultural Sector	97	36	55	73	85	105
7.	Financial Institutions	321	147	158	186	170	193
8.	Internal Cash Resources	709	-202	-206	232	-121	707
9.	Profits (after tax)	130	-110	-220	-223	-35	142
10.	Depreciation	584	682	806	1,094	674	746
11.	Net Short-term Including Stock Changes	805	514	648	586	724	1,050
12.	Less: Debt Servicing	810	1,288	1,441	1,225	1,485	1,232
13.	External Financing of Non-Financial State Economic Enterprises	873	1,463	1,736	1,193	2,005	2,206
14.	Credits from Financial Institutions (non-productive S.E.E.'s)	541	388	341	583	747	1,077
15.	General Budget	133	206	240	380	645	759
16.	Counterpart Funds	193	868	769	229	36	45
17.	Direct Project Financing from Abroad	n.a.	n.a.	192	267	168	325
18.	Implied Other 1/	6	1	194	-266	409	0

1/ (13-14-15-16-17); includes statistical and accounting errors and discrepancies.

Source: Ministry of Finance.

Table 20

1960
FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT
(Tl Thousand)

	State Economic Enterprise	Investment	Internal Cash Resources: Profits (after tax)	Depreciation	Net Short-term Including /1 Stock Changes	Less Debt Servicing	Total	External Financing
	Transport and Communication	278,945	-116,330	219,830	144,034	123,986	123,548	155,397
1.	State Railways	122,400	-157,726	147,020	95,846	54,568	30,572	91,828
2.	Maritime Bank	97,756	36,074	41,919	25,772	58,393	45,372	52,384
3.	Turkol Airlines	33,889	- 14,778	14,191	2,916	325	2,004	31,885
4.	P.T.T.	24,900	20,100	16,700	19,500	10,700	45,600	- 20,700
	Mining and Power	307.013	119,431	44,422	192,301	97,133	259,021	47,992
5.	Etibank	84,575	113,777	44,115	-36,895	54,707	66,290	18,285
6.	Municipalities Bank	222,438	5,654	307	229,196	42,426	192,731	29,707
	Coal, Petroleum and Steel	257,811	124,828	149,703	- 44,821	19,730	209,980	47,831
7.	Coal Mines	65,118	- 85,187	71,992	11,580	5,034	- 6,649	71,767
8.	Turkish Petroleum Corporation	49,580	55,590	16,595	- 10,301	--	61,884	- 12,304
9.	Petroleum Office	5,259	34,883	16,432	- 23,429	13,549	14,337	- 9,078
10.	Turkish Iron and Steel	137,854	119,542	44,684	- 22,671	1,147	140,408	- 2,554
	Manufacturing Industries	320,052	57,712	69,788	163,557	32,116	258,941	61,111
11.	Turkish Cement	45,224	12,636	15,492	27,409	3,954	51,583	- 6,359
12.	Izmit Paper and Cellulose	38,902	43,445	5,126	- 16,317	1,309	30,945	7,957
13.	Mechanical and Chemical Indust.	69,112	11,799	15,265	29,032	321	55,775	13,337
14.	Nitrogen Industry	124,698	-1,497	1,804	57,367	17,132	40,542	84,156
15.	Sümerbank	40,600	- 18,700	13,600	71,400	9,400	56,900	- 16,300
16.	State Supply Office	1,516	10,029	18,501	- 5,334	--	23,196	- 21,680
	Agricultural Sector	97,474	- 64,897	99,168	524,602	535,668	23,205	74,269
17.	Fish and Meat Agency	12,507	- 48,755	11,134	171,123	106,364	27,138	- 14,631
18.	Sugar Industry	71,525	27,169	30,039	289,339	397,505	- 50,958	122,483
19.	Soil Products Office	13,404	- 42,056	56,658	62,130	31,799	44,933	- 31,529
20.	Institute of Animal Husbandry	38	- 1,255	1,337	2,010	--	2,092	- 2,054
21.	Financial Institutions	320,659	8,879	1,316	-174,444	1,710	182,929	137,730
	TOTAL	1,581,954	129,623	584,227	805,229	810,343	1,057,624	524,330

1/ Net short-term operations include many book keeping entries.

Source: Data given by the Ministry of Finance to the IBRD mission.

Table 21

1961

FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT
(TL thousand)

	State Economic Enterprises	Investment	Internal Cash Resources: Profits (after tax)	Depreciation	Net Short-term Including 1/ Stock Changes	Less Debt Servicing	Total	External Financing
	Transport and Communication	167,041	-226,700	203,999	39,608	78,842	- 61,935	228,976
1.	State Railways	14,446	-221,700	125,031	28,673	39,558	-107,554	122,000
2.	Maritime Bank	110,000	14,900	30,830	27,719	29,625	43,824	66,176
3.	Turkol Airlines	17,595	- 21,600	18,638	-19,984	259	- 23,205	40,800
4.	D.B. Transport Company	-	-	-	-	-	-	-
5.	PTT	25,000	1,700	29,500	3,200	9,400	25,000	0
	Mining and Power	272,720	48,897	54,852	90,804	53,833	140,720	132,000
6.	Etibank	58,000	25,897	54,537	-83,345	41,089	- 44,000	102,000
7.	Municipalities	214,720	23,000	315	174,149	12,744	184,720	30,000
	Coal, Petroleum and Steel	313,116	84,325	162,115	-143,663	68,161	34,616	278,500
8.	Coal Mines	132,716	- 27,332	72,671	- 16,332	24,291	4,716	128,000
9.	Turkish Petroleum Corporation	68,400	55,812	15,500	- 12,912	-	58,400	10,000
10.	Petroleum Office	2,000	25,300	13,000	- 25,300	11,000	2,000	0
11.	Turkish Iron and Steel	110,000	30,545	60,944	- 89,119	32,870	- 30,500	140,500
	Manufacturing Industries	325,059	- 30,034	128,433	81,289	347,129	-167,441	492,500
12.	Turkish Cement	28,856	- 10,096	21,861	978	3,887	8,856	20,000
13.	Izmit Paper and Cellulose	40,000	13,983	6,939	1,074	11,996	10,000	30,000
14.	Mechanical and Chemical Industries	69,091	8,779	17,855	6,342	126,385	- 93,409	162,500
15.	Nitrogen Industry	136,006	- 2,200	5,608	51,348	45,750	9,006	127,000
16.	Sümerbank	43,200	- 44,200	53,600	37,100	155,800	-109,300	152,500
17.	State Supply Office	7,906	3,700	22,570	- 15,553	3,311	7,406	500
	Agricultural Sector	35,681	12,444	132,289	378,752	740,615	-217,130	252,311
18.	Fish and Meat Agency	3,285	- 12,000	6,797	185,411	182,923	- 2,715	6,000
19.	Sugar Industry	12,000	27,394	40,935	262,029	552,858	-222,500	234,500
20.	Soil Products Office	20,396	- 2,500	83,415	- 68,996	1,523	10,396	10,000
21.	Institute of Animal Husbandry	-	- 450	1,142	- 692	3,311	- 3,311	3,311
22.	Agricultural Machinery	-	-	-	1,000	-	1,000	- 1,000
	Financial Institutions	146,568	1,069	-	67,750	-	68,819	77,749
	TOTAL	1,260,185	-109,999	681,688	514,540	1,288,580	-202,351	1,462,536

1/ Net short-term operations include many bookkeeping entries.

Source: Data given by the Ministry of Finance to the IBRD Mission.

Table 22

1962

FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT

(TL thousand)

State Economic Enterprise	Investment	Internal Cash Resources: Profits (after tax)	Depreciation	Net Short-term Including /1 Stock Changes	Less Debt Servicing	Total	External Financing
Transport and Communication	358,700	- 332,700	326,500	228,200	323,400	- 101,400	460,100
1. State Railways	206,100	- 303,000	192,100	158,800	164,900	- 117,000	323,100
2. Maritime Bank	86,000	2,300	63,900	9,400	84,600	- 9,000	95,000
3. Turkol Airlines	6,900	- 2,100	15,800	9,800	25,600	- 2,100	9,000
4. D.B. Transport Company	2,700	- 44,000	35,700	43,000	32,000	2,700	0
5. PTT	57,000	14,100	19,000	7,200	16,300	24,000	33,000
Mining and Power	297,600	38,400	106,600	163,100	50,000	258,100	39,500
6. Etibank	118,000	38,400	106,600	21,800	50,000	116,800	1,200
7. Municipalities Bank	179,600	-	-	141,300	-	141,300	38,300
Coal, Petroleum and Steel	373,500	38,100	145,300	30,100	319,300	- 105,800	479,300
8. Coal Mines	108,200	- 39,400	76,700	- 43,500	82,700	- 88,900	197,100
9. Turkish Petroleum Corporation	74,200	60,200	25,000	- 38,600	79,600	33,000	107,200
10. Petroleum Office	5,800	- 8,300	6,200	15,100	7,200	5,800	-
11. Turkish Iron and Steel	185,300	25,600	37,400	97,100	149,800	10,300	175,000
Manufacturing Industries	286,700	19,800	138,300	68,900	486,300	- 259,300	546,000
12. Turkish Cement	26,900	14,500	23,900	-	55,500	- 17,100	44,000
13. Izmit Paper and Cellulose	45,500	7,700	12,800	9,000	14,000	15,500	30,000
14. Mechanical and Chemical Industries	76,400	22,700	40,800	32,400	213,500	- 117,600	194,000
15. Nitrogen Industry	12,700	- 80,800	42,600	- 5,700	49,800	- 93,700	106,400
16. Sümerbank	119,800	52,900	17,100	29,500	151,300	- 51,800	171,600
17. State Supply Office	5,400	2,800	1,100	3,700	2,200	5,400	-
Agricultural Sector	55,000	16,100	89,500	65,400	262,100	- 91,100	146,100
18. Fish and Meat Agency	4,600	- 5,100	7,400	15,300	13,000	4,600	0
19. Sugar Industry	42,700	17,000	64,600	40,000	216,900	- 95,300	138,000
20. Soil Products Office	5,700	- 2,700	16,000	13,900	21,500	5,700	0
21. State Farms	-	-	-	-	-	-	-
22. Agricultural Machinery	2,000	6,900	1,500	- 3,800	10,700	6,100	8,100
23. Financial Institutions /2	157,600	-	-	93,100	-	93,100	64,500
TOTAL	1,529,100	- 220,300	806,200	648,800	1,441,100	- 206,400	1,735,500

/1 Net short-term operations include many bookkeeping entries.
/2 No details because financial institutions provide own funds.
Source: Data given by the Ministry of Finance to the IBRD Mission.

Table 23

1963
FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT
(TL thousand)

	State Economic Enterprise	Investment	Internal Cash Resources: Profits (after tax)	Depreciation	Net Short-term Including /1 Stock Changes	Less Debt Servicing	Total	External Financing
	Transport and Communication	294,376	-442,000	474,800	28,876	340,300	-278,624	573,000
1.	State Railways	132,061	-395,500	204,500	115,861	153,400	-228,539	360,600
2.	Maritime Bank	77,243	- 37,100	210,000	-121,957	102,100	- 51,157	128,400
3.	Turkol Airlines	4,618	- 27,700	16,600	30,818	40,100	- 20,382	25,000
4.	D.B. Transport company	-	- 7,100	20,200	25,400	38,500	-	-
5.	PTT	80,454	25,400	23,500	- 21,246	6,200	21,454	59,000
	Mining and Power	370,192	53,800	73,000	209,312	36,100	300,012	70,180
6.	Etibank	180,238	53,800	73,000	24,358	36,100	115,058	65,180
7.	Municipalities Bank	189,954	-	-	184,954	-	184,954	5,000
	Coal, Petroleum and Steel	293,285	105,400	206,600	- 57,415	77,300	177,285	116,000
8.	Coal Mines	78,410	19,400	76,000	- 31,390	45,600	18,410	60,000
9.	Turkish Petroleum Corporation	86,898	62,900	65,600	- 47,602	-	80,898	6,000
10.	Petroleum Office	13,589	7,000	5,800	18,489	17,700	13,589	0
11.	Turkish Iron and Steel	114,388	16,100	59,200	3,088	14,000	64,388	50,000
	Manufacturing Industries	208,721	17,300	190,900	129,521	435,000	- 97,279	306,000
12.	Turkish Cement	42,758	15,900	25,000	- 1,842	13,300	25,758	17,000
13.	Izmit Paper and Cellulose	28,585	19,600	14,500	- 7,815	14,700	11,585	17,000
14.	Mechanical and Chemical Industries	12,934	6,000	86,000	131,134	344,200	-121,066	134,000
15.	Nitrogen Industry	3,934	- 58,500	43,100	- 4,666	25,000	- 45,066	49,000
16.	Sümerbank	112,384	20,600	20,600	18,584	36,400	23,384	89,000
17.	State Supply Office	8,126	13,700	1,700	- 5,874	1,400	8,126	0
	Agricultural Sector	72,837	42,900	149,100	121,537	336,700	- 23,163	96,000
18.	Fish and Meat Agency	7,411	46,400	13,300	- 52,289	-	7,411	0
19.	Sugar Industry	52,326	17,000	127,400	189,926	327,000	7,326	45,000
20.	Soil Products Office	10,097	- 47,600	6,700	3,097	3,100	- 40,903	51,000
21.	State Farms	-	-	-	-	-	-	-
22.	Agricultural Machinery	3,003	27,100	1,700	- 19,197	6,600	3,003	0
	Financial Institutions /2	185,690	-	-	154,190	-	154,190	31,500
	TOTAL	1,425,101	-222,600	1,094,400	586,021	1,225,400	232,421	1,192,680

1/ Net short-term operations include many bookeeping entries.
2/ No details because financial institutions provide own funds.

Source: Data given by the Ministry of Finance to the IBRD Mission.

Table 24

1964

FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT
(TL thousand)

		Internal Cash Resources					
State Economic Enterprise	Investment	Profits (after tax)	Depreciation	Net Short-term Including /1 Stock Changes	Less Debt Servicing	Total	External Financing
Transport and Communication	393,600	-415,200	246,300	128,900	189,100	-229,100	622,700
1. State Railways	187,300	-412,800	142,600	95,000	64,800	-240,000	427,300
2. Maritime Bank	87,700	- 23,100	39,400	12,900	37,500	- 8,300	96,000
3. Turkol Airlines	3,700	- 18,300	13,000	17,500	46,500	- 34,300	38,000
4. D.B. Transport Company	4,700	100	20,200	5,700	21,300	4,700	0
5. PTT	110,200	38,900	31,100	- 2,200	19,000	48,800	61,400
Mining and Power	518,900	228,700	70,700	148,900	153,400	294,900	224,000
6. Etibank	317,700	228,700	70,700	-	153,400	146,000	171,700
7. Municipalities Bank	201,200	-	-	148,900	-	148,900	52,300
Coal, Petroleum and Steel	426,200	97,100	132,800	68,100	143,400	154,600	271,600
8. Coal Mines	103,200	26,200	60,100	12,300	36,700	61,900	41,300
9. Turkish Petroleum Corporation	137,200	61,700	26,900	-	58,400	30,200	107,000
10. Petroleum Office	14,200	- 1,300	5,200	9,400	13,800	- 500	14,700
11. Turkish Iron and Steel	171,600	10,500	40,600	46,400	34,500	63,000	108,600
Manufacturing Industries	289,500	26,800	157,800	-114,300	451,300	-381,000	670,500
12. Turkish Cement	74,400	17,300	25,200	7,200	18,300	31,400	43,000
13. Izmit Paper and Cellulose	19,800	28,700	16,000	- 16,900	41,800	- 14,000	33,800
14. Mechanical and Chemical Industries	46,400	5,500	50,100	-117,500	260,400	322,300	368,700
15. Nitrogen Industry	2,500	- 51,200	41,900	24,300	50,700	- 35,700	38,200
16. Sümerbank	140,200	15,500	23,800	- 19,400	66,500	46,600	186,800
17. State Supply Office	6,200	11,000	800	8,000	13,600	6,200	0
Agricultural Sector	85,100	27,700	66,800	322,800	517,900	-100,600	185,700
18. Fish and Meat Agency	8,500	48,200	7,100	- 48,400	92,500	85,600	94,100
19. Sugar Industry	54,800	19,400	37,500	27,500	79,600	4,800	50,000
20. Soil Products Office	12,400	- 53,700	21,200	344,500	336,600	- 24,600	37,000
21. State Farms	-	-	-	-	-	-	-
22. Agricultural Machinery	8,900	13,800	1,000	- 800	6,700	7,300	1,600
23. Dairy Products Company	500	-	-	-	2,500	- 2,500	3,000
24. Financial Institutions /2	170,100	-	-	170,100	30,000	140,100	30,000
TOTAL	1,883,400	- 34,900	674,400	724,500	1,485,100	-121,100	2,004,500

/1 Net short-term operations include many bookkeeping entries.
/2 No details given because financial institutions provide own funds.
Source: Data given by the Ministry of Finance to the IBRD Mission.

Table 25

1965 - BUDGET

FINANCING OF STATE ECONOMIC ENTERPRISES' INVESTMENT
(TL thousand)

		Internal Cash Resources					
State Economic Enterprise	Investment	Profits (after tax)	Depreciation	Net Short-term Including /1 Stock Changes	Less Debt Servicing	Total	External Financing
Transport and Communication	575,085	-202,935	268,508	142,706	376,694	-168,415	743,500
1. State Railways	305,100	-262,069	151,828	16,990	128,149	-221,400	526,500
2. Maritime Bank	84,235	45,000	52,680	52,543	144,988	5,235	79,000
3. Turkol Airlines	6,500	- 17,700	14,000	6,500	24,300	- 21,500	28,000
4. D.B. Transport Company	26,500	-	20,000	16,527	56,027	- 19,500	46,000
5. PTT	139,750	31,834	30,000	42,146	23,230	80,750	59,000
6. Radio and Television Agency	13,000	-	-	8,000	-	8,000	5,000
Mining and Power	757,366	123,500	80,600	78,566	62,800	219,866	537,500
7. Etibank	542,966	123,500	80,600	- 80,834	62,800	60,466	482,500
8. Municipalities Bank	214,400	-	-	159,400	-	159,400	55,000
Coal, Petroleum and Steel	764,533	186,113	160,055	313,039	170,922	488,285	276,248
9. Coal Mines	160,412	46,110	66,755	38,861	51,314	100,412	60,000
10. Turkish Petroleum Corporation	402,800	76,500	31,000	193,942	14,642	286,800	116,000
11. Petroleum Office	23,175	17,403	5,200	20,438	19,866	23,175	0
12. Turkish Iron and Steel	178,146	46,100	57,100	59,798	85,100	77,898	100,248
Manufacturing Industries	518,185	- 11,984	161,634	182,827	346,494	- 14,017	532,202
13. Turkish Cement	55,320	25,800	28,200	13,370	34,050	33,320	22,000
14. Izmit Paper and Cellulous	120,097	14,136	17,000	19,149	10,440	39,845	80,252
15. Mechanical and Chemical Industries	46,700	- 33,500	48,000	39,432	174,232	-120,300	+167,000
16. Nitrogen Supply	62,227	- 67,128	42,012	8,073	24,680	- 41,723	103,950
17. Sümerbank	217,741	39,000	25,000	84,241	89,500	58,741	159,000
18. State Supply Office	16,100	9,708	1,422	18,562	13,592	16,100	0
Agricultural Sector	104,877	47,688	75,133	160,301	274,745	8,377	96,500
19. Fish and Meat Agency	6,914	17,974	7,473	59,325	77,858	6,914	0
20. Sugar Industry	63,513	46,900	47,100	38,013	131,500	513	63,000
21. Soil Products Office	8,400	- 33,173	18,760	- 2,054	3,133	- 19,600	28,000
22. Agricultural Machinery	7,395	15,987	1,800	51,862	62,254	7,395	0
23. Dairy Products Company	18,655	-	-	13,155	-	13,155	5,500
24. Financial Institutions /2	193,090	-	-	173,090	-	173,090	20,000
TOTAL	2,913,136	142,382	745,930	1,050,529	1,231,655	707,186	2,205,950

/1 Net short-term operations include many bookkeeping entries.
/2 No details given because financial institutions provide own funds.
Source: Data given by the Ministry of Finance to IBRD Mission.

Table 26

BALANCE OF PAYMENTS, 1950-1964
($ million)

	5-year average 1950-1954	5-year average 1955-1959	5-year average 1960-1964	1958	1959	1960	1961	1962	1963	1964
Current Account										
Regular imports	444	354	435	223	414	380	401	470	485	440
Imports financed by IBRD, IDA, DLF and Eximbank	7	6	39	1	1	2	7	27	96	63
PL 480 imports	-	23	64	42	27	45	65	92	88	31
NATO-infrastructure and off-shore	-	34	27	49	28	41	37	34	18	3
Total imports	451	417	565	315	470	468	510	622	687	537
Total exports	334	313	366	247	354	321	347	381	368	411
Trade balance	-117	-105	-199	- 68	-116	-147	-163	-241	-319	-126
Invisibles - net	- 20	- 45	- 41	- 48	- 64	- 44	- 55	- 41	- 30	- 39
Infrastructure and off-shore receipts	-	47	50	52	35	52	48	40	49	59
Current account balance	-137	-103	-190	- 64	-145	-139	-170	-242	-300	-106
Capital Account Receipts										
PL 480 receipts	-	23	55	42	27	22	65	71	88	32
Imports without exchange allocation	-	-	2	-	-	-	-	-	5	7
Private capital	7	8	28	13	7	24	34	36	21	25
Commercial arrears and suppliers' credits	67	86	18	45	28	30	15	26	10	10
IBRD, IDA, DLF and Eximbank credits	7	7	33	4	1	2	7	26	96	36
Other credits	97	120	150	126	169	116	160	152	176	145
Total Receipts	178	244	286	230	231	194	281	311	396	255
Capital Account-Payment										
Government debt	- 19	- 37	- 46	- 25	- 30	- 20	- 33	- 49	- 74	- 53
Suppliers' credits	- 10	- 29	- 17	- 3	- 17	- 8	- 13	- 18	- 10	- 38
Consolidated debt	-	- 2	- 24	-	- 10	- 24	- 26	- 26	- 29	- 13
Other debt payments	- 1	- 21	- 7	- 41	- 3	- 13	- 12	- 4	- 1	- 6
Total payments	- 30	- 90	- 94	- 69	- 60	- 65	- 84	- 97	-114	-110
Balance on capital account	148	154	192	161	171	129	197	214	282	141
Total balance	11	51	2	97	26	- 10	27	- 28	- 18	39
Change in monetary reserves	32	4	- 13	-67	31	- 51	- 79	30	42	- 8
Errors and omissions (+outflow)	- 43	- 55	11	- 30	- 57	61	52	2	- 24	- 31

Source: Ministry of Finance

Table 27

GOLD AND FOREIGN EXCHANGE RESERVES OF CENTRAL BANK , 1948-64
($ million equivalent)

End of Period	Gold	Convertible Foreign Exchange Reserves 1/	Total	Inconvertible Foreign Exchange Reserves	Total Reserves 1/
1949	154	49	203	-38	165
1950	150	3	153	-34	119
1951	151	9	160	-61	99
1952	144	- 55	89	-89	-
1953	144	- 18	125	-56	69
1954	144	- 78	66	-63	3
1955	144	-143	1	-68	- 67
1956	144	-122	22	-52	- 30
1957	144	-125	19	-71	- 52
1958	144	-105	39	-24	15
1959	133	-108	25	-41	- 16
1960	134	- 80	54	-19	35
1961	129	- 34	95	19	114
1962	130	- 52	78	6	84
1963	125	- 89	36	6	42
1964 2/	123	- 73	50	-	50

1/ Net
2/ Since 1964 approximately $8 million of low standard and gold coin is excluded.

Source: Central Bank

Table 28

EXPORTS BY COMMODITIES, 1950-1964
($ million)

Commodity	1950-54/1	1955-59/1	1960-64/1	1958	1959	1960	1961	1962	1963	1964
Main agricultural products										
Wheat	37	11	0	3	22	2	0	0	0	0
Other cereals	15	9	4	8	17	3	6	1	4	6
Tobacco	72	99	81	84	92	65	87	95	67	90
Cotton	71	38	67	23	53	46	57	64	80	89
Hazelnuts	20	38	48	29	42	38	42	56	53	50
Other nuts, dried fruit	7	7	15	6	7	15	11	15	12	15
Fresh fruit	1	2	15	2	0	15	1	1	2	2
Raisins	12	15	19	19	18	23	18	17	17	17
Wool, mohair	10	13	14	7	20	14	17	12	17	12
Live animals	5	3	14	1	4	7	15	19	17	13
Oil cakes	9	10	13	6	10	11	10	13	14	17
Oil seed	7	3	3	3	6	6	3	2	1	2
Hides and skins	6	3	7	2	6	6	7	6	6	7
Sub-total	274	252	285	194	298	238	273	301	292	321
Ores and minerals										
Chrome ore	19	19	9	19	10	11	11	9	4	7
Copper	7	10	8	6	7	11	5	9	6	10
Iron ore	1	3	1	2	1	2	2	1	0	-
Boracite	1	1	3	2	2	3	2	3	3	3
All other minerals	3	2	2	2	2	2	2	2	2	2
Sub-total	30	36	23	31	23	30	22	24	16	23
All other exports	/2	/2								
Petroleum			4	0	0	0	0	6	8	9
Sugar			14	2	2	16	17	8	10	19
Cotton and Wool Fabrics			2	0	0	2	1	1	2	3
Olive Oil			6	0	0	0	0	14	13	4
Other			29	20	31	34	32	27	27	32
Sub-total	13	16	56	22	32	52	51	56	60	67
Total exports	317	304	364	247	353	320	346	381	368	411

/1 Annual averages.
/2 Breakdown not available.

Source: State Institute of Statistics.

Table 29

IMPORTS BY COMMODITY GROUPS, 1958-1964
($ Millions)

Commodity	1958	1959	1960	1961	1962	1963	1964
Live animals, meat, fish, dairy products	3.6	1.7	0.3	0.2	0.5	0.6	0.8
Coffee, tea, cocoa and spices	4.3	8.6	7.5	7.8	5.5	3.9	1.4
Cereals	4.9	0.9	7.3	64.5	50.8	60.0	6.1
Animal and vegetable fats and oils and waxes	19.9	27.6	16.3	0.5	21.9	30.5	27.3
Mineral oils and products	40.4	65.9	51.6	52.1	77.2	66.3	67.1
Inorganic and organic chemicals	12.9	24.2	15.8	17.8	21.4	25.0	26.1
Pharmaceutical products	7.7	6.2	3.1	4.8	2.5	3.4	1.7
Fertilizers	2.5	6.2	1.8	6.7	8.5	5.6	4.6
Tanning and dyeing extracts, paints and varnishes	5.5	8.0	6.2	5.5	8.8	8.6	9.0
Photographic and cinematographic products; miscellaneous chemical products	3.9	7.1	5.7	6.7	8.9	10.1	10.5
Artificial resins and plastic materials	2.7	4.3	4.9	6.8	8.8	10.1	8.8
Rubber and rubber products	14.5	25.5	28.0	21.8	27.3	27.7	14.2
Raw hides and skins and leather products	1.8	3.8	3.0	4.6	2.6	4.9	1.9
Wood and articles of wood	4.0	5.6	1.0	3.0	2.6	1.6	0.7
Paper and paperboard, raw materials	8.5	12.1	8.0	8.9	9.6	11.4	6.8
Silk, man-made fibers, wool and other textile raw materials	20.2	20.5	21.3	26.1	35.6	43.3	36.3
Cement, ceramic products, glass and glassware	8.4	9.0	9.0	8.7	10.1	7.7	6.7
Metals and metal products	28.2	51.3	58.8	48.2	58.5	73.8	61.5
Implements, tools and similar metal products	3.2	7.0	9.8	6.1	6.8	6.7	4.9
Boilers, electric and non-electric machinery and parts	79.3	96.6	119.0	106.5	139.4	188.8	175.6
Transport equipment	26.4	64.7	74.8	84.4	96.0	81.5	45.6
Optical and medical equipment, clocks and watches	3.6	4.8	7.0	8.5	9.3	10.7	8.2
Other imports	10.0	8.4	7.9	6.2	8.4	5.4	11.4
Total	315.1	470.0	468.2	507.2	622.2	687.6	537.4

Source: State Institute of Statistics

Table 30

FOREIGN TRADE BY COUNTRIES, 1959 TO 1964
($ million)

	Exports						Imports					
	1959	1960	1961	1962	1963	1964	1959	1960	1961	1962	1963	1964
Total	353.8	320.7	346.7	381.2	368.1	410.8	470.0	468.2	507.2	622.2	687.6	537.2
U.S. and Canada	64.2	59.1	65.8	75.8	50.7	73.7	123.9	121.8	140.7	181.6	210.9	155.7
Common Market	139.8	107.4	128.5	154.1	139.9	137.7	157.0	166.8	165.8	188.4	195.2	154.4
Other Western Europe	72.7	72.8	71.8	89.3	106.4	114.3	95.0	91.0	104.0	121.3	1 3.6	98.7
Soviet Bloc	40.9	39.2	30.0	26.6	35.4	38.1	42.3	42.6	39.5	37.6	49.7	41.6
Middle East	31.7	35.6	39.2	30.4	29.6	36.9	29.8	33.1	25.4	44.4	43.9	43.2
Latin America	0.1	0.4	0.1	0.3	0.2	0.2	1.3	0.7	1.6	2.9	1.2	0.3
Other	4.4	6.2	11.3	4.7	5.9	9.9	20.7	22.2	30.2	46.0	73.1	43.3

Source: State Institute of Statistics

Table 31

MAIN TARGETS OF THE FIRST FIVE-YEAR PLAN/1

	1962	1963	1964	1965	1966	1967	Compound Growth Rate
Gross National Product							
Amount	52.7	56.4	60.3	64.5	69.0	73.9	
Percentage increase		7.0	6.9	7.0	7.0	7.0	7.0
Current Account Deficit							
Amount	2.1	2.3	2.5	2.2	2.2	2.1	
Total Available resources							
Amount	54.8	58.7	62.8	66.7	71.2	76.0	
Percentage increase		7.1	7.0	6.2	6.7	6.7	6.8
Percentage of GNP	104.0	104.1	104.1	103.4	103.2	102.8	
Investment							
Amount	8.6	9.6	10.8	11.8	13.1	14.3	
Percentage increase		11.6	12.5	9.2	11.0	9.2	10.7
Percentage of GNP	16.3	17.0	17.9	18.3	19.0	19.4	
Private Consumption							
Amount	38.6	40.5	43.0	45.4	47.6	50.2	
Percentage increase		4.9	6.2	5.6	4.8	5.5	5.4
Percentage of GNP	73.2	71.8	71.3	70.4	69.0	67.9	
Current Budget Expenditure							
Amount	7.6	8.6	9.0	9.5	10.5	11.5	
Percentage increase		13.1	4.6	5.5	10.5	9.5	8.7
Percentage of GNP	14.4	15.2	14.9	14.7	15.2	15.5	
Public Revenue							
Amount	12.7	14.4	15.6	16.6	18.3	19.9	
Percentage increase		13.4	8.3	6.4	10.2	8.7	9.4
Percentage of GNP	24.1	25.5	25.8	25.7	26.5	26.9	
Tax Revenue							
Amount	7.7	9.0	10.1	10.9	11.8	12.8	
Percentage increase		16.9	12.2	7.9	8.2	8.5	10.8
Percentage of GNP	14.6	16.0	16.7	16.9	17.1	17.3	
Private Income							
Amount	42.1	44.3	47.2	50.1	52.9	56.1	
Percentage increase		5.2	6.5	6.1	5.5	6.0	5.9
Percentage of GNP							
Savings							
Amount	6.5	7.3	8.3	9.6	10.9	12.2	
Percentage increase		12.3	13.7	15.7	13.5	11.9	13.5
Percentage of GNP	12.3	12.9	13.8	14.8	15.8	16.5	

/1 Amounts in LT millions; percentages are approximate because of rounding.

Source: First Five-Year Development Plan, 1963-1967.

Table 32

PRESENT STRUCTURE OF MANUFACTURING AND PLAN OUTPUT TARGETS

Sector	Value added (TL million) 1962	1967	Incr.	Percent rate of growth
Food, beverages, tobacco	2,302	3,218	916	7
Textiles	2,110	2,950	840	7
Group I	4,412	6,168	1,756	7
Wood and cork	15	42	27	22
Pulp and paper	76	125	49	11
Rubber products	86	371	285	34
Chemicals	365	864	499	19
Sundry industries	121	446	325	30
Group II	663	1,848	1,185	23
Non-metallic minerals	270	490	220	13
Basic metals	617	1,174	557	14
Metal products	476	695	219	8
Machinery	154	986	832	45
Electrical equipment	61	260	199	34
Transport equipment	97	768	671	51
Group III	1,675	4,373	2,698	21
GRAND TOTAL	6,750	12,389	5,639	13

Industrial Structure

(Share of each group in total value added)

Group I	65.3	49.8
Group II	9.9	14.9
Group III	24.8	35.3
Total	100.0	100.0

Table 33

RELATIVE IMPORTANCE OF PUBLIC AND PRIVATE ENTERPRISE IN DIFFERENT MANUFACTURING SECTORS, 1963/1

	Value added (TL billion)		Employment thousands		Value added per person employed TL thousand	
	State	Private	State	Private	State	Private
Food, beverages, tobacco	1.86	0.52	44.9	91.7	42	6
Textiles and clothing	0.39	1.34	31.1	97.6	12	13
Subtotal	2.25	1.86	76.0	189.3	30	10
Wood and furniture	0.02	0.05	2.8	5.0	7	10
Paper and printing	0.15	0.12	5.8	6.0	26	20
Leather and rubber	-	0.14	-	9.9	-	14
Chemicals	0.19	0.54	3.3	14.9	58	36
Metal-fabricating /2	0.14	0.25	7.4	12.9	19	19
Sundry industries	0.02	0.06	0.3	4.4	67	14
Subtotal	0.52	1.16	19.6	53.1	27	22
Non-metallic minerals	0.07	0.20	4.2	16.5	17	13
Basic metals /1	0.45	0.21	12.1	6.8	37	31
Machinery other than electrical & transport	0.03	0.15	1.1	5.7	27	26
Electrical equipment	-	0.13	0.1	5.6	-	23
Transport equipment	0.18	0.07	15.0	3.7	12	19
Subtotal	0.73	0.76	32.5	38.3	22	20
GRAND TOTAL	3.50	3.78	128.1	280.7	27	13.5

/1 Does not, as yet, include production from the new steel mill at Eregli which, although it enjoys a special status, may be classified under the State sector.

/2 In this table unlike Table I, metal-fabricating was included with the second group of industries, i.e., generally less capital-intensive industries and smaller establishments than in the third group.

Table 34

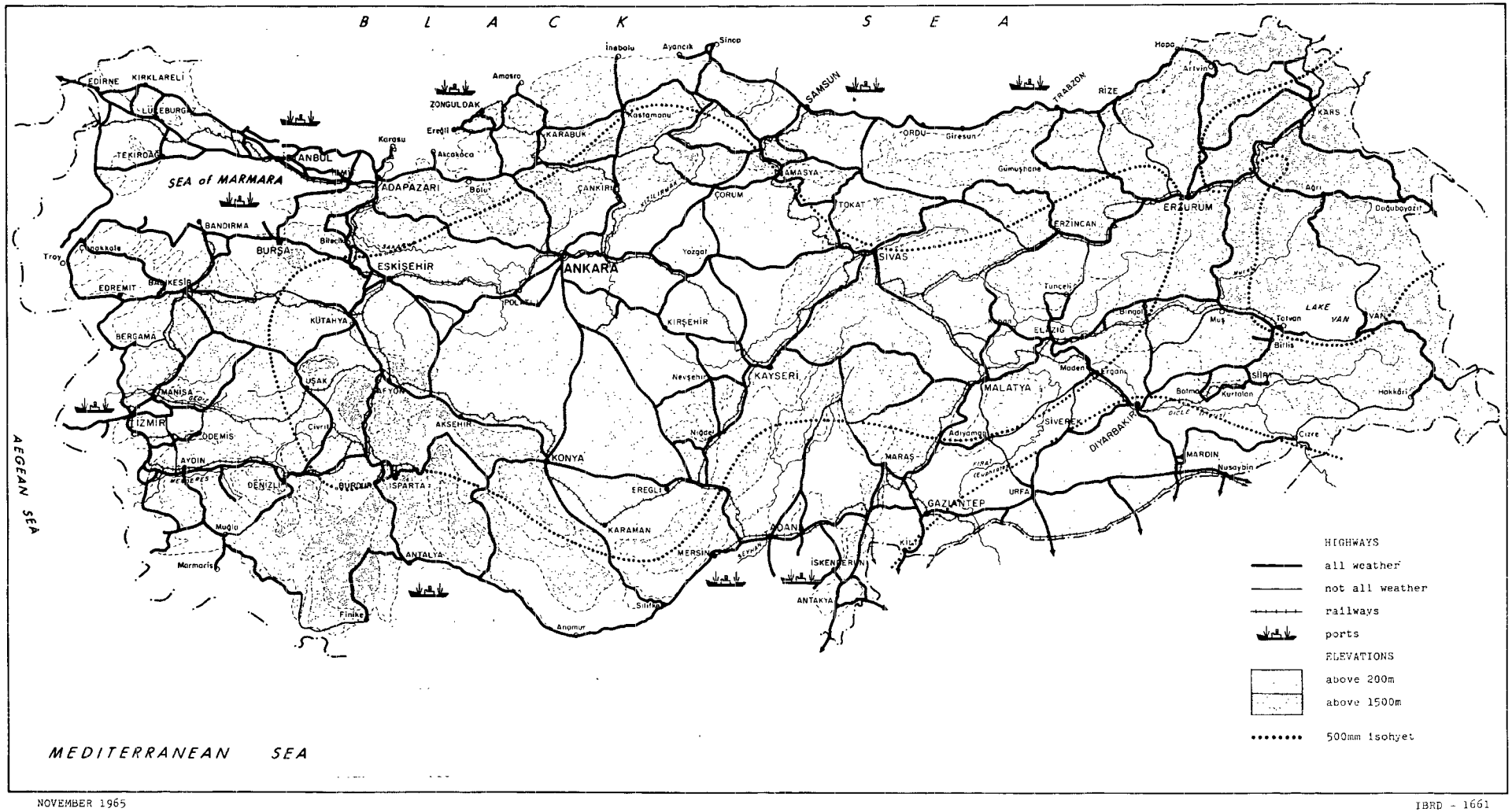
TURKISH PRICES AND WORLD MARKET PRICES
(TL per ton, unless otherwise stated)

	Turkey	Comparable price May/June 1965 f.o.b.	Comparable price May/June 1965 c.i.f.	Price ratio of Turkish to foreign prices f.o.b.	Price ratio of Turkish to foreign prices c.i.f.
Coal					
W.Germany: coking coal, 8-9% ash 5-6% moisture ex mine		149.63			
equiv. 14% ash 12% moisture		131.00			
Turkey: coking coal, 0-10 mm. 14% ash 12% moisture delivered Karabuk	120.00			92	
ex mine	(112.00)				
Steel					
Karabuk: Average delivered price rolled products f.o.b. mill	1,750				
Imported steel, comparable average c.i.f. Istanbul			1,150		152
Eregli: Plates 10-25 mm.	1,820	800	950	227	192
Hot-rolled sheets 2.5-3.0 mm.	1,720	930	1,080	185	159
Cold-rolled sheets 1.0-1.5 mm.	2,180	950	1,100	229	198
Tube strip 1.6-6.4 mm.					
Tin-plate 0.3 mm. 0.25 lb/BB	2,940		1,580		186
Other producers					
Steel pipe	2,700/1		1,800		150
Petroleum products (ex refinery)/2					
Fuel oil no. 6	230		137		167
Diesel oil	698		255		274
Gasoline	1,107		274		404
Kerosene	696		301		231
Cement					
Portland cement, f.o.b. mill	155				
f.o.b. mill price range ten W. Europe countries		90-120		129-172	
Pulpwood per cu.m.	154	94.50	124.50	163	124
Paper					
Newsprint, in rolls	1,800		1,150		157
Kraft paper, 40/60 gr/sq.m.	3,000	1,800		167	
Chemicals					
Ammonium sulphate	(790)/3		450		176
Calcium superphosphate		200		395	
Sulphuric acid		220		359	
Caustic soda (rayon grade)	850	740		114	
Soda ash	640	270		237	
Calcium carbide	2,000	900		222	
Machinery, vehicles and parts					
Tractors, 44 h.p.	25,500	16,353		156	
Trucks					
Road construction equipment, Index	160	100		160	
Rubber tires Index	140	100		140	

/1 Price calculated on the assumption that the domestic producer would take full advantage of existing customs duties. Prices actually charged are not known.

/2 In this case, the difference between the Turkish price and the comparable world market price is due, to a large extent, to heavy taxation of refined petroleum products.

/3 In 1963, the Government paid a subsidy of TL 50 million corresponding to the difference between its guaranteed price and the Government-fixed market price. Based upon an output of 146,000 tons of fertilizer, this corresponds to about TL 340 per ton.



NOVEMBER 1965

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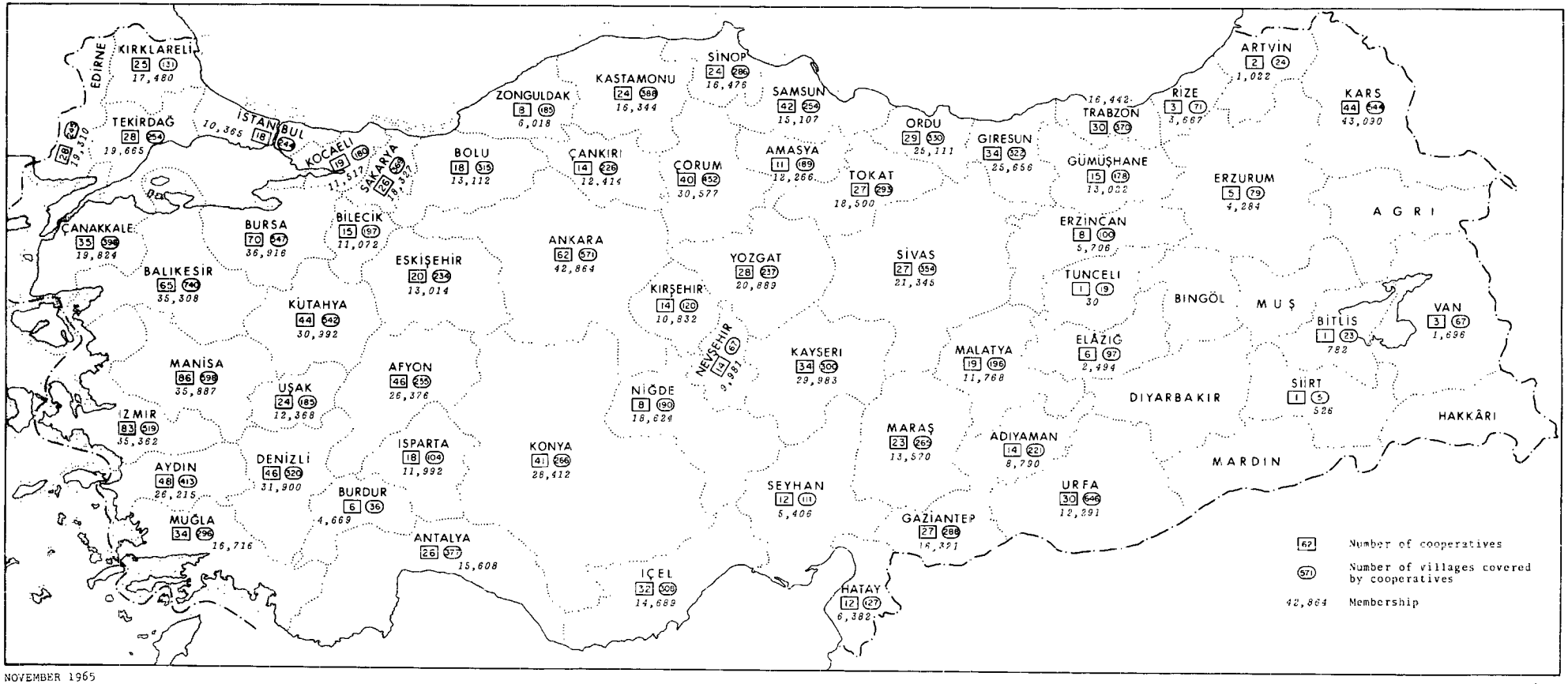
TURKEY

PROVINCES
and Distribution of Agricultural Credit Cooperatives



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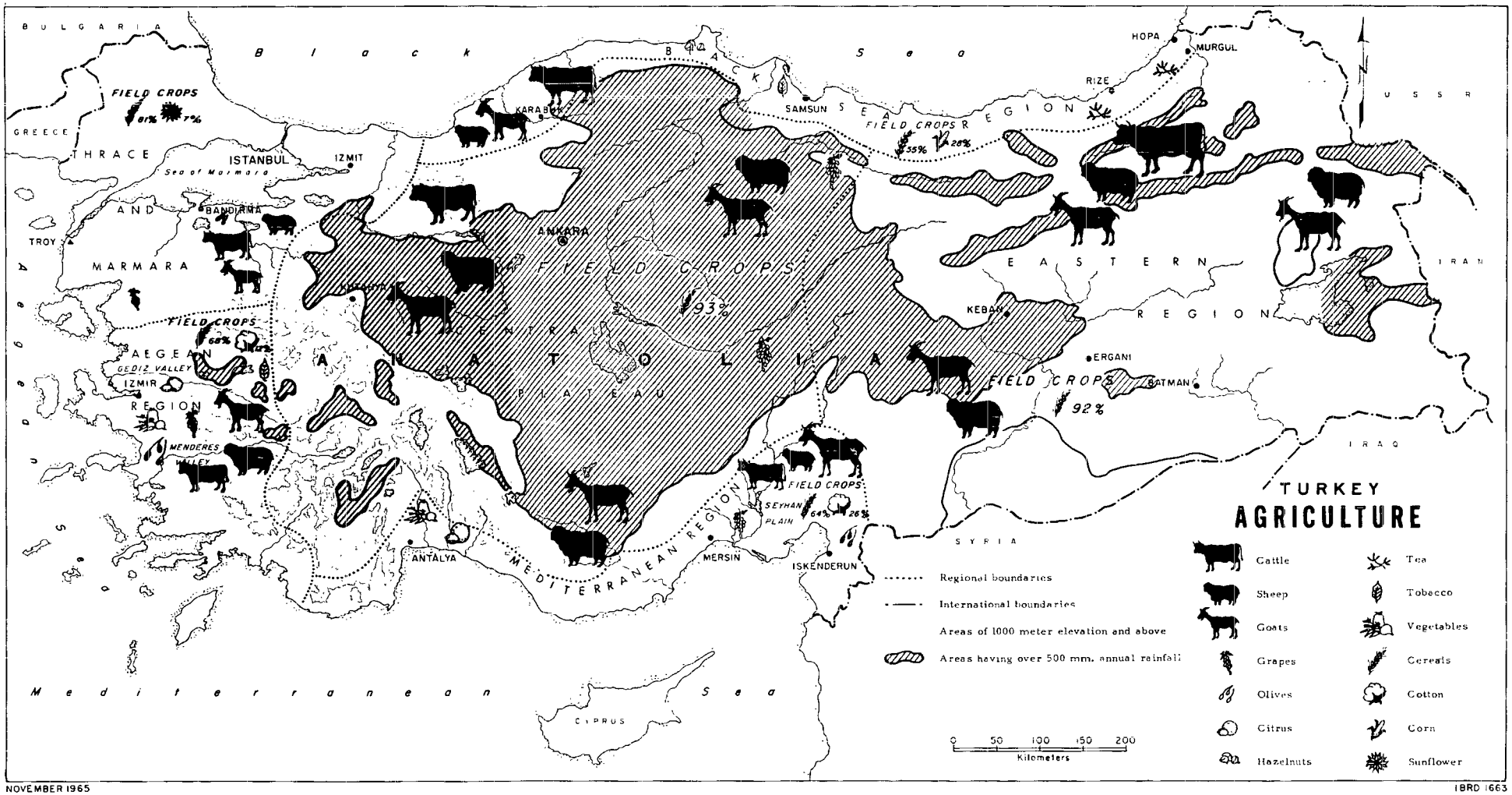

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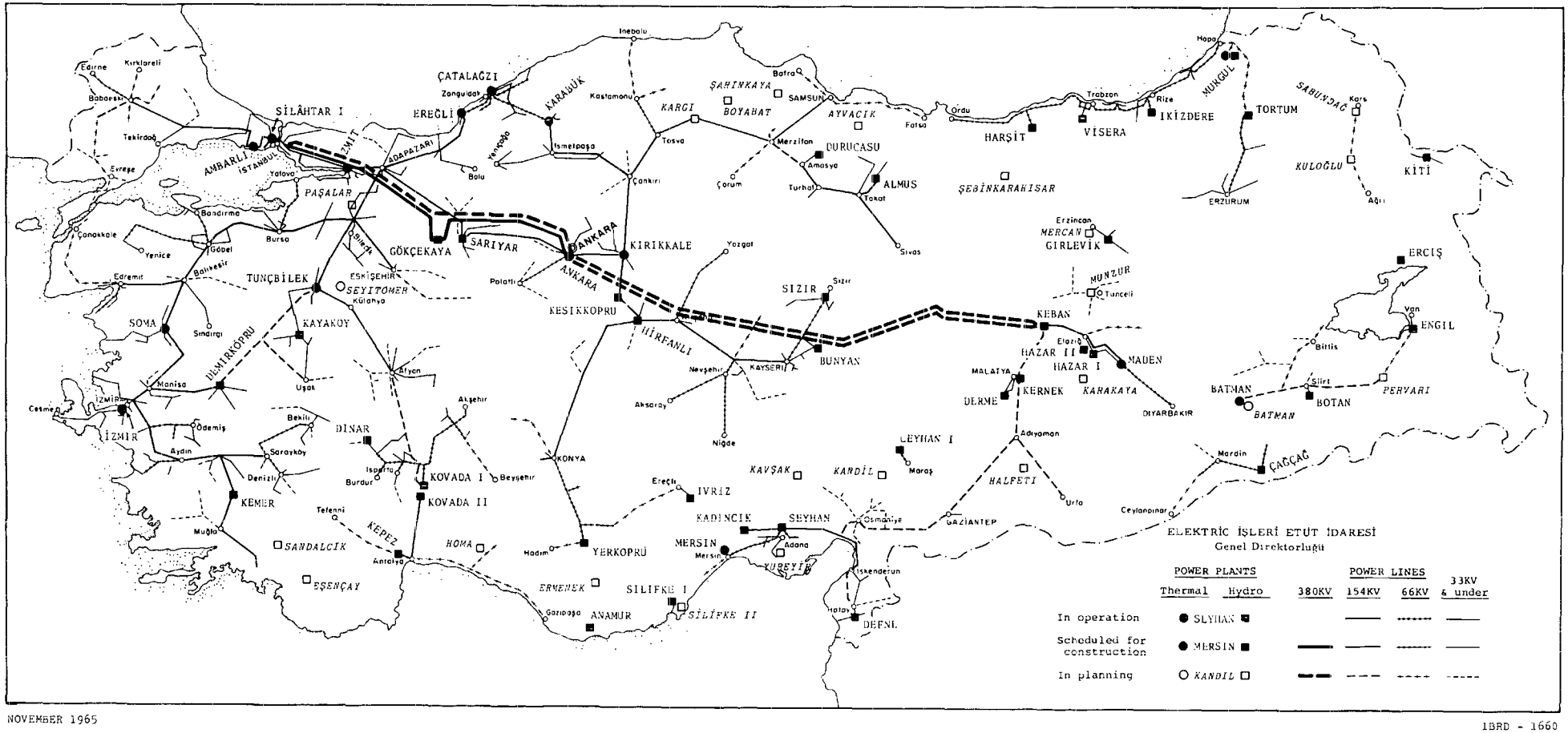
TURKEY

ELECTRIFICATION PLAN

BEGINNING OF 1965



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