

LOAN COMMITTEE

LC/M/86-36
November 13, 1986

Minutes of Loan Committee Meeting to consider
TURKEY - Proposed Energy Sector Adjustment Loan
held on November 7, 1986 in Conference Room E-1208

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WBG ARCHIVES

A. Present

Committee:

Chairman: E. Stern
Finance: S. Asanuma
Legal: I. Shihata
OPS: P. Hasan
Region: E. Lari

Others:

Messrs./Mesdames Stoutjesdijk
Rajagopalan
Chaffey
Reekie
Dubey
El Serafy
El Maaroufi
Harrison
Balkind
Dally
Hadler
Donovan
O'Donnell

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COMMITTEE

Senior Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President & General Counsel
Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending
in these sectors and SALs)
Vice President, Economics and Research (for non-
project lending)

OTHERS

Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to consider the proposals set forth in the Initiating Memorandum (IM) from Mr. Stoutjesdijk, dated October 30, 1986. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of November 5, 1986.

C. Discussion

2. Economic Management. The Region briefed the Committee on the slippages in Turkey's economic performance in 1986 and the medium-term outlook. Excessive fiscal spending, accommodated by monetary expansion, led to a deterioration in the balance of payments and in the debt service ratios. Other factors over which Turkey had little control - such as a slow-down in exports to the Middle East and to a lesser extent the EEC markets - also contributed to a widening of the current account deficit. Nevertheless, there was continued progress in reducing inflation. The Region briefed the Committee on the interim measures the Government had taken to slow growth and spending.

3. With respect to the medium-term, while there was some difference of view regarding projected growth rates for exports and workers' remittances, the general feeling was that the macro-framework remained in order, although the 1987 program would warrant close monitoring. The Region's Quarterly Economic Assessments were providing this. In this context, the Chairman agreed that the Region was correct not to focus on particular indicators. However, he suggested that the Region should routinely, in letters of Sectoral Development Policy, seek reconfirmation that the Government's basic economic policies would remain in force and that the trade regime will continue to be liberalized.

4. Country Program. The Chairman noted that the last time a Country Program Paper for Turkey had been discussed by the Operations Policy Committee was in 1983 and requested the Region to submit a revised CPP to the OPC for discussion no later than January 1987.

5. Energy Investment Program. The Committee noted that agreement on the size and composition of the energy investment program was required, including contingency planning in the event of shortfalls in private investment. This was thought to be adequate involvement in the formulation of the investment program, making superfluous the condition that no less than 35 percent of total public fixed investment be in energy.

6. Phasing of Actions/Disbursements. The Chairman suggested that every effort should be made to complete as many of the actions as possible prior to Board presentation. The Region indicated that the actions proposed in the IM for completion prior to June 1987 were expected to be completed prior to Board presentation. Furthermore, a timetable would be agreed for the key actions for the remainder of 1987 (e.g., restructuring of the Board of Directors of the Turkish Electricity Authority (TEK) and establishment of the regulatory body within the Ministry of Energy and Natural Resources). Every effort would be made to accelerate such actions, which could form a basis for tranche release. The remaining activities would be set out in an Action Plan (e.g.,

preparation of the regulatory body's work program). The Chairman, noting that the Region was proposing not to tranche the policy component of the project, suggested that the Region should consider timing its disbursement in relation to the completion of an agreed set of measures, not necessarily immediately upon effectiveness.

D. Conclusion

7. Subject to the comments noted above, the Committee approved the recommendation to proceed with the appraisal of a proposed ESAL, as set forth in the IM.