PRESS RELEASE NO. 00/80

Press Release: IMF Approves Third and Fourth Turkey Reviews and US$7.5 Billion Supplemental Reserve Facility Credit

December 21, 2000

The Executive Board of the International Monetary Fund (IMF) today approved the third and fourth reviews of Turkey's economic program, which is supported by an IMF stand-by credit. The decision will enable Turkey to draw an amount equivalent to SDR 443.4 million (about US$577 million) immediately under the credit as originally approved on December 22, 1999 (see Press Release 99/66 (/external/np/sec/pr/1999/pr9966.htm)).

To date, the equivalent to SDR 665.2 million (about US$865 million) has been disbursed from the total SDR 2.9 billion (about US$3.8 billon) stand-by credit approved last December, leaving an undisbursed balance of SDR 2.2 billion (about US$2.9 billion).

The Board also decided to provide additional resources under the stand-by credit available under the Supplemental Reserve Facility (SRF) in the amount of SDR 5.8 billion (about US$7.5 billion), or 600 percent of Turkey's quota[1 (#P25_1082)] in the IMF, to alleviate balance of payments difficulties stemming from the recent financial crisis. Of this amount, SDR 1.7 billion (about US$2.2 billion), or 180 percent of quota, will be available immediately.

Following the Executive Board discussion on Turkey, Horst Köhler, Managing Director, said:

"The Executive Board of the International Monetary Fund commended the Turkish authorities for the comprehensive policy package they have put forward to restore market confidence and prevent the recent turmoil in financial markets from derailing the ambitious stabilization and reform program upon which they embarked a year ago. Today's decision by the Executive Board is a clear expression of our confidence that the Turkish authorities are willing and able to implement this ambitious program. The Board also welcomed the intention by international banks to maintain their support for Turkey as expressed in the meeting in Frankfurt on December 11.

"The objectives of this program remain to reduce inflation to single digits by 2002, ensure a sustainable fiscal position, remedy chronic structural inefficiencies in the economy, and raise the sustainable level of growth. The tightening of fiscal policy envisaged for 2001 is required primarily to improve the external current account balance and support disinflation. The early enactment of the program's revenue measures, as well as the commitment to keep the growth of government expenditures below GNP growth, is commendable. Disinflation will also be supported by the authorities' tight incomes policies in the public sector, as well as by the authorities' actions in facilitating agreements between the social partners on wage and price increases in line with targeted inflation.

"On monetary policy, the program envisages that during the first half of 2001 the excess domestic liquidity created during the crisis will be gradually reduced, thus facilitating the rebuilding of foreign exchange reserves and fostering credibility in the authorities' policies, including in their exchange rate commitment. In the context of the envisaged opening of an exchange rate band starting July 1, 2001, the authorities' announcement of their intention to gradually shift towards inflation targeting is a welcome clarification of the medium-term evolution of the monetary framework. This announcement will contribute to reduce uncertainty and the level of interest rates.

"In the banking area, the temporary guarantee for all depositors and creditors of banks incorporated in Turkey, together with the measures undertaken to strengthen bank supervision and especially to resolve rapidly the banks intervened by the SDIF, will be of paramount importance for rapidly restoring confidence in the banking system. Strict implementation of the agreed measures is essential to the success of the program. The recent approval of the law to facilitate bank mergers, and the introduction of the tax deductibility of loan loss provisions, are also important measures for strengthening the banking system.

"Finally, the renewed resolve of the authorities to revamp the privatization program and the new drive to liberalize key goods and services markets, including in the areas of telecommunication and energy, are key steps to improve economic efficiency, reduce the public debt, and increase foreign exchange reserves." Mr. Köhler said.

ANNEX

Background

Recent Developments

Prior to the adoption of the government's economic program in late 1999, the Turkish economy featured a combination of weak macroeconomic fundamentals and a fragile financial structure. The program aimed at strengthening the macroeconomic framework, while at the same time setting in place conditions for improving the financial structure.

For most of 2000, the program made good progress in strengthening public finances, lowering inflation, and reviving growth. Fiscal accounts improved dramatically with the primary public sector balance shifting to a projected surplus of 3 percent of GNP in 2000 from a deficit of 1.9 percent of GNP in 1999 and the operational deficit expected to fall even more as a result of the drop in domestic interest rates. Consumer price inflation is projected to fall to about 38 percent in 2000, its lowest level since the mid-1980s, but still 13 percentage points above target. GNP growth is expected to be somewhat above the program range of 5-5.5 percent, sustained by strong domestic demand. However, the external account deficit is expected to widen to about 5 percent of GNP in 2000 from almost 1 percent of GNP in 1999.

These developments reflect a combination of policy factors, underlying features of the Turkish economy, and external shocks. The change in the monetary framework, coupled with the strong fiscal and structural reform package, resulted in the rapid fall in domestic interest rates in early 2000. While the introduction of the preannounced exchange rate path provided an anchor to interest rates, the effect on inflation expectations was not as strong. This combination of a sharp decline in interest rates and inertia in inflation expectations spurred domestic demand to well-above program expectations. The surge in domestic demand and external shocks-the increase in international energy prices and interest rates, and the appreciation of the U.S. dollar vis-à-vis the euro--lay behind the deterioration of the external current account. In addition, delays in structural reform, and particularly in banking and privatization, emerged.

Until recently, financial market reaction had been fairly muted to these developments. In late November, however, the crisis began to manifest itself as a liquidity problem of some medium-sized banks, although its roots were deeper. The significant deterioration in the external current account and a weakening of confidence hit parts of the banking system as rises in interest rates translated into a fall in profit margins due to a mismatch in the asset/liability composition. In this context, and following a major relaxation of liquidity, a disturbance in the interbank market resulted in a substantial loss of foreign reserves.

Strengthening the Program

In the wake of the crisis, the authorities agreed to strengthen measures to restore the program's credibility. They have stressed that it is essential to improve macroeconomic performance and to address more rapidly the strengthening of the banking sector. The authorities' strategy consists of fiscal tightening that is geared to reduce the use of external savings and of actions aimed at reassuring investors that lending to Turkish domestic banks is safe. The central government budget target for 2001 will be reached through a number of revenue and expenditure measures. In the banking sector, the government is following a multi-pronged strategy that includes the provision of a government guarantee on depositors and creditors, the implementation of a law to remove tax obstacles to mergers of banks, the acceleration of the resolution of intervened banks, and the strengthening of bank supervision.

Against this background, the authorities' macroeconomic goals for 2001 were established: CPI inflation at about 12 percent by December 2001, GNP growth at 4-4.5 percent, and an external current account deficit of some 3.5 percent.

In the first half of 2001, monetary policy will focus on recovering part of the foreign exchange that was lost during the crisis, in the context of the preannounced crawling peg with no band. As envisaged in the original program, monetary and exchange rate policies will become gradually more flexible starting on July 1, 2001, with the opening of an exchange rate band around the preannounced mid-point.

The government further decided to move speedily in implementing key measures in its reform agenda, supported by the World Bank. The authorities will move swiftly in privatizing Turk Telecom as well as state assets in the electricity markets. They are further preparing the groundwork for liberalizing the tobacco and sugar markets.

Turkey joined the IMF on March 11, 1947. Its quota is SDR 964 million (about US$1.25 billion). Its outstanding use of IMF financing currently totals SDR 1.03 billion (about US$1.33 billion).

Turkey: Selected Economic Indicators

	1996	1997	1998	1999	2000 Est.	2001 Prog.
Real economy (change in %)						

Real GNP	7.2	8.2	3.9	-6.1	5.9	4.0
Domestic demand	10.0	7.5	0.6	-4.0	12.0	2.2
CPI (end-of-period)	79.8	99.1	69.7	65.4	25.0	12.0
Unemployment rate (in %) 1/	6.0	6.4	5.9	7.7	5.6	...
Gross national saving 2/ 3/	18.9	20.8	22.5	20.5	18.2	20.9
Gross domestic investment 2/ 3/	23.4	24.6	24.0	21.5	24.1	25.0
Public finance (in % of GNP)						
Central government						
Primary balance	1.2	-0.2	3.6	1.5	4.9	5.7
Overall balance	-8.4	-7.6	-7.7	-11.6	-11.3	-4.8
Central government debt	48.0	46.6	48.5	63.2	62.1	58.6
Consolidated public sector						
Primary balance	-1.2	-2.1	0.9	-1.9	3.6	5.0
Operational balance	-7.1	-3.0	-4.6	-14.1	-5.6	-3.3
Consolidated net debt	46.5	42.9	43.7	61.2	62.3	57.5
Money and credit (end-year, % change)						
Broad liquidity 4/	113.1	117.6	76.0	82.6	42.0	23.0
Credit to private sector	120.5	125.8	81.7	58.3	61.8	23.0
Interest rates (year average)						
Treasury bill rate 5/	132.4	105.2	115.7	106.2	38.4	...
Overnight money market rate 6/	115.8	101.4	111.9	107.0	49.7	...
Balance of payments						
Trade balance 2/	-5.7	-8.0	-7.0	-5.6	-11.6	-10.0
Current account balance (including shuttle trade) 2/	-1.3	-1.4	0.9	-0.8	-5.3	-3.5
Reserves (US$ billions, end-of-period) 7/	17,695	19,575	20,112	24,274	22,787	
Reserve cover (in months of imports of GNFS)	3.9	3.8	4.0	5.3	4.0	

Sources: Turkish authorities; and Fund staff estimates.

1/ As of the third quarter of 2000.

2/ In percent of GNP.

3/ Difference between balance of payments and the national income accounts comes from the treatment of shuttle trade and related services receipts.

4/ Includes foreign currency deposits and repos.

5/ Simple average across maturities ranging from three months to one year, net of tax, in the primary auction.

6/ Average during January 1 to November 17, 2000.

7/ For 2000, estimates for end-December.

1 A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

IMF EXTERNAL RELATIONS DEPARTMENT

Public Affairs		Media Relations	
E-mail:	publicaffairs@imf.org (mailto:publicaffairs@imf.org)	E-mail:	media@imf.org (mailto:media@imf.org)
Fax:	202-623-6278	Phone:	202-623-7100