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Agricultural Situation

Turkey's IMF Program- New Developments

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Report Highlights:

This report includes summarizes the GOT's Dec. 18 Supplementary Letter of Intent to the IMF which discusses the impact of recent developments on economic goals, including the agriculture sector, during 2001-2002. Turkey's $10.4 billion IMF reform package includes a $7.5 billion supplementary loan and $2.9 billion emergency program. This report also includes a snapshot of the IBRD/IFC's three year country assistance program, and projects related to agriculture.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Ankara [TU1], TU

IMF Program- General

The Government of Turkey recently published a letter to the IMF which updated recent economic developments and their impact on policy goals for 2001-2002. This report summarizes sections of the letter which directly impact the agriculture sector. The full text of the December 18 letter can be found at the Central Bank's web site- www.tcmb.gov.tr/niyet/letter.html.

The $10.4 billion International Monetary Fund (IMF) package includes about US$7.5 billion supplementary reserve facility and $2.9 billion in existing standby loans. ($2.8 billion was released to the Government on December 28 including $ 2.2 billion supplemental and $599 million from the stand-by). Another $2.7 billion is expected to be released by the end of February.

Summary of December 18, 2000 Supplementary Letter of Intent - Economic Developments: In December 9, 1999, the GOT requested a three-year stand-by arrangement with the Fund, embarking on an ambitious disinflation and fiscal adjustment program, and charting the course of economic policies over 2000-02. In a December 18 , 2000, Supplementary Letter of Intent, the Government reported steady progress in achieving the key goals of its program, expecting that by the end of the year, the 12-month CPI inflation rate would be about 38 percent. Although this was the lowest inflation rate in 13 years, it is above the program target of 25 percent, partly due to the large and unexpected rise in international energy prices. (The 38 percent rate is also about half the inflation rate at end-1999, and the lowest inflation rate since the mid-1980s.) The Government estimated GNP Growth for the coming year at 5-5.5%,

The GOT reported that fiscal performance continued to be strong, meeting the program's end-June and end-September 2000 fiscal performance criteria and indicative floors, respectively, for the primary surplus and for the overall balance of the consolidated government sector (CGS, which includes the consolidated central budget, selected extra budgetary funds (EBFs), eight nonfinancial state economic enterprises (SEEs), and three social security institutions). For the whole year, the GOT expects the primary surplus of the CGS to exceed the program target by some 1 percent of GNP. This, together with the fall in interest rates and the sizable amount of expected privatization proceeds, should lead to about a 3 percentage point decline in the public debt-to-GNP ratio (excluding the securities issued for the recapitalization of the banks taken over by the Saving Deposit Insurance Fund (SDIF). Total receipts from privatization, however, are expected to fall short of the original program target, due to delays in the conclusion of the sale of the GSM license for Turk Telecom and are now projected to reach US$3.5 billion in 2000, against the original target of US$7.5 billion.

Following the deep recession in 1998-99, economic activity-fueled by consumer spending, investment, and exports showed a strong recovery in 2000. This reflects a post-earthquake rebound and renewed confidence in economic prospects and a major fall in interest rates during the first half of the year which stimulated domestic spending. In light of these developments, the GOT reported that real GNP growth in 2000 may exceed the program's target range of 5-5.5 percent.

A strong recovery of domestic demand, as well as the rise in international oil prices, also led to a sharp increase in imports. Although export volume growth accelerated and tourism revenues are projected to reach a historic peak, the external current account deficit is likely to widen in 2000 to about 5 percent of GNP, against about 1 percent of GNP in 1999. At least 2 percentage points of this increase are related to unanticipated external shocks (the rise in international oil prices, the appreciation of the U.S. dollar, which negatively affected Turkish competitiveness in European markets, and the rise in international interest rates).

During the last ten days of November and in early December, Turkish financial markets experienced a period of high volatility. Financial difficulties of one medium-sized bank, which was subsequently taken over by the SDIF, and the sell-off by that bank of large stocks of government paper in the secondary market led primary dealers to suspend the posting of the rates on government paper, triggering massive capital outflows, in spite of the rise of interest rates to 100-200 percent. Those events, in the context of weaker international market sentiment for emerging economies, led to a loss of US$6 billion of foreign exchange reserves. On November 30, the CBT announced that it would stop providing liquidity to the market, halting in this way the loss of reserves. Interest rates, however, skyrocketed to over 1,000 percent. The pressure on financial markets eased only with the announcement of a policy strengthening and the request of access to the Supplemental Reserve Facility.

GOT policy objectives and overall macroeconomic management strategy for 2001-02
In spite of the recent financial market turmoil, the results achieved in 2000 were generally positive and strengthened the GOT’s resolve to achieve the program's key macroeconomic goals of bringing inflation down to single digits by end-2002, restoring the viability of public finances and, in this way, setting growth on a sustainable path. To this end, the overall macroeconomic framework for 2001, including fiscal policy, was significantly strengthened with respect to the original program targets. Critical steps are also being taken in the banking area, with the goal of reducing the banking system's vulnerability to shocks and speeding up its restructuring. Finally, new structural reform initiatives will be started, including in the critical area of privatization, a source of potentially large foreign exchange inflows.

The program for 2001-02 focuses on achieving the following goals:

- A CPI inflation rate (December/December) of 12 percent in 2001. CPI inflation is targeted to be in the single digits by end-2002.
- A real GNP growth rate in the range of 4-4.5 percent in 2001, a deceleration with respect to the likely outturn in 2000. Growth should accelerate to 5-6 percent in 2002 and beyond, spurred by a positive supply response to the structural reforms under way and increased macroeconomic stability.
- An external current account deficit not exceeding 3.5 percent of GNP, a level that should be readily financed and well below the 2000 expected outcome. The external current account deficit is expected to be below 3 percent of GNP in 2002.

Monetary and exchange rate policies
The goal of monetary policy in the aftermath of the financial crisis of late 2000 was to facilitate the recovery of foreign exchange reserves, while avoiding an excessive increase in total base money supply. During the first half of 2001, the monetary framework will continue to be characterized by the pre-announced exchange rate path with no band. The devaluation rate will be lowered from one percent per month in the last quarter of 2000, to 0.9 percent per month in the first quarter of 2001, and to 0.85 percent per month during the second quarter.

Agricultural policies
In the supplemental letter, the GOT reported that it had made substantive progress in reforming agricultural policies with the objective of phasing out indirect support policies by end-2002 and replacing them with direct income support (DIS). This will promote greater economic efficiency of agricultural policies and allow stricter control of fiscal costs as well as better targeting to the poorest farmers.

The support purchase price for tobacco was raised in line with targeted inflation in 2000, and the spread of the support price for wheat over international prices was lowered to 35 percent. The support price for sugar beets was also raised in November by 25 percent. During 2001, sugar beet quotas should be reduced to 11.5 million tons and the purchase price will be increased, at most 12 percent. After the approval of the Agricultural Sales Cooperatives (ASCUs) Law, progress was reported in analyzing their financial position in preparation for their restructuring. Business plans for the 2000/01-crop year were approved for all ASCUs, in line with the 2000 budget allocation. Finally, credit subsidies were reported to have been fully phased out.

The GOT indicated that, in 2001, the support prices for wheat will be increased by no more than targeted inflation, and its spread with respect to international prices will be at most 20 percent. Direct income support-for which an allocation has been included in the 2001 budget-will be extended at the national level with payments will be made in two installments annually. The farmers' registry is expected to be substantially completed by July 2001 and the first payment to registered farmers will be made in the second half of 2001. The reform will be supported by an Agricultural Reform Investment Program from the World Bank.

The phasing out of the indirect support policies will lead to a reduced involvement of the state in the production and marketing of agricultural products and privatization of the SEEs involved in this area. To that effect, at least six sugar factories of TSFAS (the SEE involved in the purchase and processing of sugar beets) were transferred to the Privatization Agency (PA)'s portfolio by December 20, 2000, with the aim of completing their privatization by end-2001. The remaining sugar factories will be transferred to the PA portfolio during 2001 with the aim of completing their privatization by end-2002. A sugar law reforming the sugar market will be submitted to parliament by February 15, 2001 and enacted by March 15, 2001.

Restructuring TEKEL and reforming the tobacco sector involves adoption of a decree by end-January 2001 which restructures TEKEL and a High Privatization Commission decision which would allow the transfer of all of TEKEL's tobacco-processing units to the PA's portfolio:

- By end-January 2001, enacting the alcoholic beverage law which was submitted to parliament in early 2000;
- By end-January 2001, enacting a tobacco law which would set in place an auction mechanism for tobacco purchases, henceforth, phasing out the support purchase policy for tobacco.

Banking

The GOT expressed a commitment to strengthening the banking sector through a two-pronged strategy aimed at both strengthening discipline on and sustaining confidence in banks. The principal milestones of this strategy are the establishment of an independent Banking Regulation and Supervision Agency (BRSA) and the Prime Minister's announcement that the government will, until further notice, fully protect depositors and other creditors in domestic deposit-taking banks.. The BRSA has legally taken on all responsibilities granted to it by the Banking Law approved in June 1999 and became fully operational as of end-August 2000. Buyers for the banks controlled by the TSMF will be determined by May 7.

Highlights from the IBRD (World Bank) Country Assistance Strategy and Country Economic Memorandums

The IBRD has a $5 billion 3-year (June 2000-June 2003), country assistance program for Turkey. As a first step towards implementing the strategy, in May, 2000, the Bank approved a $759 million financial sector structural adjustment (FSAL) and a US$250 million privatization social support program (PSSP) which will mitigate the negative social and economic impacts of the privatization of state-owned enterprises including job loss compensation, labor redeployment services and the design and formulation of supportive economic policies. Turkey joined the bank in 1947. Historical commitments to Turkey are reported at $US13billion for 140 projects.

Agriculture

In its Country Assistance Strategy, IBRD analysts noted that despite Turkey's enormous potential for agricultural production, low productivity in the agriculture sector as a major drain on the country's public finances. The sector's share of GNP are estimated to have fallen from 36 to 15 percent, while agriculture's share of exports fell from about 60 to 10 percent. The Bank estimates that in recent years the sector is estimated to have received about $4-5 billion from the budget in price supports and distortionary indirect subsidies and another $6-10 billion from consumers due to tariff protection.

In 1999 the Government of Turkey announced a new reform program to promote efficient resource use and productivity growth while reducing the costs to the national budget and consumer. Within this framework, the World Bank developed an Agricultural Reform Investment Program to support GOT efforts to establish targeted pilot direct income support program with farmer registration. The program is expected to be expanded nationally in 2001 and 2002, despite recently publicized disagreements with senior Agriculture Ministry officials over implementation strategies (concerns that the beneficiaries of the program will be city-based land owners and not actual farmers) and reported problems in overall financing (The World Bank has agreed to finance about $52 million of the estimated $250 million cost) . Payments will be based on a fixed amount per hectare and subject to a cap on total payment per farmer.

The shift to direct income support will be accompanied by actions to eliminate credit subsidies, phase out fertilizer subsidies and support prices, and restructure the privatize state enterprises, including the parastatal sales cooperative unions. The responsibilities of other state commercial enterprises (including Tekel, Seker, Caykur, and TMO), State Vaccine Production facilities, clinical veterinary facilities and Government laboratories would also be shifted from the Government to the private sector. Other Bank recommendations include decreases in duties for grains, other feed inputs and animal products.

The IBRD and IFC have been involved in an ongoing program to develop the private market infrastructure, change applicable regulations, and restructure the Commodity Exchanges system. To support the Government's efforts to withdraw from direct intervention and provide autonomy for agricultural sales cooperative unions and privatize state-owned enterprises, the Bank and GOT embarked on a Participatory Privatization of Irrigation Management and Investment Project (1998) which will transfer management of irrigation infrastructure to farmers organized in water-user associations.