THE IMF SUPPORTED MACROECONOMIC STABILISATION PROGRAMMES IN TURKEY:
A LOOKING THROUGH THE 1980S

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Özet

Bu çalışma, 1980'lerde Türkiye'de İMF tarafından desteklenen makroekonomik istikrar programları ile ilgilidir. Çalışmanın amacı, 1980'lerde İMF tarafından desteklenen makroekonomik istikrar programlan, bunları uygulamada kullanılan politika araçları ile bu programların Türk ekonomisi üzerindeki etkisini araştırmaktır. İMF tarafından desteklenen bu programlanıl amacı, yalnızca Türk ekonomisi'nde istikran sağlamak değil aynı zamanda Türk ekonomisi'nın yapısal dönüşümünü gerçekleştirmekti. İMF destekli makroekonomik istikrar programlarının en önemli sonuçlarından birisi ihracattaki büyümeydi. Ancak İMF destekli bu makroekonomik istikrar programlarının en zayıf yönü malı dengeyi sağlamada zayıf kalmasıdır. 1980'lerin başında enflasyonu düşürmede kısmı bir başarı elde edildiyse de, sonraki yıllarda istikrar programları enflasyonu düşürmede yetersiz bir performans göstermiştir. Eğer gelecekte Türkiye'deki enflasyon aşağı çekilmek isteniyorsa, bu ilk once kapsamlı bir mali reformu gerektirmektedir.

Abstract

This study concerned with the macroeconomic reforms supported by the IMF in Turkey in 1980s. The purpose of the study is to examine these programmes, mam policy tools of them as well as their impact on theTurkish economy. The objective of the programmes were not only to stabilise the economy, but also to realise the structural transformation.of.the Turkish economy.. The study concludes that one of the most favourable results'of the programme was the remarkable increase in the Turkish exports in 1980s. However, providing fiscal balance was one of the weakest aspects of the IMF supported macroeconomic

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stabilisation programmes. Instead of a partial success was obtained in disinflationary process in early 1980s, the programmes showed highly poor performance in reducing inflation in the rest of 1980s. If any attempt is taken to bring inflation down in Turkey in future, first of all it would require a comprehensive fiscal reform.

1.INTRODUCTION:

Since the two stabilisation attempts of 1978 and 1979 did not go beyond the devaluation of the lira, they ended in failure and made the economic crisis more severe. The year 1979 was perhaps the worst year for the Turkish economy since the post-war period: all macroeconomic indicators pointed to a severe economic crisis, along with drastic foreign exchange shortages. Turkey fell into a position of being unable to import even the essential items, such as crude oil, sugar, coal and coffee, for surviving the following winter (Canevi 1994; Onis and Webb 1994). Deepening of this economic crisis called for more comprehensive economic policy measures than those undertaken in the 1978-79 period.

After several negotiations with the IMF, a stabilisation programme was put into implementation on 24 January 1980 . The new stabilisation programme had a different policy concept from earlier economic measures, with particular emphasises on greater reliance on market forces and the reduction of direct government intervention in the economy. The objective of the new stabilisation programme was not only to stabilise the economy in the short-term through lowering inflation and reducing BOP deficit, but also to realise the structural transformation of the Turkish economy (OECD 1980; Margulies and Yildizoglu 1988; Asikoglu and Uctum 1992; Canevi 1994). The policy measures of the stabilisation programme of 1980, supported by a three-year IMF stand-by loan, which consisted of reducing trade restrictions and giving priority to export sector, devaluation of the Turkish lira,

[1] Although the stabilisation measures accepted by a civilian government, an important part of the programme was carried out by the military government, who took-over the administrative in September 1980. The key technical architect of the programme was Turgut Ozal as the Deputy Prime Minister of the Military government, who became the prime minister of Turkey after the free election of November 1983. The post-1983 of the stabilisation programme was implemented by his government.

[2] Under the stand-by agreement with the IMF, Turkey received an amount of SDR 1.25 billion for over three years in the mid-1980. This amount was the highest credit extended up to that point by the IMF, representing a 6.5 times higher value than the Turkish quota with the IMF. After that, subsequent stand-by arrangements with the IMF were done in 1983 and 1984. They provided Turkey the additional amount of SDR 0.4 billion (see Onis 1986; Onis and Riedel 1993; Onis and Webb 1994). '

control of Central Bank credits, increasing interest rates, reducing of government deficits, lowering of wages, curbing monetary expansion, greater hospitality to foreign investment, and dismantling of price controls .

r This study deals with the macroeconomic stabilisation programmes introduced in Turkey during 1980-86 under the IMF mandate. The mam instruments of the programmes were[1] made up»-öf monetary policy, fiscal policy, exchange rate policy, and wage policy. Section 2 of the study explores the fiscal'policy measures, whereas section 3 looks at the monetary policy aspect of the stabilisation policy measures. Section 4 highlights the developments in the exchange rate policy. Section 5 discusses the wage policy under the stabilisation programme. The last section provides a conclusion.

2.FISCAL POLICY:

One of the major sources of macroeconomic imbalance in the Turkish economy Was the increasing monetisation of fiscal deficits, leading to excess money supply and domestic inflation. With the inadequate foreign borrowing in the late 1970s, financing fiscal deficits' through Central Bank credits was not sterilised further. These developments not only needed to reduce fiscal deficits 'but were also required to create a more sustainable fiscal conditions. Hence, they became one of the prime interests of the stabilisation programme of 1980 (Celasun 1990).

As a part of the programme, the measures were introduced in the area of fiscal policy aimed to reduce fiscal deficits through increasing tax revenue and curbing expenditure and thereby lessening inflationary pressures in the economy. On the revenue side, the chief concern of the stabilisation programme was the reforming Turkish tax system and the introduction of new taxes. With the purpose of improving the elasticity and efficiency of the tax system and thereby increasing the tax revenue, a comprehensive tax reform was introduced in late 1980. Prior to 1980, the tax revenue was continuously declining m real terms due to rapid inflation and inadequate tax administration and collection. In 1981 personal income tax brackets and tax

[3] See for more detail of the IMF supported macroeconomic stabilisation programme measures: OECD (1980, 1981); Senses (1981, 1988); Ramazanoglu (1985); Onis (1986); Boratav (1987); Baycan and Blitzer (1990); Rodrik (1990) and Oms and Riedel (1993).

[4] The mam reason for choosing the period under investigation (1980-86) is due to the fact that this is the period during which intense implementation of the stabilisation programmes occurred. Some authors take the stabilisation period in Turkey (1980-84) (Boratav 1987), whereas others such as Kopits (1987) takes 1980-85, Senses 1988 takes 1980-1986. Here we tried to delimit the investigation of the stabilisation policy measures between 1980'and 1986:

rates were increased from 10-68 per cent to 40-75 per cent, corporate income tax was unified by a 50 per cent general rate for all corporate tax payers to compensate for inflation (Kopits 1987). In addition, the government attempted to widen the tax base by introducing new taxes. The value-added tax (VAT) was one of new measures. The introduction of the VAT system was one of the most important steps in the tax reform process (Celasun 1990). It was introduced at a general rate of 10 percent in the beginning of 1985 instead of various production taxes and other duties that had been imposed at various rates on certain groups of commodities and services.

On the expenditure side, the authorities aimed to reduce the growth in government expenditure through keeping public sector employment constant, increase in the price of SEEs' production, reduction public sector wage (usually below the rate of inflation) and sharp cuts in the transfers to the state economic enterprises (SEEs). The SEEs deficits, which were partly financed through the consolidated budget and partly through the Central Bank credits, had a considerable effect in widening the public budget deficit and thus putting an increasing pressure on inflation. With the stabilisation programme, therefore, policies were introduced for SEEs in order to alleviate their burden on public budget and to increase their efficiency. The policies with regards to SEEs consisted of substantial increases in the prices charged by them, reducing their personal expenditure by putting limitations on personal wages, restraining subsidies to SEEs, and controlling their investment programmes. Hence, substantial price increases for the production of SEEs took place, whereas at the same time the subsidies were cut with few exceptions .

As a result of these policy measures, the total government revenue rose in nominal terms from TL 939.7 billion in 1980 to TL 1447.1 billion in 1981, reflecting a 54 percent increase in the total revenue between 1980 and 1981. In the same period, the total expenditure rose from TL 1078.9 billion to TL 1538.4 billion, corresponding a 42.5 percent increase in total expenditure. Thus the ratio of consolidated central government budget deficit to GNP reduced from 3.1 percent in 1980 to 1.3 percent in 1981 (see Table 1).

[5] Except the prices of coal, fertilisers, and electricity used in the production of ferrochrome and aluminium, and tariffs of the State railways and maritime transport, the prices of other SEEs were increased sharply. On average, the increase in their prices were higher 45 per cent. Even the prices of some SEEs production, such as fertiliser, were increased by 400 per cent.

Table 1: The consolidated central government revenue and expenditures , 1980-86 (in billions of Turkish liras)

Item / Year	1980	1981	1982	1983	**1984**	**1985**	**1986**
Total Revenue	939.7	1447.1	1498.0	2429.0	2806.0	4608.0	7154.0
Current Revenue	925.7	1422.4	1463.2	2369.5	2686.0	4312.0	6557.0
Taxes	748.9	1189.0	1304.1	1937.0	2372.0	3829.0	5972.0
Non -Tax revenue	176.8	233.4	159.1	432.5	314.0	483.0	585.0
Annex Budget	14.0	24.7	34.8	59.5	63.0	197.0	524.0
Grant					57.0	99.0	73.0
Total Revenue/ GNP (%)	21.1	22.0	17.1	21.1	15.2	16.5	18.1
Total Expenditure	1078.	1538.4	1658.1	2713.7	3785.0	5395.0	8560.0
Current Expenditure	9	617.8	700.1	1005.0	1931.0	2761.0	4382.0
Investment Expenditure	467.8	329.4	351.6	526.8	739.0	1121.0	2020.0
Transfer Expenditure	203.2	591.2	606.4	1181.9	1115.0	1513.0	2158.0
Transfers to SEEs	407.9	214.0	233.0	292.0	239.0	181.0	138.0
	213.0						
Total Expenditure/ GNP (%)	24.3	23.4	18.9	23.6	20.6	19.4	21.7
Overall Balance	-139.2	-91.3	-160.1	-284.7	-979.0	-787.0	-1406.0
Overall Balance/ GNP	-3.1	-1.3	-1.8	-2.4	-5.3	-2.8	-3.5

1 -The data is given in nominal terms

Source: The Undersecretariat of Treasury and Foreign Trade (various years)

In 1982, the growth of both the total revenue and expenditure seemed to have slowed down. These resulted partially from the delay of tax payments due the financial difficulties of firms and other tax payers in 1982. In addition, the change in the fiscal year in 1982 contributed to the reduction in both the total expenditure and the total revenue of the government. Although some reductions in personal income tax as well as a cut in corporate tax rate were introduced, the government revenue increased by 62 percent in 1983. This may have stemmed partly from the change in the fiscal year in 1982 and partially from the introduction of a 'Reconciliation Law', aimed at collecting taxes and reducing tax evasion. On the expenditure side, due to a sharp rise in transfer payments and investment expenditure as well as the general election held in November 1983, the total central government expenditure showed a substantial increase. In other words, it rose in nominal terms by 63.7 percent from TL 1658.1 billion in 1982 to TL 2713.7 billion in 1983. All these developments brought about a considerable widening in the ratio of central government deficit to GNP, raising it from 1.8 percent in 1982 to 2.4 percent in 1983.

As shown in Table 1, in 1984 the total tax revenue was only equal to 14 percent of GNP, reflecting a significant reduction in government revenue compared with that in 1981 and 1982. The reduction in marginal tax rates to compensate the bracket creep caused by inflation led to. a decrease'in the central government revenue and thus an increase in.the goVemment deficit to GNP, The high incidence of taxation on low-income earners, including mainly wage , i and salary earners, were lowered significantly in. 1984 as well as corporation tax rati©, lowered 'considerably. Moreover, some indirect taxes, such as banking transaction tax and withholding 'tax on interest income, were lowered with the purpose of eliminating obstacles on development of the capital market and encouraging private investments.

Likewise, extra-budgetary fund implementations reduced government" revenue, considerably . They were introduced for the special purpose of lending and expenditures by theOzal government in 1984. However, in the following years they became a seriousiproblem.. in terhis of sustaining structural adjustment (Oms and Webb 1994) as well as.an important segment in public sector resource management (Celasun 1990). As a result, the total government revenue rose only by 15.5 percent from TL 2429 billion in 1983 to TL 2806 billion in 1984, whereas the total expenditure increased by 39.4 percent from TL 2713.7 biilidnWTLr.' 3785 billion in the same period. Hence, the budget deficit reached 5.3 percent of GNP in 1984.

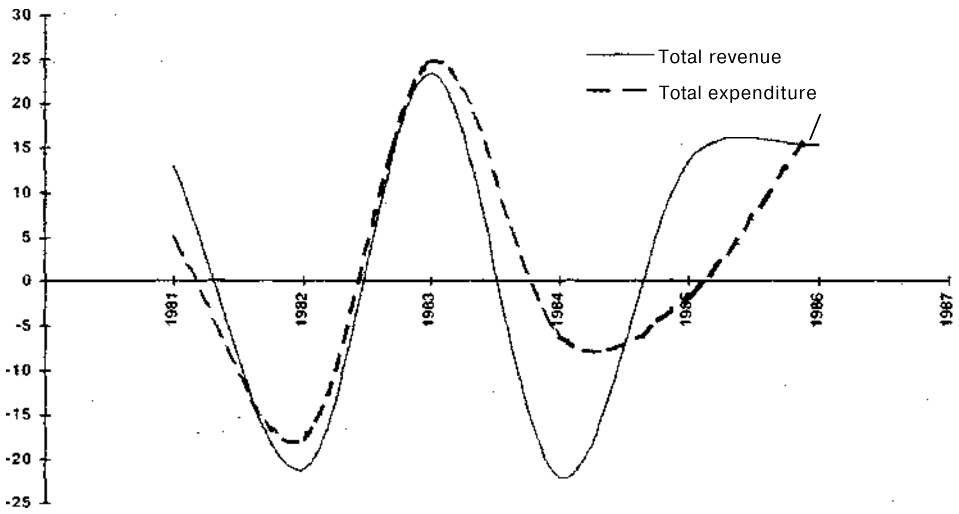
With the putting into practice of VAT m the beginning of 1985, the total revenue increased by about 64 percent from 1984 to 1985 and thus the consolidated government budget deficit..to GNP dropped from 5.3 percent in 1984 to 2.8 percent in 1985. In 1986,.the total government revenue rose considerably, which resulted from the increase in the collection of VATi and corporation tax as well as a sharp increase in annex budget revenue. However, the total;government revenue was below the total expenditure in 1986 due mamly to the sharp, increase in current and investment expenditure. Thus, the budget deficit was the 3.5 percent in 1986 (see Table 1). , ...

In Turkey, the,government transfers to;SEEs have traditionally been representing anh important burden on the public sector finance since 1950s. Even under the stabilisation programme, they showed an increasing trend until 1984. Since then, they declined, to TL 239 billion m 1984 to TL 181 billion m 1985 and to TL 139 billion m 1986. However, as a percentage of the total expenditure, they showed an absolute declining trend, reducing from 19,7 percent m 1980 to 10.7.percent in 1983 to 1.6 percent m 1986 (see Table 3.1),

[6] Extra-budgetary funds operated within central government but outside of normal budgetary appropriation and implementation process. Their revenues consisted of tax revenues (mainly VAT), operating revenue from dams and bridges, interest income from housing loans, and proceeds from the sale of income sharing certificates. With the implementation of these funds, consolidated budget has been no longer the indication of public financing since an important share of public revenue has been channelled to these funds. See more detailed (Oyan 1987; Onis and Webb 1994).

As shown in Figure 1, the growth of government revenue and expenditure in real terms displayed fluctuations between 1981-86. In 1981, the growth of total revenue was considerable higher than that of total expenditure. This may have resulted partially from the substantial reduction in inflation and partially from the increased tax revenue as a result of fiscal policy measures introduced in 1980. 1982 experienced a substantial decrease in the total revenue and an expansion in the total expenditure. The biggest decline in the real total revenue throughout the stabilisation programme realised in 1984 due to the introduction of extra-budgetary funds, the reduction in marginal tax rates. The putting into practice of VAT in January 1985 provided a significant rise in the total revenue. Thus the total government expenditure was lower than the total government revenue in real terms in 1985.

Figure 1: The real growth rates of government revenue and expenditures, 1981-86



Note: Values used are converted to real values by using consumer price index
Source: Table 3.1 and the IMF International Finance Statistics 1992

3. MONETARY POLICY:

Apart from fiscal policy, monetary policy was also assigned an important role in the stabilisation programme through quantitative limits on the Central Bank credits and increases of interest rates on bank deposits (Saraçoğlu 1987; Kopits 1987). The implementation of monetary policy measures started with the establishment of the Monetary-Credit Committee, charged with co-ordinating money and credit policies, and ensuring that credit allocations to users were in line with the general principles of monetary policy as well as carrying out studies related to support price policies. Under the stand-by agreement with the IMF, the Turkish authorities, guided by the Monetary-Credit Committee, undertook to implement a tight monetary programme through limits on the net domestic assets of the Central Bank, and restrain the Central Bank credits to public and private sector, together with the liberalisation of interest rate.

The direct credit to the government, including advances to the Treasury and credits to SEEs, had a very significant place within overall Central Bank credits, explained, for example, 78.2 percent of total Central Bank credits in 1980 and 80.9 percent of that in 1982 (see in Table 2). According to the Turkish budget law, the Central Bank is required to lend short-term advances to the Treasury up to the amount of 15 percent of the central government's expenditure budget. The main factor for central government's credit demand is to finance the budget deficit. Apart from the central government, the highest demand for the Central Bank credits has been coming from the SEEs for financing both their large losses on current operations and investment expenditure. As shown in Table 2, direct credit of the Central Bank to the public sector as a whole was reduced significantly after 1981. As a part of stabilisation programme, the growth of nominal income in agricultural sector were curbed to bring down the galloping inflation. For this purpose, not only subsidies were eliminated from basic inputs, but also agricultural support purchases by public agencies of agricultural products were lowered in suppressing incomes of farmers.

Table 2: Central Bank credits in real terms , 1980-86 (in billion of Turkish liras)

Credit / Years	**1980**	**1981**	1982	**1983**	**1984**	1985	1986
Short-term Advances to Treasury	949.4	969.6	751.9	728.1	765.6	794.5	781.2
Credit for Support Purchases of SEEs	743.4	865.9	574.2	415.0	65.5	123.2	158.3
Agricultural	357.0	276.6	61.8	101.7	46.9	46.1	44.7
SEEs Operating in Industry	891.9	800.0	755.0	722.7	279.1	257.1	306.7
Artisans and Craftsman	36.8	46.2	33.3	43.6	35.6	27.1	21.0
Exports	242.9	418.8	284.1	390.3	48.6	6.9	2.8
Commercial	82.3	49.2	110.7	251.3	25.3	24.3	23.3
Other[3]	-	-	-	-	7.8	20.0	19.3
Total	3303.7	3426.3	, 2571.0	2652.7	1274.4	1299.2	1357.3

1-The data are converted to real terms by using consumer prices which are borrowed from the IMF Internationa! Financial Statistics 1991

2-Credit supports purchases are indicated separately due to their importance in Turkey

3-Includirig the Advances of the Regulation of Securities Fund and the Advances of Production of Savings Fund.

Source: The Central Bank of Turkey, 1985 and 1988.

As shown in Table 2, agricultural credits showed a declining trend with the exception of 1983, due to the general election of December 1983, the agricultural credit rose by 64.5 percent and reached TL 101.7 billion in that year. In 1985, the Central Bank credits to the public sector increased significantly due mainly to the refinancing of government securities issued to commercial banks in the earlier years. Thus, the effectiveness of the monetary policy was damaged considerably.

With the implementation of tight monetary policy, the ratio of Ml to GNP declined, as the share of quasi-money (QM) in GNP increased. As shown in Table 3, the ratio of Ml/ GNP dropped from 17 percent in 1980 to 12.4 percent in 1985. On the other hand, the ratio of QM/ GNP increased from 4.5 percent in 1980 to 18.4 percent in same year (see Table 3).

Table 3: Monetary aggregates of Turkey, 1978-1986,

Year	MV GNP	QM[b]/ GNP	(M, + QM) / GNP	QM/ (Mi + QM)	Velocity of Circulation of Money GNP/Ml	GNP / M2[c]
1978	22.3	3.5	25.9	13.7	4.4	3.8
1979	20.7	3.9	24.6	15.8	4.9	4.0
1980	3 7.0	4.2	21.3	19.7	5.8	4.6
1981	15.6	11.5	27.1	42.4	6.4	3.6
1982	16.2	14.6	30.9	47.4	6.1	3.2
1983	18.0	12.0	30.1	40.0	5.5	3.3
1984	13.5	16.5	30.1	55.0	7.4	3.3
1985	12.4	18.4	30.9	59.6	8.0	3.2
1986	13.8	17.6	31.4	56.0	7.2	3.1

a- M, - Currency m circulation + sight deposits
b-QM (Quasi-Money) ~ Time and saving deposits at commercial and development banks
c-M2 = Ml+QM
Source: The IMF International Financial Statistics 1991

The liberalisation of interest rates took an important role in implementing the tight monetary policy. With the purpose of stimulating private investment and minimising domestic debt of the public sector, only limited increases on deposit interest rates as well as on credit interest rates had been allowed throughout the 1970s. As a result, they became increasingly negative in real terms due to the accelerating inflation. The velocity of circulation of money rose, and the role of the banking system in financial intermediation began to be undermined with the emergence of non-bank financial institutions not subject to interest rate regulations (Saraçoğlu 1987). In response to these developments and in particular to restrain the increase in the velocity of circulation of money, interest rates were liberalised on time deposits in mid-1980.

The liberalisation of interest rates was a decisive part of the stabilisation programme of 1980 to allow market forces to play a greater role in resource allocation (OECD 1981).

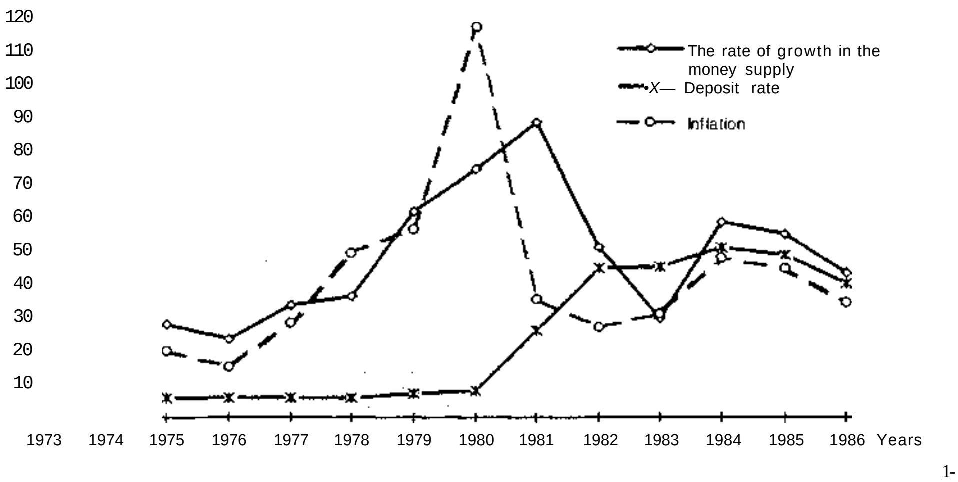
Since large commercial banks avoided a sharp increase in nominal interest rates, initially they were determined through a "gentlemen's agreement" among these banks which led the interest rates to remain under inflation in real terms. However, after July 1980 the interest rates became positive in real terms with the substantial reduction in the rate of inflation as well as the competitive pressure of small banks and non-bank intermediaries. These developments brought about a massive flow of funds into the banking system. Time and saving deposits at public and private deposit money banks rose by 66.7 percent from TL 371.047 billion in 1980 to TL 618.725 billion in 1981 and reached in 1982 to TL 876.021 billion by increasing 41.5 percent (The Central Bank of Turkey 1985).

Positive real interest rates brought about a notable decrease in the velocity of circulation of money, substantially lowering inflationary pressures. For example, the velocity of M2 dropped from 4.6 percent in 1980 to 3.6 percent in 1981 and to 3.2 percent in 1982, as inflation measured at consumer prices dropped from 110 percent in 1980 to 36 percent in 1981 and to 30 percent in 1982 (see Table 3). More importantly, positive real interest rates through the increase in the demand for money led to a significant rise in the bank credit necessary to meet growing economic activity and exports, without provoking inflationary pressures (Saraçoğlu 1987).

As shown in Figure 2, with the increase in interest rates and decrease in the growth of money supply, the inflation declined sharply, came down from over 100 percent in 1980 to about 30 percent in 1981. "The interest rate policy...was perhaps the single most important factor in lowering the rate of inflation" (Saraçoğlu 1987: 127). However, the high levels of both deposit and credits brought about serious financial difficulties for a number of firms and thus a financial crisis broke out in June 1982, in which several non-bank intermediaries collapsed.

These developments led the Turkish government to reconsider its interest rate policy. Consequently, deregulation of interest rates ended in the beginning of 1983 and the interest rates were adjusted by the Central Bank through putting ceilings on deposit interest rates for every three months in accordance with the fluctuation in the rate of inflation. The restructuring of interest rates in June 1985 led to an increase in the holdings of quasi-money and thus the ratio of QM to GNP. The QM / GNP ratio recorded 18.4 percent in 1985, which was the highest point since the stabilisation programme implemented. Consequently, the velocity of M2 dropped 3.2 percent in 1985.

Figure 2: The growth rate of broad money supply , deposit interest rate, and inflation , 1975 - 86



1-Including Ml and Quasi Money
2-Consumer prices
Source:The data are compiled from OECD Economic Outlook (1993) and IMF International Financial Statistics (1995).

4. EXCHANGE RATE POLICY:

Turkey pursued a fixed exchange rate policy until 1980, along with tight exchange controls. External balance was frequently attempted to achieve through foreign reserves and a restrictive import policy. The overvaluation of the currency and anti-export biases of the trade regime combined with the ISI strategy deteriorated continuously the competitiveness of export sector of Turkey throughout the 1960s and 1970s. As a result, Turkey fell into a severe balance of payments (BOP) crisis in late 1977. The authorities attempted to respond to the crisis by devaluing the lira by 23 per cent in 1978 and by 44 per cent in 1979 respectively.

Exchange rate policy reform was one of the most important parts of the stabilisation programme introduced on 24th January 1980. The main objective of the new exchange rate policy was not only to maintain a realistic real exchange rate, but also to liberalise the exchange rate (Asikoglu and Uctum 1992; Onis and Riedel 1993). In these ways, the authorities aimed at lowering inflationary pressures by restraining domestic demand and reducing BOP deficit by switching of demand from non-tradable tradables to tradables. The reform in exchange rate management started with a gradual implementation of freeing the exchange rate, beginning with a mini-devaluation of the Turkish currency but increasing in frequency until May 1981. Since then the daily adjustments of the nominal rates were passed on by the Central Bank. The final target was to reach a market-determined exchange rate. In addition, with the implementation of new stabilisation programme, the multiple currency practices of pre-1980 were gradually removed after mid-1981. In the first two years of the stabilisation programme, the Turkish authorities aimed to reduce the current account deficit with the exchange rate policy, and to regain the credit worthiness of Turkey through the real depreciation of the Turkish lira. In the following years exchange rate policy was aimed not only at restricting domestic demand and thus lowering the inflationary pressure on prices, but also to maintain higher export growth rates as an engine of economic growth through change in relative prices by encouraging the shift from the production of non-tradables towards tradables (see Table 4).

Table 4: Exchange rate management in Turkey, 1980-88

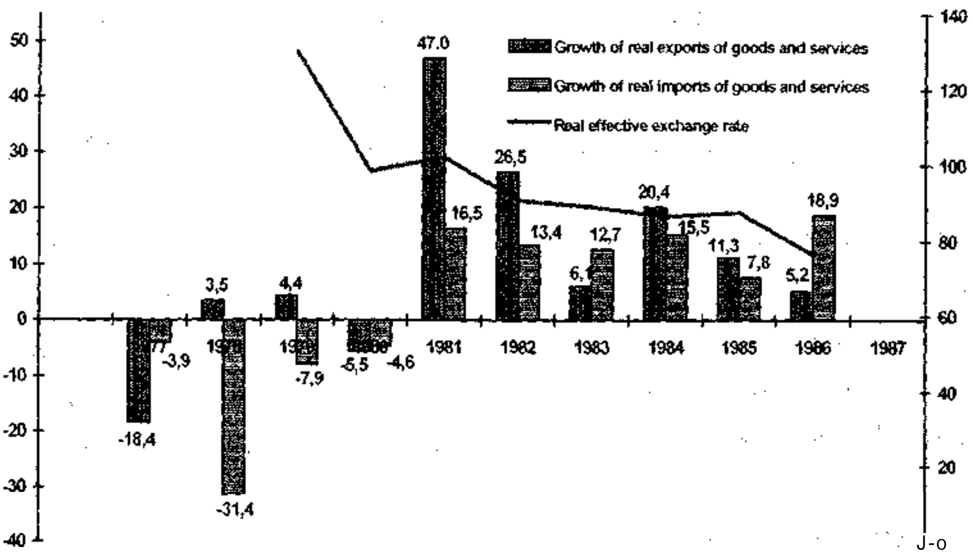
Years	Objectives	Exchange rate policy	Method
1980-1982	Reducing current account deficit Gaining credit worthiness Lowering inflation	Real depreciation	Frequent devaluations
1982-1988	Export orientation ,-Maintaining growth Stabilising inflation	Real depreciation	Daily adjustments

Source: Prepared from Asikoglu and Uctum (1992: 1503), Table 2.

For these purposes, after the 30 per cent devaluation vis-â-vis the US dollar in real terms in the beginning of 1980, the Turkish lira depreciated more or less continuously against US dollar as well as other major industrial trading partner country currencies. In addition to the real depreciations of the lira, in the 1980-83 period, the authorities introduced a number of export promotion schemes, such as tax rebates, preferential export credit, subsidies, preferential imports of intermediate inputs, to promote exports. As a result, export performance of the Turkish economy sharply increased in early 1980s despite the existence of the 1981-82 recession in the world economy.

As shown in Figure 3, along with real depreciation of the lira, the growth of real exports of goods and services increased sharply from -5.5 percent in 1979 to 47 percent in 1980, whereas that of imports increased moderately from -4.6 per cent to 16.5 per cent in same period respectively.

Figure 3: The growth rate (in percentage) of real exports' and imports of goods and services, and real effective exchange rate ,1977-1986



l-Real exchange rate index shows the units of foreign currency in terms of per units of domestic currency
Source: The data are compiled from Kopits (1987) and OECD Economic Outlook (1991)

However, many argued that the export boom in the Turkish economy in early 1980s resulted largely from the preferential access to export subsidies, advantageous market conditions in the Middle East and depressed domestic demand rather than real depreciation of the lira (Saraçoğlu 1987; Margulies and Yildizoglu 1988; Senses 1988; Rodrik 1990a). In particular, a significant amount of Turkish export growth in early 1980s may' have arisen from the Iran-Iraq war[7]. After 1983 the authorities began to pursue a more active exchange rate policy. Export performance was the one of the most successful elements of the stabilisation programme in Turkey (Boratav 1987; Kopits 1987; Senses 1988; Baycan and Blitzer 1990). As shown in Table 5, while the exports were only equal to 36.8 percent of imports in 1980, they rose to 65 percent in 1982 and 70.2 percent in 1985.

[7] The total exports to Iran and Iraq increased from US$ 220 million in 1980 to US$ 793 million in 1981 and to US$ 1401 million in 1982, reflected a 260.4 and 76.6 percent annual increases in exports in 1981 and 1982 respectively. While the exports to both Iraq and Iran accounted for the 7.5 percent of total exports in 1980, it explained the 16.8 and 24.3 percent of total exports in 1981 and 1982 respectively (see Central Bank of Turkey 1985).

Table 5: Foreign Trade indicators of Turkey, 1980-86

Year / Ratio	**Exports / Imports (%)**	**Exports / GNP (%)**	**Imports / GNP (%)**
1980	36.8	4.2	11.6
1981	52.6	6.6	12.5
1982	65.0	8.8	13.8
1983	62.0	9.3	15.3
1984	66.3	11.8	18.2
1985	70.2	11.7	17.0
1986	6JU	9Ş	14İS

,C! Source: The State Institute of Statistics 1994

Similarly, the exports / GNP ratio increased from 4.2 percent 1980 to 11.7 percent in 1985. On the other side, the ratio of imports to GNP increased in same period but by a lower ratio than the ratio of exports to GNP. Without doubt, the real depreciation of the lira made an important contribution to this impressive performance by shifting the relative prices of tradables and non-tradables and increasing the competitiveness opportunity of tradables in international markets.

5. WAGE POLICY

Wage policy not only aimed to reduce inflation by lowering the pressure on the aggregate demand, but also aimed to improve the competitiveness of tradable goods in international markets as well as to encourage much more private investments by restraining the increase in the real wages.

Wage policy focused on reducing real wages by keeping nominal wages under the price developments. With the military take-over in 1980, the strong ability of labour unions in determining wages was highly injured since a number of them were abolished and strikes were banned. In a sense, "the weakness of the unions was used **to** entrench and to exacerbate the reduction in real wages" (Rodrik 1990b:5). Under the guidance of the Supreme Arbitration Board, free wage bargaining policy was replaced by collective bargaining system as the basis for wage determination. Accordingly, wage adjustments for both public and private sectors were based on two-years contracts. While wages were allowed only partial increases in the first-year, in the second-year the increases in wages were set in line with official forecasting inflation, which usually remained behind actual inflation level. With increased taxation and other legal requirements, such as insurance premium, income tax, stamp duty, real wages were reduced further.

Employment generation in public sector was also restrained through wage policy. On the contrary to public sector, the authorities attempted to encourage private sector by lowering real wages and thereby increase employment creation and production. As shown in Table 6, in the 1980-86 period, employment in public manufacturing industry declined by 1.1 percent annually, whereas that in private manufacturing industry rose by 4.7 percent annually. As for real wages, they declined in both public and private sector but with a different percentages. Real wages in public sector declined on average 8.4 percent, while it decreased in on average 0.9 percent between 1980-86.

Table 6: The changes in employment and real wages in total manufacturing industry, 1980-86

Items	Employment (%)		Real Wages (%)	
Years	**Public Sector**	**Private Sector**	**Public Sector**	**Private Sector**
1980	-2.3	3.2	-16.5	-23.5
1981	-5.4	5.2	2.0	10.9
1982	-2.0	6.7	-10.4	5.5
1983	4.9	3.7	-3.8	0.1
1984	0.0	4.4	-15.5	-3.8
1985	-1.1	6.7	-9.1	3.8
1986	-L9	3_0	-5_5	0 7
Average	-U	4/7	-8_4	-09

Source: Calculations are based on the State Institute of Statistics, 1994

Onis and Riedel (1993) argue that, with great influx of foreign credits and a fiscal austerity package, the reduction in real wages stabilised the Turkish economy in no more than one and half years. The decline in real wages not only restrained domestic demand, but also lowered the cost pressure on both public and private sector. In a sense, the flexibility in real wages was seen by private sector as an adjustment mechanism to accommodate high interest rates and exchange rate depreciations in the Turkish economy (Celasun 1990). However, wage policy did not develop within the time span under consideration. In addition, private investments have, however, been sluggish and stagnated during 1980s. Moreover, the policies which suppressed real wages and unemployment brought about a serious problem at the end of 1980s with the increased power of labour unions.

After 1986, a further progress was observed in integrating Turkey into the world economy. In addition, external balance position of Turkey improved substantially. In particular, current account, which was into deficit since 1973, shifted into surplus in both 1988 and 1989. However, internal imbalance never achieved due mainly to rapid government expenditure growth and poor government revenue, and thus inflation increasingly increased in second half of 1980s.

6. CONCLUSION:

The immediate objective of the programme was to both lower galloping inflation and sustain the expanding BOP deficit. In addition to these immediate objectives, the programme aimed at explicitly relying on market forces and reducing as well as rationalising the state intervention in the economy, while integrating the Turkish economy into the world economy. The stabilisation programme of 1980 was characterised by a comprehensive, harmonious and well-sequenced set of policy package. The policy package was implemented under the military government, which took-over in September'1980. The principal instruments of the programme were tight monetary policy, real depreciation of the Turkish lira, liberalisation, of key relative prices such as the prices charged by SEE for their products and interest rates on bank deposits, reduction in subsidies to SEEs, increasing tax brackets and introduction of new taxes, and so on. The programme also intended to reduce the role of the public sector in the economy.

Monetary and fiscal policies had an important role in curbing the galloping inflation through restrictions on aggregate demand in the earlier years of the stabilisation programme. Monetary policy was applied to put the quantitative limits on the Central Bank credits and to increase interest rates on deposits. Despite a lack of well-developed financial markets in Turkey, interest rates had a crucial role in determining the extent and composition of the demand for money. With the liberalisation of interest rates on deposits and credits, the demand for money indicated a sharp increase whereas inflation came down, reducing from almost 110 percent in 1980 to about 25 percent in 1982. Therefore, the real interest rate policy of the stabilisation programme took an important role in reducing three-digit inflation of 1980.

Wage policy was used not only to restraint aggregate demand, but also used to encourage private investment through low wages. In particular, wage policy of 1980s was the chief tool of disinflationary process, which was by the accumulation of unemployment. Domestic absorption was suppressed significantly by wage policy as export promotion was encouraged in the 1980s.

Fiscal policy was used to reduce fiscal deficits through income generating and expenditure reducing policies. Although the increases in the tax brackets and introduction of the VAT were important steps in tax reform process in order to increase public revenues, a more effective taxation of non-wage income groups, along with more effective tax administration, remained as an important task of the post-stabilisation programme period. O: the expenditure side, the authorities introduced a number of expenditure-reducing policies, sue. as restraining public consumption, elimination of agricultural subsidies, sharp cuts in transfer to SEEs, reduction on real wages and salaries, and so on.

Perhaps the one of the most favourable results of the stabilisation programme was th impressive growth of exports. With the implementation of a realistic exchange rate polic; along with export-oriented growth strategy led to not only sharp increases in Turkish exports but also allowed a shift in the structure of production from non-tradables toward tradables More importantly, the Turkish economy became an open and market-oriented economy Furthermore, Turkey eliminated the extremely poor export performance of 1970s, (which wa the most important factor behind the BOP crisis and causing indebtedness), through export-le< growth strategy combined with flexible exchange policy in 1980s. The export performance o Turkey led her to not only to solve exchange shortages, but also provided her to regai) creditworthiness, in international financial markets.

Fiscal balance was one of the weakest aspect of stabilisation programme implemente< in 24 January 1980. Although in 1981 and 1982 an impressive fiscal retrenchment wa achieved and thus inflation was reduced, the following years witnessed larger fiscal deficits The both 'reconciliation law' issues and extra-budget fund implementations were the majo factors which led to reduction central government revenue. The reconciliation laws, whic) were issued once in every two years for reducing tax evasion and increasing tax collections, le< to declining rather than increasing tax revenues since they caused a postponement of ta; payments with the hope of an introduction of a new reconciliation law. In addition, the extra budgetary funds reduced central government revenues further and they were mainly used fo political purposes. Moreover, all these factors combined with political difficulties of reducin; public expenditure. Consequently, with the exception of 1981 and 1982, the ratio of the budge deficit to GDP remained over 2 percent throughout the stabilisation programme.

The inflation in Turkey is positively affected by two monetary variables, the rate o growth in the money supply and deposit interest rate. Changes in the pattern of money suppl; and deposit interest rates are closely associated with the pattern of the changes in the inflatioj rate in Turkey. Although a partial success achieved in disinflationary process in early 1980s inflation showed a poor performance under the stabilisation programme compared with pre programme period. In addition, inflation problem remained one of the unsolved issues of th Turkish economy in 1980s and the firs half of 1990s. If any attempt is taken to solve mflatio:

problem of the Turkish economy in future, first of all it would require a.comprehensive fiscal reform.

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