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Committee on Balance-of-Payments Restrictions

1995 CONSULTATION WITH TURKEY UNDER THE BALANCE-OF-PAYMENTS PROVISIONS OF THE GATT 1994 AND THE RELATED UNDERSTANDING

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 12 of the Understanding on the Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade 1994. It describes the developments since the background paper prepared for 1993 full consultation (BOP/W/149).

I. Previous consultations with Turkey

2. Turkey has held thirteen consultations in the GATT 1947 Committee (1967, 1969, 1973, 1975, 1978, 1979, 1981, 1983, 1985, 1987, 1988, 1991, 1993) of which seven were under the simplified procedures. At the last full consultation, held on 1 April 1993 under Article XVIII:12 (b), the Committee commended the widespread trade liberalization undertaken by Turkey, including the abolition of the stamp duty, municipal tax and transport infrastructure tax on imports and the termination of payments to the Price Support and Stabilization Fund. The Committee recognized that Turkey was committed to a programme of progressive reduction and phasing-out of the Mass Housing Fund (MHF) levied on imports since 1984. The Committee noted that, in the 1993 Import Régime, the combination of import duties with payments to the Mass Housing Fund led to total charges on imports exceeding GATT-bound levels in 12 per cent of tariff lines in Turkey's schedule of concessions; Members, while not querying the broader purpose of this measure, questioned whether it was justified under Article XVIII:B. The Committee also recognized that the basic aim of the Mass Housing Fund was not for balance-of-payments purposes and therefore welcomed Turkey's readiness to implement the envisaged reduction. The Committee took note of Turkey's declared intention to disinvoke Article XVIII:B in the foreseeable future (BOP/R/207).

3. Subsequent to a request for information at the meeting of the GATT 1947 Committee held on 24 November 1993 Turkey provided detailed lists of all tariff lines on which the combined incidence of the tariff and the Mass Housing Fund charge exceeded GATT-bound rates in 1994 (BOP/314/Add.1 and 2). The relevant notifications stated that with the improvements introduced by the 1994 Import Régime, the combination of customs duties with payments to the Mass Housing Fund had led to total charges on imports exceeding bound levels in 1.7 per cent of tariff lines in Turkey's schedule of concessions, compared to 12 per cent in 1993.

4. During the Trade Policy Review of Turkey held on 20 and 21 January 1994, the GATT 1947 Council noted the statement by the representative of Turkey that the introduction of the MHF charge had assisted Turkey to eliminate non-tariff barriers and move away from import substitution. The 1994 Import Régime had eliminated the MHF charge on more than 2,600 commodities and had reduced rates on others, reducing the protection provided by levy by nearly one-third; the phasing out would continue until final elimination by 1998, as mentioned in Turkey's Free-Trade Area Agreement with

EFTA, if not before. The loss of revenue from the levy was expected to be compensated through tax reform, including consumption taxes, yet to be introduced, which would be applied to domestic and imported goods alike (C/RM/M/42).

II. Turkey's Trade and Exchange System

5. Turkey became a full member of the WTO on 26 March 1995. The establishment of a customs union with the European Union, foreseen for 1 January 1996, is in its final phase.

(a) Mass Housing Fund Levy

6. The Mass Housing Fund levy has been collected on imports since 1984 to finance a low cost public housing scheme. This levy is to be abolished on imports of industrial goods from all sources as from the date of the establishment of the Customs Union between the European Union and Turkey on 1 January 1996. During 1995 the phasing-out of the levy was accelerated with cuts in April and July, of 20 per cent each from the levy rates of 1 January 1995.

7. In July 1995 the levy was imposed on some 12,214 tariff lines at 8 digit HS level, equivalent to 66 per cent of the total, at varying ad valorem and specific rates. The present average ad valorem levy rate is 9.53 per cent of the c.i.f. value of imports. Under the 1995 Import Régime, the combination of customs duties with MHF levies led to total charges on imports exceeding bound levels on 42 tariff lines which represent 0.7 per cent of total tariff lines in Turkey's schedule of concessions and corresponded to 1.7 per cent of the total imports in 1994 (WT/BOP/4). Imports exempt from customs duty under incentive certificates are not liable for payment of the levy, nor are some of the grains imported by the Turkish Grain Board. The value of imports on which MHF was applied amounted to US\$985.2 million in 1994.

(b) Tariffs

8. Under the Import Régime issued in July 1995, two tariff rates are applied: the "EU/EFTA" rate, applied to imports from these sources, and the m.f.n. rate applied to imports from all other sources. The simple average of applied m.f.n. tariff rates for all imports is 10.47 per cent and the simple arithmetic average of EC/EFTA rates is 5.66 per cent.

9. In July 1995, m.f.n. tariffs on imports ranged from zero to 117 per cent applied on tobacco and tobacco products; and tariffs on imports from the EU and EFTA countries ranged from zero to 73 per cent applied on fruit and vegetable juices. Duty exemptions apply to raw materials and intermediate and capital goods. In addition, holders of investment incentive certificates are eligible to import all investment machinery and equipment duty free. For m.f.n. imports, about three fourths of all tariff lines carry a tariff rate of 8 per cent or less. More than three fourths of EU/EFTA imports are subject to tariff rates of 2 per cent or less. Virtually all tariffs rates of over 20 per cent affect agricultural or processed food products. In 1994 the revenue collection from custom duties amounted to US\$771 million.

10. In the Uruguay Round negotiations Turkey bound 100 per cent of duties on agricultural products. On industrial products (excluding petroleum products) 36 per cent of tariff lines were bound at existing levels, which is equivalent to 39 per cent of 1989 imports. Over half of all tariff lines are bound in certain industrial sectors, such as machinery and transport equipment, rubber, chemicals and high-technology items. After the Uruguay Round, imports under bound duties accounted for 49 per cent of total imports (at 1989 levels). The weighted tariff average on industrial products based on 1989 imports was reduced from 25.1 per cent to 22.3 per cent.

11. In accordance with the modalities of the future Customs Union with the European Union Turkish customs duties will be fully aligned with the Common Customs Tariff of the European Union by 31 December 1995. As at July 1995 Turkey has completed 90 per cent of the alignment of its customs duties with the EU Common External Tariff on the 12-year list and 85 per cent on the 22-year list specified in the Additional Protocol to the Association Agreement signed in 1970. Turkey's tariff on industrial products will be aligned with the EU's Common External Tariff as of 1 January 1996.

12. The customs duties applicable by Turkey to industrial products originating in the European Union are calculated as successive percentage reductions of the duties prevailing on 23 November 1970, the date of signature of the Additional Protocol. In January 1995, the duties applicable to products of EU origin were phased down to 5 per cent of these basic duties for products on the 12-year list and 10 per cent for sensitive products on the 22-year list. These duties will be phased out by 31 December 1995.

13. The provisions on customs union in the Additional Protocol do not apply to agricultural products. In 1993, preferential tariff margins on agricultural products were granted unilaterally by Turkey on some 287 tariff lines in accordance with Annex 6 of the Additional Protocol. The EU also benefits from preferential tariff treatment on fish and fish products granted to EFTA countries in terms of the EFTA-Turkey Free-Trade Area Agreement.

14. In accordance with the Free-Trade Area Agreement between the EFTA countries and Turkey, imports from EFTA countries benefit from the same customs duty treatment as imports from the European Union countries. By the end of 1995, Turkey will also abolish all customs duties and charges having equivalent effect on industrial imports from these countries.

(c) Other measures affecting imports

15. A surcharge of 2.5 per cent has been applied since 1985 on imports of minerals used for energy production (e.g. oil and coal), metallic minerals, industrial minerals and precious stones, to finance the Mining Fund.

16. Turkey also operates a value-added tax system, applied at a standard rate of 15 per cent to most imported and domestic products. The base of the value-added tax on imports is the sum of the c.i.f value and customs duty. Rates applying to food products range from 1 to 8 per cent, and a rate of 23 per cent applies to luxury goods.

17. All imports are subject to automatic import licensing for statistical and surveillance purposes. Import certificates are issued by the Undersecretariat of and Foreign Trade. Importers must obtain inspection certificates from the relevant ministries for certain goods, including telecommunications equipment, agricultural products, chemicals, pharmaceutical products, vehicles and coal. At present only the importation of narcotics, stearoptene, weapons, ammunition and spare parts and coins made up of silver or other metals (except gold) is prohibited under special laws for security and health reasons.

(d) Exchange regulations and exchange controls

18. Turkey accepted Article VIII of the IMF Articles of Agreement on 22 March 1990 and is thus committed not to impose restrictions on payments for current international transactions, or to engage in discriminatory currency practices, without IMF approval. The Central Bank regulates all matters related to foreign exchange operations. All commercial banks have been authorized by the Undersecretariat of Treasury to engage in foreign exchange operations.

III. Macroeconomic Developments

19. Macroeconomic performance in Turkey since the mid-1980s was marked by rates of GNP growth, at annual average rates realized only in a few OECD countries, against a background of severe fiscal imbalances. GNP grew at an average annual rate of over 5 per cent from 1986 to 1993, mainly sustained by rapid growth of consumption. In response to the liberalization of the economy, growth of investment and net exports, although uneven over the period, also contributed to GNP growth.

20. Economic activity expanded sharply in 1992 and 1993 with GNP growth of 6.4 and 7.6 per cent respectively, sustained by a surge in domestic demand reflecting large increases in real wages across the economy coupled with a notable expansion of investment in 1993. The growth continued at an annual rate of around 4 per cent in the first quarter of 1994. However, the Turkish economy ended 1993 with a deterioration in the public sector deficit financed largely by borrowing from the Central Bank (CBT); continued failure to correct the structural causes of imbalances; widening of the current account deficit; and a rapid rise in domestic credit and external borrowing. In January 1994, downgrading of Turkey's sovereign credit rating to below investment grade, by two leading rating agencies, in international capital markets, precipitated a financial and exchange market crises which triggered a 45 per cent nominal depreciation of the Turkish Lira against the US dollar during the first three months of 1994 and a further 58 per cent in April 1994.¹ (Depreciation of TL against the US dollar was 36 per cent between May 1994 and May 1995.)

21. A comprehensive stabilization programme was launched on 5 April 1994. The package of measures placed primary emphasis on substantial front-loaded fiscal retrenchment and monetary tightening, and laid the basis for acceleration of the medium-term structural reforms. The principal features of the stabilization programme were increases in the prices of the products of State Economic Enterprises; freezing of personnel expenditures in the public service at the level of the 1994 budgetary allocation; freezing of public sector projects; imposition of a surcharge on the 1993 personal and corporate income tax declarations; one-time taxes on the net assets of corporations and on luxury motor vehicles and second homes; and further privatization commitments.

22. A Stand-by Arrangement in support of the stabilization programme was concluded with the IMF on 8 July 1994. The first tranche of the Stand-by credit equivalent to SDR 160.5 million was released on 13 July 1994. Three further tranches of SDR 75 million each, were released, respectively, in November 1994, April and June 1995. The Stand-by Arrangement was extended in April 1995 for six months by a further SDR 101.2 million. As of 30 June 1995, the drawings under the Fund Stand-by Arrangement amounted to SDR 385.5 million.

23. After the peak of 1993, GNP growth dipped by 5.9 per cent in 1994 and a further 0.2 per cent in the first quarter of 1995 compared to the same period of 1994. Sharp fiscal adjustment, high real interest rates and financial and the exchange markets turmoil of early 1994 brought a significant reversal of the previous year's growth in commerce (-7.5 per cent), manufacturing (-5.7 per cent) and construction (-2 per cent). The main decline in the manufacturing sector was recorded in the automotive and textiles sectors. As a result of the cut in real wages and public sector price increases, aggregate domestic demand contracted by 11.7 per cent in 1994, compared to an 11.9 per cent expansion in 1993. Consumer spending on durable goods fell by 29 per cent. Public sector fixed investment fell by 34.8 per cent and private sector investment by 9 per cent caused by a credit crunch following the exchange and financial market crisis. Further decline of GNP in 1994 was cushioned by the sustained growth of exports.

¹Calculated on the basis of monthly average exchange rates.

24. The weak financial performance of the State Economic Enterprises together with a rise in personnel expenses and interest payments in recent years, have contributed to the expansion of the expenditure side in the consolidated budget, and created pressure on CBT to finance regularly about a third of the deficit. The stabilization programme of 1994 enabled a fiscal correction whereby the percentage share of the Public Sector Borrowing Requirement in GNP decreased from 12.5 per cent in 1993 to 8.0 per cent in 1994. Despite the substantial increase in interest payments there was an improvement of the consolidated budget deficit to 3.9 per cent of GNP in 1994, an adjustment of almost 3 percentage points from 1993 which mainly reflected the primary surplus, amounting to 3.8 per cent of GNP. The budgetary revenues as percentage of GNP increased by 1.9 percentage points, aided by the package of one-time tax measures which increased the tax revenue to 15.1 per cent of GNP. Despite the reduction in the PSBR, public sector domestic borrowing increased substantially, mainly in the form of issue of Treasury Bills, against a decline in borrowing from the CBT and foreign sources.

25. Prior to 1993 the authorities set monetary targets against a background of growing fiscal deficit. This policy stance resulted in generally high interest rates and the appreciation of the real exchange rate. These in turn increased the interest cost of the public debt and had the potential to undermine export competitiveness. Without a monetary programme set for 1993, the Treasury increased its reliance on the easing of monetary policy for the monetization of the budget deficit. The Treasury resumed its market-based financing in 1994 initially at interest rates of 50 per cent for three months and at average annual rates varying from 80 to 185 per cent over the year. There was a sharp increase in issue of Treasury Bills in when the share of borrowing from the Central Bank was limited to 18 per cent of short-term borrowing, compared to 70 per cent in 1993.

26. Aggregate domestic credit growth (public and private), at 85 per cent in 1992 and 1993, declined to 70 per cent in 1994 as fiscal tightening took effect. With the reduction of external borrowing domestic credit in that year was largely financed through an acceleration of the growth of broad money. In 1993 M2 grew by 48 per cent and M2Y by 61 per cent; in 1994, the respective growth rates were 123 and 153 per cent. The share of residents' foreign exchange deposits in M2Y rose from 23 per cent in 1990 to 47 per cent at the end of 1994 (46 per cent in March 1995).²

27. As the result of the monetary accommodation of fiscal deficits, inflation in Turkey was persistent at average yearly rates of around 60-70 per cent during 1988-93. Despite the stabilization programmes inflation increased in the early part of the year under the pressure of the upward adjustment of administered public sector prices and a massive nominal depreciation. With a brief easing over the summer of 1994, inflation re-emerged in the autumn raising the year-on-year wholesale price index to over 149.6 per cent by December 1994. As of July 1995, inflation has declined to about 80 per cent on a twelve-month basis.

28. The new Privatization Law administering the privatization of the majority of the loss-making State Economic Enterprises was adopted in 1994; however, progression in privatization has been slow. Other medium-term structural measures to correct the macroeconomic imbalances include the reform of the social security system and the tax system. A draft law on the reform of the social security institutions was submitted to Parliament in April 1995.

²Central Bank of Turkey, Quarterly Bulletin; January-March, 1995. Residents' foreign exchange deposits are taken from the banks' balance sheets.

IV. Balance of Payments

29. In 1993 and 1994, large but opposing swings in the current account and capital account balances offset one another, with the effect that the overall balance and the level of international reserves remained stable (Table 1).

Table 1
Balance of Payments Summary
(in millions of US dollars)

	1990	1991	1992	1993	1994	1995 ¹
Merchandise exports, f.o.b.	13,026	13,667	14,891	15,610	18,300	4,826
Merchandise imports, f.o.b. (including nonmonetary gold)	22,581	21,007	23,082	29,772	22,614	6,625
Trade balance	<u>-9,555</u>	<u>-7,340</u>	<u>-8,191</u>	<u>-14,162</u>	<u>-4,314</u>	<u>-1,799</u>
Services and income, credit	8,933	9,315	10,451	11,843	11,833	2,908
Of which:						
Travel	3,225	2,654	3,639	3,959	4,350	492
Services and income, debit	6,496	6,816	7,262	7,829	7,776	2,040
Of which:						
Interest payments	2,907	3,264	3,430	3,461	3,860	914
Services and income balance	<u>2,437</u>	<u>2,499</u>	<u>3,189</u>	<u>4,014</u>	<u>4,057</u>	<u>868</u>
Private transfers, net	3,349	2,854	3,147	3,035	2,716	780
Of which:						
Workers' remittances inflow	3,040	3,246	2,819	2,919	2,631	733
Official transfers, net	1,144	2,245	912	733	371	591
Transfer balance	<u>4,493</u>	<u>5,099</u>	<u>4,059</u>	<u>4,747</u>	<u>3,087</u>	<u>1,371</u>
Current account balance	<u>-2,625</u>	<u>258</u>	<u>-943</u>	<u>-6,380</u>	<u>2,830</u>	<u>440</u>
Direct investment	700	783	779	622	482	108
Portfolio investment	547	648	2,411	3,917	1,001	-510
Other long-term capital	-210	-808	-938	1,370	-759	-371
Drawings	3,679	3,784	3,523	4,857	3,267	529
Dresdner deposits, net	49	-497	410	925	1,331	431
Amortizations	3,938	4,095	4,871	4,412	5,357	1,331
Total long-term capital	<u>1,037</u>	<u>623</u>	<u>2,252</u>	<u>5,909</u>	<u>724</u>	<u>-773</u>
Short-term assets, net	-409	-2,563	-2,438	-3,291	3,010	1,203
Short-term liabilities, net	3,409	-457	3,834	6,345	-7,737	1,342
Of which:						
Dresdner deposits, net	(-123)	(-132)	(55)	(144)		-46
Total short-term capital	<u>3,000</u>	<u>-3,020</u>	<u>1,396</u>	<u>3,054</u>	<u>-4,727</u>	<u>2,545</u>
Errors and omissions	<u>-468</u>	<u>940</u>	<u>-1,221</u>	<u>-2,275</u>	<u>1,396</u>	<u>1,445</u>
Counterpart items for valuation changes	364	170	--	--	--	
Overall balance (including valuation changes)	<u>1,308</u>	<u>-1,029</u>	<u>1,484</u>	<u>308</u>	<u>223</u>	<u>3,657</u>
IMF repurchase (-)	-53	--	--	--	333	0
Official reserves (inflows -)	-1,255	1,029	-1,484	-308	-556	-3,657

1 January-March

Source: IMF and Central Bank of Turkey

30. The current account registered a deficit of US\$6,380 million (3.6 per cent of GNP) in 1993. This sharp deterioration was overturned in 1994 with a surplus of US\$2,830 million (2.1 per cent of GNP) and a surplus of around \$440 million in the first three months of 1995. The trade gap, which

increased by 172 per cent to US\$14,162 million, was the main component of the current account deficit in 1993. Contraction in domestic demand following the introduction of the stabilization programme of April 1994, and depreciation of the real exchange rate contributed to the reduction of the trade deficit by two thirds in 1994. The export-import coverage ratio of 52 per cent in 1993 rose to 81 per cent in 1994. According to data for the first quarter of 1995, the export growth appears to be sustained but there is an acceleration of the growth of imports.

31. The surplus on services and income increased by 66 per cent between 1990 and 1994 to reach US\$4,057 million in 1994, reflecting the importance of net income from tourism and exports of other services, which amounted to US\$3,416 million and US\$2,150 million respectively. In the transfers account the flow of workers' remittances at US\$2,631 million continued to contribute positively to the current account balance and net official transfers, which had peaked in 1991 in the aftermath of the Gulf crisis at US\$2,245 million in 1991 were US\$371 million in 1994.

32. In the capital account the main components of long-term capital inflows in 1993 were portfolio investment and disbursement of credits against the amortization payments of medium- and long-term debt, which jointly amounted to an outflow of US\$4.4 billion in 1993 and US\$5.4 billion in 1994. Following the financial and exchange rate crisis of early 1994, both disbursement of credits (US\$3,267 million) and net direct investment (US\$482 million) fell in 1994. Net portfolio investment also dropped to US\$1,001 million, a quarter of the level of 1993.

33. Short-term capital movements involve mainly foreign exchange credits received by the commercial banks and private sector trade credits. The net inflow of US\$3,054 million in 1993 was followed by an outflow of US\$5,127 million in 1994. Half of the outflow in 1994 was returned in the first quarter of 1995, mainly in the form of trade credits.

34. The overall balance and reserve levels remained stable in 1993 and 1994. Gross reserves including gold were US\$8.6 billion at end-1994. The coverage of imports of goods and services rose from 2.5 months at end-1993 to 3.4 months at end-1994 (IMF estimate). Gross reserves are estimated at \$12.7 billion at the end of the first quarter of 1995 (Table 2).

Table 2
Official International Reserves
(in millions of US dollars)

	1990	1991	1992	1993	1994	1995 March
Special drawing rights	1	--	--	--	1	
Reserve position in the Fund	46	46	44	44	47	
Foreign exchange	6,003	5,098	6,115	6,228	7,121	11,292
Total reserves minus gold	6,050	5,144	6,159	6,272	7,169	11,292
Gold - national valuation	1,468	1,493	1,494	1,488	1,410	1,400
Total reserves	7,518	6,627	7,653	7,760	8,579	12,692
Memorandum items:						
	(In months of imports of same year)					
Foreign exchange	2.5	2.1	2.4	1.9	2.8	
Total reserves	3.2	2.8	3.0	2.5	3.4	

Source: IMF and Central Bank of Turkey.

V. Composition and geographical distribution of trade in goods

35. Raw materials and intermediate goods amounted to 58 per cent of imports in 1994, of which 11 per cent was crude oil. The share of investment and consumption goods accounted for 30 per cent and 12 per cent, respectively. Metal products and machinery (17 per cent), chemicals (11 per cent), motor vehicles (10 per cent), iron and steel (10 per cent), and electrical appliances (8 per cent) were the main import categories (Table 3).

Table 3
Commodity composition of imports¹
(US\$ million and per cent)

	1990		1992		1993		1994	
Agriculture and Livestock	1,319	5.9	1,179	5.2	1,164	5.7	1,209	5.2
Mining and quarry product	3,989	17.9	3,054	13.3	3,041	10.3	2,969	12.8
Crude oil	3,519	15.7	2,632	11.5	2,250	8.7	2,432	10.5
Others	470	2.2	422	1.8	491	1.7	537	2.3
Industrial products	16,994	76.2	18,638	81.5	24,724	84.0	19,092	82.0
Processed agricultural products	1,401	6.3	1,139	5.0	1,280	4.4	1,029	4.4
Textiles	579	2.6	730	3.2	1,053	3.6	1,136	4.9
Forestry products	21	0.1	26	0.1	40	0.1	29	0.1
Hides and leather products	124	0.6	132	0.6	179	0.6	186	0.8
Chemicals	2,452	14.6	2,625	11.5	2,981	10.1	2,647	11.4
Petroleum products	805	3.6	865	3.8	1,075	3.7	974	4.2
Cement	45	0.2	18	0.1	18	0.1	12	0.0
Glass and ceramics	182	0.8	196	0.9	217	0.7	179	0.8
Nonferrous metals	537	2.4	425	1.9	470	1.6	443	1.9
Iron and steel	1,934	8.9	2,118	9.3	3,089	10.5	2,401	10.3
Metal products and machinery	3,860	17.3	4,178	18.3	5,390	18.3	3,864	16.6
Electrical appliances	1,570	7.0	1,746	7.6	2,012	6.8	1,767	7.6
Motor vehicles	1,603	7.2	2,239	9.8	4,046	13.7	2,162	9.3
Others	1,883	4.8	2,202	9.6	2,876	9.8	2,263	9.7
Total	22,302	100.0	22,871	100.0	29,429	100.0	23,270	100

1 Imports c.i.f., excluding nonmonetary gold and transit trade.

Source: IMF and Turkish authorities for 1994.

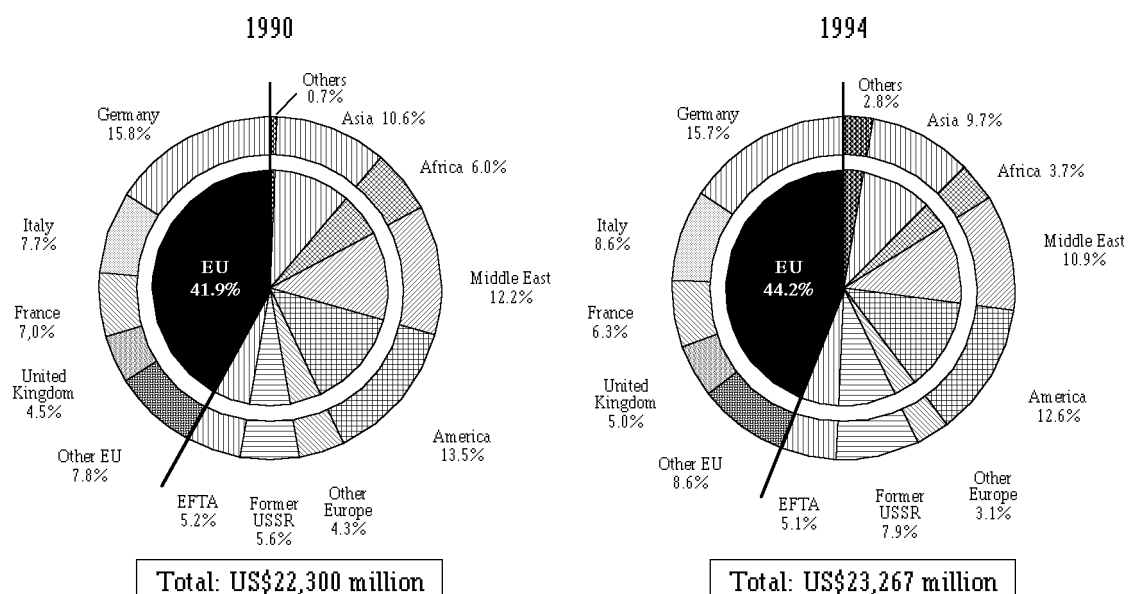
36. European Union countries continued to be the main suppliers of imports accounting for some 44 per cent of total imports in 1994. Countries in the Middle East and North Africa, with 14 per cent share of the total, are primarily suppliers of petroleum and petroleum products. The share of imports from the Eastern European countries rose to 10 per cent in 1994 (Table 4 and Chart 1).

Table 4
Sources of imports, 1990-1994
(US\$million and per cent)

	1990		1991		1992		1993		1994		Up to March 1995	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
World	22,300	100	21,047	100	22,871	100	29,429	100	23,268	100	6,853	100
Europe	12,729	57	12,462	59	13,665	60	17,924	61	14,037	60	4,109	60
- Western Europe	10,521	47	10,438	50	11,447	50	14,601	50	11,476	49	3,198	46
- EC12	9,354	42	9,223	44	10,049	44	12,949	44	10,278	44	2,871	42
- Germany	3,522	16	3,232	15	3,754	16	4,533	15	3,645	16	1,004	15
- Italy	1,727	8	1,845	9	1,919	8	2,558	9	2,008	9	525	8
- France	1,340	6	1,226	6	1,351	6	1,952	7	1,458	6	351	5
- United Kingdom	1,014	4	1,166	5	1,187	5	1,546	5	1,170	5	339	5
- Netherlands	573	3	642	3	698	3	870	3	740	3	209	3
- Belgium-Luxembourg	523	2	557	3	551	2	683	2	532	2	166	2
- Spain	345	1	321	1	320	1	431	1	380	2	110	2
- EFTA	1,167	5	1,215	6	1,399	6	1,652	6	1,198	5	327	5
- Switzerland	536	2	489	2	688	3	650	2	472	2	128	2
- Sweden	214	1	257	1	222	1	428	1	283	1	84	1
- Austria	252	1	322	1	282	1	319	1	211	1	59	1
Former USSR	1,247	6	1,097	5	1,245	5	2,284	8	1,834	8	680	10
- Russian Federation	...	...	...	...	1,041	5	1,542	5	1,005	4	388	6
- Others	...	...	...	...	204	1	742	2	789	3	292	4
- Ukraine	...	...	...	...	90	0	473	2	535	2	184	3
- Uzbekistan	...	...	...	...	21	0	32	0	79	0	22	0
- Turkmenistan	...	...	...	...	21	0	77	0	66	0	43	1
- Kazakhstan	...	...	...	...	10	0	44	0	32	0	15	0
- Georgia	...	...	...	...	6	0	22	0	26	0	11	0
- Moldova	...	...	...	...	2	0	29	0	20	0	1	0
Eastern Europe	700	3	779	4	849	4	968	3	671	3	196	3
- Romania	202	1	199	1	256	1	301	1	229	1	78	1
- Bulgaria	32	0	140	1	224	1	243	1	195	1	69	1
America	3,017	13	2,850	13	3,120	14	4,037	14	2,924	13	916	13
- USA	2,282	10	2,255	11	2,600	11	3,351	11	2,430	10	746	11
- Brazil	174	1	218	1	199	1	251	1	206	1	66	1
Middle East	2,715	12	2,497	12	2,656	12	2,811	10	2,540	11	701	10
- Saudi Arabia	724	3	1,829	9	1,665	7	1,500	5	1,229	5	328	5
- Iran, Islamic Rep.	492	2	90	0	365	2	667	2	692	3	190	3
- United Arab Emirates	192	1	366	2	354	1	314	1	339	1	29	0
Africa	1,338	6	750	4	808	3	715	2	859	4	277	4
- Northern Africa	938	4	481	2	575	2	381	1	628	3	232	3
- Algeria	287	1	52	0	10	0	23	0	95	0	108	2
- Libya	487	2	281	1	445	2	131	0	320	1	85	1
- Egypt	37	0	48	0	59	0	105	0	124	0	26	0
Asia	2,356	11	2,355	11	2,432	11	3,579	12	2,258	10	712	10
- East Asia	2,169	10	2,176	10	2,262	10	3,284	11	2,093	9	637	9
- Japan	1,120	5	1,092	5	1,113	5	1,621	5	967	4	235	3
- Korea, Rep.	302	1	360	2	373	2	621	2	285	1	88	1
- China	246	1	172	1	172	1	255	1	258	1	100	1
- Taiwan	192	1	188	1	200	1	288	1	189	1	65	1
Oceania	146	1	131	1	158	1	281	1	320	1	67	1
- Australia	104	0	102	0	113	0	206	1	226	1	42	1

Source: UNSTAT, Comtrade database and State Planning Organization of Turkey.

Chart 1
Main import sources, 1990 and 1994



Source: UNSTAT, Comtrade database.

37. The share of industrial exports in total exports steadily increased in the last five years to 84.9 per cent of the total in 1994. Textiles and clothing (35 per cent), iron and steel products (13 per cent), agricultural crops, including hazelnuts, raisins, tobacco, cotton and others (12 per cent), processed agricultural products (10 per cent) electrical appliances (4 per cent), hides and leather products, metal products and machinery, chemicals and motor vehicles (3 per cent each) were the main export categories in 1994 (Table 5).

Table 5
Commodity composition of exports¹
 (US\$ million and per cent)

	1990		1992		1993		1994	
Agriculture and livestock	2,347	18.8	2,204	15.0	2,365	15.4	2,457	13.6
Crops	2,062	15.9	1,999	13.6	2,014	13.1	2,141	11.8
Hazelnuts	453	3.5	291	2.0	413	1.9	496	2.7
Raisins	151	1.2	129	0.9	134	0.8	176	1.0
Tobacco	417	3.2	309	2.1	396	2.0	395	2.2
Cotton	161	1.2	46	0.3	145	0.3	31	0.2
Others	882	6.8	1,224	8.3	926	6.0	1,044	5.8
Livestock products	216	1.6	140	1.0	294	1.9	244	1.3
Fishery products	57	0.4	50	0.3	44	0.3	53	0.3
Forestry	12	0.1	14	0.1	14	0.1	16	0.1
Mining and quarry products	332	2.6	264	1.8	239	1.6	272	1.5
Industrial products	10,281	79.3	12,247	83.2	12,741	83.0	15,377	84.9
Processed agricultural products	941	7.3	1,337	9.1	1,369	8.9	1,765	9.7
Textiles	4,061	31.3	5,268	35.8	5,421	35.3	6,286	34.7
Forestry products	21	0.2	28	0.2	23	0.1	41	0.2
Hides and leather products	749	5.8	568	3.9	552	3.6	560	3.1
Chemicals	616	4.8	491	3.3	468	3.0	576	3.2
Petroleum products	287	2.2	231	1.6	172	1.1	235	1.3
Cement		0.6	139	0.9	90	0.6	145	0.8
Glass and ceramics	77	2.5	395	2.7	380	2.5	431	2.4
Nonferrous metal	326	2.0	164	1.1	173	1.1	215	1.2
Iron and steel	262	12.4	1,558	10.6	2,011	13.1	2,369	13.1
Metal prod. & machinery	1,612	1.8	398	2.7	393	2.6	591	3.3
Electrical appliances	231	3.4	591	4.0	566	3.7	682	3.8
Motor vehicles	440	1.6	382	2.6	380	2.5	503	2.8
Others	448	3.4	697	4.7	744	4.8	978	5.4
Total	12,959	100.0	14,715	100.0	15,344	100.0	18,106	100.0

1 Exports f.o.b. excluding transit trade.

Source: IMF and Turkish authorities for 1994.

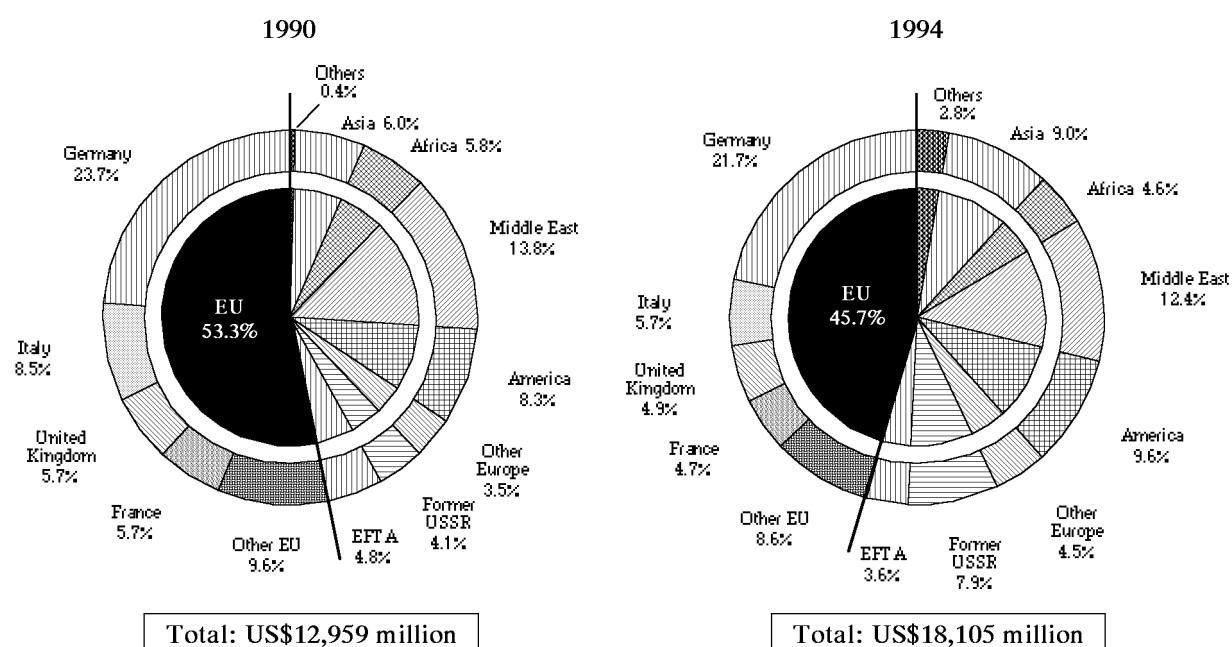
38. European Union countries remain Turkey's main export market, with 45.7 per cent of the total, although the share of exports to the United States, and to the countries of the former Soviet Union increased in 1994 (Table 6 and Chart 2).

Table 6
Destination of exports
(US\$million and percent)

Partner	1990		1991		1992		1993		1994		Up to March 1995	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
World	12,959	100	13,593	100	14,715	100	15,349	100	18,105	100	4,757	100
Europe	8,514	66	8,785	65	9,562	65	9,622	63	11,159	62	3,136	66
- Western Europe	7,523	58	7,633	56	8,232	56	7,850	51	8,914	49	2,550	54
- EC12	6,906	53	7,042	52	7,601	52	7,293	47	8,271	46	2,393	50
- Germany	3,077	24	3,413	25	3,660	25	3,654	24	3,934	22	1,170	25
- Italy	1,106	8	972	7	943	6	750	5	1,034	6	318	7
- United Kingdom	745	6	676	5	796	5	835	5	889	5	229	5
- France	737	6	689	5	809	5	771	5	851	5	230	5
- Netherlands	435	3	475	3	500	3	517	3	621	3	178	4
- Belgium-Luxembourg	312	2	287	2	290	2	295	2	371	2	98	2
- Spain	199	1	238	2	299	2	199	1	234	1	72	1
- EFTA	617	5	591	4	632	4	558	4	643	4	157	3
- Austria	178	1	213	2	229	2	227	1	249	1	60	1
- Switzerland	293	2	246	2	223	1	216	1	239	1	51	1
- Eastern Europe	298	2	443	3	531	4	622	4	751	4	207	4
- Poland	103	1	141	1	186	1	235	1	249	1	41	1
- Romania	83	1	105	1	173	1	152	1	175	1	69	1
- Bulgaria	10	0	76	1	72	0	86	1	134	1	32	1
Former USSR	531	4	611	4	686	5	1,048	7	1,423	8	340	7
- Russian Federation	...	...	...	...	442	3	505	3	820	4	192	4
- Others	...	...	...	...	244	2	543	3	603	3	148	3
- Azerbaijan	...	...	...	...	102	1	68	0	132	1	27	1
- Kazakhstan	...	...	...	...	19	0	68	0	132	1	37	1
- Turkmenistan	...	...	...	...	7	0	84	0	84	0	12	0
- Ukraine	...	...	...	...	36	0	39	0	76	0	27	1
- Georgia	...	...	...	...	12	0	34	0	67	0	9	0
- Uzbekistan	...	...	...	...	54	0	213	1	64	0	16	0
America	1,077	8	1,039	7	987	7	1,138	7	1,739	10	450	9
- USA	968	7	913	7	865	6	986	6	1,520	8	395	8
Middle East	1,784	14	1,982	15	2,119	14	2,142	14	2,239	12	571	12
- Saudi Arabia	338	3	484	4	486	3	652	4	609	3	137	3
- Syrian Arab Rep.	194	1	264	2	216	1	239	2	254	1	55	1
- Iran, Islamic Rep.	495	4	487	4	455	3	290	2	250	1	80	2
- United Arab Emirates	75	1	76	1	97	1	129	1	185	1	51	1
- Israel	46	0	79	1	90	1	80	0	178	1	47	1
- Lebanon	51	0	90	1	99	1	100	1	161	1	46	1
- Iraq	214	2	122	1	212	1	160	1	141	1	16	0
Africa	748	6	810	6	782	5	696	4	837	5	231	5
- Northern Africa	646	5	692	5	635	4	597	4	723	4	197	4
- Algeria	201	2	206	1	108	1	82	0	238	1	82	2
- Egypt	160	1	168	1	173	1	191	1	194	1	44	1
- Libya	220	2	237	2	246	2	246	2	180	1	45	1
Asia	780	6	922	7	1,148	8	1,543	10	1,633	9	268	6
- East Asia	654	5	798	6	1,044	7	1,451	9	1,465	8	234	5
- China	37	0	20	0	147	1	512	3	355	2	8	0
- Hong Kong	35	0	29	0	48	0	118	1	236	1	80	2
- Japan	239	2	226	2	162	1	158	1	186	1	31	1
- Singapore	33	0	59	0	98	1	121	1	185	1	24	0
- Taiwan	110	1	68	0	239	2	311	2	181	1	40	1

Source: UNSTAT, Comtrade database and State Planning Organization of Turkey.

Chart 2
Main export destinations, 1990 and 1994



Source: UNSTAT, Comtrade database.

VI. External Debt

39. The total outstanding external debt increased by 21 per cent in 1993 to US\$65,356 million. Notwithstanding the slight drop in 1994, the stock of debt stood at US\$ 71,581 million in March 1995. The ratio of total debt stock to GNP at end-1994 was 49.9 per cent. In 1994, more than 80 per cent of the debt was medium- and long-term; 88.7 per cent of the medium- and long-term debt was borrowed by the public sector, compared to 11.8 per cent by the private sector. The main sources of lending were the OECD countries (29 per cent), bond issues (21 per cent) and the multilateral agencies (14 per cent). At present the average maturity of debt is 12.5 years and the average effective interest rate is 8.0 per cent. Total debt service amounted to US\$ 9,217 million in 1994 of which US\$3,860 million were interest payments, leading to a debt service ratio to current account receipts (excluding interest and official transfers) of 30.1 per cent.