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Internal Financial Position of Turkey in 1952

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Summary

Turkey has experienced increasing difficulties in financing its foreign deficit since the fall of 1952. This raises the question whether or not internal inflationary pressures have been chiefly responsible for the deterioration in the country's foreign payments position from 1951 to 1952. Turkish short-term indebtedness to foreign official institutions is now lower than a year ago but sizeable commercial arrears are reported to have accumulated. Internally, the economy in 1952 underwent a moderate inflation which was reflected in an increase in the cost of living of about 6 per cent. Contrary to the trend elsewhere, domestic prices have continued to rise in recent months.

Turkey affords a good example of the case of a country in a stage of rapid development, where aggregate demand is not independent of the level of imports. If the bulk of imports consists of capital goods, an increase in imports will tend to be inflationary rather than anti-inflationary during the period, since total investment may well rise by more than the increase in imports. From 1951 to 1952, the value of Turkey's current deficit on foreign account is estimated to have doubled but the increase in imports of equipment and of materials for stock accumulation was larger than the increase in the import surplus. If, because of a lack of foreign financing, it had been necessary to limit the increase in imports to the increase in exports from 1951 to 1952, internal inflationary pressure might not have risen by more than about one-quarter of the supposed reduction in the external deficit.

Government economic activity, in areas other than banking, appears to have been responsible for a large part of the 1952 deterioration of TL 285 million ($100 million) in the current balance of payments. The increase in the Government's imports of capital goods, plus some indirect effect of the Government's agricultural price support programs on the private demand for imports is estimated to have amounted to perhaps TL 85 million. In addition, roughly half of the remaining increase in the foreign deficit, or another TL 100 million, could probably have been avoided if the Government had not held exportable stocks in the expectation of a rise in world prices. Credit expansion to the private sector, nearly nine-tenths of it to agriculture and commerce, may be regarded as having been responsible for the remainder (TL 100 million) of the increase in the external deficit.

The increase in credit to the private sector in 1952 amounted to TL 885 million, almost 50 per cent of it by the government controlled

agricultural bank, as against an increase of about TL 665 million in 1951. A large part of the increase in credit granted by the banking system as a whole (TL 1,185 million) to the government and the private sector was used to finance an increase in inventories. Private inventories estimated to have increased in 1952 by TL 250 million, or by TL 150 million more than in 1951, and inventories held by the Government and government enterprises by TL 350 million. These increases in inventories are estimated to have represented more than 25 per cent of total gross investment in 1952, as compared to less than 15 per cent in 1951.

Total inflationary pressure in 1952 is estimated to have reached 3 to 4 per cent of total resources available for domestic use. Domestic saving of the community as a whole is estimated to have fallen short by TL 240 million of the amount required to maintain internal financial stability. Put another way, aggregate demand probably exceeded real supply by TL 240 million. Domestic inflationary pressure would have been correspondingly larger in 1952 if imports of consumer goods and materials for current use rather than for inventories had not increased by about TL 90 million. For the community as a whole, the increase from 1951 to 1952 in consumption represented a smaller proportion of the increase in gross national product than total consumption is estimated to have represented of gross national product in 1951. But if the estimated real increases in government consumption and total investment are considered as realized, maintenance of financial stability would have permitted an increase in private consumption of only 50 per cent of the increase in gross national product, as compared with an estimated ratio of total private consumption to gross national product of 75 per cent in 1951.

In order to restrain demand in the future, some reduction in the rate of credit expansion would appear to be necessary. The amount by which credit can be reduced without adversely affecting output, however, may not be sufficient to restore balance between aggregate demand and supply at constant prices. Further increases in income, therefore, may have to be reduced in relation to increases in output, or total saving of the community may have to be raised by an increase in taxation. Even though government saving in 1952 amounted to more than half of total net saving, it was accomplished without an efficacious system of agricultural taxation. There would, therefore, seem to be some possibility of raising tax income further. Reducing demand by lowering agricultural support prices, may be politically more difficult.

Introduction

Turkey was the only OEEC country, other than Portugal, whose cost of living index for 1952 had not risen above the level of 1949. But during 1952 the cost of living rose in Turkey while it fell or remained virtually stable in most of the other countries of the OEEC group.

Contrary to the trend elsewhere, Turkish prices are reported to have risen at an increasing rate in recent months. However, the concern which has been felt for some time over the internal financial situation of Turkey would hardly have been justified because of the recent increase in Turkish prices. Rather, the uneasiness arose from the increasing difficulties in financing the Turkish foreign deficit in the second half of 1952. In addition, there has been a feeling that foreign assistance beyond scheduled amounts might once more be required for at least part of 1953-54. While the level of known short-term indebtedness to official foreign institutions at the end of June 1953 was lower than in June 1952, the recent tightening of payments restrictions appears to have delayed the liquidation of current foreign obligations beyond scheduled maturity dates.

An attempt has been made in this paper to isolate the role played by the change in the internal financial situation between 1951 and 1952 from other causes of the recent increase in the Turkish deficit on foreign account.

Of a total increase of about $140 million, from 1951 to 1952, in the value of imports, about $90 million consisted of capital equipment, government and private; nearly $10 million of rubber and petroleum products; around $30 million of raw materials, primarily for the production of consumer goods; about $10 million of finished consumer goods. Perhaps as much as a quarter of the increase in imports of capital goods ($22 million) and one-sixth of the increase in imports of rubber, oil and raw materials ($6 million) may have been imported directly by the Government or for government account. As against the increases in the value of imports by $140 million, the value of exports increased by about $50 million from 1951 to 1952. If, then, some indirect effect on private imports of the increase in government investment expenditures at home is added to the estimated $28 million increase in direct imports by the government, approximately one-third of the $90 million deterioration in the trade balance may be attributed to governmental decisions rather than the effect of an increase in income due to a rise in domestic output or to the expansion of bank credit to the private sector. In addition, government-held stocks of exportable agricultural produce, as estimated from the increase in Central Bank credit to the government exporting agency, increased during 1952 by about $50 million or by 40 per cent more than in 1951. Assuming that perhaps $30 million of these stocks could have been resold abroad in 1952, a further third of the deterioration of the trade balance could have been avoided by direct government decision. Altogether, then, two-thirds of the increase in the import surplus appears to be attributable to direct government action and might therefore have occurred even if there had been no increase in bank credit to the private sector.

Symptoms of inflation

Not every increase in prices can be regarded as a symptom of inflation. If the internal rise is associated with an increase in import prices, or if all costs and prices rise by the same proportion without a change in the relationship between aggregate demand and supply of resources, the price change would not be attributable to inflationary pressure in the sense used in this paper. Higher prices in these circumstances would have been caused by an increase in costs as opposed to the emergence of excess demand. Nor need every increase in the external deficit be the result of internal inflationary pressure. For example, if the increase in the external deficit is caused largely by a rise in investment in the form of imports of capital goods, an investment which would not have been made if the needed foreign exchange had not been available, the increase in the external deficit cannot be attributed to internal inflation. In this section, an attempt will be made to show to what extent the 1952 changes in Turkish prices and the country's external deficit may be regarded as symptoms of internal inflationary pressure.

Cost of living - The annual average of the urban cost of living index, which had been falling steadily since 1949, rose 5 or 6 per cent from 1951 to 1952, as compared with a decrease of 1 or 2 per cent from 1950 to 1951. The major reason for the rise in the index seems to have been the rise of more than 7 per cent in domestic food prices over the period so that the increase may be attributed chiefly to higher internal prices.

Wholesale prices - The general wholesale price index, which had risen by about 7 per cent from 1950 to 1951, rose by less than 1 per cent from 1951 to 1952. There were marked differences among the price changes of the various groups of commodities. While raw materials and semi-manufactured products (other than building materials) fell about 4 per cent, animal and animal products rose by nearly 15 per cent and 10 per cent, respectively. Closer study of the components of the index of raw materials and semi-manufactured might reveal that the reason for the decline was a decrease in import prices. The official price index for imported goods, however, shows a slight rise from 1951 to 1952. The annual average of the price index for cereals was slightly lower in 1952 than in 1951, but the monthly index showed some tendency to rise during the year. Construction materials in general rose by 20 per cent - bricks even by 26 per cent.

Gold price and unofficial rates of exchange - In terms of local currency, the price of gold (sovereign) rose by almost 8 per cent in Turkey in 1952, while it fell by nearly 17 per cent in Greece and by nearly 13 per cent in Milan and Beirut. A rise in the price of gold was probably a good indication of general price expectations on the part of the public. However, the rise in the price of gold did not necessarily constitute an element of inflationary pressure since it probably did not involve an increase in the demand for, or a decrease in the supply of real resources.

(iv) Import surplus - The current external deficit rose from about TL 285 million (slightly over $100 million) in 1951 to about TL 570 million ($200 million) in 1952, or to about 40 per cent of total imports. The trade deficit increased by TL 260 million. Without this increase in the excess of imports over exports, the pressure on domestic resources would have been greater. However, if there had been no increase in the trade deficit, internal inflationary pressures would not have been correspondingly greater.

Total imports increased by about TL 400 million, from 1951 to 1952, and exports by TL 140 million. Suppose that the increase in imports had been kept down to the TL 140 million increase in exports and that it had been allocated over the various commodity categories in the same way as was the actual increase. Under these assumptions, the value of the increase in imports of equipment and all other imports for purposes of inventory accumulation would have reached only about TL 110 million and the increase in imports of consumer goods and materials for current use would have had to be kept at TL 30 million. Suppose further that the decrease in domestic investment associated with the decrease in imports of capital equipment would have been offset by an equal increase in domestic investment not requiring imported equipment. The actual increase in capital goods imports for production and inventories from 1951 to 1952 is estimated at TL 310 million and the increase in total investment from 1951 to 1952 is estimated at TL 725 million (see Table 2, item 11, page 9 below). Since the increase in imports for investment would have had to be reduced from TL 310 million to TL 110 million in order to hold the increase in imports from 1951 to 1952 to the increase in exports over the period, total investment also would have been TL 200 million less in 1952 than the actual level as estimated for that year. Thus, with the increase in the external deficit reduced by TL 260 million and investment reduced by TL 200 million, domestic inflationary pressures in 1952 would have risen by TL 60 million. Put another way, holding down the increase in imports to the increase in exports would have necessitated, under our assumption of a proportionate reduction in all categories, a lowering of the increase in imports for current use from about TL 90 million to TL 30 million, or by TL 60 million. Less than one-quarter, then, of the increase in the excess of imports over exports may be regarded as having offset an increase of domestic inflationary pressures in 1952.

Absorption of the increase in domestic inflationary pressures by imports may also be related to an increase in total imports for current use, rather than to the increase in the excess of imports over exports. Of the TL 400 million increase in imports from 1951 to 1952, about TL 90 million are estimated to have consisted of raw materials (including rubber and oil products) and consumer goods, both to be used up during the year. The increase in the demand for these products can be regarded as a symptom of domestic inflationary pressure, i.e., imports of goods for use in 1952 increased by TL 90 million to help satisfy the increase in consumer demand from 1951 to 1952.

The argument of the preceding paragraphs assumed that any reduction of investment in domestic resources that would result from a reduction in imports of equipment was offset by an equal increase in the type of domestic investment that did not require foreign equipment. It was also assumed that total consumption would remain constant regardless of the level of imports for current use. Hence, if it could be demonstrated that, in Turkey, (i) any given reduction in equipment imports was likely to result in a net reduction in the investment in domestic resources, and (ii) any reduction in the availability of imported low-priority consumer goods was likely to result in a lower level of total consumption, then the anti-inflationary effect of the 1952 increase in the external deficit could be regarded as having been smaller than the above estimates would indicate. Because of the somewhat unrealistic assumptions on which they are based, these estimates may well overstate the anti-inflationary effect of the increase of the external deficit (or of imports) from 1951 to 1952.

The conclusion reached in the preceding paragraphs is not intended to imply that the total import surplus had as small an anti-inflationary effect as the increase from 1951 to 1952. The argument has been presented in terms of increases, since the 1951 situation may be regarded as stable, not only in terms of the lack of significant internal price changes but also in the sense that any inflationary pressure that may have been absorbed by the external deficit in 1951 was financed by readily available foreign assistance, whereas extraordinary foreign financing had to be provided in 1952.

Financial balance

An explanation of the inflationary forces that operated in Turkey in 1952 is given in this section. The method used is the conventional one of gathering together the elements of an account of estimated "actual" saving and investment for what may be regarded as a relatively stable period, and of comparing saving during that period with the volume of intended saving for the period that is primarily to be analyzed. If there are good reasons for believing that saving in the second period tended to fall short of the volume required to maintain stability, the explanation of inflationary pressure is to be found in an excess of total demand over total supplies at constant prices or constant imports. An analysis of this type, if it is to be used for policy guidance, must be supplemented by careful study of the institutional peculiarities and sociological characteristics of the country. The method does have the advantage, however, of embracing all relevant real factors of the economy and of providing a convenient check list of the primary financial relationships.

There are no agreed figures for the major uses of gross national product in Turkey. If the savings and investment method was to be used, it was necessary, therefore, to supplement the official figures for total gross national product by independent estimates of private investment and by estimates derived from budgetary statistics for the use of resources by the Government. The external balance on current account was estimated on the basis of customs returns adjusted for estimated customs revenue.

The derivation of total actual saving for 1951 is shown below in three different ways: (i) as the difference between gross national product and government plus private consumption, (ii) as the difference between income after taxes of individuals and firms, on the one hand, and consumption plus excess of government current revenue over government current expenditures, on the other hand, (iii) as the difference between total investment and the external deficit. (See Table 1, page 8).

With an external deficit on current account of TL 285 - million, the economy in 1951 showed no marked symptoms of internal inflation or deflation. The volume of net savings in the vicinity of TL 850 - million of the community as a whole can be taken as approximately corresponding to the actual amount (current prices) achieved in that year, provided the estimate for investment was realized.

Table 2, below, shows the increase in intended saving from 1951 to 1952 which would have been required to maintain internal stability, given the actual increase in the external deficit. Once the required amount of total net saving has been computed, the first question to be asked is whether the increase in required saving may be regarded as consistent with the proportion of an increase in gross national product the community as a whole would be likely to wish to devote to consumption. The second question concerns the distribution between private saving and government saving and the problem of the relative difficulty of increasing saving, or, alternatively, of reducing the rate of investment, if financial stability is to be maintained in the future.

Table 2, below shows, that, with an increase, from 1951 to 1952, of TL 285 million in the external deficit (Item 1) and an increase of TL 725 million in total investment (Item 11), gross saving of the economy (Item 7) would have had to increase by TL 440 - million from 1951 to 1952 if internal financial stability was to be maintained. Such an increase would have implied that the community as a whole would have been able to keep the increase in consumption (government and private) to less than 60 per cent of the increase in total domestic output. In 1951, total consumption is estimated to have amounted to nearly 90 per cent of total domestic output. It would seem reasonable to expect that the community as a whole would have attempted to consume in 1952 roughly the same proportion of the gross national product as it is estimated to have done in 1951. Actually, it is estimated to have consumed a somewhat smaller proportion in 1952 than in 1951, but the 1952 proportion was not sufficiently smaller to prevent the emergence of internal inflationary pressure.

Table 1

Turkey: Estimate of Domestic Saving in 1951

(In millions of Turkish liras)

	(i)		(ii)		(iii)
Gross national product	11,245	Gross national product	11,245	Gross investment	1,525
Less: Consumption	10,005	Less: Depreciation	380	Government, including changes in inventories	(825)
Private	(8,445)	Less: Taxes, central and local government	2,030	Private, including change in inventories	(700)
Government	(1,560)	Plus transfers from government	200	Less: External deficit	285
		Personal income plus undistributed surpluses of government & private enterprises	9,035		
		Less: Private consumption	8,445		
Gross Saving	1,240	Private saving plus surplus of government monopolies plus institutional saving	590	Gross saving	1,240
Less: Depreciation	380	Plus excess of government current revenue over current expenditures	270	Less: Depreciation	380
Net Saving	860		860		860

Note: All estimates in column (i) are in 1951/52 prices.

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Table 2

Turkey: Estimated Saving and Investment in 1951 and 1952

(In millions of Turkish liras)

	1951	1952		1951	1952
1. External deficit on current account	285	570	9. Government and government enterprises, gross investment	825	1,150
2. Government saving	330	550			
Central	(240)	(450)	Fixed capital	(725)	(800)
Local	(30)	(30)	Increase in stocks	(100)	(350)
Monopoly profits	(60)	(70)			
3. Institutional saving	125	130	10. Private gross investment	700	1,100
Pension fund	(100)	(100)	Fixed capital	(600)	(850)
Workers' insurance	(25)	(30)	Increase in stocks	(100)	(250)
4. Private net saving	405	580			
5. Domestic net saving	860	1,260			
6. Depreciation	380	420			
7. Domestic gross saving	1,240	1,680			
8. Total (1,2,3,4,6)	1,525	2,250	11. Total Investment (9,10)	1,525	2,250

Government saving, i.e., the excess of current revenue over current expenditure, is estimated to have increased by TL 220 million (Table 2, Item 2) and depreciation allowances (Item 6, government and private) by TL 40 million from 1951 to 1952. The remaining difference of TL 180 million between the total required increase in intended saving of TL 440 million and government saving plus depreciation of TL 260 million would therefore have had to be provided by private (net)and institutional saving after taxes. An increase in net saving of this order of magnitude would have implied an increase in private consumption of only about 50 per cent 1/ of the increase in gross national product from 1951 to 1952, as compared with total private consumption equal to 75 per cent of gross national product in 1951. 2/ If this higher ratio was actually maintained in 1952, private net saving, instead of increasing by the required TL 180 million, would have had to decline by TL 60 million. 3/ On this assumption, then, what might be called the internal inflationary gap amounted to about TL 240 million in 1952. If total consumption, including government use of resources for current purposes, had been maintained at the 1951 ratio, the internal inflationary gap would have been in the order of TL 340 million. The reason for the smaller increase in total consumption, and, hence, the smaller increase in inflationary pressure than might have been expected, was the failure of government consumption to rise by the amount required to bring total consumption up to the 1951 ratio to gross national product.

Put in terms of the total estimated supply and use of resources, the derivation of the internal inflationary gap may be presented along the lines of Table 3, below.

The excess of total demand over total resources, was estimated on the basis of the increase in the actual excess of imports over exports of goods and services. But if it is true that intended saving in 1952 fell short of the volume required to maintain internal financial stability, then the actual level of the excess of imports over exports must have been affected by the excessive increase in demand. Therefore, in order to obtain an estimate of the increase in total inflationary pressure, including the part that was absorbed by the increase in imports, it is necessary to add such absorbed pressure to the internal inflationary gap.

In the section on "Symptoms of inflation" it was estimated that the increase in the import surplus may be regarded as having absorbed TL 60 million of the increase in domestic inflationary pres-

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1/ [See Table 3, difference under Item 1, between (i) and (ii), compared with difference under Item 5 (b), between (i) and (ii)]
2/ [Item 5 (b) (i) as per cent of Item 1 (i)]
3/ [See Table 2, sum of Items 4 (1951), 3 (1951) as compared with Table 3, Item 1 (ii) less sum of Items 5 (a) (ii), 5 (b) (i), 5b (iv) less Table 2, sum of Items 2 (1952), 6 (1952)]

Table 3

Turkey: Estimated Supply and Use of Resources

1951 and 1952

(In millions of Turkish liras)

	(i) 1951 1951/52 prices	(ii) 1952 1951/52 prices	(iii) Changes, with permissible real increases in 5; 1,2,4 given	(iv) Changes, with estimated intended increases in 5 on assumption 5/1 in '52 = 5/1 in '51	Changes, with increase in 5a derived from budgetary data; increase in 5b on assumption 5b/1 in '52 = 5b/1 in '51
1. Gross national product	11,245	12,255	1,010	1,010	1,010
2. External deficit, current account	285	570	285	285	285
3. Total resources available for domestic use	11,530	12,825	1,295	1,295	1,295
4. Gross investment	1,525	2,250	725	725	725
5. Consumption	10,005	10,575	570	910	810
a. government	(1,560)	(1,620)		(160)	(60)
b. private	(8,445)	(8,955)		(750)	(750)
6. Difference between estimated intended and permissible use Items 4 plus 5 less Item 3	---	---	---	340	240

sure. This estimate was based on the assumption of no change in the import surplus from 1951 to 1952, an assumption which allowed for an increase of TL 30 million in imports of consumer goods and materials to be used up during the year. In the present context, the question is posed differently: given the actual increase in all categories of imports, what part of this total increase can be regarded as having absorbed domestically generated inflationary pressure? Of the total increase in imports of TL 400 million, TL 310 million are estimated to have consisted of equipment, materials and consumer goods for fixed investment and inventory accumulation. These imports can be regarded either as inflationary or as neutral. The choice would depend on whether or not it is assumed that the increase in equipment imports necessarily led to an increase in the demand for domestic resources that was greater than the value of substitute domestic investment that would have occurred if the volume of imported equipment had not been permitted to rise. That equipment imports should have been deflationary is not likely since substitute domestic investment (other than a change in ownership of existing assets such as land, inventories, prescious metals) would probably not have exceeded the decrease in complementary investment associated with a decline in the rate of equipment imports. The safest assumption, therefore, would seem to be that the increase from 1951 to 1952 in imports of equipment and materials for stocks was neutral from the point of view of internal financial stability.

The remaining TL 90 million of the TL 400 million increase in imports from 1951 to 1952 consisted of consumer goods and materials for current use rather than inventory accumulation. It is this increase which can be regarded as having offset part of the increase in domestic inflationary pressure. The total increase from 1951 to 1952 in inflationary pressure may be estimated, then, at about TL 330 million, (TL 240 million plus TL 90 million), i.e., an amount in the order of TL 300 to 350 million or 3 - 4 per cent of the estimated gross national product in 1952.

The reader may wonder at this point whether the order of magnitude of the final result in the form of a TL 300 - 350 - million inflationary gap, in a country with an estimated gross national product of about TL 11.3 billion, may not be the same or even smaller than the order of magnitude of the possible error in the original estimates. The writer shares this doubt. He believes however, that, at best, the analysis is not invalidated as long as it proceeds in terms of changes from one period to the next, since the error in the changes is likely to be considerably smaller than the error in the totals. At worst, an analysis of the present kind, even if it were to provide only a possible rather than a necessary explanation of the excessive pressure of demand in Turkey in 1952, might still promote continued improvement in national accounting methods and their use in policy formation.

To relax the pressure on resources as incomes increase, as they are expected to do with continuing good harvests, two alternative policies would seem to be available. Either taxation, especially of agriculture, would have to be raised, or agricultural price support programs would have to be curtailed.

Money and credit

There are no generally applicable rules governing the relationship between estimated intended saving during a given period and the increase in bank credit which would maintain internal financial stability without a change in the current balance of payments. Even if the relationship between an increase in credit and the probable increase in investment, as well as the relationship between an increase in income and the consequent increase in saving, were known for a given country at a given time, there would still be considerable room for judgment regarding the increase in investment that could be permitted without causing an undue strain on the economy. The rule of thumb that the level of credit during a given period should not be permitted to rise beyond estimated intended saving implies that all credit is used for investment purposes (plant and inventory) and, therefore, that intended investment is to be equal to intended saving. There are occasions, however, when it is desirable to raise the rate of intended investment beyond the expected rate of saving, for example, to bring underutilized resources into use, such as shifting disguised unemployment in the agricultural sector to productive employment. Or it may be necessary to encourage a shift of resources into exports by holding the rate of intended investment below the expected rate of saving. In addition to the need for judgment in these respects, there is the familiar problem of the appropriate level of credit for inventories within the level of total credit. The difficulty is, of course, one of limiting credit for inventories whenever it is expected that domestic prices will rise or that import restrictions will be tightened.

The problem that faced the monetary authorities in Turkey in 1952 was one of evaluating the risks which a liberal credit policy entails for the foreign payments position and internal stability as against the risks of inhibiting a desirable increase in total output. The counsel of those who feared the second more than the first appears to have prevailed to an extent that led to an excessive increase in inventories held by the Government as well as the private sector. Total credit by the banking system to the Government and the private sector increased by nearly TL 1,100 - million from 1951 to 1952. It is estimated that inventories of domestic and imported products increased by about TL 600 million in 1952 or by TL 400 more than in 1951. The 1952 increase in stocks is estimated to have represented about one-third of total net investment, while in 1951, the proportion is estimated to have been about one-sixth.

As stated above, the appropriate relationship between intended saving and an increase in bank credit during a given period cannot be stated in terms of generally applicable rules. The relevant figures for Turkey are given here, merely to show how little change there appears to have been between the ratio of intended (equals estimated "actual") net saving to credit expansion in the relatively stable year of 1951 and the ratio of estimated intended net saving to credit expansion in 1952. In 1951, total net saving of the community (government and private) is estimated to have amounted to about TL 860 million while total credit to the Government and the private sector increased by nearly TL 875 million; in 1952 total intended net saving is estimated at TL 1,020 million while credit rose by nearly TL 1,185 million. It is true that, according to these estimates, credit increased slightly less relative to saving (in the sense used above) in 1951 than in 1952. The difference, however, is hardly large enough to warrant the conclusion that the change from 1951 to 1952 would obviously have implied a significant increase in inflationary pressure in the latter year.

Table 4, below, shows the financial factors which determined the changes in money supply in 1951 and in 1952, and Table 5 the distribution of credit extended by banks other than the Central Bank among categories of recipients. It may be of some interest to note that money supply including time deposits in 1952 rose by less (4 per cent) than in the relatively stable year of 1951. If time deposits are excluded, the 1952 increase in money supply was equal to less than three-quarters of the increase in 1951, mainly because of the increase in the external deficit and a substantial increase in time deposits in 1952. It is probably true, as students of Turkish economic problems have pointed out, that in recent years an increasing proportion of economic exchange in Turkey has begun to be effected on a cash rather than a barter or subsistance basis. Such a development would require a greater increase in money supply than would otherwise tend to be required by the same increases in total output.

The breakdown of bank credit among categories of recipients as published by the Ministry of Finance may not give a clear picture of the actual use of credit. It would seem, for example, that "Commerce" includes loans for production purposes and that "Mortgage" does not cover all the credit used for construction. "Agriculture", on the other hand, probably includes credits for inventory accumulation (spare parts for equipment as well as machinery) in addition to credit for financing of production.

Without further study of financing needs and the uses to which bank credit was put and is being put at this time, it is not possible to state the amount by which it would be desirable to reduce the rate of credit expansion in order to restore balance in the economy. However, if the estimates for inventory accumulation by the private sector are correct, there can be little doubt that some cutback or, at least, a substantial reduction in the expansion would be advisable, without such a curtailment of credit affecting adversely further increase in output.

Table 4

Turkey:

Financial factors determining money supply in 1951 and 1952

(In millions of Turkish liras)

Increasing factors	1951	1952	Decreasing factors	1951	1952
1. Central bank					
a. Increase in net assets, gold and foreign exchange	-56.2	-277.3	c. Increase in deposits government banks other	-25.5	31.8
b. Increase in credit to non-bank Government agencies and to non-bank private sector a/	208.7	297.8			
2. Other banks					
a. Increase in loans, advances and direct investments	664.4 c/	885.0 f/	b. Increase in notes held by banks	37.3	30.4 b/
			c. Increase in time deposits	48.0	174.0
3. Central bank and other banks, other factors (net) c/	-201.5 d/	-264.1			
4. Total	615.4	641.4		59.8	236.2
5. Increase in notes outside banks				(139.0)	(69.2) b/
6. Increase in demand deposits				(416.6)	(336.0)
7. Money supply, excluding time deposits				555.6	405.2
8. Total				615.4	641.4

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Footnotes to Table 4

a/ Sum of changes in following items on the assets side of the Central Bank balance sheet as publiched in Bulletin Mensuel, 1952/No 1: Cooperatives agricoles de vente, Societe de Raffinerie de Sucre, Autres credits agricoles, Monopoles, Voies Marit. et Ports, Chemins de Fer, Office des Produits du sol, P.T.T., Etabl. d'Exploitation agricole.

b/ Estimate; ratio of change in notes held by banks to change in demand deposits in 1951 applied to changes in 1952.

c/ Computed from banking statistics for 1951, residual for 1952.

d/ TL 106.2 million of the change in 1951 consisted of a decrease in the unpaid capital of banks other than the Central Bank.

e/ Sum of changes in following asset items in combined balance sheet of banks other than Central Bank, source given under a/ above: Portefeuille - effets, Avances, Comptes courants debiteurs, Prets hypothecaires, Credits agricoles, Debiteurs divers, Participations et Fonds affectes aux Etablissements et Entreprises.

f/ Change in credit extended by banks other than Central Bank as reported in Ministry of Finance publication Maliye Bulteni; does not include "Participations etc".

Table 5

Turkey: Credit extension by banks other than Central Bank; 1951 & 1952

(In millions of Turkish liras)

	1951	Per cent	1952	Per cent	Change	Per cent
Commerce	1.383	62.6	1740	56.2	357	40
Agriculture	647	29.3	1068	34.5	421	48
Mortgage	137	6.2	206	6.7	69	8
Industry	43	1.9	81	2.6	38	4
Total	2.210	100.0	3.905	100.0	885	100

Note: This breakdown is found in Maliye Bulteni published by the Ministry of Finance. The category of Industry is limited to loans extended by the Industrial Development Bank.