

# SECTORAL INVESTMENT AND CREDIT POLICIES IN TURKEY

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## 1. INTRODUCTION

This paper presents the results of some research on the effects of a policy of segmenting the financial markets on sectoral investment in Turkey. In particular, an attempt is made to assess these effects in relation to the sectoral investment targets outlined in the First Five-Year Development Plan, 1963-1967 [4]. Before presenting these results, however, the nature of this policy and its implementation is documented.

One of the significant differences between the First Plan [4] and the Second [5] lies in the estimation and use of sectoral savings in the latter. Its omission in the First Plan meant that the planners were trying to implement sectoral investment policies in the absence of estimates of both self-finance, i.e., sectoral savings, and therefore the necessary financial transfers for the achievement of the targets. There was also no indication of where these funds would be generated. The Second Plan at least contains estimates for public and private sectoral savings [5, Table 41, p. 83] and one summary of the 1969 Annual Programme actually contains an elementary lending/borrowing matrix [11, Table 10, p. 17]. Some possibilities of using more elaborate financial planning techniques have been discussed elsewhere [2]. Here, the aim is to assess whether, even in the absence of the necessary information, the implementation of sectoral credit policies nevertheless contributed to the achievement of sectoral investment targets.

Having described the credit policies both avowed and instigated over the period, the financial system is described with emphasis on the factors determining the allocation of funds. An important element in credit policy over the period has been the deliberate segmentation of the market for funds. In this study, segmentation is taken to mean the differentiation of borrowers into separate categories on grounds

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other than credit-worthiness. Under conditions of unimpeded competition, differentiation would only occur on the basis of the latter criterion. Segmented market conditions must, therefore, be the result of administrative control or market imperfections. The existence of market imperfections is to be expected in an underdeveloped country such as Turkey; the development of such markets is still at a fairly embryonic stage. Administrative controls, however, are clearly the dominant cause of segmentation in Turkey. It is with the effects of these that this study is primarily concerned.

The phenomenon of administrative controls designed to segment credit markets is by no means unique to the Turkish economy. Not only is this practice widespread in underdeveloped countries, but is prevalent in highly sophisticated forms in most Soviet-type economies. The rationale behind these controls lies in the fact that in planned or semi-planned economies planned investment programmes are prepared as disaggregated sectoral totals, usually further broken down into projects. Monetary policy can be of little assistance in ensuring that these sectoral plans are realized, but some forms of financial planning are available for just such a task. In particular, manipulation of the financial system by direct controls can be employed in an attempt to direct funds into the planned investment projects and to prevent them from being used to finance unplanned investments. A common way of doing this is to set maximum interest rates below the equilibrium levels and then to ration credit on the basis of the planned priorities. To encourage private financial institutions to lend in accordance with these planning objectives, directives, differential rediscount rates and other incentives can be used.

An important feature of recent economic reforms in Eastern Europe has been the modification, and in some cases the elimination, of planned segmentation of credit markets. Under the old system, not only were interest rates held below their equilibrium levels, but were differentiated on non-market criteria. In Hungary, for example, interest rates on the same term loan with identical risk attributes can range from 0.5 % to 18 % [1, p. 64]. Such policies have been found to suffer from two basic defects : the first is that opportunity costs for economic activities become difficult to compare; the second is that low interest rates may become a bulwark of the defence against inflationary pressures and so difficult to raise when such action is deemed appropriate for the pur-

pose of discouraging or penalizing particular activities. More direct forms of investment subsidies or taxes allow easier calculation of comparative opportunity costs and application to specific investment projects. The latter advantage is particularly important in a country such as Turkey where implementation of a credit policy has to operate in part through private financial institutions.

## 2. CREDIT POLICY

The First Five-Year Development Plan barely touched upon financing problems. Instead, attention was concentrated on the real side and the relationship between investment and growth; saving and finance were relegated to small unconnected passages. Interestingly, the basic problem was clearly stated :

"The realization of the investment targets set for the private sector will depend, on the one hand, on auto-financing and the saving to be obtained from the capital market and will be sustained on the other hand by credits from commercial banks and other banking and credit institutions. Public enterprises will secure the working capital and investment credits they need urgently from the special funds to be appropriated. In order to establish a credit mechanism which will be instrumental to the achievement of targets the distribution of credit, with regard to the amount of the different types allocated, must be that best suited to the economy." [4, p. 452].

The solution proposed was to abandon administrative controls on interest rates, but to ensure the necessary sectoral distribution by creating new credit institutions and reorganizing the existing ones. However, nothing is said about the quantities of funds needed for each sector.

Advocacy of the free interplay of market forces fell on deaf ears and was not consistently pursued by the State Planning Organisation itself. For example, in the 1963 Annual Programme the appropriate sectoral distribution of credit is to be ensured through the application of both "qualitative and quantitative control measures" [6, p. 275]. In particular, exports and agriculture are to receive credit on more favourable terms and in greater abundance than other sectors and importers

are to be starved of credit as far as possible. Similar vague statements are made in the 1964 and 1965 Annual Programmes [7, p. 208 and 8, pp. 333-336]. The latter illustrates the extreme naivety with which sectoral credit policies were constructed during this period. A table presents the proportion contributed to GNP, the proportion of the total volume of credit received and the ratio of these two proportions for a five-sector breakdown of the economy. From this information "examination reveals the insufficiency of credits to agriculture and industry as against the large share of credits given to commerce and construction" [8, p. 336].

By the time the 1966 Annual Programme was being prepared the failure to implement a successful sectoral policy was beginning to be realized [9, p. 617]. However, in neither this Programme nor the 1967 Annual Programme are any specific solutions proposed. Almost identical statements on the intended sectoral credit policy measures of equal vagueness can be found in all five annual programmes of the First Plan.

As mentioned above, sectoral saving estimates appeared in the Second Plan. However, these were only made on a three-sector breakdown inconsistent with the economic activity breakdown for which the sectoral credit policy has to be prepared. Thus, there was again no possibility of making quantitative estimates of financial transfers necessary to ensure implementation of sectoral investment policies. Statements on sectoral credit policy in the Second Plan are as vague as those in the First as the following extracts show :

"Credits will be directed towards those sectors whose development has been given priority in the Plan" [5, p. 126].

"The rediscount policy of the Central Bank will be revised to ensure the development of sectors which are given priority by the Plan" [5, p. 127].

"Efforts will be made to ensure that the 'Bank Credits Regulating Committee' will review the distribution of bank credits within a short period of time and will take the necessary measures concerning this subject" [5, pp. 127-128].

"During the Second Plan period, a selective credit policy will be widely used to encourage industry.

"A special rediscount rate will be applied by the Central Bank to industrial bills which benefit from the selective credit policy.

"Special funds will be established by the credit institutions for implementation of the selective credit policy. Industrial enterprises and investors found eligible to benefit from this policy will make use of these funds. Investments to be made in the regions which are selected for industrial development will benefit from similar incentives more extensively" [5, p. 129].

The first three annual programmes of the Second Plan contain precisely the same nonquantitative statements about sectoral credit policy as those found in all the planning documents since the instigation of planned development in 1963. However, there was a return to the idea of market determination of interest rates in the 1969 Programme [10, pp. 100-101].

The 1970 Annual Programme spells out in much more detail the new direction in which policy moved in 1969. Not only is market determination of interest rates advocated but the alternative policy of implementing a sectoral investment policy through direct subsidy discussed :

"The main principles of the interest rate policy are that current interest rates should be as close to the economic interest rates as possible and that the application of different interest rates within the economy is not desirable. Where priority sectors will obtain credit at subsidized rates the differential will be financed through some special fund rather than through an adjustment in interest rates to solve the problem. The 'Selective Credit Fund' of the Central Bank which has been established in the 1968 Programme Decree and is financed by the budget funds enables the application of this policy.

"Until now the application of low interest rates has only been possible through use of Treasury and Central Bank funds; the banking system has not been willing to supply its own resources for this purpose.

"When the priority regions, sectors and activities will be obtaining credit at subsidized rates from the 'Selective Credit Fund' in the form of direct subsidies, after the initiation of economic interest rates, the assessment of the

costs of the support programme will be possible and the basic finance for such sectors will come from the banks' own sources" [12, p. 99].

"To allocate special funds for various activities and to provide rediscount facilities at special rates prevents the banks from lending their own resources for such credit. If the conditions for the supply of credit are identical, the banks will supply credit to industry; the support policy can then be applied in the form of a direct subsidy." [12, p. 101.]

As already mentioned above, the expediency of this more direct means of implementing sectoral investment policies appears to have been accepted in an increasing number of planned and semi-planned economies; the measures taken in Turkey in 1970 seem to follow up the main policies put forward in the Annual Programme for that year.

The implementation of a sectoral investment plan is not necessarily dependent on a successful sectoral credit policy. Provided that all investment is directly controlled by the planning authorities financial markets can either be eliminated or allowed to play an unsupervised role in providing funds for the dictated investment projects. The philosophy of a mixed economy, however, rejects this element of command and attempts to achieve the same results through incentives.

Credit rationing can be used as an indirect mechanism for implementing sectoral investment plans. Interest rates are held below their market equilibrium levels in order that funds may be directed, through a rationing process, into investment which might not have been willingly undertaken at higher rates. This would cause little problem if the entire financial system were publicly owned. Furthermore, there is the problem of ensuring that those who receive credit at a below-market rate use it for the purpose for which it is provided. Both of these problems can, to a large extent, be overcome by resort to more direct measures such as investment subsidies, tax allowances and foreign exchange privileges<sup>1</sup>; licencing might, in any case, be necessary to limit unplanned investment.

<sup>1</sup> Foreign exchange privileges are an incentive in a country such as Turkey where foreign currency is rationed under a complex system of administrative controls. A considerable incentive for investment in export industries is to permit the industrialist to retain a certain proportion of his foreign exchange earnings for his own use.

Assuming that a sectoral credit policy is to be employed to ensure, at least in part, that sectoral investment targets are realized, successful implementation requires a certain amount of information and the use of a number of techniques. These latter have been discussed elsewhere [2] and will not be presented here. The most crucial piece of information needed is that mentioned in the quotation from the First Plan given above, namely, sectoral savings; from these the necessary net financial flows can be derived. It is then possible to plan ways and means of achieving these flows, perhaps partly through incentives to ensure that demand for funds is stimulated where necessary and partly by segmenting the market on an institutional basis. Without knowing the magnitudes of the financial flows required, pursuing such policies will be a matter of trial and error.

During the period of the First Plan, the implementation of a sectoral credit policy took two forms, the first being the establishment of specialized institutions to provide funds for particular sectors, the second the designation of various fields of economic activity as priority areas for which funds could be borrowed from the banking system at a rate below the normal maximum. The new institutions established over the period were the State Investment Bank (1964) which replaced the Amortization and Credit Fund, to provide funds for the State Economic Enterprises and the Industrial Investment and Credit Bank (1963) to provide medium-term credit to industry. Priority loans could be obtained at a rate  $1\frac{1}{2}$  % below that on ordinary credits until 1970 when the differential became 1 % plus the variable subsidy; the rediscount rate for such loans was  $2\frac{1}{4}$  % below that on ordinary bills becoming  $1\frac{1}{2}$  % in 1970.

The State Planning Organisation concluded in the Second Plan that the credit policy pursued over the First Plan had been unsuccessful :

"The credit policy implemented and the developments in the field of credits during the First Plan period lead to the following conclusions :

1 — During the First Plan period, the banking system continued to operate as the only institution in collecting personal savings and distributing them among the various sectors of the economy. New institutions to function in the same fields were not developed during the Plan period.

2 — The public sector made the utmost use of credit resources, particularly the resources of the Central Bank, in meeting its own credit requirements. With this exception, no credit policy sufficiently effective in directing bank credits towards the desired sectors could be implemented. The rediscount policy implemented and the principles set forth in the utilisation of marginal legal reserves were far from establishing an effective system in this area. Credit distribution remained based on the decisions of the banks and the prevailing conditions in the free market.

3 — Limited progress only was realized in the process of specialization of banks. Long and medium-term credit requirements were met within the volume and under the conditions established for short-term credits. A differential interest rate system which would enable the adoption of different maturities for both deposits and credits could not be implemented." [5, p. 45.]

### 3. The Public/Private Dichotomy

By far the most significant cleavage in the credit markets is that between the public and private sector borrowers. The public sector invariably obtains funds at considerably lower costs than the private sector. Furthermore, on most criteria, credit availability would appear to be far greater for the public sector. The causes of this situation are not hard to find : the State Investment Bank provides credit on special terms to public sector enterprises, social security institutions are obliged to hold large proportions of their funds in public sector securities yielding low interest, as are both private financial and non-financial companies. Compulsory saving bonds<sup>2</sup> are yet another example of low cost funds for the public sector.

On the other hand, the private sector cannot tap the funds of the non-bank savings institutions to anything like the extent, made possible by legal stipulation, that the public sector can as is illustrated in Table 3. Even the private commercial banks, which are the most

<sup>2</sup> Law 223, 1961 and Law 930, 1967, require all income tax payers with incomes above certain minimums to purchase these bonds to a value of 3% of their income. They yield 6 % interest.



important source of funds for the private sector, find it necessary to maintain a ratio of public sector liabilities to their total deposits of approximately 30 %; 20 % represents the legal reserve requirements, 10 % the till cash needed for day-to-day business. The latter is such a high percentage because of the virtual absence of the use of cheques for payment purposes.

Resort to the non-institutional credit markets, in which rates of interest in excess of 30 % are normal (much higher rates have been reported, particularly in the construction business), is another distinction between sources of public and private funds. It is also another illustration of the difference in credit availability.

Despite the apparent abundance, almost superfluity, of funds for the public sector operations, the First Plan period saw a short-fall in public investment and the private sector exceeding targets in each of the five years. One theory which can be examined and might explain this paradox is that public saving fell considerably below target. It was pointed out above that no such targets were, in fact, set. Had they been set and not realized, even the realization of the planned financial transfers would, of course, still have resulted in this investment shortfall. Despite the fact that no sectoral saving plans were calculated or used in the First Plan, it is possible to reconstruct Budget and realized public sector savings and the planned and realized balance of payments deficits, i.e., planned and realized foreign savings. Planned private savings is then taken to equal total planned investment minus budgeted public sector saving and the planned balance of payments deficit. Table 1 below presents the results of these calculations.

A number of interesting points emerge from an examination of these figures. First, public investment in fact fell short of targets by a greater amount than did public saving, thereby signifying that there was a shortfall in financial transfers to the public sector. Second, except in 1963, this shortfall in financial transfers to the public sector is matched by a shortfall in net transfers from the foreign sector. From this, one might draw the inference that the public sector was considerably more dependent on foreign sector transfers than was the private sector. This net picture, however, does not allow such conclusions to be drawn without additional evidence. This is taken up below. Third, and at a lower order of magnitude, the private sector made a greater net finan-

cial transfer to the public sector over the period 1963-1965 than planned, but transferred slightly less between 1966-1968.

It appears on independent evidence that had the foreign sector financial transfers which were planned been realized there would have been an increase in public rather than private sector investment. The reason for the shortfall in foreign aid seems to be

**TABLE 1**  
 PLANNED AND REALIZED  
 SECTORAL SAVINGS AND INVESTMENTS  
 1963 -1968  
 (Billions TL., 1965 prices)

		Planned			Realized		
		(1) S	(2) I	(3) FS	(4) S	(5) I	(6) FS
1963	Public	4.1	6.7	-2.6	3.7	5.4	-1.7
	Private	4.8	4.5	0.3	4.3	5.3	-1.0
	Foreign	2.3	0.	2.3	2.7	0.	2.7
1964	Public	5.1	7.8	-2.7	4.3	5.7	-1.4
	Private	5.3	5.1	0.2	5.4	5.0	0.4
	Fereign	2.5	0.	2.5	1.0	0.	1.0
1965	Public	5.6	8.2	-2.6	4.6	6.2	-1.6
	Private	5.7	5.3	0.4	6.4	5.4	0.9
	Foreign	2.2	0.	2.2	0.7	0.	0.7
1966	Public	6.2	9.1	-2.9	5.3	7.5	-2.1
	Private	6.7	6.0	0.7	7.1	6.5	0.6
	Foreign	2.2	0.	2.2	1.5	0.	1.5
1967	Public	7.5	9.4	-1.9	7.2	8.1	-0.9
	Private	6.9	7.1	-0.2	7.0	7.1	-0.1
	Foreign	2.1	0.	2.1	1.0	0.	1.0
1968	Public	8.6	9.6	-1.0	8.0	9.7	-1.7
	Private	7.1	7.9	-0.8	7.6	7.9	-0.3
	Foreign	1.8	0.	1.8	2.0	0.	2.0

Key : (1) and (4) Savings;  
 (2) and (5) Investments;  
 (3) and (6) Financial Savings.

Source : Column I — 1963-1964 from Maliye Bakanlığı, *Bütçe Gereğesi*, 1963, 1964 (Ankara : Maliye Bakanlığı, 1963, 1964); 1965-1968 from *Maliye Bakanlığı Hazine Genel Müdürlüğü ve M.I.I.T. Genel Sekreterliği Aylık Ekonomik Göstergeler*, March 1965, 1966, 1967, 1968, 1969; 1963-1968 also from Maliye Bakanlığı, *Bütçe Kanunları ve Ekleri*, 1963, 1964, 1965, 1966, 1967, 1968 (Ankara : Maliye Bakanlığı, 1963, 1964, 1965, 1966, 1967, 1968) for public savings. 1963-1967 from State Planning Organisation, *First Five Year Development Plan, 1963-1967* (Ankara : State Planning Organisation, 1963), Table 51, p. 111; 1968 from State Planning Organisation, *Second Five-Year Development Plan, 1968-1972* (Ankara : State Planning Organisation, 1969), Table 37, p. 77 for foreign savings 1963-1968 private savings calculated as a residual from total planned investment.

Column 2 - 1963-1968 from unpublished data provided for this study by the State Planning Organisation.

Column 3 - (1) minus (2).

Column 4 - 1963-1968 from Maliye Bakanlığı Gelirler Genel Müdürlüğü, *Devlet Gelirleri Bülteni, Bütçe Yılı 1968* (Ankara : Maliye Bakanlığı, 1969); *Maliye Bakanlığı Hazine Genel Müdürlüğü ve M.I.I.T. Genel Sekreterliği Aylık Ekonomik Göstergeler*, March 1965-1966, 1967, 1968, 1969, 1970; Maliye Bakanlığı Hazine Genel Müdürlüğü, *Hazine Genel Hesapları, 1963, 1964., 1965, 1966, 1967* (Ankara : Maliye Bakanlığı, 1965, 1966, 1967, 1968, 196 ) ; Maliye Bakanlığı, *Bütçe Gereğesi, 1964, 1965, 1966, 1967, 1968, 1969* (Ankara : Maliye Bakanlığı, 1964, 1965, 1966, 1967, 1968, 1969) for public sector savings. 1963-1966 from State Planning Organisation, *Second Five Year Development Plan, 1968-1972* (Ankara : State Planning Organisation, 1969), Table , p. 17; 1967-1968 from *Maliye Bakanlığı Hazine Genel Müdürlümü ve M.I.I.T. Genel Sekreterliği Aylık Ekonomik Göstergeler*, March 1969 for foreign savings. 1963-1968 private saving calculated as a residual from total realized investment.

Column 5 - 1963-1968 from unpublished data provided for this study by the State Planning Organisation.

Column 6 - (4) minus (5).

## METHOD OF CALCULATION

Planned and realized investment figures produced no problems in calculation as they were provided for this study by the State Planning Organisation, as mentioned in the source note above. Planned sectoral savings, as already mentioned on page 1 above, were not and have not been prepared by the Organisation, nor are they obtainable elsewhere. The assumption has, therefore, been made that the Treasury and the State Planning Organisation operate in harmony with respect to implementing the Plan. Planned public savings have, therefore, been taken as the budgeted surplus on current account of the General and Annexed Budgets and the budgeted surpluses of the State Economic Enterprises. However, the actual surpluses presented in the Budget are not the most economically meaningful that can be calculated. Included in Budget revenues are taxes, incomes other than taxes, special funds accumulated through special taxes and net income of the Annexed Budgets. Budget expenditures have been taken to include all items of current expenditure designated under the heading A/1. However, from expenditures classified as investment under A/2 and A/3 expenditures

of the Ministry of Defense and Jandarma Genel Kumandanlığı have been extracted and added to budgeted current expenditure. Realized General Budget and Annexed Budget revenues and expenditures have naturally been classified in exactly the same way. The subtraction of current expenditure from current revenue, together with savings of the State Economic Enterprises, provides the public sector savings figures used in the table.

The Revolving Fund has been ignored, partly because it represents a very small part of the public sector and partly because planned savings figures are unattainable and are assumed to equal realized savings by the Ministry of Finance. As it is the difference between planned and realized figures which are of interest here, it seemed most appropriate simply to omit figures from this account. A slightly different problem was encountered in attempting to calculate saving figures for the local administrations. The problem was simply that no budgeted figures exist. As local administration savings and investment figures are also very small in relation to the total public sector savings, they have also been completely omitted from the estimates.

Savings of the State Economic Enterprises include profits and depreciation allowances. This is consistent both with the Ministry of Finance methodology used in the Budget and with the Consortium Report on the Second Five Year Development Plan [13].

Foreign savings constitutes the balance of payments deficit on current account. This dollar figure has been converted to TL. on the 9-1 exchange rate prevailing throughout this period.

Private saving is the residual after subtracting public and foreign savings from total savings. Total savings equals total investment.

twofold; on the one hand, project aid fell short of target primarily because the public sector failed to prepare enough satisfactory projects.

Over the period of the First Plan, \$ 514 m. was committed by the Consortium for project aid but only \$ 330 m. was disbursed. Between 1963 and mid-1969, these figures were \$ 111 m. and \$ 512 m., respectively. On the other hand, although almost all the programme aid committed over the First Plan was disbursed (\$ 655 m. committed, \$ 633 m. disbursed), there was a shortfall in the programme aid requested. Over the period of the First Plan, foreign aid programmed in the Plan document was \$ 1.6 b., total foreign aid planned in the individual Annual Programmes totalled \$ 1.4b. Commitments fell short of both these figures and totalled \$ 1.2b.; the shortfall can be partly attributable to the fact that workers' remittances from abroad far exceeded expectations. In fact, such a source of foreign exchange was virtually unforeseen in 1963. Foreign aid commitments were, therefore, reduced in part in

the light of this. Disbursements of foreign aid, however, totalled only \$ 940m. over the same period [3]. As already pointed out, this shortfall can be attributed partly to the state of unpreparedness of the public sector and partly to the over-optimistic targets of the planners with respect to the Consortium's willingness to supply all the programme aid requested<sup>3</sup>. Whether or not the extra programme aid would have had any impact on public sector investment is debatable. Nevertheless, there does appear to have been some relationship between the shortfall in public investment and the shortfall in foreign sector saving. The causal relationship, however, runs both ways : a failure on the public sector's part to have sufficient viable demand for foreign exchange; and a failure to obtain the planned volume of programme aid.

There is one serious reason for treating the above analysis with caution, even some skepticism. The relationship between the shortfall in public sector investment and foreign savings, whichever causal direction might be preferred, lays itself open to question by the fact that the public sector is naturally prone to make overgenerous estimates of its foreign exchange requirements; import demands are invariably over-estimated. Such being the case, the dependence of the public sector on the fulfilment of foreign sector savings' targets may not have been so obvious as it seems at first sight.

Over the period 1963-1968 foreign savings fell short of planned savings by 4.2 b. TL., public savings by 4.0 b. TL., and private savings exceeded targets by 1.2 b. TL. As the shortfall in public investment exceeded the shortfall in public savings there is no doubt that there was a shortfall in planned financial transfers to the public sector. The question is whether or not these planned figures used are truly meaningful. This, incidentally, is a problem to be faced with all the data used in this study. In this specific case, the shortfall in public sector savings may well be the crucial factor. Planned public sector investment may have been unrealistically high, as may have been the targets for foreign exchange requirements. In other words, using a realistic public sector investment target might imply that shortfalls in public sector investment and savings were more or less equal and that the relationship between these two, being one from savings to investments, is the really significant one.

<sup>3</sup> Debt relief has been excluded throughout in the calculation of these figures.

It would be a mistake to proceed too far into the realms of speculation, but an obvious concomitant of the realization of public sector saving would have been the reduction of private sector income and resources. Would this have resulted in a shortfall in private sector investment targets, a reduction in consumer demand, thereby reducing inflationary pressures, or greater efforts to realize both consumption and investment plans in the private sector, thereby increasing inflationary pressures? How much reliance can be placed on the conclusions of two-gap models under such circumstances?

In the past few pages an attempt has been made to illustrate the value which can be derived from the material presented in Table 1. On the financial side, however, it has been stressed that only net financial transfers emerge from this exercise. The limitations of such net flows have been discussed in detail elsewhere [2] and will not be taken up here. The example given in Table 2 below should be enough to illustrate the fact that using gross financial transfers provides the financial planner with extra information which can be of critical value in his attempts to ensure that financial transactions are consistent with plans on the real side. More sophisticated extensions of lending/borrowing matrices and financial models have also been presented elsewhere [2]. To use such financial planning aids the necessary data to fill both projected and realized matrices are required. Data for lending/borrowing matrix analysis is now available in Turkey as evidenced by its use in the 1969 and 1970 Annual Programme Summaries prepared for the Consortium,

Even a casual comparison between the First and Second Plans clearly indicates the increased interest taken by the State Planning Organisation in the financial aspects of planning. However, there is also clear evidence that the lack of expertise there prevents the fullest and most useful integration of the financial with the real plans. It is, for example, particularly interesting to note that lending/borrowing matrices of a similar kind to that presented in Table 2 are included in the summaries of the Annual Programmes submitted to the O.E.C.D. Consortium, but are not included or used in the Annual Programmes themselves. Before turning to a brief review of sectoral investment and credit policies at the more disaggregated level of distinct types of economic activity, this might be an appropriate point to express the hope that the material presented so far with re-constructed sectoral savings data, planned and realized, would appear to provide clear indications

TABLE 2  
 SAYINGS, INVESTMENTS AND  
 GROSS FINANCIAL TRANSFERS  
 1968- 1969  
 (Millions of TL., 1968 prices)

	(1) <b>S</b>	(2) <b>I</b>	(3) <b>L</b>	(4) <b>B</b>	(5) <b>FS</b>
Realized					
1968 <b>Public</b>	10,005	11,170	350	1,465	-1,115
<b>Private</b>	10,320	10,780	500	960	-460
<b>Foreign</b>	1,575	0	1,575	0	1,575
<b>Total</b>	21,950	21,950	2,425	2,425	0
Planned					
1969 <b>Public</b>	11,615	12,745	740	1,870	-1,130
<b>Private</b>	11,060	12,000	600	1,540	-940
<b>Foreign</b>	2,070	0	2,070	0	2,070
<b>Total</b>	24,745	24,745	3,410	3,410	0

Source : Calculated from State Planning Organisation, *The Annual Programme, 1969 - A Summary* (Ankara : State Planning Organisation, December 1968), Table 10, p. 17.

Key : (1) Savings (4) Borrowing  
 (2) Investment (5) Financial Savings  
 (3) Lending

that planning at the sectoral level can be much improved by their incorporation into future Plans. Let it be stressed once more here that attempts to plan sectoral investment targets in the absence of sectoral savings data is simply "another case of planning without facts," a difficult task to say the least.

#### 4. Conclusion

This paper has concentrated on the basic problems to be tackled in the implementation of sectoral investment and credit policies in a mixed economy such as Turkey. The primary argument running through

almost all the material presented above is that just as monetary and fiscal policies cannot hope to succeed unless they are based on national income estimates and a reasonably comprehensive set of national income accounts so similar data are needed at the sectoral level for the successful implementation of sectoral investment and credit policies. In the process, the State Planning Organisation's credit policies have been examined.

Attention is then focused on the most elementary sectoral breakdown, namely, that of the private, public and foreign sectors. Here an attempt has been made to reconstruct sectoral accounts to illustrate their incorporation into the implementation of sectoral investment and credit policies can change the nature of such implementation from one of a qualitative, trial-and-error affair to that of a precise, quantitative task. An attempt has also been made to analyze the failure of these policies since 1963 by means of the data reconstructed for the former purpose.

The problems of implementing sectoral investment and credit policies at a more disaggregated level are magnified many times, partly because no data whatsoever are available for the construction of the relevant sectoral accounts and partly because the financial system is not so segmented at this level thereby making it much more difficult to earmark specific funds for specific areas of economic activity.

In conclusion, it would probably be fair to say that the attempts to implement sectoral credit policies in Turkey since 1963 have not been successful. However, it would be wrong to assume that they acted against the other measures designed to achieve the planned sectoral investment targets. The system through which these policies had to be implemented and the lack of quantitative estimates of the volumes of financial transfers required for particular sectors resulted in implementation through trial-and-error, planning without facts, which in this case proved a poor substitute for the type of quantitative planning which it has been suggested above would make the implementation of such policies significantly more successful in the future.



TABLE 3

## DISTRIBUTION OF THE FUNDS OF THE FINANCIAL SYSTEM BETWEEN THE PUBLIC AND PRIVATE SECTORS

(Thousands of TL., current prices, end of year figures)

	STOCKS								FLOWS							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Bank Credits	Net Bank Credits	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «	Ä W «
Public	1,725,000	1,885,000	2,050,000	54,723	712,370	24,837	1,496,347	7,948,277								
Private	10,161,000	0	318,415	7,480	530,479	01,196	130,186	11,238,756								
TOTAL	11,886,000	1,885,000	2,368,415	62,203	1,242,849	116,033	1,626,533	19,187,033								
Public	1,961,000	2,541,000	2,797,049	55,747	840,039	39,321	1,780,097	10,014,253	236,000	656,000	747,049	1,024	127,669	14,484	283,750	2,065,976
Private	11,483,000	0	460,731	10,236	595,448	147,112	129,231	12,825,758	1,322,000	0	142,316	2,756	64,969	55,916	-955	1,587,002
TOTAL	13,444,000	2,541,000	3,257,780	65,983	1,435,487	136,433	1,909,328	22,840,011	1,558,000	656,000	889,365	3,780	192,638	70,400	282,795	3,652,978
Public	2,539,000	3,082,000	3,536,619	58,415	735,193	53,574	1,408,378	11,413,179	578,000	541,000	739,570	2,668	104,846	14,253	-371,719	1,398,926
Private	13,561,000	0	575,634	12,549	694,448	178,233	196,610	15,218,504	2,078,000	0	114,903	2,313	99,000	31,121	67,409	2,392,716
TOTAL	16,100,000	3,082,000	4,112,258	70,964	1,429,641	231,807	1,605,018	26,631,683	2,656,000	541,000	854,473	4,981	-5,846	43,374	-304,310	3,791,672
Public	2,574,000	4,093,000	4,382,984	70,718	718,368	66,483	1,490,700	13,396,233	35,000	1,011,000	846,365	12,303	-16,825	12,889	82,322	1,983,054
Private	17,617,000	0	800,438	4,142	751,606	249,030	196,900	19,619,116	4,056,000	0	224,804	-8,407	57,158	70,797	260	4,400,612
TOTAL	20,191,000	4,093,000	5,183,422	74,860	1,429,641	315,493	1,687,600	33,015,349	4,091,000	1,011,000	1,071,169	3,896	40,333	83,686	82,582	6,383,666
Public	2,777,000	4,999,000	7,715,673	79,545	695,042	79,714	1,660,291	18,006,265	203,000	906,000	3,332,689	8,827	-23,326	13,251	169,591	4,610,032
Private	20,591,000	0	1,062,607	10,265	873,941	321,464	229,271	23,088,548	2,974,000	0	262,169	6,123	122,335	72,434	32,371	3,469,432
TOTAL	23,368,000	4,999,000	8,778,280	89,810	1,568,983	401,178	1,889,562	41,094,813	3,177,000	906,000	3,594,858	14,950	99,009	85,685	201,962	8,079,464
Public	2,671,000	5,741,000	8,978,326	87,778	1,697,677	87,310	1,724,671	19,987,762	-106,000	742,000	1,262,653	3,233	2,635	7,596	64,380	1,981,497
Private	24,904,000	0	1,280,662	5,122	1,042,988	433,990	1,362,257	27,912,019	4,313,000	0	227,055	-5,143	169,047	112,526	6,986	4,823,471
TOTAL	27,575,000	5,741,000	10,267,988	92,900	1,740,665	521,300	1,900,928	47,899,781	4,207,000	742,000	1,489,708	3,090	171,682	120,122	71,366	6,804,968
Public	2,997,000	7,154,000	10,325,215		812,772	87,290	1,650,772		326,000	1,413,000	1,346,889		115,095	-20	-73,899	
Private	30,185,000	0	1,536,215		1,237,978	484,216			5,281,000	0	246,553		194,990	50,226		
TOTAL	33,182,000	7,154,000	11,861,430		2,050,750	571,506			5,607,000	1,413,000	1,593,442		310,085	50,206		

Source i Columns 1 and 2 from *Türkiye Cumhuriyet Merkez Bankası Aylık Bülten*, 2-4, February - April, 1970.Column 3 from Banks Association of Turkey, *Balance Sheets, Profit and loss Accounts, Organization, Deposits and Credits of the Banks in Turkey at the* of 1963, 1964, 1965, 1966, 1967, 1968, 1969, (Ankara : Bank Association of Turkey, 1964, 1965, 1966, 1967, 1968, 1969, 1970).Column 4 from Ticaret Bakanlığı Sigorta Murakabe Kurulu, *Türkiye'de Sigorta Faaliyeti Hakkındaki Rapor*, 1963, 1964, 1965, 1966, 1967, 1968, (Ankara : Ticaret Bakanlığı, 1964, 1965, 1966, 1967, 1968, 1969).Column 5 from Sosyal Sigorta Kurumu, *Yıllık Rapor*, 1963, 1964, 1965, 1966, 1967, 1968, 1969, (Ankara : Sosyal Sigortalar Kurumu, 1964, 1965, 1966, 1967, 1968, 1969, 1970). N. B. For the public sector State Investment Bank bonds have been deducted to avoid double-counting.

Column 6 from data specially prepared for this study from balance sheet figures of the Army Pension Fund.

Column 7 from Başbakanlık Yüksek Denetleme Kurulu, *Raporları*, 1963, 1964, 1965, 1966, 1967, 1968, (Ankara : Başbakanlık Yüksek Denetleme Kurulu, 1964, 1965, 1966, 1967, 1968, 1969); *Emekli Sandığı İstatistik Bülteni*, 1, 1970. Again, the deduction of State Investment Bank bonds was made.**Note on Calculation :**

The most difficult problem which had to be faced in the preparation of this table was to avoid double-counting, i.e., including financial transfers between one financial institution and another. As far as possible such double-counting has been excluded by careful examination of the individual balance sheet items.

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