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Privatization in Turkey

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Turkey's privatization effort has shrunk to being a technique for financing the budget deficit, with loftier targets for greater efficiency pushed into the background.

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This paper — a product of the Resident Mission in Turkey, Country Department I, Europe, Middle East, and North Africa Regional Office — is part of the Bank's effort to evaluate the experience with privatization. Copies are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Thouria Nana-Sinkan, room H4-091, extension 36026 (73 pages, with graphs and tables).

State capitalism has been a basic tenet of the developing strategy of the Turkish Republic for half a century, with import-substituting industrialization through state economic enterprises (SEEs) as a guiding principle. But by 1980 a serious economic and political crisis called for a reassessment of economic policies. The policy reorientation was radical: from import substitution to export promotion, from interventionism to market forces, and from the promotion of SEEs to the promotion of the private sector.

The state's role in the economy was to be reduced. SEEs were to be streamlined and made more efficient by operating in a more competitive environment under greater cost and price awareness. Greater efficiency would come from either SEE reform or privatization.

Apart from greater price flexibility and the dilution of some monopolies, SEE reform has not made much headway — mainly because the government has been reluctant to adopt and pursue an effective reform program.

Emphasis has instead been put on privatization broadly defined, with the additional objectives of developing the domestic capital markets and generating revenue for the treasury. The initial operations were in the form of sales of revenue-sharing bonds and minority share sales. The first attempt at stock sales flopped, because it took place in a falling market. The approach was then quietly switched to block sales without thorough preparation of the legal ground. The sales went to foreigners, the highest bidders, but this generated much controversy among unions, opposition parties, and industrialists.

Privatization became a contentious political issue that the opposition parties exploited, often in a populist manner. They got the block sales canceled by court orders — on the grounds that the switch to foreign sales was illegal.

The government had not prepared the legal, institutional, and political base for privatization. It had no clear strategy and concrete program for privatization and its assumption that privatization could be treated as an administrative matter was proven wrong. Much was said, little done. Excessive claims, without due safeguards, generated a malaise among groups that privatization could adversely affect.

The cancelation of block sales coincided with a boom on the stock market. Moreover, the treasury came under pressure to generate revenue to contain a growing budget deficit. The sales strategy thus switched back to stock market sales of minority shares. The share sales program has so far been a success, and the proceeds could finance a large part of the 1990 budget deficit. At least for the moment, privatization has thus shrunk to a budget-deficit financing technique, with the loftier targets of enhanced efficiency pushed into the background.

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ACKNOWLEDGEMENTS

A shorter version of this paper constituted the main topic of the June 1990 Monthly Economic Report of the Turkey Resident Mission. At the helpful suggestion of John Nellis of CECPS, the paper was subsequently expanded to provide economic and political background, while amplifying relevant economic and financial aspects. This was necessary to make the paper self-contained.

I am indebted to my colleagues Tevfik Yaprak and Sebnem Akkaya of the Economic Unit of the Turkey Resident Mission for many useful comments and suggestions. Sebnem Akkaya prepared several iterations of the tables and graphs with great forbearance. Ipek Kutay made the final revisions in the paper and designed the layout with skill and speed. Barbara Mondestin at World Bank Headquarters finalized the format of the paper with her habitual helpfulness.

The contributions of other writers included in the list of references should also be acknowledged. My understanding of the intricacies of the Turkish economy and political system, partial as it is bound to remain, nonetheless owes much to their works, both with respect to the total picture and privatization issues.

The usual final disclaimer is warranted in this case too. The author remains solely responsible for the views expressed in this paper and any errors of fact or judgement that may remain. In a more innovative vein, my esteemed colleague Tevfik Yaprak wants to disclaim any responsibility for the format of Graph 4, an issue on which we have had to agree to disagree.

I. BACKGROUND

A. Origin of State Capitalism

1. Modern Turkey emerged from a costly war of national independence in 1923 with no firm view on the respective roles in the economy of the private and public sectors. Infrastructure was in public hands, but much of the rest of the economy remained in private hands. Most of the pre-war entrepreneurs had belonged to ethnic and religious minorities that had departed as a result of the war. The national class of entrepreneurs that grew to fill the void was a major source of support for the new regime. Local private investors tended however to prefer commerce over industry. There was an absence of foreign investors, who anyway were viewed with suspicion after the war of national independence. The economy remained predominantly agrarian.

2. The Government was bound in its economic policies by various trade concessions granted to foreign nations (a latter day version of the controversial "capitulations" that the Ottoman Empire had granted western powers since 1535). The 1923 peace treaty, which formally ended Turkey's state of belligerency in World War I, stipulated that these concessions would continue until 1929.

3. The expiration of the trade concessions coincided with the world economic crisis in 1929. Through foreign trade the domestic economy was badly affected. The national entrepreneurs, whose performance in industry had not

been all that impressive, reeled under the ensuing recession. Liberal and open-door economic policies relying on market forces were discredited. Models for economic development strategies were being sought elsewhere. Fascist Italy with its proclivity for a corporate state was one source of inspiration. So was the Soviet Union, where heavy industrialization through five-year plans was under way. Politically republican Turkey had little sympathy for the Soviet Union, but in economic matters Turkey was willing to pick and choose in an eclectic manner without ideological blinds.

4. The concept of state capitalism1/ had appealed to the military and bureaucratic leaders of the time, since they had grown up under a centralized system with a certain distrust of private entrepreneurs. They were also distrustful of the external world, but at the same time keen to emulate the West in order to strengthen Turkey's place among the concert of European nations. Thus both domestic and external factors prompted Turkey to opt for state capitalism. It seemed to be the only practical way of overcoming the predicament in which the country found itself at the end of the 1920s. Pragmatism rather than political dogma dictated the choice. State capitalism was chosen after some soul-searching and as a faute de mieux.

1/ Under state capitalism, as opposed to socialism, the state assumes a leading role in industry through the creation of large enterprises that are designed to have a multiplier effect on the private sector, which remains dominant in agriculture and services. A comprehensive regulatory framework and planning (usually indicative for the private sector) are used to ensure a synergy between the public and private sectors, Key production units are in state hands not because of any ideological imperative, but as a practical shortcut to speed up industrialization (or modernization) against the background of a private sector assumed to lack the means or inclination to invest in large modern industrial ventures.

5. Under the state capitalist approach chosen by Turkey, the state assumed a leading role in the mobilization and allocation of resources. The state set the basic parameters for the private sector. A protective trade regime was adopted in 1929 and the following year a Central Bank was created. Market forces were frequently tampered with through interventionism. State directed procurement, rationing, subsidies and incentives spread. The state assumed the leading role in heavy industry (iron and coal), light industry (textiles) and transport. Non-strategic industrial sectors, commerce and agriculture were largely left to the private sector. State-led import substituting industrialization become the guiding principle for economic planners. In the turbulent 1930s, and through the disruptions caused by World War II, this strategy had its merits.

B. Economic Policies and Performance 1950-80

6. During the postwar decades to 1980, the Turkish economy came repeatedly under strain as the pace of economic change quickened and external shocks occurred, while both economic policies and performance were slow to adjust to changing circumstances. Each decade tended to end with a balance of payments crisis compounded by a political crisis.2/ Rapid growth was sustained by expansionary fiscal policies coupled with accommodating monetary policies. The ensuing inflation tended to make the exchange rate overvalued, which undermined the balance of payments. External borrowing, often of a short-term nature, was used to close the current account deficits and postpone the

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2/ See Peter Wolf: "Stabilization Policy and Structural Adjustment in Turkey, 1980-1985", pages 46-60 (German Development Institute, 1987), for a summary of economic developments during this period.

cutback in excessive domestic demand. Debt service rose. Ultimately the debt service burden became unmanageable. The availability of foreign capital dried up. Debt had to be rescheduled, the currency devalued and domestic demand curtailed.

7. In terms of economic policies, import-substituting industrialization was pursued, although with more scope for the private sector after the introduction of multi-party politics in the late 1940s. The private sector had become increasingly restive within the straight-jacket imposed on it by comprehensive state intervention. The state relaxed the grip a bit, realizing that it could also benefit from giving more room to the private sector. Nonetheless in substance much of the guiding role of the state was retained. The State Planning Organization (SPO) was created in 1963 and indicative planning, of French inspiration, reinforced. Its aim was to guide the deployment of public resources and to induce the private sector to comply with public targets and priorities.

8. The ten year "boom-bust" cycle of the 1970s started under particularly favorable auspices, but ended with a serious economic crisis, compounded by political violence and paralysis. In 1973 Turkey registered an unprecedented current account surplus thanks to large workers' remittances, mainly from West Germany. By 1973 Turkey had however become very dependent on oil imports for industry and transport, with the result that the first oil shock led to renewed and growing current account deficits starting in 1974.

9. The policy response to the oil shock was inadequate. Weak and fractious coalition governments tried to spend their way out of the adjustment problem. Both public expenditure and recourse to central bank financing were stepped up. Inflation rose. The requisite external borrowing became increasingly short-term and volatile. When Turkey had to default on its debt service in late 1977, it was faced with a full-blown balance of payments crisis. Because of political uncertainties, it took three years for a package of forceful adjustment policies to be adopted. In the meantime inflation rose further, foreign exchange became increasingly scarce, while external arrears accumulated, supplies were disrupted, production fell and unemployment rose. Turkey had reached a crossroad in its economic development.

10. Until the crisis of the late 1970s, Turkey had pursued both a consistent and undifferentiated import substitution policy. Capital-intensive state economic enterprises (SEEs) occupied many of the commanding heights of the economy. There was however also an increasingly important private sector, accounting for about half of industrial output. The emphasis on import substitution over export promotion had initially yielded impressive results, but by the 1970s most of the opportunities for successful import substitution had been exhausted. As import substitution moved from light consumer goods to intermediary and capital goods, the benefits to the economy declined, while the costs rose. Given the small size of the domestic market, there were few economies of scale left to reap. As a result, it was difficult to achieve an optimal size of firms. This was reflected in rising capital/output ratios. Moreover, negative real interest rates were conducive to excessive capital

intensity. Few jobs were created.3/ Little foreign exchange was saved as production became more import dependent, and not just in oil. Protective barriers and an overvalued exchange rate precluded competitive exports.

11. Even without the balance of payments crisis that erupted in 1977, the policy of import substitution focussing on SEEs had run its course. A major policy change was overdue. In the aggregate, SEEs became increasingly unprofitable after 1974, despite various implicit subsidies, not least of which were subsidized interest rates. In addition to internal inefficiencies, a major reason for their poor financial performance was that prices for their output were not allowed to rise in line with cost in the increasingly inflationary environment then prevailing. Rather than being engines of growth as hoped for by the planners, SEEs had on the whole become brakes on growth by the late 1970s.

C. Macroeconomic Performance in the 1980s

12. In 1980 the Turkish Government finally decided that a drastic policy reorientation to cope with the multi-faceted crisis was needed. It is noteworthy that the economic reform program was adopted by a civilian government eight months before the military take-over in September 1980. The military Government that followed endorsed the economic reform program, while limiting political activities, such as disbanding Parliament and banning

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3/ SEEs possessed a small but highly unionized (and well paid) labor force that constituted a veritable labor aristocracy (Caglar Keyder: "State and Class in Turkey: A Study in Capitalist Development", pages 160-61, Verso, 1987).

political parties, unions and strikes. Both in economic and political terms, 1980 was a turning point.

13. The gravity of the economic crisis forced the Government to critically re-examine many of its past basic policy premises. New courses were explored and old shibboleths jettisoned. In 1980 Turkey radically broke with the thrust of economic policies pursued since the inception of the Republic by switching from inward oriented import substitution to outward oriented export promotion. On the domestic side, there was a concomitant shift from interventionism to reliance on market forces, combined with a reduced role for the public sector and promotion of the private sector. An encompassing liberalization of the economy was attempted to overcome the crisis and restore rapid growth in a non-inflationary context of enhanced international competitiveness.

14. The instruments used to realize the new policy objectives were also out of the ordinary: a massive devaluation followed by a crawling peg plus step-wise import liberalization and a broad array of export incentives. On the domestic side, use was made of fiscal and monetary tightening, including positive real interest rates, freeing of prices and removal of state monopolies. Relative prices were shifted in favor of tradables, while domestic demand was restrained, including through an erosion of real wages.

15. Impressive results were speedily achieved as shown in Table 1 below. Between 1980 and 1984 negative growth had been turned into high positive growth.

Table 1. Summary Macroeconomic Indicators, 1980-89

	1980	1984	1989
Real GNP growth rate (percent)	-1.1	6.0	1.7
Resource gap, minus=surplus (in percent of GNP)	5.5	2.8	-0.9
Average annual change in wholesale price index (percent)	90.3	50.3	69.6
Public sector borrowing requirement, PSBR, (in percent of GNP)	10.3	6.5	5.6 1/
Annual growth in broad money (percent)	66.3	58.0	73.3
In percent of GNP			
Exports (fob)	5.0	14.7	14.6
Imports (fob)	12.9	20.6	19.9
Trade balance	-7.9	-5.9	-5.2
Current account balance	-5.8	-2.9	1.2
Non-interest current account balance	-3.9	0.3	4.8
In billions of US Dollars			
Debt outstanding and disbursed	16.3	20.7	41.0
Debt service	1.0	4.0	7.2
Debt over GNP (percent)	27.9	41.2	51.0
Debt over exports (percent)	443.9	210.2	216.4
Debt service ratio 2/ (percent)	27.8	41.1	37.8

Source : Statistical Appendix, Tables 1-2

1/ Likely to be revised upward to around 6.0 percent when final results of SEEs become available.
2/ Debt service over exports of goods and services plus workers' remittances.

The shift to tradables meant that the resource gap was cut in half. The public sector borrowing requirement (PSBR) was also cut significantly. So was inflation, although less success was achieved in reducing the growth in money supply. The most conspicuous progress was in terms of exports, whose share of GNP nearly tripled to 14.7 percent. Sluggish domestic demand and booming demand in oil-exporting Middle Eastern countries were the main reasons in addition to the change in relative prices. Exports to OECD countries also increased rapidly.

16. The rapid increase in exports permitted both a sizable increase in imports and a major reduction in the trade and current account deficits. By 1984 a small non-interest current account surplus had even emerged. In the

wake of debt reschedulings, and resumed debt service, debt service payments rose however rapidly, with the result that the debt service ratio rose from 28 to 41 percent between 1980 and 1984. Capital losses on the external debt through real depreciations of the exchange rate meant that the debt to GNP ratio also increased from 28 to 41 percent.

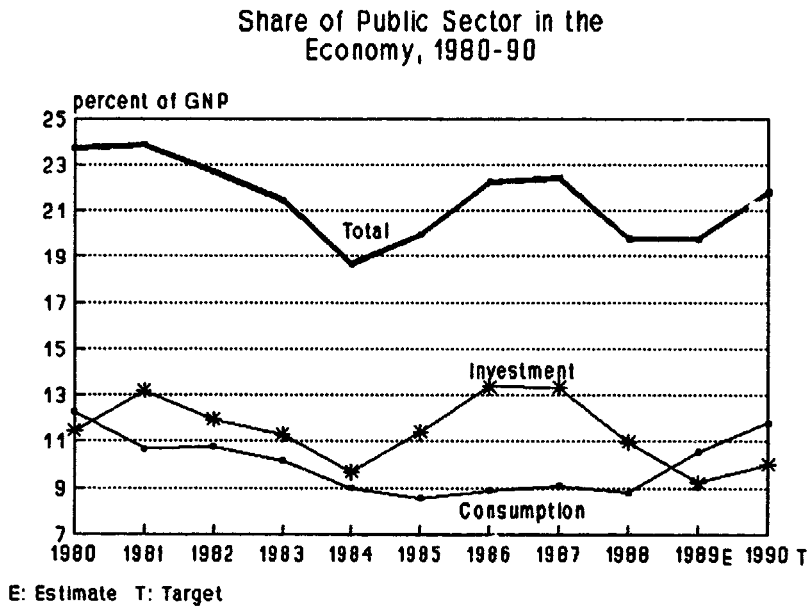
17. In contrast to the success of the first half of the 1980s, the second half of the decade has been characterized by marking time. Table 1 again presents a summary picture. Growth slowed and inflation rose. Further progress in reducing the PSBR proved difficult. Restraining the growth in money supply turned out to be elusive. On the external side, no further progress was made in terms of the relative size of foreign trade. A current account surplus did however emerge thanks to higher service receipts, mainly from tourism (in addition, a recession depressed import demand in 1989). The external debt nearly doubled to $41 billion, but this was largely due to cross-currency movements (especially the weakening of the dollar). The debt to GNP ratio rose much less, to 51 percent. Growing foreign exchange receipts under the current account balance led to a decline in the debt service ratio to 38 percent, despite a large increase in debt service payments.

18. By the end of the 1980s a strong external performance co-existed with a domestic performance that continued to display structural weaknesses. The most salient structural weakness has been the inability of the public sector to live within its own means. One manifestation of this phenomenon is that the size of the public sector in the economy, which was reduced between 1980 and 1984 in line with the enunciated policy, has, if anything, tended to rise

after 1984, as shown in Graph 1. It has been difficult to change the modus operandi of the public sector and to reduce the deficit. Moreover, the Government has found it difficult to submit itself to the discipline of market forces. When under pressure, the atavistic reaction of the Government is often to resort to interventionism.

19. The public sector has appropriated a large share of domestic private savings, more through borrowing than through the inflation tax. This has pulled up interest rates and entrenched inflationary expectations. Private investment in manufacturing has been sluggish, thereby undercutting the sustainability of the export drive. Planning horizons have shortened, as the credibility of government policies has diminished, allegedly due to numerous and unpredictable policy adjustments for short-term political gain.

Graph 1



SOURCE: State Planning Organization.

D. Dissatisfaction with SEE Performance

20. By 1980 the poor performance of SEEs had become all too visible. Of a PSBR of 10.3 percent of GNP in that year, SEEs accounted for 6.4 percentage points, that is nearly two thirds. Part of the poor performance stemmed from internal inefficiency, but a large part was also caused by government-imposed constraints, such as frozen prices, overstaffing and politically motivated managerial appointments. Perceiving SEEs more as a drag than a dynamo for the

economy, in its economic reform program the Government stressed the need for improved performance of SEEs, including the shedding of SEEs through privatization and liquidations. Improving the performance of SEEs has however turned out to be a difficult task. After a good start, further progress has been harder to come by.4/

21. Between 1980 and 1984 the financial performance of SEEs improved significantly, as shown in Table 2. The PSBR of SEEs declined to 2.3 percent of GNP (barely a third of the total PSBR). A major explanation was the opportunity given to SEEs in 1980 to raise prices to compensate for the erosion in relative sales prices since 1973. Some prices were henceforth freed altogether, but most remained subject to de facto ministerial approval. Another explanation for the lower PSBR was the reduction in the share of SEEs in total public investment (the latter remained a relatively stable portion of GNP throughout the 1980s), as depicted in Graph 2. A lower PSBR also meant that the share of SEEs in outstanding bank credit could be reduced from 33 percent in 1980 to 12 percent in 1984.

22. After 1984 there was no further visible improvement in the performance of SEEs. Their PSBR barely changed between 1984 and 1989, whereas their profit margin shrunk from 7.5 to 1.7 percent. Sales per worker declined by about 5 percent in real terms. SEE investment was slashed significantly, but was offset by higher interest payments, in part due to upward pressure on interest rates exerted through stepped up borrowing by the Central Government. In 1984

4/ See Luc Everaert: "Turkey SEEs" (unpublished World Bank paper, 1989) for an analysis of the performance of SEEs in the 1980s.

SEEs benefitted from a reduction in interest payments, when part of their debt to the Central Bank was consolidated and assumed by the Treasury. Following an erosion in real wages through most of the 1980s, in 1989 wage payments rose sharply following a framework agreement with the unions stipulating a 143 percent wage increase (compared to an annual inflation rate of 70 percent). No further increase in relative sales prices was realized. But sales prices were in the short run manipulated for political purposes, as highlighted in Graph 3. Before elections, SEE price increases were allowed to

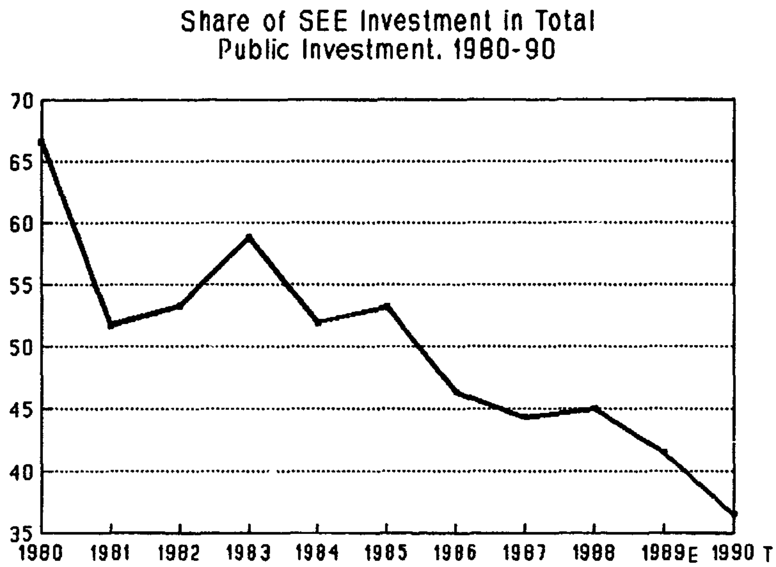
Table 2. Indicators of SEE Performance, 1980-89

	1980	1984	1989
SEE PSBR (percent of GNP)	6.4	2.3	2.4
Total PSBR (percent of GNP)	10.3	6.5	5.6
Share of SEE PSBR (percent of total)	62.3	35.4	42.9
SEE share in total public investment (percent)	66.6	51.9	41.5
SEE share in outstanding bank credit (percent)	33.0	11.5	14.2
Profit margin 1/ (percent)	..	7.5	1.7
Share of wages and salaries in total current expenditure (percent)	..	11.8	14.7
Sales per worker (in millions of TL at 1988 prices)	..	38.0	36.4
In percent of GNP			
Financing requirements	..	8.6	6.0
Internally generated funds	..	3.5	2.7
Transfers from the budget and extra budgetary funds	..	2.5	0.9
Other 2/	..	2.7	2.4

Source : Statistical Appendix, Tables 3-7

1/ Operating surplus/sales of goods and services.
2/ Deferred payments, change in cash balances and borrowing (domestic and external).

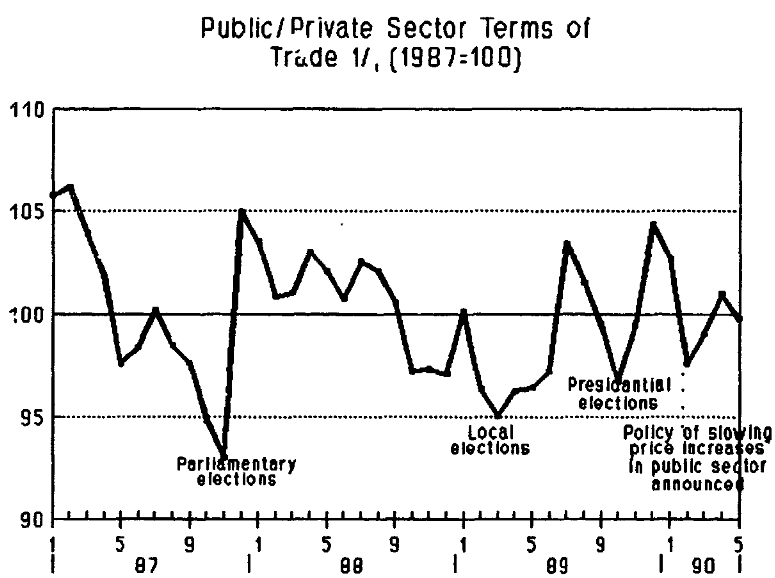
Graph 2



E: Estimate T: Target

Source: State Planning Organization.

Graph 3



average (1/87-5/90) = 99.9 percent

Source: State Institute of Statistics.

lag private sector price increases, with a speedy recuperation immediately after elections. This pattern vitiates the claim that market forces increasingly determine SEE price policy. The short-term manipulation of SEE prices does however not necessarily lead to distortion over the medium term, because over the 1987 - May 1990 period, the terms of trade between public and private sector prices remained unchanged.

23. Because of a cutback in investment, the financing requirement of SEEs, as shown in Table 2, declined from 8.6 percent of GNP in 1984 to 6.0 percent in 1989. Most of the decline was reflected in lower transfers from the budget and extra-budgetary funds. SEEs have thus become less of a burden on the budget. When a variety of implicit subsidies are included, it is clear that in financial terms the performance of SEEs has continued to improve. Implicit subsidies are estimated, with a considerable margin of error due to data limitations, to have fallen from 11 percent of GNP in 1984 to 2 percent in 1990.5/

24. SEEs still constitute a major block of the economy. Their share of total value added (GDP at factor cost) has hovered around 10 percent. The share of the 31 largest SEEs in the civilian labor force has remained at 4 percent since 1984. Reducing overstaffing in SEEs has met with only limited success. The initial enthusiasm for SEE reform began to wear off when the Government discovered what important bastions of vested labor interest SEEs constituted,

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5/ Luc Everaert, op. cit. Implicit subsidies comprise capital transfers, aid, imputed duty losses, imputed interest subsidies (the major component) and foregone dividends.

and how handy it could be to provide the party faithful with sinecures in SEEs. A concerted attempt to alter the modus operandi of SEEs was never made. As a result, the SEEs continued to be afflicted by the common problems of overstaffing, political interference and multiplicity of objectives detracting from efficient commercial operations.

25. The conclusion is that streamlining the size of the sector and improving the performance of the SEEs were consistently put forward as goals, but were not sufficiently implemented in the structural adjustment policies pursued by the Turkish Government since 1980. SEEs resisted being dethroned from their previously leading and privileged position. The entrenched interests profiting from the SEE status quo were and are well organized and vocal. SEEs are falling behind in the modernization of the economy. They are thereby remaining a burden, which is difficult to remove. Coping with the problems caused by SEEs by starving them of resources and running down their investment budget may be a feasible solution,6/ but it is unlikely to be a very efficient solution, including in terms of preparing SEEs for privatization.

E. Strategic Options for Improving SEE Performance: Reforms and Privatization

26. The need to persist with efforts to improve the performance of SEEs is beyond argument. The prime issue is how to improve productivity, rather than merely paper over inefficiencies by exploiting monopoly or oligopoly power

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6/ Or to paraphrase a worn aphorism: Old SEEs never die, they only fade away.

through price increases. There are basically two options available: either keep the SEEs in the public sector but subject them to far-reaching reforms (including liquidations where appropriate), or transfer them to the private sector through various forms of privatization. Here the focus will be on the reform option: privatization is the topic of the remainder of this paper.

27. Against a background of improving the overall efficiency of the economy, with respect to SEEs the announced reform objectives of the Government were to: a) reduce the size of the SEE sector in the economy; b) reduce the monopoly power of SEEs; c) gradually eliminate the burden of SEEs on the budget; d) reorganize SEEs, including management, to make them more profit and cost conscious, thereby strengthening competitiveness. Various measures were adopted to these ends. Price rigidities were reduced. The regulatory framework was reformed, but the net effect does not appear to have been a major reduction in administrative control. By cutting investment, budget transfers could be lowered. State monopolies in sugar, tea, tobacco, alcoholic beverages and fertilizers were rescinded in 1984. Appointment of SEE managers was opened up to private sector expertise and no longer confined to the civil service. SEE managers were given greater latitude in recruiting contract staff that could be paid competitive salaries outside the civil service salary scale.

28. On the whole, the measures did not amount to the requisite sweeping reform. With the partial exception of the objective of reducing SEE monopoly power, the objectives remained unfulfilled. The measures adopted tended to be delayed and diluted versions of the proclaimed intentions. Moreover, the implementation was generally lacking in vigor. The management of SEEs,

supported by various vested interest groups, was successful in blunting the reforms. Resistance to reforms was made easier by the lack of conviction with which the bureaucracy was executing the reform measures adopted.

29. A major weakness in the implementation of structural adjustment policies in Turkey during the 1980s has been that the new policies have been handed down from above for implementation to a bureaucracy that in many ways remains wedded to the old policies (which gave it more influence over economic matters). The resistance (sometimes even obstructionism) of the bureaucracy has not been diminished by declining real wages for many of its members in the 1980s; the bureaucracy figures prominently among the "losers" from structural adjustment. Compared to private sector professionals, the bureaucracy has lost heavily, both in pecuniary and status terms.

30. Since the Government remains preoccupied with the low productivity of SEEs, in 1990 it has been preparing a new Code (or law) for SEEs. The Government is concerned with the impact of SEE pricing on inflation, and their continuing borrowing for public finances, as well as the disruptive impact on output and employment from continuing investment cutbacks. Ensuring competitive production and output pricing is also an issue, since the output of many SEEs is the input of private sector firms, several of which are nowadays export oriented.

31. In order to prevent periodic bursts of inflation due to delayed and large price increases of SEEs (for political reasons), their price increases are scheduled to be smaller, but at more regular intervals from 1990. Closer

government scrutiny would reduce the scope for using price increases to paper over poor efficiency. The draft SEE Code envisages placing most SEEs on a commercial footing and to convert them into joint stock companies. This could make it easier to increase the autonomy of management and to attract private partners into joint ventures. Conversely, the Code does little to reduce the scope for political intervention; for instance the Government will continue to appoint civil servants to the Board, thus leaving the scope for political interference unchanged. By restricting the access of SEEs to public funds and by insisting on external audits, it is hoped to stimulate greater efficiency. Closer monitoring of SEE financial performance is also foreseen for 1990. Their individual investment and financial programs are to be examined monthly by the concerned government agencies to make sure that the targeted numbers are not exceeded, debts paid on time and price increases warranted.

32. The critical issue is how implementable the preceding proposals are. Authority over SEE matters is scattered among several government ministries and agencies. Ingrained operating procedures and a more vocal labor force, as shown by higher wage increases, will require skillful design and sequencing of reforms. Nor will it be easy to strike an appropriate balance between market based incentives and administrative control (controls by themselves are usually of little avail and often make things worse). In the meantime, and with emphasis placed on privatization rather than improved SEE productivity, investment in SEEs has been allowed to dwindle. As a result, their productivity has declined further, thus rendering their privatization more difficult.

II. PRIVATIZATION IN TURKEY

A. Initial Strategy

33. Privatization has been a much publicized component of the Government's panoply of structural adjustment policies in the 1980s. Given the prominent role of SEEs in the economy, and their often mediocre performance, as documented in the preceding section, policies to improve their efficiency and financial results were crucial in achieving a structural transformation and modernization of the economy. The two major instruments used to this effect were SEE reform and privatization. As noted, the results of attempts to reform the SEEs that are to remain part of the public sector have so far yielded inconclusive results. The purpose of this section is to analyze the experience with the SEEs that are to be transferred from the public to the private sector through privatization.

34. The initial privatization strategy formulated in 1984 aimed at increasing the efficiency of SEEs through sales to the private sector and in the process to promote a market economy. Privatization was intended to become a major component of the overall liberalization of the economy. The period of a leading role for the state in the development of industry (and sometimes even services, such as banking) was seen as drawing to a close, with the private sector ready to take over the ground vacated. The public sector would thereby be able to concentrate on the provision of infrastructure. The Turkish Government was influenced by the winds of economic neo-liberalism that were

sweeping the industrialized West in the 1980s, most visibly in Thatcher's England and Reagan's United States.

35. In addition to the avowed overall, and in part ideologically motivated objective, there were several more concrete objectives behind the privatization strategy. Privatization was seen as a means to reduce the burden of SEEs on the economy and the budget. Thereby a more efficient allocation of resources would be promoted, including the distribution of credit, and a lowering of the budget deficit facilitated. Inflation abatement would become less difficult and inputs to export-oriented private firms more competitively priced.

36. By means of privatization, it was thought that productive efficiency would be improved in the short-term through better use of existing resources by private owners/managers, while over time allocative efficiency would also be improved by rendering the privatized plants more responsive to shifts in demand and relative prices. By removing, through privatization, the numerous privileges, explicit and implicit, that SEEs had benefitted from, a more competitive and less distortionary economic environment would be created. Although Turkish state capitalism differs in many ways from the socialism until recently practiced in Eastern Europe, Turkish SEEs have also benefitted extensively from the "soft budget constraint", that is the ability to stretch the budget constraint through adjustments in prices, subsidies, taxes plus credit availability and cost. 7/

7/ For a summary presentation of the various aspects of the "soft budget constraint", see The Economist, April 28, 1990, A Survey of Perestroika, page 14.

37. Through privatization capitalism was to be brought to the people. The population at large was to be given a stake in former SEEs, which were often considered part of the national patrimony. Ownership was to be spread widely through share sales, at market determined prices on the stock exchange, auctions or a similar mechanism. Private management would take over and enhance efficiency. By offering shares to a broad public, dormant private savings would be mobilized. Private savings would be diverted from inflation hedges like gold, real estate, consumer durables (most conspicuously luxury cars) and even foreign exchange, inter alia through capital flight, and put to more productive use in the national economy.8/

38. In 1986 the inter-ministerial High Planning Board (HPB), chaired by the Prime Minister, and the highest formal authority on general economic policy issues, decided the target groups of share sales: employees, local small-scale investors, Turkish workers abroad and investors at the Istanbul Stock Exchange (ISE) in small lots. There was a populist streak in this approach. While foreigners were not a priori to be excluded, they were not a target group, reflecting the latent exceptionally strong nationalism of Turkish society.

39. Share sales to broad strata of the population were also seen as a means of promoting the embryonic capital market. In parallel, new actors and

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8/ The Government's privatization philosophy has been spelled out in various documents, including: Cengiz Israfil, The Privatization Program in Turkey; paper presented at the National Meeting on Turkey, World Economic Forum, Istanbul, 1987.

instruments were expected to emerge, such as mutual funds and short-term commercial paper. Adherence to stock market regulations in terms of standardized financial reporting, external audits and disclosure requirements would increase investor confidence and exert pressure on private firms not yet quoted on the stock exchange to follow suit. In addition, subsequent share sales in a growing stock market could secure a capital infusion to the enterprises. These had in some cases become undercapitalized through the accumulation of past losses.

40. Privatization was also meant to yield the usually adduced benefits of improved management, state-of-the-art technology and easier access to foreign markets in cases where an export-oriented enterprise was sold to foreigners. To reap these benefits, which are difficult to quantify, artful negotiations with potential buyers would be needed, since these would not provide the benefits free of charge, nor assess their value objectively. They would demand a discounted sales price in return. In these circumstance, mere share sales would not suffice; a specific privatization agreement would have to be negotiated.

41. Selling SEEs to major foreign firms (neither explicitly mentioned, nor excluded) could foster bilateral economic relations, thereby making Turkey a more valuable partner for the home country of the foreign buyer. The creation of mutual economic ties would reinforce the irreversibility of the opening up of the economy. It might even, indirectly and over time, facilitate the adhesion of Turkey to the European Community, while developing special commercial ties with Japan and the US.

42. Unlike Eastern Europe, there were never in Turkey any ideological hang-ups about transferring ownership of public assets through privatization, although old-fashioned bureaucrats probably regretted the shrunken role envisaged for the public sector and the concomitant reduction in their sway over the economy. On the contrary, the official line was that both ownership and management of hitherto state firms had to be transferred to the private sector to enhance efficiency and international competitiveness. State capitalism was to be disbanded, because it had outlived its usefulness.9/ The approach was thus pragmatic and dictated by efficiency criteria. Another important difference with Eastern Europe was that self-managed firms were never considered a serious option in Turkey. The transformation was to be directly from state capitalism to private capitalism with no detour via more or less woolly "third ways".

43. In the initial strategy, the revenue that could accrue to the budget from the privatization of SEEs was not mentioned as a major objective. Precedence was instead given to efficiency criteria and widening of private ownership. Nonetheless, the additional revenue that privatization could generate for a hard-pressed budget was probably not altogether absent from the minds of the framers of the privatization strategy.

9/ In reality there were however also movements in the opposite direction, i.e. the State taking over bankrupt private firms in 1986.

B. Preparations

44. Privatization was slow in getting under way, despite the proclaimed strong political support from the highest echelons of the Government. The first publicized attempt at privatization took place in 1984, but was not a genuine privatization. It consisted of the sales of revenue sharing certificates to the general public. The state retained ownership to the assets and full operating control, but borrowed, through the sales of the certificates, against the future revenue of the assets. The equivalent of 34 percent of the revenue of the (first) Bosphorus bridge and 22 percent of the revenue of the Keban dam were sold. The bridge certificates were oversubscribed and fully sold out in less than three hours to around 15,000 local investors. The yields on the certificates turned out to be very competitive, in particular for the bridge, since the Government had under-estimated traffic growth and the revenue shares were fixed regardless of total revenue. The certificates were in maturities of two to three years and have since been refinanced without difficulty.

45. For the next step in the privatization process the Government solicited the assistance of the World Bank. Agreement was reached to focus on SEEs in three major sectors (cement, fertilizer and textiles) as well as on the elaboration of an overall strategy. In June 1985 Morgan Guaranty Trust was charged with preparing a Privatization Master Plan to this effect.10/ The Master Plan was submitted in mid-1986. It was however never implemented. The

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10/ See Roger Leeds, Turkey: "Implementation of a Privatization Strategy", Harvard University, Center for Business and Government, 1987, for an assessment of the Master Plan approach and the role of the World Bank therein.

Government felt that the Plan had been prepared without due recognition of local realities, mainly of a political and technical nature, and that therefore it was not implementable. Shortage of government staff made it unfeasible to revamp the Plan into an operational document in the local context. The Master Plan approach ultimately led nowhere, but at least attempted a strategic approach to the privatization process, something that subsequently was to prove wanting.

46. In parallel, the regulatory and institutional framework for privatization was gradually put in place. In 1984 Decree-Law 233 was adopted with the aim of consolidating administrative control over the SEEs. Of greater relevance here, the Decree-Law also contained provisions to expedite privatization. Of particular relevance was the power granted to the Council of Ministers to decide on privatization of SEEs without prior approval by Parliament. This administrative shortcut appeared justified, since the Government could rely on a large, and pliant, majority in Parliament. By turning privatization into an essentially administrative matter, the possibility of building a political consensus around privatization was however correspondingly reduced.

47. Further provisions for the implementation of SEE privatization were contained in Law 3291 of 1986. The law specified that once the HPB had decided on the privatization of an SEE, on behalf of the Council of Ministers, the SEE were to become a separate legal entity and to be transferred to the Mass Housing and Public Participation Administration (MHPPA), in whose ward the SEE would remain until it had been privatized. The transfer of SEEs to MHPPA has

legal ambiguities. The SEEs continue to have masters other than the MHPPA, such as their old technical ministry, the Ministry of Finance and Customs and the High Audit Board attached to the President's office.

48. With the basic regulation in place and the implementing institution designated, the Government was ready to proceed with specific privatization cases. But before that, the major objectives of privatization were reiterated. In an address to the World Economic Forum meeting of leading international businessmen, officials and academicians in Istanbul in May 1987, the senior government official in charge of privatization announced (without a timetable) the key objectives to be:11/

a) Transfer of the decision making process in almost half of the economy from the public sector to the private sector to make the economy more responsive to market forces;

b) Develop a viable capital market by transferring passive savings into active investments in the capital market;

c) Reduce the burden of the SEEs on the Government;

d) As the lowest ranked objective, raise revenue for the Treasury.

11/ Cengiz Israfil, op.cit.

C. Initial Test Cases

49. In accordance with the regulation, the initial genuine test cases of privatization in 1988 were assigned to the MHPPA. Originally an Extra-Budgetary Fund (EBF) in charge of certain public infrastructure investments and the related revenue sharing certificates, the Fund has since grown to encompass a Mass Housing Department and later a Privatization Department. The staffing of the latter has remained small and, like the MHPPA as a whole, somewhat outside the administrative and political mainstream. In preparing for and negotiating privatization agreements, MHPPA has had to call on external expertise, often foreign and at considerable cost. As a consequence of the debacle with the Morgan-sponsored Master Plan, the recourse to foreign advice has been criticized.

50. The first test case of privatization was the divestiture of the state's minority shares in the Teletas communications company in February 1988. The shares were sold in small individual lots through branches of selected commercial banks and subsequently traded on the Istanbul Stock Exchange (ISE). All the shares available were quickly sold. Unfortunately, the sale took place in a declining stock market. In addition, shortly after the sales, the state-owned post, telephone and telegraph (PTT) agency, the major customer of Teletas products, announced a major cutback in its investment program. Within a few months, the Teletas shares had lost half of their value. As a result, this test case was not a success. Planned similar divestitures were postponed sine die.

51. Another test case was the sale of the Ansa bottling company to Coca Cola of the United States in October 1988. Here the state sold all its shares and Coca Cola took over the ownership and management of the firm. Although the sales method differed from the priorities defined at the outset by the HPB, the sale did not stir up controversy, nor has it been contested since. One reason is that Ansa had previously been a private company that had been taken over by the Government upon going into receivership. As a test case, the Ansa sale was more successful. Ansa operates in a relatively competitive sector.

52. These first test cases of privatization, which also included the sale of four animal feed plants, were small operations. They did not amount to much tangible progress in privatization, despite the announced ambitious objectives. Privatization turned out to be a slower and more complicated affair than initially anticipated. This was especially the case with respect to large holding companies like Sümerbank (textiles etc.) and Etibank (banking, mining and metal products etc.). Privatizing the large petrochemical complex (Petkim), with a de facto domestic monopoly in several products, also proved more complex and time-consuming than expected. The privatization of these large enterprises has barely begun.

D. Stepped Up Privatization

53. The contrast between the Teletas and Ansa sales showed that if the state wanted to move ahead fast with privatization, the sale of blocks of shares to foreigners might be the most effective route. The HPB consequently adopted a new decision on sales methods opening up the possibility of block sales

indiscriminately to nationals and foreigners. The new decision was taken without explicitly repealing, or amending the earlier decision on target groups of buyers. This was an oversight that was going to prove costly.

54. Resorting to block sales meant that the straight-forward route of stock sales on the ISE was pushed into the background. Instead complex and delicate negotiations had to be undertaken with potential buyers, often big international firms with much in-house negotiating skills. The MHPPA boosted its negotiating skills by having recourse to private financial consultants, usually investment banks. Only a small number of officials were involved in the negotiations. These turned out to be time-consuming, in part because the MHPPA was trying to negotiate safeguards for the employees and to prevent excessive market power. The agreements were not made public, but the press reported the main points.

55. The results were as follows. In 1989 five cement plants of the state-owned Citosan cement company were sold to the French firm Societe des Ciments Francais (SCF) for $105 million. In addition, SCF agreed to undertake investments of $60 million over the coming three years in order to modernize the plants. The same year, a majority of the aircraft catering company USAS was sold to an SAS affiliate for $14 million (70 percent of the USAS shares were sold). The privatization of the cement plants in particular revealed that privatization had finally acquired momentum. It was not to last.

56. The privatization of large SEEs through block sales to foreigners, after negotiations that were not particularly transparent, generated growing

opposition. The de facto shift in sales method away from an emphasis on nationals, without public debate, fuelled the opposition. Privatization started to be equated with "foreignization" in some quarters. The MHPPA had however not attempted to favor foreigners when inviting bids for the firms to be privatized. It just so happened that foreign companies bid more than local companies, in the case of the group of cement plants, about twice as much

57. The opposition parties in Parliament filed suit against MHPPA for the Citosan and USAS sales. The administrative court hearing the cases issued a 90 day staying order in January 1990 for both sales. The argument retained by the court was that the block sales to foreigners had contravened the first HPB decision on sales methods, a decision never formally repealed. The Government's argument that the subsequent HPB decision on block sales took precedence was ruled invalid. The staying orders were appealed by the Government. In the meantime, in early March, the HPB formally cancelled the initial decision on sales methods and explicitly opened the door to block sales. The new decision was made retro-active to the first decision. The administrative court refused to accept this procedure and by end-March ruled both of the sales null and void. In June the Government appealed to the Council of State (the highest administrative court in the country). In July the Council of State rejected the appeal of the Government, thereby irreversibly cancelling the sales of the cement plants and USAS. The block sales have turned into an embarrassing defeat for the Government. To add insult to injury, a member of the center-right True Path Party has filed suit against the HPB decision to cancel the initial decision on sales methods and target groups.

58. The implications are potentially far-reaching. Privatization through block sales to foreigners has been ruled out by the courts. Moreover, the whole privatization process has become politically contested. The Government has been forced to search for other means through which to pursue privatization. Its opponents are gloating. SCF and SAS have yet to pull out, but will soon have to in accordance with the court decisions. Their experience with privatization in Turkey has not been a happy one. This cannot but tarnish Turkey's image among foreign investors and make it harder to attract foreign direct investment toward SEEs in the future, even it the legal barrier to block sales were to be removed.

E. Change in Strategy in Response to Criticism

59. The events of first half of 1990 obliged the Government to change yet again its privatization strategy. But this time the change came in response to political and popular pressure. The Government's declining popular support (after the March 1989 local elections) and the growing assertiveness of the opposition, for reasons that are only marginally related to privatization, have made the Government more sensitive to criticism of its privatization strategy.

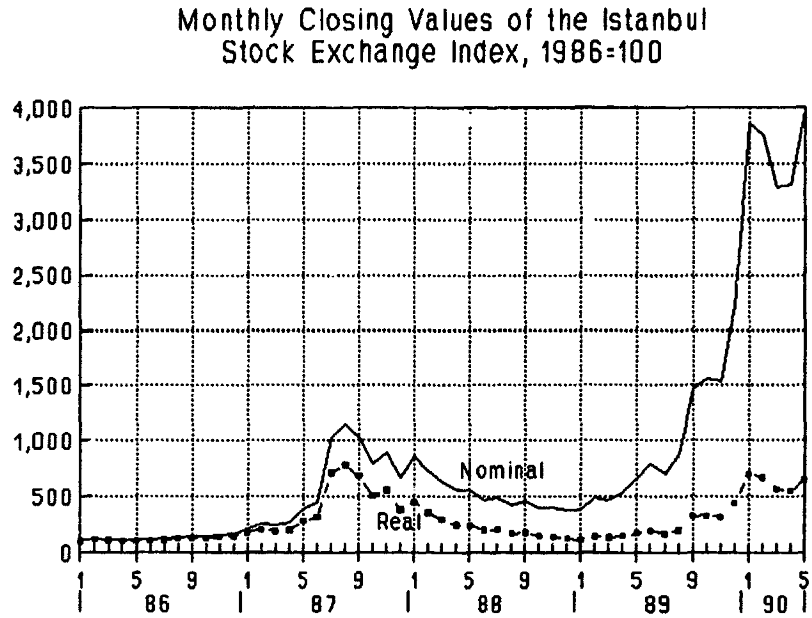
60. The threat of a ballooning budget deficit in 1990, mainly due to costly wage settlements, has made the Government turn once more to privatization, this time as a source of additional budget revenues. Since the stock market

has recently been booming (see Graph 4), there appears to be an opportunity to generate revenue through SEE share sales on the ISE.

61. Table 3 shows the sharp increase in the value of average daily trading on the stock exchange, which indicates that it has become an important component of Turkey's financial system, capable of absorbing a growing number of SEE shares. Caution will however have to be exercised so as not to overload the stock exchange with SEE shares, which could lead to a slump in share values. The sharp downturn in the stock market in August 1987 was ostensibly caused by the Government's announcement that it intended to proceed rapidly with a vast privatization program. The announcement was probably more a catalyst than an underlying cause for the downturn (which followed a feverish speculative boom), but it does underline the fact that the stock exchange has a limited absorptive capacity. If that capacity is exceeded, stock prices tumble and the stock exchange gets discredited. Recovery may not be instantaneous.

62. In the choice between sales methods, the Government is turning away from block sales to foreigners and toward share sales on the ISE. The Government holds large amounts of shares in companies that are in majority privately owned, and also privately managed. Its shares in these companies could be sold

Graph 4



SOURCE: Istanbul Stock Exchange.

Table 3. Turkey : Average Daily Trading Volume on the Istanbul Stock Exchange 1986-89 (in millions of TL)

	1986	1987	1988	1989	1990 1/
Treasury bills and government bonds	5,998	15,304	38,572	115,946	261215
Revenue sharing certificates	242	1,618	1,701	8,717	11183
Private sector bonds	340	2,256	4,849	10,593	14962
Stocks	35	425	589	6,809	44176
<u>Total avg. daily trading volume</u>	<u>6,615</u>	<u>19,603</u>	<u>45,711</u>	<u>142,065</u>	<u>331,536</u>
<u>Total avg. daily trading volume at 1986 prices</u> 2/	<u>6,615</u>	<u>8,446</u>	<u>14,187</u>	<u>29,789</u>	<u>50,694</u>
<u>Memorandum items</u>					
(percent of total)					
Treasury bills and government bonds	90.7	78.1	84.4	81.6	78.8
Revenue sharing certificates	3.7	8.3	3.7	6.1	3.4
Private sector bonds	5.1	11.5	10.6	7.5	4.5
Stocks	0.5	2.2	1.3	4.8	13.3
Total	100.0	100.0	100.0	100.0	100.0

1/ Most recent data available : January-April
2/ Deflated by WPI (1986=100)

Source: Istanbul Stock Exchange

without undue difficulty, provided the sales are spread through time to prevent the stock exchange from becoming saturated with SEE shares. This would be a revenue-raising effort and would presumably have little, if any, impact on enterprise performance.

63. During the first quarter of 1990, the MHPPA sold public shares on the ISE for about TL 400 billion (US $160 million). The MHPPA has little in-house stock market expertise, and some brokers contend that in some cases the sales were at prices 30-40 percent below what could have been obtained had they been handled more professionally. The MHPPA has become the major participant on the ISE. It has evolved into a market maker. There have been charges of market-rigging. The MHPPA has intervened to prevent the price of

some recently sold SEE shares from falling. This has meant that it has had to buy back a portion of the SEE shares sold to protect their value. This sales/purchase pattern has been dubbed privatization cum nationalization by the press.

64. Because the ISE suffers from various technical and administrative bottle-necks, the MHPPA has since April 1990 resorted to a scheme of nation-wide share sales through the extensive network of Is Bank (a leading commercial bank with mixed private/public ownership). The intention is back to the original one of spreading share ownership to the people. Under the Is Bank scheme, the state minority shares in six profitable companies (Erdemir steel mill, Celik Halat steel cables, Arcelik appliances, Cukurova Elektrik, Kepez Elektrik and Bolu cement) were sold over a three-week period starting April 9. Shares were available at the 470 odd computerized branches of Is Bank and four offices in Europe. The price was based on the ISE price the previous week. There was an initial ceiling of TL 10 million on sales to any individual (subsequently lowered), but this was not much of a constraint since family and friends could be used to circumvent the ceiling.

65. The share sales through Is Bank were a success. In the first round, the Erdemir shares were sold out within a few hours. There were however some allegations that the shares had informally been distributed before the sales to family and friends of Is Bank branch officers. The allocation of shares among the 470 odd branch offices was according to estimated demand, with some possibilities to transfer shares among offices according to demand. The shares were sold at pre-announced fixed prices (reflecting the ISE price at the end

of the previous week). Given the interest in the shares, sales had to be rationed, but as mentioned above, the individual ceilings are unlikely to have proven effective.

66. Only a small portion of the total shares of any company was sold under the scheme, ranging from 3 percent for Erdemir to 13 percent for Celik Halat. The state retained some minority shares in all cases. Nonetheless, sales proceeds totalled TL 343 billion (around US $135 million). The number of buyers exceeded 91 thousand. The sales scheme was thus also a success in spreading share ownership, but in no case did it lead to a change in ownership control.

67. During and after the three-week sales period, MHPPA continued its practice of intervening on the stock exchange to make sure that the shares sold did not lose value (the memory of the Teletas sales was to be exorcised). This kind of price support proved successful in preventing a fall in share prices. Most of the shares sold have actually gained slightly in value since April/May even though the stock exchange index has plateaued. After the sales, Is Bank has remained in the share business by standing ready to buy shares back from the purchasers and to assist these with transactions on the ISE. Little wonder brokers feel threatened by the Is Bank sales scheme.

68. The sales of shares through Is Bank, and continuing sales on the ISE, are expected by MHPPA to yield revenue of TL 1.5 trillion by mid-year (US $600 million). Of this amount, 70 percent will reportedly be transferred to the Treasury, while MHPPA will keep the remaining 30 percent to cover its own expenses and to finance some of its investment projects, as well as to support SEEs in its "care" while awaiting privatization. Operators on the ISE

generally believe that the market can absorb share sales of the magnitude projected by MHPPA. Expectations that the Treasury would be able to receive TL 3-4 trillion from share sales are however likely to prove exaggerated, because sales on such a large scale may drive down share prices by saturating the market.

69. Table 4 compares the proceeds of the share sales accruing to the Treasury with the Central Government budget for 1990. At TL 1.1 trillion (after deduction of the 30 percent retained by the MHPPA), the proceeds would correspond to 10.5 percent of the targeted budget deficit. Privatization in the form of share sales would thus make a not negligible contribution to the bridging of the budget deficit. The budget foresees however revenue from another type of privatization. In addition to selling SEE shares, Treasury lands are projected to be sold for a total amount of TL 1.5 trillion (US $600 million). State lands are thus to be privatized. The land sales have gotten off to a slow and unpromising start, but assuming they materialize as planned, revenue from this source would defray another 14.3 percent of the budget deficit. Using the conceptually more appropriate approach of considering land sales a financing item, rather than a revenue item, total proceeds from privatization would cover 21.7 percent of the budget deficit. Privatization would thereby become a major source for the financing of the budget deficit.

F. Planned Future Privatizations

70. The MHPPA plans to pursue its various methods of privatization, despite the recent setbacks in court, which should be contrasted with the success of the share sales. An eclectic approach will be followed. The Government hopes to make 1990, and 1991, years of a breakthrough in privatization. The list of companies to be privatized comprises nearly 70 firms (see Annex II),

admittedly of varying size, but includes several heavyweights. Whether these ambitious targets can be realized, despite the growing opposition to privatization and the limited popular support and cohesion of the Government, remains to be seen.

Table 4. Central Government 1990 Budget
(in trillions of Turkish Lira)

Item	Amount
Revenue	53.9
Tax revenue	43.7
Other revenue	10.2
of which: land sales	1.5
Expenditure	64.4
Personnel	20.0
Interest payments	14.6
Other current	20.0
Investment	9.8
Deficit	10.5
Memorandum items	
Share sales of TL 1.1 trillion (70 percent of total) in percent of deficit	10.5
Land sales of TL 1.5 trillion in percent of deficit	14.3
Share and land sales of TL 2.6 trillion in percent of deficit (considering land sales a financing item instead of revenue)	21.7

Source : Treasury

71. The state-owned petrochemical conglomerate Petkim has been on the privatization list for over a year, during which international consultants have helped with the preparation for privatization. Tangible progress has however been slow in coming. The company is a major SEE employing close to 8,000 people and recording gross sales of TL 1.6 trillion ($1.1 billion) in 1988. Petkim has been revamped into a holding company under MHPPA, but this has not ended its previous position in the government machinery in terms of

reporting requirements and close control by ministerial supervisory authorities.

72. MHPPA is exploring various options, such as partial, or unit by unit, sales of PETKIM to foreign firms. For the near future, emphasis will however be put on share sales through the Is Bank scheme. Sales started by end-June 1990. Since the shares of Petkim are not traded on the ISE, the sales price of the shares (TL 2,500 per share, around $1) had to be determined administratively. The company is profitable, in part because Petkim has a de facto monopoly on the domestic market for many of its products. Profits rose by 75 percent in 1989 to TL 623 billion ($290 million) compared to an inflation rate of 70 percent. Its nominal share capital was increased five-fold just before the share sale to TL 2 trillion (US $800 million) of which a maximum of 15 percent is to be sold. Since the shares will be sold at a premium, sales proceeds of TL 0.6-1.0 trillion are expected. This would dwarf previous SEE share sales. Once again, individual purchases are subject to a ceiling (in this case TL 30 million, around $12,000). By limiting the amount of shares an individual can buy, the Government intends to make sure that no single person, or group of persons, especially foreigners, will gain a controlling interest in Petkim, which is widely seen to be of strategic importance to the economy. Petkim employees will be able to buy TL 50-60 billion of shares under a fifteen month installment scheme with no interest charged.

73. After the sale, Petkim shares will be quoted on the ISE. The appropriateness of the administratively determined sales price will then

quickly be tested. Is Bank will continue to provide brokerage services to purchasers of Petkim shares. Much to the chagrin of independent brokerage firms, Is Bank seems set on emerging as the major brokerage firm in Turkey, in addition to being the country's second largest bank.

74. The management of Petkim has however ideas of its own regarding privatization. According to management, it would be preferable to privatize Petkim without resorting to sales of shares or production units. Since domestic demand is projected to double by 1997-98, and Petkim wants to maintain its market share, it wants to double its production capacity. This would be done by seeking joint ventures with foreign firms, which would provide all the financing needed for the doubling of capacity, while relying on existing Petkim infrastructure to reduce cost. In return, the foreign firms would become part owners of total capacity. The sensitive issue of sales to foreigners would be avoided, while production capacity would be doubled, without requiring any financing from the state. Profits, and risks, would be shared with foreign partners. In June 1990 the Government decided to endorse the "privatization" scheme proposed by management, but how this scheme will complement the share sales through Is Bank remains to be seen.

75. Another big state conglomerate slated for privatization is Sumerbank (textiles, retail outlets, a bank etc.). It has also been converted into a holding under MHPPA, but this seems mainly to have left it in an ambiguous legal position. Numerous consultants' reports have been written about its privatization, but no major decisions have yet been taken. Progress has consequently been limited, despite much talk.

76. Because of its size and heterogeneity, Sumerbank can only be privatized in stages with different buyers. One possibility could be to lease or franchise retail outlets to private operators. In mid-June 1990, Sumerbank management announced that it was going to proceed with a "licensed seller system" in order to eliminate the liquidity shortage of the company. Sellers would be certified, and assured of supplies, based on a turnover they would commit themselves to (with presumably penalties for non-compliance). Management was at pains to emphasize that the system of licensed sellers did not amount to privatization. It is noteworthy that the new system is a management initiative that has been approved neither by the HPB nor the MHPPA.

77. Many of the production units of Sumerbank will need some rehabilitation before they can be sold, but where the funds for this would come from remains uncertain. Sumerbank has no funds to spare, because it is heavily indebted, with interest payments consuming a high and rising portion of operating revenue. Because it is a company with a high profile throughout the country, political interference is a regular feature. This hampers both efficient operations and progress in privatization.

78. The state's chain of hotels and related tourism facilities are grouped in the Turban company that is also scheduled for privatization in the near term. Here the task may be more straight-forward, since tourism is growing rapidly in Turkey and both national and foreign private investors are showing great interest in this sector. Yet the prospective sale of conspicuous public facilities, like marinas, is not without opponents.

79. The privatization of the electricity distribution network is planned for the next four to five years. The first case involved the transfer of the electricity distribution and sales rights to a private company for an area east of Istanbul. The transfer was resisted by the employees until the Turkish Electricity Board and the private partner signed an amendment to the privatization agreement ruling out major layoffs.

G. Lessons

80. There are numerous lessons from Turkey's mixed experience with privatization.12/ The initial objectives were generally laudable, but when added together were probably too ambitious. There were also many objectives with no clear priorities. Nor were trade-offs spelled out. High-sounding objectives were not complemented by concrete action programs. There were many ideas floating around but few specific actions at hand. A big gap remained between rhetoric and reality.13/

81. The institutional arrangements were improvised. Privatization was added to the already mixed bag of activities of the MHPPA, thereby stretching its

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12/ One observer of the Turkish privatization experience would go so far as to sum it up in one word: **frustration**, Leeds, op.cit.

13/ The experience of Turkey resembles that of several other developing countries adopting broad privatization programs in the sense that: "there remains a marked divergence between stated intentions and follow up actions" in part because of "the inevitable gap between ideological rhetoric and a real intention to act", Hemming, Richard and Mansoor, Ali: "Privatization and Public Enterprises", International Monetary Fund, Occasional Paper 56, 1988.

thin staff even further. It had limited in-house experience and skills in the matter and had therefore to rely extensively on external consultants, who did not always provide consistent advice. The ability of MHPPA to critically assess the advice was perhaps also limited. Moreover, MHPPA was a specialized Extra Budgetary Fund with few established procedures of public accountability. Nor did it have an independent power base or regular access to, and support, from the highest political authority. The HPB was such an august body that it had a multitude of other tasks on its agenda, thus limiting the time it could devote to the design of a privatization program and the monitoring of its implementation. In sum, MHPPA was not well equipped to deal with a matter as intricate and delicate as privatization, a fortiori in light of the vast scale of the privatization program envisaged.

82. The advance trumpeting of the great results that were to be achieved through privatization generated opposition among groups that potentially might be adversely affected, for instance employees and retirees. Premature public declarations ahead of specific proposals that could have comprised safeguards for groups at risk, made privatization appear threatening. Because expectations were raised above the ability to deliver, attempts were made to close the gap hastily through improvisations. This did not add to the credibility of the privatization program.

83. The legal base for privatization was not ascertained with the required thoroughness. Decree-Law 233 and Law 3291 were rather general in nature and contained several ambiguities open to conflicting interpretations. Safeguarding the legal flank should have been more the responsibility of the

Government than potential buyers, which might see no need to question the right of a sovereign government to sell what it is offering for sale. The ambiguities that persisted in the legal texts, written to create the framework for privatization, provided the opponents of privatization with a splendid ram with which to break through the Government's positions. Once privatization, or a major version thereof, had become a court matter, it would at least be delayed, at most blocked. It is an acute embarrassment for the Government to have the courts cancel two major agreements with foreign partners. The whole privatization program has thereby become surrounded by uncertainty. The conflict over two major privatization agreements with foreign firms has fanned latent nationalistic feelings and raised doubts as to what role, if any, foreign firms and consultants should play in the privatization process.

84. In negotiating block sales with both foreigners and nationals, MHPPA was up against formidable parties on the other side of the table. Foreign and national firms knew their business, what they wanted and how to go for it. MHPPA enlisted the assistance of consultants to rectify the balance, but this may not have been enough. The secrecy that, perhaps understandably, surrounded the negotiations meant that charges of poor bargaining could not be easily refuted. Parliament was kept in the dark, which could not but wet the appetite of the opposition to attack the privatization program.

85. Admittedly, much was at stake and the issues involved were difficult. Despite the MHPPA practice of requesting external audits of companies to be privatized, asset valuation and the determination of an initial asking price were no easy tasks. The assumption, or transfer, of old liabilities was

another not so easy task. So too was the handling of acquired labor and pension rights. Prevention of excessive market power was also to be sought. Even before starting to negotiate, MHPPA had to determine whether a company should first be rehabilitated in order to enhance its salability. If rehabilitation were decided, how would it be done and where would the money come from?

86. The disjointed and sometimes hasty way in which privatization was designed and implemented, effectively meant that there was no consistent overall strategy within which instruments and specific cases could be fitted and evaluated. Granted that privatization was a new endeavor of the Government, there would have to be some pilot schemes. Inevitably some mistakes would be made. The problem was that the trial and error approach went on and on. A pattern of advances followed by retreat emerged. There was continuing hesitation and confusion. Nor did conflicting public statements by government officials and unilateral declarations by SEE management help.

87. Another mistake that was to prove serious with the passage of time was that few attempts were made to depoliticize the privatization issue by seeking support from other political parties and major interest groups. As a result, privatization became a vulnerable issue for the Government, open to attack. It is hardly surprising that opponents of the Government should seize on this opportunity, in part for less than noble reasons. By becoming controversial, privatization turned into an obvious target for an opposition bent on attacking the Government on each and every occasion. The assertiveness of the opposition was fanned by its perception that the Government was weakening in

general and in retreat on the privatization issue in particular. The attacks of the opposition should however be seen in a broader perspective: they are often made for tactical reasons and focus on particular methods employed more than on the overall objectives of the program. Privatization has not become taboo, but both the selection and ranking of objectives and the instruments for their attainment have come under increasing debate.

H. Opposition

88. Diverse groups have joined ranks in opposition to the Government's privatization program. Neglecting and underestimating potential opposition to privatization has turned out to be a less than wise approach. Few efforts were made to build a consensus around privatization. The intrinsic merits of privatization are not so incontestable, or self-evident, that the issue can simply be considered above debate. The Government may once have thought so, but growing opposition is forcing it to change its mind.

89. Opposition to privatization has come even from within the Government. Senior politicians leading various parliamentary factions, local politicians from sites hosting SEEs and government officials are holding, and proclaiming divergent views about privatization. Unfortunately there are today few economic issues on which the Government is fully united. Factionalism has broken out into the open. Moreover, MHPPA itself is not spared from internal dissent, publicly displayed. The official in charge of its Privatization Department resigned in March 1990, reportedly following a disagreement with the General Manager over which sales strategy to follow. The person in charge

of the Public Participation Department has temporarily been put in charge of the Privatization Department as well. By June 1990 this interim arrangement was still in effect. The leader of one of the opposition parties has threatened MHPPA officials with personal liability suits for alleged mismanagement of privatization cases. MHPPA may therefore move more cautiously in the future.

90. In April 1990 the Government decided to revamp the MHPPA. It was split into two different administrations: the Public Partnership Administration (PPA) and the Mass Housing Fund (MHF). PPA was also entrusted with the implementation of the privatization program. Simultaneously the HPB delegated some of its authority to PPA, for instance in terms of the handling of revenue sharing bonds. The intention was to make PPA more autonomous and thus more efficient, while insulating it from political pressures.

91. It is not surprising that SEEs should constitute nuclei of opposition to privatization. After all, the management and workers within SEEs have something to lose. The management of some SEEs has openly displayed views that differ from those of the MHPPA. Going beyond mere dissent, it is preparing and advocating rival privatization schemes. Potential buyers can only wonder which scheme will ultimately be adopted by the Government, or whether consistent schemes will be adopted. It is however clear that by displaying publicly such a disunited front, the Government is weakening its bargaining position. The work force of SEEs is naturally suspicious about what will happen to acquired labor rights (employment, wages, pensions etc.) under a new, and maybe even foreign owner and manager. Through its unions, labor is expressing increasing

disquiet about privatization and is insisting on measures to safeguard its interests. Such measures could however detract from the salability of a company.

92. Other interest groups have also joined the chorus of opposition to privatization. Since several SEEs are in distant communities with few alternative employment opportunities, it is hardly surprising that the localities concerned should have voiced reservations about privatization. Nor is it surprising that local industrialists should have welcomed, with less than enthusiasm, the prospect of more competition, and the discontinuation of cozy arrangements with SEEs. This seems, for instance, to have been the case in the cement industry, where local producers fear the loss of rents through the removal of a de facto price floor set high enough to enable inefficient public plants to survive. Academics, some of whom are still wedded to statist and nationalist policies, have also decried the sale of the national patrimony to foreigners at bargain prices.

93. The most serious challenge to the Government's privatization program has however come from the opposition parties in Parliament. They are spearheading the attack on the program through the initiation of the widely publicized legal action. The court cases against the Citosan and USAS sales were brought by these opposition parties. They have perceived privatization as a promising vehicle through which to attack and discredit the Government, especially since it has staked so much prestige on the issue and delivered so little.

94. The opposition parties have clearly devoted some time and effort to devise a systematic criticism of the Government's privatization program. In their stated view, if properly designed and implemented, privatization can still prove worthwhile for Turkey. But the legal framework has first to be established. Privatization is unlikely to be successful unless both political and economic stability prevail. The opposition claims that in today's climate neither prevails. The survival of the present Government beyond the next parliamentary elections (to be held no later than in November 1992) is doubted in many quarters. Persistent high inflation, in combination with continuing large public sector deficits, create an uncertain macroeconomic environment conducive to a shortening of planning horizons and a reluctance to invest.

95. What the opposition parties may find particularly galling is that the Government has explicitly turned to sales of SEE shares as a means to finance the budget deficit. The deficit has tended to grow because of large wage settlements intended, inter alia, to restore the Government's sagging popular support. For the opposition parties the Government has found an easy way out of its fiscal predicament, and what is even worse, through a means that is unlikely to remain available to the same extent were the opposition parties to come to power in a few years' time.

96. The opposition parties argue that SEEs that are strategically important on economic and military grounds should be excluded from privatization and definitely not ceded to foreigners. The same holds for SEEs with monopoly power. The view has also been presented that SEEs that are productive and profitable should not be privatized (were this position to be adopted,

privatization would become more difficult). The opposition sees no a priori reason to discriminate against foreign capital, provided it generates local value added and employment, in addition to bringing in new resources and technology, while enhancing access to foreign markets. Moreover, public monopolies should not be converted into private monopolies; on the contrary, privatization should systematically be used as a means to promote competition. The Government is not the only party with a penchant for wish lists.

97. In the specific cases of the Citosan and Usas sales, the opposition parties use a well-established argument among opponents of privatization programs: that the sales prices were disgracefully low and that MHPPA mismanaged the negotiations. Such charges are perhaps inevitable, given the closed doors behind which the negotiations were conducted. But is has proven difficult for the Government to refute the charges. Another charge levelled against the sales is that they have enabled the foreign buyers to constitute de facto monopolies, be it locally (the cement plants), or at all major airports (the USAS catering service). Private cement plants do exist, but not evenly throughout the country. According to this view, one monopoly has been traded for another, with the difference that today the monopoly profits accrue to foreigners.

I. Medium-term Outlook

98. The Government's privatization strategy continues to evolve and to adapt, both to accumulating experience and outside pressure Critics of the program would view it differently and contend that it remains where it has

always been: in a state of flux. In any case, the strategy is today not very clear, improvisations and ad hocery persist. The institutional arrangements are weak, while the legal framework is ambiguous. Choices between sales methods have been varied and reversed, and implementation in general is subject to an excessive degree of uncertainty. The recent sales of SEE shares on the stock exchange and through the extensive network of Is Bank offices have however been a success, both in terms of generating revenue and disseminating share ownership. Caution will however have to be exercised so as not to overtax the absorptive capacity of the stock market.

99. Heightened economic and political uncertainty do not produce an environment particularly favorable to privatization. The investment climate is depressed for physical investment, in good part because private investors have little faith in the economic policies of the Government. Foreign investors are likely to be on their guard after the recent court decisions annulling privatization agreements through block sales to foreigners. Privatization of parts of electricity distribution could be an exception, since electricity demand is widely believed to be on a lasting upward trend, with pricing less rigid than in the past. Because of the sharp rise in share values on the ISE, the outlook for portfolio investment is brighter. In the short run, the Government may therefore be right in emphasizing share sales. A downturn in share prices could however quickly shut off this option.

100. Contrary to the announced ranking of the objectives of privatization (see para 45 above), with the passage of time one objective has de facto assumed overriding importance: that is the generation of proceeds with which

to help finance the budget deficit. The difficulties encountered in coming to grips with continuing large deficits, aggravated by high wage increases since 1989, have forced the Government to look for additional immediate revenue. With the scope for expenditure compression limited and tax reform not considered feasible for political reasons, privatization has moved to the foreground as a source of revenue, be it through sales of SEEs shares or sales of treasury lands. The success of the initial SEE share sales has prompted the Government to envisage larger sales in order to finance a sizable portion of the 1990 budget deficit through this means.

101. Since the minority shares sold were in generally profitable companies, the sales did not alleviate the budget of any burden to finance loss-makers. Rather the contrary, the Government was trading future revenue (dividends) for present revenue (share sales proceeds). The discounting of future revenue is bound to have reflected the uncertainty of the future performance of the company in a rapidly evolving economy plagued by high inflation. The continuation of present management arrangements means that the scope for future efficiency gains, leading inter alia to higher tax payments, is circumscribed. The upshot of all this is that through the share sales mechanism, the Government has essentially discounted future revenue, at a discount rate that is hard to determine, but that may have been relatively high, given the uncertainties perceived by the buyers.

102. A privatization program limited to a budget deficit financing technique is however a long way from the initial set of high-sounding objectives, foremost among which were the reduced role of the state in the economy and

greater efficiency and international competitiveness. The generation of revenue for the budget has moved from last to first objective. Reducing the role of the state in the economy through privatization has barely begun. The relative weight of SEEs has diminished in terms of investment, but not in terms of employment. It is too early to tell whether the few cases of consummated privatization cases will lead to greater efficiency. The sale of minority shares is however by itself unlikely to have much impact on efficiency. It is essentially a portfolio operation that leaves the existing private management in place. Consequently, efficiency is unlikely to have been enhanced through the privatization operations concluded so far.

103. The stock market is for the moment on an upward trend, mainly because it is a small but growing investment outlet that is perceived to be attractive in relative risk/yield terms. As long as this situation prevails, sales of SEE shares on the stock market will fetch good prices. But if the Government continues to off-load SEE shares on the stock market, because it needs to generate additional revenue, a sellers market could turn into a buyers market. Then if the Government wished to continue to raise cash in this way, it would be forced to sell the shares at a discount. In the same vein, if the Government is seen to be pressed for revenue, block sales of SEEs to private partners, be they domestic or foreign, may only take place at a heavy discounting of the future earnings stream of the enterprise privatized. In the end, a government that is privatizing out of fiscal necessity may not be able to get a satisfactory price for the assets sold.

104. Political uncertainty also detracts from the prospects of privatization. The present cabinet is not seen as very forceful or united. A cabinet reshuffle may suffice to reduce political uncertainty. Or early elections may be required, in which case privatization is likely to be put on the back-burner until after the elections.

105. In sum, the overall outlook for privatization has to be considered rather dim, despite the prospects for increased share sales in the months to come. Recent reversals and continuing uncertainty have slowed the privatization process and could conceivably even stall it. The Government missed a chance by not devising a consistent strategy accompanied by specific action programs, based on a realistic assessment of opportunities and constraints of the specific Turkish setting. It improvised and wavered. In the absence of a coherent strategy, and following a path of least resistance (reinforced by fiscal pressures), the Government ultimately reduced privatization to a minority share divestiture program. The Government had not secured the legal basis for full-fledged privatization. Nor did it attempt to depoliticize the issue by seeking broad support. Privatization became controversial and provided the opposition with an opportunity for attacking the Government.

106. As long as privatization remains an intensely contested political football, with no attempts to find a common middle ground between the Government and the vocal opposition parties, progress will remain slow, especially in today's charged political climate. The process may even be reversible. This does however not mean that in a climate of less economic and

political uncertainty, privatization could not be made to play a significant role. The performance of many SEEs remains poor and will have to be improved one day, be it through privatization, or other means. Until such a day, the structural transformation of the Turkish economy pursued since 1980 will remain incomplete.

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ANNEX I

List of State Economic Enterprises and Public Economic Establishment

State Economic Enterprises

Enterprise	Subsidiary
1 Türkiye Cumhuriyeti Ziraat Bankasi (bank)	1 Güven Sigorta T.A.S. (insurance)
2 Türkiye Emlak Bankasi (bank)	1 Insaat ve Imar A.S. (construction)
3 Türkiye Halk Bankasi A.S. (bank)	
4 Denizcilik Bankasi T.A.S. (bank)	
5 Türkiye Selüloz ve Kagit Fabrikalari A.S. (paper and pulp)	
7 Türkiye Cimento ve Toprak Sanayi T.A.S. (cement holding)	1 Adiyaman Cimento Sanayi T.A.S. (cement plant)
	2 Bartin Cimento Sanayii T.A.S. (cement plant)
	3 Corum Cimento Sanayi T.A.S. (cement plant)
	4 Elazig Cimento Sanayii T.A.S. (cement plant)
	5 Ergani Cimento Sanayii T.A.S. (cement plant)
	6 Gaziantep Cimento Sanayii T.A.S. (cement plant)
	7 Kars Cimento Sanayii T.A.S. (cement plant)
	8 Siirt Kurtalan Cimento Sanayii T.A.S. (cement plant)
	9 Ladik Cimento Sanayii T.A.S. (cement plant)
	10 Sivas Cimento Sanayii T.A.S. (cement plant)
	11 Askale Cimento Sanayii T.A.S. (cement plant)
	12 Sanliurfa Cimento Sanayii T.A.S. (cement plant)
	13 Trabzon Cimento Sanayii T.A.S. (cement plant)
	14 Van Cimento Sanayii T.A.S. (cement plant)

Enterprise	Subsidiary
	15 Kütahya Magnezit Isletmeleri A.S. (magnesite plant) 16 Iskenderun Cimento Sanayii T.A.S. (cement plant) 17 Bozüyük Seramik Sanayii T.A.S. (ceramics) 18 Filyos Ates Tuglasi Sanayii T.A.S. (refractory bricks) 19 Konya Krom Magnezit Sanayii T.A.S.(chrome, magnesite plant) 20 Yarimca Porselen Sanayii T.A.S. (china plant)
8 Türkiye Demir ve Celik Isletmeleri (iron and steel)	1 Gerede Celik Konstruksiyon ve Techizat Fab. San. ve Tic. A.S. (GERKONSAN) (steel construction)
9 Etibank (banking and mining holding)	1 Karadeniz Bakir Isletmeleri A.S. (copper) 2 Cinko Kursun Metal Sanayi A.S. (CINKUR) (zinc)
10 Türkiye Petrolleri A.O. (T.P.A.O) (petroleum holding)	1 Petrol Ofisi A.S. (petroleum distribution) 2 Deniz Isletmeciligi ve Tankerciligi A.S. (shipping) 3 Türkiye Petrol Rafinerileri A.S. (refineries) 4 Boru Hatlari ile Petrol Tasima A.S. (pipelines) 5 Istanbul Gübre Sanayii A.S. (fertilizer)
11 Türkiye Gübre Sanayii A.S. (fertilizer holding)	1 Kütahya Gübre Sanayii A.S. (fertilizer) 2 Samsun Gübre Sanayii A.S. (fertilizer) 3 Gemlik Gübre Sanayii A.S. (fertilizer)

Enterprise	Subsidiary
12 Türkiye Taskomuru Kurumu (hard coal)	
13 Devlet Malzeme Ofisi (state supplies and equipment office)	
14 Türkiye Seker Fabrikalari A.S. (sugar factories)	
15 Makina ve Kimya Endustrisi Kurumu (machinery and chemical industry)	
16 Agir Sanayi ve Otomotiv Kurumu (ASOK) (heavy industry and automotive)	1 Takim Tezgahlari San. ve Tic. A.S. (metal works) 2 Türk Motor Sanayii ve Tic. A.S. (engines) 3 Asil Celik Sanayii ve Tic. A.S. (steel)
17 Türkiye Komur Isletmeleri Kurumu (lignite)	
18 Et ve Balik Kurumu (meat and fish)	
19 Toprak Mahsulleri Ofisi (soil products office)	1 Aksaray Azmi Milli T.A.S.
20 Türkiye Süt Endustrisi Kurumu (dairy products)	
21 Yem Sanayii T.A.S. (feed stuff)	
22 Türkiye Zirai Donatim Kurumu (agricultural equipment)	
23 Orman Urünleri Sanayii Kurumu (forestry products)	
24 Türkiye Gemi Sanayii A.S. (ship building)	
25 Türkiye Denizcilik Isletmeleri (maritime shipping)	1 D.B. Deniz Nakliyati T.A.S. (sea transport)

Public Economic Establishments

Enterprise	Subsidiary
1 Türkiye Elektrik Kurumu (electricity board)	1 Turkiye Elektromekanik San. A.S. (TEMSAN) (electrical machinery)
2 Türkiye Cumhuriyeti Devlet Demir Yollari (rail roads)	1 Turkiye Vagon Sanayii A.S. (railroad cars) 2 Turkiye Lokomotif ve Motor San. A.S. (locomotives and engines) 3 Türkiye Demiryollari Makinalari San. A.S. (railway machinery)
3 Türkiye Cumhuriyeti Posta, Telgraf ve Telefon Isletmesi Genel Mudurlugu (post, telegraph, telephone and broadcasting)	
4 Devlet Hava Meydanlari Isletmesi Genel Mud. (airports)	1 Havaalanlari ve Yer Hizmetleri A.S. (airport and ground services)
5 Türk Hava Yollari Anonim Ortakligi (air line)	
6 Cay Isletmeleri Genel Mud. (tea)	
7 Tütün, Tütün Mamulleri, Tuz ve Alkol Isletmeleri Gen. Mud. (TEKEL) (tobacco and alcoholic beverages)	
8 Tarim Isletmeleri Genel Mudurlugu (agricultural enterprises and agencies)	

ANNEX II

LIST OF STATE ECONOMIC ENTERPRISES AND MINORITY SHARE HOLDINGS TRANSFERRED TO THE PUBLIC PARTNERSHIP ADMINISTRATION

COMPANY	FIELD	% OF GOVERNMENT OWNERSHIP	PRIVATIZATION BUYER	(%) SHARE
I. SEEs				
1. PETKIM PETRO KIMYA HOLDING A.S.	Petrochemicals	97.6	-	-
2. SUMERBANK HOLDING A.S.	Textiles, Banking	100.0	-	-
II. SEE Subsidiaries				
3. AFYON CIMENTO SANAYII T.A.S.	Cement	99.6	SCF	51.0
4. ANKARA CIMENTO SANAYII T.A.S.	Cement	99.3	SCF	99.3
5. BALIKESIR CIMENTO SANAYII T.A.S.	Cement	98.3	SCF	98.3
6. SOKE CIMENTO SANAYII T.A.S.	Cement	99.6	SCF	99.6
7. T.AKYA CIMENTO SANAYII T.A.S.	Cement	99.9	SCF	99.6
8. BOGAZICI HAVA TASIMACILIGI A.S.	Charter and Cargo	100.0	-	LIQUIDATION
9. USAS UCAK SERVISI A.S.	Catering	100.0	SAS	70.0
10. TURBAN TURIZM A.S.	Tourism	100.0	-	-
11. NIGDE CIMENTO SANAYII T.A.S.	Cement	99.8	-	-
12. ADANA KAGIT TORBA SANAYII A.S.	Paper Rack	50.0	SCF	20.0
13. TESTAS T. ELECTRONIK SAN. T.A.S.	Electronic Equipment	94.3	-	-
14. YOZGAT BIRA	Beer Production	100.0	-	-
III. BANKS				
15. CAYBANK	Banking	49.0	-	-
16. DENIZCILIK BANKASI	Banking	100.0	-	-
17. ETIBANK	Banking	100.0	-	-
18. TOBANK	Banking	96.9	-	-
IV. Participations				
19. NETAS NORTHERN ELEK. TELEKO. A.S.	Telecommunication	49.0	-	-
20. TELETAS TELEKO.ENDUSTRI T.A.S.	Telecommunication	22.0	PUBLIC	22.0
21. ANSAN T.A.S.	Soft Drinks	88.3	COCA-COLA	88.3
22. ARCELIK A.S.	Household Appliances	15.0	-	-
23. BOLU CIMENTO SANAYII T.A.S.	Cement	35.3	-	-
24. CELIK HALAT VE TEL. SANAYII A.S.	Steel Wires	29.2	-	-
25. CUKUROVA ELEKTRIK A.S.	Electricity	19.0	-	-
26. EREGLI DEMIR CELIK FAB. T.A.S.	Iron and Steel	48.9	-	-
27. KEPEZ ELEKTRIK T.A.S.	Electricity	43.7	-	-
28. HEKTAS TICARET TURK A.S.	Agricultural Chemicals	5.0	-	-
29. AROMA- BURSA MEYVE SU. GI. S.A.S.	Beverages	52.5	-	-
30. BASF-SUMERBANK KIMYA SAN. A.S.	Chemicals	40.0	-	-
31. CANAKKALE SERAMIK FAB. A.S.	Ceramics	11.3	-	-
32. ADANA CIMENTO SANAYII T.A.S.	Cement	47.3	-	-
33. FRUKO-TAMEK MEYVE SULARI SAN.	Agricultural Chemicals	36.0	-	-
34. GIMA GIDA IHTIYAC MAD. T.A.S.	Supermarket Chain	50.0	-	-
35. IPRAGAZ A.S.	Liquid Gas	49.3	-	-
36. KONYA CIMENTO SANAYII A.S.	Cement	39.8	-	-
37. MARDIN CIMENTO SANAYII T.A.S.	Cement	46.2	-	-
38. MIGROS TURK T.A.S.	Supermarket Chain	42.3	-	-
39. TAMEK-GIDA SAN. A.S.	Food and Beverages	31.0	-	-
40. TOFAS OTO TICARET A.S.	Automobile Marketing	39.0	-	-
41. TOFAS TURK OTOMOBIL FAB. A.S.	Automobiles	23.1	-	-
42. TURK KABLO A.O.	Cables	38.0	-	-
43. UNYE CIMENTO SANAYII T.A.S.	Cement	49.2	-	-
44. BANDIRMA YEM FAB. LTD.STI.	Animal Feeds	24.6	-	-
45. KARS YEM FABRIKASI T.A.S.	Animal Feeds	32.0	-	-
46. SIVAS YEM FABRIKASI A.S.	Animal Feeds	25.0	-	-
47. AKSARAY YEM FABRIKASI A.S.	Animal Feeds	40.0	H.OZOT-M.DEMIRAY	40.0
48. CORUM YEM FABRIKASI A.S.	Animal Feeds	30.0	PANKO BIRLIK	30.0
49. ESKISEHIR YEM FABRIKASI A.S.	Animal Feeds	45.0	ZEYTINOGLU HOL.	45.0
50. KAYSERI YEM FABRIKASI A.S.	Animal Feeds	13.3	54 SHARE HOLDERS	13.3
51. AEG-ETI ELEKTRIK ENDUSTRI A.S.	Electricity	20.0	-	-
52. CESTAS CUKUROVA EL. SAN.T.A.S.	Electricity	2.2	-	-
53. DITAS DGAN YE.PAR.IM.TEK.A.S.	Spare Parts	14.5	-	-
54. GUNEY SANAYII VE TIC. ISLET.A.S.	Textiles	20.0	-	-
55. TOROS GUBRE VE KIMYA END. A.S.	Fertilizers	25.0	-	-
56. TOROS GUBRE VE ZIRAI IL.PA.A.S.	Medical Marketing	25.0	-	-

STATISTICAL APPENDIX

List of Tables

Table 1. Turkey : Key Domestic Economic Indicators, 1980-90

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 Target
National Accounts 1/											
Real GNP growth rate (percent)	(1.1)	4.1	4.5	3.3	6.0	5.1	8.1	7.4	3.7	1.7 2/	5.7
As a percent of GNP											
Consumption	84.1	82.0	81.8	83.5	83.5	81.1	78.2	76.1	73.9	77.4	76.3
Saving (domestic)	15.9	18.0	18.2	16.5	16.5	18.9	21.8	23.9	26.1	22.6	23.7
Investment	21.4	21.5	20.3	20.7	19.3	20.8	24.4	25.4	24.0	21.7	22.8
Resource gap	5.5	3.5	2.1	4.1	2.8	1.9	2.6	1.4	(2.1)	(0.9)	(0.9)
Private consumption	71.9	71.3	71.1	73.3	74.5	72.5	69.3	67.0	65.1	66.8	64.5
Private investment	9.9	8.3	8.4	9.4	9.6	9.4	11.1	12.0	13.0	12.5	12.8
Total private sector	81.8	79.6	79.4	82.7	84.1	81.9	80.3	79.0	78.1	79.4	77.3
Public consumption	12.3	10.7	10.8	10.2	9.0	8.5	8.9	9.1	8.8	10.5	11.8
Public investment	11.5	13.2	12.0	11.3	9.7	11.4	13.4	13.3	11.0	9.2	10.0
Total public sector	23.7	23.9	22.7	21 5	18.7	19.9	22.3	22.4	19.8	19.8	21.8
Prices											
Average annual growth rate (percent, realizations)											
WPI	90.3	34.1	27	30.5	50.3	43.2	29.6	32.1	68.3	69.6	..
CPI	101.4	36.6	30.8	31.4	48.4	44.9	34.6	38.9	75.4	69.6	..
Public sector borrowing requirement (as a percent of GNP) 1/	10.3	5.0	4.7	6.0	6.5	4.6	4.7	7.8	6.4	5.6	5.1
Money Supply											
Annual growth rate (percent)											
M1	57.9	38.0	38.0	48.1	17.5	39.7	56.6	62.1	30.3	72.8	..
M2	66.3	85.0	56.7	29.8	58.0	55.5	43.8	44.2	53.6	73.3	..
Foreign exchange deposits	..	..	..	..	1,111.2	173.0	115.4	146.1	84.5	44.4	..
M2X	66.3	85.0	56.7	29.8	64.9	63.2	49.7	56.3	59.4	67.0	..

1/ 1989 values represent estimates
2/ SIS estimate, based on twelve-months figures

Source : SPO and Central Bank

Table 2. Turkey : Key External Economic Indicators, 1980-90

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 Target
Balance of Payments											
Percentage change											
Exports (fob)	28.7	61.6	25.2	0.3	25.1	11.7	(8.1)	36.1	15.6	(1.3)	11.0
Imports (fob)	56.0	14.0	(0.6)	4.4	16.1	8.7	(5.0)	27.1	1.1	16.5	10.2
As a percent of GNP											
Exports (fob)	5.0	8.0	11.0	11.5	14.7	15.5	13.0	15.2	16.9	14.6	13.8
Imports (fob)	12.9	14.5	15.9	17.4	20.6	21.1	18.3	19.9	19.5	19.9	18.5
Trade deficit	(7.9)	(6.6)	(4.9)	(5.8)	(5.9)	(5.6)	(5.3)	(4.7)	(2.5)	(5.2)	(4.8)
Current account balance	(5.8)	(3.3)	(1.8)	(3.8)	(2.9)	(1.9)	(2.5)	(1.2)	2.3	1.2	0.9
Interest payments	2.0	2.4	2.9	2.9	3.2	3.3	3.7	3.5	4.0	3.6	3.3
Non-interest current account balance	(3.9)	(0.8)	1.1	(0.8)	0.3	1.4	1.1	2.3	6.2	4.8	4.2
Capital account balance	1.2	1.5	0.5	1.7	0.1	2.0	3.6	2.8	(1.4)	1.0	(0.3)
Overall balance	0.2	(0.0)	0.3	0.3	(0.1)	0.2	1.4	1.4	1.3	3.4	0.6
Reserves (month of imports)	1.9	2.3	2.8	2.8	4.0	3.5	4.9	4.6	5.6	7.0	..
External Debt											
Millions of $											
Total outstanding debt (TD)	16,300	16,900	17,619	18,385	20,659	25,476	32,101	40,228	40,722	41,021	..
Debt Service											
Total	1,019	1,316	1,754	2,344	4,038	3,866	4,685	5,517	7,158	7,170	..
Principal	406	524	836	1,175	2,452	2,113	2,551	3,130	4,359	4,263	..
Interest	613	792	918	1,169	1,586	1,753	2,134	2,387	2,799	2,907	..
In percentages											
TD/GNP	27.9	28.7	32.8	35.9	41.2	47.9	55.1	59.1	57.8	51.0	..
TD/Exports (Goods, services & workers remittances)	443.9	280.8	220.9	230.2	210.2	222.0	292.3	275.6	225.6	216.4	..
Debt Service/Exports (goods, services & workers remittances)	27.8	21.9	22.0	29.3	41.1	33.7	42.7	37.8	39.7	37.8	17.4
Interest Payments/Exports (goods, services & workers remittances)	31.0	24.0	19.6	18.9	16.1	15.3	19.4	16.4	15.5	15.3	13.0

Source : Central Bank

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Table 3. Turkey : Global Public Sector Finances, PSBR, 1980-89, (in percent of GNP in current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimate
Central Government	(3.9)	(1.7)	(2.3)	(3.6)	(5.3)	(2.9)	(3.6)	(4.5)	(4.0)	(3.8)
SEEs	(6.4)	(3.3)	(2.4)	(2.3)	(2.3)	(3.1)	(3.3)	(4.2)	(2.8)	(2.4)
Other	0.0	0.0	0.0	0.0	1.1	1.4	2.3	0.8	0.4	0.6
Total public sector (PSBR)	(10.3)	(5.0)	(4.7)	(6.0)	(6.5)	(4.6)	(4.7)	(7.8)	(6.4)	(5.6)
Share of SEEs in PSBR (percent)	62.3	65.7	51.6	39.2	35.4	67.4	70.2	53.8	43.8	42.9
Memorandum item GNP (TL, Billion)	4,435	6,554	8,735	11,552	18,375	27,789	39,310	58,390	100,154	172,545

Source: SPO

Table 4. Turkey: SEE Share in Total Public Fixed Investment, 1980-90, (in millions of TL, at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 Estimate	1990 Target
SEEs Investments	283	411	536	774	923	1,721	2,424	3,341	5,174	7,055	10,125
Total Public Investments	424	795	1,006	1,316	1,777	3,236	5,233	7,539	11,510	17,014	27,739
Sees Inv./Total Pub. Inv. (%)	66.6	51.7	53.3	58.8	51.9	53.2	46.3	44.3	45.0	41.5	36.5

Source : SPO

Table 5. Turkey : Distribution of Bank Credits by Users, 1980-89

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
A. In billions of TL										
Public Administrations	200	279	283	377	583	1,070	1,302	2,100	3,057	5,179
SEEs	438	549	646	711	485	868	2,047	3,596	5,373	6,383
Private Corporations and Households	689	1,231	1,738	2,338	3,164	5,176	8,992	13,936	20,098	33,264
Other	0	1	1	1	0	1	14	28	140	146
Total	1,326	2,059	2,669	3,426	4,232	7,115	12,355	19,660	28,668	44,972
B. As a percent of total										
Public Administrations	15.0	13.6	10.6	11.0	13.8	15.0	10.5	10.7	10.7	11.5
SEEs	33.0	26.6	24.2	20.7	11.5	12.2	16.6	18.3	18.7	14.2
Private Corporations and Households	52.0	59.8	65.1	68.2	74.8	72.7	72.8	70.9	70.1	74.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.5	0.3

Source : Central Bank

Table 6. Turkey : Profit and Loss Statements of SEEs, 1984-1990, (in billions of TL)

	1984	1985	1986	1987	1988	1989 Estim.	1990 Target
Total Current Revenue	6,564	9,793	12,862	18,339	29,250	50,867	85,915
Sales of Goods and Services	6,201	9,297	12,122	16,893	27,408	48,916	83,609
Other	363	496	740	1,446	1,842	1,951	2,306
Total Current Expenditures	6,099	8,961	12,063	17,330	28,361	50,012	83,340
Wages and Salaries	719	973	1,283	2,031	3,075	7,352	13,002
Interest Payments	113	289	527	1,103	1,579	1,944	3,397
Depreciation	240	375	778	1,284	2,316	3,087	3,514
Provisions 1/	42	62	396	341	1,530	1,501	2,201
Cost of Goods and Services Sold	4,836	6,753	7,823	11,435	16,763	31,797	53,036
Other	149	509	1,256	1,136	3,098	4,331	8,190
Operating Surplus	465	832	799	1,009	888	855	2,575
Taxes Net of Subsidies	117	257	526	649	672	831	1,360
Post Tax Operating Surplus	348	575	273	360	217	24	1,215
Dividends Paid	0	0	0	0	70	253	185
Retained Earnings	348	575	273	360	147	(229)	1,030
Memorandum Items							
Internally Generated Funds	642	1,013	1,448	2,005	3,993	4,545	6,833
Retained Earnings	348	576	273	360	147	(229)	1,030
Depreciation	240	375	778	1,284	2,316	3,087	3,514
Provisions	42	62	396	341	1,530	1,501	2,201
Other	12	0	1	20	0	186	88
Operating Surplus/Sales of Goods and Services (percent)	7.5	8.9	6.6	6.0	3.2	1.7	3.1

1/ Most of it provisions for exchange rate differences

Sources : SPO

Table 7. Turkey : Financing Requirements of SEEs 1/, 1984-90, (in billions of TL)

	1984	1985	1986	1987	1988	1989 Estimate	1990 Target
Total Financing Requirements	1,605	2,319	3,105	5,057	7,758	10,161	15,489
Fixed Investment	917	1,708	2,406	3,316	5,130	6,977	9,956
Change in stocks	545	536	580	1,351	2,074	2,375	4,008
Change in fixed assets	113	32	29	315	482	667	1,308
Other	30	43	90	75	72	142	217
Internally generated funds	642	1,013	1,443	2,005	3,993	4,545	6,833
Financing requirement	963	1,306	1,662	3,052	3,765	5,616	8,656
Budgetary transfers	290	199	156	470	1,054	1,143	1,416
EBFs	173	248	159	0	0	376	623
Borrowing Requirement	501	859	1,345	2,583	2,711	4,098	6,618
Deferred payments, net	459	(14)	285	(5)	750	2,895	7,897
Cash financing requirement	42	873	1,060	2,588	1,961	1,203	(1,279)
Change in cash balances	(142)	(171)	(503)	(268)	(492)	222	179
Securities and deposits	(2)	6	1	100	89	0	(1)
Domestic bank borrowing, net	(103)	609	674	1,474	665	247	(365)
Foreign borrowing, net	289	429	887	1,282	1,699	734	(1,092)
Memorandum Item							
(as a percent of GNP)							
Budgetary transfers	1.6	0.7	0.4	0.8	1.1	0.7	0.5
EBFs	0.9	0.9	0.4	0.0	0.0	0.2	0.2
Borrowing Requirement	2.7	3.1	3.4	4.4	2.7	2.4	2.4

1/ Totals may not add up because of rounding

Sources : SPO

Table 8. Turkey : Monthly Closing Values of the Istanbul Stock Exchange Index, 1986-90

	1986	1987	1988	1989	1990
January	100	217	858	380	3,641
February	120	261	721	487	3,516
March	116	246	635	466	3,294
April	112	269	554	534	3,308
May	115	395	553	654	3,971
June	115	446	469	796	..
July	122	1,021	493	701	..
August	139	1,149 2/	428	876	..
September	147	1,029	455	1,475	..
October	150	786	404	1,559	..
November	160	891	406	1,542	..
December	171	673	374	2,218	..

1/ Peaking at 1,332

Source: Istanbul Stock Exchange and Economic Bulletin

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