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NEWS

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Poll pressures may force policy shift

ELECTION fever is running high in Turkey, even though Prime Minister Turgut Ozal and his ruling Motherland Party (ANAP) have more than a year to run of their term in office. It seems increasingly probable that Ozal will call an early general election in an attempt to catch the opposition off-guard. The most likely time is soon after the result of a 6 September referendum on repealing a law barring prominent pre-1980 political figures from public office.

The referendum — to a large extent forced on Ozal by external as well as internal pressures for greater democracy — will be a further test of ANAP's popularity on top of municipal elections held on 7 June (see TURKEY news section). Ozal is hoping for a strong 'no' vote, but whatever the outcome, he will need to move fast to outmanoeuvre veteran politician and former premier Suleyman Demirel, either as legal challenger or democratic martyr in the general election race.

Ozal: pondering the challenge . . .

Kester Eddy

Demirel, through his right-wing True Path Party (TPP), represents the main opposition threat to Ozal, given the weak leadership of the Social Democratic Populist Party and the limited following of former premier Bulent Ecevit's Democratic Left Party.

To undermine Demirel, Ozal may be forced to ease back on the IMF-style, export-led monetarist policies followed since ANAP took office in late-1983. The government has already introduced subsidies for farmers this year to bring their lagging incomes up to national levels — just the kind of earnings relief Demirel has been advocating for farmers and industrial workers alike.

But the chief worry for Ozal — and indirectly for his Western creditors — is how to keep ANAP together and present a united front in the run-up to the elections. So far he has managed adroitly to hold the middle ground in a party cobbled together from diverse elements before the restricted 1983 elections — when a vote for Ozal was a vote against military rule. But now a rising tide of discontent in the party's Islamic fundamentalist wing, linked to an influential fundamentalist caucus within the bureaucracy, threatens both government decision-making and ANAP's cohesion.

Potentially the most damaging attack by the fundamentalists has been their insistence that the central bank — whose borrowing policies they see as a conduit for Western influence — be stripped of much of its authority. This has brought resignation threats from the three most senior and internationally respected officials in the government's financial and planning apparatus: treasury boss Yavuz Canevi, acting central bank governor Zekeriya Yildirim and economic planning chief in the State Planning Organisation, Ali Tigrel.

Officials close to the prime minister play down the significance of this challenge, and insist that Yildirim will be confirmed soon as central bank governor. Should the attack succeed, however, Turkey's hard-won international credit rating would plummet and rescheduling would loom again for the first time since the early 1980s. Some bankers see rescheduling as only a matter of time anyway, given Turkey's growing debt-servicing burden, but it would be extremely damaging to Ozal if forced on him in an election year.

The consensus is that as long as the government sticks to its present economic policies, it will be able to meet external servicing dues. These are likely to total upwards of $4,800 million in 1987, external debt having risen to around $31,000 million in 1986.

On the trade front, exporters are recovering well from reduced demand in recession-hit Middle East economies by finding new markets elsewhere. Exports in the first quarter of 1987 rose by 5.9 per cent to $1,989 million, while imports rose by only 1 per cent to $2,840 million. The resulting $851 million trade deficit was an encouraging 8.8 per cent down on the same period a year earlier.

In the first two months of 1987, the

. . . from contender Demirel

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current account deficit fell by 46 per cent to $269 million, helped by a healthy performance on invisibles. Expatriate remittances rose by 9 per cent to $206 million, and tourism revenues totalled $69 million. Advance tourism bookings of 80-90 per cent of capacity suggest that, barring adverse political developments in the eastern Mediterranean, earnings in 1987 will rebound beyond the record levels set in 1985.

The high growth rates achieved by the domestic economy in 1986 are expected to continue in 1987 — the government recently upped its initial forecast of 5 per cent growth in gross national product (GNP) to 6.5 per cent. The initial target had been set on the advice of the IMF, which fears the inflationary pressures arising from an overheated economy. The official 20 per cent inflation target for 1987 is looking increasingly optimistic, especially in light of the March figures, the worst for several years. Observers generally think the rate of increase will mark time at around the 30 per cent level recorded in 1986.

Though industrialists still complain about the government's real interest rate policy, which has hiked annual borrowing costs above inflation to between 70-80 per cent, most efficient companies have learned to cope. High demand for consumer durables and construction components — fuelled by a house building boom — has meant handsome profits for many.

The economy is undeniably in better shape than when Ozal took office; his task now, in the face of opposition proposals for reflation, is to convince the electorate that his structural adjustment measures have not outlived their usefulness.

JB

Industry takes some comfort from buoyant home demand

INDUSTRIALISTS expect another year of high domestic demand in 1987 despite the government's aim of dampening growth to around 6.5 per cent from 8 per cent in 1986. They are hoping, too, for a recovery in exports, having seen sales drop last year under the impact of recession in the Middle East and rising protectionism in Europe and the US.

"Last year was a good year for the domestic market," says Fahir Ilkel, chairman of the managing board of Koc Holding, parent to the country's largest industrial combine. He traces the upturn to 1984-85, when demand began to pick up following the economic crisis of the late 1970s and early 1980s. Recovery was fuelled by a surge in the construction sector, the result largely of the government's mass housing programme. This stimulated the market for related consumer goods, like domestic appliances, as well as building materials. According to official statistics, industrial output grew by 11.1 per cent in 1986.

Among Koc's many diversified interests, automobiles present the brightest promise. The group manufactures Tofas cars under licence from Fiat, and in 1986 output exceeded 40,000 for the first time. Prospects for household appliances are almost as good — growth in both group sectors was over 30 per cent last year, says Ilkel.

Koc expects continued improvement in 1987. Most of the TL 65,000 million ($81 million) budgeted for investment in 1987 will be spent on expanding its output of household appliances, and on improving the quality of its cars. The group is also to expand its construction component activities, including manufacture of domestic central heating equipment and stoves.

High interest rates mean only the most profitable industries can afford to make such confident investment plans. Companies have to pay annual rates of up to 80 per cent, and must compete against government borrowers on the financial markets.

"In the metalworking sector, quite a few firms are in difficulties because of high debt servicing," says Bahri Ersoz, chairman of metal industries association Mess and general manager of copper products manufacturer Rabak. He praises the government's introduction early this year of a ruling allowing companies to issue commercial paper for the first time, enabling them to bypass the banks and compete for funds with government bonds.

But Nuh Kusculu, president of the executive board of the influential Istanbul Chamber of Commerce, says the government is moving too slowly to open up industry's access to savings. In the meantime, he says, many companies are suffering because they cannot pass on the high cost of borrowing to consumers. Their profit margins are undercut by imported substitutes or internal competition. Only industries with a near or total monopoly, like the state economic enterprises (SEEs) which account for most of Turkey's domestically produced raw materials and semi-finished goods, can pass on interest rate charges.

The cost of borrowing means industry cannot meet demand, says Kusculu. Most firms have no accumulated stocks, and in some sectors — like passenger cars — production