

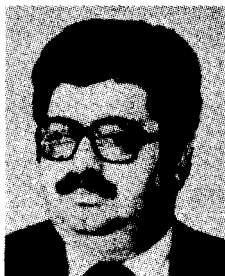
loans or should they be maintained on rescheduled commercial loans as well? How do regulators discern the difference between a refinancing and a rescheduling? Should all rescheduled loans be accorded the same treatment, or should supervisors have discretion? If reserves are to be set aside, how big should they be in relation to the loan, and how long should they be maintained? . . .

It is evident that an explicit set of policies will not be developed in the near future. Meanwhile it is up to us to make sure that banks have, or are on their way to achieving, adequate means to protect themselves against sovereign risks. We should ask questions such as: are they pricing this risk properly, building earnings that will offset any eventual losses? Are they adjusting their capital to serve as a buffer against potential international lending losses?

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## Interview

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# Turgut Ozal on the IMF and Turkey

Turkish Finance Minister Turgut Ozal held the following discussion with *EIR* Economics Editor David Goldman during the Sept. 28-Oct. 2 meeting of the International Monetary Fund in Washington. Ozal's brother Kurkut is a leader of the National Salvation Party, a Muslim Brotherhood front; his brother Yusuf is at the World Bank; and his son Ahmet works for the IMF. Cited by *Euromoney* magazine as Economy Minister of the Year, Ozal has taken charge of an economy that 20 months ago had become the most cited example of a developing sector economy in real trouble. Since then the country's economy—at least from the standpoint of its creditors—has turned around, although at the cost of a fundamental postponement of Turkey's industrialization goals.

During the first eight months of 1981, Turkish exports rose 58 percent compared to the similar period in 1980, a result comparable to that achieved by South Korea or Brazil.

However, unlike the South Korean case, Turkey did not break into markets for industrial goods previously dominated by industrial nations, but concentrated on consumer items aimed at relatively familiar markets,

particularly the Mideast and North Africa.

Ozal wrenched the Turkish growth pattern out of production for a domestic market, including substantial state-backed investment in heavy industry, toward a light-industry export program aimed at taking advantage of the nearby Mideast market. The minister provides a philosophical explanation for the change in the following interview, but the new government's program was the only option left by the country's creditors. In contrast to the Philippines, which threatened to walk out of the International Monetary Fund if IMF loan conditions were toughened, Turkey is relatively uncritical of the Fund. The difference may be found in the fact that while the Philippines have Japan to back them up, Turkey is at the mercy of its creditors.

**Goldman:** President Reagan in his address to the IMF meeting stressed the role of private enterprise as the solution to world development problems, speaking to an audience of countries whose economies are for the most part heavily based on state-sector enterprises. What is your reaction to this?

**Ozal:** I would prefer to talk about my own country—I cannot speak for others. Even a country like Turkey has more and less developed regions, so it is very difficult to generalize. But generally what President Reagan has said is true. I don't deny the role of the state, building up of infrastructure from which everyone can benefit. This cannot be done by the private sector. Then this infrastructure is used by the private sector.

**Goldman:** The developing countries objected strenuously to the argument of the Interim Committee that their deficits had to be reduced by cutting back imports. What is your view of these differences?

**Ozal:** My remarks will be limited to the case of Turkey. Private companies and individuals could play a more important role than before, in bringing about less inflation and a higher growth rate. I believe that private individuals have a better chance to do this than state enterprises. We have tested this in our own economy. In Turkey we have a mixed economy. Largely it is true that the state cannot produce as efficiently as the private sector. There is also a state role in the economy, but not for micro-level intervention. In my country we have had strict price controls, but they have never worked.

**Goldman:** The Managing Director of the IMF, Mr. de Larosière, was explicit that the developing nations would have to make even more sacrifices to reduce their balance of payments deficits, by which he meant reducing imports. Turkey has already gone through a difficult period of austerity. Do you think this is possible?

**Ozal:** That implies, in one sense, reducing balance of payments deficits through a limited growth rate. It de-

pendes from one country to another. I have no intention of asking for too much aid. I prefer slower but surer development. There is no substitute for our own efforts. If our own efforts bring results, the outside will be much more helpful, they will see that we are creditworthy. The banking sector is closer to Turkey than two years ago. They see our efforts and say, "This man is capable of doing such-and-such, he will repay a loan." This is the right way of doing it. Of course, I am not against aid.

**Goldman:** But no one has yet been willing to provide medium-term commercial development credits to Turkey yet.

**Ozal:** I believe this could happen as early as next year. Arab banks, European banks, American banks, are all following the developments in Turkey.

**Goldman:** Have the present high interest rates affected Turkey's debt position?

**Ozal:** The Turkish debt structure is not much related to the interest-rate problem. Only 25 percent of debt is interest variable, so there is not much effect in our case.

**Goldman:** Are you satisfied with the outcome of this year's IMF meeting?

**Ozal:** I am talking, again, only for my country. The program we are following today is very similar to what President Reagan pointed out. We started 20 months ago on that basis, that there is no substitute for our own efforts. Politically it has been extremely difficult. But inflation had risen to 130 percent—that is politically even more harmful than the measures we have to take.

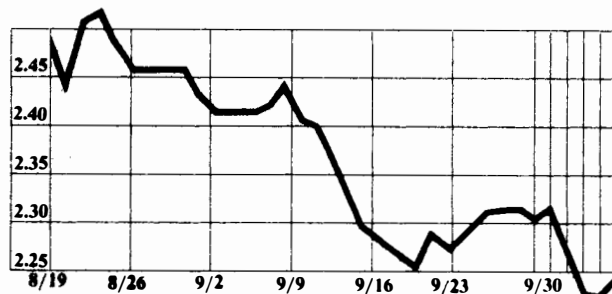
**Goldman:** What consequences do you see for your country's long-term objective to become an industrial nation?

**Ozal:** Industrialization follows a classic pattern. One starts with consumer products, and goes from that to capital goods. Even though Turkey was going into some heavy industry, we started with our own consumer market. I am not going to say that our industrial base was founded in the wrong way. But the capital goods market is much more competitive than the consumer goods market. Poland made the same mistake, to concentrate too much on capital goods—Turkey did not, but was on the way toward doing so. If you are going to industrialize in 15 to 20 years, there are two paths. One is to concentrate on capital goods, like the socialist countries, the second is the traditional pattern. I think by this route you will end up with better capital goods industry, and faster.

There is no other way but to follow the normal pattern of development. The Turkish population is now 50 million. I believe it will be 65 million 10 years from now, bigger than Italy or France. We have the natural resources, we have the nearby Mideast market—why should we not industrialize?

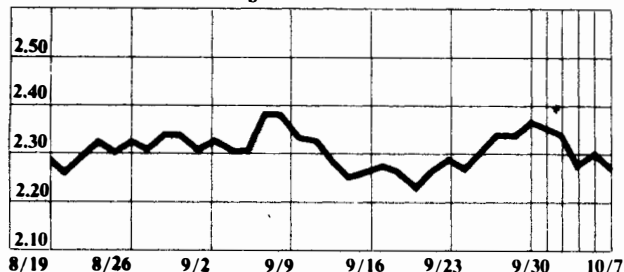
## Currency Rates

The dollar in deutschemarks

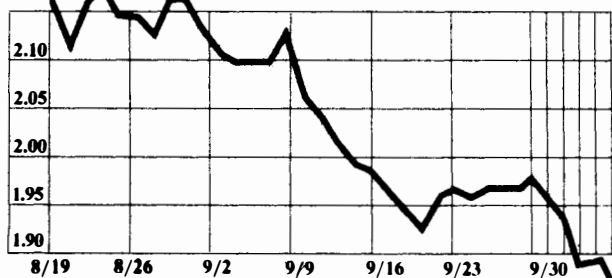


The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs



The British pound in dollars

New York late afternoon fixing

