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Mr. Munir P. Benjenk, VP, EMENA

February 1, 1980

Ernest Stern, VP, Operations

TURKEY: Proposed Program Loan II

I have reviewed the documents you sent me under cover of your memorandum of January 30. In view of the actions of the Government and the state of discussion I no longer consider it necessary to convene a Loan Committee meeting. I suggest you complete the discussions with Mr. Ozal on the draft letter and then proceed to invite loan negotiations. I do not agree, however, that we should link an increase in the loan amount to any specific actions by either Germany or the United States. If you consider that the actions taken by the Government to date plus their commitments in this loan are justified at \$200 million, we should proceed with that. We should, of course, also urge Germany and the United States to follow our example and increase their non-project assistance. Our leverage is limited and I think we will be more effective by setting an example.

Since a good deal of attention is currently focussed on lending for structural adjustment, I think we must be clear not to advertise this program loan under that category. This loan and the agreements we have reached are essentially supplements to the agreements reached with the Fund and the actions taken by the Government in that context. The actions which the Government is agreeing to in addition are pretty limited and certainly do not provide a medium term framework for structural adjustment. In the President's Report we must be sure to describe this loan in the right way in order to avoid both a non-productive debate about it and to avoid confusion regarding lending for structural adjustment.

cc: Mr. Horsley ✓

EStern:dpw