

TÜSİAD QUARTERLY ECONOMIC SURVEY



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Economic Survey**

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(W)ILL POLITICS CHANGE?

"Things that cannot go on forever, don't."
Herbert Stein

Summary and Conclusion

The fluctuations in the financial system, which wound the economic activity and debt dynamics, stem from old fashion politics.

The main reason for the volatile financial markets that curb the economic activity is the political uncertainties. Since the beginning of May, the worsening health of Prime Minister Ecevit opened a new era with ever increasing risk premiums. These premiums have been strengthened by the discussions about early elections and consequently, the financial markets adversely responded. On the other hand, the optimism given by the determination of a date at the end of this year for candidacy of Turkey to EU has been taken back by the lack of consensus and legislation about the required adjustments in "abolishment of capital punishment" and "cultural rights". Moreover, after the call of Nationalist Action Party (MHP) for an early election in November and the subsequent resignations in the Ecevit's Democratic Left Party (DSP), the political uncertainties turned into turmoil and the markets became very prudent about the future of the Turkish political scene.

The economic program is under the imprisonment of politics for the time being.

Until May, the disinflation process had picked up pace and brought down the nominal interest rates to 52%, the volatility in the exchange rate decreased and the first signs of economic recovery—though weak—were received. The IMF's second review of the economic program for the period was satisfactory and the relevant credit tranche was released afterwards. However, from May onwards, the rigidity

of Turkish politics created inertia in the markets and the friction boiled up the key indicators. Since the beginning of May, nominal interest rates increased by 25% points, USD and Euro has appreciated 21% and 30% respectively against TL and the stock exchange fell by %22. Considering that the end-year target for CPI inflation for 2003 is 20%, the central government's borrowing rate at the range of 75-80% on compounded basis poses serious doubts about the real interest burden on domestic debt stock.

International markets have doubts about the future of IMF supported Turkish economic program.

The risk for debt sustainability of Turkish economy is amplified in the international markets with the deterioration of expectations on the global economy and the herding behavior. While the developing countries are closely monitored due to their risk-inclined structures, the final wave of shock came from the advanced countries by the accountancy illusions, ignited by Enron and WorldCom cases. The risk of contingency of this problem of poor transparency, corruption and poor governance to Europe, the financial markets became susceptible to developments. Finally, the downgrade of Brasil's credit note from BB- to B+ by Standard and Poors caused Turkey to be re-evaluated in the eye of international investors. Although Turkish case is very much different from the Brasil's, the herding behavior of the international investors poses a serious problem for Turkey. The high real interest rates, high public debt stock, political uncertainties, early elections and the questions marks on the implementation of the IMF program—both the structural and tight fiscal policy—, gives many reasons for the international investors—who do not look for that many-to decide.

Table 1 (Annual % Change)	2000	2001	2001	2002
	Total	Total	Q1	Q1
DEMAND				
- Private Consumption	6.2	-9.0	-2.5	-2.0
- Government Final Consumption	7.1	-8.6	-1.3	2.4
- Gross Private Fixed Capital F.	19.6	-35.1	-14.4	-26.3
- Gross Public Fixed Capital F.	16.0	-22.0	-5.8	-17.7
GDP	7.4	-7.4	-0.8	2.3
GNP	6.3	-9.4	-3.1	0.7
SUPPLY				
- Industrial Production	5.4	-8.9	-1.0	3.0
- Capacity Util. (Level)	75.9	70.9	69.8	74.0
Manufacturing Ind.				
Workers in Production	-2.3	-8.4	-1.3	-6.9
Real Wage Per Hour	0.4	-13.8	-4.1	-15.7
- Unemployment (% level)	6.6	8.5	8.6	11.8

Output and Inflation

Offsetting the adverse effects of 2001 crisis on Turkish economy will take time.

In the last quarter of 2001, the real GNP decreased 12.3%, carrying the annual contraction to 9.4%. With a loss of USD 935, the GNP per capita fell to USD 2,160, which is below its 1990 level. After the crises almost 2 million people have lost their job, real slippage in the wages contracted the purchasing power and considerable amount of losses and capital erosion occurred in the firms sector. The expected signs of exiting the trough were received in the first quarter of 2002. In this period, while the real GDP growth on annual base was 2.3%, the continuation of decreasing net factor incomes caused the GNP growth to stay at 0.6%.

Export markets and the inventory building in the real sector cushioned the effects of domestic demand contraction.

The major contribution to growth in GDP came from exports, public sector expenditures and last but not the least, the changes in stocks. Similar to trend tracked in industrial production, the changes in stocks were the main drive behind the hike in the first quarter of 2002 and accounted for a 6.7% point contribution to GDP growth. The

changes in inventories subtracted 4.4% point from the previous year GNP growth and thinking that the slowing down economic activity will accelerate the use of stocks, the contribution will be limited than the first quarter figures for the rest of this year. The exports in the first quarter posted an increase of 9.1% and lifted their share in GDP to 40%. The favorable export performance also can be tracked through industrial production figures as the export oriented textile and white and brown good producing sectors outperform the others.

The contraction in fixed capital investments is threatening the growth potential.

While the private expenditures decreased 2% in real terms, the decline was more severe in the fixed capital investments by a real slump of 25%. This decrease brought the share of fixed capital formation in GDP to historical low levels. While its share was 31% in 1997, the consecutive crises deteriorated the investment environment and as of the first quarter of 2002 it fell to 17%. Considering the close correlation between the investments and long run growth potential, the issue should also be evaluated in the framework of structural reform program through tax system and the attempts to enhance investment environment.

The pressure on domestic demand is still noteworthy.

In the first quarter of 2002 the unemployment rate increased to %11.8 and the share of unemployment among educated people rose to vicinity of %30. The unemployment rate in the urban areas is almost 15% and this increasing social stress will be a key factor in a pre-election period. As an important indicator, Turkish manufacturing industry fails to create employment since 1998. When the failure in reversing this trend is considered with the 16% contracted real wages in the first quarter, the domestic demand is likely to stay weak for the rest of the year. If one of the main contributions to the growth comes from the agricultural sector for the rest of the year as envisaged, this also will not relieve the pressure on domestic demand by creating employment. On the other hand, as experienced in the first quarter, the vigorous trade and tourism activity may act as a painkiller for the domestic demand and the service sector can drag up employment with its revival.

TL's performance against USD is still a key factor with respect to inflationary dynamics.

The general view that explains the faster than expected disinflation process in the first half of the year has been the weak domestic demand and sharp decline in the real wages that deteriorated the consumption patterns. Also, the lower than expected private manufacturing industry prices –monthly average of approximately 1% on seasonally adjusted basis – was interpreted as the signal of change of pricing habits of the corporate sector. On the other hand, the sharp appreciation of TL against USD in this period was acting as an FX anchor. Corollary, the acceleration in the depreciation of TL against USD since the end of May and especially in June induced the core inflation upwards.

The end-year target for inflation is likely to be achieved.

The uncertainties stemming from Turkish politics affected all expectations considerably and soared financial markets raise doubts about the achievement of end-year inflation target. Another factor that will affect the sharp disinflation is the worse than expected fiscal balances of SEEs. The realization of the delayed price increases in the public sector will increase the costs of private sector. However, the pressure on the domestic demand is still noteworthy and the agriculture sector, which is expected to post high growth performance from second quarter onwards in national accounts, is dragging down the general price level considerably. Therefore, the increase in core inflation is offset to a great extent and the end-year targets stay within the range of achievement. Moreover, if the political uncertainties that nourish the risk premiums can be resolved soon the disinflation process will be hurt less.

Fiscal and Monetary Policies

Despite the improvement in primary surplus, consolidated budget deficit is still wide due to high real interest rates.

67% of the targeted consolidated budget primary surplus for 2002 is attained in the first six months of the year. Thanks to the more than expected increase in consolidated budget revenues, performance criteria regarding the consolidated public sector primary surplus for March is

Table 2 (% Increase w.r.t. end-2001)	WPI Analysis (January - June 2002)					
	Public % Incr. % Contr.		Private % Incr. % Contr.		Total % Incr. % Contr.	
Agriculture	-	-	12.9	2.9	12.9	2.9
Mining	20.4	0.4	22.6	0.2	20.9	0.5
Manufacturing	15.7	2.7	10.7	5.8	12.2	8.7
Energy	11.8	0.5	-	-	11.8	0.5
Total	15.3	3.6	11.4	8.8	12.5	12.3

also attained. The realization of the delayed price increases of the SEEs due to their worsening fiscal balance will also positively affect the consolidated public sector balance. The hike in nominal interest rates and shortening average maturities from especially June onwards will pose an extra burden on the budget for the end-year and the beginning of 2003. An early election in November is also going to spur the budget expenditures. Another important item in the primary expenditures is the transfers to Social Security Institutions. Expressly, transfers to SSK in the first six months have risen more than 100% in real terms. According to 2002 first quarter household labor force survey, 48% of the employees in Turkey are working without being engaged to any social security institution. This number is 30% in urban and 70% in rural regions. This point should be taken into consideration in scope of both the social security system and the tax burden on employment.

The share of markets in domestic debt stock is rising.

In May, domestic debt increased to 122.8 quadrillion TL with a small

increment comparative to beginning of the year. The reason behind this limited increase is mainly the utilization of USD 11 billion IMF credit that was registered to foreign debt of the treasury in redeeming public share in domestic debt stock. 51.3% of domestic debt stock is composed of FRNs, 15% is of F/X-linked, and 13.3% is of F/X-denominated. If classified by lenders, 57.5% of the total stock is formed as liabilities to public and the rest are to the market. 10-point increase in the share of debts to market in the total yielded out an improvement in the sensitivity of debt stock to developments in financial markets.

End of June monetary criteria are achieved.

With the rapid fall in inflation and improvements in expectations, Central Bank reduced overnight interest rates in a two-month period from 59% to 48% as of end April. However, the political uncertainties negatively affected the inflation expectations and prevented further interest rate cuts. Because of the sharp depreciation of TL against USD, Central Bank discontinued daily FX auctions in July, and directly intervened to the FX market. In spite of the fluctuations in the financial markets, Central Bank did attain its targets for monetary base and net international reserves, which are performance criteria for the first half of the year, and for net domestic assets, which is an indicator criterion for throughout the year. With the effects of the use of IMF credit and the early redemption of non-cash debt

Table 3 Cons. Budget (TL trln.)	June		Real* Chg. (%)	January-June		Real* Chg. (%)
	2001	2002		2001	2002	
Revenues	3,603	5,954	15.9	22,928	35,821	-0.9
Tax	3,078	4,448	1.3	16,561	25,485	-2.4
Non-Tax	482	1,402	104.1	6,051	9,770	2.4
Annex Budget	44	104	65.8	316	566	13.7
Expenditures	6,899	8,129	-17.4	31,032	53,696	9.8
Primary Exp.	3,094	4,295	-2.7	15,290	25,231	4.7
Interest Exp.	3,804	3,834	-29.3	15,741	28,465	14.7
Primary Balance	509	1,658	128.4	7,638	10,590	-12.0
Budget Balance	-3,295	-2,176	53.7	-8,104	-17,875	-40.0

*Deflated with average CPI

Table 4 (TL trln.)	Monetary Criteria (Ceilings)		
	Monetary Base	NDA	NIR*
30 April 2002	8,900	27,700	-7.2
April Realisation	8,680	25,197	-4.9
30 June 2002	9,089**	28,739**	-7.8
June Realisation	9,009	26,374	-5.8
30 September 2002	10,600	31,300	-8.5
31 December 2002	10,850	33,300	-9.7

*NIR are stated in USD billion and as lower bounds
**Revised due to exemption of Pamukbank from the obligation of required reserves since it has been taken over by SDF

stock, Central Bank Money increased by 97%, yet the increase in monetary base for the first-half of the year with respect to end of 2001 stayed at 16% with the sterilization of 7.5 quadrillion TL via OMO.

The share of foreign exchange deposits in broad money supply increased with the fluctuations in financial markets.

Due to the depreciation of TL against USD from May onwards, a rapid improvement in favor of foreign exchange deposits was experienced in the composition of M2Y because of the TL/USD parity. Although foreign exchange deposits increased by 1.5% in dollar terms with respect to March, the foreign exchange deposits share in M2Y increased to 54.5% with a 3-point increment in the last three months. USD 500 million increase in foreign exchange deposits compared to the beginning of the year is the implication for the difficulty in realization of reverse currency substitution. Therefore, the claim of the central bank that this substitution will support the domestic demand is also not likely to happen for the rest of the year under political uncertainty.

Foreign Trade and Balance of Payments

External terms of trade continued to deteriorate.

The export prices that fall continuously since 2001 stayed tranquil in the first four months. In line with the strong industrial production, the export quantity index posted strong increases from March onwards. The sharp

increase in the export quantity index is quite offset by the fall in export prices and the increase in nominal terms was limited. The import prices, on the other hand, tend to increase and there is a significant jump in quantity index from also March onwards which in turn deteriorates the foreign trade balance. In the first four months of the year, while the exports rose 5.6% the imports decreased 1% on annual base. The acceleration in the devaluation of TL in June and July brought the real exchange rates again back to post devaluation levels and this supports the expectation of a better export performance and slowing down imports in the following months in line with the weakening industrial production.

The widening foreign trade deficit causes current account deficit.

In the first four months of the year current account posted a deficit of USD 665 million. The soared imports in March and April combined with poor performance in services balances caused the foreign trade balance to deteriorate and the current account has begun to post deficits. The capital account surplus amounted to USD 1.6 billion in the same period. While the foreign direct investment inflows stayed calm, portfolio, short and long term investment inflows contributed to this increase approximately by USD 500 million each. The IMF credit received in this period was USD 3.7 billion and together with the outflow of USD 1.1 billion stated in the net errors and omissions item, the official reserves increased by USD 3.4 billion.

Prospects for 2002

The rising political uncertainties from May onwards have killed the first signs of economic recovery received in the first quarter.

In the first four months of the year, depending on the TÜSİAD Member Surveys on Economic and Political Environment, we argued that the historical close link between political and business cycles were weakening. However, the stability in the financial markets and sharp disinflation were the main drives behind the low expectations of economic instability though a considerable deterioration was experienced in the expectations of political stability. May was a month that the economic agents were anxious about the rising political uncertainties and the health of the prime minister. According to the surveys of CBT, the economic activity begins to slacken as of May. However, June turned into a period of starting confidence crisis. The June figures derived from TÜSİAD member surveys are indicating a more depressing economic environment under the recent uncertainties and claims that the fluctuations in the financial markets begin to affect investment, consumption and production decisions. Even an early election is held in November, the recent political uncertainty will likely to curb economic activity in the third quarter of the year.

TÜSİAD expects that GNP will grow 2.8% in 2002.

TÜSİAD envisages a real GNP growth of 2.8% and year-end WPI and CPI inflation of 33% and 34%, respectively. TÜSİAD believes that the preparations for both the early elections and the legislations required from EU harmonization in the third quarter will affect the macroeconomic scenario considerably. The scenario is based on the assumptions that the elections will be held on November 2002, the government will stick to the economic program, the political uncertainties will gradually decrease and the global economic environment will be favorable in the second half of the year. In 2002, TÜSİAD expects 11.7% of ex-ante real interest rates, 18.7% of real appreciation in TL against USD and the primary surplus of 5.7% of GNP.

**TABLE 1.1 MAIN ECONOMIC INDICATORS (2001-2002)
PRODUCTION AND PRICES**

	2001							2002					
	June	July	Agu.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr	May	June
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	-10.1	-11.0	-10.8	-9.2	-13.6	-14.4	-8.1	-2.4	-5.2	19.0	14.4	11.0	..
Monthly % Increase	0.2	-3.7	2.4	3.3	3.6	-0.5	-8.1	-1.1	-5.9	21.8	-2.5	4.1	..
Monthly % Increase (seasonally adjusted)	-10.4	-10.9	-11.0	-8.9	-13.6	-14.7	-7.7	-2.7	-5.4	19.7	14.0	11.3	..
CAPACITY UTILISATION RATE (SIS, %)	71.3	71.1	71.7	72.9	74.0	74.0	73.3	74.0	71.9	76.0	74.3	75.5	76.3
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)													
Real Wage per hour (annual % increase)	-14.6	..	..	-15.8	..	..	-20.5	..	..	-15.7	..	..	..
Real Income (annual % increase)	-14.2	..	..	-14.2	..	..	-20.0	..	..	-17.0	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	61.8	65.4	69.6	74.7	81.4	84.5	88.5	92.0	91.8	77.5	58.0	49.3	46.8
Monthly % Increase	2.9	3.3	3.5	5.4	6.7	4.2	4.1	4.2	2.6	1.9	1.8	0.4	1.2
Monthly % Increase (seasonally adjusted)	4.5	4.8	4.8	4.5	5.9	4.6	4.0	3.6	2.1	1.0	0.4	0.6	2.6
CONSUMER PRICE INDEX													
Annual % Increase	56.1	56.3	57.5	61.8	66.5	67.3	68.5	73.2	73.1	65.1	52.7	46.2	42.6
Monthly % Increase	3.1	2.4	2.9	5.9	6.1	4.2	3.2	5.3	1.8	1.2	2.1	0.6	0.6
Monthly % Increase (seasonally adjusted)	4.2	3.9	3.8	4.3	4.6	4.0	3.3	4.7	2.1	1.2	1.4	1.1	1.6
EXCHANGE RATE (CB buying rate)													
TL/US\$ (monthly average)	1,214,901	1,320,526	1,399,173	1,474,344	1,599,432	1,512,392	1,447,266	1,359,467	1,350,200	1,351,431	1,314,287	1,390,826	1,526,830
Annual % Increase	97.5	110.5	116.9	122.1	136.4	121.5	113.6	102.7	79.9	39.1	8.4	22.8	25.7
Monthly % Increase	7.3	8.7	6.0	5.4	8.5	-5.4	-4.3	-6.1	-0.7	0.1	-2.7	5.8	9.8
TERMS OF TRADE (SIS, 1994=100)*													
External (Export/Import)	89.8	92.1	91.5	88.0	91.2	91.7	93.1	91.5	91.8	90.9	89.6	..	..
Internal (Agriculture/Manufacturing)	96.9	98.0	95.0	93.4	91.4	93.4	102.4	107.3	111.1	110.9	108.5	104.2	105.2
DOMESTIC BORROWING (weighted by sales volume)													
Compounded Annual Interest Rate (%)	88.7	93.8	92.6	87.5	85.8	79.0	74.0	73.9	74.0	70.5	60.2	56.2	72.2
Average Maturity (days)	125.8	171.0	132.4	125.2	122.1	165.6	169.8	274.0	359.1	326.4	279.1	268.4	152.1

(..) Not available

(* Seasonally adjusted series are used in calculation)

TABLE 1.2 MAIN ECONOMIC INDICATORS (2001-2002)
FOREIGN TRADE

	2001							2002					
	June	July	Agu.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr	May	June
FOREIGN TRADE BALANCE (million \$)													
Monthly													
Imports (CIF)	3,299	3,437	3,502	3,425	3,364	3,559	3,441	3,259	3,053	3,496	4,020	..	..
Export (FOB), excluding shuttle trade	2,562	2,484	2,579	2,604	2,812	2,842	2,658	2,549	2,436	2,776	2,738	..	..
Foreign Trade Balance	-737	-953	-923	-821	-552	-717	-783	-710	-617	-720	-1,282	..	..
BALANCE OF PAYMENTS (million \$)													
Monthly													
Current Account Balance	231	424	821	769	706	297	-180	95	-348	34	-446	..	..
Foreign Trade Balance*	-348	-532	-435	-335	-55	-220	-368	-291	-103	-145	-656	..	..
Invisibles	579	956	1,256	1,104	761	517	188	386	-245	179	210	..	..
FOREIGN TRADE BALANCE (million \$)													
Cumulative for the last 12 months													
Imports (CIF)	49,696	48,455	47,078	45,859	44,199	42,396	41,399	40,586	40,045	40,432	41,414	..	..
Export (FOB), excluding shuttle trade	29,329	29,525	30,060	30,261	30,828	31,171	31,340	31,653	31,573	31,803	31,925	..	..
Foreign Trade Balance	-20,367	-18,930	-17,018	-15,598	-13,371	-11,225	-10,059	-8,933	-8,472	-8,629	-9,489	..	..
BALANCE OF PAYMENTS (million \$)													
Cumulative for the last 12 months													
Current Account Balance	-3,548	-2,765	-1,198	-175	1,235	3,044	3,573	4,311	4,065	3,862	2,768	..	..
Foreign Trade Balance*	-15,223	-13,693	-11,610	-10,106	-7,839	-5,670	-4,537	-3,446	-2,965	-3,010	-3,737	..	..
Invisibles	11,675	10,928	10,412	9,931	9,074	8,714	8,110	7,757	7,030	6,872	6,505	..	..
Capital Account and Reserve Movements	-7,926	-9,344	-12,667	-12,045	-13,258	-12,598	-14,198	-16,224	-13,757	-10,500	-8,760	..	..
Net Foreign Direct Investment	1,625	2,437	2,460	2,479	2,921	2,743	2,769	2,700	1,167	1,252	1,212	..	..
Portfolio Investment	-5,893	-8,965	-8,828	-8,967	-9,107	-4,776	-4,515	-5,159	-2,153	-1,703	-553	..	..
Net Long - Term Capital	448	649	455	489	515	-458	-1,131	-1,341	-894	-183	480	..	..
Net Short - Term Capital	-4,106	-3,465	-6,754	-6,046	-7,587	-10,107	-11,321	-12,424	-11,877	-9,866	-9,899	..	..
Net Errors and Omissions	-3,395	-3,955	-2,956	-4,438	-4,798	-3,304	-2,299	-3,265	-1,878	-2,602	-2,236	..	..
Official Reserve Changes**	6,510	6,497	5,723	5,548	5,711	1,748	2,694	4,948	187	-2,143	-4,247	..	..
FOREIGN TRADE (annual % increase)													
Import	-33.6	-26.5	-28.2	-26.2	-33.0	-33.6	-22.5	-20.0	-15.1	12.4	32.3	..	..
Export	10.1	8.6	26.2	8.4	25.3	13.7	6.8	14.0	-3.2	9.0	4.7	..	..
Price Index (1994=100)													
Import	-2.9	-0.6	-3.8	-1.3	-5.0	-6.6	-5.8	-9.2	-10.1	-9.6	-6.1	..	..
Export	-4.0	-0.7	-3.7	-3.5	-5.8	-6.6	-5.0	-9.7	-7.6	-6.9	-5.6	..	..
Quantity Index (1994=100)													
Import	-27.8	-30.1	-28.0	-23.8	-31.4	-32.5	-19.1	-8.1	-8.3	27.6	46.1	..	..
Export	17.2	4.6	39.1	23.9	41.7	28.4	18.6	31.8	8.7	21.0	14.4	..	..

(* Exports (FOB) - Imports (FOB), including shuttle trade

(**) Positive sign indicates decrease in reserves

(..) Not Available

**TABLE 1.3 MAIN ECONOMIC INDICATORS (2001-2002)
BUDGET BALANCE**

	2001							2002					
	June	July	Agu.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr	May	June
12 MONTHS CUMULATIVE (trillion TL)													
Revenues	41,159	42,616	43,851	45,162	47,065	49,442	51,813	53,798	54,440	56,280	57,074	62,355	64,682
Tax Revenues	30,760	31,879	33,199	34,212	35,612	37,889	39,768	41,158	42,607	44,399	45,290	47,322	48,669
Non-Tax Revenues	9,933	10,251	10,163	10,428	10,872	10,941	11,376	11,850	11,021	11,014	10,855	14,084	15,094
Expenditures	53,973	58,705	61,685	66,408	72,892	76,845	80,379	87,682	93,546	97,391	100,520	101,813	103,043
Current	15,775	16,329	16,749	17,380	18,177	18,953	20,368	21,170	21,892	22,764	23,689	24,668	4,717
Investment	2,848	2,999	3,079	3,246	3,382	3,657	4,140	4,171	4,210	4,239	4,231	4,441	72,962
Transfers	35,349	39,377	41,857	45,782	51,333	54,235	55,871	62,340	67,445	70,388	72,599	72,704	15,427
Primary Balance	10,337	10,707	10,451	11,122	11,699	12,605	12,498	12,636	11,524	11,683	10,833	14,301	38,361
Budget Balance	-12,814	-16,089	-17,834	-21,246	-25,827	-27,402	-28,566	-33,885	-39,106	-41,112	-43,446	-39,457	..
Financing	12,944	16,224	17,750	21,293	25,820	27,928	32,117	36,630	40,508	42,179	44,730	40,687	..
Foreign Borrowing (net)	-1,916	-1,853	-1,798	-2,577	-2,728	-4,338	-4,448	-3,800	7,805	7,812	10,209	10,317	..
Domestic Borrowing (net)	-4,163	-1,661	-1,037	2,505	1,910	6,291	5,215	7,482	2,113	3,718	6,678	4,738	..
Short-term Borrowing (net)	13,165	13,720	15,459	14,053	14,090	14,854	17,987	18,522	15,721	15,846	6,678	13,081	..
Other	5,773	5,932	5,125	7,312	12,548	11,120	13,363	14,425	14,869	14,803	13,320	12,550	..
12 MONTHS CUMULATIVE (billion \$)													
Revenues	51.6	50.5	48.0	46.6	45.3	44.0	43.8	42.9	40.9	41.4	41.7	44.8	45.7
Tax Revenues	38.7	37.8	36.1	34.9	33.8	33.3	33.1	32.2	31.9	32.6	33.1	34.0	34.3
Non-Tax Revenues	12.3	12.1	11.4	11.1	10.9	10.2	10.1	10.1	8.4	8.1	7.9	10.1	10.6
Expenditures	65.7	66.3	64.4	65.2	65.9	65.7	64.8	67.8	69.7	71.6	73.7	73.1	72.8
Current	20.0	19.5	18.9	18.3	17.7	17.2	16.6	16.4	16.3	16.6	17.2	17.7	17.9
Investment	3.7	3.6	3.4	3.4	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.1	3.3
Transfers	42.0	43.3	42.1	43.4	44.9	45.3	45.1	48.4	50.3	51.9	53.4	52.3	51.6
Primary Balance	12.8	12.8	10.8	11.1	11.1	10.9	11.9	11.1	8.9	8.7	7.9	10.3	10.9
Budget Balance	-14.1	-15.8	-16.4	-18.6	-20.6	-21.7	-21.0	-24.9	-28.7	-30.2	-32.0	-28.4	-27.1
Financing	14.2	16.0	15.9	18.5	20.6	22.1	23.9	26.9	29.7	30.9	32.8	29.1	..
Foreign Borrowing (net)	-0.8	-1.4	-1.0	-1.8	-1.7	-2.9	-3.5	-2.8	5.7	5.7	7.6	7.7	..
Domestic Borrowing (net)	-4.3	-3.2	-2.2	0.3	-0.9	1.5	0.9	3.0	0.7	2.0	4.3	3.1	..
Short-term Borrowing (net)	13.3	14.0	14.3	13.4	13.5	14.3	16.4	15.8	12.2	11.9	4.3	9.6	..
Other	5.4	5.9	4.3	6.2	9.3	8.7	9.6	10.5	10.7	10.8	9.7	8.7	..
DOMESTIC DEBT STOCK													
1000 trillion TL	90.3	96.4	101.8	105.8	109.3	117.2	122.2	128.1	118.0	120.3	123.3	122.8	..
Billion \$	74.4	73.0	72.8	71.7	68.3	77.5	84.4	94.3	87.4	89.0	93.8	88.3	..
Domestic Debt/M2Y	107.6	111.8	109.3	104.3	104.0	113.9	118.7	127.6	114.1	116.4	117.6	111.8	..

(..) Not Available

TABLE 1.4 MAIN ECONOMIC INDICATORS (2001-2002)
MONETARY AGGREGATES

	2001							2002					
	June	July	Agu.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr	May	June
MONEY SUPPLY (annual % change)													
Currency in Circulation	58.1	58.1	50.9	66.4	56.5	52.9	49.3	74.1	115.6	60.0	56.0	50.9	54.1
Sight Deposits	41.0	59.2	102.7	48.6	64.1	54.2	14.2	34.8	33.3	28.4	9.8	29.0	11.9
M1	63.7	58.8	79.9	55.7	60.7	53.7	27.9	49.8	65.6	40.2	27.9	37.7	28.0
Time Deposits	63.5	42.3	51.3	59.9	57.6	56.3	45.2	43.7	41.1	28.3	35.9	35.8	33.5
M2	63.5	46.2	58.2	58.8	58.3	55.7	40.9	45.0	46.3	30.9	34.1	36.3	32.2
Foreign Exchange Deposits (TL)	91.5	103.8	114.9	134.4	143.0	127.4	132.9	117.7	84.2	60.4	45.8	55.8	46.5
M2Y	77.0	73.5	85.6	95.6	99.7	89.9	80.1	76.4	64.1	44.6	39.9	45.9	39.6
Repo	-22.4	2.2	-39.8	-44.7	-53.7	-47.8	-53.2	-49.1	-53.5	-6.2	-43.8	-35.8	-36.7
M2YR	63.5	64.8	69.6	78.4	81.6	73.7	67.5	63.6	52.4	42.0	33.9	40.1	34.7
Official Deposits	38.7	54.7	3.3	38.6	56.1	49.1	117.8	60.0	60.1	35.9	118.1	27.6	37.9
Other Deposits With CBRT	-51.4	102.7	417.0	36.3	-45.8	82.8	110.7	13.3	57.7	-14.1	-39.2	-64.8	146.8
M3Y	73.9	73.6	87.3	93.7	96.2	89.1	81.1	75.1	63.9	43.3	39.8	42.8	40.1
M2Y (trillion TL)	83,966	86,206	93,114	101,415	105,089	102,967	102,950	100,386	103,493	103,335	104,851	109,868	117,240
Composition of M2Y (%)													
Currency in Circulation	4.6	4.7	4.5	4.4	4.1	4.2	4.7	4.5	5.8	4.8	5.0	5.2	5.1
Sight Deposits	7.4	6.7	7.6	5.9	5.3	6.0	5.5	5.7	5.6	6.4	5.5	5.0	5.9
Time Deposits	36.1	32.9	31.9	31.4	31.1	32.7	34.7	36.5	35.9	37.4	37.9	36.2	34.5
Foreign Exchange Deposits	51.9	55.7	56.1	58.3	59.5	57.2	55.1	53.4	52.7	51.5	51.6	53.6	54.5
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
CREDIT STOCK (domestic, annual % change)	47.7	43.9	39.7	39.2	37.4	25.5	24.8	21.1	15.3	11.1	8.2	16.8	5.1
Central Bank Direct Credits	124.3	128.0	131.4	-	-	-	-	-	-	-	-	-	-
Deposit Bank Credits	45.4	41.4	36.7	35.7	33.8	21.9	21.6	19.3	14.3	10.3	8.4	17.1	4.6
Invest. and Develop.Bank Credits	81.6	81.3	86.9	96.4	96.6	84.5	76.6	48.5	30.1	22.0	5.6	13.9	12.0
CB BALANCE SHEET (million \$)													
Reserve Money	5,118	4,917	4,971	5,012	4,448	4,964	5,358	5,726	6,663	6,298	6,379	6,358	5,875
Net Domestic Assets	9,531	10,427	11,541	11,741	11,238	13,178	14,140	14,274	7,536	7,675	6,369	7,180	6,637
Net Foreign Assets	-4,413	-5,509	-6,571	-6,730	-6,790	-8,214	-8,782	-8,548	-872	-1,378	10	-822	-762
Net Position of Public Sector	13,397	13,868	13,863	14,054	14,865	18,296	19,974	22,514	17,893	19,431	18,446	16,010	15,876
Liabilities Due to Open Market Operations	168	-1,107	-2,041	-1,037	489	283	768	1,426	4,125	4,645	5,296	4,854	5,516
THE CENTRAL BANK RESERVES (billion \$)	16.5	17.2	18.7	18.9	18.3	17.3	18.7	19.2	20.3	20.3	22.2	22.0	22.2
CB RESERVES/DOMESTIC DEBT STOCK+M2Y,(%)	11.5	12.4	13.4	13.5	13.7	11.9	12.0	11.4	12.4	12.3	12.8	13.1	..
FOREIGN DEBT STOCK (billion \$)	113.1	..	..	118.5	..	..	115.1	..	..	117.5	..	..	..

Net Foreign Assets = Foreign Assets - (Liabilities to Non-Residents+FX Deposits of Banking Sector)

Net Domestic Assets = Net Position of Public Sector + Credits to Banking Sector + Net Open Market Operations + Others + FX revaluation Account

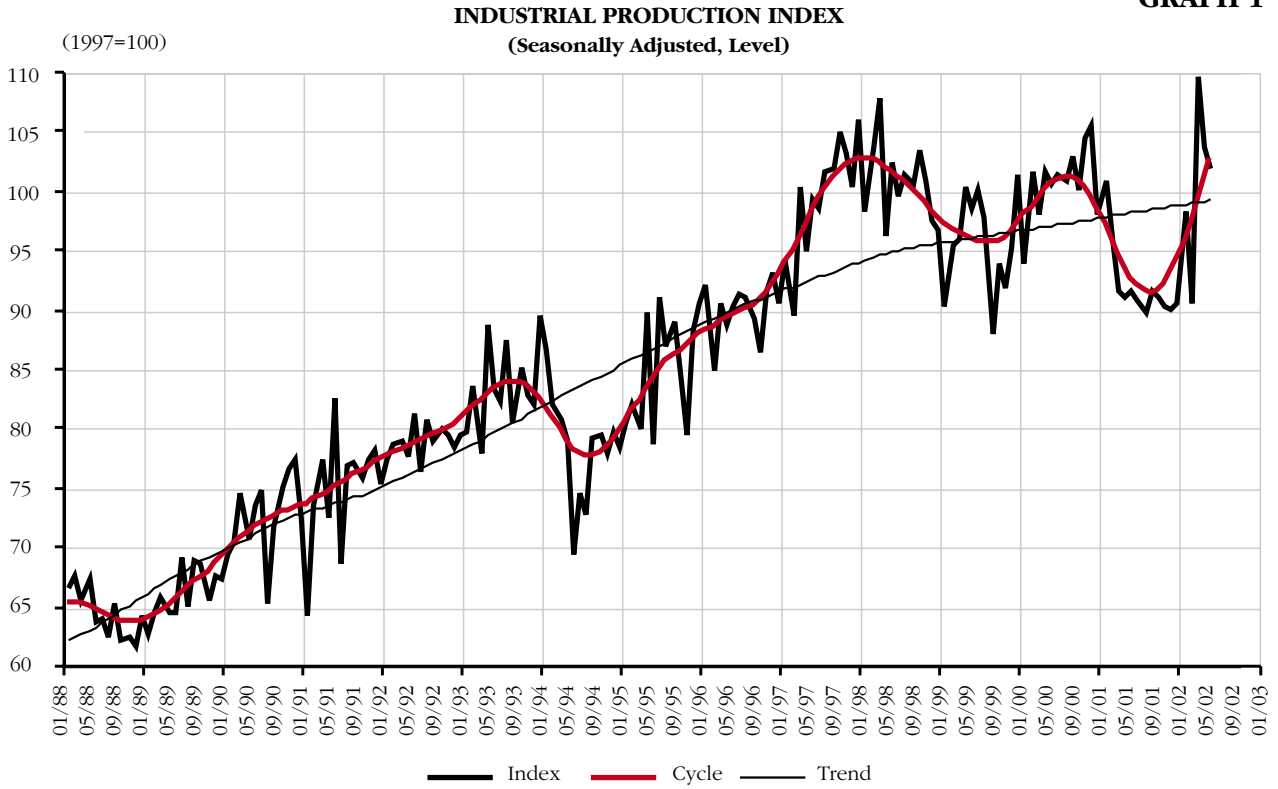
Net position of Public Sector = Credits to Public Sector - (Deposits of Public Sector + FX Deposits of Non - Banking Sector)

Reserve Money = Net Foreign Assets + Net Domestic Assets

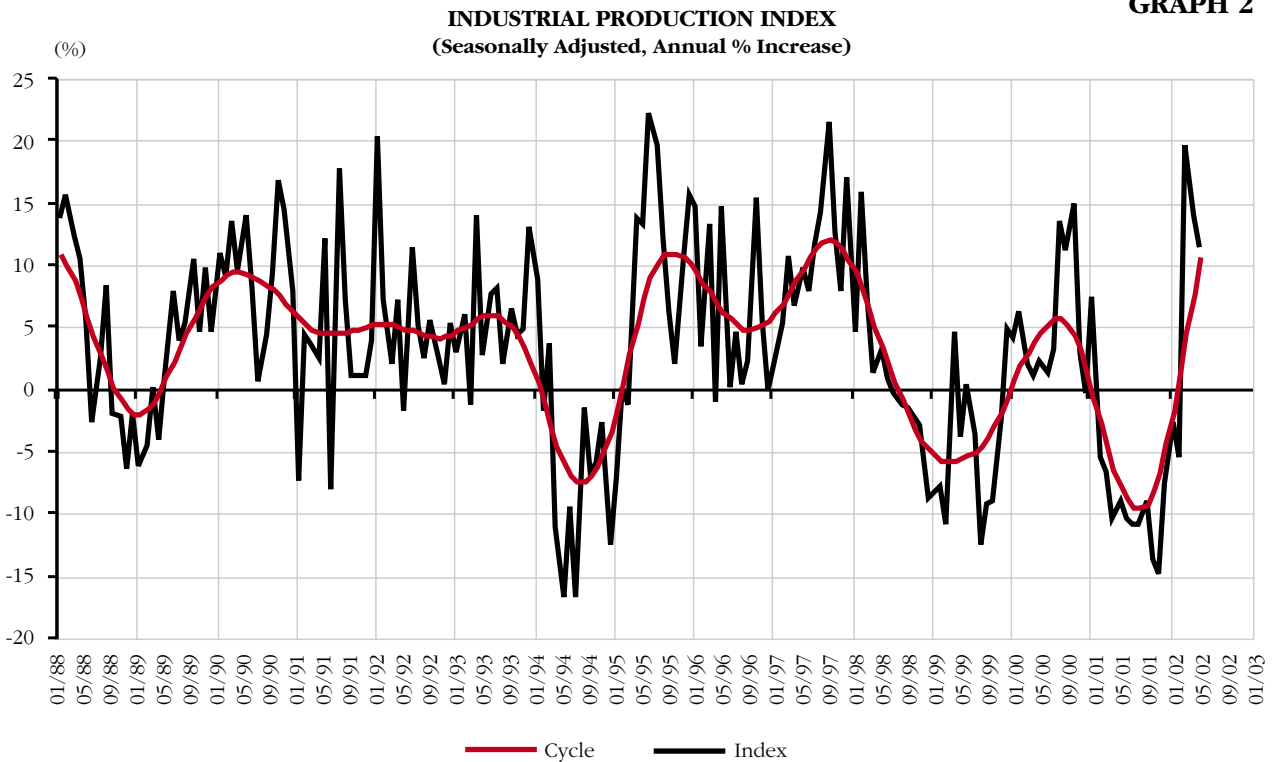
**TABLE 2 GROSS DOMESTIC PRODUCT
(at 1987 prices, TL)**

By Kind of Expenditure	Annual % Change		% Share	Annual % Change				By Sectors	Annual % Change		% Share	Annual % Change			
	2000	2001		2001	2001-2	2001-3	2001-4		2002-1	2000		2001	2001	2001-2	2001-3	2001-4	2002-1
	Private Final Cons. Exp.	6.2	-9.0	66.6	-11.5	-9.7	-11.7		-2.0	Agriculture	3.9	-6.1	13.9	-2.9	-5.6	-13.6	-1.5
Food, Beverage	3.2	-3.4	24.8	-4.1	-4.9	-4.8	0.3	Agriculture and Livestock Prod.	4.1	-6.3	12.9	-2.2	-5.4	-13.9	-0.4
Durable Goods	27.4	-30.4	10.0	-36.1	-31.1	-33.2	-5.3	Forestry	2.7	-8.1	0.6	-11.9	-22.9	-16.4	-17.3
Semi-dur, Non-dur Goods	0.9	-9.0	9.9	-12.5	-9.9	-19.0	-4.3	Fishing	-2.2	5.8	0.4	-1.1	6.1	-0.9	18.9
Energy, Trans., Commun.	-2.1	1.8	9.7	-0.7	0.5	4.7	-3.8	Industry	6.0	-7.5	28.9	-10.1	-8.9	-10.7	3.0
Services	7.6	-9.1	6.5	-12.2	-9.1	-11.4	-1.4	Mining and Quarrying	-1.1	-9.6	1.4	-7.4	-11.2	-15.9	-0.8
Ownership of Dwelling	0.0	2.1	5.7	2.1	2.1	2.0	2.0	Manufacturing	6.4	-8.1	24.1	-11.0	-9.7	-12.0	2.6
Gov. Final Cons. Exp.	7.1	-8.6	8.5	-6.6	-15.0	-8.9	2.4	Electricity, Gas, Water	6.5	-2.1	3.5	-4.0	-1.9	0.4	6.8
Compensation of Empl.	2.0	1.5	4.6	1.9	0.9	1.0	2.0	Construction	4.4	-5.9	5.2	-5.8	-8.3	-3.6	-2.7
Purchases of Goods, Services	12.4	-18.0	4.0	-15.3	-29.8	-14.4	3.5	Trade	12.0	-9.4	22.4	-12.1	-7.4	-14.4	3.9
Gross Fixed Capital Form.	16.9	-31.7	20.6	-32.1	-37.3	-38.7	-24.8	Wholesale and Retail Trade	11.1	-12.7	18.4	-16.5	-12.6	-17.0	3.1
Public Sector	19.6	-22.0	6.1	-32.0	-23.4	-18.8	-17.7	Hotels, Rest. Services	17.3	10.0	4.0	14.0	20.1	0.8	9.2
Machinery Equipment	20.3	-39.0	1.5	-65.4	-26.7	-32.4	-15.1	Transportation and Comm.	5.5	-4.9	13.8	-8.8	-4.5	-3.7	1.7
Building Construction	31.6	-20.0	1.8	-2.1	-20.7	-27.3	-17.9	Financial Institutions	0.9	-9.9	2.5	-10.0	-9.8	-14.2	-7.4
Other Construction	12.2	-10.3	2.9	-8.2	-23.5	-0.8	-21.0	Ownership of Dwelling	0.0	2.1	5.3	2.1	2.1	2.0	2.0
Private Sector	16.0	-35.1	14.5	-32.1	-41.5	-50.2	-26.3	Business and Pers. Services	6.1	-7.4	2.3	-9.7	-7.8	-10.4	2.1
Machinery Equipment	37.2	-49.6	7.3	-44.4	-61.7	-69.0	-41.2	(-)Imputed Bank Serv. Changes	0.7	-11.7	2.0	-12.0	-10.8	-16.9	-9.6
Building Construction	-9.7	-8.7	7.2	-8.9	-9.2	-9.2	-2.5	Sectoral Total	6.6	-6.7	92.3	-8.8	-6.7	-9.8	2.3
Change in Stock	-	-	1.5	-	-	-	-	Government Services	2.0	1.5	4.7	1.9	0.9	1.0	2.0
Export of Goods, Services	19.2	7.4	38.1	8.2	5.9	6.4	9.1	Private Non-profit Inst.	1.1	0.2	0.4	-0.3	-0.3	0.0	0.3
Import of Goods, Services	25.4	-24.8	32.3	-31.0	-26.5	-26.0	1.3	Total	6.4	-6.4	97.4	-8.2	-6.4	-9.3	2.3
GDP (Demand)	7.3	-7.4	100.0	-9.6	-7.4	-10.4	2.3	Import Duties	28.1	-25.1	4.6	-32.1	-28.0	-28.4	2.6
GDP (Supply)	7.4	-7.4	-	-9.6	-7.4	-10.4	2.3	GDP	7.4	7.4	101.9	-9.6	-7.4	-10.4	2.3

GRAPH 1

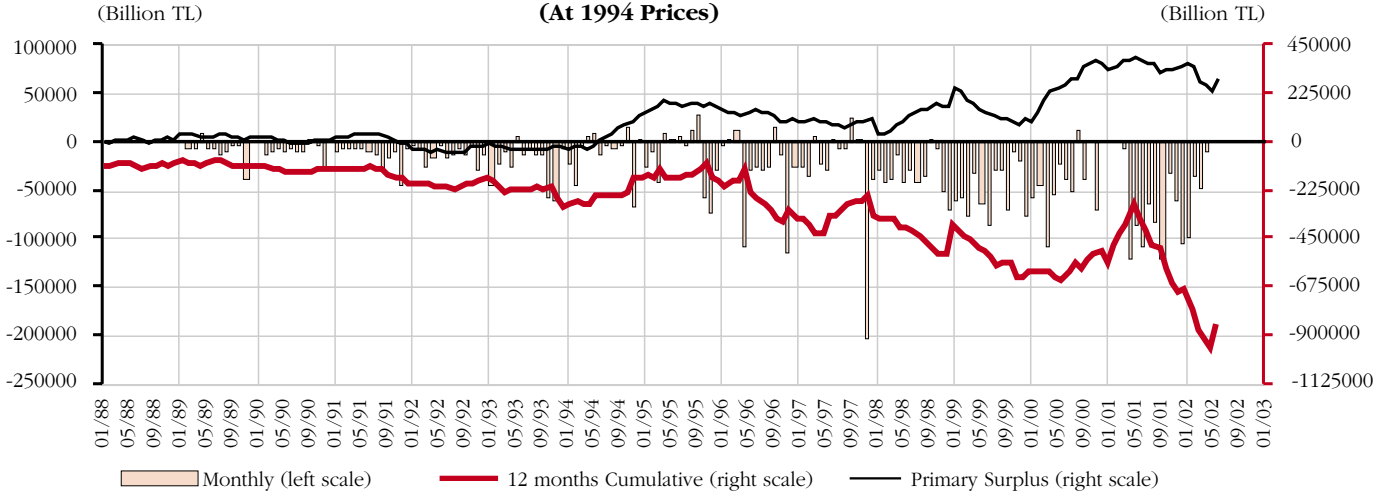


GRAPH 2



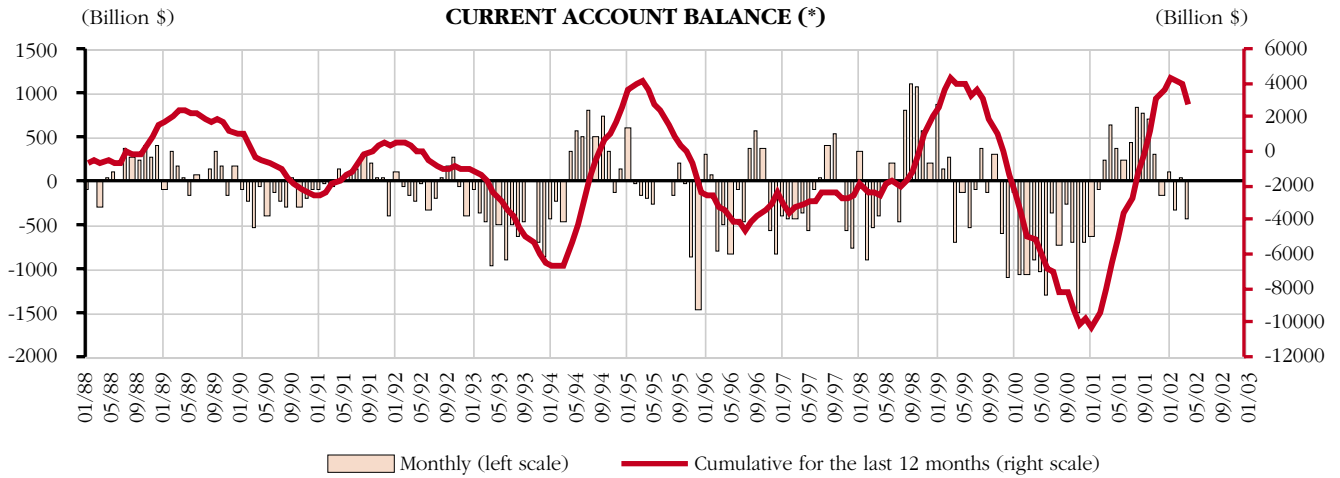
GRAPH 3

**CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices)**



GRAPH 4

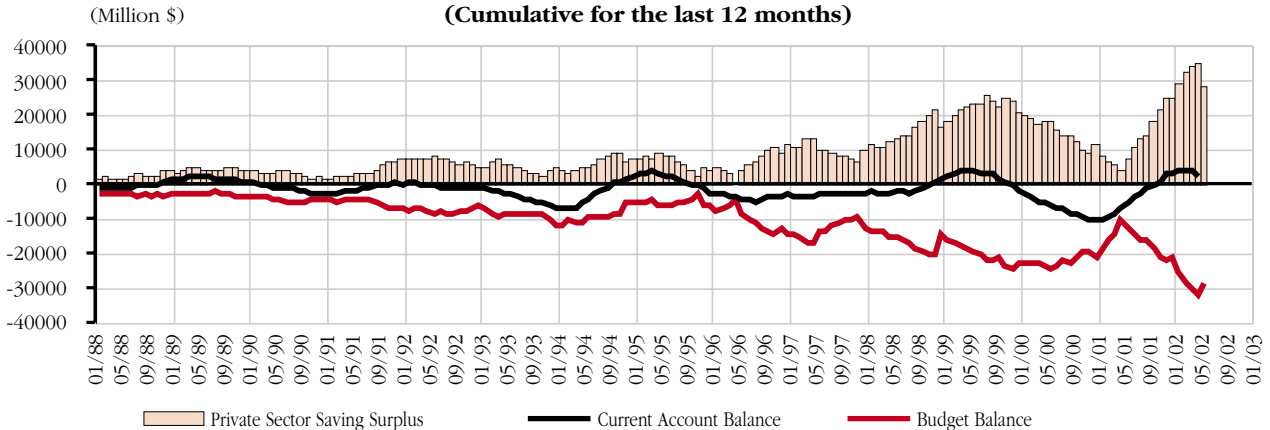
CURRENT ACCOUNT BALANCE (*)



(*) Monthly figures include shuttle trade since 01/96

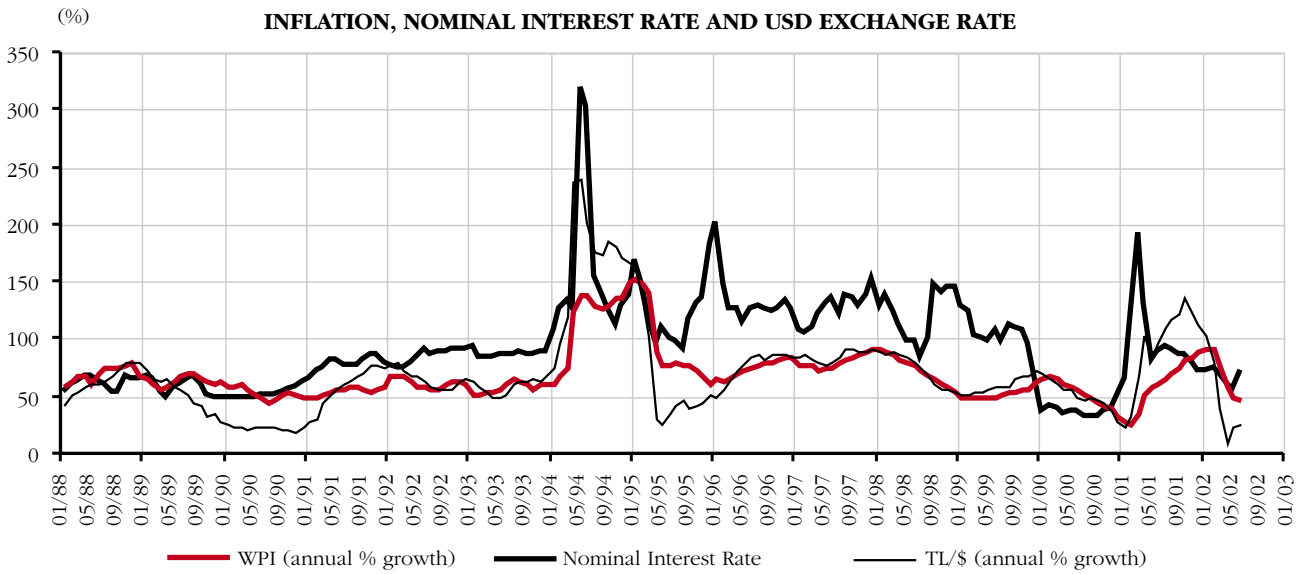
GRAPH 5

**SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)**

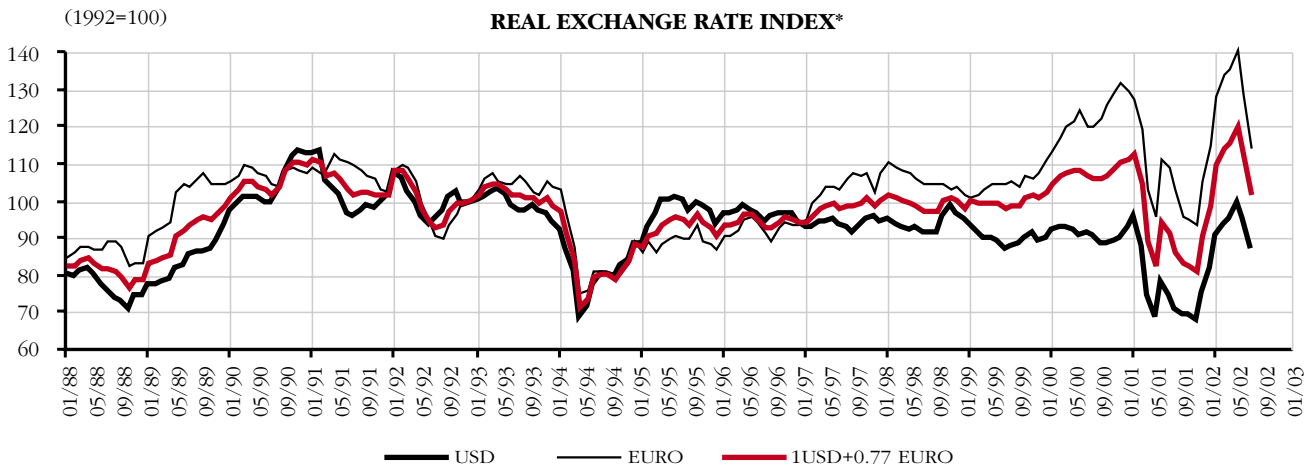


(*) Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

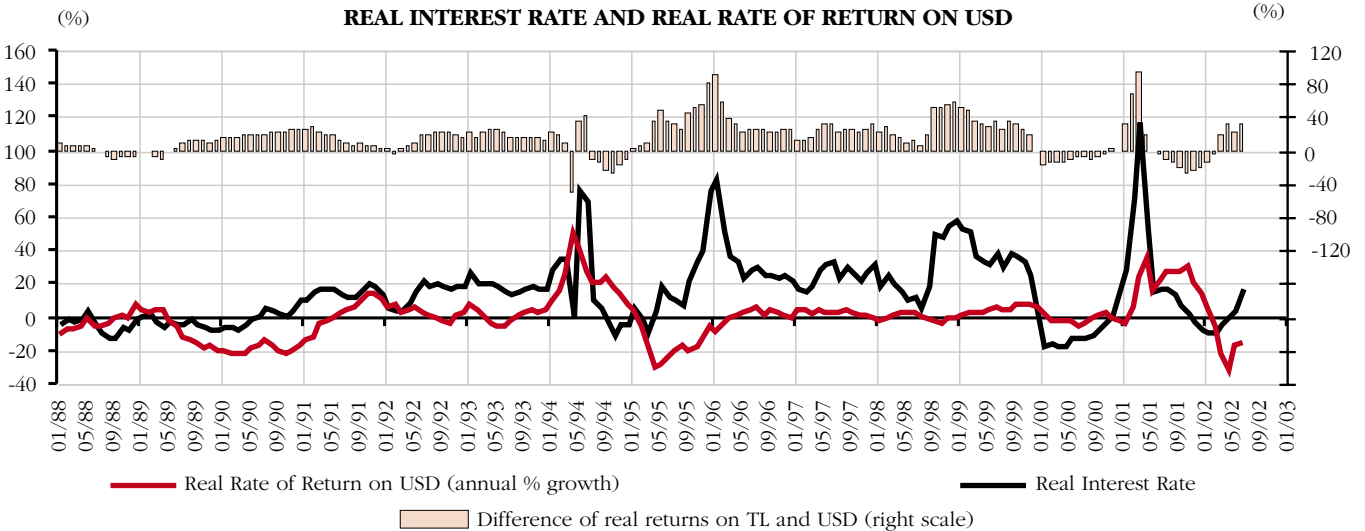


GRAPH 7

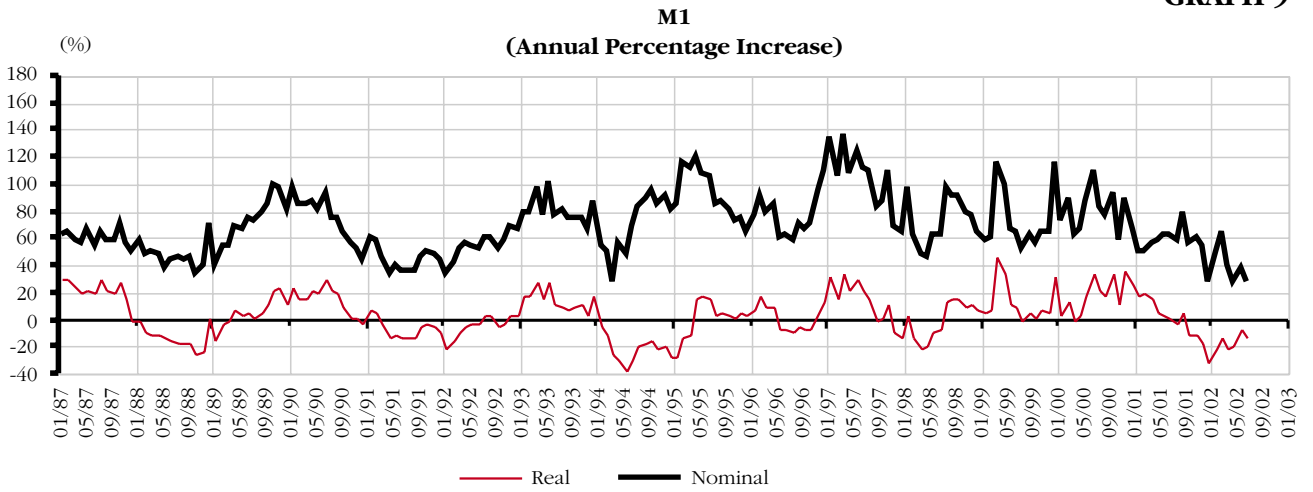


*DM is taken instead of Euro for pre-1999 period

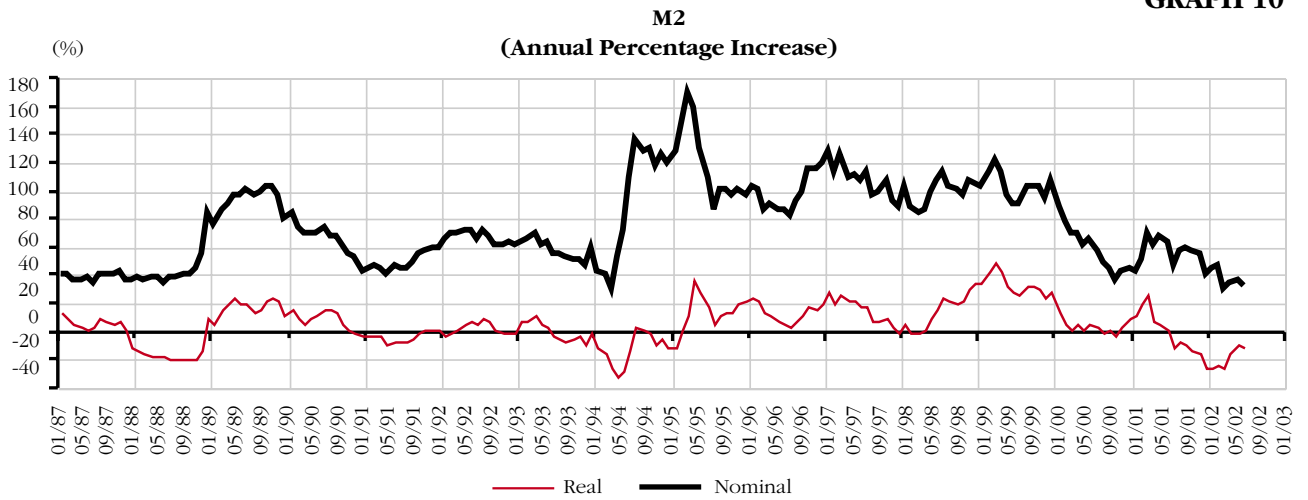
GRAPH 8



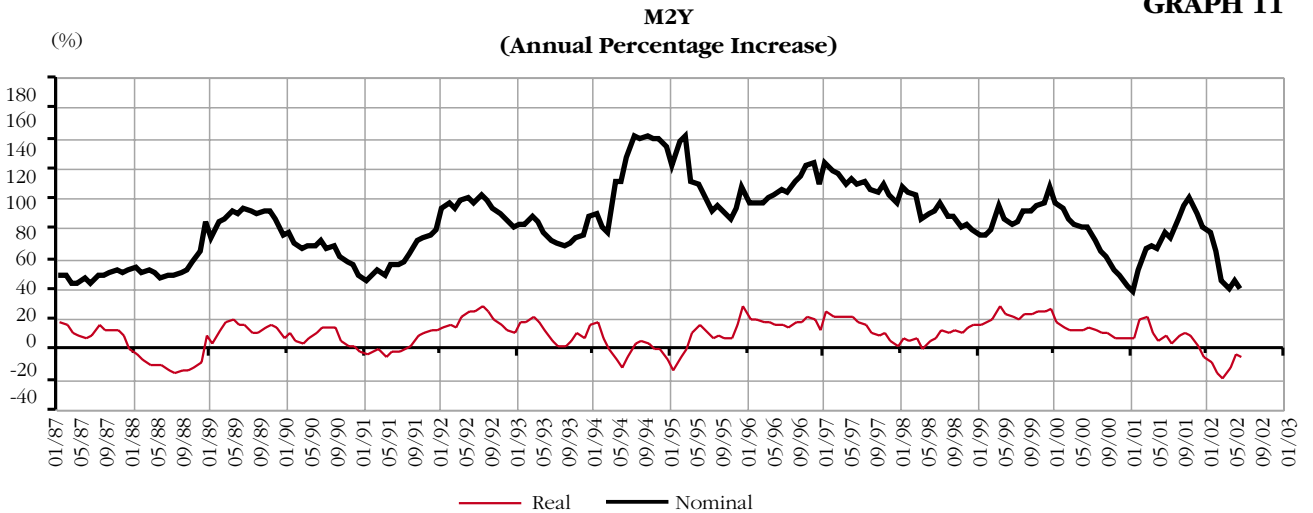
GRAPH 9



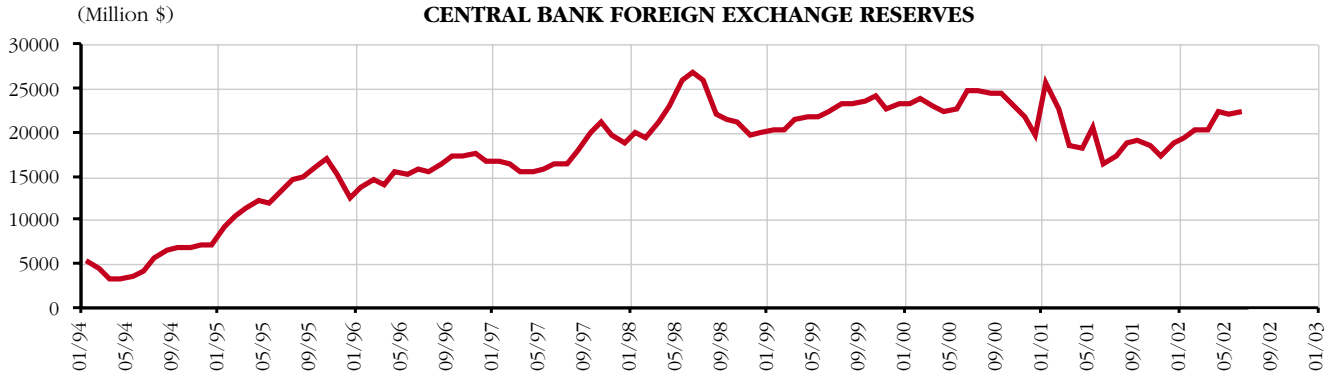
GRAPH 10



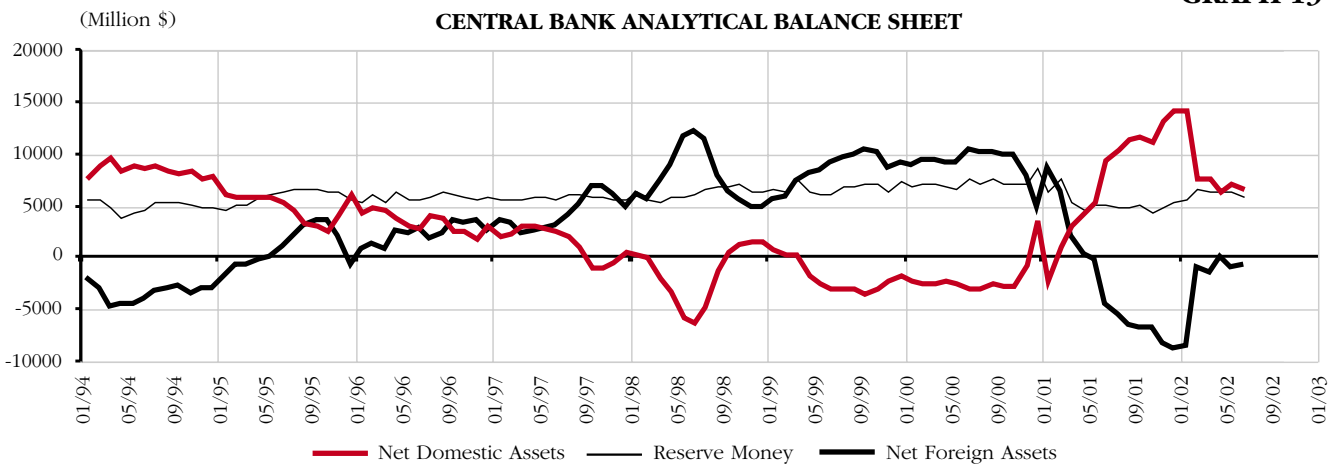
GRAPH 11



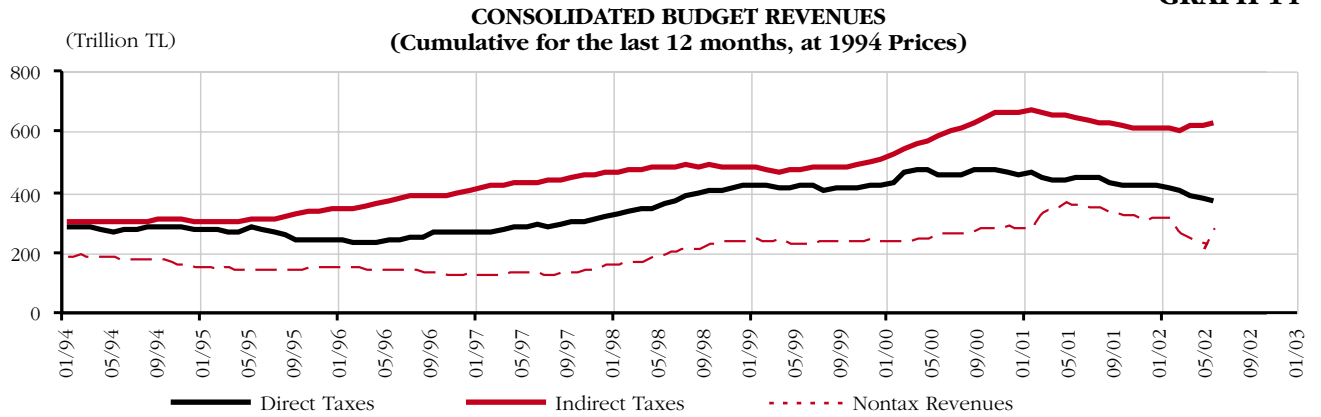
GRAPH 12



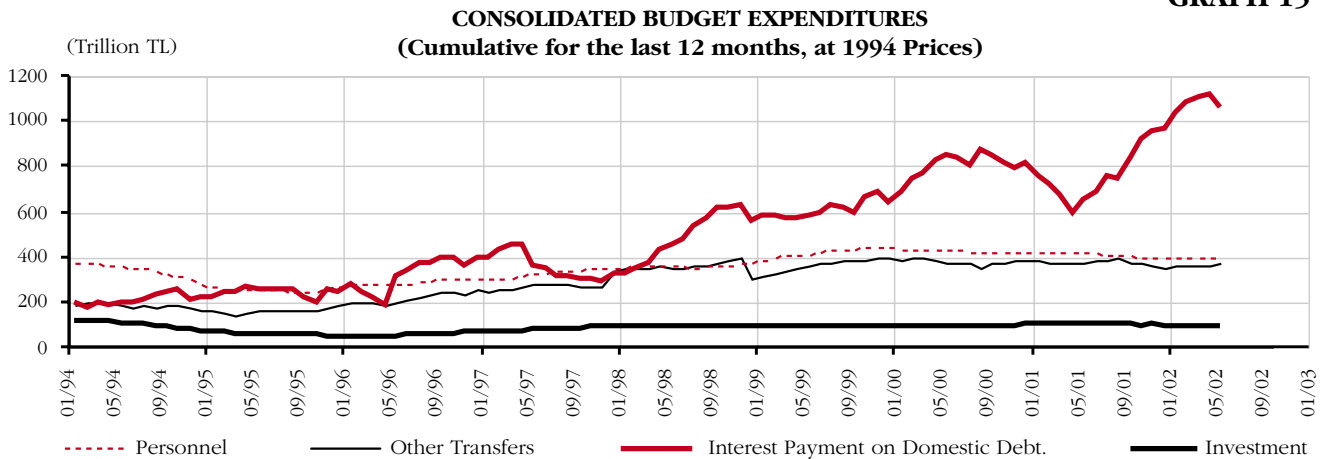
GRAPH 13



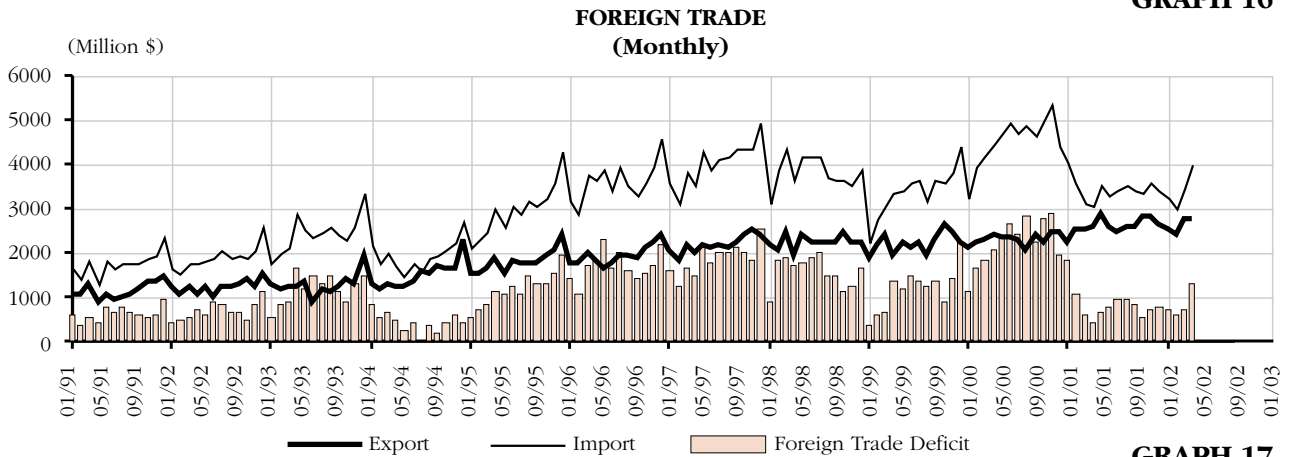
GRAPH 14



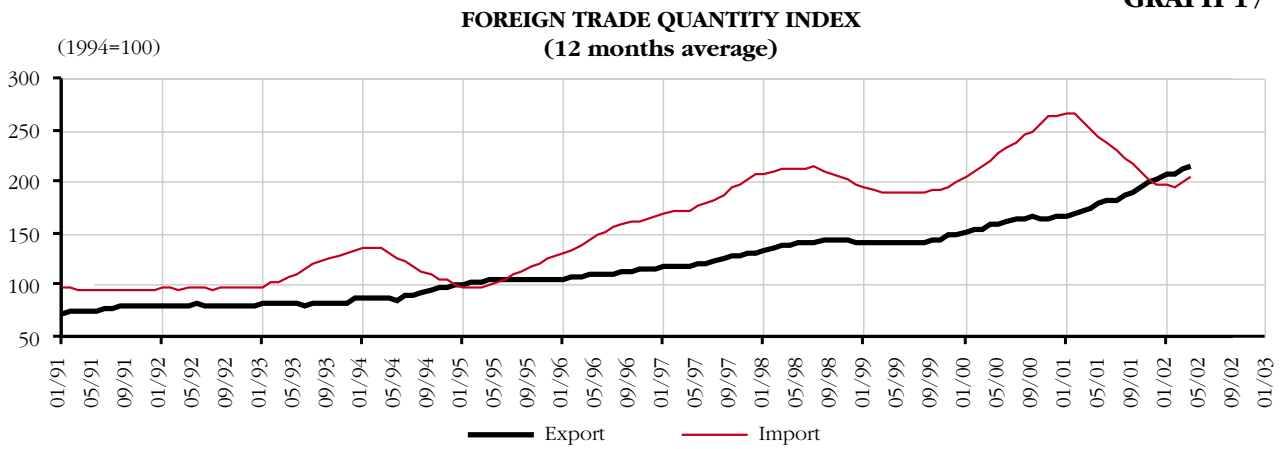
GRAPH 15



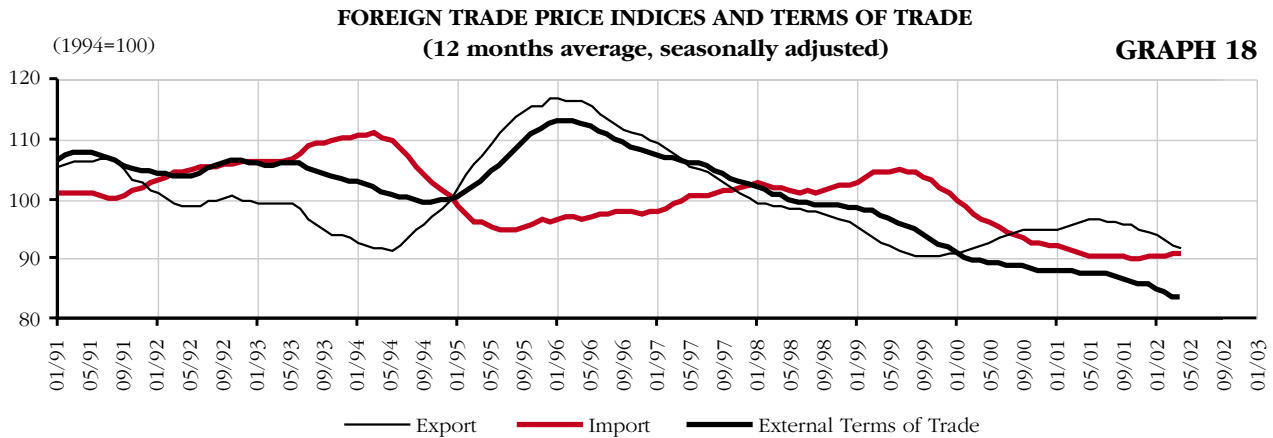
GRAPH 16



GRAPH 17



GRAPH 18



GRAPH 19



TÜSİAD MACROECONOMIC SCENARIO (Quarterly and yearly average)

	2000					2001					2002					Government Program
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	
INCOME and PRICES																
GNP (1987 prices, annual %)*	4.2	4.9	7.2	7.6	6.1	-3.1	-12.1	-9.0	-12.3	-9.4	0.7	<i>3.5</i>	<i>1.4</i>	<i>5.7</i>	2.8	3.0
Inflation (WPI)*	66.6	59.1	48.3	37.6	51.4	30.1	56.8	70.0	84.9	61.6	86.7	51.2	<i>42.1</i>	<i>34.4</i>	50.1	31(b)
Inflation (CPI)*	68.8	61.7	52.7	42.3	54.9	35.6	52.3	58.6	67.5	54.4	70.3	47.0	<i>39.6</i>	<i>34.1</i>	45.7	35(b)
Reserve Money *	76.6	75.1	69.4	55.6	68.0	31.3	40.7	36.9	42.5	38.1	53.6	50.1	<i>46.0</i>	<i>41.5</i>	46.1	-
CONSOLIDATED BUDGET																
Budget Revenues (trillion TL)	7,480	8,046	9,441	8,789	33,756	10,561	12,367	13,445	15,439	51,813	15,028	20,793	<i>18,559</i>	<i>20,114</i>	74,494	71,933
Budget Expenditures (trillion TL)	11,381	12,281	11,340	11,601	46,603	10,651	20,381	23,776	25,572	80,379	27,663	26,032	<i>23,524</i>	<i>31,647</i>	108,866	100,040
Budget Balance (trillion TL)	-3,901	-4,235	-1,898	-2,812	-12,846	-90	-8,014	-10,330	-10,132	-28,566	-12,636	-5,239	<i>-4,965</i>	<i>-11,533</i>	-34,373	-28,107
Interest Expenditures (trillion TL)	6,602	6,428	4,557	2,853	20,440	4,809	10,932	13,774	11,549	41,065	16,540	11,925	<i>9,222</i>	<i>12,576</i>	50,263	43,400
Budget Balance (billion \$)	-6.9	-7.0	-2.9	-4.1	-20.6	-0.1	-6.8	-7.4	-6.7	-23.3	-9.3	-3.7	<i>-3.0</i>	<i>-6.6</i>	-22.4	-
Primary Surplus (over GNP, %)					6.0					7.0					5.7	5.9
Budget Balance (over GNP , %)					-10.2					-15.9					-12.4	-9.9
EXCHANGE RATES																
Nominal Exchange Rate (TL/\$)	562,840	609,022	645,348	678,951	624,040	797,557	1,186,825	1,398,014	1,519,697	1,225,523	1,353,699	1,410,648	<i>1,629,001</i>	<i>1,742,025</i>	1,533,843	-
Nominal Exchange Rate (TL/€)*	65.2	54.1	47.4	36.8	49.4	41.7	94.9	116.6	123.8	96.4	69.7	18.9	<i>16.5</i>	<i>14.6</i>	25.2	-
Real Exchange Rate (TL/\$) (1999=100)**	92.5	91.6	89.2	90.8	91.0	84.9	73.7	70.0	75.0	75.9	93.4	93.8	<i>85.4</i>	<i>87.9</i>	90.1	-
Real Exchange Rate (TL/€)*	0.9	3.3	0.6	0.6	1.3	-8.2	-19.5	-21.5	-17.4	-16.6	10.0	27.2	<i>22.0</i>	<i>17.2</i>	18.7	-
Nominal Exchange Rate (TL/€)	555,014	569,162	583,843	589,358	574,344	733,423	1,036,296	1,245,474	1,360,137	1,093,832	1,186,136	1,299,433	<i>1,655,258</i>	<i>1,798,333</i>	1,484,790	-
Nominal Exchange Rate (TL/€)*	45	36	27	14	29	32.1	82.1	113.3	130.8	90.4	61.7	25.4	<i>32.9</i>	<i>32.2</i>	35.7	-
Real Exchange Rate (TL/€) (1999=100)	111.3	116.3	117.0	124.1	117.2	109.6	100.2	93.3	99.4	100.6	126.5	120.8	<i>99.7</i>	<i>101.0</i>	112.0	-
Real Exchange Rate (TL/€) (1999=100)*	14.8	16.9	16.7	20.2	17.2	-1.6	-13.9	-20.3	-19.9	-14.2	15.5	20.6	<i>6.9</i>	<i>1.6</i>	11.3	-
€/(\$ *100)	98.6	93.5	90.5	86.8	92.3	92.0	87.3	89.1	89.5	89.5	87.6	92.1	<i>101.6</i>	<i>103.2</i>	96.1	-
GOVERNMENT SECURITIES AUCTIONS																
Nominal Int. Rate (compounded, %)	39.4	38.0	33.5	39.2	37.5	125.4	100.3	91.3	79.6	99.1	72.8	63.0	<i>71.3</i>	<i>63.4</i>	67.6	-
Real Int. Rate (compounded, %)	-16.3	-13.3	-10.0	1.2	-9.2	73.3	27.7	12.6	-2.9	23.2	-7.5	7.8	<i>20.5</i>	<i>21.6</i>	11.7	-
FOREIGN TRADE and CURRENT ACCOUNT																
Imports (cif) (billion \$)	11.3	14.2	14.2	14.8	54.5	10.8	9.9	10.4	10.4	41.4	9.8	<i>10.2</i>	<i>11.5</i>	<i>12.5</i>	44.1	43.3
Exports (fob, incl. shuttle trade) (billion \$)	7.6	8.0	7.7	8.1	31.4	8.1	8.8	8.4	9.1	34.4	8.7	<i>9.5</i>	<i>9.2</i>	<i>9.6</i>	36.9	37.0
Foreign Trade Balance(fob-cif) (billion \$)	-3.7	-6.2	-6.5	-6.7	-23.1	-2.7	-1.1	-1.9	-1.3	-7.0	-1.2	<i>-0.5</i>	<i>-2.3</i>	<i>-3.0</i>	-7.0	-6.3
Invisibles (other current) (billion\$)	2.7	2.9	5.3	3.7	14.5	2.2	2.4	3.9	2.1	10.6	0.9	<i>1.1</i>	<i>2.1</i>	<i>2.2</i>	6.3	5.1
Current Account Balance (billion\$)	-1.1	-3.3	-1.2	-3.0	-8.6	-0.5	1.2	2.0	0.8	3.3	-0.2	<i>0.4</i>	<i>-0.2</i>	<i>-0.8</i>	-0.9	-1.2
Imports (cif) (billion \$)*	40.5	36.8	36.0	25.1	33.9	-4.8	-30.1	-27.0	-30.1	-24.0	-9.0	<i>3.5</i>	<i>11.4</i>	<i>21.0</i>	6.6	-
Exports (fob, incl. shuttle trade) (billion \$)*	7.5	15.8	7.7	-1.4	7.0	9.8	13.1	12.2	12.1	11.8	7.3	<i>8.5</i>	<i>9.1</i>	<i>5.3</i>	7.5	-
Import Quantity Index*	43.4	34.4	30.1	26.3	32.7	-10.0	-30.4	-27.4	-28.2	-24.8	5.8	<i>10.2</i>	<i>10.0</i>	<i>10.5</i>	10.0	-
Export Quantity Index*	14.4	21.4	11.1	0.8	11.2	16.3	20.3	22.1	29.4	22.2	23.1	<i>19.6</i>	<i>17.5</i>	<i>13.3</i>	17.5	-
Unit Value of Imports*(a)	-2.0	1.8	4.5	-0.9	0.3	5.8	0.5	0.6	3.7	1.0	-14.0	<i>-7.9</i>	<i>1.3</i>	<i>9.5</i>	-3.5	-
Unit Value of Exports*(a)	2.3	4.2	7.5	9.4	-7.1	-5.6	-6.0	-8.1	-13.3	-8.5	-12.8	<i>-9.3</i>	<i>-7.1</i>	<i>-7.1</i>	-8.5	-

Red italic figures are TÜSİAD estimates

(..) Not available

(*)Denotes annual average percentage change on the same period of previous year

(**)Decrease in Real Exchange Rate index reflects the devaluation of TL

(a)Current Value/Quantity Index

(b)Annual end year(Dec.2002/Dec.2001) estimates of TUSIAD for WPI and CPI are 33% and 34% respectively.