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2003: A Crossroads or A Roundabout?

Prediction is extremely difficult.
Especially about the future.
Niels Bohr

Summary and Conclusion

The economy has grown more immune to elections than ever before.

The easing tension in the financial markets after the parliamentary approval of early elections confirmed that the political uncertainty has constituted the core of the risk premiums. As a matter of fact, reaction of markets to scenarios concerning the setback of elections and downfall of government could not be settled down until the beginning of formal electoral route in October. Considering the expectations, optimism attached to early elections reflects the confidence in continuance of IMF-supported economic program and maintenance of structural reform framework. Therefore, no major deterioration in main economic aggregates is expected in 2002. On the other hand, it's for sure that the set of early elections poses a significant cost considering the delay in reform program and the postponement of consumption and investment decisions to the post-election period. However, when compared to previous experiences, it can be claimed that the weakening link between political and business cycles reduced the overall cost of early elections.

The new government's first performance criterion will be the interest rates.

In the first four months of the year, due to the mounting optimism and the lowered inflationary expectations as a consequence of successive interest rate cuts by the Central Bank (CB), nominal interest rates dropped to 52%. Although the reigning ambiguity from May onwards declined with the early election decision in August, it has continued until October as a result of efforts to postpone elections. When compared to April, as of end-September the annual inflation rate decreased to 40% from 58%, exchange rate increased to 1,637,594 from 1,331,884 TL and interest rates on government securities increased to 70% from 55% for similar maturities. Taking into account that 2003 end year inflation target is 20%; nominal borrowing rates in the vicinity of 70% jeopardize debt dynamics. For this reason, new government should soon settle the confidence in financial markets and conclude the delayed structural reforms.

The external factors will be the key for the Turkish economy in 2003.

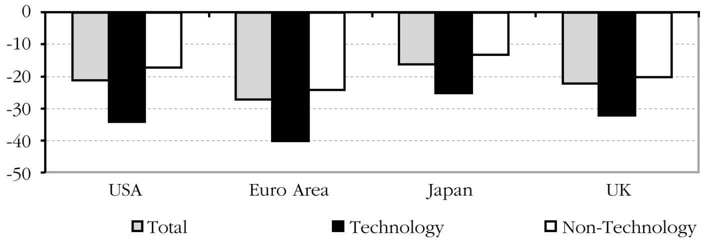
Higher-than-expected growth in the second quarter has been welcomed and it's likely that the end-year target will be exceeded. Inventory building, the main source of growth performance, shows signs of positive expectations towards domestic and external markets. While the decision of early elections taken during the second half of the year and political uncertainties beforehand postponed the recoveries in domestic markets, adverse developments in external markets are reinforced the downturn. Weaker-than-expected global recovery will dampen Turkish export performance. With respect to investment decisions, the important issue will be the result of Copenhagen Summit, where Turkey's progress in the EU enlargement process will be evaluated. However, the most concrete risk in the near future seems to be an operation on Iraq. Although it's likely to happen, uncertainties about timing, practice and duration of the operation and political repercussions in the region afterwards make it difficult to anticipate the adverse externalities on Turkey. Considering the previous Gulf War, the cost that Turkey will bear may not only be limited to the sphere of economics but also include social consequences. Also, while three countries that were adversely affected by the Gulf War -Jordan, Egypt and Israel- have received substantial amounts of aid to compensate their economic losses, similar Turkish demands have remained unfulfilled in the past and Turkey has become the only country left alone with the losses of the previous war. In case of a new war in the region, trade activities that have recovered somewhat over the past decade will be halted after a US intervention. The balance of payments will be severely hurt, along with the prospects for attracting the new foreign investments Turkey desperately needs. More importantly, in the short run, imminent financial market reaction will be negative with real interest hikes and depreciation in the exchange rate. Surged international oil prices will both negatively affect foreign trade balance and disinflation process. As a consequence, Turkey may end up with slackening growth, inflationary pressures and worsening debt dynamics. Also the political and social consequences of the operation in the region constitute utmost importance for Turkey and should be crystallized in order to prevent any probable disorder in the post-operation period.

I. Global Economic Outlook

Economic recovery in advanced countries will be slower than expected.

Despite the signals of strong global recovery in the first quarter of 2002, the growth rates slowed down for most of the countries during the first half, and the end-year prospects for 2002 and 2003 have been deteriorated due to adverse developments. The US Dollar has begun to depreciate since the end of March as a result of the US current account deficit climbing to 4 percent of its GDP. Besides, the corporate accounting and auditing scandals in the USA and its contamination to Europe have weakened the business confidence and led the world stock markets to go down sharply. Headwinds on the leading stock markets exacerbated the financing opportunities especially for emerging markets. Considering these developments in the USA, the global engine of growth, IMF has revised its 2002 and 2003 projections downwards. Although the possibility of an Iraqi operation was not fully credited in the projections, an important factor dampening the prospects for world economy is the oil prices, that are expected to increase with the US intervention. The likelihood of the attack itself has already spurred the oil prices in August and September by 3.5 % and 5.3 % respectively. The possibility of further sharp increases in oil prices may result in another global recession with deteriorating trade balances of the oil importer countries (i.e. emerging markets). In an environment with such uncertainties, continuation of the fall in equity prices, which are currently standing at 5-6 years low, are predicted to have worse-than-expected impacts on the investor/consumer confidence and on borrowing costs for the emerging markets.

Share Prices (March-September 2002, %) **Graph 1.1**



Source: IMF Economic Outlook, September 2002

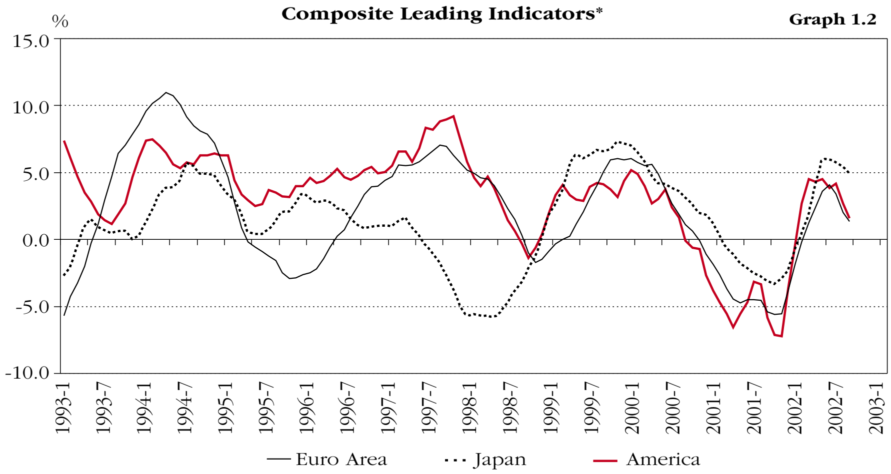
The already decelerating economic activities are to be curbed with a possible attack on Iraq.

Although the US economic activity picked up strongly in late 2001 and early 2002, in the second quarter, it marked down significantly and the real GDP grew by only 0.3%. Major contributions to growth came from private consumption and business inventories. Japan has shown a modest rebound in the second quarter and grew by 0.6% after its decade-long recession. The fundamental issue in Japan, however, is still how to revitalize the domestic economic activity. In the first half of 2002, while the domestic demand remained relatively weak, the exports, mainly to Asian countries, have underpinned the modest acceleration in the economic activity. Restructuring of the banking sector

Table 1.1 GDP Projections*

(Annual % change)	2002		2003	
World	2.8	(2.8)	3.7	(4.0)
USA	2.2	(2.3)	2.6	(3.4)
Japan	-0.5	(-1.0)	1.1	(0.8)
Euro area	0.9	(1.4)	2.3	(2.9)
Developing Countries	4.2	(4.3)	5.2	(5.5)

* *Source: IMF Economic Outlook, September 2002*
** *Figures in parentheses indicate the April 2002 projections.*



*Annualised 6-month % change

Source: OECD

and the resolution of non-performing loans, which amounts to ¥ 90 trillion (approx. 17% of GDP), are the prerequisites for achieving high rates of output growth. In the Euro area, real GDP increased 0.3% in the second quarter. The growth was mainly driven by private consumption and exports. Despite this positive development in private consumption, the contribution from domestic demand was only 0.2% due to the ongoing contraction in investments for the sixth successive quarter. Inventory changes also contributed positively to growth in the second quarter. In Latin America, the developments in the second half of the year point to a deterioration in region's economic and financial conditions. Although the output decline in Latin America during the early 2002 mainly arouse from the crisis in Argentina and its spillover effects, Brazil's high external financing requirement and its vague political scene accounted for the deterioration in the second half. The economic activity in emerging markets in Asia has picked up since the beginning of the year owing to the upturn in industrial production and exports. However, the steep slippage in the technology sector is expected to curb the growth performance of the region since they are among the main high-tech exporters. Another drawback for these oil importer countries is the probable hike in oil prices.

II. Output and Inflation

In the first half of 2002, the sharp real appreciation of TL against USD had created a nominal-anchor effect and tamed the nominal prices while supporting the inventory building incentive.

From November 2001 onwards, the nominal appreciation of TL against USD opened the way for optimism in expectations. With respect to interest rates, exchange rate and inflation, the peak of this rally was reached in May and the main drive behind this shift was the sharp appreciation of TL. While the income effect generated by the decline in nominal prices had limited impacts on the households, whose real incomes had deteriorated sharply in the aftermath of the crises, the firms utilized this shift more significantly. Besides the competitive advantage gained with the decreasing production costs, the optimist expectations for the rest of the year paved the way for inventory building incentive.

The industry and trade sectors made the most significant contribution to high economic growth in the second quarter.

In the second quarter of 2002, real GDP and GNP growths were 8.2% and 8.8% respectively. Similar to the composition in the first quarter, the contribution of the industry, trade and transportation and communication sectors were the highest. Also due to the weak base year effect, the growth rates in these sectors were 12.2%, 10.1% and 6.8% respectively. Considering these performances with the contractions experienced in the same period of the previous year, only the industry sector achieved to post a real expansion. The high industrial production from March onwards became the main premise of 8.2% GNP growth by contributing 4% points, which is 53% of the sectors' total. The contribution of wholesale and retail trade to the growth performance reached 2.6% points. The hike in industrial production also stimulated the imports –mainly the intermediate goods-, which in turn increased the import duties by 22% and a contribution to overall growth by 1% point. The only contraction among the sectors came from the construction and banking sectors. The fact that banking sector is the only

Table 2.1 GDP	**2001/Q2**	**2002/Q2**	**2002/Q2**
Sectors	*(Annual % Change)*		*(% point contr. to) GDP growth*
- Agriculture	-2.9	2.3	0.2
- Industry	-10.1	12.2	3.9
- Construction	-5.8	-5.3	-0.3
- Trade	-12.1	10.1	2.4
- Transportation and Comm.	-8.8	6.8	1.0
- Financial Institutions	-10.0	-9.6	-0.3
- Import duties	-32.1	21.9	1.0
- GDP	**-9.6**	**8.2**	

Contributions to GDP growth	2001		2002	
Table 2.2 *(% point)*	**Q1**	**Q2**	**Q1**	**Q2**
Private Final Consumption	-1.9	-7.8	-1.5	2.1
Government Final Consumption	-0.1	-0.6	0.2	0.2
Gross Private Fixed Cap. Form.	-0.2	-2.6	-0.7	-0.2
Gross Public Fixed Cap. Form.	-3.3	-7.4	-5.2	0.2
Change in Stock	-5.6	-8.8	6.2	11.1
Exports of Goods, Services	3.5	2.9	3.6	1.8
Import of Goods, Services (-)	-6.9	-14.4	0.6	6.9

sector posting successive contractions since the last quarter of 2000 is troublesome. If the sector's prudent strategy of contracting to adapt the changing regulations of BRSA continues, there may be some adverse effects on medium term growth potential.

The inventory building mainly accounted for the higher than expected growth.

In the first half of the year, especially from March onwards, the increase in inventories has accounted for the major part of GDP growth. In the aftermath of the crises, the decrease in inventories pulled down GDP growth by 4.4% point in 2001. With the reversal of this trend in 2002, the increase in inventories contributed 6.2% and 11.1% points to the GDP growth in the first and second quarters and carried its contribution to 8.7% points in the first half of 2002.

Despite the modest increase in private consumption expenditures, domestic demand is still weak to sustain high growth.

Following the crises, the first change in the composition of private consumption was the sharp decline in durable goods demand and total contraction in this item amounted to 30% in 2001. Consequently, due to the weak base year effect, the first signs of recovery in domestic demand in the second quarter came from durable goods that contributed 1% point to overall GDP growth by a 8.8% increase. Other contributions on the demand side mainly came from services, semi-durable and non-durable goods consumption, the total of which caused the private consumptions expenditures to contribute 2.1% point to overall GDP growth by a growth of 3.1%. On the external demand side, the exports continued to increase and grew 4.2% in the second quarter, maintaining its 40% share in GDP.

The decrease in private sector investment expenditures has come to an end.

In the second quarter, while the public sector investment expenditures increased 3.4%, private sector posted a 1% decrease in investments. Consequently, the almost stopped contraction in fixed capital formation in the second quarter caused a neutral effect on growth performance. Considering sustainable growth from medium to long-term perspective, the share of fixed capital formation in GDP, which has been declining since 1998 due to the crisis should soon accelerate.

Unexpectedly high GDP growth rate of the second quarter is not sustainable in the short-run.

Inventory build up in a low demand environment caused an increase in inventory level and this in turn made the production decisions to be more susceptible to a deterioration in expectations and changes in demand. If the global economy would slacken as it's expected in 2003, and besides the confidence cannot be restored after the elections, not only the revitalization of domestic demand would be ruled out but also the inventories would be depleted.

Although a sharp increase has been observed in manufacturing industry production, there was not any major change in the sector with respect to wages, employment and productivity. Despite the significant improvement in capacity utilization rate, hours worked in production posted a limited increase with respect to the same period of previous year. Also, while hours worked in production remained constant despite the weak base year effect, productivity retained its upward trend. However, real wages continued to plunge in the second quarter. During first half of 2002, real wages per working hours and per workers contracted by 10.5% and 11.3% respectively with respect to previous year. Manufacturing industry has gained an important cost advantage by the fall in real wages and the soared productivity. Corollary, these developments point out that the growth in the first half of the year was weakly backed by domestic demand. Besides, the rising unemployment is expected to prolong the pressure on the domestic demand.

Inflation keeps the decelerated pace.

From May onwards, while the depreciation of TL has accelerated, the interest rates also increased. However, downward trend in agricultural and food prices because of seasonal factors and further contraction in domestic demand due to mass uncertainty put pressure on monthly pace of inflation. Despite the increased volatility in the financial markets, no deterioration in the inflationary expectations created room for CB to reduce overnight borrowing rate from 48% to 46%. Furthermore, high economic growth recorded for the second quarter positively affected the disinflation process via increased optimism and in September, annual growth rate of WPI and CPI decelerated to 40.9% and 37.0% respectively.

WPI increases laid apparently above CPI's, owing to increased costs and still weak domestic demand.

Since June, the surge in nominal prices caused WPI to stay above CPI. Realized figures indicates that cost pressure, especially the depreciation of TL, brings up private sector manufacturing prices with a one month lag. In July, seasonally adjusted core inflation increased 4.3%, which is close to average increases in high inflation periods, and proved that strong pass-through effect from exchange rates to prices is still viable. In the public sector, aiming to reduce the strain of worse than expected fiscal balances of SEEs on the budgetary performance, manufacturing prices grew notably higher than of private sector. As of September, while annual change in public sector manufacturing prices ascended to 40.5%, increase in private sector manufacturing prices rested at 38.6%.

When the CPI is examined with respect to good and services prices, the pressure on domestic demand still can be tracked. Since the composition of consumption has shifted in favor of goods since the crises, goods prices are more sensitive to costs than services. Consequently, as of September, goods prices surged by 38.4% while annual growth in services prices remained at 34.5%.

The end-year target for CPI will easily be achieved.

Monthly inflation in September was limited to 3.5%, despite the fact that seasonality is quite strong due to high price adjustments in several sub-sectors. This increase in CPI points out that the end year target would easily be achieved. The CB's expectation survey also support this view, because the end-year CPI inflation expectation (34.8%) came below the end-year target of 35%.

With respect to WPI, the end-year target of 31% could only be achieved if the monthly increases stay below 2.5%. However, the August results of CB's business tendency survey show that, end-year WPI expectation is quite high, 44%. Next 12-month expectations for WPI is also fixed at the vicinity of 40%, which indicates that the real sector's expectation is strongly indexed to post-election period and external risk factors, such as Iraqi operation.

III. Fiscal and Monetary Policies

Budget performance in September implies no slacking in fiscal discipline verge upon the elections.

Thanks to transitory 3-month tax payments, consolidated budget primary surplus was 1.6 quadrillion TL in August, when decision for early elections was taken. With the continuation of this relative high performance in September, primary surplus realized at 14.7 quadrillion TL for the first nine months, attaining 93% of the target. Since the budget was prepared under the assumption of 3% real GNP growth and this will be overshot, there won't be a major problem to exceed the nominal target of primary surplus. While the realization of the delayed price increases of the SEEs after June positively affected the consolidated public sector balance, deterioration in social security expenditures and the fact that end year target is going to be exceeded will oppress the primary surplus target. The poorest performance among social security institutions belongs to SSK, transfers to which increased 56% in real terms in the first nine months, exceeding the end-year target.

Considering the total expenditures, interest rates with a declining trend in the first four months and the financing of debts with IMF loans positively affected the budget balance. On the revenues side, however, performance was below the targets. Indirect tax revenues increased 9.8% in real terms, and formed 66.3% of the tax revenues along with 50.2% of the total revenues for the first nine months. However, desired improvement concerning the total tax revenues couldn't be achieved when compared to end-year targets. Consequently, tax revenues just covering the interest payments and the cut of budget revenues in real terms will raise the requirement for budget financing in late months of the year.

The burden of high real interest rates on debt stock will be apparent in 2003.

The high borrowing in August carried the domestic debt stock to 137.1 quadrillion TL (USD 84 billion) with a 14.9 quadrillion increment comparative to beginning of the year. 44.1% of domestic debt stock is

Table 3.1 CONSOLIDATED BUDGET *(TL trillion)*	**September 2001**	**September 2002**	**Real* Chg. (%)**	**Jan.-Sep. 2001**	**Jan.-Sep. 2002**	**Real* Chg. (%)**
REVENUES	**4,123**	**6,655**	**14.6**	**36,373**	**55,403**	**(3.4)**
Tax	3,237	5,498	20.6	27,439	41,979	(3.0)
Non-Tax	886	1,157	(7.3)	8,934	13,425	(4.7)
EXPENDITURES	**7,645**	**9,590**	**(10.9)**	**54,807**	**79,982**	**(7.5)**
Primary Expenditures	3,270	4,827	4.8	25,292	40,660	1.9
Interest Expenditures	4,375	4,763	(22.7)	29,515	39,322	(15.5)
BUDGET BALANCE	**(3,522)**	**(2,936)**	**(40.8)**	**(18,434)**	**(24,579)**	**(15.5)**
PRIMARY BALANCE	**853**	**1,827**	**52.1**	**11,081**	**14,743**	**(15.6)**

**Deflated with average WPI.*

Table 3.2 (TL trillion)	MONETARY CRITERIA (CEILINGS)		
	Monetary Base	NDA	NIR*
30 April 2002	8,900	27,700	-7.2
April Realization	8,680	25,197	4.9
30 June 2002	9,250**	28,900**	-7.8
June Realization	9,009	26,374	-5.8
30 September 2002	10,600	31,139	-8.5
September Realization	10,104	28,551	-5.9
31 December 2002	10,850	33,139	-9.7

*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 SDIF.

composed of FRNs, 16.7% is of F/X-linked, and 14.3% is of F/X-denominated. Utilization of the IMF credit in redeeming public sector debts yielded out a 10-point decrease in the public sector's share in debt stock. As of August 56% of the total debt stock is the liabilities to public sector and the rest are to the market. In this sense, sensitivity of debt stock to possible external risks such as the Iraq war and immediate developments in financial markets afterwards is greater than before. Considering the consolidated budget foreign debt stock, USD 12.5 billion of IMF credit brought up the stock to USD 54.9 billion from the end-2001 level of USD 38.8 billion. Therefore, consolidated budget total debt stock increased to USD 138.9 billion, 14% of which is IMF credits.

Central Bank fulfilled the monetary criteria for end-September.

According to the monetary program of CB, monetary base, net domestic assets, and net international reserves were set as indicatory criteria for the second half of the year. However, indicatory criteria for monetary base and net international reserves are changed into performance criteria with the Letter of Intend in June 30 due to the political uncertainties and early elections. Central Bank, which exhibited a thriving performance throughout the year on its primary goal of price stabilization, was again successful in attaining the performance criteria in the third quarter.

With the improvements in expectations, CB reduced overnight interest rates from 48% to 46% as of August. Even though the uncertainties for prospective months regarding the electoral era are in question, inflation expectations, which are still below the end-year target will help for further interest rate cuts in the following months.

The credit volume is inadequate with respect to the financing of growth.

With the effects of the use of IMF credit and the early redemption of non-cash debt stock, CB money increased 96% in the first 9-months. With the sterilization of 6.5 quadrillion TL via OMO, the increase in monetary base in the same period stayed at 29%. Reverse currency substitution and increase in credit volume that were anticipated to facilitate growth, on the other hand, did not grasp as of September due to hike in interest rates from May onwards and the risk averse banking sector that tries to adopt sectoral regulations. Foreign exchange deposits, particularly accelerating after June, has increased by USD 1.7 billions compared to the end-2001, and deterioration of banking sector total credits in real terms persisted. An important issue regarding the quality of the credits is the 10 % point increase in non-performing loans when compared to end-2001. The share of non-performing loans in total credit volume reached to 27% as of October. Despite the regulations for asset management companies are set by BRSA, elevated level of requisite capital for instituting the company plus taxes, and incomplete legal framework for bankruptcy and foreclosure imply setback in short-run practice.

IV. Foreign Trade and Balance of Payments

Exports carry on its promising performance.

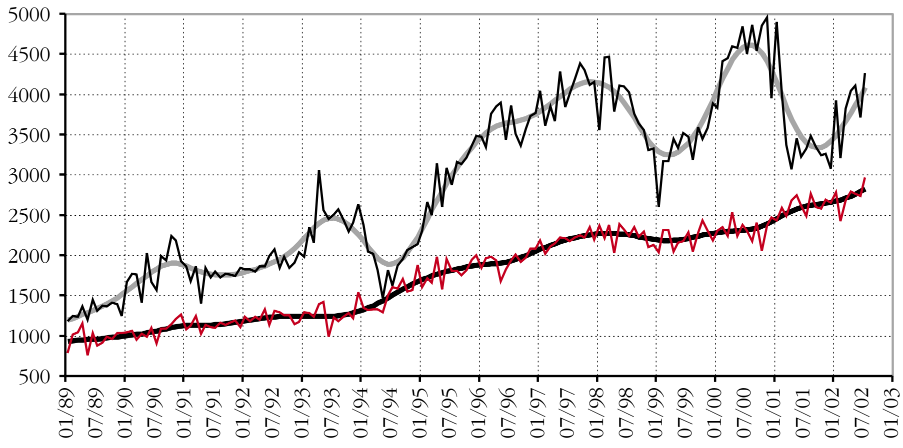
While mass uncertainty reached its peak in July, reel depreciation of TL led exports to increase 10.1% on monthly base. At the same period imports also grew by 16.1%. In the first seven months, annual rises of exports and imports are 6% and 8.1% respectively. Consequently, on annual base, foreign trade deficit soared by 14.1%. Accordingly ratio of exports to imports rested 72.4% behalf of rapid expansion of exports compared to imports at the beginning of this year.

Announced August foreign trade data by Turkish Exporter Assembly and

MONETARY AGGREGATES Table 3.3	(TL trillion) June	September	Annual real chg. June	September
M2YR (M2Y+R)	**120,940**	**128,800**	**-8.2%**	**-13.3%**
M2Y	**117,240**	**125,409**	**-4.9%**	**-12.2%**
Composition of M2Y (%)				
Currency in Circulation	**5.1%**	**5.1%**	**5.0%**	**2.6%**
Sight Deposits	**5.9%**	**5.8%**	**-23.8%**	**-14.0%**
Time Deposits	**34.5%**	**33.6%**	**-9.0%**	**-6.0%**
FX Deposits (TL)	**54.5%**	**55.4%**	**-0.2%**	**-16.5%**

Seasonally Adjusted Monthly Foreign Trade

Graph 4.1



Source: SIS, TÜSİAD

Undersecretary of Customs indicate that upward trend in foreign trade is still vivid. Moreover, August's realization of VAT on import revenues, taken also as a leading indicator of nominal import, produced a monthly upsurge of 2.3% in dollar terms.

Deterioration in external terms of trade offset the hike in export quantity index and limited the increase in export volume.

Weak base year effect led both import and export quantity indices to generate significant growth patterns. In the first seven months, seasonally adjusted export and import quantity indices soared by 18% and 14.7% respectively. In the same period, while export's prices shown little improvement, import prices accelerated parallel to speeding up oil prices. Accordingly, in the first seven months, seasonally adjusted export and import's prices grew by 1.1% and 5.9% respectively. Consequently, seasonally adjusted external terms of trade continued to deteriorate and declined to 88.8%. Due to the concrete risk that oil prices would go up with an operation on Iraq, the external terms of trade is expected to deteriorate further.

Visible contraction in services revenues contributed to the current account deficit.

Invisibles, which mainly buffer the trade deficit, shrank 36% in the first seven months. When looked in detail, the biggest deterioration was in the services balance by a decrease of 33%. Among the services, while other commercial services decreased USD 1.2 billions, the workers' remittance, which is constantly declining since 1998, posted a decrease of 30%. Corollary, as of July, foreign trade deficit increased 10.4% and reached USD 3.5 billions, while the contraction in services balance continued; leading the current account to post a 718 million dollar deficit.

In the first seven months, IMF credits caused official reserves to grow USD 3.4 billion.

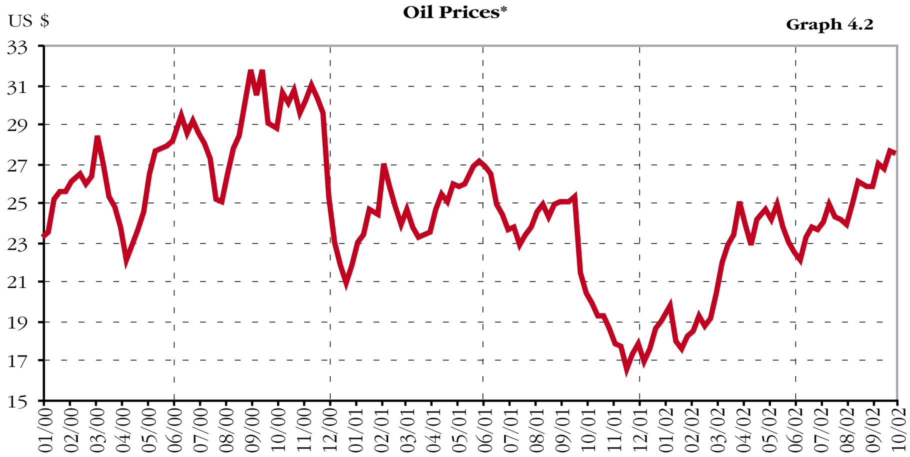
In 2002, the capital inflow as of July was only 517 million USD, while the outflow in the same period of the previous year was USD 10.1 billion. On contrary to its importance, the foreign direct investments are still insignificant and the inflow has been limited to 114 million dollars in 2002. Due to the 1.2 billion dollars decrease in the banking sector's portfolio investments, total portfolio investments posted an outflow of 954 million dollars. USD 11.4 billion of IMF credit, 6.2 billion of which is disbursed, has supplied the highest international finance and the net usage has been 5.2 billion dollars as of July. In the same period, while the banking sector disbursed 400 million dollars of its loans, the other sectors achieved to find 1.3 billion dollars of long-term financing and substituted their short-term loans. Corollary, the official reserves accumulated by 3.4 billion dollar as of July, while there was an outflow of USD 1.6 billion in net errors and omissions item.

The long-term equilibrium is almost attained in real exchange rate.

As a result of political uncertainties during May-August period, TL depreciated sharply in real terms. CPI

Oil Prices*

Graph 4.2



* OPEC Countries, weekly average prices per barrel, weighted by export volumes

and WPI based real effective exchange rate indices disseminated by CB contracted 25.1% and 23.6% respectively during this period. As of end-July real depreciation in TL stopped due to the parliamentary approval of early elections and seasonal increase in foreign exchange inflows, mainly through tourism sector. In line with these developments, as of August, CPI and WPI based real effective exchange rate indices rose by 4.1% and 4.6% respectively. While the main risk threatening the stability of exchange rates seems to be an operation in Iraq, postponement of IMF credit tranche to 2003, Copenhagen summit's decision on Turkey, the failure in required changes in expiring transitory tax legislations that may lead to deposit outflows may also cause upward fluctuations in the exchange rates. On the other hand, very limited open positions in the banking sector and shrunk portfolios of foreign investors seem to be inadequate to boost the seasonal end-year effect of fast depreciation.

V. Prospects for 2002 and 2003

TÜSİAD expects 5% real GDP growth in 2002.

In the 32nd edition of quarterly economic survey that was published in July, forecasts for 2002 were made under the assumptions of early elections in November, continuation of economic program, gradually decline in political uncertainty and improvement in external conjuncture for the second half of the year. Considering the deterioration in expectations for the global economy in 2003, there is no major shift from the basic assumptions other than external environment. While our growth forecast for the second quarter was in line with the realization on the demand side, the intense inventory build-up caused a higher than expected growth rate. For 2002, TÜSİAD envisages a real GDP growth of 5% and end-year WPI and CPI inflations of 32.2% and 31.2% respectively. TÜSİAD expects the average real interest rates and the real appreciation in TL against USD to be 14.1% and 14.6% respectively. When considered with the growth projection and a primary surplus of 5.5% of GNP, TÜSİAD expects the total public debt stock ratio to decrease 13 % points.

Projections for 2003 have been made under different scenarios. The base scenario envisages 4.5% GDP growth and 25% end-year CPI inflation.

Due to high dependence of economic performance on external factors in the following months (i.e. Copenhagen Summit, Cyprus issue, and Iraq operation), different scenarios have been set for 2003. In the best-case scenario, we assume that there will be concrete developments in Copenhagen Summit regarding the openning of negotiations for Turkey's accession, an agreement on Cyprus will be reached and a non-military resolution in Iraq will be managed. Under this scenario, it's expected that the new government would restore the confidence and a fall in interest rates would pave the way for a widespread recovery. In this scenario, TÜSİAD expects 7% of real GDP growth, 20% of end-year CPI inflation under inflation targeting, 8% average real interest rates, 6% of real appreciation in TL against USD and a primary surplus of 5.5% of GNP.

In the worst-case scenario, TÜSİAD assumes that there will not be any concrete developments regarding the start of negotiations for Turkey's accession to EU, a consensus for Cyprus will not be reached and a long lasting, intense operation on Iraq will be held. Under these circumstances, new government will not be able to lower interest rates, CB will implement a loose monetary targeting and oil prices will rise and stay at the vicinity of 35$ per barrel on average. According to this scenario, in 2003, TÜSİAD expects 2.5% of real GDP growth, 30% of year-end CPI, 20% average real interest rate, no change in real exchange rates and again a primary surplus of 5.5% of GNP.

While all other scenarios lay in between these two, the base scenario for 2003 assumes that in both the EU and Cyprus issues there will be conditional solutions and the effect on financial markets and expectations would be neutral. It's assumed that the Iraq operation, which will not last long, will take place in the first months of 2003 and Turkey's losses will be somehow compensated. Moreover, the oil prices will stay within the band of $22-$28, inflation targeting would be implemented through the second half of the year, and after the Iraq operation decline in interest rates will ignite the economic recovery. In 2003, under the base scenario (see TÜSİAD Macroeconomic Base Scenario), TÜSİAD expects 4.5% of real GDP growth, 25% of end-year CPI inflation, 13% of average real interest rate and 3% of real appreciation in TL against USD. Similar to other scenarios, the primary surplus is expected to reach 5.5% of GNP.

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

	2001				2002								
	Sep.	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sep.**
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	-9.2	-13.6	-14.4	-8.0	-2.2	-5.0	19.2	14.8	11.1	7.1	12.4	7.2	..
Monthly % Increase	3.1	3.7	-0.5	-8.0	-1.0	-6.0	21.8	-2.3	3.9	-3.6	1.2	-2.4	..
Monthly % Increase (seasonally adjusted)	-8.9	-13.6	-14.7	-7.6	-2.5	-5.2	19.9	14.4	11.3	7.1	12.6	7.0	..
CAPACITY UTILISATION RATE (SIS, %)	72.9	74.0	74.0	73.3	74.0	71.9	76.0	74.3	75.5	76.2	77.5	76.4	..
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)													
Real Wage per hour (annual % increase)	-15.8	..	..	-20.5	..	..	-16.0	..	..	-4.2	..	..	..
Real Income (annual % increase)	-14.2	..	..	-20.0	..	..	-17.4	..	..	-4.4	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	74.7	81.4	84.5	88.5	92.0	91.8	77.5	58.0	49.3	46.8	45.9	43.9	40.9
Monthly % Increase	5.4	6.7	4.2	4.1	4.2	2.6	1.9	1.8	0.4	1.2	2.7	2.1	3.1
Monthly % Increase (seasonally adjusted)	4.9	6.0	4.5	3.9	3.6	2.0	1.1	0.6	1.0	2.6	3.7	3.4	2.8
CONSUMER PRICE INDEX													
Annual % Increase	61.8	66.5	67.3	68.5	73.2	73.1	65.1	52.7	46.2	42.6	41.3	40.2	37.0
Monthly % Increase	5.9	6.1	4.2	3.2	5.3	1.8	1.2	2.1	0.6	0.6	1.4	2.2	3.5
Monthly % Increase (seasonally adjusted)	4.6	4.7	3.9	3.2	4.6	2.0	1.3	1.5	1.2	2.0	2.4	2.8	2.4
EXCHANGE RATE (CB buying rate)													
TL/US$ (monthly average)	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	1,654,298	1,632,314	1,644,394
Annual % Increase	122.1	136.4	121.5	113.6	102.7	79.9	39.1	8.4	22.8	25.7	25.3	16.7	11.5
Monthly % Increase	5.4	8.5	-5.4	-4.3	-6.1	-0.7	0.1	-2.7	5.8	9.8	8.3	-1.3	0.7
TERMS OF TRADE (SIS, 1994=100)*													
External (Export/Import)	87.9	91.1	91.7	93.1	91.3	91.6	90.6	89.4	89.9	89.9	88.8	..	..
Internal (Agriculture/ Manufacturing)	94.1	91.6	93.8	102.0	106.1	111.1	109.9	107.8	104.1	102.4	99.6	100.9	101.1
DOMESTIC BORROWING (weighted by sales volume)													
Compounded Annual Interest Rate (%)	87.5	85.8	79.0	74.0	73.9	74.0	70.5	60.2	56.2	72.2	72.6	64.9	63.5
Average Maturity (days)	125	122	166	170	274	359	326	279	268	152	161	195	205

(..) Not available
(*) Seasonally adjusted series are used in calculation

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

	2001				2002								
	Sep.	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sep.**
FOREIGN TRADE BALANCE (million $)													
Monthly													
Imports (CIF)	3,425	3,364	3,559	3,441	3,253	2,879	3,495	4,020	4,240	3,781	4,389	..	..
Exports (FOB), excluding shuttle trade	2,604	2,812	2,842	2,658	2,552	2,362	2,725	2,736	2,905	2,682	2,952	..	..
Foreign Trade Balance	-821	-552	-717	-783	-701	-517	-770	-1,284	-1,335	-1,099	-1,437	..	..
BALANCE OF PAYMENTS (million $)													
Monthly													
Current Account Balance	769	706	297	-180	103	-253	-43	-474	-324	208	65	..	..
Foreign Trade Balance*	-335	-55	-220	-368	-283	-13	-195	-658	-783	-620	-897	..	..
Invisibles	1,104	761	517	188	386	-240	152	184	459	828	962	..	..
FOREIGN TRADE BALANCE (million $)													
Cumulative for the last 12 months													
Imports (CIF)	45,859	44,199	42,396	41,399	40,580	39,865	40,251	41,233	41,914	42,396	43,348	..	..
Exports (FOB), excluding shuttle trade	30,261	30,828	31,171	31,340	31,656	31,502	31,681	31,801	31,821	31,941	32,409	..	..
Foreign Trade Balance	-15,598	-13,371	-11,225	-10,059	-8,924	-8,363	-8,570	-9,432	-10,093	-10,455	-10,939	..	..
BALANCE OF PAYMENTS (million $)													
Cumulative for the last 12 months													
Current Account Balance	**-167**	**1,157**	**2,897**	**3,396**	**4,134**	**3,964**	**3,676**	**2,553**	**1,861**	**1,831**	**1,461**	**..**	**..**
Foreign Trade Balance*	-10,106	-7,839	-5,670	-4,537	-3,438	-2,867	-2,962	-3,691	-4,225	-4,497	-4,862	..	..
Invisibles	9,939	8,996	8,567	7,933	7,572	6,831	6,638	6,244	6,086	6,328	6,323	..	..
Capital Account and Reserve Movements	**-12,044**	**-13,259**	**-12,598**	**-14,198**	**-16,214**	**-13,781**	**-10,498**	**-8,745**	**-6,667**	**-4,143**	**-3,523**	**..**	**..**
Net Foreign Direct Investment	2,479	2,921	2,743	2,769	2,700	1,167	1,252	1,212	1,288	1,222	1,090	..	..
Portfolio Investment	-8,967	-9,107	-4,776	-4,515	-5,160	-2,154	-1,704	-553	-1,104	-2,277	-1,491	..	..
Net Long - Term Capital	490	514	-458	-1,131	-1,330	-883	-157	506	1,209	1,515	1,200	..	..
Net Short - Term Capital	-6,046	-7,587	-10,107	-11,321	-12,424	-11,911	-9,889	-9,910	-8,060	-4,603	-4,322	..	..
Net Errors and Omissions	**-4,447**	**-4,719**	**-3,157**	**-2,122**	**-3,098**	**-2,163**	**-2,828**	**-2,446**	**-2,963**	**-2,376**	**-1,614**	**..**	**..**
Official Reserve Changes* *	**5,548**	**5,711**	**1,748**	**2,694**	**4,948**	**186**	**-2,144**	**-4,248**	**-1,308**	**-4,389**	**-5,050**	**..**	**..**
FOREIGN TRADE (annual % increase)													
Imports	-26.2	-33.0	-33.6	-22.5	-20.1	-19.9	12.4	32.3	19.2	14.6	27.7	..	..
Exports	8.0	25.3	13.7	6.9	14.1	-6.1	7.0	4.6	0.7	4.7	18.9	..	..
Price Index (1994=100)													
Imports	-1.3	-5.0	-6.7	-5.8	-9.2	-10.1	-9.6	-6.1	-4.7	0.2	0.2	..	..
Exports	-3.5	-5.8	-6.5	-5.0	-9.7	-7.6	-6.9	-5.6	-3.7	0.0	-3.7	..	..
Quantity Index (1994=100)													
Imports	-23.8	-31.4	-32.5	-19.2	-8.1	-8.3	27.6	46.0	21.6	9.8	34.0	..	..
Exports	23.9	41.7	28.4	18.6	31.9	8.7	21.0	14.4	9.8	7.5	37.3	..	..

(*) Exports (FOB) - Imports (FOB), including shuttle trade, excluding others
(**) Positive sign indicates decrease in reserves
(..) Not Available

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

	2001				2002								
	Sep.	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sep.**
12 MONTHS CUMULATIVE (trillion TL)													
Revenues	**45,162**	**47,065**	**49,442**	**51,813**	**53,798**	**54,440**	**56,280**	**57,074**	**62,355**	**64,706**	**66,673**	**68,312**	**70,287**
Tax Revenues	34,212	35,612	37,889	39,768	41,158	42,607	44,399	45,290	47,322	48,692	50,492	52,047	54,292
Non-Tax Revenues	10,428	10,872	10,941	11,376	11,850	11,021	11,014	10,855	14,084	15,004	15,120	15,170	15,487
Expenditures	**66,408**	**72,892**	**76,845**	**80,379**	**87,682**	**93,546**	**97,391**	**100,520**	**101,813**	**103,043**	**103,553**	**103,608**	**105,554**
Current	17,434	18,231	19,007	20,368	21,170	21,892	22,764	23,689	24,668	25,364	26,299	27,150	27,850
Investment	3,246	3,382	3,657	4,140	4,171	4,210	4,239	4,231	4,441	4,717	4,993	5,267	5,596
Transfers	45,728	51,279	54,181	55,871	62,340	67,445	70,388	72,599	72,704	72,962	72,261	71,191	72,108
Primary Balance	**11,122**	**11,699**	**12,605**	**12,498**	**12,636**	**11,524**	**11,683**	**10,833**	**14,301**	**15,451**	**15,528**	**15,186**	**16,144**
Budget Balance	**-21,246**	**-25,827**	**-27,402**	**-28,566**	**-33,885**	**-39,106**	**-41,112**	**-43,446**	**-39,457**	**-38,337**	**-36,880**	**-35,297**	**-34,727**
Financing	21,226	25,753	27,861	32,050	36,571	40,246	42,120	44,670	40,627	39,449	37,923	36,355	..
Foreign Borrowing (net)	-2,577	-2,728	-4,338	-4,448	-3,800	7,805	7,812	10,209	10,317	10,762	12,161	14,935	..
Domestic Borrowing (net)	16,898	16,340	21,486	23,542	26,344	17,971	19,872	21,515	20,894	18,267	17,600	16,516	..
Short-term Borrowing (net)	11,004	11,041	11,805	14,938	15,473	12,672	12,721	11,386	9,971	14,607	19,378	18,339	..
Other	6,915	12,151	10,723	12,966	14,026	14,470	14,436	12,947	9,416	10,420	8,162	4,904	..
12 MONTHS CUMULATIVE (billion $)													
Revenues	**46.6**	**45.3**	**44.0**	**43.8**	**42.9**	**40.9**	**41.4**	**41.7**	**44.8**	**45.7**	**46.3**	**46.7**	**48.0**
Tax Revenues	34.9	33.8	33.3	33.1	32.2	31.9	32.6	33.1	34.0	34.3	34.9	35.4	36.6
Non-Tax Revenues	11.1	10.9	10.2	10.1	10.1	8.4	8.1	7.9	10.1	10.6	10.6	10.5	10.7
Expenditures	**65.2**	**65.9**	**65.7**	**64.8**	**67.8**	**69.7**	**71.6**	**73.7**	**73.1**	**72.8**	**71.8**	**71.1**	**71.7**
Current	18.4	17.8	17.3	16.6	16.4	16.3	16.6	17.2	17.7	17.9	18.2	18.5	18.8
Investment	3.4	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.1	3.3	3.4	3.5	3.7
Transfers	43.4	44.9	45.2	45.1	48.4	50.3	51.9	53.4	52.3	51.6	50.3	49.0	49.2
Primary Balance	**11.1**	**11.1**	**10.9**	**11.9**	**11.1**	**8.9**	**8.7**	**7.9**	**10.3**	**10.9**	**10.9**	**10.5**	**11.0**
Budget Balance	**-18.6**	**-20.6**	**-21.7**	**-21.0**	**-24.9**	**-28.7**	**-30.2**	**-32.0**	**-28.4**	**-27.1**	**-25.6**	**-24.3**	**-23.7**
Financing	18.4	20.6	22.0	23.8	26.9	29.5	30.8	32.8	29.1	27.8	26.2	25.0	..
Foreign Borrowing (net)	-1.8	-1.7	-2.9	-3.5	-2.8	5.7	5.7	7.6	7.7	8.3	9.0	10.7	..
Domestic Borrowing (net)	14.3	13.2	16.4	17.9	19.3	13.3	14.5	15.6	15.3	12.7	11.7	10.8	..
Short-term Borrowing (net)	11.4	11.4	12.3	14.3	13.7	10.2	9.8	8.6	7.1	10.3	13.2	12.3	..
Other	6.0	9.1	8.5	9.5	10.4	10.5	10.7	9.6	6.1	6.8	5.5	3.5	..
DOMESTIC DEBT STOCK													
1000 trillion TL	105.8	109.3	117.2	122.2	128.1	118.0	120.3	123.3	122.8	126.8	130.4	137.1	..
Billion $	71.7	68.3	77.5	84.4	94.3	87.4	89.0	93.8	88.3	83.1	78.8	84.0	..
DomesticDebt/M2Y	104.3	104.0	113.9	118.7	127.6	114.1	116.4	117.6	111.8	108.2	105.6	112.5	..

(..) Not Available

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

	2001				2002								
	Sep.	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sep.**
MONEY SUPPLY (annual % change)													
Currency in Circulation	66.4	56.5	52.9	49.3	74.1	115.6	60.0	56.0	50.9	54.1	53.4	50.3	44.6
Sight Deposits	48.6	64.1	54.2	14.2	34.8	33.3	28.4	9.8	29.0	11.9	10.6	1.2	21.1
M1	**55.7**	**60.7**	**53.7**	**27.9**	**49.8**	**65.6**	**40.2**	**27.9**	**37.7**	**28.0**	**28.2**	**19.3**	**31.1**
Time Deposits	59.9	57.6	56.3	45.2	43.7	41.1	28.3	35.9	35.8	33.5	46.7	37.1	32.5
M2	**58.8**	**58.3**	**55.7**	**40.9**	**45.0**	**46.3**	**30.9**	**34.1**	**36.3**	**32.2**	**42.0**	**32.2**	**32.1**
Foreign Exchange Deposits (TL)	134.4	143.0	127.4	132.9	117.7	84.2	60.4	45.8	55.8	46.5	44.1	29.9	17.6
M2Y	**95.6**	**99.7**	**89.9**	**80.1**	**76.4**	**64.1**	**44.6**	**39.9**	**45.9**	**39.6**	**43.2**	**30.9**	**23.7**
Repo	-44.7	-53.7	-47.8	-53.2	-49.1	-53.5	-6.2	-43.8	-35.8	-36.7	-46.7	-9.3	-15.1
M2YR	**78.4**	**81.6**	**73.7**	**67.5**	**63.6**	**52.4**	**42.0**	**33.9**	**40.1**	**34.7**	**36.4**	**29.1**	**22.2**
Offical Deposits	38.6	56.1	49.1	117.8	60.0	60.1	35.9	118.1	27.6	37.9	82.6	83.3	93.2
Other Deposits With CBRT	36.3	-45.8	82.8	110.7	13.3	57.7	-14.1	-39.2	-64.8	146.8	-75.8	-12.3	28.3
M3Y	**93.7**	**96.2**	**89.1**	**81.1**	**75.1**	**63.9**	**43.3**	**39.8**	**42.8**	**40.1**	**41.6**	**30.3**	**24.6**
M2Y (trillion TL)	**101,415**	**105,089**	**102,967**	**102,950**	**100,386**	**103,493**	**103,335**	**104,851**	**109,868**	**117,240**	**123,428**	**121,909**	**125,409**
Composition of M2Y (%)													
Currency in Circulation	4.4	4.1	4.2	4.7	4.5	5.8	4.8	5.0	5.2	5.1	5.0	5.1	5.1
Sight Deposits	5.9	5.3	6.0	5.5	5.7	5.6	6.4	5.5	5.0	5.9	5.2	5.9	5.8
Time Deposits	31.4	31.1	32.7	34.7	36.5	35.9	37.4	37.9	36.2	34.5	33.8	33.4	33.6
Foreign Exchange Deposits	58.3	59.5	57.2	55.1	53.4	52.7	51.5	51.6	53.6	54.5	56.1	55.6	55.4
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
CREDIT STOCK (domestic, annual % change)	**39.2**	**37.4**	**25.5**	**24.8**	**21.1**	**15.3**	**11.1**	**8.2**	**16.8**	**5.1**	**4.1**	**-2.0**	**-4.3**
Deposit Bank Credits	35.7	33.8	21.9	21.6	19.3	14.3	10.3	8.4	17.1	4.6	3.2	-3.1	-5.2
Private	5.7	4.9	3.7	14.1	18.8	21.4	25.6	23.7	27.2	-3.8	-7.0	-9.9	-7.2
Public	-4.7	-7.8	-11.4	-19.5	-18.2	-19.1	-18.6	-13.8	-5.3	0.6	-0.2	1.0	1.1
Invest. and Develop.Bank Credits	96.4	96.6	84.5	76.6	48.5	30.1	22.0	5.6	13.9	12.0	15.4	10.8	5.5
CB BALANCE SHEET (million $)													
Base Money	5,012	4,448	4,964	5,358	5,726	6,663	6,298	6,379	6,358	5,754	5,762	5,873	6,145
Net Domestic Assets	11,741	11,238	13,178	14,140	14,274	7,536	7,675	6,369	7,180	6,516	5,655	4,446	4,812
Net Foreign Assets	-6,730	-6,790	-8,214	-8,782	-8,548	-872	-1,378	10	-822	-762	107	1,426	1,333
Net Position of Public Sector	14,054	14,865	18,296	19,974	22,514	17,893	19,431	18,446	16,010	15,876	14,657	12,039	12,662
Liabilities Due to Open Market Operations	-1,037	489	283	768	1,426	4,125	4,645	5,296	4,854	5,516	5,543	3,966	4,341
THE CENTRAL BANK RESERVES (billion $)	**18.9**	**18.3**	**17.3**	**18.7**	**19.2**	**20.3**	**20.3**	**22.2**	**22.0**	**22.2**	**23.6**	**25.1**	**25.1**
CB RESERVES/(DOMESTIC DEBT STOCK+M2Y, %)	13.5	13.7	11.9	12.0	11.4	12.4	12.3	12.8	13.1	13.9	15.4	15.8	..
FOREIGN DEBT STOCK (billion $)	**118.5**	**..**	**..**	**115.2**	**..**	**..**	**117.8**	**..**	**125.9**	**..**	**..**	**..**	**..**

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 - Funds
Net Position of Public Sector = Credits to Public Sector - (Deposits of Public Sector + FX Deposits of Non - Banking Sector)
Base 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			
	2000	2001	2001	2001-3	2001-4	2002-1	2002-2
Private Final Cons. Exp.	**6.2**	**-9.0**	**66.6**	**-9.7**	**-11.7**	**-2.0**	**3.1**
Food, Beverage	3.2	-3.4	24.8	-4.9	-4.8	-0.6	-0.5
Durable Goods	27.4	-30.4	10.0	-31.1	-33.2	-5.2	8.8
Semi-dur, Non-dur Goods	0.9	-9.0	9.9	-9.9	-19.0	-3.9	5.7
Energy, Trans., Commun.	-2.1	1.8	9.7	0.5	4.7	-3.7	1.4
Services	7.6	-9.1	6.5	-9.1	-11.4	1.6	8.7
Ownership of Dwelling	0.0	2.1	5.7	2.1	2.0	2.0	1.9
Gov. Final Cons. Exp.	**7.1**	**-8.6**	**8.5**	**-15.0**	**-8.9**	**2.4**	**2.7**
Compensation of Empl.	2.0	1.5	4.6	0.9	1.0	2.0	0.3
Purchases of Goods, Services	12.4	-18.0	4.0	-29.8	-14.4	3.5	5.6
Gross Fixed Capital Form.	**16.9**	**-31.7**	**20.6**	**-37.3**	**-38.7**	**-24.6**	**0.1**
Public Sector	**19.6**	**-22.0**	**6.1**	**-23.4**	**-18.8**	**-17.4**	**3.4**
Machinery Equipment	20.3	-39.0	1.5	-26.7	-32.4	-14.5	15.1
Building Construction	31.6	-20.0	1.8	-20.7	-27.3	-17.9	27.1
Other Construction	12.2	-10.3	2.9	-23.5	-0.8	-21.0	-14.1
Private Sector	**16.0**	**-35.1**	**14.5**	**-41.5**	**-50.2**	**-26.1**	**-1.0**
Machinery Equipment	37.2	-49.6	7.3	-61.7	-69.0	-41.0	6.6
Building Construction	-9.7	-8.7	7.2	-9.2	-9.2	-2.2	-9.7
Change in Stock	**1.1**	**-4.0**		**-0.3**	**-3.0**	**6.2**	**11.1**
Export of Goods, Services	**19.2**	**7.4**	**38.1**	**5.9**	**6.4**	**9.1**	**4.2**
Import of Goods, Services	**25.4**	**-24.8**	**32.3**	**-26.5**	**-26.0**	**1.4**	**19.4**
GDP (Demand)	**7.3**	**-7.4**	**100.0**	**-7.4**	**-10.4**	**1.9**	**8.2**
GDP (Supply)	**7.4**	**-7.4**	-	**-7.4**	**-10.4**	**1.9**	**8.2**

By Sectors

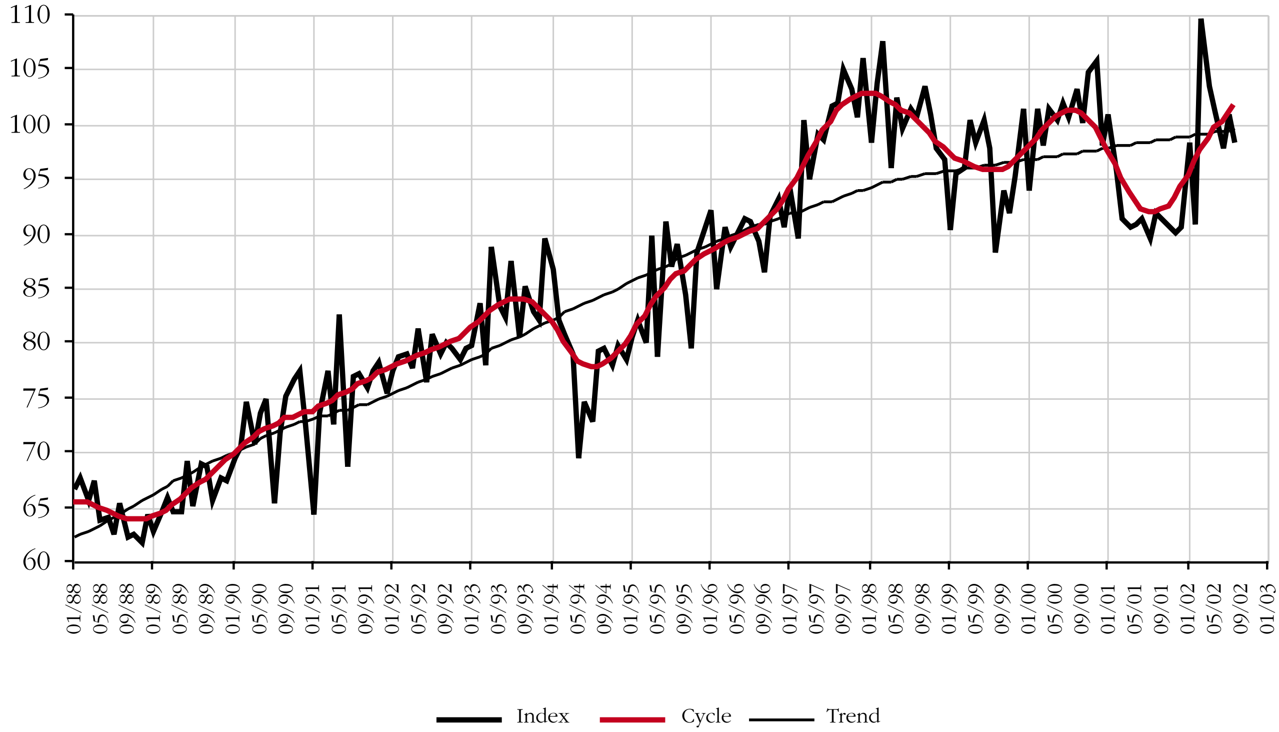
	Annual % Change		% Share	Annual % Change			
	2000	2001	2001	2001-3	2001-4	2002-1	2002-2
Agriculture	**3.9**	**-6.1**	**13.9**	**-5.6**	**-13.6**	**1.2**	**2.3**
Agriculture and Livestock Prod.	4.1	-6.3	12.9	-5.4	-13.9	3.4	0.3
Forestry	2.7	-8.1	0.6	-22.9	-16.4	-17.3	29.4
Fishing	-2.2	5.8	0.4	6.1	-0.9	18.9	-2.5
Industry	**6.0**	**-7.5**	**28.9**	**-8.9**	**-10.7**	**3.0**	**12.2**
Mining and Quarrying	-1.1	-9.6	1.4	-11.2	-15.9	-0.8	-5.9
Manufacturing	6.4	-8.1	24.1	-9.7	-12.0	2.6	13.1
Electricity, Gas, Water	6.5	-2.1	3.5	-1.9	0.4	6.8	13.7
Construction	**4.4**	**-5.9**	**5.2**	**-8.3**	**-3.6**	**-2.7**	**-5.3**
Trade	**12.0**	**-9.4**	**22.4**	**-7.4**	**-14.4**	**3.0**	**10.1**
Wholesale and Retail Trade	11.1	-12.7	18.4	-12.6	-17.0	2.2	13.9
Hotels, Rest. Services	17.3	10.0	4.0	20.1	0.8	8.4	-6.3
Transportation and Comm.	**5.5**	**-4.9**	**13.8**	**-4.5**	**-3.7**	**1.1**	**6.8**
Financial Institutions	**0.9**	**-9.9**	**2.5**	**-9.8**	**-14.2**	**-7.4**	**-9.6**
Ownership of Dwelling	**0.0**	**2.1**	**5.3**	**2.1**	**2.0**	**2.0**	**1.9**
Business and Pers. Services	6.1	-7.4	2.3	-7.8	-10.4	1.9	8.2
(-) Imputed Bank Serv. Changes	0.7	-11.7	2.0	-10.8	-16.9	-9.6	-11.8
Sectoral Total	**6.6**	**-6.7**	**92.3**	**-6.7**	**-9.8**	**2.1**	**8.0**
Government Services	2.0	1.5	4.7	0.9	1.0	2.0	0.3
Private Non-profit Inst.	1.1	0.2	0.4	-0.3	0.0	0.3	0.5
Total	**6.4**	**-6.4**	**97.4**	**-6.4**	**-9.3**	**2.1**	**7.6**
Import Duties	28.1	-25.1	4.6	-28.0	-28.4	-2.2	21.9
GDP	**7.4**	**-7.4**	**101.9**	**-7.4**	**-10.4**	**1.9**	**8.2**

**Figures indicate percentage point contribution to GDP growth*

GRAPH 1

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Level)

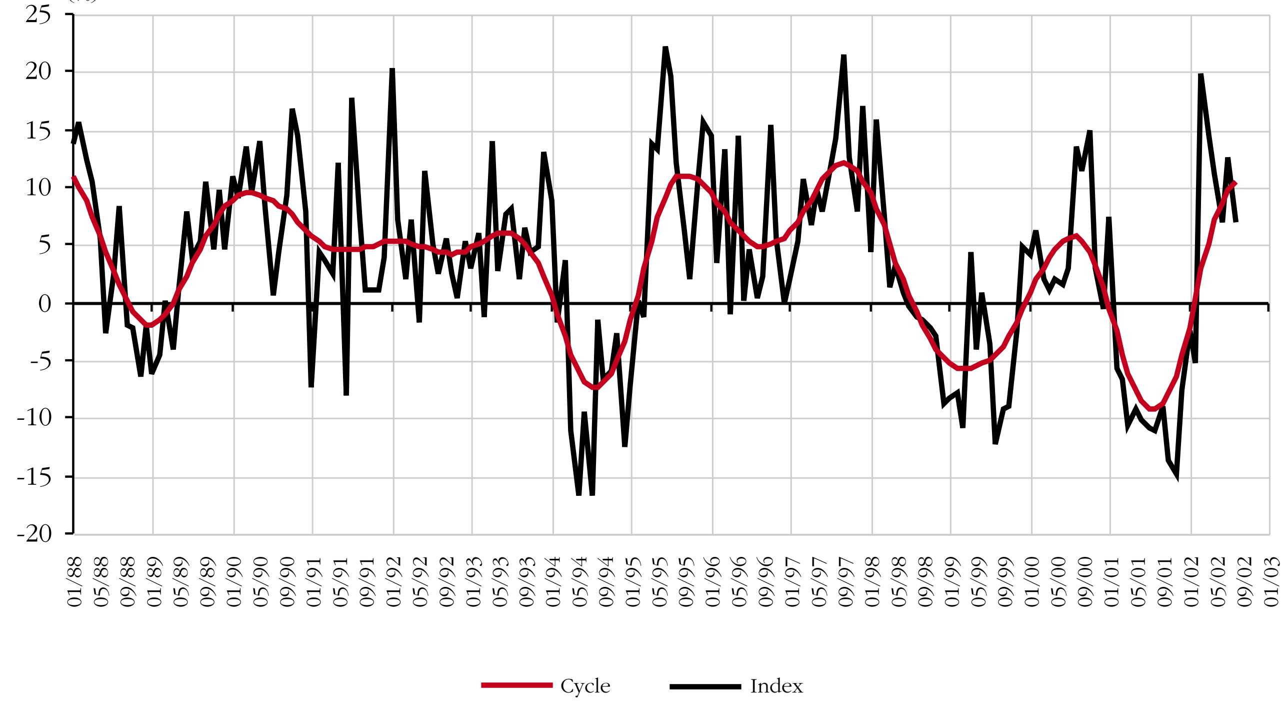
(1997=100)



GRAPH 2

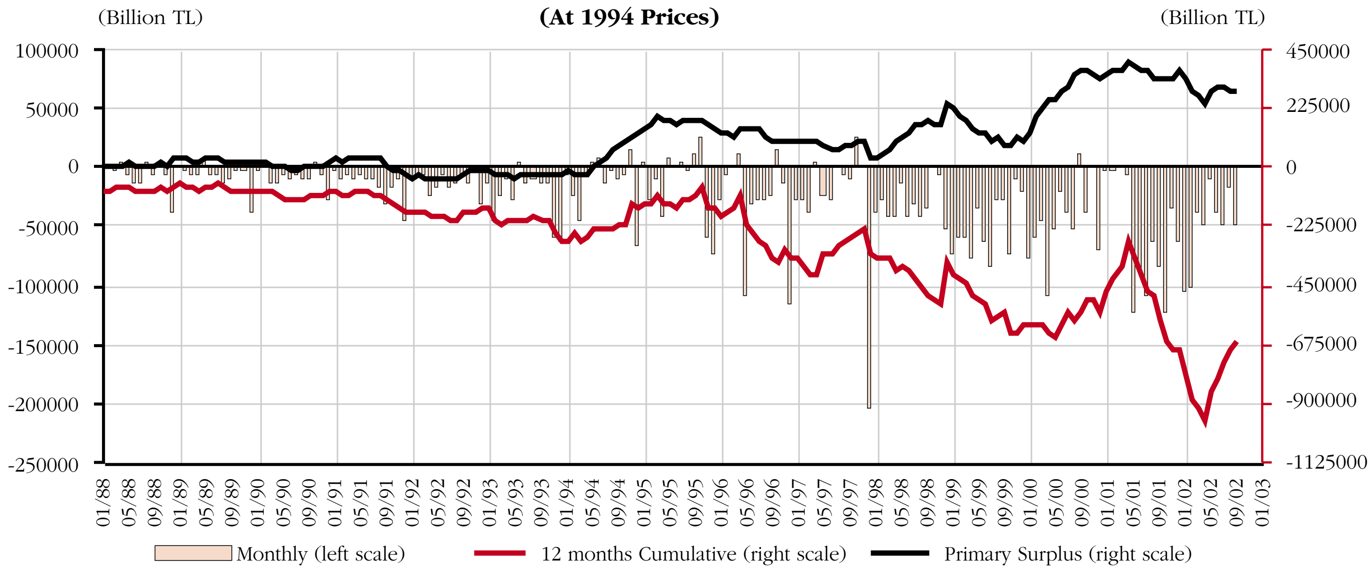
INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Annual % Increase)

(%)



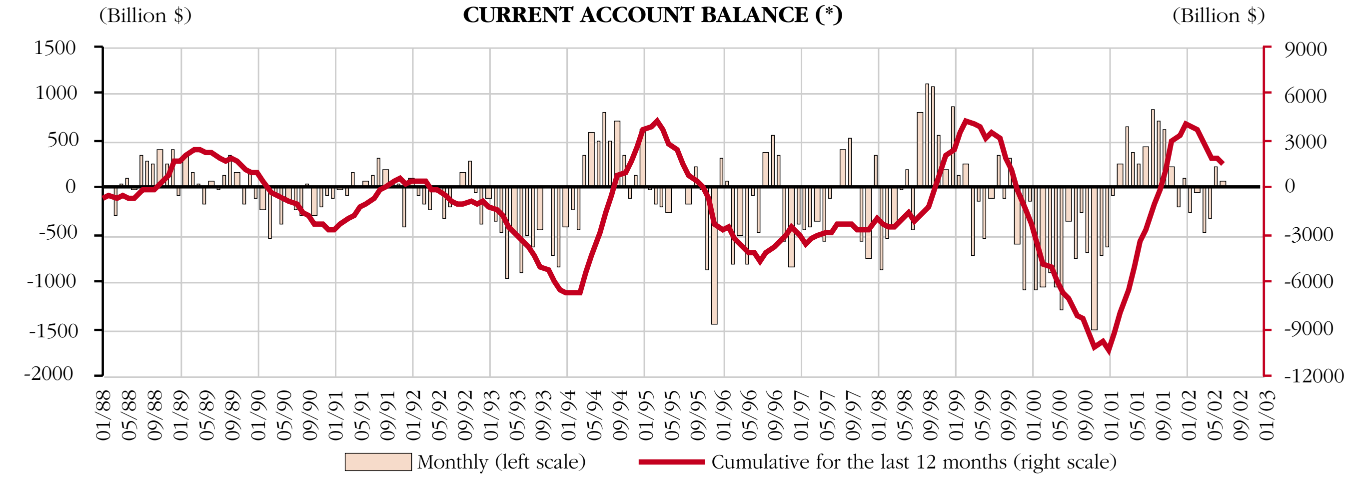
GRAPH 3

CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices)



GRAPH 4

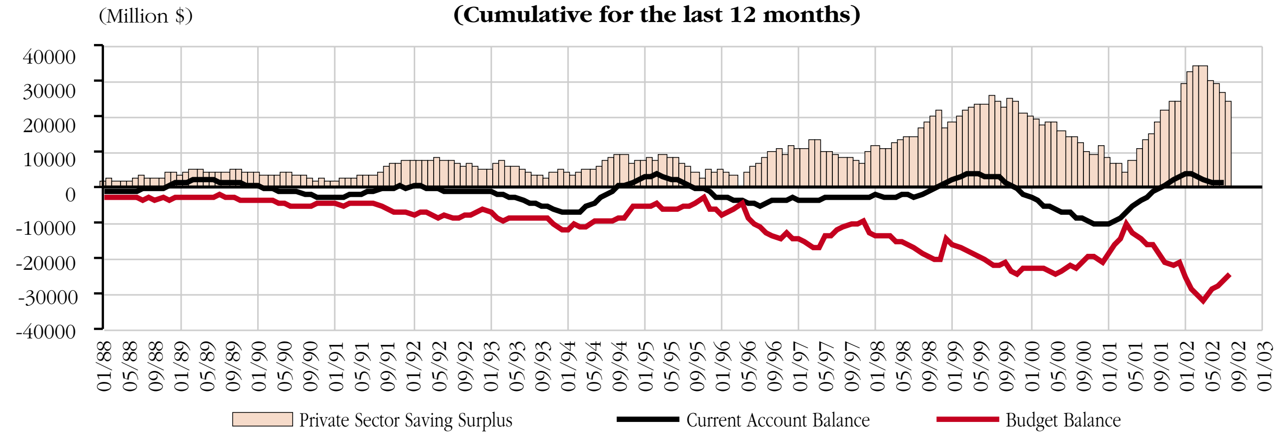
CURRENT ACCOUNT BALANCE (*)



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

GRAPH 5

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

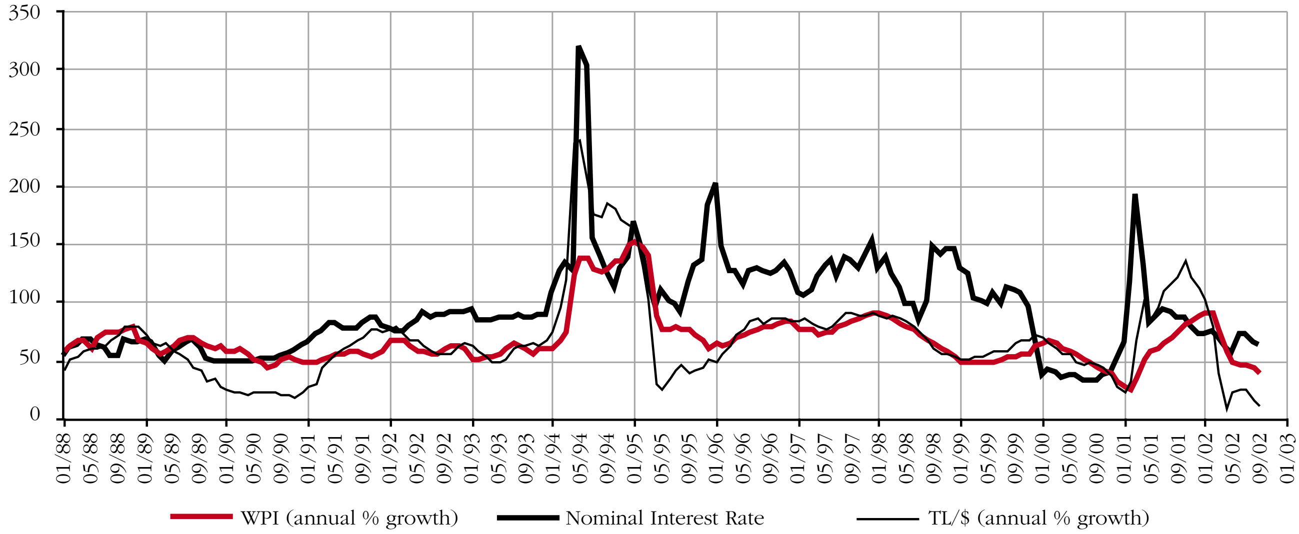


(*) Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

(%)

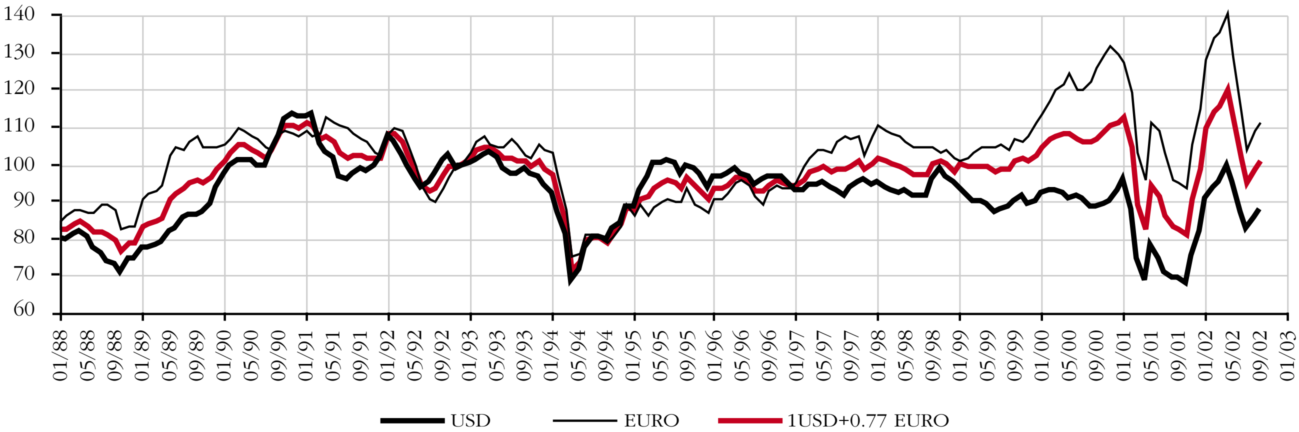
INFLATION, NOMINAL INTEREST RATE AND USD EXCHANGE RATE



GRAPH 7

(1992=100)

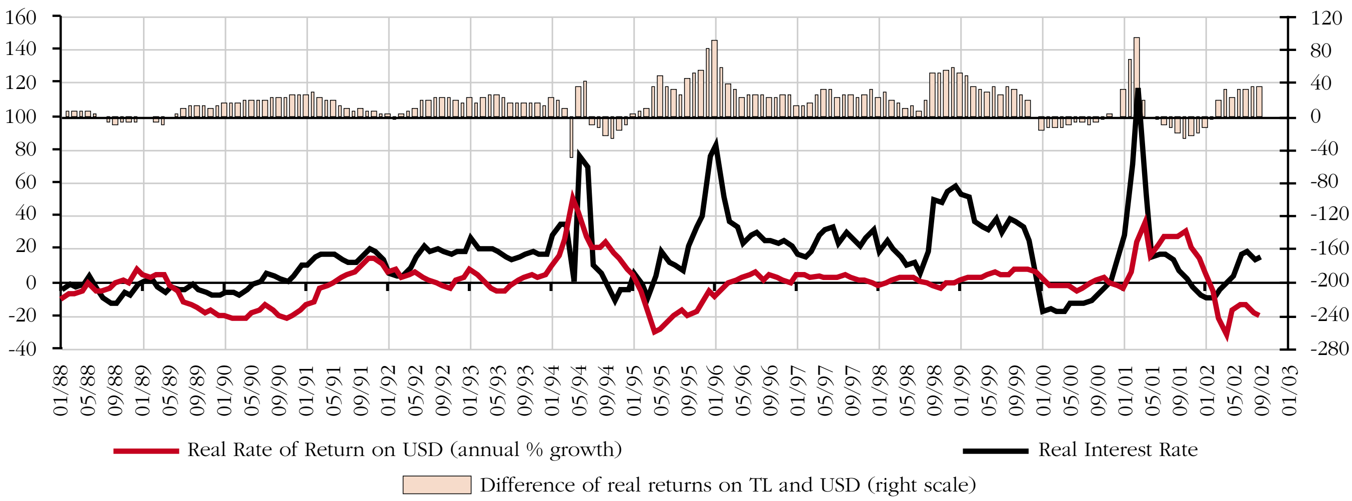
REAL EXCHANGE RATE INDEX*



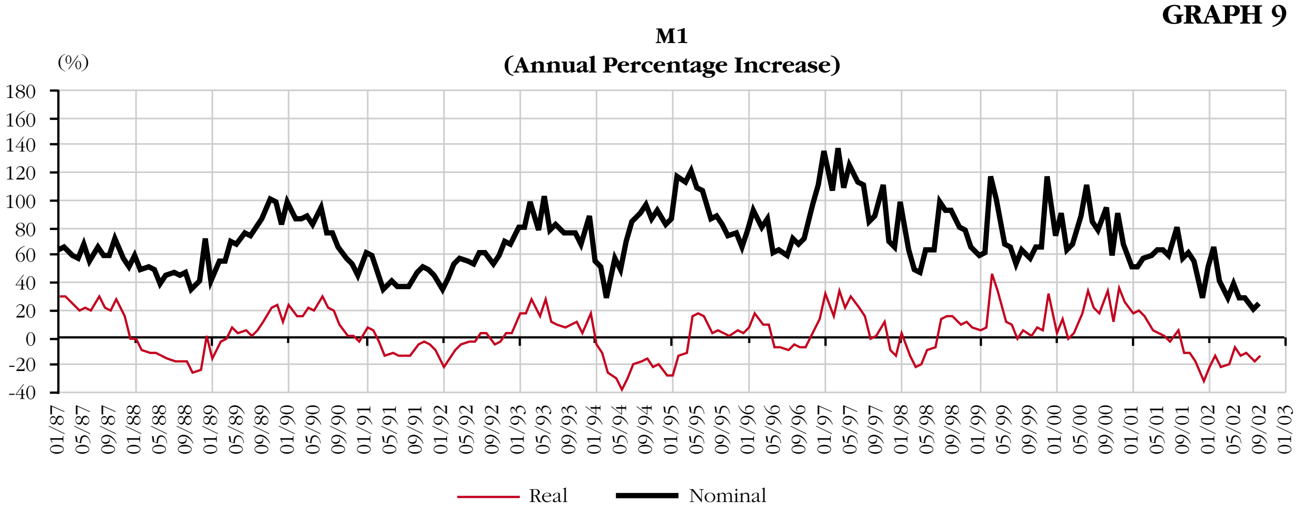
*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

GRAPH 8

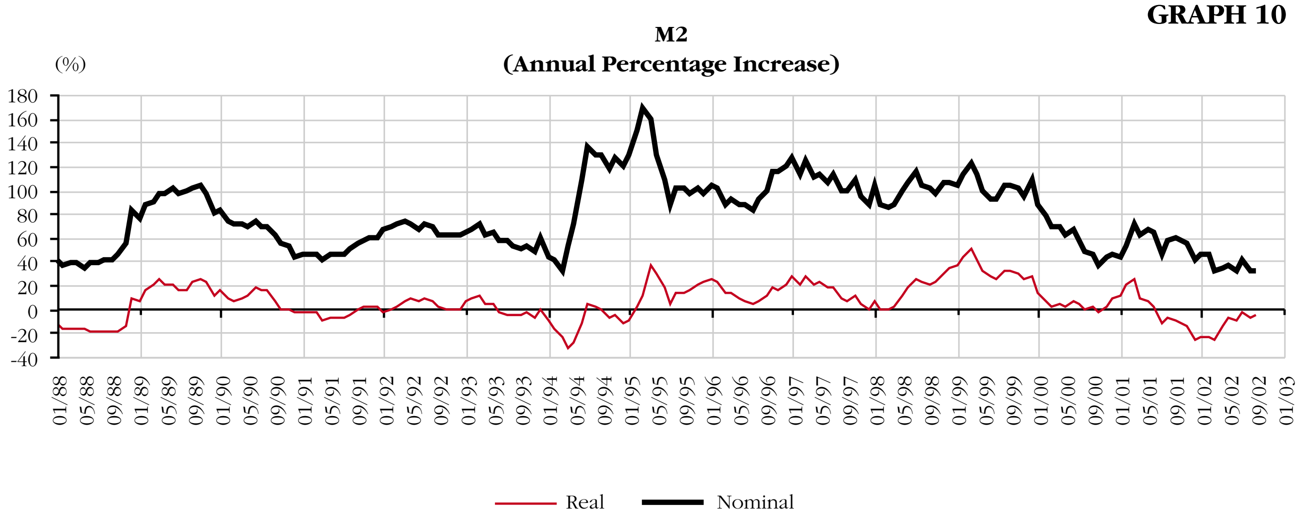
(%) **REAL INTEREST RATE AND REAL RATE OF RETURN ON USD** (%)



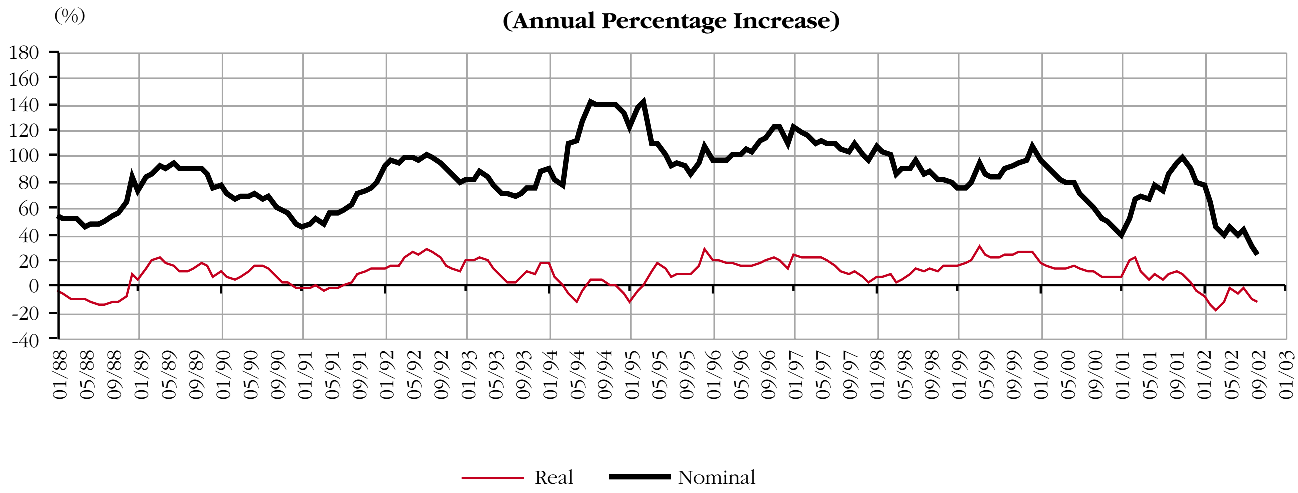
GRAPH 9



GRAPH 10

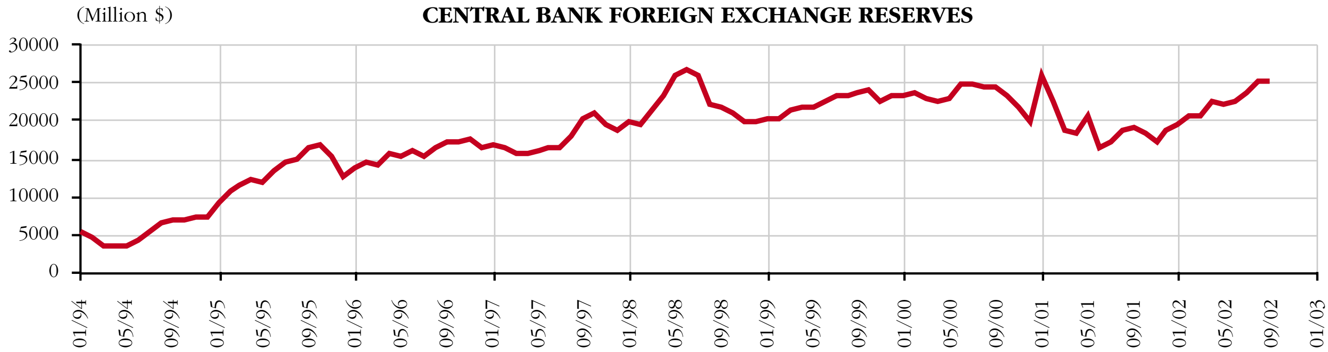


GRAPH 11



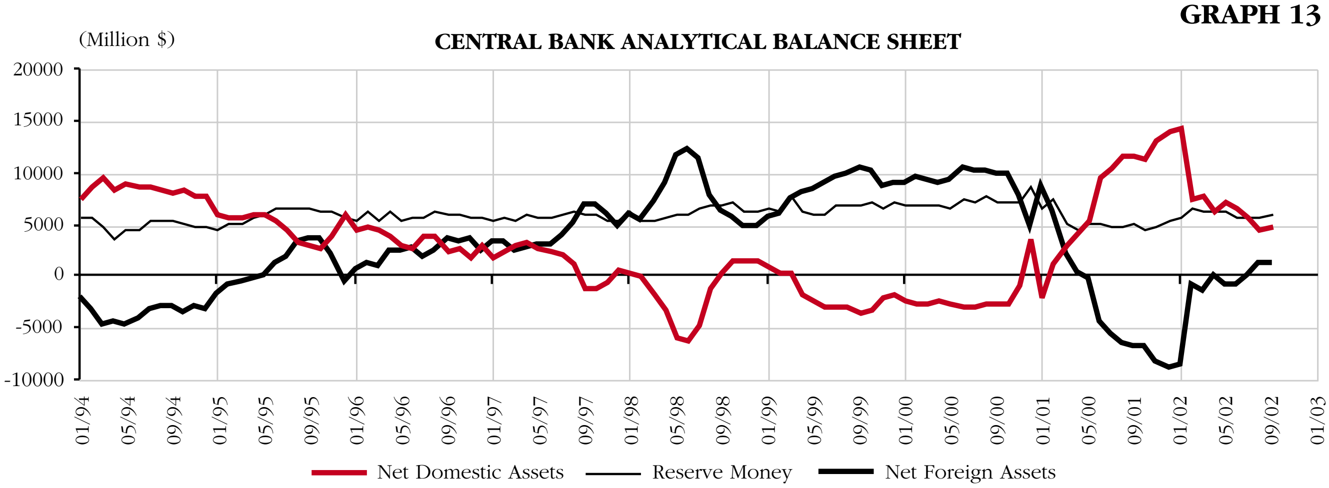
GRAPH 12

CENTRAL BANK FOREIGN EXCHANGE RESERVES



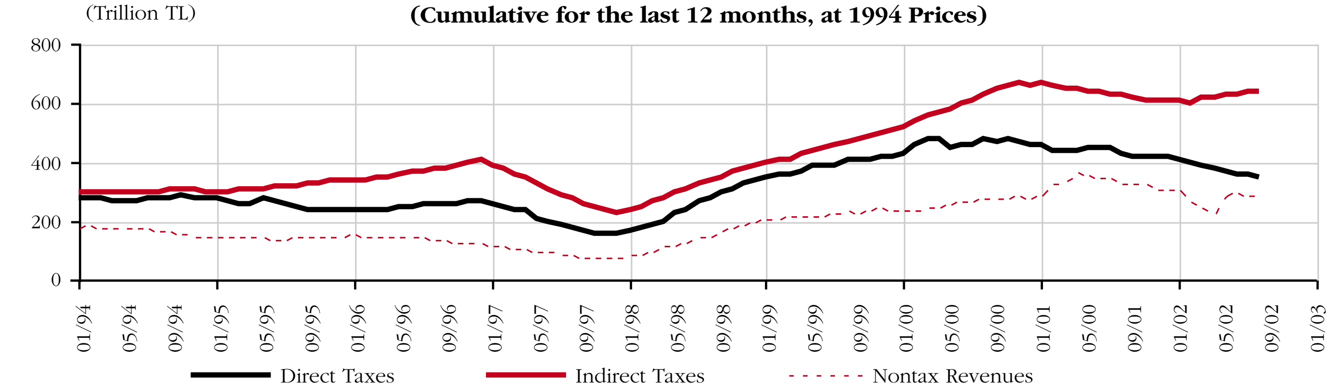
GRAPH 13

CENTRAL BANK ANALYTICAL BALANCE SHEET



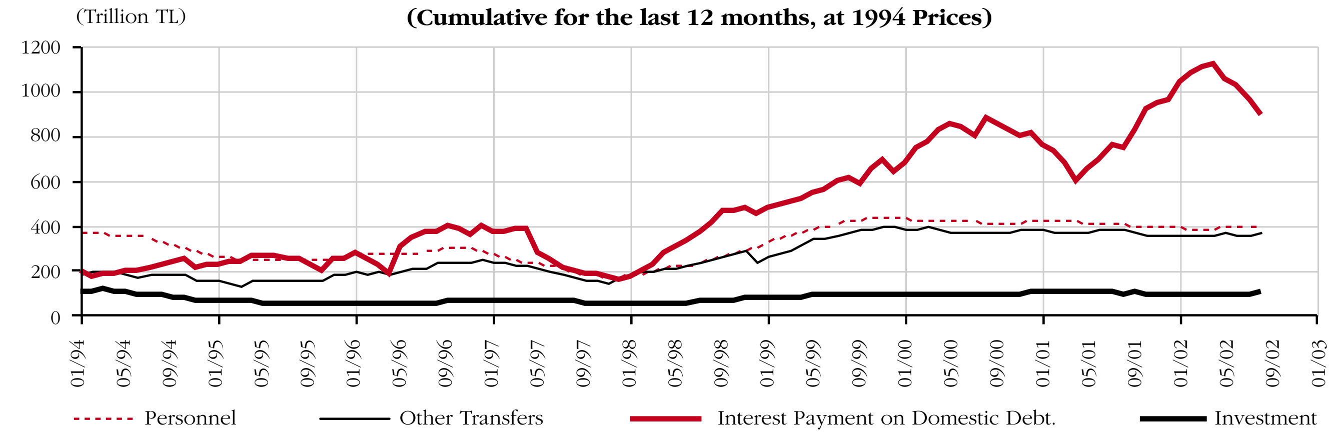
GRAPH 14

CONSOLIDATED BUDGET REVENUES (Cumulative for the last 12 months, at 1994 Prices)



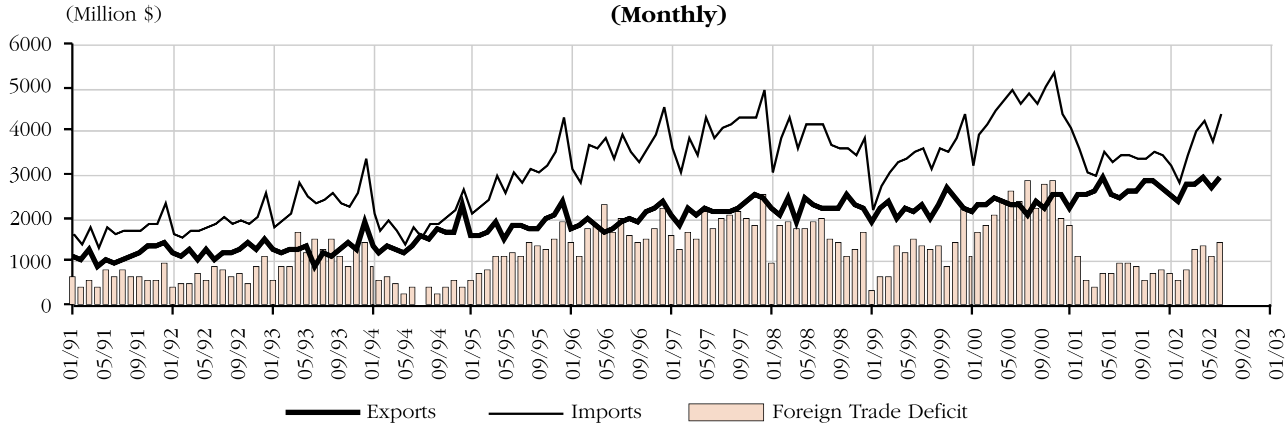
GRAPH 15

CONSOLIDATED BUDGET EXPENDITURES (Cumulative for the last 12 months, at 1994 Prices)



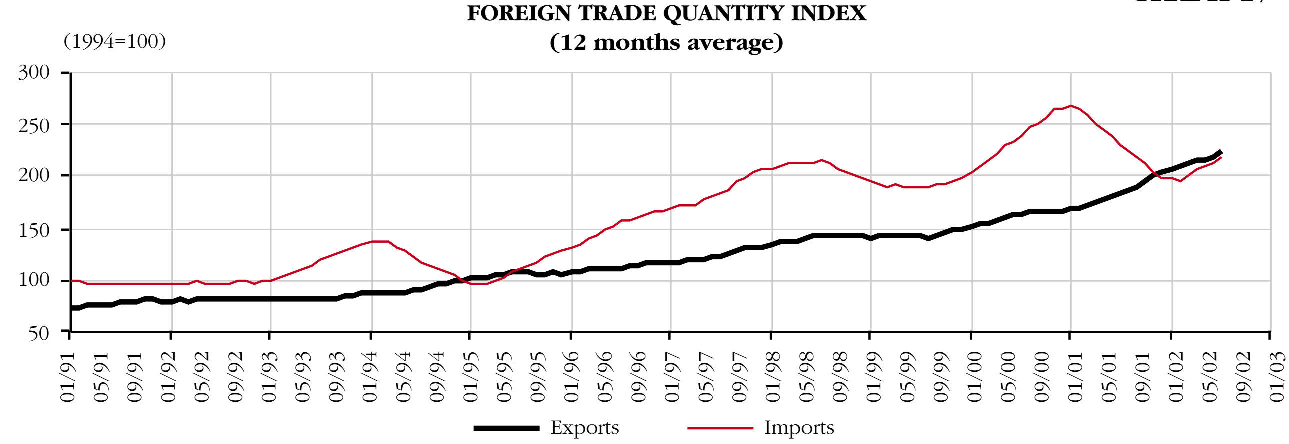
GRAPH 16

FOREIGN TRADE
(Monthly)



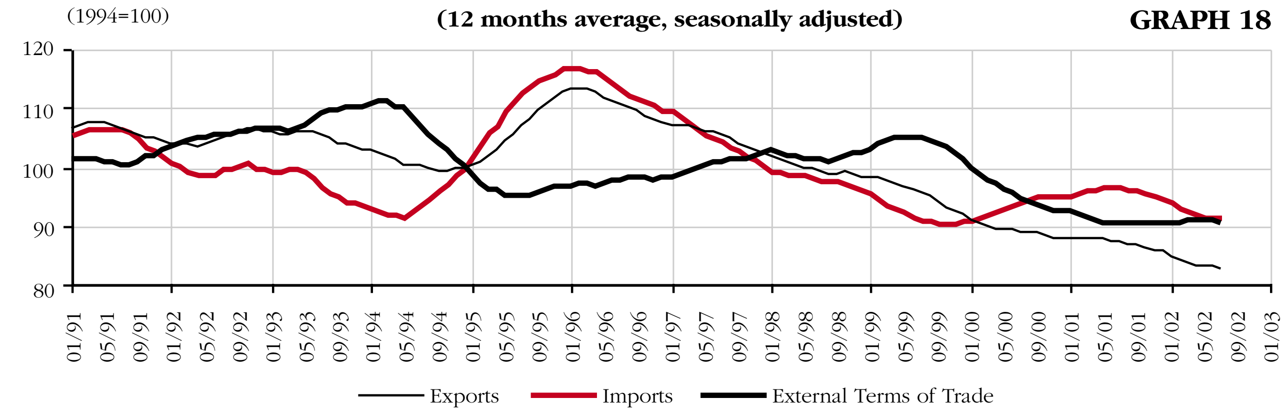
GRAPH 17

FOREIGN TRADE QUANTITY INDEX
(12 months average)



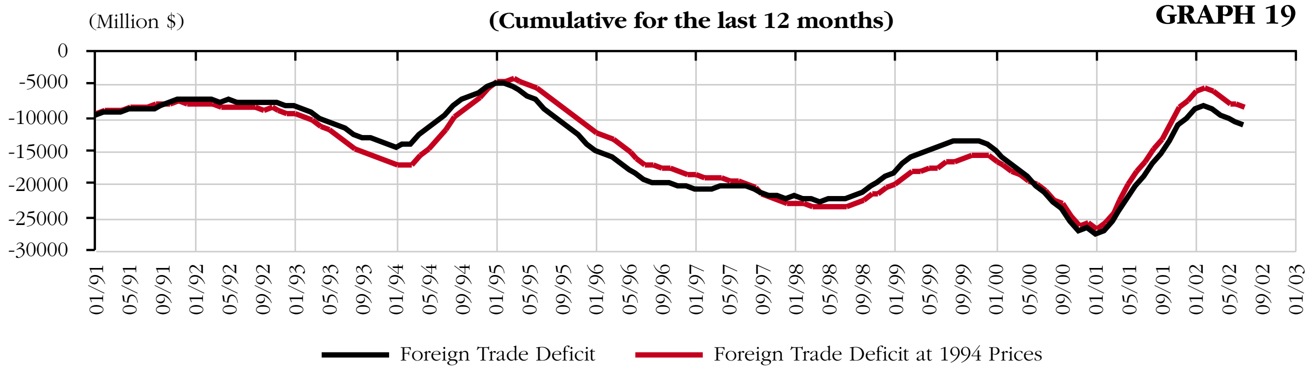
FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(12 months average, seasonally adjusted)

GRAPH 18



FOREIGN TRADE DEFICIT
(Cumulative for the last 12 months)

GRAPH 19



TÜSİAD MACROECONOMIC BASE SCENARIO
(Quarterly and yearly average)

	2001					2002					2003					
INCOME and PRICES	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**	**Government Program**
GNP (1987 prices)*	-3.1	-12.1	-9.0	-12.3	**-9.4**	0.3	8.8	*3.8*	*5.8*	***4.7***	*2.8*	*4.3*	*5.1*	*5.5*	***4.5***	5.0
GDP (1987 prices)*	-0.8	-9.6	-7.4	-10.4	**-7.4**	1.9	8.2	*4.3*	*5.4*	***5.0***	*3.1*	*4.2*	*5.1*	*5.2*	***4.5***	4.9
Inflation (WPI)*	30.1	56.8	70.0	84.9	**61.6**	86.7	51.2	43.5	*34.0*	***50.4***	*31.2*	*32.3*	*27.3*	*23.3*	***28.3***	16.2(a)
Inflation (CPI)*	35.6	52.3	58.6	67.5	**54.4**	70.3	47.0	39.5	*32.1*	***45.1***	*29.7*	*31.5*	*29.4*	*25.8*	***29.0***	20.0(a)
Reserve Money *	36.6	38.5	58.5	33.9	**41.7**	51.1	40.8	46.0	*41.5*	***41.0***	*30.2*	*25.6*	*22.4*	*18.1*	***23.6***	
CONSOLIDATED BUDGET																
Budget Revenues (trillion TL)	10,561	12,367	13,445	15,439	**51,813**	15,028	20,793	19,583	*20,114*	***75,518***	*20,987*	*25,091*	*26,933*	*29,347*	***101,358***	96,400
Budget Expenditures (trillion TL)	10,651	20,381	23,776	25,572	**80,379**	27,663	26,032	26,287	*31,647*	***111,629***	*33,489*	*35,680*	*38,480*	*40,190*	***147,839***	143,240
Budget Balance (trillion TL)	-90	-8,014	-10,330	-10,132	**-28,566**	-12,636	-5,239	-6,704	*-11,533*	***-36,112***	*-12,502*	*-10,589*	*-12,547*	*-10,843*	***-46,481***	-46,840
Interest Expenditures (trillion TL)	4,809	10,932	13,774	11,549	**41,065**	16,540	11,925	10,857	*12,576*	***51,898***	*15,640*	*16,980*	*19,620*	*15,060*	***67,300***	66,380
Budget Balance (billion $)	-0.1	-6.8	-7.4	-6.7	**-23.3**	-9.3	-3.7	-4.1	*-6.9*	***-23.7***	*-6.9*	*-5.7*	*-6.6*	*-5.4*	***-24.6***	
Primary Surplus (over GNP, %)	-				**7.0**					***5.6***					***5.5***	5.6
Budget Balance (over GNP, %)	-				**-15.9**					***-12.7***					***-12.1***	-12.9
EXCHANGE RATES																
Nominal Exchange Rate (TL/$)	797,557	1,186,825	1,398,014	1,519,706	**1,225,525**	1,353,699	1,410,648	1,643,660	*1,680,883*	***1,522,222***	*1,805,000*	*1,866,179*	*1,903,717*	*2,015,105*	***1,897,500***	
Nominal Exchange Rate (TL/$)*	15.5	58.6	71.6	73.4	**56.7**	69.7	18.9	17.6	*10.6*	***24.2***	*33.3*	*32.3*	*15.8*	*19.9*	***24.7***	
Real Exchange Rate (TL/$)(1999=100)**	120.9	97.9	91.8	97.6	**102.0**	121.3	121.1	108.9	*116.5*	***117.0***	*118.0*	*120.4*	*121.6*	*122.2*	***120.6***	
Real Exchange Rate (TL/$)*	17.4	-4.0	-7.6	-3.5	**0.7**	0.4	23.7	18.6	*19.4*	***14.6***	*-2.8*	*-0.6*	*11.7*	*4.9*	***3.1***	
Nominal Exchange Rate (TL/€)	733,423	1,036,296	1,245,474	1,360,145	**1,093,834**	1,186,136	1,299,433	1,616,606	*1,658,360*	***1,440,133***	*1,769,064*	*1,835,026*	*1,865,738*	*1,967,804*	***1,859,408***	
Nominal Exchange Rate (TL/€)*	32	82	113	131	**90**	61.7	25.4	29.8	*21.9*	***31.7***	*49.1*	*41.2*	*15.4*	*18.7*	***29.1***	
Real Exchange Rate (TL/€)(1999=100)	114.5	97.7	89.8	95.0	**99.2**	120.6	114.6	96.4	*102.9*	***108.6***	*104.8*	*106.7*	*108.1*	*109.1*	***107.2***	
Real Exchange Rate (TL/€)*	2.6	-16.4	-25.7	-27.4	**-17.3**	5.3	17.3	7.4	*8.3*	***9.5***	*-13.1*	*-6.8*	*12.1*	*6.0*	***-1.3***	
€/$(*100)	92.0	87.3	89.1	89.5	**89.5**	87.6	92.1	98.4	*98.7*	***94.2***	*98.0*	*98.3*	*98.0*	*97.7*	***98.0***	
GOVERNMENT SECURITIES AUCTIONS																
Nominal Int. Rate (compounded, %)	125.4	100.3	91.3	79.6	**99.1**	72.8	63.0	66.6	*59.8*	***65.5***	*55.0*	*48.1*	*41.9*	*38.0*	***45.8***	
Real Int. Rate (compounded, %)	66.2	31.5	20.6	7.3	**29.0**	1.5	10.9	19.4	*21.0*	***14.1***	*19.5*	*12.6*	*9.7*	*9.7*	***13.0***	
FOREIGN TRADE and CURRENT ACCOUNT																
Imports (cif) (billion $)	10.2	9.4	10.1	10.1	**39.7**	9.3	11.8	*11.9*	*12.1*	***45.1***	*9.9*	*12.5*	*13.1*	*13.4*	***48.9***	51.6
Exports (fob, incl. shuttle trade) (billion $)	8.2	8.8	8.8	9.4	**35.3**	8.8	9.6	*9.4*	*9.8*	***37.6***	*9.1*	*9.8*	*10.1*	*10.5*	***39.5***	38.4 (b)
Foreign Trade Balance (fob-cif) (billion $)	-2.0	-0.5	-1.3	-0.6	**-4.5**	-0.5	-2.1	*-2.5*	*-2.4*	***-7.5***	*-0.8*	*-2.7*	*-3.0*	*-2.9*	***-9.4***	-13.2
Invisibles (other current) (billion$)	1.6	1.8	3.3	1.3	**7.9**	0.3	1.5	*2.7*	*2.0*	***6.5***	*0.5*	*1.8*	*2.9*	*2.2*	***7.4***	
Current Account Balance (billion$)	-0.5	1.3	2.0	0.6	**3.3**	-0.2	-0.6	*0.2*	*-0.4*	***-0.9***	*-0.3*	*-0.9*	*-0.1*	*-0.7*	***-2.0***	
Imports (fob) (billion $)*	-10.1	-32.9	-28.9	-30.7	**-26.4**	-9.2	25.4	*17.8*	*20.6*	***13.4***	*6.7*	*6.4*	*10.2*	*10.3*	***8.5***	
Exports (fob, incl. shuttle trade)(billion $)*	7.8	10.9	13.1	13.4	**11.4**	7.6	8.7	*7.2*	*3.5*	***6.7***	*3.5*	*1.9*	*7.2*	*7.4*	***5.0***	
Import Quantity Index*	-10.0	-30.4	-27.5	-28.2	**-24.8**	1.9	24.7	*13.2*	*13.7*	***13.3***	*9.0*	*11.0*	*12.7*	*11.7*	***11.2***	
Export Quantity Index*	16.3	20.3	22.1	29.4	**22.2**	20.1	10.6	*12.4*	*12.7*	***13.7***	*10.4*	*9.3*	*9.2*	*7.6*	***9.1***	
Unit Value of Imports*(c)	0.0	-3.5	-2.0	3.7	**-2.2**	-10.9	0.5	*4.1*	*6.1*	***0.0***	*-2.1*	*-4.2*	*-2.2*	*-1.2*	***-2.4***	
Unit Value of Exports*(c)	-7.3	-7.8	-7.4	-12.4	**-8.9**	-10.4	-1.7	*-4.6*	*-8.2*	***-6.2***	*-6.3*	*-6.8*	*-1.9*	*-0.1*	***-3.7***	

Red italic figures are TÜSİAD estimates
(*) Denotes annual avrage percentage change on the same period of previous year
(**) Decrease in Real Exchange Rate index reflects the devaluaiton of TL
(a) End year, TÜSİAD's end year forecast for CPI and WPI for 2002 and 2003 are 31.2%, 32.2% and 24.6% and 22.1% respectively
(b) Fob, excluding shuttle trade   c)Current Value/Quantity Index

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