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Disinflation with Growth: A Dream Unfolding

*"Reality is merely an illusion,
albeit a very persistent one."*

Albert Einstein

Summary and Conclusion

The completion of the 4th review with IMF and sooner than expected end of the war put Turkey on a virtuous circle.

Since April, there is a significant enhancement in Turkey's macroeconomic environment. TL has appreciated against the USD, disinflation has gained momentum, interest rates have come down, exports have continued to rise and fed the industrial production, and finally the domestic demand has become stronger while the expectations have improved. Although the sooner than expected end of the war contributed to this development in business/consumers' sentiment, the resolute act of the government to attain fiscal austerity in 2003 budget and the completion of the fourth review was formative in the expectations. Also the announcement of multiyear US\$ 8.5 billion dollar US financial support package has been translated as the resumed alliance of Turkey and US, which ruled out the pessimistic scenarios of Turkey's vanishing geo-strategically importance and permanently deteriorated bilateral relations with US. However, besides many culprits, the appreciation of TL –even in nominal terms- was constructive for the improvement in both the nominal prices and business/consumers' sentiment.

Despite the improving macroeconomic environment, real interest rates are still high.

With the improvement in the expectations and the normalization in the disinflation pattern, the Central Bank made two O/N rate cuts; first at the end of April and then at the beginning of May. However, following the

second rate cut, there had been an upward shift in the secondary bond market rates. Considering the fact that there was no distraction with respect to macro fundamentals, the increase in the nominal rates can be translated as the increase in the risk premiums. The fifth and sixth reviews should have been completed at the end of May and June respectively, as it had been programmed in the April dated letter of intend. It's a fact that the government was dealing with a heavy legislation harmonization with the EU membership, which is an ultimate anchor for Turkey. However, in order to attain macroeconomic stability, government should also fulfill the requirements of the scheduled reviews. The longer than expected delay in the completion of the fourth review proved that the government's compliance with the IMF supported economic program is the sole determinant for the financial markets. Therefore, the stickiness in the nominal interest rates is not surprising in light of the delays in the economic program and mixed signals of fiscal policy.

There are concerns with respect to sharp appreciation of TL.

It may be trivially argued that the high real interest rates in domestic currency create a portfolio shift and the domestic currency will appreciate until it becomes unsustainable. However, despite a decade long high real interest rates, Turkish experience shows that the FX deposits have not been that responsive to change in prices but rather act as an indicator of perceived uncertainty. So the current appreciation of TL should be analyzed in terms of short and long run perspectives. One important exogenous development has

been the weakening of US dollar against Euro and other major currencies in the post war period. Another factor that brings the nominal exchange rate down was the increasing investment opportunities in TL, which caused a limited reverse currency substitution. In a longer run perspective, it can be argued that, due to the increase in productivity, improved sectoral terms of trade in exporter manufacturing industries and the competitiveness inducing structural reforms, the equilibrium level of real exchange rate has shifted upwards with respect to index year of 1995. Therefore, part of the appreciation can be read as a correction of misalignment, which should smooth the concerns on the exchange rate.

Turkey has an opportunity to enjoy disinflation, real appreciation of TL, declining real interest rates and economic growth simultaneously.

There are concerns about the fast appreciation of TL and widening current account deficit. The first quarter GDP figures show that the domestic demand is picking up and consumption goods imports are on the rise. On the other hand, non-banking sector residents (estimated to be more than 2 million people) hold 27% of the domestic debt stock and the decrease in nominal interest rates creates a wealth effect. Therefore, there are two questions in mind: Will disinflation stall with the increasing demand pressure? Will the appreciation of TL be reversed sharply by the deterioration in the current account deficit and became inflationary through cost channel? As for the answers, the GDP growth in the first quarter is still in the form of technical recovery of the 2001 crisis. Therefore, an overheating of the economy, as it was the case in 2000, is not a concern for the time being. An important assumption is the structural reforms,

both in financial and public sectors increased the resilience of the economy and combined with the disinflation, the potential output may tend to increase in the long run. Keeping the major prerequisite of fiscal discipline, both the appreciation of TL and decline in interest rates may create a room for around 5% growth in the following years without sacrificing disinflation.

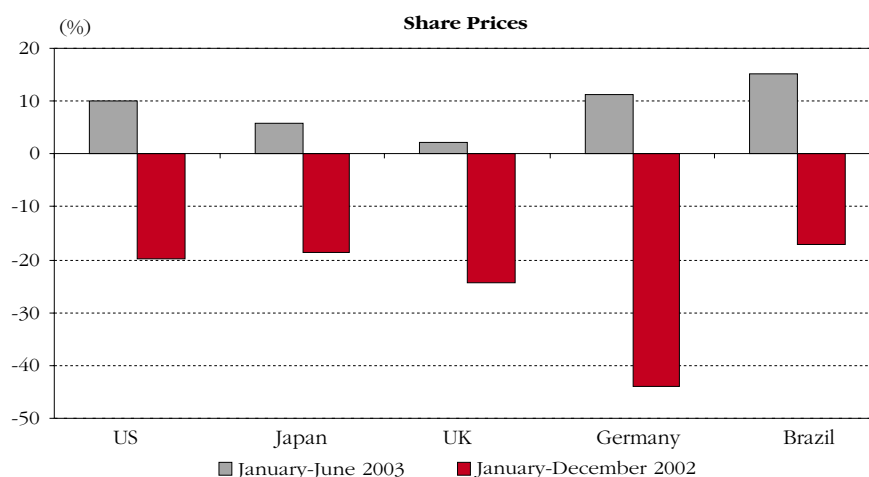
For the second question, as long as the government stays in track with the implementation of the program, the exchange rate will follow suit the disinflation pattern without any real jumps. When the short run fluctuations are analysed, it's seen that the event risks are highly attached to government policy slippages. If at least two consecutive reviews can be completed without any delay¹, we will experience a significant decline in real expected interest rate, which we think to remove inconsistencies in macro prices.

I. Global Economic Outlook

Although the world output growth remains subdued, it is expected to gain strength through the end of 2003.

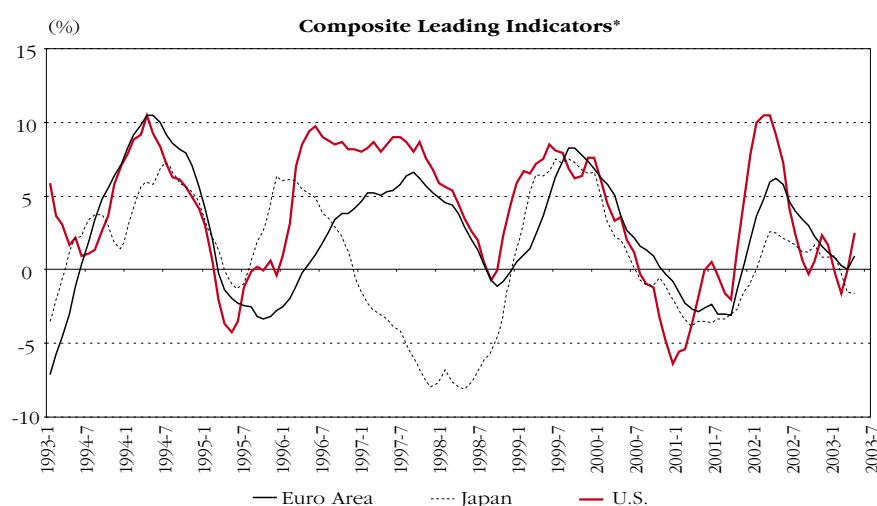
The sooner -and smoother- than expected end of the war in Iraq ruled out the destructive scenarios of global uncertainty. With the fall in energy prices and the increase in its supply, an

opportunity of a disinflationary expansion had emerged. While the world real GDP growth in 2003 is estimated to reach 3.0% due to relatively slow growth in advanced countries, the inflation is expected to stay below 2% both in EU area and US. It's seen that, the evaporation of acute risks with the decreasing global uncertainty also paves the way for improvement in consumer confidence and business sentiment. The OECD Composite Leading Indicators, which are the early cyclical signals for economic activity, also supports that the recovery is underway both in the US and the Euro area. Furthermore, the monetary easing worldwide (short-term interest rate cuts in the US, Euro area and Asia) is expected to stimulate the economic activity in the future course of 2003. For the time being, there are positive signs for the corrections of the imbalances –US consumption spending, Asian exports etc.-, which have been the major impediments to global recovery. Besides, headwinds of the falling equity markets have abated and equity prices have been rising (particularly in Asia) since the beginning of May. Long-term interest rates have maintained their low levels and price-earning ratios have reached to historical averages. Corollary to these developments, the growth in 2003 would probably reach 2.5% in the USA, 1.0%



Source: Reuters

¹While the Q.E.O has been published, the fifth review with IMF was completed successfully and the improvement in the macroeconomic environment created an opportunity for the government to focus on the sixth review.



* Annualised six months percentage change

Source: OECD

in Japan, 0.7% in the Euro area, and 5.0% in the developing countries.

US economy would again be the engine of global growth in 2003.

Although the US household consumption has lost its momentum during the first four months of the year, the bounce back has started with the accommodative monetary and fiscal policies. Moreover, since investments have bottomed out, a gradual increase in capital spending is expected. Since the global upturn depends heavily on the US, these developments may lead to a progressive recovery. Non-Japan Asia, which is expected to act as the supplementary engine for global economy, appears to have overcome the negative impacts of the SARS epidemic and likely to benefit the low oil prices and improving international financing opportunities. There are increasing signs that the vigorous export performance will maintain the region's economic strength. The picture in the EU area is not a rosy one. The ongoing low economic activity in Germany and the strong Euro put strain on manufacturing industry in the Euro area. However, the tax reform and labour market regulations in Germany have been well perceived and likely to strengthen the economy over medium term. In the meantime, short-term impacts are likely to be observed on

the improving business sentiment and 2004 would probably be a better year for EU area. The emerging Europe, on the other hand, outperforms the Euro area and enjoys the benefits of convergence. Overall, although the economic activity is expected to gain pace through the end of 2003, it's expected to stay below potential for this year.

The growth performance in the first quarter had been held back by global uncertainties.

Main contributions to 2.0% real GDP growth in the first quarter came from private consumption expenditures, fixed investments and government spending in the US. Besides, Congress approved a fiscal package (amounts to USD 350 billion) over the next ten years, which is anticipated to have a fiscal stimulus at around 0.7% of GDP in 2003. In Japan, the real GDP growth in the first

quarter was 2.6% (dropped by 0.2 percentage points from the previous quarter) due to the loss of momentum in exports. Another deceleration in the economic activity was in the Euro area and the real economic activity slowed down to 0.8% from the previous quarter growth of 1.2%. Posting a real GDP growth of 9.9%, China continues to be the fastest growing country. Exports and investments were the main contributors to this spectacular growth.

II. Output and Inflation

Despite the negative impacts of the war on Iraq, the economy posted a real GNP growth of 7.4% in the first quarter.

The main culprit behind the deterioration in the financial markets in the first quarter was the war on Iraq. During this period, exchange rate devalued 2.1% on average and reached to 1,700,000 TL as of March, the index of ISE-100 dropped by 7.5% and nominal interest rates rose to 65% in secondary markets with an increase of 7 points. On the real side, the unemployment rate climbed to 12.3% in the first quarter of 2003 and raised concerns.

While industrial production and trade had underpinned the growth so far, the transportation and communication sector was also supportive in the first quarter.

Main contributions to the 7.4% real GNP growth came from industrial production,

GNP	2002	2003	2002	2003
	Q1	Q1	Q1	Q1
Sectors	(Annual % change)		(% point contr. to growth)	
- Agriculture	0.1	7.0	0.0	0.4
- Industry	2.8	7.8	0.9	2.7
- Construction	-11.8	-17.0	-0.6	-0.7
- Trade	4.3	10.8	0.9	2.4
- Transport. and Com.	2.1	13.7	0.3	2.1
- Financial Institutions	-7.4	-8.1	-0.2	-0.2
- Import Duties	4.0	19.8	0.2	1.2

Source: SIS

GDP	2002	2003	2002	2003
	Q1	Q1	Q1	Q1
Composition	(Annual % change)		(% point contr. to growth)	
Private Final Consumption	-1.8	6.5	-1.4	4.8
Government Final Consumption	2.2	-3.0	0.2	-0.2
Gross Public Fixed Cap. Form.	-30.9	20.4	-6.2	2.8
Gross Public Fixed Cap. Form.	-18.1	-37.8	-0.7	-1.2
Change in Stocks	--	--	7.1	6.0
Exports of Goods, Services	10.4	14.5	4.1	6.2
Imports of Goods, Services (-)	2.1	23.9	0.9	9.8

Source: SIS

trade, and transportation and communication sectors respectively. Since the export-driven industrial production has maintained its strong performance, the sector expanded by 7.8% in the first quarter and contributed to GNP growth by 2.7 percentage points. The vigorous production activity in the first quarter stimulated the employment and therefore the number of workers in the private manufacturing sector surged by 6.2% with respect to the same period of previous year. Since the increase in the production exceeded the upsurge in the employment, the partial productivity in the private manufacturing sector rose by 4.2% on annual basis. Posting a 7% increase in the first quarter, agricultural sector displayed an outstanding performance and caused significant deviations in the growth projections. The discrepancy resulted mainly from the fact that, historically, the agricultural output has not flourished in two successive years. The upswing in agriculture and industrial production spurred the activities in trade and transportation sectors. Another stimulus was the pickup in imports (since all the marketing and transportation activities were carried out by these sectors), which grew by 24% and climbed to 44% of GDP. Corollary to these developments, trade and transportation sectors jumped by 10.8% and 13.7% and contributed to GNP growth by 2.4 and 2.1 percentage points respectively.

Export-led production in manufacturing industry triggered the import of

intermediate goods and capital goods (especially due to high level of capacity utilization). Accordingly, the hike in imports accompanied by a 19.8% increase in import duties, which contributed to overall growth by 1.2 percentage points. On the other hand, shrinking 17% construction sector showed no signs of recovery yet. In the second quarter, however, a moderate progress in the construction activities is expected due to seasonal factors and the observed developments in the sector's suppliers. Nonetheless, in order to post a positive increase in the second quarter, the construction sector has to grow over 60% on quarterly basis. Hence, the construction sector is not expected to make a positive contribution to overall growth in the second quarter.

Rapid upturn in the durable goods' consumption and the hike in private investments were the main contributors to 8.1% of GDP growth.

Despite the adversities of the war throughout the first quarter, private consumption expenditures soared by 6.5% and contributed to GDP growth by 4.8 percentage points. The main determinant of this increase was the surge in durable goods consumption. Thanks to the rise in the private sector's machinery investment, which was an expected regeneration of the sharp falls occurred during 2001, the capital formation increased by 9.3% and contributed to growth by 1.6 percentage points. However, public investment and

consumption spending decreased by 38% and 3% respectively, due to ongoing implementation of the tight fiscal policy. In line with these developments, number of workers in the public manufacturing sector was retrenched by 4.1% with respect to the same period of previous year. Finally, the thriving performance of exports and imports yielded an increase of 14.5% and 23.9% respectively and net exports contributed to GDP growth by -3.6 percentage points.

Since the inventories have reached to high levels, the ongoing stock building is incompatible with the current restrained demand conditions.

It is seen that inventories have reached to hitherto unprecedented levels. While the proportion of stock changes in the industrial production (mining and manufacturing) was 20% in 2002, it escalated to 38% in the first quarter, which simply is not realistic in economic and physical sense. The more-than-required level of inventories mismatch the upward trend in the production activities. Therefore, an alternative explanation can be inserted. According to the household labor survey results, the ratio of unregistered workers has exceeded 50%. Sticking to the assumption that the unregistered income creates unregistered expenditures, one can reach the conclusion that the demand side of the output is underestimated. Therefore, the idiosyncrasy of the change in stocks is highly attributed to the problems of demand side measurement of national income.

Along with the recuperation of international environment, inflation has entered into a downward trend due to decline in agricultural and food prices.

As of second quarter, the alleviation of global uncertainties ruled out the external

adversities on inflation. Moreover, thanks to the easing in agricultural and food prices, which were the major factors behind the higher inflation growth in the first quarter, the inflation has entered into a downward trend. According to the seasonally adjusted figures, during the second quarter, the average monthly increase in WPI and CPI were realized at 0.9%, 1.8% respectively. While the oil prices slid back to levels around 25\$ per barrel, the exchange rate fell from TL 1,700,000 in the beginning of April to TL 1,400,000 as of end-June, and hence has accelerated the disinflation. Besides, following the price adjustments made in the beginning of the year, the prices in the public manufacturing sector, which are the major intermediate goods suppliers, declined and this brought down) the overall manufacturing industry prices. Relating to the cost structure, the drop in the nominal exchange rate not only reduced the factor prices but also brought down the cost of financing, which is the major cost component. During April-May period, food prices contributed to CPI increase by 0.5 percentage points in each month mainly due to the pass-through effect from the jump in the agricultural prices. However, as of June, the seasonal weakening in the food prices limited the CPI increase in the lack of demand pressure. In parallel with these developments, as of June, the annual increases in WPI and CPI stood at 29.6% and 29.8% respectively. Consequently, monthly average growth rates of WPI and CPI should be 1.2% during the rest of the year in order to attain the end-year targets of 20%.

The expectations have improved with the favorable market sentiment in the second quarter.

Central Bank's expectation survey results reflect the optimism stemming

from the auspicious developments in the second quarter. The survey shows that expected end-year CPI inflation continued to decline and dropped to 24% in the first half of July. Likewise, end-year growth expectations have risen to 4.9%. This improvement in the market sentiment is expected to continue on condition that it is supported by fiscal discipline and structural policies. Government's statements that income policy will be in accordance with the budgetary targets give support this expectation. Besides, considering the unemployment rate in the first quarter and the fact that economy is still below its potential output level, a prospective invigoration in the demand is not expected to create an inflationary pressure. In light of these developments, Central Bank cut the overnight interest rates from 44% to 35% during April, June and July.

III. Fiscal and Monetary Policies

Additional measures are needed in order to attain the end-year primary surplus target.

With the primary expenditures of 34.6 quadrillion TL and interest payments of 34.9 quadrillion TL, consolidated budget expenditures went up to 69.4 quadrillion TL as of June. Therefore, through the budget revenues of 44.7 quadrillion TL in the first half of the year, primary surplus reached to 10.1 quadrillion TL, whereas the budget deficit mounted up to 24.8 quadrillion TL. Although limited, the expected

primary surplus in the other public sector had likely pushed the consolidated public sector primary surplus up to the performance criteria level of April. In the first half of the year, while the blockage on primary expenditures, which curbed the investments most, restrained the budget expenditures, the tax amnesty plan propped up the revenues. Yet, the budget figures for the first half implies that the June performance criteria for primary surplus may not be attained. Considering the main culprits of this slippage, which are the lower-than-expected tax revenues and overshooting social security transfers and tax redeems, additional measures are needed in order to meet the end-year primary surplus target.

Despite the real boost, tax revenues are below the targets.

In the first half of the year, indirect and direct taxes increased by 11.4% and 5.0%, respectively in real terms. The increase in the tax revenues was in fact due to the high indirect taxes parallel to invigorating domestic demand. Direct tax revenues, on the other hand, were below the target, yet the revenues commencing with tax amnesty plan recovered the shortfall. Approximately 3.5 million taxpayers applied and 7.9 quadrillion TL tax debit is registered for the tax amnesty scheme, in which the government attached significant importance. While the 6.5 quadrillion TL of the total scheduled

CONSOLIDATED BUDGET (TRL trln)	2002		2003		Real. Ratio (1)/(2)
	Real.	Target	Jan.-June (1)	Target (2)	
REVENUES	76,400	71,218	44,689	100,782	44.3%
Tax Revenues	59,634	57,911	37,111	85,955	43.2%
Non-tax Revenues	16,766	13,307	7,579	14,827	51.1%
EXPENDITURES	115,486	98,131	69,448	145,949	47.6%
Primary Expenditures	63,615	55,336	34,596	80,499	43.0%
Interest Payments	51,871	42,795	34,853	65,450	53.3%
BUDGET DEFICIT	39,085	26,913	24,759	45,167	54.8%
PRIMARY SURPLUS	12,785	15,882	10,094	20,283	49.8%

Source: Ministry of Finance

arrears belongs to the private sector, the remaining 1.4 quadrillion TL is from public sector. Roughly 1 quadrillion TL was collected just through the first two instalments in April and May, exceeding the IMF's projection of 750 trillion TL for the whole year. However, the tax amnesty collection negatively affected the overlapping income and corporate tax payments, yielding a rather loss in tax revenues. The real decline in total revenues aroused from the low level of non-tax revenues in the government budget, mainly due to the negligible profit of the Central Bank.

In favour of a long-lasting progress in the budget, cutback in expenditures should be backed up with structural reforms.

After the disappointing fiscal performance of 2002, the rise in expenditures throughout this year has been particularly limited with the facilitation of fiscal measures. Actually, total expenditures in the first half declined by 2.9% in real terms. The nominal increase in expenditures has been mostly due to the transfers, which are dominated by interest payments. Among other transfer expenditures, the contribution to the social security institutions, tax redeems, and direct income support were 8.4, 4.2, and 1.5 quadrillion TL, respectively. On the other hand, current expenditures (excluding personnel payments) and capital expenditures were at minimal because of the package of fiscal measures. In the first half of the year, primary expenditures reached to 34.6 quadrillion TL, with a 2.9% real decline. On the whole, budget expenditures were in line with end year targets, yet the growing tax redeems parallel to high export performance and agricultural subsidies comprising no appropriate funds intimate depressing signals for the budget progress. Another

warning signal is the ossified transfer payments to social security institutions. Lack of desired steps forward concerning the social security reform appears to be the most important problem. While the blockage on capital expenditures upsets the quality of expenditures in a balance sheet framework, its elimination will deteriorate the required discipline in the expenditures.

Appreciation of TL erodes the debt stock.

The borrowing in the first five months carried the domestic debt stock to TL 174.0 quadrillion TL (USD 117.2 billion), with a 24.1 quadrillion increase. The composition of the stock by instruments is as follows: 30.8% is fixed rate, 41.1% is FRNs, and 28.0% is FX linked/denominated. Accordingly, 69% of the stock is prone to high interest rates and real devaluation risks. Accompanying the utilization of the IMF credit in redeeming public sector debts in 2002, public sector's share in debt stock continued to decrease within this year and went down to 49.2% as of May. On the other hand, USD 3.6 billion boost during the first five months brought up the external debt of central government to USD 60.2 billion. In this way, outstanding total debt of central government reached to USD 177.4 billion, 12% of which is IMF credits. 29% of the total stock is indebted to public sector, while the share of domestic and foreign markets are 34% and 17%, respectively. As of

June, the average cost of borrowing and its maturity improved to 54.8% for 286 days from its previous year level of 62.2% for 251 days. A structural recovery in public accounts would facilitate extending maturities as well as declining rates. In this framework, government's insistence on tight fiscal policy and resolution on structural reforms are critical to settle down the interest rates.

The Central Bank maintained the short-term interest rates as an effective policy tool.

The Central Bank, which was successful attaining the performance criteria last year, exhibited a thriving performance throughout the year in line with the ongoing monetary program. So far, CB has managed to retain its balance sheet within the designated margins and attained the monetary targets for April and June. Besides the monetary targeting, the Central Bank continued to exercise the short-term interest rates in taming the inflation. Considering the withdrawing cost-push pressures following the end of Iraq war and the subsequent twirl in inflation trend, CB reduced overnight interest rates for three times. Accordingly, short-term borrowing rates went down to 35% with successive 3-point rate cuts in April, June, and July. Even with the signals of flourishing domestic demand, favourable developments in the foreign exchange and the under-potential level of production yet imply a cheering path for inflation in the prospective

Monetary Targets for 2003*	Apr.	June	Sep.	Dec.
Net International Reserves (CBT + Treasury)	-6,500	-7,000	-6,000	-6,000
Realization	-5,996	-3,865		
Stock of Net Domestic Assets (CBT + Treasury)	32,800	34,100	33,800	34,200
Realization	30,951	29,395		
Base Money	12,800	13,200	14,100	14,300
Realization	11,883	13,039		

* floor (USD million) for NIR, ceiling (TL trillion) for NDA and Base money

Italic : Indicative Targets

Normal : Performance Criteria

Source: CBRT

MONETARY AGGREGATES	(TRL quadrillion)		(% change)	
	Dec. 2002	June 2003	Nominal	Real
M2YR (M2Y+R)	136.2	132.9	-2.4%	-12.4%
M2Y	133.5	130.5	-2.2%	-12.3%
M2Y	(composition)			
Currency in Circulation	5.4%	6.6%	18.8%	6.5%
Sight Deposits	5.3%	6.4%	17.8%	5.7%
Time Deposits	35.2%	39.1%	8.8%	-2.4%
FX Deposits (TRL)	54.1%	48.0%	-13.4%	-22.3%

Source: CBRT

months. As for the inflation expectations, progress in structural reforms and fiscal discipline, which are also placed high on the agenda of IMF reviews, will be formative.

Current tax incentives shifted the savings towards government borrowing instruments.

M1 and M2 aggregates expanded by 18% and 11% in nominal terms respectively, while M2Y contracted by 2% in the first half of the year. The rise in currency issued and sight deposits imply an invigoration in the markets. FX deposits, after contracting in March, enlarged again during May and June in USD terms and went up to 44.5 billion as of June, just above its 2002 level. Consequently, 48.0% of M2Y is composed of FX deposits, 39.1% is of time deposits, 6.4% is of sight deposits, and 6.6% is of currency in circulation. With the current tax regulations on deposit returns and tempting interest rates, portfolio choice between TL deposits and government securities settled strongly in favour of the latter. Adverse currency substitution is more apparent when money supply is appraised with the government securities worth of 57.6 quadrillion TL owned by the non-bank sector. In this case, share of FX deposits and FX denominated securities in the total aggregate goes down to 35.6%. While the rise in the banking sector credit volume is inconspicuous, still high demand for FX credits constitutes an indirect risk for the system. Structuring

necessary regulations in bankruptcy law for pacing the non-performing loans, lowering the transaction costs in the banking system and establishment of inciting mechanisms for asset management companies would minimize similar risks. On the other hand, downsizing the insurance limit for saving deposits to 50 billion TL beginning from 2004 and reaching EU standards is a constructive step meant for purifying systematic risks.

IV. Foreign Trade and Balance of Payments

Trade volume expanded by 31% during the first five months of 2003 with respect to the same period of previous year.

Export-driven industrial production has maintained its momentum since the beginning of 2002. During the first five months of 2003, while the monthly industrial production increased 6.7%, exports soared to \$17.8 billion with an increase of 30.1% on annual basis. Since EU accounts for half of Turkish exports, the surge in the Euro/dollar parity increased the dollar value of the total exports. Export-led industrial production stimulated the demand for intermediary and investment goods, which constitute the 90% of total imports. During January-May period, total imports jumped to \$24.8 billion with an increase of 31.3%. Since the increase in exports fell short of the increase in the imports, the ratio of exports to imports slid back to 71.7% from 72.4%.

Foreign trade is likely to be vigorous for the rest of the year.

In May, exports and imports increased by 28% on annual basis and reached to USD 3.8 billion and USD 5.5 billion respectively. As a leading indicator of foreign trade, the data disseminated by Undersecretary of Customs indicates that the increase in both exports and imports will continue in June. Similarly, June's collection of VAT on imports also supports the recent upward trend in imports. The continuous appreciation of TL is expected to turn into a slight devaluation with the exchange rate following suit the disinflation pattern, without any real jumps. This in turn, will limit the loss of price competitiveness in the foreign trade. Considering the upsurge in exports despite the nominal appreciation of TL in April and May, it can be claimed that the productivity increase in exporting sectors and forward sales in the export markets account for this phenomena.

In the first four months, the current account deficit reached to USD 3 billion.

In line with the deterioration in foreign trade balance, current account deficit continued to widen in the first four months. Within the same period, contraction of invisibles, which include services, incomes and current transfers, to 173 million USD was another reason for the current deficit. In services account, negative effect of 40% yoy decline in net tourism revenues due to the Iraq War was compensated by the rise in revenues from the trade services, thanks to unprecedented level of foreign trade volume in the first quarter. On the other hand, the outflow of incomes due to increase in interest and dividend expenditures and persistent shrinkage of the workers' remittances in current transfers has continued. In addition to

the deterioration of the current account, also the deficit in net errors and omissions item reached to USD 1.7 billion. For the rest of the year, recovery in tourism revenues and improvement in other services revenues are expected to limit the widening of the current deficit.

The current account deficit will be easily financed in 2003.

In the first quarter of the year, there were concerns about the financing of balance of payments due to the global uncertainties. However, the capital inflows have reached to USD 3.6 billion as of April, while it was only USD 2.2 billion on total during 2002. As of April, the government issued USD 1.6 billions of Eurobond in order to redeem foreign debt about USD 1.3 billion. As a portfolio shift, uncertainties related to war on Iraq led to sale of securities by foreign investors and the outflow had reached to 700 million USD. In other investments item, which equals to the sum of long and short-term capital flows and IMF credits, the decrease in banking sector's foreign assets caused an inflow of USD 3.8 billion and eased the financing constraints. Together with this, the increase in deposits of non-residents about USD 891 million, and USD 581 million decline in official reserves created the required total financing of USD 4.7 billion in the first four months. In line with the improvement in the market sentiment in the second quarter, non-residents' purchases of securities in May and June had gained pace. While their share in ISE increased by USD 1.3 billion, their holding of government's securities improved by USD 750 million. Therefore, the portfolio investments are likely to increase in this period. Moreover, considering the Eurobond issues of USD 1.7 billion in May and June, and USD 700 million of IMF credit tranche, the financing of the current account deficit in the second quarter will not be problematic.

Prospects for 2003

With the adoption of the EU perspective and the full implementation of the economic program, the political stability can be carried to the long term.

There are three main factors that will determine the prospects for 2003 and 2004. These are: the success of AKP government to maintain the political stability, the implementation of the IMF supported economic program and the last but not the least, the EU perspective.

AKP could not fully utilize the support of the clean-sweep after the landslide election of 2002. While the issues of utmost importance, such as EU membership candidacy, Cyprus problem and the war on Iraq had reigned the agenda of the newly elected young government with a tight agenda, the landslide caused exaggeration in the expectations and the outcomes created consequent disappointments. Assuming that the government drew the necessary lessons from the impediments of the poor-coordination, the trial and error approach in policy making and the slippage from the prior issues of the agenda in its first months, it's expected that gaining strength in the implementation of the economic program and in the harmonization with EU will restore the confidence permanently.

The high growth performance, despite all the external and domestic volatility in the first quarter, shows that the ongoing economic program has successfully increased the resilience of the economy. With the growing confidence towards the program, the financial markets closely monitor the structural reforms and the consolidated budget performance, which is the current indicator of the public sector reform. While the busy parliament agenda and the democratic legislation process were claimed to be the main culprits behind

the delay in the fifth review, the government has to complete at least two review on time and as scheduled to decrease the risk premiums permanently. The economic reforms designed for Stand-by agreement also serve for the aim of harmonization with EU. Therefore, if the efforts to fulfill the democratic criteria for EU can be coupled with the on-track implementation of the economic program, the political and economic benefits will be more fruitful than envisaged.

TÜSİAD expects the GDP growth to be 5.3% in 2003.

In the April issue of Quarterly Economic Survey, the GDP growth was expected to be 4.5% for 2003. The realization of the first quarter, which was above our expectation, caused an upward revision of our forecast to 5.3%. Similarly, the end-year estimations of WPI and CPI are revised down to 20% and 22% respectively. In the base scenario, the above-mentioned three main determinants are expected to act harmoniously. While the favourable market sentiment is expected to progress towards medium and long term gradually, the real interest rates are expected to be 17% on the average, the appreciation of TL is expected to survive despite a depreciation in the last quarter carrying the nominal exchange rate to TL 1,580,000 at the end-2003. It is assumed that the main determinant of the macroeconomic aggregates will be the fiscal discipline and the government is going to pursuit the fiscal targets, introducing new precautions if necessary. Corollary, the consolidated budget primary surplus is expected to be 5.6% of GNP. TÜSİAD expects that the exports will continue to be vigorous, tourism revenues will increase and reach the previous year levels and consequently the current account will be limited to USD 7.0 billion.

TABLE 1.2 MAIN ECONOMIC INDICATORS (2002-2003)
BALANCE OF PAYMENTS

	2002						2003						
	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
CURRENT ACCOUNT BALANCE (monthly, million \$)	148	67	407	539	457	-269	-1,376	-55	-1,185	-889	-833	..	..
Imports (CIF)	3,926	4,592	4,439	4,480	4,799	4,924	5,241	4,399	4,120	5,606	5,153	..	..
Exports (FOB), excluding shuttle trade	2,766	3,090	2,963	3,211	3,493	3,517	3,056	3,497	2,912	3,945	3,597	..	..
Foreign Trade Balance	-1,160	-1,502	-1,476	-1,269	-1,306	-1,407	-2,185	-902	-1,208	-1,661	-1,556	..	..
Invisibles	820	1,017	1,219	1,123	1,064	461	166	427	-509	155	100	..	..
BALANCE OF PAYMENTS (Cum. for the last 12 months, million \$)	1,243	875	453	288	125	-372	-1,540	-1,624	-2,474	-3,095	-3,282	..	..
Current Account Balance	43,523	44,678	45,615	46,670	48,105	49,470	51,270	52,266	53,369	55,036	55,977	..	..
Imports (CIF)	32,405	33,011	33,395	34,010	34,691	35,366	35,762	36,641	37,169	38,195	39,031	..	..
Exports (FOB), excluding shuttle trade	-11,118	-11,667	-12,220	-12,660	-13,414	-14,104	-15,508	-15,625	-16,200	-16,841	-16,946	..	..
Foreign Trade Balance	6,336	6,386	6,341	6,417	6,806	6,819	6,827	6,868	6,573	6,577	6,509	..	..
Invisibles	-3,727	-3,103	-2,079	-3,242	-2,600	373	2,249	4,672	6,045	5,236	4,026	..	..
Capital Flows*	1,492	1,377	1,501	1,301	1,038	922	862	873	841	771	741	..	..
Net Direct Investments	-2,093	-1,307	-1,346	-1,818	-1,115	-707	-590	-15	176	-606	-1,482	..	..
Portfolio Investments	-3,127	-3,174	-2,235	-2,726	-2,523	158	1,977	3,815	5,031	5,077	4,777	..	..
Net Other Investments	1,290	1,430	1,538	1,578	1,555	1,460	1,305	1,177	1,078	995	908	..	..
Central Bank	-645	-1,807	-1,238	-1,241	-1,099	-733	-669	-724	-737	-790	-821	..	..
General Government	-4,181	-4,284	-3,981	-4,342	-4,555	-2,875	-1,372	161	1,093	2,799	2,624	..	..
Banks	409	1,487	1,446	1,279	1,576	2,306	2,713	3,201	3,597	2,073	2,066	..	..
Other Sectors	9,077	8,726	8,337	8,337	8,337	8,337	6,365	6,303	3,324	3,211	2,758	..	..
IMF Credits (net)	-2,204	-1,448	-1,049	133	437	-704	-921	-1,593	-2,217	-1,560	-1,342	..	..
Net Errors and Omissions	-4,389	-5,050	-5,662	-5,516	-6,299	-7,634	-6,153	-7,758	-4,678	-3,792	-2,160	..	..
Reserve Assets**	19.0	33.6	26.8	30.8	42.6	38.3	52.3	29.3	36.5	42.3	22.3	28.1	..
FOREIGN TRADE (annual % increase)	8.0	24.4	14.9	23.7	24.2	23.8	14.9	33.6	22.1	35.2	30.3	28.2	..
Imports	0.2	0.2	1.6	0.8	6.0	9.2	9.6	13.3	15.5	11.9	..	..	..
Exports	-0.1	-3.7	-0.3	1.4	5.4	6.1	4.9	8.7	12.0	11.8	..	..	..
Price Index (1994=100)	9.8	34.0	21.0	26.4	30.2	21.2	37.4	17.1	20.2	40.9	..	..	..
Imports	7.5	37.3	9.9	20.9	14.1	14.3	7.0	25.3	7.0	26.0	..	..	..
Exports													
Quantity Index (1994=100)													
Imports													
Exports													

(*) Excluding official reserves, negative sign indicates capital outflow

(**) Positive sign indicates decrease in reserves

(-) Not Available

TABLE 1.3 MAIN ECONOMIC INDICATORS (2002-2003)
BUDGET BALANCE

	2003													
	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	
12 MONTHS CUMULATIVE (trillion TL)														
Revenues	64,706	66,673	68,312	70,843	72,372	74,474	76,400	78,294	80,688	81,737	83,887	83,591	..	
Tax Revenues	48,692	50,492	52,047	54,307	55,820	57,768	59,634	61,045	63,509	64,649	66,724	69,345	..	
Non-Tax Revenues	15,004	15,120	15,170	15,397	15,384	15,114	15,262	15,292	15,191	15,064	15,087	12,149	..	
Expenditures	103,043	103,553	103,608	105,554	104,243	107,207	115,486	116,267	115,854	119,075	124,141	128,785	..	
Current	25,364	26,299	27,150	27,850	28,721	29,608	31,050	31,970	32,539	33,040	33,329	33,806	..	
Investment	4,717	4,993	5,267	5,596	5,913	6,183	6,888	6,857	6,746	6,734	6,489	6,646	..	
Transfers	72,962	72,261	71,191	72,108	69,609	71,417	77,548	77,441	76,569	79,301	84,323	88,332	..	
Primary Balance	15,451	15,528	15,186	16,160	15,682	15,627	12,785	13,368	14,423	13,779	15,208	13,202	..	
Budget Balance	-38,337	-36,880	-35,297	-34,711	-31,871	-32,733	-39,085	-37,974	-35,166	-37,338	-40,254	-45,193	..	
Financing	39,449	37,923	36,355	36,293	33,442	33,862	34,388	33,727	34,646	36,338	39,300	44,288	..	
Foreign Borrowing (net)	10,762	12,161	14,935	14,980	15,010	16,189	16,570	18,001	4,869	3,995	3,492	3,704	..	
Domestic Borrowing (net)	18,267	17,600	16,516	16,912	20,163	16,157	17,474	20,524	33,178	33,278	38,180	43,934	..	
Short-term Borrowing (net)	14,607	19,378	18,339	19,859	20,937	19,881	18,371	14,976	17,851	15,971	17,849	14,454	..	
Other	10,420	8,162	4,904	4,401	-1,731	1,516	343	-4,798	-3,401	-934	-2,372	-3,351	..	
12 MONTHS CUMULATIVE (billion \$)														
Revenues	45.7	46.3	46.7	48.0	48.8	49.9	50.8	51.3	52.2	52.1	52.7	52.1	..	
Tax Revenues	34.3	34.9	35.4	36.6	37.4	38.5	39.4	39.8	40.8	41.0	41.7	43.2	..	
Non-Tax Revenues	10.6	10.6	10.5	10.6	10.6	10.4	10.4	10.3	10.1	9.9	9.7	7.6	..	
Expenditures	72.8	71.8	71.1	71.7	70.7	72.3	77.0	76.1	74.6	75.6	77.6	80.3	..	
Current	17.9	18.2	18.5	18.9	19.3	19.8	20.5	20.8	21.0	21.0	20.8	21.0	..	
Investment	3.3	3.4	3.5	3.7	3.9	4.0	4.4	4.4	4.3	4.3	4.1	4.2	..	
Transfers	51.6	50.3	49.0	49.2	47.5	48.5	52.1	50.9	49.4	50.3	52.7	55.1	..	
Primary Balance	10.9	10.9	10.5	11.0	10.7	10.6	8.9	9.1	9.6	9.0	9.8	8.3	..	
Budget Balance	-27.1	-25.6	-24.3	-23.7	-21.9	-22.4	-26.2	-24.8	-22.4	-23.5	-24.9	-28.2	..	
Financing	27.8	26.2	25.0	24.7	22.9	23.1	23.1	22.0	22.1	22.8	24.3	27.6	..	
Foreign Borrowing (net)	8.3	9.0	10.7	10.8	10.8	11.6	11.8	12.6	3.1	2.5	2.0	2.2	..	
Domestic Borrowing (net)	12.7	11.7	10.8	10.9	12.8	10.1	10.8	12.2	21.1	20.8	23.4	27.3	..	
Short-term Borrowing (net)	10.3	13.2	12.3	13.3	14.0	13.3	12.1	9.8	11.6	10.3	11.3	8.9	..	
Other	6.8	5.5	3.5	3.1	-0.8	1.3	0.4	-2.8	-2.0	-0.5	-1.1	-1.9	..	
DOMESTIC DEBT STOCK														
1000 trillion TL	126.8	130.4	137.1	140.3	144.2	145.3	149.9	155.4	159.4	162.6	170.1	174.0	..	
Billion \$	83.1	78.8	84.0	85.3	87.6	90.9	94.1	93.8	98.4	97.9	105.0	117.3	..	
DomesticDebt/M2Y (%)	108.2	105.6	112.5	111.9	112.5	115.3	112.3	115.8	120.8	122.3	131.1	137.0	..	

(..) Not Available

TABLE 1.4 MAIN ECONOMIC INDICATORS (2002-2003)
MONETARY AGGREGATES

	2002												2003											
	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Jan.	Feb.	Mar.	Apr.	May	June					
MONEY SUPPLY (annual % change)																								
Currency in Circulation	54.1	53.4	50.3	44.6	58.0	69.9	50.2	53.2	24.1	60.3	48.6	47.1	44.6	53.2	24.1	60.3	48.6	47.1	44.6					
Sight Deposits	11.9	10.6	1.2	21.1	30.9	26.1	23.6	34.0	31.4	2.6	34.0	13.0	19.5	34.0	31.4	2.6	34.0	13.0	19.5					
M1	28.0	28.2	19.3	31.1	42.7	44.1	35.8	42.5	27.7	27.3	41.0	27.9	31.1	42.5	27.7	27.3	41.0	27.9	31.1					
Time Deposits	33.5	46.7	37.1	32.5	33.5	32.3	31.4	27.9	26.8	26.3	21.2	23.8	26.1	27.9	26.8	26.3	21.2	23.8	26.1					
M2	32.2	42.0	32.2	32.1	35.7	35.1	32.4	31.1	27.0	26.6	25.5	24.8	27.3	31.1	27.0	26.6	25.5	24.8	27.3					
Foreign Exchange Deposits (TL)	46.5	44.1	29.9	17.6	12.6	12.8	27.4	35.9	27.9	30.5	22.2	7.2	-2.0	35.9	27.9	30.5	22.2	7.2	-2.0					
M2Y	39.6	43.2	30.9	23.7	21.9	22.4	29.6	33.6	27.5	28.6	23.8	15.5	11.3	33.6	27.5	28.6	23.8	15.5	11.3					
Repo	-36.0	-46.7	-9.3	-15.1	5.6	-34.7	-1.1	-2.2	-4.4	9.3	-0.2	-27.3	-34.1	-2.2	-4.4	9.3	-0.2	-27.3	-34.1					
M2YR	34.8	36.4	29.1	22.2	21.4	20.4	28.8	32.5	26.5	27.9	23.0	14.2	9.9	32.5	26.5	27.9	23.0	14.2	9.9					
Official Deposits	37.9	82.6	83.3	93.2	90.0	98.8	-15.6	30.6	68.7	52.7	32.2	105.4	73.8	30.6	68.7	52.7	32.2	105.4	73.8					
Other Deposits With CBRT	146.8	-75.8	-12.3	28.3	94.7	41.7	3.4	110.1	228.8	40.7	189.7	251.2	91.7	110.1	228.8	40.7	189.7	251.2	91.7					
M3Y	40.1	41.6	30.3	24.6	23.4	23.8	28.3	34.2	30.5	29.2	25.3	18.7	13.1	34.2	30.5	29.2	25.3	18.7	13.1					
M2Y (trillion TL)	117,240	123,428	121,909	125,409	128,143	126,006	133,450	134,149	131,967	132,878	129,764	126,942	130,509	134,149	131,967	132,878	129,764	126,942	130,509					
Composition of M2Y (%)																								
Currency in Circulation	5.1	5.0	5.1	5.1	5.3	5.8	5.4	5.1	5.7	5.9	6.0	6.1	6.6	5.1	5.7	5.9	6.0	6.1	6.6					
Sight Deposits	5.9	5.2	5.9	5.8	5.7	6.1	5.3	5.7	5.7	5.1	5.9	6.0	6.4	5.7	5.7	5.1	5.9	6.0	6.4					
Time Deposits	34.5	33.8	33.4	33.6	34.0	35.4	35.2	34.9	35.7	36.7	37.1	39.1	39.1	34.9	35.7	36.7	37.1	39.1	39.1					
Foreign Exchange Deposits	54.5	56.1	55.6	55.4	54.9	52.7	54.1	54.3	52.9	52.3	50.9	48.8	48.0	54.3	52.9	52.3	50.9	48.8	48.0					
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100					
CREDIT STOCK (domestic, annual % change)	5.1	4.1	-2.0	-4.3	-5.1	-3.6	2.5	9.2	10.2	19.6	20.0	12.7	20.6	9.2	10.2	19.6	20.0	12.7	20.6					
Deposit Bank Credits	4.6	3.2	-3.1	-5.2	-5.9	-4.4	1.9	7.8	8.2	18.2	18.6	11.2	20.4	7.8	8.2	18.2	18.6	11.2	20.4					
Private	-3.8	-7.0	-9.9	-7.2	-6.3	-6.8	-6.3	-4.4	1.1	-0.1	8.0	6.8	44.1	-4.4	1.1	-0.1	8.0	6.8	44.1					
Public	0.6	-0.2	1.0	1.1	1.0	4.1	4.0	4.5	7.1	9.6	19.2	23.6	25.9	4.5	7.1	9.6	19.2	23.6	25.9					
Invest. and Develop. Bank Credits	12.0	15.4	10.8	5.5	4.3	6.0	9.5	27.3	34.6	37.5	37.8	30.4	22.6	27.3	34.6	37.5	37.8	30.4	22.6					
CB BALANCE SHEET (million \$)																								
Base Money	5,754	5,762	5,873	6,145	6,405	7,634	6,344	6,800	7,327	7,027	7,679	8,629	8,971	6,800	7,327	7,027	7,679	8,629	8,971					
Net Domestic Assets	6,516	5,655	4,446	4,812	4,537	5,704	4,857	3,111	5,273	5,647	6,289	7,123	7,047	3,111	5,273	5,647	6,289	7,123	7,047					
Net Foreign Assets	-762	107	1,426	1,333	1,867	1,931	1,487	3,690	2,054	1,380	1,390	1,507	1,924	3,690	2,054	1,380	1,390	1,507	1,924					
Net Position of Public Sector	15,876	14,657	12,039	12,662	12,777	14,458	14,567	14,101	15,328	15,687	15,918	15,804	15,863	14,101	15,328	15,687	15,918	15,804	15,863					
Liabilities Due to Open Market Operations	5,516	5,543	3,966	4,341	4,660	4,766	5,154	6,495	5,537	5,764	5,323	4,317	4,564	6,495	5,537	5,764	5,323	4,317	4,564					
THE CENTRAL BANK RESERVES (billion \$)	22.2	23.6	25.1	25.1	25.5	26.0	26.7	26.7	27.7	26.7	27.0	28.5	28.8	26.7	27.7	26.7	27.0	28.5	28.8					
FOREIGN DEBT STOCK (billion \$)	125.7	..	..	127.5	..	..	131.6	..	..	133.2	..	..	..	..	..	133.2	..	..	..		

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

Net Domestic Assets= Net Position of Public Sector - Funds + Credits to Banking Sector + Net Open Market Operations+Others+ FX Revaluation Account - Fund

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

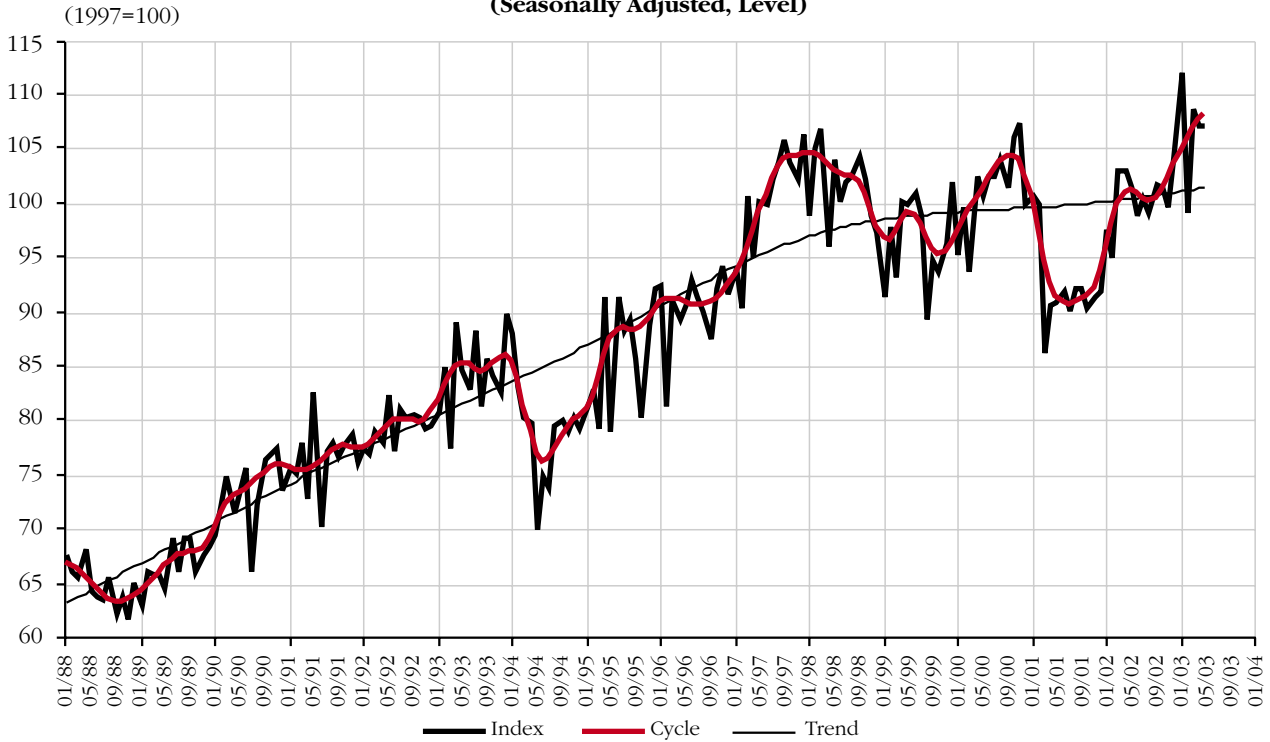
**TABLE 2 GROSS DOMESTIC PRODUCT
(at 1987 prices, TL)**

	By Kind of Expenditure				By Sectors				Annual % Change				Annual % Change					
	2001	2002	2002-2	2002-3	2002-4	2003-1	% Share	2001	2002	2002-2	2002-3	2002-4	2003-1	2002	2002-2	2002-3	2002-4	2003-1
Private Final Cons. Exp.	-9.2	2.0	3.2	2.5	4.2	6.5	63.0	Agriculture	-6.5	7.1	2.7	6.1	15.3	13.5	2.7	6.1	15.3	7.0
Food, Beverage	-3.6	0.9	-0.5	2.8	1.5	3.9	23.2	Agriculture and Livestock Prod.	-6.6	6.7	0.8	5.7	14.7	12.5	0.8	5.7	14.7	7.2
Durable Goods	-30.4	2.1	8.7	1.8	6.2	20.4	9.4	Forestry	-8.1	15.3	29.4	27.9	35.5	0.6	29.4	27.9	35.5	7.3
Semi-dur., Non-dur. Goods	-9.0	3.1	4.4	1.7	10.8	1.9	9.5	Fishing	2.5	7.5	-2.5	5.7	6.2	0.3	-2.5	5.7	6.2	5.1
Energy, Trans., Commun.	0.9	-0.7	1.8	-1.9	-0.1	4.5	8.9	Industry	-7.5	9.4	12.6	10.5	11.4	28.8	12.6	10.5	11.4	7.8
Services	-9.3	8.7	11.1	9.1	10.9	10.9	6.6	Mining and Quarrying	-8.8	-4.4	-7.7	-4.1	-4.0	1.2	-7.7	-4.1	-4.0	-7.0
Ownership of Dwelling	2.1	1.8	1.9	1.7	1.4	1.3	5.4	Manufacturing	-8.1	10.4	13.7	11.8	13.5	24.2	13.7	11.8	13.5	9.2
Gov. Final Cons. Exp.	-8.5	5.4	2.6	12.0	4.5	-3.0	8.4	Electricity, Gas, Water	-2.1	8.0	13.7	8.2	4.0	3.4	13.7	8.2	4.0	4.1
Compensation of Empl.	1.6	0.7	0.2	0.2	0.6	0.0	4.3	Construction	-5.5	-4.9	-9.6	-3.3	2.7	4.5	-9.6	-3.3	2.7	-17.0
Purchases of Goods, Services	-18.0	10.8	5.7	27.9	7.1	-10.8	4.1	Trade	-9.4	10.7	11.7	10.1	16.1	22.5	11.7	10.1	16.1	10.8
Gross Fixed Capital Form.	-31.5	-0.8	-2.3	5.9	22.2	9.3	19.0	Wholesale and Retail Trade	-12.8	12.8	15.5	12.7	18.7	18.8	15.5	12.7	18.7	11.5
Public Sector	-22.0	14.5	3.0	29.8	22.7	-37.8	6.5	Hotels, Rest. Services	9.9	1.1	-5.1	0.0	3.9	3.7	-5.1	0.0	3.9	6.5
Machinery Equipment	-39.0	29.3	10.8	71.2	52.8	-42.3	1.8	Transportation and Comm.	-5.3	5.4	8.3	5.4	5.6	13.2	8.3	5.4	5.6	13.7
Building Construction	-20.0	23.9	27.1	34.1	25.2	-38.0	2.0	Financial Institutions	-9.9	-7.1	-9.6	-3.2	-8.2	2.1	-9.6	-3.2	-8.2	-8.1
Other Construction	-10.3	1.1	-13.0	12.7	6.5	-31.9	2.7	Ownership of Dwelling	2.1	1.8	1.9	1.7	1.4	5.0	1.9	1.7	1.4	1.3
Private Sector	-34.9	-7.2	-4.2	-3.7	21.8	20.4	12.5	Business and Pers. Services	-7.6	7.4	8.7	7.6	10.7	2.3	8.7	7.6	10.7	7.9
Machinery Equipment	-49.6	1.4	6.8	15.2	71.0	53.0	6.9	(-) Imputed Bank Serv. Changes	-11.7	-9.1	-11.8	-5.1	-10.1	1.7	-11.8	-5.1	-10.1	-9.7
Building Construction	-8.0	-15.8	-16.7	-16.3	-14.7	-15.5	5.7	Sectoral Total	-6.9	7.4	8.5	7.4	10.9	90.3	8.5	7.4	10.9	7.8
Change in Stock*	-4.0	7.0	2.1	5.2	4.9	6.0	39.3	Government Services	1.6	0.7	0.2	0.2	0.6	4.3	0.2	0.2	0.6	0.0
Export of Goods, Services	7.4	11.0	5.0	15.8	12.3	14.5	34.8	Private Non-profit Inst.	0.2	0.6	0.5	1.1	0.3	0.3	0.5	1.1	0.3	-1.4
Import of Goods, Services	-24.8	15.7	20.3	19.3	22.1	23.9	100.0	Total	-6.5	7.1	8.1	7.1	10.3	5.1	8.1	7.1	10.3	7.3
GDP	-7.5	7.8	8.9	7.9	11.4	8.1	100.0	Import Duties	-25.1	23.0	27.7	28.9	33.9	5.1	27.7	28.9	33.9	19.8
								GDP	-7.5	7.8	8.9	7.9	11.4	100.0	8.9	7.9	11.4	8.1

*Figures indicate percentage point contribution to GDP growth

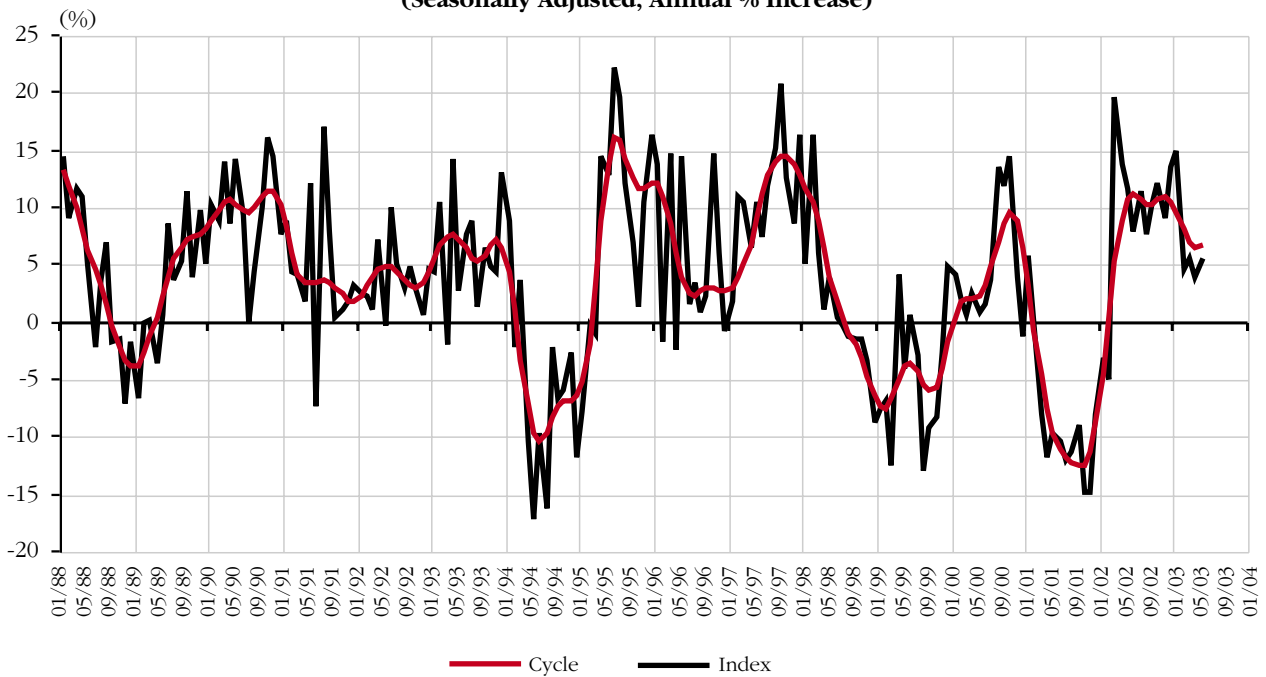
GRAPH 1

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Level)

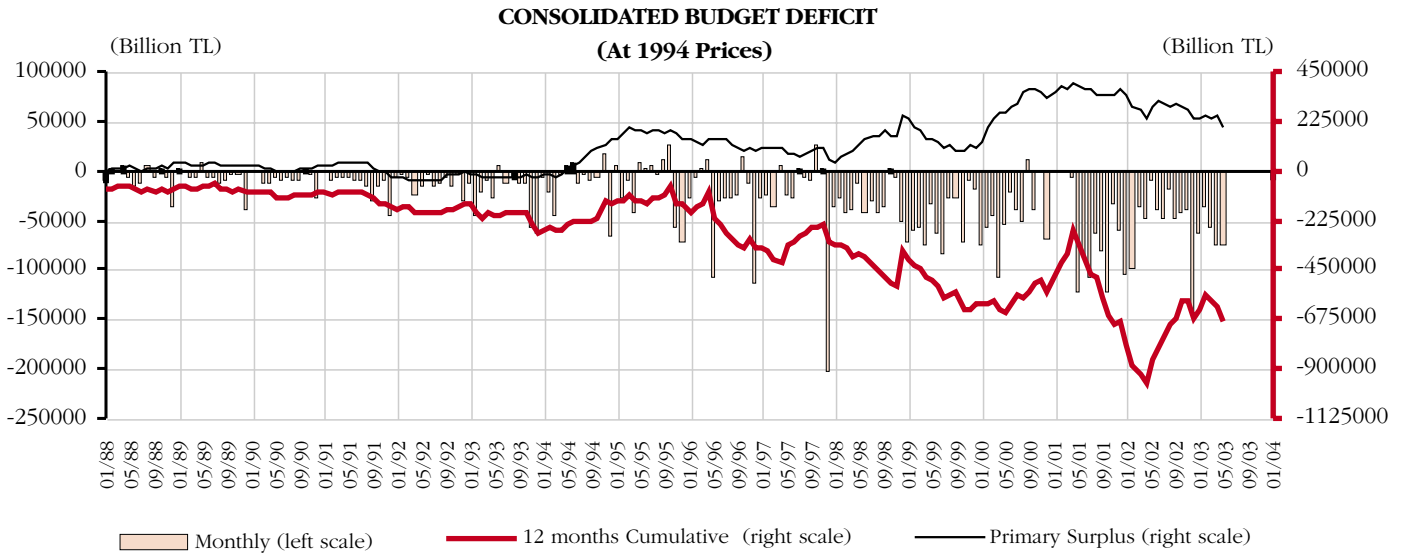


GRAPH 2

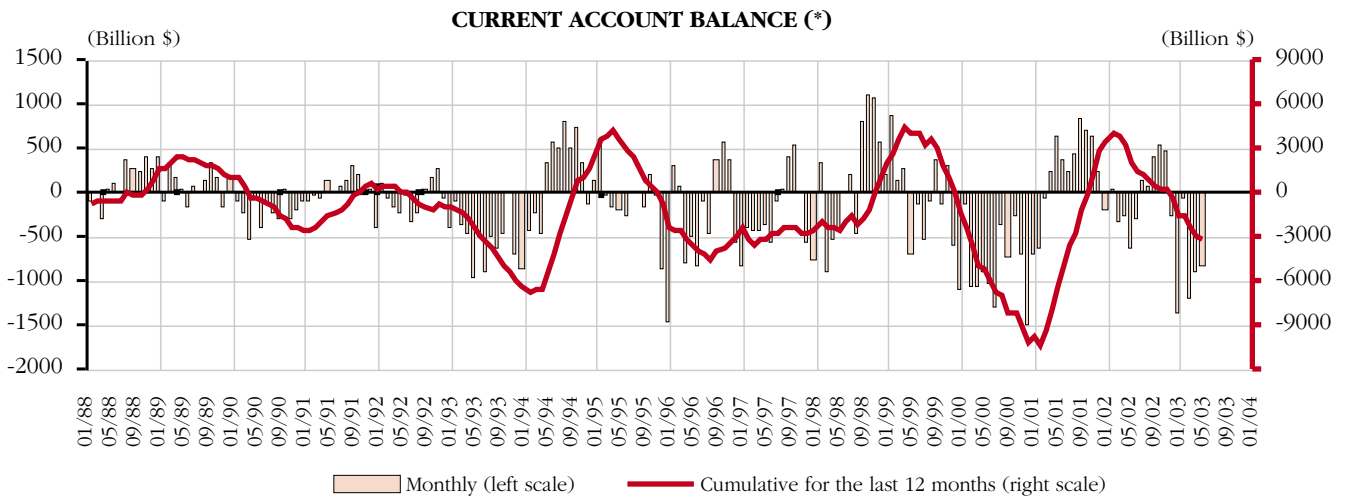
INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Annual % Increase)



GRAPH 3

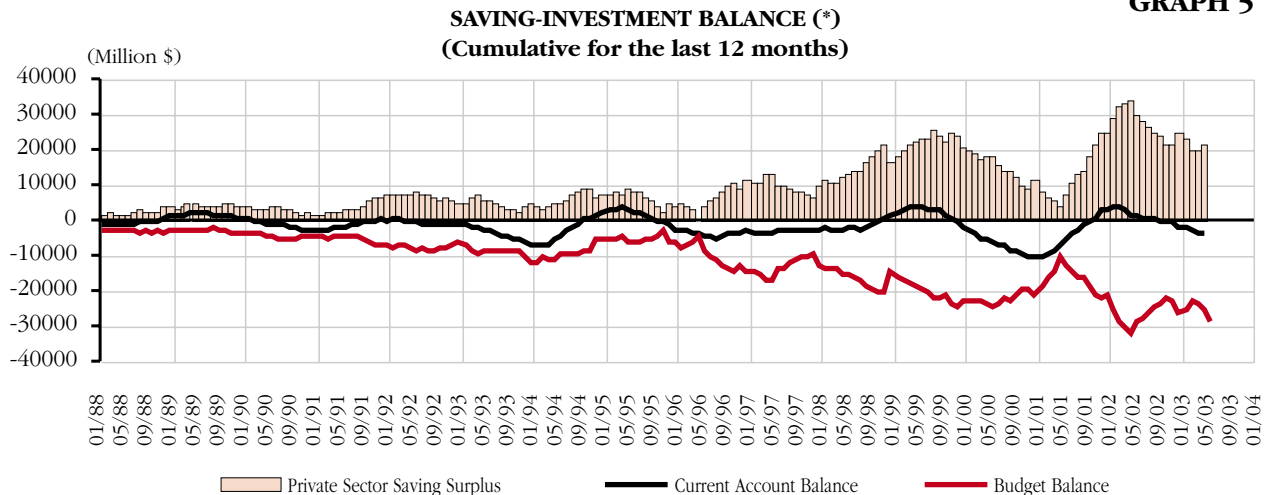


GRAPH 4



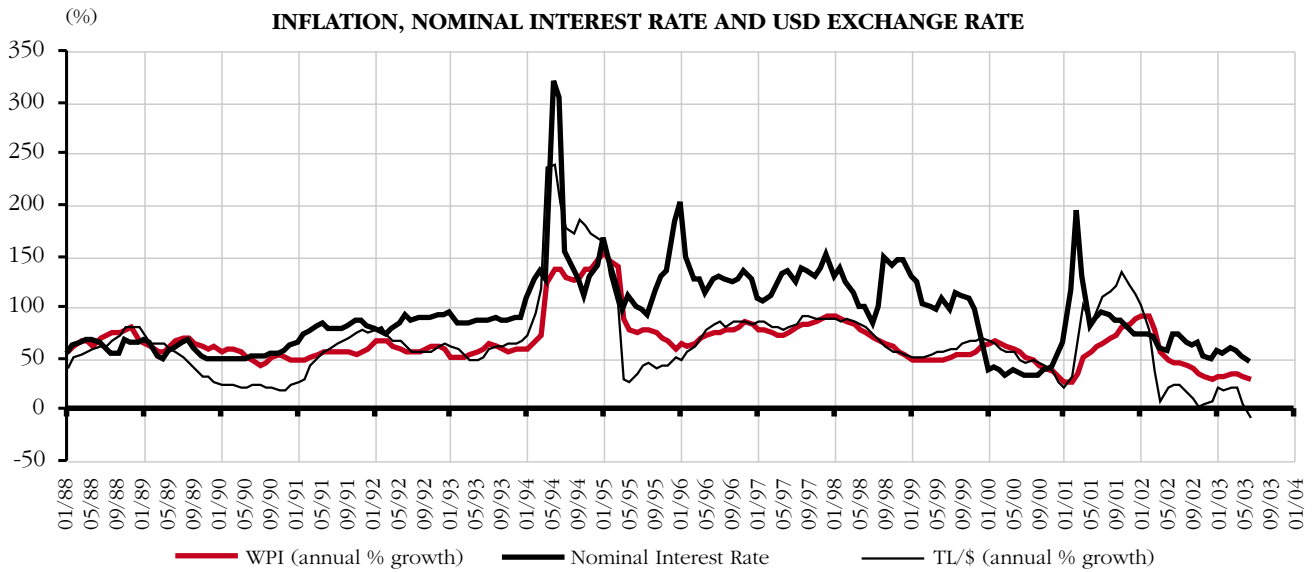
(*) Monthly figures include shuttle trade since 01/96

GRAPH 5

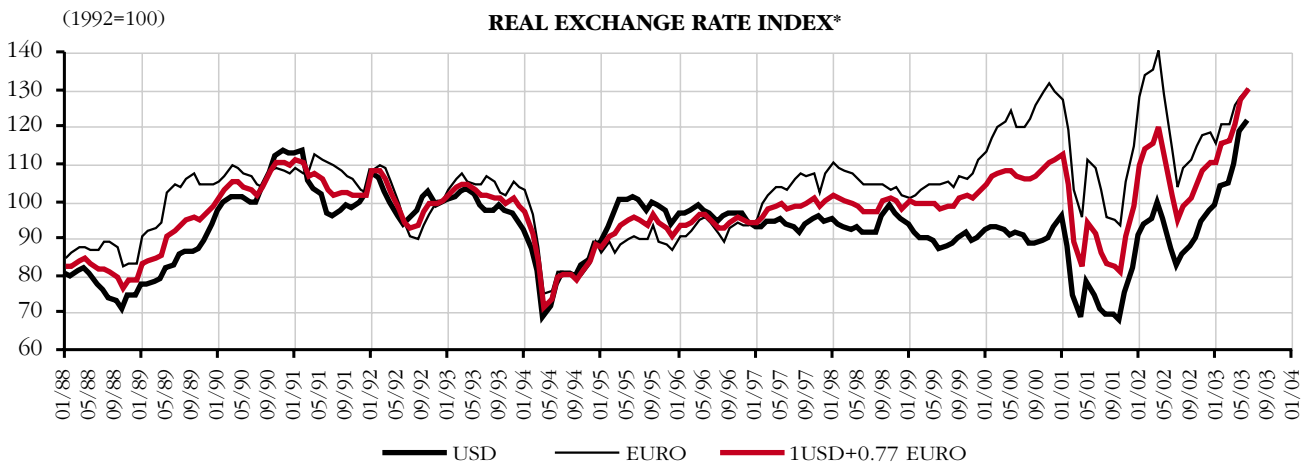


(*) Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

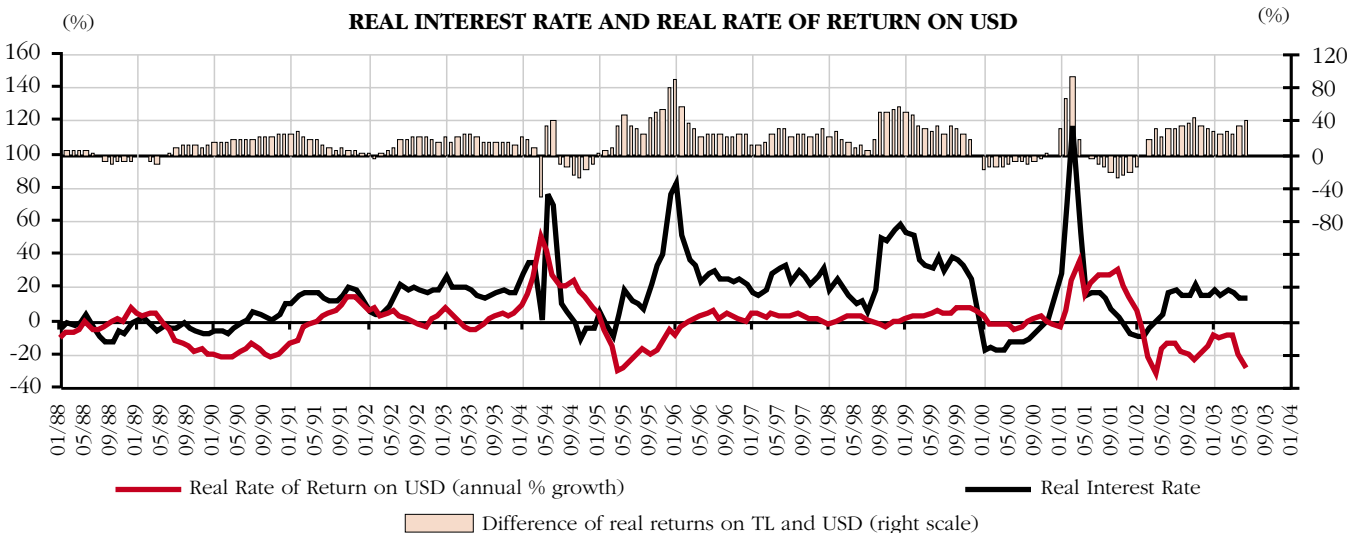


GRAPH 7

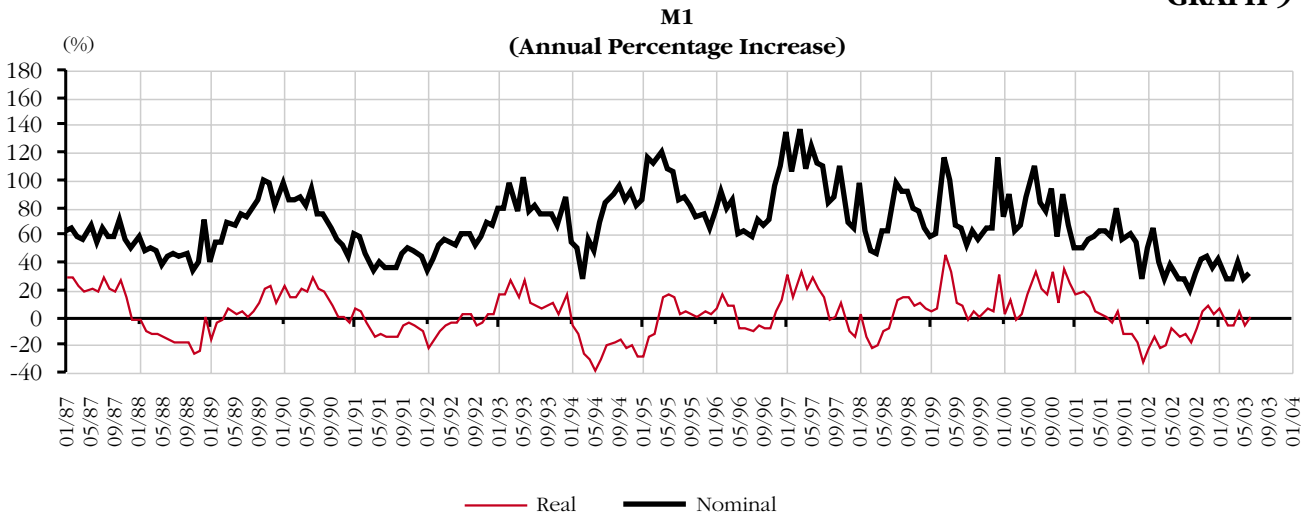


*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

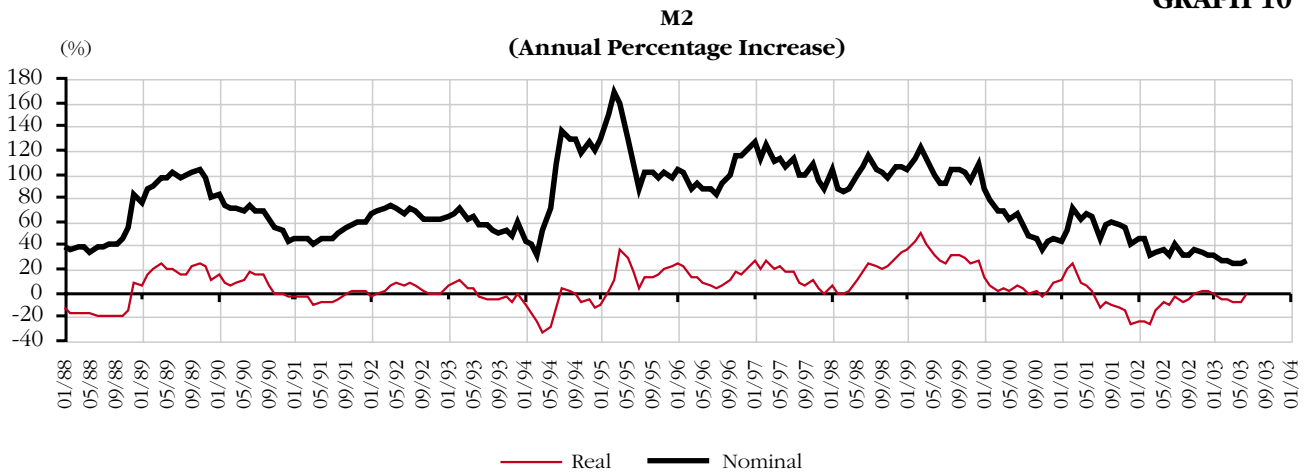
GRAPH 8



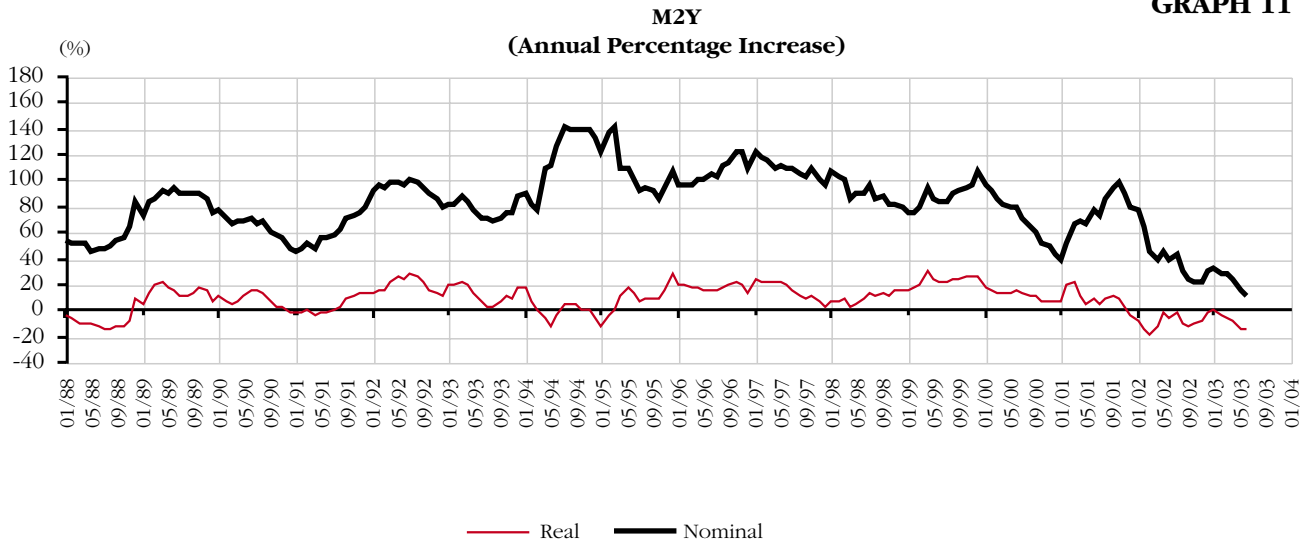
GRAPH 9



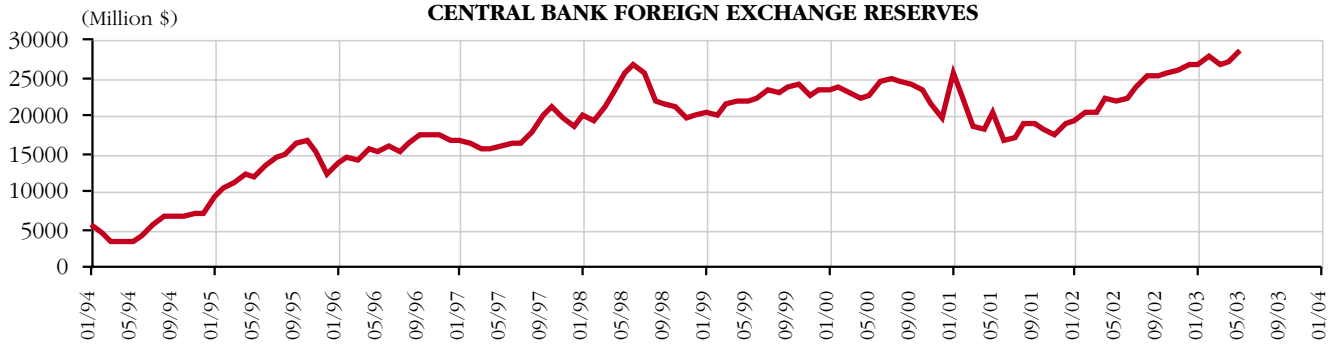
GRAPH 10



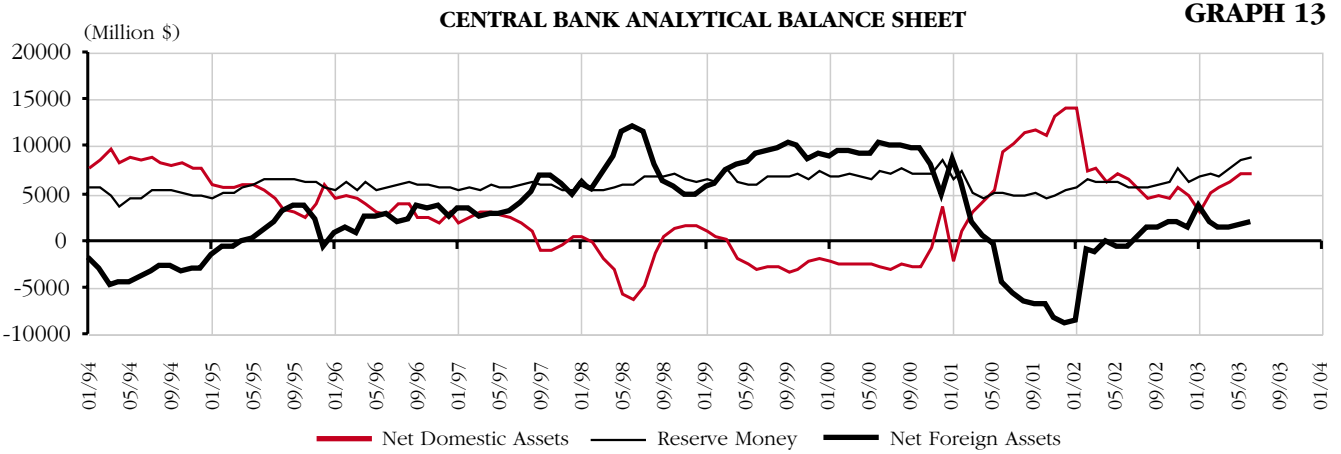
GRAPH 11



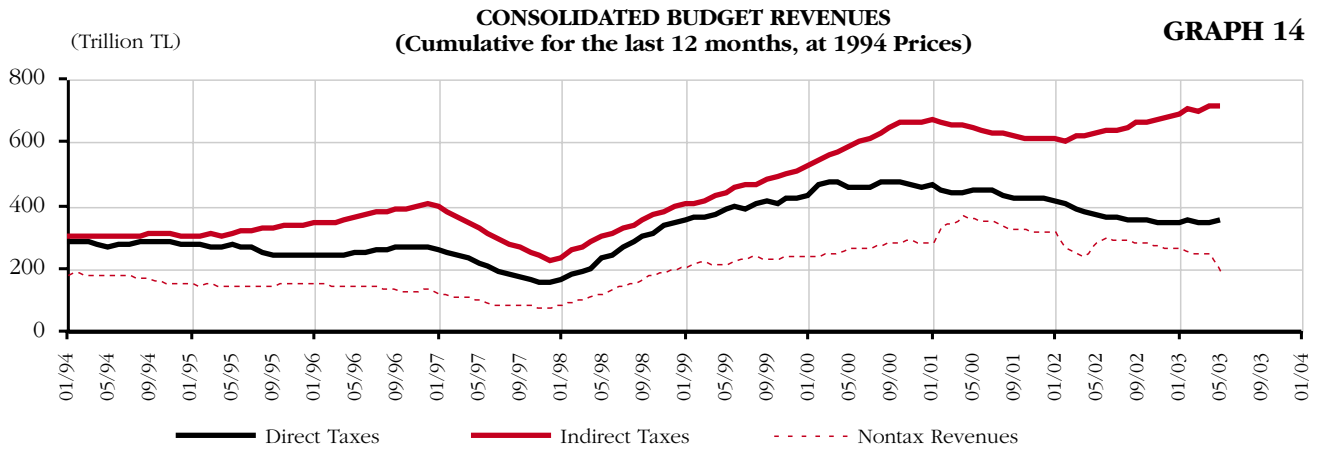
GRAPH 12



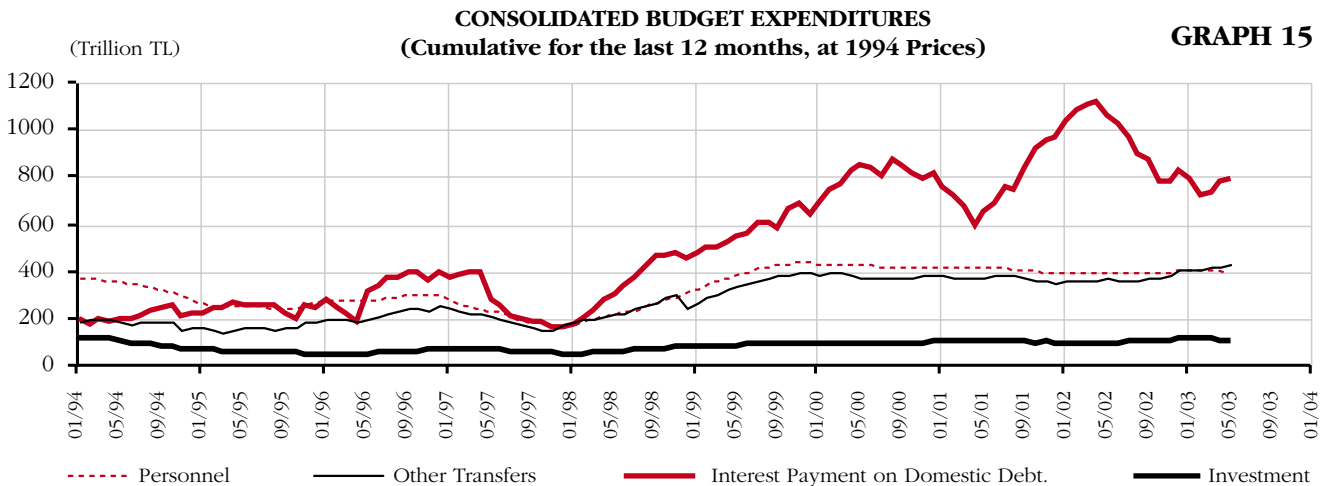
GRAPH 13



GRAPH 14

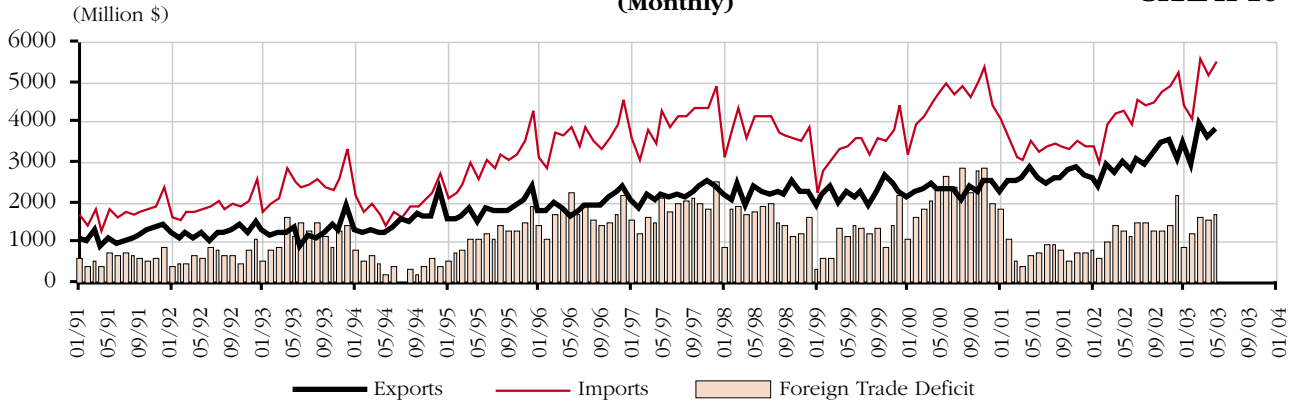


GRAPH 15



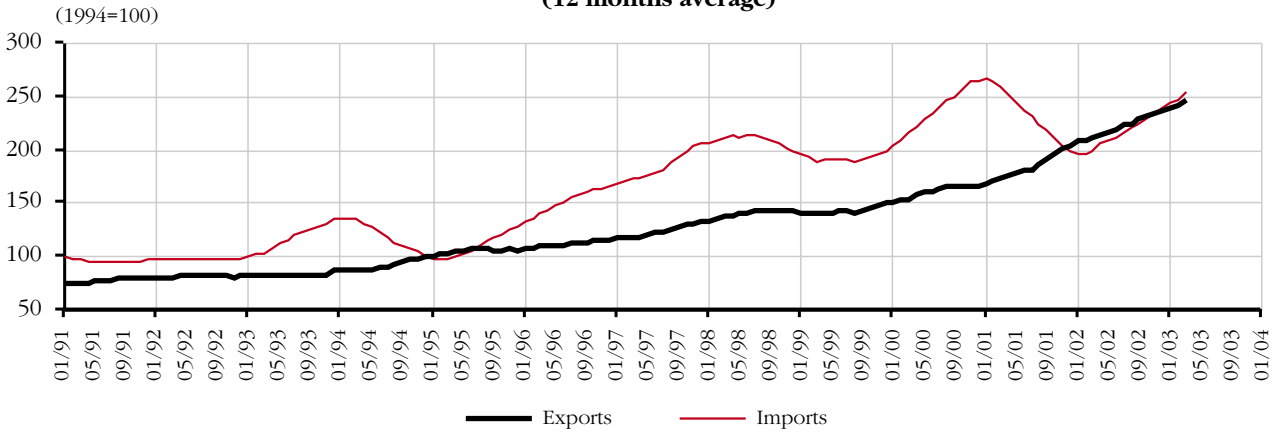
**FOREIGN TRADE
(Monthly)**

GRAPH 16



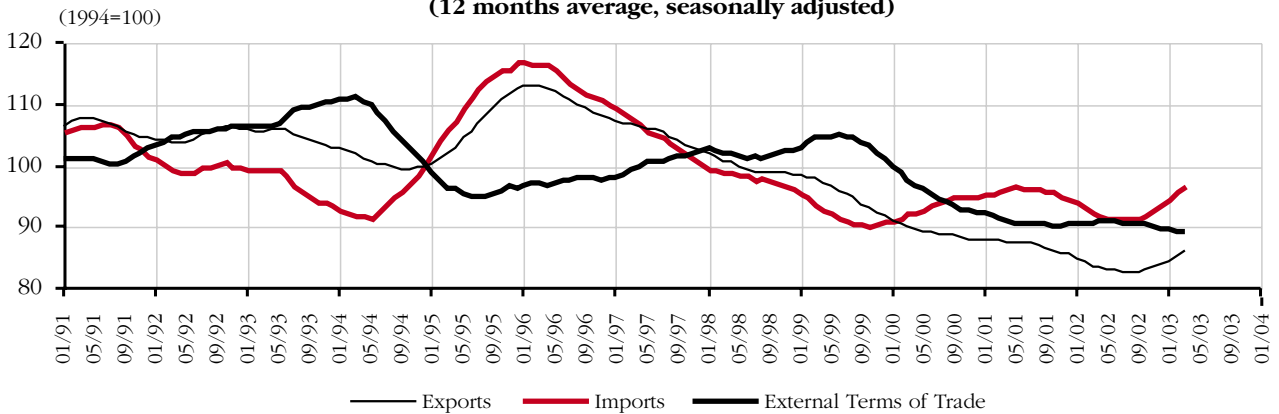
**FOREIGN TRADE QUANTITY INDEX
(12 months average)**

GRAPH 17



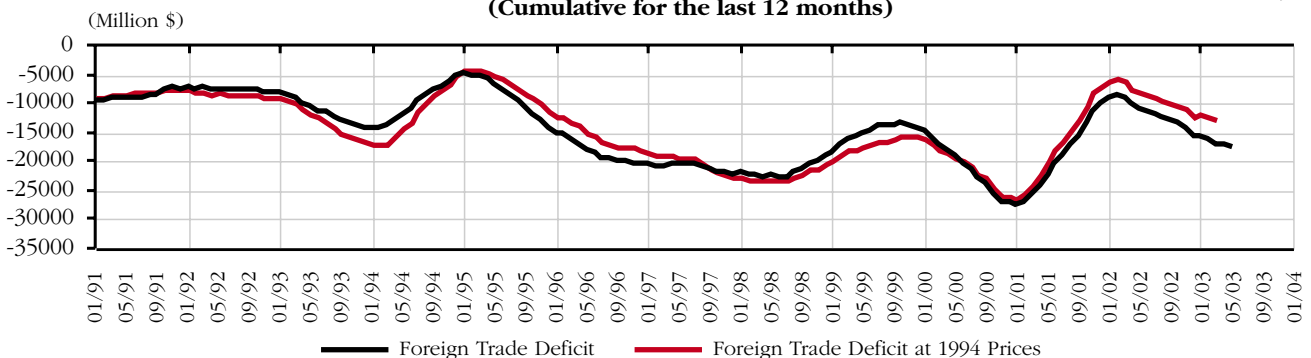
**FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(12 months average, seasonally adjusted)**

GRAPH 18



**FOREIGN TRADE DEFICIT
(Cumulative for the last 12 months)**

GRAPH 19



TÜSİAD QUARTERLY ECONOMIC OUTLOOK

TÜSİAD MACROECONOMIC SCENARIO (Quarterly and yearly average)

	2001				2002				2003				Govern. Program		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Annual	
INCOME and PRICES															
GNP (1987 prices)*	-3.3	-12.3	-9.1	-12.3	-9.5	0.4	10.4	7.9	11.5	7.8	7.4	5.5	4.9	3.1	5.1
GDP (1987 prices)*	-0.8	-9.6	-7.4	-10.4	-7.4	2.1	8.9	7.9	11.4	7.8	8.1	5.7	5.1	3.2	5.3
Inflation (WPI)*	30.1	56.8	70.0	84.9	61.6	86.7	51.2	43.5	33.2	50.1	33.7	32.8	24.1	20.3	27.4
Inflation (CPI)*	35.6	52.3	58.6	67.5	54.4	70.3	47.0	39.5	31.6	45.0	27.6	30.0	25.9	22.2	26.3
Reserve Money*	36.6	38.5	58.5	33.9	41.7	51.1	40.8	33.3	34.2	38.9	41.8	39.9	27.0	20.0	31.4
CONSOLIDATED BUDGET															
Budget Revenues (trillion TL)	10,561	12,367	13,445	15,439	51,813	15,028	20,793	19,583	20,997	76,400	20,364	24,325	26,750	27,750	99,189
Budget Expenditures (trillion TL)	10,651	20,381	23,776	25,572	80,379	27,663	26,032	26,287	35,503	115,486	31,253	38,195	38,000	39,900	147,348
Budget Balance (trillion TL)	-90	-8,014	-10,330	-10,132	-28,566	-12,636	-5,239	-6,704	-14,507	-39,085	-10,889	-13,870	-11,250	-12,150	-48,159
Interest Expenditures (trillion TL)	4,809	10,932	13,774	11,549	41,065	16,540	11,925	10,857	12,549	51,871	15,787	19,066	16,000	17,000	67,853
Budget Balance (billion \$)	-0.1	-6.8	-7.4	-6.7	-23.3	-9.3	-3.7	-4.1	-9.0	-26.0	-6.6	-9.2	-7.8	-7.9	-31.5
Primary Surplus (over GNP, %)					7.1					4.8					5.6
Budget Balance (over GNP, %)					-16.2					-14.8					-13.7
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	1,612,151	1,505,039	1,645,316	1,507,181	1,450,000	1,535,000	1,534,374
Nominal Exchange Rate (TL/€)*	41.7	94.9	116.6	123.9	96.4	69.7	18.9	17.6	6.1	22.8	21.5	6.8	-11.8	-4.8	1.9
Real Exchange Rate (TL/\$) (1999=100)**	120.9	97.9	91.8	97.6	102.0	121.3	121.1	108.9	121.1	118.1	127.4	147.4	155.4	155.4	146.4
Real Exchange Rate (TL/€)*	-4.3	-21.9	-26.8	-25.2	-19.6	0.4	23.7	18.6	24.1	15.7	5.0	21.7	42.7	28.3	23.9
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	1,615,321	1,429,374	1,766,431	1,708,772	1,642,850	1,734,550	1,713,151
Nominal Exchange Rate (TL/€)*	32.1	82.1	113.3	130.8	90.5	61.7	25.4	29.8	18.8	30.7	48.9	31.5	1.6	7.4	19.9
Real Exchange Rate (TL/€) (1999=100)	114.5	97.7	89.8	95.0	99.2	120.6	114.6	96.4	105.3	109.2	103.3	113.2	119.5	119.8	114.0
Real Exchange Rate (TL/€) (1999=100)*	2.6	-16.4	-25.7	-27.4	-17.3	5.3	17.3	7.4	10.8	10.1	-14.3	-1.2	23.9	13.8	4.3
€/€100	92.0	87.3	89.1	89.5	89.5	87.6	92.1	98.4	100.2	94.6	107.4	113.4	113.3	113.0	111.8
GOVERNMENT SECURITIES AUCTION															
Nominal Int. Rate (compounded, %)	125.4	100.3	91.3	79.6	99.1	72.8	62.9	67.0	55.9	64.6	57.3	52.3	43.0	39.0	47.9
Real Int. Rate (compounded, %)	66.2	31.5	20.6	7.3	29.0	1.5	10.8	19.8	18.5	13.6	23.2	17.2	13.6	13.8	17.1
FOREIGN TRADE and CURRENT ACCOUNT															
Imports (cif) (billion \$)	10.8	9.9	10.4	10.4	41.4	10.4	12.4	13.5	15.0	51.3	14.1	16.2	16.1	16.4	62.8
Exports (fob, incl. shuttle trade) (billion \$)	8.1	8.8	8.4	9.1	34.4	8.8	9.4	10.4	11.2	39.8	11.1	11.8	11.4	12.0	46.3
Foreign Trade Balance (fob-cif) (billion \$)	-2.7	-1.1	-1.9	-1.3	-7.0	-1.5	-3.0	-3.2	-3.8	-11.4	-3.0	-4.4	-4.7	-4.4	-16.5
Invisibles (other current) (billions\$)	2.2	2.4	3.9	1.9	10.4	0.9	2.2	4.2	2.6	9.9	0.9	2.4	3.9	2.3	9.5
Current Account Balance (billions\$)	-0.5	1.3	2.0	0.6	3.4	-0.6	-0.8	1.0	-1.2	-1.5	-2.1	-2.0	-0.8	-2.1	-7.0
Imports (cif)*	-4.9	-30.1	-27.0	-30.1	-24.0	-3.9	25.7	30.4	44.4	23.8	36.4	30.3	19.2	9.6	22.5
Exports (fob, incl. shuttle trade)*	6.4	10.0	8.5	9.2	8.6	9.6	7.6	22.7	23.0	15.8	25.7	24.9	10.1	7.2	16.3

Red italic figures are TÜSİAD estimates

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

(**)Decrease in Real Exchange Rate index reflects the devaluation of TL against US dollar.

(a) End year. TÜSİAD's end year forecast for CPI and WPI for 2003 are 22% and 20% respectively

(b) Excluding shuttle trade

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