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Annus Mirabilis

*"In case of major discrepancy,
it is always reality that's got it wrong"*

Douglas Adams

Summary and Conclusion

The favorable developments in the summer fueled the optimism and enhanced the expectations for the rest of the year.

Following the completion of the 5th review in July, IMF released the credit tranche and Turkey's debt repayments to the Fund had been rescheduled in order to ease the forthcoming burden of 2004 and 2005. The agreement on the \$8.5 billion US loan, which relieves the debt dynamics, has also been perceived as the normalization of the relationship between the US and Turkey. Moreover, the remaining structural reforms, which are due to the end-2003, seem to be less problematic compared to previous agendas, and thereby assuaged the concerns about the implementation of the economic program. The upturn in the financial markets as of April has gained momentum since August due to the improvement in the sentiments. The main areas of concern in the public opinion, which are the deterioration in the current account and the appreciated real exchange rate, do not seem alarming as do October. Such worries, however, are expected to vanish during the forthcoming months. Additionally, if the end-year targets of inflation and growth will be achieved with positive margins as expected, the positive economic outlook will be further strengthened.

The improvement in the expectations has carried Turkish economy to a "better equilibrium".

Since 2002, there is a concrete development in the main macroeconomic indicators of Turkish economy. However, the adversities stemmed from both global and domestic uncertainties limited the speed of the recovery.

Following the elections in November 2002, the end of the war and finally the completion of the 4th review, growing confidence about decisive actions of AKP towards the implementation of the IMF-backed programme has triggered a quick upturn. The change in the portfolios of the domestic agents in favor of TL, together with the high performance in exports of goods and services led to decrease in the exchange rates. The growing confidence and the decline in the inflationary expectations gave way to the successive interest rate cuts by the Central Bank. This in turn, brought down the secondary bond market rates supporting disinflation and both consumption and investment demands have soared. The productivity increases in the manufacturing industry and the improvement in the external terms of trade together with the weak real wages created a competitive cost structure. The continuing growth in the total exports of the capital-intensive sectors, which are highly dependent on the imported inputs, signs the suitable ground for this beneficial effect on the foreign trade. On the other hand, as the favorable environment created by the appreciation of TL has reduced the foreign currency debt stock in real terms, the proportion of the total debt stock to GDP has also declined with the increase in output. Moreover, the lower interest rates have helped to eliminate the concerns about the sustainability of the debt stock.

The cost of inaction in the structural reforms will not be only economic but also political.

In the aftermath of the war in Iraq, it's confirmed that the Turkish economy had become more resilient to the external shocks.

The tight fiscal and monetary policies and the implemented structural reforms have an essential role in this remedy. However, the main factors that could move the Turkish economy to a “bad equilibrium” with a devaluated exchange rate and higher inflation and interest rates have often been political. In the election period, the major political risks regarding the AKP were based on the assumption that the Party would create inertia in the EU membership, the IMF-backed economic programme and secular-democratic Turkey perspectives. However, contrary to the expectations, the government has displayed a successful performance in these three essential areas. Considering that the way of doing politics has changed in Turkey with the last landslide elections, the rational thing to expect is that the AKP will not create tension and become more supportive in these issues in 2004. Since the success of the economic program will create a welfare increase for the households –or one might say the voters–, the government should not to diverge from low inflation-high growth path achieved by the fiscal discipline. Therefore, in order to obtain permanent improvement in the public finance in medium-term, the government has to expand the tax base, constitute the transparent and rational public fiscal governance principals and provide the expenditure reform.

The vigorous economic activity supported by the strong TL, low interest rates, and disinflation gives the fertile soil for the necessary structural transformations in the economy.

Although the Turkish economy has been growing fast for the last two years, it is still below the potential output level. Besides, the proportion of the gross fixed capital investments to GDP, the historical average of which had been about at 27%, is still down at 19% as of

end-2002. Starting with 2003, there is an opportunity for an increase in both the domestic and foreign direct investments. With the continuing public sector reform based implementation of the economic program, it's likely to have single-digit inflation and a significant increase in the per capita GDP until 2005. Consequently, a huge domestic market that resolved its structural problems and increased its purchasing power, will be more attractive for the investments. In a macroeconomic environment with welfare gains arising from invigorating economic growth and declining inflation and interest rates, progress on structural reforms by the government –apart from being conditions for the IMF reviews, constitutes the premise for sustainable growth on medium and long term.

I. Global Economic Outlook

The world output growth has gained strength as previously envisaged.

The current economic upturn in the world economic activity is particularly due to the favorable developments in the US economy and the growth dynamics of the emerging markets in Asia, recently including Japan. Although this pickup has been underpinned by the private consumption boosted by expansionary economic policies, it has not become self-sustained since the most of the industrialized countries continued to be wary of investing. Bursting of the equity price bubble together with the excess capacity and the corporate cutbacks remained to have been the major impediments to the investment activity. Besides, despite the bounce

back in the economic stance of the US, its huge twin deficits could jeopardize the global economic outlook. The economic policies such as the stimulation of domestic demand through fiscal and monetary easing in the US have fueled the global economy. While the Euro area has not been supportive to the global recovery with its lower-than-expected growth, the economic activity in Japan offers that the country is back on the game again. Somewhat improved economic activity in Japan was considered to be in favor of global recovery. Although the output is on the rise, it's still worth to note that reaching to the potential output along with lowering the unemployment will take time. Corollary, while the growth in 2003 would probably reach 2.6 % in the USA, 2.0% in Japan, 0.5% in the Euro area, and 5.0% in the developing countries, the world real GDP growth in 2003 is estimated to reach 3.2%. In 2004, the trends are expected to strengthen while the global economy gains pace.

US economy will continue to be the main engine of the global recovery.

The second quarter GDP figures in the US indicated a significant increase in the public expenditures. Also the private consumption and investment spending showed positive signs of the upturn and support the expected stronger recovery from the third quarter onwards. Despite the overcapacity problem and the stagnation in the labor markets, consumer and business confidence have maintained its strength along with the continuing counter-cyclical policies. The

(Annual % change)	GDP Projections*	
	2003	2004
World	3.2 (3.2)	4.1 (4.1)
USA	2.6 (2.2)	3.9 (3.6)
Japan	2.0 (1.1)	1.4 (2.3)
Euro Area	0.5 (0.8)	1.9 (1.0)
Developing Countries	5.0 (5.0)	5.6 (5.8)

* Source: IMF World Economic Outlook, September 2003.

** Figures in brackets are the previous projections of April 2003.

equity prices have been on the rise, the dollar continued to depreciate and although the long-term interest rates have been increasing, they are still below their historical levels. The non-Japan Asia is expected to post vigorous growth rates since the slowdown in the beginning of 2003 seems to have faded out. Recent growth performance in the region has been underpinned by the net exports. However, since the depreciation of dollar in its present pace implies the recovery of the global demand, it is crucial to enhance the domestic demand in the region. While the structural reforms will be of key importance to this goal, the greater flexibility in the exchange rate in some countries would be supportive. Despite the pick up in the equity prices and the improvement in confidence, the recovery in the Euro area fell behind the global upturn due to sluggish capital spending. The delay in the structural reforms in the Euro area (esp. in Germany and France) due to intense agenda on the accession countries has shifted growth prospects towards 2004.

II. Output and Inflation

The economy posted a lower-than-expected real GNP growth of 3.7% in the second quarter.

During the second quarter, TL appreciated by 8.4% with respect to previous quarter and USD/TL rate decreased to 1.4 million as of end June. In the same period, the index of ISE-100 jumped by 14.9% and nominal interest rates slid back to 51% in secondary markets with a decline of 14 points. The unemployment rate dropped to 10.0% while the production workers in the manufacturing industry increased by 1.6% with respect to the same period of previous year and the labor productivity rose by 3.8%. Finally, the index of real wage per worker –which has been declining since the last quarter of 2002– again shrank by 10.7% and ended up with 27.2% below its 2000 average.

The industrial production and trade sectors have remained to be the main drive behind the output growth.

Main contributions to the 3.7% real GNP growth came from industrial production, trade, and transportation and communication sectors respectively. As the ongoing export-driven industrial production since 2002 has maintained its strong performance, the sector expanded by 4.0% in the first quarter and contributed to GNP growth by 1.4 percentage points. Posting a 2.8% decrease in the second quarter, the agricultural sector yielded a negative contribution to GNP growth as previously expected. The surge in industrial production and the imports spurred the activities in trade and transportation sectors, which carries out all the marketing and transportation activities. Corollary to these developments, trade and transportation sectors grew by 6.0% and 5.8% and contributed to GNP growth by 1.4 and 0.8 percentage points respectively. On the other hand, the construction sector continued its downhill trend and contracted by 14.5% in the second quarter. The ongoing upward trend in imports resulted in a 20% increase in import duties, which contributed to overall growth by 1.1 percentage points.

The durable goods' consumption and the private investments have continued to be the main demand components other than the inventories.

The private consumption expenditures increased by 2.5% and contributed to

the GDP growth by 1.6 percentage points. Looking at the constituents of the consumption, it is seen that the surge in durable goods outbalanced the other items. Thanks to the rise in the private sector's machinery investment, the capital formation increased by 5.5% and contributed to the GDP growth by 1.2 percentage points. The rapid recovery in the consumption of durable goods and machinery investments can be attributed to the weak base years and the improving expectations. On the other hand, the public investment and consumption spending bounded by the tight fiscal policy decreased by 11.3% and 2.9% respectively. In addition to the supply side drives of the high imports, the picking up domestic demand and therefore the consumption goods imports might also be considered. The methodological flaw in the estimation of inventories, which we presented a detailed analysis in the previous issues of quarterly economic surveys, still prevails on the economic rationale.

Private sector's capacity to transform itself into a more productive and competitive structure will determine the course of the potential output from medium to long-run.

Two main concerns for the manufacturing industry are the economy's climb to the potential output and the recovery in the domestic demand. The manufacturing industry has gained significant share and

GNP	2002		2003		2003	
			Q1	Q2	Q3	Q4
Sectors	% change	Contr.	Annual % change		% point contr. to growth	
- Agriculture	7.1	1.0	7.0	-2.8	0.4	-0.2
- Industry	9.4	2.7	7.8	4.4	2.7	1.4
- Construction	-4.9	-0.3	-17	-14.5	-0.7	-0.7
- Trade	10.7	2.4	10.8	6.0	2.4	1.4
- Transport. and Com.	5.4	0.7	13.7	5.8	2.1	0.8
- Financial Institutions	-7.1	-0.2	-8.1	-8.5	-0.2	-0.2
- Import Duties	23.0	1.1	19.8	20.5	1.2	1.1
- GNP	7.8		7.4	3.7		

Source: SIS

GDP	2002		2003		2003	
			Q1	Q2	Q1	Q2
Composition	% change	Contr.	Annual % change		% point contr. to growth	
Priv. Final Consum.	2.0	1.4	6.5	2.5	4.8	1.6
Govern. Final Consum.	5.4	0.5	-3.0	-2.9	-0.2	-0.2
Gross Priv. Fix. Cap. Form	-7.2	-1.0	20.4	11.9	2.8	1.8
Gross Pub. Fix. Cap. Form	14.5	0.9	-37.8	-11.3	-1.2	-0.6
Change in Stocks	---	7.0	---	---	6.0	4.3
Exports of Goods, Serv.	15.7	4.2	14.5	12.5	6.2	5.1
Imports of Goods, Serv. (-)	7.8	5.1	23.9	20.2	9.8	7.9
-GDP	7.8		8.1	3.9		

Source: SIS

considerable experience in the export market for the past five years. However, for the following period, the sector has to increase its capacity to a level that will meet both the domestic and international demand. Therefore, the cost advantages depended on the depreciation of the TL and low level of real wages in the past should be substituted with reorganization and the new investments that will enhance the competitiveness from short to long run. Due to the high level of productivity and excess labor supply, the real wages will maintain its low level in the short run. On the other hand, the manufacturing industry has to gain a bigger over its cost structure in order to be more resilient to the volatile exchange rates and international energy prices. Competitiveness oriented fixed capital formation, transfer of technology, mergers, corporate governance and etc. should be more on the agenda in order to restructure the private sector on competitiveness basis.

The downward trend in inflation has continued in the third quarter due to the Central Bank's successful management of the expectations, along with the seasonal developments.

Thanks to the ongoing easing in agricultural and food prices since May and June respectively, the inflation has retained its downward trend. According to the seasonally adjusted figures, during the third quarter, the average monthly

increase in WPI and CPI realized at 0.3%, 0.7% respectively. In the third quarter, the USD/TL rate came down to 1.388 million from its end-June level of 1.4 million and its volatility dropped from 5.9% to 1.2%. These, of course, have played a leading role in the sparkling disinflation. Besides, the descending public manufacturing sector prices resulted in a decline in the overall manufacturing industry prices since they are the major suppliers of the intermediate goods. As a result, private manufacturing prices posted a quite limited increase in the third quarter. Furthermore, the decline in the agriculture prices during July-August period and the subdued increase in September controlled the WPI in the third quarter. In parallel with these developments, as of September, the annual increases in WPI and CPI declined to 19.1% and 23.0% respectively.

Along with the expectations, the fiscal discipline remains to be the key determinant of the fight with inflation.

The Central Bank's expectation survey results reflect the optimism stemming from the ongoing auspicious developments in the third quarter. The survey shows that the end-year CPI inflation expectation has dropped to 19.8% in the first half of October. Likewise, the end-year growth expectations have increased to 5.2%. In terms of inflationary pressures, the exchange rate is not likely to induce

any trouble in the short run. Besides the growing inverse substitution, the current account deficit is mainly driven by the import of intermediate goods and its finance has not pose any problem so far. In light of these developments, the Central Bank cut the overnight interest rates from 39% to 26% during July–October period.

The government's fiscal discipline has had rapid and favorable effects on the interest rates and disinflation. Through enacting supplementary measures when required, the government –displays a decisive act towards the attainment of fiscal targets. Nevertheless, the probable price adjustments and additional tax arrangements should carefully be planned lest they may be inflationary. Considering the limits of the consolidated budget, the expenditure reform can only be fruitful if it's backed with structural measures. Therefore, the primary surplus target will keep on having its substance on the inflation progress as the main indicator of fiscal discipline. Suggesting that the slight domestic demand increase will continue to keep the output under its potential level, no major demand pressures on inflation are likely to come up in 2004. Besides, intended rise in the special consumption tax will limit the consumption-driven imports and the domestic demand next year, probably taming the current account deficit in 2004. On the other hand, in order to meet the end-2004 inflation target of 12%, the price-setting decisions in both the public and private sectors should be rationalized. In this regard, the elimination of the backward-indexation will be of great importance.

III. Fiscal and Monetary Policies

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

With the primary expenditures of 55.0 quadrillion TL and interest payments of

46.6 quadrillion TL, consolidated budget expenditures went up to 101.6 quadrillion TL as of September. Consequently, through the budget revenues of 71.8 quadrillion TL in the first nine months, primary surplus reached to 16.7 quadrillion TL, whereas the budget deficit mounted up to 29.8 quadrillion TL. Although the performance criteria for consolidated public sector primary surplus was attained in April, worries for the next levels regarding the subsequent months still remain alive. Accordingly, lower-than-required tax revenues together with the overshooting expenditures such as transfers to the social security institutions and tax redeems put some additional measures on the agenda. At this point, reduction of the redundant public employment, conclusion of the second phase of direct tax reform, and legislation of the public management reform are still key to the progress in budget performance, as well as to the 6th review. The budget performance that is the key determinant for the IMF reviews will persist to be the preliminary indicator for the markets in the next year as well. Yet, given that much of this year's budget measures were temporary, and there is a little room for tax hikes or spending cuts, the 2004 budget appears to be inflexible. Since the current measures are more or less limited, only the decisiveness on reform steps will supply the enough room for a better budget performance.

Despite the real boost in tax revenues, the primary expenditures upset the end-year targets.

In the first nine months, indirect and direct taxes increased by 12.2% and 7.2%, respectively in real terms. The improvement in the tax revenues was in fact due to the high indirect taxes parallel to invigorating domestic demand, while the income and corporate taxes surged by the tax amnesty were another drives of the climb. 10.7% of the end-

2003 Fiscal Targets*	Primary Surplus		Budget Balance	
	Floor	Realization	Floor	Realization
April	6,600	7,056	-13,840	-15,173
May	9,500	9,540	-	-21,807
June	11,000	<i>10,094</i>	-22,300	-24,759
August	18,180	<i>15,525</i>	-24,190	-28,443
September	20,580	<i>16,740</i>	-	-29,825
October	21,490		-36,270	
November	24,190		-	
December	22,900		-36,320	

* Cumulative in trillion TL., Total Public Sector. Bold figures are performance criteria, whereas normal figures are indicative targets. Italic figures are consolidated budget figures.

Source: Letter of Intent; July 25, 2003.

year tax revenue target was received just in August and consolidated budget exhibited a "surplus" in the same period after 29 months. Even with the real advance in tax revenues, total revenues in the first nine months were less-than-required as for the achievement of end-year targets. Yet, exceeding primary expenditures imply a disappointing appearance concerning the end-year budget targets. With the effect of declining interest rates, the share of the interest payments in the total expenditures is fading, whereas the growing tax redeems parallel to high export performance, the agricultural subsidies comprising no appropriate funds, and the ossified transfer payments to social security institutions caused a 4.5% real increase in primary expenditures. Among the transfer expenditures, the contribution to the social security institutions, tax redeems, and direct income support were 12.8, 6.1, and 2.0 quadrillion TL, respectively. While the blockage on capital and

current expenditures preserves the discipline in these items, the overrunning personnel expenditures constitutes an additional risk for the end-year primary surplus target.

The sustainability of the debt stock is not a major concern for the moment.

The borrowing in the first nine months carried the domestic debt stock to TL 178.7 quadrillion TL (USD 130.3 billion), with a 28.8 quadrillion-increase comparative to the beginning of the year. In terms of the composition of the stock by instruments; 34.7% of the domestic debt stock is composed of fixed rate notes, 40.7% is of FRNs, and 24.6% is of FX linked/denominated government securities. On the other hand, USD 4.7 billion increase in the external debt of central government during the first nine months brought up the stock to USD 61.3 billion. Accordingly, outstanding total debt of the central government reached to USD 191.6 billion as of September. The high

CONSOLIDATED BUDGET (quadrillion TL)	2002		2003			2004
	Real.	Prog.	Jan.-Jun. (1)	Prog. (2)	Realization (1)/(2)	Program
REVENUES	76.4	71.2	71.8	100.8	71.2%	114.5
Tax Revenues	59.6	57.9	60.1	86.0	70.0%	99.0
Non-tax Revenues	16.8	13.3	11.6	14.8	78.3%	15.5
EXPENDITURES	115.5	98.1	101.6	145.9	69.6%	160.9
Primary Expenditures	63.6	55.3	55.0	80.5	68.3%	93.9
Interest Payments	51.9	42.8	46.6	65.5	71.1%	67.0
BUDGET DEFICIT	39.1	26.9	29.8	45.2	66.0%	46.4
PRIMARY SURPLUS	12.8	15.9	16.7	20.3	82.5%	20.6

Source: Ministry of Finance

debt burden is still standing as an important barrier in front of the progress in the economic fundamentals. Although the appreciation of TL moderately erodes the debt stock, the government's insistence on tight fiscal policy and successive primary surplus achievements are critical to settle down the debt dynamics. The rescheduling of the IMF loan repayments and the signing of the USD 8.5 billion US loan package considerably reduces next year's significant debt burden. However, rather than making a massive difference to the debt burden, this console especially will help to eliminate concerns about the debt sustainability and the financial stability. Improvements in the macroeconomic fundamentals since April and hence being re-rated by the foreign investors in a favorable way could also advance the financing facilities. A structural recovery in the public balance would facilitate extending maturities as well as declining rates. On the other hand, there are some risks concerning the fiscal policies for the next year. As for the domestic debt services, there is a weighty redemption program for between January 28 and March 3. The swap auctions to soothe the 28 quadrillion TL redemption program by enlarging the maturities may pick up the interest rates for a while. Furthermore, probable increases in the local government expenditures before the elections, and the way of financing these expenditures via not servicing Treasury guaranteed credits might pose additional burden on Treasury's external debt services.

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

The Central Bank, which was successful attaining its performance criteria last year, exhibited a thriving performance throughout the year in line with the ongoing monetary program. So far, the

CB has managed to retain its balance sheet within the designated margins and attained the monetary targets for April, June and September. Benefiting from the withdrawing cost-push pressures following the end of Iraq war and the subsequent twirl in inflation trend, the CB reduced the overnight interest rates for six times. Accordingly, the short-term borrowing rates went down to 26% with successive 3-point rate cuts since April. Considering the disinflation process, the sluggish demand and relatively low level of costs in 2003 played an important role. As for the permanence of effective monetary policies by the CB, the progress in the structural reforms and in the fiscal discipline will be formative.

Regardless of the rate cuts, the CB kept its controlled monetary stance.

The Central Bank money expanded by 37.1% in the first nine months of the year, while the monetary base increased by 38.0% and stayed in the limits of the September performance criteria. The reflection of this expansion on the assets of the CB's analytical balance sheet is the increase in the net foreign assets and the contraction in the net domestic assets. The CB, taking the excess foreign exchange supply into account, made foreign exchange purchase auctions since May and consequently, sterilized the liquidity aroused from the purchase of over USD 5 billion via open market operations. Consequently, the net domestic assets shrank by 61.4% and declined to 2.7 quadrillion TL with the

effect of the net change in the OMO stock. The net foreign assets, on the other hand, expanded two folds and reached up to 11.7 quadrillion TL as a consequence of the increase in foreign exchange reserves. In light of these developments, indicative targets regarding the net domestic and foreign assets for September are attained.

Lacking lending channel hinders growth perspectives.

In the first nine months of the year, M1 and M2 aggregates increased by 34.4% and 21.9% in nominal terms respectively, while M2Y expanded by 3.3%. The FX deposits, after contracting in March, increased again in May, June and September in USD terms and went up to 46.3 billion as of September. Despite the 4.5% increase in the FX deposits since the beginning of the year, FX deposits in TL terms contracted by 12.5% due to the appreciation of TL. Consequently, 45.9% of M2Y is composed of FX deposits, 40.2% is of time deposits, 6.9% is of sight deposits, and 7.0% is of currency in circulation. When the 65.2 quadrillion TL of government securities that are held by the non-banking sector is included, the share of FX deposits and FX denominated securities in the total goes down to 32.8%.

While there is a modest increase in the banking sector assets, the share of liquid assets has declined whereas the share of credits and securities in total has improved. Total banking sector credits other than the financial sector increased

Monetary Targets for 2003*	April	June	Sep.	Dec.
Net International Reserves (CBT+Treasury)	-6,500	-7,000	-6,000	-6,000
Realization	-5,996	-3,865	1,504	
Stock of Net Domestic Assets (CBT+Treasury)	32,800	34,100	33,800	34,200
Realization	30,951	29,395	22,968	
Base Money	12,800	13,200	14,100	14,300
Realization	11,883	13,039	13,877	

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

Italic: Indicative Targets

Normal: Performance Criteria

Source : CBT

MONETARY AGGREGATES	(quadrillion TL)		(% change)	
	Dec. 2002	Sep. 2003	Nominal	Real
M2YR (M2Y+R)	136.2	140.8	3.4%	-6.6%
M2Y	133.5	137.9	3.3%	-6.7%
M2Y (composition)				
Currency in Circulation	5.4%	7.0%	34.6%	21.6%
Sight Deposits	5.3%	6.9%	34.1%	21.1%
Time Deposits	35.2%	40.2%	18.1%	6.7%
FX Deposits (TRL)	54.19	45.9%	-12.5%	-20.9%

Source: CBT

by 12.5% in real terms, while banking sector total credit volume expanded by 10.4%. The rise in the banking sector credit volume is inconspicuous, and moreover, the increase mainly emanates from households sector rather than the firms. Another area of concern in the credit market is the high share of FX denominated credits. The lack of adequate transition to TL credits and hence the foreign exchange risk carried by the real sector constitutes a risk in the system. Regarding the framework of the credit market, the ratio of the domestic debt to the banking sector's assets is still on the rise and considered with the securities in the non-banking sector, the public sector absorbs most of the available funds.

IV. Foreign Trade and Balance of Payments

Despite the appreciation of the real exchange rate and the flourishing domestic demand, exports have continued to rise.

The increase in the exports in 2001 and 2002 was mainly attributed to the enhancement of price competitiveness and the traditional substitution effect of exports and the domestic demand in Turkish economy was highlighted. However, the realizations of foreign trade in 2003 seem to be conflicted with these arguments. Despite the appreciation of TL especially after the end of the war and the completion of the 4th review, exports continued to soar. Besides, as the recovery in the

domestic demand became more apparent, the increase in the imports shifted from the intermediary goods to the capital and consumption goods. While the appreciation of TL lowered the input and external finance costs of the exporting sectors, the quick weakening of US dollar against Euro also created an arbitrage opportunity due to the euro-dominated exports and USD-dominated imports. Furthermore, the strong downward trend in the real wages and the increase in the productivity at the exporting private manufacturing sectors created competitiveness gains for the firms. In a longer-term perspective, there is a structural change in Turkey's foreign trade performance since the Custom Union with the EU. From 1996 onwards, a positive and strong relation has replaced the negative correlation between the increases in the private consumption expenditures and exports in the pre-Union period. As introduced by Jacob Viner in the 1950s, custom unions may create two kinds of effects on trade performance: trade diversion and trade creation. In this framework, it can be claimed that the welfare increasing trade creation effect overwhelms the negative effect of trade diversion in Turkish case. On the other hand, increasing product diversification and integration with the stable EU economy helped to improve the harmonization between the export performance and the domestic demand during this period.

The nominal exports increased more than the quantity index due to the improvement in the external terms of trade.

In the first seven months of the year, the exports and the imports increased by 31% and 34% on annual basis and reached to USD 25.5 billion and USD 36.6 billion respectively. The improvement in the terms of trade from the last quarter of 2002 onwards and surge in the Euro/dollar parity have limited the deterioration in the foreign trade deficit. On the basis of the currency composition of the foreign trade in 2003, the increase in the exports and the imports declines to level of 19% and 25% respectively, after the correction that offset the cross-parity changes in Euro/USD. In a sectoral breakdown, so far the increase in the exports mainly sustained through the motor vehicles, machinery and equipment and basic metal sectors. These leading exporter sectors also account for a significant share in the industrial production increase and therefore, create a high demand for imported intermediate goods. Since the export-production-import cycle is a sound way of widening the current account, we do not expect an inflationary demand pressure through foreign trade deficit. As a matter of fact, the composition of the imports according to the broad economic categories remained more or less intact when compared to the same period of the previous year. Its 75% is intermediary goods imports, 15% is capital goods imports and only 10% is consumption goods imports.

While the current account deficit continues to widen, its financing does not pose any problems.

As of July, the current account deficit reached to USD 4.5 billion. The widening of the current account deficit is mainly due to the deterioration in

the foreign trade deficit. To a certain extent, the widening was restricted by the surpluses in the net service incomes and the current transfers that amounted USD 3.7 billion and USD 2 billion respectively. Since the export performance is still promising, we do not expect the trade deficit to widen as much as it did in 2000. Yet, while the foreign trade balance has improved, the deterioration in the services balance has been continuing. The main problem in the services is that, the revenue gained from the net other trade services has almost been nullified from its above USD 4 billion level since 2000.

The increase in the net errors and omissions has become the main source of financing of the current account deficit.

In the first seven months of 2003, the current account deficit has easily been financed. In this period, the current account deficit of USD 4.5 billion was financed through the capital inflows of USD 3.4 billion and the increase in the net errors and omissions item about USD 2.1 billion. Consequently, the international reserves increased USD 1 billion. On the financing side, while there was no significant change in the weak foreign direct investments, the portfolio investments posted an increase of USD 618 million, on contrary to the outflow of USD 770 million in the same period of the previous year. The most considerable contribution to the financing came from the decrease in the banking sector's foreign assets by an inflow of USD 2.4 billion. Also the increase in foreign banks' deposits at the domestic banks amounted to USD 1.1 billion. However, the rapid improvement in the financial market sentiment as of August led to an expansion in the non-residents' portfolio in Turkey. As of September, while the ISE leg of this

portfolio increased USD 2.2 billion and reached to USD 5.7 billion, the expansion in total amounted to USD 3.7 billion in the same period.

V. Prospects for 2003 and 2004

The government should avoid populism ahead of the local elections.

As stated in the former issue of QEO, 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.

In its first year, AKP exhibited a compromising manner with the public opinion, towards providing the stability and abstained from creating tensions in internal politics. As for the other important issue, the government displayed significant efforts -foremost the progress on political reforms, towards the EU membership. On the other hand, in terms of the implementation of the economic program, forthcoming local elections will be the most discerning assessment. Recalling the rapid increases in the expenditures by the coalition parties ahead of the latest elections, similar inclination might occur in the local governments. Any support to this inclination by the government through expanding expenditures or else populist policies form the most important risk on fiscal discipline. In our macroeconomic scenario, the decision of the government is expected to be in favour of the permanent economic stability, rather than the populism.

TÜSİAD envisages the GDP growth to be 5.8% in 2003, and 4.8% 2004.

In the July issue of Quarterly Economic Outlook, the GDP growth was

expected to be 5.3% for 2003. While the growth in the second quarter was below our expectation, in line with the developments on the demand and supply side it's likely that this rate will be revised upwards, and the persistence of vigorous economic activities in the rest of the year will carry the GDP growth to 5.8% in 2003. Similarly, TÜSİAD's end-year estimations of the WPI and the CPI are revised down to 17% and 19% respectively. In the external balance, the exports excluding the shuttle trade is expected to reach up to USD 47 billions, imports to USD 68 billions and the current deficit to USD 6.5 billion.

In our base scenario for 2004, the above-mentioned three politics-based determinants for Turkish economy are expected to act harmoniously. In this framework, the GDP growth is expected to be 4.8% and the end-year inflation target is expected to overshoot with a small margin. While the favourable market sentiment is expected to progress towards the medium and the long term gradually, the real interest rates are expected to be 11.4% on average, the appreciation of TL is expected to survive, carrying the nominal USD exchange rate to TL 1.68 million at the end of 2004. It is assumed that the main determinant of the macroeconomic aggregates will be the fiscal discipline and the government is going to pursue the fiscal targets, introducing new precautions if necessary. So, the consolidated budget primary surplus is expected to be 4.9% of GNP. TÜSİAD expects that the exports will continue to be vigorous in 2004, and with the improvement in invisibles item, the current account deficit is estimated to be limited to USD 5.4 billions.

**TABLE 1.1 MAIN ECONOMIC INDICATORS (2002-2003)
PRODUCTION AND PRICES**

	2003											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)												
Annual % Increase	14.6	3.4	5.3	2.8	3.8	9.8	11.7	10.3	..			
Monthly % Increase	0.0	-15.1	23.7	-4.8	5.1	2.0	2.5	-3.5	..			
Monthly % Increase (seasonally adjusted)	14.2	3.7	4.7	2.8	4.7	9.2	11.7	11.0	..			
CAPACITY UTILISATION RATE (SIS, %)	74.9	71.9	78.3	75.9	78.7	80.1	80.0	79.3	83.6			
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)												
Real Wage per hour (annual % increase)	..	..	-1.0	..	..	-5.4	..	..	..
Real Income per worker (annual % increase)	..	..	-5.5	..	..	-10.7	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)												
Annual % Increase	32.6	33.4	35.2	35.1	33.7	29.6	25.6	22.7	19.1			
Monthly % Increase	5.6	3.1	3.2	1.8	-0.6	-1.9	-0.5	-0.2	0.1			
Monthly % Increase (seasonally adjusted)	4.0	2.7	2.3	1.5	0.2	0.3	0.3	0.7	0.1			
CONSUMER PRICE INDEX												
Annual % Increase	26.4	27.0	29.4	29.5	30.7	29.8	27.4	24.9	23.0			
Monthly % Increase	2.6	2.3	3.1	2.1	1.6	-0.2	-0.4	0.2	1.9			
Monthly % Increase (seasonally adjusted)	1.6	2.4	3.4	1.5	2.1	1.5	0.9	0.9	0.8			
EXCHANGE RATE (CB buying rate)												
TL/US\$ (monthly average)	1,655,644	1,619,966	1,660,696	1,619,668	1,483,353	1,418,523	1,397,289	1,396,197	1,371,963			
Annual % Increase	21.8	20.0	22.9	23.2	6.7	-7.1	-15.5	-14.5	-16.6			
Monthly % Increase	4.0	-2.2	2.5	-2.5	-8.4	-4.4	-1.5	-0.1	-1.7			
TERMS OF TRADE (SIS, 1994=100)*												
External (Export/Import)	88.2	89.1	90.5	90.3	89.7	91.2	91.3	..	..	
Internal (Agriculture/Manufacturing)	103.7	104.0	107.1	99.6	99.6	100.3	100.5	100.4	100.4			
DOMESTIC BORROWING (weighted by sales volume)												
Compounded Annual Interest Rate (%)	57.4	54.3	60.1	58.2	51.7	47.0	46.9	39.0	35.8			
Average Maturity (days)	282	245	303	276	333	308	287	299	376			

(..) Not available

(*) Seasonally adjusted series are used in calculation

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

	2002												2003																									
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.													
CURRENT ACCOUNT BALANCE (monthly, million \$)	539	457	-256	-1,376	-31	-1,171	-1,032	-763	-569	-331	-328	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Imports (CIF)	4,480	4,799	4,912	5,241	4,373	4,098	5,673	5,187	5,479	5,216	5,769	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Exports (FOB), excluding shuttle trade	3,211	3,493	3,517	3,056	3,495	2,902	3,876	3,636	3,816	4,182	3,708	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Foreign Trade Balance	-1,269	-1,306	-1,395	-2,185	-878	-1,196	-1,797	-1,551	-1,663	-2,034	-2,061	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Invisibles	1,123	1,064	462	166	428	-506	144	200	417	1,078	1,656	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
BALANCE OF PAYMENTS (Cum. for the last 12 months, million \$)	334	171	-313	-1,481	-1,533	-2,369	-3,133	-3,250	-3,526	-4,192	-4,590	-4,723	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Current Account Balance	46,615	48,050	49,403	51,203	52,174	53,255	54,989	55,964	57,145	58,832	60,456	61,840	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Imports (CIF)	34,001	34,682	35,357	35,753	36,639	37,157	38,114	38,989	39,821	40,765	41,857	42,602	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Exports (FOB), excluding shuttle trade	-12,614	-13,368	-14,046	-15,450	-15,535	-16,098	-16,875	-16,975	-17,324	-18,067	-18,599	-19,238	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Foreign Trade Balance	6,420	6,809	6,823	6,831	6,873	6,581	6,574	6,606	6,557	6,493	6,554	6,988	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Invisibles	-3,982	-3,498	-707	1,406	3,656	5,157	4,119	2,853	3,365	3,399	4,064	4,630	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Capital Flows*	1,301	1,038	922	862	873	841	771	741	517	482	484	312	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Net Direct Investments	-1,818	-1,115	-707	-590	-15	176	-606	-1,500	-194	1,063	797	1,577	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Portfolio Investments	-3,685	-3,490	-848	1,134	2,798	4,140	3,954	3,612	3,042	1,855	2,786	2,747	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Net Other Investments	1,578	1,555	1,460	1,305	1,177	1,078	995	908	875	819	720	592	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Central Bank	-1,241	-1,099	-733	-669	-725	-740	-796	-831	-930	-1,115	-1,112	-1,674	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
General Government	-4,342	-4,555	-2,875	-1,372	161	1,092	2,814	2,620	2,351	1,425	2,563	2,819	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Banks	320	609	1,300	1,870	2,185	2,710	941	915	746	726	615	1,010	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Other Sectors	8,337	8,337	8,337	6,365	6,303	3,324	3,211	2,758	2,719	2,602	1,387	374	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
IMF Credits (net)	827	1,289	317	-137	-668	-1,434	-405	-201	998	2,488	2,891	3,079	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Net Errors and Omissions	-5,516	-6,299	-7,634	-6,153	-7,758	-4,678	-3,792	-2,160	-3,556	-4,297	-3,752	-3,360	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Reserve Assets**	30.8	42.6	38.0	52.3	28.5	35.8	44.0	23.1	27.5	43.0	35.4	31.6	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
FOREIGN TRADE (annual % increase)	23.8	24.2	23.8	14.9	33.9	21.7	32.8	31.7	27.9	34.1	35.2	25.1	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Imports	0.8	6.0	9.2	9.6	13.3	15.5	11.9	9.8	9.5	5.8	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Exports	1.4	5.4	6.1	4.9	8.7	12.0	11.8	13.1	13.9	13.0	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Price Index (1994=100)	26.4	30.2	21.2	37.4	17.1	20.2	40.9	15.2	21.5	47.7	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Imports	20.9	14.1	14.3	7.0	25.3	7.0	26.0	17.9	21.5	31.2	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Exports	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Quantity Index (1994=100)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Imports	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Exports	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

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

(**) Positive sign indicates decrease in reserves

(..) Not Available

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

	2003													
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	
MONEY SUPPLY (annual % change)														
Currency in Circulation	44.6	58.0	69.9	50.2	53.2	24.1	60.3	48.6	47.1	44.6	49.3	46.9	50.4	
Sight Deposits	21.1	30.9	26.1	23.6	34.0	31.4	2.6	34.0	13.0	19.5	45.1	29.2	30.3	
M1	31.1	42.7	44.1	35.8	42.5	27.7	27.3	41.0	27.9	31.1	47.2	37.5	39.8	
Time Deposits	32.5	33.5	32.3	31.4	27.9	26.8	26.3	21.2	23.8	26.1	25.6	30.8	31.5	
M2	32.1	35.7	35.1	32.4	31.1	27.0	26.6	25.5	24.8	27.3	30.6	32.4	33.5	
Foreign Exchange Deposits (TL)	17.6	12.6	12.8	27.4	35.9	27.9	30.5	22.2	7.2	-2.0	-9.3	-8.2	-9.0	
M2Y	23.7	21.9	22.4	29.6	33.6	27.5	28.6	23.8	15.5	11.3	8.2	9.8	9.9	
Repo	-15.1	5.6	-34.7	-1.1	-2.2	-4.4	9.3	-0.2	-27.3	-34.1	-30.1	-33.8	-12.1	
M2YR	22.2	21.4	20.4	28.8	32.5	26.5	27.9	23.0	14.2	9.9	7.1	8.4	9.4	
Official Deposits	93.2	90.0	98.8	-15.6	30.6	68.7	52.7	32.2	105.4	73.8	54.6	94.8	89.7	
Other Deposits With CBRT	28.3	94.7	41.7	3.4	110.1	228.8	40.7	189.7	251.2	91.7	221.5	-58.9	-36.4	
M3Y	24.6	23.4	23.8	28.3	34.2	30.5	29.2	25.3	18.7	13.1	10.0	10.0	11.0	
M2Y (trillion TL)	125,409	128,143	126,006	133,450	134,149	131,967	132,878	129,764	126,942	130,509	133,604	133,875	137,868	
Composition of M2Y (%)														
Currency in Circulation	5.1	5.3	5.8	5.4	5.1	5.7	5.9	6.0	6.1	6.6	6.9	6.8	7.0	
Sight Deposits	5.8	5.7	6.1	5.3	5.7	5.7	5.1	5.9	6.0	6.4	6.9	6.9	6.9	
Time Deposits	33.6	34.0	35.4	35.2	34.9	35.7	36.7	37.1	39.1	39.1	39.2	39.8	40.2	
Foreign Exchange Deposits	55.4	54.9	52.7	54.1	54.3	52.9	52.3	50.9	48.8	48.0	47.0	46.5	45.9	
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	
CREDIT STOCK (domestic, annual % change)	-4.3	-5.1	-3.6	2.5	9.2	10.2	19.6	20.0	12.7	20.6	21.6	29.7	31.7	
Deposit Bank Credits	-5.2	-5.9	-4.4	1.9	7.8	8.2	18.2	18.6	11.2	20.4	22.4	31.2	33.4	
Private	-7.2	-6.3	-6.8	-6.3	-4.4	1.1	-0.1	8.0	6.8	44.1	59.3	67.9	74.2	
Public	1.1	1.0	4.1	4.0	4.5	7.1	9.6	19.2	23.6	25.9	27.9	34.7	40.7	
Invest. and Develop. Bank Credits	5.5	4.3	6.0	9.5	27.3	34.6	37.5	37.8	30.4	22.6	14.1	15.1	15.1	
CB BALANCE SHEET (million \$)														
Base Money	6,145	6,405	7,634	6,344	6,800	7,327	7,027	7,679	8,629	8,971	9,651	10,024	10,305	
Net Domestic Assets	4,812	4,537	5,704	4,857	3,111	5,273	5,647	6,289	7,123	7,047	7,145	5,842	3,521	
Net Foreign Assets	1,333	1,867	1,931	1,487	3,690	2,054	1,380	1,390	1,507	1,924	2,506	4,182	6,784	
Net Position of Public Sector	12,662	12,777	14,458	14,567	14,101	15,328	15,687	15,918	15,804	15,863	17,130	14,975	15,084	
Liabilities Due to Open Market Operations	4,341	4,660	4,766	5,154	6,495	5,537	5,764	5,323	4,317	4,564	5,821	5,730	8,627	
THE CENTRAL BANK RESERVES (billion \$)	25.1	25.5	26.0	26.7	26.7	27.7	26.7	27.0	28.5	28.8	29.0	29.8	33.9	
FOREIGN DEBT STOCK (billion \$)	127.5	..	..	131.2	..	..	133.2	..	..	137.9	..	..	..

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

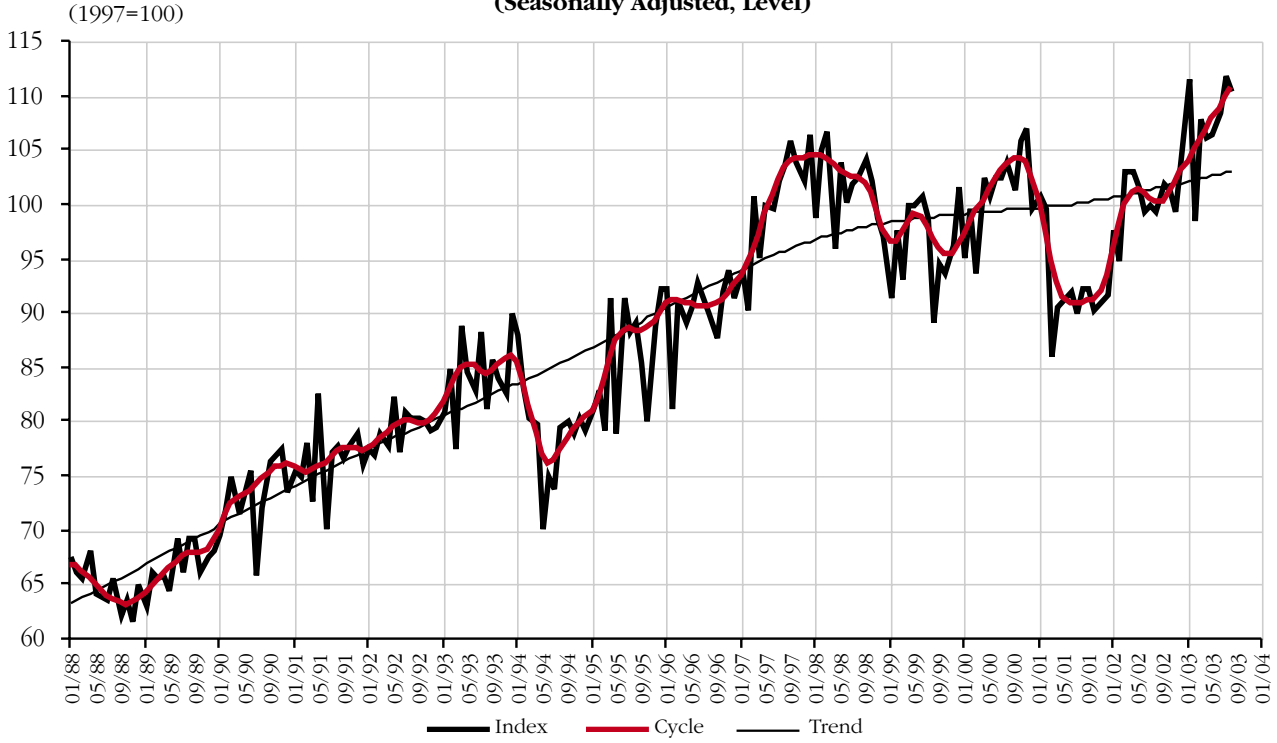
Net Domestic Assets= Net Position of Public Sector - Funds + Credits to Banking Sector+ Net Open Market Operations+Others+ FX Revaluation Account - Fund

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

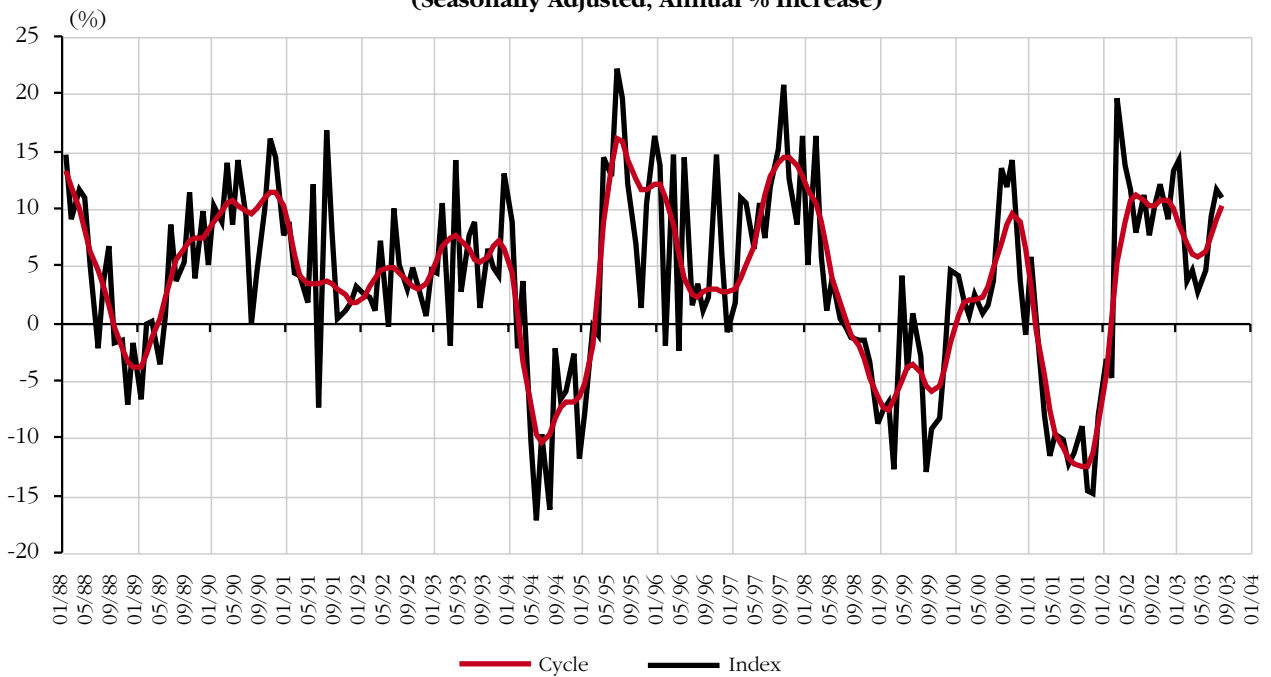
GRAPH 1

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Level)

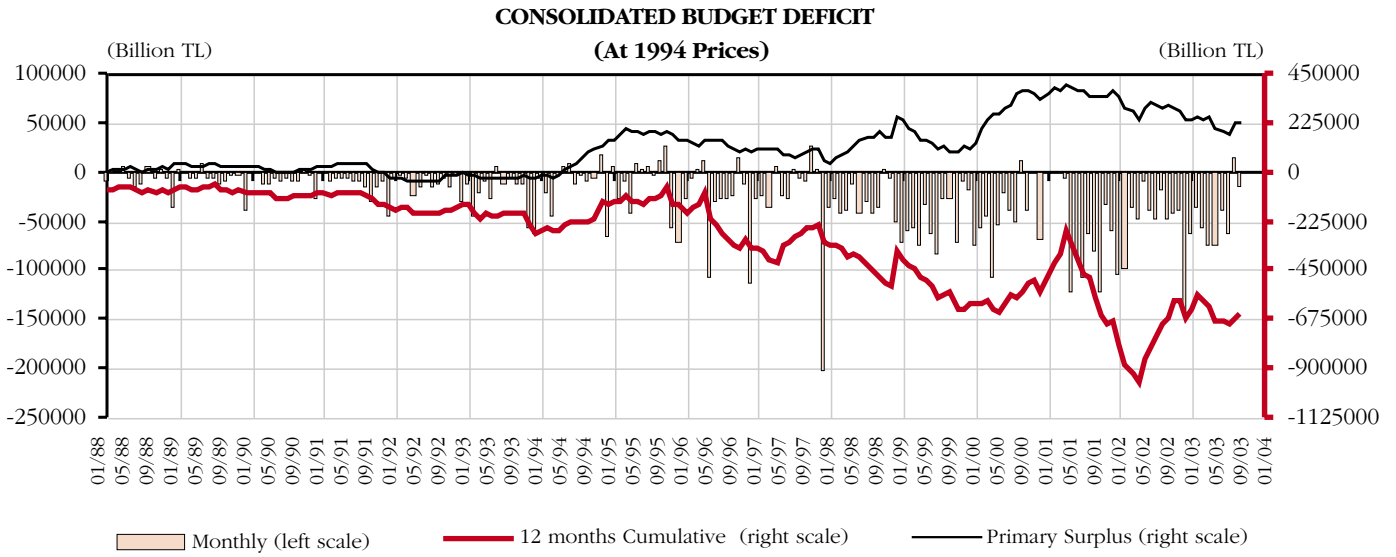


GRAPH 2

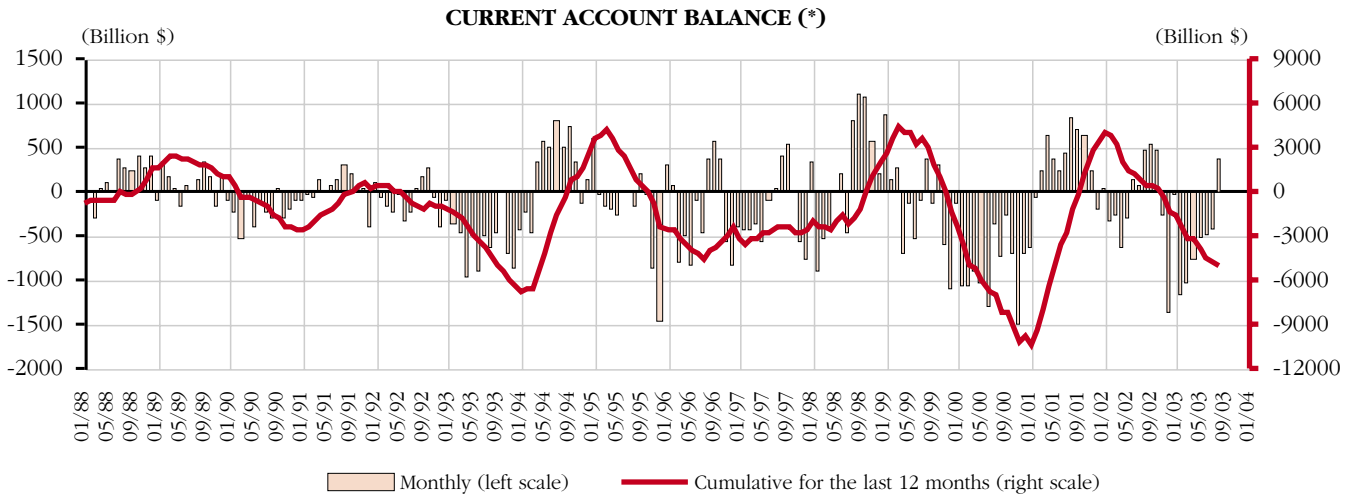
INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Annual % Increase)



GRAPH 3

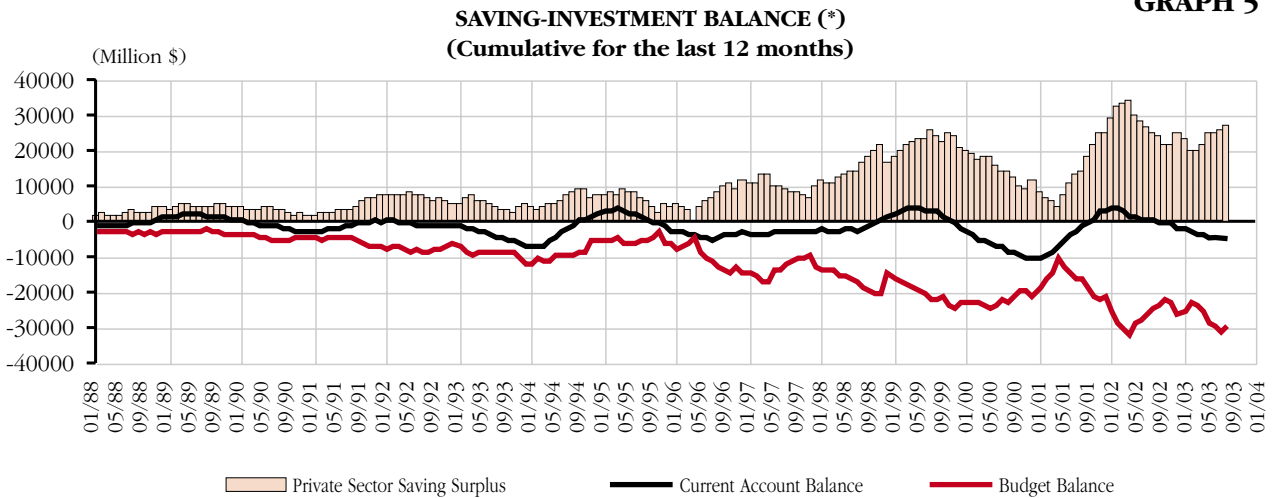


GRAPH 4



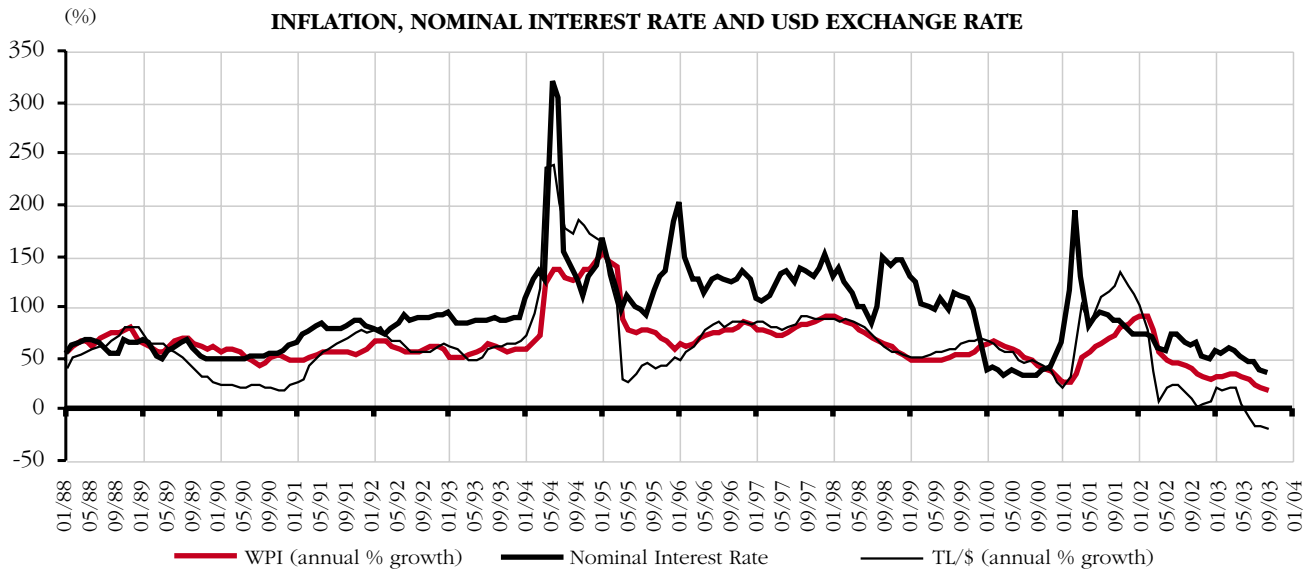
(*) Monthly figures include shuttle trade since 01/96

GRAPH 5

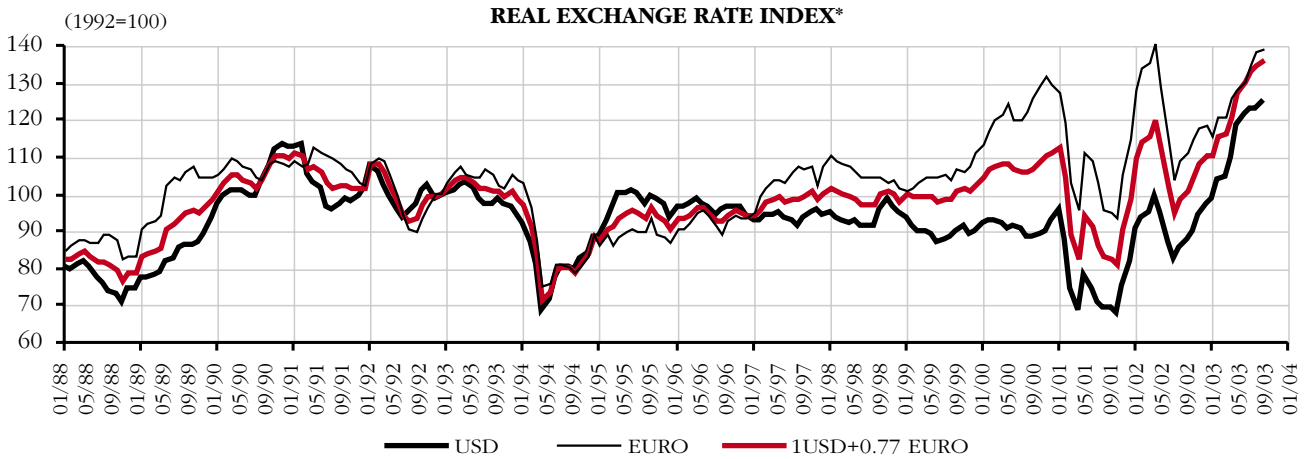


(*) Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

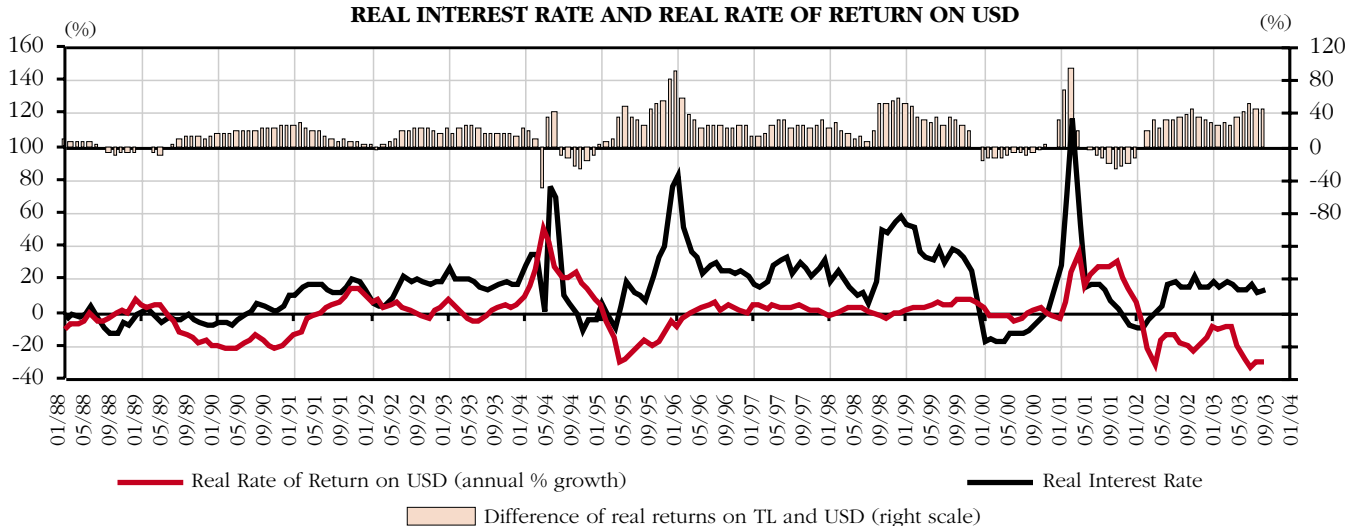


GRAPH 7

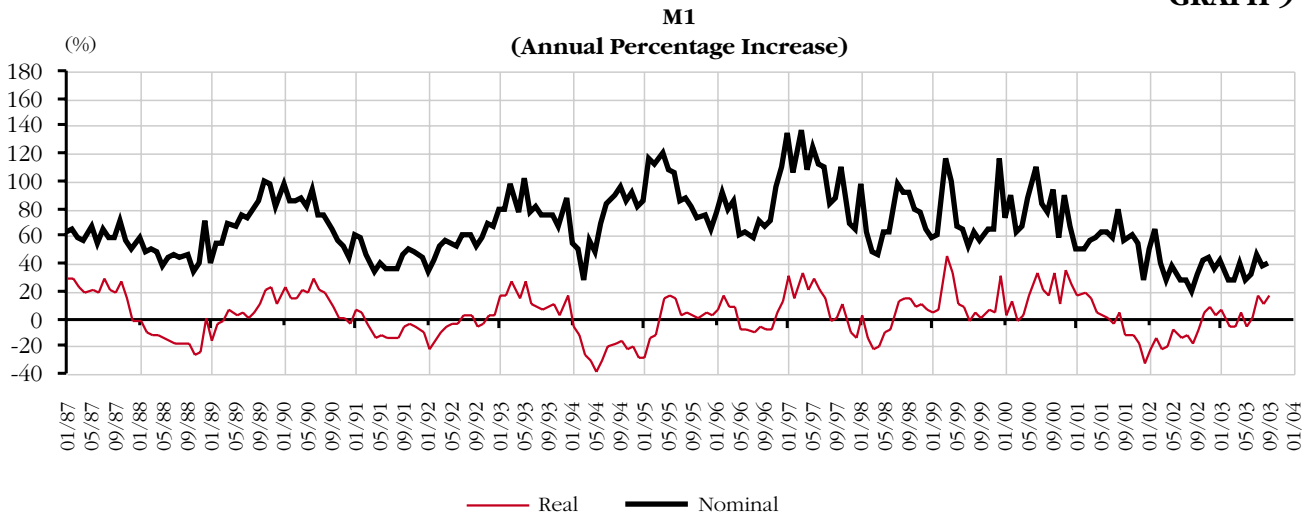


*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

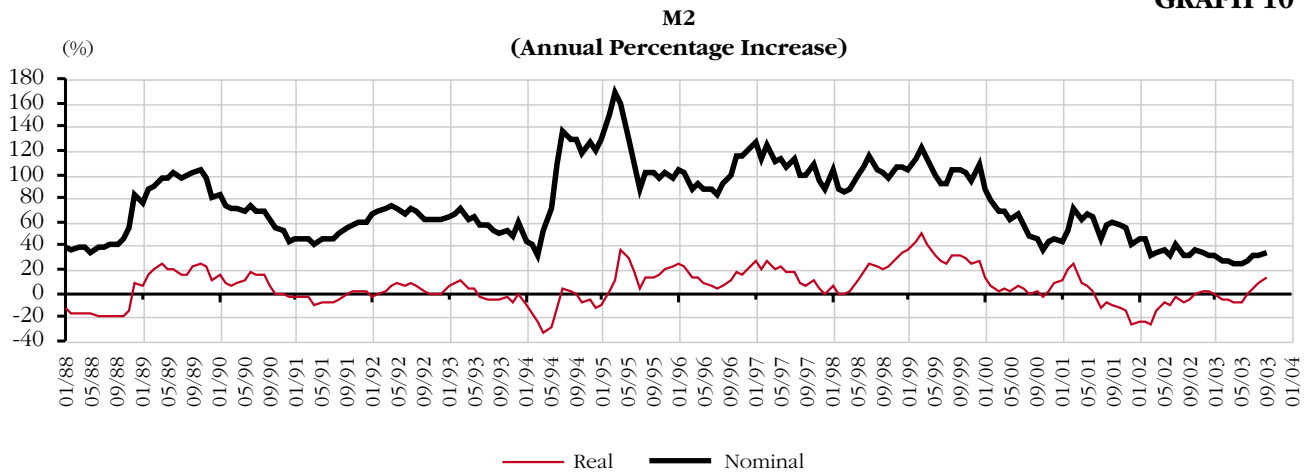
GRAPH 8



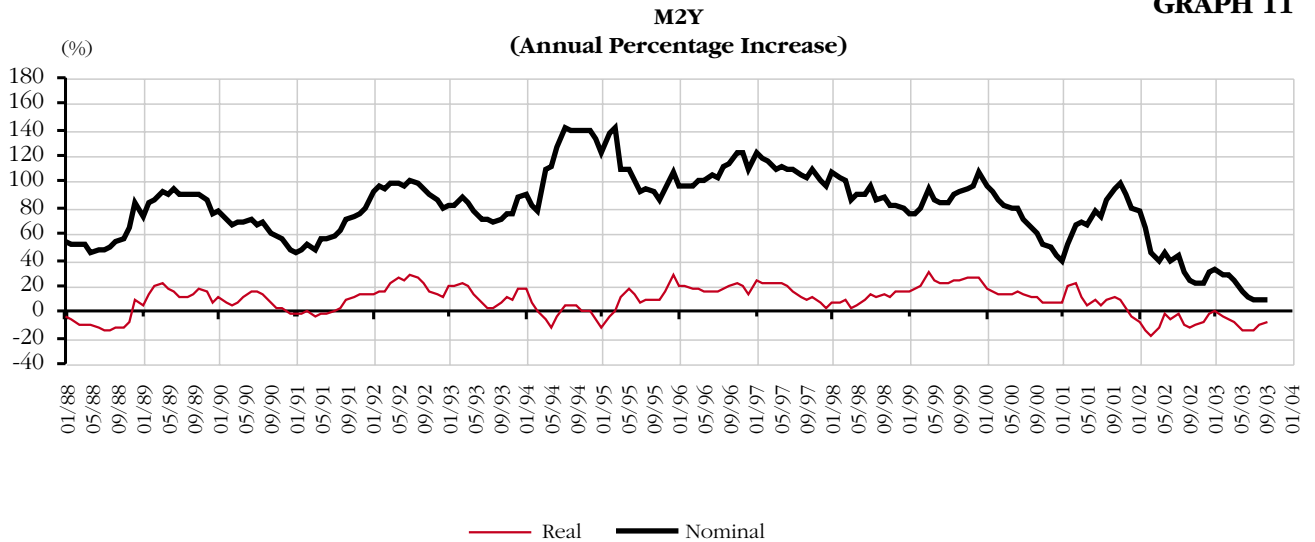
GRAPH 9



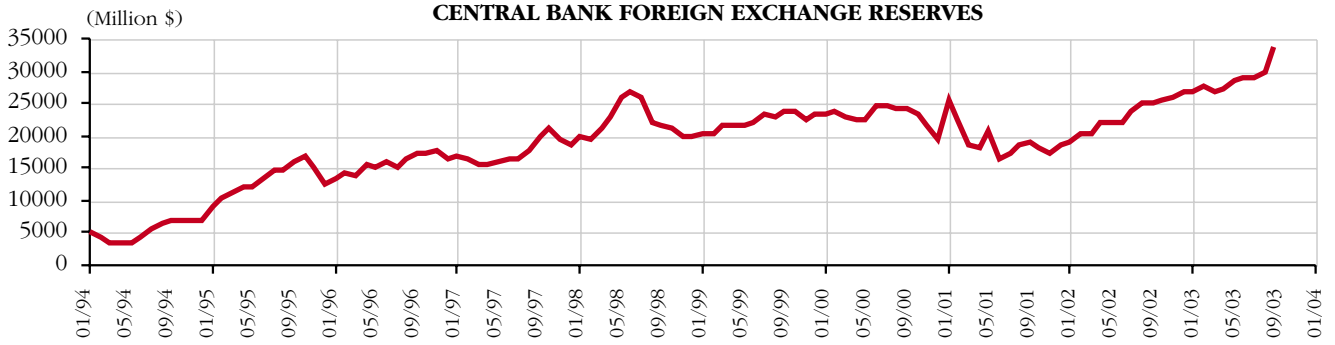
GRAPH 10



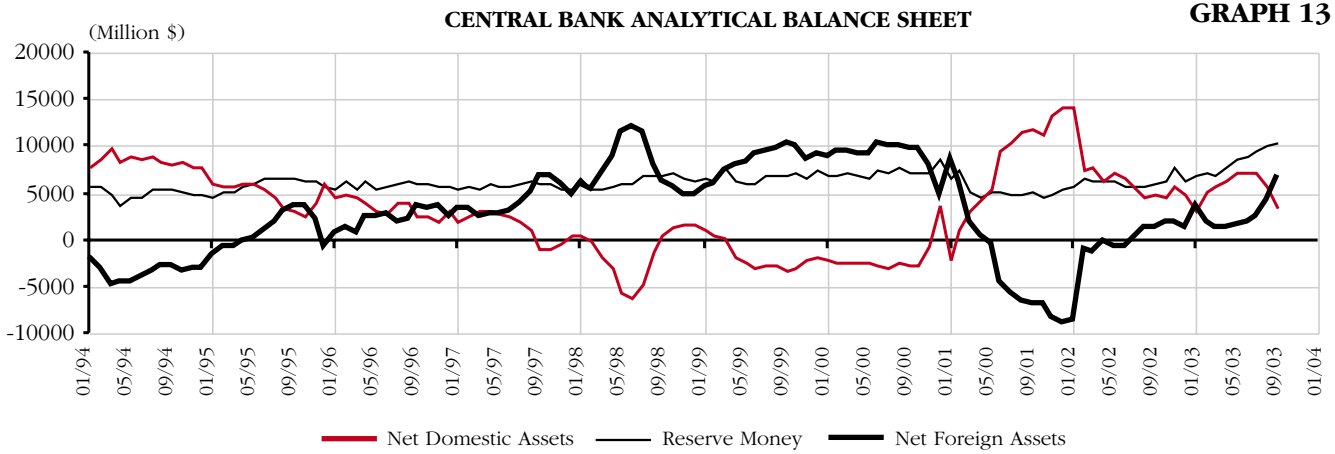
GRAPH 11



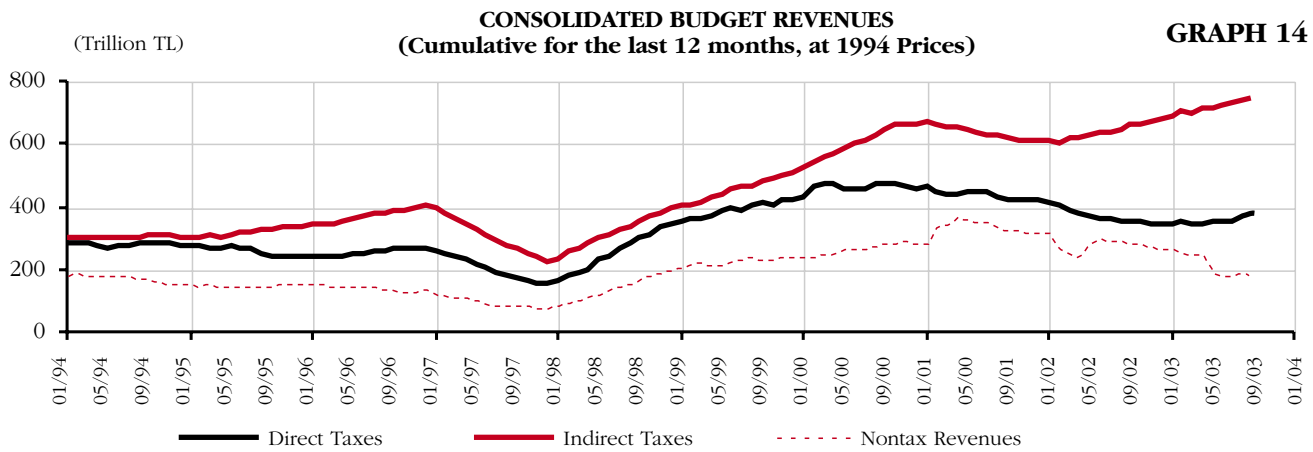
GRAPH 12



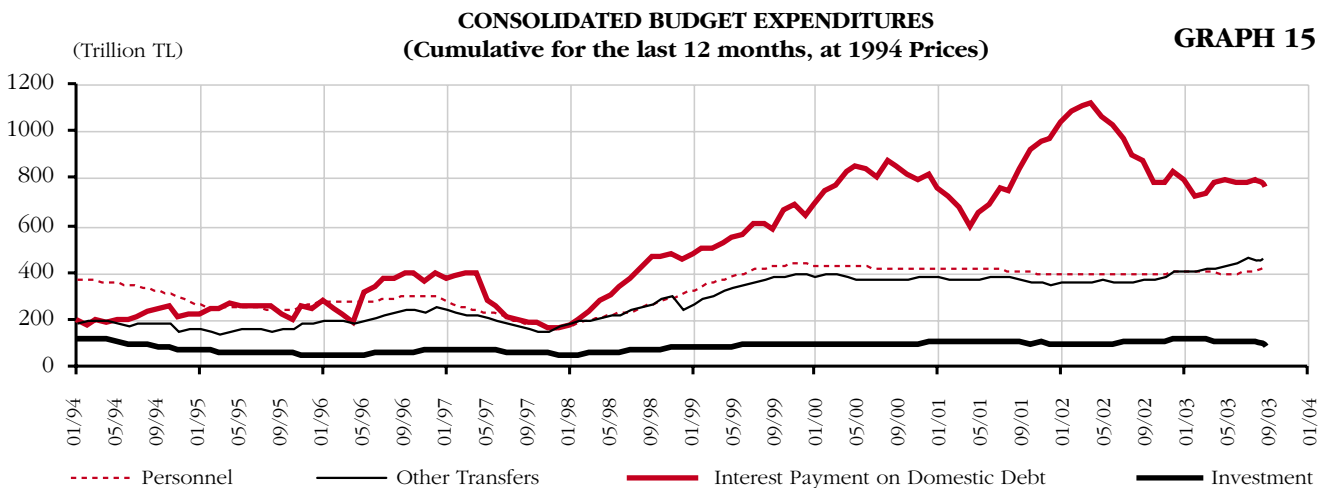
GRAPH 13



GRAPH 14

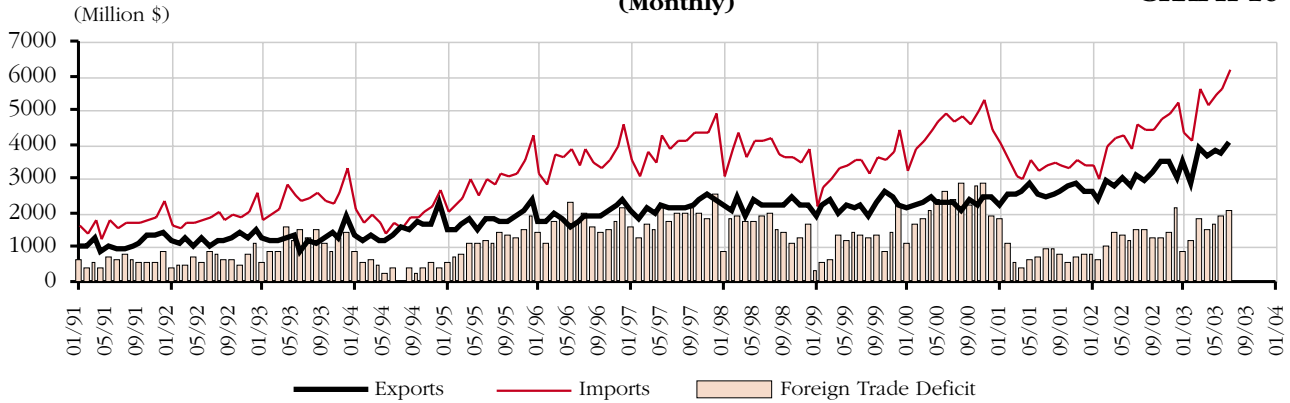


GRAPH 15



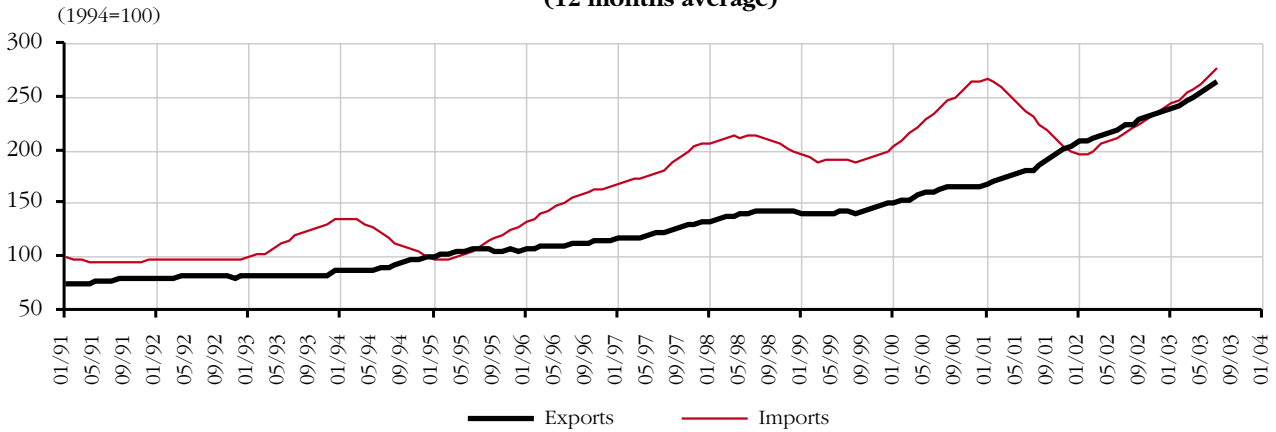
**FOREIGN TRADE
(Monthly)**

GRAPH 16



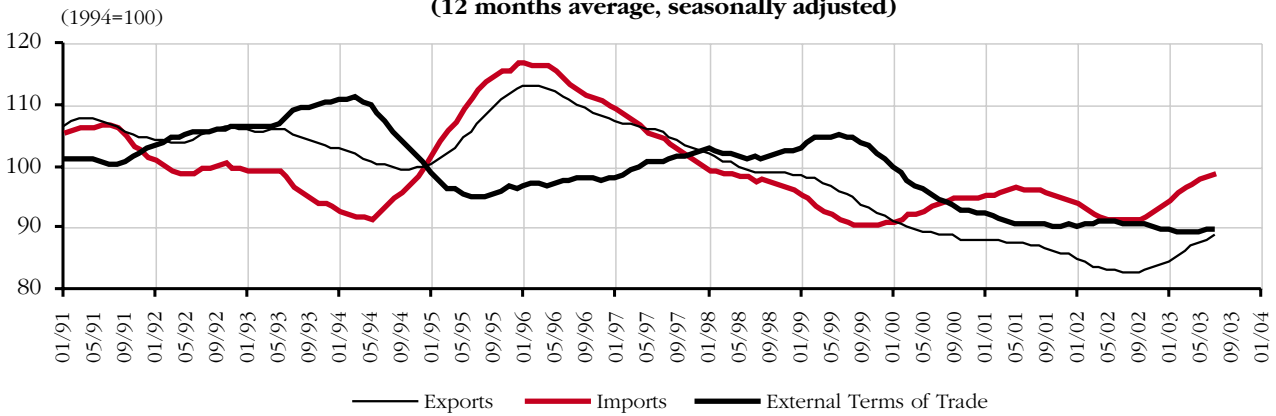
**FOREIGN TRADE QUANTITY INDEX
(12 months average)**

GRAPH 17



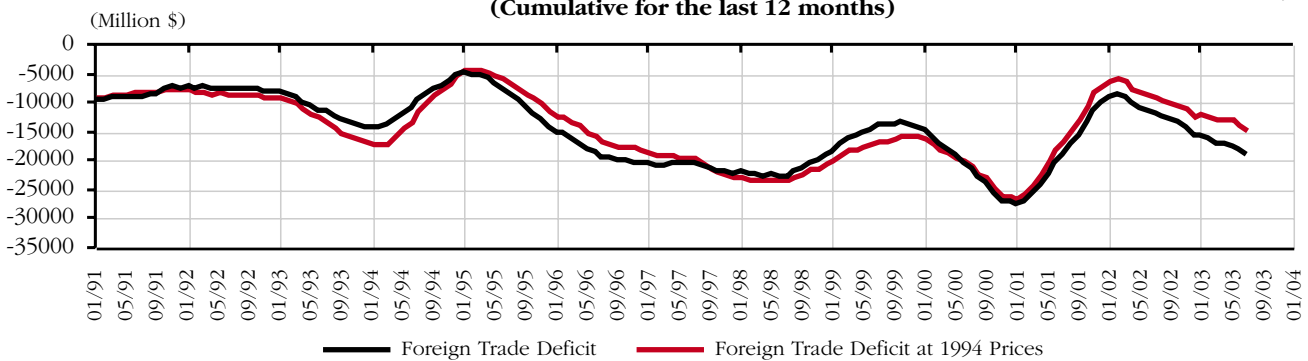
**FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(12 months average, seasonally adjusted)**

GRAPH 18



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

GRAPH 19



TÜSİAD QUARTERLY ECONOMIC OUTLOOK

TÜSİAD MACROECONOMIC SCENARIO (Quarterly and yearly average)

	2002				2003				2004				Govern. Program	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Annual
INCOME and PRICES														
GNP (1987 prices)*	0.4	10.4	7.9	11.5	7.8	7.4	3.7	6.3	5.4	3.5	5.0	5.6	4.3	4.7
GDP (1987 prices)*	2.1	8.9	7.9	11.4	7.8	8.1	3.9	6.2	5.2	3.3	5.1	5.8	4.5	4.8
Inflation (WPI)*	86.7	51.2	43.5	33.2	50.1	33.7	32.8	22.4	17.8	9.9	10.2	14.9	13.5	12.1
Inflation (CPI)*	70.3	47.0	39.5	31.6	45.0	27.6	30.0	25.1	19.8	15.6	13.6	16.0	14.5	14.9
Reserve Money*	53.6	45.1	42.8	46.2	46.6	44.6	36.9	41.5	29.0	24.0	20.0	21.0	21.0	21.5
CONSOLIDATED BUDGET														
Budget Revenues (trillion TL)	15,028	20,793	19,583	20,997	76,400	20,364	24,325	27,061	27,800	25,000	27,000	30,000	31,000	113,000
Budget Expenditures (trillion TL)	27,663	26,032	26,287	35,503	115,486	31,253	38,195	32,127	39,900	40,000	34,000	42,000	46,000	162,000
Budget Balance (trillion TL)	-12,636	-5,239	-6,704	-14,507	-39,085	-10,889	-13,870	-5,066	-12,100	-15,000	-7,000	-12,000	-15,000	-49,000
Interest Expenditures (trillion TL)	16,540	11,925	10,857	12,549	51,871	15,787	19,066	11,712	14,000	21,000	14,500	18,000	16,000	69,500
Budget Balance (billion \$)	-9.3	-3.7	-4.1	-9.0	-26.0	-6.6	-9.2	-3.6	-8.1	-9.7	-4.5	-7.8	-9.1	-31.1
Primary Surplus (over GNP, %)					4.7					5.2				4.9
Budget Balance (over GNP, %)					-14.3					-11.7				-11.6
EXCHANGE RATES														
Nominal Exchange Rate (TL/\$)	1,353,699	1,410,648	1,643,660	1,612,151	1,505,039	1,645,316	1,507,181	1,388,275	1,500,000	1,550,000	1,550,000	1,530,000	1,650,000	1,570,000
Nominal Exchange Rate (TL/€)*	69.7	18.9	17.6	6.1	22.8	21.5	6.8	-15.5	-7.0	-5.8	2.8	10.2	10.0	4.0
Real Exchange Rate (TL/\$)(1999=100)**	121.3	121.1	108.9	121.1	118.1	127.4	147.4	161.2	155.8	156.3	162.8	169.7	162.2	155.2
Real Exchange Rate (TL/€)*	0.4	23.7	18.6	24.1	15.7	5.0	21.7	48.1	28.7	22.7	10.5	5.3	4.1	10.0
Nominal Exchange Rate (TL/€)	1,186,136	1,299,433	1,616,606	1,615,321	1,429,374	1,766,431	1,708,772	1,558,591	1,750,000	1,800,000	1,770,000	1,730,000	1,850,000	1,787,500
Nominal Exchange Rate (TL/€)*	61.7	25.4	29.8	18.8	30.7	48.9	31.5	-3.6	8.3	1.9	3.6	11.0	5.7	5.4
Real Exchange Rate (TL/€)(1999=100)	120.6	114.6	96.4	105.3	109.2	103.3	113.2	125.1	116.4	117.2	124.2	130.7	126.0	118.0
Real Exchange Rate (TL/€)(1999=100)*	5.3	17.3	7.4	10.8	10.1	-14.3	-1.2	29.7	10.6	13.4	9.7	4.5	8.3	8.8
€/ \$100	87.6	92.1	98.4	100.2	94.6	107.4	113.4	112.3	116.7	116.1	114.2	113.1	112.1	113.9
GOVERNMENT SECURITIES AUCTION														
Nominal Int. Rate (compounded, %)	72.8	62.9	67.0	55.9	64.6	57.3	52.3	40.6	29.0	30.0	29.0	28.0	25.0	28.0
Real Int. Rate (compounded, %)	1.5	10.8	19.8	18.5	13.6	23.2	17.2	12.4	7.7	12.5	13.6	10.3	9.2	11.4
FOREIGN TRADE and CURRENT ACCOUNT														
Imports (cif) (billion \$)	10.4	12.4	13.5	15.0	51.2	14.1	16.3	18.2	19.0	16.5	17.5	18.5	20.0	72.5
Exports (fob) (billion \$)	7.9	8.5	9.3	10.1	35.8	10.3	11.2	12.2	13.0	11.5	12.5	13.7	14.8	52.5
Foreign Trade Balance(fob-cif) (billion \$)	-2.4	-3.9	-4.2	-4.9	-15.5	-4.0	-5.2	-6.0	-6.0	-5.0	-5.0	-4.8	-5.2	-20.0
Invisibles (other current) (billion \$)	1.9	3.1	5.3	3.7	14.0	1.6	3.3	6.4	3.2	3.0	3.5	4.4	3.7	14.6
Current Account Balance (billion \$)	-0.6	-0.8	1.1	-1.2	-1.5	-2.2	-1.9	0.4	-2.8	-2.0	-1.5	-0.4	-1.5	-5.4
Imports (cif)*	-3.9	25.7	29.8	44.3	23.7	37.4	31.8	35.2	27.1	15.9	6.8	1.6	5.3	6.9
Exports (fob, incl. shuttle trade)*	8.4	5.6	21.0	21.1	14.1	29.8	31.1	31.7	29.1	12.0	12.0	12.3	13.8	12.6

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 WPI and CPI for 2003 are 1.7% and 19% respectively. Projections for 2004 are 12.4% and 14% respectively.

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