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The Big "Bend"

"I find nothing more depressing than optimism".
Paul Fussell

Summary And Conclusion

Due to the favorable developments during the second half of the year, marked improvements in all economic indicators and expectations have been experienced.

As a result of the rigid fiscal and monetary policies enforced within the economic program, which were complemented by a state of increasing confidence, 2003 has been a year in which significant gains have been realized regarding economic stability, structural reforms and growth. While inflation has declined past the 2003 target of 20%, down to 18.4%, it has become apparent that growth may turn out to be above the targeted 5% level. The industrial and trade sectors have propelled this growth. Exports have neared the $50 bn. mark and despite currency appreciation the trade and current account deficits have turned out better than feared. While the Turkish Lira has gained value, nominal and real interest rates have receded, bringing about a rapid increase in efficiency, which in turn has improved competition; capacity utilization has reached historical highs in some sectors and industrial production has shown a robust performance. The decrease in the debt ratio has alleviated economic fragility by giving room for activity and therefore increasing confidence and expectations. The economic improvements, however, have not affected the labor markets in the least bit; conversely, along with a continuing decline in real wages, employment opportunities have failed to expand, leaving the problem of unemployment in its grim state.

The government should give reassurance that the rigid fiscal policy for 2004 will be reinforced by public sector reform.

The most important leg of structural reform is public sector reform. What lies in the heart of this reform is the strengthening of the free market's legal and institutional framework; a more effective resource allocation mechanism by limiting political intervention and influence in the economy; and, contraction of the operational field of the public sector and its restructuring according to the principle of efficiency. The noteworthy stances made in 2003 regarding the public procurement law, determination and removal of idle civil personnel, restructuring of SEEs along lines of efficiency, and disciplining of government expenditure should continue just as resolutely in 2004. In other words, the government's desire for Turkey to attain a trend of evolution in accordance with the times that will, through sustainable growth, bring an increase in wealth to all should be maintained in 2004, as well. Appropriately, public sector reform is also perceived both domestically and abroad as a significant change in the political mentality that made the last decade so economically barren and unpleasant for Turkey.

As of 2004 Turkey has attained the opportunity to enter a path of stronger growth.

Due to having over-passed the targeted growth levels, the positive economic climate that came in 2003 - thanks to the enforcement of tight fiscal and monetary policies - will get even better in 2004.

Structural reforms and improvement in economic indicators has allowed the economy to approach its potential output level. In addition to this, as of 2004 Turkey has encountered a windfall created by the optimistic outlook resulting from trends in the primary global economies. The "opportunity to enter a path of stronger growth" is especially valid for the manufacturing industry. What is desired for 2004 and onwards is for the manufacturing industry, which during the past five years has targeted foreign markets and has gained great experience and market shares, to reach a production capacity sufficient to cover both domestic and global demands. Therefore, it is important that the cost advantages of the past stemming from the weak exchange rate and lagging real wages should be made more permanent by fresh investments focused on improving competitive strength. If it is considered that along with the positive trend in domestic demand, the liveliness of foreign demand will continue into the next year, then we predict that the private sector will in the coming period venture toward efficiency-inducing investments.

In 2004 there are several critical obstacles concerning the Turkish economy whose possible outcomes should be carefully considered.

The sizeable debt payments in the first months of 2004, the municipal elections at the end of March, the stretch of negotiations regarding Cyprus intended to be resolved by May, the potentially high inflation rates that may occur in the summer months due to the base year effect, the progress report expected to be disclosed in November, and lastly, the EU talks that will occupy the agenda at the end of the year can all be listed as critical factors with respect to the Turkish economy in 2004. In spite of the favorable climate encountered in 2003, mainly due to tight fiscal and monetary policies, the situation in 2004 can turn out to be one in which such political turbulences may cause the inflation and interest rates to revert to an upward movement, initially being sparked by a reversal in the stably appreciative trend in the exchange rate. In this respect, for the economic achievements of 2003 to continue in 2004, the above-mentioned critical events will have to have favorable outcomes. We expect the government to sustain its conscientious policies for such crucial matters as EU membership and the IMF program in the year 2004, as well. Provided that all economic and political variables are harmonized into an equilibrium, 2004 growth in the Turkish economy can easily pass the 5% mark and end-of-year inflation may drop under 12%

I. Global Economic Outlook

The growth in the global economy is expected to strengthen even more in 2004.

The global growth that was backed by private consumption and expansionist economic policies in 2003 is predicted to accelerate in 2004 due to an expected invigoration in investment. The recent improvement in the global economy has primarily resulted from the propitious inclination of the U.S. economy and the growth dynamics in Asia to which Japan began to contribute more recently. Despite this overall improvement, the dual deficit in the U.S. economy has begun to emerge as a risk factor concerning the global economy. Additionally, the continuance of the Euro's appreciation against the Dollar may adversely affect the competitive advantage of the Euro zone, slowing growth somewhat. In light of these circumstances, Global and U.S. growth estimates for 2004 have been nudged up to 4.5% and 4.6%, respectively, whilst that for the Euro zone has remained unchanged at 2%.

The U.S. economy will continue to be the impetus of global growth.

The U.S. economy, which because of constrained private consumption grew less than expected in the final quarter, has had an overall growth rate of 3.1% for 2003. The U.S.'s trade deficit neared $500 bn. in 2003 and led to the Euro's strong rally against the Dollar. In the case that deficit spending isn't curtailed, long-term interest rates are expected to be pulled up substantially. Due to the weak recovery of France and Germany, growth in the Euro zone has averaged merely 0.4% for 2003, and it certainly wasn't helped by the Euro's 20% overvaluation against the Dollar. Despite the healthy rise in stock prices and the presence of overall confidence, frigidity in investment has prohibited Europe from being in tune with the global growth trend. The postponement of structural reforms -mostly concerning France and Germany- resulting from the density of EU-candidacy matters shows that economic revival here can only begin as of 2004. The fastest growing economy in the world, China, has grown 9.1% in 2003, and together with the very fit U.S. she will continue to support the Japanese economy. Since the loss of pace during early 2003 has been

(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.*

remedied, the Asian zone, save for Japan, has reverted to its high growth path, greatly impelled by net exports.

II. Output And Inflation

During the 3rd quarter, annual GNP growth has been under expectations at 4.9%.

In the 3rd quarter, the Turkish Lira has appreciated 8% over the previous term and through late September it fell to 1,380,000 TL/$. In the same period the ISE-100 index has risen 7% and nominal interest rates in the secondary market have fallen to 35%. Also, total unemployment has dropped slightly under the previous year's to 9.4%. The manufacturing industry has employed 1.3% more than in the previous year and labor productivity has increased 8.0%. The real income per worker index (2002/3 to 2003/3) has been 8.5% under the previous year's. Thus, compared to the same period in 2000, real wages in the first nine months of 2003 are 26% lower.

Again, the source of GNP growth in the 3rd quarter has been a product of the pleasant state of the industrial and trade sectors.

The sectors which contributed the most to the 4.9% in the 3rd quarter were, in order of importance, industry, trade, transportation, and communication. The continuation of the export-oriented industrial production since last year has allowed this sector to expand 8.1% annually in the 3rd quarter and contribute two whole percentage points to GNP growth. Taking into account the Central Bank's calculations regarding periodic movements, it can be surmised that industrial production will continue to be the weightiest contributor to growth in the subsequent periods. The agricultural sector has shrunk 1% annually in the 3rd quarter; however, since this sector is expected to realize positive growth as of the 3rd quarter and contribute one percentage point to GNP growth, the estimates for this latter figure have deviated slightly. Also, due to a biannual seasonal effect the agricultural sector may take away from growth when the entire year is considered. Especially when the 15% growth in the final quarter of last year is accounted, the base year effect may worsen the contraction in this sector.

The increase in industrial production has also helped both trade and transportation. Similarly, expanding import volume has kept marketing and distribution efforts busy, further boosting the latter two sectors. Imports have inflated 30% annually and its share of GNP has become 36%. Trade and transportation have grown 7% and 8%, respectively, in the first quarter of the year to contribute 1.6 and 0.9 percentage points to total growth. The industrial spree has heightened the need for imported intermediate goods, and net exports notwithstanding, tax revenues have benefited. Import duties have increased 27% in the 3rd quarter and make up 1.2 percentage points of the total growth.

The contraction of the construction sector is expected to persist through the final quarter.

On the downside, the construction sector has continued to shrink, by contracting 17% in the 3rd quarter. Because of the high growth in the last quarter of last year, the base year effect is likely to make this sector shrink 15% again in the final quarter of this year. Taking into account trends in both state and private investment, construction in the short-term will fail to make a positive contribution to growth. Affirmably, national accounts show that 70% of construction investments tend to translate into value added only after two or three years.

While the liveliness in durable consumer goods spending and private machinery investment at the beginning of the year has persisted through the 3rd quarter, the most striking stirring has been in food and beverage spending.

Private consumption has grown 5.6% and is responsible for the 3.4 percentage points of the total 3rd quarter growth of 4.9%. Under the sub-columns, food and beverage spending make the overwhelming contribution. Investment spending rose 0.4% in the 3rd quarter and only accounts for 0.1 percentage points of growth; in its sub-columns it can be seen that most of this is private spending for machinery and equipment. The demand for consumer durables can basically be attributed to the strength of the Lira. What explains investment in machinery and equipment is the great increase in industrial production and the resulting need for greater capacity. Government investment fell 17% due to cutbacks in spending, as required by the new fiscal discipline. Government consumption has been 1.4% lower. Exports, the driving force behind

GNP	2002		2003		2003	
			Q2	Q3	Q2	Q3
Sectors	*% change*	*Contr.*	*Annual % change*		*% point contr. to growth*	
- Agriculture	7.1	1.0	-2.8	-1.0	-0.2	-0.2
- Industry	9.4	2.7	4.4	8.1	1.4	2.0
- Construction	-4.9	-0.3	-14.5	-16.9	-0.7	-0.8
- Trade	10.7	2.4	6.0	7.0	1.4	1.6
- Transport. and Com.	5.4	0.7	5.8	7.9	0.8	0.9
- Financial Institutions	-7.1	-0.2	-8.5	-4.3	-0.2	-0.1
- Import Duties	23.0	1.1	20.5	26.7	1.1	1.2
- GNP	**7.8**		**3.7**	**4.9**		

Source: SIS

GDP	2002		2003		2003	
			Q2	Q3	Q2	Q3
Composition	*% change*	*Contr.*	*Annual % change*		*% point contr. to growth*	
Priv. Final Consum.	2.0	1.4	2.5	5.6	1.6	3.4
Govern. Final Consum.	5.4	0.5	-2.9	-1.4	-0.2	-0.1
Gross Priv. Fix. Cap. Form	-7.2	-1.0	11.9	9.8	1.8	1.1
Gross Pub. Fix. Cap. Form	14.5	0.9	-11.3	-17.2	-0.6	-1.0
Change in Stocks	---	7.0	---	---	4.3	2.1
Exports of Goods, Serv.	15.7	4.2	12.5	20.1	5.1	7.1
Imports of Goods, Serv. (-)	7.8	5.1	20.2	29.4	7.9	8.1
-GDP	**7.8**		**3.9**	**4.8**		

Source: SIS

production, have risen 16% over the same 9-month period of the previous year. As leading indicators point out, the recovery experienced in the U.S., Asia and Europe signals an increasing role for the export industry as a contributor to growth. Import figures show that along with the previously mentioned factors, domestic demand for consumer goods is behind the increase, and it is predicted that in accordance with the trend in domestic demand imports will rise further. Lastly, the problem of inventory movements, which was discussed earlier in detail, remains.

Inflation has continued to drop through the 3rd quarter and year-end targets have been surpassed.

Despite sharp rises in agricultural products during September and October and in food products since September, inflation rates have continued to fall and expectations have been met. Adjusted for seasonality, WPI and CPI monthly rates have been on average 0.6% and 0.7%, respectively, during the 3rd quarter. The depreciation of the TL to an average of 1,440,000 TL/$ between October and December as opposed to the September figure of under 1,380,000 TL/$ and the increase in the fluctuation rate from 1.2% in the previous quarter to 2.5% in the last have not had the inflationary effect that was feared, thanks to the situation in real wages and efficiency. In addition, the limited increase in energy prices has eased pressure on production costs. The general yearly appreciation of the Lira has had a beneficial effect on goods prices; though, services prices have declined a bit slower than hoped, mostly because of significant hikes in housing rents. As of December, annual WPI and CPI rates have actualized as 13.8% and 18.4%, respectively.

The downward trend in inflation during the latter half of the year has elevated hopes for 2004.

In the first half of 2003, increasing costs due to the Iraq Invasion and uncertainties thereof and climate-induced costs in agricultural and food prices put pronounced pressure on inflation rates. Alternatively, the waning of external disturbances, the harmonious application of fiscal and monetary policies to inflation targeting and the unthreatening lukewarm trend in domestic demand have all helped inflation to continue its downward trip. The Central Bank has indicated that in the next period it will continue to implement short-term rates as a primary policy tool keep on analyzing scenarios concerning the movement of factors affecting inflation. According to a Central Bank survey, year-end CPI is expected to be only 1.2 points above the 12% target.

In 2004 the success in fighting inflation is entirely dependent upon the Government's determination in sticking to the program.

The unison attained between fiscal and monetary policies is crucial to the struggle against inflation. For the sake of fiscal discipline, public sector price policies in 2003 were not hostile to the campaign against inflation. Because in 2004 a domestic demand capable of pushing production beyond the potential output level is unlikely, public finance will continue to be the dominant element determining inflation. In this respect, having raised the minimum wage and pensions above the previously designated inflation target of 12%, the Government seems to have ignored the incompatibility between its income policy and its monetary policy in favor of the former. Even though the present raises may not be too bothersome to the 2004 budget, its indirect effect on private sector wages may adversely affect prices and expectations relating to inflation may deteriorate.

III. Fiscal And Monetary Policies

In terms of budget performance, 2003 has been a bright year.

While during the January-December period a total of 100.2 quadrillion TL revenue was collected and 140.1 quadrillion TL - of which 58.6 quad. TL were interest and 81.4 quad. TL were non-interest payments - was posted under expenditures. Thus, an 18.8 quad. TL primary surplus was attained and the consolidated budget produced a 39.8 quad. TL deficit. Both the17.7 quad. TL revised target and the 17.9 quad. TL year-end target set by the IMF were achieved. In this respect, 2003 has been a successful year. Falling interest rates have enabled payments to remain within the target, hence, the budget deficit has turned out better than expected. Budget performance, which was the fundamental factor in the reviews with the IMF in 2003, will continue to be the cardinal indicator observed by the markets in 2004. However, the reality that the extra revenues collected and the economizing precautions that were taken were one-time deals rather than medium-term gains, has made the preparation of the 2004 budget somewhat problematic. Because the precautionary measures are limited, given the present structure of the public sector, budget performance in 2004 will be directly influenced by the determination shown by the Government to reform.

Despite the boost in tax revenues, the goal still wasn't met.

In 2003, the developments that bore the need for supplementary resources were due to unwarranted non-interest expenditures rather than the size of revenues. Indirect taxes -up 14% in real terms form last year - have constituted the main portion, 67%, of tax revenues, and 56.4% of total revenues; direct taxation accounted for only a third of all tax revenues. The intention of financing the troublesome budget through either raising tax rates or inventing new taxes in Turkey has been just the opposite of the recent global trend of reducing taxes and giving the economy a greater incentive. Due to the overestimation of inflation and the deflator, nominal GNP has come out smaller than predicted; hence, tax revenues, despite a real increase, have fallen short of expectations and point out the necessity of a more effective taxing mechanism.

Since other expenditures cannot be cut back any more, the extra 3.6 quad. TL burden created by the salary and pension raises above inflation can only be countered by an increase in indirect taxation. However, such additional taxation is not possible because there wouldn't be any breathing space left for the economy, nor an incentive to produce. Therefore, this dilemma centering upon fiscal discipline can only be dealt with by enhancing the effectiveness of the taxation system, bringing behind-the-counter-activity into the books and by enlargening taxation coverage.

Despite the budget deficit being kept under the target, non-interest payments have shown a real increase.

Following the inability of 2002's budget performance to meet requirements due to fiscal laxation, the expenditure increases in 2003 were planned to be kept restrained. In the year-end budget realization total expenditures have diminished by 3.6% in real terms. The most important factor constraining increases in nominal expenditure has been lighter interest payments, which were 6.8 quad. TL under estimates. Total interest payments, due to the recovery in the funds market, have been 58.6 quad. TL, while the other items under transfers - social security payments, tax rebates and agricultural subsidies have cost 15.9, 8.3, 2.8 quadrillion TL, respectively. As indicated in the fiscal supplement package announced by the Government, other current and investment expenses have remained cautious, whilst personnel expenses exhibited larger monthly raises, exceeding targets to reach 30.2 quad. TL. Total non-interest expenditures have in the first six months dropped 2.9 percentage points in real terms to end up at 34,6 quad. TL. In the full year, non-interest expenditures have risen 1.7 real points to reach 81.4 quad. TL, mostly due to the increase in tax rebates parallel to the expansion in exports, previously unaccounted agricultural subsidies and prices, the innate problem of bloating social security payments, and lastly, the slow pace in reforming the latter issue. Thus, conservationist effect must be supported by structural reform in order to permanently cure the budgetary ills.

CONSOLIDATED BUDGET	2002		2003			2004
(quadrillion TL)	Real.	Prog.	Real.	Prog.	Prog. (Rev.)	Program
REVENUES	**76.4**	**71.2**	**100.2**	**100.8**	**100.8**	**114.5**
Tax Revenues	59.6	57.9	84.3	86.0	86.0	99.0
Non-tax Revenues	16.8	13.3	15.9	14.8	14.8	15.5
EXPENDITURES	**115.5**	**98.1**	**140.1**	**145.9**	**142.3**	**160.9**
Primary Expenditures	63.6	55.3	81.4	80.5	83.1	94.7
Interest Payments	51.9	42.8	58.6	65.5	59.2	66.2
BUDGET DEFICIT	**39.1**	**26.9**	**39.8**	**45.2**	**41.5**	**46.4**
PRIMARY SURLUS	**12.8**	**15.9**	**18.8**	**20.3**	**17.7**	**19.8**

Source: Ministry of Finance

The public sector balance outside the consolidated budget is expected to produce a surplus.

Despite government prices picking up speed during June and July, the recuperation in the SEEs' balances was mostly a result of the TL's appreciation. The recession of the exchange rate has limited increases in state-controlled prices, among which fuel prices is the most significant. Also, the price revisions envisioned in the program for energy SEEs weren't made. Thanks to the downward trend in the exchange rate the limited raises haven't upset the SEEs' balances, on the contrary, they've augmented the harmony of the fiscal and monetary policies, as required by the anti-inflation campaign. While the ratios of 2003's consolidated budget deficit and primary surplus to the GNP were, respectively, 11.1% and 5.3%, other public sector balances are expected to give a 2.7% surplus and the overall deficit is expected to come to 8.4% of the GNP.

There is a betterment in the Treasury's borrowing costs.

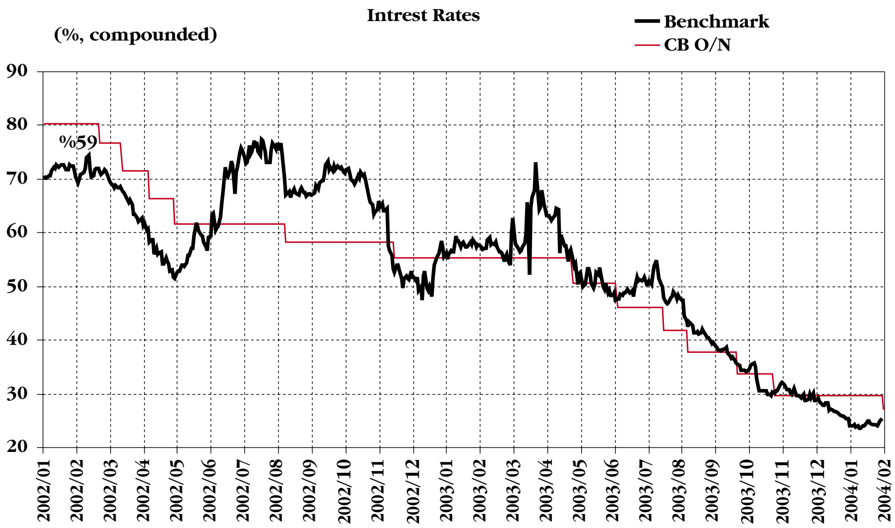
In 2003, the optimism in the market and of investors has reduced average costs and internal borrowing terms have moved correspondingly to changes in risk premiums. As opposed to the Treasury's borrowing conditions of an average 251 days maturity at an average 62.2% compound rate in 2002, the Treasury enjoyed an improvement in 2003 with an average 293 days maturity at 46,4% compound interest. Seen in monthly terms, the passing away of the uncertainties pertaining to the war in Iraq has initiated a rapid declination in interest rates. The average compound interest rate reached 28% by December's end. The public debt stock, which in 2002 was 149.9 quad. TL, rose 44.5 quad. TL to become 194.4 quad. TL ($136.6 bn.) in 2003. In terms of foreign exchange vs. interest, the composition of the public debt stock is as follows: 35.3% is in fixed interest, 42.8% is in floating rate, and 21.9% are foreign exchange linked-denominated securities. Thus, the 64.7% portion excluding fixed interest is open to exchange rate and premium risks. The section of the internal debt stock dependent upon the borrowing rate, the exchange rate, and inflation is considerably large, while fixed interest portion is short in maturity; this causes the short-term debt service to come out quite heavy. If stability issues in the economy are persistent, the current fragile state may have an adverse affect on inflation expectations. Apart from these, the consolidated budget's foreign debt in 2003 has shown an increase amounting to $6.8 bn. to reach $63.4 bn. as of December. The Treasury's direct responsibility has, then, just passed the $200 bn. mark. This burden, needless to say, continues to be a barrier delimiting the recuperation in economic fundamentals. However reconciling currency appreciation may be regarding the debt stock, in order to gradually reduce interest rates, given the delicate nature of debt dynamics, the Government must adhere to its rigid fiscal policy and also further the structural reforms.

The maintenance of fiscal discipline and consistency in structural reform have greatly accentuated the effectiveness of monetary policy.

Such basic structural reforms as the statute change safeguarding the autonomy of the Central Bank and the radical measures taken in order to create a healthy banking system have been much steadier in 2001 and 2002 compared to earlier years; coupled with strict measures ensuring the continuance of fiscal discipline, these reforms have paved the way for economic stability, or at least, the hopes for it. The above feats have also, especially in the present period, enabled the monetary aspect of the current economic policy to be quite effective. Having conformed to the monetary criteria in 2002, the CB has during 2003 acted complacently to the monetary policy and has remained well within the boundaries set for the balance sheet. However, especially during October and November, the re-emergence of domestic demand has been supported by and satisfied with a substantial increase in emission, which was above the premeditated amount. This expansion in the monetary base has been hastened by upward tendency in consumer loans and credit card rates, which is a natural result of domestic demand. Fortunately, in a climate in which interest rates are descending steadily, this relationship between the monetary base and inflation is weakened in the short-term and the attainability of year-end targets hasn't suffered. With a reserved monetary policy, the CB has- also using the short-term rate as an effective tool- managed to keep inflation under the preset targets.

Minimum wage and pension raises have postponed the CB rate-cut.

The current economic program's monetary leg has been mounted in a framework that strengthens the Central Bank's influence over short-term rates and intends to have the exchange rate determined in the market according to supply and demand. In addition to monetary targeting, the CB has continuously made use of short-term rates as a policy tool. After the end of the war in Iraq in mid-April, the economy has entered a comfortable state and a relaxation in oil prices and the exchange rate has suppressed supply-side inflationary pressures. The present benign conjuncture has aided the Central Bank in reducing short-term rates in a controlled manner and in bringing optimism to inflation expectations. The CB has reduced short-term rates six times in 2003 to bring them to the 26% level. The underlying factors governing these rate cuts have been decisions



Source: CBT, ISE

regarding structural reforms and conformity to fiscal discipline. Despite initially frightening the market, the above-inflation wage and pension raises were later seen to lack the power to influence demand and were manageable given the size of the budget; the lack of threat allowed the CB to once more cut the borrowing rate, this time to 24%. In the coming period, the firmness of the belief in the continuance of the program and harmony in policies will not only enable the CB to further reduce the interest rate but it will also realize the desired relationship between these CB determined short-term rates and those in the secondary market.

MONETARY AGGREGATES	(quadrillion TL) Dec. 2002	Sep. 2003	(% change) Nominal	Real
M2YR (M2Y+R)	**136.2**	**149.9**	**%12.2**	**-%6.5**
M2Y	**133.5**	**152.9**	**%12.3**	**-%6.5**
M2Y	(composition)			
Currency in Circulation	%5.4	%6.8	%40.5	%33.3
Sight Deposits	%5.3	%7.6	%62.2	%53.9
Time Deposits	%35.2	%39.6	%26.5	%20.0
FX Deposits (TRL)	%54.1	%46.0	-%4.6	-%9.5

Source: CBT

The monetary structure is not able to keep up with the present economic growth.

In 2003, as opposed to M1 and M2 increases of 51.2% and 32.2%, respectively, the M2Y money supply expanded 12.3%. Foreign currency deposits, following a contraction especially in the 3rd week of March, re-expanded from then on and reached $48.9 bn. by December. Despite a yearly nominal increase of 10.2%, FX deposits have actually shrunk 4.6%, considering their conversion to the (over-)valued Lira. The M2Y is composed of 46.0% FX deposits, 39.6% time deposits, 7.6% demand deposits and 6.8% currency in circulation. When monetary holdings outside the banking system are included in the M2Y, the ratio of FX deposits falls to 29.5%. Following the sudden contraction in 2001, the financial sector entered a re-capitalization phase and but was expected to contribute to some of the growth. However, during the last two years, despite the rapid rejuvenation in economic activity, credit expansion hasn't been able to keep pace; therefore, growth has been constrained to some degree by the inadequate credit volume. Even though the banking sector may have been structurally reinforced to a large extent, the banking reform hasn't yet been completed and as of 2003 commercial banking still can't provide the necessary and desired credit volume. Important steps concerning the problems of the banking system have been taken as part of the structural reformation course; alongside falling interest rates and currency appreciation, these steps too have made the financial structure of the banking sector healthier in 2003. While the banking sector's assets have increased only a little, the weight of liquid assets has diminished; credits and securities have also been enlarged. Last year, bank loans - excluding financial sector loans - have shown a real growth of 28% over 2002, while total credit volume in the banking system has expanded by 25% in twelve months. Despite diminishing credit risks, the desired financing for credit expansion wasn't found. Consumer loans and credit card balances have enjoyed a 91% real growth, much faster than that for commercial loans.

Monetary Targets for 2003*	April	June	Sep.	Dec.
Net International Reserves (CBT+Treasury)	**-6,500**	**-7,000**	***-6,000***	***-2,000***
Realization	-5,996	-3,865	1,504	-536
Stock of Net Domestic Assets (CBT+Treasury)	***32,800***	***34,100***	***33,800***	***28,400***
Realization	*30,951*	*29,395*	22,968	25,997
Base Money	**12,800**	**13,200**	***14,100***	***14,900***
Realization	11,883	13,039	13,877	14,657

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

Italic: Indicative Targets Normal: Performance Criteria

Source : CBT

IV. Foreign Trade and Balance of Payments

The rise in domestic demand and the appreciation of the Lira hasn't seriously affected exports.

As a result of the appreciation in the real exchange rate from the beginning of 2003 to September, the TL has gained 27% value against the Dollar. Because of the continuous fall in real wages and the corresponding boosts in productivity, unit production costs have spiraled down and the loss of competitiveness associated with currency overvaluation has been compensated to a large extent. In past years, emphasis on exports was used as a substitute for weak domestic demand and was mostly centered around price competition. But the export success during 2003 shows that competitive advantages indifferent to and in spite of costs have been achieved. Especially after the end of the war in Iraq and upon completion of the 4th Review, exports picked up speed ignoring the nominally falling exchange rate. Also, as domestic demand became noticeably more pronounced, imports extended to include consumption and capital goods rather than just intermediate goods. In addition to the appreciated TL providing input and foreign borrowing advantages, the movement of the Euro/Dollar parity in the direction of the Euro has also benefited exporters, in that, 57% of the exports are in Euros and 58% of imports are in Dollars. This volume difference together with the parity has allowed what can be deemed as unintended arbitrage.

The real increase in exports, due to the improvement in the terms of trade, also translates in to favorable nominal values.

In the first eleven months of 2003 exports rose 29% to $42.4 bn. and imports 31% to $60.7 bn.; the trade deficit widened 37% to reach $18.3 bn. This trade gap has been limited to some degree due to the improvement in the terms of trade since 2002/4 as well as the trend in the Euro/Dollar parity. In a sectoral breakdown, the largest contributions to export volume come from motor vehicles, machinery and equipment, and raw metal production. When it is taken into account that these front-running industries also propel industrial production as a whole and because of their requirement for intermediate goods are responsible for much of the import demand, an inflationary pressure as a result of the trade gap should not be expected. To exemplify, there has hardly been any change in the composition of imports from last year: 73.3% are intermediate goods and only 15.4% and 10.7%, respectively, are capital and consumption goods. Furthermore, the ratio of exports to imports is, for the eleven months, 70%, which is a staggering 20 percentage points above the figure for the year 2000.

No trouble is expected in the financing of the Current Account deficit.

From January to October, the CA deficit has come out as $4.1 bn. The CA deficit, which is fundamentally congruent to the movement in the trade deficit, has been kept narrow thanks to an $8.2 bn. surplus from net services (mostly tourism) and current transfers amounting to $3 bn. The nightmarish $22.4 (not so much the actual figure as its ratio to GNP) trade deficit of 2000 is not expected in 2003. The unwavering progress in exports supports this belief by restricting the trade gap. Despite a recovery in the trade gap, the worsening of the services balance has been continuing since 2000. The problem in this item is that the net other trade services which amounted to $4 bn. in 2000 has since reached almost zero.

The net errors and omissions item has been the main source of financing.

The financing of the current account deficit of the first ten months has been easy. The $4.1 bn. deficit was counterbalanced by a $3.3 bn. capital inflow and a $4.1 bn. increase in the net errors and omissions section, which also added $4.5 bn. to international reserves. Most of the capital inflow has been in the form of portfolio investment, with $2.8 bn., which just a year ago was negative, with a $672 mn. outflow; there has been no change in direct investment. The other important contribution has been a $1.2 bn. reduction in the FX assets held by Turkish banks' foreign branches and $436 mn. increase in deposits owned by foreign banks but kept in Turkey. Since the August rally in the financial market, foreign portfolios have expanded; by December, foreign contribution to the ISE rose $5.2 bn. since the start of the year to reach $9 bn.; during this period total portfolio value too has risen about $5 bn.

Prospects For 2004

The present production phase and the growth state provide the opportunity to further the structural evolution.

Although Turkey has reverted to the growth path, following the recessions, potential output still hasn't been obtained. The ratio of investment to output, which has a historical average of 27%, is presently around 18%. Beginning with 2004, there is in the coming periods a very positive climate for both foreign and domestic investment. Provided that the emphasis on public sector does not wane and the economic program continues unfailingly, it is highly possible that from 2005 onwards inflation can take a single-digit form and real income per head in Dollar terms can rise rapidly. This process will be accentuated by a favorable outcome in the EU-membership negotiations in 2004. In a macroeconomic environment in which growth is accelerated, inflation and interest rates are dropping, the cost and difficulty of undertaking structural reforms is relatively diminished. The feasibility of these reforms will make it easier for the government to stick to them, thereby laying a better foundation for sustainable growth, regardless of the IMF's involvement. Three basic variables shape the expectations for 2004. In the macroeconomic scenario it has been assumed that the Government will continue its course of permanent stability policies.

TÜSİAD foresees a 4.8% growth in 2004.

In the 2004 primary scenario, the aforementioned political factors are expected to play out as desired. 2004 GNP growth is forecast as 4.8% and year-end inflation will only slightly exceed the target, with 12.4% for WPI and 13.5% for CPI rates. If the present environment of confidence and optimism is stretched to a longer term, real interest rates will average 8% annually and the TL will continue to gain value marginally less, with the year-end exchange rate being 1,560,000 TL/$. Assuming the continuance of fiscal discipline, which is most influential with respect to the macro scenario, additional saving measures will induce a budgetary primary surplus proportionate to 5% of GNP. Regarding the trade balance, exports will continue to expand and will become around $52 bn. worth, excluding shuttle trade; imports will reach $72.5 bn. Depending on the development in the invisibles, the current account deficit will fall to $6 bn.

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

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	13.7	14.6	3.4	5.3	2.8	3.8	9.8	10.2	9.3	11.2	12.7	3.9	..
Monthly % Increase	-3.5	0.0	-15.1	23.7	-4.8	5.1	2.0	1.2	-3.1	8.6	6.2	-11.2	..
Monthly % Increase (seasonally adjusted)	13.3	14.1	3.6	4.7	2.8	4.7	9.2	10.3	10.0	10.2	12.5	5.1	..
CAPACITY UTILISATION RATE (SIS, %)	76.5	74.9	71.9	78.3	75.9	78.7	80.1	80.0	79.1	83.5	80.4	79.6	80.0
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)													
Real Wage per hour (annual % increase)	-0.5	..	..	-1.0	..	..	-5.4	..	..	-3.9	..	..	..
Real Income per worker (annual % increase)	-2.2	..	..	-5.5	..	..	-10.7	..	..	-8.5	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	30.8	32.6	33.4	35.2	35.1	33.7	29.6	25.6	22.7	19.1	16.1	16.2	13.9
Monthly % Increase	2.6	5.6	3.1	3.2	1.8	-0.6	-1.9	-0.5	-0.2	0.1	0.6	1.7	0.6
Monthly % Increase (seasonally adjusted)	1.9	3.9	2.6	2.3	1.7	0.9	0.8	0.5	0.5	-0.3	-0.7	1.4	0.0
CONSUMER PRICE INDEX													
Annual % Increase	29.7	26.4	27.0	29.4	29.5	30.7	29.8	27.4	24.9	23.0	20.8	19.3	18.4
Monthly % Increase	1.6	2.6	2.3	3.1	2.1	1.6	-0.2	-0.4	0.2	1.9	1.4	1.6	0.9
Monthly % Increase (seasonally adjusted)	2.1	1.2	2.6	3.1	1.7	2.0	1.5	0.8	0.7	0.7	0.3	1.0	1.4
EXCHANGE RATE (CB buying rate)													
TL/US$ (monthly average)	1,592,258	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	1,422,198	1,471,458	1,426,420
Annual % Increase	10.0	21.8	20.0	22.9	23.2	6.7	-7.1	-15.5	-14.5	-16.6	-13.6	-7.9	-10.4
Monthly % Increase	-0.3	4.0	-2.2	2.5	-2.5	-8.4	-4.4	-1.5	-0.1	-1.7	3.7	3.5	-3.1
TERMS OF TRADE (SIS, 1994=100)*													
External (Export/Import)	88.7	88.2	89.1	90.3	90.3	89.7	91.4	91.4	90.8	93.9	..	..	..
Internal (Agriculture/ Manufacturing)	106.4	103.9	104.1	106.9	99.7	99.6	100.3	100.4	100.4	100.4	100.8	100.3	99.9
DOMESTIC BORROWING (weighted by sales volume)													
Compounded Annual Interest Rate (%)	50.6	57.4	54.3	60.1	58.2	51.7	47.0	46.9	39.0	36.8	30.1	28.9	28.9
Average Maturity (days)	274	282	245	303	276	333	308	287	299	370	350	315	370

(..) Not available

(*) Seasonally adjusted series are used in calculation

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

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
CURRENT ACCOUNT BALANCE													
(monthly, million $)	**-1,313**	**-8**	**-1,155**	**-1,060**	**-742**	**-559**	**-532**	**-310**	**267**	**303**	**59**	**..**	**..**
Imports (CIF)	5,370	4,382	4,101	5,725	5,187	5,509	5,710	6,246	5,960	6,174	6,535	..	..
Exports (FOB), excluding shuttle trade	3,242	3,528	2,919	3,898	3,656	3,855	3,791	4,230	3,820	4,089	4,741	..	..
Foreign Trade Balance	-2,128	-854	-1,182	-1,827	-1,531	-1,654	-1,919	-2,016	-2,140	-2,085	-1,794	..	..
Invisibles	164	427	-504	143	200	416	752	1,079	1,667	1,626	1,025	..	..
BALANCE OF PAYMENTS													
(Cum. for the last 12 months, million $)													
Current Account Balance	**-1,521**	**-1,518**	**-2,316**	**-3,107**	**-3,186**	**-3,458**	**-4,131**	**-4,514**	**-4,687**	**-4,901**	**-5,276**	**..**	**..**
Imports (CIF)	51,554	52,504	53,567	55,353	56,327	57,532	59,305	60,951	62,492	64,156	65,861	..	..
Exports (FOB), excluding shuttle trade	36,059	36,980	37,515	38,494	39,407	40,262	41,282	42,408	43,252	44,123	45,363	..	..
Foreign Trade Balance	-15,495	-15,524	-16,052	-16,859	-16,920	-17,270	-18,023	-18,543	-19,240	-20,033	-20,498	..	..
Invisibles	6,816	6,858	6,570	6,563	6,593	6,547	6,480	6,542	6,989	7,493	7,457	..	..
Capital Flows*	**1,375**	**3,657**	**5,090**	**4,223**	**3,008**	**3,741**	**3,776**	**4,568**	**5,209**	**8,516**	**6,322**	**..**	**..**
Net Direct Investments	863	862	824	753	717	503	443	471	322	263	-88	..	..
Portfolio Investments	-593	-18	173	-609	-1,502	-196	1,061	796	1,577	3,135	2,870	..	..
Net Other Investments	1,105	2,813	4,093	4,079	3,793	3,434	2,272	3,301	3,310	5,118	3,540	..	..
Central Bank	1,306	1,178	1,079	997	909	877	821	721	593	530	521	..	..
General Government	-669	-725	-740	-797	-832	-931	-1,117	-1,116	-1,681	-1,848	-1,951	..	..
Banks	-1,373	161	1,092	2,814	2,621	2,351	1,426	2,565	2,824	4,463	2,587	..	..
Other Sectors	1,841	2,199	2,662	1,065	1,095	1,137	1,142	1,131	1,574	1,973	2,383	..	..
IMF Credits (net)	**6,365**	**6,303**	**3,324**	**3,211**	**2,758**	**2,719**	**2,602**	**1,387**	**374**	**256**	**0**	**..**	**..**
Net Errors and Omissions	**-66**	**-684**	**-1,420**	**-535**	**-420**	**554**	**2,050**	**2,312**	**2,465**	**2,912**	**3,829**	**..**	**..**
Reserve Assets**	**-6,153**	**-7,758**	**-4,678**	**-3,792**	**-2,160**	**-3,556**	**-4,297**	**-3,753**	**-3,361**	**-6,783**	**-4,875**	**..**	**..**
FOREIGN TRADE (annual % increase)													
Imports	56.1	27.7	35.0	45.4	23.1	28.0	45.1	35.8	34.9	36.9	35.3	..	..
Exports	21.9	35.3	22.4	33.5	33.3	28.5	36.8	36.3	28.4	27.1	35.4	..	..
Price Index (1994=100)											**..**	**..**	**..**
Imports	9.6	13.2	15.5	11.9	9.8	9.4	5.8	5.7	7.5	2.9	..	..	..
Exports	4.9	8.7	12.0	11.8	10.5	8.4	8.3	8.6	8.6	9.1	..	..	..
Quantity Index (1994=100)											**..**	**..**	**..**
Imports	37.4	17.1	20.2	40.9	15.2	21.6	47.8	37.7	36.8	47.7	..	..	..
Exports	7.0	25.3	7.0	26.0	17.9	21.5	31.2	26.8	23.2	16.5	..	..	..

(*) 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

	2002	2003											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
12 MONTHS CUMULATIVE (trillion TL)													
Revenues	**76,400**	**78,294**	**80,688**	**81,737**	**83,887**	**83,591**	**85,269**	**87,718**	**91,299**	**92,748**	**95,012**	**95,352**	**100,238**
Tax Revenues	59,634	61,045	63,509	64,649	66,724	69,345	71,260	73,228	76,446	77,801	79,749	80,269	84,334
Non-Tax Revenues	15,262	15,292	15,191	15,064	15,087	12,149	11,957	12,409	12,782	12,848	13,128	13,312	10,242
Expenditures	**115,486**	**116,267**	**115,854**	**119,075**	**124,141**	**128,785**	**131,238**	**135,580**	**137,185**	**137,079**	**138,862**	**137,722**	**140,054**
Current	31,050	31,970	32,539	33,040	33,329	33,806	34,689	35,640	36,155	36,892	37,463	37,721	38,419
Investment	6,888	6,857	6,746	6,734	6,489	6,646	6,691	6,709	6,615	6,441	6,545	6,331	7,165
Transfers	77,548	77,441	76,569	79,301	84,323	88,332	89,858	93,231	94,415	93,747	94,854	93,670	94,470
Primary Balance	**12,785**	**13,368**	**14,423**	**13,779**	**15,208**	**13,202**	**12,289**	**11,937**	**15,395**	**14,782**	**15,450**	**15,878**	**18,794**
Budget Balance	**-39,085**	**-37,974**	**-35,166**	**-37,338**	**-40,254**	**-45,193**	**-45,969**	**-47,862**	**-45,886**	**-44,332**	**-43,850**	**-42,369**	**-39,816**
Financing	34,388	33,727	34,646	36,338	39,300	44,288	45,603	46,364	45,370	43,785	43,669	42,306	..
Foreign Borrowing (net)	16,570	18,001	4,869	3,995	3,492	3,704	5,942	2,591	675	2,555	2,272	2,372	..
Domestic Borrowing (net)	17,474	20,524	33,178	33,278	38,180	43,934	43,740	44,954	44,124	42,290	40,323	41,075	..
Short-term Borrowing (net)	18,371	14,976	17,851	15,971	17,849	14,454	11,519	4,026	-1,031	-1,570	-4,711	-7,620	..
Other	343	-4,798	-3,401	-934	-2,372	-3,351	-4,079	-1,181	570	-1,060	1,074	-1,141	..
12 MONTHS CUMULATIVE (billion $)													
Revenues	**50.8**	**51.3**	**52.2**	**52.1**	**52.7**	**52.1**	**53.6**	**56.0**	**59.3**	**61.1**	**63.3**	**64.0**	**67.2**
Tax Revenues	39.4	39.8	40.8	41.0	41.7	43.2	44.8	46.8	49.7	51.3	53.2	53.9	56.5
Non-Tax Revenues	10.4	10.3	10.1	9.9	9.7	7.6	7.5	7.9	8.3	8.5	8.7	8.9	6.9
Expenditures	**77.0**	**76.1**	**74.6**	**75.6**	**77.6**	**80.3**	**82.4**	**86.5**	**88.5**	**89.5**	**91.7**	**91.5**	**93.9**
Current	20.5	20.8	21.0	21.0	20.8	21.0	21.8	22.7	23.4	24.2	24.9	25.2	25.8
Investment	4.4	4.4	4.3	4.3	4.1	4.2	4.2	4.3	4.3	4.2	4.4	4.3	4.8
Transfers	52.1	50.9	49.4	50.3	52.7	55.1	56.4	59.5	60.8	61.1	62.4	62.0	63.3
Primary Balance	**8.9**	**9.1**	**9.6**	**9.0**	**9.8**	**8.3**	**7.7**	**7.5**	**10.2**	**9.9**	**10.5**	**10.8**	**12.6**
Budget Balance	**-26.2**	**-24.8**	**-22.4**	**-23.5**	**-24.9**	**-28.2**	**-28.9**	**-30.5**	**-29.2**	**-28.4**	**-28.3**	**-27.5**	**-26.7**
Financing	23.1	22.0	22.1	22.8	24.3	27.6	28.7	29.5	28.9	28.1	28.3	27.5	..
Foreign Borrowing (net)	11.8	12.6	3.1	2.5	2.0	2.2	3.7	1.6	0.5	1.8	1.5	1.6	..
Domestic Borrowing (net)	10.8	12.2	21.1	20.8	23.4	27.3	27.3	28.5	28.1	27.0	26.0	26.6	..
Short-term Borrowing (net)	12.1	9.8	11.6	10.3	11.3	8.9	7.0	2.2	-1.2	-1.6	-3.7	-5.7	..
Other	0.4	-2.8	-2.0	-0.5	-1.1	-1.9	-2.4	-0.6	0.4	-0.7	0.8	-0.7	..
DOMESTIC DEBT STOCK													
1000 trillion TL	149.9	155.4	159.4	162.6	170.1	174.0	175.3	179.2	178.9	178.7	180.2	183.1	194.4
Billion $	94.1	93.8	98.4	97.9	105.0	117.3	123.6	128.3	128.1	130.3	126.7	124.4	136.3
DomesticDebt/M2Y (%)	112.3	115.8	120.8	122.3	131.1	137.0	134.3	134.1	133.6	129.6	122.2	122.7	129.7

(..) Not Available

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

	2002	2003											
	Dec.	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**
MONEY SUPPLY (annual % change)													
Currency in Circulation	50.2	53.2	24.1	60.3	48.6	47.1	44.6	49.3	46.9	50.4	45.2	51.3	40.5
Sight Deposits	23.6	34.0	31.4	2.6	34.0	13.0	19.5	45.1	29.2	30.3	51.2	40.4	62.2
M1	**35.8**	**42.5**	**27.7**	**27.3**	**41.0**	**27.9**	**31.1**	**47.2**	**37.5**	**39.8**	**48.3**	**45.7**	**51.2**
Time Deposits	31.4	27.9	26.8	26.3	21.2	23.8	26.1	25.6	30.8	31.5	29.9	28.9	26.5
M2	**32.4**	**31.1**	**27.0**	**26.6**	**25.5**	**24.8**	**27.3**	**30.6**	**32.4**	**33.5**	**34.4**	**33.1**	**32.2**
Foreign Exchange Deposits (TL)	27.4	35.9	27.9	30.5	22.2	7.2	-2.0	-9.3	-8.2	-9.0	-0.8	5.2	-4.6
M2Y	**29.6**	**33.6**	**27.5**	**28.6**	**23.8**	**15.5**	**11.3**	**8.2**	**9.8**	**9.9**	**15.1**	**18.4**	**12.3**
Repo	-1.1	-2.2	-4.4	9.3	-0.2	-27.3	-34.1	-30.1	-33.8	-12.1	-18.0	41.4	9.4
M2YR	**28.8**	**32.5**	**26.5**	**27.9**	**23.0**	**14.2**	**9.9**	**7.1**	**8.4**	**9.4**	**14.2**	**18.8**	**12.2**
Offical Deposits	-15.6	30.6	68.7	52.7	32.2	105.4	73.8	54.6	94.8	89.7	57.3	91.7	111.3
Other Deposits With CBRT	3.4	110.1	228.8	40.7	189.7	251.2	91.7	221.5	-58.9	-36.4	72.4	-13.7	-15.2
M3Y	**28.3**	**34.2**	**30.5**	**29.2**	**25.3**	**18.7**	**13.1**	**10.0**	**10.0**	**11.0**	**16.6**	**19.4**	**13.8**
M2Y (trillion TL)	**133,450**	**134,149**	**131,967**	**132,878**	**129,764**	**126,942**	**130,509**	**133,604**	**133,875**	**137,868**	**147,435**	**149,198**	**149,855**
Composition of M2Y (%)													
Currency in Circulation	5.4	5.1	5.7	5.9	6.0	6.1	6.6	6.9	6.8	7.0	6.7	7.4	6.8
Sight Deposits	5.3	5.7	5.7	5.1	5.9	6.0	6.4	6.9	6.9	6.9	7.5	7.3	7.6
Time Deposits	35.2	34.9	35.7	36.7	37.1	39.1	39.1	39.2	39.8	40.2	38.4	38.5	39.6
Foreign Exchange Deposits	54.1	54.3	52.9	52.3	50.9	48.8	48.0	47.0	46.5	45.9	47.4	46.8	46.0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
CREDIT STOCK (domestic, annual % change)	**2.5**	**9.2**	**10.2**	**19.6**	**20.0**	**12.7**	**20.6**	**21.6**	**29.7**	**31.7**	**42.5**	**52.8**	**48.2**
Deposit Bank Credits	1.9	7.8	8.2	18.2	18.6	11.2	20.4	22.4	31.2	33.4	44.6	55.8	50.8
Private	-6.3	-4.4	1.1	-0.1	8.0	6.8	44.1	59.3	67.9	74.2	85.8	93.7	..
Public	4.0	4.5	7.1	9.6	19.2	23.6	25.9	27.9	34.7	40.7	49.5	54.2	..
Invest. and Develop.Bank Credits	9.5	27.3	34.6	37.5	37.8	30.4	22.6	14.1	15.1	15.1	20.6	22.5	21.7
CB BALANCE SHEET (million $)													
Base Money	6,344	6,800	7,327	7,027	7,679	8,629	8,971	9,651	10,024	10,368	10,336	11,547	10,670
Net Domestic Assets	4,857	3,111	5,273	5,647	6,289	7,123	7,047	7,145	5,842	3,542	4,473	7,318	5,599
Net Foreign Assets	1,487	3,690	2,054	1,380	1,390	1,507	1,924	2,506	4,182	6,826	5,863	4,229	5,072
Net Position of Public Sector	14,567	14,101	15,328	15,687	15,918	15,804	15,863	17,130	14,975	15,175	15,066	14,495	14,816
Liabilities Due to Open Market Operations	5,154	6,495	5,537	5,764	5,323	4,317	4,564	5,821	5,730	8,679	7,106	3,985	5,929
THE CENTRAL BANK RESERVES (billion $)	**26.7**	**26.7**	**27.7**	**26.7**	**27.0**	**28.5**	**28.8**	**29.0**	**29.8**	**33.9**	**33.1**	**31.3**	**33.6**
FOREIGN DEBT STOCK (billion $)	**131.2**	**..**	**..**	**133.2**	**..**	**..**	**137.9**	**..**	**..**	**142.0**	**..**	**..**	**..**

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

	Annual % Change		% Share	Annual % Change			
	2001	2002	2002	2002-4	2003-1	2003-2	2003-3
Private Final Cons. Exp.	**-9.2**	**2.0**	**63.0**	**4.2**	**6.5**	**2.5**	**5.6**
Food, Beverage	-3.6	0.9	23.2	1.5	3.9	2.9	6.0
Durable Goods	-30.4	2.1	9.4	6.2	20.4	10.7	9.7
Semi-dur, Non-dur Goods	-9.0	3.1	9.5	10.8	1.9	-6.1	4.1
Energy, Trans., Commun.	0.9	-0.7	8.9	-0.1	4.5	-0.2	2.5
Services	-9.3	8.7	6.6	10.9	10.9	6.1	7.2
Ownership of Dwelling	2.1	1.8	5.4	1.4	1.3	1.3	1.3
Gov. Final Cons. Exp.	**-8.5**	**5.4**	**8.4**	**4.5**	**-3.0**	**-2.9**	**-1.4**
Compensation of Empl.	1.6	0.7	4.3	0.6	0.0	0.6	1.3
Purchases of Goods, Services	-18.0	10.8	4.1	7.1	-10.8	-7.0	-4.1
Gross Fixed Capital Form.	**-31.5**	**-0.8**	**19.0**	**22.2**	**9.3**	**5.5**	**0.4**
Public Sector	**-22.0**	**14.5**	**6.5**	**22.7**	**-37.8**	**-11.3**	**-17.2**
Machinery Equipment	-39.0	29.3	1.8	52.8	-42.3	22.8	-14.1
Building Construction	-20.0	23.9	2.0	25.2	-38.0	-46.3	-35.4
Other Construction	-10.3	1.1	2.7	6.5	-31.9	-3.5	-7.2
Private Sector	**-34.9**	**-7.2**	**12.5**	**21.8**	**20.4**	**11.9**	**9.8**
Machinery Equipment	-49.6	1.4	6.9	71.0	53.0	29.9	40.8
Building Construction	-8.0	-15.8	5.7	-14.7	-15.5	-14.4	-18.7
Change in Stock*	**-4.0**	**7.0**		**4.9**	**6.0**	**4.3**	**2.1**
Export of Goods, Services	**7.4**	**11.0**	**39.3**	**12.3**	**14.5**	**12.5**	**7.1**
Import of Goods, Services	**-24.8**	**15.7**	**34.8**	**22.1**	**23.9**	**20.2**	**8.1**
GDP	**-7.5**	**7.8**	**100.0**	**11.4**	**8.1**	**3.9**	**4.8**

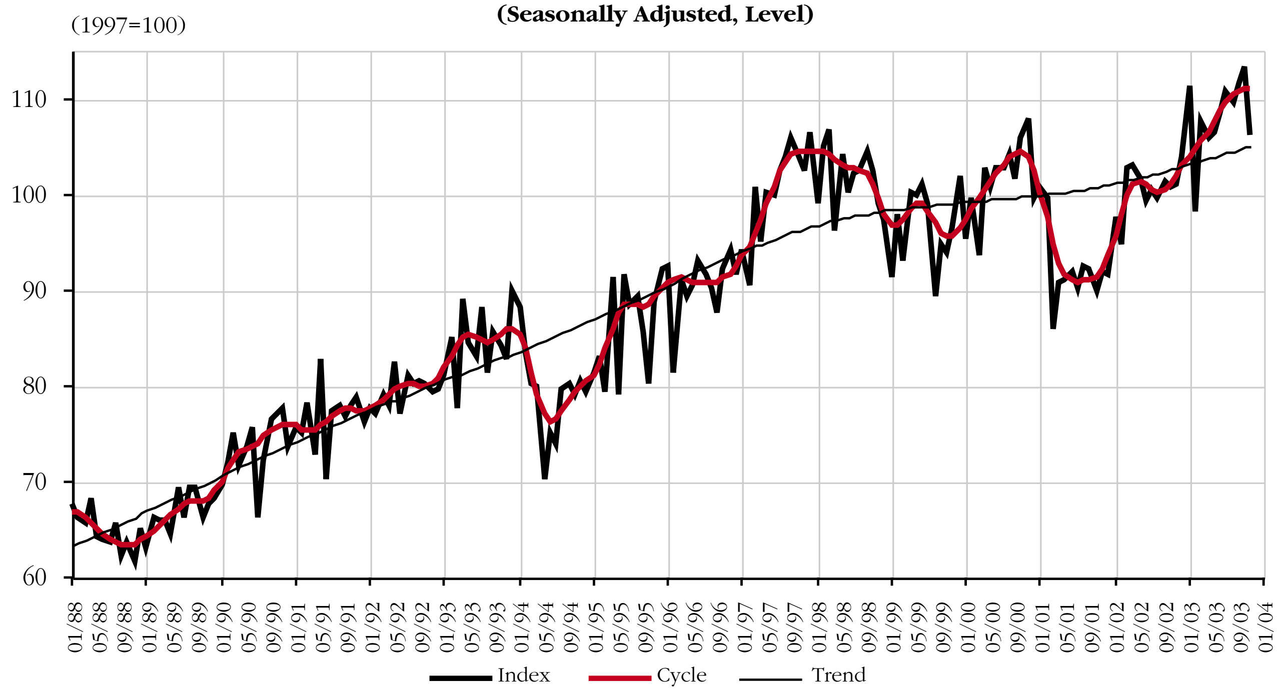
By Sectors

	Annual % Change		% Share	Annual % Change			
	2001	2002	2002	2002-4	2003-1	2003-2	2003-3
Agriculture	**-6.5**	**7.1**	**13.5**	**15.3**	**7.0**	**-2.8**	**-1.0**
Agriculture and Livestock Prod.	-6.6	6.7	12.5	14.7	7.2	-0.8	-1.0
Forestry	-8.1	15.3	0.6	35.5	7.3	-23.8	-0.5
Fishing	2.5	7.5	0.3	6.2	5.1	1.3	3.7
Industry	**-7.5**	**9.4**	**28.8**	**11.4**	**7.8**	**4.4**	**8.1**
Mining and Quarrying	-8.8	-4.4	1.2	-4.0	-7.0	-7.3	2.6
Manufacturing	-8.1	10.4	24.2	13.5	9.2	5.1	8.4
Electricity, Gas, Water	-2.1	8.0	3.4	4.0	4.1	3.1	8.4
Construction	**-5.5**	**-4.9**	**4.5**	**2.7**	**-17.0**	**-14.5**	**-16.9**
Trade	**-9.4**	**10.7**	**22.5**	**16.1**	**10.8**	**6.0**	**7.0**
Wholesale and Retail Trade	-12.8	12.8	18.8	18.7	11.5	8.3	9.7
Hotels, Rest. Services	9.9	1.1	3.7	3.9	6.5	-6.2	-4.6
Transportation and Comm.	**-5.3**	**5.4**	**13.2**	**5.6**	**13.7**	**5.8**	**7.9**
Financial Institutions	**-9.9**	**-7.1**	**2.1**	**-8.2**	**-8.1**	**-8.5**	**-4.3**
Ownership of Dwelling	**2.1**	**1.8**	**5.0**	**1.4**	**1.3**	**1.3**	**1.3**
Business and Pers. Services	**-7.6**	**7.4**	**2.3**	**10.7**	**7.9**	**3.6**	**4.2**
Sectoral Total	**-6.9**	**7.4**	**90.3**	**10.9**	**7.8**	**3.1**	**4.0**
Government Services	**1.6**	**0.7**	**4.3**	**0.6**	**0.0**	**0.6**	**1.3**
Private Non-profit Inst.	**0.2**	**0.6**	**0.3**	**0.3**	**-1.4**	**-1.9**	**-1.0**
Total	**-6.5**	**7.1**	**94.9**	**10.3**	**7.3**	**3.0**	**3.8**
Import Duties	**-25.1**	**23.0**	**5.1**	**33.9**	**19.8**	**20.5**	**26.7**
GNP	**-9.5**	**7.8**	**100.0**	**11.5**	**7.4**	**3.7**	**4.9**

**Figures indicate percentage point contribution to GDP growth*

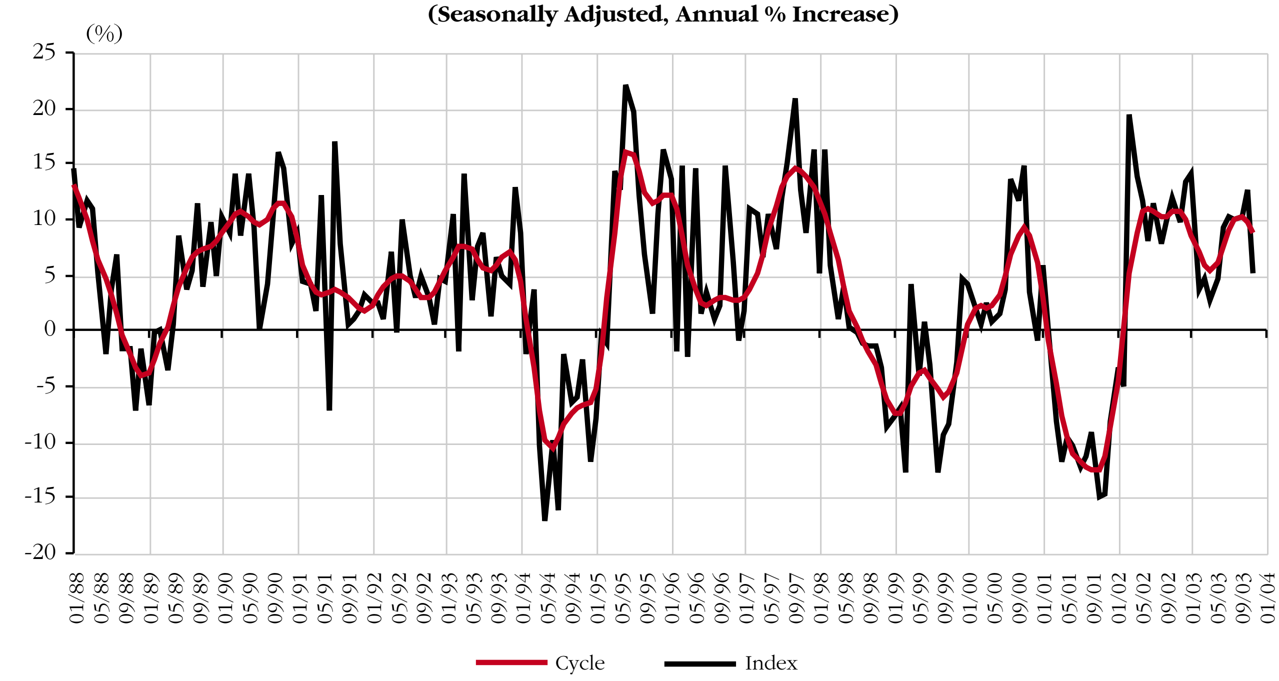
GRAPH 1

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Level)



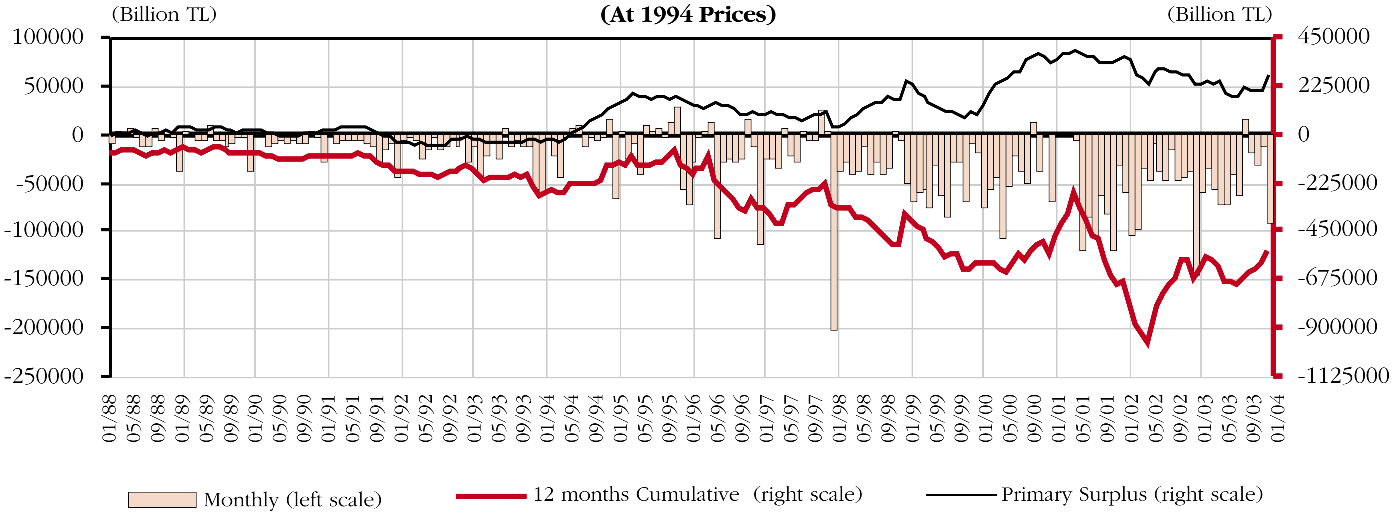
GRAPH 2

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Annual % Increase)



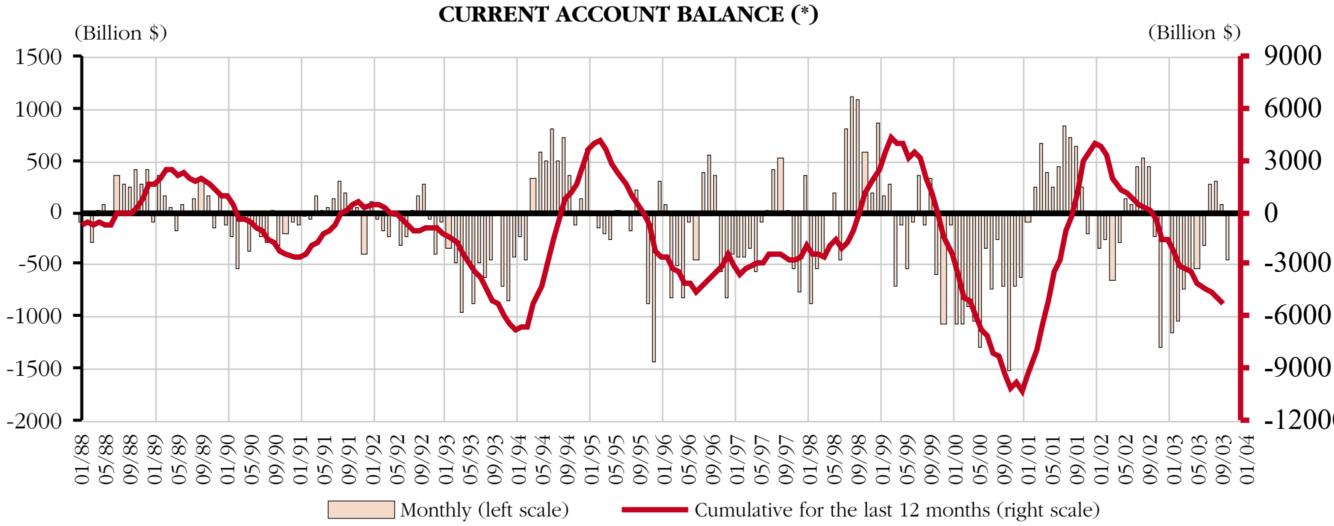
GRAPH 3

CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices)



GRAPH 4

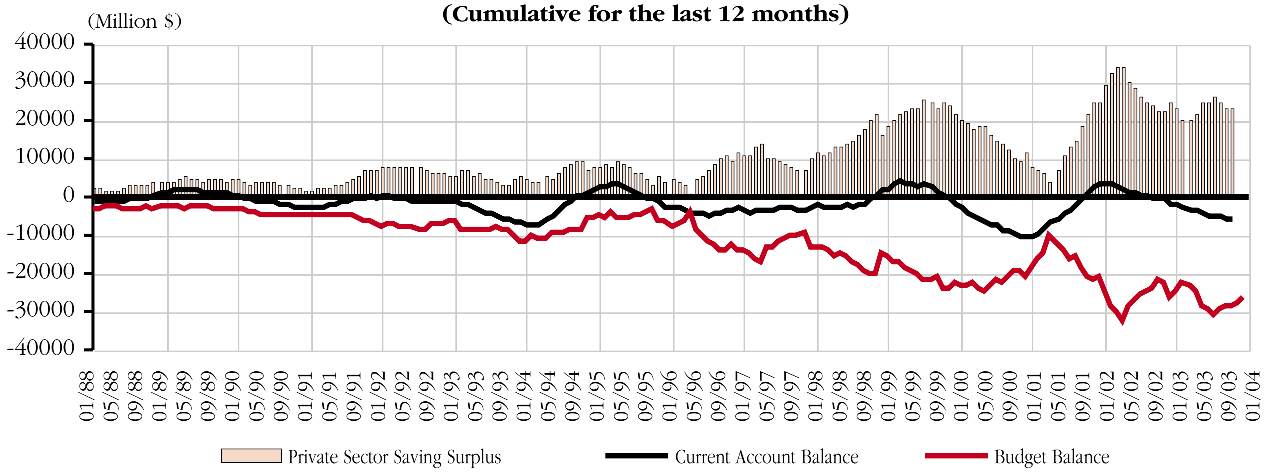
CURRENT ACCOUNT BALANCE (*)



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

GRAPH 5

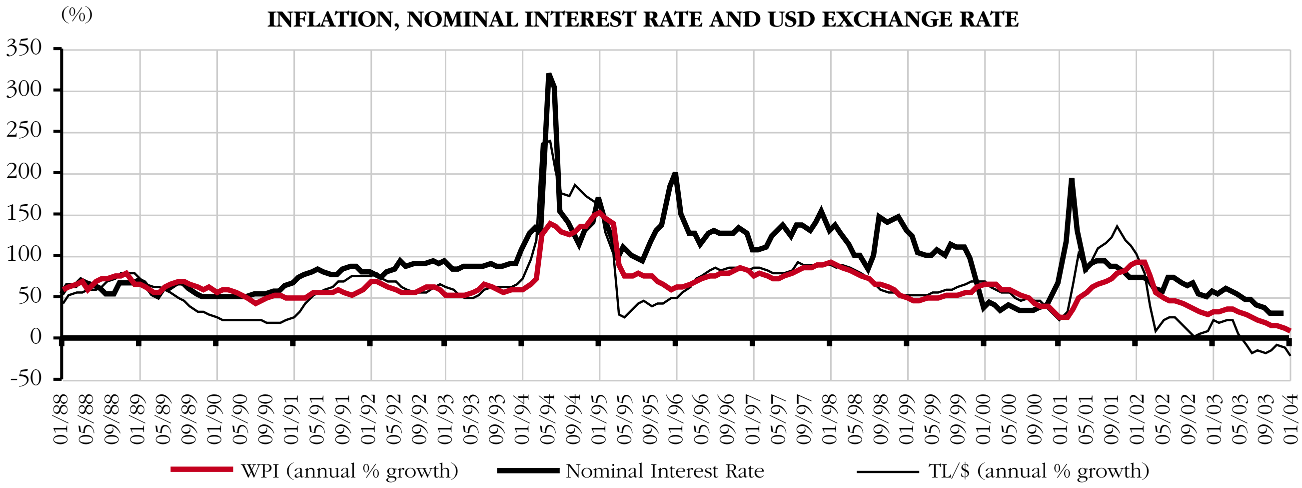
SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)



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

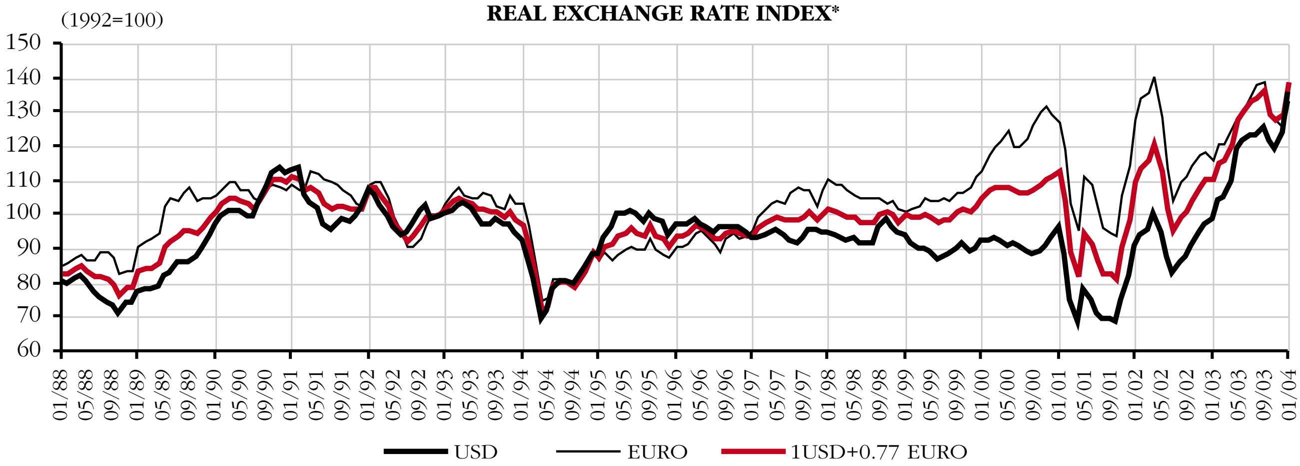
GRAPH 6

INFLATION, NOMINAL INTEREST RATE AND USD EXCHANGE RATE



GRAPH 7

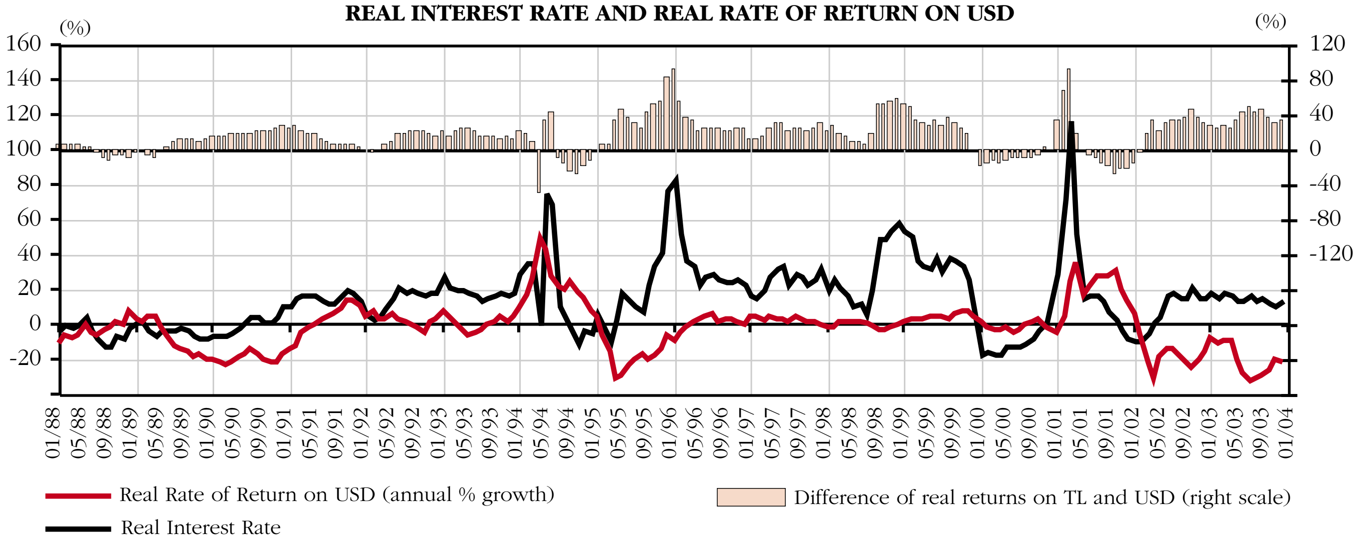
REAL EXCHANGE RATE INDEX*



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

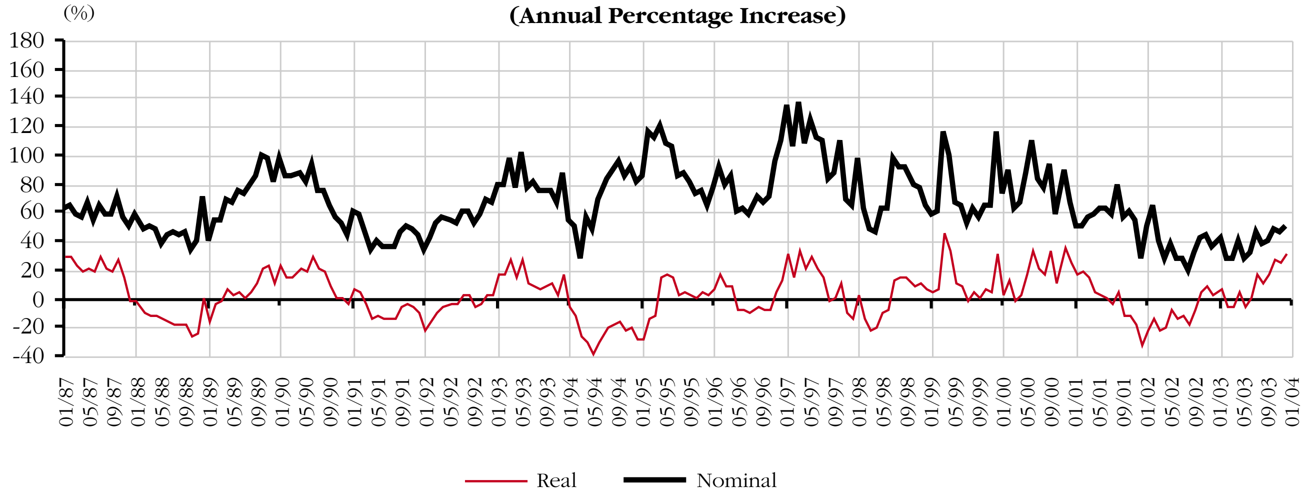
GRAPH 8

REAL INTEREST RATE AND REAL RATE OF RETURN ON USD



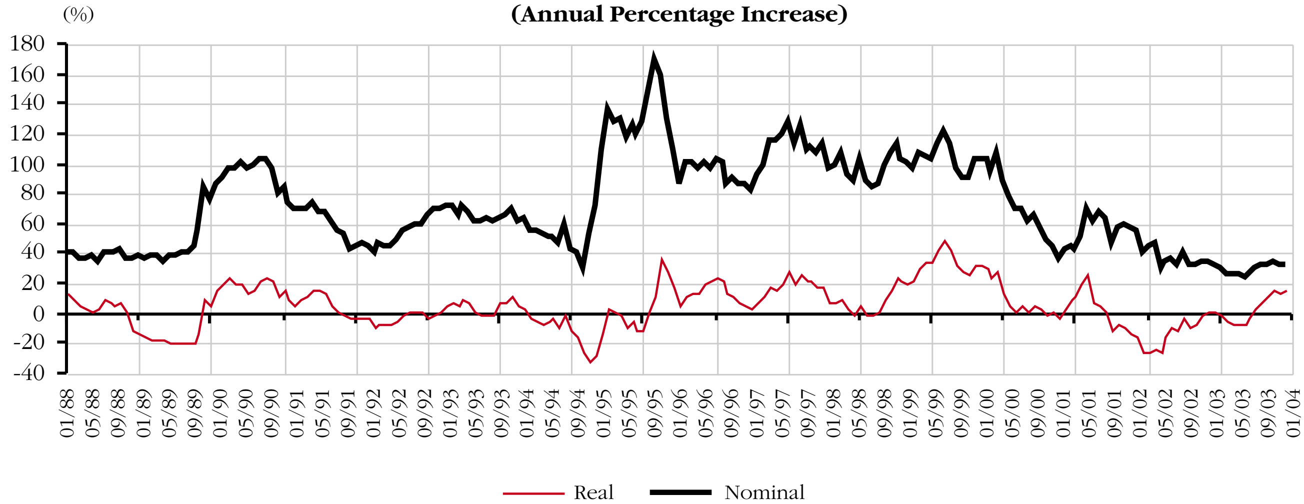
GRAPH 9

M1
(Annual Percentage Increase)



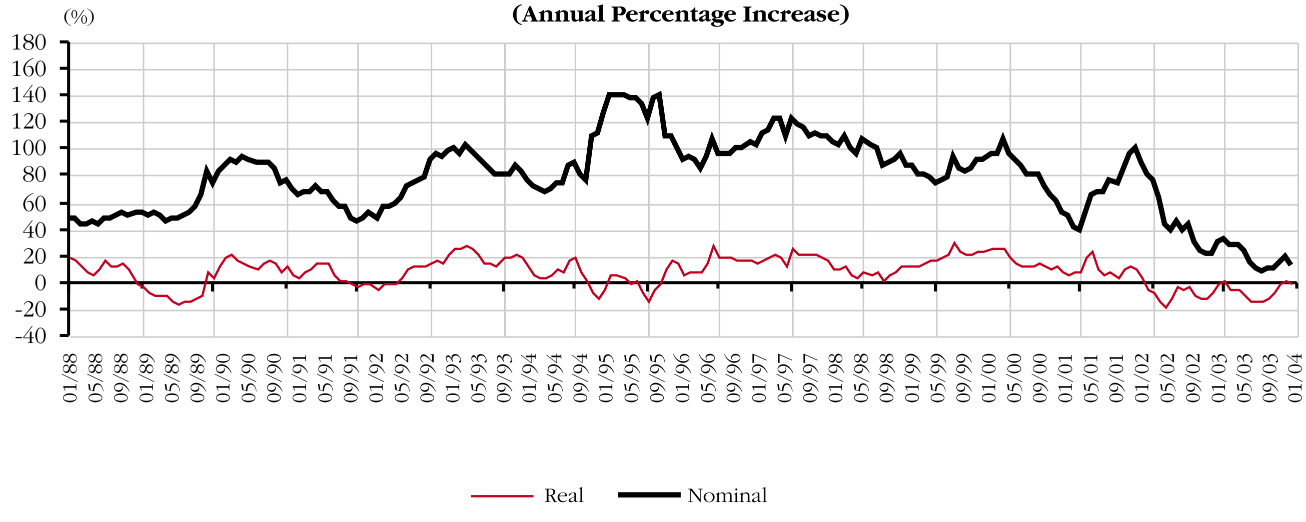
GRAPH 10

M2
(Annual Percentage Increase)



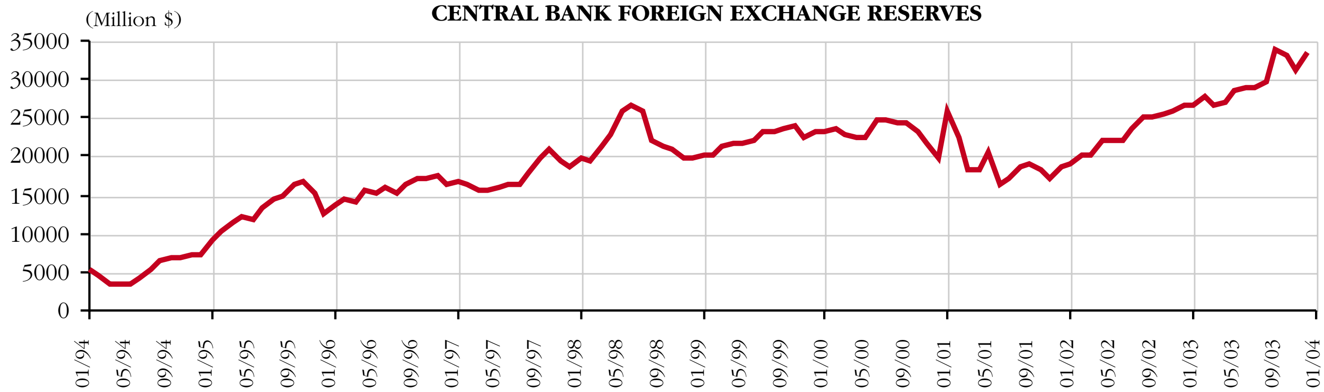
GRAPH 11

M2Y
(Annual Percentage Increase)



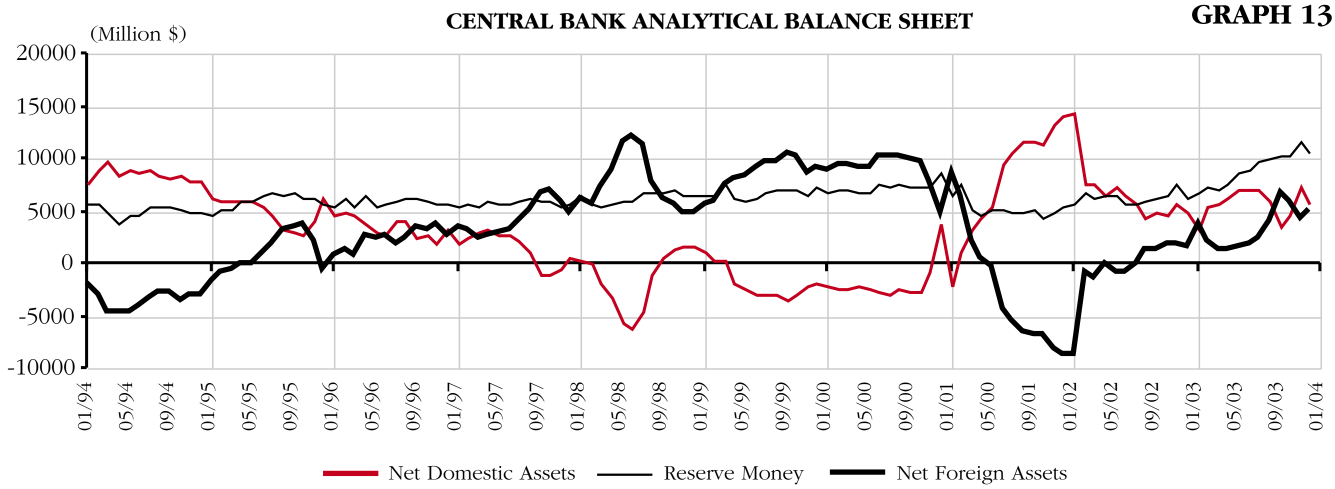
GRAPH 12

CENTRAL BANK FOREIGN EXCHANGE RESERVES



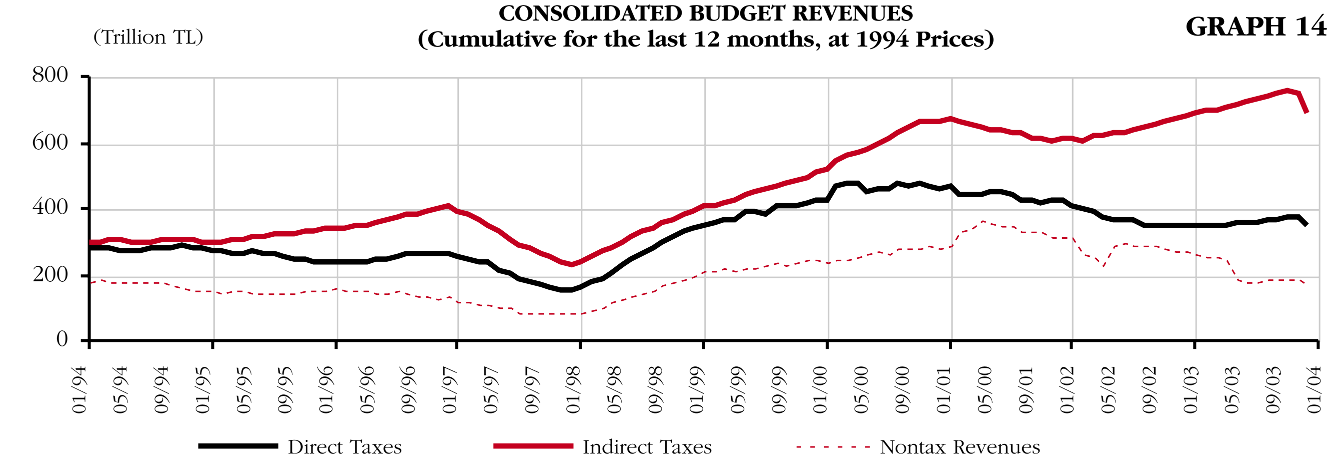
CENTRAL BANK ANALYTICAL BALANCE SHEET

GRAPH 13



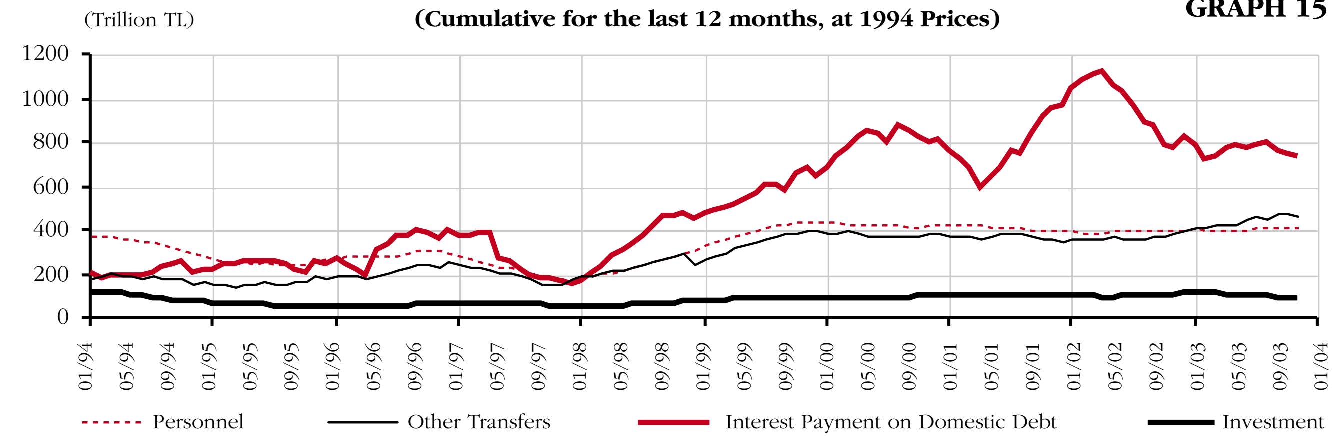
CONSOLIDATED BUDGET REVENUES
(Cumulative for the last 12 months, at 1994 Prices)

GRAPH 14



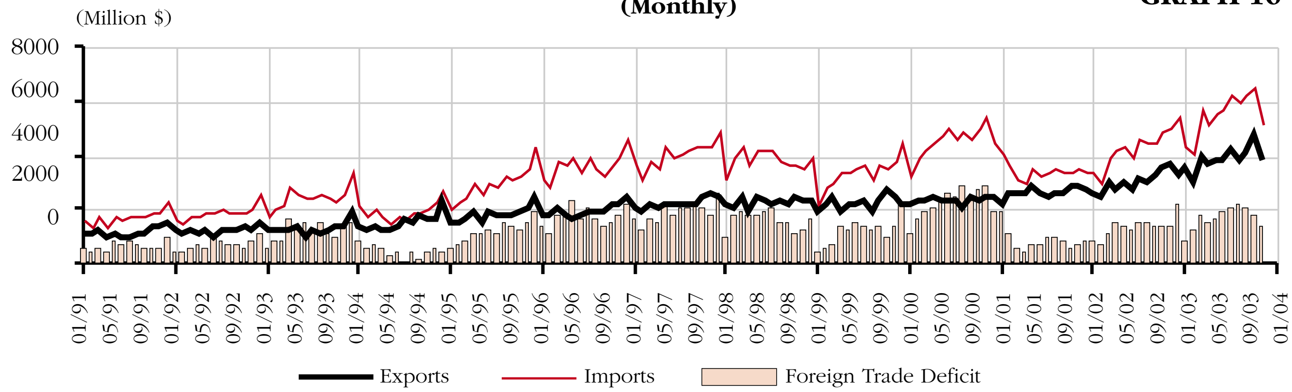
CONSOLIDATED BUDGET EXPENDITURES
(Cumulative for the last 12 months, at 1994 Prices)

GRAPH 15



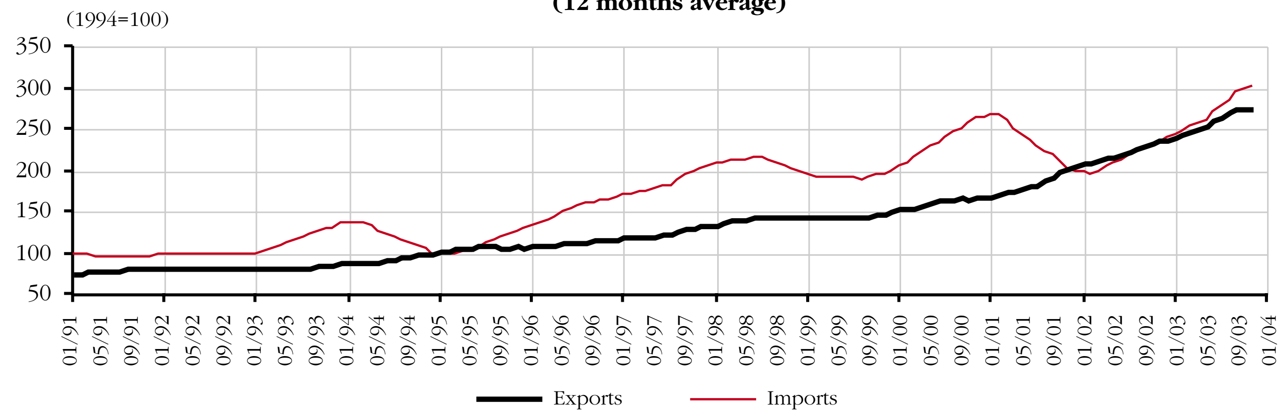
FOREIGN TRADE (Monthly)

GRAPH 16



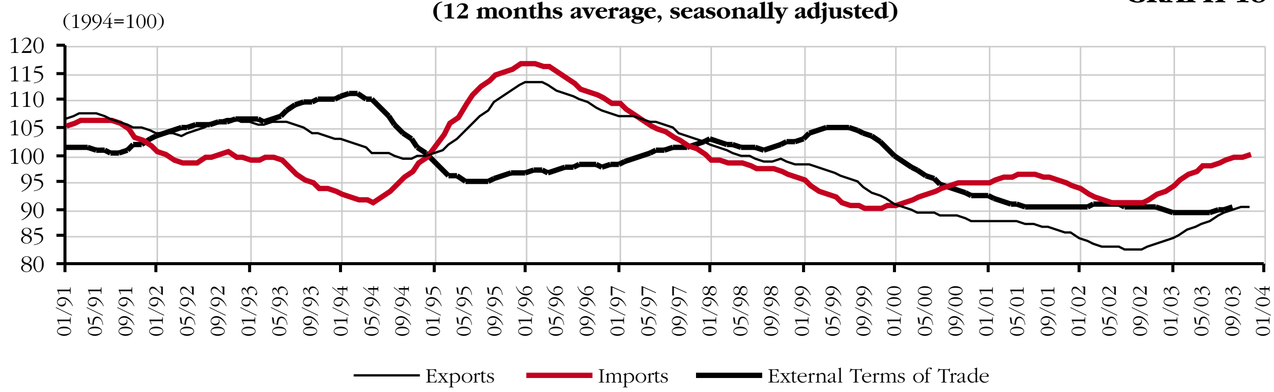
FOREIGN TRADE QUANTITY INDEX (12 months average)

GRAPH 17



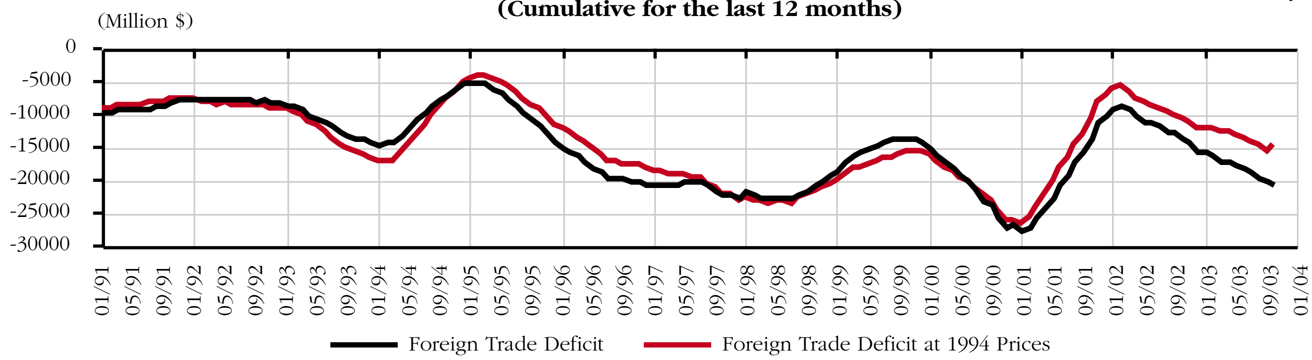
FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE (12 months average, seasonally adjusted)

GRAPH 18



FOREIGN TRADE DEFICIT (Cumulative for the last 12 months)

GRAPH 19



TÜSİAD MACROECONOMIC SCENARIO
(Quarterly and yearly average)

	2002					2003					2004					
INCOME and PRICES	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Govern. Program
GNP (1987 prices)*	0.4	10.4	7.9	11.5	7.8	7.4	3.7	4.9	5.1	5.1	3.5	5.0	5.6	4.3	4.7	5.0
GDP (1987 prices)*	2.1	8.9	7.9	11.4	7.8	8.1	3.9	4.8	5.0	5.3	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	15.4	25.6	9.3	9.4	13.5	12.7	11.2	12.0(a)
Inflation (CPI)*	70.3	47.0	39.5	31.6	45.0	27.6	30.0	25.1	19.4	25.3	15.7	13.4	15.1	13.6	14.5	12.0(a)
Reserve Money *	53.6	45.1	42.8	46.2	46.6	44.6	36.9	41.5	29.0	41.4	24.0	20.0	21.0	21.0	21.4	
CONSOLIDATED BUDGET																
Budget Revenues (trillion TL)	15,028	20,793	19,583	20,997	76,400	20,364	24,325	27,061	28,487	100,238	25,000	27,000	30,000	31,000	113,000	114,500
Budget Expenditures (trillion TL)	27,663	26,032	26,287	35,503	115,486	31,253	38,195	32,127	38,478	140,054	40,000	34,000	42,000	46,000	162,000	160,900
Budget Balance (trillion TL)	-12,636	-5,239	-6,704	-14,507	-39,085	-10,889	-13,870	-5,066	-9,991	-39,816	-15,000	-7,000	-12,000	-15,000	-49,000	-46,400
Interest Expenditures (trillion TL)	16,540	11,925	10,857	12,549	51,871	15,787	19,066	11,712	12,044	58,609	21,000	14,500	18,000	16,000	69,500	67,000
Budget Balance (billion $)	-9.3	-3.7	-4.1	-9.0	-26.0	-6.6	-9.2	-3.6	-7.0	-26.4	-10.9	-4.9	-8.1	-9.7	-33.6	
Primary Surplus (over GNP, %)					4.7					5.3					5.0	5.0
Budget Balance (over GNP, %)					-14.3					-11.1					-11.9	-11.1
EXCHANGE RATES																
Nominal Exchange Rate (TL/$)	1,353,699	1,410,648	1,643,660	1,612,151	1,505,039	1,645,316	1,507,181	1,388,275	1,436,953	1,494,431	1,380,000	1,420,000	1,480,000	1,550,000	1,457,500	1,604,000
Nominal Exchange Rate (TL/$)*	69.7	18.9	17.6	6.1	22.8	21.5	6.8	-15.5	-10.9	-0.7	-16.1	-5.8	6.6	7.9	-2.5	
Real Exchange Rate (TL/$)(1999=100)**	121.3	121.1	108.9	121.1	118.1	127.4	147.4	161.2	162.2	149.5	175.8	177.4	174.1	170.9	161.6	
Real Exchange Rate (TL/$)*	0.4	23.7	18.6	24.1	15.7	5.0	21.7	48.1	34.0	26.6	38.0	20.4	8.0	5.3	16.7	
Nominal Exchange Rate (TL/€)	1,186,136	1,299,433	1,616,606	1,615,321	1,429,374	1,766,431	1,708,772	1,558,591	1,712,617	1,686,602	1,700,000	1,750,000	1,820,000	1,900,000	1,792,500	
Nominal Exchange Rate (TL/€)*	61.7	25.4	29.8	18.8	30.7	48.9	31.5	-3.6	6.0	18.0	-3.8	2.4	16.8	10.9	6.3	
Real Exchange Rate (TL/€)(1999=100)	120.6	114.6	96.4	105.3	109.2	103.3	113.2	125.1	118.6	115.1	124.3	125.4	123.3	121.5	120.3	
Real Exchange Rate (TL/€) (1999=100)*	5.3	17.3	7.4	10.8	10.1	-14.3	-1.2	29.7	12.7	5.4	20.3	10.8	-1.4	2.4	7.4	
€/$*100	87.6	92.1	98.4	100.2	94.6	107.4	113.4	112.3	119.2	113.0	123.2	123.2	123.0	122.6	123.0	
GOVERNMENT SECURITIES AUCTION																
Nominal Int. Rate (compounded, %)	72.8	62.9	67.0	55.9	64.6	57.3	52.3	40.9	29.3	44.9	26.0	25.0	22.0	20.0	23.3	
Real Int. Rate (compounded, %)	1.5	10.8	19.8	18.5	13.6	23.2	17.2	12.7	8.2	15.7	8.9	10.2	6.0	5.6	7.7	
FOREIGN TRADE and CURRENT ACCOUNT																
Imports (cif) (billion $)	10.4	12.4	13.5	15.0	51.2	14.2	16.4	18.4	19.0	68.0	16.5	17.5	18.5	20.0	72.5	75
Exports (fob) (billion $)	7.9	8.5	9.3	10.1	35.8	10.3	11.3	12.0	13.0	46.6	11.5	12.5	13.5	14.5	52.0	51.5
Foreign Trade Balance (fob-cif) (billion $)	-2.4	-3.9	-4.2	-4.9	-15.5	-3.9	-5.2	-6.4	-6.0	-21.4	-5.0	-5.0	-5.0	-5.5	-20.5	-24.0
Invisibles(other current) (billion$)	1.8	3.1	5.2	3.8	13.9	1.7	3.3	6.6	3.5	15.1	3.0	3.5	4.4	3.6	14.5	18.8
Current Account Balance (billion$)	-0.6	-0.8	1.0	-1.1	-1.5	-2.2	-1.8	0.3	-2.5	-6.296	-2.0	-1.5	-0.6	-1.9	-6.0	-5.2
Imports (cif)*	-3.9	25.7	29.8	44.3	23.7	37.2	31.9	36.4	27.1	32.7	16.1	6.7	0.8	5.3	6.7	
Exports (fob, incl. shuttle trade)*	8.4	5.6	21.0	21.1	14.1	30.3	32.2	29.5	29.1	30.2	11.6	11.1	12.5	11.5	11.7	

Red italic figures are TÜSİAD estimates
(*)Denotes annual avrage percentage change on the same period of previous year
(**)Decrease in Real Exchange Rate index reflects the devaluaiton of TL against US dollar.
(a) End year. TÜSİAD's end year forecast for WPI and CPI for 2004 are 12.4% and 13.5%, respectively.

TÜSİAD: Meşrutiyet Caddesi 74, Tepebaşı 34420, İSTANBUL. **Tel:** (0212) 249 54 48 - 249 07 23 **Fax:** (0212) 249 13 50
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