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Biding Our Time

"Applause is the spur of noble minds, the end and aim of weak ones."

C.C. Colton

Summary and Conclusion

The positive economic environment having been sustained, improvement in all indicators and expectations are seen to continue.

Strengthened economic fundamentals having become apparent due to the implementation of the economic program, expectations of achieving targets set forth for 2004 have also increased. Significant gains have been attained in the fight against inflation; also, for two years consecutively, economic growth has surpassed targeted rates. National income has reached 240 billion dollars; income per capita has also increased above pre-crisis levels and stands at 3400 dollars. In this period of economic reconstruction, a rapid increase in efficiency has boosted competitive power; moreover, strong growth has been observed in industrial production. Capacity utilization in manufacturing industries- especially in exporting sectors that carry the weight of industrial production- has risen to unprecedented rates. Foreign trade ratios that have developed in our favour, along with low real wages, have resulted in a competitive cost structure in foreign trade. Total trade volume has managed to exceed 100 billion dollars for the first time ever, and with the rapid increase in the import of intermediate and capital goods, import has moved in the direction of production and export. On the other hand, last year's robust budgetary performance has bolstered the improvement in macroeconomic indicators; the debt stock to national income ratio that has fallen due to the increase in production, together with declining interest rates, has rendered weak concerns regarding debt sustainability. Improvements in economic fundamentals have not, however, reflected upon labour markets; sufficient employment opportunities have not been created, thus unemployment remains to guard its severity.

Indicators pertaining to the first quarter of the year demonstrate the strong performance of the economy, implying positive developments for next period.

As of the first quarter of 2004, nominal FX

and interest rates persist to fall, whereas inflation has continued in its downward trend. The Turkish Lira has further appreciated, while real FX rates peaked in March. Having encountered a favourable climate for making consumption and investment decisions, domestic demand picked up momentum, together with a significant increase in money supply. In an economy less vulnerable, however, inverse currency substitution has persisted. Increased demand and improved expectations, generating a rise in money demand, have not yet reached a level that threatens to create inflationist pressure. The central bank has managed to well assess the current positive climate regarding inflation expectations, cutting short-term interest rates twice, in the beginning of February and mid-March. Due to improvement in macroeconomic balances, along side high performing export and rising domestic demand, industrial production and capacity utilization rates continue in an upward trend. The current account which was financed with unexplainable currency flows, having given out negative signs in the first month of the year, now, through inverse currency substitution in the first quarter and currency purchasing auctions carried out by the central bank, implies that concerns over the exchange rate are highly likely to turn out being pointless. On the other hand, the most positive development in the first quarter has been in the financial area; covering the three month period before local elections, the consolidated budget produced a primary surplus of 7.9 quadrillion TL, further strengthening the current optimistic climate.

Overall improvement in economic fundamentals should be supported by progress in the current reform process.

Despite various delays, noteworthy progress has been made in the structural area, and the seventh review with the IMF was concluded in April. Consequently, 495 million dollars credit has been disbursed, since economic performance and the overall course

of events are positive, future reviews have been reduced from four to three. The economic program that has been enforced with great determination contributes undoubtedly to the improvement in expectations and the strong economic outlook that has been realized. Nonetheless, in order to proceed further with the gains accomplished in the last two years- besides coordination in fiscal and monetary policies- strong performance in the structural area will be necessary. The growth environment encountered by a cycle of low exchange-interest-inflation provides the opportunity for carrying out vital structural transformations. A macroeconomic climate, in which main imbalances have been obliterated and relative costs of implementing structural reforms have been decreased, provides the basis of medium and long- term sustainable growth beyond reviews to be carried out by the IMF.

The effects of global economic developments on Turkey's growth path are increasing.

The favourable climate achieved due to implementation of tight fiscal and monetary policies- assuming that structural reforms are to rapidly be completed and executed- is expected to continue even stronger. In the following period, Turkey is expected to benefit from the positive climate set forth by the leading economies. Although rising metal and oil prices pose a threat, it is known that the economy's vulnerability to such developments is diminishing. Provided that there is to be no deviation from fiscal discipline and fiscal policy is backed-up with public sector reform, the effects of these mentioned developments should remain on a rather limited scale. Another risk component is the rising current deficit due to high foreign trade deficit. Financing the deficit is not expected to create a serious problem in the near future; however, a high increase in oil prices and severe drops in tourism revenues due to uncertainty pertaining to terrorist activities may prove to be a grave threat. Local elections- an important development for the Turkish economy- were held at the end of March and resulted in an increase in votes for the AKP administration. This result is significant in a sense that it demonstrates that voters' confidence in the

government and optimistic expectations still continue. Following the elections, the Cyprus matter occupied the agenda and focus was set on concluding the negotiations within the Annan Plan framework. However, as put forward by the referendum that took place on April 24, expectations of an EU membership of united Cyprus resulted in disappointment and a different phase has been entered. This situation has placed Turkey in a new process. Even though the North side's "yes" vote has been regarded as a positive attitude by the European Commission, the current state does not eliminate the problems facing Turkey. In the ensuing period, the Cyprus matter- although losing its initial political weight- is expected to keep its place on the agenda and continue to effect economic expectations.

I. Global Economic Outlook

Recent economic indicators are showing positive signs that the growth performance of the global economy will be strong in 2004.

The positive global outlook in the first quarter of this year has continued. Real GDP growth in the world economy for 2004 is expected to reach its highest value since 2000. This situation, along with the effects of revived worldwide domestic demand, stands as a product of broader and stronger global recovery. The US and Asian countries minus Japan, which achieved high growth rates in the second half of 2003, are expected to be the driving force behind global growth. Moreover, provided that the increase in efficiency is to be sustained, it is probable that growth will turn out higher than anticipated. In addition to all these encouraging developments, there are various risks present in the global economy. The foremost risk stands out as the continuation of macroeconomic imbalances in certain regions of the world, particularly in the US.

Furthermore, global excess liquidity and the rising trend in both oil and non-oil goods prices may prospectively create inflationist pressure. Rapid growth experienced in Asian countries (excluding Japan), China in particular, has brought along an increase in investment and expansion in the manufacturing industry, therefore boosting global demand for non-oil goods. Following a decision by OPEC to cut-back on quotas, oil prices started climbing to reach 34 dollars per barrel. Additionally, we ought to bear in mind that, although not predicted to cause any serious effects on global economic recovery, recent terrorist attacks demonstrate that geo-political risks are yet to be entirely eradicated. Stock markets which began ascending in the second half of last year have continued this current trend for the first quarter of 2004. Improvement in financial circumstances stands as another component of overall global economic recovery. Growth estimates for the global economy, US and Japan for 2004 have stepped up to 4.6%, 4.6% and 3.4% respectively, whereas for the Euro-zone has fallen to 1.7%.

The growth of the US economy is expected to continue throughout 2004.

The US economy has realized speedy recovery in the second half of 2003 as a result of expansionary monetary and fiscal policies supporting private consumption and investment expenditure. This upturn is foreseen to carry on in 2004. The need for vast capital inflow in order to finance the current account deficit is causing the dollar to depreciate. Despite this situation having a positive effect of export, the current account deficit and general public sector deficit stand out as primary threats to sustainable growth; since, an increase in long-term interest rates is expected when public sector deficits are taken under control. Despite

(Annual % change)	GDP Projections*	
	2004	2005
World	4.6 (4.1)	4.4
USA	4.6 (3.9)	3.9
Japan	3.4 (1.4)	1.9
Euro Area	1.7 (1.9)	2.3
Developing Countries	6.0 (5.6)	5.9

* Source: IMF World Economic Outlook, April 2004.

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

continued recession in domestic demand, recent recovery in the Euro-zone is mainly down to export which turned out to be higher than anticipated. Another positive development is that the persistent downward trend in investment has recently been broken. It is predicted that in 2004 economic growth in the region will be supported by increases in domestic demand and investment. China is expected to continue its robust performance in export and import in 2004. In addition, it is anticipated that through support of domestic demand and private investment, the Chinese economy will realize a growth rate exceeding 8% in 2004 as well. High growth rates in the US and China is expected to carry on propping-up the Japanese economy. Due to recovery in industrial countries and restored investor confidence in emerging economies, Latin American countries are also expected to show swift recovery in 2004.

II. Output and Inflation

Annual GNP growth for 2003 has exceeded the targeted rate at 5.9%.

As a result of recovery in consumption expenditures and private sector investments and soaring exports, economic growth in 2003 was realized at a higher rate than predicted. The exchange rate which stood at 1,650,000 TL at the start of 2003, was below the 1,400,000 TL mark as the year drew to an end; with the annual average exchange rate at 1,490,000 TL. In the same period, the ISE 100 Index, in comparison to the beginning of the previous year, increased by 75% to reach the 19,000 mark, and nominal interest rates in secondary markets have plummeted from 56% to 24%. On the other hand, total unemployment in 2003 was higher than last year at 10.5%.

The largest contributors to GNP growth this year, as was the case in the previous year, have again mainly been the industry and trade sectors.

GNP growth in the final quarter of the year was recorded as 7.2%. In the first nine months of the year, industrial production was mainly export-oriented, however, with increased domestic demand, production increased by 7.8%, contributing 2.3 points towards GNP growth. If the Central Bank's calculations regarding periodical

movements are taken into consideration, it can be inferred that industrial production will contribute significantly to growth in the subsequent six month period, however, in the second half of the year it is predicted to decline somewhat. The agricultural sector, as anticipated, has declined by 9.6% in the last quarter, and has fallen 2.5% annually, contributing adversely to GNP growth. Nevertheless, due to a biannual seasonal effect the agricultural sector is expected to make a positive contribution to growth in 2004. The increase in industrial production has had favourable effects on trade and the transportation sector. Other components that affect these two sectors are developments in imports because they create transportation and marketing activities for imported goods. Imports have increased by 27% on an annual basis with a 42% share in GDP. As a result, trade and transportation in 2003 have grown by 8.1% and 8.4% respectively, whilst contributing 1.9 and 1.1 percentage points respectively towards annual growth. Due to immense production in the manufacturing industry, importation of intermediate goods, thus total imports has risen, at the same time increasing tax revenues. Import duties have contributed 1.2% to annual growth by increasing 23%.

In the short-run, the construction sector is expected not to make a positive contribution to growth.

Following a 5.6% contraction in 2002, the construction sector continued with its third consecutive year of downfall in 2003 as it declined further by 9%. Since the devastating earthquakes of 1999, the sector has shrunk overall by approximately 26%. Considering the course of both private and state construction investments, this sector is

highly unlikely to make a positive contribution towards growth in the short-run. Looking at construction statistics, according to building usage permits (metre square), the downward trend continues. National accounts affirm that, under the assumption that 70% of construction investments correspond to added value only after two or three years, the current downward trend in permits will not allow a recovery in this sector in 2004 either.

Decreasing inflation, appreciation of the TL and declining interest rates have created a favourable environment for decision making in investment and consumption in 2003.

GDP growth for 2003 has been 5.8%. Private consumption expenditures have risen by 6.6% to contribute 4.2 percentage points towards GDP growth. On a sub-items level, expenditure on consumer durables made the most striking contribution to growth. This expenditure item had contracted by 30% following the 2001 crisis, and managed a mere 2% growth in 2002. Investment expenditure increased by 10% to add on only 1.9 percentage points to growth. Sub-items reveal that the major increase in expenditure occurred in private sector machinery and equipment. The increase in consumer durables can primarily be attributed to the appreciation of the TL. What lies behind heightened investment in machinery and equipment can, on the other hand, be explained by the increase in industrial production, thus the necessity for larger capacity. Due to the tight fiscal policy in practice, cut-backs in government expenditures have continued, hence an 11.5% fall in government investment. Government consumption has continued in its

GNP	2002	2003	2002	2003
	Total	Total	Total	Total
Sectors	Annual % change		% point contr. to growth	
- Agriculture	6.9	-2.5	1.0	-0.3
- Industry	9.4	7.8	2.7	2.3
- Construction	-5.6	-9.0	-0.3	-0.4
- Trade	11.0	8.1	2.5	1.9
- Transport. and Com.	6.0	8.4	0.8	1.1
- Financial Institutions	-7.1	-6.3	-0.2	-0.1
- Import Duties	24.7	22.6	1.1	1.2
- GNP	7.9	5.9		

Source: SIS

GDP	2002	2003	2002	2003
	Total	Total	Total	Total
Composition	Annual % change		% point contr. to growth	
Priv. Final Consum.	2.1	6.6	1.4	4.2
Govern. Final Consum.	5.4	-2.4	0.5	-0.2
Gross Priv. Fix. Cap. Form.	-5.3	20.3	-0.8	2.6
Gross Pub. Fix. Cap. Form.	8.8	-11.5	0.5	-0.7
Change in Stocks	---	---	7.1	3.0
Exports of Goods, Serv.	11.1	16.0	4.3	6.3
Imports of Goods, Serv. (-)	15.8	27.1	5.1	9.4
-GDP	7.9	5.8		

Source: SIS

declining trend and has fallen by 2.4%. Figures point out that export- the locomotive of output- has risen by 16% compared to last year. Leading indicators imply that as a consequence of recovery in Europe, US and Japan, exports will contribute positively to growth in the first half of 2004. Import figures reveal that, besides previously mentioned reasons, increased domestic demand for consumer goods is also behind this observed increase. Depending on developments in domestic and foreign demand, it is predicted that imports will continue to rise in the subsequent period. Inventory movements, as discussed in detail earlier on, due to a methodological problem, turned out higher than they actually were. Inventories are, however, expected to start on a decreasing trend next period.

Growth in 2003 was mainly export-oriented.

In comparison to 2000, we can see that private consumption and investment expenditure in 2003 turned out to be 1.1% and 25.8% lower, respectively; therefore, it is safe to say that private consumption and investment expenditure has not yet reached pre-crisis levels. Compared to 2000, the Turkish economy grew 5.6%, with exports having been the major driving force. For instance, exports compared to 2000, - with constant prices- went up by 38.4%. In light of all these developments, it can be inferred that 2003 was a year of mainly foreign trade growth, however, growth in 2004 may likely occur on the domestic demand-side.

Annual inflation has continually fallen in the first quarter, assuring that the end-of-year targets will be achieved.

Despite sharp rises in agricultural prices

in January and February, and in manufacturing industry prices in March, high inflation rates are continuing to fall in accordance with end-of-year targets. Increases in seasonally adjusted monthly CPI and WPI have been on average 0.7% and 0.9% respectively. The exchange rate, as of the end of December, stood at 1,400,000 TL, falling to 1,325,000 TL in the period covering January-March 2004, the fluctuation rate that was 2.5% in the last quarter of 2003, went down to 1.3% in the first quarter of this year. Circumstances regarding real wages and efficiency have also supported the downward trend in inflation. In addition, the lowering of energy prices has alleviated pressure on production costs, whereas the recent rise in oil prices has caused an increasing effect. High increases observed in the manufacturing industry in March, was mainly down to the increase in private consumption tax for tobacco and oil goods and rising state-controlled prices in the primary metal sector parallel to the trend in global markets. The continuing persistent appreciation of the TL remains to have favourable effects on CPI goods. The rigidity in service prices, as in housing rents, is yet to be broken. In this respect, as of March, increases in annual WPI and CPI turned out as 8% and 11.8%, respectively.

The downward trend in inflation in the first quarter of the year has improved expectations for the remainder of the year.

Whilst the consumption and investment aspects of growth are expected to strengthen in 2004- since a sharp increase in domestic demand that would push output above the potential level is not foreseen- they are not expected to cause a heating in the economy in the subsequent period. In terms of cost

components, government pricing behaviour is anticipated to be one of the fundamental determinants of inflation. This being the case, it is of vital importance that monetary and fiscal policies should be implemented in accord with inflation targeting. On the other hand, upward tendencies in crude oil and iron and steel prices are crucial risks facing inflation rates in the ensuing period. The CB has once again emphasised that it will continue to base monetary policy decisions on future expectations, and that it will take into account expected, not realized, inflation rates. These developments have been reflecting positively on expectations for the future. According to a CB expectations survey, the end of year CPI expectation has been determined as 0.6 points below the targeted rate at 11.4%.

III. Fiscal and Monetary Policies

The consolidated budget has shown a positive performance in the first quarter of 2004.

2004 saw the introduction of the accrual - based accounting system, causing a delay in the announcement of budgetary figures due to administrative and technical preparations required in analytical budget classification. Although this delay and the mediocre outlook in the first two months had caused concern in markets, it soon subsided as budgetary figures for March turned out to be better than expected. During the January-March period a total of 23.9 quadrillion TL revenue was collected and 30.8 quadrillion TL - of which 14.9 quad. TL interest and 16 quad. TL non-interest payments- were posted under expenditures. Thus, as of the first three months of the year, the consolidated budget, whilst attaining a primary surplus of 7.9 quad TL, gave out a deficit of 7.0 quad TL. The primary surplus defined by the IMF has reached 7.2 quad TL, achieving 34% of the end-of-year target in the first three months of the year.

Budget performance, the main component in IMF reviews in 2003, will remain to be the primary indicator observed by markets in 2004. In this respect, when figures covering the pre-local elections period for the first quarter are compared to those of the previous year, the economy is giving out positive signals. Whereas, the budget deficit

brought about by an increase in monthly minimum wages and pensions in 2004, is to be countered by a 7 quad TL fiscal supplement package comprised of measures that cut –back on expenditures and raise revenues. Within the current structure of the public sector, however, taking into consideration that the contribution of precautionary measures will be limited in the long-run, determination in the implementation of reforms will prove to be crucial in achieving the targeted primary surplus - the foundation stone of the program- and sustainability of the improvement in fiscal finance. In this sense, the swift completion of reform endeavours started in areas such as tax administration, social security, public administration and idle employment in SEE's, is vital for establishing the concept of fiscal discipline in the medium and long-run.

In the first three months, tax revenues increased above the expected level.

Tax revenues are expected to increase by 18% in 2004 compared to the realized rate of the previous year, whilst tax revenues have increased by 26% in the first quarter when measured up to the same period last year. With consumption picking up, the increase in PCT brought on by the supplementary package and the temporary corporations tax in February, has been effective in the increase in tax revenues for the first quarter. Declaration based VAT and VAT collected from imports on an increasing trend due to high performing foreign trade, have been other items effecting positive performance. In addition to increased tax revenues, non-tax revenues comprising largely of treasury portfolio shares and revenues, especially in March, have contributed significantly to achieving an optimistic environment in the first quarter of 2004. Consequently, total consolidated budget revenues for the first three months makes up for 23% of the end-of-year target.

In the short-term, high revenue performance is vital for achieving budgetary targets. Attempts at smoothing out an ill-performing budget through aide of increased tax rates or inclusion of new revenue items, have resulted in an upward trend - as opposed to a worldwide decrease- in

tax rates in Turkey. Indirect taxes have constituted the main portion of total tax revenues; the share of direct taxation accounted for only one-third of all revenue. In this respect, not only short-term gains like positive budgetary realizations for the first three months of 2004 should be considered; accordingly, achieving long-term gains such as enhancing efficiency in tax administration, fighting unregistered activities and broadening taxation coverage for providing fiscal discipline, should also be aimed at.

Interest payments turned out to be lower than expected due to the disciplined course of other current and investment expenditures, thus causing a reduction in total expenditures.

The consolidated budget, in comparison to the same period of last year, has gone up by 3.2%, and primary expenditures have exhibited an increase of 13.2%. Lower than anticipated interest payments, despite heavy redemption payments in the first months of year, have been the foremost factor that has restrained nominal increase. Total interest payments, due to recovery in the funds market, have been 14.9 quad TL, whilst other items such as social security payments and agricultural subsidies have cost 4.6 quad TL and 0.9 quad TL, respectively. As stated in the fiscal supplement package announced by the government, other current and investment items have continued their steady course; according to end-of-year allocations, the lowest realizations were exhibited by these items.

In the first three months of the year, 20.6% of end-of-year allocations have been used up. Improved macroeconomic conditions due to the economic program in exercise, having

effected interests rates, have alleviated the burden of interest payments on the budget. On the other hand, investment expenditures have been constrained due to low primary payments, however, the chronic magnitude of social security payments have accelerated the fall in quality expenditures such as investments. Therefore, in order to attain permanent budgetary improvements, it is of vital importance that conservationist measures should be backed-up by structural reform.

A primary surplus of 6.5% of GNP is targeted in the public sector for 2004.

The total public sector primary surplus was 6% of GNP in 2003. Following 2002's under-performing budget due to fiscal laxation, last year's outstanding budget has had positive effects on macroeconomic indicators. With regard to sustaining fiscal discipline, a primary surplus of 6.5% is targeted for 2004; lower limits, which serve as indicators, corresponding to quarterly periods have been formed in order to follow fiscal balance. Total public deficit- which turned out lower than the consolidated budget deficit for the first time ever in 2001- is expected to proceed in the same trend in 2004. Controlled price adjustments, facilitated by the fiscal balance of non-consolidated budget items, will enhance the harmony of monetary and fiscal policies in the fight against inflation.

Improvement in the Treasury's borrowing costs still continues.

The re-scheduling of IMF debt repayments and the agreement of a 8.5 billion dollar credit package with the US in 2003, have, at least for the remainder of this year, lessened concerns over heavy debt servicing. Moreover, confidence in markets and

CONSOLIDATED BUDGET (quadrillion TL)	2003			2004		
	Jan-Mar (1)	Jan-Dec (2)	Ratio (1)/(2)	Jan-Mar (1)	Jan-Dec Prog. (2)	Ratio (1/2)
REVENUES	18.9	93.1	20.3%	23.9	104.1	22.9%
Tax Revenues	14.8	75.6	19.6%	18.7	88.9	21.0%
Non-tax Revenues	4.1	17.5	23.4%	5.2	15.2	34.2%
EXPENDITURES	29.8	132.4	22.5%	30.8	149.9	20.6%
Primary Expenditures	14.0	73.9	19.0%	16.0	83.9	19.0%
Interest Payments	15.8	58.5	27.0%	14.8	66.0	22.4%
BUDGET DEFICIT	10.9	39.3	27.7%	7.0	45.8	15.2%
PRIMARY SURPLUS	4.9	19.2	25.4%	7.9	20.2	39.0%

Source: Ministry of Finance

positive investor expectations has lowered average costs, and domestic borrowing maturities have moved alongside developments in risk premiums. The rate on the Treasury's reference auction with a three month maturity, which was 38.3% in 2003, was pulled down to 23.4% in April. According to weighted averages, the Treasury having borrowed in 2003 with 293 days maturity for 46.4% compound interest, enjoyed an improvement in the first quarter of 2004 by prolonged maturities of 379 days for 26.0% compound interest.

The domestic debt stock which stood at 194.4 quad TL at the end of 2003, having exhibited a 9.3 quad TL increase in the first three months of the year, has now reached the 203.7 quad TL (155.3 billion dollars) mark. In terms of FX / interest structure, the break-down of domestic debt is as follows: 33% is in fixed interest, 43% in floating interest, and 19% in FX linked or denominated securities. Thus, the 67% portion of domestic debt- excluding fixed interest- is vulnerable to exchange rate and premium risks. The portion of domestic debt dependent on the borrowing rate, exchange rate and inflation is considerably large, whilst the section in fixed interest is short in maturity; thus, making the burden of short-term debt servicing rather heavy. In the case of prolonged economic instability, the current vulnerable state may inflict adverse effects on inflation expectations. In contrast, the consolidated budget's foreign debt has dropped by 0.9 billion dollars in the first quarter to reach 62.6 billion dollars as of March. The treasury's direct liabilities, therefore, have reached 217.9 billion dollars. This burdensome debt stock remains to stand as an obstacle in front of recovering economic fundamentals. Although the TL's appreciation has been having positive effects on the debt stock, the government's adherence to tight fiscal policies and the continuation of structural reforms, under fragile debt dynamics, remain to be crucial factors in steadily bringing down interest rates.

In terms of the course of inflation, the expansion in money demand ought to be monitored closely.

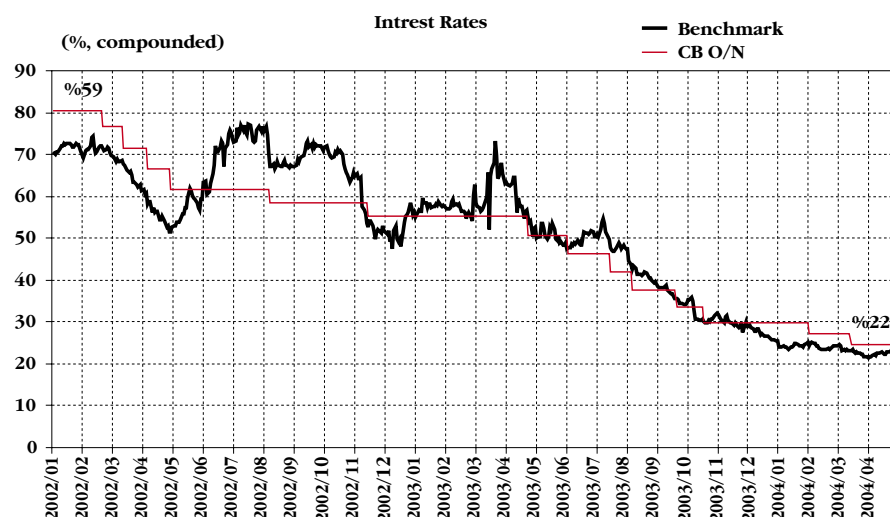
Fundamental structural reforms such as the statute change securing the autonomy of the CB and sweeping

measures taken in order to establish a robust banking system have been a great deal steadier in 2001 and 2002 in comparison to earlier years; together with strict measures ensuring the continuance of fiscal discipline, these reforms have made way for economic stability. As of this current period, the monetary leg of the economic program has been quite effective through guarded fiscal discipline and the continuance of structural reforms. Throughout the last two years, the CB, having performed in accord with the monetary program, was able to fulfil monetary criteria. During October and November in particular, however, the revival of domestic demand having bought about a significant expansion in emission, led to an unexpected increase in the monetary base. This expansion, led on by the boost in domestic demand, was accelerated by the upward trend in consumer loans and credit card rates. On the other hand, with the payment of İmar Bank deposits commencing, deposits subject to required reserves have exceeded the sum base. Targets set forth for net domestic assets and net foreign reserves were attained in March, whilst realizations for the monetary base came slightly below the pre-set level. Although the current deviation in the monetary base can be tolerated by controlling the CB's main means of policy, short-term interest rates, the persistence of rising consumption demand next period may lead to a monetary expansion which will fall inconsistent with the inflation target. In this respect, targets that have been

revised in the latest letter of intent should be closely observed, and the causes of monetary expansion and the signs pertaining to these developments must be well assessed.

The inflation target is progressively becoming a more reliable nominal anchor.

Last year, despite remaining in the limits determined by CB balance sheet, at 39.6% the expansion in the emission volume was a great deal higher than realized inflation. In other words, in an environment with rapidly falling interest rates, the correlation between the monetary base and inflation has, in the short-run, been rendered weak; however, expansion of the monetary base has not adversely affected attainability of end-of-year inflation targets. Through controlled monetary policy, the CB continues to use the short-term rate as an effective policy tool. The CB, advancing on the favourable climate that was set especially in the latter half of 2003, has reduced short-term interest rates six times. With the current environment having positively effected inflation expectations in the first three months of this year, the CB has pulled-down short-term interest rates on February 5 and March 17. Thus, short-term rates, with 2 percentage points knocked off, have gone down to 22%. Reducing interest rates steadily has facilitated the CB to dispose of ex-post expectations, replacing them with ex-ante expectations. End-of-year inflation expectations in March were below the targeted level at 12%. A positive correlation between short-term interest



Source: CBT, İSE

rates and overall level of rates has not yet been established; the main factors influencing interest rates have been fiscal policies and political developments. In the ensuing period, the diffusion of expectations regarding the continuation of the program and coordination of monetary and fiscal policies will not only enable the CB to further reduce rates but it will also facilitate establishing the desired relationship between CB determined short-term rates and those in secondary markets. However, the rising trend in external prices such as oil and commodities- though not yet at a level to cause pressure on inflation- and the consumption boost will require that in the near future the CB should be cautious in making decision to reduce rates.

The share of TL denominated investment instruments are on the rise. The rapid fall in inflation and interest rates, along with the stability of the exchange rate, has increased the demand for TL denominated investment instruments. New funds in the financial sector are now turning towards TL denominated investment instruments, and bank deposits are getting their share of this process. In the first quarter, compared to 2003, M1 and M2 supply have expanded by 4.6% and 13.6%, respectively, whilst M2Y supply has grown by 3.1%. FX deposits, in accordance with the changes in agents' portfolio preferences in favour of the TL, shrunk by 1.4 billion dollars and as of the end of March fell to 47.4 billion dollars in total. The M2Y is composed of 40.5% FX deposits, 44.9% time deposits, 7.2% sight deposits and 7.4% currency in circulation. When monetary holdings excluding the banking system (78.6 quad TL) are included in the M2Y, the share of FX deposits fall to 27.7%, making inverse currency substitution more evident.

MONETARY AGGREGATES	(quadrillion TL)		(% change)	
	March 2003	March 2004	Nominal	Real
M2YR (M2Y+R)	136.8	157.5	%15.1	%6.6
M2Y	132.9	154.5	%16.3	%7.7
M2Y	(composition)			
Currency in Circulation	%5.9	%7.4	%44.7	%34.0
Sight Deposits	%5.1	%7.2	%65.5	%53.3
Time Deposits	%36.7	%44.9	%42.2	%31.7
FX Deposits (TRL)	%52.3	%40.5	-%9.9	-%16.6

Source: CBT

The financial system is strengthening in concurrence with current economic growth.

Besides the positive effects created by structural reform steps taken towards resolving the problems of the banking sector, the reduction in interest rates and the appreciation of the TL have contributed towards establishing a healthier financial structure for the banking system. Although the banking system has not been able to keep up to pace with economic growth in the last two years, it has attained a stronger balance sheet and performed well in terms of profits. Developments in credit volume have moved in the same direction as the improving economic climate, however, credits were insufficient to meet the financing needs of growth. Compared to the end of 2002, the banking system credit volume having increased in real terms by 28%, despite this increase failed to move back up to its pre-crisis level. In other words, the financial system, upon entering a phase of re-capitalization, was expected to be a factor supporting growth, however, was not able to allocate sufficient amounts of credit. Consumer loans and credit card balances have, in total, compared to the end of 2002, grown 121% in real terms to enjoy a quite larger growth to those of the real sector.

IV. Foreign Trade and Balance of Payments

Falling costs and increased efficiency have placed exports into a stable growth trend.

The appreciation in the real exchange rate and increased domestic demand in 2003 have not created pressure on exports because the continuous decline in real wages and high increases in productivity have pushed down unit production costs, thus the loss of competitiveness attributable to the over-valuation of the TL has been largely compensated for. With costs going down, total exports grew 30.5% to reach 47.1 billion dollars in 2003. Although, throughout last year, the TL gained 12.1% value against the US\$ in terms of the CPI based index, export growth turned out to be a great deal higher, therefore, demonstrating that the exchange rate effect had diminished and significant competitive advantages had been achieved in other areas. The global economy, having stepped into a rapid growth trend in the latter half of last year, has played a major part in the growth of exports. In this period, the fast ascent experienced in the parity has caused the dollar value of total exports – of which 50% was with EU countries - to increase. Total imports have risen by 33.5% to reach 68.8 billion dollars within the same period. With the increase in exports remaining below the increase in imports, the foreign trade deficit grew by 40.3% and reached 21.7 billion dollars. The X/M ratio having dropped 1.5 percentage points compared to last year, stood at 68.4%.

The foreign trade volume will guard its high level in the subsequent period.

Total volume of foreign trade exceeded the 100 billion dollar mark for the first time ever last year to reach 115.9 billion

Monetary Targets for 2004*	March	April	August	December
Net International Reserves (CBT+Treasury)	-2.0	-2.0	-2.0	-2.0
Realization	0.7	--	--	--
Stock of Net Domestic Assets (CBT+Treasury)	29.6	31.6	33.3	33.4
Realization	27.3	--	--	--
Base Money	16.1	17.5	19.2	19.3
Realization	16.9	--	--	--

* floor (USD billion) for NIR, ceiling (TL quad.) for NDA and Base money

Source: LoI (02.04.2004)

dollars. The foreign trade deficit ratio, calculated by dividing the total volume of trade by national income, turned out to be 48.3%, thus revealing that the Turkish economy is strongly integrating with the global economy. Foreign trade continued its upward trend in the first two months of this year; exports and imports reached 8.0 billion dollars and 11.8 billion dollars, respectively, as of February 2004. Regarded as the leading indicators for trade, figures taken from the customs office and Turkish Exporters Assembly (TİP) reveal that both imports and exports will keep increasing throughout March, and that VAT collected from imports, support this current rising trend. The rapid growth of export-oriented industrial production, thus export, has increased the demand for intermediate and investment good- which constitute 90% of imports- signalling that trade volume for the next period will remain high.

In 2003, the current deficit to national income ratio was 2.8%.

The current account balance, having produced a 1.5 billion dollar deficit in 2002 due to the increase in the trade deficit, gave a 6.6 billion dollar deficit in 2003. Net tourism revenues increased by 68.1% last year to exceed 11 billion dollars; thus the services balance that had been bad since 2000, created a 10.5 billion dollar surplus to become the most vital item restraining the deficit. The workers' remittances item, after contributing positively to current account balance for many years, was historically low at 729 million dollars. The changes observed in tourism and workers' remittances, however, have come about mainly due to modifications made in the classification of items. An increase in interest expenditures due to the rise in interest payments on long-term debt throughout 2003, and rising portfolio investment costs due to dividend payments on stocks purchased by foreigners, resulted in a 5.4 billion dollar investment revenue deficit, thus causing an adverse effect on the current account deficit.

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

The 6.6 billion dollar deficit for 2003 was compensated for by a 5.5 billion dollar capital inflow and 5.1 billion dollars worth of net errors and

omissions, thus increasing foreign reserves by 4.0 billion dollars. When financing items are examined, we see that direct investments have not been financed significantly, and that portfolio investments, which experienced a 593 million dollar outflow last year, flowed inwards amounting to a total of 2.2 billion dollars. The non- portfolio and non- direct investments made the largest contribution with 3.2 billion dollars. Financing the 6.6 billion dollar deficit for 2003 has not created a severe problem. The high level that the net errors and omissions item has achieved is creating uncertainty in financing the trade deficit because its source cannot quite be explained. In an environment with large deficits, financing through definable and foreseeable methods will play a significant role in eliminating concerns regarding the trade deficit. For instance, the current account deficit produced a deficit of 783 million dollars in January, whereas the net errors and omissions item increased by 1.2 billion dollars. Rather than the level of the current account deficit caused by large trade deficit in the first month, capital outflow due to an unknown source in the same period determined concerns pertaining to developments in the balance of payments

V. Prospects for 2004

The Turkish economy has encountered a period in which it can simultaneously achieve low inflation and high growth.

The increase in domestic demand which began to pick up in the final quarter of last year is expected to continue, however, this situation is not predicted to cause over-heating in the economy. The fall in unit costs and anticipated increase in investments is expected to reduce inflationist pressure that may appear in this period. The continuation of the current economic program focusing on public sector reform and taking measures to ensure increased efficiency will further consolidate this situation. The current economic performance, upon completion of efforts aimed at improving the investment environment, will attract the attention of foreign investors- which is already pointed in the direction of emerging markets- towards Turkey. Furthermore, considering that the Turkish economy's vulnerability to

external shocks has diminished due to the economic program in practice, fluctuations in oil prices and exchange rates- provided not to be long-term- are not expected to inflict significant effects on overall balance. On the other hand, US interest rates that are anticipated to increase during the summer are expected to adversely affect capital inflow to emerging markets and cause serious increases in interest rates on debts. Consequently, the post-referendum Cyprus process, membership talks with the EU and the anticipated interest rate increase by the FED are going to be the main factors determining the course of the economy in the subsequent period.

TÜSİAD envisages a 5.0% growth in GDP in 2004.

In the 2004 primary scenario, the above-mentioned factors that are to determine the course of the Turkish economy are foreseen to take place in a manner that they shall balance out one another. In this respect, it is predicted that growth in 2004 will be 5%, and that inflation will be realized at around the end-of-year target. TÜSİAD's end-of-year inflation predictions have been revised as, 11.3% and 12.8% for CPI and WPI, respectively. Real interest rates are expected to progressively decrease throughout next period as well and fall to an annual average of 8.5%. In 2004, the TL is expected to appreciate a while longer, but due to the situation of the current balance, the exchange rate is predicted to enter a re-appreciation phase, with the expected nominal exchange rate standing at 1,500,000 TL as the year draws to an end. Under the assumption that the economic program- which we believe to be the determining factor in the macroeconomic scenario- shall be carried on with, we predict that the IMF defined consolidated budget primary surplus to national income ratio will turn out to be 5.0%. With regard to foreign balance, it is predicted that exports will continue rising, and will reach- excluding shuttle trade – 58.5 billion dollars, and imports are expected to amount to a total of 82.5 billion dollars. With developments in the invisibles item, the current account deficit is expected to increase in accord with the trade deficit and reach 8.0 billion dollars in 2004.

TABLE 1.1 MAIN ECONOMIC INDICATORS (2003-2004)
PRODUCTION AND PRICES

	2003												2004			
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.		
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)																
Annual % Increase	5.1	2.6	3.7	9.6	9.8	9.2	10.7	10.9	2.3	20.4	7.3	15.6	..	..
Monthly % Increase	23.7	-4.8	5.1	2.0	1.0	-2.8	8.2	5.1	-11.3	13.7	-10.8	-8.7	..	..
Monthly % Increase (seasonally adjusted)	4.5	2.6	4.5	8.9	9.8	9.9	9.7	10.9	3.2	20.0	7.4	11.9	..	..
CAPACITY UTILISATION RATE (SIS, %)																
	78.3	75.9	78.7	80.1	79.8	79.3	83.5	80.4	79.6	79.5	77.2	73.4	82.3	..		
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)																
Real Wage per hour (annual % increase)	..	..	..	-5.3	..	..	-3.8	..	..	2.4	..	..	..	..
Real Income per worker (annual % increase)	..	..	..	-10.6	..	..	-8.2	..	..	-0.9	..	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)																
Annual % Increase	35.2	35.1	33.7	29.6	25.6	22.7	19.1	16.1	16.2	13.9	10.8	9.1	8.0	..		
Monthly % Increase	3.2	1.8	-0.6	-1.9	-0.5	-0.2	0.1	0.6	1.7	0.6	2.6	1.6	2.1	..		
Monthly % Increase (seasonally adjusted)	2.2	1.6	0.9	0.7	0.4	0.6	-0.2	-0.6	1.6	0.0	0.7	0.8	1.2	..		
CONSUMER PRICE INDEX																
Annual % Increase	29.4	29.5	30.7	29.8	27.4	24.9	23.0	20.8	19.3	18.4	16.2	14.3	11.8	..		
Monthly % Increase	3.1	2.1	1.6	-0.2	-0.4	0.2	1.9	1.4	1.6	0.9	0.7	0.6	0.9	..		
Monthly % Increase (seasonally adjusted)	3.2	1.7	2.0	1.5	0.7	0.7	0.6	0.1	0.9	1.0	0.3	0.7	1.0	..		
EXCHANGE RATE (CB buying rate)																
TL/US\$ (monthly average)	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	1,340,197	1,322,906	1,315,376	..		
Annual % Increase	22.9	23.2	6.7	-7.1	-15.5	-14.5	-16.6	-13.6	-7.9	-10.4	-19.1	-18.3	-20.8	..		
Monthly % Increase	2.5	-2.5	-8.4	-4.4	-1.5	-0.1	-1.7	3.7	3.5	-3.1	-6.0	-1.3	-0.6	..		
TERMS OF TRADE (SIS, 1994=100)*																
External (Export/Import)	90.2	90.3	89.9	91.3	91.4	91.0	94.2	95.2	93.7	94.9	95.4	..	..	..
Internal (Agriculture/ Manufacturing)	106.8	99.7	99.6	100.2	100.3	100.3	100.4	100.8	100.3	99.8	99.7	99.1	99.7	..		
DOMESTIC BORROWING (weighted by sales volume)																
Compounded Annual Interest Rate (%)	60.1	58.2	51.7	47.0	46.9	39.0	36.8	30.1	28.7	28.0	27.6	25.7	24.4	..		
Average Maturity (days)	303	276	333	308	287	299	370	350	293	310	391	379	365	..		

(..) Not available

(*) Seasonally adjusted series are used in calculation

TABLE 1.2 MAIN ECONOMIC INDICATORS (2003-2004)
BALANCE OF PAYMENTS

	2003												2004		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.		
CURRENT ACCOUNT BALANCE (monthly, million \$)															
Imports (CIF)	-1,258	-890	-714	-712	-227	921	715	84	-417	-2,728	-783	..	..
Exports (FOB), excluding shuttle trade	5,725	5,187	5,509	5,711	6,246	5,960	6,177	6,557	5,191	8,061	5,928	..	..
Foreign Trade Balance	3,898	3,656	3,855	3,791	4,232	3,823	4,106	4,809	3,934	4,517	4,414	..	..
Invisibles	-1,827	-1,531	-1,654	-1,920	-2,014	-2,137	-2,071	-1,748	-1,257	-3,544	-1,514	..	..
	-64	53	255	562	1,146	2,298	2,012	992	176	-12	123	..	..
BALANCE OF PAYMENTS (Cum. for the last 12 months, million \$)															
Current Account Balance	-3,526	-3,753	-4,180	-5,033	-5,333	-4,852	-4,654	-5,004	-5,195	-6,609	-7,203	..	..
Imports (CIF)	55,354	56,328	57,533	59,307	60,953	62,494	64,161	65,888	66,117	68,808	70,353	..	..
Exports (FOB), excluding shuttle trade	39,237	40,432	41,638	42,958	44,354	45,597	46,879	48,634	49,325	50,945	51,673	..	..
Foreign Trade Balance	-16,117	-15,896	-15,895	-16,349	-16,599	-16,897	-17,282	-17,254	-16,792	-17,863	-18,680	..	..
Invisibles	6,126	6,009	5,802	5,545	5,674	6,752	7,642	7,573	7,287	7,112	6,990	..	..
Capital Flows*	4,026	2,805	3,541	3,592	4,394	5,041	8,333	6,024	4,390	5,597	4,798	..	..
Net Direct Investments	751	715	500	440	467	318	259	-92	-36	76	100	..	..
Portfolio Investments	-609	-1,502	-196	1,061	796	1,578	3,136	2,798	2,306	2,235	2,538	..	..
Net Other Investments	3,871	3,575	3,217	2,053	3,084	3,094	4,898	3,319	2,165	3,318	2,197	..	..
Central Bank	997	909	877	821	721	593	530	521	512	469	434	..	..
General Government	-797	-832	-931	-1,117	-1,116	-1,681	-1,848	-1,951	-2,070	-2,194	-2,187	..	..
Banks	2,814	2,621	2,351	1,426	2,565	2,824	4,458	2,582	2,132	3,189	2,036	..	..
Other Sectors	857	877	920	923	914	1,358	1,758	2,167	1,591	1,854	1,914	..	..
IMF Credits (net)	3,211	2,758	2,719	2,602	1,387	374	256	0	-430	-50	-213	..	..
Net Errors and Omissions	294	562	1,685	3,345	3,513	2,974	2,996	3,929	4,012	5,109	4,848	..	..
Reserve Assets**	-3,792	-2,160	-3,556	-4,297	-3,753	-3,361	-6,783	-4,875	-2,738	-4,047	-2,230	..	..
FOREIGN TRADE (annual % increase)															
Imports	45.4	23.1	28.0	45.1	35.8	34.9	37.0	35.8	4.6	50.1	35.2	44.3	..		
Exports	33.5	33.3	28.5	36.8	36.3	28.5	27.6	37.3	9.5	39.3	25.1	21.7	..		
Price Index (1994=100)															
Imports	11.9	9.8	9.4	5.8	5.8	7.0	3.0	3.2	5.8	6.0	8.4	..	..
Exports	11.8	10.5	8.4	8.3	8.6	8.6	9.1	10.2	11.4	13.1	17.1	..	..
Quantity Index (1994=100)															
Imports	40.9	15.2	21.6	47.8	38.5	36.7	47.3	46.3	6.3	56.7	24.4	..	..
Exports	26.0	17.9	21.5	31.2	26.8	22.9	16.5	27.4	2.2	40.7	7.0	..	..

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

(**) Positive sign indicates decrease in reserves

(..) Not Available

TABLE 1.4 MAIN ECONOMIC INDICATORS (2003-2004)
MONETARY AGGREGATES

	2003												2004		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.		
MONEY SUPPLY (annual % change)															
Currency in Circulation	60.3	48.6	47.1	44.6	49.3	46.9	50.4	45.2	51.3	40.5	78.3	45.9	44.7		
Sight Deposits	2.6	34.0	13.0	19.5	45.1	29.2	30.3	51.2	40.4	62.2	50.8	46.4	65.5		
M1	27.3	41.0	27.9	31.1	47.2	37.5	39.8	48.3	45.7	51.2	63.9	46.2	54.3		
Time Deposits	26.3	21.2	23.8	26.1	25.6	30.8	31.5	29.9	28.9	26.5	41.7	43.4	42.2		
M2	26.6	25.5	24.8	27.3	30.6	32.4	33.5	34.4	33.1	32.2	47.0	44.1	45.0		
FX Deposits (TL)	30.5	22.2	7.2	-2.0	-9.3	-8.2	-9.0	-0.8	5.2	-4.6	-12.2	-9.9	-9.9		
M2Y	28.6	23.8	15.5	11.3	8.2	9.8	9.9	15.1	18.4	12.3	14.9	15.5	16.3		
Repo	9.3	-0.2	-27.3	-34.1	-30.1	-33.8	-12.1	-18.0	41.4	9.4	62.8	59.6	61.0		
M2YR	27.9	23.0	14.2	9.9	7.1	8.4	9.4	14.2	18.8	12.2	12.2	12.9	12.9		
Official Deposits	52.7	32.2	105.4	73.8	54.6	94.8	89.7	57.3	91.7	111.3	23.6	102.1	89.1		
Other Deposits With CBRT	40.7	189.7	251.2	91.7	221.5	-58.9	-36.4	72.4	-13.7	-15.2	-8.7	-67.1	-48.4		
M3Y	29.2	25.3	18.7	13.1	10.0	10.0	11.0	16.6	19.4	13.8	14.8	15.4	17.1		
M2Y (trillion TL)	132,878	129,764	126,942	130,509	133,604	133,875	137,868	147,435	149,198	149,855	154,124	152,458	154,505		
Composition of M2Y (%)															
Currency in Circulation	5.9	6.0	6.1	6.6	6.9	6.8	7.0	6.7	7.4	6.8	8.0	7.1	7.4		
Sight Deposits	5.1	5.9	6.0	6.4	6.9	6.9	6.9	7.5	7.3	7.6	7.5	7.3	7.2		
Time Deposits	36.7	37.1	39.1	39.1	39.2	39.8	40.2	38.4	38.5	39.6	43.1	44.3	44.9		
Foreign Exchange Deposits	52.3	50.9	48.8	48.0	47.0	46.5	45.9	47.4	46.8	46.0	41.5	41.3	40.5		
Total	100	100	100	100	100	100	100	100	100	100	100	100	100		
CREDIT STOCK (domestic, annual % change)	19.6	20.0	12.7	20.6	21.6	29.7	31.7	42.5	52.8	48.2	45.3	48.2	43.5		
Deposit Bank Credits	18.2	18.6	11.2	20.4	22.4	31.2	33.4	44.6	55.8	50.8	47.3	51.4	46.2		
Private	-0.1	8.0	6.8	44.1	59.3	67.9	74.2	85.8	93.7	93.4	89.4	91.9	101.8		
Public	9.6	19.2	23.6	25.9	27.9	34.7	40.7	49.5	54.2	66.7	81.2	87.3	101.6		
Invest. and Develop. Bank Credits	37.5	37.8	30.4	22.6	14.1	15.1	15.1	20.6	22.5	21.7	25.1	16.3	14.5		
CB BALANCE SHEET (million \$)															
Base Money	7,027	7,679	8,629	8,971	9,651	10,024	10,368	10,336	11,547	11,003	13,815	12,768	13,390		
Net Domestic Assets	5,647	6,289	7,123	7,047	7,145	5,842	3,542	4,473	7,318	5,843	8,536	7,138	7,466		
Net Foreign Assets	1,380	1,390	1,507	1,924	2,506	4,182	6,826	5,863	4,229	5,160	5,279	5,630	5,925		
Net Position of Public Sector	15,687	15,918	15,804	15,863	17,130	14,975	15,175	15,066	14,495	14,509	14,482	15,951	15,391		
Liabilities Due to Open Market Operations	5,764	5,323	4,317	4,564	5,821	5,730	8,679	7,106	3,985	5,672	3,274	6,463	5,759		
THE CENTRAL BANK RESERVES (billion \$)	26.7	27.0	28.5	28.8	29.0	29.8	33.9	33.1	31.3	33.6	33.7	33.4	32.6		
FOREIGN DEBT STOCK (billion \$)	133.0	..	..	137.9	..	..	142.0	..	..	147.3	..	..	..

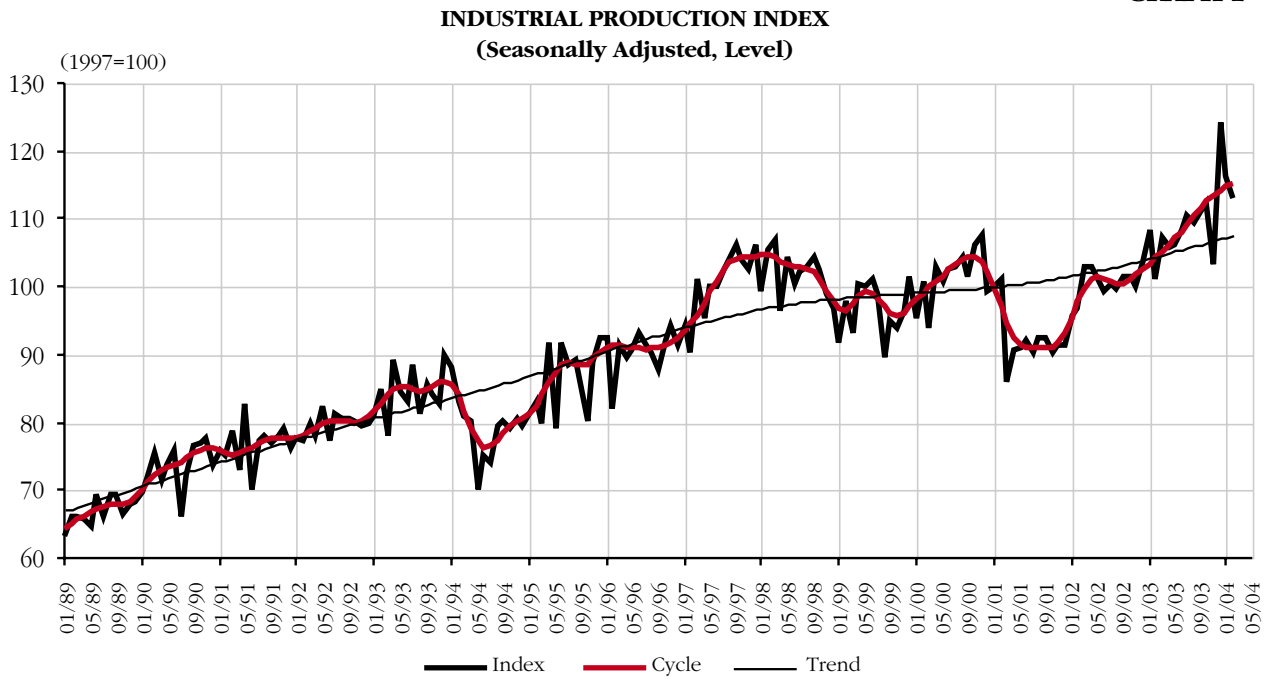
Net Foreign Assets= Foreign Assets-(Liabilities to Non- Residents+FX Deposits of Banking Sector)
 Net Domestic Assets= Net Position of Public Sector - Funds + Credits to Banking Sector+ Net Open Market Operations+Others+ FX Revaluation Account - Fund
 Net Position of Public Sector= Credits to Public 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)**

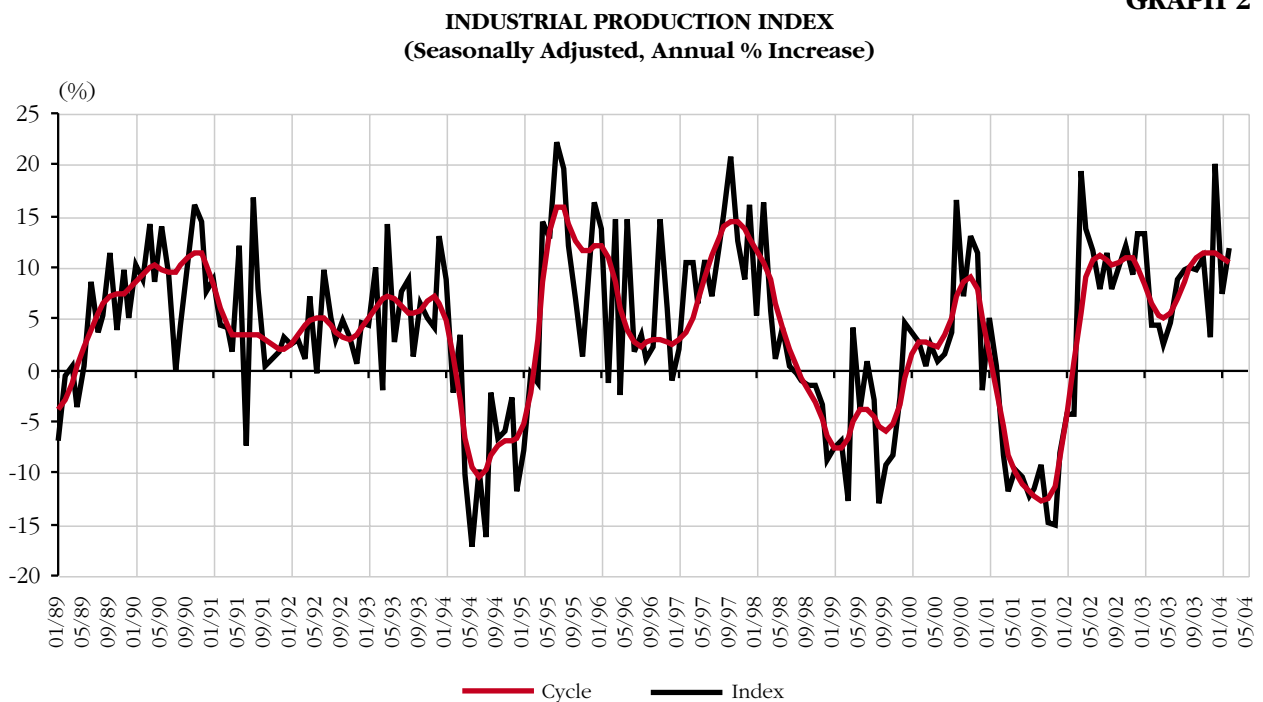
By Kind of Expenditure	Annual % Change				% Share	Annual % Change				% Share	Annual % Change						
	2002	2003	2003-1	2003-2		2003-3	2003-4	2002	2003		2003-1	2003-2	2003-3	2003-4			
Private Final Cons. Exp.	2.1	6.6	7.8	2.9	5.8	10.3	Agriculture	6.9	-2.5	2003	12.6	2003-1	-0.8	2003-2	-0.6	2003-3	-9.6
Food, Beverage	1.1	4.1	4.4	4.1	5.7	1.0	Agriculture and Livestock Prod.	6.8	-2.3	2003	11.8	-0.4	1.5	-0.6	-9.3		
Durable Goods	2.1	24.0	24.7	10.6	11.4	49.5	Forestry	15.4	-8.9	0.6	0.6	14.0	-23.8	-0.5	-20.2		
Semi-dur, Non-dur Goods	3.0	2.1	4.7	-4.5	3.7	3.8	Fishing	-4.1	1.4	0.3	0.3	5.2	1.2	3.8	-2.5		
Energy, Trans., Commun. Services	-0.2	2.2	5.0	-1.3	2.9	2.4	Industry	9.4	7.8	29.9	8.8	4.2	9.1	4.2	9.1	9.2	
Ownership of Dwelling	8.5	7.5	9.6	5.1	7.6	7.9	Mining and Quarrying	-4.4	-2.9	1.1	1.1	-7.0	-7.3	2.6	-0.8		
Gov. Final Cons. Exp.	1.8	1.4	1.4	1.4	1.4	1.4	Manufacturing	10.4	8.6	25.3	25.3	10.4	4.9	9.5	10.0		
Compensation of Empl.	0.7	0.8	0.0	0.8	1.4	1.2	Electricity, Gas, Water	8.0	5.7	3.5	3.5	4.1	3.1	8.4	7.1		
Purchases of Goods, Services	10.8	-5.9	-8.3	-5.2	-2.8	-7.4	Construction	-5.6	-9.0	4.0	4.0	-13.8	-12.7	-12.3	1.3		
Gross Fixed Capital Form.	-1.1	10.0	11.7	6.3	3.0	19.2	Trade	11.0	8.1	23.5	23.5	10.6	5.8	7.4	9.2		
Public Sector	8.8	-11.5	-34.8	-14.6	-22.7	5.0	Wholesale and Retail Trade	13.2	10.2	20.0	20.0	11.7	8.2	10.3	11.0		
Machinery Equipment	12.2	-19.2	-41.2	5.0	-43.3	-0.9	Hotels, Rest. Services	0.9	-3.0	3.4	3.4	3.6	-7.2	-5.0	-0.4		
Building Construction	19.7	-26.7	-37.5	-47.9	-34.9	-8.7	Transportation and Comm.	6.0	8.4	13.8	13.8	13.1	5.1	8.1	7.5		
Other Construction	0.4	4.0	-25.1	0.1	-4.2	19.2	Financial Institutions	-7.1	-6.3	1.9	1.9	-8.1	-8.5	-5.5	-3.2		
Private Sector	-5.3	20.3	22.6	14.2	16.4	30.1	Ownership of Dwelling	1.8	1.4	4.8	4.8	1.4	1.5	1.5	1.4		
Machinery Equipment	4.4	46.1	54.0	32.2	47.5	54.4	Business and Pers. Services	7.4	5.2	2.3	2.3	7.6	3.4	5.0	5.4		
Building Construction	-14.9	-11.4	-11.8	-11.8	-11.7	-10.0	Sectoral Total	7.5	5.1	91.3	91.3	7.9	3.2	4.7	5.3		
Change in Stock*	7.1	3.0	3.8	5.6	2.1	1.2	Government Services	0.7	0.8	4.2	4.2	0.0	0.8	1.4	1.2		
Export of Goods, Services	11.1	16.0	14.5	12.3	19.4	16.9	Private Non-profit Inst.	0.6	-1.0	0.3	0.3	-1.4	-1.9	-1.0	0.1		
Import of Goods, Services	15.8	27.1	22.0	24.7	28.3	33.0	Total	7.2	4.9	95.8	95.8	7.4	3.0	4.5	5.1		
GDP	7.9	5.8	8.1	3.9	5.5	6.1	Import Duties	24.7	22.6	6.1	6.1	19.0	20.0	26.8	23.7		
							GNP	7.9	5.9	100.0	100.0	7.4	3.6	5.6	7.2		

*Figures indicate percentage point contribution to GDP growth

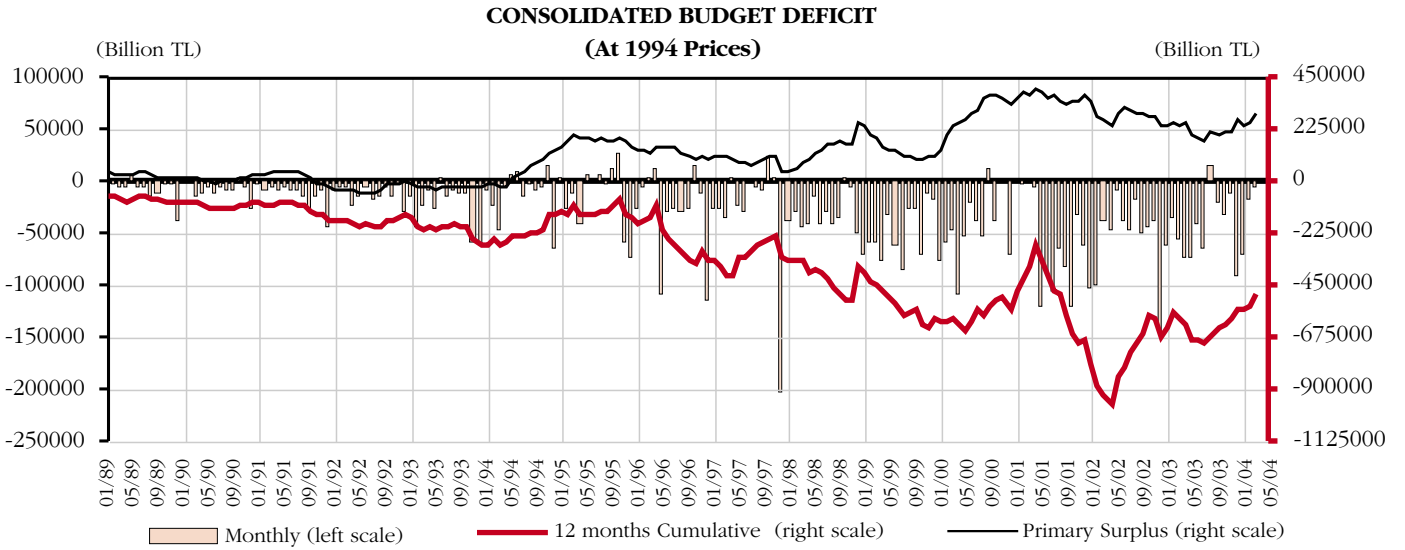
GRAPH 1



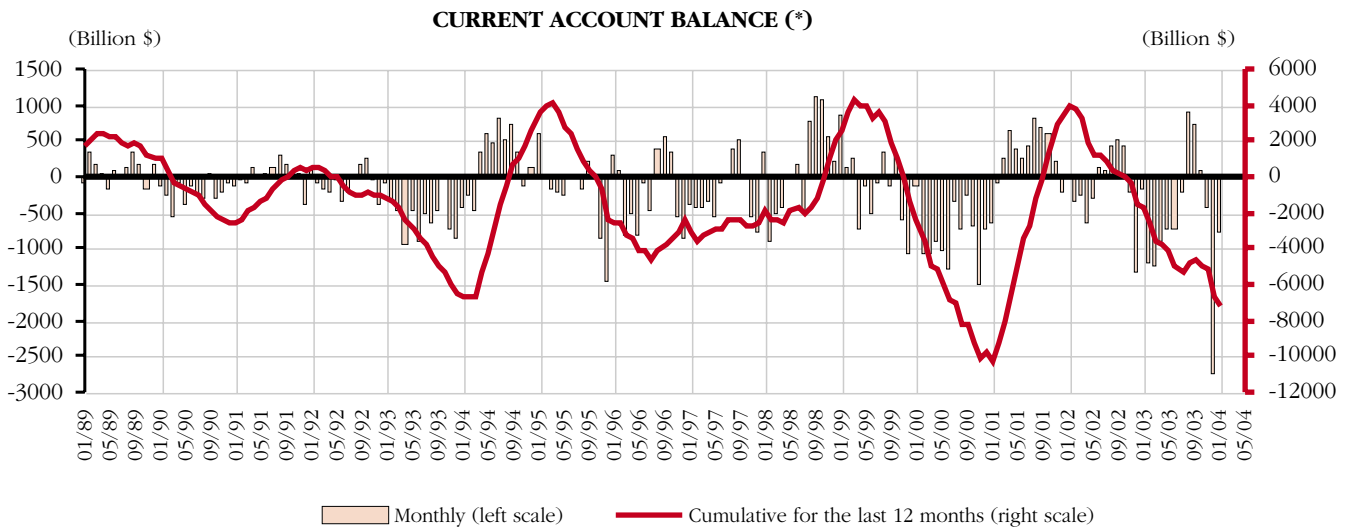
GRAPH 2



GRAPH 3

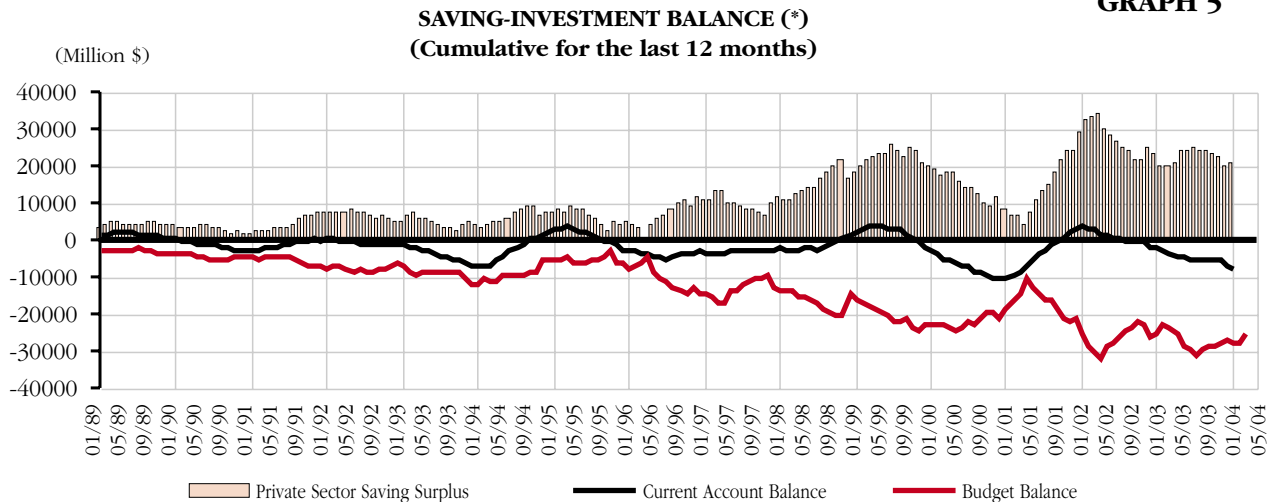


GRAPH 4



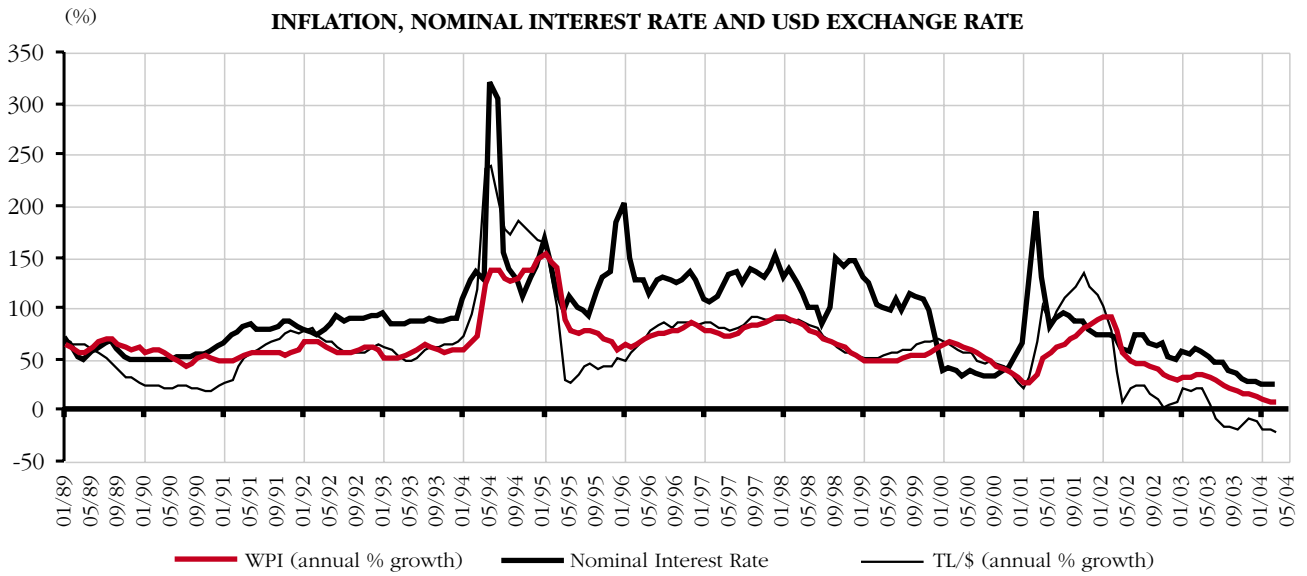
(*) Monthly figures include shuttle trade since 01/96

GRAPH 5

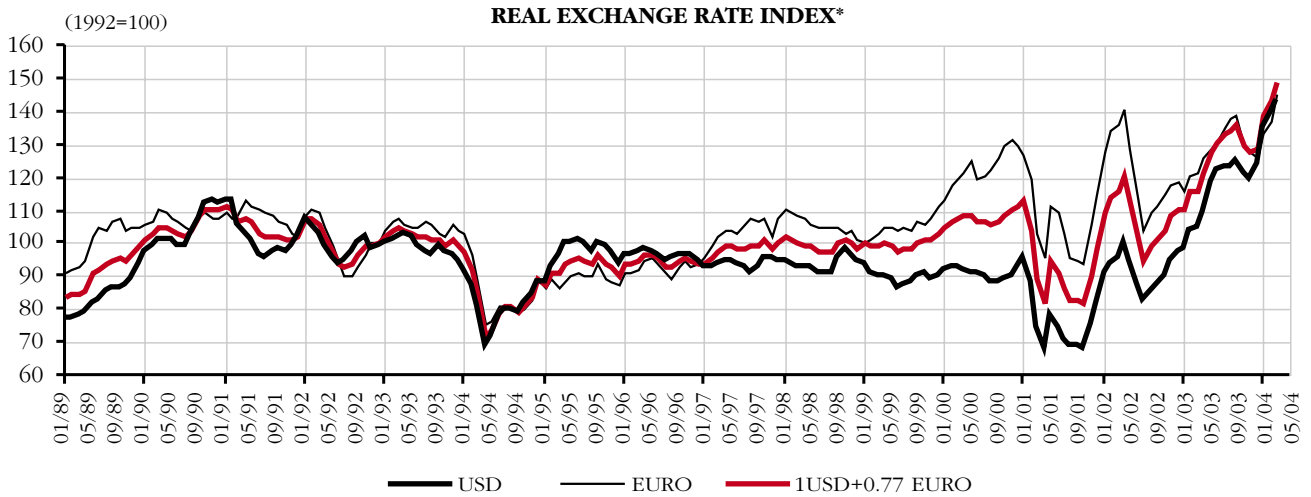


(*) Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

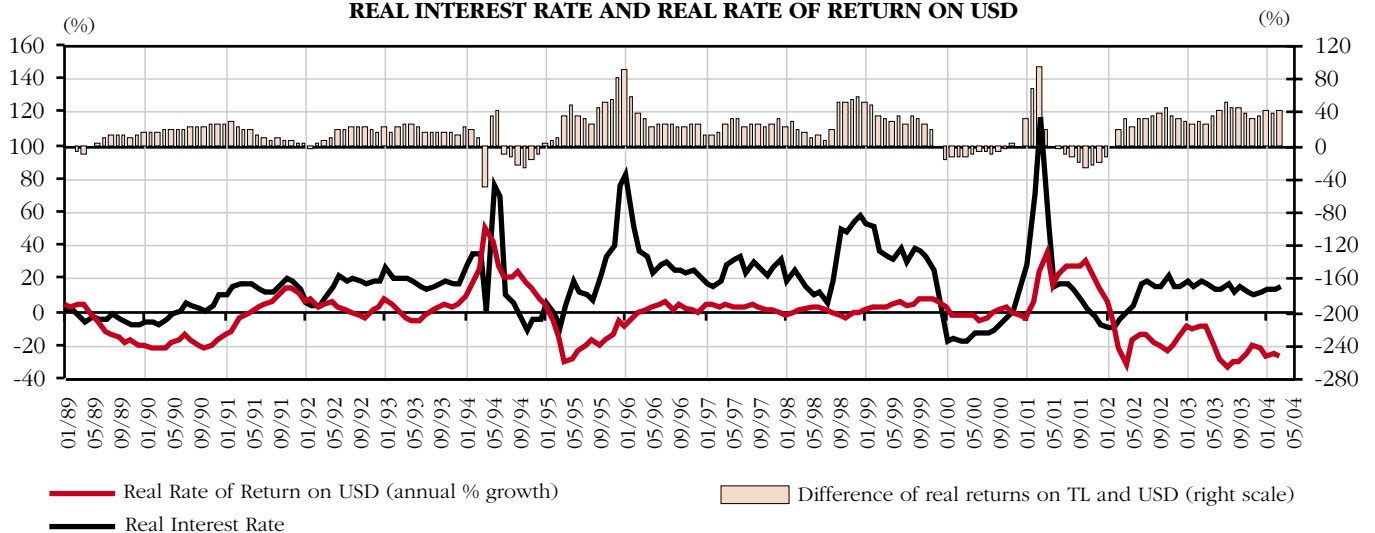


GRAPH 7

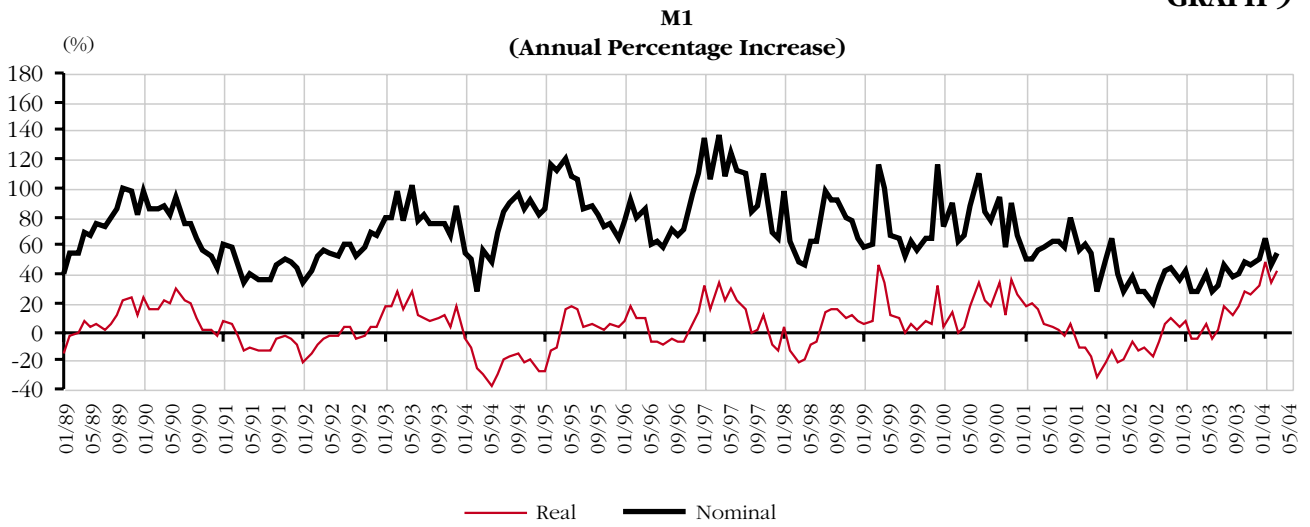


*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

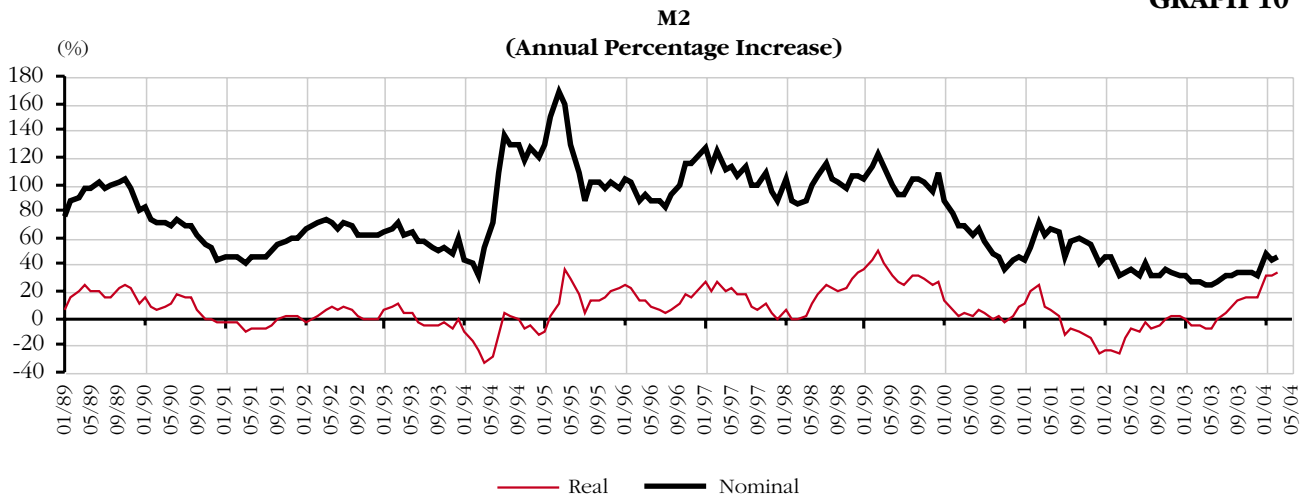
GRAPH 8



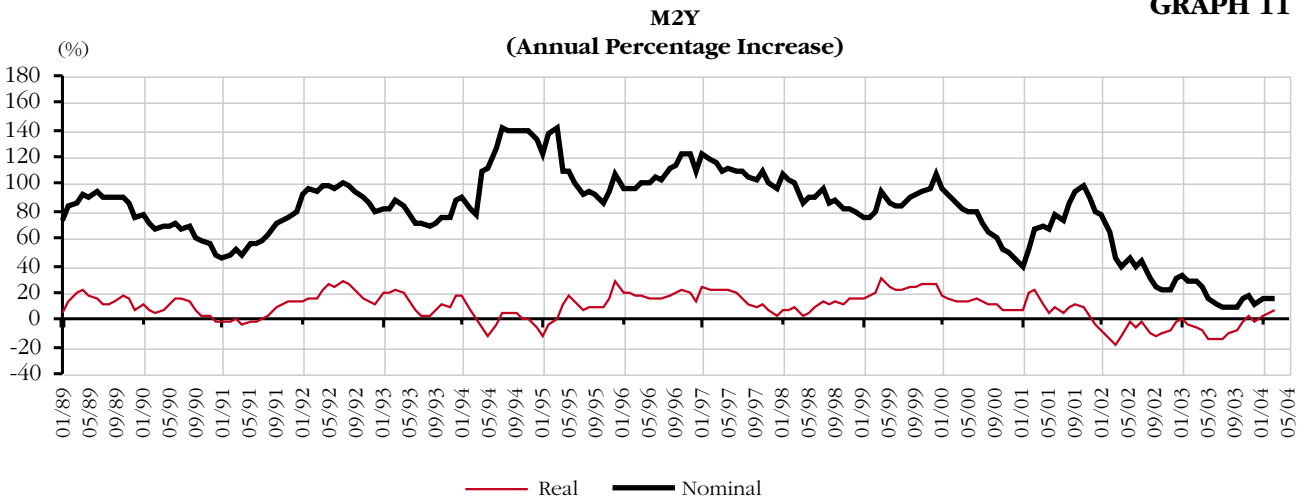
GRAPH 9



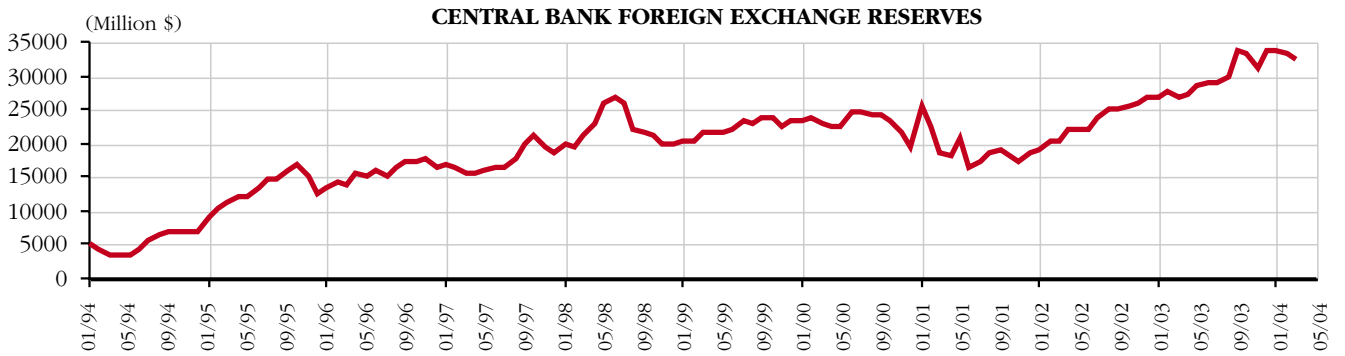
GRAPH 10



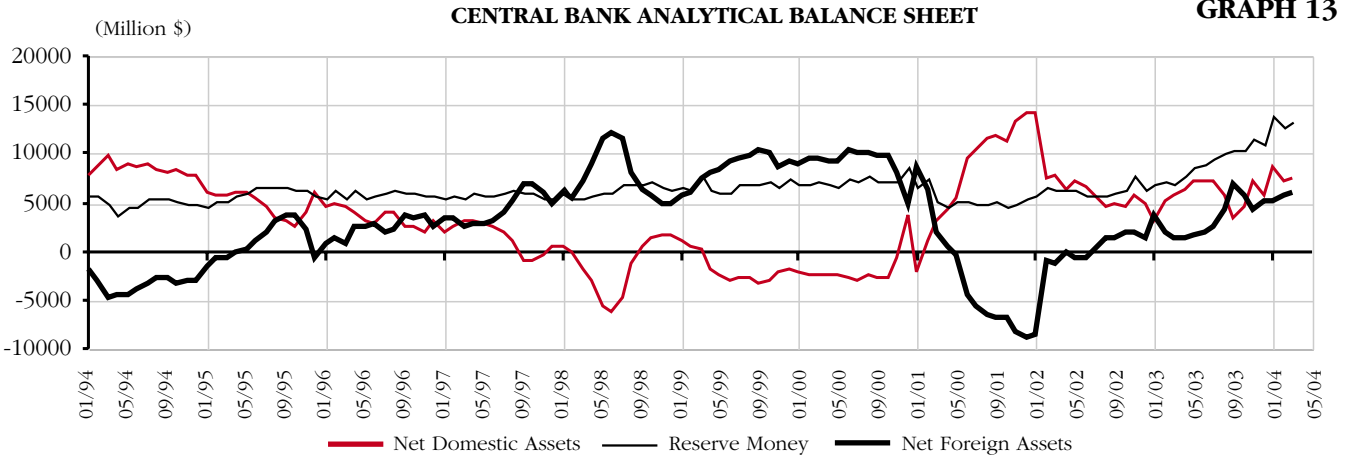
GRAPH 11



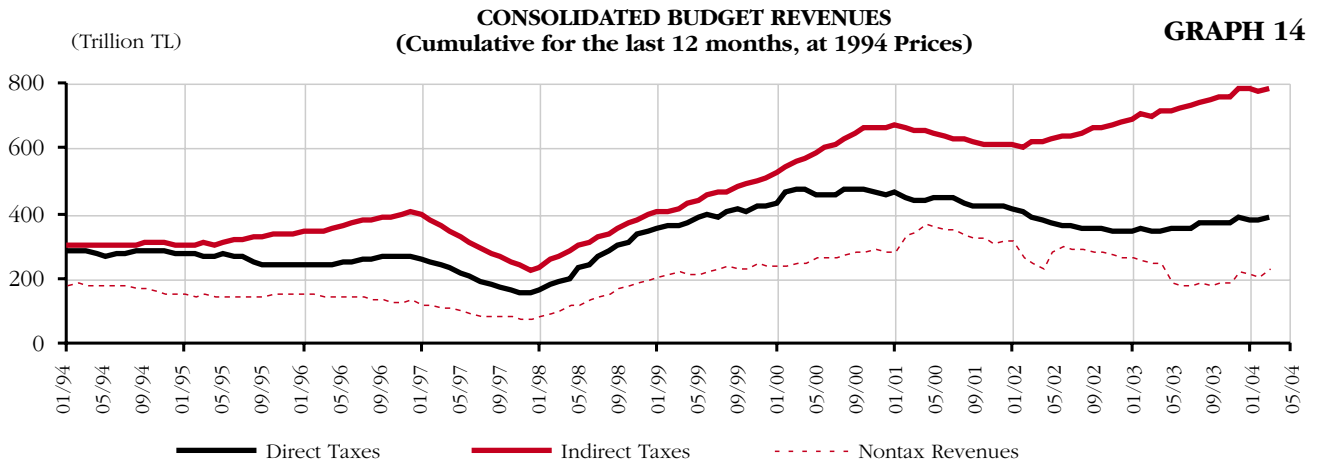
GRAPH 12



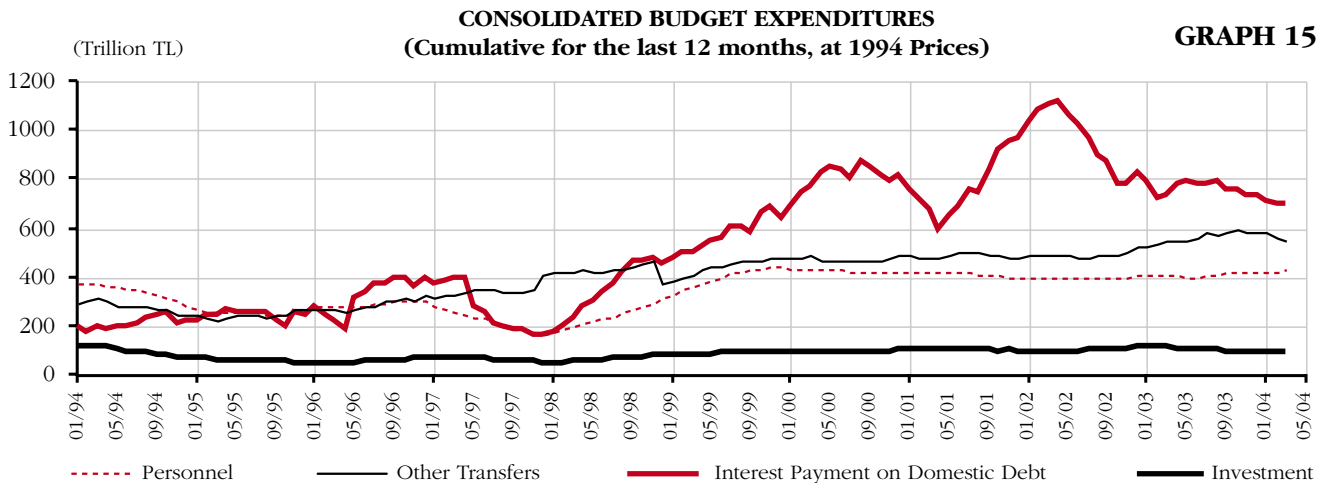
GRAPH 13



GRAPH 14

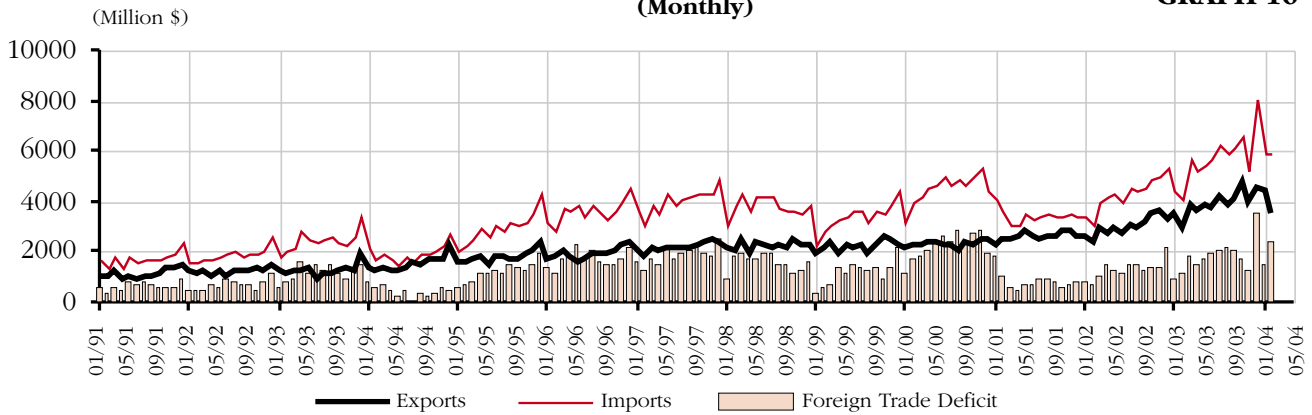


GRAPH 15



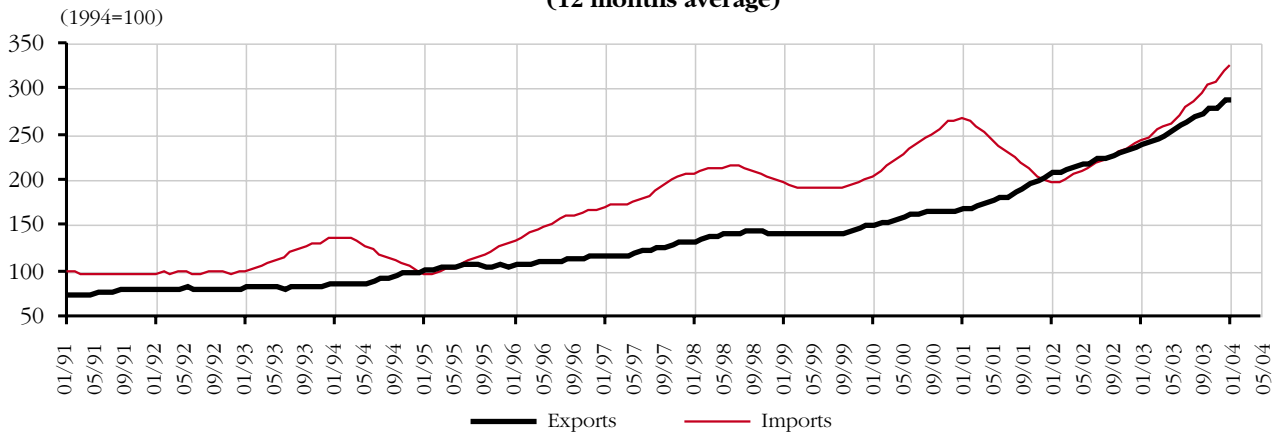
**FOREIGN TRADE
(Monthly)**

GRAPH 16



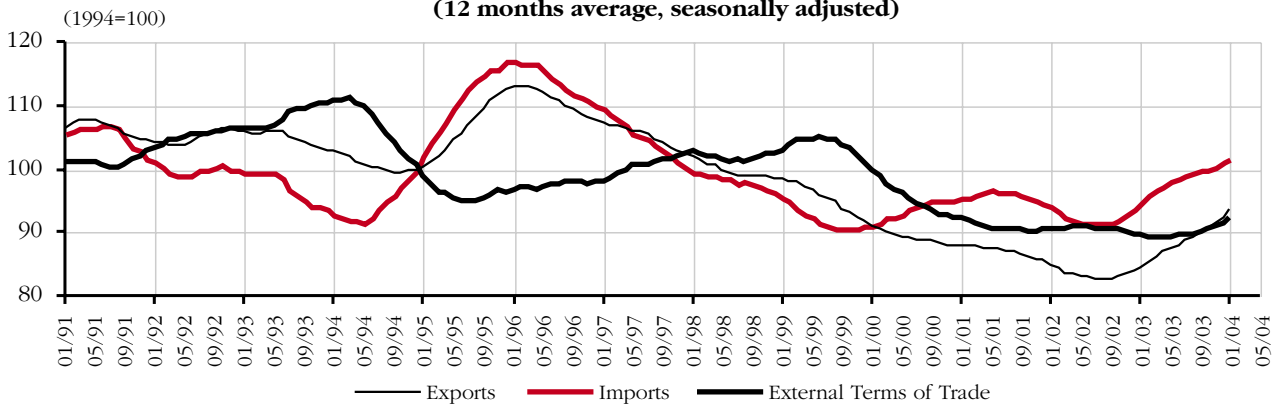
**FOREIGN TRADE QUANTITY INDEX
(12 months average)**

GRAPH 17



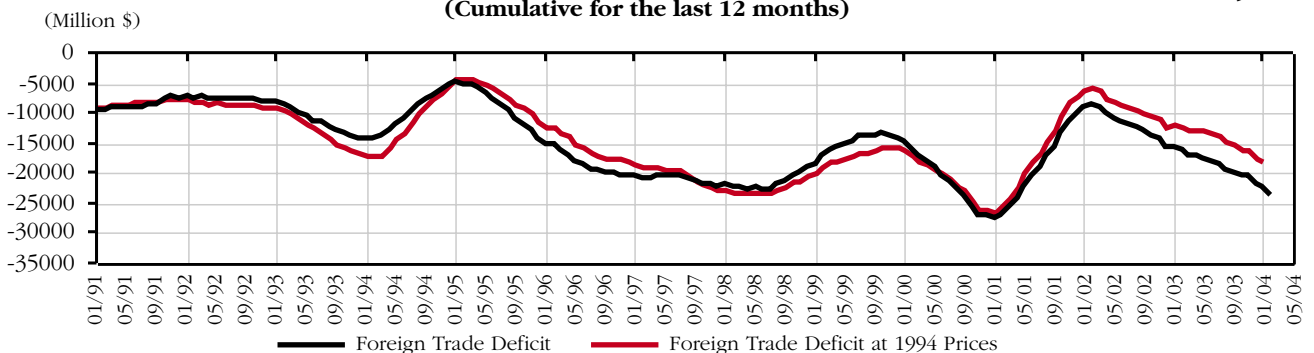
**FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(12 months average, seasonally adjusted)**

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)*	0.6	10.4	8.0	11.8	7.9	7.4	3.6	5.6	7.2	5.9	6.9	3.1	4.1	4.5	4.5	5.0
GDP (1987 prices)*	2.3	8.9	8.0	11.7	7.9	8.1	3.9	5.5	6.1	5.8	7.0	2.9	4.2	4.3	4.5	12.0(a)
Inflation (WPI)*	86.7	51.2	43.5	33.2	50.1	33.7	32.8	22.4	15.4	25.6	9.3	11.3	15.7	15.6	13.0	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	14.1	10.0	11.5	12.5	12.0	12.0(a)
Reserve Money *	53.6	45.1	42.8	46.2	46.6	44.6	36.9	41.5	29.0	41.5	24.0	22.0	23.0	23.0	26.7	
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	23,854	24,500	27,000	28,000	103,354	104,109
Budget Expenditures (trillion TL)	27,663	26,032	26,287	35,503	115,486	31,253	38,195	32,127	38,478	140,054	30,840	33,500	39,000	45,500	148,840	149,945
Budget Balance (trillion TL)	12,636	-5,239	-6,704	-14,507	-39,085	-10,889	-13,870	-5,066	-9,991	-39,816	-6,985	-9,000	-12,000	-17,500	-45,485	-45,836
Interest Expenditures (trillion TL)	16,540	11,925	10,857	12,549	51,871	15,787	19,066	11,712	12,044	58,609	14,866	14,500	18,000	18,000	65,366	66,050
Budget Balance (billion \$)	9.3	-3.7	-4.1	-9.0	-26.0	-6.6	-9.2	-3.6	-7.0	-26.4	-5.3	-6.1	-7.6	-10.5	-29.5	-29.5
Primary Surplus (over GNP, %)					4.6					5.3					4.7	5.0
Budget Balance (over GNP, %)					-14.2					-11.2					-10.8	-10.9
EXCHANGE RATES																
Nominal Exchange Rate (TL/€)	1,354	1,411	1,644	1,612	1,505	1,648	1,507	1,388	1,437	1,495	1,326	1,475	1,577	1,660	1,510	1,604
Nominal Exchange Rate (TL/\$)*	69.7	18.9	17.6	6.1	22.8	21.8	6.8	-15.5	-10.9	-0.7	-19.5	-2.1	13.6	15.5	1.0	1.0
Real Exchange Rate (TL/\$)(1999=100)**	121.3	121.1	108.9	121.1	118.1	127.1	147.4	161.2	162.2	149.5	180.3	165.6	158.3	158.0	165.5	165.5
Real Exchange Rate (TL/€)*	0.4	23.7	18.6	24.1	15.7	4.8	21.7	48.1	34.0	26.6	41.8	12.4	-1.8	-2.6	10.7	10.7
Nominal Exchange Rate (TL/£)	1,186	1,299	1,617	1,615	1,429	1,768	1,709	1,562	1,713	1,688	1,658	1,751	1,850	1,913	1,793	1,793
Nominal Exchange Rate (TL/¥)*	61.7	25.4	29.8	18.8	30.7	49.1	31.5	-3.4	6.0	18.1	-6.2	2.5	18.4	11.7	6.2	6.2
Real Exchange Rate (TL/£)(1999=100)	120.6	114.6	96.4	105.3	109.2	103.2	113.2	124.8	118.6	115.0	125.6	121.6	117.5	119.4	121.0	121.0
Real Exchange Rate (TL/¥)(1999=100)*	5.3	17.3	7.4	10.8	10.1	-14.4	-1.2	29.4	12.7	5.3	21.7	7.4	-5.8	0.7	5.2	5.2
€/ \$100	0.88	0.92	0.98	1.00	0.95	1.07	1.13	1.13	1.19	1.13	1.25	1.19	1.17	1.15	1.19	1.19
GOVERNMENT SECURITIES AUCTION																
Nominal Int. Rate (compounded, %)	72.8	62.9	67.5	56.3	64.9	57.3	52.3	40.9	29.3	44.9	24.7	27.0	25.0	24.0	25.2	25.2
Real Int. Rate (compounded, %)	1.4	10.8	20.1	18.8	13.7	23.2	17.2	12.7	8.2	15.7	9.3	15.4	12.1	10.2	11.8	11.8
FOREIGN TRADE and CURRENT ACCOUNT																
Imports (cif) (billion \$)	10.4	12.5	13.5	15.2	51.6	14.2	16.4	18.4	19.8	68.8	20.2	20.0	21.5	23.5	85.2	75.0
Exports (fob) (billion \$)	7.9	8.5	9.3	10.3	36.1	10.3	11.3	12.2	13.3	47.1	13.0	14.0	15.0	16.0	58.0	51.5
Foreign Trade Balance (fob-cif) (billion \$)	-2.5	-3.9	-4.2	-4.8	-15.5	-3.9	-5.1	-6.2	-6.5	-21.7	-7.2	-6.0	-6.5	-7.5	-27.2	-24.0
Invisibles (other current) (billions)	1.9	3.1	5.3	3.7	14.0	1.2	2.8	7.6	3.5	15.1	2.2	3.0	7.0	5.5	17.7	18.8
Current Account Balance (billions \$)	-0.6	-0.8	1.0	-1.1	-1.5	-2.6	-2.3	1.4	-3.1	-6.6	-5.0	-3.0	0.5	-2.0	-9.5	-5.2
Imports (cif)*	-3.4	25.8	30.5	46.3	24.5	36.5	31.7	35.9	30.6	33.5	42.2	21.9	17.0	18.6	23.8	23.8
Exports (fob, incl. shuttle trade)*	8.4	5.6	21.4	24.3	15.1	30.8	32.8	30.8	28.3	30.5	25.7	23.9	23.3	20.7	23.2	23.2

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 2004 are 15.1% and 13.1%, respectively.

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