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The Golden Apples

"Arriving at one goal is the starting point to another."
John Dewey

Summary and Conclusion

Despite the unfavorable global conjuncture the positive trend in the Turkish economy continues.

Despite the occasional adversities in the conjuncture abroad, the bright outlook in the economy continues. Following the robust economic performance in the last two years, the present indicators for 2004 are anticipating an unwavering 'low inflation/high growth' period. Despite price fluctuations both domestic and foreign, consumption demand and especially private investment is still very lively; increasing productivity continues to bolster the high growth trend. While strong domestic demand and high oil prices are widening the foreign trade gap, both public sector and savings and investment deficits are narrowing. Also, due to the flexible exchange rate regime, inflation targeting has increasingly become a more reliable nominal anchor; rising costs have not significantly affected price levels and inflation figures have followed a trend that will be within the year-end targets. Interest rates have also moved parallel to inflation. Another outcome of the favorable state of the main indicators has been an expansion in employment opportunities - especially evident during the second quarter; this is signaling a return to a job-creating state for the economy.

Even with the improvement in macroeconomic indicators, high domestic demand and a wide trade gap are causes for concern.

In addition to cost fluctuations due to the unfavorable global conjuncture, concerns regarding a rapidly widening current account gap are approaching a level that may hurt the present confident outlook in the economy. The $10 billion deficit in the current account during the first nine months is expected to reach $15 to $16 billion by year's end, in spite of large revenues from tourism. This deficit -incurred to some degree by the productivity- induced low inflation/high growth phase - will still be able to be financed in 2004; however, in 2005, if domestic demand continues to expand at this rate, the widening current account gap will become difficult to finance with portfolio investments and long-term foreign loans to private industry. The need for foreign financing will become more crucial in the coming two years, due to bulky foreign debt payments. In this light, the most convenient method for financing the current account deficit in 2005 will be foreign direct investment, which may be spurred by the outcome of the talks with the European Union.

Fluctuating international prices are troublesome for policies.

Due to the closeness of supply and demand in the oil market, the manageability of prices has severely suffered, causing wide fluctuations. The trend of increasing oil and main input prices when considered alongside the increasingly fragile foreign balance presents a risk against the strengthening of macroeconomic stability. Although structural changes in pricing behavior have restricted the reflection of rising costs onto prices, next year, when inflation figures will become single-digit, foreign prices will have a more pronounced impact on domestic price levels. Turkey, being a country that imports an average 2 million tons of crude oil monthly, will have to pay an extra $2 billion annually for every $10 increase in the price of oil. Thus, if the situation becomes persistent, this should be considered as an important long term risk. On the other hand, the short-term effects of rising energy prices will harm the public accounts, necessitating price adjustments and extra taxes, thereby weakening the harmony between monetary and fiscal policies.

During the next period, domestic demand and labor costs will no longer be at the levels that helped sustain the anti-inflationary policies of the last three years; also, rising international prices may put further pressure on the trade gap and inflation, which may end up hurting the concurrent benign outlook to some degree. Carrying the weight of massive debt, the economy's fragility - while lessening- continues to be threatened by internal and external developments which may adversely affect expectations. On the other hand, priorities such as reducing inflation to single-digit levels, maintaining fiscal discipline, financing the current account deficit, and expanding employment opportunities even more so necessitate proper economic policies in 2005. Increasing risks will make policy making more difficult and the security felt may dwindle. In 2005, when it will be more difficult to keep monetary and fiscal policies in tune, market expectations should be kept high and sensitivity toward policy application should be deepened. The skillfulness with which the economy is managed will sustain in 2005 what can be summarized as 'positive expectations/positive economic development and allow hitting all the year-end targets.

With the continuation of the reform phase, the effects of external shocks will be limited to only temporary detours from stability.

For the Turkish economy to be able to deal with its current problems and to continue its present state of high and healthy growth, the public sector must have its structure improved absolutely. Until the budget deficit and public debt comprise a much smaller portion of national income, the economy will still be fragile and prone to crises. Similarly, for the savings and investment balance to transform into a healthy one in the long run, the large primary surplus policy must go on. Structural reforms must be deepened and expanded, while the government's adherence to them will keep the markets optimistic. The new three year program to be drawn from the standby agreement with the IMF will have a sturdy anchor effect. The present phase of growth generated by the low exchange-interest-inflation cycle is a good opportunity that gives the government elbow room for the necessary reforms. A macroeconomic environment free from basic imbalances relatively diminishes the costs of structural reforms as well as the effects of external shocks.

I. Global Economic Outlook

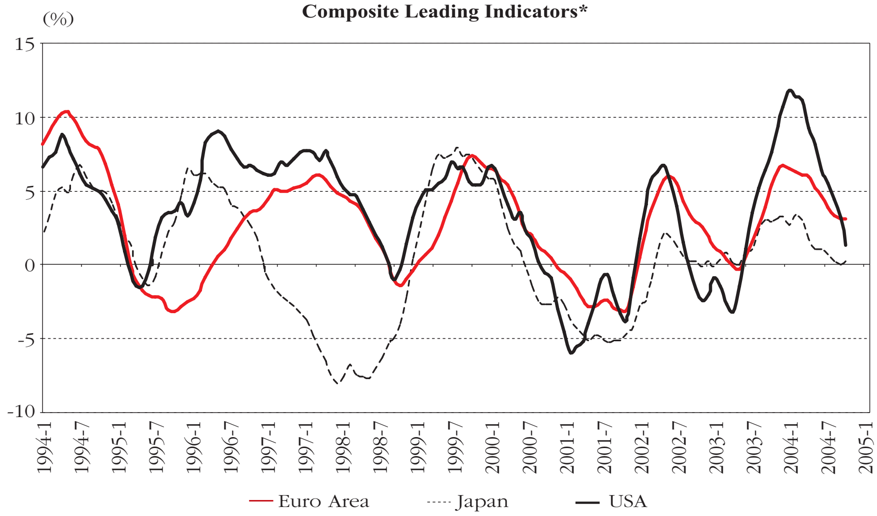
Growth in the world economy has slowed down in the second quarter.

Following high growth in the first quarter, global growth has slowed down in the second. The persistent upward motion of oil prices has affected both the business community and households. In the U.S. consumption expenditures have fallen while in Japan investment expenditures have failed to rise. As Asia and the U.S. continue to spearhead global growth, other countries and regions are increasing their contributions to world growth. Together with the slowdown in global growth certain new EU members and emerging South American markets have shown a significant fall in performance. The demand pressure arising from the high growth in the U.S. and Asia, supply side concerns, and limited capacities have pushed oil prices to the $45 per barrel mark in the third quarter. It is thought that oil prices have entered a new plain and will remain there for some time. In addition to oil price-induced developments, concerns over price level stability have led the Fed to mark up the short-term interest rate a quarter point to make it 1.75%. Despite the above situation, it is believed that the overall expansion of global industrial production and the trade volume will pull up the global growth rate in the third quarter. The IMF posted its 2004 growth estimates as 4.3% for the U.S., 2.2% the Euro-Zone, and 4.4% for Japan.

Current figures show that global growth will pick up speed in the third quarter.

The U.S. economy, which grew 4.5% in the first quarter, has grown 3.3% in annual terms in the second quarter. The evident slowdown has been caused by a marked fall in private consumption and the widened trade gap. Recent data, however, foresee an improvement in private consumption and industrial output in the third quarter. The first analyses of the performance of the Euro Zone in the second quarter show a 0.5% growth; the growth has come mostly from exports as the share of consumption spending has been offset by the effects of high oil prices on real incomes. The current data show that the revival in the Euro Zone will continue in the third

Composite Leading Indicators*



** Annualized, 6-months % change* *Source: OECD*

GDP Projections*		
(Annual % change)	2004	2005
World	5.0 (4.6)	4.3 (4.4)
USA	4.3 (4.6)	3.5 (3.9)
Japan	4.4 (3.4)	2.3 (1.9)
Euro Area	2.2 (1.7)	2.2 (2.3)
Developing Countries	6.6 (6.0)	5.9 (5.9)

Source: IMF World Economic Outlook, September 2004
** Figures in brackets are the previous projestions of April 2004.*

quarter. Meanwhile in Japan, where things have been going fine in general, growth in the second quarter has fallen from 1.6% to 0.3%; here, foreign demand continues to be the biggest factor in growth. Over in China, recessive restraints on sectors that were growing too fast have taken toll and growth rates have declined into the second quarter. The global conjuncture has continued to benefit the other Asian economies and the exports industry there is also still the biggest contributor to growth. In South America, economic revival is seen to be strong as well. Brazil and Argentina have grown thanks to industrial production, which has been aided by exports and private investments.

II. Output And Inflation

The current account deficit that has been widened by high growth has begun to worry markets.

The exchange rate, which was as low as 1,310,000 TL/$ in March of 2004, responded to the current account deficit's widening by rising to 1,450,000 TL/$ in the second quarter. In the same period the ISE-100 fell by 10% to 18,000 points and nominal interest rates in the secondary markets rose from 22% to 28%. Labor productivity in the manufacturing industry rose 14% in this period, compared to the year before, while real wages only rose by 4%. Meanwhile, unemployment in the economy was 9.3%.

The largest contributors to growth in the second quarter were industry and trade.

The sectors which contributed the most to the 14.4% growth in the second quarter were, again, industry and trade. The continuation of the export-oriented-ness of industrial production of the past two years has allowed this sector to expand 15% annually in the second quarter and to contribute 5 percentage points to overall growth. The present trend has been propelled by external demand and more recently by domestic demand as well. The fine state of the industrial sector and foreign trade has also benefited domestic trade and the transportation industry. The import of goods and services has risen 33% annually. Thus, the trade sector expanded by 19% in the second quarter and had the second largest share of total growth, with 4.6 percentage points. The agricultural sector contributed only 0.3 percentage points to the total growth, as expected. Parallel to the increase in imports, import duties also rose by 33%, to add 2 percentage points to overall growth. On the other hand, the construction industry, which had been shrinking since 2001, continued to follow the reversed trend since the fourth quarter of last year and ended up contributing a small but positive share to total growth. However, even with the base year effect that resulted from large contractions in the previous years, it is unlikely that the construction sector will grow much in the coming periods.

Growth has begun to spread to all areas of the economy.

GDP growth in the second quarter has been 13.4%. In the expenditures columns, the largest shares belonged to private investment expenditures, with 11.5 percentage points and private consumption, with 10.2 points. The inclination toward consumer durables and private sector intermediate goods became stronger in the first half of the year. While private consumption of final goods has increased by 16%, the most striking growth came from fixed capital formation, with 52%. Meanwhile, government investment fell by 9% as required by fiscal policy, while private sector investments, especially in machinery and equipment, expanded by 69%. The latter can be explained by the strength of the TL and restructuring focused on productivity and high capacity utilization -which require greater capacities. Exports, the driving force behind production have shown a 16% rise in the second quarter. When the second quarter revival in Europe, the U.S. and Japan is taken into account the Turkish export industry will continue to grow healthily in the upcoming periods. As for imports, the apparent expansion was a result of both production and the continued growth of domestic demand.

GNP	2003	2004	2003	2004
	Total	Q2	Total	Q2
Sectors	*(Annual % change)*		*(% point contr. to growth)*	
- Agriculture	-2.5	3.4	-0.3	0.3
- Industry	7.8	14.9	2.3	4.9
- Construction	-9.0	0.2	-0.4	0.0
- Trade	8.1	19.1	1.9	4.6
- Transport. and Com.	8.4	10.7	1.1	1.5
- Financial Inst.	-6.3	1.2	-0.1	0.0
- Import Duties	22.6	33.2	1.2	2.0
- **GNP**	**5.9**	**14.4**		

Source:SIS

GNP	2003	2004	2003	2004
	Total	Q2	Total	Q2
Composition	*Annual % change*		*% point contr. to growth*	
- Priv. Final Consum.	6.6	16.4	4.2	10.2
- Govern. Final Consum.	-2.4	-7.9	-0.2	-0.6
- Gross Priv. Fix. Cap. Form.	20.3	68.7	2.6	11.5
- Gross Pub. Fix. Cap. Form.	-11.5	-9.1	-0.7	-0.4
- Change in Stocks	---	---	3.0	1.4
- Exports of Goods, Serv.	16	15.7	6.3	6.9
- Imports of Goods, Serv. (-)	27.1	32.7	9.4	15.4
- GDP	**5.8**	**13.4**		

Source: SIS

Inflation has continued in its downward path in the third quarter.

Manufacturing industry prices triggered by rises in the oil market were counterbalanced by plummeting agricultural prices between May and August. However, oil prices have risen over 30% between July and September reaching the $50 per barrel threshold; coupled with the seasonal reversal in agricultural prices, this may put an upward pressure in the WPI, in the subsequent period. Between April and September, seasonality-adjusted CPI and WPI figures have come out to be 0.8% and 1.1% monthly, respectively. The U.S. Dollar parity rose from 1,450,000 TL in the second quarter to an average 1,470,000 TL between July and September, while the fluctuation rates for the same periods have been 5.1% and 1.8%, respectively. The rigidity of rent prices especially and other services prices still continues to be a problem facing the CPI. As of September annual CPI and WPI rates were9.0% and 12.5% respectively.

The performance in the first nine months indicates that year-end inflation will come out below targets.

2004 second quarter national income figures and main indicators for the third quarter show that the consumption and investment components of growth have become stronger. The increase in investment spending alongside the productivity gains is helping raise potential output while a cautiously controlled domestic consumption environment is preventing any heating in the economy. It is expected that in the remainder of the year the low inflation/high growth trend will continue and inflation will remain within the target. According to the Central Bank Expectation Survey, year-end inflation (CPI) will dip 2.5 points below the target and be 9.8%.

III. Fiscal And Monetary Policies

The budget has performed well in the first nine months of 2004.

The first nine months, which also included the period that preceded the municipal elections, turned out nicely for the consolidated budget, which looks like it will meet the year-end targets. While during the January-September period a total of 79.8 quadrillion TL revenue was collected and 100.9 quadrillion TL - of which 45.2 quad. TL were interest and 55.7 quad. TL were non-interest payments - was posted under expenditures. Thus, an 24.1 quad. TL primary surplus was attained and the consolidated budget produced a 21.1 quad. TL deficit. The ratio of revenues to expenditures has increased 10 points over the same nine month period from last year to become79%. The current situation is promising in terms of the maintenance of fiscal discipline. Consequently, in order to preserve the air of confidence in the economy, the adherence to a strict fiscal policy centering on well-managed revenues and expenditures and focusing on the attainment of the primary surplus target continues to be the top priority.

Tax revenues have been in accordance with year-end goals.

With the adoption of the analytical budget accounting method, the tax redemptions - including those for VAT in exports -are no longer counted as expenditures but as deductions from the relevant revenue columns. In this respect, total budget revenues have risen by 21% over the same nine month period from the previous year to reach 79.8 quad. TL. In net terms, tax revenues were 64.9 quad. TL, 19% above the previous year. The success in tax revenues was due to the indirect taxes from lively consumption; direct taxes have fallen under a third of total tax receipts. Meanwhile, non-tax revenues have recorded a greater increase than taxes, with 30%. In the short run, the performance in tax collection is necessary for budgetary targets, but financing of the corrupted public budget through raised taxes or new tax fields has been against the general trend in the world today. In the long run the only cure is to widen the tax base, the make collection more efficient and thorough and to prevent evasion.

The strain on the budget caused by interest payments has been lessening.

In the first nine months, total budget expenditures have increased 5% in current prices, while non-interest payments have risen 13%, both over the same period of 2003. The biggest factor responsible for the minimal increase in expenditures has been the reduction in interest payments due to improved borrowing terms. In this period, total interest payments were 45.2 quad. TL while current transfers, of which social security transfers were 14.8 quad. TL and agricultural subsidies 2.7 quad. TL, were 21.0 quad. TL. The lowest figures were still to be found under the public purchases and investments column, as required by fiscal discipline. Thus, 67% of year the year-end expenditure allowance has been realized in the first nine months.

Sticking to the high primary surplus policy in 2005 is vital.

Fiscal discipline continues to be a crucial factor in reducing the debt stock and improving borrowing terms for 2005. Moreover, with the quickly expanding current account gap taken into account, maintaining a high primary surplus is necessary in order to keep the saving and investment balance at normal levels. In this light, a primary surplus equal to 6.5 % of national income is expected for 2005. Rather than limiting growth, through low interest rates brought about by fiscal discipline, a large primary surplus helps to achieve high growth rates, as witnessed in the last two years. However, the size of social security expenditures reduces that of investment's, considering the discipline constraint. The quick straightening out of the tax revenue administration, the social security system, public administration and the idle areas of state enterprises are vital in order for the disciplined fiscal attitude to take hold in both the medium and the long run Budget performance, which has become a pre-requisite for the IMF reviews, will continue to be the foremost indicator observed by the markets. The government must clearly signal that it will continue to permanently incorporate a rigid fiscal policy so as to enable the Central Bank to complete its metamorphosis into an effective money supply-adjusting and hence inflation-controlling market actor. Additionally, a strong fiscal structure will also benefit the Treasury, which will enjoy lower borrowing rates at longer terms.

A smooth and stable reduction in interest rates require an optimistic and confident market.

Beginning with last year, the improvement in the macroeconomic indicators and the resulting rise in expectations of investors have lowered the Treasury's borrowing costs while also extending the maturity periods of domestic credit. However, external influences that began in April have caused slight variations in lending rates, as increased risk was assessed by the market. The Treasury's stock 3-month bond auction, which is renewed every month and was an average 38.3% last year, had dropped to 21% in September. In weighted average terms, the Treasury, which borrowed at 46.3% for 310 days in 2003 managed to borrow at 26.3% for 377 days for the first three quarters of 2004.

Domestic debt, which was 194.4 quad. TL in 2003, increased by 23.2 quad. TL to 217.6 quad. TL ($145.3 bn.) in the first nine months. Broken down into currency/interest, 40% of the internal debt is in fixed interest, 41% is in floating-rate and 19% are foreign exchange linked-denominated securities. Thus, the 60% portion excluding fixed interest is open to exchange rate and interest 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. Apart from these, the consolidated budget's foreign debt during the nine months of 2004 has shown an increase amounting to $1.3 bn. to reach $64.8 bn. as of September. The Treasury's direct responsibility has, then, become $210.1 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 resurgence of consumption demand and the behavioral shift in the demand for money have expanded the monetary base.

In the previous year, despite staying within the limits of the Central Bank's balance sheet, the expansion in emission was above the 39.6% inflation rate. In other words, in an environment of a rapidly falling interest rate, the link between money stock and inflation was weakened in the short term and an increase in the monetary base has made the attainment of the inflation target more difficult. Due to the increase in domestic demand, beginning in October of last year, emission has expanded and a larger than intended increase in the monetary base has accompanied it; the process has been accelerated by a real increase in consumer loans and credit cards. The confidence in the Turkish Lira and reverse substitution phase brought by the economic program have resulted in a behavioral shift in money demand, which in turn has resulted in a non-inflationary expansion in the monetary base. A controlled monetary policy has been maintained and both domestic and international net reserves have met their goals. The realization of the monetary base has been only marginally above the target set in March and April but has been able to meet the target revised by the IMF for August. However compliant the increase in the base may be with anti-inflation policy, future concerns

CONSOLIDATED BUDGET *(quadrillion TL)*	**2003 Realization**	**2004 Program**	**2004 Forecast (1)**	**2005 Programme (2)**	**Change % (2)/(1)**
REVENUES	**92.6**	**104.1**	**108.6**	**126.3**	**16.3**
Tax Revenues	84.3	99.2	100.5	118.9	18.3
Non-tax Revenues	15.9	15.3	18.6	19.9	7.0
Tax reedems (-)	7.6	10.4	10.5	12.5	19.0
EXPENDITURES	**132.8**	**149.9**	**142.6**	**155.5**	**9.0**
Primary expenditures	74.3	83.9	84.1	99.0	17.7
Interest payments	58.5	66.0	58.5	56.4	-3.6
BUDGET DEFICIT	**40.2**	**45.8**	**34.0**	**29.1**	**-14.4**
PRIMARY SURPLUS	**18.8**	**20.2**	**24.6**	**27.3**	**11.0**

Source: Ministry of Finance

MONETARY AGGREGATES	(quadrillion TL)		(% change)	
	Sep. 2003	Sep. 2004	Nominal	Real
M2YR (M2Y+R)	140.8	179.7	%27.6	%13.4
M2Y	137.9	177.7	%28.9	%14.6
M2Y	(composition)			
Currency in Circulation	%7.0	%7.7	%41.4	%25.7
Sight Deposits	%6.9	%8.1	%52.4	%35.4
Time Deposits	%40.2	%42.3	%35.5	%20.5
FX Deposits (TRL)	%45.9	%41.9	%17.7	%4.7

Source: CBT

regarding heightened and persistent consumption demand and regarding a resulting inconsistency between the monetary situation and inflation targeting does exist. In this respect, the revised targets should be sought more thoroughly and the sources of the expansion in the monetary base and its effects should be analyzed correctly. On the other hand, provided that the other risks surrounding disinflation are nullified, the current monetary expansion should be able to be tolerated by the adjustment in the short-term interest rate by the Central Bank.

Inflation targeting is increasingly becoming a more reliable nominal anchor.

The Central Bank continues to implement short-term interest rates as an effective policy tool, through a controlled monetary policy; especially since the second half of 2003, it has evaluated the favorable conjuncture and has cut short-term rates six times; in the first quarter of this year optimism regarding inflation has enabled the CB to further lower the rates, in February and March. Beginning with April however, concerns over domestic demand's and the current account deficit's effects on inflation have come into being. In addition, further cuts have been postponed due to rises in resource imports prices and the exchange rates. Fortunately, such external rooted cost increases have failed to translate into higher prices, and inflation expectations have not suffered. In other words, inflation targeting is increasingly becoming a more reliable nominal anchor and the belief that these cost fluctuations are only temporary is augmenting the confidence in the market. Despite increases in import prices and some inflation in the manufacturing industry thereof, inflation figures have turned out to be compliant with year-end targets. Therefore, the CB was able to cut the short-term rates by two points in September to 20 %. Due to the abovementioned concerns, even if external prices do not affect inflation to a large degree, the CB will be more cautious in lowering interest rates in the near future. Yet, this will depend somewhat on the outcome of the talks with the European Union in December and the subsequent determination of a fixed date for the commencement of the official negotiations; favorable results will naturally improve all expectations, thereby giving room for further cuts in the short-term rates.

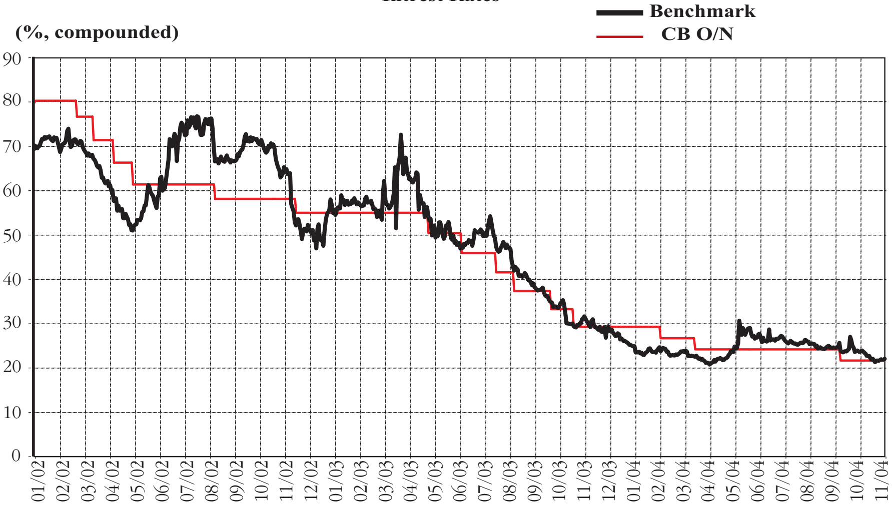
The share of TL based instruments in the money demand is increasing.

The frequent drops in inflation and the interest rates, along with the stability in the exchange rate have enlarged the share of TL based investments. Fresh resources in the financial sector have begun to prefer TL investments; bank deposits have also been in harmony with this trend. In the first three quarters of 2004, as opposed to M1 and M2 increases of 30.4 % and 27.6 %, respectively, the M2Y money supply expanded 18.6 %. Foreign currency deposits, following a contraction due to portfolio preferences of both domestic and foreign-based investors, have, after April, begun to re-expand and have reached $49.9 bn.($1 bn. rise over late 2003) by September. The M2Y is composed of 41.9 % FX deposits, 42.3 % time deposits, 8.1 % demand deposits and 7.7 % currency in circulation. When monetary holdings outside the banking system are included (91.1 quad. TL) with the M2Y, the ratio of FX deposits falls to 29.3 %, making inverse currency substitution more evident.

IV. Foreign Trade And The Balance of Payments

As a consequence of high growth the trade deficit has hit record levels.

In the first nine months of 2004, as intensifying domestic consumption and private investment have led to a high import volume, low labor and energy costs along with increased productivity have helped



exports reach their highest levels ever. Total trade volume has expanded by 36% over the last 12 month period to reach $110.2 billion; exports (including luggage trade and FOB) rose 30% to $47.7 billion while imports (FOB) rose 41% to $62.5 billion. Thus, between January and September, the trade deficit widened by 81% over the same period from the year before, to become $17.4 billion. While net tourism revenues reached $10.7 billion, the services balance, as a result of increasing transportation costs and almost no construction revenues, gave a $10.2 billion surplus; this figure fails to close the external gap. The current account balance, which gave a deficit of $10.5 billion from January to September, has worsened to $14 billion in annual terms.

The underestimated growth phenomenon is causing a rapid deterioration in the current account.

The revival of capital investment, which was for a time forestalled for consumption, has, due to falling interest rates, pushed the current account deficit to record levels. By the last quarter of 2001, private capital investment had shrunk to 10.4% of the GDP, but in the last two years, thanks to the determination shown in reforms and adherence to the program, investment has again become feasible. By the second quarter of 2004, private investment's GDP share has risen to 25%. Compared to January-September of last year, investment goods imports have increased by 68.5%; boilers, machinery and equipment have risen 36.2%, to constitute 76% of total investment goods imports. The second biggest factor in the worsening of the current account has been consumption goods imports, which mainly consist of automobiles; they have increases by 101.8% over the last 12-month period. It seems unlikely that any adjustment in the real exchange rate will remedy the current account stance; a reduced growth rate may be the only solution in this case.

The financing of the current account deficit is expected to work out.

During January-September of 2004, the $10.6 billion deficit in the current account was financed with $10.2 billion worth of capital inflow and a $1.8 billion surplus in the net errors and omissions section; this added $1.5 billion to international reserves. In the same period, while $2.3 billion direct investment - of which $1.2 billion were real estate purchases - occurred, net direct investment increased by 138% over last year to produce a $1.6 billion surplus.

The financing of the current account will become more difficult in 2005.

The deteriorating state of the current account has been becoming worrisome and has begun to pose a threat to the prevailing economic optimism. The $10.6 billion gap, despite satisfying tourism revenues, is expected to reach $15-16 billion by the end of the year. The large trade gap has been financed mostly by portfolio investment and foreign loans; however, if domestic demand keeps up its pace during 2005 the above elements will no longer suffice to finance the growing deficits. Bulky debt payments that are scheduled for 2005 and 2006 will add to the problem. It is hoped that the developments in the EU candidacy negotiations process will go as expected, raising the likelihood of foreign direct investment.

Prospects For 2005

The low inflation/high growth trend will persist.

The resurgence of demand since the last quarter of 2003 is expected to continue; however, through rigid fiscal and monetary policies, an overheating of the economy is not foreseen. While unit costs will no longer fall like they have been doing and may begin to rise, inflationary pressures are thought to be able to be countered by the expected increases in investment. This situation will be supported by following the public reform oriented policy trend together with efforts to increase productivity. The present performance of the economy, when complimented more fully by betterment in the investment environment is expected to attract more foreign investment, which presently is favoring other emerging markets. Moreover, as a fruit of the economic program, the economy's fragility regarding external shocks has been lessened and non-long term variability in the exchange rate and oil prices is not seen as a significant threat to the overall macroeconomic balance. Still, the key factors relating to the direction of the economy in the near future are adherence to the program, improvements in structural issues and the nature of the EU negotiations.

TÜSİAD forecasts a 10.6 % GNP growth for 2004

In the basic scenario, GNP growth will amount to 9.5% and 7% in the third and fourth quarters, respectively, while average yearly growth for 2004 will turn out at 10.6%. TÜSİAD's year-end inflation estimates have been revised as 15.2% for WPI and 9.7% for CPI. Real interest rates will incrementally drop in the fourth quarter and produce an annual average of 12.5%. While the year-end foreign exchange rate is expected to be 1,500,000 TL/$, the current account's widening deficit is expected to cause a re-appreciation of the U.S. Dollar against the TL. With the assumption of the sustenance of fiscal discipline, which is a crucial role-player in the macroeconomic scenario, the IMF-defined primary surplus is expected to be 5.5% of national income. Regarding trade, exports will continue to rise in the fourth quarter and total annual exports, excluding luggage, trade will reach $61 billion; imports are expected to exceed $95 billion. Along with the activity in the invisibles column, the current account deficit will move according to the trade deficit and become $15.5 billion at the end of 2004

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

	2003				2004								
	Sep	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	10.7	10.9	2.3	20.4	5.7	13.9	13.0	14.9	16.0	14.8	12.8	8.8	..
Monthly % Increase	8.2	5.1	-11.3	13.7	-12.1	-8.7	22.7	-3.2	6.0	1.0	-0.8	-6.2	..
Monthly % Increase (seasonally adjusted)	0.6	1.0	-7.9	20.5	-6.6	-5.6	7.9	2.1	2.0	-0.1	0.8	-3.7	..
CAPACITY UTILISATION RATE (SIS, %)	83.5	80.4	79.6	79.5	77.2	73.4	82.3	76.4	84.3	84.5	84.1	81.7	84.8
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)													
Real Wage per hour (annual % increase)	-3.8	..	..	2.4	..	..	0.4	..	..	5.2	..	..	..
Real Income per worker (annual % increase)	-8.2	..	..	-0.9	..	..	1.8	..	..	3.7	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	19.1	16.1	16.2	13.9	10.8	9.1	8.0	8.9	9.6	10.5	9.4	10.5	12.5
Monthly % Increase	0.1	0.6	1.7	0.6	2.6	1.6	2.1	2.6	0.0	-1.1	-1.5	0.8	1.8
Monthly % Increase (seasonally adjusted))	-0.2	-0.2	1.9	0.5	0.9	1.0	1.3	1.9	1.2	0.7	-0.3	1.4	1.6
Monthly % Increase (seasonally adjusted)													
Monthly % Increase (seasonally adjusted)	23.0	20.8	19.3	18.4	16.2	14.3	11.8	10.2	8.9	8.9	9.6	10.0	9.0
Monthly % Increase	1.9	1.4	1.6	0.9	0.7	0.6	0.9	0.6	0.4	-0.1	0.2	0.6	0.9
Monthly % Increase (seasonally adjusted)	1.0	0.2	0.9	1.1	0.2	0.7	0.6	0.3	0.9	1.3	1.4	1.2	0.1
EXCHANGE RATE (CBRT buying rate)													
000 TL/USD (monthly average))	1,372	1,422	1,471	1,426	1,340	1,323	1,315	1,356	1,505	1,488	1,447	1,469	1,498
Annual % Increase	-16.6	-13.6	-7.9	-10.4	-19.1	-18.3	-20.8	-16.3	1.5	4.9	3.6	5.2	9.2
Monthly % Increase	-1.7	3.7	3.5	-3.1	-6.0	-1.3	-0.6	3.1	11.0	-1.1	-2.7	1.5	2.0
TERMS OF TRADE (SIS, 1994=100)*													
External (Export/Import)	94.7	95.2	93.8	94.9	95.4	95.2	95.2	96.0	93.4	93.1	94.1	93.0	..
Internal (Agriculture/ Manufacturing))	117.1	115.9	117.8	113.7	117.7	119.4	117.7	122.1	116.8	115.8	110.9	111.3	115.7
DOMESTIC BORROWING (weighted by sales volume)													
Interest Rate (compounded, annual, %	35.3	30.0	28.7	28.4	26.9	25.7	25.4	23.8	29.0	28.6	27.9	24.8	25.4
Average Maturity (days)	354	342	351	412	425	388	432	383	287	316	382	318	423

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

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

	2003				2004								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Ma	June	July	Aug	Sep
CURRENT ACCOUNT BALANCE (monthly, million $)	**617**	**10**	**-508**	**-2,928**	**-932**	**-2,208**	**-2,181**	**-1,694**	**-1,322**	**-1,476**	**-763**	**-34**	**60**
Foreign Trade Balance *	-1,315	-904	-608	-2,800	-970	-1,796	-2,259	-1,914	-1,860	-2,234	-2,175	-2,300	-1,984
Imports (CIF)	6,206	6,575	5,245	8,234	6,290	6,139	8,451	7,926	7,991	8,468	8,713	7,864	8,356
Exports (FOB), excluding shuttle trade	4,115	4,824	3,970	4,595	4,615	3,664	5,214	5,071	5,170	5,281	5,623	4,645	5,514
Balance on Services	2,180	1,185	612	122	390	159	393	560	1,011	1,000	1,744	2,757	2,231
Balance on Income	-347	-360	-582	-361	-451	-631	-382	-417	-550	-384	-436	-571	-272
Current Transfers	99	89	70	111	99	60	67	77	77	142	104	80	85
BALANCE OF PAYMENTS (12 months cum., million $)													
Current Account Balance	**-5,585**	**-6,009**	**-6,291**	**-7,905**	**-8,547**	**-9,428**	**-10,245**	**-10,956**	**-11,464**	**-12,127**	**-12,554**	**-13,419**	**-13,976**
Foreign Trade Balance *	-12,138	-12,579	-12,619	-14,010	-14,518	-15,596	-16,642	-17,603	-18,477	-19,427	-20,220	-21,135	-21,804
Imports (CIF)	64,448	66,193	66,476	69,340	71,204	73,157	75,852	78,567	81,026	83,767	86,213	88,102	90,252
Exports (FOB), excluding shuttle trade	44,201	45,524	45,900	47,253	48,334	49,074	50,380	51,789	53,099	54,584	55,971	56,787	58,186
Balance on Services	10,492	10,677	10,743	10,505	10,619	10,618	10,764	11,038	11,410	11,673	11,979	12,113	12,164
Balance on Income	-5,357	-5,477	-5,490	-5,427	-5,631	-5,441	-5,360	-5,390	-5,415	-5,463	-5,406	-5,472	-5,397
Current Transfers	1,418	1,370	1,075	1,027	983	991	993	999	1,018	1,090	1,093	1,075	1,061
Capital Flows	**2,292**	**1,895**	**2,086**	**2,862**	**3,791**	**4,546**	**3,833**	**4,078**	**6,217**	**6,897**	**8,952**	**9,395**	**9,921**
Direct Investments	897	738	894	1,063	1,082	1,403	1,317	1,380	1,492	1,872	2,137	1,932	1,994
Portfolio Investments	3,136	2,798	2,306	2,569	2,862	3,554	4,697	4,796	4,399	4,775	5,034	4,505	3,621
Other Investments	5,042	3,234	1,624	3,277	2,077	3,129	2,313	3,718	4,401	4,611	4,352	5,324	3,985
Monetary Authorities	530	521	512	469	434	411	384	367	309	286	215	77	-55
General Gov.	-1,848	-1,951	-2,070	-2,194	-2,187	-2,115	-2,194	-1,807	-1,871	-1,868	-1,237	-1,315	-1,187
Banks	4,458	2,582	2,132	3,194	2,041	2,662	327	1,157	2,019	2,428	888	586	-168
Other Sectors	1,646	2,082	1,480	1,858	2,002	2,875	4,848	5,451	5,788	5,949	6,830	8,268	8,025
Use of Fund Credits and Loans (net)	256	0	-430	-50	-213	-704	-1,052	-1,450	-1,844	-2,184	-2,344	-2,292	-2,630
Reserve Assets**	-6,783	-4,875	-2,738	-4,047	-2,230	-3,540	-4,494	-5,816	-4,075	-4,361	-2,571	-2,366	321
Net Errors and Omissions	**3,293**	**4,114**	**4,205**	**5,043**	**4,756**	**4,882**	**6,412**	**6,878**	**5,247**	**5,230**	**3,602**	**4,024**	**4,055**
FOREIGN TRADE (annual % increase)													
Imports (CIF)	37.6	36.1	5.7	53.3	42.1	46.7	46.8	52.1	44.4	47.9	39.0	31.6	34.6
Exports (FOB), excluding shuttle trade	27.9	37.8	10.5	41.7	30.6	25.3	33.4	38.5	33.9	39.1	32.7	21.3	34.0
Price Index (1994=100, annual % increase)													
Imports	3.0	3.2	5.8	6.0	8.3	5.2	8.7	8.6	13.6	12.0	12.3	15.1	..
Exports	9.1	10.2	11.4	13.1	17.0	13.5	13.6	15.7	16.1	13.4	15.0	17.0	..
Quantity Index (1994=100, annual % increase)													
Imports	47.3	46.3	6.3	56.7	33.4	43.1	21.9	21.3	16.4	16.4	23.2	13.4	..
Exports	16.5	27.4	2.2	40.7	10.6	12.0	12.3	16.6	3.9	-4.6	16.5	5.6	..

(*) FOB, including shuttle trade
(**) Negative sign indicates increase in reserves.

TABLE 1.3 MAIN ECONOMIC INDICATORS (2003-2004) BUDGET BALANCE

	2003				2004								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
12 MONTHS CUMULATIVE (trillion TL)													
Revenues	**91,940**	**94,204**	**94,544**	**100,250**	**100,068**	**100,082**	**103,740**	**104,588**	**105,747**	**105,367**	**107,697**	**107,473**	**108,277**
Tax Revenues	77,798	79,747	80,266	84,316	84,540	84,636	86,353	86,655	87,564	87,044	88,565	88,188	89,022
Non-Tax Revenues	14,141	14,457	14,278	15,934	15,528	15,446	17,387	17,932	18,183	18,323	19,132	19,285	19,255
Expenditures	**137,276**	**139,059**	**137,918**	**140,455**	**141,308**	**140,107**	**140,041**	**138,606**	**135,576**	**135,398**	**134,434**	**137,234**	**139,737**
Current	36,950	37,521	37,779	38,514	39,105	39,538	40,113	40,738	41,091	41,412	41,463	41,845	42,402
Investment	6,445	6,550	6,335	7,180	7,177	7,164	7,083	7,275	7,066	7,124	7,167	7,328	7,478
Transfers	34,767	35,687	35,556	36,152	42,489	45,497	49,610	54,591	59,323	62,314	66,142	72,364	76,553
Domestic Borrowing Interest Pay.	6,123	6,074	5,987	5,890	10,564	13,061	17,160	21,563	26,431	29,105	33,334	37,803	41,845
Primary Balance	**13,778**	**14,446**	**14,873**	**18,405**	**17,070**	**17,566**	**21,387**	**21,485**	**23,714**	**23,351**	**27,024**	**25,449**	**25,760**
Budget Balance	**-45,336**	**-44,855**	**-43,374**	**-40,204**	**-41,241**	**-40,025**	**-36,301**	**-34,018**	**-29,829**	**-30,031**	**-26,737**	**-29,761**	**-31,460**
Deferred Payments and Advances	547	281	63	-2,086	-3,121	-2,617	-3,124	-2,921	-2,263	-2,349	-3,619	-2,398	-2,176
Cash Balance	**-44,790**	**-44,575**	**-43,311**	**-42,290**	**-44,361**	**-42,643**	**-39,425**	**-36,939**	**-32,092**	**-32,380**	**-30,356**	**-32,160**	**-33,636**
Financing	**44,790**	**44,575**	**43,311**	**42,290**	**44,361**	**42,643**	**39,425**	**36,939**	**32,092**	**32,380**	**30,356**	**32,160**	**33,636**
Foreign Borrowing (net)	3,320	3,124	1,330	2,684	2,459	3,331	2,187	2,604	2,315	2,051	2,138	3,592	2,558
Domestic Borrowing (net)	42,234	40,268	41,051	42,884	41,561	39,099	39,982	34,653	32,808	31,110	29,864	31,060	32,618
Short-term Borrowing (net))	-1,570	-4,711	-7,620	-11,973	-10,524	-16,186	-15,749	-20,288	-16,824	-16,005	-11,303	-3,836	-2,818
Other	-764	1,183	930	-3,278	341	213	-2,744	-318	-3,031	-781	-1,647	-2,493	-1,540
12 MONTHS CUMULATIVE (billion USD)													
Revenues	**60.6**	**62.8**	**63.5**	**67.9**	**68.8**	**69.8**	**73.5**	**75.0**	**75.7**	**75.2**	**76.6**	**76.1**	**76.1**
Tax Revenues	51.3	53.2	53.9	57.2	58.1	59.0	61.2	62.1	62.6	62.0	62.9	62.3	62.5
Non-Tax Revenues	9.3	9.6	9.6	10.7	10.7	10.7	12.4	13.0	13.1	13.2	13.7	13.7	13.7
Expenditures	**89.7**	**91.8**	**91.6**	**94.5**	**96.8**	**97.2**	**98.8**	**99.3**	**97.1**	**96.6**	**95.6**	**97.2**	**98.3**
Current	24.2	24.9	25.2	26.1	27.0	27.6	28.4	29.2	29.4	29.5	29.5	29.6	29.8
Investment	4.3	4.4	4.3	5.0	5.0	5.0	5.0	5.1	5.0	5.0	5.0	5.1	5.2
Transfers	22.8	23.7	23.7	24.5	29.5	32.1	35.7	39.7	42.8	44.7	47.3	51.4	54.0
Domestic Borrowing Interest Pay.	4.0	4.0	4.0	3.9	7.5	9.5	12.7	16.0	19.2	21.0	23.9	26.9	29.6
Primary Balance	**9.3**	**9.8**	**10.2**	**12.3**	**11.6**	**12.3**	**15.3**	**15.6**	**17.0**	**16.8**	**19.3**	**18.0**	**18.2**
Budget Balance	**-29.1**	**-29.0**	**-28.1**	**-26.6**	**-28.0**	**-27.4**	**-25.3**	**-24.2**	**-21.4**	**-21.4**	**-19.1**	**-21.1**	**-22.2**
Deferred Payments and Advances	0.3	0.1	-0.1	-1.3	-2.1	-2.0	-2.3	-2.2	-1.7	-1.8	-2.7	-1.8	-1.6
Cash Balance	**-28.8**	**-28.9**	**-28.2**	**-28.0**	**-30.1**	**-29.4**	**-27.6**	**-26.4**	**-23.2**	**-23.2**	**-21.7**	**-23.0**	**-23.8**
Financing	**28.8**	**28.9**	**28.2**	**28.0**	**30.1**	**29.4**	**27.6**	**26.4**	**23.2**	**23.2**	**21.7**	**23.0**	**23.8**
Foreign Borrowing (net)	2.3	2.1	1.0	1.9	2.0	2.5	1.5	1.9	1.7	1.5	1.5	2.5	1.7
Domestic Borrowing (net)	27.0	25.9	26.6	28.1	28.0	26.7	27.8	24.9	23.6	22.4	21.4	22.2	23.2
Short-term Borrowing (net)	-1.6	-3.7	-5.7	-8.7	-7.8	-11.7	-11.5	-14.4	-12.1	-11.6	-8.3	-3.1	-2.4
Other	-0.5	0.8	0.6	-2.0	0.0	0.2	-1.7	-0.3	-2.1	-0.6	-1.2	-1.7	-1.1
PUBLIC DEBT STOCK (as of GNP, %)													
Total Public Debt Stock (gross)	**..**	**..**	**..**	**83.5**	**..**	**..**	**81.3**	**..**	**..**	**82.8**	**..**	**..**	**..**
Total Public Sector Net Debt	..	..	..	70.5	..	..	68.3	..	..	69.1	..	..	..
Net External Debt Stock	..	..	..	22.2	..	..	19.6	..	..	20.8	..	..	..
Net Domestic Debt Stock	..	..	..	48.3	..	..	48.7	..	..	48.3	..	..	..

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

	2003				2004								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
MONEY SUPPLY (annual % change)													
Currency in Circulation	50.4	45.2	51.3	40.5	78.3	45.9	44.7	52.3	57.9	48.4	37.0	44.6	41.4
Sight Deposits	30.3	51.2	40.4	62.2	50.8	46.4	65.5	61.1	54.4	59.0	45.9	49.5	52.4
M1	**39.8**	**48.3**	**45.7**	**51.2**	**63.9**	**46.2**	**54.3**	**56.6**	**56.2**	**53.6**	**41.5**	**47.0**	**46.8**
Time Deposits	31.5	29.9	28.9	26.5	41.7	43.4	42.2	46.8	43.2	40.9	37.8	38.4	35.5
M2	**33.5**	**34.4**	**33.1**	**32.2**	**47.0**	**44.1**	**45.0**	**49.2**	**46.3**	**44.0**	**38.7**	**40.6**	**38.4**
Foreign Exchange Deposits (TL)	-9.0	-0.8	5.2	-4.6	-12.2	-9.9	-9.9	0.0	12.2	9.5	10.6	16.6	17.7
M2Y	**9.9**	**15.1**	**18.4**	**12.3**	**14.9**	**15.5**	**16.3**	**24.1**	**29.7**	**27.4**	**25.5**	**29.5**	**28.9**
Repo	-12.1	-18.0	41.4	11.4	62.8	59.6	61.0	48.7	29.0	-16.9	-29.2	-29.6	-32.9
M2YR	**9.4**	**14.2**	**18.8**	**12.3**	**14.2**	**15.0**	**15.2**	**23.6**	**29.5**	**26.6**	**24.5**	**28.3**	**27.6**
Offical Deposits	89.7	57.3	91.7	111.3	23.6	102.1	89.1	56.8	16.9	27.4	15.7	39.0	3.8
Other Deposits With CBRT	-36.4	72.4	-13.7	-15.2	-8.7	-67.1	-48.4	-5.9	140.1	-36.9	132.3	25.9	-58.0
M3Y	**11.0**	**16.6**	**19.4**	**13.8**	**14.8**	**15.4**	**17.1**	**24.5**	**31.1**	**26.5**	**26.2**	**29.8**	**27.5**
M2Y (trillion TL)	**137.9**	**147.4**	**149.2**	**149.9**	**154.1**	**152.5**	**154.5**	**161.1**	**164.6**	**166.3**	**167.7**	**173.3**	**177.7**
Composition of M2Y (%)													
Currency in Circulation	7.0	6.7	7.4	6.8	8.0	7.1	7.4	7.4	7.4	7.6	7.5	7.6	7.7
Sight Deposits	6.9	7.5	7.3	7.6	7.5	7.3	7.2	7.7	7.2	7.9	8.1	8.0	8.1
Time Deposits	40.2	38.4	38.5	39.6	43.1	44.3	44.9	43.9	43.2	43.2	43.0	42.5	42.3
Foreign Exchange Deposits	45.9	47.4	46.8	46.0	41.5	41.3	40.5	41.0	42.2	41.2	41.4	41.9	41.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CREDIT STOCK (domestic, annual % change)	**28.6**	**38.5**	**47.7**	**44.8**	**41.9**	**45.4**	**36.2**	**49.2**	**61.9**	**63.1**	**62.9**	**67.2**	**60.9**
Deposit Bank Credits	38.0	49.4	60.0	54.5	50.6	54.6	43.3	56.1	69.2	70.7	70.4	75.4	67.8
Private	75.1	85.8	93.7	93.4	89.4	91.9	101.8	106.3	109.8	107.7	109.4	113.9	96.3
Public	40.7	49.5	54.2	66.7	81.2	87.3	101.6	99.5	104.9	108.9	104.7	96.3	90.2
Invest. and Develop.Bank Credits	2.0	7.5	10.4	7.6	9.6	4.2	0.8	9.0	17.0	15.4	14.6	16.0	16.4
CB BALANCE SHEET (million $)													
Base Money	10,368	10,336	11,547	10,956	13,821	12,727	13,268	12,312	11,803	12,839	13,108	13,689	13,798
Net Foreign Assets*	6,826	5,863	4,229	5,138	5,282	5,612	5,870	7,745	7,158	6,859	6,697	8,167	8,436
Net Domestic Assets**	3,542	4,473	7,318	5,818	8,539	7,115	7,398	4,567	4,645	5,980	6,411	5,523	5,362
THE CENTRAL BANK RESERVES (billion $)	**33.9**	**33.1**	**31.3**	**33.6**	**33.7**	**33.4**	**32.6**	**33.8**	**33.0**	**32.4**	**32.3**	**33.6**	**34.2**

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

*** Net Domestic Assets = Domestic Assets - (FX Deposits of Non-Bank Sec. + Funds + Deposits of Non-Bank Sec. + OMO + Pub. Sec. Deposits)*

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

By Kind of Expenditure

	Annual % Change		% Share	Annual % Change			
	2002	2003	2003	2003-3	2003-4	2004-1	2004-2
Private Final Cons. Exp.	**2.1**	**6.6**	**63.5**	**5.8**	**10.3**	**10.6**	**16.4**
Food, Beverage	1.1	4.1	22.8	5.7	1.0	0.9	0.3
Durable Goods	2.1	24.0	11.1	11.4	49.5	49.7	61.7
Semi-dur, Non-dur Goods	3.0	2.1	9.2	3.7	3.8	4.9	31.2
Energy, Trans., Commun.	-0.2	2.2	8.6	2.9	2.4	-3.3	2.5
Services	8.5	7.5	6.6	7.6	7.9	10.1	14.3
Ownership of Dwelling	1.8	1.4	5.2	1.4	1.4	1.9	1.4
Gov. Final Cons. Exp.	**5.4**	**-2.4**	**7.7**	**-0.7**	**-4.2**	**2.4**	**-7.9**
Compensation of Empl.	0.7	0.8	4.1	1.4	1.2	1.4	1.0
Purchases of Goods, Services	10.8	-5.9	3.6	-2.8	-7.4	5.3	-19.0
Gross Fixed Capital Form.	**-1.1**	**10.0**	**19.7**	**3.0**	**19.2**	**52.6**	**51.7**
Public Sector	8.8	-11.5	5.2	-22.7	5.0	-11.3	-9.1
Machinery Equipment	12.2	-19.2	1.2	-43.3	-0.9	-14.2	-4.9
Building Construction	19.7	-26.7	1.4	-34.9	-8.7	-38.5	-28.6
Other Construction	0.4	4.0	2.6	-4.2	19.2	4.2	-3.7
Private Sector	**-5.3**	**20.3**	**14.5**	**16.4**	**30.1**	**60.6**	**68.7**
Machinery Equipment	4.4	46.1	9.8	47.5	54.4	89.6	97.6
Building Construction	-14.9	-11.4	4.8	-11.7	-10.0	5.1	6.2
Change in Stock*	**7.1**	**3.0**		**2.1**	**1.2**	**3.3**	**1.4**
Export of Goods, Services	**11.1**	**16.0**	**43.1**	**19.4**	**16.9**	**10.3**	**15.7**
Import of Goods, Services	**15.8**	**27.1**	**41.8**	**28.3**	**33.0**	**31.2**	**32.7**
GDP	**7.9**	**5.8**	**100.0**	**5.5**	**6.1**	**10.1**	**13.4**

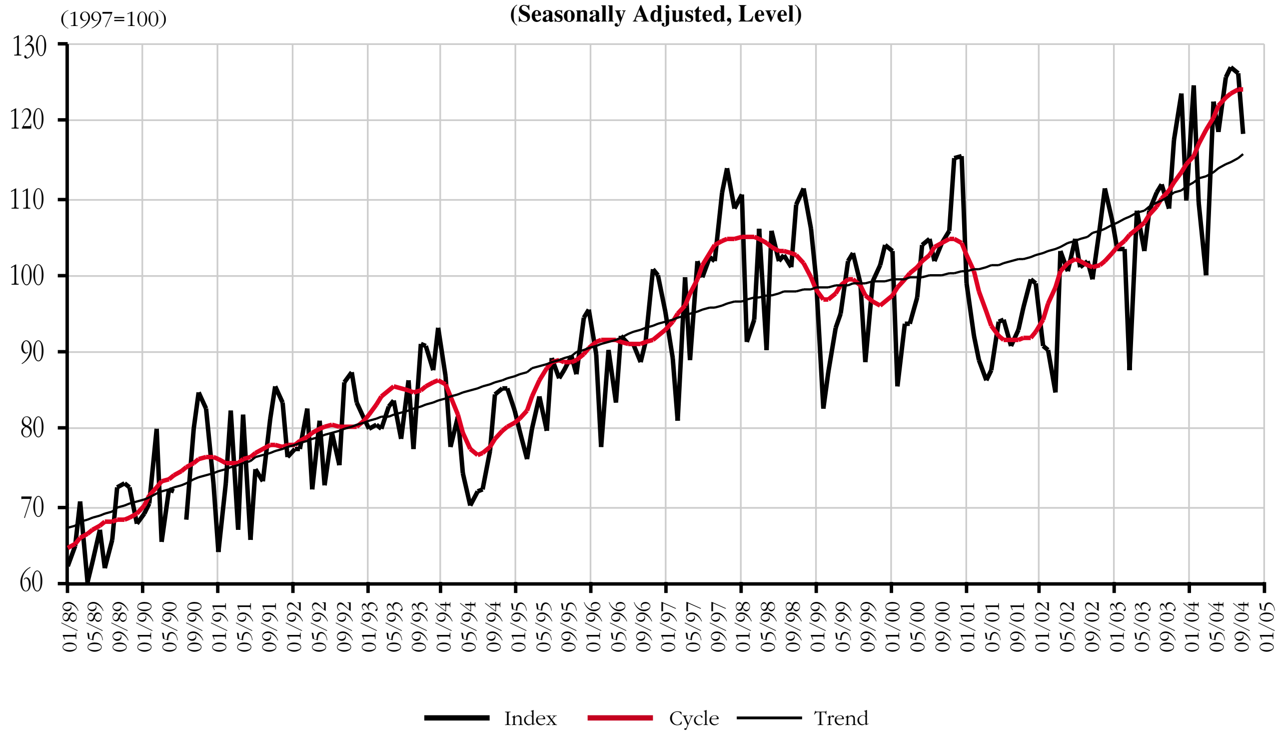
By Sectors

	Annual % Change		% Share	Annual % Change			
	2002	2003	2003	2003-2	2003-3	2004-1	2004-2
Agriculture	**6.9**	**-2.5**	**12.6**	**-0.6**	**-9.6**	**-7.5**	**3.4**
Agriculture and Livestock Prod.	6.8	-2.3	11.8	-0.6	-9.3	-9.0	0.6
Forestry	15.4	-8.9	0.6	-0.5	-20.2	-4.6	35.0
Fishing	-4.1	1.4	0.3	3.8	-2.5	2.0	14.1
Industry	**9.4**	**7.8**	**29.9**	**9.1**	**9.2**	**10.3**	**14.9**
Mining and Quarrying	-4.4	-2.9	1.1	2.6	-0.8	-6.1	3.5
Manufacturing	10.4	8.6	25.3	9.5	10.0	11.3	16.1
Electricity, Gas, Water	8.0	5.7	3.5	8.4	7.1	7.6	9.1
Construction	**-5.6**	**-9.0**	**4.0**	**-12.3**	**1.3**	**2.9**	**0.2**
Trade	**11.0**	**8.1**	**23.5**	**7.4**	**9.2**	**16.3**	**19.1**
Wholesale and Retail Trade	13.2	10.2	20.0	10.3	11.0	17.3	19.5
Hotels, Rest. Services.	0.9	-3.0	3.4	-5.0	-0.4	9.1	16.2
Transportation and Comm.	**6.0**	**8.4**	**13.8**	**8.1**	**7.5**	**4.3**	**10.7**
Financial Institutions	**-7.1**	**-6.3**	**1.9**	**-5.5**	**-3.2**	**0.6**	**1.2**
Ownership of Dwelling	**1.8**	**1.4**	**4.8**	**1.5**	**1.4**	**1.9**	**1.4**
Business and Pers. Services	**7.4**	**5.2**	**2.3**	**5.0**	**5.4**	**8.6**	**12.4**
Sectoral Total	**7.5**	**5.1**	**91.3**	**4.7**	**5.3**	**8.8**	**12.7**
Government Services	**0.7**	**0.8**	**4.2**	**1.4**	**1.2**	**1.4**	**1.0**
Private Non-profit Inst.	**0.6**	**-1.0**	**0.3**	**-1.0**	**0.1**	**0.9**	**0.8**
Total	**7.2**	**4.9**	**95.8**	**4.5**	**5.1**	**8.4**	**12.1**
Import Duties	**24.7**	**22.6**	**6.1**	**26.8**	**23.7**	**33.8**	**33.2**
GNP	**7.9**	**5.9**	**100.0**	**5.6**	**7.2**	**12.4**	**14.4**

**Figures indicate percentage point contribution to GDP growth*

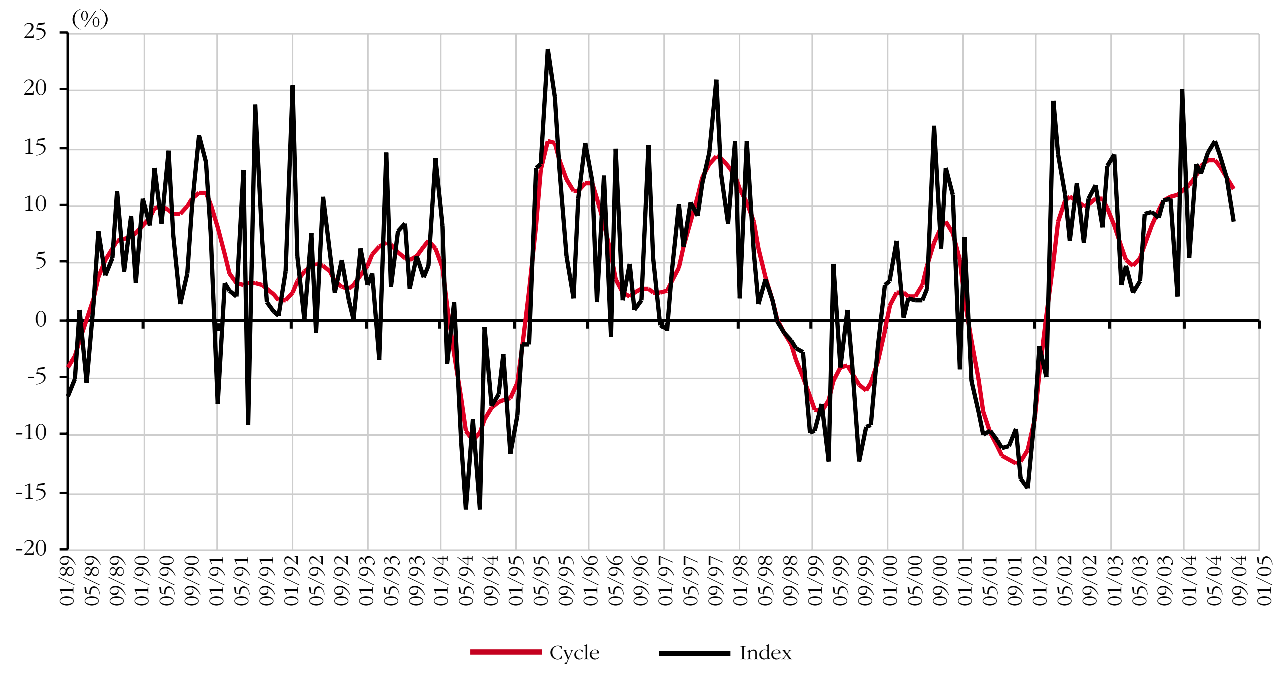
GRAPH 1

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Level)



INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Annual % Increase)

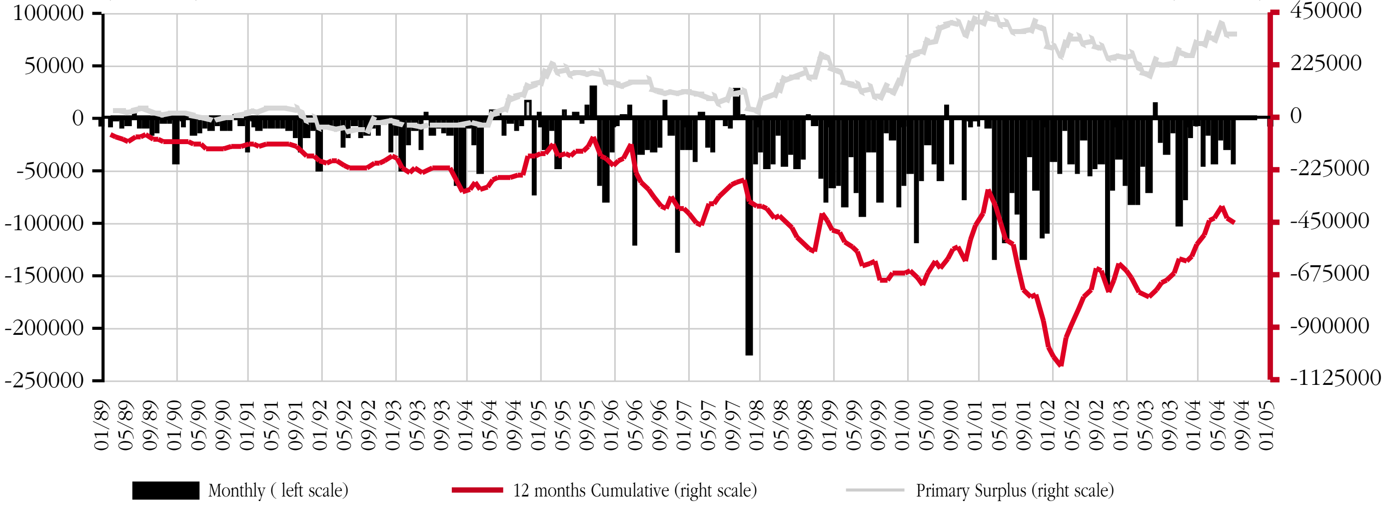
GRAPH 2



GRAPH 3

CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices)

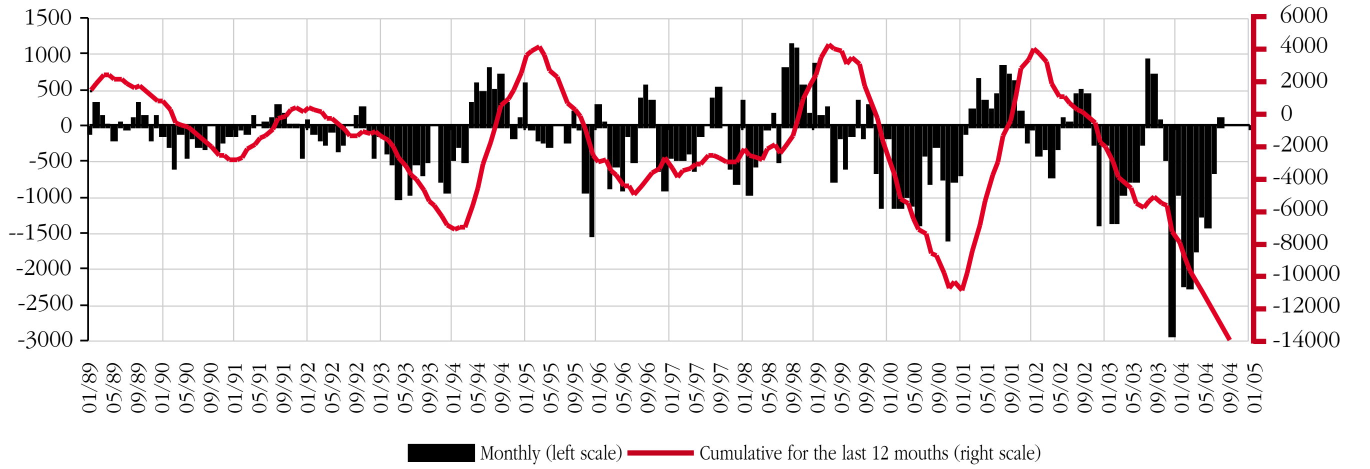
(Billion TL) (Billion TL)



GRAPH 4

(Million $) (Million $)

CURRENT ACCOUNT BALANCE (*)

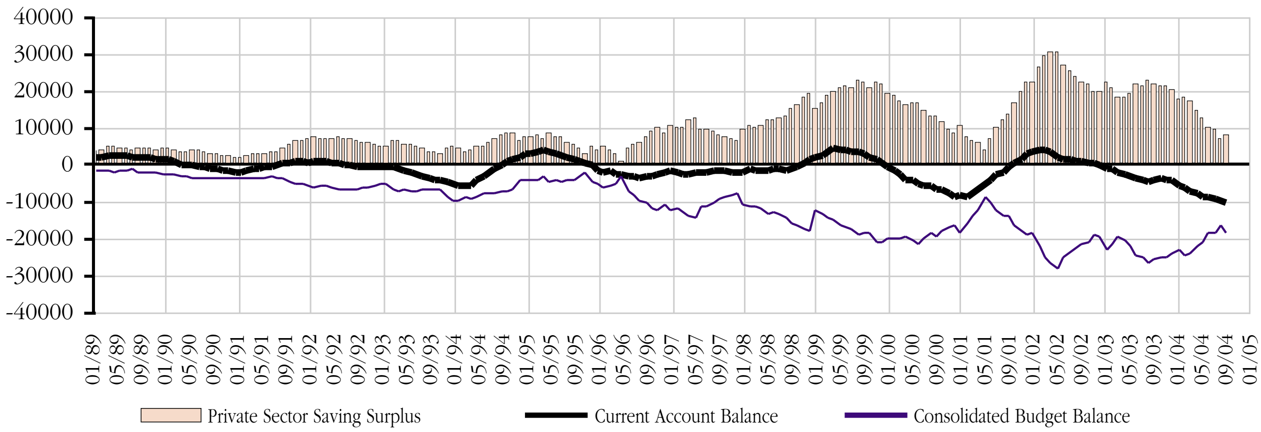


(*) Monthly figures include shuttle trade since 01/96.

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

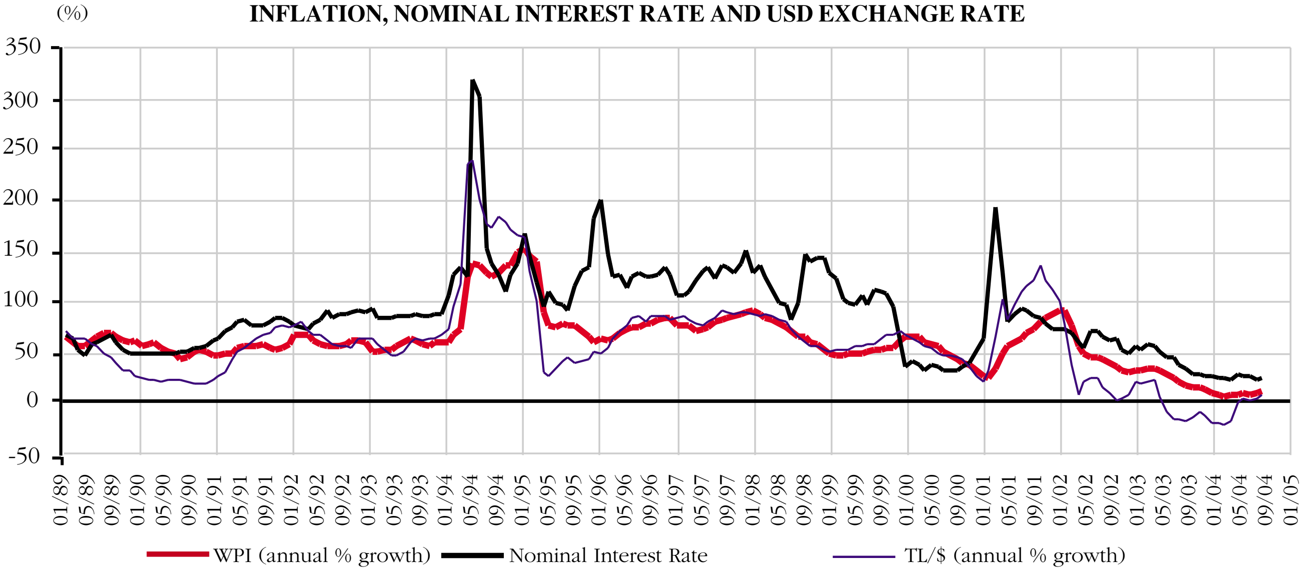
GRAPH 5

(Million $)

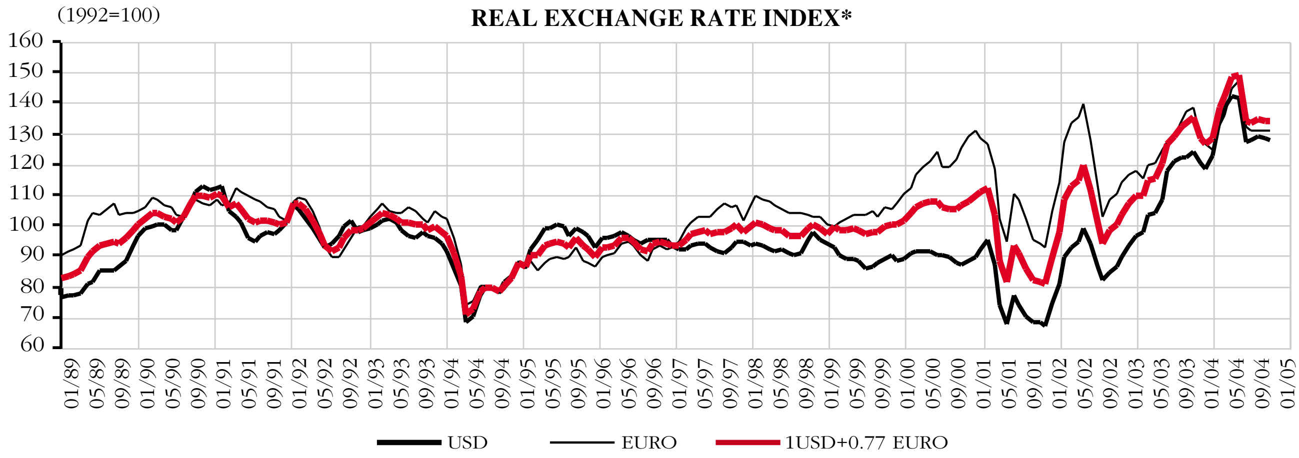


(*) Budget balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

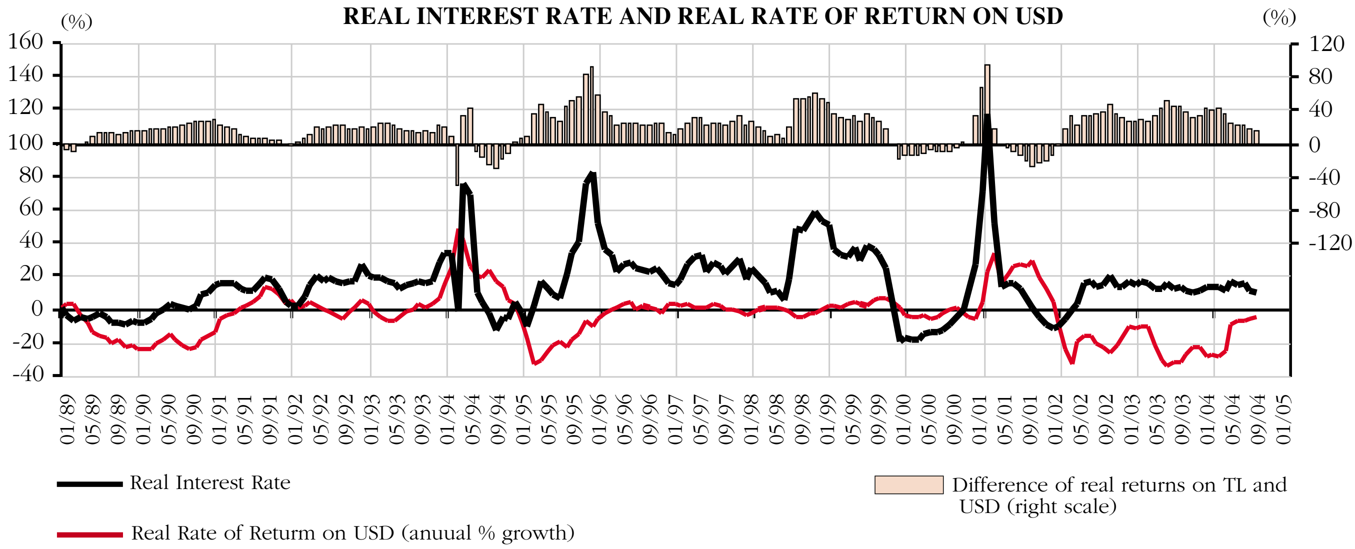


GRAPH 7



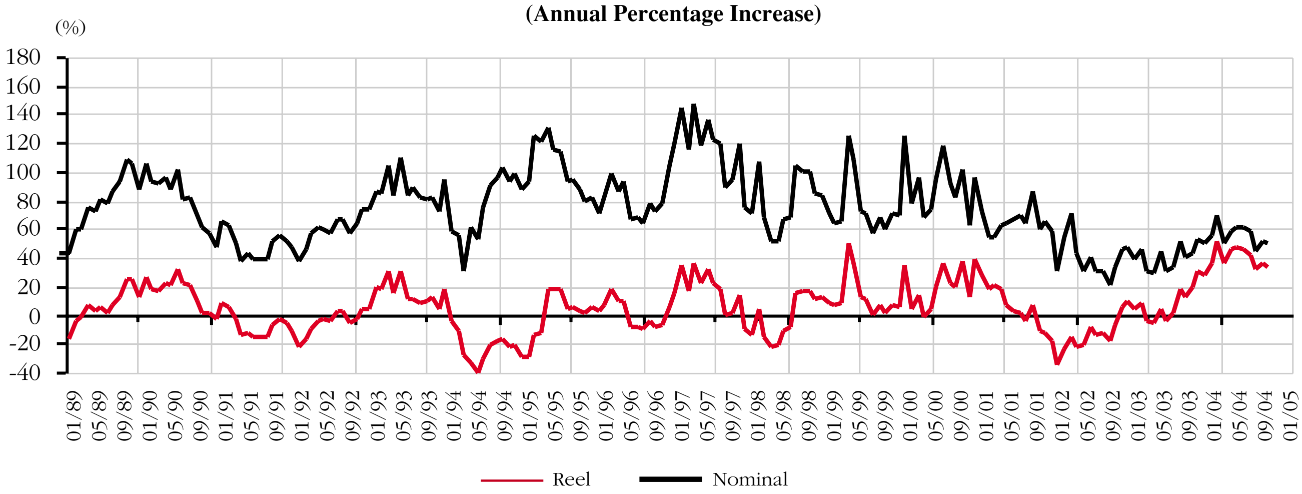
*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

GRAPH 8



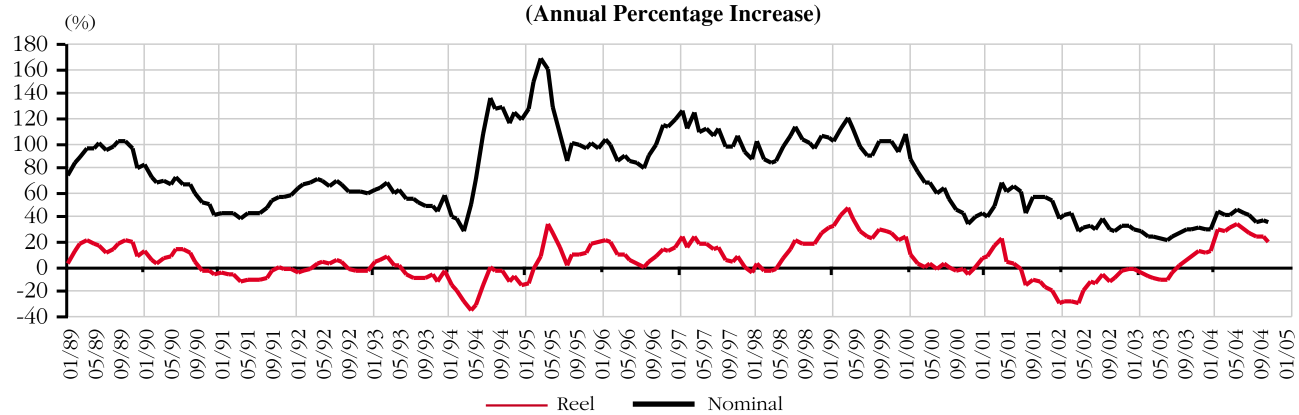
GRAPH 9

M1
(Annual Percentage Increase)



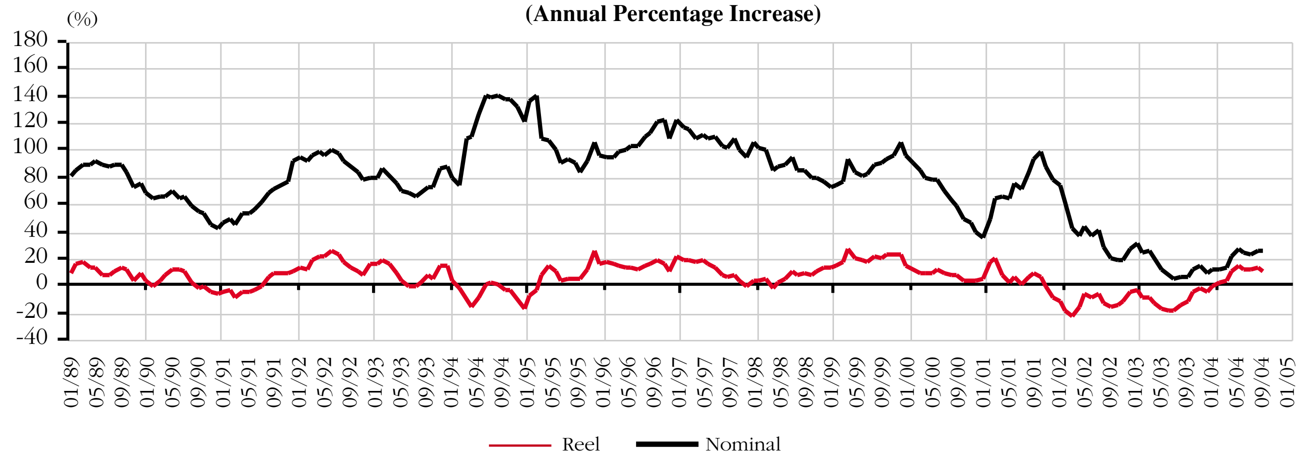
GRAPH 10

M2
(Annual Percentage Increase)

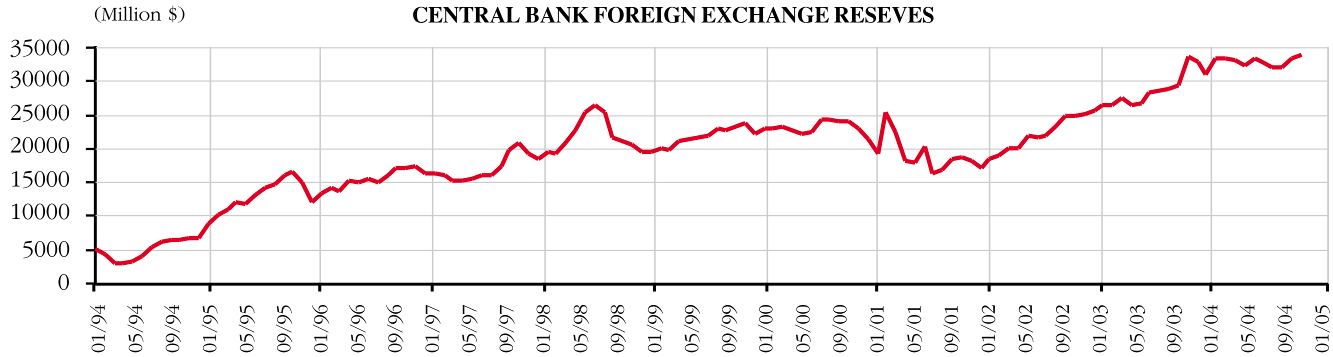


GRAPH 11

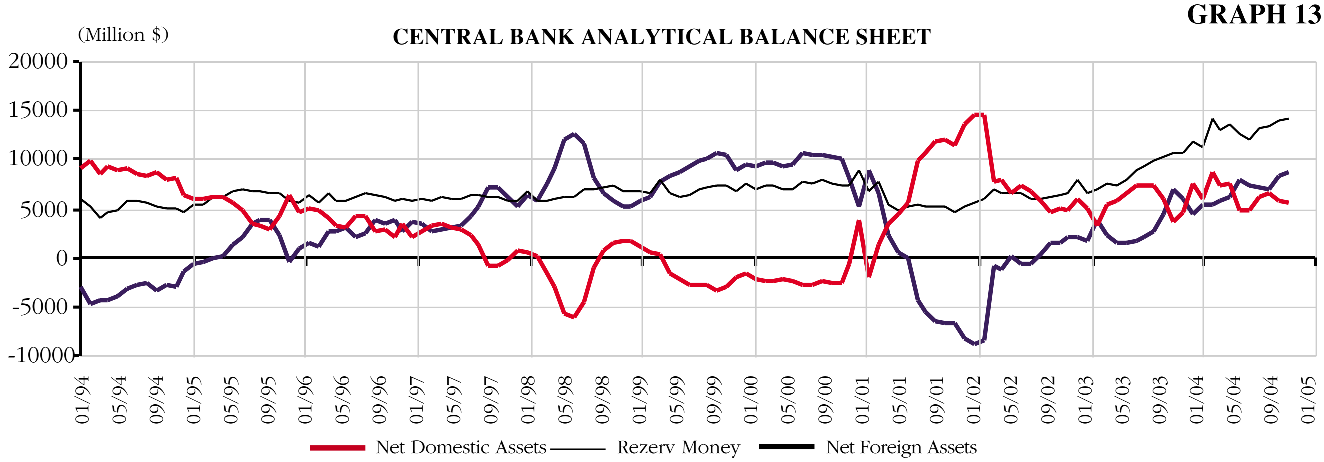
M2Y
(Annual Percentage Increase)



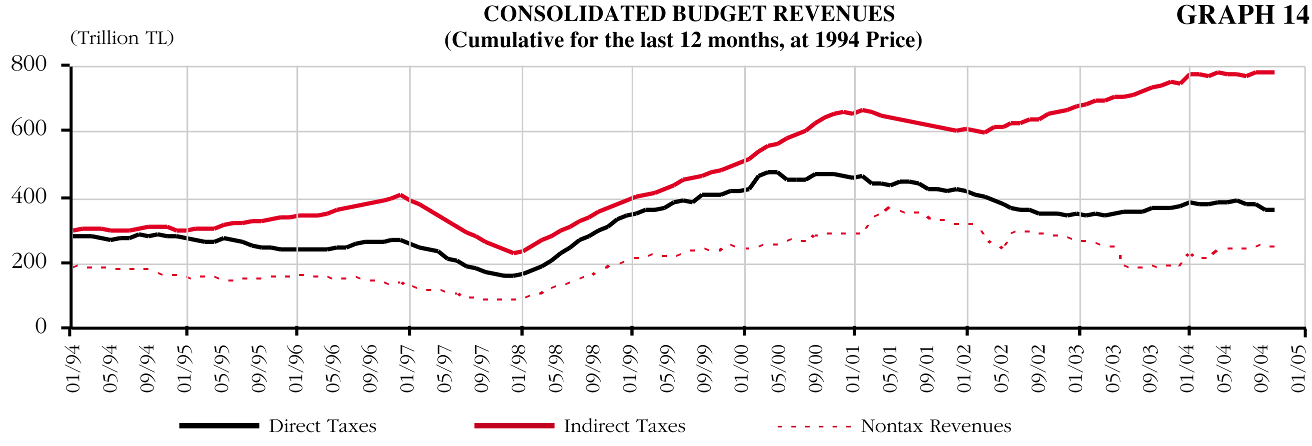
GRAPH 12



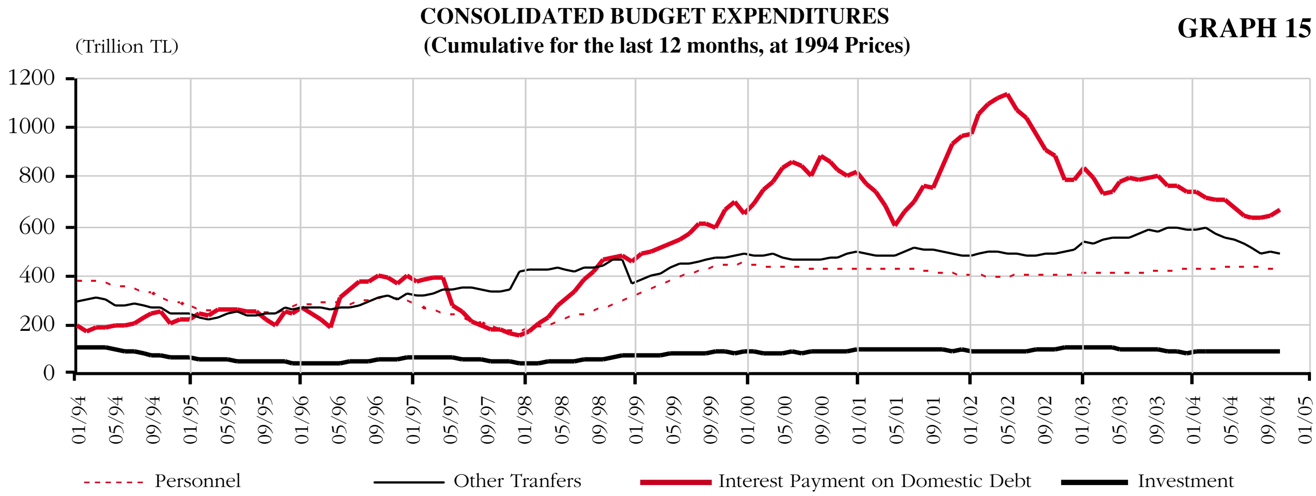
GRAPH 13



GRAPH 14

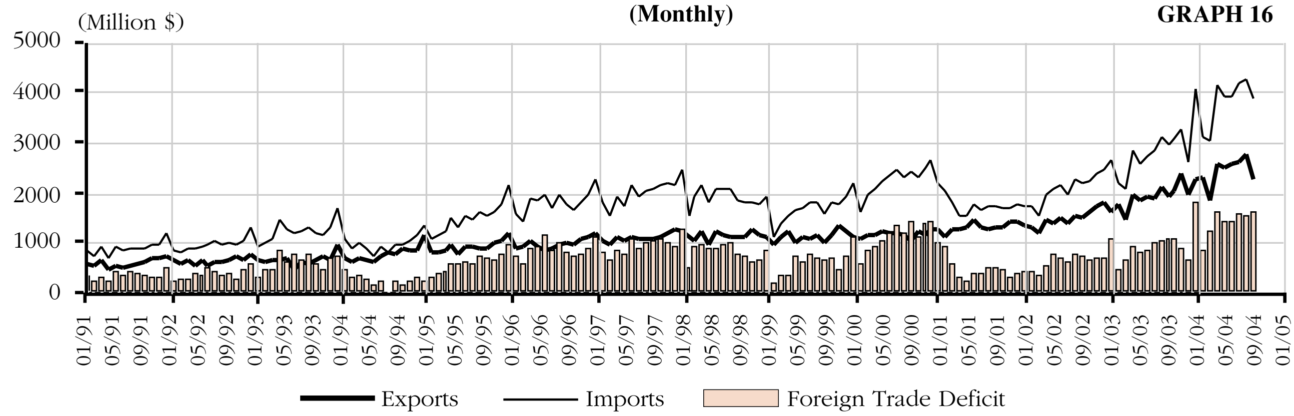


GRAPH 15



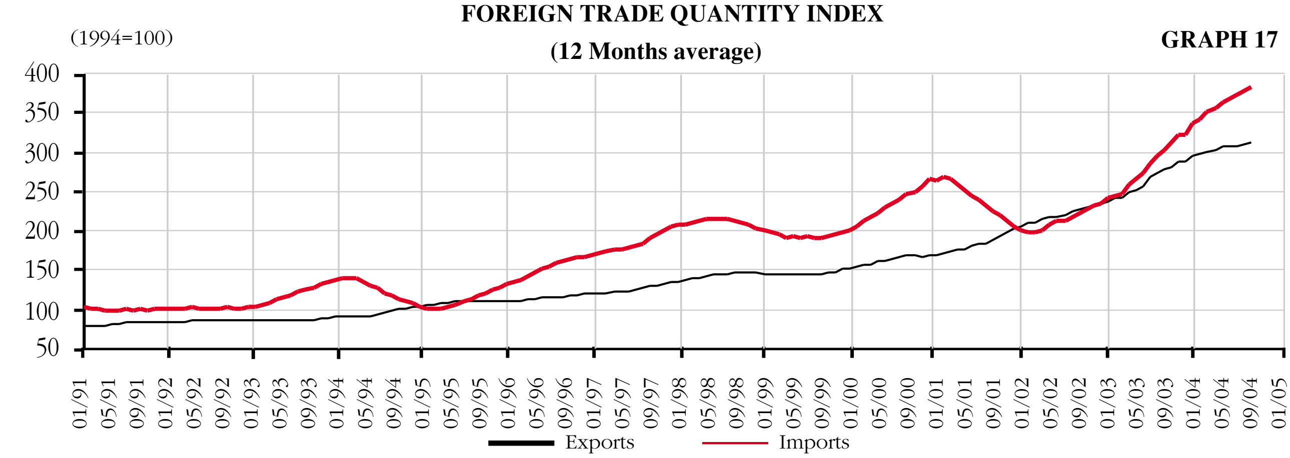
FOREIGN TRADE
(Monthly)

GRAPH 16



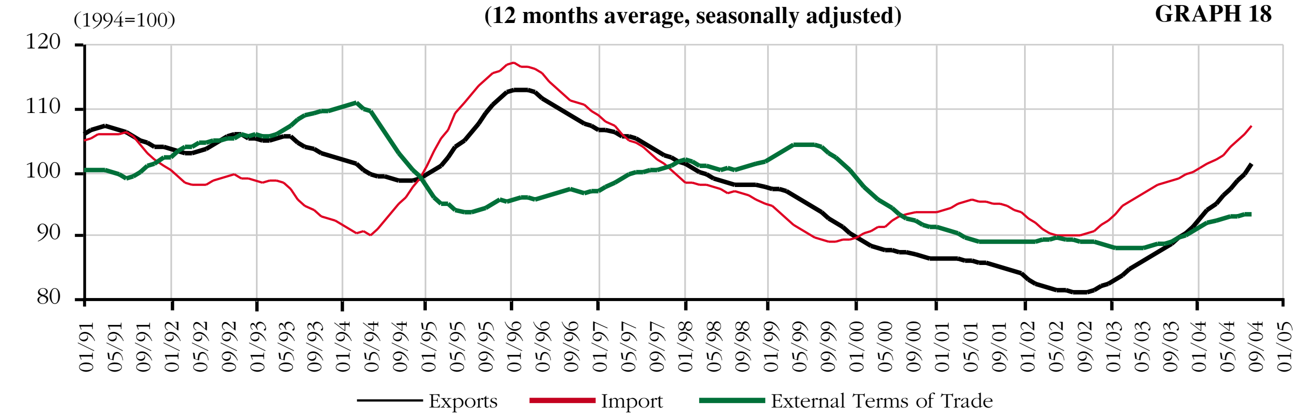
FOREIGN TRADE QUANTITY INDEX
(12 Months average)

GRAPH 17



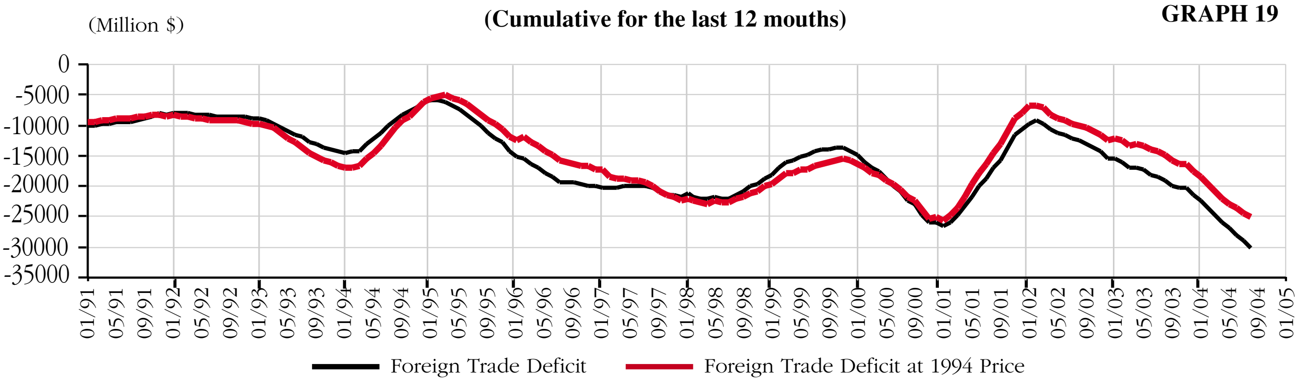
FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(12 months average, seasonally adjusted)

GRAPH 18



FOREIGN TRADE DEFICIT
(Cumulative for the last 12 mouths)

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)*	0.6	10.4	8.0	11.8	**7.9**	7.4	3.6	5.6	7.2	**5.9**	12.4	14.4	*9.5*	*7.0*	***10.6***	**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**	10.1	13.4	*9.0*	*6.5*	***9.6***	
Inflation (WPI)*	86.7	51.2	43.5	33.2	**50.1**	33.7	32.8	22.4	15.4	**25.6**	9.3	9.7	10.8	*15.3*	***10.6***	**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	9.3	9.5	*9.8*	***10.3***	**12.0(a)**
Reserve Money *	53.6	45.1	42.8	46.2	**46.6**	43.5	36.6	38.8	40.6	**39.9**	40.9	50.7	42.2	*32.8*	***38.4***	
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**	23,854	25,952	29,972	*27,000*	***106,778***	**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	33,552	36,467	*41,500*	***142,358***	**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	-7,600	-6,495	*-14,500*	***-35,580***	**-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	14,759	15,550	*14,500*	***59,676***	**66,050**
Budget Balance (billion $)	-9.3	-3.7	-4.1	-9.0	**-26.0**	-6.6	-9.2	-3.6	-7.0	**-26.4**	-5.3	-5.2	-4.4	*-9.8*	***-24.7***	
Primary Surplus (over GNP, %)					**4.6**					**5.3**					***5.6***	**5.0**
Budget Balance (over GNP , %)					**-14.2**					**-11.2**					***-8.2***	**-10.9**
EXCHANGE RATES																
Nominal Exchange Rate (TL/$)	1,354	1,411	1,644	1,612	**1,505**	1,648	1,507	1,388	1,437	**1,495**	1,326	1,450	1,472	*1,485*	***1,433***	**1,604**
Nominal Exchange Rate (TL/$)*	69.7	18.9	17.6	6.1	**22.8**	21.8	6.8	-15.5	-10.9	**-0.7**	-19.5	-3.8	6.0	*3.3*	***-4.2***	
Real Exchange Rate (TL/$)(1999=100)**	121.3	121.1	108.9	121.1	**118.1**	127.1	147.4	161.2	162.2	**149.5**	180.3	167.5	166.6	*172.3*	***171.7***	
Real Exchange Rate (TL/$)*	0.4	23.7	18.6	24.1	**15.7**	4.8	21.7	48.1	34.0	**26.6**	41.8	13.6	3.3	*6.2*	***14.8***	
Nominal Exchange Rate (TL/€)	1,186	1,299	1,617	1,615	**1,429**	1,768	1,709	1,562	1,713	**1,688**	1,658	1,747	1,799	*1,847*	***1,763***	
Nominal Exchange Rate (TL/€)*	61.7	25.4	29.8	18.8	**30.7**	49.1	31.5	-3.4	6.0	**18.1**	-6.2	2.3	15.1	*7.8*	***4.4***	
Real Exchange Rate (TL/€)(1999=100)	120.6	114.6	96.4	105.3	**109.2**	103.2	113.2	124.8	118.6	**115.0**	125.6	121.1	118.7	*120.7*	***121.5***	
Real Exchange Rate (TL/€) (1999=100)*	5.3	17.3	7.4	10.8	**10.1**	-14.4	-1.2	29.4	12.7	**5.3**	21.7	6.9	-4.9	*1.8*	***5.7***	
€/$*100	0.88	0.92	0.98	1.00	**0.95**	1.07	1.13	1.13	1.19	**1.13**	1.25	1.21	1.22	*1.24*	***1.23***	
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	27.1	26.0	*20.0*	***24.5***	
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	16.3	15.0	*9.3*	***12.5***	
FOREIGN TRADE and CURRENT ACCOUNT																
Imports (cif) (billion $)	10.4	12.5	13.5	15.2	**51.6**	14.4	16.5	18.4	20.1	**69.3**	20.9	24.4	24.9	*25.5*	***95.7***	**75.0**
Exports (fob)(billion $)	7.9	8.5	9.3	10.3	**36.1**	10.4	11.3	12.2	13.4	**47.3**	13.5	15.5	15.8	*16.5*	***61.0***	**51.5**
Foreign Trade Balance(fob-cif) (billion $)	-2.5	-3.9	-4.2	-4.8	**-15.5**	-4.0	-5.2	-6.3	-6.7	**-22.1**	-7.4	-8.9	-9.2	*-9.0*	***-34.4***	**-24.0**
Invisibles(other current) (billion $)	1.9	3.1	5.3	3.7	**14.0**	1.2	2.8	7.6	3.5	**15.1**	2.2	4.7	8.4	*4.1*	***19.0***	**18.8**
Current Account Balance (billion $)	-0.6	-0.8	1.0	-1.1	**-1.5**	-2.6	-2.3	1.4	-3.1	**-6.6**	-5.2	-4.2	-0.7	*-4.9*	***-15.5***	**-5.2**
Imports (cif)*	-3.4	25.8	30.5	46.3	**24.5**	36.5	31.7	35.9	30.6	**33.5**	45.3	48.0	35.2	*27.2*	***38.0***	
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**	30.2	37.0	29.6	*23.2*	***29.7***	

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) TÜSİAD's end year forecast for WPI and CPI for 2004 are 15.2% and 9.7% respectively.

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