

TÜSİAD QUARTERLY ECONOMIC OUTLOOK



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Economic Outlook**

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2005: Career-High

"I never worry about the future. It comes soon enough."

Albert Einstein

I. Summary and Conclusion

The structural transformation in the Turkish economy will continue by gaining speed.

Alongside with the economic program introduced after the crises, expectations have turned out to be positive and some significant improvements have been obtained during the past three years period. Historical break off in inflation rates, without doubt, comes first among them. This development has been supported also with the improvement of public finances and structural reforms. While stabilization has increased together with the modernization achieved in institutional and regulatory structures, uncertainty has been significantly reduced. As a result of all these positive developments, Turkish economy has exhibited a growth more beyond the targets determined in the last three years one after the other. Strict adherence to structural reforms and financial discipline will increase the resistance of the economy to external shocks and support the low inflation-high growth path in the forthcoming period.

EU membership process and IMF will continue to function as an anchor.

The fact that the membership negotiations with the EU commences in the month of October 2005, will bring about a new acceleration to the stabilization process. Besides, the 19th stand-by agreement expected to be realized as of the beginning of 2005 and to cover a term of three years will be in harmony with the EU negotiations process. The government will also submit an economic program to the EU latest by the end of November 2005. The economic program to be submitted to the EU will cover the term of 2005-2007 and include the details of the economic and structural program to be realized by Turkey within the Maastricht and Copenhagen criterions. The new stand-by arrangement, includes credit usage of 10 billion dollars is which will be released in

four tranches each in the years 2005 and 2006, while by three in 2007. Within this term, the repayments to the IMF are envisaged as to be 7.5, 7.4 and 4.9 billion dollars, respectively.

No serious increases are expected in crude oil prices in 2005.

With the USA, China and developing coming first, economic growth is expected to speed down worldwide in 2005. The world economy has grown more beyond expectations in 2004, which resulted in discrepancies in oil supply and demand. Therefore oil prices increased significantly in the second half of 2004. OPEC has increased its overall daily production to 3.5 million barrels in 2004 to balance market fluctuations, but, as the result of restabilization of the market, then, decreased its daily production by 1 million barrels once again to be valid as of January 2005. The increase in oil demand is estimated to slow down relatively in 2005 and, thus, oil prices to fluctuate within the range of 35-40 dollars per barrel.

The weakness in dollar will continue in 2005.

The current account deficit of the American economy continues to be high due to the widening in the foreign trade deficit. The current account deficit having been realized as 530 billion dollars (5% of the national income) in 2003, is expected to exceed 650 billion dollars (5.5% of the national income) in 2004. On the other hand, 50 billion dollars of this figure originates from the increase in oil prices. The imports and exports figures of the American economy for 2004 are estimated to reach at 1.7 and 1.2 trillion dollars, respectively. Such a huge foreign trade deficit is not expected to be covered in the short term, unless a serious economic recession occurs. The depreciation in dollar is estimated to continue in 2005, as the result of the higher level of the indebtedness of the American economy caused by the current

account deficit. As an instant of this, the euro/dollar parity is expected to mount as high as the levels of 1.4-1.45 by end from its in-year level of 1.3.

The current account deficit will continue to widen in 2005.

Considering the increasing trends in production and demand, exports and, thus, imports of intermediate goods are expected still to continue in the forthcoming term, leading to continuation of the deterioration in current account deficit. However, current account deficit is not expected to turn out to unfavorable result for economic balances, since no serious problems are envisaged to occur in its financing. The private sector is estimated to continue with long term foreign loans in 2005. Yet, foreign direct investments are envisaged to increase in 2005 as also expected by the International Institute of Finance (IIF). In addition, IIF foresees that, alongside with the increasing confidence in markets, equity investments of the foreigners will gain momentum.

No significant changes are expected on the employment side.

Although capital accumulation is expected still to continue in 2005, it will not cause a significant increase in employment. Following the boom observed in productivity in the recent years, the reflection of the growth on employment is again envisaged to be rather limited together with the slow down expected in 2005. As regards to sectors, the most significant employment increase is expected in the construction sector. Although the employment increase in industry and services sectors are expected still to continue in 2005, the overall effect of these is considered to remain limited as the result of the decrease in agricultural employment. Still, though the said limited effect is expected to disappear on a large scale beginning from 2006, the employment increase in 2005 is expected to be between 1.5% and 2%. However, unemployment rate will be at about 10% in 2005, since this increase in employment remains below the equivalent amount necessary for the unchanging of the unemployment rate. Expectations regarding the course of

machinery-equipment and building investments in the forthcoming term points to the increase in physical capital still to continue in 2005. Considering the limited increase in employment, the major contribution to growth will again come from the increase in total factor productivity. The said contribution is estimated to be approximately at about 60% of growth.

Inflation will be on target in 2005.

The moderate take-off in domestic demand that contributed positively to the decline in inflation in 2004 is expected to continue in 2005. Investments and productivity will also be strong, however with a lower rate of increase. This will draw the growth potential of the Turkish economy upwards, avoiding concerns for overheating. On the contrary, the existing output gap will probably last until the end of 2005. In addition, the relative stability both in foreign exchange rates and international commodity prices are envisaged to continue in general throughout 2005. Considering the wage and salary increases are within the range of the inflation target, an inflationary pressure of demand or cost origin is not envisaged to occur within 2005 and the year end inflation (CPI) target of 8% is likely to be attained successfully.

Monetary policy will continue on the lines of implicit inflation targeting.

As in the last three years, monetary policy of the economic program will target to enhance the control of the Central Bank on short term interest rates, while at the same time the foreign exchange rates to be determined directly in the market under supply-demand conditions. The Central Bank, in addition to the monetary targeting, will continue to make use of short term interest rates efficiently in directing the expectations. A strong correlation between the short term interest rates and the overall level of interest rates has not been fully established, yet. Conditions for "the formal inflation targeting" planned to start in 2006 are expected to mature throughout 2005 and the efficiency of the transfer mechanisms in monetary policies to increase. Under this objective, Monetary Policy Committee to assemble

for the assessment of the developments in inflation and economy regularly every month by the beginning of 2005 will declare its decree regarding interests at the end of these meetings.

Significant changes will be experienced in liquidity terms in 2005.

In the base scenario of the Central Bank, the liquidity decrease since the second half of 2004 will continue gradually and a state of negative liquidity will be encountered in the first quarter of 2005. However, the efficiency of the monetary policy will increase with the transformation of excess liquidity to liquidity shortage. The liquidity management strategy gains a major importance at this stage, since it supports price stabilization by increasing the stability in financial markets. Consequently, the Central Bank is expected to manage the liquidity policy for the primary objective of price stabilization in 2005, too.

The significance of primary surplus target will prevail in 2005.

Although public balances improve every other preceding year, the high level of debt burden of Turkish economy necessitates further improvements in public balances. Medium and long term benefits targeted with the public reform should be supported by the primary surplus policy in the short term. Consequently, a primary surplus target to 6.5% of the GDP is set in 2005, too. The said policy is envisaged not to restrict the economic growth, as it was the case in the past three years,. Declining interest rates due to improved perception of fiscal discipline, without doubt, will stand to be one of the basic elements of this process.

II. Global Economic Developments

The vigorous growth performance of the world economy will slow down gradually in 2005.

Despite the robust economic growth in world economy in 2004, the negative impacts of the recent hikes in oil prices will continue in the forthcoming period. While a significant portion of the direct effects of the increase in oil prices have been realized in 2004, indirect effects

are expected to take place within 2005. In addition, the ongoing problem of twin deficits in the American economy will limit the global growth. Unless any preventive measures are taken, these imbalances in the American economy will lead to an uncertain future. However, it is obvious that the impact of any intervention will not take place in the short term. According to the recent IMF calculations, the world economy is expected to grow by 4% in 2005. Yet, the OECD Composite Leading Indicators index, points at the slow down in the economic activity in the major industrialized countries to continue till the first half of 2005.

The loose monetary and fiscal policies will lessen worldwide in 2005.

During the past terms, many OECD countries have implemented accommodative monetary and fiscal policies aiming at supporting the recovery process from the stagnation period. And thanks to this, sufficient amount of liquidity has been created and the real interests have been maintained to proceed at low levels. However, in order to avoid creating a leap in inflation in the future, the interest rates will commence to be increased beginning from 2005. In many developed countries following loose monetary and fiscal policies at present, the related accommodative policies will be abandoned gradually in the course of 2005. In some developed countries, most notably in USA and UK, this process has already been initiated for a long time. The American central bank FED, in its latest meeting held in December, has raised the interest rates to 2.25% by increasing them for the fifth time by 0.25 points. In the UK, the interest rates have been raised to the level of 4.75% during the last one year period. On the other hand, in the Euro area, despite the strong pressure on overall price levels emanated from the rising oil prices, the European Central Bank has not changed the interest rates, but kept them on hold at 2%, since economy has not apprehended a dependable and sustainable trend, yet.

A rapid upturn is expected in the Euro area in the forthcoming period.

Although the recuperation experienced in 2004 in the Euro area was somewhat better than expected, still it remains insufficient. The growth realized last year in the German economy playing the role of the main engine of the region basically depends on exports, while the stagnation in domestic demand still continues. Nevertheless, the existing unemployment problem increases the concerns about the future. The growth expectations in the Euro area regarding 2005 will take shape by the global demand on a large scale. As for the domestic demand, no serious upsurge is expected in the short term. According to projections of the European Central Bank, the region is estimated to grow between 1.4-2.4% in 2005.

The strong growth performance in the emerging Asian economies will continue in 2005.

Although some amount of slow down is expected in growth momentum due to the decline in global demand, the high level of growth trend in Asian economies is envisaged to continue in 2005 due to the robust domestic demand and the expansion in the intra-regional trade volume. As for the Chinese economy pioneering for the general economic liveliness in the region, growth momentum is expected to run out of steam in 2005 mainly because of the macroeconomic measures put into practice in order to surmount the overheating and inflationary pressures. However, both the existing performance in the foreign direct investments, and the positive course in exports brings up the fact that this impact will be rather limited.

III. Output

Turkish economy will continue to grow above the target in 2005.

When the national income figures of last decade (1995-2004) are examined, the average annual growth rate is perceived to be 4%. However, this rate increases to 7% when the tightening periods of 1999 and 2001 are not taken into account. The strengthened economic program implemented over the period of 2002-2004 had a great effect on this

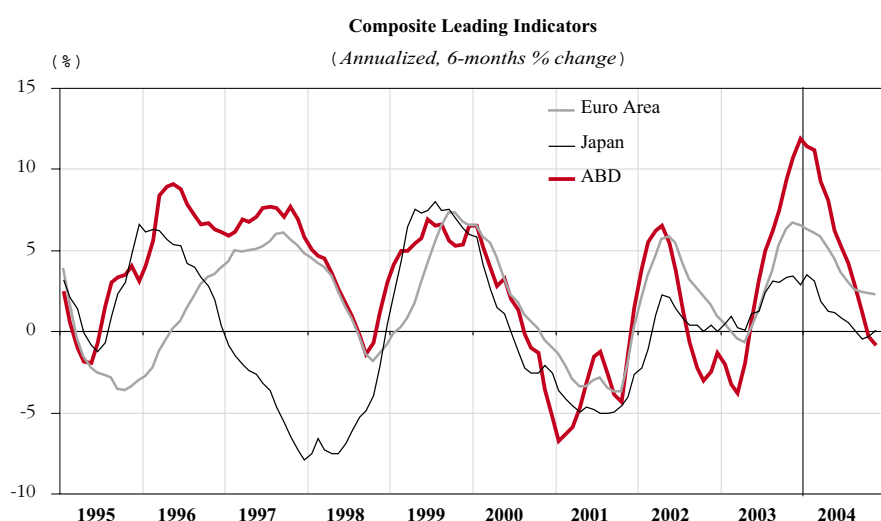
development. Considering the potential growth rate of the Turkish economy has been accepted as 5% in the past, then, the structural transformations in economic dynamics are better understood. This success achieved in the related period is considered to be continuing in 2005, as well. In an econometric time series analysis performed by the TÜSİAD Economic Researches Department with quarterly growth rates of the 1987-2004 period, the long term trend growth rate of the Turkish economy has been calculated as 5.7%. Since the effects of the domestic and global economic outlook is not expected to be as positive as it was in 2004, likely, a growth rate much above this potential growth is not expected to be realized. However, still, it is estimated that the government target of 5% for 2005 will be surmounted and the growth be realized at an interval of 6-7%.

The increase in the private consumption expenditures will be prudent.

Durable and semi-durable consumer goods which stand to be the mostly affected and worsened demand objects during the crisis are considered to have been achieved within 2004. Consequently, the depreciation in dollar expected to continue in 2005, too, will possess a limited effect on these expenditure groups. Also, the fact that the declining trend in interest rates will diminish in 2005, will slow down the domestic consumption increase. Since no serious increases are expected in employment and real wages, the increase in the private consumption expenditures are estimated to subdue, but, still, more balanced in respect to sub items, in 2005. As for the public consumption expenditures, while the tight fiscal policy is expected to be maintained, some amount of real increase is envisaged in 2005, since the wage and salary increases have been set above the inflation target.

The need for new investments will still continue in the forthcoming period.

The average for the manufacturing industry monthly capacity utilization rates has reached to 81.5% in 2004, increasing by three points with respect



Source: OECD

to the preceding year. Furthermore, from the point of sustainability of production, it has brought the investment expenditures along with itself. Prospects for domestic and global demand conditions bring up the fact that production will continue to increase in 2005 and the capacity utilization rates to proceed at a high level. Consequently, the machinery-equipment investments made on a large scale with the aim of modernization of the existing hardware will continue to be added to the fixed capital in 2005. Private sector investments in building are expected to increase within 2005, since this situation alongside with itself will increase the requirement for new facilities. In addition to these, public fixed capital investments are envisaged to increase approximately by 18%, largely as being economic and social infrastructures.

Manufacturing industry will continue to be the main engine of growth.

The year 2005 corresponds to the “fallow period” from the agricultural production point of view and the value added of the sector will diminish. While on the other hand, the production of manufacturing industry will continue to increase with the support of both domestic and global demands. With exporting sectors coming first, the production increases in the sub-sectors of the manufacturing industry are expected to continue with their existing trend. However, the high level production increases in motor vehicles and machinery-equipment sectors last

year are expected to weaken in parallel to the slow down in domestic demand. Production increase in the manufacturing industry will also trigger the wholesale-retail trade and transportation sectors performing the marketing and transport of these products. As for the construction sector, corollary to the lively trend in building demand, the sector is expected to come out from the stagnation period as of 2005. In addition, 20% and 40% of construction activities having been started in 2003 and 2004 respectively are going to be completed within 2005. Therefore a significant increase is expected in the value added of the construction sector in 2005.

IV. The Price Level

The declining trend in inflation will continue in the course of 2005.

Cost pressures have arisen within 2005, due to high level of increases in commodity prices throughout the world and fluctuations in domestic financial markets. However, these developments have been perceived as being temporary

within the frame of future expectations and the pass-through effects on prices under the conditions of the increasing competitive climate have been realized as limited in comparison to the preceding periods. Continuation of the discipline in monetary and fiscal policies during the forthcoming period will prolong the transformation observed in the pricing behaviors throughout 2005. Although the pass-through effects of the oil prices and foreign exchange on prices has diminished in comparison to the preceding years, considering the existing level of inflation, the negative impact of the possible fluctuations in the prices may reach to substantial levels. Especially, the direct and indirect effects of the increases in oil prices since the second half of 2004, though diminishing gradually, are expected to continue until the first half of 2005. However, when the seasonal developments and base effect have been excluded, the declining trend in inflation is envisaged to continue in 2005 and the inflation target be attained.

The increase in domestic demand will not create an inflationary pressure in 2005.

The productivity increase in the Turkish economy during the recovery period has made a significant contribution to the decline in inflation. The said productivity increase, while has gained through reducing the existing employment in the period of 2001-2002, it has been acquired by means of increasing the amount of capital per labor during the period of 2003-2004. The existing trend in investments, brings about the fact that the productivity increases, though slowing down, will still continue in the forthcoming period. If the said process is supported with

(Annual % change, 2005)	GDP	Private Consumption	Capital Investment	Export	Import
ABD	3.3	3.1	5.8	9.2	7.7
Japan	2.1	2.2	1.2	7.4	7.1
Euro Area	1.9	1.6	2.9	..	..
Germany	1.4	0.8	0.6	5.7	4.9
France	2.0	2.2	3.1	6.0	7.7
Spain	2.7	2.7	4.1	7.6	8.2
Italy	1.7	1.5	4.9	6.1	7.5
England	2.6	1.8	5.3	7.9	6.5
China	8.0	..	..	..	..

Source: OECD Economic Outlook-76

GDP (Annual % change)	2003	2004	2005
TOTAL	5.8	7.8	6.4
- Priv. Final Consum.	6.6	8.4	6.2
- Govern. Final Consum.	-2.4	-3.1	2.1
- Gross Fix. Cap. Form.	9.6	35.2	15.0
- Change in Stocks	61.7	2.9	-2.0
- Exports of Goods, Serv.	16.1	16.1	10.0
- Imports of Goods, Serv. (-)	27.2	27.5	12.0

Source: SIS, TÜSIAD estimates

structural reforms, it will increase the potential output level, and therefore will block the domestic demand increase from constituting an inflationary pressure. Yet, the employment creation is envisaged still to remain as limited in 2005. The employment increase is estimated to realize between 1.5-2%. Alongside with the fact that improvement in employment figures will be slow, the real increases in wages and salaries for 2005 are expected to be limited. Consequently, the domestic demand is estimated to continue in 2005 in a controlled manner and will not create an inflationary pressure.

The strong position of the Turkish Lira will continue to limit the cost pressures on the prices.

Alongside with the fact that the depreciation in dollar in international markets will still continue in the forthcoming period, and also with the impact of the behavioral shift in the money demand, the Turkish Lira is expected to maintain its strong position in 2005. This situation, in addition, also will be supported with the upward trend of the foreign residents' demand for domestic debt securities. Since the real interest rates are expected to proceed at a high level throughout the year. The strengthening trend in the Turkish Lira, will cushion the cost of the imports of intermediate and investment goods and continue to diminish the cost pressures on the prices. Within the floating exchange rate regime, volatility in both directions seems possible to be experienced in the forthcoming period. However, the said fluctuations are considered to be perceived as being temporary deviations from the potential level.

The Central Bank will continue to make use of its interest policy efficiently.

The Central Bank will move on to its final target of a harmonized inflation with price stabilization officially in 2006. Thus, within this concept, 2005 stands to be a gradual transition period. During this period, the Central Bank will continue to follow a implicit inflation targeting policy, and by taking the expected future values of inflation into consideration, will continue to make use of the short term interest rates as the basic policy instrument. Tightened monetary policy is expected still to continue in the forthcoming period, while, however, the monetary conditions are estimated to loosen together with the interest rate cuts throughout the year. The Central Bank will continue to manage the expectations directed at future by reducing the short term interest rates in a controlled manner.

“The credibility gap” will continue to narrow.

As the result of undershooting the inflation targets successively during 2002-2004, the inflation target has gradually turned out to be a more reliable nominal anchor. Likewise, “the credibility gap” identified as the difference between the expectations and inflation target has occurred only as 0.4 points. Within the forthcoming period, alongside with the continuation of the monetary and fiscal

discipline, the immediate implementation of the structural regulations bears a great significance for the strengthening of the existing trend in inflation. Thanks to this, the negative impact of an external shock on the mid-term path of inflation will be limited and thus, the credibility gap will be diminished gradually.

V. Fiscal and Monetary Policies

The fiscal discipline has become to be a preliminary term in 2005.

The consolidated budget has displayed a fairly positive performance during the first eleven months of last year. Tax revenues have been in accordance with the program targets, while the pressure on the budget emanated from the interest payments has diminished. The fact that the same period also covered the local elections, it has brought up an optimistic outlook from the durability of the fiscal discipline. While on the other hand, the maintenance of the current positive situation of budgeting appears to be an obligation. Likewise, the rapidly widening current account deficit, together with the budget deficit, negatively affects the investment-savings balance. And the continuation of the fiscal discipline in 2005 will play a supportive role in generating the source required for the real sector investments. However, the continuation of the fiscal discipline still preserves its determinant characteristic for the lessening of the risk premium and debt stock. The 2005 budget, within this frame, will continue to be the basic determinant of the revisions made with the IMF.

The flexibility in tax policies has diminished in 2005.

The process regarding the last two years, attracts attention as a beginning period of improvement in public balances. While on the other hand, high primary surplus policy constitutes the fiscal discipline base of the economic program.

GNP (Annual % change)	2003	2004	2005
TOTAL	5.9	8.5	6.5
- Agriculture	-2.5	2.0	-1.0
- Industry	7.8	9.0	7.5
- Construction	-9.0	1.0	5.0
- Trade	8.1	11.0	9.0
- Transport. and Com.	8.4	7.0	5.0
- Others	8.6	12.0	8.0

Source: SIS, TÜSIAD estimates

However, the high primary surplus policy in the existing public structure has necessitated considerable targets on budget items that are difficult to be attained in the short term. Likewise, tax revenues are envisaged to increase by 20% in the budget program of 2005. This forecast restricts the flexibility of tax policies since the program has been constructed under the assumptions of 5% of GNP growth rate and 8% of inflation rate. Therefore, new tax rate increases and/or new tax items to be the current issues. High level of revenue performance possesses significance for the securing of the budgetary targets. However, the revenue performance obtained by the rate increases should rather be evaluated as a short term benefit. While in the long term, structural mechanisms diminishing the new investment and production costs of the private sector should be put in place. At this point, speed has to be gained in the areas continuously occupying the tax agenda such as the restructuring of revenue administration and fighting against unregistered activities together with widening of tax base.

The acute problems in primary expenditures stand to be the major factor increasing the tax burden.

The interest payments lessening together with the improving borrowing terms have played a significant role in the positive budget performance experienced last year. Assuming that the same trend will still continue this year, the share of the interest payments in the expenditure items of 2005 have regressed. However, the pressure on the budget stemming from the primary expenditures still continues. For 2005, no significant changes are envisaged

for the share of the current transfers - such as transfers to social security institutions, or payments for agriculture investments- within the overall appropriations. It becomes clear that the required savings could not be provided in the existing budget. The savings measures should be supported by structural reforms by all means to obtain a lasting improvement in the budget. The elimination of structural problems with the social security institutions coming first will abolish a significant amount of financing requirement in the long term. As for the short term, the interest payments to regress alongside with the lessening in risk premiums will ease the budget. This positive process will also provide opportunity for the increasing of the sources allocated for qualified expenditures such as investment expenditures.

Real interest rates will continue to decline.

Alongside with the positive expectations emerging in domestic and global markets, the interest rates have entered into a rapid regression process in 2003. However, the unfavorable global developments appearing occasionally have slowed down the improving borrowing terms last year. As for 2005, alongside with the continuation of the fiscal discipline, the improvement in the borrowing costs of the Treasury is envisaged to continue. Within this process, the interest rates having realized at the level of 26% in average are estimated to proceed below 20% gradually in 2005. Moreover, the maturity periods of domestic debt will follow an upward trend corollary to the developments in risk premiums.

Regarding the borrowing strategy, the share of TL denominated cash borrowings are expected to increase in 2005. In this way, the vulnerability of the domestic debt stock to the exchange rates and risk premiums will maintain its downward trend. While on the other hand, the impact of the high growth prospect together with the net borrowing planned to be realized at a low level, the gross debt stock to national income will pursue its declining trend in 2005. Although the existing projections reflect that the debt stock has diminished, the real interest rates have decreased and the worries regarding to the debt sustainability have been removed from the agenda; the debt burden still continues to be a barrier delimiting the recuperation in economic fundamentals. In other words, the continuation of tight fiscal policy and structural reforms under the sensitive debt dynamics will retain their significance in terms of decreasing the real interests gradually.

The efficiency of the monetary policies is increasing.

Due to the successive realizations of inflation targets during the past three years, inflation targeting will continue to be a nominal anchor in 2005. Within this process, the share of TL based instruments in money demand has commenced to increase, and reverse currency substitution has increased the efficiency of the monetary policies. However, alleviating the public dominance has played the most significant role in efficiency of the monetary policies. Still in 2005, alongside with the preservation of the fiscal discipline and deepening of the structural reforms, reverse money substitution is expected to become evident under the assumption that no major external shocks are to be experienced.

The monetary policy strategy converges to the formal inflation targeting.

The monetary program strategy has been adopted as “implicit inflation targeting” in 2005, as it was executed in the preceding three years, as well. Within this frame, right along with the monetary targets with the consistent inflation targets, the short term interest rates will continue to be the basic policy

CONSOLIDATED BUDGET (billion YTL)	2004	2004	Realization	2005*
	Jan.-Nov.	Program	Rate	Program
EXPENDITURES	123.1	149.9	82.1%	168.0
Primary Expenditures	70.8	83.9	84.4%	111.4
Interest Payments	52.3	66.1	79.2%	56.6
REVENUES	98.7	104.1	94.8%	138.9
Tax Revenues	81.0	88.9	91.2%	119.0
Non-Tax Revenues	17.7	15.2	116.2%	19.9
BUDGET BALANCE	-24.4	-45.8	53.2%	-29.1
PRIMARY SURPLUS	27.9	20.2	138.1%	27.4

Source: Ministry of Finance, State Plannig Organization

*SPO 2005 Program

rates. While on the other hand, the systematic outcomes of the economic program, with the establishment of the discipline in public finance and positive performance displayed in the structural areas coming first, pave the way for the convergence of the monetary policy strategy to formal inflation targeting. The transfer mechanisms in monetary policies are expected to strengthen by the continuation of this process in 2005, as well. Alongside with the formal inflation targeting planned to be launched at the beginning of 2006, more predictable and transparent monetary policy decisions will provide support to the stabilization environment.

The liquidity management is of primary importance in 2005.

While the Central Bank money has increased by 3% due to the impact of the increase in currency issued and free deposits in 2004, the monetary base has widened by 40 percent. As for 2005, although the increase in monetary base is expected to be limited in comparison to previous year, it will proceed consistent with the end-year inflation target. In other words, the strengthening of the relationship between the monetary aggregates and inflation will pave the way for the interest rate decisions of the Central Bank to become a sound reference indicator. Within this process where the liquidity conditions will tighten, the Central Bank, also, is expected to change the interest rates more frequently and subtly. Within this framework, Monetary Policy Committee will meet regularly at each month and the decisions on interest rates will be announced following the meeting. And these decisions will be watched closely by the economic units.

VI. Foreign Trade and Balance of Payments

The widening in current account deficit will speed up due to the strong growth performance.

The exports volume has reached to a record level in 2004 with the rapid productivity increases supported by lower unit costs. The cost of imports declining with the appreciation in Turkish Lira has triggered the export-led production increase. As for the hike

in imports, the growth performance realizing above the envisaged level on a large scale has been effective. Likewise, the private sector investments displaying a record level of increase and the demand for the lively durable consumer goods have stood out to be the determinants of the increase in imports of capital goods and consumer goods. The imports soared in line with the pickup in domestic demand and production increase. Meanwhile, the deterioration in the foreign trade balance has caused to a widening in the current account deficit. Turkish economy is expected to continue to grow above its potential level in 2005, together with the vigorous trend in foreign trade. In parallel to the normalization of domestic and global demand, imports and exports are envisaged to slow down with respect to last year. The imports and exports figures are estimated to reach 112 and 76 billion dollars, respectively, in 2005.

The ratio of current account deficit to national income will decrease in 2005.

The growth in the exports market of Turkey is envisaged not to display a great difference with respect to 2004. It is not anticipated that a slow down will occur to effect the export figures of Turkey negatively in the Euro area, Middle East and Eastern Europe. Despite the possibility of increase in energy prices, the manufacturing industry production is envisaged to retain its cost advantage in 2005, even if not as much as it was in the past years. Yet, the domestic demand increase, in terms of its components, is expected to realize in a more balanced manner by slowing down in 2005, since the deferred expenditures in investment and consumption goods has largely been completed during the last year. As a result of this development, also, the rising trend in imports is envisaged to loose momentum. Likewise, the fact that a greater portion of the imports of consumption goods is composed of durables, will act as a natural impediment. While, the slow down in the imports of capital goods, will be realized in accordance with the cooling down in machinery-equipment investments completed on a large scale

within 2004. Corollary to these developments foreign trade deficit will continue to widen. Nevertheless, the invisibles will still yield an excess in 2005 owing largely to the strong performance in tourism revenues. However, the invisibles excluding tourism revenues are not considered to make a positive contribution to the foreign trade balance. As a conclusion, in light of the abovementioned expectations, the current account deficit is estimated to reach to the level of 15 billion dollars in 2005 and its ratio to GNP to be realized at an interval of 4-4.5%.

The borrowing requirement will diminish in 2005.

The borrowing figures taking place among other investments have turned out to be the most significant financing sources of 2004 and a capital inflow pretty above the deficit level has occurred. Still in 2005, no impacts are expected to affect the capital flows negatively. The decision to the beginning of accession negotiations with the EU and the 19th stand-by agreement decided to be signed with IMF, are considered to affect the investors' confidence positively. Right alongside to this, an increase is expected in funds to the developing markets in 2005. The fact that within this process the real interests will relatively be at a high level, will keep the attractiveness of the Turkish finance markets on. At the same time, the perception that the targeted inflation figure will be attained, also, will eliminate the interest rate risk that may affect the foreign fund flows negatively. The declining trend of the interest rates will lay the groundwork for the long term fund inflow in 2005. While an increase is anticipated in credit usage in the financing of imports and exports in 2005, the long term borrowing of the private sector is expected to slide back in parallel to the slow down in investment trend.

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

	2004												
	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	20.4	5.7	15.2	13.0	14.9	16.0	14.8	12.3	8.2	5.5	1.5	9.6	..
Monthly % Increase	13.7	-12.1	-8.7	22.7	-3.2	6.0	1.0	-1.2	-6.3	5.5	1.1	-4.3	..
Monthly % Increase (seasonally adjusted)	21.9	-7.9	-1.3	3.5	1.6	1.2	1.6	-0.6	-3.5	-0.7	-2.5	-1.1	..
CAPACITY UTILISATION RATE (SIS, %)	79.5	77.2	73.5	82.1	76.5	84.3	84.5	83.9	81.7	84.8	83.0	83.4	84.0
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)													
Real Wage per hour (annual % increase)	2.4	..	..	0.4	..	..	5.2	..	..	3.0	..	..	..
Real Income per worker (annual % increase)	-0.9	..	..	1.8	..	..	3.7	..	..	0.9	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	13.9	10.8	9.1	8.0	8.9	9.6	10.5	9.4	10.5	12.5	15.5	14.4	13.8
Monthly % Increase	0.6	2.6	1.6	2.1	2.6	0.0	-1.1	-1.5	0.8	1.8	3.2	0.8	0.1
Monthly % Increase (seasonally adjusted)	0.5	0.8	1.0	1.2	1.8	1.2	0.7	-0.2	1.6	1.8	2.0	1.4	0.0
CONSUMER PRICE INDEX (SIS, 1994=100)													
Annual % Increase	18.4	16.2	14.3	11.8	10.2	8.9	8.9	9.6	10.0	9.0	9.9	9.8	9.3
Monthly % Increase	0.9	0.7	0.6	0.9	0.6	0.4	-0.1	0.2	0.6	0.9	2.2	1.5	0.4
Monthly % Increase (seasonally adjusted)	1.1	0.2	0.7	0.7	0.3	0.9	1.2	1.3	1.1	0.0	1.0	0.8	0.6
EXCHANGE RATE (CBRT buying rate)													
YTL/USD (monthly average)	1.426	1.340	1.323	1.315	1.356	1.505	1.488	1.447	1.469	1.498	1.484	1.443	1.389
Annual % Increase	-10.4	-19.1	-18.3	-20.8	-16.3	1.5	4.9	3.6	5.2	9.2	4.4	-1.9	-2.6
Monthly % Increase	-3.1	-6.0	-1.3	-0.6	3.1	11.0	-1.1	-2.7	1.5	2.0	-0.9	-2.8	-3.7
TERMS OF TRADE (SIS, 1994=100)*													
External (Export/Import)	95.1	95.6	95.2	95.1	95.9	93.1	93.2	94.1	93.1	94.4	92.6	95.1	..
Internal (Agriculture/ Manufacturing)	115.3	117.7	119.3	117.6	122.0	116.3	115.5	110.9	111.1	115.7	115.7	115.0	114.9
DOMESTIC BORROWING (weighted by sales volume)													
Interest Rate (compounded, annual, %)	28.4	26.9	25.7	25.4	23.8	29.0	28.6	27.9	24.8	25.4	22.4	22.8	23.0
Average Maturity (days)	412	425	388	432	383	287	316	382	318	423	359	373	401

(...) Not available

(*) Seasonally adjusted series are used in calculation.

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

	2004												
	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov
CURRENT ACCOUNT BALANCE (monthly, million \$)													
Foreign Trade Balance *	-519	-2,939	-939	-2,214	-2,186	-1,705	-1,329	-1,483	-739	22	92	-231	-2,029
Imports (CIF)	-608	-2,800	-970	-1,795	-2,256	-1,918	-1,860	-2,234	-2,173	-2,267	-1,967	-1,362	-2,090
Exports (FOB), excluding shuttle trade	5,245	8,234	6,291	6,139	8,451	7,931	7,991	8,468	8,727	7,881	8,474	8,057	8,414
Balance on Services	3,970	4,595	4,616	3,665	5,217	5,072	5,170	5,281	5,638	4,694	5,642	5,780	5,452
Balance on Income	612	122	390	159	393	560	1,011	1,000	1,750	2,759	2,226	1,395	543
Current Transfers	-593	-372	-458	-638	-390	-424	-557	-391	-443	-577	-281	-333	-567
	70	111	99	60	67	77	77	142	127	107	114	69	85
BALANCE OF PAYMENTS (12 months cum., million \$)													
Current Account Balance	-6,412	-8,037	-8,675	-9,551	-10,362	-11,073	-11,577	-12,236	-12,628	-13,426	-13,940	-14,170	-15,680
Foreign Trade Balance *	-12,619	-14,010	-14,518	-15,595	-16,638	-17,603	-18,477	-19,427	-20,218	-21,100	-21,752	-22,210	-23,692
Imports (CIF)	66,476	69,340	71,205	73,158	75,853	78,573	81,032	83,773	86,233	88,139	90,407	91,889	95,058
Exports (FOB), excluding shuttle trade	45,900	47,253	48,335	49,076	50,385	51,795	53,105	54,590	55,992	56,857	58,384	59,340	60,822
Balance on Services	10,743	10,505	10,619	10,618	10,764	11,038	11,410	11,673	11,985	12,121	12,167	12,377	12,308
Balance on Income	-5,611	-5,559	-5,759	-5,565	-5,481	-5,507	-5,528	-5,572	-5,511	-5,572	-5,495	-5,457	-5,431
Current Transfers	1,075	1,027	983	991	993	999	1,018	1,090	1,116	1,125	1,140	1,120	1,135
Capital Flows	2,207	2,994	3,930	4,694	3,988	4,174	6,226	6,808	8,714	9,103	9,482	9,569	9,950
Direct Investments	1,015	1,195	1,223	1,553	1,477	1,481	1,506	1,788	1,913	1,712	1,749	1,619	1,458
Portfolio Investments	2,306	2,569	2,862	3,554	4,697	4,776	4,399	4,775	5,034	4,505	3,621	4,393	5,342
Other Investments	1,624	3,277	2,075	3,127	2,308	3,713	4,396	4,606	4,338	5,252	3,791	5,170	5,226
Monetary Authorities	512	469	434	411	384	367	309	286	215	77	-55	-149	-210
General Gov.	-2,070	-2,194	-2,187	-2,115	-2,194	-1,807	-1,871	-1,868	-1,237	-1,315	-1,183	-1,223	-1,205
Banks	2,132	3,194	2,041	2,662	327	1,157	2,019	2,429	888	586	-360	1,388	1,407
Other Sectors	1,480	1,858	2,000	2,873	4,843	5,446	5,783	5,943	6,816	8,196	8,019	7,750	7,893
Use of Fund Credits and Loans (net)	-430	-50	-213	-704	-1,052	-1,450	-1,844	-2,184	-2,344	-2,292	-2,630	-2,596	-2,659
Reserve Assets**	-2,738	-4,047	-2,230	-3,540	-4,494	-5,816	-4,075	-4,361	-2,571	-2,366	321	-1,613	-2,076
Net Errors and Omissions	4,205	5,043	4,745	4,857	6,374	6,899	5,351	5,428	3,914	4,323	4,458	4,601	5,730
FOREIGN TRADE (annual % increase)													
Imports (CIF)	5.7	53.3	42.2	46.7	46.8	52.2	44.4	47.9	39.2	31.9	36.6	22.5	60.4
Exports (FOB), excluding shuttle trade	10.5	41.7	30.6	25.3	33.5	38.5	33.9	39.1	33.1	22.6	37.1	19.8	37.3
Price Index (1994=100, annual % increase)													
Imports	5.8	6.0	8.3	5.2	8.7	8.6	13.6	12.0	12.3	15.1	14.8	18.7	17.5
Exports	11.4	13.1	17.0	13.5	13.6	15.7	16.1	13.4	15.0	17.0	14.9	15.7	18.6
Quantity Index (1994=100, annual % increase)													
Imports	6.3	56.7	33.4	43.1	21.9	21.3	16.4	16.4	23.2	13.4	17.4	3.4	43.5
Exports	2.2	40.7	10.6	12.0	12.3	16.6	3.9	-4.6	16.5	5.6	21.5	6.2	21.4

(*) FOB, including shuttle trade

(**) Negative sign indicates increase in reserves

TABLO 1.3 ÖNEMLİ EKONOMİK VE MALİ GÖSTERGELER (2003-2004)
KONSOLİDE BÜTÇE

	2004													
	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	
12 MONTHS CUMULATIVE (million YTL)														
Revenues	94,544	100,250	100,068	100,082	103,740	104,588	105,747	105,367	107,697	107,473	108,277	107,151	110,242	
Tax Revenues	80,266	84,316	84,540	84,636	86,353	86,655	87,564	87,044	88,565	88,188	89,022	88,166	90,706	
Non-Tax Revenues	14,278	15,934	15,528	15,446	17,387	17,932	18,183	18,323	19,132	19,285	19,255	18,985	19,536	
Expenditures	137,918	140,455	141,308	140,107	140,041	138,606	135,576	135,398	134,434	137,234	139,737	140,106	141,837	
Current	37,779	38,514	39,105	39,538	40,113	40,738	41,091	41,412	41,463	41,845	42,402	42,728	43,855	
Investment	6,335	7,180	7,177	7,164	7,083	7,275	7,066	7,124	7,167	7,328	7,478	7,437	7,941	
Transfers	35,556	36,152	42,489	45,497	49,610	54,591	59,323	62,314	66,142	72,364	76,553	79,909	83,037	
Domestic Borrowing Interest Pay.														
Primary Balance	14,873	18,405	17,070	17,566	21,387	21,485	23,714	23,351	27,024	25,449	25,760	24,675	26,124	
Budget Balance	-43,374	-40,204	-41,241	-40,025	-36,301	-34,018	-29,829	-30,031	-26,737	-29,761	-31,460	-32,955	-31,595	
Deferred Payments and Advances	63	-2,086	-3,121	-2,617	-3,124	-2,921	-2,263	-2,349	-3,619	-2,398	-2,176	-2,438	-1,091	
Cash Balance	-43,311	-42,290	-44,361	-42,643	-39,425	-36,939	-32,092	-32,380	-30,356	-32,160	-33,636	-35,393	-32,686	
Financing	43,311	42,290	44,361	42,643	39,425	36,939	32,092	32,380	30,356	32,160	33,636	35,393	32,686	
Foreign Borrowing (net)	1,330	2,684	2,459	3,331	2,187	2,604	2,315	2,051	2,138	3,592	2,558	4,148	5,120	
Domestic Borrowing (net)	41,051	42,884	41,561	39,099	39,982	34,653	32,808	31,110	29,864	31,060	32,618	36,537	34,463	
Short-term Borrowing (net)	-7,620	-11,973	-10,524	-16,186	-15,749	-20,288	-16,824	-16,005	-11,303	-3,836	-2,818	1,599	744	
Other	930	-3,278	341	213	-2,744	-318	-3,031	-781	-1,647	-2,493	-1,540	-5,291	-6,897	
12 MONTHS CUMULATIVE (billion USD)														
Revenues	63.5	67.9	68.8	69.8	73.5	75.0	75.7	75.2	76.6	76.1	76.1	75.1	77.3	
Tax Revenues	53.9	57.2	58.1	59.0	61.2	62.1	62.6	62.0	62.9	62.3	62.5	61.7	63.5	
Non-Tax Revenues	9.6	10.7	10.7	10.7	12.4	13.0	13.1	13.2	13.7	13.7	13.7	13.4	13.8	
Expenditures	91.6	94.5	96.8	97.2	98.8	99.3	97.1	96.6	95.6	97.2	98.3	98.2	99.6	
Current	25.2	26.1	27.0	27.6	28.4	29.2	29.4	29.5	29.5	29.6	29.8	29.9	30.8	
Investment	4.3	5.0	5.0	5.0	5.0	5.1	5.0	5.0	5.0	5.1	5.2	5.1	5.5	
Transfers	23.7	24.5	29.5	32.1	35.7	39.7	42.8	44.7	47.3	51.4	54.0	56.2	58.4	
Domestic Borrowing Interest Pay.	34.4	35.0	35.2	35.5	36.3	35.6	34.3	34.0	34.1	34.8	36.0	36.2	36.2	
Primary Balance	10.2	12.3	11.6	12.3	15.3	15.6	17.0	16.8	19.3	18.0	18.2	17.4	18.4	
Budget Balance	-28.1	-26.6	-28.0	-27.4	-25.3	-24.2	-21.4	-21.4	-19.1	-21.1	-22.2	-23.1	-22.2	
Deferred Payments and Advances	-0.1	-1.3	-2.1	-2.0	-2.3	-2.2	-1.7	-1.8	-2.7	-1.8	-1.6	-1.8	-0.9	
Cash Balance	-28.2	-28.0	-30.1	-29.4	-27.6	-26.4	-23.2	-23.2	-21.7	-23.0	-23.8	-25.0	-23.1	
Financing	28.2	28.0	30.1	29.4	27.6	26.4	23.2	23.2	21.7	23.0	23.8	25.0	23.1	
Foreign Borrowing (net)	1.0	1.9	2.0	2.5	1.5	1.9	1.7	1.5	1.5	2.5	1.7	2.8	3.5	
Domestic Borrowing (net)	26.6	28.1	28.0	26.7	27.8	24.9	23.6	22.4	21.4	22.2	23.2	25.8	24.4	
Short-term Borrowing (net)	-5.7	-8.7	-7.8	-11.7	-11.5	-14.4	-12.1	-11.6	-8.3	-3.1	-2.4	0.7	0.0	
Other	0.6	-2.0	0.0	0.2	-1.7	-0.3	-2.1	-0.6	-1.2	-1.7	-1.1	-3.6	-4.7	
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

	2004												
	Dec.	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
MONEY SUPPLY (annual % change)													
Currency in Circulation	40.5	78.3	45.9	44.7	52.3	57.9	48.4	37.0	44.6	41.4	36.6	17.5	24.8
Sight Deposits	62.2	50.8	46.4	65.5	61.1	54.4	59.0	49.2	49.5	52.4	32.1	36.7	32.5
M1	51.2	63.9	46.2	54.3	56.6	56.2	53.6	41.5	47.0	46.8	34.2	27.1	28.9
Time Deposits	26.5	41.7	43.4	42.2	46.8	43.2	40.9	37.8	38.4	35.5	35.1	36.8	35.3
M2	32.2	47.0	44.1	45.0	49.2	46.3	44.0	38.7	40.6	38.4	34.9	34.1	33.6
Foreign Exchange Deposits (TL)	-4.6	-12.2	-9.9	-9.9	0.0	12.2	9.5	10.6	16.6	17.7	8.7	8.6	11.0
M2Y	12.3	14.9	15.5	16.3	24.1	29.7	27.4	25.5	29.5	28.9	22.5	22.2	23.2
Repo	11.4	62.8	59.6	61.0	48.7	29.0	-16.9	-29.2	-29.6	-32.9	-27.9	-41.8	-49.4
M2YR	12.3	14.2	15.0	15.2	23.6	29.5	26.6	24.5	28.3	27.6	21.5	20.7	21.8
Official Deposits	111.3	23.6	102.1	89.1	56.8	16.9	27.4	15.7	39.0	3.8	37.3	48.8	12.3
Other Deposits With CBRT	-15.2	-8.7	-67.1	-48.4	-5.9	140.1	-36.9	132.3	25.9	-58.0	-77.5	-72.8	13.1
M3Y	13.8	14.8	15.4	17.1	24.5	31.1	26.5	26.2	29.8	27.5	21.8	21.6	22.8
M2Y (Billion YTL)	149.9	154.1	152.5	154.5	161.1	164.6	166.3	167.7	173.3	177.7	180.6	182.3	184.6
Composition of M2Y (%)													
Currency in Circulation	6.8	8.0	7.1	7.4	7.4	7.4	7.6	7.5	7.6	7.7	7.5	7.1	6.8
Sight Deposits	7.6	7.5	7.3	7.2	7.7	7.2	7.9	8.1	8.0	8.1	8.1	8.1	8.2
Time Deposits	39.6	43.1	44.3	44.9	43.9	43.2	43.2	43.0	42.5	42.3	42.4	43.1	43.5
Foreign Exchange Deposits	46.0	41.5	41.3	40.5	41.0	42.2	41.2	41.4	41.9	41.9	42.0	41.6	41.4
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)	44.8	41.9	45.4	36.2	49.2	61.9	63.1	62.9	67.2	60.9	55.2	54.4	53.8
Deposit Bank Credits	54.5	50.6	54.6	43.3	56.1	69.2	70.7	70.4	75.4	67.8	61.8	60.4	59.7
Private	93.4	89.4	91.9	101.8	106.3	109.8	107.7	109.4	113.9	96.3	97.3	93.6	88.8
Public	66.7	81.2	87.3	101.6	99.5	104.9	108.9	104.7	96.3	90.2	84.4	82.2	89.2
Invest. and Develop. Bank Credits	7.6	9.6	4.2	0.8	9.0	17.0	15.4	14.6	16.0	16.4	9.9	11.6	10.3
CB BALANCE SHEET (million \$)													
Base Money	10,956	13,821	12,727	13,268	12,312	11,803	12,839	13,108	13,689	13,798	13,819	13,959	15,006
Net Foreign Assets*	5,138	5,282	5,612	5,870	7,745	7,158	6,859	6,697	8,167	8,436	9,471	7,990	7,264
Net Domestic Assets**	5,818	8,539	7,115	7,398	4,567	4,645	5,980	6,411	5,523	5,362	4,347	5,970	7,743
THE CENTRAL BANK RESERVES (billion \$)	33.6	33.7	33.4	32.6	33.8	33.0	32.4	32.3	33.6	34.2	35.9	35.6	36.0

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

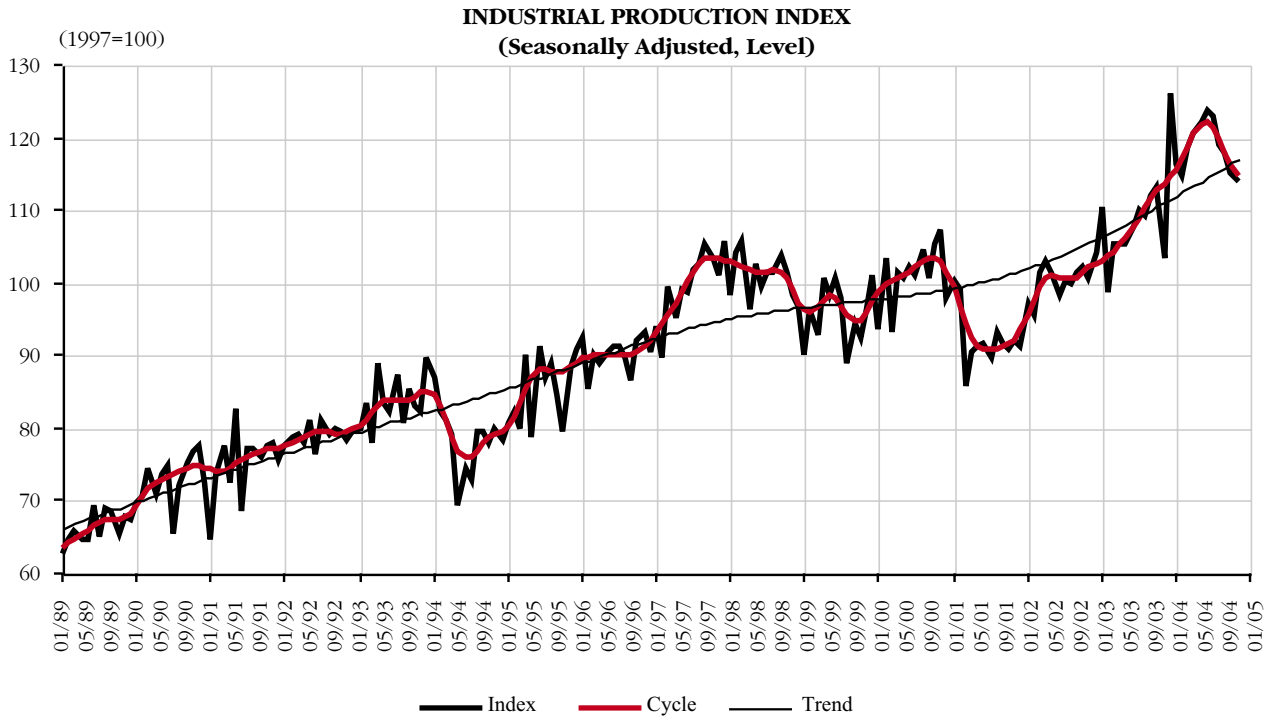
** Net Domestic Assets = Domestic Assets - (FX Deposits of Non-Bank Sec. + Funds + Deposits of Non-Bank Sec. + OMO + Pub. Sec. Deposits)

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

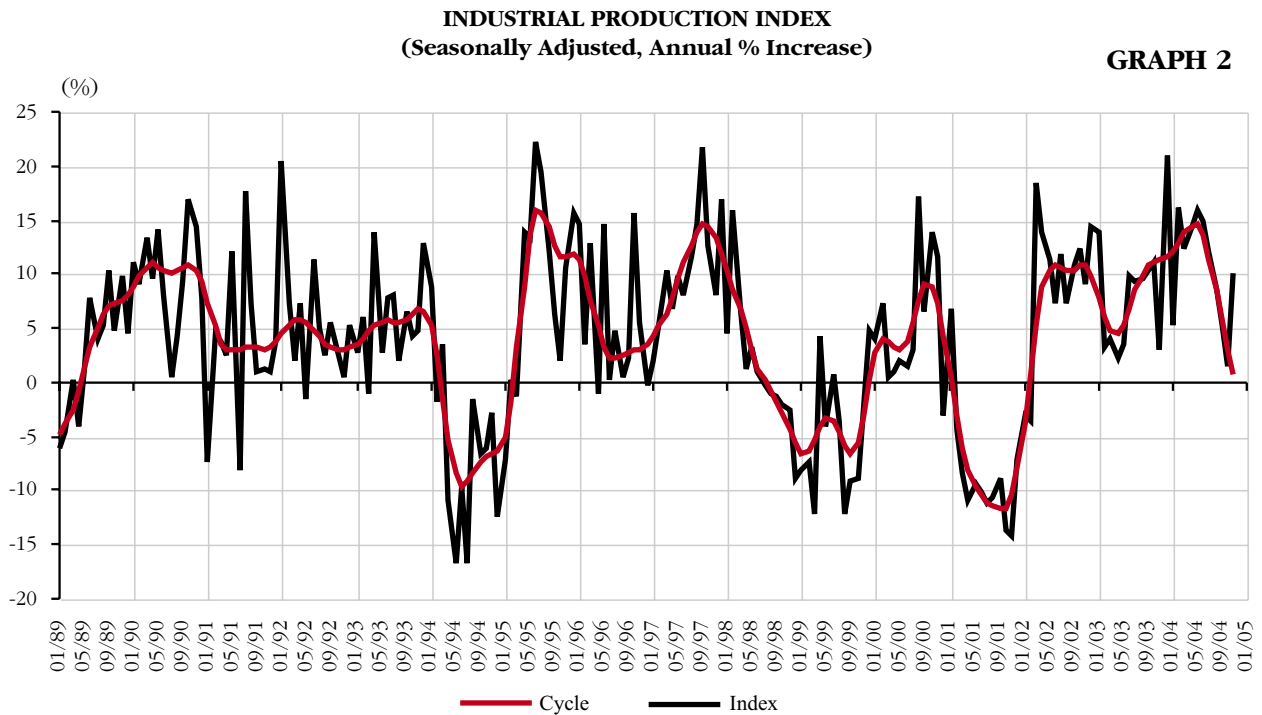
By Kind of Expenditure	By Sectors												
	Annual % Change		% Share	Annual % Change		% Share	Annual % Change		Annual % Change				
	2002	2003	2003	2003-4	2004-1	2004-2	2004-3	2002	2003	2003-3	2004-1	2004-2	2004-3
Private Final Cons. Exp.	2.1	6.6	63.5	10.3	10.6	16.4	6.7	6.9	-2.5	-9.6	-7.5	3.4	-1.6
Food, Beverage	1.1	4.1	22.8	1.0	0.9	0.3	-1.2	6.8	-2.3	-9.3	-9.0	0.6	-1.9
Durable Goods	2.1	24.0	11.1	49.5	49.7	61.7	29.3	15.4	-8.9	-20.2	-4.6	35.0	8.0
Semi-dur, Non-dur Goods	3.0	2.1	9.2	3.8	4.9	31.2	18.3	-4.1	1.4	-2.5	2.0	14.1	5.3
Energy, Trans., Commun.	-0.2	2.2	8.6	2.4	-3.3	2.5	-0.7	9.4	7.8	9.2	10.3	14.9	6.6
Services	8.5	7.5	6.6	7.9	10.1	14.3	5.5	-4.4	-2.9	-0.8	-6.1	3.5	6.7
Ownership of Dwelling	1.8	1.4	5.2	1.4	1.9	1.4	1.3	10.4	8.6	10.0	11.3	16.1	7.0
Gov. Final Cons. Exp.	5.4	-2.4	7.7	-4.2	2.4	-7.9	-7.1	8.0	5.7	7.1	7.6	9.1	3.4
Compensation of Empl.	0.7	0.8	4.1	1.2	1.4	1.0	1.1	-5.6	-9.0	1.3	2.9	0.2	-1.0
Purchases of Goods, Services	10.8	-5.9	3.6	-7.4	5.3	-19.0	-16.1	11.0	8.1	9.2	16.3	19.1	7.1
Gross Fixed Capital Form.	-1.1	10.0	19.7	19.2	52.6	51.7	23.5	13.2	10.2	11.0	17.3	19.5	7.8
Public Sector	8.8	-11.5	5.2	5.0	-11.3	-9.1	-11.8	0.9	-3.0	-0.4	9.1	16.2	3.7
Machinery Equipment	12.2	-19.2	1.2	-0.9	-14.2	-4.9	-3.2	6.0	8.4	7.5	4.3	10.7	3.8
Building Construction	19.7	-26.7	1.4	-8.7	-38.5	-28.6	-33.9	-7.1	-6.3	-3.2	0.6	1.2	1.3
Other Construction	0.4	4.0	2.6	19.2	4.2	-3.7	-4.7	1.8	1.4	1.4	1.9	1.4	1.3
Private Sector	-5.3	20.3	14.5	30.1	60.6	68.7	35.8	7.4	5.2	5.4	8.6	12.4	3.8
Machinery Equipment	4.4	46.1	9.8	54.4	89.6	97.6	54.8	7.5	5.1	5.3	8.8	12.7	3.8
Building Construction	-14.9	-11.4	4.8	-10.0	5.1	6.2	7.0	0.7	0.8	1.2	1.4	1.0	1.1
Change in Stock*	7.1	3.0	43.1	1.2	3.3	1.4	-1.0	0.6	-1.0	0.1	0.9	0.8	-0.7
Export of Goods, Services	11.1	16.0	43.1	16.9	10.3	15.7	7.8	7.2	4.9	5.1	8.4	12.1	3.7
Import of Goods, Services	15.8	27.1	41.8	33.0	31.2	32.7	16.0	24.7	22.6	23.7	33.8	33.2	20.0
GDP	7.9	5.8	100.0	6.1	10.1	13.4	4.5	7.9	5.9	7.2	12.4	14.4	4.5

*Figures indicate percentage point contribution to GDP growth

GRAPH 1

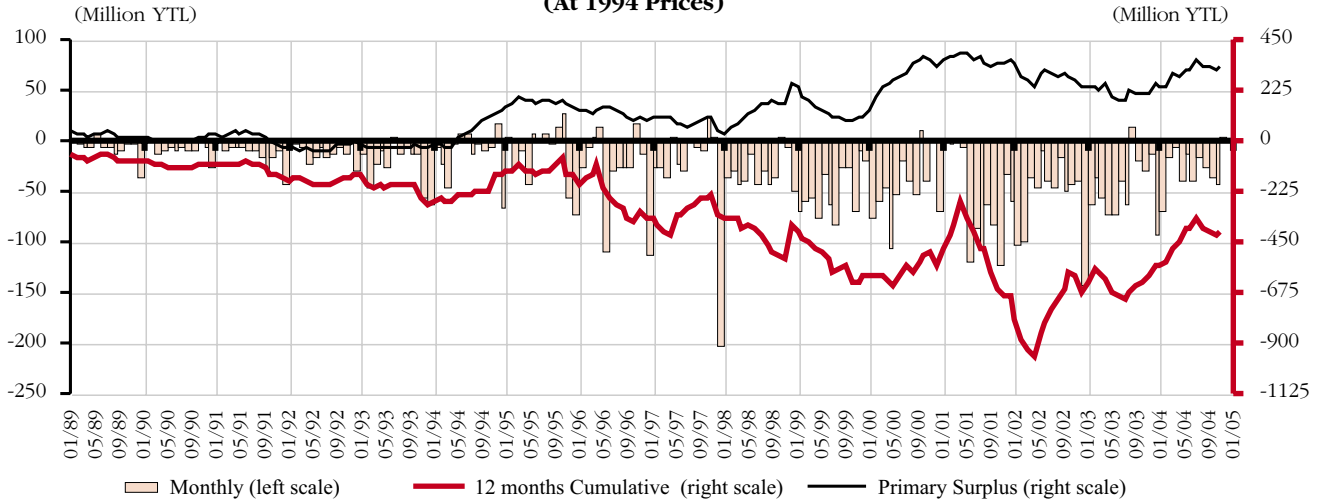


GRAPH 2



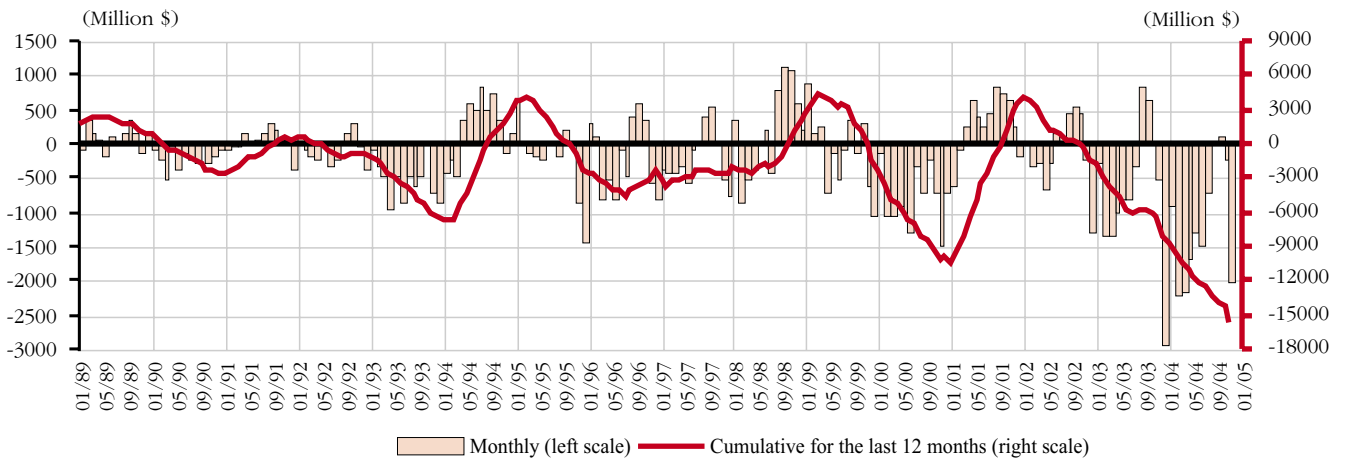
GRAPH 3

**CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices)**



GRAPH 4

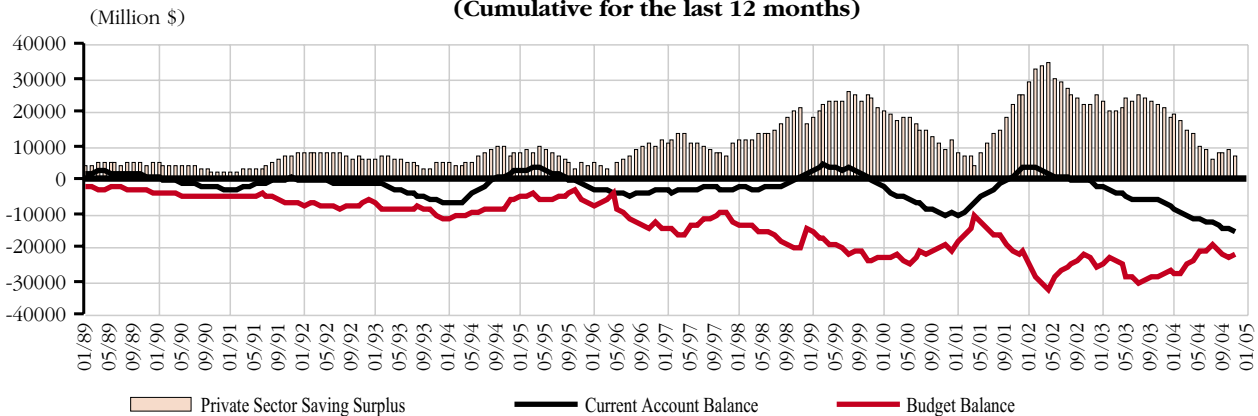
CURRENT ACCOUNT BALANCE (*)



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

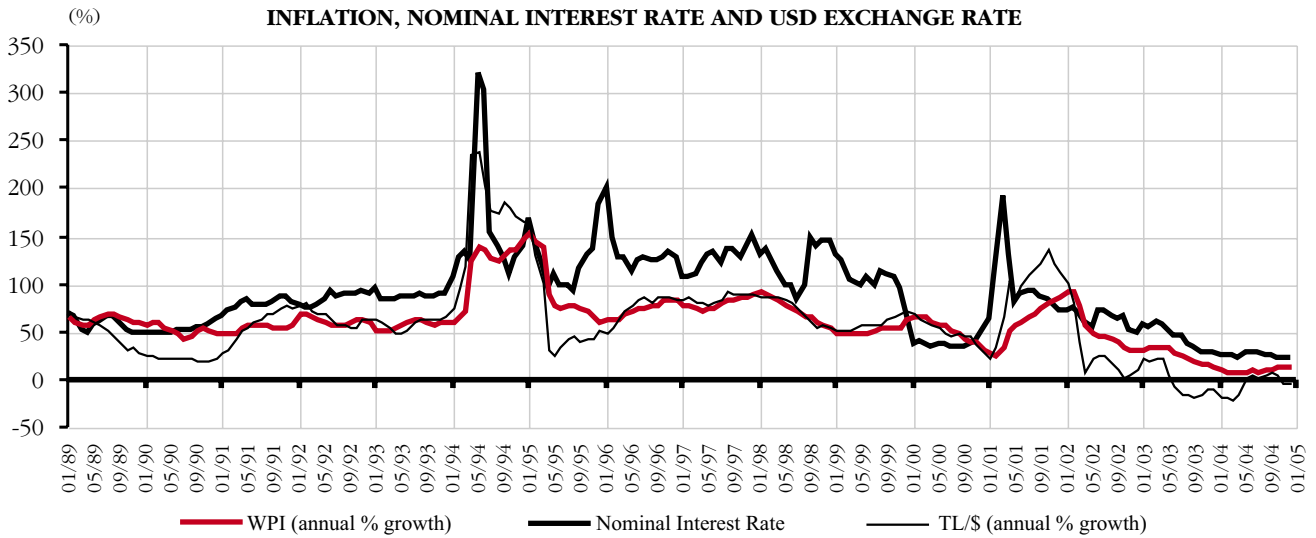
GRAPH 5

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

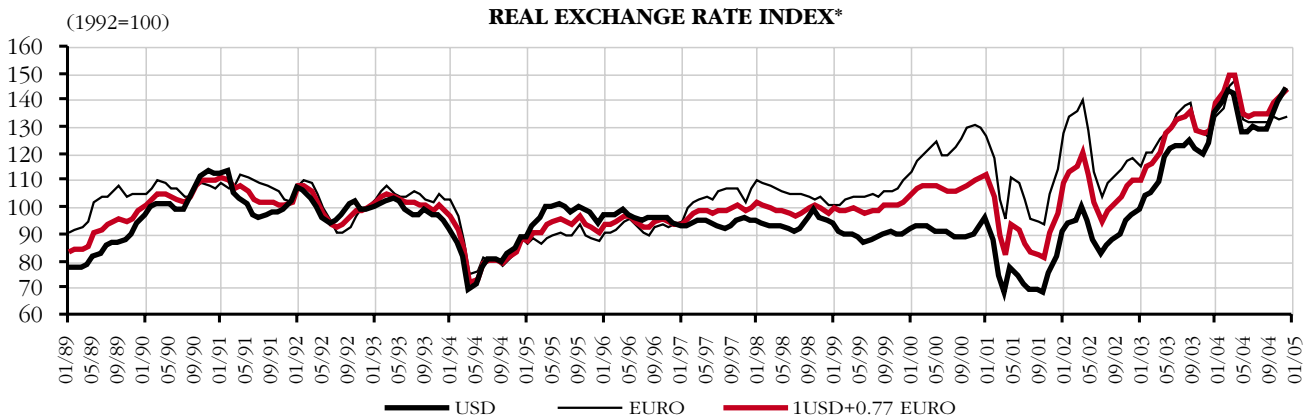


(*) Budget Balance is used as a proxy for the Public Sector Deficit due to lack of monthly data on the latter. Private Sector Saving Surplus figures are calculated as the sum of Budget Deficit and Current Account Balance. Monthly figures include shuttle trade since 01/96.

GRAPH 6

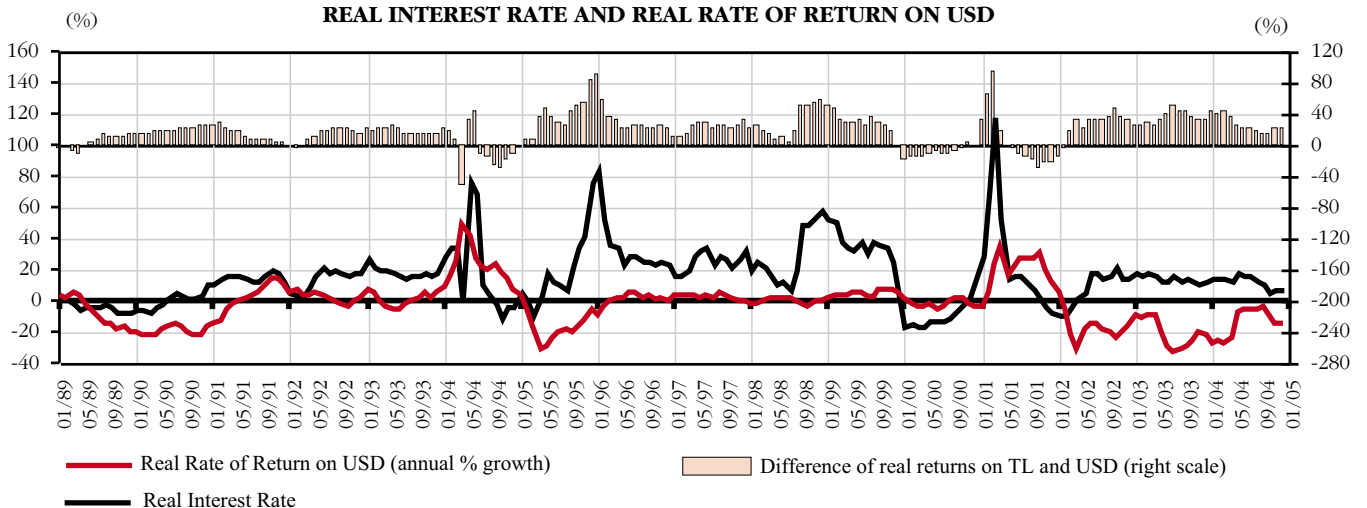


GRAPH 7

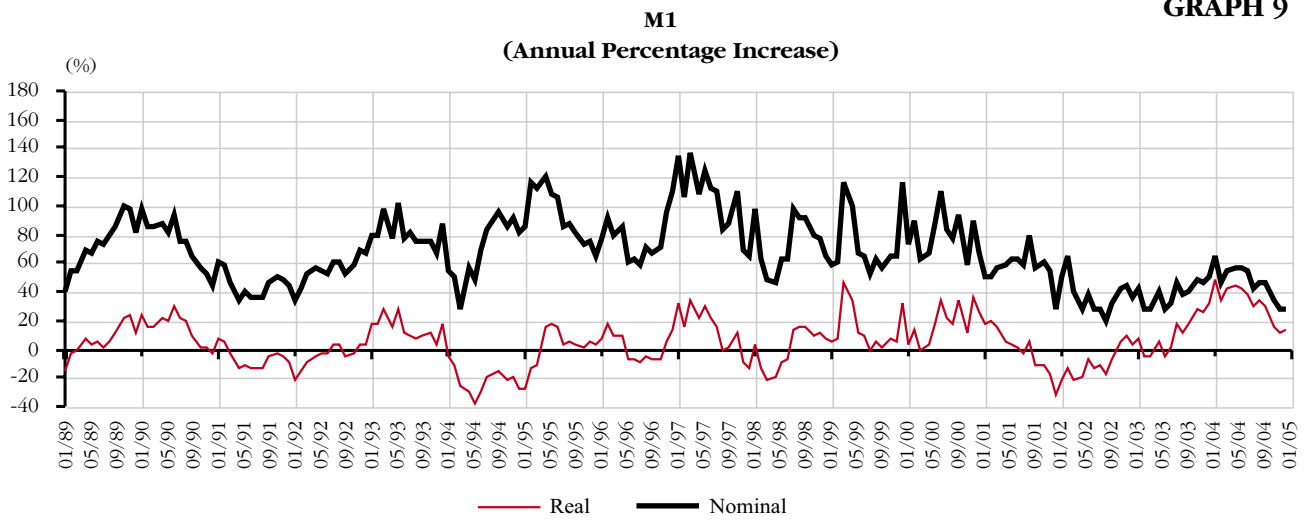


*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

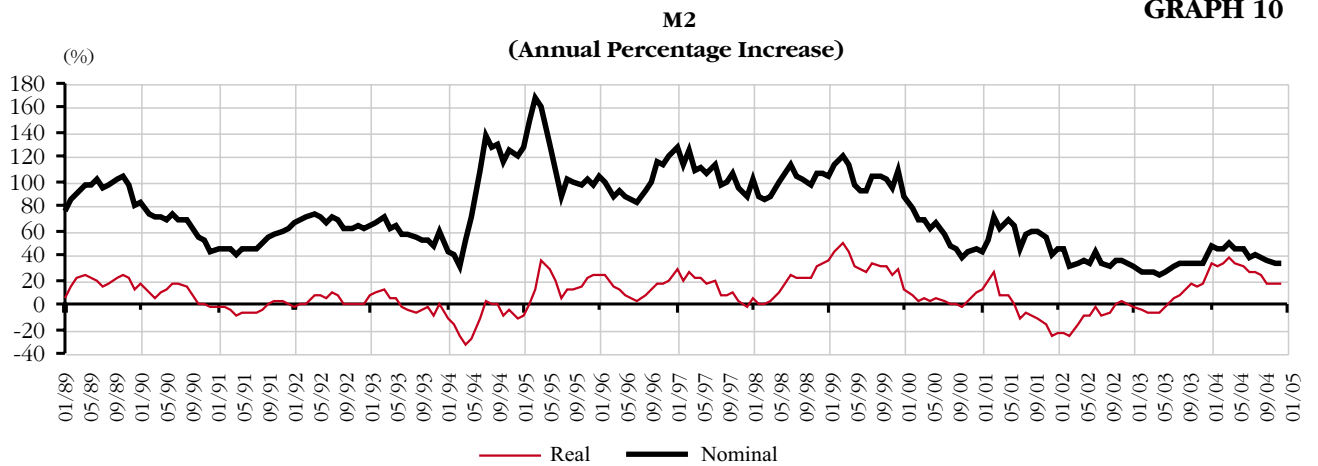
GRAPH 8



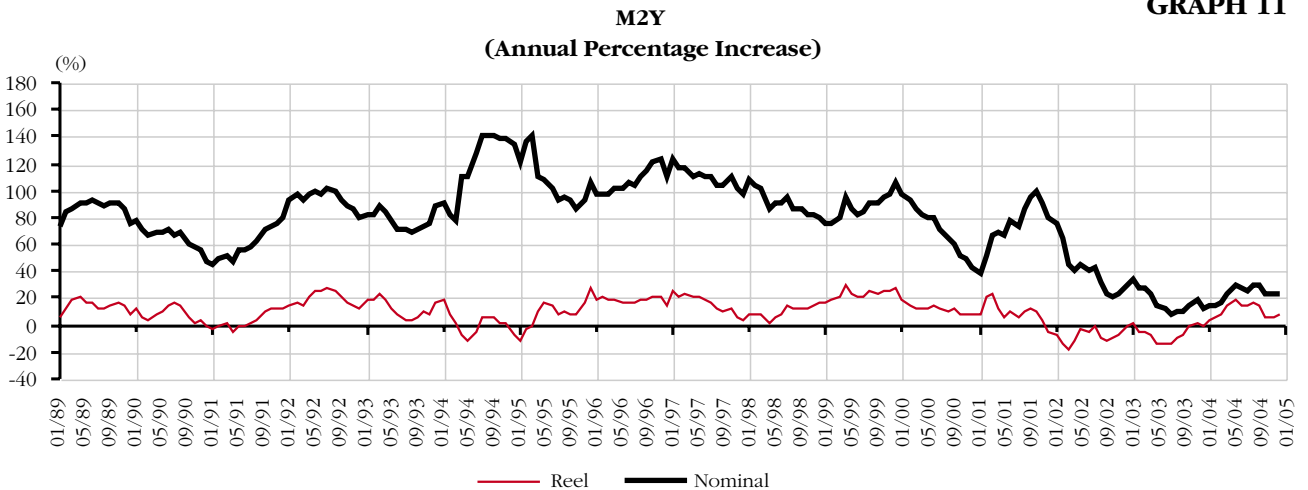
GRAPH 9



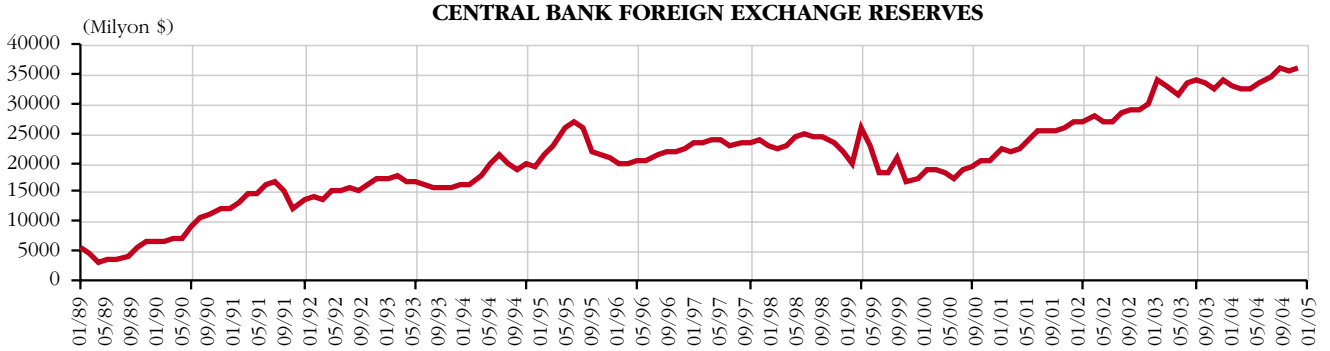
GRAPH 10



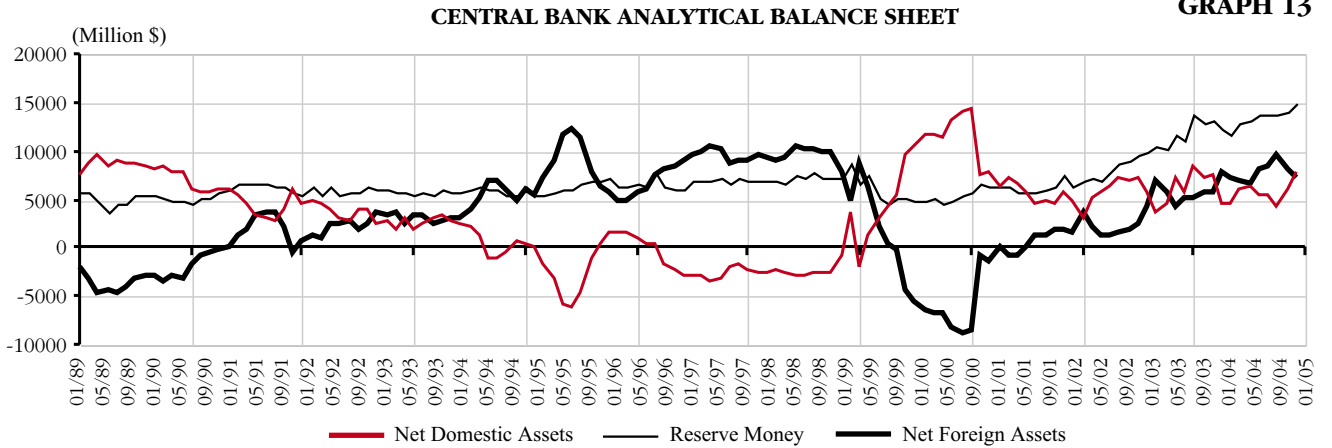
GRAPH 11



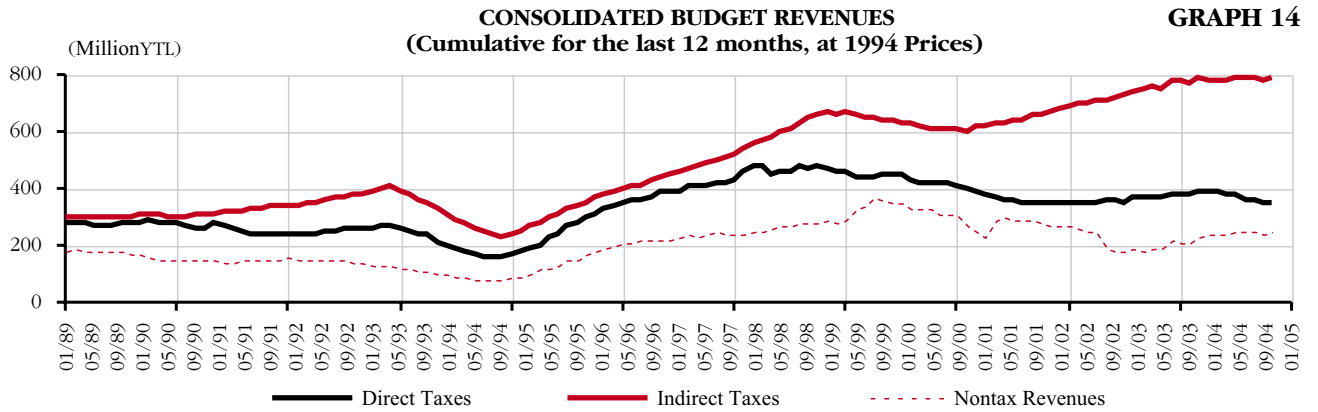
GRAPH 12



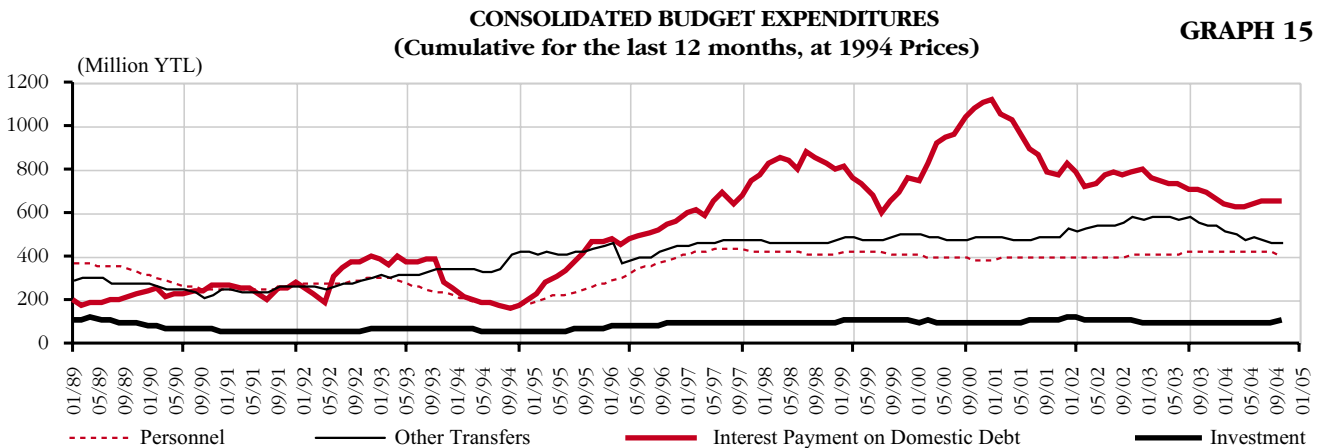
GRAPH 13



GRAPH 14

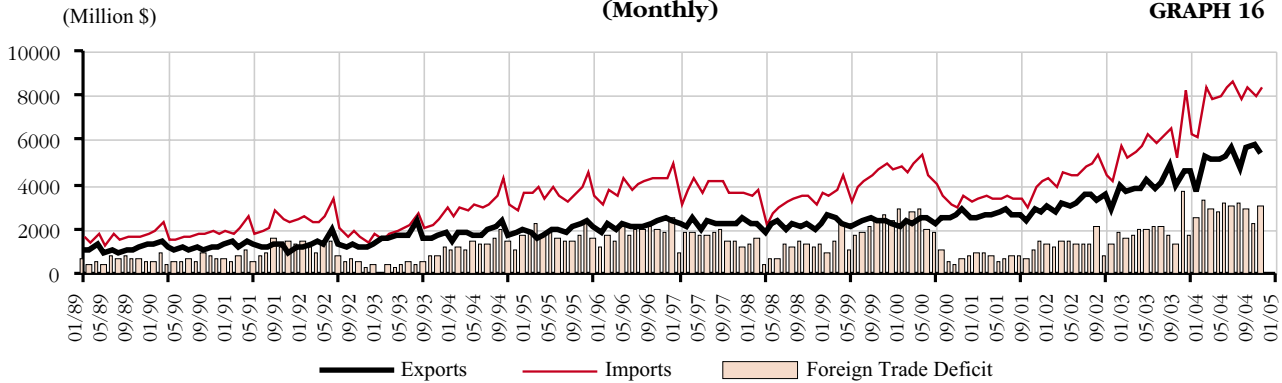


GRAPH 15



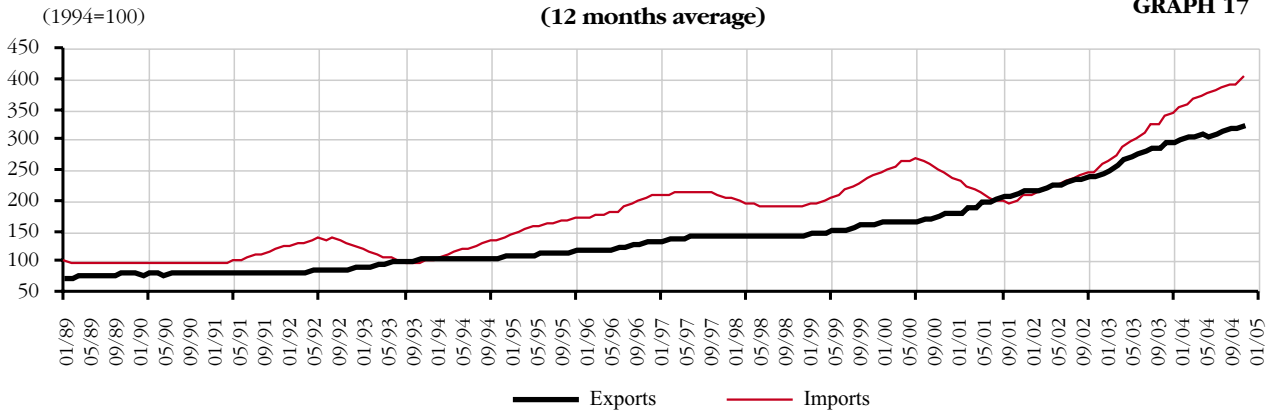
**FOREIGN TRADE
(Monthly)**

GRAPH 16



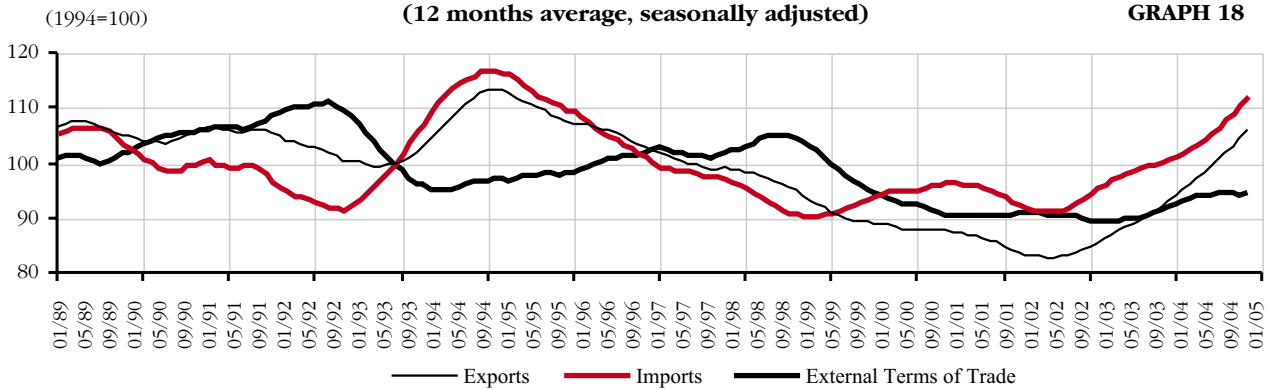
**FOREIGN TRADE QUANTITY INDEX
(12 months average)**

GRAPH 17



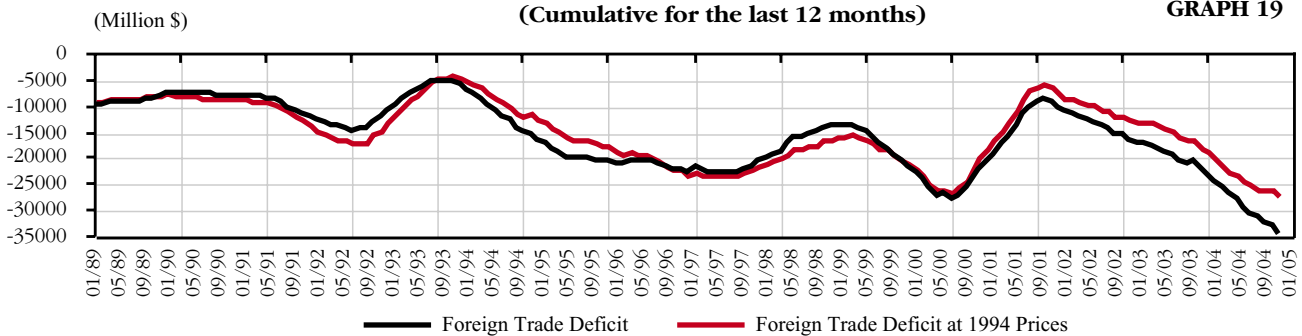
**FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(12 months average, seasonally adjusted)**

GRAPH 18



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

GRAPH 19



TÜSİAD QUARTERLY ECONOMIC OUTLOOK

TÜSİAD MACROECONOMIC SCENARIO
(Quarterly and yearly average)

	2003				2004				2005				Gover. Program	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Annual
INCOME and PRICES														
GNP (1987 prices)*	7.4	3.6	5.6	7.2	12.4	14.4	4.7	5.0	6.0	6.5	6.5	7.0	6.5	5.0
GDP (1987 prices)*	8.1	3.9	5.5	6.1	10.1	13.4	4.5	5.0	5.9	6.4	6.4	6.9	6.4	4.8
Inflation (WPI)*	33.7	32.8	22.4	15.4	9.3	9.7	10.8	14.6	11.1	11.1	11.1	11.1	11.1	8.8
Inflation (CPI)*	27.6	30.0	25.1	19.4	14.1	9.3	9.5	9.7	10.6	10.6	10.6	10.6	10.6	8.0 (a)
Reserve Money *	46.1	38.4	42.7	44.4	41.8	50.9	42.6	29.2	29.0	27.2	27.8	34.8	29.8	
CONSOLIDATED BUDGET														
Budget Revenues (billion YTL)	20.4	24.3	27.1	28.5	23.9	26.0	30.0	27.0	31.0	32.0	32.0	31.0	31.0	126.3
Budget Expenditures (billion YTL)	31.3	38.2	32.1	38.5	30.8	33.6	36.5	38.0	36.0	37.0	37.0	41.0	41.0	155.5
Budget Balance (billion YTL)	-10.9	-13.9	-5.1	-10.0	-7.0	-7.6	-6.5	-11.0	-5.0	-5.0	-5.0	-10.0	-10.0	-29.1
Interest Expenditures (billion YTL)	15.8	19.1	11.7	12.0	14.9	14.8	15.6	11.0	14.0	13.0	13.0	12.0	12.0	56.4
Primary Surplus (over GNP, %)									5.7	5.7	5.7	5.7	5.7	5.0
Budget Balance (over GNP, %)									-11.2	-11.2	-11.2	-11.2	-11.2	-6.1
EXCHANGE RATES														
Nominal Exchange Rate (YTL/\$)	1.648	1.507	1.388	1.437	1.326	1.450	1.472	1.439	1.422	1.422	1.423	1.413	1.384	
Nominal Exchange Rate (YTL/€)*	21.8	6.8	-15.5	-10.9	-19.5	-3.8	6.0	0.1	-4.9	-4.9	-3.3	-1.8	-2.6	
Real Exchange Rate (YTL/\$)(1999=100)**	103.9	120.4	131.7	132.6	147.3	136.9	136.2	145.2	141.4	141.4	153.6	159.3	157.8	
Real Exchange Rate (YTL/€)*	4.8	21.7	48.1	34.0	41.8	13.6	3.3	9.5	15.7	15.7	12.8	9.7	11.6	
Nominal Exchange Rate (YTL/€)	1.768	1.709	1.562	1.713	1.658	1.747	1.799	1.862	1.767	1.767	1.995	2.035	1.916	
Nominal Exchange Rate (YTL/€)*	49.1	31.5	-3.4	6.0	-6.2	2.3	15.1	8.7	4.7	4.7	10.9	9.3	8.4	
Real Exchange Rate (YTL/€)(1999=100)	103.3	113.3	124.9	118.6	125.6	121.1	118.8	119.6	121.3	121.3	116.9	117.9	121.8	
Real Exchange Rate (YTL/€)(1999=100)*	-14.4	-1.2	29.4	12.7	21.7	6.9	-4.9	0.8	5.5	5.5	-1.6	-1.4	0.4	
€/100	1.07	1.13	1.13	1.19	1.25	1.21	1.22	1.29	1.24	1.24	1.40	1.44	1.38	
GOVERNMENT SECURITIES AUCTION														
Nominal Int. Rate (compounded, %)	57.3	52.2	40.4	29.1	26.0	27.1	26.0	22.7	25.5	25.5	18.0	17.0	18.5	
Real Int. Rate (compounded, %)	23.2	17.2	12.7	8.2	10.5	16.3	15.0	11.9	13.5	13.5	8.1	8.6	9.0	
FOREIGN TRADE and CURRENT ACCOUNT														
Imports (cif) (billion \$)	14.4	16.5	18.4	20.1	20.9	24.4	25.1	26.5	26.8	26.8	28.9	30.4	112.4	104.0
Exports (fob, excl. shuttle trade) (billion \$)	10.4	11.3	12.2	13.4	13.5	15.5	16.0	17.8	62.8	62.8	19.0	21.2	76.3	71.0
Foreign Trade Balance(fob-cif) (billion \$)	-4.0	-5.2	-6.3	-6.7	-7.4	-8.9	-9.1	-8.6	-34.0	-34.0	-9.3	-9.2	-36.1	-33.0
Invisibles(Other current) (billion \$)	1.0	2.5	7.3	3.2	2.0	4.3	8.5	3.2	18.1	18.1	5.3	3.8	21.1	22.4
Current Account Balance (billion \$)	-3.0	-2.6	1.1	-3.5	-5.3	-4.5	-0.6	-5.4	-15.9	-15.9	-4.0	-5.5	-15.0	-10.6
Current Account Balance (over GNP, %)									-5.3	-5.3			-4.3	-3.6
Imports (cif)*	36.5	32.3	36.4	32.3	45.3	48.1	36.0	32.0	39.6	39.6	16.0	14.8	16.1	
Exports (fob, excl. shuttle trade)*	30.8	32.9	31.0	29.5	30.2	37.1	31.2	33.2	33.0	33.0	22.4	18.9	21.4	

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) TÜSİAD's end year forecast for WPI is % 7.8

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

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Editorial Board: Ömer Aras, Haluk Tükel, Ümit İzmen, Alp Baştuğ, Eren Ocakverdi, Onur Varol

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