TÜSİAD

TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

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Quarterly Economic Survey

April 1995

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FOREWORD

TÜSİAD stands for "Türk Sanayicileri ve İşadamları Derneği" ("The Turkish Industrialists' and Businessmen's Association") which was founded in 1971 by a group of leading names in Turkish industry and business. TÜSİAD is an independent, non-profit institution whose primary purpose is to promote public welfare. TÜSİAD is scientific and objective in its researches. It is emphasised that this study does not necessarily reflect the views of the TÜSİAD members nor, of course, is it to be considered in any way whatever to be an official publication.

The third issuse of TÜSİAD Quarterly Economic Survey is prepared by utilising the most recent data and estimations available in January, Februrary and March 1995 by Economic Research Department.

APRIL 25, 1995

After having experienced the biggest economic crisis in its history in 1994, Turkey is still unable to launch on a sustainable growth path, although the trough has left behind. The "Economic Measures Application Plan", which became effective on April 5th, 1994, was able after one year, to stabilize the financial markets and the economy returned to its "knife-edge" balance. However, Turkey was unable to get access to foreign credits and again had to resort to the IMF support.

The April 5 Measures: What was aimed and what could be achieved?

The April 5 Economic Measures Application Plan consisted of two parts. The first part was a stabilization programme containing short-term measures and aimed at reestablishing the macro economic equilibrium. The second part, which formed the structural adjustment section of the plan, contained long-term policies for bringing back the economy to a period of sustainable growth.

The basic aims of the stabilization programme were to improve the current account deficit, to cover the losses in International reserves, to pull down the inflation rate and to obtain a 3 percent growth rate in 1995 by reducing the negative effects of the programme on economic activity as much as possible.

The success of the stabilization programme was tied to a decrease in public sector deficits. A controlled increase in exchange rates after the high initial devaluation and a limited monetary expansion would keep down inflation and the foreign deficit would decrease significantly as a natural result of fiscal discipline and contractionary monetary policies.

After the first year of the "Economic Measures Application Plan", it is observed that the plan had some success with respect to stabilization policies but no measures whatsoever were taken for a medium-term structural adjustment programme. The stabilization programme was able to reach its target level for the exchange rate, but although exchange rate increased in real terms since April, the target level for inflation could not be maintained due to continuing inflationary expectations. The budget deficit, targeting TL 109 trillion for the end of 1994, reached TL 146 trillion. Still, this figure corresponds to a 54 percent decrease in real terms, when compared to the 1993 level. The plan aimed at a balanced current account and a $ 2.7 billion surplus was realized. International reserves, which were targeted to increase by $ 1 billion, increased $ 3.8

billion. Net domestic assets were projected to be kept under TL 293 trillion and the realized level has been TL 304 trillion.

Financing of the public sector deficit during the stabilization programme has again been made through private sector savings. In contrast to previous years however, the private sector has this time also financed the transfer of resources to foreign countries. Imports fell rapidly due to the decrease in domestic consumption and investments, while exports increased due to the high devaluation. This resulted in a contracting foreign trade deficit, which in turn caused the current account to give a surplus. For this reason, Turkey, which could formerly utilize foreign resources as a result of her current account deficits, had to transfer abroad some of her resources in 1994. Since the public sector had a savings gap, the whole burden was placed on the private sector and the savings surplus of the private sector doubled in one year. It is obvious that this situation cannot continue in the long-run, since it significantly decreases private investments. If we take into consideration that public sector investments have already dropped to a low level, it is clear that private investment has to be revived to bring back Turkey to a path of growth. This is only possible, if the pressure of the public savings gap on private savings surplus is relieved. This should be done by decreasing the public sector savings gap and not by intolerably worsening the trade deficit.

Otherwise, an economy cannot sustain a high level of current account deficit in the long-run. As can be seen from the experience of 1979-80 and 1994, an economic growth depending on foreign credits, results in a serious economic crisis. Consequently, the Turkish economy will only be able to attain a sustainable growth rate, if the public sector savings gap is reduced through structural changes.

The Turkish Economy is at a “knife-edge" balance in 1995.

The Turkish economy is at a knife-edge balance in the second quarter of 1995. The depression is over and from now on it is expected that, positive growth rates will be obtained again. The falling trend of interest rates is also strengthening growth perspectives.

Rational policies must be applied for preventing the economy to return to its pre-crisis situation in late 1993. Slowly increasing exchange rates and a dropping domestic borrowing demand will keep internal funds away from foreign exchange and government bonds and will channel them to the industrial sector. This will positively affect production and investment decisions for 1995. At this point, it will be possible for the economy to experience a healthy growth, if restrictions in public expenditures continue, monetary expansion is controlled and necessary reforms are made. If the budget deficit continues to decrease, the credit demand of the government will fall in real terms and domestic funds will be channeled to the industrial sector.

The GNP growth rate in 1994 was - 6 percent. But it is expected that positive growth rates will be achieved after the second quarter of 1995.

In the January 25th, 1995 issue of TÜSİAD Quarterly Economic Survey, it was stated that the GNP growth rate for the last quarter of 1994 would be - 5.8 percent. In line with this, the yearly contraction of the economy would be - 6.1 percent.

According to the SIS (State Institute of Statistics) figures, the growth rate for the last quarter of 1994 has been - 6.8 percent and the annual growth rate has been - 6 percent.

The SIS revised its GNP statistics for 1991 and 1992, due to changes in net factor income from abroad. The statistics for 1993 and 1994 have been revised more substantially and the GNP growth rate for 1993 has been increased from 7.6 percent to 8.1 percent.

According to the most recently published data, the quarterly growth rates for 1994 have been 4 percent, -9.7 percent, -8.6 percent and -6.8 percent respectively.

The agricultural sector, which contracted in 1993, continued to do so in 1994. The 1994 growth rate for the agricultural sector has been - 0.3 percent. The contraction in the industrial sector reached 5.7 percent, while the figure for the manufacturing industry was 7.6 percent. The construction and trade sectors have contracted by 2 percent and 7.5 percent respectively.

If we analyze the changes in sectoral production in the last quarter of 1994, we observe that the agricultural sector expanded by a surprising 15.1 percent, mainly due to the increase in fruit production, the contraction in industry and trade slowed down relatively and the construction sector contracted further by 9.3 percent.

According to the quarterly industrial production index, production in the manufacturing industry decreased by 7.4 percent in 1994. It is observed that this drop in production mainly stems from the private sector. Production in the private manufacturing industry decreased by 11.9 percent, while it increased by 2.9 percent in the public sector. The highest contraction was 24.6 percent in the machinery industry which also includes durable consumption goods. The chemical industry, which has the biggest share in manufacturing industry, contracted by 3.8 percent.

The contraction in industrial production continued in January and February 1995. However, the fall in the seasonally adjusted industrial production index, which began in February 1994, is slowing down.

GDP calculated from the expenditures side has decreased by 4.7 percent in 1994. Private final consumption expenditures decreased mainly due to a fall in the demand for durable and semi-durable goods. The fall in gross fixed investments and especially machinery and equipment investments was even more striking. Total fixed investments contracted by 15.9 percent, while the corresponding figure for the private sector was 9.1 percent. Public fixed investments contracted substantially by a 34 percent, mainly due to the government policy to reduce the public deficit.

After the revision in GNP figures, TÜSİAD also changed its GNP growth estimate for the first quarter of 1995 from - 3.8 percent to - 4.4 percent. After this revision, the annual GNP growth rate estimate fell to 2.8 percent.

According to the studies of the TÜSİAD Research Group, economic contraction continued in the first quarter of 1995, mainly due to tight monetary policies and increased interest rates. This contraction has also been affirmed by the TÜSİAD Coincident Indicators Index. February 1995 figures for the Leading Indicators Index also show that the economy doesn't give any signals of recovery. However, fluctuations in this index in recent months, indicate that the economy is at a knife-edge balance. To state that the economy is giving signals of recovery, we should wait for developments in the next few months.

Inflation rates for the first quarter of 1995 show that inflationary expectations could not be prevented.

The last issue of TÜSİAD Quarterly Economic Survey stated that the rise in inflationary expectations was the basic obstacle preventing the inflation rate from returning to its pre-1994 levels of 60 percent. An 11 percent increase in the dollar exchange rate during the first quarter of 1995 against a 25 percent inflation during the same period and an annual inflation rate of 144 percent indicate that inflationary expectations should be truncated to successfully control inflation. It is expected that, with the exclusion of the 32.8 percent April 1994 monthly inflation figure from annual inflation calculations, inflation will fall back to two-digit levels in April 1995. The fall in inflation is also expected to continue in May. However, continuing inflationary expectations in the first quarter of 1995 and a 24.5 percent quarterly increase in the wholesale price index, make it more probable, that the governments inflation target of 70 percent will be exceeded and inflation will settle at around 88 percent.

In the first quarter of 1995, as compared to the last quarter of 1994, the highest price increase has been experienced in the agricultural sector. Agricultural prices, which in the first three quarters of 1994 increased at a slower pace than manufacturing industry prices, began to move up rapidly in the last quarter. This trend continued in the first quarter of 1995, where agricultural prices increased by 37.5 percent against a 21.8 percent increase in manufacturing industry prices. During this period, private manufacturing industry prices rose by 19.9 percent while public manufacturing industry prices increased by 26.3 percent.

The experience of the April 5 Measures and the period thereafter has shown that, merely controlling the exchange rates is not enough to cut off inflationary expectations. In the last year, high nominal values of the interest rates and wage rates which are highly correlated with the inflation rate, prevented a turn down in inflationary expectations. It has become clear that to control the inflation rate, nominal interest rates should be low and a national, political and social compromise, concerning nominal wage levels, should be established.

Target levels for exchange rates have been determined during meetings with the IMF. However, uncertainties about the level of interest rates and nominal wages still continue. Annual inflation targets declared to the IMF by the government cannot be considered to be realistic, since the government's single tool as a nominal anchor is exchange rates. The government in its letter of intent to the IMF stated that the inflation rate for the end of the year would drop to 45 percent and the annual average was estimated to be below 70 percent. But, the situation in the first quarter of 1995 indicates that these figures will be exceeded.

The domestic debt problem has been postponed to 1996. Economic stability depends upon the control of the consolidated budget deficit.

The consolidated budget had a substantial deficit especially in February 1995. However, on a 12 month cumulative basis and in real terms, this deficit can still be considered to be under control. After the increase in consolidated budget expenditures in February, the budget deficit on a twelve month, cumulative basis reached TL 163 trillion but remained at the level of $ 5 billion.

The consolidated budget deficit is still financed by private sector funds. Since, access to foreign credit is not possible yet, the government continues to make net foreign debt payment. In accordance with the stand-by arrangement, the government doesn't apply monetary financing and the whole budget deficit has to be financed through internal borrowing. Consequently, the private sector's funds are being used both to finance public sector deficits and to transfer resources abroad. This prevents funds from being channeled into the industrial sector and investments.

The government had some success in its domestic borrowing policy after February 1995, by extending the terms of borrowing and lowering the interest rates. The method used during the 1994 crisis has been followed and the government was able to borrow at terms longer than three months by giving "shock" interest rates for the first auction. The government did not meet the whole demand in the succeeding auctions and thereby was able to reduce interest rates step by step. The success of this operation to improve the maturity structure of domestic debt, in part originated from the fact that the returns of alternative investments, including foreign exchange, were not high during this period. Also the domestic debt problem seems to be reduced for 1995, since the government doesn't have large amounts of domestic debt repayments. We could expect that this situation will smooth fluctuations in financial markets and will mitigate the flow of funds to the industrial sector. However, it is obvious at this point, that the problem has not been eradicated but only postponed to 1996. There won't be any structural reductions in the public deficit, and as a result, no reduction in the inflation rate will be possible, unless structural measures are taken.

Economic recession prevented the foreign trade balance from getting worse, although the TL was appreciated in real terms during the period.

In spite of the fact that the TL has been appreciated by 10 percent in real terms since the end of April 1994, the foreign trade and the current account balances do not get worse. Imports continue to fall, however at a decreasing rate. January 1995 imports are 2.6 percent below the level of the previous year. Similarly, exports continue to increase at a decreasing rate and the January 1995 export figure has been 18.1 percent above the level of the previous year. However, the appreciation of the TL in real terms will gradually encourage imports and discourage exports. Another factor preventing the foreign trade balance from getting worse, was the continuing low level of internal demand. The foreign trade balance will begin worsening, if internal demand starts to grow. The foreign trade and current account deficits in 1993, were $ 14 billion and $ 6.4 billion respectively, when the average real exchange rate was approximately at a level similar to that of March 1995. This figure indicates that the foreign trade deficit can reach a dangerous level in 1995, unless efficient incentive mechanisms are established for foreign trade.

With continuous improvements in foreign trade, the annual current account surplus in January reached $ 3.7 billion. On the other hand, high real interest rates and a low devaluation encouraged short-term capital movements from abroad. As a result, Turkey began to experience a net inflow of short-term capital investments after December 1994. Also the continuing surplus in the net errors and omissions item indicates that foreign exchange, which released from the banking sector after the 1994 crisis, is now returning to the system. Improvements in the current account balance, together with net short-term capital inflow, enabled the International reserves to increase. The Central Bank's International reserves reached $ 11.7 billion on April 7th, 1995 which is above the target level given to the IMF. This increase in international reserves also induced a substantial improvement in the Central Bank's net foreign assets.

The partial monetary expansion between January and March is not expected to have an inflationary effect.

Both the annual percentage change and constant price calculations indicate that there is an expansion in various monetary indicators in the first quarter of 1995. The M1 money supply increased due to a parallel rise in currency issued and the M2 money supply increased due to increase in TL deposits as a result of high interest rates for TL deposits against the limited increase in exchange rates. Also the banking sector's credits increased during the same period. The rise in the volume of credits and the falling trend of interest rates will positively affect production and investment decisions for the remaining nine months of 1995. On the other hand, monetary expansion was kept within the limits given to IMF for 1994 and it is expected that also in 1995, the limits determined by the IMF will not be exceeded and no monetary expansion will be experienced in real terms. Also the January-March monetary expansion is in accordance with the IMF limits.

Therefore, it is not expected that monetary expansion will continue and exert pressure on inflation.

New stabilization programmes will be inevitable, unless rational policies are applied.

Since foreign credit possibilities do not exist yet, the government is forced to finance its budget deficit from the domestic market. Financing the deficit from domestic sources will be achieved through a policy-mix including internal borrowing and monetary financing. In spite of the recent monetary expansion, the letter of intent given to the IMF states that there will be no further real monetary expansion. Therefore, the budget deficit will most likely be financed through internal borrowing.

The Treasury's bond auctions in the first quarter of 1995 have shifted some portion of the domestic debts repayment to 1996. As a result, the pressure of interest payments on the budget has to some extent diminished. However, fund requirements of the government will reach a dangerous level in 1996, threatening the macroeconomic equilibrium, unless the real budget deficit cannot be reduced in the remaining months of 1995. On the other hand, continuing high real interest rates for government bonds, together with a limited increase in exchange rates, will stimulate the expectation that government bonds will have high returns in dollar terms and will thereby imply a net inflow of foreign funds. This in turn, will hamper foreign balance. If production and consumption are increased with the help of short-term foreign funds and monetary and fiscal disciplines are loosened, a new crisis will be due in 1996. In this case, the need to finance the budget deficit will pull up domestic interest rates and the need to balance foreign trade will accelerate devaluations. Such a situation resembles the early 1994 and this in turn, will make a new stabilization programme inevitable.

MAIN ECONOMIC INDICATORS (1994-1995)

	1994 April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1995 Jan.	Feb.	March
INDUSTRIAL PRODUCTION INDEX (SIS, 1986=100)												
Annual % increase	-7.9	-13.4	-8.0	-12.8	0.4	-4.5	-6.0	-3.1	-8.2	-5.8	-2.7	. .
Monthly % increase	-5.3	-4.7	1.2	4.2	5.7	7.6	0.3	1.6	-0.4	-6.0	-9.8	. .
Monthly % increase (Seasonally Adjusted)	3.3	-11.4	8.1	-2.8	8.0	-2.3	-2.0	3.2	-1.0	0.3	-1.5	. .
CAPACITY UTILISATION RATIO (SIS, %)	71.4	69.5	70.0	71.0	72.9	78.7	76.1	74.9	75.5	71.7	73.2	74.7
WHOLESALE PRICES (SIS, 1987=100)												
Annual % increase	125.3	138.6	137.6	128.8	126.5	129.6	136.9	137.0	149.6	156.8	149.8	144.3
Monthly % increase	32.8	9.0	1.9	0.9	2.7	5.4	6.9	6.4	8.3	8.4	7.0	6.1
Monthly % increase (Seasonally Adjusted)	31.8	9.9	4.3	2.1	3.5	5.3	7.3	7.2	9.0	7.0	4.8	4.0
EXCHANGE RATE ($)												
TL/US$ (Monthly Average)	32,173	33,880	31,682	30,970	31,796	33,920	34,962	36,291	37,506	40,249	41,018	41,693
Annual % increase	236.7	240.0	202.6	177.3	173.4	185.9	179.9	171.7	167.1	165.3	131.5	102.4
Monthly % increase	56.2	5.3	-6.5	-2.2	2.7	6.7	3.1	3.8	3.4	7.3	1.9	1.7
INTEREST RATES (Yearly Simple Rate)												
Deposits (End of period)												
1 month	119.0	113.0	100.0	57.0	47.8	47.8	47.0	56.5	58.0	65.8	65.8	61.3
3 months	129.0	129.0	115.0	72.0	62.0	62.0	60.5	72.0	74.0	81.3	81.3	75.8
6 months	108.0	108.0	120.0	94.0	68.0	68.0	63.3	76.0	78.0	85.8	85.8	82.0
12 months	113.0	113.0	128.0	106.0	111.5	113.0	115.0	117.8	107.4	130.9	111.2	106.1
Treasury (Monthly Average)												
1 month	-	154.1	161.3	-	-	-	-	-	-	-	-	-
3 months	-	152.5	162.4	101.3	94.4	88.3	79.2	89.7	99.7	111.8	-	-
6 months	-	-	141.6	128.5	113.1	105.0	96.8	-	106.4	128.0	112.0	-
9 months	-	-	-	-	-	-	-	-	-	-	-	105.3
12 months	126.6	173.1	-	-	-	-	-	-	-	-	-	123.7

(. .): not available
(-): no auction

	1994										1995	
	March	**April**	**May**	**June**	**July**	**August**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**
FOREIGN TRADE												
Value (Current $ prices)												
Imports (Annual % increase)	-6.1	-40.1	-42.6	-25.0	-34.9	-27.2	-20.0	-11.1	-13.5	-19.6	-2.6	30.4
Exports (Annual % increase)	7.2	-2.0	-8.9	56.4	33.5	35.3	36.6	17.9	28.4	19.9	18.1	30.0
Price Index (1989=100)												
Imports (Annual % increase)	-10.0	-7.4	-2.0	2.3	10.4	4.1	3.2	7.8	14.6	6.9	..	..
Exports (Annual % increase)	-4.4	-8.5	-10.4	-3.1	-0.9	-5.4	-4.2	-0.8	1.4	2.9	..	..
Quantity Index (1989 prices)												
Imports (Annual % increase)	4.3	-33.9	-39.1	-36.0	-45.5	-26.2	-24.8	-21.5	-11.1	-22.2	..	..
Exports (Annual % increase)	2.3	0.4	-0.9	54.8	28.9	32.7	30.5	12.4	16.9	11.2	..	..
FOREIGN TRADE BALANCE ($ Million)												
Imports (Monthly)	1,982	1,725	1,448	1,781	1,606	1,890	1,920	2,060	2,248	2,705	2,097	2,285
Exports (Monthly)	1,320	1,233	1,220	1,379	1,578	1,517	1,720	1,670	1,658	2,305	1,549	1,551
Foreign Trade Balance (Monthly)	-661	-502	-229	-402	-28	-373	-200	-389	-590	-400	-547	
Imports (Last 12 months)	29,408	28,253	27,177	26,584	25,721	25,015	24,535	24,277	23,926	23,266	23,214	23,747
Exports (Last 12 months)	15,496	15,471	15,353	15,850	16,247	16,643	17,103	17,358	17,724	18,106	18,343	18,700
Foreign Trade Balance (Last 12 months)	-13,912	-12,782	-11,824	-10,734	-9,474	-8,372	-7,431	-6,919	-6,202	-5,160	-4,871	-5,046
BALANCE OF PAYMENTS ($ Million)												
Current Account Balance (Monthly)	-471	342	581	490	799	498	596	341	101	129	604	..
Current Account Balance (Last 12 months)	-6,627	-5,331	-4,264	-2,882	-1,591	-471	580	918	1,729	2,705	3731	..
Capital Account and Reserve Movements (Last 12 months)												
Net Foreign Direct Investment	579	522	541	497	483	515	493	489	525	560	562	..
Portfolio Investment	4,324	4,406	4,442	3,899	3,156	2,905	2,868	2,566	1,246	1,182	889	..
Net Long-Term Capital	1,224	1,110	796	503	123	-420	-539	-440	-637	-832	-1025	..
Net Short-Term Capital	846	268	-1,544	-2,645	-3,143	-3,999	-5,036	-5,007	-5,404	-5,141	-4120	..
Net Errors and Omissions	-3,993	-4,110	-3,303	-2,015	-1,003	414	1,216	877	1,983	1,755	2962	..
Reserve Changes (*)	3,647	3,135	3,332	2,643	1,975	1,056	418	597	558	-229	-2999	..

(*): Positive sign indicates decrease in reserves
(. .): not available

	1994										1995	
	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
CONSOLIDATED BUDGET (Billion TL)												
Monthly												
Revenues	37,300	47,478	58,138	67,582	68,515	76,576	71,844	77,984	81,246	92,552	82,323	82,050
Expenditures	69,441	51,738	51,803	59,577	82,700	79,482	81,683	84,476	60,810	184,308	76,792	123,909
Budget Balance												
(Current prices)	69,441	51,738	51,803	59,577	82,700	79,482	81,683	84,476	60,810	184,308	76,792	123,909
(At 1987 prices)	-12,279	-1,225	1,672	2,073	-3,642	-726	-2,333	-1,441	4,261	-17,660	982	-6,946
(Current prices, billion $)	-1.561	-0.132	0.187	0.253	-0.458	-0.091	-0.290	-0.186	0.563	-2.446	0.137	-1.020
Financing (Current prices)	25,352	6,259	-11,282	-1,069	9,475	9,522	14,629	19,476	7,440	33,392	18,887	30,703
Foreign Borrowing (Net)	7,897	7,128	-6,906	-10,697	-10,825	-10,233	-16,285	-9,912	-6,298	-11,968	-11,171	-8,577
Domestic Borrowing(Net)	-2,152	-2,890	-4,416	-585	-1,667	-17,568	-8,565	-17,624	-2,901	-13,818	-958	-47
Short-term Borrowing	14,365	7,255	5,725	24,566	16,646	49,621	30,181	51,191	17,205	43,228	46,956	43,660
Central Bank (Net)	5,393	-798	-6,927	-21,734	3,959	5,993	-5,735	9,029	8,952	7,297	-3,539	-1,109
Treasury Bills (Net)	8,972	8,053	12,652	46,300	12,687	43,628	35,916	42,162	8,253	35,931	50,495	44,769
Other	5,242	-5,234	-5,685	-14,353	5,321	-12,298	9,298	-4,179	-566	15,950	-15,940	-4,333
Last 12 months												
Revenues	411,297	432,180	463,480	502,087	542,459	587,861	628,661	671,206	708,340	753,440	798,584	843,588
Expenditures	560,228	581,296	594,990	627,468	675,738	720,173	764,769	807,268	792,707	899,375	934,611	1,006,719
Budget Balance												
(Current prices)	560,228	581,296	594,990	627,468	675,738	720,173	764,769	807,268	792,707	899,375	934,611	1,006,719
(At 1987 prices)	-71,532	-70,118	-61,348	-60,430	-60,378	-58,912	-57,955	-55,959	-36,250	-39,412	-36,431	-37,261
(Current prices, billion $)	-10,480	-10,185	-8,867	-8,794	-8,689	-8,447	-8,228	-7,890	-4,987	-5,284	-4,857	-5,045
Financing (Current prices)	155,273	154,940	133,565	129,218	133,686	135,911	131,893	136,514	138,443	145,681	155,263	162,784
Foreign Borrowing (Net)	25,417	32,520	22,793	10,875	-1,170	-13,300	-28,832	-35,839	-42,786	-68,515	-78,847	-87,847
Domestic Borrowing(Net)	30,289	26,040	20,343	18,897	18,020	-3,401	-21,088	-49,547	-53,737	-70,338	-76,932	-73,191
Short-term Borrowing	95,054	98,247	98,001	121,395	130,697	176,710	194,079	240,943	253,864	296,073	327,484	350,599
Central Bank (Net)	99,082	92,621	82,412	65,207	74,167	67,696	55,222	56,148	55,707	51,857	30,935	781
Treasury Bills (Net)	-4,028	5,626	15,589	56,188	56,530	109,014	138,857	184,795	198,157	244,216	296,549	349,818
Other	4,513	-1,867	-7,572	-21,949	-13,861	-24,098	-12,266	-19,043	-18,898	-11,539	-16,442	-26,777

MONEY SUPPLY (Annual percentage change)	1994 April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1995 Jan.	Feb.	March**
M1	56.8	49.2	69.3	83.5	88.6	92.6	86.4	91.7	80.6	85.5	115.5	122.6
Currency in circulation	88.1	49.8	89.1	95.6	102.0	98.8	95.5	95.2	98.7	103.9	125.7	127.0
Currency issued+coins	87.5	57.2	87.0	89.7	97.3	99.2	87.7	91.0	90.0	94.8	118.2	112.2
Cash in vault	84.3	115.6	71.7	54.2	62.8	134.8	32.3	60.8	50.2	43.4	68.3	35.4
Commercial sight deposits	34.8	46.3	45.5	72.1	71.8	84.2	80.9	92.4	62.7	72.1	96.9	106.2
Savings sight deposits	36.5	53.1	59.0	71.8	81.0	91.1	81.8	90.4	79.6	64.8	118.0	146.4
Other sight deposits	7.4	47.0	57.7	78.4	78.3	73.6	48.8	61.7	77.3	67.1	116.9	114.1
Central Bank's deposits	2.0	-8.1	251.2	-53.7	-14.2	57.2	135.9	370.3	-41.2	463.9	315.9	1147.6
M2	53.3	72.2	109.1	136.8	127.9	127.0	116.9	126.2	120.1	128.1	149.8	169.8
Commercial time deposits	-3.7	32.4	135.6	221.3	146.3	168.3	149.7	190.7	208.0	190.2	243.8	306.1
Savings time deposits	59.4	107.8	164.1	206.1	184.2	182.0	165.7	176.9	178.9	191.3	194.6	223.1
Other time deposits	45.9	54.2	66.3	84.4	86.3	75.1	75.9	79.4	88.1	79.3	106.7	125.9
Certificates of deposits	-7.1	5.7	20.9	77.9	69.4	76.2	46.6	61.4	52.0	56.4	61.4	85.4
M2Y	110.3	111.2	127.5	140.1	140.0	138.4	138.4	138.8	133.3	122.1	137.3	142.8
Foreign exchange deposits (TL)	193.4	170.2	153.4	146.1	155.9	152.3	163.8	152.8	148.5	116.8	125.8	120.0
Foreign exchange deposits ($)	-15.3	-14.1	-13.6	-9.0	-7.7	-9.8	-4.5	-5.6	-6.5	-7.6	-0.9	13.9
TL/US$ Buying Rate	246.2	214.5	193.2	170.5	177.1	179.6	176.3	167.9	165.7	134.6	127.9	93.1
M3Y	105.7	106.8	120.4	138.0	137.8	137.2	137.8	137.6	133.1	119.7	135.7	141.9
M3	50.1	67.7	99.0	132.3	125.4	125.7	117.4	125.1	120.5	122.8	145.3	166.1
Foreign exchange deposits (TL)	193.0	170.1	153.4	146.0	155.8	152.0	163.8	152.8	148.5	116.8	125.8	120.0
Credit Stock	88.9	67.2	54.6	87.8	86.5	92.9	82.5	80.4	84.5	89.2	82.1	86.1
Central Bank Direct Credits	152.8	128.4	91.3	119.0	115.5	147.6	107.8	107.7	78.5	49.7	15.9	19.1
Deposit Bank Credits	69.6	45.4	41.5	37.7*	37.6*	31.6*	34.0*	31.5*	45.3*	61.4*	72..8*	76.1*
Investment and Development Bank Credits	96.7	114.5	88.5	120.2	117.1	114.7	110.0	100.2	96.9	110.0	83.7	93.6

(*) Adjusted for changes in data definition after 1.7.1994
(**) By March 24, 1995

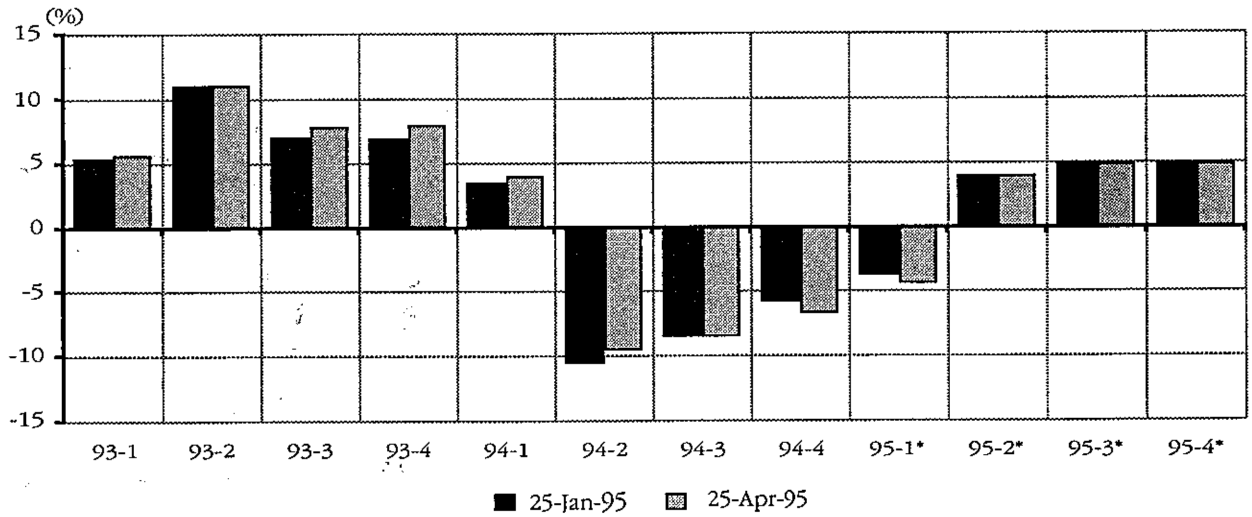
TÜSİAD ESTİMATES

	93-1	93-2	93-3	93-4	93	94-1	94-2	94-3	94-4	94	95-1	95-2	95-3	95-4	95
												Estimate			
(25 January 1995)															
Growth Rate	5.4	11.1	7.1	6.9	7.6	3.4	-10.6	-8.6	-5.8	-6.1	-3.8	3.9	4.9	4.8	2.9
Inflation Rate	52.9	57.3	62.8	59.6	58.4	67.8	133.9	128.3	141.3	120.7	137.0	67.0	63.0	56.0	73.0
(25 April 1995)															
Growth Rate	5.6*	11.1*	7.8*	7.9*	8.1*	4.0*	-9.6*	-8.6	-6.8	-6.0	-4.4	3.9	4.9	4.8	2.8
Inflation Rate	52.9	57.3	62.8	59.6	58.4	67.8	133.9	128.3	141.3	120.7	149.9**	79.9	77.9	71.7	88.0

* SIS Revized Realization Figures
** Realization

GNP GROWTH RATE

GRAPH 1

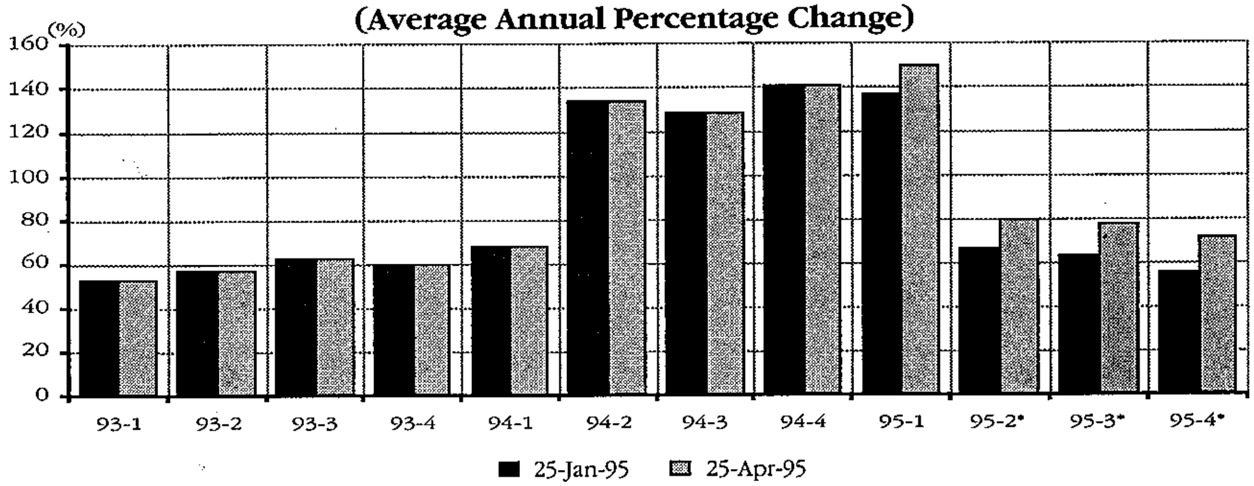


* Estimate

WHOLESALE PRICE INDEX

GRAPH 2

(Average Annual Percentage Change)

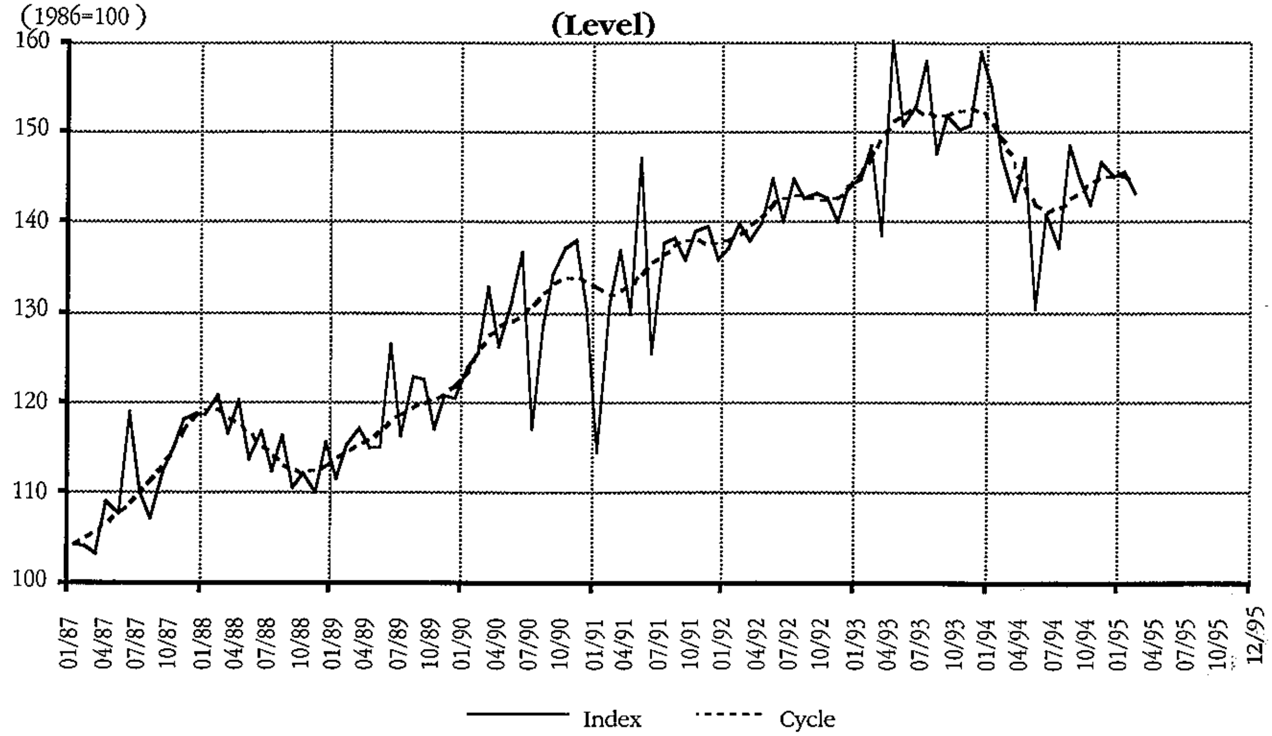


* Estimate

SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX

GRAPH 3

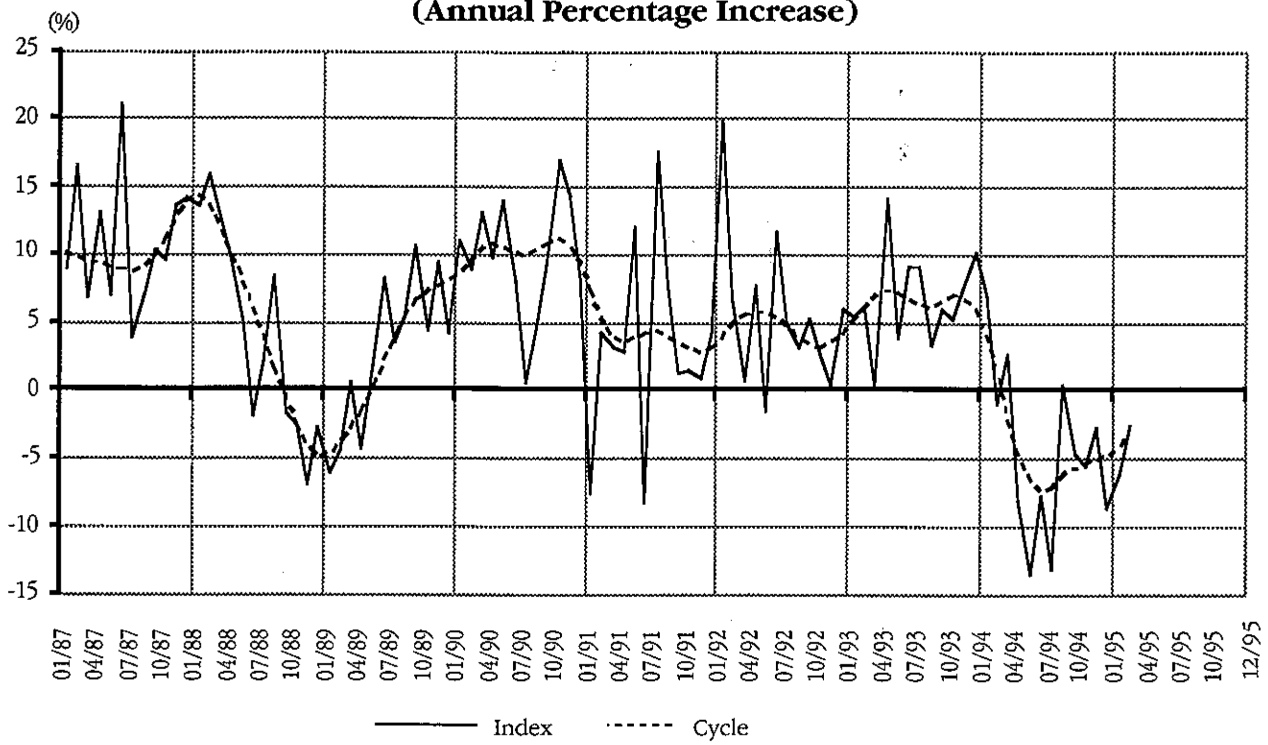
(Level)



SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX

(Annual Percentage Increase)

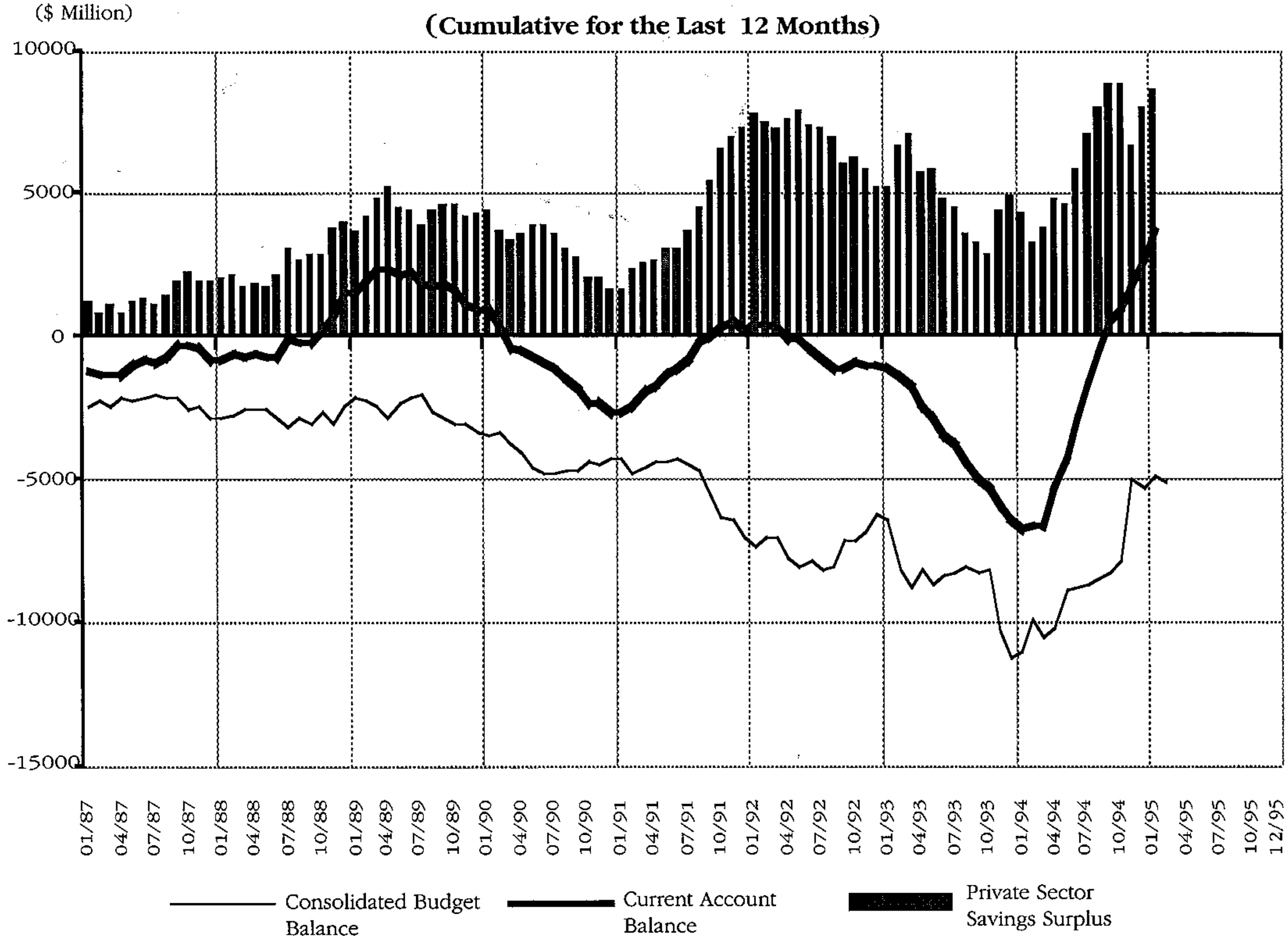
GRAPH 4



GRAPH 5

SAVINGS - INVESTMENT BALANCE (*)

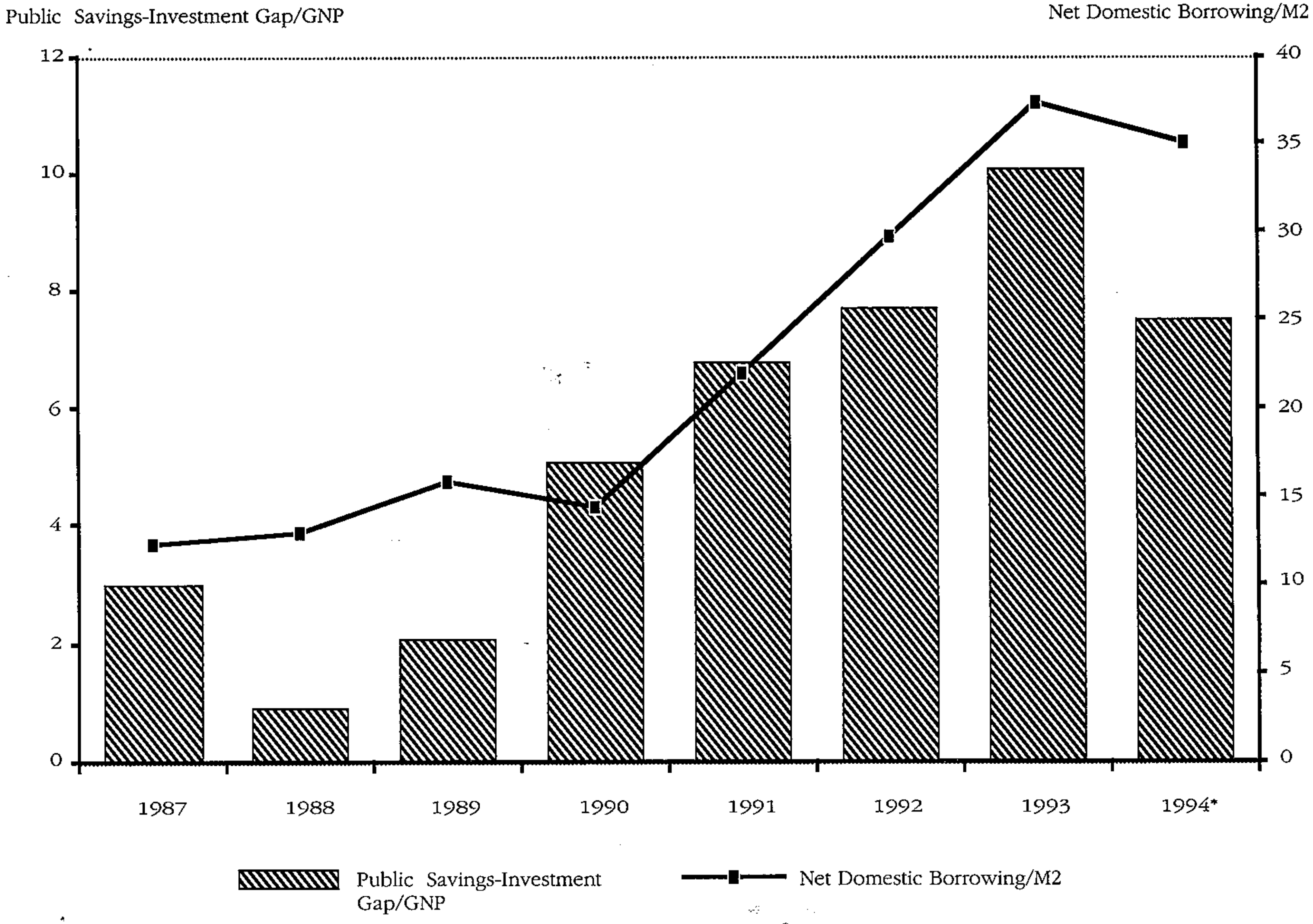
(Cumulative for the Last 12 Months)



* Consolidated budget balance is used as a proxy for the public sector savings gap due to lack of monthly data on the latter. Private sector savings surplus figures are calculated as the sum of budget deficit and current account balance.

GRAPH 6

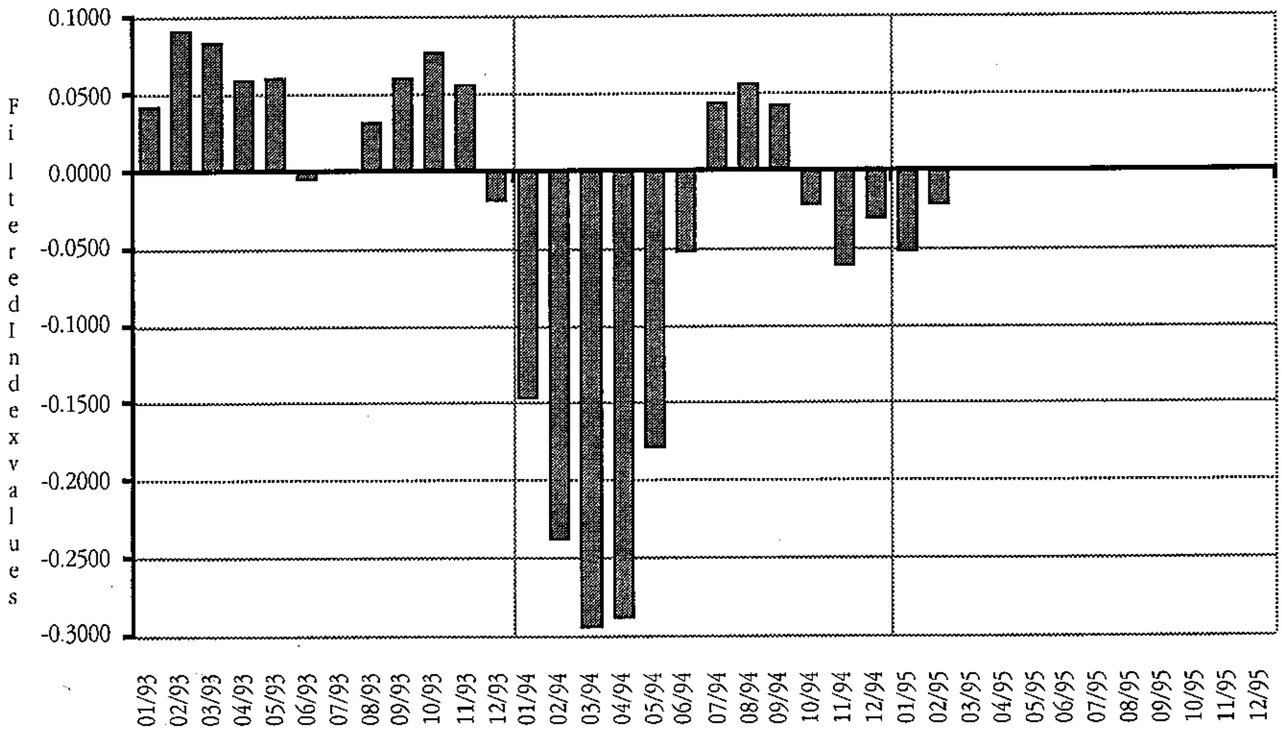
PUBLIC SECTOR PRESSURE ON FINANCIAL MARKETS



* TÜSİAD Estimate

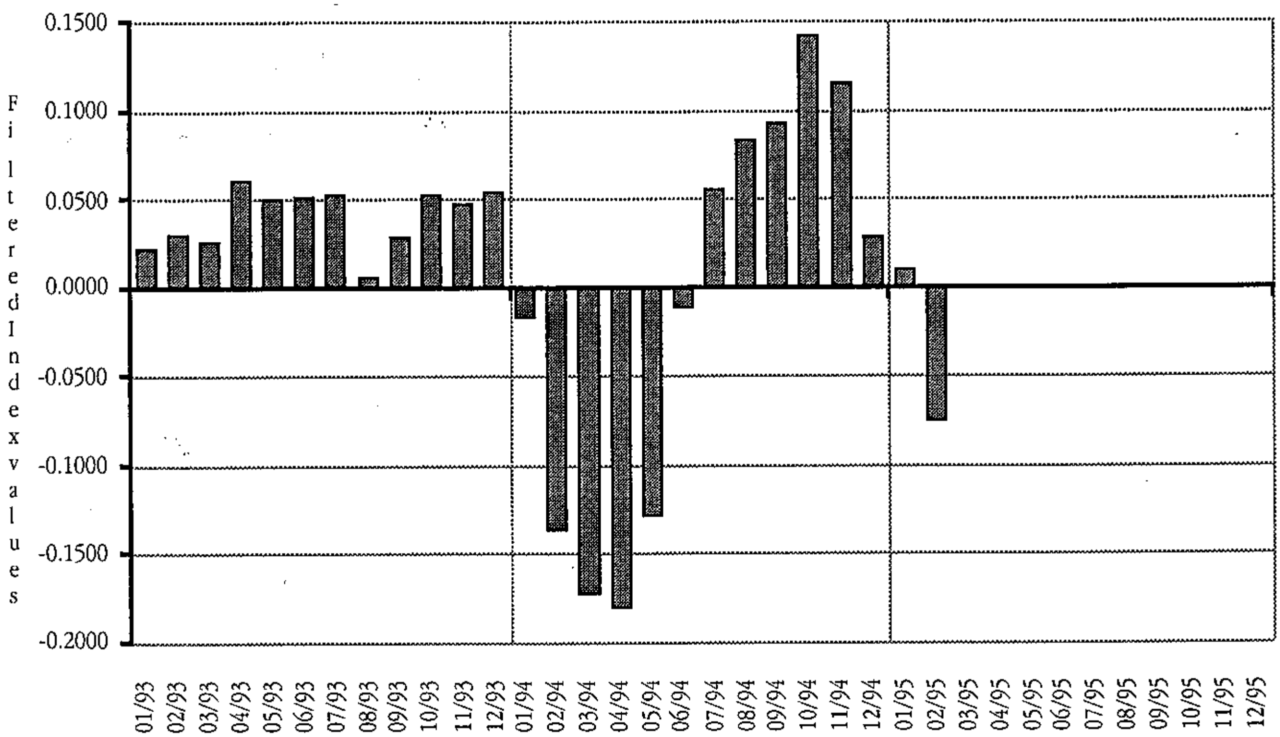
CHANGE IN LEADING INDICATOR INDEX

GRAPH 7



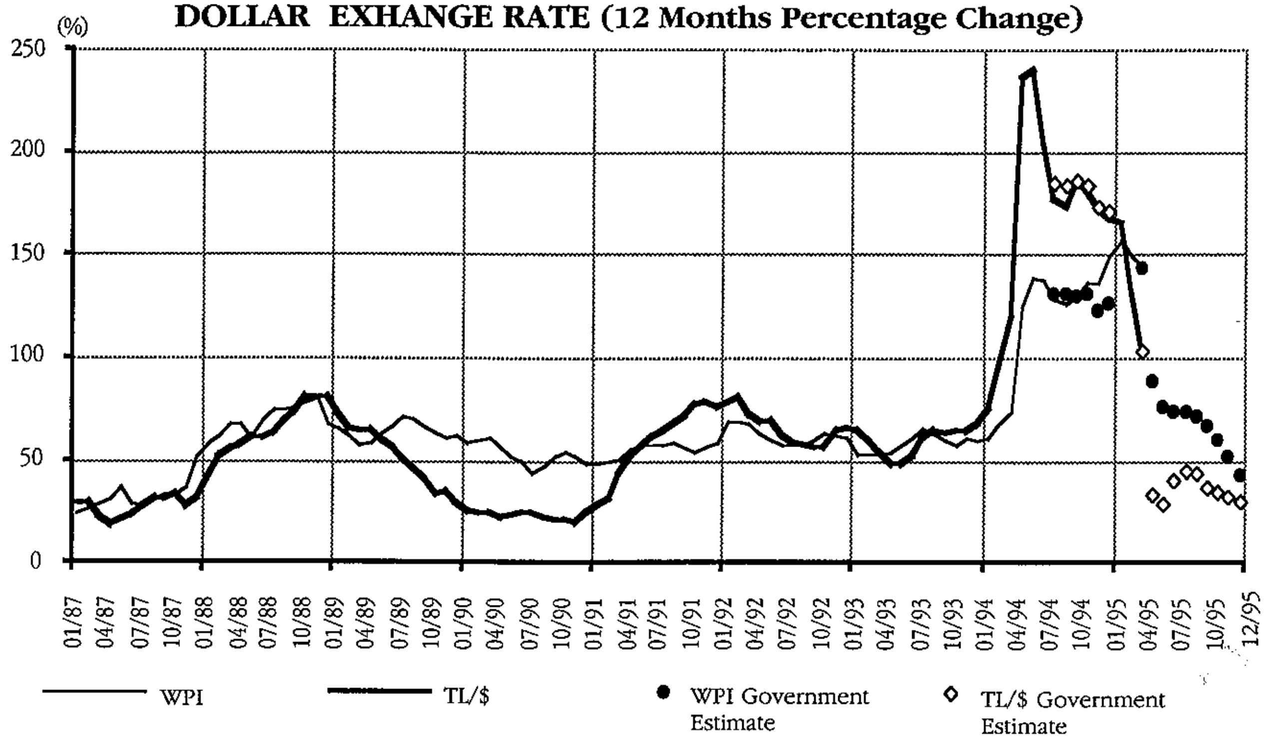
CHANGE IN COINCIDENT INDICATOR INDEX

GRAPH 8



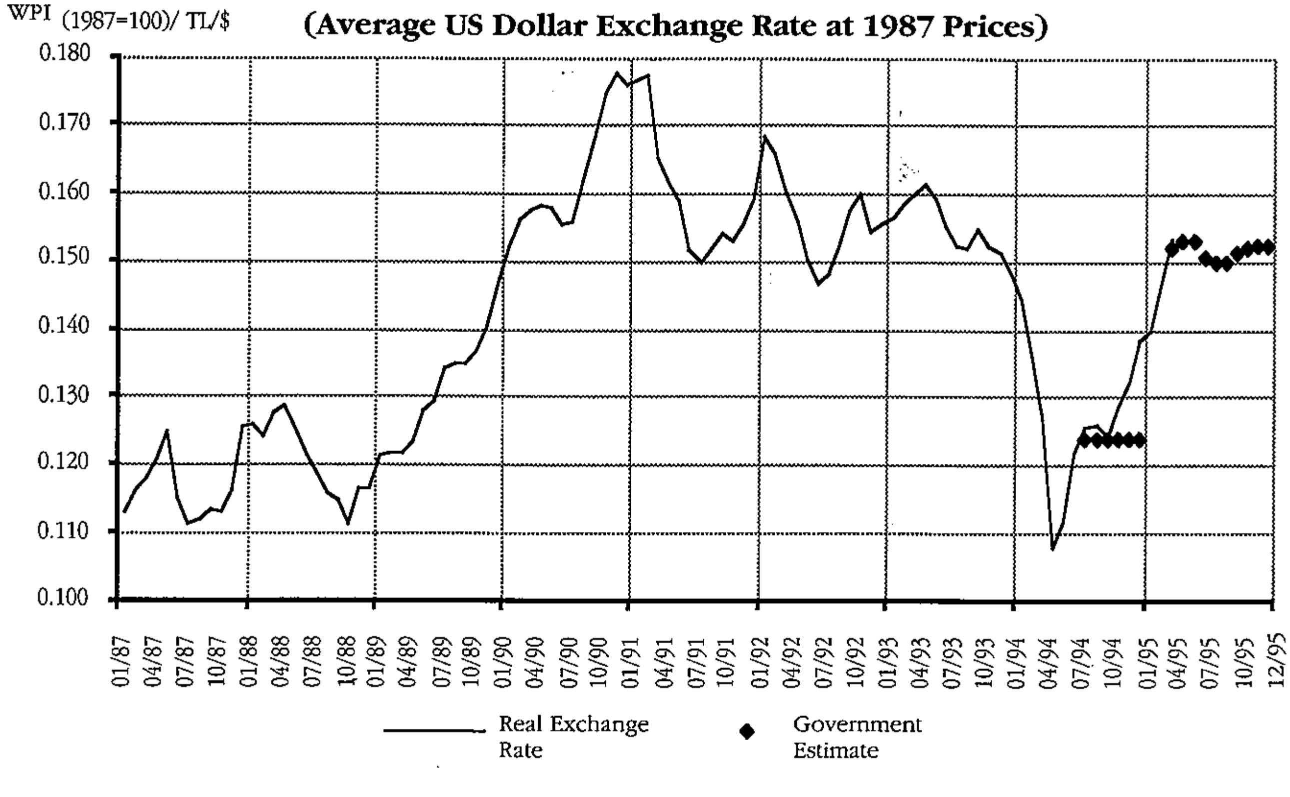
GRAPH 9

WHOLESALE PRICE INDEX AND MONTHLY AVERAGE US DOLLAR EXHANGE RATE (12 Months Percentage Change)



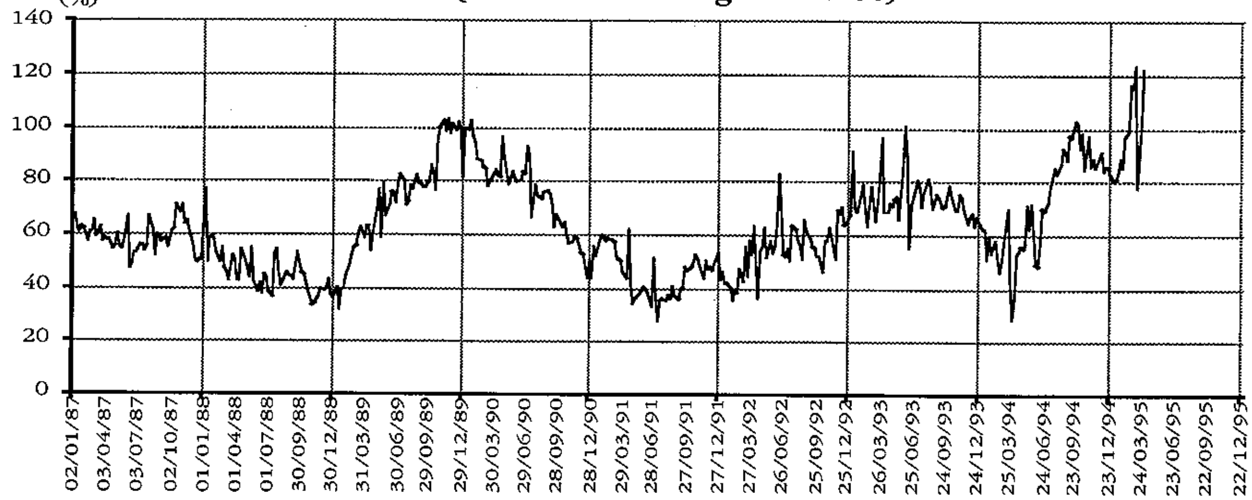
GRAPH 10

REAL EXCHANGE RATE (Average US Dollar Exchange Rate at 1987 Prices)



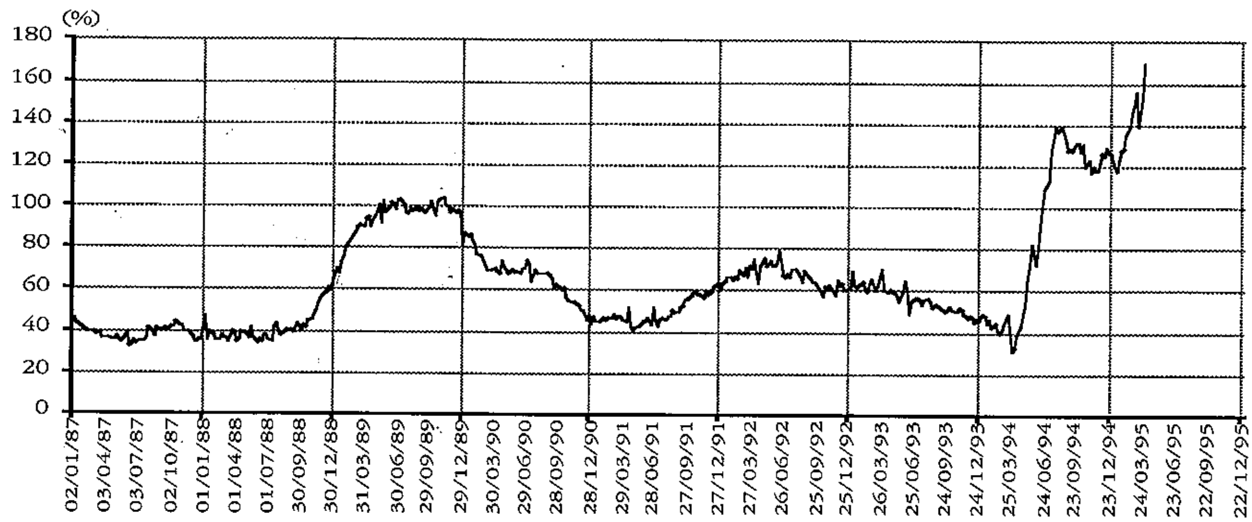
M1 (Annual Percentage Increase)

GRAPH 11



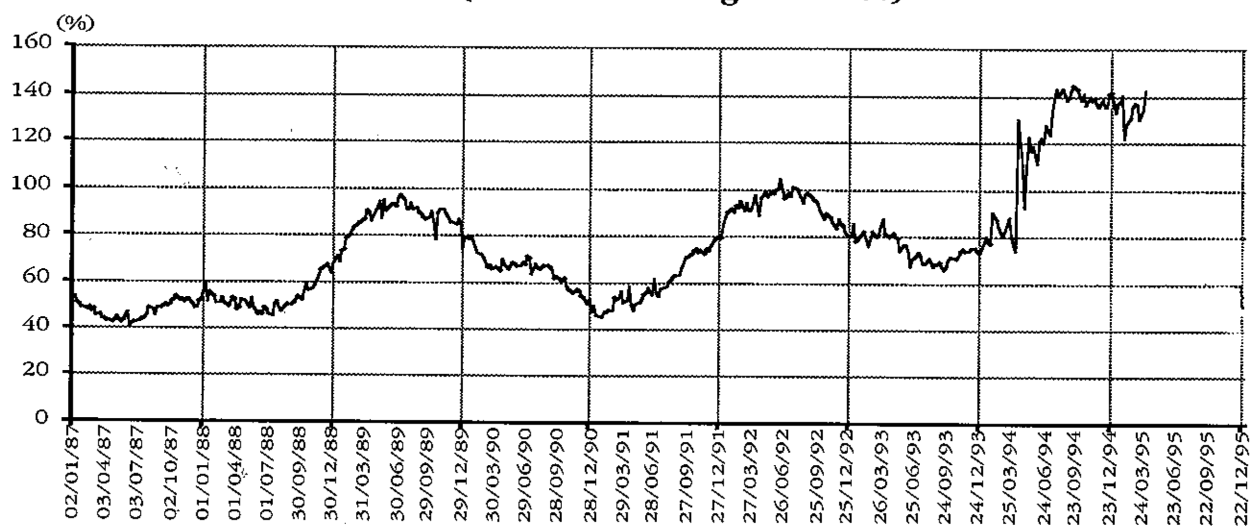
M2 (Annual Percentage Increase)

GRAPH 12



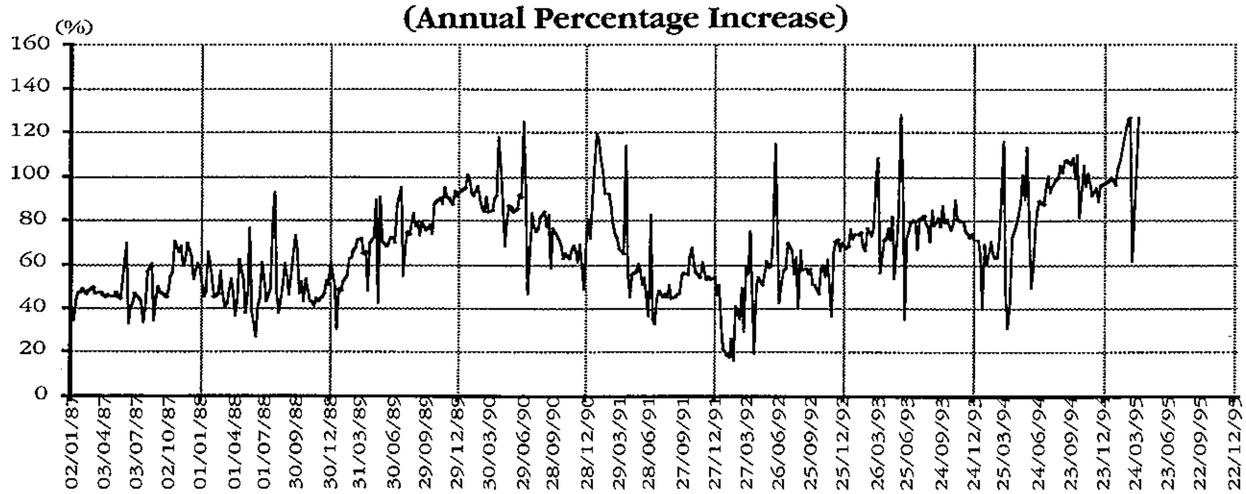
M2Y (Annual Percentage Increase)

GRAPH 13



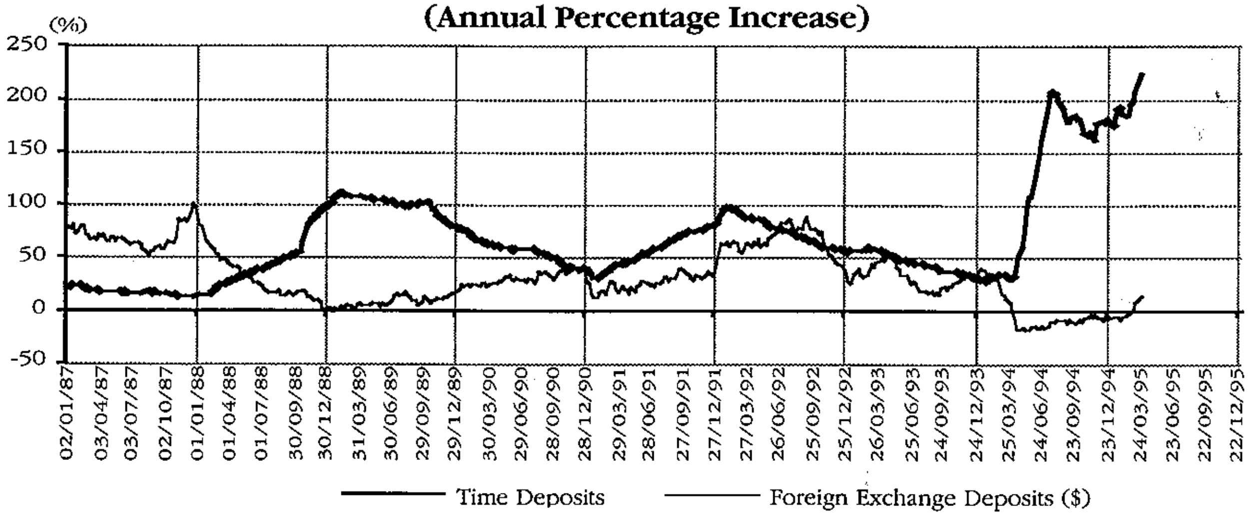
CURRENCY IN CIRCULATION
(Annual Percentage Increase)

GRAPH 14



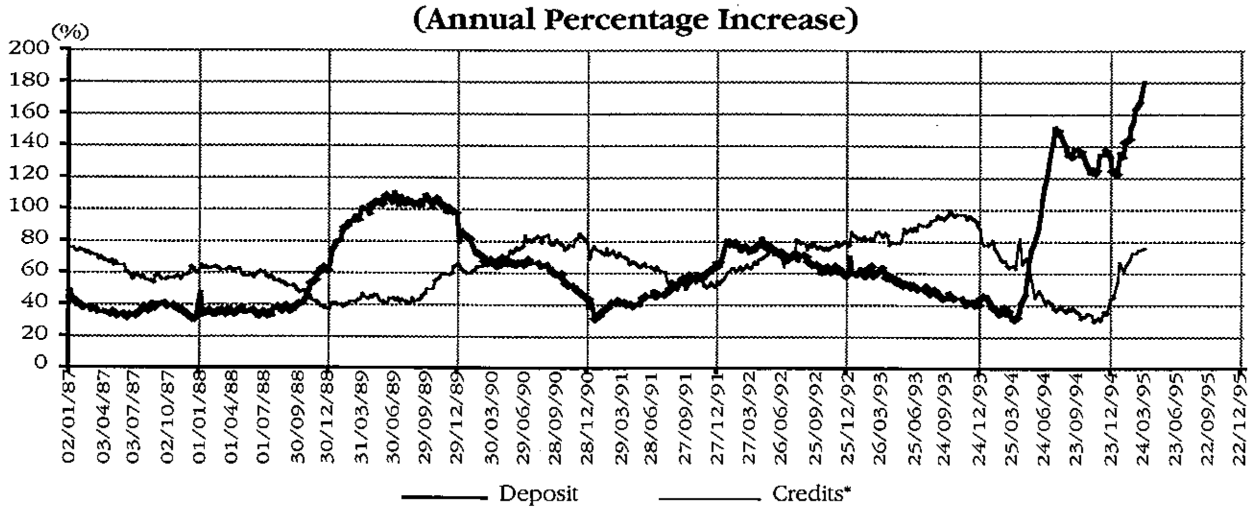
TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS
(Annual Percentage Increase)

GRAPH 15



DEPOSIT BANK CREDITS & DEPOSITS
(Annual Percentage Increase)

GRAPH 16



(*) Adjusted for changes in data definition after 1.7.1994.

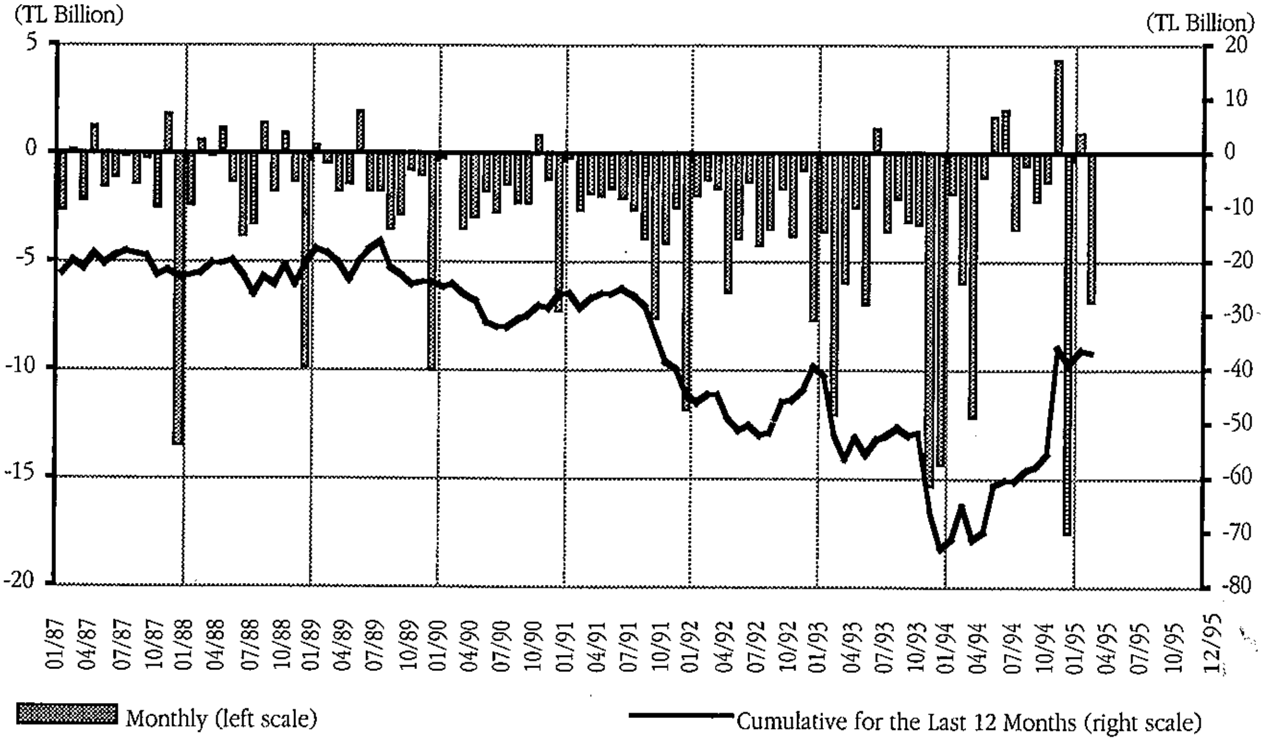
DEPOSIT BANK CREDITS*/TOTAL DEPOSITS RATIO

GRAPH 17

(*) Adjusted for changes in data definition after 1.7.1994.
Total deposits include Foreign Exchange Deposits in M2Y.

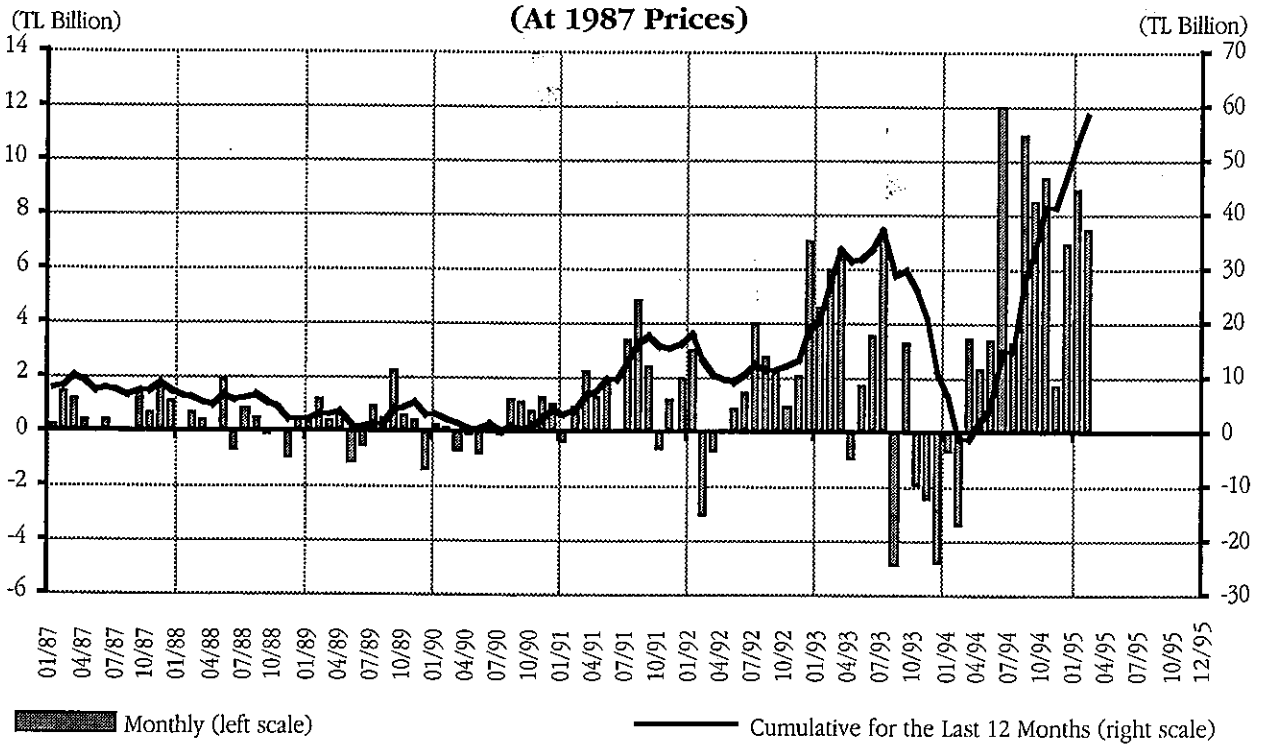
GRAPH 18

CONSOLIDATED BUDGET DEFICIT
(At 1987 Prices)



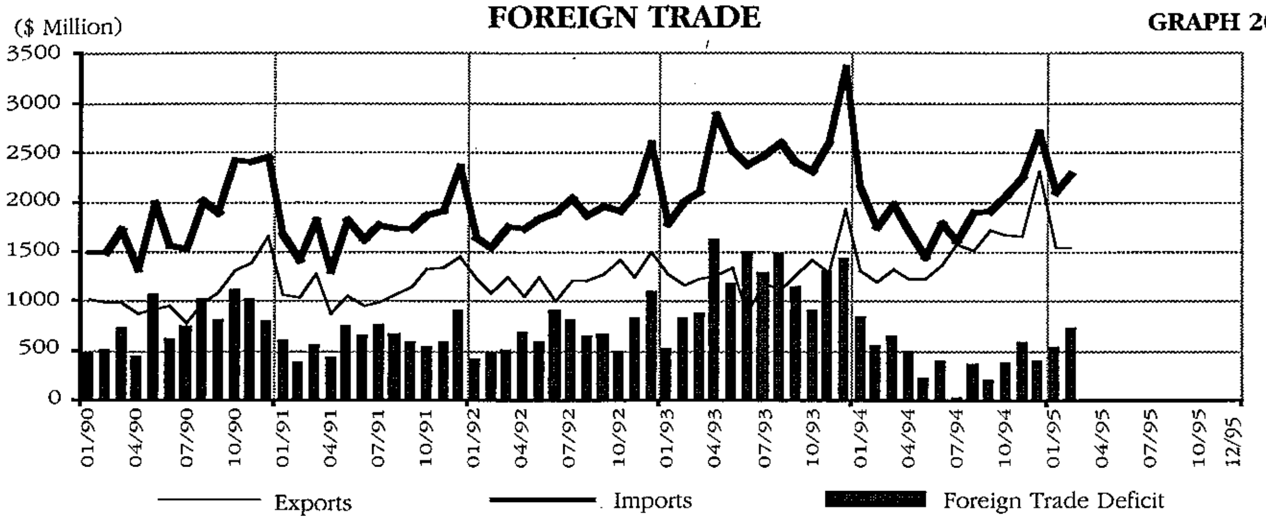
GRAPH 19

BORROWING BY TREASURY BILLS (NET)
(At 1987 Prices)



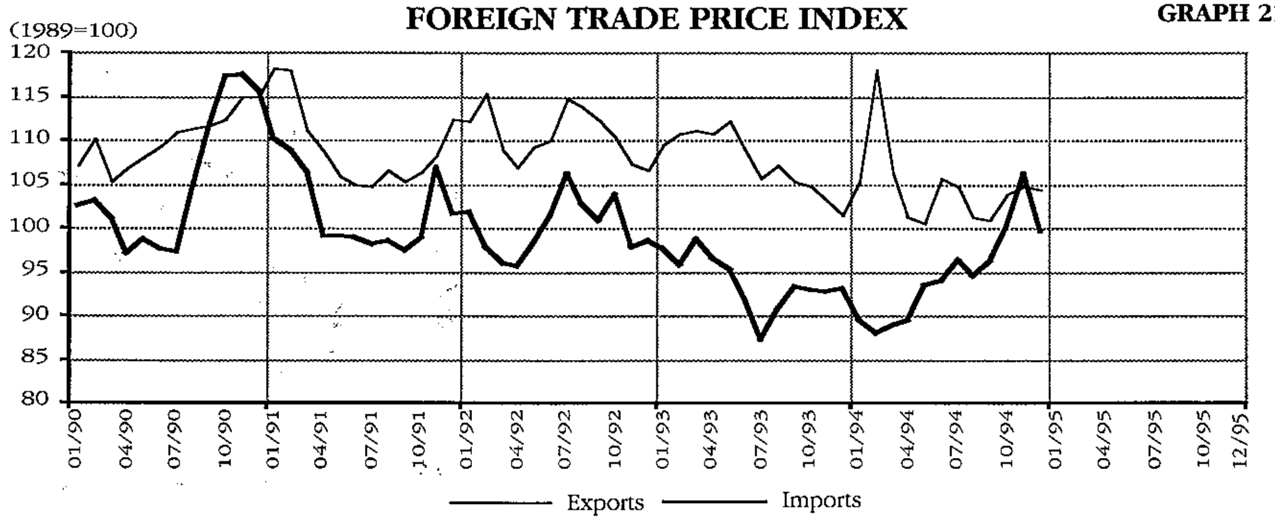
FOREIGN TRADE

GRAPH 20



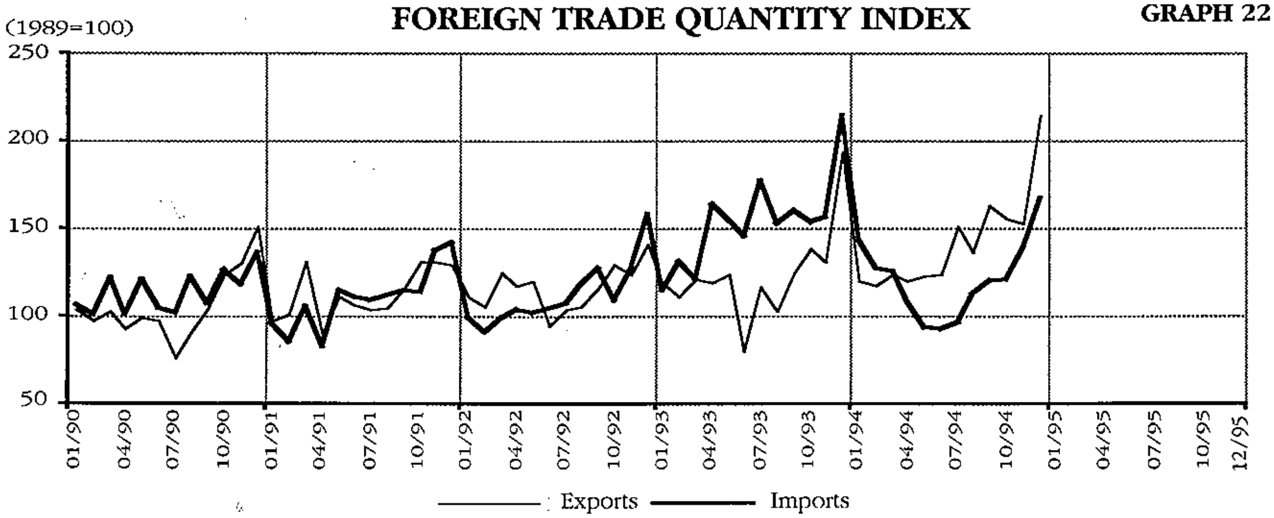
FOREIGN TRADE PRICE INDEX

GRAPH 21



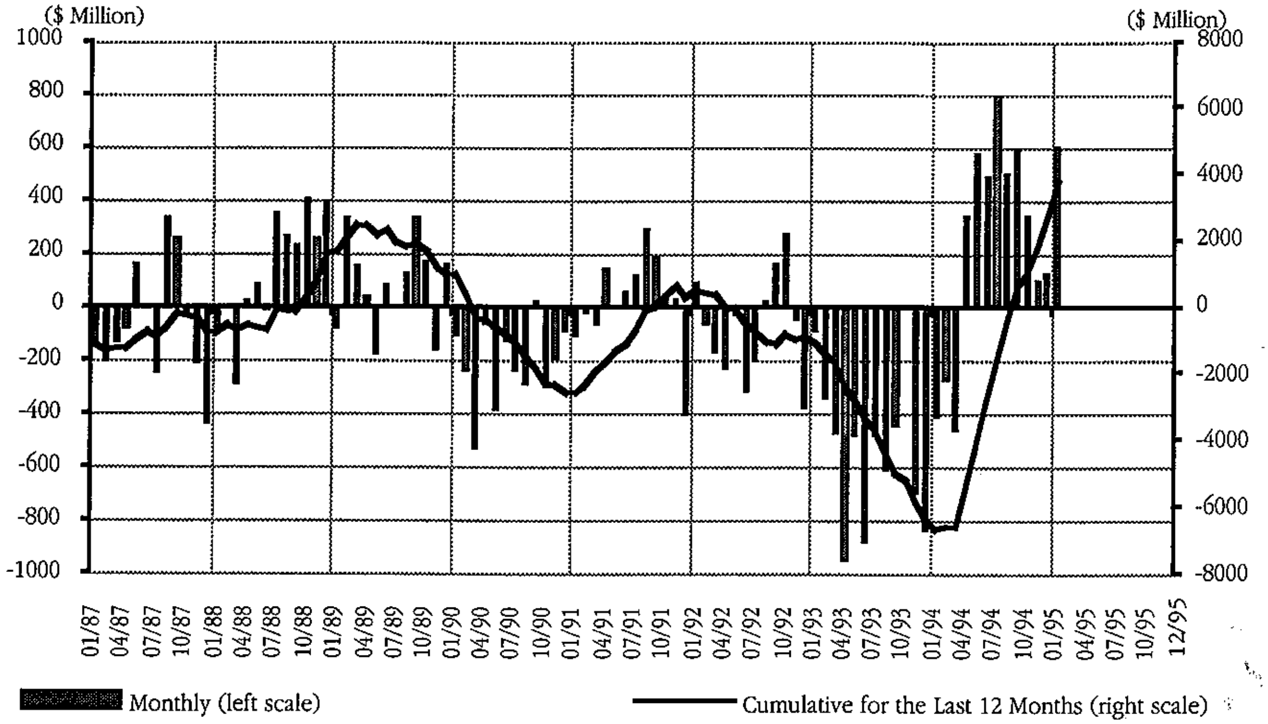
FOREIGN TRADE QUANTITY INDEX

GRAPH 22



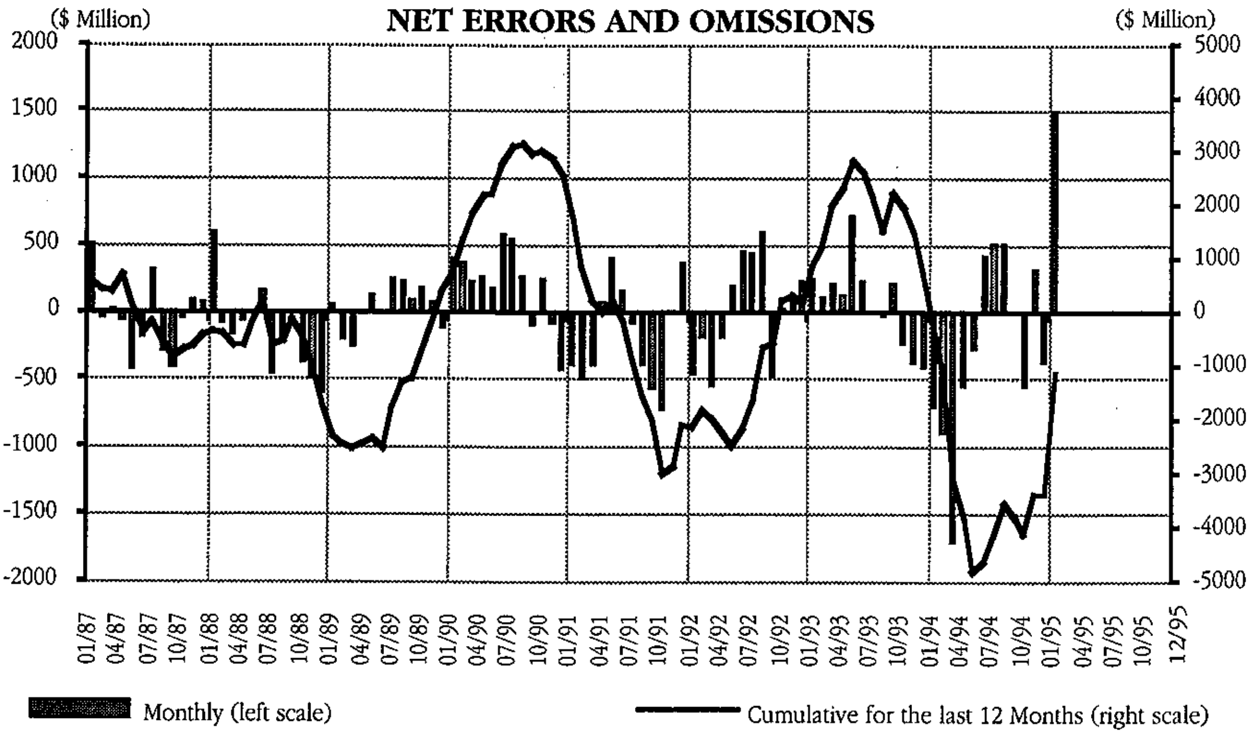
CURRENT ACCOUNT BALANCE

GRAPH 23



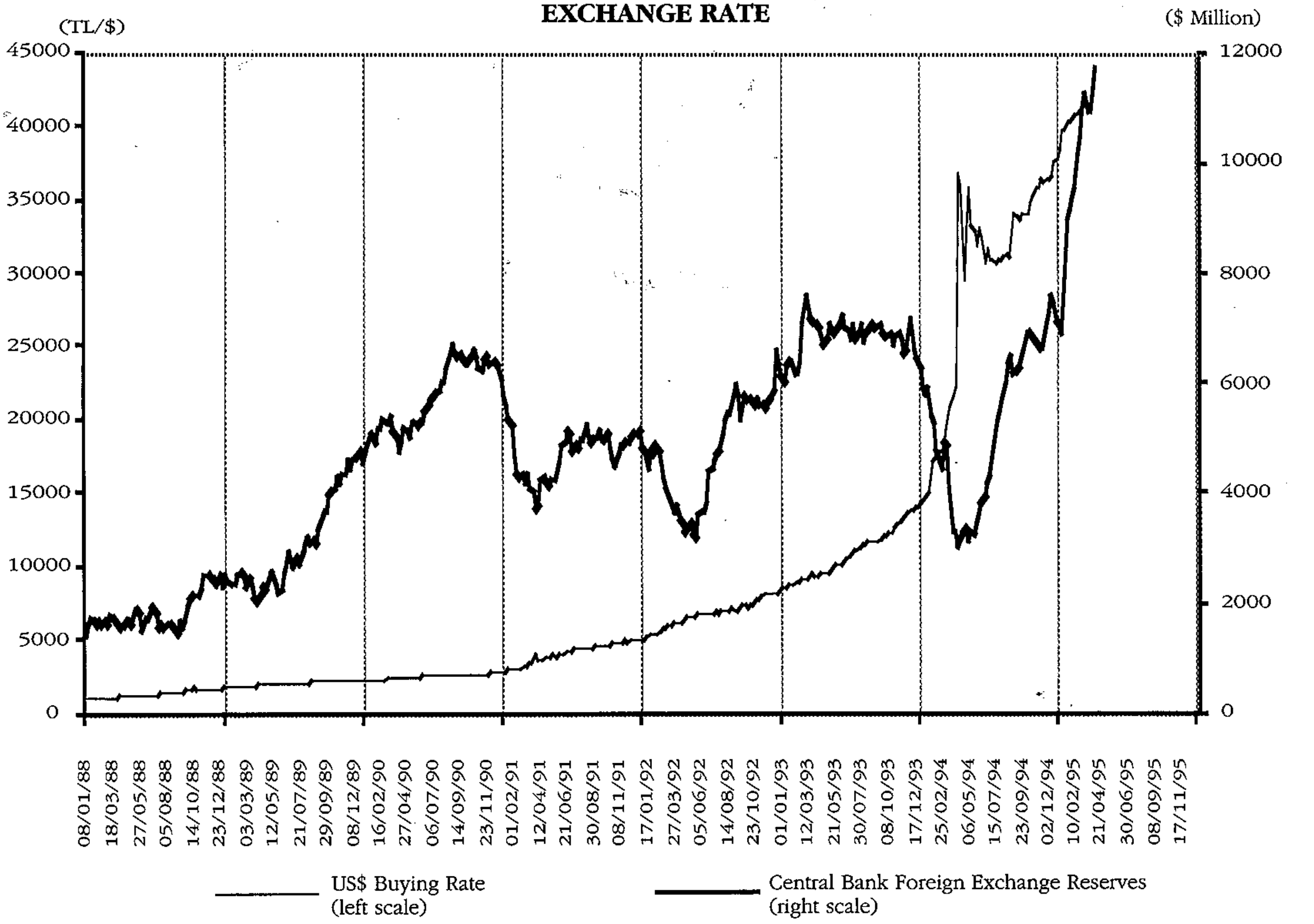
TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS

GRAPH 24



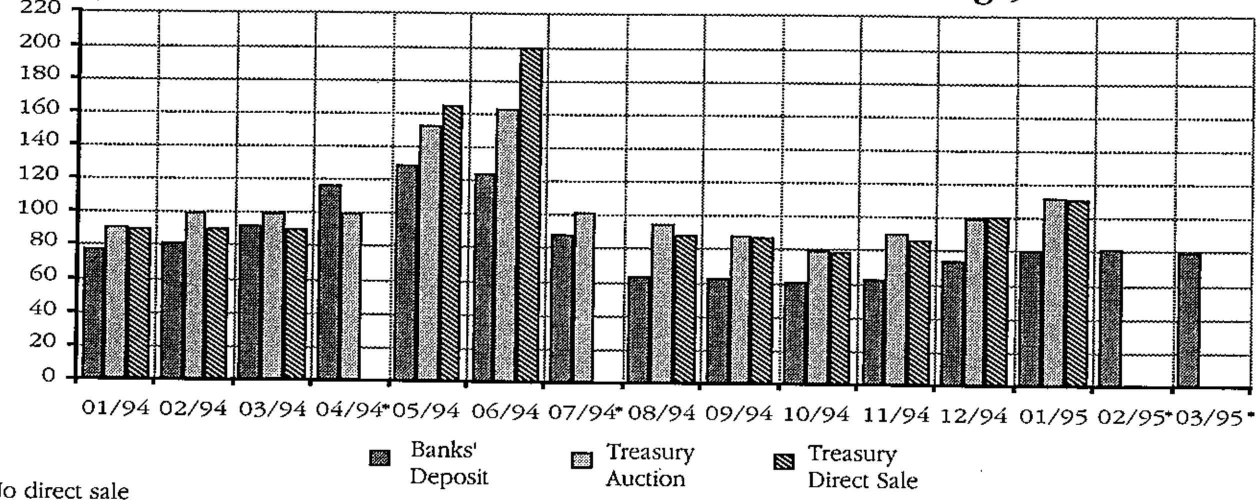
GRAPH 25

CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE



GRAPH 26

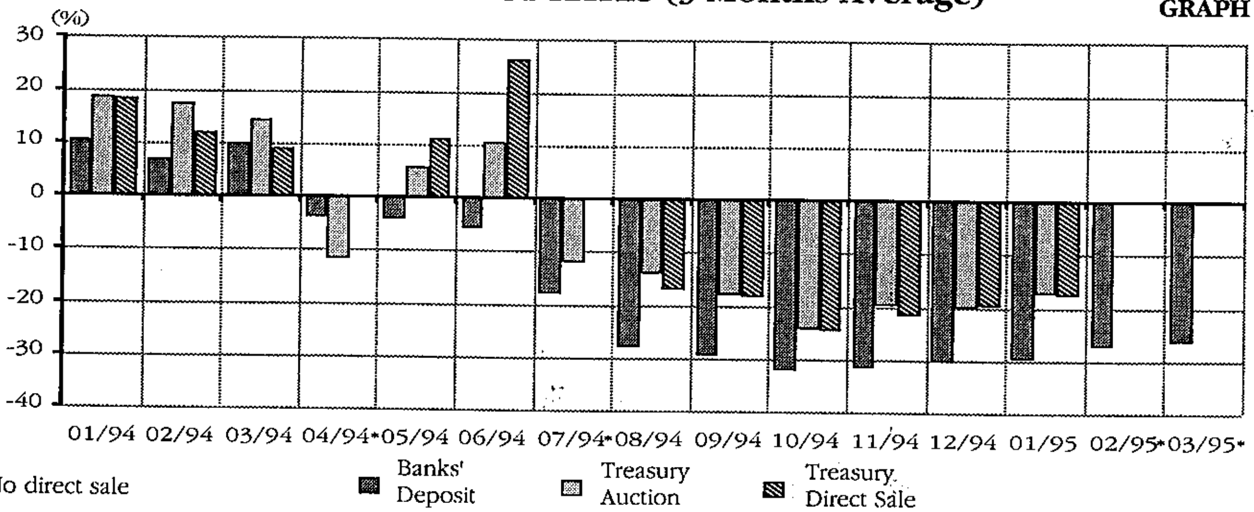
NOMINAL INTEREST RATES (3 Months Average)



* No direct sale

GRAPH 27

REAL INTEREST RATES (3 Months Average)

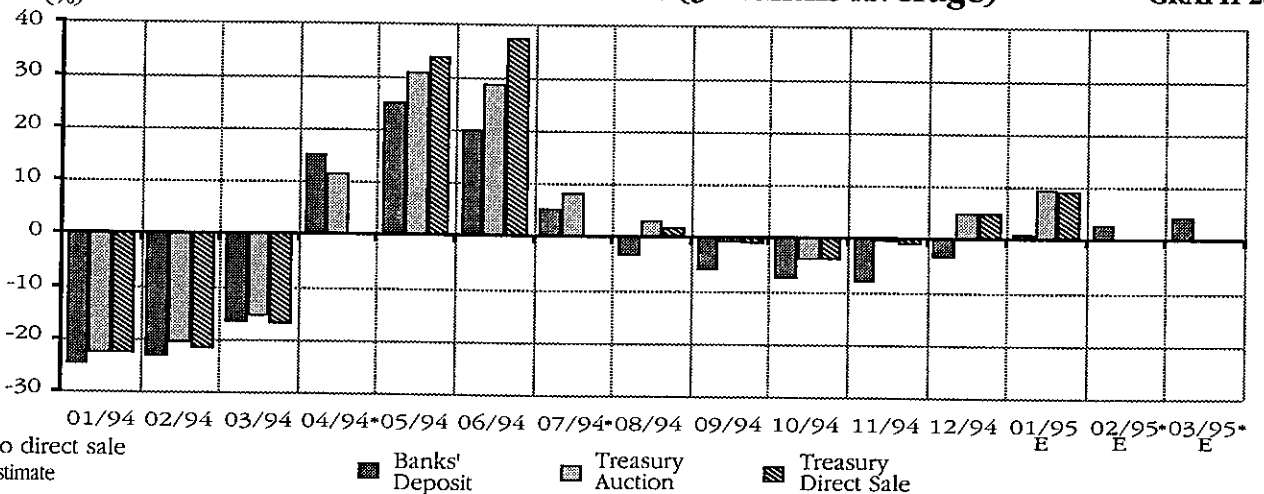


* No direct sale

Real interest rate is calculated as: $[(1+i)/(1+\dot{p})-1]*100$ i: nominal simple yearly interest rate , $\dot{p}$: inflation rate: $[pt/p(t-12)-1]$

GRAPH 28

REAL RATE OF RETURN (3 Months Average)



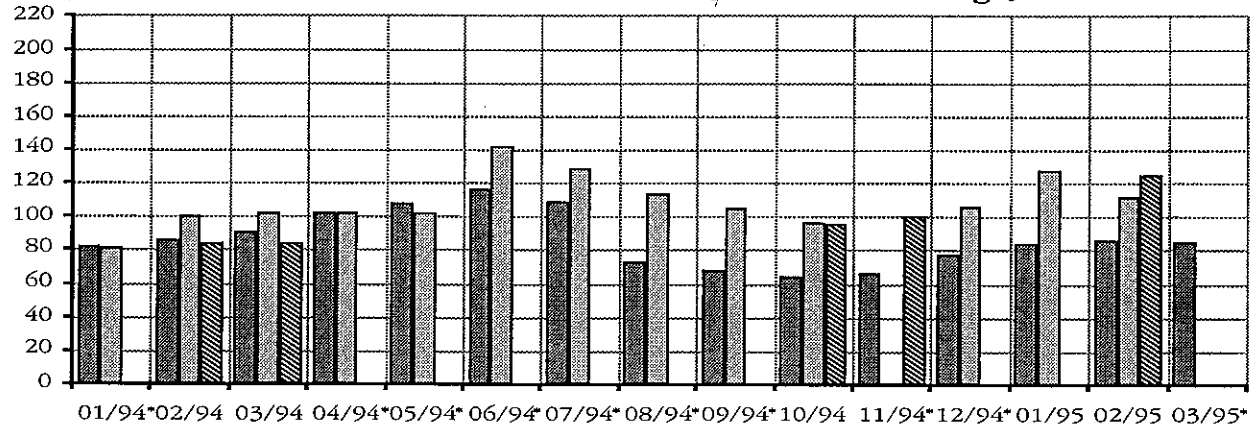
* No direct sale

** Estimate

Real rate of return is calculated as: $[(1+i)/(1+\dot{p})-1]*100$ i: 3 months interest rate , $\dot{p}$: inflation rate: $[p(t+3)/p(t)-1]$

NOMINAL INTEREST RATES (6 Months Average)

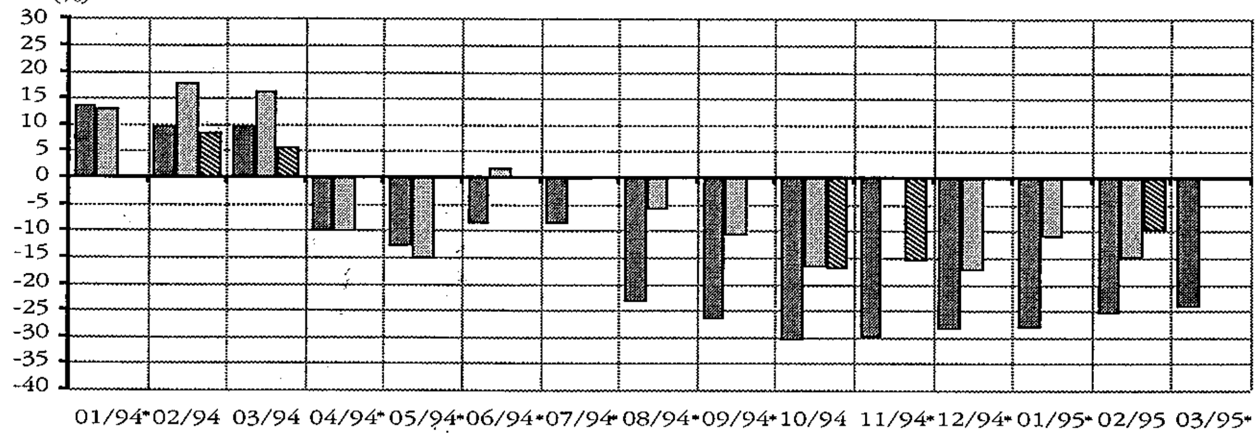
GRAPH 29



* No direct sale

REAL INTEREST RATES (6 Months Average)

GRAPH 30

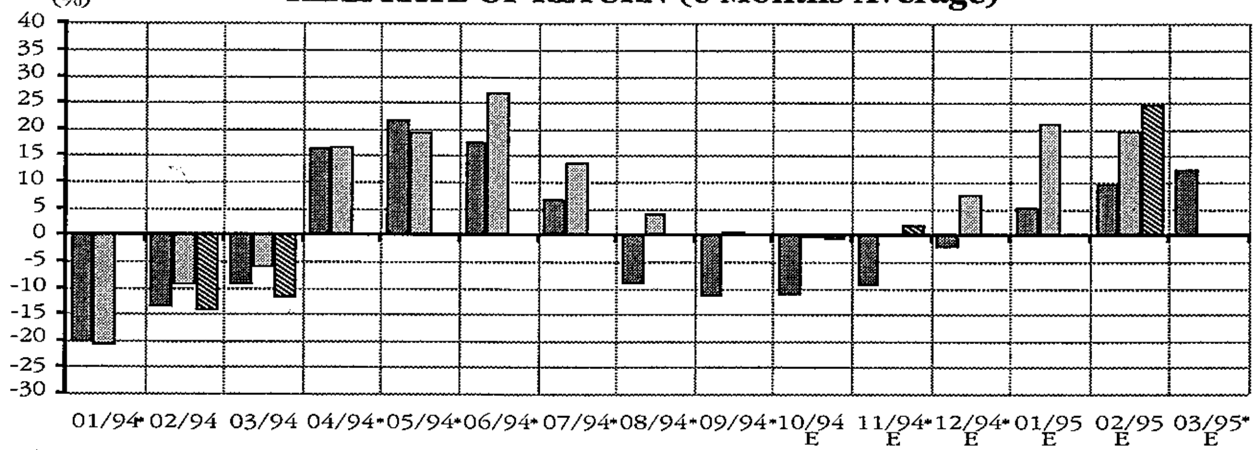


* No direct sale

Real interest rate is calculated as: $[(1+i)/(1+\dot{p})-1]*100$ i: nominal simple yearly interest rate , $\dot{p}$: inflation rate: $[pt/p(t-12)-1]$

REAL RATE OF RETURN (6 Months Average)

GRAPH 31



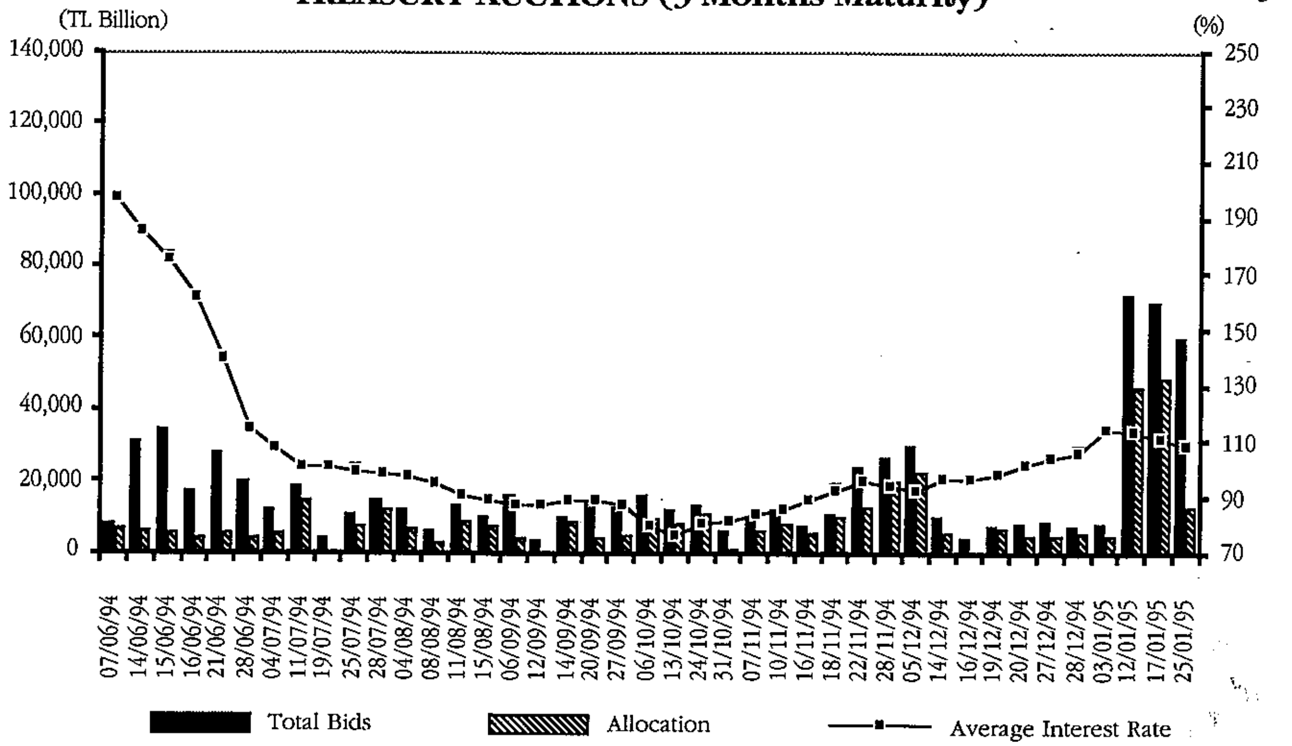
* No direct sale

E: Estimate

Real rate of return is calculated as: $[(1+i)/(1+\dot{p})-1]*100$ i: 6 months interest rate , $\dot{p}$: inflation rate: $[p(t+6)/p(t)-1]$

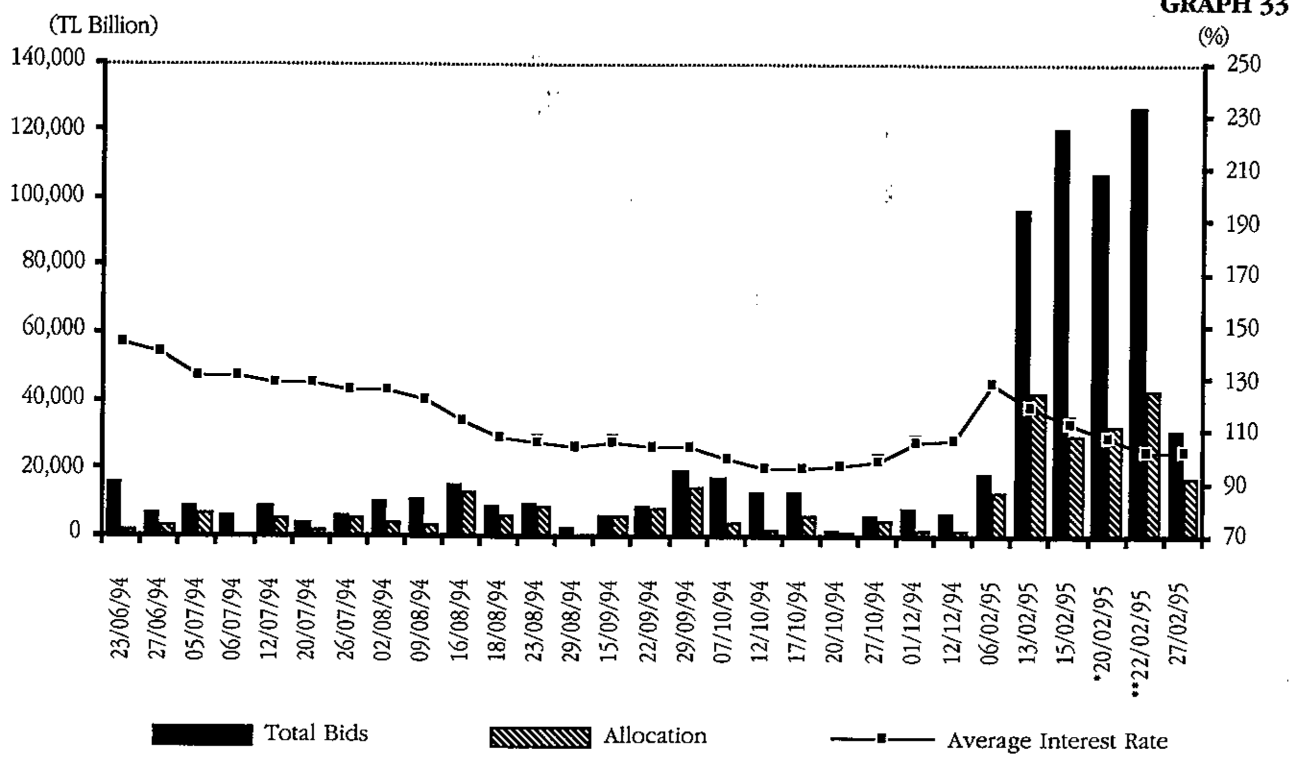
TREASURY AUCTIONS (3 Months Maturity)

GRAPH 32



TREASURY AUCTIONS (6 Months Maturity)

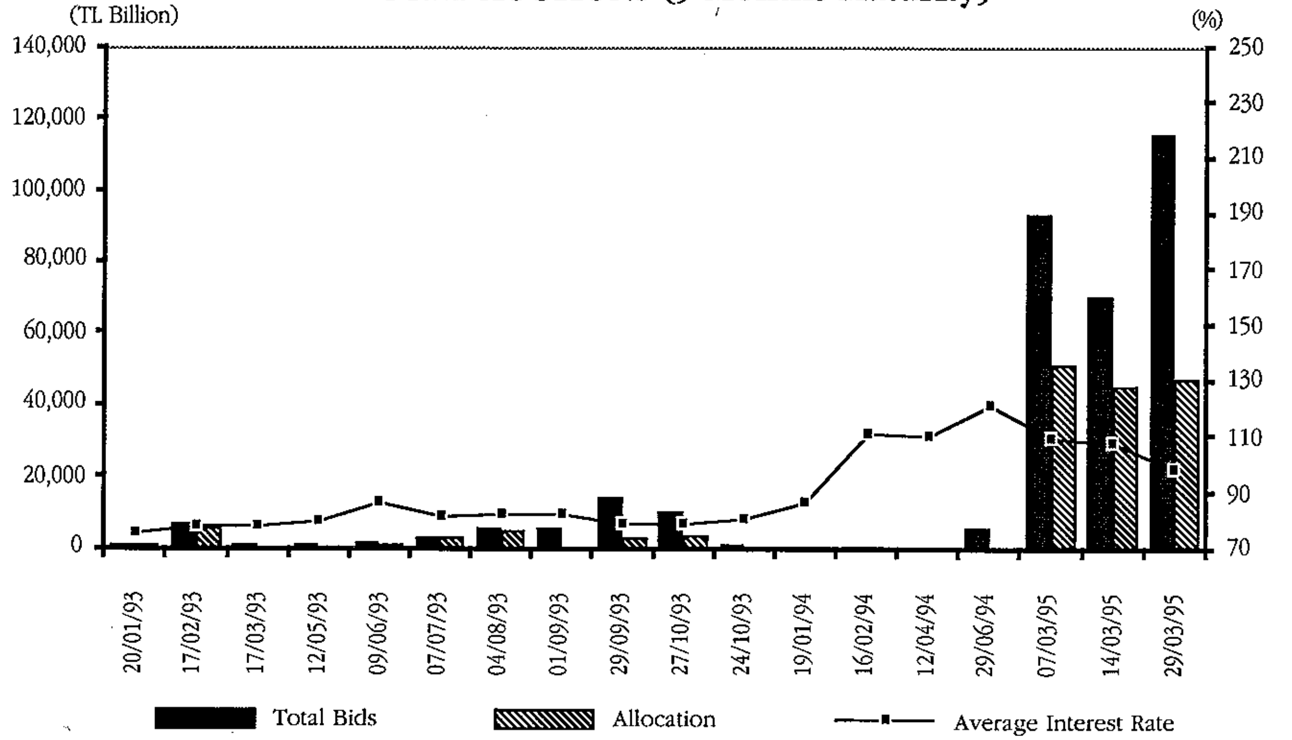
GRAPH 33



* 191 days ** 210 days

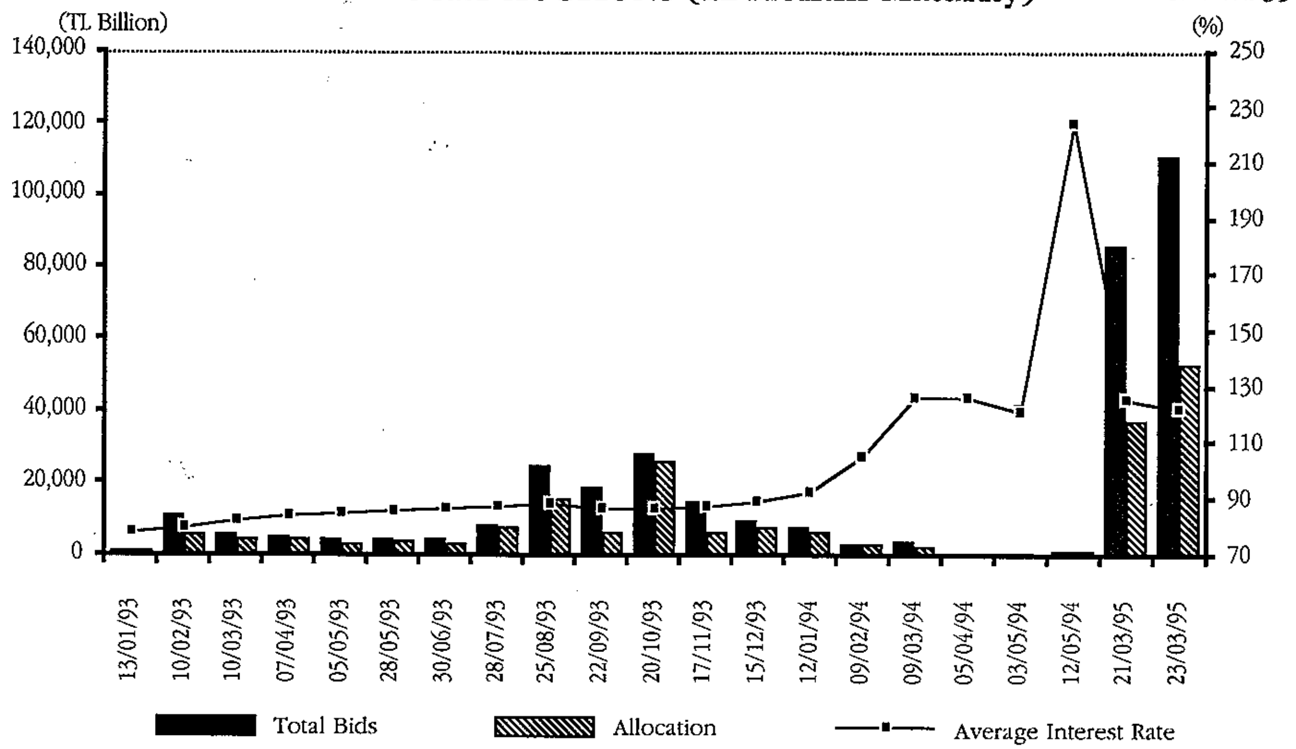
TREASURY AUCTIONS (9 Months Maturity)

GRAPH 34



TREASURY AUCTIONS (12 Months Maturity)

GRAPH 35



SUPPLEMENT

EVALUATION OF THE STAND-BY ARRANGEMENT WITH THE INTERNATIONAL MONETARY FUND

In spite of the April 5 "Economic Measures Application Plan" the Government is still in search for support from the IMF.

After the letter of intent of May 1994, a stand-by arrangement was approved in June. In February 1995, the government, which needed support from the IMF to continue stabilization in financial markets, had to prepare another letter of intent which included extension of the arrangement for six months and an increase in the amount of the arrangement. On April 21st, the stand-by arrangement was extended.

The new letter given to the IMF summarized the economic situation since the first stand-by arrangement and evaluated the government's success in achieving the performance criterion. This memorandum stated that, in 1994, government policies concerning the public sector and current account deficits were successful. However, it was also accepted that the stabilization programme had unexpectedly high contractionary effects on production and employment and the inflation rate had been above its targeted level.

Comparing the government's targets in the first letter of intent with the realized figures for the end of 1994 reveals that, the policies concerning inflation were unsuccessful and the budget deficit could only be reduced to some extent. Still, the policies concerning other targets were successful.

- The inflation target for the second half of 1994 was 20 percent. The realized increase in the wholesale price index has been 35 percent.
- The consolidated budget deficit was projected to be TL 109 trillion, while the realized level has been TL 146 trillion.
- The current account were expected to be in balance and a $ 2.7 billion surplus was registered.
- International reserves were projected to increase by $ 1 billion. The realized increase was $ 3.8 billion.
- The end-of-year TL/$ exchange rate was estimated to be 38.000 and the realized figure has been 37,506.

- Net domestic assets were targeted to be TL 293 trillion and the realized figure has been TL 304 trillion.

As a result of the limited success achieved in 1994 concerning the programme targets, the government had to extend the stand-by arrangement. In a new letter of intent, the government declared that its aim was to ensure the sustainability of the success achieved in fiscal balances in 1994 through structural reforms and to reduce inflation substantially. Policies to be applied in 1995 have also been declared.

Targets of the programme include a 3 percent growth rate for 1995, a 40 percent end-of-year inflation rate and a 70 percent average annual inflation rate, continuing surplus in the current account and a level of International reserves sufficient to finance 4.5 months of imports.

These targets seem at the first sight to be considerably optimistic. Therefore, they necessitate the continuation and even expansion of the fiscal retrenchment which started in 1994. On the other hand, these targets imply that, there will be no real monetary expansion in 1995 and transfer of resources abroad will continue. Therefore, the private sector savings surplus will continue to finance the public deficit and the transfer of resources abroad.

The government's basic economic targets for 1995, within the framework of the extended stand-by arrangement, are based on the principle of a sharp fiscal tightening in real terms.

The public sector borrowing requirement (PSBR), which was 8 percent in 1994, is projected to be reduced further to 5.6 percent in 1995, for the purpose of achieving the basic targets of the programme. However, this improvement in PSBR will be achieved by increasing the non-interest budget surplus, since interest payments as a percentage of GNP will rise in 1995.

According to the memorandum, besides reducing public expenditures public revenues will also be increased for the purpose of improving the non-interest budget balance. Increasing the share of public revenues in GNP by 1 percent and decreasing the non-interest budget expenditures by 1 percent, will pull up the share of non-interest budget balance in GNP up to 6 percent. The tax revenues will decrease, since the extraordinary taxes imposed for 1994 will no longer be collected and this loss will be compansated by the revenues coming from the sale of public assets.

The deficit will mainly be financed through internal borrowing. On the other hand, net foreign financing will continue being negative and it is estimated that, in 1995, a net repayment equal to 1.5 percent of the GNP will be made. Short-term advances to the Treasury from the Central Bank have been limited to TL 49 trillion.

For the purpose of reducing the non-consolidated public sector deficit, the share of the State Economic Enterprises borrowing requirement in GNP is projected to be reduced to 2.1 percent. The same figure for local administrations is 0.2 percent. The position of extrabudgetary funds is expected to improve by 1.2 percent of GNP as a result of net proceeds from privatization.

Quarterly targets have been determined for the consolidated budget deficit and the seven largest SEE`s deficits, for the purpose of tracing the public sector deficit.

Low devaluation policies will be implemented to control inflation.

According to the memorandum, developments in 1994 indicate that the short-term relationship between the money supply and inflation has been invalidated. For this reason, monetary policies aimed at reducing inflation, should be based on keeping the exchange rate on a stable course consistent with the expected rate of inflation. Monthly targets have been established to obtain stability in exchange rate. It was declared that the exchange rate would not be allowed to depreciate beyond these targets but it would be allowed to appreciate, if economic conditions required.

Policies concerning monetary targets have been based on the assumption that there will be no monetary expansion in 1995, in real terms. It is also assumed that the increase in the reserve money will be 41 percent, which is approximately equal to the end-of-year inflation estimate. The increase in net domestic assets is projected to be 29 percent. Moreover, these percentages were declared to be subject to further reduction, if conditions permit.

No foreign financing is envisaged for 1995.

According to the targets for 1995, the improvement in foreign trade balance will continue, international reserves will increase by $ 600 million and the current account surplus will reach $ 1.4 billion. Short and long-term borrowing by the government will not exceed $ 7.6 billion and the repayment of $ 7.8 billion foreign debts will not cause any difficulties, since the international reserves and current account are in a good condition.

Structural reforms, declared to commence on April 5th, 1994, could still not be realized and are again on the agenda.

The memorandumalso states that, structural reforms are crucial in the long-term for reducing the pressure on public finance and achieving a more efficient resource allocation. Priority areas of reform are declared to be privatization, the social security system, taxation and agricultural support policies. It is planned that, banking supervision will be improved further, after the June 1994 reforms. Also the coverage of the deposit insurance scheme will be reduced gradually.

Developments in the first quarter of 1995 are in line with the targets, but it is still unlikely that all targets will be attained at the end of the year.

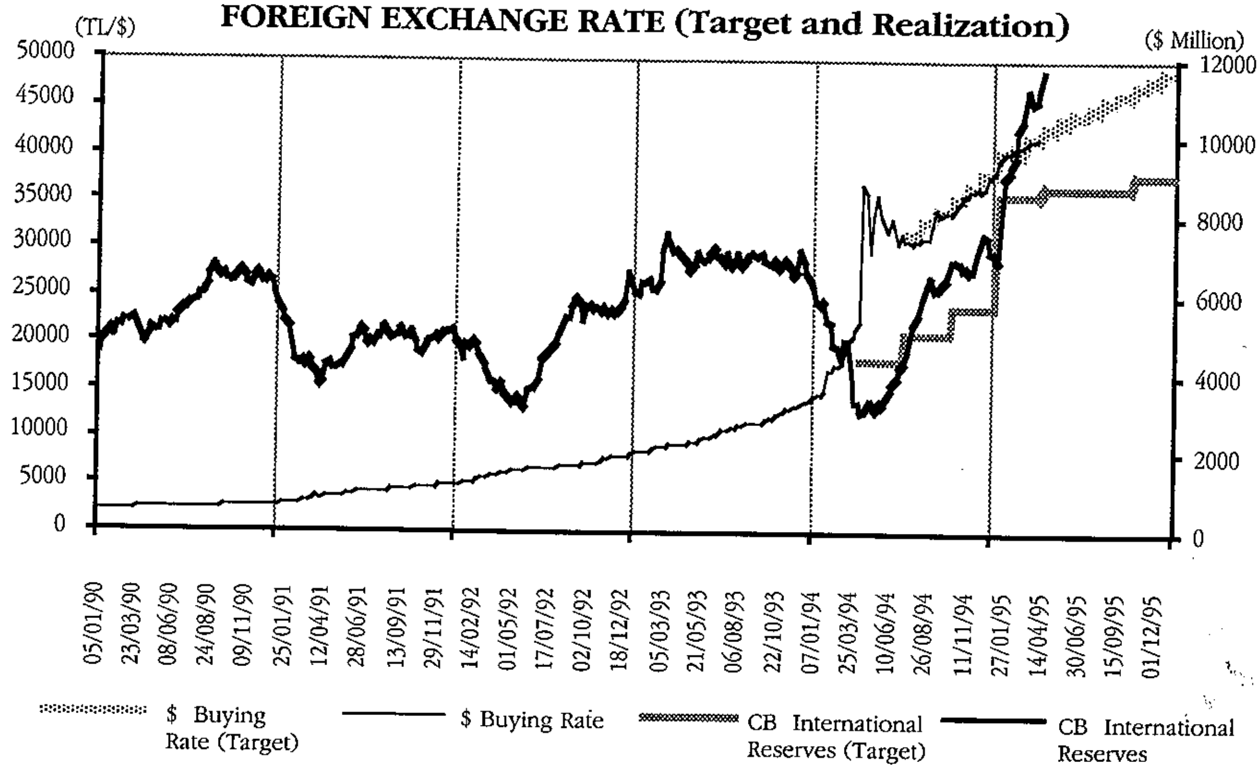
It is observed that the developments in the first quarter of 1995 are in line with the limits of the letter of intent given to the IMF. Performance in monetary expansion, exchange rates and international reserves was satisfactory vis-a-vis the programme targets. Especially, the unexpected increase in international reserves beyond the target level implied an improvement in net foreign assets in excess of expectations and also limited the increase in net domestic assets. However, the appreciation of the TL in real terms will have a negative impact on the foreign trade balance during the rest of the year. After the second quarter of the year, production will again tend to increase and this will stimulate the import demand, especially for investment goods and raw-materials. As a result of this, the foreign trade balance will be hampered and the $ 1.4 billion end-of-year target for the current account surplus will become difficult to attain. The 30.4 percent annual increase in the February 1995 import figure and the trend of foreign trade balance to worsen again, warn us against the danger of foreign trade deficits. Another point is that there is no longer a strong need for a current account surplus, because short-term capital movements are again on the agenda since December 1994. Targets concerning the public sector deficit constitute the most difficult part of the whole programme. Failure in this part will possibly reduce the chance of success in all other parts.

STAND-BY ARRANGEMENT CRITERION *

	12/94	01/95	02/95	03/95	04/95	05/95	06/95	07/95	08/95	09/95	10/95	11/95	12/95
Exchange Rate													
Realization (TL/$)	37,506	40,249	41,008	41,693									
Limit (TL/$)	38,000		42,295	44,013	45,125	45,832	46,590	47,297	48,055	48,864	49,622	50,430	51,239
Realization (Annual % increase)	167.1	165.3	131.5	102.4									
Limit (Annual % increase)	170.7			113.7	40.3	35.3	47.1	52.7	51.1	44.1	41.9	39	36.6
WPI													
Realization (1987=100)	5196.3	5630.3	6026.3	6395.4									
Limit (1987=100)	4708.1			6363.3	6574.1	6681.3	6683.7	6757	6864.7	7037.8	7186.1	7307.6	7430.7
Realization (Annual % increase)	149.6	156.8	149.8	144.3									
Limit (Yıllık % artış)	126.1			143.1	89.1	76.3	73.1	73.5	71.6	66.9	59.4	52.4	43.4
Real Exchange Rate													
Realization (WPI(1987=100)/(TL/$))	0.139	0.140	0.147	0.153									
Limit (WPI(1987=100)/(TL/$))	0.124			0.145	0.146	0.146	0.143	0.143	0.143	0.144	0.145	0.145	0.145
Central Bank Reserves													
Gerçekleşme ($ Million)	8475	9441	10755	11592									
Limit ($ Million)	5760	8625	8625	8625	8775	8775	8775	8775	8775	8775	9075	9075	9075
Net Domestic Assets													
Realization (TL, Billion)	303,802	244,545	253,052	265,519									
Limit (TL, Billion)	293,000	342,200	342,200	342,200	366,700	366,700	366,700	388,800	388,800	388,800	393,600	393,600	393,600
Realization (Annual % increase)	122.7	51.9	30.7	17.2									
Limit (Yıllık % artış)	114.8	51.0	51.0	51.0	33.2	33.2	33.2	39.8	39.8	39.8	29.6	29.6	29.6
Reserve Money													
Gerçekleşme (TL, Billion)	186,876	180,347	223,808	240,027									
Limit (TL, Billion)	187,435	191,882	197,021	203,639	209,094	214,694	221,906	227,850	233,953	241,812	248,289	254,940	263,495
Realization (Annual % increase)	51.2	41.1	62.0	102.0									
Limit (Annual % increase)	51.7	50.1	42.6	71.3	52.0	35.2	46.1	38.1	42.4	31.4	38.1	28.0	41.0
Net Foreign Assets													
Realization (TL, Billion)	-116,926	-64,198	-29,244	-25,492									
Limit (TL, Billion)	-106,124			-138,561	-144,793	-144,793	-144,793	-146,988	-146,988	-146,988	-130,105	-130,105	-130,105

* The figures in the table are computed by utilizing the limits stated in the Stand-by Arrangement

CENTRAL BANK FOREIGN EXCHANGE RESERVES AND NOMINAL FOREIGN EXCHANGE RATE (Target and Realization)



THE COMPONENTS OF THE RESERVE MONEY (Target and Realization)