



**TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION**

# **TÜSİAD**

## **Quarterly Economic Survey**

**NO: 7**

**JANUARY 1996**





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**İstanbul, January 1996**

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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 seventh issue of TÜSİAD Quarterly Economic Survey is prepared by utilising the most recent data and estimations available in October, November and December 1995 by Economic Research Department.



## **TURKEY HAS TO ACHIEVE PERMANENT ECONOMIC STABILITY**

Although only two years have passed since the 1994 crisis, economic data indicate that the Turkish economy is at yet another turning point. The crisis which broke out with the increasing demand for foreign currency at the end of 1993 had affected first the financial markets and then the real sector after the second month of 1994. The strict measures taken to overcome the crisis rapidly squeezed down the demand and as a result, a relative stability in the financial markets at a higher level of domestic and foreign debt, higher real interest rates and lower growth rate to last until August 1995 were secured. However, since the stability measures could not be supported by structural reforms, at the end of 1995, the economy came face to face with conditions which resemble those of end 1993.

Turkey has been through three crises since 1987, some measures were taken after each of these crisis, however, the desired lasting stability could not be achieved due to the fact that the necessary determination to solve structural problems was not displayed. The intensity of the economic crises continuously increased and the crises became more frequent. As a result, the average growth rate and population increase in the last 8 years in Turkey have been 2.9 percent and 2.2 percent respectively, while inflation was 71.5 percent. Other than the former socialist states in the transitory stage, Turkey is one of the few countries in the world where inflation is high and the growth rate is low. Increase in per capita income is very low when compared to the Asian countries and does not even come close to that of the unstable economies of the Latin American countries. Turkey must achieve a growth rate which will increase the prosperity of the Turkish people. The prerequisite to achieve this is ensuring stability. However, the target should not be the balance of the markets in the short term, but rather the creation of stable conditions which will enable entrepreneurs to invest in the long term in order to protect their competitiveness in the process of the Customs Union. Otherwise, if structural reforms which will create long term stability are not implemented and public sector prices, interest rates and exchange rate adjustments are used to overcome bottlenecks, the danger of a new crisis will always be imminent.

### **High interest rates will restrict domestic demand.**

The macroeconomic balance was rapidly disturbed once again after the slackening of the austerity measures of April 5 as of August 1995, the existing political uncertainty and the decision for early elections caused the rapid disturbance of macroeconomic balances once again. Monetary policy became expansionary towards the end of the year with the approaching elections. The increase that had to be imposed on public sector prices was postponed until after the elections. Public expenditures increased as a result, among other things, of salary increases of employees. Exchange rates increased with the existing political uncertainty as well. The Treasury started having a hard time meeting its financing requirements in the domestic market and real interest rates increased once again to levels similar to those prevailed during the 1994 crisis. The fact that the IMF targets were not achieved and the Stand-by agreement was suspended made it difficult for Turkey to find favourable borrowing conditions in international markets. The fact that the Treasury will have to pay back a considerable amount of debt soon will cause real interest rates to remain high. On the other hand, the salary increase which were postponed and the Treasury's use of short term advances for financing will increase the inflation rate; and the increasing inflation and interest rates will cause domestic demand to shrink. It is necessary to establish a certain amount of discipline in the monetary policies in order to stop and reverse the increasing trend in inflation

### **Growth driven by high domestic demand, continued in the third quarter of 1995.**

In the previous issue of TÜSİAD Quarterly Economic Survey, that the Turkish economy entered a rapid growth process based on domestic demand in the second quarter of 1995 and that this process would continue in the third quarter was stressed. The 10 percent increase in GNP in the third quarter tallied with TÜSİAD's estimate. While the industry was the thrusting power of growth with a 17.9 percent production increase, the corresponding figure for agriculture remained at 3.9 percent. In industrial production, the fastest growth was observed in the machinery and metal goods sector. 1995 was not a good year for the construction sector. The sector which shrank by 6.2 percent in the first quarter of 1995 achieved a 0.8 percent increase in the second quarter of the year, but shrank by 1.6 percent in the



third quarter once again. The increase in trade and transportation in the third quarter of 1995 were 13.8 percent and 6.4 percent respectively.

The growth figures in the third quarter of 1995 indicate that growth based on domestic demand continues as expected. In this period, investment and consumption expenditures and imports increased rapidly, while there was no change in exports. The GDP increase calculated by using the expenditures method was 8.7 percent.

Among the growth figures for the third quarter of 1995, the increase in stocks has been noteworthy such that while the contribution of private final consumption and fixed capital investments in GDP growth rate were 8.2 percent and 2.6 percent respectively, the contribution of stocks was 4.2 percent.

As a result of the rapid increase in the durable and semi-durable consumer goods, which shrank the most in the 1994 crisis, the private final consumption expenditures increased by 12.6 percent, while the rate of increase of the government final consumption expenditures remained at 2.2 percent in line with the budget policies.

In the third quarter, a higher rate of increase of 11.3 percent in investment expenditures was observed, as it was the case for consumption expenditures. As a result of the 47 percent increase in private sector machinery investments, the private sector fixed capital investments increased by 17.8 percent. Despite economic instability and high interest rates, the need to have a more competitive structure in the process of the Customs Union is one of the most important reasons for the increase in private sector fixed capital investments. The decline in public investments which has been observed since the first quarter of 1994 continued to prevail. The non-building construction investments which have a 60 percent share in public investments decreased by 21.1 percent, thereby causing public sector fixed capital investments to go down by 13 percent.

Another striking development concerning the GDP calculations is the fact that the increase in export of goods and services came to a halt. In the third quarter of 1995, annual rate of increase in the export of goods and services was only 0.2 percent while the rate of increase in the import of goods and services reached 39.2 percent.

### **The rate of growth will decrease once again.**

The previous issue of the Quarterly Economic Survey stated that the rate of growth will decrease in the last quarter of 1995. It is estimated that the economic

policies implemented for the elections has stimulated production in November and December. The monthly industrial production figures indicate a significant decrease in the production rate for October, however the data for November gives the impression that this decrease may be temporary. The measures taken to limit domestic demand in September and the strikes which affected the public sector have played a role in slowing down production in October. The fact that the significant increase in production observed in November stems from the machinery sector which includes especially durable goods gives the impression that this increase is due to the demand-increasing practices of the election period. The monthly capacity utilization ratios indicate that this increase may also continue in December. The monthly capacity use ratio which was 80.4 percent in November increased to 81.4 percent in December. However, the continuation of the political uncertainty and the increase in interest rates indicate the possibility of a decrease in production starting with January. This situation will put serious pressure on the growth rate for 1996.

Taking into consideration the temporary activation caused by the economic policies of the elections, TÜSIAD has revised its growth rate estimate for the last quarter of 1995 as 6 percent. The growth rate for the first quarter of 1996 will decrease to 3.1 percent, it is estimated that the growth rate for the year 1996 will be 3.3 percent.

### **Inflation will accelerate once again.**

The most important claim of the economic measures of 5 April was decreasing the inflation. The average inflation rate (rate of growth in wholesale price index) for 1995 was 88.5 percent; the end of the year inflation rate which reached 64.9 percent was considerably higher than the official targets. In 1995, the exchange rates were used as a nominal anchor in order to decrease the inflation rate. In addition, the increase in public prices was kept relatively low. Starting with May, the price increase in the public manufacture industry remained lower than that of the private manufacturing industry. In May-December 1995, the price increase in the public manufacturing industry was 18.5 percent whereas it was 34 percent in the private sector manufacturing industry. The increase in the energy prices was also limited, the end-of-year increase rate was 35.7 percent. In addition to the slow increase in the currency rates, the fact that the public price increase were

kept especially low also kept the private sector manufacturing industry prices relatively low. On the other hand, the domestic terms of trade which changed to the disadvantage of the agricultural sector in 1994 changed to the disadvantage of the manufacturing industry prices in 1995. The annual average price increase in the agricultural sector was 118.7 percent, whereas this ratio was 83.5 percent in the manufacturing sector.

Another price movement worth noting in 1995 is the relative movement of the price indices of consumer goods and wholesale goods. The annual increase in consumer prices from February 1990 to February 1994, was an average of 8.3 percent more than the annual increase in wholesale prices. This trend was reversed in April 1994. The stability measures put in force limited domestic demand and restrained demand-pull inflation; the rapid increase in exchange rates and the related high increases in public goods changed the spread between wholesale goods and consumer prices in favour of wholesale prices. However, this trend continued for one year only. In addition to the use of exchange rates as a nominal anchor and the pressure put on public prices due to political reasons and as a result of the domestic demand which started to increase starting with the second quarter of the year, the above-mentioned spread changed once again in favor of consumer prices.

The fact that the public prices are kept under pressure creates the expectation of new price increases and has a negative effect on medium-term inflation expectations. Starting with the first months of the year, the inflation rate will have an upwards trend due to the significant increases in the prices public goods put into force after the general elections of December 24, the price adjustments the new government will have to implement in order to resume market balances and the seasonal factors at the beginning of the year.

According to the estimates of the TÜSIAD Economic Research Department which were based on the assumption that the adjustments in the public prices will be made in the first quarter of the year, exchange rates will continue to be used as a nominal anchor, and there will not be any structural changes in the economy, the inflation rate in the first quarter of the year will be 72.7 percent and the annual average will be 76.7 percent.

**Monetary policy was shaped in accordance with the borrowing requirement of the public sector.**

The last quarter of 1995 has been a period when the monetary policy diverged from the objectives of the program. During the first three quarters of the year, monetary policies implemented for stability purposes were aligned once again with the objective of meeting the public borrowing requirement within the framework of the cooperation of the Treasury and the Central Bank.

In the first three quarters of the year, it became evident that decreasing the inflation rate to 40 percent, one of the two objectives of the monetary policy, will not be realised; yet there was success in stopping currency substitution. However, currency substitution again became an issue in the last quarter.

As the last quarter of the year commenced, the fact that the Turkish economy which grew at a rate higher than expected may have demand-oriented inflationary outcomes was taken into consideration and a series of measures were taken in an effort to cool down the over-heated economy. In order to slow down the growth rate of currency in circulation which increased due to the foreign exchange sold to the Central Bank, the surrender rate was decreased twice in September and November and the Central Bank announced that it will not accept any foreign exchange sales for a short period in September. Taking into consideration the fact that this would increase interest rates, slow down exchange rates and increase the flow of capital from abroad, the Central Bank announced that the foreign currency credits obtained by banks from abroad fall into the scope of Resource Utilization Support Fund (KKDF) deductions. In addition, the Resource Utilization Support Fund rates on consumer credits were increased from 6 percent to 10 percent, with the objective of slowing the increase on the credits which showed a significant increase starting with the first quarter of the year and which had an effect on the increase in domestic demand. As a result of these measures, the interest rates increased, the increase in net foreign assets was prevented but the desired decrease in the rising rate of credits was not achieved.

The rapidly increasing foreign assets which rose significantly during the first three quarters of the year caused monetary expansion. The net foreign exchange position increased from minus 131 trillion at the end of December 1994 to positive 11 trillion in August 1995 and has continued to remain positive in the September-November period. At the end of December, the net currency position dropped to

a negative figure once again and became minus 137 trillion (\$2.2 billion). Since the increase in domestic assets was not sufficient to make up for the decrease in net foreign assets, the monetary expansion has been more limited than one would expect from the economic policies of an election period. The revaluation account decreased until December and the cash transactions -the other item of domestic assets- increased significantly, largely due to the increase in the cash credits granted to the public sector in December. On the other hand, due to worries concerning the TL shortage which will arise due to the sale of foreign currencies to the market and the increase in interest rates this will bring about, there were efforts to balance the liquidity of the market by decreasing the debts arising from open market operations. The growth rate in the Analytic Balance Sheet of the CBRT was 11 percent in the last quarter and was 105 percent at the end of 1995. This figure signifies a real increase of 24 percent. The annual growth rate of reserve money was 82 percent. Thus there are no significant changes in the net foreign assets with respect to the previous year. Domestic assets increased by 57 percent mainly due to the decline in revaluation accounts and credits extended to the public sector increased as well increase in reserves, on the liabilities side, financed these increases on the asset side.

The annual increase in the M1 was 65.7 percent as a result of the slow growth in sight deposits, in spite of the rapid rise (81.6 percent) in the currency in circulation. As a result of the 118 percent increase observed in time deposits in parallel with the increase in the interest rates, M2 increased by 97.7 percent in 1995. M2Y increased by 106.5 percent in the same period. The ratio of foreign exchange deposit accounts to M2Y increased especially in the last quarter and reached 51.6 percent at the end of the year. The said ratio was 49.5 percent at the end of 1994 and decreased to 44 percent at the end of July 1995. The annual increase in the credits granted by deposit bank was 150 percent.

### **High demand for foreign exchange was controlled by high interest rates and forward rates.**

The monetary policies implemented in the last quarter caused an increase in interest rates in a period of political and economic uncertainty. While interest rates was increasing, political uncertainty and real appreciation of the Turkish Lira, over a long period; led to devaluation expectations which caused a movement

from Turkish Lira savings to foreign exchange. The exchange rates started to increase rapidly when banks and companies increased the demand for foreign exchange to close their open positions. The basket which is composed of 1\$+1.5DM was above the target in October. The dollar exchange rate increased more than 21 percent in two months and increased from TL50,492 in October to TL61,208 in December. Faced with the increasing foreign exchange demand which came about due to the banks' and companies' desire to close their open positions, the Central Bank started forward foreign exchange sales at the cost of losing its reserves. The reserve loss of the Central Bank was \$1.5 billion in November and \$2.8 billion in December, thus a total of \$4.3 in two months. The increase in the foreign exchange rates and the relevant decrease in reserves could be stopped only by bringing the interest rates back to a very high level. Thus, the foreign exchange reserves of the Central Bank increased by \$1.3 billion in one week and reached \$13.3 billion on the 12th of January.

In addition to the increases in interest and foreign exchange rates, the Istanbul Stock Exchange (ISE) Composite index started to decrease due to the worsening of political uncertainty at the end of September. The Istanbul Stock Exchange Composite index dropped to 38,000 after the disintegration of the coalition. Due to the fact that the stock prices at the beginning of October remained at a low level and the expectation that company profits will be high, the composite index had not dropped much. The composite index which increased once more due to reaction purchases caused the year's second highest level of transactions volume at (TL319 trillion) in October 46,300 after April. In November and December, the composite index was around 40,000 and the volume of transactions were TL149 and 172 trillion, respectively.

**The current account deficit was limited although the trade deficit reached very high levels.**

In the first ten months of 1995, exports increased by 21.5 percent and reached \$17.2 million, whereas imports increased by 51.9 percent and reached 27.8 million. Thus the trade deficit became \$10.6 million and the export-import ratio decreased to 61.8 percent. The foreign trade deficit was \$4.2 billion and the export-import ratio was 77.2 percent for the same period in 1994. It is estimated that the trade deficit will be around \$12 billion at the end of 1995.

Another development worth noting for the same period is that in parallel with the real appreciation of the TL, terms of trade deteriorated for Turkey. In the same period, the export prices increased by 13.8 percent and the import prices decreased by 20 percent on average. Therefore, excluding the price effect, the 10-month average increase in export volume is 5.9 percent and 27.6 percent in imports.

The deterioration in the trade deficit became more evident in the second half of the year due to solid domestic demand and the weakening of the price advantage in exports. Exports which had quite a good performance in the first six months of the year started to slow down after July. The deterioration in exports becomes more evident when it is isolated from the price effect, should the current trend continue, the current account deficit gap may continue to grow. Export volumes show a decrease when compared with the same months of the previous year, except for August. The rate of decrease for September and October are 14.1 percent and 8.5 percent respectively.

In spite of the three-fold increase in the trade deficit, the current account deficit for January-October remained at \$70 million as a result of the increases in other goods and services income and unilateral transfers, especially tourism revenues, workers' remittances and other invisibles income. There was an increase of \$8.8 billion in international reserves as a result of the net errors and omissions which equal \$3 billion and the total capital movements which reached \$5.9 billion in the same period. Due to the fact that stability has still not been achieved, direct capital investments remain low and the net long-term capital inflow remains negative. Therefore the increase in the reserves of the Central Bank was financed with short-term capital income stimulated by high interest rates. With the increase in the use of short-term credits by the private sector, the short-term capital income for January-October reached \$4.6 billion.

**The budget deficit which has been kept at approximately \$5 billion is again at an increasing trend.**

The budget deficit which reached 109 trillion at the end of August, due to the depletion of the budget allowances in September and October, decreased to 30 trillion in October whilst the cash deficit reached 151 trillion. After the approval of the additional budget, the budget deficit in November materialised as 125 trillion, when items such as the interest payments of domestic debts that were

paid as cash in previous months but not recorded in the expenditure accounts, were included in the accounts. Consequently, the budget deficit for January-November was 154 trillion and the cash deficit was 173 million. It is expected that the budget deficit will again be high in December and that the annual deficit figure will be approximately 300-350 trillion.

Domestic debt payments was the most influential factor determining the budget deficit. Although the non-interest budget balance was kept around \$7 billion after February, the 12-month deficit reached \$5,843 million at the end of November. It is estimated that the budget deficit for 1995 will be around \$7 billion.

In real terms, the personnel expenditures which were cut seriously in 1994 could not be cut any more; and the non-interest budget balance remained approximately the same since February. On a 12-month cumulative basis and in real terms the personnel expenses remained at the same level until November and exhibited an increase in November due to the increases in public servant salaries granted before the elections. Other transfer expenditures which were decreased starting with the 4th of April Decisions showed also an increasing trend after February. On the other hand, the decreasing trend of investment expenditures continued. Investment expenditures reached the lowest level since 1987.

### **Short-term balances once again depend on Treasury's financing problem...**

The financing of the consolidated budget deficit was again realised by internal resources. The importance of short-term treasury bonds financing decreased in January-November whilst there was an increase in the ratio of longer term government bonds. Net foreign debt figures remained negative in spite of a partial increase. It is noteworthy that there is an increasing trend in the use of advance payments from the Central Bank due to the decrease in the share of bond financing.

The increase in exchange rates, especially before the early elections, and the expectation of a devaluation caused in a bottleneck the bond market in spite of the increase in interest rates. On the one hand, the interest rates on treasury bonds increased; on the other hand, the terms became shorter. The sales-weighted average interest rate increased from 92 percent in August to 182 percent in December; the amount of bonds sold decreased from 185 trillion to 71 trillion, and the average term of the bonds sold decreased. It was announced that as of



November 28, foreign exchange holdings of Commercial Banks held in Central Bank cannot be deemed as guarantee to operate in markets under the control of the Central Bank and liquidity requirement communique was amended on the 3rd of January in an effort to increase the demand for bonds. Although the Treasury's compound interest rate increased to 240 percent in the last tender of the year, the amount sold was 2.4 trillion only. This interest rate which equals a real rate of about 110 percent is equivalent to the interest rate of the 'super bonds' issued after the 1994 crisis. Having financial problems, the Treasury was forced to use short-term advances from the Central Bank; it used short-term advances of 45 trillion in the last three weeks of December and the Central Bank short-term advances at the end of 1995 reached 192 trillion. Due to the rapidly increasing foreign exchange rates and the political uncertainty, the short-term advance increased by about 30 trillion in the first five days of the year and reached one third of the amount set for 1996.

Following Treasury bills amounted to 50 trillion sold directly to the public in the first week of the 1996 with 240.5 percent rate of interest, the maturity of treasury bills could be extended relatively while the compound interest rates declined to 164 percent in the consecutive auctions.

At the beginning of January, the Treasury decided to re-implement the method of overcoming bottlenecks in the bonds market by giving high interest rates, as it had been doing since April 1994. Domestic bond market became operational again since, in addition to the high interest rates, devaluationary expectations diminished and the initial disturbance in the market after the post-election eventuated. The term rates of the consecutive tenders, held after a total of 50 trillion was issued to the public in the first week of January at a compound interest rate of 240.5 percent witnessed an extension of the maturities and pulled the compound interest rate down to 164.2 percent.

Following the increase in the Treasury's the stock of short-term advances decreased to 207 trillion by repaying short term advances worth 14 trillion. According to the provisional budget, the short term advances the Treasury can use is 75 trillion.

The politically unstable environment before and after the elections will cause an increase in interest rates and will increase the burden on the budget. The fact that the Treasury bond repayment in the first five months of 1996 will approximate 850 trillion, shows that the Treasury's financing problem will

continue to be significant for both the financial markets and the real sector. The repayments will be financed by bond borrowing to a large extent and this will cause the real interest rates to remain high in the coming period and will slow down production in of the industry which had been trying to operate on an average of 20 percent real interest rate for the past five years. The exchange rates suppressed by high interests will have a negative impact on foreign trade balance and hence the current account balance.

**... however, in order to ensure sustainable stability, structural reforms must be carried out with political determination immediately.**

The continuation of the politically uncertain conditions will cause the realisation of the negative economic forecasts. The Turkish economy beginning of 1996 is characterised by significant deficits in both foreign trade and the public sector. Once more, while tends to decrease the growth rate the inflation rate is soaring. The monetary and financial policies are based on meeting the financing requirement of the Treasury. The growing public deficit increases the financial pressure on the private sector. Economic uncertainty short terms maturity structure fixed capital investments, and negatively affectes competitiveness. Although it is possible to delay potential crises by adjusting interest rates, prices and exchange rates, it is necessary to do structural reforms in order to increase the welfare level and to ensure stability. The implementation of a comprehensive reform program depends on political stability and determination.

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**TABLE 1.1 MAIN ECONOMIC INDICATORS  
PRODUCTION AND PRICES**

1995

	Jan.	Feb.	March	April	May	Jun.	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>INDUSTRIAL PRODUCTION INDEX (SIS, 1992=100)</b>												
Annual % increase	-7.7	-2.0	-2.4	13.7	13.9	24.1	19.8	13.6	5.9	1.5	11.0	..
Monthly % increase	-6.9	-9.2	4.8	9.9	-5.8	12.3	-1.7	2.2	1.8	-0.4	9.6	..
Monthly % increase (Seasonally Adjusted)	-1.3	-0.4	-1.4	12.6	-9.0	20.1	-8.3	1.6	-6.4	-3.8	10.9	..
<b>CAPACITY UTILIZATION RATIO (SIS, %)</b>												
	71.7	72.4	74.7	79.0	79.4	81.5	83.4	82.6	84.3	80.7	79.4	81.4
<b>WHOLESALE PRICES (SIS, 1987=100)</b>												
Annual % increase	156.8	149.8	144.3	91.2	78.4	77.3	80.0	80.3	79.2	75.0	71.6	64.9
Monthly % increase	8.4	7.0	6.1	3.9	1.7	1.3	2.4	2.9	4.8	4.4	4.3	4.1
Monthly % increase (Seasonally Adjusted)	7.0	4.3*	3.5	2.6	2.3	3.5	4.1	4.7	5.2	4.9	4.3	5.0
<b>EXCHANGE RATE (\$)</b>												
TL/US\$ (Monthly Average)	40,249	41,018	41,693	42,227	43,224	43,061	44,399	44,691	47,703	49,970	52,413	56,827
Annual % increase	165.3	131.5	102.4	31.3	26.9	35.9	43.4	46.8	40.6	42.9	44.4	51.5
Monthly % increase	7.3	1.9	1.7	1.3	1.9	0.1	3.1	5.2	2.2	4.8	4.9	8.4
<b>INTEREST RATES (Yearly Simple Rate)</b>												
Deposits (End of period)												
1 month	65.8	65.8	61.3	60.0	60.0	60.0	55.0	55.0	55.0	55.0	73.5	81.0
3 months	84.3	81.3	75.8	72.0	70.8	70.8	68.0	68.0	68.0	68.0	77.5	86.5
6 months	85.8	85.8	82.0	77.0	75.8	75.8	73.0	73.0	73.0	73.0	84.3	88.0
12 months	130.9	111.2	106.1	90.0	90.0	90.0	85.0	85.0	85.0	85.0	89.8	93.5
Treasury (Monthly Average)*												
1 month	-	-	-	-	-	-	-	-	-	-	-	105.9*
3 months	111.8	-	-	77.4	80.9	71.9	67.0	68.5	92.7	96.3	98.9	123.9
6 months	128.0	112.0	-	80.6	89.6	91.7	85.8	81.0	93.9	-	-	-
9 months	-	-	105.3	86.1	100.7	-	-	83.2	-	-	-	-
12 months	-	-	123.7	99.0	115.8	-	105.0	99.8	-	-	-	-

(. .): not available

(-): no auction

(\*) Include bills with irregular terms

**TABLE 1.2 MAIN ECONOMIC INDICATORS**  
**BALANCE OF PAYMENTS**

	1994				1995							
	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
FOREIGN TRADE (\$ Million)												
Value (Current \$ prices)												
Imports (Annual % increase)	-13.4	-19.6	-2.6	30.3	24.9	73.1	78.4	71.1	79.1	68.9	59.7	56.0
Exports (Annual % increase)	28.4	19.9	18.1	29.9	25.4	50.9	23.3	33.1	13.4	15.2	1.7	15.9
Price Index (1989=100)												
Imports (Annual % increase)	14.6	6.9	11.2	19.9	23.6	22.8	22.7	30.5	21.0	19.7	17.7	11.2
Exports (Annual % increase)	1.4	2.9	4.6	-4.8	10.5	18.1	18.4	13.7	13.7	17.8	16.6	17.9
Quantity Index (1989=100)												
Imports (Annual % increase)	-11.1	-22.2	-9.7	-6.3	14.2	37.2	35.1	56.3	50.3	50.4	35.9	36.6
Exports (Annual % increase)	16.8	11.2	14.7	17.2	20.8	32.2	4.2	13.2	-7.7	1.9	-14.1	-8.5
FOREIGN TRADE BALANCE (\$ Million)												
Imports (Monthly)	2,248	2,705	2,097	2,283	2,474	2,983	2,584	3,047	2,881	3,192	3,066	3,212
Exports (Monthly)	1,658	2,305	1,550	1,551	1,656	1,863	1,504	1,797	1,790	1,748	1,750	1,936
Foreign Trade Balance (Monthly)	-590	-400	-547	-732	-818	-1,120	-1,080	-1,250	-1,091	-1,444	-1,316	-1,276
Imports (Last 12 months)	23,930	23,270	23,214	23,744	24,237	25,497	26,633	27,898	29,168	30,470	31,616	32,768
Exports (Last 12 months)	17,724	18,106	18,343	18,700	19,036	19,664	19,948	20,404	20,616	20,847	20,877	21,143
Foreign Trade Balance (Last 12 months)	-6,206	-5,164	-4,871	-5,044	-5,201	-5,833	-6,685	-7,494	-8,552	-9,623	-10,739	-11,629
BALANCE OF PAYMENTS (\$ Million)												
Current Account Balance (Monthly)	101	129	608	-18	-143	-189	-258	31	2	-240	196	-66
Current Account Balance (Last 12 months)	1,847	2,823	3,245	3,524	3,995	3,911	3,070	2,614	1,816	1,081	558	153
Capital Account and Reserve Movements (Last 12 months)												
Net Foreign Direct Investment (Last 12 months)	527	562	544	522	511	592	616	598	584	552	531	457
Portfolio Investment (Last 12 months)	1,246	1,182	865	786	-253	-665	-998	-783	74	752	1,110	1,363
Net Long-Term Capital (Last 12 months)	-638	-833	-933	-926	-885	-812	-787	-627	-363	-180	-198	-331
Net Short-Term Capital (Last 12 months)	-5,404	-5,141	-4,950	-4,377	-4,440	-655	576	1,941	2,798	3,482	4,139	4,393
Net Errors and Omissions (Last 12 months)	1,841	1,613	2,142	2,471	4,258	5,228	5,097	4,099	3,140	2,876	2,469	3,136
Reserve Changes * (Last 12 months)	581	-206	-913	-2,000	-3,186	-7,717	-7,692	-7,960	-8,167	-8,681	-8,727	-9,284

(\*): Positive sign indicates decrease in reserves

**TABLE 1.3 MAIN ECONOMIC INDICATORS  
CONSOLIDATED BUDGET**

	1995											
	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.
Monthly (Billion TL)												
Revenues	92,552	82,323	82,050	91,394	86,468	134,721	105,964	123,278	124,391	121,960	155,679	146,722
Expenditures	184,308	76,792	123,909	109,006	160,824	121,777	103,664	113,546	130,391	98,287	100,323	271,383
Primary Balance (Current price)	-4,868	27,036	18,205	31,626	-11,018	47,344	19,809	35,364	42,459	29,978	63,643	16,149
Budget Balance (Current price)	-91,756	5,531	-41,859	-17,612	-74,356	12,944	2,300	9,732	-6,000	23,673	55,356	-124,661
Budget Balance (At 1987 prices)	-17,660	982	-6,949	-2,754	-11,185	1,915	336	1,388	-832	3,132	7,016	-15,143
Budget Balance (Cur.price,bn.\$)	-2,446	0.137	-1.020	0.423	-1.761	0.301	0.053	0.219	-0.129	0.496	1.108	-2,378
Financing	33,392	18,887	30,703	24,649	66,511	-5,777	-12,116	-14,908	40,514	9,886	-7,280	21,970
For. Borrowing (Net)	-11,968	11,171	-8,577	-20,971	1,870	-23,494	-13,557	-14,165	-15,958	26,433	-14,976	-14,677
Dom. Borrowing (Net)	-13,818	-958	-47	48,732	52,869	-12,755	-10,226	12,256	28,250	-5,573	-3,770	-14,247
Short-term Borrowing	43,228	46,956	43,660	329	-4,360	33,346	23,993	6,269	5,284	-3,840	31,953	30,485
Central Bank (Net)	7,297	-3,539	-1,109	3,873	34,687	-18,720	-6,666	-5,843	-11,058	31,473	1,424	11,938
Treasury Bills (Net)	35,931	50,495	44,769	-3,544	-39,047	52,066	30,659	12,112	16,342	-35,313	30,529	18,548
Other	1,950	-15,940	-4,333	1,559	16,132	-2,874	-12,326	-19,268	22,938	-7,134	-20,487	20,409
Last 12 months (Billion TL)												
Revenues	753,440	798,584	843,588	897,682	936,672	1,013,255	1,051,637	1,106,400	1,154,215	1,204,331	1,282,026	1,347,502
Expenditures	899,375	934,611	1,006,719	1,046,284	1,155,370	1,225,344	1,269,431	1,300,277	1,351,186	1,367,790	1,383,637	1,594,210
Primary Balance (Current price)	152,349	173,794	199,244	236,798	217,165	243,912	237,388	263,886	277,609	284,870	326,602	315,727
Budget Balance (Current price)	-145,935	-136,027	-163,131	-148,602	-218,698	-212,089	-217,794	-193,877	-196,971	-163,459	-101,611	-246,708
Budget Balance (At 1987 prices)	-39,412	-36,431	-37,262	-27,736	-37,696	-37,453	-39,190	-34,160	-34,265	-28,800	-20,344	-39,749
Budget Balance (Cur.price,bn.\$)	-5,284	-4,857	-5,045	-3,907	-5,536	-5,422	-5,621	-4,944	-4,981	-4,195	-2,901	-5,843
Financing	145,681	155,263	162,784	162,081	222,333	227,838	216,791	192,408	223,400	218,657	191,901	206,431
For. Borrowing (Net)	-68,515	-78,847	-87,847	-116,715	-121,973	-138,561	-141,421	144,761	-150,486	-107,768	-112,832	-121,211
Dom. Borrowing (Net)	-70,338	-74,932	-73,191	-27,307	28,452	20,113	10,472	24,395	70,213	73,205	87,059	75,713
Short-term Borrowing	296,073	327,484	350,599	336,563	324,948	352,569	351,996	341,619	297,282	263,261	244,023	257,303
Central Bank (Net)	51,857	30,935	781	-739	34,746	22,953	38,021	28,219	11,168	48,376	40,771	43,757
Treasury Bills (Net)	244,216	296,549	349,818	337,302	290,202	329,616	313,975	313,400	286,114	214,885	203,252	213,547
Other	-11,539	-16,777	-29,777	-30,460	-9,094	-6,283	-4,256	-28,845	6,391	-10,041	-26,349	-5,374



**TABLE 1.4 MAIN ECONOMIC INDICATORS**  
**MONEY SUPPLY**

	1995											
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
(Annual percentage change)												
<b>M1</b>												
Currency in circulation	85.5	115.5	119.4	120.6	107.3	104.1	85.7	87.7	81.4	73.8	76.0	65.7
Currency+coins	103.9	125.7	127.0	105.7	105.4	97.1	95.2	83.2	81.5	78.7	89.5	81.6
Cash in vault (-)	94.8	118.2	110.1	100.1	92.0	102.1	91.1	81.4	78.0	79.5	87.6	86.6
Commercial sight deposits	43.4	68.3	88.4	70.1	19.1	141.8	59.9	66.1	55.8	88.6	69.8	117.7
Savings sight deposits	72.1	96.9	116.9	119.1	109.0	107.2	70.3	98.5	81.2	57.1	44.9	54.4
Other sight deposits	64.8	118	126.7	141.8	102.8	101.0	96.2	88.8	84.1	88.2	88.8	56.4
Central Bank's deposits	67.1	116.9	68.6	239.4	134.9	170.3	54.8	76.4	72.3	87.9	93.5	46.3
	463.9	315.9	49.6	-23.5	123.1	-51.3	-15.4	-39.8	378.4	-89.4	-80.7	-72.4
<b>M2</b>												
Commercial time deposits	128.1	149.8	173.5	159.9	130.0	105.9	87.4	100.8	100.1	97.4	101.9	97.7
Savings time deposits	190.2	243.8	410.2	381.1	239.7	137.9	97.4	141.6	141.5	148.4	189.5	197.3
Other time deposits	191.3	194.6	229	201.6	149.3	104.6	88.6	108.5	111.1	112.3	114.9	117.8
Certificates of deposits	79.3	106.7	125.5	107.6	102.3	108.5	87.9	99.0	103.9	98.6	99.8	92.1
	56.4	61.4	87.0	103.0	107.0	85.9	36.4	56.4	55.8	80.0	70.5	49.6
<b>M2Y</b>												
Foreign exchange deposits (TL)	122.1	137.3	144.7	110.5	108.8	101.9	91.8	94.4	92.0	86.1	93.7	106.5
Foreign exchange deposits (\$)	116.8	125.8	120.4	72.9	88.4	97.0	97.7	86.7	83.0	75.0	85.5	115.5
TL/USD Buying Rate	-7.6	-0.9	17.4	36.4	38.6	39.4	36.6	26.8	28.0	24.5	27.2	35.6
	134.6	127.9	87.8	26.8	35.9	41.3	44.7	47.3	43.0	40.6	45.8	58.9
<b>M3Y</b>												
M3	119.7	135.7	144.5	111.6	114.3	103.5	92.1	95.1	93.0	88.1	93.3	106.8
Foreign exchange deposits (TL)	122.8	145.3	170.8	159.8	140.0	108.7	88.2	101.7	101.5	100.5	100.6	98.6
	116.8	125.8	120.4	72.9	88.4	97.0	97.7	86.7	83.0	75.0	85.5	115.5
<b>Credit Stock</b>												
Central Bank Direct Credits	89.2	82.1	89.0	92.5	110.7	119.8	78.8	88.8	95.3	92.6	96.5	119.4
Deposit Bank Credits	49.7	15.9	14.7	37.4	48.1	-4.0	-12.4	-5.1	1.9	-2.6	-13.7	30.9
Invest. and Develop. Bank Credits	57.3*	66.2*	67.2*	71.1*	91.5*	100.2*	109.0*	117.9	121.6	125.3	136.1	149.9
	110.0	83.7	96.4	69.1	65.0	86.0	49.1	47.1	51.7	49.9	57.4	62.4

\* Adjusted for changes in data definition between 1.7.1994-1.7.1995

**TABLE 2 EXPENDITURE ON GROSS DOMESTIC PRODUCT**

(At 1987 Prices)	Growth Rate (%)			% Share			Annual Growth Rate (%)						
	1992	1993	1994	1992	1993	1994	1994-1	1994-2	1994-3	1994-4	1995-1	1995-2	1995-3
<b>Private Final Consumption Expenditure</b>	2.9	8.4	-7.5	71.3	70.5	68.9	5.8	-10.2	-7.4	-7.4	-4.5	11.8	12.6
Food-Beverages	-1.6	3.7	-0.4	24.4	23.1	24.3	4.9	-3.8	-2.2	0.0	-0.4	9.5	9.8
Durable Goods	11.6	21.2	-36.0	11.4	12.6	8.5	6.9	-44.9	-39.0	-36.0	-18.9	40.0	50.7
Semi-Durable & Non-Durable Goods	-2.7	5.0	-12.4	12.2	11.7	10.8	6.6	-18.9	-23.3	-12.4	-11.0	18.6	25.7
Energy-Transportation-Communication Services	10.7	10.3	2.3	11.2	11.3	12.2	7.5	3.9	3.9	2.3	1.3	5.8	3.4
Ownership of Dwelling	5.2	12.6	6.2	6.1	6.3	7.1	7.0	-2.2	9.1	6.1	3.0	6.8	2.9
	2.8	2.6	2.4	6.0	5.6	6.0	2.9	3.0	2.9	2.4	2.1	1.9	2.0
<b>Government Final Consumption Expenditure</b>	9.2	2.3	-7.6	10.5	9.8	9.6	0.8	-4.5	-0.4	-7.6	5.3	9.5	2.2
Compensation of Employees	3.4	3.0	-0.2	4.8	4.5	4.7	2.0	2.0	-0.6	-0.2	2.7	2.9	2.7
Purchases of Goods & Services	14.7	1.8	-13.8	5.7	5.3	4.9	-3.1	-16.9	-0.1	-13.8	14.4	25.1	1.4
<b>Gross Fixed Capital Formation</b>	2.0	31.9	-25.3	27.4	32.9	26.0	8.2	-20.1	-18.7	-25.3	-16.9	13.3	11.3
<b>Public Sector</b>	1.2	12.1	-31.6	10.5	10.7	7.7	-7.9	-47.1	-38.9	-31.6	-37.5	-2.4	-12.9
Machinery & Equipment	3.2	-2.4	-58.9	3.9	3.5	1.5	-41.0	-70.3	-72.3	-58.9	-15.3	-1.1	2.9
Building Construction	1.0	6.6	-19.7	2.0	1.9	1.6	-8.6	-64.1	-34.2	-19.7	-28.0	35.8	-2.1
Other Construction	-0.4	26.9	-18.2	4.6	5.3	4.6	25.3	-11.3	-4.9	-18.2	-50.8	-12.7	-21.1
<b>Private Sector</b>	2.5	44.1	-22.2	16.9	22.2	18.3	11.4	-10.7	-10.8	-22.2	-13.5	16.5	17.8
Machinery & Equipment	-0.2	68.1	-37.5	9.6	14.6	9.7	14.9	-26.1	-32.3	-37.5	-25.9	33.9	47.0
Building Construction	6.1	13.0	7.3	7.4	7.6	8.6	7.1	7.9	8.0	7.3	2.5	2.1	1.7
<b>Change in Stocks</b>	-	-	-	-6.7	-5.8	-6.7	-	-	-	-	-	-	-
<b>Exports of Goods &amp; Services</b>	9.4	13.2	15.4	20.0	20.6	25.2	6.1	10.1	26.7	15.4	19.9	12.2	0.2
<b>Imports of Goods &amp; Services</b>	3.8	36.6	-22.4	-22.5	-28.0	-23.0	7.5	-34.0	-31.9	-22.4	-2.6	37.3	39.2
<b>Gross Domestic Product (Expenditure based)</b>	4.6	9.7	-5.5	100	100	100	4.3	-9.6	-6.1	-5.4	-1.4	13.9	8.7
<b>Statistical Discrepancy</b>	-	-	-	-0.6	-1.7	-1.7	-	-	-	-	-	-	-
<b>Gross Domestic Product (Production based)</b>	5.5	8.4	-5.4	-	-	-	5.2	-10.7	-7.8	-5.5	-1.5	13.5	9.5

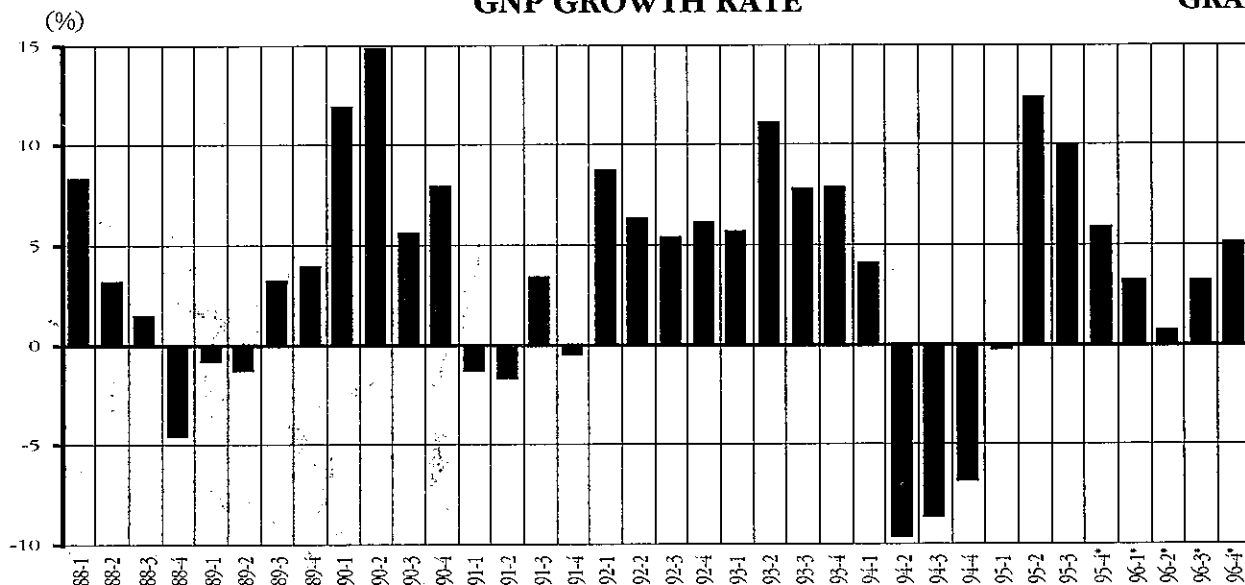
# TABLE 3 TÜSIAD ESTIMATES

	94-1	94-2	94-3	94-4	94	95-1	95-2	95-3	95-4	95	96-1	96-2	96-3	96-4	96
	Realization					Realization					Estimate				
(25 July 1995)															
Growth Rate	4.0	-9.6	-8.6	-6.8	-6.0	-0.2	12.4	9.0*	4.8*	6.8*	-	-	-	-	-
Inflation	67.8	133.9	128.3	141.3	120.7	149.9	82.0	79.8	73.4*	89.5*	-	-	-	-	-
(25 Jan. 1996)															
Growth Rate	4.0	-9.6	-8.6	-6.8	-6.0	-0.2	12.4	10.0	6.0*	7.4*	3.1	0.9	3.4	5.6	3.3
Inflation	67.8	133.9	128.3	141.3	120.7	149.9	82.0	79.8	70.3	88.5	72.7	77.3	78.4	77.6	76.7

\* Estimate

## GNP GROWTH RATE

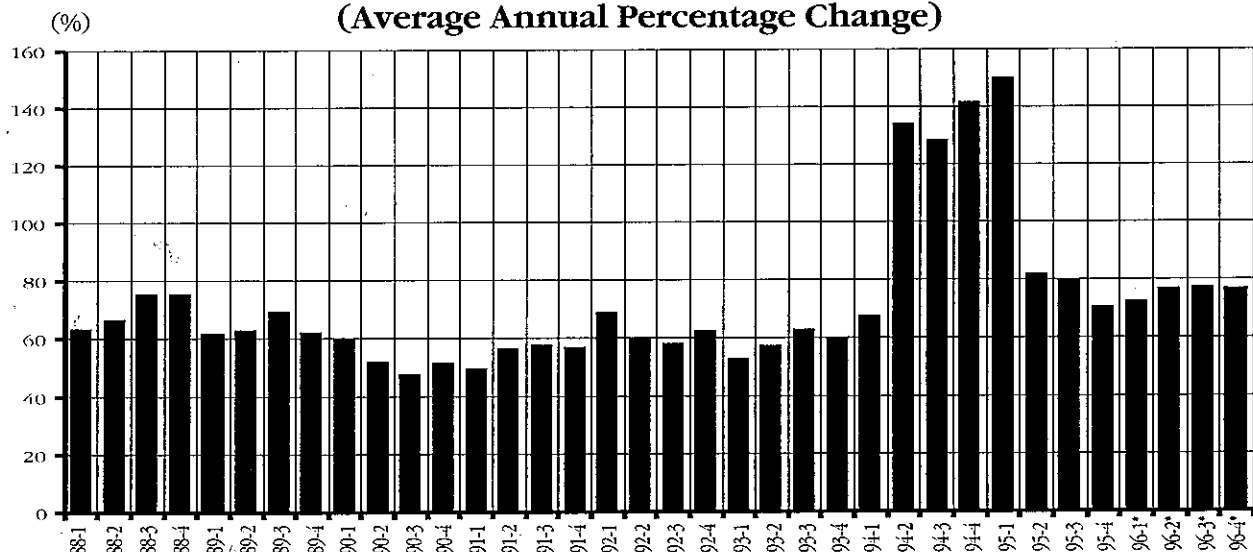
## GRAPH 1



\* Estimate

## WHOLESALE PRICE INDEX (Average Annual Percentage Change)

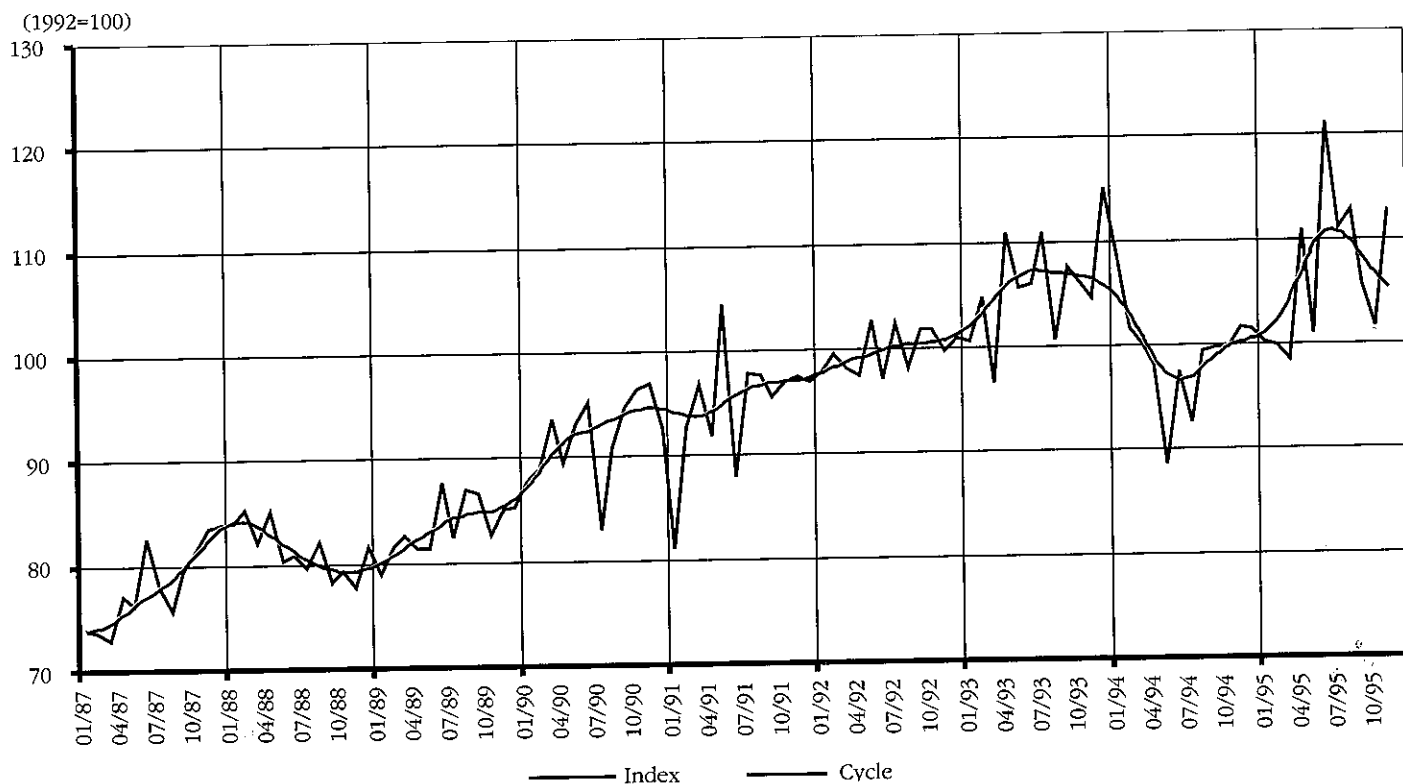
## GRAPH 2



\* Estimate

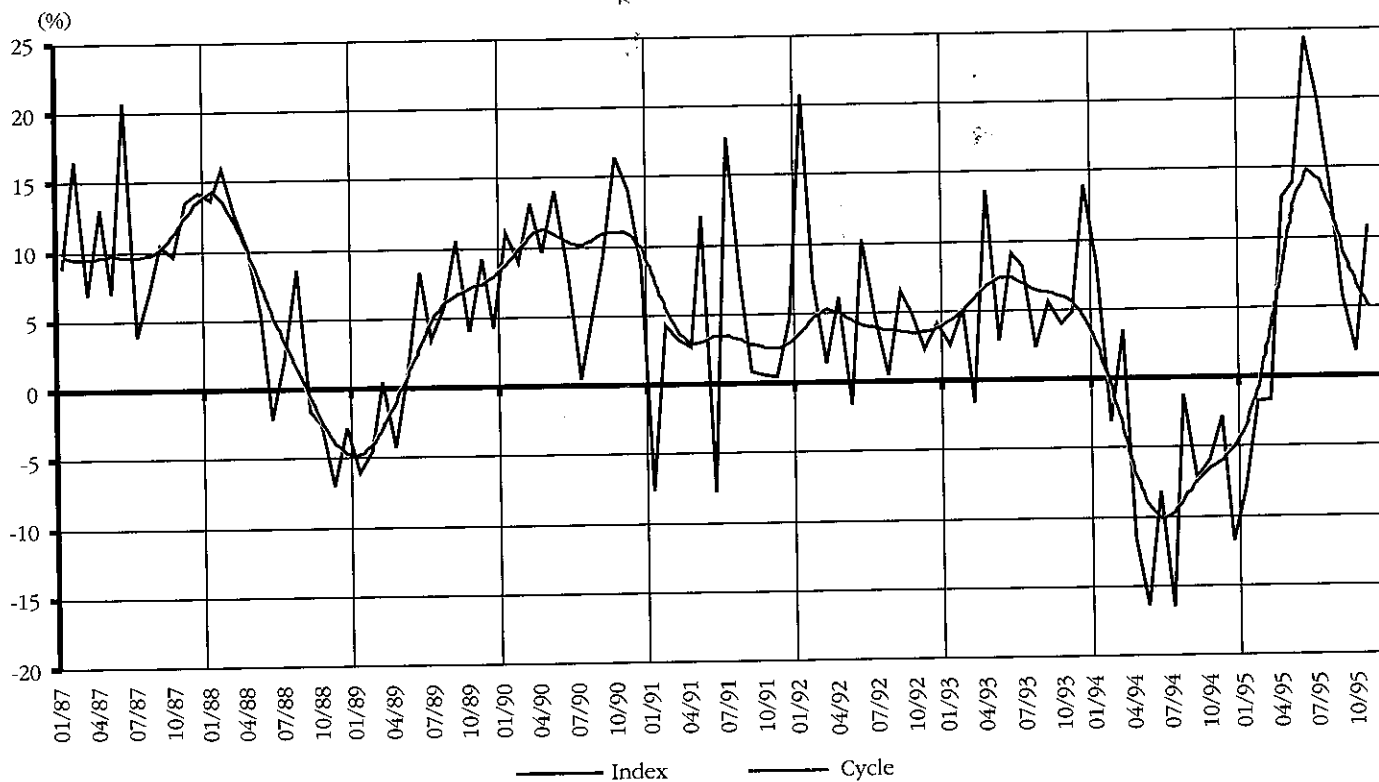
**SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX**  
(Level)

**GRAPH 3**



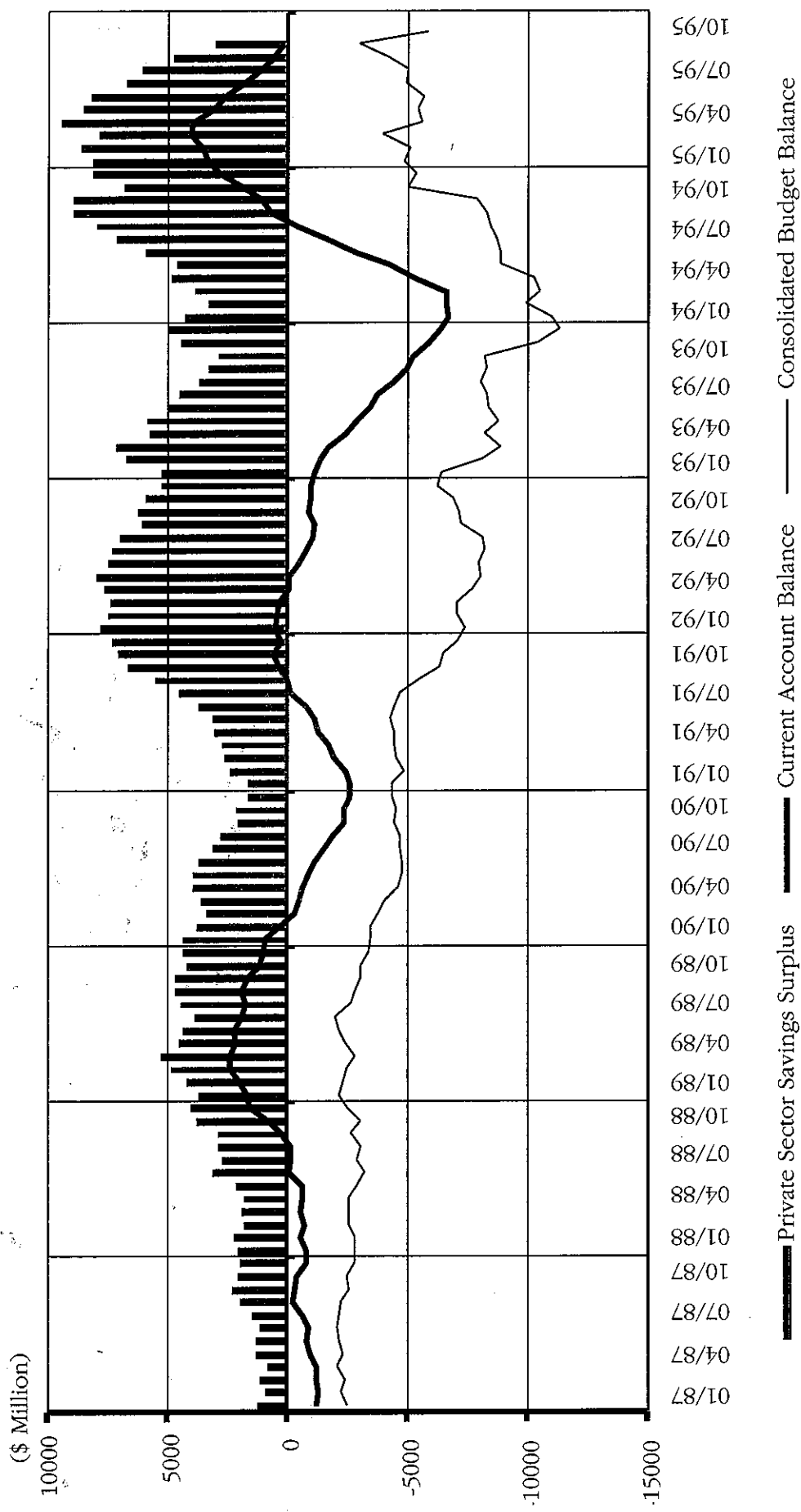
**SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX**  
(Annual Percentage Increase)

**GRAPH 4**



**SAVINGS - INVESTMENT BALANCE (\*)**  
**(Cumulative for the Last 12 Months)**

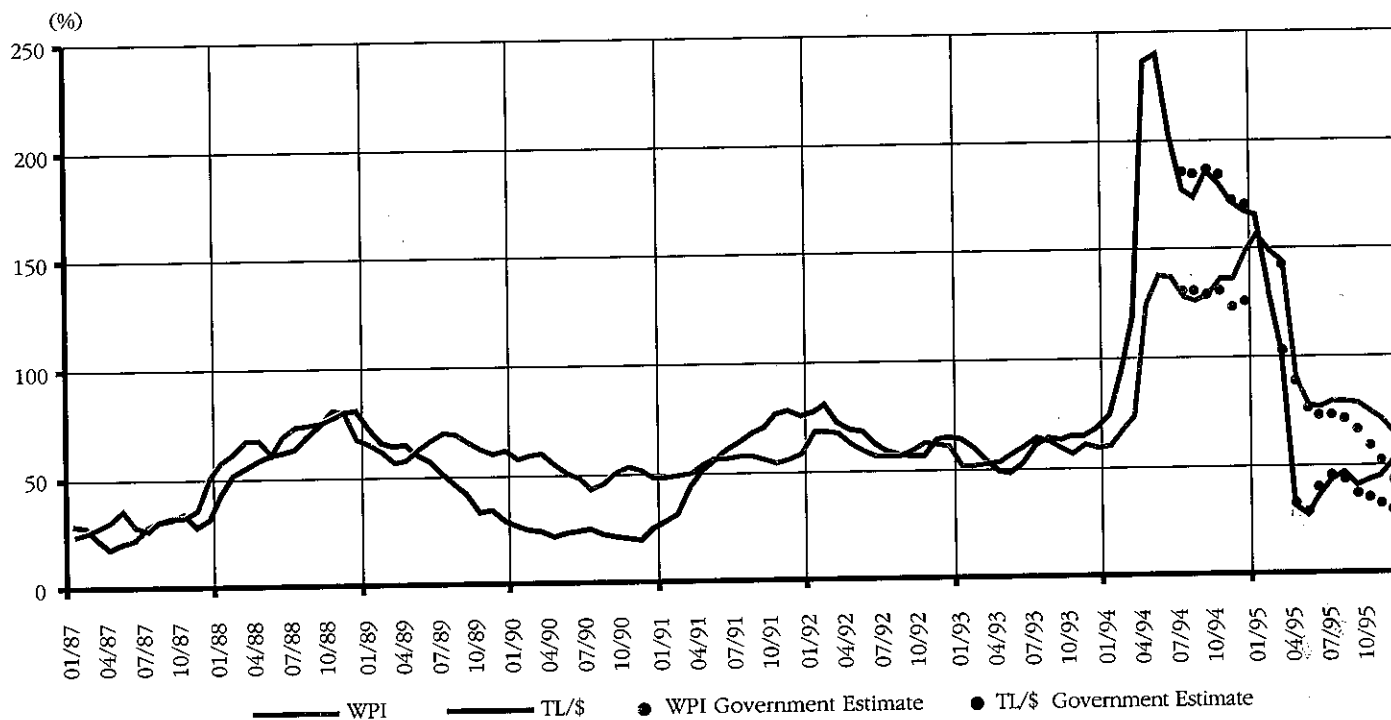
**GRAPH 5**



(\*) 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.

# **WHOLESALE PRICE INDEX AND MONTHLY AVERAGE US DOLLAR EXCHANGE RATE (Annual Percentage Change)**

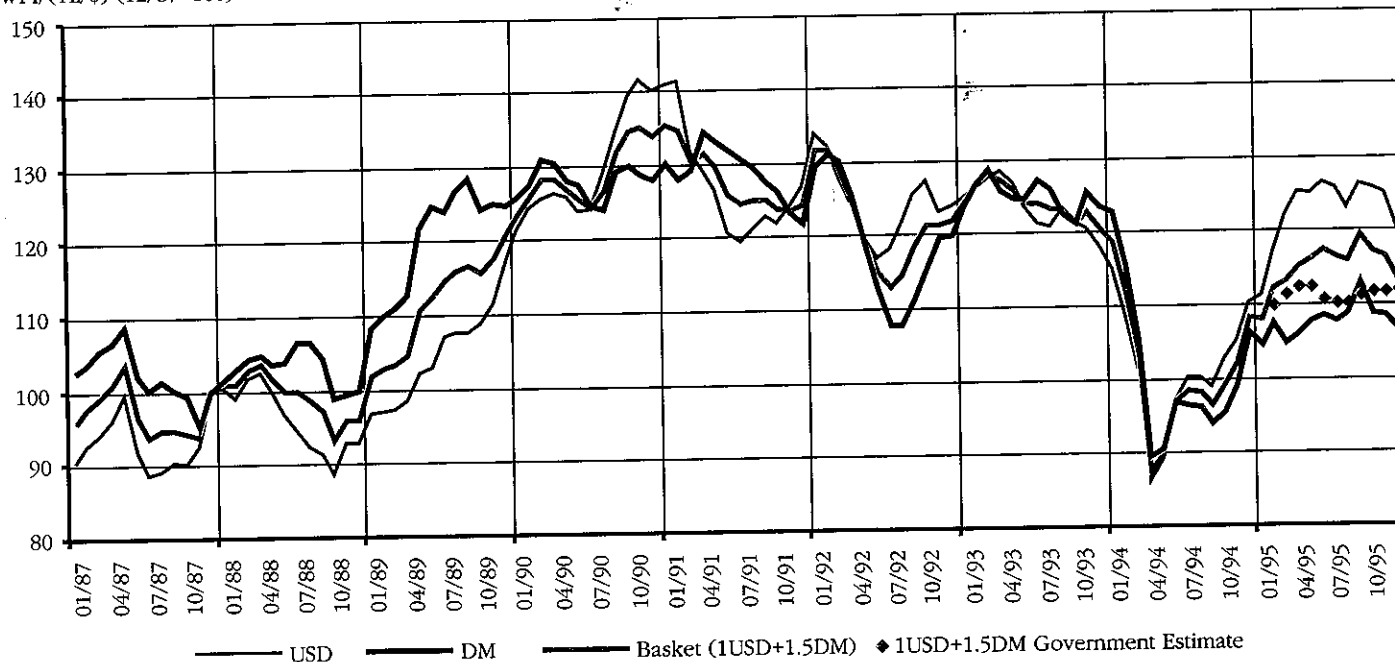
**GRAPH 6**



## **REAL EXCHANGE RATE INDEX**

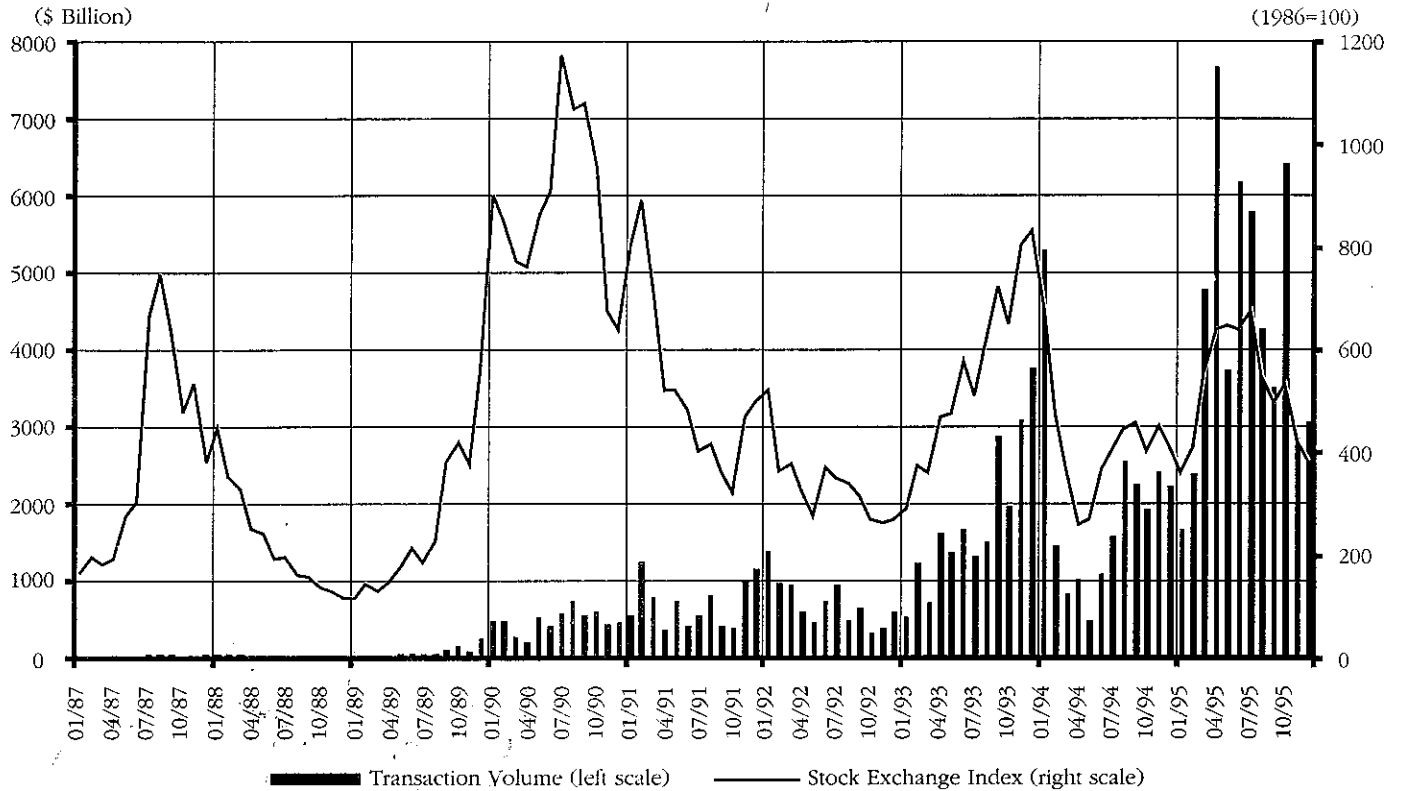
**GRAPH 7**

WPI/(TL/\$) (12/87=100)



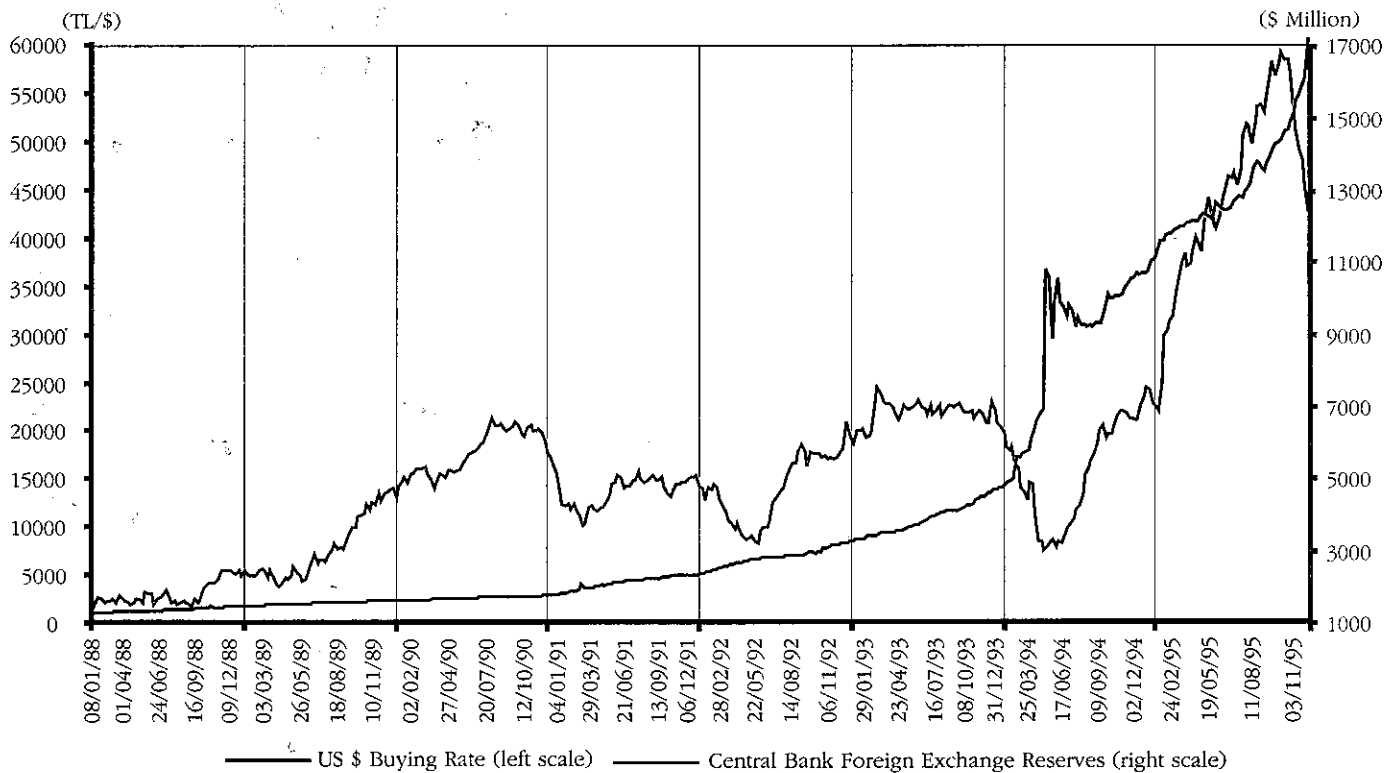
# **STOCK EXCHANGE INDEX AND TRANSACTION VOLUME**

**GRAPH 8**



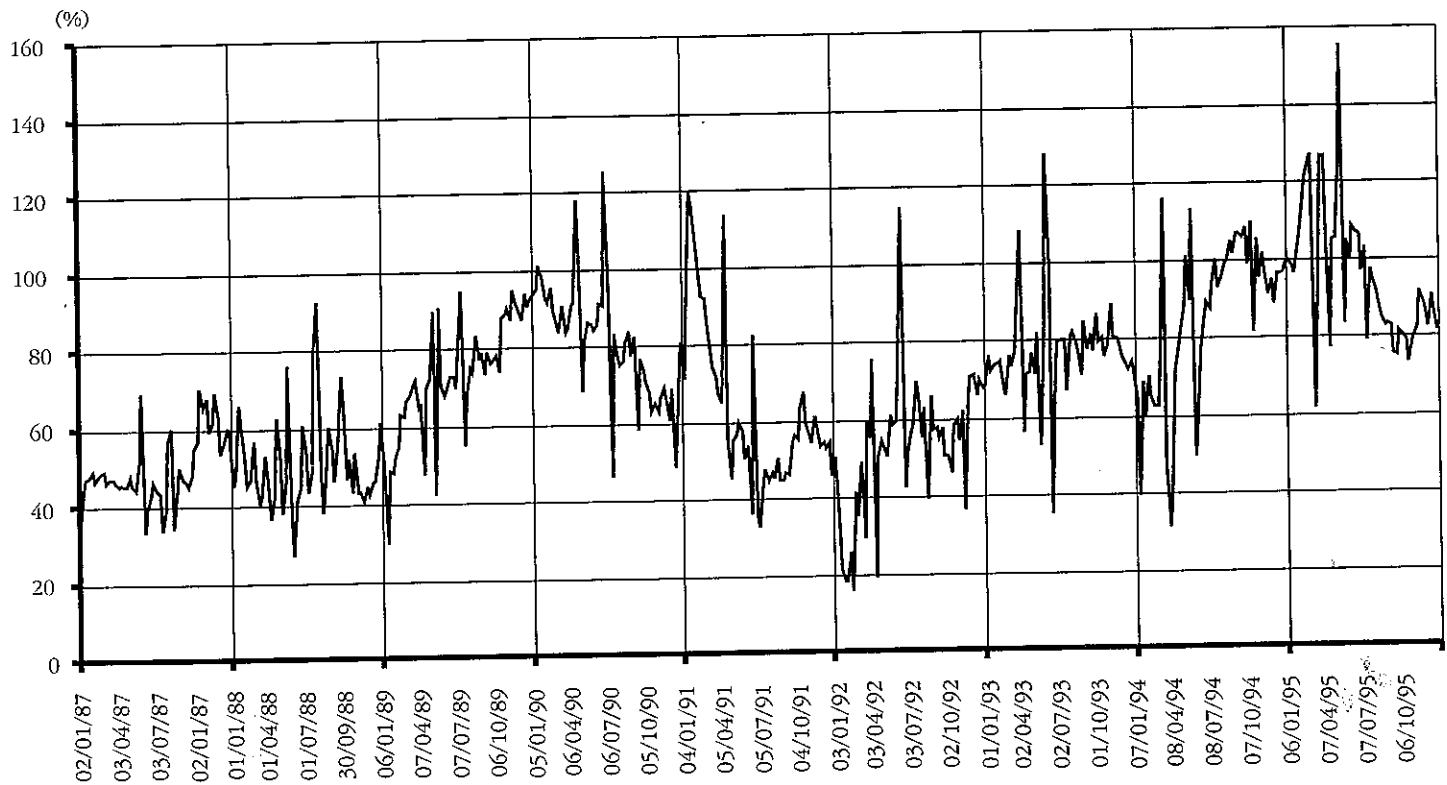
# **CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE**

**GRAPH 9**



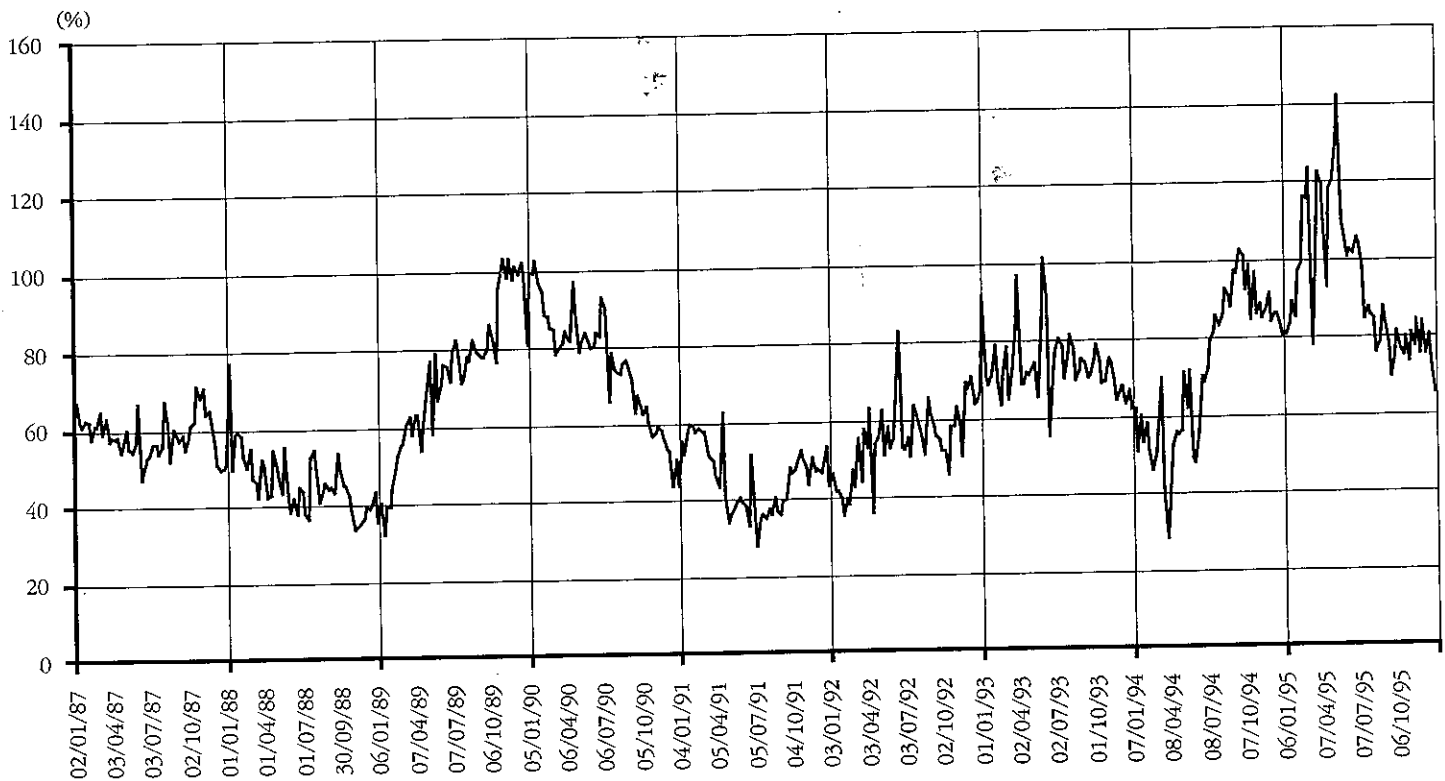
**CURRENCY IN CIRCULATION (Annual Percentage Increase)**

**GRAPH 10**



**M1 (Annual Percentage Increase)**

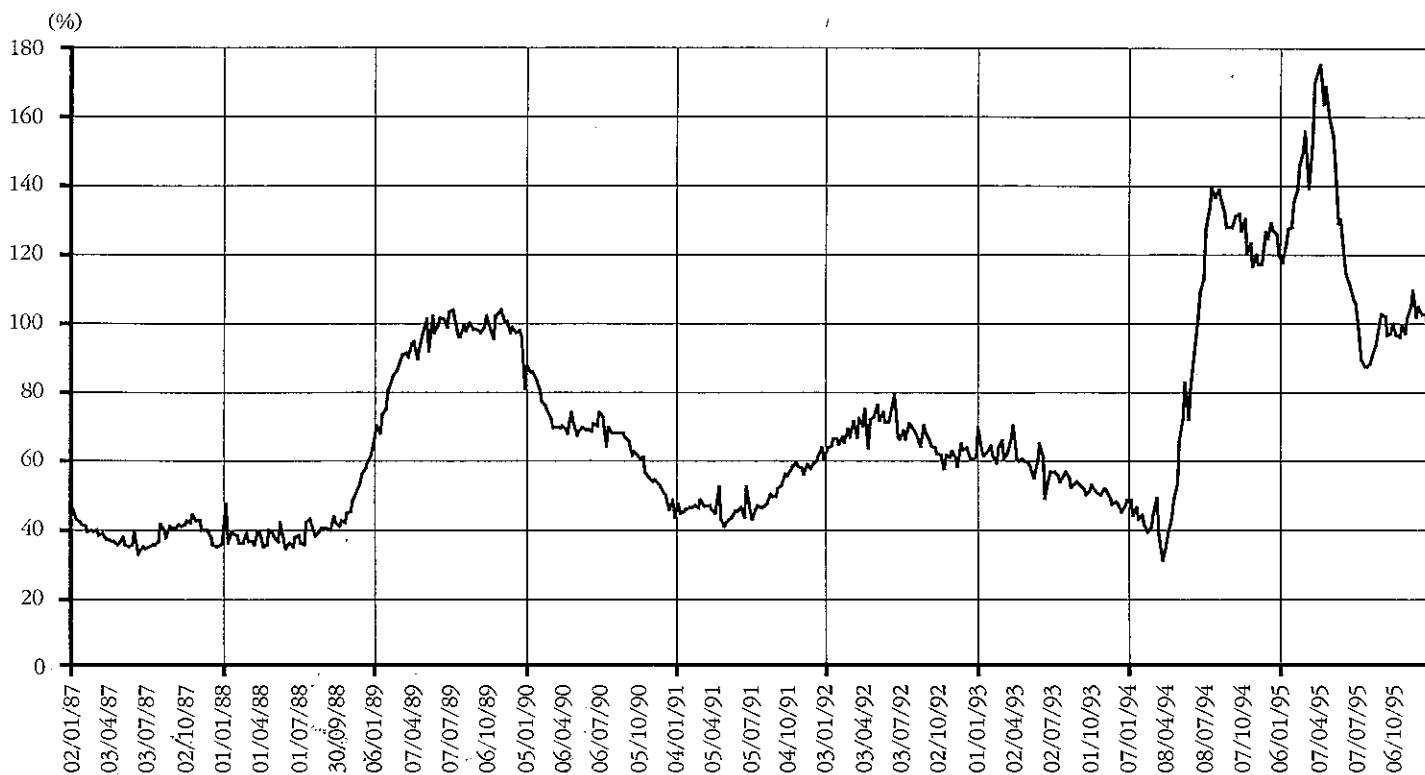
**GRAPH 11**





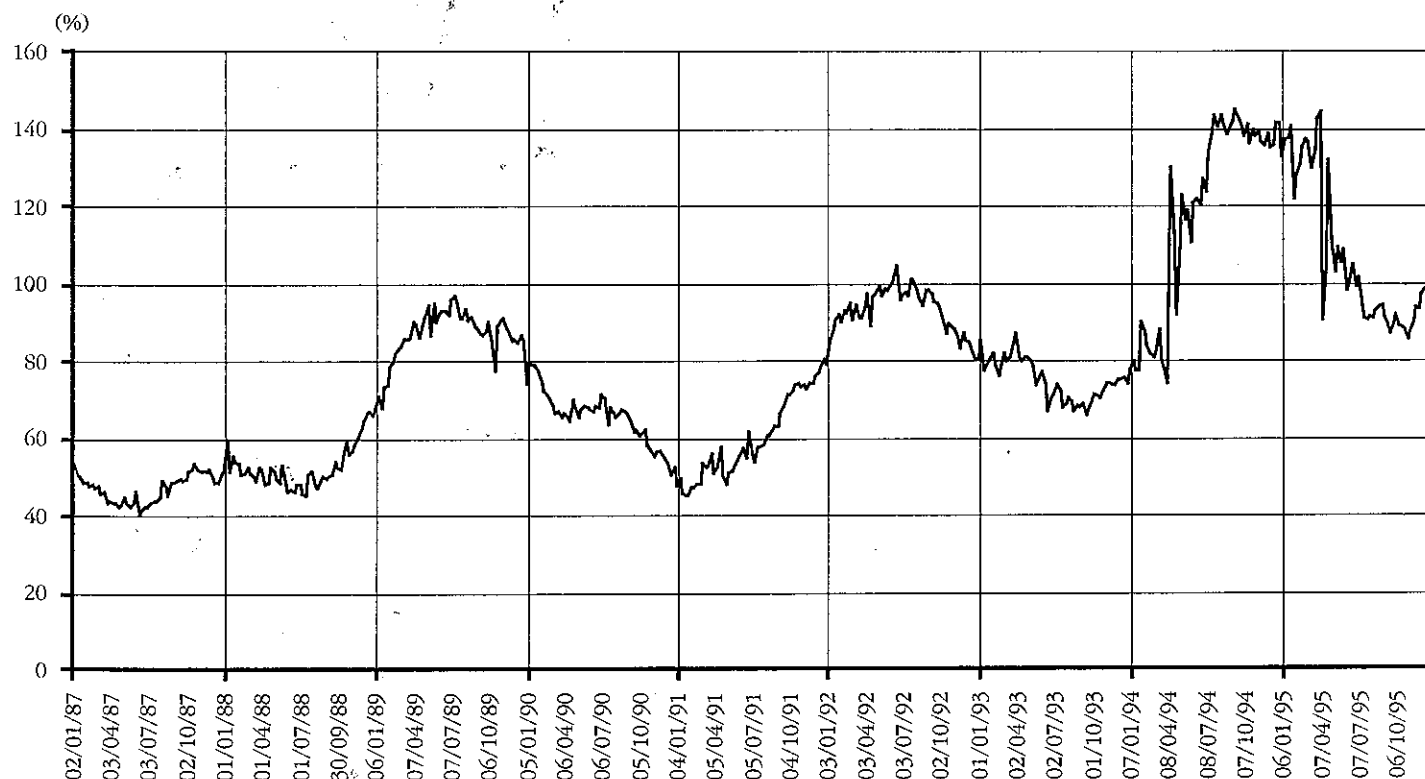
**M2 (Annual Percentage Increase)**

**GRAPH 12**



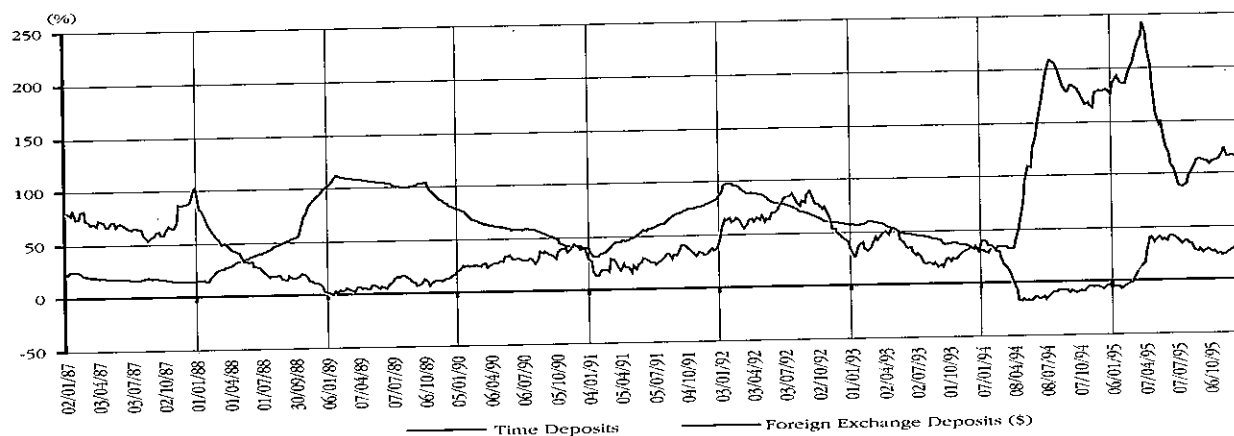
**M2Y (Annual Percentage Increase)**

**GRAPH 13**



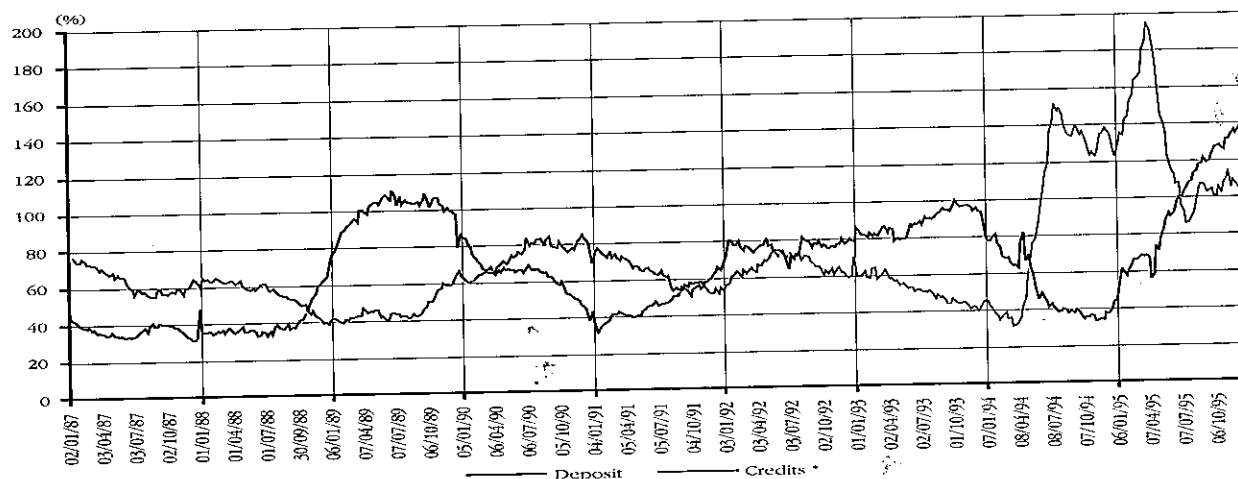
**TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS**  
(Annual Percentage Increase)

**GRAPH 14**



**DEPOSIT BANK CREDITS & DEPOSITS**  
(Annual Percentage Increase)

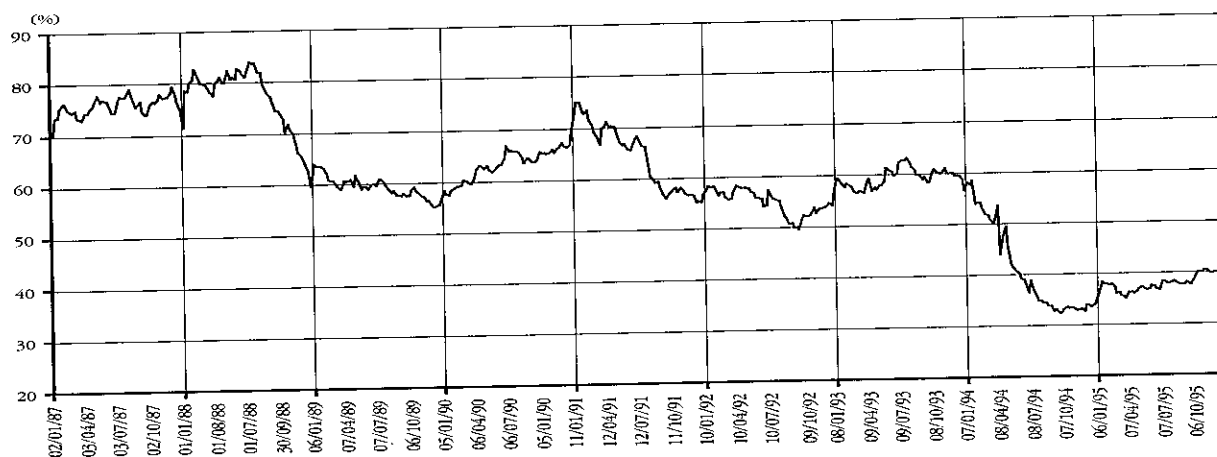
**GRAPH 15**



\* Adjusted for changes in data definition between 1.7.1994 - 1.7.1995

**DEPOSIT BANK CREDITS\*/TOTAL DEPOSITS RATIO**

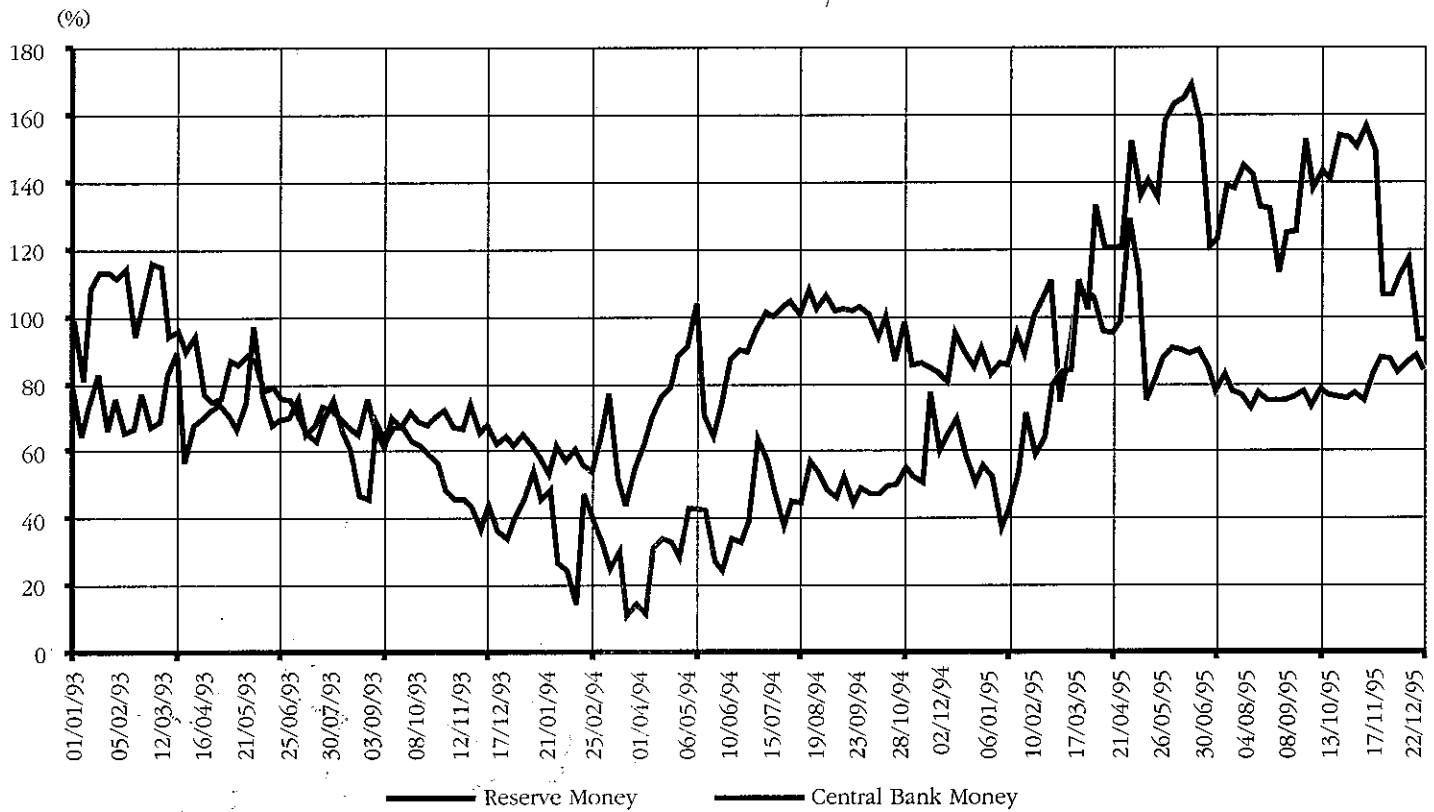
**GRAPH 16**



\* Adjusted for changes in data definition. Total deposits include Foreign Exchange Deposits in M2Y.

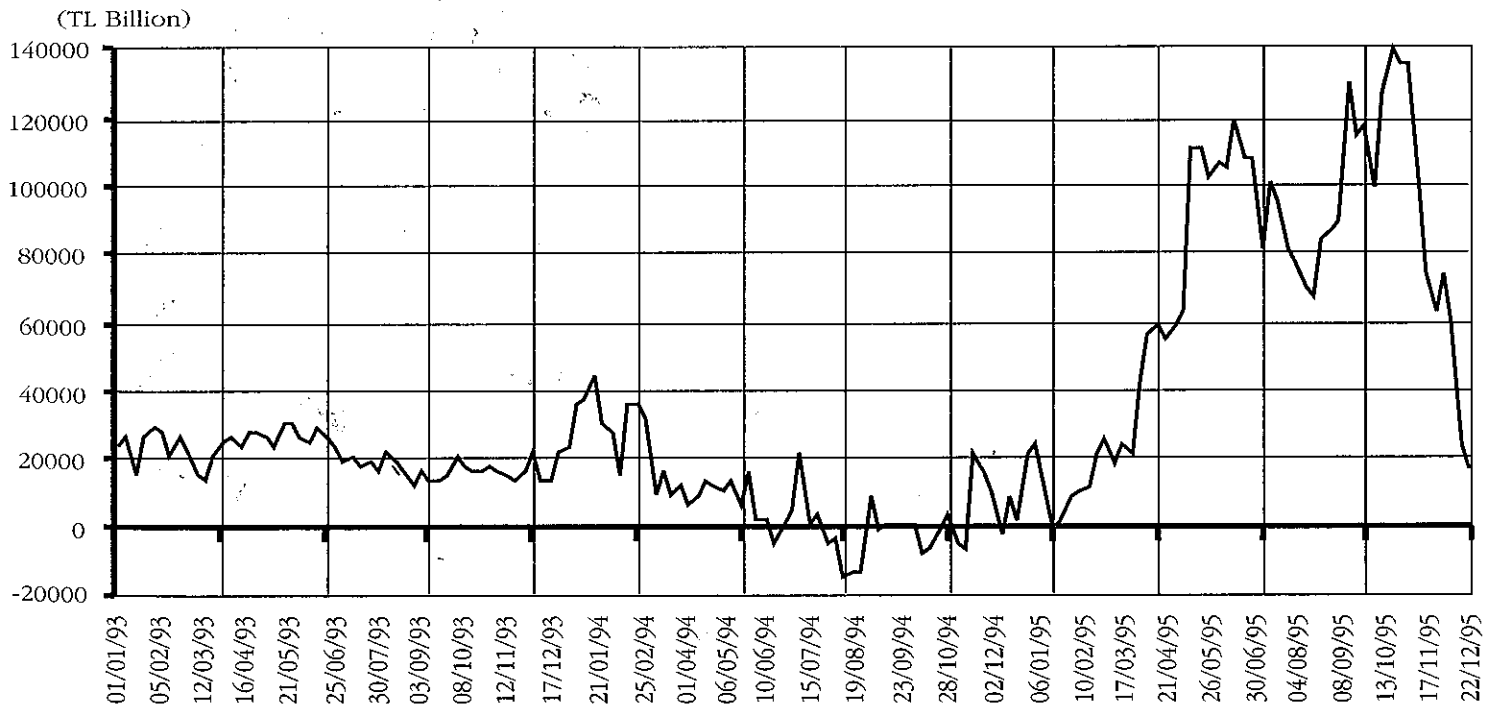
# **CENTRAL BANK MONEY AND RESERVE MONEY** (Annual Percentage Increase)

**GRAPH 17**



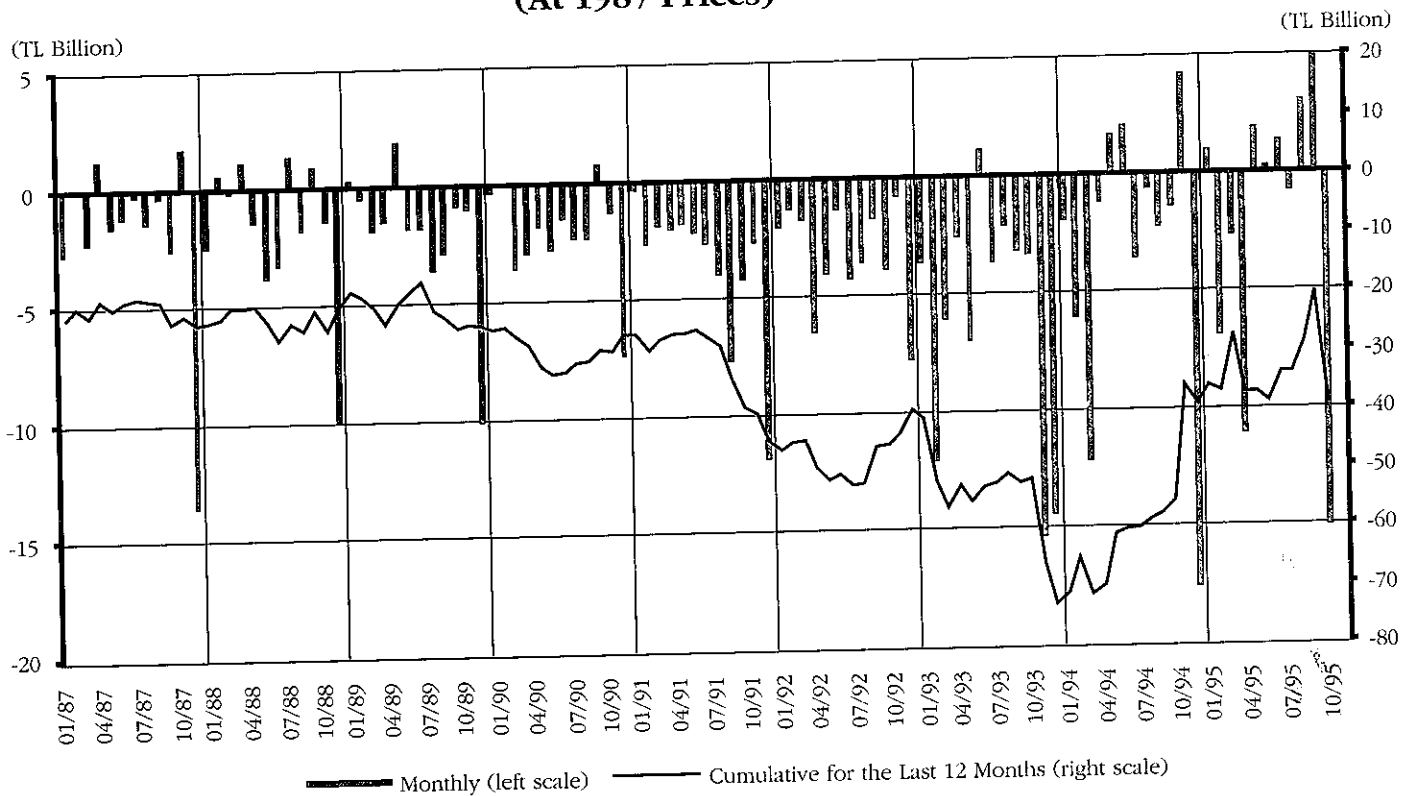
# **LIABILITIES DUE TO OPEN MARKET OPERATIONS**

**GRAPH 18**



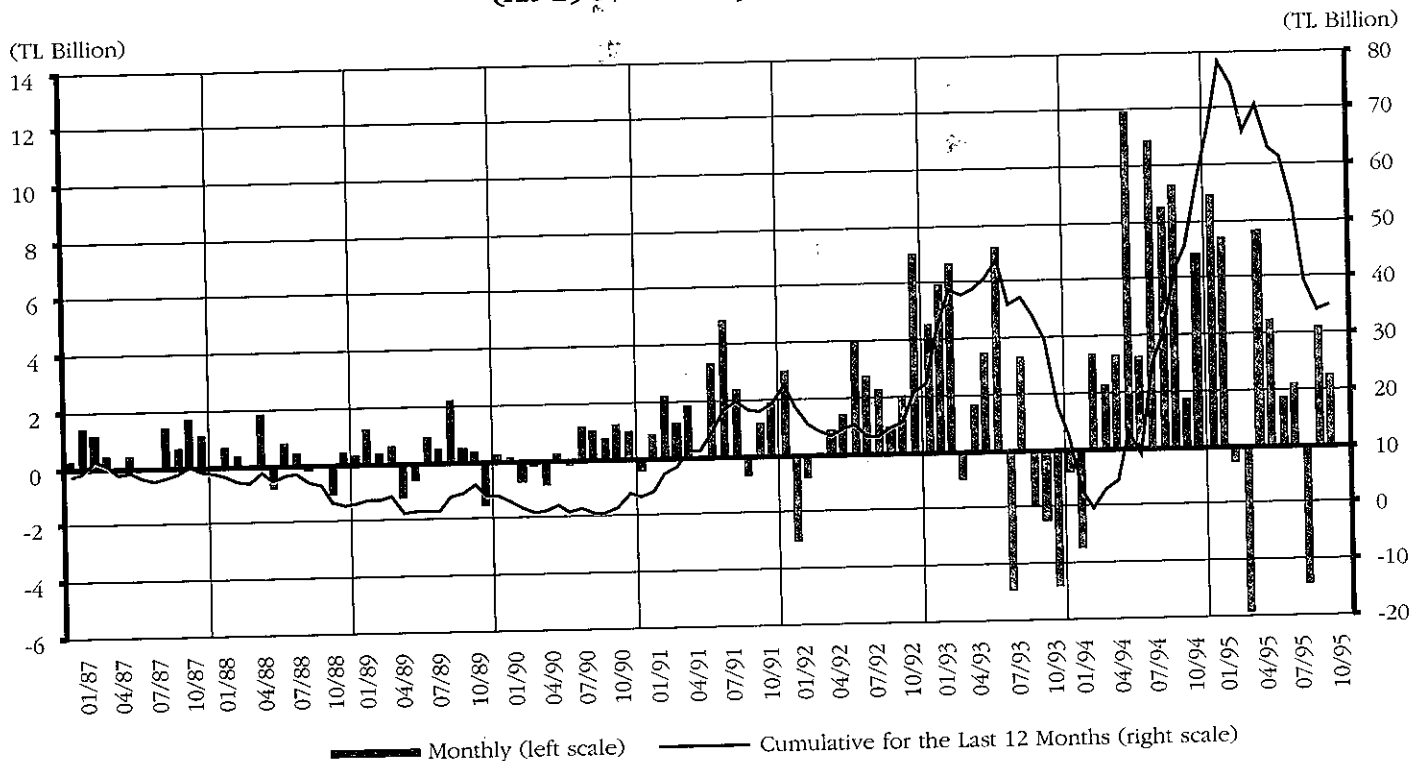
# **CONSOLIDATED BUDGET DEFICIT** (At 1987 Prices)

**GRAPH 19**



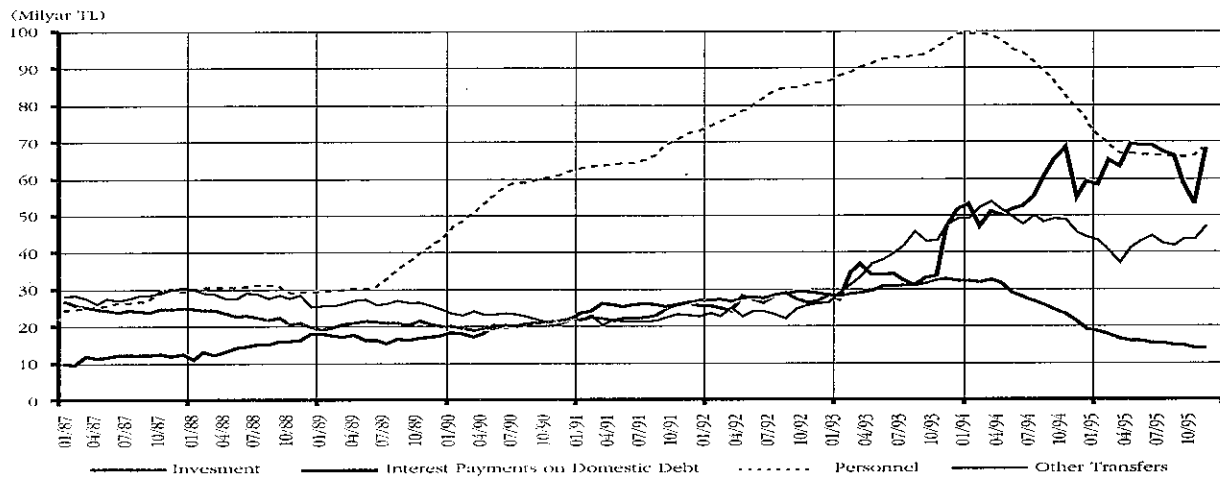
# **BORROWING BY TREASURY BILLS (NET)** (At 1987 Prices)

**GRAPH 20**



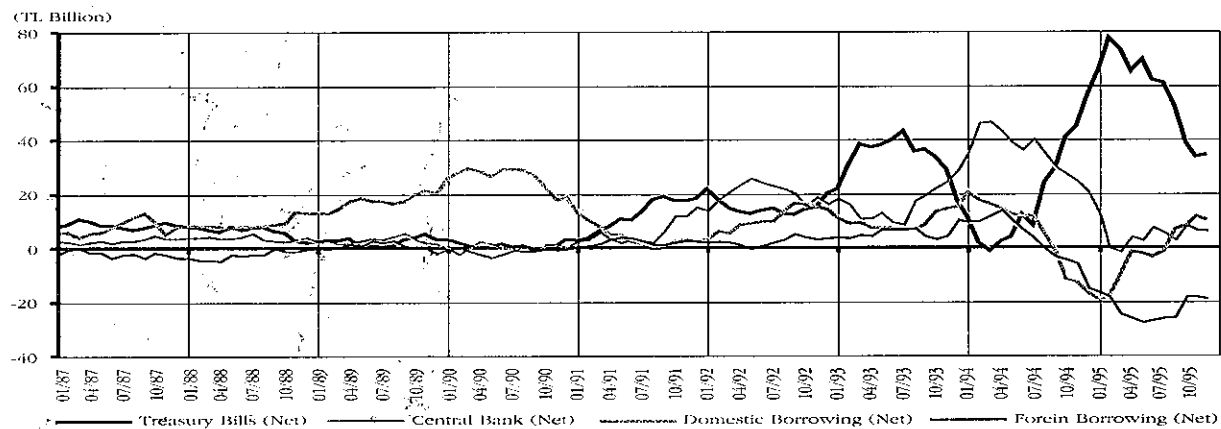
# **CONSOLIDATED BUDGET EXPENDITURES** (At 1987 Prices, Cumulative for the last 12 months)

**GRAPH 21**



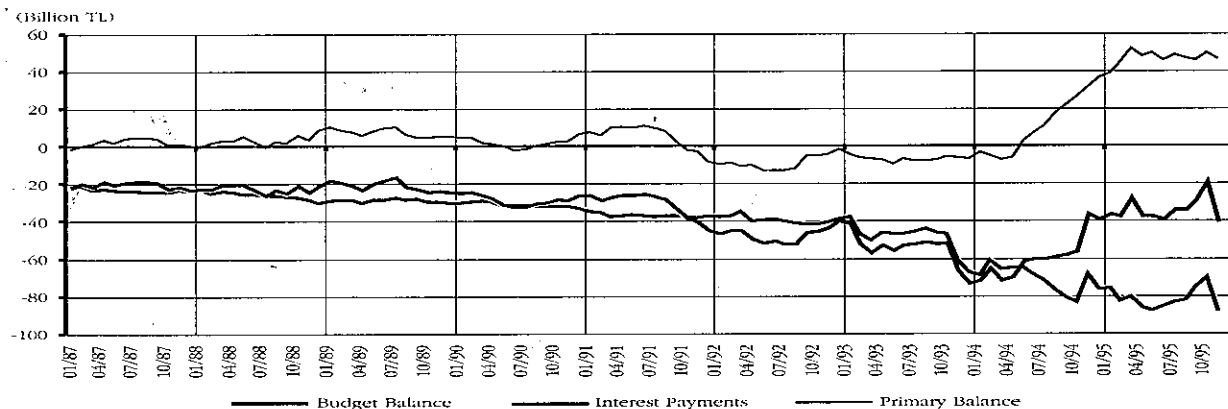
# **CONSOLIDATED BUDGET FINANCING** (At 1987 Prices, Cumulative for the last 12 months)

**GRAPH 22**



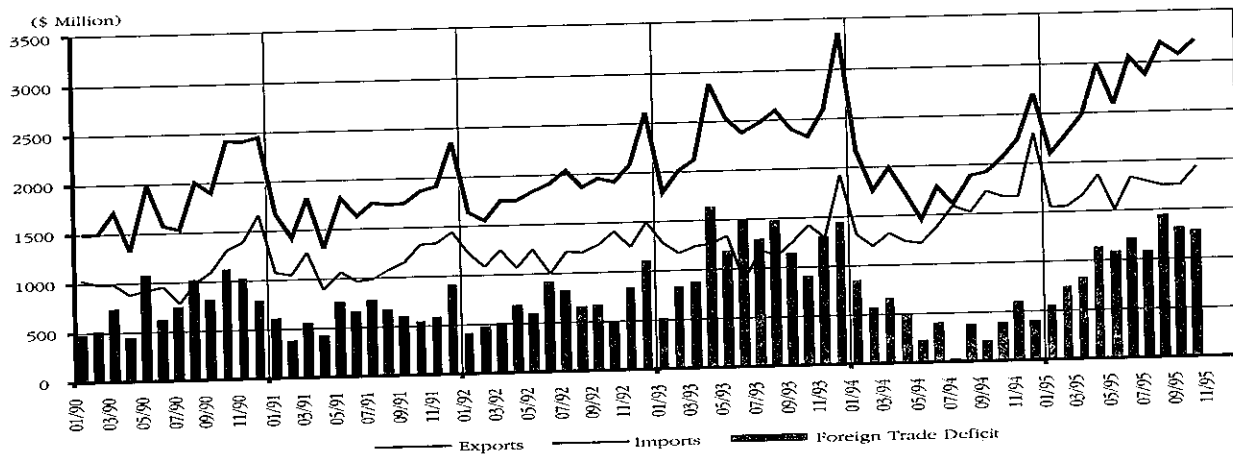
# **CONSOLIDATED BUDGET DEFICIT** (At 1987 Prices, Cumulative for the last 12 months)

**GRAPH 23**



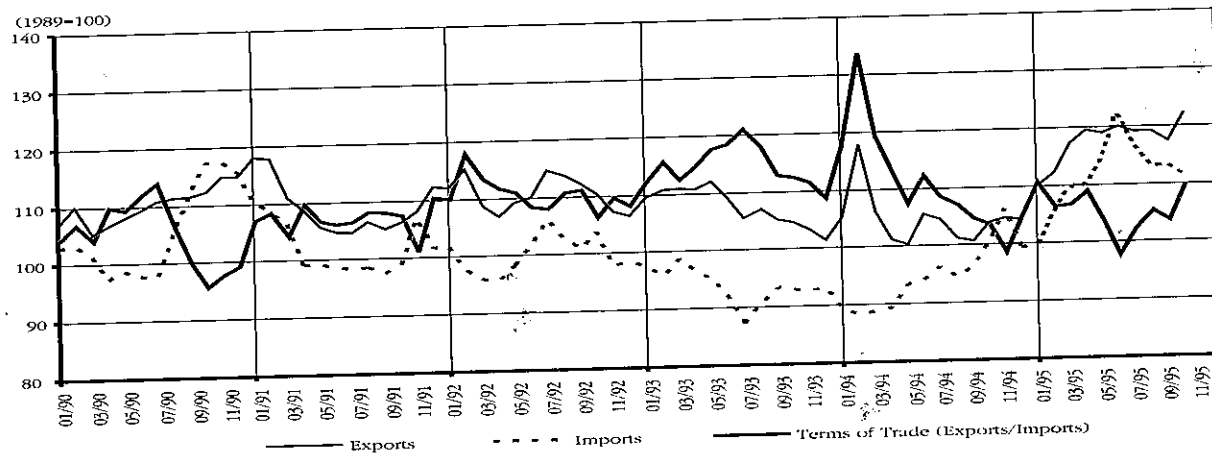
# FOREIGN TRADE

GRAPH 24



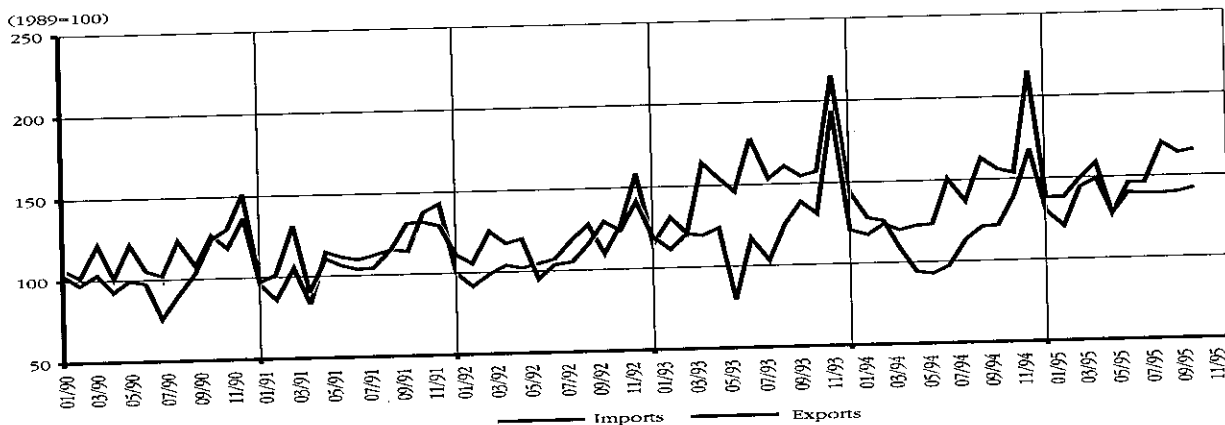
# FOREIGN TRADE PRICE INDEX

GRAPH 25



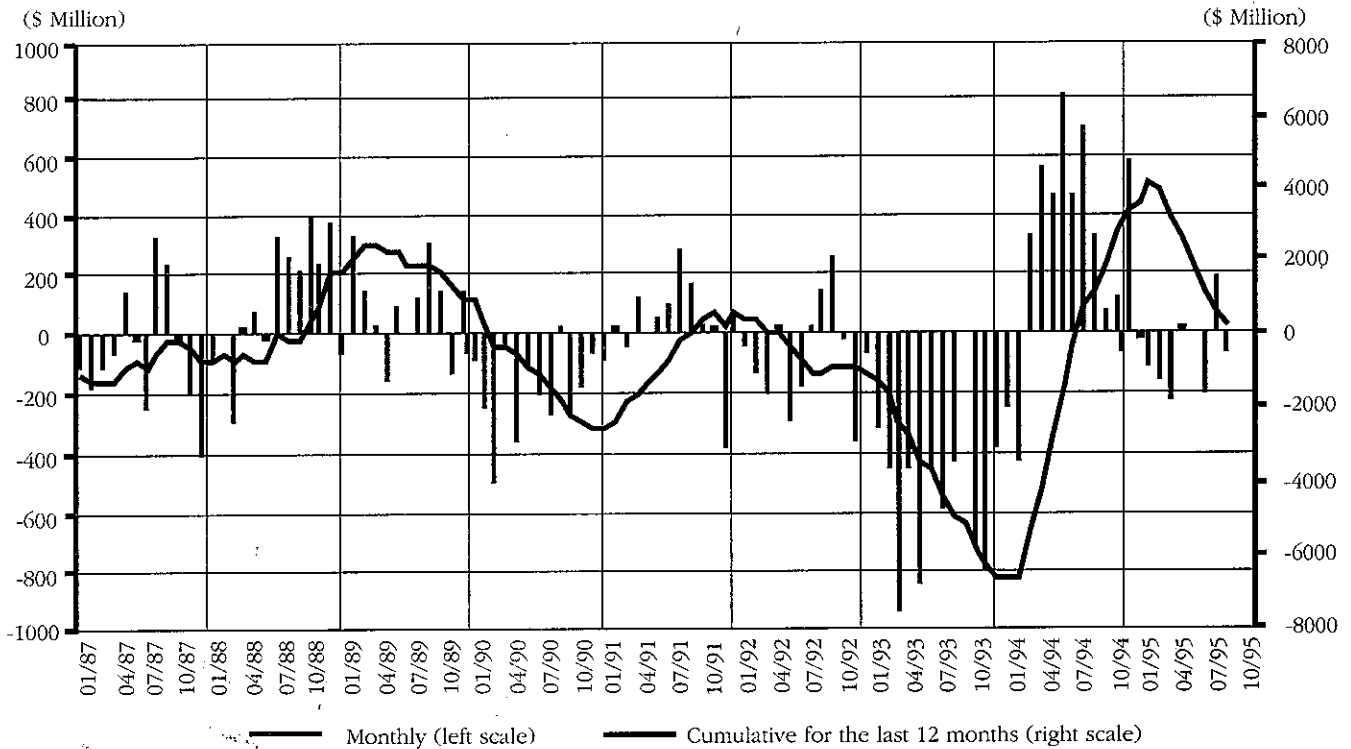
# FOREIGN TRADE QUANTITY INDEX

GRAPH 26



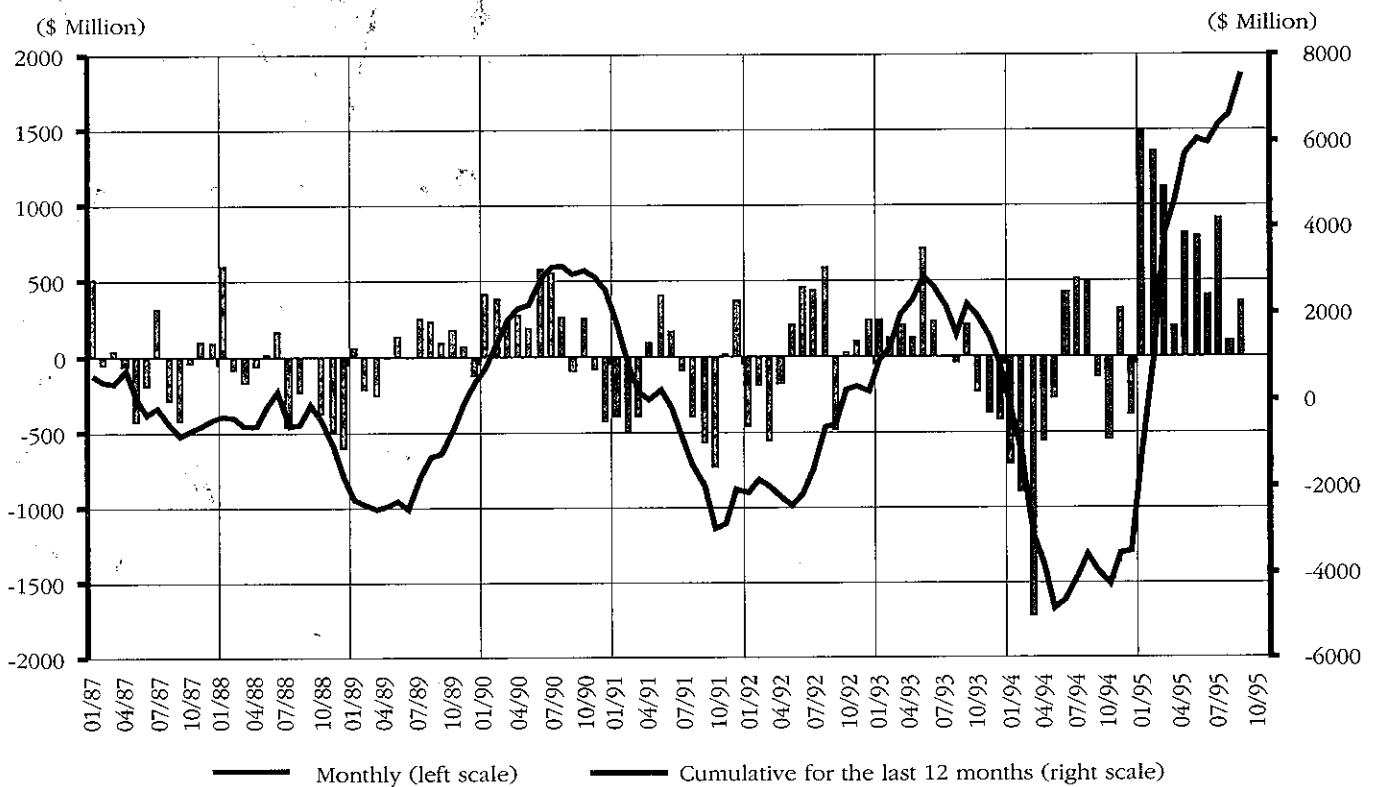
# CURRENT ACCOUNT BALANCE

GRAPH 27



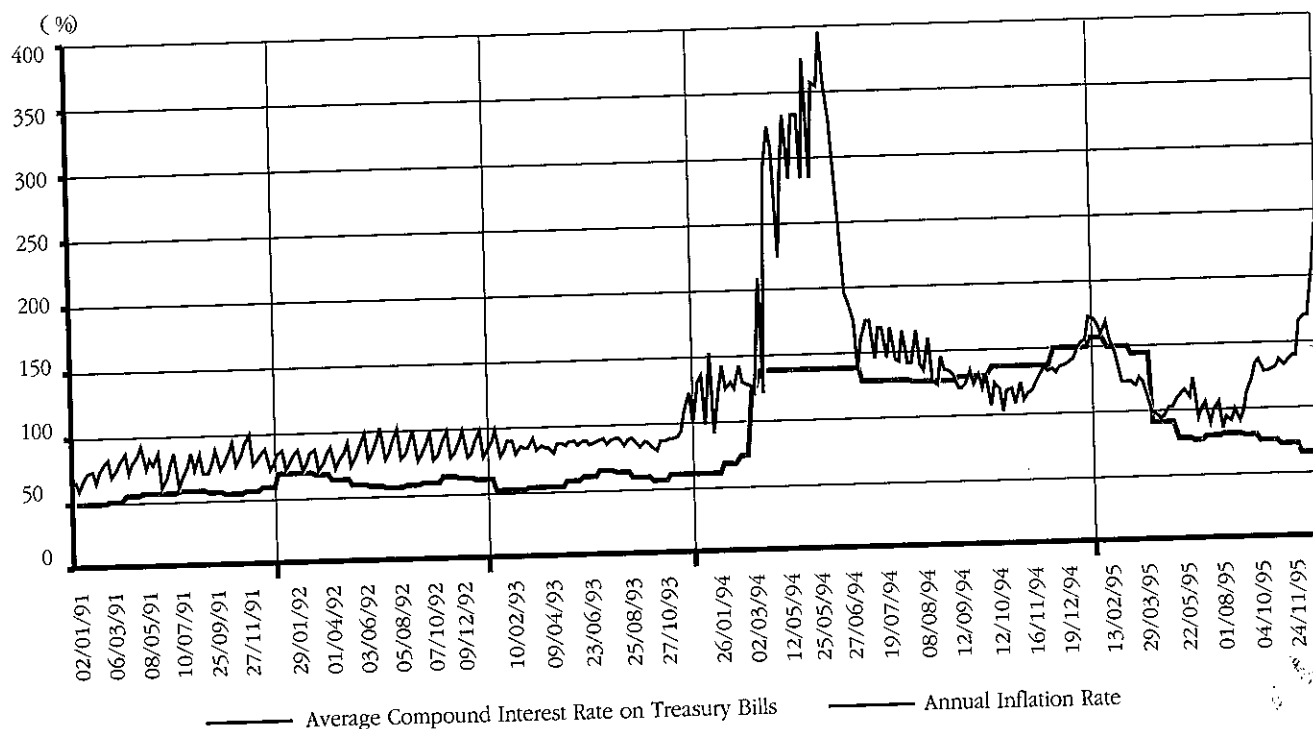
# TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS

GRAPH 28



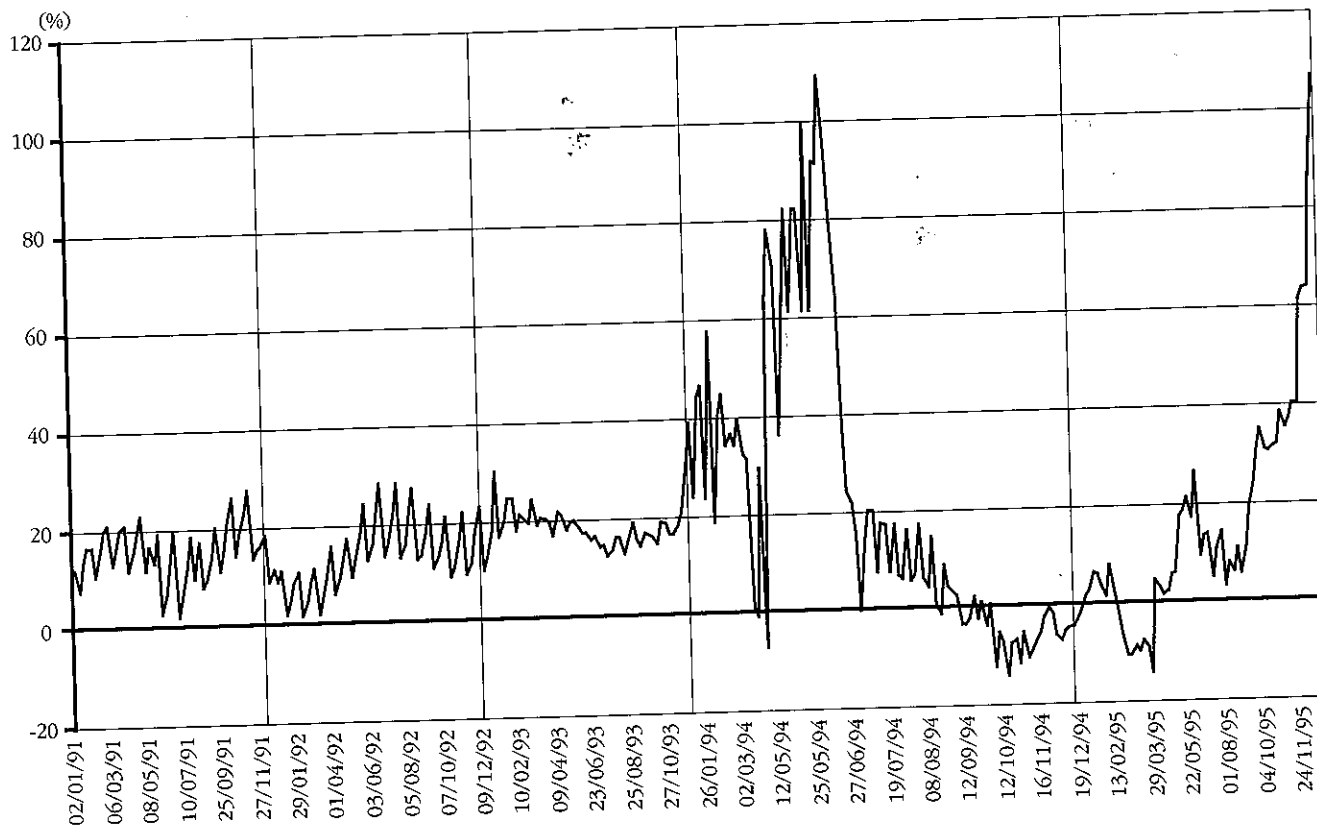
# AVERAGE YEARLY NOMINAL INTEREST RATE

GRAPH 29



# REAL INTEREST RATE ON GOVERNMENT PAPER (\*)

GRAPH 30

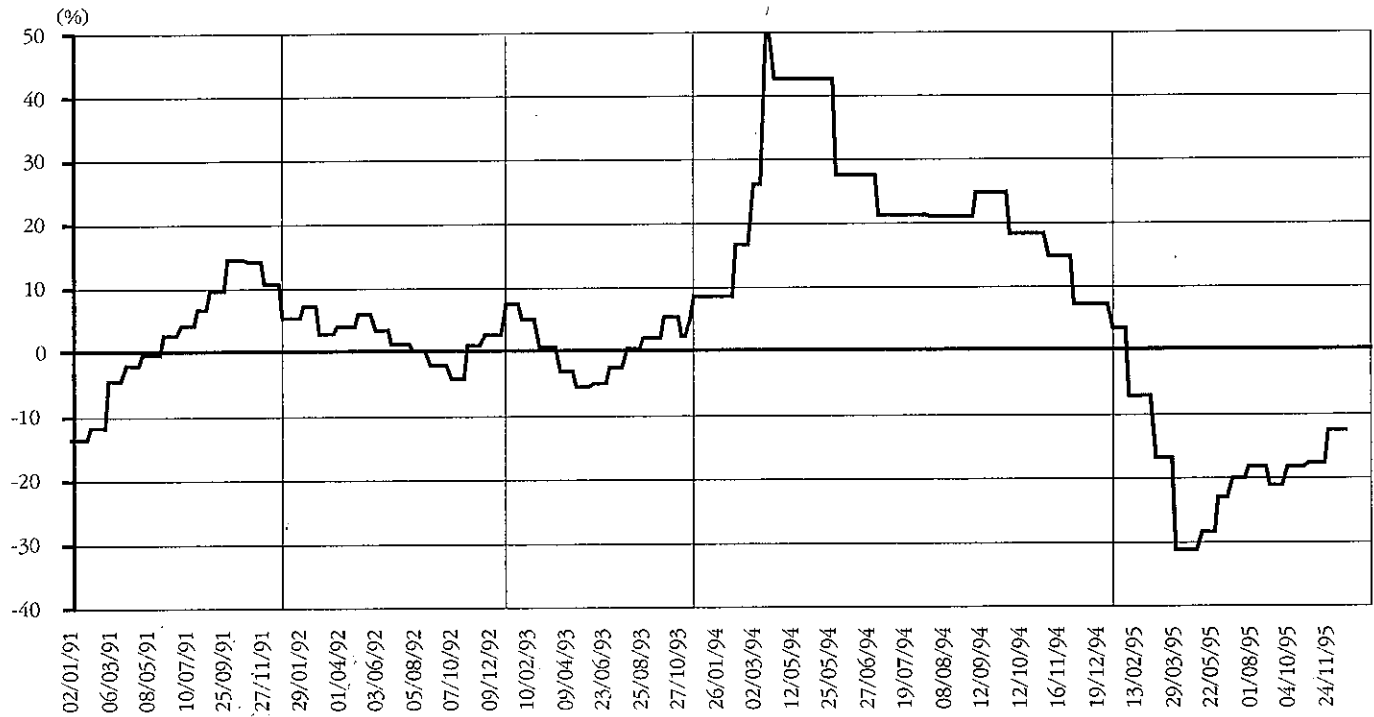


(\*) Real interest rate is computed as:  $\frac{(1+i)/(1+\dot{p})-1}{1} \times 100$   
*i*: Average compound rate of interest on government paper (for all maturities), *p*: inflation rate  $\frac{(p/p(1-12)-1)}{1}$



# REAL RATE OF RETURN ON US \$ (\*)

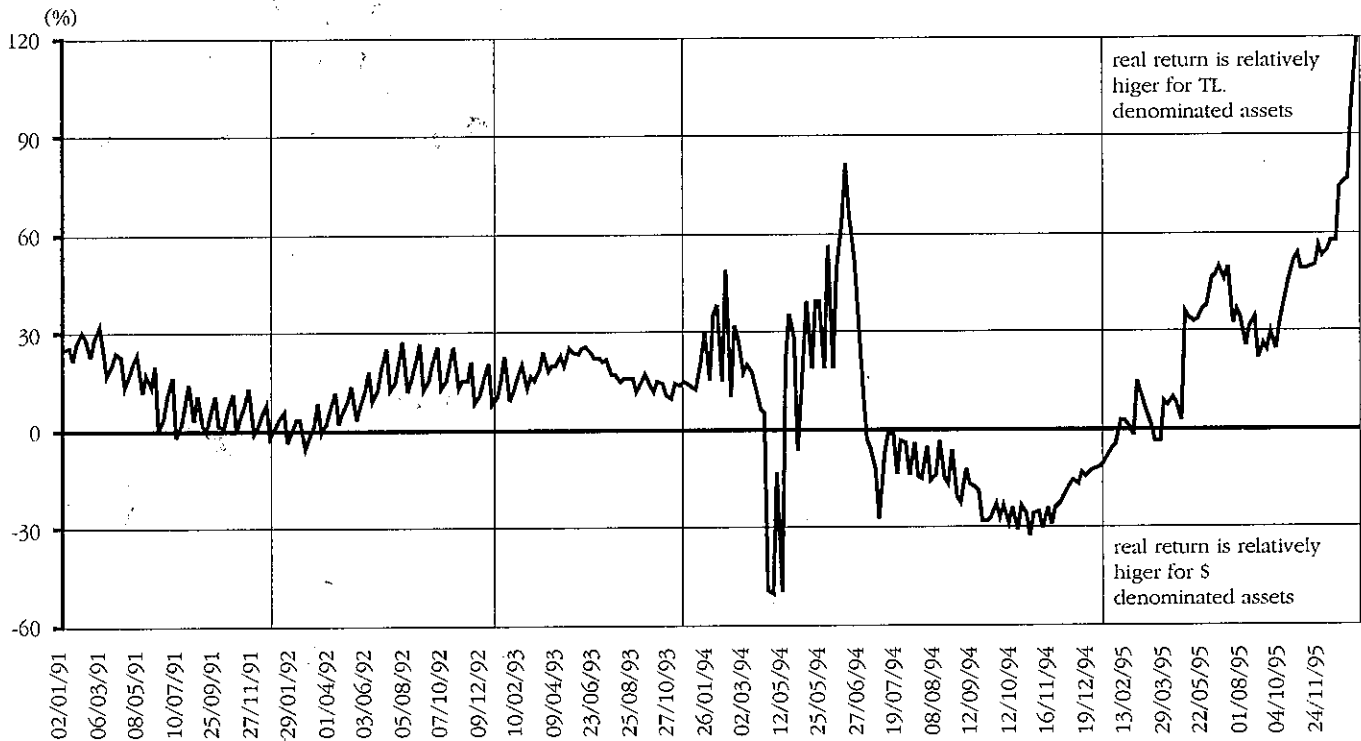
GRAPH 31



(\*) Real rate of return is calculated as the yearly increase of the index (TL/\$) / WPI (1987=100)

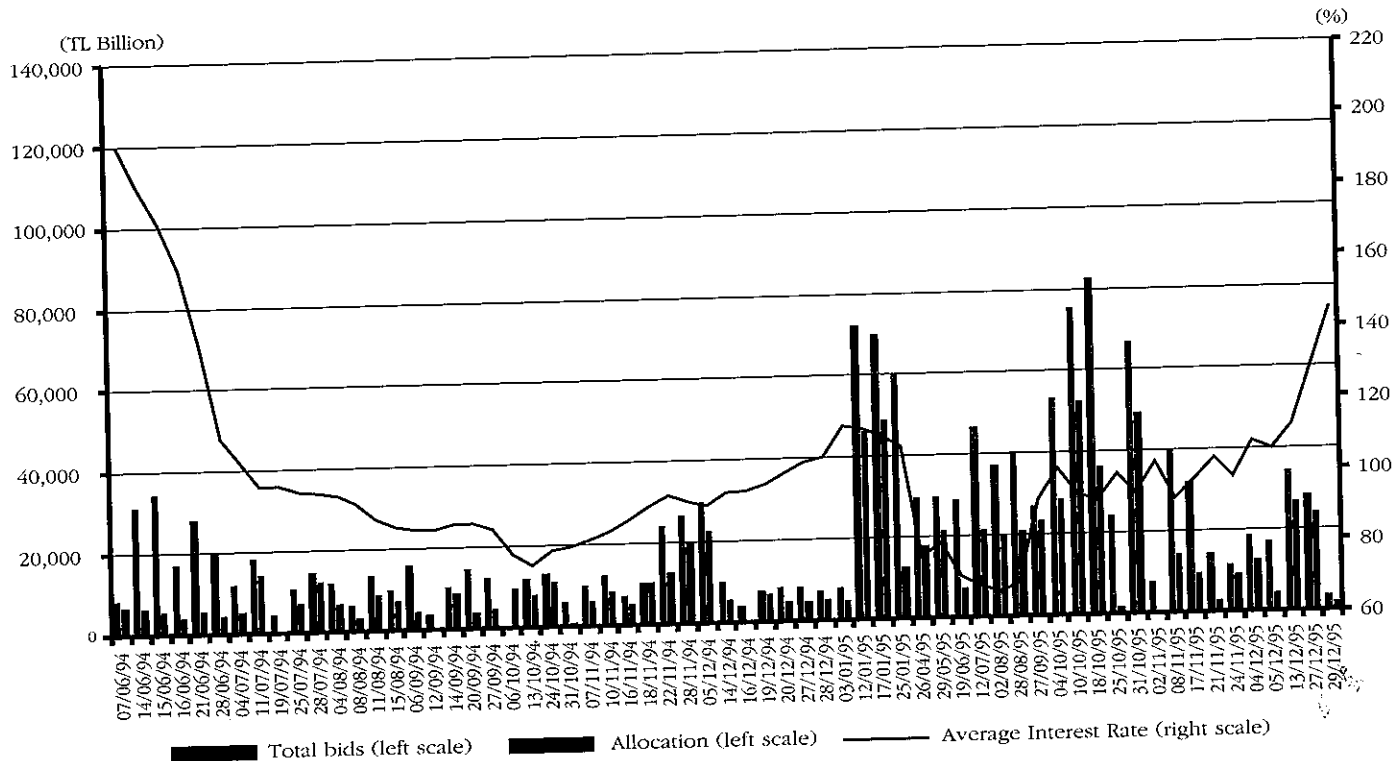
# REAL INTEREST RATE MINUS REAL RATE OF RETURN ON US \$

GRAPH 32



# TREASURY AUCTIONS (3 Months Maturity) (\*)

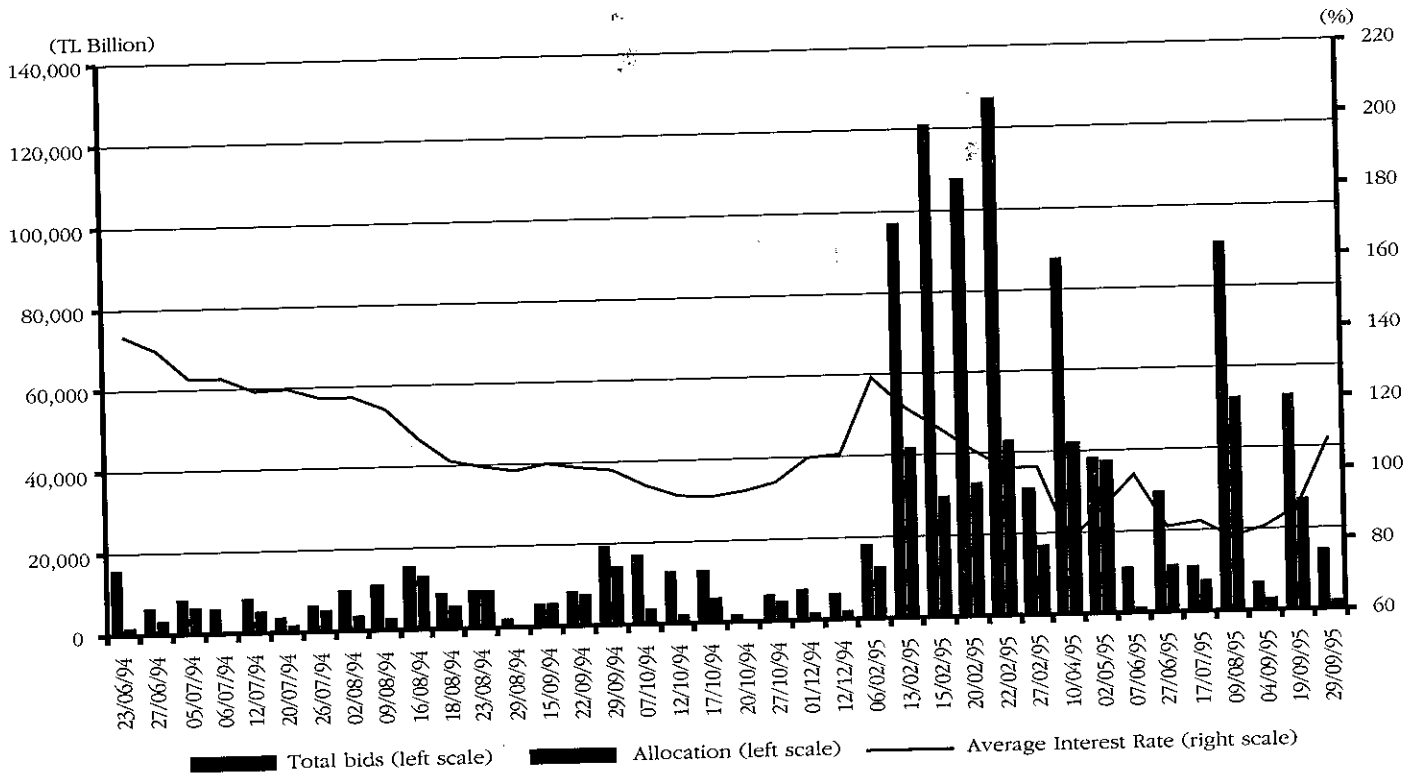
GRAPH 33



(\*) Include bills with irregular terms

# TREASURY AUCTIONS (6 Months Maturity) (\*)

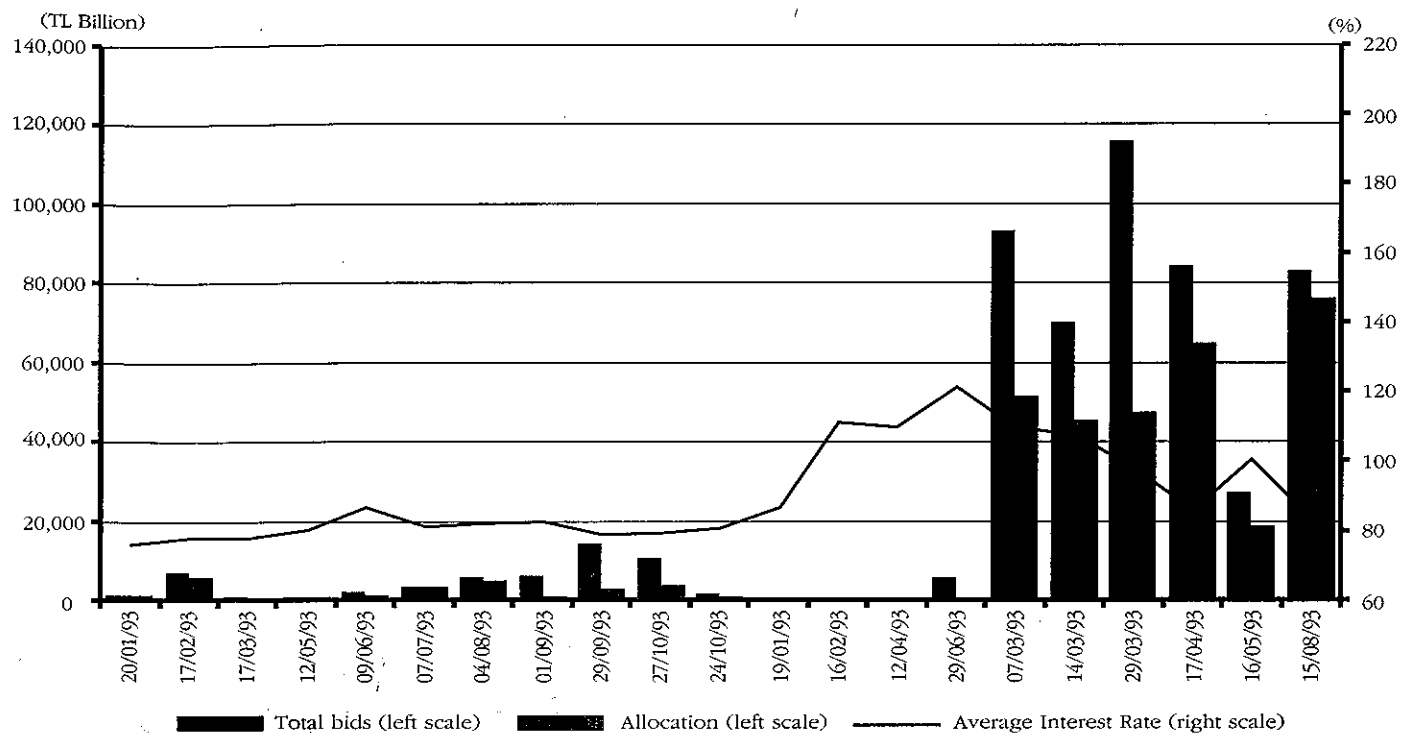
GRAPH 34



(\*) Include bills with irregular terms

# TREASURY AUCTIONS (9 Months Maturity) (\*)

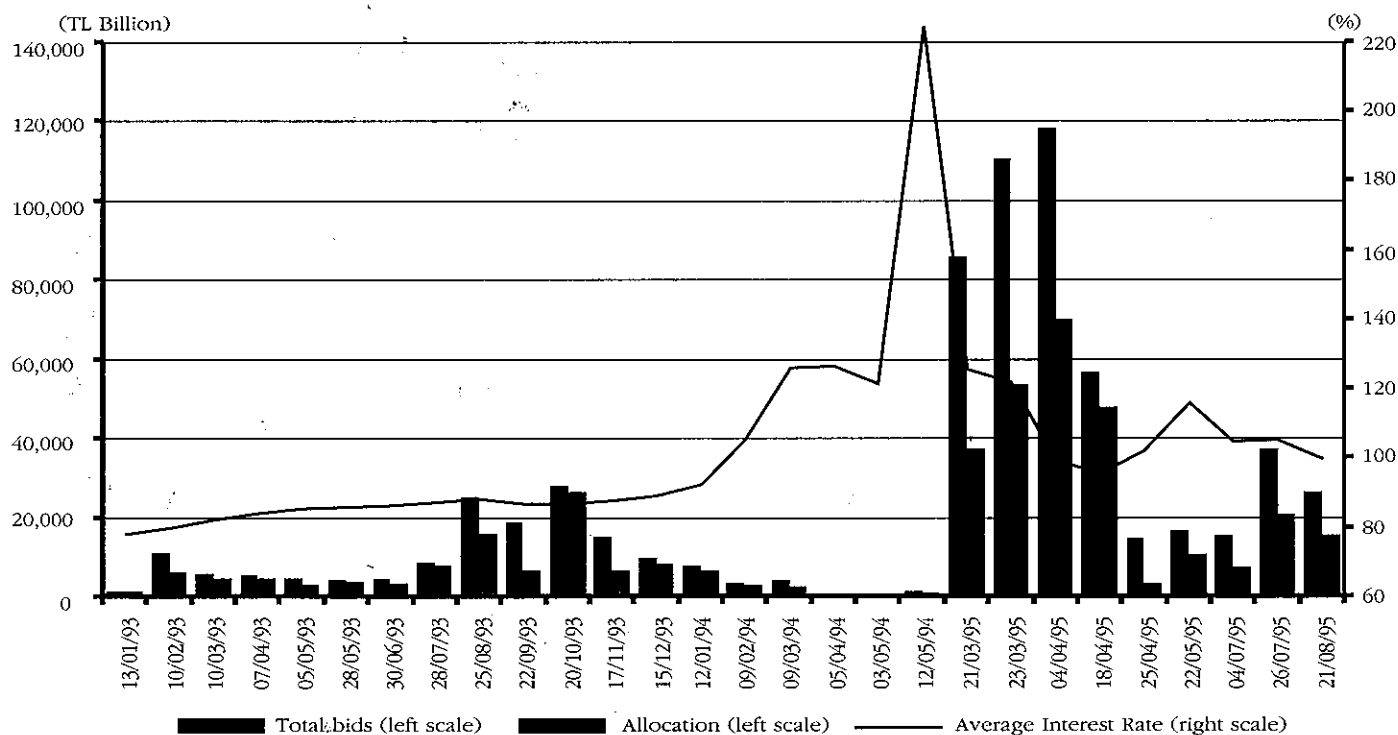
GRAPH 35



(\*) Include bills with irregular terms

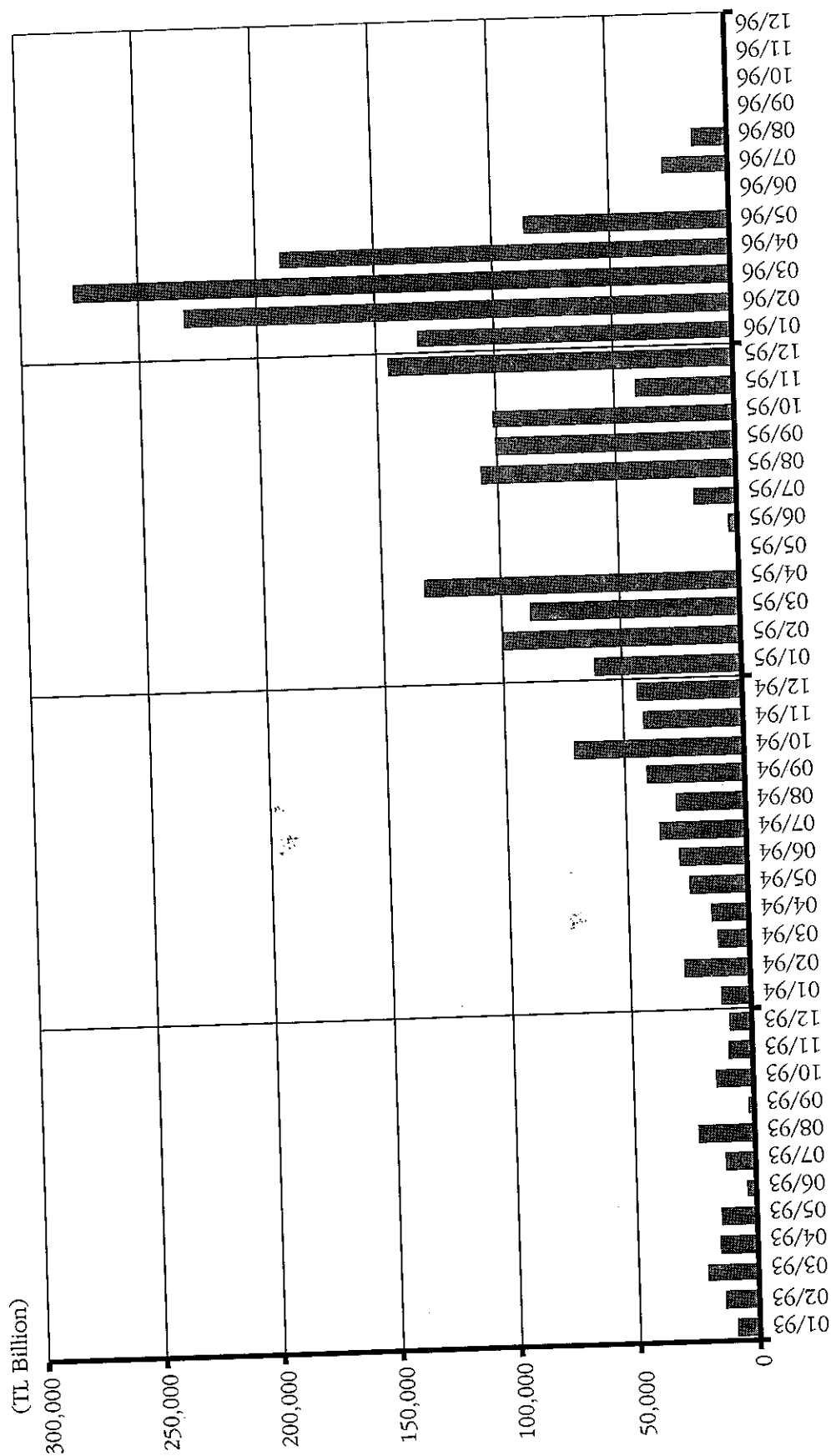
# TREASURY AUCTIONS (12 Months Maturity)

GRAPH 36



GRAPH 37

TREASURY BONDS REPAYMENTS (\*)



(\*) As of end of 1995

