TÜSİAD

TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

TÜSİAD

Quarterly Economic Survey

NO: 10 - 11

October 1996 - January 1997

TÜSİAD TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

TÜSİAD
Quarterly Economic Survey

İstanbul, Oct. 1996 - Jan. 1997

(TÜSİAD-T/96-203)

Meşrutiyet Cad. No.74 80050 Tepebaşı/İstanbul

Phones: (0212) 249 19 29, 249 54 48, 251 43 62, 249 07 23, 251 53 13

ISSN : 1300-3860

Foreword

TÜSİAD ("The Turkish Industrialists' and Businessmen's Association") was founded in 1971 by a group of industrialists and businessmen. Established in accordance with the Constitution and laws regulating associations, TÜSİAD is an independent, non-profit institution whose primary purpose is to promote public welfare.

TÜSİAD embraces the ideal of a state focused exclusively on its primary responsibilities, dedicated to the universal principles of democracy and human rights as well as freedom of thought and belief. For that purpose TÜSİAD acknowledges the development of a society in conformity with Atatürk's principles for a modern Turkey and promotes all the institutions of a democratic civil society and a secular state observing the rule of law. TÜSİAD works to establish the legal and institutional framework of a market economy and to insure conformity with universal business ethics. In line with the goal of global integration TÜSİAD strives to secure a distinct and permanent position for the Turkish industry and service sectors in the international economic system by actively supporting their competitiveness. TÜSİAD encourages and supports the establishment of the principles of liberal economy, the efficient utilization of human and natural resources reinforced by technological developments, as well as policies aiming at increasing competitiveness by creating an environment that will perpetuate the increase in productivity and quality.

TÜSİAD communicates its objectives, activities and recommendations on current economic and social issues to the public through objective and scientific research.

This double issue of the TÜSİAD Quarterly Economic Survey has been prepared utilising the most recent data and estimations available in the July-December 1996 period by the Economic Research department.

THE TREND OF DETERIORATION IN ALL ECONOMIC INDICATORS CONTINUES

Despite the worsening macroeconomic instability, the fast growth process which started in the second half of 1995 continues. Since the beginning of 1996, the inflation rate has been rising while growth rates have been declining. External deficit has increased under the impact of the fast growth, and inflation has accelerated due to the monetary expansion in the second half of the year. The ratio of public deficit to national income has reached record high levels. Interest rates declined throughout the first half of the year, but they began to increase in the second half because of the rising public deficit.

Estimations for the end of the year put the budget deficit at 9%, the current account deficit at 4% and the foreign trade deficit at 11% of GNP. The year-end inflation rate is expected to be around 90% and the growth rate between 7-7.5%. The compound interest rate in domestic borrowing has been around 130%, and the downgrading of the credit rating made foreign borrowing all the more difficult and costly.

Although the rising trends of the inflation rate, interest rate and external deficit necessitate medium to long term stabilization measures, the government has done nothing more than launch three resource packages[1]. These resource packages involve the implementation of new borrowing methods, early collection of future revenues, privatization, and the sale of government-owned real estates; as such, they are far from the much-needed structural reforms[2]. The postponement of structural reforms in a situation of macroeconomic instability makes it difficult to create the conditions of confidence in the domestic and foreign markets and to eliminate the likelihood of a new crisis.

Growth rate continues to be high: The growth rate for 1996 is estimated to be between 7-7.5%.

In the previous TÜSİAD Quarterly Economic Survey it was remarked that the growth rate for the first half of 1996 had far surpassed expectations. It was esti-

[1] *In addition to observing short-term changes in the macroeconomic variables and offering proposals for the maintenance of stability in the markets, one important issue which has often been disregarded, is raising the per capita income and improving income distribution. The solution of these two problems too are dependent on putting in action medium to long term structural reforms.*

[2] *A total revenue of $30 billions was expected to come from the three resource development projects. By the end of November, actual total revenue was estimated at $10 billions. Around $12 billions were to come from privatizations and the sale of government-owned real estates, but this does not seem to be a realistic expectation in view of the legal barriers and time limitations.*

mated that the growth rate would slow down in the second half of the year but it would still remain high given the expansionist financial and monetary policies of the RP-DYP coalition government which came to power in July. In the third quarter of 1996 the growth rate was realized as 5.4%, below the TÜSİAD estimate of 7.2%. In view of this discrepancy, the growth rate estimation has been revised down from 12.2% to 9.6% for the first quarter of 1996[3]. Similarly, the growth rate estimate for the second quarter of the year was adjusted upwards from 8.6% to 8.9%. As a result, the 8% growth rate estimate of the previous TÜSİAD Survey for the year 1996, has been revised downwards to 7%.

The considerable revisions made by the SIS concerning the estimations of the growth rate in the first quarter of 1996 stemmed from the commerce and transportation subsectors, import taxes, and the net factor income from abroad. The growth rate of commerce in the first quarter of 1996 was reduced from 15.3% to 11.2% and that of transportation from 14.4% to 11.8%. The rate of increase of import taxes, which had been calculated in the previous TÜSİAD Survey to have risen far beyond the expectations, was adjusted down from 43.4% to 24.8%. For the second quarter of 1996, on the other hand, the only figure which needed to be revised was that of the net factor income from abroad.

In the third quarter of 1996, the growth rates of all sectors but construction slowed down. The construction sector has grown at a rate of 1.2% in the second quarter and its growth rate went up to 3.7% in the third quarter. The other sectors performed fairly similar to the first half of the year. The highest increase was observed in the commerce sector with a rate of 7.8%. This was followed by the transportation sector which grew by 6.4%. The rate of increase of industry fell down to 5.5%. Agriculture was the slowest growing sector with a mere 1.4%.

Growth was private sector-driven

The increase in industrial production in the first nine months of 1996 was brought about by the private sector. According to the quarterly industrial production index, public sector production, with respect to its level in the same period of the previous year, grew by 2.5% in the first quarter of 1996. In the second and third quarters, however, public sector production decreased by 4.1% and 0.9%

---

[3] *The State Institute of Statistics has announced that the revisions of the GNP calculations for the first half of 1996 was due to the delay in the compilation of the foreign trade statistics of this period.*

respectively. On the other hand, private sector production increased by 13.9%, 12.5%, and 8.5% in the first, second, and third quarters, respectively. As a result, in the first nine months of the year private sector production increased by 11.5% while public sector production declined at a rate of 0.9%.

In the third quarter of 1996 manufacturing industry production increased by 5.1% as compared with its level in the same period of the last year. Production in the chemicals sector, which has the largest share in the manufacturing sector, decreased by 1.5%. Paper and printing industries were the two other sectors with declining production levels. The highest growth rate of 14.5% was achieved in the basic metal industry. This was followed by the machinery industry with 12.6% and the textiles and clothing industry with 8.9%.

The manufacturing industry data of the first nine months of 1996 reveal that during this period the fastest production growth was achieved in the machinery sector. This fast growth in the machinery sector, which includes durable consumer goods, is a sign of the strength of domestic demand. The second fastest growing sector is textiles and clothing with a rate of 9.0%. In this period, the paper and printing industry was the only sector witnessing production declines. One of the slowest growing sectors was chemicals industry, with a growth rate of 3.5%, which is the largest manufacturing sector and in which public and private sectors have equal shares.

With the public sector price adjustments, which had been postponed due to the elections, the inflation rate has increased to the 80%-90% range.

As of November 1996 the yearly rate of increase in the wholesale price index was 85.6%. In the first eleven months of 1996 the rate of increase of public sector prices was 95.2%, while the private sector prices moved up at a lower rate of 73.3%. However, this situation should not be taken as a proof that public sector prices have in general a relatively higher rate of increase. The main reason behind this development was the price adjustments in the public sector in the first four months of 1996, which had been postponed during the last five months of 1995 in view of the general elections at the end of 1995[4].

It can be observed that, due to the significant upward price adjustments in the public manufacturing sector during the first four months of the year, the rate of

---

[4]In 1995, the private sector prices had increased at a rate of 71% and the rate of increase of the public sector prices had remained at 48.2%. Hence, looking at the price movements from the beginning of 1995, it can be observed that the prices of both the public and the private sectors increased at equal rates.

increase of the public sector manufacturing prices turned out to be approximately 22% more than that of the private sector manufacturing prices. Another public sector with significant price rises in the post-election period was electricity, gas and water. In this sector monthly rate of price increase was 20.6% during the month of January. A comparison of this monthly figure with the 16% price rise in the whole second half of 1995, indicates the dimensions of the price adjustments after the elections. The prices of this sector continued to rise in the February-April period, so that the total price increase in the first four months of the year reached the level of 57.9%.

After the heavy price adjustments in the public sector during the first four months of 1996, it can be observed that the increases in both the public and the private sector prices followed similar paths.

As the public sector prices are wide open to political influences and the agricultural prices exhibit significant seasonal variations, it can be said that private sector manufacturing prices, being relatively less influenced by such factors, are a better indicator of inflation. The private sector manufacturing prices increased at around 4.5-5% monthly and the yearly rate of increase in November was 74.9%.

Another peculiar development of recent years was that the agricultural prices increased at a faster rate than the manufacturing prices. During the 1994 crisis, due to the sharp increases in the manufacturing industry prices, the internal terms of trade followed a negative course for agriculture; however, the fast increases of agricultural prices made the terms of trade favorable for agriculture by the beginning of 1995. During 1996, the development of the terms of trade in favor of agriculture became all the more apparent, and in the first eleven months of the year agricultural prices increased by 95.8% as opposed to the 79.6% rise of the manufacturing industry prices.

In November, the yearly rate of increase of the consumer price index was 80.4%. The transportation and health subsectors were marked by the highest rates of increase, with 110.9% and 106.9%, respectively. The lowest price increases, on the other hand, were observed in education with 60.4% and housewares with 63.8%. Food prices rose at a rate of 72.9% and the figure for clothing was 79.3%.

In the first eleven months of 1996 consumer prices increased by 73.8% and wholesale prices by 77.9%. During the first four months of the year, as a result of the high upward price adjustments in the public sector, monthly increases in the wholesale prices remained higher than monthly increases in the consumer prices. Monthly changes in the two indexes were almost equalized in the April-July period, and beginning with August the consumer price index began to rise relatively faster under the impact of seasonal factors. The sectors which accounted for the seasonal variations in the consumer price index was education in September and clothing in November.

It is estimated that for 1996 the average inflation rate will be around 76% and the year-end inflation to be approximately 90%. This trend is expected to continue during 1997 and the average inflation rate for 1997 is estimated at 86.7%[5].

The money supply is increasing in real terms.

The second half of 1997 was a period of acceleration of monetary expansion. In order to make it possible for the Treasury to borrow at relatively lower interest rates, the Central Bank has attempted to keep interest rates at a certain level, throughout this period by increasing liquidity in the markets. The expected impact of political uncertainty, financing requirement of the budget deficit, and the levying of a withholding tax on Treasury papers on interest rates has been kept under control by the Central Banks' policy.

The government which was formed in July favored Central Bank financing over domestic borrowing as a less costly source, and this policy caused a sharp increase in short-term advances. By the end of July short-term advances reached the amount of TL 238 trillions, indicating an almost 60% expansion from their lowest yearly level of TL 141 trillions at the end of June. This policy of curtailing domestic borrowing exerted a negative impact on the markets at a time when the Treasury had to pay back external debt amounting to $1 billion. Interest rates, which had been expected to fall, went up and maturities got even shorter. On the other hand, the rise in liquidity, which brought about on increase in the demand for foreign exchange was provided for by the Central Bank.

Under these circumstances the above-mentioned policy was quickly abandoned. As of August, the use of short-term advances continually decreased at each month's end, although sporadic increases have been observed related to the need for cash. In the third quarter of the year, foreign assets of the Central Bank grew by TL 315 trillions and its domestic assets by TL 58 trillions while foreign liabilities grew by TL 332 trillions and Central Bank money increased by TL 40 trillions. In

[5] *TÜSIAD's estimations of the main macroeconomic variables, under the assumption of a 4% growth rate, are presented in the Appendix.*

other words, in the period between June and September, the Central Bank provided the public with TL 58 trillions of credit, of which TL 41 trillions were financed by the creation of Central Bank money and the remaining TL 17 trillions were financed by reducing its net foreign exchange position from $392 millions to $165 millions.

In line with policies put in action following the month of August, the Central Bank began to inject more liquidity into the market. In the third quarter of the year, reserve money increased at a high rate of 21%, 9% in real terms. Beginning with September, the Central Bank began to offer liquidity to the market at daily interest rates which were slightly above the expected monthly inflation rate but below the rate of Treasury bills. Liabilities due to open market operations, which had been in the amount of TL 76 trillions as of the end of August, fell down to TL -36 trillions by the end of September and toTL -60 trillions by the end of October.

The increase in the amount of currency in circulation also contributed to the growth of the money supply M1, which is the total of the currency in circulation and demand deposits, grew by 30% in the first six months of the year and by 21% in the third quarter. M2, which equals M1 plus time deposits, expanded by 23% in the third quarter.

In this period, although there was no change in deposit interest rates, savings time deposits increased by 25%, 11% in real terms. In October, M1 remained constant but M2 continued to increase particularly as a result of a 7.6% rise in the savings time deposits.

Foreign exchange deposits, which had been in the amount of $22 billions at the end of December 1995 and remained between $21-$22 billions until the end of June, began to rise thereafter and reached the level of $23 billions in July, $23.8 billions by the end of September, and $24.2 billions by the end of October.

The rising trend in interest rates as a result of political uncertainty and increased budget financing requirements has been partially offset by real monetary expansion.

Increased liquidity has helped keeping interest rates at a certain level. As deposit interest rates have not changed since April, developments in the markets are better reflected by the interest rates of the Treasury bills.

Interest rates which were realized in Treasury auctions declined from the beginning of the year until June, and from that date on they started to increase because of the governmental crisis. At the beginning of July the new government revealed its intentions of reducing interest rates by means of printing money. This intended policy caused concerns in the markets with the result of rising interest rates and diminishing maturities. The government's response to these developments was to abandon the intended policy.

In August, the government cut down the amount of short-term advances and gave assurances that domestic borrowing would be continued under market conditions. These signals resulted in a partial reduction in interest rates and a corresponding extension of the maturities. In auctions held in August the weighted average maturity increased to 195 days and the average compound interest rate decreased by 3 points with respect to its July value.

However, in September, the average maturity diminished to 173 days as a result of bond sales to meet increasing cash requirements of the Treasury. As the Central Bank injected liquidity into the market and maturities became shorter, the average compound interest rate did not increase.

In October, the average maturity rose up to 291 days and the average compound interest rate remained unchanged. Despite increased financing requirements, the rise in interest rates remained limited due to increased liquidity and the postponement of the imposition of the withholding tax. The withholding tax began to be levied beginning with the first auction of November, with the immediate result of rising interest rates, even though the government attempted to prevent this outcome by meeting only part of the offers. In November, the average maturity once again declined to 203 days and the average compound interest rate rose up to 134%.

The stock exchange index, which had receded during the governmental crisis, is again on a rising trend.

The compound index of the Istanbul Stock Exchange had been on a rising trend in the first quarter of 1996 and reached the 67,045 level in March. Despite the negative impact of the governmental crisis in the second half of the year, the index finished the month of June at a level of 70,489. This was because of the lower returns on other investment instruments. The stock market regained some of its vigor following the establishment of the RP-DYP coalition government in July and the index went up to 73,900. However, in response to the new government's policy intentions which created uncertainty in the markets, the index began to decline until mid-August. After that time, it started to rise again and reached the level of 64,553 by the end of August.

The index responded positively to the government's policy declarations of accelerating privatizations within the framework of its resource packages. Hence, the index started to increase by mid-September, and this trend continued in October and November. With the additional push of the positive balance-sheet expectations, the index came up to the level of 91,759 as of the end of November. As a result, the index has gained a 30.2% increase since July and the stock market brought a 5.2% real return to the investors.

In July and August, partly as a result of the political uncertainty created by the RP-DYP government, the volume of transactions in the stock market, in terms of US dollars, fell down to its lowest level since the beginning of 1995. The volume of transactions began to increase by the beginning of September, and in October and November reached its highest level since March, partly because of the inactivity in alternative markets.

Between July and November, by means of a TL 9.1 billions worth of public offering, the stocks of fifteen new companies began to be exchanged in the stock market.

The budget deficit/GNP ratio is estimated to reach to 9% in 1996.

The budget deficit was in a continuous state of deterioration throughout 1996. Beginning with mid-1996 the budget deficit surpassed, on a 12-month cumulative basis, its record high level of $11.3 billions in 1993. At the end of October, the deficit marked a new record of $14 billions. The main factor behind the growth of the deficit was interest payments, but the decline of non-interest budget surplus did also exert some influence.

In the first ten months, the budget deficit was TL 693 trillions and the cash deficit TL 913 trillions. In October, the budgetary allowance for interest payments was depleted and interest payments could not be written as expenditures. As a result, the budget deficit, which had gone up to TL 750 trillions in September, came down to TL 693 trillions in October. In the first ten months, budget revenues increased by 90% and budget expenditures by 146%. Although revenues increased faster than inflation, the worsening of the budget deficit are due to interest payments. In the first ten months, payments of interest on domestic borrowing increased by 248%; personnel expenditures, another major expenditure item in the budget, grew by 108%; and transfers, including those to social security organizations, expanded by 146%.

When the budget balance is analyzed on a 12-month cumulative basis and in dollar terms, it is observed that between October 1995-October 1996 revenues increased by $3 billions and expenditures by $14 billions. Of the $14 billions of expenditures, $8 billions were brought about by interest payments, $3.5 billions by other transfer expenditures, and $2.5 billions by personnel expenditures. In this manner, the budget deficit went up from $3 billions to $14 billions while the non-interest budget surplus declined from $7.5 billions to $4 billions.

The budget deficit was financed for the most part by means of short-term borrowing. In the first ten-month period, foreign borrowing and long-term domestic borrowing remained negative. In July, frequent resorts were made to Central Bank resources, but in September short-term advances in the amount of TL 73 trillions were paid back. In this way, the use of short term advances in the first ten months remained at TL 23 trillions; borrowing in terms of foreign currency reached the level of TL 190 trillions ($2 billions); and borrowing by Treasury bills amounted to TL 1.1 quadrillions.

Despite the expansion of the money supply in the third quarter the continuing increase of borrowing by Treasury bills exerted a high pressure on financial markets. The ratio of sales at the Treasury auctions during fifty-two weeks to M2 was 120% prior to the 1994 crisis; it diminished to 60% during the crisis; it started to rise again in the last quarter of 1994; and has reached the level of 180% in the last quarter of 1996.

As a result of high domestic borrowing, the total debt stock attained the amount of TL 2.9 quadrillions by the end of October. As budgetary allowances were completely depleted, an additional allowance of TL 447 trillions was generated on 5 December. As a result, the expected budget deficit for 1996 has been pushed up to TL 1.3 quadrillions.

Despite deterioration in the foreign trade balance, short-term capital inflows prevent an emergence of a financing problem.

The latest data on foreign trade and balance of payments are available only as of March. On the other hand, data on the capital account of the balance of payments are made public as of September. A look at the capital and reserve movements make it clear that the current account deficit did not cause a financing problem.

An analysis of the data of the January-September period reveals that there was a $460 millions worth of net long-term capital outflow as opposed to a $440 millions worth of foreign direct investment. Official reserves increased by an amount of $5.6 billions in the face of portfolio investments totaling $1.5 billions and net short-term capital inflows in the value of $6.1 billions. This means that only $2.1 billions of the current account deficit could be met by means of capital movements. During the same period, foreign trade deficit is estimated to have reached a total of $14.5 billions and the current account deficit $4.8 billions. Therefore, it can be said that in the January-September period there occurred an inflow of $2.6 billions in the form of net errors and omissions.

According to TÜSİAD estimations, as of the end of 1996 foreign trade deficit has come to $19.1 billions, invisible revenues have continued to increase, and the current account deficit has risen up to $6.8 billions.

Based on the January-March data, it can be seen that, in comparison with the same period of 1995, the highest increase in imports was realized in the area of investment goods with a rate of 71.6%. Imports of consumer goods increased by 53.1%, and imports of raw materials, which had the largest share of 57.5% in the total import volume, went up by 23%.

Although the period is too short for a fair assessment of the impact of the Customs Union, a preliminary examination of the data of the January-March period shows that the balance of trade with the EU countries rapidly deteriorated. With respect to the same period of 1995, imports from EU countries increased by 59.2% while the rise in exports to these countries remained at a mere 9.8%. The foreign trade balance worsened with respect to the other OECD members too, but it showed some improvement in relation to the non-OECD countries.

Structural measures are needed to prevent economic and social instability.

The downgrading of the credit rating will further impede the possibility of foreign borrowing. If domestic borrowing continues to be the only source of borrowing, this will increase the cost of financing by increasing the pressure on interest and exchange rates. In addition, the private sector savings surplus, which has already gone up to a high level of $8 billions, will have to be raised even more. The financing requirement will result in a rise of interest rates and/or in an increase in forced savings as a result of an escalating rate of inflation. It is obvious that the policy of public borrowing at high real interest rates is unsustainable in the long term. The governments desire for a balanced budget for 1997 and its' attempts at easing the burden of interest payments on the budget is indicative of the fact that it too shares the same point of view. If policy mistakes in the process of resolving current macroeconomic imbalances give rise to an economic crisis, this will exacerbate social and political problems. In order to prevent a fall in the share of wages in GDP, similar to the one-third decline during the 1994 crisis, it is necessary that long-term structural reforms be put in action without any delay.

LIST OF TABLES AND GRAPHS

Table 1.1	Main Economic Indicators (1995-1996) Production and Prices	18
Table 1.2	Main Economic Indicators (1995-1996) Balance of Payments	19
Table 1.3	Main Economic Indicators (1995-1996) Consolidated Budget	20
Table 1.4	Main Economic Indicators (1995-1996) Money Supply	21
Table 2	Gross Domestic Product (Expenditure Based)	22
Table 3	TÜSİAD Estimates (GNP, Inflation)	23
Table 4	TÜSİAD Estimates (Quarterly Industrial Production Index)	24
Graph 1	GNP Growth Rate	23
Graph 2	Wholesale Price Index	23
Graph 3	Seasonally Adjusted Manufacturing Industry Quarterly Production Index	24
Graph 4	Seasonally Adjusted Industrial Production Index	25
Graph 5	Seasonally Adjusted Industrial Production Index	25
Graph 6	Manufacturing Industry Quarterly Production Index	26
Graph 7	Production Workers in Manufacturing Industry Index	26
Graph 8	Manufacturing Industry Productivity Index	26
Graph 9	Saving-Investment Balance	27
Graph 10	Wholesale Price Index and Monthly Average US Dollar Exchange Rate	28
Graph 11	Real Exchange Rate Index	28
Graph 12	Stock Exchange Index and Transaction Volume	29
Graph 13	Central Bank Foreign Exchange Reserves & US Dollar Exchange Rate	29
Graph 14	Currency in Circulation	30
Graph 15	Money Supply, M1	30
Graph 16	Money Supply, M2	31
Graph 17	Money Supply, M2Y	31
Graph 18	Time Deposit & Foreign Exchange Deposits	32
Graph 19	Deposit Bank Credit & Deposits	32
Graph 20	Deposit Bank Credits/Total Deposits Ratio	32
Graph 21	Central Bank Money and Reserve Money	33
Graph 22	Liabilities Due to Open Market Operations	33
Graph 23	Consolidated Budget Deficit	34
Graph 24	Borrowing by Treasury Bills	34
Graph 25	Consolidated Budget Expenditures	35
Graph 26	Consolidated Budget Financing	35
Graph 27	Consolidated Budget Deficit	35

Graph 28	Nominal Exports and Imports	36
Graph 29	Foreign Trade Deficit	36
Graph 30	Foreign Trade Price Index	37
Graph 31	Terms of Trade	37
Graph 32	Foreign Trade	38
Graph 33	Foreign Trade Quantity Index	38
Graph 34	Foreign Trade Price Index	38
Graph 35	Current Account Balance	39
Graph 36	Total of Short-Tenm Capital and Net Errors and Omissions	39
Graph 37	Average Yearly Nominal Interest and Inflation Rate	40
Graph 38	Real Interest Rate	40
Graph 39	Real Rate of Return on US $	41
Graph 40	Real Interest Rate Minus Real Rate of Return on US $	41
Graph 41	Treasury Auctions (3 Months Maturity)	42
Graph 42	Treasury Auctions (6 Months Maturity)	42
Graph 43	Treasury Auctions (9 Months Maturity)	43
Graph 44	Treasury Auctions (12 Months Maturity)	43
Graph 45	The Amount of Government Papers Sold in Treasury Auctions	44
Graph 46	Treasury Bond Repayments	44
Appendix		45
Table A1	Development in Macroeconomic Indicators Assuming % 4 Growth Rate (Quarterly Figures)	49
Table A2	Development in Macroeconomic Indicators Assuming % 4 Growth Rate (Annual Figures)	50

TABLE 1.1 MAIN ECONOMIC INDICATORS (1995-1996) PRODUCTION AND PRICES

	1995 Dec.	1996 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.
INDUSTRIAL PRODUCTION INDEX (SIS, 1992=100)												
Annual % increase	15.7	12.2	1.8	12.9	-1.2	15.1	1.9	5.2	1.2	2.0	15.5	..
Monthly % increase	0.6	-10.0	-17.4	16.9	-4.4	9.9	-0.6	1.5	-1.8	2.8	13.5	..
Monthly % increase (Seasonally Adjusted)	0.5	-1.1	-7.7	10.8	-3.9	6.2	1.4	-1.1	-2.4	-3.3	6.3	..
CAPACITY UTILIZATION RATIO (SIS, %)	81.4	79.7	78.1	75.2	76.9	83.2	81.5	80.1	79	79.4	81.0	75.8
WHOLESALE PRICE INDEX (SIS, 1994=100)												
Annual % increase	64.9	64.9	63.0	65.3	69.9	73.7	76.2	76.4	79.0	79.8	82.9	85.6
Monthly % increase	4.4	9.7	5.8	7.0	8.1	4.1	2.7	2.4	3.8	5.1	5.5	5.1
Monthly % increase (Seasonally Adjusted)	4.3	8.6	3.6	4.4	5.3	4.6	4.9	4.9	6.2	5.9	6.2	5.7
EXCHANGE RATE ($)												
TL/US$ (Monthly Average)	56,827	60,428	64,066	68,333	72,554	76,707	79,641	82,977	84,839	88,888	93,683	98,504
Annual % increase	51.5	50.1	56.2	63.9	71.8	78.3	85.0	86.9	81.7	86.3	87.5	87.9
Monthly % increase	8.4	6.3	6.0	6.7	6.2	5.7	3.8	4.2	2.2	4.8	5.4	5.1
INTEREST RATES (Yearly Simple Rate)												
Deposits (End of period)												
1 month	81.0	81.0	81.0	77.3	73.5	73.5	73.5	73.5	73.5	73.5	73.5	73.5
3 month	86.5	86.5	86.5	82.8	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0
6 month	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
12 month	93.5	93.5	93.5	93.5	93.5	93.5	93.5	93.5	93.5	93.5	93.5	93.5
Treasury (Monthly Average)*												
3 month	120.3	131.1	104.6	94.2	-	82.5	91.8	95.6	-	87.8	-	-
6 month	-	134.0	111.4	101.9	102.5	97.4	99.7	104.8	103.8	102.5	108.7	109.9
9 month	-	-	-	-	-	-	-	-	83.2	-	111.3	106.5
12 month	-	-	-	-	-	-	-	-	-	-	121.9	-
Compound interest rate (all maturities)	183.7	201.5	148.4	126.8	127.2	114.6	126.1	128.9	126.0	125.3	125.9	134.0
Average maturity of papers sold (days, weighted by sales volume)	85	124	143	140	188	126	155	154	195	173	291	204

(..): not available
(-): no auction
(*): includes bills with irregular terms

TABLE 1.2 MAIN ECONOMIC INDICATORS (1995-1996)
BALANCE OF PAYMENTS

	1995	1996										
	Dec.	**Jan.**	**Feb.**	**March**	**April**	**May**	**June**	**July**	**Aug.**	**Sept.**	**Oct.**	**Nov.**
FOREIGN TRADE												
Value (Current $ prices)												
Imports (Annual % increase)	59.6	43.7	22.5	47.3	*27.0*	*31.1*	*19.5*	*22.2*	*14.0*	*17.0*	..	..
Exports (Annual % increase)	3.9	12.0	14.0	20.7	*-6.2*	*15.9*	*-16.8*	*3.3*	*1.7*	*8.0*	..	..
Price Index (1989=100)												
Imports (Annual % increase)	11.6	13.5	8.2	1.1	..	..	..	..	..	..	..	..
Exports (Annual % increase)	11.2	7.0	1.9	-2.5	..	..	..	..	..	..	..	..
Quantity Index (1989=100)												
Imports (Annual % increase)	20.2	21.7	15.5	29.0	..	..	..	..	..	..	..	..
Exports (Annual % increase)	-11.0	-7.5	-10.2	5.4	..	..	..	..	..	..	..	..
FOREIGN TRADE BALANCE ($ Million)												
Imports (Monthly)	4,319	3,013	2,797	3,644	*-3,792*	*-3,387*	*-3,639*	*-3,514*	*-3,638*	*-3,587*	..	..
Exports (Monthly)	2,396	1,735	1,767	1,999	*1,745*	*1,742*	*1,527*	*1,848*	*1,777*	*1,890*	..	..
Foreign Trade Balance (Monthly)	-1,922	1,278	1,030	1,645	*-5,537*	*-5,128*	*-5,166*	*-5,363*	*-5,415*	*-5,477*	..	..
Imports (Last 12 months)	35,708	36,625	37,139	38,309	*39,115*	*39,917*	*40,511*	*41,149*	*41,595*	*42,116*	..	..
Exports (Last 12 months)	21,635	21,821	22,037	22,380	*22,265*	*22,504*	*22,196*	*22,254*	*22,284*	*22,424*	..	..
Foreign Trade Balance (Last 12 months)	-14,073	14,804	15,102	15,929	*16,849*	*17,413*	*18,315*	*18,894*	*19,311*	*19,692*	..	..
BALANCE OF PAYMENTS ($ Million)												
Current Account Balance (Monthly)	-1,453	296	-68	-946	*-909*	*-584*	*-863*	*-669*	*-710*	*-398*	..	..
Current Account Balance (Last 12 months)	-2,339	-2,651	-2,698	-3.485	*-4,200*	*-4,525*	*-5,398*	*-6,063*	*-6,590*	*-7,200*	..	..
Capital Account and Reserve Movements (Last 12 months)												
Net Foreign Direct Investment (Last 12 months)	772	760	713	*847*	*840*	*833*	*826*	*818*	*811*	804	..	..
Portfolio Invesmetment(Last 12 months)	1,723	2,189	2,505	*3,032*	*2,887*	*2,741*	*2,596*	*2,450*	*2,305*	2,159	..	..
Net Long-Term Capital (Last 12 months)	-79	-130	-243	*-53*	*-109*	*-165*	*-222*	*-278*	*-334*	-390	..	..
Net Short-Term Capital (Last 12 months)	2,306	2,681	2,088	*1,552*	*1,934*	*2,315*	*2,697*	*3,079*	*3,460*	3,842	..	..
Net Errors and Omissions (Last 12 months)	2,292	1,351	1,063	*856*	*1,225*	*1,204*	*1,731*	*2,049*	*2,230*	*2,464*	..	..
Reserve Changes* (Last 12 months)	-4,658	-4,204	-3,428	*-2,749*	*-2,576*	*-2,402*	*-2,229*	*-2,056*	*-1,882*	-1,679	..	..

(*): Positive sign indicates decrease in reserves
(..): Not avilable
Capital account values in italics have been drived from 9 monthly Cumulative Central Bank figures. Current account balance figures are TÜSİAD estimates.

TABLE 1.3 MAIN ECONOMIC INDICATORS (1995-1996)
CONSOLIDATED BUDGET

	1995	1996										
	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.
CONSOLIDATED BUDGET (TL Billion)												
Monthly												
Revenues	148,121	157,629	123,937	141,081	169,534	274,727	207,014	274,923	231,503	241,705	283,302	. .
Expenditures	310,745	225,453	137,727	133,686	133,971	614,102	304,424	363,754	327,294	332,177	226,066	. .
Primary Balance (Current price)	-62,056	25,898	15,943	18,667	39,019	98,173	26,564	55,565	-2,862	-2,622	85,865	. .
Budget Balance (Current price)	-162,624	-67,824	-13,790	7,395	35,563	-339,375	-97,410	-88,831	-95,791	-90,472	57,236	. .
Budget Balance (At 1994 prices)	-72,893	-27,706	-5,322	2,667	11,866	-108.739	-30,384	-27,066	-28,124	-25,272	15,158	. .
Budget Balance (Cur. price billion $)	-2.862	-1.122	-0.215	0.108	0.490	-4.424	-1.223	-1.071	-1.129	-1.018	0.644	. .
Financing	121,217	91,497	105,012	98,644	136,411	-2,763	73,680	86,038	102,728	115,809	106,297	. .
Foreign Borrowing (Net)	28,005	-16,256	-17,201	-21,949	-1,017	12,125	18,281	-7,466	-31,916	-24,021	-9,019	. .
Domestic Borrowing (Net)	-3,874	-11,326	-18,456	-53,695	-62,592	-15,577	470	-15,031	-32,134	-1,235	156,141	. .
Short-Term Borrowing	77,866	251,967	85,954	171,350	197,075	-21,143	52,922	148,480	129,574	133,643	-8,827	. .
Central Bank (Net)	58,263	10,472	16,326	41,985	-12,113	-51,748	-6,195	98,939	1,870	-73,058	-3,832	. .
Treasury Bills (Net)	19,602	241,495	69,628	129,365	209,188	30,605	59,117	49,541	127,704	206,701	-4,995	. .
Other	19,219	-132,888	-193,799	2,937	2,944	21,834	2,008	-39,945	37,203	7,421	-31,997	. .
Last 12 months (TL Billion)												
Revenues	1,403,071	1,478,377	1,520,264	1,569,951	1,653,017	1,793,023	1,894,073	2,045,718	2,152,830	2,272,575	2,400,198	. .
Expenditures	1,720,647	1,869,308	1,883,126	1,907,806	1,880,953	2,373,278	2,574,038	2,824,246	3,021,149	3,255,039	3,380,782	. .
Primary Balance (Current price)	258,539	257,401	255,139	242,180	292,217	343,046	349,801	370,002	324,681	292,081	314,303	. .
Budget Balance (Current price)	-317,576	-390,931	-362,862	-337,855	-227,936	-580.255	-679,965	-778,528	-868,319	-982,464	-980,584	. .
Budget Balance (At 1994 prices)	-157,210	-188,640	-167,636	-154,473	-100,455	-216,397	-248,045	-280,340	-305,312	-342,473	-354,122	. .
Budget Balance (Cur. price billion $)	-6.258	-7.518	-6.712	-6.181	-3.930	-8.656	-9.932	-11.222	-12.222	-13.737	-14.200	. .
Financing	294,256	366,866	441,175	515,170	585,070	588,084	673,880	774,826	837,040	942,963	1,056,540	. .
Foreign Borrowing (Net)	-81,238	-86,323	-94,947	-95,925	-98,812	-63,193	-31,355	-24,656	-40,614	-91,068	-85,111	. .
Domestic Borrowing (Net)	85,657	75,289	56,880	-40,547	-156,008	-158,830	-148,134	-175,421	-235,805	-231,467	-71,556	. .
Short-Term Borrowing	291,941	496,952	539,246	710,267	911,702	857,213	886,142	1,028,353	1,152,643	1,290,126	1,249,346	. .
Central Bank (Net)	94,723	108,734	126,169	164,281	117,481	84,453	84,924	189,706	202,634	98,103	92,847	. .
Treasury Bills (Net)	197,218	388,218	413,077	545,986	794,221	772,760	801,218	838,647	950,009	1,192,023	1,156,499	. .
Other	-2,105	-119,053	-308,519	-307,141	-320,329	-295,621	-281,287	-301,964	-287,699	-273,144	-284,654	. .

(.): Not available

TABLE 1.4 MAIN ECONOMIC INDICATORS (1995-1996)
MONEY SUPPLY

	1995 Dec.	1996 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.
MONEY SUPPLY (Annual percentage change)												
M1	65.7	76.3	90.8	79.9	85.5	64.4	62.7	59.4	68.6	66.4	71.4	92.2
Currency in circulation	81.6	81.7	88.5	71.6	115.3	50.6	55.7	61.1	73.1	74.5	75.9	58.2
Currency+coins	86.6	81.7	95.1	74.7	107.9	59.3	56.9	60.5	78.7	72.9	76.4	64.9
Cash in vault (-)	117.7	82.5	154.2	92.9	59.4	133.9	64.8	55.2	95.4	61.0	81.9	159.3
Commercial sight deposits	54.4	68.6	97.8	89.5	54.7	86.3	74.5	52.0	64.7	56.4	66.9	186.2
Saving sight deposits	56.4	88.0	81.6	89.1	70.0	62.6	74.5	60.7	49.1	62.4	58.3	46.1
Other sight deposits	46.3	49.0	103.0	84.8	33.2	109.4	42.7	77.9	102.6	59.0	87.5	134.2
Central Bank deposits	-72.4	-82.8	-62.3	-66.3	-23.5	-54.3	844.7	75.8	6.7	-90.0	66.7	136.5
M2	97.7	103.9	100.5	87.5	91.7	86.7	86.3	82.1	90.4	100.0	115.4	110.7
Commercial time deposits	197.3	187.4	126.3	105.0	126.3	150.2	127.4	97.9	124.3	121.1	130.8	9.0
Saving time deposits	117.8	123.6	114.2	96.4	94.8	95.5	95.7	92.1	101.6	118.6	141.3	133.7
Other time deposits	91.4	76.6	70.8	68.3	89.4	92.7	101.1	99.1	95.3	111.1	127.4	118.2
Certificates of deposits	49.6	47.5	35.6	21.0	16.4	20.0	10.0	14.0	15.9	30.5	31.7	29.5
M2Y	106.5	97.4	96.2	96.2	100.7	102.2	104.9	103.9	108.3	113.6	122.3	119.0
Foreign exchange deposits (TL)	115.5	91.3	91.7	105.3	110.9	120.9	128.4	131.6	131.1	130.0	130.0	128.0
Foreign exchange deposits ($)	35.6	25.6	23.1	21.9	20.3	22.5	23.4	25.4	28.9	23.2	22.1	22.5
TL/USD Buying Rate	58.9	52.2	55.8	68.5	75.3	80.4	85.1	84.7	79.3	86.6	88.4	86.1
M3Y	106.8	102.2	97.3	97.2	101.2	101.2	105.0	103.1	107.8	113.3	120.0	119.4
M3	98.6	113.1	102.3	90.0	93.2	86.1	87.6	82.2	90.7	100.3	111.6	112.1
Foreign exchange deposits (TL)	115.5	91.3	91.7	105.3	110.9	120.9	128.4	131.6	131.1	130.0	130.0	128.0
Credit Stock	119.4	108.1	118.2	128.7	117.0	97.7	119.5	128.9	132.3	119.3	127.7	133.9
Central Bank Direct Credits	30.9	30.4	64.6	72.8	31.8	27.7	33.4	133.6	136.7	52.7	32.4	70.9
Deposits Bank Credits	149.9	132.1	135.5	146.1	142.7	132.2	132.3	129.6	129.5	127.9	140.0	135.6
Invest. and Develop. Bank Credits	62.4	66.5	75.6	81.7	87.1	96.8	105.3	110.7	124.2	119.8	128.6	138.3

TABLE 2 GROSS DOMESTIC PRODUCT (EXPENDITURE BASED)

(At 1987 Prices)	Growth Rate			% Share			Annual Growth Rate (%)							
	1994	1995	1996*	1994	1995	1996	1995-1	1995-2	1995-3	1995-4	1996-1	1996-2	1996-3	1996-4
Private Final Consumption Expenditure	-5.3	7.6	9.9	69.0	69.0	..	-4.6	12.2	13.0	8.4	..	..	..	..
Food-Beverages	-0.7	7.4	..	26.7	26.6	..	-0.5	10.4	10.6	7.1	..	..	..	..
Durable Goods	-29.3	20.0	..	7.5	8.4	..	-18.9	39.8	50.8	30.6	..	..	..	..
Semi-Durable&Non-Durable Goods	-12.6	11.6	..	10.6	11.0	..	-11.0	18.5	25.6	16.8	..	..	..	..
Energy-Transportation-Communication	4.2	1.7	..	10.9	10.3	..	0.9	5.6	2.7	-1.9	..	..	..	..
Services	5.2	2.7	..	7.1	6.8	..	2.9	7.6	3.9	-3.3	..	..	..	..
Ownership of Dwelling	2.8	2.1	..	6.2	5.9	..	2.2	2.0	2.0	2.2	..	..	..	..
Government Final Consumption Expenditure	-3.5	6.7	8.2	7.7	7.6	..	7.1	9.6	2.3	7.8	..	..	..	..
Compensation of Employees	0.8	2.5	..	4.8	4.6	..	2.7	2.9	2.7	1.8	..	..	..	..
Purchases of Good&Services	-10.0	13.7	..	2.8	3.0	..	22.2	25.5	1.5	13.7	..	..	..	..
Gross Fixed Capital Formation	-15.9	8.3	10.0	26.5	26.7	..	-15.1	14.2	11.1	22.1	..	..	..	..
Public Sector	-34.8	-16.9	18.6	5.5	4.2	..	-37.5	-1.4	-15.2	-17.3	..	..	..	..
Machinary&Equipment	-63.9	3.2	..	1.2	1.1	..	-21.8	4.7	3.5	17.4	..	..	..	..
Building Construction	-35.7	4.2	..	1.0	1.0	..	-7.7	34.6	1.6	-2.2	..	..	..	..
Other Construction	-8.2	-30.5	..	3.3	2.1	..	-53.8	-12.8	-26.1	-34.1	..	..	..	..
Private Sector	-9.1	14.9	8.1	21.1	22.5	..	-11.4	17.4	18.1	38.8	..	..	..	..
Machinary&Equipment	-22.5	28.1	..	9.9	11.9	..	-23.8	33.3	45.1	73.8	..	..	..	..
Building Construction	7.6	3.0	..	11.1	10.6	..	4.5	4.1	3.4	-0.6	..	..	..	..
Change in Stocks	-	-	..	-3.2	1.4	..	-	-	-	-	..	..	..	..
Exports of Goods & Services	15.2	6.7	..	22.2	22.1	..	19.9	12.2	2.3	-1.8	..	..	..	..
Imports of Goods & Services	-21.9	30.0	..	-22.2	-26.8	..	-2.6	37.7	41.4	48.0	..	..	..	..
Gross Domestic Product (Expenditure based)	-4.7	7.5	7.4	100.0	100.0	..	-0.8	14.3	9.0	7.0	..	..	..	..
Statistical Discrepancy	-	-	..	0.8	0.6	..	-	-	-	-	..	..	..	..
Gross Domestic Product (Production based)	-5.5	7.3	..	-	-	..	-1.5	13.5	9.6	6.4	..	..	..	..

(*) SPO estimates based on 1994 prices (1997 Programme)
(. .) not available

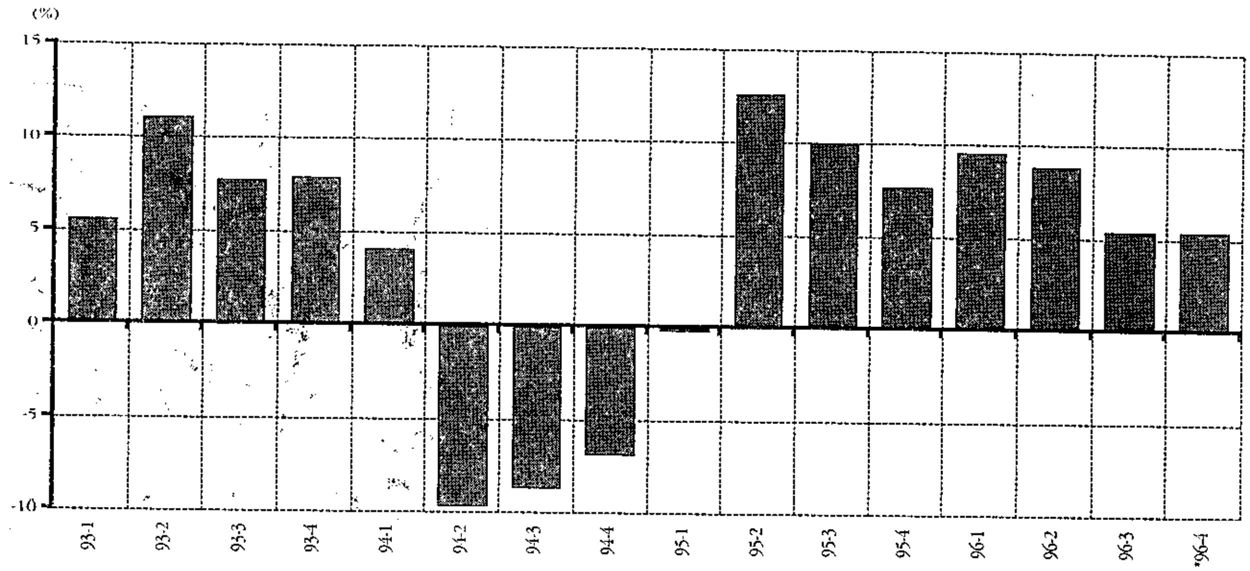
TABLE 3 TÜSİAD ESTIMATES (GNP, INFLATION)

	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 1996)															
Growth Rate	4.1	-9.7	-8.7	-6.9	-6.1	-0.3	12.6	10.7	7.7	8.1	12.2 *	8.6 *	7.2	5.4	8.0
Inflation	67.8	133.9	128.3	141.3	120.7	149.9	82.0	79.8	70.3	88.5	64.4 *	73.3*	81.8	97.4	80.5
(25 Oct. 1996)															
Growth Rate	4.1	-9.7	-8.7	-6.9	-6.1	-0.2	12.6	10.0	7.7	7.9 (1)	9.6 *	8.9 *	5.4 *	5.4	7.0
Inflation	67.8	133.9	128.3	141.3	120.7	146.6	81.2	78.0	66.3	86.0 (2)	64.4 *	73.3 *	78.4 *	85.9	76.4

(*) Realization
(1) SIS revisions on GNP calculations
(2) 1994 WPI index

GNP GROWTH RATE

GRAPH 1



** Estimate*

WHOLESALE PRICE INDEX (Average Annual Percentage Change)

GRAPH 2

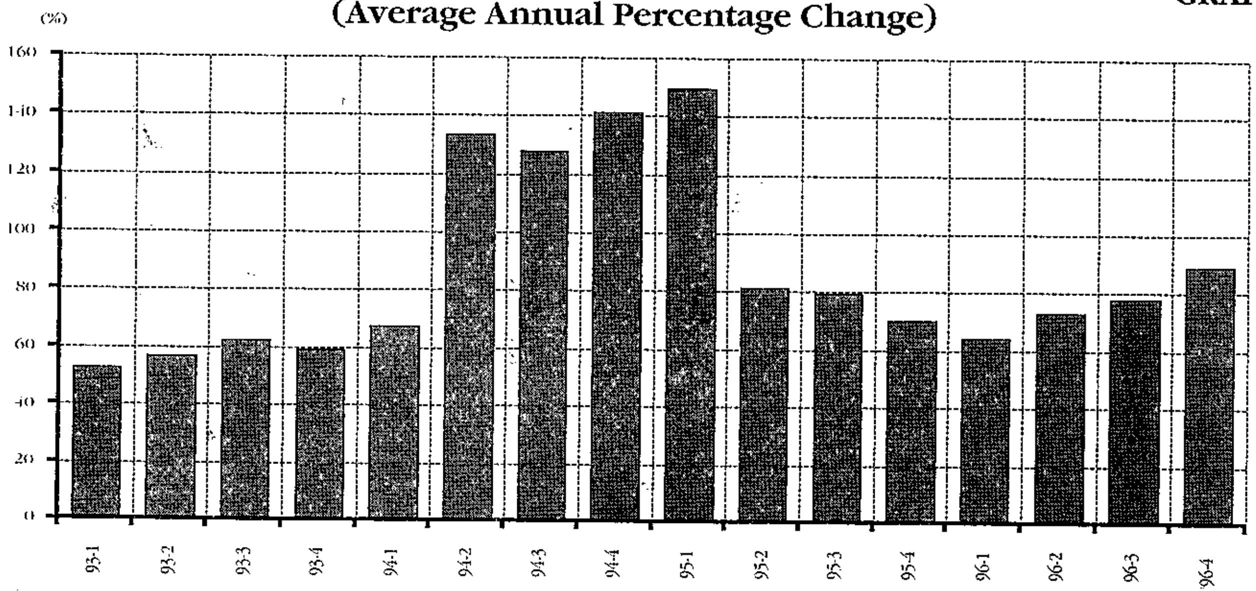


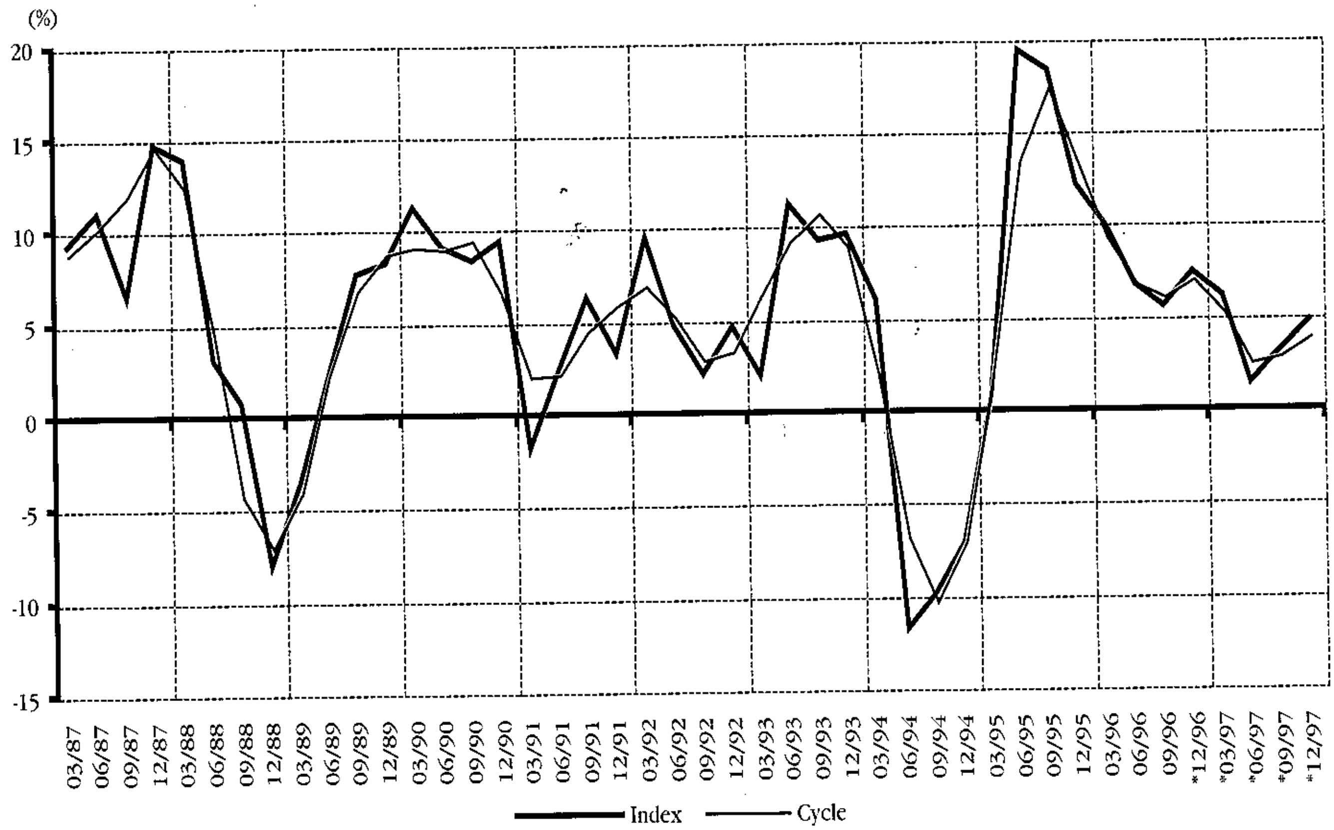
TABLE 4 INDUSTRIAL PRODUCTION INDEX

	94-1	94-2	94-3	94-4	95-1	95-2	95-3	95-4	96-1	96-2	96-3	96-4*	97-1*	97-2*	97-3*	97-4*
(Level)																
Index	100.4	92.6	101.3	111.8	101.3	110.9	119.6	125.4	111.3	118.6	126.2	134.5	118.2	120.3	130.1	140.7
Seasonally Adjusted Index	107.3	96.5	99.1	103.5	108.1	115.2	117.2	116.1	118.9	123.0	123.7	124.7	126.2	124.6	127.6	130.7
Level	106.8	100.9	99.4	102.9	108.9	114.5	116.8	116.8	119.0	122.4	124.0	125.0	125.4	125.5	127.6	129.9
(Percentage Increase)																
Index	5.8	-11.3	-10.1	-7.3	0.9	19.8	18.1	12.2	9.9	6.9	5.5	7.3	6.2	1.4	3.1	4.6
Seasonally Adjusted Index	6.0	-11.8	-9.9	-7.1	0.8	19.3	18.3	12.2	10.0	6.7	5.6	7.4	6.2	1.3	3.1	4.8
Level	2.2	-6.8	-10.3	-7.0	1.9	13.5	17.5	13.5	9.4	6.9	6.1	7.0	5.3	2.6	2.9	3.9

** Estimate*

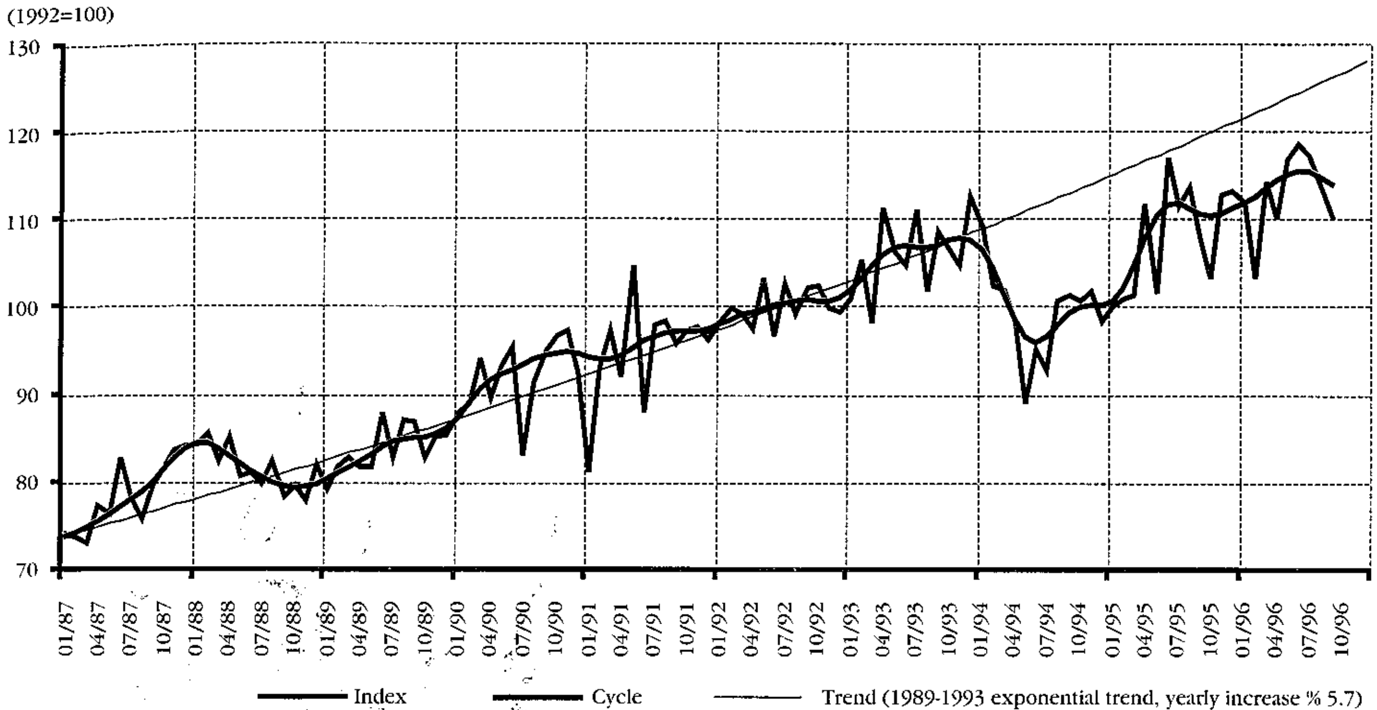
SEASONALLY ADJUSTED MANUFACTURING INDUSTRY QUARTERLY PRODUCTION INDEX (Annual Percentage Increase)

GRAPH 3

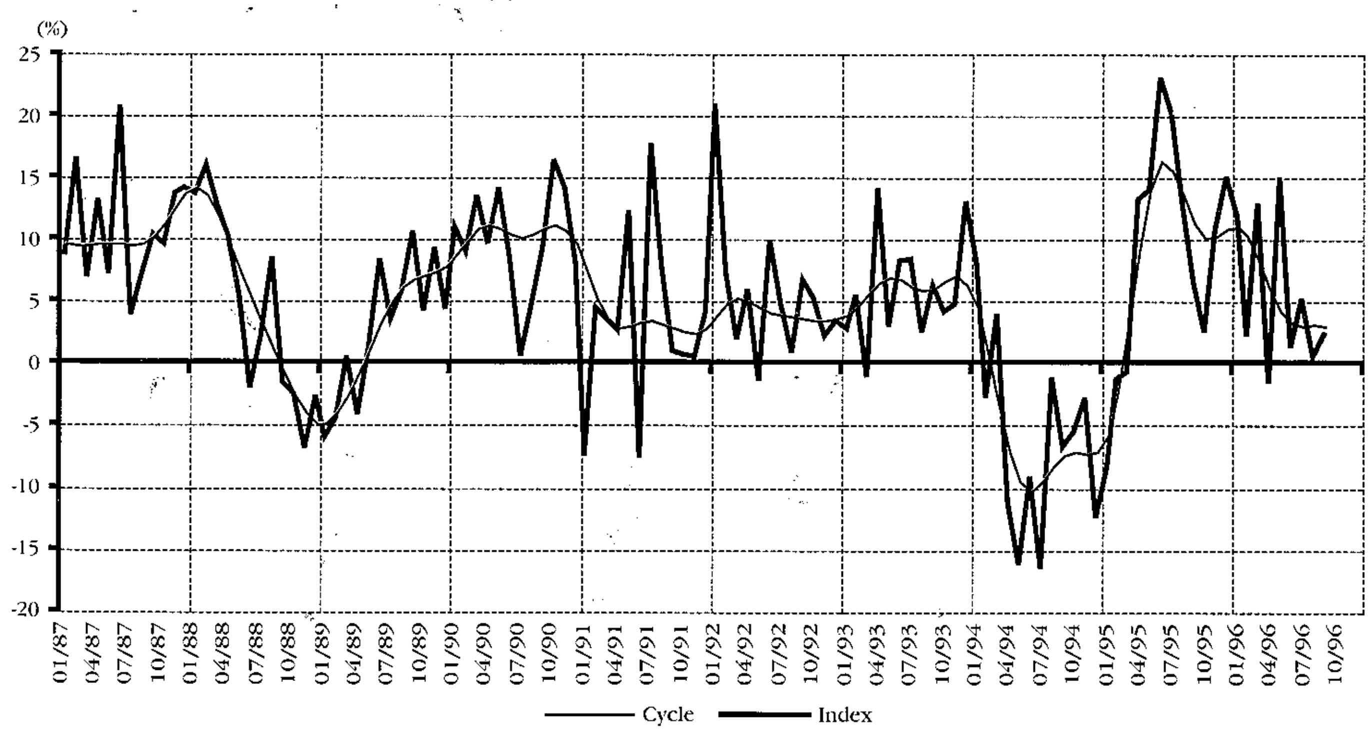


** Estimate*

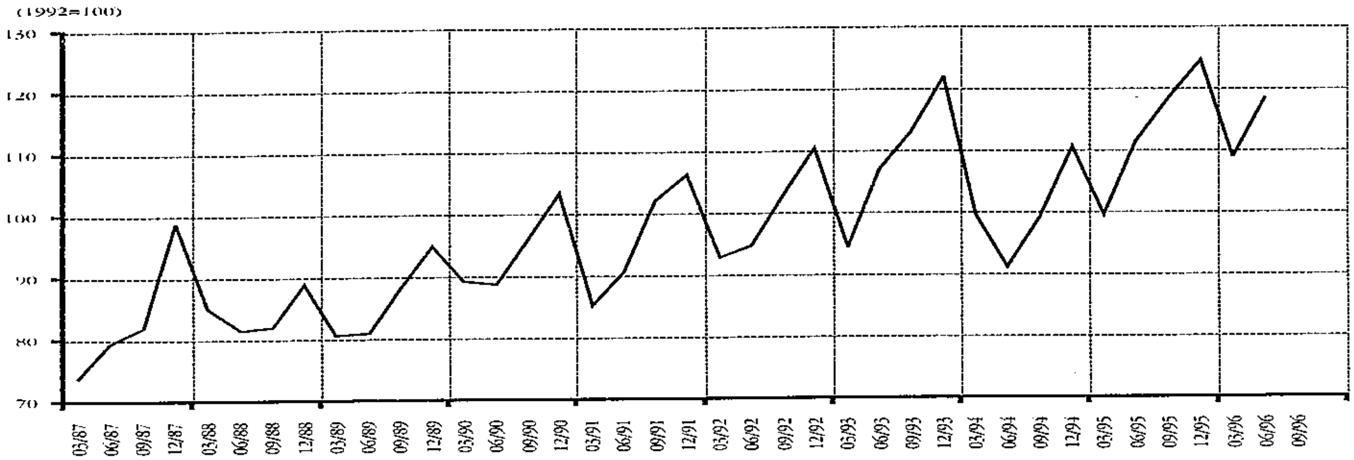
SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX **GRAPH 4**
(Level)



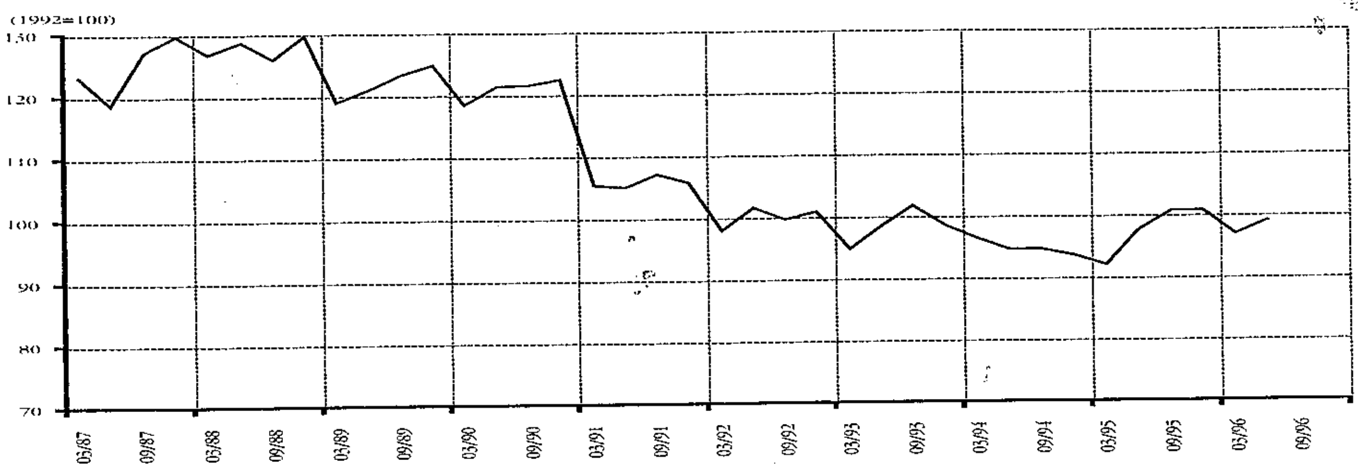
SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX **GRAPH 5**
(Annual Percentage Increase)



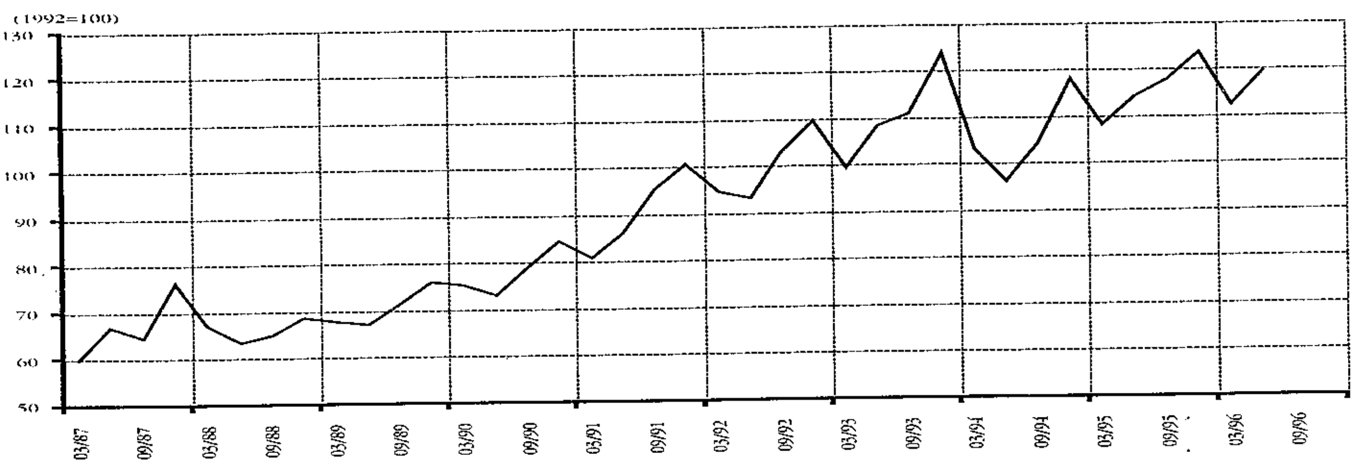
MANUFACTURING INDUSTRY QUARTERLY PRODUCTION INDEX GRAPH 6



PRODUCTION WORKERS IN MANUFACTURING INDUSTRY INDEX GRAPH 7

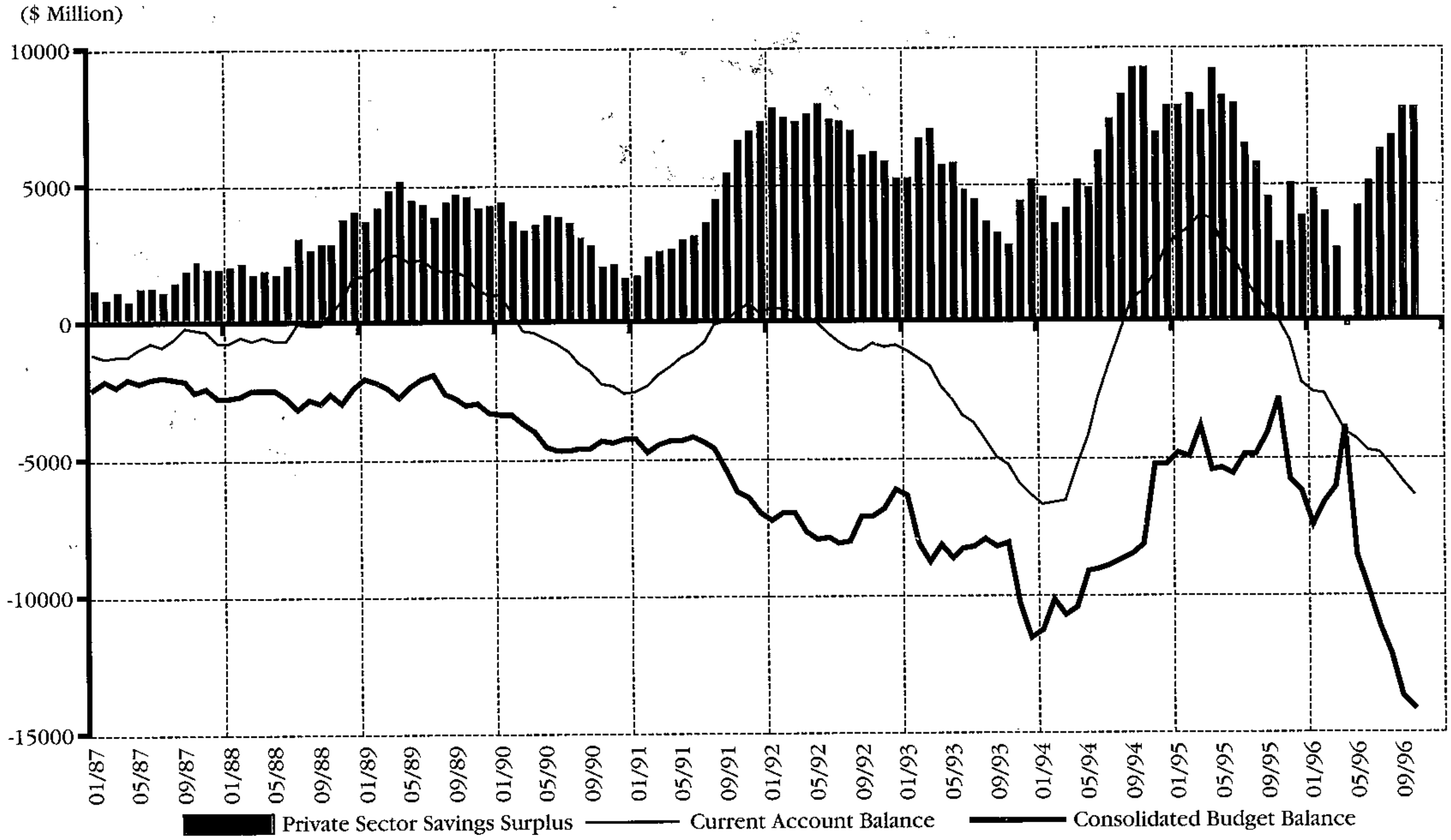


MANUFACTURING INDUSTRY PRODUCTIVITY INDEX GRAPH 8



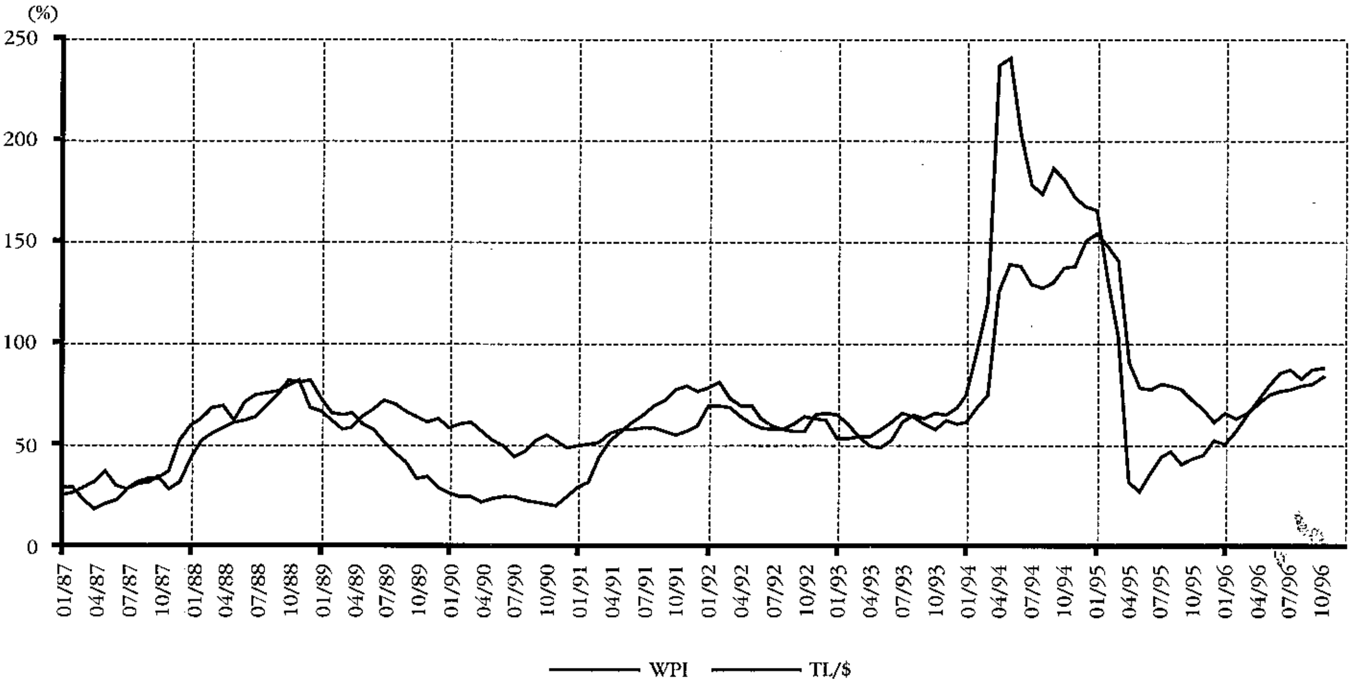
GRAPH 9

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

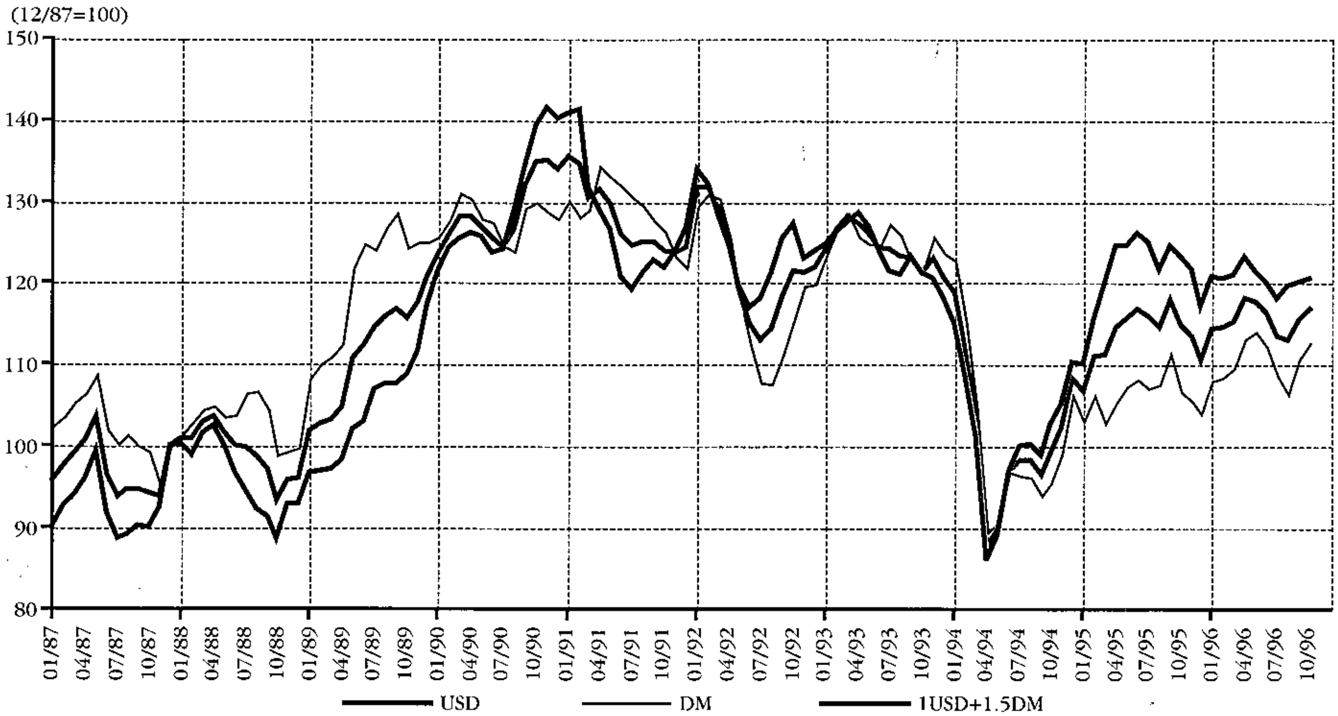


(*) Consolidated budget balance is used as a proxy for the public sector saving gap due to lack of monthly data on the latter. Private sector saving surplus figures are calculated as the sum of budget deficit and current account balance. Current account balance and private sector saving surplus figures for the April - October period are TÜSİAD estimates.

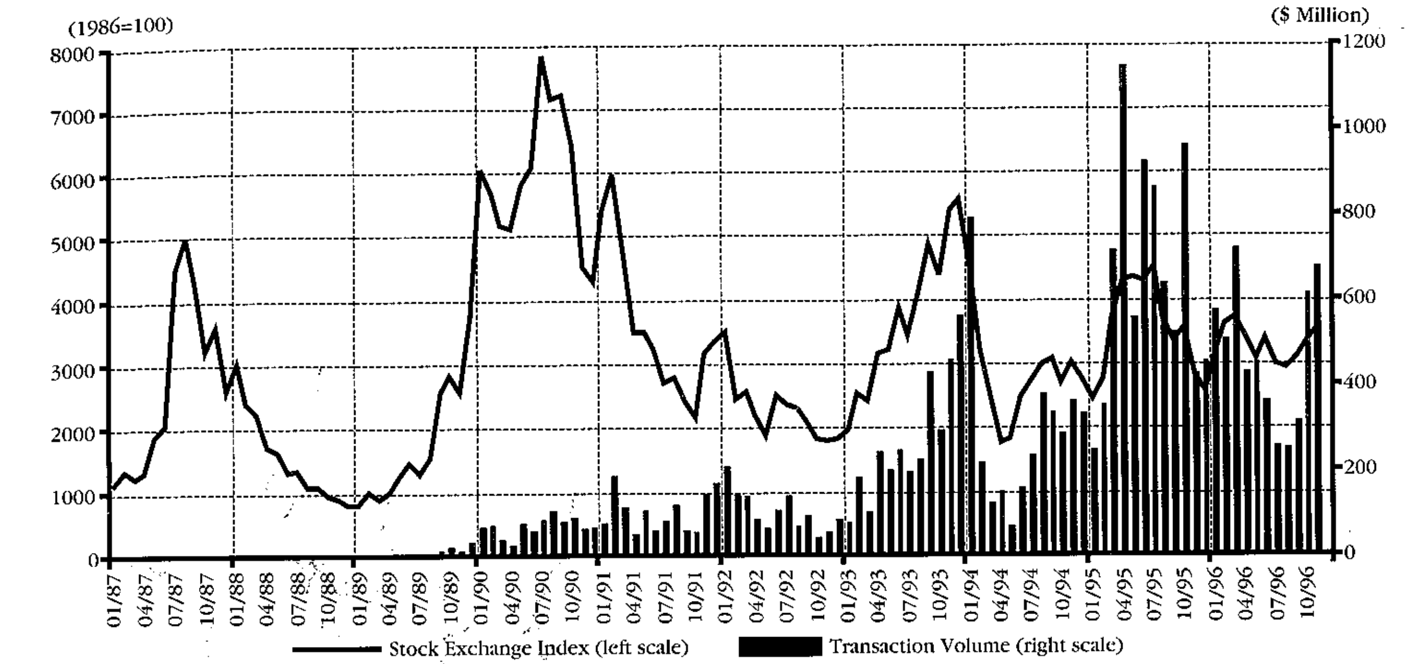
WHOLESALE PRICE INDEX AND MONTHLY AVERAGE US DOLLAR EXCHANGE RATE (Annual Percentage Change) **GRAPH 10**



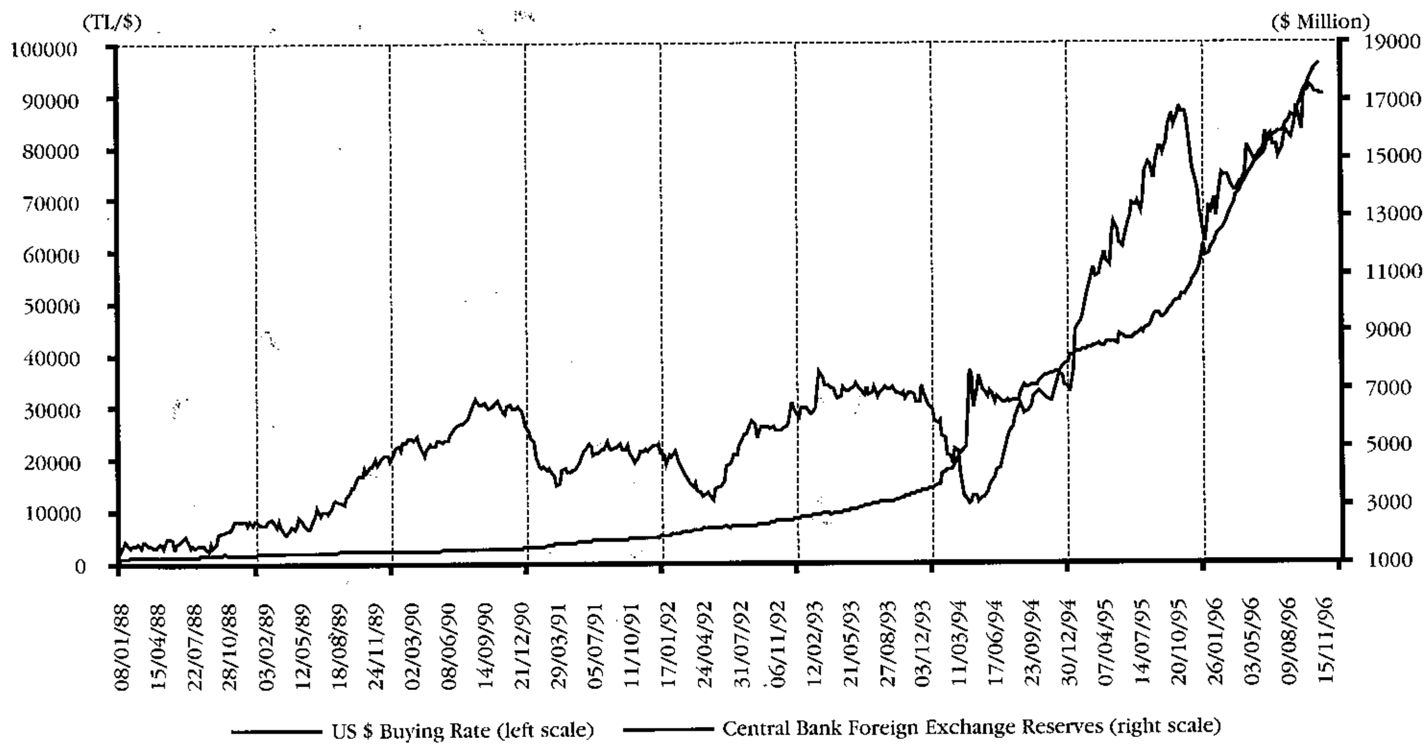
REAL EXCHANGE RATE INDEX **GRAPH 11**



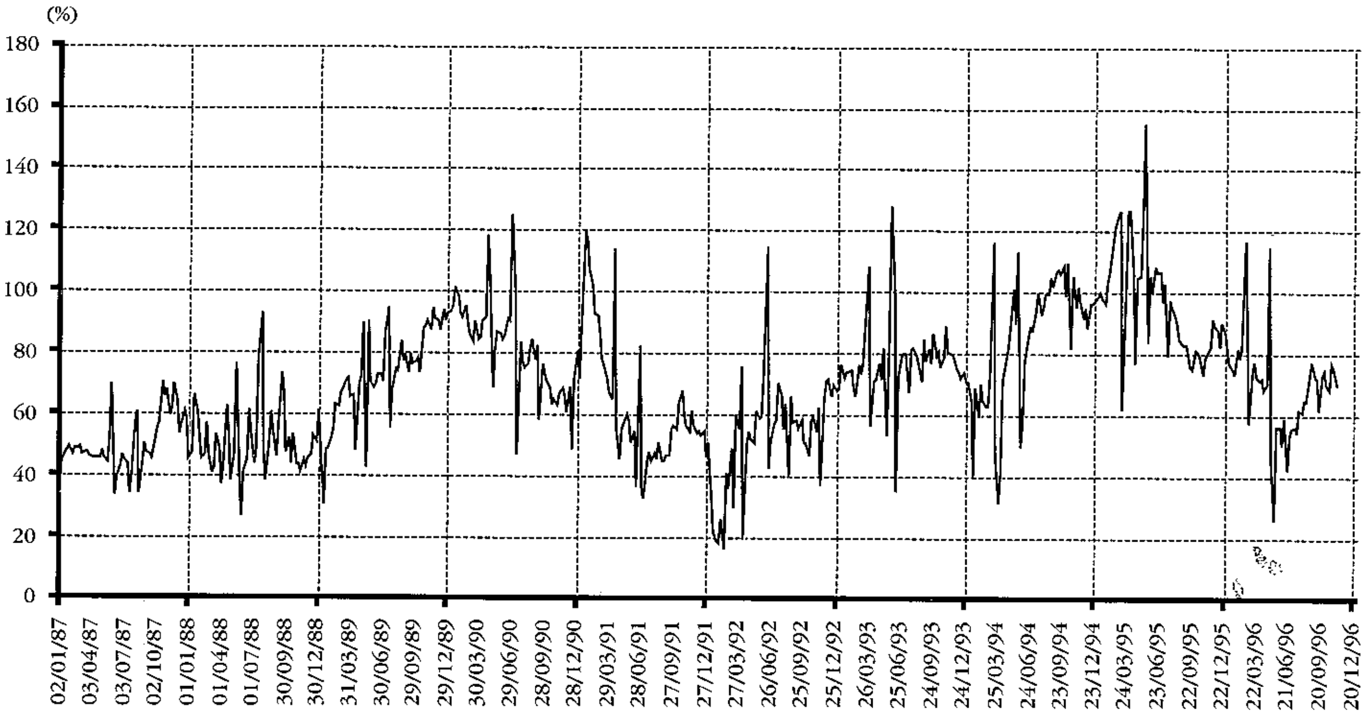
STOCK EXCHANGE INDEX AND TRANSACTION VOLUME GRAPH 12



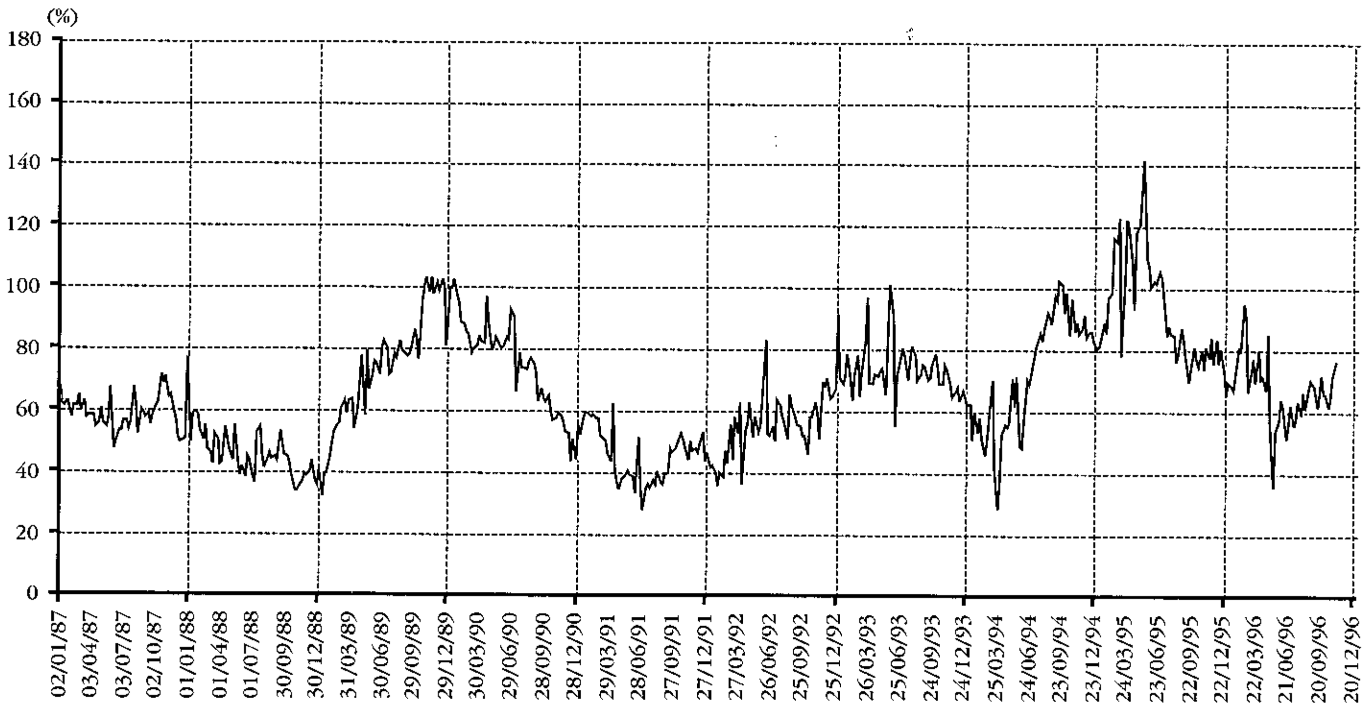
CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE GRAPH 13



CURRENCY IN CIRCULATION **GRAPH 14**
(Annual Percentage Increase)

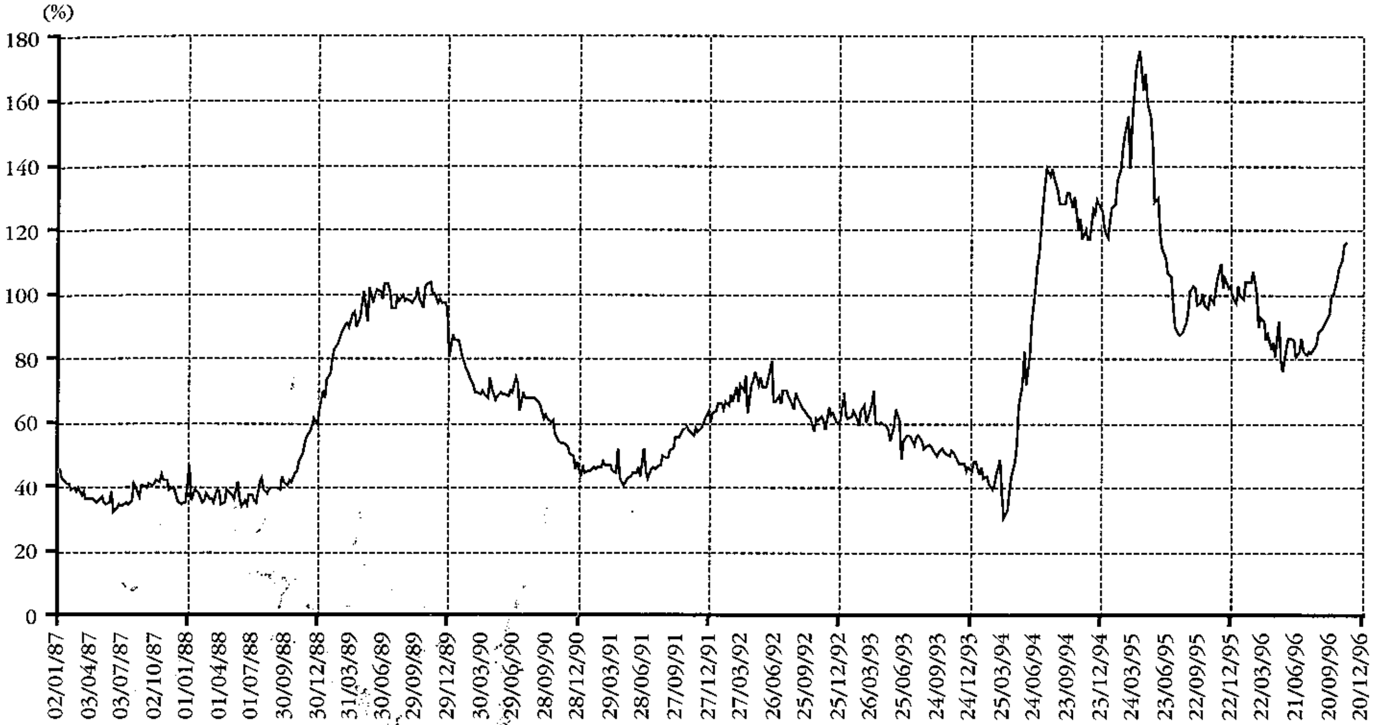


M1 **GRAPH 15**
(Annual Percentage Increase)



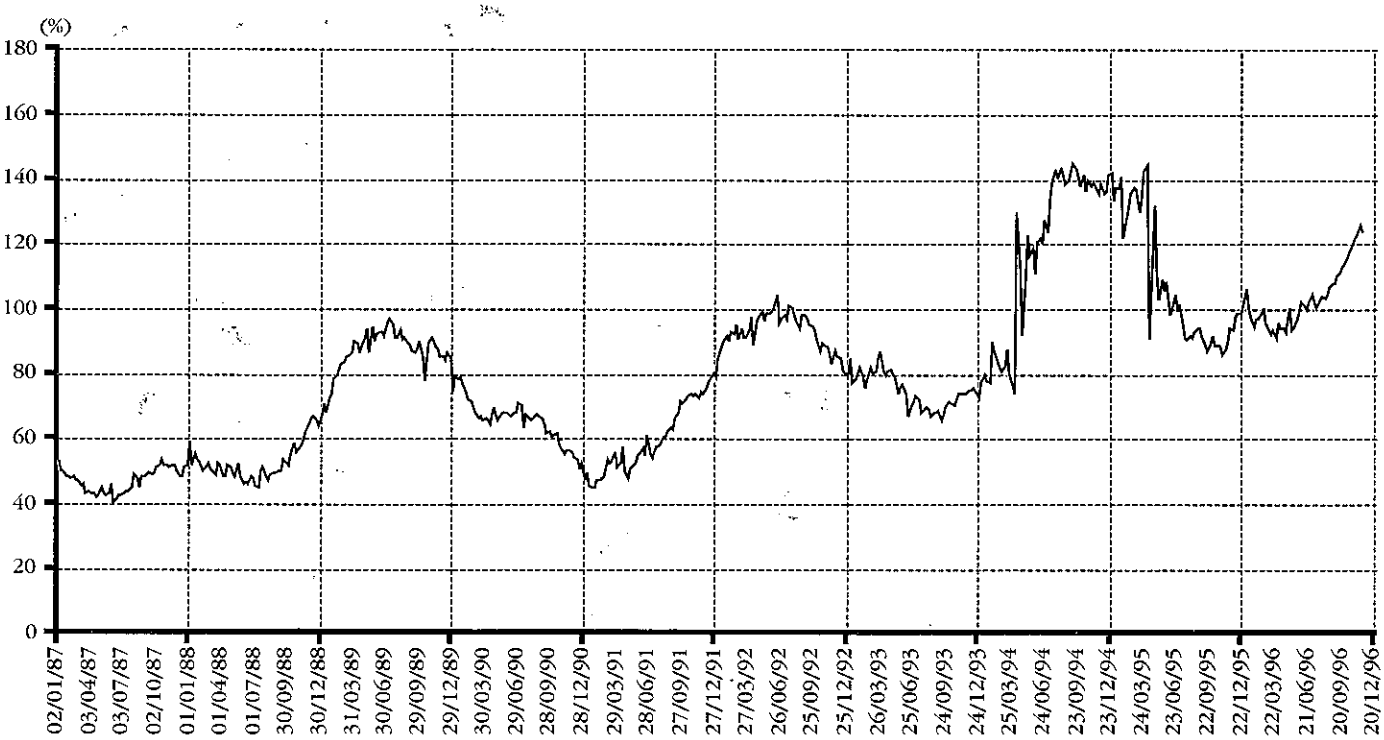
GRAPH 16

M2
(Annual Percentage Increase)

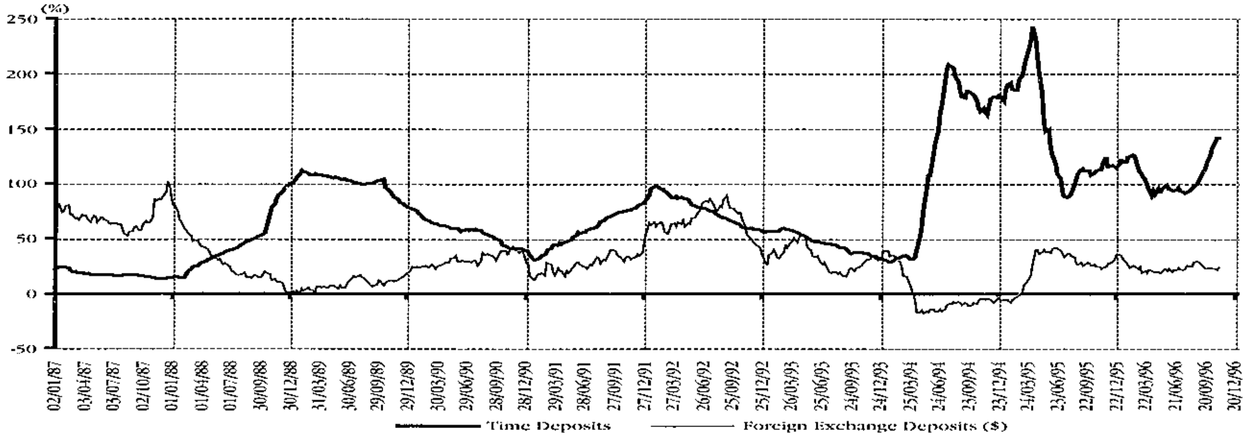


GRAPH 17

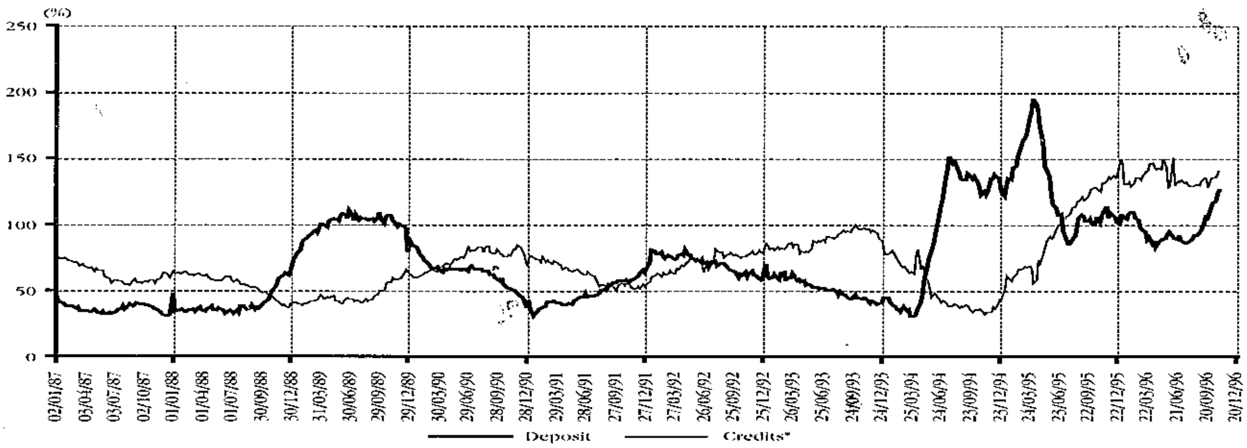
M2Y
(Annual Percentage Increase)



TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS (Annual Percentage Increase) GRAPH 18

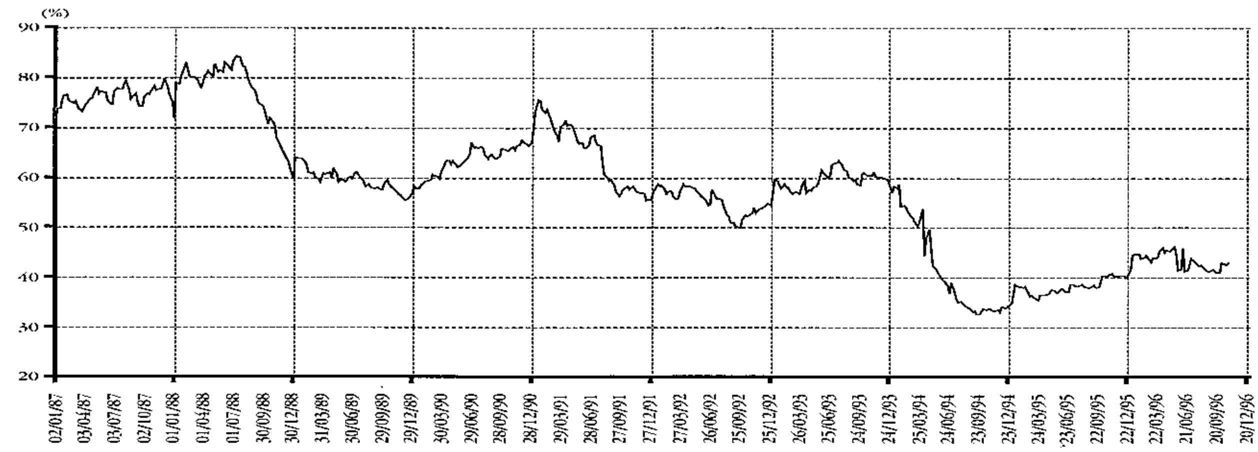


DEPOSIT BANK CREDITS* & DEPOSITS (Annual Percentage Increase) GRAPH 19



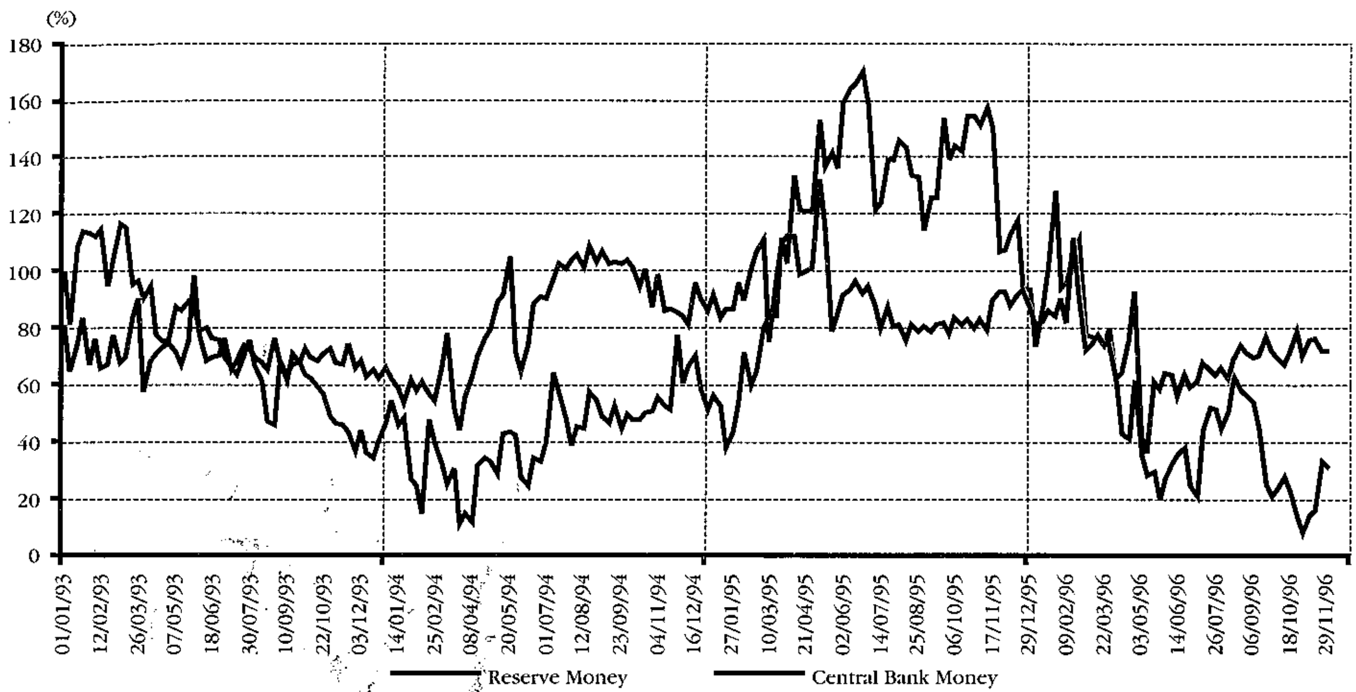
* *Adjusted for changes in data definition after 1/7/1994*

DEPOSIT BANK CREDITS*/ TOTAL DEPOSITS RATIO GRAPH 20

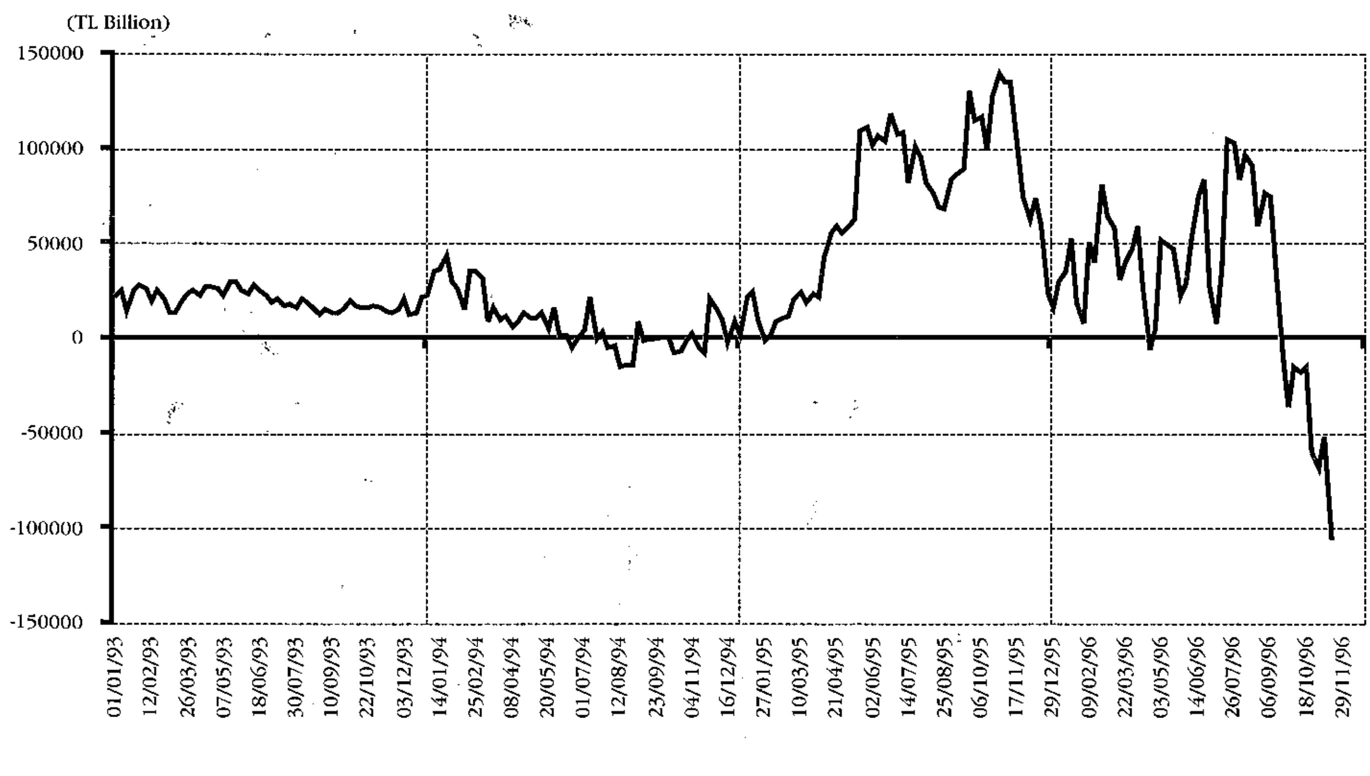


* *Adjusted for changes in data definition between 1/7/1994 - 1/7/1995. Total deposits include Foreign Exchange Deposits in M2Y*

CENTRAL BANK MONEY AND RESERVE MONEY (Annual Percentage Increase) GRAPH 21

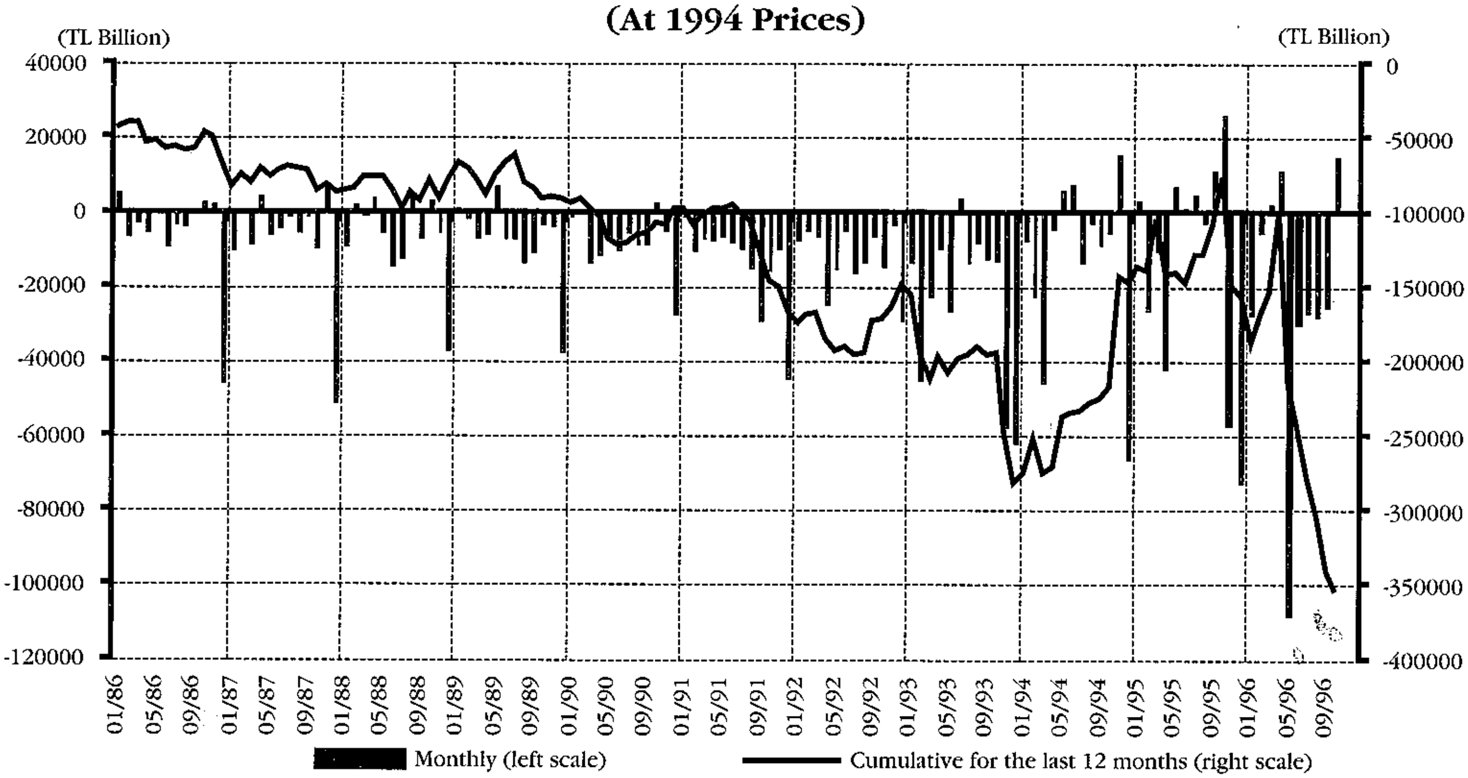


LIABILITIES DUE TO OPEN MARKET OPERATIONS GRAPH 22



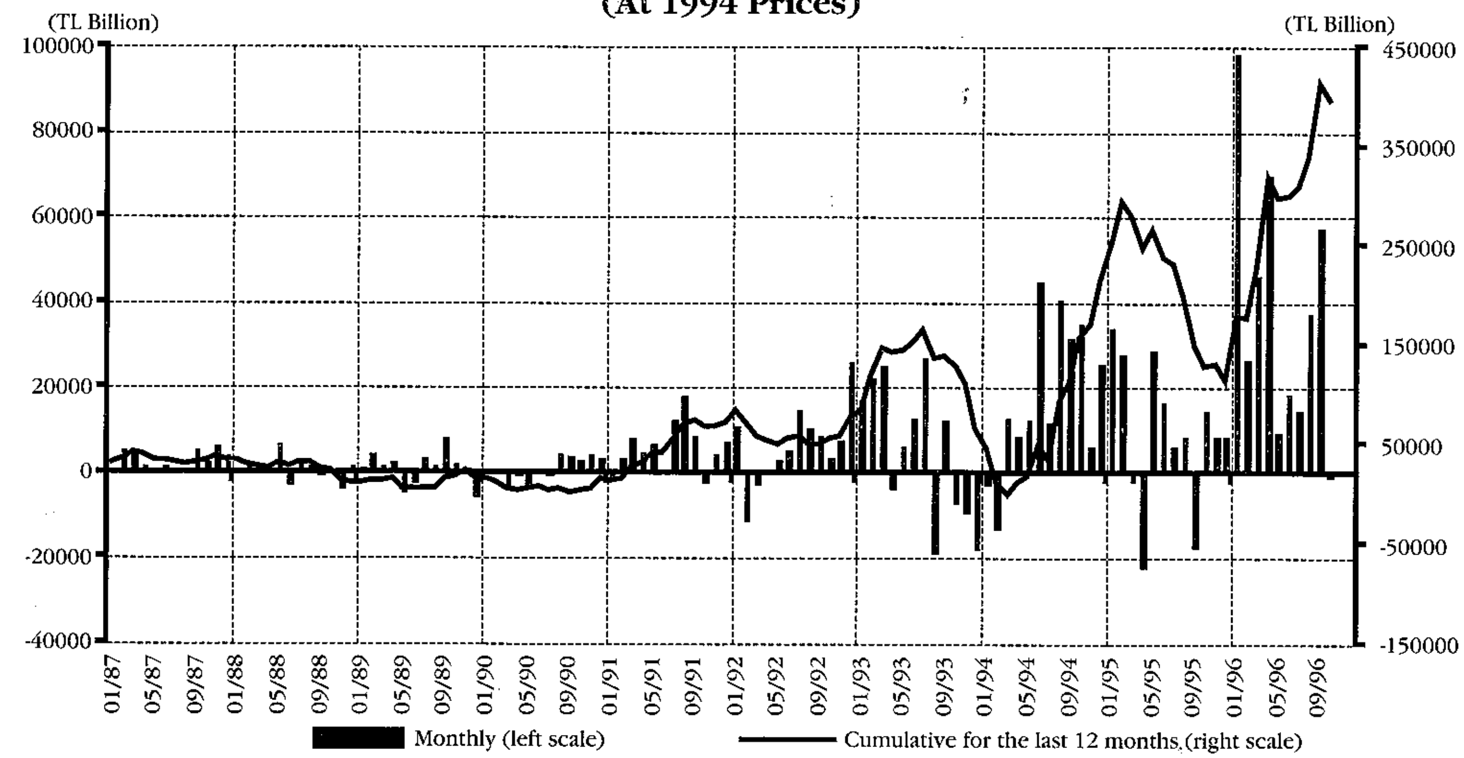
CONSOLIDATED BUDGET DEFICIT (At 1994 Prices)

GRAPH 23



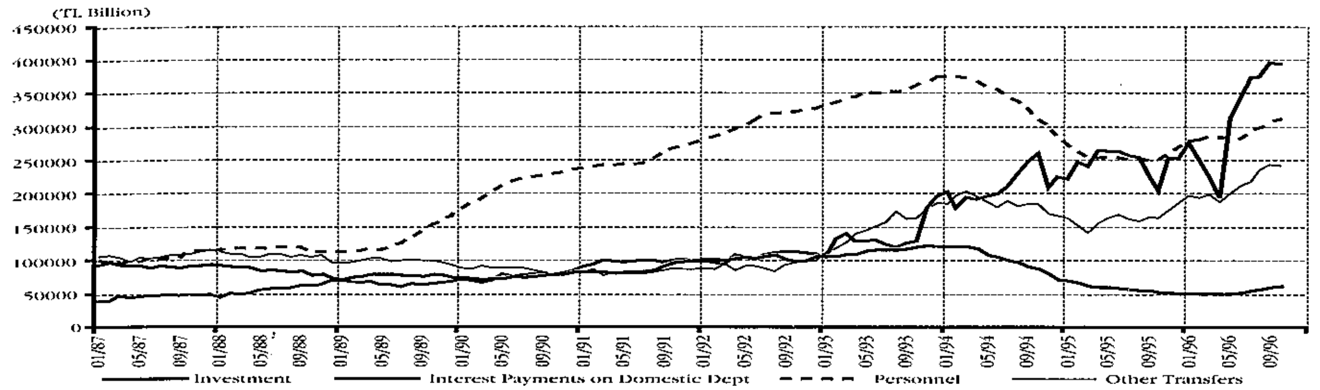
BORROWING BY TREASURY BILLS (NET) (At 1994 Prices)

GRAPH 24



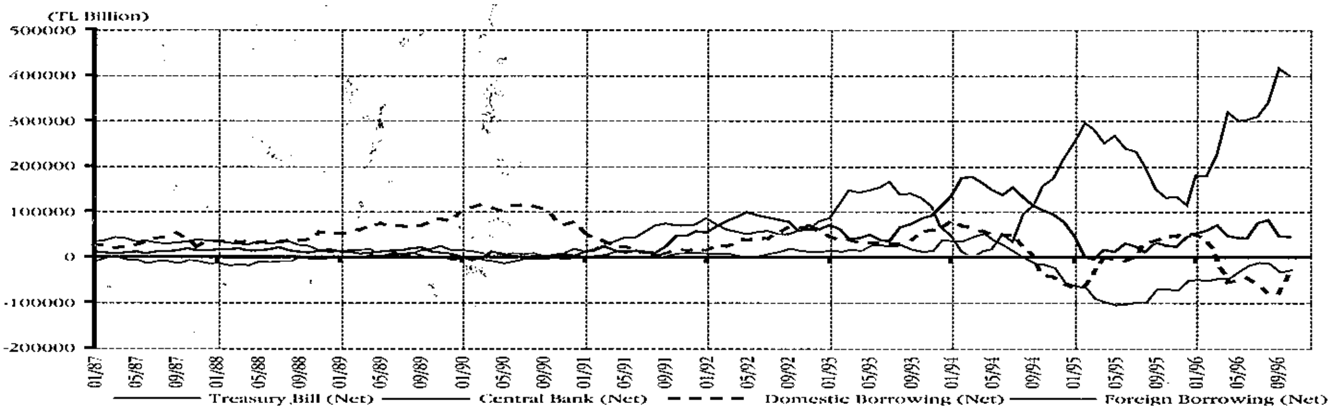
CONSOLIDATED BUDGET EXPENDITURES (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 25



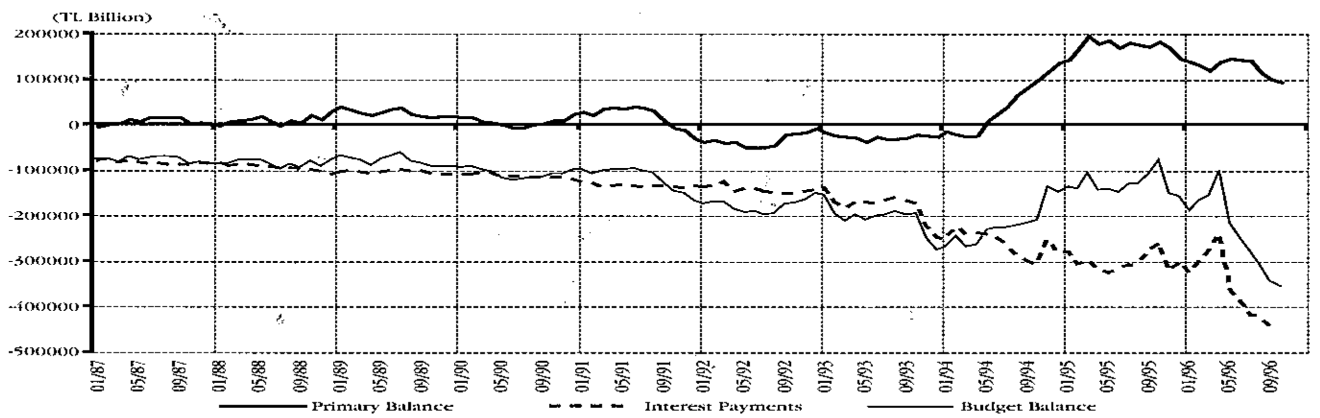
CONSOLIDATED BUDGET FINANCING (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 26



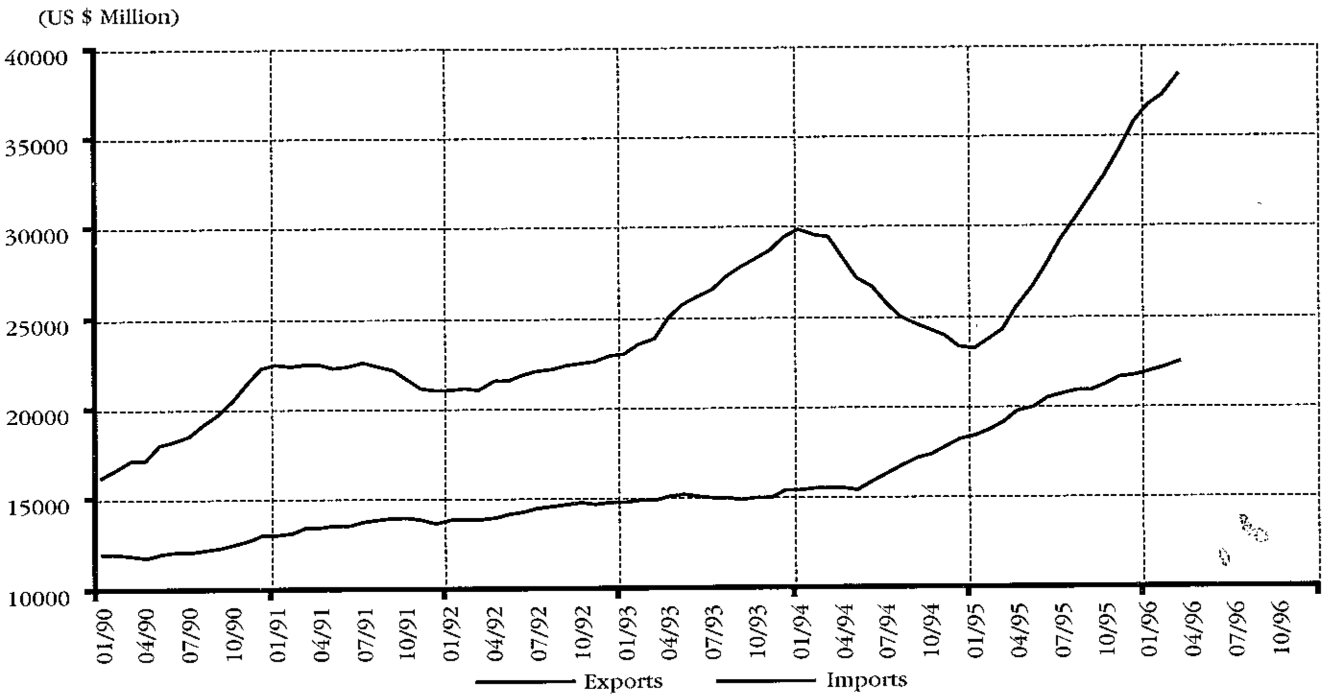
CONSOLIDATED BUDGET DEFICIT (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 27



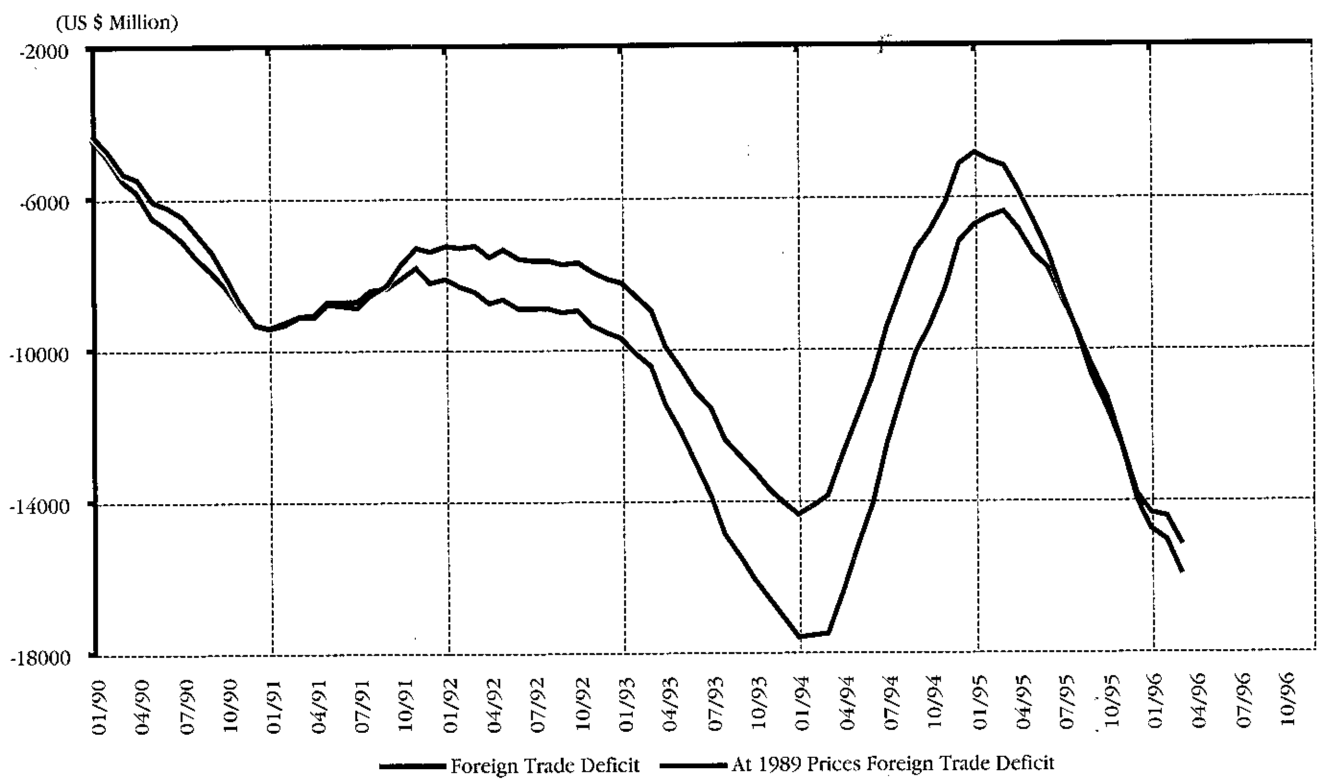
NOMINAL EXPORTS AND IMPORTS
(Cumulative for the last 12 months)

GRAPH 28



FOREIGN TRADE DEFICIT
(Cumulative for the last 12 months)

GRAPH 29

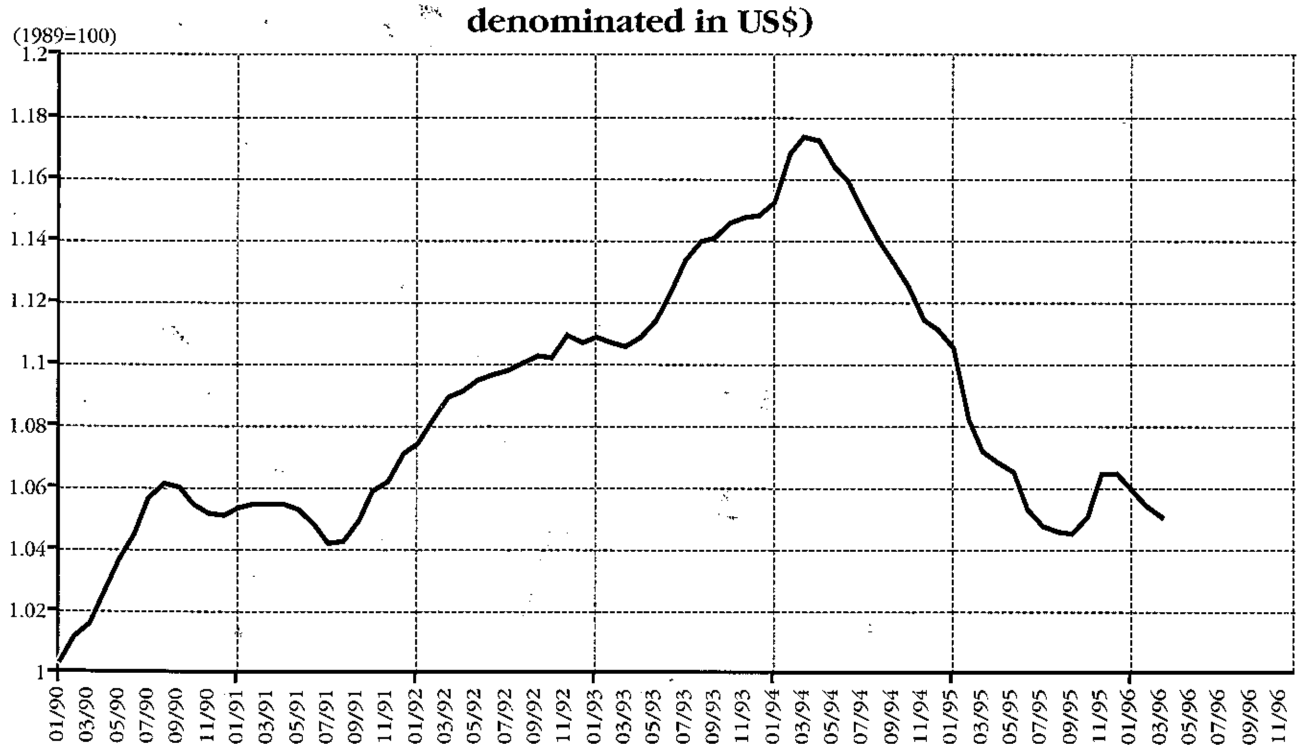


FOREIGN TRADE PRICE INDEX (Cumulative for the last 12 months)

GRAPH 30

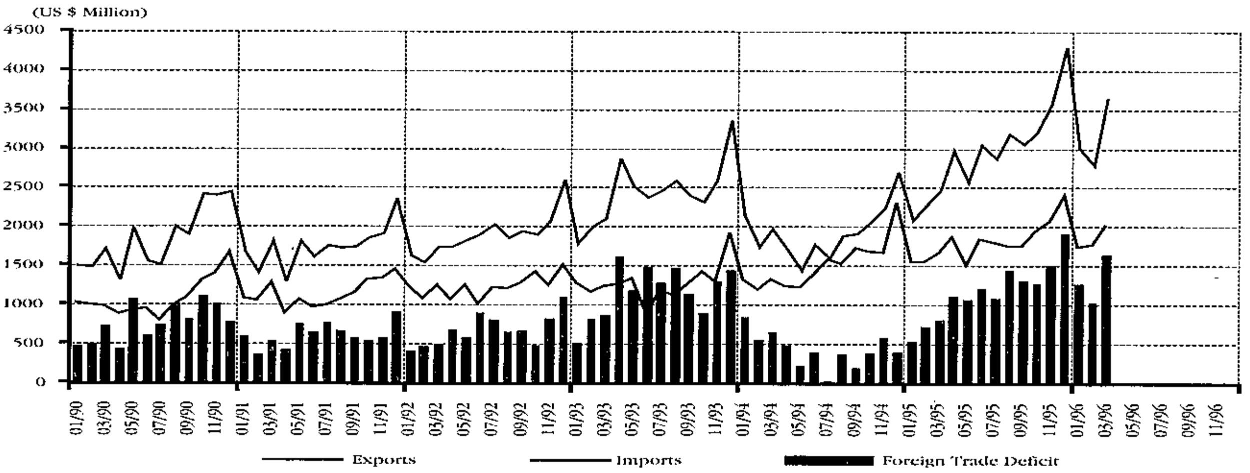
TERMS OF TRADE (Average for the last 12 months, Export Prices/ Import Prices, denominated in US$)

GRAPH 31



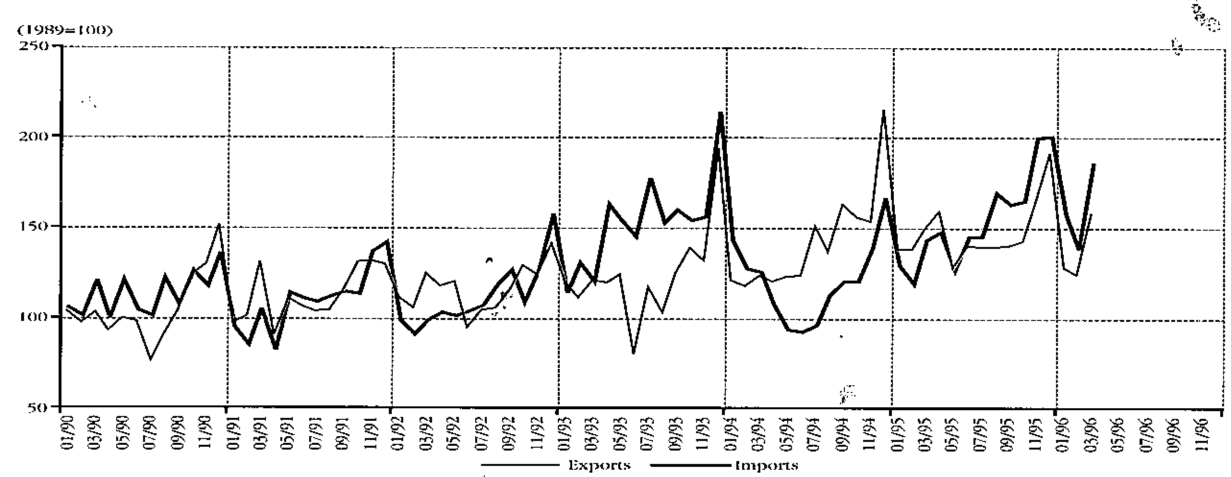
FOREIGN TRADE

GRAPH 32



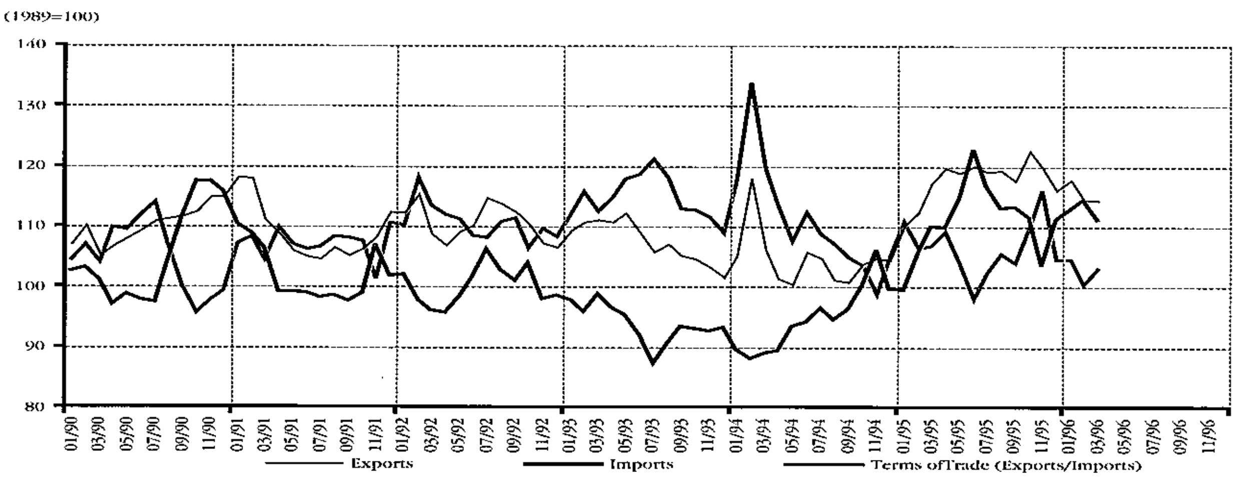
FOREIGN TRADE QUANTITY INDEX

GRAPH 33



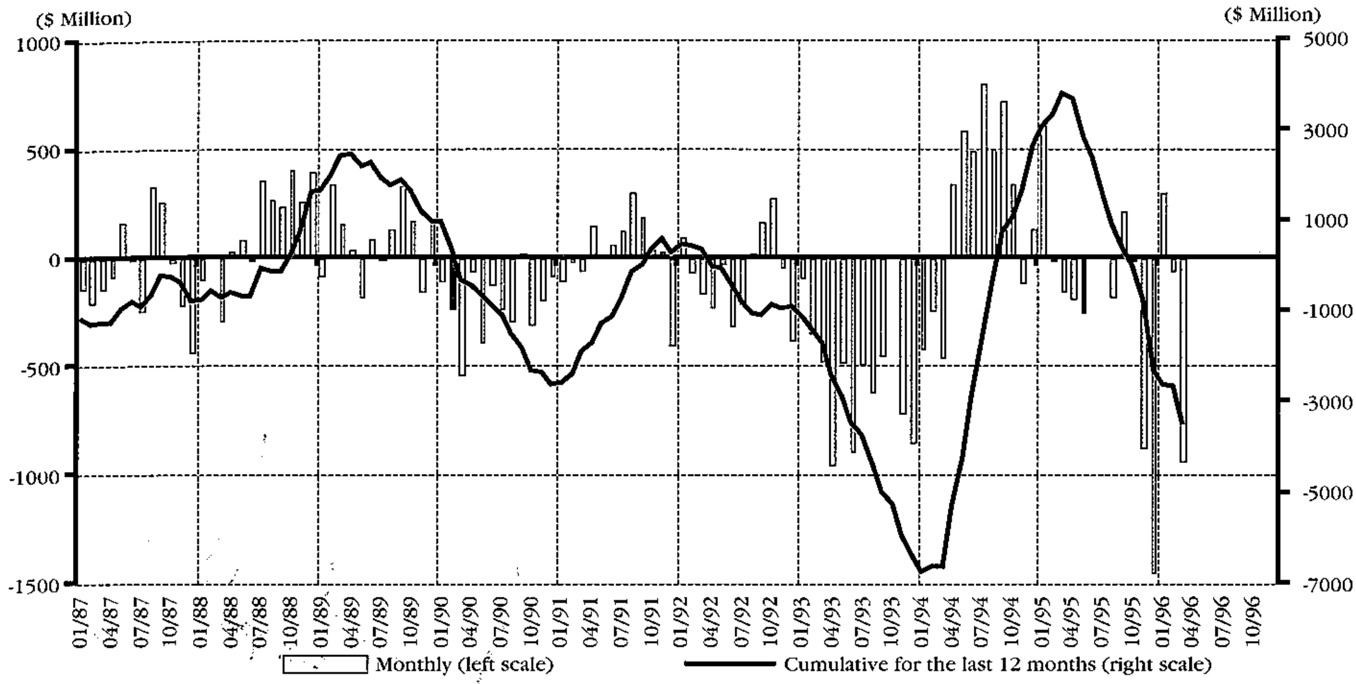
FOREIGN TRADE PRICE INDEX

GRAPH 34



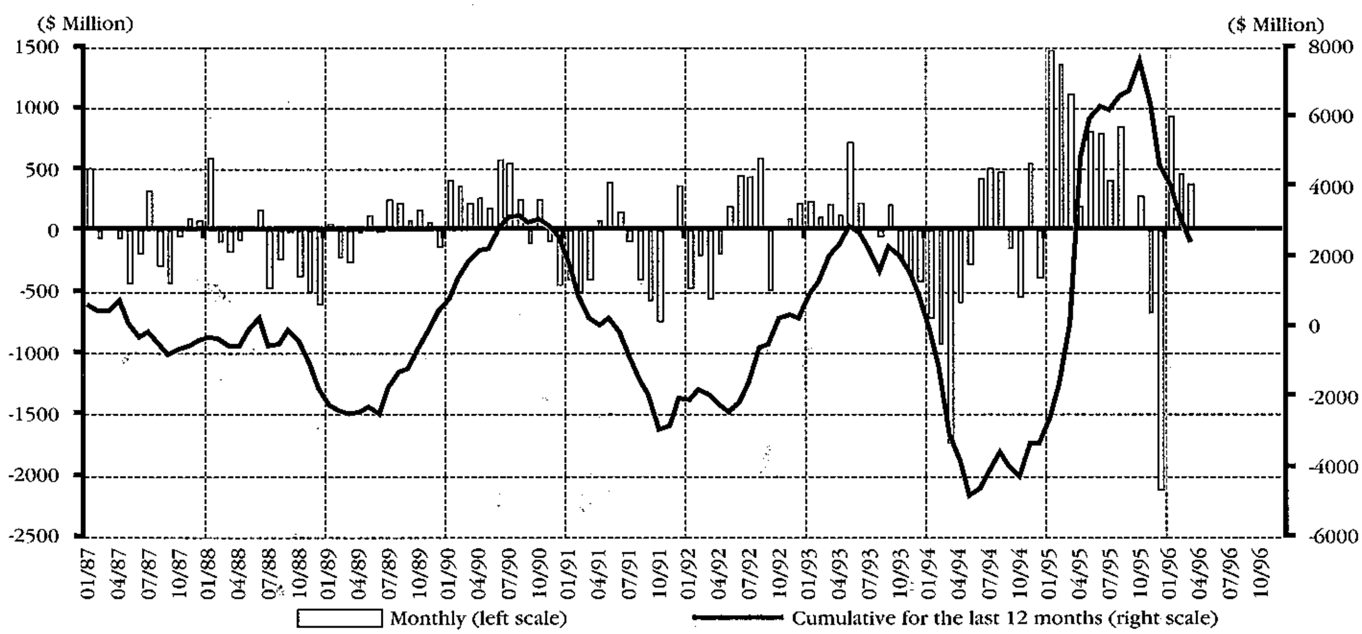
CURRENT ACCOUNT BALANCE

GRAPH 35

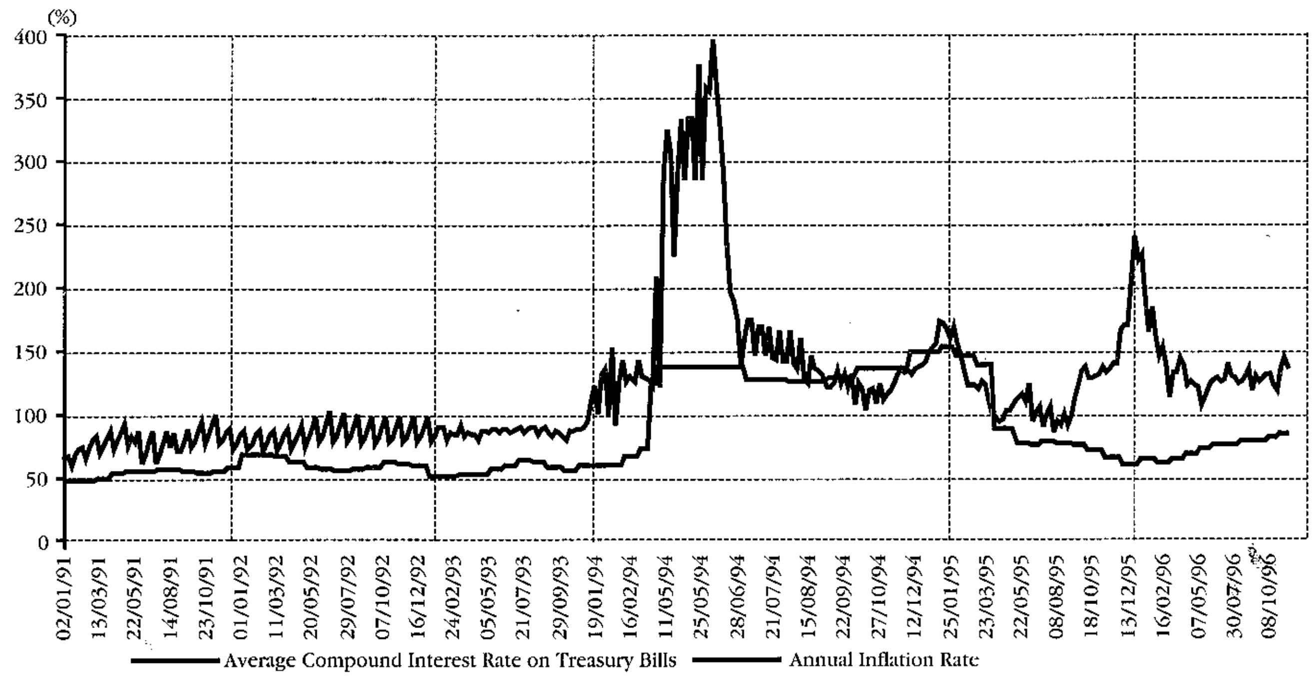


TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS

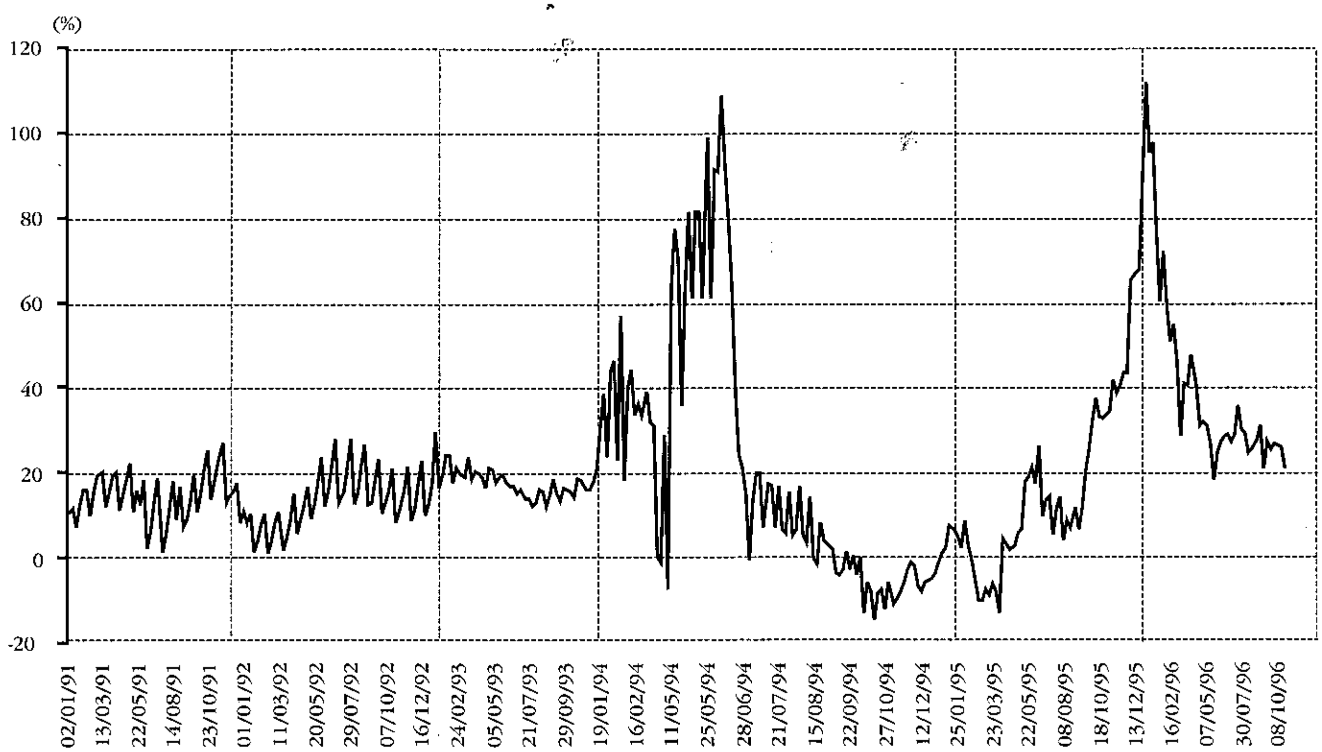
GRAPH 36



AVERAGE YEARLY NOMINAL INTEREST AND INFLATION RATE **GRAPH 37**

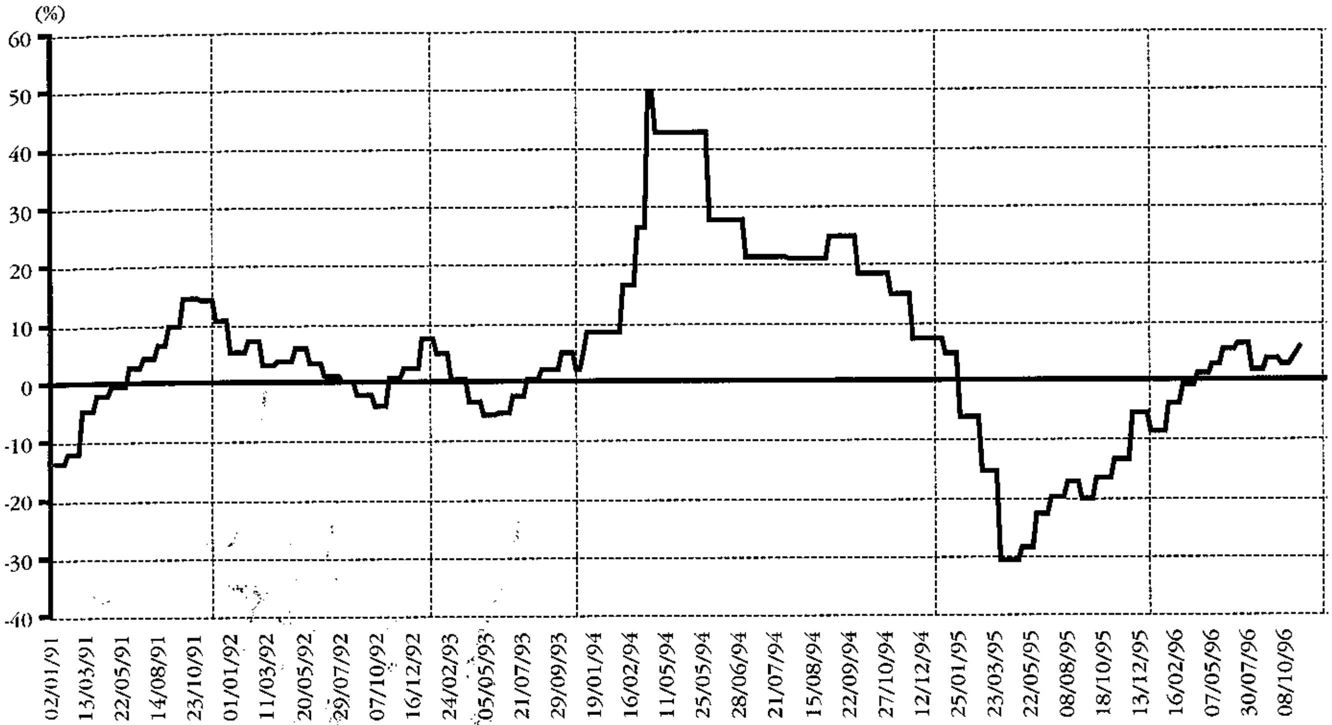


REAL INTEREST RATE (*) **GRAPH 38**



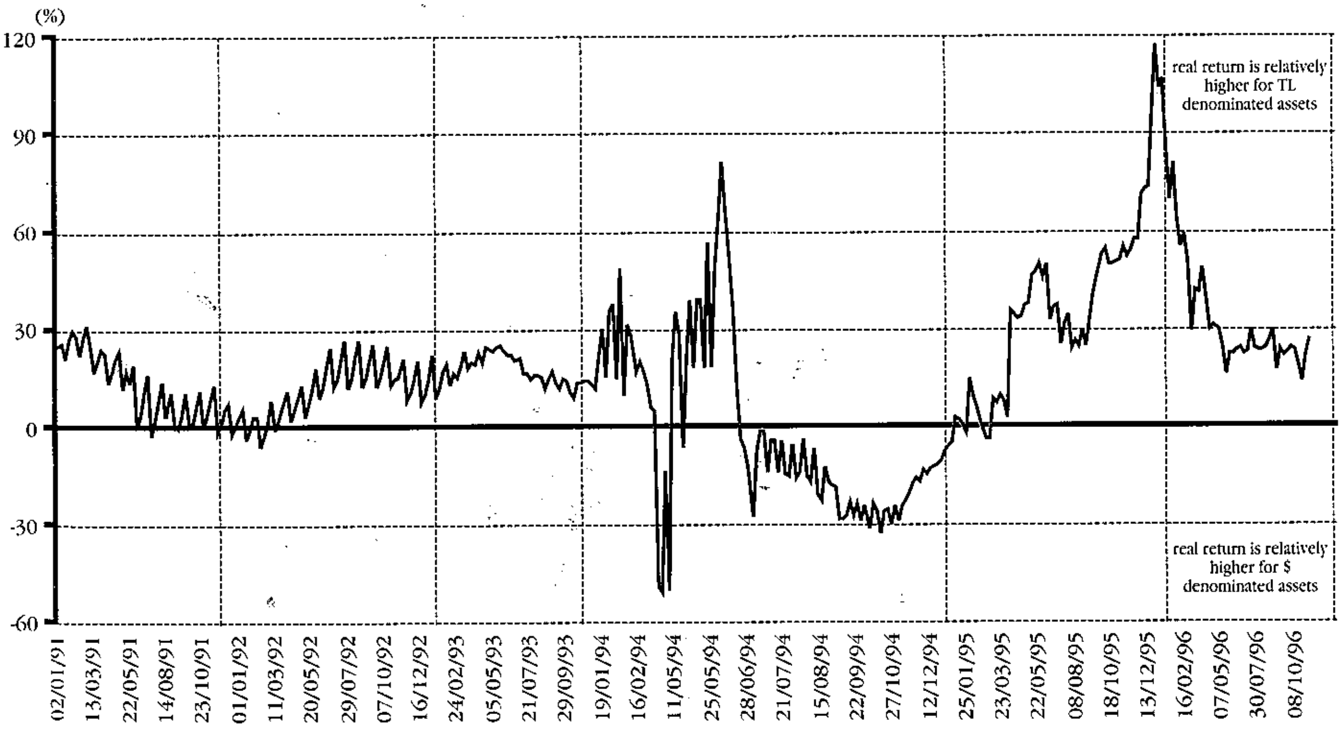
(*): Real interest rate is computed as: {(1+i)/(1+p)-1} x 100.
i: Average compound rate of interest on government paper (for all maturities), p: inflation rate (pt/p(t-12)-1}

REAL RATE OF RETURN ON US $ (*) GRAPH 39

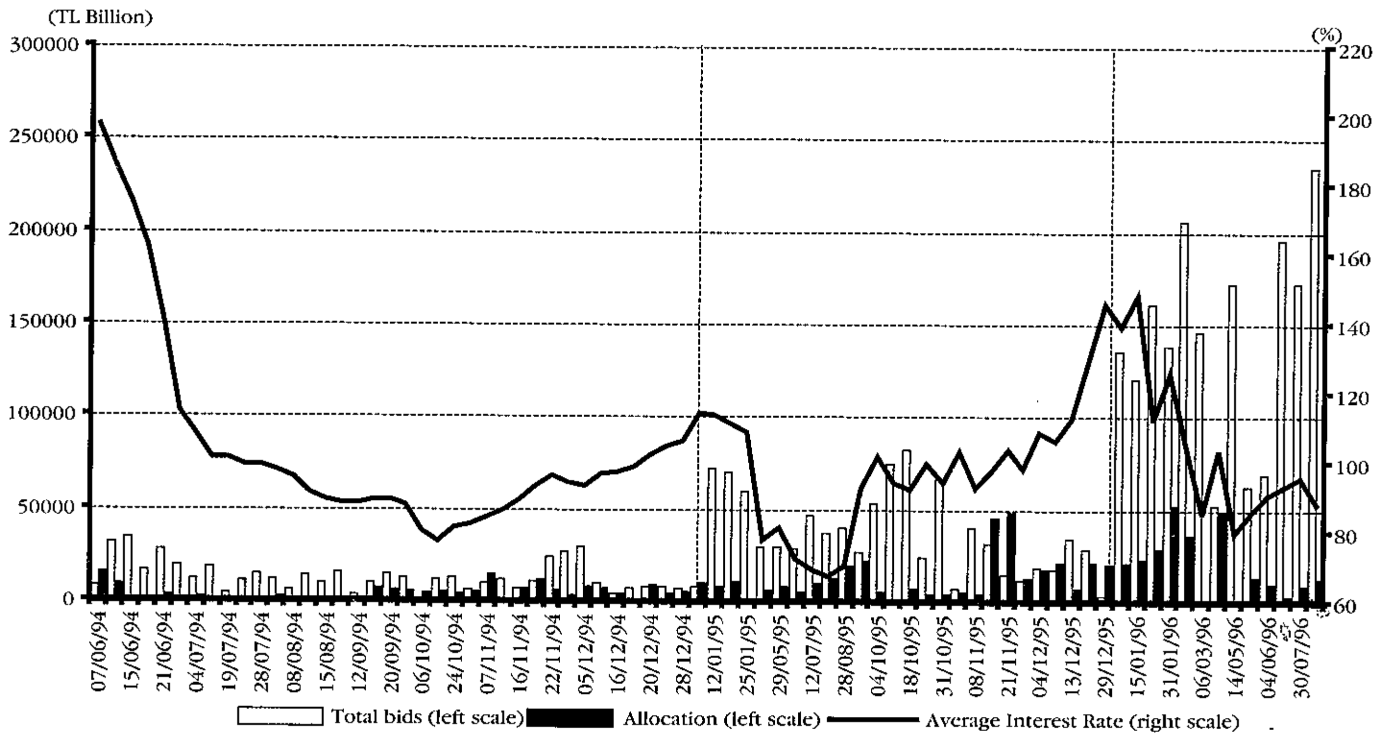


(*) Real rate of return is calculated as the yearly increase of index(TL/\$) / WPI (1994=100)

REAL INTEREST RATE MINUS REAL RATE OF RETURN ON US $ GRAPH 40

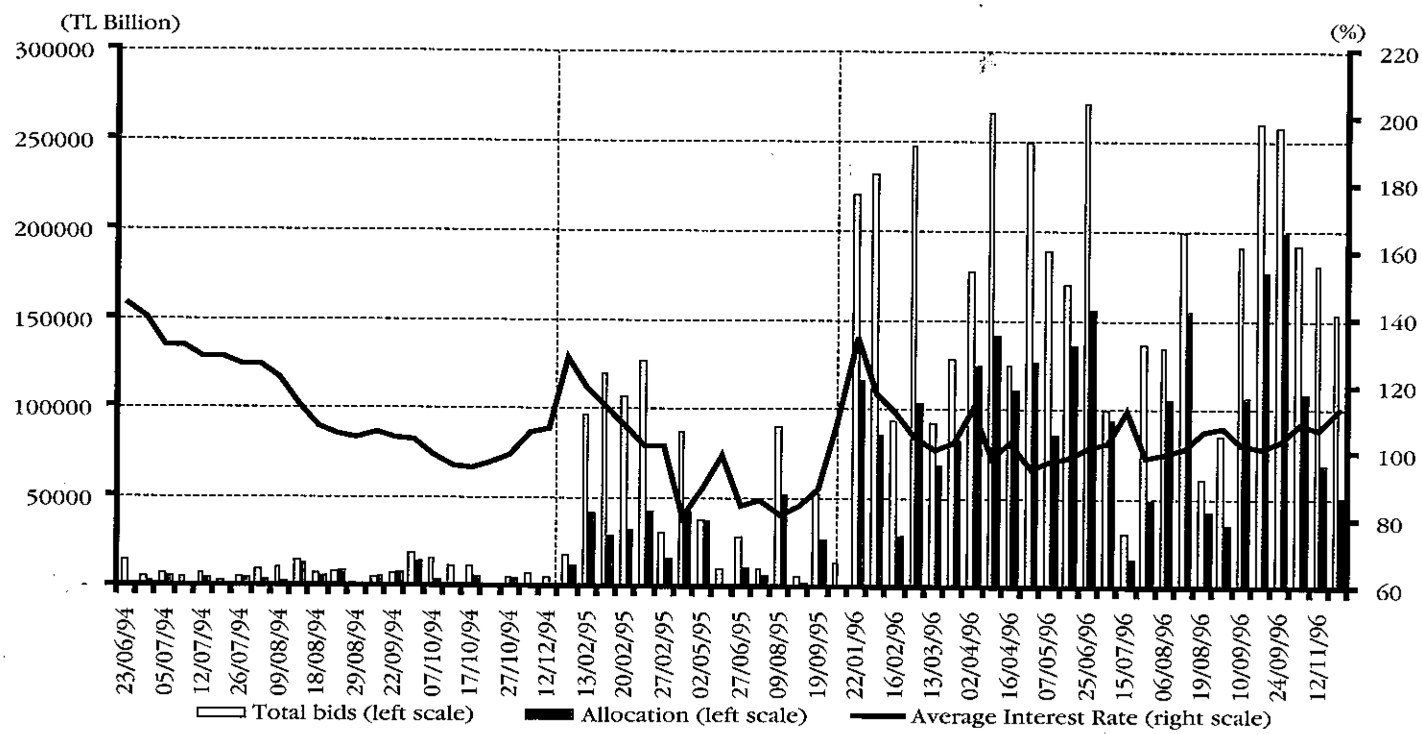


TREASURY AUCTIONS (3 Months Maturity) (*) GRAPH 41



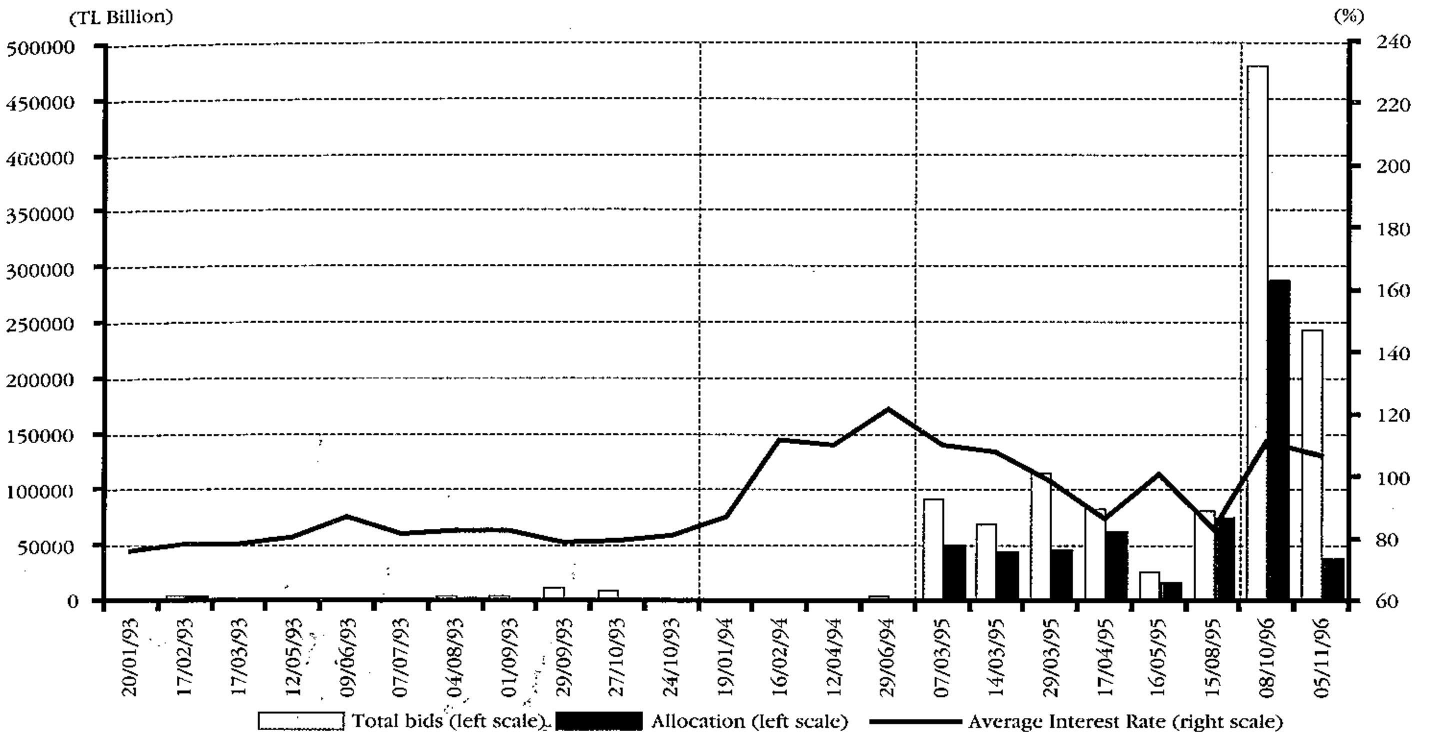
(*) *Includes bills with irregular terms.*

TREASURY AUCTIONS (6 Months Maturity) (*) GRAPH 42



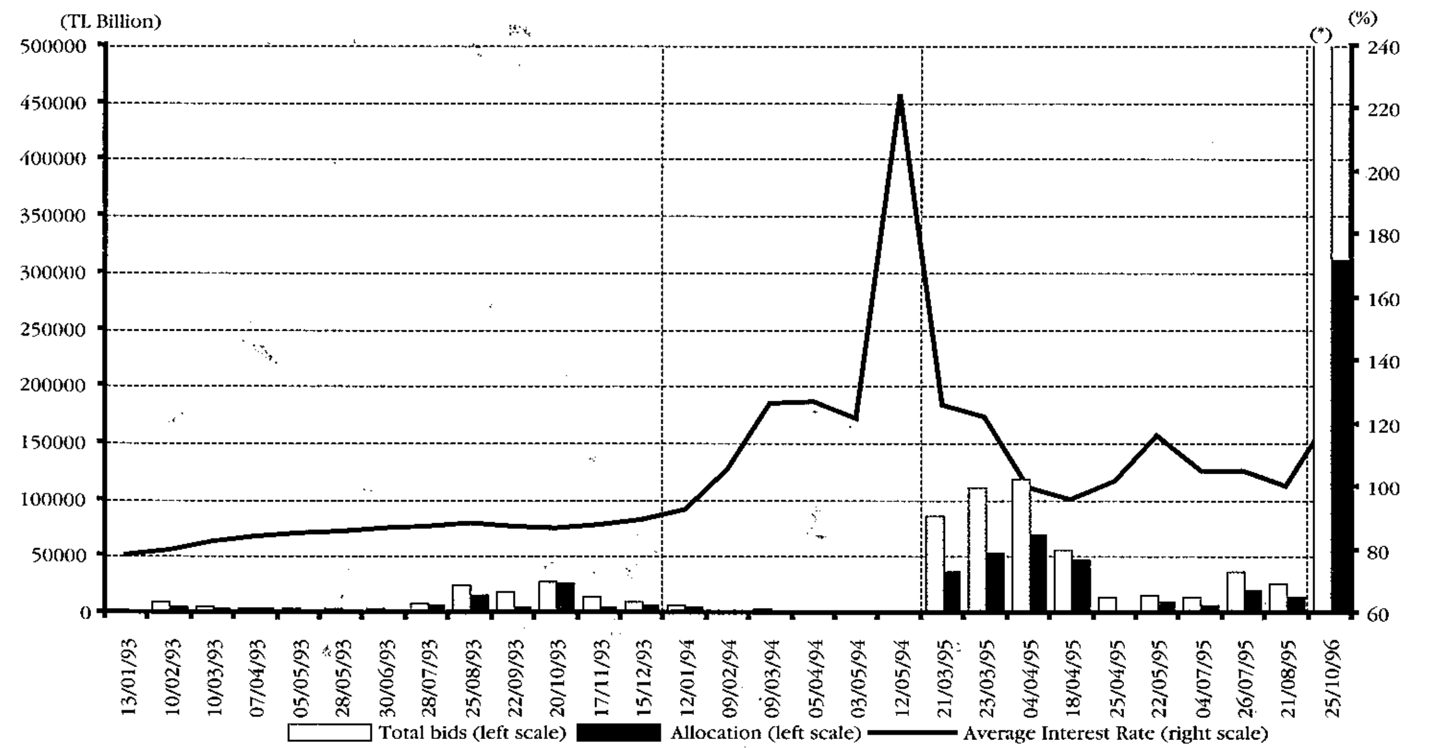
(*) *Includes bills with irregular terms.*

TREASURY AUCTIONS (9 Months Maturity) (*) GRAPH 43



(*) Includes bills with irregular terms.

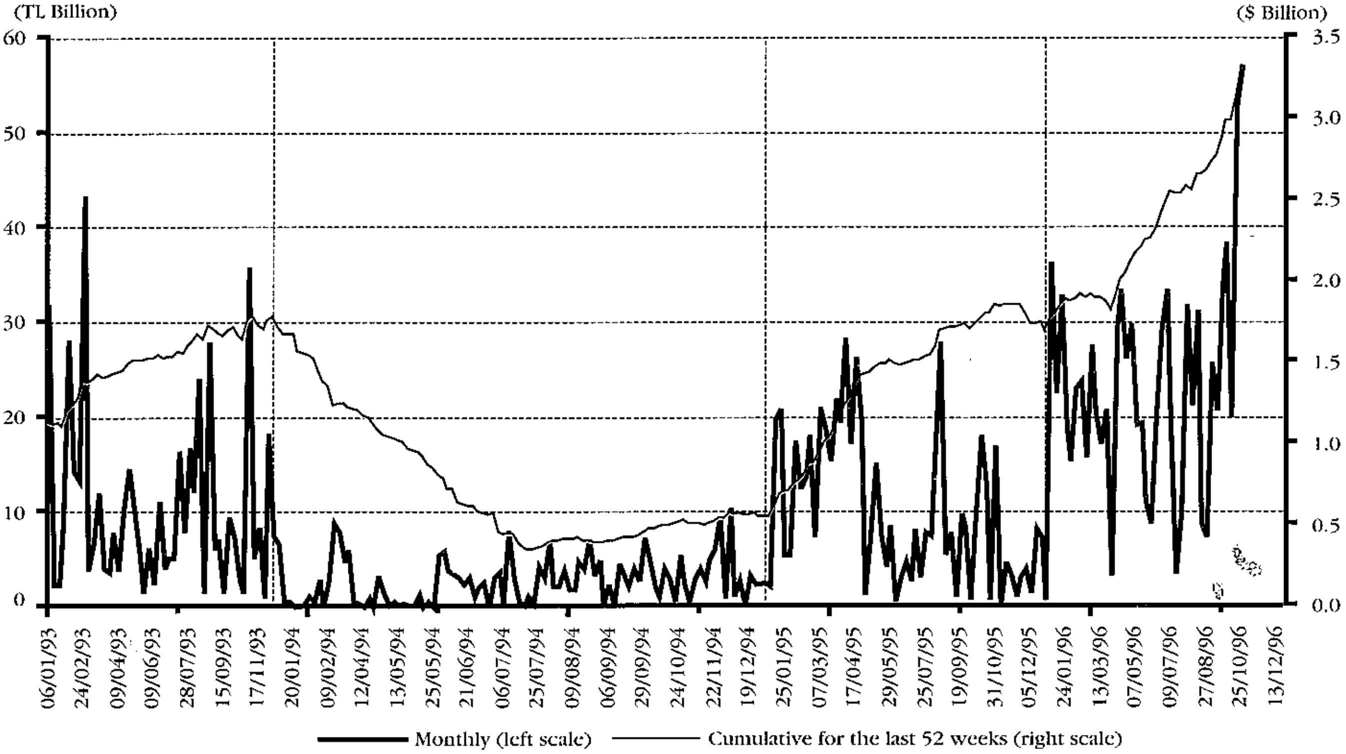
TREASURY AUCTIONS (12 Months Maturity) GRAPH 44



(*) 1 quadrillion 11.7 trillion TL

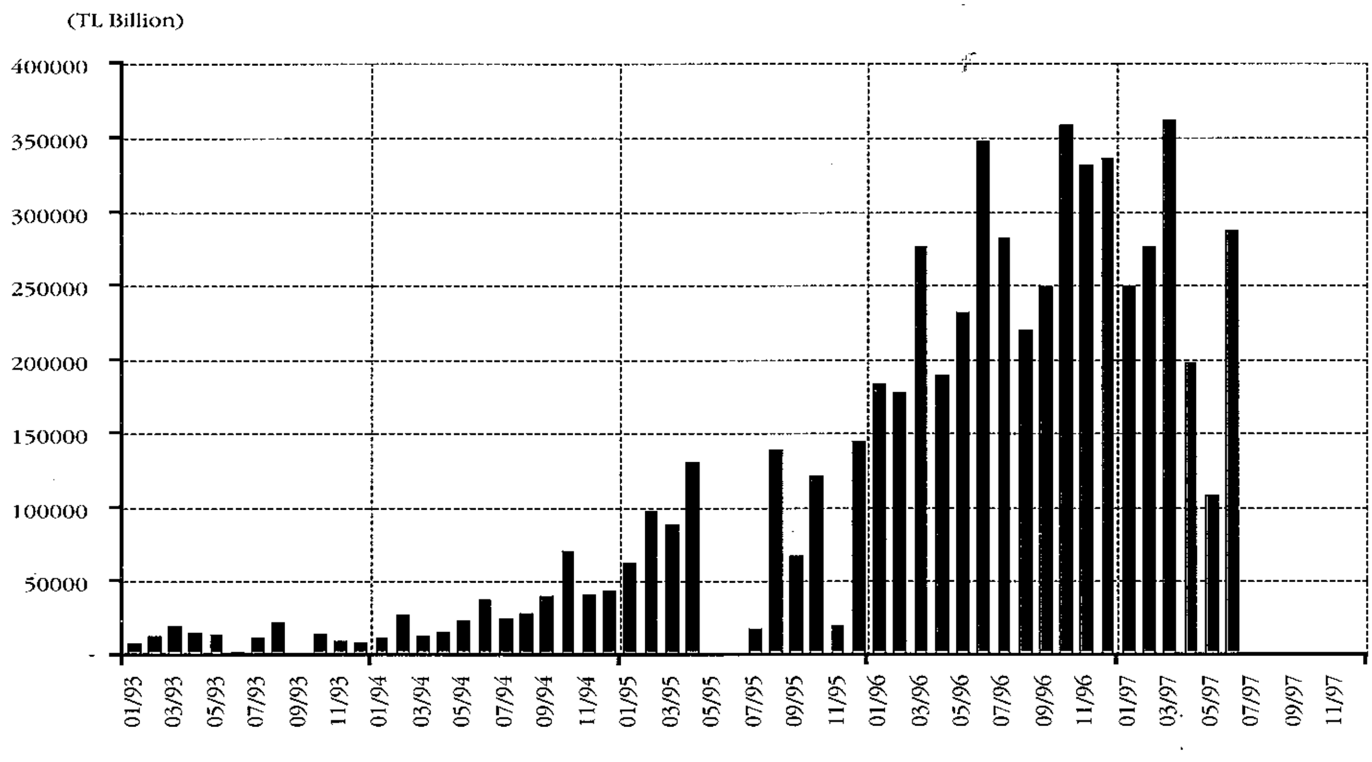
THE AMOUNT OF GOVERNMENT PAPERS SOLD IN TREASURY AUCTIONS

GRAPH 45



TREASURY BOND REPAYMENTS (*)

GRAPH 46



(*) As of 8/10/1996

APPENDIX

MACROECONOMIC SCENARIO: MACROECONOMIC INDICATORS IN 1997

No structural measures were undertaken in the aftermath of the 1994 crisis, that would restore the stability of macroeconomic balances. Under these circumstances, expectations of crisis for the Turkish economy never came to an end. The main reason for crisis expectations is no doubt the high rates of the public and current account deficits with respect to GNP. The persistance of these deficits at their current high levels, results in the continuation of high interest rates while real interest rates remain at excessive levels like 25-30%. This is unsustainable in the medium term.

It can be observed that domestic and foreign balances were negatively affected by the high growth rates in 1995 and 1996. If at the end of 1996 the current account deficit occurs around $7 billions, its share in GNP will come to 3.8%, which will be more than the 3.5% figure of the period which immediately preceded the crisis. In a similar manner, it is expected that the share of the public sector borrowing requirement in GNP, which reached the record high level of 12.2% before the crisis, will again rise up to this level.

Pressed by these two main macroeconomic imbalances, the government seems to have given priority to closing the public sector deficit. It is assumed that the foreign deficit is sustainable in its present state, since the current account deficit increases at a slower rate than the foreign trade deficit due to the fast rise in invisibles and since it can also be covered by short-term capital inflows. This assumption is supported by the upward movement in Central Bank reserves, and priority is therefore given to measures that will restore domestic balances.

However, the "balanced budget" target of the government goes no further than being a good-intentioned first step towards the solution of the problem. The attainment of the goal of "balanced budget" is made conditional on one-time measures of revenue collection. What is more, it is highly unlikely that the expected revenues will be actually collected in 1997. Under these circumstances, the 1997 budget will most probably incur a deficit far beyond the expected levels. As expected revenues will fail coming in, the most likely borrowing instrument to be used will again be domestic borrowing. In such a situation, interest payments will far exceed the targeted levels.

The 1997 Program of the State Planning Organization, based on the assumption that the government's "balanced budget" target will be achieved, maintains that policies that are aimed at reducing the public deficit will also curtail domestic demand and thereby reduce the growth rate down to 4%.

TÜSİAD's Research Department prepared a table, presented in Table A1 depicting the results of a study aimed at computing the values of main macroeconomic variables under the assumption of a 4% growth rate in 1997[1]. The study displays that under this assumptions, the budget deficit will materialize at around TL2.5 quadrillions ($17.1 billions). The yearly inflation rate will rise by ten points up to 86.8%. In order for the inflation rate not to exceed this level, the increase in the reserve money will have to remain at 82.9%. Due to the persisting public deficit and the rising rate of inflation, real interest rates will not come down from their high level of arround 26%.

It is calculated that in 1997 the TL will appreciate with respect to the US dollar at a rate of 2.7% and the average TL/dollar exchange rate will be TL 148 thousand. The foreign trade deficit is estimated to ascend to $20.6 billions, with exports totaling $24.9 billions and imports $45.5 billions. The current account deficit is expected to materialize in the neighborhood of $7 billions in 1997, in accordance with the rise in the net errors and omissions item.

This study reaches the conclusion that a crisis can be avoided in 1997 if the 4% growth rate target is attained. In other words, in 1997, under the assumption of a 4% growth rate, the economy can generate the resources that can compensate for the $17.1 billions of budget deficit and $7 billions of current account deficit. However, one cannot draw from this the conclusion that the Turkish economy may finally settle on a path of sustainable growth in 1997, particularly when the inflation and interest rates are expected to remain at very high levels. In view of the fact that many countries, including former socialist countries, have made significant progress towards the goal of achieving economic stability, Turkey must take medium to long term measures without delay to be able to maintain its competitiveness in world markets.

---

[1] *The results of this study are computed by means of a three-blocked "Constrained Bayesian Vector Autoregression" model.*

TABLE A1 DEVELOPMENT IN MACROECONOMIC INDICATORS ASSUMING % 4 GROWTH RATE (Quarterly Figures)

Level	94-1	94-2	94-3	94-4	95-1	95-2	95-3	95-4	96-1	96-2	96-3	96-4*	97-1*	97-2*	97-3*	97-4*
GNP (1987 prices)	19,017	19,982	29,960	22,773	18,970	22,502	32,968	24,531	20,788	24,512	34,751	25,865	21,600	24,929	36,320	27,303
Reserve Money (TL Billion)	103,192	139,550	177,902	181,941	204,762	265,918	311,727	333,244	369,465	455,103	529,028	627,786	702,831	835,603	987,949	1,098.068
Con. Budget Revenues (TL Billion)	111,525	173,198	216,935	251,782	255,767	327,153	369,629	451,522	422,647	651,275	761,073	988,156	957,869	1,263,599	1,506.832	1,907,774
Con. Budget Expenditures (TL Billion)	162,798	163,118	243,865	329.594	309,707	386,265	342,224	682,451	496,866	1,052,497	1,059,771	1,596,633	1,330,990	1,707,293	2,037,712	3.093,941
Con. Budget Deficit (TL)	51,273	-10,080	26,930	77,812	53,940	59.112	-27,405	230,929	74,219	401,222	298,698	608,477	373,121	443,694	530,880	1.186,167
Con. Budget Deficit (USD)	2.9	-0.3	0.8	2.1	1.3	1.4	-0.6	4.4	1.2	5.3	3.5	6.1	3.2	3.1	3.4	6.8
Imports (Million USD)	5,713	4,715	5,393	6,785	6,623	8,422	9.330	10,812	9,255	10,574*	10,966*	11.593	10,692	11,186	11,555	12,105
Exports (Million USD)	3,914	3,894	4,889	5,693	4,821	5,306	5.373	6,474	5,591	5,121*	5,604*	6,957	6,220	5,899	5,962	6,835
Foreign Trade Balance (Million USD)	-1,799	-821	-504	-1,092	-1,802	-3.116	-3,957	-4,338	-3,664	-5,453*	-5,362*	-4,636	-4,472	-5,287	-5,593	-5,270
Net Other Income (Million USD)	666	2,229	2,518	1,434	2,230	2,673	3,982	1,989	2,946	3,097*	3.585*	2,710	2,219	3,206	4,506	3,726
Current Account Balance (Million USD)	-1,133	1,408	2,014	342	428	-443	25	-2,349	-718	-2,356*	-1,777*	-1,926	-2,253	-2,081	-1,087	-1,544
Average WPI (1994=100)	64.3	99.0	107.8	129.0	158.4	179.4	191.8	214.5	260.4	310.8	342.3	398.8	487.6	579.5	639.6	744.9
Annual Compound Int. Rate	147.5	210.8	133.9	124.2	141.3	101.7	100.7	156.9	169.8	129.4	128.1	138.3	133.3	136.4	160.1	134.
Annual Real Int. Rate	47.5	32.9	2.4	-7.1	-2.1	11.3	12.7	54.5	64.2	32.4	27.8	28.1	24.6	26.8	39.2	25.7
Nominal Exchange Rate (TL/USD)	17,711	32,557	32,222	36,284	41,008	42,772	45,590	53,009	64,296	76,176	85,575	99,700	117,494	142,034	156,000	175,684
Average Real Exch.Rate (WPI/USD*100)	0.363	0.304	0.334	0.356	0.386	0.419	0.421	0.405	0.405	0.408	0.400	0.400	0.415	0.408	0.410	0.424
Annual Percentage Increase																
GNP	4.1	-9.7	-8.7	-6.9	-0.2	12.6	10.0	7.7	9.6	8.9	5.4	5.4	3.9	1.7	4.5	5.6
Reserve Money	47.8	77.4	99.6	85.9	98.4	90.6	75.2	83.2	80.4	71.1	69.7	88.4	90.2	83.6	86.7	74.9
Con. Budget Revenues	85.6	10.2	40.1	98.2	129.3	88.9	70.4	79.3	65.2	99.1	105.9	118.9	126.6	94.0	98.0	93.1
Con. Budget Expenditures	77.3	70.1	128.8	69.0	90.2	136.8	40.3	107.1	60.4	172.5	209.7	134.0	167.9	62.2	92.3	93.8
Imports	-3.7	-39.5	-32.2	-16.1	15.9	78.6	73.0	59.4	39.7	25.6	17.5	7.2	15.5	5.8	5.4	4.4
Exports	5.1	9.5	34.5	21.2	23.2	36.3	9.9	13.7	16.0	-3.5	4.3	7.5	11.3	15.2	6.4	-1.8
Average WPI (1994=100)	67.8	133.9	128.3	141.3	146.6	81.2	78.0	66.3	64.4	73.3	78.4	85.9	87.3	86.5	86.9	86.8
Nominal Exchange Rate (TL/USD)	95.6	225.9	178.8	173.1	131.5	31.4	41.5	46.1	56.8	78.1	87.7	88.1	82.7	86.5	82.3	76.2
Real Exchange Rate (WPI/USD)	-14.2	-28.2	-18.1	-11.6	6.5	37.9	25.8	13.8	4.8	-2.7	-4.9	-1.1	2.5	0.0	2.5	6.0

(*)Estimate

TABLE A2 DEVELOPMENT IN MACROECONOMIC INDICATORS ASSUMING %4 GROWTH RATE
(Annual Figures)

	1988	1989	1990	1991	1992	1993	1994	1995	1996*	1997*
Level										
GNP (1987 prices)	76,108	77,347	84,592	84,887	90,322	97,677	91,733	98,971	105,916	110,152
Reserve Money (TL Billion)	7,905	13,821	20,446	29,842	48,507	83,865	150,646	278,912	495,346	906,113
Con. Budget Revenues (TL Billion)	17,587	31,369	56,685	99,105	179,449	359,850	753,440	1,404,071	2,823,151	5,636,074
Con. Budget Expenditures (TL Billion)	21,447	38,871	68,169	130,865	223,055	489,256	899,376	1,720,647	4,205,767	8,169,936
Con. Budget Deficit (TL)	3,860	7,502	11,484	31,760	43,606	129,406	145,936	316,576	1,382,616	2,533,862
Con. Budget Deficit (USD)	2.7	3.5	4.4	7.6	6.4	11.8	5.0	6.9	17.0	17.1
Imports (Million USD)	13,706	15.999	22,581	21,007	23,082	29,772	22,606	35,187	42,388	45,538
Exports (Million USD)	11,929	11,780	13,026	13,667	14,891	15,610	18,390	21,974	23,273	24,916
Foreign Trade Balance (Million USD)	-1,777	-4,219	-9,555	-7,340	-8,191	-14,162	-4,216	-13,213	-19,115	-20,622
Net Other Income (Million USD)	3,373	5,180	6,930	7,598	7,248	7,729	6,847	10,874	12,338	13,657
Current Account Balance (Million USD)	1,596	961	-2,625	258	-943	-6,433	2,631	-2,339	-6,777	-6,965
Average WPI (1994=100)	4.6	7.5	11.4	17.7	28.6	45.3	100.0	186.0	328.1	612.9
Annual Compound Int. Rate	66.1	57.5	52.3	85.9	94.4	84.8	154.1	125.2	141.4	141.1
Annual Real Int. Rate	-2.5	-4	-0.02	19.7	20	16.6	15.1	21.0	36.9	29.1
Nominal Exchange Rate (TL/USD)	1,429	2,143	2,627	4,155	6,859	10,942	29,481	45,620	81,358	147,803
Average Real Exch.Rate (WPI/USD*100)	0.322	0.350	0.434	0.426	0.417	0.414	0.339	0.408	0.403	0.415
Annual Percentage Increase										
GNP	1.5	-1.6	9.4	0.3	6.4	8.1	-6.1	7.9	7.0	4.0
Reserve Money	61.0	74.8	47.9	46.0	62.5	72.9	79.6	85.1	77.6	82.9
Con. Budget Revenues	68.4	78.4	80.7	74.8	81.1	100.5	109.4	86.4	101.1	99.6
Con. Budget Expenditures	64.4	81.2	75.4	92.0	70.4	119.3	83.8	91.3	144.4	94.3
Imports	1.1	16.7	41.1	-7.0	9.9	29.0	-24.1	55.7	20.5	7.4
Exports	15.6	-1.2	10.6	4.9	9.0	4.8	17.8	19.5	5.9	7.1
Average WPI (1994=100)	70.4	64.0	52.3	55.3	62.1	58.4	120.7	86.0	76.4	86.8
Nominal Exchange Rate (TL/USD)	65.8	49.2	22.9	59.8	64.8	59.7	170.6	54.7	78.3	81.7
Real Exchange Rate (WPI/USD)	3.4	8.8	24.0	-1.9	-2.1	-0.7	-18.1	20.2	-1.1	2.7

(*)Estimate