TÜSİAD

TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

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Quarterly Economic Survey

NO: 14 - 15

October 1997 - January 1998

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FOREWORD

TÜSİAD (Turkish Industrialists' and Businessmen's Association), which was founded in 1971, according to rules laid down by the Constitution and in the Associations Act, is a non-governmental organisation working for the public interest. Committed to the universal principles of democracy and human rights, together with the freedoms of enterprise, belief and opinion, TÜSİAD tries to foster the development of a social structure which conforms to Atatürk's principles and reforms, and strives to fortify the concept of a democratic civil society and a secular state of law in Turkey, where the government primarily attends to its main functional duties.

TÜSİAD aims at establishing the legal and institutional framework of the market economy and ensuring the application of internationally accepted business ethics. TÜSİAD believes in and works for the idea of integration within the international economic system, by increasing the competitiveness of the Turkish industrial and services sectors, thereby assuring itself of a well-defined and permanent place in the economic arena.

TÜSİAD supports all the policies aimed at the establishment of a liberal economic system which uses human and natural resources more efficiently by means of latest technological innovations and which tries to create the proper conditions for a permanent increase in productivity and quality, thus enhancing competitiveness.

TÜSİAD, in accordance with its mission and in the context of its activities, initiates public debate by communicating its position supported by scientific research on current issues.

The 14th - 15th issue of TÜSİAD Quarterly Economic Survey was prepared by utilising the most recent data and estimations available as of December 1997 by Economic Research Department.

December 97

A PUBLICLY RECOGNISED PROGRAM FOR PERMANENT ECONOMIC STABILITY SHOULD BE CARRIED ON WITH DETERMINATION.

The target with priority for the Turkish economy, is to reduce inflation that has a bad effect on all sectors of the society. Inflation, which shrinks the share of income for those who have a fixed income, has also unfavorable effects on investment and production as a result of the uncertainty it creates.

The distribution of income has further deteriorated as a result of macro instabilities that has been gradually increased for over a decade.

If Turkey goes on with these inflation and interest rates, the taxes collected at 2000 will not even suffice to cover the interests of the internal debts. Therefore, it is not sufficient to administer a program for preventing the deepening of present instabilities in the coming years, as it has been done in the past. Turkey now has to set the contents of a stability program, which will be acceptable for all sectors of the society and put it into practice at once.

The 1998 program, it seems, does not aim at structural change. Although the program targets are more realistic than those in the past, the mechanisms through which these targets will be reached are not explained.

It is not possible to state that Turkey has entered a sustainable growth path, although in 1997 a high growth rate will be reached as in 1995 and 1996. In 1997 no serious steps have been taken to overcome the instabilities in question. The political instability has marked 1997 economy in this sense, just as it did in the past. The macro instabilities which caused an acceleration of inflation and depreciation of the Turkish Lira continued in 1997. Consequently, the inflation rate which had been targeted to be 58% at the end of 1997, reached a rate of 90%; the growth rate was 6%, instead of the aimed 4%; there was a budget deficit of nearly 2.5 quadrillion, although a balanced budget was targeted.

As we reach the end of 1997, the budget goals and estimated macro economic indicators related with these goals for 1998 are stated. The most important characteristic of the 1998 program, is that it is a part of a three-year program which aims to reduce inflation to one-digit rates and that it consists of realistic goals. This program prefers to make gradual and long term adjustments, instead of a comprehensive and short term amendments on the economy which grows rapidly as a result of growing domestic demand. According to the 1998 program, the growth rate will be pulled back to 3%, the average inflation will be 64%, the year-end inflation will be receding to 50%. It is expected that the consolidated budget deficit will be TL 4 quadrillions, the foreign budget deficit will be $21 billions, the current account deficit will be $4,9 billions.

The mild decrease aimed in the consolidated budget deficit, shows us that if the necessary reforms are not made there will be no important changes in a short term, because of the increasing share of the interest payments in the budget (40% in 1998).

The privatization revenues are not included in the consolidated budget revenues in the 1998 program and this is another sign of an effort to prepare a realistic budget. Transferring the privatization revenues to the financing of public investments, will cause a higher increase in investments than targeted. Together with the realistic goals of the program, putting a legal limit to the net borrowing of the Treasury shows us that the budget will be carried on with determinism and the target budget deficit will be exceeded by 15% at the most. Nevertheless, against all these good willed approaches and positive signals, if the possibility of creating a supplementary budget at the end of 1998 is not eliminated legally, the doubts concerning the realization of the 1998 budget will not be vanished.

Due to strong domestic demand high growth continued in 1997. The growth rate, which was estimated to be 4% is expected to reach 6%.

It seems that 1997 will be a year, during which a high growth rate is reached, like that of the previous two-years but the macro instabilities could not be eliminated and the inflation rate could not be declined. As a result of the high growth rates reached in the recent three years, the national income per capita will reach the pre-1994 crisis ($3000) level.

The GNP data for the first half of the year, indicates a growth of 6%, compared with the previous year. The GDP increased for the first half of 1997 by 6.6%, but the increase in GNP stayed at 6%, due to the decline of 30% in the net factor income from abroad. Although the agricultural production declined by a rate of 1.5%, the growth rate of two most important sectors comprising the GNP, namely industry and trade has been nearly 10%.

In the second half of the year, a similar growth performance is expected. Because, the monthly industrial production has increased with an average rate of

15.3% in July-September period[1]. These high rated increases, have approximated the deseasonalized industrial production index, to a growth trend which had been diverged from since the 1994 crisis. In the third quarter of the year, the growth rate in the manufacturing industry production was nearly 16% and the sectors which had made the highest contribution to this increase are, metal, machinery and equipment industry with an increase of 64%, paper, paper products and printing with an increase of 17%; earthenware products with an increase of 13%. Again in July-September period, an increase of nearly 3 points in the capacity utilization rate, compared with the rates of previous year, strengthens the opinion that a high growth rate will be reached depending on industrial production.

A similar growth is expected in the trade sector, which has the second highest share in the GNP is expected. In other sectors, no development that will slow down growth is expected, so GNP increase is expected to be nearly 6.5% in the third quarter.

The public surveys which reflect the views and expectations of the industry sector for the second half of the year shows that a stagnancy in the total domestic market purchasing order tendency took place after August. In the last quarter of the year the gradual decline in the rate of orders and sales of goods, suggests that a gradual decrease may be seen in the growth rate of production. On the other hand, the exports tendencies reveal that there is a tendency for increase in the orders received from external markets and this tendency is expected to go on in the last quarter of the year. Although these tendencies are not very strong, the growth rate of production may slow down. In the last quarter of the year, the GNP is expected to decline to 5.2% depending on the gradual decline in the internal market demand. Thus we can say that the growth rate of 1997 will be nearly 6% and will exceed the estimated 4% by two points.

The GDP figures showing the expenditures of 1997 have not been issued yet. On the other hand, State Planning Organization estimates that there is a decline in the contribution of consumption expenditures, compared with the last two years. The estimated 6% production increase originates from the increase in consumption expenditures by 4% and investment expenditures by 2.6%. The fixed investment capital increase is thought to be 5.3% in the private sector and 17.7% in the public sector. The consumption expenditures are expected to have gradually declined, compared with a growth rate 8% in 1996.

1 *According to the GNP data of the 10 quarters issued since 1995, the increase in industrial production as released in GNP figures has only once been found lower than the monthly industrial production figures.*

The annual inflation rate, which was expected to decline to 58% at the end of the year has reached 87.5% in October.

The inflation rate that was nearly 85% at the end of 1996, has proceeded at the range of 70-80% in the first six months of 1997. As the taxes taken from petroleum and derivatives have been increased in July, the inflation rate increased starting from that date and exceeded the limit of 80%. The increase of prices in question has increased the input prices remarkably and started a process of price adjustment in the private sector, realized in a longer term. In the July-September period, the public price increases have reached 35%, the increase in the private sector prices stayed at 22%. Because of this, the annual inflation rate has reached 87.5% in October. The consumer prices have exhibited a similar trend and reached 93% in October.

The increase in inflation is expected to continue throughout the rest of 1997 and a couple of months of 1998. TÜSİAD estimates the average inflation rate to be 89% for the last quarter of the year. The year-end inflation will probably be three points more than this figure. Consequently, the average and year-end rates of inflation for 1997 which were estimated as 57.7% and 65% have been exceeded extremely.

The monetary policies that aim stability in the real exchange rate and interest rate have been sustained. Monetary expansion came out as a result of the increase in net foreign exchange position.

In 1997, the main goal of the monetary policy was to harmonize the movement of exchange rates with the inflation rate and to decrease uncertainty by minimizing the fluctuation of interest rates in the markets. The Central Bank reached this goal through the protocol signed with the Treasury at the end of July, which eased the pressure on the Central Bank. In accordance with this protocol signed on 30 July 1997, the Treasury has paid back the short-term advance that it had withdrawn and did not use any more short-term advances. The short-term advance level has stayed nearly at TL 337 billions. Nevertheless, after this date the Central Bank has contributed to public financing through increasing the portfolio of securities.

In the first ten months of 1997, the Central Bank's analytical balance sheet assets have increased at a rate of 80%. This increase suggests a real growth of 4%. The growth of budget has been caused by the high rated increase in foreign exchange operations.

Foreign assets have increased approximately to 2294 trillions, in the first ten months of the year because of Central Bank purchases of foreign currency. On the other hand, total foreign exchange liabilities have been increased by 1674 trillions. As a result, the net foreign exchange position has increased by 620 trillions. In the same period, the credits extended for the public sector have only increased by 8 trillions, as a result of decrease in the short-term advances. The fluctuations in the parity have progressed favorable and this caused 167 trillions of decline in the revaluation account compared with December 1996. The other items in the assets have not affected the budget growth and the total domestic assets have declined by 174 trillions.

Consequently, the Central Bank has created a central bank money of TL 446 trillions, which is the difference between 174 trillions of decrease in domestic assets and 620 trillions of increase in the foreign exchange position. Due to increase in foreign exchange purchases, the growth rate of currency issued exceeded the inflation rate. Moreover, the open market operations have created a liquidity of TL 293 trillions in the market. In return, the Treasury has increased its deposit accounts by TL 288 trillions and somewhat stabilized the increase in liquidity.

Another practice that has alleviated the uncertainty and eased the monetary policy was that the Treasury started declaring its treasury borrowing program monthly, as of September. In the July-October period, the increase of the foreign exchange basket, which consisted of $1 and DM 1,5(in turn 4.6 , 5.2, 5.5 and 5.7%), has closely followed the inflation rates (in turn 5.3, 5.3, 6.3, and 6.7%). The fluctuation has decreased visibly in interbank money market in the same period although the interest rates in the monetary markets had not declined.

As for the end of October, the money supply M1 has declined in real terms compared with the year-end money supply; the increases in M2 and M2Y have been a little over the inflation rate. Foreign exchange deposits, which were $ 25 billions at the end of 1996, reached the level of $ 27 billions. Share of foreign exchange deposits in M2Y has increased slightly from 49% to 49.6%.

The credits extended by deposit banks, have increased at a rate of 108% in the first ten months of the year. This increase infers a real growth rate of 21%. The credits opened by private banks have grown larger than the credits opened by public banks. The larger part of the agricultural credits opened by public banks have been realized at the first three months of the year. The increase in agricultural credits in 10 months has stayed at 61% level, as for October. The credits extended by the investment and development banks have increased by 83% in the same period. Thus, the ratio of total credits to total deposit has been increased to the level of 1.31 from the level of 1.13 at the end of 1996. The rate in question was 1.16 in October 1996.

The fast increase trend in the stock exchange, which began after the formation of the new government at the beginning of July, has continued until the Asian crisis.

As of the end of January 1997, Istanbul Stock Exchange has progressed at a range of 1,400-1,700, then declined to 1,565 points on 18 June. But after the new government was formed and a positive, hopeful atmosphere was created, it reached 2,043 and has brought a return of 31% within 18 days.

On 27 August, the stock exchange has declined to 1,925 points, but increased with great acceleration since then and broke a historical record by reaching 3,543 points on 23 October, bringing a return of 84% in two months. (Transaction volume: TL 104,5 trillions) The reasons for such a high return in such a short period are; the expectation of investors for privatization of some public enterprises such as Türk Telekom, the news that the electric powerhouse adjudication's will be announced soon and the positive image of the government which seemed insistent on taking radical decisions in monetary policies and decreasing inflation. Apart from these, the positive atmosphere created by the negotiations made by the World Bank and IMF and the expectation of an increase in the credit note of Turkey, the news that most companies' values in the stock exchange were low on the US$ basis and the declaration that the forward market will be opened towards the beginning of the new year have encouraged investors and helped the market to reach a record level.

Istanbul Stock Exchange was in its peak, when the crisis in the Asian stock exchange markets has spread to all markets and the international investors started emptying their portfolios. Istanbul Stock Exchange where more than the half of the share stocks (52%) belong to foreign investors, could not show any resistance when the investors determinedly started selling what they had in hand; and when the investors who used credits, have also determinedly started selling too. Thus, the decline in Istanbul Stock Exchange accelerated. As a result, the 3,543 points reached at 23 October, declined by 32.3% and reached 2,717 points in 30 October.

After this date, the Istanbul Stock Exchange has high volatility and closed November with 2,879 points and brought a return of 195% in TL basis, 63% in US$ basis, since the beginning of 1997.

It is estimated that the budget deficit will reach 2.5 quadrillions in 1997. In this case the budget deficit ($16,5 billions) will reach 8.7% of GNP.

The budget deficit in the January-September period of 1997 has reached 786 trillions. The budget expenditures have increased by 73.1% compared with the expenditures of the previous year and reached 4,452 trillions. In this period the budget revenues increased by 102.2%, thus exceeded the inflation rate by 20 points. In return, the personnel and investment expenditures have increased by 115% and 155% respectively and exceeded the inflation rate(85%). The smallest increase was in interest expenditures by 15%, which has been caused by the increasing maturity of domestic borrowing. Also the exhaustion of allowances has caused the interest expenditures to seem low, as they were not recorded as expenditures. The 1997 budget has put aside 1,864 trillions for total interest payments. A total of 1,245 trillions has been registered in the budget as expenditures until October. The exhaustion of allowances also prevented the recording of some expenditure items and caused underestimation of the real budget deficit. The cash deficit has reached 1,151 trillions in the same period.

The financing of the deficit has been made mostly by long-term domestic borrowing. In accordance with the agreement made between the Central Bank and the Treasury, no short-term advance has been used in July, August and September. In the January-September period, net foreign debt repayment which had reached 285 trillions and other repayments which had summed up to 316 trillions, have been covered by 205 trillions of Treasury bonds and by net 1,547 trillions of government bills financing.

The 70% of the 6,255 trillions of allowance allotted for 1997 has been exhausted in the first nine months and thus required the preparation of a supplementary budget. The supplementary budget plan that gave the government the authority to use an additional 1,835 trillions, had been accepted by the Plan and Budget Commission of the Grand National Assembly. It is expected that the agricultural support purchases which is estimated to increase by 151% in 1997, compared with the previous year, will have an unfavorable effect on the public sector deficit.

Considering the fact that half of the budget deficit appeares especially in the last quarter of the year, we can estimate that the budget deficit will reach 2.5 quadrillions at the end of the year. The government, too, estimates the budget deficit to reach 2,625 trillions. In this case the budget deficit/GNP ratio will rise to 9%.

As the budget become rather inflexible, only a partial improvement is planned in the 1998 program: the budget deficit to GNP ratio is anticipated to be 8.2% in 1998, compared with 9% in 1997.

As the interest payments comprise the 40% of the budget deficit, the budget loses its flexibility. The personnel expenditures and transfers made to social security institutions comprise the 23.7% and 9.5% of the budget expenditures. The total of these three entries has a share of 73.2% in the total budget expenditures. Therefore, it is not possible to rapidly reduce the rate of budget deficit in the short term.

The 1998 budget was obviously formed within these limits. The personnel and investment expenditures have been increased by the expected inflation rate, but in other current expenditures, which is mostly composed of military expenditures, an increase much higher than the inflation rate is foreseen. The debts which were transferred from 1997 to 1998 will require a payment of 5.1 quadrillions; thus, the interest expenditures are estimated to increase by 157.5%. As the deficit of the social security institutions is getting larger, transfers to these institutions will increase by 80%.

Moreover, if no measures are taken, the tax revenue will not even cover the domestic interest expenditures at the year 2000. For this reason, the revenues should be increased and a sound internal debt management should be carried on to create a decrease in the budget deficit.

The programme aims at increasing the tax revenues by 20% in real terms. The most important part of the tax increase is planned to be acquired from the Fuel Consumption Tax and the withholding tax imposed on interest incomes obtained from treasury bills and government bonds. Related authorized institutions are intensely trying to find legal and institutional arrangements for a permanent solution to tax collection. With these arrangements an obvious decrease in tax rates is expected which will encourage employment and production. The measures which will enlarge the tax base and strengthen inspection should be taken while pulling down the tax rates. The tax reform efforts should be completed as soon as possible and passed as law and should be put into force in 1998. Only by this way one of the obstacles for higher economic growth could be eliminated and a healthier budget structure could be built.

In spite of the high growth rate in the economy, the foreign trade balance improved.

Turkey entered the customs union in 1996 and this had a worsening effect on foreign trade balance, but in 1997 this was eliminated to a great extent. In the January-July period of 1997, the imports increased by 3.5% and exports increased by 9.2%. As a result, the foreign trade deficit which was $ 11.6 billions in the first seven months of the previous year, declined to $ 11.3 billions in the same period in this year. The stimulating effect of the customs union on consumer goods imports has eased. The consumer goods imports increase rate was 50% in 1996, in the January-July 1997 period this rate decreased to 17.9%. This rate is, nevertheless, still high compared with the 10.6% increase in capital and 9.7% increase in intermediate goods imports.

The foreign trade balance with EU, which had worsened after the Customs Union, improved with the help of recovery in EU in 1997. The imports from EC which comprises the 51.4% of our total imports, has increased only by 0.3%, but the exports to EC that comprises 47.6% of our total exports, increased by 3.7%.

We are not able to evaluate the effects of the DM/$ parity in 1997 on our foreign trade, sine the foreign trade price and quantity indexes have not been declared yet.

Another remarkable development in this period is the decrease in the suitcase trade. The net revenue gained from suitcase trade decreased from $ 3.7 billions in 1996, to $ 2.4 billions in 1997. So if we take the suitcase trade into account, we can see that the foreign trade deficit has increased to $ 6.7 billions this year, from the $ 5 billions deficit since last year. This development affected the current account deficit and caused it to increase from $ 1.3 billions to $ 1.9 billions.

The capital inflow that started in the middle of 1996 has continued in the January-September period, depending on an increasing amount of foreign credits used by the private sector. The short term credit inflow has declined from $ 3.4 billions, to $ 1.6 billions, because of the stagnation especially in commercial credits. The expected increase in foreign direct has not been realized; foreign direct investments declined from $ 305 millions to $ 245 millions.

In spite of an inflow of $ 4.7 billions in the capital account that are high above the current account deficit which is $ 1.9 billions, the reserve increase was limited at $ 646 millions, as the net error and deficiency entry returned to $ 2,2 billions of non-recordable capital outflow in 1997 January-July period.

It was foreseen in the 1998 program that the foreign trade deficit will increase from $ 19.2 billions to $ 20.1 billions, although the growth rate will decline from 6% to 3%. The important depreciation of the currencies of the Asian countries, will have a negative effect on the competitive power of Turkey in the consumer goods exports which constitutes 52% of Turkey's total exports. Moreover, the Asian crisis might cause a narrowing of the target markets. It is expected that foreign trade deficit will be around $20 billion depending upon the developments in foreign trade prices.

The persisting financial pressure of the public sector caused the compound interests rates to reach 138%.

The trust atmosphere created by the administrative staff of the new government, prevents fluctuations in interest and currency rates. The Central Bank foreign exchange reserves reached a peak point in history with $ 21.5 billions on 24 October 1997 and these reserves may cover 6 months of imports. Starting from this date as a result of the crisis that begun in the Southeast Asia, caused a partial tendency towards foreign exchange in Turkey and the Central Bank sold foreign exchange equivalent to $ 1.5 billions until 14 November. The protocol signed between the Central Bank and the Treasury, the declaration of the internal borrowing program by the Treasury have helped the maintenance of stability in the internal debt market.

The TÜFE-X borrowing on 25.11.1997 had a real interest rate of 25.6%. This figure shows that the inflationary expectations are still at the level of 85-90%. Fighting against inflation will be harder if the devaluation rate accelerates.

Turkey needs a stability program urgently. Nevertheless, if the stability program will be interrupted, as it has been done in the past, the economy will suffer tremendously.

The interrupted stability programs upset distribution of income, damage international creditibility and intensify inflationary expectations. Moreover, in such cases growth rate declines and inflation accelerates. Therefore a well planned program, which will be acceptable for all parts of the society should be put into action and a strong political will is necessary to fulfill this program.

LIST OF TABLES AND GRAPHS

TABLE 1.1 MAIN ECONOMIC INDICATORS (1996-1997)
PRODUCTION AND PRICES

	1996 Oct.	Nov.	Dec.	1997 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
INDUSTRIAL PRODUCTION INDEX (SIS, 1992=100)													
Annual % increase	15.6	5.7	-0.2	0.2	5.0	10.9	7.6	11.4	9.8	11.4	13.4	21.5	13.0
Monthly % increase	13.6	-0.5	-4.9	-9.9	-13.1	23.4	-7.3	14.0	-2.1	2.8	0.0	10.1	5.7
Monthly % increase (Seasonally Adjusted)	5.7	0.4	-2.9	-0.4	1.0	9.4	-4.3	5.9	0.2	1.8	-0.9	5.0	-2.3
CAPACITY UTILIZATION RATE (SIS, %)	81.0	76.8	78.8	78.4	77.2	80.8	77.6	82.4	80.9	80.8	82.4	84.7	81.5
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % increase	82.9	85.6	84.9	78.0	78.6	77.0	72.8	74.6	75.7	80.7	83.4	85.4	87.5
Monthly % increase	5.5	5.1	3.9	5.6	6.2	6.0	5.5	5.2	3.4	5.3	5.3	6.3	6.7
Monthly % increase (Seasonally Adjusted)	5.6	5.4	4.1	3.8	4.5	4.0	3.3	5.7	5.7	7.4	7.4	6.7	6.8
EXCHANGE RATE ($)													
TL/US$ Monthly average	93,683	98,504	104,592	112,169	119,274	124,808	130,988	137,011	144,112	153,303	163,311	170,099	177,657
Annual % increase	87.5	87.9	84.1	85.6	86.2	82.6	80.5	78.6	81.0	84.8	92.5	91.4	89.6
Monthly % increase	5.4	5.1	6.2	7.2	6.3	4.6	5.0	4.6	5.2	6.4	6.5	4.2	6.7
INTEREST RATES (Yearly Simple Rate)													
Deposits (End of period)													
1 month	73.5	73.5	73.5	71.0	68.5	68.5	68.5	68.5	69.8	75.0	75.0	75.0	75.0
3 month	79.0	79.0	79.0	76.5	75.3	75.3	75.3	75.3	76.5	80.0	80.0	80.0	80.0
6 month	88.0	88.0	88.0	85.5	84.3	84.3	84.3	84.3	85.5	90.0	90.0	90.0	90.0
12 month	93.5	93.5	93.5	91.0	89.8	89.8	89.8	89.8	91.0	95.0	95.0	95.0	95.0
Treasury (Monthly Average)*													
1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
6 month	108.7	109.9	-	-	-	-	-	-	96.3	-	-	111.2	98.7
9 month	111.3	106.5	120.8	-	-	-	-	-	-	111.2	-	-	-
12 month	121.9	-	129.0	110.1	95.9	107.6	115.3	91.2	98.5	116.0	136.7	129.1	-
Compound interest rate (all maturities)	127.2	134.3	127.6	107.8	106.6	111.3	122.0	131.3	135.3	123.2	137.9	135.4	129.5
Average maturity of papers sold (days, weighted by sales volume)	291	204	358	399	287	397	730	730	579	302	357	275	170

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

TABLE 1.2 MAIN ECONOMIC INDICATORS (1996-1997)
BALANCE OF PAYMENTS

	1996 Oct.	Nov.	Dec.	1997 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
FOREIGN TRADE													
Value (Current $ prices)													
Imports (Annual % increase)	9.4	7.6	3.2	11.7	8.9	0.8	-6.4	7.2	8.1	*2.1*	*18.3*	*6.7*	*8.2*
Exports (Annual % increase)	8.4	8.1	-0.2	13.6	1.6	5.4	6.9	22.9	12.1	*4.2*	*6.2*	*10.1*	*11.1*
Price Index (1989=100)													
Imports (Annual % increase)	-1.1	6.5	3.7	..	..	..	..	..	..	..	..	..	..
Exports (Annual % increase)	-10.3	-8.3	1.4	..	..	..	..	..	..	..	..	..	..
Quantity Index (1989=100)													
Imports (Annual % increase)	14.5	3.8	22.2	..	..	..	..	..	..	..	..	..	..
Exports (Annual % increase)	25.1	14.1	-3.4	..	..	..	..	..	..	..	..	..	..
FOREIGN TRADE BALANCE ($ Million)													
Imports (Monthly)	3,515	3,846	4,456	3,391	3,054	3,735	3,409	4,065	3,664	*3,929*	4,068	*3,422*	*3,805*
Exports (Monthly)	2,099	2,226	2,394	1,971	1,767	2,107	1,946	1,995	1,955	*1,992*	2,059	*2,083*	*2,333*
Foreign Trade Balance (Monthly)	1,416	1,712	2,151	1,395	1,243	1,584	1,439	2,044	1,682	*1,937*	*1,735*	*1,339*	*1,472*
(Cumulative for the last 12 months)													
Imports	42,266	42,538	42,674	43.032	43,281	43,309	43,077	43,350	43,626	43,708	44,339	*44,093*	*44,383*
Exports	22,960	23,127	23,123	23,359	23,386	23,493	23,619	23,991	24,203	24,284	24,404	*24,417*	*24,651*
Foreign Trade Balance	18,814	18,954	19,151	19,381	19,497	19,711	19,657	19,359	19,291	19,378	19,415	*19,676*	*19,732*
BALANCE OF PAYMENTS ($ Million)													
Current Account Balance(1) (Monthly)	437	-564	-809	-249	-449	-351	-341	-475	3	*-779*	*-712*	*-197*	*9*
Current Account Balance(1)													
(Cumulative for the last 12 months)	-2,407	-2,094	-1,450	-2,129	-2,700	-2,332	-2,260	-2,069	-2,049	*-2,441*	*-2,833*	*-3,225*	*-3,616*
Capital Account and Reserve Movements													
Net Foreign Direct Investment	778	836	612	654	670	516	524	519	552	..	..	..	..
Portfolio Investment	615	894	570	852	930	663	-399	-33	82	..	..	..	..
Net Long-Term Capital	1,082	1,519	1,636	1,916	2,326	2,688	3,097	3,346	3,623	..	..	..	..
Net Short-Term Capital	2,525	3,834	5,922	4,402	3,735	4,058	3,732	4,569	4,116	..	..	..	..
Net Errors and Omissions	-1,957	-1,920	-2,745	-1,918	-1,964	-2,837	-3,798	-4,734	-5,089	..	..	..	..
Reserve Changes(2)	-1,208	-3,401	-4,545	-3,777	-2,997	-2,756	-896	-1,598	-1,235	..	..	..	..

(1) Includes suitcase trade for the period 9/96 - 6/97.
(2) Positive numbers indicate decrease in reserves
(..) Not available
Values in italics are TÜSİAD estimates

TABLE 1.3 MAIN ECONOMIC INDICATORS (1996-1997)

CONSALIDATED BUDGET

	1996 Oct.	Nov.	Dec.	1997 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
CONSOLIDATED BUDGET (Monthly) (TL Billion)													
Revenues	283,302	288,902	343,891	296,021	273,381	274,849	413,047	487,854	389,935	498,646	543,035	507,393	652,529
Expenditures	226,066	340,338	816,896	412,047	391,889	452,095	391,429	619,193	550,143	491,116	581,797	562,823	478,460
Primary Balance (Current price)	85,865	81,231	-161,780	74,649	49,380	-1,838	60,308	82,644	9,674	27,018	103,077	71,382	216,230
Budget Balance (Current price)	57,236	-51,436	-473,005	-116,026	-118,508	-177,246	21,618	-131,339	-160,208	7,530	-38,762	-55,430	174,069
Budget Balance (At 1994 price)	15,158	-12,959	-114,668	-26,624	-25,607	-36,121	4,174	-24,108	-28,436	1,270	-6,206	-8,352	24,586
Budget Balance (Cur.price, billion $)	0.611	-0.522	-4.522	-1.034	-0.994	-1.420	0.165	-0.959	-1.112	0.049	-0.237	-0.326	0.980
Financing	106,297	73,817	260,176	144,482	147,548	176,487	54,666	61,776	187,546	206,094	25184	146,877	160,372
Foreign Borrowing (Net)	-9,019	-29,784	-6,188	-33,053	8,198	-43,739	-66,644	-25,561	17,810	-75,505	-22,945	-43,857	-105,533
Domestic Borrowing (Net)	156,141	77,454	250,021	337,501	3,255	437,384	295,741	125,184	281,331	-40,416	-24,241	131,035	483,397
Short-Term Borrowing	-8,827	-63,669	-56,184	-128,822	163,766	-229,728	-112,057	-193,467	-115,544	335,273	349,548	136,352	504,026
Central Bank (Net)	-3,832	51,454	154,853	50,197	1,259	48,638	32	-26,939	9,915	-83,102	0	0	0
Treasury Bills (Net)	-4,995	-115,123	-211,037	-179,019	162,507	-278,366	-112,089	-166,528	-125,459	418,375	349,548	136,352	504,026
Other	-31,997	89,816	72,526	0	0	0	0	0	50,949	-13,257	-277,179	-76,653	-12,170
Cumulative for the last 12 months (TL Billion)													
Revenues	2,400,198	2,542,378	2,738,148	2,876,540	3,025,984	3,159,752	3,403,265	3,616,392	3,799,313	4,023,036	4,334,568	4,600,256	4,969,483
Expenditures	3,380,783	3,449,738	3,955,889	4,142,483	4,396,644	4,715,053	4,972,511	4,977,602	5,223,321	5,350,683	5,605,186	5,835,832	6,088,226
Primary Balance (Current price)	314,302	379,384	279,660	328,411	361,849	341,344	362,633	347,104	330,214	301,667	407,606	481,610	611,975
Budget Balance (Current price)	-980,585	-907,360	-1,217,741	-1,265,943	-1,370,660	-1,555,301	-1,569,246	-1,361,210	-1,424,008	-1,327,647	-1,270,618	-1,235,576	-1,118,743
Budget Balance (At 1994 price)	-354,123	-308,775	-350,550	-349,467	-369,752	-408,539	-416,231	-331,600	-329,652	-301,317	-279,398	-262,478	-253,050
Budget Balance (Cur.price, billion $)	-14.233	-12.377	-14.038	-13.950	-14.728	-16.256	-16.582	-13.116	-13.004	-11.885	-10.993	-10.301	-9,932
Financing	1,056,540	1,108,387	1,247,346	1,300,331	1,342,867	1,420,710	1,338,965	1,403,504	1,517,370	1,637,426	1,559,882	1,590,950	1,645,025
Foreign Borrowing (Net)	-85,111	-100,218	-134,411	-151,208	-125,809	-147,599	-213,226	-250,912	-251,383	-319,422	-310,451	-330,287	-426,801
Domestic Borrowing (Net)	-71,556	20,145	274,040	622,867	644,578	1,135,657	1,493,990	1,634,751	1,915,612	1,890,227	1,898,120	2,030,390	2,357,646
Short-Term Borrowing	1,249,346	1,155,192	1,021,142	640,353	718,165	317,087	7,955	-164,369	-332,835	-146,042	73,932	76,641	589,494
Central Bank (Net)	92,847	132,363	228,953	268,678	253,611	260,264	272,409	297,218	313,328	131,287	129,417	202,475	206,307
Treasury Bills (Net)	1,156,499	1,022,828	792,189	371,675	464,554	56,823	-264,454	-461,587	-646,163	-277,329	-55,485	-125,834	383,187
Other	-36,140	33,267	86,574	219,462	164,747	161,810	158,866	137,032	185,973	212,661	-101,721	-185,795	-165,968

TABLE 1.4 MAIN ECONOMIC INDICATORS (1996-1997)

MONEY SUPPLY

	1996 Oct.	Nov.	Dec.	1997 Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
Money Supply (Annual percentage changes)													
M1	71.4	92.2	109.9	114.9	125.8	136.8	108.8	125.5	112.8	110.3	82.5	86.8	110.5
Currency in circulation	75.9	58.2	87.2	59.6	70.6	89.8	54.9	90.3	90.6	99.0	74.1	88.0	78.9
Currency+coins	76.4	64.9	76.6	93.8	62.6	82.6	60.8	94.9	86.3	102.0	83.4	88.9	93.1
Cash in vault (-)	81.9	159.3	22.8	231.4	104.6	47.6	113.5	124.7	60.3	130.8	168.7	96.9	227.4
Commercial sight deposits	66.9	186.2	163.3	248.6	249.1	239.5	251.9	193.5	158.7	134.3	91.9	88.1	114.5
Saving sight deposits	58.3	46.1	101.6	88.1	75.2	92.4	81.1	100.3	72.1	104.8	84.9	79.3	104.9
Other time deposits	87.5	134.2	59.5	147.3	221.9	139.8	140.0	169.0	155.3	125.4	109.5	90.5	406.6
Central Bank deposits	66.7	136.5	222.0	-80.0	-51.5	41.9	94.0	-23.1	2426.5	0.9	52.1	26.4	47.1
M2	115.4	110.7	120.5	120.1	117.2	125.2	109.5	112.3	106.4	113.3	97.9	99.0	107.6
Commercial time deposits	130.8	9.0	7.2	12.6	20.4	47.5	21.4	31.7	27.0	72.6	63.1	70.8	106.4
Saving time deposits	141.3	133.7	148.8	134.7	120.3	125.1	115.5	110.7	108.1	116.9	103.8	101.9	102.4
Other time deposits	127.4	118.2	93.2	120.6	125.3	139.0	127.2	127.6	123.9	125.8	130.1	133.9	134.3
Certificates of deposits	31.7	29.5	62.3	57.0	15.4	-28.3	-55.5	-66.7	-78.6	-72.3	-92.5	-95.1	-95.8
M2Y	122.3	119.0	109.7	119.2	116.2	117.0	109.5	112.4	109.6	110.5	104.6	103.6	109.5
Foreign exchange deposits (TL)	130.0	128.0	99.5	118.3	115.2	109.2	109.5	112.6	112.8	107.8	111.7	108.4	111.2
Foreign exchange deposits ($)	22.1	22.5	14.2	18.4	16.5	16.8	16.8	18.5	18.1	9.5	9.6	9.9	11.2
TL/USD Buying rate	88.4	86.1	74.7	84.3	84.7	79.0	79.5	79.5	80.1	89.7	93.1	89.6	90.0
M3Y	120.0	119.4	111.2	118.0	114.6	115.9	109.9	110.3	110.7	114.1	112.8	110.7	115.3
M3	111.6	112.1	123.0	117.8	114.1	122.4	110.3	108.2	108.8	119.9	113.8	112.7	119.0
Foreign exchange deposits (TL)	130.0	128.0	99.5	118.3	115.2	109.2	109.5	112.6	112.8	107.8	111.7	108.4	111.16
Credit Stock	127.7	133.9	110.6	125.9	125.0	114.6	120.2	148.5	142.2	133.9	138.2	142.1	138.0
Central Bank Direct Credits	32.4	70.9	82.7	109.3	63.3	81.8	74.1	179.1	187.1	41.6	44.6	83.1	100.7
Deposit Bank Credits	140.0	135.6	114.0	109.5	134.3	120.0	127.6	147.8	140.2	147.0	151.0	149.3	142.5
Invest. and Develop Bank Credits	128.6	138.3	125.1	130.1	137.7	116.0	112.2	120.1	119.6	112.7	111.4	111.4	109.5

TABLE 2 GROSS DOMESTIC PRODUCT

(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	1997-1	1997-2	1997-3	1997-4
Private Final Consumption Exp.	-5.3	7.6	9.3	69.0	69.0	68.8	-5.3	10.6	8.1	5.4	11.8	10.0	6.8	9.5	7.8	8.4	..	..
Food-Beverages	-0.7	7.4	4.6	26.7	26.6	26.0	-0.5	10.4	10.6	7.1	9.5	5.9	4.1	-0.2	-1.1	2.7	..	..
Durable Goods	-29.3	20.0	35.6	7.5	8.4	8.9	-18.9	39.8	50.8	30.6	35.9	46.6	29.9	32.2	25.8	33.1	..	..
Semi-Durable&Non-Durable Goods	-12.6	11.6	11.1	10.6	11.0	11.4	-11.0	18.5	25.6	16.8	10.3	10.3	5.7	17.9	18.9	6.0	..	..
Energy-Transportation-Communication	4.2	1.7	5.3	10.9	10.3	10.0	0.9	5.6	2.7	-1.9	10.2	5.1	2.2	4.8	2.1	2.9	..	..
Services	5.2	2.7	9.4	7.1	6.8	6.9	2.9	7.6	3.9	-3.3	8.2	4.5	7.7	17.8	11.6	14.7	..	..
Ownership of Dwelling	2.8	2.1	2.4	6.2	5.9	5.6	2.2	2.0	2.0	2.2	2.4	2.5	2.5	2.4	2.3	2.2	..	..
Government Final Consumption Exp.	-3.5	6.7	8.6	7.7	7.6	7.7	7.3	9.9	2.4	7.9	1.4	7.7	15.6	8.4	-4.1	0.5	..	..
Compensation of Employees	0.8	2.5	-0.3	4.8	4.6	4.3	2.7	2.9	2.7	1.8	-0.4	0.0	-0.3	-0.4	0.1	0.0	..	..
Purchases of Good & Services	-10.0	13.7	22.2	2.8	3.0	3.4	22.2	25.5	1.5	13.7	6.9	22.6	11.9	16.1	-15.6	1.3	..	..
Gross Fixed Capital Formation	-15.9	8.3	13.5	26.5	26.7	29.0	-15.6	13.8	9.8	27.4	20.0	16.5	19.7	1.2	8.2	13.5	..	..
Public Sector	-34.8	-16.9	24.4	5.5	4.2	5.1	-34.1	-3.9	-16.8	-21.7	-13.7	31.5	28.2	29.8	43.7	18.3	..	..
Machinery & Equipment	-63.9	3.2	12.0	1.2	1.1	1.4	-8.3	-9.9	-16.6	-16.2	-46.9	63.5	0.6	19.1	91.4	-11.2	..	..
Building Construction	-35.7	4.2	30.2	1.0	1.0	1.2	-13.7	35.3	5.3	2.0	18.5	33.0	38.1	26.8	-24.6	45.9	..	..
Other Construction	-8.2	-30.5	29.3	3.3	2.1	2.6	-52.4	-10.9	-23.4	-32.6	0.8	16.9	38.5	39.0	61.2	24.7	..	..
Private Sector	-9.1	14.9	11.4	21.1	22.5	23.9	-12.7	17.5	17.5	51.3	24.1	13.9	18.0	-6.0	5.2	12.6	..	..
Machinery & Equipment	-22.5	28.1	24.4	9.9	11.9	13.6	-26.6	35.8	44.5	99.6	53.6	28.1	44.3	-5.6	10.1	23.4	..	..
Building Construction	7.6	3.0	-0.5	11.1	10.6	10.2	4.6	3.5	3.5	6.0	-0.5	-0.5	-0.5	-0.5	2.5	-14.5	..	..
Change in Stocks	-	-	-	-3.2	1.4	-1.2	-	-	-	-	-	-	-	-	-	-	..	..
Exports of Good&Services	15.2	6.7	21.7	22.2	22.1	25.2	19.8	15.0	2.4	0.2	21.9	15.0	26.6	22.3	8.2	23.5	..	..
Imports of Good&Services	-21.9	30.0	19.0	-22.2	-26.8	29.5	-2.6	37.7	40.6	47.0	30.6	30.1	22.3	-0.4	11.7	16.0	..	..
Gross Domestic Product (Exp.)	-4.7	7.5	7.3	100.0	100.0	100.0	-0.8	14.3	9.0	7.0	9.4	7.1	5.5	8.1	6.0	7.4	..	..
Statistical Discrepancy	-	-	-	0.8	0.6	-0.2	-	-	-	-	-	-	-	-	-	-	..	..
Gross Domestic Product (Prod.)	-5.5	7.3	7.0	-	-	-	-1.6	13.8	7.1	7.2	8.7	8.1	5.3	7.0	6.6	6.6	..	..

(..) Not available

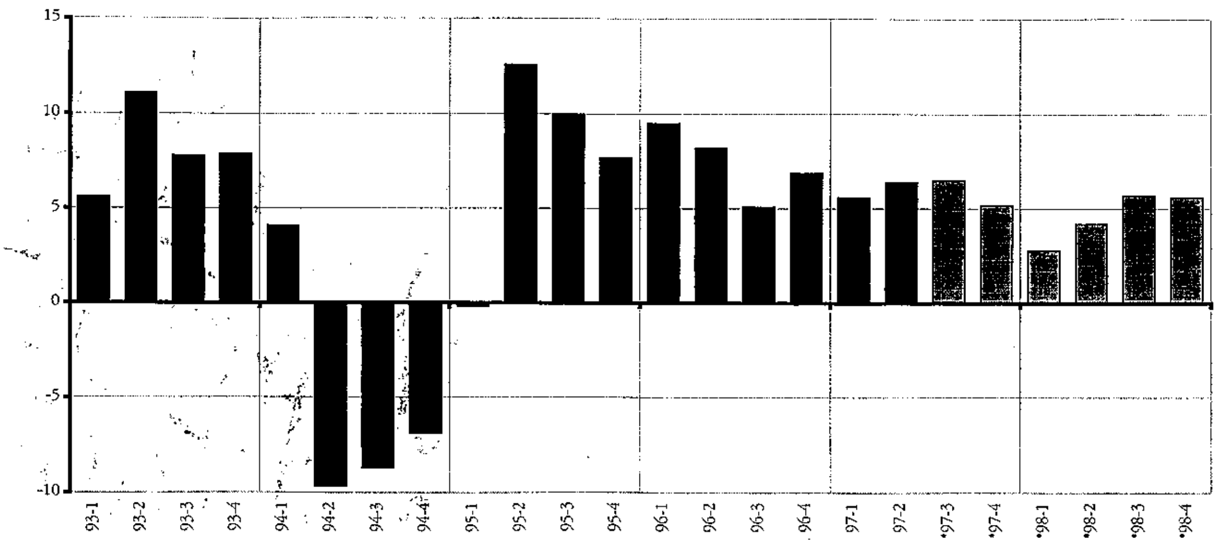
TABLE 3 TÜSİAD ESTIMATES (GNP, INFLATION)

	96-1	96-2	96-3	96-4	96	97-1	97-2	97-3	97-4	97	98-1	98-2	98-3	98-4	98
	Realization					Estimate					Estimate				
(25 July 1997)															
Growth Rate	9.6[1]	7.7[1]	5.3[1]	8.4[1]	7.4[1]	5.7*	6.4*	4.9	4.3	5.2	..	..	..	..	
Inflation	64.4	73.3	78.4	84.5	75.9	77.8*	74.3*	89.9	90.4	84.0	..	..	..	..	
	Realization					Estimate					Estimate				
(25 October 1997)															
Growth Rate	9.5	8.2	5.1	6.9	7.1	6.1*	7.1*	6.5*	5.2	6.0	2.8	4.2	5.7	5.6	4.8
Inflation	64.4	73.3	78.4	84.5	75.9	77.8*	74.4*	83.2*	86.5	80.9	88.2	86.1	81.4	78.0	82.7

(*) Realization
(1) SIS revisions on GNP calculations

GNP GROWTH RATE

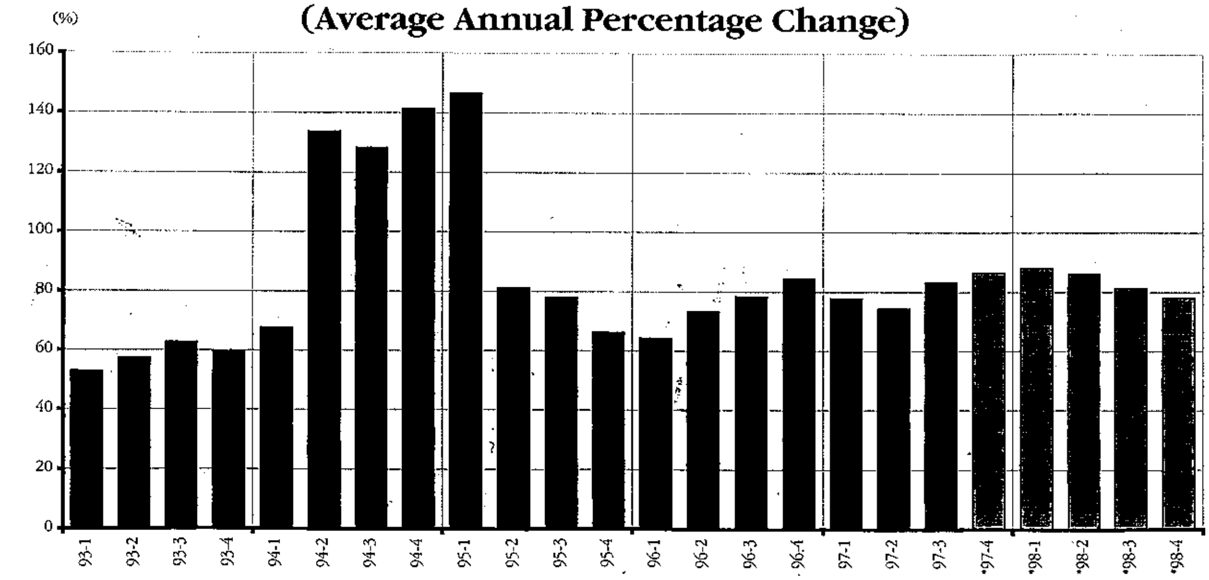
GRAPH 1



**Estimate*

WHOLESALE PRICE INDEX
(Average Annual Percentage Change)

GRAPH 2



** Estimate*

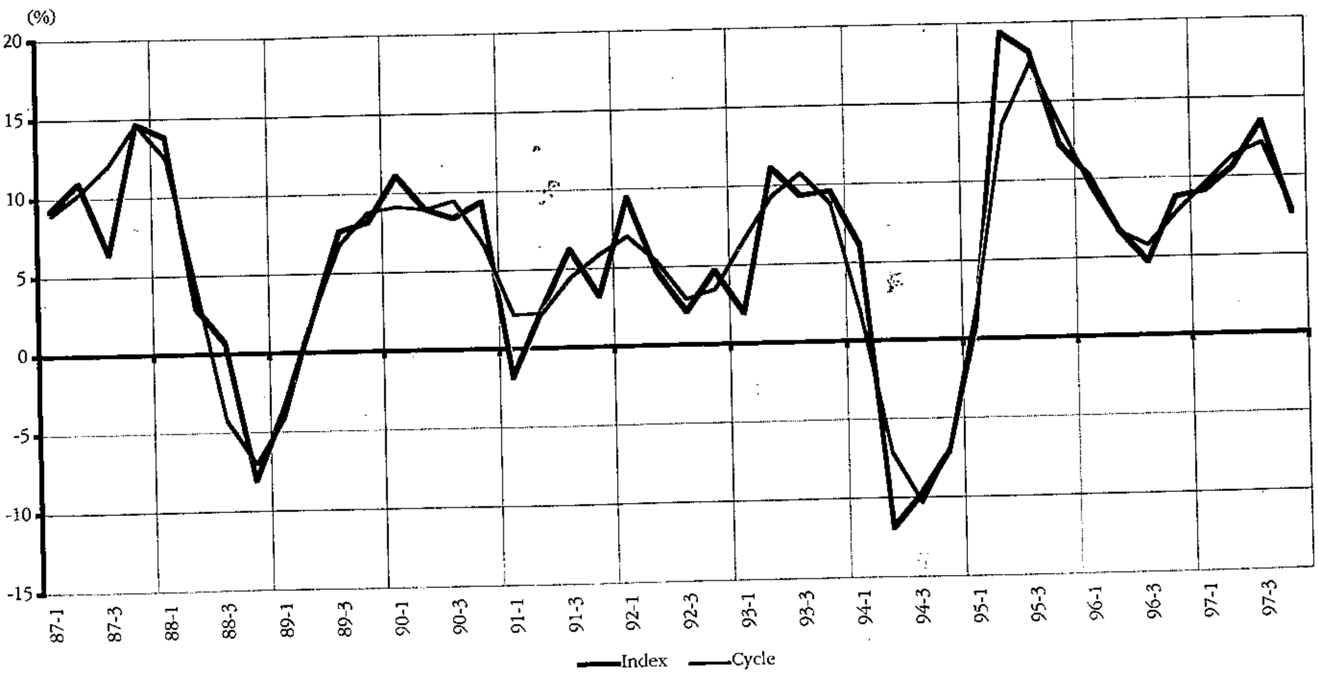
TABLE 4 INDUSTRIAL PRODUCTION INDEX

	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	111.5	118.7	125.1	136.3	121.7	131.5	141.9	146.1
Seasonally Adjusted Index	107.3	96.4	99.2	103.5	108.3	115.0	117.2	116.2	119.4	122.7	122.7	126.4	130.3	135.7	139.3	136.1
Cycle	106.5	100.6	99.4	103.1	108.8	114.4	116.8	117.0	119.3	121.9	123.5	126.1	130.7	135.7	138.5	136.0
(Annual Percentage Increase)																
Index	5.8	-11.3	-10.1	-7.3	0.9	19.8	18.1	12.2	10.1	7.0	4.6	8.7	9.1	10.8	13.4	7.2
Seasonally Adjusted Index	6.1	-11.9	-9.8	-7.1	0.9	19.2	18.1	12.2	10.2	6.7	4.7	8.8	9.1	10.6	13.5	7.7
Cycle	1.7	-7.2	-10.3	-6.9	2.1	13.6	17.5	13.5	9.7	6.6	5.7	7.8	9.6	11.3	12.1	7.9

(*) Estimate

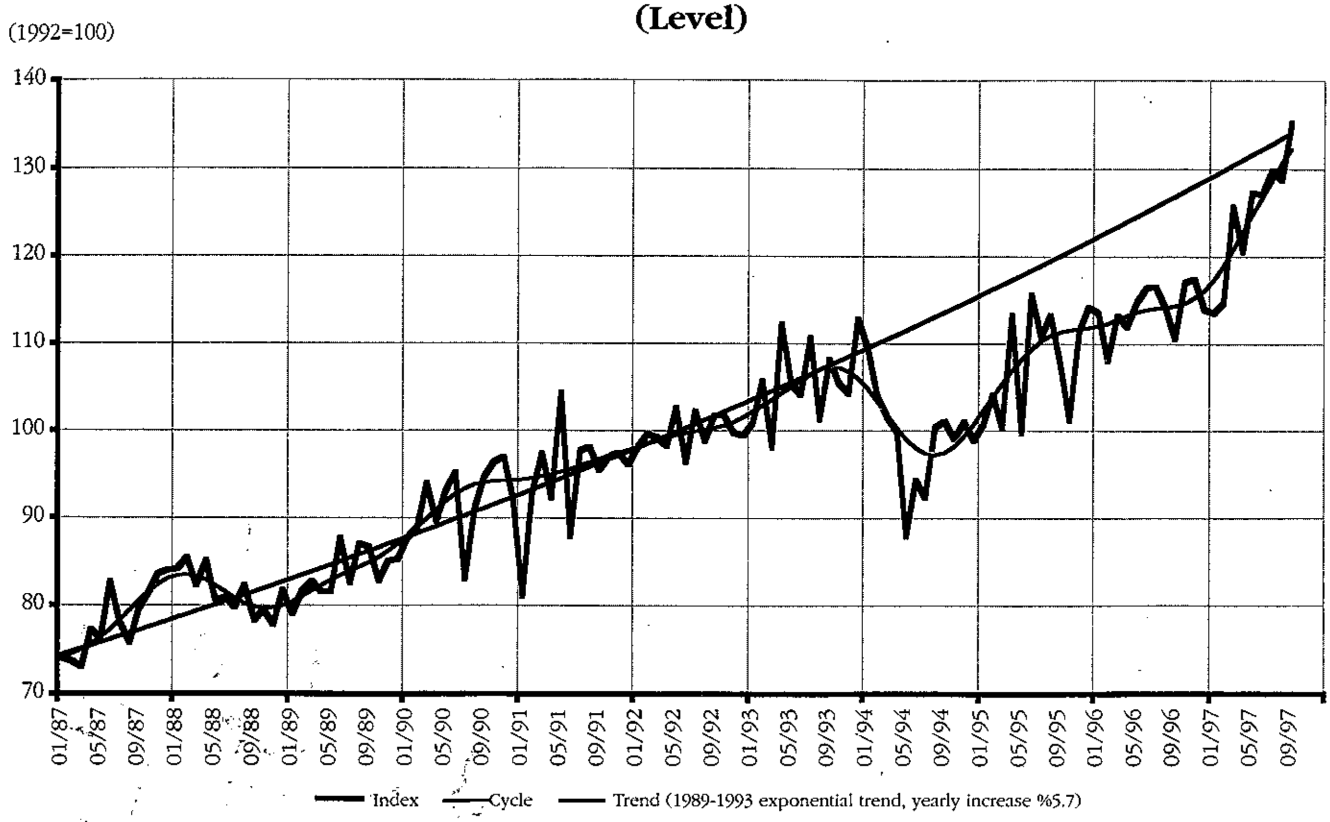
SEASONALLY ADJUSTED MANUFACTURING INDUSTRY QUARTERLY PRODUCTION INDEX (Annual Percentage Increase)

GRAPH 3

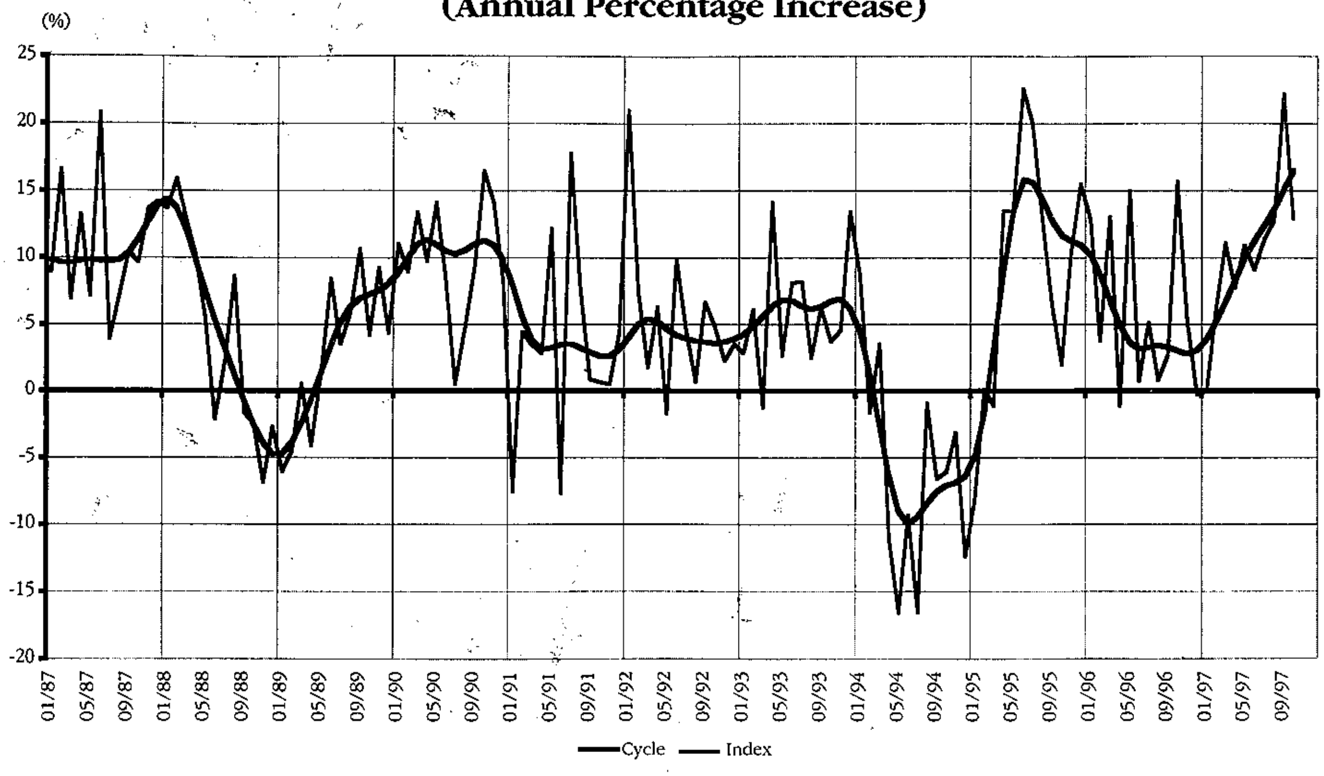


The figures for the 4/97 are TÜSİAD estimates

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

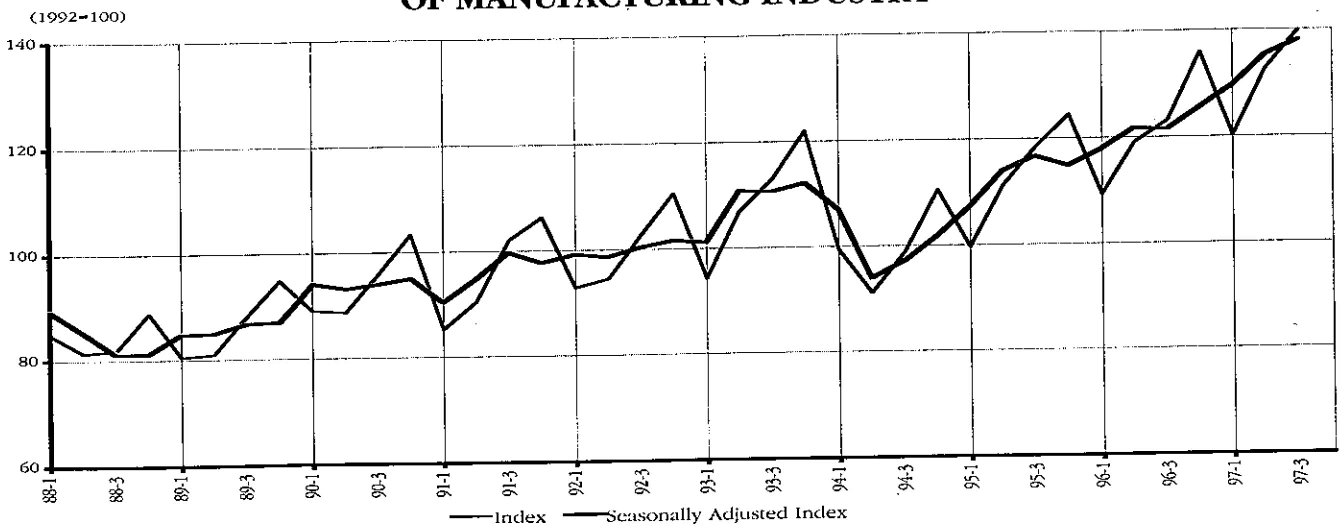


SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX (Annual Percentage Increase) **GRAPH 5**



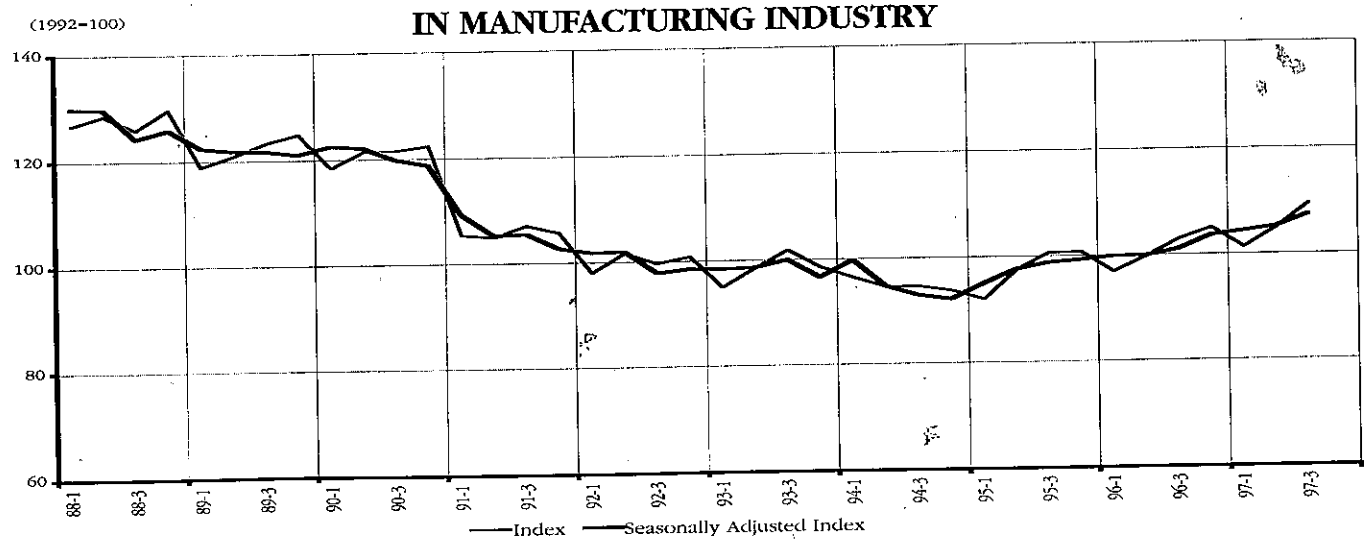
QUARTERLY PRODUCTION INDEX OF MANUFACTURING INDUSTRY

GRAPH 6



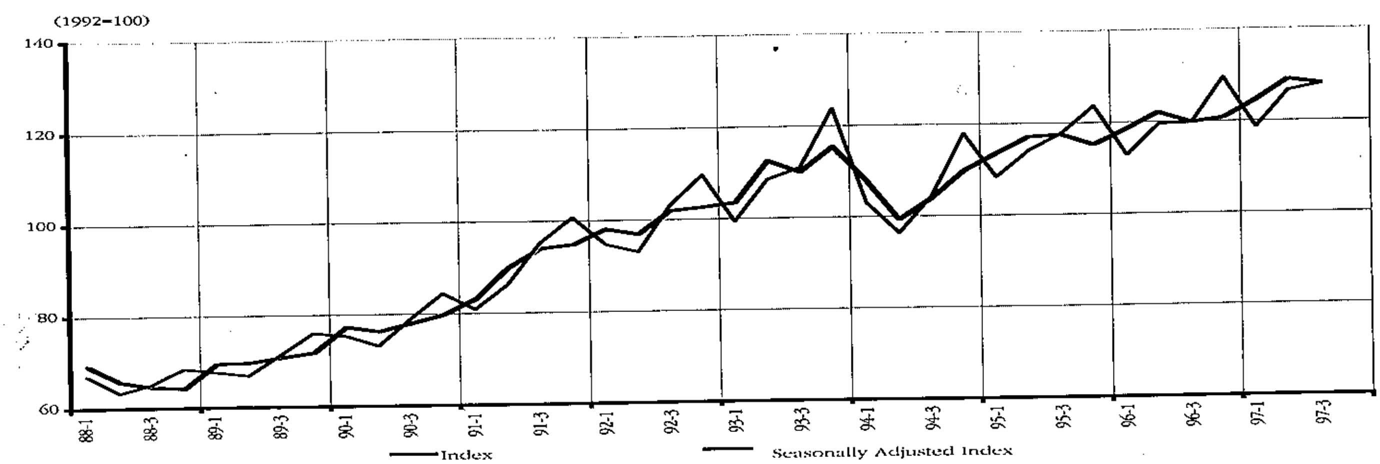
INDEX OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRY

GRAPH 7



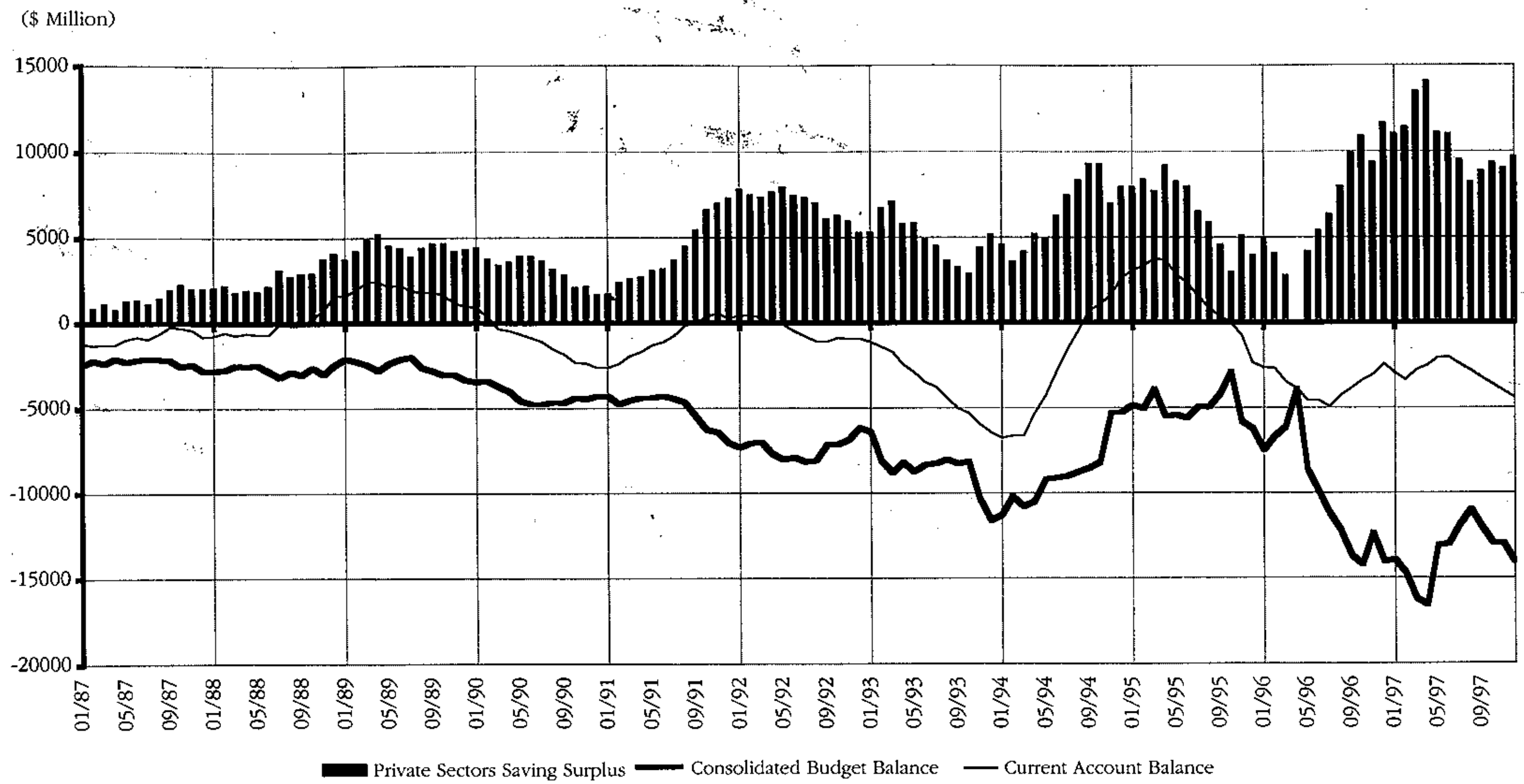
MANUFACTURING INDUSTRY PRODUCTIVITY INDEX

GRAPH 8



GRAPH 9

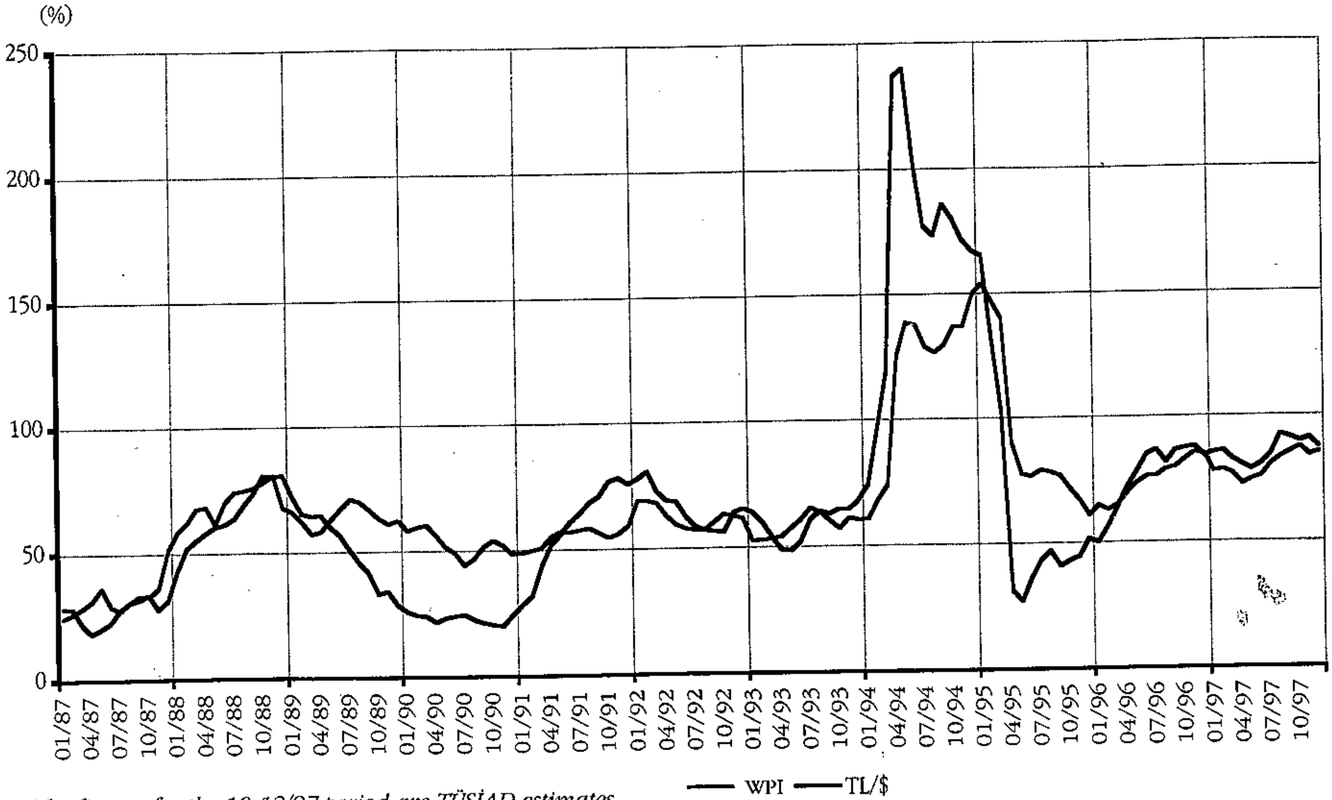
SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)



(*) 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. The figures for the 07-12/97 period are TÜSİAD estimates. Since 01/96, monthly data of suitcase trade is included in current account balance.

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

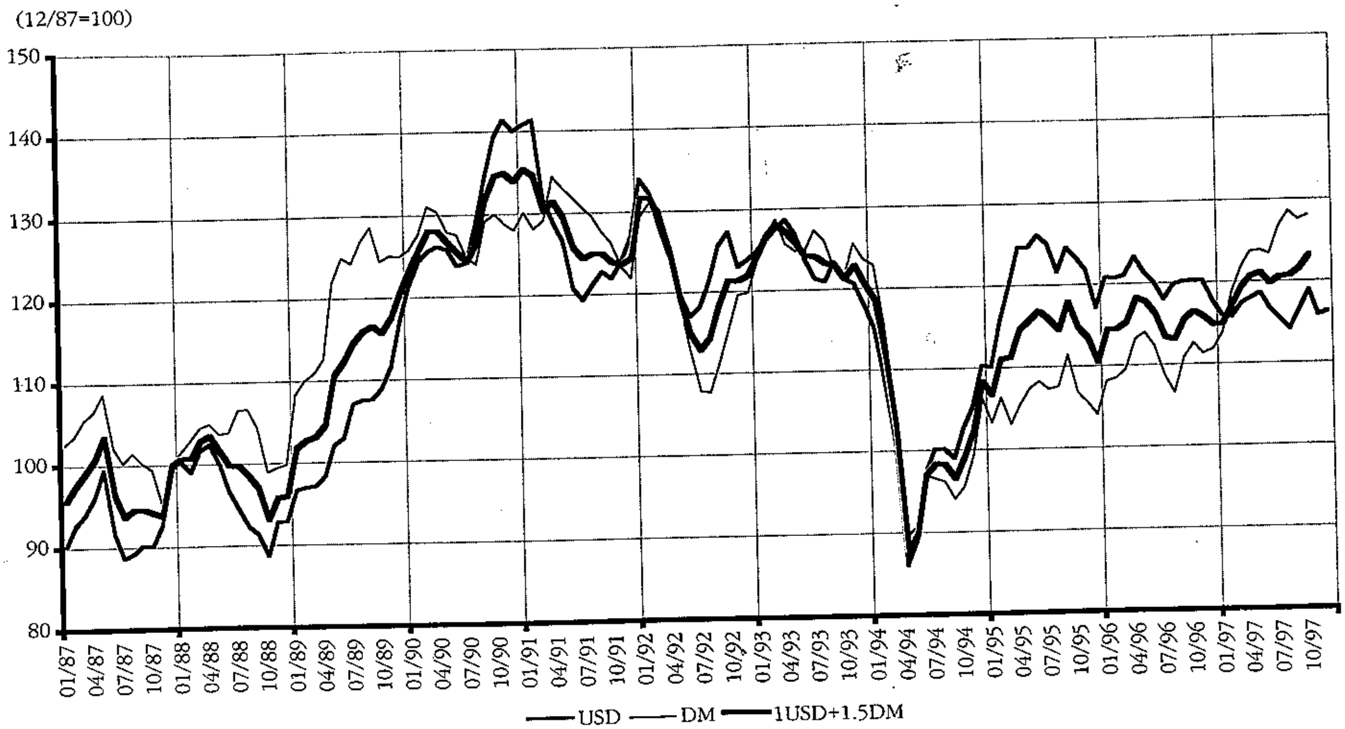
GRAPH 10



The figures for the 10-12/97 period are TÜSİAD estimates

REAL EXCHANGE RATE INDEX

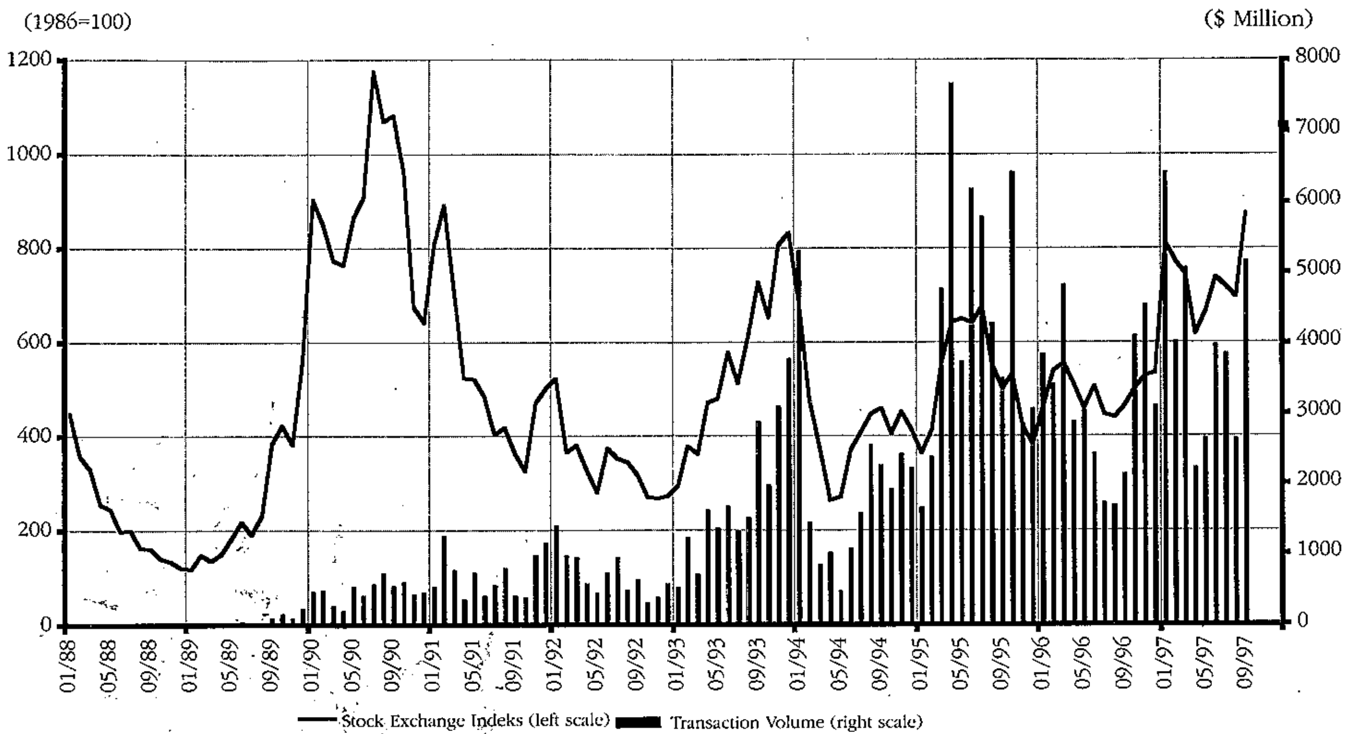
GRAPH 11



The figures for the 10-12/97 period are TÜSİAD estimates

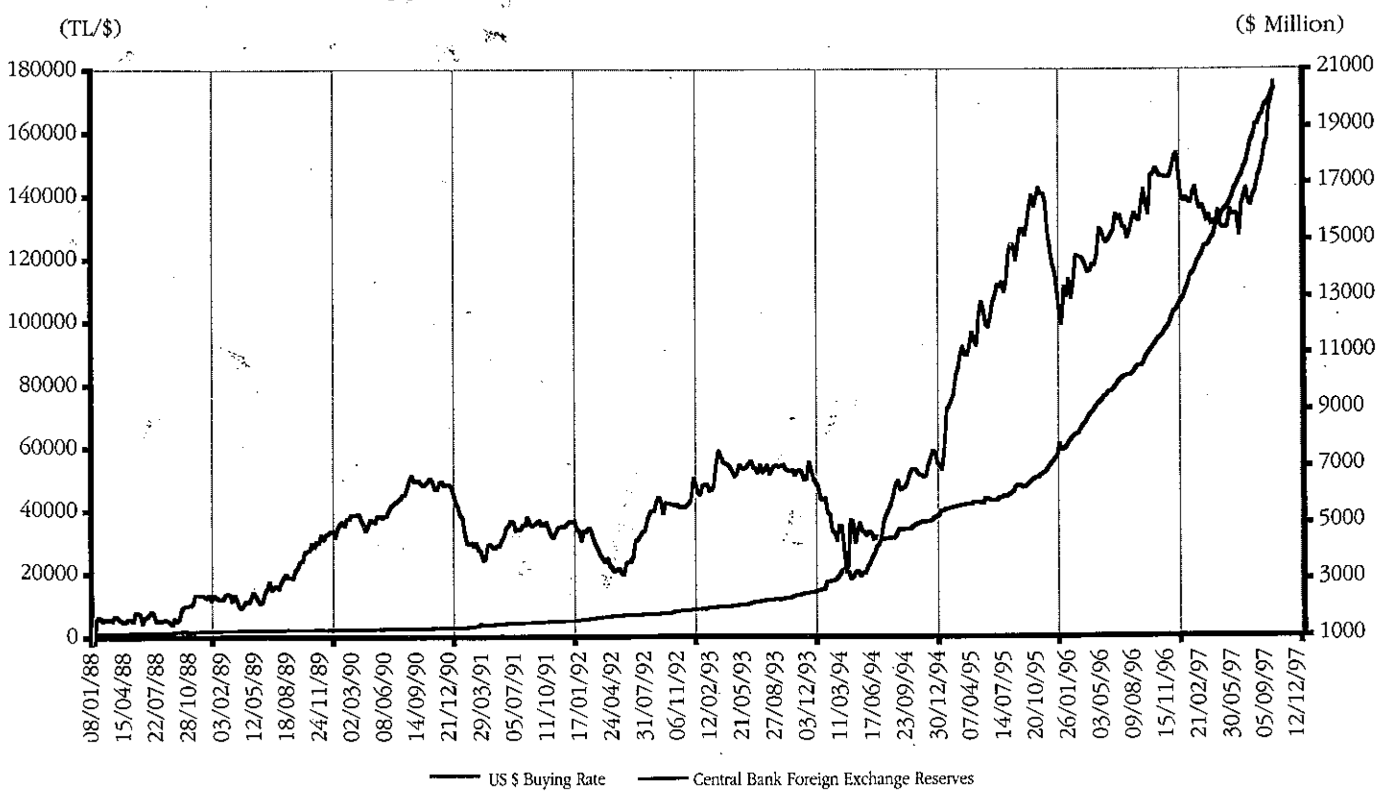
STOCK EXCHANGE INDEX AND TRANSACTION VOLUME

GRAPH 12



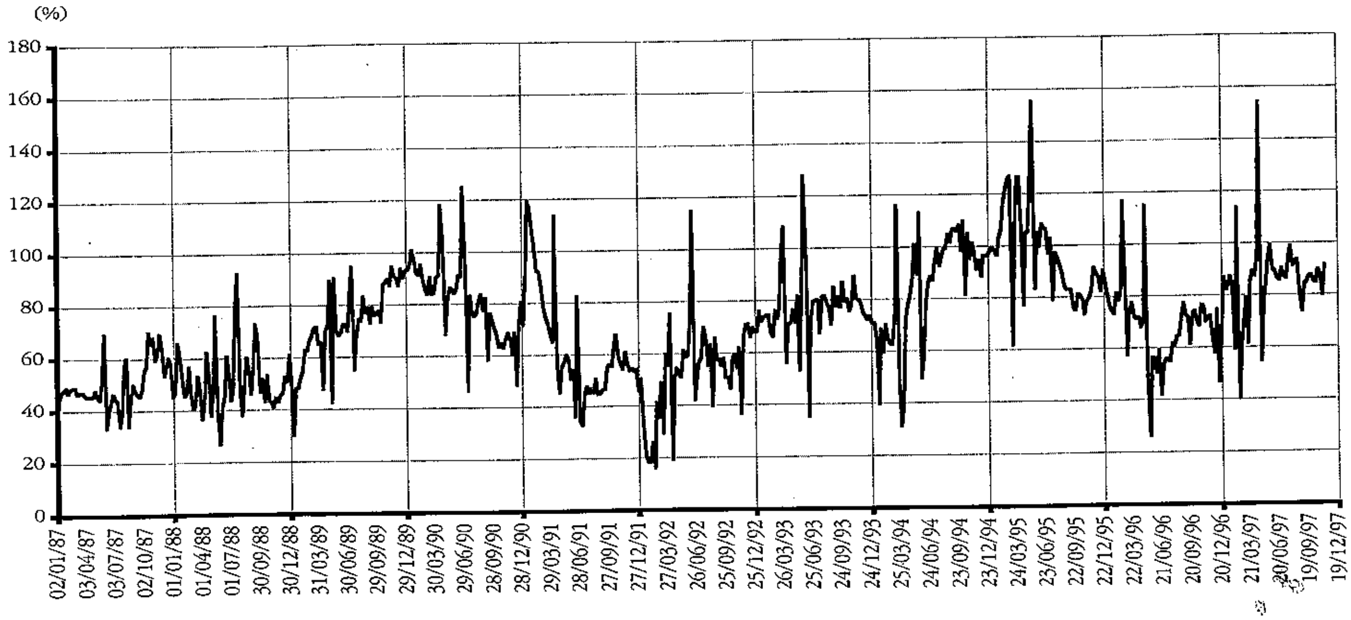
CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE

GRAPH 13



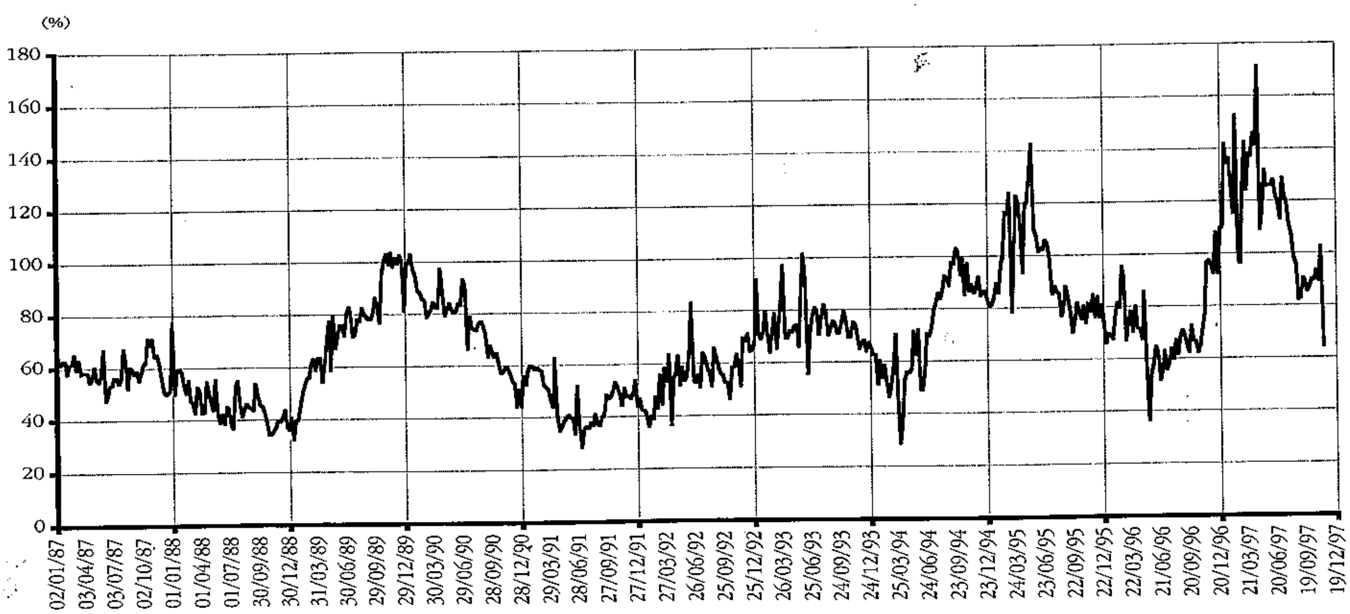
CURRENCY IN CIRCULATION
(Annual Percentage Increase)

GRAPH 14



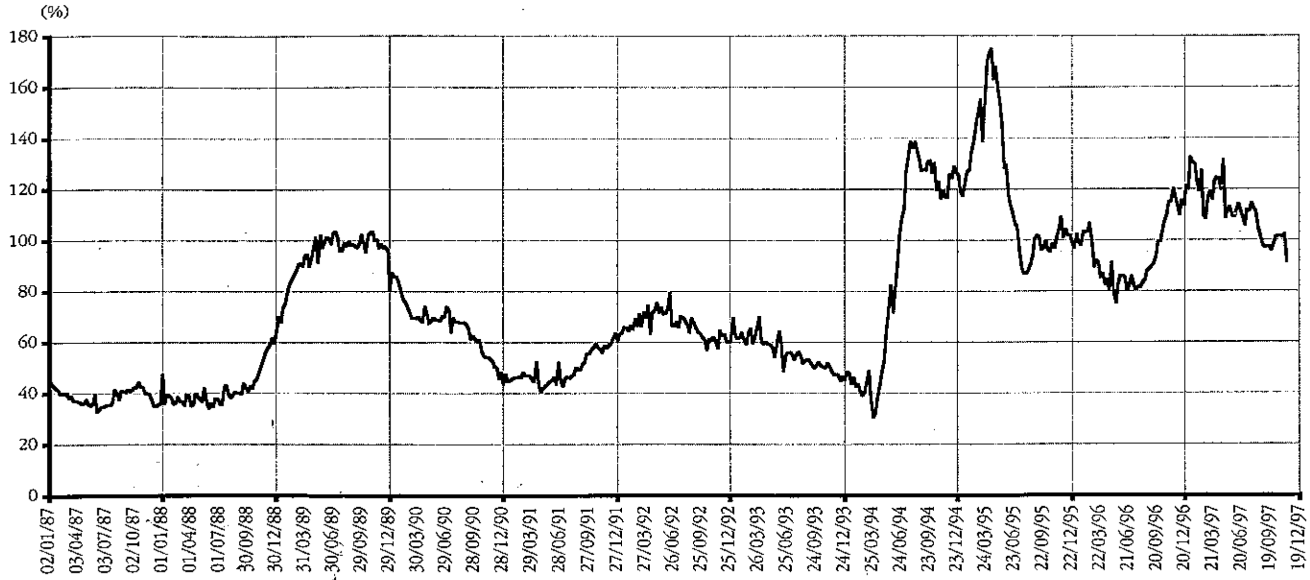
M1
(Annual Percentage Increase)

GRAPH 15



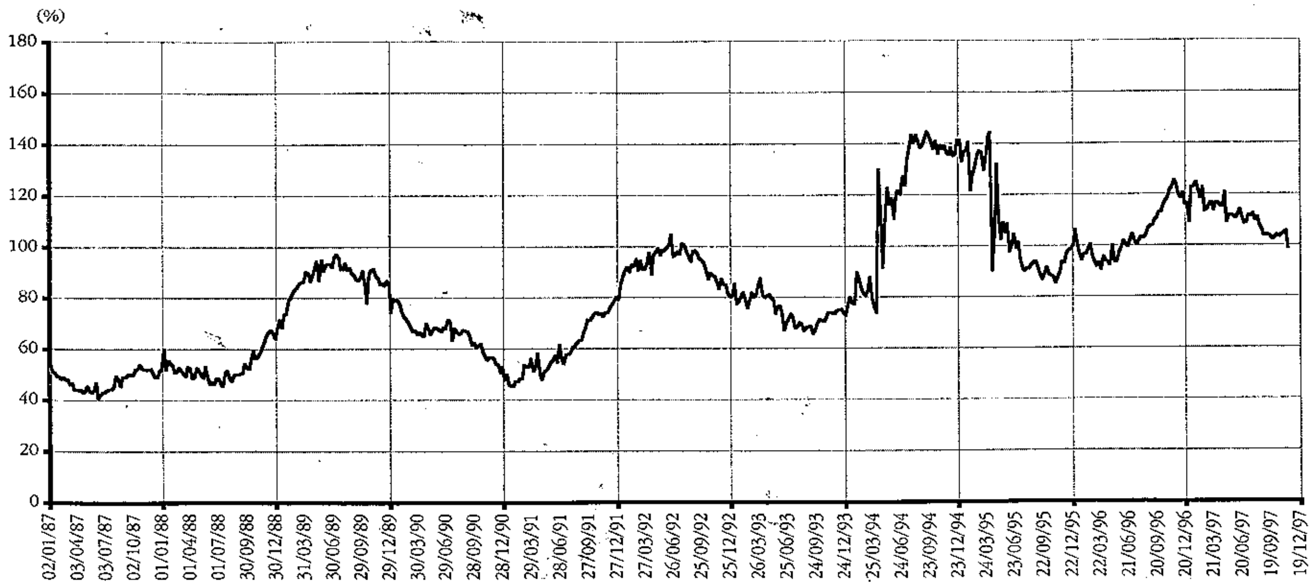
GRAPH 16

M2
(Annual Percentage Increase)



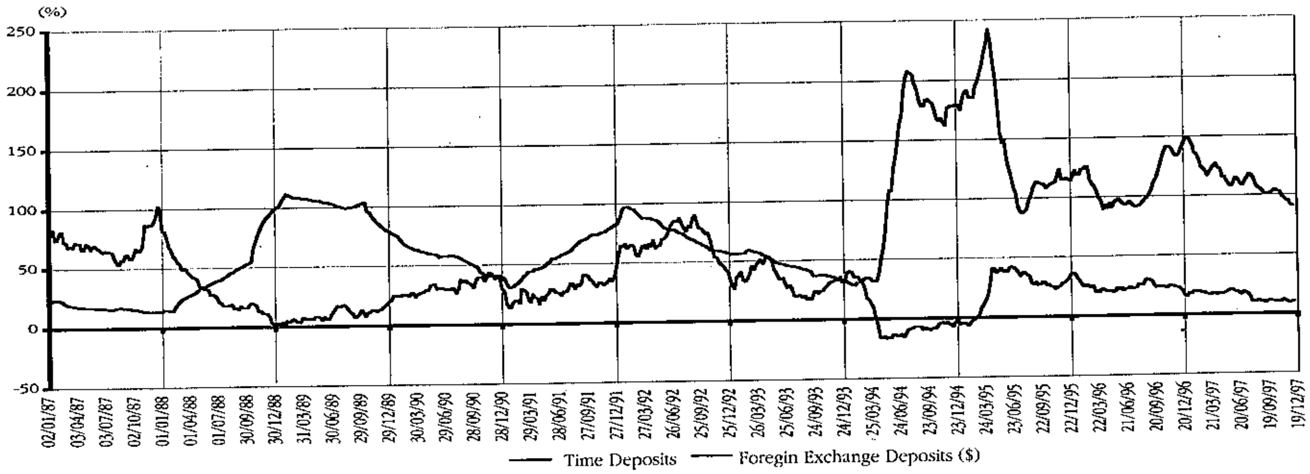
GRAPH 17

M2Y
(Annual Percentage Increase)



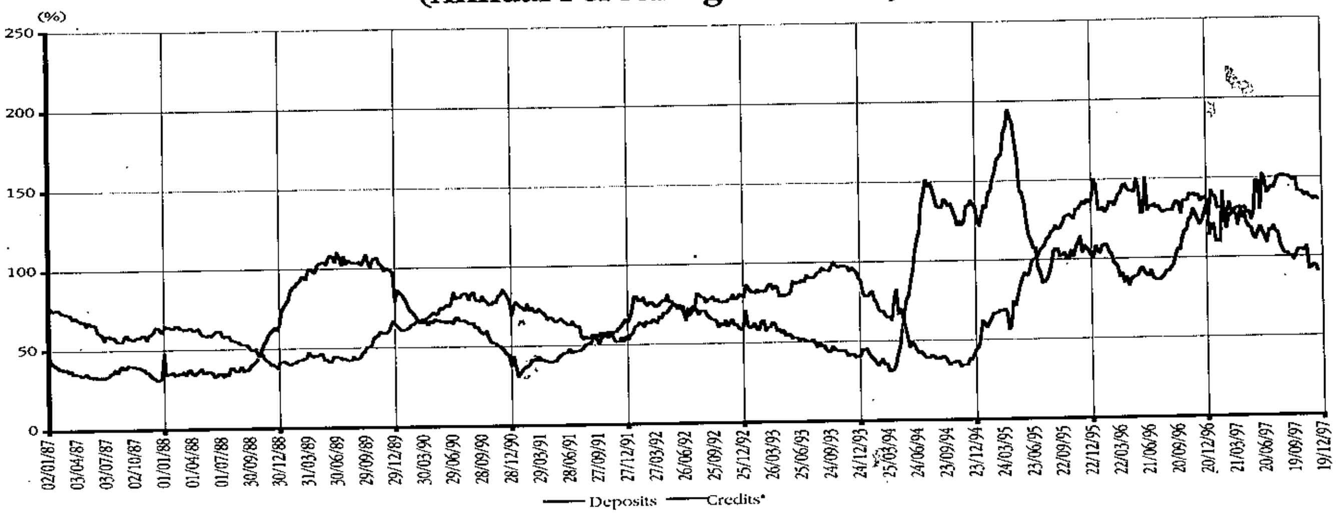
TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS (Annual Percentage Increase)

GRAPH 18



DEPOSIT BANK CREDITS*&DEPOSITS (Annual Percentage Increase)

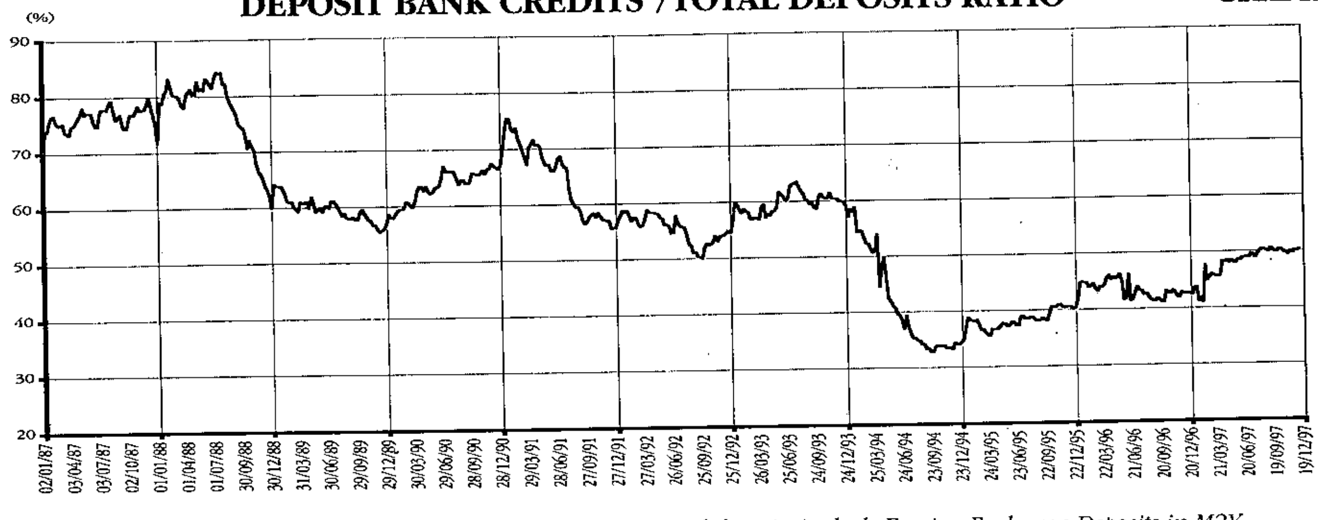
GRAPH 19



Adjusted for changes in data definition for 1.7.1994-1.7.1995

DEPOSIT BANK CREDITS*/TOTAL DEPOSITS RATIO

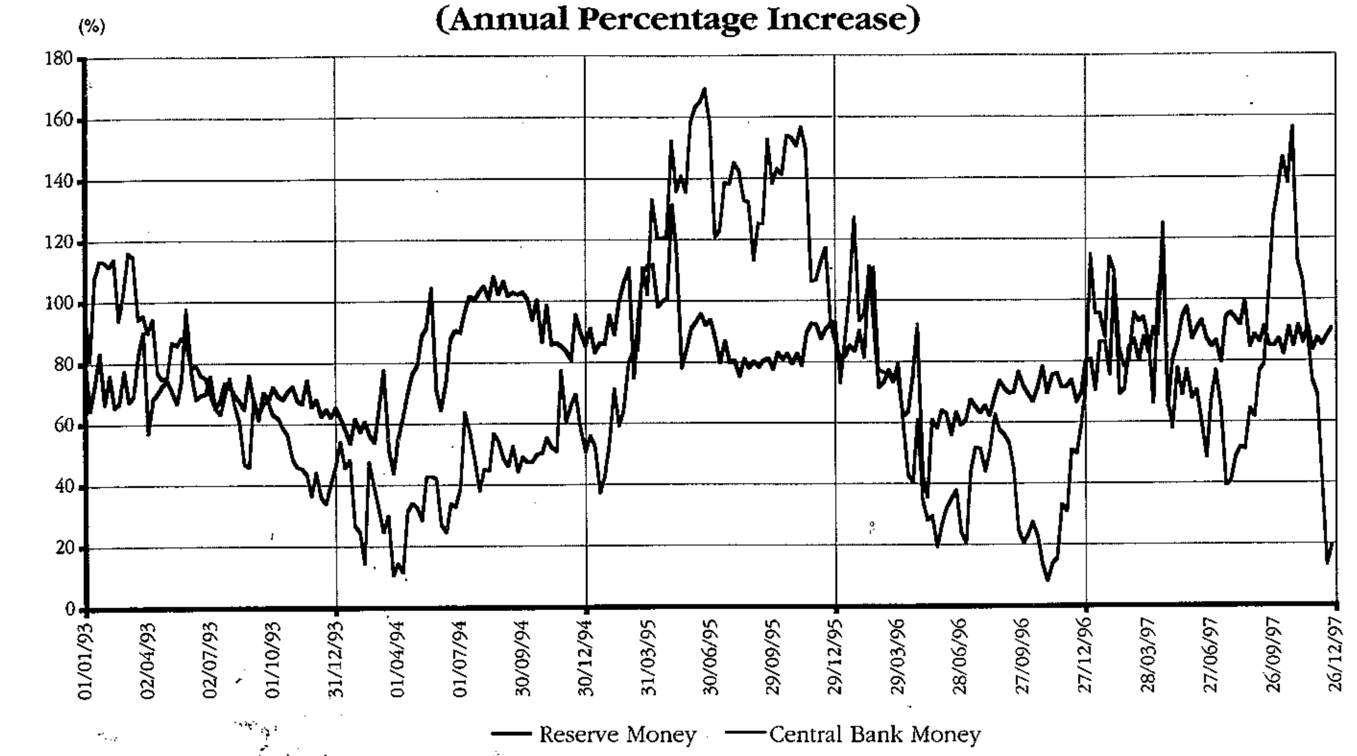
GRAPH 20



Adjusted for changes in data definition for 1.7.1994-1.7.1995. Total deposits include Foreign Exchange Deposits in M2Y

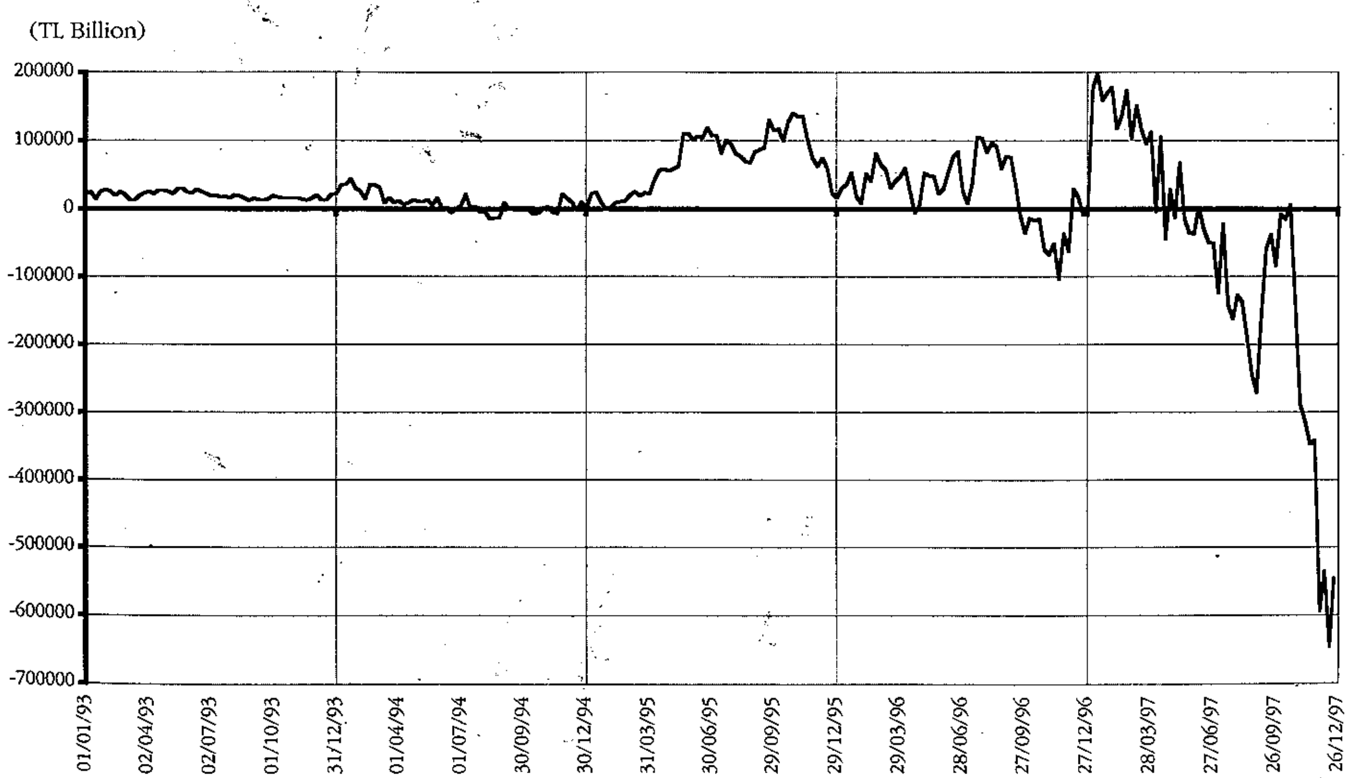
CENTRAL BANK MONEY AND RESERVE MONEY (Annual Percentage Increase)

GRAPH 21



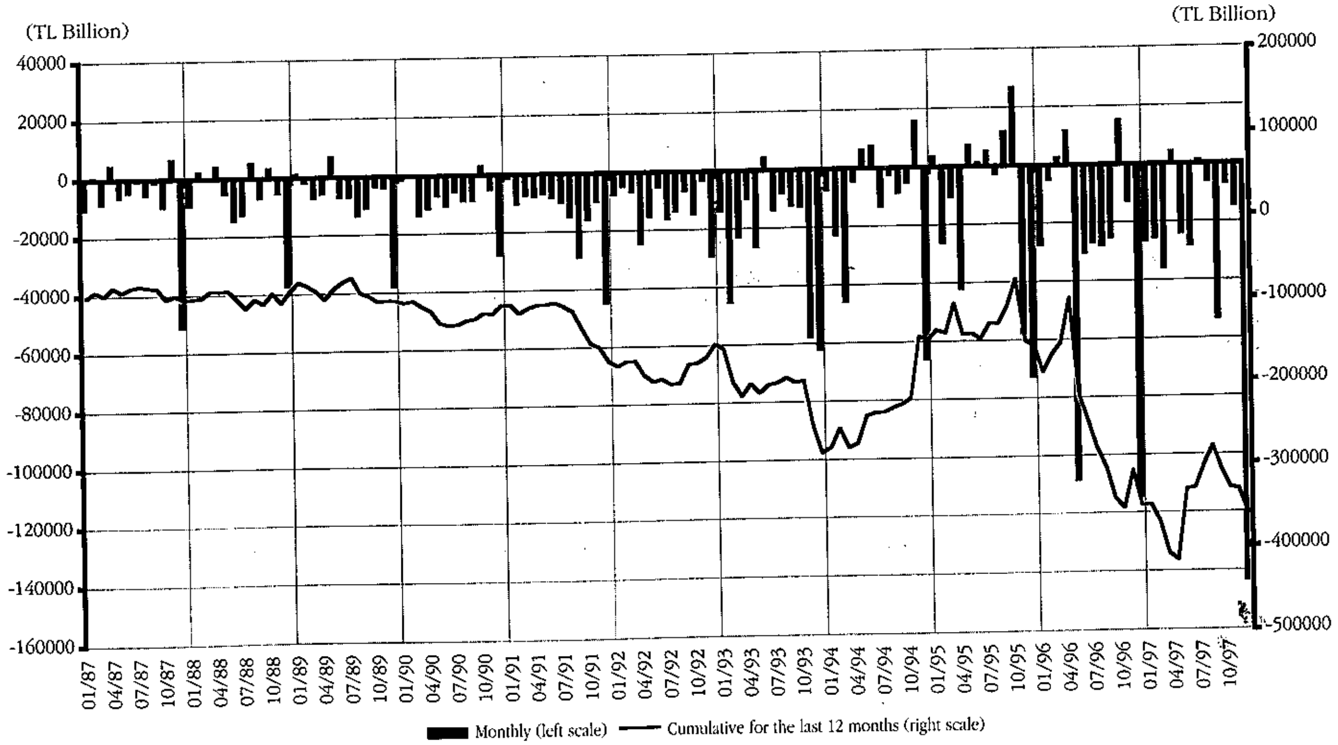
LIABILITIES DUE TO OPEN MARKET OPERATIONS

GRAPH 22



CONSOLIDATED BUDGET DEFICIT (At 1994 Prices)

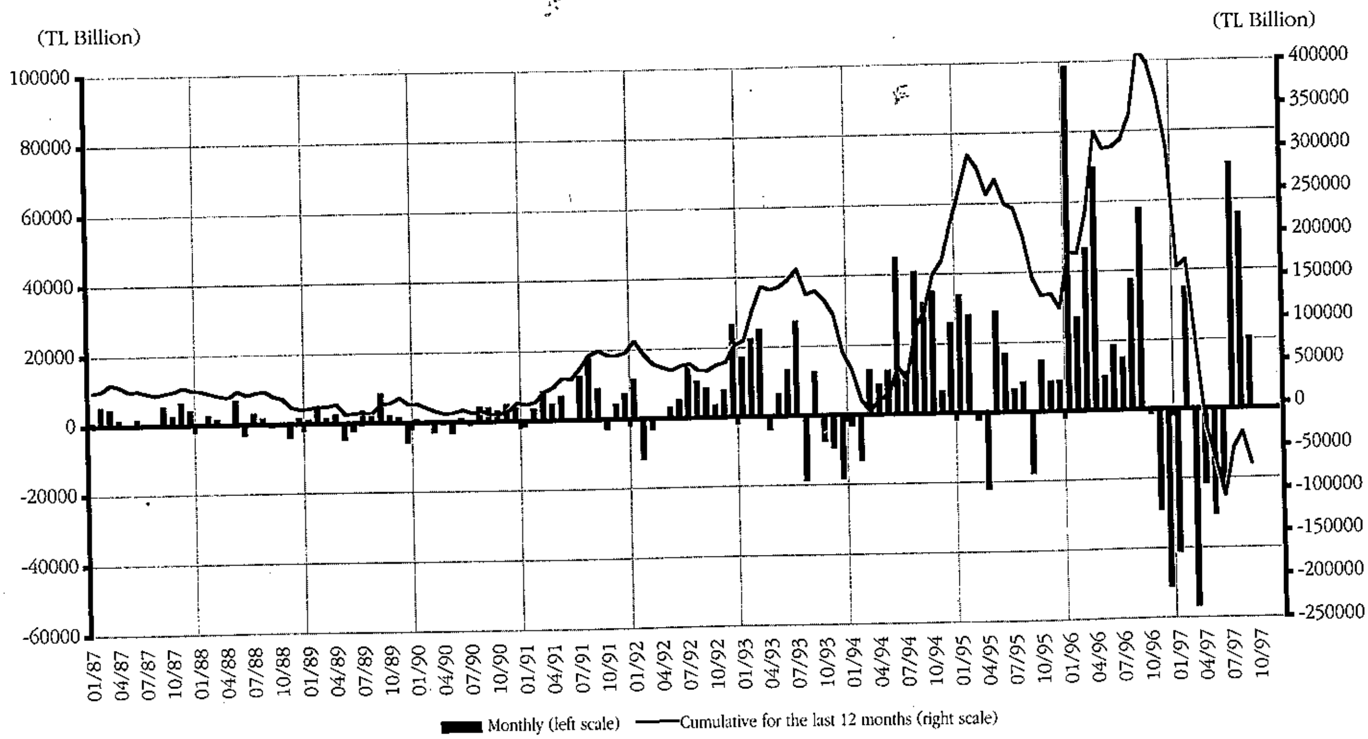
GRAPH 23



The figures for the 10-12/97 period are TÜSİAD estimates

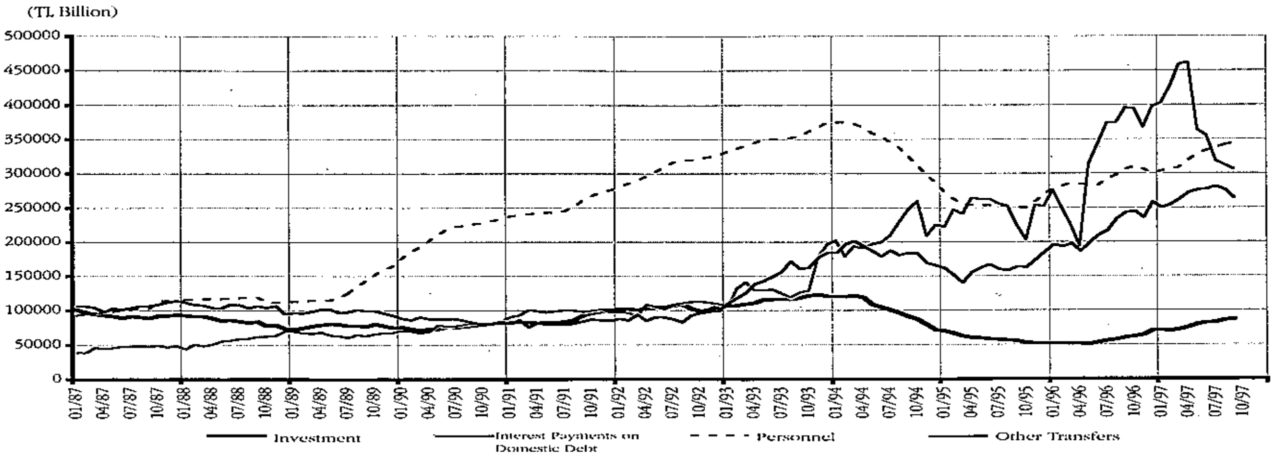
BORROWING BY TREASURY BILLS (NET) (At 1994 Prices)

GRAPH 24



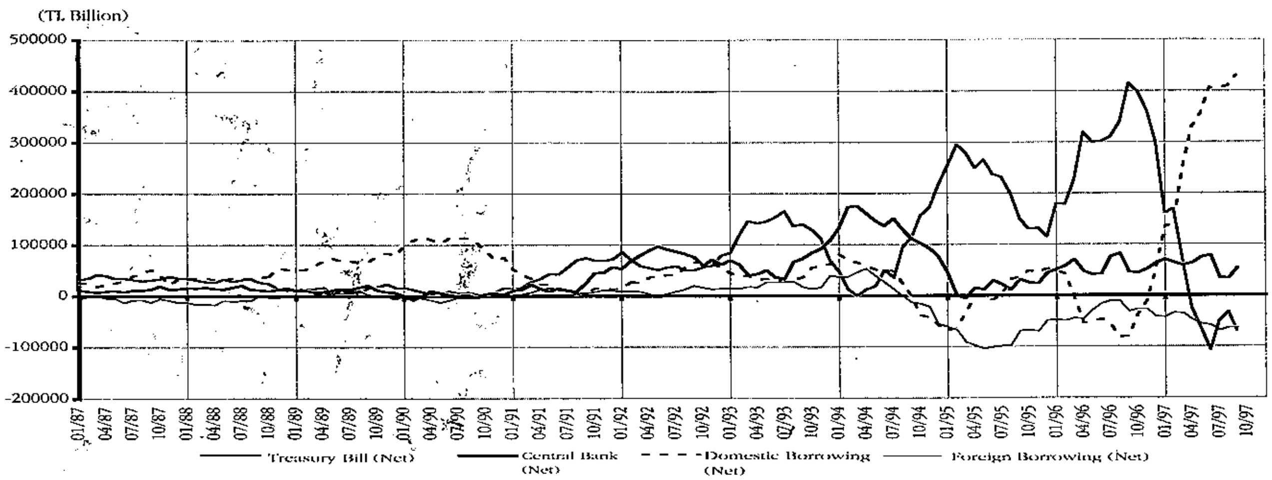
CONSOLIDATED BUDGET EXPENDITURES (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 25



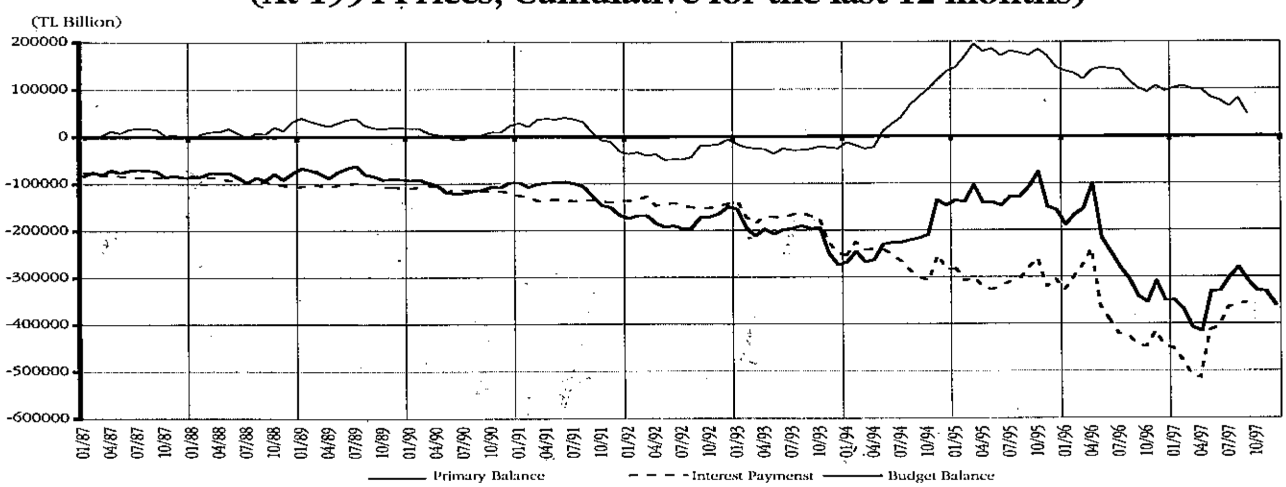
CONSOLIDATED BUDGET FINANCING (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 26



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

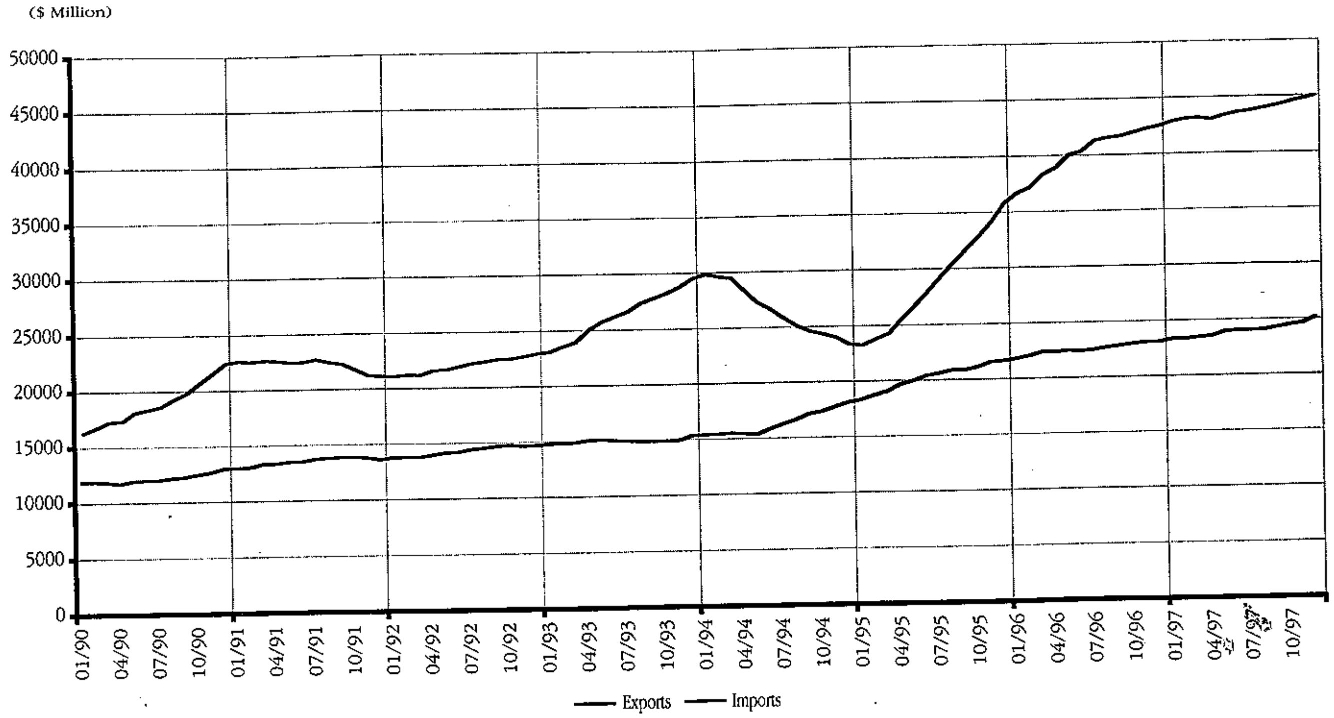
GRAPH 27



The figures for the 10-12/97 period are TÜSİAD estimates

GRAPH 28

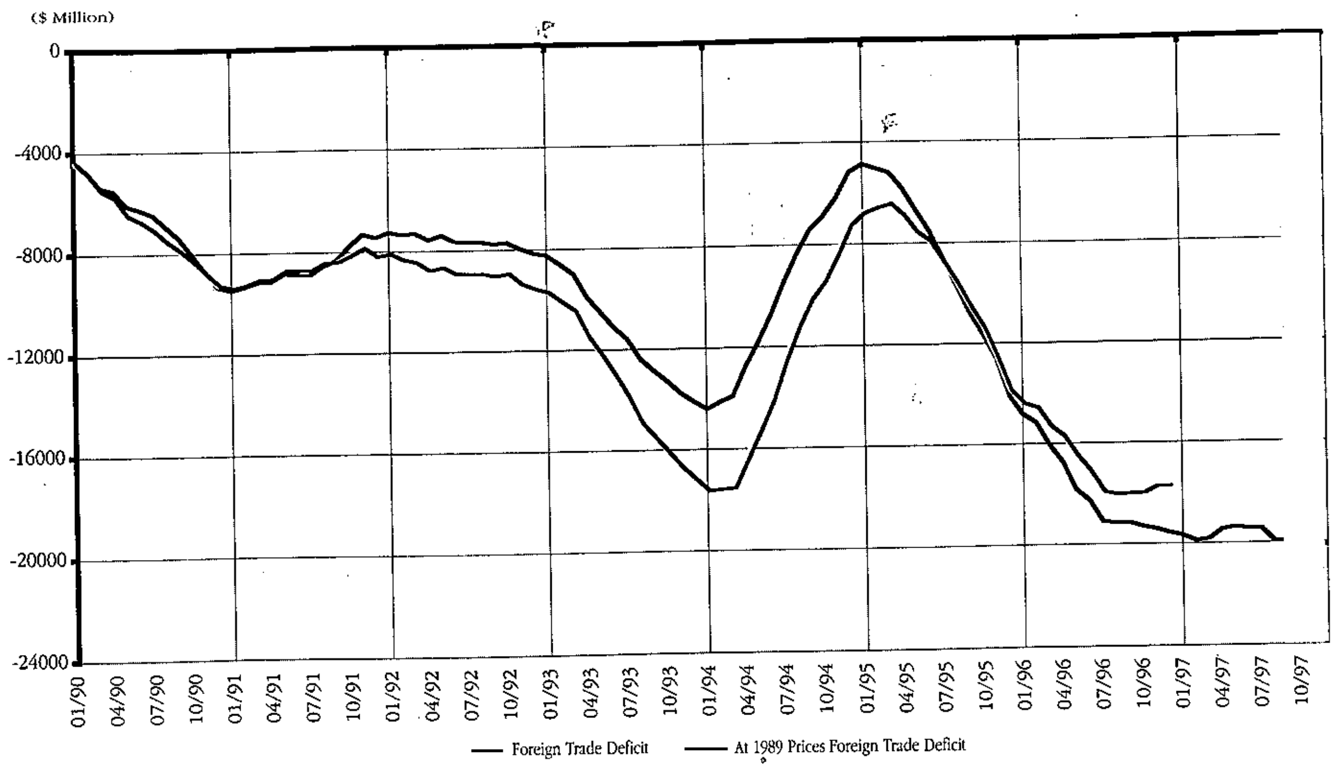
NOMINAL EXPORTS AND IMPORTS
(Cumulative for the last 12 months)



The figures for the 09-12/97 period are TÜSİAD estimates

GRAPH 29

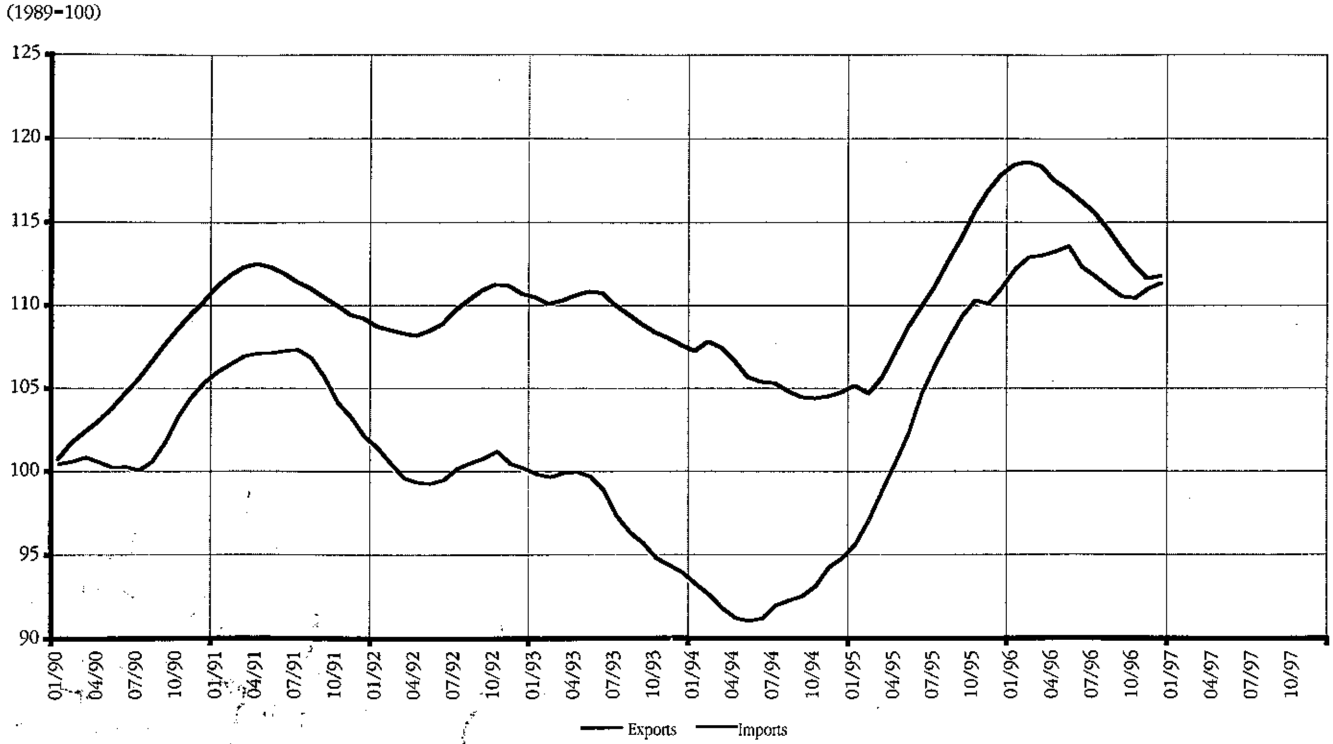
FOREIGN TRADE DEFICIT
(Cumulative for the last 12 months)



The figures for the 09-12/97 period are TÜSİAD estimates

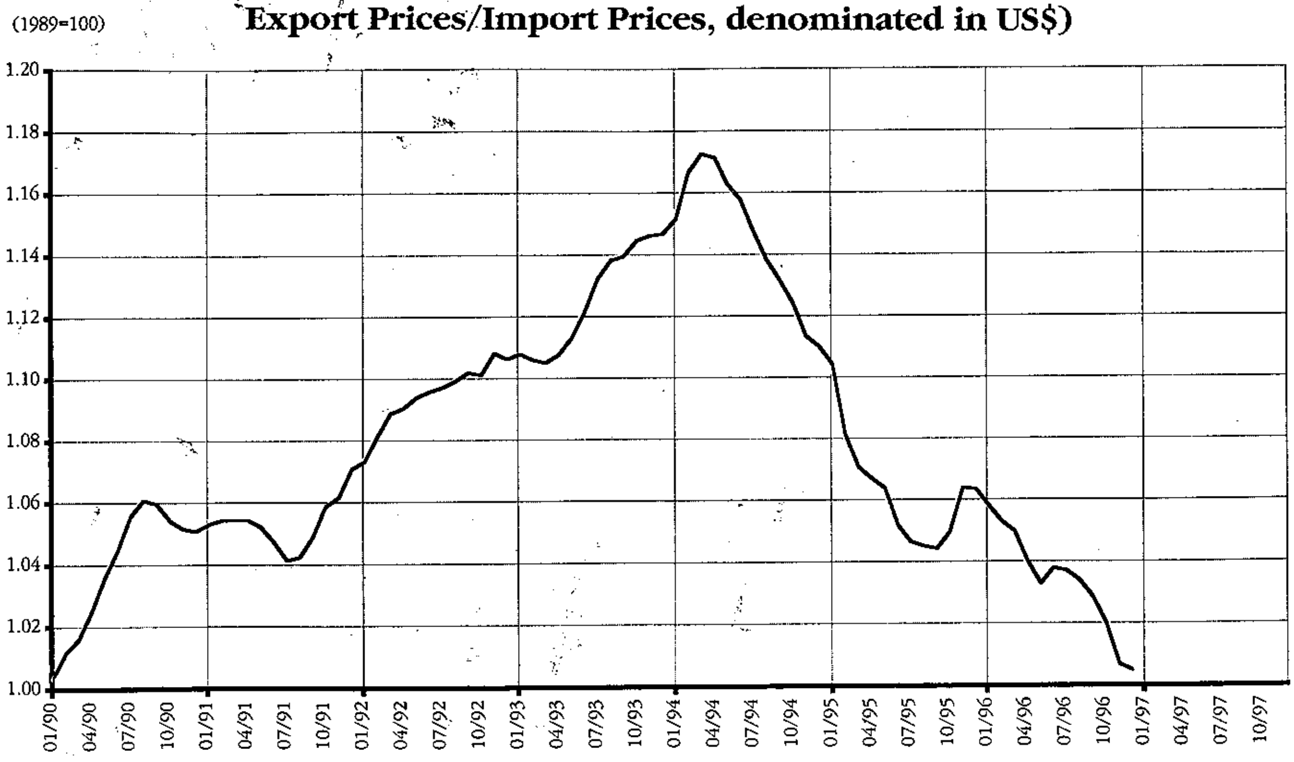
FOREIGN TRADE PRICE INDEX
(Cumulative for the last 12 months denominated in US$)

GRAPH 30



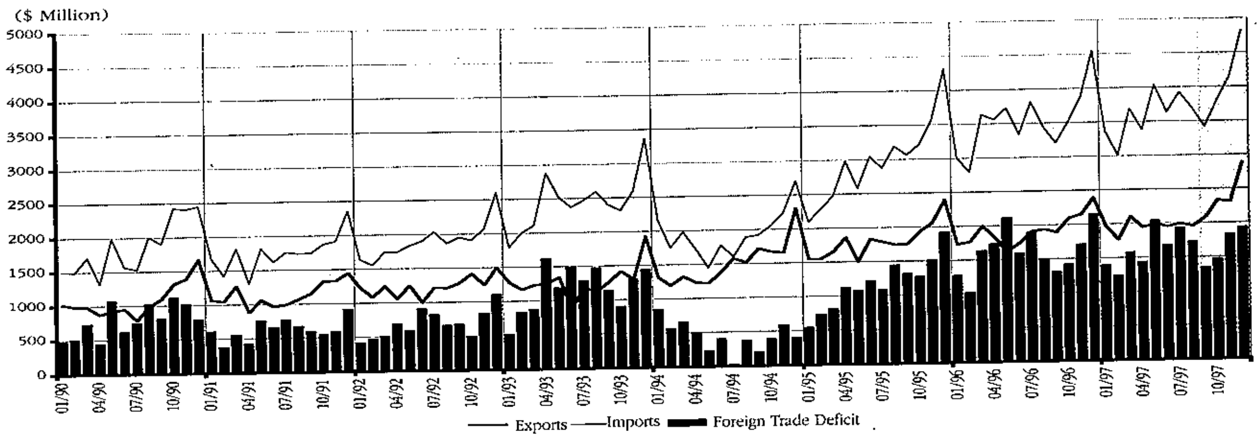
TERMS OF TRADE
(Average for the last 12 months, Export Prices/Import Prices, denominated in US$)

GRAPH 31



FOREIGN TRADE

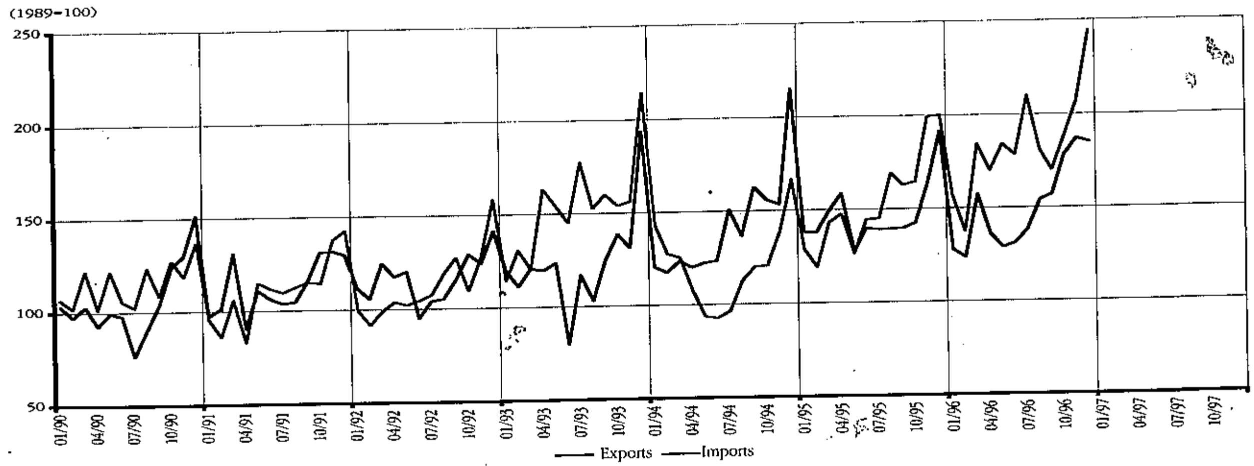
GRAPH 32



The figures for the 09 - 12/97 period are TÜSİAD estimates.

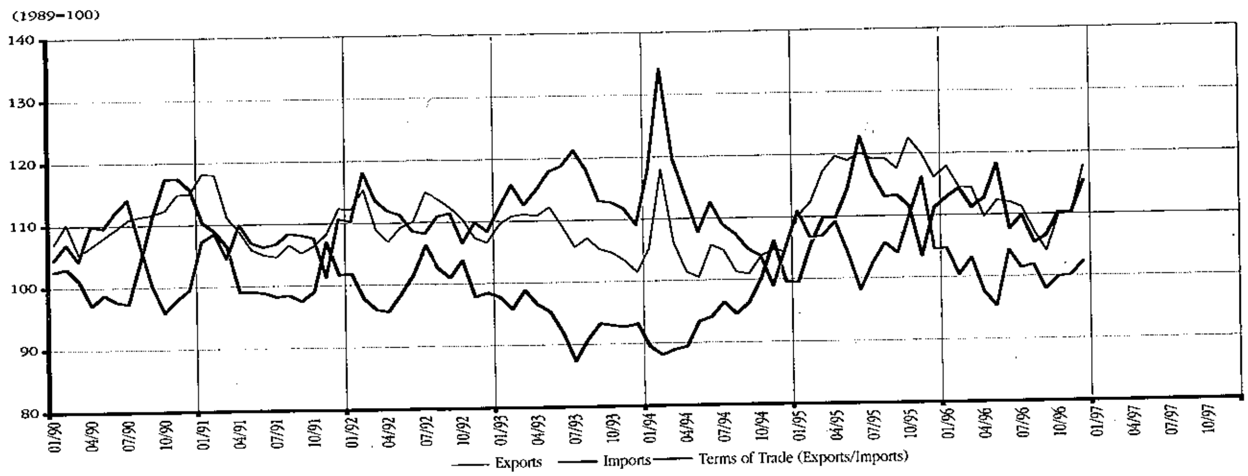
FOREIGN TRADE QUANTITY INDEX

GRAPH 33



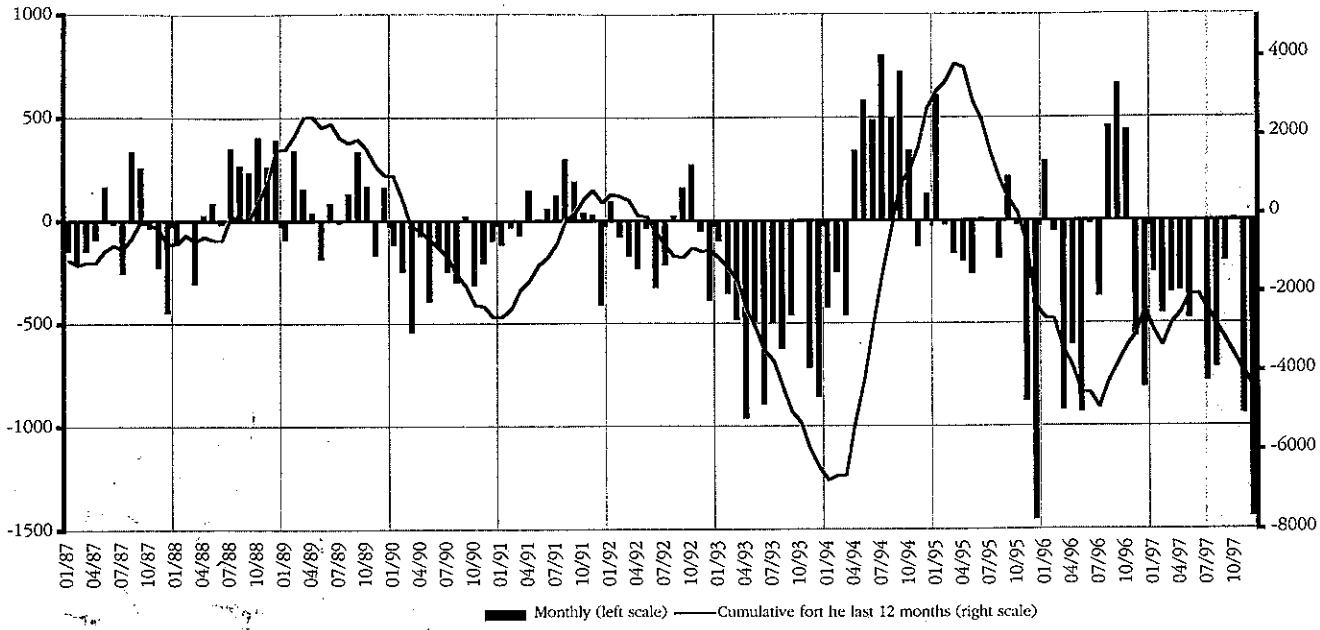
FOREIGN TRADE PRICE INDEX

GRAPH 34



CURRENT ACCOUNT BALANCE (*)

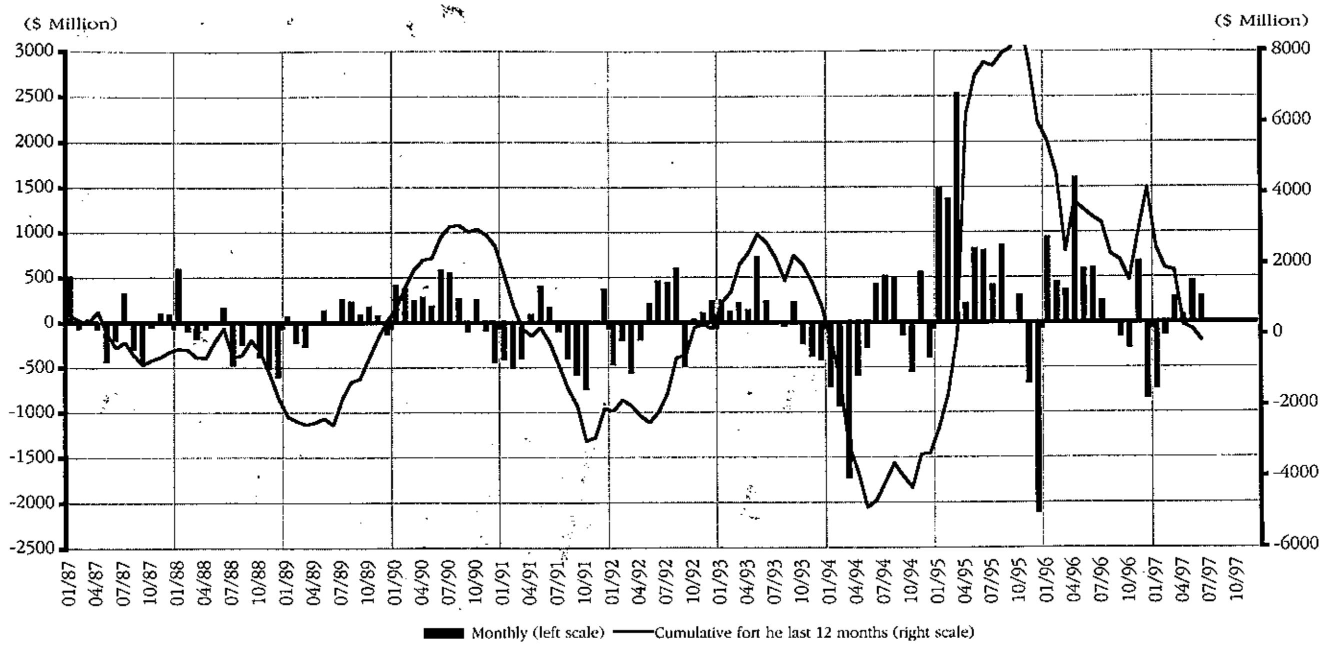
GRAPH 35



* *The suitcase trade figures for the 1/96 - 6/97 period are included. This is the reason behind the sudden jumps in the series.*
The figures for the 07-12/97 period are TÜSİAD estimates.

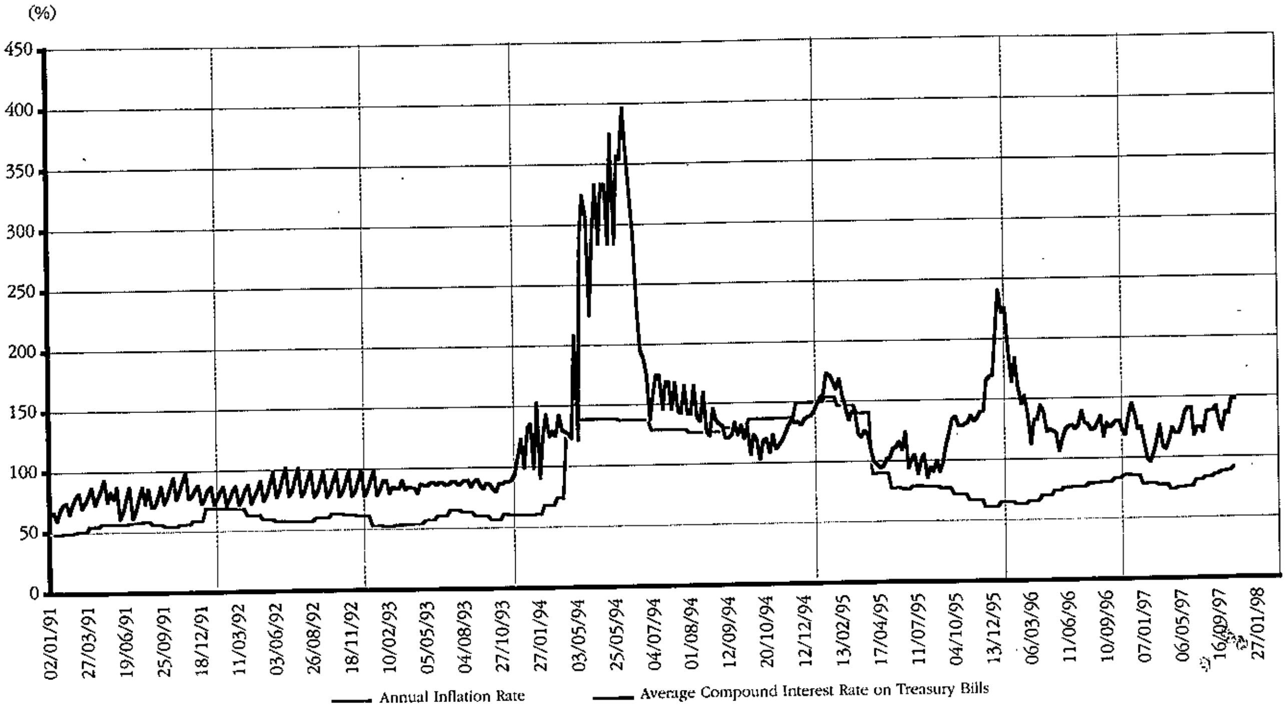
TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS

GRAPH 36



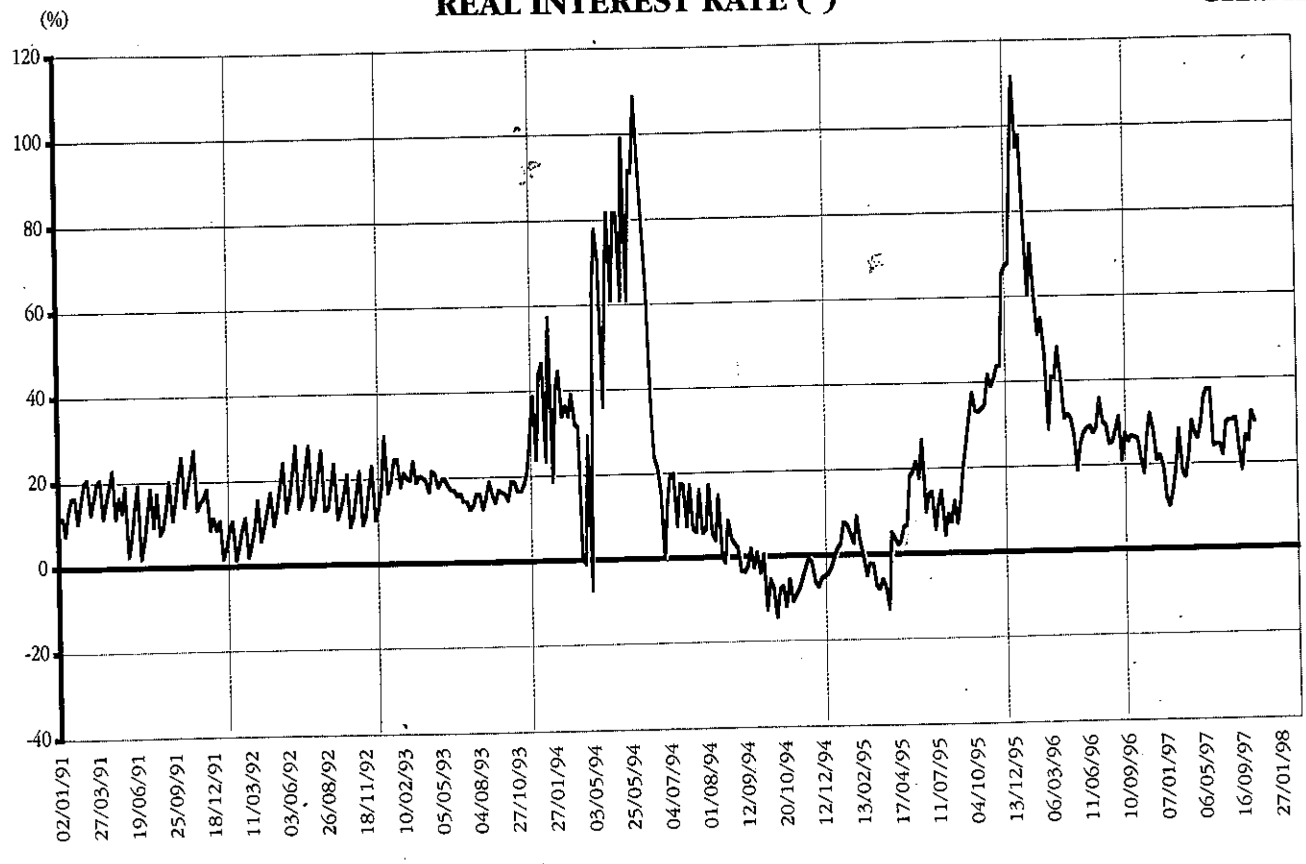
AVERAGE YEARLY NOMINAL INTEREST AND INFLATION RATE

GRAPH 37



REAL INTEREST RATE (*)

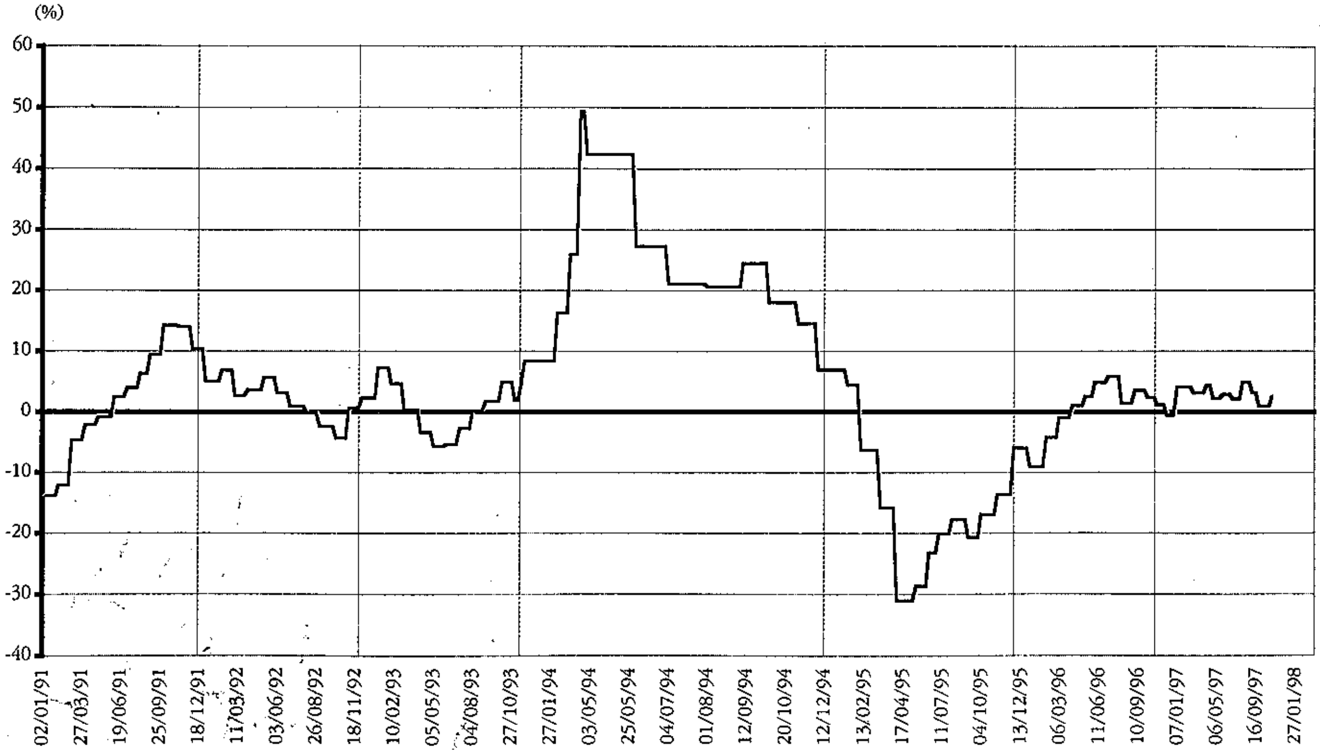
GRAPH 38



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

REAL RATE OF RETURN ON US$ (*)

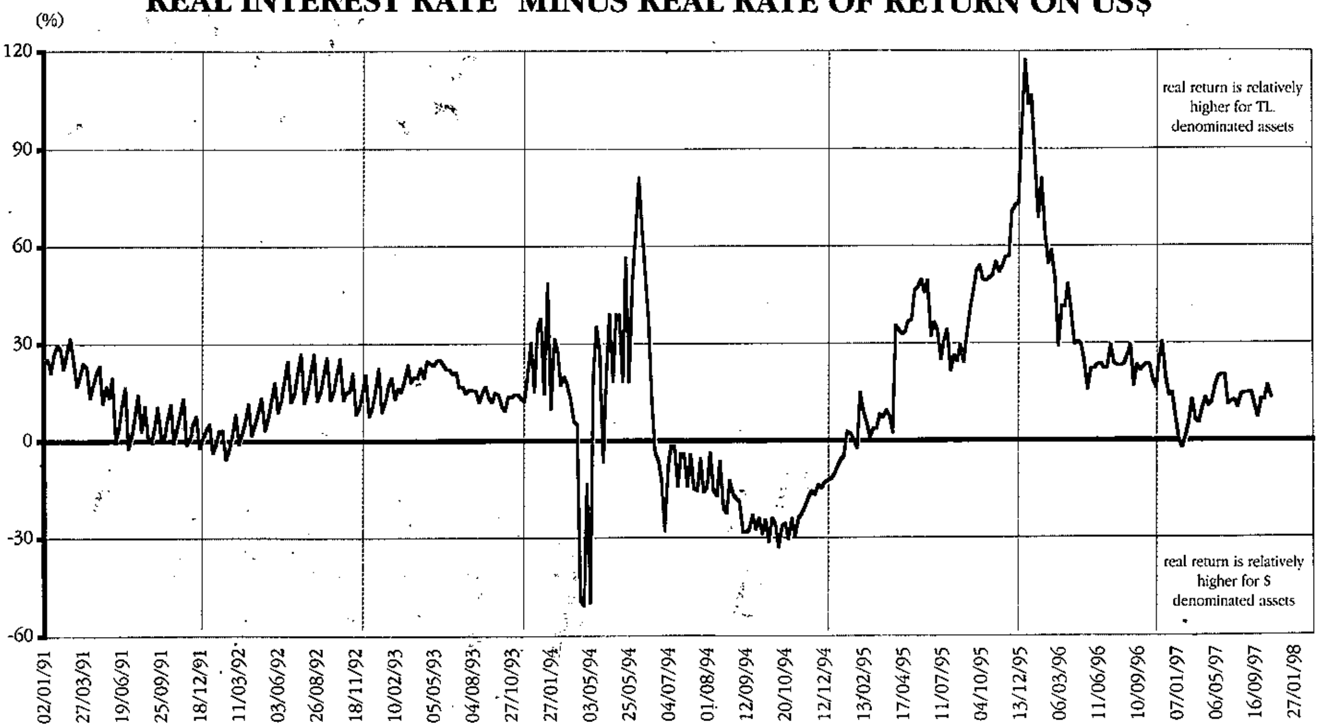
GRAPH 39



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

REAL INTEREST RATE* MINUS REAL RATE OF RETURN ON US$

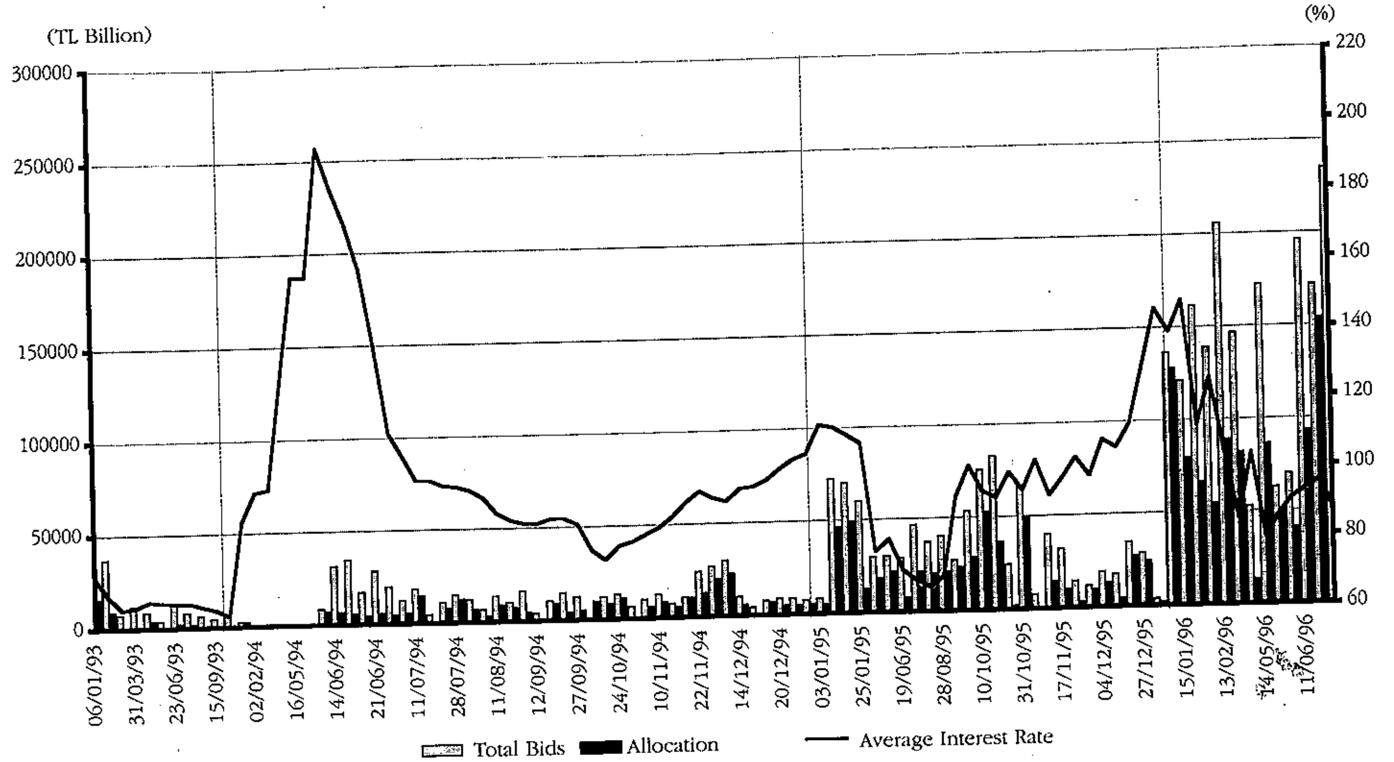
GRAPH 40



(*) Net interest rate is used after 11/96

TREASURY AUCTIONS (3 months maturity) (*)

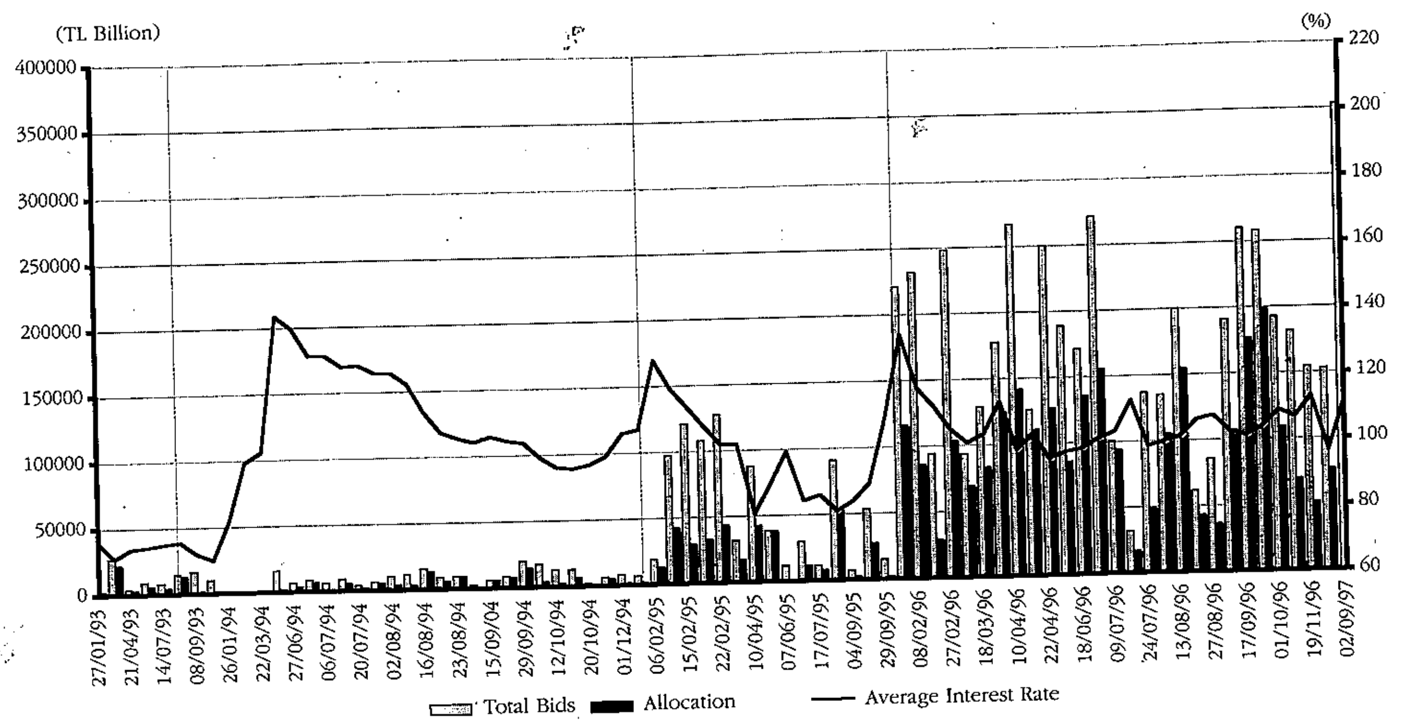
GRAPH 41



(*) Includes bills with irregular terms.

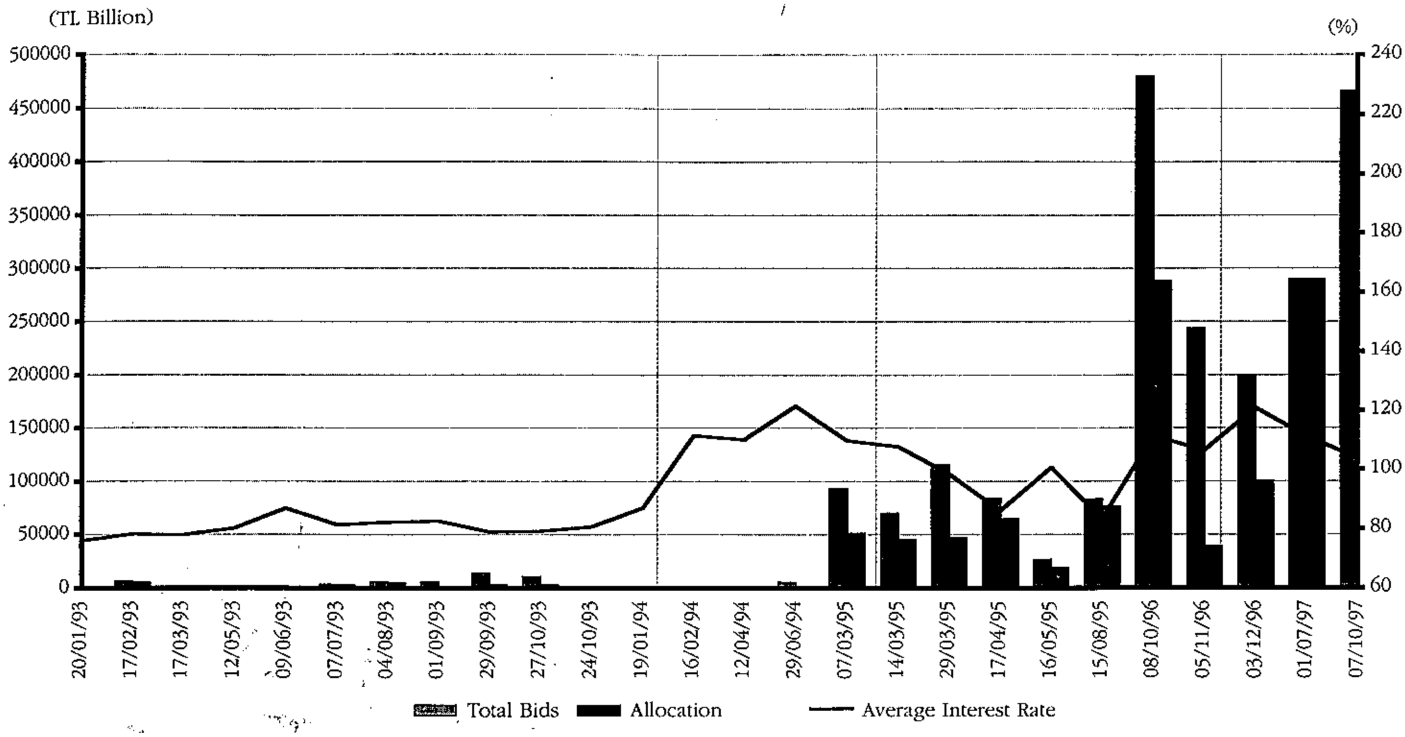
TREASURY AUCTIONS (6 months maturity) (*)

GRAPH 42



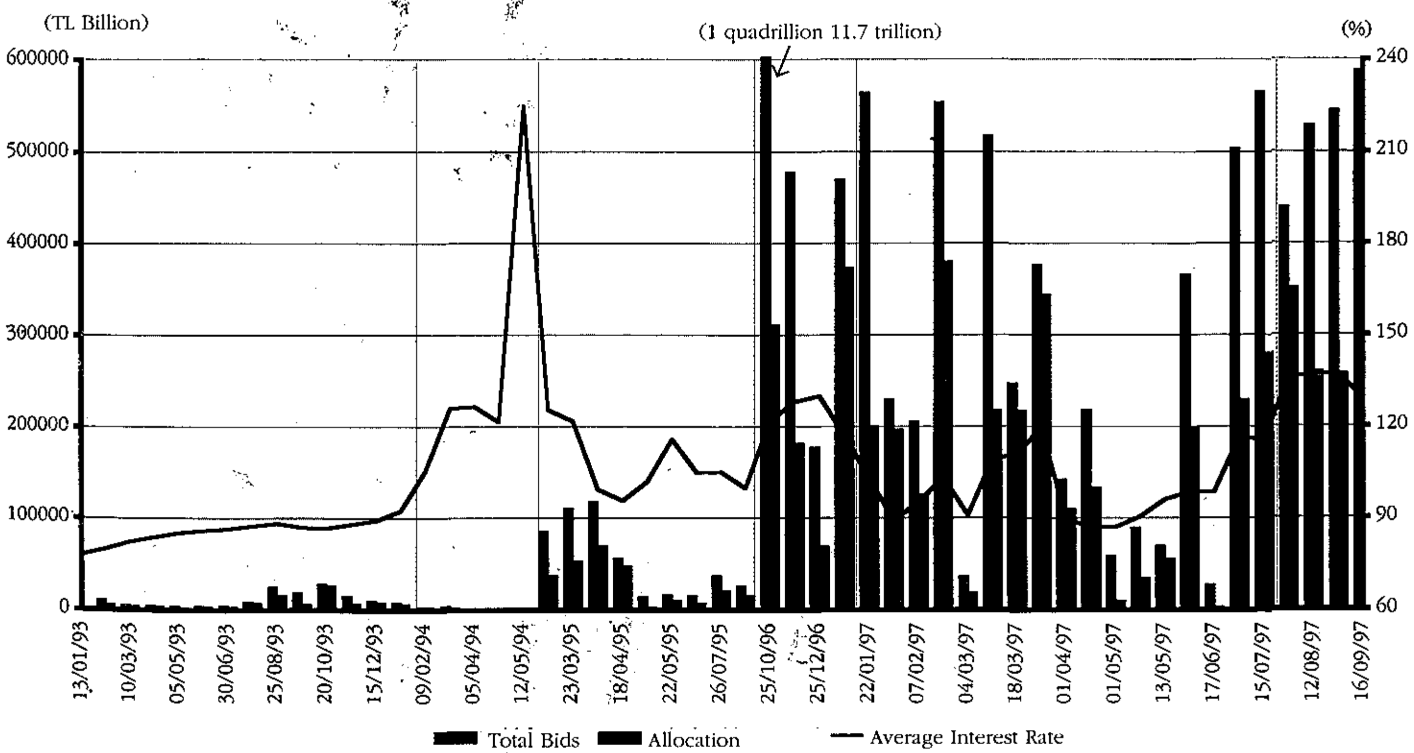
(*) Includes bills with irregular terms.

TREASURY AUCTIONS (9 months maturity) (*) GRAPH 43



(*) *Includes bills with irregular terms.*

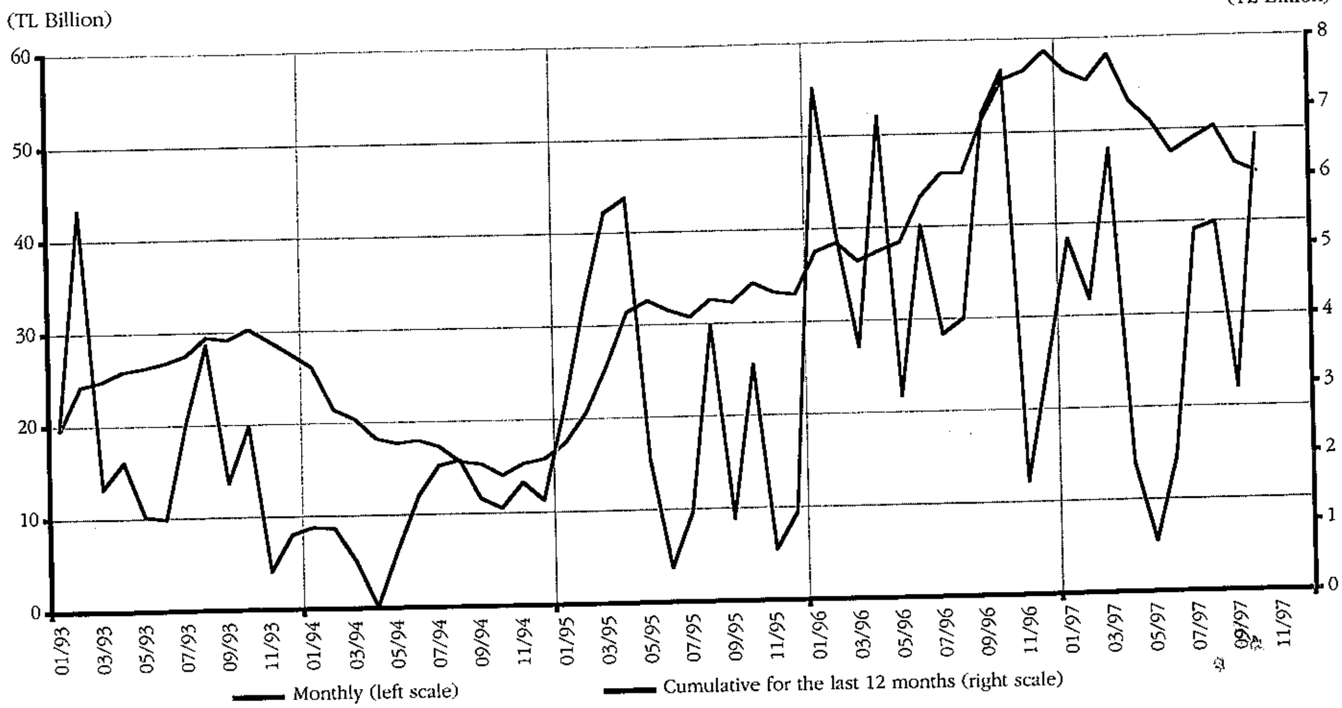
TREASURY AUCTIONS (12 months maturity) (*) GRAPH 44



(*) *Includes bills with irregular terms.*

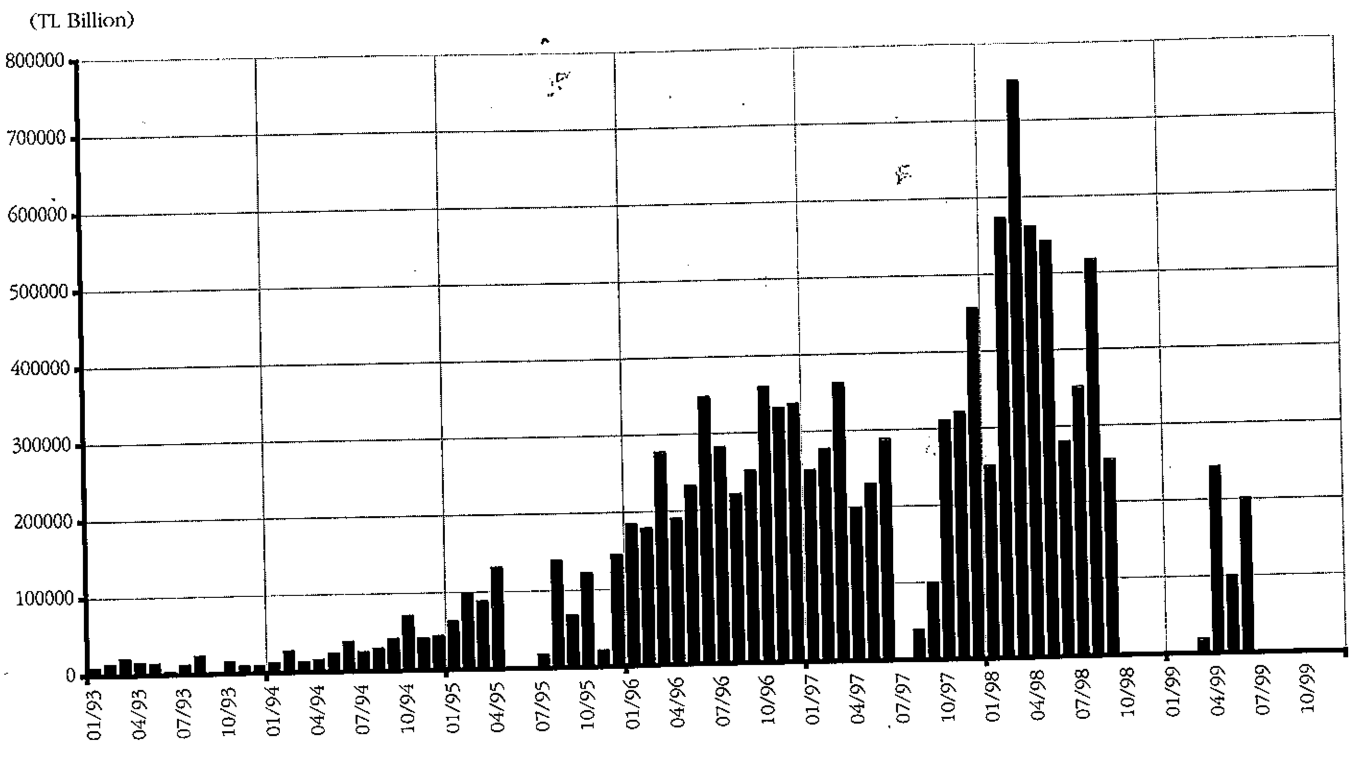
GRAPH 45

THE AMOUNT OF GOVERMENT PAPERS SOLD IN TREASURY AUCTIONS



GRAPH 46

TREASURY BOND REPAYMENTS (*)



** As of 10/08/97.*

APPENDIX

MAKROECONOMIC SCENARIO: MACROECONOMIC INDICATORS IN 1998

After 1994 crises, the Turkish economy has recovered quickly and experienced high growth rates in the following two years. It was expected that after two years of fast growth, in accordance with the policies designed to decrease the inflation rate, economic growth would slow down in 1997. Basing on some unrealistic assumptions, 1997 program has proposed a balanced budget with TL 6.2 quadrillion of revenues and expenditures which would cause a reduction of public sector borrowing requirement from 9.6 percent of GNP to 0.4 percent of GNP; a growth ate of 4 percent, $50 billion of imports and $29.5 billion of exports. On the other hand, it was expected that average annual inflation rate (WPI) would be 65 percent, while end of year inflation rate would be 57.7 percent.

However, in 1997 instability in the political arena effected the economy. Instability resulted in the fall of the government at the end of June. As a result of growing domestic demand and increasing private sector production, growth rate is expected to be around 6 percent. The fall in agricultural production reaching 1.5-2 percent will limit the growth rate at 6 percent level. In the first nine months of the year, industrial production increased by 10.6 percent.

Although high growth rate will be reached in 1997 as in 1995 and 1996, it is not possible to state that Turkey has entered a sustainable growth path. Uncertainties led to depreciation of the value of the Turkish lira both in domestic markets and in foreign markets.

TÜSİAD estimates indicated that in 1997 growth rate will be around 6%; end of year inflation will approach 92 percent; average annual inflation rate will be 81 percent; exports and imports will be $25.8 billion and $45.5 billion, respectively. Although a balanced budget was targeted, budget deficit will be around TL2.3 quadrillion. In this case, public sector borrowing requirement will reach 9.5 percent of GNP.

1998 program has been announced. According to the targets of this program, growth rate will decrease to 3 percent, average annual rate of inflation will decrease to 64 percent, while end of year inflation rate will be 50 percent. It is aimed that the consolidated budget revenues will increase by 99 percent and reach TL 10.8 quadrillion, whereas expenditures will increase by 84 percent and reach TL 14.8 quadrillion. Thus, the consolidated budget deficit is targeted to remain TL 4 quadrillion, and decrease to 8.1 percent of GNP. Public sector borrowing requirement, in this case, will be 8.6 percent of GNP. On the other hand, it is expected that exports will be $29 billion; imports will reach $50 billion, which will led to a $21 billion of trade deficit in 1998.

TÜSİAD estimates for the last quarter of 1997 and 1998 depends on the assumption that ongoing economic policies will remain and no radical policies could be implemented that will affect the macroeconomic variables in 1998. This assumption based on the thought that political instability will continue and prevent the government to implement policies to solve structural problems. Although the government has not faced with serious problems in proposing and implementing new policies until now, being a minority government could probably prevent government to implement radical policies.

The results of a study aimed at computing the values of main macroeconomic variables are depicted in the following table. The aim of the study, which is computed by means of a three-blocked "constrained bayesian vector autoregression" model, is not to make point forecasts. Rather, the aim is to observe the possible quarterly movements of several macroeconomic variables based on their interrelationship under given assumptions.

It can be observed from the table that unless radical measures have been taken, macro imbalances will continue in 1998. It is expected that the growth rate will slow down in the first two quarter, however accelerate later on and annual growth rate will be around 4.8 percent. The results also present that the inflation rate will not decrease as much as expected and will be around 78 percent annually. The budget deficit is estimated to materialize at around TL 4.4 quadrillion, which is more than the government target. It is anticipated that nominal exchange rates will move together with inflation rate, however a 3 percent of a real appreciation of Turkish lira is possible. Nominal dollar is expected to be TL 355,000 at the end of year, and TL 268,700 on the average of the year. Imports and exports are expected to increase to $52.4 billion and to $28.7 billion, respectively. Thus, trade deficit will be $2.7 billion more than the government target.

In conclusion, it is shown that unless implementing a stability program, budget and trade deficits will continue to grow and macro imbalances will remain. The growth performance of 1995-97 period will also continue in 1998, though a deceleration is possible. However, not considering the macro imbalances and trying to continue with the policies that are now in implementation will again put crises on the agenda.

MAIN ECONOMIC INDICATORS*

	Q1	Q2	Q3	Q4	1996 Annual	Q1	Q2	Q3	Q4	1997 Annual	Q1	Q2	Q3	Q4	1998 Annual
GNP (1987 prices, annual % change)	9.5	8.2	5.1	6.9	**7.1**	6.1	7.1	*6.5*	*5.2*	***6.0***	*2.8*	*4.2*	*5.7*	*5.6*	***4.8***
Inflation rate (WPI, annual % change)	64.4	73.3	78.4	84.5	**75.9**	77.8	74.4	83.2	*86.5*	***80.9***	*88.2*	*86.1*	*81.4*	*78.0*	***82.7***
Reserve Money (annual % change)	80.4	73.3	71.1	69.7	**88.4**	83.4	78.6	89.5	*80.8*	***83.1***	*85.7*	*82.2*	*75.2*	*74.9*	***78.6***
Con. Budget Revenues (trillion TL)	422	651	748	916	**2,737**	844	1,291	*1,549*	*1,733*	***5,417***	*1,764*	*2,354*	*2,801*	*3,506*	***10,425***
Con. Budget Expenditures (trillion TL)	496	1,052	1,023	1,383	**3,954**	1,256	1,560	*1,934*	*2,988*	***7,738***	*2,411*	*3,192*	*3,612*	*5,616*	***14,831***
Con. Budget Deficit (trillion TL)	-74	-401	-275	-467	**-1,217**	-412	-269	*-385*	*-1,255*	***-2,321***	*-647*	*-838*	*-811*	*-2,110*	***-4,406***
Con. Budget Deficit (billion $)	-1.2	-5.3	-3.2	-4.7	**-14.3**	-3.5	-2.0	*-2.4*	*-5.5*	***-13.3***	*-3.0*	*-3.4*	*-2.8*	*-6.5*	***-15.7***
Nominal Exchange Rate (TL/$)	64,278	76,230	85,575	99,147	**81,308**	118,774	137,187	*162,237*	*187,532*	***151,338***	*214,005*	*248,889*	*286,364*	*325,558*	***268,704***
Real Exchange Rate (WPI/$)	0.405	0.407	0.400	0.399	**0.403**	0.389	0.395	*0.386*	*0.393*	***0.391***	*0.407*	*0.405*	*0.396*	*0.403*	***0.403***
Real Exchange Rate (annual % change)	4.9	-2.8	-4.9	-1.4	**-1.2**	-3.8	-3.1	*-3.4*	*-1.5*	***-2.9***	*4.5*	*2.6*	*2.7*	*2.7*	***3.1***
Nominal Interest Rate (3 months, compound)	162.0	123.0	128.0	129.8	**135.7**	109.1	128.6	*134.1*	*130.1*	***125.5***	*122.3*	*126.8*	*137.0*	*138.4*	***131.1***
Real Interest Rate (3 months, compound)	59.4	28.7	27.8	24.6	**35.1**	17.6	31.1	*28.1*	*23.3*	***25.0***	*18.8*	*22.9*	*32.1*	*35.5*	***27.3***
Imports (billion $)	9.4	10.6	10.5	11.9	**42.5**	10.0	11.1	*11.4*	*13.0*	***45.5***	*11.3*	*13.1*	*13.1*	*14.9*	***52.4***
Exports (billion $)	5.5	5.2	5.5	6.6	**22.8**	5.9	5.8	*6.2*	*7.9*	***25.8***	*6.7*	*6.8*	*6.8*	*8.7*	***28.7***
Trade Deficit (billion $)	-3.9	-5.4	-5.0	-5.3	**-19.7**	-4.1	-5.2	*-5.2*	*-5.1*	***-19.7***	*-4.6*	*-6.7*	*-6.3*	*-6.2*	***-23.7***

Italic numbers are TÜSİAD estimates

**Based on the assumption that no radical change in government policies will take place.*