



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

TÜSİAD

Quarterly Economic Survey

NO: 16

April 1998



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İstanbul, April 1998

(TÜSİAD-T/98-6-231)

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ISSN: 1300-3860

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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 16th issue of TÜSİAD Quarterly Economic Survey was prepared by utilising the most recent data and estimations available as of March 1998 by Economic Research Department.

June 98

explaining the increase in growth for 1997. When the recently published nine-month data for 1997 are analysed, it can be observed that the increase in the private sector's consumption and investment expenditures for the period January-September was around 9 percent. For the same period, the durable consumption goods expenditures, which had approximately a 10 percent share in the total domestic expenditure and were the most determinant domestic demand indicator, increased by 35 percent. On the other hand, there was a clear contraction in the demand for the food and housing sectors.

These increases in the private sector investment expenditures were observed to reach 9.6 percent. In spite of a decrease in housing construction expenditures and only a small increase in other kinds of constructions, the high increase rate in machinery and equipment investments was the factor explaining the high magnitude of total investments.

Along with the expansion of the domestic demand, private sector industrial production increased by 10.4 percent in 1997.

Despite the fact that the rise in the value added of the manufacturing and commercial sectors, which had the highest share in the GNP, was more than 10 percent, the total growth rate remained around 8 percent due to a 2 percent reduction in the agricultural sector.

The production in the manufacturing industry did not oscillate between the quarters in 1997, and was the engine of the growth with an average increase reaching 11.4 percent. The commercial sector progressing in a similar way exhibited an 11.2 percent rise. On the other hand, stagnation was observed in the public services, the housing market and foremost the agricultural sector.

The 1998 annual programme estimated that the growth rate in 1998 would drop to 3 percent as a result of the stabilisation measures that would be carried out. However, the first quarter of 1998 demonstrates that the slowdown will not be as great as anticipated.

The monthly industrial production index for the first three months of 1998 demonstrated that the increase in production was high. The increases in pro-

duction for January, February and March were at 4, 15.1 and 6 percent levels, respectively. The low rate of increase in January and the high rate in February was due to religious Bayram, which took place in 1997 in February and in 1998 in January. Therefore, the number of working days in the first month of 1998 was less compared to that of the last year; and, for the same reason, the number of working days in February was greater compared to that of the last year. Generally speaking, the first three-month production growth figures indicated that, on the average, the yearly production growth rate was around 8 percent for the first quarter. In this period, the mining and energy sectors, together with food, paper and metal commodities from the manufacturing sector, achieved the highest growth rates, whereas the textile and chemicals sectors experienced negative growth rates.

Expectations for the second quarter of the year, based on the surveys conducted, are that the production growth will continue more slowly. The positive economic developments that occurred in April support the positive expectations that are rising in the markets (the increase in new orders and the rise in the production volume).

When the first quarter of the year is examined in general terms, the production increase in the manufacturing sector appears to be continuing, not as high as the 1997 rate of 10 percent, but nevertheless at around 7 percent. Under the assumption that there will be no yield loss in agriculture, the first quarter growth rate is estimated to attain 6 percent.

The inflation rate is moving gradually down from January's peak point.

The public sector price adjustments and a high increase in agricultural prices that occurred in the second half of 1997 caused in January 1998 the wholesale prices to increase by 92.5 percent and the consumer prices by 101.6 percent. In the subsequent months the inflation rate gradually moved down, exhibiting the figures of 83.3 percent for the wholesale prices and 93.6 percent for the consumer prices as of April 1998.

On the basis of the first four-month price dynamics in 1998, it can be

observed that the increase in agricultural prices reached 37.8 percent, aggravating the increase in the wholesale prices. The rate of price increases in agricultural products during this four-month period is higher than that of manufacturing goods. The price ratio of agricultural goods to manufacturing goods increased from its level of 1.28 at the end of 1997 to 1.54 at the end of April 1998. The same ratio was 1.47 in April 1997. When the price ratio of agricultural goods to private manufacturing goods is examined, it can be realised that since March 1985 the highest value in favour of agricultural goods occurred in April 1998. As a result, it can be said that domestic terms of trade is turning in favour of the agricultural sector.

The public sector prices increased at a very low rate, partly because of a decrease in oil prices. In the first four months, the total increase in the public sector prices was 6.2 percent.

Compared to 1997, the monthly price increases of the private manufacturing industry, which are relatively less affected from temporary price fluctuations, experienced a decline. The monthly average price increase in private manufacturing was 5.2 percent in 1997, whereas in the first four months of 1998 this has been observed as 4.2 percent.

In the second quarter of this year, a decrease in the inflation rate is expected as a result of seasonal movements. After the public sector price adjustments that had taken place in July 1997, a further decrease in the annual inflation rate is expected.

An increase in tax revenues, a decrease in the nominal and real interest rates and the speeding up of the privatisation process may further reduce inflationary expectations. However, it is not possible to refer to an important success in the reduction of the inflation rate, due to the fact that the inflation rate, although going down in the last three months, is still higher than the average of 1997. The buoyancy of domestic demand, and the fact that no policy implementation has been taken towards its curtailment, will make it harder to reduce the inflation rate under 70 percent by the end of 1998. It is estimated that the average inflation rate will move down to 81 percent in the second quarter of 1998. In the second half of the year a gradual decrease is expected that will further reduce the inflation rate approximately to 75 percent by the end of the year.

In the first three months of 1998 the monetary programme goals were achieved.

The most important mechanism of reducing the negative impact of the existing instabilities on the economy to a minimum has been to decrease fluctuations and uncertainties in the markets. In accordance with the 1998 programme, the budget, borrowing and monetary programmes were prepared. For the first quarter of the year, the goals of the monetary programme were set to accommodate the developments in economic activities rather than restraining or expanding them.

The Central Bank policy of preventing the price fluctuations occurring in both the foreign exchange and TL markets, coupled with the anticipation of this policy by the market institutions, have been reducing uncertainties to an important degree. The stability of the Central Bank's policies has continued; the announced goal of 18-20 percent expansion of money reserves was achieved in the first three months of 1998 as a result of careful implementation of the budget and borrowing programmes that were prepared in accordance with each other.

In the first four months of 1998 the Central Bank carried out its monetary policy that gives priority to ensuring the stability in the financial markets. In this frame, the creation of money was only carried out in return for an increase in foreign currency assets.

The implementation of the monetary policy was facilitated by the liquidation of the short-term advances.

That the short-term debts of the Central Bank to the Treasury fell to zero was, without any doubt, the most important development of the monetary policy in 1998. An analysis of the analytical balance sheet of the Central Bank demonstrates that in the first four months of 1998 the most remarkable point is the change in the structure of its assets. The proportion of foreign assets to total assets increased as opposed to a decrease in the share of domestic assets. The 'revaluation' account, that exists as a result of the changes in the

exchange rates, and the increases in other items including the profit of the Central Bank, reduced the slowdown that was caused by the reduction in short-term advances.

In the first four months of 1998, the Central Bank's net foreign exchange position rose by \$ 4.6 billions. The increase in the net foreign exchange position is to a great degree a result of the Central Bank's purchase of foreign currencies from the market and a decrease in Dresdner deposits.

The Central Bank announcements indicate that the implementation of the monetary policy should include not only the aim to decrease to a minimum the fluctuations in the markets but also adjusting the exchange rate to the rate of inflation in order not to further aggravate the problems of exportation because of the ongoing Asian crisis and to halt the loosening of the competitive power of Turkish exporters. Since the return from TL-denominated assets was higher than that of foreign currency assets during this time period, the demand for Turkish currency turned out to be higher than that of foreign currencies in the markets. As a result of this, the Central Bank had to purchase foreign currencies from the market so that the monthly change in the foreign exchange basket of \$ 1 and DM 1.5 did not deviate too much from the inflation rate.

As a result of these purchases, there has been an increase in the Turkish currency supplied to the market. The amount of currency in circulation in the first four months of this year rose by 28 percent. This increase is equivalent to a 6 percent real growth rate. In the same period, the real increase in the reserve money was 4.4 percent. In the first four-month period, the liquidity amount that the Central Bank provided via open market operations decreased gradually, and as of the end of April the Central Bank changed its position to become a net creditor from the market. In other words, the currency that was provided to the market as a result of the foreign currency purchases during March and April was pulled back partly from the market through open market operations.

After the achievement of the goals of the three programmes for the first

quarter of the year, the objectives for the second quarter were announced. According to these, the expansion of the reserve money was aimed to be at 14-16 percent. The high level of foreign currency reserves and no usage of the short-term advances increase the Central Bank's control on the reserve money. For this reason, it is estimated that the goals for the second quarter regarding the increase of the money reserve will be achieved.

In the first three months of 1998 the money supplies decreased in real terms.

The M1 money supply expanded nominally in the first three months of 1998 only by 7 percent as a result of a decrease in demand deposits. This proportion turns out to be equal to a reduction of 11 percent in real terms.

Furthermore, the M2 shrank in real terms too, as the increase in time deposits was below the inflation rate.

A 3 percent increase was observed in foreign currency deposits. This increase in foreign currency deposits reaches 23 percent when it is converted to Turkish currency due to the increase in the exchange rates. However, it is presumed that this increase is largely due to the effect of the cross-exchange rates. The M2Y money supply, which is calculated as the sum of M2 and foreign currency deposits, preserved its real level as of the end of 1997.

The increase in the credits opened by deposit banks turned out to be higher than the increase in deposits. As of March 1998, the credits of deposit banks rose by 128 percent. This increase is equivalent to a growth of 25 percent in real terms. Despite the interest rates of agricultural credits went up, a rapid increase in these credits continued. The increase in agricultural credits in the first three months of the year was 120 percent.

The figures on the first quarter of 1998 indicate that the public finance performed better than it was expected.

Among the positive improvements the most important one was the increase in the primary surplus. The budget deficit in the first quarter, TL 961 trillion, remained below the target of TL 1,300 trillion. Compared to the same

period of 1997, the budget revenues rose by 141.7 percent and reached TL 2,041 trillion. The budget expenditures, at the same time, were TL 3,002 trillion with an increase of 137.5 percent. The rapid increase in expenditures was due to an increase in the interest payments of domestic debts. The reason for the rapid increase of the interest payment in 1998 was the implementation of the short-term borrowing policy in the second half of 1997.

Domestic borrowing remained to be the important item in financing the budget deficit.

In the first quarter of 1998 the Treasury acting in accordance with the borrowing programme played an important role in reducing uncertainties in the markets. The foreign debt figure during this period, which amounted to \$ 940 million, is above the target of \$ 850 million.

For the second period, the objective was set to reach TL 2,900 trillion in revenues with an increase of 125 percent and to reach TL 3,900 trillion in expenditures with an increase of 150 percent, with a budget deficit of TL 1,000 trillion. The income revenues include TL 250 trillion to be created from the GSM license transfer. The most rapid increase in expenditures was anticipated to occur from interest payments that will increase 4.5 times. Due to the continuation of the restraint on non-interest expenditures, the primary surplus was estimated to reach TL 900 trillion.

Considering the \$ 940 million foreign debt in the first quarter and the target of \$ 1,300 million foreign debt for the second quarter, it seems likely that the annual foreign debt target of 1,348 million will be exceeded.

It is observed that the difficulties of privatisation have been partly solved. With the addition of \$ 1 billion revenue from the GSM license agreement, the total revenue from privatisation was estimated to reach \$ 12 billion (\$ 9 billion to be collected in 1998). Privatisation not only causes economic efficiency to improve but also creates a revenue which has not been included into the 1998 annual budget programme and which can be used either to finance social investments or to reduce the budget deficit.

Despite the expectations of improvement in the structure of public finance, a decline in the ratio of public sector borrowing requirement to national product is not anticipated.

Although the consolidated budget deficit in 1997 had been estimated as TL 2,625 trillion, it was realised at TL 2,181 trillion (\$ 13 billion). Conversely, the ratio of the budget deficit to the GNP amounted to 7.3 percent, lower than the target figure of 9 percent, due to the fact that the GNP has grown more than anticipated. The budget deficit was financed by domestic borrowing: While the net foreign debt payments amounted to TL 453 trillion, the short-term domestic debts were TL 1,504 trillion, TL 1,020 trillion of which had a maturity of less than a year.

The ratio of the budget deficit to the GNP, privatisation revenues excluded, was estimated to increase to 8.7 percent in 1998. Despite this anticipated increase in the ratio of the budget deficit to the GNP, due to the shift of interest payments from 1997 to 1998, the public finance is expected to have a better structure should the tax and social security reform measures be taken.

After the customs union's short-term negative impacts on the foreign trade balance up to mid-1997, imports and exports turned back to their normal trends.

In spite of the high growth rate of 8 percent in 1997, the increase in imports slowed down to a level of 11.5 percent, whereas the increase in exports was 13 percent. In 1997, imports amounted to \$ 48,657 million and exports to \$ 26,246 million, creating a foreign trade deficit of \$ 22,412 million. These foreign trade numbers conserved their monthly levels of 1997 in January and February 1998. The net revenue from "suitcase trade" declined from its level of \$ 8.8 billion in 1996 to \$ 5.8 billion in 1997.

Although the foreign trade deficit is fixed at around \$ 22.5 billion, the "suitcase trade" and the revenues from other goods and services make the current account deficit remain at around \$ 2.7 billion. Another noteworthy improvement in 1997 was the increase in the long-term capital inflows coupled with a reduction in the short-term capital inflows. Since the 1994 crisis,

the finance of the current account deficit has been provided by the short-term capital inflows and the unregistered capital inflows (net errors and omissions). The net long-term capital inflows rose from \$ 1,6 billion in 1996 to \$ 4.7 billion in 1997. The capital inflows were above the necessary amount to finance the current account deficit; thus a \$ 3.3 billion reserve increase was provided.

The Central Bank reserves, which reached \$ 21.5 billion as of the end of October 1997 and then retreated to \$ 18.7 billion at the end of the year, started to increase again after February 1998, reaching \$ 22.1 billion as of the beginning of April.

Considering the foreign trade and reserve data, one can conclude that in the first quarter of 1998 there was no structural change in the balance of payments and that the foreign trade and current account deficits remained at the 1997 level.

In summary, it is expected that 1998 will be similar to 1997 when the basic macroeconomic variables are considered: the economic growth will keep continuing, however with a gradually slowing rate, and the inflation rate will remain at the 75 percent level at the end of the year. Under these conditions, there have been efforts to reduce the costs of existing instabilities to a minimum by decreasing uncertainties in the markets. With this aim, the budget, borrowing and monetary programmes that were announced to the public have been meticulously carried out. The acceleration of the privatisation process supports these positive improvements. The preliminary condition for the introduction of a medium-term stabilisation programme following the elections would be to continue to implement the existing financial and monetary programmes without any compromise. However, shifting to a short-sighted policy, in the sense of departing from the budget discipline and of using the privatisation revenue as a source of increasing current expenditures, as an investment for the elections that are planned for the first half of 1999, would take the economy back to the unfavourable conditions of mid-1997.

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TABLE 1.1 MAIN ECONOMIC INDICATORS (1997-1998)
PRODUCTION AND PRICES

	1997												1998		
	March												Jan.	Feb.	March
INDUSTRIAL PRODUCTION INDEX (SIS, 1992=100)															
Annual % increase	10.3	6.7	11.0	9.6	12.0	14.3	21.4	13.0	8.6	16.0	4.1	15.6	4.1	15.6	6.0
Monthly % increase	23.0	-7.6	14.4	-1.9	3.6	0.2	9.1	5.8	-4.4	1.6	-19.4	-3.5	-19.4	-3.5	13.4
Monthly % increase (Seasonally Adjusted)	8.4	-4.8	6.6	-0.1	2.7	-0.5	4.0	-2.3	-2.7	3.5	-9.7	12.2	-9.7	12.2	8.4
CAPACITY UTILIZATION RATE (SIS, %)															
	80.8	77.6	82.4	81.0	80.9	82.4	87.2	79.8	84.1	79.0	75.4	77.7	75.4	77.7	80.7
WHOLESALE PRICE INDEX (SIS, 1994=100)															
Annual % increase	77.0	72.8	74.6	75.7	80.7	83.4	85.4	87.5	88.4	91.0	92.5	89.6	92.5	89.6	86.0
Monthly % increase	6.0	5.5	5.2	3.4	5.3	5.3	6.3	6.7	5.6	5.4	6.5	4.6	6.5	4.6	4.0
Monthly % increase (Seasonally Adjusted)	4.4	3.4	6.0	5.6	7.4	7.1	6.5	6.8	6.0	4.8	4.5	3.2	4.5	3.2	2.6
EXCHANGE RATE (\$)															
TL/US\$ Monthly average	124.713	130.725	136.834	144.210	152.350	162.826	170.005	177.442	187.740	199.133	210.818	223.620	210.818	223.620	235.143
Annual % increase	83.3	79.6	78.7	80.6	84.7	92.0	91.1	89.8	91.2	90.2	88.5	87.3	88.5	87.3	88.6
Monthly % increase	4.5	4.8	4.7	5.4	5.6	6.9	4.4	4.4	5.8	6.1	5.9	6.1	5.9	6.1	5.2
INTEREST RATES (Yearly Simple Rate)															
Treasury (Monthly Average)															
3 month	-	-	-	-	-	-	-	-	-	102.8	-	99.3	-	99.3	89.1
6 month	-	-	-	96.3	-	-	111.2	98.7	-	-	103.5	106.3	103.5	106.3	101.9
9 month	-	-	-	-	111.2	-	-	-	-	-	-	-	-	-	-
12 month	-	-	-	-	116.0	136.7	129.1	-	-	-	-	-	-	-	-
Treasury (Monthly Average)*	107.6	115.3	91.2	98.5	116.0	136.7	129.1	-	-	-	-	-	-	-	-
(all maturities)	111.3	122.0	131.3	135.3	123.2	137.9	122.0	129.5	142.0	157.0	130.1	138.0	130.1	138.0	125.3
Average maturity of papers sold															
(days, weighted by sales volume)	397	730	730	579	302	357	275	170	463	414	274	214	274	214	157

(-): not available

(-): no auction

(*): includes bills with irregular terms

TABLO 1.2 MAIN ECONOMIC INDICATORS (1997-1998)
BALANCE OF PAYMENTS

	1997												1998		
	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March		
FOREIGN TRADE															
Value (Current \$ prices)															
Imports (Annual % increase)	3.5	-3.8	13.9	15.0	7.5	20.0	35.8	23.8	13.1	12.0	-14.3	20.4	..		
Exports (Annual % increase)	8.8	11.3	35.0	22.3	12.5	10.1	17.5	13.9	13.4	0.6	2.9	6.2	..		
Price Index (1989=100)															
Imports (Annual % increase)	-7.2	-10.2	-16.0	-6.7	..	..	..	..	..	..	..	..	..
Exports (Annual % increase)	-1.9	-2.3	-1.7	-3.0	..	..	..	..	..	..	..	..	..
Quantity Index (1989=100)															
Imports (Annual % increase)	7.7	7.9	29.9	20.6	..	..	..	..	..	..	..	..	..
Exports (Annual % increase)	2.3	13.2	19.8	16.4	..	..	..	..	..	..	..	..	..
FOREIGN TRADE BALANCE (\$ MILLION)															
Imports (Monthly)	3,837	3,504	4,319	3,899	4,134	4,160	4,381	4,369	4,350	4,992	3,097	3,732	..		
Exports (Monthly)	2,176	2,026	2,191	2,132	2,150	2,134	2,224	2,390	2,523	2,409	2,099	1,966	..		
Foreign Trade Balance (Monthly)	1,660	1,477	2,128	1,767	1,984	2,026	2,157	1,979	1,827	2,583	998	1,766	..		
(Cumulative for the last 12 months)															
Imports	43,740	43,602	44,129	44,639	44,926	45,620	46,776	47,617	48,121	48,657	48,141	48,773	..		
Exports	23,714	23,920	24,488	24,876	25,115	25,310	25,641	25,933	26,230	26,246	26,306	26,421	..		
Foreign Trade Balance	20,026	19,682	19,641	19,763	19,811	20,309	21,134	21,684	21,891	22,412	21,835	22,352	..		
BALANCE OF PAYMENTS (\$ MILLION)															
Current Account Balance (Monthly)	-428	-354	-578	-125	16	392	509	14	-552	-809	..	..	..
Current Account Balance	-2,548	-2,489	-2,401	-2,509	-2,124	-2,189	-2,341	-2,764	-2,752	-2,752	..	..	..
(Cumulative for the last 12 months)															
Capital Account and Reserve Movements															
Net Foreign Direct Investment	527	535	530	563	541	550	539	506	473	554	..	..	..
Portfolio Investment	663	-399	-33	82	479	696	1244	2430	1,907	1,634	..	..	..
Net Long-Term Capital	2,675	2,982	3,231	3,547	4,226	4,217	4,186	4,469	4,306	4,587	..	..	..
Net Short-Term Capital	4,142	3,840	4,727	4,373	4,600	4,439	3,832	3,669	2,859	1,761	..	..	..
Net Errors and Omissions	-2,703	-3,573	-4,456	-4,821	-5,070	-4,668	-3,457	-3,844	-3,796	-2,522	..	..	..
Reserve Changes*	-2,756	-896	-1,598	-1,235	-2,655	-3,128	-4,086	-4,549	-3,080	-3,344	..	..	..

(*): Positive numbers indicate decrease in reserves
(..) Not available

TABLE 1.3 MAIN ECONOMIC INDICATORS (1997-1998)

CONSOLIDATED BUDGET

	1997	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March
CONSOLIDATED BUDGET													
Revenues	274,849	413,047	487,854	389,935	498,646	543,035	507,393	652,529	645,780	871,861	595,472	748,843	696,685
Expenditures	452,095	391,429	619,193	550,143	491,116	581,797	562,823	478,460	629,760	2,474,426	912,604	968,619	1,120,777
Primary Balance (Current price)	-1,838	60,308	82,644	9,674	27,018	103,077	71,382	216,230	188,940	-784,394	57,391	302,046	154,563
Budget Balance (Current price)	-177,246	21,618	-131,339	-160,208	7,530	-38,762	-55,430	174,069	16,020	-1,602,565	-317,132	-219,776	-424,092
Budget Balance (At 1994 price)	-36,121	4,174	-24,108	-28,436	1,270	-6,206	-8,352	24,586	2,143	-203,449	-37,794	-25,040	-46,466
Budget Balance (Cur. price, billion \$)	-1,420	0.165	-0.959	-1.112	0.049	-0.237	-0.326	0.980	0.085	-8.175	-1.504	-0.983	-1.804
Financing	176,487	54,666	61,776	187,546	206,094	25,184	146,877	160,372	29,327	820,266	316,561	327,190	-
Foreign Borrowing (Net)	-43,739	-66,644	-25,561	17,810	-75,505	-22,945	-43,857	-105,533	-36,728	-25,027	-107,003	131,939	-
Domestic Borrowing (Net)	437,384	295,741	125,184	281,331	-40,416	-24,241	79,369	-174,284	65,306	98,714	-97,587	-154,325	-
Short-Term Borrowing	-229,728	-112,057	-193,467	-115,544	335,273	349,548	136,352	504,026	97,712	213,615	390,961	472,835	-
Central Bank (Net)	48,638	32	-26,939	9,915	-83,102	0	0	0	0	0	0	0	-
Treasury Bills (Net)	-278,366	-112,089	-166,528	-125,459	418,375	349,548	136,352	504,026	97,712	213,615	390,961	472,835	-
Other	0	0	50,949	-13,257	-277,179	-24,987	-63,836	-96,964	532,966	130,189	-123,259	-	-
Cumulative for the last 12 months													
Revenues	3,159,752	3,403,265	3,616,392	3,799,313	4,023,036	4,334,568	4,600,256	4,969,483	5,326,361	5,854,331	6,153,782	6,629,244	7,051,080
Expenditures	4,715,053	4,972,511	4,977,602	5,223,321	5,350,683	5,605,186	5,835,832	6,088,226	6,377,648	8,035,178	8,535,735	9,112,465	9,781,147
Primary Balance (Current price)	341,344	362,633	347,104	330,214	301,667	407,606	481,610	611,975	719,684	97,070	79,812	332,478	488,879
Budget Balance (Current price)	-1,555,301	-1,569,246	-1,361,210	-1,424,008	-1,327,647	-1,270,618	-1,235,576	-1,118,743	-1,051,287	-2,180,847	-2,381,953	-2,483,221	-2,730,067
Budget Balance (At 1994 price)	-408,539	-416,231	-331,600	-329,652	-301,317	-279,398	-262,478	-253,050	-237,948	-326,729	-337,899	-337,333	-347,677
Budget Balance (Cur. price, billion \$)	-16,256	-16,582	-13,116	-13,004	-11,885	-10,993	-10,301	-9,932	-9,325	-12,977	-13,447	-13,436	-13,820
Financing	1,420,710	1,338,965	1,403,504	1,517,370	1,657,426	1,559,882	1,590,950	1,645,025	1,600,535	2,160,625	2,332,704	2,512,346	-
Foreign Borrowing (Net)	-147,599	-213,226	-250,912	-251,383	-319,422	-310,451	-330,287	-426,801	-433,745	-452,584	-526,534	-402,793	-
Domestic Borrowing (Net)	1,135,657	1,493,990	1,634,751	1,915,612	1,890,227	1,898,120	1,978,724	1,648,299	1,636,151	1,484,844	1,049,756	892,176	-
Short-Term Borrowing	317,087	7,955	-164,369	-332,835	-146,042	73,932	76,641	589,494	750,875	1,020,674	1,540,457	1,849,526	-
Central Bank (Net)	260,264	272,409	297,218	313,328	131,287	129,417	202,475	206,307	154,853	0	-50,197	-51,456	-
Treasury Bills (Net)	56,823	-264,454	-461,587	-646,163	-277,329	-55,485	-125,834	383,187	596,022	1,020,674	1,590,654	1,900,982	-
Other	161,810	158,866	137,032	185,973	212,661	-101,721	-134,129	-165,968	-352,748	107,692	237,881	114,622	-

TABLE 1.4 MAIN ECONOMIC INDICATORS (1997-1998)

MONEY SUPPLY

	1997	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1998	Jan.	Feb.	March
Money Supply (Annual percentage changes)															
M1															
Currency in circulation	136.8	108.7	125.5	112.8	110.3	82.5	86.8	110.5	70.0	65.8	98.7	63.5	47.6		
Currency+coins	89.8	54.9	90.3	90.6	99.0	74.1	88.0	78.9	91.5	80.8	150.1	80.1	92.2		
Cash in vault (-)	82.6	60.8	94.9	86.3	102.0	83.4	88.9	93.1	94.8	81.7	134.4	81.8	90.3		
Commercial sight deposits	47.6	113.5	124.7	60.3	130.8	168.7	96.9	227.4	114.3	89.4	67.7	90.9	74.9		
Saving sight deposits	239.5	251.9	193.5	158.7	134.3	91.9	88.1	114.5	25.9	19.9	15.8	9.7	-8.3		
Other time deposits	92.3	81.1	100.3	72.1	104.8	84.9	79.3	104.9	83.0	76.3	114.3	65.3	49.5		
Central Bank deposits	139.8	140.0	169.0	155.3	125.4	109.5	90.5	406.6	135.6	219.8	182.0	185.1	133.0		
	41.9	94.0	-23.1	2426.5	0.9	52.1	26.4	47.1	25.2	59.0	195.8	83.0	102.3		
M2															
Commercial time deposits	125.2	109.5	112.2	106.4	113.3	97.9	99.0	107.6	93.8	87.9	102.6	88.4	85.2		
Saving time deposits	47.5	21.4	31.7	27.0	72.6	63.1	70.8	106.4	211.9	234.8	299.4	284.2	206.1		
Other time deposits	125.1	115.5	110.7	108.1	116.9	103.8	101.9	102.4	91.6	84.3	88.5	84.3	88.1		
Certificates of deposits	139.0	127.2	127.6	123.9	125.8	130.1	133.9	134.3	138.3	132.4	139.1	133.8	135.6		
	-28.8	-55.5	-66.7	-78.6	-72.3	-92.5	-95.1	-95.8	-96.6	-98.3	-99.8	-99.9	-99.9		
M2Y															
Foreign exchange deposits (TL)	117.0	109.5	112.4	109.6	110.5	104.6	103.6	109.5	101.1	96.7	107.4	102.8	101.8		
Foreign exchange deposits (\$)	109.2	109.5	112.6	112.8	107.8	111.7	108.4	111.2	108.5	105.8	112.4	117.8	118.8		
TL/USD Buying rate	16.8	16.8	18.5	18.1	9.5	9.6	9.9	11.2	9.2	8.3	14.4	15.8	15.6		
	79.0	79.5	79.5	80.1	89.7	93.1	89.6	90.0	91.0	90.0	85.7	88.0	89.3		
M3Y															
Foreign exchange deposits (TL)	115.9	109.9	110.3	110.7	114.1	112.8	110.7	115.3	110.7	104.0	108.1	104.5	106.2		
	122.4	110.3	108.2	108.8	119.9	113.8	112.7	119.0	112.7	102.3	104.3	92.6	94.8		
	109.2	109.5	112.6	112.8	107.8	111.7	108.4	111.2	108.5	105.8	112.4	117.8	118.8		
Credit Stock															
Central Bank Direct Credits	114.6	120.2	148.5	142.2	133.9	138.2	142.1	138.0	128.6	113.5	114.7	113.4	101.0		
Deposit Bank Credits	81.8	74.1	179.1	187.1	41.6	44.6	83.1	100.7	58.0	-4.3	-18.7	-17.0	-99.6		
Invest. and Develop Bank Credits	120.0	127.6	147.8	140.2	147.0	151.0	149.3	142.5	137.2	130.0	135.4	130.9	129.2		
	116.0	112.2	120.1	119.6	112.7	111.4	111.4	109.5	87.4	90.1	73.0	91.0	90.1		

TABLE 2 GROSS DOMESTIC PRODUCT

	Growth Rate			% Share			Annual Growth Rate (%)											
	1995	1996	1997	1995	1996	1997	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.	7.6	9.3	..	69.0	68.8	..	-4.6	12.2	13.0	8.4	13.2	9.9	3.1	5.4	7.7	8.7	8.0	..
Food-Beverages	7.4	4.6	..	26.6	26.0	..	-0.5	10.4	10.6	7.1	17.0	7.4	1.7	-0.9	-1.4	2.0	-1.8	..
Durable Goods	20.0	35.6	..	8.4	8.9	..	-18.9	39.8	50.8	30.6	13.5	35.6	14.6	2.9	27.0	33.3	42.0	..
Semi-Durables&Non-Durable Goods	11.6	11.1	..	11.0	11.4	..	-11.0	18.5	25.6	16.8	14.9	13.8	0.4	14.9	18.4	4.5	13.0	..
Energy-Transportation-Communication Services	1.7	5.3	..	10.3	10.0	..	0.9	5.6	2.7	-1.9	12.00	2.5	-1.6	6.1	3.2	4.2	2.1	..
Ownership of Dwelling	2.7	9.4	..	6.8	6.9	..	-2.9	7.6	3.9	-3.3	8.2	4.4	7.4	17.9	9.2	21.0	15.0	..
Government Final Consumption Exp.	2.1	2.4	..	5.9	5.6	..	2.2	2.0	2.0	2.2	2.4	2.5	2.5	2.4	2.3	2.3	2.3	..
Compensation of Employees	6.7	8.6	..	7.6	7.7	..	7.1	9.6	2.3	7.8	1.4	7.7	15.6	8.4	-3.9	0.6	5.9	..
Purchases of Good & Services	2.5	-0.3	..	4.6	4.3	..	2.7	2.9	2.7	1.8	-0.4	0.0	-0.3	-0.4	0.0	-0.2	0.2	..
Gross Fixed Capital Formation	13.7	22.2	..	3.0	3.4	..	22.2	25.5	1.5	13.7	6.9	22.6	41.9	16.1	-14.5	1.9	12.5	..
Public Sector	8.3	13.5	..	26.7	29.0	..	-15.1	14.2	11.1	22.1	21.7	17.4	22.2	8.5	8.9	16.2	12.9	..
Machinery & Equipment	-16.9	24.4	..	4.2	5.1	..	-37.5	-1.4	-15.2	-17.3	-9.3	33.0	37.2	38.8	39.1	20.3	28.8	..
Building Construction	3.2	12.0	..	1.1	1.4	..	-21.8	4.7	3.5	17.4	-35.9	69.6	22.1	47.3	79.1	-8.4	88.1	..
Other Construction	4.2	30.2	..	1.0	1.2	..	-7.7	34.6	1.6	-2.2	4.6	27.2	38.5	24.0	-22.4	46.5	12.3	..
Private Sector	-30.5	29.3	..	2.1	2.6	..	-53.8	-12.8	-26.1	-34.1	3.7	19.4	43.4	41.7	56.2	26.8	13.3	..
Machinery & Equipment	14.9	11.4	..	22.5	23.9	..	-11.4	17.4	18.1	38.8	25.3	14.7	19.3	0.8	6.3	15.4	9.3	..
Building Construction	28.1	24.4	..	11.9	13.6	..	-23.8	33.3	45.1	73.8	49.2	25.9	40.7	-2.5	12.1	27.2	19.0	..
Change in Stocks	3.0	-0.5	..	10.6	10.2	..	4.5	4.1	3.4	-0.6	-82.0	-81.6	-81.4	-81.0	6.5	6.5	6.5	..
Exports of Goods&Services	-	-	..	1.4	-1.2	..	-	-	-	-	-	-	-	-	-	-	-	..
Imports of Goods&Services	6.7	21.7	..	22.1	25.2	..	19.9	12.2	2.3	-1.8	21.8	17.9	26.7	24.9	11.2	26.6	22.8	..
Gross Domestic Product (Exp.)	30.0	19.0	..	-26.8	-29.5	..	-2.6	37.7	41.4	48.0	30.6	30.1	21.6	-1.1	16.9	23.7	24.6	..
Statistical Discrepancy	7.5	7.3	..	100.0	100.0	..	-0.8	14.3	9.0	7.0	10.8	7.9	5.1	8.3	6.4	8.3	7.8	..
Gross Domestic Product (Prod.)	-	-	..	-0.6	-	..	-	-	-	-	-	-	-	-	-	-	-	..
Gross Domestic Product (Prod.)	7.3	7.0	..	-	-	..	-1.5	13.5	9.6	6.4	8.7	8.1	4.7	7.2	7.3	8.3	6.9	..

(..) Not available

TABLE 3 TÜSIAD ESTIMATES (GNP, INFLATION)

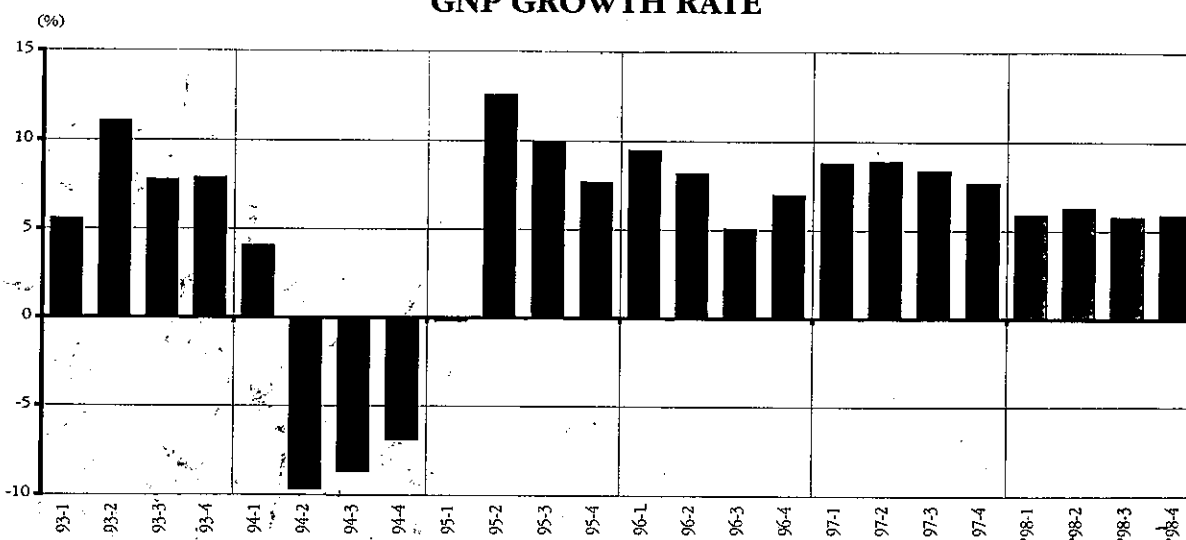
	96-1	96-2	96-3	96-4	96	97-1	97-2	97-3	97-4	97	98-1	98-2	98-3	98-4	98
	Realization					Realization					Estimate				
(25 Jan. 1998)															
Growth Rate	9.5	8.2	5.1	6.9	7.1	6.1*	7.1*	6.5	5.2	6.0	2.8	4.2	5.7	5.6	4.8
Inflation	64.4	73.3	78.4	84.5	75.9	77.8	74.4	83.2	86.5	80.9	88.2	86.1	81.4	78.0	82.7
	Realization					Realization					Estimate				
(25 April 1998)															
Growth	9.5	8.2	5.1	7.2	7.2	6.8*	8.8*	8.4*	7.7*	8.0	5.9	6.3	5.8	5.9	6.0
Inflation	64.4	73.3	78.4	84.5	75.9	77.8	74.4	83.2	89.1	81.4	89.2**	81.0	82.1	77.1	81.7

(*) SIS revision

(**) Realization

GNP GROWTH RATE

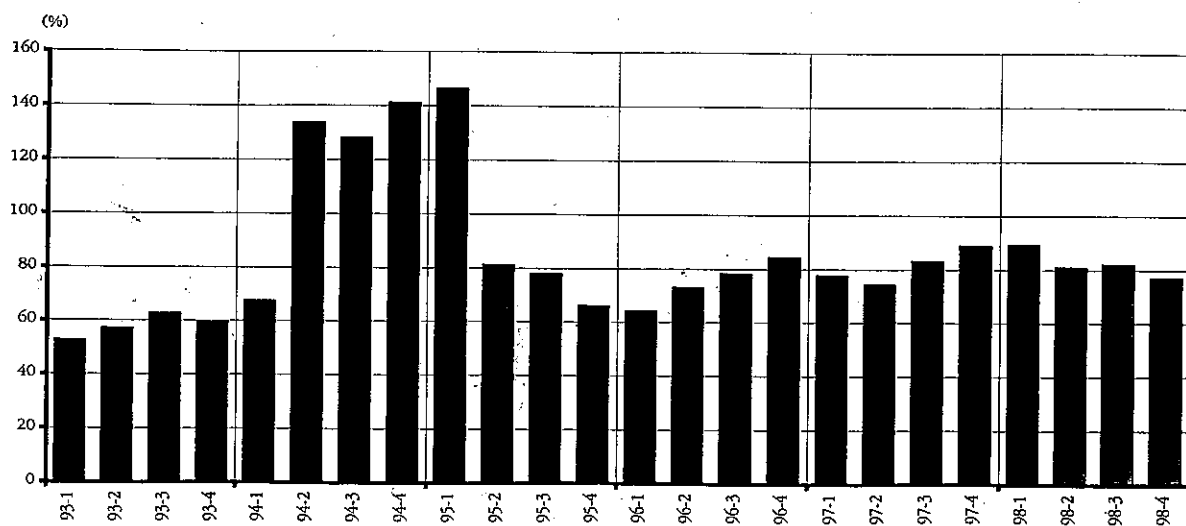
GRAPH 1



* Estimate

WHOLESALE PRICE INDEX

GRAPH 2



* Estimate

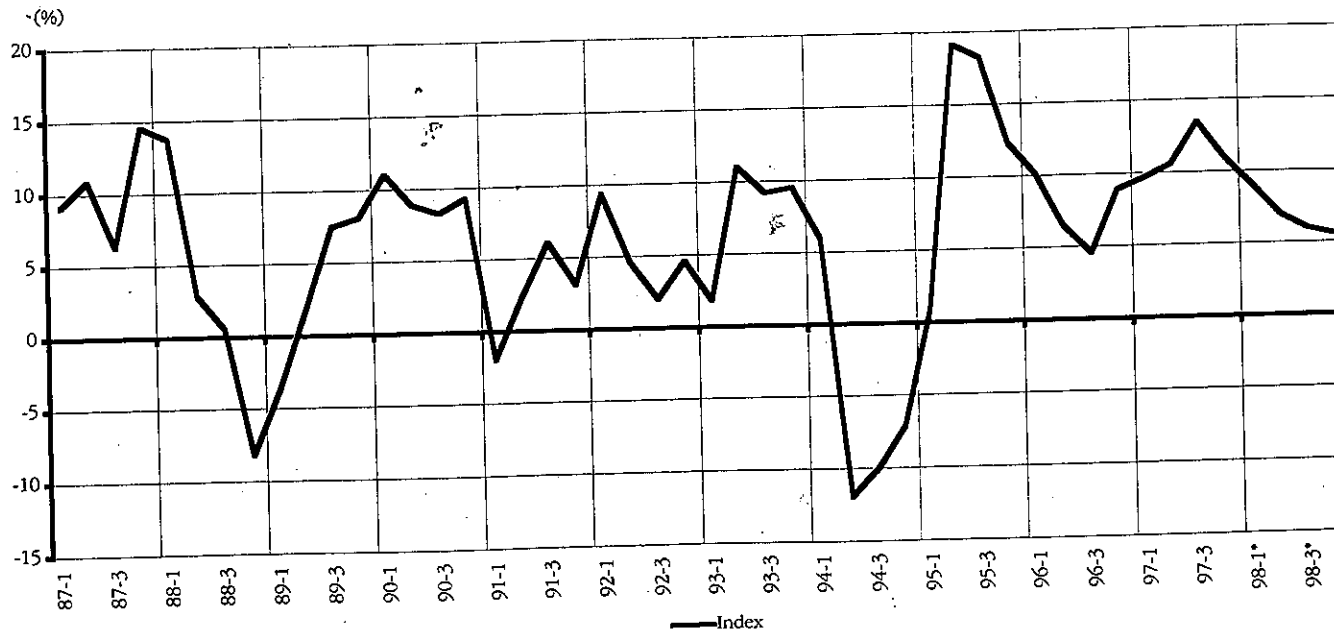
TABLE 4 INDUSTRIAL PRODUCTION INDEX

	95-1	95-2	95-3	95-4	1995	96-1	96-2	96-3	96-4	1996	97-1	97-2	97-3	97-4	1997	98-1*	98-2*	98-3*	98-4*	1998*
(Level)																				
Index	101.3	110.9	119.6	125.4	114.3	111.5	118.7	125.1	136.3	122.9	122.2	131.6	142.1	150.9	136.7	133.2	141.1	150.6	159.2	146.0
Seasonally																				
Adjusted Index	108.3	114.9	117.2	116.4	114.2	119.3	122.4	122.6	126.8	122.8	130.9	135.4	139.2	140.7	136.6	142.7	144.9	147.6	148.6	146.0
Cycle	108.8	114.3	116.8	117.2	114.3	119.2	121.5	123.4	126.5	122.6	131.0	135.4	138.8	140.9	136.5	142.7	145.1	147.4	148.5	145.9
(Annual Percentage Increase)																				
Index	0.9	19.8	18.1	12.2	12.7	10.1	7.0	4.6	8.7	7.6	9.6	10.9	13.6	10.7	11.2	9.0	7.2	6.0	5.5	6.9
Seasonally																				
Adjusted Index	1.0	19.2	18.3	12.4	12.7	10.2	6.5	4.6	8.9	7.6	9.7	10.6	13.5	11.0	11.2	9.0	7.0	6.0	5.6	6.9
Cycle	2.1	13.7	17.5	13.6	11.7	9.6	6.3	5.6	8.0	7.4	9.9	11.4	12.5	11.4	11.3	8.9	7.1	6.2	5.4	6.9

* Estimate

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

GRAPH

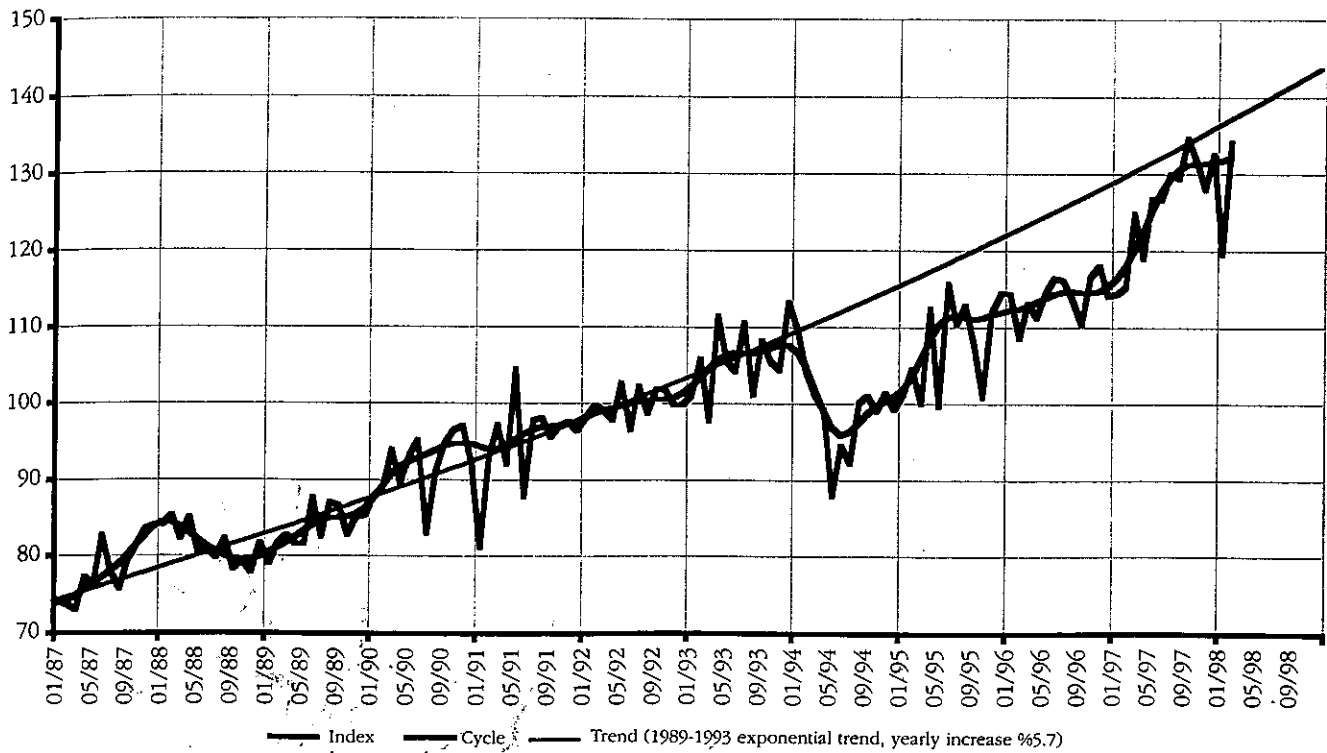


* The figures for the 1998 are TÜSIAD estimates

SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX (Level)

GRAPH 4

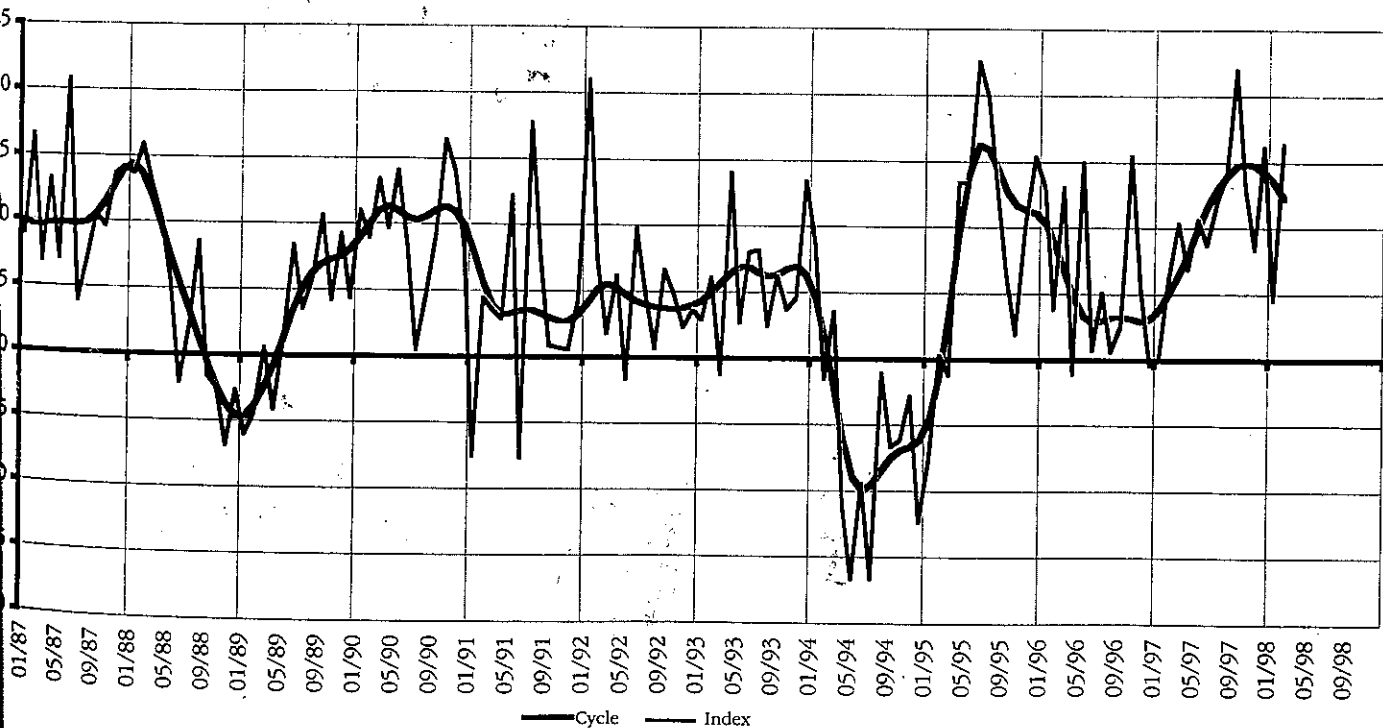
(1992=100)



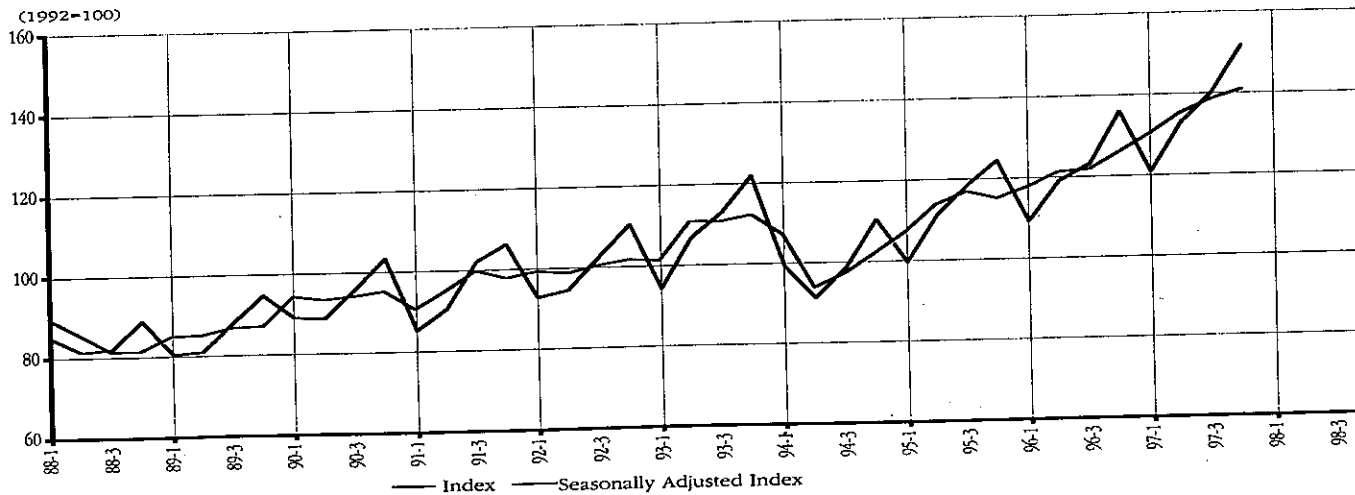
SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX (Annual Percentage Increase)

GRAPH 5

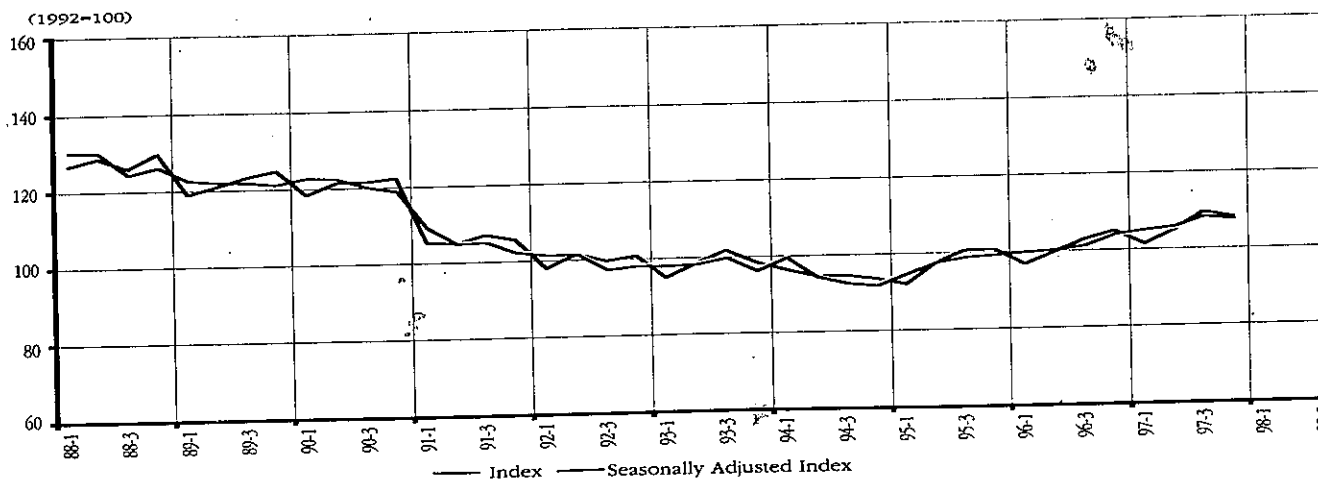
(%)



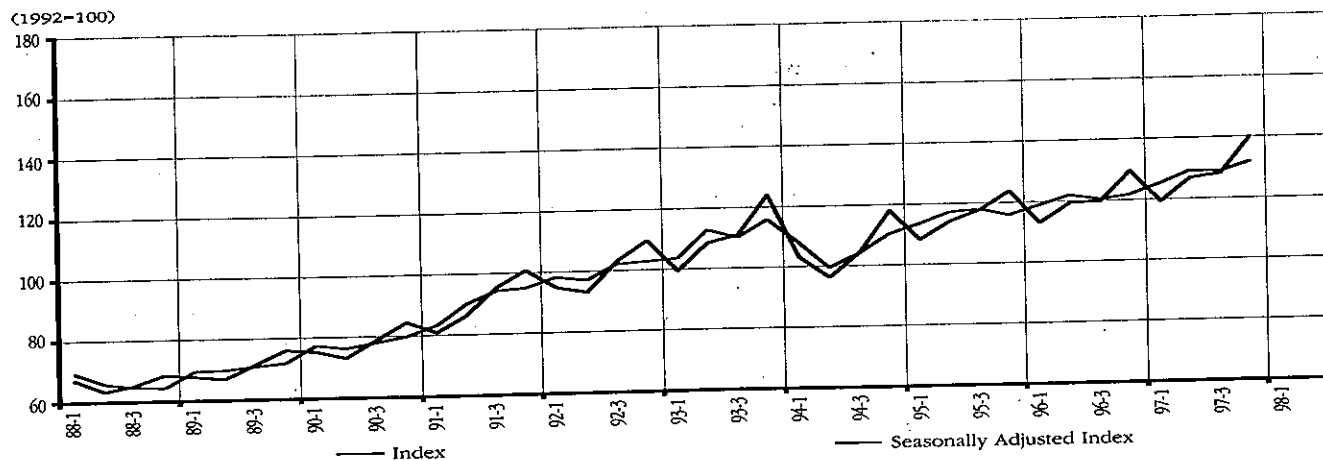
MANUFACTURING INDUSTRY QUARTERLY PRODUCTION INDEX GRAP



INDEX OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRY GRAI

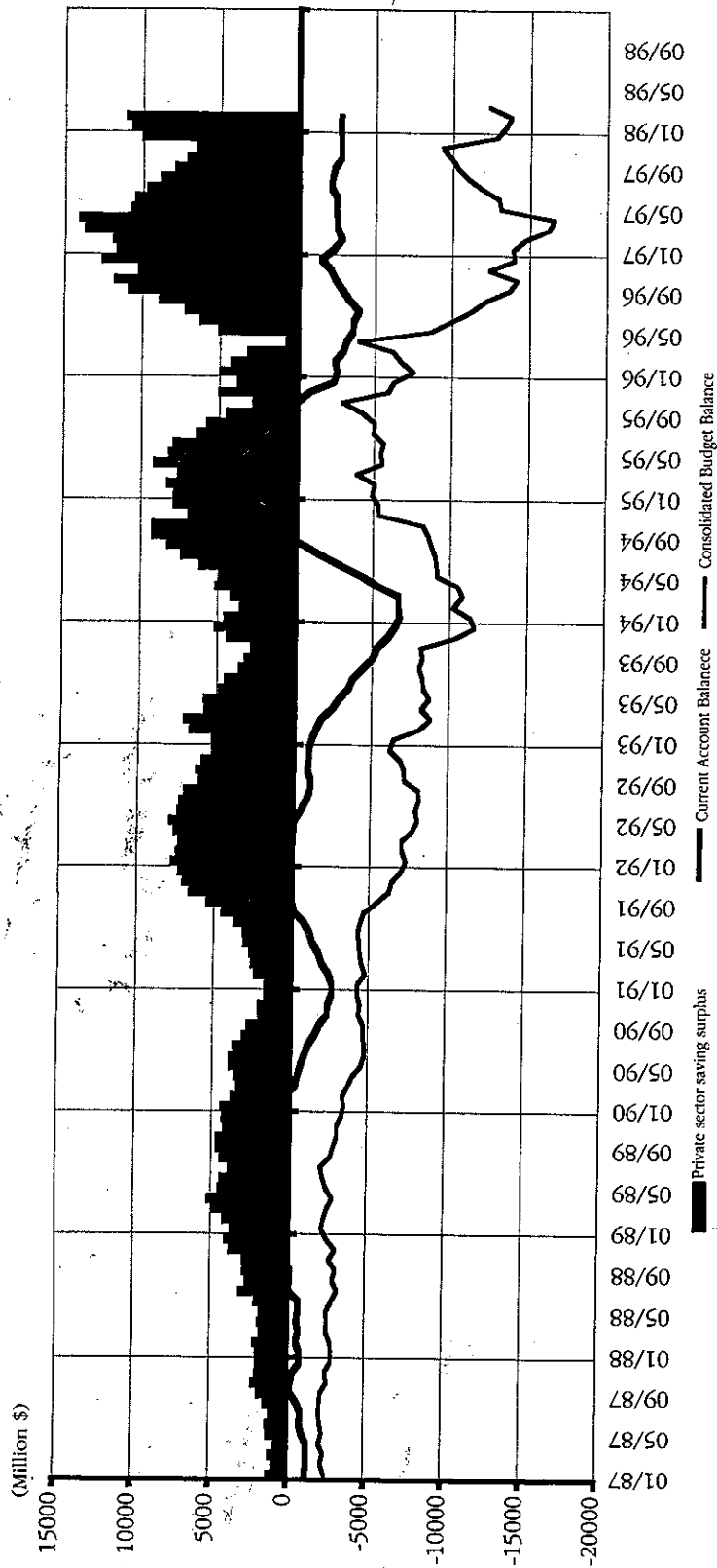


MANUFACTURING INDUSTRY PRODUCTIVITY INDEX GRAI



GRAPH 9

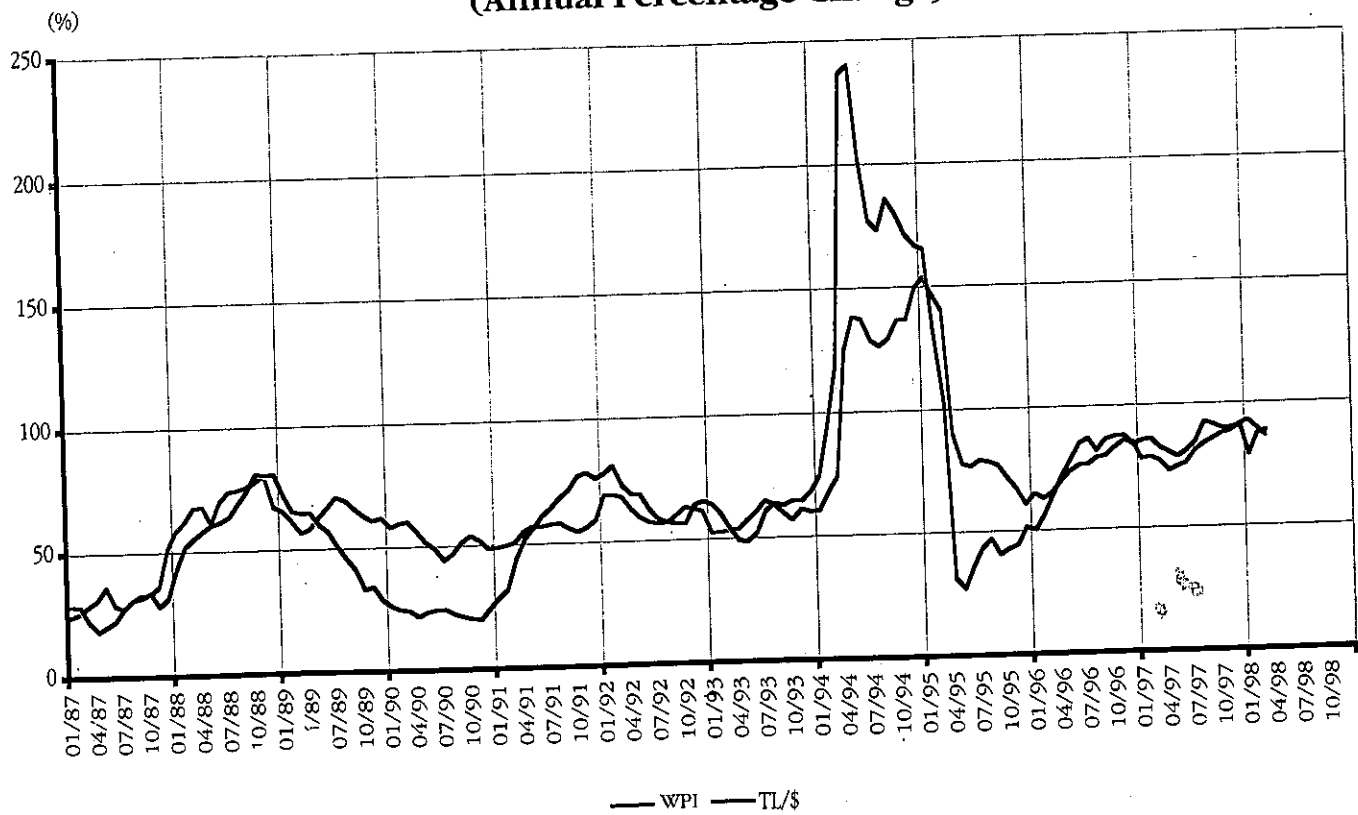
SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)



(*) 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 savings surplus figures are calculated as the sum of budget deficit and current account balance. The figures for current account for January-February 1998 are TUSIAD estimates. Suitcase trade is included in current account balance figures after December 1996.

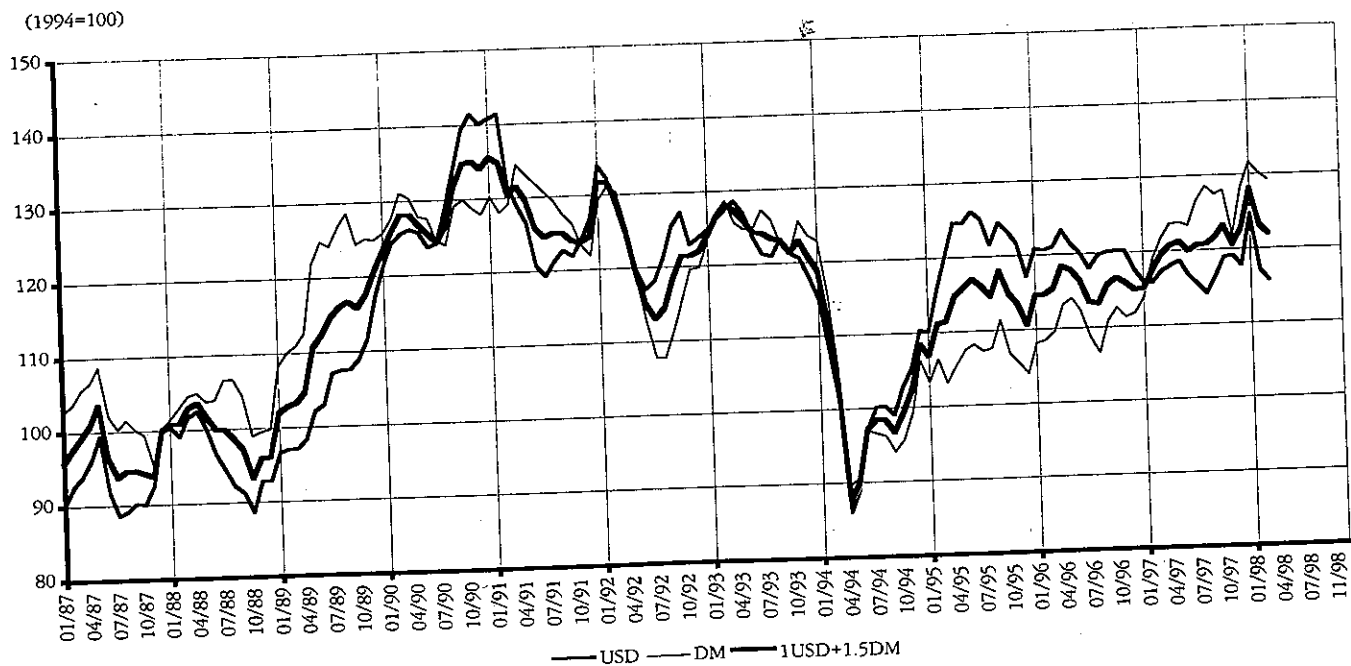
WHOLESALE PRICE INDEX AND MONTHLY AVERAGE US DOLLAR EXCHANGE RATE (Annual Percentage Change)

GRAPH



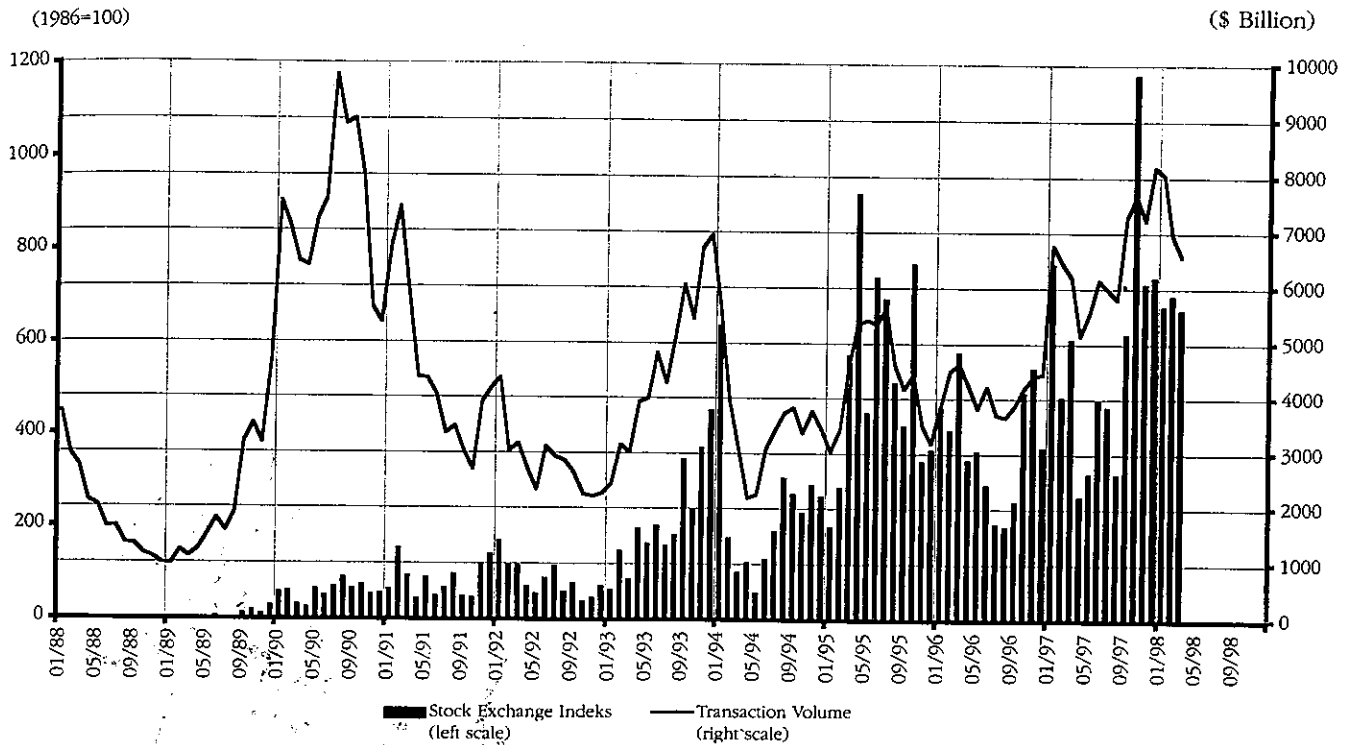
REAL EXCHANGE RATE INDEX

GRAPH



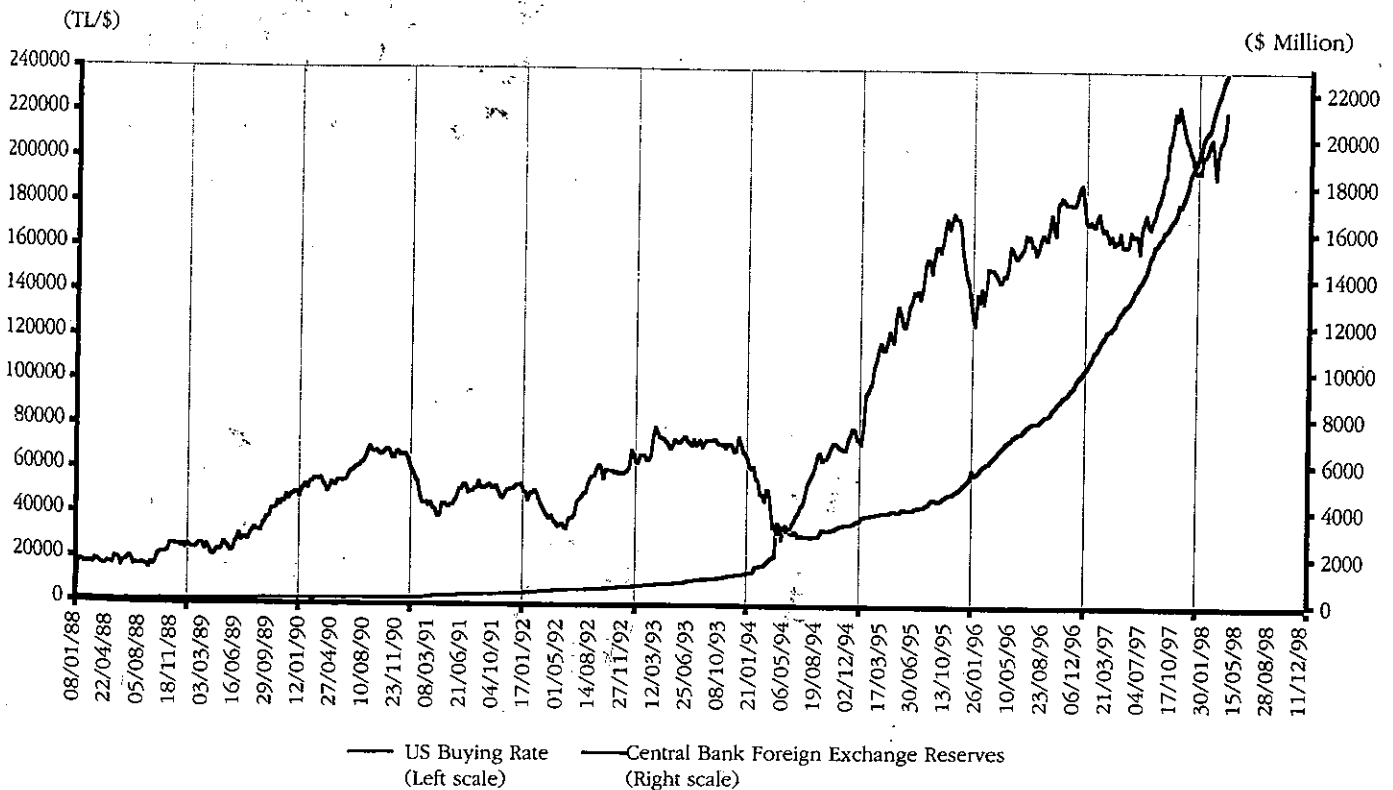
STOCK EXCHANGE INDEX AND TRANSACTION VOLUME

GRAPH 12



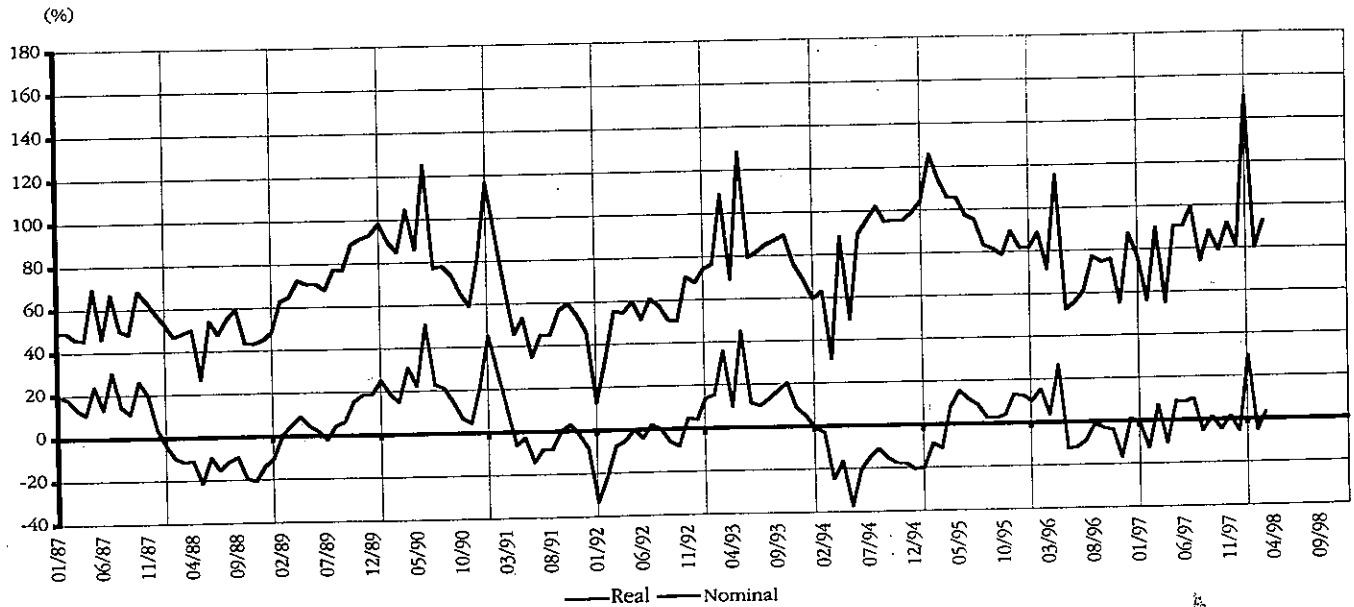
CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE

GRAPH 13



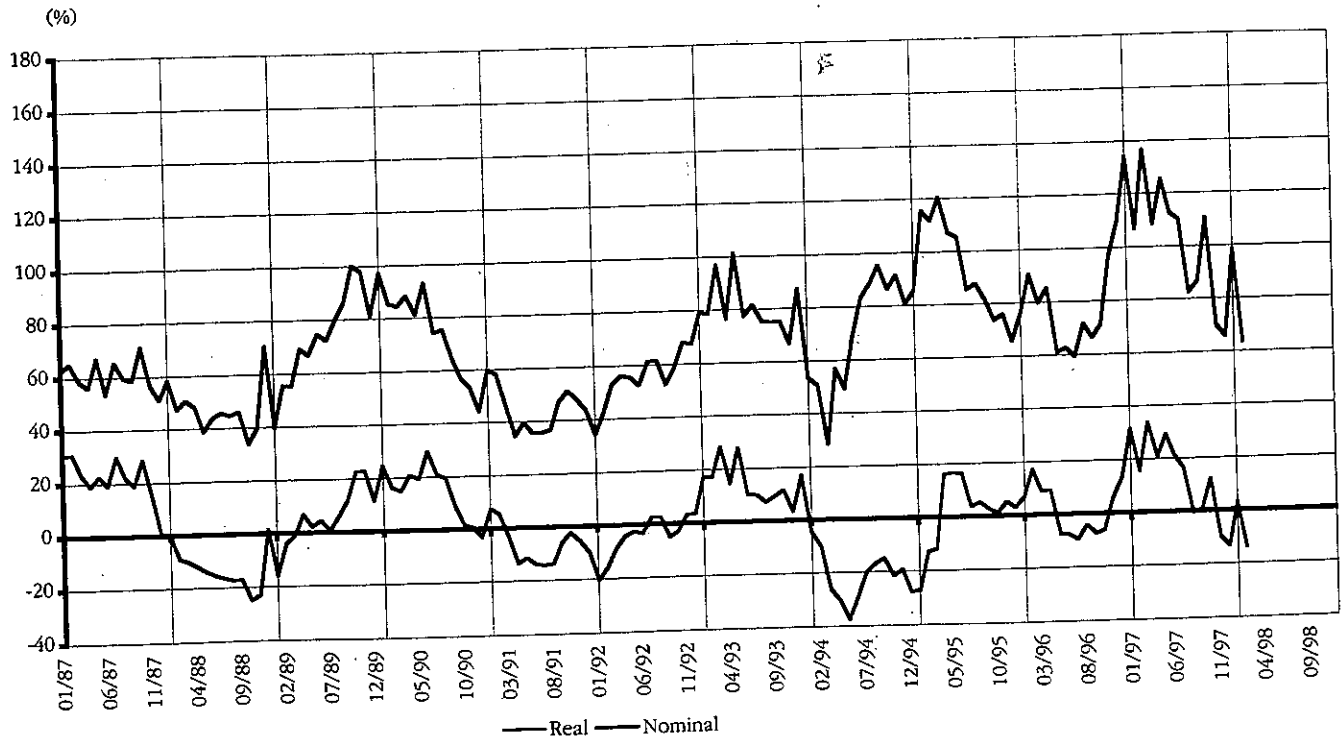
CURRENCY IN CIRCULATION (Annual Percentage Increase)

GRAPH 1



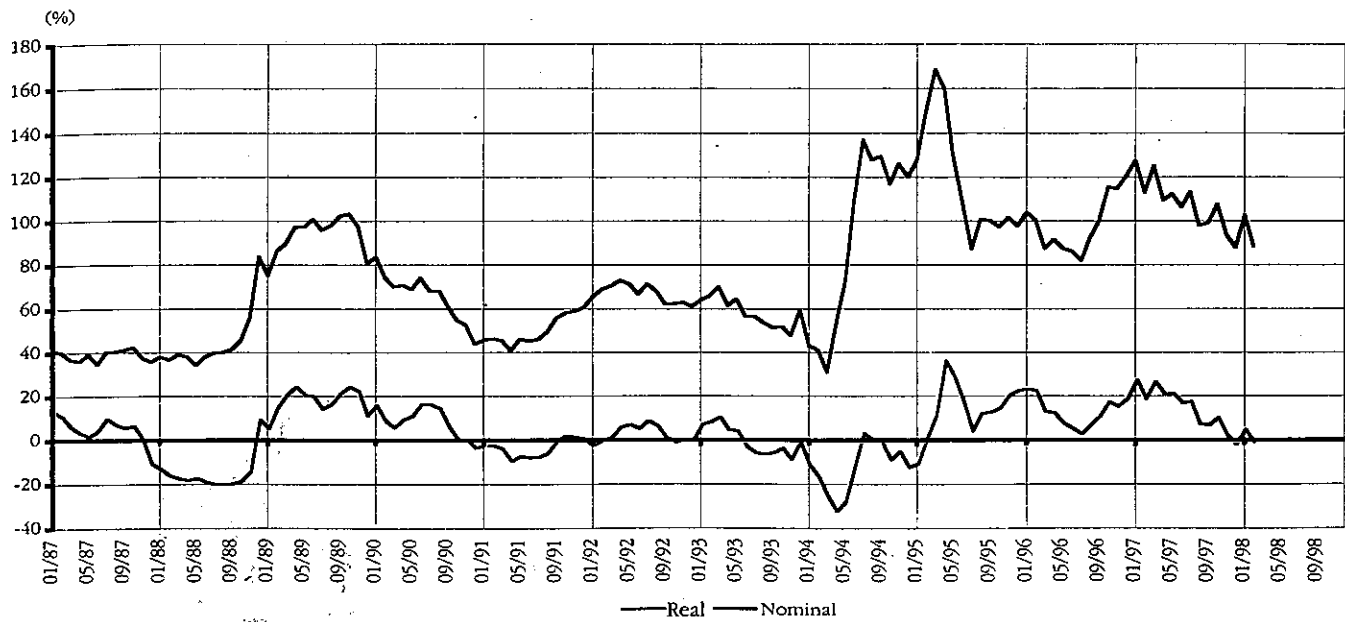
M1 (Annual Percentage Increase)

GRAPH



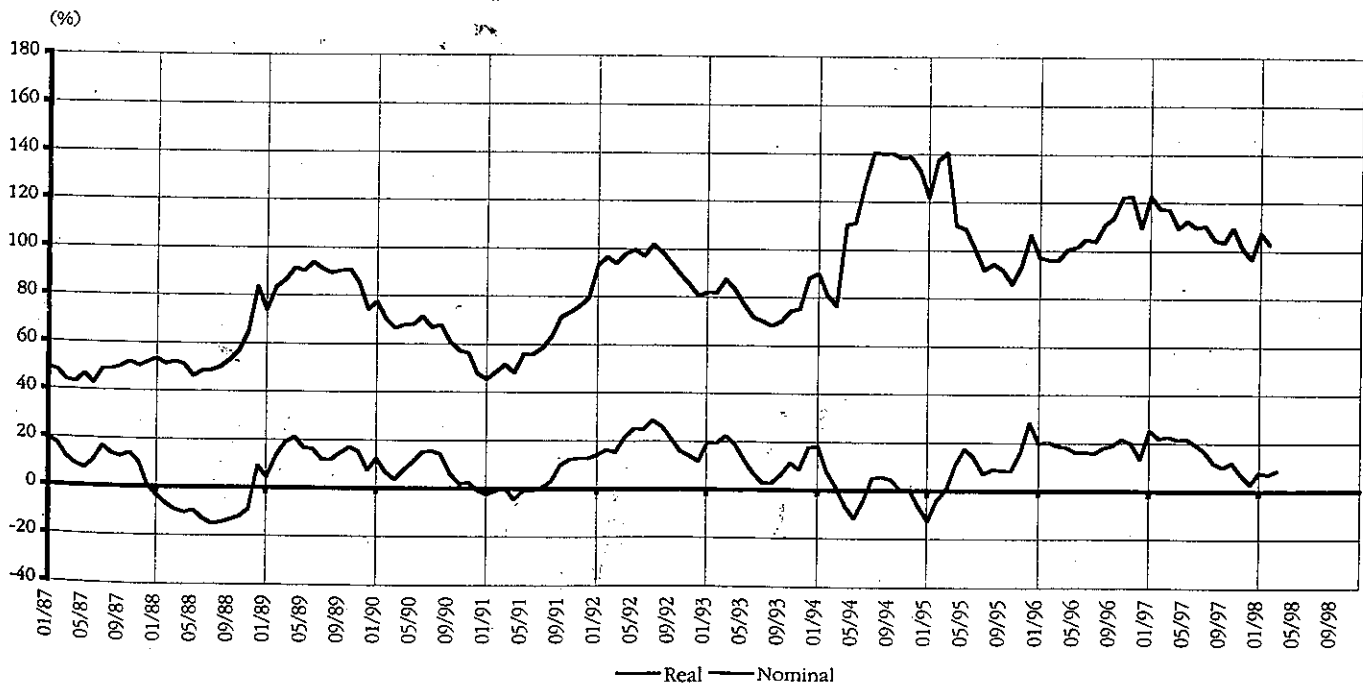
M2 (Annual Percentage Increase)

GRAPH 16



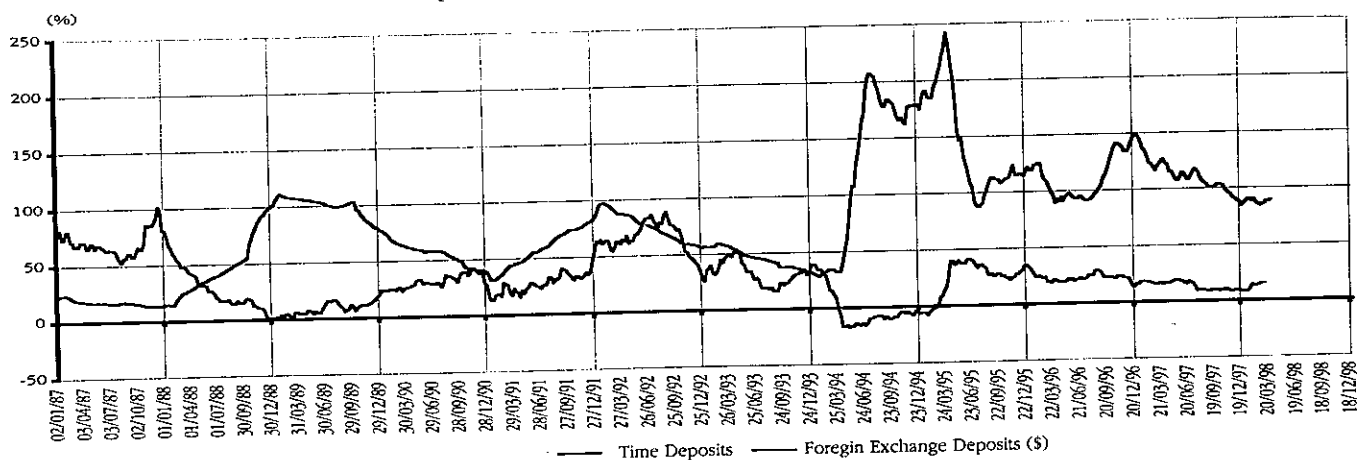
M2Y (Annual Percentage Increase)

GRAPH 17



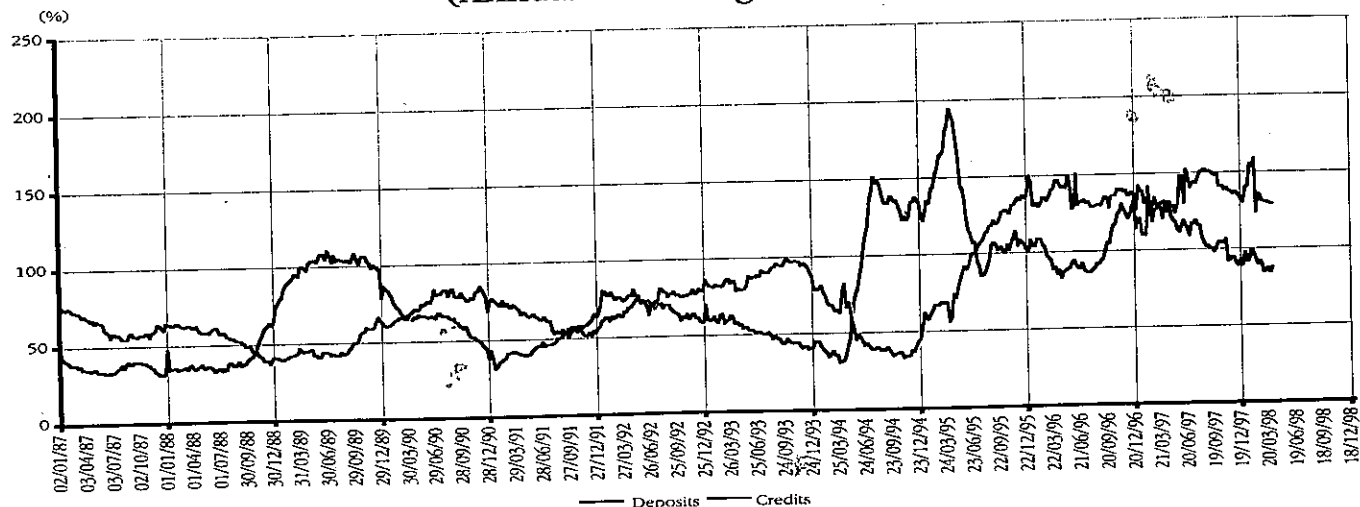
TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS (Annual Percentage Increase)

GRAPH



DEPOSIT BANK CREDITS* & DEPOSITS (Annual Percentage Increase)

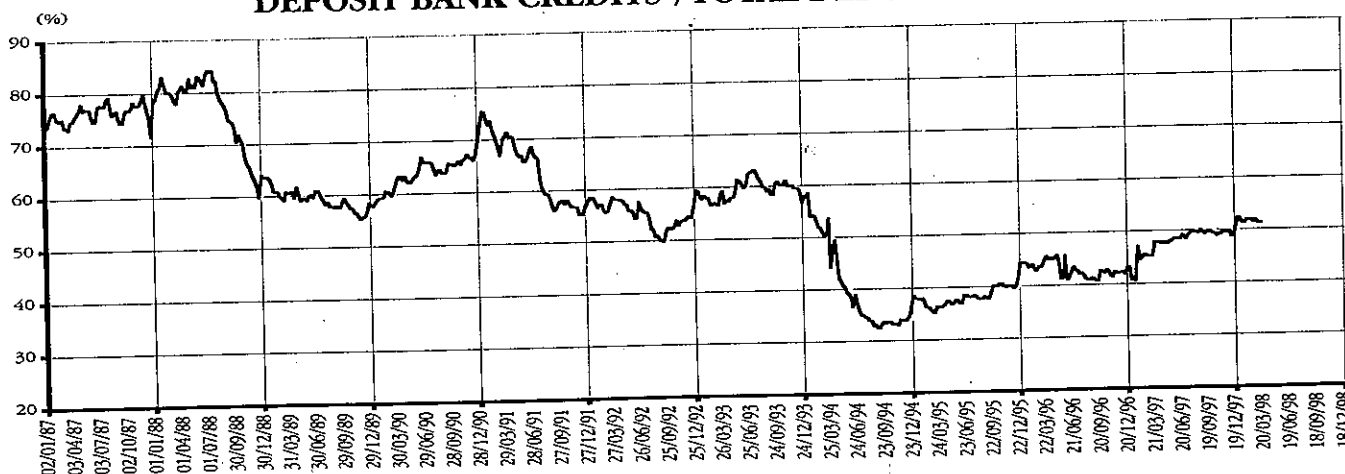
GRAPH



* Adjusted for changes in data definition after 1.7.1994

DEPOSIT BANK CREDITS*/TOTAL DEPOSITS RATIO

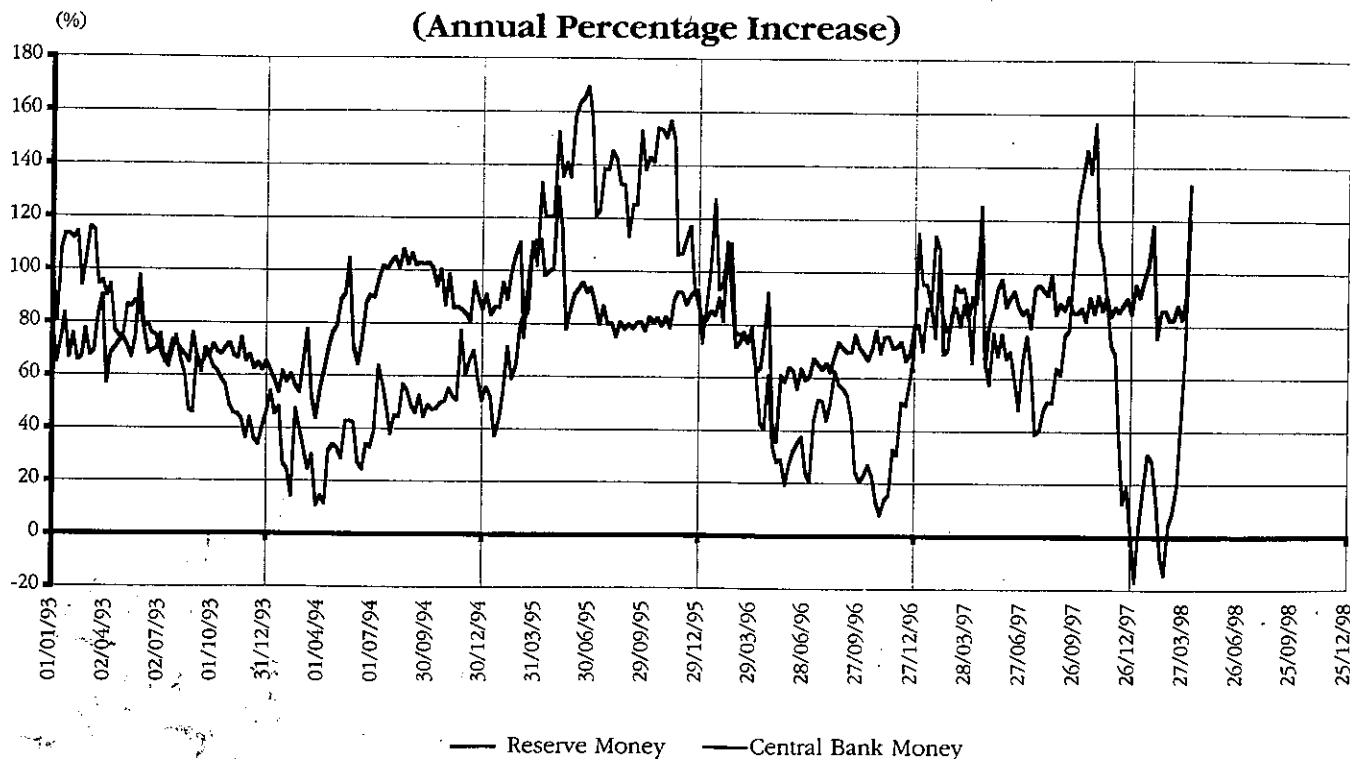
GRAPH



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

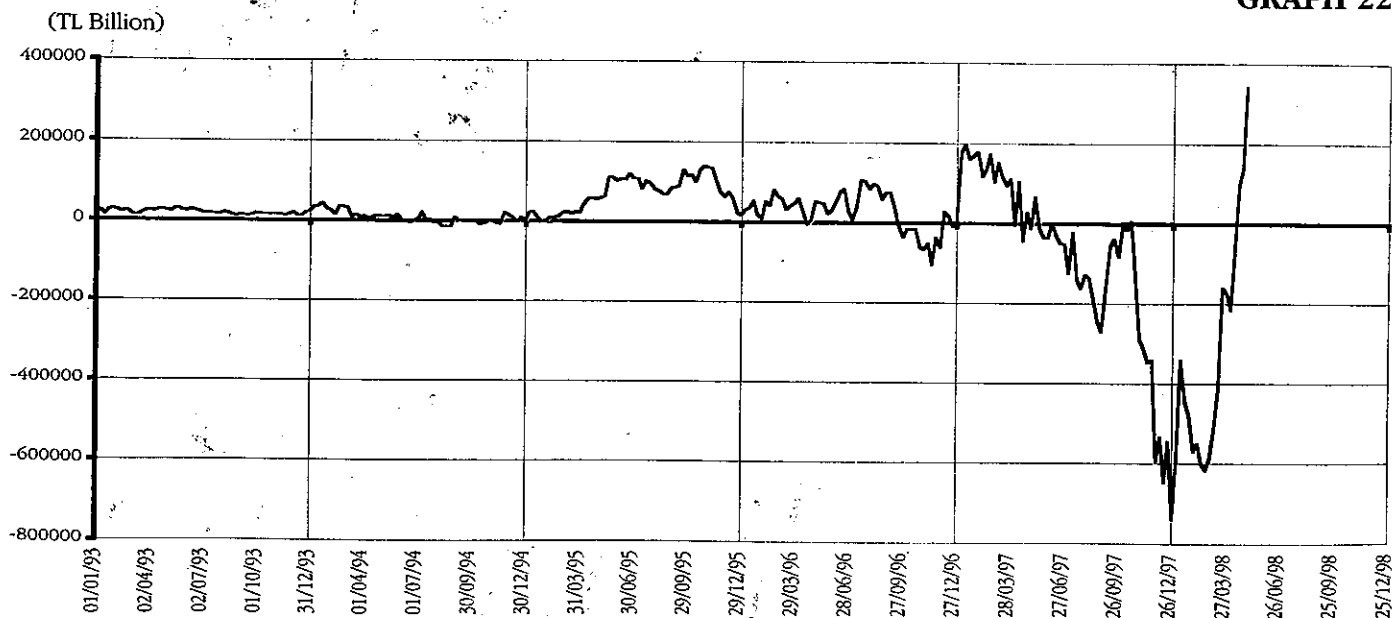
CENTRAL BANK MONEY AND RESERVE MONEY (Annual Percentage Increase)

GRAPH 21



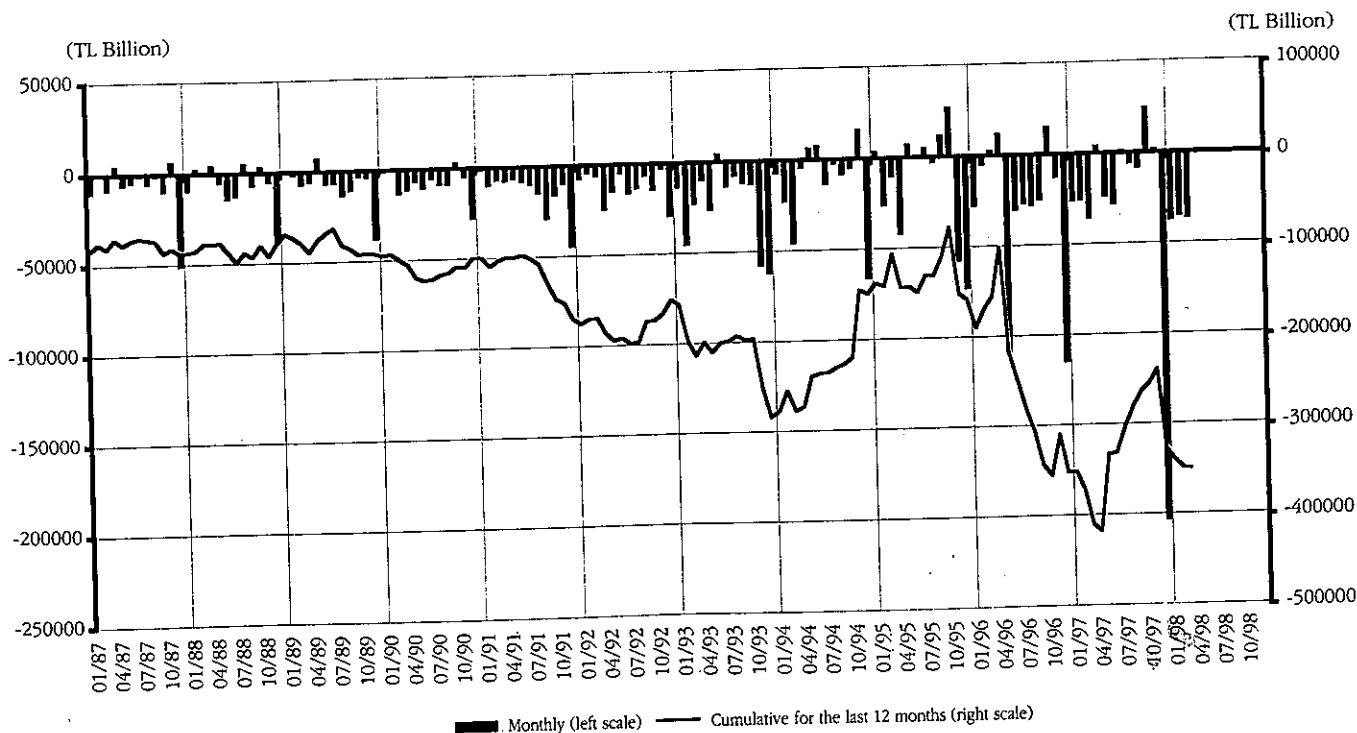
LIABILITIES DUE TO OPEN MARKET OPERATIONS

GRAPH 22



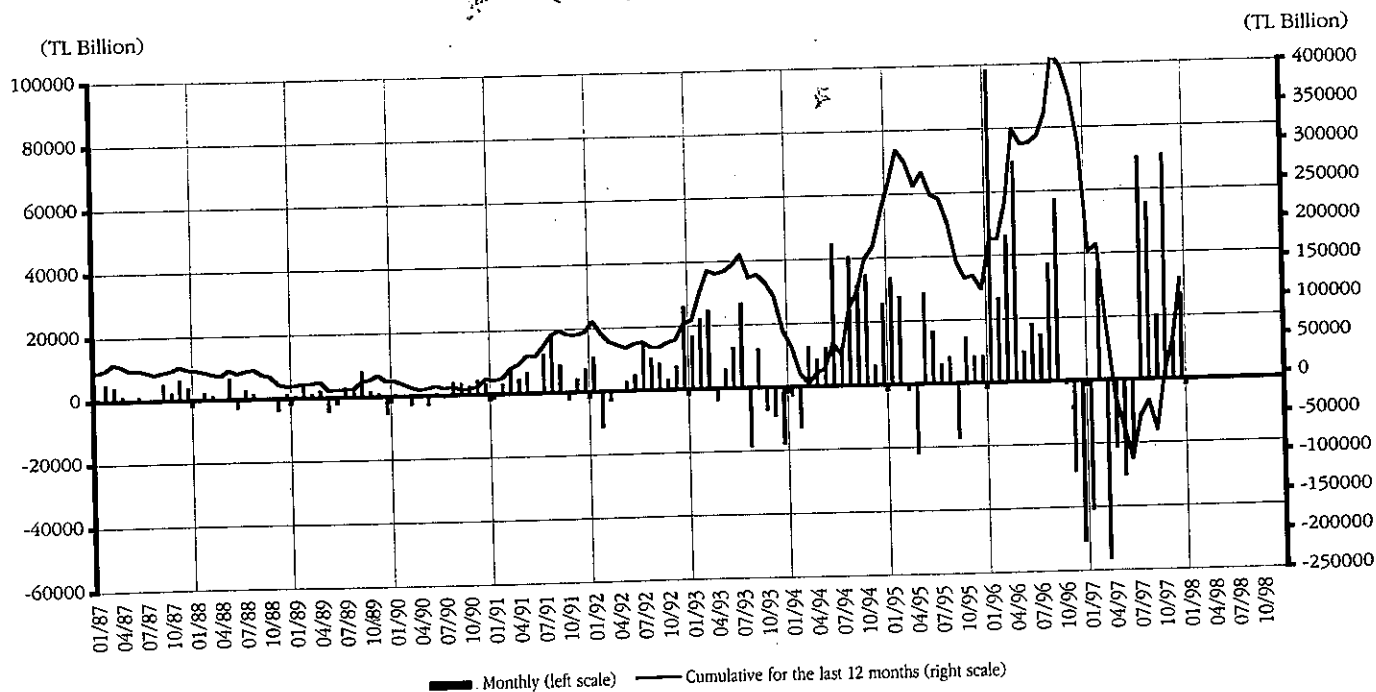
CONSOLIDATED BUDGET DEFICIT (At 1994 Prices)

GRAPH 2



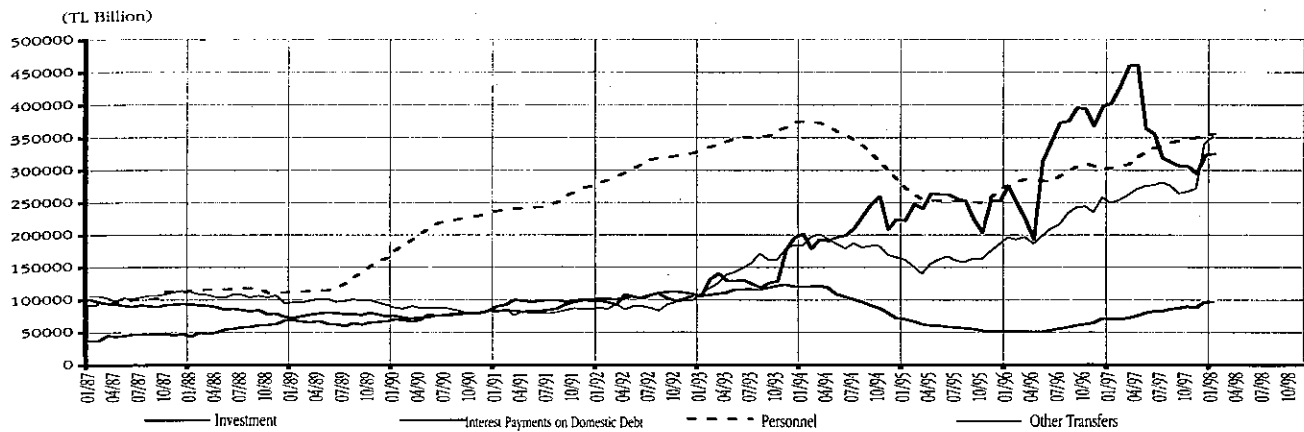
BORROWING BY TREASURY BILLS (NET) (At 1994 Prices)

GRAPH



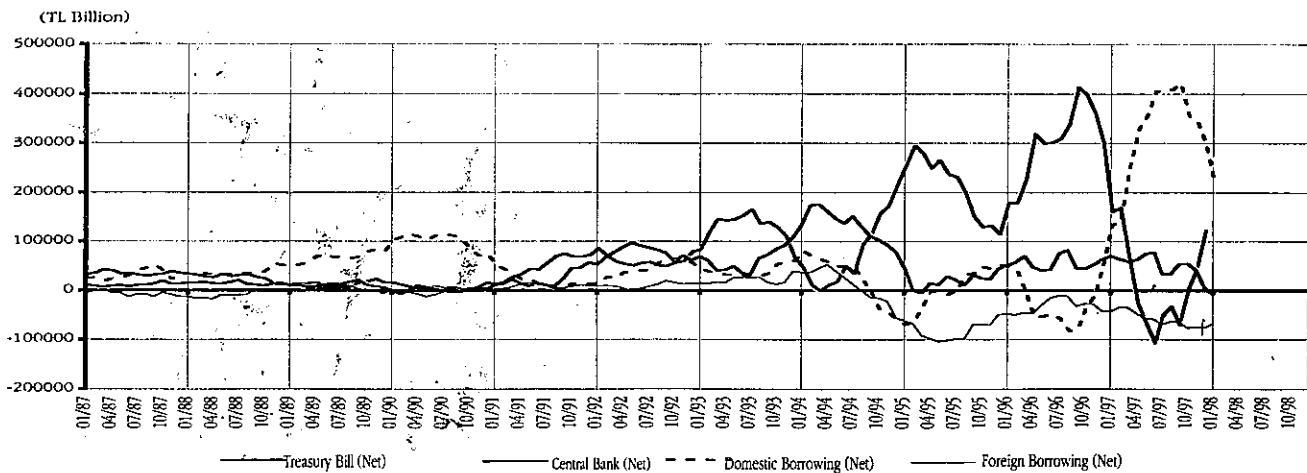
CONSOLIDATED BUDGET EXPENDITURES (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 25



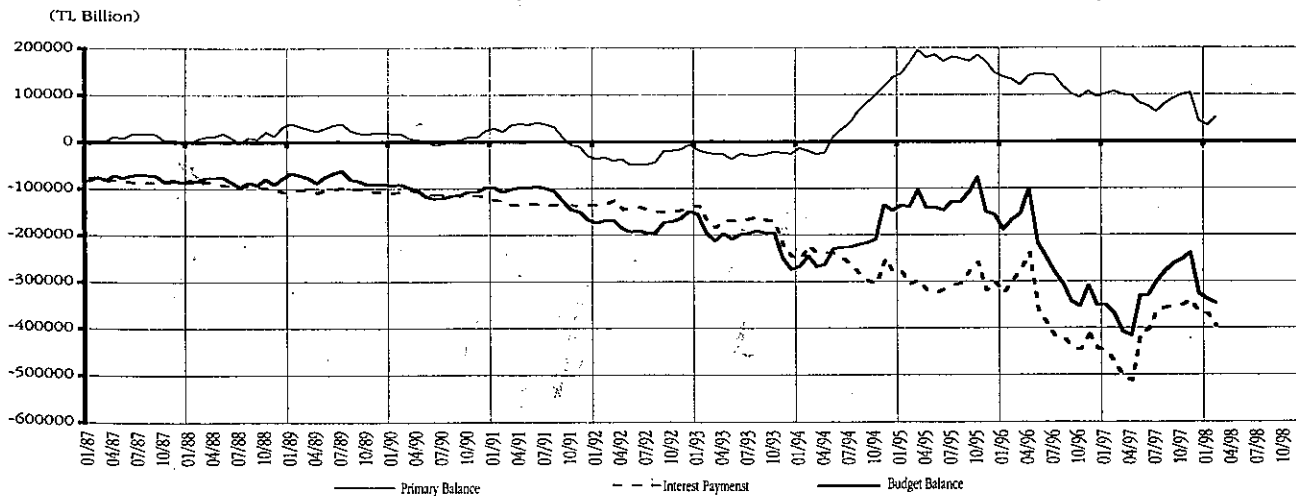
CONSOLIDATED BUDGET FINANCING (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 26



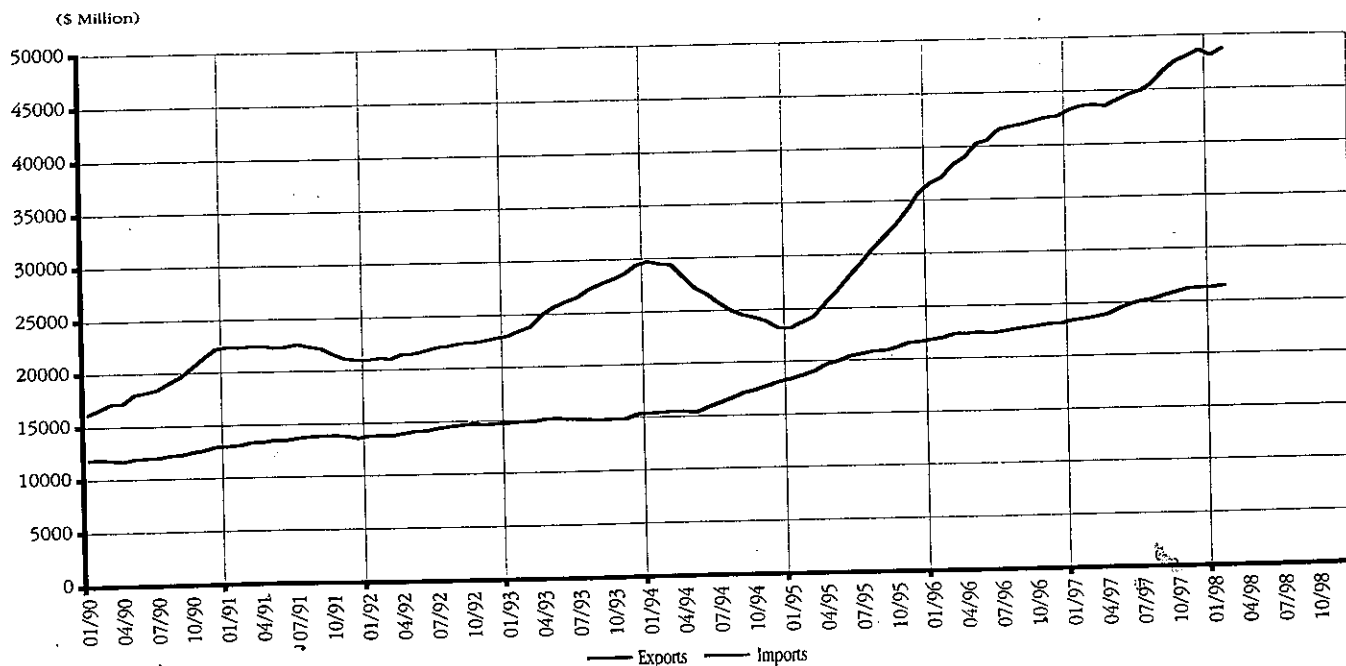
CONSOLIDATED BUDGET DEFICIT (At 1994 Prices, Cumulative for the last 12 months)

GRAPH 27



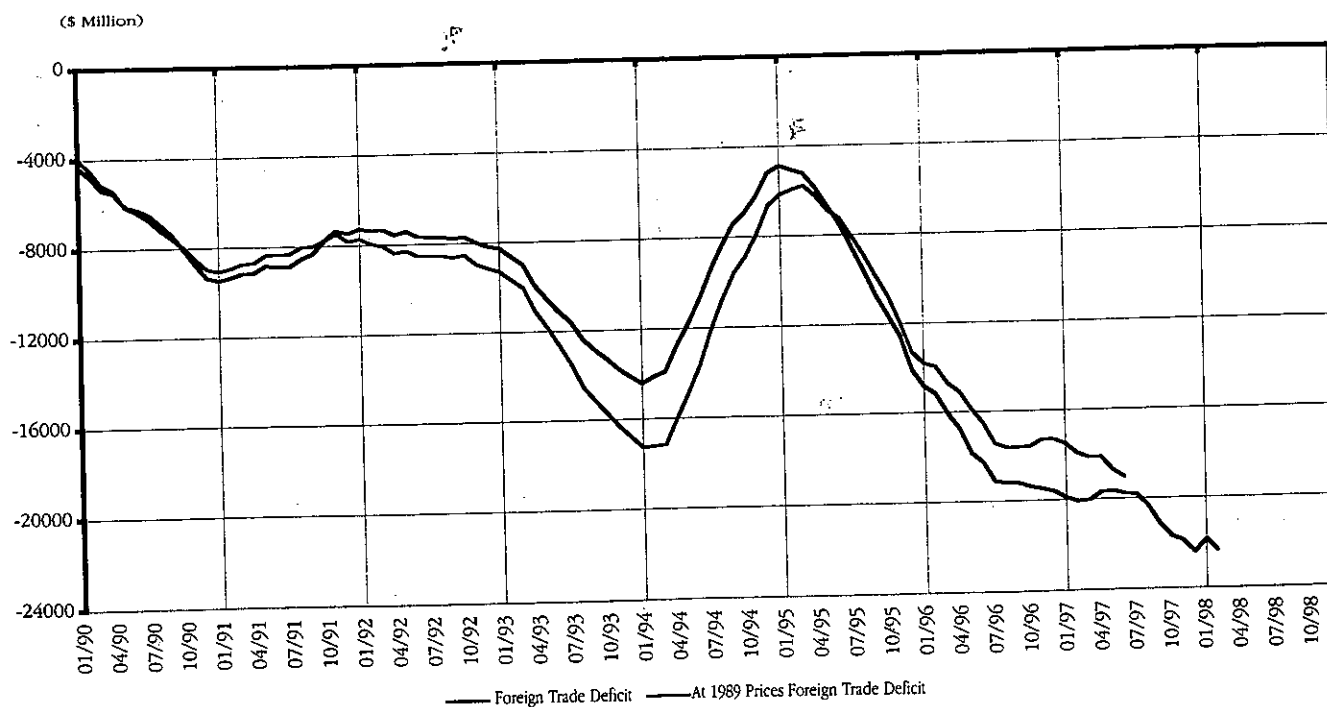
NOMINAL EXPORTS AND IMPORTS (Cumulative for the last 12 months)

GRAPH 2



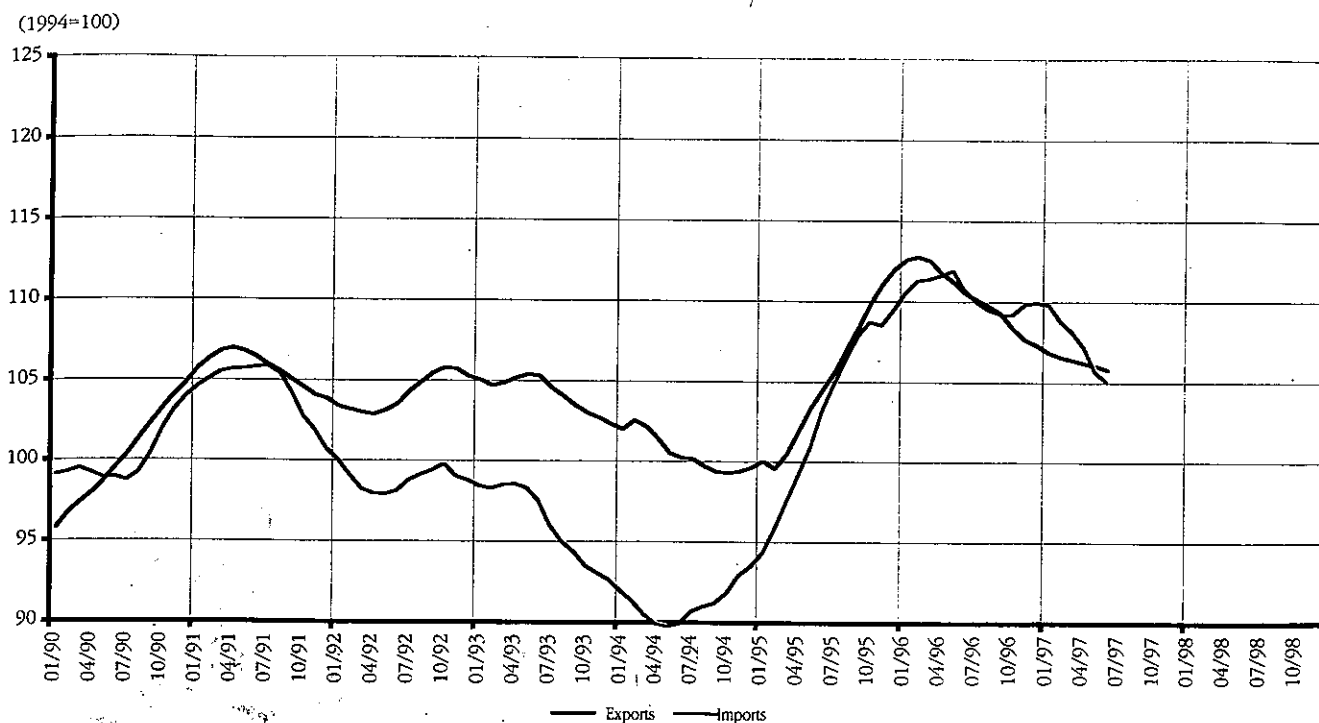
FOREIGN TRADE DEFICIT (Cumulative for the last 12 months)

GRAPH



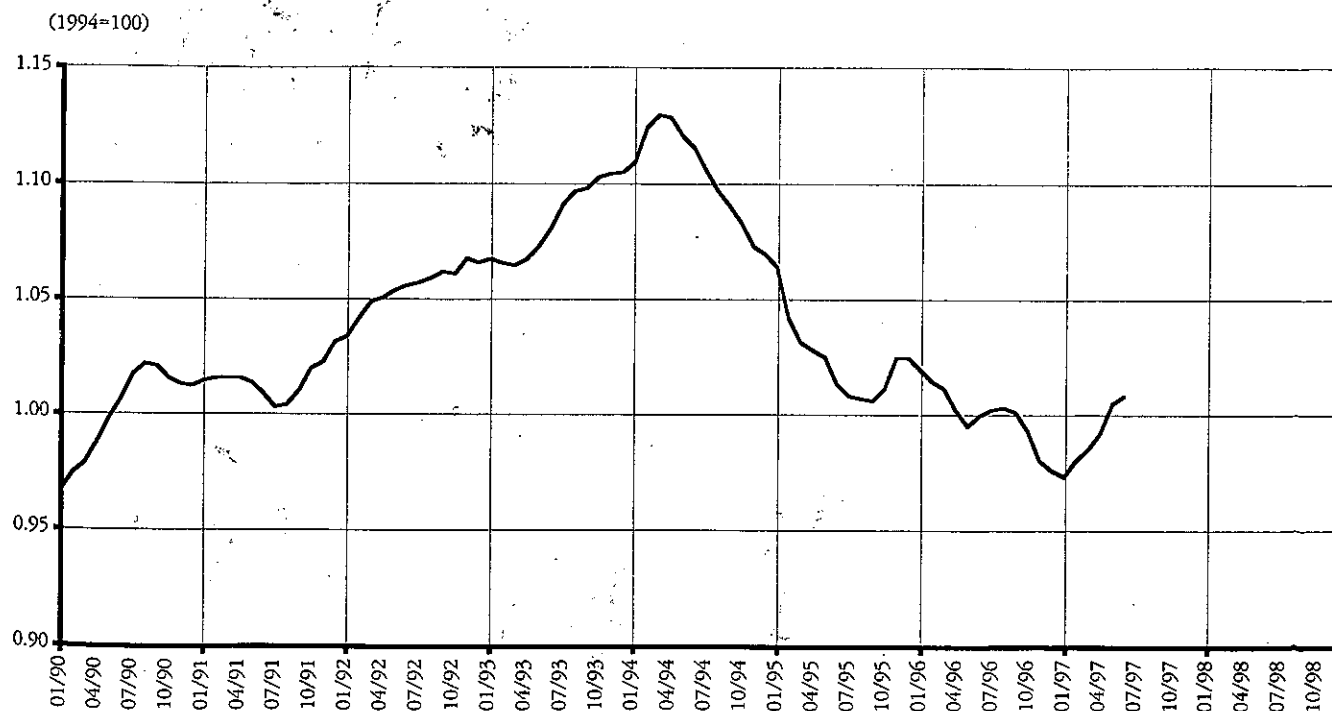
FOREIGN TRADE PRICE INDEX
(Cumulative for the last 12 months denominated in US\$)

GRAPH 30



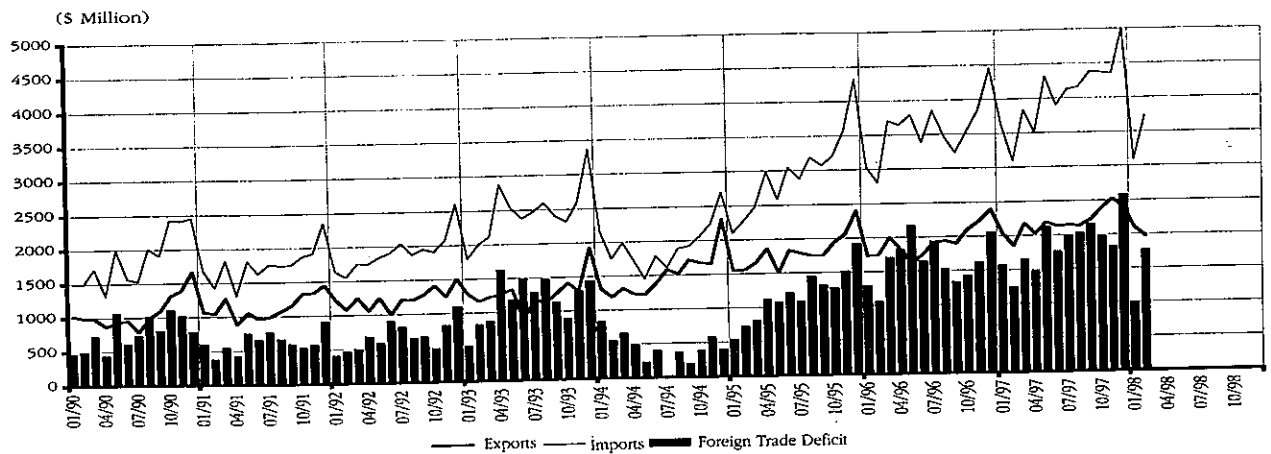
TERMS OF TRADE
(Average for the last 12 months, Export Prices/Import Prices, denominated in US\$)

GRAPH 31



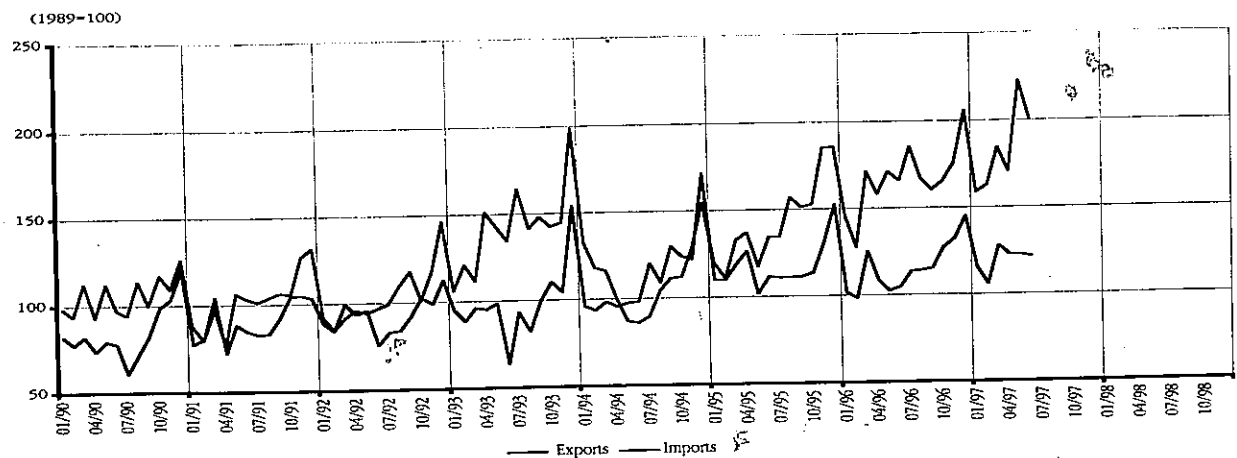
FOREIGN TRADE

GRAPH



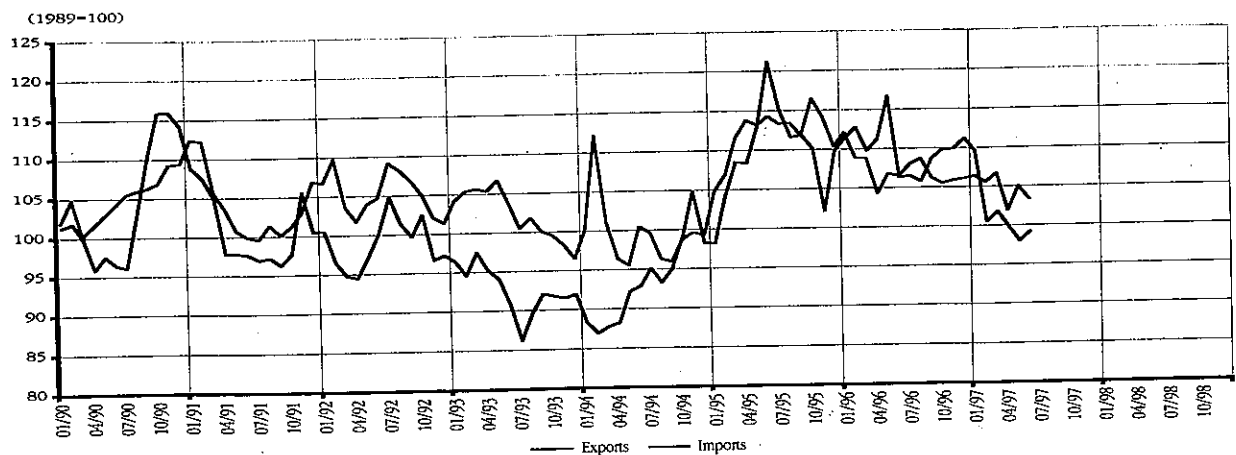
FOREIGN TRADE QUANTITY INDEX

GRAPH



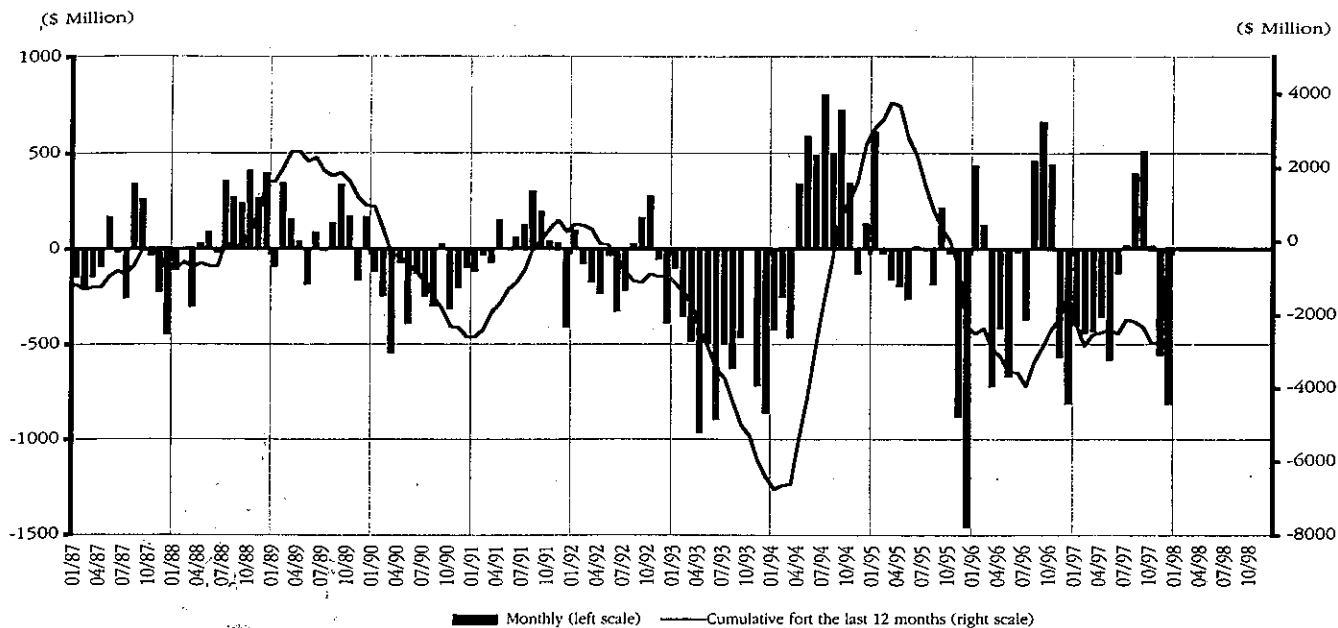
FOREIGN TRADE PRICE INDEX

GRAPH



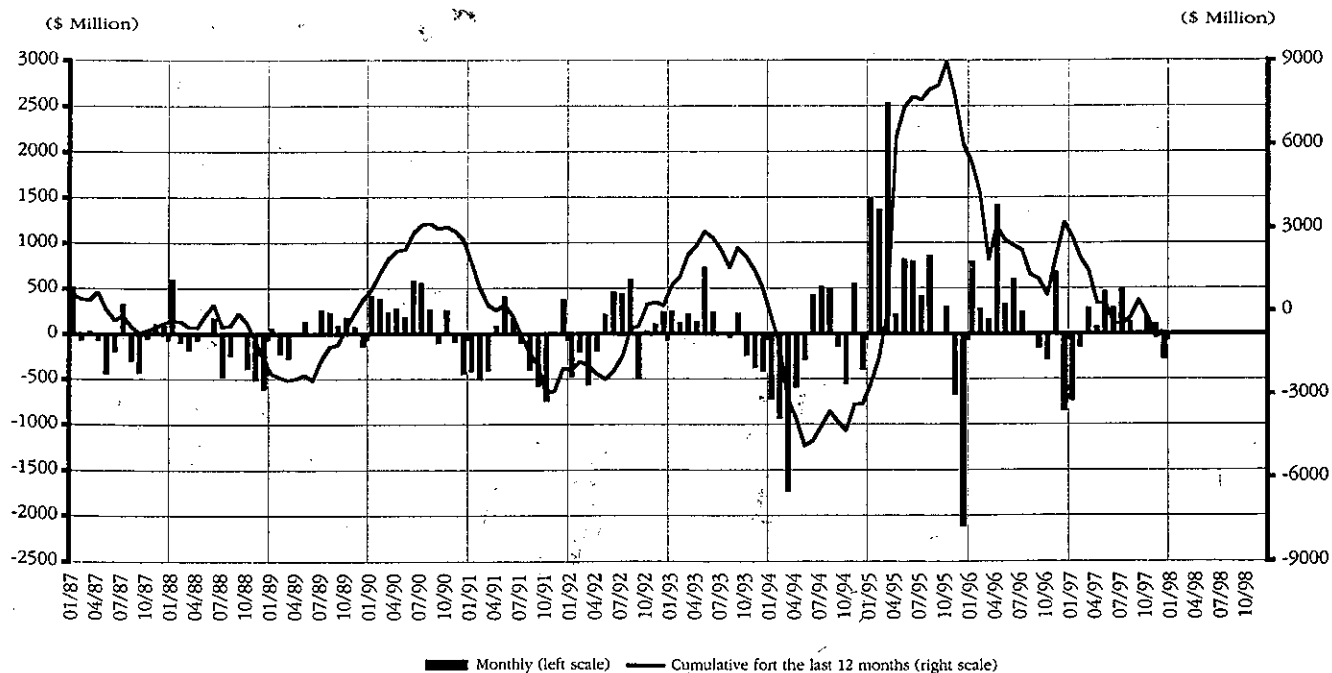
CURRENT ACCOUNT BALANCE

GRAPH 35



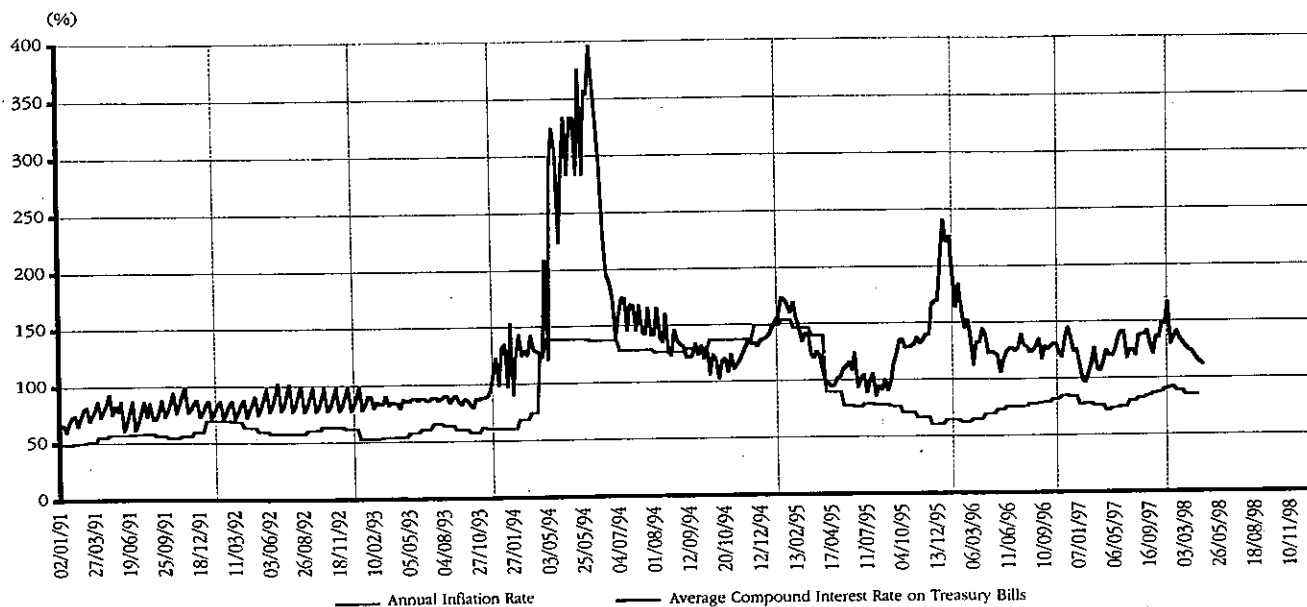
TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS

GRAPH 36



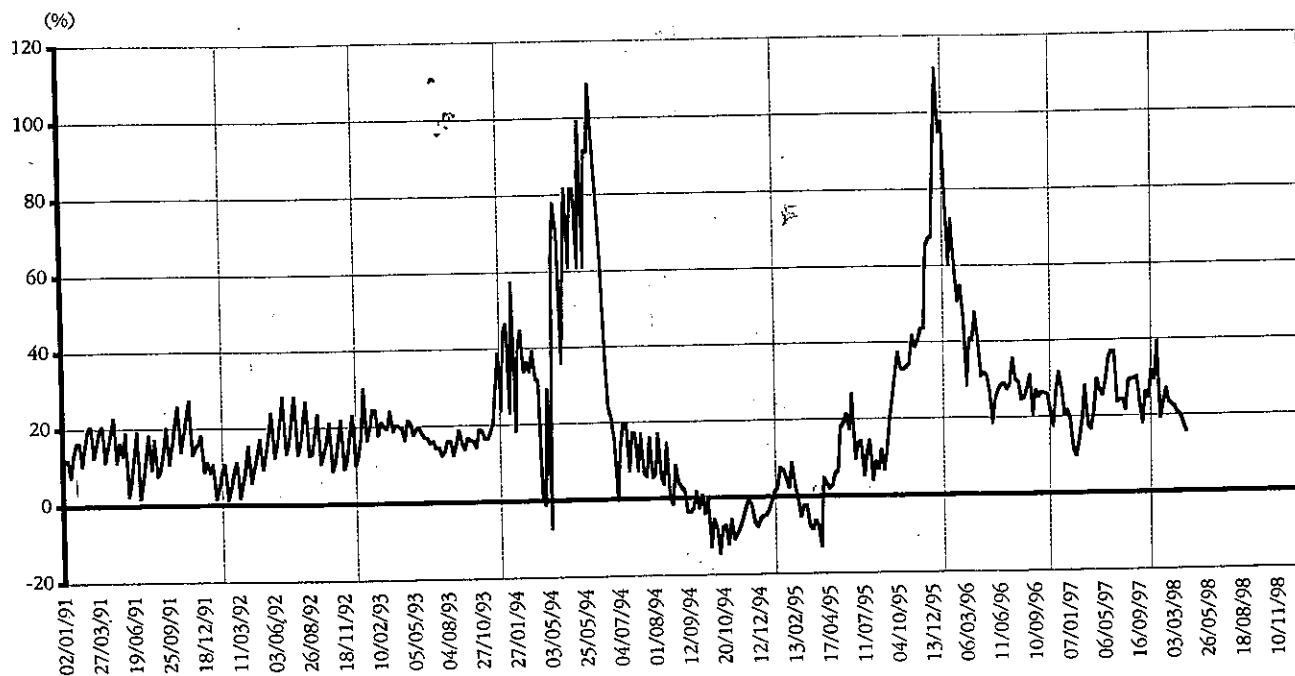
AVERAGE YEARLY NOMINAL INTEREST AND INFLATION RATE

GRAPH 3



REAL INTEREST RATE (*)

GRAPH 3

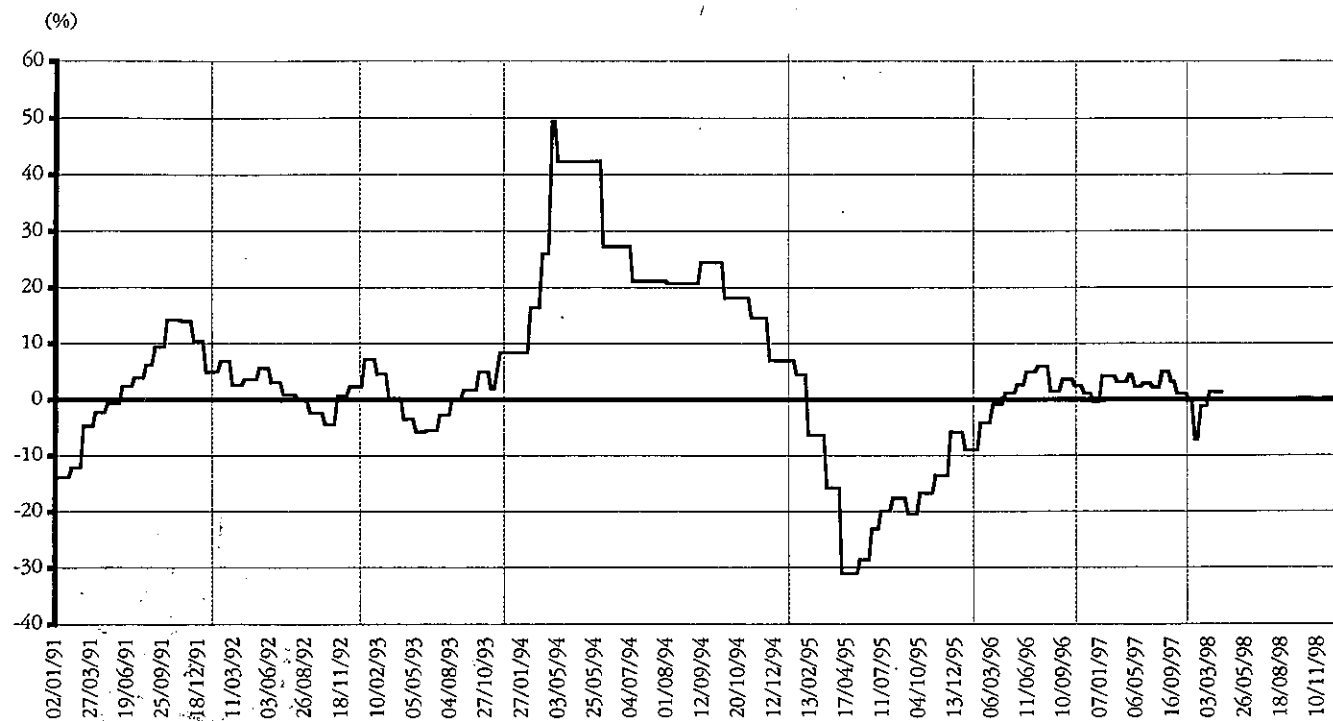


* Real interest rate is computed as: $\{(1+i)/(1+p)-1\} * 100$.

i: Average compound rate of interest on government paper (for all maturities), p: inflation rate $\{(p_t/p_{t-12})-1\}$.

REAL RATE OF RETURN ON US\$ (*)

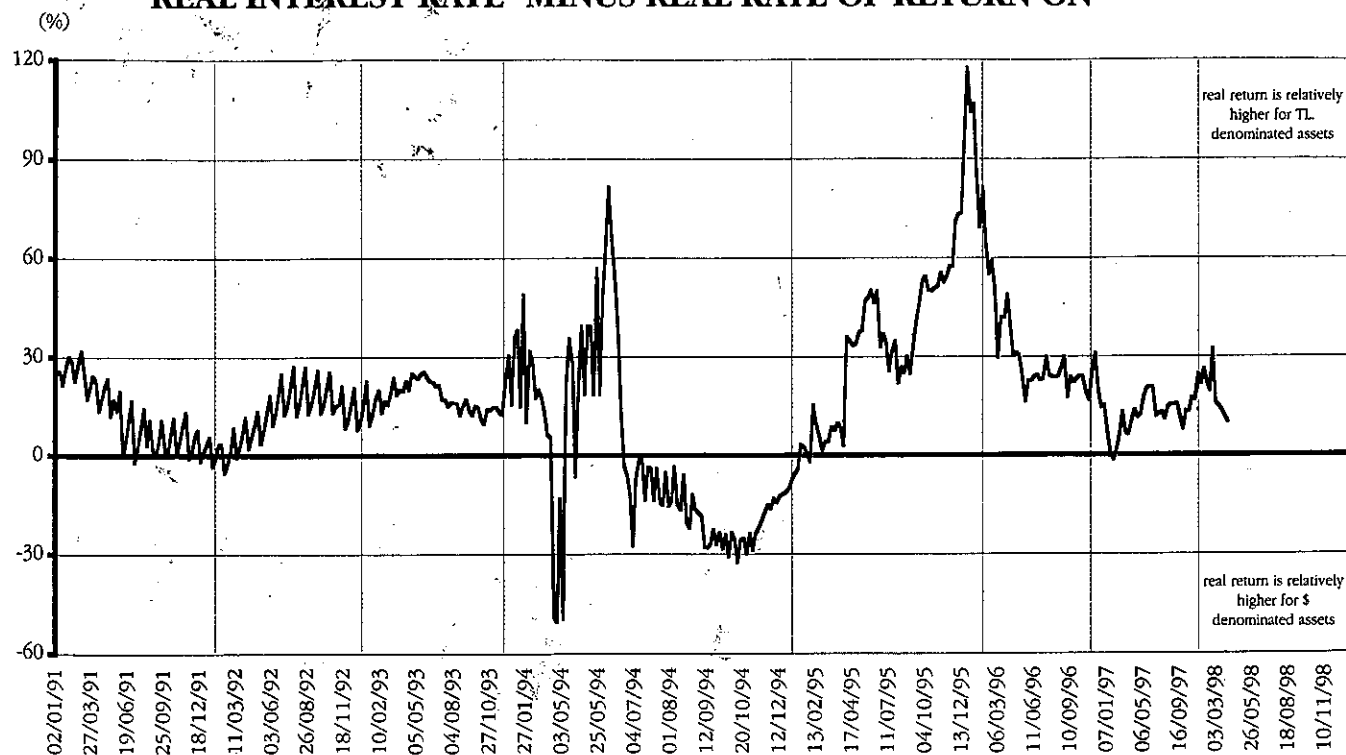
GRAPH 39



(*) 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

GRAPH 40



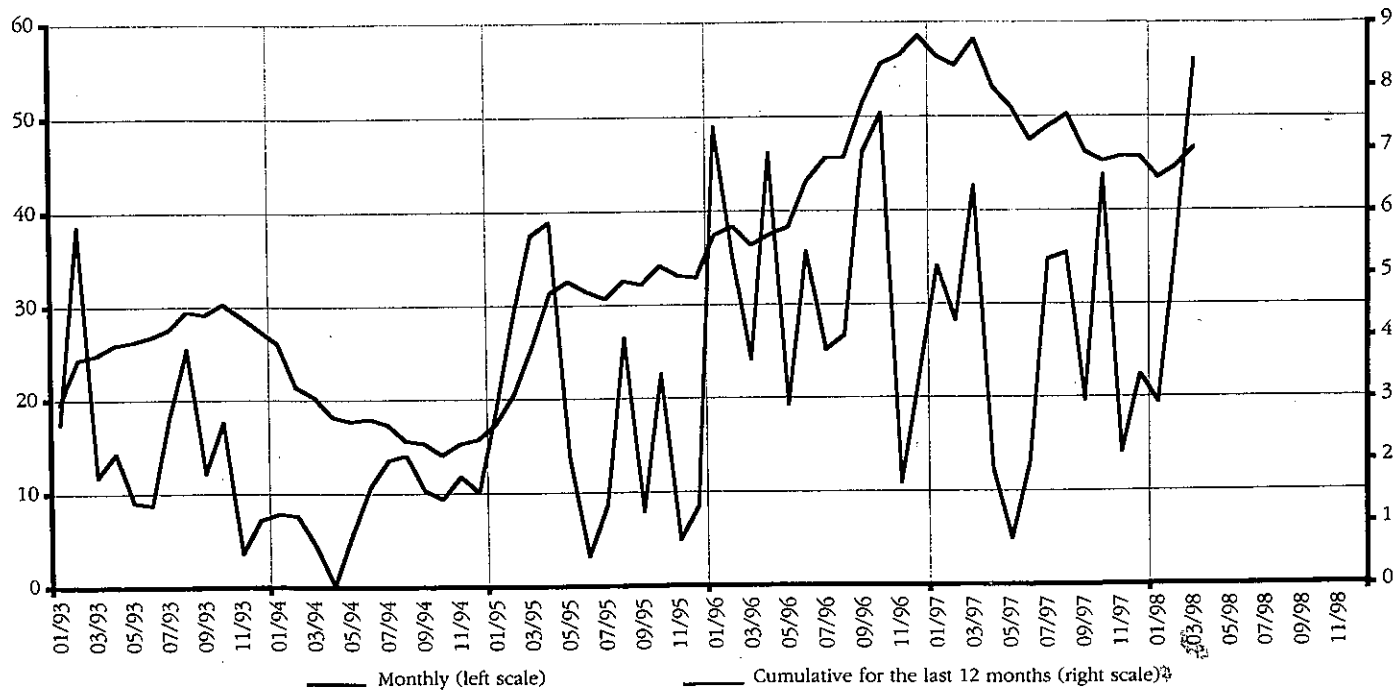
(*) Rate of interest after tax is used after November 1996.

THE AMOUNT OF GOVERNMENT PAPERS SOLD IN TREASURY AUCTIONS

GRAPH 41

(TL Billion)

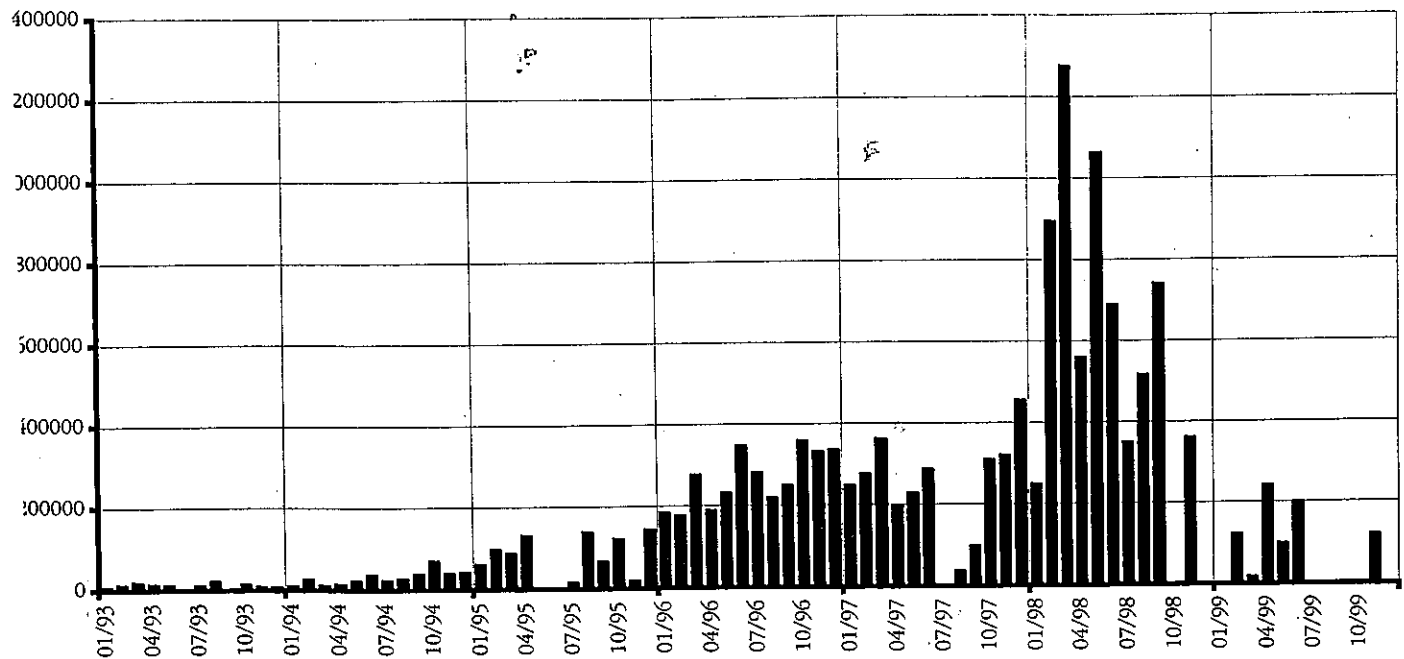
(TL Trillion)



TREASURY BOND REPAYMENTS (*)

GRAPH 42

(TL Billion)



* As of April 1998.

APPENDIX 1
MACROECONOMIC SCENARIO:
MACROECONOMIC INDICATORS
IN 1998

After a rapid recovery from the economic crisis of 1994 and reaching a high growth rate in the two consecutive years, the growth of the Turkish economy had been anticipated to slow down in 1997 in accordance with the programme intending to decrease the inflation rate. In the 1997 programme, based on an unrealistic hypothesis, a balanced budget of TL 6.2 quadrillion, a decline in the public sector borrowing requirement from 9.6 percent of the GNP to 0.4 percent, an economic growth of 4 percent, a \$ 29.5 billion worth of exports and a \$ 50 billion worth of imports had been targeted. Moreover, it had been anticipated that the annual average inflation rate (the wholesale price index) would be 65 percent, while the inflation rate as of the end of the year would be 57.7 percent.

The domestic demand expanded in 1997; in parallel to this growth, the private sector industrial production increased and the growth rate occurred at 8 percent. Although the value added growth in the industrial and trade sectors, which have the largest portion in the GNP, were above 10 percent, the growth rate remained at 8 percent due to a 2 percent reduction in the agricultural production.

Despite the high growth rates achieved in the last three years, it cannot be said that Turkey is in a rapid and sustainable growth path. High budget deficits, high inflation rates and the depreciation of TL are all continuing.

Being a minority government and not always having a consensus within itself on structural problems such as privatisation and social security made it more difficult for the coalition government to take radical decisions regarding structural problems. Furthermore, a temporary solution for decreasing public deficits does not seem plausible because of the loss of budget flexibility. Therefore, 1998 is expected to sketch a picture similar to 1997.

In the government programme for 1998, a decline in the growth rate to 3 percent and an annual inflation rate with an average of 64 percent, dropping to 50 percent at the end of the year, have been targeted. The consolidated budget revenues have been targeted to TL 10.8 quadrillion with a rise of 99 percent, whereas the targeted expenditures have been set as TL 14.8 quadrillion with an increase of 84 percent. In this way, a consolidated budget deficit of TL 4 quadrillion, its share to the GNP being 8.1 percent, and a ratio of the public sector borrowing requirement to the GNP of around 8.6 percent, have been expected. On the other side, it has been anticipated that exports would rise to \$ 29 billion and imports to \$ 50 billion. As such, the foreign trade deficit would increase from its \$ 20 billion level of 1997 to \$ 21 billion level in 1998.

The estimations regarding 1998 by the Economic Research Department of TÜSİAD are based on the assumption that there will be no major deviations from these policies. The results are presented in the appended Table. The aim of this exercise, which is based on a model of

"Bayesian Vector Autoregression" that is composed of three blocks, is not to predict the estimation of the variables but to examine their movements during three month periods by use of specific hypothesis, the relationship between some of the basic variables of the economy.

The results in the appendix Table demonstrate that, if there is no change in the direction of the economy, the growth rate will occur at around 6 percent in 1998. A decline in the inflation rate would be less than that targeted, and the average annual inflation rate (the wholesale price index) is estimated to be at around 81 percent. Also, the inflation rate at the end of the year is estimated to be close to 75 percent. The budget deficit is anticipated to be above government's expectations, with a value of approximately TL 5 quadrillion. The nominal exchange rate is expected to be close to the inflation rate, and up to a 1 percent value loss is estimated. In relation to this, the average annual \$ exchange rate is estimated to be TL 278 and by the end of the year the \$ exchange rate is expected to be around TL 365,000. In conjunction with the 6 percent growth rate, imports and exports are estimated to rise to \$ 28 billion and \$ 28 billion, respectively. In this case, the foreign trade deficit will be close to \$ 2 billion, at a higher level than that targeted in the programme.

As a result, if the stabilisation measures are not implemented this will likely increase the budget and foreign trade deficits and further aggravate the instability problem of macroeconomic variables. The rapid growth of the 1995-1997 period might continue in 1998. However, the further expansion of the budget and foreign trade deficits, coupled with an inflation rate above 80 percent, indicate that this growth rate cannot be sustained.

TABLE APP. 1

MAIN ECONOMIC INDICATORS (*)

It is assumed that economic policies will not change.

	1996				1997				1998				1998 Annual
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
GNP (1987 prices, annual % change)	9.5	8.2	5.1	7.2	6.8	8.9	8.4	7.7	5.9	6.3	5.8	5.9	6.0
Inflation rate (WPI, annual % change)	64.4	73.3	78.4	84.5	77.8	74.4	83.2	89.1	89.2	81.0	82.1	77.1	81.7
Reserve Money (annual % change)	80.4	71.1	69.7	88.4	83.4	78.6	89.4	74.4	96.1	88.1	74.0	78.1	82.6
Con. Budget Revenues (trillion TL.)	423	651	748	916	844	1,291	1,442	2,277	1,940	2,559	3,189	4,298	11,986
Con. Budget Expenditures (trillion TL.)	497	1,052	1,023	1,383	1,256	1,560	1,828	3,391	3,049	3,497	3,978	6,537	17,061
Con. Budget Deficit (trillion TL.)	74	401	275	467	412	269	386	1,114	1,109	938	789	2,239	5,075
Con. Budget Deficit (billion \$)	-1.2	-5.3	-3.2	-4.7	-3.5	-2.0	-2.4	-5.9	-5.0	-3.7	-2.7	-6.6	-17.9
Nominal Exchange Rate (TL/\$)	64,296	76,176	85,575	99,148	118,744	137,215	162,225	187,727	222,646	254,613	297,683	339,622	278,641
Real Exchange Rate (WPI/\$)	0.405	0.408	0.400	0.399	0.390	0.395	0.387	0.398	0.393	0.385	0.384	0.390	0.388
Real Exchange Rate (annual % change)	4.8	-2.7	-4.9	-1.4	-3.7	-3.2	-3.4	-0.1	0.9	-2.5	-0.7	-2.1	-1.1
Nominal Interest Rate (3 months, compound)	162.0	123.0	128.0	129.8	109.1	128.6	126.1	131.8	131.4	117.9	129.1	125.5	126.0
Real Interest Rate (3 months, compound)	27.2	22.2	22.9	23.1	20.3	23.0	23.4	22.6	22.3	20.4	25.8	27.3	24.2
Imports (billion \$)	9.8	11.0	10.8	12.1	10.6	11.7	12.7	13.7	11.2	13.6	13.2	15.1	53.0
Exports (billion \$)	5.5	5.2	5.8	6.7	6.1	6.3	6.5	7.3	6.4	6.5	6.8	8.4	28.1
Trade Deficit (billion \$)	-4.2	-5.8	-5.0	-5.4	-4.5	-5.4	-6.2	-6.4	-4.9	-7.1	-6.3	-6.7	-25.0

* Italic numbers are TUSIAD estimates.

APPENDIX 2
EMPLOYMENT AND WAGES

Despite the high growth rate in the last three years, there is a decline in the labour force participation in Turkey.

As of October 1997, the working labour force increased with a ratio of 2.21 percent as compared to the previous year, reaching 47,195,000, while the total labour force declined with a ratio of 2.9 percent to 22,359,000. Employed labourers constitute 20,815,000 of the total labour force. This number is 4 percent less than the previous year's figure.

The labour force participation being the most important indicator of the labour force has an inclination to decrease, especially with the crisis of 1994. The labour force participation that was 54.5 percent in October 1990 declined to 50.4 percent in October 1994. Despite the rapid growth in the three years following the crisis, this decline continued. Within the period from October 1994 to October 1997 the labour force participation decreased from 50.4 to 47.4 percent.

When the female and male labour force participation figures are compared, a noteworthy point is the very low participation rate of the female workers compared to that of male workers. The number of females in the total labour force is close to one third of male workers. However, this gap diminishes once the high number of females working in the agricultural sector and those employed as household workers receiving no payment are taken into account.

Of the 20,815,000 employed people 47 percent receive either daily or monthly wages. The self-employed people and employers constitute 31 percent of the working labour force, while the unpaid household workers 22 percent of this total.

When the categories of economic activities are considered, 39.5 percent of the employed people work in the agricultural sector, while 25 and 35.5 percent in the industrial and service sectors, respectively. Compared to previous year's figures, the share of those working in the agricultural and industrial sectors in the total working labour force declined by 17.4 and 10.1 percent, respectively, while the service sector portion increased by 5.4 percent. In terms of the number of employed, 69 percent of the labour force working in the industrial sector are from the manufacturing sector.

The number of the labour force working in the manufacturing sector increased by 17 percent compared to the previous year's figure. As a result of a decrease in the employed people, the unemployment rate increased to 6.9 percent as of October 1997. The ratio of educated young people in the total unemployed was 30.4 percent.

In this country where there is no unemployment insurance and where self-employed and unpaid households workers are high, another important issue equal to unemployment is underemployment. Workers who are forced to work less than 40 hours in their present jobs due to economic reasons in spite of the fact that they are willing to work more and those who are dissatisfied with their present jobs, either from the job quality itself or the received income, yet they have no choice to change their current jobs constitute the underemployment figure of 6.1 percent.

The real wages that rapidly increased before 1994 declined with the crisis.

When the wages in the manufacturing sector are analysed, an increase in the real wages between 1988-93 can be observed. The real wages in 1993 reached 3.5 times of the 1988 value in the public sector and 2.4 times the 1988 value in the private sector. The monthly total wage per worker increased from TL 358,075 (\$ 252) in 1988 to TL 9,453,773 (\$ 861) in 1993. The real wages started to decline with the economic crisis of 1994, and this decrease continued up to 1996. The monthly total wage per worker increased to TL 48,025,583 (\$ 592) in 1996, reaching its real value as that of the beginning of 1990.

The increase in the inflation rate coupled with the 1994 crisis caused a decline in real terms in the minimum wage. The minimum wage increased to TL 1,449,000 (\$ 163) in 1993 from the value of TL 225,000 (\$ 94) in 1990; however, from then on it started to go down on the dollar base. The minimum wage has a better track compared to the average wage. With the start of the increase in 1996, the minimum wage rose above the 1992 level, reaching TL 17,010,000 (\$ 147) in 1997 and TL 35,437,500 (\$ 182) between August 1997-August 1998. For the 1 August-31 December 1998 period the minimum wage has been set to be equal to TL 47,839,500. This figure is equal on average to \$ 150 according to the TÜSİAD estimations.

The reduction in the real wages affected operatives more than non-operatives.

When the wages in the manufacturing sector are analysed, a noteworthy point is the higher level of wages of employees in non-production activities (non-operatives) compared to those in production activities (operatives). The reduction in the real wages after the 1994 crisis affected employees both in production and non-production activities; nevertheless, the decline was more in the production activities. In this way, the wage advantage of the ones in non-production activities to the ones in production activities has been increased.

If 1992 is taken as the base year, the analysis of the total wage per worker demonstrates that for the employees in production activities the real wage index decreased from 107 in 1993 to 82 in 1994, while the wages in other activities decreased from 105 to 82. The decline in the real wage level continued up to 1996. With the wage increases in 1997 the real wage index increased to 91 for the employees in production activities and to 91 for the ones in non-production activities. These figures demonstrate that wages rose above their 1990 level in real terms and that, especially for the employees in non-production activities, the real wages recovered at a greater degree from the decline at the crisis.

The wages of the operatives and non-operatives demonstrate important variations in the private and public sectors.

An analysis of the movement of the wages in the public and private production sectors reveals that in 1988 wages were close to each other and that, as a result of the populist policy followed after 1988, the wages in the public sector increased rapidly. Due to the restrained

wage increases in the private sector at the 1994 crisis, the wages in the private sector almost dropped to the half of the wages in the public sector. After the crisis, the discrepancy decreased partially because of the more rapid wage increase in the private sector; but the wages in the public sector are still 42 percent above those of the private sector. In 1996, an employee in production activities had an average monthly income of TL 54,849,324 (\$ 676) in the public sector and TL 46,293,398 (\$ 571) in the private sector. After the crisis, the bare wages increased rapidly, while the increase in the side payments was of limited magnitude. The adjustments in the side payments were more apparent in the private sector. The rate of increase in the side payments in the private sector, that used to be higher compared to the public sector before the crisis, demonstrated a very low figure after the crisis.

Opposite to the above picture, the wages in non-production activities are higher in the private sector compared to the public sector. While a private sector employee was earning 70 percent more than a public sector employee in 1988, this gap closed down until 1994. After the crisis, as a result of a relatively higher wage increase in the private sector, the discrepancy increased again.

The real wages increased in 1997, this increase in the public sector being 13 percent.

When the real wage index of 1997 is analysed, a wage increase in both the public and private sectors can be observed. When the wages in production activities are taken into consideration, the increase in the public sector is found to be equal to 13 percent, much higher than that in the private sector (1.3 percent). In 1997, a similar trend was observed for other jobs. The wage increase in the private sector remained at 3.3 percent, while the increase in the public sector was around 10 percent. Nevertheless, the wages remain higher in the private sector than the public sector.

As of the sectors, the highest wage rate is observed in the chemicals sector.

Among the branches of the manufacturing sector, evaluating them in total without any distinction between the public and private sectors, the highest payment in 1996 was in the chemicals, basic metal and machinery sectors. In the chemicals sector, employees working on production earned TL 302,000 (\$ 3.72) per hour and employees working in other jobs earned TL 181,000 per hour (\$ 2.23). In contrast to this, the lowest payments were in the forestry sector, with an income per hour in production activities of TL 127,000 (\$ 1.56) and an income per hour in non-production activities of TL 32,000 (\$ 0.39).

The movements in the real wages are not parallel to those in labour efficiency.

In the period 1988-92, the increase in the real wages was twice the increase in efficiency. However, the economic crisis which occurred in 1994 caused a decrease in employment and production; and, as a result of a lower employment intake compared to the decline in production, efficiency also went down. However, the decline in efficiency was less than the decline in the real wages and after the crisis the increase in the real wages remained below the increase in efficiency.

TABLE A. 2.1

LABOUR FORCE STATUS OF NON-INSTITUTIONAL CIVILIAN POPULATION

	1990		1991		1992		1993		1994		1995		1996		1997	
	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.
Non-institutional civilian population (in thousands)																
Population 12 year (in thousands)	55,008	55,580	56,157	56,708	57,243	57,794	58,312	58,937	59,435	59,829	60,380	60,901	61,412	61,933	62,207	62,865
old and over	39,009	39,583	40,156	40,709	41,253	41,810	42,356	42,988	43,517	43,951	44,537	45,085	45,606	46,135	46,565	47,195
Labour force (in thousands)																
a- Employed	18,697	19,947	20,019	19,452	19,578	19,959	19,701	19,906	20,315	20,397	20,833	21,378	21,376	21,698	21,201	20,815
Total	91	93	93	92	92	92	92	92	92	92	93	93	94	94	94	93
% total	1,163	1,518	1,533	1,379	1,731	1,591	1,385	1,570	1,680	1,931	1,573	1,450	1,440	1,439	1,151	1,362
Underemployed	1,831	1,616	1,619	1,787	1,724	1,745	1,607	1,722	1,864	1,740	1,613	1,522	1,431	1,332	1,336	1,545
b- Unemployed	20,528	21,563	21,638	21,239	21,302	21,704	21,308	21,628	22,179	22,137	22,446	22,900	22,807	23,030	22,537	22,360
Total	218	385	214	349	283	305	239	240	287	355	290	270	240	260	440	514
Not in labour force (in thousands)																
a- Not seeking a job	147	259	75	174	109	108	92	101	129	134	84	101	98	117	116	233
but currently available for work	71	126	139	175	174	197	147	139	158	221	206	169	142	143	324	281
Discouraged	18,262	17,637	18,304	19,124	19,667	19,801	20,808	21,120	21,052	21,460	21,800	21,916	22,556	22,846	23,588	24,322
Others	18,480	18,022	18,518	19,473	19,930	20,106	21,047	21,360	21,339	21,815	22,090	22,186	22,796	23,106	24,028	24,836
b- Neither seeking a job nor currently available for work	52.6	54.5	53.9	52.2	51.6	51.9	50.3	50.3	51.0	50.4	50.4	50.8	50.0	49.9	48.4	47.4
Total	8.9	7.5	7.5	8.4	8.1	8.0	7.5	8.0	8.4	7.9	7.2	6.6	6.3	5.8	5.9	6.9
Labour force participation rate	33.4	33.4	29.9	37.3	30.7	36.6	28.8	31.7	30.7	33.3	27.6	27.3	26.0	28.0	29.4	24.1
Unemployment rate																
Total	5.7	7.0	7.1	6.5	8.1	7.3	6.5	7.3	7.6	8.7	7.0	6.3	6.3	6.2	5.1	6.1
Educated youth	5.3	7.0	8.3	6.4	9.5	8.3	5.5	9.1	10.7	9.5	9.5	8.2	10.0	7.7	6.8	8.0

TABLE A. 2.2

EMPLOYMENT BY PROFESSIONAL STATUS

	1989		1990		1991		1992		1993		1994		1995		1996		1997	
	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.
Total (in thousands)	19,002	19,094	18,699	19,948	20,019	19,542	19,579	19,958	19,703	19,905	20,315	20,398	20,832	21,376	21,376	21,698	21,201	20,815
a- Regular and causal employee	7,133	7,334	7,185	7,681	7,227	7,456	7,828	7,838	7,623	8,187	7,809	8,361	8,168	8,296	8,746	9,015	8,677	9,734
b- Self-employed and employer	5,847	5,515	5,440	6,049	6,089	5,694	5,908	6,234	5,902	5,953	6,173	6,244	6,235	6,634	6,162	6,454	6,560	6,500
c- Unpaid family worker	6,382	6,245	6,074	6,218	6,703	6,302	5,843	5,886	6,178	5,865	6,333	5,793	6,429	6,446	6,488	6,229	5,964	4,581
Total %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
a- Regular and causal employee	37.5	38.4	38.4	38.5	36.1	38.3	40.0	39.3	38.7	41.1	38.4	41.0	39.2	38.8	40.9	41.5	40.9	46.8
b- Others	62.5	61.6	61.6	61.5	63.9	61.7	60.0	60.7	61.3	58.9	61.6	59.0	60.8	61.2	59.1	58.5	59.1	53.2
Agriculture, hunting, forestry (in thou.)	9,236	9,179	9,111	9,355	9,862	9,252	8,632	8,911	9,356	8,643	9,590	9,022	9,879	10,228	9,751	9,962	9,607	8,219
a- Regular and causal employee (%)	4.4	4.3	4.8	4.8	2.9	5.2	4.8	4.8	4.5	4.3	3.5	5.4	4.9	5.0	5.1	7.6	5.3	7.6
b- Self-employed and employer (%)	31.8	32.8	33.4	34.1	34.2	31.7	34.3	35.9	34.2	33.5	35.4	36.3	35.2	36.5	33.6	34.9	37.6	41.1
c- Unpaid family worker (%)	63.9	62.9	61.8	61.1	62.9	63.1	60.8	59.3	61.3	62.2	61.1	58.3	59.9	58.5	61.2	57.6	57.1	50.9
Non-agricultural activities (in thou.)	9,766	9,915	9,588	10,593	10,157	10,200	10,947	11,047	10,347	11,262	10,725	11,376	10,953	11,148	11,625	11,736	11,594	12,596
a- Regular and causal employee (%)	68.9	70.0	70.4	68.3	68.3	68.4	67.7	67.1	69.6	69.4	69.7	69.2	70.2	69.9	70.9	70.4	70.5	72.3
b- Self-employed and employer (%)	26.1	25.3	25.0	27.0	26.7	27.0	26.9	27.5	26.1	26.3	25.9	26.1	25.1	26.0	24.8	25.4	25.4	24.6
c- Unpaid family worker (%)	4.9	4.8	4.7	4.8	5.0	4.5	5.4	5.5	4.3	4.4	4.4	4.7	4.7	4.2	4.3	4.2	4.1	3.0

Source: SIS Household Labour Force Survey, October 1997

TABLE A. 4.3

EMPLOYMENT BY ECONOMIC ACTIVITY

	1989		1990		1991		1992		1993		1994		1995		1996		1997	
	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.	April	Oct.
Total (in thousands)	19,001	19,093	18,700	19,946	20,023	19,454	19,579	19,958	19,705	19,907	20,314	20,396	20,835	21,377	21,376	21,698	21,201	20,815
1. Agriculture, hunting, forestry, fishing	9,236	9,178	9,110	9,355	9,863	9,253	8,631	8,913	9,356	8,643	9,591	9,023	9,879	10,226	9,751	9,962	9,607	8,219
2. Industry	3,922	4,195	3,745	4,274	4,174	4,109	4,167	4,640	4,160	4,452	4,462	4,473	4,359	4,417	4,621	4,734	4,574	5,212
Mining and quarrying	214	163	177	218	150	220	152	203	123	165	191	159	167	131	185	162	145	176
Manufacturing	2,642	2,867	2,520	2,961	2,974	2,729	2,885	3,284	2,730	3,002	3,082	2,985	2,936	2,947	3,143	3,134	3,081	3,602
Electricity, gas and water	62	72	80	56	56	71	61	68	94	113	104	97	107	112	98	82	118	111
Construction	1,004	1,093	968	1,039	994	1,089	1,069	1,085	1,213	1,172	1,085	1,232	1,149	1,227	1,195	1,356	1,230	1,323
3. Services	5,843	5,720	5,845	6,317	5,986	6,092	6,781	6,405	6,189	6,812	6,261	6,900	6,597	6,734	7,005	7,002	7,020	7,182
Wholesale and retail trade	2,075	2,120	2,116	2,278	2,191	2,249	2,382	2,492	2,293	1,545	2,317	2,647	2,570	2,612	2,647	2,704	2,770	2,816
restaurants and hotels	835	830	784	851	812	802	897	841	884	959	809	917	827	855	870	917	845	826
Transportation, storage and communication	429	452	401	436	424	437	493	462	396	492	473	474	431	487	514	453	494	516
Finance, insurance etc.	2,594	2,318	2,544	2,752	2,559	2,604	3,009	2,610	2,616	2,816	2,662	2,862	2,769	2,780	2,974	2,928	2,911	3,024
Community, social and personal services	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
% in total	48.6	48.1	48.7	46.9	49.3	47.6	44.1	44.7	47.5	43.4	47.2	44.2	47.4	47.8	45.6	45.9	45.3	39.5
1. Agriculture, hunting, forestry, fishing	20.6	22.0	20.0	21.4	20.8	21.1	21.3	23.2	21.1	22.4	22.0	21.9	20.9	20.7	21.6	21.8	21.6	25.0
2. Industry	1.1	0.9	0.9	1.1	0.7	1.1	0.8	1.0	0.6	0.8	0.9	0.8	0.8	0.6	0.9	0.7	0.7	0.8
Mining and quarrying	13.9	15.0	13.5	14.8	14.9	14.0	14.7	16.5	13.9	15.1	15.2	14.6	14.1	13.8	14.7	14.4	14.5	17.3
Manufacturing	0.3	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.6	0.5
Electricity, gas and water	5.3	5.7	5.2	5.2	5.0	5.6	5.5	5.4	6.2	5.9	5.3	6.0	5.5	5.7	5.6	6.2	5.8	6.4
Construction	30.8	30.0	31.3	31.7	29.9	31.3	34.6	32.1	31.4	34.2	30.8	33.8	31.7	31.5	32.8	32.3	33.1	35.5
3. Services	10.9	11.1	11.3	11.4	10.9	11.6	12.2	12.5	11.6	12.8	11.4	13.0	12.3	12.2	12.4	12.5	13.1	14.0
Wholesale and retail trade	4.4	4.3	4.2	4.3	4.1	4.1	4.6	4.2	4.5	4.8	4.0	4.5	4.0	4.0	4.1	4.2	4.0	4.5
restaurants and hotels	2.3	2.4	2.1	2.2	2.1	2.2	2.5	2.3	2.0	2.5	2.3	2.3	2.1	2.3	2.4	2.1	2.3	2.5
Transportation, storage and communication	13.2	12.1	13.6	13.8	12.8	13.4	15.4	13.1	13.3	14.1	14.1	14.0	13.3	13.0	13.9	13.5	13.7	14.5
Finance, insurance etc.																		
Community, social and personal services																		

TABLE A. 2.4

WAGE INDICATORS

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Gross Minimum wage (TL) ¹	126,000	225,000	414,000	801,000	1,449,000	2,497,000	4,173,750	8,460,000	17,010,000	35,437,500
Gross Minimum wage (\$) ²	69	94	125	141	163	117	103	131	147	182
Average nominal labour cost per working day (TL)	21,444	47,168	88,656	217,056	364,760	616,144	998,448	1,468,688	2,732,520	4,848,866
Average real labour cost per working day (TL) ³	56,129	75,616	88,656	130,781	129,224	131,419	103,248	78,435	82,191	78,837
Index of Payments to workers in Manufacturing Industry (1992=100) ⁴										
Operatives										
Public	30	44	62	86	100	107	84	69	68	77
Private	45	56	67	98	100	107	74	74	76	77
Non-Operatives										
Public	32	51	69	83	100	105	85	70	73	81
Private	51	62	83	99	100	106	81	85	90	93
Workers in the Public Sector										
Basic wage	29	41	58	82	100	108	86	73	73	80
Total wage	30	44	62	86	100	107	84	69	68	77
Workers in the Private sector										
Basic wage	44	54	64	95	100	109	76	77	81	83
Total wage	45	56	67	98	100	107	74	74	76	77

¹ Minimum wage is announced in July or August and valid for 1 year. Minimum wage in the table is indicated under the year it is announced.

² The average exchange rate is used in the specified period.

³ Real labour cost is calculated by dividing nominal labour cost by consumer price index.

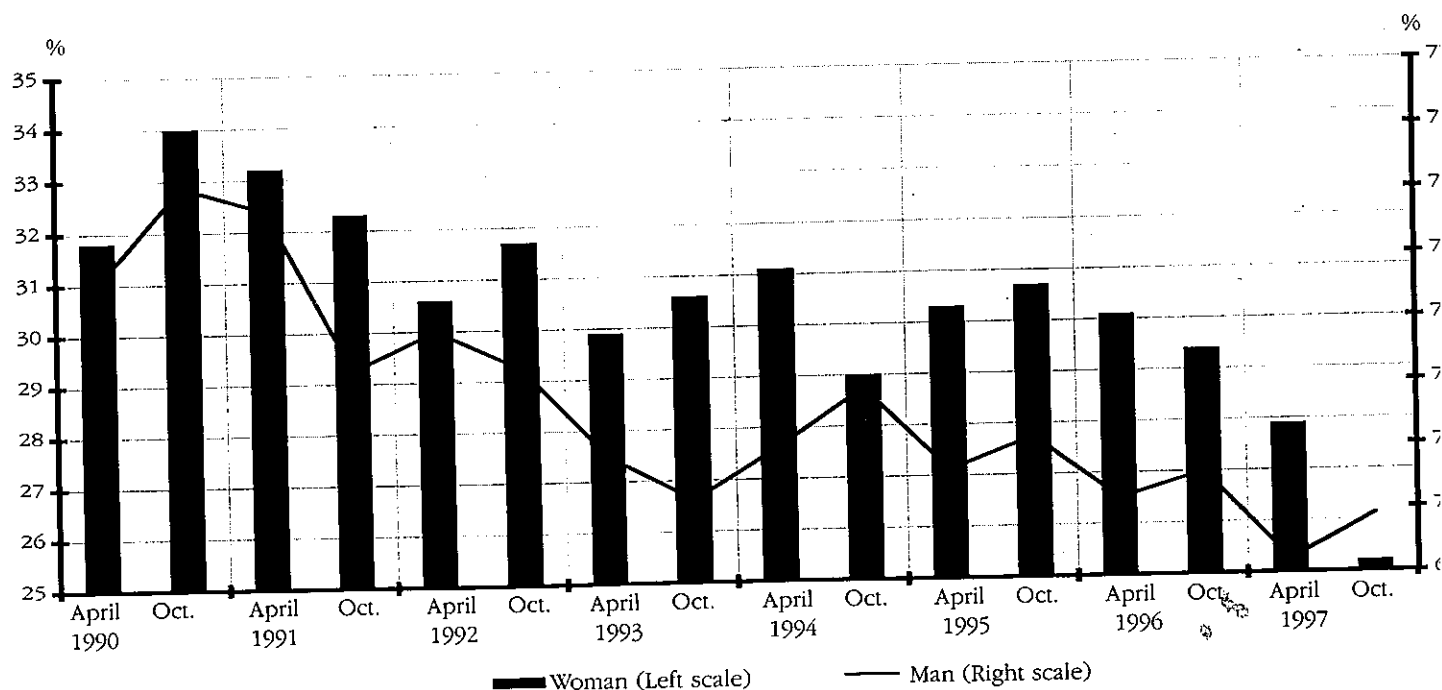
⁴ Nominal payment/wholesale price index.

Sources: Ministry of Labour and Social Security, Labour Statistics, July 1997

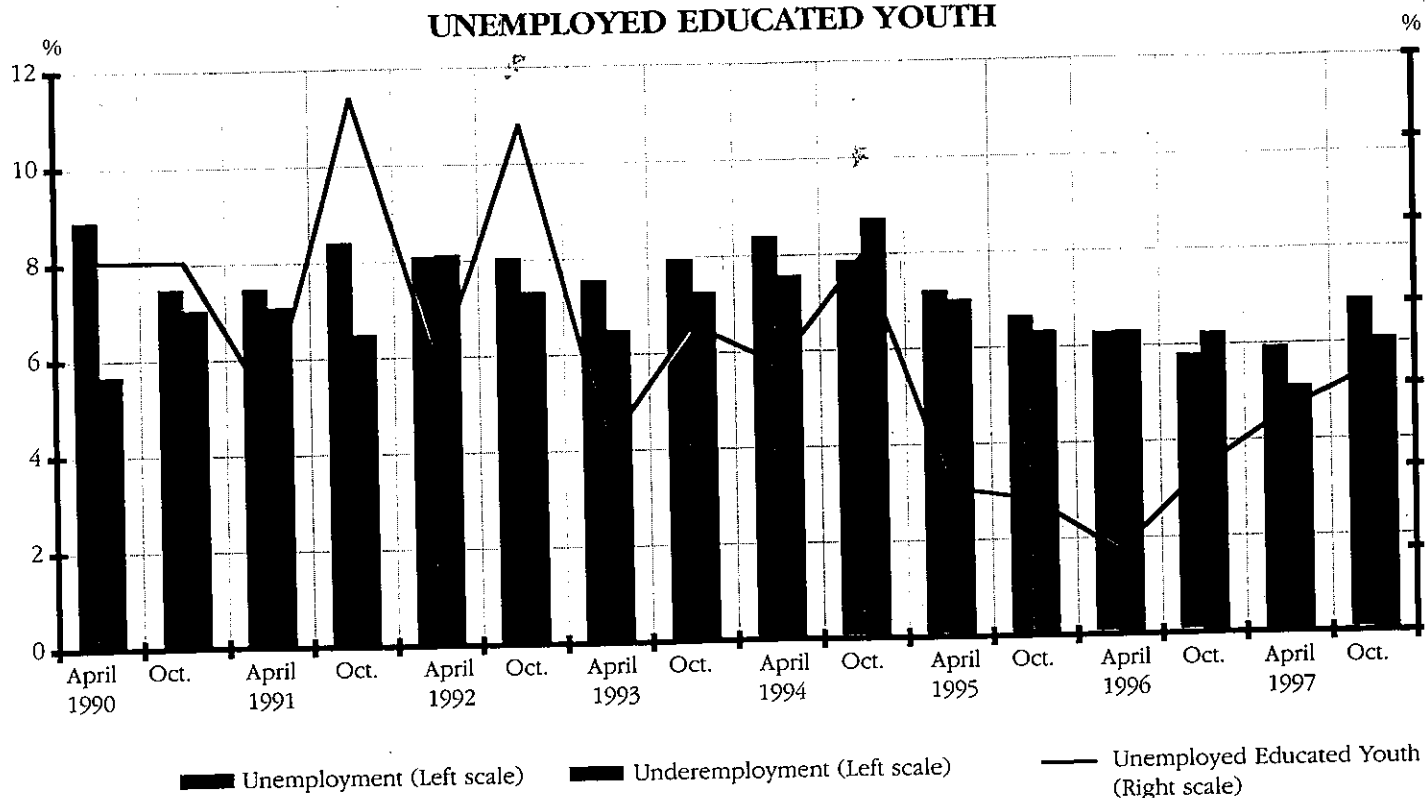
Turkish Confederation of Employer Associations, Labour Statistics and Labour Costs, 1997

SIS, Income Index in Manufacturing Industry, 1998

LABOUR FORCE PARTICIPATION RATE



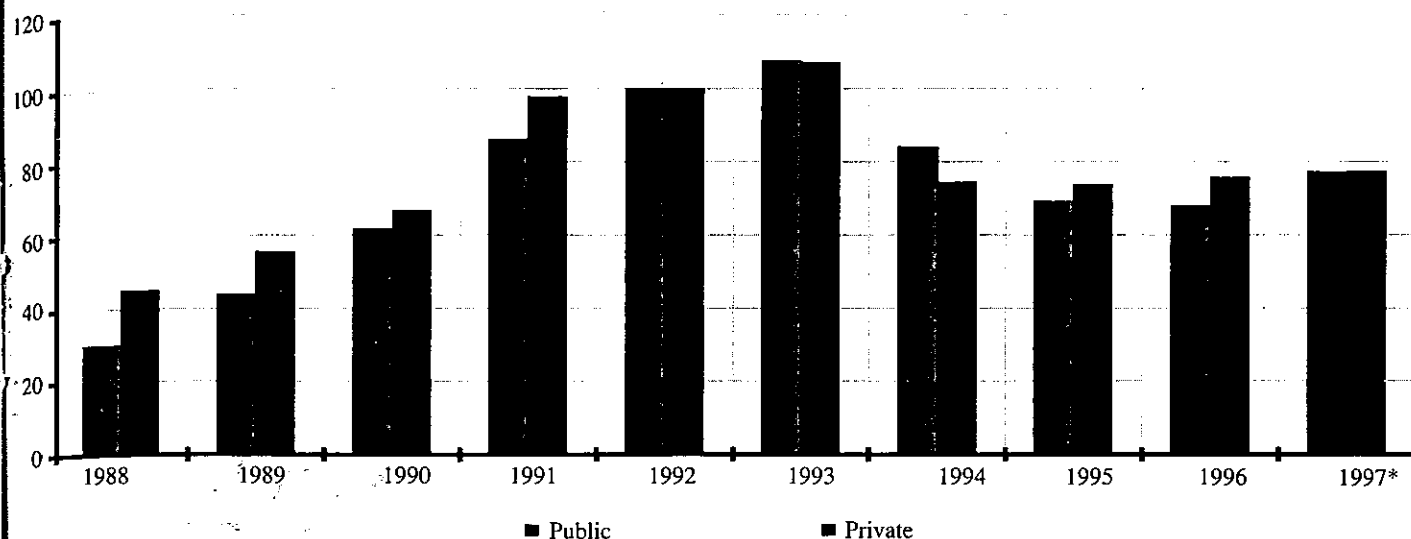
RATES OF UNEMPLOYMENT, UNDEREMPLOYMENT AND UNEMPLOYED EDUCATED YOUTH



GRAPH A. 2.3

INDEX OF MONTHLY PAYMENTS TO THE OPERATIVES IN THE MANUFACTURING INDUSTRY

(1992=100)

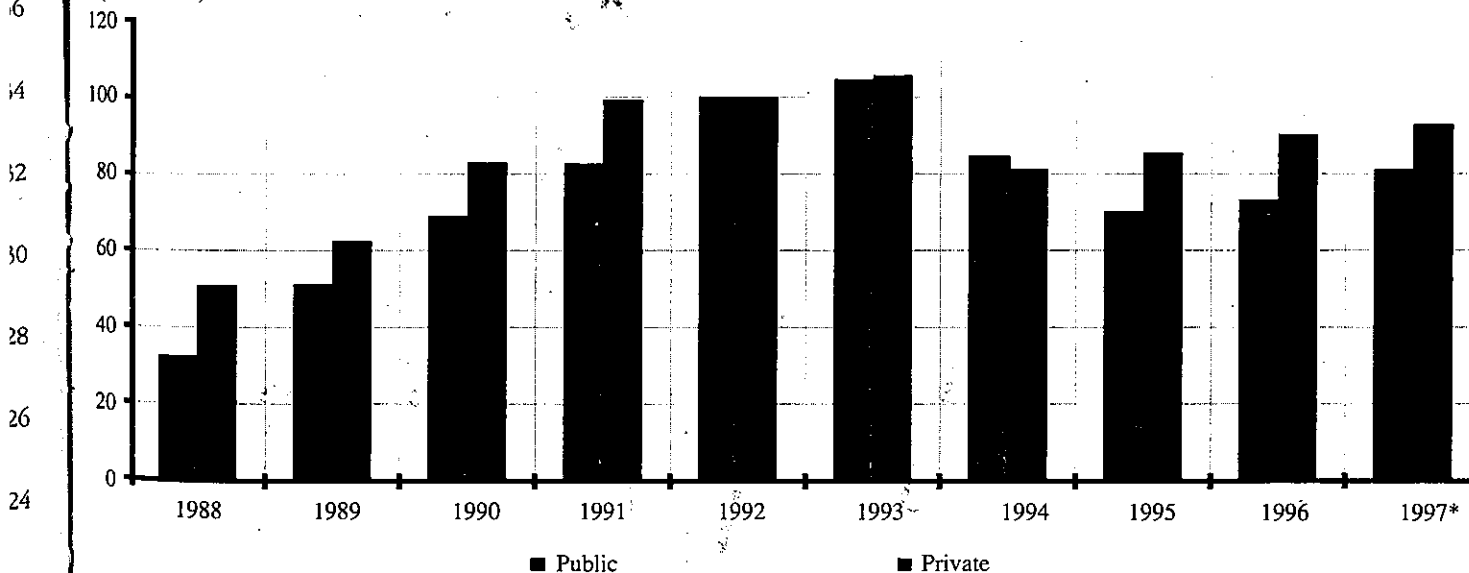


(*) 1997 numbers are calculated from the "income index in Manufacturing Industry of SIS", 03/04/1998

GRAPH A. 2.4

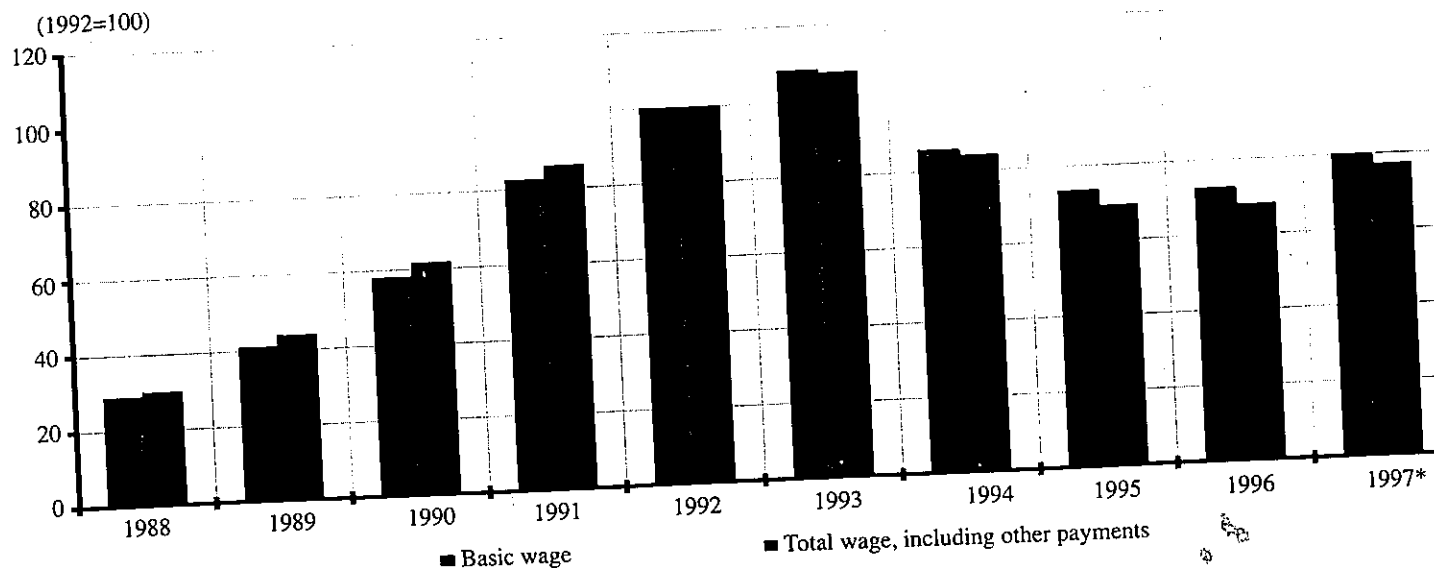
INDEX OF MONTHLY PAYMENTS TO THE NON-OPERATIVES IN THE MANUFACTURING INDUSTRY

(1992=100)



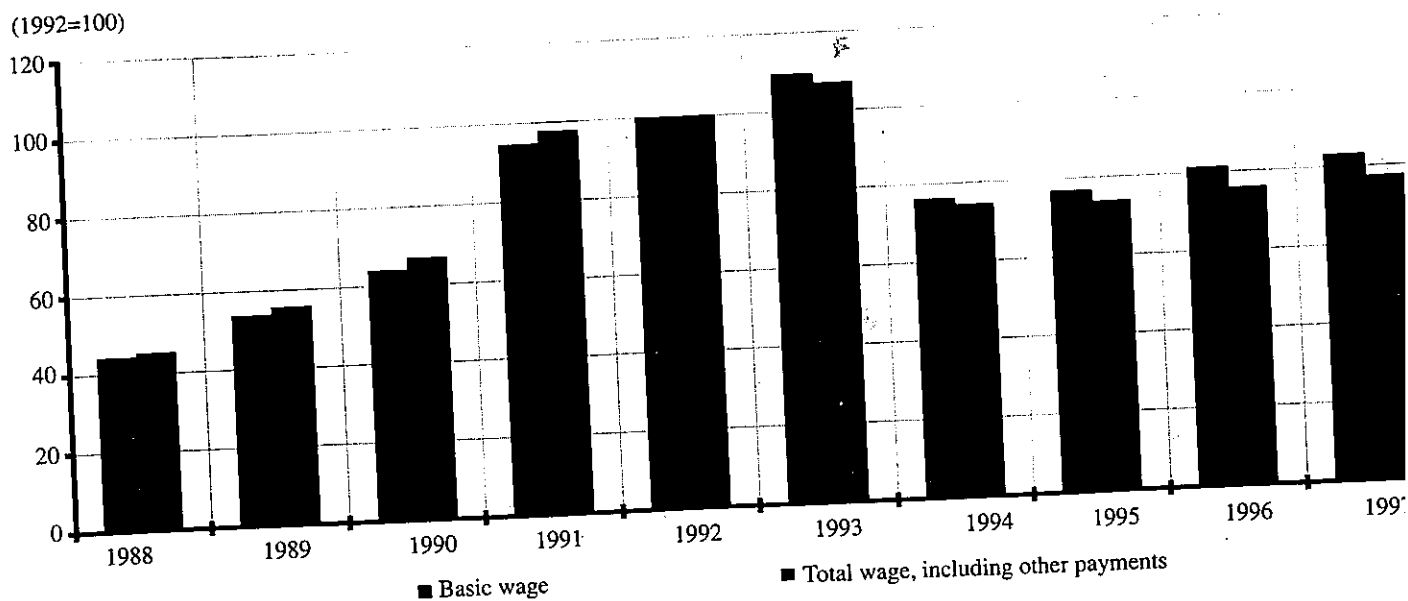
(*) 1997 numbers are calculated from the "income index in Manufacturing Industry of SIS", 03/04/1998

INDEX OF MONTHLY PAYMENTS TO THE OPERATIVES IN THE PUBLIC MANUFACTURING INDUSTRY



(*) 1997 numbers are calculated from the "income index in Manufacturing Industry of SIS", 03/04/1998

INDEX OF MONTHLY PAYMENTS TO THE OPERATIVES IN THE PRIVATE MANUFACTURING INDUSTRY



(*) 1997 numbers are calculated from the "income index in Manufacturing Industry of SIS" 03/04/1998

APPENDIX 3
DEVELOPMENTS IN THE WORLD
ECONOMY

1. THE ASIAN CRISIS AND THE WORLD ECONOMY

In the next five years the growth rate in the world economy is expected to be above of the 1970-97 growth rate average.

The two major developments that are affecting the world economy in 1998 are the Asian crisis and the European Monetary Union. The world economy continues its medium term growth trend as a result of the buoyancy of domestic demand in industrialised countries and the fact that the repercussions of the Asian crisis have been remaining partially localised.

The countries that are most affected from the crisis are Indonesia, Korea and Thailand. Malaysia and the Philippines are the countries that are affected at a second degree. These countries' growth rates are expected to decrease rapidly to negative values. The crisis, nevertheless, has had a positive impact on these countries' competitive power due to sudden decline in value of their national currencies, while a partially negative effect on other developing countries. However, in the Asian countries exports have been affected in a negative way by the disappearance of credit opportunities and a decline in import production. In this case, the competitive advantage of exports, generated by a decline in the real exchange rates, will be behind the initial expectation. The Asian crisis caused a reduction in the growth rate anticipation of emerging market economies. It is estimated that the growth rate in the developing countries, which has been 6 percent on average in the 1990s, will drop to 4 percent in 1998.

Despite all the measures taken in Japan, which is the only developed country noticeably suffering from the Asian crisis, a probability of its economy being contracted is not totally removed. For other developed countries, a continuation of growth, induced by domestic demand, is anticipated in 1998. The US economy is in a period of powerful expansion, coupled with a decrease in the inflation rate starting from mid-1991. At the same time, after a slowdown in the growth rate of the European Union, which was caused by tight monetary and financial policies applied prior to the monetary union, acceleration in the growth rate is expected.

The Asian crisis has caused the world economy growth rate to partially slow down. The rate of world production increase is estimated to decline from the 1997 value of 4.1 percent to 3.1 percent in 1998. As a result of the acceleration of the existing positive growth rates in the countries in transmission and the persistence of the growth performance in the developing countries, the expansion period of the world economy in the following five years is expected to continue with a growth rate above the 1970-97 average.

In 1998, together with an increase in the world production, the inflation rate is estimated to occur at the lowest level since 1974.

In general, the Asian crisis is expected to strengthen the trend of reduction in the world inflation rate by curtailing the demand in most countries, decreasing the prices of the goods

produced within these countries and reducing the prices of the basic goods via contracting the input demand in the Asian countries. The inflation rates in the developing and developed countries are expected to occur at the lowest level since 1974. The consumer prices in the developed and developing countries are estimated to increase by 2.1 percent and 10.2 percent respectively.

While the world trade volume is slowing down, the capital flows are also diminishing

The net capital flows excluding the developed countries have been diminishing since 1990. The total capital flows that reached \$ 241 billion in 1996 is anticipated to decrease to \$ 122 billion in 1998. This situation makes the financing of the current account deficits of the developing countries difficult. While the current account deficits are increasing in the primary goods exporting countries, especially oil exporting countries, in conjunction with a decline in primary goods prices, they will improve in the Asian countries and other emerging market economies. As a result, compared to 1997, the current account deficits are estimated to increase by \$ 70 billion in the developed countries and to decrease by \$ 13 billion in other countries. In the developing countries the fact that the decline rate in the good and service imports will be lower than the decline in exports will play a role in reducing the current account deficits. The growth of worldwide good and service imports are estimated to decrease from the level of 9.4 percent in 1997 to 6.4 percent in 1998. The rate of increase in imports in the developed countries will drop from 8.6 percent in 1997 to 6.8 percent in 1998; for the same years, the rate of increase in exports will drop from 9.8 percent to 6.2 percent. For the developing countries, the rates for 1997 and 1998 are anticipated to be respectively 12.1 and 5.2 percent for imports and 10.8 and 10.8 percent for exports.

2. THE ECONOMIC DEVELOPMENT AND EXPECTATIONS IN THE EUROPEAN UNION

Prior to the European Monetary Union that will be intact with the participation of 11 countries in 1999, the European Union (EU) countries not only went through structural modifications in order to conform with the Maastricht criteria but also managed to accelerate their economic growth rates.

The growth rate of the EU countries, which was 2.5 and 1.8 percent in 1995 and 1996 respectively, reached 2.7 percent in 1997.

The increases in exports, investments and the private sector consumption induced domestic demand explain the growth rate in 1997. In 1997, the private sector consumption and machinery and equipment investments increased by 2 and 4.4 percent, respectively. However, the slower growth rate of Germany compared to other members, mainly as a result of the stagnation in its construction sector, needs to be noted. The main explanations for the increase in domestic demand are the diminution in the interest rates, oil prices and the inflation rate. The pos-

developments in exports are claimed to be the results of a continued worldwide income rise, a shift in the total demand (excluding EU) for exports reaching 11 percent and the appreciation of the US dollar.

The rapid growth of the EU countries is expected to continue in 1998 and 1999.

According to the European Commission's estimations, in the 1998 and 1999 years the buoyancy of domestic demand will continue and the GNP will rise by 2.8 and 3 percent, respectively. A 7 percent increase in machinery and equipment investments and a 2.5 percent increase in private sector consumption are expected.

The Asian crisis is expected to reduce the world trade growth from the level of 10 percent to 5 percent in 1998. As a result of this decrease, some reduction in investments in 1998 is anticipated. However, the EU economy is not expected to be affected by the Asian crisis to a high degree because of the low trade capacity with the countries of that region. The sectors that will be relatively more affected are luxury consumption and investment goods including machinery parts, computer and electronic goods. While the EU exports within the union are around 61 percent of the total export quantity, exports to the countries that are most affected by the crisis (Korea, Indonesian, Thailand, Malaysia and the Philippines) account for only 2.4 percent. According to the EU Commission's estimations, the probable negative impact of the Asian crisis on the growth rate will not be more than 0.2 points.

An important supporting indicator of this view is the survey conducted in the member countries that the persistence of the optimism that started in mid-1996 with the exception of an interruption that occurred in January 1998. Moreover, with the support of the international organisations, the economies in crisis are expected to likely improve within 2 years.

There has been partial recovery in unemployment that stands as the most important problem of the EU.

It is anticipated that there will be an increase in employment opportunities in 1998-99 at a rate of 0.8 and 1.1 percent, respectively, and this is expected to create new job opportunities for 2.8 million people. However, this increase in the employment opportunities is claimed to create no improvement in the unemployment problem because of the demographic factors and an increase in the labour supply. In 1997, the unemployment rate in the EU decreased to 10.7 percent with a decline of 0.2 points as of 1996. The unemployment rate is expected to decline to 10 percent in 1998-99.

As of 1998, in all the EU countries, excluding Germany, the employment opportunities are estimated to increase. The highest employment increase is expected to occur in Ireland by 3.8 percent, while the lowest increases are expected to occur in the UK and Italy by 0.5 percent. On the other side, in Germany the employment rate is expected to decline by 0.1 percent as a result

of the restrained domestic demand growth and the relatively higher negative effects of the Asian crisis.

Domestic demand expansion does not create a pressure on the inflation rate.

A slowdown in the inflation rate, in a situation where the interest rates are converging to each other and are gradually decreasing, is the most important element facilitating the transition to monetary union. Therefore, the EU countries have taken important steps towards decreasing the inflation rate.

The decline in oil prices, the fact that the increase in wages remains lower than the inflation rate, and the optimistic anticipation from the European Monetary Union, all contributed to the efforts of the member countries in reducing the inflation rate to 2.1 percent in 1997, with a decline of 0.5 point, although there has been an increase in import good prices that was caused by the appreciation of the US dollar. In the following two years these improvements are expected to continue; furthermore, there is an understanding that a possible decline in import prices would further help to control the inflation rate. On the other hand, the expectations that the discipline of the economic policies after the monetary union will be intact, that the European Central Bank will not implement any policies with an inflationary impact, and that the unit wage cost increase will not exceed 1.5 percent in 1998-99, confirm that in the following two years inflation will remain under control. However, the inflation rate in Ireland and Greece is expected to occur at above 2 percent in 1998.

Before the monetary union, important steps were taken in the financial consolidation, which has been the most compelling problem of the member countries.

Similar to inflation, the performances of the EU countries display differences in this issue. The central government budgets of Denmark and Ireland demonstrate a surplus, while in other countries (excluding Greece) the ratio of the deficit to the GNP varies between 2.5 and 3 percent. The average budget deficit remained at around 2.4 percent of the GNP as a result of the relatively low interest rate and a growth rate higher than the expected value. When this ratio is compared with the 1993 figure of 6.1 percent and the 1996 figure of 4.2 percent, it demonstrates the serious efforts taken in the issue of the financial consolidation.

If the goals set for 1998 are achieved, the ratio of the total budget deficit to the GNP is expected to decline under 2 percent. A further reduction in the budget deficit is estimated to result from a decline in real expenditures. On the other side, the budget revenues for the 1998 period are estimated to decline in real terms.

In the below Table, some economic variables of the EU countries, US and Japan are given, together with the European Commission's estimations, prepared under the assumption that there will be no important policy changes, for the 1998-99 period.

TABLE A. 3.1

WORLD ECONOMY: BASIC INDICATORS

	1996	1997	1998 *	1999 *
(Annual Percentage Change)				
World Production	4.1	4.1	3.1	3.7
Developed Economies	2.7	3.0	2.4	2.5
G-7 Countries	2.5	2.8	2.3	2.2
Other developed Economies	3.8	4.0	2.9	3.6
Developing Countries	6.6	5.8	4.1	5.3
Africa	5.5	3.2	4.6	4.9
Asia	8.3	6.7	4.4	5.9
ASEAN -4	7.1	3.9	-2.7	2.5
Middle East and Europe	4.9	4.4	3.3	4.0
Western Hemisphere	3.5	5.0	3.4	4.3
Economies in Transition	-0.1	1.7	2.9	3.4
Middle and East Europe	1.5	2.7	3.9	4.2
Middle and East Europe (except for Ukraine and Belarus)	3.6	3.1	4.4	4.6
Russia	-2.8	0.4	1.0	1.9
World Trade Volume	6.6	9.4	6.4	6.1
(Goods and Services)				
Imports				
Developed Economies	6.4	8.6	6.8	5.6
Developing Economies	9.3	12.1	5.2	7.8
Economies in Transition	7.6	5.4	5.1	5.6
Exports				
Developed Economies	5.9	9.8	6.2	6.0
Developing Economies	8.7	10.8	7.4	6.7
Economies in Transition	4.9	3.5	4.2	6.6
Prices of Primary Goods				
Oil				
SDRs	24.3	-0.9	-22.8	9.1
U.S. \$	18.9	-6.0	-23.9	9.2
Non-oil				
SDRs	3.1	1.6	-6.0	0.8
U.S. \$	-1.3	7.4	0.9	0.9
Consumer Prices				
Developed Economies	2.4	2.1	2.1	2.0
Developing Economies	13.7	8.5	10.2	8.5
Transition Economies	41.4	27.8	13.8	8.7
Month Labor (%)				
U.S. \$	5.6	5.9	6.1	6.1
Japan yen	0.7	0.7	0.7	1.2
DM	3.3	3.4	3.9	4.5

Forecast

Source: IMF, World Economic Outlook, April 1998.

TABLE A. 3.

**Gross Domestic Product in Developed Economies
(Annual % Change)**

	1961-73	1974-85	1986-90	1991-95	1996-99	1995	1996	1997 Estimate	1998 Forecast	1999 Forecast
Belgium	4.9	1.8	3.0	1.2	2.5	2.1	1.5	2.7	2.8	3.0
Denmark	4.3	2.0	1.4	2.0	2.8	2.6	2.7	2.9	2.7	2.8
Germany	4.3	1.7	3.4	2.1	2.2	1.8	1.4	2.2	2.6	2.9
Greece	7.7	2.5	1.9	1.1	3.5	1.8	2.6	3.5	3.8	4.0
Spain	7.2	1.9	4.5	1.3	3.2	2.8	2.3	3.4	3.6	3.7
France	5.4	2.2	3.2	1.1	2.5	2.1	1.5	2.4	3.0	3.1
Ireland	4.4	3.8	4.7	5.9	9.0	11.1	8.6	10.0	8.7	8.8
Italy	5.3	2.7	3.0	1.1	1.9	2.9	0.7	1.5	2.4	3.0
Luxembourg	4.0	1.8	6.4	5.4	4.0	3.8	3.0	4.1	4.4	4.7
Netherlands	4.9	1.9	3.1	2.1	3.4	2.3	3.3	3.3	3.7	3.2
Austria	4.9	2.3	3.2	2.0	2.5	2.1	1.6	2.5	2.8	3.1
Portugal	6.9	2.2	5.0	1.4	3.8	1.9	3.6	3.7	4.0	3.8
Finland	5.0	2.7	3.4	-0.5	4.4	5.1	3.6	5.9	4.6	3.6
Sweden	4.1	1.8	2.3	0.5	2.1	3.9	1.3	1.8	2.6	2.8
United Kingdom	3.1	1.4	3.3	1.3	2.5	2.8	2.3	3.5	1.9	2.2
EU	4.8	2.0	3.3	1.5	2.6	2.5	1.8	2.7	2.8	3.0
EU-11	5.2	2.1	3.4	1.5	2.6	2.4	1.6	2.5	3.0	3.2
USA	4.0	2.3	2.8	2.0	2.8	2.4	2.8	3.8	2.5	2.1
Japan	9.7	3.4	4.6	1.4	1.7	1.0	3.9	1.0	0.4	1.5

Source: European Commission.

