TÜSİAD

TURKISH INDUSTRIALIST' AND BUSINESSMEN'S ASSOCIATION

TÜSİAD

Quarterly Economic Survey

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1999 FORECASTS

TÜSİAD TURKISH INDUSTRIALIST' AND BUSINESSMEN'S ASSOCIATION

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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 18th issue of TÜSİAD Quarterly Economic Survey was prepared by utilising the most recent data and estimations available as of August-October 1998 by Economic Research Department.

THE STRENGTHENING RECESSIONIST EXPECTATIONS FOR THE ECONOMY OF TURKEY TOWARDS 1999, COUPLED WITH THE GLOBAL CRISIS CONDITIONS, WILL MAKE IT DIFFICULT TO KEEP THE LOWERED RATE OF INFLATION PERMANENT.

Following the East Asian countries and Russia, the global crisis has caused recessionist impacts on the economies of developed countries at the centre.

The globalisation process which intensified on a world scale during the last periods has, for the first time, experienced a recessionist impact from the periphery to the centre. The recent Russian crisis, preceded by the Asian crisis that is still effective despite its one year long history, has had adverse impacts on world-wide economies through capital and goods circulation. The facts that the crisis has been hitting other developing countries as well, particularly those of South America, and that there is possibility of a second crisis in the Far East, have been instrumental in opening a debate on the issues of, among others, how the crisis can be contained, how the loss of credibility can be regained, under which conditions, and from where, countries facing the crisis can find financial support. Governments in countries like Korea, Brazil and Malaysia have started to take their own precautions complementary to those advice and help provided by supra-national organisations.

During the first three quarters of 1998, the important deceleration in inflationary expectations, the agreement signed with the IMF and the high foreign currency reserves, have all prevented Turkey from the initial impact of the global crisis.

The facts that the government has been pursuing since the beginning of 1998 such fiscal and monetary policies that aim to decrease the inflation rate and that the implementation of a program of internal borrowing, have lowered fluctuations and uncertainties in the markets and increased the confidence to officials in charge of the economy. The "staff-monitoring" agreement, signed with the IMF in July, has strengthened the optimistic expectations in the markets. The control of public sector prices and the optimistic expectations have both caused the inflation rate to go down by 20 percent, compared to the beginning of the year, reaching the yearly compound rate of 76 percent in July.

The crisis in Russia, which started in the end of August, has caused deterioration in the optimistic expectations, the rising uncertainties, and instabilities in the interest rates. Turkey faced the crisis with a relative small current account deficit and strong reserves. This situation made it possible the Central Bank to curb the devaluationary expectations by being able to meet the increase in the demand of foreign currency. Since the export markets have been primarily geared towards the developed countries and as demands in these countries were, for the first half of 1998, in relative terms buoyant, foreign currency inflows were at a satisfactory level. Since the beginning of 1998, the fact that Turkey was exercising control in relative terms on her economy via fiscal policies caused inflationary expectations to have a decreasing trend, which in turn helped the impact of the crisis to be of lesser degree compared to an environment where the expectations would be higher.

With the spread of the crisis, one would expect that the world economy will experience a severe recession in 1999. The consequence of this will be a reduction of possibilities to export to the developed countries. These developed countries will not furthermore mobilise their capital flows to high-return, short-term investments anymore because of the existence of high risks. As international finance organisations tend to regard the emerging markets as a whole, and refrain from operating in them, banks and the public sector will encounter difficulties in borrowing foreign currency from foreign resources. Such developments will cause Turkey to face both a decrease in trade volume and a difficulty in finding foreign borrowings. As the public sector in Turkey will have to turn to domestic sources to be able to finance its foreign debts, there will be pressure on financial markets, with the consequence of the interest rates to prevail at very high levels. During a period in which domestic demand is also going down, it is inescapable that production will decrease as well.

Reform program needs to be continued even under the crisis conditions.

Under the world-wide crisis, while measures to curb fluctuations in the markets are being taken, reform programs to tackle structural problems of the economy should be simultaneously pursued. As has been observed in the past Asian and Russian crises, non transparent economic administrations, weak main economic parameters, and particularly underdeveloped financial markets will render countries vulnerable to economic crises. Within this framework, while in the meantime policy flexibility is acquired to ensure that markets are compatible with daily developments, the structural reform attempt needs to be pursued in order to strengthen the long-term parameters. Many countries have given further emphasis to their structural reform programs to restore interior and exterior credibility that was afflicted due to the crisis. Turkey, too, should take measures to restore in an enduring way her main economic parameters in order to strengthen her position in the international markets and to regain the foreign investment which is staying away from all the emerging markets.

The slowdown of the economy which was observed in the second quarter of 1998 is expected to continue throughout the rest of 1998 and possibly turn into a recession in the first half of 1999.

The economic recession which begun to be felt since April made itself apparent in the economic indicators in the second half of 1998. The economic growth which was 9 percent in the first quarter turned out to be only 4 percent in the second quarter. The sector which was hit the most in terms of production loss was that of construction, with a decline of 3.2 percent per annum. Contractions in the manufacturing and trade sectors have also been noted. These sectors, whose growth rates relative to the previous year for the first quarter were 8.4 and 10.2 percent, respectively, exhibited only 2 and 2.4 percent growth rates for the second quarter.

When the decline in growth is analysed in terms of the demand side, it would be noted that the demand items other than current public expenditures have been shrinking. The private consumption expenditures have decreased 0.3 percent per annum. The fact that the demand for durable consumption goods, which showed an average real increase of 28 percent per annum in the last three years, fell by 0.8 percent is a sign which indicates that domestic demand has shrunk in a considerable manner. For the reduction of the private consumption, one should also take into account the impact of the falling inflationary expectations, which were dominant in the second quarter, on individuals' decisions in postponing their expenditures. The adverse conditions in the foreign markets, the rising uncertainty due to early election expectations, the wait-and-see approach towards the new tax legislation, all negatively affected the investments, with a consequence that in this quarter the total investment figure went down by 2.3 percent per annum. However, despite the recessions observed in investment and private consumption, it is noteworthy to observe that the public sector expenditures have gone up 10.5 percent per annum.

The industry production, which grew 10 percent per annum in the first quarter, experienced a fall in the second quarter, exhibiting a growth rate of 3.5 percent. In the second quarter, recession has been observed especially in the textile and food sectors. The fact that the industry production index, when seasonal fluctuations are filtered, showed monthly increases of 0.9 and 0.2 for July and August, respectively, accentuates the expectation that the recession which was experienced in the second quarter will continue to persist with an increase. The capacity utilisation rates for the first eight months of 1998 were generally below those experienced in 1997.

It is anticipated that recessionary expectations will continue in the second half of the year. The Russian crisis is expected to be effective in the third quarter in increasing the contraction especially in the construction sector. Furthermore, possible reductions in foreign demand, uncertainties in economy due to the global crisis and debates on political agenda, and the interest rates which have been high since August, will all adversely affect the growth in the third quarter. In light of these developments, TÜSİAD has downscaled its growth forecast. TÜSİAD's estimation of 4.6 percent is in conformity with the government's revised figure of 4.5 percent.

The advance tax payment that becomes effective due to the new tax legislation and the uncertainties brought about by the global crisis, when added to the pressure on the interest rates which exists due to government financing requirement, caused the interest rates to go up. Since the possibility of using foreign funds to cover the debt payment is decreasing, with the consequence that domestic sources will have to be considered for financing, the pressure on the interest rates will increase further. The facts that available funds of deposit banks will be directed to higher return government securities and less funds will be allocated towards the real sector, coupled with high interest rates, will further shrink the production in the coming periods.

The target figure set for the net domestic assets for the second half of 1998 cannot be met due to the global crisis.

The Central Bank took a series of measures in May 1998 to curb the increase in the net foreign assets, which was due to short-term capital inflows, and shifted its control from the reserve money to the internal net assets by taking into account the deceleration in inflation. As such, it was decided that the target figure for the net domestic assets would be -1.514 trillion TL. In light of such policies, the Central Bank had withdrawn domestic currency from the markets via the sale of foreign currencies, and managed to deal with the emerging liquidity problem by supplying currency into the markets via open market operations. However, the global crisis caused the foreign assets to decrease much faster than expected. In order to prevent this situation to further shrink the economy, through creating a serious liquidity problem in an environment where domestic demand is low, the net domestic assets have increased well above the announced objective. As a result, the monetary policy targets set for the third quarter of 1998 have been surpassed.

When the end-September figures are analysed, one would observe that the net foreign assets went down from their July figure of 4,389 trillion TL to 2,972 trillion TL and that the net domestic assets went up from the July figure of -1,687 trillion TL to 118 trillion TL. The increase in the net domestic assets is well above the target set by the government, whereas the decrease in the net foreign assets is more than anticipated by the government. It is possible to explain this sudden decrease in the net foreign assets by the tendency of the short-term funds invested in Turkey to flee, as in other emerging markets, due to the impact of the global crisis.

The Central Bank supplied TL into the markets through open market operations in order to regulate the liquidity amount in the markets. The open market operations debts, which amounted to 1,104 trillion TL as of the end of June, went down to -816 trillion as of the end of September, and the Central Bank emerged as the net creditor. Related to this, the Central Bank money showed a tendency to decline since July. The growth in reserve money declined in September to the levels of approximately 85 percent per annum.

During the third quarter, since August, important real increases have been observed in money supply definitions. In September, the annual real increase has been noted as 14 percent for currency in circulation, 20 percent in M1 and M2, and 10 percent in M2Y. Although there was a slight increase in the rate of the total deposits, savings withdrawn from the stock exchange was not channelled to time deposits. Despite of this, the increase in the domestic credits supplied by deposit banks has been observed to decelerate, as exhibited in the figures of July, August and September as 118.4 percent, 107.3 percent and 101.5 percent, respectively.

The Istanbul Stock Exchange has experienced an important decline as a result of foreign funds withdrawal and increased interest rates.

The Istanbul Stock Exchange compounded index, which was 939 on the USD basis in July, exhibited a fall of 85.4 percent in September, reaching a magnitude of 486. In this fall, the facts that world stock exchanges were in decline as a result of the Russian crisis and that especially foreign investors, who suffered a great deal in the global crisis, were in a tendency to flee the financial sector in Turkey, like in other emerging markets, have both played an important role. Additionally, new regulations on the financial markets by the new tax legislation and the increasing tendency of the interest rates have also been instrumental in the decrease that the Stock Exchange has gone through. For this reason, new adjustments in the tax legislation leading to decrease the withholding tax on interbank deposit operations from 6 percent to nil and the banking and insurance procedure tax in certain stock exchange operations from 5 percent to 1 percent have been undertaken. As a result, a partial improvement has been observed in the stock exchange.

Due to the impact of the Russian crisis, the government had to upscale the inflation target for 1998.

The inflation rate, which showed a tendency to decrease since the New Year, exhibited in September a value of 5.3 percent, a rate which is higher than anticipated. After being filtered from seasonal effects, the inflation rate in September turns out to be 4.8 percent. For the September increase, foreign factors seem to have played a greater role than domestic ones. Despite this, the 12 month average inflation rate continued its falling trends from the April value of 85 percent and exhibited a figure of 80 percent in September.

As of September, the nine month public sector prices showed an increase which was less than the general trend. While the energy prices have been increased by 54.5 percent as of the New Year, especially the industry output prices have been kept at lower levels. Thus, the increase in the public wholesale price index for the nine months of 1998 exhibited a figure of 28 percent; whereas the figure was 60.9 for the same period in 1997. Finally, when the 12 month increases are considered, in September, the price increase of the private sector was 71.6 percent, that of the public sector 48.2 percent, and the inflation rate was 65.9 percent.

Under these developments, the targets set in the 1998 programme had to be revised for the end-of-year inflation rate from 50 to 58 percent and for the yearly average rate from 64 to 72.4 percent. TÜSİAD's projections for the end-of-year inflation and the yearly average rates are 62.2 and 73.1 percent, respectively.

The interest rates, which decelerated as a result of the optimism that prevailed in the markets in early 1998, have started to increase in conjunction with changing conditions.

As a result of the confidence created in the markets in the first six months, by both the government's implementations that were in accordance with the three month programmes and later by the agreement signed with IMF, the average auction interest rates went down in July to a figure of 83 percent. However, coupled with uncertainties and instabilities caused by the Russian crisis, the additional tax burden on financial instruments that was brought by the new tax legislation caused the interest rates to climb up to 148 percent. The international climate and the public sector borrowing requirement reveal that the interest rates will continue to prevail at high levels.

As a result of the domestic recession, the trade balance will be positively affected as the rate of recession in imports will be less that of exports. No change is anticipated for the balance of payments deficit.

When the foreign trade data for the third quarter are examined, it would be noted that while the falling trend in exports is continuing, the decline rate in imports is steadily increasing. Especially in August, there was a decline of 2.2 percent per annum in exports, while the per annum decline in imports turned out to be 7.5 percent. The noteworthy decrease in the nominal imports has been the result of both the quantity effect of the economic recession and the fall in the prices of import goods due to the crisis. As a result, for the first eight month period, the ratio of exports to imports went up to 54.4 percent and the foreign trade deficit exhibited a figure of 14.1 billion USD.

The fall in import prices, that was perceived in the last two years, slowed down gradually in the April-June period, with a falling rate less than that of exports. Thus, when the 12 month average figures are considered, the terms of trade has started in the beginning of 1998 to worsen.

The adverse impact of the crisis in Russia, with which Turkey has a trade volume of 2 billion USD worth of formal exports and a volume of 5 billion USD worth of shuttle trading, on our foreign trade is unavoidable. Due to the international conjecture, an improvement in our exports is not anticipated. However, it is true that the impact of the decreasing of our imports, parallel to a fall in our growth rate, will have a positive influence in our foreign trade balance. Under these circumstances, it is anticipated that the foreign trade deficit for 1998 will go down to a figure of 20.9 billion USD.

When the balance of payments is given a detailed analysis, it would be noted that the first six month current account deficit, that has not been affected yet by the Russian crisis, has shrunk compared to last year. Although there is no perceived decline in the revenues of exports and tourism, the decrease of 14 percent in the shuttle trade has been offset by an increase of 35 percent in the invisible items. The short-term capital inflows in the first six month period showed an annual increase of 93 percent, amounting to 3.5 billion USD. While the figures of other capital inflows and of net errors and omissions exhibited the values of 4.3 billion USD and 1.9 billion USD, respectively, the official reserve accumulation amounted to 8 billion USD after subtracting the current account deficit that exhibits a value of 1.5 billion USD. Although the figures for the balance of payments for the rest of the year have not been announced yet, the fact that the Central Bank's reserves have decelerated by approximately 4 billion USD in the last two months shows that nearly all of short-term foreign capital left the country as a result of the impact of the global crisis. Despite the fact that the foreign trade deficit has a tendency to decelerate, it is anticipated that there would be a partial increase in the current account deficit as a result of the slowing down of the increase in the invisibles item. In the revised government projection, the current account deficit, including the shuttle trade, is expected to be 3.5 billion USD.

The deterioration in the budget deficit cannot be overcome: The deficit, which was 13.7 billion USD in 1997, will possibly amount to 19.8 billion USD in 1998.

An analysis of the realised budget of the first nine month period reveals that the budget deficit amounted to 12 billion USD, with an increase of 103 percent, which is influenced by the interest payments that amounted to a figure of 20.8 billion USD with an increase of 123 percent. Despite this, the primary surplus went up from the last year figure of 3.4 billion USD to 8.8 billion USD. The increase in the budget revenues has been primarily due to the growth in the revenues of the direct tax (with a 35 percent increase). However, because of the steady increases in the expenditures of social security, public personnel's salaries and interest payments, the budget deficit has steadily increased and reached this critical level.

In the revised 1998 figures that appeared in the bill of the 1999 national and subsidiary budgets, the budget expenditures, which were estimated as 14.8 quadrillion TL, upscaled to 15.5 quadrillion TL and the budget revenues, which were estimated as 10.8 quadrillion TL, upscaled to 11.7 quadrillion TL. As such, contrary to the previous figures of 3.8 quadrillion TL for the budget deficit and 1.9 quadrillion TL for the primary surplus, the 1998 budget deficit would be 2.4 quadrillion TL. TÜSİAD's estimate for the 1998 budget deficit is 5.4 quadrillion TL, with the consequence that the ratio of the consolidated budget deficit to GNP would be 10.4 percent as opposed to the figure of 7.1 percent that was announced in the Government Programme.

The 1999 Government Programme indicates that the economic policies that have been implemented in 1998 will continue to be effective.

An analysis of the 1999 programme reveals that a decline in the inflation rate coupled with a limited growth rate is anticipated, as was the case in 1998. Yet, the policies that are needed to achieve these targets are not clearly defined.

In the programme, the 1999 growth rate is targeted at 3 percent, the end-of-year inflation rate 35 percent and the current account deficit, including the shuttle trade, 3.5 billion USD. The expenditures and revenues of the budget for 1999 are anticipated to increase, when compared to 1998, by 52.6 and 54.5 percent, respectively. It is predicted for the 1999 budget that expenditures would increase to 23.6 quadrillion TL, of which 8.9 quadrillion would be allocated to interest payments, and that revenues would go up to 18.1 quadrillion TL. A budget deficit of 5.5 quadrillion TL and a primary surplus of 3.4 quadrillion TL are forecasted. Under such predictions, the ratios of the public sector borrowing requirement to GNP and the consolidated budget to GNP are estimated to be 8.6 and 7 percent, respectively.

The main goal of the 1999 budget is to attract short-term capital flows in order to be able to finance foreign debts by allowing the prevalence of high real interest rates, with the anticipation that a global recession in economies is likely and that short-term capital inflows to emerging countries will decline. The difference will be made up through forcing domestic savings to increase. However, the feasibility of such a programme is debatable. The Government Programme itself reflects this reality. The required financial amount that will result in very high real interest rates will not allow the inflation rates go down. The yearly increases foreseen in the budget for payments and budget expenditures and revenues are set well above the anticipated rate of inflation of 44 percent. If the public deficits, which are to be financed through giving high interest rates to non-financial organisations and households, are not decreased, it would not be possible to curb inflationary expectations and attain the 1999 inflation target.

The TÜSİAD estimates show differences from the targets of the 1999 Government Programme. If these policies are continued, although the growth rate is anticipated to decelerate to a level close to that of the government estimate, the inflation rate and public deficits are foreseen to be higher than those of targeted. The TUSİAD estimate for the 1999 average inflation is 73 percent. Although the average yearly growth rate is estimated to be 3.4 percent, this would be achieved through a boom which will follow a recession. According to the TÜSİAD growth estimates, despite the approaching elections, it is expected that the first half of 1999 will exhibit a limited recession and that the growth rates for the third and fourth quarters will be 2 and 4 percent, respectively, provided that there will be no policy change that would increase exports and domestic demand (in the sense of abiding the agreement signed with IMF).

The only solution to the problem of a declining growth and increasing inflation in 1999 is to start immediately implementing the structural reforms that have been on the agenda.

The high interest rates, caused by budget deficits, curtail the private sector's capacity in the medium-term to invest and create employment opportunities through putting pressure to the saving of households and firms. In the final analysis, the lack of investment does not give the opportunity to industry and service sectors to keep their competitive power and increase their exports through increasing their market shares.

If the policies under implementation are continued to be pursued, in the coming periods, and especially in the first half of 1999, a substantial deceleration is expected in the growth rate. In addition, a slowing down is expected in our exports as a result of the contracting foreign demand due to the crisis and a contraction is anticipated in our imports due to the contracting of domestic markets. Yet, an improvement in the budget deficit, and consequently a fall in the interest rates, are not foreseen due to the fact that interest payments which are steadily growing constitute an important item in the budget. Under these circumstances, an increase in the inlationary rate will be unavoidable.

Although the policies of the Government, the Central Bank and the Treasury towards securing partial stability needed by the markets caused partial decrease in the rate of inflation, these policies have became ineffective under the conditions of the spreading international crisis. Even though it was comforting that officers responded to the market demands in the auctions of domestic borrowings and the items of the new tax law regarding the taxation of financial markets was postponed to prevent adverse effects from the global crisis, it is imperative that permanent solutions be found to structural problems regarding macro parameters.

Also, in the 1999 Government Programme it is not explicitly stated how it would be possible to decrease the inflation rate by using monetary policies that will conform to a budget deficit and stability in the financial markets, without implementing the policies that are aimed at improving medium-term macro parameters.

The fact that partial improvements have not been turned into permanent ones in 1998, will be decreasing these policies' effectiveness in 1999. It would be difficult for this set of policies, which have no medium-term impact and whose short-term effects are limited in curbing uncertainties and fluctuations in the markets, to recreate optimistic expectations in 1999 as was the case in 1998. It is anticipated that 1999 will be a difficult year if one takes into account the relatively disadvantageous international conjecture. For this reason, in order to be able to meet the targets of the 1999 programme, the reforms that have been on the agenda for a long time should be in force through legislative arrangements.

MACROECONOMIC BALANCES (1994-1996)

	1994					1995					1996				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
GNP (at 1987 prices)*	4.1	-9.7	-8.7	-6.9	**-6.1**	-0.2	12.6	10.0	7.7	**7.9**	9.5	8.2	5.1	6.9	**7.1**
Inflation (WPI)*	67.8	133.9	128.3	141.3	**120.7**	146.6	81.2	78.0	66.3	**86.0**	64.4	73.3	78.4	84.5	**75.9**
Reserve Money*	47.8	77.4	99.6	85.9	**79.6**	98.4	90.6	75.2	83.2	**85.1**	80.4	71.1	69.7	88.4	**77.6**
Con.Budget Revenues (trillion TL)	112	173	217	252	**753**	256	327	370	451	**1,403**	423	651	748	916	**2,738**
Con.Budget Exenditures (trillion TL)	163	163	244	330	**899**	310	386	342	682	**1,721**	497	1,052	1,023	1,383	**3,956**
Con.Budget Balance (trillion TL)	-51	10	-27	-78	**-146**	-54	-59	28	-231	**-318**	-74	-401	-275	-467	**-1,218**
Con.Budget Balance (billion $)	-2.9	0.3	-0.8	-2.1	**-5.5**	-1.3	-1.4	0.6	-4.4	**-6.5**	-1.2	-5.3	-3.2	-4.7	**-14.0**
Con.Budget Balance (over GNP, %)					**-3.9**					**-4.0**					**-8.3**
Nominal Exchange Rate (TL/$)	17,711	32,557	32,222	36,284	**29,481**	41,008	42,772	45,590	53,009	**45,620**	64,296	76,176	85,575	99,148	**81,356**
Nominal Exchange Rate*	95.6	225.9	178.8	173.1	**170.6**	131.5	31.4	41.5	46.1	**54.7**	56.8	78.1	87.7	88.1	**78.3**
Real Exchange Rate (Dec 1987=1)	0.363	0.304	0.334	0.356	**0.339**	0.386	0.419	0.421	0.405	**0.408**	0.405	0.408	0.400	0.400	**0,403**
Real Exchange Rate*	-14.2	-28.2	-18.1	-11.6	**-18.1**	6.5	37.9	25.8	13.8	**20.2**	4.8	-2.8	-3.6	-1.1	**-1.2**
Nominal Int. Rate (compound, %)	122.6	307.8	140.7	127.4	**174.6**	144.7	102.6	102.4	149.9	**124.9**	158.8	122.6	126.6	129.7	**134.4**
Real Int. Rate (compound, %)	22.1	42.1	24.6	22.8	**27.9**	25.1	19.3	19.3	25.7	**22.3**	26.8	22.1	22.7	23.1	**23.7**
Imports (billion $)	5.9	5.0	5.4	7.0	**23.3**	6.9	8.6	9.1	11.1	**35.7**	9.8	11.0	10.8	12.1	**43.6**
Exports (billion $)	3.8	3.8	4.8	5.6	**18.1**	4.8	5.2	5.3	6.4	**21.6**	5.5	5.2	5.8	6.7	**23.2**
Foreign Trade Balance (billion $)	-2.1	-1.1	-0.6	-1.4	**-5.2**	-2.1	-3.4	-3.8	-4.7	**-14.1**	-4.2	-5.8	-5.0	-5.4	**-20.4**

(*) Denotes annual average percentage change on the same period of previous year.

MACROECONOMIC BALANCES (1997-1998) AND SCENARIO FOR 1999

It is assumed that economic policies will not change.

	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1997 Annual	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1998 Annual	1999 Q1	1999 Q2	1999 Q3	1999 Q4	1999 Annual	1999 Government Programme
GNP (at 1987 prices)*	6.5	9.1	8.5	8.7	**8.3**	9.0	4.0	*1.9*	*3.9*	***4.3***	*-1.4*	*0.0*	*7.6*	*4.9*	***3.4***	3.0
Inflation (WPI)*	77.8	74.4	83.2	89.1	**81.4**	89.3	79.9	68.3	*62.2*	***73.1***	*61.3*	*70.8*	*75.4*	*78.5*	***72.3***	44.0
Reserve Money*	83.4	78.6	89.4	74.4	**81.1**	90.2	86.6	84.4	*84.7*	***86.1***	*76.5*	*72.7*	*71.5*	*73.1*	***73.3***	-
Con.Budget Revenues (trillion TL)	844	1,291	1,442	2,277	**5,854**	2,040	2,972	3,208	*4,161*	***12,381***	*3,965*	*5,375*	*6,395*	*8,153*	***23.888***	18,047
Con.Budget Exenditures (trillion TL)	1,256	1,560	1,828	3,391	**8,035**	3,002	3,896	4,095	*6,727*	***17,720***	*5,653*	*7,203*	*8,433*	*13,038*	***34.327***	23,563
Con.Budget Balance (trillion TL)	-412	-269	-386	-1,114	**-2,181**	-962	-925	-887	*-2,566*	***-5,339***	*-1,688*	*-1,828*	*-2,037*	*-4,885*	***-10.439***	-5,516
Con.Budget Balance (billion $)	-3.5	-2.0	-2.4	-5.9	**-13.7**	-4.3	-3.8	-3.3	*-8.5*	***-19.8***	*-4.9*	*-4.4*	*-4.3*	*-9.1*	***-22.7***	-14.8
Con.Budget Balance (over GNP, %)					**-9.0**					***-10.4***					***-11.4***	-7.0
Nominal Exchange Rate (TL/$)	118,744	137,215	162,225	187,727	**151,478**	222,646	253,320	272,037	*301,933*	***261,472***	*343,419*	*416,452*	*468,811*	*539,142*	***441,956***	374,000
Nominal Exchange Rate*	84.8	80.1	89.6	90.2	**86.6**	84.7	83.9	67.7	*60.5*	***72.5***	*56.5*	*64.9*	*72.3*	*78.6*	***69.0***	44.4
Real Exchange Rate (Dec 1987=1)	0.389	0.395	0.387	0.398	**0.392**	0.399	0.386	0.388	*0.402*	***0.394***	*0.412*	*0.400*	*0.395*	*0.402*	***0,402***	-
Real Exchange Rate*	-3,8	-3.2	-3.4	-0.6	**-2.6**	2.5	-2.2	0.4	*1.0*	***0.4***	*3.1*	*3.6*	*1.8*	*0.0*	***2.1***	-
Nominal Int. Rate (compound, %)	109.1	128.6	126.1	131.8	**121.9**	131.1	104.0	110.5	*131.3*	***119.2***	*133.0*	*156.3*	*140.5*	*149.6*	***140.3***	-
Real Int. Rate (compound, %)	20.3	23.0	23.4	22.6	**22.3**	22.3	19.5	20.4	*23.3*	***21.6***	*23.5*	*26.5*	*24.5*	*25.7*	***24.5***	-
Imports (billion $)	10.6	11.7	12.7	13.7	**48.7**	11.2	11.9	*11.7*	*14.0*	***48.9***	*11.9*	*13.1*	*14.0*	*16.1*	***54.9***	53.0
Exports (billion $)	6.1	6.3	6.5	7.3	**26.2**	6.5	6.3	*6.7*	*8.5*	***28.0***	*7.2*	*7.0*	*7.4*	*9.4*	***31.0***	30.0
Foreign Trade Balance (billion $)	-4.5	-5.4	-6.2	-6.4	**-22.4**	-4.7	-5.6	*-5.0*	*-5.5*	***-20.9***	*-4.6*	*-6.1*	*-6.6*	*-6.7*	***-23.9***	-23.0

Italic numbers are TUSIAD estimates.

(*) Denotes annual average percentage change on the same period of previous year.

(-) Not available

LIST OF TABLES AND GRAPHS

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

	1997 Sep.	Oct.	Nov.	Dec.	1998 Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
INDUSTRIAL PRODUCTION INDEX (SIS, 1992=100)													
Annual % increase	21.4	13.0	8.6	16.0	5.7	16.8	7.6	5.9	9.0	2.6	1.2	-0.1	..
Monthly % increase	9.1	5.8	-4.4	1.6	-18.3	-3.8	13.3	-9.0	17.8	-7.8	2.3	-1.1	..
Monthly % increase (Seasonally Adjusted)	4.0	-2.3	-2.5	3.6	-8.6	11.7	-1.3	-2.8	4.4	-4.5	0.4	-0.5	..
CAPACITY UTILIZATION RATE (SIS, %)	87.2	79.8	84.1	79.0	75.4	77.7	80.4	74.4	81.7	78.4	80.9	79.7	82.8
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % increase	85.4	87.5	88.4	91.0	92.5	89.6	86.0	83.3	79.9	76.7	72.1	67.4	65.9
Monthly % increase	6.3	6.7	5.6	5.4	6.5	4.6	4.0	4.0	3.3	1.6	2.5	2.4	5.3
Monthly % increase (Seasonally Adjusted)	5.8	6.9	5.4	5.1	4.8	3.4	2.7	2.6	3.9	4.0	4.3	3.8	4.8
EXCHANGE RATE ($)													
TL/US$ (Yearly Simple Rate)	170,005	177,442	187,740	199,133	210,818	223,620	235,143	245,551	251,679	260,461	267,813	273,382	274,770
Annual 5 average	91.1	89.8	91.2	90.2	88.5	87.3	88.6	87.5	83.7	80.7	74.7	67.4	61.5
Monthly % increase	4.4	4.4	5.8	6.1	5.9	6.1	5.2	4.4	2.5	3.5	2.8	2.1	0.5
INTEREST RATES (Yearly Simple rate)													
Treasury (Monthly Average)*													
3 month	-	-	-	102.8	-	99.3	89.1	-	-	-	-	81.0	-
6 month	111.2	98.7	-	-	103.5	106.3	101.9	93.8	-	81.4	65.5	78.6	110.9
9 month	-	-	-	-	-	-	-	100.9	91.2	85.5	74.4	93.7	-
12 month	129.1	-	-	-	-	-	-	-	97.9	106.0	92.7	-	-
Treasury (Monthly Average)* (all maturities)	135.4	129.5	142.0	157.0	130.0	138.0	125.3	113.5	99.4	99.0	83.5	100.0	147.9
Average maturity of papers sold (days, weighted by sales volume)	275	170	463	414	274	214	157	237	306	269	278	154	183

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

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

	1997 Sep.	Oct.	Nov.	Dec.	1998 Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
FOREIGN TRADE													
Value (Current $ prices)													
Imports (Annual % increase)	31.3	21.4	10.4	7.9	-14.7	22.4	12.5	2.3	-3.6	7.1	0.1	-7.5	..
Exports (Annual % increase)	17.2	13.7	13.1	0.4	3.3	7.6	8.3	-7.3	6.7	-1.6	-3.0	-2.2	..
Price Index (1994=100)													
Imports (Annual % increase)	-9.5	-8.6	-7.9	-11.2	-9.9	-0.9	-2.8	-1.7	-3.4	-3.0	..	..	..
Exports (Annual % increase)	-8.1	-6.9	-4.9	-4.7	-5.8	-6.3	-7.4	-2.8	-6.6	-5.7	..	..	..
Quantity Index (1994=100)													
Imports (Annual % increase)	45.5	32.7	28.7	23.6	0.4	19.6	15.8	7.6	-2.4	7.4	..	..	..
Exports (Annual % increase)	21.9	19.0	18.6	3.7	17.0	22.9	18.7	1.5	24.2	12.7	..	..	..
FOREIGN TRADE BALANCE ($ Million)													
Imports (Monthly)	4,358	4,374	4,353	4,941	3,081	3,796	4,311	3,583	4,163	4,146	4,138	3,846	..
Exports (Monthly)	2,224	2,390	2,523	2,409	2,112	1,991	2,357	1,879	2,338	2,097	2,087	2,091	..
Foreign Trade Balance (Monthly)	-2,134	-1,984	-1,830	-2,532	-969	-1,805	-1,954	-1,704	-1,825	-2,049	-2,052	-1,755	..
(Cumulative for the last 12 months)													
Imports	47,020	47,790	48,199	48,559	48,026	48,722	49,202	49,281	49,125	49,399	49,403	49,090	..
Exports	25,664	25,952	26,245	26,254	26,322	26,462	26,643	26,496	26,643	26,608	26,544	26,498	..
Foreign Trade Balance	-21,356	-21,838	-21,954	-22,305	-21,704	-22,260	-22,559	-22,785	-22,482	-22,791	-22,859	-22,592	..
BALANCE OF PAYMENTS ($ Million)													
Current Account Balance (Monthly)	509	14	-552	-810	-325	-833	-533	-435	-11	-26	..	..	..
Current Accpunt Balance (Cumulative for the last 12 months)	-2,338	-2,761	-2,749	-2,750	-2,028	-2,421	-2,526	-2,607	-2,040	-1,941	..	..	..
Capital Account and Reserve Movements													
Net Foreign Direct Investment	539	506	473	554	509	534	510	457	455	518	..	..	..
Portfolio Investment	1244	2430	1,907	1,634	951	1,419	1,689	2,494	2,459	1,902	..	..	..
Net Long-Term Capital	4266	4549	4,386	4,667	4,507	4,268	4,361	5,482	5,632	5,717	..	..	..
Net Short-Term Capital	3832	3669	2,859	1,761	2,963	3,262	4,241	3,763	3,534	3,371	..	..	..
Net Errors and Omissions	-3457	-3844	-3,796	-2,522	-3,001	-3,118	-1,653	122	253	1,300	..	..	..
Reserve Changes*	-4086	-4549	-3,080	-3,344	-3,901	-3,944	-6,622	-9,711	-10,293	-10,867	..	..	..

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

TABLE 1.3 MAIN ECONOMIC INDICATORS (1997-1998)

CONSOLIDATED BUDGET

(Billion TL)	1997 Sep.	Oct.	Nov.	Dec.	1998 Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
Monthly													
Revunes	507,393	652,529	645,780	871,861	595,472	748,843	696,685	984,011	1,098,763	889,098	1,139,642	995,422	1,090,100
Expenditures	562,823	478,460	629,760	2,474,426	912,604	968,619	1,120,524	1,361,140	1,230,936	1,304,306	1,452,386	1,438,576	1,424,200
Primary Balance (Current price)	71,382	216,230	188,940	-784,394	57,391	302,046	154,437	280,470	407,943	206,486	267,813	176,721	385,300
Budget Balance (Current price)	-55,430	174,069	16,020	-1,602,565	-317,132	-219,776	424,309	-377,129	-132,176	-415,208	-312,744	-443,154	-334,100
Budget Balance (At 1994 price)	-8,352	24,586	2,143	-203,449	-37,794	-25,040	-46,489	-39,727	-14,485	-41,708	-30,640	-42,395	-30,340
Budget Balance (Cur. price, billion $)	-0.326	0.980	0.085	-8.175	-1.504	-0.983	-1.804	-1.536	-0.525	-1.594	-1.168	-1.621	-1.216
Financing	146,877	160,372	29,327	820,266	316,561	327,190	448,594	414,400	173,371	341,558	309,524	425,503	..
Foreign Borrowing (Net)	-43,857	-105,533	-36,728	-25,027	-107,003	131,939	-67,951	72,309	-40,674	-82,891	-242,433	-161,316	..
Domestic Borrowing (Net)	79,369	-174,284	65,306	98,714	-97,587	-154,325	-9,714	-185,113	351,303	478,293	456,773	319,736	..
Short-Term Borrowing	136,352	504,026	97,712	213,615	390,961	472,835	532,852	536,654	-341,204	-92,610	65,608	85,836	..
Central Bank (Net)	0	0	0	0	0	0	0	0	0	0	0	0	..
Treasury Bills (Net)	136,352	504,026	97,712	213,615	390,961	472,835	532,852	536,654	-341,204	-92,610	65,608	85,836	..
Other		-24,987	-63,836	-96,964	532,966	130,189	-123,259	-6,892	-9,450	204,586	38,764	29,576	181,249 ..
Cumulative for the last 12 months													
Revunues	4,600,256	4,969,483	5,326,361	5,854,331	6,153,782	6,629,244	7,050,610	7,621,574	8,232,483	8,731,646	9,372,642	9,825,029	10,407,736
Expenditures	5,835,832	6,088,226	6,377,648	8,035,178	8,535,735	9,112,465	9,780,894	10,750,605	11,362,351	12,116,514	13,077,784	13,934,519	14,795,896
Primary Balance (Current price)	481,610	611,975	719,684	97,070	79,812	332,478	488,753	708,915	1,034,214	1,231,026	1,471,821	1,527,781	1,841,699
Budget Balance (Current price)	-1,235,576	-1,118,743	-1,051,287	-2,180,847	-2,381,953	-2,483,221	-2,730,284	-3,129,031	-3,129,868	-3,384,868	-3,705,142	4,109,490	-4,388,160
Budget Balance (At 1994 price)	-262,478	-253,050	-237,948	-326,729	-337,899	-337,333	-347,701	-391,602	-380,979	-394,252	-426,161	-462,478	-484,466
Budget Balance (Cur. price, billion $)	-10.301	-9.932	-9.325	-12.977	-13.447	-13.436	-13.436	-13.522	-15.090	-15.571	-16.788	-18.178	-19.068
Financing	1,590,950	1,645,025	1,600,535	2,160,625	2,332,704	2,512,346	2,784,453	3,144,187	3,255,782	3,409,794	3,513,224	3,913,543	..
Foreign Borrowing (Net)	-330,287	-426,801	-433,745	-452,584	-526,534	-402,793	-427,005	-288,052	-303,165	-403,866	-570,794	-709,165	..
Domestic Borrowing (Net)	1,978,724	1,648,299	1,636,151	1,484,844	1,049,756	892,176	445,378	-35,476	190,643	387,605	884,794	1,228,771	..
Short-Term Borrowing	76,641	589,494	750,875	1,020,674	1,540,457	1,849,526	2,612,106	3,260,817	3,113,080	3,136,014	2,866,349	2,602,637	..
Central Bank (Net)	202,475	206,307	154,853	0	-50,197	-51,456	-100,094	-100,126	-73,187	-83,102	0	0	..
Treasury Bills (Net)	-125,834	383,187	596,022	1,020,674	1,590,654	1,900,982	2,712,200	3,360,943	3,186,267	3,219,116	2,866,349	2,602,637	..
Other		-134,129	-165,968	-352,748	107,692	237,881	114,622	107,730	98,280	290,144	277,959	320,792	779,220 ..

(..) Not available

TABLE 1.4 MAIN ECONOMIC INDICATORS (1997-1998)
MONEY SUPPLY

	1997 Sep.	Oct.	Nov.	Dec.	1998 Jan.	Feb.	March	April	May	June	July	Aug.	Sep.
MONEY SUPPLY (Annual percentage changes)													
M1	86.8	110.5	70.0	65.8	98.7	63.5	47.6	47.2	61.8	62.9	96.7	92.1	97.3
Currency in circulation	88.0	78.9	91.5	80.8	150.1	80.1	92.2	73.3	75.6	82.5	67.3	82.7	89.4
Currency+coins	88.9	93.1	94.8	81.7	134.4	81.8	90.3	72.1	76.2	81.5	85.8	78.1	89.8
Cash in vault (-)	96.9	227.4	114.3	89.4	67.7	90.9	74.9	64.8	79.9	74.3	239.9	50.8	92.7
Commercial sight deposits	88.1	114.5	25.9	19.9	15.8	9.7	-8.3	-3.5	17.9	25.5	76.1	87.6	73.2
Saving sight deposits	79.3	104.9	83.0	76.3	114.3	65.3	49.5	70.6	54.6	63.5	60.2	62.7	67.1
Other sight deposits	90.5	406.6	135.6	219.8	182.0	185.1	133.0	140.7	175.1	139.6	550.4	223.0	375.2
Central Bank deposits	26.4	47.1	25.2	59.0	195.8	83.0	102.3	773.1	11.4	-96.2	281.1	208.2	758.2
M2	99.0	107.6	93.8	87.9	102.6	88.4	85.2	87.0	98.9	106.5	114.3	104.0	100.0
Commercial time deposits	70.8	106.4	211.9	234.8	299.4	284.2	206.1	328.3	332.0	377.5	325.6	283.6	241.0
Saving time deposits	101.9	102.4	91.6	84.3	88.5	84.3	88.1	90.8	101.1	109.1	106.4	96.6	92.2
Other time deposits	133.9	134.3	138.3	132.4	139.1	133.8	135.6	124.3	124.7	130.8	126.2	107.3	93.2
Certificates of deposits	-95.1	-95.8	-96.6	-98.3	-99.8	-99.9	-99.9	-99.8	-99.7	-99.5	-99.2	-98.9	-98.4
M2Y	103.6	109.5	101.1	96.7	107.4	102.8	101.8	86.5	89.9	91.2	110	101.9	98.2
Foreign exchange depostis (TL)	112.2	115.6	113.3	113.4	110.3	114.8	112.2	115.3	111.0	107.1	104.9	99.5	96.0
Foreign exchange deposits ($)	11.9	13.5	11.7	12.3	13.2	14.2	12.1	16.6	15.1	15.0	19.9	19.1	23.5
TL/USD Buying rate	89.6	90.0	91.0	90.0	85.7	88.0	89.3	84.6	83.3	80.1	70.9	67.5	58.7
M3Y	112.5	117.5	113.0	107.1	106.9	102.4	102.5	102.2	107.8	107.3	108.9	95.3	88.1
M3	112.7	119.0	112.7	102.3	104.3	92.6	94.8	92.1	105.2	107.5	112.0	92.1	82.1
Foreign exchange deposits (TL)	112.2	115.6	113.3	113.4	110.3	114.8	112.2	115.3	111.0	107.1	104.9	99.5	96.0
Credit Stock	142.1	138.0	128.6	113.5	114.7	113.4	101.0	100.0	98.3	91.6	104	88.9	85.7
Central Bank Direct Credits	83.1	100.7	58.0	-4.3	-18.7	-17.0	-99.6	-99.6	-99.7	-99.7	-99.7	-99.7	-99.7
Deposit Bank Credits	149.3	142.5	137.2	130.0	135.4	130.9	129.2	122.9	118.8	110.6	118.4	107.3	102.8
Invest. and Develop Bank Credits	111.4	109.5	87.4	90.1	73.0	91.0	90.1	94.0	87.0	71.4	78.1	74.2	69.8

TABLE 2 GROSS DOMESTIC PRODUCT

(At 1987 Prices)	Growth Rate			% Share			Annual Growth Rate (%)											
	1995	1996	1997	1995	1996	1997	1995-4	1996-1	1996-2	1996-3	1996-4	1997-1	1997-2	1997-3	1997-4	1998-1	1998-2	1998-3
Private Final Consumprion Exp.	7.6	9.3	8.0	69.0	68.8	68.7	8.4	13.2	9.9	3.1	5.4	8.5	9.2	8.5	6	8.0	-0.3	..
Food-Beverages	7.4	4.6	0.3	26.6	26.0	34.7	7.1	17.0	7.4	1.7	-0.9	0.6	3.5	-0.6	-1.8	3.0	-4.5	..
Durable Goods	20.0	35.6	33.6	8.4	8.9	16.2	30.6	13.5	35.6	14.6	2.9	26.6	33.3	41.9	31.6	18.6	-0.8	
Semi-Durable & Non-Durable Goods	11.6	11.1	8.7	11.0	11.4	16.8	16.8	14.9	13.8	0.4	14.9	18.6	4.0	12.1	1.8	6.4	5.2	..
Energy-Transportation-Communication	1.7	5.3	3.5	10.3	10.0	14.0	-1.9	12.0	2.5	-1.6	6.1	3.2	4.2	2.2	4.3	10.8	3.0	..
Services	2.7	9.4	13.2	6.8	6.9	10.6	-3.3	8.2	4.4	7.4	17.9	9.2	21.0	15.0	6.9	13.3	-0.5	..
Ownership of Dwelling	2.1	2.4	2.3	5.9	5.6	7.7	2.2	2.4	2.5	2.5	2.4	2.3	2.3	2.3	2.3	2.4	2.4	..
Government Final Consumption Exp.	6.7	8.6	4.1	7.6	7.7	7.4	7.8	1.4	7.7	15.6	8.4	-3.9	0.6	5.9	9.9	8.4	10.5	
Compensation of Employees	2.5	-0.3	0.1	4.6	4.3	53.4	1.8	-0.4	0.0	-0.3	-0.4	0.0	-0.2	0.2	0.4	0.7	0.5	..
Purchases of Good & Services	13.7	22.2	9.2	3.0	3.4	46.6	13.7	6.9	22.6	41.9	16.1	-14.5	1.9	12.5	16.9	32.8	25.9	..
Gross Fixed Capital Formation	8.3	13.5	14.6	26.7	29.0	31.2	22.1	21.7	17.4	22.2	8.5	8.2	14.7	12.6	21.5	8.1	-2.3	..
Public Sector	-16.9	24.4	28.4	4.2	5.1	19.8	-17.3	-9.3	33.0	37.2	38.8	39.0	20.3	29.0	30.6	30.0	-2.5	..
Machinery & Equipment	3.2	12.0	36.2	1.1	1.4	28.2	17.4	-35.9	69.6	22.1	47.3	78.7	-8.4	88.8	28.1	19.7	0.1	
Building Construction	4.2	30.2	22.8	1.0	1.2	21.6	-2.2	4.6	27.2	38.5	24.0	-22.4	46.5	12.3	30.2	96.8	-3.7	..
Other Construction	-30.5	29.3	26.8	2.1	2.6	50.2	-34.1	3.7	19.4	43.4	41.7	56.2	26.8	13.3	32.4	15.9	-3.0	..
Private Sector	14.9	11.4	11.7	22.5	23.9	80.2	38.8	25.3	14.7	19.3	0.8	5.6	13.6	9.1	18.3	5.7	-2.3	..
Machinery & Equipment	28.1	24.4	21.2	11.9	13.6	62.0	73.8	49.2	25.9	40.7	-2.5	11.3	24.4	19.0	28.3	10.2	-1.6	..
Building Construction	3.0	-0.5	3.2	10.6	10.2	7.3	-0.6	-82.0	-81.6	-81.4	-81.0	3.2	3.2	3.2	3.2	2.0	-7.7	..
Change in Stocks	-	-	-	1.4	-1.2	-1.3	-	-	-	-	-	-	-	-	-	-	-	..
Exports of Good & Services	6.7	21.7	19.1	22.1	25.2	28.1	-1.8	21.8	17.9	26.7	24.9	10.3	27.8	23.9	14.1	18.0	5.9	..
Imports of Good & Seervices	30.0	19.0	22.4	-26.8	-29.5	34.1	48.0	30.6	30.1	21.6	-1.1	14.5	22.2	23.7	28.7	12.4	6.7	..
Gross Domestic Product (Exp.)	7.5	7.3	7.3	100.0	100.0	100.0	7.0	10.8	7.9	5.1	8.3	6.9	7.9	8.0	6.1	8.3	2.2	..
Statistical Discrepancy	-	-	-	0.6	-	-	36.8	57.8	-3.1	-0.5	50.6	-7.1	8.1	-4.0	-	-	-	..
Gross Domestic Product (Prod.)	7.3	7.0	7.2	-	-	-	6.4	8.7	8.1	4.7	7.2	7.3	8.3	6.9	6.7	8.3	2.6	..

(..) Not available

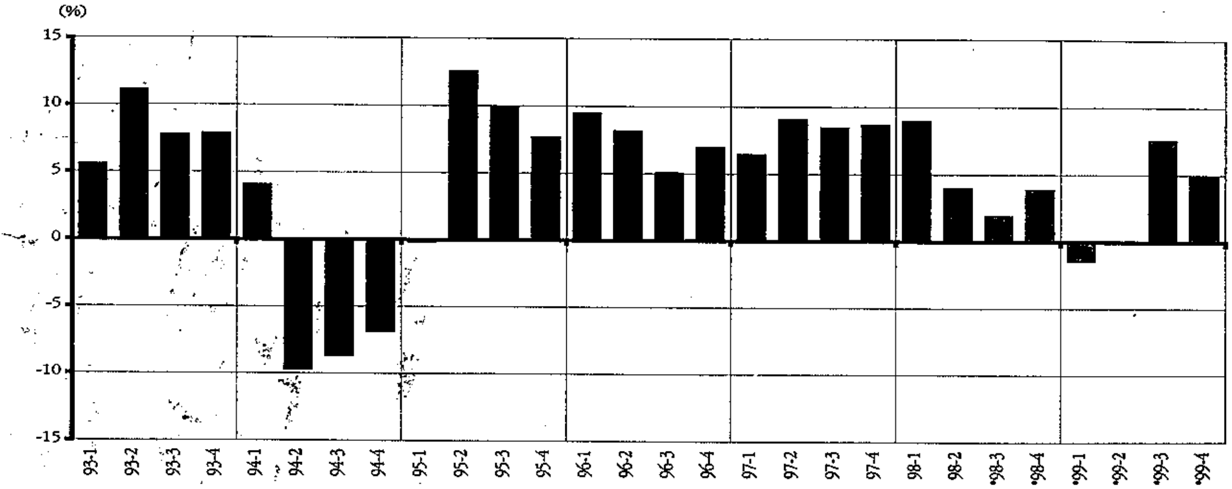
TABLE 3 TÜSİAD ESTIMATES (GNP, INFLATION)

	97-1	97-2	97-3	97-4	97	98-1	98-2	98-3	98-4	98	99-1	99-2	99-3	99-4	99
	Realization					Realization					Estimate				
(25 July 1998)															
Growth Rate	6.8	8.9	8.4	7.7	8.0	8.1	4.8	3.6	6.1	5.4	-	-	-	-	-
Inflation	77.8	74.4	83.2	89.0	81.8	89.3	79.9	69.3	62.2	73.4	-	-	-	-	-
	Realization					Realization					Estimate				
(25 October 1998)															
Growth Rate	6.5*	9.1*	8.5*	8.7*	8.3	9.0*	4.0*	1.9	3.9	4.3	-1.4	0.0	7.6	4.9	3.4
Inflation	77.8	74.4	83.2	89.0	81.8	89.3**	79.9**	68.4**	62.2	73.1	61.3	70.8	75.4	78.5	72.3

(*) SIS revision
(**) Realization

GNP GROWTH RATE

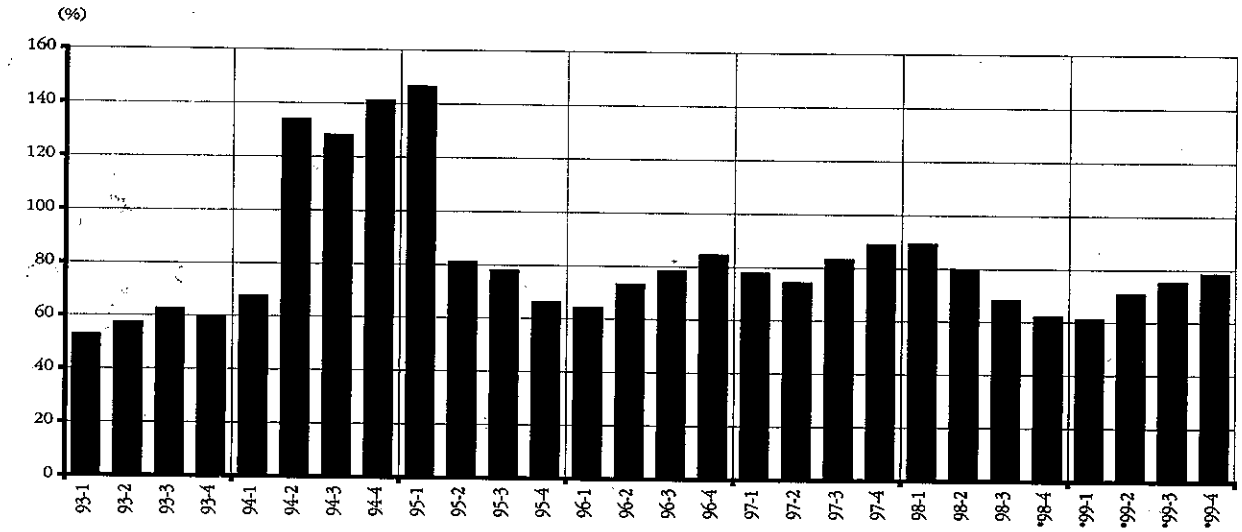
GRAPH 1



** TÜSİAD Estimates*

WHOLESALE PRICE INDEX

GRAPH 2



** TÜSİAD Estimates*

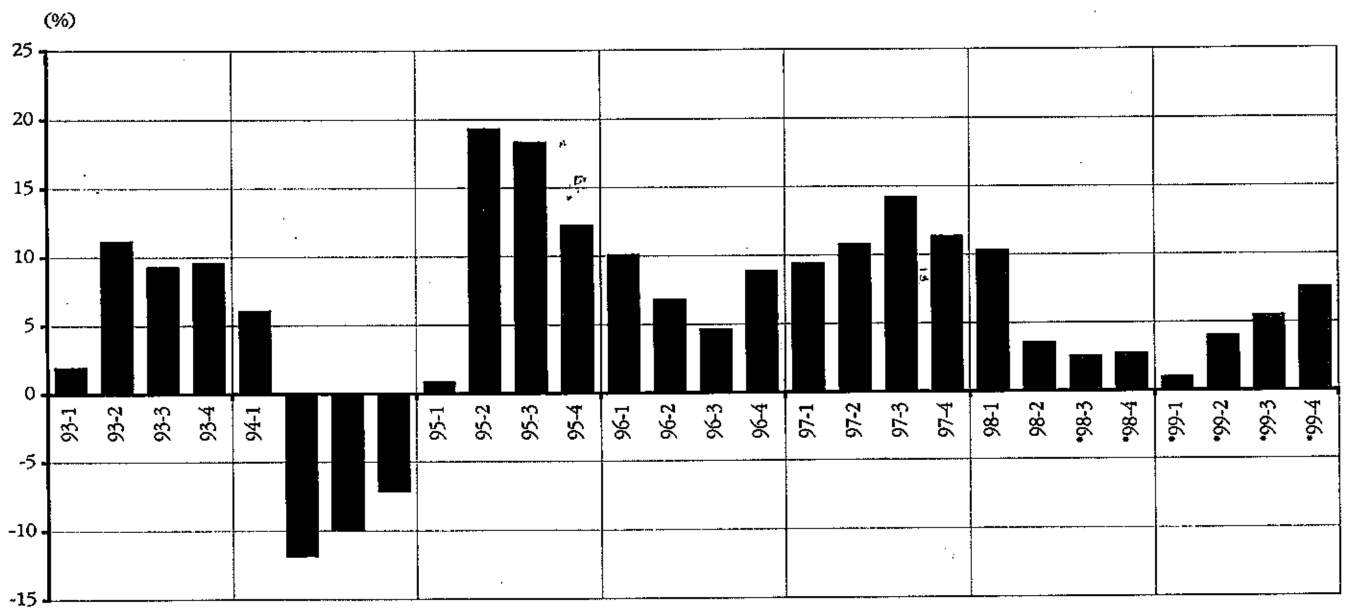
TABLE 4 INDUSTRIAL PRODUCTION INDEX

	97-1	97-2	97-3	97-4	1997	98-1	98-2	98-3*	98-4*	1998*	99-1*	99-2*	99-3*	99-4*	1999*
(Level)															
Index	122.1	131.5	142.9	151.8	137.1	134.7	1136.1	146.5	156.0	143.3	136.0	141.4	154.6	167.9	150.0
Seasonally Adjusted Index	130.3	136.3	140.1	140.9	136.9	143.7	141.1	143.6	144.7	143.3	145.1	146.8	151.5	155.6	149.7
(Annual Percentage Increase) Index	9.5	10.8	14.2	11.4	11.5	10.3	3.5	2.5	2.8	4.6	1.0	3.9	5.5	7.6	4.6
Seasonally Adjusted Index	9.4	10.6	14.2	11.6	11.5	10.3	3.4	2.5	2.7	4.7	1.0	4.0	5.5	7.6	4.5

* *TÜSİAD Estimates*

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

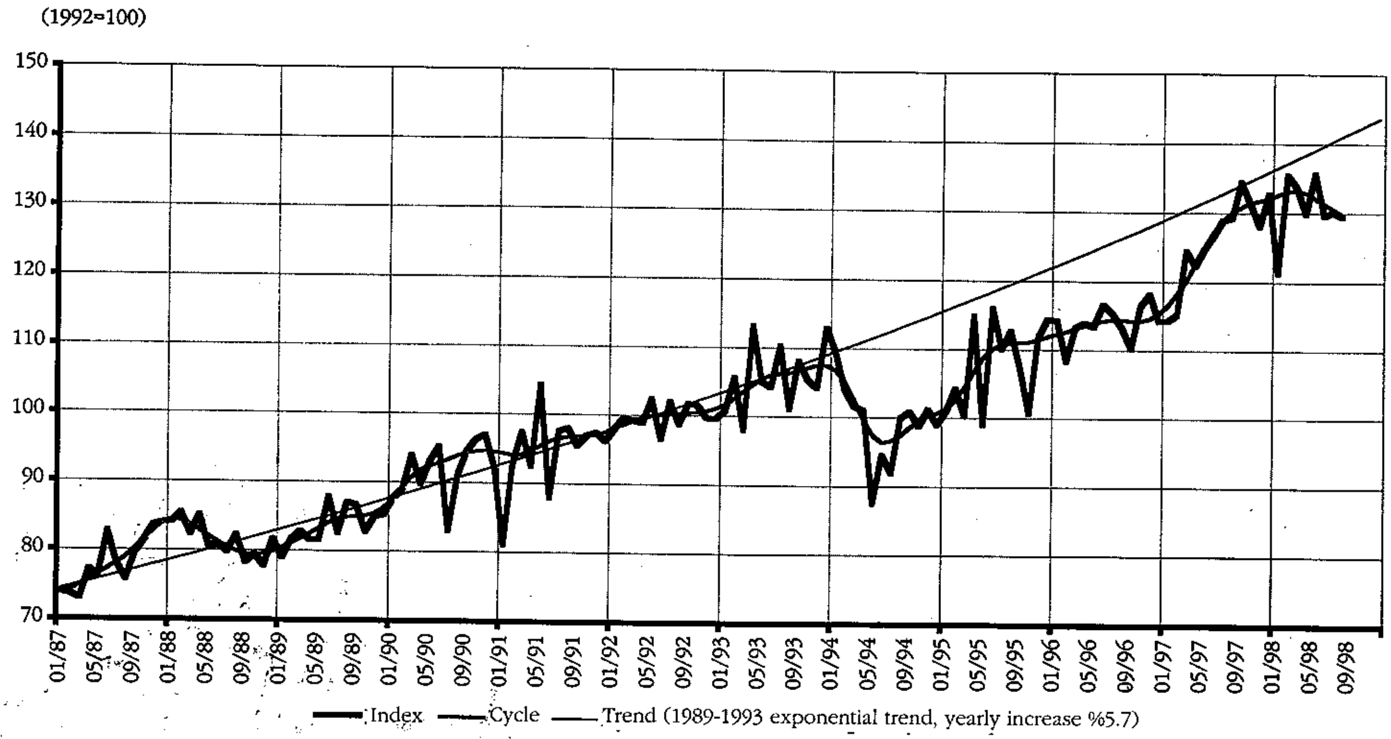
GRAPH 3



* *TÜSİAD estimates*

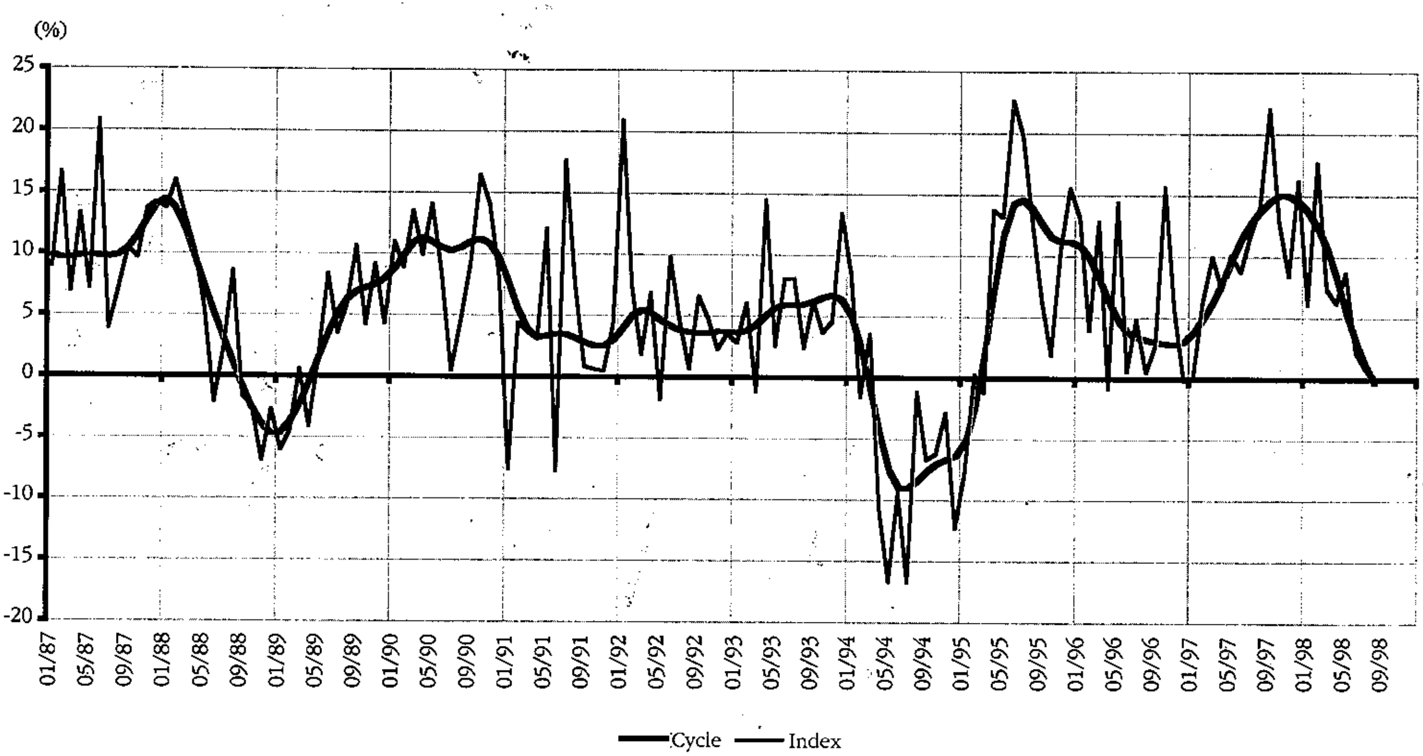
SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX (Level)

GRAPH 4

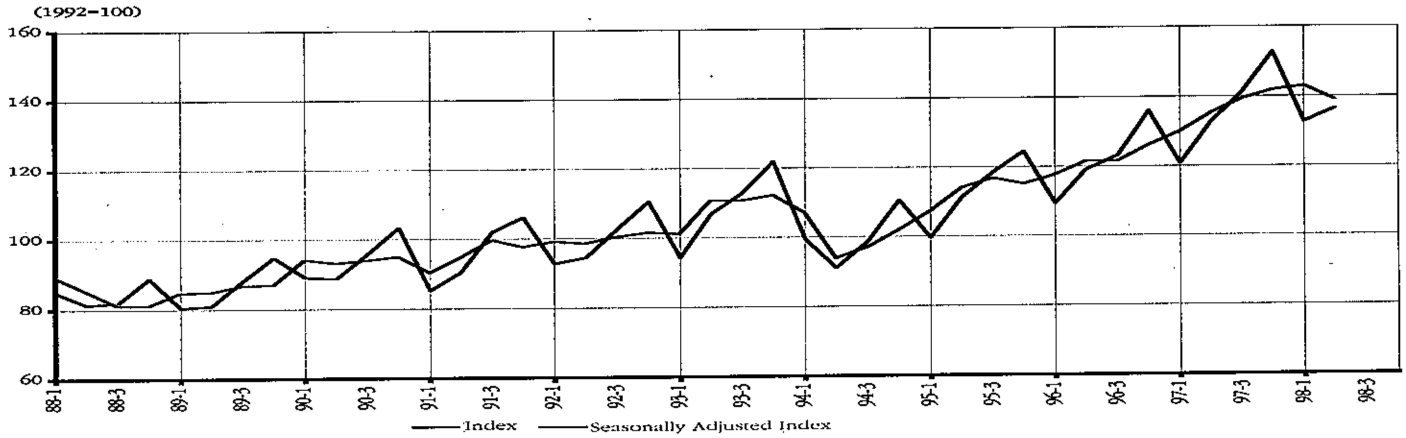


SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX (Annual Percentage Increase)

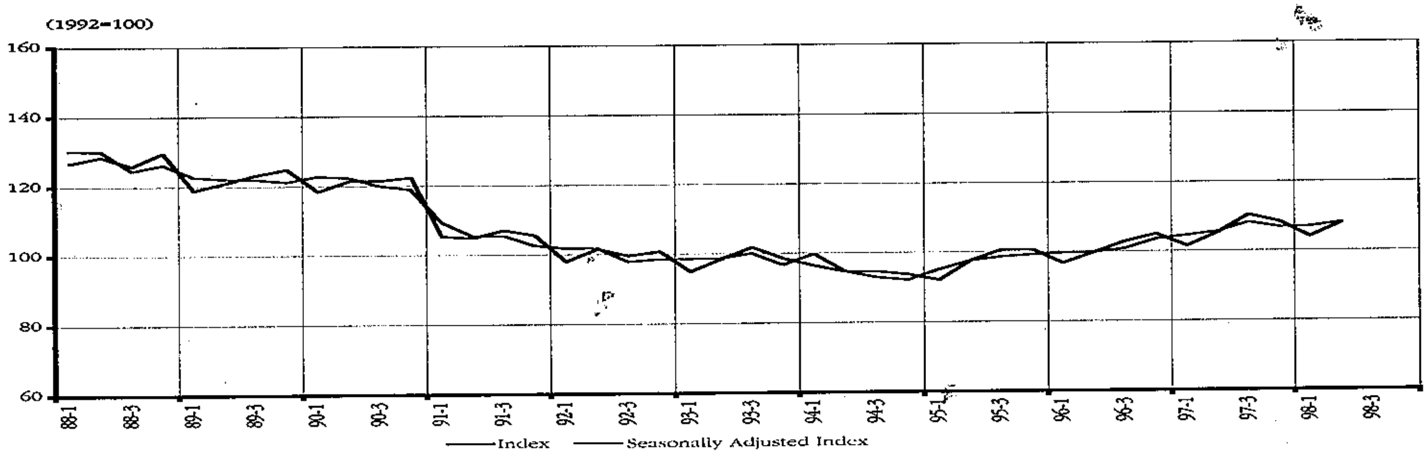
GRAPH 5



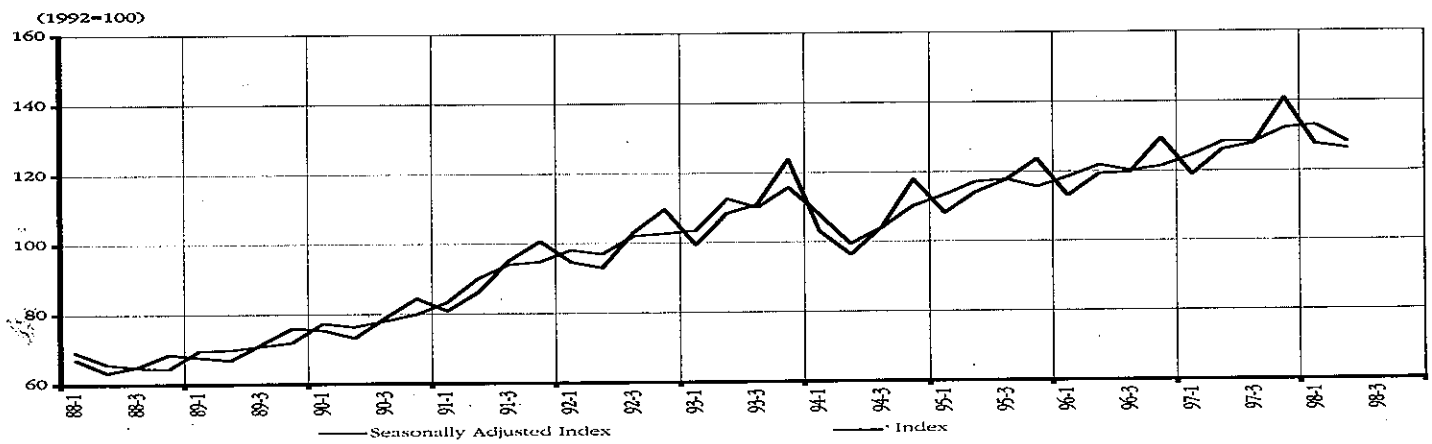
MANUFACTURING INDUSTRY QUARTERLY PRODUCTION INDEX GRAPH 6



INDEX OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRY GRAPH 7

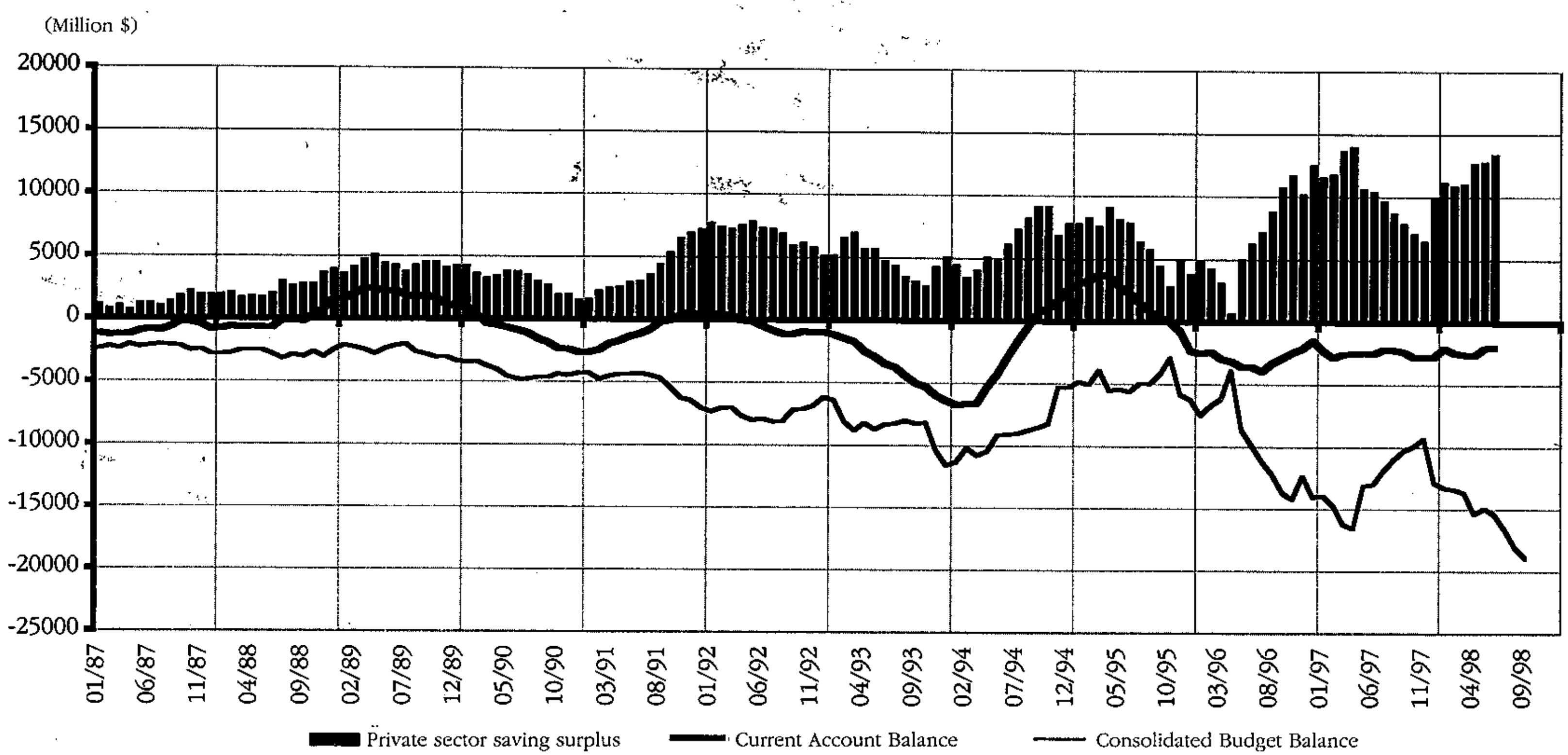


MANUFACTURING INDUSTRY PRODUCTIVITIY INDEX GRAPH 8



GRAPH 9

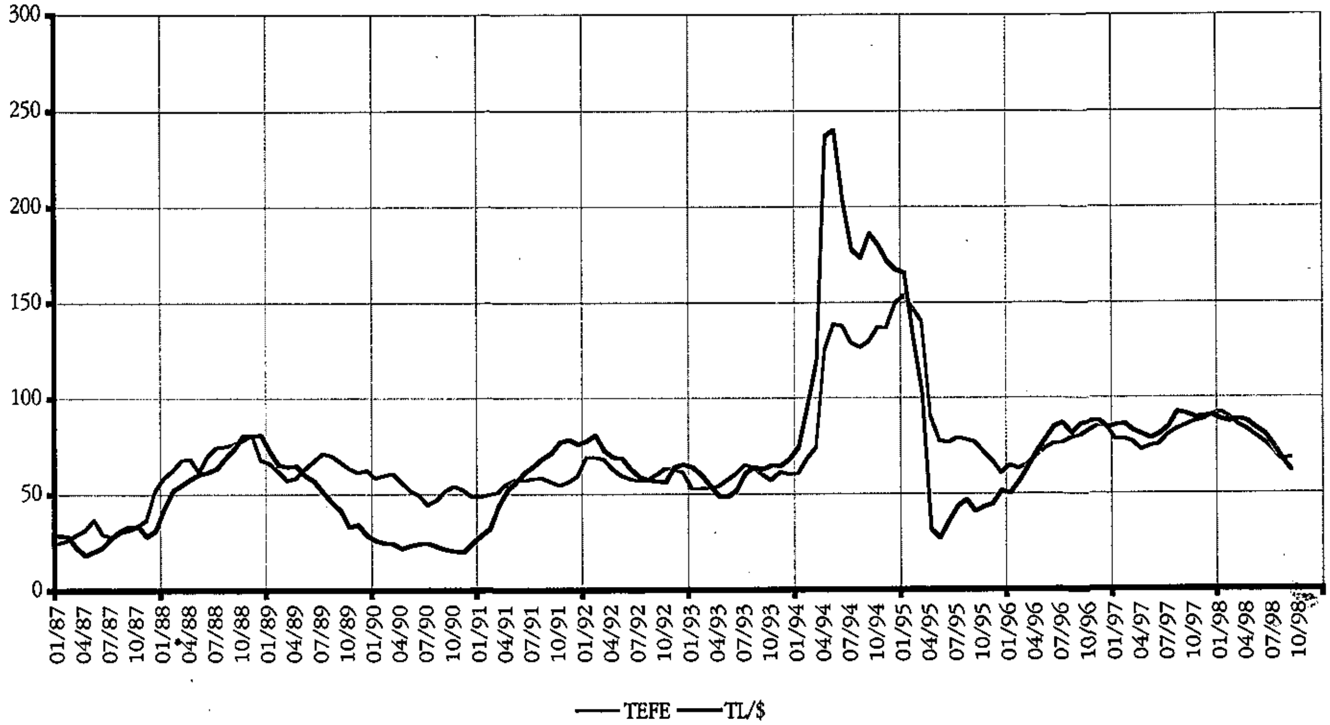
SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)



(*) 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. Monthly figures include shuttle trade since 01/96.

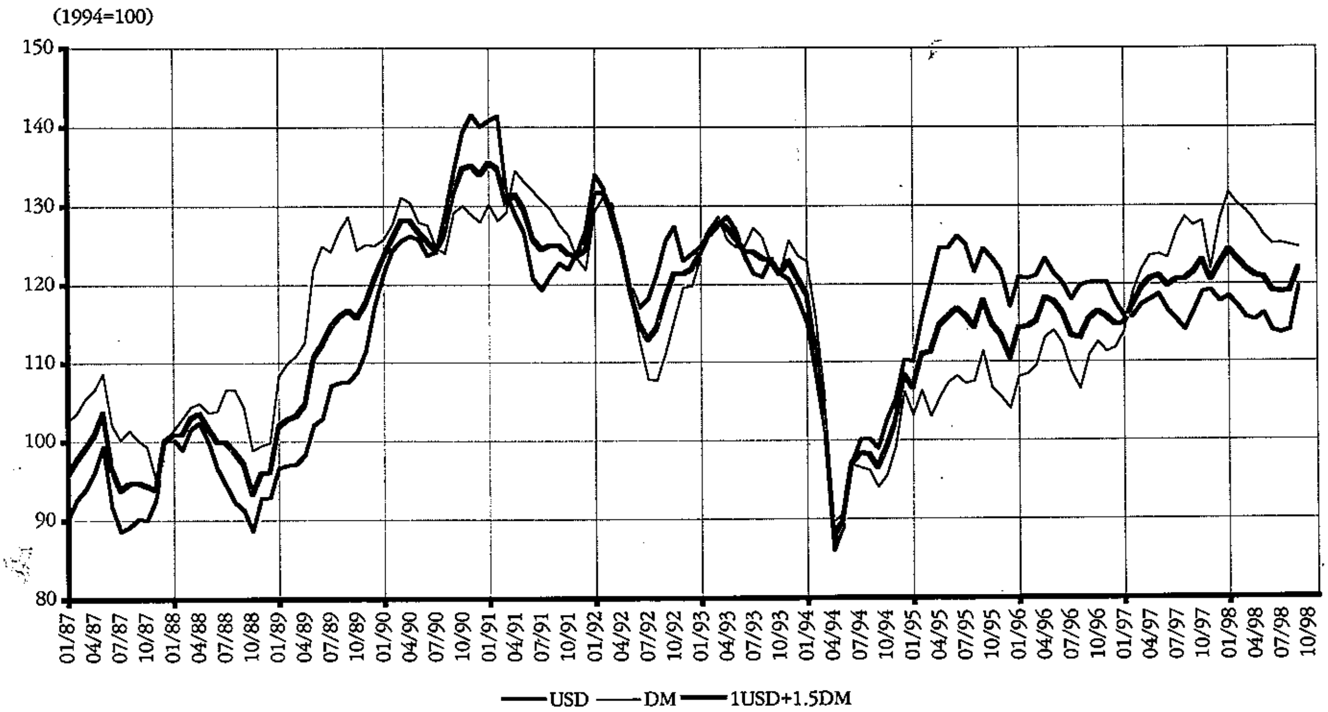
WHOLESALE PRICE INDEX AND MONTHLY AVERAGE US DOLLAR EXCHANGE RATE (Annual Percentage Change)

GRAPH 10



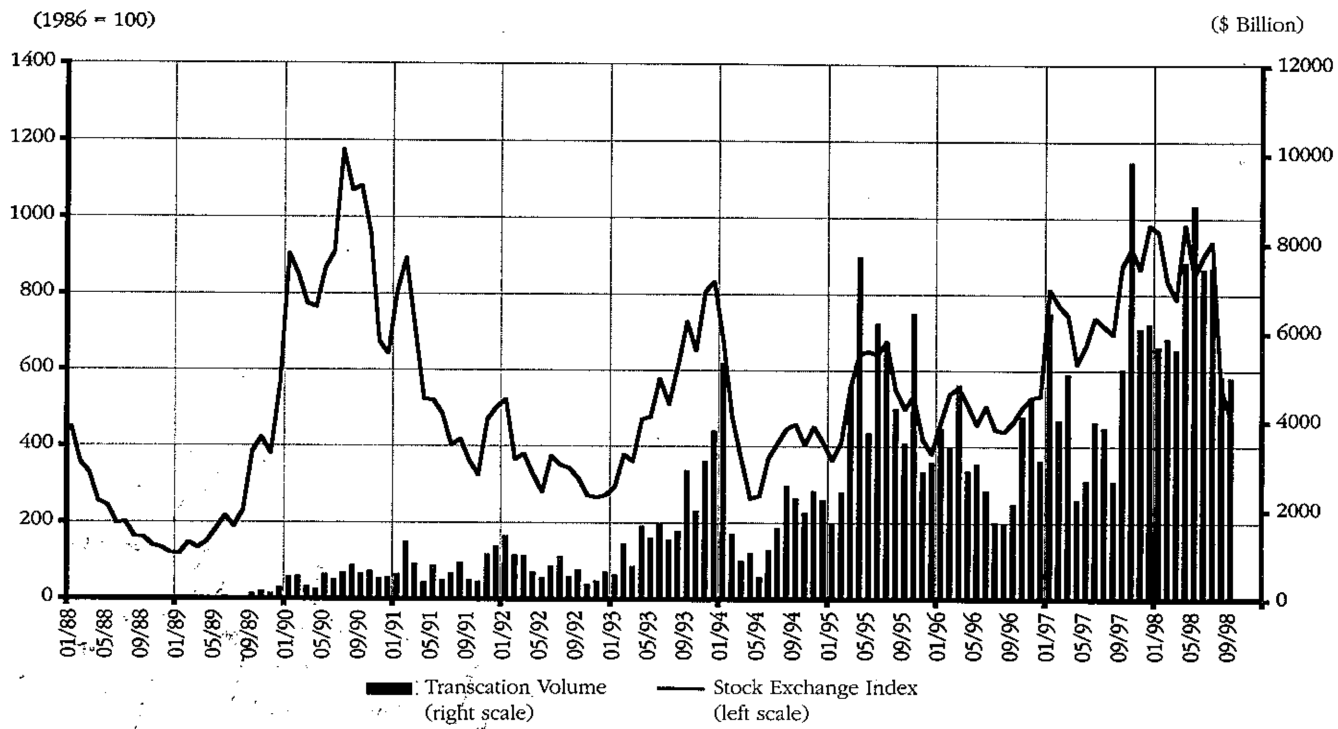
REAL EXCHANGE RATE INDEX

GRAPH 11



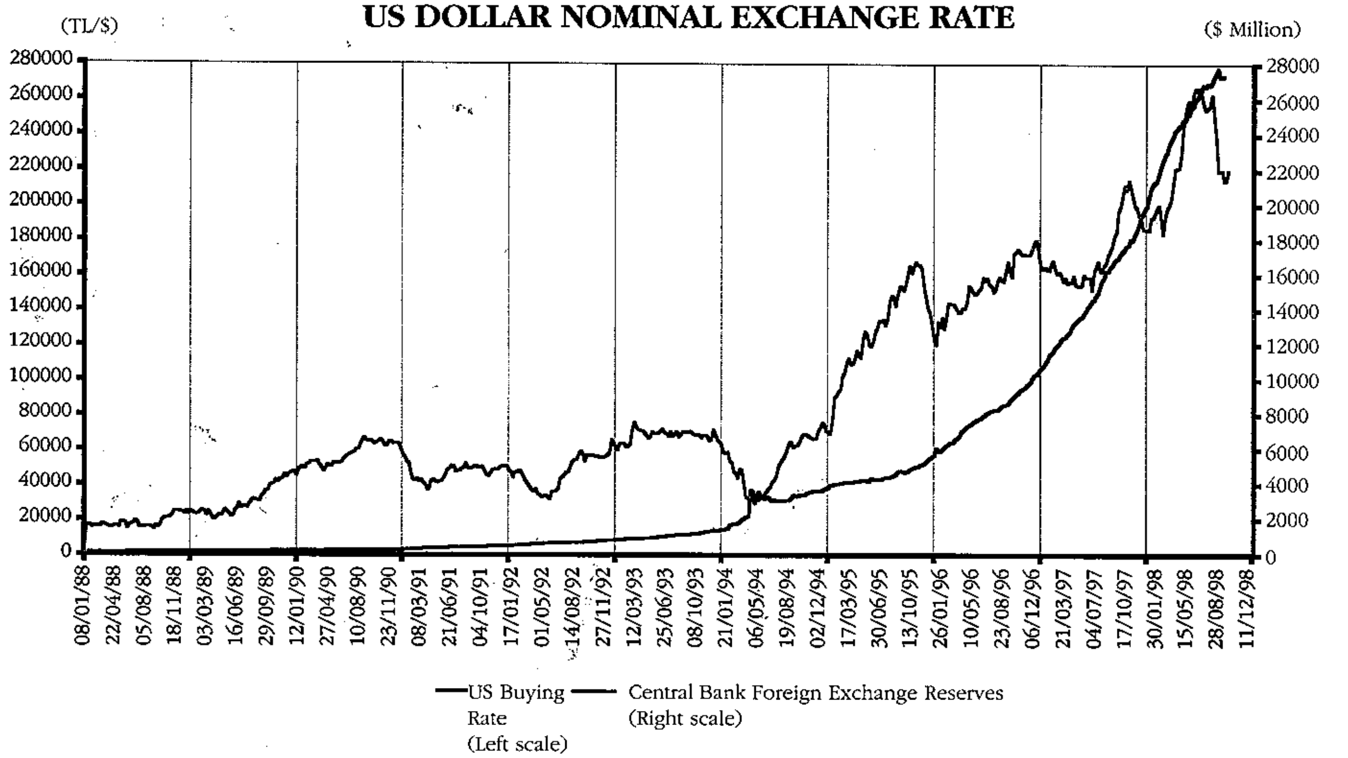
STOCK EXCHANGE INDEX AND TRANSACTION VOLUME

GRAPH 12



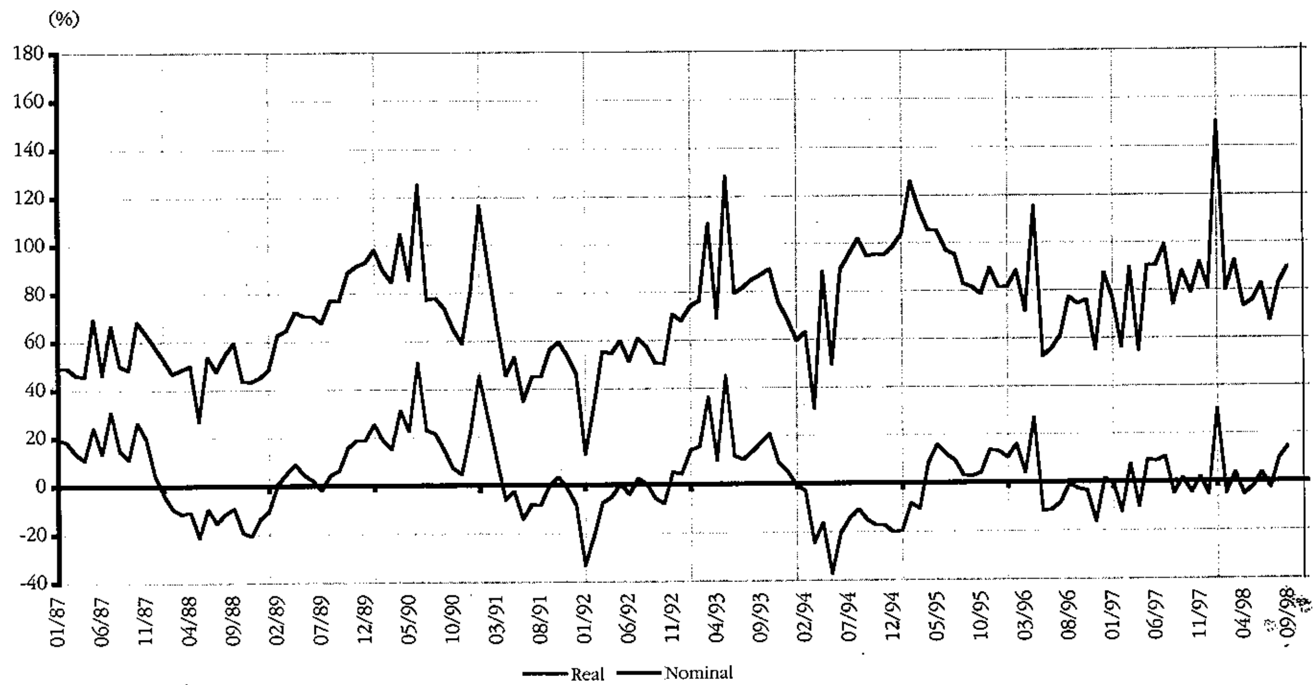
CENTRAL BANK FOREIGN EXCHANGE RESERVES & US DOLLAR NOMINAL EXCHANGE RATE

GRAPH 13



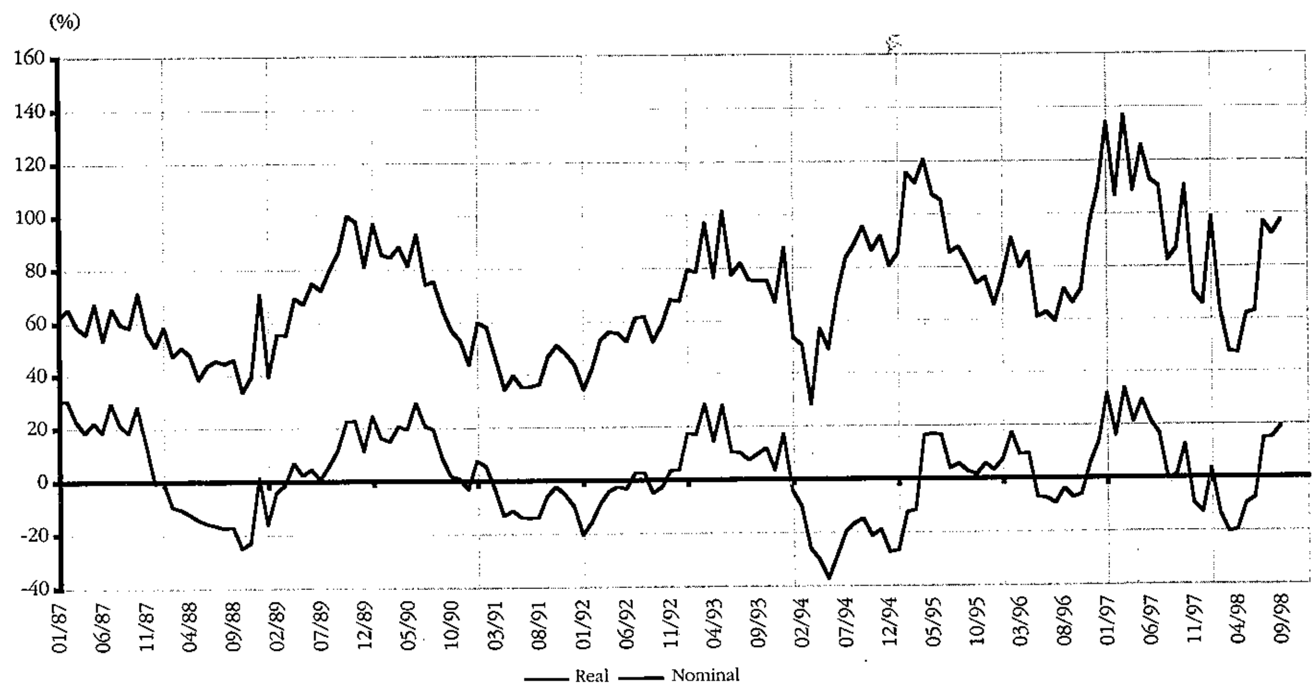
GRAPH 14

CURRENCY IN CIRCULATION
(Annual Percentage Increase)



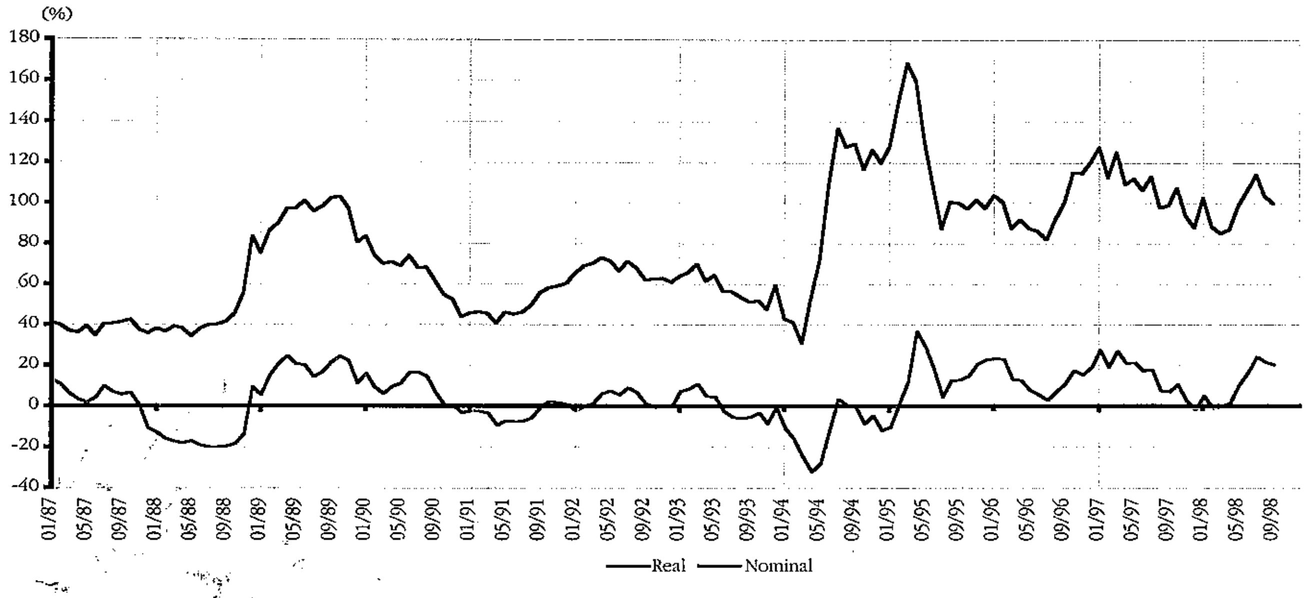
GRAPH 15

M1
(Annual Percentage Increase)



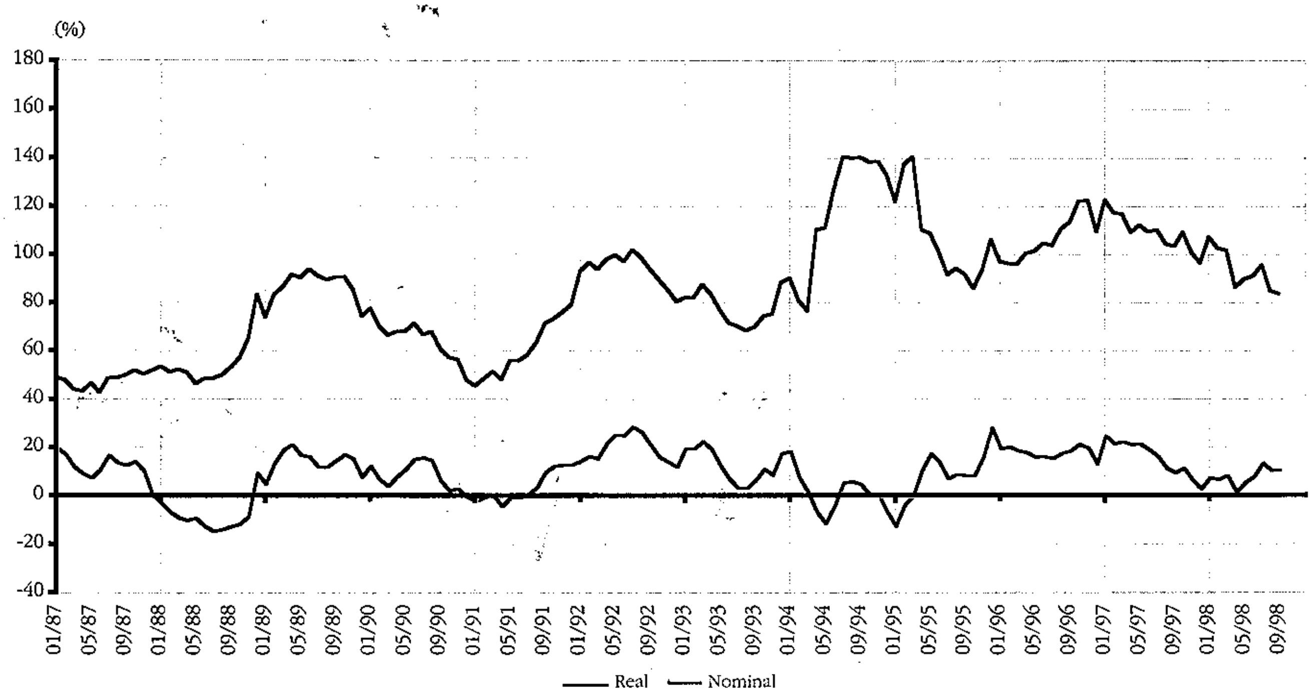
M2
(Annual Percentage Increase)

GRAPH 16



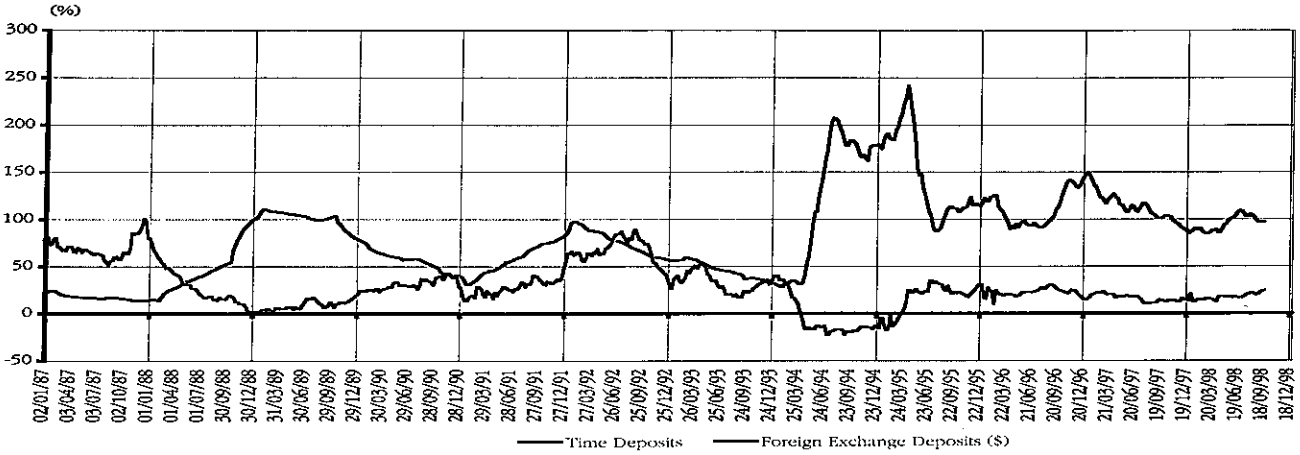
M2Y
(Annual Percentage Increase)

GRAPH 17



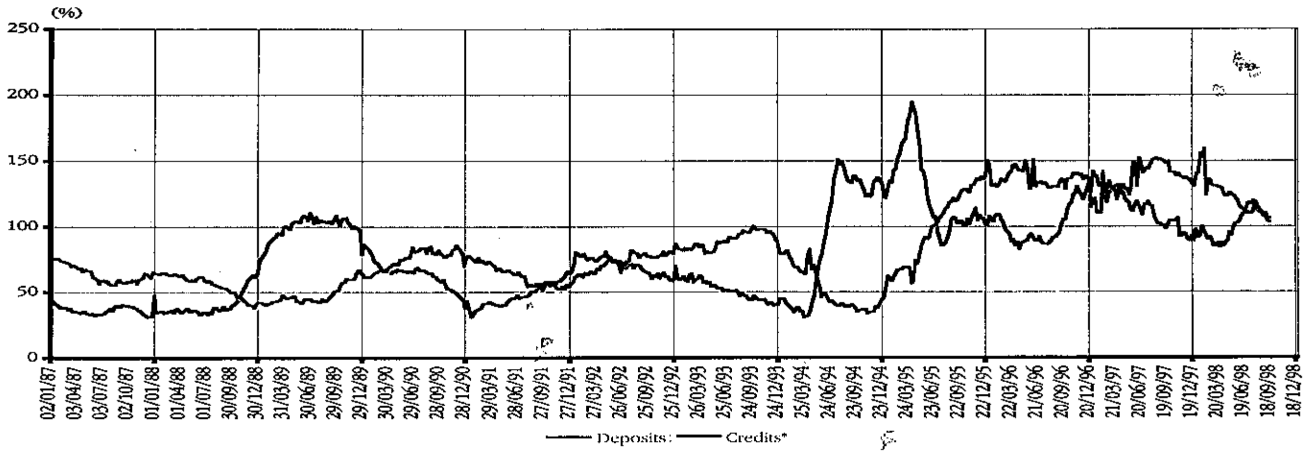
TIME DEPOSITS & FOREIGN EXCHANGE DEPOSITS (Annual Percentage Increase)

GRAPH 18



DEPOSIT BANK CREDITS*&DEPOSITS (Annual Percentage Increase)

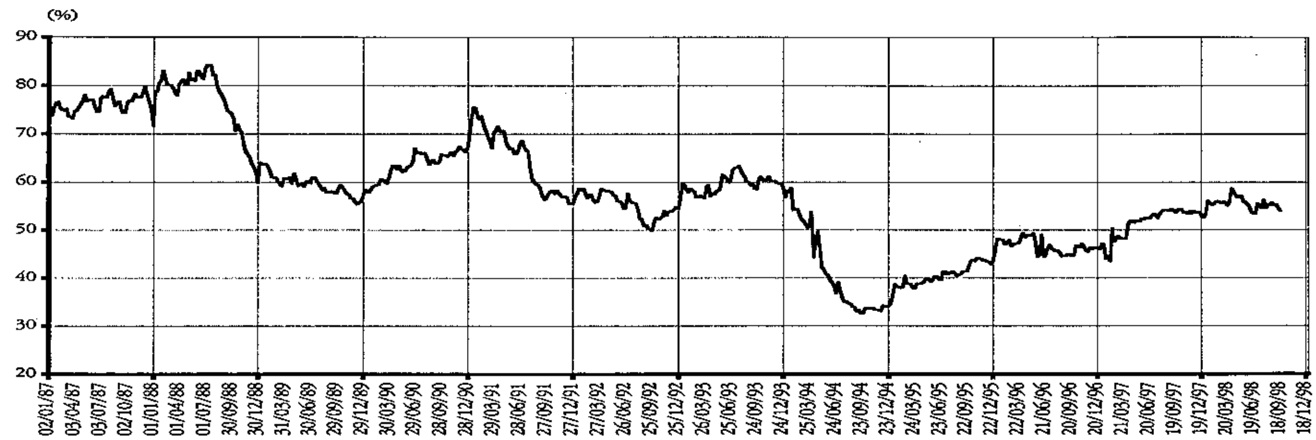
GRAPH 19



* *Adjusted for changes in data definition after 1.7.1994*

DEPOSIT BANK CREDITS*/TOTAL DEPOSITS RATIO

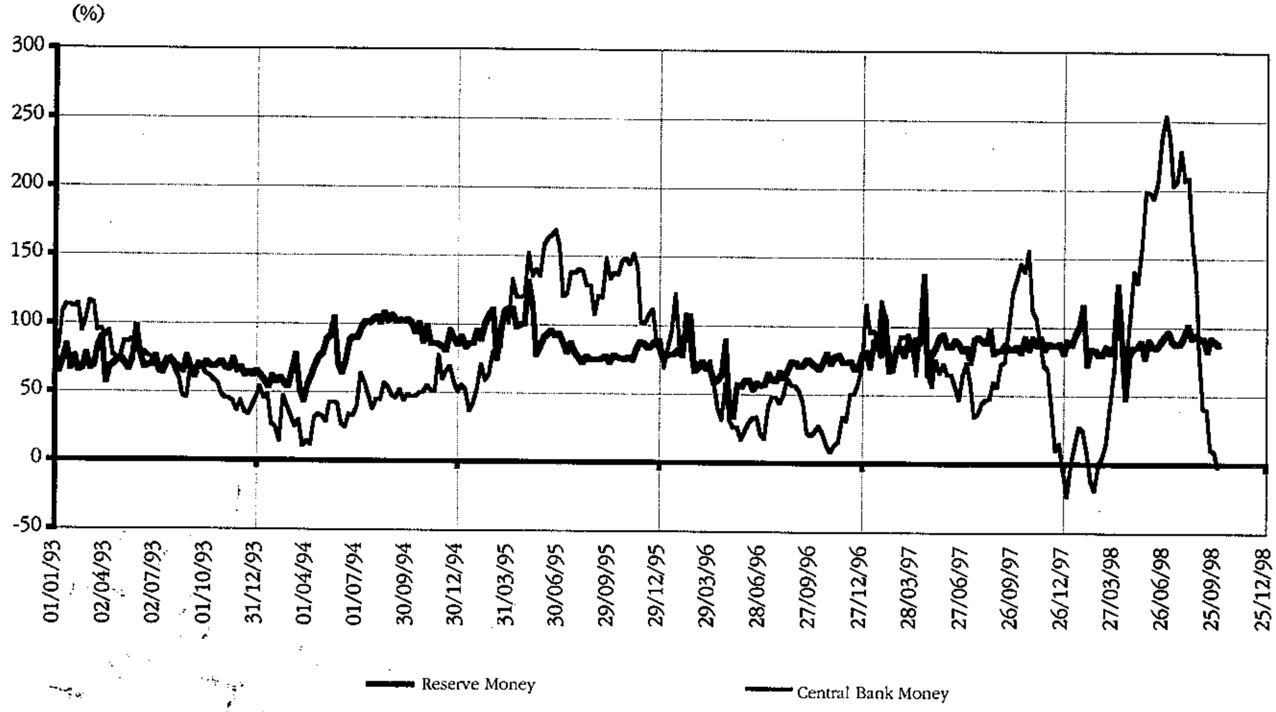
GRAPH 20



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

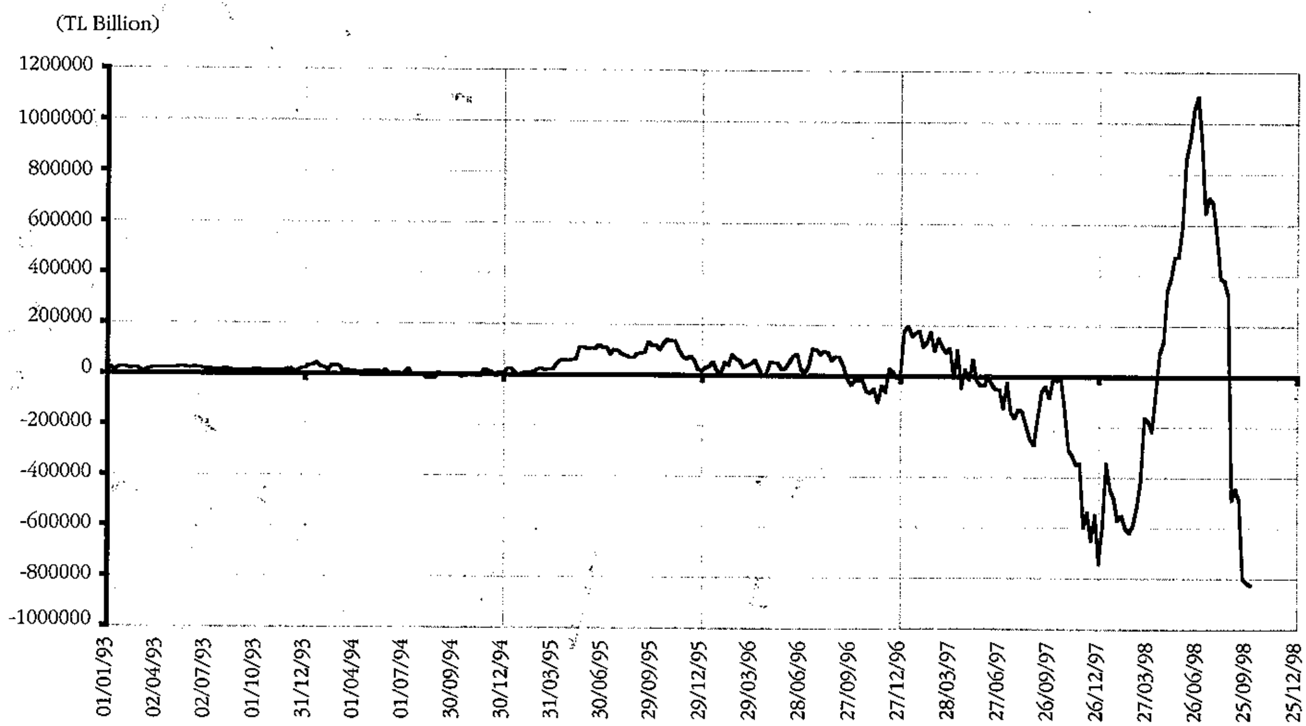
CENTRAL BANK MONEY AND RESERVE MONEY (Annual Percentage Increase)

GRAPH 21



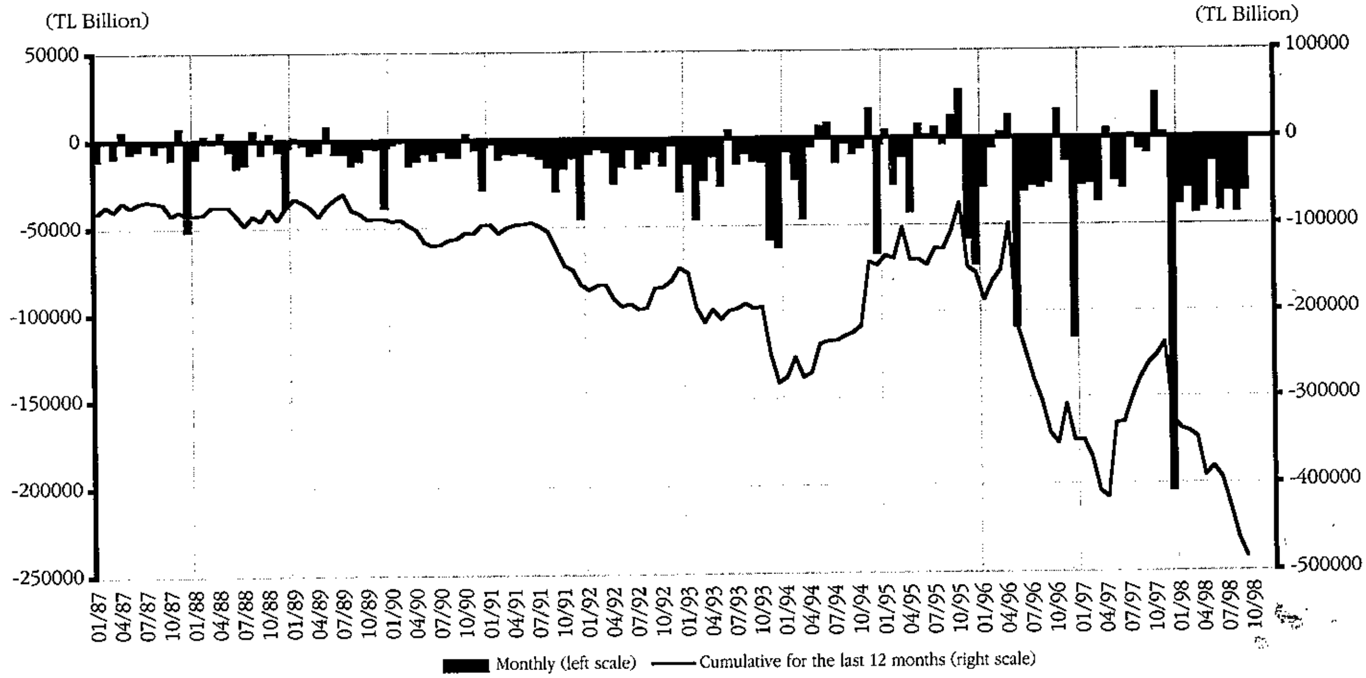
LIABILITIES DUE TO OPEN MARKET OPERATIONS

GRAPH 22



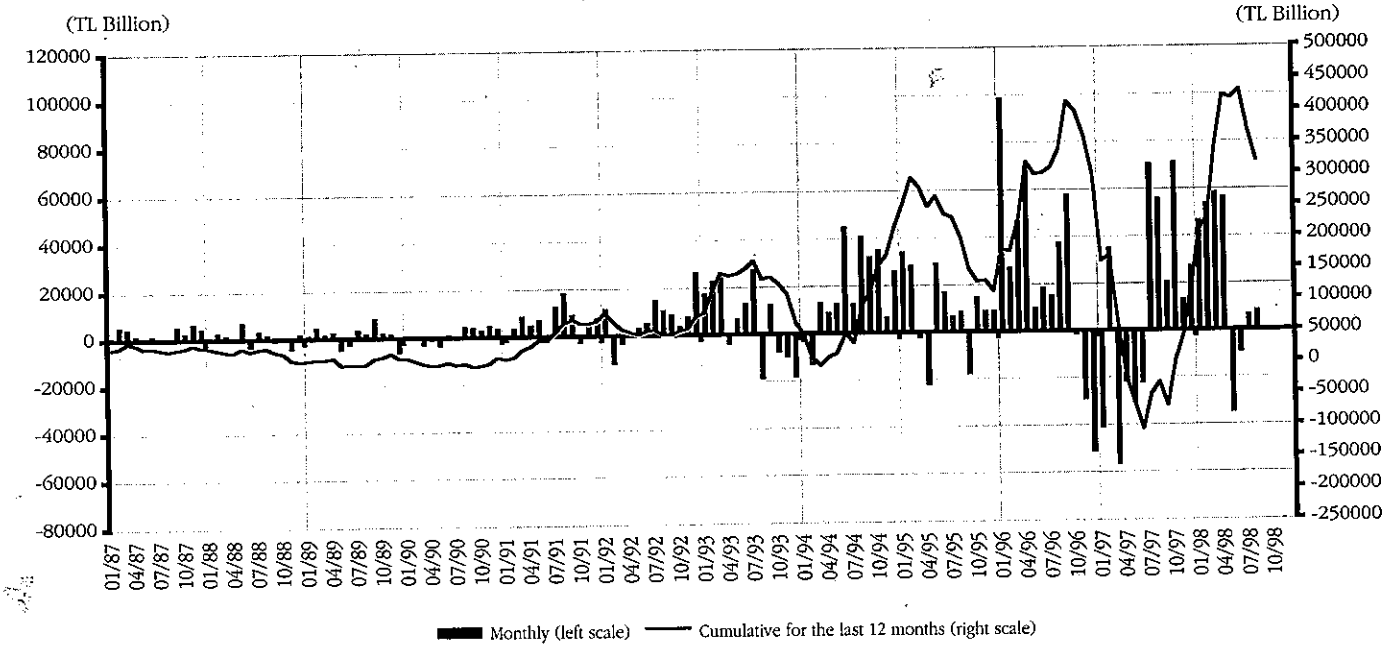
CONSOLIDATED BUDGET DEFICIT (At 1994 Prices)

GRAPH 23



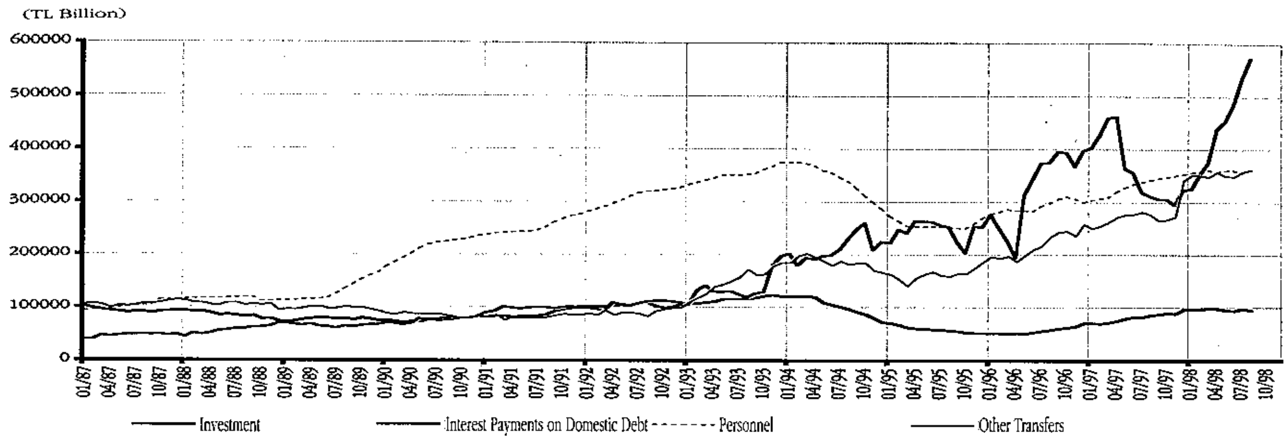
BORROWING BY TREASURY BILLS (NET) (At 1994 Prices)

GRAPH 24



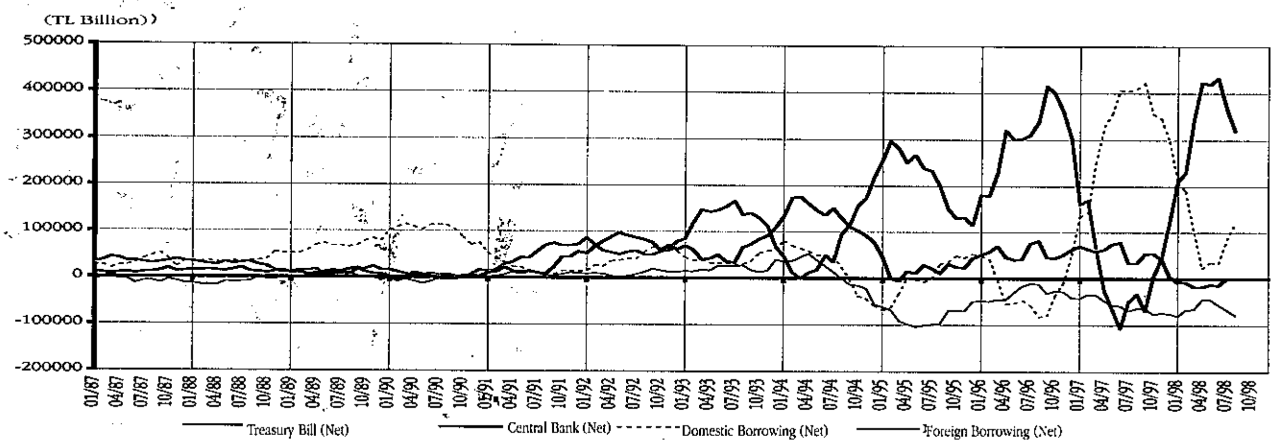
CONSOLIDATED BUDGET EXPENDITURES
(At 1994 Prices, Cumulative for the last 12 months)

GRAPH 25



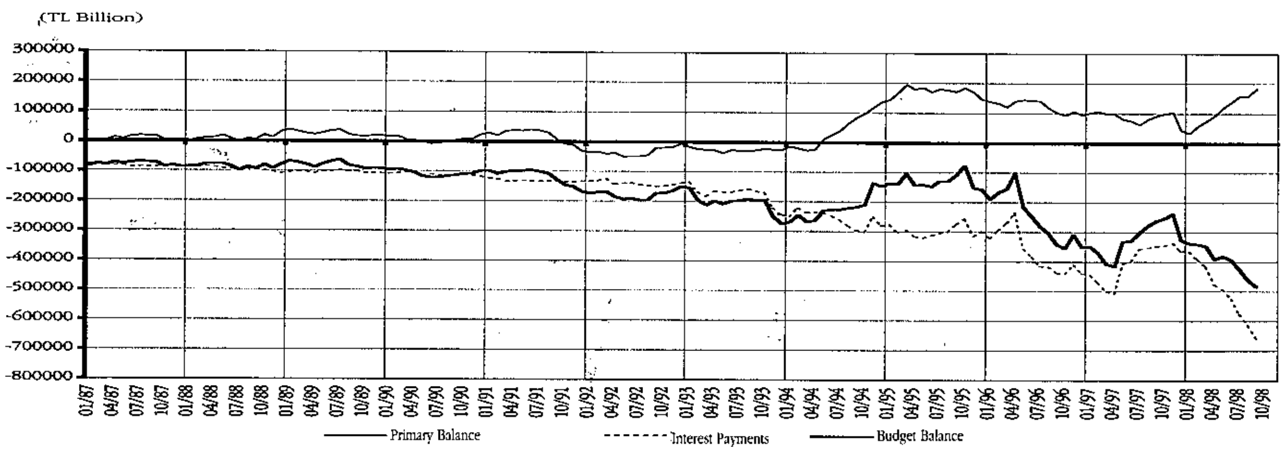
CONSOLIDATED BUDGET FINANCING
(At 1994 Prices, Cumulative for the last 12 months)

GRAPH 26



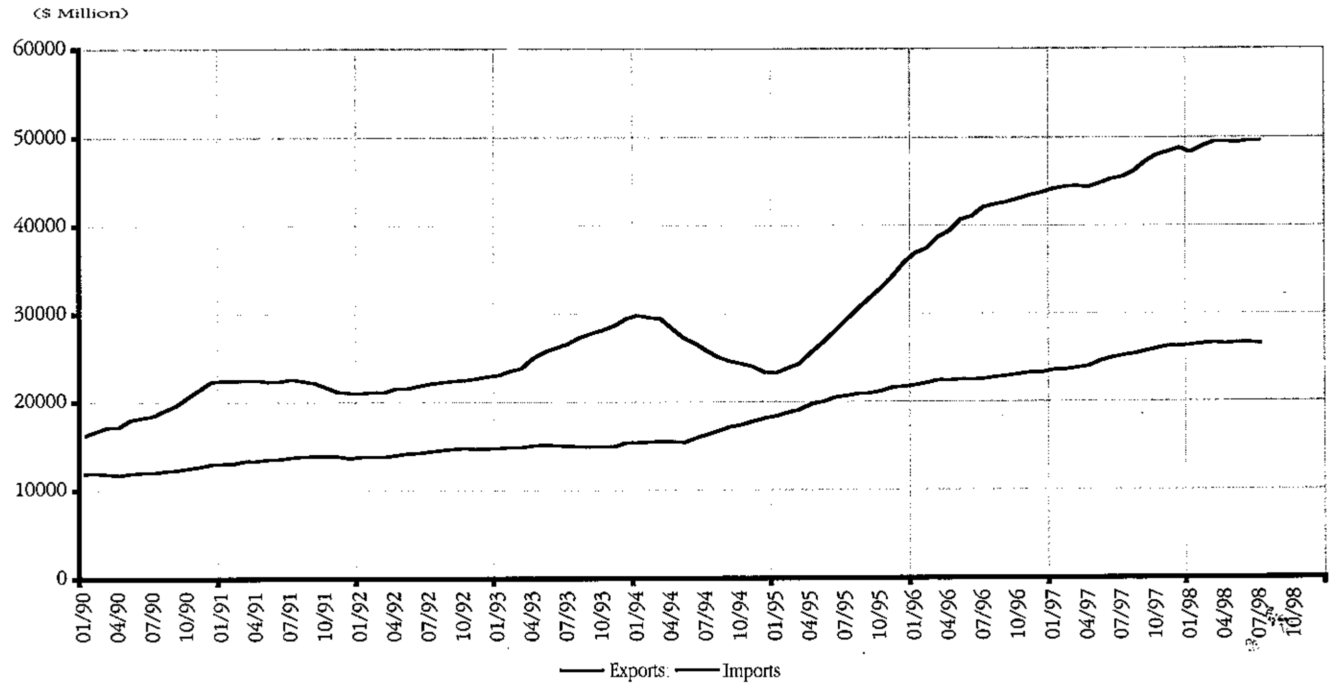
CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices, Cumulative for the last 12 months)

GRAPH 27



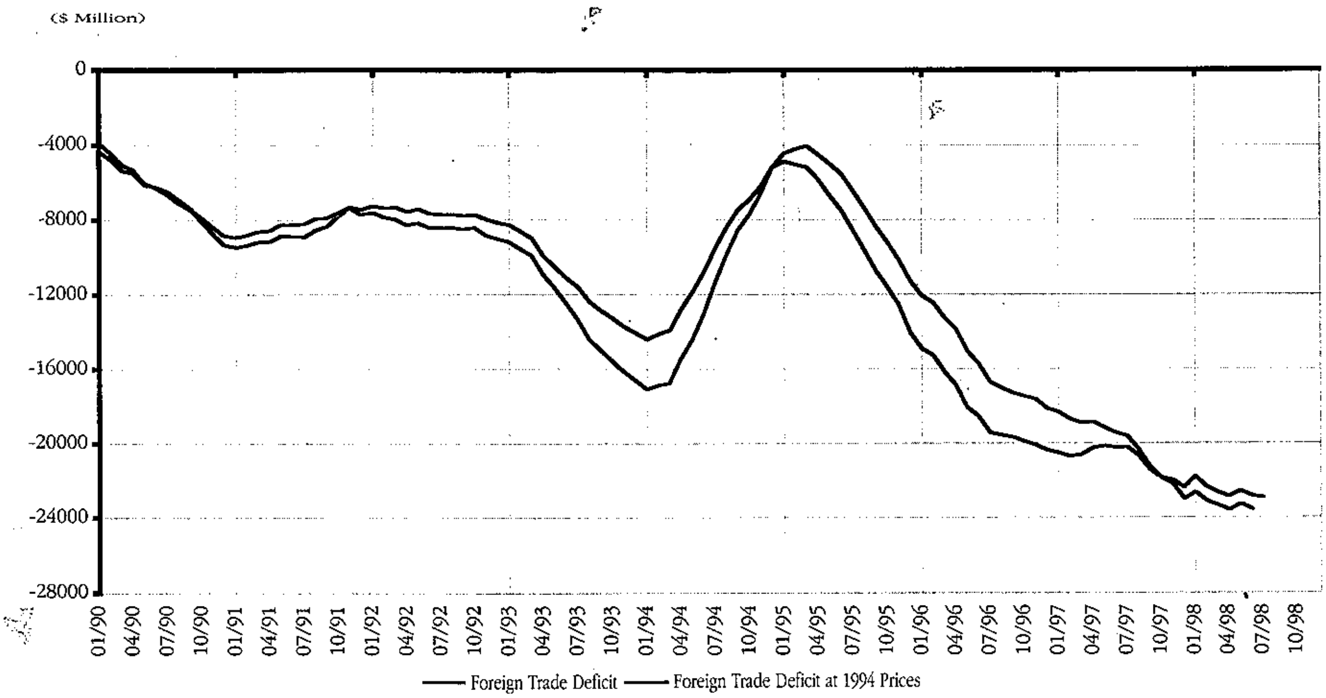
NOMINAL EXPORTS AND IMPORTS (Cumulative for the last 12 months)

GRAPH 28



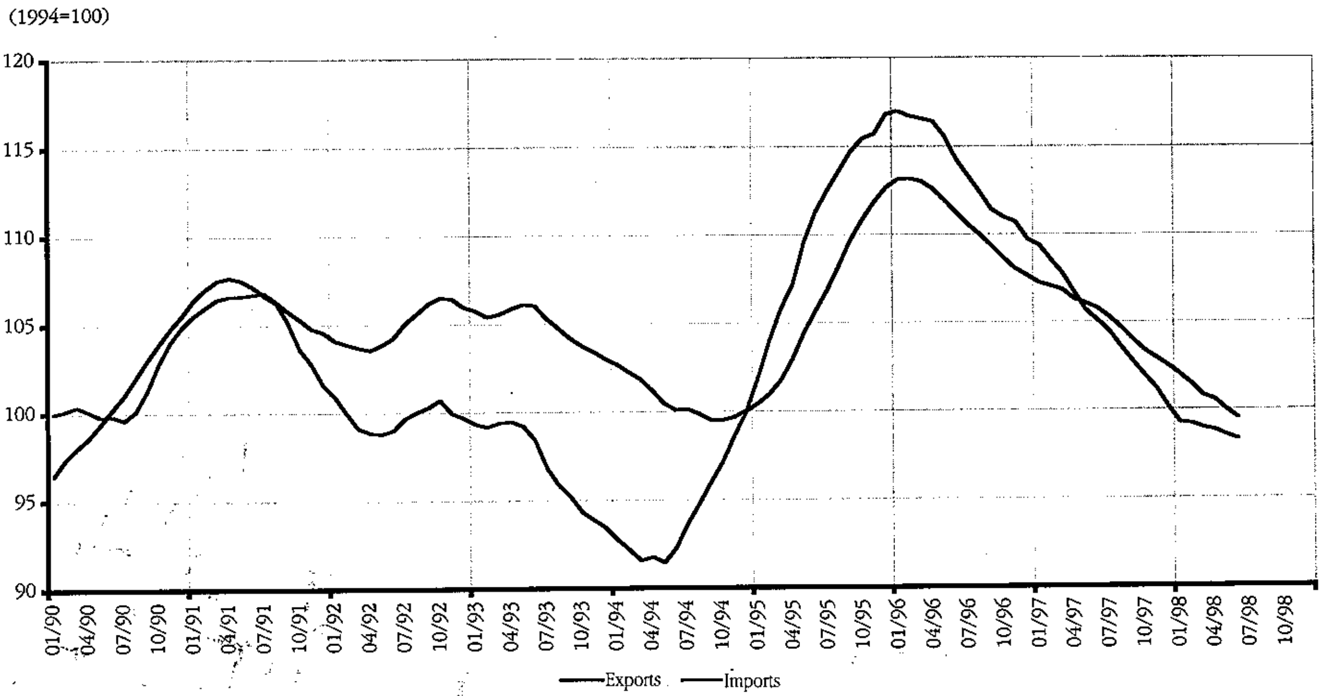
FOREIGN TRADE DEFICIT (Cumulative for the last 12 months)

GRAPH 29



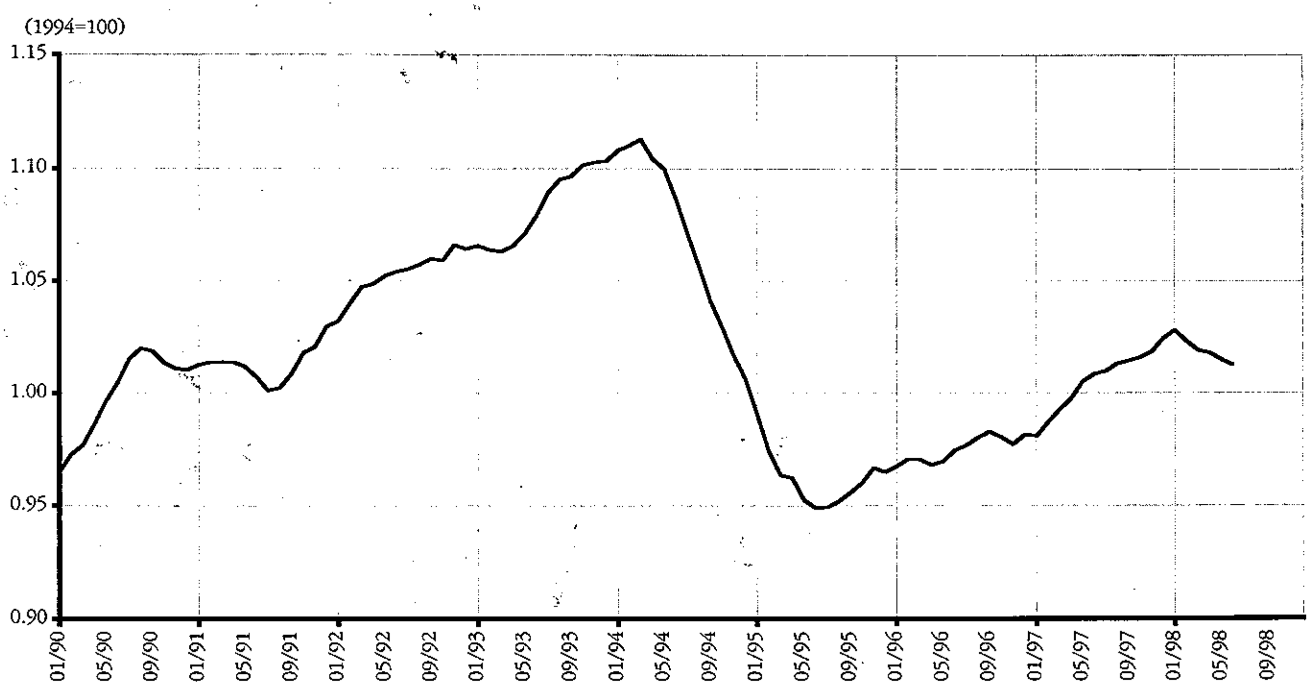
FOREIGN TRADE PRICE INDEX
(Cumulative for the last 12 months, denominated in US$)

GRAPH 30



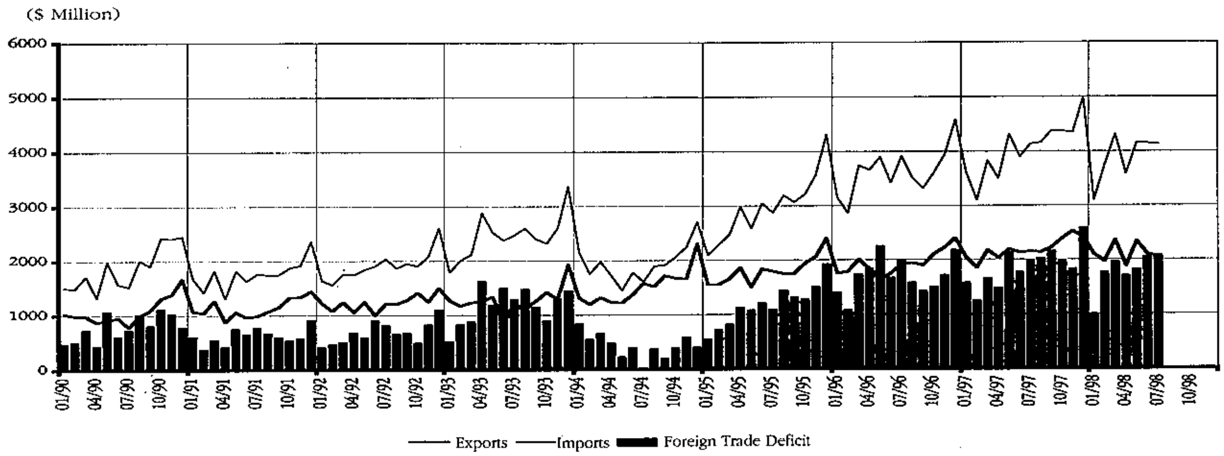
TERMS OF TRADE
(Average for the last 12 months, Export Prices/Import Prices, denominated in US$)

GRAPH 31



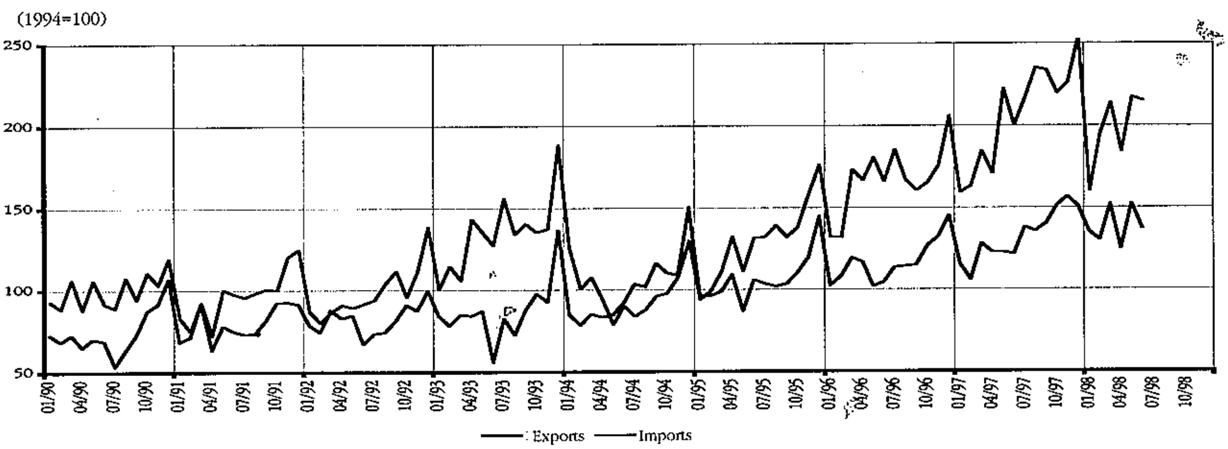
FOREIGN TRADE

GRAPH 32



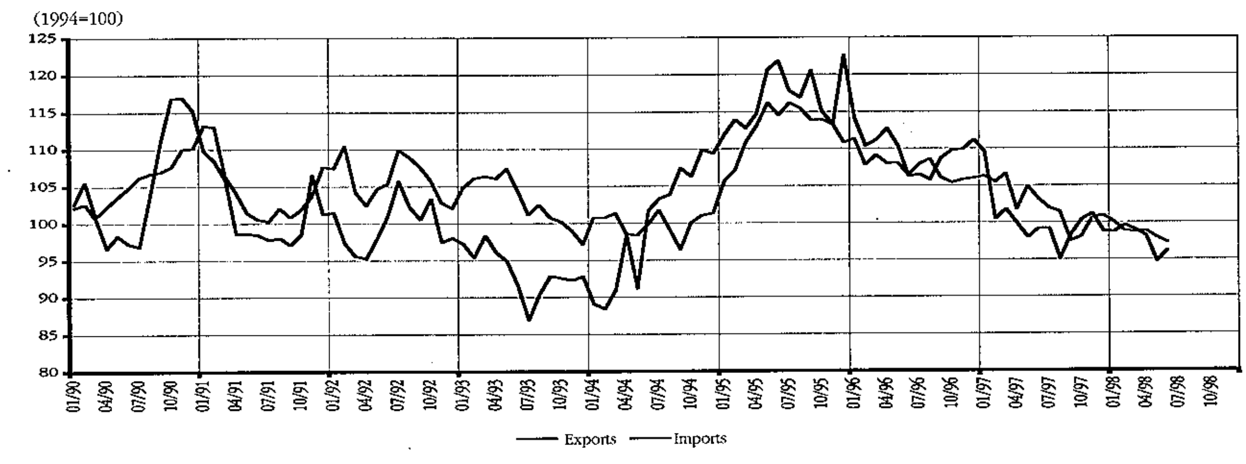
FOREIGN TRADE QUANTITY INDEX

GRAPH 33

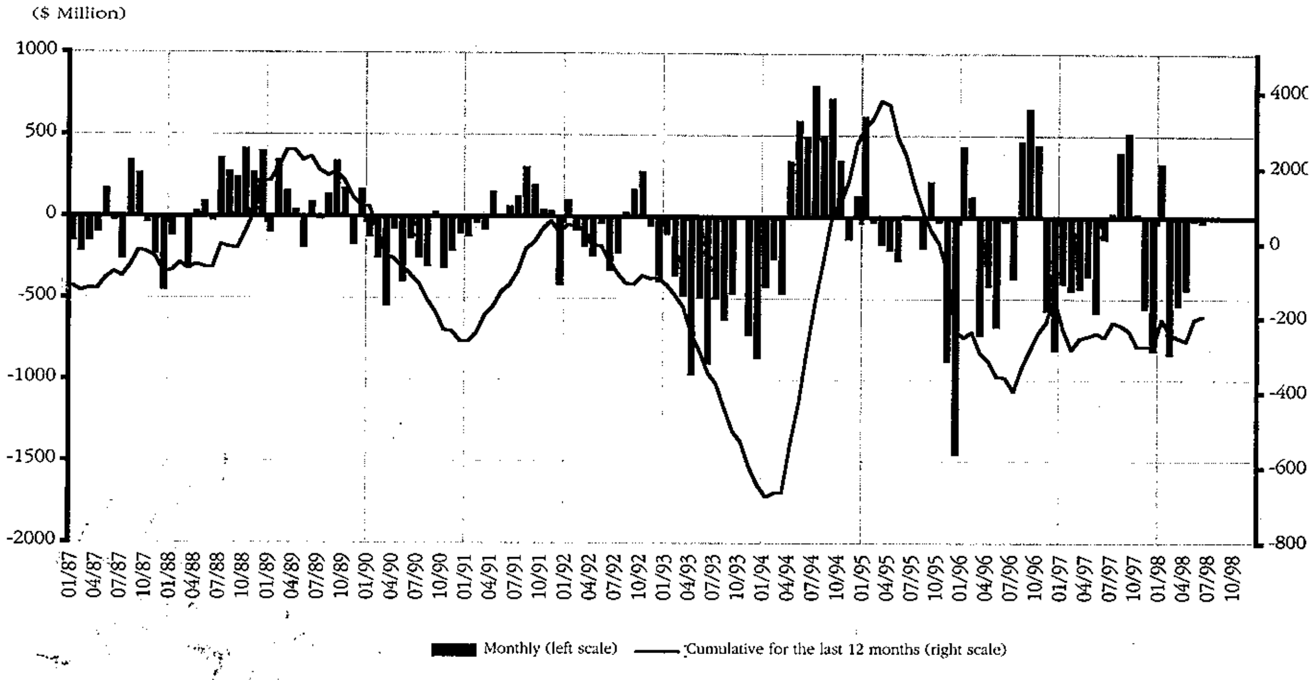


FOREIGN TRADE PRICE INDEX

GRAPH 34

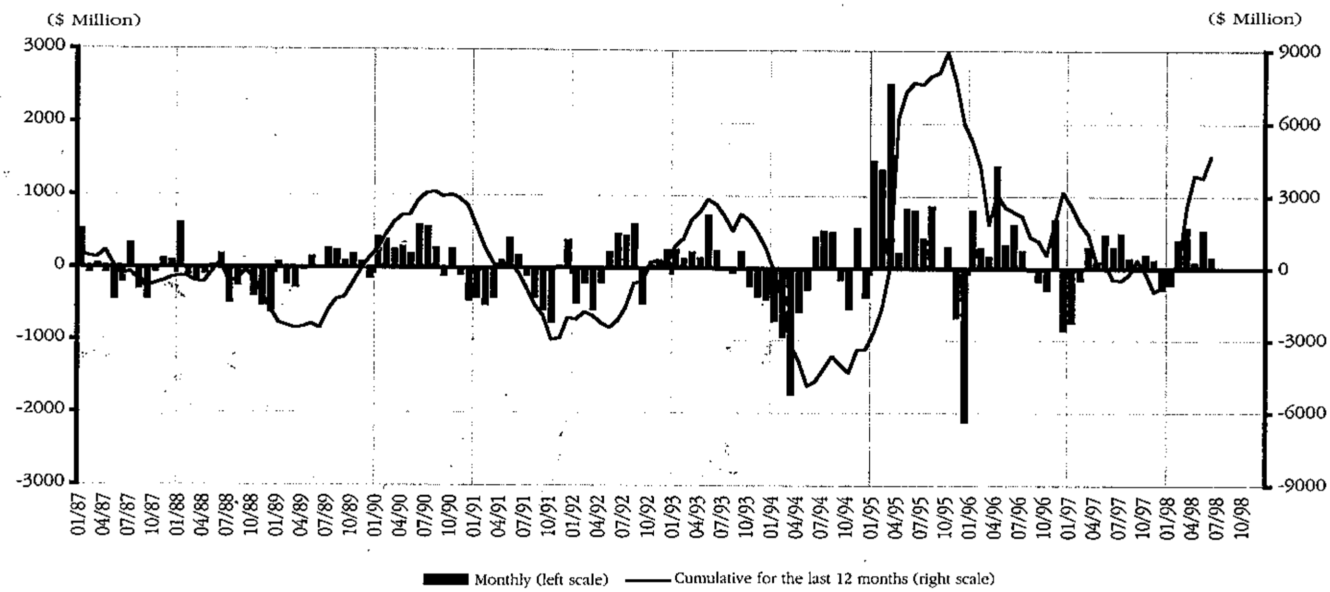


CURRENT ACCOUNT BALANCE* GRAPH 35



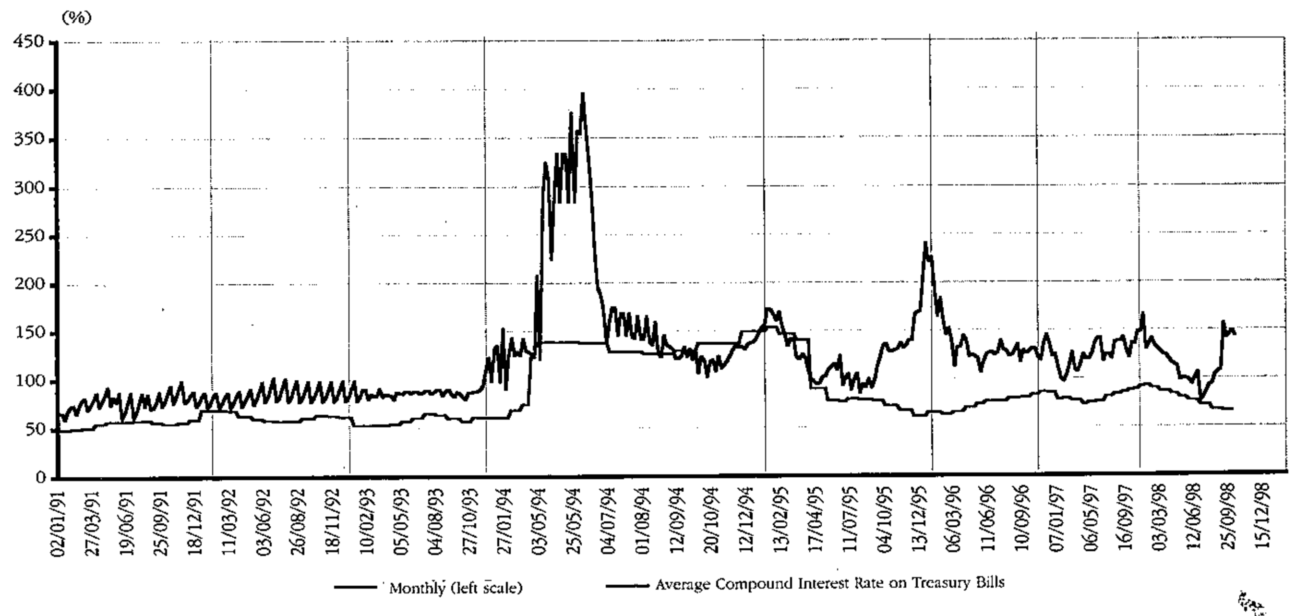
* *Monthly figures include shuttle trade since 01/96.*

TOTAL OF SHORT-TERM CAPITAL AND NET ERRORS AND OMISSIONS GRAPH 36



AVERAGE YEARLY NOMINAL INTEREST AND INFLATION *

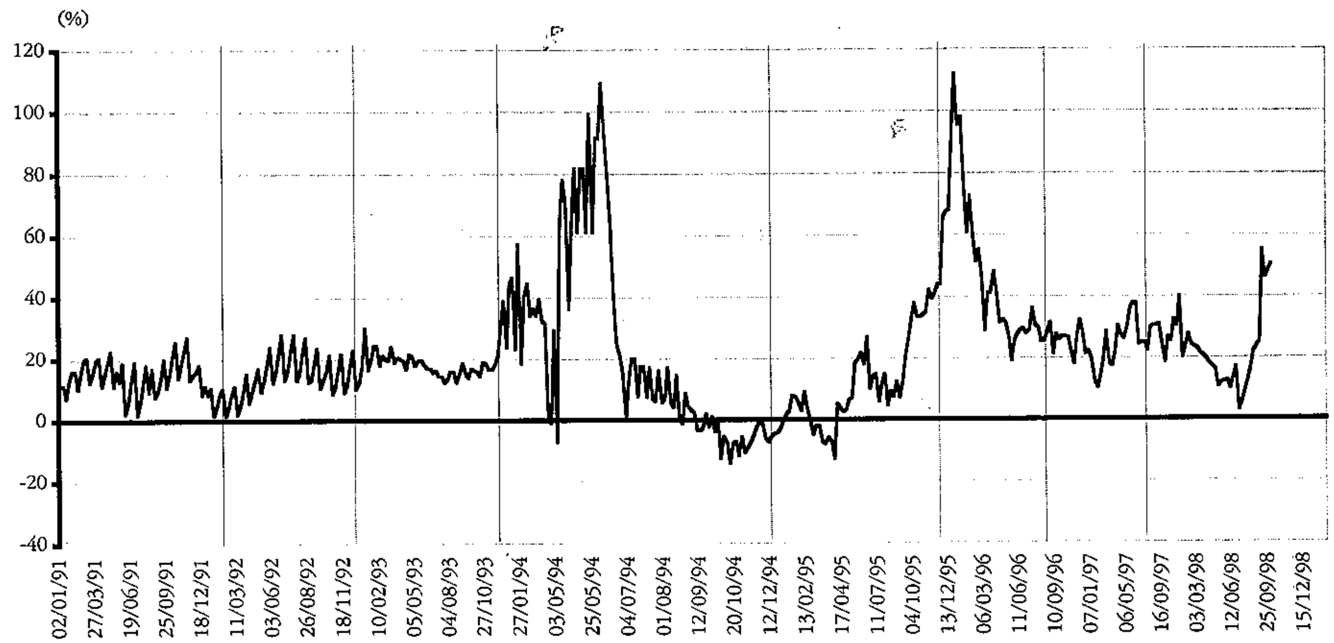
GRAPH 37



* *The width of each year varies according to the number of auctions.*

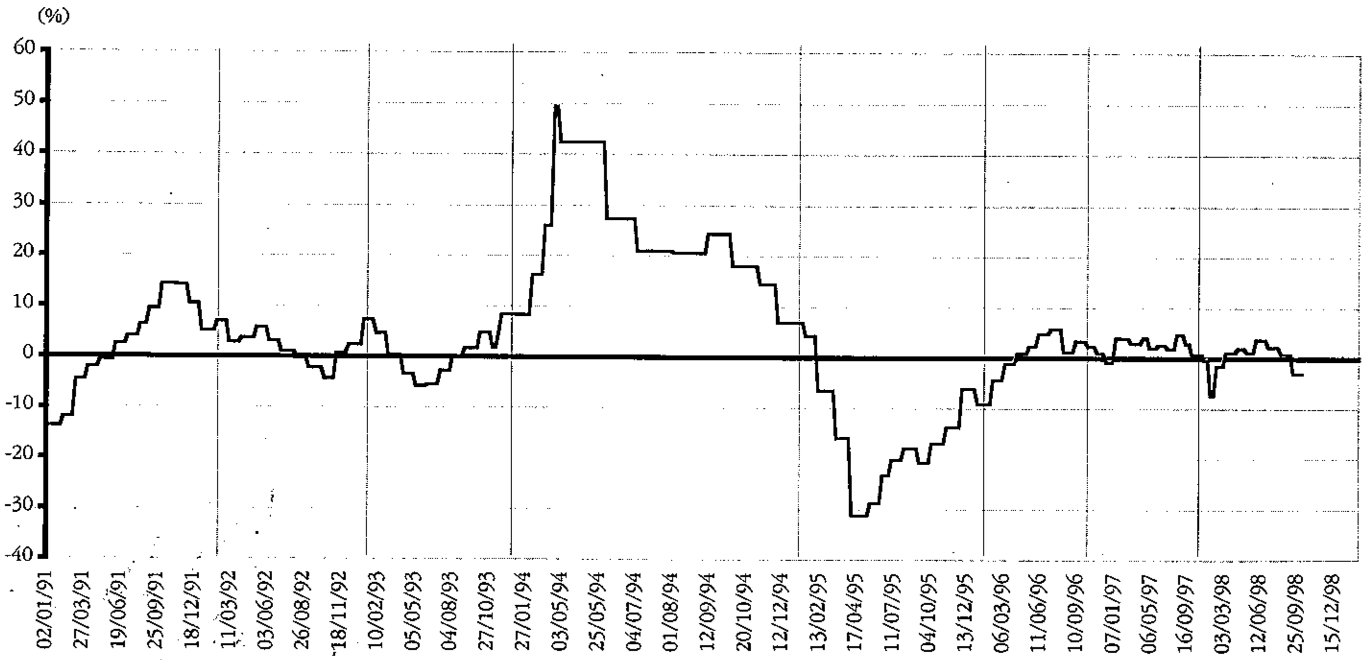
REAL INTEREST RATE *

GRAPH 38



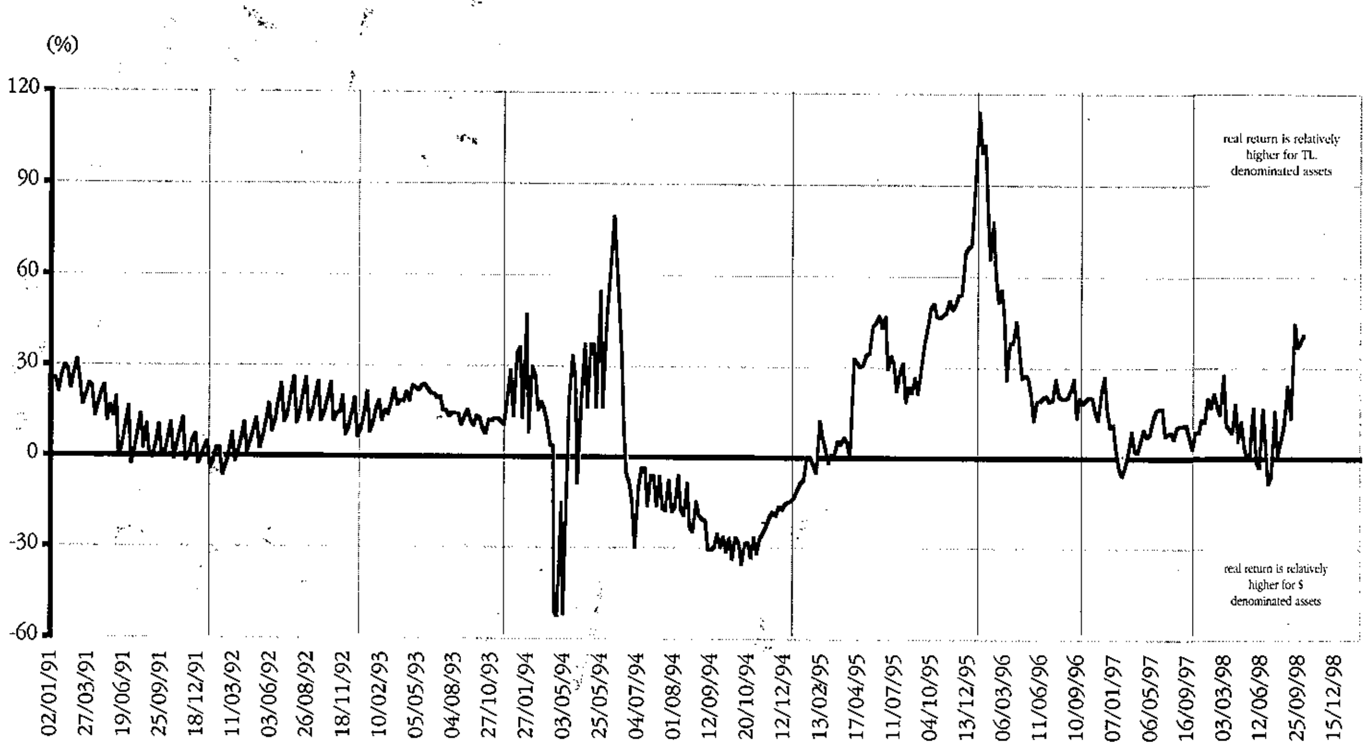
* *Real interest rate is computed as: [(1+i)/(1+p)-1] *100.*
i: Average compound rate of interest on government paper (for all maturities), p: inflation rate [(pt/p(t-12)-1].

REAL RATE OF RETURN ON US$ * **GRAFİK 39**



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

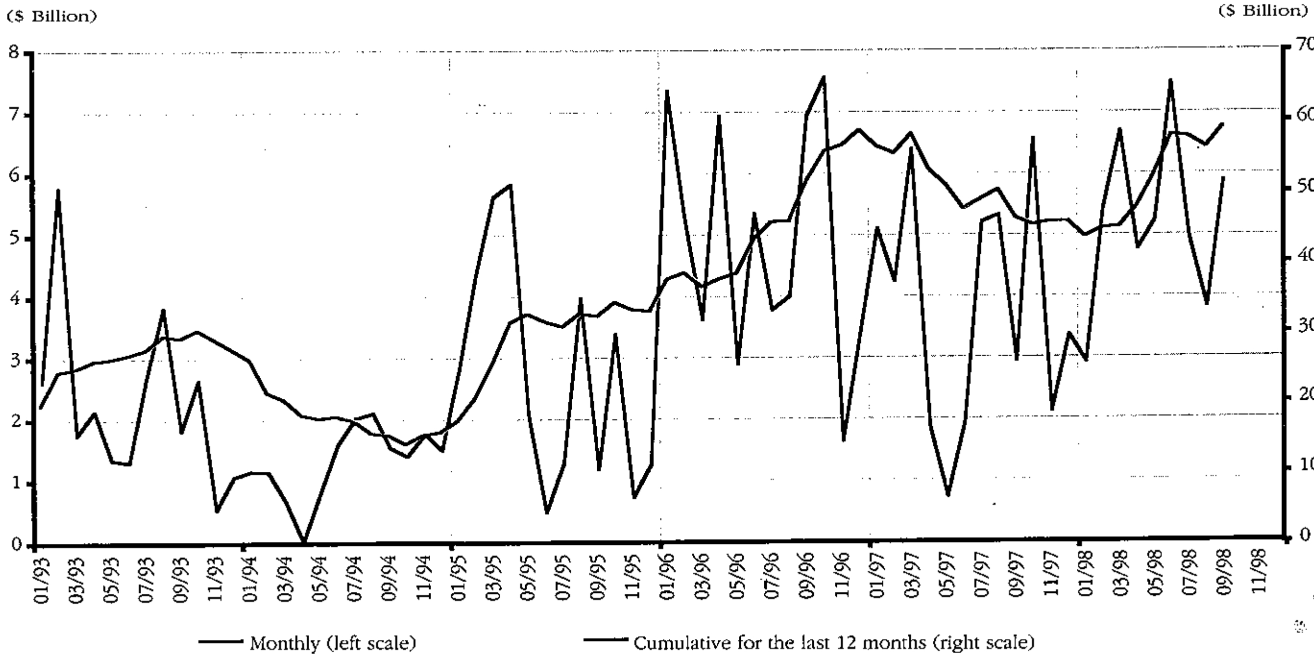
REAL INTEREST RATE*MINUS REAL RATE OF RETURN ON US$ **GRAFİK 40**



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

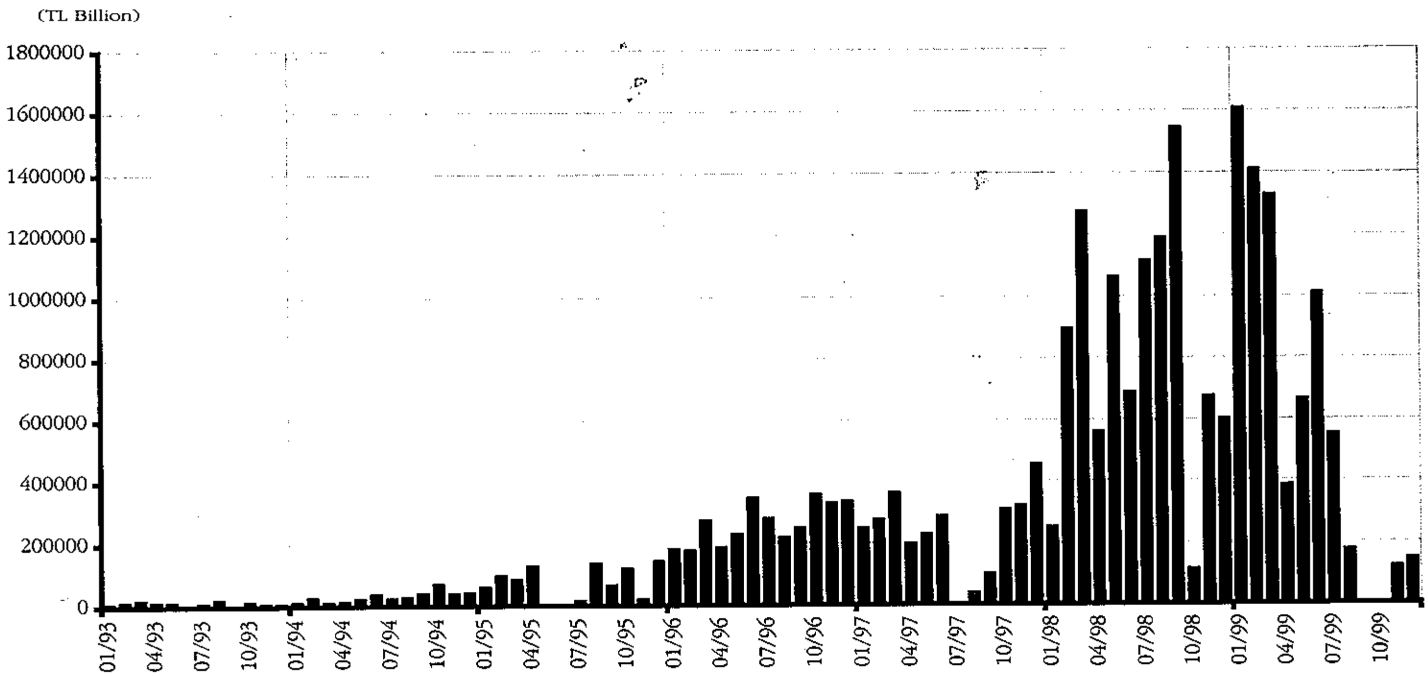
THE AMOUNT OF GOVERMENT PAPERS SOLD IN TREASURY AUCTIONS

GRAPH 41



TREASURY BOND REPAYMENTS *

GRAPH 42



* *As of September 1998.*

APPENDIX

QUARTERLY ECONOMIC SURVEY

NO: 17

THE IMPROVEMENT IN THE ECONOMY THAT HAS PARTIALLY BEEN ACHIEVED SO FAR SHOULD BE MAINTAINED, EVEN THOUGH UNCERTAINTIES HAVE BEEN INCREASING IN THE SECOND HALF OF 1998.

The developments in the economy in the second quarter, similar to those of the first quarter of 1998, have been in conformity with the government programme. As a result of the implementation of the programme, fluctuations and uncertainties in the markets have been reduced, the confidence to officials responsible in running the economy has increased and optimistic expectations have strengthened. The control over the prices of public sector goods and optimistic expectations have been instrumental in lowering the inflation rate approximately 20 percent from the rate prevailing at the beginning of 1998. The monitoring agreement signed with the IMF in June has also set the expectations that no populist policies would be implemented in the remaining months of the year and that the policies implemented would be in conjunction with the set targets. The statements that reiterate the willingness to abide with the programme despite the fact that an election agenda was set, suggest that an optimism about the economy will continue to prevail.

The approaching date of an early election, the slowing down trend of inflation, the change in the foreign exchange policy following the decisions taken by the Central Bank in May, the troubles that the emerging markets, especially the Russian one, have been experiencing, may result in raising uncertainties in the markets during the second half of 1998. Apart from the raising uncertainties, the tendency of the inflation rate to fall down has been couple with a partial recession in the production. Under these circumstances, the possibility of the government to keep its set targets by the end of the year, heavily depends on its performance in the coming three months.

As domestic and international actors are very sensitive to government policies in the ongoing period, it is of vital importance that populist policies should not be implemented if the success obtained in the first half of the year is expected to continue.

Up to now, the government has given its priority to short term policies to curb uncertainties in the markets, leaving aside the issue of dealing with structural problems. The law on taxation reform which was passed through the Parliament in a speedy way is an important, yet an insufficient, step in the budgetary reform. The improvement is destined to remain partial if the reform packages on the social security system and on the monetary sector are not legitimised in a speedy way.

The economic growth will continue despite a slowdown.

The growth rate which was realised at 8.1 percent in the first quarter of 1998 -a rate which turned out to be greater than anticipated- is thought to be continuing, albeit at a slower rate, and the end-year rate is expected to be higher than the 4.5 percent programme figure. The estimations of TUSIAD reveal that the growth rate figures for the second quarter would be 4.8 percent and for the year (on the average) 5.4 percent.

The expectations in the industrial sector which were pessimistic in January, due to high inflation and interest rates, changed to optimism as a result of the government performance in the first months. However, starting in May, due to expectations of decline in the production and the domestic and international sales, the industrial production level is expected to experience a partial slow down in the next quarter.

The agricultural sector has shown a contraction of 4.4 percent. Despite this fact, the growth rates in the industry and services sectors were realised at 7.9 and 7.7 percent, respectively. While the private manufacturing industry subsector was instrumental in increasing the value-added of the industrial sector, the transportation, trade and construction sectors contributed to the growth of the services sector.

When the first quarter of 1998 is analysed in terms of the demand side, it would be noted that the private consumption expenditures have been preserving their tendency to increase with a high rate of 7.1 percent. In this expansion, the increase in the expenditures of durable goods was influential, as had been the case in previous years. The expenditures in durable consumer goods continued to increase with a high rate of 18.2 percent, though the figure is smaller than the last year figure of 33.6 percent. On the other hand, the high increase in the expenditures of energy, transportation and communication of a magnitude of 11.1 percent, when compared to the last year figure of 3.5 percent, deserves attention. The increasing public consumption expenditures envisaged a 8.4 growth rate. In the investment expenditures, however, a slow down due to the private sector has been observed. The investment expenditures envisaged a growth rate of 30 percent in the public sector, 5.6 percent in the private sector, and 8 percent on the total.

The debate on the election agenda, the falling trend of inflation and the increased uncertainties due to switching policies, will all cause domestic demand to go down. The crisis in the Asia and Russia, Turkey's lessening possibility of obtaining foreign credits and the Central Bank's changing monetary policy will all constitute a diminishing use of foreign sources and an upper constraint in terms of income and growth.

The industrial production grew by 7.3 percent in the first half of the year, despite the existence of some sectoral problems.

In the first five months an improvement has been observed in the real sector. The capacity utilisation rates, employment, orders and sales have all increased. But the economic recession, which has begun to be felt by the beginning of May, has been the reason for the falling of the production expectations for the third quarter. It is expected that the production will fall for a while, yet it will still be higher than the set target.

While in the first five months the industrial production increased by 8.4 percent, the growth rate in the manufacturing industry production went up by 8.1 percent. Once the analysis is conducted at sectoral basis, attention should be given to the sector of textile where the production rate contracted by 10.7 percent and to the sector of machinery industry where the growth rate increased by 26.8 percent.

The contraction in the textile sector is even greater than the contraction that the sector had experienced in the first five months of 1997. The contraction in the textile sector in the January-May period was 3 percent for 1997 and 10.7 percent for 1998. It is thought that this contraction is because of unfavourable conditions in the foreign markets, especially in Russia, rather than a decline in domestic markets. On the other hand, the demand increase in the machinery industry production, in which durable consumption goods constitute an item, shows that the domestic demand is buoyant. In this period, the car sales increased by 70 percent and the white durable goods by 16 percent. According to June 1998 data, the capacity utilisation rate in the manufacturing industry was realised at 74.9 percent and as such the rate was below the June 1997 figure of 81 percent. The public sector is rather responsible for this decrease. The capacity utilisation rate in the public sector was 66.4 percent for June 1998, while the same figure had been 82.2 percent for June 1997.

The inflation rate as of June was 72.1 percent, 9 points lower than the same month of last year.

The falling trend of inflation which began in the first quarter of 1998 continued in a similar way in the second quarter as well. The wholesale price has increased for April, May, June and July by 83.3, 79.9, 76.7 and 72.1 percent, respectively, in annual terms, and the monthly increases were observed as being 4, 3.3, 1.6 and 2.5 percent, with the same order. The July inflation rate turned out to be greater than the set target. This has partially been due to the chain effect of a 12 percent price increase in petroleum in June, which occurred before the decision that its price could then be determined freely.

The price increase in the public sector was realised below than that of the private sector due to the fact that public price increases were postponed. The price increase in June was realised, due to the increase in petroleum price, at 3.6 percent in the public sector and 1 percent at the private sector. The price increase in the public sector for July remained also higher than that of the private sector, by 3 to 2.4 percent.

When a sectoral analysis is conducted, the price increase in the agricultural sector remained higher than the inflation rate, and the ratio of agricultural prices to industrial prices reached its highest level since 1985.

Under the assumptions that there will be no turn to populist policies, the domestic demand will contract compared to those of previous years and the real sector will expect a low inflation rate, the end-of-year inflation figure is anticipated to be below 70 percent. The fact that the 1997 inflation rate has increased in the second half implies that, under the assumption that there would be no major changes in the policies conducted, the yearly inflation rate will continue to decrease mathematically. As such, the estimations of TUSIAD reveal that the end-of-year inflation rate would be 60.7 percent and the annual average rate 73.4 percent.

An accomodating monetary policy has being applied.

The Central Bank's second term programme has been set as the continuation of the first one by which it was aimed to curb uncertainties and maintain the stability. Within this framework, monetary policies were strictly implemented. The increase in reserve money was realised at 13.1 percent, compared to the target interval of 14-16 percent. Another indicator that signals that actions were according to the monetary plan was the fact that the Central Bank's advance payment was nil during this period.

The Central Bank's assets showed an increase of 135 percent by the end of June. This figure was 90 percent by the end of the first quarter. The difference between the two periods was due to increases in the revaluation accounts and the foreign assets.

The exchange rate policy that was implemented in conformity with inflation was instrumental in increasing the inflow of hot money and therefore foreign currency. As a result of this policy, the Central Bank's foreign exchange position reached in June the amount of 16.7 billion USD, corresponding to an increase in the second quarter of 58 percent on TL basis or 43.7 percent on USD basis. The increase in Central Bank's foreign exchange position resulted in an increase in the currency in circulation, as a result of which the Central Bank had to take measures to sterilise this currency, causing the Bank's debts to arise from open market operations. Furthermore, the fact that the Treasury did not use short-term advances and forced other public units not to use credits, caused an important decline in the net domestic assets. Due to reliance on open market operations during the period May-June, the volume of such operations reached 1,104 trillion at the end of June from its level of 178 trillion at the end of March. This expansion also explains the increase in the Central Bank's money of 93 percent in the second quarter as compared to the first one.

The second quarter currency in circulation, M1 and M2 increased, respectively, by 7.7, 10.6 and 17.4 percent; the increase in M2Y was no more than 1.4 percent.

Currency in circulation, while decreasing in April and May, increased in real terms in June by 4 percent. The M1 money supply increased only in nominal terms by 65.5 percent, corresponding to a real decrease of 7.6 percent, due to an increase in sight deposits and a reverse effect of a small increase in commercial sight deposits. M2 increased in real terms by 10 percent, contrary to a contraction experienced last period, due to a high increase in commercial time deposits. M2Y, finally, increased by 6 percent, a few points below the figure of the last period.

The fact that, in June, the ratio of the total deposits to foreign exchange deposits exhibited a figure of 1.03, which was higher than that of the previous quarter, showed that investors have gradually been substituting away from foreign currencies to TL and thus confidence in TL has been re-emerging. This situation confirms the confidence to the programme under implementation.

Deposit bank credits exhibited a growth rate higher than the total deposits, as was the case in the first quarter. The real growth rate was 25 percent in the first quarter, and 18 percent by the end of June. It can be observed that credits to the agricultural sector have still an important share in total credits.

It is expected that the emphasis on monetary policies would shift from smoothing the fluctuations in the markets to reducing the inflation.

As the inflationary expectations started to decline in the second half, the Central Bank was required to change its policies. This policy change can be summarised as reducing the inflow of foreign currencies and to shift the target indicator from reserve money to net domestic assets. In this regard, the Central Bank took several steps with an aim to stabilise the high level of foreign currency inflows and the speedy increase of net foreign assets. The decisions undertaken suggest that the Central Bank will continue to implement an exchange rate policy based on an inflation target of 50 percent, through purchases and sales. Additionally, it was decided that the Banks' net foreign currency deficit positions should be constrained and that the ratio of deficits of net positions to capital base should be reduced gradually from 50 percent to 30 percent by the end of December 1998.

Also, as a part of the monitoring agreement that the Government signed with IMF at the end of June, the Central Bank in order to control monetary situation decided to follow a new indicator. As such, the Bank shifted its target from the reserve money to net domestic assets. It was set so that the net domestic assets that were -1,778 trillion TL by the end of June would be -1,514 trillion by the end of the year. Therefore, an increase of 14.8 percent in the second half has been expected in the net domestic assets that have been decreasing from the beginning of 1998. In July, the reserve money reached 1.8 quadrillion TL, a rise of 5 percent compared to June.

A speedy increase in foreign exchange reserve is not anticipated in the second half of 1998 due to this policy change. Therefore, currency flow into the markets will be realised, not through outflow of foreign currency, but through an increase of domestic assets. In the programme the increase in net domestic assets was set at 14.8 percent. As such, the high volume of open market operations will be reduced in the coming period. The partial fall experienced in July suggests that policies have been operational.

As expected, as a result of the policy change, net foreign assets in July were reduced to 15.6 billion USD and the open market operations to 569.5 trillion TL.

The real and nominal interest rates, which fell down in a considerable way as a consequence of the achieved stability, will go up due to the financing requirement of the budget deficit.

From January onwards, the falling tendency of interest rates and the valuation of real exchange rates have been diminishing the difference between interest rates and real exchange rates. The Central Bank's decision taken in May and the contraction in international markets have relatively increased the fluctuation in exchange rates and aggravated, to some extent, the uncertainty regarding the monthly devaluation. All these developments will have a reductionary effect on high foreign currency inflows. The reserves which were at the level of 26,700 million

USD by the end of June decreased during the second and third weeks of July and then increased in the fourth week and by the end of July attained the level of 25,731 million USD.

Although there remains a possibility that the Central Banks' policies will cause a slowdown in the exchange rate, it is not expected that the devaluation rate turns out to be less than that of inflation.

The stability achieved in the markets, the decrease in inflation and risk premium and the Central Bank's policy to flow currency in the markets all caused the interest rates to go down. The Central Bank lowered the interest rates in the inter-bank money markets by 10 points and the compound interest rates in the Treasury auction went down to 99 percent at the end of June. In the first auction of July, because of these policies and the additional impact of the agreement signed with IMF, the yearly compound interest rate was determined at 76 percent, the net rate approaching to zero. However, in an environment where there is a high budget deficit and a large portion of it is being financed through domestic borrowings, it is not likely to keep real interest rates at very low levels. These, coupled with an increased uncertainty in the last period, explain the increasing tendency of interest rates. This tendency has also been present in the auction that was conducted in August and the compound interest rate increased to the level of 96 percent, which corresponded to a real interest rate of 12 percent.

The interest rates, that went down because of positive developments in the economy, are expected to keep their high levels unless there will be structural improvements.

Despite the fact that the primary surplus has reached the magnitude of 5 billion USD, interest payments and social security expenses turned out to be greater than 60 percent of the budget expenses and this makes it impossible to reduce the budget deficit unless structural measures are exercised.

When the realisation of the January-May budget is examined, one can observe that the government has been acting according to its programme. On the US dollar base, budget revenues increased by 26 percent and budget expenses by 32 percent. The expected budget revenues of 3,000 trillion TL for the April-June period was realised at the level of 2,500 trillion TL.

The high increase in revenues can be explained by two factors: The increase in the non-tax revenues due to the transfer of revenues of privatisation realised in the first quarter to the budget and the increase in tax revenues due to the impact of witholding tax on interest revenues resulted an increase of 20 percent in real terms. In the second half of the year, high revenue from taxes should not be expected. The revenue raising effects of the new tax reform which was approved in July are unknown; but even it is assumed that there will be revenue raising effects, these will only appear in next year's budget. Due to the fact that the rate of tax increase arising from witholding tax on interest will gradually decrease and that the weight of income tax on salaries will lessen, the real increase in budget revenues in the second half, compared to previous year's, is expected to be smaller than what has been experienced in the first two quarters.

On the other hand, the 9 percent increase in the interest payments to domestic debts caused an increase in the expenditures. The high level of interest payments in this period was the results of the decision that was taken to roll-over last year's maturity and of the decision taken to revert the old maturity policy this year.

As such, the budget deficit which exhibited a figure of 13 billion USD as of December 1997 increased to the level of 15 billion USD by May 1998. During this period, repayment of net foreign debt has continued, and the financing of the budget deficit was realised through short term domestic borrowing. In an environment where there is a falling trend of inflation, the continuation of domestic borrowing brings about a load in terms of real interests and negatively affects the budget equilibrium. As such, the government should aim to finance the budget deficit via government bonds indexed to inflation and foreign exchange.

The fact that the primary surplus during the January-May period reached the level of 5 billion USD, exhibiting an increase of 140 percent on USD base, should be noted as an important development in terms of the budgetary policy. Yet, the fact that the ratio of interest payments to budget expenses has increased to the level of 47 percent and that the ratios of transfers including those to Social Security System and State Enterprises, have been experiencing high levels, indicate the unhealthy structure of the budget.

The second half's programme anticipates a total revenue of 6,100 trillion and a primary surplus of 1,000 trillion. Hence, the ratio of the budget deficit to GNP will rise from its past level of 7.5 percent in 1997 to the present level of 7.6 percent in 1998. However, the estimates of TÜSIAD reveal that the ratio is likely to occur at around 9 percent.

The high increase in invisible revenues played a slowing down effect in the deterioration of the balance of payments, despite the fact there was an increase in the foreign trade deficit.

When the first five month period is analysed, it would be noticed that exports amounted to 10,587 billion USD, with an increase of 3 percent, and imports to 18,950 billion USD, with an increase of 3.2 percent. The foreign trade balance showed, therefore, a deficit of 8,363 billion USD, with an increase of 3.5 percent. The increase in exports and the decrease in imports that have been observed in May have especially been instrumental in smoothing the foreign trade deficit. The foreign trade deficit fell down in May by 9.1 percent to 1.9 billion USD. Two possible explanations of this decline can be given as the partial decline in the domestic demand and the EU driven increase in the international demand.

When the sub-categories of exports and imports are considered, it would be observed that the composition of goods, compared with the same period of last year, has not been changed. Additionally, one would also notice that the high levels of demand for imported consumer goods, observed in the aftermath of the customs union, turned back to their normal level. (The imports of consumer goods increased by 50 percent in 1996, 24.6 in 1997 and 18.6 in the first four months of 1998.)

In the first quarter of 1998, due to the fact that the growth rate of exports declined and no change in the growth rate of imports was occurred, the foreign trade deficit deteriorated. Taking also into account the decrease in the petroleum price, this deterioration should be considered in real terms as a much serious one. The fact that the suitcase trade fell down by 20 percent, compared with the previous period, turned out to be one of the factors that negatively affected the balance of payments. The severe contraction that has been experienced in the suitcase trade was because of pessimistic expectations in Russia. Yet, another reason behind this decline was due to Russia's imposition of suitcase quotas on per head traveller in order to control this kind of trade.

When the foreign trade price and quantity indices are considered, it would be noticed that, during the January-April period, they increased by 14.7 and 11 percent, respectively, compared with the same period of last year. When the export and import price indices are considered, on the other hand, one would observe that both declined. In the first four month period, the export and import price indices fell down by 5.6 and 4 per cent, respectively. As the prices of exports decreased more than those of imports, the terms of trade was adversely affected. Although there is an increase in the quantity export index, when this degradation is expressed in terms of prices, the rate of increase in exports is to be seen as occurring more slowly than the actual rate.

In the first quarter of 1998, the invisible revenues and workers' remittances from abroad considerably increased, when compared with the same period of last year, and they both smoothed the deterioration in the balance of payments. As such, the current account balance fell down by 30.8 percent, compared with the same period of last year, exhibiting a deficit of 875 billion USD.

During the January-March period, a capital inflow was realised at 3,718 million USD. When the composition of the capital movement is analysed, it would be noted that the direct investments have continued to decrease, whereas there was an inflow of 931 million USD in the portfolio investments, due to the sales of government bonds in the foreign capital markets. However, most of the capital movement was due to short-term inflows. While there was a capital outflow of 165 million USD in the January-March 1997 period, there was a net inflow of 2,299 million USD during the same period of 1998. As capital inflows turned out to be much higher than the current account deficit, the official reserves have increased by 3.2 billion USD.

Although it was feared at the beginning of 1998 that the tourism sector would be in trouble, the number of visitors for the January-June period, which accounted for 3,862,323, showed just a negligible fall of 0.38 percent as compared with the same period of last year. Although the number of tourists coming from the OECD countries decreased by 7.5 percent, there was an increase of 11 percent in the number of tourists visiting the country from non-OECD countries; and, as of June, the number of visitors turned out to be more or less the same as the figure of the same month of last year.

The Asian crisis which has been effective on international good-markets, the critical state of the Chinese currency and the changing of the USD/DM parity against DM with which a large part of our textile exports are being conducted constitute the negative factors on foreign balances. However, Europe, being our main export market, is expected to experience higher growth rates will have a favorable effect on our exports. Furthermore, imports will be reduced parallel to a decline in our growth rate. Thus, a serious deterioration is not expected in the foreign trade balance, and the current account balance is anticipated to remain more or less the same as that of last year. The TUSIAD estimates for exports, imports and foreign trade balance for the year of 1998 are 27.7, 50.6 and 22.8 billion USD, respectively.

During the current period, where inflationary expectations have been declined and the government credibility is increased, a turn to populist policies due to the expectations of an early election would result in losing the so far achieved improvements and in not reaching the end-of-year targets.

Under the condition that there would be no deviation from the policies pursued, the prospect for the coming half can be expressed as follows: Although a slowdown is expected, both the production and growth rates at the end-of-year will remain greater than targeted figures. The government is expected to continue to implement its budgetary policy to increase the tax and primary surpluses; but the high amount of interest payments are likely to put a pressure on the budgetary balance. When factors affecting the foreign trade are considered, a slight growth in export is expected to continue and, due to a contraction in domestic markets, a slowdown in import is anticipated. It is quite possible that the balance of payment deficit will remain the same as of last year's, as there is no expectation of devaluation in foreign currency which would adversely effect the foreign trade. It is anticipated that short-term capital inflow will slowdown and that due to a need to finance the current account balance deficit the Central Bank's reserves will be reduced. Under these policies, the inflation is expected to go down, though short of the targeted level, and reach the 60 percent levels at the end-of-year.