TÜSİAD QUARTERLY ECONOMIC SURVEY

TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

ISSUE 35

APRIL 2003

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TÜSİAD Quarterly Economic Survey is available at **www.tusiad.org**

The Path to Stabilization: "The Odyssey"

"...how men lay blame upon us gods, for what is after all nothing but their own folly."

Homeros (The Odyssey)

Summary and Conclusion

Although the main culprits differ on surface, the losses of momentum in the implementation of the economic program have similarities.

Turkish Economy's crave for stability is typically interrupted throughout the expansion periods following the economic crises. The comprehensive economic program, which started in 2000, lost its drive on the eve of executing major structural transformations, as well. The program was later delayed with crises, then restructured, then faced with significant inertia and played the main role in the break-up of the coalition government. Finally soon after the elections, it's left idle for a long time since the focus was shifted to the reigning international conjuncture. However, the primary motive behind the extreme optimism after the elections was the expectation that the new government will act decisively towards the implementation of the economic program. One of the assumptions of this optimism was the fact that the sharp disinflation and the spurred economic activity in 2002 decreased the social costs of the implementation significantly. Another common belief for the sanguinity was the presumption that the cost of ghastly administration throughout 90's on Turkish economy was well understood by the 40 points rise in domestic debt burden as percentage of national income.

In the search for stability, current economic program is the sole reference.

Although the implementation of economic program was affirmed to be the safest harbor ahead of the unfavorable external conjuncture waiting for Turkish economy, the government's stance was far from fulfilling the expectations. While the hesitant attitude of the government towards the program tended to be diverging in some reform areas such as the Auction Law, regularity bodies, public employment, fiscal discipline, and banking reform, these intentions have been largely curbed. Seduced by the high credit package that was available before the rejection of the motion in the parliament, the government contradicted clearly with the economic program. The government also disapproved the supervision of IMF on the use of the US loan sharply. Considered with the fact that the IMF supported economic program and the use of the loan would coincide in the normal course, the objection to IMF supervision perceived as a risk factor. Moreover, the significant delays in the completion of the fourth review with IMF and in the finalization of the 2003 budget caused myopia in the expectations of all economic actors. Consequently, the evaluation criteria for Turkish economy before and during the war on Iraq became to be the amount of international support to Turkey, rather than the economic policy or the macroeconomic outlook. Soon after the loan package has evaporated, the government stuck to the economic program and the fourth review, and finally at the beginning of April the letter of intent submitted to the IMF. In the letter, Turkish government declares that the fiscal austerity will be maintained from 2003 onwards with 6.5% of primary surplus, the priority will be given to disinflation, public employment will be reduced, the BSSR will be strengthened, structural reforms will continue with the new schedule and the privatization will gain pace. Therefore, after long debates and speculation, the economic program has officially re-launched at the end of the first five months of the new government, but at the cost of a significant delay for no change.

The fluctuations in the financial markets stemmed from the government's weak stance on the economic program rather than the war on Iraq.

The indexation of the prospect of the economic program with the international developments -mainly the US grant- caused an increase in short-term volatility. The prices in the financial markets read as a loss of confidence to the government. It's clear that the war exposes adverse effects on Turkish economy and has deteriorated expectations as it does on many other economies. However, considering the rehabilitated Turkish banking system, whose open FX positions are negligible, the low amount of short term capital and portfolio investments, the strong international reserves of the Central Bank and the strong cash balance of the Treasury in the short term, it would be misleading to conclude that the main culprit of the soared financial market prices was the unfavorable international environment. While the direct costs of the war has been considerably low when compared to the first gulf war, the deterioration in the financial markets became to be more costly.

The economic growth in 2003 will be highly dependent on the implementation of the economic program.

The sooner than expected end of the war on Iraq caused the uncertainty to vanish gradually and the threats on global economic activity such as high oil prices expired. While there are significant risks prevailing in the region, resolutions are expected rather than armed conflicts. As the expectations for the global economy enhances, Turkey looks forward to a better tourism and export performance. The approval of the letter of intent of Turkish government by IMF, partly compensation of the looses of war by USD 1 billion grant from US, which can be leveraged into USD 8.5 billion loan, and the Turkey's role in the restructuring of Iraq positively affects the expectations. However, the declaration that the IMF credit will be released in smaller tranches and after the reviews that will be held in every two months implies that the implementation of the program will be closely monitored in the following months.

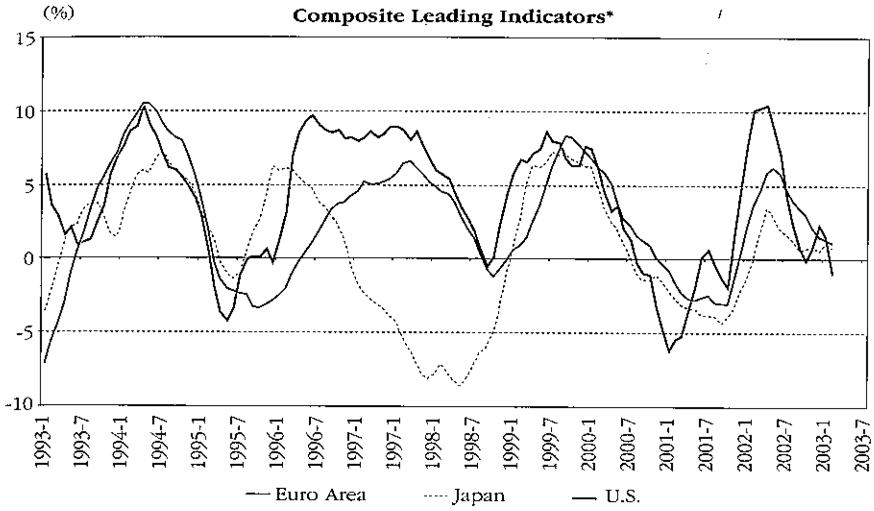
I. Global Economic Outlook

World economies are expected to recover by the second half of the year.

Despite the unfavorable conditions and high uncertainties, the world output growth in 2002 is estimated to be 3.0%, higher than the previous expectation of 2.8%. However, the pace of global growth has slacked off in the beginning of 2003, particularly due to the uncertainties of the war on Iraq. Moreover, headwinds of the falling equity markets may limit the global recovery until mid-2003. Therefore IMF has revised its projections downwards for all major economies. However, with an earlier-than-expected end of the war on Iraq, impediments to global economic outlook have started to fade out. Oil prices, for example, have moved back to OPEC's 22-28 price band as of April and stock markets were slightly up in recent weeks. Global fixed investment has also been reinvigorated. In 2003, US and emerging market economies are expected to strengthen over the second half of the year and to act as the main engine of global growth. Nonetheless, as of April, according to the OECD Composite Leading Indicators, industrial production in the major advanced economies seemed to have remained on a downward trend. Central role of the US growth rebound is anticipated to be underpinned by the household income increase due to the FED's interest rate cut indirectly and Bush administration's tax cut plan directly. Although the business is still wary of investing and consumers remain hesitant to spend, these developments are expected to assuage the concerns and help restore the confidence. Hence, the growth prospects for US would then be revised up to 2.6% as previously envisaged by IMF. In Euro area, the economic outlook is more blurred particularly due to low economic activity in Germany. Since the beginning of 2003, growth in the Euro area has downshifted and no rapid recovery is expected. However, the decline in core inflation creates room for the ECB to cut interest rates, which may pick up economic activity in the second half of the year. Nevertheless, the major risk for global recovery is the ongoing uncertainties in the Middle East. These uncertainties, though gradually declining, are likely to affect the global economy

GDP Projections		
(Annual % change)	2003*	2004
World	3.2 (3.7)	4.1
USA	2.2 (2.6)	3.6
Japan	0.8 (1.1)	1.0
Euro area	1.1 (2.3)	2.3
Developing Countries	5.0 (5.3)	5.8

Source: IMF World Economic Outlook, April 2003
** Figures in brackets are the previous projections of December 2002.*



*Annualised 6-month % change

Source: OECD

through a number of channels such as the depressing consumer and business confidence, suppressed financial markets and the significant declines in tourism revenues.

The pace of developments in Middle East will determine the pace of recovery in the global economic activity.

In 2002, the real GDP growth in the United States was 2.4%. Annual growth of 2.9% in the last quarter was mainly driven by private consumption expenditures, government spending, private inventory building and gross fixed investments. In Japan, real GDP growth was 0.25% in 2002 and 2.4% in the last quarter on the quarter-on-quarter annual basis. While the contribution of consumption spending to growth slowed down in last quarter, exports rebounded strongly and contributed 0.3 percentage points to real GDP growth. Japanese economy is expected to grow at a moderate rate due to the high level of non-performing loans and the continued weakness of private consumption spending. In Euro area, real GDP growth was 0.8% in 2002 and 1.3% in the last quarter on the quarter-on-quarter annual basis. Main source of the growth was the significant increase in the private consumption due to increase in real wages and the slight increase in employment. In Latin America, despite the slight improvements in the region, there is still great divergence in performances of individual countries. In Argentina, for example, the growth prospects still depend on the credibility of the fiscal framework. In Brazil, however, exports and manufacturing sector production displayed strong growth in the last quarter. Emerging markets in Asia owed their success in 2002 mainly to the high level consumption and their robust performance in exports. Looking forward, although the region is expected to grow by around 6% during 2003-2004, current global uncertainties are the major risks -specifically through lower equity prices- to their impressive outlook. Furthermore, the recent outbreak of severe acute respiratory syndrome poses a risk to economic activity in the region economies.

II. Output and Inflation

In the last quarter of 2002, GNP growth has reached to 11.5% with the soared optimism.

As of fourth quarter, improvement in the expectations due to single-party government had positive impact on the markets. Consequently, exchange rate remained unchanged, index of ISE-100 increased by 18%, and nominal interest rates dropped to 58.5% in secondary markets with a decline of 13 points. While the banking sector loans continue to decline in real terms, the consumer loans and credit cards have begun to increase in real terms through the end of the year and FX deposits decreased slightly. While the corporate debt restructuring provided a partial financing opportunity to the firms, the high level of non-performing loans created some financing facilities indirectly. However, the main contribution to the corporate sector was the 3 billion dollars of long-term external loans in 2002.

Industrial production and trade has been the main engine of growth since the beginning of 2002.

In the fourth quarter, GNP and GDP rose by 11.5% and 11.4% respectively with respect to same period of previous year and carried the each average annual growth to 7.8%. In a supply side analysis, it is observed that industry and trade are the leading sectors followed by agriculture and transportation, as was the case throughout the year. Sectoral

GNP	2001	2002	2001	2002
	Q4	Q4	Annual	Annual
Sectors	*(Annual % change)*		*(% point contr. to growth)*	
- Agriculture	-13.2	15.3	-2.1	2.7
- Industry	-10.7	11.4	-0.3	-0.3
- Construction	-3.3	2.7	-2.1	2.4
- Trade	-14.4	16.1	-0.7	0.7
- Transport. and Com.	-4.1	5.6	-0.2	-0.2
- Financial Institutions	-14.2	-8.2	-1.4	1.1
- Import Duties	-28.4	33.9	-2.1	2.7

Source: SIS

GDP	2001	2002	2001	2002
	Q4	Q4	Annual	Annual
Composition	(Annual % change)		(% point contr. to growth)	
Private Final Consumption	-11.3	4.2	-6.2	1.4
Government Final Consumption	-8.9	4.5	-0.7	0.5
Gross Private Fixed Cap. Form.	-50.0	21.8	-7.2	-1.0
Gross Public Fixed Cap. Form.	-18.8	22.7	-1.6	0.9
Change in Stocks			-4.0	7.0
Exports of Goods, Services	6.4	12.3	2.4	4.2
Imports of Goods, Services (-)	-26.0	22.1	-9.9	5.1

Source: SIS

growth rates have reached to 15.3%, 11.4%, 16.1% and 5.6% respectively due to the weak base year effect. Therefore, in real terms, agriculture, industry and trade sectors have managed to exceed their 2000 levels. Industrial production has maintained its strong performance -mainly driven by exports- throughout the year and it contributed to quarterly and yearly GNP growth by 3.3 and 2.7 percentage points correspondingly. Respective contributions from agriculture were 1.9 and 1.0 percentage points mainly due to favorable seasonal developments, which occurs biannually. Trade sector has retained its momentum since the second quarter and contributed to quarterly and yearly GNP growth by 3.6 and 2.4 percentage points respectively in accordance with the developments in agriculture and industrial production. Export-led production in manufacturing industry stimulated the import of intermediate goods and spurred the total imports accompanied by a 33.9% increase in import duties. Accordingly, import duties contributed to overall growth by 1.6 and 1.0 percentage points in the last quarter and in the year average respectively. Similar to previous year, the only contraction among the sectors came from the construction and banking sectors. In construction sector, however, the moderate rebound in the last quarter may continue in 2003 in line with the future developments in the process of rebuilding Iraq.

The modest increase in private consumption expenditures goes on.

Following the crisis in 2001, the private consumption expenditures shrank by %9.2. Despite this weak base year effect, the private consumption increased by only 2.0% in 2002. Furthermore, when compared to levels of 2000, its share in GDP dropped to 63.0% with a decline of 5 points. The highest contribution to increase in private consumption expenditures was accounted for by the services expenditures and the semi-durable and non-durable goods. The respective increases were 10.9% and 10.8%. The 6.2% increase in durable goods, however, was relatively low when compared to 33.2% decline of the previous year. During the post-crisis period, private consumption expenditures have concentrated on food and beverages. Therefore, in the last quarter, the rebound in semi-durables and non-durables indicates the reinvigoration in the demand. Taking into account the uncertainties regarding the Iraqi war during the first quarter of 2003, the ongoing credit crunch and the high level of unemployment (11.4%) indicate that the demand will remain sluggish until mid-2003.

It is not realistic to attribute the 90% of the GDP growth to inventory building.

In the last quarter, 6.2 percentage points of the total GDP growth of 11.4% stemmed from inventory building and therefore its overall contribution reached to 7.0 percentage points over the year 2002. In national accounts, changes in stocks by definition contain the manufacturing industry and the mining sector. Stocks are composed of materials and raw materials, finished goods and semi-finished goods. Changes in stocks are calculated as residual in national accounts and crosscheck is made by comparison with annual manufacturing industry statistics. In 2002, inventory building amounted to 13 quadrillion TL (in current prices) and constituted the 25% of the value added of mining and manufacturing industry, which simply is not realistic in economic and physical sense. There are also significant differences between the previous year's annual manufacturing industry statistics and national account figures. According to the household labor survey results, the ratio of unregistered workers has climbed to 53%. Consequently, the rise in the extent of unregistered economic activities reduces the reliability of the level of the demand side approach to the national income and therefore, it will be much more reliable to conduct a supply side analysis. Otherwise, forecasts of the industrial production and growth for 2003 will be negatively biased due to the "high level of inventories" declared for 2002.

The increase in the investment expenditures is better than expected.

Slight increments in the public investments had been observed during the pre-election period. Besides, an increase in private sector investments was expected since capacity utilization ratios were close to their potential levels. However, the better-than-expected recovery in the total investments can be ascribed to 14.5% growth of public investments in 2002. In the last quarter, the public investments rose by 22% and counteracted the 7.2% decline in private investments. When considered together with its consumption expenditures, public sector played an important role in stimulating the growth. Nevertheless, the share of fixed capital stock in GDP dropped to 19.0%, which in turn is expected to jeopardize the long-term growth performance.

In the first quarter of 2003, the inflation has entered into an upward trend due to hike in agricultural prices and the adverse international environment.

External developments have been the major factor behind the higher-than-expected growth in monthly WPI and CPI figures since the beginning of 2003. According to the seasonally adjusted figures, during the first quarter, the increase in WPI and CPI realized at 11.0% and 8.0% respectively. The upward trend in oil prices have retained its momentum from December 2002 to the second half of March 2003 and climbed to 35$ with an increase of 10$ per barrel. According to the 1996 input-output structure, this 40% increase in oil prices has directly put an additional 1.5 percentage points on the private manufacturing price increase, in the same period. Similarly, in the first quarter, the high volatility in the nominal exchange rates yielded an extra burden of 1.1 percentage points increase on private manufacturing prices. In line with the seasonal developments, agricultural prices soared by 23% in the first quarter and have been the main culprit of the upswing in WPI. Besides, the public sector price adjustments in the mining and manufacturing industries in order to sustain the fiscal discipline deteriorated the course of WPI. Since there has not been any adjustment in energy sector yet, the forward outlook of the energy prices remains uncertain. In CPI, the determining factor was the hike in food and beverages prices, which constitutes the one third of the index, due to the pass-through effect from the jump in the agricultural prices. However, since the domestic demand is still suppressed, there has not been any significant pressure on consumer prices yet. In parallel with these developments, as of March, the annual increases in WPI and CPI rose to 35.2% and 29.4% respectively. Consequently, monthly average growth rates of WPI and CPI should be 0.7% and 1.2% during the rest of the year in order to attain the end-year targets of 17.4% and 20.0% respectively.

The uncertainties in the first quarter have exacerbated the expectations.

Central Bank's expectation survey results reflect the aggravation in the expectations due to the adverse developments occurred in the first quarter. The survey shows that end-year CPI inflation expectation retained its upward trend from January onwards and reached to the level of 28.3% as of first half of April. Likewise, end-year growth expectations continued to deteriorate. However, the end of the war in Iraq is expected to improve the market sentiment over the second half of April. As oil prices have moved back to 25$ per barrel and exchange rates declined during the first half of April, the cost strain on production is anticipated to diminish. Meanwhile, inflation is likely to go into a downward trend due to the seasonal developments. Considering the unemployment rate in the last quarter and government plans for implementing a tight income policy in order to sustain the fiscal discipline, a demand side pressure on inflation seems to be unlikely. Nevertheless, it still appears to be difficult to achieve the end-year targets.

III. Fiscal and Monetary Policies

The success of the economic program requires fiscal discipline and the public sector reforms.

The new government has some bold targets for 2003 budget, after the disappointing fiscal performance in 2002. Busy agenda with IMF to facilitate the package of fiscal measures delayed the 2003 budget announcement, so far two packages are proclaimed. These corrective measures for expenditures and revenues worth about 4.9% of GNP and are attached high importance. However, fiscal measures are mostly for once rather than bringing permanent benefits. In the short term, 2003 budget performance, the preposition of which becomes the main prerequisite for the 4th review, will be the primary indicator for persuasion of the market on government's commitment to the program. It should be noted that, attainment of primary surplus target is not only crucial for IMF support but also for instituting long run macroeconomic stability. Considering a normalization in demand components, the clear signal of fiscal austerity should be given to the markets in order to equip the Central Bank with an effective disinflation policy tool, namely inflation

CONSOLIDATED BUDGET	2002	2002	2003	2003
(TRL trln)	**Realization**	**Program**	**Jan.-Mar.**	**Program**
REVENUES	**76,400**	**71,218**	**20,364**	**100,782**
Tax Revenues	59,634	57,911	16,711	85,895
Non-tax Revenues	16,766	13,307	3,653	14,827
EXPENDITURES	**115,486**	**98,131**	**31,253**	**145,949**
Primary Expenditures	63,615	55,336	15,466	80,499
Interest Payments	51,871	42,795	15,787	65,450
BUDGET DEFICIT	**39,085**	**26,913**	**10,889**	**45,167**
PRIMARY SURPLUS	**12,785**	**15,882**	**4,898**	**20,283**

Source: Ministery of Finance

targeting. Also on the Treasury side, a process of structural improvement supported with enhancing public finance is needed for a decline in real interest rates and mounting maturities. As a matter of fact, current measures today reached to its limits under the present public structure. Therefore, long-term gains via permanent reform steps such as privatization, opening natural monopolies to competition, reduction of redundant public employment, social security reform, tax reform, and upsurge of private sector in the economy are to be attained.

Performance in the first quarter is in line with the end-year targets.

Consolidated budget primary surplus reached to 4.9 quadrillion TL in the first three months, thanks to 3-month corporate tax payments in February. With the revenues of 20.4 quadrillion TL and expenditures of 31.3 quadrillion TL in the first quarter, budget deficit went up to 10.9 quadrillion TL as of March. Mostly, transfers to social security institutions accounted for the rise in primary expenditures. Interest payments, and transfer payments such as direct income support and tax redemption on exports were also notable considering the rise in total expenditures. On the other hand, current expenditures (excluding personnel payments) and capital expenditures were at minimal, as it was suggested at fiscal measures announced by the government. That is to say, due to the fiscal slippage in the second half of 2002, expenditures in 2003 are intended to be limited through the corrective fiscal measures. Although the prior importance is attached to primary balance, shrinking budget deficit with the declining interest rates also keeps its substance.

Government's fiscal actions will determine the plane for interest rates.

The borrowing in the first two months carried the domestic debt stock to 159.4 quadrillion TL (USD 98.4 billion) with a 9.5 quadrillion increment comparative to beginning of the year. 27% of domestic debt stock is composed of fixed rate, 42% is of FRNs, and 31% is of FX linked/denominated government securities. Accordingly, 73% of the domestic debt stock is prone high interest rates and real devaluation risks. With the utilization of the IMF credit in redeeming public sector debts last year, pubic sector's share in debt stock went down to 51% as of February. In view of the composition of liabilities to public and market by instruments, imperative amount of floating rate and FX-linked non-cash loans to public sector have grave effects on debt dynamics. From now with fragile debt dynamics, tight fiscal policy and resolution on structural reforms are central frameworks for settling down the interest rates. Considering the consolidated budget foreign debt stock, bonds issues in January (despite the redemptions in February) brought up the stock to USD 57.9 billion from the end-2002 level of USD 56.8 billion. Therefore, consolidated budget total debt stock increased to USD 156.3 billion, 13% of which is IMF credits.

Vanishing external risks will enhance the efficiency of monetary policies.

Conformity to main principles of the ongoing economic program through fiscal discipline and ruling structural reforms will validate the effectiveness of the monetary policy for the rest of year. In this aspect, successful implementation of the reforms in banking sector and consolidation of the stability in TL and foreign exchange markets are the key marks for 2003, regarding the primary objective of the Central Bank, the price stability. Furthermore, assurance of the stability in financial markets may support the economic growth in 2003 by means of stimulated consumption/investment decisions.

Despite the prudent policies of Central Bank, financial markets floated for political uncertainties.

Since January, government's unfortunate statements regarding IMF-supported economic program and the war agenda downgraded the expectations. Delay in fourth review with IMF and elimination of expectations for US grants together with the parliament's refusal to motion for letting US troops in boundaries yielded out fluctuations both in interest rates and foreign exchanges. Downturn in expectations and concerns over the debt sustainability resulted exits from financial system and as a consequence interest rates mounted up. The Central Bank lowered the interest rate to be applied for one-week maturity FX deposit facility within the banks' limits of borrowing in the FX deposit market at the Central Bank. In addition, the Central Bank announced ready money to intervene in case of excess volatility due to FX liquidity shortage or speculative actions. Also, the Central Bank lowered the interest rate charged for funding the banks without any limit via the late liquidity window, and announced the available O/N funding facility at the Istanbul Stock Exchange repurchase market. Despite the effective monetary policies, limited short-term foreign capital, short open positions by banks, and Treasury's strong cash position, vulnerability in financial system stemmed from the uncertainties among the economy administration.

Shrinking financial system constitutes risks due to increasing debt burden.

M1 and M2 aggregates expanded by 2.5% and 3.6%, respectively, while M2Y contracted by 0.4% in the first quarter of the year. Foreign exchange deposits,

MONETARY AGGREGATES	(TRL quadrillion)		(% change)	
	Dec. 2002	Mar. 2003	Nominal	Real
M2YR (M2Y+R)	**136.2**	**136.8**	**%0.4**	**-%10.6**
M2Y	**133.5**	**132.9**	**-%0.4**	**-%11.4**
M2Y (composition)				
Currency in Circulation	%5.4	%5.9	%9.3	-%2.7
Sight Deposits	%5.3	%5.1	-%4.4	-%14.9
Time Deposits	%35.2	%36.7	%4.0	-%7.5
FX Deposits (TRL)	%54.1	%52.3	-%3.9	-%14.5

Source: CBRT

particularly decelerating in March, decreased by USD 3.0 billions compared to end-2002. Consequently, 52.3% of M2Y is composed of FX deposits, 36.7% is of time deposits, 5.1% is of sight deposits, and 5.9% is of currency in circulation. The financial sector -only sector still contracting ever since the crises- constitutes potential risks thinking considering the medium-term outlook. With the current tax regulations on deposit returns and tempting interest rates, depositors came to be regular customers of the Treasury. High share of non-returning assets such as non-performing loans in banks' balance sheets and defective demand for foreign currency credits -the devaluation risk is borne by the real sector- are also the other risk components appearing in the financial system.

IV. Foreign Trade and Balance of Payments

Foreign trade is expected to accelerate after the second quarter.

In 2002, foreign trade volume reached to USD 85.9 billion from the level of USD 72.7 billion in 2001. Due to the sluggish domestic demand, exporting sectors headed towards foreign markets, hence the exports became the main drive behind the economic growth in 2002. Monthly industrial production rose by 9.1% in 2002 with respect to previous year and reached to its pre-crisis levels. Due to the improvements in foreign demand accompanied by the appreciation of Euro -which had created a price advantage for Turkish exporters- total exports in 2002 have posted a 12% increase compared to 2001 and went up to USD 35.1 billion. On the other hand, total imports have jumped to USD 50.8 billion with an increase of 23%. Since export-led industrial production stimulated the demand for intermediary and investment goods, 73% of the import growth came from the imports of intermediary goods. Due to greater increase in imports than exports growth in 2002, foreign trade deficit soared by 56% and ratio of exports to imports rested at 71.3%.

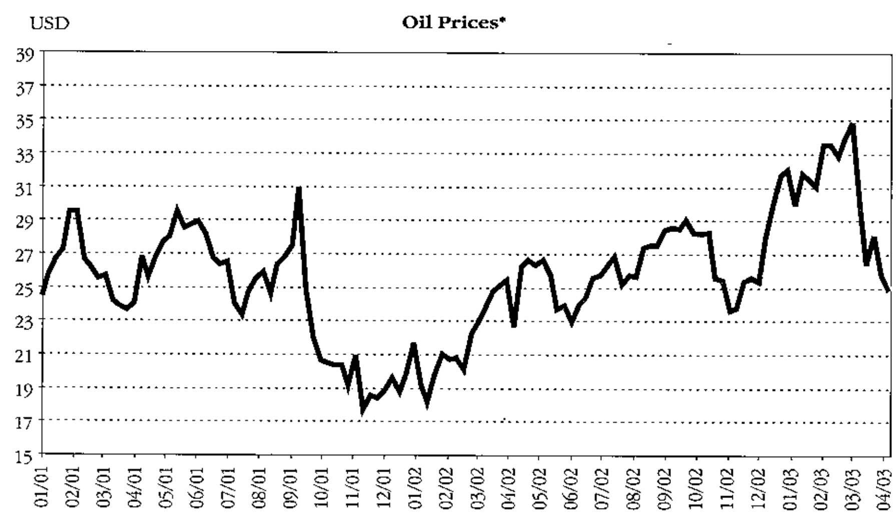
Exports displayed an unprecedented increase in 2002.

In January, exports increased by 5.2% on monthly basis and reached to USD 3.0 billion while imports shrank by 20.3% and condensed to USD 4.0 billion. Although it sometimes deviates strongly from the actual, foreign trade data by Undersecretary of Customs indicate that the upward trend in foreign trade will keep its pace in next months. Similarly, Turkish Exporter Assembly's data for February and March supports the data by Undersecretary of Customs. Moreover, VAT on import revenues -taken as a leading indicator of nominal imports- expanded by 2.1% and 28.5% respectively in February and March. In March, considering high increase in VAT on import revenues that include transfers from previous month, foreign trade performance is expected to slow down. On the other hand, vanishing uncertainties about oil prices and exchange rates subsequent to end of the war in Iraq, foreign trade is anticipated to accelerate again.

Significant increase in foreign trade deficit was the main source of current account deficit in 2002.

Revitalized economic activities in 2002 gave a boost to imports and spoiled foreign trade deficit, thus foreign trade deficit reached to USD 1.8 billion. Decline in invisibles item which comprises services, investment revenues and current transfers was another cause of the foreign trade deficit. In 2002, lower-than-expected tourism revenues of USD 8.5 billion and decline in other business services revenues limited the services to USD 8.0 billion. On the other hand, current transfers dropped to USD

Oil Prices*



* *Europe Brent, weekly spot prices $/bbl (FOB)* *Source: Reuters*

3.5 billion due to the prolonged decline in the workers' remittance since the beginning of 2001. Furthermore, current account deficit is expected to keep its high level in 2003 due to worsening balance of foreign trade and probable decline in tourism revenues.

IMF credits augmented the official reserves by USD 6.2 billion.

In 2002, the capital inflow was only USD 2 billion while the outflow in the previous year was USD 14 billion with impact of the consequent crises. In 2002, foreign direct investments stood at USD 862 million -excluding the revenue from GSM license sale in 2001-, which was insignificant similar to the previous years. Total portfolio investments posted an outflow of 694 million in 2002 after the huge outflow of USD 4.5 billion in the previous year. The main reason for the outflow was the loss of foreign exchange in the amount of USD 1.5 billion due to increase in banking sector's assets. In liabilities, following outflow in private sector's trade credits in 2001, an inflow of USD 2.3 billion was experienced in the items in 2002. Besides, the USD 6.4 billion of net credit from IMF was another important factor behind the increase in total liabilities in 2002. Also, IMF credits augmented official reserves to grow USD 6.2 billion in 2002. Corollary, capital and financial account posted an inflow of USD 2.2 billion while there was an outflow of 422 million dollars in net errors and omissions item. The inflow of USD 1.2 billion in capital and financial account in the first month of 2003 is not sustainable due to uncertainties resulted from the war in Iraq.

TL has appreciated in real terms throughout 2002.

During the May-August period in 2002, real effective exchange rates depreciated, and then TL has appreciated constantly in real terms since August. CPI and WPI based real effective exchange rate indices rose by 17% and 16% respectively with gradual increase in optimism during the last four months of 2002. However, in the first quarter of 2003, uncertainties stemmed from the war in Iraq and hesitation towards the implementation of the economic program led to the depreciation of TL by 1.4% compared to end of 2002 in real terms. The effect of uncertainties on value of TL dissolved thanks to the prudent polices of the Central Bank, ending of Iraq war, and the completion of the fourth review with IMF. As of March, exchange rate (TL/$) increased by 4% in nominal terms when compared to end-2002.

V. Prospects for 2003

While the external risks for Turkish economy vanishes gradually, the performance of the government in the economic program will be formative.

In the previous editions of Quarterly Economic Survey (QES), which were published in October 2002 and January 2003, 2003 projections were made under different scenarios since the economic performance was believed to be highly dependent on the external factors (i.e. Copenhagen Summit, Cyprus issue, and Iraq operation). As of January, while the operation on Iraq was still ambiguous, the outcome of Copenhagen Summit was consistent with our base scenario and Cyprus issue was in line with our scenarios. Under these circumstances, in the January issue of the QES, the base scenario expected GDP growth of 4.5% and 24% of end-year CPI inflation, the optimistic scenario envisaged a GDP growth of 7% and 20% of end year CPI inflation under inflation targeting and the worst-case scenario expected GDP growth of 2.5% and 30% of end year CPI inflation.

As of April, the war on Iraq has ended in line with our base scenario that envisaged the war would not last long and Turkey's losses would be somehow compensated. Although it's argued that the Annan plan for Cyprus still comprise the base for negotiation, the Cyprus issue seems to develop in line with our worst case scenario. However, we expect that the issue will not cause solid adversities till 2004 though not resolved. In our previous forecasts we did not evaluate the government as a main risk factor. However, the weak stance of the government in the first quarter of 2003, and the reschedule of the IMF credit with lower tranches and higher frequency reviews offer that the performance of the government in the economic program will be formative.

In this edition of QES, the main difference from the previous scenarios is the expectation that the economy will fluctuate in a quite narrow band, despite the sooner than expected end of the war and the partial compensation of the losses of Turkey by US. The main reason for abandoning the optimistic scenarios is the loss of confidence of the government and the higher frequency IMF reviews. The 5% of GNP growth target of the government may turn out to be credible, if the loss of reservations in the tourism sector can be reversed promptly and the restructuring of Iraq can stimulate certain sectors such as construction.

TÜSİAD still believes that 4.5% of GDP growth is attainable.

In our base scenario, the industrial production is expected to underpin the growth performance in 2003. Assuming that the exports will gain momentum, the industrial production is expected to increase 6% and corollary the trade sector is expected to grow 7%. While the construction sector is envisaged to post a growth of 2%, due to the strong seasonality, the agriculture sector is estimated to contract 2.5%. Consequently, the GDP is expected to grow 4.5% in 2003, while the end-year inflation estimations for WPI and CPI are 29.4% and 26.7% respectively.

TABLE 1.1 MAIN ECONOMIC INDICATORS (2002-2003)
PRODUCTION AND PRICES

	2002										2003		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	19.5	14.8	11.2	7.3	12.2	7.0	10.8	12.1	8.4	13.7	13.7	4.4	..
Monthly % Increase	21.6	-2.5	4.0	-3.5	0.8	-2.3	6.8	4.8	-3.8	-3.5	-0.8	-13.6	..
Monthly % Increase (seasonally adjusted)	11.4	-3.0	-1.7	-2.0	1.6	-1.3	2.5	-0.5	-1.9	4.1	6.9	-9.9	..
CAPACITY UTILISATION RATE (SIS, %)	76.0	74.3	75.5	76.2	77.5	76.4	80.0	80.6	77.1	76.7	75.3	72.2	78.1
WAGE INDEXES (SIS, quarterly, 1997=100, Man. Ind.)													
Real Wage per hour (annual % increase)	-15.9	..	..	-4.2	..	..	-2.7	..	..	-0.5	..	..	..
Real Income (annual % increase)	-17.4	..	..	-4.5	..	..	-6.5	..	..	-2.4	..	..	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	77.5	58.0	49.3	46.8	45.9	43.9	40.9	36.1	32.8	30.8	32.6	33.4	35.2
Monthly % Increase	1.9	1.8	0.4	1.2	2.7	2.1	3.1	3.1	1.6	2.6	5.6	3.1	3.2
Monthly % Increase (seasonally adjusted)	1.7	1.8	0.8	3.0	3.3	2.9	2.4	1.9	1.9	2.1	4.5	3.2	2.9
CONSUMER PRICE INDEX													
Annual % Increase	65.1	52.7	46.2	42.6	41.3	40.2	37.0	33.4	31.8	29.7	26.4	27.0	29.4
Monthly % Increase	1.2	2.1	0.6	0.6	1.4	2.2	3.5	3.3	2.9	1.6	2.6	2.3	3.1
Monthly % Increase (seasonally adjusted)	1.4	1.4	1.2	2.4	2.3	2.7	2.1	1.8	2.4	1.9	1.9	2.5	3.5
EXCHANGE RATE (CB buying rate)													
TL/US$ (monthly average)	1,351,431	1,314,287	1,390,826	1,526,830	1,654,298	1,632,314	1,644,394	1,646,356	1,597,838	1,592,258	1,655,644	1,619,966	1,660,696
Annual % Increase	39.1	8.4	22.8	25.7	25.3	16.7	11.5	2.9	5.6	10.0	21.8	20.0	22.9
Monthly % Increase	0.1	-2.7	5.8	9.8	8.3	-1.3	0.7	0.1	-2.9	-0.3	4.0	-2.2	2.5
TERMS OF TRADE (SIS, 1994=100)*													
External (Export/Import)	90.4	89.5	90.2	90.2	88.9	89.6	89.1	89.6	88.8	88.3	86.9	..	..
Internal (Agriculture/ Manufacturing)	108.4	107.8	106.2	104.1	100.3	102.8	102.8	105.1	104.8	104.6	103.1	102.1	106.5
DOMESTIC BORROWING (weighted by sales volume)													
Compounded Annual Interest Rate (%)	70.5	60.2	56.2	72.2	72.6	64.9	63.5	65.1	52.8	49.8	57.3	54.3	60.1
Average Maturity (days)	326	279	268	152	161	195	205	281	193	247	284	245	303

(..) Not available
(*) Seasonally adjusted series are used in calculation

TABLE 1.2 MAIN ECONOMIC INDICATORS (2002-2003)
BALANCE OF PAYMENTS

	2002										2003		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
CURRENT ACCOUNT BALANCE													
(monthly, million $)	**-193**	**-641**	**-335**	**119**	**27**	**366**	**508**	**418**	**-315**	**-1,450**	**-224**	..	..
Imports (CIF)	3,835	4,204	4,284	3,899	4,579	4,434	4,454	4,793	4,896	5,067	4,041	..	..
Exports (FOB), excluding shuttle trade	2,895	2,759	2,929	2,710	3,036	2,917	3,156	3,429	3,443	2,815	2,960	..	..
Foreign Trade Balance	-940	-1,445	-1,355	-1,189	-1,543	-1,517	-1,298	-1,364	-1,453	-2,252	-1,081	..	..
Invisibles	188	386	-216	152	168	466	822	1,019	1,219	1,123	1,083	..	..
BALANCE OF PAYMENTS													
(Cum. for the last 12 months, million $)													
Current Account Balance	**3,602**	**2,313**	**1,613**	**1,501**	**1,104**	**649**	**388**	**100**	**-512**	**-1,782**	**-2,044**	..	..
Imports (CIF)	40,846	42,012	42,737	43,337	44,479	45,411	46,440	47,869	49,206	50,832	51,489	..	..
Exports (FOB), excluding shuttle trade	31,930	32,073	32,117	32,265	32,817	33,155	33,707	34,324	34,925	35,082	35,433	..	..
Foreign Trade Balance	-8,916	-9,939	-10,620	-11,072	-11,662	-12,256	-12,733	-13,545	-14,281	-15,750	-16,056	..	..
Invisibles	8,110	7,757	7,059	6,874	6,465	6,317	6,560	6,623	6,586	6,605	6,927	..	..
Capital Flows*	**-10,099**	**-8,333**	**-6,316**	**-3,594**	**-2,966**	**-1,936**	**-3,095**	**-2,629**	**322**	**1,992**	**4,350**	..	..
Net Direct Investments	1,290	1,263	1,533	1,492	1,377	1,501	1,301	1,038	922	862	873	..	..
Portfolio Investments	-1,706	-555	-1,124	-2,093	-1,307	-1,346	-1,818	-1,191	-803	-694	-119	..	..
Net Other Investments	-8,684	-8,042	-5,726	-2,994	-3,037	-2,092	-2,579	-2,476	203	1,824	3,597	..	..
Central Bank	1,130	1,205	1,252	1,290	1,430	1,538	1,578	1,555	1,460	1,304	1,176	..	..
General Government	-927	-888	-769	-645	-1,807	-1,238	-1,241	-1,099	-733	-669	-724	..	..
Banks	-7,538	-7,777	-6,280	-4,026	-4,129	-3,826	-4,187	-4,354	-2,674	-1,309	225	..	..
Other Sectors	-1,349	-582	71	387	1,469	1,434	1,271	1,422	2,150	2,498	2,920	..	..
IMF Credits (net)	**11,794**	**12,886**	**9,077**	**9,077**	**8,726**	**8,337**	**8,337**	**8,337**	**8,337**	**6,365**	**6,303**	..	..
Net Errors and Omissions	**-3,153**	**-2,618**	**-3,066**	**-2,595**	**-1,814**	**-1,388**	**-114**	**491**	**-513**	**-422**	**-851**	..	..
Reserve Assets**	**-2,144**	**-4,248**	**-1,308**	**-4,389**	**-5,050**	**-5,662**	**-5,516**	**-6,299**	**-7,634**	**-6,153**	**-7,758**	..	..
FOREIGN TRADE (annual % increase)													
Imports	23.4	38.4	20.4	18.2	33.2	26.6	30.0	42.5	37.5	47.3	19.4	..	..
Exports	13.7	5.5	1.5	5.8	22.2	13.1	21.6	21.9	21.1	5.8	13.4	..	..
Price Index (1994=100)													
Imports	-9.6	-6.1	-4.6	0.2	0.2	1.6	0.9	6.0	9.2	9.6	13.7	..	..
Exports	-6.9	-5.6	-3.7	-0.1	-3.7	-0.3	1.4	5.4	6.1	4.9	7.5	..	..
Quantity Index (1994=100)													
Imports	27.6	46.0	21.6	9.8	34.0	21.0	26.4	30.2	21.1	37.4	6.6	..	..
Exports	21.0	14.4	9.8	7.5	37.3	9.9	20.9	14.1	14.3	7.0	7.2	..	..

(*) Excluding official reserves, negative sign indicates capital outflow
(**) Positive sign indicates decrease in reserves
(..) Not Available

TABLE 1.3 MAIN ECONOMIC INDICATORS (2002-2003)
BUDGET BALANCE

	2002										2003		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
12 MONTHS CUMULATIVE (trillion TL)													
Revenues	**56,280**	**57,074**	**62,355**	**64,706**	**66,673**	**68,312**	**70,843**	**72,372**	**74,474**	**76,400**	**78,294**	**80,688**	**81,737**
Tax Revenues	44,399	45,290	47,322	48,692	50,492	52,047	54,307	55,820	57,768	59,634	61,045	63,509	64,649
Non-Tax Revenues	11,014	10,855	14,084	15,004	15,120	15,170	15,397	15,384	15,114	15,262	15,292	15,191	..
Expenditures	**97,391**	**100,520**	**101,813**	**103,043**	**103,553**	**103,608**	**105,554**	**104,243**	**107,207**	**115,486**	**116,267**	**115,854**	**119,075**
Current	22,764	23,689	24,668	25,364	26,299	27,150	27,850	28,721	29,608	31,050	31,970	32,539	33,040
Investment	4,239	4,231	4,441	4,717	4,993	5,267	5,596	5,913	6,183	6,888	6,857	6,746	6,734
Transfers	70,388	72,599	72,704	72,962	72,261	71,191	72,108	69,609	71,417	77,548	77,441	76,569	79,301
Primary Balance	**11,683**	**10,833**	**14,301**	**15,451**	**15,528**	**15,186**	**16,160**	**15,682**	**15,627**	**12,785**	**13,368**	**14,423**	**13,779**
Budget Balance	**-41,112**	**-43,446**	**-39,457**	**-38,337**	**-36,880**	**-35,297**	**-34,711**	**-31,871**	**-32,733**	**-39,085**	**-37,974**	**-35,166**	**-37,338**
Financing	42,120	44,670	40,627	39,449	37,923	36,355	36,293	33,442	33,862	..	33,727	34,646	..
Foreign Borrowing (net)	7,812	10,209	10,317	10,762	12,161	14,935	14,980	15,010	16,189	16,570	18,001	4,869	..
Domestic Borrowing (net)	19,872	21,515	20,894	18,267	17,600	16,516	16,912	20,163	16,157	17,474	20,524	33,178	..
Short-term Borrowing (net)	12,721	11,386	9,971	14,607	19,378	18,339	19,859	20,937	19,881	18,371	14,976	17,851	..
Other	14,436	12,947	9,416	10,420	8,162	4,904	4,401	-1,731	1,516	343	-4,798	-3,401	..
12 MONTHS CUMULATIVE (billion $)													
Revenues	**41.4**	**41.7**	**44.8**	**45.7**	**46.3**	**46.7**	**48.0**	**48.8**	**49.9**	**50.8**	**51.3**	**52.2**	**52.1**
Tax Revenues	32.6	33.1	34.0	34.3	34.9	35.4	36.6	37.4	38.5	39.4	39.8	40.8	41.0
Non-Tax Revenues	8.1	7.9	10.1	10.6	10.6	10.5	10.6	10.6	10.4	10.4	10.3	10.1	..
Expenditures	**71.6**	**73.7**	**73.1**	**72.8**	**71.8**	**71.1**	**71.7**	**70.7**	**72.3**	**77.0**	**76.1**	**74.6**	**75.6**
Current	16.6	17.2	17.7	17.9	18.2	18.5	18.9	19.3	19.8	20.5	20.8	21.0	21.0
Investment	3.1	3.0	3.1	3.3	3.4	3.5	3.7	3.9	4.0	4.4	4.4	4.3	4.3
Transfers	51.9	53.4	52.3	51.6	50.3	49.0	49.2	47.5	48.5	52.1	50.9	49.4	50.3
Primary Balance	**8.7**	**7.9**	**10.3**	**10.9**	**10.9**	**10.5**	**11.0**	**10.7**	**10.6**	**8.9**	**9.1**	**9.6**	**9.0**
Budget Balance	**-30.2**	**-32.0**	**-28.4**	**-27.1**	**-25.6**	**-24.3**	**-23.7**	**-21.9**	**-22.4**	**-26.2**	**-24.8**	**-22.4**	**-23.5**
Financing	30.8	32.8	29.1	27.8	26.2	25.0	24.7	22.9	23.1	23.1	22.0	22.1	..
Foreign Borrowing (net)	5.7	7.6	7.7	8.3	9.0	10.7	10.8	10.8	11.6	11.8	12.6	3.1	..
Domestic Borrowing (net)	14.5	15.6	15.3	12.7	11.7	10.8	10.9	12.8	10.1	10.8	12.2	21.1	..
Short-term Borrowing (net)	9.8	8.6	7.1	10.3	13.2	12.3	13.3	14.0	13.3	12.1	9.8	11.6	..
Other	10.7	9.6	6.1	6.8	5.5	3.5	3.1	-0.8	1.3	0.4	-2.8	-2.0	..
DOMESTIC DEBT STOCK													
1000 trillion TL	120.3	123.3	122.8	126.8	130.4	137.1	140.3	144.2	145.3	149.9	155.4	159.4	..
Billion $	89.0	93.8	88.3	83.1	78.8	84.0	85.3	87.6	90.9	94.1	93.8	98.4	..
DomesticDebt/M2Y (%)	116.4	117.6	111.8	108.2	105.6	112.5	111.9	112.5	115.3	112.3	115.8	120.8	..

(..) Not Available

TABLE 1.4 MAIN ECONOMIC INDICATORS (2002-2003)
MONETARY AGGREGATES

	2002										2003		
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
MONEY SUPPLY (annual % change)													
Currency in Circulation	60.0	56.0	50.9	54.1	53.4	50.3	44.6	58.0	69.9	50.2	53.2	24.1	60.3
Sight Deposits	28.4	9.8	29.0	11.9	10.6	1.2	21.1	30.9	26.1	23.6	34.0	31.4	2.6
M1	**40.2**	**27.9**	**37.7**	**28.0**	**28.2**	**19.3**	**31.1**	**42.7**	**44.1**	**35.8**	**42.5**	**27.7**	**27.3**
Time Deposits	28.3	35.9	35.8	33.5	46.7	37.1	32.5	33.5	32.3	31.4	27.9	26.8	26.3
M2	**30.9**	**34.1**	**36.3**	**32.2**	**42.0**	**32.2**	**32.1**	**35.7**	**35.1**	**32.4**	**31.1**	**27.0**	**26.6**
Foreign Exchange Deposits (TL)	60.4	45.8	55.8	46.5	44.1	29.9	17.6	12.6	12.8	27.4	35.9	27.9	30.5
M2Y	**44.6**	**39.9**	**45.9**	**39.6**	**43.2**	**30.9**	**23.7**	**21.9**	**22.4**	**29.6**	**33.6**	**27.5**	**28.6**
Repo	-6.2	-43.8	-35.8	-36.0	-46.7	-9.3	-15.1	5.6	-34.7	-1.1	-2.2	-4.4	9.3
M2YR	**42.0**	**33.9**	**40.1**	**34.8**	**36.4**	**29.1**	**22.2**	**21.4**	**20.4**	**28.8**	**32.5**	**26.5**	**27.9**
Offical Deposits	35.9	118.1	27.6	37.9	82.6	83.3	93.2	90.0	98.8	-15.6	30.6	68.7	52.7
Other Deposits With CBRT	-14.1	-39.2	-64.8	146.8	-75.8	-12.3	28.3	94.7	41.7	3.4	110.1	228.8	40.7
M3Y	**43.3**	**39.8**	**42.8**	**40.1**	**41.6**	**30.3**	**24.6**	**23.4**	**23.8**	**28.3**	**34.2**	**30.5**	**29.2**
M2Y (trillion TL)	**103,335**	**104,851**	**109,868**	**117,240**	**123,428**	**121,909**	**125,409**	**128,143**	**126,006**	**133,450**	**134,149**	**131,967**	**132,878**
Composition of M2Y (%)													
Currency in Circulation	4.8	5.0	4.8	5.1	5.0	5.1	5.1	5.3	5.8	5.4	5.1	5.7	5.9
Sight Deposits	6.4	5.5	6.2	5.9	5.2	5.9	5.8	5.7	6.1	5.3	5.7	5.7	5.1
Time Deposits	37.4	37.9	36.5	34.5	33.8	33.4	33.6	34.0	35.4	35.2	34.9	35.7	36.7
Foreign Exchange Deposits	51.5	51.6	52.6	54.5	56.1	55.6	55.4	54.9	52.7	54.1	54.3	52.9	52.3
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
CREDIT STOCK (domestic, annual % change)	**11.1**	**8.2**	**16.8**	**5.1**	**4.1**	**-2.0**	**-4.3**	**-5.1**	**-3.6**	**2.5**	**9.2**	**10.2**	**19.6**
Deposit Bank Credits	10.3	8.4	17.1	4.6	3.2	-3.1	-5.2	-5.9	-4.4	1.9	7.8	8.2	18.2
Private	25.6	23.7	27.2	-3.8	-7.0	-9.9	-7.2	-6.3	-6.8	-6.3	-4.4	1.1	-0.1
Public	-18.6	-13.8	-5.3	0.6	-0.2	1.0	1.1	1.0	4.1	4.0	4.5	7.1	9.6
Invest. and Develop.Bank Credits	22.0	5.6	13.9	12.0	15.4	10.8	5.5	4.3	6.0	9.5	27.3	34.6	37.5
CB BALANCE SHEET (million $)													
Base Money	6,298	6,379	6,358	5,754	5,762	5,873	6,145	6,405	7,634	6,344	6,800	7,327	7,027
Net Domestic Assets	7,675	6,369	7,180	6,516	5,655	4,446	4,812	4,537	5,704	4,857	3,111	5,273	5,647
Net Foreign Assets	-1,378	10	-822	-762	107	1,426	1,333	1,867	1,931	1,487	3,690	2,054	1,380
Net Position of Public Sector	19,431	18,446	16,010	15,876	14,657	12,039	12,662	12,777	14,458	14,567	14,101	15,328	15,687
Liabilities Due to Open Market Operations	4,645	5,296	4,854	5,516	5,543	3,966	4,341	4,660	4,766	5,154	6,495	5,537	5,764
THE CENTRAL BANK RESERVES (billion $)	**20.3**	**22.2**	**22.0**	**22.2**	**23.6**	**25.1**	**25.1**	**25.5**	**26.0**	**26.7**	**26.7**	**27.7**	**26.7**
CB RESERVES/(DOMESTIC DEBT STOCK+M2Y, %)	12.3	12.8	13.1	13.9	15.4	15.8	15.5	15.4	15.3	15.0	15.3	15.4	..
FOREIGN DEBT STOCK (billion $)	**117.6**	..	..	**125.7**	..	..	**127.5**	..	..	**131.6**	..	..	..

Net Foreign Assets= Foreign Assets-(Liabilities to Non- Residents+FX Deposits of Banking Sector)
Net Domestic Assets= Net Position of Public Sector - Funds + Credits to Banking Sector + Net Open Market Operations+Others+ FX Revaluation Account - Fund
Net Position of Public Sector= Credits to Public Sector-(Deposits of Public Sector+ FX Deposits of Non - Banking Sector)
Base Money = Net Foreign Assets+ Net Domestic Assets

TABLE 2 GROSS DOMESTIC PRODUCT (at 1987 prices, TL)

By Kind of Expenditure

	Annual % Change		% Share	Annual % Change			
	2001	2002	2002	2002-1	2002-2	2002-3	2002-4
Private Final Cons. Exp.	**-9.2**	**2.0**	**63.0**	**-1.8**	**3.2**	**2.5**	**4.2**
Food, Beverage	-3.6	0.9	23.2	-1.0	-0.5	2.8	1.5
Durable Goods	-30.4	2.1	9.4	-7.0	8.7	1.8	6.2
Semi-dur, Non-dur Goods	-9.0	3.1	9.5	-1.9	4.4	1.7	10.8
Energy, Trans., Commun.	0.9	-0.7	8.9	-2.6	1.8	-1.9	-0.1
Services	-9.3	8.7	6.6	2.4	11.1	9.1	10.9
Ownership of Dwelling	2.1	1.8	5.4	2.0	1.9	1.7	1.4
Gov. Final Cons. Exp.	**-8.5**	**5.4**	**8.4**	**2.2**	**2.6**	**12.0**	**4.5**
Compensation of Empl.	1.6	0.7	4.3	1.9	0.2	0.2	0.6
Purchases of Goods, Services	-18.0	10.8	4.1	3.0	5.7	27.9	7.1
Gross Fixed Capital Form.	**-31.5**	**-0.8**	**19.0**	**-28.8**	**-2.3**	**5.9**	**22.2**
Public Sector	**-22.0**	**14.5**	**6.5**	**-18.1**	**3.0**	**29.8**	**22.7**
Machinery Equipment	-39.0	29.3	1.8	-19.3	10.8	71.2	52.8
Building Construction	-20.0	23.9	2.0	-17.8	27.1	34.1	25.2
Other Construction	-10.3	1.1	2.7	-16.8	-13.0	12.7	6.5
Private Sector	**-34.9**	**-7.2**	**12.5**	**-30.9**	**-4.2**	**-3.7**	**21.8**
Machinery Equipment	-49.6	1.4	6.9	-40.8	6.8	15.2	71.0
Building Construction	-8.0	-15.8	5.7	-15.1	-16.7	-16.3	-14.7
Change in Stock*	**-4.0**	**7.0**		**4.1**	**2.1**	**5.2**	**4.9**
Export of Goods, Services	**7.4**	**11.0**	**39.3**	**10.4**	**5.0**	**15.8**	**12.3**
Import of Goods, Services	**-24.8**	**15.7**	**34.8**	**2.1**	**20.3**	**19.3**	**22.1**
GDP (Demand)	**-7.5**	**7.8**	**100.0**	**2.1**	**8.9**	**7.9**	**11.4**
GDP (Supply)	**-7.5**	**7.8**	-	**2.1**	**8.9**	**7.9**	**11.4**

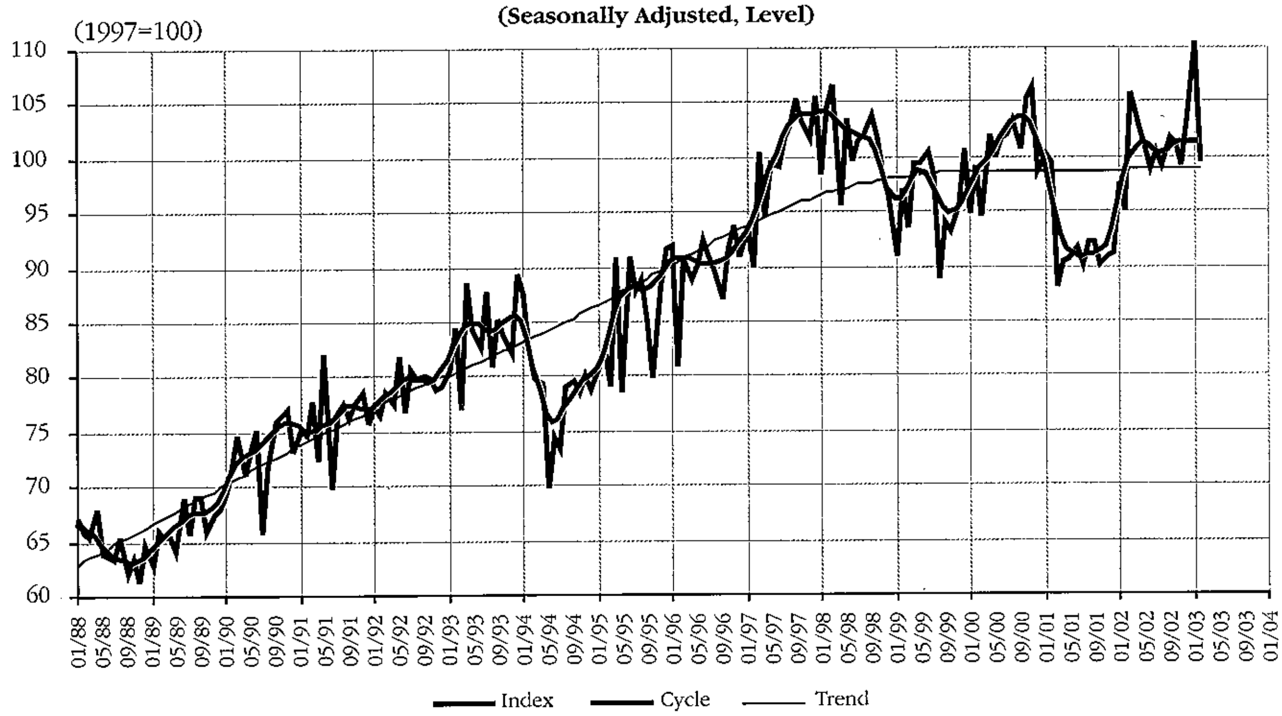
By Sectors

	Annual % Change		% Share	Annual % Change			
	2001	2002	2002	2002-1	2002-2	2002-3	2002-4
Agriculture	**-6.5**	**7.1**	**13.8**	**0.1**	**2.7**	**6.1**	**15.3**
Agriculture and Livestock Prod.	-6.6	6.7	12.8	2.3	0.8	5.7	14.7
Forestry	-8.1	15.3	0.7	-17.3	29.4	27.9	35.5
Fishing	2.5	7.5	0.3	18.9	-2.5	5.7	6.2
Industry	**-7.5**	**9.4**	**29.4**	**2.8**	**12.6**	**10.5**	**11.4**
Mining and Quarrying	-8.8	-4.4	1.2	-1.1	-7.7	-4.1	-4.0
Manufacturing	-8.1	10.4	24.7	2.3	13.7	11.8	13.5
Electricity, Gas, Water	-2.1	8.0	3.5	6.8	13.7	8.2	4.0
Construction	**-5.5**	**-4.9**	**4.6**	**-11.8**	**-9.6**	**-3.3**	**2.7**
Trade	**-9.4**	**10.7**	**23.0**	**4.3**	**11.7**	**10.1**	**16.1**
Wholesale and Retail Trade	-12.8	12.8	19.2	3.4	15.5	12.7	18.7
Hotels, Rest. Services	9.9	1.1	3.7	9.7	-5.1	0.0	3.9
Transportation and Comm.	**-5.3**	**5.4**	**13.4**	**2.1**	**8.3**	**5.4**	**5.6**
Financial Institutions	**-9.9**	**-7.1**	**2.1**	**-7.4**	**-9.6**	**-3.2**	**-8.2**
Ownership of Dwelling	**2.1**	**1.8**	**5.1**	**2.0**	**1.9**	**1.7**	**1.4**
Business and Pers. Services	**-7.6**	**7.4**	**2.3**	**1.7**	**8.7**	**7.6**	**10.7**
(-) Imputed Bank Serv. Changes	**-11.7**	**-9.1**	**1.7**	**-9.6**	**-11.8**	**-5.1**	**-10.1**
Sectoral Total	**-6.9**	**7.4**	**92.0**	**2.0**	**8.5**	**7.4**	**10.9**
Government Services	**1.6**	**0.7**	**4.4**	**1.9**	**0.2**	**0.2**	**0.6**
Private Non-profit Inst.	**0.2**	**0.6**	**0.4**	**0.3**	**0.5**	**1.1**	**0.3**
Total	**-6.5**	**7.1**	**96.8**	**2.0**	**8.1**	**7.1**	**10.3**
Import Duties	**-25.1**	**23.0**	**5.2**	**4.0**	**27.7**	**28.9**	**33.9**
GDP	**-7.5**	**7.8**	**102.0**	**2.1**	**8.9**	**7.9**	**11.4**

**Figures indicate percentage point contribution to GDP growth*

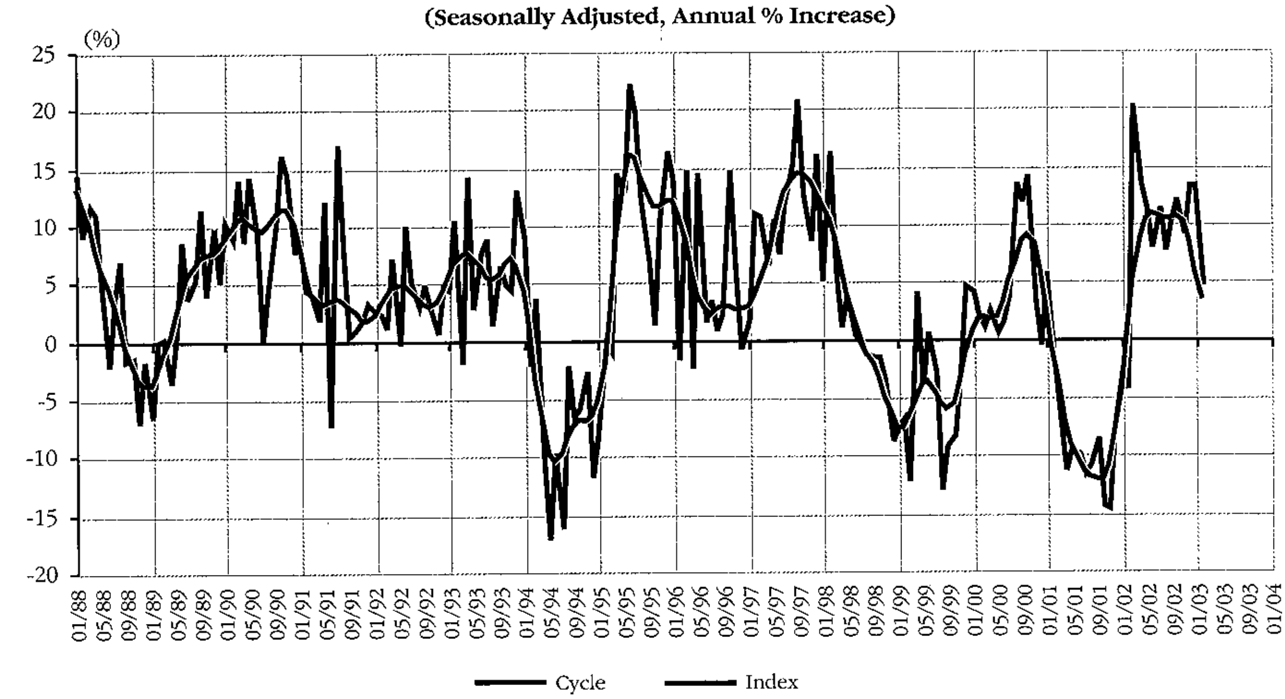
GRAPH 1

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Level)



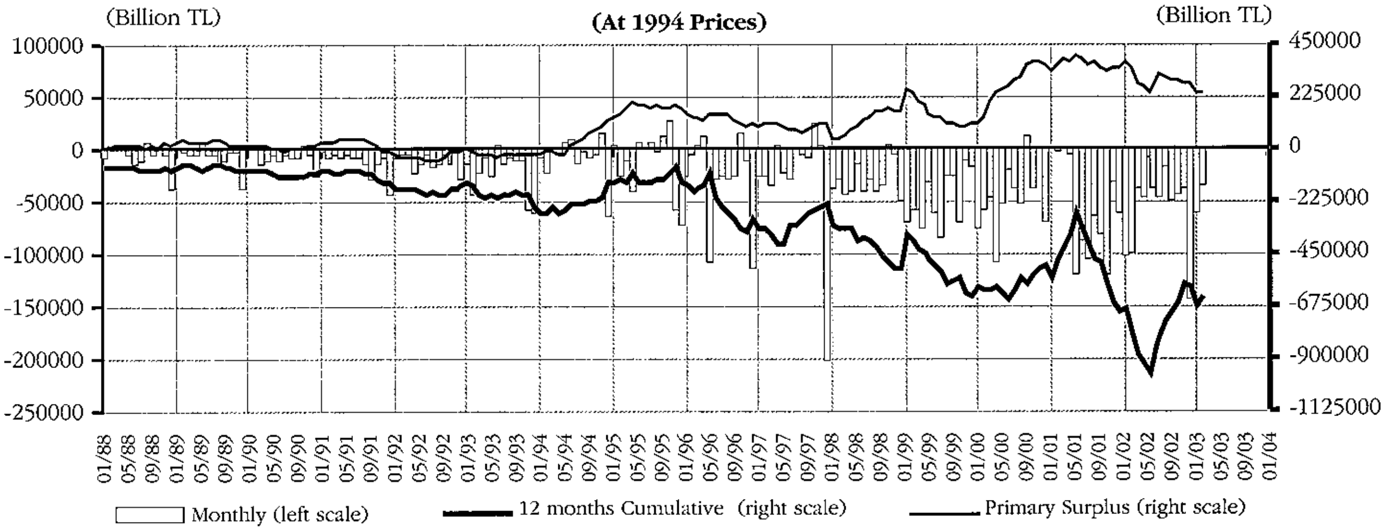
GRAPH 2

INDUSTRIAL PRODUCTION INDEX
(Seasonally Adjusted, Annual % Increase)



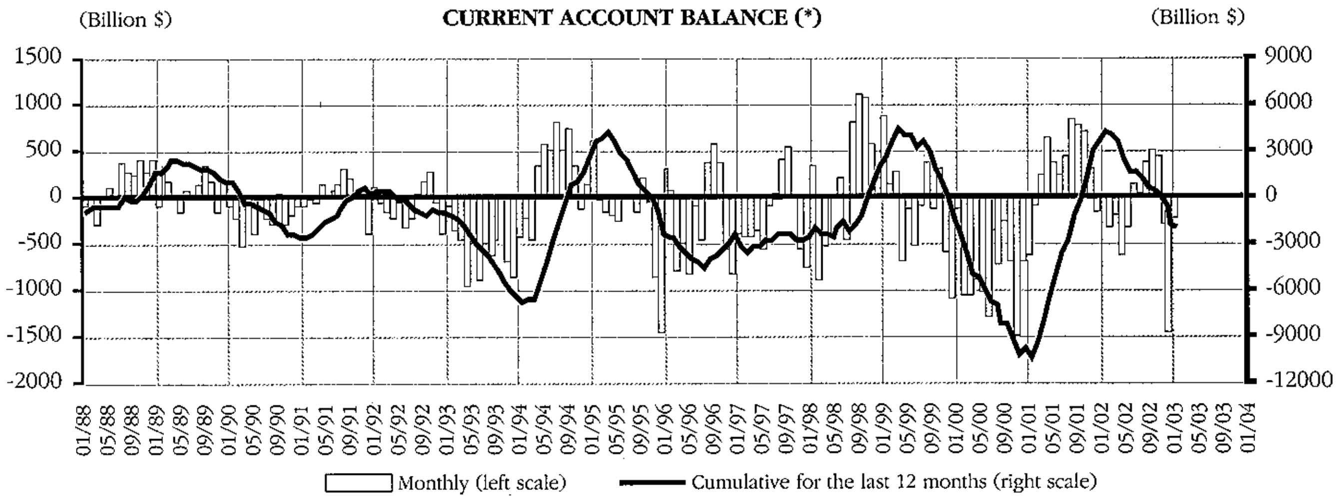
GRAPH 3

CONSOLIDATED BUDGET DEFICIT
(At 1994 Prices)



GRAPH 4

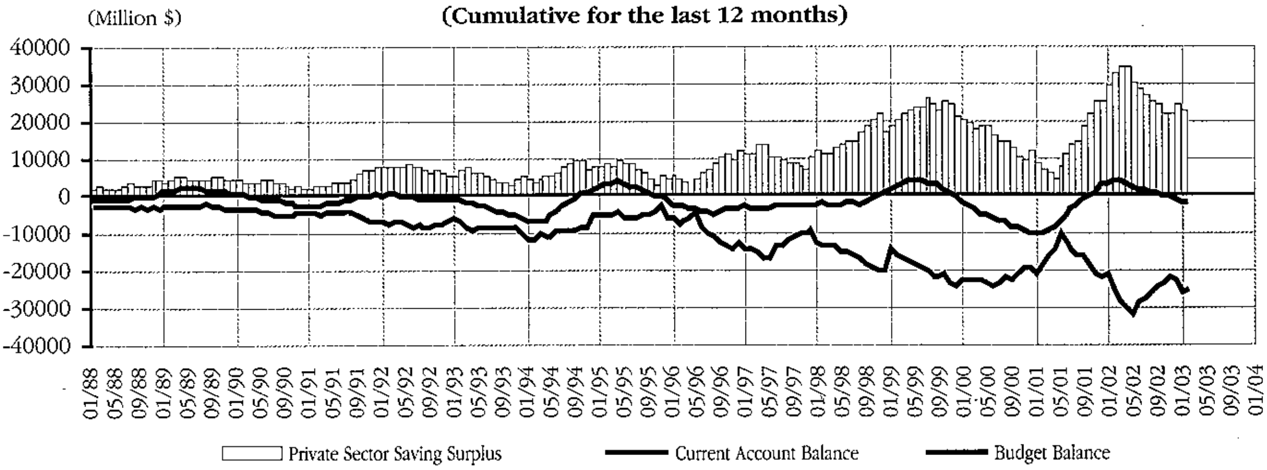
CURRENT ACCOUNT BALANCE (*)



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

GRAPH 5

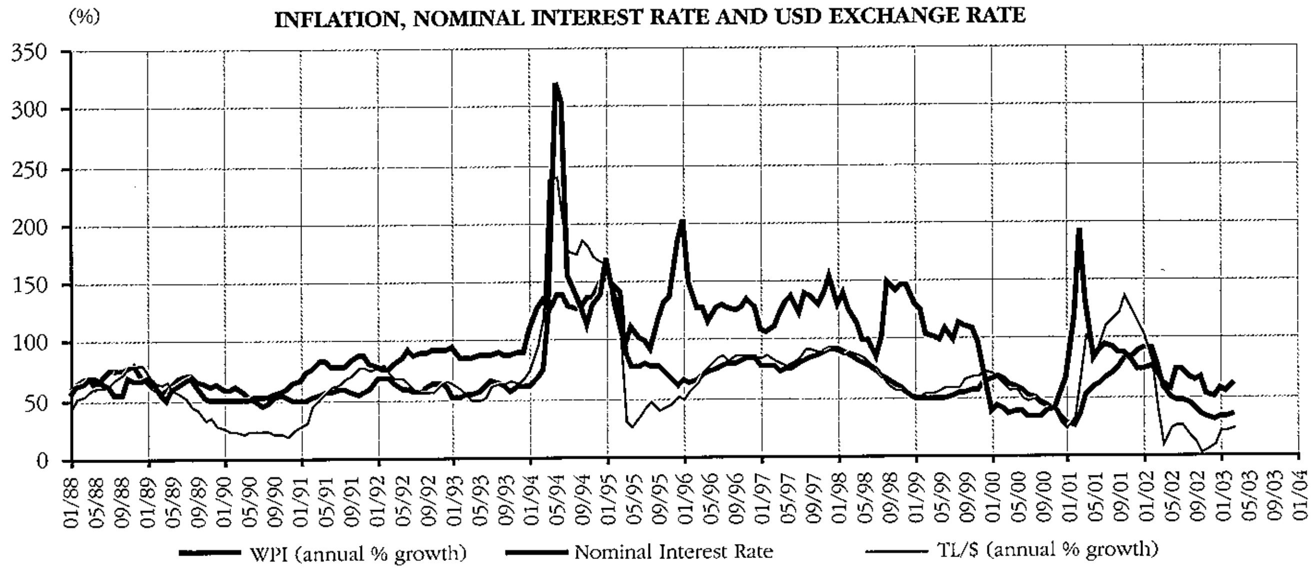
SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)



(*) Budget Balance is used as a proxy for the Public Sector Deficit 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.

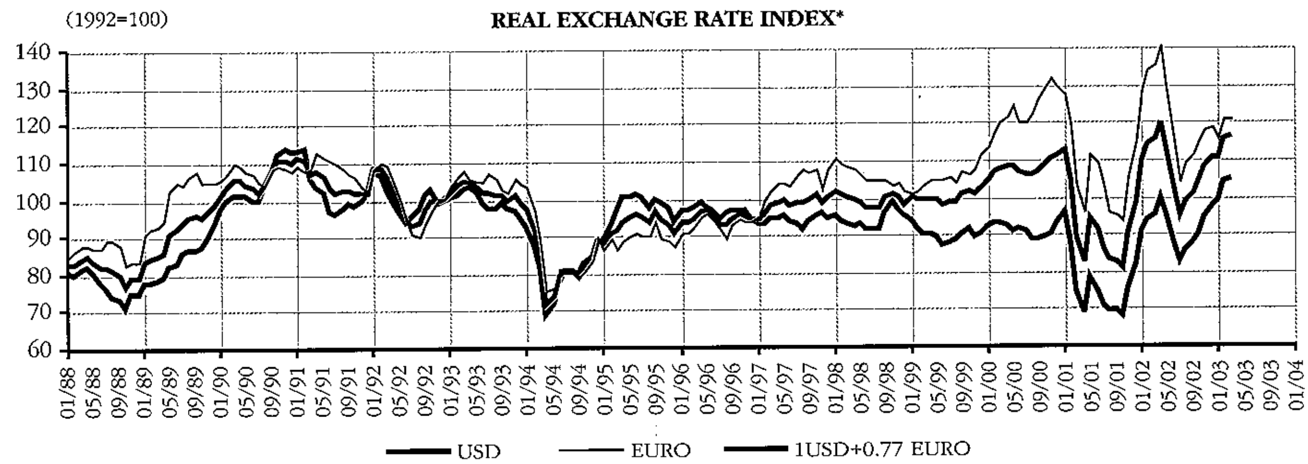
GRAPH 6

INFLATION, NOMINAL INTEREST RATE AND USD EXCHANGE RATE



GRAPH 7

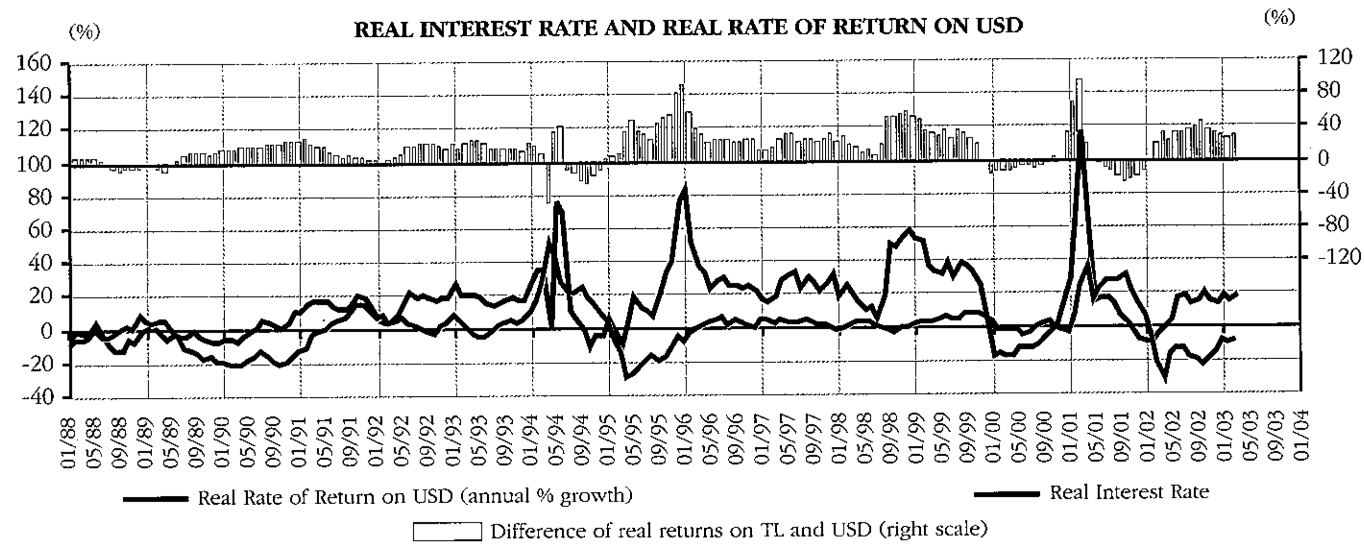
REAL EXCHANGE RATE INDEX*



*DM is taken instead of Euro for pre-1999 period. Series are deflated by WPI.

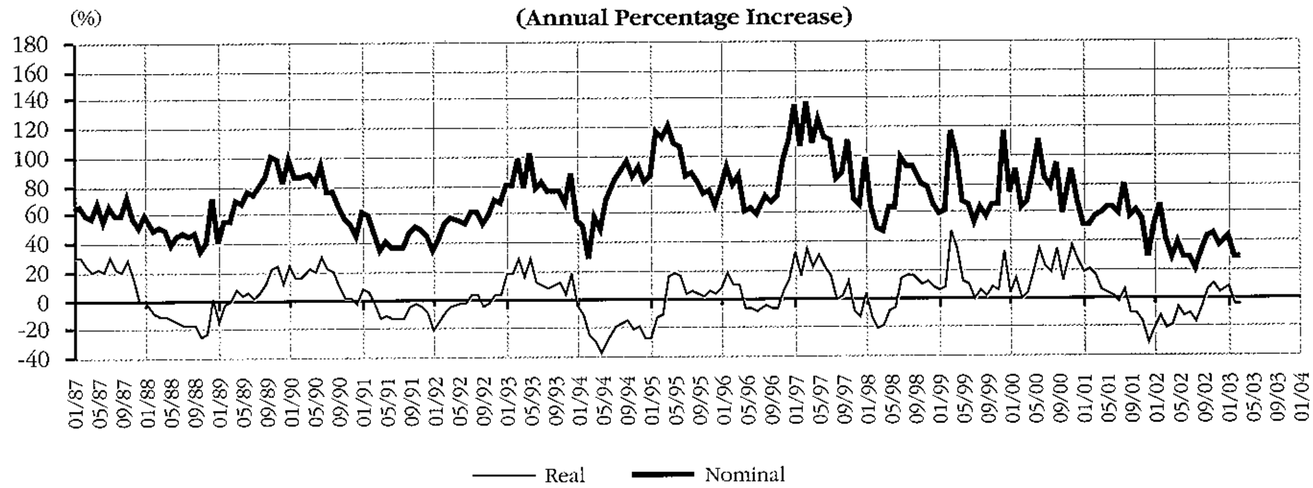
GRAPH 8

REAL INTEREST RATE AND REAL RATE OF RETURN ON USD



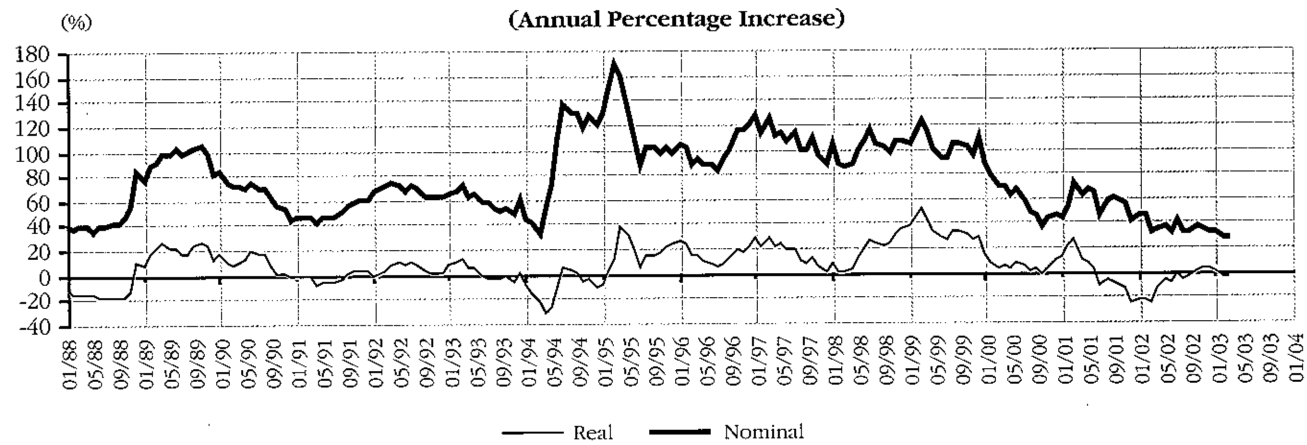
GRAPH 9

M1
(Annual Percentage Increase)



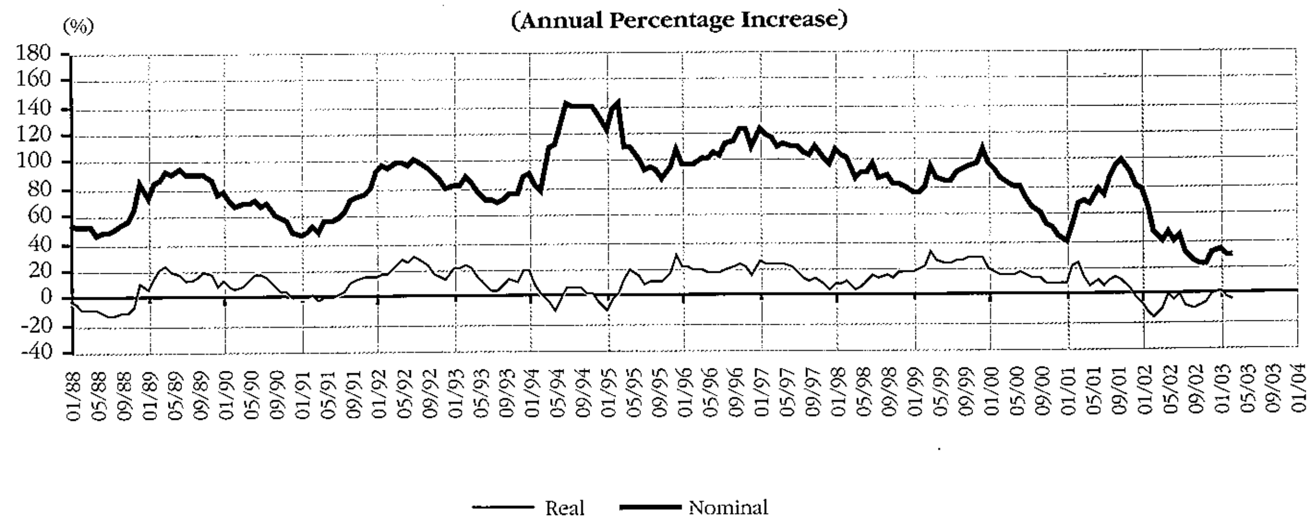
GRAPH 10

M2
(Annual Percentage Increase)



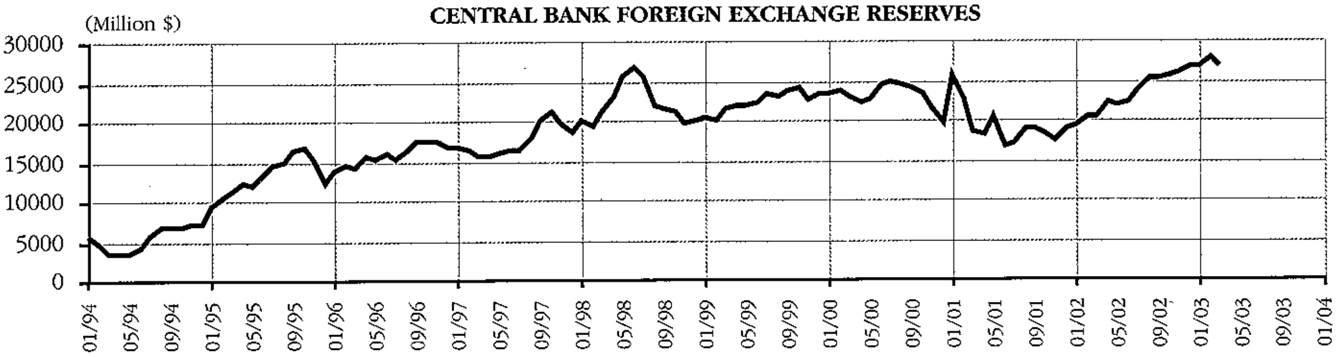
GRAPH 11

M2Y
(Annual Percentage Increase)



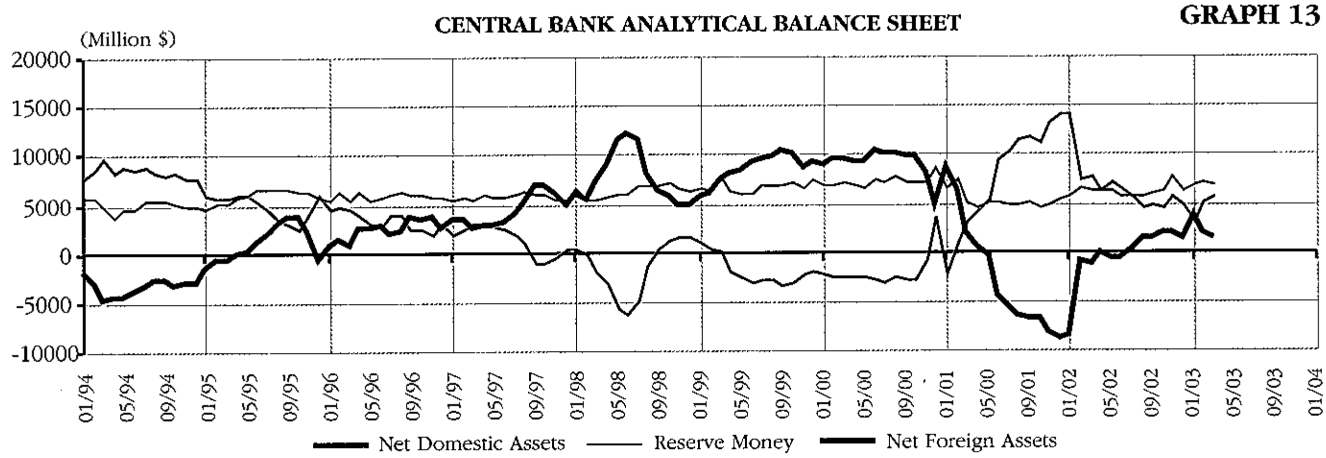
GRAPH 12

CENTRAL BANK FOREIGN EXCHANGE RESERVES



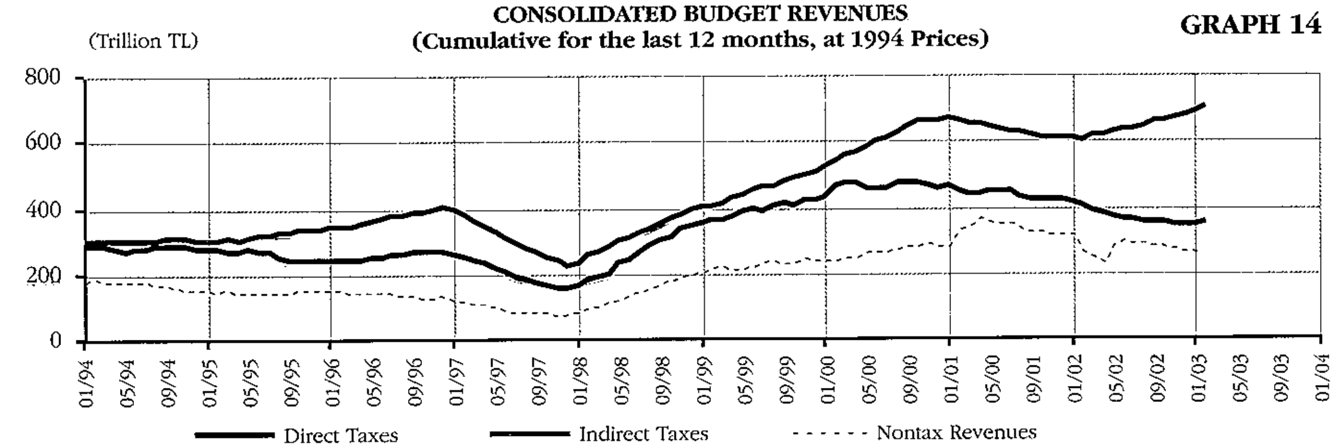
CENTRAL BANK ANALYTICAL BALANCE SHEET

GRAPH 13



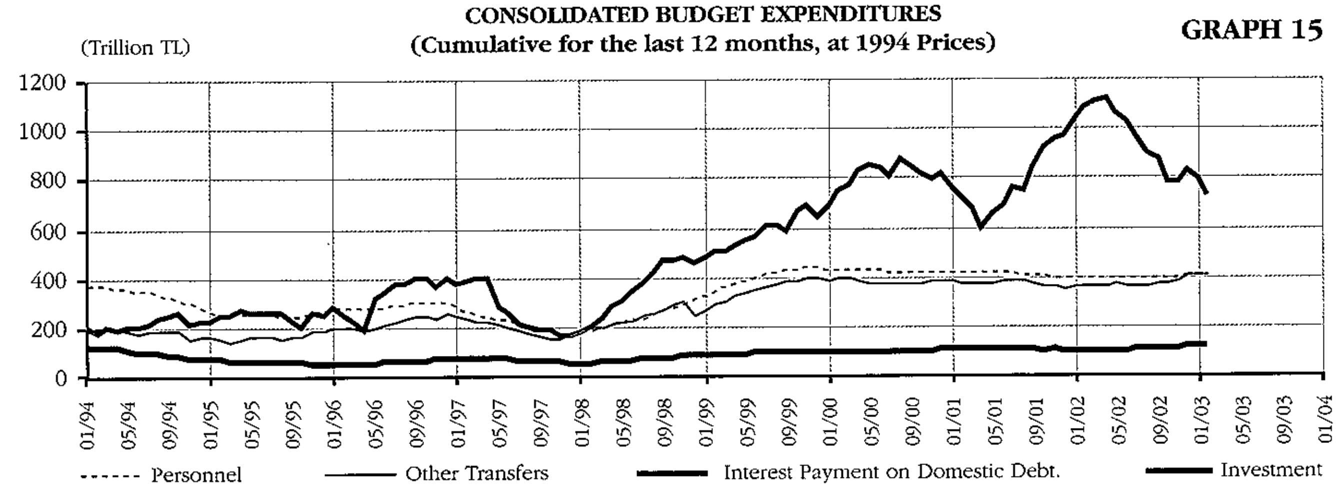
CONSOLIDATED BUDGET REVENUES
(Cumulative for the last 12 months, at 1994 Prices)

GRAPH 14



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

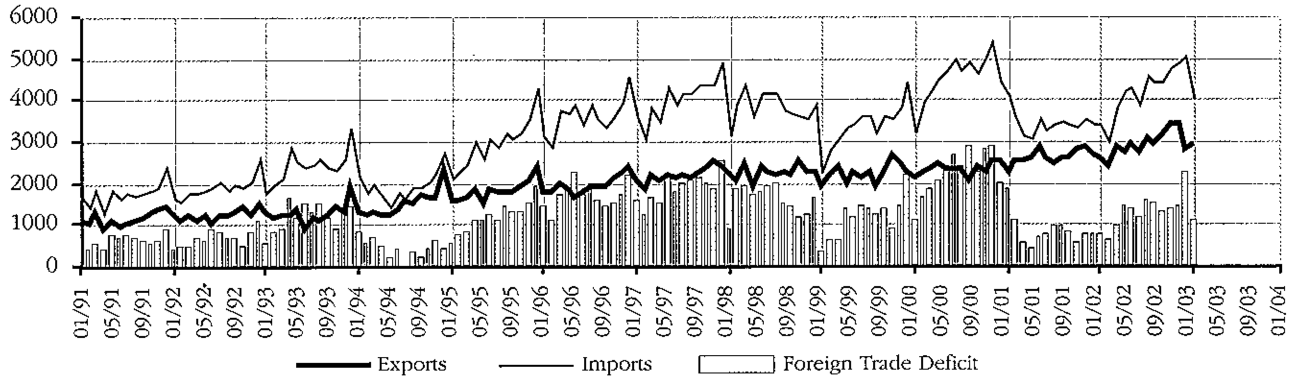
GRAPH 15



FOREIGN TRADE (Monthly)

GRAPH 16

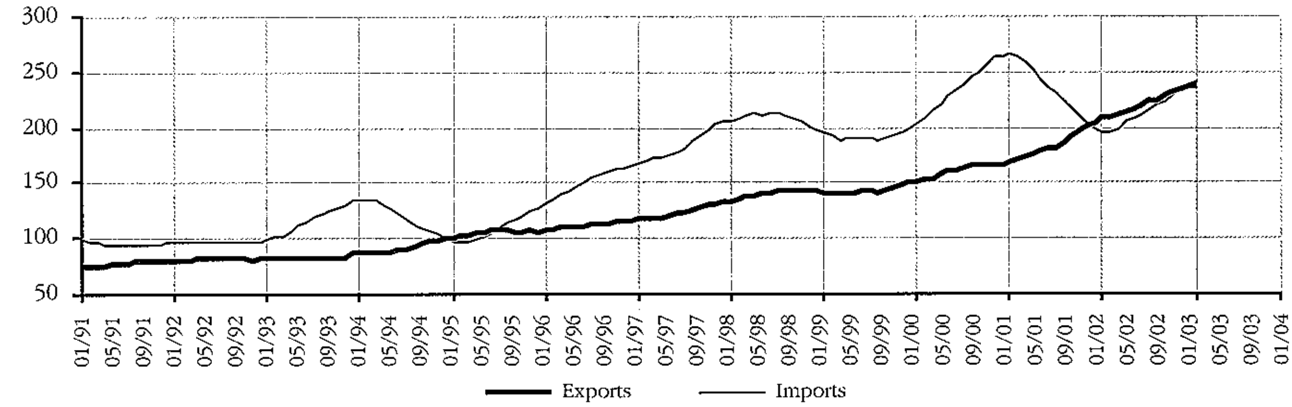
(Million $)



FOREIGN TRADE QUANTITY INDEX (12 months average)

GRAPH 17

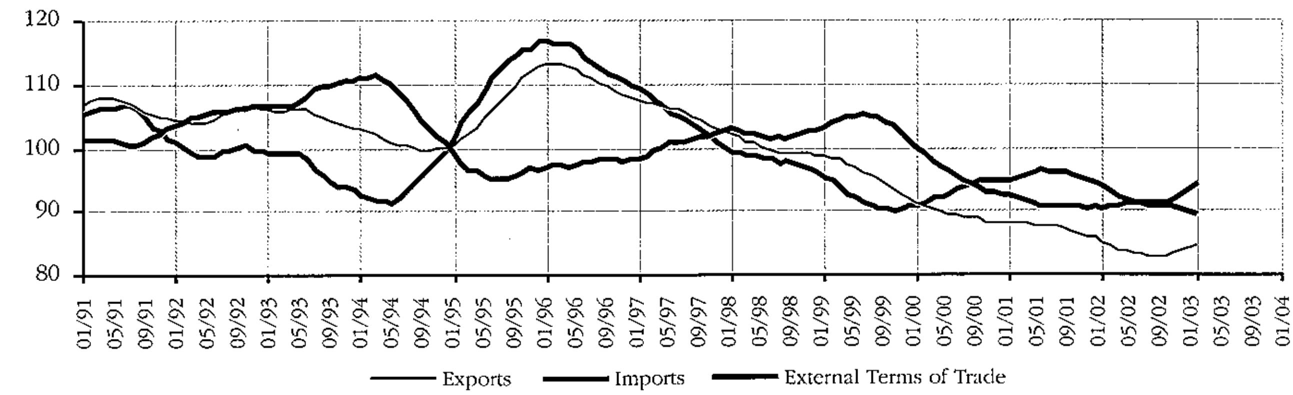
(1994=100)



FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE (12 months average, seasonally adjusted)

GRAPH 18

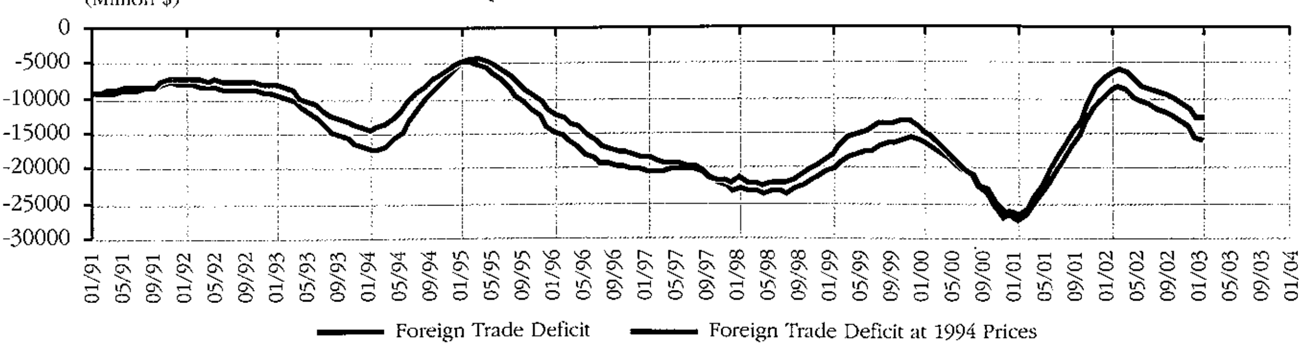
(1994=100)



FOREIGN TRADE DEFICIT (Cumulative for the last 12 months)

GRAPH 19

(Million $)



TÜSİAD MACROECONOMIC SCENARIO
(Quarterly and yearly average)

	2001					2002					2003					
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Govern. Program
INCOME and PRICES																
GNP (1987 prices)*	-3.3	-12.3	-9.1	-12.3	**-9.5**	0.4	10.4	7.9	11.5	**7.8**	*5.0*	*3.4*	*5.3*	*3.9*	*4.4*	**5.0**
GDP (1987 prices)*	-0.8	-9.6	-7.4	-10.4	**-7.4**	2.1	8.9	7.9	11.4	**7.8**	*5.2*	*3.7*	*5.1*	*4.0*	*4.5*	
Inflation (WPI)*	30.1	56.8	70.0	84.9	**61.6**	86.7	51.2	43.5	33.2	**50.1**	33.7	*35.7*	*33.2*	*30.2*	*33.1*	**17.4(a)**
Inflation (CPI)*	35.6	52.3	58.6	67.5	**54.4**	70.3	47.0	39.5	31.6	**45.0**	27.6	*30.4*	*30.2*	*27*	*28.8*	**20.0(a)**
Reserve Money *	36.6	38.5	58.5	33.9	**41.7**	51.1	40.8	33.3	34.2	**38.9**	41.8	*25.6*	*22.4*	*18.1*	*26.3*	
CONSOLIDATED BUDGET																
Budget Revenues (trillion TL)	10,561	12,367	13,445	15,439	**51,813**	15,028	20,793	19,583	20,997	**76,400**	20,364	*23,102*	*25,050*	*27,800*	*96,316*	**100,782**
Budget Expenditures (trillion TL)	10,651	20,381	23,776	25,572	**80,379**	27,663	26,032	26,287	35,503	**115,486**	31,253	*31,502*	*35,050*	*47,530*	*145,335*	**145,949**
Budget Balance (trillion TL)	-90	-8,014	-10,330	-10,132	**-28,566**	-12,636	-5,239	-6,704	-14,507	**-39,085**	-10,889	*-8,400*	*-10,000*	*-19,730*	*-49,019*	**-45,167**
Interest Expenditures (trillion TL)	4,809	10,932	13,774	11,549	**41,065**	16,540	11,925	10,857	12,549	**51,871**	15,787	*15,800*	*19,900*	*18,520*	*70,007*	**65,450**
Budget Balance (billion $)	-0.1	-6.8	-7.4	-6.7	**-23.3**	-9.3	-3.7	-4.1	-9.0	**-26.0**	-6.6	*-4.9*	*-5.3*	*-9.7*	*-26.6*	
Primary Surplus (over GNP, %)				7.1					4.8					*5.7*	*5.7*	
Budget Balance (over GNP, %)				-16.2					-14.8					*-13.3*	*-12.7*	
EXCHANGE RATES																
Nominal Exchange Rate (TL/$)	797,557	1,186,825	1,398,014	1,519,706	**1,225,525**	1,353,699	1,410,648	1,643,660	1,612,151	**1,505,039**	1,645,316	*1,705,000*	*1,884,000*	*2,026,000*	*1,815,079*	**1,770,000**
Nominal Exchange Rate (TL/$)*	41.7	94.9	116.6	123.9	**96.4**	69.7	18.9	17.6	6.1	**22.8**	21.5	*20.9*	*14.6*	*25.7*	*20.6*	
Real Exchange Rate (TL/$)(1999=100)**	120.9	97.9	91.8	97.6	**102.0**	121.3	121.1	108.9	121.1	**118.1**	127.4	*130.7*	*123.7*	*122.3*	*126.0*	
Real Exchange Rate (TL/$)*	-4.3	-21.9	-26.8	-25.2	**-19.6**	0.4	23.7	18.6	24.1	**15.7**	5.0	*7.9*	*13.6*	*1.0*	*6.7*	
Nominal Exchange Rate (TL/€)	733,423	1,036,296	1,245,474	1,360,145	**1,093,834**	1,186,136	1,299,433	1,616,606	1,615,321	**1,429,374**	1,766,431	*1,820,940*	*1,961,244*	*2,088,806*	*1,909,355*	
Nominal Exchange Rate (TL/€)*	32.1	82.1	113.3	130.8	**90.5**	61.7	25.4	29.8	18.8	**30.7**	48.9	*40.1*	*21.3*	*29.3*	*33.6*	
Real Exchange Rate (TL/€)(1999=100)	114.5	97.7	89.8	95.0	**99.2**	120.6	114.6	96.4	105.3	**109.2**	103.3	*106.6*	*103.5*	*103.4*	*104.2*	
Real Exchange Rate (TL/€) (1999=100)*	2.6	-16.4	-25.7	-27.4	**-17.3**	5.3	17.3	7.4	10.8	**10.1**	-14.3	*-7.0*	*7.4*	*-1.8*	*-4.6*	
€/$*100	92.0	87.3	89.1	89.5	**89.5**	87.6	92.1	98.4	100.2	**94.6**	107.4	*106.8*	*104.1*	*103.1*	*105.3*	
GOVERNMENT SECURITIES AUCTION																
Nominal Int. Rate (compounded, %)	125.4	100.3	91.3	79.6	**99.1**	72.8	62.9	67.0	55.9	**64.6**	57.2	*48.6*	*40.9*	*36.7*	*45.9*	
Real Int. Rate (compounded, %)	66.2	31.5	20.6	7.3	**29.0**	1.5	10.8	19.8	18.5	**13.6**	23.2	*14.0*	*8.2*	*7.7*	*13.3*	
FOREIGN TRADE and CURRENT ACCOUNT																
Imports (cif) (billion $)	10.8	9.9	10.4	10.4	**41.4**	9.8	12.1	13.4	14.8	**50.0**	*12.5*	*13.4*	*13.9*	*14.8*	*54.6*	**55.6**
Exports (fob, incl. shuttle trade) (billion $)	8.1	8.8	8.4	9.1	**34.4**	8.8	9.3	10.2	10.8	**39.1**	*9.7*	*10.4*	*11.0*	*12.4*	*43.5*	**44.9**
Foreign Trade Balance(fob-cif) (billion $)	-2.7	-1.1	-1.9	-1.3	**-7**	-1.0	-2.8	-3.2	-3.9	**-10.9**	*-2.8*	*-3.0*	*-2.9*	*-2.4*	*-11.1*	**-10.7**
Invisibles (other current) (billion$)	2.2	2.4	3.9	1.9	**10.4**	0.7	2.1	4.1	2.6	**9.5**	*0.3*	*1.5*	*3.8*	*2.8*	*8.4*	**7.2**
Current Account Balance (billion$)	-0.5	1.3	2.0	0.6	**3.4**	-0.3	-0.6	0.9	-1.3	**-1.4**	*-2.5*	*-1.5*	*0.9*	*0.4*	*-2.7*	**-3.5**
Imports (cif) (billion $)*	-4.9	-30.1	-27	-30.1	**-24**	-9.1	22.4	29.0	42.4	**20.9**	*27.6*	*10.6*	*4.0*	*0.3*	*9.1*	
Exports (fob, incl. shuttle trade) (billion $)*	6.4	10.0	8.5	9.2	**8.6**	9.2	6.3	20.9	18.8	**13.9**	*9.9*	*11.5*	*7.9*	*14.7*	*11.1*	

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Publisher: Tuncay Özilhan **Editor:** Haluk Tükel

Production: Lebib Yalkın Publishing & Printing Co.

This issue of TÜSİAD Quarterly Economic Survey is prepared by using the most recent data and estimations available as of April 2003

TÜSİAD-T/2003-04-353

ISSN: 1300-3860

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

(**)Decrease in Real Exchange Rate index reflects the devaluaiton of TL against US dollar.

(a) End year, TÜSİAD's end year forecast for CPI and WPI for 2003 are 26.7% and 29.4% respectively