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THE EARTHQUAKE AND THE TAX LAW POSTPONED RECOVERY TILL 2000

I. Output and Inflation

The Marmara Earthquake negatively affected the economic activity in 3Q99.

The expansionary policies employed since mid-1998 has paved the way to a half-recovery beginning from the 2Q99. Yet the pressure of high domestic debt stock on interest rates, the lack of foreign funds, the new tax law that coincided with a recession period etc. resulted in a recession period longer and deeper than expected. Taking into account the additional impact of the two big earthquakes on the unfavourable economic enviroment 1999 will definitely be witnessing a great contraction of economic activity.

• The expectations for recovery that were prevalent as of 2Q99, were reversed after the Marmara Earthquake of August 17th. The area affected by the earthquake has been producing 13.1 percent of total industry value added, thus the contraction is tended to deepen in 3Q99. However, considering the revitalising effect of the earthquake on some sectors such as construction and the Stand-by Agreement, which will possibly be approved at the end of 1999, a recovery is expected as of 4Q99. TÜSİAD estimations on economic growth is –3.4 percent and 4.1 percent for 1999 and 2000, respectively.

• The contraction of GNP by 8.5 percent in 1Q99 was the deepest point of recession, which had began at 2Q98. The contraction slowed down to 3.4 percent in 2Q99. Despite a 1.2 percent growth in industry, the agriculture, construction and trade sectors shrank by 7.8 percent, 5.9 percent and 4.3 percent, respectively, in 2Q99.

• The contraction in GDP, on the other hand, remained at 2 percent in 2Q99. As the private sector consumption slowed down by 0.1 percent, the public sector consumption increased by 1.9 percent. Fixed capital investment continued to fall remarkably. Although public investments increased by 22 percent, private sector investment decreased by 22 percent, resulting in a 14 percent drop in fixed capital investment.

• Industrial production increased by 0.9 percent yoy in 2Q99 after the dramatic fall in 1Q99. However, industrial production and capacity utilisation rates dropped further in 3Q99 reflecting the effects of the earthquake. Industrial production fell by 12.7 percent and 9.7 percent in August and September, respectively, while capacity utilisation rates were realised as ten points lower compared to the same months of the previous year. In this line, industrial production declined by 8.7 percent in 3Q99, averaging the monthly figures.

• The damage in petroleum refineries due to the earthquake ushered in a decline of 20 percent in refined petroleum production in August and September. The fall of production of other sectors such as automotive, metal products, food, and plastic-rubber also accelerated in these two months.

The acceleration of public pricing stimulates inflation.

• In line with the anti-inflationary policies, employed since the beginning of 1998, the WPI growth fell down to 48.2 percent yoy in March 1999, which has been the lowest point of last eight years, from 92.6 percent in January 1998. The fall in inflation was mainly related to the fall in prices of raw materials, especially petroleum prices, and the downward pressure of recession on domestic prices. As these two factors have disappeared as of 2Q99 the inflation climbed to 55.2 percent on October 1999.

• The monthly changes of public sector prices have constantly exceeded that of private sector prices since March 1999. The 8-month cumulative change during the same period of the previous year was 68.7 percent in public sector while only 28.5 percent in private sector. On the other hand, public sector prices were allowed to increase only by 26.6 percent yoy in March-October 1998 period to support the anti-inflationary policies. Private sector manufacturing prices increased by 54 percent annually as of October 1999.

II. Fiscal and Monetary Policies

All forecasts indicate the historical peak of fiscal imbalances for 1999.

The budget discipline in 1999 was not satisfactory. According to the figures released in 2000 Government Programme, the ratio of budget deficit to GNP will reach 11 percent in 1999 compared to 8 percent in 1998. TÜSİAD expects the ratio to surge even larger, by 12 percent.

- As of 9-month figures of 1999, the budget revenues remained as US$31.9 billion while budget expenditures soared to US$50.6 billion. The tax revenue item reflects the negative effects of economic recession and the new tax legislation imposed on July 1998. So the fall in tax revenues as of September reached US$800 million. The tax delays due to Marmara Earthquake and the second big earthquake in November indicate further decline of revenues for the rest of the year.

- The transfer payments excluding the interest payments soared to US$3.4 billion, consisting mainly of SSI and SSE's. Though the real interest rates were about 50 percent during the year, the new instruments with 3-year maturity and flexible interest rates kept the interest payments to enlarge further. The interest payments remained at US$21.6 billion as of September 1999, including the US$19.6 billion domestic payments.

- Consequently, budget deficit rose to US$18.8 billion during the first 9-months of 1999 compared to US$12.2 billion in the same period of 1998. Similarly, the primary surplus declines to US$2.3 billion from US$8.6 billion.

- The budget deficit was financed mainly by long-term borrowing in 1999. The government bonds with 3-year maturity and fixed interest rates were the main instrument in 1H99, while 3-year maturity and floating interest rates were the main instrument in the 2H99. During the first 9-months of 1999, the government bonds sold reached to US$35 billion and foreign borrowing to US$3 billion.

- The domestic debt stock ascended to US$44.2 billion as of September. 80 percent of the domestic debt stock consists of government bonds as a result of borrowing policies since the beginning of 1998. The rest includes Treasury Bills while the advances from Central Bank are still zero. However, one should observe the 3-year bonds with 3 months coupon payments before concluding on longer maturities.

The policies pursued by the Central Bank sustained stable growth of reserve money during the year.

The net foreign asset of the Central Bank tends to increase as of 1999, after considerably contracted by the capital outflows due to Russian Crisis in the 2H99. Correspondingly, the net domestic asset is inclined to diminish after soaring to eliminate the liquidity shortage by open market operations. The reserve money has been controlled by accommodative policies of Central Bank. Also the monetary policy pursued by the Central Bank has achieved to keep interest rates stable after the earthquake.

- The liquidity shortage arising from the uncertainties coupled with Marmara Earthquake is relieved by open market operations extensively. Dues from OMO increased to US$2.4 million in August from US$1.7 million in July. As the uncertainties has vanished as of September by the news on foreign aids, the net foreign assets increased to US$10.4 billion and the net domestic assets decreased to US$–3.3 billion, exceeding also the targeted level of US$–2.2 billion.

- As of October, the net domestic assets went down to US$–3.4 billion, reflecting the falls in FX deposits, net public position and the decreasing revaluation account. Also the rise in foreign liabilities and the slight reduction in net foreign assets let the reserve money to be curbed to US$6.8 billion in October compared to US$7.2 billion in September.

The deposits switched to TL rather than FX due to high real interest rates.

- The expansion in money supply in 1Q99 and 2Q99, driven by the slightly expansionary policies before the election and the religious holidays, was smoothed in 3Q99 and harmonised with the end-year target of inflation rate. The annual growth of M1, M2 and M2Y are 6.7 percent, 30.3 percent and 25.9 percent, respectively, as of October 1999.

- The high real interest rates during the year attracted the investments on TL. The TL time deposits expanded larger than the FX deposits despite a high rate of devaluation since the beginning of 1999. In October the annual change in TL time deposits 37.8 percent while that of FX deposits is only 20.7 percent, in real terms.

- The credit volume tended to shrink in line with the recession and high reel interest rates. The steps towards completing the list of structural reforms and a possible Stand-by Agreement signalled positive expectations on credits extended, yet the negative effect of earthquake dominated. Hence the domestic credits by deposit banks lessened by 2.9 percent in real terms as of October.

Depreciation in effective foreign exchange rate continued.

From the beginning of 1999, Central Bank, taking into consideration of decline in the total exports, let real exchange rates to devalue slightly, in order to get the continuity of FX revenues. As a consequence of this policy, as of October, the TL against a FX basket comprising 1 US$ and 1.5 DM depreciated by 59.5 percent, while wholesale prices increased by 55.2 percent.

- In 1999, US$ appreciated in terms of other currencies due to the buoyant economic activity in US. Accordingly, Central Bank allowed the TL to depreciate against US$, also considering the downward trend of inflation due to the fall in raw material prices. However, the demand for FX increased recently due to the decline in interest rates and tendency of the banking sector to close their open positions. This indicates that US$ rate will rest above the government target at the end of 1999.

• In 1998, ISE-100 index in US$ basis and trade volume declined by 50 percent on the average, as a result of the developments in international markets related to Russian crisis. Nevertheless, in 1999, political stability and possibility of a Stand-by Agreement caused ISE index improve. As of September, ISE index in US$ basis increased by 70 percent, while trade volume rose by 23 percent. On the other hand, ISE index and trade volume figures still have not catch the 1997 levels. The upward trend in ISE index has been continuing by the occasion of extended foreign credit facilities after the earthquake and the expectations on Stand-by Agreement.

III. Foreign Trade and Balance of Payments

In the second half of 1999, exports and imports continued to decrease parallel to contraction, despite improvements in the world economies.

International crude petroleum prices began to climb in 2H99 in line with recovery in emerging economies that were affected severely by the Asian crisis. Due to the increase in international crude petroleum prices, the decreasing trend in import prices slowed down. Beside, in the second quarter of 1999, the growth rate showed slight improvement and these two reasons helped the decline in import quantity to diminish. However, in the third quarter, recession in the economic activity combined with Marmara earthquake provoked decreasing trend in foreign trade.

• During the first 8-months of 1999, while exports declined by 7.2 percent compared to the previous year's corresponding period, imports fell by 20 percent. Hence the trade deficit declined by 37 percent and dropped to US$8.5 billion. In real terms, imports fell by 12.8 percent and exports decreased by 0.3 percent in the first 7-months, indicating the decline in prices as the main source of fall in trade volume.

• The improvement in the terms of trade continued as the fall in import prices exceeded that of export prices. Yet, the continuum of rapid increase in international petroleum prices indicates further increase in import prices and some deterioration in foreign trade deficit in the next periods.

• Increase in unit labour cost in US$ term and financing cost were two main reasons for reduction in exports. Import and export levels were negatively affected by the contraction in domestic demand and global recession. Also the recession in Europe, being the main trade partner of Turkey and employing strict fiscal and monetary policies, had a negative impact on Turkey's trade performance. Positive signals from Asian and Russian economies fostered optimist expectations in markets in 2H99. Unfortunately, the earthquake in August caused again sharp declines in import and export values.

• During the first 8-months of 1999, the upward trend in export of investment goods continued and increased by 25.9 percent, exports of raw material and consumer goods fell by 8.2 percent and 9.6 percent, respectively. In the same period, all sub items of import kept also decreasing. Considering sharp decline in imports of raw materials and investment goods, further contraction is still prevalent.

During the first 8-months of 1999, the decrease in foreign trade deficit combined with significant increase in portfolio investments enabled current account surplus and accumulation of international reserves.

During the first 8-months of 1999, despite the reduction in invisibles item, as a result of fast fall in total imports compared to total exports, foreign trade deficit improved and also current account balance gave surplus. International reserves gathered by US$5.2 billion as a consequence of improvement in current account balance and compensation of sharp decline in long-term capital inflows through significant rise in portfolio investments.

• During first 8-months of 1999, shuttle trade, which has a notable role in Balance of Payments, diminished by 57 percent compared to the same period of the previous year. However, from the beginning of 2H99, shuttle trade improved slightly due to the progress in the Russian economy. At the same period, foreign trade deficit included shuttle trade shrank by 33.9 percent and reach to US$6.6 billion.

• During the first 8-months of 1999, the current account balance, which gave a deficit of US$962 million at the same period of previous year, produced a surplus of US$36 million. Although government announced some specific measures concerning tourism sector, the number of tourists continued to decrease even in summer. Consequently, in the first 8-months of 1999, net tourism revenues reduced by 36.8 percent compared to the same period of the previous year. Furthermore, invisibles item, which has significant share in the current account balance, declined by 26.5 percent due to the increase of net interest payment by 44.7 percent.

• During the first 8-months of 1999, portfolio investments produced the most visible change in the capital account. While this item indicated US$2.3 billion capital outflows in the first 8-months of 1998 due to contagion effect of Russian crisis, it showed US$2.5 billion capital inflows at the same period of this year. At the same period, foreign direct investments item reduced by 25.3 percent. Reduction in the long-term credits provided and increase in the credits disbursement, induced other long-term capital flows item decreased by 107.4 percent and indicated US$224 million capital outflows. In the first eight-month of 1999, short-term capital flows reduced by 30.5 percent and released as the level of US$2 billion. Accordingly, net capital inflows rose by 14.2 percent in this period compared to the same period of the previous year and reached the level of US$5.1 billion.

• In July 1999, according to the set of urgent economic measures to accelerate the domestic demand announced by the government, Resource Utilization Support Fund (RUSF) ratio was reduced from 8 percent to 3 percent. Reduction in the RUSF ratio led to shift to short-term borrowing and the limited borrowing facilities in the international financial markets induced a significant decline in long-term capital flows. According to strong expectations for Stand-by Agreement signed with IMF and inflow of foreign aids due to earthquake disaster, prospects especially for stocks exchange market were revised positively and portfolio investments showed notable growth.

• By the end of June 1999, total external debt stock diminished by US$3.9 billion and reached to US$100.1 billion. In this period, appreciation of US$ in terms of other major currencies resulted in favourable exchange rate effects on external debt stock. Taking US$4.9 billion exchange rate differential into consideration, real increase in the external debt stock was US$989 million. Although there was an increase in short-term debt by 2.4 percent, long-term debt declined by 6 percent and ended up US$72.2 billion.

• TÜSİAD revised total exports figures from US$27 billion to US$25.7 billion, and total imports figures from US$43.1 billion US$39.6 billion. As reduction in the invisibles item is estimated to continue, current account balance is projected to remain close to balance with a small deficit.

IV. The prospects for 1999 and 2000

Global turmoil coupled with stability programs and earthquake effects at home caused a deep recession in 1999.

The slowdown in foreign economies at the beginning of 1999 and politically uncertain environment that prevailed before the elections negatively affected the economic activity in 1999. The effects of the Marmara Earthquake reversed the expectations for recovery in 2H99. TÜSİAD expects 1999 to end up with a budget deficit ratio to GNP of 12.2 percent, reel GNP growth of -3.4 percent and annual WPI change of 59.9 percent.

• The economic policies employed were not changed considerably except for some adjustments made to adopt economic cycles. Even after the earthquake, structural reforms continued to be on the agenda of the government. The accommodative policies of Central Bank, the expected foreign aids and the strong evidence of a Stand-by Agreement in late-1999 motivated the markets to stabilise in a short time.

• The fall in interest rates in the recent period with the stimulation of positive atmosphere in the markets is expected to continue and to push interest rates down to about 30 percent. Inflation rate, which slowed down mainly by low public pricing in 1998, is assumed to increase reflecting the deterioration in budget deficit, despite the stagnation.

A 2000 program practiced in line with Stand-by Agreement will not only stabilise domestic markets but also help Turkey integrate to the global economy, especially the EU.

• The macroeconomic targets of the government for 2000 are similar to the previous announcements. Considering the recession period in 1999 these targets seems to be highly challenging. Although given the fact that the government program is in line with IMF expectations surges the possibility of a Stand-by Agreement, still the commitments need to be achieved to sustain a stable growth path. Accordingly, TÜSİAD forecasts include the scenario in which the Stand-by Agreement is taken for granted.

• The government foresees extraordinary increases in budget revenues and expenditures for 2000. A change in these items is more apparent when compared to the 1998 figures, considering the divergence of 1999 which is a recession year. The ratio of budget revenues to GNP is targeted to increase to 26.1 percent in 2000 from 22,4 percent in 1998. Similarly, the ratio of budget expenditures to GNP is targeted to increase to 37.6 percent from 29.4 percent for the same years. Privatization, the extra taxation and the temporary new legislation for military service are assumed to be the main sources for revenue expansion. Consequently, the budget deficit to GNP ratio is expected to rise 5.4 percent in 2000.

• TÜSİAD, on the other hand, does not expect the budget revenues and expenditures to reach the targeted level, parallel to its forecast of GNP growth (4.1 percent versus 5.5 percent of government target). The low possibility of creating a high income through taxation and privatization and the relatively tight fiscal policies expected to be implemented by the Stand-by Agreement support TÜSİAD's views on budget performance. Hence the ratio of budget balance to GNP might decline to 9.6 percent in 2000 with the effects of the stabilisation efforts.

• The monetary policy in 2000 is expected to be more expansionary compared to the typical IMF policies in order to finance the economic activity, accelerated by reconstruction. Furthermore, the exchange rate will be used as the nominal anchor. The achievement of government targets is conditioned to the huge foreign capital inflows and the alleviation of the upward pressure of domestic debt stock on interest rates.

• TÜSİAD expects changes in WPI and US$ exchange rate to realise as 48.3 percent and 44.6 percent, respectively, which are higher than official targets. The main motivations behind the higher inflation forecast of TÜSİAD are the expectations of recovery coupled with the expectations of accelerated devaluation due to the deterioration in foreign balances. Real interest rates, on the other hand, is expected to fall to about 20 percent by the effects of capital inflows and stabilisation efforts in 2000.

• The negative effects of the earthquake on foreign trade and tourism revenues are expected to continue in 2000. However, exports will definitely improve by the recovery of demand in the EU countries, the main trade partner of Turkey, and will soar to US$28.8 billion in 2000. Also imports are calculated to increase to US$48.1 billion by the boosted economy, coupled with a possible jump in import prices. The invisible items in current account such as workers remittances, donations and reassurance compensations will help to compensate the trade deficit. As a result, the current account balance will not further deteriorate.

• TÜSİAD scenario based on Stand-by Agreement indicates improvement in budget discipline and fall in inflation and interest rate. Besides, it is worth to note that the targets announced before the earthquake are hard to achieve under the current circumstances. Abolishing the agreement or failure in employing the policies will possibly induce economic instability, which could bring a further deterioration of the budget and the reversal of downward pressures in inflation.

TABLE 1.1 MAIN ECONOMIC INDICATORS (1998-1999)
PRODUCTION AND PRICES

	1998			1999									
	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.
INDUSTRIAL PRODUCTION INDEX (SIS, 1997=100)													
Annual % Increase	-2.2	-2.5	-9.6	-9.8	-7.2	-12.2	3.5	-4.1	0.9	-3.8	-12.7	-9.7	..
Monthly % Increase	2.0	-4.8	-5.8	-17.6	6.2	6.5	0.4	8.5	1.2	-3.9	-10.5	11.6	..
Monthly % Increase (seasonally adjusted)	-1.9	-1.8	-3.2	-10.8	14.8	-6.6	11.5	-3.3	2.6	-4.0	-7.6	2.8	..
CAPACITY UTILISATION RATE (SIS, %)	80	79.2	74.4	71.5	71.2	74.1	77.9	78.1	76.4	75.9	70.7	68.4	..
WHOLESALE PRICE INDEX (SIS, 1994=100)													
Annual % Increase	62.0	58.6	54.3	50.0	48.3	48.2	50.0	50.0	50.3	52.5	53.7	54.4	55.2
Monthly % Increase	4.1	3.4	2.5	3.5	3.4	4.0	5.3	3.2	1.8	4.0	3.2	5.9	4.7
Monthly % Increase (seasonally adjusted)	3.4	3.8	2.4	2.3	2.8	3.3	4.3	3.8	4.1	5.1	4.3	4.7	3.8
CONSUMER PRICE INDEX (SIS, 1994=100)													
Annual % Increase	76.6	72.8	69.7	65.9	63.9	63.5	63.9	63.0	64.3	65.0	65.4	64.3	64.7
Monthly % Increase	6.1	4.3	3.3	4.8	3.2	4.1	4.9	2.9	3.3	3.8	4.2	6.0	6.3
Monthly % Increase (seasonally adjusted)	4.0	4.2	3.9	3.5	3.5	4.1	4.2	4.1	5.0	5.4	4.5	4.3	4.2
EXCHANGE RATE (CB buying rate)													
TL/USD (monthly average)	278,068	294,363	306,664	321,567	341,340	359,961	379,448	394,904	412,175	425,865	434,780	453,017	466,509
Annual % Increase	56.5	57.3	53.7	52.1	52.8	52.9	54.5	56.9	58.2	59.0	59.0	64.9	67.8
Monthly % Increase	1.2	5.9	4.2	4.9	6.1	5.5	5.4	4.1	4.4	3.3	2.1	4.2	3.0
TERMS OF TRADE (SIS, 1994=100)													
External (Export/Import)	1.026	1.047	1.053	1.077	1.086	1.080	1.053	1.035	1.031	1.032	..	..	..
Internal (Agriculture/Manufacturing)	1.464	1.486	1.495	1.517	1.530	1.539	1.555	1.482	1.356	1.237	1.191	1.198	1.214
DOMESTIC BORROWING (weighted by sales volume)													
Compounded Annual Interest Rate (%)	140.8	144.9	145.1	130.1	124.1	103.7	100.8	98.5	110.5	99.0	113.5	111.4	108.4
Average Maturity (days)	254	226	280	367	354	372	344	368	361	399	669	624	596
WAGE INDEXES (SIS, quarterly, 1997=100, Manufacturing Industry)													
Real Wage per hour (annual % increase)			1.5			12.1			8.6			..	
Real Income (annual % increase)			0.4			11.2			8.2			..	

(..) Not available

TABLE 1.2 MAIN ECONOMIC INDICATORS (1998-1999)
FOREIGN TRADE

	1998			1999									
	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Agu.	Sep.	Oct.
FOREIGN TRADE (annual % increase)													
Value (Current $ prices)													
Imports	-16.8	-19.0	-22.2	-29.1	-27.9	-31.2	-8.4	-18.9	-15.4	-13.7	-15.8	..	..
Exports	4.4	-10.7	-10.9	-15.0	4.7	-4.6	-0.7	-9.8	-10.2	-1.7	-18.1	..	..
Price Index (1994=100)													
Imports	-3.0	-7.9	-6.2	-6.8	-9.9	-11.4	-10.5	-7.4	-10.1	-5.5	..	..	..
Exports	1.7	-3.1	-3.5	-1.1	-1.6	-4.1	-6.5	-7.4	-8.4	-7.1	..	..	..
Quantity Index (1994=100)													
Imports	-15.0	-16.2	-16.3	-23.7	-17.7	-16.8	8.9	-6.1	3.0	-2.7	..	..	..
Exports	4.2	-7.8	-3.2	-13.5	4.1	-0.4	3.1	-1.3	5.7	3.5	..	..	..
FOREIGN TRADE BALANCE ($ million)													
Monthly													
Imports	3,638	3,525	3,843	2,203	2,793	3,004	3,328	3,384	3,525	3,616	3,141	..	..
Exports	2,495	2,253	2,147	1,864	2,160	2,364	1,904	2,181	2,030	2,172	1,833	..	..
Foreign Trade Balance	-1,142	-1,273	-1,697	-339	-633	-640	-1,424	-1,204	-1,495	-1,444	-1,308	..	..
Cumulative For The Last 12 Months													
Imports	47,834	47,006	45,908	45,006	43,924	42,564	42,258	41,468	40,825	40,249	39,660	..	..
Exports	27,414	27,144	26,881	26,552	26,648	26,534	26,521	26,284	26,052	26,015	25,610	..	..
Foreign Trade Balance	-20,419	-19,862	-19,027	-18,454	-17,275	-16,029	-15,737	-15,184	-14,773	-14,234	-14,049	..	..
BALANCE OF PAYMENTS ($ million)													
Monthly													
Current Account Balance	1,076	557	94	800	134	303	-765	-124	-499	-188	..	..	..
Foreign Trade Balance*	-873	-902	-1,419	-191	-396	-378	-1,155	-943	-1247	-1272	..	..	..
Invisibles	1,949	1,459	1,513	991	530	681	390	819	748	1,084	..	..	..
Cumulative For The Last 12 Months													
Current Account Balance	-142	967	1,871	2,324	3,344	4,177	3,820	3,706	3,016	3,282	..	..	..
Foreign Trade Balance*	-14,964	-14,796	-14,332	-14,065	-13,096	-12,191	-12,095	-11,743	-11,516	-11,098	..	..	..
Invisibles	14,822	15,763	16,203	16,389	16,440	16,368	15,915	15,449	14,532	14,380	..	..	..
Capital Account and Reserve Movements													
Net Foreign Direct Investment	630	607	573	526	542	582	657	736	618	533	..	..	..
Portfolio Investment	-7,165	-6,339	-6,386	-6,274	-6,678	-6,000	-6,003	-6,214	-5,652	-5,105	..	..	..
Net Long-Term Capital	4,600	4,320	3,985	4,099	3,813	3,259	1,772	826	407	198	..	..	..
Net Short-Term Capital	1,609	1,998	2,601	2,016	1,864	1,034	1,832	1,121	633	2,071	..	..	..
Net Errors and Omissions	13	-1,635	-2,197	-2,673	-2,222	-2,900	-4,191	-3,125	-2,940	-2,504	..	..	..
Reserve Changes**	455	82	-447	-18	-663	-152	2,113	2,950	3,918	1,525	..	..	..
THE CENTRAL BANK RESERVES ($ billion)	21.0	19.7	19.8	20.3	20.1	21.4	21.7	21.8	22.2	23.3	23.1	23.6	24.0
FOREIGN DEBT STOCK ($ billion)			102.0			101.6			100.1			..	

(*) Exports(FOB)-Imports(FOB), including shuttle trade
(**) Positive sign indicates decrease in reserves
(..) Not available

TABLE 1.3 MAIN ECONOMIC INDICATORS (1998-1999)
BUDGET BALANCE

	1998			1999									
	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.
CUMULATIVE FOR THE LAST 12 MONTHS (TL trillion)													
Revenues	10,916	11,498	11,888	12,310	12,518	12,841	13,232	13,907	14,389	14,853	15,691	16,243	..
Tax Revenues	8,482	8,924	9,233	9,493	9,638	9,799	10,232	10,818	11,223	11,458	12,142	12,643	..
Non-Tax Revenues	2,272	2,395	2,475	2,623	2,668	2,802	2,757	2,833	2,891	3,115	3,267	3,296	..
Expenditures	15,513	16,179	15,585	16,593	17,321	18,030	19,122	20,147	21,155	22,627	23,469	24,103	..
Current	4,567	4,808	5,179	5,444	5,675	5,949	6,195	6,457	6,773	7,144	7,426	7,787	..
Investment	887	967	998	1,000	1,030	1,040	1,079	1,128	1,162	1,205	1,250	1,324	..
Transfers	10,060	10,403	9,408	10,148	10,615	11,041	11,848	12,562	13,220	14,278	14,793	14,992	..
Primary Balance*	1,735	1,835	2,479	2,310	2,032	1,856	1,489	1,562	1,514	1,310	1,499	1,325	..
Budget Balance	-4,597	-4,681	-3,698	-4,282	-4,803	-5,189	-5,890	-6,240	-6,766	-7,775	-7,778	-7,860	..
Financing	3,971	4,030	3,809	4,290	4,833	5,236	5,899	6,284	6,899	7,782	7,925	8.041	..
Foreign Borrowing (net)	-933	-919	-1,036	-1,053	-1,115	-931	-894	-912	-1,129	-1,122	-934	-1,003	..
Domestic Borrowing (net)	1,350	1,267	1,297	2,515	3,811	5,153	6,540	7,029	7,283	8,031	8,541	10,012	..
Short-term Borrowing (net)	2,611	2,931	3,293	2,482	1,716	718	76	153	458	723	294	-518	..
Other	943	752	255	346	421	296	176	14	287	150	23	-450	..
CUMULATIVE FOR THE LAST 12 MONTHS ($ billion)													
Revenues	44.8	45.6	45.2	45.6	45.0	44.9	44.5	44.7	44.6	44.1	44.7	44.3	..
Tax Revenues	34.8	35.3	35.2	35.2	34.7	34.3	34.6	34.7	34.7	33.9	34.4	34.3	..
Non-Tax Revenues	9.4	9.6	9.4	9.6	9.6	9.8	9.2	9.2	9.1	9.3	9.4	9.1	..
Expenditures	65.0	66.1	59.6	61.2	61.8	62.2	63.1	63.9	64.5	66.0	66.0	65.2	..
Current	18.9	19.2	19.6	19.8	20.1	20.4	20.6	20.7	20.9	21.2	21.2	21.4	..
Investment	3.7	3.9	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.7	..
Transfers	42.4	42.9	36.4	37.8	38.0	38.1	38.8	39.5	39.9	41.1	41.1	40.2	..
Primary Balance*	6.2	6.2	9.7	9.1	7.8	7.1	5.7	5.3	4.9	4.1	4.3	3.5	..
Budget Balance	-20.2	-20.5	-14.3	-15.6	-16.8	-17.3	-18.6	-19.3	-20.0	-21.9	-21.3	-20.9	..
Financing	16.9	17.1	14.9	15.8	16.9	17.4	18.5	19.3	20.3	21.9	21.7	21.4	..
Foreign Borrowing (net)	-3.6	-3.4	-3.8	-3.7	-4.0	-3.4	-3.4	-3.4	-3.8	-3.5	-2.8	-2.7	..
Domestic Borrowing (net)	5.1	4.7	4.7	8.5	12.6	16.3	20.2	21.0	20.9	22.0	22.8	26.1	..
Short-term Borrowing (net)	11.2	12.1	12.9	9.8	6.8	3.2	0.8	1.4	2.3	2.9	1.7	-0.7	..
Other	4.1	3.7	1.1	1.2	1.6	1.2	1.0	0.3	0.9	0.5	0.0	-1.2	..
DOMESTIC DEBT STOCK													
TL 1000 trillion	10.2	10.7	11.6	12.5	13.1	14.2	15.4	16.0	17.0	18.6	19.2	20.0	..
$ Billion	36.7	36.3	37.9	39.0	38.5	39.6	40.5	40.5	41.2	43.6	44.2	44.2	..
Domestic Debt / M2Y	57.6	58.0	59.8	60.2	61.0	61.8	62.7	63.9	64.4	64.2	63.2	62.2	..

* *Revenues- Non-interest expenditure*

(..) *Not available*

TABLE 1.4 MAIN ECONOMIC INDICATORS (1998-1999)
MONETARY AGGREGATES

	1998 Oct.	Nov.	Dec.	1999 Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.
MONEY SUPPLY (annual % change)													
Currency in Circulation	80.5	79.4	72.4	32.3	69.7	121.8	67.3	60.3	55.9	42.9	55.0	55.2	61.9
Sight Deposits	76.8	75.0	59.9	85.1	52.9	110.1	133.3	73.4	75.5	59.2	71.2	56.4	69.0
M1	78.5	77.1	65.7	58.8	60.2	116.1	100.0	67.4	65.8	52.1	63.3	55.8	65.7
Time Deposits	103.4	117.1	120.6	120.5	132.5	123.2	117.5	107.5	99.4	105.1	117.1	119.1	113.9
M2	96.7	107.0	106.2	103.2	112.9	121.4	113.1	97.9	91.8	91.6	103.6	103.5	102.2
Foreign Exchange Deposits (TL)	93.9	81.7	76.2	67.4	62.3	64.5	75.3	71.2	72.5	76.3	76.6	78.0	87.3
M2Y	95.4	94.9	91.8	86.4	87.9	93.0	94.6	85.3	82.9	84.8	91.1	91.7	95.5
Official Deposits	38.0	10.0	17.9	27.0	60.6	56.0	53.3	116.4	79.1	3.9	75.9	28.6	50.3
Other Deposits with CBRT	-34.9	-30.2	48.8	-42.2	-37.6	-65.7	40.7	46.8	-44.1	27.0	0.9	42.0	93.0
M3Y	88.9	85.3	87.0	81.5	84.6	87.3	92.5	85.5	80.8	81.1	88.6	89.0	94.4
M2Y (TL trillion)	17,738	18,418	19,426	20,799	21,546	23,042	24,520	25,037	26,357	28,920	30,372	32,214	34,674
Composition of M2Y (%)													
Currency in Circulation	6.2	5.8	5.7	5.3	5.4	7.3	5.5	5.1	5.2	4.7	5.4	5.3	5.1
Sight Deposits	7.1	6.1	6.1	7.4	6.3	6.6	7.6	6.4	6.0	6.9	6.3	5.5	6.1
Time Deposits	41.5	43.3	44.1	45.1	45.6	43.7	42.9	44.8	45.5	45.9	45.8	46.2	45.4
Foreign Exchange Deposits	45.3	44.8	44.1	42.2	42.7	42.5	44.1	43.7	43.4	42.6	42.6	43.1	43.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CREDIT STOCK (domestic, annual % change)	59.3	58.4	55.8	43.0	38.7	47.0	44.4	40.1	41.9	31.9	32.7	32.8	52.3
Central Bank Direct Credits	-99.7	-99.7	-99.7	-99.5	-99.5	46.3	18.1	100.0	16556.6	100.1	100.2	104.9	105.0
Deposit Bank Credits	68.1	66.1	62.7	46.3	43.0	45.2	42.5	38.4	38.7	29.9	30.7	30.5	50.7
Invest. and Develop.Bank Credits	68.5	78.9	81.1	112.2	71.8	80.7	79.0	71.1	74.8	75.1	74.7	82.0	81.2
CB BALANCE SHEET SELECTED ITEMS ($ million)													
Net Domestic Assets	1,439	1,535	1,520	1,061	524	321	-1,732	-2,255	-2,848	-2,751	-2,797	-3,306	-3,392
Net Foreign Assets	5,648	4,924	4,929	5,647	5,981	7,434	8,144	8,376	9,088	9,649	9,792	10,424	10,182
Net Position of Public Sector	518	42	-1,030	1,051	2	-122	-1,021	-1,118	-513	-950	-1,577	-1,226	-1,637
Liabilities Due to Open Market Operations	3,864	4,677	5,886	3,758	3,338	3,509	2,317	2,017	1,008	1,656	2,435	1,775	2,314
CB RESERVES/(DOMESTIC DEBT STOCK+M2Y, %)	20.9	19.9	19.6	19.6	19.8	20.7	20.7	21.0	21.1	20.9	20.3	20.5	19.9

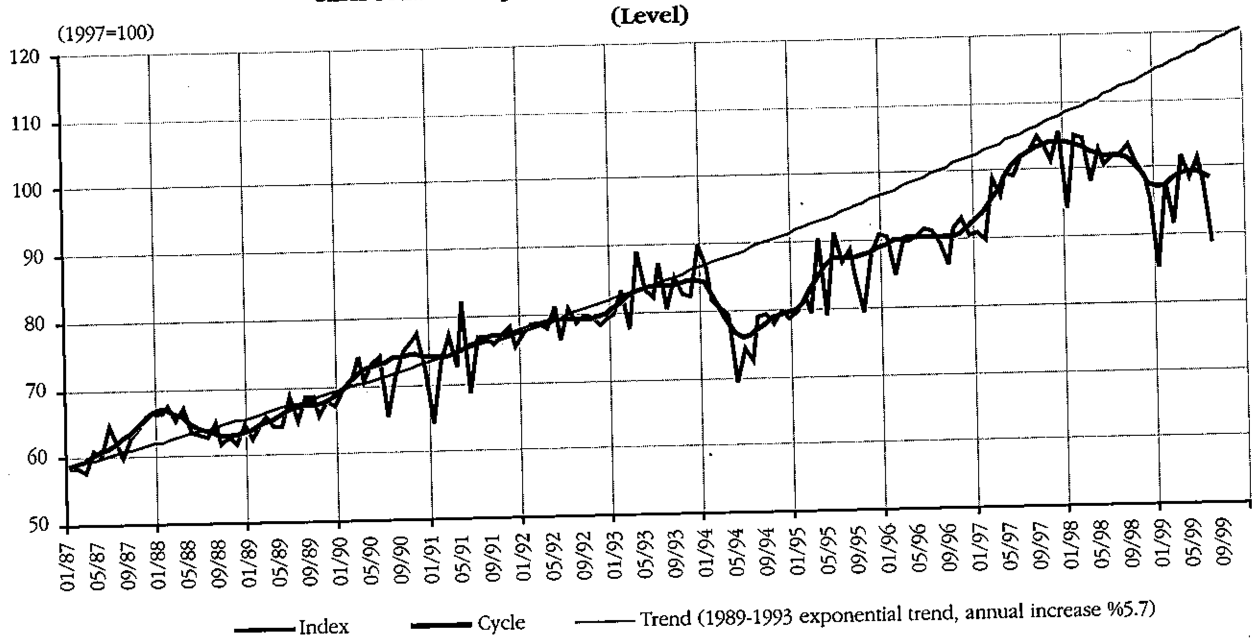
Net Foreign Assets = Foreign Assets - (Liabilities to Non-Residents + FX Deposits of Banking Sector)
Net Domestic Assets = Net Position of Public Sector + Credits to Banking Sector + Net Open Market Operations + Others + FX Revaluation Account
Net Position of Public Sector = Credits to Public Sector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

TABLE 2 GROSS DOMESTIC PRODUCT

(TL, At 1987 Prices)	Growth Rate (%)			% Share			Annual Growth Rate (%)											
	1996	1997	1998	1996	1997	1998	1996-3	1996-4	1997-1	1997-2	1997-3	1997-4	1998-1	1998-2	1998-3	1998-4	1999-1	1999-2
Private Final Consumption Expenditure	8.5	8.4	0.1	68.2	68.8	66.8	6.2	8.1	8.2	9.8	8.9	6.6	7.8	-0.9	0.6	-6.5	-6.7	-0.1
Food-Beverages	2.4	0.8	0.1	25.5	23.9	23.2	2.7	-4.3	0.0	4.1	-0.2	-0.1	2.5	-4.3	3.5	-2.6	-4.2	3.6
Durable Goods	35.6	33.6	-0.3	8.9	11.1	10.7	30.0	32.3	26.6	33.3	41.9	31.6	19.8	-1.7	-1.8	-12.7	-10.6	-3.0
Semi-Durable&Non-Durable Goods	11.4	8.7	-4.6	11.4	11.5	10.6	5.9	18.2	18.5	4.0	12.1	1.8	8.0	1.6	-4.8	-21.8	-11.7	5.7
Energy-Transportation-Communication	5.3	3.5	5.3	9.9	9.6	9.8	2.2	4.8	3.3	5.4	1.2	4.0	9.4	2.6	6.2	3.9	-2.5	-1.5
Services	9.4	15.1	-0.7	6.9	7.4	7.1	7.7	17.8	9.0	23.0	18.5	7.9	9.6	0.8	-5.2	-2.9	-12.7	-15.5
Ownership of Dwelling	2.4	2.3	2.3	5.6	5.3	5.3	2.5	2.4	2.3	2.3	2.3	2.2	2.4	2.4	2.2	2.1	2.0	2.0
Government Final Consumption Expenditure	8.6	4.1	5.0	7.7	7.4	7.6	15.6	8.4	-3.9	0.6	5.9	9.9	8.7	10.8	-5.7	7.6	5.0	1.9
Compensation of Employees	-0.3	0.1	0.6	4.3	4.0	3.9	-0.3	-0.4	0.0	-0.2	0.2	0.4	0.7	0.5	0.7	0.6	0.4	0.3
Purchases of Goods&Services	22.2	9.2	10.0	3.4	3.5	3.7	41.9	16.1	-14.5	1.9	12.5	16.9	34.0	26.5	-12.2	12.2	16.1	3.9
Gross Fixed Capital Formation	14.1	14.8	-2.4	29.2	31.1	29.5	20.2	1.2	8.4	15.0	12.9	21.6	9.6	-0.8	-2.9	-11.4	-18.1	-14.3
Public Sector	24.4	28.4	15.1	5.1	6.1	6.9	28.2	29.8	39.0	20.3	29.0	30.6	32.4	-0.1	4.0	28.0	1.4	22.0
Machinery&Equipment	12.0	36.2	23.2	1.4	1.7	2.1	0.5	19.1	78.7	-8.4	88.8	28.1	19.8	0.3	0.5	53.0	6.2	108.5
Building Construction	30.2	22.8	25.0	1.2	1.3	1.6	38.1	26.8	-22.4	46.5	12.3	30.2	96.5	-3.3	37.3	23.0	-7.3	3.2
Other Construction	29.3	26.8	6.3	2.6	3.1	3.2	38.5	39.0	56.2	26.8	13.3	32.4	20.4	1.3	-7.0	15.7	3.1	-7.4
Private Sector	12.1	11.9	-6.7	24.0	25.0	22.6	18.5	-6.0	5.9	13.9	9.4	18.5	7.1	-1.0	-4.6	-26.5	-20.7	-22.0
Machinery&Equipment	25.2	21.2	-9.5	13.7	15.4	13.6	44.7	-5.9	11.3	24.4	19.0	28.3	12.7	0.4	-6.7	-37.2	-31.1	-33.9
Nonresidental Buildings	2.7	4.0	4.3	1.9	1.8	1.8	2.7	2.7	4.0	4.0	4.0	4.0	8.5	3.2	5.9	-1.2	1.1	1.8
Residental Buildings	-2.6	-1.3	-3.8	8.4	7.7	7.2	-1.1	-7.9	-2.6	-0.8	-1.9	0.3	-3.8	-4.6	-4.0	-2.5	-3.3	-2.5
Change in Stocks	-	-	-	-0.4	-1.3	-0.1	-	-	-	-	-	-	-	-	-	-	-	-
Exports of Goods&Services	22.0	19.1	10.5	25.3	28.0	30.0	26.8	23.4	10.3	27.8	23.9	14.1	22.4	13.5	4.6	5.1	-8.1	-10.0
Imports of Goods&Services	20.5	22.4	2.2	29.9	34.0	33.8	23.4	1.2	14.5	22.2	23.7	28.7	15.2	8.2	-1.7	-9.9	-18.6	-5.2
Gross Domestic Product (Expenditure based)	7.4	7.6	2.9	100.0	100.0	100.0	5.6	8.2	6.8	8.4	8.3	6.6	8.8	3.1	2.5	-1.4	-8.4	-2.2
Gross Domestic Product (Production based)	7.0	7.5	2.8	-	-	-	5.3	7.0	6.9	8.5	7.0	7.8	8.7	3.0	2.4	-1.4	-8.5	-2.0

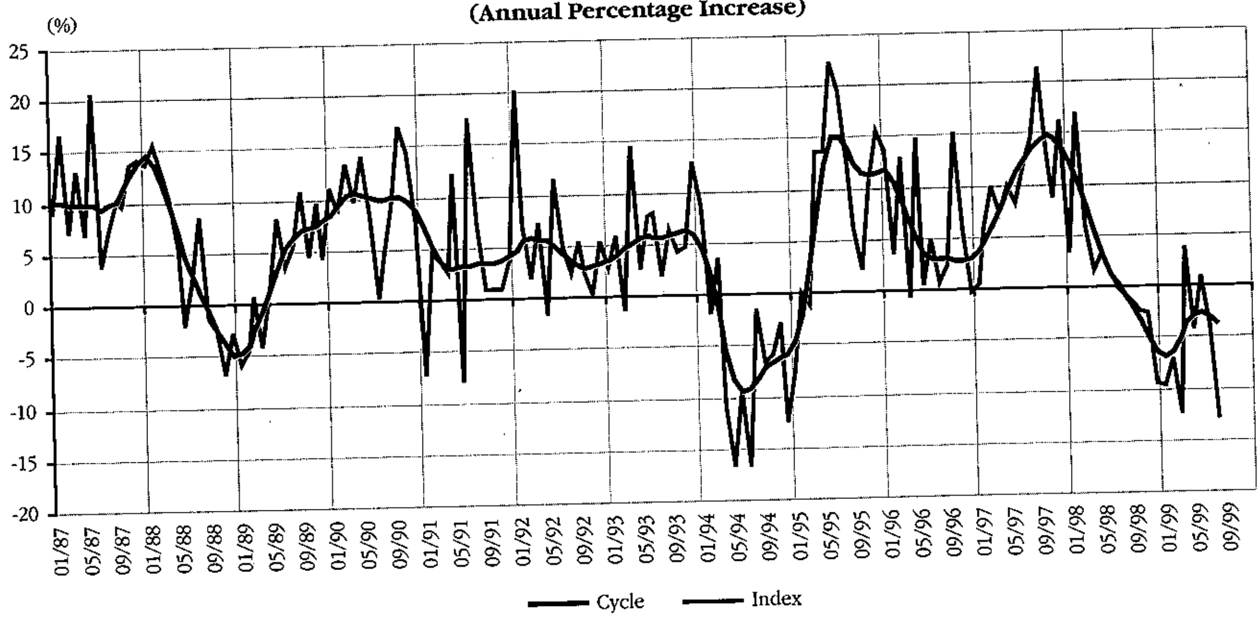
GRAPH 1

SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX
(Level)



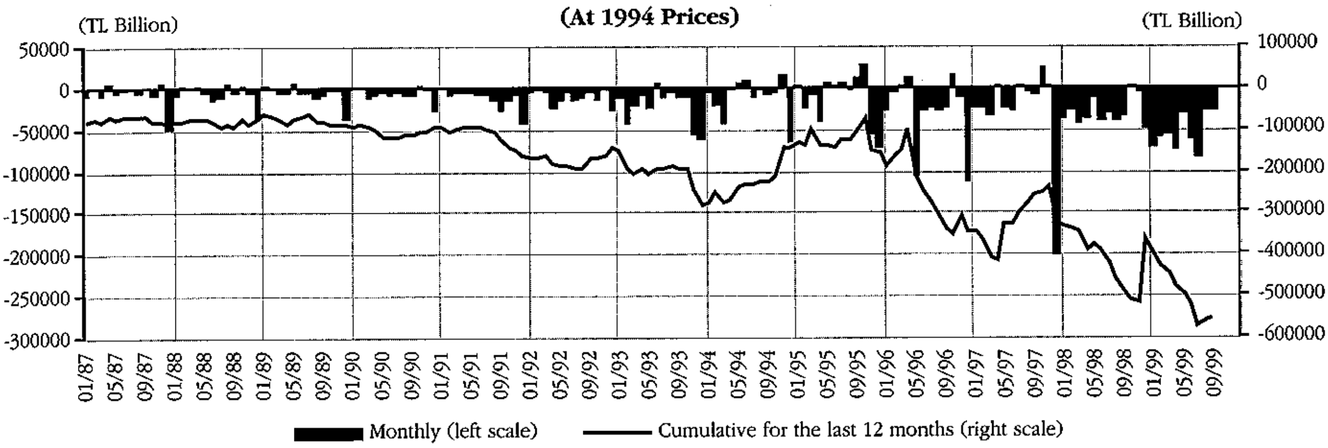
GRAPH 2

SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX
(Annual Percentage Increase)



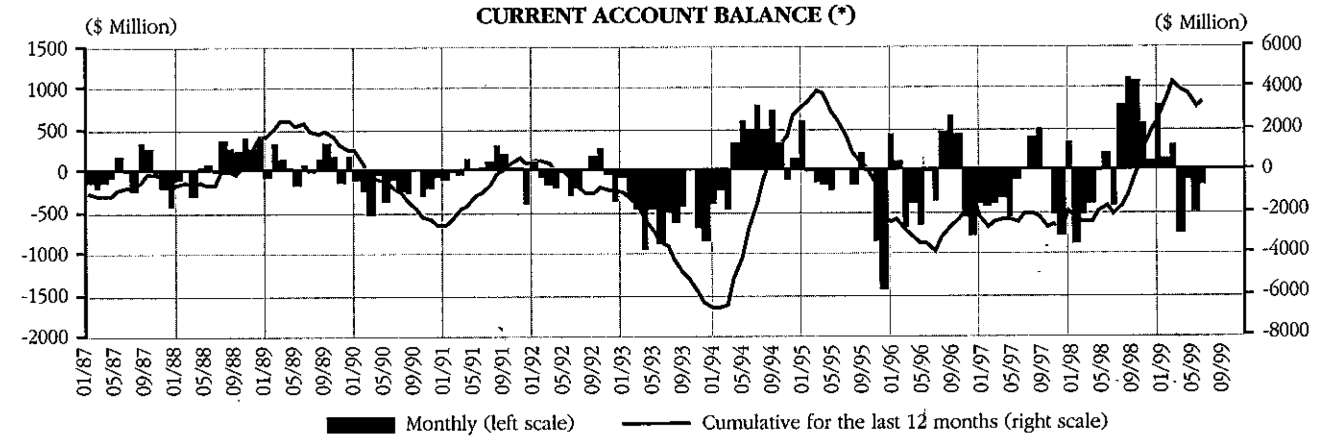
GRAPH 3

BUDGET DEFICIT
(At 1994 Prices)



GRAPH 4

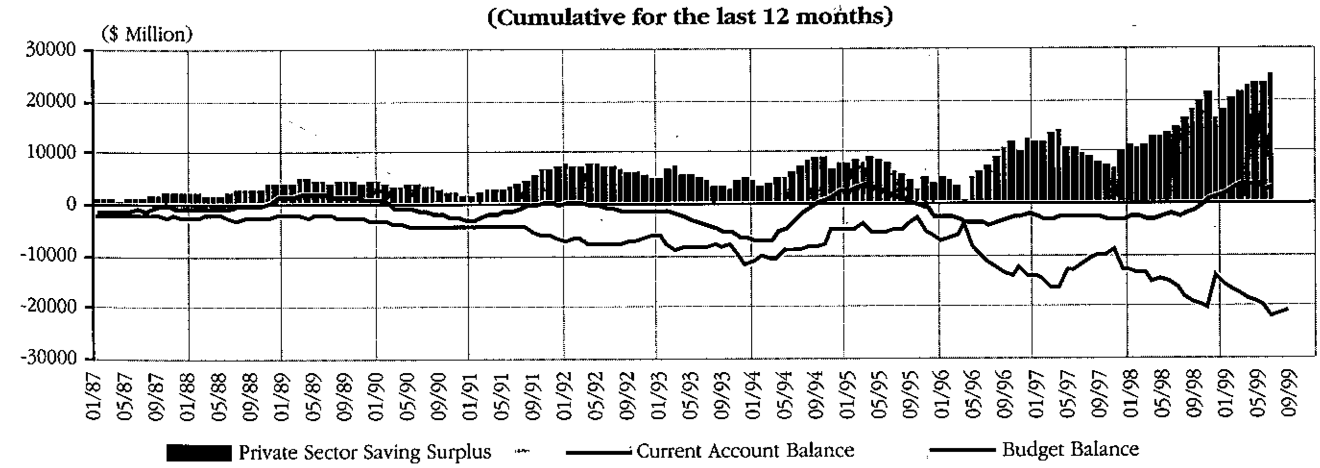
CURRENT ACCOUNT BALANCE (*)



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

GRAPH 5

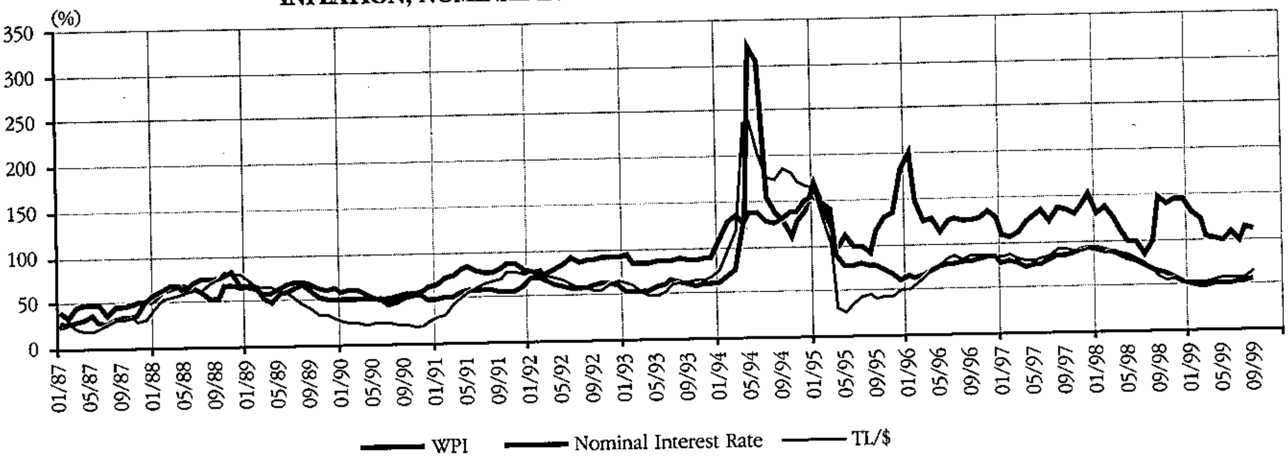
SAVING-INVESTMENT BALANCE (*)
(Cumulative for the last 12 months)



(*) 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.

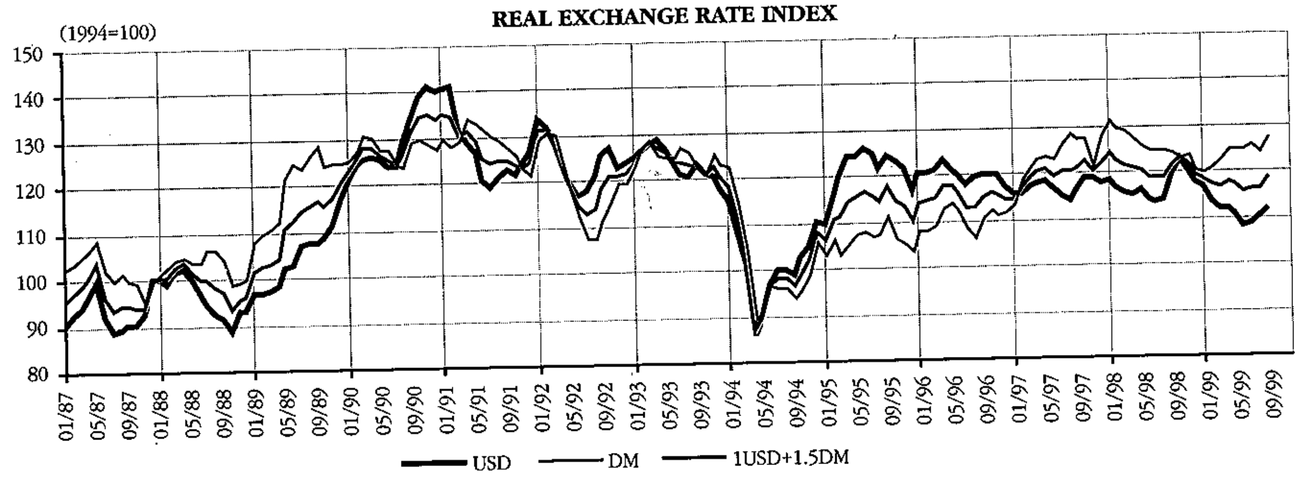
GRAPH 6

INFLATION, NOMINAL INTEREST RATE AND US$ EXCHANGE RATE



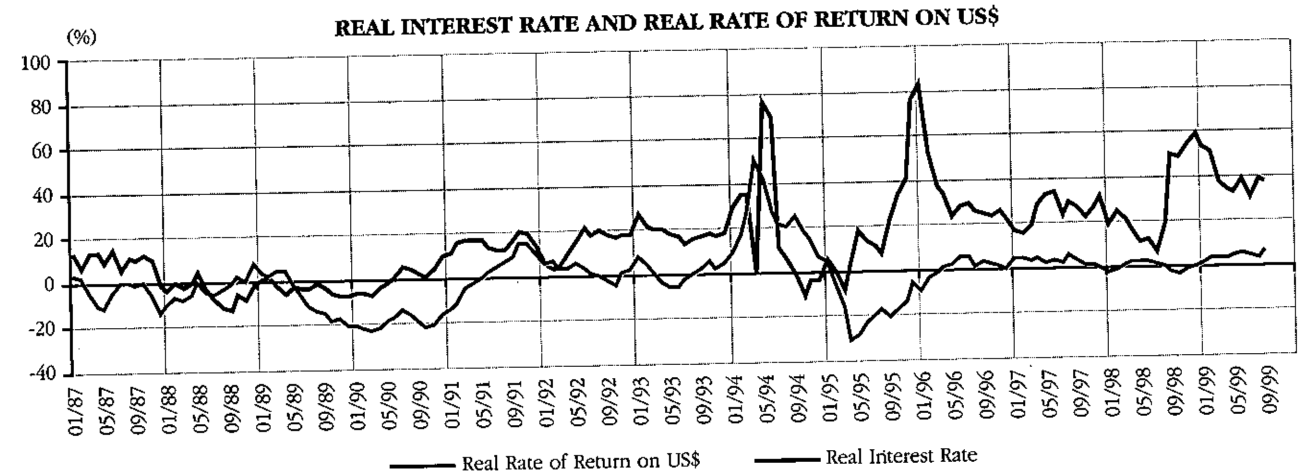
GRAPH 7

REAL EXCHANGE RATE INDEX



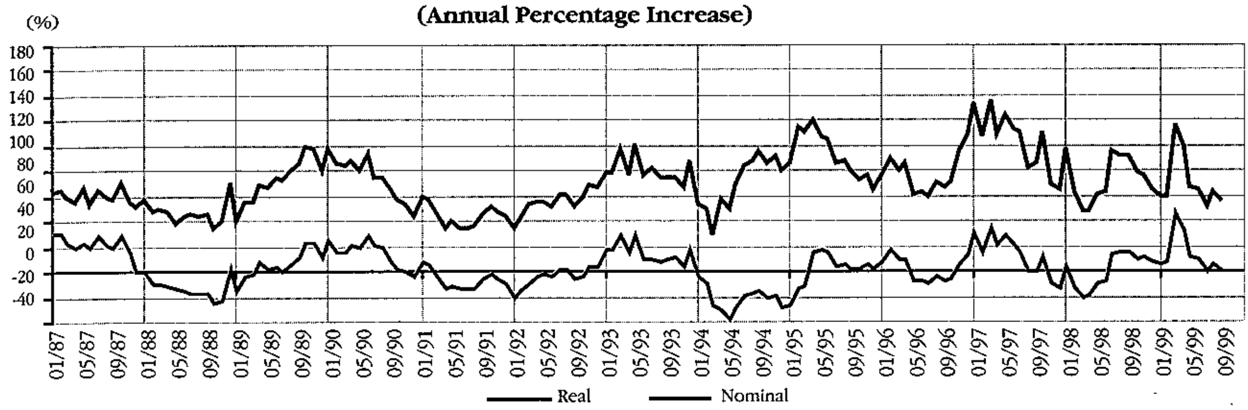
GRAPH 8

REAL INTEREST RATE AND REAL RATE OF RETURN ON US$



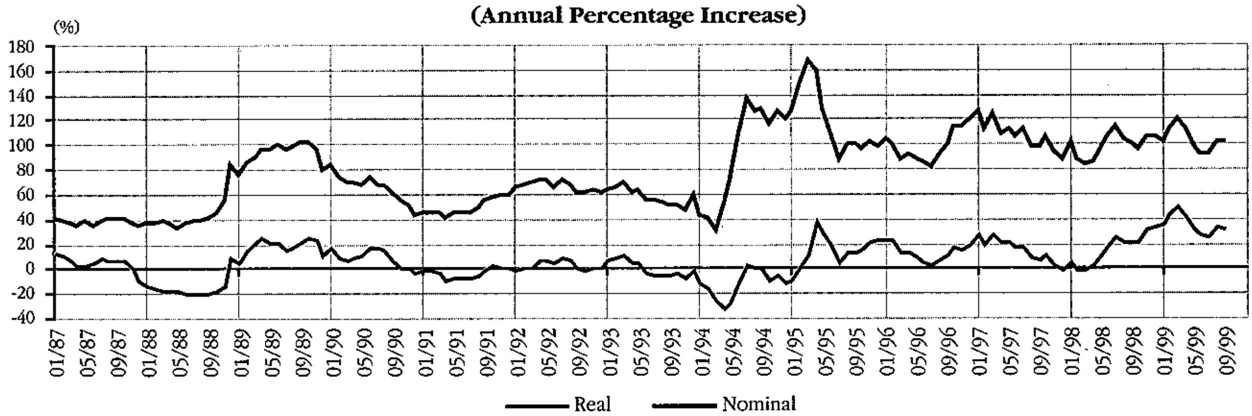
GRAPH 9

M1
(Annual Percentage Increase)



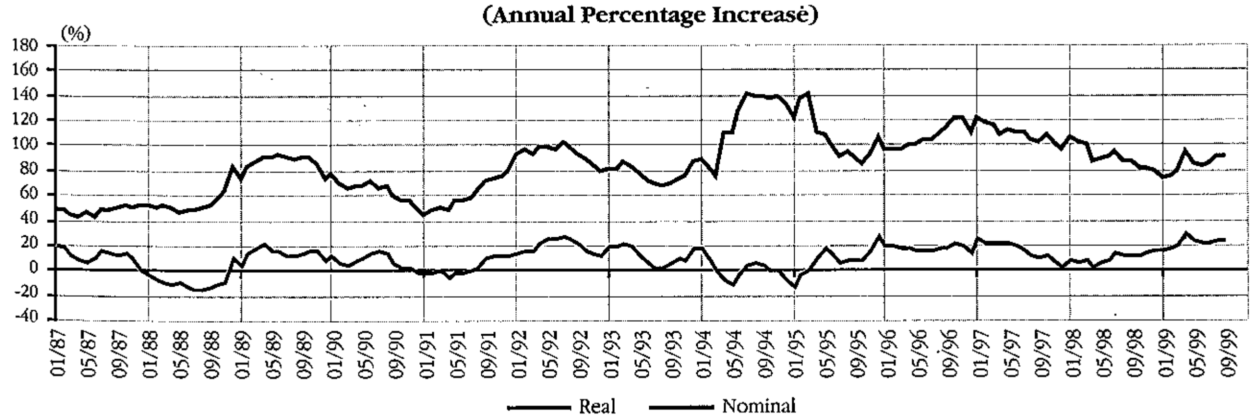
GRAPH 10

M2
(Annual Percentage Increase)



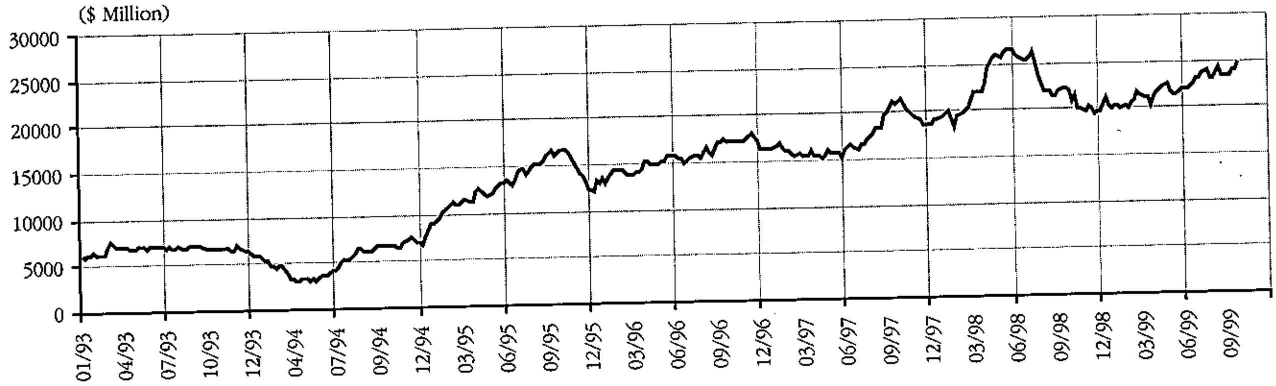
GRAPH 11

M2Y
(Annual Percentage Increase)



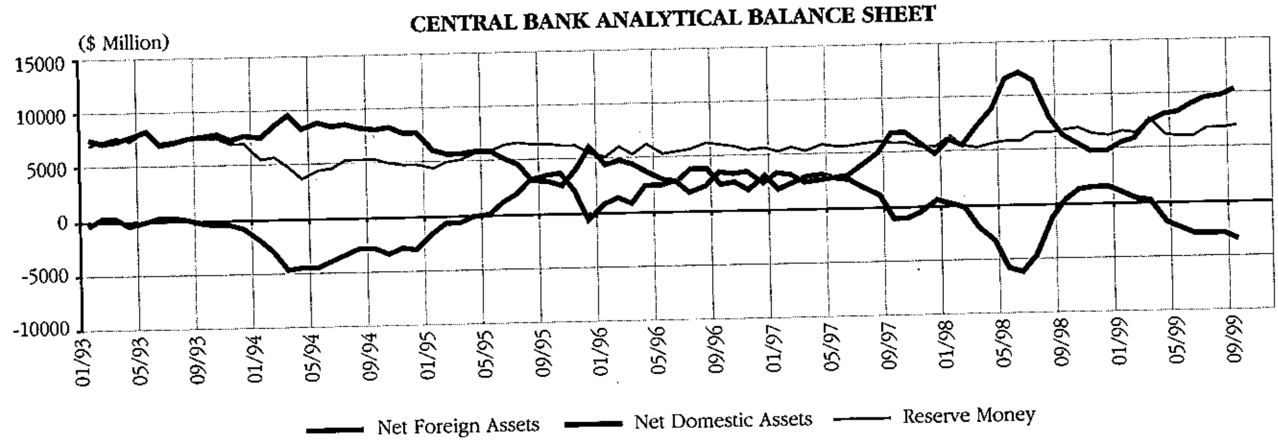
GRAPH 12

CENTRAL BANK FOREIGN EXCHANGE RESERVES



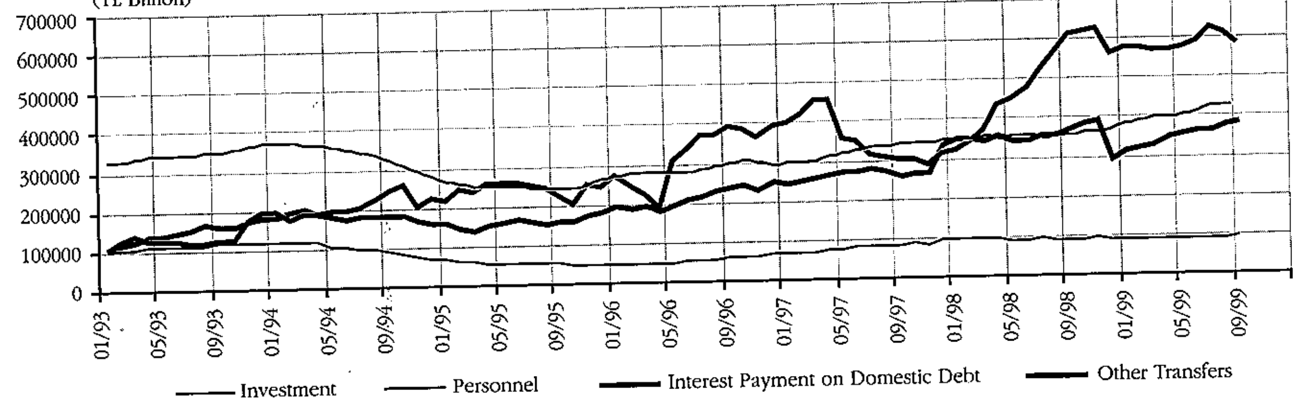
GRAPH 13

CENTRAL BANK ANALYTICAL BALANCE SHEET



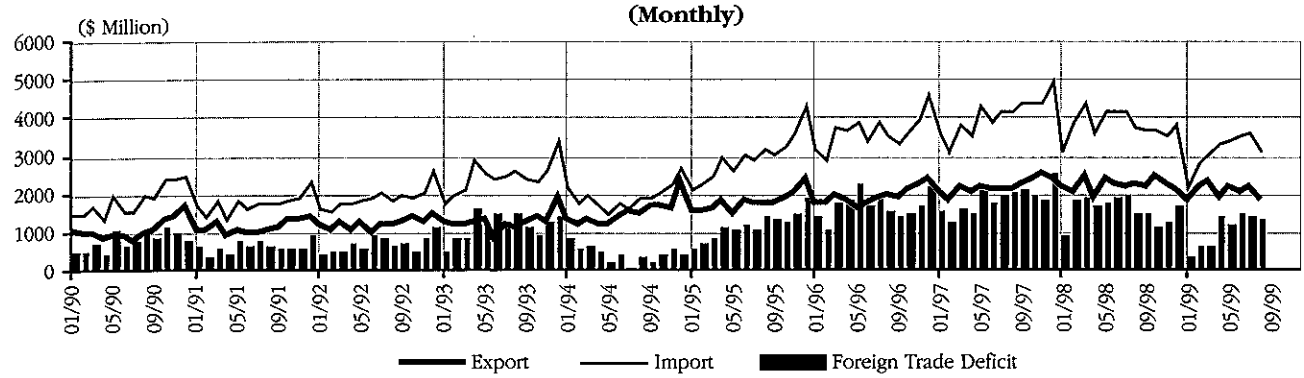
GRAPH 14

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



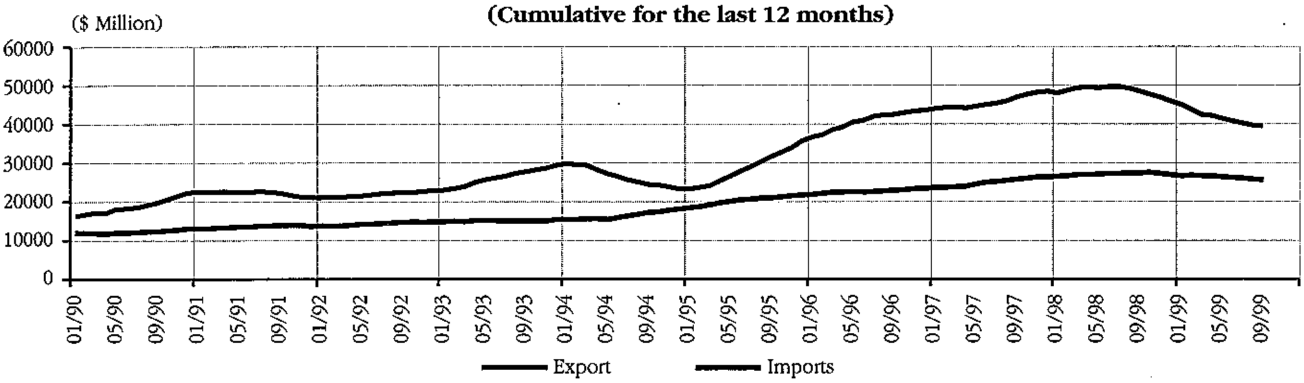
GRAPH 15

FOREIGN TRADE
(Monthly)



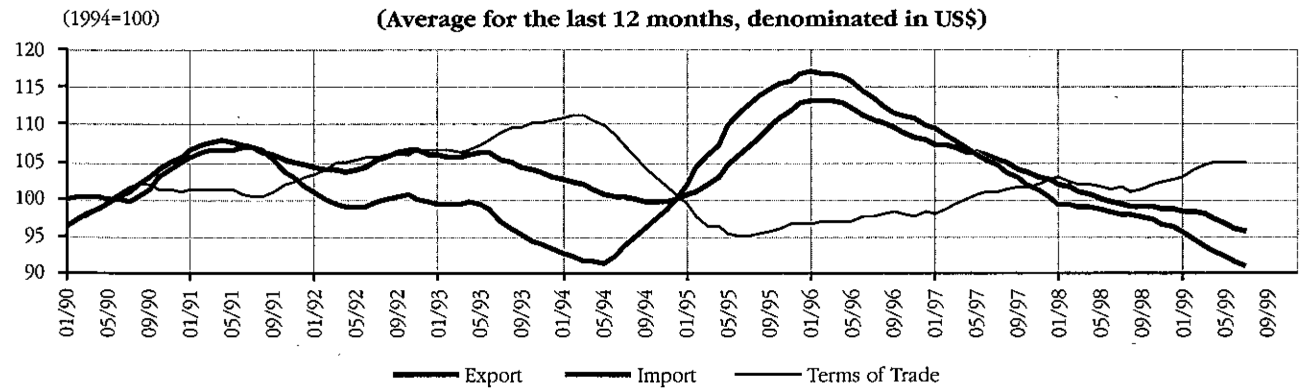
GRAPH 16

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



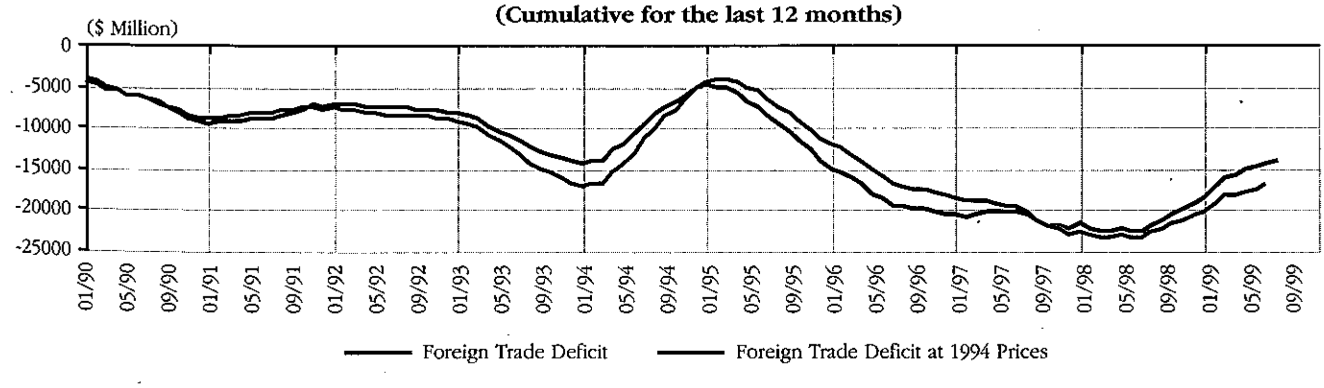
GRAPH 17

FOREIGN TRADE PRICE INDICES AND TERMS OF TRADE
(Average for the last 12 months, denominated in US$)



GRAPH 18

FOREIGN TRADE DEFICIT
(Cumulative for the last 12 months)



TÜSİAD MACROECONOMIC SCENARIO

In the case of an IMF Stand-By Agreement

	1998					1999					2000					Government
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Programme
GNP (at 1987 prices)*	9.2	4.4	2.4	0.7	**3.8**	-8.4	-3.4	-4.3	2.0	**-3.4**	5.3	4.2	3.9	3.2	**4.1**	**5.5**
Inflation (WPI)*	89.2	79.9	68.4	58.2	**71.8**	48.8	50.1	53.6	57.2	**52.8**	60.7	54.8	45.7	36.7	**48.3**	**38.5**
Reserve Money*	90.1	86.6	84.4	84.4	**86.0**	84.1	66.2	67.8	70.2	**70.2**	75.8	70.3	66.5	58.7	**66.9**	..
Budget Revenues (TL trillion)	2,041	2,972	3,239	3,636	**11,888**	2,994	4,519	5,092	5,684	**18,289**	5,570	6,874	8,020	8,884	**29,348**	**32,585**
Budget Expenditures (TL trillion)	3,002	3,896	4,386	4,301	**15,585**	5,447	7,021	7,331	8,879	**28,677**	8,018	9,120	10,082	14,583	**41,803**	**46,968**
Budget Balance (TL trillion)	-961	-924	-1,147	-665	**-3,698**	-2,452	-2,501	-2,239	-3,195	**-10,388**	-2,447	-2,246	-2,062	-5,700	**-12,456**	**-14,383**
Budget Balance ($ billion)	-4.4	-3.7	-4.2	-2.3	**-14.5**	-7.2	-6.3	-5.1	-6.6	**-25.2**	-4.5	-3.8	-3.4	-8.8	**-20.4**	**-25.1**
Budget Balance (over GNP, %)					**-7.0**					**-12.2**					**-9.6**	**-11.5**
Nominal Exchange Rate (TL/USD)	219,385	252,532	272,037	292,747	**259,175**	340,696	395,326	437,887	494,235	**417,036**	547,766	593,614	611,954	658,185	**602,880**	**573,030**
Nominal Exchange Rate*	84.7	83.9	67.7	55.6	**70.9**	55.3	56.5	61.0	68.8	**60.9**	60.8	50.2	39.8	33.2	**44.6**	**37.8**
Real Exchange Rate (WPI 94=100)	39.95	38.61	38.81	40.40	**39.44**	38.28	37.02	37.02	37.62	**37.49**	38.27	38.18	38.59	38.62	**38.41**	**37.67**
Real Exchange Rate*	0.5	-3.4	0.5	4.1	**0.6**	-4.2	-4.1	-4.6	-6.9	**-5.0**	0.0	3.1	4.2	2.6	**2.5**	**0.5**
Nominal Int.Rate (compounded, %)	131.1	104.0	110.5	143.6	**122.3**	119.7	103.3	107.9	108.8	**109.9**	99.2	88.0	78.9	66.7	**83.2**	..
Real Int. Rate (compounded, %)	47.6	35.4	25.0	54.0	**28.6**	47.6	35.4	35.4	32.8	**37.8**	24.0	21.4	22.8	21.9	**22.5**	..
Imports ($ billion)	11.3	12.0	*11.6*	*11.0*	**45.9**	8.0	10.2	10.1	11.3	**39.6**	10.8	12.2	11.8	13.2	**48.1**	**46.0**
Exports ($ billion)	6.7	6.6	*6.7*	*6.9*	**26.9**	6.4	6.1	6.1	7.1	**25.7**	6.7	6.5	7.0	8.5	**28.8**	**28.3**
Foreign Trade Balance ($ billion)	*-5.4*	*-5.4*	*-4.9*	*-4.1*	**-19.0**	-1.6	-4.1	-4.0	-4.2	**-13.9**	-4.1	-5.6	-4.8	-4.7	**-19.2**	**-17.8**

Coloured figures are TÜSİAD estimates.
(*) Denotes annual average percentage change on the same period of previous year.
(..) Not available

TÜSİAD: Meşrutiyet Caddesi 74, Tepebaşı 80050, İSTANBUL. Tel:(0212) 249 54 48 - 249 07 23 Fax: (0212) 249 13 50
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